nairobi securities exchange

Discover Opportunity

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What is a Securities Market?

A public market where trading of various financial instruments takes place.

The term Securities Market refers to an organized trading platform that has an objective pricing mechanism that is free and fair to all participants.

What is the Nairobi Securities Exchange (NSE)?

A securities market that provides an organized trading platform for buying and selling of financial instruments (e.g shares, bonds, real estate investment trusts etc.) of publicly listed companies.

NSE is incorporated in Kenya as a company limited by shares and has the responsibility of developing the securities market and regulating trading activities.

Mission

"To provide a world class trading facility"

Our Vision

"To be a leading securities exchange in Africa, with a global reach"

Our Core values

I. Ethics
II. Integrity
III. Confidentiality
IV. Innovation
V. Excellence

NSE Role

NSE Does
List securities after their approval by the Capital Markets Authority (CMA)
Provide the trading function/platform of the market through the Automated Trading System
Conduct real time surveillance to detect market manipulation, insider trading, breaches of continuous disclosure and any other illegal activity that may impact on trading
Promote good governance and reporting practices
Facilitate the dissemination of information on the market to the investors e.g. price lists, material announcements, and other substantial shareholder notices.

What is the importance of the Securities Market to the Economy?

- It encourages a savings and investments culture, by providing an avenue for idle money and savings in the Economy to be put into productive use.
- It brings together borrowers and lenders of money at a low cost. The investors become lenders and expect a financial reward for their investment. The borrowers (issuers) borrow and promise to pay the lenders a profit.
- It promotes financial transparency amongst listed companies by requiring companies to give periodic financial reports of their performance
- It provides the public with daily market reports to ensure that investors know the worth of their assets at all times.
- It provides shareholders with various financial solutions as shares and bonds are accepted guarantees for Bank and co-operative societies loans.
- It enables the government, companies, cooperative societies and other organizations to raise money to expand their businesses, create employment and generally helping the economy to grow.

Advantages of investing at the NSE

- NSE is a fair market place
- Shares bought or sold at the exchange are liquid
- Securities prices are fairly determined though forces of demand and supply
- Easy access and exit
- There is continuous reporting of securities prices so an investor is up to date on the status of his/her investment
- There is a variety of companies in which one can invest in
- Shares of most companies at the exchange pay regular dividends
- Full and accurate information is available on the listed companies that one is interested in investing in
- NSE provides an avenue through which companies can access capital for growth and expansion
- There are strict regulations for those who buy and sell securities at the Securities Exchange.

Our Products

Currently we trade in:

1. Shares
2. Bonds
3. Real estate investment trusts (REITs)
4. Exchange Traded Funds (ETFs)
5. Derivatives

What is a share?

Is a piece of ownership of a company or enterprise. By buying a share you become an investor and thereby, an owner of a piece of the company's profit or losses.

What are the benefits of owning shares?

- May be used as a guarantee for borrowing loans from lenders like banks and cooperative societies.
- It's a way of saving money for the future.
- A relatively easy and quick asset to buy and sell.
- Can generate a profit by buying at low prices and selling at high prices.
- A solution to increase financial activity and economic growth.

Who can own shares?

Anyone can own shares as long as they have a CDS account

Qualities of a good share

- Regular and generous dividends
- The company is managed productively, transparently and is accountable to shareholders
- No wastage in the use of resources
- Company respects its shareholders and their opinions
- Easy to buy and sell quickly in the market
- Company abides by all rules, regulations and laws

What is a bond?

- It's a loan between a borrower and a lender.
- The borrower promises to pay the lender some interest quarterly, or semiannually at some date in the future
- The borrower also promises to repay the initial money invested by the lender
- The lender lends and expects to make a profit in the form of interest that is usually paid quarterly or semi-annually.

What are the benefits of buying bonds?

- A bond is a very convenient asset to own;
- Accepted guarantee for many types of loans by cooperatives societies and banks;
- A stable source of income;
- A good way to manage money to meet specific needs.

Who can buy bonds?

Anyone with a CDS account can buy bonds

Types of bonds provided for in Kenya

NSE provides a bond market for trading:
Government bonds- These are bonds issued by the government e.g. treasury bonds, Treasury bills, M-Akiba retail bond
Corporate bonds-these are bonds issued by corporates

What is the difference between a bondholder and a shareholder?

A bondholder

- Is a lender to a company.
- Expects a profit in form of an interest at a specific agreed date in future.
- Does not vote or participate in the management of the company.
- Invests to earn a reasonable return at low risk.
- A watchdog of the borrowers' activities.

A Shareholder

- Is a lender and also an owner.
- Expects a profit in form of a dividend, gain in share price, bonuses and cheaper shares (through Rights Issues).
- Attends Annual General Meetings, gives opinions about the company and votes, thereby participating in the running of the company.
- Invests expecting the highest return possible.
- Accepts risk as part of investing in any business.
- A watchdog of the management and company's activities.
- Has the opportunity to influence the a company's performance.

