

# **Securities and Commodities Exchange Market Related Laws: Special Publication**

## **2019**



**Securities Board of Nepal**  
Jawalakhel, Lalitpur  
2019



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Exchange Market Related Laws:  
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## नेपाल धितोपत्र बोर्ड (नेपाल सरकारको धितोपत्र तथा वस्तु विनियोग सारको नियामक निकाय)

**Securities Board of Nepal**  
(Nepal Government's Securities and Commodities Exchange Regulator)

### Preface

Securities Board of Nepal (SEBON) was established on July 7, 1993 with the objectives of protecting the interest of investors, regulating and developing the capital market of Nepal. Being the apex regulatory body of the capital and commodity exchange market, from the onset SEBON has emphasized on bringing out regulations based on international best practices. This practice has further increased now, as recently SEBON has joined the international community as an associate member of International Organization of Securities Commissions (IOSCO).

SEBON came out with the Silver Jubilee Publication of Securities and Commodities Exchange market related Acts, Rules, Regulations, By-laws in the Nepali version last year with the aim that it would be beneficial to all stakeholders and market practitioners. Since the government now has emphasized in bringing foreign investment in the country, SEBON has come up with the **"Securities and Commodities Exchange Market Related Laws: Special Publication 2019"** in English version.

This publication includes Acts (Securities Act, Commodities Exchange Market Act and Asset (Money) Laundering Prevention Act) enacted by legislative Parliament, Regulations approved by Ministry of Finance and By-laws approved by SEBON including their latest amendments.

SEBON believes that this compendium will be useful to all concerned investors, listed companies, securities businesspersons and experts, advocates, students and all other stakeholders including international communities. As this publication is the collection of unofficial translations, in case of ambiguity, please refer to the Nepali version of the laws. All concerned are also requested to give their constructive suggestions and comments as they are always welcome and given high priority.

Lastly, I would like to assure that SEBON will continue to publish such English compendium including new enactment of Regulation, Directives and Bylaws with the latest amendments, in the process of development of securities and commodity exchange market. Finally, I would like to sincerely thank the team of Law and Enforcement Division for their special contribution in bringing out this special publication.

(Dr. Rewat Bahadur Karki)  
Chairman

Date: July 2, 2019



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### **1. Acts**

- A. Securities and Commodities Market**
  - i. Securities Act, 2006 (2063)
  - ii. Commodities Exchange Market Act, 2017 (2074)
- B. Money Laundering**
  - i. Asset (Money) Laundering Prevention Act, 2008 (2064)



# **SECURITIES ACT, 2006**

Date of Authentication and

Publication: 14/01/ 2007

Some Nepal Act Amendment Act, 2016: 25/02/2016

## **Act Number 33 of the year 2007/2008**

### **An Act Made to Amend and Consolidate Laws Relating to Securities**

**Preamble:** Whereas, it is expedient to make timely the laws relating to securities by amending and consolidating such laws in order 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 mobilize necessary capital for the economic development of the country; Now, therefore, be it enacted by the House of Representatives in the First Year of the issuance of the Proclamation of the House of Representatives, 2006.

## **Chapter-1** **Preliminary**

- 1. Short title and commencement:** (1) This Act may be referred as the "Securities Act, 2006".  
(2) This Act shall be deemed to have been commenced from September 22, 2006.
- 2. Definitions:** Unless the subject or the context otherwise requires, in this Act,-
  - (a) "Chairperson" means the chairperson of the Board appointed under Section 7.
  - (b) "License" means the license issued by the Board under this Act to operate the stock exchange or securities business.
  - (c) "Company" means a company incorporated under the company laws in force.
  - (d) "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.

- (e) "Prescribed" or "as prescribed" means prescribed or as prescribed in the Rules framed under this Act.
- (f) "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.
- (g) "Securities transactions " means the issue, purchase, sale or exchange of securities and other acts pertaining thereto;
- (h) "Registration of securities" means the registration of securities by a body corporate with the Board pursuant to Section 27.
- (i) "Stock exchange" means a market, place or facility performing the purchase, sale or exchange of securities on regular basis by taking together the purchasers and sellers of securities.
- (j) " Securities business" means transactions in securities to be carried on by any company or body licensed to carry on the securities business under this Act.
- (k) "Securities business person" means a company or body licensed under Section 58 to carry on securities business.
- (l) "Issuance" means an offer made by a body corporate to raise capital and acts related thereto, and this term also includes the issuance of securities to promoters.
- (m) "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.
- (n) "Board" means the Nepal Securities Board established under Section 3.
- (o) "Exchange" means an act concerning purchase, sale or transfer of securities already issued pursuant to this Act.
- (p) "Prospectus" means a prospectus required to be published by a body corporate pursuant to Section 30 prior to the public issue of securities.

- (q) "Scheme manager" means a body corporate managing a collective investment scheme of participants with an object to provide an efficient investment service pursuant to this Act.
- (r) "Investment fund" means a fund created out of amounts deposited by participants in a collective investment scheme in accordance with a contract as has been taken in its custody by a scheme manager with object to provide an efficient investment service or assets related with such a fund, and this term also includes a fund which the scheme manager has taken in its responsibility in accordance with this Act or additional assets created from management of investment of assets and amount accumulated by way of consideration.
- (s) "Participant" means a person or body that makes investment in a collective investment scheme operated by a scheme manager pursuant to this Act.
- (t) "Member" means a member of the Board, and this term also includes the chairperson.
- (u) "Body corporate" means a body corporate established under the laws in force as to be competent to make public issue of securities.

Provided that, it shall not include a private limited company or a corporation.
- (v) "Public issue" means an offer made by a body corporate before the general public for the subscription of its securities by publishing a prospectus.
- (w) "Collective investment scheme" means such an investment fund, unit trust or similar other participatory fund management program 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 program proportionately, accrued from the efficient investment service on saving investment amount which has been undertaken in custody of the manager and so mobilized that various persons or bodies that have participation in it.
- (x) "Enlisting" means the enlisting of securities on a stock exchange for the purposes of purchasing, selling or exchanging securities through the stock exchange;
- (y) "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.

## **Chapter-2**

### **Provisions Relating to Board**

**3. Establishment of Board:** (1) There shall be established a Board by the name of Nepal Securities Board in order to regulate and manage the activities of the securities markets and persons involved in securities business by regulating the issue, purchase, sale and exchange of securities in order to develop capital market and protect the interests of investors in securities.

(2) The Board to be established under sub-section (1) shall consist of the members as follows:-

- |     |  |              |
|-----|--|--------------|
| (a) | A person appointed by the Government of Nepal  | -Chairperson |
| (b) | Joint Secretary, Ministry of Finance   | -Member      |
| (c) | Joint Secretary, Ministry of Law, Justice and Parliamentary Affairs  | -Member      |
| (d) | Representative, Nepal Rastra Bank  | -Member      |
| (e) | Representative, Institute of Chartered Accountants of Nepal  | -Member      |
| (f) | Representative, Federation of Nepalese Chambers of Commerce and Industries   | -Member      |
| (g) | One person nominated by the Government of Nepal from amongst the experts who have obtained at least master's degree in economics, management, finance, commerce or law from a recognized university and gained at least seven years of experience in stock exchange, management, capital market development, finance and economic sector | -Member      |

(3) The concerned organization shall, in nominating its representative pursuant to clauses (e) and (f) of sub-section (2), nominate a person who has obtained at least bachelor's degree and gained at least seven years of experience in accounts, industry, commerce, finance, banking, economic or law subject.

(4) The term of office of the member nominated pursuant to clause (g) of sub-section (2) shall be three years.

(5) No act or proceeding of the Board shall be affected merely on the reason of any vacancy in office of any member.

(6) Any of its officer employees designated by the Board shall act as the secretary of the Board.

(7) If the Board thinks it necessary, it may invite any native or foreign expert, adviser to attend its meeting as an observer.

(8) The central office of the Board shall be situated in Kathmandu Valley; and the Board may, as required, open its branch or contact office within or outside the State of Nepal.

**4. Board to be an autonomous and body corporate:** (1) The Board shall be a n autonomous body corporate having perpetual succession.

(2) The Board shall have a separate seal of its own for all of its acts and proceedings.

(3) The Board may, like an individual, acquire, use, purchase, sell, or otherwise deal with, any movable and immovable property.

(4) The Board may, like an individual, sue by its own name and be also sued by the same name.

**5. Functions, duties and powers of Board:** The functions, duties and powers of the Board shall be as follows:-

- (a) To offer an advice, as per necessity, to the Government of Nepal on matters incidental to the development of capital market,
- (b) To register the securities of any corporate body established with the authority to make a public issue of its securities,
- (c) To regulate and systematize the issue, transfer, sale and exchange of registered securities,
- (d) 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,
- (e) To regulate and monitor the activities of the stock exchange;
- (f) 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,
- (g) To issue a license to companies or institutions, which are desirous of carrying on the securities business subject to this Act or the rules and bye-laws framed under this Act,
- (h) To regulate and monitor the activities of securities business person,
- (i) To classify securities business persons and fix their standards according to their functions and capability by fulfilling such procedures as prescribed,

- (j) To grant a permission to operate collective investment schemes and investment fund programs, and to regulate and monitor the same,
- (k) 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,
- (l) To systematize the clearance of accounts related to securities transactions,
- (m) 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,
- (n) 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,
- (o) 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,
- (p) 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,
- (q) 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,
- (r) To maintain coordination and exchange cooperation with the concerned agencies in order to supervise and regulate matters concerning securities or company affairs,
- (s) To perform or cause to be performed such other functions as may be necessary in relation to securities and the development of capital market.

**6. Meeting and decision of Board:** (1) the chairperson shall call the meeting of the Board as per necessity. Such a meeting shall be held at least once a month.

(2) The meeting of the Board shall be held on such date, at such time and at such place as may be specified by the chairperson.

(3) The meeting of the Board shall be presided over by the chairperson and by

a member chosen by the members from amongst themselves, in the absence of the chairperson.

(4) Where at least two members request in writing to call a meeting of the Board, the chairperson shall have to call a meeting of the Board within seven days from the date of receipt of such a notice.

(5) The secretary of the Board shall provide the agenda to be discussed at the meeting to the members, along with the notice for the meeting.

(6) The presence of more than fifty percent of the total number of members of the Board shall be deemed to have been constituted a quorum for a meeting of the Board.

(7) A majority opinion shall prevail at the meeting of the Board and in the event of a tie; the person presiding over the meeting shall exercise the casting vote.

(8) There shall be maintained a separate minute book recording the names of members present at, matters discussed at and decisions made by each meeting of the Board, and such a book shall be signed by members present.

(9) The decisions made by the Board shall be authenticated by the secretary of the Board and shall provide to all members.

(10) Other procedures relating to the meeting of the Board shall be as determined by the Board itself.

**7. Appointment of chairperson:** (1) The Government of Nepal shall, subject to sub-section (2), appoint the chairperson to act as the administrative chief of, and perform the day-to-day business of the Board.

(2) In making appointment to the office of chairperson pursuant to sub-section (1), the Government of Nepal shall appoint to the office of chairperson an appropriate person from amongst the renowned persons 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.

(3) There shall be formed a committee under the convenorship of the member of National Planning Commission responsible for the concerned sector and consisting of the secretary at the Ministry of Finance and an expert in the field of securities as its members, for recommending a name for the purpose of appointment of chairperson pursuant to sub-section (2); and the appointment of chairperson shall be made pursuant to this Section on recommendation of this committee.

(4) The committee referred to in sub-section (3) shall, in recommending a name, recommend the names of at least three persons who have possessed the qualification pursuant to this Act.

(5) In recommending a name for the chairperson pursuant to sub-sections (3) and (4), the committee shall determine its rules of procedures on its own.

(6) The term of office of chairperson shall be of four years, and he or she may be reappointed for a maximum period of four years.

(7) Not with standing anything contained elsewhere in this Section, where the chairperson commits any act or action contrary to the interests of the Board or the development of capital market and causes any loss and damage to the Board, the Government of Nepal may form an inquiry committee as prescribed and, on recommendation of such a committee, remove him or her from the office of the chairperson.

Provided that prior to so removing from his or her office, the chairperson shall be provided with appropriate opportunity to defend himself or herself.

**8. Functions, duties and powers of the chairperson:** (1) The functions, duties and powers of the chairperson shall be as follows:

- (a) To perform such functions as may be necessary for the protection of the interests of investors in securities for the development of capital market,
- (b) To regulate and monitor, or cause to be regulated and monitored, stock exchanges and transactions of securities business persons in order to make transactions in securities strengthened, effective and reliable,
- (c) To act as the executive chief of the Board,
- (d) To submit such long-term and short-term plans and policies as be necessary to be adopted by the Board for the management of stock exchanges and development of capital market to the Board for its approval,
- (e) To call or cause to be called the meeting of the Board and to preside over the same,
- (f) To prepare annual programs and budget of the Board and submit the same to the Board for its approval,
- (g) To implement or cause to be implemented the decisions made by the Board,
- (h) To inspect and supervise day-to-day business of the Board and perform the functions in accordance with the objectives of the Board,
- (i) To appoint the advisers and employees required for the Board as prescribed,
- (j) To perform or cause to be performed such other functions as may be entrusted to him or her by the Board.

(2) The functions, duties and powers of the chairperson, other than those

referred to in sub-section (1) shall be as prescribed.

**9. Remuneration, meeting allowance and other facilities of chairperson and member:** The remuneration, meeting allowance and facility entitled to, by the chairperson and member and daily and traveling allowance entitled to, by the chairperson and member while making travel within or outside the State of Nepal shall be as prescribed.

**10. Qualification of chairperson and member:** In order to be appointed as a chairperson or a member, as the case may be, a person shall have to possess the qualification as follows:-

- (a) One who is a citizen of Nepal,
- (b) One who has maintained high moral character,
- (c) One who has gained at least seven years of professional experience in the field of stock exchange management, capital market development, economics, finance, commerce, management or law, and
- (d) One who is not disqualified under Section-11.

**11. Disqualification of chairperson and member:** Any of the following persons shall not be eligible to be appointed to the office of chairperson or member, as the case may be:-

- (a) One who is an officer-bearer of a political party,
- (b) A person involved in securities business,
- (c) One who is adjudicated as an insolvent,
- (d) One who is insane,
- (e) One who has been convicted by the court of an offense involving moral turpitude

**12. Circumstances on which a chairperson and a member may be removed from office:** (1) Where there occurs a circumstance for removal of the chairperson or the member referred to in sub- section (2), the Government of Nepal shall remove the chairperson and member, as the case may be.

Provided that prior to making such a removal, the Government of Nepal shall not deprive the concerned person of a reasonable opportunity to defend himself/herself.

(2) The chairperson and the member, as the case may be, shall be removed from his or her office in any of the following circumstances:-

- (a) If he or she is disqualified to be a chairperson and a member, as the case may be, pursuant to Section 11,

- (b) If he or she commits any act contrary to the interest of investors in securities or any act that may cause loss or damage to the development of capital market,
- (c) If he or she suffers from lack of competence to implement, or cause to be implemented, such functions required to be performed by the Board to attain the objectives of the Board pursuant to this Act or the rules framed under this Act,
- (d) If he or she has been held disqualified to carry on any occupation or business by the reason of misconduct and his or her certificate has been revoked or he or she has thus been restricted to carry on a business,
- (e) If he or she remains absent from three consecutive meetings of the Board without giving a notice.

**13. Resignation of chairperson and member:** The chairperson or the member, as the case may be, may relieve of his or her office by tendering a resignation in writing to the Government of Nepal.

**14. Fulfillment of vacancy:** If the office of the chairperson or any member falls vacant prior to the completion of his or her term of office, the Government of Nepal shall appoint any person to that vacancy for the remaining period of term by fulfilling the procedures as referred to in this Act.

**15. Proceeding not to be invalid:** No act or proceeding of the Board shall be invalid merely by the reason of any defect in the appointment of the chairperson or member, as the case may be, or the formation of the Board or vacancy in office of the chairperson or any member.

**16. Powers to form committee or sub-committee:** (1) The Board may, form any committee or sub-committee, as per necessity, for the operation of its business. Such a member as specified by the Board shall be the coordinator of the committee or sub-committee, as the case may be, so formed.

(2) The functions, duties, powers, terms of reference, meeting allowance and procedures of the committee or sub- committee, as the case may be, formed pursuant to sub-section (1) shall be as prescribed by the Board.

**17. Delegation of powers:** (1) The Board may, as per necessity, delegate any of the powers conferred to it to the chairperson, any member or any committee or sub-committee, as the case may be, formed pursuant to Section 16.

(2) The chairperson may, as per necessity, delegate any of the powers conferred to him or her to any member, any committee or sub-committee, as the

case may be, formed pursuant to Section 16 or any employee of the Board.

- 18. Requirement of disclosure in regard to conflict of interest:** Where any proposal in which any member has direct or indirect personal interest is to be discussed at the meeting of the Board, such a member shall give information as to such interest to the Board prior to the commencement of discussion on such matter. Except so permitted by the Board, such a member shall not be entitled to participate in the discussion and decision of such a matter and cast his or her vote thereon.

Provided that the presence of such a member shall be valid in order to constitute a quorum of the meeting.

- 19. Provisions relating to accounts experts, advisors and employees:** (1) The Board shall have such numbers of accounts experts, advisors and employees as may be necessary for the efficient operation of the functions of the Board.
- (2) The appointment, remuneration, facilities and terms and conditions of service of the accounts experts, advisors and employees of the Board shall be as prescribed.

- 20. To take oath:** The chairperson, member, advisor and employee of the Board appointed for the first time in the Board shall, prior to assuming the functions of their office, take an oath of secrecy and honesty, as prescribed.

- 21. Secrecy:** (1) No chairperson, member, advisor, employee, auditor, agent or representative of the Board shall perform the following business:-
- (a) To supply or disclose any confidential information or notice obtained in the course of performing the duties of office to another person,
- (b) To use such information or notice for personal benefits.
- (2) Notwithstanding anything contained in sub-section(1), any confidential information or notice may be disclosed on the following circumstances known to him or her in accordance with the procedures as specified by the Board:-
- (a) Where the disclosure of such information or notice has been made in performing one's duty publicly, rendering assistance to any law enforcing authority, carrying out an order given by a court or competent authority,
- (b) Where such information or notice has been supplied to the external auditor of the Board in the course of performing one's duties,
- (c) Where such information or notice has been disclosed in the interests of the Board in the course of legal proceedings.

**22. Fund of Board:** (1) The Board shall have a separate fund of its own.

(2) The following amounts shall be credited to the fund as referred to in sub-section (1):-

- (a) Amounts received from the Government of Nepal,
- (b) Amounts obtained as grants, assistance or loans from any native, foreign or international organizations, institutions or bodies,  
Provided that prior approval of the Government of Nepal shall be obtained in receiving such grants, assistance or loans.
- (c) Amounts received by way of the license fees,
- (d) Amounts received by way of the fees for registration of securities,
- (e) Amounts received by way of the fees, charges, dues for transactions in securities,
- (f) Amounts received by way of fines imposed by the Board,
- (g) Amounts received from any other sources.

(3) All amounts to be obtained to the fund of the Board pursuant to sub-section (1) shall be credited to an account to be opened with any commercial bank within the State of Nepal.

(4) All the expenditures to be made on behalf of the Board shall be chargeable on the fund as referred to in sub-section (1).

(5) In making expenditures pursuant to sub-section (4), such expenditures shall be made subject to the budget approved by the Board for the incomes and expenditures to be made in each fiscal year.

(6) The operation of the fund of the Board shall be as prescribed.

**23. Provision of revolving fund:** (1) The Board may establish a revolving fund to manage its source of income and such amounts as specified by the Board shall be credited to that fund each year.

(2) The amounts of the revolving fund may be held in securities issued by the Government of Nepal or in such a periodic account as may be prescribed by the Board.

(3) Generally, no moneys held in the revolving fund, other than income earned out of the moneys in that fund, shall be spent.

(4) Provisions relating to the operation of the revolving fund shall be as prescribed.

**24. Accounts of Board:** (1) The Board shall have to maintain updated records of its activities.

(2) The Board shall have to maintain accounts of its incomes and expenditures, balance sheet and accounting details of each fiscal year in accordance with

accounting system conforming to international practice no later than six months after the expiry of such a fiscal year.

**25. Auditor and audit:** (1) The accounts and books of the Board shall be audited by the Auditor General or any auditor designated by him.

(2) While auditing the accounts and books of the Board, by the auditor appointed pursuant to sub-section (1), such an auditor shall mention, inter alia, the following matters in his or her audit report:

- (a) Whether the statements of incomes and expenditures truly reflect the incomes and expenditures of the Board in that fiscal year,
- (b) Whether the balance sheet of that fiscal year reflects the true economic condition of the Board.

**26. Annual report:** (1) The chairperson shall have to present an annual report of the activities of the Board before the Board no later than four months after the expiry of each fiscal year and also provide a copy of such a report to the Government of Nepal.

(2) The chairperson shall in each year make public the annual report of the Board as referred to in sub-section (1).

### **Chapter-3**

#### **Registration and Issuance of Securities**

**27. Registration of securities:** (1) A body corporate shall have to register securities to be issued by it with the Board prior to their issuance.

(2) A body corporate shall have to make an application in the prescribed format, accompanied by its memorandum of association, articles of association, documents related with such securities, and the prescribed fees, to the Board for registering securities pursuant to sub-section (1).

(3) Where an application is received pursuant to sub-section (2), the Board shall make necessary inquiry into the matter and, if it considers appropriate to register such securities, register such securities in the register as prescribed, indicating the details of such securities and issue the securities registration certificate in the prescribed format to the concerned body corporate.

(4) Notwithstanding anything contained elsewhere in this Section, a body corporate which has already issued securities prior to the commencement of this Act shall register such securities with the Board in accordance with this Act within one year from the date of commencement of this Act.

**18. Sale and transfer of securities:** (1) Where a body corporate allots or sells securities after registering such securities, the body corporate shall have to give a notice along with the details of securities so allotted or sold to the Board within seven days.

(2) Upon receipt of a notice as referred to in sub-section (1), where it appears necessary to make the allotment and sale of such securities fair and informative for the interests of investors and the body corporate, the Board may give necessary directive to the concerned body corporate. It shall be the duty of the concerned body corporate to abide by such directive.

**29. Securities to be issued publicly:** (1) Where a body corporate is to sell and distribute securities to more than fifty persons at a time, it shall make public issue for the sale and distribution of such securities.

(2) The period to be open for making application of the securities to be issued pursuant to sub-section (1) shall be as prescribed.

(3) The provisions relating to the value and allotment of securities for which public issue has to be made shall be as prescribed.

(4) Where securities for which public issue has been made once could not be sold and have to be re-issued again within one year, the body corporate which so issues the securities may, with the approval of the Board, issue such securities by mentioning the matters which are different than the matters set forth in the previously published prospectus and the prospectus previously published.

**30. Prospectus to be published:** (1) A body corporate shall have to get a prospectus approved by the Board for making public issue of securities in accordance with this Act after the commencement of this Act and publish the prospectus for information to all the concerned. While publishing the prospectus in such a way, the prospectus shall also mention the place where the general public can obtain or inspect the prospectus.

(2) Notwithstanding anything contained in sub-section (1), it shall not be required to issue a prospectus to issue the following securities:

- (a) Securities issued by the Nepal Rastra Bank,
- (b) Securities issued against the full guarantee of the Government of Nepal,
- (c) Securities proposed to be sold to up to fifty persons at a time,
- (d) Securities issued to own workers or employees,

- (e) Securities permitted by the Board as to issue and sell without issuing a prospectus.
31. **Approval of a prospectus:** The Board shall approve only a prospectus which contains such information as may be adequate for investors to make evaluation as to the assets and liabilities, financial status, profit and loss of the issuer and expected matters in the future.
32. **Matters to be referred to in prospectus:** Every prospectus shall contain such general matters as required to be set down in the prospectus, capital and other information of the issuer, main functions to be done by the issuer, information pertaining to legal action, economic condition, general administration, management of the issuer, information relating to the expert preparing the prospectus and the economic statements contained in the prospectus and such other matters as may be prescribed.
33. **Liability for matters referred to in prospectus:** (1) The concerned body corporate and the director signing a prospectus and the expert preparing such a prospectus shall be severally and collectively liable for the truth of the details and documents underpinning the information set down in the prospectus submitted to the Board for the purpose of registering securities with the Board and obtaining permission to issue such securities.
- (2) Where any person who subscribes for any securities on the faith of the matters set down in the prospectus subsequently sustains any loss or damage by the reason that the matters set down in the prospectus have been set down with mala fide intention or untrue or false statements have been included therein knowingly, the body, director or experts preparing the prospectus shall be liable to pay compensation for such loss or damage.
- Provided that no director shall be liable to pay such compensation if he or she proves that he or she has resigned prior to making a decision on the matters set down in the prospectus with ulterior motive or knowingly or that he or she did not know that the prospectus was untrue.
- (3) Where any investor sustains any loss or damage by the reason that the prospectus, information, statements or returns submitted by a body corporate to the Board, such an investor may make a petition to the concerned District Court for compensation within thirty five days from the date of knowledge within one year after the making of investment.

**34. A body corporate to make a notice:** (1) Everybody corporate issuing securities shall provide information on the following matters to the Board and its shareholders as soon as possible:

- (a) Such matters as may be necessary and supportive to evaluate its economic condition,
- (b) Such information as may be capable of affecting the transaction of stock exchanges or the value of securities.

(2) Everybody corporate issuing securities shall also provide the Board and its shareholders with the notice and information as prescribed, in addition to the matters set down in sub-section (1).

**35. Compensation for revocation of enlisting, if any:** Where a body corporate issuing any securities has enlisted the securities by making agreement with a stock exchange and the stock exchange revokes the enlisting of such securities by the reason of the failure of such body corporate to observe such matters as required to be observed by it under this Act or the rules or bye-laws framed under this Act and any shareholder sustains any loss and damage by virtue of such revocation of enlisting, the directors of such a body corporate shall personally or collectively pay compensation to such a shareholder.

## Chapter-4

### Provisions Relating to Stock Exchange

**36. License to be obtained to operate stock exchange:** (1) A person who desires to operate a stock exchange shall obtain from the Board the license to operate the stock exchange under this Act.

(2) No person shall operate a stock exchange or purchase, sell or exchange securities without obtaining from the Board a license under this Act nor shall any person use the name of stock exchange without obtaining such a license.

(3) Notwithstanding anything contained in sub-section (2), Nepal securities exchange market which is in operation at the time of commencement of this Act shall have to make an application to the Board for the license to operate a securities exchange market pursuant to this Act within one year from the date of commencement of this Act. Nothing shall be deemed to have been hindered the operating of the securities exchange market by Nepal securities exchange market within that period. Where Nepal securities exchange market fails to make an application to the Board for a license to operate a securities exchange market within the period referred to in sub-section (3),

(4) Nepal securities exchange market shall not be entitled to operate the stock exchange after the expiry of that period.

(5) Notwithstanding anything contained elsewhere in this Section, while incorporating any stock exchange as a company with limited liability under the companies' law in force after the commencement of this Act, the Company Registrar's Office shall incorporate it only with the recommendation of the Board.

**37. Application to be made to carry on stock exchange:** (1) only a body corporate may make an application to the Board for a license to carry on a stock exchange.

(2) A body corporate shall have to make an application referred to in sub-section (1) in such format and accompanied by such details. Documents and fee as may be prescribed.

**38. Issuance of a license to carry on stock exchange:** (1) If an application is received pursuant to Section 37, the Board may, if it is satisfied with the following matters by making necessary inquiry into the matter, issue a license to carry on a stock exchange in such format as may be prescribed:

- (a) Where it considers that the issuance of the license to carry on a stock exchange would serve the interests of investors and general public or the issuance of such a license is necessary for the proper operation of the stock exchange,
- (b) Where the applicant body corporate has fulfilled the matters referred to in sub-section (2).

(2) A body corporate which makes an application to the Board for a license to carry on a stock exchange pursuant to sub- section (1) shall set out the following matters in the application:

- (a) Legal provisions of establishing the body corporate or its memorandum of association stipulates that the body corporate has been established with object to establish and operate a stock exchange,
- (b) The body corporate maintains its paid up capital as prescribed by the Board that such capital is not less than fifty million rupees so long as the body corporate operates the stock exchange,
- (c) There are sufficient grounds to the satisfaction of the Board that the body corporate can provide such infrastructures and facilities as may be required to operate the stock exchange,
- (d) Matters relating to enlisting or making similar other provisions to

recognize securities to be transacted through itself,

- (e) Matters that the interests of investors would be protected through regular operation of transactions in securities through the provisions and systems to be adopted by the body corporate in relation to the exchange and transactions proposed by the body corporate for the operation of the stock exchange,
- (f) That it has appropriate provisions on settlement of transactions in the stock exchange and publication of records thereof and statements of transactions,
- (g) That complaints filed in relation to transactions carried on by its members can be examined in a proper manner,
- (h) That action can be taken as mentioned in the bye-laws in the event of failure of its members to fulfill the liabilities under the contract.

**39. The Board may specify terms:** (1) In issuing the license to carry on a stock exchange, the Board may specify necessary terms taking into account the condition of capital market, healthy operation of the stock exchange and interests of investors. It shall be the duty of the concerned stock exchange to observe such terms.

(2) The Board may, as per necessity, alter and modify the terms specified pursuant to sub-section (1), having regard to the condition of capital market, healthy operation of the stock exchange and interests of investors.

**40. Power to refuse to issue license to carry on stock exchange:** (1) Notwithstanding anything contained in Section 38, the Board may, on any of the following conditions, refuse to issue a license to a body corporate to carry on a stock exchange:

- (a) Where it is not necessary to carry on the stock exchange based on the development of industry and business and feasibility of the existing transactions in securities,
  - (b) Where it does not appear just and appropriate to allow the operation of stock exchange for the protection of interests of investors.
- (2) Where the Board is to refuse the issuance of a license to anybody corporate to carry on the stock exchange on any condition referred to in sub-section (1), the Board shall give a notice assigning the reason for such refusal to the concerned body corporate.

- 41. Minimum capital and financial source:** The paid up capital of a body corporate carrying on a stock exchange shall be so prescribed by the Board, from time to time, as it shall not to be less than fifty million rupees; and the body corporate shall maintain such financial source as may be adequate for the provision of stock exchange that it carries on.
- 42. Term and renewal of a license to carry on stock exchange:** (1) The license issued to carry on a stock exchange shall remain valid only until the last day of the fiscal year of its issue.
- (2) The corporate carrying on a stock exchange shall have to renew the license to carrying on a stock exchange by paying to the Board an annual fee as prescribed not later than three months after the expiry of each fiscal year.
- (3) In the event of failure to get renewed such a license by paying the annual fee within the time limit referred to in sub- section (2), the license may be renewed by paying a fine of twenty five percent of the annual fee up to three months after the expiry of such time limit.
- (4) The license to operate stock exchange obtained by a body corporate which fails to renew even within the time limit referred to in sub-section (3) shall be terminated.
- 43. Transactions of recognized securities:** (1) A stock exchange shall manage a market only for those securities which are recognized by either enlisting in its bye-laws, as prescribed, securities issued by bodies corporate or making similar other provisions.
- (2) The purchase, sale or exchange of securities not enlisted in a stock exchange shall be as prescribed.
- 44. Managerial responsibility of stock exchange:** The board of directors of the stock exchange shall assume responsibility in relation to the management of transactions in securities carried on by such a stock exchange.
- 45. Functions, duties and powers of stock exchange:** The functions, duties and powers of the stock exchange shall be as follows:
- (a) To carry on, or cause to be carried on, transactions in securities to be carried on through it in a transparent, fair and regular manner,
  - (b) In carrying on the stock exchange, to carry on, or cause to be carried on, the same, having regard to the interest of general public investors,
  - (c) To get its members to fully comply with this Act and the rules and bye-

- laws framed under this Act and monitor and supervise, or cause to be monitored and supervised, the matters pertaining thereto,
- (d) To manage such a transaction place as may be adequate and convenient for operating securities transaction,
  - (e) To manage such employees as may be efficient in carrying on transactions,
  - (f) To arrange for such facilities and systems as may be adequate and proper for emergency and security provisions,
  - (g) To frame bye-laws, with the permission of the Board, for enlisting of securities for the arrangements of the exchange, purchase or sale of securities and making provisions relating to membership,
  - (h) To perform or cause to be performed such other functions as may be required for the operation of the stock exchange.

**46. Disclosure to be made by stock exchange:** Every stock exchange shall give information on the following matters to the Board immediately when it comes to its knowledge:-

- (a) Where it appears that any of its members has committed any financial irregularity or the economic status of such a member appears to be suspicious from any activities of such a member,
- (b) Where it appears that any of its members has failed to fulfill such obligation as required to be fulfilled by such a member under laws or is not capable of performing such obligation,
- (c) Where it appears that any of its members has failed to observe financial rules and bye-laws or is not capable of observing such rules and bye-laws,
- (d) Such other information as may be prescribed.

**47. Stock exchange to submit a report:** Stock exchange shall submit to the Board a report on the activities carried out by it in each fiscal year not later than three months after the expiration of such a fiscal year.

**48. Stock exchange to issue direction:** (1) The stock exchange may, where a body corporate carrying on securities transactions through a stock exchange violates the agreement entered with the stock exchange or where the stock exchange considers that it is necessary to give direction to such a body corporate in order to make

securities transactions fair and regular or having regard to the interests of investors, give necessary direction to such a body corporate.

(2) It shall be the duty of the concerned body corporate to observe the direction given pursuant to sub-section (1).

**49. Ceiling of securities transactions may be fixed :** (1) The Board may fix the ceiling of securities that can be transacted at one time or the ceiling of securities that any one person can purchase, sell and hold at one time as prescribed.

(2) In fixing the ceiling pursuant to sub-section (1), several ceilings may be determined based on the types of securities or types of transactions.

(3) Without prejudice to the generality of sub-section (1), the Board may specify or fix the maximum limit of securities of any type that one person may own at one time, in such manner as prescribed.

**50. Charge to be paid by stock exchange:** (1) A stock exchange shall collect such securities transaction charge as may be chargeable as prescribed for the purchase, sale and exchange of securities in the stock exchange and pay such charge to the Board.

Provided that such charge shall not exceed 0.03 percent of the total turnover of securities transactions.

(2) A stock exchange shall pay to the Board the amount for the charge prescribed pursuant to sub-section (1) and collected in the previous year, not later than the last day of each month. A stock exchange that fails to observe this Section shall be deemed to have committed an offense referred to in this Act.

(3) The Board shall realize and recover the amount receivable for the securities transaction charge, in addition to an interest at the rate of ten percent, from a stock exchange failing to pay to the Board the securities transaction charge within the time limit specified in sub-section (2).

**51. Stock exchange to assist Board:** A stock exchange shall render necessary assistance to the Board for the performance of functions referred to in this Act. In the course of rendering such assistance, if the Board asks for any information or advice on securities transactions or on any other specific matter, such information or advice has also to be provided to the Board.

**52. Information of action to be given:** If a stock exchange has demanded explanation from any of its members on any action against such a member or suspended or canceled the membership of such a member or imposed any fine on such a member or taken any other action against such member, the stock exchange shall give

information thereof to the Board, specifying the name of the concerned member and also description on action and the reason for taking such action, within seven days after taking such action.

**53. Stock exchange to provide for compensation fund:** (1) A stock exchange shall establish and operate one such compensation fund as may be prescribed by the Board in order to protect investors against possible loss or damage.

(2) The funds deposited to the fund referred to in sub- section (1) shall be used to bear compensation as prescribed.

**54. Provisions relating to operation of compensation fund:** The following provisions shall be made in the rules in relation to the operation of the compensation fund to be established pursuant to Section 53 or 55:

- (a) Provisions relating to the deposit of money to the fund,
- (b) Maximum amount to be paid as a compensation from the fund,
- (c) Provisions relating to the accounts and audit of the fund,
- (d) Conditions for making claim to obtain amount from the compensation fund and procedures from making such a claim,
- (e) Conditions where any claim cannot be made on the compensation fund,
- (f) Procedures for taking action and making decision on payment of money as claimed from the compensation fund,
- (g) Maximum limit of amount payable as a compensation to one person,
- (h) Other necessary matters in relation to the examination of compensation claims,
- (i) Provisions to be made in the event of the revocation of the license of a stock exchange,
- (j) Other necessary provisions in relation to compensation.

**55. Board to make provisions on compensation:** If a stock exchange is not able to establish and operate the compensation fund pursuant to Section 53 in order to protect investors against possible loss and damage or does not pay or fails to pay the amount of compensation to be payable as prescribed, the Board may establish and operate the compensation fund as prescribed or make necessary provisions in relation to the payment of the amount of compensation required to be paid as prescribed.

## Chapter-5

### **Provisions Relation to License to Carry on Securities Business**

- 56. License to be obtained to carry on securities business:** (1) A company or body desirous of carrying on securities business has to obtain a license to carry on securities business from the Board pursuant to this Act.
- (2) No one shall carry on securities business without obtaining a license to carry on securities business from the Board pursuant to this Act.
- 57. Application for license to carry on dealing in securities:** (1) A company or body desirous of carrying on dealing in securities has to make an application to the Board for a license to carry on securities business, in such form and accompanied by such details, documents and fees as may be prescribed.
- (2) The application to be made pursuant to sub-section (1) shall specify the following matters:-
- (a) Type of securities business and services to be provided,
  - (b) If an agent is to be appointed to carry on securities business and if such business is to be carried on in collaboration with others, matters pertaining thereto,
  - (c) In the case of those business persons, as prescribed, who are allowed to carry on business only upon obtaining a membership of a stock exchange, a recommendation letter of the concerned stock exchange,
  - (d) Grounds proving the ability to carry on the proposed securities business and such other information as may be specified by the Board.
- 58. A license to carry on securities business to issue:** (1) If an application is received pursuant to Section 57, the Board may hold necessary inquiry and issue a license to carry on securities business in such format as prescribed, to the applicant on the following grounds:-
- (a) If it thinks that, based on the conditions set forth in sub-section (2), the applicant is able to carry on securities business subject to this Act or the rules and bye-laws framed under this Act,
  - (b) Training and education qualification gained by the agent appointed to carry on securities business.
- (2) The following matters shall also be considered in relation to the chief executive, director, concerned officers and agents serving in the company or body making application for the license to carry on securities business:-

- (a) Financial status,
- (b) Educational qualification, training and experience in the relevant work,
- (c) Experience required to carry on securities business,
- (d) Social status and character.

(3) Notwithstanding anything contained above in this Section, a license to carry on securities business other than securities brokerage and investment consultancy service shall be issued only to a public limited company or a body corporate established under the laws in force.

(4) Notwithstanding anything contained elsewhere in this Section, the Board may, having regard to the interests of capital market and investors in securities, so issue a license to any securities business person that such person is restrained from carrying on any securities business out of the types of securities business.

**59. Board to specify terms and conditions:** (1) In issuing a license to carry on securities business, the Board may specify necessary terms and conditions, having regard to the condition of capital market, healthy operation of securities business and interest of investors.

(2) It shall be the duty of the company or body having obtained a license to carry on securities business to comply with the terms and conditions specified by the Board pursuant to sub- section (1).

(3) The Board may make necessary modifications and alteration in the terms and conditions specified pursuant to sub- section (1), having regard to the condition of capital market, healthy operation of securities business and interest of investors.

**60. Power to refuse to issue a license to carry on securities business:** The Board may refuse to issue a license to carry on securities business to any company or body on the following circumstances:-

- (a) if it is proved that such company or body has been insolvent upon being unable to repay debts to creditors,
- (b) if the application to be made for such a license is not accompanied by such documents and details as required to be accompanied under this Act or the rules framed under this Act or such other matter as may be specified by the Board,
- (c) if, upon having regard to the matters set forth in sub- section (2) of Section 58, it is not appropriate to issue a license to carry on securities business.

**61. Term and renewal of a license to carry on securities business:** (1) The license issued to a securities business person to carry on securities business under this Act shall remain valid only until the end of that fiscal year in which it has been issued.

(2) The securities business shall have to get such a license renewed by paying the annual fees as prescribed to the Board within three months from the date of expiry of each fiscal year.

(3) In the event of failure to get a license renewed by paying the annual fees within the time-limit referred to in sub- section (2), such license may be got renewed by paying a fine of twenty-five percent of the annual fees up to three months from the date of expiry of that time limit.

(4) The Board shall revoke the license of a securities business person who has failed to get such a license renewed even within the time-limit referred to in sub-section (3), and publish a notice thereof for information to the general public.

**62. Power to prescribe for carrying on securities business through a subsidiary company:** Notwithstanding anything contained elsewhere in this Act, the Government of Nepal may, on the recommendation of the Board and by notification in the Nepal Gazette, prescribe that a bank or financial institution established under the laws in force is entitled to carry on securities business only through its subsidiary company.

Provided that such a subsidiary company shall not be entitled to do other acts except the dealing in securities.

**63. Types of securities business:** (1) For the purposes of this Act, the securities business shall be divided into the following types:-

- (a) Securities brokerage,
- (b) Securities trade,
- (c) Issue and sales management,
- (d) Investment management,
- (e) Investment consultancy service,
- (f) Collective investment fund management,
- (g) Securities registration or securities central deposit service or custodial service,
- (h) Service relating to the settlement of the account of securities transactions,
- (i) Market maker,

- (j) Such other business as may be specified by the Board to be a securities business.
- (2) The scope and other provisions of the securities business referred to in sub-section (1) shall be as prescribed.
- 64. License not to be issued to carry on securities business without specifying agent:** (1) No license shall be issued to anyone to carry on securities business as a securities broker without specifying at least one person to act as an agent of the securities broker.
- (2) No license shall be issued to anyone to carry on securities business as a securities trader without specifying at least one person to act as an agent of the securities trader.
- (3) No license shall be issued to anyone to carry on securities business relating to collective investment scheme and investment fund management without specifying at least one person to act as an agent of the scheme manager.
- (4) The procedures to be fulfilled in specifying an agent by a securities business person, qualification of the agent and provisions relating thereto shall be as prescribed.
- 65. Formal agent:** (1) Only after the registration of the appointment of any person as an agent of a securities business person with the Board pursuant to sub-section (3), such a person shall be deemed to be a formal agent for that securities business.
- (2) In making registration of the appointment of an agent with the Board pursuant to sub-section (1), the securities business person shall inform the Board about the appointment of such agent and the person to be appointed as an agent shall also inform the Board that he or she agrees to be an agent of such a securities business person.
- (3) Upon receipt of the notice pursuant to sub-section (2), the Board shall, within fifteen days, make entry in the register as prescribed, specifying the name, address and other necessary details of the agent and issue the agent registration certificate to such an agent.
- (4) If the agreement made between the agent and the securities business person appointing the agent is canceled, for any reason whatsoever, information thereof shall be given to the Board immediately, and the agent shall also return the

certificate obtained by him or her to the Board within seven days.

(5) The securities business person who appoints a formal agent shall be responsible for all acts done by such a formal agent.

**66. Rights of securities business person:** (1) No license to carry on securities business obtained by a securities business person shall be suspended or revoked without providing such a securities business person with a reasonable opportunity of hearing.

(2) In suspending or revoking a license to carry on securities business, information thereof shall be given in writing to the concerned securities business person, and such a notice shall indicate the reasons for such suspension or revocation, date of entry into force of such suspension or revocation and the period of suspension, in the case of suspension.

(3) A securities business person who is dissatisfied with the decision made to suspend or revoke a license obtained by such a securities business person to carry on securities business person may make an appeal to the concerned High Court<sup>1</sup> within thirty five days from the date of such decision.

**67. Minimum capital and economic source of securities business person:**

(1) A securities business person shall, in carrying on the securities business, maintain the minimum capital and financial source as prescribed.

(2) If a securities business person fails to maintain the minimum capital and financial sources required to be maintained pursuant to sub-section (1), information thereof shall be given to the Board immediately.

(3) If the Board receives the information referred to in sub-section (2), it may immediately order such a securities business person to maintain the minimum capital and economic source as prescribed or give other necessary directives in that regard.

**68. To maintain records of securities business persons:** (1) The Board shall maintain a register of all licensed securities business persons and maintain updated records in the register.

(2) The following matters shall also be specified in the register to be maintained pursuant to sub-section (1) and updated records of securities business persons maintained there in:-

(a) Names and addresses of securities business persons,

<sup>1</sup>. *Administration of Justice Act, 2016 replaced the word "Appellate Court" to "High Court"*

- (b) Date of issue of license to securities business persons,
  - (c) Types of securities business,
  - (d) Terms and conditions specified in the license,
  - (e) Names and addresses of the formal agents,
  - (f) Names and addresses of managers and officers,
  - (g) Place where documents and records pertaining to securities business are kept,
  - (h) Names of the directors of company or body, names of company secretaries and name of each shareholder and number of shares held by such a shareholder,
  - (i) Such other details as the Board considers necessary and appropriate.
- 69. Records of formal agents:** (1) The Board shall maintain a register of all formal agents and maintain updated records in the register.
- (2) The register to be established pursuant to sub-section (1) shall, inter alia, contain the following matters and also updated records of formal agents shall be maintained therein:-
- (a) Names and addresses of formal agents,
  - (b) Date of registration as formal agent,
  - (c) Name and address of securities business person appointing agents,
  - (d) Such other details as the Board considers necessary and appropriate.
- 70. Information to be given:** The securities business person shall, on any of the following circumstances, give information in writing thereof to the Board within seven days from the date of such occurrence:-
- (a) If the securities business person ceases to carry on the securities business specified in the license,
  - (b) If any formal agent ceases to act in such capacity,
  - (c) If any alteration is made in any details set forth in the register maintained pursuant to Section 68.

## Chapter-6

### Collective Investment Scheme

- 71. No collective investment scheme shall be operated without obtaining a permission:** (1) No one shall operate a collective investment scheme or carry

out or cause to be carried out, any of the following acts without obtaining a permission from the Board pursuant to this Act:-

- (a) To make an advertisement making an invitation to participate in the collective investment scheme or to make an offer containing any kind of information for participating in such a scheme whether directly or indirectly,
  - (b) To provide opinion, advice or consultation to anyone to participate in the collective investment scheme.
- (2) Anyone who contravenes sub-section (1) shall be deemed to have committed an offense referred to in this Act.

**72. Board to grant permission to operate collective investment scheme:** (1) A scheme manager shall, prior to operating the collective investment scheme to be managed and operated by him/her, make an application to the Board in such format and accompanied by such details and fees as may be prescribed in order to register such scheme with the Board and obtain permission to operate the same.

(2) If an application is received pursuant to sub-section (1), the Board shall, if it considers appropriate to grant permission upon conducting necessary inquiry into the matter, register the collective investment scheme and give permission to operate it within ninety days from the date of receipt of such an application.

(3) If, in conducting an inquiry in relation to the registration of a collective investment scheme and granting a permission to operate it pursuant to sub-section (1), any notice, description, information or documents appear necessary, the Board may demand such notice, description, information or documents from the concerned scheme manager. The Board shall not grant permission to operate the collective investment scheme unless it receives the notice, description, information or documents so demanded.

(4) In registering a collective investment scheme and in granting permission to operate it pursuant to sub-section (2), the Board may give permission in a manner that a certificate on participation or a proof thereof is to be given to a participant.

(5) In granting permission to the scheme manager to operate the collective investment scheme pursuant to this Section, the Board may specify necessary terms and conditions in relation to the operation of the collective investment scheme and the issue of the certificate on participation. The Board may make necessary modification or alteration in the terms and conditions so specified.

**73. Operation of collective investment scheme:** (1) The scheme manager may, with a view to operate a collective investment scheme, and having regard to the needs and interests of participants, operate the collective investment scheme of one or several types and by one or several names as prescribed.

(2) The scheme manager shall, prior to operating any scheme pursuant to sub-section (1), make an agreement with the depository as prescribed.

**74. Board may revoke permission:** (1) The Board may revoke the permission granted under Section 72 to operate a collective investment scheme on any of the following circumstances:-

- (a) In the event of failure to fulfill the necessary terms and conditions of operation in a satisfactory manner,
- (b) In the event that it is not appropriate to continue such a scheme having regard to the interest of participants,
- (c) In the event of violation of this Act or the rules or bye-laws framed under this Act or provision of any false details to the Board in respect of a scheme by the scheme manager and the depository.

(2) In revoking the permission pursuant to clause (b) of sub-section (1), the Board may hold necessary inquiry with the manager, depository, and director related with such scheme or relevant employee.

(3) In revoking the permission given to operate a scheme pursuant to sub-section (1), the Board may, having regard to the investment and return of investors, get that scheme to be operated by any other scheme manager or get accounts settled or cleared by refunding the investment and return of the investors of such scheme.

(4) The procedures required to be followed in closing the operation of the scheme and settling or clearing the accounts by the order of the Board shall be as prescribed.

**75. Other provisions relation to operation of collective investment schemes:**

(1) Other provisions and operational procedures required to be made and followed for the operation of a collective investment scheme to be operated by a scheme manager in consonance with the interests of participants shall be as prescribed.

(2) The Regulation shall contain the following matters in relation to the operation of a collective investment scheme:

- (a) Procedures and terms relating to the registration and permission of the collective investment scheme,
  - (b) Statute of the collective investment scheme, functions and duties of the scheme manager and depository and rights and obligations of participants,
  - (c) Promotion of the unit, market management and distribution,
  - (d) Issue and discount of unit,
  - (e) Other provisions relating to depository service and scheme,
  - (f) Regulating and managing the provisions relating to loans and advances of the collective investment scheme,
  - (g) Provisions relating to the maintenance of records in such manner as to clearly reflect the transactions and financial situation related to the collective investment scheme and provisions relating to inspection of such accounts and other necessary accounts and records,
  - (h) Periodic reports relating to the collective investment scheme and submission of such reports to the participants of the scheme and the Board,
  - (i) Fees, remunerations and charges to be collected for the provision of the service referred to in clause (e),
  - (j) Management of investment and loan of the fund of the collective investment scheme.
- (3) In making the regulation incorporating the provisions referred to in sub-section (1), in relation to the operation of the collective investment scheme, such regulation may provide for different provisions for different types of collective investment schemes.

## **Chapter-7**

### **Operation of Securities business**

**76. Business standards:** Securities business person shall, in carrying on the securities business, observe the following business principles:-

- (a) To maintain the operation of securities business fair and of high standards,
- (b) To carry on the securities business with proper skills, care and hard working,
- (c) To keep on the higher standard of stock exchanges,

- (d) To obtain information from customers as to their objective to make investment and provide services accordingly,
- (e) To provide such information and advice as may be required for customers to make decision on investment in securities,
- (f) To avoid conflicts of own interests with the interests of customers and, in the event of the existence of such situation, to disclose that matter to customers and carry on the securities business having regard to the interest of customers,
- (g) To make such provisions as may be necessary to fulfill commitments made in relation to the securities business,
- (h) To properly maintain records relating to the securities business,
- (i) To provide for necessary training to employees in order to prepare skilled human resources for the operation of the securities business,
- (j) To observe such other principle as prescribed in relation to the operation of the securities business.

**77. Provisions relating to identification of investors, purchase and sale order, contract note and payment of money:** (1) Provisions relating to obtaining the identification of the concerned investor, opening a customer account, making transaction of money and concluding an agreement relating to transactions by any securities business person prior to carrying on the securities business shall be as prescribed.

(2) Any securities business person shall, upon making a contract on the purchase, sale or exchange of securities, make a contract note before the closing of market on the following day, and where the securities business person has made such a contract as an agent, the original copy of the contract note shall be delivered to the concerned customer and where such person has made such a contract for himself, such a person shall mention that matter in the contract note and retain the note with him.

(3) The contract note referred to in sub-section (2) shall contain, inter alia, the following matters:-

- (a) Type of securities business and place where such business is operated,
- (b) Where the securities business person himself has acted as the principal, details thereof,
- (c) Name and address of the person to whom the contract note is given,
- (d) Date of the contract and date on which the contract note is prepared,

- (e) Description and quantity of securities,
- (f) Per unit value of securities,
- (g) Description relating to consideration payable under the contract,
- (h) Amount or rate of commission payable under the contract,
- (i) If any fee is chargeable, the rate of such fee and description pertaining thereto,
- (j) Day on which account is settled or cleared,
- (k) Such other matters as prescribed.

**78. Accounts to be maintained by securities dealer:** (1) A securities business person shall, maintain accounts and records in such manner as to adequately support the transactions in securities and clearly reflect the financial condition of the transactions done by him/her. While preparing the balance sheet and profit and loss account, it shall be prepared in such manner as to reflect the actual affairs.

(2) The accounts and records maintained by a securities business person pursuant to sub-section (1) shall clearly and distinctly reflect the moneys paid by his/her customers wishing to purchase securities for the purchase of securities and distinctly reflect the accounts of securities and records, as prescribed.

(3) A securities business person shall prepare and maintain the accounts and records maintained pursuant to sub-section (1) or (2) and relevant financial statements and reports in such manner as prescribed.

(4) A securities business person shall maintain the accounts and records to be maintained pursuant to this Section in such manner so that such accounts and records can subsequently be examined or inspected easily by the Board or the inspector appointed by the Board or the auditor or the concerned stock exchange if the Board or such inspector or auditor or stock exchange desires to make such an examination or inspection.

**79. Insurance to be made:** Each securities business person licensed to carry on the securities business, other than an agent, shall procure insurance of the business to be carried on by him/her, as prescribed by the Board.

**80. Auditor to be appointed:** (1) A securities business person shall appoint an auditor from amongst the auditors enlisted by the Board.

(2) Any director, shareholder, officer employee or partner of a securities business company or body shall be deemed disqualified to be appointed as the auditor of that securities business company or body.

(3) A securities business person shall give information, indicating the name and address also of the auditor appointed by it, to the Board within seven days from the date of such appointment.

(4) If a securities business person removes any auditor from office or such an auditor resigns from office, the securities business person shall give information thereof to the Board within seven days from the date of such removal.

(5) Notwithstanding anything contained elsewhere in this Act, no employee of a stock exchange shall be eligible to be appointed as an auditor of any securities business company or body.

**81. To maintain roster of auditors:** (1) For the purpose of appointment of auditor pursuant to Section 80, the Board shall prepare a roster of auditors having the prescribed qualification from amongst the auditors registered under the laws enforce.

(2) An auditor who wishes to be enlisted in the roster referred to in sub-section (1) shall make an application to the Board, as prescribed. An auditor who is so enlisted shall submit to the Board such information as may be specified by the Board.

**82. Submission of accounts and statements:** (1) A securities business person shall submit the audited profit and loss account, balance sheet and cash flow statement and other necessary financial statements clearly reflecting the operational affairs of securities business carried on in the preceding financial year to the Board and the concerned stock exchange within three months from the date on which such a fiscal year is expired.

(2) If a securities business person fails to submit the accounts and statements pursuant to sub-section (1) and makes an application, accompanied by the reasonable grounds for such failure, to the Board for the extension of time limit, the Board may extend the time limit for a period not exceeding three months. In the event of failure to submit such accounts and statements even within the period of time limit so extended, the Board may fine such securities business person with a sum of five thousand to twenty five thousand rupees.

(3) Notwithstanding anything contained in sub-section (1) or (2), a securities business person who is not able to submit accounts and statements by the reason of not having them audited within the time limit may submit un-audited accounts and statements on the condition of submission of actual accounts and statements audited subsequently.

83. **Report to be made by enlisted auditor to Board:** If an enlisted auditor, in auditing the accounts of a securities business person, finds that such securities business person has violated the financial bye- laws, the auditor shall prepare a separate report thereof and submit it to the Board.

## **Chapter-8**

### **Regulation, Monitoring, Inspection and Inquiry**

84. **To regulate and monitor:** (1) The Board shall have full powers to regulate and monitor all activities relating to securities for the development of capital market and interests of investors.

(2) The Board may, on its own or by delegating any of the powers conferred to it to any one else, regulate and monitor, or cause to be regulated or monitored, the activities relating to securities to be carried out by the stock exchanges, securities business person, formal agents of the securities business person and bodies corporate which have listed their securities.

85. **To inspect and inquire:** (1) For the purpose of carrying out regulation and monitoring pursuant to Section 84, the Board may, on its own or by delegating any of the powers conferred to it to any one else, as required, make, or cause to be made, inspection or inquiry in relation to whether or not the stock exchanges, securities business persons, formal agents of securities business persons and bodies corporate which have listed their securities have complied to this Act or the rules, bye-laws and directives framed under this Act or orders or directives issued there under, in the course of carrying out activities relating to securities.

(2) In making inspection and inquiry pursuant to sub- section (1), the Board or the authorized person may inspect and inquire into any information, data, documents, records and statements held by the concerned stock exchanges, securities business persons, formal agents of securities business persons and bodies corporate which have listed their securities or inquire into any concerned persons or record their statements.

(3) After making inspection and inquiry pursuant to sub- section (2), the Board shall prepare and retain a report thereof. Where inspection and inquiry has been made by a person authorized by the Board, such a person shall prepare a report of such an inspection and inquiry and submit it to the Board.

(4) The procedures to be followed in making inspection and inquiry pursuant to sub-section (1) and the manner to be followed in preparing a report to be submitted after such inspection and inquiry shall be as prescribed.

**86. To demand information, data and statements:** (1) The Board, in making inspection and inquiry pursuant to Section 85, or any person authorized to make inspection and inquiry or the investigating authority, in making investigation pursuant to Section 103, may demand the production of any such information, data and statements as deemed necessary in the course of inspection and inquiry by the concerned stock exchanges, securities business person, agents of securities business person and bodies corporate which have listed their securities.

(2) For the purpose of regulating and managing the transactions in securities, the Board may demand the production of any information, data and statements related with securities or securities transaction from the stock exchanges, securities business person, formal agents of securities business person, bodies corporate which have listed their securities, bodies settling and clearing transactions in securities and depositories.

(3) It shall be the duty of the concerned stock exchanges, securities business person, formal agents of securities business person, bodies corporate which have listed their securities, bodies settling and clearing securities transactions and depositories to produce the notices, data and statements demanded pursuant to sub-sections (1) and (2).

(4) The Board, in making inspection and inquiry pursuant to Section 85, or any person authorized to make inspection and inquiry or the investigating authority, in making investigation pursuant to Section 103, may take the custody of any such information, data, records, statements and equipment as deemed necessary.

**87. To issue orders or directions:** (1) The Board may, having regard to the policies, directions of the Government of Nepal, the condition of capital market and the interests of investors, issue necessary orders or directions to the stock exchanges, securities business persons, formal agents of securities business persons and bodies corporate which have listed their securities to do any act required to be done under, or to refrain from doing any act prohibited under, this Act or the rules and bye-laws framed under this Act, in relation to the securities transaction.

(2) Based on the inspection and inquiry report submitted pursuant to Section 85, the Board may direct the stock exchanges, securities business persons, formal agents of securities business persons, bodies corporate which have listed their securities or the directors or employees of such bodies corporate to do or refrain from doing any act under this Act or the rules and bye-laws framed under this Act

or revoke the registration of securities or suspend or revoke the license issued by it under this Act.

(3) It shall be the duty of all the concerned to observe any orders or directions issued pursuant to sub-section (1) or (2).

**88. License may be suspended:** (1) If any stock exchange or securities business person does any act in contravention of this Act or the rules and bye-laws framed under this Act or does not observe any order or direction issued by the Board or does not perform activities required to be performed by it, the Board may, having regard to the interest of investors, suspend the license obtained by such a stock exchange or securities business person to operate the stock exchange or securities business specifying a certain period.

(2) No suspension of license made pursuant to sub-section (1) shall have any effect on any liabilities arising from any activities done by such a stock exchange or securities business person prior to the suspension of a license.

**89. License may be revoked:** (1) The Board may, on any of the following circumstances, revoke a license obtained by any stock exchange or securities business person to operate the stock exchange or securities business under this Act:-

- (a) If one stops operating the stock exchange or securities business,
- (b) If one operates the stock exchange or securities business in contrary to the interest of investors,
- (c) If one violates the terms set forth in the license,
- (d) If one violates this Act or the rules and bye-laws framed under this Act,
- (e) If one fails to observe any order or direction issued by the Board,
- (f) If one becomes insolvent being unable to repay credit to creditors,
- (g) If the company or body having obtained a license to operate the stock exchange or securities business is wound up,
- (h) If the stock exchange or securities business person having obtained a license to operate the stock exchange or securities business makes an application for the revocation of a license,
- (i) If the securities business person who has removed an agent appointed by it does not appoint another agent in lieu of such an agent,
- (j) If one fails to submit such financial and transaction related statements as required to be submitted to the Board,

- (k) If one fails to pay such fees as required to be paid pursuant to Section 50 to the Board within the time limit specified by such a Section.
- (2) No revocation of a license made pursuant to sub-section (1) shall have any effect on any liabilities arising from any activities done by such a stock exchange or securities business person prior to the cancellation of license.

**90. Special powers of Board:** (1) The Board may exercise the following special powers for the purpose of regulating and managing the securities transactions, having regard to the development of capital market and interests of investors:

- (a) In the event of the failure of any body corporate having made public issue of securities to call its general meeting, as required to be called under the laws in force, within the specified time, to order such a body corporate to call the general meeting,
- (b) In the event of the failure of any body corporate having made public issue of securities to allot its securities within the specified time, to order such a body corporate to refund the money paid for such securities,
- (c) To direct the concerned body corporate to enlist any securities or to stop transactions of any securities,
- (d) In consultation with a stock exchange, to issue an order to close the stock exchange for a maximum period of five days,
- (e) To issue a direction, also indicating the contents to be amended in the bye-laws of the stock exchange and specifying a certain period, to amend the bye-laws within such period or order to issue a new bye-laws, as required,
- (f) To get the financial statements and financial reports submitted by any corporate body having issued securities and any securities business person to be reviewed or examined by accounts experts, as required, To direct any corporate body having registered their securities to make correction in the management, financial arrangements and other related provisions of such a body,
- (g) To direct the concerned stock exchange to restructure its board of directors,
- (h) In the event of receipt of information on any action taken by the stock exchange against its member pursuant to Section 52, to take appropriate action against such a member or revoke the license of such member,

- (j) In the event of violation, in the course of carrying activities relating to securities, of this Act or the rules and bye-laws framed under this Act or orders or directions issued by the Board thereunder by any stock exchange, securities business person and any director or employee of anybody corporate which has listed its securities, to order the concerned stock exchange, securities business person or body corporate which has listed its securities to institute necessary action against such a director or an employee,
  - (k) In the event of failure of any stock exchange, securities business person or body corporate which has listed its securities to have audit within the specified time or otherwise to appoint an auditor, to appoint an auditor to examine and audit the accounts, books, cash and in-kind properties, as well, of such stock exchange, securities business person or body corporate which has listed its securities.
- (2) It shall be the duty of all the concerned to comply with any order or directions issued by the Board in exercise of the special powers referred to in sub-section (1).
- (3) The concerned body shall bear the remuneration of the auditor appointed under clause (k) of sub-section (1).
- (4) The Board shall make public, as prescribed, the details of activities which it has carried out in relation to the regulation, monitoring, inspection and inquiry of the concerned bodies corporate and necessary details in relation to whether the concerned bodies corporate have complied with the orders or directions issued by the Board under this Act or the rules, bye-laws or manuals framed under this Act or not.

## Chapter-9

### Offenses Relating to Insider Trading in Securities and Transactions of Securities and Punishment

- 91. Insider trading:** (1) If any person deals in securities or causes any other person to deal in securities on the basis of any insider information or notice that are unpublished or communicates any information or notice known to such a person in the course of the discharge of his or her duties in manner likely to affect the price of securities such a person shall be deemed to have been committed an insider trading in securities.

**Explanation:** For the purposes of this sub-section, "insider information or notice" means any such specific kind of information or notice not published by a body corporate issuing any securities as may be capable of affecting the price of such securities if such information or notice is disclosed.

(2) Notwithstanding anything contained in sub-section(1), any transactions already carried on shall not be deemed to be affected at all merely by the reason that an insider trading has been committed.

**92. Persons likely to be involved in insider trading:** For the purposes of this Act, the following persons shall be deemed to be those who have access to the insider information or notice not published by any body corporate:

- (a) A director, employee or a person, who can obtain any information or a notice in the capacity of a shareholder of that body corporate,
- (b) A person who can obtain any information or a notice in the capacity of a professional service provider to that body corporate,
- (c) A person who can obtain any information or a notice having a direct or indirect contact with the person or source as specified in clauses (a) and (b).

**93. Information or notice deemed to have been made public:** On any of the following conditions, any information or notice shall be deemed to have been made public:

- (a) If any matter has been published with intent to inform the investors and their business advisers in accordance with the bye-laws of a stock exchange,
- (b) If there is a provision made under the law that the general public can see an information or a notice contained in any records,
- (c) If there is a provision that any person desiring to deal in securities is escorted to the business room of a stock exchange so that such a person can know such an information or a notice,
- (d) If there is a provision that any person desiring to obtain or see such information or notice or get a copy thereof can obtain and see the same,
- (e) If it has been communicated to any specific class, out of the general public,
- (f) If there is a provision that information can be obtained only upon payment of fees or if such an information or a notice has been published outside the State of Nepal.

**94. False trading:** For the purposes of this Act, if the following trading is done, such a trading shall be deemed to be a fake or false trading:

- (a) The actual ownership is not changed, even though the purchase or sale of securities is done directly or indirectly.
- (b) An offer is made to purchase or sell securities on the same price upon knowing the price offered by another for sale or purchase.

**95. Fluctuation in price:** If any person causes stability, increase, decrease or frequent change in the price of securities by doing or causing to be done a fake or artificial or false trading, such a person shall be deemed to have caused fluctuation in price

**96. To affect stock exchange:** If any person individually or in association with others commits any of the following acts to affect directly or indirectly the transaction in securities, such a person shall be deemed to have affected the stock exchange:

- (a) To increase the market price of securities issued by any company with the intent to encourage others to purchase or sell the securities or to avoid the purchase or sale of such securities,
- (b) To decrease the market price of securities issued by any company with the intent to encourage others to purchase or sell the securities or to avoid the purchase or sale of such securities,
- (c) To stabilize the market price of securities issued by any company with the intent to encourage others to purchase or sell the securities or avoid the purchase or sale of such securities.

**97. To supply misleading statements:** If any person commits any of the following acts in intent to entice others to purchase or sell securities, such a person shall be deemed to have committed an act of misleading:-

- (a) To make or publish any statements or projection related statements with knowledge that such a statement is false, misleading or fake,
- (b) To hide any fact or information with malafide intention,
- (c) To make or publish a false or misleading statement, promise or projection with malafide intention.

**98. Fraudulent transaction:** If any person commits the following transaction with intent to purchase, sell or exchange securities from, to or with any other person, such a person shall be deemed to have committed fraudulent transaction:-

- (a) To make any technology, plan or commit any act to defraud others, or
- (b) To get any person to do any act or be engaged in any work by misrepresenting such a person.

- 99.** **Prohibition on transaction of securities by fraud or misrepresentation:** If any person induces to other to purchase or sale the securities or causes to be reduced, increased or stabilized the price of securities on the basis of statement knowingly that such a statement is false or misleading or that any statement has become or misleading by the reason that any matter is omitted from or hidden or not included in such a statement, such a person who does or causes to be done such act shall be deemed to have done transactions in securities by fraud or misrepresentation.
- 100.** **Destroy or concealment of documents, statements or records:** No person shall destroy, forge, conceal any documents, statements or records demanded by the Board or the authority authorized by the Board in the course of inspection and inquiry pursuant to Section 85 or any documents, statements or records demanded by the authority designated to make investigations pursuant to Section 103 in the course of investigations or any such documents, statements or records as required to be maintained by that person under this Act or the rules or bye-laws framed under this Act or shall aid and abet the commission of such act.
- 101.** **Punishment:** (1) A person who commits an insider trading as referred to in Section 91 shall, upon being convicted of the offense of insider trading, be liable to the punishment with a fine equal to the amount in controversy or with imprisonment for a term not exceeding one year or with both punishments.
- (2) A person who commits any act referred to in Sections 94, 95 and 96 shall be liable to the punishment with a fine of fifty thousand rupees to one hundred thousand rupees or with imprisonment for a term not exceeding one year or with both punishments, and where any one has suffered any loss or damage from such an act, such loss or damage has also to be recovered.
- (3) A person who commits any act referred to in Sections 97, 98, 99 and 100 shall be liable to the punishment with a fine of one hundred thousand rupees to three hundred thousand rupees or with imprisonment for a term not exceeding two years or with both punishments, and where any one has suffered any loss or damage from such transactions, such loss or damage shall also be recovered.
- (4) If anyone knowingly or with mala fide intention, does not maintain, make, prepare or submit such accounts, books, statements, reports, notices, information or similar other documents as required to be maintained, made, prepared or submitted under this Act or the rules or bye-laws framed under this Act within the time specified

for the maintenance, making preparation or submission of such accounts, books, statements, reports, notices or information or if one makes, prepares or retains false statements or documents, the Board may punish such a person with a fine of fifty thousand rupees to two hundred thousand rupees.

(5) If anyone knowingly commits any act in contravention of this Act or the rules or bye-laws framed under this Act or the orders or directions issued under this Act and thereby causes any loss or damage to anybody corporate, stock exchange, securities business person or investor, the Board may punish such a person with a fine of fifty thousand rupees to two hundred thousand rupees. If anyone has suffered any loss or damage from such act, the Board may also cause the recovery of compensation for actual loss or damage.

(6) If anyone issues securities, carries on or causes to be carried on a stock exchange or operate or causes to be operated securities transaction in the capacity of a securities business person without fulfilling such requirements as required to be fulfilled under this Act or the rules or bye-laws framed under this Act, the Board may punish such a person with a fine of fifty thousand rupees to one hundred fifty thousand rupees.

(7) If any person violates this Act or the rules or bye-laws framed under this Act or any orders or directions issued thereunder or any terms and conditions specified by the Board or fails to do any such act as required to be done by such a person or commits any such act as required not to be done, the Board may punish such a person with a fine of twenty five thousand rupees to seventy five thousand rupees.

**102. Government of Nepal to be a plaintiff:** The cases relating to the offenses referred to in Sections 91, 94, 95, 96, 97, 98, 99 and 100 shall be state cases to which Government of Nepal shall be a plaintiff.

**103. Investigation and filing of a case:** (1) If a complaint is made by any one that any one has committed the offense referred to in Sections 91, 94, 95, 96, 97, 98, 99 and 100 or the Board receives in any manner an information relating to such an offense or the Board believes that any one has committed such an offense, the Board may designate any officer as an investigating authority to conduct investigations of the case relating to such an offense.

(2) The investigating authority designated pursuant to sub-section (1) shall conduct investigations as prescribed in relation to such an offense and file a case in the concerned District Court within thirty five days after the date of completion of investigations.

(3) The investigating authority designated pursuant to sub-section (1) may, in the course of conducting investigation, make necessary inquiry with, take depositions of, any person or body related with the offense or demand necessary documents, statements and records from such person or body.

(4) The designated investigating authority shall, in conducting investigation of and filing a case pursuant to this Section, shall obtain advice of the government attorney.

**104. Investigation may be conducted upon holding in detention or suspension or release on bail:** (1) Notwithstanding anything contained in the laws in force, if, in conducting investigation of any case held to be an offense referred to in this Act, there is a reasonable ground to believe that any person against whom action is being taken on the accusation of an offense referred to in this Act may abscond and disappear or it appears that there is any loss of or damage to any assets, the Board may require such a person to furnish necessary bail or guarantee of asset and may hold such a person in custody in the event of failure to furnish such bail or guarantee.

(2) If there is a reasonable ground that any person against whom action is being taken on the accusation of an offense referred to in this Act may temper with or destroy any evidence that can be produced against such a person or may obstruct or hinder the investigation of the case if such a person continues to hold office, the Board may write to the concerned body to suspend such a person.

**105. Compensation to be paid:** If anyone has sustained any loss or damage by the reason of effect in the price of securities purchased or sold by any one as a result of the commission of an offense punishable under this Chapter, such loss and damage may also be recovered or realized from the offender of such offense.

**106. Appeal:** (1) Any stock exchange, securities business person, body corporate or concerned person dissatisfied with any punishment made by the Board pursuant to sub-sections (4), (5), (6) and (7) of Section 101 may file an appeal in the concerned High<sup>2</sup> Court within thirty five days after the date of imposition of such a punishment.

(2) Any person dissatisfied with any order or direction issued by the Board pursuant to Chapter-8 may file an appeal in the concerned High<sup>3</sup> Court within thirty five days after the date of receipt of a notice of such order or direction.

**107. Remedies against undue pre-convicted act:** If the Board receives any notice, information and statement that any enlisted company has committed any acts

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2. *Administration of Justice Act, 2016 replaced the word "Appellate Court" to "High Court"*

or transactions with undue pre- conviction and in a manner to be against the interests of its members, the Board may order such a company to do as follows:

- (a) To refrain from doing such transactions,
- (b) To determine procedures for conducting acts and transactions in a manner not to be against the interests of members,
- (c) To appoint a manager or trustee, specifying, inter alia, the functions and duties of such a manager or trustee, to do, on behalf of the company, all or any of the acts and transactions of the company,
- (d) To issue such orders as may be required to regulate and manage the activities of the company.

**108. To be disqualified to be a director or general manager:** If a director, general manager or any other person holding the equivalent office there to is convicted and punished with the punishment referred to in Section 101, such a person shall be disqualified for becoming a director, general manager or an office equivalent thereto in any public limited company or a body or a period up to ten years from the date of such punishment.

## **Chapter-10**

### **Miscellaneous**

**109. Provisions relating to take over of a body corporate or control over a body corporate:** (1) If any person or a group of persons or body corporate is to purchase the shares of anybody corporate in lump sum or at several times with an intention of taking full ownership of such a body corporate or control over the management of that body corporate, such transaction on the purchase and sell of shares shall have to be done in a transparent manner.

(2) If any person or group of persons in collaboration or anybody corporate purchases or owns more than fifty percent, or more than such percent as specified by the Board, of the shares of anybody corporate, it shall be deemed to have been control over the management for the purposes of sub-section (1).

(3) The manner in which an offer is to be made on the sale of shares of anybody corporate in manner to acquire the full ownership of the body corporate or have control over the management of the body corporate pursuant to sub-section (1), process on the purchase and sale of shares and other provisions pertaining thereto shall be as prescribed.

- 110. A body corporate to register the transfer of the shares certified by the stock exchange:** If a stock exchange certifies the transfer in relation to any shares or debentures of anybody corporate which have been purchased, sold or exchanged at the stock exchange, the body corporate shall register such shares or debentures in its register of members in the name of the transferee of such shares or debentures.
- 111. Transfer of securities:** Notwithstanding anything contained in the laws in force on companies, the provisions relating to the ownership and transfer of listed securities shall be as prescribed.
- 112. Liaison with Government of Nepal:** The Board shall, in liaising with the Government of Nepal, do so through the Ministry of Finance.
- 113. Government of Nepal may issue directions:** The Government of Nepal may issue necessary directions to the Board from time to time, in respect of policy matters such as the development of capital market and protection of the interests of investors, and it shall be the duty of the Board to comply with such directions.
- 114. To render assistance:** It shall be the duty of all the concerned to render assistance as sought by the Board for the regulation and management of the transactions in securities having regard to the development of capital market and protection of the interests of investors.
- 115. Saving for the act done in good faith:** The Board or any employee of the Board shall not be personally or collectively responsible for any act or action which is done or taken in good faith subject to this Act or the rules framed under this Act.
- 116. Power to frame rules:** (1) The Board may, in order to implement the objectives of this Act, frame necessary rules with the approval of the Government of Nepal,
- (2) Without prejudice to the generality of the power conferred by sub-section (1), such rules may, in particular, provide contain following matters:-
- (a) Securities registration and permission for issuance,
- (b) Issue of a license for stock exchanges,
- (c) Issue of a license for securities business,
- (d) Operation of collective investment schemes,
- (e) Terms and conditions of the service of the employees of the Board,
- (f) Maintenance of financial operation and accounts of the Board,
- (g) Operation of the compensation fund,
- (h) Financial source required to be maintained by securities business person

- in relation to the operation of securities business,
- (i) Accounts and records of money paid by customers for the purchase of securities,
  - (j) Suspension of listing, delisting or transfer of securities,
  - (k) Other necessary provisions to regulate and manage the activities of the stock exchange and persons involved in the securities business by regulating the issue, purchase, sale and exchange of securities and to protect the interest of investors for development of the capital market,
  - (l) Taking over the ownership by purchasing shares in lump sum or at several times with intent to control the management of companies.

**117. Power to frame bye-laws:** The stock exchange may, with the approval of the Board, frame necessary bye-laws on the following matters, subject to this Act and the rules framed under this Act:

- (a) Listing of securities and transactions of listed securities,
- (b) Membership, membership fees, professional ethics of members,
- (c) With a view to operate the stock exchange in a fair and transparent manner, provisions relating to the service and conduct of employees and market inspection and monitoring.

**118. To frame and enforce directives:** (1) The Board may, subject to this Act and the rules framed under this Act, frame and enforce directives on the following matters for regulating transactions of securities;

- (a) On securities registration and issuance permission,
- (b) On securities issuance and sales arrangements,
- (c) On securities allotment,
- (d) On professional ethics,
- (e) On other matters relating to the regulation of transactions of securities.

(2) It shall be the duty of all the concerned to abide by the directives framed by the Board pursuant to sub-section (1).

**119. Effect of inoperativeness of the Securities Ordinance, 2005:** With the Securities Ordinance, 2005 being inoperative, unless a different intention appears, the inoperativeness shall not,

- (a) Revive anything not in force or existing at the time, at which the Ordinance became inoperative,
- (b) Affect the matter in operation as per the Ordinance or anything duly

- done or any punishment suffered thereunder,
- (c) Affect any right, privilege, obligation or liability acquired, accrued or incurred under the Ordinance,
  - (d) Affect any penalty, punishment or forfeiture incurred under the Ordinance,
  - (e) Affect any action or remedy made or taken in respect of any such right, privilege, obligation, liability, penalty or punishment as aforesaid; and any such legal proceeding or remedy may be instituted, continued or enforced as if the Ordinance were in force.

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## An Act Made to Provide for Commodities Exchange Market

**Preamble:** Whereas, It is expedient to regulate a commodities market, a clearing and settlement house and a warehouse for development and operation of commodities exchange market and protection of investors;

Now, therefore, be it enacted by the Legislature-Parliament in accordance with sub article (1) of Article 296 of the Constitution of Nepal.

### Chapter-1

#### Preliminary

1. **Short Title and Commencement:** (1) This Act may be called "Commodities Exchange Market Act, 2074 (2017).  
(2) This Act shall come into force on 91th day as of its assent.
2. **Definition:** Unless the subject or context otherwise requires, in this Act,-
  - (a) "Court" means a commercial bench of the court as the Government of Nepal may, by notification published in the Nepal Gazette, appoint.
  - (b) "Chairperson" means the Chairperson of the Board.
  - (c) "License" means the License issued in accordance with Section 5 of the Act.
  - (d) "Trading" means buying and selling of commodities options contract, clearing and settlement, transfer and other acts related thereto to be done in a Commodities Exchange Market.
  - (e) "Prescribed or as prescribed" means prescribed or as prescribed in Rules made under this Act.
  - (f) "Board" means the Securities Board of Nepal constituted in accordance with the prevalent securities laws.
  - (g) "Clearing and Settlement House" means a body corporate holding a license to undertake clearing and settlement business.
  - (h) "Investor" means a person to purchase commodities by the use of commodities contract in a commodities exchange market.

- (i) "Commodities" means the commodities as prescribed to be traded by the use of commodities contract in a commodities exchange market.
- (j) "Commodities Exchange Market" means a body corporate holding a license pursuant to Section 5 of the Act.
- (k) "Commodities Trading Business" means a commodities trading business to be undertaken in accordance with subsection (1) of Section 19.
- (l) "Commodities Traders" means a body corporate holding a license to undertake commodities trading business.
- (m) "Derivatives" means a commodities options contract entered into for buying and selling of commodities between a buyer and seller stating therein price, quantity, and quality as well as handover date of such commodities to be executed at least in thirty days following the contract.
- (n) "Warehouse" means a body corporate holding a license to operate a Warehouse.
- (o) "Entity" means a company or a body corporate incorporated in accordance with the prevailing law.
- (p) "A Body Corporate" means a public limited company incorporated in accordance with the prevailing law, or a body corporate established with provisions to issue securities publicly through a stock exchange market.

## **Chapter-2**

### **Provision Relating to License**

- 3. Trading Not to Be Undertaken Without License:** (1) No one can undertake the following businesses without obtaining a license in accordance with this Act:-
  - (a) A commodities exchange market,
  - (b) A commodities trading business,
  - (c) A clearing and settlement business, and
  - (d) A warehouse
- 4. Application to Be Given to Obtain License:** (1) body corporate wishing to operate a commodities exchange market shall have to submit an application, along with details, documents and application fee as prescribed, in a prescribed format to the Board for obtaining a license for operation of the Commodities Exchange Market.  
  
(2) A body corporate wishing to operate a commodities trading house, a clearing and settlement house and a warehouse shall have to submit an application, along with details, documents and application fee as prescribed, in a prescribed

format to the Board for obtaining a license for operation of the commodities trading business, the clearing and settlement business and the warehouse.

5. **License to Be Given:** (1) The Board shall issue a license in a format as prescribed within one hundred twenty days in the case of a commodities exchange market and within ninety days in the case of a commodities trading business, a clearing and settlement business, or a warehouse if the Board is satisfied that it promotes the interests of investors and the general public after making an assessment based on the application and documents so received in accordance with Section-4.

(2) The Board may issue an order asking to submit additional details, or make further clarifications on the details or documents submitted stipulating a maximum time -limit of thirty days to do so, if it deems necessary to ask additional details or make clarifications on the details or documents so submitted by the applicant while studying the application and documents furnished pursuant to subsection (1) above.

(3) The concerned applicant shall have to submit additional documents or clarifications further as per the order issued in accordance with subsection (2) above.

6. **License to Be Denied:** Notwithstanding anything contained in Section 5 above, the Board may deny issuing license to the applicant taking into view of the country's economic situation, development of industrial sector, viability of commodities market as well as protection of investors' interests, and a written notice containing the basis and reasons so denied shall forthwith be provided to the applicant.

7. **Terms to Be Prescribed:** The Board may prescribe terms and conditions while issuing a license and it shall be the duty of the licensee to comply with such terms & conditions.

8. **Provision Related to Duration and Renewal of License:** (1) The license shall remain valid for a period of three years.

(2) An application, along with prescribed fees, in a format as prescribed shall be submitted to the Board for renewal of license prior to ninety days of its expiration of validity pursuant to subsection (1) above.

(3) Notwithstanding anything contained in subsection (2) above, an application, along with double fee that of the application fee, in a format as prescribed may be submitted to the Board for renewal of license prior to at least thirty days of its expiration.

(4) The Board shall renew the validity of the license within thirty days from the submission of application and inform the same to the licensee, if application is registered for renewal pursuant to subsection (2) and (3) above.

(5) In case where the validity of the license has been expired without being renewed pursuant to this Section, the license of such entity shall be invalidated pursuant to subsection (1) of Section 35 below, and the same shall forthwith be notified to the concerned.

- 9. Provision Related to Infrastructure:** (1) A body corporate holding a license shall arrange the infrastructure as prescribed required carrying on the business as per the license within one hundred eighty days from the license obtaining date.

Provided, however, that the infrastructure required in order to operate a warehouse shall be as prescribed by the Board.

(2) The Board may grant additional ninety days to arrange infrastructure, if additional time has been requested failing to do so pursuant to subsection (2) above.

(3) The body corporate cannot carry on business without arranging the infrastructure in accordance with this Section.

(4) In the case where infrastructure has not been arranged within the period given pursuant to subsection (2) above, the license of the body corporate shall be invalidated pursuant to subsection (1) of Section 35 below.

- 10. Minimum Paid-up Capital and Financial Resources to Be Maintained:**

(1) The minimum paid-capital of a body corporate to operate a commodities exchange market shall not be less than Five Hundred Million Rupees as prescribed by the Board from time to time.

(2) The minimum paid-up capital of a body corporate to operate commodities trading business, a clearing and settlement house or a warehouse shall be as prescribed.

### **Chapter-3**

#### **Commodities Exchange Market**

- 11. Prior Approval of the Board to Be Obtained:** (1) Notwithstanding anything contained in the prevailing law, prior approval of the Board shall be obtained prior to incorporation of a company to operate a commodities exchange market.

- (2) Other procedures to be applied for providing prior approval pursuant to subsection (1) above shall be as prescribed.
- 12. Provision Related to Boards of Directors:** (1) The boards of directors of a commodities exchange market shall consist of minimum seven directors, including at least two independent directors.
- (2) The qualifications for the board directors shall be as follows:
- (a) Having minimum qualifications of master's degree in economics, commerce, finance, accounting, management or law or chartered accountancy and at least five years working experience in the concerned field,
  - (b) Having attained age of thirty-five years,
  - (c) Not disqualified as prescribed.
- (3) In appointing board directors, representation from different segments referred to in clause (a) of subsection (2) shall be ensured to the extent possible.
- (4) For the purpose of appointing independent board directors, the commodities exchange market shall have to submit a list of possible candidates to the Board in a threefold number than the vacant position.
- (5) The Board shall appoint a suitable candidate as independent board director from the list submitted pursuant to subsection (4) above.
- 13. Provision Related to Share of Commodities Exchange Market:** (1) No one can hold shares of more than five percent of the paid-up capital of a company operating a commodities exchange market.
- (2) Notwithstanding anything contained in subsection (1) above, a foreign investor as a strategic partner can hold up to fifty-one percent shares of such company with an objective of operating the commodities exchange market with foreign capital, skills, and technology.
- (3) Other provisions related to the strategic partner and holding shares of the company operating the commodities exchange market shall be as prescribed.
- 14. Conditions Restricting to Hold Shares of a Commodities Exchange Market:**
- (1) The following person or a body corporate cannot hold or purchase shares of a commodities exchange market:-
- (a) Not being elapsed a period of twelve years from the date of insolvent,
  - (b) Being a shareholder of another commodities exchange market,

- (c) Being disqualified to enter into contract pursuant to the prevailing law,
- (d) Being enlisted in a blacklist, or not being completed a period of three years removing from such black list,
- (e) Being convicted of an offence of corruption, money laundering and financing in terrorist activities by a final verdict of court in the case of a natural person,
- (f) Having an overdue to make payment of government arrears,
- (g) Being convicted of a crime of moral turpitude,
- (h) Having other conditions as prescribed.

(2) If any person or a body corporate- who cannot purchase shares pursuant to subsection (1) above-has owned shares in any manner or the conditions as referred to in subsection (1) has occurred following the purchase of shares, such shares shall have to be sold or transferred to others within thirty-five days occurring such events.

(3) The Board shall forfeit such shares if those are not sold or transferred within the period set forth in subsection (2) above.

(4) The shares forfeited pursuant to subsection (3) above shall be sold as prescribed by the Board.

**15. Functions, Duties and Powers o f Commodities Exchange Market:** The functions, duties and powers of a commodities exchange market shall be as follows, in addition to functions, duties and powers mentioned elsewhere in this Act:

- (a) To provide to investors a market, place, or facility to purchase, sale or exchange commodities in a same place continuously vide commodities contracts,
- (b) To provide membership to commodities traders,
- (c) To enlist, or cause to be enlisted, commodities for trading,
- (d) To operate, or cause to be operated, commodities trading in a transparent, fair and regular manner,
- (e) To monitor or supervise functions and activities of commodities traders, or cause to do so,
- (f) To apply necessary measures to protect the trading system of a commodities exchange market or reduce potential risks therein,
- (g) To execute, or cause to be executed, directions issued by the Board,

- (h) To perform, or cause to be performed, other functions as prescribed.
- 16. Threshold for Commodities or Trading to Be Fixed:** (1) The threshold of commodities to be traded at once shall be as prescribed by the Board.
- (2) In fixing the threshold of commodities, it may be set separately based on the nature of commodities or trading.
- (3) The threshold of the commodities to be held by any natural person or a body corporate shall be as prescribed.
- 17. Provision to Be Made for Protection of Investors:** (1) A commodities exchange market shall have to establish an Investor Protection Fund to protect investors from potential systemic risks.
- (2) The provisions on establishment and operation of the Investor Protection Fund shall be as prescribed.
- 18. Provision Related to Chief Executive Officer of Commodities Exchange Market:** The boards of directors of a commodities exchange market shall appoint a chief executive officer to function as administrative head having fulfilled the following qualifications:
- (a) Having minimum qualifications of master's degree in economics, commerce, finance, accounting, management or law and at least seven years of working experience in the concerned field
  - (b) Not disqualified as prescribed for.
- Chapter-4**  
**Commodities Trading Business**
- 19. The Business to Be Carry on By Commodities Traders:** (1) Any commodities traders shall carry on the following businesses:
- (a) Market-making business,
  - (b) Investment portfolio business,
  - (c) Investment consulting business,
  - (d) Custodian services for commodities,
  - (e) Commodities brokers
  - (f) Commodities trading dealers
  - (g) Other trading of commodities as prescribed.
- (2) For the purpose of subsection (1) above, the commodities traders shall

be classified as follows:

- (a) Market-makers,
- (b) Investments portfolio,
- (c) Investments consultants Seal of the Notary Public
- (d) Custodian,
- (e) Commodities brokers,
- (f) Commodities traders,
- (g) Other traders of commodities as prescribed.

(3) Other provisions related to commodities trading business shall be as prescribed.

**20. Membership to Be Obtained by Commodities Traders:** (1) Any commodities traders shall be a member of a commodities exchange market as prescribed.

(2) Procedures regarding obtaining a member, membership and other provisions thereto shall be as prescribed in the Bye-Laws of the concerned commodities exchange market.

**21. Provision Related to Shareholders and Ownership:** (1) Any shareholder of one commodities trading business or member of his/her joint family shall not be allowed to hold shares of another commodities trading business.

(2) Other provisions related to holding shares of commodities trading business, as well as ownership, sale or transfer thereto shall be as prescribed.

**22. Agreement to Be Made:** Commodities traders shall enter into agreement as prescribed with investors prior to commencing trading.

**23. Records to Be Kept:** (1) Commodities traders shall maintain documents and details of investors showing factual identity prior to commencing trading.

(2) The commodities traders shall maintain the records of documents, details or transmission of amounts, and other activities of investors as prescribed.

**24. Insurance to Be Made:** Commodities traders shall indemnify insurance of commodities trading as prescribed by the Board.

## **Chapter-5**

### **Clearing and Settlement Business**

**25. To Appoint Clearing and Settlement Agent:** (1) A commodities exchange markets shall appoint a clearing and settlement agent to carry out clearing and settlement functions.

(2) In appointing the clearing and settlement agent, the commodities exchange market shall enter into agreement as prescribed with the clearing and settlement agent, and a copy of such agreement shall be provided to the Board within fifteen days of its signature by the commodities exchange market.

(3) Appointment of the clearing and settlement agent and other provisions thereto shall be as prescribed.

**26. Trading to Be Undertaken By Clearing and Settlement Agent:** (1) A clearing and settlement house shall make clearing and settlement of the commodities sold or purchased as per a commodities contract.

(2) Other businesses related to clearing and settlement to be carried out by the clearing and settlement agent shall be as prescribed.

## **Chapter-6**

### **Warehouse**

**27. Warehouse to Be Designated:** (1) A commodities exchange market shall, for the purpose of undertaking trading pursuant to Section 28, designate a warehouse to a body corporate holding a license in accordance with Section 5 above.

(2) In doing so, the commodities exchange market shall enter into agreement with the warehouse, and a copy of such agreement shall be provided to the Board within fifteen days of its signature.

(3) Other provisions to designate the warehouse by the commodities exchange market shall be as prescribed.

**28. Trading to Be Undertaken By Warehouse:** (1) A warehouse shall carry on the following trading:

- (a) To store up the commodities related to trading to be undertaken in a commodities exchange market, and issue a receipt related thereto,
- (b) To protect the commodities stored up pursuant to clause (A) above, and hand over such commodities after their trading,

(2) Other provisions related to operation of the warehouse shall be as prescribed.

## **Chapter-7**

### **Functions, Duties and Powers of the Board**

**29. Functions, Duties and Powers of the Board:** (1) The Board shall perform the following functions, duties and powers, in addition to those as referred to elsewhere in this Act:

- (a) To advise the Government of Nepal on matters related to development of a commodities exchange market and commodities trading,
- (b) To approve long-term and short-term programs and policies for development of the commodities exchange market,
- (c) To carry out feasibility study on operation of the commodities exchange market,
- (d) To register commodities and commodities contracts to be traded at the commodities exchange market,
- (e) To issue order to close down the commodities exchange market stipulating a time period, or suspend the trading of a body corporate holding a license for a certain period of time,
- (f) To give directions to the commodities exchange market to enlist
- (g) To issue orders to suspend trading until rectification of defect in an electronic trading system of the commodities exchange market, if any defect occurred or reform required in the system,
- (h) To manage and regulate purchasing, selling and, handing over of the commodities and commodities contract registered at the Board,
- (i) To regulate and monitor the functions and activities of the body corporate holding a license and the parties involved in trading,
- (j) To endorse Bye-Laws of the body corporate holding a license,
- (k) To issue directions to the body corporate holding a license to make necessary provisions for protection of investors,
- (l) To coordinate with other regulatory entities to supervise and regulate the commodities and commodities contract,
- (m) To issue necessary directions to make reform in financial and managerial aspects of the body corporate holding a license,
- (n) To perform other functions as prescribed.

**30. The Board May Issue Order or Direction:** (1) The Board may issue necessary orders or directions to a body corporate holding a license to do or not to do any function in accordance with this Act, the Rules or Bye-Laws made there under keeping in view of circumstances of a commodities exchange market and trading of commodities, and interests of the investors.

(2) The Board may issue an order to the body corporate holding a license to initiate necessary action against the boards of directors, officials or staffs, if this Act, or the Rules or Bye-laws made there under or any order or direction given by the Board are violated by them,

(3) The Board may issue directions to do or not to do any functions under this Act, or the Rules or Bye-Laws made there under to the body corporate, the parties involved in trading, or the boards of directors or the staffs of the concerned body corporate based on the inspection or supervision report submitted pursuant to Section 32 below.

## **Chapter-8**

### **Regulation, Inspection, and Supervision**

**31. Powers to Regulate:** (1) The Board shall have the full powers to regulate, or cause to regulate, a body corporate holding a license and parties related to trading to be carried on through a commodities exchange market.

(2) The Board may issue any order, direction, or notice or circular on matters as it deems necessary for the purpose of regulation to be made pursuant to subsection (1) above.

**32. Inspection and Supervision to be Done:** (1) Board may, at any time, inspect or supervise, or cause to do so ,as to whether this Act, or the Rules, the By-Laws or any order or direction issued there under are followed or not by a body corporate holding a license in carrying on trading.

(2) The Board may carry out on-site inspection and supervision of the body corporate holding a license by deputing a team of expert or its own staffs, or carry out off-site inspection and supervision by examining the information, data, documents, records and details of the body corporate holding a license, when necessary.

(3) The Board may form a team of expert for the purpose of carrying out inspection and supervision pursuant to subsection (2) and the facilities of the team shall be as prescribed by the Board in its formation.

(4) The team of expert or staffs of the Board may inspect or supervise the

information, data, documents, records and details of the body corporate holding a license or take interview of the concerned persons while carrying out the inspection and supervision of that body corporate.

(5) The team of expert or the staffs of the Board may seal off a room or place having the information, data, documents, records and details relating to trading of the body corporate, by keeping their records with the team, or cause to be kept the records with the custody of the body corporate, when necessary.

(6) The team of expert or the staffs of the Board shall have to submit a report to the Board within fifteen days following its completion of inspection and supervision of the body corporate.

(7) Other provisions related to inspection and supervision shall be as prescribed.

**33. Information, Data and Details to Be Sought:** (1) The Board may seek any information, data, or details from a person related to a body corporate holding a license or its trading.

(2) The Board or an authorized person from the Board may seek any information, data, or details from the body corporate or a person holding a license during the inspection and supervision time pursuant to Section 32, when necessary.

(3) It shall be the duty of the concerned body corporate or person holding a license to provide such information, data or details sought pursuant to subsection (1) or (2).

**34. Suspension of License:** (1) The Board may suspend a license of a body corporate holding for a time being if such body corporate has acted against this Act or the Rules or the By-Laws made there under, or not complied with the orders, or directions issued by the Board, or not submitted to the Board financial and other details related to trading.

(2) The body corporate holding a license shall not carry on any trading during the period of suspension pursuant to subsection (1).

**35. Provision related to Invalidation of license:** (1) The Board may invalidate the license of a body corporate holding a license on the following grounds:

- (a) If the validity period of the license is expired without being renewed pursuant to Section 8,
- (b) If the infrastructure is not arranged pursuant to Section 9,
- (c) If business operation of a commodities exchange market, a commodities

- trading business, a clearing and settlement house or a warehouse is closed down,
- (d) If it is declared insolvent in accordance with the prevailing law, or wend up by any means,
  - (e) If application is submitted for invalidation of a license.
- (2) The Board may invalidate a license of a body corporate on the following conditions: If terms and conditions set forth in the license are violated,
- (a) If this Act or the Rules or Bye-Laws made there under are violated,
  - (b) If this Act or the Rule or Bye-Laws made therer under are violated,
  - (c) If a commodities exchange market, a commodities trading house house, a clearing and settlement house and a warehouse is operated against the interests of investors,
  - (d) If orders or directions given by the Board from time to time are violated,
  - (e) If details related to finance and trading submitted during the suspension period sought by the Board are not furnished,
  - (f) If amounts to be paid pursuant to this Act are not paid.
- (3) An opportunity to file clarifications before invalidation of license shall be give to the body corporate holding a license.
- (4) The liabilities created with the functions/activities of the body corporate holding a license occurred before the invalidation of the license shall not be affected due to invalidation of license pursuant to subsection (1) and (2) above.

**36. The Board May Take Action:** (1) The Board may take the following one or more than one actions against a body corporate holding a license, the boards of directors, its officials, or staffs in opposition to non-compliance of the orders or directions given by the Board in accordance with this Act, or the Rules or Bye-Laws made there under:

- (a) To reprimand or give written warning,
- (b) To issue directions to get reformative measures,
- (c) To ban trading in whole or partial,
- (d) To suspend or stop the services to be provided by the Board,
- (e) To issue an order for suspension,
- (f) To issue an order not to provide facilities including salary, allowance to the board directors of a body corporate holding a license,

- (g) To issue an order to the concerned body corporate holding a license to remove board directors from the position, or give retirement to its staffs from the service.
- 37. Penalty to Be Imposed:** (1) The Board may impose the following penalties performing the following functions without obtaining a license pursuant to Section 5:
- (a) From One Million Rupees up to Five Million Rupees, if a commodities exchange market is operated or name of commodities exchange market used,
  - (b) From Two Hundred Thousand Rupees up to One Million Rupees, if a clearing and settlement business or a warehouse is operated,
  - (c) From One Hundred Thousand Rupees up to Five Hundred Thousand Rupees, if a commodities trading business is operated.
- (2) The Board may impose penalty from Fifty Thousand Rupees up to Three Hundred Thousand Rupees against a body corporate holding a license, if trading is operated against subsection (3) of Section 9 by it.
- (3) The Board may impose penalty at the rate of one hundred rupees per day against a body corporate holding a license failing to submit information or details or report pursuant to Section 48 or 49 from the date of elapsing a time-limit to submit thereof.
- (4) The Board may impose penalty against a body corporate holding a license from One Thousand Rupees up to Five Hundred Thousand Rupees failing to comply with orders or directions given under this Act or the Rules made there under or the prescribed terms.
- (5) The Board may impose penalty from Fifty Thousand Rupees up to Two Hundred Thousand Rupees against board directors or officials or staffs of a body corporate holding a license failing to submit information, data, documents, records, or report within a prescribed time demanded by the Board to do so during the time of inspection and supervision or investigation conducted in accordance with this Act.
- (6) The Board may impose penalty from Two Hundred Thousand Rupees up to One Million Rupees against a body corporate holding a license failing to maintain, or prepare or submit the accounts, ledger, report or similar documents in accordance with this Act, or the Rules or Bye-Laws made there under.
- (7) The Board may impose penalty from One Million Rupees up to Five

Million Rupees against a body corporate holding a license making any damages or losses to investors acting against this Act, or the Rules or Bye-Laws made there under, or orders or directions given by the Board, and get recovered such damaged or lost amounts to the investors.

(8) The Board may impose penalty from Twenty-Five Thousand Rupees up to One Hundred Thousand Rupees failing to comply with the code of conduct pursuant to section 60.

## **Chapter-9**

### **Offence and Punishment**

**38. Time-limit to File Complaint:** (1) For any offence to be punished pursuant to this Act a complaint shall be filed within one year from the date of the crime occurred, or knowing to occur.

(2) A case has to be filled in a court within a period of six months from lodging the complaint pursuant to subsection (2) above.

**39. Offence to Be Considered to Commit:** An offence shall be considered to commit under this Act, if anyone has acted, or cause to be acted, the following acts:

- (a) making fluctuation in the price from time to time, or keeping the price constant, or increased or decreased by doing forged or false trading or circular trading, cause to be done the same, or keeping hoard of a huge quantity of commodities for an unreasonable period of time restricting other to enter into contract with an intention to have an effect on the price of any commodities contract,
- (b) making impact on a commodities exchange market by keeping the market price of commodities contract increased, decreased or constant on its own or jointly with an intention of having direct or indirect impact on trading or restricting buying and selling of commodities contracts,
- (c) having published false, or forged or wrong or speculated report or making a promise by such report, or carried on trading to show that active trading of any commodity is going on in a commodities market, or making believed with a mala fide intent hiding any fact or information,
- (d) Having used or misused or planned to use or misuse, the technology with a mala fide intent of causing damage or lose to, or getting wrong benefits from, anyone,
- (e) Having done any acts in this regard, or carried on any fraudulent trading

- by falsifying other.
- (f) Having destroyed, or made false, or hid any document, report or record kept in accordance with this Act, or this Rules or the by- laws made there under.
  - (g) Having damaged or wrongly used a electronic trading system installed by a body corporate holding a license in accordance with Section 44 with a mala fide intent of making damage or lose to anyone,
  - (h) Having abetted or motivated anyone to commit acts referred to in from clause (a) to (f).

**40. Punishment:** (1) The following punishment shall be imposed on anyone committing the following offences:

- (a) In case any person who commits any offence referred to in clause (a) of Section 39, he/she shall be ordered to have recovered the claimed amount, with a fine equivalent thereof, if the amount is known, and a fine up to Five Hundred Thousand Rupees and imprisonment for a period up to five years, if the claimed amount is not known.
  - (b) In case any person who commits any offence referred to in clause (b) of Section of Section 39, he/she shall be ordered to have recovered the claimed amount, with a fine equivalent thereof, if the amount is known, and a fine up to Four Hundred Thousand Rupees and imprisonment for a period up to four years, if the claimed amount is not known,
  - (c) In case any person who commits any offences referred to in clause (c), (d), or (e) of Section 39, he/she shall be ordered to have recovered the claimed amount, with a fine equivalent thereof, if the amount is known, and a fine up to Three Hundred Thousand Rupees and imprisonment for a period up to three years, if the amount is not known,
  - (d) In case any person who commits an offence referred to in clause (f) of Section 39, he/she shall be ordered to have recovered the claimed amount, with a fine equivalent thereof, if the amount is known, and a fine up to One Million Rupees and imprisonment for a period up to one year, if the amount is not known,
  - (e) In case any person who commits an offence referred to in clause (g) of Section 39, he/she shall be punished a half of the punishment to be imposed against a main wrongdoer.
- (2) In case where any person who commits any offences referred to in Section

39 through a body corporate holding a license, such wrongdoer, board directors, officials or staffs thereof, shall be punished in accordance with subsection (1) above.

(3) In case where board directors, officials or staffs of the body corporate holding a license as mentioned in clause (1) above have not been identified, the punishment as referred to in clause (1) shall be imposed on the boards of directors, officials or staffs thereof working as chief of that body corporate.

## **Chapter-10**

### **Miscellaneous**

**41. Provision Related to Fund:** (1) The following amounts to be accrued to the Board in accordance with this Act shall be deposited into the Board's Fund, in addition to the amounts to be deposited into such Fund in accordance with the prevailing securities related law:

- (a) Amounts chargeable for application fees,
- (b) Amounts chargeable for License fees,
- (c) Amounts chargeable for license renewal fees,
- (d) Amounts chargeable for fines
- (e) Other amounts chargeable in accordance with this Act.

(2) Provisions related to utilization of the amounts to be accrued into the Fund pursuant to subsection (1), accounting and auditing thereof, shall be as referred to in the prevailing securities related law

**42. Appointment of Auditor:** (1) In case where a body corporate holding a license does not carry out audit of its accounts within a prescribed time, or an auditor cannot be appointed due to any other reasons, the Board may cause to have audited the accounts, records, cash, including property in kind thereof by appointing an auditor, when necessary.

(2) The remuneration of the auditor so appointed in pursuant to subsection shall be borne by the body corporate holding a license.

**43. Provision Related to Service and Regulation Fees:** (1) The service fee by a body corporate holding a license in providing service shall be as prescribed.

(2) The amounts as prescribed out of the total service fees received by the body corporate within one fiscal year shall be made available to the Board as regulation fees.

**44. Electronic Trading System to Be Installed:** (1) A body corporate holding a

license shall establish an electronic trading system to be used for carrying on its trading electronically.

- (2) The electronic trading system shall be secured, suitable and reliable.
- (3) The Board may, or cause to make audit of the electronic trading system, when necessary.
- (4) The Board may issue necessary directions to make reforms in the electronic trading system, if it deems necessary.
- (5) It shall be the duty of the body corporate to comply with the directions issued in accordance with clause (4).

**45. Special Provision Related to Commodities Contract:** (1) Conditions, terms and standards of commodities trading options contract to be entered into on rights and liabilities with regard to purchase and sale of commodities in the future shall be as prescribed.

- (2) Trading options of commodities shall not be applied until application of the conditions, terms and standards as referred to in subsection (1) above.

**46. Trading to Be Carried on in a Foreign Commodities Exchange Market:** The traders who perform as a market-maker, or counter-party, or trading of similar nature in a commodities exchange market shall purchase or sale commodities contracts in a foreign exchange market to deal with the risks to be occurred in carrying on trading in accordance with this Act.

**47. Approval to Be Obtained to Do Trading in Foreign Currency:** In case where trading may be required to be carried on in foreign currency, it shall be done after getting approval from the concerned entity in accordance with the prevailing law related to foreign exchange.

**48. Information and Report to Be Provided:** A body corporate holding a license shall have to submit the prescribed information and reports in connection with trading and business to the Board as prescribed.

**49. Report to Be Given:** In each fiscal within four months from the date of its ending, a body corporate holding a license shall have to submit an annual report to the Board containing the functions, activities, details of commodities trading carried on during the preceding fiscal year.

**50. Report to Be Made Public:** Reports on the functions and activities of the Board about regulation, inspection and supervision of a body corporate holding a license, reports as to whether orders or directions given the Board in accordance with the Act, or the Rules or the By-laws made there under complied with or not by the

body corporate, and information and details submitted by that body to the Board in accordance with Section 48 shall be made public as prescribed.

51. **Order and Direction to Be Complied With:** It shall be the duty of the all concerned to comply with orders or directions issued by the Board in accordance with this Act or the Rules made there under.
52. **Fine to Be Recovered:** (1) The fines imposed in pursuant to Section 37 shall be paid by the concerned person to the Board within thirty days of fine imposition.  
(2) In case where such fine is not paid within thirty days the Board may recover such amount from movable or immovable properties of the concerned person as equivalent of government arrears.
53. **Appeal to Be Filed:** The concerned party may file an appeal to a High Court within thirty days from the date of a decision taken to invalidate a license pursuant to subsection (2) of Section 35, or action taken pursuant to Section 36, or a fine imposed pursuant to Section 37, if not satisfied with the decision of the Board.
54. **The Government of Nepal to Be Plaintiff:** (1) The Government of Nepal shall be plaintiff in the case bearing punishment pursuant to Section 39 of this Act, and such case shall be deemed to be included in the Schedule- 1 to the State Cases Act, 2049.  
(2) The Board shall render necessary assistance to the concerned officer to conduct investigation and prosecution of offences referred to in subsection (1).
55. **The Government of Nepal May Give Order:** The Government of Nepal may, from time to time, give order to the Board on policy matters such as commodities exchange markets, commodities trading business, clearing and settlement business, operation of warehouse, development of commodities exchange market, and protection of the interests of investors, and it shall be the duty of the Board to comply with the direction of the Government.
56. **Assistance to Be Rendered to the Board:** It shall be the duty of all concerned to render assistance to the Board in performing the functions to regulate and manage the matters related to a commodities exchange market, a commodities trading business, a clearing and settlement house, operation of a warehouse, development of commodities exchange market and protection of the interests of investors.
57. **Delegation of Powers:** The Board may, as required, delegate some of the powers conferred to it by this Act to the Chairperson, boards of directors, or its employees.
58. **Liaison with the Government of Nepal:** The Board shall liaise with the

Government of Nepal through the Ministry of Finance.

- 59. Action to Be Taken to Officials:** In case where the officials designated the responsibilities pursuant to this Act, or the Rules made there under do not perform the prescribed functions or activities on time or performed with a mala fide intent, action shall be taken against him/her pursuant to the prevailing law.“
- 60. Code of Conduct to Be Enforced:** (1) The Board shall enforce the code of conduct to be followed by a body corporate holding a license.
- (2) It shall be the duty of a body corporate holding a license to comply with the code of conduct implemented pursuant to subsection (1) above.
- (3) The body corporate holding a license shall enforce the code of conduct, by framing it, for its own boards of directors and employees.
- 61. Powers to Frame Rules:** The Board may frame necessary Rules for the implementation of this Act with approval of the Government of Nepal, Ministry of Finance.
- 62. By-laws may be framed:** (1) The Board may frame necessary By-laws to regulate and manage a commodities exchange market, a commodities trading business, a clearing and settlement house, Warehouse operation and trading in accordance with this Act or the Rules made there under.
- (2) A body corporate holding a license may, with the b approval of the Board, frame necessary By-Laws on the following subjects under this Act or the Rules made there under:
- (a) Listing of commodities, trading operation, and trading system,
  - (b) Commodities exchange market, commodities traders, clearing and settlement house, and membership of warehouse, membership fees, professional decorum of the members, and suspension and repeal of membership,
  - (c) Commodities exchange market, commodities trading business, clearing and settlement business, and operation of warehouse and other necessary provisions for protection of the interest of investors,
  - (d) Terms and conditions of the service, facilities and code of conduct for the employees of a commodities exchange market, a commodities trading business, a clearing and settlement business, and a warehouse,
- 63. Guidelines to Be Framed:** The Board may frame guidelines on the following

matters for making commodities trading efficient in accordance with this Act and the Rules made there under:

- (a) Operation of a commodities exchange a market, commodities trading business, a clearing and settlement business, and a warehouse,
- (b) Regulation of commodities trading, including other necessary matters.

**64. This Act to Prevail:** In respect of the matters contained in this Act, this Act shall prevail, and in respect of other matters, the prevailing law shall prevail.

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# **Asset (Money) Laundering Prevention Act, 2008**

Date of Authentication and publication: 14<sup>th</sup> Magh, 2064 (28 January, 2008)

First Amendment: 2011

Second Amendment as an Ordinance : 2013.6.6

Second Amendment as an Act 2014.3.26

Act No. 24 of the Year 2008

**Preamble:** Whereas it is expedient to provide for the prevention of money laundering and terrorist financing, the Legislature-Parliament has enacted this Act.

## **Chapter-1**

### **Preliminary**

**1. Short Title, Extent, and Commencement:** (1) This Act shall be cited as " Asset (Money) Laundering Prevention Act, 2008".

(2) The Act shall come into force immediately.

(3) This Act shall apply all over Nepal and be applicable to any person committing the offence of money laundering or terrorist financing irrespective of whether such person is located in Nepal or outside Nepal.

**2. Definition:** Unless the subject or context otherwise requires, in this Act, -

a. "Investigation Officer" means an investigation officer designated or appointed pursuant to section 15.

b. "International politically exposed person" means any person who is or has been entrusted with a prominent function by an international organization as a member of senior management, manager, or a director, deputy director, member of the board or in an equivalent position.

c. "Terrorist act" means the following acts:

(1) Any act, which is defined as an offence by Article 2 (1)(a) of the International Convention for the Suppression of the Financing of Terrorism 1999.

(2) Any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a Government or an international organization to do or to abstain from doing any act.

- (3) Any act that is an offence under the following convention to which Nepal is a party to:-
- (a) Tokyo Convention on Offences and Certain Other Acts committed on Board Aircraft, 1963
  - (b) SAARC Regional Convention on Suppression of Terrorism, 1987
  - (c) Any other convention against terrorism which Nepal becomes party to, after the implementation of this Act.
- d. "Terrorist (Individual)" means any natural person who commits the following acts:-
- (1) commits or attempts to commit terrorist acts by any means, directly or indirectly, unlawfully and willfully;
  - (2) participates as an accomplice in terrorist acts,
  - (3) organizes or directs others to commit terrorist acts, or
  - (4) contributes or cooperates to group of persons acting with a common purpose of commission of terrorist acts where such contribution or cooperation is made intentionally and with the aim of furthering the terrorist act or with the knowledge or the intention of the group to commit a terrorist act.
- e. "Terrorist organization" means any organized or unorganized group or organization of terrorists that commits the following acts:-
- (1) commits, or attempts to commit, terrorist acts by any means, directly or indirectly, unlawfully and willfully;
  - (2) participates as an accomplice in terrorist acts;
  - (3) organizes or directs others to commit terrorist acts; or
  - (4) contributes or cooperates to group of persons acting with a common purpose of commission of terrorist acts where the contribution or cooperation is made intentionally and with the aim of furthering the terrorist act or with the knowledge or the intention of the group to commit a terrorist act.
- f. "Politically exposed person" means any domestic politically exposed person or official or foreign politically exposed person or official, or international politically exposed person or official. It shall also include other group of person as designated by the Government of Nepal upon the recommendation

of National Coordination Committee.

- g. "Corresponding Banking" means a the provision of banking services by one financial institution to the customer of another financial institution.
- h. "Proceeds of crime" means any property derived from or obtained directly or indirectly through the commission of money laundering or predicate offence and it shall also include any other property and economic advantage gained or derived from such property or any property transferred or converted into other property or advantage, in full or in part, from such property or advantage.
- i. "Instrumentality" means any means or property used in or in connection with or intended to be used, wholly or in part, in or in connection with the commission of an offence and it shall also include any instruments.
- j. "Transaction" means any agreement made in order to carry out any economic or business activities and the term also means the purchase, sale, distribution, transfer or investment and possession of any assets, or any other acts as follows:-
  - (1) Establishing business relationship,
  - (2) Opening of an account,
  - (3) Any deposit or collection, withdrawal, exchange or transfer of funds in any currency or instruments, payment order by electronic or any other means,
  - (4) Use of any type of safe deposit box (locker),
  - (5) Entering/establishing into any fiduciary relationship,
  - (6) Any payment made or received in satisfaction, in whole or in part, of any contractual or other legal obligation,
  - (7) Any payment made or received in respect of a lottery, bet or other game of chance,
  - (8) Establishing or creating a legal person or legal arrangement, or
  - (9) Such other act as may be designated by the Government of Nepal by publishing a notice in the Nepal Gazette.
- k. "Legal Arrangement" means trust (express trust) or other similar kind of legal arrangements.
- l. "Legal Person" means any company, corporation, proprietorship, partnership firm, cooperatives, or any other body corporate.

