
Introducing the Stock Market



What is a Stock Market?

How does it functions?

How are shares bought and sold?

....and many more queries are answered.

Royal Securities Exchange of Bhutan Limited

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Introduction

In response to the need to develop capital market, the RGOB established the Royal Securities Exchange of Bhutan Limited (RSEB) in 1993 as a non-profit making, quasi-public organization. Since inception it has significantly taped and pooled surplus savings to finance the industries, which are in deficit; and also provides liquidity to the existing shareholders.

The developments of private sectors have undoubtedly opened new horizons for investment avenue and employment opportunities in the country. In such effort to promote the private sector and to broad base the economy in the Kingdom the Royal Government divested the state-owned holdings in the profitable companies such as Bhutan National Bank Ltd., Penden Cement Authority Ltd., State Trading Corporation of Bhutan Ltd. and Royal Insurance Corporation of Bhutan Ltd., which in the process contributed tremendously to the growth of the capital market.

Today, the number of shareholders has significantly grown to 15,800. Except few, most of the listed companies have paid comparatively high returns through dividends and capital gains in the market, which after all is what matters. The market capitalization of Nu.393 million during inception of the RSEB has now grown substantially to Nu.4,300 million of 15 listed companies.

Recently, the RGOB has already approved the Policy on Foreign Direct Investment in Bhutan and is currently in the process of developing the FDI legislations. The

capital market therefore, has a foreseeable future to play greater roles as the investment vehicle in developing the economy of the country.

This brochure is intended to give an insight and overview of the steps and procedures of the RSEB while buying and selling shares in the market. Many investors do not possess adequate knowledge to take informed decisions. Through such ready-made questions and answers it is our utmost aspiration to stimulate and promote the public awareness in the country and is hoped that the brochure will be immensely beneficial to any investor.

Introducing the Stock Market

What is a Stock market?

A Stock market is a place where stocks and shares can be bought or sold. In other words, it provides a venue to convert Securities into money or vice versa.

What is a share?

A share of stock represents a part ownership of a company. For example, if you buy 10,000 shares in a company that has issued one million shares, you own one percent of that company.

What are Securities?

Securities are any Financial Instruments that are available for trade on a Stock Exchange. It can be of equity and debt securities.

What are ordinary shares?

Ordinary shares are the most common types of share and holders of ordinary shares have the right to share in the profits of the company after preference shares have been paid their dividend. Holders of ordinary shares are paid dividends that vary according to the profitability of the company and the recommendation of the company's directors. Should a company be wound up, its ordinary shareholders will receive payoffs only after all the other creditors, including unsecured creditors, have been paid.

What is scrip?

Scrip is a certificate representing shares in material form.

What are scrip-less shares?

Scripless shares are shares owned and held in a securities account in book entry form. There is no physical share certificate issued by the company, which is called as scripless or dematerialized shares. In Bhutan, some physical shares are now held by the Central Depository (CD), which updates the book entry records of the beneficial owners after each transaction. The CD debits or credits to your personal CD Securities Account after each share transaction you make. Instead of share certificate the broker gives the clients with a "Trade Confirmation" as evidence of the ownership of the shares bought or sold.

Do all companies issue scrip-less shares?

All new shares issued in the Bhutanese Capital market are scripless. However, those companies established prior to the establishment of the RSEB have issued individual certificates in the past. The CD has already collected collateral scrips held by the Financial Institutions. BDL, DPCL, DSML, STCBL, BPCL, PCAL and BNB are listed companies with scripless system. Amongst the companies which have issued share certificate to public such as DSCL, RICB & PCAL, BCCL, BTCL has dematerialised their scrips and few are in the process. Above all, the Companies Act of the Kingdom of Bhutan 2000 does not allow the listed companies to issue share certificates.

Why scripless trading?

