



Analysis of Capital Market Strengthening and Revival Action Plan, 2083

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1. Context: Nepal's Capital Market

1.1 The Market in Brief

Nepal's capital market formally opened in January 1994 when the Nepal Stock Exchange (NEPSE) launched trading. Today it has 263 listed companies, a market capitalisation of roughly NPR 4.3 trillion (August 2026)¹, and millions of Demat account holders. SEBON is the regulatory authority. In structural terms, however, the market remains shallow. Banks and financial institutions account for about 51.8 percent of total market capitalisation; hydropower for roughly 17.5 percent². Everything else manufacturing, hotels, microfinance, trading makes up the rest, with thin secondary market liquidity.

Table 1: Key Indicators of Nepal's Capital Market and Economy

Indicator	Value
NEPSE Index all-time high	~3,198 points (mid-2021) ³
NEPSE Index August 2026	~2,513 points ⁴
Market capitalisation	NPR ~4.3 trillion (Aug 2026) ⁵ ; peak NPR ~4.9 trillion (Jul 2025) ⁶
Listed companies	302 Hydropower: 110 (largest sector by count) ⁷
Economic Growth FY 2025-26	2.3% (FY26); projected 4.4% (FY27-FY28) ⁸ (NSO estimate: 3.85%) ⁹

Sources: Nepal Stock Exchange (NEPSE); GDP growth – World Bank, Nepal Development Update (April 2026); 3.85% – National Statistics Office preliminary estimate for FY 2082/83, cited in the FY 2083/84 Budget Speech (Ministry of Finance, May 2026).

The market's progress over three decades is real online trading through the TMS platform, ASBA-based IPO access through the banking network, and growing demat penetration have all broadened

¹ CEIC Data, "Nepal NEPSE: Market Capitalisation," CEIC (August 2026): NPR 4,323,416 million, <https://www.ceicdata.com/en/nepal/nepal-stock-exchange-market-capitalization/nepse-market-capitalization>

² Nepal Rastra Bank, "Current Macroeconomic and Financial Situation of Nepal Based on Annual Data (Mid-July 2026) of FY 2025/26," NRB Economic Research Department (August 26, 2026), para. 86: BFLs and insurance companies account for 51.8% of stock market capitalisation, <https://www.nrb.org.np/contents/uploads/2026/08/Current-Macroeconomic-and-Financial-Situation-English-2.pdf>

³ Investopaper, "Nepse Index Climbs to an All-Time High of 3,198.60," Investopaper (August 18, 2021), <https://www.investopaper.com/news/nepse-index-at-all-time-record-high/>

⁴ CEIC Data, "Nepal Equity Market Index," CEIC: 2,513.4 points at end of August 2026, <https://www.ceicdata.com/en/indicator/nepal/equity-market-index>

^{5 6} CEIC Data, "Nepal NEPSE: Market Capitalisation," CEIC: all-time high NPR 4,876,908 million (July 2025), <https://www.ceicdata.com/en/nepal/nepal-stock-exchange-market-capitalization/nepse-market-capitalization>

⁷ Nepal Rastra Bank, "Current Macroeconomic and Financial Situation," paras. 83-85: 302 companies listed on NEPSE as of mid-July 2026, <https://www.nrb.org.np/contents/uploads/2026/08/Current-Macroeconomic-and-Financial-Situation-English-2.pdf>

⁸ World Bank, "Nepal Development Update (April 2026)," <https://www.worldbank.org/en/country/nepal/publication/nepaldevelopmentupdate>

⁹ Nepal Rastra Bank, "Current Macroeconomic and Financial Situation," para. 1: <https://www.nrb.org.np/contents/uploads/2026/08/Current-Macroeconomic-and-Financial-Situation-English-2.pdf>

participation. But the structural problems have not moved. IPOs are still priced at NPR 100 par value regardless of what the company is worth, which turns IPO applications into a lottery rather than an investment decision. Book building mechanism is available but has a lot of challenges in terms of pricing and disputes in price calculation. There is no functioning corporate bond market, so long-term financing depends almost entirely on bank credit. Pension funds, insurance companies, and provident funds which together manage hundreds of billions of rupees are limited from investing meaningfully in listed securities. The Securities Act of 2063 has no legal framework for margin lending, intraday trading, short selling, or securities lending.

1.2 The Political Transition and Market Response²

In September 2025, youth-led protests toppled the then present government. The March 2026 election gave the Rastriya Swatantra Party (RSP) a near-two-thirds majority. Balendra Shah former Kathmandu mayor was sworn in as Prime Minister on 27 March 2026 at 35 years old. Markets initially responded: the NEPSE index climbed to 2,950 points just before his swearing-in. In the 73 trading days that followed, the index fell on 47 days and gained on only 26, shedding more than 380 points and approximately NPR 600 billion in market value.¹⁰ Average daily trading volume halved.

Three things drove the decline. SEBON's chairmanship was left vacant for months, removing authoritative regulatory leadership at a critical time. High-profile arrests of market participants on fraud charges appropriate in principle created short-term uncertainty about regulatory direction. The May 2026 budget, praised for its infrastructure and governance focus, did not address capital market structural issues specifically enough to shift investor sentiment. The government's growth target for FY 2026-27 is 7 percent; the World Bank projects 4.4 percent. That gap reflects the scale of credibility still to be earned.¹¹

1.3 The Bhotekoshi Flood and Hydropower

On 26 August 2026, flash floods struck the Bhote Koshi River in Rasuwa, Nuwakot, and Dhading. Triggered by a glacial outburst near the Nepal-Tibet border, the flooding destroyed or severely damaged twelve hydropower projects in the Trishuli corridor eight under construction, four operational. Over 538 deaths were confirmed and more than 500 foreign nationals from 33 countries reported missing.¹² Nepal's electricity authority described it as the single largest disaster in the country's hydropower development history, with losses estimated in the hundreds of billions of rupees.

¹⁰ Yagya Banjade, "Political Reset Fails to Lift Nepal's Stock Market," The Kathmandu Post, para. 114: <https://kathmandupost.com/money/2026/07/13/political-reset-fails-to-lift-nepal-s-stock-market>

¹¹ World Bank, "Nepal Development Update (April 2026).", <https://www.worldbank.org/en/country/nepal/publication/nepaldevelopmentupdate>

¹² Ministry of Foreign Affairs, Government of Nepal, "Latest Updates on Flash Floods--28 August 2026," para. 1: <https://mofa.gov.np/content/1864/latest-updates-on-flash-floods--28-august/>

This impacted the capital market directly. Hydropower is NEPSE's most active sector by listing count over 100 companies, representing approximately 16 percent of market capitalisation. The sector had been sold to investors on the strength of 25–35 year Power Purchase Agreements, government tax incentives, and growing electricity exports to India. The Bhotekoshi event showed that catastrophic natural hazard risk in Nepal's river systems is real, underpriced, and largely uninsurable under current arrangements. Equity held in destroyed or severely damaged projects faces potential write-downs that have no clear mechanism for redress.

1.4 The Capital Market Strengthening and Revival Action Plan 2083

The Capital Market Strengthening and Revival Action Plan 2083 was published by the Ministry of Finance on 14 September 2026, twenty days after the Bhotekoshi flood and at a point when the NEPSE index had shed over 380 points since the RSP government took office.¹³ The plan did not emerge from a scheduled review cycle. It was prepared under visible market pressure: investor confidence was falling, daily trading volumes had halved, and the hydropower sector which accounts for over a hundred listed companies and roughly 16 percent of market capitalisation had major companies just absorbed a catastrophic physical damage.¹⁴

The government had also been criticized for leaving SEBON without settled leadership during a period when the market needed clear regulatory direction. In that context, the Finance Ministry convened a working group drawing on inputs from SEBON, Nepal Rastra Bank, market participants, and international best practice frameworks to develop a structured response. The result is a 21-point action plan that spans primary market reform, legal modernization, new financial instruments, institutional investor participation, infrastructure, and tax policy. Its scope reflects an acknowledgement that Nepal's capital market problems are structural and interconnected not symptoms of a bad quarter or a single event and that addressing them requires coordinated action across multiple regulatory and legislative fronts simultaneously.