- m. "Funds" means any financial assets, economic resources, property of every kind, whether tangible or intangible, movable or immovable, physical or non-physical (corporeal or incorporeal), or the following instruments or resources, however acquired. It shall also include legal documents or instruments in any form, including electronic or any other, evidencing title to, or interest in, such property, instruments or resources:
- (1) bank credits,
  - (2) travelers cheques,
  - (3) bank cheques,
  - (4) money orders,
  - (5) shares,
  - (6) securities,
  - (7) bonds,
  - (8) drafts,
  - (9) letters of credit,
  - (10) any other financial or economic resources.
- n. "Designated Non-Financial Business or Profession" means any person who conducts or carries on following act or business:-
- (1) casinos or internet casinos,
  - (2) purchase or sale of real estate,
  - (3) dealing in prescribed precious metals or precious stones,
  - (4) notaries, other independent legal and accounting and other similar professionals when they prepare for, engage in, or carry out transactions for a client concerning any of the following activities:-
    - (a) buying and selling of real estate,
    - (b) managing of client money, securities or other assets,
    - (c) management of bank, savings or securities accounts,
    - (d) organization of contribution and investment during the period of creation, operation (management) of legal persons,
    - (e) creation, registration, operation or management of legal persons or arrangements, or
    - (f) buying and selling of any business entities;
  - (5) trust and company service providers which prepare for, engage in, or carry out transactions on behalf of customers in relation to any of the following services, as a business:

- (a) acting as a formation, registration or management agent of legal persons or legal arrangement,
  - (b) acting as, or arranging for another person to act as, a partner, director or secretary of a legal person, or to hold a similar position in relation to other legal person,
  - (c) providing a registered office, or accommodation, business address or correspondence or administrative address for a legal person or legal arrangement,
  - (d) acting as, or appointing or arranging for another person to act as, a trustee of an express trust or other similar arrangement,
  - (e) acting as, or arranging for another person to act as, a nominee shareholder for another person pursuant to prevailing law,
- (6) any other business, profession or activity as may be designated by the Government of Nepal by publishing a notice in the Nepal Gazette.
- o. "Prescribed or as prescribed" means prescribed or as prescribed in this Act or the Rules thereunder.
  - p. "Bearer Negotiable Instruments" means any negotiable instruments including the monetary instruments in bearer form including traveler's cheques, cheques, promissory notes and money orders that are either in bearer form, endorsed without restriction, made out to a fictitious payee, or otherwise in such form that holder's title thereto passes upon delivery or any such instruments in incomplete form or without the name of payee or payable to anyone who holds or receives it.
  - q. "Regulator" means any institution established for the regulation and supervision of reporting entity under prevailing laws. It shall also denote the Regulator designated by the Government of Nepal pursuant to subsection (2) of the section 7T.
  - r. "Currency" means any Nepalese or foreign currency. "
  - s. "Rastra Bank" means Nepal Rastra Bank established pursuant to prevailing law.
  - t. "Public Servant" means person deemed to be public servant as per the prevailing law.
  - u. "Beneficial owner" means a natural person who, directly or

- indirectly, owns or controls or directs or influences a customer, an account, or the person on whose behalf a transaction is conducted, or exercises effective control over a legal person or legal arrangement or remains as an ultimate beneficiary or owner of such activities.
- v. "Financial Information Unit" means Financial Information Unit pursuant to s. 9.
- w. "Financial Institution" means any person who conducts any of the following activities or operations for or on behalf of a customer, as a business:
- (1) Acceptance of deposits and other repayable funds including from the public,
  - (2) Private banking,
  - (3) Any type of lending,
  - (4) Financial leasing, except consumer products,
  - (5) Money or value transfer services, except those limiting their functions solely with passing message for transmitting funds,
  - (6) Issuing and managing any means of payment namely cheque, draft, money order, debit card, credit card, including any electronic or other instrument of payment,
  - (7) Financial guarantees and commitments,
  - (8) Trading in following instruments:-
    - i. money market instruments including cheques, bills, certificates of deposit, derivatives etc.,
    - ii. foreign exchange,
    - iii. exchange, interest rate and any instrument of value or amount,
    - iv. transferable securities, or
    - v. commodity futures trading.
  - (9) Participation in securities issues and the provision of financial services related to it,
  - (10) Individual and collective portfolio management,
  - (11) Safekeeping and administration of cash or liquid securities on behalf of other persons,
  - (12) Underwriting and placement of life insurance and other investment related insurance,
  - (13) Money and currency changing,

- (14)Otherwise investing, administering or managing funds or money on behalf of other persons beyond clause (1) to (13) or
  - (15)Executing the function as prescribed by the Government of Nepal by publishing a notice in Nepal Gazette
- x. "Foreign politically exposed person" means politically exposed person who is or has been the Heads of State or of government, senior politician, central member of national political party, senior government, judicial or military official, senior executives of state owned corporations of a foreign country.
  - y. "Department" means the Department of Money Laundering Investigation pursuant to section 11.
  - z. "Person" means natural or legal person.
  - aa. "Suspicious Transaction Report" means report pursuant to section 7S.
  - ab. "Shell Bank" means a bank, which has no physical presence in the country in which it is incorporated, licensed or located, and which is not affiliated with a regulated financial services group that is subject to effective consolidated supervision.
- Clarification:** For the purpose of this clause, presence of local agent or junior level staff does not constitute physical presence.
- ac. "Offence of money laundering and terrorist financing" means money laundering and terrorist financing offence.
  - ad. "Predicate offence" means the offences under the schedule.
  - ae. "Property" means assets of every kind, whether physical or non-physical (corporeal or incorporeal), moveable or immoveable, tangible or intangible, or fund, or any other instruments or items carrying value. It shall also include any legal document, proof, certificate, or electronic or other instrument evidencing title to, or interest or claim or rights in such assets.
  - af. "Reporting Entity" means financial institution and designated non-financial business and profession.
  - ag. "Domestic politically exposed person" means the President, Vice-President, Minister, parliamentarians, officials of the constitutional bodies, officials remained in the special class or equal to special class or their senior of the Government of Nepal, judge of the

Appellate Court and their senior, senior politician, central member of national political party or senior executives of any institution partially or fully owned by the Government.

## **Chapter-2**

### **Offence of ML and TF**

**3. Not to launder property:** (1) No person shall commit or cause to commit in any of the following acts:-

- (a) Converting and transferring property by any means knowing or having reasonable grounds to believe that it is proceeds of crime for the purpose of concealing or disguising the illicit origin of property, or assisting any person involved in the offence for evading legal consequences of offender.
  - (b) Concealing or disguising or changing the true nature, source, location, disposition, movement or ownership of property or rights with respect to such property knowing or having reasonable grounds to believe that it is proceeds of crimes.
  - (c) Acquiring, using, possessing property knowing or having reasonable grounds to believe that it is the proceeds of crime.
- (2) No person shall conspire to commit, aid, abet, facilitate, counsel, attempt, associate with or participate in the commission of the acts mentioned in subsection (1).
- (3) Any person who commits any act mentioned in subsection (1) or (2), commits the offence of money laundering.

**4. Not to commit offence of terrorist financing:** (1) No person shall, by any means, directly or indirectly, unlawfully and willfully, provide or collect funds with the intention that they should be used or in the knowledge that they are to or intended to be used, in whole or in part, in order to carry out a terrorist act, or by a terrorist or a terrorist organization.

- (2) No person shall attempt to commit any act mentioned in subsection (1).
- (3) No person shall, by any means, directly or indirectly, provide or conspire to provide material support or resources to any terrorist or terrorist organization or in order to carry out a terrorist act or conspire for terrorist act.
- (4) No person shall undertake any of the following acts in relation to any

act mentioned in subsection (1), (2) or (3) :

- (a) to participate as an accomplice in such act,
- (b) to organize or direct others to commit such act,
- (c) to contribute a group of persons which commits such act or has a common purpose of committing such act or willfully promote such group of persons for furthering their criminal activities or to achieve such purpose.

(5) It shall be the offence of terrorist financing if any of the following circumstances exist in relation to any act under this section:

- (a) Even if the terrorist act does not occur or is not attempted,
- (b) Even if funds were not actually used to commit or in the attempt the terrorist act,
- (c) Even if such funds are linked or not to a specific terrorist act,
- (d) Even if the terrorist act or intended terrorist act does occur or will occur in the same State or territory or somewhere else,
- (e) Even if the terrorist organization and individual terrorist is or is not located in the same State or territory where the terrorist act is intended to or occurs,
- (f) Whether or not the funds are collected or provided from legitimate or illegitimate source,

(6) Any person who commits an act mentioned in subsections (1), (2), (3), (4) or (5) shall commit the offence of terrorist financing.

5. **Act committed in Foreign State to be an Offence:** It shall be an offence of money laundering or terrorist financing for the purpose of this Act, if any act mentioned in sections 3 or 4 occurs in a foreign state or territory and such act is an offence under the law of that state.

### **Chapter-3**

#### **Provisions on Customer Identification and Transactions**

6. **Prohibition on Anonymous or Fictitious Accounts:** Reporting Entity shall not establish or maintain anonymous accounts, or accounts in fictitious names or transact in such accounts or cause to do so.

7. **Prohibition against Shell Bank:** (1) No shell bank shall be established or permitted to operate in or through the territory of Nepal.

(2) Financial institution of Nepal shall not enter into or continue business relation with any financial institution or other entity that allow transaction to shell bank.

**7A. Customer Identification to be required:** (1) Subject to subsections (3) and (4), reporting Entity shall accurately identify the customer and verify such identification when carrying out the following acts:-

- (a) establishing business relationship,
- (b) opening an account,
- (c) carrying out occasional transactions above a threshold as may be prescribed,
- (d) carrying out wire transfers by electronic means,
- (e) there is suspicious about the veracity or adequacy of previously-obtained customer identification information,
- (f) there is suspicion of money laundering or terrorist financing,
- (g) at any time of transaction in relation to the high risked and politically exposed person,
- (h) in any other situations as prescribed by the Regulator.

(2) Reporting entities shall receive documents as prescribed in the customer identification process.

(3) Reporting entity shall use such reliable and independent source documents, data, information for the identification and verification of the customer as per this chapter.

(4) Reporting entity shall take following measures when undertaking the identification and verification of its customer:

- (a) Understanding and obtaining information and details clarifying on the objectives, purpose and intended nature of business relationships and transactions,
- (b) Obtaining name, address and date of birth including the documents as prescribed in subsection (2) where the customer is a natural person,
- (c) Where the customer is a legal person or legal arrangement, understanding and verifying its ownership and control structure, and obtaining such information including the documents as prescribed in subsection (2),
- (d) When a person is establishing business relationship or conducting transaction on behalf of another customer, obtaining identification

- document of such person and the person working on behalf of him including evidence verifying that that such person is properly authorized to act,
- (e) Obtaining other information and details regarding customer, transaction and its nature to fulfill the obligations under this chapter,
  - (f) Applying other measures as prescribed by the Regulator.
- (5) Notwithstanding whatever written in the sub-section (1), following reporting entity as DNFBPs is not mandatory to take identification and verification measures of the following customer:-
- (a) A casino for a customer involving in the transactions of NRs two hundred thousand or lesser in a day,
  - (b) A precious metal and object business for a customer involving in transactions of NRs one million or lesser in a day.
- (6) Entire liability of accurately identifying and verifying the identity of the customer pursuant to this chapter shall be of the reporting entity.

## **7B. Special Provisions for Identification of Politically Exposed Person:**

- (1) Reporting entity shall establish a risk management system to identify whether a customer, person seeking to be customer or a beneficial owner of a customer or transaction is a politically exposed person.
- (2) Reporting entity, while evaluating as per subsection (1), shall adopt the following additional measures if it finds the customer or beneficial owner is either a foreign PEP or a domestically exposed person or international politically exposed persons evaluated to be of high risk due to business reason:-
  - (a) to obtain approval from senior management official while establishing a business relationship,
  - (b) to acquire approval from senior management official to continue the business relation with an existing customer if he is identified as a politically-exposed person as per clause (a),
  - (c) to take all reasonable measures to identify the source of amount/fund and property of such customer or beneficial owner,
  - (d) to conduct ongoing monitoring of such customer and the business relationship,
  - (e) to apply Enhanced CDD measures pursuant to section 7E.
- (3) Provisions stipulated in sub-sections (1) and (2) shall be applicable to the

family members and associated persons of foreign PEP, or international PEP or domestic PEP identified as high risk.

**7C. Beneficial ownership to be identified:** (1) Reporting Entity shall, when establishing business relationship or conducting transaction, identify the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner.

(2) Reporting entity shall ascertain whether a person is acting or establishing business relationship or conducting transaction, on behalf of another person.

(3) Reporting entity, while ascertaining whether a person is establishing business relation or transaction on behalf of other, shall follow the identification and verification measures as stipulated in clause (d) of sub-section (4) of section 7A.

**7D. Risk Assessment and management:** (1) Reporting entity shall identify and assess risks on ML and TF in accordance with its business or profession, scope, customer, products or services, transactions or delivery channel etc.

(2) Reporting entity, while conducting risk assessment pursuant to sub-section (1), shall also take into account the findings of the national and regulatory risk assessment.

(3) Reporting entity shall, while conducting risk assessment pursuant to sub-section (1), determine the level of risks by analyzing all relevant risk factors.

(4) Reporting entity shall maintain records of conclusion of risk assessment and all related details and information.

(5) Reporting entity shall conduct and update the risk assessment pursuant to subsection (1) periodically or as per necessity.

(6) Reporting entity shall make available to the Regulator any risk assessment undertaken pursuant to subsection (4), and also make it available to other concerned agency upon demand.

(7) Reporting entity shall undertake customer due diligence measures in accordance with the level of risks as identified pursuant to this section and shall establish appropriate policy, procedural and risk management measures, to manage and mitigate such risks and update such measures.

(8) Reporting entity shall regularly monitor the execution of policy, procedural and risk management measures pursuant to sub-section (7) to ascertain whether they are in implementation or not.

**7E. Enhanced CDD:** (1) Reporting entity shall follow appropriate measures of enhanced CDD when establishing business relationship or conducting transaction with/of following customer:-

- (a) Customer identified as high risk pursuant to section 35, 7D., 7U.
  - (b) Customer who conducts complex, unusual large transactions and unusual patterns of transactions or which have no apparent economic or visible lawful purpose,
  - (c) Transaction with customer of a country, which is internationally, identified as a deficient or non-compliant country of international AML/CFT standards,
  - (d) PEP, his family member and person associated with PEP,
  - (e) Customer pursuant to subsection (1) of 7N,
  - (f) Customer consuming high risk products and services,
  - (g) Customer suspected of ML, TF or other offence,
  - (h) Other customers as prescribed by the Regulator.
- (2) Reporting entity shall adopt other measures as prescribed by the Regulator in the course of enhanced CDD pursuant to subsection (1).
- (3) Other provisions regarding additional ECDD shall be as prescribed.

**7F. Simplified CDD:** (1) Reporting entity may adopt a simplified CDD for identification and verification of a customer and transaction where the risk of money laundering or terrorist financing is identified to be lower.

- (2) No such simplified measures of identification and verifications pursuant to subsection (1) shall be applied if there is suspicion of ML and TF, high risked customer or transaction.
- (3) Other provisions regarding simplified CDD and its verification shall be as prescribed.

**7G. CDD of Existing Customers:** (1) Reporting entity shall conduct the identification, verification and its adequacy of existing customer having business relationship or operating accounts till the day of commencement of this Act as mentioned in this chapter, based on the risks of the type and nature of customer and beneficial owner, business relation, transaction, products and services, geography, delivery channel.

- (2) The time for identification and verification of customer pursuant to subsection (1) shall be as prescribed by the Regulator.

**7H. Timing of Identification:** (1) Reporting entity shall identify and verify its customer and beneficial owner before establishing business relationship or opening an account, during the course of business relationship or when carrying out occasional transaction.

(2) Notwithstanding whatever written in subsection (1), Reporting entity, subject subsection (3), may make delayed verification of identity of the customer in the following circumstances, after the establishment of business relationship:-

- (a) If verification may occur as soon as reasonably practical,
- (b) If it is impossible to verify the identification of customer due to practical reasons and verification would interrupt the normal conduct of business, and
- (c) If risk of ML/TF is effectively managed.

(3) no delayed verification of a customer shall be made if following circumstances exist:

- (a) If the customer is PEP, or of high risk or its family members or person associated with such customer,
- (b) If the activities of customer is suspicious.

**7I. Ongoing Monitoring:** (1) Reporting Entity shall exercise ongoing due diligence including by carrying out the following activities:

- (a) To closely examine the transactions of customer in order to ensure that such transactions are consistent with the information of customer, the customer's business and risk profile thereon,
- (b) To request for or examine the source of funds if it is necessary in relation to inquiry pursuant to clause (a),
- (c) To review and update the document, data, details or information of customers including PEP, high risk customer or of beneficial owner, their business relation, transaction in order to ensure that are kept up-to-date,
- (d) To regularly monitor cross border correspondent banking and wire transfer and such customer,
- (e) To perform other functions as prescribed by the Regulator,
- (f) Other functions as reporting entity finds deemed necessary.

**7J. Identification and Verification by Third Party:** (1) Reporting entity may rely on a third party in undertaking some elements of customer identification and verification in the following circumstances:

- (a) If reporting entity is satisfied that all identification and verification of customer is carried out as per this chapter,
  - (b) If information of identification and verification required by this chapter will be made available to reporting entity without delay as per necessity, and
  - (c) If reporting entity is satisfied that all copies of identification and verification data and documents will be made available from the third party upon request, without delay.
- (2) Notwithstanding whatever written in subsection (1), no identification and verification of a customer made by a third party shall be acceptable for reporting entity:
- (a) If such third party or institution belongs to a country identified as a deficient country in compliance of the international AML/CFT standards, or
  - (b) If such third party or institution does not have measures in place consistent with the requirements set out in this chapter,
  - (c) If such institutions are not under regulation, control and supervision to prevent and combat money laundering and terrorism financing.
- (3) Ultimate responsibility for customer identification and verification under this chapter shall remain with the reporting entity relying on the third party.

**7K. New Technology and non Face to Face Customer or Transactions:** (1) Reporting entity shall identify and assess the money laundering or terrorist financing risks that may arise in relation to the use of new or developing technology or development of new products, business practices, delivery channels, non-face to face customer or transaction.

(2) Such identification and assessment of risk pursuant to subsection (1) shall be undertaken before the launch of the new product, business practice or the use of new or developing technology.

(3) Reporting entity shall take adequate measures to manage the risks identified and assessed pursuant to subsection (1).

(4) Reporting entity shall adopt policies and procedures to address risks of money laundering and terrorist financing in relation to non face to face customer when establishing a business relationship, conducting transaction or conducting customer due diligence with such customer.

**7L. Obligations Regarding Wire Transfers:** (1) Financial institution, mandated to undertake wire transfer services as per prevailing laws, shall accurately identify and verify the customer before dealing with wire transfer in any currency of any amount by obtaining the following information and details including

- (a) Name of the originator,
- (b) Account number of the originator or in the absence of it, a unique reference number,
- (c) Originator's address or, in the absence of the address, the citizenship or national identity number or customer identification number or date and place of birth,
- (d) Name of beneficiary and account number or in the absence of an account number, a unique reference number,
- (e) Other information or details as prescribed by the Regulator.

**Clarification:** For the purpose of this section the term "Originator" also includes the beneficial owner transferring the money.

(2) Provisions of subsection (1) shall also be the same for wire transfers bundled into a batch file.

(3) Provisions of subsection (1) shall not be applicable if transfer is executed as a result of credit card, debit card or prepaid card transaction for the purchase of goods or services provided that the credit card, debit card or prepaid card number accompanies the transfer resulting from such transactions, or transfer between the accounts of financial institutions as mandated by prevailing laws pursuant to subsection (1) or (2).

(4) Reporting entity may not conduct identification and verification if the originator or beneficiary is existing customer and the reporting entity has already obtained and verified the information required by this section and there is no suspicion of ML/TF.

(5) Reporting entity may not require information pursuant to clause (c) of sub-section (1) if the transfer is NRs seventy five thousand or lower than this.

(6) Ordering financial institution shall include and ensure that information required pursuant to subsection (1) are attached with the payment message throughout the payment chain and to the receiving institution.

(7) Any institution working as an intermediary or receiving instituting in the chain of wire transfer in Nepal shall ensure that all information pursuant to

subsection (6) have been received.

(8) If information is not received pursuant to subsection (7), the RE shall demand such information from the ordering institution or institution in payment chain.

(9) Any financial institution in Nepal, working as an intermediary or receiving institution, may suspend, deny or make payment of wire transfer in accordance with its policy and procedures of wire transfer subject to subsection (10) if the information demanded pursuant to subsection (8) is not available.

(10) Any financial institution in Nepal dealing wire transfer shall develop and implement a risk based on risks policy and procedures including for monitoring, inquiry, suspension, denial, identification of beneficial owner or beneficiary, payment of wire transfer.

(11) Any financial institution dealing with wire transfers shall conduct monitoring to ensure whether the information of originator and beneficiary is included or not.

(12) Any financial institution dealing with wire transfers and paying amount of NRs seventy five thousand or more shall identify and verify the beneficiary.

(13) Financial institution engaged on wire transfer as ordering, intermediary or receiving institution shall keep all details and records of wire transfer for five years at minimum.

(14) Financial institution transmitting money or value or making payment through wire transfer or acting as an intermediary while making such payment shall freeze the money immediately restricting access of anybody thereto if finds that such money is going to a person, organization, group or institution mentioned in chapter 6B.

(15) Financial institution servicing for wire transfer shall manage the followings in regards to its agents:-

- (a) Implementing the program of prevention and combating money laundering and terrorism financing and monitoring whether it is implemented or not.
- (b) Preparation of up-to-date information of agent and publish it in its website publicly.

(16) Rastra Bank may prescribe other additional measures on wire transfer.

**7M. Provision on Cross-border Correspondent Banking:** (1) Financial institution shall undertake the following measures while entering into cross-border correspondent banking and similar relationships or conducting transaction:-

- (a) to identify and verify the identification of respondent institution,
- (b) to get adequate information on the nature of the respondent institution's activities,
- (c) to fully understand the nature of the respondent's business from the information pursuant to clause (b),
- (d) to evaluate the respondent institution's reputation and the quality of supervision to which it is subject to, including whether it has been subject to a money laundering or terrorism financing investigation or regulatory action based on publicly-available information,
- (e) to evaluate the controls implemented by the respondent institution with respect to money laundering or terrorist financing and to ascertain their adequacy and effectiveness,
- (f) to obtain approval from senior management before establishing a correspondent banking relationship,
- (g) to understand and establish an arrangement on the respective responsibilities of each party under the relationship regarding AML/CFT,
- (h) to ensure whether the respondent institution has conducted customer due diligence on customers in the case of a payable-through account, and has implemented mechanisms for ongoing monitoring with respect to its customers, and is capable of providing relevant identifying information on request,
- (i) Not to enter into or continue correspondent banking relations with a shell bank,
- (j) To satisfy itself that a respondent financial institution does not permit its accounts to be used by a shell bank.

(2) Financial institution shall apply the provisions pursuant to subsection (1) in the business relation or transaction carried out on behalf of customer or itself.

**7N. Special Monitoring of Certain Transactions:** (1) Reporting entity shall pay special attention to the following:-

- (a) all complex, unusual large transactions and all unusual patterns of

transactions or which have no apparent economic or visible lawful purpose,

- (b) business relationships and transactions relating to the customer and financial institution of a country internationally identified as a country that do not or insufficiently comply with AML/CFT international standards,
- (c) such other transactions prescribed by the Regulator.

(2) Reporting entity shall examine as far as reasonably possible the background and purpose of transactions referred to in subsection (1), and record the conclusion drawn therein.

(3) Reporting entity shall keep the records of measures taken pursuant to subsection (2) for five years at minimum and shall be made available promptly if requested by the Financial Information Unit or Regulator or a competent authority.

**7O. Not to Carry out Transaction:** (1) Reporting entity shall not establish an account or continue business relationship or conduct transaction with the following customer:-

- (a) Customer who cannot provide documents, information and details required for the customer identification and verification pursuant to this chapter,
- (b) Documents, information and details provided pursuant to this Chapter seem conflicting to the identity of the customer,

(2) Reporting entity shall terminate the relationship with the existing customer referred to in subsection (1) and may inform the FIU if necessary.

**7P. Responsibilities of Reporting Entity:** (1) Reporting Entity shall develop and implement AML/CFT Policy and Procedures compatible with its scope, geographic coverage, size of business, customer, transaction and risks for the prevention of money laundering and financing of terrorism and implementation of this Act, rules and directives thereunder .

(2) Such Policy and Procedures pursuant to Subsection (1) shall include the following:

- (a) Internal policies, procedures and controls relating to relating to customer due diligence measures, information on transaction, verification, record keeping, monitoring, reporting,
- (b) Ongoing monitoring,

- (c) Arrangement to implement obligations as per this Act, rules and directives thereunder,
  - (d) Adequate screening procedures to ensure high standards when hiring employees,
  - (e) Ongoing and refreshment training for officers and employees,
  - (f) Independent and effective measures to review, verify and update and make compliance,
  - (g) Measures for detection and information of suspicious transaction,
  - (h) Other measures to fulfill the obligations as per this Act, rules and directives
  - (i) Other measures as prescribed by the Regulator,
- (3) Reporting entities shall have to appoint compliance officer at management level to comply the obligation pursuant to the provision of this Act or others rules and directives issued in accordance with this Act.
- (4) Reporting entity shall ensure the following powers and necessary resources for compliance officer appointed pursuant to subsection (3):-
- (a) Access to any documents, records, registers and accounts necessary for the performance of his tasks,
  - (b) Power to request and obtain any information, notice, details or document from any employee of the reporting entity
  - (c) Other responsibilities as prescribed by the Regulator,
  - (d) Other functions necessary to implement the Act, rules, and directives.

## **7Q. Compliance with Obligations by Foreign Subsidiaries and Branches:**

- (1) Reporting entity shall require that AML/CFT provisions as per this Act or rules and directives thereunder be implemented by its branch or majority owned subsidiary outside Nepal under the same group.

**Clarification:** "Majority owned" means the ownership of fifty percent or more.

- (2) Reporting entity operating under a same group, its branch or majority owned subsidiary outside Nepal operating under the same group, shall develop and implement a group wide policy and procedures for AML/CFT including the following matters:-

- (a) Exchange of customer identification and verification information and ML/TF risk management,
  - (b) Group-wide exchange of information of customer, transaction or account as prescribed by the Regulator,
  - (c) Adequate safeguard measures for the use and confidentiality of information exchanged pursuant to clause (a) and (b).
- (3) If the laws of the host country prevent the reporting entity from complying with the provisions of subsection (1) and (2), the reporting entity shall inform the Regulator. Reporting entity operating under a group or its foreign branch and majority-owned subsidiaries shall adopt additional measures to manage the money laundering and terrorist financing risk.
- (4) The Regulator may take action as per section 7V or require the closing down such foreign branch and majority-owned subsidiaries if the additional measures pursuant to subsection (3) are not sufficient for preventing ML/TF risks.

**7R. Record Keeping:** (1) Reporting entity shall maintain following documents and records accurately and securely for minimum five years after the termination of business relationship or from the date of transaction in case of occasional transaction:-

- (a) All documents and other information related to the identification and verification of customer and beneficial owner,
- (b) All documents, records and conclusion of the analysis of customer or beneficial owner and transaction,
- (c) Documents and details of account and business relation of reporting entity,
- (d) All documents and records relating to domestic and foreign transactions,
- (e) Record and documents on attempted transactions,
- (f) Other documents and records as prescribed by regulators.

(2) Notwithstanding whatever written in subsection (1), reporting entity shall keep some prescribed documents and records for more than five years securely as prescribed.

(3) Reporting entity shall keep and maintain documents and records pursuant to subsections (1) and (2) in such a way that it shall be sufficient to reconstruct such information for the use of legal action as evidence.

(4) Documents and records to be maintained pursuant to this section should

be kept in such way that it could be made readily available to competent authorities upon demand.

(5) Reporting entity shall keep the report of suspicious transaction for five years.

(6) The other provision on record and report of transaction of reporting entities shall be as prescribed.

**7S. Obligation to Report Suspicious Transactions:** (1) Reporting Entity shall make a suspicious transaction report to the FIU within three days as far as possible if they find following circumstances in relation to any customer, transaction or property.

- (a) If it suspects or has reasonable grounds to suspect that if the property is related to ML/TF or other offence, or
- (b) If it suspects or has reasonable grounds to suspect that the property is related or linked to, or is to be used for, terrorism, terrorist, terrorist acts or by terrorist organization or those who finance terrorism,

(2) Reporting entity shall also submit the report of attempted transactions or activity to FIU as mentioned under sub-section (1).

(3) Other additional grounds or guidance on detecting suspicious activity, format, method and procedure of reporting suspicious transactions and other related additional information shall be as prescribed by the FIU.

## **Chapter-3A**

### **Regulation and Supervision of Reporting Entities**

**7T. Regulation and Supervision of reporting Entity:** (1) Regulation, supervision and monitoring of reporting entity under this Act shall be conducted by the Regulator mandated for the regulation and supervision of such entity pursuant to prevailing laws.

(2) The Government of Nepal, in case the event there is no Regulator mandated to regulate and supervise any reporting entity under prevailing laws may designate an agency or Regulator to work as a Regulator of such reporting entity, upon the advice of National Coordination Committee,

(3) Regulator, in relation to the regulation and supervision of reporting entity, shall undertake the functions, responsibilities and powers set out in this

Act, in addition to the functions, responsibilities and authorities prescribed under other prevailing laws.

**7U. Functions, Responsibilities and Powers of the Regulator:** (1) The functions, responsibilities and powers of the Regulator shall be as follows for the purpose of this Act:-

- (a) to undertake risk assessment to identify, evaluate, monitor risk in the reporting entity, its sector, periodically or as per necessity and adopt adequate measures to effectively manage risks,
- (b) to require reporting entity to undertake risk assessment to identify, evaluate, monitor risk within the entity periodically or as per necessity and adopt adequate measures to effectively manage risks,
- (c) to implement or cause to implement this Act and the Rules and directives issued thereunder,
- (d) to impose mandatory conditions to comply the provisions of this Act for a person or institution while registering, licensing or issuing permissions or license for reporting entity or in the course of business,
- (e) to develop and implement appropriate financial and other fit and proper test requirements while registering, licensing or issuing permissions to reporting entity and while approving those owning, controlling, or participating, directly or indirectly, in the establishment, management or operation or business of such entity, including the beneficial owner or beneficiary of such shares of the reporting entity or cause to do so,
- (f) to require RE to apply the AML/CFT measures under Core Principles for prudential supervision,
- (g) to conduct on-site inspection, off-site supervision and monitoring of reporting entity in order to ascertain the compliance of the provisions of this Act and rules, directives or order issued thereunder,
- (h) to issue directives as per sub-section (2) and determine additional measures to REs for complying their responsibilities mentioned in chapter 3,
- (i) to conduct comprehensive monitoring of the risk assessment and ECDD carried out by the RE in relation to the customer or transactions belonging to a country internationally identified as a non or partially compliant of AML/CFT standards,
- (j) to order reporting entity to make any type of documents, books, records

or details and any other information available for the compliance of this Act, and rules and directives or order issued thereunder,

- (k) to provide necessary assistance in investigation,
- (l) to make special assessment of the reporting entity about its mechanisms developed for the detection of suspicious transaction, its evaluation, reporting management on ML, TF pursuant to section 7S. or in other activities suspected or having reasonable grounds to suspect and their effective implementation,
- (m) to inform FIU if any entity is found to have not submitted suspicious transaction report,
- (n) to train or cause to conduct training programs to the RE on AML/CFT,
- (o) to carry out other functions as prescribed.

(2) Regulator may issue necessary order or directives or guidelines to reporting entity to implement or cause to implement the tasks under this Act and the provisions of international standards on AML/CFT.

(3) Regulators may enter into cooperation and sharing arrangements with domestic or Foreign Regulators regarding the regulation and supervision of reporting entities operating under the same group and for the exchange of relevant supervisory information.

(4) Financial Regulator may make necessary arrangements with domestic or similar Foreign Regulators regarding the system of regulation and supervision, and exchange of regulatory and supervisory information including other cooperation for AML/CFT system.

(5) Other matters of cooperation between regulators shall be as prescribed.

**7V. Regulatory Actions and Sanctions:** (1) Regulator may take any or all of the following actions or sanctions against a reporting entity failing to comply with any provisions of this Act, Rules, or Directive issued thereunder or order, direction or standards issued pursuant to section 7U:-

- (a) to issue written reprimand warnings,
- (b) to impose fines from one million to NRs fifty million to the financial institution and from one hundred thousand to ten million to other reporting entity on the basis of gravity of violation of this Act, rules or order or directives issued thereunder,
- (c) to impose full or partial restriction on the business, profession or

- transaction,
- (d) to suspend the registration or permission or license,
  - (e) to revoke the permission or license or cancel the registration,
- (2) Regulator may impose other appropriate sanctions under prevailing laws if the sanctions provided in sub-section (1) are not sufficient for the violation of the provisions of this Act or rules or directives or order thereunder.
- (3) The sanctions imposed as per sub-section (1) shall be effective, proportionate and dissuasive.
- (4) Reporting entity shall take appropriate action against a staff or an official if it faces regulatory actions or sanctions under this Act due to the activities of such staff or official as per its law or prevailing laws.
- (5) Regulator shall provide reasonable opportunity of clarification to reporting entity before taking regulatory action or sanction pursuant to this section.
- (6) A reporting entity, which is not satisfied with the action or sanction of the Regulator, may appeal to the related Appellate Court within thirty-five days.

## Chapter-4

### **Provisions for National Coordination Committee and Financial Information Unit**

**8. Formation of National Coordination Committee:** (1) There shall be a Coordination Committee constituted as follows to coordinate inter-related entities and to provide necessary suggestions to the Government of Nepal with regard to the prevention of money laundering and terrorist financing:-

- (a) Secretary, Ministry of Finance – Coordinator
- (b) Secretary, Ministry of Law, Justice and Parliamentary System –Member
- (c) Secretary, Ministry of Home –Member
- (d) Secretary, Ministry of Foreign Affairs –Member
- (d1)<sup>1</sup> Secretary, Office of Prime minister and council of Ministry-member
- (d2)<sup>2</sup> Deputy Attorney General, office of the Attorney General – member
- (d3) Secretary – Commission for the Investigation of Abuse of Authority
- (e) Deputy Governor, Nepal Rastra Bank – Member

<sup>1</sup>. Added by the first amendment.

<sup>2</sup>. Added by the first amendment.

(e1)<sup>3</sup> Inspector General of Police, Nepal Police – member

(f) Chief – Department of Money laundering Investigation

(2) The chief of the Financial Information Unit shall act as a secretary of the National Coordination Committee constituted pursuant to Sub-Section (1) and the Financial Information Unit shall work as Secretariat of the National Coordination Committee.

(3) The procedures of meeting of the Coordinate Committee pursuant to Sub-Section (1) shall be as determined by the committee itself.

#### **8A.<sup>4</sup> Function, Duty and Power of National Coordination Committee:**

The National Coordination Committee shall have following function, duty and power in addition to the function, duty and power mentioned elsewhere in this Act.

- (a) To prepare policy for prevention of offences of ML/TF and submit the policy to the Government of Nepal,
- (a1) to coordinate in AML/CFT risk assessment and instruct the related agency for the management and mitigation of such risks,
- (b) To implement or cause to implement the decision of the Government of Nepal taken for prevention of offences of ML/TF,
- (c) To recommend to the Government of Nepal, as per necessity, to implement the standards and policies developed for prevention of offences of ML/TF by international organization of which Nepal is a member,
- (d) To instruct concerned agencies for prevention of offences of ML/TF and to monitor whether or not the instructions are complied with,
- (e) to discuss the annual reports submitted by the concerned agency, Regulator and FIU and make due coordination,
- (f) To perform or cause to perform other tasks in relation to prevention of offences of ML/TF, as prescribed by the Government of Nepal.

#### **9. Financial Information Unit:** (1) The FIU shall be established as a department in Rastra Bank with functional independence and autonomy to receive suspicious transaction reports and other information related to money laundering, terrorist financing and predicate offences and analyze suspicious transactions and other information and to disseminate the results of such analysis to the Department.

<sup>3</sup>. Added by the first amendment.

<sup>4</sup>. Added by the first amendment.

(2) The Governor of Rastra Bank shall appoint the chief of the Financial Information Unit from among the officers of Nepal Rastra Bank, not lower in rank than a First Class Officer.

(3) The Office of the Financial Information Unit shall be placed in Nepal Rastra Bank and the Rastra Bank shall provide the staff required for it.

(4) Upon request, the Government of Nepal and other public bodies may make staff available to the Financial Information Unit.

(5) Nepal Rastra Bank shall provide separate budget to the FIU.

(6) The organization, staffing of FIU and minimum eligibility criteria, transfer, or termination of office of the chief and other staffs of FIU and other resources for FIU shall be as prescribed in the NRB By-laws.

**10. Function, Responsibilities and Powers of FIU:** (1) FIU, in addition to other functions, responsibilities and powers mentioned anywhere in the Act, shall have following functions, responsibilities and powers:-

- (a) to receive threshold transaction report as per this Act,
- (b) to receive suspicious transaction reports as per this Act,
- (c) to receive the report of currency and BNI as per this Act,
- (d) to receive other relevant information in accordance with the provision of this Act,
- (e) to analyze suspicious transaction report, including others,
- (f) to disseminate, spontaneously and upon request, analysis and related information to the Department or other investigation agency, if it suspects money laundering, terrorist financing, or other offence in its analysis pursuant to clause (e),
- (g) to provide training on ML/TF to its own staffs, regulator, reporting entity and relevant government agencies having liability to perform under this Act,
- (h) to provide feedback and guidance in relation to, including, the detection of suspicious activity, suspicious transaction report or information to the reporting entity or concerned agency,
- (i) to prepare and submit an annual report, on its activities including the money laundering and terrorist financing typologies, techniques, methods and trends of offences, to the Government of Nepal through

Rastra Bank,

- (j) to assist in supervision of RE in coordination with Regulator as per necessity so as to know whether RE has developed mechanism to identify suspicious activity and reported or provide feedbacks on supervision report,
- (k) to conclude understanding with foreign counterparts in order to exchange information upon reciprocity,
- (l) to carry out other functions as prescribed.

(2) Financial Information Unit may request any relevant information or cooperation needed to carry out its duties with a foreign counterpart that performs similar functions, or it may spontaneously or upon request, share its information or otherwise cooperate with such foreign counterpart.

(3) Financial Information Unit shall abide the terms and conditions mentioned by foreign counterpart in relation to the information or cooperation received pursuant to subsection (2).

(4) Financial Information Unit shall mention the prescribed terms and condition while providing information or cooperation to foreign counterpart.

(5) Provisions of confidentiality pursuant to section 10B. shall be applicable for the information received by FIU from foreign counterpart pursuant to subsection (2).

(6) Financial Information Unit, in fulfilling its functions, responsibilities and powers pursuant to this section, may conduct the followings:-

- (a) Request and obtain necessary additional documents, records, details or information from reporting entity,
- (b) Request and obtain administrative, financial or law enforcement documents, records, details or information or commercial database remained in or with concerned agency, regulator or public institution.

(7) Financial Information Unit, on the basis of gravity, may fine up to one million NRs to a reporting entity which does not submit STR or does not comply or violate prescribed conditions or does not submit the ordered documents or information.

(8) Financial Information Unit shall provide a reasonable opportunity to the reporting entity for its clarification while fining pursuant to subsection (7).

(9) A reporting entity unsatisfied with the fine pursuant to subsection (7) may appeal to the Appellate Court within thirty five days of such fine.

(10) Financial Information Unit shall inform to the regulator if it fines a reporting entity pursuant to subsection (7).

**10A. Report on Transaction:** (1) Reporting Entity and the Office of the Government shall provide the report of amount for threshold transaction carried out by a person at a time or several transactions within a period of time as prescribed by the Rastra Bank within fifteen days of such transactions.

**Clarification:** For the purpose of this section "Office of the Government" means the Office of Land Revenue, Office of the Company Registrar and other offices as prescribed by the Government of Nepal.

**10B. Confidentiality:** (1) Information, documents, details on STR, TTR and other transactions received by Financial Information Unit shall remain confidential and the analysis of such reporting shall be used only as intelligence for the investigation of an offence or as within the limit prescribed in such dissemination.

(2) Every person who has duties for or within the Financial Information Unit is required to keep any information obtained within the scope of his or her duties confidential even after the termination of his duties, except as otherwise provided in this Act or as ordered by a court.

(3) Financial Information Unit shall develop and implement mechanisms and procedures for management and confidentiality, secure use of information received pursuant to this Act, its use, analysis, dissemination, and exchange with foreign counterpart, and access to such information.

(4) Financial Information Unit may issue directives to any reporting entity or concerned agency in relation to the method, form, time and other procedures regarding reporting, notice and information requirements pursuant to this Act.

(5) Financial Information Unit shall publish the directives issued under subsection (4) including the website.

## **Chapter-5**

### **Provisions for Formation of the Department and its Functions, Duties and Powers**

**11. Establishment of the Department:** (1) The Government of Nepal shall establish a Asset Laundering Investigation Department to investigate against and inquire into the offences under this Act.

(2) The chief of the Department shall be at least<sup>5</sup> a first class officer of civil service.

(3) The organizational structure of the Department and required number of staff shall be as prescribed by the Government of Nepal.

(4) The Government of Nepal may designate any entity to conduct investigation and inquiry of the offences pursuant to Sub-Section (1) until the Department is established.

(5) The Government of Nepal may make the required specialists available to the Department from the concerned entities or public institution.

### **12. Cooperation with foreign counterparts and exchange of information:**

(1) Department, may request or provide for the exchange of the information of investigation with its foreign counterpart carrying out the functions of similar nature, on the basis of reciprocity, upon demand or upon its own request.

(2) Department may, if it considers necessary, conduct investigation of money laundering and terrorist financing together with foreign counterpart carrying out the functions of similar nature.

(3) Department may develop make mutual arrangement with foreign counterpart carrying out the functions of similar nature to determine the method, terms and conditions and procedures for the exchange of cooperation pursuant to subsection (1) and (2).

(4) Secrecy provisions, pursuant to section 26, shall be equally applicable to the information received from the foreign counterpart carrying out the functions of similar nature pursuant to subsection (2).

(5) Other provisions regarding the exchange of cooperation shall be as prescribed.

<sup>5</sup>. Added by the first amendment.

## **Chapter-6**

### **Provisions on Investigation and Inquiry**

**13. Complaint:** (1) Any person, who has knowledge that somebody has committed, is going to commit or is committing any act constituting an offence of money laundering and terrorist financing, may submit a complaint, application, information or notice to the Department in writing or oral form.

(2) The Department shall register complaint, application, information or notice if it is received in writing pursuant to Sub Section (1) and the Department shall transcribe the oral complaint, application, information or notice it receives and then register it. Provided that if anyone complains with an intention to keep his name confidential, a code as designated by the Chief of the Department should be used in place of the name of the complainer while registering such complaint.

(3) Notwithstanding whatever written in Sub-sections (1) or (2), information should be officially registered as complaint if any staff of the Department knows by any means that certain person(s) has committed or is committing or is going to commit money laundering or terrorist financing.

(4) Complainant making complain pursuant to sub-section (1) or (2) may be asked to endorse the complaint if so required.

(5) If the complainant endorsing pursuant to subsection (4) requests for confidentiality of name, address, it shall be kept confidential.

**14. Preliminary Inquiry or Investigation:** (1) The chief shall make or cause to make preliminary inquiry if he receives complaint pursuant to section 13 or information pursuant to section 10.

(2) The chief, may designate any of his staffs to conduct preliminary investigation pursuant to subsection (1) and provide adequate time.

(3) The officer designated for the preliminary investigation may exercise the powers of the investigation officer available in this Act.

**15. Appointment or Designation of Investigation Office :** (1) The chief, if he finds it reasonable to make an investigation of a case from the preliminary inquiry or investigation pursuant to section 14, may conduct investigation himself or appoint or designate an officer of the Department or of other Government agency or of public institution for the investigation of the case.

(2) The chief shall make prior consultation with the head of other

Government agency or of public body before appointing an officer of such agency as an investigation officer pursuant to subsection (1).

(3) Notwithstanding anything written in subsection (1), the Chief may handover a case to an investigation authority for investigation if he finds that such authority is more appropriate to investigate such offence.

(4) Investigating authority entrusted in accordance with subsection (3) may also use all the powers of investigation officer available under this Act.

(5) Notwithstanding whatever written this section, the chief may, if he finds that the nature of offence demands two or more than two agencies or public body, may form a joint investigation team, with consultation with such agency or body.

(6) Investigation officer shall take oath of office before commencing the investigation in a prescribed form.

(7) Other provisions regarding the joint investigation shall be as prescribed.

**16. Functions, Duties and Powers of the Investigation Officer:** (1) The functions, powers and duties of the investigation officer, subject to general direction and control of the Chief, shall be as follows:-

- (a) to order any government agency, regulator, reporting entity and related person to provide documents, records, statements, notices and/or information related to the offence of money laundering and terrorist financing,
- (b) to conduct a search of any government entity, regulator, reporting entity, a person and any other place at which any document, write-up, material, facts, information, or instruments that may constitute evidence of an offence of money laundering and terrorist financing is reasonably believed to be located, and to seize such document, write-up, material, facts, information, or instruments or property or instrumentality related with the offence, provided that a written receipt in a prescribed form is given to the concerned person or official for all items seized in the course of the search,
- (c) to arrest a person and detain a person, as per prevailing laws, if the investigation officer has reasonable grounds to believe that such person accused of or suspected of involving in money laundering or terrorist financing may abscond or destroy or hide evidences or likely to obstruct or create adverse influence in the investigation process,

- (d) to require any person with information or reasonably believed to have information related to the offence of money laundering or terrorist financing to provide information, statement or supplementary statement,
- (e) if the person while giving statement or supplementary statement under Sub-section (d) is found it necessary to provide additional information, he can be released on investigation officer's own undertaking by taking a written commitment or ask for bail and in case of inability to provide bail, detain with the consent of the court,
- (f) to trace, identify and evaluate the properties and instrumentality fully and effectively in order to freeze or seize such property or instrumentality pursuant to section 18,
- (g) to write to Financial Information Unit if there is reasonable ground to believe that foreign Financial Intelligence Unit may have any information,
- (h) to carry out the other functions as prescribed.

(2) The chief may fine up to NRS five hundred thousand against a person disobeying the order given in the course of investigation, upon the report of the investigation officer.

(3) Notwithstanding whatever written in subsection (2), it shall not be a hindrance to file a case on ML/TF against a person who violates the order of freezing against properties or instrumentalities issued under section 18 with a motive to assist ML/TF offender.

**17. To Keep Under Custody for Investigation and Inquiry:** (1) A detention warrant shall be provided to a person accused of or having reasonable grounds to suspect that he is involved in the offence of money laundering and terrorist-financing before detaining him.

(2) The investigation officer shall present a person detained in money laundering and terrorist financing offence within 24 hour of arrest, except the time for arrival, and may be detained further upon the order of the adjudicating authority.

(3) The investigation officer shall, while producing the suspect for remand as stipulated under Sub-Section (2), clearly mention the charges against the detainee, reasons and grounds thereon, description of suspect's statement, if any, and the reason to detain the suspect for investigation.

(4) If remand is requested for investigation and inquiry pursuant to Sub-

Section (3), the adjudicating officer may, after reviewing the concerned documents and whether or not the investigation and inquiry has been satisfactory, remand the suspect for ninety days, not exceeding thirty days at a time.

(5) In case remand is requested as per Sub-Section (2), the detainee may petition before the adjudicating officer thereby stating reasons and grounds for him not to be remanded.

(6) The investigation officer shall give prior information to the Chief before arresting, detaining or requesting the adjudicating authority to extend the detention time of a person pursuant to this Section.

Provided that if a person is required to be arrested right away, the investigation officer should inform the Chief as soon as possible after arresting such person.”

**18. Freezing and Seizing:** (1) The investigation officer may freeze or seize the following property or instrumentality or property or instrumentality suspected of being related with such property or instrumentality of anyone in the course of investigation, regardless of persons whoever owns, possesses, entitles, or has any kind of interest in:-

- (a) Laundered property,
- (b) Instrumentality used or intended to be used in the commission of the offence of money laundering,
- (c) Property related with the offence of terrorist financing,
- (d) Property used or intended to be used in the offence of terrorist financing, or property used or intended to be used or allocated for the use in terrorist act or by (for the use of) individual terrorist, terrorist group or terrorist organization,
- (e) Instrumentality used or intended to be used in the offence of terrorist financing,

(2) The investigation officer shall freeze or seize the property of corresponding value of the person suspected of engaged in ML/TF if it is not possible to freeze or seize the property or instrumentality as stipulated in subsection (1), due to the disposal, concealment, use or consumption of such proceeds or instrumentality or by any other reason that disables to freeze or seize.

(3) The investigation officer may apply following measures while freezing or seizing the property or instrumentality pursuant to sub-section (1) or (2) :-

- (a) to self seize such property or instrument or through the concerned government agency
- (b) to order concerned agency to freeze such property or instrumentality ex-parte and without prior notice to the person related.

(4) Notwithstanding whatever written in sub-section (1), the investigation officer may issue freezing order against the property of the person, under the investigation of ML/TF, who does not present before him within the time given or as delivered pursuant section 40 till such date such person presents oneself

(5) The concerned agency or institution shall immediately freeze if it is asked in writing to do so pursuant to freeze pursuant to subsection clause (b) of subsection (3) or (4) in such a way that such property or instrumentality could not be transferred, mortgaged, sold, distributed, transacted or taken any benefit by anyone.

(6) The investigation officer shall give prior information to the Chief before giving order to freeze or seize the property or instrumentality pursuant to subsection (3) or (4). Provided that if such property or instrumentality is required to be frozen or seized right away, the investigation officer should inform the Chief as soon as possible after such freezing or seizing.

(7) The investigation officer shall give notice of freezing or seizing of the property to the person whose property or instrumentality is frozen within 3 days of such action.

(8) Person who is dissatisfied by the act of freezing or seizing made pursuant to this section may submit a complaint to the court prescribed pursuant to subsection (2) of section 22 for the release of such property or instrumentality.

(9) The court may, upon the receipt of complaint pursuant to subsection (8) and if the property or instrumentality frozen or seized pursuant to subsection (1) is found to be belonging of the complainant, release such property or instrumentality if it finds the following circumstances:-

- (a) If the complainant is not found to be involved in any offence of money laundering or terrorist financing,
- (b) If it is found that such property or instrumentality is not related with the offence of money laundering or terrorist financing or there is no ground to believe so, and
- (c) if the property or instrumentality is not found to be related with other offence committed by the complainant.

(10) Notwithstanding whatever written in the prevailing law, investigation officer shall be vested with powers to prevent or void any contractual or other liabilities going to be created or created by any person that prejudices in the capacity of freezing, seize or confiscating the property and instrument that is subject to confiscation pursuant to section 34".

(11) The investigation officer shall submit a report of any freezing or seizing of the property made pursuant to this section to the person to the court within 3 days of such action.

(12) The court may issue appropriate and necessary order upon the report received pursuant to subsection (11).

(13) Other provisions for freezing or seizing of property or instrumentally shall be as prescribed.

**19. Request to the concern Country:** (1) The Department, if it finds in the course of investigation that any property or instrumentality of any person related with money laundering or terrorist financing is in a foreign country, shall immediately request through the Ministry of Foreign Affairs to freeze such property or instrumentality.

(2) The Department, while making request pursuant to subsection (1) shall include the more possible information about the place of the property or name of banks or financial institutions of such person.

**19A. Monitoring Order:** (1) The investigation officer may issue a monitoring order to a reporting institution directing it to provide information to the Department in respect of transactions of a person under the investigation of money laundering or terrorist financing offence with a form to report.

(2) While issuing monitoring order the deadline shall be given no more than three months, in general.

(3) A reporting institution served with a monitoring order shall regularly monitor the transaction of the person and report it to the department regularly in accordance with the terms of the order.

**19B. Seizing Passport or Travel Document:** (1) Notwithstanding whatever written in prevailing laws, the investigation officer may order the concerned entity to hold the passport or travel document of the person accused of in the offence of money laundering or terrorist financing.

(2) The concerned entity, if it is ordered in accordance with subsection (1),

shall not issue a passport or travel document to such person or it shall take control of such document if it is ordered to take control.

**19C. Special Investigative Techniques May Be Used:** (1) The investigation officer may use the controlled delivery and undercover operation in course of investigation of money laundering or terrorist financing under the direct monitoring of the Chief.

(2) The Chief may, upon being satisfied on the report from the investigation officer that additional evidence and information relating to offence of a suspect of money laundering or terrorist financing may be collected more if such person is not arrested immediately and possibility of such person absconding is minimal, order not to arrest a person suspected on and keep him under a covert observation.

(3) Other provisions for the application of special techniques pursuant to subsection (1) and (2) shall be as prescribed.

**20. Protection of Seized Items:** The Property, instrument and other items seized in relation to the investigation of the offence of money laundering or terrorist financing by an investigation officer pursuant to this chapter shall be well protected in the Department.

**21. Support of Other Entities May Be Obtained:** (1) The Department may, in course of investigation and inquiry under this Act, demand assistance from any entities or public institution and it shall be the duty of such entities and institutions to assist the Department at the time of demand.

(2) The Department may also demand assistance from Nepal police in course of investigation of offence of money laundering and terrorist financing. It shall be the duty of the concerned police officer or the police personnel to assist the Department whenever demanded.

(3) The Department may, if it deems that the nature of offence under investigation and inquiry requires consultation with or participation of any expert working with any entity in investigation and inquiry, request the concerned entity to depute the expert to the Department for some time and such entity shall, notwithstanding anything contained in existing law, where it receives such a request from the Department, depute such expert to the Department.

**22. Filing a Case:** (1) The Chief shall, after the completion of the investigation on the offence of money laundering or terrorist financing, submit a dossier of evidence including his advice to the government attorney for the latter to decide whether to file the case or not.

(2) The Department shall, where in response to writing pursuant to Sub-Section (1) it receives concerned government attorney's decision to file a case, file the case before the court as prescribed by the Government of Nepal through a notice in Nepal Gazette.

**23. Limitation:** There shall be no limitation to file a case relating to the offence of money laundering and terrorist financing.

**24. Government to Be Plaintiff:** The Government of Nepal shall be the plaintiff in the case relating to an offence of money laundering and terrorist financing.

**25. No Obstacle to Sue Under Prevailing Laws:** (1) If any act constituting an offence of money laundering and terrorist financing is also punishable under any other existing law, one may also be charged under such law.

(2) If it is evident from investigation of an offence under any existing law that one has committed an offence of money laundering and terrorist financing, the entity or officer conducting investigation and inquiry of such offence shall inform the same to the Department.

(3) The Department shall inform other related investigation agency if it finds in course of its investigation that there is a link or possibility of filling another case or punishment under other prevailing laws.

**25A. To be informed:** The Department shall send all available information and complaint or file comprising the collected evidences, documents and conclusion in the course of investigation of money laundering or terrorist financing but not related with the offence of money laundering or terrorist financing to other related investigation agency under prevailing laws.

**26. Confidentiality:** No Investigation Officer or any staff or person involved in the investigation and inquiry shall, unless the prevailing law otherwise requires, breach confidentiality of any matter or document s/he encounters with during investigation and inquiry or while performing his/her duty.

**27. Automatic Suspension:** Any official or staff of any organized institution established under the prevailing laws or civil servant shall be deemed to be automatically suspended for a period he/she is detained as per this Act or until the case filed against him/her pursuant to Section 22 is settled.

**28. Source of the Property:** (1) Any person prosecuted under this Act for the offence of money laundering and terrorist financing after investigation shall require to provide the source of his property, if it is found that his property is unbelievable

or he is living an unbelievable life style or he has unbelievably donated, gifted, granted or contributed or loaned to other more than his capacity in comparison to his income.

(2) Property failed to provide source pursuant to subsection (1) shall be confiscated.

**29. No obstacle to Prosecute:** It shall not be an obstacle to investigate, prosecute or punish a person on an offence of money laundering only due to the reason that no investigation has been conducted on predicate offence or not prosecuted even after the investigation or nor convicted on predicate offence or the charge of predicate offence has been dismissed.

## Chapter-6A

### Declaration of Currency and Bearer Negotiable Instruments

**29A. Declaration of Currency and BNI:** (1) Any person entering into or leaving Nepal, who is in possession of currency or bearer negotiable instruments or who arranges for the transportation of such items of NRs or its equivalent in foreign currency by cargo, courier, postal service or any other means of the amount or more as prescribed by the Rastra Bank shall make an accurate written declaration as prescribed.

(2) While making declaration pursuant to subsection (1), a person who is in possession of such currency or BNI shall declare it before the customs and a person who is sending or receiving such items by cargo, courier, postal service or any other means, it shall be declared before such agency.

(3) A cargo, courier, postal service or any other means providing such service shall submit the declaration of currency or BNI pursuant to subsection (2) to the nearest custom officer in a prescribed format.

(4) Custom officer may require disclosure of items declared pursuant to subsection (1) or (2) or open the cargo, parcel or envelop submitted pursuant to subsection (3), if he suspects on the declaration or information submitted.

(5) Other provisions on the declaration of currency or BNI shall be as prescribed.

**29B. Inquiry, Confiscation and Punishment:** (1) Custom officer may inquire about the origin and intended purpose of currency or BNI being carried into or out of Nepal in the following circumstances:-

(a) If he suspects the declaration is not made or such declaration is false, or

- (b) If there are adequate reasonable grounds to suspect that it is related with an offence.
- (2) Custom officer shall confiscate the currency or BNI if he finds such currency or BNI undeclared or falsely declared or related with an offence and also fine equal to such amount.
- (3) Custom officer shall have to notify the reasons of confiscation to the concerned person while confiscating pursuant to subsection (2).

**29C. Information to be provided:** (1) Custom officer shall send a suspicious transaction report to FIU and inform the concerned investigation agency immediately, of the currency or BNI suspected pursuant to section 29B.

- (2) The Department of Customs shall send the details of declaration made pursuant to section 29A to FIU every month.

**29D. To be Commodity Under the Customs Act:** (1) For the purpose of this Act, currency or BNI shall be deemed to an item under the definition of commodity (Malbastu) under the prevailing customs laws.

- (2) Other provisions regarding declaration of currency or BNI, inquiry, search, seizure, confiscation, action or appeal pursuant to this chapter shall be as the provisions of the prevailing Customs laws.

### **Chapter-6B** **Special Provisions on Freezing of Property and Funds**

**29E. Information of Terrorist, Terrorist Group or Terrorist Organization:**

(1) The Ministry of Foreign Affairs shall without delay publish the list of terrorist, terrorist group or organization and of those engaged in proliferation of weapons of mass destruction designated under the provisions of the resolutions of United Nations Security Council in its website and submit the same to the Ministry of Home Affairs by electronic means.

(2) The Ministry of Home Affairs shall, without delay, issue a freezing order against the properties or funds of terrorist, terrorist group or organization designated in the list pursuant to subsection (1) in order to freeze such properties or funds immediately in accordance with this chapter.

(3) The Ministry of Home Affairs shall immediately publish its order issued pursuant to subsection (2) and section 29 F. in its website.

(4) The Ministry of Finance, Regulator, concerned agency, FIU, reporting entity or legal person or natural person shall ensure that they are aware of the updated lists of person, group or organization referred to in subsection (1) and (3) by regularly consulting the lists .

**29F. Enlisting as a Terrorist, Terrorist Group or Terrorist Organization:**

(1) The Ministry of Foreign Affairs, if it receives a request from a foreign country in order to freeze the properties or funds of a person, group or organization related/ involved with or suspected of being a terrorist or terrorist group or organization, shall send such request to the Ministry of Home Affairs without delay.

(2) The Ministry of Home Affairs shall make necessary inquiry against a person, group or organization involved or suspected of involving in terrorist act either upon the receipt of request pursuant to subsection (1); or of Nepali or foreign citizen, group or organization involved in or having reasonable grounds of suspicion of being involved in terrorist act inside or outside of Nepal, in its own initiative.

(3) The Government of Nepal may designate a person, group or organization as a terrorist, terrorist group or organization, if it finds or has reasonable grounds to believe that such person, group or organization is involved or going to be involved in the activities stipulated in subsection (2) or of section 4 or in any terrorist act pursuant to prevailing laws in Nepal or any other country under prevailing laws and issue freezing order against the properties or funds of such person, group or organization. .

(4) The Government of Nepal may delist a person, group or organization listed pursuant to subsection (3) if it does not find grounds for keeping such person, group or organization into such list.

(5) The Ministry of Home Affairs shall, if any person, group or entity is delisted by the Government of Nepal pursuant to subsection (4), immediately publish its notice in its website.

**29G. Freezing of Properties or Funds:** (1) Natural Person, legal person, concerned agency or reporting entity shall immediately and without delay and without prior notice, freeze the properties or funds of a person, group or organization listed pursuant to section 29E., 29F. and of person, group or organization engaged or financing in the proliferation of weapons of mass destruction.

(2) While freezing the properties or funds in accordance with subsection (1), all the following properties or funds shall be frozen without delay:-

- (a) All properties or funds belonging to or wholly or jointly, directly or indirectly, owned or possessed or held or controlled by such person, group or organization,
- (b) All properties or funds derived or generated from the property or funds pursuant clause (a),
- (c) All properties or funds of a person, group and organization acting on behalf of, or at the direction of such person, group or organization.

(3) Properties or funds frozen pursuant to this section shall be frozen in such a way that such properties or funds shall not be, could not be transferred, mortgaged or sold or distributed or transacted by anyone, except in the execution of the provision of this Act and rules thereunder.

(4) Natural or legal person, concerned agency and reporting entity shall make necessary management that the such properties or funds or other economic resources or financial or other benefits frozen pursuant to subsection (1) and (2) shall not be, directly or indirectly, available or in use of or be beneficial to the individual, group or organization designated under sections 29E and 29F.

(5) Natural or legal person, concerned agency shall submit the report of such freezing pursuant to subsection (1) and (2) to the Ministry of Finance and reporting entity to the Regulator, within three days of freezing.

(6) Regulator shall submit the detail of the freezing of the property or funds received pursuant to subsection (3) to Ministry of Finance within three days of receipt.

(7) Other additional provisions regarding freezing of property or funds shall be as prescribed.

**29H. Delisting or Defreezing the Properties and Funds:** (1) Any person, group or organization designated in the list of section 29E. and 29F. may submit an application to the Ministry of Foreign Affairs and Ministry of Home Affairs respectively.

(2) Any person, group or organization affected by the freeing of properties or funds or on other matters due to the order under section 29G. may submit an application to the Ministry of Foreign Affairs if the designation has been made pursuant to section 29E and to Ministry of Home Affairs if the designation has been made pursuant to section 29F.

(3) The concerned Ministry shall make an inquiry if it receives an application

pursuant to subsections (1) or (2) and the Ministry of Foreign Affairs shall submit it to the UNO if the applicant is under the list of section 29E. the Ministry of Home Affairs shall submit it to the concerned foreign country through the Ministry of Foreign Affairs if the applicant is under the list of section 29F.

(4) The Ministry of Home Affairs shall make an inquiry if it receives an application pursuant to subsections (1) or (2) from the person, group or organization designated upon its own initiative under the list of 29F. It may delist such person, group or organization if it does not find any ground to keep applicant under the list of section 29F and shall make defreezing order for his frozen properties or funds.

(5) Other provisions including the effective implementation of United Nations Security Council Resolutions including listing or delisting of terrorist, terrorist group, terrorist organization, listing or delisting of terrorist, terrorist group, terrorist organization pursuant to section 29F, defreezing properties or funds frozen pursuant to section 29G, appealing against the listing or freezing order, proper protection of bona-fide third party, providing minimum properties or funds for the subsistence of person whose property or funds is frozen shall be as prescribed.

**29I. Request to Another Country:** (1) The Ministry of Home Affairs shall immediately send the list of person, group or organization listed pursuant to section 29F. through the Ministry of Foreign Affairs with a request to freeze properties or funds of such person, group or organization if it finds that their properties or funds may be located in another country.

(2) The Ministry of Home Affairs shall send the name of person, group or organization if it is delisted through the Ministry of Foreign Affairs in order to defreeze property or funds frozen pursuant to subsection (1).

**29J. Monitoring:** (1) The National Coordination Committee shall make overall monitoring and evaluation about the effective compliance of this chapter.

(2) Concerned Ministry shall regularly monitor whether the concerned agencies have effectively implemented the provisions of this chapter.

(3) Regulator shall regularly monitor whether the reporting entities have effectively implemented the provisions of this chapter.

(4) Other provisions for the monitoring under this section shall be as prescribed.

**29K. Sanctions:** (1) Regulator may impose sanction pursuant to section 7V if it finds any reporting entity is not freezing the properties or funds pursuant to section 29G.

(2) Departmental action shall be taken against responsible officials of the concerned agency not freezing the property or funds pursuant to section 29G.

(3) The Ministry of Home Affairs may fine up to one million rupees to a natural or legal person violating the section 29G.

(4) Notwithstanding whatever written in the subsections (1), (2) or (3), case of TF may be initiated or filed against a natural person, legal person or responsible official of concerned agency or reporting entity who does not freeze the properties or funds with an intention to support the commission of offence of ML or TF, or to terrorist, terrorist group or organization or terrorist acts.

(5) The provisions under this Act, for tracing properties and instrumentality, freezing, seizing, investigation and confiscation of the properties or funds of terrorist, terrorist group or organization and other related matters, shall be applicable to offences under this chapter if so required.

## **Chapter-7**

### **Penalty**

#### **30. Punishment in the offence of Money laundering or Terrorist Financing:**

(1) Any person who has committed the offence of money laundering pursuant to subsection (1) of section 3 shall be fined two times of the proceeds and imprisoned from two years to ten years as per the gravity of the commission of act.

(2) Any person who has committed any offence of conspiracy to commit the money laundering pursuant to subsection (2) of section 3 shall be punished pursuant to subsection (1) and person committing other offences under the subsection (2) of section 3 shall be punished half of the subsection (1).

(3) Any person who has committed any offence of terrorist financing pursuant to subsection (1) of section 4 shall be imprisoned from three years to twenty years as per the gravity of the commission of act and fined five times of the proceeds if it is apparent or fined up to ten million NRs if such proceeds is not apparent.

(4) Any person who has committed the offence pursuant to subsection (2), (3) or (4) of section 4 shall be half of the subsection (3).

(5) If a person commits the offence of ML/TF through or by the use of a

legal person, such person, official or staff shall be punished pursuant to subsection (1), (2), (3) or (4).

(6) The chief of legal person working during the period of commission of the offence shall be punished pursuant to prevailing laws if the particular person committing such offence is not traced out as per subsection (5).

(7) Punishment to a public servant or chief or staff of a reporting entity shall be punished ten percent more of the punishment stipulated in subsections (1), (2), (3) or (4) if he is found to have committed the offence of ML/TF.

(8) If any legal person or arrangement commits any offence of money laundering or terrorist financing, one or all following punishment shall be awarded on the basis of the gravity of offence:-

- (a) Fine up to five times of the fine stipulated in subsection (1), (2), (3) or (4), and/or
- (b) Prohibiting in public procurement by prescribing time limit
- (c) Prohibiting in subscribing goods and services by prescribing time limit
- (d) Recovering losses and damages
- (e) Cancel or evoke license or permission,
- (f) Liquidating legal person.

(9) If any anyone, who violates any provision of this Act and rules issued thereunder beyond subsection (1) to (8), shall be punished with the confiscation of property and fine equal to that, and if the property is not apparent or fine up to one million NRs.

**31. Punishment to the Discloser of confidentiality:** Anyone who violates the confidentiality pursuant to subsection (2) of section 10B. or section 26 shall be punished with imprisonment from one month to three months or fine up to one hundred thousand or both.

**32. Punishment for Concealing or Destroying Evidences:** Any person who commits the offence of concealing or destroying evidence related to acts deemed to be an offence of money laundering and terrorist financing shall be liable to the imprisonment of one month to three months and/or fine of fifty thousand rupees to one hundred thousands rupees in accordance with the gravity of offence and the person assisting the commission of such act shall be liable to half of such punishment.

**33. Punishment for Obstruction:** If any person obstructs the proceedings of

investigation, the adjudicating officer may, on the basis of investigation officer's report, punish him/her with a maximum imprisonment of six months and/or a maximum fine of five thousand rupees.

**33A. Punishment to Trouble Maker:** The Hearing Officer may fine up to ten thousand rupees on the basis of the report of investigation officer to the person who makes complaint unnecessarily or with the motive of troubling others.

**34. Property Related with the Offence of ML/TF to be Confiscated:** (1) Any following property or instrumentality related with offence shall be confiscated upon conviction on the offence of money laundering or terrorist financing, regardless of whoever entitles, owns, posses or has any kind of interest in:-

- (a) Property related with the offence of money laundering,
- (b) Instrumentality used or intended to be used in the commission of the offence of money laundering,
- (c) Property related with the offence of terrorist financing,
- (d) Property used or intended to be used in the offence of terrorist financing, or property used or intended to be used or allocated for the use in terrorist act or by (for the use of) individual terrorist, terrorist group or terrorist organization,
- (e) Instrumentality used or intended to be used in the offence of terrorist financing,

(2) Property of corresponding value shall be confiscated if it is not possible to confiscate such property or instrumentality as stipulated in subsection (1), due to the disposal, concealment, use or consumption of such proceeds or instrumentality or by any other reason.

(3) There should be proper protection of bona-fide third party while confiscating the property or instrumentality pursuant to sub-section (1) or (2).

(4) Notwithstanding whatever written in subsection (3), property or instrumentality and other property or value generated there from of the bona-fide third party not involved in the offence shall be confiscated if the following circumstances exist, for the purpose of subsection (3):-

- (a) If such property or instrumentality is not found to be related with the offence of money laundering or terrorist financing,
- (b) If such property is not the proceeds of crimes or instrumentality related

- with offence, or
- (c) If such property or instrumentality is found to have acquired before the commission of the offence of money laundering or terrorist financing and without knowledge that such property may be used in offence.

## **Chapter–8**

### **Miscellaneous**

**35. National Risk Assessment:** (1) National risk assessment of money laundering or terrorist financing or predicate offence shall be conducted periodically or as per necessity.

(2) The Implementation Committee shall be responsible to conduct such national risk assessment pursuant to subsection (1).

(3) The composition, functions, responsibilities, powers of the Implementation Committee and other provisions regarding the national risk assessment shall be as prescribed.

**36. Assets to Be Released:** In case the property and instrumentality frozen pursuant to Section 18 proves to have no criminal origin, chief on the report of the investigation officer if case has not been filed, or the court hearing the case if the case has been filed, shall order the concerned authority which has frozen the property and instrumentality to release such property and instrumentality and the concerned entity shall release such property and instrumentality upon such order.

**37. Not to be Liable for Providing Information:** (1) No staff or official of RE is supposed to have violated the professional or financial norms prescribed under other prevailing laws if such act has been carried out in the course of discharging duties under this Act up to the level of performance mandated under this Act.

(2) No criminal, civil, disciplinary or administrative action or sanction shall be taken against a government agency, reporting entity or any of their official or staff who in good faith submit reports or provide report, document, information, notice or records in accordance with the provisions of this Act, rules and directives issued thereunder as a breach of secrecy provision under prevailing laws or contractual, administrative or regulatory liability.

**38. Auction to be Made:** (1) Where, upon being stored for a long period, the property and instrumentality seized in relation to offence of money laundering and terrorism financing are likely to suffer any damage or breakage due to stain or any other cause; rot; depreciate in value or where it is not possible to maintain or preserve

the property and instrumentality due to lack of space for storage, the same may be auctioned by fulfilling the procedures as prescribed by the prevailing laws.

(2) The proceeds obtained from auction sale pursuant to Sub-Section (1) shall be balanced in the deposit account and if it is subsequently decided to give such goods back to the owner, the owner shall be entitled to the amount received from such auction.

- 39. Departmental Sanction to the Staff involved in Investigation and Inquiry:** If any Investigation officer or staff of the Department acts with mala-fide intention to cause troubles or tension to anyone in course of investigation and inquiry of the offences under this Act, the secretary of the concerned ministry where the investigation officer is the chief of the department himself or the chief of the department shall award departmental sanction notwithstanding whatever is mentioned in prevailing laws.
- 40. Provisions Relating to Delivery of Notice:** (1) Notwithstanding anything contained in the prevailing laws, a summon to be served to a foreign national in connection with an offense under this Act shall be served to the office or representative of such person in Nepal, if any, and the notice so served shall be deemed to have been duly served.

(2) In case no office or representative as stipulated under Sub-Section (1) exists, the notice shall be served to the main place of business of such person or his/her permanent residential address or the mailing address if provided by him/her in course of business, through telex, tele-fax or other means of telecommunication or through registered mail and the summon so served shall be deemed to have been duly served.

(3) Notwithstanding anything mentioned in Sub-Section (1) or (2), this section shall not bar to serve the summon to the foreign national as per the specific provision contained in the treaty which Nepal or the Government of Nepal is a party to, if there is any.

- 41. Notice to be Published:** In case a notice or summon can not be served to any person as per this Act or any other prevailing law because the address of such a person is not identified or because of any other reason and a report thereof is received, a notice containing a brief detail of the case shall be published in national level newspaper (in English daily in case of foreign national) at least twice requiring the concerned person to appear within thirty days before investigating authority or adjudicating authority where charge has been filed. If such notice is so published,

it shall be deemed to be duly served to such person, notwithstanding anything contained in prevailing laws.

**42. Interpretation of Intention:** Interpretation of knowledge, intent or purpose of the person accused of money laundering or terrorist financing shall be inferred from objective factual circumstances.

**43. No Obstruction to Adjudication and Settlement Proceedings:** Notwithstanding anything mentioned in prevailing laws, no death of the suspect before or after the filing of charge shall bar the adjudication and settlement proceedings of a case under this Act.

**44. Waiver of Penalty:** The investigation officer may present an accused person cooperating with the investigation and inquiry proceedings as a prosecutor's witness and may provide such person with full or partial waiver of penalty in the case initiated under this Act. Provided that notwithstanding anything mentioned in this Act or in prevailing laws a lawsuit may be reregistered against such person if his cooperation could not be corroborated by other evidence or if such accused makes statement before the adjudicating officer against the cooperation extended to the investigation and inquiry officer.

**44A. Tipping Off and related provisions:** (1) No reporting entity, nor its official or staff shall disclose to its customer or to any other person that a following report, document, record, notice or information concerning suspected money laundering or terrorist financing or predicate offence has been or is being submitted:-

- (a) Report of suspicious or threshold transaction,
- (b) Report of ongoing monitoring order pursuant to section 19A.,
- (c) Any document, record or information provided to the Financial Information Unit, investigation officer or investigation authority pursuant to prevailing laws or regulator,
- (d) Other details or information to be provided by reporting entity under this Act, rules and directives thereunder,
- (e) Individual introductory detail of an official or staff providing report, document, record, notice or information from clause (a) to (d).

(2) The Department, investigation officer or staff of the Department, investigation authority pursuant to prevailing laws shall not disclose any information about the personal or institutional detail of the reporting institution, Financial Information Unit or their official or staff submitting a notice or report or document, record or information that will identify or is likely to identify the RE or

FIU and a person or official reporting or disseminating in relation to the offence of money laundering, terrorist financing or predicate offence to anyone.

(3) No information shall be disclosed even in judicial proceedings that discloses or may disclose the introduction of official or staff or agency or institution stipulated in subsection (1) and (2).

(4) Following authority may impose following sanction at each event of violation of the provision of this section as follows:-

- (a) Regulator to fine up to one million rupees to the bank and financial institution or to casino,
- (b) Regulator to fine up to two hundred thousand rupees to other designated non-financial business and profession,
- (c) Reporting entity to take departmental action to its official or staff under their own laws,
- (d) Notwithstanding whatever written in the prevailing laws of service, concerned authority to take departmental action against the Chief, investigation officer or staff of the Department or investigation officer pursuant to prevailing laws,
- (e) Notwithstanding whatever written in the prevailing laws of service, departmental action to the head and staff of Financial Information Unit.

**44B. Confidentiality Provision:** (1) Not with standing whatever written in prevailing laws, no document, record, detail, notice or information stated to be remained confidential under the prevailing laws shall be confidential to the Department or Financial Information Unit for the performance of the duty under this Act.

(2) The concerned agency, official or person shall make available the document, record, detail, notice or information if they were asked by the Department or Financial Information Unit specifying the objective pursuant to subsection (1).

(3) Other provisions regarding the demand and supply of document, record, detail, notice or information to be maintained as confidential according to prevailing laws shall be as prescribed.

**44C. Transaction in/with Financial Institution and Banking Instrument:**

(1) The Government of Nepal, upon the advice of Rastra Bank, may publish a gazette notice requiring any sale or perchance of goods or services or other

transactions mentioned in that notice to be transacted only through the financial institution or banking instruments.

(2) It shall be the duty of all concerned to use financial institution or banking instrument by not using the cash while selling or purchasing goods, services or conducting other transaction mentioned in the notice under subsection (1).

**44D. <sup>6</sup>Nominal Expenses to be allowed:** (1) Where all asset of an individual is frozen in course of investigation and inquiry of the offence of ML/TF or in course of the proceeding of the case and there is no other means or source of livelihood for the concerned person or his/her dependents, the court may order the department to release the portion of the asset required for basic condition of livelihood.

(2) The department shall act upon the order issued pursuant to Sub-Section (1).

**44E. <sup>7</sup>Processing records by computer can be taken as evidence:** (1) Notwithstanding anything contained in any existing laws, except it is proved otherwise for the purpose of this Act, the record processed or developed by the electronic means can be taken as evidence.

(2) The essential provisions for the purpose of receiving, analyzing or processing record, particular and data shall be as prescribed.

**44F. Information to be Provided to the Ministry of Foreign Affairs:** The Department, Regulator or FIU shall immediately inform the Ministry of Foreign Affairs if an MOU was concluded with foreign counterpart pursuant to this Act.

**45. Reward:** (1) Any person who files complaint or provides information and cooperates with the investigation or evidence collection shall be entitled to receive ten percent of the claimant value or rupees one million, whichever is lower, if allegation is established.

(2) In case the persons pursuant to Sub-Section (1) are more than one, such amount shall be distributed proportionately.

**46. Rules May be formulated:** The Government of Nepal may frame necessary Rules for implementation of the objectives of this Act.

**47. Directives may be Issued:** The Government of Nepal may issue Directives necessary for the effective implementation of this Act and Rules thereunder including international standards of money laundering and terrorism financing.

<sup>6</sup>. Added by the first amendment.

<sup>7</sup>. Added by the first amendment.

**Annex**  
**Predicate Offence**

(1) Any offence under the prevailing laws

- a. Participation in an organized criminal group and racketeering,
- b. Disruptive (terrorist) act and terrorism,
- c. Trafficking in human being and migrant smuggling in any form,
- d. Any kinds of sexual exploitation including the children,
- e. Illicit trafficking in narcotic drugs and psychotropic substances,
- f. Illicit trafficking in arms and ammunition,
- g. Illicit trafficking in stolen and other goods,
- h. Corruption and bribery,
- i. Fraud,
- j. Forgery,
- k. Counterfeiting of coin and currency,
- l. Counterfeiting and piracy of products, or imitation, illegal copy or theft of products,
- m. Environmental crime,
- n. Murder, grievous bodily injury,
- o. Kidnapping, illegal restraint or hostage-taking,
- p. Theft or robbery,
- q. Smuggling (including custom, excise and revenue),
- r. Tax (including direct and indirect),
- s. Extortion,
- t. Piracy,
- u. Insider Dealing and Market Manipulation in securities and commodities ,
- v. Ancient monument conservation,
- w. Forest, National park and wild animals,
- x. Money, banking, finance, foreign exchange, negotiable instruments, insurance, cooperatives,
- y. Black marketing, consumer protection, competition, supply,
- z. Election,

- aa. Communication, broadcasting, advertising,
- ab. Transportation, education, health, medicine, foreign employment,
- ac. Firm, partnership, company, association,
- ad. Real estate and property,
- ae. Lottery, gambling, donation,
- af. Citizenship, immigration and passport.

(2) Offence of terrorist financing pursuant to section 4,

(3) Any other offence as designated by the Government of Nepal by publishing a notice in the Nepal Gazette, or

(4) An offence under a law of a foreign State, in relation to act or omission under paragraph (1), (2) or (3), which had they occurred in Nepal, would have constituted an offence.

## **2. Securities and Commodities Exchange Market Related Regulation**

- a. Securities Board of Nepal Regulations, 2007 (2064)
- b. Securities Market Operation Regulation, 2008 (2064)
- c. Securities Businessperson (Stock Broker, Securities Dealer and Market Maker) Regulation, 2008 (2064)
- d. Securities Businessperson (Merchant Banker) Regulation, 2008 (2064)
- e. Mutual Fund Regulation, 2010 (2067)
- f. Securities Central Depository Service Regulation, 2010 (2067)
- g. Credit Rating Regulation, 2011 (2068)
- h. Securities Registration and Issuance Regulation, 2016 (2073)
- i. Commodities Exchange Market Rules, 2017 (2074)
- j. Securities Listing and Trading Regulation, 2018 (2075)
- k. Specialized Investment Fund Regulation, 2019 (2075)

## **Securities Board of Nepal Regulations, 2007**

In exercise of the powers conferred by 116 of Securities Act, 2063, Securities Board of Nepal has formulated the following Rules, with the approval of Government of Nepal.

### **Chapter-1**

#### **Preliminary**

**1. Short Title and Commencement:** (1) The name of these Rules shall be "Securities Board of Nepal Rules, 2007 (2064)."

(2) These Rules shall be effective from the date of specified by Securities Board.

**2. Definitions:** Unless repugnant by the subject or context, in these Rules:-

- (a) "Act" shall mean securities Act, 2006(2063).
- (b) "Board" shall mean Securities Board of Nepal established as per Section 3 of the Act.
- (c) "Employee" shall mean the person employed in any post of the Board.
- (d) "Investigation Officer" shall mean the officer employee appointed pursuant to Rule 17.
- (e) "Onsite Inspection" shall mean the inspection effected at the office or concerned spot of Stock Market, Stock entrepreneurs, authorized representative of Stock entrepreneurs or body corporate having registered stock.
- (f) "Other Regulations" shall mean other regulations except these regulations framed under the Act.

### **Chapter-2**

#### **Functions, Powers and Duties of the Board**

**3. Functions, Powers and Duties:** Including the functions, powers and duties as specified in Section 5 of the Act, the Board shall have the following functions, powers and duties:

- (a) To assist in the execution of the Policy and Program of Government of Nepal in respect of Securities and Capital Market.
- (b) To formulate and implement professional code of conduct to be

- observed by Securities Market and Securities Entrepreneurs in order to maintain investor's interest and market fairness.
- (c) To formulate and implement good governance code to be observed by the body corporate which registers and lists the Securities for the good governance of organized sector.
  - (d) To develop regional and international relations by obtaining the membership of regional and international organizations or authorities relating to Capital Market.
  - (e) To approve annual program and budget as well as annual audit for the Board.
  - (f) To approve annual report pertaining to the function and activities of the Board.
  - (g) To effect other works as may be required for the regulation and development of Capital Market.

**4. Functions, Powers and Duties of the Chairperson:** (1) The Chairperson appointed as per Section 7 of the Act shall be a full time Chief Administrative Officer of the Board.

(2) The functions, powers and duties of the Chairperson, including the functions powers and duties as mentioned in Section (8) of the Act, shall be as follows:-

- (a) To manage and operate day to day affairs while taking full administrative responsibilities of the Board, Subject to the Act, these Rules, other Rules, bye-laws or directives and the decision of the Board taken from time to time.
- (b) To monitor, inspect and investigate or cause to have monitored, inspected, and investigated the functions related to Securities or body corporate having registered Securities, Securities Market, and Securities Businesspersons.
- (c) To represent or cause to be represented on behalf of the Board in Government of Nepal, Courts or domestic or foreign organizations.
- (d) To sign the contract on behalf of the Board and execute or cause to be executed the same.
- (e) To accomplish other functions under the authority as delegated by the

Board.

**5. To Issue Order or Directives under the Special Authority:** (1) While issuing any order or directives by the Board as per Section 90 (1) of the Act, under special authority, the Board may issue such order or directives specifying the functions to be effected by the concerned organization and the time frame and procedure thereof as mentioned therein.

(2) The Board may request for the clarification from the concerned body corporate prior to the issuance of order or directives as per Sub-Rule (1), if it is deemed necessary to have any matter clarified from the concerned organization.

(3) The Board may issue necessary order or directives or initiate appropriate action on the clarification as submitted by the concerned body corporate with due evaluation thereon.

**6. Oath to be Taken :** The Chairperson or member of the Board shall, prior to the commencement of the job as per the post, administer the oath of confidentiality and honesty in a format as mentioned in Schedule-1.

**7. Remuneration and Terms of Services of Chairperson:** The monthly remuneration, allowances and other facilities entitled to the Chairperson shall as determined by the Board under the approval of Government of Nepal.

**8. Remuneration and Facilities Entitled to the Member:** If any member is required to work full time in the Board for any special work, the remuneration, allowances and other facilities entitled to such member shall be as determined by the Board under the approval of Government of Nepal.

**9. Deputation and Travel and Daily Allowances of the Chairperson and Member** : (1) While deputing the Chairperson to the place within the country in the course of works of the Board, a prior approval of the Chairperson himself, for a period of seven days and of Ministry of Finance, for a period exceeding such period or for foreign tour, shall be obtained.

(2) The Chairperson may depute the members of the Board within the country for a period of up to 7 days, in the case of requirement of deputation exceeding 7 days or in foreign countries, the Board may effect the deputation with the approval of Government of Nepal.

(3) Travel and Daily allowances, other allowances as well as facilities

entitled to the Chairperson in the course of his travel for the works of the Board, shall be as mentioned in the Financial Administrative Rules of the Board.

(4) The members shall, while traveling in the course of the works of the Board, be entitled to travel and daily allowances, other allowances and facilities equivalent to the entitlement to the Chairperson.

**10. Meeting Allowances of the Chairperson and Members:** (1) Each member shall be entitled to a meeting allowances of Rupees One Thousand Five Hundred for his participation in the meeting.

(2) The Board may alter the meeting allowances entitled to the members from time to time with the prior approval of Government of Nepal.

**11. Constitution of Investigation Committee:** (1) In the case of requirement of release of the chairperson or members from their respective post as per Sub-Section (2) of Section 12 of the Act, due to any of the reason, whatsoever, the Government of the Nepal may constitute an investigation committee with specific period as per Sub-Section (7) of Section 7 of the Act in order to effect the investigation in relation thereto.

(2) The investigation committee to be constituted as per Sub-Section (1) shall consists of the members as mentioned hereunder:

- (a) The person specified by the Government of Nepal Who is serving or has served at least as a judge of The Appellate Court -Chairperson
- (b) One person of minimum Gazetted first Class Officer of Nepal Judicial Service currently Serving Government of Nepal - Member
- (c) One expert specified by Government of Nepal with specified knowledge of capital market- Member

(3) The remuneration, allowances and other facilities to be entitled to the members of the investigation committee constituted as per Sub-Rule (1) shall be as specified by the Government of Nepal.

(4) The investigation committee as per Sub-Rule (1) may inquire with take statements or demand the clarification from the chairperson or concerned members.

(5) The procedure to be adopted while effecting the investigation shall be

determined by the investigation committee itself.

(6) The Government of Nepal may, on the basis of the report submitted by the investigation committee, take action against or release from the post, such chairperson or member.

### **Chapter-3**

#### **Provision on the List of Auditors**

**12. List of Auditor:** (1) The Auditor having passed the examination of Chartered Accountant or equivalent with professional certificate from Institute of Chartered Accountants of Nepal shall be eligible to be enlisted in the list of Auditor to be maintained by the Board in order to effect the audit of the securities entrepreneurs.

(2) Subsequent to the receipt of the information to the Board by the Institute of Chartered Accountants of Nepal or the concerned Auditor of his eligibility as per Sub-Rule (1), such auditor shall automatically deemed to have been enlisted in the list of the Board.

**13. Particulars to be Specified in the Audit Report:** (1) While auditing the books of accounts and securities transactions of securities entrepreneurs by the listed auditor as per Rule 12 following particulars, including the particulars to be specified as per prevailing laws, shall be specified in the report to be prepared and submitted to the Board:

- (a) Whether or not the capital reserve, net liquid asset and deposit as specified by the laws on securities have been maintained or deposited.
- (b) The particulars, if any, on any action of securities entrepreneurs organizations or its officials which is irregular or contrary to the Act, or Rules, Directives, orders of the Board or other prevailing laws.
- (c) Existence or non-existence of necessary internal control system.
- (d) Particulars, if any, of the action against the interest of securities market and investors.
- (e) Existence or non-existence of Internal Audit Committee and the effectiveness, thereof, if exists.

(2) Notwithstanding anything specified in Sub-Rule (1), while effecting the audit of the securities entrepreneurs, the Board may prepare the format of Long

form Audit Report specifying the particulars to be specified in the Audit Report of the Auditor and implement the same and if such format is implemented, the auditor to audit shall, while preparing the Audit Report of such organization, specify the particulars in his Audit Report mentioned in such format.

(3) The auditor, not effecting the audit or submitting the particulars as per these Rules, shall be referred by the Board to Institute of Chartered Accountants Nepal for necessary action and the concerned auditor shall be restricted to effect the audit of securities entrepreneurs till the finalization of the action.

## **Chapter-4**

### **Procedure and Investigation and Filing of the Case**

**14. Inspection and Investigation:** (1) The Board may, while effecting inspection and investigation as per Section 85 of the Act, effect spot investigation or inspection of the concerned organization or effect the inspection and investigation by obtaining the detailed particulars and notices at the Board itself.

(2) While effecting inspection and investigation by the Board, the Board may depute any employee of the Board, any expert or panel of experts and specify the organization to effect inspection and investigation, subject thereof, the completion period of such inspection and investigation, manner of inspection, the matters to be specified in the report and the matters relating to the financial and other facilities to be made available for such inspection.

(3) Subsequent to the completion of the inspection and investigation, a report specifying the inspected and investigated organization, the subject thereof, the information obtained, the observed remarks and recommendations shall be prepared and submitted to the Board.

(4) The concerned officer may, in the course of spot inspection as per Sub-Rule (1), provide necessary instruction to the organization which is being inspected and it shall be the duty of concerned organization to observe such instruction. The inspecting officer shall, at the earliest possible, inform the Board of such instruction.

(5) The Board may, for the purpose of inspection and investigation of permitted securities market and securities entrepreneurs, prepare and implement Inspection Manual.

**15. Complaint May be Filed:** (1) The concerned person may, upon receipt of the information of the offense punishable under Section 101 of the Act, which is already committed or being committed, file the complaint to the Board and while filing the complaint, such shall be filed in a format as specified in Schedule-2.

(2) Notwithstanding anything specified in Sub-Rule (1), if the complainant files any written or verbal complaint instead of the complaint as per Schedule-2 or if such complainant files the complaint along with the evidence thereof by being present in person, such complaint shall cause to be registered along with the evidence in a format of Schedule-3 and in the absence of the complainant the employee of the Board shall prepare and register the complaint in accordance with the said Schedule and the particulars thereof shall be specified at the head of the complaint and the same shall be verified.

(3) The complaint received at the Board in accordance with these Rules shall be registered in a register in a format as specified in Schedule 3

(4) Notwithstanding anything stated in these Rules, in the case of receipt of information by the Board through any of the medium or by the Board itself, on the offence deemed punishable under the Act, which has already been committed or being committed, mere non filing of the complaint shall not hinder to initiate necessary action against there of.

**16. Complaint may be annulled or withheld:** (1) The complaint as mentioned hereunder may be annulled or withheld by the Board:

- (a) Complaints which do not fall under the scope and jurisdiction of the Board
- (b) Complaints which are found to be prima facie fact less or does not specify the offence clearly.
- (c) Complaints with the objective to exert trouble on others.
- (d) Complaints on which the person or body corporate to be taken action against is not possible to identify.
- (e) Complaint on the same subject without submitting new evidences thereof, which has already been annulled after decision thereon.

(2) If it is not deemed appropriate to immediately initiate the action and decide thereon due to the filing of the case somewhere else on the subject of

complaint at the Board, such complaint may be withheld subject to the decision thereon after the finalization of the case filed somewhere else.

**17. Appointment of Investigation Officer:** (1) In the case of obtainment of information on the offence already committed or being committed, which is punishable under Section 101 (1), (2) or (3), through the complaint received under Rule 15 or any other medium, the Board shall, in order to investigate or to file the case, if so required, appoint any employee of officer level of the Board as investigation officer.

(2) The assistant including financial and other facilities necessary to such investigation officer appointed as per Sub-Rule (1) shall be as specified by the Board.

**18. Investigation and Recommendation:** (1) The investigation officer shall, on the basis of the information from complaint filed at the Board or any other medium, effect necessary investigation, demand the clarification from or take statement of the accused or person related to such offence and effect other investigation related to the offence.

(2) It shall be the duty of the concerned person to submit the clarification demanded by the investigation officer in the course of the investigation in respect of the offence, to provide true information or particulars on the questioned subject or submit the documents.

(3) Upon investigation by the investigation officer as per Sub-Clause (1), if it is found from the initial investigation that there does not exist the condition to file the case by effecting the investigation, he shall recommend the Board in accordance therewith.

(4) If the investigation officer, in the course of the investigation, finds that the accused is not punishable under Section 101 (1), (2) or (3) but may be punished under Sub-Section (4), (5), (6), (7) or any other Sections of the Act, he shall submit to the Board his report thereon along with opinion while specifying such particulars.

**19. To be put under date:** (1) If it is found appropriate and necessary to effect investigation by putting the person accused of security offence under general date, the investigation officer may put such person under general date and effect the investigation.

(2) While putting such person under date in the course of investigation, the record thereof shall be maintained and a date slip in a format as specified in Schedule - 4 shall be provided.

**20. Approval of security against property:** (1) While obtaining immovable property as the security against property as per Section 104 of the Act, the security against property shall be obtained only after the verification of the suspension of such property from the concerned office.

(2) In the case of obtainment of immovable property or cash deposit from the accused or on his behalf as security in accordance with the order of the Board or Court in the course of investigation or proceeding of the Court, a record thereof shall be maintained.

(3) The full name, address of the accused, full name and address of the person providing the security, if any, detail of the property, the name of the office to effect the suspension of such property, if immovable property has been furnished as security, the date of information on the suspension of the property and other necessary matters shall be specified in such record.

**21. Arrests may be effected:** (1) In the case of the situation that the accused is required to be arrested, with the prior approval of the Board, the investigation officer may write to concerned police office in order to issue the arrest warrant in accordance with prevailing laws for the arrest of the concerned accused and make him present.

(2) Upon receipt of such request, it shall be the duty of the concerned police office to arrest the accused and make him present before the Board.

**22. Search and seizure:** (1) In the case of requirement of search in the course of investigation on the offence related to securities, or any equipment or documents are required to be recovered, the investigation officer may enter into the premises with prior notice to the concerned person or body corporate and seize the equipment and documents related to the offence.

(2) While conducting search and seizure in accordance with Sub-Rule (1), the investigation officer shall prepare the recovery sheet in a format as mentioned in Schedule-5.

(3) If the information, data, details, documents or equipment or any other goods obtained or recovered at the time of search and seizure as per Sub-Rule (1)

is required to be taken for evidence, a receipt along with the particulars thereof shall be provided and if the owner of the goods is not found or if he denies to receive the receipt, the goods may be taken by providing the receipt thereof to the representative of local government.

(4) In the case of absence of the person to receive the receipt thereof as per Sub- Rule (3) the investigation officer shall take such evidencing goods or documents under his custody by mentioning the same in the recovery sheet and informing the same to the local government.

**23. Suspension May be Effected:** (1) If it is found necessary by the investigation officer, in the course of investigation on the offense related to securities, to suspend the sale, purchase or transaction of securities, he may with the prior approval of Securities Board request to the concerned body corporate, and security market in order to suspend the sale, purchase or transaction of securities and upon such request, it shall be the duty of the concerned body corporate and securities market to suspend the same by not allowing the sale, purchase or transaction of such securities to be effected.

(2) If it is deemed necessary and appropriate by the Court or Board in the course of proceeding in the Court in order to suspend the purchase, sale or transaction of the securities related to the offense, it may, at any time, order the concerned corporate body and securities market to suspend the sale, purchase or transaction of such securities.

**24 . Filing of the Case:** (1) Upon the completion of the investigation, if it is found to claim the punishment to the accused in accordance with Section 101 (1) , (2) and (3) the investigation officer shall prepare the charge sheet and file the case at the concerned Court along with such charge sheet.

(2) The charge sheet to be prepared in order to file the case in accordance with Sub- Rule (1) shall, as far as practicable, contain the following matters:

- (a) Temporary, permanent and other contract address of the accused and three generation, if possible.
- (b) The professional detail of the person committing the offense.
- (c) Subject or facts of accusation.
- (d) particulars of malicious intention or negligence, if any.

- (e) In the case of unlawful benefit or loss, the detail in respect of the person to whom such loss or benefit has been made.
  - (f) If the quantum of loss is observed, the detail of loss already made or tried to make.
  - (g) The basis for the determination of quantum of loss.
  - (h) Claim for punishment.
  - (i) The evidence to substantiate or prove the offense.
  - (j) Other related necessary matters.
- (3) If the person to be accused is overlooked in the charge sheet as prepared in accordance with Sub-Rule (2), the Board may specify the reason thereof submit additional charge sheet in the name of such person.

**25. The Board May Appeal:** (1) In the case of dissatisfaction in the decision of the Court in any case filed at the Court, the Board may appeal against such decision.

(2) The Board shall, on the basis of fact of the case, related laws, decision of the Court and other related aspects, decide as to whether or not to file the appeal.

**26. Release of Property:** The Board shall, upon the finalization of the case, release the deposit, or bank guarantee or the property if such deposit or bank guarantee or the security against the property has been obtained by the Board from this accused or on his behalf.

However, if fine punishment or principal is to be recovered, the suspended property shall be released only after the recovery of such amount.

**27. Provision on Copying:** (1) The concerned person intending to obtain the copy of any of the document related to the case initiated under these Rules shall file an application before the Board.

(2) Upon receipt of the application as per Sub-Rule (1) the Board shall make available the verified copy to the applicant after obtaining the copying charge at the rate of Rs. 5.00 per page.

(3) Notwithstanding anything stated in Sub-Rule (2), the copy of the documents related to the subject which is under the investigation or the document which is confidential due to the nature thereof shall not be made available.

## Chapter-5

### Procedure on Punishment

**28. The Punishment on Violation of Act, Rules:** In the case of violation of Act, or Rules, bye-rules, Directives, there under or the order or direction issued by the Board, it may punish with one or more than one punishment as mentioned herein below:

- (a) Make alert or provide written warning
- (b) Issue the order for correctional steps
- (c) Suspend or annul the service on securities market being provided by the Board.
- (d) Impose full or partial restriction on the transaction of approved securities entrepreneur or security market.
- (e) Impose monetary penalty.
- (f) To suspend or cancel the permit of security market or security entrepreneur.

**29. Procedure of Monetary Penalty:** (1) The Board shall, while imposing monetary penalty or punishments as per the Act, adopt the procedure as mentioned hereunder:

- (a) Prior to the imposing of proposed monetary penalty or punishment, the Board shall furnish a written notice to the accused maximum of 15 days specifying the followings in order to submit his clarification:
    - (1) nature of the offense.
    - (2) Summary of offense, and
    - (3) Proposed punishment as per the nature of the offense.
  - (b) A written response shall be furnished within the period prescribed by the Board as to whether or not the accused as per Clause (a) accepts the accusation.
  - (c) If the Board is satisfied with the expression of disagreement of the accused in respect of the offense, the Board may amend, limit or cancel such accusation.
  - (d) If the accused accepts the offense or if he does not forward his response or if fails to furnish satisfactory response, the Board may impose the proposed punishment or fine.
- (2) The amount of fine obtained by the Board as per Clause (d) of Sub-Rule

(1) in cash shall be deposited in the fund of the Board.

(3) If it is found that the offense as per the Act has been effected by the director, officials, or employees of the any organization, the Board may impose the fine to concerned director, officials or employees.

**30. Suspension of the License:** (1) In the case of a condition to cancel the license of securities market or securities entrepreneur, the Board shall, prior to the suspension of the license, while specifying the reason and basis thereof, demand the clarification from securities market or entrepreneur by providing a time maximum of 15 days.

Provided, if the Board is satisfied in respect of the existence of the condition as mentioned hereunder, the Board may, instead of demanding the clarification, suspend the license for a maximum period of 6 months at a time:

- (a) If there is a possibility of false transaction, fraud against investors or serious adverse impact on capital market is possible if allowed to continue the work instead of canceling of the license with immediate effect.
- (b) If the possibility of loss or damage to the investors is observed if allowed to continue to work instead of cancellation of the permit with immediate effect.

(2) Upon the investigation on the received clarification as demanded as per Clause (1), if it is observed that the securities market or entrepreneur has committed or omitted the matter which is required to be omitted or committed respectively as per the Act or the Rules thereunder or Bye-Laws or any order or directives thereunder or the terms as specified by the Board, the Board shall suspend such securities market or entrepreneur for a maximum period of one year at a time.

(3) While suspending the license as per Sub-Rule (2) the terms matters to be accomplished within the period of suspension shall also be specified.

(4) Upon the suspension with the specification of terms or matters to be accomplished by the securities market or entrepreneur as per Sub-Rule (3), the Board may investigate thereon, if the securities market or entrepreneur informs the Board of accomplishment of the terms or works as specified by the Board.

(5) The Board may, upon investigation as per Sub-Rule (4), and finding that the necessary works and terms have been accomplished release the suspension at any time.

- (6) If the concerned securities market or entrepreneur requests for the time

extension due to the condition of its inability to accomplish the works or terms within the period of suspension as specified by the Board, and if such demand is deemed appropriate, the Board may extend the period of such suspension for a maximum period of three months.

(7) The information on the suspension or release of suspension as per these Rules shall immediately be provided to the securities market or entrepreneur and publish the notice thereof in any one newspaper of national level.

**31. Cancellation of the License:** (1) In the case of requirement of cancellation of the license due to the condition as specified in Section 89 (1) of the Act, the Board shall demand the clarification specifying the period, maximum of 15 days along with the reason or basis for the cancellation of the license of the securities market or entrepreneur.

(2) The license shall not be cancelled if the clarification submitted as per the demand in accordance with Sub-Rule (1) within the stipulated period is found to be satisfactory.

(3) Notwithstanding anything specified in Sub-Rule (2) if the securities market or entrepreneur requests for the time period in order to correct the matter on which the license is being cancelled and if the Board deems it appropriate, it may grant the time for such correction by specifying the period thereon.

(4) In the case of non-accomplishment of the improvements as specified by the Board in accordance with Sub-Rule (3) or failure to accomplish the same or non- furnishing of the clarification within period as mentioned in Sub-Rule (1) or the submitted clarification is found to be unsatisfactory, the license may be cancelled by the Board.

(5) The Board shall publish the notice on the cancellation of the license as per Sub- Rule (4) for the purpose of information to public and such notice shall be published in the newspaper of national level.

(6) Notwithstanding anything specified in these Rules, upon non-fulfillment of the works or terms within the period as prescribed by the Board in the case of suspension under Rule 30 specifying the works and terms to be accomplished or fulfilled by the securities market or entrepreneur, the Board may cancel the license of such securities market or entrepreneur and while canceling the license in such manner, if is not necessary to fulfill the procedure as mentioned in these rules.

(7) The securities market or entrepreneur with cancelled license shall not

be entitled to operate securities market or business after the liabilities created out of the securities transaction shall be cleared within one month from the date of cancellation of the license.

## **Chapter-6**

### **Miscellaneous**

**32. The particulars and documents may be inspected and copies may be obtained:**

If any document, date and particulars in the Board other than confidential ones are intended by the investors to observe or intended to obtain copies thereof, such may be observed or copies thereof may be obtained within the time specified by the Board, subject to the provision and policy on flow of information of the Board.

**33. Securities Entrepreneurs May be Classified:** The Board may classify the securities entrepreneurs and determine their level on the basis of the capital fund deployed for the securities business and the capital and infrastructure of concerned body corporate along with the function to be carried out by such organization, professional experience, academic qualification of the directors, chief executive and representatives and as to whether or not they have passed the trainings and examinations prescribed by the Board from time to time.

**34. Details of Satisfactory Compliance to be made Public:** The details of securities market, securities entrepreneurs and the body corporate with registered securities in respect of their compliance with the Act, these Rules, and other Rules, Bye-Laws, or directives and the orders and instructions issued by the Board from time to time and regulation, monitoring and inspection thereof, fine punishment other actions, shall be published by the Board from time to time thereof the publication of public notice or the publication of the Board.

**35. Alteration or Addition or deletion in the Schedule:** The Board may alter or effect addition or deletion in the schedules of these Rules as per the necessity.

**36. Repeal and Saving:** (1) Chapter 2 and Chapter 7 of Securities Transaction Rules, 2050 have been repealed.

(2) Anything done or action taken or proceedings under the repealed provisions pursuant to Sub-rule (1) shall be deemed to have been done or taken under corresponding provisions of these Regulations.

## **Schedule-1**

(Related to Rule 6)

### Format of oath of office of chairperson/member

I..... do hereby truly and faithfully take the oath of office in the name of the God that I shall as per securities laws perform the function entrusted on me in the capacity of Chairperson/Member of the Board by assuming it as my duty, religion and faith to the extent of my knowledge and wisdom being loyal to the Board and without fear, partiality or malicious intention and without greed and favoritism. I shall not effect any act that the detrimental to the Board and the development of capital market. I shall not directly or indirectly reveal or indicate the secret information known to me during the fulfillment of my official duty in any condition whether or not I assume the post of member or use such information per the private benefit.

#### Oath of Office Taken by

Name:

Signature:

Post:

Date:

#### Oath of Office Verified by

Name:

Signature

Post:

Date:

## **Schedule-2**

**(Related to Sub-Rule (1) of Rule 15)**

**Format of Complaint against Securities Offense**

Securities Board of Nepal,  
Kathmandu.

Date:

**Subject: Complaint on Securities Offense**

I do hereby file the complaint in accordance with Rule 15 of Securities Board of Nepal Rules, 2064-

- (1) Full name and address of the person to commit the securities offense.
- (2) The details of the company or body corporate, if such person to commit the offense is working.
- (3) Complete detail of the offense.
- (4) Date of commission of the offense.
- (5) Date of knowledge to the complainant.
- (6) The details of the evidence, if any, to substantiate the offense.
- (7) The detail of loss or damage to the complainant in any due to the offense.
- (8) The name of the office and details of the decision if the complaint has been filed in any other authority in respect of such offense.
- (9) The reason and details thereof, if the name of the complainant is requested to be made confidential.
- (10) The matter as to whether the complainant himself is aggrieved or such complaint has been filed on behalf of aggrieved person.
- (11) The reason thereof as to why the person aggrieved by the commission of the securities offense could not file the complaint.

The matters as mentioned hereinabove are true, I do hereby agree to be punished if found false.

Signature of the complainant: Full Name:

Address: Phone: Fax: Email:

If the complainant is working in any company or body corporate

Name of the office: Post:

Address of the Company:

**Note:**

1. The above mentioned format is of general nature. All the matters as mentioned hereinabove should clearly be mentioned as far as practicable.
2. The photocopy of the evidence possessed should also be enclosed and in the case of the evidences in the possession of some body also, the whereabouts of such evidence and the name of the person possessing such evidence should also be specified.

**Schedule-3**  
**(Related to Sub-Rule (3) of Rule 15)**  
**Complaint Registration Book**

S.No.	Name and Address of the Complainant	Name and Address of Offender	Registration Date	Type of Offense	Claim	Remarks

## **Schedule-4**

(Related to Sub-Rule (2) of Rule 19)

### **Format of Date Slip**

Issued by Securities Board of Nepal in the name of .....

Resident of .....

### **Date Slip**

Case:

Please be present at the Board on the date and time as mentioned hereunder.

Date \_\_\_\_\_ Time \_\_\_\_\_ Signature of the person to issue the date and the time thereof

## **Schedule-5**

(Related to Sub-Rule (2) of Rule 22)

### **Recovery Slip**

While conducting the search with due process of law at the residence of ..... grandson/granddaughter of..... Son/daughter of ..... Residence of ..... District ..... VDC/Municipality (name of the company and address, if it is an office) by us whose names are mentioned herein below, the following information and date in cash/goods/documents/evidence/equipment were recovered to be taken to the Board in the course of the investigation, upon request for the issuance of search and recovery slip by the employee deployed from the Board, we are satisfied thereon and accordingly this is submitted to the Board through the deputed employee specifying that the matters specified herein are true.

(1) The details of cash/kind/documents/equipment/information and date found at the time of the search.

- (1)
- (2)
- (3)

(2) Cash/kind/document/equipment etc. recovered and taken. (1)

- (1)
- (2)
- (3)

(3) The person to assist in search and seizure.

(4) Presence

- (a) Name and Post of the person to take the custody of the cash/kind/document/ evidence and equipment other than those seized.
- (b) Name address and signature of the person to receive the seizure receipt.
- (c) Representative of local government (if possible).
- (d) Accused person (if possible) Employee to accomplish the work: .
  - 1.
  - 2.
  - 3.

On this..... the day of 200

## **Stock Exchange Operation Regulations, 2008 (2064)**

In exercise of the power conferred by Section 116 of Securities Related Act, 2063 (2006), Securities Board of Nepal has, upon the approval of the Government of Nepal, made the regulations as follows:

### **Chapter-1**

#### **Preliminary**

- 1. Short Title and Commencement:** (1) These Regulations may be called "Stock Exchange Operation Regulations, 2008".  
(2) These Regulations shall be deemed to have been commenced from the date as prescribed by the Securities Board of Nepal.
- 2. Definitions :** Unless the subject or the context otherwise requires, in these Regulations,
  - (a) "Act" means Securities Related Act, 2063 (2006).
  - (b) "Board" means the Securities Board of Nepal established pursuant to Section 3 of the Act.
  - (c) "Stock Exchange" means a market, place or facility for carrying out the purchase, sale or exchange of securities on orderly basis by bringing together the purchasers and sellers of securities.
  - (d) "License" means the license issued by the Board pursuant to the Act for the operation of the stock exchange.
  - (e) "Director" means the Member of the Board of Directors of the Stock Exchange and this term also includes the chairperson.
  - (f) "Chairperson" means the Chairperson of the Board of Directors of Stock Exchange.
  - (g) "Member" means the Stock Broker or Securities Dealer having obtained membership of Stock Exchange.

### **Chapter-2**

#### **Provisions regarding Recommendation and License**

- 3. Recommendation from the Board to be received:** (1) Any person willing to establish a corporate body having limited liability pursuant to the prevailing

laws, with an objective of operating a Stock Exchange shall be required to obtain recommendation from the Board before establishing such corporate body.

(2) For obtaining the recommendation pursuant to sub-regulation (1) from the Board, the applicant should submit an application in the format as prescribed in schedule -1 along with the application fees as prescribed in schedule – 2 and the documents and information as follows:-

- (a) Proposed Memorandum and Articles of Association,
- (b) Feasibility Study Report,
- (c) Three years business plan including projected financial statement for upcoming three years,
- (d) Copy of Shareholder's Agreement regarding establishment of stock Exchange, if any,
- (e) Information regarding the share ownership of the promoters,
- (f) Information and documents regarding the promoter company or the body corporate willing to establish the Stock Exchange as prescribed in the schedule – 3
- (g) Information of the first Directors of the Stock Exchange as prescribed in the schedule – 4,
- (h) Brief description regarding the provisions to be followed with regard to the listing of securities, providing membership and operation of trading and settlement and clearing of the traded securities,
- (i) Details as follows regarding the infrastructure arrangement for the operation of the Stock Exchange:
  - (1) Details on the location for the office and the area that will be occupied by the office,
  - (2) Provisions regarding organization structure and job responsibility,
  - (3) Description regarding the place arranged for the operation of the stock trading, automation of trading and clearing system, office equipment and technology,
  - (4) Description regarding the measures to be adopted for ensuring the safety of traded securities.
  - (5) Description regarding the information system to be established for the Stock Exchange and trading and means of communication.

- (6) Provisions to be made for recording the stock transaction and for ensuring security of the documents.
- (j) Maximum number of the stock broker and Securities Dealer that may be licensed by the Stock Exchange within the available infrastructure to be developed for the operation of the stock exchange.
- (3) While conducting examination on the application and information attached thereto received pursuant to Sub-regulation (2), if it deems necessary, the Board may require additional information or documents or may ask to clarify on any subject or may even take an interview as per the requirement.
- (4) In case of any change in the information supplied pursuant to Sub-regulation (2) or (3) before receiving the approval from the Board, the applicant shall be required to inform such changes immediately to the Board.
- (5) While making inquiry on the application received pursuant Sub-regulation (2), if it is found reasonable to issue recommendation based on the provisions of the Act, the Board may provide recommendation for the registration.

**4. Application to be submitted for Obtaining License:** (1) Any corporate body established under the prevailing laws with an objective to operate the Stock Exchange may submit an application in the format as prescribed in the schedule – 5 to the Board within six months of its establishment.

- (2) The application to be submitted pursuant to Sub-regulation (1) shall require to be accompanied by an evidence of submission of license fee pursuant to schedule – 2 and documents as follows:-
- (a) a copy of registration Certificate,
  - (b) a copy of resolution of the Board of Directors regarding obtaining the license,
  - (c) a document certifying the paid-up capital,
  - (d) an updated bank statement from the date of establishment of the body corporate,
  - (e) a copy of tax registration certificate,
  - (f) if the financial year has been complete, an audited financial reports prepared in the format and standards as prescribed under the prevailing laws,
  - (g) draft of bye-laws regarding securities listing, membership of the Stock Exchange and operation and clearing and settlement of Traded Securities,

- (h) draft code of conduct applicable to the Directors and employees,
- (i) information on the infrastructure developed for the operation of stock exchange, if any,
- (j) information on share ownership of the promoters and the paid-up value of shares,
- (k) information regarding the Executive Chief as prescribed in Schedule – 4,
- (l) changes in the status of documents and information as provided for the recommendation pursuant to Regulation -3, if any,
- (m) any other details and information as prescribed by the Board from time to time.

**5. License to be issued:** ( 1 ) While conducting examination on the application and information attached thereto received pursuant to Sub-regulation (4), if it deems necessary, the Board may require for the additional information or documents or may require clarification on any subject or may require making amendment.

(2) In case of any change in the information supplied pursuant to Regulation 3 or 4 before receiving license from the Board, the applicant shall be required to inform of such changes immediately to the Board.

(3) If the information and documents submitted along with the application are found to have fulfilled the provisions pursuant to Section 38 of the Act and the provisions of these Regulations ensuring consistency with the requirement to operate the Stock Exchange, the Board may issue the license certificate as prescribed in the Schedule -6.

**6. Infrastructure to be arranged:** (1) The Stock Exchange licensed pursuant to these Regulations shall require readying the necessary infrastructure within six months of obtaining the license.

(2) If the Stock Exchange can not prepare the required infrastructure within the time frame pursuant to Sub-regulation (1) and requests for additional time, the Board may provide additional time of maximum of six months.

(3) The Stock Exchange shall, within the time duration pursuant to Sub-regulation (1) or within the additional time pursuant to Sub-regulation (2), shall provide information to the Board on the following matters:-

- (a) details regarding the provisions made by the Stock Exchange with regards to the infrastructure pursuant to part (i) of Sub-regulation (2) of Regulation 3,
- (b) details regarding manpower arrangement as prescribed in

Schedule – 7.

(4) Within 30 days of receiving the information pursuant to Sub-regulation (3), the Board shall make on-site inspection and inquiry regarding the infrastructure as prepared by the Stock Exchange.

(5) While making inspection and inquiry, if the infrastructure prepared by the Stock Exchange is deemed insufficient for the operation of Stock Exchange, the Board may ask for making the additional arrangement within a specified time.

(6) Only after the Board completes the inspection and inquiry and provides the approval on the infrastructure arranged by the Stock Exchange, the Stock Exchange may conduct trading.

(7) The Stock Exchange shall require to appoint one compliance officer within six months of receiving the license pursuant to these Regulations and provide such information to the Board.

**7. License to be Obtained by the existing Stock Exchange:** (1) The Nepal Stock Exchange Ltd. which had been in operation at the time of commencement of the Act shall require to submit an application to the Board as prescribed in Schedule – 5 for obtaining the license.

(2) The Stock Exchange applying pursuant to Sub-regulation (1) shall, within six months of the commencement of these Regulations, submit the evidence of submitting the license fee as prescribed under the Schedule – 2 along with the information and documents as follows:-

- (a) a copy of the resolution adopted by the Board of Directors regarding obtaining the license,
- (b) a copy of Memorandum and Articles of Association,
- (c) Proposed Bye-laws regarding Members of the Stock Exchange,
- (d) Proposed Bye-laws regarding Securities Listing,
- (e) Proposed Bye-laws regarding operation of Securities trading and clearing and settlement of the transaction,
- (f) updated information regarding organizational structure and job responsibility,
- (g) maximum number of the stock broker and securities dealer that may be issued membership by the Stock Exchange on the basis of available infrastructure arranged for the operation of the stock exchange.

- (h) updated information regarding manpower of the Nepal Stock Exchange Ltd. in the format as prescribed in Schedule –7,
  - (i) Code of Conduct for Directors and employees.
- (3) Notwithstanding anything contained in Sub-regulation (2), the Nepal Stock Exchange Ltd., which was in operation at the time of commencement of the Act, may deduct the license fee that has been submitted previously for obtaining the license for the operation of the Stock Exchange and submit the remaining amount only to the Board.
- (4) The Nepal Stock Exchange Ltd., which was in operation at the time of commencement of the Act, shall appoint one compliance officer within six months of obtaining the license and provide such information to the Board.

**8. Renewal of License:** The Stock Exchange shall, within three months of completion of each fiscal year, submit an application as prescribed in Schedule - 8 along with the renewal fee as prescribed in Schedule – 2 and renew the license.

**9. Suspension or Cancellation of the License:** (1) The provisions regarding suspension, cancellation or other proceedings regarding license of Stock Exchange shall be according to the provisions of the Securities Board of Nepal Regulations.

(2) The Board may prescribe for the necessary provisions regarding the settlement and clearing of the unsettled transactions including the responsibilities thereof while suspending or cancelling the license of the Stock Exchange.