Rapid growth in the number of shares traded on stock markets world-wide in recent years has made it difficult to keep up with transactions using traditional methods of delivering physical shares to buyers. Computerised transfer of shares in many stock markets, including Bhutan, now means transactions are recorded accurately and almost instantaneously. Shareowners no longer have to hold physical shares to prove ownership. The Exchange and the Brokerage can easily trace out the evidence in the record, should there be any discrepancies.

What is a Central Depository?

The Central Depository is the division of the Royal Securities Exchange of Bhutan Ltd. that registers the securities of shareholders in its book entry records. Physical share Certificate of a seller is collected and kept in the custody of the depository at the time of selling or for the purpose safe keeping.

What is the Royal Securities Exchange of Bhutan Ltd.?

The Royal Securities Exchange of Bhutan Ltd.(RSEB) is a Quasi-Public organisation responsible for organising the stock market in Bhutan. It ensures that there is an organized and regulated place for buying and selling of Shares.

Only the brokers who are accredited members of the RSEB can trade shares on the Exchange on behalf of their clients. The RSEB regulates and watch over the activities of the Brokers.

Can I see the Stock Exchange at work?

The RSEB provides the trading floor where the trading system is fully computerised to provide fast and efficient trade execution. The brokers through their respective terminals on the Exchange floor do all buying and selling activities. All buy and sell orders can be seen on the computer trading screen of the RSEB.

Where are shares traded?

The shares are traded at the Trading floor of the RSEB for the listed Companies, through an automated trading system.

Do I need to ask the Company to transfer the purchased shares in my name?

No, the CD will update the new beneficial owners in the company's register. However, the ownership for non-commercial transactions like gift and inheritance within the immediate family members are transferred by the RSEB. The request must be accompanied by court's verification, original trade confirmation/ certificate and a transfer fee calculated at 1% of face value times number of shares.

How do companies obtain listing at the RSEB?

To obtain listing on the Exchange, companies must have: -

- a satisfactory track record
- a healthy financial position
- directors of good standing
- at least 25 percent of its issued and paid up capital must be in the hands of at least 25 shareholders
- a paid up capital of at least Nu.5 million.

Buying and selling of shares

How can I buy or sell shares?

As an investor you need to have a trading account with a broker to buy or sell shares. Therefore, you must first contact a broker. You cannot buy shares if there is no money in your account and cannot sell if you do not have shares – in other words “short selling” is forbidden or not allowed.

What is a Broker?

The broker is the intermediary between the investor and the stock market who is paid a commission or brokerage fee for his services. He is trained by the RSEB and licensed by the RMA.

What is a brokerage fee?

The RSEB has set the following scale of the brokerage fees payable for transactions in Ngultrum.

**Amount Range Commission Rate
Commission Chargable**

The minimum amount of commission to be charged of all trades executed by a member, except those executed for the member's own proprietary account, shall be as follows.

- a) 2 percent of the first Ngultrum 20,000.00 principal amount of the transaction, with a minimum charge of Ngultrum 25.00.
- b) 1.5 percent of the next Ngultrum 80,000.00 principal amount of the transaction.
- c) 1 percent of the next Ngultrum 100,000.00 principal amount of the transaction; and
- d) the amount of commission to be charged on the principal amount of the transaction in excess of Ngultrum 200,000.00 is freely negotiable between the member and the client.

The minimum commission may be revised by the Board in accordance with rule 8.04.

However, this commission charged by the brokerage firms to the clients were liberalised by the Exchange and kept up to the brokerage firms in order to have more competition among the firms.

How can I find a broker?

There are four Brokerage firms licensed by the RMA, which are the subsidiary firms of the four Financial Institutions and incorporated under the companies Act of the Kingdom 2000.

1. BOB Securities Ltd.
Bank of Bhutan Ltd.
2. BNB Securities Ltd.
Bhutan National Bank Ltd.
3. RICB Securities Ltd
Royal Insurance Corporation of Bhutan Ltd..
4. Drock Securities Ltd.
Bhutan Development Finance Corporation of Bhutan Ltd.

Your relationship with each broker is governed by the terms set out in the client – broker agreement.