2. Analysis of the 21 Reform Points

2.1 Market-Oriented IPO System and Price Discovery

What It Proposes

SEBON will issue general IPO eligibility guidelines and develop sector-specific criteria for hydropower, manufacturing, hotels, agriculture, and pharmaceuticals. More importantly, it will introduce a price discovery mechanism meaning companies will have to justify their issue price based

on financial fundamentals rather than defaulting to the standard NPR 100 par value. Share allotment rules will also be reformed.³

This reform should address eligibility for public listing as well as IPO pricing. Increasingly, companies appear to view an IPO primarily as an exit route for promoters. Promoters should have a legitimate opportunity to realize their investments and fund new ventures, but public investors need assurance that a company meets sound financial and governance standards and will use the proceeds productively. Companies with weak track records and limited prospects for future earnings should not be admitted to the public market merely because they seek to raise capital. Stronger eligibility criteria are therefore a positive step.

Average P/E is distorted by companies with near-zero or negative earnings, so median P/E, or price-to-book and EV/EBITDA, are more reliable measures of valuation for capital-intensive hydropower assets. These figures nonetheless indicate a significant gap between market prices and underlying earnings. Only 12 percent of the hydropower companies declared dividend in 2025.¹⁵ These figures reinforce the need for SEBON to assess earning capacity and long-term viability more rigorously before approving listings.

The concession period creates a further risk for investors. If a project transfers to the Government of Nepal at the end of its concession without meaningful residual value for shareholders, investors who retain their shares could face substantial losses. Promoters, meanwhile, may already have exited. IPO review and disclosure should make the concession terms, remaining project life and potential value at transfer clear to prospective investors.

Why It Matters

Today, almost every IPO in Nepal is priced at NPR 100 regardless of the company's actual worth. A well-run hydropower company generating NPR 25 per share in annual earnings lists at the same price as a barely-viable one. The result is that listing day prices routinely jump by 50–300 percent, which tells you less about investor confidence than about how poorly the issue was priced to begin with. Investors don't analyze IPOs they apply to all of them because the upside from a low value issue price is essentially free money. This floods the ASBA system with millions of applications, distorts capital allocation, and prevents genuine pricing from functioning. Price discovery fixes this at the source.

13, 14 Yagya Banjade, "Political Reset Fails to Lift Nepal's Stock Market," The Kathmandu Post, para. 114: <https://kathmandupost.com/money/2026/07/13/political-reset-fails-to-lift-nepal-s-stock-market>

¹⁵ Republica, "Around 12 Percent of Listed Hydropower Companies Declare Dividends, Sahas Urja Declares Highest Return," para.

1: <https://myrepublica.nagariknetwork.com/news/around-12-percent-of-listed-hydropower-companies-declare-dividends-sahas-ur-75-37.html>

What It Means for Investors

IPO applications will no longer be automatic profit opportunities. Investors will need to read the prospectus, understand what the company actually earns, assess how the raised capital will be used, and decide whether the price is fair. For experienced investors, this is an improvement it rewards analysis. For the large number of retail participants who have treated IPOs as a guaranteed return, the adjustment will be uncomfortable.

Policy Implications

Sector-specific criteria for hydropower must now include disaster risk assessment and insurance adequacy the Bhotekoshi event makes this non-negotiable. SEBON should work with the NRB and insurance regulators to define minimum risk disclosure standards for hydropower IPOs as part of this framework. The government must also invest in investor education in parallel reducing the IPO premium without preparing the retail base for what replaces it is a recipe for political backlash.

Book-building alone does not solve price discovery without a credible reference price. SEBON should consider an anchor-investor mechanism modelled on India's SEBI framework, in which qualified institutional buyers EPF, CIT, or licensed insurers commit to a price one day before the issue opens, setting a floor for the retail book. This substitutes institutional valuation judgment for retail guesswork exactly where merchant-bank capacity is weakest.

Implementation Risks

- Most merchant banks in Nepal currently lack the analytical capability to conduct credible company valuations. Training and capacity building must happen alongside not after the regulatory change, otherwise the new pricing mechanism will exist on paper but not in practice. Sector criteria risk becoming tools of exclusion or inclusion based on sectoral lobbying rather than genuine financial standards. The standard-setting process must be open and independently overseen.
- Sector-specific eligibility criteria will inevitably attract lobbying from industry groups seeking standards that favour their members. If that influence goes unchecked, the criteria cease to function as a quality filter and become a gatekeeping tool. To prevent this, the standard-setting process must be transparent, publicly consultable, and overseen by an independent body with no commercial interest in the outcome.

2.2 Strengthening Mutual Funds and Developing New Instruments

What It Proposes

SEBON will introduce a policy to professionalise mutual funds and develop new investment instruments, including corporate bonds, money market products, and Exchange-Traded Funds (ETFs).

An ETF is a fund that trades on the stock exchange like a single share, tracking a basket of securities so an investor gets diversified exposure in one transaction. Deadline for this is Mangsir 2083.

Why It Matters

Nepal's investment options for ordinary savers are limited to bank deposits, insurance products, provident fund contributions, and listed equities. There is no middle ground. Most listed mutual funds are closed-end equity vehicles with limited diversification. Introducing money market funds gives low-risk savers an alternative to bank deposits. ETFs give equity investors a way to hold the whole market or a specific sector without picking individual stocks. Bond mutual funds would eventually allow households to participate in the corporate debt market.

What It Means for Investors

More product choice is only useful if the quality is there. A mutual fund that charges high fees and underperforms the index is worse than a simple equity holding. Investors should wait to see fund governance standards and fee structures before treating new products as automatically beneficial.

Policy Implications

This reform depends on others. ETFs require a credible benchmark index. Bond mutual funds require a functioning corporate bond market. These reforms are interdependent, an ETF without a benchmark index, or a bond fund without a bond market, produces a product that exists on paper but not in practice. The immediate priority should be raising governance and transparency standards of existing funds before expanding the product range.

Implementation Risks

- ETFs require authorized participants institutions that create and redeem large blocks of units against the underlying basket to keep the ETF price tied to its NAV. No institution in Nepal is currently structured or mandated for this. Licensing authorized participants should be sequenced with Point 3 broker capitalisation reform, since only a well-capitalized broker can absorb the inventory risk, a function that no institution in Nepal is currently structured or mandated to perform.
- Poor-quality products launched into an underdeveloped market damage investor confidence more than no product at all.
- Nepal's existing closed-end mutual funds already trade at persistent discounts to NAV, a governance and liquidity failure. ETFs would make this visible by comparison. SEBON should use this to press for governance and fee-disclosure reform of existing funds before expanding the product range.

2.3 Institutional Reform of Securities Brokers

What It Proposes

SEBON will introduce a policy to modernize securities broker businesses raising capital requirements, broadening service offerings (research, advisory), and aligning them with international operating standards.