### **Chapter-3** **Provisions regarding Bye-laws of Stock Exchange**

**10. Provisions to be included in the Bye-laws:** (1) The Stock Exchange, in its Bye-laws, shall require to have included at least the following provisions:

- (a) Bye-laws related to Securities Listing:-
  - (1) Provisions regarding listing standards as per the type of the securities, listing procedure, listing suspension, de-listing and re-listing of securities.
  - (2) Provisions regarding the terms to be followed by the listed corporate bodies.
  - (3) Provisions regarding obtaining the updated periodical financial statements and other information from the listed corporate bodies and the mode of dissemination of such information to the investors.

- (4) If the listed corporate bodies are to be classified into categories, the basis of such categorization.
  - (5) Provisions regarding listing fees.
  - (6) Provisions regarding good corporate governance of the listed companies.
  - (7) Provisions regarding maintaining records of the listed corporate bodies and listed securities.
- (b) Bye-laws related to Membership of Stock Exchange:-
- (1) Provisions regarding providing membership and renewal.
  - (2) Provisions regarding membership fee, membership renewal fees and other fees to be collected from the Members.
  - (3) Provisions regarding surveillance and monitoring of the Members.
  - (4) Provisions regarding the procedures with regard to disciplinary and other actions against the members in the case of violation of the provisions of Act and Regulations and Bye-laws framed under the Act.
  - (5) Provisions regarding maintaining the profile of the clients by the Members.
- (c) Bye-laws related to the operation of Securities trading and clearing and settlement-
- (1) Provisions regarding procedure for the operation of securities trading and the place for trading.
  - (2) Provisions regarding clearing and settlement of traded securities and transfer of securities.
  - (3) Provisions regarding management and safekeeping of the records and documents related to the investors and securities transactions.
  - (4) Provisions regarding client order and issuance of contract note to the parties of transaction.
  - (5) Provisions regarding monitoring of securities trading.
  - (6) Provisions regarding trading suspension in the case of unreasonable fluctuation in the price of securities in the market.
  - (7) Provisions regarding resolution of disputes arising between the

members with regard to the securities trading and the management of investor's grievances.

- (8) Provisions regarding the dissemination of information related to the securities transaction and other market information for the investors.
  - (9) Provisions regarding the procedure to be followed against the member in the case of default in settlement and clearing of traded securities or bad delivery of securities.
  - (10) Provisions for separate trading arrangements according to the types of securities, if any
  - (11) Provisions regarding the issuance of receipt, notice and information that the Member is required to provide to the clients with regard to the payment of cash and handing over of the certificate and trading.
  - (12) Provisions regarding the submission of the deposit by the Members before commencing the securities business.
- (2) The Stock Exchange shall enforce the Bye-laws framed pursuant to Sub-regulation (1) only after obtaining approval from the Board.
- (3) If the Board requires amending the Bye-laws or making new Bye-laws by providing the specific time and reason for amendment in bye-laws, the Stock Exchange shall require making amendment or make new draft of Bye-laws and submit to the Board for approval.

#### **Chapter-4** **Provisions regarding Capital and Share Ownership**

- 11. Capital of Stock Exchange:** (1) The paid-up capital of the Stock Exchange shall be at least fifty million rupees.
- (2) The Board may, considering the condition of stock trading and the necessity of financial requirements of the stock exchange, may direct to raise the paid-up capital stipulated pursuant to Sub-regulation (1).
- 12 . Ownership of the Stock Exchange:** (1) Only banks, financial institutions, securities business person and listed corporate body shall be eligible for the share ownership of the Stock Exchange.
- (2) No single company or a corporate body shall be entitled to hold more than 10 percent ownership of the total share capital of the Stock Exchange.

(3) Notwithstanding anything contained in the Sub-regulation (1) and (2), there shall be no objection to continue the current ownership with respect to the Nepal Stock Exchange Ltd, that was in operation at the time of commencement of the Act, unless the Government of Nepal, Nepal Rastra Bank and Nepal Industrial Development Corporation provides else wise.

(4) The Board may, as per the requirement, amend the maximum limit of ownership pursuant to Sub-regulation (2).

(5) Notwithstanding anything contained in these Regulations, the Board, after obtaining approval from the Government of Nepal, may specify the necessary terms and procedures and make arrangement for allowing others besides the companies and corporate bodies pursuant to Sub-regulation (1) as well to have ownership of the Stock Exchange.

(6) If any foreign company or corporate body is willing to take ownership of the Stock Exchange, it is required to obtain an approval for making investment or doing business in Nepal pursuant to prevailing laws or shall require receiving an approval from the Government of Nepal.

**13. Disqualification for holding the Ownership:** The Company or Corporate body having the following state shall not be eligible to own the shares of Stock Exchange:

- (a) If declared insolvent for loan default
- (b) If the income statement is not submitted for the tax purpose pursuant to the prevailing laws.
- (c) If the corporate body having responsibility to make its financial statements public has failed to make the audited financial statements public continuously for three years.
- (d) If share ownership of any other Stock Exchange is held.

**14. Provisions regarding Transfer of Ownership:** (1) It shall not be allowed to sell the shares owned by the shareholder of the Stock Exchange until a three years period from the date of obtaining the license is complete.

(2) If any share of Stock Exchange is sold after completion of the period pursuant to Sub-regulation (1), such share may not be re-sold until the expiry of one year of the date of such share transfer.

(3) The shareholder of the Stock Exchange, who is willing to sell the shares owned , shall be required to submit application to the Board through the concerned

Stock Exchange.

(4) The application pursuant to Sub-regulation (3) shall be accompanied with the information and documents of the Company or the corporate body willing to purchase the shares as specified in Schedule – 3.

(5) While examining the application and the attached information and documents pursuant to Sub-regulation (3), if the Board deems necessary, may require additional details or documents or may seek clarification.

(6) After making examination on the application and the attached information and documents pursuant to Sub-regulation (3), the Board, under the provisions of the Act and these Regulations, shall grant approval for the sale of the shares.

(7) Notwithstanding anything contained elsewhere in these Regulations, this regulation shall not restrict Government of Nepal, Nepal Rastra Bank and Nepal Industrial Development Corporation who were shareholders of Nepal Stock Exchange Ltd. at the time of commencement of these Regulations from selling their shares .

**15. Shares to be Sold:** (1) Not with standing anything contained elsewhere in these Regulations, if the Board cancels the license of Securities Business person or the securities of corporate body get de-listed, the concerned Company or the Corporate Body shall require to sell shares owned by it within three months of cancellation of the license or of getting de-listed.

(2) The Company or Corporate Body whose license as Securities Business person has been cancelled at the time of commencement of these Regulations shall complete selling the share owned by it within six months from the commencement of these Regulations.

(3) If the shares could not be sold pursuant to Sub-regulation (1) or (2), the Stock Exchange shall execute the sale of share owned by the concerned company or body corporate and shall make the sale within three months through auction to the company or body corporate that are qualified under these Regulations.

(4) If shares could not be sold pursuant to Sub-regulation (3), the Stock Exchange having informed the Board may follow alternative method.

(5) While making sale of the shares of Stock Exchange pursuant to this Regulation, it shall be required to sell only to the companies or corporate bodies who are qualified pursuant to these Regulations and the information and documents regarding the company or corporate body purchasing the shares according to

Schedule – 3 and if the sale is made through auction, details regarding same shall be submitted to the Board within one months of such actions.

## Chapter-5

### **Provisions regarding to the Director and the Chief Executive**

**16. Qualification of the Directors and the Chief Executive:** The qualification of the directors and the chief executive of the Stock Exchange shall be as follows:-

- (a) A two-third of the directors and chief executive of the Stock Exchange shall be required to have minimum bachelor degree in economics or commerce or finance or accounts or management or commercial law from a recognized educational institution or be a certified chartered accountant and having a minimum of five years experience in one or more than one field of capital market or industry or commerce or finance or accounts or commercial law or management.
- (b) Shall require to be a Nepali citizen, except the Government of Nepal otherwise approves.

**17. Disqualification of the Directors and the Chief Executive:** The Director or the Chief Executive of the Stock Exchange shall not be having the disqualifications as follows:-

- (a) Insane or of unsound mind
- (b) If convicted and sentenced for imprisonment against criminal offence of moral turpitude and not completed five years of completion of the term of such punishment,
- (c) If convicted and sentenced by the court for corruption or fraud and not completed five years of completion of the term of the punishment,
- (d) If the person or the Company where s/he had acted as Director or Chief Executive is declared insolvent and has not completed five years of insolvency.
- (e) If the company have failed to submit the income statement for the purpose of tax or has remained the Director or Chief Executive of the Company that has not submitted the income statement for the purpose of tax clearance pursuant to the prevailing laws.
- (f) If the person or the Company where s/he had acted as Director or the Chief Executive has remained in the black list of the Credit Information Bureau.
- (g) Has remained as the Director or the Chief Executive of the Corporate

Body who have failed to disclose its audited financial statement publically for three consecutive years.

- (h) Has remained substantial shareholder of any other Stock Exchange or has held any position of interest thereon.

**18. Continuation of provisions related to Qualification:** (1) The Stock Exchange shall require to maintain the qualification stipulated for the directors and chief executive throughout the period of validity of its license.

(2) The director or chief executive shall be considered to be automatically terminated from date of failing to meet the qualification pursuant to Sub-regulation (1).

(3) If the situation pursuant to Sub-regulation (2) is raised, the Stock Exchange shall require informing the Board immediately and appointing the Director or Chief executive having the stipulated qualification and not having any disqualification pursuant to the Act and these Regulations within three months and shall require informing the Board.

**19. Appointment of the Director and the Chief Executive:** (1) The Directors shall elect the Chairperson of the Stock Exchange from among the Directors.

(2) The Board of the Directors shall appoint the Chief Executive of the Stock Exchange.

(3) Not more than one person from a single Company or Corporate Body shall be eligible to be the Director of the Stock Exchange.

(4) The Stock Exchange shall appoint at least two independent Directors having the following qualifications in the Board of Directors within three months of obtaining the license pursuant to these Regulations:-

- (a) Having the qualifications to be the Director pursuant to Regulation 16 and not having the disqualification pursuant to Regulation 17,
- (b) Not having ownership or not holding any position of interest in the Stock Exchange or Securities Businessperson or in the company or body corporate holding ownership in those institutions.
- (c) Has not remained substantial shareholder of any listed Corporate Body.

(5) Before appointing the independent Director pursuant to Sub-regulation (4), the Stock Exchange shall require to report the Board regarding the fulfillment of qualification of such Director.

(6) In case of new appointment of Director or Chief Executive at the Stock Exchange, the Board shall require to be reported within seven days of such appointment.

(7) While reporting the Board pursuant to Sub-regulation (5) or (6), it shall also be required to submit the information of the Director or the Chief Executive in the format as prescribed in Schedule – 4.

(8) The Nepal Stock Exchange Ltd., that was in operation at the time of commencement of the Act shall require appointing independent Directors having qualification pursuant to Sub-regulation (4) within one year of the commencement of these Regulations and shall require reporting to the Board accordingly.

**20. Meeting of the Board of Directors:** (1) The meeting of Board of Directors of Stock Exchange shall be required to be held at least twelve times a year.

(2) However, the gap between any two consecutive meetings shall not be more than two months.

(3) Upon receiving the written request from at least one third of the Directors, the Chairman shall require to call for the meeting of Board of Directors on anytime.

(4) If any agenda to be discussed on the meeting of Board of Directors is of personal interest of any Director, such Director shall not be eligible to attend the meeting.

**21. Not to be applicable to the Stock Exchange already in Operation:**

Notwithstanding anything contained in these Regulations, until the Government of Nepal, Nepal Rastra Bank and Nepal Industrial Development Corporation sell their shares in Nepal Stock Exchange Ltd., the provisions of these Regulations regarding appointment of the Directors and Executive Chief shall not be applicable.

## **Chapter-6** **Provisions regarding Securities Trading**

**22. Trading to be conducted for Registered Securities only:** (1) The Stock Exchange shall require facilitating trading only for those securities issued pursuant to the Act.

(2) Notwithstanding anything contained in the Sub-regulation (1), there will be no objection in facilitating the trading of the securities issued by the Government of Nepal and the other securities as specified by the Board.

**23. Trading of the Un-listed Securities:** (1) The Stock Exchange may operate an over-

the-counter market for facilitating the purchase, sale or exchange of unlisted or de-listed securities.

(2) Where in case of making the provisions pursuant to Sub-regulation (1), the Stock Exchange is required to enclose the information regarding the trading procedures and provisions and submit an application to the Board for obtaining the approval.

(3) While making examination on the application received pursuant to Sub-regulation (2), if it is considered reasonable the Board may grant its approval.

(4) While providing approval pursuant to Sub-regulation (3), the Board may prescribe the necessary terms and conditions.

**23a.** <sup>1</sup> **May Purchase Directly:** (1) Notwithstanding anything mentioned in this Regulations, with regard to the securities to be purchased by the Government of Nepal pursuant to the Agreement concluded in between Government of Nepal and International or multinational Organization, the securities may be purchased outside the Stock Exchange directly.

(2) The transaction pursuant to sub-regulation (1) as conducted by the Government of Nepal shall be recorded in the Stock Market and then after the clearing and settlement is carried out.

**24. Stock Exchange to collect the Transaction fees:** (1) With regard to the provision of depositing the transaction fees pursuant to Section 50 of the Act, the Stock Exchange shall require to deposit the amount against the transaction fees collected from the Stock Broker, Securities Dealer and Market Maker within the end of every month for the amount received from the previous month's transactions.

(2) The Stock Exchange failing to submit the amount within the time pursuant to Sub-regulation (1) shall submit the amount along with the interest amount pursuant to Sub-section (3) of Section 50 of the Act within 3 months of completion of the stipulated time.

## **Chapter-7** **Provisions related to Record, Information and Disclosures**

**25. Maintaining Records and Documents:** (1) The Stock Exchange shall be required to keep its books of accounts and prepare financial reports including profit and loss accounts, balance sheet and cash flow statements in the format and standards as prescribed under the prevailing laws.

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<sup>1</sup> As added by the Stock Exchange Operation (First Amendment) Regulations, 2067(2010)

(2) Along with the records and documents to be maintained pursuant to the prevailing laws, the Stock Exchange, in addition, shall keep fair and accurate records of the followings:-

- (a) Minute books of General Assembly, Board of Directors and different permanent committees.
- (b) Details regarding Members and representatives of the Stock Exchange,
- (c) Details regarding listed Corporate Bodies and listed Securities,
- (d) Financial details and reports received from the listed companies regarding price sensitive information, notices and statements,
- (e) Records including the name of the body corporate that had got its securities traded in the Stock Exchange, price and quantity of each Security, Businessperson involved in the trading and serial number of the transaction.
- (f) Other details as specified by the Board from time to time.

(3) The format for the records to be maintained pursuant to Sub-regulation (2) may be prescribed by the Board.

**26. Details and Reports to be submitted:** (1) The Stock Exchange shall submit the following information, details and reports within the stipulated period to the Board:-

- (a) The audited financial reports and the annual report highlighting the performance for the fiscal year within three months of completion of each fiscal year.
- (b) Quarterly report within thirty days of completion of the quarterly period.
- (c) Details of the daily transactions on same day or on the following day before the start of the trading session,
- (d) Agenda and minutes of the General Assembly within 30 days of completion of the General Assembly,
- (e) If the Stock Exchange suspends the membership, withdraws suspension or cancels the membership, the details including the name of concerned securities businessperson, details of the action and the reason thereof within seven days of such suspension, withdrawal of suspension or cancellation of membership,
- (f) Resolutions of the Board of Directors and the different committees

established by the Stock Exchange regarding securities listing, membership of the Stock Exchange, market operation and clearing and settlement of Securities inspection and disciplinary related matters as demanded by the Board within the time as specified by the Board,

- (g) In case of the Stock Exchange making inspection of the Stock Broker and Securities Dealer, report regarding same within thirty days of completion of such inspection,
- (h) Other notifications, information and details as prescribed by the Board from time to time.

(2) Notwithstanding anything contained in the part (a) of Sub-regulation (1), if it is unable to submit the audited financial report, the Stock Exchange, under condition to submit the audited report later, may submit the financial report certified by the Management to the Board.

(3) In the case of submission of the financial report certified by the Management pursuant to Sub-regulation (2), the details of deviation in the report certified by the Management from the audited report, if any, shall also be mentioned while submitting the audit report.

(4) The format of the details and the reports to be submitted to the Board by the Stock Exchange pursuant to part (a), (b) and (c) of Sub-regulation(1) and the contents of such report may be prescribed by the Board.

(5) Besides the information as prescribed under Section 46 of the Act, the Stock Exchange shall immediately provide the Board with information on the matters as follows:-

- (a) If it is known that any Member of the Stock Exchange has violated the provisions of the Act and Regulations , Byelaws and Directives framed under the Act,
- (b) If trading of the listed securities is suspended or suspension is withdrawn or gets de-listed,
- (c) If any proceeding pursuant to the prevailing laws has been initiated against the Promoter, Director or the Chief Executive,
- (d) If the Promoter, Director or the Chief Executive is placed in the black list of Credit Information Bureau,
- (e) If the Stock Exchange establishes any committee regarding securities listing, membership of Stock Exchange and securities trading,

information regarding structure, functions, duties and powers of such committees,

- (f) If there is any change in the structure, functions, duties and power of the committee established pursuant to part (e) or if it is dissolved.
- (g) If there is any change in the management or organization structure of the Stock Exchange.

**27. Information to be provided to the Investors:** (1) The Stock Exchange shall require disclosing publicly the information regarding suspension of trading or withdrawal of suspension of any listed securities on the same day of the trading session or on the next day before the commencement of the trading session.

(2) The Stock Exchange shall notify the information of listing or de- listing of the securities on the same day or on next day before start of the trading session and shall publish the information in a national daily within seven days of such action.

(3) The Stock Exchange shall publish the information regarding granting of membership or suspending membership or withdrawing suspension or cancelling membership on the same day or on the next day before the start of the trading session and shall publish the information in case of granting or cancelling membership in a national daily within seven days of suchaction.

(4) The Stock Exchange shall publish the information including the name of the corporate body that had its security traded in Stock Exchange in that particular day, price and quantity of each securities, Securities Businessperson involved in the transaction and transaction serial number on the same day or on the next trading day before the start of the trading.

(5) The Stock Exchange shall immediately make public the notification regarding financial details received from the listed company and any price sensitive notices, information and details.

(6) The Board may, from time to time, may prescribe other news, information and details to be made public by the Stock Exchange.

(7) The Stock Exchange shall require maintaining the record mentioning the time of receiving and making public the news, information and details pursuant to Sub-regulation (5) and such record shall be required to be updated.

## **Chapter-8** **Miscellaneous**

- 28. Stock Exchange may open Branch:** With the prior approval of the Board the Stock Exchange may open branches within the territory of Nepal.
- 29. Stock Exchange required to issue Membership:** If any company or corporate body holding license to work as the Stock Broker or Securities Dealer submitted application for the membership of the Stock Exchange along with the license obtained from the Board, the Stock Exchange shall require to provide the Membership within one months of receiving such application.
- 30. Amendment in the provisions of Memorandum and Articles of Association:**
- (1) If the Stock Exchange is to make amendment in any provisions of its Memorandum and Articles of Association, it is required to get prior approval from the Board.
- (2) In order to obtain the approval pursuant to Sub-regulation (1), it is required to submit application to the Board mentioning the details of required amendment in Memorandum and Articles of Association.
- (3) On receiving the application pursuant to Sub-regulation (1), the Board, considering the necessity and the rationale, may provide approval.
- 31. Records of the action taken against the Stock Exchange and the Concerned Person to be maintained:** (1) The Board shall maintain the records of the Stock Exchange and the concerned Chief Executive or Directors, who have been taken actions pursuant to the provisions of Act for non-compliance to the laws regarding Securities and the directives or orders issued by the Board.
- (2) The Board may prevent the corporate body and the person or any company or the corporate body involving such person that are included in the record pursuant to Sub-regulation (1) from obtaining the services available pursuant to the Securities laws.
- 32. To be as per this Regulation:** These regulations shall be applicable in the matters specified under it and the rest shall be according to other regulations issued under the Act.
- 33. Amendment in Schedule:** Board as per the necessity, can amend the schedule of regulation.
- 34. Repeal and Saving:** (1) The provisions of the Securities Trading Regulations, 1993 relating to Stock Exchange have, hereby, been repealed.
- (2) Anything done or action taken or proceedings under the repealed provisions pursuant to Sub-regulation (1) shall be deemed to have been done or taken under corresponding provisions of these Regulations.

## **Schedule-1**

(Related to Sub-regulation (2) of Regulation 3)

### **Format of Application to be submitted by the corporate body operating the Stock Exchange for obtaining the recommendation from the Board**

Date:-

M/s Securities Board of Nepal

.....  
Subject: Request for obtaining recommendation for being registered as the corporate body operating the Stock Exchange.

As we are desirous to register a corporate body operating the Stock Exchange subject to the Securities Act, 2063 (2007) and the Regulations framed under that Act and other prevailing laws, this application, along with the fees, information and documents as prescribed, is hereby submitted to you for providing recommendation to the concerned office.

We are qualified and have fulfilled the required provisions for carrying out the operation of the Stock Exchange. The attached documents and information is true and factual, none of the details have been hidden or are expressed in exaggeration. If convicted to have concealed relevant fact or to have presented wrong document or information, we hereby submit to bear with consequences according to the terms of the law.

### **Promoters of proposed Stock Exchange**

Name

Signature

- 1.
- 2.
- 3.
- 4.

## **Schedule-2**

(Related to Sub-regulation (2) of Regulation 3, Sub-regulation (2) of Regulation 4 and  
Sub-regulation (2) of Regulation 7 and Regulation 8)

### **Application fee, license fee and annual fee**

1.	Application fee for recommendation	Rs. 25,000/-
2.	License fee	Rs. 5,00,000/-
3.	Annual fee	Rs. 3,00,000/-

## Schedule - 3

(Related to part (f) of Sub-regulation (2) of Regulation 3, Sub-regulation (4) of Regulation 14 and Sub-regulation (5) of Regulation 15)

### **Details related to the body corporate willing to establish or own the share of Stock Exchange**

1. Copy of registered certificate
2. Copy of Memorandum and Articles of Association
3. If the body corporate is established under the special Act, copy of related Act and subsidiary regulations and bye-laws
4. Copy of resolution of the Board of Directors regarding having ownership of the Stock Exchange.
5. Audited financial statement of last three years of accounts maintained in the prescribed format pursuant to prevailing laws and accounting standard and yearly report including activities of each year, (On behalf of a company or a body corporate not completing 3 years of its establishment, financial statement and report of the available year may be furnished.)
6. Name, full address, contact telephone and share ownership of the owners with holding ownership of five percent or more of the paid up capital,
7. Declaration that the company or the body corporate is not in the black list of the Credit Information Bureau
8. Details regarding any action taken or action pending under the securities related laws or any other prevailing laws against the company or the body corporate or the Director or Chief Executive of the company or the body corporate with which s/he is affiliated, if any,
9. Tax registration certificate,
10. Details regarding the ownership in other companies or body corporate, if any,
11. Declaration of not having disqualification for holding the ownership of Stock Exchange pursuant to Regulation 13,
12. Details and documents relating to the Director and Chief Executive as follows:-
  - (a) Full Name and Address
  - (b) Ownership or any kind of involvement in any other companies or body corporate, if any.

## Schedule-4

(Related to part (g) of Sub-regulation (2) of Regulation 3, part (k) of Sub-regulation (2) of Regulation 4 and Sub-regulation (8) of Regulation 19)

### **Profile of the director/ chief executive**

1. Name:
2. Permanent address: Zone.....District.....VDC/Municipality.....  
Tole (area): Ward No.....House/Block No.....Phone.....Fax.....Email.....
3. Present address: Zone...District...VDC/M unicipality .....  
Tole(area).....WardNo...House/BlockNo...PhoneNo...Fax...Email.....
4. Father's Name:
5. Grand father's Name:
6. Name of husband or wife:
7. Academic qualification:
8. Professional experience:
9. Training:
10. Details regarding having ownership or holding position of interest of any kind in other company or body corporate, if any,
11. Details regarding relationship with Directors or Chief Executive of other Stock Exchange, ifany,
12. Details regarding relationship with Directors, Chief Executive or Representatives of Stock Broker or Securities Dealers, if any,
13. Details regarding any action taken or action pending under the securities related laws or any other prevailing laws against self or the company or the body corporate or the Director or Chief Executive of the company or the body corporate with which s/he is affiliated, if any,
14. Declaration on having fulfilled qualification required for and not having disqualification as stipulated for the director or chief executive of the Stock Exchange.

Signature.....

### **Document to be attached:**

1. Evidence of Tax Clearance for up to last fiscal year.
2. Evidence of removal of name from black list of Credit Information Bauru, if black listed previously.
3. Copy of documents verifying qualification, experience and affiliation, if any , with other institutions.
4. Copy of citizenship certificate

## Schedule - 5

(Related to Sub-regulation (1) of Regulation 4 and Sub-regulation (1) of Regulation 7)

### **Format of Application for obtaining License**

Date:-.....

Ms Securities Board of Nepal

.....

Reference: **Request for license.**

Being desirous to operate the Stock Exchange subject to the Securities Related Act, 2063 and the Rules, Regulations framed under that Act and other prevailing laws, this application, along with the information and documents as prescribed, is submitted to you for obtaining the License.

The attached documents and information is true and factual, none of the details have been hidden or are expressed with exaggeration. If convicted to have concealed relevant fact or to have presented wrong document or information, we hereby submit to bear with consequences according to the terms of the law.

#### **Directors and the Chief Executive:**

Name: ..... Signature: .....

1.

2.

3.

4.

#### **Applicant body corporate:**

Name: .....

Address: ..... Zone ..... District .....

VDC/Municipality: ..... Locality (Tole) .....

Block No. ..... Tel No ..... Fax: .....

email.....

#### **Seal of body corporate:**

## **Schedule – 6**

(Related with Sub-regulation (3) of Regulation 5)

### **Securities Board of Nepal**

Kathmandu

#### **Stock Exchange Operation License**

This license is hereby issued to M/s....., having its head office at ....., to operate the Stock Exchange subject to the provisions of the Securities Related Act and Regulations, Bye-laws, arrangements made there under as well as other prevailing Laws.

This license, unless renewed, shall be valid up to .....

Authorized signature:

Name:

Designation:

Date:

## **Schedule - 7**

(Related to part (b) of Sub-regulation (3) of Regulation 6 and part (h) of Sub-regulation (2) of Regulation 7)

### **Details regarding human resources**

S.N.	Full Name	Address	Date of Appointment	Designation	Job responsibility	Academic qualification

**Schedule - 8**  
(Related to Regulation 8)

**Format of Application to be submitted for the Renewal of License**

Date:- .....

Ms Securities Board of Nepal

.....

**Reference: Request for renewal of license.**

As the license to operate the Stock Exchange subject to the Securities Act, 2063 (2007) provided by you is valid until ....., I hereby submit this application along with the license and the annual fee as prescribed for renewal of the same.

Authorized Signature:  
Name:  
Position:  
Seal of body corporate:

\*\*\*\*\*

Commencement Date: 2007/11/05  
Annex Amendment: 2015/07/21  
First Amendment: 2017/05/17  
Second Amendment: 2018/03/05

## **Securities Businessperson (Stock Broker, Securities Dealer and Market Maker) Regulations, 2008 (2064)**

In exercise of the power conferred by Section 116 of Securities Related Act, 2063 (2007), Securities Board of Nepal has, upon the approval of the Government of Nepal, made the regulations as follows.

### **Chapter-1**

#### **Preliminary**

**1. Short Title and Commencement:** (1) These Regulations may be called "Securities Businessperson (Stock Broker, Securities Dealer and Market Maker) Regulations, 2064 (2008)".

(2) These Regulations shall be deemed to have been commenced from the date as prescribed by the Securities Board of Nepal.

**2. Definitions:** Unless the subject or the context otherwise requires, in these Regulations,-

- (a) "Act" means Securities Related Act, 2063 (2006).
- (b) "Board" means the Securities Board of Nepal established pursuant to Section-3 of Securities Related Act, 2063 (2006).
- (c) "Director" means the Member of the Board of Directors of the Stock Broker or Securities Dealer or Market Maker and this term also includes the chairperson.
- (d) "License" means the license issued by the Board pursuant to the Regulation 4 for the operation of securities business.
- (e) "Stock Broker" means a corporate body or a company licensed as Stock Broker from the Board for carrying out the functions pursuant to Sub-regulation (1) of Regulation 27.
- (f) "Market Maker" means a corporate body licensed as Market Maker from the Board pursuant to Sub-regulation (3) of Regulation 27.
- (g) "Securities Dealer" means a corporate body licensed as the Securities Dealer and the Market Maker from the Board for carrying out the functions pursuant to Sub-regulation (3) of Regulation 27.

- (h) "Authorized Representative" means a person appointed by the Stock Broker, the Securities Dealer and the Market Maker and registered with the Board pursuant to Regulation 21 in order to solicit contact and enter into agreement with the clients. However, this term shall not include the person who represents the trading floor and performs the trading on behalf of the Stock Broker or the Securities Dealer and the Market Maker.
- (i) "Securities Businessperson" means the Securities Businessperson as defined pursuant to Part (k) of Section 2 of the Securities Related Act, 2063 (2006).

## **Chapter–2**

### **Provisions regarding License**

- 3. **Application to be submitted for Obtaining License:** (1) Anybody willing to obtain license for operating securities business as a Stock Broker, Securities Dealer and Market Maker shall require to submit an application in the format given in the Schedule –1 along with the application fee given in Schedule-2 and recommendation from Stock Exchange to the Board.  
(2) The Stock Exchange while making recommendation for the Stock Broker, Securities Dealer and Market Maker pursuant to Sub-regulation (1) shall require to carry out the procedure as laid down below:-
  - (a) The Stock Exchange shall determine the number of Stock Broker, Securities Dealer and Market Maker considering the available physical infrastructure, the needs of Stock Exchange and the number of additional Stock Brokers needed with respect to build a competitive securities market.
  - (b) After identifying the number pursuant to part (a), shall have to select the qualified Stock Broker, Securities Dealer and Market Maker on the basis of practicality as far as possible.
  - (c) While making selection pursuant to part (b), an additional 25 percent of the number determined pursuant to part (a) is also recommended to the Board.
  - (d) While specifying the percentage pursuant to part (c), a fraction shall be rounded up to one if it is half or more.  
(3) The application to be submitted pursuant to Sub-regulation (1) shall be

accompanied with the following details and documents regarding the applicant company or corporate body:

- (a) Details pursuant to Schedule–3 regarding Promoters, Directors and the Executive Chief.
- (b) Details and Documents pursuant to Schedule–4 regarding the applicant company or a corporate body.
- (c) If any company or corporate body is a promoter of the Securities Dealer and Market Maker, details and documents pursuant to Schedule–5 regarding the concerned company or the corporate body.

(4) While conducting examination on the application and information attached thereto received pursuant to Sub-Regulation (1), if it is not found consistent with the procedure, the Board may demand for additional details or documents

(5) In case of any change in the information supplied along with the application pursuant to Sub-Regulation (1) before providing the license pursuant to these Regulations, the applicant shall be required to inform such changes immediately to the Board.

**4. License to be issued:** (1) While conducting examination on the application and information attached thereto received pursuant to Regulation 3, if it is found reasonable to provide license on the basis of provisions of the Act and these Regulations, the Board may require the applicant to make necessary arrangement for infrastructure pursuant to the Regulation 5.

(2) Within 30 days of receiving the information of making arrangement of necessary infrastructure pursuant to Regulation 5, the Board shall make on- site inspection and inquiry regarding the infrastructure as prepared by the Stock Broker, Securities Dealer and Market Maker and if the arrangement furnished with regard to the infrastructure is found adequate, license for operation of Securities Business pursuant to Schedule–6 shall be issued against the fee pursuant to Schedule–2.

(3) While making inspection and inquiry pursuant to Sub-Regulation (2), if the infrastructure furnished by the Stock Broker, Securities Dealer and Market Maker is deemed insufficient for the operation of securities business, the Board may ask for making additional arrangement allowing maximum of three month's time.

(4) The applicants who are disqualified for the license pursuant to these Regulations shall be informed regarding same within seven days of such decision.

**5. Infrastructure to be arranged:** The Stock Broker, Securities Dealer and Market Marker shall be required to arrange minimum infrastructure pursuant to schedule-7 required for operation of the securities business within six months of getting notice pursuant to Regulation 4 from the Board and shall report to the Board on the completion of the infrastructure.

**6. License to be Obtained by existing Stock Broker, Securities Dealer and Market**

**Maker:** (1) The Stock Broker, Securities Dealer and Market Maker who have been in operation at the time of commencement of the Act, shall require to submit the application fee as prescribed in Schedule-2 and the details and documents as following within three months of enforcement of these Regulations for obtaining the license:

- (a) Copy of updated Memorandum and Articles of Association,
- (b) Copy of resolution of Board of Directors regarding obtaining the license,
- (c) Evidence certifying the paid-up capital,
- (d) Original certificate of registration of existing Stock Broker, Securities Dealer and Market Maker permitting them to conduct securities business,
- (e) Details pursuant to Schedule-3 regarding Directors and the Executive Chief,

(2) The Securities Businessperson who has been in operation at the time of commencement of these Regulations shall require to make arrangement of infrastructure prescribed in Schedule-7 within three months of commencement of these Regulations and shall report the Board on same.

(3) The Board shall make necessary inquiry regarding the Stock Broker, Securities Dealer and Market Maker submitting the application fee and the details and documents pursuant to Sub-Regulation (1) and shall provide the license in the format pursuant to Schedule-6.

(4) The Board may make on-site inspection and inquiry regarding infrastructure pursuant to Sub-Regulation (2) arranged by the Stock Broker, Securities Dealer and Market Maker within three months of submission of application pursuant to Sub-Regulation (1).

**7. Securities Business may be Operated through Subsidiary Company:** (1) The Bank or Financial Institution established under the prevalent laws may conduct

securities business as Stock Broker, Securities Dealer and Market Maker through their respective fully owned subsidiary company.

(2) Notwithstanding anything contained in these Regulations, the provisions regarding capital structure and ownership of and trading by the subsidiaries conducting securities business as Stock Broker, Securities Dealer and Market Maker shall be as prescribed by the Board from time to time.

**8. Renewal of License:** (1) The Stock Broker, Securities Dealer and Market Maker shall submit an application as prescribed in Schedule-8 along with the renewal fee as prescribed in Schedule-2 and renew the license for each fiscal year.

(2) The Stock Broker, Securities Dealer and Market Maker failing to submit the application for renewal within three months of completion of the fiscal year shall not be allowed to conduct trading from the date of completion of such period until the license is renewed.

(3) The Board may withhold the license renewal of the Stock Broker, Securities Dealer and Market Maker who fails to submit the report to be submitted to the Board pursuant to Regulation 35.

**9. Suspension or Cancellation of the License:** The procedure regarding suspension and cancellation of license pursuant to Section 88 and 89 of the Act shall be as provisioned in the Regulations of Securities Board of Nepal.

### **Chapter-3** **Provisions regarding Capital and Share Ownership**

**10. Minimum Capital and the Financial Resources:** (1) The Stock Broker, Securities Dealer and Merchant Banker shall require to maintain minimum paid- up capital as prescribed in Schedule-9.

(2) The provisions regarding **paid-up capital**<sup>1</sup> liquid asset or net capital to be maintained by the Stock Broker, the Securities Dealer and the Merchant Banker shall be as prescribed by the Board time to time.

**11. Provisions regarding Ownership:** (1) Any company willing to obtain license of the Stock Broker shall require having minimum two shareholders.

(2) The shareholder of the company pursuant to Sub-Regulation (1) shall require being natural persons.

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1. Amended by Securities Businessperson (Stock Broker, Securities Dealer and Market Maker) (First Amendment) Regulations, 2074

(3) No person shall be eligible to hold the shares of more than one Stock Broker company.

(4) The Stock Broker, Securities Dealer and Market Maker shall not be allowed to hold each other's share.

**12. Provisions regarding transfer of Ownership:** (1) The shareholder of the Stock Broker, Securities Dealer and Market Maker Company who is willing to sell or transfer the shares owned by him/her, shall be required to sell or transfer the shares only to the person, company or corporate body who are qualified and are not disqualified pursuant to these Regulations.

(2) The shareholder of the Stock Broker Company shall not be allowed to sell or transfer the share owned by him/her until completion of one year of obtaining the license or getting shares transferred in his/ her name.

(3) If the shareholder of the Stock Broker is to sell or transfer the shares owned by him/her shall do so only after getting the same recorded at the Board.

(4) The shareholder of the Stock Broker, who is willing to sell the shares owned by him/her, shall be required to submit an application through the concerned Company or the Corporate body along with the evidence that the person willing to purchase the shares fulfill the qualification and do not have the disqualification pursuant to these Regulations and an amount totaling to 0.25 percent of the face value of the shares which are to be sold or transferred, to the Board for getting the transaction recorded.

(5) The person willing to purchase or transfer the shares in his/her name shall submit the details and documents prescribed in Schedule – 3 along with the application to be submitted pursuant to Sub-Regulation (4).

(6) While examining the application and the attached details and documents pursuant to Sub-regulation (4), if the Board deems necessary, may demand for additional details or documents or may seek clarification.

(7) After making examination on the application and the attached details and documents pursuant to Sub-regulation (4) or in the case of demanding additional details pursuant to Sub-Regulation (6), after receiving such details, the Board shall keep the record and provide its information within fifteen days and such sale or transfer of shares shall require to be done within one months of getting notice of having recorded from the Board.

(8) If the Securities Dealer and Market Maker requires to sell or transfer

the shares owned by him/her, shall submit the evidence showing the person or corporate body willing to purchase the shares fulfill the qualification and do not have the disqualification pursuant to these Regulations along with details and other documents prescribed in Schedule–3 if it is person and prescribed in Schedule–5 if it is a Company or the Corporate body.

(9) Notwithstanding anything mentioned above in this Regulation, if it is publicly issued securities, the provisions regarding transfer of ownership of this Regulation shall not be applicable.

**13. Disqualification for Ownership:** The person as follows shall not be qualified to be the promoter of the Securities Dealer and Market Maker and to take the ownership of the Stock Broker:-

- (a) Convicted and sentenced against criminal offence of moral turpitude.
- (b) Convicted and sentenced from the court against the case of corruption or fraud
- (c) Is declared insolvent and has not completed five years of such insolvency.
- (d) During the period of remaining in the black list of the Credit Information Bureau.
- (e) Has held the position of interest in any other Stock Broker, Securities Dealer or Market Maker Company,
- (f) Has remained as the Director or the Chief Executive of the Company who posses the disqualification pursuant to Regulation.

**14 . Not eligible to be promoter of the Securities Dealer and the Market Maker:**

Any company as follows shall not be qualified for being promoter of the Securities Dealer and the Market Maker:

- (a) Is convicted in the case of insolvency
- (b) If the Company or the corporate body who is to publish their financial statements has failed to publish their audit report for continuous three years.
- (c) Has remained in the black list of the Credit Information Bureau.
- (d) Person having disqualification pursuant to Regulation 13 has remained as Promoter, Director or the Chief Executive.

**15 . To be complied by the Existing Stock Broker, Securities Dealer and Market**

**Maker in Operation:** The Stock Broker, Securities Dealer and Market Maker who are in operation at the time of commencement of the Act shall require to

maintain the capital, ownership structure and shareholders pursuant to these Regulations within one year of the commencement of these Regulations and shall require to report the same to the Board.

## **Chapter-4**

### **Provisions regarding to the Director and the Chief Executive**

**16. Appointment of the Director and the Chief Executive:** (1) The Stock Broker, Securities Dealer and Market Maker shall require appointing the Directors and the Chief Executive having qualification and not having disqualification pursuant to these Regulations.

(2) If any new Director or Chief Executive is appointed at the Stock Broker, Securities Dealer and Market Maker, the Board shall have to be reported along with the evidence of fulfilling the qualification pursuant to these Regulations and the details prescribed in Schedule – 3 within seven days of such appointment.

**17. Qualification of the Directors and the Chief Executive:** The qualification of the directors and the chief executive of the Stock Broker, the Securities Dealer and Market Maker shall be as follows:-

- (a) The Chairman of the Board of Directors, Director and the Chief Executive shall require to hold a minimum bachelor degree in economics or commerce or finance or accounts or management from a recognized educational institution or be a certified chartered accountant or equivalent or hold bachelors degree in any other areas and having a minimum of two years experience in accounts, finance or management related functions in industry or commerce or securities market or finance sector.
- (b) Shall require to be a Nepali citizen,

**18. Disqualification of the Directors and the Chief Executive:** The Director or the Chief Executive of the Stock Broker, Securities Dealer and Market Maker shall require not to be having the disqualifications as follows:-

- (a) Insane or of unsound mind,
- (b) Has remained Director, Employee or Auditor of the listed corporate body.
- (c) Has held ownership or position of interest in any other Stock Broker Company.
- (d) Convicted and sentenced against case of criminal offence

- (e) If the person or the Company where s/he had acted as Director or Chief Executive is declared insolvent and has not completed five years of such insolvency.
- (f) Failed to submit the income statement for the purpose of tax
- (g) If the person or the Company where s/he had acted as Director or the Chief Executive has remained in the black list of the Credit Information Bureau.
- (h) Has remained as authority or employee of the Board, Stock Exchange or other Securities Businessperson.

**19. Continuation of provisions related to Qualification:** (1) The Stock Broker, Securities Dealer and Market Maker shall require to maintain the qualification required for the Directors and the Chief Executive throughout the period of validity of its license.

(2) The Director or the Chief Executive shall be considered to be automatically terminated from date of failing to meet the qualification pursuant to Sub-Regulation (1) and the Stock Broker, the Securities Dealer and the Market Maker shall immediately report such automatic termination to the Board.

(3) If the situation pursuant to Sub-regulation (2) is raised, the Stock Broker, the Securities Dealer and the Market Maker shall be required to appoint the Director or the Chief executive pursuant to these Regulations within thirty days and report the same to the Board.

**20 . To be complied by the Existing Stock Broker, Securities Dealer and Market Maker in Operation:** The Stock Broker, Securities Dealer and Market Maker who have been in operation at the time of commencement of the Act shall require to provide the Director and Chief Executive having the qualification pursuant to these Regulations within three years of commencement of these Regulations and shall report the same to the Board.

## **Chapter-5**

### **Provisions regarding Authorized Representative**

**21. Appointment and Registration of Authorized Representative:** (1) The Stock Broker, Securities Dealer and Market Maker shall require appointing at least one person having qualification pursuant to these Regulations as an Authorized Representative.

(2) The representative appointed pursuant to Sub-Regulation (1) shall perform securities trading only after getting registered at the Board as an

Authorized Representative pursuant to Section 65 of the Act and the Stock Broker, Securities Dealer and Market Maker shall not be allowed to carry out securities trading without getting its authorized representative registered.

(3) In order to get registered at the Board as an Authorized Representative, the representative appointed pursuant to Sub-Regulation (1) shall submit an application to the Board accompanied with the details as prescribed in Schedule – 10 and other details and documents as follows:-

- (a) Details regarding Authorized Representative on the format as prescribed in Schedule – 3.
- (b) Copy of Agreement concluded regarding appointment of Authorized Representative.
- (c) Responsibilities prescribed for the Authorized Representative.

(4) After obtaining application pursuant to Sub-regulation (3), if the Board deems necessary, may require additional information or documents or may seek clarification.

(5) While making examination on the application pursuant to Sub-regulation (3), if it deems appropriate, the Board shall register the name in the register of representative and shall provide the applicant with the registration certificate in the format prescribed in the Schedule – 11.

(6) The representatives who were continuing their duty at the time of commencement of the Act shall submit the application pursuant to Sub-regulation (3) to the Board for getting registered as Authorized Representative within three months of commencement of these Regulations.

(7) Notwithstanding anything contained in these Regulations, with regard to the appointment of the person who shall represent the Stock Broker, Securities Dealer and Market Maker at the trading floor, shall be as per the provisions of the Bye-laws of the Stock Exchange.

**22. Procedure of Appointment of Authorized Representative:** (1) The Board of Director of the Stock Broker, Securities Dealer and Market Maker shall require to have adopted a resolution at the Board of Directors with the mention of the name of the person to be appointed as the representative and the person to sign on behalf of the Company in the contract to be concluded for such appointment.

(2) While appointing the Authorized Representative the duties and responsibilities of the representative, appointment period and other necessary details shall require to be mentioned in the contract.

(3) The Board, as per the necessity, may specify additional provisions with regard to the appointment and functioning of the Authorized Representative.

**23. Qualification of the Authorized Representative:** (1) The Authorized Representative of the Stock Broker, Securities Dealer and Market Maker shall require to hold a minimum bachelor degree or equivalent in economics or commerce or finance or accounts or management or law from a recognized educational institution and having a minimum of two years' experience in accounts or finance or law or management function in the field of industry commerce or securities market or finance sectors.

(2) If the qualification of the Authorized Representatives of the Stock Broker, Securities Dealer and Market Maker who have been in operation at the time of commencement of the Act has not been in pursuant to the requirement under Sub-Regulation (1), such Stock Broker, Securities Dealer and Market Maker shall require to appoint the Authorized Representative having qualification pursuant to Sub-Regulation (1) within two years of commencement of these Regulations.

**24. Disqualification of the Authorized Representative:** (1) The Authorized Representative of the Stock Broker, Securities Dealer and Market Maker shall not be having the disqualifications as follows:-

- (a) Insane or of unsound mind,
- (b) Convicted and sentenced against the case of criminal offence
- (c) Is declared insolvent and has not completed five years of insolvency.
- (d) Failed to submit the tax as per the prevailing laws.
- (e) Has remained in the black list of the Credit Information Bureau.

(2) No one shall be eligible for appointment as representative of more than one Securities Businessperson.

**25. Continuation of provisions related to Qualification:** (1) The Authorized Representative shall require to continuously maintain the required qualification pursuant to these Regulations.

(2) The Stock Broker, Securities Dealer and Market Maker shall require to terminate the Authorized Representative from the date of failing to meet the qualification or of being disqualified pursuant to these Regulations and shall require to inform the Board accordingly.

## **Chapter-6**

### **Provisions regarding Trading**

**26. Only Registered Securities to be Traded:** (1) The Stock Broker, Securities Dealer and Market maker shall require to conduct trading of the listed Securities having registered with the Board.

(2) Notwithstanding anything mentioned in Sub-regulation (1), there shall be no objection for the Stock Broker, Securities Dealer and Market Maker for conducting trading of the securities issued by the Government of Nepal and the other securities as prescribed by the Board.

(3) The Stock Broker, Securities Dealer and Market Maker shall require conducting trading pursuant to the provisions of the Act, Regulations framed under the Act and Directives and the Bye-laws of the Stock Exchange.

**27. Functions that may be carried out by the Stock Broker, Securities Dealer and Market Maker:** (1) The Stock Broker may provide brokering services of purchasing or selling the securities in the name of client only as per the client's order.

(2) The Stock Broker shall not be allowed to carry out other business pursuant to these Regulations other than the business as stock broker.

(3) The Securities Dealer and the Market Maker may carry out the functions as follows:-

- (a) To purchase or sell the securities on own account
- (b) To quote the buying and selling price of the securities and purchase or sell such securities on own account and act as a market maker,
- (c) To carry out the underwriting of the securities as provisioned by the Board.

(4) The Stock Broker Company shall not be allowed to make purchase or sale of the securities on its own name or in the name of the Director, Chief Executive, and Representative, employee or any of the members of their respective joint families.

(5) The Securities Dealer and the Market Maker shall not be allowed to carry out the trading of the securities issued by itself.

(6) Notwithstanding anything mentioned in this Regulation, the Board under specified terms and provisions may provide license to Securities Dealer and the Market Maker for functioning as the Stock Broker or carrying out any

other securities business or may provide license to the Stock Broker to function as Securities Dealer or the Market Maker.

**28. Order from Client to be registered:** (1) The Stock Broker shall require receiving the order from the client and shall make transaction only after registering such order.

(2) The Stock Broker, while making transaction as per the registered order from the client pursuant to Sub-Regulation (1), shall require making transaction on the basis of the price and time priority.

**29. Record of the Client to be Maintained:** (1) The Stock Broker, before making transaction on behalf of the client, shall maintain record of the client along with full details in the format prescribed in Schedule–12 or Schedule–13 for natural person or corporate client as applicable.

(2) At the time of maintaining the record pursuant to Sub-regulation (1), the Stock Broker shall require to inform the client regarding the price fluctuation and other kinds of securities related risks.

**30. Transaction to be made through Bank:** The Stock Broker, while making transaction of the securities with the Client, shall be required to execute cash transactions through bank only.

**31. Use of Cash and Documents of the Client:** (1) The Stock Broker shall not be allowed to use any client's cash, securities or documents for own use or for the use of any other client.

(2) The Stock Broker shall require to hand over the cash, securities or documents received after completing the securities trading to the concerned client on the same day or the next day of receiving such amount, securities or documents.

(3) The Stock Broker shall require maintaining separate record for each client clearly showing the account of the securities and cash related to the transactions.

**32. Provisions regarding Service Charge and Transaction Fee:** (1) The Stock Broker may receive service fee as prescribed in Schedule–14 from the client against the securities transaction service provided to them.

Provided that, if the Stock Exchange, remaining under the limit prescribed under Schedule–14, specifies in its bye laws the service fee that the Stock Broker may collect from the client, the Stock Broker shall receive the service fees as accordingly.

(2) The Stock Broker, Securities Dealer and Market Maker shall require

depositing the transaction fee prescribed in Schedule-15 for the purpose of collecting transaction fee by the Stock Exchange for submission to the Board pursuant to the Section 50 of the Act.

**33. Provisions for Trading may be prescribed:** (1) The Board may, as per the necessity, prescribe the additional provisions regarding the trading of Government Securities and other special types of securities from time to time.

(2) The Board may, from time to time, prescribe the content in the agreement with the clients including the order receiving from the clients, opening client's account and carrying margin trading.

## **Chapter-7**

### **Provisions related to Record, Information and Disclosures**

**34. Maintaining Records and Documents:** (1) The Stock Broker, Securities Dealer and Market Maker shall be required to keep the updated record regarding its securities trading and accounts thereof, and records regarding the clients in a transparent and truthful manner.

(2) The Stock Broker, Securities Dealer and Market Maker shall be required to keep its books of accounts and prepare financial reports including profit and loss accounts, balance sheet and cash flow statements in the format and standards as prescribed under the prevailing laws.

(3) It shall be duty of the concerned Stock Broker, Securities Dealer and the Market Maker to prepare the records and details to be maintained pursuant to this Regulation periodically and to make it available to the Board at the time of Board making inspection and inquiry of the same.

**35. Reports to be submitted:** (1) The Stock Broker, Securities Dealer and Market Maker shall be required to submit its audited financial statement of the fiscal year and annual report containing activities of that year to the Board within three months of completion of each fiscal year.

(2) The Stock Broker, Securities Dealer and Market Maker shall be required to submit quarterly report on the format as specified by the Board from time to time within thirty days of completion of quarterly period and if there is any variation on the matters mentioned in the previous quarterly report, such information shall be required to be disclosed along with such report.

**36. Audit to be carried out through listed Auditor:** The Stock Broker, Securities Dealer and Market Maker shall be required to carry out the audit of its accounts

and transaction from among the auditors who have been listed by the Board.

**37. Information and details to be Submitted:** (1) The Stock Broker, Securities Dealer and Market Maker shall be required to submit the following information and details to the Board within the time frame as follows:

- (a) If the branch office or contact office is closed, the Information regarding the same within three days of such closing,
  - (b) If the Authorized Representative resigned or s/he is removed from the post, the information regarding the same within seven days of such activity,
  - (c) If any amendment is to be made in the Memorandum and Articles of Association, information regarding the same along with the details of amendment before making such amendment,
  - (d) Other notice, information and details as specified by the Board from time to time.
- (2) The Stock Broker, Securities Dealer and Market Maker shall be required to inform the Board immediately on the matters as follows:-
- (a) change in address, contact telephone number, fax number, email etc.
  - (b) If any action is taken or proceedings is initiated under prevailing laws against the Promoter, Director or the Chief Executive of the Stock Broker, Securities Dealer or Market Maker
  - (c) If the Promoter, Director or the Chief Executive is listed in the black list maintained by Credit Information Bureau.
  - (d) If decides to quit from the security business.

## **Chapter-8**

### **Miscellaneous**

**38. Required to participate in Compensation Fund:** Compensation fund pursuant to the Act is established for the benefit of the investors, the Securities Businessperson shall require participating on such fund pursuant to the provisions of concerned Regulations.

**39. Required to abide by the Business Conduct:** The Stock Broker, Securities Dealer and Market Maker shall be required to abide by the Directives issued by the Board regarding business ethics and codes of conduct.

**40.<sup>2</sup> Opening Branch with taking prior approval from Board:** (1) The Stock Broker, Securities Dealer and Market Maker may open its branch office with taking prior approval from the Board.

(2) As pursuant to Sub-Regulation (1) the Stock Broker, Securities Dealer and Market Maker who wish to open Branch office shall fulfill necessary infrastructure and other conditions as prescribed by Board from time to time.

**41. Records of the Proceedings:** (1) The Board shall maintain the record of the Stock Broker, Securities Dealer, Market Maker or related person who has been taken action according to the law against the violation of Act and for the non-compliance of the orders or directives issued by the Board.

(2) The Board may deprive the company, corporate body or person who has been included in the record pursuant to Sub-Regulation (1) or any company or corporate body involving such person from receiving the services available pursuant to securities related laws.

**42. To be as per these Regulations:** These regulations shall be applicable in the matters specified under it and the rest shall be according to other regulations issued under the Act.

**43. <sup>3</sup>Amendment or change in the Schedule:** The Board, may amend or make changes in the Schedule according to the requirement.

**44. Repeal and Saving:** (1) The provisions of the Securities Transaction Regulations, 1993 relating to Stock Broker, Securities Dealer and the Market Maker have, hereby, been repealed.

(2) Anything done or action taken or proceedings under the provisions repealed pursuant to Sub-regulation (1) shall be deemed to have been done or taken under corresponding provisions of these Regulations.

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2. Amended by *Securities Businessperson (Stock Broker, Securities Dealer and Market Maker) (First Amendment) Regulations, 2074*

3. Amended by *Securities Businessperson (Stock Broker, Securities Dealer and Market Maker) (Second Amendment) Regulations, 2074*

## Schedule-1

(Related to Sub-Regulation (1) of Regulation 3)

### **Format for the Application to be submitted for the License**

Date:-

Ms Securities Board of Nepal

.....

### **Subject: Request for License.**

As we are desirous to operate securities business as .....  
subject to the Securities Related Act and the Regulations framed under the Act and other prevailing laws, this application, along with the fees and information and documents as prescribed, have been submitted to you for granting the License .

We are qualified and have fulfilled the required provisions as for carrying out the securities business. The attached documents and information is true and factual, none of the details have been concealed or are expressed with exaggeration. If convicted to have concealed relevant fact or to have presented wrong documents or information, we hereby submit to bear with consequences according to the terms of the law.

#### **Director and Chief Executive**

Name: ..... Signature

#### **Applicant company or Corporate Body:**

Name: .....

Address: ..... Zone ..... District .....

VDC/Municipality (Tole) ..... Ward No ..... Block No ..... Tel No ..... Fax .....  
email .....

#### **Seal of Company/Corporate Body:**

## **Schedule-2**

(Related to Sub-Regulation (1) of Regulation 3, Sub-Regulation (2) of Regulation 4, Sub-Regulation (1) of Regulation 6 and Sub-Regulation (1) of Regulation 8)

### **Application fee, License fee and Annual fee**

	<b><u>Application fee</u></b>	<b><u>License fee</u></b>	<b><u>Annual fee</u></b>
1. Stock Broker	Rs.5,000/-	Rs.40,000/-	Rs.25,000/-
2. Securities Dealer	Rs.8,000/-	Rs60,000/-	Rs.40,000/-
3. Market Maker	Rs.8,000/-	Rs60,000/-	Rs.40,000/-

### Schedule - 3

(Related to part (a) of Sub-Regulation (3) of Regulation 3, part (e) of Sub-Regulation (1) of Regulation 6, Sub-Regulation (5) and (8) of Regulation 12, Sub-Regulation (2) of Regulation 16 and part (a) of Sub-Regulation (3) of Regulation 21)

#### **Profile of the Promoter/Director/ Chief executive/Authorized Representative**

1. Name:
2. Permanent address: Zone.....District.....VDC/Municipality.....  
Tole (area): Ward No.....House/Block No.....Phone .....Email.....
3. Present address: Zone .....District.....VDC/Municipality .....Tole(area).....  
Ward No.....House/Block No.....Phone No.....Fax.....Email.....
4. Father's Name:
5. Grand father's Name:
6. Name of husband or wife:
7. Academic qualification:
8. Professional experience:
9. Training:
10. Details regarding having ownership or holding position of interest of any kind in other company or body corporate, if any,
11. Details regarding relationship with any other Promoter, Directors, Chief Executive or Authorized Representative of the related Company or Corporate Body, if any,
12. Details regarding relationship with Directors or Chief Executive or Representatives of the Stock Exchange or other Stock Broker or Securities Dealer and Market Maker, if any,
13. Details regarding any action taken or action pending under the securities related laws or any other prevailing laws against self or the company or the body corporate or the Director or Chief Executive of the company or the body corporate with which s/he is affiliated, if any,
14. Declaration on having fulfilled qualification required for and not having disqualification as stipulated for holding the ownership/director/chief executive/authorizedrepresentative.

Signature.....

#### **Document to be attached:**

1. Evidence of Tax Clearance for up to last fiscal year.
2. Declaration of not being listed in the black list of Credit Information Bureau.
3. Copy of documents verifying qualification, experience and affiliation, if any, with other institutions.
4. Copy of citizenship certificate

## Schedule - 4

(Related to part (b) of Sub-Regulation (3) of Regulation 3)

### **Details related to the Applicant Company or Corporate Body.**

- a. Copy of registration certificate
- b. Copy of Memorandum and Articles of Association
- c. If the body corporate is established under the special Act, copy of related Act and subsidiary Regulations and by-laws
- d. Feasibility study report according to the type of securities business as proposed by the applicant
- e. Three years business plan including projected financial statements for the up coming three years
- f. Copy of resolution of the Board of Directors regarding obtaining the license.
- g. Details of name, full address, contact telephone and share ownership of the owners with five percent or more of the paid up capital
- h. Audited financial statements of the last financial year in the format and standards as prescribed by law (The corporate body not completing fiscal year after its establishment may produce updated financial statement for the interim period verified by the management)
- i. Details regarding the paid up capital and the shares that have been owned or to be owned by the Promoters
- j. Details regarding organization and job description to be prepared for the operation of securities business
- k. Name, address, qualification, experience of the representative specified pursuant to Section 64 of the Act and details regarding agreement concluded for working as the representative
- l. Details regarding office space provisioned for the operation of securities business, its area, office equipment and means of communication, manpower, record of securities transaction and provision for safety of records.
- m. If any infrastructure has been already provisioned, details regarding same.
- n. Details regarding the ownership in other companies or body corporate, if any,
- o. Copy of agreement concluded in between the shareholders, if any.
- p. Details regarding recommendation of the Stock Exchange mentioning the eligibility of being member of the Stock Exchange
- q. Certificate of Tax registration pursuant to the prevailing laws
- r. Receipt certifying the paid up capital
- s. Declaration of not being listed in the black list of the Credit Information Bureau
- t. Other details and documents as prescribed by the Board time to time.

## Schedule – 5

(Related to part (c) of Sub-Regulation (3) of Regulation 3 and Sub-Regulation (8) of Regulation 12)

### Information and documents to be submitted by the Company or the Corporate Body willing to take share ownership of the Securities Dealer and Market Maker

- (a) Copy of registration certificate
- (b) Copy of Memorandum and Articles of Association
- (c) If the body corporate is established under the special Act, copy of related Act and subsidiary Regulations and by-laws
- (d) Copy of resolution of the Board of Directors regarding obtaining ownership of the Securities Dealer and the Market Maker.
- (e) Audited financial statements of the last financial year in the format and standards as prescribed by law and annual report describing activities performed during the year (The corporate body not completing fiscal year after its establishment may produce updated financial statement and activity report for the interim period verified by the management)
- (f) Details of name, full address, contact telephone and share ownership of the owners with five percent or more of the paid up capital
- (g) Declaration of the Company or the Corporate body that it does not have disqualification for holding the ownership of the Securities Dealer or the Market Maker pursuant to the Regulations,
- (h) Details regarding any action taken under the securities related laws or any other prevailing laws against the company or the body corporate or the Director or Chief Executive, if any,
- (i) Details regarding the ownership in other companies or body corporate, if any,
- (j) Declaration by the Company or the Corporate Body that it is not listed in the black list of the Credit Information Bureau
- (k) Evidence of submitting income statement for the purpose of tax clearance pursuant to prevailing laws.
- (l) The following information and documents regarding the Directors and the Chief Executive:-
  1. Name and full address
  2. In case of having ownership or holding any position of interest in another Company or the Corporate Body, details regarding same.

## **Schedule – 6**

(Related to Sub-Regulation (2) of Regulation 4 and Sub-Regulation (3) of Regulation 6)

Securities Board of Nepal

Kathmandu

### **License for operating Securities Business**

License No:

This license is hereby issued to M/s....., having its head office at ....., to operate the Securities Business subject to the provisions of the Securities Related Act and Regulations, Bye-laws, arrangements made there under as well as other prevailing Laws. This license, except renewed, shall be valid up to .....

Authorized signatory:

Name:

Designation:

Signature:

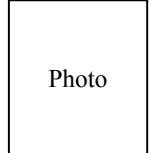
Date:

Seal of the Board:

## Schedule - 7

(Related to Sub-Regulation (2) of Regulation 6)

### **Minimum Infrastructure to be prepared by the Securities Business Person (the Stock Broker, the Securities Dealer and the Market Maker)**

1. Minimum infrastructure to be prepared by the Stock Broker  

(a) Area of the office shall be of minimum **1000<sup>4</sup>** square feet.

(b) Minimum three sets of computer, printer, fax and telephone

(c) At least<sup>5</sup> bachelor degree holder in commerce, economics, management, commercial law or in chartered accountancy as CEO and compliance officer and along with information technology minimum five employees must be appointed in Head-office whereas the number of employee at branch office shall be as prescribed by board from time to time.

(d) Provisions regarding organizational structure and division of job

(e) Office shall have to be established in a location convenient for public access.
2. Minimum infrastructure to be prepared by the Securities Dealer and the Market Maker  

(a) Area of the office shall be a minimum of 500 square feet.

(b) Minimum five sets of computer, printer, fax and telephone

(c) Minimum seven employees with at least two graduate degree holders

(d) Provisions regarding organizational structure and division of job.

4. Amended by Securities Businessperson(Stock Broker, Securities Dealer and Market Maker) (First Amendment) Regulations, 2074

5 Amended by Securities Businessperson(Stock Broker, Securities Dealer and Market Maker) (First Amendment) Regulations, 2074

## Schedule - 8

(Related to Sub-Regulation (1) of Regulation 8)

### **Format of Application to be submitted for the Renewal of License**

Date:- .....

M/S Securities Board of Nepal  
.....

Reference: **Request for renewal of license.**

As the license granted to operate the securities business as.....  
subject to the Securities Related Act, 2063 (2007) provided by you is valid until  
....., I hereby submit this application along with the license  
and the annual fees as prescribed for renewal of the same.

Authorized Signature:

Name:

Position:

Seal of body corporate:

## **Schedule – 9**

(Related to Sub-Regulation (1) of Regulation 10)

### **Paid-up Capital (Minimum)**

1.	Stock Broker	Rs.	2,00,00,000/-
2.	Securities Dealer	Rs.	2,00,00,000/-
3.	Market Maker	Rs.	2,00,00,000/-

## **Schedule – 10**

(Related to Sub-Regulation (3) of Regulation 21)

### **Format for Application to be submitted for registration of the Authorized Representative**

Ms Securities Board of Nepal

Date:

.....

Subject: **Request for registration of Authorized Representative**

As I have agreed and also concluded agreement for working as an Authorized Representative of .....subject to the Securities Act and Regulations framed under that Act and other prevailing laws, this application, along with the fees and information and documents as prescribed, has been submitted to you for getting registered with that Board.

The attached documents and information is true and factual. If convicted to have concealed relevant fact or to have presented wrong documents or information, I hereby submit to bear with consequences according to the terms of the law.

Applicant's Name:

Signature:

## Schedule – 11

(Related to Sub-Regulation (5) of Regulation 21)

Securities Board of Nepal  
Kathmandu

### **Authorized Representative Registration Certificate**

Representative Registration No.:

This Certificate has hereby been issued to M/s ..... resident of ..... to function as an Authorized Representative of ..... subject to the Securities Act and the Regulations framed under the Act and other prevailing laws hereof.

#### **Authorized Signature**

Name:

Designation:

Signature:

Date:

Seal of the Board:

**Schedule – 12<sup>6</sup>**  
**(Related to Sub-Regulation (1) of Regulation 29)**  
**Details of Natural person**

**For Official Use Only**

Client's Account No:	Client's Account No:	Date :
Reference No:	Reference No:	

Please complete all details and strike out the non-applicable fields/boxes.

.....(Name of Stock Broker)

.....(Branch)

## **Details of Client**

#### **Current Address**

Country		Province :	
District :			

<sup>6</sup>. Amended by the decision of Board's Board Meeting held on 2074/11/21

Rural Municipality/ Municipality/ Sub Metropolitan city / Metropolitan city		Ward No.:		Recently Photo
Tole :		Telephone No.:		
E-mail ID :		Mobile No.:		
Permanent Address :				
Province :				
Tole :		District :	Rural Municipality/ Municipality/Sub Metropolitan city / Metropolitan city	
Telephone No. :		Ward No.:	Block No. :	

### **Details of Family Members**

Grand Father's Name : (In Devnagari)																			
Grand Father's Name : (In Block letter)																			
Father's Name (In Devnagari)																			
Father's Name (In Block Letter)																			
Mother's Name (In Devnagari)																			
Mother's Name (In Block letter)																			
Spouse's Name (In Devnagari)																			
Spouse's Name (In Block letter)																			
Son's Name (In Devnagari)																			
Son's Name (In Block letter)																			

Unmarried Daughter's Name (In Devnagari)																				
Daughter's Name (In Block letter)																				
Daughter in-Law's Name (In Devnagari)																				
Daughter in-Law's Name (In Block letter)																				
Father in Law's Name (In Case of Married Women)																				
Father in Law's Name (In Devnagari Case of Married Women)																				

### Bank Account Details

Types of Bank Account	Saving Account <input type="checkbox"/>	Current Account <input type="checkbox"/>
Bank Account Number		
Name & Address of Bank		

<b>Details of Occupation</b>			
Occupation	Service <input type="checkbox"/>	Govt. <input type="checkbox"/>	Public/Private Sector <input type="checkbox"/> NGO/INGO <input type="checkbox"/>
	Expert <input type="checkbox"/>	Businessperson <input type="checkbox"/>	Agriculture <input type="checkbox"/> Retired <input type="checkbox"/> House Wife <input type="checkbox"/>
	Student <input type="checkbox"/>	Others <input type="checkbox"/>	
Types of Business	Manufacturing <input type="checkbox"/>	Service Oriented <input type="checkbox"/>	Others <input type="checkbox"/>
Organization's Name	Address		
Designation		ID No of Employee)	
Financial Details	Income Limit (Annual Details) Up to Rs. 5,00,000 <input type="checkbox"/> Above Rs. 10,00,000 <input type="checkbox"/> From Rs. 5,00,001 to Rs. 10,00,000 <input type="checkbox"/>		
Involvement in Investment companies which were established for securities trading If yes mention below		Yes <input type="checkbox"/>	No <input type="checkbox"/>
Name of the Company			

Designation	Director	Executive	Shareholder	Employee	Others
-------------	----------	-----------	-------------	----------	--------

### Guardian's Details (In case of Minor only)

Name/Surname: (In Block letter)			
Relationship with applicant:			
Correspondence Address :			
Country :		Province	
District :		Rural Municipality/Municipality/Sub Metropolitan city /Metropolitan city	
Ward No.:		Telephone No. :	
Fax No. :		Mobile No. :	
PAN No. :		E-mail ID :	

.....  
Guardian's Signature

Location Map of Recent Residence	N
From main Road Street.....the distance of the Residence is .....Meters (approximately).	

I self-declare the following things during Securities Transactions.

1. I/We will not use money earned from Money-Laundering relating Laws for the purchase of Securities
2. I/We am/are well aware about risk associated with investment in securities.
3. I/We will make payment for the purchase of Securities within the prescribed time.
4. I/We will be abide by Securities laws and other current Acts and Regulations.

5. I/We am/ am not /are /are not blacklisted in Credit Information Bureau of Nepal.

Documents to be enclosed

1. Photocopy of Citizenship in case of Nepalese Citizen
2. Photocopy of Passport in case of Foreign Citizen
3. In case of Minor, Photo of both guardian and minor
4. Legal documents relating to legal guardianship.
5. Photocopy of Birth Certificate of children in case parents are guardian
6. Guardian Signature and thumb impression in place of applicant's signature and thumb impression
7. Photocopy of Employee Identity Card in case of employee of any company.

Recent Photo  
of Guardian's

I/We hereby acknowledge that the above disclosed details are true. I/We further hereby consent to bear any legal actions in case any false disclosure of information related to me/us .

Thumb Print	
Right	Left

**For Official Use Only**

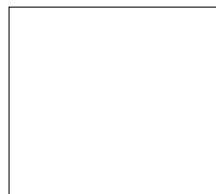
**Verified By:**

Name/Surname:

Designation

Signature

Date



**Approved By:**

Name/Surname:

Designation

Signature

Date

Office Name and Stamp

## Schedule – 13<sup>7</sup>

(Related to Sub-Regulation (1) of Regulation 29)

### Details Of Company Or Institution

For Official Use Only

Client's Account No:	Date :
Reference No:	

Please complete all details and strike out the non-applicable fields/boxes.

..... Name of stock Broker

..... Branch

Company's name in Devnagari																				
Name of Company	<input type="text"/>																			
Chief Executive Officer's Name in Devnagari																				
Chief Executive Officer's Name	<input type="text"/>																			
Company Secretary's Name in Devnagari	Clients Singature																			
Company Secretary's Name	<input type="text"/>																			

Date of Incorporation	B.S. :	A.D. :
Types of Company	Pvt. Ltd. <input type="checkbox"/> Public Ltd. <input type="checkbox"/> Govt. Owned <input type="checkbox"/> Others <input type="checkbox"/>	
Country of Registration	Nepal <input type="checkbox"/> Others (Please mention if other than Nepal) <input type="checkbox"/>	

### **Additional Information of office**

Registration Office
---------------------

7. Amended by the decision of Board's Board Meeting held on 2074/11/21

Registration No.:		Registration Date :	
PAN No./VAT Registration No. :		Registration Date. :	
Name and Address of Main Company in case of Subsidiary Company			
Types of business of the company		Area of Work	
Listed /Not		Listing Date	

### **Details of Bank Account**

Types of Bank Account	Saving Account <input type="checkbox"/>	Current Account <input type="checkbox"/>
Bank Account Number		
Name and Address of Bank		

### **Current Address of Company**

Country		Province :	
District :			
Rural Municipality /Municipality/Sub Metropolitan city /Metropolitan		Ward No.:	
Tole :		Telephone No.:	
E-mail ID :		Website:	
Permanent Address of Company :		Country	
Province :		District :	
Village/Municipality/ Sub Metropolitan city / Metropolitan city		Tole :	
Telephone No. :		Ward No.:	Block No. :

E-mail ID :		Web-site:	
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### Details of Directors, CEO

S.N.	Name/ Surname	Designation	Spouse's name	Father's Name	Grand Father's Name	Permanent Address	Current Address	Telephone No.	Mobile No.	E-mail ID	PAN no.

	First Contact Person	Second Contact Person
Name		
Father's Name		
Grand Father's Name		
Designation		
Signature		
Passport Size Photo	Photo (Recently Clicked)	Photo (Recently Clicked)

Location Map of the Office	<p style="text-align: center;">Site Map of the Company</p> <p style="text-align: right;">N</p> <p>From main Road Street.....the distance of the Office is .....Meters (approximately).</p>
-------------------------------	--

- I self-declare the following things during Securities Transactions.
1. Company/ Body Corporate will not use money earned from Money-Laundering relating Laws for the purchase of Securities
  2. Company/ Body Corporate well aware about risk associated with investment in securities.
  3. Company/ Body Corporate will make payment for the purchase of Securities within the prescribed time.

4. Company/ Body Corporate will be abide by Securities laws and other current Acts and Regulations.
5. Company/ Body Corporate are/are not blacklisted in Credit Information Bureau of Nepal.

I/We hereby acknowledge that the above disclosed details are true. I/  
We further hereby consent to bear any legal actions in case any false disclosure of information related to me/us.

Documents to be enclosed

1. Photocopy of Company Incorporation Certificate for Company
2. Photocopy of Permanent Account Number (PAN), Memorandum of Association and Articles of Association Passport
3. Board Decision copy regarding for filling Know your Customer details for doing Securities transaction
4. Photocopy of License taken from regulatory body (if any).
5. Photocopy of Tax Clearance or tax submission Certificate
6. Photocopy of Citizenship and photo of authorized person

Name of Authorized Person:

Designation

Signature:

Company's Stamp:

**For the Official Use Only**

**Verified By:**

Name/Surname:

Designation

Signature

Date



**Approved By:**

Name/Surname:

Designation

Signature

Date

Office Name and Stamp

## **Schedule – 14<sup>9</sup>**

(Related to Sub-Regulation (1) Regulation 32)

### **Service Charge to be received against Stock Brokerage**

1. Service charge receivable against share brokerage for each sale and purchase transaction of the shares:
  - (a) for transaction up to Rs. 50,000/- - 0.60%
  - (b) for transaction from more than Rs. 50,000/- up to Rs. 5,00,000/- - 0.55%
  - (c) for transaction from more than Rs. 5,00,000/- up to Rs. 20,00,000/- - 0.50%
  - (d) for transaction from more than Rs. 20,00,000/- up to Rs. 1,00,00,000/- - 0.45%
  - (e) for transaction of any amount more than Rs. 1,00,00,000/- - 0.40%
2. Service charge receivable against share brokerage for each transaction of sale and purchase of bonds issued by Government of Nepal or bonds issued by government organizations under full guarantee of Government of Nepal or bonds issued by Nepal Rastra Bank:
  - (a) for transaction up to Rs. 5,00,000/- - 0.20%
  - (b) for transaction from more than Rs. 5,00,000/- up to Rs. 50,00,000/- - 0.10%
  - (c) for transaction of any amount more than Rs. 50,00,000/- - 0.05%
3. Service charge to be received against share brokerage for each transaction of sale and purchase of securities other than that mentioned above in S.N. 1 and 2:
  - (a) for transaction up to Rs. 5,00,000/- - 0.30%
  - (b) for transaction for more than Rs. 5,00,000/- up to Rs. 50,00,000/- - 0.25%
  - (c) for transaction of any amount more than Rs. 50,00,000/- - 0.20%
4. Notwithstanding anything mentioned above in S.N. 1, 2 and 3, the service charge to be received against share brokerage shall not be less than Rs. 25/-
5. Within one month after the end of each fiscal year the Stock Broker must submit regulatory fee 0.6% to board from the total collection amount of service fee prescribed in S.N. 1, 2 and 3.
6. Stock Broker shall not be allowed to receive any other amount from client other than service charge prescribed in this schedule for the transaction service.

## **Schedule – 15**

**(Related to Sub-Regulation (2) of Regulation 32**

### **Transaction fees to be deposited by the Stock Broker, the Securities Dealer and the Market Maker**

1. Transaction fees to be deposited by the Stock Broker:
  - (a) If it is a share, 0.015% of each transaction amount of sale and purchase.
  - (b) if it is a debenture issued by Government of Nepal or guaranteed by Government of Nepal or issued by Governmental Organizations with full guarantee or issued by Nepal Rastra Bank, 0.005% of each transaction amount of sale and purchase
  - (c) If it is other than the securities mentioned above in part (a) and (b), 0.010% of each transaction amount of sale and purchase.
2. Transaction fees to be deposited by the Securities Dealer and the Market Maker
  - (a) If it is a share, 0.005% of each transaction amount of sale and purchase.
  - (b) if it is a debenture issued by Government of Nepal or guaranteed by Government of Nepal or Governmental Organization with full guarantee or Nepal Rastra Bank, 0.001% of each transaction amount of sale and purchase
  - (c) If it is other than the securities mentioned above in part (a) and (b), 0.002% of each transaction amount of sale and purchase.

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9. Amended by the decision of Board's Board Meeting held on 2072/04/05

## **Securities Business person (Merchant Banker) Regulations, 2008**

In exercise of the power conferred by section 116 of the Securities Related Act, 2006, the Securities Board of Nepal, upon the approval of the Government of Nepal hereby makes the regulations as follows:

### **Chapter-1**

#### **PRELIMINARY**

- 1. Short title and commencement:** (1) These regulations may be called the “Securities Businessperson (Merchant Banker) Regulations, 2008”.  
(2) They shall come into force from the date prescribed by the Securities Board of Nepal.
- 2. Definitions:** In these regulations, unless the subject or the context otherwise requires;-
  - (a) “Act” means Securities Related Act, 2006.
  - (b) “Board” means Securities Board of Nepal constituted pursuant to section 3 of the Act.
  - (c) “License” means the license provided by the Board authorizing to carry out securities business as Merchant Banker.
  - (d) “Merchant Banker” means securities businessperson which has obtained license to perform one or more function pursuant to Regulation 16.
  - (e) “Merchant Banking Business” means one or more business as mentioned in Regulation 16.
  - (f) “Issue Manager” means securities businessperson who has obtained license to carry out functions as mentioned in Part (a) of the Regulation 16.
  - (g) “Securities Underwriter” means securities businessperson who has obtained license to carry out functions as mentioned in Part (b) of the Regulation 16.
  - (h) “Share Registrar” means securities businessperson who has obtained license to carry out functions as mentioned in Part (c) of the Regulation 16.
  - (i) “Portfolio Manager” means securities businessperson who has obtained license to carry out functions as mentioned in Part (d) of the Regulation 16.

- (j) "Corporate consultant" means a merchant banker to perform the works as referred to in clause (e) of regulation 16".

## Chapter 2

### **PROVISIONS RELATED TO LICENSE**

**3. Application to be submitted for Obtaining License:** (1) A corporate body desirous to carry out securities business as Merchant Banker pursuant to this regulation shall submit an application to the Board in the format prescribed in Schedule-1 along with application fee prescribed in Schedule-2.

(2) The application to be submitted pursuant to Sub-regulation (1) shall be accompanied by the following information and documents:

- a) Information related to directors and chief executive as mentioned in Schedule-3.
- b) Information and documents related to the applicant body corporate as mentioned in the Schedule- 4.
- c) If the promoter is a company or body corporate, information and documents as mentioned in the Schedule-5.

(3) The Board, while examining the information or documents submitted with the application deems it appropriate, may require the applicant to furnish further information, documents or clarification.

(4) The Board, while examining the application and attached information and documents according to the provisions of the Act and this regulation, finds that the procedures prescribed under this regulation has not been complied with or false information or documents have been submitted, the Board may cancel the application submitted pursuant to Sub-regulation (1).

(5) The applicant, before issuance of the license, is required to furnish the Board any changes, in the particulars submitted with the application pursuant to Sub- regulation (1).

**4. Issuance of License:** (1) Upon examination of the application and information and documents submitted, the Board, based on the provisions of these regulations, finds it appropriate to grant license, may inform the applicant to make the required infrastructure ready.

(2) Within six months from the day informed by the Board pursuant to Sub-regulation (1), the prescribed infrastructures shall have to make ready and information regarding the following particulars shall have to be furnished to the Board:

- a) Information regarding office location and occupied area.
- b) Information regarding the office equipment and technology provisioned to carry out the licensed business.

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<sup>1</sup> Added by Merchant Banker (First Amendment) Regulation,2017

- c) Provisions regarding the organization structure and job description.
- d) Manpower provisions in the format given in Schedule-6 required for carrying out the securities business.

(3) Within thirty days of the receipt of information pursuant to Sub-regulation (2), the Board shall make on-site inspection and make enquiry on the state of infrastructure and if found adequate, may receive license fee as per the Schedule- 2 and issue license in the format given in Schedule-7.

(4) Whatsoever mentioned elsewhere in this regulation, the Board upon examination of the infrastructure prepared by the applicant pursuant to Sub-regulation (3), if finds inadequate, may allow maximum of three months period to make additional arrangement.

**5. License to be Obtained by those Operating Securities Business:** (1) Securities businesspersons operating merchant banking business pursuant to this regulation at the commencement of the Act shall apply to the Board within three months from the date of commencement of this regulation with application fee as per the Schedule-2 along with the following information and documents:-

- a. Copy of update Memorandum and Articles
- b. Copy of decision of the Board of Directors regarding the obtaining of the license
- c. Original certificate of registration of securities businessperson already obtained.
- d. Updated information about location of the office and space area, office equipment and means of communication, and organization structure and job allocation provisioned for conducting Merchant Banking Business.
- e. Information on the Directors and Chief Executive as prescribed in Schedule-3.
- f. Update information on the manpower provisioned for the Merchant Banking Business as prescribed in the Schedule-6.

(2) The Board shall examine the application of the Merchant Banker submitted along with application fee and required information and documents pursuant to Sub- regulation (1) and shall issue license in the format as mentioned in the Schedule- 7.

(3) Within three months from the date of submission of application pursuant to Sub- regulation (1), the Board may conduct onsite inspection and enquire about the infrastructure available to conduct securities business as mentioned in Part (d) Sub-regulation (1) and if finds the infrastructure inadequate, may issue directive to make further provisions.

**6. Application to be made for the Exit from or Entry to New Business:** (1) If a Merchant Banker decides to exit from any or all of the business which it has

obtained license shall, within thirty days of such decision, apply along with the original Merchant Banking License, to the Board for necessary action.

(2) Merchant Banker desirous to add new business under these regulations may apply to the Board with the application fee as mentioned in Schedule-2 along with following particulars and documents related to the securities business it is applying for:

- a) Feasibility study report,
- b) Three year business plan,
- c) Copy of decision of the Board of Directors regarding the obtaining of the license to add new business
- d) Document to verify that the paid up capital requirement for the additional business as mentioned in the Schedule-9 has been fulfilled
- e) Original license of the Merchant Banker.
- f) Manpower and infrastructure provisioned to carry out additional business.

(3) While reviewing the application made pursuant to the Sub-regulation (1), the Board if deems appropriate, may require the applicant to furnish further information or documents or may seek clarification.

(4) The Board before issuing license for additional business may make on-site inspection and make enquiry about the infrastructure prepared by the Merchant Banker.

(5) The Board after examining the application submitted pursuant to Sub-regulation (2) and upon receiving license fee shall cancel the original license and instead of which shall issue new license.

7. **Renewal of License:** (1) Those Merchant Bankers obtaining license under these regulations shall have to get the license renewed by applying to the Board in the format prescribed in the Schedule-8, along with annual fee as per the Schedule-2 within three months of the expiry of each financial year.

(2) A Merchant Banker who has not applied for renewal within the period as stipulated in the Sub-regulation (1) cannot carry out securities business after the expiry of the period until the license is renewed.

7a.<sup>2</sup>**Copy of License:** (1) a merchant banker shall make an application to the Board to obtain a copy of such license accompanied therewith the fee as referred to in schedule-2 in the case where the original license got worn out, destroyed, or lost.

(2) The Board may grant a copy of license as per the application made pursuant to sub-regulation (1)".

8. **Suspension and cancellation of license:** The procedure for the suspension and cancellation of license as mentioned in the Section 88 and 89 shall be according to the Nepal Securities Board Related Regulations, 2007.

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<sup>2</sup> Added by Merchant Banker (First Amendment) Regulation,2017

## Chapter 3

### **PROVISIONS RELATED TO CAPITAL AND OWNERSHIP**

- 9. Minimum Capital and Economic Resources:** The body corporate desirous to carry out Merchant Banking Business pursuant to these regulations shall require to meet the minimum capital requirement as stipulated in the Schedule-9.

<sup>3</sup>Provided that a body corporate having carried on merchant banking business at the time of coming into force of these rules shall increase its paid-up capital as referred to in Schedule -9 at the end of Ashadh 2075 (16th July, 2018) and communicate the same to the Board.

- 10. Provisions related to Ownership:** (1) Whatsoever mentioned elsewhere in these regulations, the Board may issue directives to the licensed Merchant Banker requiring it to make public issue stipulating the percentage and time frame as required, for the healthy operation of the Merchant Banking Business.

(2) If a foreign individual, company or body corporate intends to have ownership of the Merchant Banker, shall have to obtain permission to invest or operate business in Nepal under the prevailing laws or shall have to obtain permission from the government.

(3) Shareholders of the licensed Merchant Banker, excepting those subscribing to publicly issued shares, may sell their shares only to the individual, company or body corporate that are qualified and are not disqualified to own the promoter share under these regulations.

(4) Shareholders of the Merchant Bankers, excepting those owning publicly issued shares, shall not sale shares they own within one year from the date of obtaining the license.

(5) <sup>4</sup>Shareholders of merchant bankers shall get recorded the shares owned by them at the Board prior to sale or transfer.

(6) <sup>5</sup>An application shall be made, through a company or a body corporate, to the Board to record the shares as referred to in sub-rule (5), along with statements stating therein that a person purchasing shares as per these rules is qualified and not being disqualifies and the fee at the rate of 0.3 (zero- point three) percent of the face value of the total shares to be transferred.

(7) <sup>6</sup>A person purchasing or transferring the shares as per sub-rule (6) shall have to make an application accompanied with particulars and documents as referred to in Schedule-3 for purchasing or transferring the same.

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<sup>3</sup> Added by Merchant Banker (First Amendment) Regulation,2017

<sup>4</sup> Added by Merchant Banker (First Amendment) Regulation,2017

<sup>5</sup> Added by Merchant Banker (First Amendment) Regulation,2017

<sup>6</sup> Added by Merchant Banker (First Amendment) Regulation,2017

(8) <sup>7</sup>The Board may ask the applicant to furnish additional particulars or documents or clarify the matters upon making inquiry into the application and documents attached if the Board deems it necessary.

(9) <sup>8</sup>Notwithstanding anything contained in these rules, provision of this rule shall not be applicable in transferring ownership of, the securities offered publicly, or listed securities, or securities in the ownership of a listed body corporate.

**11. Disqualification to be a promoter:** (1) The following persons shall not be qualified to own promoter share of a Merchant Banker:-

- a. convicted in the criminal cases of moral turpitude,
- b. If convicted in the cases of corruption or fraud, not before the five years of clearing the sentence,
- c. If declared insolvent for loan default, not completed five years from the date of such insolvency,
- d. Not in the black list of the Credit Information Centre,
- e. Directors of the body corporate that failed to get its securities listed after making public issue or that its listing has been cancelled,
- e1. <sup>9</sup>Having ownership or any office of profit in other merchant banker company.

Provided that if there held any ownership or any office of profit in other merchant banker organizations at the time of coming into force of this rule, such ownership and office of profit shall be released within one year from such rule coming into force and communicate the same to the Board"

- f. Directors of the company or body corporate which are having the disqualification as mentioned in the Sub-regulation (2).

(2) The following company or body corporate shall not be qualified to own the promoter share of a Merchant Banker:-

- a) One declared insolvent for loan default,
- b) A body corporate having responsibility to make its financial statements public, has failed to make the audited financial statements public continuously for three years.
- c) One remaining in the black list of the Credit Information Center,
- d) The person with disqualification pursuant to Sub-regulation (1) has been a promoter, director or chief executive.

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<sup>7</sup> Added by Merchant Banker (First Amendment) Regulation,2017

<sup>8</sup> Added by Merchant Banker (First Amendment) Regulation,2017

<sup>9</sup> Added by Merchant Banker (First Amendment) Regulation,2017

## Chapter 4

### **PROVISIONS RELATED TO DIRECTOR AND CHIEF EXECUTIVE**

- 12. Appointment of Director and Chief Executive:** (1) A Merchant Banker shall have to appoint the directors and chief executive who meet the qualification and do not have any disqualification pursuant to these regulations.
- (2) In case the Merchant Banker appoints new director or chief executive, the Board shall have to be reported on the director or chief executive as mentioned in the Schedule-3, within seven days of such appointment.
- 13. Qualification of the Directors and Chief Executive:** The qualification of the directors and the chief executive of the Merchant Banker shall be as follows:-
- A two-third of the directors including chairman and executive chief shall have a minimum bachelor degree in economics or commerce or finance or accounts or management or commercial law from a recognized educational institution or be a certified chartered account and having a minimum of three years' experience in industry, commerce or securities market or accounts, finance or commercial law or in management related functions in financial sector,
  - Possessing Nepali Citizenship, provided that even a foreign citizen can also be director or chief executive with the approval of the government.
- 14. Disqualification of Directors and Chief Executive:** The director or chief executive of the Merchant Banker shall not be having the following disqualifications:-
- Insane or of unsound mind,
  - Taking position of benefit in the Board, Stock Exchange or other Merchant Banker Institution,
  - Convicted in the criminal offence of moral turpitude,
  - A person who is declared insolvent or who is director or chief executive of an insolvent company or a body corporate and a period of five years has not elapsed,
  - A person who is in the black list of Credit Information Centre or who is director or chief executive of a company or body corporate that is in such list.
  - A person who remained as director or chief executive in a body corporate that did not get listed after going public or that it's listing has been cancelled.
  - Securities business person whose license has been cancelled for the violation Securities Related laws.
  - <sup>10</sup>Having ownership or any office of profit in other merchant banker organizations.

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<sup>10</sup> Added by Merchant Banker (First Amendment) Regulation, 2017

Provided that if there held any ownership or any office of profit in other merchant banker organizations at the time of coming into force of this rule, such ownership and office of profit shall be released within one year from such rule coming into force and communicate the same to the Board

**15. Continuation of provisions related to Qualification:** (1) A Merchant Bank shall maintain the qualification required for the directors and chief executive throughout the period of validity of its license

(2) The director or chief executive shall be considered to be automatically terminated from date of failing to meeting the qualification pursuant to Sub-regulation (1).

(3) Should the situation pursuant to Sub-regulation (2) arise, the Merchant Banker shall require informing the Board and appoint the director or chief executive meeting the qualification and not having any disqualification under these regulations within three months and inform the Board.

## Chapter 5

### PROVISIONS RELATING TO BUSINESS OPERATION AND FEES

**16. Functions of the Merchant Banker:** (1) Merchant Banker having obtained the license may carry out one or more than one of the following functions:-

- a) All the functions related to issue and sales management of securities including drafting of prospectus, offer documents and other related documents,
- b) Underwriting by entering into agreement with body corporate and undertake to purchase the unsubscribed portion of securities offered by body corporate,
- c) Provide share registration related services such as maintaining register of ownership of securities and execute name transfer on behalf of the body corporate,
- d) Provide portfolio management services to the clients by entering into an agreement.
- e) <sup>11</sup>To make available corporate consultancy service

(2) A Merchant Banker obtaining license under these regulations shall not carry out functions other than Merchant Banking Business,

Provided that such restriction shall not be applicable to banks and financial institutions.

(3) Notwithstanding anything contained in this regulation Merchant Banker may carry out other securities business pursuant to Section 63 of the Act after obtaining the license.

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<sup>11</sup> Added by Merchant Banker (First Amendment) Regulation,2017

- 17. Require to Entering into an Agreement:** (1) A Merchant Banker before providing Merchant Banking Services shall have to enter into an agreement with the relevant person or body corporate by mentioning the services it provides and rights and obligation of both the service users and providers.
- (2) The agreement so entered pursuant to Sub-regulation (1) shall have to be submitted to the Board within fifteen days of conclusion of the agreement.
- (3) The parties agreeing to provide or use Merchant Banking Services shall be obliged to honor the terms of the agreement.
- (4) The Board may prescribe the format of the agreement to be entered under these regulations.
- 18. Business may be conducted jointly:** (1) A Merchant Banker may provide its services in its role as Lead Merchant Banker while appointing other Merchant Bankers as Joint Merchant Bankers
- (2) The Lead Merchant Banker while doing business jointly with joint Merchant Bankers under these regulations shall have to enter into an agreement and report the agreement to the Board.
- (3) A Lead Merchant Banker while rendering service by appointing joint Merchant Bankers shall have to obtain the consent of the related party to whom it is providing its services.
- 19. Responsibility of Issue Manager:** The Issue Manager shall have responsibility for all the issue related activities inclusive of information and disclosures, opening of the subscription list and collecting money, allotment of securities, refund and distribution of certificates.
- 20. Responsibility of Share Registrar:** Share Registrar shall have responsibility to execute transfer of securities received after completion of required transfer procedures, verify ownership of securities, maintain the record of the holders of securities and carry out other activities related to share registration.
- 21. Responsibility of Securities Underwriter:** Securities Underwriter shall have responsibility inclusive of its obligation to subscribe for the unsold portion of the securities it agreed to underwrite and make payment for the security.
- 22. Responsibility of the Portfolio Manager:** The responsibility of portfolio manager shall be inclusive of entering into agreement with the clients for portfolio management, opening client's accounts, buying and selling securities on behalf of the clients as per the terms of agreement make payment and provide other portfolio related services.
- 22a<sup>12</sup> Responsibility of corporate consultant:** (1) a corporate consultant shall be the responsibility to provide consulting services on changing structure of a body corporate, evaluation, business plan, loan syndication, working capital financing,

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<sup>12</sup> Added by Merchant Banker (First Amendment) Regulation, 2017

venture capital, private equity, operation of fund like hedge fund, assets management etc.

(2) The corporate consultant shall inform to the Board stating therein the subjects and nature of consultancy he/she provides.

(3) Notwithstanding anything contained in sub-rule (1), it shall not be deemed to have restricted to carry out the services as referred to in sub-rule (2) without a license pursuant to these rules by a person, firm, company or a body corporate who are entitled to perform such services

- 23. Transaction Limit:** The Board, based on the paid up capital or net assets value, may prescribe from time to time, the limit for the business transaction that a Licensed Merchant Banker may carry out under these regulations.
- 24. Service fee:** (1) A Merchant Banker may charge fees for providing securities transaction related services according to the Schedule-10.

(2) The Merchant Banker shall require submitting five percent of total service fee received from Merchant Banking Business during the year to the Board within one month from the end of the financial year.

## **Chapter 6**

### **PROVISIONS RELATED TO RECORD, INFORMATION AND DISCLOSURES**

- 25. Maintaining Accounts and Documents:** (1) A Merchant Banker shall require keeping its books of accounts and prepare financial reports including profit and loss accounts, balance sheet and cash flow statements in the format and standards as prescribed under the prevailing laws.

(2) While preparing financial statements by a licensed bank and financial institutions pursuant to Sub-regulation (1), a separate income and expenditure shall have to be prepared in a separate schedule for merchant banking transactions.

(3) The Board, from time to time, may prescribe the format for records and statements to be maintained by the Merchant Banker for the merchant banking transactions.

- 26. Reports to be submitted:** (1) A Merchant Banker shall submit its audited financial statement for each financial year and business report for the period to the Board within three months from the end of the financial year.

(2) A Merchant Banker shall submit semi-annual report of its merchant banking business to the Board within sixty days of the expiry of the semi-annual period.

(3) If the reports could not be submitted within the period pursuant to Sub-regulation (1), the Board may, on the application of the Merchant Banker stating appropriate reason thereof, may grant extension for another three months. The Board may impose fine on the Merchant Banker pursuant to the provisions of the regulation for failure to submit annual report even in the period so extended.

- (4) In consideration to the need for regulating the market, the Board may prescribe the format for the reports to be submitted pursuant to Sub-regulation (1) and (2) and also may require additional information to be disclosed in the report.
27. **Require Audit to be done by the Registered Auditor:** A Merchant Banker shall require the audit of its business account to be done by the auditor drawn from list of auditors registered with the Board.
28. **Information and Details to be submitted:** (1) Merchant Banker shall require submitting the Board the following information and details within the time period as mentioned below:-
- (a) In case the Merchant Banker is going to open branch office or liaison office to conduct merchant banking business, information related to it at least seven days before such opening.
  - (b) Information on closure of branch office or liaison office, within seven days of such closure.
  - (c) Information before the amendment in the Memorandum and Articles if such amendment affects the merchant banking business.
- (2) Merchant Banker shall immediately inform the Board on the following matters:-
- (a) Change in address, contact telephone, fax number, email etc.,
  - (b) Any action taken or proceedings initiated under prevailing law against the Merchant Banker or its promoter, director and executive chief,
  - (c) Director or chief executive listed in the black list maintained by Credit Information Center.

## Chapter 7

### MISCELLANEOUS

29. **To comply with the Code of Business Conduct:** Merchant Banker shall require complying with the code of business conduct issued by the Board.
- 29a<sup>13</sup>. **Merger and Acquisition of company:** (1) if any bank or financial institution, operating merchant banking through its subsidiary company, has merged or acquired, in such condition there shall be established only one subsidiary company to carry on merchant baking.
- (2) There shall be only one subsidiary company for merchant banking following the completion of merger and acquisition as referred to in sub-regulation (1).
30. **Provisions related to the Net Capital:** The Board may, from time to time, prescribe the Net Capital requirement for the Merchant Banker.

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<sup>13</sup> Added by Merchant Banker (First Amendment) Regulation, 2017

- 31. Maintaining the Record of Proceedings** (1) The Board shall maintain the record of Merchant Banker or related person who has been taken action according to the law for the violation of Act and non-compliance to the orders or directives issued by the Board.
- (2) The Board may deny giving an access to the services available under the Act to the company, body corporate, natural person or any company or body corporate where such person has been included in the record pursuant to Sub-regulation (1).
- 32. To be prescribed through the directives or guidelines:** The Board may, from time to time, prescribe additional provisions related to Merchant Banking Business through the issuance of directives and guidelines depending on the requirement.
- 33. To be According to these Regulations:** These regulations shall be applicable in the matters specified under it and the rest shall be according to other regulations issued under the Act.
- 34. Amendment or change in the Schedule:** The Board may amend or make changes in the Schedule according to the requirement.
- 35. Repeal and Saving:** (1) The provisions related to merchant banking business under the Securities Transaction Regulations, 1993 are hereby repealed.
- (2) Notwithstanding such repeal, anything done or action taken or proceedings under the said provisions shall be deemed to have been done or taken under corresponding provisions of these regulations.

**Schedule-1**  
(Related to Sub-rule (1) of Rule (3))  
Format of License Application

Date:-

**Ms Securities Board of Nepal**

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**Reference: Granting License to Conduct Merchant Banking Business**

We are desirous to conduct the Merchant Banking Business as mentioned below under the Securities Related Act and Regulations, bye-laws, directives and other prevailing laws of Nepal. Hence we, hereby submit this application along with the fee, information and documents as required.

We are qualified and have fulfilled the requirements prescribed to carry out Merchant Banking Business. The attached documents and information is true, factual and estimates are reasonable. We have neither knowingly concealed nor exaggerated the details presented herewith. If convicted to have concealed relevant fact or to have presented wrong document or information, we hereby submit to bear with consequences according to the terms of the law.

**Merchant Banking Business Applied for:-**

1. Issue Management
2. Securities Underwriting
3. Share Registration
4. Portfolio Management
5. <sup>14</sup>Corporate Consultant Service


**Chief Executive:**

Name:

Signature:

**Applicant body corporate:**

Name:

Address: ..... Zone..... District..... VDC/Municipality Locality (Tole)..... Block No.

Tel No                          Fax.....                          email.....

Seal of body corporate

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<sup>14</sup> Added by Merchant Banker (First Amendment) Regulation,2017

**<sup>15</sup>Schedule-2**

(related to sub-rule (1) of rule 3, sub-rule (3) of rule  
4 and sub-rule (1) of rule 5)

Application fee, License fee, Annual fee and fee for Duplicate copy

<b>S. N.</b>	<b>Types of merchant banking business</b>	<b>Application fee</b>	<b>License fee</b>	<b>Annual fee</b>
1	Issuance and sale	Rs. 25,000/	Rs.3,00,000/	Rs. 1,50,000.
2	share registration	Rs 25,000/	Rs.2,00,000/	Rs.1,00,000/
3	guarantee for securities	Rs. 25,000/-	Rs.3,00,000/-	Rs.1,50,000/-
4	portfolio management	Rs. 25,000/	Rs.2,00,000/	Rs.1,00,000/
5	Corporate Advisory	Rs. 25,000/	Rs.3,00,000/	Rs.1,50,000/
6.	fee for duplicate copy	Rs. 10,000/		

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<sup>15</sup> Amended by Merchant Banker (First Amendment) Regulation,2017

### Schedule-3

(Related to Part (a) of Sub-rule (2) of Rule 3 and part (e) of Sub-rule (1) of Rule 5 and Sub-rule (2) of Rule 12)

#### Profile of the Director/ Chief Executive

Photo

1. Name:
2. Permanent address: Zone....District....VDC/Municipality.... Tole (area): Ward No.....House/Block No...Phone...Email...
3. Present address: Zone...District...VDC/Municipality ..... Tole (area)...Ward No...House/Block No...Phone No...Fax...Email...
4. Father's Name:
5. Grand father's Name:
6. Name of husband or wife:
7. Academic qualification:
8. Professional experience:
9. Training:
10. In case holding one percent or more or occupying a position of benefit in other company or body corporate, relevant details:
11. In case of having family relation with other promoter, director or chief executive of the Applicant Company or body corporate, related information;
12. In case any action taken or action pending under the Securities or other law against self or related company or body corporate, details thereof:
13. Declaration on having fulfilled qualification required for and not having disqualification as stipulated for the director or chief executive of the Merchant Banker.

Signature.....

#### Document to be attached:

1. Copy of documents to verify qualification, experience and affiliation, if any with other institutions.
2. Copy of citizenship certificate

**Schedule-4**  
(Related to Part (b) of Sub-rule (2) of Rule 3)

**Information and documents related to the applicant body corporate**

- a. Copy of registered certificate
- b. Copy of memorandum and articles
- c. Copy of related act and subsidiary rules and by-laws in case of body corporate established under special act
- d. Feasibility study report by the type of merchant banking activities proposed by the applicant
- e. Three years business plan of the merchant banking activity including projected financial statements for the coming three year
- f. Copy of decision of the board of directors regarding to obtaining of the license
- g. Document to verify paid up capital
- h. Details on share ownership of the promoters
- i. Name, full address, contact telephone and share ownership of the owners with five percent or more of the paid up capital
- j. Audited financial statements of the last financial year in the format and accounting standards prescribed by law  
(If the body corporate has not completed fiscal year after establishment may produce updated financial statement for the interim period verified by the management)
- k. Description regarding the location of the proposed merchant banking business office, space area, office equipments, means of communication and manpower related information.
- l. Information related to organization and job description planned for the Merchant Banking Business.
- m. If ownership held in other company or body corporate, related information.

## **Schedule-5**

(Related to part (c) of Sub-rule (2) of Rule 3)

### Information and documents to be submitted related to the Promoter Company or Body Corporate

- (a) A Copy of registered certificate,
- (b) A Copy of Memorandum and Articles each
- (c) A copy of the act and related regulation and bylaws if established under any special act,
- (d) A decision of the board of directors regarding the investment in the body corporate which is desirous to function as a Merchant Banker,
- (e) Audited financial statement of the previous financial year prepared in accordance with format and standards prescribed by the prevailing law and also annual report prepared with the inclusion of information related to the operation of its business during the year. ( Updated financial statement and operation report verified by the management may be presented in case of company or body corporate which has not completed the financial year after establishment)
- (f) Name, full address, contact telephone number and information on the stake in ownership if holding a five percent or more in the paid up capital
- (g) Declaration of the company or body corporate that it does not have disqualification to acquire ownership of the Merchant Banker as per this Regulation.
- (h) In case any action was taken or proceeding is going on against the company, body corporate or director or chief executive under the Securities Related or other law such related information.
- (i) In case the company or body corporate has ownership in other company or body corporate, such related information.
- (j) The following information and documents related to the directors and chief executive:-
  - 1. Name and full address
  - 2. In case of ownership or holding any position of benefit, related information

(Note: Applicable information and document may be presented if a foreign company or body corporate is promoter of the Merchant Banker)

**Schedule-6**  
(Related to part (d) of Sub-rule (2) of Rule 4)

Information related to the human resources

S. No.	Full Name	Address	Position	Job responsibility	Academic qualification	Work experiences

## **Schedule-7**

(Related to Sub-rule (3) of Rule 4 and Sub-rule (3) of Rule 5)

**Securities Board of Nepal  
Kathmandu.**

### **Securities Business person (Merchant Banker) License**

License No.....

This license has been issued to M/S .....with head office at.....to carry out the functions mentioned below as Securities Businessperson ( Merchant Banker ) under the Securities Related Act and subsidiary Regulations, Directives and other prevailing laws

1. Issue and Sales Management
2. Securities Underwriting
3. Share Registration
4. Portfolio Management
5. <sup>16</sup>Corporate consultancy service


This license shall be valid until ..... unless renewed

Authorized Signature:

Name:

Position:

Date:

Seal of the Board:

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<sup>16</sup> Added by Merchant Banker (First Amendment) Regulation, 2017

**Schedule-8**  
(Related to Sub-rule (1) of Rule 7)

**Format of Application for Renewal of License**

Date:- .....

**Ms Securities Board of Nepal**

.....

**Reference: License Renewal**

The license to carry out function as Merchant Banker under the Securities Businessperson (Merchant Banker) Regulation, 2008 is valid until .....  
I hereby submit this application along with the license and the annual fee and request for the renewal of the license.

Authorized Signature:

Name:

Position:

Seal of body corporate:

**<sup>17</sup>Schedule-9**  
**(Related to Sub-rule (1) of Rule 9)**

- (a) **The minimum paid-up capital:**
- |                               |                  |
|-------------------------------|------------------|
| 1. Issuance and sales manager | Rs. 50,000,000/- |
| 2. Share underwriter          | Rs. 70,000,000/- |
| 3. Share registrar            | Rs. 30,000,000/- |
| 4. Portfolio manager          | Rs. 50,000,000/- |
| 5. Corporate consultant       | Rs. 30,000,000/- |
- (b) The minimum paid-up capital of an applicant to submit application to carry on merchant banking business as referred to in Serial No. 1 to 5 of clause (b) shall be Twenty Crore Rupees.
- (c) Share underwriter may make investment or underwriting up to five-fold of the past audited net worth and portfolio manager up to ten-fold of the past audited net worth

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<sup>17</sup> Amended by Merchant Banker (First Amendment) Regulation, 2017

## **Schedule-10**

**(Related to Sub-rule (1) of Rule 24)**

### **Service Fees**

Merchant Bankers may charge following fees for their services:

1. Issue and sales manager may levy maximum two percent service charge of the amount to be issued and sold for consultancy service on issuance of securities through public offering or circular method.<sup>18</sup>  
Provided that the consultancy service shall not be less than one lakh rupees.
2. Service charge of maximum four percent on the amount underwritten for the underwriting of securities for the public issue or issue through circular method.
3. A service fee of Rs 10 may be charged for execution of securities transfer. Also the annual service fee of the Merchant Banker functioning as Share Registrar shall be as according to the agreement between the Merchant Banker and the body corporate.
4. Service fee to be levied on providing portfolio management and consultancy services to customers shall be as per an agreement to be entered into between merchant banker and the concerned customer<sup>19</sup>

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<sup>18</sup> Amended by Merchant Banker (First Amendment) Regulation,2017

<sup>19</sup> Amended by Merchant Banker (First Amendment) Regulation,2017

Commencement Date: 2010/09/27

First Amendment: 2012/06/26

Second Amendment: 2015/03/25

## Mutual Fund Regulations, 2067 (2010 A.D.)

In exercise of the power conferred by Section 116 of Securities Act, 2063 (2006), Securities Board of Nepal has, upon the approval of the Government of Nepal, made the regulations as follows:

### Chapter – 1

#### Preliminary

1. **Short Title and Commencement:** (1) These Regulations may be called "Mutual Fund Regulations, 2067 (2010A.D.)".  
(2) These Regulations shall be deemed to have been commenced from the date as prescribed by the Securities Board of Nepal.
2. **Definitions:** Unless the subject or the context otherwise requires, in these Regulations,
  - (a) "License" means the license issued pursuant to these Regulations.
  - (b) "Unit" means the unit of securities issued under the scheme.
  - (c) "Act" means Securities Act, 2063 (2006).
  - (d) "Credit Information Bureau" means the credit information bureau established under the prevalent laws.
  - (e) "Sponsor" means the Body Corporate who establishes and promotes the Mutual Fund.
  - (f) "Fund Supervisor" means the group of people appointed pursuant to Regulation 6 for supervising the Mutual Fund.
  - (g) "Open Ended Scheme" means a scheme which is operated without specifying any duration for redemption.
  - (h) "Close Ended Scheme" means a scheme which is operated specifying the period of maturity.
  - (i) "Board" means the Securities Board of Nepal established pursuant to Section 3 of the Act.
  - (j) "Scheme" means the scheme that has obtained approval pursuant to Regulation 24 from the Board.

- (k) "Fund Manager" means the Company or Body Corporate licensed pursuant to Regulation 15 for working as a fund manager of the Mutual Fund.
- (l) "Mutual Fund" means a fund as defined in the Sub-section (m) of Section 2 of the Securities Act, 2006.

## Chapter – 2

### **Provisions regarding Registration and Operation of Mutual Fund**

- 3. **Mutual Fund may be established:** (1) Any one or more than one body corporate may establish a Mutual Fund.
  - (2) The qualification of body corporate willing to establish a Mutual Fund shall be as follows:-
    - (a) A body corporate established for performing financial business pursuant to prevalent laws,
    - (b) Having minimum paid up capital equal to one Billion rupees.
    - (c) Having completed five years of operation of business subject to its objectives,
    - (d) Have earned profit for last three years continuously,
    - (e) Having paid up capital not less than its net worth,  
**Clarification:** For the provision of this clause "net-worth" means the aggregate value of the paid up equity capital and free reserves (excluding reserves created out of revaluation), reduced by the aggregate value of accumulated losses and deferred expenditure not written off including miscellaneous expenses not written off.
    - (f) The body corporate or its promoters and Directors should not be one who have been convicted and punished against fraud or criminal offence of moral turpitude,
    - (g) Have not remain in the black list of Credit Information Bureau or any other regulating body,
    - (h) Have satisfied other qualification as prescribed by the Board from time to time.
  - (3) Notwithstanding anything contained in Sub-regulation (2), the provisions regarding qualification as mentioned in Sub-regulation (2) shall not prevail to the body corporate established subject to any Act with an objective of operating Mutual fund

- (4) Notwithstanding anything mentioned elsewhere in these Regulations, the Board may prescribe other qualifications as required while establishing the Mutual Fund in joint venture of more than one body corporate.
4. **Mutual Fund to be Registered:** (1) Any Body Corporate willing to establish a Mutual Fund pursuant to Regulation 3 shall be required to submit an application in the format as prescribed in schedule-1 along with the documents and information as follows:-
- (a) Certified copy of certificate of incorporation of the Company,
  - (b) Certified copy of Memorandum and Articles of Association,
  - (c) If the body corporate has been incorporated under special Act, copy of Rules and Byelaws regarding same,
  - (d) Name of the proposed Mutual Fund
  - (e) Decision of Board of Directors regarding establishment of Mutual Fund,
  - (f) Details regarding the Executive Chief and Directors as prescribed in Schedule-2,
  - (g) Certified copy of financial statement of the body corporate and proof of amount required for the fund,
  - (h) Feasibility study report regarding establishment and operation of Mutual Fund,
  - (i) Annual report including audited financial reports of last five years,
  - (j) Other details as prescribed by the Board.
- (2) The applicant submitting application pursuant to Sub-regulation (1) shall be required to submit application fee pursuant to Schedule-3 along with the application.
- (3) If it deems necessary, the Board may demand additional information or documents or may ask to clarify on any subject or may ask for amendment or alteration from the applicant.
- (4) While conducting examination on the application received pursuant to Sub-regulation (1), if it is considered that the applicant is capable of operating the Mutual Fund, the Board shall register the Mutual Fund and shall provide registration certificate in the format as prescribed in Schedule-4.
- (5) The Board, before issuing the certificate pursuant to Sub-regulation (4), shall charge fund registration fees as prescribed in Schedule-3 from the applicant.
- (6) While providing certificate pursuant to Sub-regulation (4), the Board may specify necessary terms and conditions regarding operation of the Fund.

- 5. Board may refuse for Registration of Fund:** (1)The Board may refuse for registering Mutual Fund on the basis of following grounds:
- (a) If the eligibility criteria as mentioned in Regulation 3 is not satisfied,
  - (b) If the documents and details pursuant to Regulation 4 is not fully furnished, or
  - (c) If it is determined not appropriate to allow operation of Mutual Fund on the basis of situation of securities market, market feasibility and protection of investors' interest.
- (2) While refusing for registration pursuant to Sub-regulation (1), it shall be required to disclose the reason and grounds clearly.
- 6. Fund Supervisor to be appointed:** (1) Before the operation of the Mutual Fund registered pursuant to Regulation 4, the Sponsor shall appoint at least five people from different field and having qualification as pursuant to Regulation 7 as the Fund Supervisors for the supervision of the fund and protection of Unit holder's interest.
- (2) The Sponsor shall be required to obtain approval from the Board before appointing the Fund Supervisor pursuant to Sub-regulation (1).
- (3) For the purpose of obtaining approval from the Board pursuant to Sub-regulation (2), the Sponsor shall be required to prepare the details of the Fund Supervisor on the format as specified in Schedule – 4 and submit an application to the Board.
- (4) While appointing the Fund Supervisor, the Sponsor shall appoint at least two third independent people having no direct or indirect financial interest or any other interest with the Sponsor and Fund Manager.
- (5) While submitting application pursuant to Sub-regulation (3), the Sponsor shall be required to submit the agreement papers regarding funding supervision to be concluded with the Fund Supervisor.
- (6) It shall be required to mention the power, functions and duties of Sponsor and Fund Supervisor in the agreement pursuant to Sub-regulation (5).
- (7) While conducting examination on the application received pursuant to Sub-regulation (3), if such people are considered qualified, the Board may provide approval to Sponsor for appointing them as the Fund Supervisors.
- (8) Notwithstanding anything contained elsewhere in these Regulations, the Board may provide approval to anybody corporate for working as a Fund Supervisor.

(9) The Fund Supervisors appointed pursuant to these Regulations shall be required to work independently for the protection of interest of the Unit holders.

(10) The Board may instruct the Sponsor to replace the fund supervisor whose work is not found satisfactory with new Fund Supervisor.

(11) The matters like working manual for Fund Supervisors and division of work of Fund Supervisors shall be as specified by the Fund Supervisors themselves.

7. **Qualification of Fund Supervisor:** The qualification of a Fund Supervisor shall be as follows:-

- (a) holding at least Master's degree in the field of economics or commerce or finance or accounts or management or commercial law from a recognized educational institution or be a certified chartered account or having qualification similar to that and have minimum Ten years <sup>1</sup>of experience in the field of finance, industries, commerce, accounts, law or capital market,
- (b) Not been convicted and sentenced for imprisonment against criminal offence of moral turpitude,
- (c) Not been convicted under the laws regarding securities,
- (d) Has not remained in black list of Credit Information Bureau.
- (e) Must completed one of retirement from any position of Board, stock market, securities businessperson, listed body corporate or fund manager company<sup>2</sup>

<sup>3</sup>Provided that retired from any position of fund manager organization or Fund Supervisor must completed one year of retirement.

- (f) Has not been appointed as a Fund Supervisor in any other Mutual Fund.

8. **Fund Manager to be appointed:** (1) The Sponsor, with taking approval from Fund Supervisor, shall appoint the Fund Manager and informed the same to Board.<sup>4</sup>

(2) While appointing the Fund Manager pursuant to Sub-regulation (1), it shall be required to appoint from among the body corporate licensed from

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<sup>1</sup> Amended by Mutual Investment Fund(Second Amendment) Regulation,2015

<sup>2</sup> Amended by Mutual Investment Fund (First Amendment) Regulation, 2012

<sup>3</sup> Added by Mutual Investment Fund (First Amendment) Regulation, 2012

<sup>4</sup> Amended by Mutual Investment Fund (First Amendment) Regulation, 2012

Board for performing the task of making investment and managing the Mutual Fund registered.

(3) While appointing the Fund Manager pursuant to Sub-regulation (1), it shall be required to enter into agreement between Sponsor and the Fund Manager.

(4) The copy of the agreement concluded between the Sponsor and Fund Manager shall be submitted to the Board within thirty days of such agreement.

(5) The Fund Manager shall not conduct any other business except Fund Management.

However, if it deems appropriate, the Board may specify specific terms and condition and provide approval for performing other types of securities business not causing conflict of interest with fund management.

(6) Notwithstanding anything contained elsewhere in these Regulations, if the Sponsor Company of any Mutual Fund who has opened subsidiary company for operating merchant banking business intends to appoint such subsidiary company as a Fund Manager of the Mutual Fund promoted by it, it may appoint such company as a Fund Manager by obtaining approval from the Board.