Why do I need to have an account with the CD?

In order to trace the actual beneficial owners by the CD you must have either a direct account with the CD or a sub account with the brokers.

How do I open a CD Securities Account?

The existing system requires you to open trading account with a broker. Once the transaction are done the book entry system automatically adjust traded accounts. Further, the upcoming CD system plans to maintain the direct accounts of the individual clients, which does not exist at present.

How can I pay for the shares I buy?

You can pay by cash or cheque to the Broker, once he confirms that your buy order is filled. Money being collected by the Broker is deposited in the “consolidated client account” and pays to the opposite side (seller) within 3 business days after the trade date (T+3)

How are prices of share determined?

Market forces of supply and demand determine the daily share prices in the stock market. If a share is in demand, the share price will rise. Conversely, the share price will fall when more people sell the share. Economic policies and political events are other factors influencing the share price, both at home and abroad.

Can I tell my broker at which price I want to sell or buy shares?

Yes. The price of the shares is based on the market forces of supply and demand. There may not be a market at what price you want to buy or sell. For example, should you make a buy order for share X at Nu.2 when the best bid (buy price) for that share is Nu.2.20, you may not find a seller who will sell at your price. Conversely, should you want to sell share Y at Nu.3.50 when the best ask (sell price) is Nu.2.80, you

are unlikely to find a buyer who will buy at your price. Unless the prices match there cannot be any trade.

What happens when nobody wants to buy them?

If the trading system cannot find an immediate match for your order, that order will be automatically stored and held according to price and time priority in the computer until the next trading day.

You can request the issuing company to buy back the shares, as under the buy back law of the Companies Act, if nobody in the market wants to buy at all.

Is there a tax on dividends?

Yes. Dividends are taxed at source for PIT if dividend value exceeds Nu.10,000/-.

Will I lose money in investing in shares?

There are risks and rewards involved in any share transaction. If you decide to buy shares, it is very important to remember that their value can fall as well as rise. Risks are correlated with probability of returns. Different securities carry different risk return profiles. Therefore invest with knowledge.

When does trading take place on the RSEB?

For the time being trading sessions are held on Tuesdays and Fridays at 11.00 AM. There is no trading on weekends and public holidays.

How does a share transaction take place?

The Trader (one who executes your order) will place all your buy/sell orders in the RSEB Computer system. The Computerised trading system matches 'Buy' and 'Sell' orders keeping a record of every stock traded. The matched orders will be executed immediately at 11.00 AM on trading day and confirmed to the broker through a clearing sheet.

What is the settlement period?

The settlement period is within 3 business days after the trade day (T+3). This means that you must pay for your purchase by no later than the trading day, so that the broker can settle with opposite clients within settlement cycle (T+3) of the Exchange.

Whether it is scriptless or with scrips transaction the shares will then be credited into your CD Account on the 3rd day itself and simultaneously money to the opposite client.

What happens if I fail to deliver shares I have sold?

Strictly, the investor must have the required shares in his account while putting the sell order. As per rules, short selling or sales without shares are not allowed in Bhutan. In case the Brokers do short selling, he will have to settle for the due shares from the other brokers at whatever cost within T+3. There are also penalties he has to bear to the Exchange.

How can I find out how much my shares are worth?

Immediate information on stock market activities such as last sale price, price and volumes of shares being traded, are published in Kuensel and also are available from the brokers or the RSEB.

What information is given on the RSEB trading screen?

A lot of information can be obtained through the RSEB trading screen.

On individual stocks.

- The days opening price.
- All buy and sell orders in the queue.
- The last traded price
- The highest transacted price
- The lowest transacted price & the volume traded.
- The last sale price
- Who bought or who sold through which brokers:-

How can I keep track of the shares I own?

A contract statement called "Trade Confirmation" which give details of your trades, shall be mailed to you by the brokers not later than three business days after trade date. Shareholders can also trace out from the Central depository their share-holdings.

Can I get more up-to-date information on the share?