Why It Matters

Most Nepali brokers are small, undercapitalized businesses whose only revenue is transaction commission. That model gives them no financial incentive to research companies, educate clients, or invest in technology. Brokers operating at this scale cannot absorb settlement failures or sustain larger transaction volumes without significant operational risk. In markets where brokers are well-capitalized and provide research and advisory services, investors make better decisions because they have access to better information. Nepal's current broker model keeps the market dependent on rumor and informal networks.

What It Means for Investors

Over time, investors can expect better execution, more reliable service, and access to research and advisory support. In the meantime, higher capital requirements will likely trigger consolidation smaller brokers that cannot meet the thresholds will exit or merge, which may temporarily reduce the availability of brokerage services outside major urban centres.

Policy Implications

Broker reform must come before margin lending. Letting investors borrow through financially weak brokers creates serious risk for the whole market. SEBON needs a clear timeline with defined milestones and not an open-ended standard. Broker associations will push back on consolidation; engaging them early in the process is far better than managing their resistance after the rules are announced.

A flat net-worth floor is the blunt version of this reform. The more durable approach, used by SEBI and most IOSCO-aligned regulators, ties required capital to actual risk carried, a VaR or standardized-haircut model on the broker's book so capital scales with the business. This is worth specifying at the design stage: retrofitting a risk-based model after a flat floor is set is politically harder than doing it once.

Implementation Risks

- Broker consolidation has political dimensions as many brokers have political connections. SEBON will need regulatory backing to enforce capital requirements against resistant associations.

- Supervisory capacity for larger, multi-service brokers is different from supervising commission agents. SEBON must build that capacity in parallel.

2.4 Legal Framework for Modern Securities Instruments

What It Proposes

The government will draft separate legislation covering securities regulation and market infrastructure to replace the Securities Act of 2063. The new framework will provide a legal foundation for margin lending, intraday trading, securities borrowing and lending, and short selling none of which have a proper legal home under current law.

Why It Matters

Nepal's Securities Act is twenty years old and was never designed to accommodate the instruments that any functioning regional peer market now takes for granted. Because these instruments lack legal clarity, brokers, banks, and investors who want to use them face regulatory exposure that prevents participation. Intraday trading buying and selling a stock within the same day improves market liquidity. Securities lending and short selling mechanisms that allow negative views on overpriced stocks to be expressed improve price discovery. Without them, overvalued stocks stay overvalued longer than they should because there is no mechanism for the market to correct them.

What It Means for Investors

New instruments expand the strategic toolkit but also the risk profile. Margin can amplify gains; it amplifies losses equally. Short selling requires understanding company fundamentals well enough to predict price direction. These tools are not appropriate for all investors, and their legal availability does not mean they carry low risk.

Policy Implications

This is the most foundational reform in the package. Without it, Points 12 and 13 (margin lending, intraday rules) and significant parts of the bond market program remain legally fragile. The government should prioritize this legislation. Early engagement of international technical partners in the drafting process rather than at the review stage is the most effective safeguard against the legislative ambiguities.

Implementation Risks

- Legal drafting of this quality requires expertise that is scarce in Nepal. Speed should not come at the cost of technical rigor.
- Secondary regulations, broker readiness, and investor education must all follow the law before the instruments can be safely activated.

- New instruments should first be piloted in a small group of liquid, financially sound securities. SEBON can use the results to refine the rules and supervisory arrangements before extending them to a wider range of companies.
- Securities lending and short selling both require a central counterparty or a depository-run lending pool to function. Without one, there is no mechanism to locate borrowable shares or guarantee settlement. These ties Point 4 directly to Point 17 (CDSC) the legal framework and CDSC's capacity need to be designed together, not sequentially.

2.5 Restructuring Nepal Stock Exchange

What It Proposes

A government task force submitted a NEPSE restructuring report on Poush 25, 2082. The plan directs that this report be acted on covering institutional strengthening, structural reform, and capacity development of the exchange. The government holds 58.66 percent of NEPSE; NRB holds 9.5 percent; EPF holds 10 percent.¹⁶ The CEO position is effectively vacant.

Why It Matters

NEPSE is the operational infrastructure of the entire market order matching, settlement processing, listing compliance, data distribution. If the exchange cannot reliably handle higher transaction volumes, new product types, or better data standards, the rest of the 21-point plan has no functioning ground. Infrastructure failures are invisible until they happen, at which point the damage to investor confidence is immediate and severe.

What It Means for Investors

Better exchange infrastructure means faster, more reliable trade execution, better market data, and eventually the technical capacity to support new product types like bonds, ETFs, and margin facilities. Transition periods during technology upgrades may temporarily disrupt normal operations.

Policy Implications

The most urgent NEPSE-related action is appointing a qualified CEO. Restructuring a complex institution without executive leadership produces committee documents, not institutional change. The government's majority ownership of NEPSE creates a governance risk where the exchange must be able to act independently of political instruction in its regulatory functions. Any restructuring design must explicitly address that tension, including independent board representation and clear separation between the exchange's commercial and regulatory roles.

The restructuring plan should state explicitly whether demutualization separating ownership and trading rights from governance, then progressively reducing government ownership is the intended

⁴destination. NYSE, LSE, BSE, and NSE all resolved the same conflict this way. Independent board seats inside continued 58 percent government ownership are a weaker structural guarantee.

Implementation Risks

- Multiple institutional shareholders with competing interests (NRB, EPF, broker groups) will slow consensus-based restructuring. The government must be prepared to use its majority ownership decisively.
- Technology upgrades are expensive and carry execution risk. Nepal has limited domestic expertise in exchange-grade financial technology.
- Government-appointed staffing arrangements may constrain NEPSE's ability to modernise. Restructuring should therefore include a practical plan for recruitment, remuneration and staff development, enabling the exchange to attract and retain the expertise required for its expanded role.
- Strategic partnership with international stock exchanges would also help to transfer the technology and instruments.

2.6 Introduction of a New Benchmark Index

What It Proposes

The existing NEPSE index will be retained as an all-equity index. A new benchmark index will be developed by Mangsir 2083, incorporating tradable float (shares actually available in the market), financial condition, trading liquidity, corporate governance quality, and disclosure standards and not just total market capitalisation.

Why It Matters

The current NEPSE index weights companies purely by market capitalisation. This means banking stocks large but not necessarily the most dynamic dominate the index signal, while the hydropower sector's performance is poorly represented despite having over 100 listed companies.

What It Means for Investors

Companies with strong governance, adequate float, and good disclosure will benefit from index inclusion attracting passive and institutional investment that tracks the benchmark. Companies with thin float, poor governance, or inadequate disclosure may be excluded, reducing their market visibility and investor base.

Policy Implications

The index must be designed by an independent body, free from industry influence, every sector will lobby to ensure its companies qualify, so impartiality is non-negotiable. Given the flood, disaster

¹⁶ Nepal Stock Exchange": Government of Nepal 58.66%, NRB 9.50%, EPF 10%, others 21.84%, https://en.wikipedia.org/wiki/Nepal_Stock_Exchange

risk must be explicitly factored into how companies are scored, especially for hydropower. The new index should also run alongside the old one long enough for investors to transition comfortably.

Implementation Risks

- A new index needs a track record before institutional investors can benchmark against it. ETFs cannot be launched on an index with weeks of history.
- Index construction methodology is technically complex. It requires independent expertise, not internal negotiation between interested parties.
- Index providers routinely back test a new methodology against historical prices to generate a synthetic multi-year track record before going live. MSCI and FTSE both do this. SEBON should require the index designer to do the same, it directly shortens the timeline to institutional benchmarking and ETF launch.

2.7 Opening the Secondary Market to Non-Resident Nepalis (NRNs)

What It Proposes

NRNs are currently blocked from actively buying and selling shares in Nepal's secondary market. The plan proposes amendments to the Foreign Investment and Technology Transfer Act, 2075 and the Foreign Exchange (Regulation) Act, 2019, to be submitted to Cabinet by Ashwin 2083.