**9. Depository to be appointed:** (1) The Fund Manager shall, with consent of the Fund Supervisor, appoint the Depository from among the body corporate licensed from the Board for performing task of depository of the Fund.

(2) While appointing the Depository pursuant to Sub-regulation (1), it shall be required to enter into agreement between Fund Manager and Depository.

(3) The copy of the agreement concluded between the Fund Manager and Depository should be submitted to the Board within thirty days of such agreement.

(4) Notwithstanding anything contained elsewhere in these Regulations, the Fund Manager itself may, by obtaining approval from the Board, conduct the task of the Depository.

**10. No Conflict of interest to prevail:** (1) there should not be any type of conflict of interest between Sponsor and Depository or Fund Manager and Depository.

Provided that, the provisions of this Regulation shall not apply in the case of Fund Manager itself performing the task of Depository.

(2) The Board may provide directions for arranging necessary provisions to the Sponsor, Fund Manager or Depository in case of finding presence of conflict of interest pursuant to Sub-regulation (1).

**11. Mutual Fund registration may be cancelled:** The Board may cancel the registration of Mutual Fund on the following grounds:-

- (a) If none of the scheme is brought to effect within one year of registering the Mutual Fund.
- (b) If the Sponsor apply for the cancellation of the Fund.
- (c) If the Sponsor is liquidated.

**12. Provisions regarding the Mutual Funds in Operation:** There shall not be any obstruction for operating the Schemes of Mutual funds which are in operation at the time of commencement of these regulations till the maturity period of such schemes.

Provided that, if the parties related with that Mutual Fund are to operate new Mutual Fund or are to operate new scheme under the Mutual Fund in operation, it shall be required to promote and operate the Mutual Fund pursuant to the provisions of these Regulations.

### **Chapter-3**

#### **Provisions regarding License**

**13. License to obtain for working as Fund Manager and Depository :** (1) anybody corporate willing to work as a Fund Manager or Depository pursuant to Regulation 14, before commencing such work, shall have to obtain license from the Board.

(2) In order to obtain the license pursuant to Sub-regulation (1), it shall be required to submit an application in the format as specified in the Schedule – 6 along with the details and documents as follows to the Board:

- (a) Details and documents of the applicant body corporate in the format as prescribed in Schedule 7,
- (b) If any company or body corporate other than Sponsor is the promoter of the applicant body corporate, details and documents of such company or body corporate in the format as prescribed in Schedule – 8.
- (c) Details of Directors and Executive Chief of the applicant body corporate as prescribed in Schedule –2
- (d) With regard to the Fund Manager, details of the representative pursuant to Section 64 of the Securities Act as prescribed in Schedule –7.

**14. Qualification for Fund Manager:** (1) The qualification for the body corporate willing to work as a Fund Manager shall be as follows:-

- (a) should be a body corporate established for working as a Fund
  - (b) Manager under the prevalent laws,
  - (c) Should have mentioned on objective of Company to work as Fund Manager in its Memorandum and Articles of Association.
  - (d) having minimum paid up capital of hundred million rupees,
  - (e) Should have net worth equal to minimum seventy five percent of its paid up capital,
  - (f) should have at least 51% shareholding of the concerned Sponsor
  - (g) The applicant body corporate and its Directors or Executive Chief have not been convicted and sentenced for imprisonment against any criminal offence of deception or fraud.
  - (h) The applicant body corporate and its Directors or Executive Chief have not been convicted and sentenced for imprisonment against any criminal offence of moral turpitude,
  - (i) No involvement of the body corporate or its Executive Chief or Director from among the body corporate who have collected the fund from public offering but have not provisioned necessary arrangement for securities transaction or vanishing company that are out of contact from the Board or have been in procedure of delisting or been listed from Board as the body corporate in operation without bearing any responsibility.
  - (j) Director or Executive Chief has not been black listed by Credit Information Bureau or any other Regulating Body,
- (2) The qualification of the Directors and Chief Executive of the Fund Manager shall be as follows:-
- (a) <sup>5</sup> For Chief Executive and Independent Director, one having at least seven years of work experience in the field of industries, commerce, stock market or financial sector accounting or finance or commercial law or management after holding at least master's degree from any recognized university in economics, commerce, finance, accounts, management, or commercial lawstreams or chartered accountancy or holding equivalent the same certificate shall be considered qualified and for other directors one having at least seven years of work experience in the field of industries, commerce, stock market or in financial sector accounting or finance or commercial law or

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<sup>5</sup> Amended by Mutual Investment Fund (First Amendment) Regulation, 2012

management after holding at least bachelor's degree from any recognized university in economics, commerce, finance, accounts, management, or commercial lawstreams shall be considered qualified

Provided that for other directors shall be considered qualified if they hold chartered accountancy degree and at least three years of work experience in the field of industries, commerce, stock market or in financial sector accounting or finance or commercial law or management.

- (b) Has not been convicted and sentenced for imprisonment against criminal offence of moral turpitude.
- (c) If the person or the Company where s/he had acted as Director or Chief Executive has been declared insolvent, has completed five years of insolvency.
- (d) Has not remained in the black list of Credit Information Bureau.
- (e) Has not been Director or Chief Executive of the body corporate who has collected the fund from public offering but has not provisioned necessary arrangement for securities transaction or has been in procedure of delisting,
- (f) If S/he have remained Director or Chief Executive of the body corporate whose license of Stock Exchange or Securities Businessperson has been cancelled due to conducting works against securities related laws, have completed ten years of such cancellation.
- (g) Should not have held any position of profit in Board, Stock Exchange, listed Body corporate or other Securities Businessperson.

<sup>6</sup>Provided that the provision will not be applicable to listed body corporate sponsor.

(3) Minimum one third Directors of Fund Manager shall be the independent Directors.

(4) <sup>7</sup>The qualification of independent Directors pursuant to Sub-rule (3) shall be as follows:-

- (a) Should have satisfied the qualification pursuant to Sub-rule (2).<sup>8</sup>

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<sup>6</sup> Added by Mutual Investment Fund (First Amendment) Regulation, 2012

<sup>7</sup> Amended by Mutual Investment Fund (First Amendment) Regulation, 2012

<sup>8</sup> Amended by Mutual Investment Fund (First Amendment) Regulation, 2012

(b) Should not have any direct or indirect involvement or financial interest with Sponsor or Depository.

(5) Any Company Invested by nonresident Nepali shall hold 49 percent of share ownership of Fund Manager<sup>9</sup>.

**15. Qualification for Depository:** The qualification for the body corporate willing to work as a Depository shall be as follows:

- (a) Having paid up capital of minimum hundred million rupees.
- (b) Having mentioned the objective of Company to work as Depositor in its Memorandum and Articles of Association.
- (c) The applicant body corporate and its Directors or Executive Chief have not been convicted and sentenced for imprisonment against any criminal offence of deception or fraud.
- (d) The applicant body corporate and its Directors or Executive Chief have not been convicted and sentenced for imprisonment against any criminal offence of moral turpitude,
- (e) No involvement of the body corporate or its Executive Chief or Director from among the body corporate who have collected the fund from public offering but have not provisioned necessary arrangement for securities transaction or vanishing company that are out of contact from the Board or have been in procedure of delisting or been listed from Board as the body corporate in operation without bearing any responsibility.
- (f) Have not remained in black list of Credit Information Bureau or any other regulating bodies.

**16. License to be issued:** (1) The Board shall conduct examination of the application received pursuant to Sub-regulation (2) of Regulation 13.

(2) If it deems necessary to ask any information or documents with regard to the application pursuant to the Sub-regulation (1), the Board may demand for additional information or documents.

(3) While conducting examination pursuant to Sub-regulation (1), if the applicant is not considered appropriate for working as Fund Manager or Depository or if applicant is found furnishing false documents, no action shall be taken against the application.

(4) While conducting examination pursuant to Sub-regulation (1), if the applicant deems appropriate for working as Fund Manager or Depository, the

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<sup>9</sup> Added by Mutual Investment Fund (First Amendment) Regulation, 2012

Board shall provide applicant with the license of Fund Manager or Depository in format as prescribed in Schedule–9.

(5) The Board, before issuing the license pursuant (4), shall charge the fee as prescribed in Schedule–10 from the applicant.

17. **Renewal of License:** (1) The Fund Manager and Depository shall submit an application as prescribed in Schedule–11 to the Board for renewal of the license.

(2) The Board, before renewing the license pursuant to Sub-regulation (1), shall receive annual fee as prescribed in Schedule–12 from the applicant.

18. **Suspension or Cancellation of the License:** (1) The provisions regarding suspension or cancellation of license issued pursuant to these Regulations shall be according to the provisions of the Securities Board of Nepal Regulations, 2008.

(2) If the license of any Fund Manager is suspended or cancelled subject to the Act and these Regulations, the Board may ask the concerned Sponsor to close the scheme operated by such Fund Manager and make payment to the Unit holders by converting the asset of the scheme into cash or may set necessary provisions in order to continue the scheme through other Fund Manager.

(3) If the license of Depository is suspended or cancelled subject to the Act and these Regulations, the Fund Manager may, by obtaining approval from the Board, enter into contract with new Depository.

## Chapter – 4

### **Power, Functions and Duties of Fund Supervisor, Fund Manager and Depository**

19. **Power, Functions and Duties of Fund Supervisor:** (1) In addition to the power, functions and duties mentioned elsewhere in these Regulations, the power, functions and duties of the Fund Supervisor shall be as follows:-

- (a) To assure that the Fund Manager has operated the fund subject to the prevailing laws and agreement,
- (b) To act in interest of the Unit holder.
- (c) To supervise the works of Fund Manager and Depository.
- (d) To examine net worth of the scheme.
- (e) To supervise if the asset and documents under the scheme have been kept safely or not.
- (f) To supervise if the schemes are operated as it was approved or not.

- (g) To supervise if the record maintained by the Fund Manager is updated or not.
  - (h) To supervise if the grievance received regarding scheme have been resolved or not.
  - (i) To submit report regarding fund management from time to time.
  - (j) To perform other duties as prescribed by the Board.
- (2) The Fund Supervisor may demand any details or information regarding the activity carried out by the Fund Manager from the Fund Manager.
- (3) It shall be duty of Fund Manager to furnish the details or information as demanded by the Fund Supervisor pursuant to Sub-regulation (2).
- (4) If the activity of Fund Manager is found irregular from the details or information pursuant to Sub-regulation (2) or from any other source or if the activity is not considered appropriate, the Fund Supervisor may instruct Fund Manager to stop such activity or to perform the activity in appropriate manner.
- (5) In case of disobedience of instruction pursuant to Sub-regulation (4), the Fund Supervisor shall inform the Board on same.
- (6) After receiving the information pursuant to Sub-rule (5), the Board shall carryout examination and provide necessary directions to the Fund Manager.
- (7) Notwithstanding anything contained in Sub-rule (6) or (7)<sup>10</sup>, if the Fund Manager repeatedly overrules the Act or these Rule or continuously overrules the instructions of the Fund Supervisor, the Fund Supervisor may request the Board for issuing the orders for changing such Fund Manager.

**20. Power, Function and Duties of Fund Manager:** (1) In addition to the power, functions and duties mentioned elsewhere in these Regulations, the power, functions and duties of the Fund Manager shall be as follows:-

- (a) To prepare scheme and to operate the scheme by taking the consent of the Fund Supervisor and approval of the Board.
- (b) To manage and invest the asset of Scheme in efficient manner.
- (c) To provide the news, information, details and documents regarding scheme to the Fund Supervisor in regular interval.
- (d) To resolve the grievance of the Unit holders and inform the same to Fund Supervisor.
- (e) To instruct depository for receiving or distributing the securities, amount, interest, dividend or income of the Scheme.

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<sup>10</sup> Amended by Mutual Investment Fund (First Amendment) Regulation, 2012

- (e1) <sup>11</sup>To underwrite the public offering, as prescribed in Mutual Investment Fund Directives, within the limit of net asset value of Scheme
- (f) To perform other duties as prescribed by the Board.

**21. Power, Function and Duties of Depository:** In addition to the power, functions and duties mentioned elsewhere in these Regulations, the power, functions and duties of the Depository shall be as follows:-

- (a) To maintain the record of the units and perform the transfer deed,
- (b) To perform safe keeping of securities under scheme.
- (c) To receive the securities, amount, interest, dividend or other income under the Scheme and so perform safe keeping of same,
- (d) To distribute the securities, amount, bonus to the Unit holders as per the instruction of the Fund Manager, and
- (e) To perform other functions as prescribed by the Board.

## **Chapter- 5**

### **Provisions regarding Agreement**

**22. Matters to be disclosed in an Agreement:** (1)In addition to the other matters mentioned in the Agreement pursuant to Sub-regulation (6) of Regulation 6 concluded between the Sponsor and Fund Supervisor, it shall be required to disclose the matters as follows:-

- (a) The Fund Supervisor to act in the interest of the Unit holders,
- (b) The news, information and details to be made available to Unit holders and the Board,
- (c) The fees to be received by the Fund Supervisor from the Mutual Fund subject to these Regulations,
- (d) To make any amendments in the Agreement only after obtaining prior approval from the Board,
- (e) If either parties disobeyed or overruled the agreement, power of the Board to compel for obeying the agreement
- (f) Other matters as prescribed by the Board for disclosing in the agreement.

(2) In addition to the matters mentioned in the Agreement to be concluded between the Sponsor and Fund Manager, it shall be required to disclose the matters as follows:

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<sup>11</sup> Added by Mutual Investment Fund (First Amendment) Regulation, 2012

- (a) All the asset of the scheme to be held under the Fund Managers' responsibility,
  - (b) Fund Manager to operate the Scheme obtaining prior approval from the Fund Supervisor and the Board.
  - (c) Not to make any amendments in the Agreement without obtaining prior approval from the Board,
  - (d) If either parties disobeyed or overruled the agreement, power of the Board to compel for obeying the agreement
  - (e) The Fund Manager to make public disclosure of important news and information, updated documents and reports related to the scheme only after informing the Fund Supervisor,
  - (f) Fund Manager to disclose the Net worth of the Scheme and repurchase value of the unit and the basis of calculating such repurchase value to the Unit holder,
  - (g) The management fees to be received by the Fund Manager from the Mutual Fund subject to these Regulations,
  - (h) The Fund Manager to resolve the grievances of Unit holders and to provide information of grievances to the Fund Supervisor,
  - (i) Other matters as prescribed by the Board for disclosing in the agreement to be concluded between Sponsor and Fund Manager.
- (3) In addition to the matters mentioned in the Agreement to be concluded between the Fund Manager and Depository, it shall be required to disclose the matters as follows:
- (a) Depository to resolve grievance of the Unit holders and provide information regarding grievance to the Fund Supervisor,
  - (b) To perform the duties of distributing and transferring the units as per the instruction of Fund Manager,
  - (c) To receive securities, amount, interest, dividend or other income or to distribute amount, interest, dividend etc. under the Mutual Fund as per the instruction of the Fund Manager,
  - (d) Depository to perform safe keeping of securities under scheme.
  - (e) Other matters as prescribed by the Board for disclosing in the agreement to be concluded between Fund Manager and Depository.

**23. Service Fees and Charges:**(1)<sup>12</sup> While charging service fees subject to this Regulation, it shall be required to calculate net assets value, of scheme of Mutual Fund, obtained at the end of each week and shall fixed the half yearly average charge and collect it on half yearly basis. Whereas charging service fee such service fee shall not exceed the service fee calculated at the end of each half year of net asset value.

(2) The Fund Supervisors may charge maximum amount equivalent to 0.5% of net asset value as its service fees.

(3) The Fund Manager may charge maximum amount equivalent to 2% of net asset value as its service fees.

(4) The Depository may charge maximum amount equivalent to 0.5% of net asset value as its service fees.

(5) The fees pursuant to Sub-regulation (2), (3) and (4) shall be collected within one month of completion of the fiscal year.

(6) The Fund Supervisor, Fund Manager and Depository should submit 5% of the service fees received by them to the Board within two months of receiving such fees.

## **Chapter – 6**

### **Provisions regarding Registration and Operation of Scheme**

**24. Scheme to be Registered:** (1) The Fund Manager may launch one or more than one schemes under the Mutual Fund.

(2) Before launching scheme under the Mutual Fund pursuant to Sub-regulation (1), the Fund Manager shall take consent from the Fund Supervisor and register the scheme at the Board.

(3) In order to register pursuant to Sub-regulation (2), it shall be required to submit an application in the format as specified in the Schedule–13 along with the details and documents as follows to the Board:

- (a) Objective of the Scheme,
- (b) Capital and capital structure of the scheme,
- (c) Criteria for Unit holders of Scheme
- (d) Decision of Board of Directors regarding operation of scheme.
- (e) Prospectus prepared for public offering of units under the scheme.
- (f) Terms and procedure for operation of Scheme,
- (g) Consent of Fund Supervisor for operating the scheme.

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<sup>12</sup> Amended by Mutual Investment Fund (First Amendment) Regulation, 2012

(h) Other matters as prescribed by the Board for disclosing in the application.

(4) If application pursuant to Sub-regulation (3) is received, the Board shall conduct examination and while conducting such examination if it deems appropriate to launch such scheme, the Board shall register such scheme and provide applicant with approval to launch scheme in the format as prescribed in Schedule –14.

(5) Before providing approval pursuant to Sub-regulation (4), the Board shall charge fees as prescribed in Schedule–15 from the applicant.

**25. Scheme may be Cancelled:** (1) The Board may cancel the scheme on the following ground:

(a) If the scheme is not launched within three months of getting approval for launching the scheme,

(b) If the Fund Manager repeatedly overruled the orders or directions issued by the Board with regard to the operation of scheme.

(2) If the scheme is cancelled pursuant to Sub-regulation (1), the Sponsor shall return amount to the Unit holders or transfer the scheme to the new Fund Manager as prescribed by the Board.

**26. Public Issuance of Units:** (1) While launching scheme pursuant to these Regulations, it shall be required to make issuance of units publically.

(2) While issuing the units pursuant to Sub-regulation (1), it shall be required to arrange as follows:-

(a) To make listing of such units in the stock market or to make other appropriate arrangement for transaction,

(b) To make arrangement for selling through Sales Center licensed from the Board or Securities Businessperson.

**27. Provisions regarding Transaction:** (1) The Fund Manager, while making transaction of the units, may make listing of such units in stock market or may arrange for making sale and purchase by itself and perform the transaction.

(2) If the Fund Manager itself is buying back the units under open-ended scheme, the price of selling and re-purchasing the units shall be made public.

(3) While setting the re-purchasing price of units pursuant to Sub-regulation (2), it shall be required to set the re-purchase price not less than 90

percent and selling price not more than 110 percent of net value per unit of the scheme.

(4) The Board may, from time to time, set additional provisions regarding the terms to be followed by the fund manager while re-purchasing the units by itself.

(5) The Fund Manager shall commence management of the amount collected under the scheme within one months of allotment of units and information regarding same shall be provided to the Fund Supervisor and Board.

(6) The Fund Manager may appoint an Agent for sale and purchase of units under open ended scheme.

(7) The seller for units under open-ended scheme shall submit 0.03 percent of total sale amount to the Board within seven days of making sale.

(8) The provisions regarding qualification and appointment procedure of Agent pursuant to Sub-regulation (6) shall be as prescribed by the Board.

**28. Provisions regarding Advertisement:** (1) If any advertisement for sale-purchase of units under scheme is to be made, it shall be required to inform the Board before making such publication of advertisement.

(2) The advertisement to publish for the sale-purchase of units of scheme shall be true and fair and there shall not be any exaggerated matters or fake details in the advertisement.

(3) Other provisions regarding advertisement shall be as prescribed by the Board.

**29. Provisions regarding Seed Capital:** (1) The Fund Manager shall invest minimum Fifteen percent <sup>13</sup>of total asset of the Scheme as seed capital in the first scheme to be operated by it.

(2) With regard to the other scheme except the scheme as mentioned in Sub-regulation (1), it shall be required to set aside certain percentage seed capital as prescribed by the Board on the basis of performance of first scheme from time to time.

<sup>14</sup>(3) If Fund Manager is unable to invest seed capital or fund sponsor is willing to invest then by taking pre-approval from the board fund sponsor can invest seed capital instead of fund manager..

**30. Rights and Liabilities:** (1) The Unit holders shall have their right and liabilities on scheme equivalent to the amount they have paid for unit.

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<sup>13</sup> Amended by Mutual Investment Fund (First Amendment) Regulation, 2012

<sup>14</sup> Added by Mutual Investment Fund (First Amendment) Regulation, 2012

(2) The Unit holder shall have claim on profit and loss of scheme according to their rights and liability.

## Chapter – 7

### **Provisions regarding cancellation of scheme**

**31. Cancellation of Schemes:** The scheme shall be cancelled on the conditions as follows:

- (a) If the specific time period of scheme is completed,
- (b) If the approval granted for operation of the Scheme is cancelled by the Board pursuant to Section 74 of the Act,
- (c) If it is proved that the Scheme is unable to operate due to occurrence of some unforeseen situation,
- (d) If minimum fifty Unit holder representing minimum seventy five percent of net value of the scheme demanded for cancellation of the scheme.

(2) Before cancelling the scheme pursuant to clause (c) of Sub-regulation (1), the agenda regarding cancellation of scheme shall be approved from the majority Unit holders who were present in the scheme Unit holders' meeting.

(3) In order to cancel the scheme pursuant to clause (c) or (d) of Sub-regulation (1), the Fund Manager shall receive consent from Fund Supervisor and submit application to the Board.

(4) If application pursuant to Sub-regulation (3) is received, the Board shall conduct necessary examination on that regard.

(5) While conducting examination pursuant to Sub-regulation (4), if the operation of scheme is not considered appropriate, the Fund Manager shall be given approval for cancelling the scheme.

(6) If the scheme is to be cancelled pursuant to these Regulations, the Fund Manager is required to inform the Board regarding the reasons for such cancellation of scheme and also required to publish public notice at least for two times in a National daily.

(7) After publishing notice pursuant to Sub-regulation (6), the Fund Supervisor or Fund Manager shall not perform or cause to perform transaction of the scheme to be cancelled.

**32. Procedure for cancellation of Scheme:** (1) While cancelling the scheme pursuant to Regulation 31, if any procedure is mentioned in the prospectus of the scheme, same procedure shall be followed.

(2) While cancelling the scheme pursuant to clause (c) or (d) of Sub-regulation (1) of Regulation 31, the Fund manager shall call for the meeting of Unit holders and shall receive approval on the agenda of scheme cancellation from majority Unit holders who were present on that meeting.

(3) The Fund Manager, after receiving the approval pursuant to Sub-regulation (6) of Regulation 31 for cancelling the scheme, shall be required to convert the asset under such scheme into cash and distribute it proportionately to the Unit holders of scheme within three months of receiving such approval.

(4) If it is unable to complete the task pursuant to Sub-regulation (3) within three months, the Fund Manager may, mentioning suitable reason for the time extension, request the Board for additional time.'

(5) If request pursuant to Sub-regulation (4) is received, the Board may grant maximum of another three months' time.

(6) If it is not possible to convert the scheme approved for cancellation into cash pursuant to Sub-regulation (3), The Fund Manager shall obtain approval from the Board and convert such scheme into new scheme and distribute units of new scheme to the Unit holders.

(7) If the Unit holder of the cancelled scheme does not wish to take the units of new scheme pursuant to Sub-regulation (6), the Fund Manager shall have to provision for making payment to such Unit holder in cash in proportionate to his/her unit ownership.

(8) While cancelling the scheme pursuant to this Regulation, from the amount received from the asset of Scheme, the amount remained after making payments to make by the previous Scheme and the expenses occurred during cancellation of the Scheme shall be distributed to the Unitholders.

**33. Report of Scheme Cancellation to be Submitted:** (1) After cancellation of scheme pursuant to Regulation 32, the Fund Manager shall prepare a report mentioning the matters as follows and shall submit it to the Board within six months of cancellation of scheme.

- (a) Reason for cancellation of Scheme
- (b) Procedure followed while making sale of assets
- (c) Expenses occurred while cancelling the scheme
- (d) Amount remained for distributing to the Unit holders
- (e) Matters mentioned in the Audit Report
- (f) Other matters as prescribed by the Board.

(2) The Fund Manager shall publish the report pursuant to Sub-regulation (1) for the information of the Unitholders.

## Chapter – 8

### Provisions regarding Investments

**34. Areas for making Investment:** (1) The Fund Manager may make investment of the amount received or collected from sale of units on some or all areas as follows:-

- (a) Securities that are registered with the Board,
- (b) Securities called for public offering,
- (c) Securities that are listed at Stock Exchange,
- (d) Debenture, Treasury bill and other instruments of money market issued by Government of Nepal or government agencies receiving full guarantee or protection of Government of Nepal or Nepal Rastra Bank,
- (e) Bank deposits,
- (f) Market instruments
- (g) Other area as prescribed by the Board.

(2) While specifying the area pursuant to clause (g) of Sub-regulation (1), the Board shall also specify the terms to follow while making investment in such area.

(3) Notwithstanding anything contained in Sub-regulation (1), the scheme approved by the Board for making investment on specified area only shall make investment on same area only.

**35. Not be used for providing loan or carrying losses:** (1) The Fund Manager shall not be able to use the amount under scheme or collected from the scheme for carrying out operation expenses of its institution or carry losses of such institution or to bear any other types of damage or for providing loan to anybody.

(2) The Fund Manager may collect loan equal to maximum of twenty percent of net asset of scheme from the commercial bank for maximum period of six months for the purpose of making payment of repurchase, interest payment or dividend payment.

(3) If any act against Sub-regulation (1) or (2) is performed, the Director and Executive Chief of such Fund Manager shall be required to pay such amount to the Scheme from personal level.

(4) The Director or Executive Chief shall not be considered free from the other liabilities and procedure pursuant the Act and these Regulations for the reason of making payment pursuant to Sub-regulation (3).

(5) If the amount pursuant to Sub-regulation (3) is not paid, such amount shall be obtained from the household of such Director or Executive Chief and such person shall be considered disqualified for being elected or nominated Official of any Body Corporate.

36. **Limitations for Investments:** (1) The restrictions for the Fund Manager for making investments from amount of each scheme shall be as follows:-

- (a) On general shares of any single body corporate, not to be more than ten percent of paid up capital of such body corporate,
- (b) On Right shares or Debentures issued by any single body corporate, not to be more than twenty percent of its issuance,
- (c) On the securities issued by any single body corporate, not to be more than ten percent of total asset of the scheme,
- (d) On schemes under other Mutual Fund, not to be more than twenty percent of own scheme.
- (e) On bank deposits, not to be more than ten percent of the total asset of the scheme,
- (f) On Market instruments, not to be more than ten percent of total asset of the scheme.

(2) One shall not invest on securities of other schemes under same Mutual Fund or on the securities issued by the Sponsor or Depository of that Mutual Fund.

(3) Notwithstanding anything contained in Sub-regulation (1), the Board may alter the area and limitation for investments for scheme as per necessary.

37. **Provisions regarding Foreign investments:** (1) Subject to the prevalent laws, maximum up to twenty five percent of total asset of any scheme may be invested in the foreign capital market.

(2) While making investment pursuant to Sub-regulation (1), investments may be done only at that foreign capital market with whom the Board has entered into MOU for investment by obtained approval from Government of Nepal.

(3) While making investment pursuant to Sub-regulation (1), investments maybe done only in securities issued by body corporate which has been registered pursuant to prevailing laws of such country or in Mutual Fund and government bonds of such country.

## Chapter 9

### **Provisions regarding Financial Statement, Audit and Disclosures**

38. **Accounts to be maintained:** The Fund Manager shall require keeping its books of accounts in the format and standards as prescribed by the authority prescribing standards under the prevailing laws.
39. **Financial Statement to be prepared:** The Fund Manager shall prepare separate financial statement for each scheme managed by it.
40. **Provisions regarding Auditor and Audit:** (1) only the person having the qualification of chartered accountant or equivalent, holding professional certificate from Institute of Chartered Accountants Nepal (ICAN) shall be qualified to be appointed as Auditor for Fund Manager and the Schemes.  
(2) It shall be required to make audit of Fund Manager and scheme from different Auditors.  
(3) In order to appoint the auditors pursuant to Sub-regulation (1) and (2), the Fund Manager shall select the Auditors and shall recommend their names to the Board within fifteen days of selection for the approval.  
(4) After receiving the names pursuant to Sub-regulation (3), the Board shall conduct necessary examination and provide approval to the Fund Manager for appointing the Auditors.  
(5) The auditor, while auditing the accounts of Fund Manager and scheme, shall do as per the prevailing values and standard of audit.  
(6) The Auditor, after completing the audit, shall require to prepare the report reflecting functions, financial details and position of the Fund Manager and scheme.  
(7) In the audit report of Fund Manager, except the matters that are specified by the prevalent laws, additional matters as follows are also required to be disclosed:
  - (a) If or not, the accounts are maintained as per the prevalent Act, Rules and standards regarding accounts.
  - (b) If or not, any Officer of the Fund Manager have performed any job against the regulatory provisions or other prevalent laws or have performed irregular job or have occurred any damage or loss of the institution.
  - (c) If or not, the Fund Manager body corporate have internal audit system.

- (d) If any job performed are found against the interest of Unit holder and stock market, details regarding same.
  - (e) Details regarding efficiency of internal audit.
  - (f) Suggestions.
- (8) In the audit report of Scheme, except the matters that are specified by the prevalent laws, additional matters as follows are also required to be disclosed:
- (a) If or not, the accounts are maintained as per the prevalent Act, Rules and standards regarding accounts.
  - (b) If or not, the fund under scheme have been invested as according to these Regulations.
  - (c) If any job performed are found against the interest of Unit holder and stock market, details regarding same.
  - (d) If or not, the operation of scheme has been found satisfactory.
  - (e) Other matters that the Auditor has felt necessary for disclosing to the Unit holders.
  - (f) Recommendations
- (9) Notwithstanding anything contained in Sub-regulation (7) and (8), the Board may specify other matters to disclose in the audit report of the Fund Manager and Scheme.

(10) The audit report pursuant to Sub-regulation (7) and (8) shall be submitted to the Board within thirty days of completion of audit.

**41. Action may be taken against the Auditor:** If any Auditor is found acting against these Regulations and prevalent laws while carrying out the audit of the Fund Manager or Scheme, the Board may forward a request in writing to Institute of Chartered Accountants Nepal for taking necessary action against him/her.

**42. Reports to be submitted:** (1) The Fund Manager shall submit the audited financial statement of current fiscal year and annual report regarding job performed in that fiscal year and annual financial report regarding each scheme separately to the Fund Supervisor and Board within three months of completion of the fiscal year.

(2) Summary of annual report pursuant to Sub-regulation (1) shall be disclosed publically through national daily for the information of Unit holders.

(3) The Fund Manager shall submit quarterly report of the scheme operated by it to the Fund Supervisor and Board within thirty days of completion of quarterly period.

(4) The Board may ask any news, information or details regarding functions of the licensed body corporate and may order to disclose it publically.

(5) The Board may specify the format for the records and details to be maintained by the Fund Manager regarding fund management and details to be submitted to the Board pursuant to these Regulations.

(6) The Fund Supervisor shall submit half yearly report regarding fund supervision to the Board within forty five days of completion of half yearly period.

43. **To be Disclosed Publicly:** (1) The Fund Manager shall disclose publically the information regarding net asset value and selling and re-purchase price of units of the scheme operated by it at least once a week.

(2) The Fund Manager shall provide the following details of the work performed regarding scheme in each month within fifteen days of completion of that month to the Fund Supervisor and Board and shall publish the same in National daily for at least once:-

- (a) amount invested in securities,
- (b) market price of invested securities,
- (c) income and expenditure of the scheme,
- (d) Net asset value per unit of securities issued under the scheme and the basis of such price calculation.
- (e) Other details as prescribed by the Board.

44. **Inspections of Accounts and Records:** (1) The Board or the person designated by the Board may, at any time, inspect the accounts and records regarding scheme maintained by the FundManager.

(2) The Fund Supervisor may, by providing prior information to the Board, inspect the accounts and records of the Fund Manager and Depository.

(3) In case of the Fund Supervisor carrying out the inspection pursuant to Sub-regulation (2), it is required to submit the inspection report to the Board within one months of completion of such inspection.

45. **Information and Details to be Furnished:** (1) The Fund Manager and Depository shall submit the following information and details within the following time period to the Board:

- (a) If any amendment is to make on the Memorandum and Articles of Association, information including details of amendments before making such amendments,
  - (b) If new Director or Executive chief is appointed, information including details as prescribed in Schedule-2 within seven days of such appointment.
  - (c) Other news, information and details as prescribed by the Board from time to time at the time as prescribed by the Board.
- (2) The Fund Manager and Depository shall be required to inform the Board immediately on the matters as follows:
- (a) If the address, contact telephone, fax number, email etc. is changed.
  - (b) If any action pursuant to prevalent laws is taken against the Promoter or Directors or Executive Chief or if any legal procedure has been initiated.
  - (c) If the name of the Promoter or Director or Executive Chief is listed on the list of Credit Information Bureau.
- (3) The Depository shall be required to inform the Fund Manager immediately on the matters as follows:
- (a) If any problem regarding obtaining amount or making payment on behalf of the scheme has happened,
  - (b) If any problem regarding distributing returns of the scheme or making pay-back of scheme to the Unit holders of scheme has happened,
- (4) If the Fund Supervisor demands for any news, information or details regarding scheme, the Fund Manager and Depository shall be required to furnish such news, information or details immediately.
- (5) The Depository shall be required to submit the details of asset of scheme to the Fund Manager and Fund Supervisor at the end of each month.

## **Chapter – 10**

### **Miscellaneous**

- 46. Securities to be allocated for the Mutual Fund:** (1) The body Corporate making public offering of its securities shall, before making public offering, allocate at least five percent of its securities of public offering to the Mutual Fund.

(2) The Body Corporate or the Issue Manager on behalf of such Body Corporate shall specify the time for purchasing the securities allocated pursuant to Sub-regulation (1) and inform the Mutual Funds.

(3) If the application from more than one Mutual fund is received for purchasing the securities allocated pursuant to Sub-rule (1), such securities shall be allocated to all Mutual Funds proportionately.

(4) If no application is received within the time pursuant to Sub-regulation (2) for purchasing the securities allocated pursuant to Sub-regulation (1), the body corporate shall include all securities such allocated and if application for partial purchase has been received, the unsubscribed securities in the securities allocated for public offering and shall issue publically.

47. **May issue Directives:** (1) The Board, without going against the Act and these Regulations, may issue Directives with regards to procedure for getting approval for public issuance of scheme, matters to be mentioned in the prospectus, procedures for making sale, agreements to be concluded between concerned parties of scheme, code of conduct, procedure of evaluating the investment, assessment of net value and other matters as necessary.

(2) It shall be the duty of all concerned bodies to obey the Directives issued pursuant to Sub-regulation (1).

48. **Change in Schedule:** The Board may make necessary changes in schedules of these Regulations.

**Schedule – 1**  
[Related to Sub-r rule (1) of Rule 4]

**Format of application to be submitted for registration of the Mutual Fund**

Date:

Ms Securities Board of Nepal  
.....

**Subject: Registration of Fund**

As we are desirous to establish the Mutual Fund naming ..... subject to the Securities Act and the Rules, Regulations framed under that Act and other prevailing laws, this application, along with the fees, information and documents as prescribed, is hereby submitted to you for obtaining the License.

The attached documents and information is true and factual. None of the details have been hidden or are expressed with exaggeration. If convicted to have concealed relevant fact or to have presented wrong document or information, we hereby submit to bear with consequences according to the terms of the law.

**Applicant Body Corporate:**

Name: .....  
Address: ..... Zone ..... District ..... VDC/Municipality/ Metropolis  
Area ..... Ward no. ..... Block no. ..... Phone no. ..... Fax: ..... Email:  
.....

Seal of the body corporate:

Executive Chief Name:  
Signature:

## Schedule – 2

[Related to clause (f) of Sub- rule (1) of Rule 4, clause (c) of Sub- rule (2) of Rule 13 and clause (b) of Sub- rule (1) of Rule 45)  
Profile of the Director/Chief Executive or Representative Agent

1. Name:
2. Permanent address: Zone....District....VDC/Municipality....  
Tole (area): Ward No.....House/Block No...Phone...Email...
3. Present address: Zone...District...VDC/Municipality .....  
Tole (area)...Ward No...House/Block No...  
Phone No.....Fax.....Email.....
4. Father's/Mother's Name:
5. Grandfather's/Grand Mother's Name:
6. Name of husband or wife:
7. Academic qualification:
8. Professional experience:
9. Training:
10. If engaged in any profession or Institution, details regarding same,
11. Details regarding having ownership of one percent or more than that or holding position of interest of any kind in other company or body corporate, if any,
12. Details regarding any action taken or action pending under the securities related laws or any other prevailing laws against self or the company or the body corporate or the Director or Chief Executive of the company or the body corporate with which s/he is affiliated, if any,
13. Declaration on having fulfilled qualification required for and not having disqualification as stipulated for the director or chief executive.

Signature.....



### **Document to be attached:**

1. Copy of documents verifying qualification, experience and affiliation, if any with other institutions.
2. Copy of citizenship certificate
3. <sup>15</sup>Certificate of Nonresident Nepali of Board Member if Board Member is Nonresident Nepali

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<sup>15</sup> Added by Board Decision dated on 2012/04/15

## **Schedule – 3**

(Related to Sub- rule (2) and (5) of Rule 4)

## **Mutual Fund Registration fee**

1. Application Fee Fifty Thousand Rupees
  2. Mutual Fund Registration Fee One Million Rupees
  3. Non Resident of Nepalese Identity card required incase board Member is NRN.

**Schedule – 4**  
[Related to Sub- rule (4) of Rule 4]

**Mutual Fund Registration Certificate**

..... Mutual Fund, established by  
M/s....., having its head office at  
....., has been registered at this  
Board subject to the Securities Act, 2007 and Mutual Fund Regulations, 2010 and  
this certificate is hereby issued.

Seal of the Board

Authorized signature:  
Name:  
Designation:  
Date:

**Schedule – 5**  
[Related Sub-rule (3) of Rule 6]

**Details of Fund Supervisor**

1. Name:
2. Permanent address: Zone....District....VDC/Municipality.... Tole (area): Ward No.....House/Block No...Phone...Email...
3. Present address: Zone... District...VDC/Municipality ..... Tole (area)...Ward No...House/Block No... Phone No...Fax...Email...
4. Father's Name:
5. Grand father's Name:
6. Name of husband or wife:
7. Academic qualification:
8. Professional experience:
9. Training:
10. If engaged in any profession or Institution, details regarding same,
11. Declaration on having fulfilled qualification required for working as a Fund Supervisor.

Signature.....

**Document to be attached:**

1. Copy of documents verifying qualification, experience
2. Copy of citizenship certificate

## **Schedule – 6**

[Related to Sub-rule (2) of rule 13]

Format of application to be submitted for obtaining License of Fund Manager  
or Depository

Date: .....

**Securities Board of Nepal**

.....

### **Subject: Application for license**

As we are desirous work as a Fund Manager/Depository subject to the Securities Act, 2007 and the Regulations, Byelaws, Directives framed under that Act and other prevailing laws, this application is hereby submitted along with the fees, information and documents as prescribed, .

We have fulfilled the qualification and provisions as specified. None of the details have been hidden or are submitted with false details. If convicted to have concealed relevant fact or to have presented wrong document or information, we hereby submit to bear with consequences according to the terms of the law.

#### **Applicant Body Corporate**

Name: .....

Address:.....Zone.....District..... VDC/Municipality/Metropolis Area  
.....Ward no. .... Block no.....Phone no.....Fax:..... Email: .....

Registered Office Address:

Seal of corporate body

The Chief Executive

Name:

Signature:

## **Schedule – 7**

[Related to clause (a) of Sub-rule (2) of Rule 13]

### **Details and Documents of Applicant Corporate Body**

- a. Copy of registered certificate
- b. Copy of Memorandum and Articles of Association
- c. If the body corporate is established under the special Act, copy of related Act and subsidiary regulations and bye-laws
- d. Three years business plan including projected financial statement for upcoming three years, (with regards to the Depository, and business plan is not required.)
- e. Copy of resolution of the Board of Directors regarding obtaining license.
- f. Details regarding any action taken or action pending under the securities related laws or any other prevailing laws against the company or the body corporate or the Director or Chief Executive of the company or the body corporate with which s/he is affiliated, if any,
- g. Documents certifying the paid-up capital,
- h. Name, full address, contact telephone and share ownership of the owners with holding ownership of five percent or more of the paid up capital,
- i. Audited financial statement of accounts for previous year maintained in the prescribed format pursuant to prevailing laws and accounting standard and yearly report including activities of each year,  
(On behalf of a company or a body corporate not completing the fiscal after its establishment, interim financial statement and report certified by the Management may be furnished.)
- j. Details regarding share ownership of the promoters and paid up amount,
- k. Details regarding organization structure and working procedure,
- l. Details regarding office location and area, office equipment and telecommunication means and manpower.
- m. Details regarding ownership or any kind of involvement in any other companies or body corporate, if any

## Schedule - 8

(Related to clause (b) of Sub-rule (2) of Rule 13)

### **Details and Documents of the Promoter Company or Body Corporate of the Applicant**

- a. Copy of registered certificate
- b. Copy of Memorandum and Articles of Association
- c. If the body corporate is established under the special Act, copy of related Act and subsidiary regulations and bye-laws
- d. Audited financial statement of accounts for previous year maintained in the prescribed format pursuant to prevailing laws and accounting standard and yearly report including activities of each year,  
(On behalf of a company or a body corporate not completing the fiscal after its establishment, interim financial statement and report certified by the Management may be furnished.)
- e. Name, full address, contact telephone and share ownership of the owners with holding ownership of five percent or more of the paid up capital,
- f. Details regarding any action taken or action pending under the securities related laws or any other prevailing laws against the company or the body corporate or the Director or Chief Executive of the company or the body corporate with which s/he is affiliated, if any,
- g. Details regarding the ownership in other companies or body corporate, if any,
- h. Details and documents relating to the Director and Chief Executive as follows:-
  - 1. Full Name and Address
  - 2. Ownership or any kind of involvement in any other companies or body corporate, if any
- i. <sup>16</sup>Other details of the promoter company as prescribed by Board if there is investment of nonresident Nepali.

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<sup>16</sup> Added by Board Decision dated on 2012/04/15

## **Schedule – 9**

[Related with Sub-rule (4) of Rule 16]

### **License for Fund Manager or Depository**

Ms.....

.....

While proceeding the application of that body corporate having its head office at ....., this license is hereby issued with the decision of Board dated..... for allowing to operate the business of ..... subject to the provisions of the Securities Act and Regulations made there under as well as other prevailing Laws.

This license, unless renewed, shall be valid up to .....

Seal of the Board:

Authorized signature:

Name:

Designation:

Date:

**Schedule – 10**  
[Related to Sub-rule (5) of Rule 16]

**License fee**

1.	Fund Manager	Two Hundred Thousand Rupees
2.	Depository	Fifty Thousand Rupees

**Schedule - 11**  
(Related to Sub-rule (1) of Rule 17)

**Format of Application to be submitted for the Renewal of License**

Date:-.....

M/S Securities Board of Nepal

.....

Reference: **Request for renewal of license.**

As the license to operate the business of ..... subject to the Securities Act, 2007 provided by you is valid until ....., I/we hereby submit this application along with the license and the annual fee as prescribed for renewal of the same.

**Authorized Signature:**

Seal of Company or Body Corporate:

Name:

Position:

**Schedule – 12**  
(Related to Sub-rule (2) of Rule 17)

**Renewal fee**

1.	Fund Manager	One Hundred Thousand Rupees
2.	Depository	Twenty-five Thousand Rupees

### **Schedule – 13**

[Related to Sub-rule (3) of rule 24]

Format of application to be submitted for obtaining approval for operating scheme

Date: .....

Securities Board of Nepal

.....

#### **Subject: Request for obtaining approval for operating scheme.**

As we are desirous operate the .....  
scheme amounting ..... under ..... Mutual Fund subject to the Securities Act, 2007 and the Regulations, Byelaws, Directives framed under that Act and other prevailing laws, this application, along with the fees, information and documents as prescribed, is hereby submitted to you for obtaining the approval for operating the scheme of upto Rs. ....

The attached documents and information is true and factual. None of the details have been hidden or are expressed with exaggeration. If convicted to have concealed relevant fact or to have presented wrong document or information, we hereby submit to bear with consequences according to the terms of the law.

Fund Manager

Name: .....

Address:.....Zone.....District..... VDC/Municipality/

Metropolis Area .....Ward no. ..... Block no.....Phone no.....Fax:.....

Email: .....

Seal of the Office of the Fund Manager:

The Chief Executive

Name

Signature

**Schedule - 14**  
(Related to Sub-rule (4) of Rule 24)  
Format of Application to be submitted for the Renewal of License

**Approval for Operating the Scheme**

Ms.....

.....

The ..... scheme and the units issued under this scheme equivalent to Rs..... operated by that Body Corporate having its head office at..... under ..... Mutual Fund has been registered at the Board and this approval is granted to operate the scheme subject to the Securities Act, 2007 and the Regulations, Byelaws, Directives framed under that Act and other prevailing laws.

Authorized signature:

Name:

Designation:

Date:

Seal of the Board:

Terms:

- 1.
- 2.
- 3.

**Schedule – 15**  
(Related to Sub-rule (5) of Rule 24)

**17Approval fees for Operating Scheme**

1. If the total amount of scheme is less than rupees one thousand million- 0.10 percent or Minimum Five hundred thousand.
2. If the total amount of scheme is from rupees one thousand million to two thousand million - 0.075 percent or Minimum One Million
3. If the total amount of scheme is above rupees two thousand million- 0.05 percent or Minimum 1.5 Million

There will be no Securities registration fee for Mutual Investment Scheme once they submitted the fee for operating Scheme as pursuant to this rule.

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<sup>17</sup> Amended by Board Decision dated on 2012/04/15

Commencement Date: 2010/10/06  
Annex Amendment: 2011/08/17  
First Amendment: 2014/05/13

## **Securities' Central Depository Service s Regulation, 2067 (2010)**

With an objective of regulating the matters regarding central depository of Securities, the Board, in exercise of the power conferred by Section 116 of Securities Act, 2063 (2006) and upon the approval of the Government of Nepal, has made the regulations as follows.

### **Chapter – 1**

#### **Preliminary**

1. **Short Title and Commencement:** (1) This Regulations may be called "Securities' Central Depository Service Regulation, 2067 (2010)".  
(2) This Regulation shall be deemed to have been commenced from the date as prescribed by the Securities Board of Nepal.
2. **Definition:** Unless the subject or context means otherwise in this Regulation, -
  - (a) "Act" means Securities Act, 2006.
  - (b) "Beneficial Owner" means the person who have opened their Beneficial Owner Account with Central Depository Company for depositing their securities or instruments and who have held the securities and instruments which are capable of being deposited in de-mat form.
  - (c) "Beneficial Owner Account" means De-mat Account (electronic account) opened with Central Depository Company through Depository Participant in order to deposit securities by the Beneficial Owner and which is distinguished by a unique account number.
  - (d) "Board" means Securities Board of Nepal established pursuant to Section 3 of the Securities Act, 2063 (2007).
  - (e) "Central Depository Service" means taking custody of the listed securities from the concerned securities owners and performing the jobs of maintaining their securities account, performing clearing and settlement of the securities transaction including transfer of securities and other similar jobs.

- (f) "Central Depository Company" means the Securities Business person obtaining license pursuant to Regulation 7 from the Board to operate Central Depository Service.
- (g) "Director" means member of the Board of Directors of Central Depository Company and this word also includes the Chairperson.
- (h) "Transfer" means function of transferring the ownership of the securities and other instruments and this word shall also denote family transfer or the transfer of ownership of securities to legal heir from the owner after his/her death.
- (i) "Depository Participant" means securities business person or the body corporate having membership of Central Depository Company.
- (j) "Issuer" means anybody corporate/ entity issuing securities / instruments.
- (k) "Registrar and Transfer Agent (RTA)" means any person / body corporate who on behalf of anybody corporate, 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.
- (l) "Registered Owner" means a Central Depository Company whose name is entered as such in the register of the issuer.
- (m) "Instruments" are instruments/ documents as are capable of being held in dematerialized form including but not limited to warehouse receipts, life insurance policies, etc.

## **Chapter – 2**

### **Provision relating to Licensing of Central Depository Service**

- 3. **Application to be submitted for license:** (1) Anybody corporate willing to operate Central Depository Service shall be required to submit an application as prescribed in schedule – 1 along with the fee as prescribed in of schedule – 2 to the Board.  
(2) The application to be submitted pursuant to Sub-Regulation shall be accompanied with the following details and documents of the applicant:
  - (a) Details regarding Director and Chief Executive as prescribed in schedule- 3,
  - (b) Details and documents regarding the applicant organization as prescribed in schedule-4,

- (c) Details and documents regarding promoters of the Central Depository Company as prescribed in schedule-5,
  - (d) Feasibility study report for establishment and operation of Central Depository Business,
  - (e) Draft of Operation Manual for Central Depository Company as prescribed in schedule-6.
4. **Examination of Application:** (1) The Board shall examine the application along with documents including details received pursuant to Regulation 3.  
(2) While conducting examination on the details and documents received along with the application pursuant to Sub-Regulation (1), if it deems necessary, the Board may demand for additional details or documents.  
(3) While making examination on the application received pursuant to this Regulation, if it is satisfied to grant license, the Board shall inform the applicant to develop infrastructure required for operating the central depository service.
5. **Infrastructure to be arranged:** (1) The electronic depository system required for the operation of the Central Depository Services shall be prepared within 12 months of getting notified pursuant to Sub-Regulation (3) of Regulation 4 from the Board and same shall be reported to the Board.  
(2) If it is unable to develop the infrastructure within the timeframe pursuant to Sub-Regulations (1) and is requested for additional time, the Board may provide an appropriate additional time period.  
(3) If the responsibility of operation and maintenance of the Depository System pursuant to Sub-Regulation (1) is to be given to the manpower or the organization other than those of Central Depository Company, it is required to report the Board regarding the details of the agreement to be concluded for handling the responsibility before concluding such agreement.  
(4) The Board may perform or cause to be performed the system audit of the infrastructure developed and the depository system pursuant to Sub-Regulations (1) and (3) from time to time. It shall be the duty of Central Depository Company to make available necessary access, facility, data, etc., to perform such system audit.
6. **To Inspect the Infrastructure:** (1) The applicant shall require to inform the Board regarding the completion of the infrastructure pursuant to Regulation 5.  
(2) Within 30 days of receiving the information of completion of infrastructure pursuant to Sub-regulation (1), the Board shall make on-site inspection and inquiry.

- (3) While making inspection and inquiry, if the infrastructure prepared is deemed insufficient, the Board may ask for making the additional arrangement within a specified time.
- (4) It shall be required to inform the Board after completing the necessary arrangement within the time frame pursuant to Sub-regulation (3).
7. **License to be Issued:** (1) If the infrastructure developed pursuant to Regulation 6 is found appropriate for the operation of the central depository service, the Board shall inform to submit license fee pursuant to annex-2.
- (2) After receiving fees pursuant to Sub-regulation (1), the Board shall issue license in the format as prescribed in annex – 7.
8. **Renewal of License:** The Central Depository Company shall, within three months of completion of the fiscal year, submit an application as prescribed in schedule – 8 along with the renewal fee as prescribed in schedule – 2 and renew the license.
9. **Suspension or Cancellation of the License:** The provision relating to suspension, cancellation or other proceedings regarding license shall be as per the Securities Board of Nepal Regulation.

### **Chapter – 3**

#### **Power, functions and duties of a Central Depository Company and Depository Member**

10. **Power, functions and duties of Central Depository Company:** The power, functions and duties of the Central Depository Company shall be as follows:-
- (a) To establish, operate and manage Securities Depository System,
  - (b) To establish electronic means of communication with all its depository participants, issuers or Registrar and Transfer Agent stock exchange, its clearing house or clearing corporation and such other entity as may be required to be connected and as decided by Central Depository Company.
  - (c) To make bye laws and operating instructions for conduct of Central Depository Company and depository participants / Issuers / Registrar and Transfer Agents.
  - (d) To issue guidelines / directions to depository participants/ Issuers/ RTAs for the conduct of business by way of circulars / communiqués.
  - (e) To enter into agreements with the depository participants / stock exchange its clearing house or clearing corporation / issuers/

Registrar and Transfer Agents before admission of a Depository Participant or securities of an issuer.

- (f) To operate through a network of Depository Participants registered with the Board.
- (g) To de-mat the securities deposited by the Beneficial Owner into electronic form and to convert de-mated securities to physical certificate as per the instructions of the Beneficial Owner through the Depository Participant.
- (h) To prescribe deposit, fees, charges for Depository Participants issuers and Registrar and Transfer Agents.
- (i) To maintain register of Beneficial Owners and provide the same to the issuers at regular intervals as may be decided by the Board to enable the issuer reconcile total securities (physical and de-mated) issued.
- (j) To make available an effective electronic deposit service to Depository Participants, RTA, and issuer.
- (k) To make available the facility to record mortgage / pledge / freeze of securities in Depository Service.
- (l) To make available the necessary support to other organizations related with securities i.e. Depository Participants, Stock Exchanges, Clearing Corporation or Clearing House of Stock Exchanges, Stock brokers, with the approval of the Board.
- (m) To admit, supervise, monitor, suspend and / or terminate the membership of Depository Participant,
- (n) To make arrangement for safe keeping of data of all securities kept in the Depository,
- (o) To open an electronic account for the Beneficial Owner through Depository Participants and to make available the details relating to the account as per the demand of the concerned party,
- (p) To establish and operate the system to effect transfer of securities in the Depository,
- (q) To prescribe upper limit for the charges / tariff to be levied by the depository participants to the Beneficial Owners.
- (r) To freeze securities in the Beneficial Owner's account or freeze the account of the Beneficial Owner upon receiving instructions/ orders from competent authorities, subject to receiving such the competent authority provides details of the Beneficial Owner's account from

- the competent authority as specified in the Bye-laws / operating instructions of the Central Depository Company.
- (s) To make available other services as mentioned in Memorandum of Association of Depository Company.
  - (t) To take adequate measure including insurance to protect the interest of the Beneficial Owners against risks likely to be incurred on account of its activities as a Central Depository Company
  - (u) To indemnify any loss caused to the Beneficial Owner due to the negligence of the Central Depository Company or the depository participant and to recover the same from the depository participant where the loss is caused due to the negligence of depository participant
  - (v) To cause an inspection of its controls, systems, procedures and safeguards annually and forward the copy of the report to the Board
  - (w) To appoint a compliance officer and provide adequate freedom and powers to its compliance officer for the effective discharge of its duties

**11. Functions not to be carried out by the Central Depository Company:** The Central Depository Company shall not perform or cause to perform the functions as follows:-

- (a) To assign or delegate to any other person its functions of the depository service, without the prior approval of the Board.
- (b) To disclose confidentiality relating to beneficiary account except otherwise prescribed by the law.
- (c) To render investment advice about any securities to its clients

**12. Power, functions and duties of Depository Member:** The power, functions and duties of the Depository Member shall be as follows:-

- (a) To open account for securities only upon signing of agreement with the Beneficial Owner,
- (b) To carry out Beneficial Owner identification process as may be specified by the Board / Central Depository Company before opening the account of the Beneficial Owner;
- (c) To maintain separate accounts in the name of each Beneficial Owner and the securities of each Beneficial Owner shall be segregated and shall not be mixed up with the securities of other Beneficial Owners ,
- (d) To de-mat the securities deposited by the Beneficial Owner into electronic form and to convert de-mated securities to physical

- certificate as per the instructions of the Beneficial Owner by sending them to the issuers / Registrar and Transfer Agents within seven days of receipt of instruction from the Beneficial Owner,
- (e) To keep record of securities kept in electronic form,
  - (f) To effect transfer of securities from the Beneficial Owner's account only on receipt of written/ electronic instructions of the Beneficial Owner or his assigns.
  - (g) To maintain high standards of integrity in all its dealing with its clients and other intermediaries, in the conduct of its business.
  - (h) To provide adequate freedom and powers to its compliance officer for the effective discharge of its duties
  - (i) To issue statement of de-mat account to the Beneficial Owner at such periodicity as may be prescribed by the Central Depository Company.
  - (j) To comply with the instructions, guidelines and advice provided by Central Depository company / Board.

**13. Functions not to be carried out by the Depository Participant:** The Depository Participant shall not perform or cause to perform the functions as follows:-

- (a) To make any exaggerated statement to the Beneficial Owners/ clients either about its qualification or capability to render certain services,
- (b) To make any untrue statement or suppress any material fact in any documents, reports or information furnished to the Board or Central Depository Company,
- (c) To assign or delegate to any other person its functions as a depository participant, without the prior approval of the Central Depository Company.
- (d) To indulge in any unfair competition, which is likely to harm the interests of other Participants or Beneficial Owners
- (e) Not to keep the information relating to account of Depository Participants confidential except otherwise prescribed by the law.
- (f) To render investment advice about any securities to its clients

## **Chapter – 4**

### **Provisions regarding Capital, Share Ownership and Qualification**

**14. Ownership of the Central Depository Company:** (1) Recognized Stock Exchange, Citizen Investment Trust, Commercial and Development Banks,

foreign institutional investor, a non-banking finance company, depository participants, or any other entity as may be prescribed by the Board may hold the shares of the Central Depository Company.

However, the Board shall not prescribe individual person, private limited company or cooperative to hold shares of the Central Depository Company.

(2) Notwithstanding anything contained in Sub-Regulation (1), the body corporate holding ownership of Central Depository Company shall have the qualifications as follows:-

- (a) Completion of five years minimum from the establishment of the company,
- (b) Net worth not less than paid up capital,
- (c) Should have been in profit for the last three years.

**15. Situation of being unable to hold ownership:** A company or a corporate body shall not be qualified to hold the shares of Central Depository Company under the situations as follows: -

- (a) If declared insolvent for loan default
- (b) If the income statement is not submitted for the tax purpose pursuant to the prevailing laws.
- (c) If the corporate body having responsibility to make its financial statements public has failed to make the audited financial statements public continuously for three years.
- (d) If the license being cancelled subject to action pursuant to concerned Act.
- (e) If remained in black list of Credit Information Bureau.

**16. Provisions regarding transfer of ownership** (1) Promoters of Central Depository Company shall not be allowed to sell the shares owned by them until completion of a period of five years from the date of obtaining the license.

(2) If any shares of Central Depository Company are sold after completion of period as pursuant to Sub-Regulations (1), such share may not be re-sold until the completion of one year of such share transfer.

(3) The shareholder of the Central Depository Company, who is willing to sell the shares owned by him/her, shall be required to submit application through Central Depository Company along with the fee equivalent to 0.5% of the sales amount of shares to be sold to the Board for approval.

(4) The application pursuant to Sub-Regulations (3) shall be accompanied with the information and documents of the Company or the corporate body willing to purchase the shares as specified in Schedule-5.

(5) While examining the application and the attached information and documents pursuant to Sub-Regulations (3), if the Board deems necessary, may demand for additional details or documents or may seek clarification.

(6) After making examination on the application and the attached information and documents pursuant to Sub-Regulations (3), the Board, subject to the provisions of the Act and this Regulation, shall provide approval for the sale of the shares.

**17. Shares to be Sold:** (1) Notwithstanding anything contained in this Regulation, if any corporate body / entity holding equity shares in a Central Depository Company become disqualified for holding the shares of Central Depository Company, it should be the responsibility of the concerned corporate body / entity to submit an application to the Board subject to this Regulation in order to transfer the shares held by it within 3 months of such disqualification.

(2) In case of failure to transfer shares ownership as pursuant to Sub-Regulations (1), Central Depository Company shall hold in escrow account the equity shares of the concerned corporate body and make sale within three months through auction to an eligible entity who are qualified according to this Regulation.

(3) If shares could not be sold pursuant to Sub-Regulations (2), the Central Depository Company will inform to the Board and may follow other alternative methods.

(4) While making sale of the shares of Central Depository Company pursuant to Sub-Regulations (2) or (3), it should be sold only to the eligible entities who are qualified pursuant to this Regulation and the information and documents regarding those entities purchasing the shares pursuant to Schedule – 5 and if the sale is made through auction, details regarding same shall be submitted to the Board within one month of such deed.

**18. Qualification of the Directors and the Chief Executive:** The qualification of the directors and the chief executive of the Central Depository Company shall be as follows:-

(a) The Directors and Executive chief shall hold a minimum bachelor degree in economics or commerce or finance or accounts or management or commercial law from a recognized educational institution or be a certified chartered accountant or equivalent to

chartered accountant and having a minimum of five years' experience in the field of capital market or industry or commerce or finance or accounts or commercial law or in management.

- (b) Should be a Nepali citizen, except the Government of Nepal otherwise approves.

**19. Disqualification of the Directors and the Chief Executive:** (1) The person having the disqualifications as follows shall not be the Director or the Chief Executive of the Central Depository Company:-

- (a) Insane or of unsound mind,
  - (b) Convicted and sentenced for imprisonment against criminal offence of moral turpitude and not completed five years of complete execution of the punishment,
  - (c) Convicted and sentenced from the court against corruption or fraud and not completed five years of complete execution of the punishment,
  - (d) If the person or the Company where s/he had acted as Director or Chief Executive is declared insolvent and has not completed five years of insolvency.
  - (e) Failed to submit the income statement for the purpose of tax or has remained the Director or Chief Executive of the Company who has not submitted the income statement for the purpose of tax clearance pursuant to the prevailing law.
  - (f) If the person or the Company where s/he had acted as Director or the Chief Executive has remained in the black list of the Credit Information Bureau.
  - (g) Has remained as the Director or the Chief Executive of the Company or Corporate Body who have failed to disclose its audited financial statement in public for three continuous years.
  - (h) Has been sentenced subject to the Act and is not allowed to work as a Director or the Chief Executive.
- (2) A person working as the Chief Executive of any company or corporate body is not allowed to work as the Chief Executive of Central Depository Company.

## Chapter – 5

### Provision relating to Depository Member

**20. Qualification of Depository Member:** (1) The Eligibility Criteria for a Depository Participant shall be as follows:-

- (a) 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.
  - (b) Shall have minimum net worth of rupees Five 1million
  - (c) Have not been black listed by Credit Information Bureau,
- <sup>2</sup>(2) The Depository Participant as prescribed pursuant to clause (b) of Sub- Rule (1) must have Net worth Ten Million by the end of the month Ashadh 2073 (mid July 2016).
- <sup>3</sup>(3) The Board than that mentioned in Sub-Rule (2) shall increase more Net worth from time to time.

**21. To be registered in the Board:** (1) An organization willing to render its service by obtaining membership of Central Depository Company pursuant to this Regulation shall be required to obtain registration certificate from the Board before obtaining such membership.

(2) In order to obtain the registration certificate pursuant to Sub- Regulation (1) from the Board, it is required to submit an application as prescribed in schedule-10 along with the application fee as prescribed in schedule-12 and the details and documents as follows:-

- (a) Copy of Memorandum and Article of Association of the Organization,
- (b) Registration certificate of the company,
- (c) Audited financial statements for previous year prepared on the format and standards as prescribed by the prevalent laws.

**Clarification:** For the provision of this clause, to the company or body corporate who has not completed the fiscal year after its establishment, the company or the body corporate may submit the periodical financial statements as certified by the Management.

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<sup>1</sup> Amended by Securities Central Depository Service(First Amendment),Regulation, 2016

<sup>2</sup> Added by Securities Central Depository Service(First Amendment),Regulation, 2016

<sup>3</sup> Added by Securities Central Depository Service(First Amendment),Regulation, 2016

- (d) Provisions regarding infrastructure to be developed for performing the duty of the Depository Member,
  - (e) Arrangement of manpower to perform the job of Depository Member,
- (3) The Board may exempt any provisions from clause (a) to (e) of Sub-regulation (2).

(4) While making examination on the application submitted pursuant to Sub-Regulation (2), if the Board is satisfied, may register the applicant as a Depository Member and issue the registration certificate as prescribed in schedule-10.

(5) Before issuing the registration certificate pursuant to Sub-Regulation (4), the Board shall inform the applicant to submit registration certificate fee as prescribed in the schedule-12.

(6) <sup>4</sup>The Board may cancel the registration certificate of depository member if depository member fails to commence as depository member within the three months from the date of receiving registration certificate.

**22. Renewal of Registration Certificate:** (1) Registration Certificate issued pursuant to these Regulations shall be valid for the period of one fiscal year and it shall be required to renew for every new fiscal year within one month of beginning of that fiscal year.

(2) In case of Depository Participant being failure to submit application for renewal, within the stipulated time, the Depository Participant shall be restrained from opening new accounts, till its Registration Certificate is renewed.

(3) In order to renew registration certificate the Depository Member shall submit an application as prescribed in schedule-11 along with the fee as prescribed in schedule-12 to the Board and renew the registration certificate.

(4) If the application submitted for renewal of Registration Certificate could not receive approval from the Board before expiry of the license/registration, the Depository Participant shall continue its operations until otherwise conveyed by the Board.

**23. Provision relating to Cash Guarantee:** (1) The Depository Participant shall be required to place refundable interest free Cash Deposit at Central Depository Company prior to the commencement of its business.

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<sup>4</sup> Added by Securities Central Depository Service(First Amendment),Regulation, 2016

(2) The amount of the refundable interest free Cash Deposit pursuant to Sub-Regulations (1) to be provided by the Depository Participant may be prescribed by the Central Depository Company.

## **Chapter – 6**

### **Provision regarding admission of securities**

**24. Securities to be admitted in Central Depository:** (1) Any corporate body or entity issuing securities whether listed or unlisted on a stock exchange and which fulfills eligibility criteria specified by Central Depository Company and is willing to admit its securities / instruments in the Central Depository shall be required to pay such charges as may be prescribed by Central Depository Company and enter into an agreement with Central Depository Company in the format as prescribed by the Central Depository Company.

(2) Notwithstanding anything contained in Sub-Regulations (1), the Central Depository may admit the Government Securities, commercial paper, stock certificate and receipt of commodities market or certificate as well.

(3) In order to admit the securities in the central depository system, the corporate body or entity issuing securities shall be required to submit an application along with the fee and the documents and details as prescribed in working manual to the Central Depository Company.

(4) Notwithstanding anything contained in Sub-Regulations (3), there shall be no restriction to Central Depository Company for admitting the securities issued by the Government of Nepal and other securities as prescribed by the Board.

(5) The Central Depository Company shall maintain electronic records of all securities that have been de-mated in the system.

(6) The listed companies existing at the time of commencement of this Regulation shall admit their securities in the central depository system within one year of Central Depository Company commencing its operations.

(7) All listed companies and entities registered with Board shall, after commencement of Central Depository Company shall issue securities in de-mat form only.

(8) The Board may prescribe time frame for all issuers to admit their securities in a phased manner within overall limit of six months mentioned under Sub-Regulations (7).

(9) The Issuer or its agent shall maintain record of certificate of securities which have been dematerialized and reconcile the records of

dematerialized securities with all the securities (securities held in physical form and dematerialized form) issued by the issuer, on a daily basis.

(10) In case of listed companies, issuers to ensure that securities dematerialized with Central Depository Company shall not exceed their securities listed on the stock exchange and submit the report to stock exchange at such intervals as may be prescribed by the Board.

(11) Issuers / RTAs shall within the prescribed period on receipt of intimation and securities along with the instructions of the Beneficial Owner from the Depository Participant regarding dematerialization of the securities, shall cancel the certificate of security and substitute in its records the name of the depository as a registered owner in respect of that security and inform the depository accordingly

(12) Issuers / RTAs shall within prescribed period on receipt of the intimation along with the instruction of the Beneficial Owner from the Depository Participant regarding dematerialization of the securities shall substitute in its records the name of the Beneficial Owner and issue certificate of securities (i.e. statement of Securities) of to the Beneficial Owner and inform the depository accordingly.

**25. Provision regarding transfer of ownership:** (1) Upon receipt of valid instruction from the Beneficial Owner the Depository Participants shall process the instruction in the system.

(2) The process of transferring the ownership of the securities remained in the Beneficial Owners account in the case of death of account holder or any other reason shall be as per the prevailing laws.

## Chapter – 7

### Provision regarding Financial Statement, Audit and Disclosures of Central Depository Company

**26. Provision regarding Financial Statement and Records of Central Depository Company:** (1) Along with the records and documents to be maintained pursuant to the prevailing laws, the Central Depository Company, in addition, shall keep fair and accurate records of the followings:-

- (a) Details regarding Depository Member of Central Depository Company,
- (b) Details relating to Depositor Corporate Body and de-mated securities,
- (c) Other details as prescribed by the Board from time to time.

(2) The format for the records to be maintained pursuant to Sub-Regulation (2) may be prescribed by the Board.

(3) The Central Depository Company shall make arrangements for internal audit of its operation and shall submit the annual report of internal audit to the Board within three months of completion of the fiscal year.

(4) The Central Depository Company shall complete audit within three months of completion of the fiscal year and shall submit the audited financial statements to the Board within one month of completion of audit.

(5) The Central Depository Company shall submit its annual report to the Board within six months of completion of the fiscal year.

(6) The Central Depository Company shall submit the details of agenda and decisions of the annual general meeting to the Board within thirty days of completion of its annual general meeting.

**27. Details and Reports to be submitted:** (1) The Central Depository Company shall submit the following information, details and reports within the following period to the Board:-

- (a) Quarterly report within thirty days on completion of quarterly period.
- (b) If the Central Depository Company has taken any action against the Depository Member, the details including the name of Depository Member, details of the proceedings and the reason for the proceedings within seven days of such act,
- (c) Report relating to inspection of Depository Member by Central Depository Company within 30 days of the end of such inspection,
- (d) Notifications, information and other details as demanded by the Board.
- (e) Other notifications, information and details as prescribed by the Board from time to time.

(2) The format of the reports to be submitted to the Board by the Central Depository Company may be prescribed by the Board.

(3) Besides the information's as prescribed in Section 46 of the Act, the Central Depository Company shall immediately provide the information on the matters as follows:-

- (a) If any proceeding pursuant to the prevailing laws is initiated against the Promoter, Director or the Executive Chief,
- (b) If the Promoter, Director or the Executive Chief is listed in the black list of Credit Information Bureau,

- (c) If the Central Depository Company establishes any committee regarding admission of securities, membership of company and transfer of securities; information regarding structure, functions, duties and powers of such committee,
  - (d) If there is any change in the structure, functions, duties and power of the committee established pursuant to clause (c) or if it is dissolved.
  - (e) If there is any change in the management or structure of the Central Depository Company.
  - (f) If the compliance office of Central Depository Company is appointed or changed.
- 28. Provision regarding Financial Statement and Records of Depository Member:** (1) The Depository Member shall be required to keep its books of accounts and prepare financial reports including profit and loss accounts, balance sheet and cash flow statements in the format and standards as prescribed under the prevailing laws.
- (2) The Depository Member shall submit its audited financial report to the Board and Central Depository Company within three months of completion of the fiscal year.
- 29. Provision regarding Auditor and Audit:** (1) only the person having the qualification of chartered accountant or equivalent and holding certificate of practice from Institute of Chartered Accountants Nepal (ICAN) shall be qualified to be appointed as an auditor of Central Depository Company and Depository Members.
- (2) The Central Depository Company and Depository Member, within 15 days of appointment of the auditor, shall report the Board regarding same.
- (3) The auditor, while auditing the accounts of Central Depository Company and Depository Member, shall do as per the prevailing values and standard of audit.
- (4) The auditor, after completing the audit, shall require to prepare the report reflecting functions, financial details and position of Central Depository Company and Depository Member.
- (5) The Board may prescribe for additional detail to mention in the Audit Report of the Central Depository Company and Depository Member.

## Chapter – 8

### Miscellaneous

- 30. May frame Byelaws and Operation Manual:** (1) The Central Depository Company may frame and implement the byelaws and working manual as required for operation of central depository service.
- (2) The byelaws and working manual framed pursuant to Sub- regulation (1) shall be implemented only after obtaining approval from the Board.
- (3) It shall be required to obtain approval from the Board of Directors of the Central Depository Company before submitting the byelaws and working manual to the Board for approval.
- (4) The Board may, on the byelaws and working manual implemented pursuant to Sub-regulation (1), issue directions to amend or improve or to frame new provisions repealing the old one, as necessary.
- 31. To make provisions for resolving grievance:** (1) The Central Depository Company shall arrange appropriate and effective provisions for resolving the grievance received with regards to the operation of central depository service.
- (2) If any kind of grievance with regards to the operation of central depository service is received from any Beneficial Owner, the Central Depository Company shall resolve such resolve grievance.
- (3) If the Central Depository Company fails to resolve the grievance or failed to resolve in time or if not convinced with the decision, the concerned party may submit application to the Board for reconsideration.
- (4) The Information related to grievances received at Central Depository Company shall be submitted to the Board at each month.
- 32. Provisions regarding Beneficial Owner's Protection Fund:** The Board may direct the Central Depository Company for establishment of an Beneficial Owners' Protection fund with an objective as follows:-
- (a) Create manage and make available at all times a fund for the protection and benefit of members of the public who invest in, hold or transact in securities in dematerialized form through the Settler.
  - (b) Provide monetary relief and/or compensation to Beneficial Owners in respect of losses suffered by Beneficial Owners through the wrongful act, negligence breach, default or fraud on the part of the Central Depository Company or its Depository Participant or their respective employees.

- (c) Educate and inform the general public investors regarding the benefits of holding and transacting in securities in dematerialized form, and about the protection available to Beneficial Owners of securities held in dematerialized form.
  - (d) Promote activities such as Beneficial Owner awareness program, conduct lectures, seminars and workshops and to undertake such other activities as would inculcate in the general public investors, a sense of confidence in the depository system.
- 33. Provisions regarding Fees:** (1) The fees that may be charged by Central Depository Company with Depository Member or clients and by Depository Member with clients shall be as prescribed in the byelaws of the Central Depository Company.
- (2) The amount equivalent to five percent of the fees received pursuant to Sub-regulation (1) by the Central Depository Company and Depository Member shall be required to be submitted to the Board within completion of one month of last month.
- 34. Trading in Securities after commencement of Central Depository Company:** Securities transactions on NEPSE after six months from the commencement of the operations of Central Depository Company shall be in de-mat form only. However the Board may relax the time period at its discretion.
- 35. Board reserves the right:** The Board may interpret in case of any occurrence of confusion on provisions of these Regulations.
- 36. May open Branch:** With the prior approval of the Board, the Central Depository Company may open its branch offices within the territory of Nepal.
- 37. Amendment of Memorandum of Association and Articles of Association:** The Central Depository Company may make amendment in any provisions of its Memorandum and Articles of Association with prior approval from the Board and shall report the Board regarding same within 30 days of amendment.
- 38. Action may be taken against the Auditor:** An Auditor in case of not carrying out the audit pursuant to this Regulation, the Board may forward a request in writing to Institute of Chartered Accountants Nepal for taking action against him/her.
- 39. Information to be furnished to the Board:** In case if any Depository Participant is found violating these regulations / bye laws / working manual of Central Depository Company, the Central Depository Company shall immediately initiate proceedings against such Depository Participant and shall report same to the Board.

40. **Change in Schedule** The Board may make necessary changes in schedules of this Regulation.
41. **To remain as Evidence** The records of transactions in the Beneficial Owners account held in electronic / dematerialized form maintained by a Central Depository Company shall be accepted as evidence in the proceedings before any competent authority.
42. **To be as per this Regulation** These regulations shall be applicable in the matters specified under it.
43. **Removal of Difficulty:** In case of difficulty to implement things as mentioned in this Regulation or difficulty to implement this Regulation, the Board may interpret and clarify in this regard as per the requirement.

## **Schedule – 1**

[Related to sub-Rule (1) of Rule 3]

## **Format of application to be submitted for license**

Date: .....

## Securities Board of Nepal

.....

Subject: Application for license

As we are desirous operate the Central Depository Service subject to the Securities Act, 2063 (2007) and the Regulations, Regulations framed under that Act and other prevailing laws, this application, along with the fees, information and documents as prescribed, is hereby submitted to you for obtaining the License.

The attached documents and information is true and factual, none of the details have been hidden or are expressed with exaggeration. If convicted to have concealed relevant fact or to have presented wrong document or information, we hereby submit to bear with consequences according to the terms of the law.

## Directors and the Chief Executive

Name \_\_\_\_\_ Signature \_\_\_\_\_

1.

2.

3.

4.

## Applicant

Name: .....

Address:.....Zone.....District..... VDC/Municipality/

Metropolis Area ..... Ward no. ..... Block no.....Phone no.....Fax:.....

Email: .....

**Seal of the body corporate:**

**Enclosure:**

## **Schedule – 2**

[Related to Sub-Rule (1) of Rule 3, Sub-rule (1) of Rule 7 and Rule 8]

### **Application fee, license fee and Annual fee**

- |                    |                |
|--------------------|----------------|
| 1. Application Fee | NPR 25,000/-   |
| 2. License Fee     | NPR 5,00,000/- |
| 3. Annual Fee      | NPR 3,00,000/- |

### Schedule-3

[Related to clause (a) of Sub-Rule (2) of Rule 3]

#### Profile of the director/ chief executive

Recent  
Photo

1. Name:
2. Permanent address: Zone....District....VDC/Municipality....  
Tole (area): Ward No..... House/Block No...Phone...Email...
3. Present address: Zone... District... VDC/Municipality ..... Tole  
(area)...Ward No... House/Block No...  
Phone No...Fax...Email...
4. Father's Name:
5. Grand father's Name:
6. Name of husband or wife:
7. Academic qualification:
8. Professional experience:
9. Permanent Account Number (PAN):
10. Training:  
11. Details regarding having ownership or holding position of interest of any kind in other company or body corporate, if any,
12. Details regarding any action taken or action pending under the securities related laws or any other prevailing laws against self or the company or the body corporate or the Director or Chief Executive of the company or the body corporate with which s/he is affiliated, if any,
13. Declaration on having fulfilled qualification required for and not having disqualification as stipulated for the director or chief executive of the Stock Market.

Signature.....

#### Document to be attached:

1. Proof of Tax Clearance for up to last fiscal year.
2. Proof of deletion of name from black list of Credit Information Bureau, if black listed previously.
3. Copy of documents verifying qualification, experience and affiliation, if any with other institutions.
4. Copy of citizenship certificate
5. Copy of PAN certificate

<sup>5</sup>Note: The Board of Directors of, fully or partially government owned Company, will have no compulsion to submit above mentioned documents except Chief Executive Officer.

<sup>5</sup> Added as decided by Board on 2011/08/17

## **Schedule – 4**

[Related to clause (b) of Sub-Rule (2) of Rule 3]

### Details regarding the Corporate Body willing to obtain license of the Central Depository Company.

- a. Copy of registered certificate
- b. Copy of Memorandum and Articles of Association
- c. Copy of the Share Holder's Agreement regarding establishment of Central Depository Company, if any,
- d. Details regarding infrastructure to be developed for the operation of Central Depository Company as follows:-
  1. Details regarding office address and office area,
  2. Provision regarding organizational structure and work division,
  3. Details regarding depository system, office equipment and technology developed for the operation of the Central Depository Service,
  4. Details regarding arrangement to be made for the security of Central Depository Service,
  5. Provisions made regarding arrangement of keeping records of demated securities and its safety,
  6. Details regarding manpower arranged for the operation of the Central Depository Service.

## **Schedule – 5**

[Related to clause (c) of Sub-Rule (2) of Rule 3]

**Details related to the body corporate willing to own the share ownership of Central Depository Company.**

- a. Copy of registered certificate
- b. Copy of Memorandum and Articles of Association
- c. If the body corporate is established under the special Act, copy of related Act and subsidiary Regulations and by-laws
- d. Copy of resolution of the Board of Directors regarding having ownership of the Share Market.
- e. Audited financial statement of last three years of accounts maintained in the prescribed format pursuant to prevailing laws and accounting standard and yearly report including activities of each year,  
(On behalf of a company or a body corporate not completing 3 years of its establishment, available financial statement and report of the year may be furnished.)
- f. Declaration that the company or the body corporate is not listed by the Credit Information Bureau
- g. Details regarding any action taken or action pending under the securities related laws or any other prevailing laws against the company or the body corporate or the Director or Chief Executive of the company or the body corporate with which s/he is affiliated, if any,
- h. Tax registration certificate,
- i. Details regarding the ownership in other companies or body corporate, if any,
- j. Declaration of not having disqualification for holding the ownership of Central Depository Company ,
- k. Details and documents relating to the Director as follows:-
  - (a) Full Name including forefathers and Address
  - (b) Ownership or any kind of involvement in any other companies or body corporate, if any

## **Schedule – 6**

[Related to clause (e) of Sub-Rule (2) of Rule 3]

### **Minimum points to be included in Working Procedure Guidelines of Central Depository Company**

- (a) Regarding admission of securities in Central Depository Company,-
  - 1. Provisions regarding application and details and documents to be submitted by a body corporate desirous to deposit securities in Central Depository,
  - 2. Provisions regarding conditions to be followed by a person desirous to take service of Central Depository Company,
  - 3. Provisions regarding dematerialization of securities certificate and re- materialization from the situation of dematerialization and operation of De-mat Account keeping electronic record,
  - 4. Provisions regarding record keeping of securities registered in Central Depository,
  - 5. Provisions regarding process of lien or release of securities in electronic account.
- (b) Regarding membership of Central Depository Company,-
  - 1. Provisions regarding membership and renewal of membership,
  - 2. Provisions regarding infrastructure to be developed by Depository Member,
  - 3. Provisions regarding monitoring and inspection of Depository Member,
  - 4. Provisions regarding technical and working efficiency examination of Depository Member,
  - 5. Provisions regarding suspension or revocation of the Depository Member or any other action to be taken in case of finding doing any irregular act or violating the Act and Regulations and Regulation framed under the Act,
  - 6. Provisions regarding qualification and disqualification of Depository Member.
- (c) Regarding Beneficial Owner Account,-
  - 1. Provisions regarding application and necessary documents to be submitted to the Depository Member by beneficial owner while opening electronic account,

2. Provisions regarding the details with regard to the beneficial owner to be kept by the Depository Member,
3. Provisions regarding process of opening beneficial owner account, sequestration and closure by Depository Member,
4. Provisions regarding disclosure to make in an agreement to be concluded with beneficial owner by Depository Member before opening an account,
5. Provisions regarding operation of electronic securities transaction,
6. Provisions regarding mortgage of securities,
7. Provisions regarding ownership transfer of electronic securities,
8. Provisions regarding electronic access to securities information,
9. Provisions regarding grievances handling of beneficial owner about beneficial owner account,
10. Provisions regarding format of introductory details with photo of beneficial owner to be kept by Depository Member.

**Schedule – 7**  
[Related to Sub-Rule (2) of Rule 7]

**Securities Board of Nepal**  
Kathmandu

**License to Operate Central Depository Service of Securities**

This license is hereby issued to M /s....., having its head office at ....., to operate the Central Depository Service subject to the provisions of the Securities Act and Regulations, Bye- laws, arrangements made there under as well as other prevailing Laws.

S.N.	Renewal Date	Valid Until	Signature of authorized person performing renewal

This validity of license shall remain till end of each fiscal year and it shall be required to be renewed every year.

Authorized signature:  
Name:  
Designation:  
Date:

**Schedule – 8**  
[Related with Rule 8]

**Format of application to be submitted for renewal of license**

Date:

Securities Board of Nepal

.....

Subject:      **Request for renewal of license.**

As the license to operate the Central Depository Service provided by you is valid until....., I hereby submit this application along with the license and the annual fee as prescribed for renewal of the same.

Authorized Signature:

Name:

Position:

Seal of body corporate:

Schedule – 9

[Related with sub-Rule (2) of Rule 21]

## **Format of application to be submitted by Depository Member to obtain Registration Certificate**

Date: .....

## Securities Board of Nepal

**Subject:** request for registration certificate.

As we are desirous render the service of a Depository Member subject to the Securities Act, 2063 (2007) and the Regulations, Regulations framed under that Act and other prevailing laws, this application, along with the fees, information and documents as prescribed, is hereby submitted to you for obtaining the registration certificate.

The attached documents and information is true and factual, none of the details have been hidden or are expressed with exaggeration. If convicted to have concealed relevant fact or to have presented wrong document or information, we hereby submit to bear with consequences according to the terms of the law.

## Directors and the Chief Executive

Name \_\_\_\_\_ Signature \_\_\_\_\_

1. 2. 3. 4. 5. 6. 7.

**Applicant a body corporate:**

Name: .....

Address:.....Zone.....District..... VDC/Municipality/  
Metropolis Area .....Ward no. .... Block no.....Phone no.....Fax:.....  
Email: .....

**Schedule – 10**  
[Related with sub-Rule (4) of Rule 21]

**Securities Board of Nepal**  
Kathmandu

**Registration Certificate of Depository Member**

Registration Certificate No.:

M /s.....having its head office at .....  
....., has been registered as Depository Member subject to  
the provisions of the Securities Act and Regulations, Bye- laws, arrangements made  
there under as well as other prevailing Laws and is hereby issued this certificate.

This certificate shall remain valid until ..... However, if the  
certificate is renewed, it shall remain valid until the date of renewal.

Authorized Signature:  
Name:  
Position:  
Seal of body corporate:

**Schedule – 11**  
[Related to Sub-Rule (3) of Rule 22]

**Format of Application to be submitted for renewal of Registration  
Certificate**

Date:

Securities Board of Nepal

.....

Subject: Request for renewal of registration certificate.

As the registration certificate provided by you is valid until ..... this application has been hereby submitted along with the registration certificate and the renewal fee as prescribed for renewal of the same.

Seal of the Company:

Authorized  
signature:  
Name:  
Designation:

## **Schedule – 12**

[Related to Sub-rule (2) and (5) of Rule 21 and Sub-rule (3) of Rule 22)

### **Fees for registration of Depository Member**

1. Fee relating to registration certificate of Depository Member
  - a. Application fee Rs. 5,000/-
  - b. Depository Member Registration Certificate fee Rs. 50,000/-
  - c. Annual fee Rs. 25,000/-
  
2. Fee to be paid while obtaining Depository Membership from Central Depository Company
  - a. Membership fee Rs. 50,000/-
  - b. Membership renewal fee Rs. 25,000/-

## CREDIT RATING RULES, 2011

In exercise of powers conferred by Section 116 of the Securities Act, 2006, the Securities Board of Nepal, upon the approval of the Government of Nepal, hereby formulates the following rules in order to regulate and manage credit rating business,

### CHAPTER-1

#### PRELIMINARY

1. **Short Title and Commencement:** (1) This Rules may be called the "Credit Rating Rules, 2011".  
(2) This Rules shall come into force on the date as prescribed by the Securities Board of Nepal.
2. **Definitions:** Unless the subject or the context otherwise requires, in these rules,-
  - (a) "License" means License issued in accordance with Sub-rule (2) of Rule 10 to carry on credit rating business.
  - (b) "Act" means the Securities Act, 2006.
  - (c) "Company" means the Company as mentioned in the Companies Act, 2006.
  - (d) "Credit Rating" means an act of assessing standards of securities of the issuer, goodwill of any individual or body corporate, and providing opinions including other processes related therein.
  - (e) "Credit Rating Agency" means agency licensed by the Board to carry on credit rating business.
  - (f) "Net worth" means total amount to be remained after deducting total amount of reserved loss and deferral left to write-off and miscellaneous expenses therein from total sum of paid up capital and reserve fund (except fund created from reassessment of assets) of a body corporate.
  - (g) "Customer" means natural person, body corporate, company or agency.
  - (h) "Board" means the Securities Board of Nepal constituted pursuant to Section 3 of the Act.
  - (i) "Individual" means a natural person, body corporate, company or agency.

- (j) "Rating mark" means a mark indicating standards of securities or views expressed applying other standards by a credit rating agency to be used by the issuer, subject to these Rules.
- (k) "Rating Committee" means a committee formed by the Credit Rating Agency for rating.
- (l) "Major Shareholder" means individual or agency holding at least ten percent share of total paid up capital of any credit rating agency with accumulating shares of individual, family members living in a same house or subsidiary company or principal company, or having at least ten percent voting rights out of total number of voters.
- (m) "Director" means a member of board of directors of credit rating agency and the term also includes chairperson or alternative chairperson.
- (n) "Letter of Approval" means letter of approval provided by the Board to establish and operate credit rating agency in joint venture by a foreign credit rating agency in Nepal.
- (o) "Body corporate" means an agency as defined by the Securities Act, 2007.

## CHAPTER- 2

### **Provisions Relating to Necessity of Credit Rating and Letter of Approval**

- 3. **Credit Rating cause to be done:** (1) Any corporate agency issuing securities publicly shall issue the securities only after making credit rating by a credit rating agency as prescribed below:
  - (a) Public or right share issuance of securities with value at least more than thirty million (three Crore) rupees,
  - (b) However, the Board shall, through public notice, notify to carry out credit rating in the issuance of securities below thirty million rupees, if it deems necessary.
  - (c) Issuance of debenture and other debenture bond,
  - (d) Issuance of preferential shares,
  - (e) Primary issuance, further public offering, right shares issuance and other issuance adding premium in a face value by a body corporate,
  - (f) Other securities or instruments as prescribed by the Board.

(2) The details of credit rating of securities shall be included in an issue offer/proposal/ prospectus/ other prospectus to be published before issuance securities in accordance with sub-rule (1).

(3) The issuer shall mention the detail if rating has been done in accordance with provisions of other regulatory agencies (Nepal Rastra Bank, Insurance Board or others) in publishing the prospectus in public.

(4) Anybody willing to get loan facility from banks or financial institutions may also cause credit rating in accordance with these Rules.

(5) Notwithstanding anything contained elsewhere in this Rules, anyone willing to get a loan facility from banks or financial institutions shall have to make credit rating, if Nepal Rastra Bank has prescribed to make credit rating in accordance with this Rules.

(6) Notwithstanding anything contained elsewhere in this Rules, credit rating under this Rules is not made mandatory till any company obtains license for credit rating transaction from the Board.

(7) Taking into consideration of the interest of the security market, the Board may exempt from applying any provision of this Rule or exempt from doing credit rating for any special securities by publishing a public notice.

**4. Provision relating to approval letter:** <sup>1</sup>(1) Any running credit rating agency or doing credit rating business through subsidiary company established abroad having the qualifications pursuant to clause (b) of Sub- rule (2) of Rule 15 fulfilled may apply to obtain an approval letter from the Board to establish credit rating agency according to prevailing laws of Nepal, if such agency is willing to establish credit rating business in joint venture with at least fifty-one percent and maximum of seventy- five percent ownership.

<sup>2</sup> (2) In order to receive an approval letter pursuant to Sub-rule (1), the concerned foreign agency shall have to submit an application along with following details and documents:-

- a) Applicant Company's Certified copy of certificate of incorporation in foreign country,
- b) Applicant Company's certified copy of Memorandum of Association and Articles of Association of the company, details of promoters and other related certified documents copy thereto,
- c) A copy of decision made by the board of directors of the applicant company to conduct credit rating business in Nepal,
- d) Applicant Company's last three years Audit Report.

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<sup>1</sup> Amended by Credit Rating (First Amendment) Rules, 2017

<sup>2</sup> Amended by Credit Rating (First Amendment) Rules, 2017

- e) If applicant Company hold foreign license for doing credit rating business shall submit following details:
    - i. Certified copy, of license for doing credit rating business, received from concerned regulatory body,
    - ii. Details of credit rating works carried out by the company in last three years
  - f) Applicant company had no license for doing credit rating business but it's subsidiary company had hold license for doing credit rating business shall submit following details:
    - i. Subsidiary Company's certified copy of Memorandum of Association and Articles of Association of the company and other related certified documents copy thereto,
    - ii. Documents that disclose the relationship between the Applicant Company and subsidiary company and Certified copy of subsidiary company's certificate of incorporation,
    - iii. Certified copy of license, received by subsidiary company, for doing credit rating business provided by concerned regulatory body,
    - iv. Details of credit rating works carried out by the subsidiary company in last three years
    - v. Audit report of last year of subsidiary company
    - vi. Agreement relating to provide technical support to the Company established in Nepal for doing credit rating business.
  - g) A copy of Joint venture agreement made between the Applicant Company and Nepali party,
  - h) Details about share ownership of promoters of establishing company and declaration by foreign company fulfilling the provisions pursuant to clause (b) of Sub-rule (2) of Rule 15,
  - i) Details and documents in a format as prescribed in the Schedule-4 by the applicant agency willing to pursue credit rating business,
  - j) Details relating to Representative of foreign credit rating company.
  - k) Other necessary details and documents asked by Board.
- (3) If it appears to provide an approval letter to foreign company to establish credit rating agency in Nepal after making inquiries on the application received pursuant to sub-rule (2) and attached details and documents thereto, the Board shall provide an approval letter in the name of foreign company in the format as

prescribed in the Schedule-8 and shall inform to the Office of the company Registrar accordingly.

(4) Notwithstanding anything contained in Sub-rule (3), after making inquiry into the details and documents received along with application, the Board may ask to submit additional details or documents, or clarification, or amendment or addition or deletion, when necessary.

(5) A company, established after receiving an approval letter pursuant to this Rule, cannot carry on credit rating business without getting license from the Board.

(6) The approval letter provided by the Board pursuant to this Rule shall ipso facto be null and void, if the agency/ company receiving the approval letter does not submit an application to get license from the Board to carry on credit rating business upon establishing Credit Rating Company within two years.

### CHAPTER-3

#### **PROVISION RELATING TO LICENSE**

5. **License be required to operate Credit Rating Agency:** (1) A body corporate, willing to work as credit rating agency with major shareholding and fulfilling qualifications pursuant to Sub-rule (2) of Rule 15, may carry on credit rating business only after getting license from the Board.

(2) No one shall carry out credit rating of anyone or provide advisory opinion on this matter without getting license pursuant to these Rules from the Board.

6. **Application to be made for License:** An application in the format as prescribed in the Schedule-1 and application fees as prescribed in the Schedule-2 along with following information as well as documents shall be submitted to the Board to get license to operate credit rating agency :-

- (a) Certified copy of certificate of incorporation of the company,
- (b) Certified of memorandum of association and article of associations of the company,
- (c) Details of executive head and members of board of directors, including officials pursuant to the Schedule-3
- (d) Details of corporate promoter of credit rating agency, if any, pursuant to Schedule-4,
- (e) However, in the case of foreign agency getting an approval letter pursuant to Rule 4, details other than submitted before may be enough.
- (f) Certified copy of decision of the board of directors to getting license from the Board,

- (g) Business plan, including anticipated financial details of the upcoming three fiscal years.
7. **Inquiry into application:** (1) The Board shall make inquiry into the application, details and documents received pursuant to Rule 6.  
(2) The Board shall ask for additional details and documents upon making inquiring pursuant to Sub-rule (1), if necessary.  
(3) If it deems appropriate to provide license after making inquiry into the application pursuant to this Rule, the Board shall inform the applicant to get ready necessary infrastructures to conduct credit rating service.
8. **Get Ready of Infrastructure:** (1) Applicant body shall make an arrangement of the following infrastructures within 6 months from the date notified by the Board pursuant to Sub-rule (3) of Rule 7 and inform the same to the Board:-  
(a) Address of office, facilities available in the office as well as office area,  
(b) Office equipment and information, analysis methods and computer software to be used to conduct business upon getting license from the Board may be arranged on its own or received from others,  
(c) Provision about organizational structure and work division,  
(d) Details of human resources in the format as prescribed in the Schedule-5 that will be used in business of credit rating,  
<sup>3</sup>(2) If a company for the purpose of qualification as per the Clause (b) of Sub-rule (2) of Rule 15 has entered into agreement to provide necessary human resource and technical support then the Clause (b), (c) and (d) of Sub-rule (1) shall not be considered to be compulsory till the validity of that agreement.
9. **Inspection of infrastructure:** (1) Applicant shall inform the Board about the infrastructure prepared pursuant to Rule 8.  
(2) The Board shall make on-site inspection and inquiry within fifteen days of receipt of information with regard to the preparation of infrastructure pursuant to Sub-rule (1).  
(3) If the arrangement on infrastructure is not found to be adequate following the inspection and inquiry made pursuant to Sub-rule (2), the Board may ask the applicant to make additional arrangement in this regard in a prescribed time.  
(4) If additional time has been given pursuant to Sub-rule for the arrangement of necessary infrastructure, it shall be informed to the Board upon making necessary arrangements of infrastructure within the given time.

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<sup>3</sup> Amended by Credit Rating (First Amendment) Rules, 2017

**10. To provide License:** (1) The Board shall inform to pay fees for license pursuant to the Schedule-2 to conduct credit rating business, if the infrastructure arranged by the applicant is found to be well enough.

(2) The Board shall provide license in a format as prescribed in the Schedule-6 after collecting the fees pursuant to Sub-rule (1) from the applicant.

**11. Renewal of License:** (1) A credit rating agency shall renew its license for each fiscal year with in a period of three months following the end of its license period by submitting an application in a format as prescribed in the Schedule-7 along with renewal fees pursuant to the Schedule-2.

(2) A credit rating agency who does not submit an application for renewal of its license within a period of three months following the end of each fiscal year, such agency cannot conduct credit rating until renewal of its license.

(3) License of the credit rating agency shall not be renewed until and unless fees or amounts payable to the Board pursuant to these Rules is paid.

(4) The Board may cease to renew the license of credit rating agency till the submission of details to the Board pursuant to Chapter-6.

**12. Suspension, Cancellation of Licesne and other action:** (1) Where it has found from the investigation that any credit rating agency has, time and again, found not abiding by the Act and Rules made there under or the directions given by the Board from time to time, or that the works of credit rating agency is against the interest of investors; the Board may initiate to suspend or cancel the license of such agency by seeking clarification in writing.

However, the Board shall provide an ample opportunity to make clarification on this matter to concerned credit rating agency before suspending or cancelling the license.

(2) If it has proved that the credit rating agency or its officials has carried out credit rating with bad intention or willfully carried out wrong credit rating; an action shall be taken against the concerned company or its officials pursuant to the Act.

(3) Suspension, cancellation of license of credit rating agency and other action shall be carried out in accordance with to the rules and regulations of the Securities Board of Nepal.

## CHAPTER-4

### **PROVISION ON CAPITAL, OWNERSHIP AND QUALIFICATION**

**13. Minimum Capital and Financial Source:** (1) A company willing to carry on credit rating business pursuant to these Rules shall have minimum paid up capital

of twenty millions rupees (20,000,000/ rupees) and minimum net worth of seventy five percent of the paid up capital.

(2) The Board may increase the paid up capital or net worth and prescribe provision for other financial sources, when necessary.

(3) Approval from the Board shall be required to obtain to buy or transfer the shares of major or promoter shareholders of the credit rating agency pursuant to these Rules.

(4) The credit rating agency having the license pursuant to these Rules cannot issue securities publicly.

**14. Unable to accept ownership:** (1) The following persons shall not be qualified to accept the ownership or to be the promoter of the credit rating agency:-

- (a) who has been convicted guilty in criminal offence involving moral turpitude by the court,
- (b) who has been convicted of an offence of corruption or fraud by the court,
- (c) who has been declared insolvent and five years has not lapsed thereafter,
- (d) who is in blacklist of Credit Information Bureau and removable period of three years has not lapsed,
- (e) who has served in a post with financial gain at the Board, Securities Market, Securities business or listed companies,

(2) If any person holding ownership of credit rating agency becomes disqualified pursuant to Sub-rule (1), such ownership shall be transferred to qualified person within six months.

**15. Minimum Qualification of Credit Rating Agency:** (1) A body corporate applying for license of credit rating agency shall have following qualifications:-

- (a) Registered as limited liability Company pursuant to prevailing company related laws,
- (b) Holding the share ownership of at least fifty one (51) percent by the main shareholder having the qualifications as set forth in Sub-rule (2),
- (c) Notwithstanding anything contained in clause (b), having the minimum twenty five percent of share ownership of foreign credit rating agency as prescribed in clause (b) of Sub-rule (2),
- (d) Any director and promoter of the company has not been convicted of any type of fraud, cheating or an offence including moral turpitude or not punished for not abiding by the Act and Rules made there under,

- (e) A period of three years has not been lapsed, if the name has been enlisted in the blacklist of Credit Information Bureau or any other regulatory agency,
- (f) Not declared as insolvent,
- (g) Having experienced and qualified human resources on credit rating in a company or foreign agency prescribed in Clause (b) of Sub-rule (2) of Rule 15,  
However, there shall be at least two employees with minimum master degree in economics, trade, finance, accounting or corporate law from recognized educational institutions and at least two employees with title of Chartered Accountancy from Nepal Chartered Accountants Association.
- (h) Directors and executive head having the qualifications pursuant to Rule 16 and not ineligible pursuant to Rule 17,
- (i) Having the credit rating as main objective in the Memorandum of Association of the company,
- (j) Having the Board convinced about the applicant Company or promoter(s) of such company as renowned on the basis of its financial ability, financial adequacy and healthy professionalism in business transactions and sincerity in business.

(2) After making inquiring into the application received pursuant to Rule 6, the major shareholder of applicant company shall be considered to be eligible to work as credit rating agency if it has the following one or more than one criteria:-

- (a) The promoter of Applicant Company is a body corporate that is established pursuant to prevailing law and has net assets of one billion rupees,
- (b) <sup>4</sup>A company established in foreign country shall fulfill the following condition:
  - i. The main office located at abroad of Applicant Company's must have at least documented five hundred million net assets.
  - ii. Applicant Company or Applicant Company's subsidiary company must have a least three years' experience on credit rating business,
  - iii. Applicant Company or Applicant Company's subsidiary

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<sup>4</sup> Amended by Credit Rating (First Amendment) Rules, 2017

company must completed three years of its license provided for credit rating business by the concerned regulatory agency of that country where such company is sited, and such license must be valid till date,

(c) Agency recognized as Credit Information Bureau by the Nepal Rastra Bank,

(3) The Board may, from time to time, prescribe other terms and conditions in addition to the provisions as set forth in Sub-rule (1) and (2) and implement them accordingly.

(4) Notwithstanding anything contained in these Rules, the Board may prescribe additional fit and proper standards for the promoters, directors and executive head of credit rating agency and implement them accordingly.

16. **Eligibility of Director and Executive Head:** The eligibility criteria for directors and executive head of the credit rating agency shall be as follows:-

(a) Executive head and directors of credit rating body shall possess a degree on Chartered Accountancy or equivalent thereof or master degree on economics, trade, finance, accounts, management or business law from a recognized educational institution and have the experience of at least five years in any one or more than one field of share market, industry or trade or finance or accounts or law or management.

(b) Nepali citizen except where the Government of Nepal has given approval.

However, it shall be pursuant to prevailing laws in the case of a representative of foreign credit rating agency.

17. **Non-eligibility of Director and Executive Head:** (1) A person with the following non eligibility shall not be a director or executive head of credit rating agency:-

- (a) Who is insane or mentally unsound
- (b) Who is punished and five years has not lapsed thereafter, if convicted guilty in criminal offence involving moral turpitude,
- (c) Who is punished and five years has not lapsed thereafter, if convicted of an offence of corruption or fraud by the court,
- (d) A person or company or body corporate where he or she is director or executive head has been declared insolvent and five years has not lapsed thereafter,

- (e) Director or executive head of a company or body corporate who has not paid tax as per the prevailing laws or not submitted tax returns as per the prevailing law,
  - (f) A person or a company or body corporate where he or she is director or executive head is blacklisted by the Credit Information Bureau,
  - (g) Who is director or executive head of a body corporate that issues securities publicly that has not publicized its audited financial statement in three consecutive years,
  - (h) Who has been punished as per the Act and listed by the Board as not eligible to work as director or executive head of a body corporate,
  - (i) Who has served with financial gains at the post of the Board, or securities market or merchant bankers,
  - (j) Who is in jail for a criminal offence involving moral turpitude,
  - (k) A period of three years has not been lapsed following the remove from the blacklist of Credit Information Bureau,
- (2) Any person who has been working as executive head in any company or body corporate is not able to work as executive head of the credit rating agency.

**18. Appointment of Compliance Officer:** (1) A company, willing to conduct credit rating business pursuant to these Rules, shall have to appoint one compliance office for the company having at least bachelor degree in subject of commerce, law or management from a recognized educational institution and inform the same to the Board prior to commencing its works as per the objective.

(2) The Compliance Officer appointed as per the Sub rule (1) shall monitor compliance of the laws related to Securities and Rules made under that Act and directives made for credit rating agencies.

(3) If it is found in monitoring as per Sub rule (2) that the Act, Rules and directions are not followed, such shall be informed forthwith to the Board and the executive head or board of directors.

## CHAPTER-5

### **CREDIT RATING WORKS AND CODE OF CONDUCT**

**19. Agreement with Client:** (1) A credit rating agency willing to conduct credit rating shall enter into written agreement with the client.

(2) The following provisions with regards to credit rating shall be mentioned in the agreement to be entered into pursuant to Sub rule (1):-

- (a) Rights and obligations of each party in relation to credit rating,
- (b) Fees to be charged by the rating agency,

- (c) Consent of the clients with regard to periodic monitoring and review of rating carried out by the credit rating agency during such period of securities or other instruments to be made rating.
- (d) Client's agreement to help credit rating agency to maintain actual and proper rating, in particular providing true and adequate information and details to credit rating agency on time,
- (e) Make regular flow of information about the standards of rating to the clients in a situation where the clients be in agreement or inform the Board in a situation where the clients do not be in agreement.
- (f) Information about the final credit rating of securities made by the credit agency being approved or not by the clients, and the date of providing the outcomes of the rating, details or clients' consent to include those details in making public.

**20. Rating to be done:** (1) A credit rating agency shall provide rating results based on the analysis of financial, managerial and risk factors where the client is a body corporate.

(2) Each rating fixed by the credit rating agency shall have to be provided to the Board.

**21. Relating to Rating Monitoring:** (1) Each credit rating agency shall monitor the ratings agreed upon by the client for at least three years continuously.

(2) A credit rating agency shall promptly publish the changes of first rating through press release or posted on the website while monitoring rating and also shall inform it to the Board.

**22. Assistance to be Provided:** (1) It shall be the duty of each body corporate or a person to provide all necessary details and information to the credit rating agency for assessment of securities and bonds to be issued.

(2) If any discrepancy on fixation of rating or standards has occurred due to not making available the assistance pursuant to Sub rule (1), the party shall be held accountable who has the duty to provide information and details.

**23. Process of Review and Withdrawal of Rating:** (1) If assistance has not been provided by any client to any credit rating agency to monitor pursuant to Rule 21, rating shall be reviewed on the basis of maximum information available to the credit rating agency. It shall be made public, if information has not been provided to the credit rating agency in such a way and monitoring of rating carried out based on maximum information available.

(2) A credit rating agency shall not leave credit rating until the period fixed remained for credit rating in other circumstances, except where the issuing company rated is liquidated.

(3) If an issuing company has merged with other company, the monitoring shall be kept continued seeing that securities of new company until settlements of liability of the securities rated.

(4) Rating may be withdrawn, if assistance is provided by the client and rating agency is convinced that rating would be meaningless without that assistance. If rating is withdrawn owing to occur of that circumstances, a notice regarding withdrawal of rating shall be published for notification of the Board and general public after carrying out one time credit rating based on the maximum information available and keeping the rating in close watch up to at least six months. If no improvement is found following the credit rating carried out thereafter, then the credit rating agency may withdraw the credit rating.

**24. To make and implement internal code of Conduct:** (1) A credit rating agency shall make and implement internal code of conduct for the monitoring of stocks transactions of its employees in order to prevent insider trading of stocks, fraudulent & false details submission, including involvement in unhealthy transactions violating the provisions of laws.

(2) The Board shall be informed about the implementation of code of conduct pursuant to Sub rule (1).

**25. To publish interpretation and accountability of Rating:** Each credit rating agency shall carry out the followings in making public of the rating result of any agency or body coorporate:-

- (a) Definition of rating sign, classification and rating sign to be used shall be published only after informing to the Board,
- (b) To inform every concerned person that rating does not mean to make recommendation to purchase, own or sale of any stock,
- (c) To make public via the website of the concerned agency about the significance of rating, mentioning strengths and risk factors analyzed during the credit rating.

**26. Formation of Rating Committee:** (1) Each credit rating agency shall form one rating committee in order to carry out rating.

(2) The eligibility and non-eligibility of the members of rating committee shall not be provisioned not less than that of executive head and director of credit rating agency.

(3) Basic privacy about the members of the rating committee shall be maintained.

(4) Necessary information about rating committee shall be provided to the Board. Necessary changes shall be made in the committee as per the directions of the Board, if given.

**27. Process and Procedure of Rating:** (1) The rating process and procedure to be observed by each credit rating agency shall be informed to the Board.

(2) The basic policy and procedure related to fixation of rating shall be made public upon preparation.

(3) The Board shall be pre-informed about the sign, indication or procedure to be used in credit rating, and the Board shall also be pre-informed, if any change is required to be made therein.

(4) All rating decisions, including changes in rating shall be taken by the Rating Committee.

However, the chief executive officer of a rating agency may inform the Rating Committee by keeping rating in surveillance, if it is required to do so in emergency circumstances.

(5) The credit rating agency shall observe good practices to ensure factual and practical rating of stocks.

(6) The Board and Stock Exchange shall be informed about the changes in rating and rating of client's stocks fixed, and information in this regard shall be made public via press release and website.

**28. Confidentiality:** A credit rating agency shall maintain the information confidential provided by its client, except where it shall be required to submit to the Board, courts or other institutions as per the prevailing law.

**29. Code of conduct to be observed by a Credit Rating Agency:** The code of conduct as per Schedule-10 shall be observed by the credit rating agency.

**30. Service fees:** (1) The credit rating agency may charge service fees as per the Schedule-9 in providing credit rating services.

(2) A credit rating agency shall pay three percent of the total amount of service fees collected from the credit rating business in that fiscal year as per Sub rule (1) within one month following the end of every fiscal year.

## CHAPTER-6

### **RELATED TO FINANCIAL DETAILS, AUDIT AND REPORTING**

- 31. To maintain accurate account and records:** Each credit rating agency shall maintain the following records accurately, including the accounts to be maintained as per the prevailing law, and should keep those secured for at least five years:-
- (a) Copy of agreement concluded with each client,
  - (b) Information and details provided by each client,
  - (c) Correspondences made with each client about credit rating,
  - (d) Rating fixed for different stocks and amendments or changes made therein,
  - (e) Findings and decisions of Rating Committee,
  - (f) Decisions of the Rating Committee, and correspondences made with the issuing company subsequently
  - (g) Other matters as prescribed by the Board.
- 32. Provision related to Auditor and Audit:** (1) An auditor, who passed Chartered Accountancy or examination equivalent thereto and received professional certificate from Nepal Chartered Accountants Association, shall be eligible to be appointed as an auditor of credit rating agency.
- (2) A credit rating agency shall forward the information about the appointment of an auditor to the Board within fifteen days of such appointment.
  - (3) An auditor shall audit accounts of any credit rating agency based on the prevailing values, principles and standards of auditing.
  - (4) The Board may prescribe to mention additional details in an audit report of a credit rating agency by the auditor.
- 33. To submit details and report:** (1) Each credit rating agency shall submit written trimester report before the Board mentioning the details of credit rating within thirty days following the end of every trimester period.
- (2) In addition to the report pursuant to Sub rule (1), a credit rating agency shall provide in writing other information, details and clarifications with regard to it asked by the Board from time to time.
  - (3) A credit rating agency shall provide the following information to the Board:-
- (a) If any action has been taken against the promoter, director and executive chief in accordance with the prevailing laws,
  - (b) If the promoter, director and executive chief has been enlisted in blacklist of the Credit Information Bureau,

- (c) If any change has been made in the management and structure of credit rating agency,
  - (d) If the compliance officer for the credit rating agency has been appointed or changed.
- (4) The Board may prescribe the format of details to be submitted from time to time by the credit rating agency pursuant to these Rules.

**34. Things not to be done and to flow information by a Credit Rating Agency:**

(1) A credit rating agency shall not carry out its own credit rating or credit rating of its promoter shareholders, major shareholders or holding companies or subsidiary companies.

(2) A credit rating agency shall not carry out credit rating of its own major shareholders or any company having the founder shareholders.

Explanation: "Founder shareholder" means founder shareholders as provided for in the prevailing companies law.

(3) If a credit rating agency is appeared as follows and has relations of any type with the credit rating agency, such matters shall be mentioned in a rating declaration:

- (a) If the credit rating agency or its director(s) or executive chief has any financial interest on an individual basis,
- (b) If the credit rating agency or its major shareholders are engaged in the associate company of the client company,

Explanation: "Associate" means the following persons related to credit rating agency for the purpose of this Sub-Rule:-

1. Holding ten percent share ownership or voting rights of any credit rating agency directly or indirectly by him or herself or joint family members, including him or herself, or
2. Company holding shares not less than ten percent shares or voting rights directly or indirectly by the credit rating agency itself or through holding company or subsidiary company.

## CHAPTER-7

### **MISCELLANEOUS**

**35. Action to be taken against Auditor:** If any auditor has not audited the accounts in accordance with this Rules and the Board finds it reasonable to take action against such auditor, the Board may write to the Nepal Chartered Accountancy Association for action, and the Association shall, within six months, inform to the Board about the action taken. In case where such information has been made

available, the Board shall post the information regarding its recommendation to take action against such auditor on its website.

36. **Provision regarding Change of Ownership:** The transfer of ownership and change of the name of shareholder shall be in accordance with other rules of the Board, and it shall be done as per the directions of the Board, if not mentioned in such rules.
37. **Powers to regulation:** The Board shall have full powers on regulating credit ratings.
38. **Amendment to Memorandum of Association & Articles of Association:** A credit rating agency may amend any provision(s) of memorandum of association and articles of association with prior approval of the Board, and such information shall be submitted to the Board within thirty days following its record at the Office of the Company Registrar.
39. **Changes or alteration in Schedules:** The Board may make changes or alterations in the Schedules of these Rules when necessary.
40. **To Remove Difficulty:** The Board may issue necessary orders or directions to remove difficulties, if any difficulties or obstacles have occurred in performing or causing to perform the works pursuant to these Rules.

**Schedule-1**  
(Relating to Rule 6)

Format of application to be submitted to get approval to operate credit rating agency

Date:.....

**The Securities Board of Nepal**

.....

**Subject: For Approval Letter**

The Agency has submitted an application along with required fees, details and documents willing to function as credit rating agency subject to Security Act, 2063 and Rules, By-laws, Directives made there under and other prevailing laws of Nepal. The documents attached and details mentioned herein are true. No any detail has been concealed or no false detail submitted. I do hereby agree to abide by the laws, if any detail or document is found concealed or false.

**Executive Chief:**

Name: Signature:

Name of applicant body corporate...

Address: Zone..... District.....V.D.C./Municipality.....

Tole.....Ward No..... Block No..... Phone No..... Fax.....

Email.....

Registered Office: Seal of body corporate:

## **Schedule-2**

### **(Relating to Rule 6, Sub rule (1) of Rule 10 and Rule 11) Approval and Renewal Fees**

- |                     |  |
|---------------------|--|
| 1. Application Fees | 10,000/- (Ten thousand rupees)                     |
| 2. Approval Fees    | 1,50,000/- (One hundred and fifty thousand rupees) |
| 3. Renewal Fees     | 1,00,000/- (One hundred thousand rupees)           |

### **Schedule-3**

(Related to clause (c) of Rule 6)

Details of Executive Chief, Promoter and Members of Board of Directors

Photo

1. Name:
2. Permanent Address: Zone.....  
District.....V.D.C./Municipality.....  
Tole..... Ward No... House/Block No..... Phone No.....  
Fax.....  
Email.....
3. Current address: Zone..... District..... V.D.C/Municipality...  
City..... Ward No..... House/Block No..... Phone No.....  
Fax.....Email.....
4. Father and Mother's name:
5. Grandfather's name:
6. Spouse's name:
7. Educational Qualifications:
8. Work experience:
9. Training:
10. Detail of ownership having one percent or more shares owned or position of any benefit held in other company or body corporate, if any,
11. Detail of relationship with other promotes, directors or executive chief of applicant company, if any,
12. Details of action taken or being taken against oneself or affiliated company or organization in accordance with laws related to securities and other prevailing laws
13. Declaration of qualifications fulfilled to work as executive chief and member of board of directors of a credit rating agency

Signature:.....

Documents to be attached:

1. Photocopy of document certifying eligibility and experience
2. Photocopy of Citizenship Certificate

## **Schedule-4**

(Relating to clause (d) of Rule 6)

Details and documents to be submitted in regard to Promoter's company or organization

- (a) A copy of company registration certificate
- (b) Memorandum of Association and Articles of Association
- (c) A copy of agreement made between promoters with regard to incorporation of a credit rating agency, if any
- (d) The following details with regard to infrastructure required to get ready to operate credit rating agency:-
  1. Details regarding the place of office, and areas to be covered by the office,
  2. Provisions regarding organizational structure and work division,
  3. Detail of office equipment and technology required to operate service of credit rating business,
  4. Maintain the record of credit rating of stocks and other equipment and provision arranged for the security of the record,
  5. Details of human resources to be managed to operate credit rating business.