Yes, you can check with the CD and the Broker for information on your latest shareholdings, statement of your share portfolio up to the end of the previous day's trading and enquire any allotments from new issues.

Further, companies are required to inform their shareholders regularly about :

- Major Developments in the company and their plans for the future.
- Provide all shareholders copies of the Company's annual report and interim results.
- Invite shareholders to attend the company's annual general meeting and any extraordinary general meeting.

While different classes of shareholders have different rights, as an ordinary shareholder you have a right to vote at meetings, as well as make statements and ask questions. Some classes of shares, such as preference shares, are usually non-voting.

What is a dividend?

A dividend is that part of a company's Profit after Tax distributed to shareholders.

When are dividends distributed?

A Company pays dividends at the end of its financial year (called a final dividend) i.e. if the company has made enough profits. Only few companies have paid interim dividends.

What is a bonus issue?

A bonus issue is a process whereby money from a company's reserves is converted into issued capital, which is then distributed to shareholders as new shares, in proportion to their original holdings.

What is a rights issue?

A rights issue is an invitation from a company to its existing shareholders to purchase additional shares proportionate to their existing holding in the company.

What else do I benefit being an investor?

As a shareholder you may receive any dividends, have capital appreciation, bonus, can participate in rights issues and get any other benefits given by the company.

How do I know if I will receive any of these?

Upon disclosure of record date by the companies, the RSEB will sort out the entitlements by way of declaring cum (with) or Ex- (without) dividend. These terms will tell you whether your shares come with or without these entitlements. The latest lists of shareholder are provided to the company by the Central Depository, before issuing dividend by the Company.

How do I receive the Dividend payments?

The company directly issues dividend check in your favour at present. However in the near future the companies may issue one check to the Central Depository which will then issue checks you. You will receive your check or payments from the broker who holds your share on your behalf.

Which are the companies whose securities can be traded through the RSEB?

There are 20 companies listed on the RSEB can trade their shares through the RSEB. They are :-

1. BBCL
2. BBPL
3. BCCL
4. BDL
5. BFAL
6. BNB
7. BPCL
8. BTCL
9. DPCL
10. DSCL
11. DSML
12. DPOP
13. EBCC
14. PCAL
15. RICB
16. STCB
17. BTL
18. DWAL
19. JMCL
20. DFAL

How can I obtain more information on Investment in shares?

For more information about investment, please contact the Brokers or the Royal Securities Exchange of Bhutan Limited, at Post Box # 742, Thimphu, Telephone # 02-323995/324296, Fax # 02-323849, email : rseb@druknet.bt

Abbreviations

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1. BBPL - Bhutan Board Products Ltd.
 2. BCCL - Bhutan Carbide and Chemicals Ltd.
 3. PCAL - Penden Cement Authority Ltd.
 4. BFAL - Bhutan Ferro Alloys Ltd.
 5. BTCL - Bhutan Tourism Corporation Ltd.
 6. RICB - Royal Insurance Corporation of Bhutan Ltd.
 7. BNB - Bhutan National Bank Ltd.
 8. DPCL - Druk Petroleum Corporation Ltd.
 9. BDL - Bhutan Dairy Ltd.
 10. DSML - Druk Stones and Mineral Export Co. Ltd.

 11. STCB - State Trading Corporation of Bhutan Ltd.
 12. DSCL - Druk Satair Corporation Ltd.
 13. BPCL - Bhutan Polymers Co. Ltd.
 14. DPOP - Druk Plaster and Chemicals Ltd.
 15. BBCL - Bhutan Beverages Co. Ltd.
 16. EBCC - S.D Eastern Bhutan Coal Company Ltd.
 17. DWAL - Druk Wang Alloys Ltd.
 18. KCL - Kuensel Corporation Ltd.
 19. BTL - Bhutan Times Ltd.
 20. JMCL - Jigme Mining Corporation Ltd.
 21. DFAL - Druk Ferro Alloys Ltd.