Why It Matters

Remittances money sent home by Nepalis working abroad are one of Nepal's largest foreign exchange sources. But NRNs cannot currently direct their savings into Nepal's listed securities market in any practical way. Removing that barrier widens the investor base beyond domestic retail participants, brings in capital with a longer investment horizon, and creates a direct economic link between diaspora wealth and Nepal's productive capital market. Hydropower in particular with its PPA-backed revenue visibility and should be attractive to diaspora investors seeking exposure to long-term home-country assets.

What It Means for Investors

For domestic investors, NRN participation means more buyers, better liquidity, and a more diversified investor base all of which reduce volatility driven by concentrated domestic sentiment. The practical effect will lag the legal change: account-opening, foreign exchange conversion, and repatriation infrastructure must all be built before the channel is genuinely usable.

Policy Implications

NRB must design a foreign exchange framework that accommodates NRN investment flows without creating currency management complications. Practical account-opening processes which are currently nonexistent for NRNs wanting to trade listed securities must be designed in parallel with the legislative process, not after it. The Ministry of Foreign Affairs and Nepali missions in key diaspora

countries (Gulf states, Malaysia, Japan, the US) should be engaged to communicate the operational pathway to potential investors once it is ready.

Implementation Risks

- Legal access and operational access are not the same. The amendment creates the right; the infrastructure makes it usable. Both need parallel timelines.
- NRB's foreign exchange and currency management mandate will create caution about large inbound investment flows that must be managed and potentially repatriated.
- India's Portfolio Investment Scheme, a dedicated repatriable/non-repatriable account structure at the banking level is a usable template. It resolves the NRB currency-management concern without leaving the account design undefined. Nepal should name a comparable account structure now rather than deferring it to NRB after the amendment passes.

2.8 Developing the Corporate Bond Market

What It Proposes

The plan prioritizes building an institutional corporate bond market to move long-term financing away from dependence on bank credit. Amendments to existing bond regulations are to be implemented by Ashwin 2083. A corporate bond is a loan from investors to a company at a fixed or floating interest rate over a defined term, an alternative to bank borrowing for companies, and an alternative to equity for investors seeking fixed income.

Why It Matters

Nepal's economy runs on bank credit for long-term financing. When banking sector liquidity tightens as it did through 2022 and 2023 infrastructure projects stall, businesses cannot refinance, and growth slows. A corporate bond market creates a second channel that is independent of the bank credit cycle. For hydropower developers specifically, project bonds secured against PPA revenue streams would provide a more appropriate long-term financing instrument than bank loans, which carry shorter tenors and floating rates that create refinancing risk. For investors, bonds offer a predictable income stream with defined maturity a category that does not currently exist in Nepal's public market.

What It Means for Investors

Corporate bonds will open a fixed-income option for income-oriented investors retirees, conservative savers, and institutions managing liabilities. Investors must understand that corporate bonds carry credit risk: if the issuer cannot service its debt, the bond may not pay out. This is a different risk profile from equities, not an absence of risk.

Policy Implications

Building a corporate bond market is a system problem, not a regulation problem. The system requires credit rating agencies capable of independent and credible analysis, institutional buyers with

mandates to hold bonds (Points 15, 16), a legal framework for issuance (Point 4), and clearing infrastructure (Point 17). Amending bond regulations without the ecosystem produces rules that nobody uses. Post-flood, hydropower project bonds with explicit disaster risk disclosures and insurance requirements should be among the first products developed they serve both a capital market development and a disaster risk financing objective simultaneously.

Corporate bond market needs a risk-free government yield curve to price credit spreads against. Point 10- the government securities secondary market should be read as a precondition for Point 8, not a parallel reform. Without an active government-securities market providing a benchmark rate, corporate bonds have no reference point from which to calculate credit spreads.

Implementation Risks

- Credit rating agency capacity is nascent. Building credible rating infrastructure takes longer than passing bond regulations. Credit ratings will be credible only if rating agencies have sufficient analytical capacity and receive reliable issuer data. SEBON should strengthen oversight of rating agencies and the quality of information used in their assessments.
- Without institutional buyers who are mandated and willing to hold bonds, the secondary bond market will be illiquid from the start.
- Bond-market development in comparable Asian markets under the Asian Bond Markets Initiative - Malaysia, Thailand, Korea took roughly a decade even with strong government and multilateral backing. A multi-year roadmap with interim milestones would be more honest framing than a single regulatory deadline.
- The market will also need a reliable benchmark yield curve, sound credit-rating practices and an effective bond-trustee framework. These elements should be developed alongside issuance rules rather than left for a later stage.

2.9 Promoting Specialized Bonds

What It Proposes

The government will develop a policy for green bonds, disaster bonds, social bonds, project-specific bonds, and environmental bonds covering use of proceeds, investment rules, and disclosure requirements. Deadline: Ashwin 2083.

Why It Matters

Standard corporate bonds finance general corporate activity. Specialized bonds connect market capital to specific public objectives renewable energy, disaster resilience, social infrastructure. Green bonds attract international institutional capital (development finance institutions, ESG-focused funds, sovereign wealth funds) that would not otherwise invest in Nepal. Disaster bonds are the most urgent in the current context: they can pre-finance recovery capacity before disasters happen rather than

relying on emergency government spending after the fact. The Bhotekoshi flood created an immediate, concrete argument for this instrument that would have seemed theoretical one month ago.

What It Means for Investors

Specialized bonds will initially be of greater relevance to institutional and international investors than to domestic retail participants. Over time, retail access through specialized mutual funds is possible. The "green" or "disaster" label does not reduce credit risk investors should evaluate the issuer's ability to repay regardless of the bond's stated purpose.

Policy Implications

Nepal should move quickly on the disaster bond framework while the policy case is at its strongest. The Bhotekoshi event provides both the political urgency and the concrete financing need reconstruction of the Trishuli hydropower corridor to pilot this instrument in a real-world context. The framework must align with ICMA (International Capital Market Association) Green Bond Principles from the outset; alignment with international standards is what makes these bonds attractive to international buyers. Development partners ADB, IFC, the World Bank have established technical assistance programs for exactly this type of framework development and should be engaged immediately.

Rather than building a taxonomy from scratch, Nepal is better served adopting the ASEAN Green Bond Standards, which are already familiar to the international institutional investors this reform aims to attract. ADB and IFC both run subsidized second-party-opinion programs for smaller issuers Nepal should request this support explicitly rather than treating verification costs as a post-framework problem.

The policy should specify why both issuers and institutional investors would participate. Appropriate incentives, investment permissions and prudential requirements need to be clear; otherwise, the framework may produce rules without meaningful issuance or demand.

Implementation Risks

- Third-party verification of how proceeds are used is essential for credibility with international investors Nepal lacks an established verification ecosystem for these instruments. Independent verification of the use of proceeds is essential to market credibility. However, second-party opinions and other external reviews can be costly, particularly for smaller issuers. The framework should consider ways to reduce or support these costs without compromising the independence of verification.
- Domestic retail investors may not distinguish between the quality of different bond types. Investor education on fixed-income products must accompany product introduction.

2.10 Strengthening the Secondary Market for Government Securities

What It Proposes

Treasury Bills and Development Bonds government debt instruments auctioned by NRB are currently bought primarily by banks and held to maturity with minimal trading after issuance. The plan directs SEBON to review transaction charges and build the policy and infrastructure for an active secondary market in these instruments by Ashwin 2083.