**Schedule-5**  
(Relating to clause (d) of Sub rule (1) of Rule 8)  
Details of Human Resources

S. N.	Full name	Address	Designation	Job Responsibility	Educational Qualifications	Work Experience

**Schedule-6**  
(Relating to Sub rule (2) of Rule 10)

Nepal Security Board  
Kathmandu.

**License of credit rating agency**

License No.....

This license has been provided to ....., having main office at..... ,to function as credit rating agency under the Securities related Acts and Rules, Directives made there under and other prevailing laws.

This license shall be valid till.....except its renewal.

Official Signature:  
Name:  
Designation:  
Date:  
Seal of the Board:

**Schedule-7**  
(Related to Sub rule (1) of Rule 11)

**Format of Application for renewal of License**

Date...

The Securities Board of Nepal,

.....

Subject: **For renewal of License**

This application has been submitted along with license fee and annual fee for the renewal of license valid till .....issued by the Board to function as credit rating agency pursuant to Credit Rating Agency Rules, 2068.

Official Signature:

Name:

Designation:

Seal of the organized body:

**Schedule-8**  
(Related to Sub rule (3) of Rule 4)

Nepal Security Board  
Kathmandu.

**Approval Letter to be issued to credit rating agency registered abroad**

Approval Letter No.....

This approval letter has been issued to ..... having its main office at..... to conduct credit rating activities under securities related Acts, Rules, and Directives made there under and other prevailing laws.

Official Signature:

Name:

Designation:

Date:

Seal of the Board:

CC:

Government of Nepal

Office of the Company Registrar: do register a joint venture company to conduct credit rating business on condition of receiving license from the Board as per the laws.

**Schedule-9**  
(Relating to Sub rule (1) of Rule 30)  
Fees to be charged by a Credit Rating Agency

**a. Share, Preference share, Debenture, Bond or other securities**

Rating fees (for the first year) – maximum 0.10 percent of the amount issued or minimum one hundred thousand rupees,

Rating Monitoring fee (per annum) – maximum 0.10 percent of the amount issued or minimum fifty thousand rupees,

**b. Of the total loan for the loan:** Rating fee (for the first year) – maximum 0.10 percent or minimum one hundred thousand rupees

**c. Other securities or instruments:**

The credit rating agency may prescribe required rating fee for other securities/ or instruments with prior approval of the Board within the limit as mentioned above.

**Note:**

The credit rating agency may charge fees by clearly mentioning fees and tax in an agreement, if miscellaneous expenses and project evaluation is required to be done during the rating.

**Schedule-10**  
**(Relating to Rule 29)**  
**Code of Conduct to be followed by the Credit Rating Body**

- (1) A credit rating agency shall make full efforts to protect the interests of investors.
- (2) High level professional integrity, dignity and value shall be observed in conducting business.
- (3) Ethical and professional duties shall be fulfilled.
- (4) Appropriate care and impartial decision shall be made every time to ensure objective and impartial ratings.
- (5) To assess rating on a logical and sufficient basis and keep those supporting documents safely used to take its own decision ,
- (6) To establish a rating procedure that reflects the uniform and useful rating standards,
- (7) Do not follow unhealthy competition, and do not attract clients from other rating agencies promising to provide ratings of their demand,
- (8) To foresee the important changes of clients and do actual and necessary rating in time, develop proficient and accountable mechanism to be able conduct actual on time rating, as well as monitoring of those factors that would generate impacts on the credit worthiness of clients,
- (9) To flow the information of rating procedure through newspapers and website,
- (10) To make rating actual, real and impartial and provide necessary information to clients about the conflict of interests,
- (11) Not to present exaggerated information of the eligibility or competency to provide any service and services provided to other clients in a written or oral form,
- (12) Not to furnish any false details to the Board, the Stock Exchange and public at large, not to conceal informative details and not to transmit the details, report, document or information with wrong meanings,
- (13) To ensure that information on punishment or legal action taken due to violation or not complying with the Acts, Rules, directions of the Board or other regulatory agencies shall be provided to the Board without delay.
- (14) To have ability and understanding with appropriate level of the Act, Rules, Circulars related to its own work and comply with them,
- (15) To ensure that the special information with rating fixation and changes are not misused,

- (16) A credit rating agency by itself or through its employee shall not directly or indirectly provide investment advice about specific securities/stocks publicly,
- (17) If the Board has cancelled the license of the credit rating agency, or action taken or financial conditions changed having serious impact on the interests of client investors, such shall be informed immediately to the clients ensuring that remaining works be transferred to other business entities, if the clients/investors impacted desire to do so.
- (18) The credit rating agency shall maintain a clear, independent and appropriate distance between its rating works and other works ensuring that dispute will not be arisen.
- (19) The Board shall develop a suitable code of conduct for the credit rating agency in order to carry out its internal transactions, and also develop a code of conduct for its officer level employees that forms a part of rating industry. This code of conduct shall comprise the provisions of professional standards, quality, confidentiality, sincerity, prevention of the conflict of interests, share ownership and flow of information about the vested interests.
- (20) The credit rating agency shall provide adequate autonomy and rights to its compliance officer to fulfill the duty.
- (21) To ensure that all relevant information of the businesses carried on be provided periodically to the higher management, in particular the decision makers,
- (22) To ensure that the credit rating agency shall comply with the practices of good governance and corporate policy,
- (23) To maintain the secrecy of the rating and not publicize it, if the issuer has caused to conduct the rating in private,
- (24) To use separate sign for the rating to be carried out without approval or participation of the issuer, and the details on the nature those ratings shall be published,
- (25) To maintain full secrecy of the rating, if the interactive rating has been carried out providing the opportunity to accept or reject it; and such details shall not be published unless the Board or courts orders otherwise,
- (26) The credit rating agency shall not carry out the following works having impact on the security market, in particular the securities rated by it:-
  - (a) To create false market,
  - (b) To variant the price

To flow the price sensitive information with regard to the securities listed or to be listed at the security market, except the price determined for the rating purpose.

Commencement Date: 2016/11/16

First Amendment: 2017/05/05

Second Amendment: 2019/02/13

# Securities Registration and Issue Regulation, 2016

In exercise of the power conferred by Section 116 of the Securities Act, 2006, the Securities Board of Nepal has, with the approval of the Government of Nepal, Framed the following Rules:

## Chapter-1

### Preliminary

1. **Short title and Commencement:** (1) These rules may be called the “Securities Registration and Issue Regulation, 2016”.  
(2) This regulation shall come into force on such date as specified by the Board.
2. **Definition:** Unless the subject or the context otherwise requires, in this Rule,-
  - (a) “International financial institution” means an international financial institution which has obtained permission from the Government of Nepal to issue debentures in Nepal in accordance with the laws in force.
  - (b) “Act” means Securities Act, 2006.
  - (c) “Underwriting” means the contract of undertaking responsibility by a securities businessperson to buy any unsubscribed portion of securities issued publicly by a body corporate:-
  - (d) “Directives” means directives related to registration and issues of securities.
  - (e) Byelaws means byelaws issued pursuant to the Act.
  - (g) “Financial statements” means balance sheet, profit and loss account, distribution and cash flow statement of a body corporate, and this term also includes the statement of changes in equity and changes in according policy or accounting notes related thereto.

## Chapter-2

### **Provisions Related to Securities Registration**

2. **Application to be submitted for registration of securities:** (1) For the purposes of Section 27 of the Act, a body corporate registering the securities shall submit an application to the Board in such form as prescribed in Schedule-1.  
(2) Along with the application provided for in sub-rule (1), the body corporate shall be required to submit the following information and documents signed by authorized person of the body corporate along with a bank voucher of registration fee of securities collected in the name of Board as prescribed in Schedule-2 and:
  - (a) Updated Memorandum and Articles of Association and rules of the body corporate if the body corporate is established under the relevant laws of the Company,
  - (b) Act or bylaws related to body corporate if the body corporate has established under special law,
  - (c) Copy of decision of board of directors of the body corporate related to registering the securities,
  - (d) Authorization of the board of directors of the body corporate relating to registering the securities.
  - (e) Audited financial report of the body corporate for the latest fiscal year,
4. **The Securities to be registered:** (1) Upon receiving the application attached with other information and documents pursuant to rule 3, the Board shall examine the information and documents attached thereto,  
(2) The Board, in course of examining pursuant to sub-rule (1), may direct the body corporate to submit additional information or documents or seek clarification if it is required to do so.  
(3) If the Board deems appropriate to register the securities of the body corporate, in the course of examining information or documents received pursuant to sub-rule (1) or (2), the Board shall inform to the body corporate to collect registration fees or securities depending upon the nature of securities as prescribed in Schedule-2.  
(4) Upon receiving information pursuant to sub-rule (3), the body corporate shall submit the bank voucher of the registration fee of securities, as prescribed in Schedule-2, collected in the name of the Board within twenty-one days.  
(5) If the body corporate has collected the registration fee of securities pursuant to sub-rule (4), the Board shall register the securities of the body corporate

in the register book in the format as prescribed in Schedule-3 and then shall provide certificate of Securities registration within seven working days in the format as prescribed in Sechedule-4.

5. **If Securities are not registered, it should be notified:** (1) Nothing stated in rule 4, the Board may not register the securities of the body corporate during the examination of prospectus and documents attached with the application.

(2) If the Board did not register the securities pursuant to sub-rule (1), it should inform to body corporate within the seven days of the date of such decision.

6. **Securities to be re-registered:** (1) If the bodies corporate receiving the registration certificate pursuant to rule 4, are merged into a body corporate having its name in one of them or changed name, the securities shall be required to submit an application to the Board in a format as prescribed in Schedule-1 with fee as prescribed in Schedule-2 and requested information directed by the Board.

(2) Upon receiving the application attached with other statements and documents pursuant to sub-rule (1), the Board shall examine the statements documents attached thereto.

(3) The Board, in course of examining pursuant to sub-rule (2), may direct the body corporate to submit additional attachments or documents or seek clarification if it is required to do so.

(4) The body corporate shall submit the information or documents with revision or adding information as directed by Board pursuant to sub rule (3).

(5) The Board shall, upon examination pursuant to sub-rule (2) or (3) and receipt of processing fee pursuant to rule 7. Register the securities of the body corporate in the register book in the format as prescribed in Schedule-3 and then shall provide certificate or securities registration within seven working days in the format as prescribed in Schedule-4

(6) After the registration of securities pursuant to sub-rule (5), the name and information related with the body before the registration of new securities shall be removed in the securities registration book prescribed in Schedule-3.

(7) All the provisions related with the process or merging and acquisition of the body corporate and register the securities shall be as per the Directives.

7. **Additional Fee to be Paid:** While receiving the new certificate of the securities registration pursuant to Rule, 6 the body corporate shall require to pay securities registration fee as prescribed in Schedule-2 up to the limit that of over the face value of the securities registered in the Board before merger/acquisition of body corporate.

8. **Description of sales and Transfer of Securities to be provided:** (1) The body corporate shall inform to the Board the description of the sale/distribution or allotment of securities registered under these rules within the period as specified in sub-section (1) of Section 28 of the Act.

(2) The following particulars of the securities shall inform to the Board pursuant to sub-rule (1):

- (a) Date of sales/distribution or allotment of securities,
- (b) Type of securities sold or allotted and number thereof,
- (c) Method of issued or allotted securities,
- (d) Name and address of the buyer or holders of the allotted shares,
- (e) Total amount collected after securities sold/ distributed or allotted.

### **Chapter 3**

#### **Provisions Related To Public Issuance of Securities**

9. **Public Issuance of Securities to be done:** (1) Unless otherwise it is prescribed by the concerned regulation body, the initial public offering shall be not less than ten percent and not more than forty-nine percent of the issued capital of the body corporate.

(2) If the body corporate making public issuance pursuant to Act and this regulation is a Bank, Financial Institution or Insurance Company, it shall be required to have completed one year of business operation under its objectives and also required to have published its audited financial reports and completed its Annual General Meeting.

Provided that the Board shall provide an approval for public issuance of securities after verification of financial report prepared by management of the body corporate if the body corporate deems unable to issue the securities in the period as prescribed by the regulatory body.

(3) The body corporate other than a Bank, Financial Institution or Insurance Company, It shall be required to complete the following conditions for public issuance of securities pursuance to sub-rule (1).

- (a) The Company is required to complete one year of initiating necessary works required for operation of business under its necessary works required for operation of business under its objectives,
- (b) Have completed Audit and Annual General Meeting pursuant to prevailing Laws,

- (c) Have obtained such approval, license or consent if the Body corporate has to obtain approval, license or consent from anybody pursuant to the prevailing laws,
  - (d) Have purchased or managed through other means, the land required for the Body corporate and have initiated construction works of factory building, office building, warehouse and other necessary amenities.
  - (e) Have initiated the purchasing procedure though tender etc. if it is required to select the manufacturing technology and purchase necessary mechanical equipment and its parts etc. required for the industry,
  - (f) Have concluded an agreement with Issuance and Sales Manager for public issuance of securities.
  - (g) Have agreed to maintain the loan and capital ratio of the Company throughout the project construction period pursuant to the Directives,
  - (h) The share amount as agreed by the promoters should have been paid in full.
  - (i) Should have conclude financial closure for the construction of the project,
  - (j) If it is a body corporate of manufacturing hydropower, it should have concluded Power Purchase Agreement.
  - (k) The shares set aside for the public issuance should have been underwritten as prescribed in the Securities Issuance Directives.
- (4) The body corporate shall be required to set aside up to ten percent its issued capital for the people residing in the area affected by the industry or project.

Explanation: For the purpose of this rule “Affected Area” means the affected area as mentioned in the report of environment impact assessment of the industry established or project operated prepared pursuant to prevailing laws.

(5) The body corporate, while issuing the securities for people residing in affected area pursuant to sub rule (4) shall be required to issue securities with the priority setting among the categories of affected are if it has set in the report of environment impact assessment.

(6) The shares issued to the people residing in the area affected pursuant to sub-rule (4) shall not be allowed to sell or transfer within the minimum period of three years from the date of allotment.

Provided that if due to death of the shareholder or partition happens, the transfer of securities within the member of his or her family may be done.

(7) Other provisions regarding minimum security and its public issuance of body corporate shall be as mentioned in the Directives.

9a. <sup>1</sup>Special Provision regarding issuance of share, bond and debenture: (1) notwithstanding anything contained in sub-rule (3) of rule 9, hydropower companies having fifty-one percent or more share ownership thereof of government may issue shares to raise money from general public for development of hydropower projects as per the approved programs of Government of Nepal on the following terms and conditions:

- a) Having fulfilled the conditions pursuant to clauses (a), (b), (c), (d), (f) and (h) of sub-rule (3) of rule 9,
- b) Having prepared detailed design report, or an authentic report with total estimated cost and construction period of a project,
- c) Having paid the ten percent amount out of the total shares pledged by the promoters
- d) Having occurred the financial closure or obtained letter of intent therefor,

(2) The companies as referred to in sub-rule (1) may issue bond and debenture under the prevailing law.

10. **Time Period for Public Issuance** : (1) Public issuance of the securities pursuant to the Act and this Regulation shall be at least four days.

(2) If all the securities are not sold/distributed during the time period of issuance pursuant to Sub-rule (1), the time period for application of the securities shall be extended for maximum period of thirty days.

(3) Nothing stated in sub-rule (1) and (2), the time period for application of securities shall be for at least fifteen days and maximum period of thirty days for the issuance of share to the people residing in the affected area.

11. **Application to be submitted for the Approval of the Prospectus**: (1) The body corporate shall draft the prospectus as prescribed in Schedule-5 for the public issuance of securities pursuant to the Section 31 of the Act and this Regulation.

(2) The body corporate in order to obtain the approval for the publication of prospectus for the public issuance of securities as prepared pursuant to sub-rule (1) require applying before the Board attached with a receipt voucher of the processing fee as prescribed in Schedule-6.

(3) While submitting the application and prospectus pursuant to the sub-rule (2), the following information and documents shall be attached:

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<sup>1</sup> Added by Securities Registration and Issuance (Second amendment) Regulation, 2018 (2075)

- (a) Document to verify the Capital Structure (authorized, issued and paid up) of the body corporate,
  - (b) Updated Articles of Association and Regulations of the body corporate established under the prevailing laws of the company,
  - (c) If the body corporate has been established under other law, the rules or bylaws thereunder,
  - (d) Audited financial statements of the latest year,
  - (e) Due diligence certificate issued by the Issuance and Sales Manager declaring that the draft prospectus have been prepared professionally and in compliance to the Act, these rules and other rules under the Act, bylaws, directives related to the issuance and sales management.
- (4) The Board shall not start processing of approval of the prospectus until all required statement and documents to be submitted to the Board pursuant to sub-rule (2) or (3) have been received.
12. **Examination of Prospectus:** (1) The Board shall examine the prospectus received for the approval pursuant to rule 11.
- (2) The Board, in course of examining the prospectus pursuant to sub-rule (1), finds that some important information has to be omitted or undesirable information has been included, the Board may direct to include required information, amend as required or change in the prospectus.
- (3) The body corporate shall submit the prospectus with revision or adding information as directed by Board pursuant to sub-rule (2).
13. **Approval and Publication of the Prospectus:** (1) Pursuant to Rule 12, while examining the application attached with a prospectus received pursuant to rule 11, if the Board is satisfied with the content and presentation of the prospectus, the Bard shall approve the prospectus for its publication in the format as prescribed in the Schedule-7.
- (2) Nothing stated elsewhere of this rule, the prospectus will be valid pursuant to sub-rule (1) unless it has no significant impact to the decision of the investor with the substantial change in the above mentioned prospects pursuant rule 11.
- (3) In case of changes in the disclosures made in the prospectus approved prior to the opening of subscription whether it is due to regulatory provisions or directives of the regulatory body or due to other reason, and such changes is material beyond normal course of business operation having substantial impact on the decision or investor, the prospectus shall require to be change and amended

by including such changes and the issue process shall require to start only after getting the amended prospectus approved by the Board.

(4) Whatever mentioned in the sub-rule (3), any changes having material impact occurs accidentally or otherwise during the period or opening of public issue, the collection or the application should be on hold and the information on the event, its impact and changes shall have to be published immediately in the national daily, through the issuance and Sales Manager, for the information of the concerned investors and the Board shall have to be prior informed.

14. **Provisions Related to Further Public Issue:** (1) A body corporate having issued the securities publicly and having been listed may to for further public issue in order to raise its capital.

(2) While making further public issue pursuant to sub-rule (1) the following conditions shall have to be fulfilled:-

- (a) Require to have a track record of net profit at least in the last three years out of last five years and have net worth per share higher than paid up value (per share).
- (b) Completed Three years of public issuance of securities of body corporate,
- (c) Require to has a resolution related to the further public issue passed by the general meeting.
- (d) If the price of the proposed issue is to be fixed higher than the face value, the methodology of fixation of price and basis and justification of the premium.

(3) The body corporate while making further public issue pursuant to this rule shall have to publish the prospectus getting approval according to the Rule 13.

15. **Announcement to be Published :** (1) In order to issue and sale securities through the publication of prospectus or offer document, a body corporate shall have to publish announcement with information as prescribed in the Schedule-12 through the issuance and Sales Manager for public information at least in one national daily newspaper minimum one week earlier from the date of opening of the issue and the Board shall have to be informed on such matters.

(2) While publishing announcement pursuant to the sub-rule (1) or publishing issue related advertisement, the issuer, through the issuance and Sales Manager, shall be required to publish and communication truthful and factual matter related to the issue including management, technical and economic

matters. Each of such issue related notices shall have to be presented to the Board before one working day of the publication.

(3) The information regarding the offer document or notice on issuance to be published pursuant to sub-rule (2) shall have to inform the Board at least one working day before its publication.

16. **Prohibition of Publication:** Beside the prospectus, announcement, information regarding the rights issue, offer document or other documents required by the Board pursuant to this Regulation, publicizing the product and services excepting the issue related notices shall be prohibited.

## **Chapter 4**

### **Provision related to issuance or right share**

17. **Rights Issue of Securities:** (1) The body corporate may increase capital through the issuance of shares to the existing shareholders through rights issue.

(2) Before making rights issue pursuant to this Regulation, decision of the board of directors of the body corporate and bank voucher of processing fee as prescribed in rule 43 and the prospectus drafted in the format prescribed in the Schedule-9, shall require to submit before the Board for approval.

(3) If the Board deems appropriate to register the securities of the body corporate, in the course of examining statements or documents received pursuant to sub-rule (2), shall provide a letter of approval in the format as prescribed in Schedule-10 within seven working days.

(4) The prospectus approved by the Board pursuant to sub-rule (3) shall be published for the right issue of securities.

18. **Time Period of Issuance of Right Share:** (1) The time period for opening the application of securities issued pursuant to rule 17 shall be thirty five days.

(2) If the securities are not sold within the time period as provided in the sub-rule (1), the body corporate may extend the time period for additional fifteen days by publishing a notice and it shall be notified to the Board before publication of such notice.

19. **Purchaser of Right Share to be Nominated :** (1) While issuing rights share pursuant to rule 17 if the right to be exercised by the existing shareholder is to be transferred wholly or partially to other nominee, the existing shareholder shall be required to apply to the issuer body corporate in the format prescribed in Schedule-11 having fulfilled the following conditions:

- (a) The memorandum and articles of association shall require to contain provision of transferring the purchasing right of existing shareholder to other person.
  - (b) Provision of applying as nominee shall have to correspond to the trading lot fixed by the stock exchange pursuant to Sub rule (4) of rule 17,
  - (c) The nomination of the rights shall require being in compliance to the limit of shareholding prescribed by the memorandum or articles of the company or that prescribed.
  - (d) Nomination only the same group if grouped in owners and directors committee as per article of association and rules of body corporate,
  - (e) The person or the institution so nominated shall not be in the black list and
  - (f) Shall not be having any disqualification of the purchasing the share of the body corporate by a nominated person under the prevailing law,
- (2) The nomination pursuant to sub-rule (1) shall be to only one person.
- (3) The shareholder, who nominates, in course of applying for nomination pursuant to sub-rule (1), shall apply and include the fee paid one percent of paid amount of the security to be transferred.
- (4) The shareholder, who nominates other person for selling the right share pursuant to sub-rule (1), shall not purchase right share of other shareholder of same body corporate.
- (5) The information of total number of transferred right share and shareholder to be transferred pursuant to this rule and fee collected pursuant to sub-rule (3) shall be submitted to the Board through issuance and Sales Manager within fifteen days from the date of issuance of right share.
- (6) Notwithstanding anything mentioned in this rule, in case of the Board provisioning for making transaction of rights through Stock Market, the right transfer shall be per the same provision.
20. **Auction:** If any number of share remained unsold during the sale of the right share time period, the body corporate shall be required to sale by auction method through publishing the information publicly.
21. **Time period of the allotment of Right share:** While selling the right share pursuant to this regulation shall be required to provide allotment letter to concerned investor by allotting share within the thirty days after the closing date of selling date and return payment.

## Chapter 5

### **Provision related to the Issue of Securities through Private Placement**

22. **Issuance of Securities through Private placement:** (1) A body corporate shall issue and sale securities by using letter or electronic means targeting to a maximum of fifty investors through private placement.

(2) While issuing share through private placement pursuant to sub-rule (1), the body corporate shall be required to have obtained the resolution of the general meeting.

23. **Issuance through Circular Method to have Approval:** (1) The body corporate shall prepare a prospectus in a format as prescribed in Schedule-9 for the approval of issuance of security through private placement.

(2) To get approval of the prospectus drafted pursuant to sub-rule (1) it shall submit an application along with bank voucher of process fee as prescribed in rule 43.

(3) While submitting the application and prospectus pursuant to the sub-rule (2), the following statements and documents shall be attached:

- (a) Document to prove the Capital structure (authorized, issued and paid up) of the body corporate.
- (b) Updated Memorandum and Articles of Associate on and Rules of the body corporate established under the prevailing laws of the company,
- (c) If the body corporate has been established under special law, the rules or bylaws the under,
- (d) A copy of the prospectus signed by all the members of board of directors of the body corporate and its electronic copy.
- (e) Audited financial statements of the latest fiscal year,
- (f) Due diligence certificate issued by the Issuance and Sales Manager declaring that the draft prospectus have been prepared professionally and in compliance to the act, these rules and other rules under the Act, bylaws, directives related to the issue management.
- (g) Copy of agreement of public issuance of securities with Issuance and Sales Manager.

(4) The Board shall not start processing of approval of the prospectus pursuant to sub-rule (1) until all required information and documents to be submitted to the Board pursuant to sub-rule (3) have been received.

(5) The Board, in course of examining the application and prospectus and documents attached pursuant to Sub-rule (3), finds that some important

information has to be omitted or under desirable information has been included, the Board may direct to include required information, amend as required or change in the prospectus.

(6) The body corporate shall submit the prospectus with revision or adding information as directed by Board pursuant to sub-rule (5).

(7) If the Board deems appropriate, in the course of examining information or documents received pursuant to sub-rule (3) or (6), shall provide approval in the format as prescribed in Schedule-10.

## **Chapter 6**

### **Other Provision Related to Issuance of securities**

24. **securities through Offer Document can be sold:** (1) The shareholder holding minimum one percent one percent share of paid up capital of body corporate listed in stock exchange may, getting an approval from the Board, sale the share with publication of offer document publicly.

(2) While selling the share pursuant to sub-rule (1), the concerned shareholder shall submit draft offer document as prescribed as a format in Schedule 12 and processing fee as prescribed in rule 23 before the Board through Issuance and Sales Manager.

(3) The shareholder holding safe of unlisted in stock exchange but registered in the Board may, getting an approval from the Board, sale the are with publication of offer document publicly.

(4) While issuing securities by shareholder pursuant to sub-rule (3), it shall submit application before the Board along with processing fee pursuant to Rule 43 and offer document drafted as prescribed in Schedule-13.

(5) If the Board deems appropriate to approve, in the course of examining offer document submitted for approval pursuant to sub-rule (2) or (4), shall provide approval for issuance of securities through publication of offer document within seven working days.

(6) The provisions hall be made ensuring the securities sold pursuant to this rule in a general group and changing accordingly in the representation in board of directors, if necessary.

(7) Other provisions related to sale of securities through offer document shall be as mentioned in the Directives.

25. **Issuance of Securities at Premium:** A body corporate having fulfilled the following condition may issue the securities at premium:-

- (a) Shall have to fulfill the conditions prescribed by the prevailing company related law,
- (b) Outside expert or expert institution shall be required to have carried out due diligence audit about the methodology, rationale and justification of fixation of premium.
- (c) Comply with the provisions regarding the determination of premium in the Directives.

## Chapter 7

### **Provision related to Notice, Information and Reports**

26. **Financial Reports and Notices to be made Available:** (1) The body corporate getting their securities registered with the Board according to the Act and this Regulation shall require to submit quarterly report to the Board as prescribed in the Schedule-14 within thirty days from the end of each quarterly period and such report shall also be required to be published in the national dailies.

(2) The body corporate getting their securities registered with the Board according to the Act and this Regulation shall require submitting annual report to the Board as prescribed in the Schedule-15 within five months from the end of the financial year.

(3) The financial statements to be submitted under this rule shall be required to comply with the standards implemented by the Institute of Chartered Accountants of Nepal, the standards set by regulation agencies and the standards set by the Board for the Stock Exchange and the Securities Businesspersons.

(4) A body corporate that has registered securities shall be required to inform the Board about the general meeting together with the agenda prior to the general meeting is held and shall require to report the Board with the information on the agenda presented to the general meeting, subject discussed, and resolutions within thirty days of conclusion or general meeting.

(5) A body corporate that has got its securities listed shall require informing the Board with material information on the events or transactions likely to affect the price of security listed or any event or transaction mentioned in the Schedule-16, within three days of such occurrence.

(6) Notwithstanding anything mentioned elsewhere in this rule, the Board may require the body corporate registering its securities or the stock Exchange may require the listed body corporate to submit required details, notice, date or information.

- (7) The body corporate shall have duty to make available the details, notices, data, or information asked by board or the stock market to the Board or related Stock Exchange pursuant to sub-rule (6).
27. **Extension of Time Period:** (1) The body corporate shall submit an application to the Board before the end of the time period explain the reliable and actual cause to inability to send or provide information to be submitted to the Board within the time period pursuant to this rule.
- (2) While examining the application pursuant to sub-rule (1), the Board satisfies that the information adverse effect to the securities market and investor due to unable to sent or make available the information.
- (3) The body corporate shall provide information to the Board if the extension of time period has granted by the Board pursuant to sub-rule (2).

## **Chapter 8**

### **Provisions Related to the issuance of Debenture by an International Financial Institution**

28. **Issuance Of Debenture by an International Financial Institution:** International financial institution may issue debenture completing the procedure pursuant to this Chapter.
29. **Provision Related to Registration of Debenture of International Financial Institution:** (1) International financial institution shall register the debenture at the Board before the issuance of debenture.
- (2) To register the debenture pursuant to sub rule (1), the application shall be required to submit with the following statements and documents:
- (a) A copy of the approval letter provided by the Government of Nepal to issue the debenture,
  - (b) Financial statements of the international financial institution for the last three years,
  - (c) Prospectus related to debenture to be issued.
- (3) The Board shall examine the application attached with other information and documents pursuant to sub rule (2).
- (4) The Board, In course of examining pursuant to sub rule (3), may direct the international financial institution to submit additional information or documents or seek clarification if it is required to do so.
- (5) If the Board deems appropriate to register the securities of the international financial institution, in the course of examining information or documents received pursuant to sub rule (3) or (4), the board shall inform to the

international financial institution to collect registration fees as prescribed in Schedule 2 within seven working days.

(6) The international financial institution upon receiving information pursuant to sub rule (5), shall submit the bank voucher of the registration fee of securities collected in the name of the Board.

(7) If the applicant has collected the registration fee pursuant to sub rule (6), the Board shall inform to applicant international financial institution registering the debenture.

30. **Licensed Issuance and Sales Manager to be Appointed:** An international financial institution for the purpose of the issuance of debenture pursuant to this Chapter shall require appointing the service of the Securities Businessperson licensed to function as Issuance and Sales Manager pursuant to the Act.
31. **Application to be submitted for the Approval of the Prospectus:** (1) The international financial institution shall draft the prospect for the issuance of debenture and shall require applying before the Board attached with a receipt voucher of twenty five thousand.

Explanation: For the purpose of this Rule “Prospectus” means the booklet of information of the international financial institution prepared for the issuance of debenture.

(2) While submitting the application pursuant to the sub rule (1), the following information and documents shall be attached:

- (a) Copy of agreement of public issuance of securities with issuance and sales manager.
- (b) A copy of draft prospectus,
- (c) Due diligence certificate issued by the Issuance and Sales Manager declaring that the draft prospectus have been prepared professionally and in compliance to the Act, this Regulation and other Regulations under the Act, bylaws, directives related to the issue management.

(3) While drafting the prospectus pursuant to the sub rule (1), the following statements shall be indicated:

- (a) Statements on the international financial institutions,
- (b) Details regarding the issuance of debentures
- (c) Objective of issuance of debenture, issuance process and use of capital collected
- (d) Duration of debenture, interest rate, payment period or interest, time period, place and method,
- (e) Provision related to allotment, listing and transaction of debenture,

- (f) Details on the Trustees if it has appointed,
- (g) Details if it issued the debenture in other countries,
- (h) Details on credit rating,
- (i) Information of underwriting in case the securities are underwritten,
- (j) Points requiring attention while submitting application,
- (k) Provision of complain mechanism,
- (l) Financial statements of the international financial institutions for the last three years and projected financial statement for the coming three years,
- (m) Minimum number of share and amount to apply,
- (n) Risks in the debenture and provision to mitigate these risks,
- (o) Target group of sale,
- (p) Information of time, number and value of the debenture to be issued in time to time,
- (q) Information on the debenture if it has already issued pursuant to this Regulation,
- (r) Date of opening and closing date of sale of debenture,
- (s) Other general information.

(4) The prospectus to be prepared pursuant to this rule shall be drafted in the English language.

(5) If it is drafted the prospectus in English pursuant to sub rule (4), the brief of major information of the prospectus shall be published in the Nepali language.

(6) The sale of debenture to be issued pursuant to this Rule shall be allotted to natural person at least twenty percent of the issued amount.

Provided that it shall sale to other buyer if it is not sold to nature person allotted.

(7) The information included in the prospectus to be submitted for approval of the Board pursuant to sub rule (1) shall include the letter of authority of international financial institution certifying the information.

32. **Examination and Approval of Prospectus:** (1) The Board shall examine the prospectus received for the approval pursuant to rule 31.

(2) If the Board finds that some important information has to be omitted or undesirable information has been included, in course of examining the prospectus pursuant to sub rule (1), the Board may direct to include required information, amend as required or change in the prospectus.

(3) The body corporate shall submit the prospectus with revision or adding information as directed by Board pursuant to sub rule (2).

- (4) While examining the prospectus pursuant to sub rule (1), if the deems appropriate to approve or revised or added / omitted prospectus pursuant to sub rule (3) Board shall approve the prospectus for its publication within seven days of application so received.
33. **Debenture can be issued more than once:** (1) An international financial institution may issue debenture more than once under the mandate of prospectus approved by the Board.
- (2) While issuing the debenture pursuant to sub rule (1), the following information and documents attached shall inform to the Board before fifteen working days at each time before issuance of debentures.
- (a) Description of the use of the collected amount from issuance of last debenture.
  - (b) Information regarding the changes in the information of prospectus approved by the Board, if any.
  - (c) The prospectus and information pursuant to sub rule (2) small publish publicly before the issuance of debenture.
34. **Brief Prospectus to be Published:** In order to issue and sale of debenture through the publication of prospectus or offer document, a international financial institution shall have to publish a brief prospectus included major pursuant to sub rule (5) of rule 31, it shall inforce to Board at least one week earlier before and then publish in one national level daily newspaper.
35. **Provision related to Credit Rating:** Nothing stated in the Regulation on Credit Rating, international financial institution shall issue debenture by indicating the rating if it is done by international financial institutions or international credit rating institution.
36. **Provision related to Yearly Reporting and Information :** (1) The international financial institution having issuance of debenture pursuant to this Chapter shall require submitting annual report along with the audited financial report of the every fiscal year to the Board within seven days from the end of the financial year.
- (2) International financial institution shall be required to submit the information before the Board immediately or before the opening of stock exchange a day after if any event or transaction affects the market value of debenture issued by it.
- (3) Information pursuant to sub rule (1) shall be published in website or concerned institution for informing to investors.

37. **Other Provisions Related to Issuance of Debenture:** Other provisions related to issuance of debenture by the international financial institution shall be as mentioned in the Directives.

## **Chapter 9**

### **Miscellaneous**

38. **Prohibition of Sale of Securities:** (1) The share subscribed by the shareholders in the groups other than securities issued through publication of prospectus, shall not be qualified for sale unless a three years period after the allotment of such shares is complete

Explanation: For the purpose of this sab rule “Securities of other group” means securities subscribed by group of promoter or there group other than public announcement by publishing Prospectus of body corporate and general people group and includes the bonus or right share on those securities.

(2) Nothing stated elsewhere in this regulation, if there arise difficulty in the operation of body corporate due to indicated time period (locking period) of not to sale or transfer of securities, the Board shall approve for sale or transfer of securities within the group.

(3) Nothing Stated elsewhere in sub rules (1) and (2), if the shareholder is dead, it may transfer of securities to the beneficiary.

39. **Condition related to Restriction on Buy and Sale:** (1) The share certificates which are locked in for a specific period of time pursuant to this regulation shall be required to be stamped mentioning the date from and to during which the transfer is restricted.

(2) The securities issued in dematerialization format shall be required necessary management in the central deposit institution for restriction of transfer of share.

40. **Conflict of Interest:** (1) For the purpose of this regulation, while issuing the securities of body corporate to the public, the following conditions are taken as complicit of interest:

- (a) Issuance of securities of body corporate for the staff of same body corporate,
- (b) Issuance of securities of body corporate to the staff of the loan providing body corporate,
- (c) Issuance of securities of the body corporate to the main company or subsidiary company which owned the same body corporate,

- (d) Issuance of securities of the body corporate to the main company or subsidiary company providing loan by the same body corporate.
- (e) Any transaction by the body corporate or its subsidiary involved currently a existing shareholder or member or his/her joint family or person of existing shareholder of the body corporate during the issuance of primary share to the public.

(2) Nothing stated in this regulation elsewhere, the securities shall not issue with conflict of interest pursuant to sub rule (1) after commencement of this regulation.

(3)2 Notwithstanding anything contained in sub-rules (1) and (2), a body corporate related to infrastructure, hydropower and manufacturing sector that has already initiated construction works before 2073/08/14 B.S. (*29 November, 2016*) as per its objectives may issue securities as per the ownership structure specified in the memorandum of association and articles of association recorded with the Office of Company Registrar.

41. **Existing Shareholder can be bought:** Nothing stated in this regulation elsewhere, existing shareholder of body corporate or their family of existing shareholder may buy the securities if it is not sold during the issuance of primary share to public.
42. **Value of securities:** (1) The face value of securities shall, generally, be hundred rupees per unit, if share, thousand rupees per unit, if debenture, and ten rupees per unit, if mutual fund scheme.  
(2) The face value of securities other than those mentioned in sub rule shall be prescribed by the Board from time to time depending on the nature and volume of securities.
43. **Provision relating to Processing Fee:** (1) While submitting the prospectus, offer document, document related to the issue of right share and other document required by the Board pursuant to this regulation, the processing fee shall be twenty five thousands rupees.  
(2) The processing fee submitted pursuant to sub rule (1) shall be valid for one time. In case securities could not be issued within the stipulated time period pursuant to rule 44 and has to be submitted to the Board for obtaining reapproved, shall have to pay the processing fee pursuant to sub rule (1).

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<sup>2</sup> Added by Securities Registration and Issuance(First Amendment) Rules, 2017

44. **Time Period to be Issued:** (1) The body corporate shall open for issuance of securities within the two months from the date of approval of prospectus, offer document or relevant information by the Board.
- (2) It shall, in course of issuance of securities pursuant to sub rule (1), be concerned not to be condition of long holidays or many securities at a time.
- (3) The body corporate shall amend the prospectus if it is unable to issue securities during the time period pursuant to sub rule (1) and has changed in any technical, financial and management aspect during that time period.
- (4) The amended information pursuant to sub rule (3) shall be issued only after approval of the Board.
45. **Issue Management to be done through the Licensed Securities Businessperson:** (1) A Body corporate while making issuance of securities pursuant to this regulation shall require using the services of the Securities Businessperson licensed to function as Issuance and Sales Manager.
- (2) The body corporate while using the service of the Issuance and Sales Manager pursuant to sub rule (1) shall require entering into an agreement with the Securities Businessperson.
- (3) The body corporate shall be required to submit a copy of the agreement with Securities Businessperson pursuant to sub rule (2) to the Board within fifteen days of the date of the agreement.
46. **Procedure of Public Issuance of Securities:** (1) Along with the application form submitted for purchasing the shares or the public issuance pursuant to this regulation, it shall be required to submit a copy of citizenship certificate verified by the application attached there to and also shall have to mention the name, address of the bank or financial institution where the applicant has maintained account and account number and the Issuance and Sales Manager require to have arranged the refund of application money to be deposited in the bank account.
- (2) The account to be mentioned by the applicant pursuant to this rule shall be the account of Bank or Financial Institution having membership of the clearing house.
- (3) Each applicant subscribing for more than fifty thousand rupees is required to deposit the application amount compulsorily through account payee Cheque.
- (4) The applicant subscribing for up to Rs.10,00,000/- may by wish and the applicant subscribing for more than Rs.10,00,000/- is compulsorily required to mention their Permanent Account Number (PAN) in the application form.
- (5) In case the application money so received has been deposited with the Banker to the Issue for interest, eighty percent of interest so received shall be required to be given to the applicant in a proportional basis for the days from the

applications date to the day before the allotment date and the Board shall be informed of such arrangement.

(6) The body corporate making public issuance may reserve and allot up to five percent of the shares, as prescribed in Securities Issuance Directives, form the shares that is set aside for public issuance for the working staffs.

46a.<sup>3</sup> **Special Provision regarding share issuance procedure:** (1) while issuing shares publicly, the companies as referred to in rule 9a may invite application to purchase shares depositing ten percent amount out of the total shares committed to purchase by an applicant.

(2) In the case of allotment of shares as per sub-rule (1), a share certificate of a company to that effect specifying ten percent paid shall be provided to the shareholders.

(3) Government of Nepal shall make necessary arrangements of the monies collected following the allotment of the shares as per sub-rule (2) by depositing such monies into the account of the concerned company.

47. **Have to inform to Stock Exchange :** (1) The body corporate, while submitting a copy of prospectus, sale proposal and offer document prepared pursuant to this regulation before the Board for its approval shall also require submitting a copy of such document to the Stock Exchange.

(2) The Stock Exchange, within seven working days from the date of submission of the document pursuant to sub rule (1), shall require providing its views/suggestions to the Board whether the securities are qualified for listing or not under the related bylaws of the Stock Exchange.

48. **Directions can be issued by the Board:** (1) The board, pursuant to this regulation, can issue necessary direction time to time for body corporate regarding the registration, sales or allotment, issuance of securities.

(2) The concerned body corporate has a duty to comply the directions made by the board pursuant to sub rule (1).

49. **Removal of Difficulty:** In case of difficulty or obstruction to implement or cause to implement things as per this Rule, the Board may remove such difficulty.

50. **Change or Amendments in the Schedules:** The Board may change or amend the Schedules as required.

51. **Repeal and Saving:** (1) The Securities Registration and Issue Regulation, 2008 is hereby repealed.

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<sup>3</sup> Added by Securities Registration and Issuance (Second amendment) Regulation, 2018 (2075)

**Schedule 1**  
Related to Sub rule (1) of Rule 3

**M/s Securities Board of Nepal**

**Reference: Issuance of Certificate of Registration of Securities**

**Dear Sirs,**

.....established under the .....Act hereby submits this application along with Rs.....submitted through Cash Receipt or Bank Voucher and request for its securities with the following details to be registered and for issuing Certificate of Registration.

**1. Brief description of the body corporate**

- (a) Name of the body corporate,
- (b) Address: (Main office, Registered office, Branch office and Liaison office)  
Telephone  
No.....fax.....Email.....  
.....Website.....
- (c) Name and address of the body corporate, if promoter is foreign body corporate.
- (d) Date of registration of the body corporate
- (e) Date of permission to commence business operation
- (f) Date of commencement of business operation

**2. Details regarding the promoter and their background**

- (a) Name and address of the promoters and the number of share they hold (serial No from.....to.....)
- (b) In case of promoter is a body corporate, Name and Address of the director nominated by the body corporate.
- (c) Information describing the age, academic qualification, professional experience, occupation etc. of the promoters.
- (d) In case promoter is a body corporate, its financial report including the main financial indicator for the last three years if in operation for more than three year and if less than three years of operation, for the life of operation and information regarding the name, address and the promoters and directors and their respective shareholding.

**3. Information Related to the Securities of the Body Corporate**

- a. Authorized capital: Total value .....of.....share of .....each
- b. Issued capital: Total value .....of.....share of .....each
- c. Paid up capital: Total value .....of.....share of .....each

- d. Capital paid up by the promoters
  - e. Share capital remaining to be issued
  - f. No of Shareholders of the date (shall require mentioning according to the group, if applicable)
4. Information of the Securities to be Registered
- a. Type and value of the securities to be registered
  - b. Serial No. of securities: From.....to.....(shall require mentioning according to the group, if applicable)
5. Information Related to the Securities Already Registered
- a. Type of Securities Registered
  - b. No of Securities (Serial No From.....to.....(shall require mentioning according to the group, if applicable)
  - c. Date of Registration
6. Information Related to the Management:
- a. Information on the Directors (Name, Address and Shareholding)
  - b. Structure of Board of Directors
  - c. Name, address qualification and experience of Chief Executive bearing the main responsibility of Management and that of the Main Heads of the Department.
7. Information Related to the Issuance of Shares
- a. Process of Issue and Sales of the proposed issue
  - b. Probable date of Public Issue and Sales
  - c. Others
8. Declaration
- I, personally, undertake the full responsibility for the truthfulness of the above mentioned details and information as of the date. And also I, hereby, declare that the details mentioned in this application, to the best of my knowledge are true, factual and complete and none of the relevant details, notices and information has been concealed.

Details of Authorized person of the body corporate

Name:

Signature:

Position:

Date:

Seal of the body corporate

## Schedule 2

Related to Sub rule (2) of Rule 3, Sub rule (3), (4) and (6) of Rule 4, Sub rule (1) of Rule 6, Rule 7 and Sub rule (5) and (6) of Rule (29)

### Application and Registration Fee

1. Application Fee: Rs. 20,000.00
2. Securities Registration Fees

<u>Type of Securities</u>	<u>Of value of Issued Securities</u>
(a) Share:	0.20 percent
(b) Debenture of Bonds:	0.15 percent
(c) Units under Collective Investment Schemes	0.10 percent
(d) Other Securities	0.10 percent

**Note:** In case the total value of securities at the time of registration and total amount of issue differs, additional fee calculated on the rates mentioned above on the difference in value has to be submitted to the Board.

### **Schedule 3**

#### **Related to Sub rule (5) of Rule 4, and Sub rule (5) of Rule 6 Securities Register Book**

- (a)** Name of the body corporate:
- (b)** Address (Registered and Main Office, Liaison Office):
- (c)** Date of Registration and date of commencement of business:
- (d)** Objective of the body corporate:
- (e)** Type of business:  
(Banking, Finance, Insurance, Tourism, Construction, Energy and others)
- (f)** Authorized capital: Share units.....per unit price.....Total value.....
- (g)** Issued capital: Share units.....per.....unit....price.....Total value
- (h)** Paid up: Share units.....per unit price.....Total value....
- (i)** Preferred Share structure: Units.....per unit price....Total value
- (j)** Debentures/Bonds: Unit.....per unit price .....total value...
- (k)** Others
- (l)** Information Related to the Promoters and Directors.
  - Name:
  - Address:
  - Units of share hold:
- (m)** Information Related to Issuance of Securities:
  - (i)** Type of securities:
  - (ii)** Securities to be issued;
    - (1) Unit:
    - (2) Amount:
  - (iii)** Modality of issue:
  - (iv)** Target group:
  - (v)** Proposed date of issue:
  - (vi)** In case the Board has given any directive regarding the issue and sales and allotment of the proposed issue, such details:
- (n)** Details related to the Securities Previously Issued:
  - (i)** Issued by subscribing to the Memorandum and Articles of Associations: Serial No. from.....to.....units .....of Rs.....each of amount Rs.....Date.....
  - (ii)** Issued through public issuance: Serial No. from.....to.....units.....each of Rs.....of value Rs.....Date.....

- (iii) Issued form local people
- (iv) Issued through circular method: Serial No.  
from.....to.....units.....each...of amount Rs.....Date.....
- (v) Bonus issue: Serial No. from.....to.....units.....each...of  
amount Rs.....Date.....
- (vi) Issued exclusively to the workers or employee: Serial No.  
from.....to.....units.....each...of amount Rs.....Date.....
- (vii) Others

## **Schedule-4**

### **(Related to Sub rule (5) of Rule 4 and Sub rule (5) of Rule 6 Securities Registration Certificate)**

This certificate has been issued to M/S .....having Head Office at .....for getting the securities issued or proposed for issue registered with the Board. The registered securities bear serial number from.....to.....comprising of.....unit of .....(type of securities) of Rs.....each.

#### **Details of Certifying Authority**

Name:

Signature:

Position:

Date:

## **Schedule-5**

(Related to Sub rule (1) of Rule 11)

- (a) The front page of the Prospectus shall include the following information:
  - (1) The word “prospectus”
  - (2) Name, Logo and Address of the registered office of the Body Corporate.
  - (3) Name of the Statute and section relating to the issue of prospectus.
  - (4) Date of approval of the prospectus from the Securities Board of Nepal
  - (5) Date of registration of the prospectus at the office of the Registrar of Companies
  - (6) Type of securities offered, total number of securities offered for subscription, number of security for the reserved category (employees, mutual fund etc.) and net numbers of security available for public offering.
  - (7) Face value or the security and amount called up for application.
  - (8) Declaration on Risk on investment.
  - (9) Disclaimer regarding the responsibility of the regulator
  - (10) Date of opening of the Issue
  - (11) Date of closing of the issue (earliest and latest)
  - (12) Name, address, and logo o f the Issuance and Sales Manager
  - (13) Information regarding the Net Worth
- (b) The inside cover page of the prospectus shall include the following information
  - (1) A glossary of technical and other terms used in the prospectus
  - (2) Location form where the prospectus and application may be obtained and application may be submitted.
- (c) Information to be disclosed continuously starting form the second page of the prospectus.
  - (1) Declaration of the Issuance and Sales Manager
  - (2) Declaration by Body Corporate
    - a. Responsibility and accountability statement of the Directors
    - b. Responsibility statement by the body corporate
    - c. Compliance with the regulatory requirement of the regulating agency
    - d. Declaration regarding the promoters, directors and chief executive
  - (3) Information on body corporate
    - a. Background on body corporate

- b. Description of property
  - c. Future Plans and strategies
  - d. Composition of the Board of Directors and representations
- (4) Information on the capital structure
- (5) Information on the promoters/directors
  - a. Background of the promoters/directors
  - b. Transaction with promoters /directors
- (6) Description on the limitation of liability
- (7) Information on personnel of the body corporate
  - a. Information on the key managerial personnel of the body corporate
  - b. Information on the allowances and remunerations given to the directors and the key managerial personnel
- (8) Risk faced and Management's views on managing the risk
- (9) Financial statements
  - a. Financial statements and views and analysis of management on the statements
  - b. Information on the financial ratios
- (10) Information regarding the issuance of the security
  - a. Objective of issuance of securities,
  - b. Deployment of capital proceeds form the issuance of securities
  - c. Interim use of funds before putting it in the project.
  - d. Premium related information if being issued at premium
  - e. Provisions related to allotment, refund and listing of securities
  - f. Detail related to underwriting
  - g. Attention to be paid while applying
- (11) Details on Related Party Transactions
- (12) Information relating to foreign investment and management
- (13) Performance of the Issuer's securities if the body corporate is already listed
- (14) Promises of the past public issue and performance.
- (15) Information related to Consultants/ Experts
- (16) Where there are funding sources other than the public issue, for the completion of the project, such details
- (17) Details of litigation of defaults
- (18) Disclosure on Investors grievances and redress system

- (19) In case securities are issued otherwise than for case, name of the person or the group, description of the assets/service purchased number of securities issued and the rate of the securities.
- (20) Details regarding the issuance of debentures
- (21) Details regarding the issuance of preference shares
- (22) Other general information
- (23) A copy of commitment letter (due diligence certificate) presented by the Issue and Sales Managers

Explanatory note: While drafting Prospectus, a minimum of the following particulars shall be disclosed in a simple and clear manner:

**1. Declaration on investment risk (Related to Sub-clause (8) of Clause (a))**

Investment in securities involve a degree of risk and investors themselves shall be responsible for the assessment of risk involved thereof. The issue price of securities should not be taken as indicator of market price after the securities are listed at the exchange and the investors are advised to assess the risk factors given in page.....before making an investment decision.

**2. Disclaimer statement of the regulatory body (Related to Sub-clause (9) of Clause (a))**

The Securities Board of Nepal, pursuant to the Securities is Related Law, has given approval to this prospectus prepared for the public issuance of securities. It may however, be distinctly understood that by giving consent the Board, the Office of the Registrar of Companies or other related regulator do not take any responsibility for the correctness on any of the statements made through the prospectus, nor shall be assumed to have guaranteed or taken responsibility for the financial soundless of the issuer or any of its projects.

**3. Information Related to Net worth (Related to Sub-clause (13) of Clause (a))**

In case the Net Worth is negative according to the latest audited financial statement of the body corporate, information on net worth requires being included in the front page.

**4. Declaration of the Issue and Sales manager (Related to Sub clause (1) of Clause (c))**

Having made analytical review of managerial, technical and financial aspects of the body corporate based in the reports and information provided to us by the issuer and its promoters/directors we have been satisfied and convinced that financial and other statement disclosed through the

Prospectus are fair, complete and truth full that enables the investors to make informed investment decision. We, hereby, submit the Prospectus to the Board for approval along with letter of commitment (Due Diligence Certificate) stating that the Prospectus fulfills the requirements of the Act and the Rules.

**5. Declaration related to the Responsibility and Accountability of the Directors (Related to Sub-clause (2) (a) of Clause (c))**

This prospectus has been reviewed and approved by us and we individually and collectively accept responsibility to authenticity and accuracy of the information and statement of the prospectus, for the financial statements, information and documents provided to the issuance and Sales Manager and for the prospectus and other information and document submitted to the Securities Board of Nepal. Having been informed of the prescribed conditions and requirements for the Issuance of securities, we declare that I/We have fulfilled all the conditions and requirement and have not concealed any statements, notices or information that could be material to the investors for informed investment decision making.

**6. Disclaimer Statement by the Body Corporate (Related to Sub-clause (2) (b) of Clause (c))**

This .....(body corporate) accepts no responsibility for statements made otherwise than in the prospectus, offer document, advertisement or other materials published at its instance and anyone placing reliance on any other source would be doing so at his/her own risk.

**7. Statement of Compliance to Regulator's Requirement (Related to Sub-clause (2)(c) of Clause (c))**

We hereby declare that we have complied with the rule regarding to the public issuance and other regulatory provisions and directives established by relevant regulatory authority (e.g. Office or the Registrar of Companies, Nepal Rastra Bank, Insurance Board etc.). And we have submitted prospectus prepared for public issuance along with agreement mentioned therein and other particulars to.....regulatory body.

**8. Declaration regarding the Promoters, Directors, and Chief Executive (Related to Sub-clause (2) (d) of Clause (C))**

- (1) The promoters, directors, chief executive of this body corporate are not in a black list maintained by the Credit Information Center.
- (2) The Directors and Chief Executive of this body corporate are not the Director or Chief Executive of other black listed body corporate.

- (3) The Director and Chief Executive of this body corporate have not been the Director or Chief Executive of a body corporate which has vanished or is not in operation after raising capital from public and are not among those who have committed acts adverse to the interest of the investors.
- (4) The director or chief executive of this body corporate are not from the director or chief of the stock exchange or securities businesspersons who have been penalized with cancellation of the license for the violation of securities related laws and that ten years of such cancellation has not been complete.
- (5) The directors or chief executive of this body corporate are not among those having any disqualification pursuant to section 108 of the Securities Related Act.

**9. Background on Body Corporate (Related to Sub clause (3)(a) of Clause (c))**

- a. Name of Body Corporate,
- b. Name of the Act under which the body corporate has been established,
- c. Address of the registered office of the body corporate,
- d. Main place of business,
- e. Brief history of the body corporate from inception to date and its main objects,
- f. Name, history and main objects of the subsidiary (ies), if any, and percentage of interest held in the subsidiary,
- g. Description on the following matters (to the extent of application)
  - (1) Types of product manufactured and services provided
  - (2) Technology used or to be used
  - (3) Any brand names, patent, trademarks, license, technical assistance agreements and intellectual property rights pertaining to the body corporate.
  - (4) Estimated market coverage by the body corporate
  - (5) Plans regarding the new product and services
  - (6) Principal markets of its product and services and modes of distribution and sales.
  - (7) Production/operation capacities and utilization status
  - (8) Sources, types and availability of the raw materials
  - (9) Quality control measures
  - (10) Research and development

- (11) Information on any interruptions in the business which any have had a significant effect on operation of the body corporate during the past 12 months.
- (12) Labor relationship with the unions and information on industrial disputes, if any, in the past,
- (13) Position of the body corporate in the market, competition, and with the similar industries.
- (14) Description of major customers (e.g. those individually contributing to 10% or more of the turnover) and whether the Body Corporate is dependent on any major customers for business.
- (15) Description of major suppliers (e.g. those individually contributing to 10% or more of the turnover and whether the body corporate is dependent on any major suppliers for business)

**10. Description of properties (Related to Sub clause (3)(b) of Clause (c))**

- (a) Location of principal plants and other property of the body corporate and the condition thereof,
- (b) Whether the property mentioned in point (a) above is owned by the body corporate or taken on lease, if on lease, the lease period (including dates),
- (c) If the property is owned by the body corporate, whether there is mortgage or other type of lien on the property,
- (d) Any differences between the book value and the market value of the property as on the date of filling of prospectus with the Board,
- (e) Description of methodology employed for the valuation of property.

**11. Future Plans and Strategies (Related to Sub-clause (3) (C) of Clause (c))**

- a. Description of the business/service development plans of the body corporate and time bound strategies to be implemented to realize the plane.
- b. Prospects of the business or the body corporate in the light of competition, prevailing economic conditions and related industry conditions.

**12. Provisions related to the Composition and Representation of the Board of Directors (Related to Sub-clause (3) (d) of Clause (c))**

Mention the Composition of the Board of Directors, Qualification for the Directors and representation of different stakeholders along with minimum number of qualifying shares for director.

**13. Information Related to the Capital Structure (Related to Sub-clause (4) of Clause (c))**

- a. Authorized, issued and paid-up capital and changes therein since the date of incorporation, if any,
- b. Paid-up capital after the issue (according to groups if any),
- c. Securities Premium Account (before and after the issue),

**14. Promoters/Directors Background (Related to Sub-clause (5) (a) of Clause (c))**

- a. Name, designation, age, nationality, address, shareholding, educational qualifications, experience and experience in propose line of business of the substantial shareholders and the directors.
- b. If promoters are companies/institutions, their profile including name and address and name and address of the director (require mentioning companies/institutions in lower tier until the natural person
- c. Name of the director of the issuer who holds any position in other company, institution, trust, organization and name address of such affiliated entities.
- d. Description regarding any restriction in the transfer of rights of the promoter/directors

**15. Transaction with promoters/Directors (Related to Sub-clause (5) (b) of Clause (c))**

- a. The names of the promoters/directors, the nature and amount of anything of value (financial or non financial) received or to be received by each promoter/director, directly or indirectly, from the body corporate and the nature and amount of any assets, services or other consideration thereof received or to be received by the body corporate shall be stated.
- b. Method used to determine the price of the assets or services mentioned in (a) above

**16. Statements on limitation of liability (Related to Sub-clause (6) (C) of Clause (c))**

Statement in respect of liability of shareholders being limited to the maximum value of securities that has been paid up or undertaken to subscribe shall have to disclosed.

**17. Description of High Level Managerial Personnel (Related to Sub-clause (7) (a) of Clause (c))**

- (a) Details of personnel at the high managerial level of the body corporate indicating the name, qualification, date of joining, details of previous employment and in case holding shares in the body corporate number

of share held. In case such personnel hold substantial share in other listed companies or have invested in other body corporate, name of the body corporate and invented amount.

- (b) Any changes otherwise than by way of regular retirement in the high level managerial personnel during one year period prior to the date of filing of the prospectus with the Board shall be disclosed
- (c) Number of employees: permanent, temporary, contract and others

**18. Details of allowance and remuneration paid to directors and high level executives (Related to Sub-clause (7) (b) of Clause (c))**

- (a) Rate of meeting allowance to be paid or paid to the directors including chairperson and the daily and travel allowances and other compensations paid to them
- (b) Amount of remuneration paid to each of the three top officers of the body corporate in a fiscal year and name and designation of each such officer.
- (c) Any contract with any officer or director providing for the payment of future compensation.

**19. Inherent risk and Management's views on the risk management (Related to Sub-clause (8) of Clause (c))**

Risk factors faced by or potential to the body corporate are to be clearly stated. Such risks should be classified as those which are internal to the body corporate or specific to the project or are external and beyond the control of the body corporate which may include, but not limited mainly to:

- a. Risk of insufficient financial resources,
- b. Risk of insufficient raw materials,
- c. Risk of market conditions and changes thereof of the product or services,
- d. Potential delay in project completion and risk related to the cost overrun,
- e. Foreign exchange risk,
- f. Obstruction if any, due to legal requirements and obtaining license,
- g. Risk borne out of regionalization and globalization,
- h. Risks caused by changes in government policy and rule and policies at the international level,
- i. Absence of operating history,
- j. Risk related to changes in technology,

k. Others.

Management's strategy for mitigating or managing the above mentioned risks should also be described.

## **20. Financial Information and Management Discussions and Analysis**

(Related to Sub-clause (9) (a) of Clause (c))

- (a) The prospectus should be presented with latest audited balance sheet, profit and loss account, profit and loss appropriation account and cash flow statement of the body corporate.
- (b) Present the audited summary financial statements including profit and loss statement and balance sheet (on consolidate basis, if the body corporate has subsidiaries) as of the three recent fiscal years of the body corporate. If the body corporate has been in existence for less than three years the above mentioned submission will have to be made for the period of existence of the body corporate.
- (c) If the prospectus is to be submitted after six months of completion of fiscal year, provisional financial statement for the interim period as certified by auditor shall be submitted.
- (d) An analysis of reasons for the significant changes in items under the income and expenditure accounts shall also be given
- (e) A statement by the directors whether in their opinion there have arisen any circumstances since the date of last audit of financial statements affecting the trading, profitability, or the value of the assets or its ability to pay its liabilities within the next twelve months.
- (f) If the prospectus is submitted after the end of the fiscal year, information for the period after the balance sheet date to the date of approval shall be included separately in the prospectus.
- (g) Whether the assets have been revalued during the past five years and if revalued the following details:
  - (i) Description of assets
  - (ii) the book value of the assets before and after the revaluation
  - (iii) rationale for revaluation
- (h) Projected Balance Sheet, Profit and Loss Account for the next three years and basis of such projections.

**21. Financial Ratios ((Related to Sub-clause (9) (b) of Clause (c))**

- (a) Earnings per share (EPS) and per share net worth for last three years or for the period in which the body corporate is in operation and also require to mention the same projected ratios for coming three years.
- (b) Average return no net worth in the last three years

**22. Objects of Issuance of Securities (Related to Sub-clause (10) (a) of Clause (c))**

Require clearly mentioning the objects of issuance of securities.

**23. Deployment of the proceeds form the issue of securities (Related to Sub-clause (10) (b) of Clause (c))**

- (a) The prospectus shall describe how and in which sector the net proceeds from the issue shall be used
- (b) Alternative way out to meet the objects of the public issue if the securities publicly issued are not fully subscribed.
- (c) Location of project site, if the project is to be implemented in a phased manner, cos of each phase and if some phase has been implemented
- (d) Mention the estimated date of completion, trial production and full commercial operation of the project.
- (e) If the body corporate has purchased or is to purchase equipment, the price or proposed price of the equipment, name of the suppliers and main points of the agreement, if any, with the suppliers.
- (f) Details of patents, trademark, license, royalty, collaboration of financial or technical agreements with main conditions of the agreement and name and address of the parties concerned.
- (g) Where the project involves products, mention its nature, end use, competition, target clients, production capacity, capacity utilization in the past years and future use of the capacity shall be described.
- (h) Sources and availability of the raw materials for the project.
- (i) Sources of, and requirement for, power, water and gas for the project.
- (j) Expenses relating to public issue giving separately fee payable to the following parties:
  - (i) Issuance and Sales Manager
  - (ii) Trustee (for debenture issue)
  - (iii) Underwriter
  - (iv) Experts
  - (v) Auditors
  - (vi) Others (e.g. collection center, banker to the issue etc)

**24. Information regarding allotment, refund and listing (Related to Sub-clause (10) (e) of Clause (c))**

- (a) Allotment process in case of over or under subscription
- (b) Provisions relating to refund in case of over subscription or on non allotment
- (c) Interest rate to be paid for delay in refund of application money
- (d) Process of allotment of securities and issuance of certificate and time frame thereof
- (e) If the securities have already been listed, name of the exchange where the securities have been listed and details on conditions to be fulfilled by the body corporate for commencement of trading of the securities.
- (f) If the securities are not listed, the provision required for facilitating easy purchase, sales and exchange of securities to be issued by the body corporate in accordance with the prevailing securities related Act and the rules.

**25. Underwriting related provision: (Related to Sub-clause (10) (f) of Clause (c))**

- a. Name and address of the underwriters of securities and quantity and value of securities to be underwritten
- b. Main Points of agreements entered with the underwriters of securities.

**26. Points requiring attentions while submitting application: (Related to Sub-clause (10) (g) of Clause (c))**

- (a) Rights of holders of securities and provisions such as those related to voting rights, dividend, rights shares, process or bringing changes in the rights of the holders of the securities and those regarding the cancellation of securities.
- (b) Details of the place to inspect Articles and Memorandum of the company, method for making payment for the purchase of securities, minimum number of securities and denomination of multiples above the minimum to be subscribed.
- (c) Restrictive conditions for submitting application including that multiple application not allowed, requirement to submit verified copy of citizenship/birth certificate for the identification of the investor or mention client's identification number issued by the securities brokers along with the name of the businessperson and requirement to make or receive payments through bank accounts.

**27. Details of Transaction among the related party (ies) : (Related to Sub-clause (11) of Clause (c))**

Description of any material transaction during the last two years, or any proposed transactions, between the issuer body corporate and the following party, giving the name of the person involved in the transaction, their relationship to the body corporate, the nature of their interest in the transaction and the amount:

- (a) Any director or executive officer of the body corporate,
- (b) Substantial shareholder,
- (c) Any member of the joint family of the persons mentioned in (a) and (b) above,
- (d) Any company or body corporate which has shareholding with 30 percent or more voting rights of the chief executive or director or substantial shareholder of the issuer body corporate,
- (e) Any transaction or agreement entered into by the body corporate or its subsidiary for a person who is currently a director or member of his joint family of the body corporate any time during the last three years prior to the publication of the prospectus.
- (f) Any loans either taken from or given to any director or member of his joint family, clearly specifying details of such loan, including the amount of loan, rate of interest, date of loan taken, date of maturity of loan shall be disclosed.

**28. Details regarding Foreign Investment and Management (Related to Sub-clause (12) of Clause (c))**

Details of any foreign investment and management along with disclosure of the main and material points in the agreement.

**29. If the issuer is already a listed company, the following particulars shall be disclosed: (Related to Sub-clause (13) of Clause (c))**

- (a) Highest, lowest and closing market price of the body corporate for each quarter during each of the preceding three years and number of shares traded.
- (b) Monthly highest, lowest and closing price for each of the six months preceding the date of filing of prospectus for registration with the Board along with the number of days trading took place and the volume of securities traded each months.

**30. Description of the assumption and performance of latest public issuance (Related to Sub-clause (14) of Clause (c))**

The issuer shall indicate whether the objects, plans or net profit mentioned in the previous public issue have been net or not, and if not met variation

of twenty percent or more on the object, plan or net profit shall be disclosed with reasons.

**31. Information relating to advisors/Experts (Related to Sub-clause (15) of Clause (c))**

- (a) Name and address of auditors, principal banker, banker to the issue, expert verifying the projected financial statement.
- (b) Material terms and conditions agreed upon between the body corporate and persons mentioned in (a), above.

**32. Information on litigations and defaults (Related to Sub-clause (17) (e) of Clause (c))**

- (a) Description of all pending litigations filed by against the body corporate that are likely to be of material impact with regard to the liquidity, balances or operation of the body corporate along with management's opinion on potential effect of the litigation.
- (b) All pending litigations filed by or against the promoter/directors that could have adverse effect on the body corporate.
- (c) Names of the promoters/directors who have been blacklisted or convicted or punished for moral or economic reasons in the past five years and name of the regulatory body or court.
- (d) Defaults to the bank and financial institutions, non-payment of statutory dues and dues towards securities holders.

**33. Investor Grievance and Redress System (Related to Sub-clause (18) of Clause (c))**

The prospectus shall disclose the arrangement made by the body corporate or redressing the investor's grievances.

**34. Information Related to the Issuance of Debt Securities (Related to Sub-clause (20) (e) of Clause (c))**

- (a)** Terms and conditions of any debt securities that the body corporate is planning to issue, including the date to maturity, amount of proposed issue, whether or not the debt securities are convertible to equity, rate of interest payable, provision of redemption reserve fund and any other rights the holders of securities may have.
- (b)** Description of the right of the holders of debt securities on assets of the body corporate,
- (c)** Name and address of the trustee and principal provision of the trust deeds entered between the Trustee and the Body Corporate.

- (d) Issuance of convertible debt securities shall require disclosing conversion ratio, price, premium and conversion date and provision of voting rights.
- (e) Mention the object of issue of debt securities and work plan to be accomplished.
- (f) Information on whether the issued capital has fully been paid up.

**35. Provisions related to the issuance of preference share (Related to Sub-clause (21) (e) of Clause (c))**

If the body corporate is to issue preference share, it should have been enabled with provision in the articles of association of the body corporate and should have disclosed on the following matters:

Whether the preference share is redeemable or irredeemable, if redeemable the redemption period and whether the redemption is with premium or not, rate of dividend payable to the preference share and whether cumulative or not, if convertible conversion ratio, price, period along with other provisions related to conversion and conditional for the exercise of voting right by the preference shareholders and disclosure regarding that the conditions once set shall not be changed, provision of capital redemption reserve fund, whether the preference shall be given or not while company goes for liquidation.

**36. Other General Information (Related to Sub-clause (22) (e) of Clause (c))**

- a. Experts opinion obtained, if any
- b. Change, if any, in directors and auditors during the last three years, and reasons thereof
- c. Name, address and qualification of the Company Secretary
- d. Description related to the decision of the Board on the public issue
- e. Any special tax benefits for the body corporate or its shareholders,
- f. Place and time where the Balance Sheet, Profit and Loss Account and Case Flow Statement can be obtained of inspected.

**Schedule 6**  
(Related to Sub-clause (2) of Rule 11)

**M/s Securities Boar of Nepal**

.....  
.....

**Reference: Approval of Prospectus**

Please fond this application along with prospectus prepared by .....(name of the issuer for the public issue of .....units of (name of the securities) of face Value .....each and other documents along with Bank Voucher worth of Rs. 25,000 (twenty-five thousand rupees) as prospectus processing fee and request for the approval of the prospectus.

Executive Chief  
.....Ltd

**Schedule 7**  
(Related to Sub-clause (1) of Rule 13)  
**Approval of Prospectus**

The Securities Board of Nepal has granted approval to the prospectus prepared by .....with.....main office at.....for the public issuance of.....units of .....(type of securities) with Rs.....(face value) each.

The terms and conditions applicable for the issue of .....(type of securities) according to the prospectus shall be as mentioned below:

Terms and conditions:

- 1.
- 2.
- 3.
- 4.
- 5.

Relevant Authority

Name:

Designation :

Signature:

Date:

**Schedule 8**  
(Related to Sub-clause (1) of Rule 15)

- (a) Date of approval of the prospectus or offer document by the Board and date of registration of the prospectus at the Office of the Registrar of Companies
- (b) Date of opening of subscription of the securities
- (c) Per unit price of securities and advance to be submitted along with application
- (d) Date of closure of application and date of earliest closure upon subscription of all issued securities
- (e) Procedure for filling in application, Name, address, telephone number and name of contact person of banks, financial institution and collection centers where application may be submitted and the account number with the Banker to the Issue.
- (f) Place form where the prospectus or offer document and application form shall be obtained and also the place where the financial statements of the body corporate and other relevant document may be inspected.
- (g) Model application form for the interested investors who cannot have access to the application form,
- (h) Major highlights of the prospectus or offer document approved by the Boar
- (i) Provisions for hearing and redress the investor grievance related to the issue.

## Schedule 9

(Related to Sub-clause (2) of Rule 17 and Sub-rule (1) of Rule 23) Provisions and Disclosures related to the Issue of Rights shares/circular method

- (a) Name of the body corporate,
- (b) Registered office of the body corporate,
- (c) Business location,
- (d) Brief introduction and objectives of the body corporate,
- (e) Capital structure,
- (f) Status of paid up capital before and after the issued of rights share,
- (g) Units of shares held by groups shareholders, and in case of promoters, name
- (h) No of units and proportion of rights to be issued,
- (i) The decision of general meeting regarding the issuance of right shares and date of conclusion of the general meeting,
- (j) Introduction to the Directors,
- (k) Composition of the Board of Directors,
- (l) Minimum no. of units of shares to be subscribed and the advance money required to be submitted with application,
- (m) Provisions related to the sale of the porting of rights shares that may be left unsubscribed by the existing share holders,
- (n) Provisions related to whether or not the shares may be subscribed for more than the proportion of the entitled rights,
- (o) Audited financial statements of the body corporate for the last three years and projected financial statements for the coming three years along with net worth,
- (p) Potential risks inherent in the business that body corporate is doing,
- (q) Provisions related to the allotment of shares,
- (r) Location and time for which the Memorandum and Articles of the body corporate and balance sheet, profit and loss account and auditor's report may be available for examination.
- (s) The details of underwriting of issuing securities, if applicable,
- (t) Provisions related to get the share listed,
- (u) If any pending cases or law-suits having material effect on the body corporate, such details,
- (v) Main terms and conditions to be fulfilled by the subscriber to the rights shares,

- (w) Terms and conditions to be fulfilled in case the rights entitled by a shareholder can be transferred in favor of a nominee,
- (x) Name and address of the auditor, company secretary, expert preparing the financial projections, expert who has reviewed the basis of projection/estimation and the methodology and expressed opinion of satisfaction, expert drafting the Provisions and Disclosures Related to the Issue of Rights shares” document and the Issuance and Sales Manager,
- (y) Objectives of the issuance of the right share,
- (z) Duration open for the subscription of rights shares,
  - (aa) Place where application form may be obtained, application money may be deposited and application may be submitted and also place where the document prepared for the issuance of rights issue “Provisions and Disclosures Related to the Issue of Rights Shares” may be available or inspected,
  - (bb) Declaration stating that the Act, Rules, Company Act and directives issued by the regulators related to the business have been fully complied with,
  - (cc) Date related to the maximum, minimum and closing market price and the number of units of securities traded during the past three years,
  - (dd) Name Signature of the directors who endorse the truthfulness, completeness and undertake full responsibility for any the variation in the disclosure made through the “Provisions and Disclosure Related to the Issue of Rights Shares” document.
  - (ee) Declaration of the Issue and sales Manager: Having made analytical review of managerial, technical and financial aspects of the body corporate based on the reports and information provided to us by the issuer and its promoter/directors and also having been convinced that financial and other statements mentioned in the “Provisions and Disclosures Related to the Issue of Rights Shares” to be fair, complete and truthful that enable the investors to make informed investment decision and hereby issue this due diligence certificate stating that “Provision and Disclosures Related to the Issue of Rights Shares” fulfills the requirements of the Act and this Regulation and submit it for the approval of the Board.

Note: All information stated above shall be included during the preparation of statements for the issuance of securities through private placement except in issuance of right share.

## **Schedule 10**

### **(Related to Sub-clause (3) of Rule 17 and Sub-rule (7) of Rule 23) Approval of Issuance of Right Share/Circular Method**

It is granted approval to the prospectus prepared by .....with main office at .....or the public issuance of .....units of .....(type of securities) with Rs.....(face value) each.

The terms and conditions applicable for the issue of .....(type of securities) according to the prospectus shall be as mentioned below:

#### **Terms and conditions:**

- 1.
- 2.
- 3.
- 4.

Relevant Authority

Name:

Designation:

Signature :

**Schedule 11**  
(Related to Sub-clause (1) of Rule 19)  
Format of Application for the Nomination of Rights

**To the Board of Directors**

.....  
I/We have nominated.....,resident of .....  
to apply for subscription of .....share out of the rights exercisable by me/us  
to apply for subscription of .....shares or the body corporate entitled to  
my/our.....unit of shares bearing Serial No from.....to.....I/We agree  
that my/our nominee may subscribe for the number of shares we have nominated in  
accordance with the terms prescribed by the body corporate. I/We have not/shall not  
lodge any complain claiming that other can not subscribe for the rights I/we are entitled  
nor shall claim that we have not nominated to subscribe for the rights and that this  
document shall nullify and such claims. I/we hereby request to arrange for the issuance  
of the said shares in the name of our nominee. This statement is truthfully executed  
and if found otherwise, I/we shall bear with the terms to the law.

**Details of the nominating Shareholder**

Name, with surname:

Address:

Father's Name:

Grand Father's name:

Signature:

**Details of the nominee**

Name, with surname:

Address:

Father's Name:

Grand Father's name:

Signature:

**For Officer Use**

The details of the authority of .....Ltd, verifying the signature of  
the nominator shareholder

Name:

Position:

Signature:

Seal of the body corporate

## **Schedule 12**

(Related to Sub-clause (2) of Rule 24)  
(For Sale of Listed Securities)

**The following particulars shall require being included in the offer document:**

- (a) Name of the Body Corporate
- (b) Registered Office of the Body Corporate
- (c) Place of business transaction
- (d) Brief introduction and Objectives of the body corporate
- (e) Capital structure (authorized, issued and paid up capital)
- (f) Minimum number of shares to be applied and application money to be submitted in advance
- (g) Composition of the board of directors
- (h) Provisions relating to the allotment of shares
- (i) Provisions relating to the listing of shares
- (j) Main terms and conditions that buyers of the shares should comply with
- (k) Declaration of compliance to the regulatory provisions related to the business and that the directives of the regulators have been complied with
- (l) Risk inherent in the investment in securities
- (m) Date of closure of application (earliest and the latest)
- (n) Name and address of the Issuance and Sales Manager
- (o) Change in the representation in the board of directors after sale of share
- (p) Other matters prescribed by the Board

**Note: While in getting the Offer Document registered, the Issuance and Sales Manager has to submit Due Diligence Certificate to the Bard.**

## **Annex 13**

(Related to Sub-clause (4) of Rule 24)  
(For Sale of Securities which are not listed)

While drafting the Offer Document for the Issuance of Securities under the Rules, the following particulars shall require being included:

1. Name of the body corporate
2. The Legislation under which the body corporate has been established
3. Registered office of the body corporate
4. Location of Business transactions
5. Brief introduction and objectives of the body corporate
6. Capital Structure (Authorized, Issued and Paid up)
7. Minimum units of shares to be purchased and the amount to be submitted along with application
8. The date of closure of application (earliest and the latest)
9. Name and address of the Issuance and Sales Manager
10. Place where the Offer Document and the application form is available and where the application may be submitted
11. Declaration of the Issuance and Sales Manager

Having made analytical review of managerial, technical and financial aspects of the body corporate based on the reports and information provided to us by the issuer and its promoters/directors we have been satisfied and convinced that financial and other statement disclosed through the Offer Document are fair, complete and truthful that enables the investors to make informed investment decision. We, hereby, submit the Offer Document to the board for approval along with Due Diligence Certificate stating the Offer Document fulfills the requirements of the Act and the Rules.
12. Provision related to the Composition of the Board of Directors and Representation.

Shall require describing the composition of the Board of Directors, qualification of directors, minimum qualifying share for the director.

Shall require describing the composition of the Board of Directors, qualification of directors, minimum qualifying share for the director.
13. Objective of the sale of the securities
14. Information regarding allotment, refund and listing
  - a. Allotment process in case of over or under subscription

- b. Provisions relating to refund in case of over subscription or on non allotment
- c. Interest rate to be paid or delay in refund of application money
- d. Process of allotment of securities and issuance of certificate and time frame thereof
- e. If the securities are not listed, the provision required for facilitating easy purchase, sales and exchange of securities to be issued by the body corporate in accordance with the prevailing securities related Act and the rule.

15. Points requiring attention while submitting application:

- a. Rights of holders of securities and provisions such as those related to voting rights, dividend, rights shares, process of bringing changes in the rights of the holders of the securities and those regarding the cancellation of securities.
- b. Details of the place to inspect Articles and Memorandum of the company, method for making payment for the purchase of securities, minimum number of securities
- c. Restrictive conditions of submitting application including that multiple application not allowed, requirement to submit verified copy of citizenship/birth certificate for the identification of the investor or mention client's identification number issued by the securities brokers along with the businessperson and requirement to offer or receive payments through bank accounts.

16. Investor Grievances and Redress System.

The offer document shall disclose the arrangement made by the body corporate for redressing the investor's grievances.

17. Other matters prescribed by the Board

**Schedule 14**  
(Related to Sub-clause (1) of Rule 26)  
Information to be Disclosed in the Quarterly Report

**1. Financial Statement**

- a. Quarterly financial report including Balance Sheet and profit and Loss Account (Such report shall disclose this year's quarter compared with last year's quarter and the related party transactions)

Explanation: For the purpose of this part “Related Party” shall mean the person in the position of executive officer or director of the body corporate or basic shareholder and member of joint family of those persons. The word shall also mean the company or body corporate where the executive officer, director or basic shareholder holds 30 percent or more shareholding.

- b. Shall disclose important financial ratios including Earnings per share, P/E Ratio, Net Worth per share, Net Asset Value per Share and liquidity Ratios.

**2. Management's Analysis shall provide the Views of Management on the development of Business Including the following:**

- a. An explanation of the principal reasons for the changes in balances, earning and liquidity of the body corporate during the quarterly period.
- b. Analytical discussion of any known trends, conditions that would have a material effect of balances, profit or case flow of the body corporate.

**3. Legal Proceedings**

Whereby following law suit has been filed by or against the body corporate, shall require including date when the case was filed, the issue pertaining in the case, the names of such promoter or director and the possible outcome of the legal proceedings.

- a. Any la-suit filed by or against the body corporate,
- b. Law-suit filed by or against the promoter or director of body corporate involving violation of statutory rules or criminal offences.
- c. Law-suit filed against any promoter or director for economic offences.

**4. Analysis of Stock Performance of the Body Corporate**

- a. Management's view on the performance of the stocks of the body corporate in the Stock Exchange.

- b. High, Low and Closing price of the stocks of the body corporate during the quarter along with total volume of trading of shares and number of days traded.

## **5. Problems and Challenges**

Require to clearly describing the problems and challenges faced by the body corporate, which should be classified into internal to the body corporate and external and the managements strategic preparedness to solve the problems and challenger.

## **6. Corporate Governance**

Describe about the management's initiatives towards good corporate governance.

## **7. Declaration by Chairperson/Chief Executive on the Truthfulness and Accuracy of Information.**

I, as at the date, hereby individually accept responsibility for the accuracy of the information and details contained in this report, Also hereby declare that to the best of my knowledge and belief, the information contained in this report is true, accurate and complete and these are on other matters concealed the omission of which shall adversely affect the informed investment decision by the investors.

**Schedule 15**  
(Related to Sub-clause (2) of Rule 26)  
Information to be Disclosed in the Annual Report

**1. Report of the Board of Directors**

The report of the Board of Directors requires disclosing the matters under the prevailing laws

**2. Auditor's Report**

**3. Audited Financial Reports**

Balance Sheet, Profit and Loss Account, and Case Flow Statement and related Schedules.

**4. Legal Proceedings**

Whereby following law-suit has been filed, the body corporate shall disclose the date when the case is filed, the issue pertaining in the case, the name of such promoter or director and possible legal outcomes of the legal proceedings

- a. A law-suit filed by or against the body corporate during the quarterly period
- b. A law-suit filed by or against the promoter or director of the body corporate involving statutory rules or criminal offence
- c. A law-suit, if any, filed against the promoter and director for committing economic crimes.

**5. Analysis of Stock Performance of the Body Corporate**

- a. Management's view on the performance of the stock of the body corporate in the Stock Exchange
- b. High, Low and Closing price of the stocks of the company during each quarter of the preceding year along with total volume of trading of shares and number of days traded.

**6. Problems and Challenges**

Require to clearly describing the problems and challenges faced by the body corporate, which should be classified into internal to the body corporate and external and the management's strategic preparedness to solve the problems and challenges.

**7. Corporate Governance**

Management's initiatives towards good corporate governance shall be described.

**Schedule 16**  
 (Related to Sub-clause (5) of Rule 26)  
 Report on Special Events or Circumstances

Serial No	Event Requiring Immediate Disclosure
1	Amendment to the bylaws of the Body Corporate
2	Entry into material business agreement
3	Termination of a material business agreement
4	Information on purchase /Sales of material assets
5	Information on creation of material obligation, guarantee or other contingent liability
6	Information related to exit from business
7	Information related to exit revaluation of assets
8	Changes in auditor of the body corporate
9	Any changes in the directors and principal officers of the body corporate
10	Changes in control of the body corporate
11	Changes in the pattern of ownership of share capital
12	Changes in the nature of business
13	Declaration of dividend or changes in capital structure
14	Material modification in the rights of shareholders
15	Shares issued in consideration
16	Law suit filed by or against the body corporate
17	Notices issued by the body corporate
18	Error found in the financial information declared previously
19	Change in address
20	Unable to operate business of liquidation
21	Decision to stop registration of transfer
22	Any abnormal event and its effect on the body corporate
23	Annual general meeting not held within the end of six months form the close of the financial year.
24	Notice of delisting of body corporate or failure to meet listing requirements
25	Any other event that is likely to materially impact the value of shares in the body corporate

**Explanatory notes:** The following information request to be included while submitting disclosures related to the special events or circumstances of the body corporate.

**1. Amendment to the Body Corporate Bye-laws**

Whereby a body corporate amends its Memorandum of Association, Articles of Association or any other byelaws it shall disclose information including the following

- (a) Effective date of the amendment
- (b) A body of the amendment details
- (c) Any other material information

**2. Entry into Material Business Agreement**

Whereby a body corporate enters into a material agreement, it shall disclose including the following information

- (a) Date of the agreement
- (b) Identity of the parties to the agreement
- (c) Important terms of the agreements
- (d) Submit a copy of the agreement and
- (e) Any other material information

**3. Entry into Material Business Agreement**

Whereby a body corporate enters into a material agreement, it shall disclose including the following information.

- (a) Date of the agreement
- (b) Identity of the parties to the agreement
- (c) Important terms of the agreement
- (d) Submit a copy of the agreement and
- (e) Any other material information

**4. Termination of a Material Business Agreement**

Whereby a body corporate terminates a material agreement, it shall include the following information in the disclosure

- (a) Date of termination of the agreement
- (b) Identity of the parties to the agreement
- (c) Brief description of the important terms of the agreement
- (d) Reason for the termination of the agreement
- (e) Description of any material penalties incurred by the body corporate due to early termination of the agreement
- (f) Any other material information

**5. Acquisition and Disposition of a Material Assets**

- (a) A copy of resolution for the purchase / sales of the assets
- (b) Date of completion of the transaction
- (c) A brief description of the assets involved

- (d) Identity of the person/entity from whom the assets were purchased or to whom the assets were sold, and description of any relationship of the body corporate or its director or high level officer with the seller/buyer
- (e) Description of any concession or rebate given or received while making the transaction
- (f) A copy of agreement, if any
- (g) Any other material information

**6. Description of Material Obligation, Guarantee or Contingency**

Whereby a body corporate is obligated to an obligation, guarantee or contingency that is material shall include the following information in the disclosure

- (a) Date on which the body corporate become obligated on the financial obligation
- (b) Brief description of the creation of obligation as mentioned in part (a), the agreement entered thereto, the amount of obligation and terms of payment
- (c) Any other material obligation

**7. Information on Exit or Disposal of Business**

- (a) An estimate to total amount expected to be incurred in connection with the exit or disposal of business
- (b) Any other material information

**8. Information related to the Revaluation of Assets**

- (a) Description of the asset to be revalued
- (b) A copy of the resolution for such revaluation and the date to the resolution
- (c) Rationale of the revaluation and mode of arriving at the revaluation figure
- (d) Book value of the asset before and after the revaluation
- (e) Any other material information

**9. Changes in the Body Corporate Auditor**

Whereby there is change in a Body Corporate Auditor, the following information shall be disclosed

- (a) Name and address of the previous auditor
- (b) Name, address and date of appointment of the new auditor
- (c) Reason for the change of the auditor
- (d) Any other material information

**10. Changes in the Body Corporate Director or Key Officers**

Whereby there are appointments or departures of the Body Corporate directors or high level managers, the following information shall be disclosed

- (a) Name and address of the directors and high level managers

- (b) Dates when the directors and the high level managers were appointed or when they departed
- (c) Any other material information

## **11. Changes in Control of the Body Corporate**

If the change in control of body corporate has occurred, the following information shall be disclosed

- (a) Identity of the person / entity who acquired such control
- (b) Date and description of the transaction which resulted in the change in control
- (c) Any other material information

## **12. Changes in Ownership and Capital Structure**

Whereby a single shareholder buys five percent or more of the total issued capital of the body corporate, the following information shall be disclosed

- (a) Name and address of the shareholder buying such shares
- (b) Number and amount of shares so purchased
- (c) Any other material information

## **13. Changes in the Nature of Business**

Whereby there is a proposal that affect the change in the nature of the business of a body corporate or its subsidiaries, sale of ownership by the body corporate in the subsidiary, fully or partially, or purchase of majority ownership of any other body corporate, the following details shall be disclosed

- (a) Nature of the change
- (b) Submit copy of the resolution for the acquisition or disposition of the ownership
- (c) Identity of the parties involved
- (d) Nature and amount of consideration given or received for the purchase or sale
- (e) Any other material information

## **14. Declaration of Dividend and Change In Capital Structure**

Whereby a body corporate declares final dividend, interim dividend, or allots rights shares, declares bonus shares, shall disclose the following information

- (a) Resolution of the Board of Director and date of such resolution
- (b) Any other material information

## **15. Material Modification of Rights of Shareholders**

If the rights of holders of any class of share of the body corporate have been materially modified, the following information shall be furnished

- (a) Date of the modification

- (b) Title of class of securities whose rights have been modified
- (c) The effect of such modification upon the rights of such shareholder
- (d) Any other material information

## **16. Shares Issued for Consideration**

Whereby shares have been issued to any one in the form of consideration other than cash, the following information shall be furnished

- (a) Identity of the party receiving the shares in the form of consideration
- (b) Description of assets/services against which the shares were issued
- (c) If there was any agreement related to the issue of share the date and main terms of the agreement
- (d) Cost of the assets/services

## **17. Lawsuit filed by or against the Body Corporate**

Whereby a law-suit has been filed by or against the body corporate, or by or against the promoters and directors involving violation of statutory rules or committing criminal offence, or cases initiated against the promoters or directors for economic offence, the details thereof. Information thus disclosed shall include the date of filing of the case, issue pertaining in the case and the name of such promoter or director, possible outcome of the case.

## **18. Information Issued by Body Corporate**

Whereby a body corporate issues any economic, financial, management and technical data, notice or information which can have an impact on the price of securities, shall furnish information including those mentioned below

- (a) Date of the issue of the information
- (b) Text of the information

## **19. Denouncement of Prior Financial Statements**

Whereby a body corporate concludes that any previously issued financial statements, covering one or more years or interim periods is no longer relied upon because of error in such financial statement, shall disclose the date of conclusion the prior issued statement are not reliable and brief description of facts underlying the conclusion.

## **20. Change in Address**

Whereby there is change in the registered address, telephone number fax number, main office or the office where the Securities Register is kept, the new address shall be disclosed.

## **21. Non-viable as Going Concern and Liquidation**

Events that lead the management to conclude that the going concern assumption of the body corporate is in question or the body corporate is being dissolved, the following information shall be furnished

- (a) The date of conclusion regarding such matters
- (b) Facts underlying such decision
- (c) The name an identification of the proceeding, if applicable

**22. Closure of Registration of Transfer**

Whereby the body corporate decides to close the book for the registration of transfer, transmission or renewal or consolidation or split of securities, the details including following information shall be disclosed

- (a) Decision regarding the closure of the registration of transfer date of application of such decision
- (b) Circumstances leading to such decision
- (c) The period for such closure

**23. Abnormal Events and Its Effect on the Body Corporate**

Whereby a body corporate has to close its business owing to natural calamities, accidents, lock-pus and any other abnormal factors, shall furnish information including the following

- (a) Date of closure of business due to such event
- (b) Main event leading to such closure
- (c) Period for such closure

**24. Annual General Meeting not held within six months from the close of financial year**

If the body corporate is unable to hold its Annual General Meeting within six months form the close of the financial year, disclose the circumstances for its inability of holding the meeting.

**25. Notice of delisting or failure to meet listing requirement**

Where the body corporate has been delisted by the Stock Exchange or where the Board Corporate has failed to meet the continuing listing requirements, shall require disclosing information including the following:

- (a) Date of delisting and name of the Stock Exchange
- (b) Reasons for being delisted or details of requirement which it has been unable of fulfill.
- (c) Management's views on such event

**26. Any Other Event that is Likely to Materially Impact the Value of Shares in the Body Corporate**

Any other event that is not covered above but is likely to materially impact the value of securities of the body corporate shall be disclose.

# **Commodities Exchange Market Rules, 2074 (2017)**

In exercise of the Powers conferred to Section 61 of the Commodities Exchange Markets Act 2074 (2017), with the approval of the Ministry of Finance, the Government of Nepal, the Board has framed the following Rules.

## **Chapter -1**

### **Preliminary**

1. **Short Title and Commencement:** (1) These Rules may be called "Commodities Exchange Market Rules, 2074 (2017).  
(2) These Rules shall come into force on 9<sup>th</sup> Mansir 2074.
2. **Definitions:** The subject or context otherwise requires in these Rules,-
  - (a) "A body corporate holding a license" means a body corporate holding a license pursuant to Rule 7.
  - (b) "Act" means the Commodities Exchange Market Act, 2074 (2017)
  - (c) "Member" means a person or a body corporate having obtained membership pursuant to the Commodities Exchange Markets By-laws.

## **Chapter-2**

### **Provision Related to Prior Approval**

3. **Application to Be Submitted for Prior Approval:** (1) Anyone wishing to incorporate a company to operate a commodities exchange market shall have to submit an application, along with Twenty Five Hundred Rupees, in the format set forth in Schedule-1 to the Board.  
(2) The particulars and documents pursuant to Schedule-2 shall be attached to the application submitted pursuant to sub-rule (2).  
(3) In cases where any change is occurred in the particulars submitted pursuant to sub rule (2) before granting prior approval, the applicant has to provide to the Board the information about changes in the particulars, if any.
4. **To Make Inquiry:** Whilst making an inquiry into the application filed pursuant to Rule 3, the Board may request additional documents and particulars, or cause to make clarifications on any subjects, when necessary.
5. **To Grant Prior Approval:** (1) The Board may grant prior approval to the applicant to incorporate a company having an objective of operating a commodities exchange market within thirty days from the date of receiving necessary particulars and documents following the deposition of Fifty Thousand

Rupees, if it is satisfied to do so after making an inquiry into the application filed pursuant to Rule 4.

(2) Notwithstanding anything contained in sub rule (1), the Board may refuse to grant prior approval on the following conditions:

- (a) In cases where it deems inappropriate to permit to operate an extra commodities exchange market based on the economic situation and activities of the country,
- (b) In cases where it deems unreasonable and inappropriate to permit to operate an extra commodities exchange market for the protection of investors' interests.

(3) If prior approval is not granted by the Board pursuant to sub rule (2), the same shall be informed to the applicant with reasons of rejection.

## **Chapter-3**

### **Provision Related to License**

**6. Application to Be Submitted for License:** (1) A body corporate wishing to obtain a license to operate any business referred to in Section 3 of the Act shall have to submit an application, along with fees referred to in Schedule-4, in the format set forth in Schedule-3 to the Board.

Provided, however, that a body corporate, who has obtained prior approval pursuant to Rule 5, can only submit an application for operation of commodities exchange market.

(2) Particulars and documents referred to in Schedule- 5 shall be attached to the application to be filed pursuant to sub rule (1).

**7. License to Be Granted:** (1) In cases where the Board deems necessary to grant a license for operation of a commodities exchange market, a commodities trading business, a clearing and settlement business or a warehouse following an inquiry into the application received pursuant to Rule 6, it may grant a license to the applicant in the format pursuant to Schedule-6.

(2) The Board may seek opinion of the commodities exchange market prior to granting a license to the commodities trading business, the clearing and settlement business, and the warehouse, when necessary.

(3) The Board may prescribe any other necessary terms in granting a license pursuant to sub rule (1) taking into view of the situation of commodities market, fair operation of business and protection of investors' interests.

**8. Renewal of License:** (1) A body corporate holding a license shall have to submit an application, along with fee referred to in Schedule-4, in the format set

forth in Schedule-7 to the Board within the period set forth in subsection (2) of Section 8 of the Act for renewal of its license.

(2) In cases where a body corporate holding a license is failed to submit application to renew its license, an application, along with twofold of renewal fee, in the format set forth in Schedule-8 may be submitted to the Board within the period set forth in subsection (3) of Section 8.

**9. Infrastructure to Be Ready:** (1) A body corporate holding a license shall have to get ready the following minimum infrastructure within one hundred eighty days from the date of receiving the license, and inform the same to the Board:

- (a) The electronic trading system to be used for operation of commodities trading,
- (b) Infrastructure set forth in Schedule-9,
- (c) Details of human resources prepared in the format as per Schedule-10,
- (d) Other infrastructure as prescribed by the Board from time to time.

**10. Permission to Operate Trading:** (1) The Board shall make necessary inspection and inquiry within fifteen days from the date of receiving the information about making ready of the infrastructure pursuant to Rule 9.

(2) The Board shall provide permission to run the trading, if satisfied to do so following the inspection and inquiry made pursuant to sub-rule (2).

(3) The body corporate holding a license shall have to appoint a compliance officer within thirty-five days from the date of receiving permission to run commodities trading pursuant to sub rule, (2) and inform the same to the Board accordingly.

**11. Minimum Paid-up Capital:** The minimum paid-up capital for a commodities trading, a clearing and settlement business and a warehouse shall be as set forth in Schedule-11.

## **Chapter-4**

### **Provision Related to Ownership of Share**

**12. Share Not to Be Held:** (1) In addition to provision set forth in subsection of Section 14 of the Act, the following person or a body corporate shall not be permitted to hold shares of a commodities exchange market:

- (a) Not filling income returns for the purpose of paying taxes pursuant to the prevailing law.

- (b) Not making public of audited financial statements of three consecutive years of a company and a body corporate that required making public,
- (c) During a period of blacklisting, if blacklisted by the Credit Information Center,
- (d) Holding a position of profit in other commodities trading companies,
- (e) Holding a position of director at the boards of directors or chief executive officer in such other companies or a body corporate restricted to own shares pursuant to the prevailing law.

(2) The person or a body corporate referred to in sub-rule (1) shall not be allowed to own the shares of the commodities trading business, the clearing and settlement business and the warehouse.

(3) If any person or a body corporate has owned shares against sub rule (1) and (2) in any manner, the Board shall issue an order to sell or transfer such shares to others within thirty-five days.

(4) If such shares are not sold or transferred within the period set forth in sub rule (3), the Board shall sale such shares by forfeiting them.

**13. Provision Related to Sale or Transfer of Forfeited Shares:** (1) The Board shall publish a maximum of 30-day-notice in order to sell the forfeited shares.

(2) If any person or a body corporate wishing to purchase such shares within a period set forth in sub rule (1) may submit his/her proposal with quoting a purchase price to the Board.

(3) Such shares shall be sold to the proponent quoting a highest price out of the proposals submitted pursuant to sub rule (2).

(4) The Board shall issue necessary directions regarding the transfer of ownerships or changing the names of shareholder of those shares sold pursuant to this Rule.

**14. Provision Related to Transfer Ownership of Share of Commodities Exchange Market:** (1) Promoters of a commodities exchange market shall not sell his/her shares up to three years from the date of receiving a license for its operation.

(2) If the promoters of the commodities exchange market wish to sell or transfer shares they own, an application to that effect shall be required to submit to the Board for its approval, along with service fee of one percent at the rate of

face value of such shares to be sold or transferred though the commodities exchange market.

(3) The Board shall provide its approval for sale or transfer of such shares by making necessary inquiry into the application filed pursuant to sub-rule (2).

**15. Provision Related to Strategic Partners of Commodities Exchange Market:**

(1) A foreign investor wishing to make investments as a strategic partner in a company operating a commodities exchange market pursuant to subsection (2) of Section 13 of the Act may hold maximum fifty-one percent shares of that company.

(2) The foreign investor having the following qualifications may make investments as a strategic partner pursuant to sub-rule (1):

- (a) Having minimum of three years' experience of operating a business relating to a commodities exchange market,
- (b) Having completed five years of obtaining a license to operate a commodities exchange market from the regulator of the country where it is seated and such license is remained valid to date.
- (c) Having owned a minimum net worth of One Billion Rupees of such company,
- (d) Having obtained permission from the regulator of the concerned country to make investments in a commodities exchange

**16. Provision Related to Shares of Commodities Exchange Market:** (1) No one can own more than five percent share of a commodities exchange market in his/her name or through a company in which his /her joint family member holds shares.

(2) The Board shall issue an order to sale or transfer of the shares to others within thirty-five days, if it is known to have held them in any manner against provisions set forth in sub-rule (2).

(3) If such shares are not sold or transferred in the period set forth in sub-rule (2), such shares are forfeited and sold by the Board pursuant to Rule 13.

**17. Provision Related to Transfer of Share Ownership of Commodities Traders:** (1) If shareholders of a commodities trading business, a clearing and settlement business or a warehouse wish to sale or transfer the shares they hold can sale or transfer to a person(s) or a body corporate having qualifications and not disqualified pursuant to these Rules.

(2) The shareholders of the commodities trading business, the clearing and settlement business and the warehouse shall not sale or transfer ownership of such shares for a period of three years from the date of receiving a license.

(3) If shareholders of the commodities trading business, the clearing and settlement business and the warehouse wish to sale or transfer the shares they hold shall have to submit an application, along with service fee at the rate of 0.5 percent of the face value of such shares, for its records to the Board, stating therein that the person(s) or a body corporate desiring to purchase or get transferred such shares have the qualifications and not disqualified pursuant to these Rules.

(4) The particulars and documents pursuant to Schedule -12 has to be attached to the application to be filed pursuant to sub-rule (3), including all information of boards of directors, where the applicant is a body corporate.

(5) The Board may ask to submit further particulars or documents or make clarifications thereto following the inquiry into the application and documents received pursuant to sub rule (4), when necessary.

(6) If the Board is satisfied based upon the inquiry made pursuant to sub rule (5) and the particulars and documents so received, it shall record the sale and transfer of such shares, and inform the same to the applicant accordingly.

(7) The sale and transfer of the shares shall be completed within thirty-five days from the date of receiving the notice pursuant to sub rule (7).

## Chapter-5

### Provision Related to Boards of Directors

18. **Provision Related to Boards of Directors:** (1) A company to be incorporated for carrying on a clearing and settlement business and a warehouse business shall, at maximum, have seven directors in the boards of directors.

(2) At least two independent directors having fulfilled the qualifications set forth in sub rule (4) shall be appointed as director in the boards of directors pursuant to sub rule (1)

(3) The directors to be elected or nominated in the boards pursuant to sub rule (1) shall not be shareholders of a commodities exchange market, or commodities trading business, or board directors, a chief executive officer or a person holding a position of profit in any entity holding shares thereto.

(4) In appointing an independent director pursuant to sub rule (2), he/she has to have bachelors' degree in economics, finance, accounting, management,

or law or chartered accountancy and five years of working experience in the respective field and not disqualified pursuant to Rule 20.

(5) The body corporate holding a license shall have to inform to the Board about the appointment of directors to the boards of directors within seven days following their appointment, including the details pursuant to Schedule -12.

**19. Appointment of Chief Executive Officer:** (1) Boards of director shall appoint a chief executive officer to function as administrative head.

(2) In appointing the chief executive officer pursuant to sub rule (1), a person having the qualifications of master degree in economics, finance, accounting, management, or law from a recognized university and five years of working experience in the respective field, and not disqualified pursuant to Rule 20 shall be appointed.

**20. Disqualification for Board Directors and Chief Executive Officer:**

Anyperson with the following conditions shall be considered disqualified to be a director to the boards of directors and a chief executive officer to a body corporate holding a license:

- (a) Mentally disordered person,
- (b) Not completed five years of being insolvent
- (c) ,Having convicted of corruption, money laundering, financial investment in terrorist activities, cheating, or crime involving moral turpitude by a final judgment of a court
- (d) Not having completed at least three years of setting free from the blacklist enlisted in connection with the transactions made with banks and financial institutions,
- (e) Not having paid income tax or being a director to the boards of directors or chief executive officers of a body corporate not submitted tax returns for the purpose of tax payment,
- (f) Being a director to the boards of directors, or chief executive officer to another body corporate with conflict of interest,
- (g) Being serving officials at any other commodities exchange market, the commodities trading business, the clearing and settlement and the warehouse,
- (h) Not having completed a period of ten years from the date of punishing in the securities related crimes.

**21. Meetings of Boards of Directors and Other Provision:** (1) The meetings of the boards of directors shall be held at least once in two months, and at least six times in one year.

(2) Notwithstanding anything contained in sub rule (1), a chairperson shall convene a meeting of the boards of directors at any time, if one third members of the board directors has requested in writing.

(3) A chairperson shall be elected by the boards of directors from among the directors.

(4) In the case of a commodities exchange market, no more than one director shall be represented in the boards of directors from the same company or corporate body.

(5) If any proposal having conflict of interest of any board director is to be discussed in board meetings, such director shall not be permitted to take part in such board meetings.

**22. Continuity of Qualifications:** (1) A body corporate holding a license shall get the board directors and chief executive officer's qualifications continual throughout the period of license.

(2) The Board shall issue an order to the boards of directors to remove any board director or executive officer from the position he/she holds at any time, if he/she does not hold required qualifications. '

(3) A board member or chief executive officer having the qualifications under these Rules shall be appointed to the respective post within thirty days from the date of receiving the order pursuant to sub rule (2) by removing the disqualified.

## **Chapter-6**

### **Provision Related to Trading**

**23. Commodities to Be Traded:** The commodities to be traded in accordance with these Rules shall be set forth in Schedule-13.

**24. Trading of Registered Contracts and Commodities:** (1) A commodities exchange market shall get the trading (options) contracts registered at the Board before trading the commodities stated in Rule 23.

(2) Matters such as the commodities' name, quantity, standard, duration of contracts, and a base price shall, at a minimum, be included in the contracts pursuant to sub rule (1).

(3) An application, along with service fee of 0.5 percent at the rate of the base price of commodities to be traded, in the format set forth in Schedule-14 shall be submitted to the Board to get commodities (options) contracts registered.

(4) The following particulars and documents shall be attached to the application to be filed pursuant to sub rule (3):

- (a) A proof issued by a warehouse or the concerned officials regarding name, quantity and standard of the commodities,
- (b) Decision of the boards of directors regarding registration of commodities (options) contracts,
- (c) Sources of base price taken in preparation of commodities (options) contracts,
- (d) Other particulars and documents as prescribed by the Board from time to time.

(5) The Board shall register the commodities (options) contracts and provide a proof to the commodities exchange market, if it deems appropriate after making inquiry into the contracts and documents submitted pursuant to sub rule (4).

**25. A List of Commodities (Options) Contracts to Be Prepared:** A commodities exchange market shall prepare a list of commodities (options) contracts registered at the Board for trading pursuant to Rule 24, and publish a public notice containing commencing and ending dates of such contracts and the same inform to the Board.

**26. Functions to Be Performed by Commodities Traders:** (1) Commodities brokers may provide broker services regarding sale and purchase of the commodities by the name of customers as per their orders.

(2) The commodities broker(s) shall have to obtain a license from the Board to perform other functions under these Rules, except sale and purchase of commodities by the name of investors (customers):

(3) The commodities dealers and market-makers shall perform the following functions:

- (a) To purchase and sale of commodities in his/her own name,
- (b) To function as a market-maker by quoting both purchase and sale prices of the commodities,
- (c) To perform other functions as prescribed by the Board from time to time.

(4) A commodities broker company shall not purchase or sale commodities for the own company itself, its boards' directors, chief executive officer, employees and members of a joint family.

(5) Notwithstanding anything contained elsewhere in these Rules, the Board may issue a license prescribing terms and conditions therein to

commodities traders or market-makers to undertake the commodities brokers' business or other businesses related to commodities, or the commodities brokers to carry out functions of commodities dealers or market-makers.

(6) The commodities traders in accordance with subsection (2) of Section 19 of the Act may perform the functions as set forth in the Guidelines to be made pursuant to Section 63 of the Act, in addition to those functions set forth in the Act and these Rules.

**27. Provision Related to Operation of Warehouse:** (1) A warehouse shall prepare its operation procedures and be provided to the Board within three days following its issuance.

(2) The following matters shall be included in its procedures to be issued pursuant to sub-rule (1):

- (a) Unit, quantity and standard of the commodities declared at the time of storage, and storage time, fee for storage, and settlement point,
- (b) Measures to be applied to maintaining standards of the commodities up to the time of handing over following their storage,
- (c) Other matters prescribed by the Board from time to time.

**28. Trading Process of Commodities:** (1) Any investor wishing to carry on commodities trading shall have to provide an order for sale and purchase of the commodities to commodities brokers.

(2) The commodities brokers shall have to enter the order for sale or purchase received pursuant to sub rule (1) into an electronic trading system.

(3) Notwithstanding anything contained in sub rule (2), in the case where there is a system to enter such order by investors/customers themselves through the commodities brokers, in that case the investors can participate in the sale or purchase of commodities on its own by entering the

(4) In cases where the order for sale or purchase is given by the investor itself pursuant to sub-rule (3), the responsibility of clearing and settlement, inter alia, of the order shall be laid on the commodities brokers.

(5) The clearing and settlement as well payment of the trading to be traded in a commodities exchange market shall be as set forth in its Bye-Laws.

**29. Priority of Commodities Trading:** A commodities exchange market shall carry on trading on a priority basis based on price and time.

- 30. Records of Investors' Identity to Be Kept:** Commodities brokers shall maintain full identity of individual or institutional customers pursuant to Schedules -15 and 16 respectively before carrying on trading for the investors.
- 31. Agreement to Be Made with Investors:** (1) Commodities brokers shall make an agreement with investors containing the following matters therein before carrying on trading for the purpose of Section 22 of the Act:
- (a) Trading margin,
  - (b) Clearing and settlement,
  - (c) Service fee to be charged for trading,
  - (d) Dispute resolution,
  - (e) Matters prescribed by the Board from time to time.
- (2) The commodities brokers shall inform to the investors about price fluctuation and potential risks to be occurred while trading the commodities before making agreement pursuant to sub-rule (1).
- 32. Payment to Be Made via Bank:** A body corporate holding a license shall use the banking channels in making payments for settlement of commodities trading and contracts.
- 33. Use of Amounts and Documents of Investors:** (1) Commodities brokers shall not use, cause to be used, the sum, things or documents obtained from investors for its own use or other investors purposes in any manner.
- (2) The commodities brokers shall handover the sum, things, or documents to the concerned parties obtained in connection with the commodities trading on the same day or tomorrow.
- (3) The commodities brokers shall maintain the records of each investor separately, showing clearly all details and amounts of each trading.
- 34. Additional Provision for Trading to Be Prescribed:** (1) The Board may prescribe necessary terms and conditions for commodities trading to be followed by a body corporate holding a license, in addition to those set forth in this Act and these Rules.

## **Chapter-7**

### **Provision Relating to Service and Regulation Fees**

- 35. Service Fees to Be Charged:** (1) A commodities exchange market may charge from its members service fees at the rate of 0.5 percent of trading price of the commodities.

(2) The commodities traders, clearing and settlement house and warehouse may charge service fees pursuant to the Bye-Laws for the related trading.

**36. Regulation Fees to Be Given to the Board:** (1) A body corporate shall make available trimesterly to the Board the sum equivalent to two percent of service fees it collects.

(2) The sum referred to in sub rule (1) shall be made available to the Board within seven days of ending each trimester.

(3) A commodities exchange market shall make available to the Board the sum as equivalent to at the rate of 0.001 percent of each trading, collecting from the investors.

(4) If a body corporate holding a license has failed to make available the sum pursuant to sub rules (2) and (3), the sum, together with the interest charged thereon at the rate of ten percent, shall be to be payable to the Board.

## **Chapter-8**

### **Provision Related to Records and Information**

**37. Records to Be Maintained:** (1) A body corporate holding a license shall have to maintain records of its trading carried on.

(2) A body corporate holding a license shall keep the accounts of its every transaction in a format prescribed by the prevailing law and accounting standards.

(3) A commodities exchange market shall maintain the following records properly and accurately:

- (a) Decision books of the General Meetings, the boards of directors, or any other committees, if formed,
- (b) Details related to its board directors,
- (c) Description of the commodities options contract,
- (d) Name, quantity, standard, and handover date of the commodities traded daily, including the price of the commodities (options) contract,
- (e) Particulars of commodities traders, clearing and settlement agents to be involved in the trading, and trading serial numbers.

(4) A body corporate holding a license shall maintain records in accordance with these Rules, including the records prescribed by the Board, from time to time.

(5) The Board shall conduct inspection and inquiry from time to time as to whether a body corporate has maintaining the records and accounts in accordance with these Rules

(6) It shall be the duty of a body corporate holding a license to make available the particulars and documents to the Board for inspection and inquiry to be conducted pursuant to sub rule (5), when necessary.

**38. Particulars and Report to Be Furnished:** (1) A body corporate holding a license shall have to submit a report containing the following information, particulars, and statements within the following period:

- (a) An annual report containing audited financial statements and the functions, activities and trading carried on within the preceding fiscal year following the ending of four months of the running fiscal year,
- (b) A trimester report passed by the boards of directors following the ending of each trimester period,
- (c) Proposals submitted to the General Meetings and decisions taken therein within thirty days from the date of ending such Meetings,
- (d) The decisions of a commodities exchange market on granting membership, suspension from its membership, set free from that suspension, or membership revocation, if any, within three days from the date of such decision taken,
- (e) Decisions taken regarding commencement of trading, clearing and settlement, supervision and disciplinary action, if any, by tomorrow,
- (f) Other information, notices, and particulars prescribed from time to time by the Board within the time as prescribed by it.

(2) The Commodities Exchange Market shall submit to the Board a semi-annual compliance report of the Act, these Rules, and Directives as well as orders given by the Board and its own Bye-laws certified by an auditor.

(3) A commodities exchange market shall immediately notify the Board regarding the following matters:

- (a) If known the fact that its members have acted any works or activities against the provisions of these Rules, directives, and its By-laws,
- (b) Trading suspension, setting free from such trading suspension, cancellation of listing, if any,

- (c) If any action has been taken against the promoters, directors, or chief executive officer, or enlisted in the blacklist,
- (d) Granting and cancellation of membership of a commodities exchange market, if any,
- (e) Changes in management and organizational structures of a commodities exchange market, if any.

(4) A commodities trading business, a clearing and settlement house and a warehouse shall be required to provide the following information and particulars to the Board within the following period:

- (a) Within three days, in cases where a branch office or liaison office is closed down,
- (b) Information along with amendment to the memorandum and articles of association, if amendment is required to make,
- (c) Other information and particulars prescribed by the Board from time to time,

(5) A body corporate holding a license shall be required to provide immediately the following information to the Board:

- (a) Address, contact telephone number, fax number, website, email etc. of the office, if changed,
- (b) If action is taken against any promoter, director, or chief executive officer or action is being initiated,
- (c) If any promoter, or director, or chief executive officer or trader is enlisted in the blacklist of the Credit Information Center,
- (d) If decision is taken to close down operation of commodities trading.

(6) The annual report submitted to the Board and the particulars to be made public pursuant to the prevailing law shall be posted on the website of the concerned entity.

**39. Investors to Be Informed:** (1) A commodities exchange market shall make public the following notice, information, and particulars within the following period:

- (a) If trading is suspended or resumed the suspended trading, as the case may be, be posted such information on its own website on the same day or by tomorrow before commencing the trading,
- (b) If membership is granted, or suspended or set free from such suspension, or cancelled, as the case may be, be posted such information on the same day or by tomorrow before commencing the

- trading, and notice with regard to membership cancellation shall also be published in a national newspaper within seven days of making such decision,
- (c) Description with regard to name of the commodities, price of each commodities (options) contract and quantity, commodities traders involved in the trading, serial number of trading, inter alia, shall be posted on its website on the same day or by tomorrow before commencing the trading,
  - (d) Other notice or information, as prescribed by the Board from time to time, shall be made public,
- 40. Format to Be Prescribed By the Board:** Except as otherwise provided for in the prevailing law, the format for records to be kept and report to be submitted in accordance with the Act and these Rules shall be as prescribed by the Board from time to time.
- 41. Accounts to Be Audited:** (1) A body corporate holding a license shall get its income, expenditure, and financial transactions audited by an auditor sanctioned by the Board.
- (2) The audit report to be prepared pursuant to sub-rule (1) shall be kept secured by a body corporate holding a license.
- Chapter-9**
- Procedures Related to Legal Action and Punishment**
- 42. Trading to Be Prevented:** (1) The Board may prevent a body corporate holding a license from carrying on trading of any or all commodities on the following grounds:
- (a) If the Act, these Rules, the directives or directions given by the Board are violated,
  - (b) If it deems necessary for the protection of investors' interests,
  - (c) If it deems necessary for maintaining fairness of a business.
- (2) The Board may prevent from carrying on trading for an appropriate period of time, when necessary.
- 43. Procedure Related to Suspension of License:** (1) Where a License of a corporate entity is required to be suspended pursuant to Section 34 of the Act, the Board shall provide a maximum of fifteen -day-notice in writing to such entity to submit its clarifications with reasons that suspension is not required, if any.

