From NEPSE to Next: Nepal's Dual Exchange Ambition

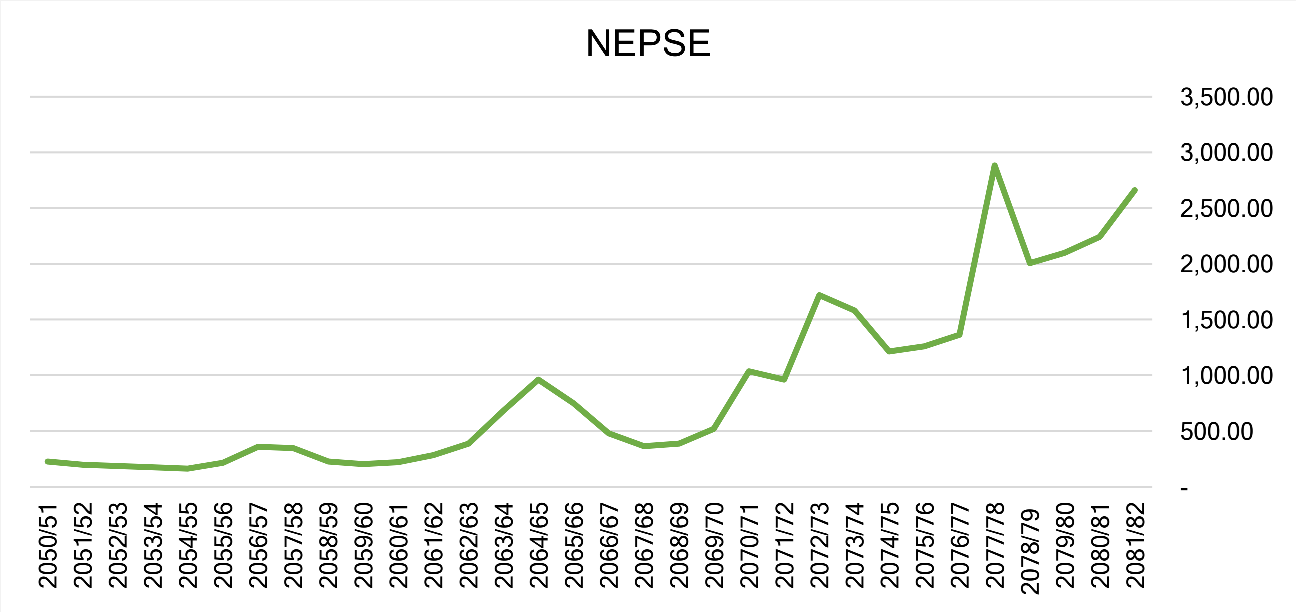
For over three decades, one name has stood at the center of Nepal's capital market: The Nepal Stock Exchange (NEPSE). Established in 1993 and opening its trading floor in 1994, NEPSE has been more than just a marketplace it has been the sole stage where the country's financial story has played out.

But every monopoly meets its moment. And now, the curtain is beginning to rise on a new act.

With the Supreme Court's dismissal of a petition challenging the licensing of a new stock exchange, the regulatory pathway is now clear for the entry of a second exchange in Nepal. Among the contenders—Himalayan Stock Exchange, Annapurna Stock Exchange, and National Stock Exchange—one is expected to secure the license.

What was once a solo performance may soon become a dynamic ensemble. And for Nepal's capital market, the next chapter is just beginning.

NEPSE: The Lone Player



The Nepal Stock Exchange (NEPSE) didn't emerge in isolation. Its origins trace back to the early 1990s, a transformative period when Nepal began shifting from a monarchy-centered economy to a more open, liberalized system. With the push for economic reforms came the need for a formal capital market, and in 1993, NEPSE was established with government backing support. A year later, its trading floor opened, listing a handful of companies—primarily banks and state-owned enterprises.

NEPSE's journey is closely tied to Nepal's broader economic development. What began as a modest trading platform with a small investor base centered in Kathmandu has gradually evolved alongside the rise of the Nepali middle class and growing public interest in financial markets. Today, millions of Nepalese actively participate in the capital market, drawn largely to sectors like banking, which have historically driven trading volumes and investor enthusiasm.

However, NEPSE's position as the sole exchange has drawn criticism. The government maintains a majority stake of 58.66%, prompting concerns about bureaucratic interference and sluggish modernization. The exchange still offers only basic instruments—stocks and a limited number of bonds—without derivatives, futures, or other sophisticated financial products.

For many, NEPSE's monopoly feels more like stagnation than stability. With mounting calls for reform, the question arises: would a second exchange introduce healthy competition, or are there more effective ways to invigorate Nepal's capital market? The answer may lie not just in creating alternatives, but in modernizing, diversifying, and depoliticizing the system that already exists.

The Case for a Second Exchange

Nepal's capital market is stuck in neutral and NEPSE is a big part of the problem. For over 30 years, it's operated as the country's only stock exchange, but instead of evolving with the times, it's fallen behind.

Introducing a second stock exchange could act as a catalyst for structural reform in Nepal's capital market. By fostering competition, it would compel NEPSE to modernize its trading infrastructure, reduce transaction costs, enhance transparency, and improve service efficiency. Although sectoral eligibility for listing falls under SEBON's regulatory jurisdiction, a new exchange could differentiate itself by offering tailored listing frameworks, streamlined onboarding for non-traditional issuers (such as startups, tourism-based enterprises, and ESG-aligned firms), and targeted investor education.