Why It Matters

A liquid government securities market is the foundation of any well-functioning financial system. It creates a reliable risk-free reference interest rate the benchmark against which corporate bonds, loans, and other instruments are priced. Without this reference rate, pricing across the financial system is inefficient. It also gives banks and institutions a tool to manage liquidity without holding deposits or cash, and it provides a safe, liquid instrument for conservative investors and fund managers. Nepal currently lacks all of these functions. This is not a niche reform it is foundational infrastructure for the wider financial market.

What It Means for Investors

If this reform works, individual investors will eventually be able to buy and sell Treasury Bills and Development Bonds through brokers giving conservative savers a government-backed, liquid instrument. Currently that option is unavailable to most retail participants.

Policy Implications

Transaction charge reform alone will not create liquidity. An active secondary market in government securities requires market-makers institutions that stand ready to buy and sell at quoted prices at all times. NRB and SEBON must jointly design a market-making framework and identify which primary dealer banks are capable of filling that role. Settlement interoperability between NRB's government securities system and NEPSE's equity clearing system also needs to be resolved these currently operate in separate silos with no common infrastructure.

Primary dealer banks in functioning markets receive a specific quid pro quo: exclusive access to primary auctions or repo facilities in exchange for market-making obligations. Nepal's design must specify this trade explicitly identifying capable banks without offering a corresponding incentive will not produce active market-makers.

Implementation Risks

- Market-making capacity and incentive are both largely absent. No institution currently has a mandate or adequate compensation structure to make continuous markets in government securities.

- Cross-agency settlement integration between PDMO and CDSC is a significant technical project with uncertain timelines.
- The PDMO/CDSC settlement-silo problem and Point 17 (CDSC infrastructure) are the same infrastructure project. They should be treated as a single workstream with one implementation plan, not two separate technical projects assigned to separate agencies.
- Government securities trade through PDMO's DOMS platform, while equities trade through NEPSE. Requiring separate accounts and trading processes creates a practical barrier for retail investors. The reform should address account access and interoperability between the two systems.

2.11 Making Share Buybacks and Share Splits Practical

What It Proposes

Share buybacks when a listed company uses its own cash to buy back shares from the market, reducing total shares outstanding and share splits dividing one share into multiple shares at a lower unit price are both currently not practically implementable under Nepali regulations. SEBON will develop the necessary regulatory framework after stakeholder consultation by Magh 2083.

Why It Matters

Many shares in Nepal trade at prices that effectively exclude small investors. A company whose shares trade at NPR 2,000 per unit is inaccessible to someone investing NPR 10,000. A stock split brings the per-share price down without changing the company's value, widening the accessible investor base. Share buybacks give companies with surplus cash a flexible, tax-efficient way to return value to shareholders an alternative to paying dividends that companies may not be able to sustain consistently. Both tools are standard corporate finance mechanisms in any developed market.

What It Means for Investors

A stock split makes shares cheaper per unit it does not make the company more valuable. Investors should evaluate company fundamentals, not the split announcement. A buyback can be a legitimate signal that management believes the stock is underpriced, but it can also be used to support prices artificially. Looking through the corporate action to the underlying earnings and balance sheet is always the right response.

Policy Implications

The regulatory framework must include explicit anti-manipulation safeguards. Buyback programs should require board approval, independent cash verification to ensure no debt-funded repurchases, mandatory disclosure of buyback volumes and timing in advance, and post-completion reporting. SEBON should study cases where buybacks have been misused in regional markets such incidents are not uncommon and design the rules pre-emptively rather than reactively.

In a thin-liquidity market, buybacks in low-float stocks are far easier to use to prop up a price. The framework should gate buyback eligibility on minimum trading volume or free float not approve it exchange-wide from day one. The Colombo Stock Exchange has documented manipulation in exactly this kind of setting.

Implementation Risks

- SEBON currently lacks real-time transaction monitoring to detect price manipulation during buyback windows. Surveillance capacity must be built alongside the regulatory framework.
- Debt-funded buybacks buying back shares using borrowed money improve share prices in the short term but weaken the balance sheet. The framework must explicitly prohibit this.

2.12 Updating Securities Regulations

What It Proposes

Several draft regulations covering bonds and debentures, margin lending, and intraday trading are complete but have not yet received Ministry of Finance approval. This point directs that they be submitted and approved, with implementation arrangements in place by Ashwin 2083.

Why It Matters

Policy reforms in Nepal frequently complete their drafting stage and then stall in the ministerial approval queue for months or years. This has happened to capital market regulations before. Point 12 is an administrative commitment that should be straightforward the work is already done but in the context of Nepal's implementation track record, it is not trivial. Without this step, Points 8, 9, 10, and 13 remain aspirational regardless of how clear the policy intent is.

What It Means for Investors

The Ashwin 2083 deadline is a useful indicator of government seriousness. If the administration cannot meet a deadline for approving regulations that have already been drafted, that is a direct and verifiable signal about how the more complex reforms will be handled.

Policy Implications

The Ministry of Finance should assign named officials with specific accountability for each pending regulation, with progress reported to the Finance Committee of Parliament on a monthly basis. This point should be treated as a governance test: the government's credibility on the full 21-point plan depends in part on whether it executes simple administrative steps on time. Missing this deadline without public explanation would undermine confidence in all other commitments.

Implementation Risks

- Competing political priorities can displace regulatory approvals without anyone making a deliberate decision to delay them. Institutional accountability mechanisms are the only protection against this.

- Quality matters as much as speed. Approving a poorly drafted regulation to meet a deadline creates implementation problems that outlast the delay.
- Ministerial approval delays in Nepal often stall specifically over missing revenue or fiscal-impact assessments required internally by MOF. Pre-clearing that assessment alongside SEBON's submission rather than after is a practical fix that complements the accountability mechanism above.

2.13 Introducing Modern Margin Lending

What It Proposes

Margin lending allows investors to borrow money from a SEBON-licensed securities broker to buy shares, with those shares as collateral. If the share price falls below a set threshold, the broker issues a margin call requiring the investor to top up collateral or sell shares. The plan aims to formalise this within a regulated broker framework, operational by Poush 2083.

Why It Matters

Share-backed borrowing already happens informally through bank loans in Nepal. Bringing it into a regulated, SEBON-supervised framework gives the regulator direct visibility over leverage levels across the market something it currently does not have. This matters for systemic risk management: if aggregate margin borrowing is high and the market falls sharply, forced selling from margin calls can accelerate the decline. Being able to see and respond to that risk in real time is important. Regulated margin also shifts the credit relationship from banks where it contributes to banking sector exposure to market risk into the broker sector where it can be more directly monitored.

What It Means for Investors

Margin amplifies outcomes in both directions. In a rising market it increases gains; in a falling market it accelerates losses and can result in forced selling at the worst possible time. Margin calls are not negotiable if the collateral falls below the threshold, the broker has the right to sell shares immediately. Investors considering margin must treat it as a high-risk instrument, not a straightforward credit facility.

Policy Implications

Margin lending cannot be introduced before broker capitalisation is strengthened (Point 3). An undercapitalized broker handling margin calls during a market downturn is a systemic event risk. SEBON must sequence these explicitly: broker capital reform first, then margin licensing. The initial margin framework should set conservative loan-to-value ratios, with specific restrictions on illiquid securities small hydropower stocks that are prone to sharp price movements should carry tighter margin limits than liquid banking shares. NRB must also be part of the design, as margin through brokers intersects with banking sector capital market exposure.

