



General Guide Initial Public Offering (IPO)

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Overview:

This IPO guide outlines the process and regulations governing Initial Public Offerings (IPOs) in Nepal. It covers the basic, regulatory, procedural, and conditional aspects of IPO issuance, providing a step-by-step guide for companies seeking to enter into equity market. Key points include the role of the Securities Exchange Board of Nepal (SEBON) in regulation, the necessity of credit rating, approval and publication of prospectus, and the mandatory lock-in period for certain shares.

The framework also details post-regulatory compliance requirements, including quarterly and annual reports, general meeting notifications, and the disclosure of price-sensitive information. Overall, this information is designed specifically to assist our readers to understand the key consideration and compliance requirements a company, its management and other stakeholders must evaluate before embarking on the path to IPO in Nepal.

A. Basic Framework

1. What is Initial Public Offering (IPO)?

IPO refers to a method for a Company to enter into the equity market for the first time which it does by offering its shares to the general public.

2. What are the advantages of IPO?

The Company stands to gain several benefits from an initial public offering (IPO), such as gaining access to capital, heightened visibility for its branches, and a boost in liquidity.

3. Which companies are eligible to raise capital through IPO in Nepal?

A public limited company (**Company**) is permitted to raise capital through an IPO in Nepal provided that it meets the criteria of securities regulations.

4. Is it obligatory for a Company to issue IPO?

While generally, IPOs are issued on a need basis and are at the discretion of the company, in case a company plans to issue shares to more than 50 (fifty) investors simultaneously, it is obliged to issue shares through public offering.

5. What is the permitted minimum and maximum units of shares that Company can issue in IPO?

Unless otherwise specified by regulatory agency, a company is required to issue shares equivalent to at least ten (10) percent of the total issued capital in IPO. Furthermore, the shares issued in IPO shall not exceed 49% of its issued capital of the Company.

B. Regulatory Framework

6. Which agency of Nepal Government is responsible for regulating the IPO process?

Securities Exchange Board of Nepal (**SEBON**) – the capital market regulatory, agency is responsible for regulating and supervising the process of IPO in Nepal.

7. Which primary laws and regulations govern the IPO process in Nepal?

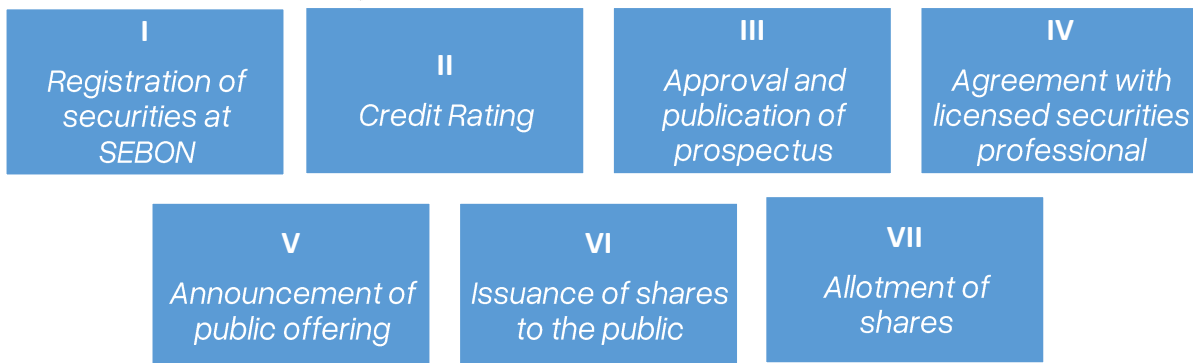
IPO process in Nepal is primarily governed by the following laws:

1. Securities Act 2063 (2007 AD) (**Securities Act**),
2. Securities Registration and Issuance Regulation, 2073 (**Securities Regulation**) and
3. Securities Issuance and Allotment Directive, 2074 (**Securities Directive**).

C. Procedural Framework

8. What are the key steps while issuing IPO in Nepal?

The key steps while issuing IPO in Nepal are as follows:



9. What formalities are required to be fulfilled under the key steps?

The formalistic procedures required to be fulfilled under the key steps are described in the subsequent headings:

○ **Step I: Registration of Securities at SEBON**

i. How can we register securities at SEBON?

To register securities at SEBON, an application for registration must be filed at SEBON wherein updated charter documents, board resolution for registration, authorization letter and the most recent financial report of the Company.

○ **Step II: Credit Rating**

ii. What is credit rating?

Credit rating is an independent opinion on a financial health of the Company.

iii. From whom should the Company obtain credit rating?

The Company must obtain a credit rating from a licensed credit rating agency prior to issuing shares to the general public.

iv. What is the minimum rating required to issue shares to general public?

IPO issuing company are required to obtain a rating that is at least one grade higher than the basic grade.

