



Legal Update

Conditions applicable for Investment Companies to make Initial Public Offering (IPO)

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Background

Securities Regulator of Nepal specifies conditions for initial public offering by investment companies

In Nepal, formation of an investment company as an industry, as well as making initial public offering (IPO) by such a company, is subject to the fulfilment of various conditions.

Pursuant to Schedule-8, Serial Number 65 of the **Industrial Enterprises Act, 2076 (2019)**, an investment company is categorized under the service industries. On **Falgun 18, 2079 B.S. (March 2, 2023)**, the Ministry of Industry, Commerce and Supplies published a notice in the Nepal Gazette setting forth the conditions for the establishment of investment companies in Nepal. The requirements and conditions set out in the Nepal Gazette is applicable to the investment companies with or without foreign investment and irrespective of such companies making IPO.

Subsequently, on **Ashadh 8, 2082 B.S. (June 22, 2025)**, the **Securities Board of Nepal (SEBON)** issued a public notice outlining the conditions that must be met by investment companies for making IPO. For IPO, such investment companies are required to be registered as a public limited company.

This legal update covers conditions specified by the SEBON specifically applicable to the investment companies making IPO along with additional relevant requirements set out in the Nepal Gazette.

A. In Which Sectors Can Investment Companies Invest in Nepal?

Investment companies can invest in entities engaged in the sectors of energy, transportation, communication, agriculture, tourism, manufacturing and processing, information technology, and mineral extraction. At the time of registration, the specific sectors in which the investment company intends to invest must be clearly set out in its incorporation documents (memorandum of association).

B. What are the permitted modes of investment?

- I. An investment company is permitted to invest only in the form of share capital. Such investment must be made exclusively in the form of promoter shares.
- II. Investment companies are allowed to invest in organized institutions established with the Government of Nepal as a promoter.

- III. Furthermore, with prior approval from the SEBON, an investment company may participate as a Qualified Institutional Investor (QII) in the (IPO) of institutions related to the abovementioned sectors, through the book-building method.

C. What are investment companies prohibited from doing?

- I. Investment companies are not permitted to purchase shares other than promoter shares, nor are they allowed to acquire shares or debentures through the secondary market.
- II. Investment companies are not allowed to invest through loans, credit facilities, bonds, or debentures.
- III. Investment companies are prohibited from undertaking any banking business,
- IV. Investment companies must not undertake activities performed by cooperatives established and operated under the Cooperative Act.
- V. Investments in shell companies and financial transactions with shell banks are strictly prohibited.
- VI. Investment in sectors such as securities brokerage, market making, and real estate business is not allowed.
- VII. Taking loans from domestic banks and financial institutions is prohibited, as is obtaining loans from domestic banks based on bank guarantees issued by foreign banks.

D. What is the required capital for registration of an investment company as an industry?

Pursuant to the Nepal Gazette notification, the minimum investment required to form an investment company as an industry shall be NPR 1 billion. However, notice issued by SEBON specifies the minimum paid up capital as NPR 500 million only. This seems to be discrepancy between the regulations. However, to satisfy the requirement of both regulations, it is imperative that the investment companies have minimum paid up capital of NPR 1 billion.

E. Is an investment company allowed to issue an IPO?

Investment companies are allowed to issue IPO. Furthermore, companies established with foreign investment that have completed the procedures under the Foreign Investment and Technology Transfer Act are also eligible to issue IPOs.

F. What conditions must be fulfilled when issuing an IPO?

- I. The company must have been in operation for at least the past three years and must be in profit in the last two fiscal years.

- II. The company's net worth per share must exceed the face value of the share.
- III. The company must have been established with the objective of investing solely in the sectors mentioned above.
- IV. The company must have obtained a credit rating of at least one level above the minimum grade.
- V. The company's paid-up capital must be at least NPR 50 million (50 Crore).
- VI. The company must be an organized institution established with the Government of Nepal as a promoter or an investment company with the objective of investing in the sectors specified above.

Disclaimer

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