Loan-to-value ratios should be set per security class, not as one market-wide number. SEBI mandates minimum haircuts that scale with volatility tighter on thinly traded names, consistent with what is already recommended here for small hydropower stocks. Additionally, NRB's role goes beyond coordinating informal lending: wholesale funding lines from banks to brokers are what allow the formal margin system to scale. NRB should be a design partner for the funding structure, not only a supervisory observer.

Implementation Risks

- Mass margin calls during a market decline can produce a self-reinforcing sell-off. The framework must include market-wide circuit breakers coordinated between NEPSE and SEBON.
- Informal share-backed lending through banks will continue alongside the formal system unless NRB and SEBON coordinate to bring the full activity under a unified framework.

2.14 Amendments to the Securities Act

What It Proposes

The Securities Act, 2063 will be amended to strengthen SEBON's powers to investigate and prosecute securities offences fraud, manipulation, insider trading and to allow private (unlisted) companies to issue bonds. Currently, SEBON can identify potential violations but lacks the full legal authority to pursue them through formal investigation.

Why It Matters

Market integrity depends on enforcement that has real consequences. A regulator that can detect manipulation but cannot prosecute it effectively functions only as a deterrent to the careless those who are deliberate and well-resourced operate with relative impunity. Extending proper investigative authority to SEBON closes that gap. The provision allowing private companies to issue bonds is also significant: it dramatically expands the potential issuer pool for Nepal's nascent bond market, bringing in the large private sector that currently has no access to debt capital markets.

What It Means for Investors

Stronger enforcement directly benefits retail investors, who are the most exposed to manipulation and insider trading by parties with information advantages. Private company bonds will require more careful credit analysis than listed company bonds private firms do not carry the same disclosure obligations, so due diligence requires direct engagement with financial statements and management.

Policy Implications

Legal power is necessary but not sufficient. SEBON must simultaneously build the human capacity to use those powers trained investigators, forensic accountants, and a dedicated legal team. These are not positions that can be hired in weeks. The government should treat SEBON capacity

building as a budget line item in parallel with the legislative amendment, not as a follow-on activity after the law passes. The amendment should also be prioritised alongside Point 4 legislation, as both are foundational for the market architecture the plan envisions.

Implementation Risks

- The amendment will face opposition from parties who currently benefit from weak enforcement. The government must anticipate this and manage it through transparent legislative process rather than closed negotiation.
- Building investigative capacity takes two to three years at minimum. The legal power and the operational capacity must be developed on converging timelines.
- Enforcement credibility depends as much on detection technology as on legal authority. SEBON needs a real-time market surveillance system, India's NSE runs one internally, known as e-STARS as a specific budgetable investment alongside the legislative amendment. Whistleblower-protection provisions, standard in most modern securities acts, should also be included within the scope of this amendment.

2.15 Expanding Institutional Investor Participation

What It Proposes

SEBON will facilitate the participation of institutional investors pension funds, insurance companies, mutual funds, provident funds in both primary and secondary securities markets through appropriate policies, rules, and infrastructure. Deadline: Mangsir 2083.

Why It Matters

Institutional investors are the stabilizing force in any mature market. They have long time horizons, conduct fundamental analysis, and hold through short-term volatility rather than reacting to daily sentiment. Nepal's market is almost exclusively retail-driven, which means every piece of news political, regulatory, or macroeconomic produces price swings that are disproportionate to its actual significance. Institutional participation is the counterweight that mature markets depend on to keep prices tethered to fundamentals.

What It Means for Investors

Greater institutional presence generally reduces day-to-day volatility and improves the quality of price signals across the market. The downside is that institutions tend to concentrate in large, liquid, well-governed companies, potentially leaving small-cap and mid-tier hydropower stocks with less institutional coverage and therefore more price volatility, not less.

Policy Implications

This reform requires genuine cross-regulatory coordination. Investment guidelines for pension funds, insurance companies, and provident funds are set by the Insurance Board, NRB, and the

Ministry of Finance respectively not SEBON alone. The government must establish a formal inter-regulatory working group with a specific mandate, timeline, and decision-making authority to harmonize institutional investment rules across these agencies. Announcing SEBON-led facilitation without addressing the regulatory mandates of the other bodies will produce a reform that stalls at the first cross-agency decision.

Implementation Risks

- Institutions managing retirement and insurance savings have fiduciary obligations. Expanded securities mandates require robust risk management frameworks the authority to invest more is meaningless without the capacity to manage what you invest in.
- Inter-agency coordination has historically been slow in Nepal's financial regulatory structure. The working group must have genuine authority, not just consultative status.
- Rather than each regulator issuing separate harmonized guidance, the working group's concrete output should be a single jointly issued prudential investment code covering all institutional categories, the approach Malaysia used. This avoids version-drift and inconsistent timing across agencies.

2.16 Rebalancing Institutional Investment Portfolios

What It Proposes

The Employees Provident Fund (EPF), Citizen Investment Trust (CIT), Social Security Fund (SSF), insurance companies, and mutual funds hold most of their assets in bank deposits. This point commits the government to providing the legal, policy, and structural support for these institutions to increase their securities market investment by Mangsir 2083.

Why It Matters

EPF, CIT, and SSF collectively manage hundreds of billions of rupees accumulated from the contributions of Nepal's formal sector workers. If even 10–15 percent of these assets were redirected from bank deposits into listed securities, the effect on market depth would be significant and durable. Beyond the market impact, there is a direct public welfare argument: workers whose retirement savings are sitting in bank deposits earning 6–8 percent when a diversified securities portfolio might reasonably return more over a 20-year horizon are being underserved. This reform is not just about the capital market it is about the quality of retirement outcomes for Nepal's employed population.

What It Means for Investors

The entry of EPF, CIT, and SSF as active equity investors would bring patient, research-oriented capital into the market. This benefits long-term retail investors in quality companies. However, the transition must be managed carefully a rapid, large institutional inflow into an illiquid market produces price distortions in the short term that can hurt the very retail investors the market is meant to serve.

Policy Implications

This reform must come with explicit governance safeguards. EPF and CIT have historically been subject to political interference in investment decisions directing their funds toward politically convenient assets rather than risk-adjusted returns. Expanding their securities mandate without first reforming their governance structure creates the risk of political use of worker savings. The government should establish investment committees with independent members and published investment policies for each of these institutions before expanding their securities allocation. Phased timelines with defined exposure limits at each phase are preferable to open-ended rebalancing mandates.

Implementation Risks

- None of these institutions currently have the internal investment management capacity to evaluate and manage equity portfolios. Hiring or contracting that capacity must happen before the rebalancing mandate goes into effect.
- Political interference in portfolio management is the most serious risk. Governance reform must precede or accompany at minimum any expansion of securities investment authority.
- The safest way to expand EPF/CIT/SSF equity exposure without enabling politically directed stock-picking is to mandate that the initial allocation be passive indexed to the new benchmark from Point 6 rather than actively managed. This removes discretion over which companies receive worker savings during the highest-risk early phase. Singapore's CPF scheme handled the same political-economy problem this way. An active mandate can follow once independent governance is demonstrably working.

2.17 Strengthening CDS and Clearing Infrastructure

What It Proposes

CDS and Clearing Limited (CDSC) manages Nepal's central securities depository maintaining Demat account records and settling trades (completing the transfer of securities and cash after a trade is agreed). The plan calls for a study of CDSC's institutional capacity and structural reform needs by Falgun 2083.

Why It Matters

Settlement infrastructure is what makes every trade final and legally certain. A settlement failure where a trade cannot be completed because the back-end system breaks down can trigger cascading losses and erode investor confidence rapidly. CDSC was designed for a simpler market: primarily equity, limited volume, domestic retail investors. The market the 21-point plan envisages bonds, ETFs, margin instruments, NRN participation, institutional investors places fundamentally different demands

on clearing and settlement. The infrastructure must be built for the market that is planned, not the market that exists today.