Moreover, with the integration of faster settlement cycles (e.g., T+1 or T+0), competitive fee structures, and digital-first investor platforms, a second exchange could align Nepal's market architecture more closely with international best practices. Drawing lessons from multi-exchange ecosystems in countries like India and the United States, a dual exchange structure if properly regulated could enhance market depth, liquidity, and inclusivity, while reducing systemic friction and fostering innovation.

The idea isn't new. SEBON opened the door in 2022, credible applicants lined up, and a government-backed committee in 2023 gave the green light. The Council of Ministers even endorsed the plan in late 2024. And yet nothing. Political tug-of-war and indecision have kept the proposal in limbo, wasting time and investor patience.

Still, a second exchange isn't the only path forward. Nepal could build specialized platforms under NEPSE for green finance or SME trading. Or it could pursue regional integration, allowing cross-listings and capital inflows from neighboring markets. But whatever the model, one thing is clear: the current setup isn't working.

Nepal's economy is changing, and its capital market needs to catch up fast. Whether through bold reforms or real competition, the system needs new energy, better governance, and a future-focused vision. NEPSE has had its time. Now, the question is: will Nepal choose progress or keep clinging to the past?

Reform vs. Readiness

Critics argue that splitting this relatively small and fragile market could backfire. One major concern is fragmented liquidity. With a limited pool of investors and companies, dividing trading activity between two exchanges might thin out volumes, increase volatility, and make capital raising harder for firms particularly smaller ones. Compared to our neighbors' multi-trillion-dollar exchanges, Nepal's market simply doesn't scream "ready for two."

There's also the issue of regulatory strain. The Securities Board of Nepal (SEBON) already faces difficulties in enforcing compliance and curbing existing issues. Doubling its oversight responsibilities could stretch its capacity and compromise market integrity. Financially, establishing a new exchange is resource-intensive requiring substantial investment in infrastructure, technology, and skilled manpower. In a country where public funds are critically needed for education, healthcare, and infrastructure, this could divert resources from more pressing priorities.

Further, the risk of investor confusion is real. Nepal's investor base is growing, but still relatively inexperienced and concentrated in a few sectors. A second exchange could complicate market navigation, slow participation, and disrupt investor confidence. Comparable economies like Sri Lanka and Bangladesh, with similarly sized or larger GDPs, have opted to strengthen their single exchanges before expanding. Nepal's 200 plus listed companies pale in comparison to India's thousands, making critics question whether the market has enough depth to support two platforms.

Despite these concerns, a dual exchange system could serve as a dynamic catalyst for capital market reform and expansion in Nepal. It would spark competition, encouraging NEPSE to innovate and upgrade its infrastructure. Even after launching the NEPSE Online Trading System (NOTS) in 2018, NEPSE lacks advanced tools like real-time analytics, derivatives trading, or a seamless mobile-first platform, which limits its efficiency for investors. A competing exchange could address these shortcomings, much like India's National Stock Exchange (NSE), which, since its launch in 1992, revolutionized trading through technology and transparency, surpassing the Bombay Stock Exchange (BSE). Such competition could drive NEPSE to enhance liquidity and accessibility, strengthening Nepal's capital market and supporting broader economic growth.

Privatization: A Pragmatic Middle Ground?

As debates around a second stock exchange intensify, privatizing NEPSE has emerged as a compelling alternative to market fragmentation. Reducing the government's current 58.66% ownership could inject much-needed private-sector efficiency, drive technological upgrades, and enhance NEPSE's global standing potentially paving the way for full membership in the World Federation of Exchanges, where it currently holds only affiliate status. Notably, the Nepal Rastra Bank, which holds a 9.5% stake, has expressed openness to divestment, signaling institutional support for reform. However, resistance from entrenched interests and a lack of political consensus have slowed progress. Still, strategic privatization could modernize NEPSE without the complexities of launching a new exchange, offering a balanced, forward-looking solution that strengthens the existing market structure while fostering innovation and investor confidence.

Looking Ahead

Nepal's capital market is entering a pivotal phase of transformation. The Securities Board of Nepal (SEBON) has initiated discussions on major structural reforms, including the potential introduction of a second stock exchange and the privatization of NEPSE. Both proposals hold the potential to reshape the market either by fostering competition or by enhancing efficiency within the existing framework.

Yet beyond structural choices, the core priority must be building a capital market ecosystem that is transparent, resilient, and investor-centric. To compete regionally and support economic growth, Nepal must focus on deepening market capacity, strengthening regulatory institutions, and expanding access to capital especially for SMEs, green finance initiatives, and emerging sectors.

The debate should move beyond "one or two exchanges" and instead center on outcomes: improved investor confidence, diversified listings, modern infrastructure, and long-term value creation. Whether progress is driven through enhanced governance at NEPSE or a complementary platform, reforms must align with a broader vision one that supports an inclusive, adaptive, and future-ready capital market.

Ultimately, the decision must serve a single purpose: unlocking the full potential of Nepal's capital markets as engines of innovation, economic inclusion, and sustainable national development.