○ **Step III: Approval and Publication of Prospectus**

- v. What is prospectus?**
Prospectus is a document that outlines companies' financial securities for sale to the investors.
- vi. Which regulatory body does a company in Nepal apply to for the approval of its prospectus?**
The company needs to apply to SEBON for the approval of its prospectus.
- vii. What criteria must the prospectus meet to obtain approval from SEBON?**
SEBON grants approval only when it is satisfied that the prospectus provides adequate information for investors to assess the company's assets, liabilities, financial standing and profit, and loss.
- viii. Besides SEBON's approval, are there any additional steps?**
Yes, the prospectus also needs approval from the Nepal Stock Exchange before the said prospectus is published for the general public's knowledge.
 - **Step IV: Agreement with Licensed Securities Professional**
- ix. Who are licensed securities professionals?**
Securities Professionals are brokers, dealers, investment advisors or persons that provide services such as issuance and sales management.
- x. Is agreement with a licensed securities professional compulsory?**
Yes, it is necessary for the company to enter into an agreement with a licensed securities professional such that a copy of the agreement is required to be submitted at SEBON within fifteen (15) days from the date of its execution.
 - **Step V: Announcement of Public Offering**
- xi. Are Companies required to announce the public offering of shares? If yes, how?**
The company must publish a public notice in a national-level newspaper notifying the public issuance of its shares at least seven (7) days prior to the issuance.
- xii. What contents should the public notice contain?**
The contents necessary in the public notice are as follows:
 - a) Date on which the Company was registered in Company Registrar's Office (**OCR**).
 - b) Date on which prospectus was approved by SEBON.
 - c) Proposed date of public issuance.
 - d) Per share value and the advance payment amount.
 - e) Closing date of public issuance.
 - f) Major highlights of the prospectus
 - g) Grievance redressal provision during public issuance, etc.
- xiii. Is approval from SEBON required for the issuance of public notice?**
While direct approval is not required, SEBON is required to be notified at least one (1) business day before the publication.

○ **Step VI: Issuance of shares to the public**

xiv. Within what timeframe is the Company obliged to issue shares?

The Company must issue shares to public within two (2) months from the date of approval of its prospectus by SEBON.

xv. What happens if the Company is not able to issue its shares in the said timeframe?

If the shares cannot be issued by the prescribed timeline, i.e. two (2) months and due to changes in technical, financial or managerial aspect of the Company, then such changes must be approved by SEBON.

xvi. What is the standard face value assigned to each unit of shares when they are issued, as per the usual practice?

Generally, the face value of each unit of shares shall be NPR 100.

xvii. What happens once the shares are issued to the public?

Once the shares are issued, investors then can apply for and purchase the offered shares based on the terms and conditions outlined in the prospectus and public notice.

xviii. Is SEBON required to be notified about its issuance?

A company is required to notify SEBON about its issuance within seven (7) days from the date of such issuance.

xix. What is the specified duration during which the public offering for shares remains open, and under what conditions can the company extend this period?

Public offering remains open for a minimum of four (4) days. However, if all shares are not subscribed within this period, the Company may extend the offering for a maximum of fifteen (15) days from the date of initial opening, with notification to SEBON.

○ **Step VII: Allotment of shares**

xx. What is share allotment?

Share allotment refers to the allocation of shares of the Company to an underwriting participant during an IPO.

xxi. Within what timeframe should the shares issued in an IPO be allotted?

Shares issued in an IPO must be allotted by following timeframe iterated in the table below:

No. of Application Received	Duration for Allocation
For Application up to 2 lakhs	Thirty (30) days
For Application 2 lakhs to 3 lakhs	Forty (40) days
For Application above 3 lakhs	Fifty (50) days

xxii. What shall happen if the issued shares issued are not allotted timely?

If the shares issued are not allotted within the stated timeline, the Company may request an extension from SEBON. However, in absence of such extension, the invested amount must be refunded to the applicant.

D. Conditional framework

General Conditions

10. What are the general conditions pertaining to issuance of IPO?

General conditions that a Company must comply with while issuing an IPO are as follows:

- (a)** Directors or shareholders holding one (1) percent or more shares in the Company must not be blacklisted by the Credit Information Bureau.
- (b)** The Company must operate as a public limited for a minimum of one fiscal year. Alternatively, excluding Banks and Financial Institutions, if the Company has completed two fiscal years since its incorporation as a private company, it can issue an IPO after converting to a public limited Company.
- (c)** The Company should demonstrate that it is a going concern.
- (d)** The Company shall have obtained all of the required approval, license or permission from the concerned authorities.
- (e)** The Shares subscribed by the promoters shall have been fully paid-up.
- (f)** The Company shall have completed the necessities required for the Business, The necessities pertaining to the business is delineated below:

Example:

- *Land procurement, with construction underway along with inventories and other facilities for factory and office building,*
- *Finalized production method for the production company.*

11. Does the law permit for issuance of shares in premium? If yes, what are the requirements?

Yes, Companies are permitted to issue shares at premium provided that they fulfill the following conditions:

- (a)** The Company has been continuously operating at net profit for the past three years.
- (b)** The net worth of per unit share exceeds the paid-up capital of each unit of shares.
- (c)** A resolution to issue shares at premium has been approved at a general meeting of the shareholders.
- (d)** Certified share valuation report from an expert or expert entity, outlining the process and rationale used to determine the premium value of the shares, is obtained.
- (e)** The Company has received an average or above average credit rating.