What It Means for Investors

Most investors never think about clearing and settlement until something fails. The policy lesson from other emerging markets is consistent: underfunding back-end infrastructure relative to front-end market development is one of the most common and costly mistakes. The visible parts of the market trading screen, prices, listings attract attention and investment. The invisible parts clearing, settlement, custody do not, until they fail.

Policy Implications

The plan commits only to a study, not to implementation. Policymakers should require that the study produce a concrete implementation plan with cost estimates, timelines, and identified financing sources not just a diagnosis of current weaknesses. International technical assistance with proven experience in central depository development (ADB's Capital Market Development programs, for instance) should be engaged alongside the study rather than after it concludes. The risk otherwise is that the study becomes an end in itself.

Implementation Risks

- A study that concludes in Falgun 2083 without a committed implementation follow-on could delay actual infrastructure reform by two to three years given Nepal's typical budget and procurement timelines.
- CDSC does not currently generate the internal revenue to fund a major infrastructure overhaul independently. A financing plan potentially including development partner grants or concessional lending must be part of the reform design.
- Support margin lending, short selling, and securities lending (Points 4 and 13), CDSC must evolve from a bilateral settlement record-keeper into a central counterparty guaranteeing settlement on every trade, backed by a guarantee fund. This is a materially larger institutional build than “structural reform and capacity development” implies. It should be named as the explicit target, benchmarked against the CPMI-IOSCO Principles for Financial Market Infrastructures.

2.18 Reforming Private Equity and Venture Capital

What It Proposes

Nepal's private equity (PE) and venture capital (VC) sector operates without a clear regulatory framework. The plan directs SEBON to develop a risk-based classification and regulatory regime covering investment, distributions, capital repatriation, and exit procedures for PE and VC funds, with the necessary legal infrastructure by Poush 2083.

Why It Matters

Not every growing company is ready or suitable for a public listing. Early-stage businesses, technology startups, and high-growth SMEs need patient capital that works with management over years not the quarterly reporting discipline of a listed company. PE and VC fill this gap in mature economies, providing growth capital and management support before companies are ready for public markets. In Nepal, this channel barely exists which means early-stage businesses are either entirely bank-dependent or unable to grow at all. A functioning PE/VC ecosystem would also create a pipeline of better-prepared companies entering NEPSE, improving the average quality of new listings over time.

What It Means for Investors

PE and VC are high-risk by design a meaningful proportion of investments will fail entirely. These instruments are appropriate only for investors who can absorb total loss on any individual investment. Initial access will be restricted to high-net-worth and institutional investors. Retail participation, if it comes, will be through PE/VC-focused mutual funds with mandated diversification requirements.

Policy Implications

Foreign PE and VC investment is critically dependent on clear and reliable capital repatriation rules. NRB's current foreign exchange framework is a major deterrent for international funds that need to be confident they can exit investments and take proceeds out of Nepal without regulatory obstacles. Resolving this through either NRB rule amendments or special provisions within the PE/VC framework is the highest-priority action within this reform. Without it, the framework will attract domestic capital only, limiting both the volume and sophistication of the ecosystem.

Implementation Risks

- Nepal lacks PE/VC fund managers, specialized legal advisors, and auditors with the deal-specific expertise these transactions require. Regulatory framework development and human capital development must run in parallel.
- NRB's foreign exchange repatriation rules are the most significant structural barrier and must be resolved through explicit inter-agency agreement, not left as an implicit gap.
- The framework should review the exit rules for PE and VC funds that acquire shares shortly before an IPO. For example, a fund that buys into a hydropower company immediately before listing may be able to sell after one year, while promoters who developed the project face a three-year lock-in. Where a pre-IPO investor has made no meaningful contribution to the company's financing, governance or operations, a shorter exit period is difficult to justify.

- PE and VC regulation should encourage demonstrable value creation in investee businesses, rather than simply providing a route to acquire shares before listing and sell them soon afterward.

2.19 Reviewing Banks' Investment and Risk Exposure

What It Proposes

SEBON and NRB will jointly review the existing limits and arrangements governing bank and financial institution investment and lending exposure to the capital market covering direct investment, share-backed lending, interconnectedness, systemic risk, liquidity, and depositor protection. Deadline: Kartik 2083.

Why It Matters

Banks in Nepal are exposed to the stock market in two ways: directly through their own investment portfolios, and indirectly through loans collateralised against shares or hydropower project assets. When the market falls, both exposures worsen simultaneously collateral values drop, loan quality deteriorates, and banks may need to sell investment positions to manage capital ratios, further depressing prices. Nepal experienced a moderate version of this in 2022–2023. The Bhotekoshi flood has added a new dimension: loans secured against hydropower project assets now face collateral quality questions that were not priced into those loans. A joint review is urgent, not routine.

What It Means for Investors

Tighter management of bank capital market exposure may temporarily reduce the liquidity that banks provide to the market through share-backed lending. In the medium term, however, a financial system where banks are not excessively exposed to equity market movements is more stable which is better for all market participants.

Policy Implications

The review must specifically address hydropower loan collateral in light of the flood. SEBON and NRB should agree before the review begins on what the findings will produce: binding regulatory changes, advisory guidance, or both. A review that ends with no binding outcome is not useful. The results should be published transparency on systemic risk exposure is itself a confidence-building measure for a market that has just experienced a major sector shock. This review also has implications for how the 45-day holding period (Point 21) is designed.

Implementation Risks

- SEBON and NRB have historically operated in silos. Genuine joint review with binding output requires agreed terms of reference and shared data access neither of which currently exists in a formalized way.

- Banking sector resistance to new exposure limits will be significant. The review's independence and mandate must be protected from lobbying during the process.
- Nepal's banks already operate under Basel-influenced capital adequacy rules, and Basel III prescribes materially higher risk weights for equity holdings than for standard lending exposure. NRB should extend that logic already partly adopted specifically to capital-market and hydropower-collateral exposure, rather than building limits from first principles.

2.20 Reforming Capital Gains Tax

What It Proposes

Under the proposed structure, resident individual investors holding listed securities for more than 365 days would pay 3.75 percent capital gains tax on profits. For holdings of 365 days or less, the rate would be 5 percent. The plan also proposes allowing losses on listed securities to be offset against gains within the same income year so that only net gains are taxed, not gross profits on winning positions regardless of losses elsewhere in the portfolio.

Why It Matters

The current tax system treats every profitable sale as a taxable event regardless of what else has happened in the portfolio that year. An investor who gains NPR 500,000 on one stock and loses NPR 400,000 on another pays tax on the NPR 500,000 gain effectively being taxed on a net NPR 100,000 position. This penalizes diversification and makes the tax burden on active investors significantly higher than the headline rate suggests. The lower rate for long-term holdings creates a direct tax incentive for patient investment holding for more than a year costs materially less in tax than trading frequently. Both changes are rational, equitable, and aligned with how most regional capital gains tax systems work.

What It Means for Investors

This reform benefits long-term investors and those who hold diversified portfolios. However, investors should not change their tax planning based on announced rates until these changes are legislated and the administrative system is operational. Tax rules in Nepal can and do change between announcement and enactment. The loss offset provision specifically requires broker-level transaction tracking systems to capture and net gains and losses infrastructure that must be built and tested before the provision can be reliably claimed.