(2) Notwithstanding anything contained in the sub rule (1), the Board may suspend the license for a maximum period of six months at once if it is satisfied that the following conditions are prevalent:

- (a) If a commodities exchange market may be seriously impacted allowing to go for trading continuously without its suspension immediately,
- (b) If the interests of investors may be harmed or losses may be occurred being allowed to go for trading without its suspension immediately.

(3) The Board may suspend the license of a body corporate holding a license for a maximum period of one year, if clarification is not furnished by that entity in the given time, or appeared not satisfactory to the Board.

(4) The Board may, in suspending the license pursuant to sub rule (2), prescribe necessary terms to be fulfilled by the corporate body during the suspended period.

(5) The Board shall conduct necessary inquiry, if notified that the terms prescribed in suspending the license pursuant to sub- rule (3) are fulfilled.

(6) The Board may set free from such suspension at any time, if the terms are found fulfilled during the inquiry conducted pursuant to sub-rule (5).

(7) The Board may provide further three months' time to fulfill the terms prescribed pursuant to sub rule (3), if demanded by that corporate body.

(8) If the license is suspended or set free from suspension by the Board pursuant to this Rule, a notice to that effect shall be published by giving the same to the concerned entity immediately.

**44. Procedure to Revoke License:** (1) Where License of a body corporate is required to be revoked pursuant to subsection (2) of Section 35 of the Act; the Board shall provide a maximum of fifteen -day-notice in writing to that body corporate to submit its clarifications with reasons that revocation is not required.

(2) The Board may revoke the license of the corporate entity, if clarification is not furnished in the given time, or appeared not satisfactory to the Board.

(3) Notwithstanding anything contained in sub rule (2), if further time is demanded by the body corporate with commitment to rectify the causes for that the license was revoked, the Board may provide an appropriate time to do so, when necessary.

(4) The Board shall revoke the license of the corporate body, if failing to rectify the causes within the given time pursuant to sub-rule (3).

(5) A notice to revocation of the license shall be given to the concerned corporate body immediately, and also published in one national level daily newspaper, if the license is revoked by the Board in accordance with this Rule.

- 45. Impact of Suspension and Revocation:** (1) Any corporate body, whose license set suspended, shall not be permitted to carry on commodities trading throughout the suspension period of license.

Provided, however, that if trading of a certain category of commodities has only been suspended, in such situation no restriction shall be imposed to carry on trading of other commodities by the corporate body, except the suspended ones.

(2) The position of the corporate body shall be deemed to have remained in status quo during the suspension period.

(3) In cases where the license has been revoked, the corporate body shall not be permitted to carry on trading.

Provided, however, that the corporate body, whose license got suspended or revoked, shall not be immune from the liabilities created prior to suspension or revocation, as the case may be.

- 46. Procedure Related to Fines:** (1) The Board shall implore a body corporate holding a license to submit its statement of defense within a maximum period of fifteen days, stating therein reasons and basis of not requiring to impose fine, if any, prior to issuing an order to impose the fine.

(2) The Board shall impose fine to that corporate body pursuant to the Act; if clarifications have not been submitted in the given time or the clarifications so furnished did not appear satisfactory.

(3) If the Board so decides to impose fine, a notice in this regard shall be given to the concerned body corporate immediately.

(4) The fines amount(s) to be obtained to the Board shall be deposited into the Board's Fund.

- 47. Records of Action to Be Maintained:** (1) If any action is taken against a body corporate holding a license, records of that body corporate, its board directors, and the chief executive officer shall be kept with update.

## **Chapter-10**

### **Miscellaneous**

- 48. Related to Automated Electronic Trading System:** (1) In order to carry on trading, a commodities exchange market shall have to arrange an automated electronic trading system, ensuring business continuity without interruption.

(2) A commodities exchange market shall apply necessary security measures that all types of information and data of investors and trading shall not be misused or unauthorized access established.

(3) The security features of the automated electronic trading system to be installed by the commodities exchange market shall be as per the international standards

(4) A disaster recovery system shall have to be managed, in case of failure of the automated electronic trading system installed by the Commodities Exchange Market.

**49. Investors Protection Fund:** The following sum shall be deposited into the fund to be established pursuant to Section 17 of the Act:

- (a) The sum equivalent to three percent of profits earned annually by a commodities exchange market,
- (b) The sum to be made available by the Government of Nepal and the Board from time to time,
- (c) The sum equivalent to one percent of profits earned annually by the members of the Commodities Exchange Market,
- (d) The sum to be made available from other sources.

(2) The sum so deposited into the Fund shall be utilized to compensate investors that they may sustain harms resulting from the following systemic risks:

- (a) If trading system of a body corporate holding a license has broken down
- (b) ,If a body corporate holding a license has become insolvent,
- (c) If a body corporate holding a license has liquidated,
- (d) If other conditions determined as systemic risks by the Board from time to time have occurred,

(3) Notwithstanding anything contained in sub-rule (2), the profits to be earned from the sum so received pursuant to sub rule (1) shall be used for organizing investor's awareness programs, markets development and expansion, and other fields as determined by the Board from time to time.

(4) Other provisions related to operation of the Investors Protection Fund shall be as provided for in the By-laws of a commodities exchange market.

**50. Settlement Guarantee Fund:** (1) A commodities exchange market shall have to establish a Settlement Guarantee Fund to guarantee settlement of the trading to be traded therein.

(2) The operation and management as well as amounts to be deposited into the Fund shall be as prescribed for in the By-laws of the commodities exchange market.

**51. Matters to Be Mentioned in Agreement:** (1) At least the following matters, among others, shall be mentioned in an agreement to be entered into between a commodities exchange market and a clearing and settlement business in appointing a clearing and settlement agent pursuant to Section 25 of the Act:

- (a) Regarding clearing and settlement as provided for in the By-laws,
- (b) Acts to be carried out for the protection of investors,
- (c) Fees related to clearing and settlement,
- (d) Terms not changing the agreement without consent of the Board,
- (e) Other matters to be mentioned in the agreement as prescribed by the Board from time to time,

(2) The following matters among others shall be mentioned in the agreement to be entered into between the commodities exchange market and the warehouse pursuant to Section 27 of the Act:

- (a) Regarding storage capacity of the warehouse,
- (b) Regarding quality of commodities,
- (c) Regarding fees of warehouse,
- (d) Regarding the terms not changing the agreement without consent of the Board,
- (e) Other matters to be mentioned in the agreement as prescribed by the Board from time to time.

**52. Branch Office to Be Opened:** A body corporate holding a license may open its branch offices in any part of Nepal with the approval of the Board.

**53. Amendment in Memorandum and Articles of Association:** (1) A body corporate holding a license shall have to obtain prior approval from the Board to amend its By-laws, memorandum and articles of association.

(2) A body corporate holding a license shall have to submit an application.

(3) The Board may give permission to amend those documents after examining the necessity and rationale on the basis of the application filed pursuant to sub-rule (2).

**54. Related to Dispute Resolution:** If any dispute arises between the parties to the commodities (options) contract, it shall be settled by mutual consultations

between the parties or by arbitration as provided for in the By-laws of a commodities exchange markets.

55. **Matters to Be Included in the Bye-Laws:** Matters as referred to in Schedule-17 shall be included in the By-Laws to be framed by a body corporate holding a license pursuant to sub section (2) of Section 62 of the Act.
56. **Order to Be Given:** (1) The Board may, from time to time, give necessary orders to a commodities exchange market, commodities traders, and a clearing and settlement house for regulation of commodities markets and protection of the investors in accordance with the Act, these Rules and Directives.  
(2) A commodities exchange market may, from time to time, give orders to its members and clearing and settlement business.  
(3) It shall be the duty of the concerned commodities exchange market, the commodities traders, and the clearing and settlement agents to comply with the orders issued pursuant to sub rules (1) and (2).
57. **Powers to Make Changes in Schedule:** (1) The Board may make necessary changes or addition or deletion in the Schedules, when necessary.

**Schedule-1**  
(Related to sub-rule (1) of Rule 3)  
Format of Application to Be Given for Prior Approval

Date:.....

The Securities Board of Nepal  
.....

**Sub: Regarding Prior-Approval**

This application, along with application fee as well as necessary particulars and documents, is hereby submitted for obtaining prior-approval of incorporating a company with the following name in order to operate a commodities exchange market in accordance with the Commodities Exchange Market Act, 2074 (2017) and the Commodities Exchange Rules, 2074 (2017).

We hereby declare that the qualifications and provisions set forth for operation of the commodities exchange market have been fulfilled. Further, the particulars and documents attached to the application are true and correct and no any particulars are knowingly hide or exaggerated. We are therefore ready to bear the consequences in accordance with the law, if it is proved to have hid or wrongly presented any facts whatsoever.

Prospective Company's:

Name:

Address:

Directors'

Name & surname

signature

1.

2.

3.

## **Schedule-2**

(Related to sub-rule (2) of Rule3)

### **Particulars & Documents to be attached to Application to be filed for Prior Approval**

- a) Memorandum and Articles of Association,
- b) Feasibility Study Report and Business Plan, including projected financial statements of impending three fiscal years,
- c) A copy of agreement entered into between promoters to incorporate a commodities company, if any,
- d) Number of shares to be pledged by promoters, and self-declaration about sources of income,
- e) Information regarding shareholding or connection of the promoters in other companies , if any,
- f) Description regarding security of electronic trading system to be installed by the commodities exchange markets,
- g) A copy of the Act, and the Rules or bye-laws made there under, if established by a special act,
- h) A copy of decision taken by boards of directors of a corporate body regarding the purchase of shares of a company wishing to operate a commodities exchange market,
- i) Name, full address, contact telephone number, status of shareholding of prospective shareholders, and narrative of three generations, if shareholder is a natural person,
- j) A declaration that promoters are not disqualified to hold shares of a commodities exchange market pursuant to the Act, and these Rules.

**Schedule-3**  
(Related to sub-rule (1) of rule 3)  
Format of Application to Be Filed for License

Date:.....

The Securities Board of Nepal  
.....

**Sub: Regarding License**

This application, along with application fee as well as necessary particulars and documents, is hereby submitted for obtaining license in order to operate a commodities exchange market/commodities trading business/clearing and settlement business/warehouse in accordance with the Commodities Exchange Market Act, 2074 (2017) and the Commodities Exchange Rules, 2074 (2017).

We hereby declare that the qualifications and provisions prescribed for operation of the said business have been fulfilled. Particulars and documents attached to the application are true and correct, and no any particulars are knowingly concealed or exaggerated. We are ready to bear the consequences as per the law, if it is proved to have concealed or wrongly presented any facts whatsoever.

Seal of company:

Applicant's:

Name:

Address:

Head of company's

Name and surname:

Signature:

Date:

Seal of Company:

### **Schedule-4**

(Related to sub-rule (1) of Rule 6 and sub-rule (1) of  
Rule 8) Fees

<b>S.N</b>	<b>Business's Name</b>	<b>Application Fee</b>	<b>License Fee</b>	<b>Renewal Fee</b>
1	Commodities Exchange Market	Rs.25,000/	Rs. 25,00,000/	Rs.7,50,000/
2	Clearing & Settlement	Rs.20,000/	Rs.4,00,000/	Rs.1,20,000/
3	Warehouse	Rs.20,000/	Rs.5,00,000/	Rs. 1,50,000/
4	Market-maker	Rs. 20,000/	Rs.4,00,000/	Rs. 1,20,000/
5	Investment Portfolio	Rs. 15,000/	Rs.3,00,000/	Rs.90,000/
6	Investment Consultant	Rs. 15,000/	Rs.3,00,000/	Rs.90,000/
7	Custodian	Rs. 15,000/	Rs.3,00,000/	Rs.90,000/
8	Commodities Broker	Rs. 15,000/	Rs.3,00,000/	Rs.90,000/
9	Commodities Trading Dealer	Rs. 15,000/	Rs.3,00,000/	Rs.90,000/

**Schedule-5**  
Related to sub-rule (2) of Rule 6  
Details about Company

**1. Related to a Commodities Exchange Markets:**

- a) Letter of prior approval,
- b) A copy of registration certification of a body corporate,
- c) Copies of Memorandum and Articles of Association,
- d) Copies of the act, rules and by-laws, in cases where a body corporate is established by a special act,
- e) A self-declaration that the company or a body corporate is not enlisted in the black list of the Credit Information Center,
- f) Legal action taken or is being initiated against the company, or a body corporate or its board directors, or chief executive officers, if any,
- g) Tax Registration Certificate,
- h) Details about qualifications and experience of directors and their self-declaration holding qualifications pursuant to the Act and these Rules, and not disqualified by the law,
- i) A brief description about provisions to be applied on granting membership, operation of a commodities trading, a clearing and settlement house,
- j) Provision regarding record keeping of commodities trading and protection of the same,
- k) Provisions regarding the automated trading and clearing and settlement system, office equipment and technology to be used for operation of a commodities trading,
- l) Description regarding a maximum number of commodities brokers and commodities dealers to which membership may be provided,

**2. Related to commodities traders, a clearing and settlement business and aware house:**

- a) A copy of registration certificate,
- b) Copies of Memorandum and Articles of Association,
- c) Copies of the act, rules and by-laws, in the case where a body corporate is established by a special act,
- d) A report of feasibility study,
- e) A three-year-business plan incorporating the impending three years' projected financial statements,

- f) A copy of the decision of the boards of directors on obtaining a license,
- g) Name, full address, telephone number of a person holding ownership of shares, and details of shareholding,
- h) Details regarding shareholding or to be held by promoters, and payment of the shares, and a self-declaration about sources of investment,
- i) Details regarding the organization and working methods to be prepared for operation of a commodities business,
- j) Details regarding office location and area, communications equipment, human resources, record keeping of commodities trading and their protection to be managed for operation of the commodities trading,
- k) Details regarding any infrastructure prepared ready for operation of commodities trading, if any,
- l) Details regarding shareholding of any company or a body corporate, if any,
- m) A copy of agreement entered into between shareholders, if any,
- n) Tax registration certificate in accordance with the prevailing law,
- o) Proof certifying paid-up capital,
- p) Details about the qualifications and experience of directors, and their self-declaration about having qualifications pursuant to the Act and these Rules, and not disqualified by the law,
- q) A self-declaration about not enlisted in the black list of the Credit Information Center.

**Schedule-6**  
(Relating to sub-rule (1) of Rule 7)

**The securities Board of Nepal**

....., Nepal.

**License**

This certificate is hereby granted to ..... having its main office in .....to operate ..... business in accordance with the Commodities Exchange Act, 2074(2017) and the Commodities Exchange Rules, 2074(2017). This certificate shall remain valid up to ..... except its renewal.

Officer's

Signature:

Name:

Designation:

Date:

**Schedule-7**  
(Relating to sub rule (1) of Rule 8)  
Application for Renewal of License

Date.....

The Securities Board of Nepal,

.....

**Ref: Regarding Renewal of License**

The application, along with renewal fee and necessary documents and particulars, is submitted for renewal of license operating a commodities exchange market/commodities trading business..... /clearing and settlement business/warehouse in accordance with the Commodities Exchange Act 2074(2017) and the Commodities Exchange Rules, 2074(2017).

Seal of the applicant's company:

Of the applicant company:-

Name:

Address

Of the applicant company:-

Name:

Signature:

Designation:

**Schedule-8**  
(Relating to sub-rule (2) of Rule 8)  
Application for renewal of License

Date.....

**The Securities Board of Nepal,**  
.....

**Ref: Regarding Renewal of License**

whereas, the License was to get renewed but being deferred to do so, that this application, along with twofold renewal fee, necessary documents and particulars, is submitted for renewal of license operating a commodities exchange market/commodities trading business ..... /clearing and settlement business/ warehouse in accordance with the Commodities Exchange Act, 2074(2017) and the Commodities Exchange Rules, 2074(2017).

Seal of the applicant's company:

of the applicant's company:-

Name:

Address

Of the applicant company:-

Name:

Signature:

Designation:

**Schedule-9**  
**(Related to clause (b) of Rule 9)**

**1. Infrastructure required to operate a commodities exchange market:**

- a) Having space (area) of two thousand square foot for the office,
- b) Having managed employees with required numbers and qualifications,
- c) Having installed an automated trading and clearing system, office equipment, and technology at a trading place made ready for operation of commodities trading,
- d) Having made sufficient provisions for necessary security for the trading system of a commodities exchange market, relevant technology, and data,
- e) Having arranged provisions for record keeping of commodities trading and protection of such records,
- f) Having managed telephone, computers, printers, fax, chairs, table including physical logistics, g) Having established an office accessible to the general public.

**2. Infrastructure to be arranged by commodities traders:**

- a) Having arranged space (area) of six hundred square foot for an office,
- b) Having managed telephone, computers, printers, fax, chairs, table including physical logistics,
- c) Having managed the employees with required numbers and qualifications,
- d) Having managed organizational structure and work division,
- e) Having established the office accessible to the general public.

**3. Infrastructure to be arranged by the clearing and settlement traders:**

- a) Having arranged space (area) of one thousand square foot for the office,
- b) Having managed telephone, computers, printers, fax, chairs, table including physical logistics,
- c) Having managed employees with required numbers and qualifications,
- d) Having managed organizational structure and work division,
- e) Having established an office accessible to the general public.

**4. Infrastructure to be arranged by a warehouse:**

- a) Having arranged sufficient space (area) for the operation of business,
- b) Having managed telephone, computers, printers, fax, chairs, table including physical logistics,

- c) Having managed the employees with required numbers and qualifications,
- d) Having managed organizational structure and work division,
- e) Having established an office accessible to the general public,
- f) Having managed a warehouse to store commodities,
- g) Having set a warehouse suitable to store commodities to be safe and sound from environmental point of view.

**Schedule-10**  
(Related to clause (c) of Rule 9)  
Description Related to Human Resources

S. N.	Full Name	Address	Appointment Date	Position	Job Responsibility	Educational Qualification

**Schedule-11**  
(Related to Rule 11)

**Minimum Paid-up Capital**

<b>S.N.</b>	<b>Business</b>	<b>Minimum Paid-up Capital</b>
1	Warehouse	Rs. 150,000,000/
2	Clearing and settlement	Rs. 700,000,000/
3	Market-maker	Rs. 200,000,000/
4	Investment Portfolio	Rs. 500,000,000/
5	Investment consultant	Rs. 100,000,000/
6	Custodian	Rs. 500,000,000/
7	Commodities trading dealer	Rs 100,000,000/
8	Commodities broker	Rs 50,000,000/

## Schedule-12

(Related to sub-rule (4) of Rule 17, sub-rule (5) of  
Rule 18, sub-rule (3) of Rule 19)

### Description related to person/ directors/chief executive officer

- |  |   |
|--|---|
| 1. Name:   | Photo   |
| 2. Permanent address   | .....state, .....<br>District.....Municipality/Village,..... Tole,<br>..... Ward No.....Block No.                                       |
| Phone No.....  | Fax NO.....Email .....  |
| 3. Current address   | .....state, ..... District.....<br>Municipality/Village,..... Tole, ..... Ward No.....Block No.<br>Phone No..... Fax NO.....Email ..... |
| 4. Father/mother's name:   |   |
| 5. Grandfather/grandmother's name:   |   |
| 6. Spouse's name:  |   |
| 7. Educational qualifications:   |   |
| 8. Professional experience:  |   |
| 9. Training:   |   |
| 10. Details of taking up a position of profit in other company or a body corporate, if any:  |   |
| 11. Details about relationships with other board directors or chief executive officer of a commodities exchange market, if any:  |   |
| 12. Details about relationships with other board directors or chief executive officer of a commodities trading business, if any:   |   |
| 13. Details about any legal action taken or being initiated against oneself or any company or a body corporate involving therein, if any:  |   |
| 14. A self-declaration about having fulfilled required qualifications to be board director/chief executive officer of a commodities exchange market, and not disqualified there for. |   |

Signature .....

### **Documents to be attached:**

1. Proof of tax payment of preceding fiscal year,
2. Copies of documents certifying the qualifications, experience, and involvement in other organization, if any;

**Schedule-13**  
**(Related to Rule 23)**

**Commodities to be traded**

- a) Agricultural produces: Cotton, Cardamom, Cumin Seeds, Chili, Black Pepper, Cashew nuts, Areca nuts, Food grains, Red gram, Corn (Maize), Wheat, Rice, Potato, Fenugreek (Methi) , Mustard Seed, Soybean, Flax Seed (Aalash), Buck Wheat, Sugarcane, Tobacco, Jute, Ginger, Turmeric, Fruits, and Juice made there from.
- b) Metals: Aluminum, Copper, lead, Nickel, Tin, Cobalt, Steel, Zinc.
- c) Precious: Gold, Silver, Platinum.
- d) Natural & Mineral Oil: Crude oil, petroleum products, natural gas, heating oil.
- e) Oil: Coconut Oil, Palm Oil, Mustard Oil, Soybeans Oil, Sun Flower Oil, Rapeseed Oil,
- f) Others: Sugar, Jaggery (Gud), Tea, Coffee, Eggs, Herbs/ Aromatic Plants,

**Schedule-14**  
(Related sub-rule (3) of Rule 24)

**Format of Application for Registration of Commodities Options Contracts**

**The Securities of Board of Nepal,**

.....

**Ref: Regarding Registration of Commodities (Options) Contract**

This application, along with contract registration fee and the following particulars, is hereby submitted to get registered commodities (options) contracts to be executed by the name of ..... (Commodities exchange market) to carry on commodities trading in accordance with the Commodities Exchange Markets Act, 2074 (2017) and the Commodities Exchange Rules, 2074(2017).

Seal of the company:

Of the Head of Applicant Company:

Name:

Address:

Of the Applicant Company:

Name:

Signature:

Designation:

**Documents to be attached:**

1. Decision of the Boards of Directors taken to register contracts,
2. Price and quantity of the commodities contained in the contracts,
3. Previously registered contracts for the commodities contained in the contracts, if any:
4. Certified copies of contracts.

**Schedule-15**  
**(Related to Rule 30)**

**Details of Investors (individual)**

1. Full Name and Surname:
2. Spouse's name, including three generation's details:
3. Permanent address (necessary documents certifying address to be included: a copy of citizenship certificate, a copy of passport, receipt of paying bills of water or electricity, map prepared by an employee visiting on the spot, if necessary, a copy of the voter's electoral rolls, or a copy of land registration certification)
4. Temporary address:
5. Date of Birth:
6. Telephone number, if any:
7. Number of citizenship certificate or passport (number and details)  
(Citizenship certificate number is a must for Nepali citizenship)
8. A copy of identity card, if worked in the service of the Government of Nepal or a body corporate:
9. Recently taken passport sized photograph
10. Permanent Account Number, if any:
11. Correspondent bank and account number:
12. Other necessary documents (as may be prescribed by a company)

**Schedule-16**  
**(Related to Rule 30)**  
**Details of Investors' Identity (Organization)**

1. Companies' name:
2. Place to be seated head office:
3. Full address(telephone number/fax):
4. A copy of certificate of incorporation and formation, and copies of memorandum and articles of association containing objectives of a company:
5. Name, address, telephone number, including three generation's narrative of the boards of directors:
6. Photograph of members of the boards of directors, except listed companies:
7. Power of attorney given by the boards of directors to a chief executive officer and other officers regarding trading:
8. Permanent Account Number:
9. Other necessary documents (as prescribed by the company itself):

**Schedule-17**  
**(Related to Rule 55)**  
**Matters to Be Incorporated into Bye-Laws**

1. A Commodities Exchange Market shall have to include the following matters in its By-Laws with regard to commodities (options) contracts, and trading as well as listing of commodities:
  - a) Provision related to listing of commodities contracts, and suspension, revocation and re-enlisting of such contracts,
  - b) Provision related to classification of commodities , if made,
  - c) Provision related to records keeping of commodities contracts,
  - d) Provision related to establishment and operation of the Investor Protection Fund,
  - e) Provision related to resolution of disputes between parties to trading,
  - f) Other matters as prescribed by the Board from time to time,
2. A Commodities Exchange Market shall have to include the following matters in its By-laws related to membership:
  - a) Provision regarding types of membership, and functions, duties and powers of members,
  - b) Provision related to granting membership, its suspension and revocation,
  - c) Fees related to membership, and its renewal,
  - d) Provision related to monitoring and inspection of members,
  - e) Provision & procedures related to legal action to be taken against members of the commodities traders, if violated the Commodities Exchange Market Act, 2074 (2017), the Commodities Exchange Rules, 2074(2017), Directives and By-Laws,
  - f) Provision related to details about buyer and seller of commodities to be maintained by members,
  - g) Provision related to grievances handling and resolution disputes to be arisen regarding commodities trading,
  - h) Other matters as prescribed by the Board from time to time.
3. The Commodities Exchange Market shall have to include the following matters in it's by- laws related to commodities trading:
  - a) Provision related to operation of trading, including identity of purchaser and seller of the commodities in the commodities exchange market including orders to be given for trading,
  - b) Provision related to records of purchasers, sellers and trading of commodities, and systematic and secured record keeping thereto,
  - c) Provision related to orders given by purchaser or seller and making of commodities contracts, their continuity and transfer, and other matters,

- d) Provision regarding determining minimum/maximum price and cut-off-point of trading in any day or period for carrying on trading of any commodity,
  - e) Provision related to service fees to be charged and trading margin to be kept by traders,
  - f) Provision related to applying measures to reduce speculations in commodities trading contracts,
  - g) Provision related to monitoring of commodities trading,
  - h) Provision about applying circuit breaker in trading of commodities,
  - i) Provision related to regular dissemination of information of commodities exchange market and its trading,
  - j) Provision related to compliance of commodities contracts
  - k) Provision related to trading of contracts for different commodities, if any,
  - l) Provision related to receipt, information and notice required to be provided to its members about commodities trading,
  - m) Provision related to performance security to be provided before commencing trading by its members,
  - n) Provision related to reference price to be taken for determining contract price of commodities,
  - o) Other matters as prescribed by the Board from time to time.
4. A Clearing and Settlement Business shall have to include the following matters in its By-laws:
- a) Provision related to clearing and settlement of commodities trading Contracts,
  - b) Provision related to determining a minimum/maximum price and Cut-off-point of trading in any day or period of any commodity,
  - c) Provision related to grievance handling and resolution of disputes to be arisen with regard to commodities trading,
  - d) Provision related to regular dissemination of information about its trading,
  - e) Provision related to compliance of contracts, and legal action to be taken against commodities traders, and clearing and settlement agents,
  - f) Provision related to agreement to be enter into with clearing and settlement agents as well as service fees,
  - g) Provision related to the Settlement Guarantee Fund,
  - h) Other matters as prescribed by the Board from time to time.
5. Commodities traders and a warehouse shall have to include those matters in their By-laws as prescribed by the Board from time to time.

## **Securities Listing and Trading Rules 2018 (2075)**

In exercise of the powers conferred by section 116 of the Securities Act 2063 (2006), the Securities Board of Nepal hereby makes the following rules, namely: -

### **Chapter-1**

#### **Preliminary**

1. **Short title and Commencement:** (1) These rules may be called "Securities Listing and Trading Rules, 2075 (2018)." (2) They shall come into force on the date as indicated by the Board.
2. **Definitions:** In these rules, unless the subject or context otherwise requires: -
  - (a) "Act" means the Securities Act 2063 (2006)
  - (b) "Trading system" means an automated electronic trading system set up by a stock market pursuant to rule 12 to carry on securities' trading;
  - (c) "Customer" means a person to tender an order to sale and purchase of securities or obtain any services on sale and purchase of securities;
  - (d) "Board" means the Securities Board of Nepal established pursuant to section 3 of the Act;
  - (e) "Stock broker" means a body corporate or company licensed by the Board as a stock broker;
  - (f) "Merchant Banker" means a body corporate or company licensed by the Board as a merchant banker or market maker;
  - (g) "Stock exchange" means a body corporate licensed by the Board to operate stock exchange;
  - (h) "Clearing and Settlement" means an act of getting securities upon paying money and vice-versa involved in trading thereof;
  - (i) "Bye-Laws" means the Securities listing and trading bye-laws made by a stock exchange;
  - (j) "Listed body corporate" means a body corporate whose securities are listed on a stock exchange.

### **Chapter-2**

#### **Listing, Suspension and Cancellation of Securities**

3. **Securities to be Listed:** (1) A body corporate wishing to carry on trading of securities through stock exchange shall get the same listed on the respective stock exchange.

(2) A body corporate shall make an application to the Board to get securities listed as per sub-rule (1) within seven days from the endorsement date of prospectus for public offering, and the same shall be communicated to the Board.

(3) Documents and particulars as referred to in bye-laws shall be accompanied with the application made pursuant to sub-rule (2).

4. **Qualifications required for Listing of Securities:** (1) Qualifications of a body corporate wishing to get securities listed pursuant to rule 3 shall be as follows: -

- (a) a body corporate having registered at the Board;
- (b) having issued securities publicly;
- (c) having fulfilled qualifications referred to in bye-laws;

(2) Notwithstanding anything contained elsewhere in these rules, a stock exchange, with approval of the Board, may make a separate provision about the listing of government bond.

5. **Listing Agreement to be Made:** (1) A body corporate shall enter into a listing agreement with a stock exchange to get securities listed in accordance with these rules.

(2) The following particulars shall be stated in the listing agreement as referred to in sub-rule (1): -

- (a) detailed particulars about a body corporate and securities to be listed thereon;
- (b) provision about submission of sensitive information and notice connected to price and trading of securities to the Board;
- (c) provision about dissemination of financial and other information, notice and particulars of a body corporate;
- (d) commitment to comply with provisions about corporate governance issued by the Board;
- (e) other particulars prescribed from time to time by the Board.

6. **Classification of listed body corporate:** A stock exchange shall, on the following basis, make classification of listed body corporate in "A", "B", "G" and "Z" class:

- (a) paid-up capital;
- (b) period for listing of securities;
- (c) distribution of dividend;
- (d) rating made by a credit rating agency;
- (e) whether financial statements are prepared in a format as prescribed by a regulatory agency;
- (f) whether general meetings are held on scheduled time.

**7. Listing may be suspended:** A stock exchange may suspend listing of securities of a body corporate on any of the following conditions:

- (a) having failed to make payment of listing fee as referred to in rule 5;
- (b) having failed to furnish sensitive information and notice connected to price as well as trading of securities within timeframe as referred to in agreement;
- (c) having furnished wrong information to the stock exchange or changed thereof from time to time.
- (d) having failed to furnish annual and semi-annual reports in a given time.

(2) The Board may issue direction to the stock exchange to suspend listing of securities of a body corporate to protect the interest and maintain the fairness of the market, if it deems fit doing so.

(3) The stock exchange shall provide a notice stating therein reasons of suspension to the concerned body corporate upon suspending the listing of securities due to any reasons as referred to in sub-rules (1) and (2).

(4) Upon suspending the listing of securities due to any reasons as referred to in sub-rules (1) and (2) by the stock exchange, a notice thereof shall be communicated to the Board at once or prior to commencing following day's trading.

**8. Voluntary Suspension of Listing:** (1) A body corporate wishing to suspend listing of securities voluntarily shall make an application to the concerned stock exchange and a notice thereof shall be communicated to the Board.

(2) The following conditions shall be met by a body corporate prior to making the application pursuant to sub-rule (2):

- (a) having held the general meeting;
- (b) having consented to a decision on voluntary suspension of the listing of securities by at least ninety percent of shareholders present in the general meeting as referred to in clause (a);
- (c) having made a decision with regard to purchase price and procedure thereof to purchase the securities by promoters of a body corporate owned by them who voted against the voluntary suspension of the securities in the general meeting as referred to in clause (a);
- (d) having purchased at least fifty-one percent of the shares who stayed absent in the general meeting as referred to in clause (a);
- (e) having carried out due diligent audit of assets and liabilities.

(3) Voluntary suspension of securities shall be made upon making necessary inquiry into the application made pursuant to sub-rule (2), if deemed fit.

(4) A notice on voluntary suspension of securities shall be communicated to the Board and investors at once.

**9. Delisting of securities may be made:** (1) A stock exchange may delist of securities of a body corporate on any of the following conditions: -

- (a) delist securities of a merging body corporate where two corporate bodies have been merged;
- (b) delist securities of the then body corporate where listing of a new corporate body established by way of merging already listed body corporates is made;
- (c) delist securities of a body corporate having ownership of government of Nepal, if requested by a concerned agency;
- (d) delist securities of a body corporate liquidated or received the same notice thereof;
- (e) delist securities of a body corporate that kept suspended by a stock exchange for a period of two years continuously by way of failing to pay annual listing fee;
- (f) delist securities as directed to a stock exchange if a body corporate has not complied with orders or directions issued by the Board.

(2) If securities of a body corporate kept delisted pursuant to sub-rule (1), the same shall be made public at once and a notice thereof be also published in at least two national level daily newspapers.

(3) Board of directors, chief executive officer or a post equivalent thereof working in a body corporate that went liquidated pursuant to clauses (e) and (f) of sub-rule (1) shall be regarded as disqualified for a period of three years from the date of liquidation to hold the same posts in any organization to be licensed by the Board or a body corporate whose securities are kept registered thereon.

**10. Re-listing may be made:** Securities may be re-listed of other corporate bodies except those whose securities kept delisted as referred to in clauses (a), (b), (c), and (d) of sub-rule (1) of rule 9.

Provided that securities of a body corporate shall not be re-listed until the completion of one-year period from the delisting date thereof.

**11. Application may be made to the Board:** (1) Where a stock exchange decided to reject or delist or suspend the listing of securities of a body corporate, it can make an application to the Board within 35 days from the receipt of such notice or information if not satisfied with.

(2) The Board shall have to make decision within sixty days upon making inquiry into the application made pursuant to sub-rule (1).

## Chapter-3

### Trading of Securities

**12. Trading system:** (1) A stock exchange shall have to establish an automated electronic trading system to carry on securities trading.

(2) Trading based on price time priority shall be made in the trading system as referred to in sub-rule (1).

**Clarification:** For the purpose of this rule "price time priority" means a system giving first priority to an order quoting higher price for purchase and lower price for selling while processing the selling and purchasing orders by the trading system, provided that priority shall be given to a first order as per the time recorded in the system in the case of same price quoted.

(3) The stock exchange shall get its system audited in every two years, and a report thereof shall be communicated to the Board.

(4) The Board may get the system audited by an expert if not satisfied with the report as referred to in sub-rule (3). Cost to be required to carry out the audit in such a manner shall be borne by the concerned stock exchange.

(5) The Board may issue necessary directions if it is revealed to do so from the audit carried out pursuant to sub-rule (4).

(6) Stock brokers as well as customers thereof shall carry on their securities trading via the trading system.

(7) The stock exchange shall make security arrangements for its trading system in line with the international standards.

(8) The stock exchange shall make necessary arrangements for disaster recovery of the trading system.

**13. Purchase and sale order:** (1) Anyone, wishing to purchase or sale securities, shall give an order to a stock broker to that effect.

(2) The order to be given pursuant to sub-rule (1) shall accompany at least the following information:

- (a) clear identification of a person giving the order;
- (b) a body corporate wishing to trade securities, types of securities, numbers, price and time;
- (c) matters on purchase or sale for what the order is given;
- (d) other matters as prescribed by the Board.

**14. Order to be received:** (1) A stock broker shall carry on securities trading upon receiving an order from customers as referred to in rule 13 only.

(2) The stock broker may make facility to receive the order via electronic means.

(3) The stock broker shall maintain records of customer's identification (k y c), price as well as numbers of securities, including other necessary matters connected thereto.

(4) The stock broker shall make entries of the orders to the trading system once received the same pursuant to sub-rules (1) and (2).

(5) The stock broker shall held accountable for the records entries pursuant to sub-rule (3).

**15. Price variation limit:** (1) A stock exchange shall limit each day's fix price variation on the following basis:

- (a) difference between initial trading price and subsequent thereof;
- (b) difference between the price at a closing time of a previous day's trading and next day's opening time;
- (c) initial trading price fixed while re-trading of those securities whose trading was kept halted for sixty days continuously;
- (d) price to be fixed based on trading time and price.

(2) Notwithstanding anything contained in sub-rule (1), the stock exchange may make a separate provision in respect of price variation limit in the case of trading to be commenced after sojourn of entry and strike-off of securities for a listed body corporate or trading of securities thereof whose securities went untraded for a period of more than sixty days.

(3) The stock exchange shall make necessary facility in the trading system in respect of price variation limit as referred to in sub-rules (1) and (2).

**16. Number of securities trading may be prescribed:** (1) The stock exchange may prescribe minimum and maximum numbers of securities to be traded by publishing a notice in prior.

(2) A trading to have traded in a trading system shall not, in general, be cancelled.

**17. Trading to be made via stock broker:** (1) A stock broker shall make entries of necessary particulars to the trading system to carry on trading.

(2) The stock broker shall make changes in a price and numbers of securities as per an order of a customer. In so doing, such order shall be treated afresh and trading shall be carried on accordingly in the trading system based on price time priority.

(3) The stock broker shall undertake purchase and sale of securities on behalf of a customer.

- (4) The stock exchange may make necessary arrangements that customers can make entry their order via electronic means by way of the stock broker.
18. **Trading to be made through merchant banker:** (1) A merchant banker may carry on trading on its own by making entry of purchasing and selling price.
- (2) Maximum numbers of securities and amounts to be purchased and invested by the stock broker shall be as prescribed by the Board from time to time.
- (3) The Board may, in considering the condition of stock exchange, grant approval to take on functions of stock broker by a customer or vice-versa.
19. **Provision regarding circuit breaker:** (1) A stock exchange shall make necessary arrangements to apply circuit breaker as it deems necessary.
- (2) The Board may issue necessary direction to the stock exchange to make necessary changes in respect of circuit breaker as referred to in sub-rule (1).
20. **Transaction to be made through bank:** (1) Payment shall be made through banking channel by all involved in trading of securities.
- (2) The stock broker shall open a bank account for trading of securities in a bank nominated by the stock exchange or clearing and settlement agency.
- (3) Payment as referred to in sub-rule (1) shall be made via account payee cheque or from one bank account to another.
- (4) Notwithstanding anything contained in these rules elsewhere, a bank account to be used by a stock broker shall not be used for other purposes except the transaction of securities.
21. **Trading of securities may be suspended:** (1) A stock exchange may, by giving a notice to the Board, suspend operation of trading system for the time being owing to occurrence of natural disaster, national crisis, or condition beyond control.
- (2) The stock exchange may suspend trading of securities temporarily, with a prior approval of the Board, if the stock exchange deems necessary and appropriate to do so in order to protect the interests of investors or keep the confidence of general public intact towards its trading system.
- (3) Notwithstanding anything contained in sub-rules (1) and (2), the stock exchange may suspend trading of securities of any listed body corporate temporarily if it has failed to furnish notice, information, particulars or report required to do so, and a notice with reasons therefor shall be given to the listed body corporate.
- (4) A notice and information as referred to in sub-rules (1) and (2) shall be given to the Board at once.
22. **Consequences of suspension of trading:** A stock broker shall not be allowed to undertake trading of securities during the suspension period except clearing and settlement for the trading made prior to such suspension.

23. **External trading of securities may be made:** Notwithstanding anything contained elsewhere in these rules, external trading of securities may be made in the case of bulk or block trading of securities of a listed body corporate.
24. **External trading fee:** A stock exchange may levy trading fee against a facility provided for external trading at a rate of not exceeding 0.2 (zero-point two percent) of trading price of securities as referred to in bye-laws.

## Chapter-4

### Clearing and Settlement of Trading

25. **Clearing and settlement of trading:** (1) A customer making trading of securities in a stock exchange shall make clearing and settlement of its own trading.
- (2) A stock broker shall make necessary arrangements for clearing and settlement in respect of securities or amounts connected with customers pursuant to sub-rule (1) within a prescribed time.
- (3) The stock exchange shall preclude a merchant banker to undertake trading at once in the case of having failed to make clearing and settlement for securities or amounts pursuant to sub-rule (2).
26. **Responsibility of clearing and settlement:** (1) Responsibility of clearing and settlement for the trading of securities shall contingent upon a clearing and settlement agency established by a stock exchange.
- (2) The Board shall cause clearing and settlement by giving necessary direction to a merchant banker connected to the trading or a clearing and settlement agency where clearing and settlement has not been done as per the clearing and settlement provision prescribed.
27. **Clearing and settlement fund to be created:** (1) A stock exchange shall compulsorily establish a clearing and settlement fund for a trading therefor.
- (2) The stock exchange shall cause the fund as referred to in sub-rule (1) to make clearing and settlement and remit the amount with the interest thereon from the concerned merchant banker and get it deposited to the fund.
- (3) The stock exchange, clearing and settlement agency and stock broker shall deposit to the fund pursuant to sub-rule (1) the amount at the rate of 0.5 (zero point five) out of their net profit of each for a first- five year and 0.25 (zero point two five) percent thereof after the subsequent years.
- (4) The Board may make changes from time to time in respect of the amounts to be deposited pursuant to sub-rule (3) taking into consideration of the amounts deposited thereto and condition of securities trading.
- (5) The earnings to be accrued from the amounts of the fund as per this rule shall retain therein.
- (6) The stock exchange shall, with the consent of the Board, make bye-laws with regard to operation and utilization of the fund as referred to in sub-rule (1) and implement accordingly.

**28. Clearing and settlement to be made through netting system:** (1) Clearing and settlement may be made through netting system for trading of securities.

(2) The netting system shall be as stated in the bye-laws of the clearing and settlement agency.

**Clarification:** For the purpose of this rule "netting system" means a clearing and settlement system to make payment of different amounts between the total purchasing and selling prices of trading made by merchant bankers each day.

## **Chapter-5**

### **Transfer of Listed Securities**

**29. Transfer to be made:** (1) A listed body corporate shall transfer the securities to the purchaser's names following their clearing and settlement.

(2) A central depository service providing agency shall undertake necessary works with regard to non-material securities to be transferred as referred to in sub-rule (1).

**30. Other transfer except trading:** (1) In addition to conditions as referred to in rule 29, listed securities shall be transferred to on the following conditions:

- (a) to transfer in the name of successor following the death of securities holder,
- (b) to transfer in the name of inheritor following the partition,
- (c) to transfer from one member to another of a joint family.

(2) Transfer to be made as referred to in sub-rule (1) shall be as prescribed in bye-laws of the central depository service providing agency.

**31. Transfer of non-material securities:** Other provision with regard to transfer of non-material securities shall be as prescribed in the prevailing regulation and bye-laws related to central depository service.

## **Chapter-6**

### **Provision regarding Government Bond**

**32. Listing of government bond:** A stock exchange shall make listing of government bonds to make them tradable and communicate the same to the Board.

**33. Provision regarding clearing and settlement of trading and certificate:** (1) A merchant banker shall make clearing and settlement of trading by submitting a stock exchange the amount of trading, certificate of government bond, entry and write-off certificate, purchase's deed, and other necessary particulars and documents in the same day of trading within the time as prescribed by the stock exchange.

(2) The stock exchange shall make clearing and settlement following the receipt of the particulars and documents as referred to in sub-rule (1) and maintain the records of the same, and trading of government bond shall be attested for the transfer of such bond's certificate if needed.

- (3) Other provision on clearing and settlement of government bond shall be as prescribed in the bye-laws of government bond.
34. **Records to be maintained on trading:** (1) A stock broker shall maintain records in a registry regarding a purchase and sale order received from a customer for trading of government bond with registration number, received date and time.
- (2) The stock broker shall maintain the records of the particulars, customers trading government bond and particulars connected to its own ownership.
- Chapter-7**  
**Miscellaneous**
35. **Inspection and supervision of trading:** (1) A stock exchange shall set up an electronic surveillance system for the supervision of trading of securities.
- (2) The stock exchange shall carryout a trimestral supervision whether the stock brokers have complied with the prevailing securities related laws and furnish a report connected therewith to Board within fifteen days following the completion of the same.
36. **Preclude to trade:** (1) A stock exchange shall preclude a stock broker to undertake trading of securities on any of the following grounds:
- (a) If the stock broker has carried on trading without receiving an order from a customer;
  - (b) If the stock broker has carried on trading beyond the limit as prescribed by the stock exchange compared to the guarantee amount provided thereto;
  - (c) If the stock broker has carried on trading by the name of its own board of directors, chief executive officer, staffs or any members of its joint family;
  - (d) If the stock broker has not complied with the prevailing laws related to securities.
- (2) Information with regard to precluding trading of securities shall be provided to the Board at once.
37. **Regulatory fee to be paid:** (1) A stock exchange shall deposit the Board the amounts at the rate of one percent out of the fees collected in one month pursuant to the securities related prevailing law within ten days following the elapse of the preceding month.
- (2) If the stock broker has delayed in depositing the fees as referred to in sub-rule (1), additional fee shall be levied thereon at the rate of ten percent per annum, calculating on daily basis.

- 38. To be as per bye-law:** (1) Other provisions with regard to listing fee of securities, format of agreement and particulars, classification of listed body corporate, listing, liquidation, and re-listing, trading unit and broad unit, price fixation procedure, time and place for trading, purchase and sale order, trading operation procedure and price variation limit shall as prescribed in bye-laws.
- (2) Other provisions with regard to trading of bond at secondary market, listing of bond, time and place of trading, purchase and sale order, trading unit, price variation limit, clearing and settlement of trading, notice to be provided to customers, and receipt of purchase shall be as prescribed in bye-laws.
- (3) The stock exchange shall make necessary provisions with regard to the provisions as referred to in sub-rule (2) as directed by the Board from time to time seeing the condition of bond market.
- (4) The Board's approval shall be required to obtain on the bye-laws to be made pursuant to these rules by the stock exchange or central depository agency.
- 39. Records of action to be maintained:** (1) The Board shall maintain records of action to be taken against the stock brokers and customers thereto on charges of failing to comply with the securities related laws, order and direction issued by the Board.
- (2) Particulars regarding violation of law, direction or order shall be stated in the records to be maintained pursuant to sub-rule (1).
- (3) The Board may notify the information as referred to in sub-rule (2) to other regulatory agency or make public from time to time.
- (4) The Board may restrict the company, a body corporate, or any person, or any company incorporated in the records as referred to in sub-rule (1).
- 40. Notice to be provided by the Stock Exchange:** The stock exchange shall publish a notice for keeping investors informed with regard to listing of securities, its suspension, delisting or re-listing at once or the following day and communicate the same to the Board.
- 41. To have in accordance with these rules:** The provisions as provided in these rules shall be applicable accordingly.
- 42. Repeal and saving:** (1) The Securities Listing Rules, 2050 is hereby repealed.
- (2) Anything done or any action taken as per these rules as referred to in sub-rule (1) shall be deemed to have been done or taken as these rules.

## **Specialized Investment Fund Rules, 2075 (2019)**

In exercise of the powers conferred by section 116 of the Securities Act, 2063 (2006); the Securities Board of Nepal, with the consent of Government of Nepal, hereby makes the following Rules; namely:

### **Chapter-1**

#### **Preliminary**

1. **Short Title and Commencement:** (1) These Rules may be called "the Specialized Investment Fund Rules, 2075 (2019)".  
(2) It shall come into force on such date as the Securities Board of Nepal may appoint.
2. **Definitions:** In these Rules, the subject or context otherwise requires, -
  - (a) "Unit" means a unit of securities to be issued under a fund;
  - (b) "Unit holder" means an eligible investor having mentioned his/her name in a registration book with ownership in one or more than one unit of a fund;
  - (c) "Act" means the Securities Act, 2063 (2006);
  - (d) "Credit Information Center" means the Credit Information Center established in accordance with the prevailing law;
  - (e) "Fund Manager" means a fund manager having the objectives as referred to in rule 3 to manage a specialized investment fund;
  - (f) "Registration Book" means a registration book along with details of units or unit holders of a fund;
  - (g) "Certificate of registration" means an approval granted by the Board to set up and operate a fund manager or specialized investment fund;
  - (h) "Rate" means rate on investments made by a fund, including annual dividend therein;
  - (i) "Capital call" means a call made by a fund manager to make payment, in full or partial of, the amounts committed by investors of a fund to purchase the units;
  - (j) "Committed amounts" means total committed amounts offered by eligible investors for making investment in a fund or scheme during the calling time of capital by the fund;

- (k) "Prospectus" means a prospectus prepared in accordance with rule 24 for offering units of a fund to sale;
- (l) "Fund" means private equities, venture capital, hedge fund, or other specialized investment fund of similar nature registered in accordance with rule 14;
- (m) "Board" means the Securities Board of Nepal constituted in accordance with section 3 of the Act;
- (n) "Amount eligible for investments" means amounts remained by deducting administrative and managerial cost of a fund;
- (o) "Investment agreement" means an agreement entered into between a fund manager and investors setting out fund management procedure in detail, and it also includes subscription agreement, investment management agreement, and other major documents or agreements pertaining to formation of other relevant funds;
- (p) "Investment committee" means a committee constituted as per a constitution to make investment pursuant to investment policy;
- (q) "Constitution" means a document pertaining to the establishment and operation of a fund;
- (r) "Instrument pertaining to capital holdings" means fully or in partial convertible shares or redeemable preference shares, or convertible types of securities;
- (s) "Hurdle rate" means projected annual profit rate to be accrued in investment made in a fund as stated in a constitution.

## **Chapter-2**

### **Approval for Fund Manager**

3. **Approval to be Obtained for Fund Manager:** (1) Anyone wishing to establish and operate a fund shall have to obtain approval for a fund manager from the Board.

Provided that in the case of the fund manager having been operated obtaining approval from Government of Nepal or having been registered with the Office of Companies Register prior to coming into force of these Rules, such fund manager has to submit an application to obtain approval for the fund manager within six months from the commencement date thereof.

(2) Anyone wishing to obtain approval for the fund manager shall have to submit an application to the Board in a format as prescribed in sechedule 1 along with fees as referred to in sechedule-2.

- (3) Documents and particulars as set forth in schedule-3 has to be attached along with the application pursuant to sub-rule (2).
4. **Approval to be Provided:** (1) The Board shall grant a certificate of registration of fund manager to the applicant in a format as prescribed in schedule-4 within 35 days after making necessary inquiry if it deems necessary to do so.
- (2) The Board may prescribe other terms and conditions in granting approval in accordance with sub-rule (1), if deemed necessary.
- (3) If it appears inapt to grant approval for the fund manager, a notice to that effect shall be communicated.
5. **Provision regarding Annual Fees:** (1) A fund manager shall have to pay annual fees as referred to in schedule-2 to the Board within three months following the passage of each fiscal year.
- (2) The Board may suspend approval for the fund manager failing to pay the annual fees pursuant to sub-rule (1).
6. **Functions, Duties and Powers of Fund Manager:** (1) Functions, duties and powers of a fund manager shall be as follows:
- (a) To work in the interest of unit holders as per notices, circulars, directives, or directions issued restricting to get undue advantage by a fund manager itself or any other person affiliated thereto,
  - (b) To carry out fund related transactions in a free and fair manner,
  - (c) To ensure that a fund manager, board of director, chief executive officer, employee, and member of investments committee has no any kind of financial interest in an organization to be invested in,

Provided that if there appears any kind of financial interest, a resolution along with all information regarding investment shall be passed by annual general meetings of unit holders. A notice to that effect shall be communicated to the Board within seven days following the passage of the said resolution.
  - (d) To ensure the customer's identification and other necessary documents,
  - (e) To provide information about risks and profits to unit holders,
  - (f) To make procedure pertaining to investment and fund management, and implement or cause to be implemented the same
  - (g) To make its employees' code of conduct and implement or cause to be implemented the same,
  - (h) To ensure that investment has been made in the interest of unit holders,
  - (i) To maintain records of accounts, reports, documents and particulars pertaining to investments,

- (j) To provide reasonable time to eligible investors to make payments by providing a two-week prior written notice while calling capital from the eligible investors,
- (k) To prepare financial details of a fund as per the accounting standards within six months following the end of each fiscal year of the fund manager and the fund,
- (l) To conduct annual general meetings of unit holders within six months following the end of each fiscal year.

### **Chapter-3**

#### **Provision pertaining to Fund Manager, Board of Directors and Chief Executive Officer**

- 7. **Qualifications of Fund Manager:** (1) qualifications of a fund manager shall be as follows:
  - (a) To be a body corporate constituted pursuant to the prevailing law,
  - (b) To have mentioned fund manager as function in the objectives of memorandum of association and articles of association,
  - (c) To have paid-up capital at least 2 crore rupees,
  - (d) No fund manager, its board of directors or chief executive officer has been convicted of a crime of cheating or embezzlement,
  - (e) No board of directors, or chief executive officer has been convicted of a crime of moral turpitude,
  - (f) The fund managers failing to make necessary arrangements for trading of securities who have collected monies from the general public through the public offering of securities, vanishing companies, delisted companies, or the fund manager or chief executive officer or board of directors failing to furnish such information, notice or particulars as required by the prevailing law, and booked their names by the Board therefor,
  - (g) No board of directors or chief executive officer should have been booked in a black list maintained by the Credit Information Center, and no action taken against them in the violation of law by a regulatory agency, or two years completed if action taken therefor.
- 8. **Appointment of Board of Directors and Chief Executive Officer:** A fund manager shall appoint board of directors and chief executive officer having the qualifications under these rules.

9. **Board of Directors:** (1) There shall be one board of directors consisting of minimum 5 and maximum 7 directors in any fund manager.  
(2) At least one independent board director shall be appointed by board of directors among the persons having the qualifications and experiences pursuant to rule 11.
10. **Qualifications of Board of Directors:** one having at least five years of work experience in the field of industries, commerce, stock market or financial sector accounting, or finance or commercial law or management after holding at least master's degree from any recognized university in economics, commerce, finance, accounts, management, or commercial law streams shall be considered qualified.
11. **Qualifications of Independent Board of Director:** The qualifications for an independent board of director are as follows:
- (a) One having five years of work experience after holding master's degree in economics, commerce, finance, management, or commercial law streams, or
  - (b) One having at least ten years of experience in the field of industries, commerce, stock market or financial sector's accounting, finance, or commercial law or management after holding bachelor's degree from any recognized university in economics, commerce, finance, accounting, management, or commercial law or chartered accountancy, or chartered financial analyst, or the equivalent thereof,
  - (c) Not having direct or indirect ownership in a company of fund manager.
12. **Qualifications for Chief Executive Officer:** qualifications for chief executive officer are as follows:
- (a) One having ten years of work experience in the field of industries, stock market, or financial sector accounting, or finance, or commercial law, or management after holding master's degree in economics, commerce, finance, management, or commercial law streams, or
  - (b) One having fifteen years of work experience in the field of industries, stock market, or financial sector accounting, or finance, or commercial law, or management after holding bachelor's degree in economics, commerce, finance, management, or commercial law streams.
13. **Disqualifications for Board of Directors or Chief Executive Officer:** No one can be a board of director or chief executive officer on the following grounds:
- (a) Having insolvent inside or outside Nepal;

- (b) Have not completed at least three years from the date of being cleared from the black list or defaulter's list in connection with transactions with banks or financial institutions inside or outside Nepal;
- (c) Have not completed ten years from date of being penalized in theft, cheating, forgery, corruption, or criminal offense of moral turpitude, or banking offense inside or outside Nepal.

## **Chapter-4**

### **Registration and Operation of Fund**

14. **Registration and Public Offering of Fund:** (1) Anyone wishing to operate a fund pursuant to this rule has to register with the Board.

(2) While registering the fund in accordance with sub-rule (1), any of the following funds may be registered:

- (a) private equity fund;
- (b) venture capital fund;
- (c) hedge fund;
- (d) other funds as prescribed by the Board from time to time.

**Explanation:** for the purpose of this rule, -

- (1) "private equity fund" means a fund injecting initial equity, or other instruments related to equity, or making investments as per the desire of partners of a company;
  - (2) "venture capital fund" means the funds whose securities are at the initial phase of operation and not listed with stock exchange market, or a fund making equity investments as a form of capital in the business related to innovative knowledge, skills, or competency or new goods, services, technology, or intellectual property;
  - (3) "hedge fund" means a fund established to make investments in any sectors with high risks.
- (3) Notwithstanding anything contained in sub-rule (2), such fund may be registered within six months following the coming into force of these rules in the case of the fund being operated after obtaining approval from government or registered in accordance with the prevailing law and falls under the definition of the specialized fund under these rules.

(4) An application has to be submitted to the Board in a format as prescribed in schedule-5 along with the fees set forth in schedule-2 to register the fund and issue the unit thereof pursuant to sub-rule (1).

(5) Particulars and documents as set forth in schedule- 6 shall have to be attached with the application pursuant to sub-rule (4).

(6) Upon making necessary inquiry into application filed pursuant to sub-rule (4), the Board shall issue a fund registration and issuance certificate to the applicant in a format as prescribed in schedule-7 if it deems necessary to do so.

(7) The fund shall have to issue units to targeted investors via circular or personal contact method in order to collect money after getting the registration and issuance certificate pursuant to sub-rule (6).

(8) The fund shall have to complete the issuance of units within two months starting such activity within three months from the date of getting approval from the Board to do so.

(9) Notwithstanding anything contained elsewhere in these rules, the fund may issue units as a loan to international organizations, a body corporate or multilateral corporate investor. Time and installments of payment for the units issued to the said organizations shall be made in the constitution of the fund and collected accordingly.

**15. Minimum Provisions to be Mentioned in Constitution of Fund:** (1) The following minimum provisions shall be mentioned in constitution of a fund:

- (a) Name of a fund;
- (b) Types of the fund (private equity, venture capital fund, hedge fund, or any other);
- ((c)) Size of and period of the fund;
- (d) Details of investors making commitments to invest at least ten percent money for the promotion of the fund;
- (e) Provision regarding the operation of fund, records keeping and audit;
- (f) Details regarding targeted areas of the fund and investment procedures;
- (g) Provision regarding projected profits to be accrued in the investments;
- (h) Provision regarding repatriation of investments;
- (i) Provision regarding dispute resolution procedure;
- (j) provision regarding hurdle rates;
- (k) Provision regarding fund management fees;
- (l) Provision regarding fund's winding up;
- (m) Other particulars to be prescribed by the Board from time to time.

**16. Minimum Standards to Register Fund:** The following minimum standard shall have to be fulfilled to register a fund:

- (a) Having the fund's capital at least Fifteen Crore Rupees;

- (b) Holding at least two percent shares of the fund by a fund management and having a provision that the two percent shares shall stand continually;
  - Provided that such provision shall not be applied in the case of investments made by bilateral or multilateral international agencies.
- (c) Having a provision that unit holders' number shall not exceed two hundred;
- (d) Having the closed -ended in nature;
- (e) Having a provision to provide cash dividend only to unit holders;
- (f) Having a provision allowing unit holders to purchase units up to Fifty Lakh Rupees.

**17. Rejection to Register Fund:** (1) The Board may reject to register a fund on the following grounds:

- (a) Not completed registration procedures as referred to in rule 14;
- (b) Not mentioned minimum matters in the constitution as referred to in rule 15;
- (c) Not completed minimum standards as referred to in rule 16;
- (d) If the fund cannot be operated due to securities market conditions, its viability, and investors' interests.

(2) In doing so pursuant to sub-rule (1), clear reasons and grounds shall have to be communicated.

**18. Liability and Powers:** (1) Liability of unit holders of a fund shall stand limited up to the units they subscribe.

(2) The unit holders shall have the right to vote in general meetings of the unit holders, get profits as well as repatriate the investments based on the units of the fund subscribed.

**19. Period of the Fund:** A period of the fund shall be from five up to fifteen years, and such period shall also be mentioned in an investment agreement.

**20. Termination of Fund:** (1) A fund shall be terminated on the following grounds:

- (a) If a period given by the Board has been completed;
- (b) If approval given by the Board to operate Fund has been cancelled;
- (c) If Board has issued directions to wind up the fund being satisfied that it cannot be operated further owing to arising unavoidable circumstances or financial crisis;

(2) The fund manager shall have to provide information in writing to the unit holders prior to termination of the period of fund.

(3) The fund manager may terminate the fund, if a resolution to that effect has been passed by annual general meetings of the unit holders, representing seventy-five percent capital and fifty percent of the unit holders of the fund.

(4) Following the termination of the fund, the fund manager shall have to settle down all liabilities of the fund by converting all types of property into cash, and remaining amounts shall be reimbursed to the unit holders as provided for in the investment agreements. A notice regarding settlement of all liabilities of the fund, including reimbursement to the unit holders shall be communicated to the Board within three days following the completion.

**21. Provision regarding Fees:** (1) A fund manager may levy fund management fee as provided for in investment agreement for the purpose of managing a fund.

(2) In addition to the fee as referred to in sub-rule (1), the fund manager may also levy additional fee on annual net profit as provided for in the investment agreement if the fund has been able to make profit more than hurdle rate limit as provided for in its constitution.

(3) In levying the fee pursuant to sub-rule (1), such fee has to be collected in a trimestral basis or within one month following the lapse of each fiscal.

(4) The fund manager shall have to deposit the Board ten percent money out of the service fee collected during each fiscal year within two months.

Provided that if such fee has not been deposited in a given time, an additional charge at the rate of ten percent per annum calculating on daily basis shall also be paid to the Board.

## **Chapter-5**

### **Provision regarding Investments**

**22. Eligible Investors:** The following a body corporate or individual may make investments in a fund after calculating investment risks and profits:

- (a) Bank or financial institution;
- (b) Insurance companies;
- (c) Funds such as pension fund, welfare fund, provident fund, Citizen investment fund as recognized by the prevailing law;
- (d) Bilateral or multilateral international corporate investors;
- (e) A body corporate with an objective of making investments established in Nepal pursuant to the prevailing law;
- (f) Nepali citizen or non-resident Nepali;
- (g) Other entities or individual as prescribed by the Board from time to time.

- 23. Agreement to be Made:** (1) A fund manager shall enter into agreement with eligible investors regarding the investments.
- (2) The following matters shall be included in the investments agreement to be entered into between the fund manager and eligible investors.
- (a) Amount and period to be invested;
  - (b) Projected profit on investments;
  - (c) Procedures regarding reimbursement;
  - (d) Dispute Resolution Procedure
  - (e) Provision of hurdle rate;
  - (f) Details regarding fund management fees;
  - (g) Expenditure headings of the fund;
  - (h) Provision regarding issuance of units and phase wise collection of money therefor;
  - (i) Provision regarding settlement of all liabilities of the fund and distribute the remaining amounts to unit holders by converting all types of property into cash following its winding up.

- 24. Provision regarding Investments:** (1) A fund manager may make investments of its money in those companies or businesses as provided for in the investments agreement except prohibited by the prevailing law.
- (2) Investment areas shall be mentioned in a prospectus as referred to in sub-rule (1).
- (3) The fund manager shall have to prepare prospectus in a format as prescribed in schedule-8 in order to sale units of a fund.
- (4) Notwithstanding anything contained in sub-rule (1), the fund established to make investments in certain areas has to invest in those areas only.
- 25. Limitation for Investment:** Investment of fund amount shall be as accordingly with constitution and agreement.

## **Chapter-6**

### **Accounts, Records and Particulars**

- 26. Accounts to be Kept:** A fund manager shall have to keep accounts of its transactions in format and procedures as prescribed by the prevailing law.
- 27. Financial Statement to be Prepared:** A fund manager shall have to prepare its own and fund's financial statements separately.
- 28. Auditor and Audit:** (1) A fund manager shall appoint auditors having passed the chartered accountancy or examinations equivalent thereof recognized by Nepal Chartered Accountacy Organization to audit its and fund's accounts.

(2) The fund manager shall cause to be carried out its and fund's accounts auditing by separate auditors.

(3) The auditors so appointed shall carry out auditing of the accounts of the fund manager and the fund in accordance with the prevailing principles, law and standards.

(4) The auditor shall have to prepare a report illustrating all works, functions, accounts statements and financial condition of the fund manager and the fund after completing the audits.

(5) In addition to the matters to be stated in the audit report in accordance with the prevailing law, the following matters shall be included in the audit reports pursuant to sub-rule (4)

- (a) Whether accounts have been kept in accordance with the prevailing acts, rules and standards related to accounts;
- (b) Particulars regarding the works carried out against the interests of unit holders, if any;
- (c) Whether the fund manager has performed the works as per the constitution of the fund and investments agreement;
- (d) Whether amounts of the fund have been invested in accordance with these rules and investment procedure of the fund;
- (e) Other matters and suggestions as the auditor deem necessary to keep unit holders informed.

29. **Request may be Made to Take Action against Auditor:** If it is found that audit of the accounts of a fund manager and fund has been carried out against these rules and the prevailing law by any auditor, the Board may request the Nepal Chartered Accountants Organization to take action against such auditor(s).

30. **Inspection may be Made:** The Board or any person appointed by it may inspect accounts and records maintained by a fund manager in regard to a fund.

31. **Annual Report to be Submitted:** (1) A fund manager shall have to submit its annual report to the Board comprising its and the fund's audited financial statements and works and activities carried out in each fiscal year within six months from the date of the elapse of the preceding fiscal year.

(2) Summary financial statements of the report pursuant to sub-rule (1) shall be provided to unit holders via electronic means.

(3) The fund manager shall convene annual general meetings of unit holders in each fiscal year from the date of the elapse of the preceding fiscal year. A report of such annual general meetings shall be submitted to the Board within 30 days following the holding of such annual general meetings.

32. **Information and Particulars to be Provided:** (1) A fund manager shall have to provide the following information and particulars to the Board:

- (a) A copy of amendment made to the memorandum of association and articles of association within 15 days, if amended;
  - (b) A copy of information along with particulars of new board of directors or chief executive officer pursuant to schedule-9, if appointed, within 15 days in doing so;
  - (c) A copy of information regarding black listing of promoters, board of directors, chief executive officer by the Credit Information Center at once;
  - (d) Other notice, information and details as prescribed by the Board from time to time within a period as indicated by the Board.
- (2) If any notice, information or particulars has been demanded, the fund manager shall have to provide the same with seven days from such request.

33. **Records to be Kept Safe:** Records of the documents regarding establishment and operation of a fund, particulars about properties and liabilities under the fund, evaluation policy and practices, decisions and strategies of an investment committee, information regarding the amounts collected via issuance of units and unit holders, accounts of the fund, annual report, financial statement, investment made by the fund and other documents as deemed necessary by the fund manager shall be kept safely at least five years if fund has been winded up.

## Chapter-7

### Miscellaneous

34. **Provision regarding Lock-in Period:** Notwithstanding anything contained in the Securities Registration and Issuance Rules, 2073 in regard to lock-in period of other categories of securities; the lock-in period of securities under the ownership of a fund shall be one year from the allotment date of units.

35. **Provision regarding Hedge Fund Operation:** (1) Notwithstanding anything contained in these rules, the Board may make directives regarding operation of hedge fund.

(2) The hedge fund cannot be registered and operated until the commencement of the directives as referred to in sub-rule (1).

36. **Directives may be Issued:** (1) The Board may make necessary directives for the implementation of these rules.

(2) It shall be the duty of all concerned to comply with the directives issued in accordance with sub-rule (1).

37. **Alteration to Schedule:** The Board may make alteration to schedules as it deems necessary.

**Schedule-1**  
(related to sub-rule (2) of rule 3)  
Format of Application to Register Fund Manager

Date:

To the Securities Board of Nepal

.....

**Ref: Regarding Registration of Fund Manager**

Sir,

The application is hereby submitted along with the following documents and particulars as well as Rs..... as a fee to obtain approval to carry out functions of a fund manager.

The attached documents and particulars stated herein are true and correct. No any particulars or statements are knowingly hidden or wrongly stated. I am ready to bear legal action if any particulars are found hidden knowingly or wrong documents are submitted.

**Of applicant of Fund Manager:**

Name:

Address: .....Province, ..... District  
..... Village or Municipality

Street: .....Ward No: .....Block No: ..... Ph No: ....

Fax No: ..... Email:

Seal of company or Fund Manager

Signature of authorized applicant:

Name:

Designation:

## **Schedule-2**

(related to sub-rule (2) of rule 3, rule 5 and sub-rule (4) of rule 14)

### **Fees regarding Fund Manager**

- |    |                               |                                |
|----|-------------------------------|--------------------------------|
| 1. | Fund Manager Registration Fee | three lakh rupees              |
| 2. | Fund Manager Annual Fee       | one lakh fifty thousand rupees |

### **specialized Investments Fund Registration and Issuance Fee**

- |     |   |                       |
|-----|---|-----------------------|
| 1.  | Application Fee   | fifty thousand rupees |
| 2.  | <u>Fund Registration Fee:</u>                             |                       |
| (a) | From ten million rupees up to five hundred million rupees | five lakh Rupees      |
| (b) | From five hundred million rupees up to one billion rupees | seven lakh rupees     |
| (c) | Above one billion rupees                                  | ten lakh rupees       |

**Schedule-3**  
(related to Sub-rule (3) of rule 3)

Particulars and documents to be submitted in registering a fund manager

- (a) A copy of registration certificate of a body corporate,
- (b) A copy of memorandum of association and articles of association,
- (c) A copy of audited financial statement of the preceding fiscal year prepared in a format as prescribed by the prevailing law and accounting standards and a copy of annual report,  
(a copy of periodic financial report in the case of not completing fiscal year following its incorporation)
- (d) A copy of the decision made by board of directors regarding approval,
- (e) Details regarding any action taken against board of directors or chief executive officer of a proposed fund manager in accordance with the securities related law or the prevailing law, if any,
- (f) Details about the shares hold by promoters and amounts paid therefor,
- (g) Name, full address and contact number of shareholders holding five percent or more shares out of the paid-up capital and ownership of shareholding,
- (h) Details about organizational structure and working procedure of a body corporate,
- (i) Details about office location and area of office, office equipment and communication devices and human resources,
- (j) Details about ownership in other companies or a body corporate, if any,
- (k) Other documents and particulars as the Board deems necessary

**Schedule-4**  
(related to sub-rule (1) of rule 4)  
Registration Certificate of Fund Manager

To.....

.....  
The certificate of registration is hereby issued as per the decision of the Board dated..... to grant approval to carry out functions of a fund manager in accordance with the Specialized Investments Fund Rules, 2075 (2019) upon taking necessary action in the application filed by that company/organization having the main office at.....

Terms and conditions:

Seal of the Board

Signature of certificate issuing officer:

Name:

Designation:

Date:

## **Schedule- 5**

(related to sub-rule (4) of rule 14)

### **Format of application to be filled for registration and issuance of Specialized Investments Fund**

Date:

The Securities of Board of Nepal;

#### **Ref: regarding approval for fund operation and unit issuance**

Sir,

The application is hereby submitted for approval/permission for registration of a fund up to .....and issuance of units therefor in the name of ..... registered as a fund manager under the Specialized Fund Registration Rules, 2075 (2019).

Documents attached herewith and statements mentioned herein are true and correct. No any particulars are hidden knowingly or any statements wrongly mentioned. I am ready to bear legal action if any particulars are found hidden knowingly or wrong documents are submitted.

Of a Fund manager:

Name:

Address: ..... Province ..... District

..... Village/Municipality ..... Street .....

Ward No...

Block No .....

Fax No:

Email.....

Seal of the office of a fund manager Of Chief Executive Officer:

Name:

Signature:

## **Schedule-6**

(related to sub-rule (5) Of rule 14)

### **Particulars and documents to be attached in submitting application for fund registration and unit issuance**

- (a) A copy of the constitution of a fund,
- (b) A copy of audited financial statement of the preceding fiscal year prepared in a format as prescribed by the prevailing law and accounting standards and a copy of annual report,  
(a copy of periodic financial report in the case of failing to complete fiscal year following its incorporation)
- (c) A trimestral business plan, including projected financial statements of upcoming three years,
- (d) A copy of the decision of board of directors regarding fund registration and issuance,
- (e) Details regarding any action taken against board of directors or chief executive officer of a proposed fund manager in accordance with the securities related law or the prevailing law, if any,
- (f) A commitment letter of unit holders to keep investment though out a period of fund making 10 percent investment in a proposed fund,
- (g) Particulars regarding investment procedure of a proposed fund,
- (h) Details about office location and area of office, office equipment and communication devices and human resources,
- (i) Details of investment agreement to be entered into with unit holders of the fund,
- (j) Particulars regarding issuance of units, if issued in phase wise manner,
- (k) The following particulars and documents regarding board of directors and chief executive officer:
  - (a) Name and full address,
  - (b) Details regarding ownership or involvement in other companies or fund manager, if any,
- (l) Other particulars, as prescribed by the Board, if non-resident Nepali is a promoter in any company,

## **Schedule-7**

(related to sub-rule (6) of rule 14)

### **Registration Certificate of Fund Registration and Unit Issuance**

The certificate of registration, having registered with the board, is hereby issued to ..... incorporated by Mr..... located its main office at..... in accordance with the Specialized Investments Fund Rules, 2075 (2019).

Seal of the Board:

Of Certificate Issuing Officer:

Signature:

Name:

Designation:

Date:

**Schedule-8**  
(related to sub-rule (3) of rule 24)  
**Format of Fund's Prospectus**

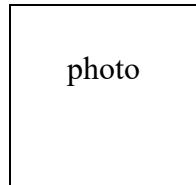
- (a) Matters to be mentioned in a front page of prospectus:
  - 1. The word called "Prospectus",
  - 2. Fund Manager's name, its logo and address of registered office,
  - 3. Prospectus approved date by the Securities Board of Nepal,
  - 4. Types and numbers of units of a fund to be issued,
  - 5. Details about the investors committed to make ten percent investments throughout a period of fund,
  - 6. Face value of each unit, and amounts to be paid along with application,
  - 7. Declaration about risks associated with investments,
  - 8. Declaration that regulatory agency shall not be held responsible,
  - 9. Date of unit issuance,
  - 10. Date of closing (first and last date),
  - 11. Details about net worth,
- (b) Matters to be mentioned inside a front page of prospectus:
  - 1. Definition of technical words and other phrases used in a prospectus,
  - 2. Place to obtain prospectus, application as well as submission thereto,
- (c) Matters to be mentioned from a second page of prospectus:
  - 1. Fund Manager's Declaration:
    - (a) Regarding accountability of fund manager,
    - (b) Regarding compliance of regulatory provision of regulatory agency,
  - 2. Information regarding a fund manager:
    - (a) Background of a fund manager,
    - (b) Details of properties,
    - (c) Future Plan and strategies,
    - (d) Structure of board of directors and provision regarding representation,
  - 3. Information regarding capital structure,
  - 4. Information regarding promoters/board of directors:

- (a) Background of promoters/board of directors,
- (b) Transactions with promoters/board of directors,
- 5. Particulars regarding limited liability:
- 6. Information regarding a fund manager's staff:
  - (a) Details about higher management level staffs of a fund manager,
  - (b) Details about salary and allowances paid to board of directors, and higher management level staffs.
- 7. Risks associated with a fund and strategy to manage thereof,
- 8. Details about financial statements of a fund manager,
  - (a) Financial statements and management's views and analysis thereof,
  - (b) Details about financial ratio.
- 9. Particulars about issuance of fund's units:
  - (a) Objective to issue units,
  - (b) Utilization of capital accrued from issuance of units,
  - (c) Particulars regarding money accrued from issuance of units prior to its use in projects, if any,
  - (d) A period of fund,
  - (e) Particulars regarding features of a fund, if any.
- 10. Particulars regarding agreement(s) to be entered into between investors and a fund manager,
- 11. Particulars regarding investment opportunities, challenges, and potential areas for investments for a fund,
- 12. Particulars regarding composition of investment committee and procedure,
- 13. Particulars regarding consultants/experts, if any,
- 14. Provision regarding distribution of dividend and hurdle rate,
- 15. Other general information,
- 16. Fees and expenditures to be borne by a fund,
- 17. Information regarding conditions and procedures making changes in board of directors and investment committee of a fund,
- 18. Provision regarding trading of units by unit holders, and terms and conditions on exit from a fund,

19. Provision made regarding meetings of unit holders,
20. Provision regarding mechanism on grievance filling by unit holders and its redress,
21. Name and signature of board of directors of the fund manager and expert thereof,
22. Letter regarding opinion furnished by experts on prospectus, financial statements, and any other matters, if any,
23. A copy of due diligence certificate presented by a fund manager.

## Schedule-9

Related to clause (b) of sub-rule (1) of rule 32  
Particulars of board of directors and chief executive



1. Name:
2. Permanent Address: .....Province .....District  
..... village/Municipality/Metropolitan City .....Street ....  
Ward No: ..... Block No: ..... Ph No: ..... Fax No... Email:
3. Current address: .....Province.....  
.....District  
..... Street, Ward No... Block No...  
Fax No... Email...
4. Father/mother's name:
5. Grandfather/grand mother's name:
6. Spouse's name:
7. Educational qualifications:
8. Professional experiences:
9. Training:
10. Description about affiliation to any profession or organization, if any,
11. Description regarding holding more than one percent share or any involvement in any company or fund manager, if any,
12. Declaration about having qualifications to be board of directors or chief executive and not disqualified therefor.

Signature:.....

### Documents to be attached:

1. A copy of document certifying qualifications, experiences, and other involvement, if any,
2. A copy of citizenship certificate,
3. A copy of identity card of non-Nepali if such is a promoter.

### **3. Securities Related Byelaws**

<b>A.</b>	<b>Secondary Market Trade Operation of Government Debenture Byelaws, 2005 (2062)</b>
<b>B.</b>	<b>Securities' Central Depository Services Byelaws, 2012 (2068)</b>
<b>C.</b>	<b>Securities Transaction Clearing and Settlement Byelaws, (2013) 2069</b>
<b>D.</b>	<b>Securities Enlistment Bye-Laws, 2018 (2075)</b>
<b>E.</b>	<b>Securities Trading Byelaws, 2018 (2075)</b>



# **GOVERNMENT DEBENTURES SECONDARY MARKET TRADING BYE-LAWS, 2005**

Nepal Stock Exchange Market Ltd. has devised these Bye-Laws upon permission from Securities Board, by exercising the powers conferred by Section 35(2) of the Securities Trading Act, 1983.

## **Chapter-1**

### **Preliminary**

- 1. Brief Name and Commencement:** (1) These Bye-Laws shall be known as Government Debentures Secondary Market Trading Bye-Laws, 2005.  
(2) These Bye-Laws shall come into effect forthwith.
- 2. Definitions:** Unless prescribed otherwise by the subject or context, in these Bye-Laws:
  - a) *Debenture* means the debenture, Treasury bond or a bond issued by the His Majesty's Government or Nepal Rastra Bank, and the term also includes receipts of deposit for purchasing those debentures, the resulting title and rights.
  - b) *National Debt Act* means the National Debt Act of 2002.
  - c) *Securities Trading Act* means the Securities Trading Act of 1983.
  - d) *Securities Trading Rules* mean the Securities Trading Rules of 1993.
  - e) *Board* means the Securities Board created as per the Securities Trading Act of 1983.
  - f) *Stock Market* means the Stock Market created as per the Securities Trading Act of 1983.
  - g) *Member* means a broker or market creator duly licensed by the Board for trading in government debentures upon obtaining membership of stock market and acquiring certificate of stock broker from the Board pursuant to the Securities Trading Act of 1983.

## **Chapter - 2**

### **On Enlisting and Trading of Debentures**

- 3. Enlisting of Debentures:** In case Nepal Rastra Bank makes a correspondence for enlisting the debentures for their trading as per Schedule 1, the Stock Market shall enlist the same and acquaint the Bank of the same.

4. **Guarantee to be kept:** Prior to assuming business, a member is required to keep deposit either in cash or bank guarantee or both at the Stock Market as prescribed by the Board from time to time.
5. **Place and Time of Trading:** (1) The member may trade in debentures at a time and at a place designated by the Stock Market during business days.  
(2) Notwithstanding whatever is provided in Sub-By Rule (1), a market creator may trade from its own office or branch away from the Stock Market after acquiring approval from the Board to this effect.
6. **Trading Unit and Board Unit:** (1) A member should trade in the following trading unit as regards each debenture:
  - a) A member, for each time, in a minimum Board Unit equivalent of Rs. 25,000 (based on nominated price);
  - b) In case a deposit lesser than the unit prescribed in Clause (a) above is to remain while trading in a debenture, then of the full amount;
  - c) In case the nominated price of debenture is lesser than the unit prescribed in Clause (a) above, then of the full amount.
7. **Purchase or Sales Order:** (1) A member willing to buy or sell enlisted debentures is required to procure a purchase or sales order from the client in a format under Schedule 2.  
(2) In case any duration is stated in the purchase or sales order under Sub By-law (1), that order shall stand valid until that duration and if no duration is fixed thereon, then a validity period of up to 3 days from the date of order shall apply.  
(3) A client is required to present certificate of debenture up to the value limit in which it is interested to sell the same.  
(4) In case the interest paying date cited in the debenture has already elapsed, then only those debentures should be traded for which the accrued interests have already been paid.  
(5) While fixing price for trading in debentures, the base price should be Rs. 100.
8. **Trading Process via Brokers:** (1) A broker, while trading in debentures in its office, should spell out the name, type and purchase or sale price of the debentures as per their order kept in its registry which is required to be kept as per By-Rule 13(1). The concerned staff of Stock Market should write this price in its trading notice board.  
(2) In case no trade is going to occur in a price quoted in the board as per Sub By-Rule (1), the concerned member may vary its price. Once a price is

varied as such, its turn of trade shall come only on the basis of priority on price and time.

(3) Once the purchase and sale price of a debenture written on a trade board do tally with the price quoted by other brokers, then the broker should orally express consent for sale or purchase of the same. Once an oral approval is conveyed, the broker should express its written approval in a format under Schedule 3 and exchange this deed between them and also a copy of such written consent to the concerned staff of Stock Market.

(4) Once a broker conveys its oral approval as per Sub By-Rule (3), it is prevented from denying trading in that debenture.

(5) In case the purchase and sale price of a debenture written on a trade board do not tally with the price quoted by other brokers, then the broker may remove the price cited by him from the board and may transact with a market creator of its choosing.

(6) Once a transaction is sealed, the broker should inform the client in a format under Schedule 4, and extend a copy of the same to the Stock Market.

(7) In case a broker fails to receive an order from the client, it should extend a prior notice to the Stock Market in writing and may buy or sell the debenture in its ownership only by issuing order to another member at a certain price.

(8) A broker is prevented from accepting the debenture floated by him or her towards purchase or sale by itself and to transact thereof.

**9. Trading Process via Market Creator:** (1) A market creator should cite in its price board, the purchase as well as sale price of debentures that it wishes to buy or sell.

(2) While trading outside Stock Market, a market creator may buy and sell at the price quoted by him or her at the price list of Stock Market.

(3) While revising the price cited at trading location, an arrangement should be so made that the price shall change simultaneously at its office of debenture trading as well as its entire branches.

(4) Once Stock Market is closed in the final price quoted by the market creator at the price list of Stock Market, it may continue purchase and sale of debentures from its offices and branches.

(5) In case a market creator lacks minimum deposit of debentures as specified by the Board, then it should quote the purchase price only. Similarly, if it reaches the maximum deposit of debentures as specified by the Board, then it should quote the sale price only.

(6) In case an order is received for trade in nominated price, then it cannot decline trading as per that order.

(7) A market creator is barred from trading with brokers and other creators while trading outside the trading room of Stock Market.

(8) In case a purchasing client demands the market creator is required to issue a purchase receipt in a format under Schedule 5. This receipt shall be equally tradable as a debenture itself.

However, such a receipt may be traded only after documenting it at the concerned market creator and Stock Market.

**10. Provisions to be followed by Members:** (1) A member should open a special account at the Nepal Rastra Bank for debentures.

(2) Purchase or sale of debentures under the title of members should be done within the ceiling specified by the Board.

(3) Trade in debentures may only be done as per their capital value. The purchasing client should pay the selling client by making a separate calculation of interest for the interrupted period and after deducting the interest duly accrued until the date of such purchase.

A month shall be calculated of 30 days and a year of 360 days while calculating interest as such. The person holding title on the debenture at the date of interest payment shall pay the entire interest tax.

(4) In case His Majesty's Government or Nepal Rastra Bank or an authorized official has frozen the trade of debentures owned by a person or institution, then such debentures should not be traded.

(5) An amount equivalent to 0.01 percent of the total sum of debentures traded by others should be filed at the Stock Market.

**11. Ceiling in Price Change:** (1) A member, while fixing the starting trade price of a debenture, shall have to fix it in such a manner that would not be lesser than 0.1 percent of the price in which it was traded the previous day when the Stock Market was closed. For each subsequent transaction, price should be so fixed that it would not be lesser than 0.05 percent from the previous transaction price.

(2) The difference between the purchase and sale price recorded by the market creator at the price board should not exceed 0.2 percent.

(3) In case no trade results on the purchase and sale price quoted by the market creator, then it may vary the price for one time within the range of 0.1 percent.

(4) The price ceiling under Sub Bye-Laws (1) and (2) may be revised from time to time by the Board in consideration of market conditions.

(5) In case no trade results in a debenture for a period of up to a week, the restriction in Sub By-Rule (1) shall not apply. Here, the Stock Market may make needful provisions on fixing the starting price after obtaining prior approval from the Board.

(6) A member is required to fix the trade value of enlisted debentures generally based on the interest rate of debentures of similar type issued earlier.

(7) The broker should make a transaction of debentures in at least one board unit of his or her calling.

**12. Provision on Clearance of Trade Account and Issuance of Certificate:** (1) A member is required to clear the trade account on the same day of transaction, within the time specified by the Stock Market by submitting to the Market the details of trade amount, certificates of debentures, letter of revocation of previous registration, deed of seller and other needful documents.

(2) Once the details and documents are received as per Sub By-Rule (1), the Stock Market shall record the same and the transactions shall be settled. In case a certificate is required for transfer, then it shall attest that trade in debentures has been done.

(3) A person failing to clear the accounts as per Sub By-Rule (1), if he or she files an application by assigning a reason thereof, the Stock Market may extend the time limit for a maximum of 2 days from the date of transaction subject to a late fee of 0.05 percent of the trade amount for each day and also charging an interest amount for the delayed period as per the interest rate applicable to a debenture.

(4) The member should pay the late fee and interest amount as per Sub By-Rule (3) to the client concerned.

(5) The member should pay the seller the same day on which he or she receives money from the market on behalf of the debenture sales.

(6) A market creator, while transacting with a client away from the trading room, should clear the balances on the day of such transaction by exchanging moneys and papers thereof. The Stock Market should be notified the same day in this regard.

(7) In case no clearance of balances is done even within the deadline extended as per Sub By-Rule (3), the Stock Market shall buy the debenture or pay in cash from the deposit amount kept by the member, to the extent possible.

(8) The Stock Market may block trade of a member not paying sums as per Sub Bye-Laws (4) and (5) and not clearing balances as per Sub By-Rule (3), and may correspond to the Securities Board for instituting needful action.

(9) The member should adjust the variations in the accounts marinated as per By-Rule 10(1) resulting from daily transactions and if a debenture certificate is to be issued in the name of a client, it has to apply before the concerned Department of Nepal Rastra Bank.

**13. Records of Transaction to be maintained:** (1) A member is required to include the regd. no. date of receipt and time also in the purchase and sale orders received from the clients and have to enter them in a register prescribed by the Board as per the serial order.

(2) A member is required to keep records showing separate details of its transactions, and the ownership of clients and itself, in a format specified by the Board.

**14. Information and Details to be presented:** (1) A member should present the details of its trade in debentures everyday to the Stock Market on the same day.

(2) A market creator should inform the Board and Stock Market on the deals made outside the Market prior to the opening of market on the following day.

**15. Trading May be suspended:** In case unnatural fluctuations are seen in the price of debentures, the Stock Market may suspend trading in debentures forthwith as a mitigating measure and inform Board of the same promptly together by assigning a reason thereof.

### **Chapter 3** **Inspection and Action**

**16. Inspection of Members:** (1) The Stock Market shall conduct an inspection of the members at least once in a year as to the trade in debentures, its records and documents, accounts and other provisions.

(2) The Stock Market is entitled to conduct a random inspection at any time by giving or not giving prior notice thereof, as to the trade in debentures made by any of the members. Moreover, it may also summon the trade details and papers to the Stock Market itself and proceed with an investigation.

(3) A report should be submitted to the Board within one month of inspection being carried out by the Stock Market in pursuance of Sub By-Rule (1) or (2).

**17. Proscription in Trading:** (1) The Stock Market may proscribe trading in debentures by a member in any of the following circumstances:

- a) In case he or she acts against or fails to act as per these Bye-Laws, or
- b) In case he or she fails to abide by the orders of Stock Market or fulfills to follow the terms, or

c) In case he or she fails to clear the transaction fees.

(2) Prior to proscribing trade as per Sub By-Rule (1), the Stock Market shall seek clarification from the concerned member by issuing at least a 7 day notice, also assigning reason for the proposed proscription.

However, the Stock Market may seek clarification after first proscribing the transactions of a member:

- a) In case it is presumed that if trade in debentures is allowed without proscription, then the member may collect fabricated evidence or remove incriminating evidence against him or her, or
- b) In case the integrity and credibility of Market will be compromised if the member is allowed to proceed with the transactions, or

(3) In case a member fails to furnish its clarification as per Sub By-Rule (2) or if the clarification furnished does not seem to be satisfactory, the Stock Market may impose a maximum of 6 months ban on trade in debentures.

(4) In case the Stock Market imposes a ban on trade against a member as per these Bye-Laws, it should communicate this matter to the Board forthwith.

(5) In case a member acts against the prevailing laws, the Stock Market may correspond to the Board for the suspension or revocation of license of such errant member by accompanying the needful evidence thereof.

## **Chapter 4**

### **Miscellaneous**

**18. Removal of Exigencies:** In case any exigencies surface during the implementation of these Bye-Laws, the Board may remove the same.

**19. Revision of Schedules:** The Stock Market may revise or modify the Schedules of these Bye-Laws, as and when required, upon obtaining approval from the Board.

**Schedule 1**  
(Pertaining to By-Rule 3)

Date:

Nepal Stock Exchange Ltd.

....., Kathmandu

**Sub: Enlistment of Debentures**

It is hereby requested that the following debentures be enlisted as per the prevailing laws and make them tradable through the Market run under that Ltd.

1. Name of Debenture:
2. Type of Debenture:
3. Date of issue:
4. Total amount of issued Debenture:
5. Duration of Debenture and the date for principal return:
6. Interest to be paid on Debenture:
7. Mode of paying interest on Debenture:
8. Interest rate applicable in Debenture:
9. Certificate No. and Serial No. of the issued Debenture:
10. Average price established during initial offering:
11. Fees for the transfer of ownership in Debenture:
12. List of recipients of Debenture:
13. Terms for the issue of Debenture:
15. Other statements on Debenture:

Attached: A copy of sample Debenture

On behalf of Nepal Rastra Bank

Signature:

Name:

Designation:

Department:

**Schedule 2**  
[Pertaining to By-Rule 7(1)]  
**Order for the Purchase/Sale of Debenture**

Mr/Ms.....  
.....

Date:  
Time:

**Dear Sir/Madam,**

Since I/we have to purchase/sell the following debentures it is requested that they be bought/sold in our name within..... days. I/we consent for paying the trade commission and service charge as per the rules on behalf of effecting purchase/sale of those debentures.

Name of Debenture	Type of Debenture	Total amount (nominated price)	Purchase/Sale price

**For individual applicants**

Sign of the applicant:

Name of the applicant:

Add:

Name of father:

Name of grandfather:

Telephone No:

Citizenship No. and district of issuance:

**For institutional applicants**

Sign of authorized representative:

Name of authorized representative:

Name of body corporate:

Add:

Telephone No:

Seal of the institution:

**Remarks**

1. The nominated price should be relied upon while fixing the purchase/sale price.
2. Any one of the following should be cited while fixing the purchase/sale price:
  - a) Certain price
  - b) Minimum or maximum price
  - c) Price deemed to be proper by the member

**Schedule 3**  
[Pertaining to By-Rule 8(3)]

**Trade Consent Form to be filled by the Broker Buying/Selling Debentures**

We have bought/sold the following debentures on today's date:

Contract No:

Date:

Name of Debenture:

Type of Debenture:

Price of Debenture (on nominated price):

Number of Debenture(s):

Price of purchase/sale:

Identification Code of the selling broker:

Identification Code of the representative:

Identification Code of the buying broker:

Identification Code of the representative:

.....

Sign of the buying broker or its representative

.....

Sign of the selling broker or its representative

**Schedule 4**  
[Pertaining to By-Rule 8(1)(h)]

Notice No:

Mr/Ms.....

Date: .....

Pursuant to the purchase/sale order of you, Mr/Ms..... on.....(date), it is hereby notified that the following debentures have been purchased and the following details are tendered for the clearance of all accounts.

<b>Statement</b>	<b>To be given</b>	<b>To be received</b>	<b>Remarks</b>
Name and type of debenture:			
Amount in Rs. from the purchase/sale of debentures from S.No..... to S.No.....			
Amount in Rs. to be given/received for interest at the rate of .....percent, from .....to.....(date)			
Total amount payable by/to the member for the client in Rs.....			

.....

Sign of member broker or its representative

Identification Code No:

**Schedule 5**  
[Pertaining to By-Rule 9(8)]

Date:

**Receipt of Purchase of Debenture**

This receipt has been issued to individual/institution.....having address at.....for having purchased the following debentures amounting to Rs.....(In words: Rupees.....) on .....(date), via transaction no.....from this Member.

The following member has duly recorded and attested this receipt. Mr/Ms/Messrs....., the recipient, is required to produce this receipt for obtaining a certificate of debenture from this Member.

Name of Debenture:

Type of Debenture:

Number of Debenture(s):

**Of the securities broker agency issuing purchase receipt**

Name:

Membership No. of the Stock Exchange Market:

Sign of the Executive Head:

Seal of the Office:

Date:

Implementation Date: 1<sup>st</sup>Magh 2068 (15<sup>th</sup>January 2012)

First Amendment Implementation Date: 29<sup>th</sup>Poush 2069 (13<sup>th</sup>January 2013)

Second Amendment Implementation Date: 15<sup>th</sup>Falgun 2073 (26<sup>th</sup>February 2017)

Third Amendment Implementation Date: 19<sup>th</sup>Asoj 2075 (5<sup>th</sup> October 2018)

Fourth Amendment Implementation Date: 22<sup>nd</sup>Asoj 2075 (8<sup>th</sup> October 2018)

## **Securities' Central Depository Services Byelaws, 2068**

<sup>1#</sup>It is deemed expedient to amend Central Securities Depository Service By-laws, 2068 (2012) thus obtaining approval from Securities Board of Nepal by exercising the right delegated by Rule 30 of Central Securities Depository Service Byelaws, 2067 (2010 A.D.), CDS and Clearing Limited have framed and implemented the following byelaws.

### **Chapter – 1**

#### **Preliminary**

- 1. Short Title and Commencement:** (1) This Byelaws may be called "Securities' Central Depository Services Byelaws, 2068 (2011)".  
(2) This Byelaws shall be deemed to have been commenced from the date as prescribed by the CDS and Clearing Ltd.
- 2. Definition:** (1) Unless the subject or context means otherwise in this Byelaws, -
  - (a) "Act" means Securities Act, 2063 (2006).
  - (b) "Board" means Securities Board of Nepal established pursuant to Section 3 of the Securities Act, 2063 (2006).
  - (c) "Regulations" means the Securities'Central Depository Services Regulation, 2067(2010).
  - (d) "Byelaws" means the Securities' Central Depository Services Byelaws, 2068(2011).
  - (e) "CDSC" means the CDS and Clearing Ltd., the institution getting approval of Board according to Rule 7 of Regulations.
  - (f) "Board of Directors" means board of directors of CDSC.
  - (g) "Agreement" means agreement made according to this Byelaws, among or between CDSC and depository participant, depository participantand Beneficiary, CDSC and issuer, depository participant

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<sup>1#</sup>Amended by Second amendment 2073 (2017)

and broker, CDSC, issuer and Register as well as transfer agent, CDSC and other parties.

- (h) "Registrar" means the share registers as permitted by merchant banker or Registrar andTransferAgent of body corporate issuing securities.
- (i) "Corporate Actions" means closing registration book, date of annual general meeting, date for repayment of due securities, date for changing transferable debentures and rights, dividend, interest, bonus share, right share, preferential allotment, right issue and payment date, date for premium repayment as well as other activities performed by issuers from time to time.
- (j) "Corporate Benefit" means the benefits provided to beneficial owner from time to time from issuer for the securities owned by the beneficial.
- (k) "Off Market Transactions" means transactions performed and transferred between two parties outside the securities market.
- (l) "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.
- (m) "Instruction Slip" means direction given for debit or credit of securities in the account held by any person or body corporate in CDSC.
- (n) "Dematerialization" means the function of converting the record of securities from paper to electronic system (demat).
- (o) "Rematerialization" means the function of converting the record of securities from electronic system to paper (remat).
- (p) "Early Pay-in Account" means the account opened for securities broker who can deposit the securities received for clearing prior to the settlement date.
- (q) "Temporary Clearing Account" means a separate account opened for securities broker by the depository participant while opening the clearing account of securities broker for temporary deposit of securities when dealing could not be performed in due date by any cause.

(2) Except defined in Sub-rule (1), the definition of other word(s) applied in this Byelaws shall be as defined in the related Act, Regulations.

## Chapter – 2

### **Provision regarding admission of securities**

**3. Application to be submitted for admitting securities in dematerialized form:**

(1) Any corporate body registering its securities in Board shall apply in the format prescribed in the Schedule-1 along with the fees mentioned in the Schedule-2 for dematerialization of the securities.

(2) The following documents and details shall be submitted with the application:

- (a) Attested copy of securities registration certificate in the Board.
- (b) Attested copy of company registration certificate and business authorization letter,
- (c) Attested copy of Memorandum and Articles of Association,
- (d) Copy of Act and Regulations for the body corporate established according to the specific Act,
- (e) Details regarding name, address, qualifications and experience of Director, Chief Executive, and Company Secretary of the company,
- (f) Attested copy of agreement related to listing, if listed in securities market,
- (g) Attested copy of agreement related to appointment of share register, if appointed,

(3) CDSC shall undertake necessary investigation over the application obtained in accordance with the Sub-Byelaw (1). In the course of investigation, if necessary, CDSC may ask the applicant to clarify or submit additional documents or details related to the documents, details, and information submitted along with the application.

(4) If CDSC is satisfied from the necessary investigation undertaken according to the Sub-byelaw (3), it shall receive registration fees as prescribed in the Schedule-2 from the applicant and enter into an agreement according to Schedule-3.

(5) Prior to the agreement with the body corporate, CDSC shall ask the body corporate or relevant registrar to set up sufficient hardware and software for dealing through the CDSC system.

<sup>2</sup>\*(6) Notwithstanding anything contained in this Byelaw, the body corporate whose securities have already been dematerialized and if the said company's any securities are required to get registered for dematerialization in

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<sup>2</sup>\*Amended by First amendment 2069 (2013)

the future, the company has to update in those details and documents which were submitted during registration, only if there is any changes.

4. **Payment of Annual Fee:** Corporate bodies that have dematerialized their securities according to Byelaw (3) shall pay annual fees as prescribed in Schedule – 2within a month of completion of every fiscal year.
5. **Share Registrar to be registered in CDSC:** If any corporate body has appointed share registrar, such registrar company should be registered in CDSC by entering into an agreement according to Schedule-26.
6. **Annual Installation and Maintenance fees:** The corporate body shall pay annual installation and maintenance fees as prescribed in Schedule-21.
- 3\*7. **In case of changes in the name, address and share registrar of Corporate Body:** If the name, address and share registrar of any corporate body has been changed, the changed information should be notified to CDSC within three working days.
8. **Provision regarding Government Securities:** (1) The CDSC may manage for dematerialization, clearing of dealings and transfer of government securities.  
                  (2) Not with standing anything contained in this Byelaw, annual fee and registration fee shall not be charged for the government securities.
9. **Termination of Registration Agreement:** (1) The CDSC may terminate the registration agreement concluded according to Sub-byelaw (4) of Byelaw 3 in the following circumstances:
  - (a) If the terms and conditions of the agreement are not followed by the body corporate or its registrar.
  - (b) If annual fee is not paid.  

(2) While cancelling the registration agreement according to Sub-byelaw (1), the CDSC shall give clarification and opportunity to be heard to the concerned body corporate, before decide to cancel the agreement.

\*(3) If the registration is terminated as per this Byelaws, CDSC shall inform to the Board, stock exchange, concerned issuer, registrar and transfer agent, beneficial owners and other depository participants.

## **Chapter – 3**

### **Provisions relating to Depository participant**

10. **Depository Participant need to submit application:** \*(1) The corporate body that has received registration certificate from the Board as prescribed in Rule 21 of the Regulations shall apply for the CDSC membership in the format prescribed in Schedule-4.

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<sup>3</sup>\*Amended by First amendment 2069 (2013)

(2) The following documents and details shall be included along with the application:-

- (a) Details according to Schedule-6 about directors and executive head,
- (b) Details and documents according to Schedule-7,
- (c) Details and documents according to Schedule-8 for the promoters of Depository participant,
- (d) Registration certificate of registration in Board.

**11. Examination of application:** (1) The CDSC shall examine the application along with documents including details received pursuant to Byelaw (10).

(2) If the CDSC desires to be clearer about any document, additional particular, or information, it may ask the Applicant Company or body corporate to submit such documents, additional details or information or direct to clarify, in the course of inquiries according to Sub-byelaw (1).

(3) After making necessary inquiries according to Sub-byelaw (2), the CDSC shall notify the applicant to set up infrastructure for dealings.

**12. Infrastructure to be Arranged:** (1) The applicant shall arrange the infrastructure as directed by the CDSC to set up infrastructure within two months from the date of getting the notification according to Byelaw (11).

(2) If the applicant could not complete the infrastructure arrangement within the period stipulated in Sub-byelaw (1) and apply for additional time, the CDSC shall provide additional time not exceeding one month.

(3) If the applicant could not complete to set up required infrastructure within the additional time according to Sub-byelaw, the CDSC shall resend the application and inform the Board about it.

**13. Inspection of Infrastructure:** (1) The CDSC shall make field inspection of the infrastructure within 15 days from the date acquired information according to Byelaw 12.

(2) If the infrastructure is found insufficient by the field inspection of the CDSC according to Sub-byelaw (1), the CDSC shall instruct, by specifying the additional infrastructures, to set up additional infrastructure within a month.

(3) By setting up the additional infrastructures within the time period stipulated in Sub-byelaw (2), the CDSC shall be informed.

**14. Granting Membership:** If it is found appropriate to grant membership of depository participant to the applicant through the details and documents submitted along with the application as well as infrastructure inspection, the membership of depository participants shall be granted to the applicant in the

format prescribed in Schedule 10 by concluding agreement according to Schedule 9 and charging fees according Schedule 5.

**15. Renewal of Membership:** The depository participant shall renew the membership by submitting application to the CDSC in the format prescribed in Schedule-11 along with the annual fees stipulated in Schedule-5 within three months after completion of every fiscal year.

**16. Provisions regarding Service Charge:** (1) Depository participant may impose service charge to the beneficiary for services provided for securities dealings.

(2) The depository participant shall pay the appropriate amount to the CDSC according to the Byelaws within 15 days after completion of the month by accumulation of all charges obtained as services charge in the particular month.

(3) If depository participant failed to pay the amount according to Sub-byelaw (2), the depository participant shall pay the due amount by adding annually 10 percent within six months, and if the depository participant failed to pay the due amount within the period, the CDSC may take action against the depository participant according to Byelaw(36).

**17. Provision of Cash Security Deposit:** (1) Before the commencement of its transactions, the depository participants shall provide 1 lakh rupees cash as a security depositin the CDSC.

\*\*(2) In case CDSC determines for additional security deposit than mentioned in Sub-Byelaws (1), Depository<sup>4</sup>Participants shall retain additional security in the form of bank guarantee.

**18. Limit of admission of securities:** \*(1)The deposit management by the depository participants for the securities owned by beneficial owners in terms of market value shall not exceed five hundred times of its net worth.

(2) If the securities deposit limitation of any depository participant, according to Sub-byelaw (1) exceeds, the depository participant shall inform to the CDSC about it and the depository participant may perform its activities by pledging cash in the CDSC for till not managing the gross assets.

(3) If any depository participant failed to pledge cash according to Sub-byelaw (2), the CDSC shall instruct to transfer, the securities of beneficiaries in the portfolio of the depository participant, more than the limitation stipulated in

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<sup>4</sup>\*Amended by First amendment 2069 (2013)

\*\* Added by First amendment 2069 (2013)

Sub-byelaw (1), to the beneficial account of other depository participant and the concerned depository participant shall execute such instruction immediately.

**19. May Open Branch:** (1) With the prior approval of the CDSC, the depository participant company may establish its branch office(s) within the territory of Nepal, as per the need.

(2) By prescribing the qualifications and terms, the CDSC may permit the depository participant to establish contract office as per the need.

(3) The approval given to the depository participant to establish branch office or contract office according to this Byelaw shall be informed to the Board.

## Chapter-4

### Provisions relating to Accounts

**20. Beneficiary shall apply to open account:** (1) The beneficial shall submit application to the depository participant to open account in the CDSC, in the format as prescribed in Schedule-14 or Schedule -15, according to this Byelaw.

(2) The following documents along with the application shall have to be submitted:

- <sup>5##</sup>(a) While mentioning particulars in the application, account number maintained at "A" class commercial bank shall have to be mentioned in bank details.
- (b) Personal or institutional details according to Schedule-12 or Schedule -13,
- (c) In case of the applicant is natural person, citizenship certificate for Nepali and identity card in case of Non-residential Nepali,
- (d) Registration certificate in case of the applicant is body corporate,
- (e) Authorization letter for operation of account, in case the applicant is body corporate
- (f) Minute of board of directors of the body corporate,
- (g) Guardianship letter in case of the applicant beneficiary is minor.

(3) After making necessary inquiry on the application, the depository participant shall open the account by getting fees as prescribed in Schedule-14 and while opening account, agreement according to Schedule-15 shall be made.

(4) Before opening account according to Sub-byelaw (3), the depository participant shall enter the required information of the beneficiary in the central

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<sup>5##</sup>Added by Second amendment 2073 (2017)

depository system and after such entry the central depository system generates a beneficial account number, which shall be provided to the beneficiary.

(5) Depository participant shall open and manage separate account of every beneficiary and it shall manage to keep the securities of beneficiaries not mixing with each other's or with its own securities.

(6) In case of securities received in collective form, the securities shall be dematerialized by opening an account in one of the securities owners name according to agreement among or between them,

(7) The depository participant may open beneficial account for itself, according to this Byelaw.

<sup>6##</sup>(8) Beneficial Owner wishing to obtain information of transaction into their account through online facility CDSC can give such facility through the software managed for depository participant by CDSC by charging annual charge of rupees fifty.

<sup>7##</sup>(9) Fifty percent of the amount paid by the beneficial owner pursuant to sub-by-rule (8) shall have to submit to CDSC by depository participant.

<sup>8+</sup>(10) Whatever is written in this byelaws, in the special situation or on the special occasion, the fees according to the annexure (14) can be partially or completely be waived when the depository participant opens demat account of beneficial owner.

**21. Provision relating to Clearing Account:** (1) The broker member, market maker, trading in securities market, shall open a clearing account through any of the depository participant for the purpose of clearing the securities, which is in dematerialized form.

(2) The following details and documents are to be submitted along with the application:

- (a) Copy of company registration certificate,
- (b) Attested copy approval letter obtained from the Board,
- (c) Authorization letter for account operation,
- (d) Attested copy of decision of board of directors,
- (e) Attested copy of membership certificate obtained from securities market.

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<sup>6##</sup> Added by Second amendment 2073 (2017)

<sup>7##</sup> Added by Second amendment 2073 (2017)

<sup>8+</sup> Added by Third amendment 2075 (2018)

(3) After making necessary inquiry on the application, the depository participant shall make agreement with the applicant according to Schedule -22 by getting account open charge as prescribed in Schedule -14.

(4) While opening clearing account, the depository participant shall open temporary account for the securities broker, market maker for the purpose of clearing securities.

(5) In case where the securities broker, market maker as the depository participant itself, it may open clearing account in its own name and trade in the same account.

(6) The CDSC may open early pay-in account to each securities broker, market maker for the purpose of clearing securities.

(7) The depository participant shall inform the Securities market and the CDSC about the opening of clearing accounts.

(8) For the purpose of clearing securities, securities broker, market maker shall not open more than one account.

(9) For the purpose of clearing securities, the CDSC may open one or more accounts in its own name.

**22. Application shall be Submitted for Dematerialization:** (1) For dematerialization of securities, the beneficiary shall submit application to the depository participant, where is its depository account, for dematerialization of securities, including with the certificate of the securities.

(2) The depository participant shall provide proof of the securities to the applicant mentioning the details of the securities submitted along with the application pursuant to Sub-byelaw (1).

(3) By making necessary examination on the application pursuant to Sub-byelaw (1), the depository participant shall enter the details of the securities submitted along with the application in the depository system and stamp on the front page of the material certificate mentioning "surrender for dematerialization" and send the application and documents to the concerned body corporate or registrar and transfer agent within 7 working days from the date of application received.

(4) After receiving the application and documents from the depository participant pursuant to Sub-byelaw (3), the concerned body corporate or registrar and transfer agent shall examine the received documents and securities certificates and after the examination if it deems appropriate to dematerialized, it shall approve for dematerialization and inform it to the depository participants.

(5) By depositing the dematerialized securities, pursuant to Sub-byelaw (4), in the applicant account, the depository participant provides information to the concerned applicant including the statement of the account.

(6) If the securities certificates deems inappropriate to dematerialized after the examination made pursuant to Sub-byelaw (4), the concerned body corporate or registrar and transfer agent shall inform it to the depository participant with reason(s) and the depository participant shall inform it to the concerned applicant.

<sup>9##</sup>(a) Application can be submitted stating details of wrong entry and to be rectified to the CDSC for getting rectification of verifying and certification details of wrong entry made by corporate body or registrar and transfer agent or depository participant in the system. If such application are received and are found correct while inquiring by CDSC consent can be given to rectify mistakes by charging one hundred rupees fees per amendment.

**23. Allotment of securities in dematerialized form:**\*(1) In the process of issuance of public offerings and other issuances of the corporate body, the issue manager shall request CDSC along with the initial issuance verification fees as prescribed in the Schedule 21 (3) for the purpose of verification of beneficial owner's account number and details mentioned in the application by the applicant.

(2) After receiving the request pursuant to Sub-byelaw (1), the CDSC shall provide account number and details of the concerned beneficiary to the issue and sells manager

\*(3) If CDSC obtains any information from the corporate body regarding the allotment of securities in dematerialized form, the CDSC shall credit such securities in the account of the concerned beneficial ownersby taking initial issuance verification fees as prescribed in Schedule 21 (4) and the same shall be disseminated to the depository participant.

(4) If the CDSC could not ascertain the identity and existence of the concern beneficiary of the allotted securities in the dematerialized form pursuant to Sub-byelaw (3), it shall reject the request and inform it to the concerned depository participant.

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<sup>9</sup>\*Amended by First amendment 2069 (2013)

## Added by Second amendment 2073 (2017)

<sup>10##</sup>(5) While distributing corporate benefit in the account of Beneficial Owner by any corporate body CDSC by charging gain fees pursuant to Schedule -21 can give approval to verify the details made entry by corporate body.

<sup>##</sup>(6) To confer right and bonus share directly in dematerialized form into the DEMAT account of beneficial owner by the issuer, to provide personal details and beneficial owner DEMAT account number easily of the applicant by issue and sales manager for issuing IPO in dematerialized form and to verify, the software provided by CDSC can be used by paying fees pursuant to schedule -21.

**24. Shall apply for Rematerialization :** (1) If beneficiary desires to rematerialize the securities existing in its account in dematerialized form, the whole or a part, the beneficiary shall submit application to the depository participant in the format stipulated in Schedule -17 along with the rematerialize fee prescribed in Schedule-14.

(2) If any application received from the beneficiary for rematerialization of securities, the depository participant shall examine on the application and accept it, if it is found securities in the beneficiary's account in dematerialized form, and shall cease the numbers of the securities which is to be rematerialized and inform it to the CDSC.

<sup>#</sup>(3) After receiving an application for re-materialization from beneficial owner by the depository participant by undergoing verification according to the request for re-materialization made entry in the central depository system within fifteen days by corporate body or registrar and transfer agent balance from the Demat account of beneficial owner shall have to be deducted and the physical certificate of securities in the format pursuant to schedule -27 by undergoing rematerialization shall have to be conferred to beneficial owner and the information thereof shall have to be given to CDSC.

(4) After receiving the request pursuant to Sub-byelaw (3), the body corporate or registrar and transfer agent shall provide the materialized securities certificate to the concerned beneficiary within 15 days and inform it to the CDSC. After receiving such information, the CDSC shall deduct the rematerialized securities in the accounts of depository participant and beneficiary.

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<sup>10#</sup> Amended by Second amendment 2073 (2017)

## Added by Second amendment 2073 (2017)

**25. Freeze and Unfreeze of Account:** (1) If any beneficiary desires to freeze or unfreeze the account, it shall submit application to the depository participant in the format prescribed in the Schedule-18 along with the account freezing fee stipulated in the Schedule -14.

(2) After receiving the application for freeze or unfreeze of account, the depository participant shall freeze or unfreeze the account after making necessary examination on the application and inform it to the CDSC.

(3) Notwithstanding anything contained in this Byelaw, the CDSC or depository participant may freeze the account of beneficiary according to the order of Government of Nepal, court, Board, or legally authorized personnel.

(4) For freezing account pursuant to Sub-byelaw (3), the CDSC or depository participant may not freeze the account, in case the beneficiary could not be clearly identified.

(5) In the following circumstances, the CDSC shall instruct the depository participant to freeze or release the account in its own name:

- (a) According to the order of Government of Nepal, court, Board, or legally authorized personnel in accordance with the prevailing law,
- (b) In case the depository participant declared bankrupt or insolvent, or liquidated,
- (c) In case the request of the creditor institution to freeze the account for the purpose of reimburse loan.

(6) If the order issued by the Government of Nepal, court, Board, or legally authorized personnel to freeze is quashed or issue order to unfreeze the account, the account shall be released. The depository participant shall not deal in the beneficiary account within the period of freeze, although it shall deposit the benefits earned from the institutional activities in the freezed account.

**26. Relating to pledge:** (1) Any corporate body receiving securities of the beneficiary in pledge shall have account in the CDSC.

(2) Any corporate body receiving pledge shall submit application to the depository participant in the format as prescribed in the Schedule -19 along with the copy of the pledge deed and securities pledge fee as stipulated in the Schedule -14.

(3) After receiving the application pursuant to Sub-byelaw (2), the depository participant shall manage to cease the securities existing in the beneficiary's account as per the demand, after making necessary examination on the application.

(4) Unless receiving the notice of dismissal of pledge or redemption from the pledgee, the pledge shall not be released.

(5) If the pledge receiving body corporate submit application to transfer the securities in its own name, with sufficient ground of breaching the terms and conditions of pledge, to the depository participant, the depository participant making necessary examination, shall transfer the securities in the account of the pledge receiving body corporate and inform it to the concerned beneficiary.

**27. Closing of Beneficiary Account:** (1) The beneficiary shall submit application to the depository participant for closing own account, in the format prescribed in Schedule -20.

(2) After receiving the application pursuant to Sub-byelaw (1), the depository participant, after ascertaining that there is no amount of securities in the account and the beneficiary has no fees and charges due to pay, shall close the account.

(3) While closing the account of beneficiary having securities amount, the depository participant shall close the account by rematerializing the securities or transferring the amount of securities in another account of the beneficiary with other depository participant.

(4) Notwithstanding anything contained in this Byelaw, the beneficiary's account having pledged securities and the ceased account shall not be closed.

**28. Termination of Beneficiary Agreement:** (1) In the following conditions the depository participant may terminate the agreement with the beneficiary:

(a) If the fees or charges according to these Byelaws could not be paid within 30 days from the date of request to pay,

(b) If the certificate or other documents submitted for dematerialization found fraudulent, or received by theft or fraud, or ceased to transfer by the order of Government of Nepal, court, Board, or legally authorized personnel.

(c) Due to the bad conduct or behavior, proved inappropriate to provide any security services.

(2) If the agreement is terminated pursuant to Clause (a) of Sub-byelaw (1), the account shall be closed pursuant to theses Byelaws, by transferring the securities in the other account the beneficiary with other depository participant in the consent of the beneficiary after receiving the due fees or charges from the beneficiary, or by rematerializing the securities.

(3) If the depository participant terminated the agreement without mentioning any reason or without any fault of the beneficiary, however the

agreement is terminated due to the fault of the depository participant, the beneficiary shall reimburse all fees or charges or expenses paid for transferring the securities in another account or for rematerializing the securities from the depository participant.

(4) The termination of the agreement between depository participant and beneficiary shall not affect the rights and obligations generated before termination of the agreement.

## Chapter – 5

### Provisions relating to transfer of securities

29. **Transfer of Securities Traded in Securities Market:**<sup>11#</sup>(1) For the purpose of clearing of the transaction of the traded in securities market the beneficial owner for the purpose of depositing securities into the account of clearing account of stock broker from their account or in early paying account or into CDSC through the transaction account of stock broker direction receipt to the depository participant in the format prescribed in schedule – 23 shall have to be issued.