12. What is the mandatory lock-in of shares following issuance of an IPO?

Apart from the shares issued through publication of prospectus, transfer of other categories of shares is restricted until three (3) years (**lock in period**) have been completed since the date of the IPO.

13. Are there any exceptions to the share transfer lock in period?

Yes, there are two exceptions to the share transfer lock in period:

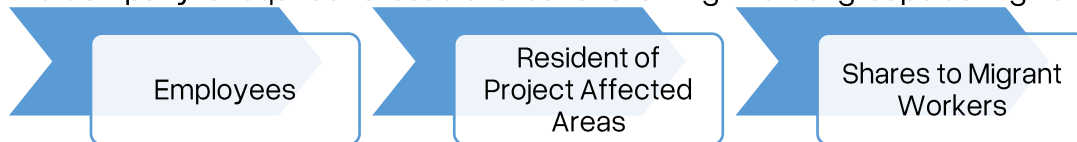
Firstly, securities held by private equity, venture capital, hedge funds or similar funds registered at SEBON or in foreign jurisdictions, as well as companies with foreign government investments approved to invest in Nepal, are permitted for sale one (1) year after the date of public issuance.

Secondly, Secondly, Company executives and key employees, including directors, CEOs, auditors, Company secretaries, and those in managerial or audit-related roles, are restricted from transferring or selling their shares in the Company or its related entities during their tenure and up to one (1) year from their retirement.

Special Conditions

14. Are Companies compelled to issue shares to specific interest groups during the IPO? If yes, to whom?

The Company is required to issue shares to following interest groups during its IPO:



15. What are the conditions applicable while issuing shares to specific interest groups?

The conditions applicable are iterated in the table below:

Interest Group	Percentage	Lock-in Period
Employees	2% – 5%	3 years
Residents of Project Affected Areas	Varies based on project size	5 years
Migrant Workers	10%	Not specified

Table: Special Conditions applicable for Interest Groups

E. Regulatory Compliance framework

16. What are the post-regulatory compliance requirements?

The post-regulatory compliance for the company after the issuance of IPO are pictured as follows:

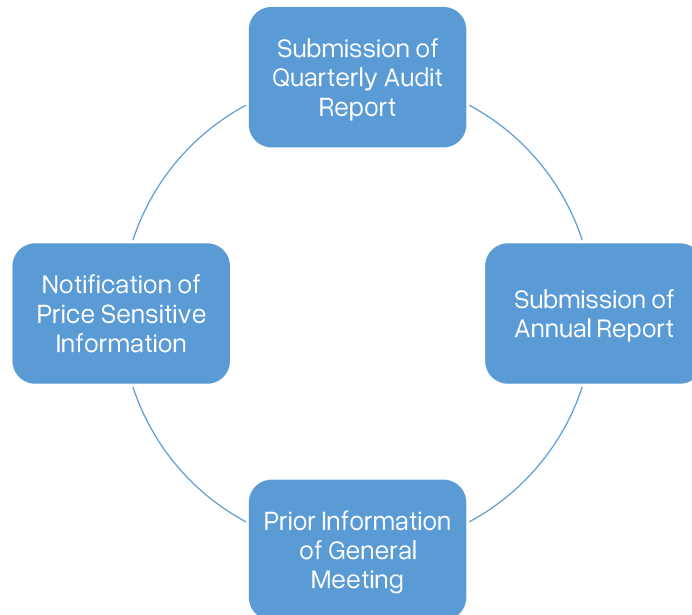


Illustration: Post-regulatory compliance procedures

17. What formal procedures need to be fulfilled as part of the post-regulatory compliance steps?

The formal procedures under the post-regulatory compliance steps are as follows:

Quarterly Audit Report:

A company must submit Quarterly Report to SEBON within thirty (30) days from the end of each financial quarter. This report must include financial details, managerial analysis, details about legal proceedings, analysis of shares transaction, other problem and challenges faced by the Company, and details on good governance.

Submission of Annual Report

An Annual Report must be submitted within five (5) months from the end of each fiscal year. The report must include information such as the Board of Directors' report, Auditor's report, audited financial report, details of legal proceedings, share transactions, growth analysis, and steps taken for good governance.

Note: All financial reports must adhere to the standards set by the Institute of Chartered Accountants Nepal and the standards of SEBON for securities market and professionals.

Prior Information of General Meeting

Information of the matter to be discussed in the general meeting of the Shareholders must be provided to SEBON prior to such general meeting. Further, SEBON must be notified about the matter discussed in such meeting and the resolution passed within thirty (30) days from the date of the general meeting.

Notification of Price Sensitive Information

In case any price sensitive event or transaction occurs then such event or transaction must be notified to SEBON within thirty (30) days from the date of its occurrence.

Disclaimer

This FAQ is meant for informational purposes only and does not constitute legal consultation. Given the potential of change in laws and regulations, it is advisable to verify the information with the relevant authorities, considering its validity only extends to the publication date. It is crucial to provide proper citation to this FAQ if any part of the FAQ is to be used as an information source. This FAQ is not intended for advertising or promotional use and is designed to provide general impartial guidance only.

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