Policy Implications

The capital gains reform is the most visible single change in the plan for retail investors and carries the highest political profile. Its credibility depends entirely on administrative implementation quality specifically, whether the Inland Revenue Department (IRD) and broker systems can accurately administer the netting mechanism from day one. The government should set a specific implementation

date that is contingent on a confirmed technology readiness audit across brokers and IRD, rather than legislating the rate change and leaving the administration to catch up. A revenue impact assessment should also be conducted and published the government will be asked what these costs in tax revenue, and the answer should be known before the law passes, not after.

Implementation Risks

- The loss offset provision requires transaction-level data management across brokers and the IRD that current systems are not designed for. This is a significant technology project, not a minor administrative adjustment.
- Tax rates announced in policy documents can change through the budget process. Investors who rely on announced rates before legislative enactment carry regulatory risk.
- India's long-term capital gains tax is 12.5 percent and short-term is 20 percent, both above Nepal's proposed rates. This does not make Nepal's rates wrong; a shallow market may justify a lower rate but the comparison will be asked in any revenue-impact assessment. A securities transaction tax (per trade, no netting required) is also worth naming as a simpler interim option while the netting infrastructure is being built.

The proposed capital gains tax changes may support market activity in the short term, but they also raise a broader question about consistency across the tax system. The proposed rates of 3.75 percent for longer-held securities and 5 percent for shorter-held securities are substantially below the stated rates for corporate income and higher bands of personal income (25% for corporate tax and upto 29% for individual based on the tax bands). Although these taxes apply to different types of income, the size of the gap warrants a clear policy rationale.

Allowing investors to offset losses against gains would make taxation fairer by focusing on net returns. Taken together with the lower rates, however, the changes should be assessed for their effects on revenue and incentives to invest in productive businesses. The government should review the structure over time and benchmark it against comparable jurisdictions rather than treat a short-term measure to stimulate the market as a permanent settlement.

2.21 Minimum 45-Day Holding Period for Bank Investments

What It Proposes

NRB will require the boards of banks and financial institutions to formulate investment policies imposing a minimum 45-day holding period for secondary market securities investments. Once a bank buys a stock, it must hold it for at least 45 days before selling.

Why It Matters

Banks are supposed to stabilise financial markets, not trade them. In practice, Nepal's banks have at times made short-term equity positions and exited them quickly in response to regulatory or

macroeconomic signals amplifying price movements on both the upside and the downside. Large balance sheets moving in and out of the same stocks over short periods create artificial volatility that is unrelated to company fundamentals. A 45-day floor forces more deliberate, considered investment decisions and reduces the probability of sudden large-scale institutional exits that compound retail panic during a market downturn.

What It Means for Investors

Banks that must hold positions for at least 45 days will be more selective about what they buy which is positive for price discovery. They will also be unable to exit abruptly at the first sign of market stress which is positive for stability. The trade-off is reduced bank flexibility in managing investment risk positions, which could become a constraint in a genuine financial stress event where banks need to de-risk quickly.

Policy Implications

This rule must be narrowly drafted to apply specifically to discretionary equity investment positions not to government securities, NRB instruments, or interbank transactions that banks use for legitimate liquidity management. A broad rule that interferes with Treasury operations would create unintended consequences for banking sector liquidity. Enforcement requires NRB to develop transaction-level monitoring of bank securities positions a surveillance capability it does not currently have. Quarterly public disclosure of bank securities portfolios should accompany this rule, giving SEBON and the market visibility into aggregate institutional equity exposure. This connects directly to the review in Point 19.

Implementation Risks

- NRB currently lacks the surveillance infrastructure to monitor compliance at the individual security level across the banking sector. Building this must happen before the rule takes effect.
- Banks will argue the rule impairs Treasury and liquidity management. The scope must be clearly defined in the rule text not left to interpretive guidance to prevent disputes about applicability.
- The 45-day floor is a blunt instrument, it treats legitimate portfolio rebalancing on day 40 identically to day-one speculation. Basel's trading-book/banking-book distinction classifies positions by intent, applying different capital and reporting treatment rather than a uniform holding floor. NRB could adopt this classification alongside or instead of the 45-day rule. It targets the same behavior more precisely without constraining legitimate portfolio management.

3. Conclusion and Priority Actions

3.1 Assessing the Plan

The 21-point plan's scope addresses the market's structural problems rather than applying surface-level fixes. The combination of primary market reform (Point 1), legal modernization (Points 4, 14), new instruments (Points 2, 8, 9, 10), institutional investor participation (Points 15, 16), infrastructure upgrading (Points 5, 6, 17), broader market access (Point 7, 18), and tax reform (Point 20) represents a coherent if ambitious reform agenda.

But the plan must be read for what it is at this stage: a set of commitments, not a set of achievements. Nepal has published capital market reform frameworks before. What distinguishes this moment is that the RSP government's strong parliamentary majority, the post-flood urgency, and the measurable decline in market confidence under the current administration is the scale of pressure to actually implement rather than simply announce.

3.2 The Three Risks That Determine Whether This Works

The first is sequencing: Several reforms are prerequisites for others, and pursuing them independently will produce instruments that do not function. Mutual fund products (Point 2) without a benchmark index (Point 6) cannot be properly constructed. Corporate bonds (Point 8) without institutional buyers (Points 15, 16) and a credit rating ecosystem will have no secondary market. Margin lending (Point 13) without broker capitalisation reform (Point 3) creates systemic risk rather than market depth. The government must assign responsibility for sequencing these clusters not treat each of the 21 points as a standalone checklist item.

The second is administrative quality: Several reforms will be announced before the administrative systems to support them exist. The capital gains tax netting mechanism (Point 20) requires transaction-level data infrastructure at brokers and the IRD. NRN market access (Point 7) requires account-opening and foreign exchange infrastructure at NRB. Announcing policies before the administration is ready does not build confidence it erodes it. Each reform with an administrative dependency should have a technology readiness date that is public and verifiable.

The third is leadership: Every reform in this plan is implemented through SEBON, NEPSE, or NRB. Both SEBON and NEPSE have experienced periods of leadership instability that have undermined institutional continuity at a time when the market needed clear direction. Filling these positions with qualified, independent leadership is an immediate priority. Appointing qualified, independent, and empowered leadership at both institutions is the most consequential single decision the government can make for this reform package.

3.3 Hydropower: The Sector That Cannot Be Ignored

The Bhotekoshi event has permanently changed the risk calculus for Nepal's most active listed sector. The hydropower investment case 83,000 MW of untapped potential, long-term PPAs, India export revenues remains structurally valid. But the Trishuli corridor disaster proved that natural hazard risk in Nepal's river systems is catastrophic, not marginal. Sector-specific IPO criteria (Point 1), disaster bonds (Point 9), and the joint risk exposure review (Point 19) are the right response. Policymakers should be direct about what remains missing: without disaster risk insurance and financing mechanisms for hydropower, a capital market with 100+ listed hydropower companies will remain structurally exposed to events it cannot currently price or absorb.

3.4 Five Actions for the First Year

- Appoint qualified, independent leadership at SEBON and NEPSE. No other reform in this plan can be effectively implemented without this foundation.
- Advance Securities Act amendments (Points 4 and 14) through Parliament. These form the legal foundation for the majority of instrument-level reforms.
- Implement the capital gains tax reform only after confirming that the tax authority and broker systems are technically ready to handle the new rules accurately announcing the change before the administration can support it will create more confusion than confidence.
- Publish clear, time-bound commitments for EPF, CIT, and SSF to begin shifting investments into the securities market, with governance safeguards embedded in their mandates from day one.
- Engage development partners (ADB, IFC, World Bank) on disaster bond framework development (Point 9) and CDSC infrastructure modernization (Point 17) both require international technical assistance that should be procured now, not after domestic study processes conclude.



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