<sup>12##</sup>(a) If any depository participant or clearing member commits any mistakes relating trading, they along with evidence shall have to submit an application for rectifying such mistakes and if the reasons are found correct while undergoing inquiry of such application received CDSC mentioning remarks can give consent to rectify such mistakes by charging one hundred rupees per amendment and to deposit securities into the account of the concerned beneficiary that are deposited into the account of other beneficiaries.

1. If securities that are to be deposited into the Demat account of one beneficial owner are deposited into other beneficial owner's Demat account,
2. If mistakes in mentioning beneficial owner's name, Citizenship Certificate number, Settlement ID, ISIN, number of shares,
3. If wrong entry of beneficial owner identity number that are to be mentioned in the system are made,
4. If dual entry of client code are made,
5. Instead of transferring shares into the account of concerned buyer by the clearing member during book close, corporate benefits are

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<sup>11#</sup>Amended by Second amendment 2073 (2017)

<sup>12##</sup>Added by Second amendment 2073 (2017)

transferred into clearing account issued by any institutional organization.

(2) After making necessary examination on the instruction sleep received pursuant to Sub-byelaw (1), the depository participant shall deposit the securities in the account of securities broker or early pay in account or clearing account of the CDSC by entering the order as mentioned in the instruction sleep in the central depository system.

(3) Before entering the order pursuant to Sub-byelaw (2), the depository participant shall be sure whether there is sufficient amount of securities or not in the beneficiary account.

(4) Deposited securities in the clearing account after the completion of the trading, the securities broker shall deposit the securities in the clearing account of the CDSC within the specific time, for the purpose of clearing.

(5) Notwithstanding anything contained in Sub-byelaw (4), the securities broker, by issuing instruction sleep as prescribed in Schedule-23, shall deposit the securities collected for the purpose of clearing in the early pay in account by deducting them from the clearing account, before the specified time.

(6) After the completion of clearing, the CDSC shall transfer the securities deposited in its clearing account to the clearing account of the buyer securities broker.

<sup>13#</sup>(7) Direction receipt to the concerned depository participant in the format prescribed in schedule – 23 to deposit securities received into the clearing account of buyer broker pursuant to sub-by-rule (6) into the Demat account of buyer beneficial owner. Pursuant to such DIS the depository participant shall have to deposit securities into the Demat account of beneficial owner or the buyer broker can give direction in electronic form to deposit into the buyer of beneficial owner Demat account that are received into the clearing account of buyer broker.

Provided however that, if the broker wishes to transfer securities directly into the Demat account of concerned beneficial owner from the clearing account of CDSC application stating the same matter shall have to be given to CDSC and by the approval of CDSC it can be deposited into the Demat account of beneficial owner.

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<sup>13#</sup> Amended by Second amendment 2073 (2017)

(8) The CDSC shall instruct the securities broker to transfer the deposited securities to its clearing account from the clearing account of the CDSC to the account of concerned beneficiary, by specifying time from time to time.

(9) If the securities broker could not transfer the securities pursuant to Sub-byelaw (7) due to non-fulfillment of obligation by the beneficiary, the securities broker shall issue instruction sleep to its depository participant to deposit the securities to the securities broker's temporary account and it shall be notified to the CDSC and securities market, with mentioning reason.

(10) After fulfillment of obligation by the beneficiary, the securities deposited to the temporary account of the securities broker pursuant to Sub-byelaw (9), the securities broker shall provide the securities to the beneficiary and inform it to the CDSC and securities market.

(11) If any institutional profit, to be paid to the beneficiary, deposited in the clearing account or temporary account of securities broker, the securities broker is obliged to deposit the profits to the account of the concern beneficiary.

(12) If the securities deposited to the clearing account of the securities broker for trading in securities market could not be traded in the securities market, the securities broker shall return the securities to the accounts of the concerned beneficiary.

**30. Other Transfer:**(1) For transferring the securities not listed in securities market or the securities permitted to trade outside the system of securities market, the concern securities trader or beneficiary shall submit an application to the depository participant in the format prescribed in Schedule-24.

(2) The application pursuant to Sub-byelaw (1), shall include the following details and documents:

(a) Documents to prove buying and selling or transaction between two parties

(b) Other required documents, as asked.

(3) After making necessary examination, the depository participant shall manage for transfer of the securities.

<sup>14</sup>~(4) For the securities transferred thereof in household, the securities receivable from the deed of share partition of property as well as the securities to be transferred thereof to the successor after the death of owner of securities, the concern party should submit the following application enclosing the fees pursuant to Schedule-25(A);

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<sup>14</sup> ~ Amended by Fourth Amendment 2075 (2018)

- (a) In case the securities have to be transferred thereof in the name of the member of three generation of same household, the owner of securities should submit an application before Depository Participant in which he/she has beneficiary account upon filling up the form pursuant to Schedule-25(B) and enclosing the details of the individual to whom the securities have to be transferred.
  - (b) The receiver of the securities from the deed of share partition of property should fill up the form pursuant to Schedule-25(B) and should submit an application before the Depository Participant, where he/she has beneficiary account, along with the details of an account in which the securities are deposited.
  - (c) After the demise of the security owner, the heir should fill up the form pursuant to Schedule-25(C) and submit an application before the Depository Participant, where he/she has beneficiary account, along with beneficiary account details of the securities deposited thereof in the name of the securities' owner.
  - (d) Notwithstanding whatsoever written in Section (c), if the securities to be transferred thereof to the heir after the death of security owner are in corporeal forms, the heir should fill up the form pursuant to Schedule-25(D) and submit an application before the Depository Participant, where he/she has beneficiary account, upon enclosing securities certificate of the security owner."
- (5) The application pursuant to Sub-byelaw (4), shall include the following details and documents:
- (a) In case of the securities acquired from partition shall submit the follow two copies of each, documents:
    1. Attested copy of citizenship certificate of buyer and seller,
    2. Attested copy of the deed registered in the Land Revenue Office (Malpot Office),
    3. Other required documents as asked.
  - <sup>15</sup>~(b) For the transfer of securities after the death, the 2/2 copies of following documents should be submitted;
    1. A photocopy of the death registration certificate,
    2. A photocopy of deceased's citizenship certificate,
    3. A certified copy of the heir's citizenship certificate,

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<sup>15</sup> ~ Amended by Fourth Amendment 2075 (2018)

- 4. A relationship verification certificate and the copies of citizenship certificate of all the persons mentioned thereof,
  - 5. Letter of consent of other heirs."
- (c) In case of household transfer of securities within the three generation of the same family shall submit the following two copies of each documents:
1. Application of both transferor and transferee of the shares,
  2. Document to prove family within three generation,
  3. Copy of citizenship certificate of both transferor and transferee of the shares,
  4. Original shares certificates,
  5. Attested copy of relationship certificate between transferor and transferee of the shares,

<sup>~~~<sup>16</sup></sup>(d)

<sup>17~~~</sup>(6) In case an application is received in accordance with the section (a), (b), (c) or (d), the concerned Depository Participant should verify such application and enclosed documents and enter them to CDSC System.

<sup>18~~~</sup>(7) After making entry by Depository Participant pursuant to Sub-byelaw (6), an application and all enclosed documents available thereof from system should be submitted to CDSC for the necessary action.

<sup>19~~~</sup>(8) If it is found appropriate after making necessary investigation of the application and documents received thereof from the Depository Participant pursuant to Sub-byelaw (7), CDSC should transfer the securities in accordance with the application.

<sup>20~~~</sup>(9) Notwithstanding whatsoever mentioned otherwise in this Byelaws, if the securities to be transferred thereof to the heir due death of the security owner, the transfer should be made only after publishing the 35 days' notice in the CDSC website to make a claim thereof on the securities.

<sup>21~~~</sup>(10) If the corporeal securities pursuant to Section (d) of Sub-byelaw (4) are transferred, CDSC should certify the transfer and send to concerned

<sup>16~~~</sup>Removed by Fourth Amendment 2075 (2018)

<sup>17~~~</sup>Amended by Fourth Amendment 2075 (2018)

<sup>18~~~</sup>Added by Fourth Amendment 2075 (2018)

<sup>19~~~</sup>Added by Fourth Amendment 2075 (2018)

<sup>20~~~</sup>Added by Fourth Amendment 2075 (2018)

<sup>21~~~</sup>Added by Fourth Amendment 2075 (2018)

enlisted Institution or Share Registrar of such Institution to deposit corporeal securities in the form of incorporeal one.

<sup>22~~~</sup>(11) While transferring securities after the death of security owner pursuant to this Byelaw, the arrangement of transfer of the bonus and dividend relating to such securities also should be made."

## Chapter-6

### Record and Details Delivery

**31. Records to be Maintained:** (1) Every depository participant shall maintain the following records and documents:

- (a) Details about identity of beneficiary and proof documents of it,
- (b) Details about materialization or dematerialization of securities and details about the accounts provided to the beneficiary,
- (c) Records of dealings on behalf of every beneficiary and application and order for dealings,
- (d) Details about pledge, cease and release of accounts, account closing and termination,
- (e) Details and records about dealings of depository participant with the CDSC and other stakeholders,
- (f) Other details and records as specify by the CDSC in time to time.

(2) Issuer body corporate or concerned registrar shall maintain the record of dematerialization or materialization of securities issued by it, by editing the details.

(3) The depository participant shall keep the records and documents safe at least five years. However, the depository participants shall keep the records about identity of the beneficiary safe for ever.

**32. Reconciliation:** (1) The CDSC shall facilitate to settle the dealings of depository participant and issuer body corporate or concerned register.

(2) The depository participant shall settle daily by examining the dealings.

(3) The CDSC shall provide details to the issuer body corporate and concerned registrar about the dematerialized amount of securities every at the end of the day.

(4) The issuer body corporate or concerned registrar, by examining the details pursuant to Sub-byelaw (3) and settling the dealings, shall maintain the records about securities up-to-date.

(5) If any erroneous thing is done, unconsciously, relating to deposit or transfer of securities by the depository participant, the CDSC may instruct the

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<sup>22~~~</sup>Added by Fourth Amendment 2075 (2018)

depository participant to correct the mistake, and if any loss happened to the beneficiary due to such mistaken job, the CDSC shall compel the depository participant to fulfill the loss.

(6) If the balance of the account of beneficiary is deducted due to the any erroneous job or any mistaken job or recklessness job of the depository participant, the CDSC shall compel the depository participant to fulfill the reduction of the securities.

(7) In the circumstances of compelling the depository participant to fulfill the loss pursuant to Sub-byelaw (5), if there is shortage of the securities, the CDSC shall compel the depository participant, considering the market price of the securities to pay the price of the securities, in cash immediately.

(8) If any loss arises to the beneficiary due to not following the terms and conditions of the agreement made pursuant to these Byelaws by the depository participant and issuer body corporate or registrar, the depository participant and issuer body corporate or registrar shall be responsible for the loss.

**33. Shall submit details and information:**(1) The depository participant shall submit the following details and information to the CDSC:

- (a) Audit report and annual report pursuant to Rule 28 of Regulations,
- (b) Information about appointment of auditor within 15 days, in case of such appointment,
- (c) Change of office addresses, director, chief executive officer, and company secretary, within three working days, in case the change occurred,
- (d) Information about appointment and alteration of law application personnel,
- (e) Complaints of beneficiary and their resolutions,
- (f) Other details about deposit of securities and operation of dealings that the CDSC ask time to time,
- (g) Information about postpone, suspension or termination of membership by the securities market, in case the depository participant is member of securities market,
- (h) Information that CDSC ask time to time about date for closing registration book, after registration of securities in the CDSC by each issuer, date of termination, date of payment of dividend or interest, date of annual general assembly, date of return of securities amount or date of termination of debenture, date of alteration of securities, date of execution of warrantee etc.

Notwithstanding anything contained in this Byelaw, this provision shall not apply in case of securities issued by the government or Nepal Rastra bank.

## Chapter - 7

### Inspection and Monitoring

**34. Shall inspect and monitor:**(1) The CDSC shall inspect and monitor about whether the depository participant doing its securities business by following the Act, Regulations, Byelaws, Directives and instructions or not.

(2) The CDSC shall carry out field or non-field inspection to the depository participant on the following matter.

- (a) Whether the records and details of accounts keep systematically or not,
- (b) Complaints relating to the activities of depository participant made from beneficiary, other depository participants or other persons,
- (c) Other appropriate subject matter due to the activities of the depository participant.

(3) For the inspection pursuant to Sub-byelaw (2), the CDSC may appoint expert from the persons not associated with the depository participant, if it deems necessary.

(4) The CDSC may inspect and monitor the depository participant by giving prior notice or not, pursuant to this Byelaw.

(5) The depository participant, its personnel and staffs shall be obliged to provide documents, details, and accounts, data and records etc relating to the deposit of securities, as demanded by the team of inspection and monitoring and shall be obliged to assist without creating any obstacles for inspection and monitoring carry out by the CDSC pursuant to this Byelaw.

(6) The report of field inspection shall be prepared within 15 days from the date of completion of the inspection, pursuant to this Byelaw.

(7) The officials involved in inspection and monitoring shall maintain absolute confidentiality on the details and information obtained from in course of inspection and monitoring. Provided that, in the demand of law executing institutions, such information, details and report may be provided.

## Chapter - 8

### Discipline and Proceedings

**35. Discipline and Proceedings:**(1) The CDSC may take action against the depository participant, one or more action(s) as mentioned below:

- (a) To make aware,
- (b) To direct for betterment,
- (c) To restrict for opening account of beneficiary,

- (d) To suspend or terminate the membership of depository participant,
- (2) Before taking action(s) pursuant to Sub-byelaw (1), clarification shall be asked, at least within 7 day.

Provided that, taking action pursuant Clause (a) and (b) of Sub-byelaw (1), it is not compulsory to ask clarification.

**36. Suspension of Depository participant:** (1) In the following circumstances, the CDSC may suspend the depository participant for not exceeding 6 months:

- (a) If not holding the qualifications according to Rule 20 of the Regulations,
- (b) If frequently violates the instruction of the Board or CDSC,
- (c) If the depository participant violates the Act, Regulations, Byelaws, Directives and agreement made pursuant to these Byelaws.
- (2) If any depository participant suspended pursuant to Sub-byelaw (1), the status of the depository participant shall be as below:
  - (a) Deprived and restricted from all the rights obtained from CDSC as a depository participant,
  - (b) The rights of beneficiary shall not be affected by the suspension of the depository participant,
  - (c) The suspension of the depository participant shall not affect the right of depository participant to claim against any other depository participant and rights of any other depository participant to claim against the suspended depository participant,
  - (d) The suspension of the depository participant shall not affect the rights of pledgee from the pledger beneficiary,
  - (e) The depository participant shall fulfill all the obligations and responsibilities as instructed by the CDSC in the period of suspension,
  - (f) The depository participant shall not carry out professional dealing through the CDSC or other depository participants.
  - (g) In the period of the suspension of any depository participant, the beneficiary shall have opportunity to transfer securities deposit into other depository participant or to re-materialize the securities.

**37. Dismissal of Depository participantship** (1) In the following circumstances, the CDSC recommend to the Board to dismiss the membership of depository participant:

- (a) Failure to make improvement as instructed,

- (b) Unable to carry out dealings due to the creation of situation for not releasing the suspension till the six months,
  - (c) If the depository participant request to the CDSC for dismissal of membership,
  - (d) If the depository participant declared insolvent,
  - (e) If it is proved that anything, knowingly, done to make any loss in the depository system,
  - (f) If the securities deposit transfer from account of beneficiary into other account without instruction of the beneficiary,
  - (g) If anything, knowingly, done to make any loss to the beneficiary,
  - (h) If frequently, violates the Act, Regulations, Byelaws and Directives as well as agreement made pursuant to these Byelaws.
- (2) The membership of depository participant shall be automatically suspended, after the dismissal process pursuant to Sub-byelaw (1) started.
- (3) Before dismissal of membership of depository participant pursuant to Sub-byelaw (1), the depository participant shall be instructed to fulfill its obligations.
- (4) Before dismissal of membership of depository participant pursuant to this Byelaw, the depository participant shall be given opportunity to submit clarification at least within 15 days.

- 38. Inform about the proceedings** (1) The CDSC shall inform to all the associated parties with the depository system about any proceedings undertake against any depository participant pursuant to this Byelaw.  
Provided that, in case of the dismissal of membership of any depository participant, the CDSC shall notify, publicly by publishing such notice in the national daily newspaper.

- (2) If any proceedings undertaken against any depository participant, the CDSC shall immediately, inform it to the Board.

## **Chapter – 9**

### **Provisions relating to Arbitration Committee**

- 39. Formation of Arbitration Committee** (1) To resolve any dispute arises among or between the CDSC, depository participant, body corporate issuer, registrar and any dispute arises from clearing service, an Arbitration Committee shall be formed.
- (2) There shall be at least three members in the arbitration committee pursuant to Sub-byelaws (1),

- (a) One representative from each disputing party,
  - (b) One representative from CDSC.
- (3) From the consent of the members of the arbitration committee formed pursuant Sub-byelaw (2), one independent person shall be appointed to work as the chief of the committee.
- (4) The secretariat of the arbitration committee shall be situated in the CDSC and the secretariat shall collect necessary expenses for the arbitration proceedings from the disputing parties.
- 40. Period for Making Award:** The arbitration committee shall make award within one month from the date of its formation. If the arbitration committee failed to make award within the period, the board of directors shall provide additional time for making award, in the request of the arbitration committee.
- 41. Award of the Committee:**(1) The arbitration committee shall make every award in writing and all the parties of the dispute shall affix their signature on the award.
- (2) Including date and place of the award, the award of the arbitration committee shall contain the basis and reason of the award.
- (3) The award made by arbitration committee pursuant to Sub-byelaw (1), shall be provided to the concerned parties within seven working from the date of making award.
- 42. Procedures of Arbitration Committee:**(1) The procedure of the activities of the arbitration committee shall be as prescribed by the committee itself.
- (2) The procedure prescribed pursuant to Sub-byelaw (1) shall be submitted to the CDSC for its knowledge, before starting the arbitration process.
- (3) If it deems necessary to reform the received procedure pursuant to Sub-byelaw (2), the CDSC shall instruct the arbitration committee to amend or reform the procedure.
- 43. Consideration over record of proceedings and Evidence:** If any member of the arbitration committee pursuant to this Byelaw died, or worked recklessly or renounced, the board of directors shall appoint another member in the place of him/her, and the newly appoint member shall complete the remaining work according to the proofs or start the proceedings from the very beginning.
- 44. Binding award for the parties and concerned representative:** All the parties shall follow all the things contained in the award of arbitration committee. Unless not submitted appeal challenging the award pursuant to these Byelaws, the award shall be final and binding to its parties. The death or legal

disqualification of any party, before or after making award, shall not dismiss the award made on the subject matter of the dispute.

45. **Right to Appeal:** The discontented shall submit appeal against the award of arbitration committee within 35 days from the date of making award, in the court pursuant to the prevailing law.

## Chapter – 10

### **Provisions relating to Arbitration Committee**

46. **May Deposit Instruments by Dematerializing:** The instruments which can store in electronic means, the CDSC shall deposit the instruments by dematerializing them.
47. **Relating to Confidentiality:** The staffs of CDSC, depository participant and issuer body corporate or registrar shall maintain confidentiality in the details, data, or information relating to beneficiary, except the conditions demanded from the legally authorized body.
48. **Data Protection:** The CDSC shall make necessary arrangement in transformation and restoration for protection of data in its system. The backup of data stored in the CDSC system shall be highly protected, and the depository participant, issuer registrar and clearing body shall also maintain the same protection system as the CDSC follows. To prevent access of unauthorized person in the data, the CDSC shall arrange appropriate protection measures.
49. **Formation of Sub-committee:**(1) For the effective functioning of the activities of CDSC, it may form sub-committees as per the need.  
(2) The member, function, duty, right, jurisdiction, procedural of the sub-committee formed pursuant to Sub-Byelaw (1) shall be as stipulated by the board of directors.
50. **May frame Operating Manual:** For the operation of central depository services, the CDSC shall frame and apply the operating manual, by the approval of the Board.
51. **Frame and Execution of Code of Conduct:** The CDSC may frame and apply the professional code of conduct for the depository participants.
52. **Removal of Difficulty:** In case of difficulty to implement things as mentioned in this Regulation or difficulty to implement this Byelaws, the Board, in approval of the CDSC, may interpret and clarify in this regard as per the requirement.
53. **To be as per these Byelaws:** These Byelaws shall be applicable in the matters specified under it.

**Schedule -1**  
(Related to Byelaw 3)

**CDS and Clearing Limited**  
**Thapathali, Kathmandu**

**Date**

**Subject: Request for Registration for Dematerialization**

It is requested to register the following Securities/Instruments of ..... established under the .....Act for dematerialization and receiving the certificate. The receipt or bank voucher of paying fee NRS....., enclosed herewith the application.

1. Brief Particulars about the body corporate
  - a. Name of the body corporate:
  - b. Address:  
Telephone No.....Fax.....  
Email.....Website.....
  - c. In case any foreign body corporate is promoter, Name and Address of the body corporate:
  - d. Date of registration of the body corporate:
  - e. Date of commencement of business:
  - f. Date of listing:
2. Particulars regarding promoter and their background:
  - a. Name and address of the promoters
  - b. In case any promoter is body corporate, the name and address of the director nominated by the body corporate
3. Particular regarding securities of the body corporate
  - a. Authorized capital.....price for per share unit.....
  - b. Issued capital..... price for per share unit.....
  - c. Paid up capital..... price for per share unit.....
  - d. Number of listing shares.....
4. Particulars regarding securities / instruments for registration
  - a. Type and price of the securities being registered:
  - b. Type and price of the instruments being registered:

5. Particulars regarding management

- a. Name of directors, address, ownership of shares taken
- b. Chief executive officer for taking main responsibly for management

6. Declaration:

The attached documents and information is true and factual, none of the details have been hidden or are expressed with exaggeration. If convicted to have concealed relevant fact or to have presented wrong document or information, we hereby submit to bear with consequences according to the terms of the law.

Authorized person

Seal of the body corporate:

Name:

Signature:

Designation:

Date:

**Note:** Any corporatebody entered into agreement for registration of securities in order to dematerialize pursuant these Byelaws, shall submit an ordinary application along with the details of securities for dematerialization of the securities issued after entering into the registration agreement.

**<sup>23\*</sup>Schedule -2**  
**(Related to Byelaw 3 and 4)**  
**Application Fee, Registration and Annual Charge**

**1. Registration Charge and Annual Charge**

<b>Paid up Capital of Corporate Body</b>	<b>Registration Charge</b>	<b>Annual Charge</b>
Up to NRs.200 Million	0.075% or Minimum NRs.50,000	NRs. 50,000
Above NRs. 200 Million to NRs.500 Million	0.050% or Minimum NRs. 150,000	NRs. 100,000
Above NRs. 500 Million to NRs.1 Billion	0.035% or Minimum NRs. 250,000	NRs. 1,50,000
Above NRs. 1 Billion to NRs.2 Billion	0.025% or Minimum NRs. 350,000	NRs. 2,00,000
Above NRs. 2 Billion to NRs. 5 Billion	0.015% or Minimum NRs. 500,000	NRs. 300,000
Above NRs. 5 Billion to NRs. 10 Billion	0.010% or Minimum NRs. 600,000	NRs. 400,000
Above NRs. 10 Billion	0.008% or Minimum NRs.700,000	NRs. 500,000

**2. Debenture/Savings, Preference Shares, Saving or Mutual Fund Registration and Annual Charge**

<b>Issued Amount</b>	<b>Registration Charge</b>	<b>Annual Charge</b>
Up to NRs. 500 Million	0.02% or Minimum NRs.50,000	NRs. 50,000
Above NRs. 500 Million to NRs. 1 Billion	0.015% or Minimum NRs.100,000	NRs.100,000
Above NRs. 1 Billion to NRs. 2 Billion	0.01% or Minimum NRs.150,000	NRs.150,000
Above NRs. 2 Billion to NRs. 5 Billion	0.0075% or Minimum NRs.200,000	NRs.200,000
Above NRs. 5 Billion	0.005% or Minimum NRs.300,000	NRs. 300,000

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<sup>23</sup> \*Amended by First amendment 2069 (2013)

### **3. For Securities not included in point no. (1 )and (2)**

<b>Issued Amount</b>	<b>Registration Charge</b>	<b>Annual Charge</b>
Up to NRs. 500 Million	0.02% or Minimum NRs. 50,000	NRs. 50,000
Above NRs. 500 Million to NRs. 1 Billion	0.015% or Minimum NRs.100,000	NRs.100,000
Above NRs. 1 Billion to NRs. 2 Billion	0.01% or Minimum NRs.150,000	NRs.150,000
Above NRs. 2 Billion to NRs. 5 Billion	0.0075% or Minimum NRs.200,000	NRs.200,000
Above NRs. 5 Billion	0.005% or Minimum NRs.300,000	NRs. 300,000

*Note: If any company's capital increases, the company has to pay registration and annual fees with the increased proportion.*

## **Schedule 3**

**(Related to Sub-byelaw (4) of Byelaw 3)**

### **Agreement between the CDSC and the Issuer**

The CDS and Clearing Ltd, the registered office situated in Kathmandu (hereafter 'CDSC') First Party and ..... , office situated in..... (details of legal entity) (hereafter 'Issuer') Second Party are agreed to enter into agreement pursuing the following terms and conditions:

#### **1. General Clauses**

- 1.1. The words and expressions used but not defined in this Agreement but defined under the Company Act, 2063, Securities Act, 2063, Securities' Central Depository Services Regulation, 2067 or the Bye-laws of CDSC shall have the meaning assigned to them under the aforesaid Acts, Regulations or Bye-laws as the case may be.
- 1.2. Unless otherwise warranted by the context or meaning thereof, the words or expressions "Beneficial Owner", "Issuer", "Depository participant" and "Registrar and Transfer Agency" used herein shall mean a Beneficial Owner, Issuer, Depository participant and Registrar to an Issue or Share Transfer Agent (as the case may be) respectively in relation to CDSC and the terms "Regulations", "Bye Laws" and "Operating Instructions" shall mean "Securities' Central Depository Services Regulations, 2067", Bye-laws of CDSC and the Operating Instructions issued by CDSC respectively.
- 1.3. The Issuer shall be bound by the "Securities' Central Depository Services Regulations, 2067", and agree to abide by the CDSC's Bye-laws and the Operating Instructions issued from time to time by CDSC in the same manner and to the same extent as if the same were set out herein and formed part of this Agreement.
- 1.4. The Issuer shall continue to be bound by the Bye-laws and Operating Instructions, even after ceasing to be an Issuer in so far as may be necessary for completion of or compliance with its obligations in respect of all matters, entries or transactions which the Issuer may have carried out, executed, entered into, undertaken or may have been required to do, including pending requests for dematerialization or Rematerialization of securities before ceasing to be an Issuer and which may have remained outstanding, incomplete or pending at the time of its ceasing to be an Issuer.

- 1.5. The obligations on the part of the Issuer herein contained are a reiteration of and/or are in addition to the obligations contained in the Bye-laws and the Operating Instructions, and the omission of one or more of such obligations from this Agreement shall not in any manner be construed as a waiver of such obligations as are not herein contained.

## **2. Costs, Fees and Charges**

The Issuer shall pay to Nepal Securities Board such fees, costs, charges and deposits as may be specified in the Operating Instructions for Issuers issued by CDSC from time to time. In the event of the Issuer failing to make payment of any such fees, costs, charges or deposits, as the case may be, on or before the respective due dates, CDSC shall be entitled to charge interest on any delayed payments at the rate as may be prescribed by CDSC.

## **3. Hardware and Software to be installed by the Issuer**

- 3.1. The Issuer shall install at its premises allocated for CDSC related activities such computers, printers, communication equipment and uninterruptible power supply units, systems software and any other equipment, hardware and software as may be specified by CDSC from time to time.
- 3.2. It is further agreed that all computers, communication equipment, printers, uninterruptible power supply units and all other hardware and software procured by the Issuer shall be of the specified configuration.
- 3.3. The above hardware and software set-up shall be utilized by the Issuer exclusively for CDSC specific application module and even if there be any spare processing or data storage capacity, the same shall not be used for any other application including the Issuer's back-office systems or operations.
- 3.4. The above hardware shall not be connected by the Issuer to its inter-office WAN (Wide Area Network) without the prior written permission of CDSC.
- 3.5. The Issuer shall, from time to time, at its own cost, carry out such addition, modification, upgradation or replacement of the said hardware and/or software as may be specified by CDSC.

## **4. Connectivity and Systems**

- 4.1. The Issuer and CDSC shall establish and maintain a continuous electronic means of communication with each other.

- 4.2. CDSC shall provide necessary Operating Instructions from time to time to the Issuer, as may be necessary for effective and prompt conduct of the business relating to depository operations.
- 4.3. The Issuer shall, in respect of its operations as an Issuer in CDSC, procure and maintain at its own cost such systems, procedures, means of communication, infrastructure, hardware, software, security devices and back-up facilities as CDSC may specify and shall upgrade or replace the same from time to time as may be specified by CDSC.
- 4.4. The Issuer shall comply with all systems and procedures recommended by CDSC and shall allow access to its systems to one or more teams of professionals with expertise or specialized skill in auditing the performance of computerized systems (called "Systems Audit Teams") designated by CDSC for periodic assessment of compliance with systems and procedures.

## **5. Effective date of commencement of dematerialization and Rematerialization**

The effective date of commencement of dematerialization, Rematerialization and transfer of securities in dematerialized form in respect of the said security shall be the date of execution of this Agreement.

## **6. Information / Documents to be furnished by the Issuer to CDSC**

- 6.1. The Issuer shall, furnish to CDSC, a copy of the letter approving listing and permitting commencement of trading in respect of the said security issued by the concerned stock exchange on the next day from the date hereof.
- 6.2. The Issuer shall provide information to CDSC:
  - 6.2.1. of all further issues in respect of the said security, if any, such as rights, bonus, public offerings etc., with all relevant details such as opening and closing dates, issue size, issue price, record date, book closure date, proportion, paripassu status etc., along with a copy of the offer document.
  - 6.2.2. such information shall be furnished to CDSC on the same day on which it is required to be furnished to any stock exchange where the said security is listed and in all other cases within two working days of the Issuer taking a formal decision in that behalf.

## **7. Details / Particulars to be furnished by CDSC to the Issuer**

- 7.1. CDSC shall furnish to the Issuer the details/particulars of beneficial owners as of the record date.

- 7.2. In addition to the above, CDSC may in its discretion provide, as and when required by the Issuer, on payment of such charges as may be specified by CDSC, details of beneficial owners.

## **8. Dematerialization**

- 8.1. CDSC will electronically intimate, on a daily basis, all dematerialization requests received from its depository participants to the Issuer.
- 8.2. Upon receipt of the Dematerialization Request Form along with the securities of which dematerialization is sought, the Issuer shall firstly verify the validity and authenticity of the certificates or other documents of title to the securities and accuracy of the contents of the Dematerialization Request Form and secondly, shall confirm from its records that such dematerialization has been required by the person whose name appears as the holder of those securities in the register of securities maintained by the Issuer in respect of those securities.
- 8.3. The Issuer undertakes that the data pertaining to the securities to be dematerialized received from depository participants through CDSC shall be validated against the database of securities maintained by the Issuer and that only valid securities with clear title shall be permitted to be dematerialized.
- 8.4. No dematerialization request shall be accepted in respect of any securities so long as the same are subject to any restraint, injunction, prohibition or attachment under any direction, order or decree of any court, tribunal, Government of Nepal, Board or any statutory or revenue authority empowered in that behalf or which are by law or under the terms and conditions of issuance thereof, prohibited from being transferred.
- 8.5. The Issuer shall electronically intimate CDSC regarding the confirmation or rejection, whether in part or in whole, of every dematerialization request within a period of 7 days from the date of receipt of the Dematerialization Request Form by the Issuer.
- 8.6. The Issuer shall in all cases retain the Dematerialization Request Form with it for such period as may be specified by law in that behalf subject to a minimum period of five years
- 8.7. The Issuer shall not refuse or reject any request for dematerialization of any securities into CDSC save and except for the following reasons:
  - 8.7.1. The certificates or other documents of title to the securities are found to be stolen, forged, fabricated or counterfeit;

- 8.7.2. In case duplicate certificates or other documents of title with the same distinctive numbers have already been issued in lieu of the original certificates/documents of title submitted for dematerialization;
  - 8.7.3. The securities in respect of which dematerialization is sought are subject to any restriction or prohibition on transfer thereof under any law in force for the time being or under the terms and conditions of the issuance thereof;
  - 8.7.4. Any other reason as may be specified by Board or CDSC in its Operating Instructions.
- 8.8. The Issuer shall return to the concerned Depository participant the certificates and/or other documents of title to such of the securities submitted for dematerialization as are rejected by the Issuer.
- 8.9. In all cases where the Issuer rejects any request for dematerialization of any securities in whole or in part, the Issuer shall communicate in writing to the concerned Depository participant the precise reason for such rejection.
- 8.10. Every intimation to CDSC permitting dematerialization of any securities shall be deemed to be backed by a representation and assurance by the Issuer to CDSC that such securities exist, are validly issued and stand in the records of the Issuer in the name of the beneficial owner who has sought dematerialization in respect of those securities.
- 8.11. The Issuer agrees and undertakes that the record of certificates of securities which have been dematerialized will be maintained by the Issuer in such manner as may be specified in the Bye-laws and Operating Instructions.
- 8.12. The Issuer shall at all times strictly ensure that the aggregate of securities under each ISIN in dematerialized form held in the depositories and the securities held in physical form is not higher than the securities which are listed on the stock exchange/s and in case of unlisted securities, the aggregate of securities under each ISIN in dematerialized form held in the depositories together with the securities held in physical form is not higher than the securities duly allotted in accordance with law. The Issuer shall carry out reconciliation on daily basis.

## **9. Rematerialization**

- 9.1. On receipt of an electronic intimation by CDSC from the Depository participant of its having received the Rematerialization Request Form

from a beneficial owner, CDSC shall immediately block the balance of the relevant securities lying in the account of the concerned beneficial owner to the extent of the quantity for which Rematerialization is sought and shall intimate electronically all such Rematerialization requests to the Issuer on a daily basis. Once the said balance is blocked as aforesaid, CDSC shall not permit any debits or creation of any pledge or hypothecation in respect of the blocked securities pending Rematerialization.

- 9.2. On receipt of the Rematerialization Request Form from the Depository participant, the Issuer shall match the particulars contained in the Rematerialization Request Form with the particulars made available by CDSC on the computer system and upon satisfying itself as to the accuracy of the particulars set out in the Rematerialization Request Form, the Issuer shall confirm electronically to CDSC and the concerned Depository participant that the Rematerialization Request Form has been accepted. Thereafter, the Issuer shall dispatch to the beneficial owner named in the Rematerialization Request Form at the address set out there in taking such precautions as may be necessary against loss in transit.
- 9.3. On receipt of an intimation of acceptance of Rematerialization Request Form from the Issuer, CDSC shall reduce the security balances to the extent of the rematerialized securities in the concerned beneficial owner's account.
- 9.4. The Issuer shall retain the Rematerialization Request Form with it for such period as may be specified by law in that behalf subject to a minimum period of five years.

## **10. Fresh Issue of Securities**

Where, the Issuer makes any further issue of the said security, the Issuer shall furnish to CDSC allotment details in the manner required by CDSC.

## **11. Procedure where identity of Beneficial Owner is not established**

In the event of an intimation being received by CDSC from the Issuer for credit of securities to the account of any beneficial owner whose identity cannot be established in CDSC, CDSC may reject such request.

## **12. Corporate Action and Benefits**

- 12.1. CDSC undertakes to provide a list of beneficial owners with relevant details to the Issuer as of the book closure date /record date or specified date.

- 12.2. The Issuer shall, in respect of the said security, provide timely information to CDSC about all corporate action including book closure date, record dates, dates for payment of interest or dividend, dates for the annual general meeting and other meetings, dates of redemption or maturity of securities, dates of conversion of debt into equity, dates of exercising warrants, call money dates, details of other corporate action such as merger, amalgamation or reconstruction of the Issuer, reduction of capital, forfeiture, re-issue, conversion of debt into equity, sub-division or consolidation etc. and such other information as may be specified by CDSC from time to time.
- 12.3. The Issuer shall be responsible for timely intimation of all corporate action to CDSC and the accuracy thereof as also for distribution of all corporate benefits. The Issuer shall also be solely responsible for the accuracy of advice as to corporate benefits conveyed by the Issuer to CDSC. The Issuer shall indemnify CDSC for any loss that may be caused to CDSC by reason of any incorrect or inaccurate information furnished by the Issuer to CDSC.

### **13. Reconciliation of Records**

The Issuer shall reconcile the record with all the securities including issued and traded, on a daily basis.

### **14. Inspection by CDSC**

CDSC shall be entitled to carry out inspection of the facilities, systems, records and books of the Issuer relating to all dealings of the Issuer with it through such persons as may be authorized in that behalf by CDSC and the Issuer shall permit the persons so authorized, entry into its premises during regular business hours on any working day and shall allow access to its facilities, systems, records and books and permit copies thereof to be made.

### **15. Events requiring immediate intimation by the Issuer to CDSC**

- 15.1. The Issuer shall notify CDSC forthwith:
  - 15.1.1. Upon a petition for winding-up of the Issuer being presented in any court or a resolution being passed for winding up of the Issuer;
  - 15.1.2. Any scheme being framed for merger, amalgamation or reconstruction of the Issuer;
  - 15.1.3. On its becoming aware of the presentation of any application or petition for its bankruptcy, insolvency, liquidation or attachment of its property;

- 15.1.4. upon its becoming aware of any distress, execution, attachment or other process being threatened or levied by any statutory or revenue authority against the Issuer or its property for recovery of any taxes, duties, levies, penalties, cesses or dues;
- 15.1.5. In case of any change in its financial conditions which may lead to its insolvency or winding-up or if it suffers a composition with its creditors;
- 15.1.6. upon any notice being received by the Issuer from any stock exchange on which any securities issued by the Issuer are listed or permitted to be traded, suspending trading or terminating listing of such securities on that exchange, including any show- cause or other notice threatening such action;
- 15.1.7. Upon the Issuer becoming aware of any event or occurrence which is reasonably likely to materially affect its commercial viability or existence or its ability to perform its obligations under this Agreement.
- 15.1.8. Any increase in or reduction of share capital or any other securities issued by the Issuer, and all Corporate Actions proposed to be undertaken by the Issuer.

## **16. Authorized Representative**

The Issuer shall, simultaneously with the execution of this Agreement furnish to CDSC, a list of officials authorized by it, who shall represent and interact on his/its behalf with CDSC. Any change in such list including additions, deletions or alterations thereto shall be forthwith communicated to CDSC.

## **17. Confidentiality**

- 17.1. The parties hereto shall keep strictly confidential all technical and business information including but not limited to that which may be disclosed or confided to it by the other in the course of the performance of the obligations under this Agreement or under the Bye-laws and neither party hereto shall disclose the same to any third party without prior approval of the other party hereto.
- 17.2. Either party hereto shall be at liberty to permit inspection or allow extracts to be made at any time of such details, particulars, data or information relating to any beneficial owner and/or his account to such extent and in such manner as may be required by any law in force for the time being and to provide or disclose such details, particulars, data or information relating to any beneficial owner and /or his account as may be required or

directed by any court, tribunal, Government of Nepal, Nepal Securities Board or any regulatory or revenue authority empowered by law in that behalf or as may be required for compliance with any obligations in law or for enforcement of any of its rights or for protection of its interest without reference or recourse to the other provided however that save and except as mentioned hereinabove, the Issuer shall not divulge or permit or suffer to be disclosed any such details, particulars, data or information relating to any beneficial owner and/or his account, to any party or person and shall hold such details, particulars, data and information in strict confidence.

## **18. Change in address**

The Issuer shall inform CDSC of any proposed change in the address of the Registered Office of the Issuer as also of any change of the location of the premises where the equipment for maintenance of computerized records, back-up facilities and communication with CDSC are situated, at least thirty days before the date of such change.

## **19. Back-up facilities**

- 19.1. The Issuer shall strictly follow the back-up procedure recommended by CDSC. A copy of the latest back-up of the database shall at all times be maintained at a remote site. CDSC shall not be liable to the Issuer for any loss or damage arising out of failure on the part of the Issuer to maintain up to date back-up of the computer program and the relevant data.
- 19.2. The Issuer shall permit access to any person/s designated by CDSC to inspect its back-up facilities and shall make available to CDSC such extracts or reports of the records maintained at the said back-up facilities as may be required by CDSC.

## **20. Redressal of grievances / complaints of beneficial owners**

The Issuer shall resolve grievances/complaints of beneficial owners and submit a report on the grievances so resolved to CDSC within 30 days from the date of receipt of such complaint / grievance by the Issuer.

## **21. Prohibition against Assignment etc.**

The functions, rights or obligations under this Agreement shall not be assigned or delegated to any party or person by the Issuer without the express prior written consent of CDSC.

## **22. Indemnity**

- 22.1. The Issuer shall indemnify and keep indemnified and saved harmless CDSC, its officers, employees, servants and agents from and against all

- harm, loss, damage, injury, taxes, levies, penalties, cesses, duties, suits, action, litigation, prosecution or other proceedings (and all costs, charges and expenses relating thereto) suffered or incurred by CDSC, its officers, employees, or agents or any of them, whether directly or indirectly on account of or as a result of any act, deed, matter or thing made done committed or omitted or suffered or permitted or caused to be done by the Issuer, his/its officers, employees, or agents contrary to or inconsistent with the terms, conditions and covenants herein contained including any default or breach of any provision/ s of the Act, Regulations, Bye Laws, this Agreement and Operating Instructions. For this purpose the willful act done committed or omitted of his/its officials, employees, agents are known as equivalent to the act done by the Issuer. Where any loss or damage is caused to any beneficial owner due to the negligence of the Issuer, CDSC shall, if it deems it necessary to do so, in the first instance make good the loss or damage incurred by such beneficial owner and CDSC shall be entitled to recover the same from the Issuer, inter alia, by adjustment of or appropriation from any security deposit held by CDSC .
- 22.2. CDSC shall indemnify and keep indemnified and saved harmless the Issuer from and against all harm, loss, damage or injury, and all taxes, cesses, duties, levies, penalties and all suits, action, litigation, prosecution, or any other proceedings (and all costs, charges and expenses relating thereto) suffered or incurred by the Issuer by reason of or on account of any act, deed, matter or thing made done executed or committed or omitted to be done by CDSC , its officers, employees contrary to or inconsistent with the terms, conditions and covenants herein contained including any breach or default of any provisions of the Act, Regulations, Bye-lawsor the Operating Instructions or by reason of any misrepresentation, fraud, forgery, theft, misappropriation or breach of trust by CDSC or its employees or by reason of CDSC failing to meet its obligations and/or liabilities to the Depository participant or on account of any deficiency in the services rendered by CDSC

### **23. Force Majeure etc.**

Notwithstanding anything contained herein or in the Bye Laws, neither party hereto shall be liable to indemnify or compensate the other for any breach, non-performance or delay in performance of any obligations under this Agreement or for any harm, loss, damage or injury caused to the other due to causes reasonably beyond its control including but not limited to tide, storm, cyclone,

flood, lightning, earthquake, fire, blast, explosion or war, rebellion, revolution, insurrection, embargo or sanction, blockade, riot, civil commotion, labor action or unrest including strike, lock-out or boycott, interruption or failure of any utility service, enemy action, criminal conspiracy, act of terrorism or vandalism, sabotage, unanticipated technological or natural interference or intrusion, any other irresistible force or compulsion.

#### **24. Service of Notice**

Any notice or communication required to be given under this Agreement shall not be binding unless the same is in writing and shall have been served by delivering the same at the present address of the receiver.

#### **25. Severability**

If any provision of this Agreement shall be held or adjudged by any competent court, tribunal or regulatory authority to be unlawful, void or unenforceable or if any such provision is rendered void or unenforceable by reason of any statutory amendment, notification or any judicial decision, such provision shall to the extent required be severed from this Agreement and rendered ineffective as far as possible without modifying the remaining provisions of this Agreement but shall not in any way effect the validity or enforcement of the rest of the provisions of this Agreement which shall continue to apply with full force and effect.

#### **26. Amendments/Modifications by Board to be binding**

The parties hereto shall be bound by any alterations, modifications or amendments to this Agreement or to any provisions thereof as may be required or directed by Board and shall execute all such deeds, documents or writings as may be required for giving effect thereto.

#### **27. No Waiver**

Neither party hereto shall be deemed to have waived, abandoned or relinquished any right, power, privilege or remedy available to it under this Agreement or in law except by a writing executed in that behalf and no failure or delay on the part of any of the parties hereto in the exercise of such right, power, privilege or remedy shall operate as a waiver thereof or as a waiver of any proceeding or succeeding breach by the other party to this Agreement nor shall any single or any partial exercise of any right, power, privilege or remedy preclude any other or further exercise of such or any other right, power, privilege or remedy available under this Agreement or otherwise available in law or in equity it being agreed that all such rights, powers, privileges and remedies are several and cumulative of each other.

## **28. Discipline and Proceedings**

For the disputes or differences could be arisen between the parties, the prescribed provisions of the Byelaws regarding arbitration committee is applicable.

## **29. Governing Language**

All deeds, documents and writings that may be executed and all correspondence that may be exchanged between the parties hereto in relation to the subject matter of this Agreement shall be in Nepali language, which shall be the governing language between the parties hereto.

## **30. Governing Law**

This Agreement shall be governed by and construed in accordance with the laws in force in Nepal.

## **31. Execution of Agreement**

This Agreement is executed in the original copy which shall be retained by each of the parties hereto.

### **First Party**

Authorized person on behalf of CDSC

Name of person Name of person

Signature

Seal of Company

### **Witness**

1.....

Date

### **Second Party**

Authorized person on behalf of Issuer

Name of person Name of person

Signature

Seal of Company

### **Witness**

1.....

**Schedule -4**  
(Related to Byelaw 10)  
Format of application for Depository participant

**Date:**.....

**M/S CDS and Clearing Ltd.**

.....

Having keen interest to serve as a depository participant pursuant to Securities Act, 2063 and Rules, Byelaws and other prevailing laws, I would like to apply for obtaining permission to serve as a depository participant, along with the details and documents herewith the application.

The attached details and documents is true and factual, none of the details have been hidden or are expressed with exaggeration. If convicted to have concealed relevant fact or to have presented wrong document or information, we hereby submit to bear with consequences according to the terms of the law.

**Chief Executive**

Name:

Signature:

Name of the body corporate:

**<sup>24\*</sup>Schedule -5**  
**(Related to Byelaws 14 and 15)**  
**Membership Fee and Renewal Charge**

1. Membership Fee: NRs. 50,000.
2. Membership Renewal Charge: NRs. 25,000.

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<sup>24</sup>\*Amended by First amendment 2069 (2013)

## Schedule -6

(Related to Sub-Byelaw 2(A) of Byelaw 10)

Details relating to Director/ Chief Executive

Recent  
Passport  
size photo

1. Name:-

2. Permanent Address:-

.....Zone.....District.....

VDC/Municipality/Metropolitan.....Tole.....Ward.....Block

No.....Phone Number.....Fax.....Email.....

3. Recent Address:-.....Zone.....District.....

VDC/Municipality/Metropolitan.....Tole.....Ward.....Block

No.....Phone Number.....Fax.....Email.....

4. Name of Father:

5. Name of Grandfather:

6. Name of Husband or Wife:

7. Academic Qualification:

8. Professional Experience:

9. Training

10. Details in case of having ownership or holding post of benefit in other company or body corporate:

11. Details about proceedings is being undertaking or had been undertaken over own-self or self-involved company or body corporate pursuant to securities laws as well as other prevailing laws:

.....  
**Signature**

### **Documents have to be included:**

1. Proof of tax clearance of last fiscal year
2. Document to prove discharge from Black List of Credit Information Center, in case of black listed
3. Copy of testimonials for proving experience qualification
4. Copy of Citizenship

**Schedule -7**  
**(Related to Sub-Byelaw 2(B) of Byelaw 10)**

Details relating to the body corporate willing to obtain permission for  
depository participant

1. Copy of Registration Certificate
2. Memorandum and articles of association
3. Copy of agreement between promoters regarding depository participant, company incorporation, if any
4. Decision made by central depository to obtain membership
5. The following details prepare for office operation:
  - a. Details regarding place for office situated and area covered by the office,
  - b. Details regarding human resources managed for office operation,
  - c. Details regarding office instruments and technology for operation of office,

**Schedule -8**  
(Related to Sub-Byelaw 2(C) of Byelaw 10)

**Details relating to the body corporate taking ownership of shares of  
company of depository participant**

1. Copy of Registration Certificate
2. copy of memorandum and articles of association
3. Copy Act or Rules or Byelaws in case of incorporation by any specific Act,
4. Decision of Board of Directors for obtaining shares of company of depository participant,
5. Audited financial details of last three years, kept in the format prescribed by the prevailing law and annual report of each year of included activities  
(In case of company or body corporate not completed three years, the financial details and annual report of available years).
6. Declaration of company not blacklisted in the credit information center
7. Details about proceedings is being undertaken or had been undertaken over company or body corporate pursuant to securities laws as well as other prevailing laws
8. Tax registration certificate
9. Details about the ownership of other company, if any,
10. The following details and documents regarding director
  - a. Full name and address including three generation
  - b. Details about ownership or involvement in other company or body corporate, if any.

## **Schedule 9**

(Related to Byelaw 14)

### **Agreement between the CDSC and the Depository participant**

The CDS and Clearing limited, the registered office situated in Kathmandu (hereafter 'CDSC') First Party and ..... office situated in..... (Details of legal entity) (Hereafter 'Member') Second Party are agreed to enter into agreement pursuing the following terms and conditions:

#### **1. General Clauses**

- 1.1. The words and expressions used but not defined in this Agreement but defined under the Company Act, 2063, Securities Act, 2063, Securities' Central Depository Services Regulation, 2067 or the CDSC Byelaws, 2068 or the Bye-laws of CDSC shall have the meaning assigned to them under the aforesaid Acts, Regulations or Bye-laws as the case may be.
- 1.2. Unless otherwise warranted by the context or meaning thereof, the words or expressions "Beneficial Owner", "Clearing Corporation", "Issuer", "Member", and "Registrar" used herein shall mean a Beneficial Owner, Clearing Corporation, Issuer, Member and Registrar to an Issue or Share Transfer Agent (as the case may be) respectively in relation to CDSC and the terms "Act", "Regulations", "Bye Laws" and "Operating Instructions" shall mean "Securities' Central Depository Services Regulations, 2067", Bye-laws of CDSC and the Operating Instructions issued by CDSC respectively.
- 1.3. The Depository participant shall be bound by the "Securities' Central Depository Services Regulations, 2067", and agree to abide by the CDSC's Bye-laws and the Operating Instructions issued from time to time by CDSC in the same manner and to the same extent as if the same were set out herein and formed part of this Agreement.
- 1.4. The Depository participant shall continue to be bound by the Bye-laws and Operating Instructions, even after ceasing to be a Member in so far as may be necessary for completion of or compliance with his/its obligations in respect of all matters, entries or transactions which the Member may have carried out, executed, entered into, undertaken or may have been required to do, before ceasing to be a Depository participant and which may have remained outstanding, incomplete or pending at the time of his/its ceasing to be a Member .

- 1.5. The obligations on the part of the Member herein contained are a reiteration of and/or are in addition to the obligations contained in the Bye-laws and the Operating Instructions, and the omission of one or more of such obligations from this Agreement shall not in any manner be construed as a waiver of such obligations as are not herein contained.

## **2. Hardware and Software to be installed by the Member**

- 2.1. The Depository participant shall install at his/its premises allocated for CDSC related activities such computers, printers, communication equipment and uninterruptible power supply units, systems software and any other equipment, hardware and software as may be specified by CDSC from time to time.
- 2.2. It is further agreed that unless supplied directly by CDSC or its agents, all computers, communication equipment, printers, uninterruptible power supply units and all other hardware and software procured by the Depository participant shall be of the specified configuration and shall be sourced only from CDSC empanelled brands or any other brand which has been approved by CDSC in writing prior to such procurement.
- 2.3. The above hardware and software set-up shall be utilized by the Depository participant exclusively for CDSC specific application module and even if there be any spare processing or data storage capacity, the same shall not be used for any other application including the Depository participant's back-office systems or operations.
- 2.4. The above hardware shall not be connected by the Depository participant to its inter-office WAN (Wide Area Network) without the prior written permission of CDSC. CDSC reserves the right to deny such permission if, in its opinion, granting such permission involves violation of conditions relating to the operations of CDSC's own WAN as stipulated by Department of Telecommunications or if in permitting the same, CDSC apprehends any risk to the integrity of its WAN or for any other reason as may be deemed fit by CDSC.
- 2.5. The Depository participant shall, from time to time, at his/its own cost, carry out such addition, modification, upgradation or replacement of the said hardware and /or software as may be specified by CDSC.

## **3. Connectivity and Systems**

- 3.1. The Depository participant and CDSC shall establish and maintain a continuous electronic means of communication with each other.

- 3.2. CDSC shall provide necessary Operating Instructions from time to time to the Depository participant, as may be necessary for effective and prompt conduct of the business relating to depository operations.
- 3.3. The Depository participant shall, in respect of his/its operations as a Depository participant in CDSC , procure and maintain at its own cost such systems, procedures, means of communication, infrastructure, hardware, software, security devices and back-up facilities as CDSC may specify and shall upgrade or replace the same from time to time as may be specified by CDSC .
- 3.4. The Depository participant shall comply with all systems and procedures recommended by CDSC and shall allow access to his/its systems to one or more teams of professionals with expertise or specialized skill in auditing the performance of computerized systems (called "Systems Audit Teams") designated by CDSC for periodic assessment of compliance with systems and procedures.

#### **4. Effective date of commencement of activity**

The effective date of commencement of activity by the Depository participant as a Depository participant shall be the date promise or assurance for operation of business granted by CDSC.

#### **5. Information to be furnished by the Member to CDSC**

- 5.1. The following information shall be furnished to the CDSC within the following period of time:
  - 5.1.1. In the event of the networth of the Depository participant falling below the networth last specified in the certificate issued under this clause, the Member shall forthwith intimate CDSC of the same and shall, if so required by CDSC furnish to CDSC a fresh networth certificate computed as aforesaid and duly certified by a Statutory Auditors, within three months after complete of fiscal year. CDSC may thereupon take such action as it may deem fit and necessary under the Act, Regulations, Bye-lawsor this Agreement.
  - 5.1.2. Where the Depository participant is a member of any recognized stock exchange and/or any clearing corporation or is a Depository participant in any other depository and commits any breach or violation of or defaults in compliance with the Bye-laws of such stock exchange, clearing corporation or other depository as the case may be or of any rules or regulations made by the Nepal

Government or by Board in that behalf or his/its operations, activities or membership is/are suspended or terminated by such stock exchange, clearing corporation or other depository as the case may be, the nature of the default and the reason for such default, suspension or termination to be communicated forthwith upon such occurrence, shall be communicated immediately;

- 5.1.3. The number of complaints received from beneficial owners during the month, complaints redressed during the month, complaints remaining unredressed, the nature and status thereof and the steps taken by the Depository participant for redressal thereof, to be communicated before the 10th day of every succeeding month;
- 5.1.4. The Depository participant shall notify CDSC at the earliest of any change in respect of any of the particulars with regard to any of the matters contained in the application form submitted to CDSC.
- 5.1.5. The Depository participant shall provide such information relating to beneficial owners and their accounts with the Depository participant as may be required by CDSC from time to time.

## **6. Obligations of the Member**

- 6.1. The Member shall, before entering into any agreement with or opening any account of any beneficial owner during the subsistence of such agreement:
  - 6.1.1. Make all such inquiries as may be expedient and exercise due care and caution in ascertaining the bonafides and track record of the intending beneficial owner inter alia, by carrying out appropriate due diligence;
  - 6.1.2. Scrutinize the authenticity of all documents produced by the Beneficial Owners for opening the account or for dematerialization of securities;
  - 6.1.3. The Member shall not affect any debit or credit to the account of a beneficial owner unless the Member has received appropriate prior written instructions from the concerned beneficial owner;
  - 6.1.4. Separate accounts shall be opened and maintained by the Member in the name of each Beneficial Owner and the securities of each beneficial owner shall be kept segregated and shall not be mixed up with the securities of other beneficial owners or with the Depository participant's own securities.

- 6.1.5. The Depository participant shall preserve for a minimum period of five years, all original documents such as account opening forms, agreements with beneficial owners and instructions received from beneficial owners, as also copies of dematerialization request forms and Rematerialization request forms.
- 6.1.6. The Member's responsibility and liability for payment to CDSC of all fees, charges, dues and penalties in respect of all transactions and entries effected or carried out by or through the Member shall be unconditional.
- 6.1.7. The Depository participant shall, as far as possible, carry out instructions received from any beneficial owner on the same day on which the instructions are received and failing that, shall carry out the instructions before the close of working hours of the immediately succeeding working day.
- 6.1.8. The Member shall, forthwith upon discovering any loss, destruction or theft of any securities, instruments or documents belonging or owed to any beneficial owner that may have been entrusted to or may otherwise have come into the hands of the Member in the course of his/its business, notify CDSC, the concerned Issuer and/ or Registrar and beneficial owner in that behalf.
- 6.1.9. The Depository participant alone shall be responsible to ensure that all duties, taxes or levies, if any, of whatsoever nature that may be payable under any enactment in respect of entries, transactions or transfers effected by or through the Member are duly paid as required in law.
- 6.1.10. The Member shall process requests received from beneficial owners for dematerialization or Rematerialization within such time and in such manner as may be specified in the Bye-laws and Operating Instructions and shall be required to keep records of the same as laid down by the Regulations and by CDSC.
- 6.1.11. Notwithstanding anything to the contrary contained herein or in the Bye Laws, the Member shall not be bound to give effect to any entries or transactions and CDSC shall not be bound to permit any entries or transactions to be effected, which would violate any law or any decree or order of any court or tribunal or any order or direction of the Government of Nepal or Security

Board of Nepal or that of any other statutory or revenue authority that may have been served upon or intimated to the Member or CDSC or which to their knowledge, would constitute a breach of any covenant or undertaking given to any court, tribunal or statutory or revenue authority or which CDSC otherwise deems not to be in its interest or that of its Member or beneficial owners.

- 6.1.12. Any order of a Court, Tribunal, Government or other competent authority relating to freezing of a beneficial owner account or taking any action in relation to a beneficial owner account which is within the purview of obligations cast on a depository under the Act and/or Regulations, shall be effected by CDSC or Member only on receipt from such authority the Beneficial Owner Identification Number or Permanent Account Number coupled with specific directions if the same are not set out in such order with sufficient accuracy.
- 6.1.13. The Depository participant alone shall be responsible for taking necessary action on the instructions and/or mandate given by the Beneficial Owner and the Depository participant alone shall be liable to the Beneficial Owner for default or failure in carrying out the instructions and/or mandate of the Beneficial Owner.
- 6.1.14. The Member shall strictly comply with the time schedule specified from time to time by CDSC for data entry and transfer for clearing and settlement of dealings.
- 6.1.15. The Depository participant shall furnish to the Beneficial Owner a statement in such form as may be specified of his/its account at the end of every month if there has been even a single entry or transaction during that month, and in any event once at the end of each fiscal year.
- 6.1.16. The Member assumes full responsibility for verifying the authenticity of instructions issued by or on behalf of Beneficial Owners including signature/s of the beneficial owner/s on the instruction slips and undertake to process the instructions after satisfying itself about the accuracy and genuineness of the signatures on the instructions slips. The Depository participant shall ensure that it has in place appropriate systems and/or processes as CDSC and/or Board may specify from time to time in this regard.

6.1.17. It shall be the duty of the Member to ensure that no account of any Beneficial Owner is opened unless it complies with the provisions of the Act, Regulations, and guidelines, notification, circular or any communication by whatever name called issued by Nepal Securities Board and Nepal Rastra Bank and the provisions of these Bye-laws and Operating Instructions, letters or communication in any form issued by CDSC and circulars issued by Nepal Securities Board and Nepal Rastra Bank from time to time as may be applicable.

## **7. Obligations relating to Member's own account**

- 7.1. The Member shall not commingle the securities held by it in his/its own right in CDSC with those held by it as the Member on behalf of beneficial owners.
- 7.2. The Member shall comply with such procedures for deposit and withdrawal of securities to and from any of his/its own accounts (as distinguished from the accounts of beneficial owners with it) as may be laid down under the Bye-laws and Operating Instructions.

## **8. Reconciliation and Rectification of Errors**

- 8.1. The Member shall reconcile its records with CDSC on a daily basis. The Member shall, as a continuous process and on an ongoing basis, check and reconcile with his/its own records and those of his/its beneficial owners, all records, balances, advices, statements and reports received by the Member from CDSC and promptly notify CDSC of any error or omission in such records, balances, advices, statements and reports.
- 8.2. Any advice, statement or report provided by CDSC shall in the absence of manifest error or fraud, be conclusive as to its subject matter. Unless otherwise agreed to by CDSC, the failure of the Member to inform CDSC of any error or omission in any advice, statement or report within the time frame stipulated by CDSC shall constitute a waiver in favor of CDSC by the Member of any right to require rectification.
- 8.3. CDSC may, if it is satisfied that it is in the interest of any beneficial owner/s, entertain a late request by the Member to rectify an error or omission as aforesaid. If CDSC entertains a late request by the Member, the Depository participant shall be liable for any loss caused to CDSC or to any other Member or beneficial owner due to such late request.
- 8.4. CDSC reserves the right to rectify any erroneous entry or transaction made to the account of any beneficial owner. In the event of CDSC

carrying out any such rectification, CDSC shall inform the Member and the concerned beneficial owner of such rectification.

- 8.5. Without prejudice to any other rights or remedies that CDSC may have, in the event of any erroneous entry or transaction having been affected on account of any error, mistake or negligence on the part of the Member resulting in wrongful reduction in or a negative balance of securities in the account of any beneficial owner, CDSC may, in its absolute discretion, do one or more of the following:
  - 8.5.1. Require the Member to replenish the deficient securities at the Member's own cost and expense;
  - 8.5.2. Itself purchase such deficient securities as replenishment at the prevailing market price. The cost and expenses incurred by CDSC in connection with purchase of such securities shall be borne by the Member. The Member shall reimburse CDSC for all costs, fees, charges, expenses, liabilities, losses and damages incurred by CDSC in connection with the purchase or replenishment of such deficient securities by CDSC as aforesaid;
  - 8.5.3. If the deficient securities cannot for any reason whatsoever be replenished within the time specified by CDSC , CDSC may require the Member to forthwith reimburse the concerned beneficial owner by payment in cash of an amount equivalent to the market value of the deficient securities as on the date of such erroneous entry or transaction or as on the date of such reimbursement, whichever is higher and call upon the Member to make good such amount within such period as CDSC may deem fit;
  - 8.5.4. Call upon the Member to forthwith pay to CDSC such amount as CDSC considers appropriate by way of security or additional security pending replenishment of the deficient securities or reimbursement in lieu thereof.

## **<sup>25\*</sup>9. Ceiling on Holdings**

The deposit management by the depository participants for the securities owned by beneficial owners in terms of market value shall not exceed five hundred times of its net worth.

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<sup>25</sup> \*Amended by First amendment 2069 (2013)

## **10. Form of Agreement to be binding**

Notwithstanding anything contained herein the Member shall strictly adhere to the form of the draft agreement annexed as SCHEDULE of the Bye-laws in respect of every agreement that may be entered into by the Member with every beneficial owner and Stock Broker respectively and no variation, modification, addition, alteration or deletion thereto shall be effected except with prior written consent of CDSC in that behalf. The Member shall be solely responsible for any statement or representation made or any obligation or liability undertaken by him/it in so far as the same is contrary to or inconsistent with or is in excess of the said draft agreement and/or the Bye-laws and Operating Instructions or which is otherwise not authorized by CDSC .

## **11. Internal controls and Audit**

- 11.1. The Member shall install and maintain suitable systems, audit and control measures including setting up of separate internal controls and an audit department inter alia for regularly reviewing his/its internal operations ensuring due compliance and maintaining the integrity and confidentiality of data transmitted to CDSC as may be laid down under the Bye-laws and Operating Instructions.
- 11.2. The Member shall from time to time submit such operational, financial, technical or other data, information, reports and returns, in relation to his/its activities and operations as a Member, duly audited and certified by a Chartered Accountant, 14[a Company Secretary in practice] or by a Systems Auditor, as the case may be, in such form and manner and within such period, as may be specified in the Bye-laws and Operating Instructions.

## **12. Inspection by CDSC**

CDSC shall be entitled to carry out inspection of the facilities, systems, records and books of the Member relating to all dealings of the Member with it through such persons as may be authorized in that behalf by CDSC and the Member shall permit the persons so authorized entry into his/its premises during regular business hours on any working day and shall allow access to his/its facilities, systems, records and books and permit copies thereof to be made.

## **13. Events requiring immediate intimation by the Member to CDSC**

- 13.1. The Member shall notify CDSC forthwith:
  - 13.1.1. In case the Member is a company or a body corporate, upon a petition for winding up being presented in any court or a resolution being passed for winding up of the Member;

- 13.1.2. Any scheme being framed for merger, amalgamation or reconstruction of the Member;
- 13.1.3. On it's becoming aware of the presentation of any application or petition for its bankruptcy, insolvency, liquidation or attachment of its property;
- 13.1.4. Upon its becoming aware of any distress, execution, attachment or other process being threatened or levied by any statutory or revenue authority against the Member or its property for recovery of any taxes, duties, levies, penalties, cesses or dues;
- 13.1.5. Upon any application being presented to any court for attachment of the assets or properties of the Member;
- 13.1.6. In the case of any change in his/its financial conditions which may lead to his/its insolvency or dissolution or winding-up or if it suffers a composition with his/its creditors;
- 13.1.7. Upon convening of any meeting to consider a resolution for the appointment of a liquidator or receiver or administrator in respect of any of its properties or any other change in circumstances which could materially affect its capacity to act as a Member;
- 13.1.8. In case the Member is also a Securities Broker, upon his/its being declared a defaulter or being suspended or his/its membership being terminated by the concerned stock exchange or clearing corporation or by Securities Market or Board.
- 13.1.9. In the event of the Member ceasing to meet any of the eligibility and/or admission criteria laid down by Board and/or CDSC.
- 13.1.10.Upon the Member becoming aware of any event or occurrence which is reasonably likely to materially affect his/its commercial viability or existence or his/its ability to perform his/its obligations under this Agreement or which constitutes a material adverse change in the eligibility criteria laid down by CDSC or by Board or any other regulatory authority under any law in force for the time being.

#### **14. Insurance cover**

The Member shall maintain such insurance coverage as CDSC may specify from time to time.

#### **15. Security to be furnished by the Member**

- 15.1. CDSC may, at any time, require the Member to provide, on demand, such security or additional or collateral security in such form, to such extent

and in such manner as may be determined by CDSC. For determining the amount of security or additional or collateral security, CDSC shall take into account inter alia, the level of unreconciled balances and excess or deficit balance of securities in the accounts of beneficial owners due to any fraud, negligence, error or omission on the part of the Member, his/its employees or agents. Such security shall be in addition to and independent of any security earlier furnished by the Member to CDSC.

- 15.2. The Member shall not sell, transfer or otherwise alienate or create or permit the creation of any mortgage, charge or other encumbrance or permit or suffer to be attached or otherwise jeopardize the title to any of the assets provided as security or additional or collateral security to CDSC.
- 15.3. CDSC may apply all or any of the security deposit/s or other security (including additional or collateral security) furnished by the Member to CDSC at any time without prior notice to the Member in or towards satisfaction of any of the obligations and/or liabilities of the Member to CDSC or to any beneficial owner/s, other Members, issuers, Registrar or clearing corporations as the case may be.

## **16. Authorized Representative**

The Member shall, simultaneously with the execution of this Agreement furnish to CDSC, a list of officials authorized by it, who shall represent and interact on his/its behalf with CDSC. Any change in such list including additions, deletions or alterations thereto shall be forthwith communicated to CDSC.

## **17. Confidentiality**

- 17.1. The parties hereto shall keep strictly confidential all technical and business information including but not limited to that which may be disclosed or confided to it by the other in the course of the performance of the obligations under this Agreement or under the Bye-laws and neither party hereto shall disclose the same to any third party.
- 17.2. Either party hereto shall be at liberty to provide or disclose such details, particulars, data or information relating to any beneficial owner and/or his account as may be required or directed in writing by any regulatory or revenue authority empowered by law in that behalf or as may be required for compliance with any obligations in law or for enforcement of any of its rights or for protection of its interest without reference or recourse to the other or to the concerned beneficial owner provided however that save and except as aforesaid, neither party shall divulge or permit or suffer to

be disclosed any such details, particulars, data or information to any party or person and shall hold such details, particulars, data and information in strict confidence.

## **18. Change in address**

The Member shall inform CDSC of any proposed change in address of his/its office/ registered office as also of any change in location of the premises where the equipment for maintenance of computerized records, back-up facilities and communication with CDSC are situated, at least seven days before the date of such change.

## **19. Back-up facilities**

- 19.1. The Member shall strictly follow the back-up procedure recommended by CDSC. CDSC shall not be liable to the Member for any loss or damage arising out of failure on the part of the Member to maintain up to date back-up of the computer program and the relevant data.
- 19.2. The Member shall permit access to any person/s designated by CDSC to inspect his/its back-up and shall make available such extracts or reports of the records maintained at the said back-up facilities as may be required by CDSC.

## **20. Redressal of grievances / complaints of beneficial owners**

The Member shall resolve grievances/complaints of beneficial owners and submit a report on the grievances so resolved to CDSC within 15 days from the date of receipt of such complaint / grievance by the Member in such manner as may be specified in the Bye-laws and Operating Instructions.

## **21. Prohibition against Assignment etc.**

The functions, rights or obligations under this Agreement shall not be assigned or delegated to any party or person by the Member without the express prior written consent of CDSC. Any purported assignment or delegation in contravention of the terms of this Agreement shall be null and void.

## **22. Suspension and Termination**

- 22.1. CDSC may, if it is satisfied that it is necessary so to do, at any time and on such conditions as it think fit, terminate this Agreement with the Member by communication in writing under the following circumstances:
  - 22.1.1. The Member no longer meets the eligibility and/or admission criteria to be a Member as laid down by Board and/or by CDSC;
  - 22.1.2. In the event of the Member being a company or body corporate, upon a petition for winding up being presented in any court or a resolution being passed for winding up of the Member.

- 22.1.3. In the event of the Member ceasing to carry on business as a Member with CDSC;
- 22.1.4. In case CDSC has reasonable grounds to believe that the Member is approaching financial difficulty or will be unable to meet his/its obligations in relation to CDSC or his/its beneficial owners;
- 22.1.5. In the event of bankruptcy, insolvency, liquidation or winding up of the Member or the initiation of any proceedings in relation thereto or if CDSC considers in its absolute discretion that the occurrence of such events are imminent or likely;
- 22.1.6. In the event of the appointment of a receiver or administrator of the assets of the Member or in the event of the Member suffering a composition with his/its creditors or in the event of a scheme of arrangement being approved by a court (other than for the purposes of reconstruction or amalgamation) or in the event of CDSC considering in its absolute discretion that the occurrence of such events are imminent or likely;
- 22.1.7. In the event of the Member's failure to pay security deposits, fees or any other charges as required under the Bye-laws or this Agreement (including any revised or increased fees, charges or deposits) or furnish additional or collateral securities within such time as may be required by CDSC ;
- 22.1.8. In the event of failure of the Member to fulfill the obligations arising out of the indemnification of CDSC by the Depository participant;
- 22.1.9. In case CDSC has reasonable grounds to believe that the Member has been responsible for negligence or fraudulent or dishonest conduct or has made a material misstatement or omitted to state a material fact in any statement to CDSC;
- 22.1.10. in case the Member has violated or committed any breach or default in the observance or performance of any provisions of the Act, Regulations, Bye-laws or this Agreement or has failed to comply with any Operating Instructions;
- 22.1.11. In case the Depository participant's registration granted by Board has been suspended or cancelled;
- 22.1.12. In case the Member is a member of a stock exchange, if the Member has been expelled or his/its trading privileges have been suspended by the Stock Exchange;

- 22.1.13. In case the Depository participant is an intermediary (other than as a Member) as contemplated by the Securities Act, 2063, in the event of suspension, termination or deregistration of the Member as such intermediary by Board or by any other regulatory body or authority empowered by law in that behalf;
- 22.1.14. In the event of the Member failing to redress grievances of beneficial owners to the satisfaction of CDSC;
- 22.1.15. In case CDSC has reasonable grounds to believe that the Member has been carrying on his/its activities in a manner which is detrimental to the interest of CDSC and/or beneficial owners or that the termination of the relationship with the Member is necessary for the protection of beneficial owners or other Member s or to facilitate the orderly performance of services rendered by CDSC;
- 22.1.16. In case the quality of the services rendered by the Member is not satisfactory in the opinion of CDSC as evidenced by the complaints of the beneficial owners and/or other Members, Issuers, and clearing corporations;  
Provided however that CDSC shall not take any action as aforesaid unless and until CDSC shall have issued a show-cause notice to the Member setting out the grounds on which this Agreement is sought to be terminated and the Member shall have been given a reasonable opportunity of being heard by any officer authorized by CDSC in that behalf and CDSC being satisfied on the strength of the report of such officer that it is necessary to terminate this Agreement with the Member;

### **23. Withdrawal by the Member**

- 23.1. The Depository participant shall be entitled to withdraw as a Member from CDSC by issuing to CDSC a communication in writing giving notice of not less than 21 days of his/its intention to terminate this Agreement with CDSC with effect from the expiry of the said period of 21 days or such further period as may be specified in the notice. CDSC may, however, require the Member to continue his/its business as a Member in CDSC for such further period not exceeding three months from the receipt of such notice if CDSC shall deem it necessary to do so in the interest of the beneficial owners or in the orderly functioning of CDSC. CDSC shall notify the Beneficial Owners of the Member, other

Members, clearing corporations and within 7 days of the Member ceasing to act as such.

- 23.2. The Member shall not be permitted to withdraw as a Member from CDSC unless and until the Member shall have provided satisfactory evidence to CDSC of its having:
  - 23.2.1. Issued notice of his/its intended withdrawal to all Beneficial Owners holding accounts with it;
  - 23.2.2. Transferred all accounts of the Beneficial Owners to any other Member/s of the Beneficial Owner's choice in CDSC;
  - 23.2.3. Ensured that there are no pending instructions or unresolved grievances/complaints of beneficial owners, CDSC, Issuer/ Registrar or clearing corporation;
  - 23.2.4 No amount due, owing or payable to Nepal Securities Board or to CDSC inter alia by way of fees, charges, penalties or interest.

#### **24. Consequences of Termination /Withdrawal**

- 24.1. On termination of this Agreement or on withdrawal by the Member, CDSC shall return to or make available for collection by the Member, all security deposits or other securities that may have been furnished by the Member to CDSC by way of collateral or additional security on expiry of six months from the date of cancellation of the certificate of registration as a Member by the Board or after resolving pending investor grievances, if any, to the satisfaction, whichever is later.  
Provided however that CDSC shall have the right (without prejudice to any other right or remedy available to CDSC in law) to retain any security/ deposit or to adjust or set off amounts from such security deposit equivalent to the amount which is due or is likely to become due to CDSC, other Members or beneficial owners in respect of transactions or entries effected by the Member during the currency of this Agreement.
- 24.2. Without prejudice to the above, CDSC shall be entitled to set off any earlier claims or rights of the Member against any amounts due to CDSC or any other persons entitled to any claim against the Member through CDSC , notwithstanding that such claim may have arisen after the date of termination of this Agreement.
- 24.3. CDSC shall, upon termination of this Agreement by CDSC or on receipt of communication in writing from the Member conveying his/its decision to withdraw from CDSC and/or to terminate this Agreement, notify all other Members and initiate suitable steps for the protection of the interests

of beneficial owners and other Members. CDSC shall notify other Members, clearing corporations, Issuer, Registrar and Board within seven days of the termination of this Agreement.

- 24.4. The Member shall be required to meet all his/its outstanding obligations to CDSC, whether incurred while the Member was acting as such or incurred thereafter but arising out of any action, transaction or dealings by the Member during the currency of this Agreement.
- 24.5. On termination of this Agreement or on withdrawal by the Member from CDSC, every beneficial owner holding an account with the Member shall have the option to either get his securities held with the Member transferred to another Member or get the same rematerialized. Notwithstanding anything stated above even after such termination or withdrawal, the Member shall continue to act as a Member for the limited purpose of either getting the securities held with the Member transferred to another Member or get the securities rematerialized.
- 24.6. Upon termination of this Agreement, CDSC shall give notice in writing to all beneficial owners holding accounts with the Member calling upon the beneficial owners to have their accounts transferred to any other Member within fifteen days from the receipt of such notice. In the event of there being any beneficial owners who have failed to have their accounts transferred to any other Member as aforesaid, CDSC shall nominate one or more Members to whom such accounts shall stand transferred for the time being.

Provided, however that no debits in respect of the securities in such transferred account shall be affected until such time as the concerned beneficial owner shall have entered into an agreement with any other Member.

- 24.7. Notwithstanding termination of this Agreement by CDSC or withdrawal by the Member, the provisions of this Agreement and all mutual rights and obligations arising there from shall, except in so far as the same is contrary to or inconsistent with such termination or withdrawal, continue to be binding on the parties in respect of all acts, deeds, matters and things done and transactions effected during the period when this Agreement was effective.

## **25. Indemnity**

- 25.1. The Issuer shall indemnify and keep indemnified and saved harmless CDSC, its officers, employees, servants and agents from and against all

- harm, loss, damage, injury, taxes, levies, penalties, cesses, duties, suits, action, litigation, prosecution or other proceedings (and all costs, charges and expenses relating thereto) suffered or incurred by CDSC, its officers, employees, or agents or any of them, whether directly or indirectly on account of or as a result of any act, deed, matter or thing made done committed or omitted or suffered or permitted or caused to be done by the Issuer, his/its officers, employees, or agents contrary to or inconsistent with the terms, conditions and covenants herein contained including any default or breach of any provision/ s of the Act, Regulations, Bye Laws, this Agreement and Operating Instructions. For this purpose the willful act done committed or omitted of his/its officials, employees, agents are known as equivalent to the act done by the Issuer. Where any loss or damage is caused to any beneficial owner due to the negligence of the Issuer, CDSC shall, if it deems it necessary to do so, in the first instance make good the loss or damage incurred by such beneficial owner and CDSC shall be entitled to recover the same from the Issuer, inter alia, by adjustment of or appropriation from any security deposit held by CDSC.
- 25.2. CDSC shall indemnify and keep indemnified and saved harmless the Issuer from and against all harm, loss, damage or injury, and all taxes, cesses, duties, levies, penalties and all suits, action, litigation, prosecution, or any other proceedings (and all costs, charges and expenses relating thereto) suffered or incurred by the Issuer by reason of or on account of any act, deed, matter or thing made done executed or committed or omitted to be done by CDSC , its officers, employees contrary to or inconsistent with the terms, conditions and covenants herein contained including any breach or default of any provisions of the Act, Regulations, Bye-lawsor the Operating Instructions or by reason of any misrepresentation, fraud, forgery, theft, misappropriation or breach of trust by CDSC or its employees or by reason of CDSC failing to meet its obligations and/or liabilities to the Depository participant or on account of any deficiency in the services rendered by CDSC

## **26. Force Majeure etc.**

Notwithstanding anything contained herein or in the Bye Laws, neither party hereto shall be liable to indemnify or compensate the other for any breach, non-performance or delay in performance of any obligations under this Agreement or for any harm, loss, damage or injury caused to the other due to causes reasonably beyond its control including but not limited to tide, storm, cyclone, flood, lightning, earthquake, fire, blast, explosion or war, rebellion, revolution, insurrection, embargo or sanction, blockade, riot, civil commotion, labor action or unrest including strike, lock-out or boycott, interruption or failure of any

utility service, enemy action, criminal conspiracy, act of terrorism or vandalism, sabotage, unanticipated technological or natural interference or intrusion, any other irresistible force or compulsion.

## **27. Service of Notice**

Any notice or communication required to be given under this Agreement shall not be binding unless the same is in writing and shall have been served by delivering the same at the present address of the receiver.

## **28. Severability**

If any provision of this Agreement shall be held or adjudged by any competent court, tribunal or regulatory authority to be unlawful, void or unenforceable or if any such provision is rendered void or unenforceable by reason of any statutory amendment, notification or any judicial decision, such provision shall to the extent required be severed from this Agreement and rendered ineffective as far as possible without modifying the remaining provisions of this Agreement but shall not in any way effect the validity or enforcement of the rest of the provisions of this Agreement which shall continue to apply with full force and effect.

## **29. Amendments/Modifications by Nepal Securities Board to be binding**

The parties hereto shall be bound by any alterations, modifications or amendments to this Agreement or to any provisions thereof as may be required or directed by Board and shall execute all such deeds, documents or writings as may be required for giving effect thereto.

## **30. No Waiver**

Neither party hereto shall be deemed to have waived, abandoned or relinquished any right, power, privilege or remedy available to it under this Agreement or in law except by a writing executed in that behalf and no failure or delay on the part of any of the parties hereto in the exercise of such right, power, privilege or remedy shall operate as a waiver thereof or as a waiver of any proceeding or succeeding breach by the other party to this Agreement nor shall any single or any partial exercise of any right, power, privilege or remedy preclude any other or further exercise of such or any other right, power, privilege or remedy available under this Agreement or otherwise available in law or in equity it being agreed that all such rights, powers, privileges and remedies are several and cumulative of each other.

## **31. Governing Language**

All deeds, documents and writings that may be executed and all correspondence that may be exchanged between the parties hereto in relation to the subject

matter of this Agreement shall be in Nepali language, which shall be the governing language between the parties hereto.

### **32. Governing Law**

This Agreement shall be governed by and construed in accordance with the laws in force in Nepal.

### **33. Headings**

The headings in this Agreement are for convenience and reference only and shall in no way affect the construction or interpretation of this Agreement.

#### **First Party**

Authorized person on behalf of CDSC  
Depository participant

Name of person Name of person

Signature

Seal of Company

#### **Witness**

1.....

Date

#### **Second Party**

Authorized person on behalf of

Name of person Name of person

Signature

Seal of Company

#### **Witness**

1.....

**Schedule -10**  
(Related to Byelaw 14)

**Membership Number:**

**Membership for Depository Participant**

This membership of depository participant is granted to M/S....., Head office situated in .....,pursuant to the Securities Act, 2063 and Rules and Byelaws under it and other prevailing laws.

S.N	Renew Date	Valid date	Signature of official of granting renewal

**Authorized Signature:**

Name:

Designation:

Date:

**Schedule -11**  
**(Related to Byelaw 15)**

**Date:**

**M/S CDS and Clearing Limited**

.....

**Subject: Request for Renew of Membership.**

It is requested, including the renewal fee along with this application, to renew my/our membership for the fiscal year ..... , which valid date is expired in.....

**Authorized Signature:**

Name:

Designation:

Seal of Body corporate

## **Schedule -12**

## Recent photograph

## **26# Format of Account Opening Form for Individual Beneficial Owner**

Please complete all details and strike out the non-applicable fields/boxes.

..... (Name of Depository Participant)

..... (Branch)

Types of Account:  Individual  Non Resident Nepalese  Foreigner

## **Details of Beneficial Owner**

Name of Beneficial Owner															
Date of Birth	B.S.	A.D.													
Gender	Male <input type="checkbox"/>	Female <input type="checkbox"/>													
Nationality	Nepali <input type="checkbox"/>	Other <input type="checkbox"/>													
Citizenship No:			Issue District			Issue Date									
Passport No.		Place of Issue	Issue Date			Expiry Date									

<sup>26</sup># Amended by Second amendment 2073

Types of Identity Card		Identification No.	Issuance Authority		Issue Date	
------------------------	--	--------------------	--------------------	--	------------	--

Correspondence Address:					
Country					
Zone :		District :		VDC /Municipality /Metropolitan	
Tole :		Ward No.:		Block No.:	
Telephone No.:			Mobile No.:		
Fax No.:			E-mail ID :		
Permanent Address :					
Zone :		District :		VDC /Municipality /Metropolitan	
Tole :		Ward No.:		Block No. :	
Telephone No. :			Mobile No.:		
Fax No. :			E-mail ID :		
Nearest Landmark :					

### Details of Family Members

Grand Father's Name :																			
Father's Name																			
Mother's Name																			
Spouse's Name																			
Son's Name																			
Daughter's Name																			
Daughter in-Law's Name																			

<b>Details of Occupation</b>						
Occupation	Service <input type="checkbox"/> Govt. <input type="checkbox"/> Public/Private Sector <input type="checkbox"/> NGO/INGO <input type="checkbox"/> Legal Expert <input type="checkbox"/> Expert <input type="checkbox"/> Businessperson <input type="checkbox"/> Student <input type="checkbox"/> Retired <input type="checkbox"/> House Wife <input type="checkbox"/> Others <input type="checkbox"/>					
Types of Business	Manufacturing <input type="checkbox"/> Service Oriented <input type="checkbox"/>					
Organization's Name		Address		Designation		
Financial Details	Income Limit (Annual Details) <input type="checkbox"/> Up to Rs. 1,00,000 <input type="checkbox"/> From Rs. 1,00,001 to Rs. 2,00,000 <input type="checkbox"/> From Rs. 2,00,001 to Rs. 5,00,000 <input type="checkbox"/> Above Rs. 5,00,000					

Standing Instruction for the automatic transactions	<input type="checkbox"/> Yes	<input type="checkbox"/> No		
Account Statement	<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> 15 days	<input type="checkbox"/> Monthly

#### **Guardian's Details (In case of Minor only)**

Name/Surname:			
Relationship with applicant:			
Correspondence Address :			
Country :	Zone		
District :	Telephone No. :		
Fax No. :	Mobile No. :		
PAN No. :	E-mail ID :		

#### **Note:**

1. In case of minor, guardian and minor's photos are required to submit.
2. In case of legal guardian, the related documents are required to submit.
3. In case of parents as a guardian, the copy of birth certificate is required to submit.
4. Guardian should sign and use thumb print in the boxes of applicant's signature and thumb print.

#### **For Non Resident Nepalese**

Foreign Address			
City		State	
Country	NRN Code No.		

#### **Bank Account Details**

Types of Bank Account	<input type="checkbox"/> Saving Account	<input type="checkbox"/> Current Account
Bank Account Number		
Name & Address of Bank		

## **Nominee's Details:**

In the event of my death or incapacity, the following named nominee shall be entitled to the balance of my demat account:

Name of Nominee :					
Relationship :					
Citizenship/Passport No.		Place of Issue		Age	
Correspondence Address :					
Country		Zone			
District		Telephone No;			
Fax No.		Mobile No. :			
PAN No. :		E-mail ID :			

Location Map	<b>Site Map of the Account Holder's Residence</b>  From main Road Street.....the distance of the Residence is ....meters (approximately).
--------------	---

I /We shall accept to the terms and conditions relating to the agreement between Depository Participants and Beneficial Owner, prevalent act, regulations, byelaws and any amendments on it. I/We hereby acknowledge that the above disclosed details are true. I further hereby consent to borne any legal actions in case any false disclosure of information related to me/us and the Depository Participants reserve right to close my account. All disputes are subject to the jurisdiction of courts in Kathmandu, Nepal.

**Name of Nominee:**

**Signature :**

## **Thumb Print**

<b>Right</b>	<b>Left</b>
--------------	-------------

**(Please use Black ink.)**

**Beneficial Owner's Copy**

Beneficial Account Number :

Shareholder's Details	
Name	
Authorized Signature	

Receipt

Application No.:

Date :

We received account opening form.

Shareholder's Name	
--------------------	--

**Depository Participant's**

**Name:**

**Signature:**

**Company's Stamp:**

## Schedule -13

(Related to Byelaw 20)

<sup>27</sup>#Format of Account Opening Form for Corporate Beneficial Owner

Please complete all details and strike out the non-applicable fields/boxes.

..... (Name of Depository Participant)

..... (Branch)

## Types of Account:

## Clearing

Beneficial Owner

others

Date of Incorporation	B.S. :	A.D. :
Types of Company	<input type="checkbox"/> Pvt. Ltd. <input type="checkbox"/> Public Ltd. <input type="checkbox"/> Govt. Owned <input type="checkbox"/> Others	
Country of Registration	<input type="checkbox"/> Nepal <input type="checkbox"/> Others (Please mention if other than Nepal)	

<sup>16</sup> # Amended by Second amendment 2073

### **Company's Additional Information**

Registration Office			
Registration No.:		Registration Date :	
PAN No. :		VAT Registration No. :	
Name and Address of Main Company in case of Subsidiary Company			
Types of business of the company		Area of Work	
Listed No. :		SEBON Registration Date	
NRB Registration No. :			

<b>Current Address of Company</b>					
Country					
Zone		District :	VDC /Municipality /Metropolitan		
Tole :		Ward No:	Block No:		
Telephone No:		Fax No.:	E-mail ID :		
Company's Registered Address:					
Zone :		District :	VDC /Municipality /Metropolitan		
Tole :		Ward No.:	Block No. :		
Telephone No. :		Fax No.:	E-mail ID :		
Nearest Landmark :				Website :	

### **Details of Clearing Member**

Name of Securities Market:								
Broker No.:								

### **Branch/Number of Office and Main Branches/ Office Location**

S.N.	Area	Main Branch/Office	Address	Telehpone No.:	Mobile No.	Contact Person
1						
2						
3						

-Separate details can be submitted in case of more than three. \_

### **Details of Directors, CEO and Authorized Account Operators**

S.N.	Name/ Surname	Designati on		Spouse's name	Father's Name	Grand Father's Name	Permanent Addres	Current Address	Telephone No.	Mobile No.	E-mail ID
1											
2											
3											
4											
5											

	First Authorized Person	Second Authorized Person	Third Authorized Person
Name			
Designation			
Signature			
Passport Size Photo	Photo	Photo	Photo

I /We shall accept to the terms and conditions relating to the agreement between Depository Participants and Beneficial Owner, prevalent act, regulations, byelaws and any amendments on it. I/We hereby acknowledge that the above disclosed details are true. I further hereby consent to borne any legal actions in case any false disclosure of information related to me/us and the Depository Participants reserve right to close my account. All disputes are subject to the jurisdiction of courts in Kathmandu, Nepal.

Location Map	Site Map of the Account Holder's Residence   From main Road Street.....the distance of the Residence is .....meters (approximately).
--------------	---

Name of Authorized Person:

Signature :

Company's Stamp:

-Please sign with black ink.\_

#### **Bank Account Details**

Types of Bank Account	<input type="checkbox"/> Saving Account <input type="checkbox"/> Current Account
Bank Account Number	
Name and Address of Bank	

**Beneficial Owner's Copy**

Company's Beneficial Owner Account No.																			
---	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

	First Authorized Person	Second Authorized Person	Third Authorized Person
Name			
Designation			
Signature			

**Receipt Copy**

We received the Account Opening Form.

Name of Beneficial Owner	
--------------------------	--

Depository Participant's

Name :

Signature :

Company's Stamp :

**28\*Schedule -14**

(Related to Sub-byelaw (3) of Byelaw 16 and 20)

(Related to Sub-byelaw (4) of Byelaw 21)

(Related to Sub-byelaw (1) of Byelaw 24)

(Related to Sub-byelaw (1) of Byelaw 25)

(Related to Sub-byelaw (2) of Byelaw 26)

(Related to Sub-byelaw (1) of Byelaw 29)

<b>Heading of Charge</b>	<b>Amount</b>	<b>Amount to be paid by the Depository Participants to CDSC</b>
Account Opening	NRs. 50	NRs. 5
Annual Account Maintenance Charge	NRs. 100	NRs. 10
Securities Transfer Charge	Per Transfer NRs. 25	20% of the amount received by the Depository Participants
Rematerialization Charge	NRs. 50	NRs. 5
Pledge Charge	NRs. 50	NRs. 5
Account Freeze Charge	NRs. 25	NRs. 2
Annual Online Service-Per Beneficial Owner	NRs. 150	NRs. 125

*Note: 1. Transfer of securities means the addition or deduction of securities in the beneficial owner's account in the condition when securities are purchased or sold.*

*2. The account freeze charge is waived in case CDSC or Depository Participants freezes the account of beneficial owner.*

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<sup>28</sup> \*Amended by First amendment 2069 (2013)

## **Schedule 15**

(Related to Sub-byelaw (3) of Byelaw 20)

### Agreement between the Depository participant and Beneficiary Person or Body Corporate

The ..... office situated in..... (details of legal entity) (hereafter 'Member'), First Party and ..... office situated in..... (details of legal entity) (hereafter 'Beneficiary') Second Party are agreed to enter into agreement pursuing the following terms and conditions:

#### **1. General Clause**

The parties hereto agree to abide by the provisions of Securities' Central Depository Service Regulations, 2068 and Bye-laws and Operating Instructions issued by CDSC from time to time in the same manner and to the same extent as if the same were set out herein and formed part of this Agreement.

#### **2. Reimbursement**

The Beneficiary shall pay to the member the prescribed amount within the stipulated time.

#### **3. Statement of Account**

<sup>29</sup>#The depository participant shall provide facility to view statement of Demat account of the beneficial owner through online. Similarly if beneficial owner request physical statement of securities the Depository Participant can provide the same. Provided however that, if no transaction in this period is done it is not necessary to provide the account statement.

#### **4. Beneficiary shall intimate change of particulars**

The Member shall not be liable or responsible for any loss that may be caused to the Beneficiary by reason of his/its failure to intimate change in the particulars furnished to the Member from time to time, unless notified by the Beneficiary.

#### **5. Member not liable for claims against Beneficiary**

CDSC and Member shall not be liable to the Beneficiary in any manner towards losses, liabilities and/ or expenses arising from the claims of third parties or for any fees, charges, taxes, duties, levies or penalties levied, imposed or demanded by any Central, State, statutory or revenue authority in respect of securities credited to the Beneficiary's account.

---

<sup>29</sup> # Amended by Second amendment 2073 (2017)

## **6. Every Beneficiary especially liable for the followings:**

- (a) In relation to the agreement between the depository participant and details and facts related to opening account;
- (b) Legality and truth of documents submitted at the time of opening account;
- (c) Conformity of deletions and additions from the account form the depository participant according to the Operation Instructions,
- (d) In relation to the changes in the account of the beneficiary account like address, bank statement status, authorization, order nomination signature etc.
- (e) In case of purchase of issued securities, about the true details of it.

## **7. Authorized Representative**

Where the Beneficiary is a body corporate or a legal entity, it shall, simultaneously with the execution of the Agreement furnish to the Member, a list of officials authorized by it, who shall represent and interact on its behalf with the Member. Any change in such list including additions, deletions or alterations thereto shall be forthwith communicated to the Member.

## **8. Termination**

The parties may at any time terminate this agreement, provided on the terms and conditions and procedure set out in the Bye-laws and the Operating Instructions. In the event of termination by either party, the Member shall deal with the securities lying in the account of a Beneficiary in accordance with the instructions of such Beneficiary.

## **9. Force Majeure**

Notwithstanding anything contained herein or in the Bye Laws, neither party hereto shall be liable to indemnify or compensate the other for any breach, non-performance or delay in performance of any obligations under this Agreement or for any harm, loss, damage or injury caused to the other due to causes reasonably beyond its control including but not limited to tide, storm, cyclone, flood, lightning, earthquake, fire, blast, explosion or war, rebellion, revolution, insurrection, embargo or sanction, blockade, riot, civil commotion, labor action or unrest including strike, lock-out or boycott, interruption or failure of any utility service, enemy action, criminal conspiracy, act of terrorism or vandalism, sabotage, unanticipated technological or natural interference or intrusion, any other irresistible force or compulsion.

## **10. Service of Notice**

Any notice or communication required to be given under this Agreement shall not be binding unless the same is in writing and shall have been served by delivering the same at the present of the receiver

## **11. Dispute Resolution**

The parties hereto shall, in respect of all disputes and differences that may arise between them, abide by the provisions relating to arbitration committee specified under the Bye Laws.

## **12. Governing Law**

This Agreement shall be governed by and construed in accordance with the laws in force in Nepal.

### **First Party**

Authorized person on behalf of Depository participant  
Authorized person on behalf of Beneficiary

Name of person:

Signature:

Seal of Company:

### **Witness**

1.....

Date

### **Second Party**

Name of person:

Signature:

Seal of Company:

### **Witness**

1.....

**Schedule -16**  
(Related to Byelaw 22)

**Order for Dematerialization**

M/S.....

Date:

**Subject: Relating to dematerialize**

**Dear Sir/Madam,**

Application has been submitted for dematerialization of the shares of ..... company, share No.....by ....., along with the prescribed fee hence it is requested to take appropriate steps on it.

S.N	Name of Company	Name of Shareholder	Share No.	Share Certificate No.	S.N.		Share Certificate No.	others
					from	upto		

**Regards**

Signature affixed at depository participant:

Signature affixed at Company

Name / Surname:

Address:

Telephone No.:

Email:

Father's/ Director's Name/ Surname:

Grandfather's Name/ Surname:

Husband's Name/ Surname:

Citizenship No.:

Date and place of issue:

Beneficiary identity Number:

Reason of Locking:

Upto the date of Locking:

**Schedule -17**  
(Related to Byelaw 24)

**Order for Rematerialization**

M/S.....  
.....

Date:

**Subject: Relating to rematerialize**

Dear Sir/Madam,

Application has been submitted for Rematerialization of the share of ..... .... company, share No.....by ....., along with the prescribed fee, hence it is requested to take appropriate steps on it.

**Regards**

Signature:

Name / Surname:

Address:

Telephone No.:

Email:

Father's/ Director's Name/ Surname:

Grandfather's Name/ Surname:

Husband's Name/ Surname:

Citizenship No.:

Date and place of issue:

Beneficiary identity Number:

**Schedule -18**  
(Related to Byelaw 25)

**Format of Freeze/unfreeze of account**

M/S.....

Date:

**Subject: Relating to freeze/unfreeze account**

Dear Sir/Madam,

It is applied to freeze/ unfreeze the account on the name of ....., along with the prescribed fee.

**Regards**

Signature:

Name / Surname:

Address:

Telephone No.:

Email:

Father's/ Director's Name/ Surname:

Grandfather's Name/ Surname:

Husband's Name/ Surname:

Citizenship No.:

Date and place of issue:

Beneficiary identity Number:

**Schedule -19**  
(Related to Sub-byelaw (2) of Byelaw 26)

**Details about pledge of Securities**

M/S.....

Date:

**Subject: Request to indicate for receiving securities in pledge**

It is informed you that total number of Shares..... of NRs.....of ..... Company is pledged and the documents regarding the pledge are attached with this application. It is requested, along with the prescribed fees,to you to state in the records of the company that the shares are pledged.

**Regards**

Signature:

Name / Surname:

Address:

Telephone No.:

Email:

Father's/ Director's Name/ Surname:

Grandfather's Name/ Surname:

Husband's Name/ Surname:

Citizenship No.:

Date and place of issue:

Beneficiary identity Number:

**Schedule -20**  
(Related to Byelaw 27)

Details regarding closing of account of beneficiary

M/S.....

Date:

.....  
.....

**Subject: Regarding closing account**

**Dear Sir/Madam**

It is requested to close my/our account and the prescribed fee for the same is along with this application.

**Regards**

Signature:

Name / Surname:

Address:

Telephone No.:

Email:

Father's/ Director's Name/ Surname:

Grandfather's Name/ Surname:

Husband's Name/ Surname:

Citizenship No.:

Date and place of issue:

Beneficiary identity Number:

## **\*Schedule -21**

(Related to Sub-byelaw (1), (3) and (5) of Byelaw 6,7 and 23)  
Charge levied by CDSC

### **To Depository Participants**

1. Software Installation and Maintenance Charge-NRs. 20,000

### **To the body corporate registered for Dematerialization**

1. Software Installation and Maintenance Charge-NRs. 20,000
2. Corporate Benefits Charge- NRs. 2 per beneficial owner \*
3. Initial Issuance Confirmation Charge- NRs. 1 per beneficial owner
4. Initial Issuance Verification Charge – NRs. 5 per beneficial owner

*\*(Bonus share, rights share, shareholding pattern change or related to any other corporate benefits)*

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*\*Amended by First amendment 2069 (2013)*

**Schedule -22**  
(Related to Sub-byelaw (4) of Byelaw 21)

**Agreement Between Depository participant and Stock Broker**

The ..... office situated in..... (details of legal entity) (hereafter 'Member'), First Party and ..... office situated in..... (details of legal entity) (hereafter 'Stock Broker') Second Party are agreed to enter into agreement pursuing the following terms and conditions:

**1. General Clauses**

- 1.1 The words and expressions used but not defined in this Agreement but defined under the Company Act, 2063, Securities Act, 2063, Securities' Central Depository Services Regulation, 2067 or the CDSC Bye-laws, 2068 shall have the meaning assigned to them under the aforesaid Acts, Regulations or Bye-laws as the case may be.
- 1.2. Unless otherwise warranted by the context or meaning thereof, the words or expressions "Beneficiary", "Clearing Corporations" "Issuer", "Member" and "Registrar or Share Transfer Agency" used herein shall mean as define in Securities' Central Depository Services Regulations, 2067 and Securities' Central Depository Services Bye-laws, 2067.
- 1.3. The Member shall be bound by the "Securities' Central Depository Services Regulations, 2067", and agree to abide by the CDSC's Bye-laws and the Operating Instructions issued from time to time by CDSC in the same manner and to the same extent as if the same were set out herein and formed part of this Agreement.
- 1.4. The Member and the Stock Broker shall continue to be bound by the Bye-laws and Operating Instructions even after ceasing to be a Member or a Stock Broker respectively in so far as may be necessary for completion of or compliance with their obligations in respect of all matters, entries or transactions which the Member may have carried out, executed, entered into, undertaken or may have been required to do, before ceasing to be a Member or a Stock Broker and which may have remained outstanding, incomplete or pending at the time of his/its ceasing to be a Member or a clearing member.

**2. Fees, Charges and Deposits**

The Stock Broker shall pay such fees, charges and deposits to the Member as may be mutually agreed upon, for the purpose of opening and maintaining of

the said accounts, for carrying out the instructions and for rendering such other services as are incidental or consequential to the operation of the said accounts as may be mutually agreed upon by the Member and the Stock Broker.

### **3. Responsibilities of the Stock Broker**

The Stock Broker shall be responsible for :

- 3.1. the veracity of all statements and particulars set out in the account opening form, supporting or accompanying documents and this Agreement;
- 3.2. the authenticity and genuineness of any documents submitted to the Member along with or in support of the account opening form or subsequently;
- 3.3. ensuring at all times that the securities to the credit of his special account are sufficient to meet the instructions issued to the Member for effecting any transaction;
- 3.4. informing the Member at the earliest of any changes in the particulars set out in the application form submitted to the Member at the time of opening of the account or furnished to the Member from time to time such as address, bank details, status, authorizations, mandates, nomination, signature, etc.

### **4. Accounts to be opened by the Stock Broker**

- 4.1. The Stock Broker shall open accounts for the purpose of clearing of securities.
- 4.2. The Stock Broker shall avail of all corporate benefits that may accrue in respect of securities held in beneficiary accounts and shall immediately transfer the same to the beneficiary account. The Stock Broker shall be responsible and liable to compensate the Beneficiary in case of not transfer such benefits to the beneficiary account by any reason.

### **5. Member to open separate account for each Stock Broker**

The Member shall maintain separate accounts for each Stock Broker and ensure that the securities of the Stock Broker are not mixed with the securities of any other Stock Broker or those of the Member.

### **6. Member to act only on instructions of the Stock Broker**

- 6.1. The Member shall act only on the instruction or mandate of the Stock Broker or that of such person/s as may have been duly authorized by the Stock Broker in that behalf in the manner provided by CDSC .
- 6.2. The Member shall execute the instructions of the Stock Broker. Such instructions are executed on behalf of member by the listed Authorized Representatives on behalf of the member. The Stock Broker shall

communicate to the depository participant about the additions, deletions or alterations or any changes in such listed Authorized Representatives.

## **7. Pledge / Hypothecation**

The Stock Broker shall not be entitled to pledge, hypothecate, mortgage or otherwise encumber the securities held in his accounts.

## **8. Freezing and Unfreezing of the Stock Broker's Account**

- 8.1. The Stock Broker may at any time exercise his right to freeze his account/s so as to freeze all operations in respect of such securities held in his account. The member shall freeze the accounts within such time from the receipt of valid instructions of Stock Broker in that behalf. The Member shall indemnify and keep indemnified the Stock Broker from any harm, loss, damage or injury that the Stock Broker may suffer or incur by reason of the Member's failure to freeze the Stock Broker's account within such time from the receipt of valid instructions in that behalf.
- 8.2. The special account/s of the Stock Broker shall be frozen by the Member, on the Member being served with any direction, order or decree of a court, tribunal, Nepal Government, Nepal Securities Board or any statutory or revenue authority or on receipt of written instructions from CDSC calling upon the Member so to do and upon such account being frozen, the Member shall forthwith intimate the Stock Broker of the same.

## **9. Member's Right to Lien**

The Member shall not exercise any lien without the prior approval of CDSC, on any securities belonging to the Stock Brokers held in dematerialized form in any account with the Member, as security for recovery of dues owed by Stock Broker to the Member in his capacity as such including any compensation for any loss caused to the Member and/or CDSC by reason of fraud, negligence or mistake on the part of the Stock Broker. The Member shall, upon receipt of such approval from CDSC, give notice in writing to the concerned Stock Broker of the exercise of such lien by the Member in respect of such of the securities held in the Stock Broker's account as CDSC may specify.

## **10. Statement of the Stock Broker's Accounts**

- 10.1. The Member shall furnish to the Stock Broker a statement of his account at the end of every month if there has been even a single entry or transaction during that month. The Member shall furnish such statements at such shorter periods as may be required by the Stock

- Broker on payment of such charges by the Stock Broker as may be specified by the Member.
- 10.2. The Stock Broker shall scrutinize every statement of his/its accounts received from the Member for the accuracy and veracity thereof and shall promptly bring to the notice of the Member any mistakes, inaccuracies or discrepancies in such statements.

## **11. Confidentiality**

The Member shall be at liberty to provide or disclose such details, particulars, data or information relating to the Stock Broker and his account as may be required or directed in writing by any court, or revenue authority empowered by law in that behalf or by CDSC or the concerned Issuer and/or Register or Clearing Corporation through CDSC or as may be required for compliance with any obligations in law or for enforcement of any of its rights or for protection of its interest without reference or recourse to the Stock Broker.

Provided however that save and except as aforesaid, the Member shall not divulge or permit or suffer to be disclosed any such details, particulars, data or information to any party or person and shall hold such details, particulars, data and information in strict confidence.

## **12. Events requiring immediate intimation by the Stock Broker**

- 12.1. The Stock Broker shall notify CDS and the Depository participant forthwith:
- 12.1.1. in case the Stock Broker is an individual, in the event of his incapacity to act as the Stock Broker;
  - 12.1.2. in case the Stock Broker is a body corporate, in the event of an order being passed admitting any petition for having it wound up or appointing a provisional liquidator or a resolution being passed for its winding up ;
  - 12.1.3. on its becoming aware of the presentation of any application or petition for its bankruptcy, insolvency, liquidation;
  - 12.1.4. upon its becoming aware of any distress, execution or other process being levied or served upon or against its property ;
  - 12.1.5. in case the Stock Broker, being declared a defaulter or being suspended, or his/ its membership being terminated by the concerned Stock Exchange or by Board;
  - 12.1.6. upon termination, suspension or de-registration of the Stock Broker or take any action against the Stock Broker by Securities Market or Board;

### **13. Redressal of grievances/complaints of the Stock Broker**

The Member shall promptly attend to all grievances/complaints of the Stock Broker and shall resolve all such grievances/complaints as relate to matters and shall intimate to the CDSC.

### **14. Closure of Account**

- 14.1. The Stock Broker, may, at any time terminate this Agreement by calling upon the Member to close all his accounts with the Member , provided no instructions remain pending or unexecuted and no fees or charges remain payable by the Stock Broker to the Member. In such event the Stock Broker shall make an application to the Member in the format specified by CDSC in that behalf. The Stock Broker may close such account by executing the account closing form if no balances are standing to its credit in such account. In case any balances of securities exist in the account sought to be closed, the accounts may be closed in one of the following ways:
  - 14.1.1. By Rematerialization of all existing balances in such account;
  - 14.1.2. By transfer of all existing balances in such account to one or more of his/its other account/s held with any other Member/s;
  - 14.1.3. ByRematerialization of a part of the existing balances in such account and by transferring the rest to one or more of his/its other account/s with any other Member/s.
- 14.2. The Member shall initiate the procedure for transfer of balances or for Rematerialization of securities in the Stock Broker's account, as the case may be, within a period of two working days from the date of receipt of instructions from the Stock Broker in that behalf.
- 14.3. The Stock Broker's special account shall not be closed if there exist any securities in the Stock Broker's accounts which are pledged or hypothecated or the account is unreconciled or if the closure of such account would result in breach or violation of any decree or order or injunction of any court, tribunal or statutory or revenue authority.
- 14.4. In the event of the Depository participant ceasing to be a Depository participant, the Stock Broker may either seek Rematerialization of his securities or request for the transfer of the securities in its accounts to other accounts opened with another Member.

### **15. Termination**

- 15.1. The Member may terminate this Agreement in the following conditions:
  - 15.1.1. Failing to pay the fees or charges as may be mutually agreed upon within a period of thirty days from the date of demand made in that behalf;

- 15.1.2. Being suspended or being declared defaulter by the said Stock Exchange or otherwise ceasing to be a member of the said Stock Exchange;
  - 15.1.3.Upon termination, suspension or de-registration of the Clearing Corporation or Stock Exchange by Board or by any other regulatory authority empowered by law in that behalf, of which the Stock Broker is a member or an account holder;
  - 15.1.5. Commits or participates in any fraud or other act of moral turpitude in his dealings with the Depository participant;
- 15.2. The Member may also terminate this Agreement without assigning any reasons for such termination provided the Member shall have issued at least one month's notice in writing to the Stock Broker in that behalf.
- 15.3. In the event of the Member terminating this Agreement, the Member shall call upon the Stock Broker to specify whether he desires to have the security balances in his accounts transferred to its accounts with another Member or to have the same rematerialized in the manner specified in the Bye-laws and the Member shall accordingly close the account of the Stock Broker. Where the account/s is terminated by the Member for any reason not attributable to the Stock Broker, the cost, charges and expenses involved in the transfer of the Stock Broker's account to any other Member or Rematerialization of securities in such account shall be borne by the Member.
- 15.4. Upon termination of this Agreement, if the Stock Broker fails to specify the account with any other Member to which the existing balances are to be transferred or if the Member fails to take necessary steps to have the securities in such account transferred to the Stock Broker's account with some other Member , CDSC shall nominate any other Member to whom such account/s shall stand transferred for the time being, provided however that no transaction in respect of securities in such transferred account shall be effected until such time as the Stock Broker shall have entered into an agreement with the Member to whom such account shall have been so transferred by CDSC.
- 15.5. Notwithstanding termination of this Agreement by the Member or closure of such accounts by the Stock Broker, the provisions of this Agreement and all mutual rights and obligations arising there from shall, except in so far as the same are contrary to or inconsistent with such termination or closure, continue to be binding on the parties in

respect of all acts, deeds, matters and things done and transactions effected during the period when this Agreement was effective.

## **16. Indemnity**

- 16.1. The Member shall indemnify and keep indemnified and saved harmless the Stock Broker from and against all harm, loss, damage and injury and all claims, demands, suits, actions, litigation, prosecution and every other proceedings whatsoever (including all costs, charges and expenses relating thereto) suffered or incurred by the Stock Broker by reason of or on account of the Member effecting any debit or credit of securities to the special account of the Stock Broker without due confirmation from or contrary to or inconsistent with the instructions of the Stock Broker or otherwise failing to carry out the instructions of the Stock Broker or on account of any negligence on the part of the Depository participant , its employees, or agents or otherwise committing any act, deed, matter or thing which is violative of the Act, Regulations, Bye-laws and Operating Instructions.
- 16.2. The Stock Broker shall indemnify and keep indemnified and saved harmless the Member , his/its employees from and against all harm, loss, damage and injury and all claims, demands, suits, action, litigation, prosecution or every other proceeding whatsoever (and all costs, charges and expenses relating thereto) suffered or incurred by the Member on account of or as a reason of any certificates or other documents in respect of the securities submitted to the Member being forged, fabricated, counterfeit, stolen, cancelled or being otherwise invalid or such securities being subject to any decree, order or injunction of any court, tribunal, Central or State Government or any other authority empowered in that behalf restraining or prohibiting transfer of those securities or the transfer of such securities being in breach of any undertaking or covenant in favor of any statutory body or authority.

## **17. Force Majeure, etc.**

Notwithstanding anything contained herein or in the Bye-laws, neither party hereto shall be liable to indemnify or compensate the other for any breach, non-performance or delay in performance of any obligations under this Agreement or for any harm, loss, damage or injury caused to the other due to causes reasonably beyond its control including but not limited to tide, storm, cyclone, flood, lightning, earthquake, fire, blast, explosion or war, rebellion, revolution, insurrection, embargo or sanction, blockade, riot, civil commotion, labor action or unrest including strike, lock-out or boycott, interruption or failure of any

utility service, enemy action, criminal conspiracy, act of terrorism or vandalism, sabotage, unanticipated technological or natural interference or intrusion, any other irresistible force or compulsion.

## **18. Service of Notice**

Any notice or communication required to be given under this Agreement shall not be binding unless the same is in writing and shall have been served by delivering the same at the present address of the receiver.

## **19. Severability**

If any provision of this Agreement shall be held or adjudged by any competent court, tribunal or regulatory authority to be unlawful, void or unenforceable or if any such provision is rendered void or unenforceable by reason of any statutory amendment, notification or any judicial decision, such provision shall to the extent required be severed from this Agreement and rendered ineffective as far as possible without modifying the remaining provisions of this Agreement but shall not in any way effect the validity or enforcement of the rest of the provisions of this Agreement which shall continue to apply with full force and effect.

## **20. Amendments/Modifications at Nepal Securities Board instance to be binding**

The parties hereto shall be bound by any alterations, modifications or amendments to this Agreement or to any provisions thereof as may be required or directed by Board and shall execute all such deeds, documents or writings as may be required for giving effect thereto.

## **21. No Waiver**

Neither party hereto shall be deemed to have waived, abandoned or relinquished any right, power, privilege or remedy available to it under this Agreement or in law except by a writing executed in that behalf and no failure or delay on the part of any of the parties hereto in the exercise of such right, power, privilege or remedy shall operate as a waiver thereof or as a waiver of any proceeding or succeeding breach by the other party to this Agreement nor shall any single or any partial exercise of any right, power, privilege or remedy preclude any other or further exercise of such or any other right, power, privilege or remedy available under this Agreement or otherwise available in law or in equity it being agreed that all such rights, powers, privileges and remedies are several and cumulative of each other.

## **22. Remedy**

The parties hereto shall, in respect of all disputes and differences that may arise between them, abide by the provisions relating to arbitration committee specified under the Bye Laws.

### **23. Governing Language**

All deeds, documents and writings that may be executed and all correspondence that may be exchanged between the parties hereto in relation to the subject matter of this Agreement shall be in Nepali language, which shall be the governing language between the parties hereto.

### **24. Governing Law**

This Agreement shall be governed by and construed in accordance with the laws in force in Nepal.

### **25. Headings**

The headings in this Agreement are for convenience and reference only and shall in no way affect the construction or interpretation of this Agreement.

### **26. Execution of Agreement**

This Agreement is executed in the original copy which shall be retained by each of the parties hereto.

#### **First Party**

Authorized person on behalf of Depository participant  
Authorized person on behalf of Stock Broker

Name of person

Signature

Seal of Company

#### **Witness**

1.....

#### **Date**

#### **Second Party**

Name of person

Signature

Seal of Company

#### **Witness**

1.....

## Schedule -23

(Related to Byelaw 29)

Traded in securities market

Name and address of Depository participant.....

Code of Depository participant.....

Registration No. of Securities Board.....

Serial Number:

It is requested to add/deduct the following details in my/our account.							Date													
Identity No. of Depository participant							Beneficiary identity Number:								Name of Shareholder					
S.N.	ISIN						Name of Company	Number			Instruction Number ( to be filled by depository participant)									
								In Number		In words										
							1	N	P											
							2	N	P											
							3	N	P											
							4	N	P											
5	N	P																		
<b>Total received Instructions (in words)</b>																				

**Fill the appropriate details:-**

Type of Instruction Slip	Pre-settlement	General Settlement
Name of Securities Market		
Type of clearing and settlement		
Clearing and settlement No.		
Counter Depository participant No.		
Counter Account No.		

First Authorized Signature	Second Authorized Signature	Third Authorized Signature
To be filled by the office of Depository participant		
Internal No.	Person approve signature	Person to enter dealing

**Schedule -24**  
**(Related to Byelaw 30)**

Traded outside the securities market

Name and address of Depository participant.....

Code of Depository participant.....

Registration No. of Securities Board.....

Deliverer	Receiver	Serial Number:
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It is requested to add/deduct the following details in my/our account.							Date:								
Identity No. of Depository participant						Beneficiary identity Number:								Name of Shareholder	
S.N.	ISIN					Name of Company	Number In Number				Instruction Number( to be filled by depository participant)				
1	N	P													
2	N	P													
3	N	P													
4	N	P													
5	N	P													
<b>Total received Instructions (in words)</b>															
In case of transfer from one beneficiary account to other and unrelated to dealing of securities market							<b>Date to be traded:</b>								

**Fill the appropriate details:-**

Type of Instruction Slip	Account transfer-related to CDSC		
Details about clearing and settlement	Beneficiary- Beneficiary		Beneficiary- Securities broker, Securities Broker-Beneficiary, Securities broker- Securities broker
Name of Securities Market			
Type of clearing and			

settlement		
Clearing and settlement No.		
Counter Depository participant No./ Clearing member No.		
Counter Account No.		
Name of Counter Beneficiary/securities Broker		
Counter details about clearing and settlement	Securities broker- Securities broker	
Name of Securities Market		
Type of clearing and settlement		
Clearing and settlement No.		

First Authorized Signature	Second Authorized Signature	Third Authorized Signature
<b>To be filled by the office of Depository participant</b>		
Internal No.	Person approve signature	Person to enter dealing

## Schedule -25

(Related to Sub-byelaw (4) of Byelaw 30)

Format of Application for Dematerialization and transfer in case of death

M/S.....

Date:

.....  
.....

### **Subject: For Dematerialization and Death transfer**

As mentioned above, Shree....., my....., died in ....., hence, it is requested to dematerialize the shares of beneficiary No..... and transfer the securities into my name. The necessary documents are attached herewith this application. The attached details and documents is true and factual. If proved otherwise I hereby submit to bear with consequences according to the terms of the law.

S. N	Name of Company	ISIN	Name of Sharehol der	Sharehol der Number	Share certificate Number	S.N		Number of Share certificate	other
						From	Upto		

#### **Applicant**

Name / Surname:

Beneficiary account Number:

Address:

Phone/mobile number:

#### **Necessary documents submitted for Dematerialization and transfer in case of death( 2/2**

#### **Copies)**

1. Attested copy of death registration certificate
2. Attested copy of citizenship of the death person
3. Attested copy of citizenship of the heir
4. Attested copy of relationship certificate
5. Joint consent in case of more than one heirs
6. Attested copy of share certificate

**Note:** The applicant himself/herself must be attended personally, along with the original documents of the above photocopy

**<sup>~<sup>31</sup></sup>**Schedule-25(A)  
**(Relating to Sub-byelaw (4) of Byelaw 30)**  
**Securities' Transfer Fees**

1. While transferring the securities from the household deed or the deed of share partition of property, the Depository Participant shall receive 2% of paid amount of the securities to be transferred or minimum Rs. 200.00.
2. While transferring the securities to be transferred to the heir after the death of the security owner, the Depository Participant shall receive following fees:

Securities' Paid Amount	Fees Received by Depository Participant
Up to Rs. 100,000.00	0.5% or Minimum Rs. 25.00
Above Rs. 100,000.00 up to Rs. 500,000.00	0.2% or Minimum Rs. 500.00
Above Rs. 500,000.00 up to Rs. 1,000,000.00	0.15% or Minimum Rs. 1,000.00
Above Rs. 1,000,000.00	0.1% or Minimum Rs. 1,500.00

3. The 60% of the above stated fees received thereof by the Depository Participant should be submitted to CDSC.

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<sup>~<sup>31</sup> Amended by Fourth Amendment 2075 (2018)</sup>

**<sup>~32</sup>Schedule-25(B)**

**(Relating to Sub-byelaw 4(a) & 4(b) of Byelaw 30)  
Application format for transfer from household/share partition**

Date: .....

M/s .....

.....  
Re: Regarding transfer from household/share partition

In reference to above, I have submitted this application enclosed with the required documents in order to transfer the below mentioned securities from the beneficiary account no. .... of Mr./Mrs. .... to the beneficiary account no. .... of Mr./Mrs. .... having the relation of ..... It is hereby certified that no other than me have any rights on the said securities. If proved otherwise, I shall pay and bear in accordance with law.

S.N.	Name of Company	I.S.I.N.	Number of Shares	Remarks

Securities Transferee's

Security Transferor's (Only transferred through household deed)

Mr. ...., the transferor's of the above stated securities, is my relatives of my own joint family. I wish to have the said securities so that let be transferred in my name.

Signature:

Signature:

Name:

Name:

Name of Father:

Name of grandfather/husband:

Name of grandfather/husband:

Address:

Address:

Telephone No.:

Telephone No.:

Of Depository Participant's Authorized Person:

Thumb Impression

Name:

Right

Left

Signature:

Seal of Company:

2/2 Copies of documents to be submitted for the transfer under household deed:

- (1) Applications of both transferee and transferor of the securities.
- (2) The photocopy of citizenship certificate of both transferee and transferor of the securities.
- (3) The photocopy of both transferee and transferor of the securities.

Note: The applicant should physically present along with the original of the photocopy submitted thereof.

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<sup>~32</sup> Amended by Fourth Amendment 2075 (2018)

## **~<sup>33</sup>Schedule-25(C)**

(Relating to Sub-byelaw 4(c) of Byelaw 30)

### **Application format for transfer of securities after death**

Date: .....

M/s .....

.....  
Re: Regarding transfer of securities after death  
In reference to above, Mr./Mrs./Ms. .... with the beneficiary account no. .... died on ..... and an applicant myself is a heir and I have submitted all required documents with this application so that let the said securities be transferred in the name of Mr./Mrs./Ms. .... with the beneficiary account no. ...., who is ..... in relation with the deceased. Nothing shall be different in future. If proved otherwise, I shall pay and bear in accordance with law.

S.N.	Name of Company	I.S.I.N.	Number of Shares	Remarks

Applicant  
Signature  
Name, Surname:  
Beneficiary's Account No.  
Address:  
Phone/Mobile No.:

Of Depository Participant's Authorized Person:

Name:

Signature:

Seal of Company:

2/2 Copies of documents to be enclosed:

1. The photocopy of the death registration certificate.
2. The certified photocopy of citizenship certificate of the deceased.
3. The certified photocopy of citizenship certificate of the heir.
4. The certified photocopy of the relationship verification certificate and the copies of citizenship certificate of the all the person mentioned thereof
5. The letter of consent of other heirs.
6. Other necessary documents.

Note: The applicant should physically present along with the original of the photocopy submitted thereof.

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<sup>33</sup> Added by Fourth Amendment 2075 (2018)

<sup>34</sup>Schedule-25(D)

(Relating to Sub-byelaw 4(d) of Byelaw 30)

Application format for transfer of securities after death

Date: .....

M/s .....

.....  
Re: Regarding transfer of securities after death  
In reference to above, Mr/Mrs./Ms. .... died on ..... and he/she has the securities of the ..... company as mentioned below and an applicant myself is a heir and has submitted all required documents with this application so that let the said securities be transferred in the name of Mr./Mrs./Ms. ....with the beneficiary account no. ...., who is .....in relation with the deceased. Nothing shall be different in future. If proved otherwise, I shall pay and bear in accordance with law.

S.N.	Security Certificate No.	No. of Share	Serial No.		Remarks/DRN
			From	To	
1.					
2.					
3.					
4.					
5.					
6.					
7.					

Applicant's  
Signature  
Name, Surname:  
Beneficiary's Account No.  
Address:  
Phone/Mobile No.:

2/2 Copies of necessary documents to be enclosed:

1. The photocopy of the death registration certificate.
2. The certified photocopy of citizenship certificate of the deceased.
3. The certified photocopy of citizenship certificate of the heir.
4. The certified photocopy of the relationship verification certificate and the copies of citizenship certificate of the all the person mentioned thereof
5. The letter of consent of other heirs.

Note: The applicant should physically present along with the original of the photocopy submitted thereof.

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<sup>34</sup> Added by Fourth Amendment 2075 (2018)

**Schedule- 26**  
**(Relating to Bye-law 5)**

**Agreement between CDS and Clearing Limited, an Issuer and Registrar**

The CDS and Clearing Ltd, the registered office situated in Kathmandu (hereafter 'CDSC') First Party, ..... office situated in..... (details of legal entity) (hereafter 'Issuer') Second Party and ..... office situated in..... (details of legal entity) (hereafter 'Registrar') Third Party are agreed to enter into agreement by pursuing the following terms and conditions:

AND WHEREAS the CDSC and Issuer has appointed the Registrar to act as its registrar to an issue and/or share transfer agent in respect of the said security in dematerialized form.

**1. General Clauses**

- 1.1. The words and expressions used but not defined in this Agreement but defined under the Company Act, 2063, Securities Act, 2063, Securities' Central Depository Services Regulation, 2067 or Securities' Central Depository Services Byelaws, 2068 or the Bye-laws of CDSC shall have the meaning assigned to them under the aforesaid Acts, Regulations or Bye-laws as the case may be.
- 1.2. Unless otherwise warranted by the context or meaning thereof, the words or expressions "Beneficial Owner", "Issuer", "Depository participant" and "Registrar and Transfer Agency" used herein shall mean a Beneficial Owner, Issuer, Depository participant and Registrar to an Issue or Share Transfer Agent (as the case may be) respectively in relation to CDSC and the terms "Regulations", "Bye Laws" and "Operating Instructions" shall mean "Securities' Central Depository Services Regulations, 2067", Bye-laws of CDSC and the Operating Instructions issued by CDSC respectively.
- 1.3. The Member shall be bound by the "Securities' Central Depository Services Regulations, 2067", and to the same extent as if the same were set out herein and formed part of this Agreement.
- 1.4. The Issuer and the Registrar shall continue to be bound by the Bye-laws and Operating Instructions, even after ceasing to be an Issuer or Registrar as the case may be, in so far as may be necessary for completion of or compliance with his/its obligations in respect of all matters, entries or transactions which the Issuer and the Registrar may

have carried out, executed, entered into, undertaken or may have been required to do before ceasing to be an Issuer or Registrar and which may have remained outstanding, incomplete or pending at the time of his/its ceasing to be an Issuer or Registrar, as the case may be.

- 1.5. The obligations on the part of the Issuer and Registrar herein contained are a reiteration of and/or are in addition to the obligations contained in the Bye-laws and the Operating Instructions, and the omission of one or more of such obligations from this Agreement shall not in any manner be construed as a waiver of such obligations as are not herein contained.

## **2. Costs, Fees and Charges**

The Issuer shall pay to CDSC such fees, costs, charges and deposits within the specified time. In the event of failing to make payment of any such fees, costs, charges or deposits, as the case may be, on or before the respective due dates, CDSC shall be entitled to reimburse according to prevailing law.

## **3. Hardware and Software to be installed by the Registrar and Transfer Agent**

- 3.1. The Registrar and Transfer Agent (hereafter RTA) shall install at his/its premises allocated for CDSC related activities such computers, printers, communication equipment and uninterruptible power supply units, systems software and any other equipment, hardware and software as may be specified by CDSC from time to time.
- <sup>35X</sup>3.2. The above hardware and software set-up shall be utilized by the RTA exclusively for CDSC specific application module and even if there be any spare processing or data storage capacity, the same shall not be used for any other application including the RTA's back-office systems or operations.
- 3.4. The above hardware shall not be connected by the RTA to his/ its inter-office Wide Area Network without the prior written permission of CDSC.
- 3.5. The RTA shall, from time to time, at his/its own cost, carry out such addition, modification, upgradation or replacement of the said hardware and/or software as may be specified by CDSC.

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<sup>35</sup> X Removed by First amendment 2069 (2013)

#### **4. Connectivity and Systems**

- 4.1. The RTA and CDSC shall establish and maintain a continuous electronic means of communication with each other.
- 4.2. CDSC shall provide necessary Operating Instructions from time to time to the RTA, as may be necessary for effective and prompt conduct of the business relating to depository operations.
- 4.3. The RTA shall, in respect of his/its operations as the RTA in CDSC , procure and maintain at his/its own cost such systems, procedures, means of communication, infrastructure, hardware, software, security devices and back-up facilities as CDSC may specify and shall upgrade or replace the same from time to time as may be specified by CDSC .
- 4.4. The RTA shall comply with all systems and procedures recommended by CDSC and shall allow access to his/its systems to one or more teams of professionals with expertise or specialized skill in auditing the performance of computerized systems (called “Systems Audit Teams”) designated by CDSC for periodic assessment of compliance with systems and procedures.

#### **5. Effective date of commencement**

The effective date of commencement shall be the date as the permission granted to the RTA to commence the business by the CDSC.

#### **6. Information / Documents to be furnished by the RTA to CDSC**

- 6.1. The RTA shall, furnish to CDSC, a copy of the letter approving listing and permitting commencement of trading in respect of the said security issued by the concerned stock exchange on the succeeding day of listing by the stock exchange.
- 6.2. The RTA shall provide information to CDSC:
  - 6.2.1. of all further issues in respect of the said security, if any, such as rights, bonus, public offerings etc., with all relevant details such as opening and closing dates, issue size, issue price, record date, book closure date, proportion, paripassu status etc., along with a copy of the offer document.
- 6.3. such information shall be furnished to CDSC on the same day on which it is required to be furnished to any stock exchange where the said security is listed and in all other cases within two working days of the Issuer taking a formal decision in that behalf.

#### **7. Details / Particulars to be furnished by CDSC**

CDSC shall furnish to the Issuer and Registrar the details/particulars of Beneficiaries as of the record date.

## **8. Dematerialisation**

- 8.1. CDSC will electronically intimate, on a daily basis, all dematerialization requests received from its Depository participants to the Issuer and Registrar.
- 8.2. Upon receipt of the Dematerialisation Request Form along with the securities of which dematerialization is sought; the Registrar shall firstly verify the validity and authenticity of the certificates.
- 8.3. The RTA undertakes that the data pertaining to the securities to be dematerialized received from Depository participants through CDSC shall be validated against the database of securities maintained by the Issuer and that only valid securities with clear title shall be permitted to be dematerialized.
- 8.4. No dematerialization request shall be accepted by it or intimated to CDSC in respect of any securities so long as the same are subject to any restraint, injunction, prohibition or any court, or revenue authority.
- 8.5. The Registrar shall electronically intimate CDSC regarding the confirmation or rejection, whether in part or in whole, of every dematerialization request within a period of 7 days from the date of receipt of the dematerialization request form.
- 8.6. The Registrar shall not refuse or reject any request for dematerialization of any securities into CDSC save and except for the following reasons:
  - 8.6.1. The certificates or other documents of title to the securities are found to be stolen, forged, fabricated or counterfeit;
  - 8.6.2. Any decree, order or direction of by Government of Nepal, any court, Board, or other statutory or revenue authority prohibiting or restraining transfer of those securities including any order of attachment, distress or execution in respect thereof;
  - 8.6.3. In case duplicate certificates or other documents of title with the same distinctive numbers have already been issued in lieu of the original certificates/documents of title submitted for;
  - 8.6.4. The securities in respect of which dematerialization is sought are subject to any restriction made by CDSC.
- 8.7. The Registrar shall return to the concerned Member the certificates and/or other documents of title to such of the securities submitted for dematerialization as are rejected, in writing to the concerned Member the precise reason for such rejection.

- 8.8. In all cases where the RTA rejects any request for dematerialization of any securities in whole or in part, the Registrar shall communicate in writing to the concerned Member the precise reason for such rejection.
- 8.9. Every intimation to CDSC permitting dematerialization of any securities, shall be deemed to be backed by a joint and several representation and assurance by the Issuer and the Registrar to CDSC that such securities exist, are validly issued and stand in the records of the Issuer and/or the Registrar in the name of the Beneficiary who has sought dematerialization in respect of those securities.
- 8.10. The Issuer and Registrar shall at all times strictly ensure that the aggregate of securities under each International Securities Identification Number (ISIN) in dematerialized form held in the depositories and the securities held in physical form is not higher than the securities which are listed on the stock exchange/s. The Issuer and RTA shall carry out reconciliation on daily basis. Provided however that the provisions of this Bye Law shall not be applicable to securities issued by the Public Sector Undertakings where the securities held by the Central or the State Government is not listed with the stock exchange/s.

## **9. Rematerialization**

- 9.1. On receipt of an electronic intimation by CDSC from the Member of his/it's having received the Rematerialization Request Form from a Beneficiary, CDSC shall immediately block the balance of the relevant securities lying in the account of the concerned Beneficiary to the extent of the quantity for which Rematerialization is sought and shall intimate electronically all such Rematerialization requests to the RTA on a daily basis. Once the said balance is blocked as aforesaid, CDSC shall not permit any debits or creation of any pledge or hypothecation in respect of the blocked securities pending Rematerialization.
- 9.2. On receipt of the Rematerialization Request Form from the Member , the Registrar shall match the particulars contained in the Rematerialization Request Form with the particulars made available by CDSC on the computer system and upon satisfying itself as to the accuracy of the particulars set out in the Rematerialization Request Form, the RTA shall confirm electronically to CDSC and communicate it to the concerned Member that the Rematerialization Request Form has been accepted and in case of rejection the certificates submitted

with the Rematerialization Request Form shall be return to the concern beneficiary.

## **10. Fresh Issue of Securities**

Where, the Issuer makes any further issues of the said security, the Registrar shall furnish to CDSC allotment details in the manner required by CDSC, of all Beneficiaries who have opted for holding the newly allotted securities in dematerialized form in CDSC .

## **11. Procedure where identity of Beneficiary is not established**

In the event of an intimation being received by CDSC from the Registrar for credit of securities to the account of any Beneficiary whose identity cannot be established in CDSC, CDSC may reject such request with the reasons.

## **12. Corporate Action / Benefits**

- 12.1. CDSC undertakes to provide a list of Beneficiaries with relevant details to the Issuer and/or the Registrar as of the book closure date or specified date. CDSC shall indemnify the Issuer and /or the Registrar for any loss that may be caused to the Issuer and /or the Registrar by reason of any incorrect or inaccurate information relating to Beneficiaries and/ or their holdings being furnished by CDSC to the Issuer and/or the Registrar.
- 12.2. The Registrar shall, in respect of the said security, provide timely information to CDSC about all corporate action including book closure date, record dates, dates for payment of interest or dividend, dates for the annual general meeting and other meetings, dates of redemption or maturity of securities, dates of conversion of debt into equity, dates of exercising warrants, call money dates, details of other corporate action such as merger, amalgamation or reconstruction of the Issuer, reduction of capital, forfeiture, re-issue, conversion of debt into equity, subdivision or consolidation etc. and such other information as may be specified by CDSC from time to time.
- 12.3. The Issuer and Registrar shall be responsible for timely intimation of all corporate action to CDSC and the accuracy thereof as also for distribution of all corporate benefits. The Issuer and the Registrar shall also be individually responsible for the accuracy of advice as to corporate benefits conveyed by the Issuer and the Registrar to CDSC. The Issuer and /or Registrar shall indemnify CDSC for any loss that may be caused to CDSC by reason of any incorrect or inaccurate information furnished by the Issuer and Registrar to CDSC.

### **13. Disputes relating to dematerialization etc.**

- 13.1. Should any claim, demand or dispute be raised by any party or person in respect of any securities that have been dematerialized and credited to the account of any Beneficiary by CDSC as per the intimation from the Issuer or the Registrar or in respect of which any corporate benefits have been allotted by the Issuer and/or the Registrar, the resolution of such claim, demand or dispute and the resultant liability, if any, arising therefrom, shall be the joint responsibility of the Issuer and the Registrar.
- 13.2. Should any claim, demand or dispute be raised by any party or person in respect of any securities that have been rematerialized, barring any error or inaccuracy in the particulars contained in the Rematerialization Request Form, the resolution of such claim, demand or dispute and the resultant liability, if any, arising therefrom, shall be the joint responsibility of the Issuer and the Registrar.
- 13.3. It shall be the joint responsibility of the Issuer and the Registrar to compensate any Beneficiary aggrieved by reason of the Issuer and/or the Registrar permitting dematerialization or Rematerialization of any securities in respect of which any direction, order or decree of Nepal government or any court or Board any other statutory authority stopping or restraining transfer or any order of attachment or any other prohibitory order is in force at the time of such dematerialization or Rematerialization and the same has been served upon or otherwise intimated to the Issuer and the Registrar.

### **14. Reconciliation of Records**

The Registrar shall reconcile the record of dematerialized securities with all the securities issued by it, on a daily basis.

### **15. Inspection by CDSC**

CDSC shall be entitled to carry out inspection of the facilities, systems, records and books of the Registrar relating to all dealings of the Issuer with it through such persons as may be authorized in that behalf by CDSC and the Registrar shall permit the persons so authorized, entry into his/its premises during regular business hours on any working day and shall allow access to its facilities, systems, records and books and permit copies thereof to be made.

### **16. Events requiring immediate intimation by the Issuer to CDSC**

- 16.1. The Issuer shall notify CDSC forthwith:
  - 16.1.1. Upon a petition for winding-up of the Issuer being presented in any court or a resolution being passed for winding up of the Issuer;

- 16.1.2. Any scheme being framed for merger, amalgamation or reconstruction of the Issuer;
- 16.1.3. On its becoming aware of the presentation of any application or petition for its bankruptcy, insolvency, liquidation or attachment of its property;
- 16.1.4. upon its becoming aware of any distress, execution, attachment or other process being threatened or levied by any statutory or revenue authority against the Issuer or its property for recovery of any taxes, duties, levies, penalties, cesses or dues;
- 16.1.5. In case of any change in its financial conditions which may lead to its insolvency or winding-up or if it suffers a composition with its creditors;
- 16.1.6. upon any notice being received by the Issuer from any stock exchange on which any securities issued by the Issuer are listed or permitted to be traded, suspending trading or terminating listing of such securities on that exchange, including any show- cause or other notice threatening such action;
- 16.1.7. Upon the Issuer becoming aware of any event or occurrence which is reasonably likely to materially affect its commercial viability or existence or its ability to perform its obligations under this Agreement.

## **17. Events requiring immediate intimation by the Registrar to CDSC**

- 17.1. The Registrar shall notify CDSC forthwith:
  - 17.1.1. In case the Registrar is a company or a body corporate, upon a petition for winding up being presented in any court or a resolution being passed for winding up of the RTA;
  - 17.1.2. Any scheme being framed for merger, amalgamation or reconstruction of the Registrar;
  - 17.1.3. On his/it's becoming aware of the presentation of any application or petition for its bankruptcy, insolvency, liquidation or attachment of its property;
  - 17.1.4. in the case of any change in his/its financial conditions which may lead to its insolvency or dissolution or winding-up or if it suffers a composition with its creditors;
  - 17.1.5. upon the convening of any meeting to consider a resolution for the appointment of a liquidator or receiver or administrator in respect of any of its properties or any other change in circumstances

which could materially affect its capacity to act as a registrar to an issue and/or share transfer agent;

17.1.6. Any unreconciled balances reported during the process of reconciliation on a daily basis.

## **18. Authorized Representatives**

The Issuer and the Registrar shall, simultaneously with the execution of this Agreement furnish to CDSC , a list of officials authorized by the Issuer and the Registrar, who shall represent and interact on behalf of the Issuer and the Registrar with CDSC . Any changes in such list including additions, deletions or alterations thereto shall be forthwith communicated to CDSC.

## **19. Confidentiality**

19.1. The parties hereto shall keep strictly confidential all technical and business information including but not limited to that which may be disclosed or confided to it by the other in the course of the performance of the obligations under this Agreement or under the Bye-laws, and none of the parties hereto shall disclose the same to any third party. However the technical and business information are in strict confidence.

19.2. Any party hereto shall be at liberty to permit inspection or allow extracts to be made at any time of such details, particulars, data or information relating to any Beneficiary and/or his account to such extent and in such manner as may be required by any law in force for the time being and to provide or disclose such details, particulars, data or information relating to any Beneficiary and/or his account as may be required or directed by the Nepal Government, any court, , Board or any regulatory or revenue authority empowered by law in that behalf. However that save and except as mentioned hereinabove, any party shall not divulge or permit or suffer to be disclosed any such details, particulars, data or information relating to any Beneficiary and/or his account, to any party.

## **20. Change in address**

The Issuer and the Registrar shall inform CDSC of any proposed change in the address of the Office/ Registered Office of the Issuer and the Registrar as also of any change of the location of the premises where the equipment for maintenance

of computerized records, back-up facilities and communication with CDSC are situated, at least thirty days before the date of such change.

## **21. Back-up facilities**

- 21.1. The Registrar shall strictly follow the back-up procedure recommended by CDSC. A copy of the latest back-up of the data base shall at all times be maintained at a remote site. CDSC shall not be liable for any loss or damage arising out of failure on the part of the Registrar to maintain up to date back-up of the computer program and the relevant data.
- 21.2. The Registrar shall permit access to any person/s designated by CDSC to inspect his/its back-up facilities and shall make available to CDSC such extracts or reports of the records maintained at the said back-up facilities as may be required by CDSC.

## **22. Redressal of grievances / complaints of Beneficiary**

All grievances/complaints of Beneficiary in respect of the said security as pertain to the matters within the exclusive domain or control of the Issuer and Registrar shall be attended to and resolved by the Issuer and Registrar within thirty days of such grievance/complaint being brought to the notice of the Issuer and Registrar purarsing the Byelaws and Operation Instruction of CDSC and communicate it to the CDSC.

## **23. Prohibition against Assignment**

The functions, rights or obligations under this Agreement shall not be assigned or delegated to any party or person by the Registrar without the express prior written consent of CDSC.

## **24. Joint Liability**

Notwithstanding anything contained herein or in any agreement between the CDSC, the Issuer and the Registrar, the Issuer and the Registrar shall be jointly and severally responsible and liable to CDSC, its Member/s and Beneficiary for compliance with all obligations under this Agreement as also under the Bye-laws and Operating Instructions.

## **25. Termination.**

- 25.1. Neither the Issuer nor the Registrar shall terminate this Agreement or arrangement with each other in respect of the said security unless and until CDSC shall have been intimated of the proposed termination at least 30 days prior to the termination and the Issuer shall have either caused some other registrar or transfer agent to enter into a similar agreement with CDSC or the Issuer shall have entered into a bipartite

agreement with CDSC in the manner specified in the Bye-laws in respect of the said securities.

- 25.2. CDSC may, at any time, terminate this Agreement if it is of the opinion that the Registrar is in breach or default of the Act, Regulations, Bye-laws or Operating Instructions or of the terms and conditions contained herein or is otherwise conducting itself in a manner which is not conducive to the orderly functioning of CDSC. In such event, CDSC shall issue a notice of termination to the Registrar effective upon the expiry of thirty days from the date of service on the Registrar and shall simultaneously serve notice on the Issuer calling upon the issuer to either cause some other Registrar to an or Transfer Agent, as the case may be, to enter into a similar tripartite agreement with CDSC or itself enter into a bi-partite agreement with CDSC on or before the expiry of the said period of thirty days.
- 25.3. In the event of termination as aforesaid, the Registrar shall be required to meet all its outstanding obligations to CDSC , whether incurred while the Registrar was acting as such or incurred thereafter but arising out of any action, transaction or dealings by the Registrar during the currency of this Agreement provided however that in the event of the Registrar failing to carry out its outstanding obligations as aforesaid, the Issuer shall itself carry out such outstanding obligations.
- 25.4. Notwithstanding termination of this Agreement by CDSC or by the Registrar, the provisions of this Agreement and all mutual rights and obligations arising therefrom shall, except in so far as the same is contrary to or inconsistent with such termination, continue to be binding on the parties in respect of all acts, deeds, matters and things done and transactions effected during the period when this Agreement was effective.

## **26. Indemnity**

- 26.1. The Issuer and the Registrar do jointly and severally agree and undertake to indemnify and keep indemnified and saved harmless CDSC , its employees or agent from and against all claims, demands, penalties, suits, action, litigation, arbitration, prosecution and any proceedings whatsoever and all costs, charges and expenses relating thereto and any harm, loss, damage or injury suffered or incurred by CDSC and/or any of its Members by reason of or as a consequence of the Issuer and the Registrar furnishing any false or incorrect

- information to CDSC or permitting dematerialization or Rematerialization of securities in breach of any order, decree, injunction, covenant or law in force or permitting dematerialization of securities on the strength of certificates or documents which are found to be forged, counterfeit, fake or cancelled or in respect of which duplicates/ replacements / renewals have been issued or the Issuer and the Registrar otherwise committing any default in observance of its obligations under the Bye-laws or Operating Instructions or under this Agreement.
- 26.2. CDSC agrees and undertakes to indemnify and keep indemnified and saved harmless the Issuer and the Registrar from and against all harm, loss, damage or injury, claims, demands, suits, actions, litigations, prosecutions and all other proceedings whatsoever and all cost, charges and expenses relating thereto suffered and incurred by the Issuer and the Registrar by reason of or as a consequence of any breach, default or negligence on the part of CDSC , its employees or agents in complying with its obligations under the Act, the Regulations, the Bye-laws, this Agreement or Operating Instructions.

## **27. Force Majeure etc.**

Notwithstanding anything contained herein or in the Bye Laws, neither party hereto shall be liable to indemnify or compensate the other for any breach, non-performance or delay in performance of any obligations under this Agreement or for any harm, loss, damage or injury caused to the other due to causes reasonably beyond its control including but not limited to tide, storm, cyclone, flood, lightning, earthquake, fire, blast, explosion or war, rebellion, revolution, insurrection, embargo or sanction, blockade, riot, civil commotion, labor action or unrest including strike, lock-out or boycott, interruption or failure of any utility service, enemy action, criminal conspiracy, act of terrorism or vandalism, sabotage, unanticipated technological or natural interference or intrusion, any other irresistible force or compulsion.

## **28. Service of Notice**

Any notice or communication required to be given under this Agreement shall not be binding unless the same is in writing and shall have been served by delivering the same at the present address of the receiver.

## **29. Severability**

If any provision of this Agreement shall be held or adjudged by any competent court, tribunal or regulatory authority to be unlawful, void or

unenforceable or if any such provision is rendered void or unenforceable by reason of any statutory amendment, notification or any judicial decision, such provision shall to the extent required be severed from this Agreement and rendered ineffective as far as possible without modifying the remaining provisions of this Agreement but shall not in any way effect the validity or enforcement of the rest of the provisions of this Agreement which shall continue to apply with full force and effect.

### **30. Amendments/Modifications at Board shall be binding**

The parties hereto shall be bound by any alterations, modifications or amendments to this Agreement or to any provisions thereof as may be required or directed by Board and shall execute all such deeds, documents or writings as may be required for giving effect thereto.

### **31. No Waiver**

Neither party hereto shall be deemed to have waived, abandoned or relinquished any right, power, privilege or remedy available to it under this Agreement or in law except by a writing executed in that behalf and no failure or delay on the part of any of the parties hereto in the exercise of such right, power, privilege or remedy shall operate as a waiver thereof or as a waiver of any proceeding or succeeding breach by the other party to this Agreement nor shall any single or any partial exercise of any right, power, privilege or remedy preclude any other or further exercise of such or any other right, power, privilege or remedy available under this Agreement or otherwise available in law or in equity it being agreed that all such rights, powers, privileges and remedies are several and cumulative of each other.

### **32. Discipline and proceedings**

For the disputes or differences could be arisen between the parties, the prescribed provisions of the Byelaws regarding arbitration committee is applicable.

### **33. Governing Language**

All deeds, documents and writings that may be executed and all correspondence that may be exchanged between the parties hereto in relation to the subject matter of this Agreement shall be in Nepali language, which shall be the governing language between the parties hereto.

### **34. Governing Law**

This Agreement shall be governed by and construed in accordance with the laws in force in Nepal.

### **35. Execution of Agreement**

This Agreement is executed in triplicate and a copy each shall be retained by each of the parties hereto.

#### **First party**

Authorized person on behalf of CDSC

Name of person Name of person

Signature

Seal of Company

#### **Witness**

1.....

#### **Third Party**

Authorized person on behalf of Registrar

Name of person

Signature

Seal of Company

#### **Witness**

1.....

Date

#### **Second Party**

Authorized person on behalf of Issuer

Name of person Name of person

Signature

Seal of Company

#### **Witness**

1.....

**36## Schedule - 27**

(Relating to sub-by-laws 24)

Re-materialized Share Certificate/Physical Share Certificate / Bond  
..... Limited Company

**Certificate**

Certificate No.:

....., the son of Mr. ...., the grand-son of Mr. ...., the resident of ..... District, ..... Municipality/VDC, Ward No. .... has purchased ..... numbers of shares at the rate of Rs. ..... ordinary /preference shares of this company and has paid Rs. ..... for such shares and the shares / dematerialized shares / bond issued in his name has been dematerialized from ..... depository participant obtaining membership from CDS and Clearing Limited, hence, this Certificate has been granted by re-dematerialization by deducting from the balance of such shares/ bond.

**Ownership of Certificate**

Signature:

Name, surname:

Date:

**Company's**

Authorized Signature:

Designation:

Date:

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<sup>36</sup>Added by Second amendment 2073 (2017)

Date of Implementation: February 02, 2013 A.D.

Date of Implementation of First Amendment: November 18, 2014 A.D.

Date of Implementation of Second Amendment: February 26, 2017 A.D.

Date of Implementation of Third Amendment: February 26, 2017 A.D.

## **Securities Transaction Clearing and Settlement Byelaws, 2069 (2013 A.D.)**

It is deemed expedient to amend Securities Transaction Clearing and Settlement Byelaws, 2069 (2013 A.D.), thus obtaining approval from Securities Board of Nepal by exercising the right delegated by Rule 30 of Central Securities Depository Service Byelaws, 2067 (2010 A.D.) CDS and Clearing Limited have framed following regulations.

### **Chapter -1**

#### **Preliminary**

1. **Short Name and Commencement:** (1) #The name of these regulations is "Securities Transaction Clearing and Settlement Byelaws, 2069."  
(2) #This byelaws shall be deemed to have been commenced by publishing public notice from the date as prescribed by CDS and Clearing Limited.
2. **Definitions:** Unless the subject or the context otherwise requires, in these byelaws;—
  - (a) "Act" means Securities Act, 2063 (2006 A.D.).
  - (b) "Board" means Securities Board of Nepal incorporated pursuant to Section 3 of the Act.
  - (c) "NEPSE" means Nepal Stock Exchange Limited.
  - (d) "CDSC" means CDS and Clearing Limited.
  - (e) "Clearing" means the act of sending letter along with registration of purchased securities for ownership transfer or issuance in the name of buyer and registration of blank transfer in order to receive benefits of market. The word denotes the act of clearing done through automated

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# Amended by Second amendment 2073 (2017)

- trading system with or without dematerialization of securities that have been purchased or sold.
- (f) "Settlement" means the act of giving and taking stock and amount undergoing trading between member of stock purchaser and seller.
  - (g) "Investor" means the person or organization giving order for purchase and sell trading of stock and the person or institution giving direction for Clearing and settlement relating stock trading.
  - (h) "Clearing Member" means the entity that is granted membership by CDSC to undertake trading of clearing and settlement job as pursuant to regulation 3.
  - (i) "Clearing Bank" means the bank appointed for clearing job as pursuant to regulation 12.
  - (j) "Registered companies" means the corporate body registered in CDSC.
  - (k) "Listed Registered Company" means the corporate body listed in NEPSE and registered on CDSC.
  - (l) "Close Out" means the clearing and settlement task as per the provision made in regulation 20 and 21.
  - (m) "Buyer" means the customer giving order for purchase or clearing member who executes transaction on his/her behalf.
  - (n) "Seller" means the customer giving order for sale or clearing member who executes transaction on his/her behalf.
  - (o) "Open Transaction" means the transactions which are yet to be settled.
  - (p) "CM Pool Account" means the electronic account (DEMAT Account) opened with Depository Participant by Clearing member for the purpose of clearing and settlement of transactions.
  - (q) "Securities Trading" means the trading of purchase and sell of securities in stock exchange market or OTC (Over The Counter) market or give and take of securities as pursuant to the prevailing law.

## **Chapter – 2**

### **Provision Regarding Membership:**

3. **To Obtain Membership:** (1) The licensed Securities Businessperson shall have to obtain Clearing membership with CDSC for Clearing and settlement of securities transaction.  
 (2) To obtain Clearing membership pursuant to sub-regulation (1) one should be have license of the Board and membership of NEPSE.

- 4. Application to be Submitted for Obtaining Membership:** (1) The Securities Businessperson willing to obtain CDSC Clearing membership shall be to submit an application enclosing Rupees Five thousand in the format mentioned in schedule -1.
- (2) The following details and documents along with the application mentioned in sub-by-laws (1) shall have to enclosed;
- (a) Copy of Certificate of institution Registration,
  - (b) Copy of Memorandum of Association and Articles of Association of the institution,
  - (c) Copy of license of Board
  - (d) Copy of Tax Clearance Certificate,
  - (e) Certificate of Permanent Account Registration,
  - (f) Copy of Citizenship Certificate of Directors,
- 5. Investigation upon an application:** (1) CDSC shall investigate details and documents enclosed with an application received pursuant to by-laws 4.
- (2) CDSC may if necessary ask for additional details and documents for clarification of details and documents received while undergoing investigation pursuant to by-laws (1).
- 6. Conferring Membership:** If the applicant is found appropriate to grant membership upon investigating application pursuant to regulation 5, Clearing membership in the format prescribed in schedule – 2 within 7 working days from the date of receiving such application shall be granted.
- 7. Cash Deposit to be Kept:** If the Clearing member due to any reason is unable to submit securities or amount to be submitted by themselves for the activities of Clearing and settlement, the Clearing member shall have to keep cash deposit of One million restricting to create any obstacles in Clearing and settlement activities.
- 8. Renewal of Membership:** (1) The tenure of the membership conferred pursuant to by-laws 6 shall remain valid till the end of one fiscal year.
- (2) An application along with renewal fees of one thousand for renewal of membership fifteen days prior to termination of membership pursuant to sub-by-laws (1) shall have to be submitted.
- (3) The Clearing member not making application within the period prescribed of sub-by-laws (2) is restricted to carryout activities after termination of fiscal year. Such member can submit an application for renewal of own membership within seven working days after termination of fiscal year by submitting double the renewal fees.

(4) The membership of the Clearing member not renewing membership pursuant to sub-by-laws (3) shall be ipso facto terminated.

## Chapter – 3

### **Provision relating Clearing and Settlement of Securities**

9. **Be affiliated with NEPSE Trading**:- (1) NEPSE shall make an arrangement of affiliating the activities of Clearing and settlement of CDSC with the automated trading procedure of NEPSE.
10. **Be affiliated with Central Clearing Procedure**:- While undertaking Clearing and settlement of trading of listed securities in secondary market NEPSE shall make necessary provision being affiliated with CDSC.
11. **Clearing and Settlement Transaction of Securities in CDSC**:- (1) CDSC shall perform Clearing and settlement of those securities that are traded on NEPSE.  
(2) The Clearing fees of the listed securities that are transacted pursuant to regulation shall have to be paid to the CDSC by the NEPSE according to the agreement with the NEPSE time to time.  
(3) Notwithstanding may be written in sub-by-laws (1) it is not deemed hampering for Clearing and settlement of trading done in Over The Counter market.  
(4) CDSC shall make necessary arrangement relating Clearing and settlement of trading of government bond.
12. **\*Clearing Bank**: (1) \*For the activity of transaction clearing of purchase and sale of securities the CDSC shall appoint the bank having following index as clearing bank.
  - (a) Having obtaining license of "A" class institution from Nepal Rastra Bank and maintained minimum paid-up capital determined by Nepal Rastra Bank,
  - (b) Having per share net worth more than per share paid-up capital,
  - (c) Should be in operation for five years in minimum and be in net profit for last two year,
  - (d) Having inactive loan below five percent,
  - (e) Having issued stock in public and listed,
  - (f) Having developed online banking system.

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\*First amendment, 2071 (2014)

•Amended by the Second amendment, 2073 (2017)

(2)\*Agreement between bank appointed pursuant to sub-by-laws (1), CDSC and Clearing member or other concerned parties shall have to be made for Clearing of securities trading.

(3) #Within seven days of appointing Clearing bank CDSC shall inform the board about selection basis, process Clearing bank and name of the clearing bank.

**13. Clearing and Settlement Time:** (1) The Clearing member shall have to perform the Clearing and settlement activity of the securities within 3 (three) working day (T+3) excluding the trading day.

(2) CDSC shall make arrangement of following time for Clearing and settlement of securities:-

<u>Office Day</u>	<u>Time</u>
Sunday to Thursday	10:30 AM to 4:30 PM
Friday	10:30 AM to 1:00 PM

(3) If office time is till half past four in the afternoon Clearing and settlement function shall be done till three o'clock in the afternoon.

(4) Notwithstanding may be written in this regulation the CDSC with the approval of the board can change Clearing and settlement time.

**14. Clearing and Settlement of Trading of Securities :** (1) CDSC adopting following one or more than process of securities trading shall carryout Clearing and settlement:-

- (a) Clearing and settlement of securities having trading physically shall be done on trade to trade basis,
- (b) Clearing and settlement of securities dematerialized securities shall be done on trade to trade basis,
- (c) On the basis of netting system.

(2) CDSC shall carryout Clearing and settlement activity pursuant to part (a) of sub-by-laws(1):-

- (a) Seller clearing member shall have to enter the particulars of the securities sold in the procedure made available for Clearing.
- (b) Buyer clearing member shall have to enter the particulars of the securities purchased in the procedure made available for clearing.
- (c) After making entry of the particulars pursuant to part (a) by the Seller Clearing member the securities sold by them shall have to be submitted to the concerned buyer clearing member.

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\* Amended by the Second amendment, 2073 (2017)

#Added by the Third amendment, 2073 (2017)

- (d) After making entry pursuant to part (b) the buyer clearing member shall have to obtain securities certificate from the seller clearing member pursuant to sub-part (c) and shall have to give receipt thereof in the format prescribed on schedule -3.
  - (e) The buyer clearing member shall have to submit an application at CDSC for clearing and settlement along with the securities certificates received pursuant to part (d) and bank voucher of the purchase amount.
  - (f) CDSC shall verify the documents received pursuant to part (d) for Clearing.
  - (g) According to part (d) and (e), while verifying the documents for Clearing CDSC shall commence clearing procedure mentioning the details are true and correct. If every document is not found correct CDSC shall immediately inform the concerned member to rectify and submit the same.
  - (h) After completion of the procedure mentioned in part (e) and (f) CDSC shall confer documents to concerned purchase clearing member.
  - (i) After completion of the function mentioned in part (f) and (g) CDSC shall make payment to the seller clearing member through clearing bank.
  - (j) Notwithstanding may be written above, if the seller member did not confer securities to the concerned purchase member pursuant to part (c) within three working days after trading the purchaser member can only submit the amount to be paid.
  - (k) Necessary action procedure restricting trading to the seller clearing member not submitting securities and documents pursuant to part (j) shall be commenced.
- (3) While undergoing clearing and settlement pursuant to part (b) of sub-regulation (1) CDSC shall perform as follows;-
- (a) After completion of the daily Clearing period NEPSE shall provide trade file to CDSC.
  - (b) Every clearing member for the function of clearing and settlement shall have to open at CM pool account in CDSC.
  - (c) Provided however that, clearing member is restricted to open more than one account.
  - (d) For clearing and settlement function of every clearing member clearing shall have to be done through clearing bank pursuant to regulation 12.

- (e) Seller clearing member shall have to deposit the securities sold within three working days after completion of trading of securities in to pool account.
- (f) The selling clearing member shall have to deposit amount for purchase of securities within three working days after completion of trading of securities in to CM pool account pursuant to part (c).
- (g) On the basis of the trading files received from NEPSE CDSC shall calculate the securities submitted and amount of the securities and amount to be submitted by every clearing member for trading.
- (h) While counting pursuant to part (f), if any member if found not depositing securities and amount to be submitted or sort deposited, CDSC shall direct such members to deposit such deficit securities and amount. In addition to that if tax, fees, charge are to be added while depositing amount it shall ask to deposit by adding that too.
- (i) CDSC shall direct the clearing bank to transfer the amount from the account of the clearing member account into its account by calculating the tax, charge, fees to be paid for trading by the every clearing member pursuant to part (f).
- (j) While directing pursuant to part (h) if sufficient amount is not learned into any member's account the Clearing bank shall inform the same thereof to CDSC. If such information is not received CDSC shall direct such members to deposit such deficit amount immediately.
- (k) After completion of process pursuant to part (a) to part (i) CDSC in respect to buyer shall count the securities to be received by clearing member and deposit into the securities pool account of such member and in respect to seller amount receivable by every seller clearing member shall be deposited into the pool account of clearing bank and direct the bank to deposit into the clearing account of clearing member.
- (l) While making payment of the amount by transferring amount pursuant to part (j) amount shall be paid by deducting tax, fees, charge etc to be paid by the clearing member customer.
- (m) The securities obtained by buyer clearing member pursuant to part (j) shall have to transfer into the account of the customer from own securities pool account.
- (n) Amount obtained by seller clearing member pursuant to part (j) shall have to transfer into the account of the customer from own clearing account.

(4) After adopting automated trading to undergo trading of stock deposited into the Demat account by NEPSE CDSC shall implement Clearing and settlement system pursuant to part (c) of sub-by-laws (1).

(5) Prior to implementing clearing and settlement system pursuant to sub-by-laws (4) approval from the Board shall have to be obtained mentioning comprehensive details thereof.

**15. Restrict from Trading:** (1) The clearing member shall have to complete clearing and settlement function of the transaction of purchase and sell by them within the time limit specified in sub-by-laws 1 of byelaws 13.

(2) If clearing member did not complete clearing and settlement function pursuant to sub-by-laws (1) or found submitting false document and securities certificate they shall be restrict in trading for minimum #three working days.

(3) #Along with restricting clearing member for trading pursuant to sub-by-laws (2) if submitted false document or securities they shall be restricted from trading pending to presenting correct document and securities and pending submission of amount and stock if did not submitted amount to be submitted and securities for clearing.

**16. Clearing Member shall have to obtain purchase amount:** (1) The clearing member for the purchase of the securities purchase by them shall have to obtain purchase price, board charge levied thereon, NEPSE commission, commission of clearing member etc. from the customer.

(2) After obtaining amount pursuant to sub-regulation (1) a receipt thereof shall have to be given to customer.

(3) If clearing member has obtained advance amount from the customer a receipt disclosing such shall have to be provided.

**17. Clearing Member shall have to give selling amount:** (1) The clearing member after depositing the remaining amount by deducting the deducting board charge, NEPSE commission, gain tax and own commission from the sale amount of the securities into the account of clearing member by CDSC, shall have to paid immediately.

(2) If clearing member did not make payment to the customer pursuant to sub-by-laws (1) action pursuant to byelaws 33 shall be taken.

**18. Extra-ordinary Clearing and settlement:** (1) If the registered institutional organization goes into the process of merger or amalgamation or trading of listed

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#Amended by the Second amendment, 2073 (2017)

securities are suspended due to any extra-ordinary reason clearing and settlement of the trading done before such act shall not be deemed having obstacles.

(2) If clearing and settlement pursuant to sub-by-laws (1) shall have to be done CDSC by determining time limit shall get clearing and settlement done.

(3) Notwithstanding may be written in sub-by-laws (1) and (2), CDSC can make necessary provision relating trading of securities of institution of Government of Nepal and sole or partial undertaking of Government of Nepal that are in process of privatization.

## Chapter – 4

### Provision relating unable to Clearing

19. **If Clearing function is not done in time:** If the clearing member except the day of completion of trading did not complete clearing function within three working days CDSC can close out by inspecting the necessity and nature of the market.
  - (1) Entire cost incurred for close out done pursuant to sub-regulation (1) shall be borne from the account of clearing member.
20. **Closeout to be done on Partial Balance:** While selling securities from the customer account if securities less than numbers sold are made available Clearing and settlement of the securities equal to that shall be done and close out for sort numbers shall be close out by CDSC.
  - (1) Entire cost incurred for closeout done pursuant to sub-by-laws (1) shall be borne from the account of clearing member.
21. **CDSC shall determine provision relating close out:** (1) If the circumstances of closeout to be done arises due to the reason of not completion of clearing by the clearing member pursuant to this regulation process, time limit, terms and procedure in this regard shall be as determined by CDSC.
  - (2) While doing closeout pursuant to sub-rule (1) the clearing member shall have to pay by adding twenty percent of the closeout trading value to the CDSC.
22. **Customer to close trading with Clearing member:** (1)The customer can close trading with clearing member and can closeout of trading through another clearing member.
  - (2) If trading with clearing member is closed not being clearing and settlement pursuant to sub-by-laws (1) written information to CDSC by the customer shall have to be given. While undergoing investigation upon such received information if clearing member is found guilty CDSC shall punish such clearing member.

- 23. Customer unable to carryout Clearing:** (1) If any customer is unable to carryout clearing with any clearing member, the clearing member shall have to inform the same to the CDSC.  
(2) After receiving informing pursuant to sub-by-laws (1) CDSC shall prepare the list of such customers and inform other clearing member.  
(3) Relating to the customers whose information is received pursuant to sub-regulation (1) CDSC shall closeout pursuant to regulation 19.
- 24. Listen the Complaint of Customer:** (1) Concerned Customer can make written or verbal complaint to the CDSC relating that any clearing member not fulfilling their liabilities.  
(2) If complaint pursuant to sub-by-laws (1) is received CDSC shall make necessary inquiry.  
(3) While undergoing inquiry pursuant to sub-by-laws (2) if as mentioned in complaint is found action pursuant to byelaws 32 shall be taken against such clearing member.
- 25. Clearing and Settlement of trading of Government Bond:** (1) Clearing and Settlement of government bond traded in NEPSE shall be done through CDSC.  
(2) While undergoing clearing and settlement pursuant to by-laws (1), Clearing and settlement shall be done subject to prevailing Act and law.
- 26. Can Prohibit Clearing and Settlement of Securities:** (1) If accused of internal trading, false trading, and forgery trading of stock is done CDSC shall prohibit Clearing and settlement of such trading by CDSC.  
(2) If Clearing and settlement of any trading pursuant to sub-laws (1) is prohibited the information there of shall have to be given to Board and NEPSE.
- 27. Can Restrain Clearing and Settlement:** (1) Restraining to clearing and settlement of trading relating authorized authority any person or institution is received in written CDSC can restrain clearing and settlement trading of such person or institution.  
(2) If any person stating appropriate reason requested to restrain the clearing and settlement of any trading CDSC shall restrain clearing and settlement of such trading.
- 28. Deferral of Clearing and Settlement Function:** (1) If any problems due to any technical obstacles arises CDSC can deferral Clearing and Settlement Function.  
(1) If Clearing and settlement function has to be deferral in the circumstances pursuant to sub-by-laws (1) the information thereof shall be given to Board and NEPSE.

## Chapter – 5

### **Provision relating Supervision, Monitoring and Action**

- 29. Supervision and Monitoring :** (1) CDSC shall supervise and monitor the Clearing and settlement of securities trading.
- (2) The files and documents demanded by CDSC in course of supervision and monitoring pursuant to sub-by-laws (1) shall have to be provided by concerned member.
- (3) The direction given by CDSC undergoing supervision and monitoring shall have to be abide by Clearing and settlement member.
- 30. Clearing and Settlement not to be done of securities are not in balance:** While selling securities by the name of the customers by the seller Clearing member Clearing of securities that are not on balance in the account can be done.
- 31. Liabilities of Clearing Member: The liabilities of Clearing member shall be as under:** (1) To run Clearing and settlement system by authorized person of clearing member for clearing and settlement purpose,
- (2) Appropriate conservation and protection of software and hardware there provided by the CDSC for Clearing and settlement purpose shall have to be done,
- (3) If any technical problem in clearing and settlement system arises the information thereof shall have to be given to CDSC,
- (4) The clearing member after the function of Clearing and settlement of securities trading shall have to provide amount and documents in time to the customers.
- (5) To observe the direction given by the CDSC time to time.
- 32. Discipline and Action :** (1) If provision made in this regulation are not observed or if any kinds of activities violating the regulation is done CDSC can punish such member following one or more punishment to Clearing member;–
- (a) Alert them,
- (b) Direct them for improvisation function,
- (c) Restraine Clearing and settlement function,
- (d) Suspension or termination of Clearing membership,
- (2) Prior to taking action pursuant to sub-by-laws (1) clarification giving seven working days can be asked.
- Provided however that, if action pursuant to part (a) and (b) of sub-regulation (1) is taken demanding for clarification is not necessary.
- 33. Suspension of Clearing Member:** (1) CDSC under the following circumstances can suspend Clearing membership for more than one year;–

- (a) If Clearing member frequently breached direction of Board, NEPSE and CDSC,
  - (b) If the Clearing member did not observed or breached Act, rules, regulation and directives framed thereunder.
- (2) If Clearing member is suspended pursuant to sub-by-laws (1) they shall have the following status;—
- (a) The status of the Clearing member shall be deprived and restricted from entire rights received from CDSC,
  - (b) If Clearing member is suspended the concerned customer shall have no impact due to the reason of such suspension,
  - (c) Due to the reason of suspension of Clearing member the right of claim on other Clearing member and on such member shall have not be affected.
  - (d) The Clearing member during the period of suspension shall have to fulfill remaining liabilities and responsibilities according to the direction of CDSC.
  - (e) Clearing member during suspension period cannot carryout commercial trading through CDSC and other Clearing member.

**34. Termination of Clearing Membership:** (1) CDSC shall terminate the membership of Clearing officer under the following circumstances;—

- (a) If unable to improve according to the direction to improve the function,
- (b) If suspended for six month and is not learned appropriate to release,
- (c) If Clearing member made an written request to terminate the membership,
- (d) If Clearing member become bankrupted,
- (e) If proved doing harm in clearing and settlement function intentionally.
- (f) If the clearing member did not observed or breached Act, rules, regulation and directives framed thereunder.

(2) The membership of the Clearing member in the circumstances of commencing cancellation procedure pursuant to sub-by-laws (1) shall be suspended ipsofacto.

(3) Prior to termination of membership pursuant to sub-by-laws (1) CDSC shall ask to fulfill the liabilities of the Clearing member.

(4) Prior to termination of the membership pursuant to this regulation chance for presenting clarification giving time limit for seven working days shall be given.

- 35. Information of Action to be made:** (1) Any action taken to Clearing member pursuant to this regulation by CDSC shall have to be informed the parties affiliated to Clearing and settlement system.

(2) If any action against clearing member is done by CDSC such information shall have to be given to Board and NEPSE.

(3) If clearing member is not satisfied with the action taken by the CDSC pursuant to byelaws 33 and 34 such member can appeal on the Board.

- 36. Withdrawal of Suspension on Membership:** If membership is suspended pursuant to byelaws 33 and found that the clarification submitted is satisfactory or improved according to direction such suspension can be withdrawn.

## **Chapter – 6**

### **Provision relating Arbitration Committee**

- 37. Formation of Arbitration Committee :** (1) If disputes relating Clearing and settlement of securities between CDSC, Clearing member, customer, registered institutional organization including concerned other parties arises one arbitration committee for solution of dispute shall be formed.

(2) There shall be minimum three members in the Arbitration Committee pursuant to sub-by-laws (1).

- (a) One representative each from every party relating with dispute,
- (b) One representative from CDSC.

(3) In the consent of committee formed pursuant to sub-by-laws (2) one independent person shall be appointed as chief of the committee.

(4) Secretariat of arbitration committee shall remain at CDSC and the Secretariat shall recover the necessary expenditure incurred during works and function from the parties wherefrom disputes arises.

- 38. Period to Make Decision:** Within one month of formation of arbitration committee decision by the arbitration committee shall have to be given. If decision within that time limit is not given CDSC in the request of the arbitration committee can add appropriate time.

- 39. Decision of the Committee :** (1) Arbitration committee shall have to keep written decision in written manner and every member of the arbitration committee shall have to sign such decision.

(2) In the decision of the arbitration committee the base and reason and date and venue of decision shall have to be mentioned,

(3) The decision made by the arbitration committee shall have to be provided to the concerned parties within seven working days of making such decision.

**40. Procedure of Arbitration Committee** : (1) The procedure of works and function of arbitration committee shall be determined by themselves.

(2) Prior to commencing function according to the procedure framed by arbitration committee pursuant to sub-by-laws (1) such shall have to be submitted to the CDSC for information.

(3) CDSC shall direct arbitration committee for necessary amendment or improvisation if learned on the procedures received pursuant to sub-by-laws (2).

**41. Consider on Record of Action and Evidence**: If any member of the arbitration committee formed pursuant to this regulation dies, careless, refused CDSC shall appoint new member in place of such member and newly appointed member perform remaining function on the basis of evidence or can commence action from beginning.

**42. Decision shall be mandatory to Party or Concerned Representative**: Parties shall have to abide by all matters mentioned in the decision by the arbitration committee. The decision made by the arbitration committee shall be final and mandatory to both the parties if appeal according to regulation is not filed. If any party prior or after decision died or if disputes due to legal incapability arises the decision shall be cancelled.

**43. Right to Appeal** : The parties not satisfying with the decision of the arbitration committee can file appeal pursuant to prevailing law within respected court within 35 days.

## **Chapter – 7**

### **Miscellaneous**

**44. Clearing Member be responsible**: (1) If Clearing and settlement is done on the basis of scold by any customer, false or forgery documents the seller clearing member shall be responsible in this regard.

(2) If the securities are sold again from the documents mentioned in sub-by-laws (1) the first seller clearing member shall be responsible.

**45. Liability of CDSC** : CDSC shall be held responsible for conservation, promotion and supervision and monitoring of Clearing and settlement system.

**46. Provision relating Fund** : (1) CDSC for effective implementation of Clearing and settlement, settlement guarantee fund shall be established.

- (2) Necessary procedure for operation of fund established pursuant to sub-by-laws (1) shall be framed and implemented getting it approved from the Board.
47. **Release of Obstacles**: if any obstacles and hindrance arises in course of performing daily activities the Board in the request of CDSC shall release such obstacles.
48. **Shall be according to this Regulation**: The matters mentioned in this regulation shall be according to this regulation.

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## **Schedule – 1**

### (Relating to Rule 4)

Date: .....

The Chief Executive Officer,  
CDS and Clearing Limited,  
Thapathali, Kathmandu

**Subject: Relating submission of application for Clearing membership**

Sir/Madam,

As this ..... company Pvt. Ltd. is working as broker member of Nepal Stock Exchange Limited, thus I have submitted this application along with necessary documents and bank voucher of fees Rs. .... for Clearing and settlement pursuant to regulation 2 of Securities Trading and Settlement Clearings Regulations, 2069 (2013 A.D.). I committing to complete observing the Securities Act, 2063 and rules, regulations framed under this Act, request to provide membership according to rule.

**Enclosed:**

- (a) Copy of Certificate organization registration
  - (b) Memorandum of Association and Articles of Association
  - (c) Copy of license of Board
  - (d) Copy of membership of NEPSE
  - (e) Certificate of tax deposition
  - (f) Copy of Permanent Account Number
  - (g) Copy of Citizenship of Director

Name of applicant if institutional organization: .....

Address: ..... Phone No.: .....

Fax: ..... Email: .....

Registered Office: Executive Chief's:

Name: \_\_\_\_\_

Seal of Institutional Organization: \_\_\_\_\_ Signature: \_\_\_\_\_

**Schedule – 2**  
**(Relating to Regulation 6)**

Membership Number:

**Clearing Member**

This Clearing Membership has been conferred to ..... having head office at ..... subject to Securities Act, 2063 and rules, regulation framed under this Act and other prevailing law.

S. No.	Renewal Date	Validity Tenure	Signature of Renewing Officer

Authorized Signature:

Name:

Designation:

Date:

**Schedule – 3**  
(Relating to Part (c) of Sub-rule 2 of Rule 14)  
Receipt of submission of Securities Certificate

The securities certificate of ..... company sold by Clearing member ..... having following address and documents relating transmission ..... numbers are received.

**Following:**

S. No.	Name of Company	Documents Nos.	Remarks
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Name of submitter:	Name of Receiver:
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Signature:	Signature:
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Date:	Date:
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# **SECURITIES ENLISTMENT BYE-LAWS, 2018**

Nepal Stock Exchange Ltd. has devised these Bye-Laws upon approval from Securities Board of Nepal by exercising the powers conferred by Section 117 of the Securities Act, 2007.

## **Chapter-1**

### **Preliminary**

- 1. Brief Name and Commencement:** (1) These Bye-Laws shall be known as Securities Enlistment Bye-Laws, 2018.  
(2) These Bye-Laws shall come into effect from the date appointed by Nepal Stock Exchange Ltd. upon obtaining approval from the Securities Board of Nepal.
- 2. Definitions:** Unless prescribed otherwise by the subject or context, in these Bye-Laws:
  - a) *Act* means the Securities Act, 2006.
  - b) *Board* means the Securities Board of Nepal duly formed as per Section 3 of the Act.
  - c) *Rules* mean the Rules framed under the Act.
  - d) *NEPSE* means the Nepal Stock Exchange Ltd. licensed by the Board to run securities market.
  - e) *Body Corporate* means a body corporate enlisted for securities at the NEPSE.
  - f) *Institutional Activities* mean activities such as closing the registry book of a body corporate, organize general meetings, make return payments for the time expired securities, revise the debentures and title deeds having convertible features, disbursing dividends, interest, bonus shares, right shares and priority shares, issue and pay for the title deeds, return payment of premium and other associated tasks.
  - g) *Institutional Benefits* mean benefits such as disbursing dividends, interest, bonus shares, rights shares, priority shares, issuing title deeds and making return payment of premium and other associated perks.
  - h) *Enlistment* means an enlistment made at the NEPSE for the purpose of purchase, sale or exchange of securities through the securities market.

## Chapter 2

### Enlistment of Securities

3. **Securities to be issued:** A body corporate willing to enlist its securities at the NEPSE should have its prospectus, sale proposal, brochure and other details approved by the Board and have its securities issued before the public.
4. **Securities to be enlisted:** (1) A body corporate willing to conduct trade through NEPSE trading system should have its securities enlisted at the same.
  - (2) A body corporate should file an application at NEPSE in a format under Schedule 1 for the enlistment of its securities.
  - (3) Documents and details as per Schedule 2 and enlistment fees as per Schedule 3 should accompany the application as per Sub By-Rule (2).
5. **Examination of Application:** (1) Upon examining application as per Sub By-Rule (4) and the accompanying details and documents, in case additional papers and details are deemed to be necessary, then NEPSE may ask the applicant for the same.
  - (2) Enlistment of securities should generally complete within 30 days from the date of receipt of application, after concluding the examination of details and documents as per Sub By-Rule (1).
6. **Enlistment Agreement to be made:** (1) In case enlistment of securities is deemed reasonable as per By-Rule 5(2), NEPSE should make an enlistment agreement with the body corporate as per Schedule 4.
  - (2) Prior to concluding enlistment agreement as per Sub By-Rule (1), the concerned body corporate should pay the enlistment fees as per Schedule 3 at the NEPSE.
7. **Enlistment of Bonus and Right Shares:** (1) In case an enlisted body corporate issues bonus or right shares, then it has to enlist them for share trading purposes.
  - (2) For enlistment as per Sub By-Rule (1), the enlisted body corporate should file an application at the NEPSE in format under Schedule 1 and accompanied by the following details and documents:
    - a) Minutes of general meeting to issue bonus or right shares,
    - b) Number, amount and other relevant details of the bonus or right shares that are to be issued,
    - c) Proof of registration at the Board,
    - d) Minutes and records on capital enhancement,
    - e) Minutes of Board of Directors on enlistment,
    - f) Papers suggesting digitization at the central depository system.

(2) Upon examining the details and documents received with the application as per Sub By-Rule (1), if some necessary details or documents are found to be lacking, then NEPSE may call for the same or seek clarification thereof.

(3) In case all the processes are deemed to have been complete once a receipt for enlistment has been received as per these Bye-Laws, then NEPSE is required to enlist the concerned securities within 7 days.

(4) Notwithstanding whatever is provided in Sub By-Rule (3), NEPSE is required to enlist the bonus or right shares within a maximum of 15 day period.

**8. Enlistment of Government Debentures:** (1) In case Government of Nepal or Nepal Rastra Bank wishes to enlist government debentures that they have issued, they may do so as per these Bye-Laws.

(2) The concerned agency should tender the following details and documents at NEPSE for the enlistment of government debentures:

- a) Name of the debenture,
- b) Type of debenture,
- c) Issuance date of debenture,
- d) Total amount of issued debentures,
- e) Duration and date of return payment of debentures,
- f) Mode of paying interest in debenture,
- g) Interest rate applicable in debenture,
- h) Average price established during initial offering,
- i) Certificate No. and Serial No. of the issued debentures,
- j) Fees for unifying or fragmenting debentures,
- k) Fees for the transfer of ownership in debenture,
- l) List of owners of debenture,
- m) Terms for the issue of debenture,
- n) Other statements on debenture.

(3) The NEPSE may arrange for a separate trading process or room for the trading of government debentures enlisted as per these Bye-Laws.

(4) The enlistment of government debentures enlisted as per these Bye-Laws shall ipso facto be annulled from the date on which their term (duration) comes to an end.

(5) Notwithstanding whatever is provided elsewhere in these Bye-Laws, no enlistment agreement needs to be made as for the enlistment of government debentures.

**9. Enlistment may be denied:** (1) In case a body corporate fails to submit the required details, documents, information and fees for the enlistment of its securities as per these Bye-Laws, NEPSE may deny the enlistment of such securities.

(2) In case it is decided to deny the enlistment as per Sub By-Rule (1), the notice of denial of enlistment should be communicated to the concerned body corporate within 7 days of that decision, by also assigning reason(s) thereof.

**10. Lock In Period of Securities to be quoted:** (1) A body corporate, while applying for enlistment as per By-Rule 4 should quote the lock in period also, if its securities have been locked in from their sales, purchase, transfer of ownership or rights, following a directive from the concerned regulatory body or as provided in the prevailing laws.

(2) The body corporate should lock in the bonus share and right share also that are to be accrued upon the securities that are locked in as per Sub By-Rule (1).

(3) The notice of non transferability of the shares locked in as per Sub Bye-Laws (1) and (2) should be relayed also to the Share Registrar and the agency providing central depository services.

## **Chapter 3**

### **Provisions on Classification**

**11. Classification of Enlisted Institutions:** (1) The enlisted institutions shall be classified as follows:

*a) Body corporate under the 'A' class:*

- (1) Having a paid up capital of a minimum of Rs. 1 billion,
- (2) Having passed at least 3 years from the date of securities enlistment,
- (3) Having distributed dividends following profits posted for the last 3 fiscal years,
- (4) Having attained average or a higher rating from a credit rating agency,
- (5) Having maintained financial details in a format specified by the regulatory body,
- (6) Having held annual general meeting within 6 months of completion of the previous fiscal year.

*b) Body corporate under the 'B' class:*

- (1) Having a paid up capital of a minimum of Rs. 0.5 billion,
- (2) Having passed at least 3 years from the date of securities enlistment,

- (3) Having posted profits for at least 2 fiscal years out of the last 3 years,
  - (4) Having attained a rating of at least one level below average from a credit rating agency,
  - (5) Having held annual general meeting within 6 months of completion of the previous fiscal year,
  - (6) Having no consolidated losses.
- c) Notwithstanding whatever is provided in Clauses (a) and (b), a body corporate shall remain in 'G' class for a period of 2 years from the date of its securities enlistment.
- d) A body corporate not falling under classification as per Clauses (a) (b) and (c) shall be placed in the 'Z' class.
- (7) A review of classification made as per these Bye-Laws should be updated each trimester.
  - (8) NEPSE should publish the classification of body corporate as per these Bye-Laws through its website.
  - (9) A body corporate falling under any classification publicized as per Sub By-Rule (8) may lodge a protest within 35 days together with a reason on why it does not belong to that particular class.

## Chapter 4

### **Consequences of Merger or Disintegration of Body Corporate**

- 12. Merger of Body Corporate:** In case 2 or more enlisted bodies corporate turn into a new body corporate following merger then an application should be filed at NEPSE seeking enlistment of its securities as per By-Rule 4 on behalf of a body corporate thus converted.
- 13. Amalgamation of Body Corporate:** In case a body corporate buys another body corporate or is itself amalgamated, the securities added thus should be enlisted at the NEPSE by filing an application at the NEPSE as per By-Rule 4.
- 14. Disintegration of a Body Corporate:** (1) In case a body corporate disintegrates and becomes a new entity then the new body corporate should enlist itself at NEPSE by filing an application as per By-Rule 4.
- (2) The process and details of assets and liabilities divided between the disintegrated bodies should be attached together with the application to be tendered as per Sub By-Rule (1).
- 15. Enlistment Fees for Extra Securities:** While enlisting extra securities as per this Chapter, if securities are to be enlisted at a greater value than the paid up price

of the securities enlisted earlier, then the enlistment fees for the surplus price of those securities only has to be paid at NEPSE as per Schedule 3.

## Chapter 5

### **Suspension, Revocation of Enlistment and Re-Enlistment**

**16. Suspension of Enlistment Possible:** (1) The NEPSE may suspend the enlistment of securities of a body corporate in any of the following circumstances:

- a) In case the annual fees of securities enlistment is not cleared,
- b) In case sensitive information on the trade and price of securities is not submitted at NEPSE within the time specified in the enlistment agreement,
- c) In case a body corporate supplies NEPSE with wrong information or frequently alters the given information,
- d) In case it fails to submit its annual and biannual report on time.

(2) In the event of suspension of enlistment as per Sub By-Rule (1), NEPSE shall intimate the concerned body corporate of the same, with reason thereof.

(3) NEPSE may suspend the enlistment of securities of a body corporate for a maximum of 3 months and extend that duration upon obtaining consent of the Board.

(4) In case the reason for which the enlistment of securities of a body corporate was suspended as per these Bye-Laws ceases to exist, then NEPSE shall lift that suspension.

**17. Information to be passed:** In case NEPSE suspends the enlistment of securities of a body corporate, it should pass that information forthwith or prior to the opening of business in the following day to the Board, and also to the concerned enlisted body corporate as well as the member brokers.

**18. Voluntary Revocation Possible:** (1) In case an enlisted body corporate wants to revoke the enlistment of its securities voluntarily, then it should file an application at NEPSE in a format under Schedule 5, by completing the process prescribed by Rule 8 of the Securities Enlistment and Trading Rules, 2018.

(2) The body corporate should pay the due enlistment fees or annual fees together with the application as per Sub By-Rule (1).

(3) After holding needful examination on the application received as per Sub By-Rule (1), and if it is deemed proper to revoke the enlistment of its securities, then the same should be done within 30 days.

**19. Revocation of Enlistment Possible:** (1) NEPSE may revoke the enlistment of a body corporate in any of the following circumstances:

- a) In case a body corporate ceases to exist following merger, purchase or amalgamation,
- b) In case a body corporate is dissolved as per the prevailing laws,
- c) In case Board or any other regulatory body directs for the revocation of securities enlistment,
- d) In case securities enlistment is suspended for 3 consecutive years following failure to clear the annual fees,
- e) In case securities enlistment is suspended for similar reason for more than 3 times.

(2) Prior to revoking securities enlistment as per Sub By-Rule (1), an opportunity of defense should be awarded to the concerned body corporate, and the grounds as well as reasons for revocation of such securities should also be shared with the same.

(3) In case clarification received as per Sub By-Rule (2) is found to be implausible, then NEPSE is entitled to revoke the securities enlistment of such body corporate.

**20. Notice of Suspension or Revocation of Securities to be published:** In case securities enlistment is suspended or revoked as per these Bye-Laws, NEPSE is required to publish a notice of the same in a national level daily or in its website.

**21. Re-Enlistment Possible:** (1) In case a body corporate whose securities enlistment is revoked wants to have its securities enlisted again, it should file an application at NEPSE as per By-Rule 4, to this effect.

(2) An application for the re-enlistment of securities may be tendered only after a year has passed of the revocation of securities enlistment.

(3) In case an application is received as per Sub By-Rule (1), NEPSE shall institute needful examination and shall enlist the securities within 30 days, if it deems fit.

(4) While holding examination as per Sub By-Rule (3), NEPSE may take into account the following circumstances also as regards the re-enlistment of securities of a body corporate:

- a) Financial status of the body corporate,
- b) Feasibility of dynamic trade of securities by the body corporate,
- c) Any reform on the cause for which the securities enlistment was revoked earlier.

## Chapter 6

### **Provisions on the Flow of Notices and Information**

**22. Notices and Information to be submitted:** (1) An enlisted body corporate is required to furnish the notices and information at the NEPSE, in a manner as follows:

- a) Audited financial statements of each fiscal year of the body corporate and the auditor's report - within 5 months of passage of each fiscal year.
- b) A trimester report on the details of per share income, price-income ratio, price of per share net assets, price of total assets per share, liquidity ratio - within 30 days of passage of each trimester.
- c) Notice on book close of securities - at least 7 days prior to such book closure.
- d) Any notice, decision and information that may influence the price of securities - the same day or prior to opening of business the following day. However, such notice, decision and information should be publicized through the website of concerned enlisted body corporate also.
- e) In case of decision on cash dividends, bonus shares and issuance of right or additional shares, notice of such event should be passed forthwith to NEPSE by citing the time of meeting of Board of Directors as well.
- f) Together with the notice or information as per Clause (e), the concerned fiscal year for which dividends are to be given, date of book closure, ratio and share units or amount should also be disclosed.
- g) In case of any event or transaction that may impact the market price of enlisted securities, such matters should be communicated forthwith.
- h) In case a decision is made to buy or sell property worth Rs. 100 million or above, then its information.
- i) In case there is a reshuffle of Board of Directors, Audit Committee, Chief Executive Officer, Company Secretary, Head of Accounts Department or Auditor, then notice of the same.
- j) In case a case is lodged at a court that may result in a liability of Rs. 100 million or above, the details of the same.

(2) The Plan Manager of an enlisted mutual investment fund should file at NEPSE, the monthly statement of net assets value and investment of the Plan within 15 days of passage of each month.

(3) Once notices and information as per Sub Bye-Laws (1) and (2) are received, NEPSE shall forthwith publish them in its advice to the knowledge of investors.

(4) In case Board of Directors of an enlisted body corporate make a decision as to the merger, amalgamation, purchase or disintegration of the institution, then the matter should be intimated to NEPSE forthwith or prior to the opening of business the following day.

## **Chapter 7**

### **Miscellaneous**

**23. Terms to be observed:** In addition to the provisions laid down in the prevailing laws on securities, an enlisted body corporate is required to observe the following terms as well:

- a) Directives given by NEPSE from time to time on the publication of notices and information pertaining to the enlisted body corporate,
- b) No discrimination between the owners of securities, who have been holding their similar types,
- c) In case NEPSE wants to check the registry book of securities of a body corporate, either regularly or suddenly, then the same has to be allowed,
- d) If NEPSE has prescribed the standard or format of book closure letter of securities, then the same letter should be used.

**24. Annual Fees to be paid:** A body corporate which has enlisted its securities as per these Bye-Laws should pay annual fees as per Schedule 2, within 3 months of passage of previous fiscal year.

**25. Liability to Submit Statements:** It shall be the liability of Head of the concerned body corporate to credibly submit the notices, information and documents at the NEPSE as required by the prevailing laws on securities.

**26. Saving and Repeal:** (1) Enlistment of Securities Bye-Laws, 1997 have been repealed.

- (2) The proceedings discharged under Enlistment of Securities Bye-Laws, 1997 shall be deemed to have been discharged as per these Bye-Laws.

**Schedule 1**  
[Pertaining to By-Rule 4(2)]

**Format of Application for Enlistment**

Nepal Stock Exchange Ltd.  
....., Kathmandu.

Date:

**Sub: On Enlistment of Securities**

Dear Sir/Madam,

I have filed this application together with the needful details, documents and fees for the enlistment/re-enlistment of securities issued by this company/body corporate as per the prevailing laws on securities. I want to hereby request that this company/body corporate is willing to observe the terms and conditions as laid down in the prevailing laws on securities.

The details and documents attached with this application are true and factual. I have neither masked any detail nor exaggerated anything. Otherwise, I am ready to face the consequences of law.

**Of applicant body corporate**

Name:

**Address**

Province:

District:

Local Level:

Locality:

Ward No:

Block No:

Phone No:

Fax:

Email:

**Yours Sincerely**

.....  
(Chief Executive Officer)

Seal of the Office:

Attached details and documents:

## **Schedule 2**

[Pertaining to By-Rule 4(3)]

Documents to be attached with Application for Securities Enlistment

### **1. In case shares are the securities that are to be enlisted:**

- a) Articles of Association and Memorandum of Association of the body corporate,
- b) In case of a body corporate created under a special Act, a copy of such Act,
- c) In case of a body corporate registered as a company, a copy of incorporation certificate,
- d) A copy of Business Operation Permit,
- e) A copy of PAN registration and records of updated tax clearance,
- f) Sample of share certificate,
- g) In case of share investment by a foreign investor, the details thereof,
- h) Names and addresses of the Directors, Auditor, Executive Head and Company Secretary of the body corporate,
- i) Capital and share ownership structure of body corporate,
- j) In case the body corporate has sealed an agreement or understanding on transfer of technology, management, credit or share investment or any agreement among the shareholders, the details thereof,
- k) An updated list of shareholders with serial number,
- l) In case the body corporate has drawn loans from an international bank or financial institution, then details of the loan amount, interest rate, mode of interest payment, and use of the loan,
- m) In case the body corporate has invested in another body corporate an amount exceeding 5 percent of its paid up capital, then the name, address of such body and the details of invested sum,
- n) Prospectus, invitation letter, entire documents on share allocation prepared prior to issuance of securities or if other similar notices or information are publicly issued for that purpose, the details thereof,
- o) Balance sheet and profit-loss statement of the body corporate of the last 3 years, to the extent practicable; and estimated balance sheet and profit-loss statement for the upcoming 3 years,
- p) In case the body corporate has invested in another body corporate an amount equivalent to or exceeding 50 or more percent of share investment,

- then an audited income-expenditure statement, balance sheet and auditor's report of such auxiliary body corporate,
- q) Minutes of the Board of Directors as to move with enlistment,
  - r) A copy of registration certificate at the central depository system,
  - s) Provisions on the transfer and deregistration of securities,
  - t) In case of ban on sale and purchase of securities, the details thereof,
  - u) In case the securities are priority shares, then information on their type, duration, returns, payment method and voting process.
2. In case mutual investment fund units are the securities that are to be enlisted:
- a) Articles of Association and Memorandum of Association of the Plan Manager,
  - b) In case of the Plan Manager created under a special Act, a copy of such Act,
  - c) In case of the Plan Manager registered as a company, a copy of incorporation certificate,
  - d) A copy of permit from the Board to act as a Plan Manager,
  - e) A copy of PAN registration and records of updated tax clearance,
  - f) Sample of unit certificate,
  - g) Minutes of Board of Directors of Fund Supervisor and Plan Manager to move with enlistment,
  - h) Names and addresses of the Directors, Auditor, Executive Head and Company Secretary of the Plan Manager,
  - i) Names and addresses of the Fund Supervisor and Plan Manager,
  - j) An updated list of unit-holders with serial number,
  - k) Prospectus, invitation letter, entire documents on unit allocation prepared prior to issuance of units or if other similar notices or information are publicly issued for that purpose, the details thereof,
  - l) A copy of registration certificate at the central depository system,
  - m) Provisions on the transfer and deregistration of units,
  - n) In case of ban on sale and purchase of units, the details thereof.
3. In case debentures are the securities that are to be enlisted:
- a) Articles of Association and Memorandum of Association of the body corporate,
  - b) In case of a body corporate created under a special Act, a copy of such Act,
  - c) In case of a body corporate registered as a company, a copy of incorporation certificate,

- d) The names, types, date of issuance, total amount, duration and date of return of principal of the debentures,
- e) A copy of PAN registration and records of updated tax clearance,
- f) Sample of debenture certificate,
- g) In case of share investment in the body corporate by a foreign investor, the details thereof,
- h) Names and addresses of the Directors, Auditor, Executive Head and Company Secretary of the body corporate,
- i) Capital and share ownership structure of body corporate,
- j) In case the body corporate has sealed an agreement or understanding on transfer of technology, management, credit or share investment or any agreement among the shareholders, the details thereof,
- k) An updated list of debenture holders with serial number,
- l) In case the body corporate has drawn loans from an international bank or financial institution, then details of the loan amount, interest rate, mode of interest payment, and use of the loan,
- m) In case the body corporate has invested in another body corporate an amount exceeding 5 percent of its paid up capital, then the name, address of such body and the details of invested sum,
- n) Prospectus, invitation letter, entire documents on share allocation prepared prior to issuance of debentures or if other similar notices or information are publicly issued for that purpose, the details thereof,
- o) Balance sheet and profit-loss statement of the body corporate of the last 3 years, to the extent practicable; and estimated balance sheet and profit-loss statement for the upcoming 3 years,
- p) In case the body corporate has invested in another body corporate an amount equivalent to or exceeding 50 or more percent of share investment, then an audited income-expenditure statement, balance sheet and auditor's report of such auxiliary body corporate,
- q) Minutes of the Board of Directors as to move with enlistment,
- r) A copy of registration certificate at the central depository system,
- s) Provisions on the transfer and deregistration of debentures,
- t) In case of ban on sale and purchase of debentures, the details thereof,
- u) Type, duration, interest rate, payment of interest and principal and other information pertaining to debentures,
- v) In case the debentures are convertible, the ratio, process and date of such conversion,

- w) In case of any voting rights attached to the debentures, the details thereof,
  - x) In case of trustees of debentures, the agreement and details thereof,
  - y) Terms for the issuance of debentures.
4. In case the bodies corporate have merged to form a new body corporate:
- a) Updated Articles of Association and Memorandum of Association,
  - b) A copy of incorporation certificate,
  - c) A copy of Business Operation Permit,
  - d) A copy of PAN registration and records of updated tax clearance,
  - e) Sample of share certificate,
  - f) In case of share investment by a foreign investor, the details thereof,
  - g) Names and addresses of the Directors, Auditor, Executive Head and Company Secretary of the body corporate,
  - h) Capital and share ownership structure of body corporate,
  - i) In case the body corporate has sealed an agreement or understanding on transfer of technology, management, credit or share investment or any agreement among the shareholders, the details thereof,
  - j) An updated list of shareholders with serial number,
  - k) In case the body corporate has drawn loans from an international bank or financial institution, then details of the loan amount, interest rate, mode of interest payment, and use of the loan,
  - l) In case the body corporate has invested in another body corporate an amount exceeding 5 percent of its paid up capital, then the name, address of such body and the details of invested sum,
  - m) Prospectus, invitation letter, entire documents on share allocation prepared prior to issuance of securities or if other similar notices or information are publicly issued for that purpose, the details thereof,
  - n) Balance sheet and profit-loss statement of the body corporate of the last 3 years, to the extent practicable; and estimated balance sheet and profit-loss statement for the upcoming 3 years,
  - o) In case the body corporate has invested in another body corporate an amount equivalent to or exceeding 50 or more percent of share investment, then an audited income-expenditure statement, balance sheet and auditor's report of such auxiliary body corporate,
  - p) Minutes of the Board of Directors as to move with enlistment,
  - q) A copy of registration certificate at the central depository system,
  - r) Provisions on the transfer and deregistration of securities,
  - s) In case of ban on sale and purchase of securities, the details thereof.

**Schedule 3**  
 [Pertaining to By-Rule 4(3)]  
**Enlistment and Annual Fees**

**a) Enlistment of Securities and Annual Fees**

S. No.	Paid up Capital	Enlistment Fee	Annual Fee
1	Up to Rs. 500 million	0.1 percent or a minimum of Rs. 150,000	Rs. 50,000
2	Above Rs. 500 million	0.05 or a minimum of Rs. 250,000	Rs. 100,000

**b) Enlistment of Debentures/Unitary or Group Savings and Annual Fees**

S. No.	Issued Amount	Enlistment Fee	Annual Fee
1	Up to Rs. 500 million	Rs. 60,000	Rs. 25,000
2	Above Rs. 500 million	Rs. 100,000	Rs. 50,000

**c) Enlistment Fee of Government Debentures**

S. No.	Issued Amount	Enlistment Fee
1	Up to Rs. 1 billion	Rs. 20,000
2	From Rs. 1 billion to Rs. 5 billion	Rs. 30,000
3	Above Rs. 5 billion	Rs. 50,000

Note: 1. An enlistment application fee of Rs. 15,000 should be attached with the application.

2. In case of failure to pay renewal fee in a specified time limit, a fine of 10 percent per annum of the renewal fee shall apply.

## **Schedule 4**

[Pertaining to By-Rule 6(1)]

Format of Enlistment Agreement to be concluded between A Body Corporate Enlisting Its Securities and Nepal Stock Exchange Ltd.

*A Securities Enlistment Agreement Sealed between Nepal Stock Exchange Ltd.  
&  
.....(Enlisting Instiution)*

### **Terms**

1. The NEPSE shall provide its services and amenities for trading in debentures issued by the body corporate subject to the prevailing laws on securities, having a nominated price of Rs....., paid up price of Rs....., of ....type and of .....units.
2. NEPSE shall make available the attested statements on the traded securities of body corporate, if the latter makes a request thereof.
3. Save for a written request by the body corporate to keep the information and details of traded securities confidential for a reason, NEPSE may publish such information and details.
4. In case the body corporate issues bonus shares or right shares in the debentures enlisted as per this Agreement, those shares also need to be enlisted at NEPSE in line with the prevailing laws.
5. In case the body corporate decides to issue dividends, bonus shares or right shares, then the body should communicate the information of shareholders until which point of time are eligible to receive such dividends, bonus shares or right shares, to the NEPSE forthwith or prior to the opening of business the following day.
6. In case a deregistration, transfer of ownership, renewal, unification or disintegration of securities of a body corporate are to be blocked, then its notice should be passed to NEPSE forthwith along with reason thereof.
7. In case daily functioning of a body corporate is to be stalled following natural disaster, emergency incidents lock down or any other reason, then the notice thereof should be passed to NEPSE forthwith via a speedier medium, to the extent possible.
8. In the event of internal corporate affairs that have a direct effect on the securities of a body corporate, the notice or information thereof should be passed to NEPSE at the earliest.
9. In case any motion is passed as to the change in business nature of body corporate, selling its partial or whole ownership or buying majority shares of

any institution, then the decision and notice thereof should be passed to NEPSE at the earliest.

10. In case of book closure of a body corporate, then notice of the due date of closure and the reason thereof should be passed to NEPSE at least 7 days in advance.
11. In case a body corporate changes the address of its registered office, then it should notify NEPSE forthwith in this regard and also publish a notice on newspapers to the knowledge of stakeholders.
12. In case a single person or institution acquires 5 or more percent of the body corporate's shares, then its notice should be passed to NEPSE at the earliest.
13. In case the body corporate grants any shares to any Director or any other individual or institution in lieu of cash, then NEPSE should be forthwith intimated of this matter.
14. In case of change in the Director, Executive Head, Company Secretary or Auditor of the body corporate, NEPSE should be forthwith intimated of this matter.
15. In case of dissolution of body corporate, the notice thereof should be forthwith communicated to NEPSE.
16. The body corporate should submit its annual report, balance sheet, income-loss statement, other details and the agenda for discussion to be tabled at the general assembly before the shareholders and NEPSE.
17. The body corporate shall make NEPSE available the motions, agenda that were discussed and minutes thereof that resulted at the general meeting within a month of its completion.
18. The body corporate is required to submit an electronic copy of its progress report detailing the acts and decisions and financial statements that transpired in each trimester, within a month from the passage of such trimester.
19. The body corporate is required to pay enlistment fee within the last day of Asauj month of each year.
20. NEPSE may conduct regular or random checking of securities registry book kept at the body corporate.
21. The body corporate shall furnish an electronic copy of its record of securities owners within a month from the completion of its annual general meeting.
22. In case the details of securities owners whose transactions have already taken place prior to the book closure of securities but whose transfers are still due, are sent within a maximum time of 7 days from such closure, then the body corporate should provide the buyers with dividends, bonus shares or right shares.

**Schedule 5**  
[Pertaining to By-Rule 18(1)]  
**Format of Application for Voluntary Revocation of Enlistment**

Nepal Stock Exchange Ltd.  
....., Kathmandu

Date:

**Sub: Revocation of Securities Enlistment**

Dear Sir/Madam,

I hereby apply for the voluntary revocation of securities of this body corporate subject to the prevailing laws on securities by attaching the necessary details and documents.

The details and documents attached with this application are true and factual. I have neither masked any detail nor exaggerated anything. Otherwise, I am ready to face the consequences of law.

Of applicant body corporate

Name:

Address

Province:

District:

Local Level:

Locality:

Ward No:

Block No:

Phone No:

Fax:

Email:

Yours Sincerely

.....  
(Chief Executive Officer)

Seal of the Office:

Attached details and documents:

# **SECURITIES TRADING BYE-LAWS, 2018**

Nepal Stock Exchange Ltd. has devised these Bye-Laws upon approval from Securities Board of Nepal by exercising the powers conferred by Section 117 of the Securities Act, 2007.

## **Chapter-1**

### **Preliminary**

- 1. Brief Name and Commencement:** (1) These Bye-Laws shall be known as Securities Trading Bye-Laws, 2018.  
(2) These Bye-Laws shall come into effect from the date appointed by Nepal Stock Exchange Ltd.
- 2. Definitions:** Unless prescribed otherwise by the subject or context, in these Bye-Laws:
  - a) *Act* means the Securities Act, 2006.
  - b) *Order* means an order placed by the investor for purchase or sale of securities via the trading system.
  - c) *Trading System* means an automated electronic trading system put in place by NEPSE for running the purchase and sale transactions of securities pursuant to By-Rule 3.
  - d) *Trading Member* means a securities broker, a market creator or securities trader having received license from Securities Board of Nepal and acquired membership of NEPSE.
  - e) *Client* means an individual or institution which places order or makes an agreement with a trading member for the purchase, sale or exchange of securities.
  - f) *Broker* means a securities broker/professional having received license from Securities Board of Nepal and acquired membership of NEPSE.
  - g) *Securities* means securities enlisted at the Nepal Stock Exchange Ltd. (NEPSE).
  - h) *Board* means the Securities Board of Nepal.

## **Chapter 2**

### **Provisions on Securities Trading**

- 3. Trading System:** (1) NEPSE shall put in place an automated electronic trading system for running the purchase and sale transactions of securities.  
(2) Price time priority should be applied in the said trading system.

*Clarification:* For the purpose of this Sub By-Rule, *price time priority* means such an arrangement whereby, the trading system while processing the sale or purchase order of securities, it will prioritize high price for purchases and low price for sales, but will give first priority to the first order if the prices for given orders are the same.

**4. Trading in Securities:** (1) Each member should buy or sell securities only through the trading system.

(2) For selling and buying securities as per Sub By-Rule (1), NEPSE shall grant to the member, needful access and facilities within the trading system.

**5. Board Lots:** (1) In case the securities to be traded are shares or units of mutual investment plan, then the board lot shall be as follows:

a) 100 units, if the nominated price is Rs. 10.

b) 10 units, if the nominated price is Rs. 100.

(2) In case the securities are debentures, the board lot shall be as follows:

a) 10 units, if the nominated price is Rs. 100.

b) 1 unit, if the nominated price of institutional debenture is Rs. 1000.

(3) Securities having a volume less than the board lot under Sub Bye-Laws (1) and (2) shall be de-prioritized and such a securities trade shall be called a de-prioritized transaction.

However, a securities owner possessing securities equal or above the board lot cannot sell those securities by de-prioritizing them.

(4) De-prioritized transactions shall not be included in the price change limit and market index calculation within the securities trading.

(5) Save for the securities specified in Sub Bye-Laws (1) and (2), in case of other securities, NEPSE may fix the board lots from time to time, after obtaining consent from the Board.

(6) Notwithstanding whatever is provided elsewhere in these Bye-Laws, as regards the board lot of government debentures, it shall be as fixed by the NEPSE from time to time, at the consent of Board.

**6. Access to Trading System:** (1) Securities traders meeting the following qualifications shall be granted access to the trading system:

a) Having obtained license from the Board for securities business,

b) Having acquired membership of NEPSE,

c) Not having its license or membership annulled or suspended.

(2) Securities traders with the access to trading system as per Sub By-Rule (1) may delegate such access to their staffs, authorized agents or a responsible person at their branch offices.

- (3) In case of a provision of online trading system via the internet, a securities trader may grant access to the investor in the trading system for entering its purchase or sales order in course of securities trading.
- (4) In case of an access granted to the trading system under Sub By-Rule (1) or (2), the concerned securities trader shall be responsible for such trade.
7. **Order to be received:** (1) Prior to making a transaction in securities, a trading member is required to obtain a purchase or sales order from a client desirous of sealing a transaction in securities, in a manner that would reveal the details as specified in Schedule 1.
- (2) An order under Sub By-Rule (1) may be received from telephone, mobile phone, email and other electronic medium also.
- (3) In case an investor enters an order by utilizing internet based online trading system, it shall be deemed as a valid order of client.
- (4) The trading member should keep record of a purchase or sales order that it has received as per these Bye-Laws.
8. **Advance Payment to be received:** (1) A member, while receiving a purchase order, it should secure an advance payment from the ordering client, at least 25 percent amount of the presumed total that would be established during the execution of such claim.
- (2) The trading member cannot use the sum received as per Sub By-Rule (1) for clearing the transactions of other members.
- (3) The trading member should keep a clear record of such advance payment received as per Sub By-Rule (1).
9. **Order to be entered:** (1) The member is required to enter the purchase or sales order received under By-Rule 7 into its trading system.
- (2) The member should enter orders on a *first come first serve* basis.
10. **Trading Agreement to be done:** (1) A trading member engaged in trading securities for its clients should obtain client identification as per Securities Professionals (Securities Brokers, Traders and Market Creators) Rules, 2017 and conclude a trading agreement with such client.
- (2) An agreement under Sub By-Rule (1) should include the following matters:
- Medium for giving purchase or sales order for transaction,
  - Identification of the device used by the investor for entering its orders,
  - Limits of purchase or sales orders,
  - Limits of access of a member to the deposit account and bank account of the investor,

- e) Use of margin trading benefits, if applicable,
- f) Guarantee required for trading,
- g) Final liability of a transaction,
- h) Force de majeure and damages,
- i) Information of the black listing or bankruptcy of a client, if applicable,
- j) Information on whether the securities are frozen or not,
- k) Security of trading system.

(3) The NEPSE may frame a format of an agreement to be concluded under this By-Rule and put into practice.

**11. Trading Operations:** (1) The trading session and time for the execution of investors' orders shall be as follows:

- a) Initial trading: 10.30 to 11 am.
- b) Bidding and continuous trading: 11 am to 3 pm.
- c) Final trading: 3 to 3.05 pm.

(2) The NEPSE may revise the time and session of trading under Sub By-Rule (1), by informing the Board in this connection. In case of revision of trading time and session thus, NEPSE is required to publish a public notice to this effect.

(3) In the initial trading session as per Sub By-Rule (1)(a), the securities orders may be entered only.

(4) The entries of orders made at a time under Sub By-Rule (1)(a) should be executed immediately prior to the time under Clause (b) on the basis of economic order quantity and economic order price.

**Clarification:** *Economic order quantity* and *economic order price* mean a system whereby the entire orders whose prices have been determined and entered shall be executed at once on the basis of demand and supply principle by computing the purchase and sales orders entered within the designated time period.

(5) The purchase and sales order shall be executed at the bidding and continuous trading session under Sub By-Rule (1)(b) on the basis of price time priority.

(6) While trading in a session under Sub By-Rule (1)(b), a member may alter the price and number of securities as ordered.

(7) Trading shall be done in an average price in the final trading session under Sub By-Rule (1)(c). The NEPSE may fix the time and trading frequencies for average calculation.

(8) The NEPSE shall publish in real time and through its website the details of transactions made in the session under Sub By-Rule (1)(b) and (c).

(9) In case trading took place outside the trading system at the approval of NEPSE and where separate prices have been maintained, then such a trade shall be entered into the trading system of NEPSE through the member and a separate trading session may be initiated if such a transaction is to be documented.

**12. Price Change Limit:** (1) While entering price in the initial trading session, it should be fixed within a range of 5 percent less or more of the final price in the previous day.

(2) Orders should be entered within a range of 5 percent less or more of the price settled as per Sub By-Rule (1) in the continuous trading session.

(3) While entering price for the securities trading which were not traded in initial trading session, it should be fixed within a range of 2 percent less or more of the final price in the previous day.

(4) In case a particular security is not traded for 15 consecutive days, then NEPSE may relax the price change limit for the first transaction on the following event.

(5) The NEPSE may, from time to time, fix the price limit to be mentioned while entering an order for the first transaction, post the enlistment of securities.

(6) Notwithstanding whatever is provided elsewhere in these Bye-Laws, in case there is a possibility of notable change in the price of securities due to issuance of bonus shares, right shares, cash dividend or any other institutional activity by an enlisted body corporate, then NEPSE may prescribe new price after adjusting their values.

**13. Change in Minimum Price:** (1) A securities professional should enter the price change limit for securities trading as per By-Rule 12 in a full digit that is divisible by 1 or a minimum of Re. 1.

(2) Notwithstanding whatever is provided in Sub By-Rule (1), in case of transaction of securities in a price less than Rs. 50, then price may be entered by changing the price at level below Re. 1 and calculable in paisa as well.

**14. Transactions of Securities Traders:** (1) A licensed securities trader may enter sales or purchase order for itself in the trading system.

(2) The NEPSE shall make a list of enlisted bodies corporate wherein the securities traders may perform transactions, and make it public.

(3) The NEPSE may revise or modify, from time to time, the list made public as per Sub By-Rule (2).

(4) A securities trader is not entitled to enter a sales order for securities that it does not own.

(5) A securities trader is prevented from following acts in course of transactions:

- a) To buy or sell securities by accepting by itself, the sales or purchase order tendered by the clients,
- b) To enter its order, earlier than its clients, based on the information of sales or purchase order tendered by the clients.

(6) In case of default of Sub By-Rule (5), NEPSE shall suspend the membership of such securities trader and institute needful action.

**15. Guarantee to be kept:** (1) A securities trader is required to keep cash or bank guarantee as prescribed by NEPSE from time to time, for securities trading limits.

(2) The NEPSE may make needful arrangements for permitting transactions worth up to 25 times the guarantee kept as per Sub By-Rule (1).

(3) The NEPSE should communicate with the Board, the information on guarantee amount and limits set forth as per Sub Bye-Laws (1) and (2).

**Clarification:** For the purpose of this By-Rule, by *trade limit* is meant an amount held for sales and purchases until the clearance of balances after entering it into the computer system.

**16. Provision on Block Trading:** (1) An investor may engage in block trading of securities upon obtaining prior approval from the NEPSE.

(2) The concerned investor should file an application by attaching the following documents to perform block trading as per Sub By-Rule (1):

- a) Information given to the Board as regards the sale and purchase of securities,
- b) Information given to the concerned regulatory agency of the body corporate,
- c) Consent of the Board of Directors of concerned body corporate.

(3) In case NEPSE deems it fit, based on the application received as per Sub By-Rule (2), it shall grant approval for block trading.

(4) Within 7 days of approval received as per Sub By-Rule (3), transaction should be completed by entering through a trading member into the block trading window, existing in the trading system.

(5) In case of purchase or sale of securities held by Government of Nepal or an institution with a majority share of the Government, then NEPSE may make a separate arrangement in this connection.

(6) The full details of investors, sale and purchase price, volume associated with the trading as per this By-Rule shall be made public through the website of NEPSE.

***Clarification:*** *Block trading* means a transaction of 1 percent of the paid up capital of the concerned enlisted body corporate or Rs. 50 million, whichever shall be higher.

**17. Circuit Breaker:** (1) In case the NEPSE index maintained during the inception of continuous trading fluctuates as follows, circuit breaker shall be imposed on trading in the following manner:

- a) In case the NEPSE index increases or decreases by 3 percent within a hour of the inception of continuous trading - for 15 minutes.
- b) In case the NEPSE index increases or decreases by 4 percent within 2 hours of the inception of continuous trading - for 30 minutes,
- c) In case the NEPSE index increases or decreases by 5 percent at any point of time after the inception of continuous trading - shut down of trading for that day.

(2) No trading shall be done for the day in which the price of securities maintained at the initial trading session of a body corporate fluctuates by more than 10 percent.

(3) The NEPSE may revise, from time to time, provisions on circuit breaker as stated in Sub Bye-Laws (1) and (2), by intimating the Board, to this effect.

**18. Operation of Bank Account:** (1) A trading member is required to open a separate bank account in a clearance bank designated by NEPSE for securities trading and proceed with such trading.

(2) A trading member should deposit the amount to be received from investor and other securities trading professionals, prior to the inception of trading.

(3) A trading member should pay amount to the investor or other securities trading professionals on behalf of transactions through account payee cheques.

(4) A trading member is barred from using the bank account opened as per Sub By-Rule (1), for any purpose other than clearance of securities transactions.

**19. Information on Trading to be given:** (1) A trading member is required to inform the concerned party forthwith via a proper medium, of the trading completed as per purchase or sales order within the NEPSE trading system.

(2) The information to be given as per Sub By-Rule (1) should also include the details of Schedule 2.

**20. Record of Trading Details to be kept:** (1) A trading member should safely keep the entire details and documents of the sales, purchases, clearance and disposal of securities that it has accomplished, for a period of 5 years.

(2) Every trading member is required to safely keep the originals or verified copies of securities trading that it has accomplished, as follows:

- a) Relating to sales, purchases, numbers, prices, charges, NEPSE commission, taxes and board fees, kept on the basis of each body corporate,
- b) Relating to sales and purchases, kept on the basis of each client,
- c) Relating to other sales or purchases other than regular transactions, kept on the basis of each client,
- d) Relating to sales or purchases, kept on the basis of each client, of the pension fund, Investment Company, mutual investment fund, portfolio Management Company, assets Management Company, and further prescribed by NEPSE from time to time.

**21. Wrong Details Not to be submitted:** (1) A trading member should not submit wrong details on the purchase and sales transactions accomplished by him or her to NEPSE or to enter such details in the trading system.

(2) In case a securities professional submits wrong details as per Sub By-Rule (1) or enters the same in trading system, then NEPSE may suspend him or her for a maximum period of 7 days barring any transaction there from.

### **Chapter 3**

#### **Provisions on Suspension**

**22. Trading Member May be suspended:** (1) The NEPSE may suspend a trading member, barring it from trading in securities, in any of the following circumstances:

- a) In case it fails to renew license or membership,
- b) In case the transactions of trading member are suspended,
- c) In case it fails to furnish the needful papers concerning securities trading,
- d) In case it fails to furnish notices and information on securities to NEPSE as per the prevailing laws,
- e) In case it tries to bring unnatural upheavals in the price of securities,
- f) In case the guarantee amount to be shown for transaction falls insufficient,
- g) In case it fails to clear and dispose of transactions in time,
- h) In case it uses a software and terminal not authorized by NEPSE,
- i) In case it disobeys orders and directives issued by NEPSE,
- j) In case it becomes essential to suspend it following any other reason.

(2) Prior to suspending trading as per Sub By-Rule (1)(c)(d)(e)(i) and (j), sufficient time should be offered to the trading member to submit its defense.

**23. Securities Trading May be suspended:** (1) In case a body corporate is found to have acted in a manner that would bring unnatural upheavals in the price of securities, the securities trading of such body corporate may be suspended for a maximum period of 15 days.

(2) In case securities trading are suspended as per Sub By-Rule (1), NEPSE shall launch an inquiry into the unnatural upheavals in the price of securities, and file a report thereof at the Board.

## **Chapter 4**

### **Provisions on Supervision of Trading**

**24. Acts Proscribed for the Trading Members:** (1) In course of securities trading, a trading member is proscribed from engaging in the following acts:

- a) To trade or cause to trade without obtaining purchase or sales order,
- b) To manipulate the market equilibrium or to unduly influence market conditions or to propagate misinformation or delusion for individual advantage, while dealing with securities,
- c) To act against the interests of clients,
- d) To publish confidential news, matters or details of investors or misuse them in course of trading,
- e) To instigate or compel the investors in the purchase or sale of securities with a view to increase their own brokerage or commission,
- f) To offer the investors false or delusional information, advice or promises with a view to increase their own brokerage or commission,
- g) To advertise in a manner detrimental to the securities market,
- h) To exert undue influence on the clients for trading purposes,
- i) To supply NEPSE with wrong or delusional information or statements,
- j) To offer any notice or information on investment of the clients to an unauthorized person or violate the confidentiality thereof, without the consent of their clients,
- k) To use the moneys of clients for purposes other than their transactions,
- l) To place obstructions in the functioning of market,
- m) To use the computers tied to the trading system in functions other than those related to trading or to allow their use by unauthorized individuals,

- n) To use or cause to use any type of electronic equipments or technology that would inflict negative impact or loss in the trading system,
- o) To misuse or cause to misuse the clearance funds,
- p) To use fake certificates, signatures, seals or to cause securities trading with a view to defraud or cheat anyone.

**25. Provisions on Supervision:** (1) The NEPSE shall establish needful surveillance system for the supervision of trading members.

(2) The NEPSE shall undertake on and off site supervision as regards the securities trading of its trading members.

(3) In case any irregularities are found or any acts proscribed under By-Rule 24 are found to have been committed by a trading member in course of supervision done as per Sub By-Rule (2), then NEPSE may suspend such member forthwith.

(4) In case NEPSE suspends any trading member as per Sub By-Rule (3), then it should report that matter forthwith to the Board and also share it in its website.

## **Chapter 5**

### **Provisions on the Operation and Management of Clearance Funds**

**26. Moneys Credited to the Fund:** (1) In addition to those stated in Rule 27 of the Securities Enlistment and Trading Rule 2018, the following moneys shall be credited to the Fund:

- a) Interest resulting from the moneys in the fund,
- b) Interest or profit resulting on the moneys provided by the Fund to trading members,
- c) Moneys derived from other sources.

(2) The moneys received as per Sub By-Rule (1) shall be deposited in an account of an 'A' class commercial bank, in a manner that it could be drawn as and when required.

**27. Operation of the Fund:** (1) There shall be a following Committee for the operation and management of the Fund as per Rule 27 of the Securities Enlistment and Trading Rule, 2018:

- a) Chief Executive Officer or a senior officer designated by NEPSE: Coordinator
- b) Chief Executive Officer or a senior officer designated by CDSC: Member
- c) Representative of securities brokers/professionals: Member

- d) Senior officer overseeing clearance at the CDSC: Member
- e) An Officer nominated by the Chief Executive Officer of NEPSE: Member Secretary

(2) The office of NEPSE shall house the secretariat of Clearance Fund.

**28. Meeting and Minutes of the Operations Committee:** (1) The meeting of Fund Operation Committee shall sit at a time, place and date appointed by the Coordinator.

(2) The quorum for meeting of the Committee shall be deemed to have met in the presence of more than 50 percent of its entire strength.

(3) The majority opinion shall prevail in the meeting of Committee and the person chairing the meeting shall cast his or her decisive vote in case of a tie.

(4) The names of members present in the meeting, the agenda discussed upon and the minutes thereof should be written in a separate minute's book and the signatures of present members should be secured therein.

(5) The minutes of meeting of Committee shall be attested by the Member Secretary.

(6) Other procedures on meeting shall be as determined by the Committee itself.

**29. Accounts and Audit:** (1) The accounts of Fund shall be kept as per the prevailing accounting standards prescribed by the regulatory body.

(2) The annual audit of Fund shall be undertaken by an auditor appointed by the Operation Committee from among the registered auditors.

(3) The Board may inspect or cause to inspect the annual accounts of Fund at any time of its choosing.

**30. Fund to Provide Amounts:** (1) In case any client fails to submit its amount on behalf of purchase of securities within the period prescribed for clearance, the concerned trading member, after that period, may clear the transaction by filing an application in a format under Schedule 3, and by borrowing an amount from the Fund to this effect. In case a clearance is made thus, the Fund should notify the trading member as per Schedule 4.

(2) Only the trading members having received membership from CDSC are eligible to borrow an amount from the Fund as per Sub By-Rule (1).

(3) A trading member may draw a maximum of 75 percent of the traded amount from the Fund.

(4) The trading member is required to pay back the amount received from Fund as per Sub By-Rule (1), within 7 days, together with an interest calculated at 10 percent per annum.

**31. Process for Drawing Amount from the Fund:** (1) An agreement between the Fund and trading member is imperative for drawing amount from the Fund.

(2) In case a transaction is to be cleared by drawing amount from the Fund, then a written notice of the same should be given to the CDSC.

(3) In case a notice is received as per Sub By-Rule (2), the CDSC shall not close out such trading member.

(4) The trading member may pay off the amount received from the Fund by selling off the concerned securities bought for a client.

(5) While selling securities as per Sub By-Rule (4), in case the amount derived is higher than what needs to be paid for its clearance, then the excess amount should also be deposited at the Fund.

However, even if a trading member suffers loss as a sum less than the borrowing is earned from sale of such securities; it shall not claim any additional claim from the Fund.

**32. Fund not to be misused:** (1) The following acts by a trading member shall be deemed tantamount to the Misuse of Fund:

- a) Transferring securities in the name of Fund,
- b) To borrow from the Fund for profiting a client,
- c) To draw a sum from the Fund for clearance while using the moneys of client for other purposes.

(2) In case a trading member is found to have misused the Fund as per Sub By-Rule (1), then, in addition to the interest accrued on such borrowed sum, a penalty of extra 10 percent of the sum shall also be recovered from him or her.

(3) In case a trading member is found to have misused the Fund repeatedly per Sub By-Rule (1), then, NEPSE may suspend its transactions for a maximum period of one month.

**33. Fund Operation Procedures May be made:** In case it is deemed essential for making additional provisions for a systematic and effective operation of the Fund, the Fund Operation Committee may frame needful procedures and enforce the same.

## Chapter 6

### Provisions on the Operation of Auction Trading

**34. Auction Trading May be operated:** (1) The NEPSE may operate auction trading through bidding or trading system at the presence of trading members.

(2) Following orders of a court, Government of Nepal, regulatory body or an investigating agency empowered by the prevailing laws or due to technical glitches that may appear in the clearance system or due to any other reason, if securities would not be available at the disposal of sellers, then NEPSE may purchase securities and clear the transactions thereof via auction trading.

**35. Operation of Auction Trading:** (1) The NEPSE may run auction trading on business days - from 3.30 to 4 pm, on Sunday-Thursday, and from 11 am to 12 pm on Friday.

(2) The NEPSE may revise the time for auction trading fixed as per Sub By-Rule (1).

(3) In case a seller fails to provide securities in the required numbers within the regular clearance timings, the CDSC should forthwith report this matter to NEPSE and the concerned trading member.

(4) Based on the information as per Sub By-Rule (3), auction trading shall be held in the next business day, after the regular clearance time is exhausted.

(5) The clearance of transactions that were held during the auction trading should be done the following day.

(6) In case required securities could not be available for purchase in auction trading, then the securities that are available should be cleared and the Clearance Bye-Laws shall govern as to the clearance of remaining securities.

(7) In case securities are available in a price lower than the price maintained during the initial trading of securities, then the trading member should deposit the balance amount in the Clearance Fund.

However, in case securities are available in a price higher than the price maintained during the initial trading of securities, then the trading member should recover balance amount from the concerned clients.

(8) The price change limit in auction trading shall be higher or lower end of up to 10 percent of the regular trading witnessed in the final trading day.

**36. Number of Securities to be traded:** While buying securities from auction trading, the number of securities required for clearance should be bought lump sum or in installments, to the extent they would be available.

**37. Clearance of Share Transactions:** (1) Once the purchase and sale of shares from auction market is completed, the needful clearance should be done.

(2) In case a share purchased as per Sub By-Rule (1) need not be accepted or if anyone declines to accept the same, then the amount derived from the sale of such share should be credited to the Clearance Guarantee Fund.

**38. Not to be included in Counting:** The price maintained during auction trading shall not be included in the counting of final price and market index.

## **Chapter 7**

### **Miscellaneous**

**39. Procedures May be framed and enforced:** (1) The NEPSE may frame and enforce procedures on the following matters for the effective implementation of these Bye-Laws:

- a) On the risk classification based on the transactions performed by a trading member,
- b) On surveillance of trading,
- c) On operation of trading system,
- d) On trading of securities professionals.

(2) The Board should be notified of the procedures framed as per Sub By-Rule (1).

- 40. Continuity of Trading System:** (1) The NEPSE should provide for an automated electronic trading system for ensuring business continuity and fending off any possible obstructions in the trading system put in place for running of transactions.
- (2) The NEPSE should provide for essential security measures to prevent misuse of or unauthorized access on all types of information and data pertaining to the investors and transactions.
- (3) The security of automated electronic trading system to be created by NEPSE should be compliant with international standards.
- (4) The NEPSE should provide for disaster recovery system in its automated electronic trading system.
- 41. Dispute Settlement:** (1) In case any dispute arises between the concerned parties on matters of securities trading or trading, then they may settle such discord through mutual consensus.
- (2) In case a dispute could not be settled as per Sub By-Rule (1), then an Arbitration Board should be provided for.
- (3) Each party shall appoint one arbiter in the Arbitration Board and a third arbiter appointed by the other arbiters shall act as an umpire.
- (4) In case a third arbiter cannot be appointed by the arbiters appointed by the parties, then NEPSE shall nominate him or her.
- (5) The majority opinion shall form the award of arbitration.
- 42. Instructions May be given:** (1) The NEPSE may issue needful instructions to the concerned party as regards the business being done as per these Bye-Laws.
- (2) It shall be the duty of all concerned to observe the instructions issued as per Sub By-Rule (1).
- 43. Revision of Schedules:** In case the Board of Directors of NEPSE deems fit, it may revise the Schedules of these Bye-Laws.
- 44. Removal of Exigencies:** In case any confusion or exigency appears in course of enforcing these Bye-Laws, the Board of Directors of NEPSE may remove the same.
- 45. Repeal and Saving:** (1) The Provision of Operation of Securities Trading is repealed from the Membership and Trading of Securities Market Bye-Laws, 1998.
- (2) The proceedings discharged as per the Provision of Operation of Securities Trading is repealed from the Membership and Trading of Securities Market Bye-Laws, 1998 shall be deemed to have been discharged as per these Bye-Laws.

**Schedule 1**  
[Pertaining to By-Rule 4(3)]

**Details to be included in a Purchase or Sale Order**

1. Identification No, name and address of the ordering client,
2. The body corporate willing to buy or sell securities, type of securities, volume, price and time,
3. Details of the order - whether to buy or sell the securities,
4. Duration of order,
5. Terms and conditions of trading, if any,
6. Signature or other identity markers of the ordering client,
7. DEMAT Account for online securities,
8. Other essential matters.

**Schedule 2**  
[Pertaining to By-Rule 7(1)]  
**Notice of Purchase and Sale Transaction Details**

Name of the trading member:

Add:

Phone No:

Fax No:

Bill No:

Name of the Investor:

Pursuant to the order on .....(date) from there, this Company has accomplished the transaction in securities as detailed below:

Transaction No.	No. of shares	Name of the Company	Share Price	Base Price	Amount	Rate of Commission	Commission Amount	Capital Gain Tax

Price of shares:

Board Fees:

Member Commission:

Transfer Fees:

Capital Gain Tax:

Total amount to be received:

Total amount to be paid:

Name of the Company:

Membership No:

Signature:

Date:

Seal:

**Schedule 3**  
[Pertaining to By-Rule 19(2)]  
**Format of Application for Borrowing Amount from  
Trading Clearance Fund**

The Operation Committee  
Clearance Fund  
Kathmandu

Date:

**Sub: Borrowing Amount from the Trading Clearance Fund**

Dear Sir/Madam,

As I have traded shares of the following companies, I, hereby request that a sum of Rs.....be provided from the Clearance Fund out of Rs..... that has fallen inadequate for trading clearance as the purchaser Mr/Ms.....has failed to discharge its liability. I also commit to pay back the amount within 7 days together with interest. Otherwise, I, from this very application, consent for recovery of said amount from the bank guarantee that I have posted at NEPSE through.....Bank. I agree with other proceedings as per the prevailing laws.

**Particulars**

S. No.	Name of the Company	Transaction No.	Purchased Units	Purchase Amount per Share	Total Amount	Advance Received	Inadequate Amount

**Yours Sincerely**

.....  
Clearing Member.....

Membership No.....

**C.C.**

CDS & Clearing Ltd.

**Schedule 4**  
[Pertaining to By- Rule 30(1)]  
**Format of Information on Clearance**

Mr/Ms.....

Date:

Trading Member No.....

.....

**Sub: Regarding Information on Clearance**

Dear Sir/Madam,

As per the demand placed through your application of .....(date), the trading has been cleared by providing a sum of Rs..... from Trading Guarantee Fund. Hence, it is requested that you pay back that sum within 7 days together with the interest and dispose the balances to be maintained in your name, in due time.

Attached

A copy of application dated.....

**Yours Sincerely**

.....

Clearing Member.....

Membership No.....

C.C.

CDS & Clearing Ltd.





# **Securities Board of Nepal**

Regulation and Management Department

Law and Enforcement Division

P.O.Box No:9031 Jawalakhel, Lalitpur

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Fax No: 0977-1-5541058

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Website:[www.sebon.gov.np](http://www.sebon.gov.np)

Toll Free No: 1660-01-44433