The process of buying shares and bonds

1. The first step is to decide which shares to invest in.
The investor ensures that the company selected is strong or growing.

Ways under which an investor can select appropriate companies include:-

Fundamental analysis;

This is a method in which you study the company's current management and position in the market to make a decision.

Technical analysis;

This is a method which is based on statistical analysis such as graphs and charts, in which you identify the company's trends and invest accordingly.

2. After selecting the company to invest in, you need to select a stockbroker or investment bank to use.

A stock broker or investment bank are the only ones who can make an order to buy or sell securities.

When one gives a stockbroker or investment bank an order it is relayed to an ATS (Automated Trading System) dealer.
ATS dealers do all the actual buying and selling of securities.

Opening a CDSC Account

What is the CDSC?

CDSC stands for **Central Depository and Settlement Corporation.**
It operates and manages the Central Depository System (CDS) in Kenya for securities listed on the Nairobi Securities Exchange

The Central Depository System

It can be compared to a bank where the records of all shareholding of listed companies are kept. It's a database where investors can open accounts and debit them with shares for purposes of trading.

What is a CDSC Account?

This is an electronic account operated by the CDSC in which securities are held in electronic accounts opened by shareholders/ bondholders. It facilitates clearing and settlement of all financial instruments traded through the Nairobi Securities Exchange in a safer, faster and easier manner.

How do I open a CDS Account?

- It may be opened with any of the licensed Central Depository Agents (CDA).
- A CDA is a stock broker, an investment Bank or a Custodian Bank who has been authorized by the CDSC to open CDS accounts on their behalf.

- You will complete and sign a CDS 1 Form to open and maintain a securities account
- You will need to provide 2 recently taken passport size photo graphs, your original National ID or passport.
- In the case of a company, you need the original certificate of incorporation, and if you are an organization registered in any other way you need the certificate of registration.
- Directors of a company will also need to provide their national ID cards and passport size photographs.
- You will hand in and sign the form in the presence of your Central Depository Agent
- You will be left with the duplicate of the account opening form for your records
- Your CDA will provide you with your CDS account number which should be kept confidential
- You are free to open CDS accounts with different stockbrokers
- You can migrate from one broker to another by completing and signing the securities transfer form. This form is available from your broker and must be signed by your current CDA and your new CDA.

Market commission-Transaction costs breakdown

Costs to Investors - Transaction Levy Breakdown (% of the value of an Equity transaction)

0.12%	0.12%	NSE Transaction Levy
0.01%	0.01%	NSE Investor Compensation Fund
0.12%	0.12%	CMA Transaction Levy
0.01%	0.01%	CMA Investor Compensation Fund
0.06%	0.06%	CDSC Transaction Levy
1.68%	1.78%	Stockbroker Commission
2.00%	2.10%	

Note: The highest commission chargeable is 1.78%, applicable to amounts up to Kshs. 100,000.00; above Kshs. 100,000.00, commissions are fully negotiable, subject to a maximum of 1.5%.

Stockbrokerage commission shall be limited to Kshs. 100 for odd lot transactions up to Kshs 3000 excluding statutory fees. Odd lot transactions in excess of Kshs. 3000 shall be charged a commission at the prescribed rate of 1.8% excluding statutory fees.

Costs to Investors - Transaction Levy Breakdown (% of the value of Corporate and Treasury Bond transactions)
The only commission levied on Bonds is the Stockbrokerage commission: Minimum is Kshs. 500.00.

A 0.0625% commission of the value of the transaction is chargeable on amounts up to Kshs. 50.0 million. Commissions for amounts above Kshs. 50.0 million are fully negotiable.

What is a Real Estate Investment Trust (REIT)

A REIT is a regulated investment vehicle that enables persons to collectively contribute money or money's worth as consideration for the acquisition of rights or interests in a trust that is divided into units with the intention of earning profits or income from real estate as beneficiaries of the trust.

Features of REITS

- Listed REITS trade publicly on a securities exchange
- Unrestricted REITS may be sold in an Initial Public Offer (IPO)
- Are made up of a pool of money accumulated from many investors looking for a diversified real estate portfolio
- Externally or internally managed

What types of REITS are provided for in Kenya?

There are 2 types of REITS; D-REITS and I-REITS.

- Income real estate investment trust (I-REIT): REIT that primarily derives its revenues from property rentals.
- Development Real Estate Investment Trust (D-REIT) A REIT involved in development and construction for sale or/and rental.
- A D-REIT subject to compliance with some regulations may convert to an I-REIT

Can a D-REIT convert to an I-REIT

Yes, it may convert to an I-REIT after the property has been developed.

Who is eligible to invest in REITS?

There is no regulatory minimum amount of investments for investors investing in unrestricted I-REITS as this is set by the issuer. However, a minimum investment of Ksh.5 million required for an investor to qualify to be categorized as a professional investor for purposes of investing in a D-REIT or a restricted I-REIT.

Benefits of investing in REITs

Diversification: REITS traded at the exchange give investors an efficient way to diversify their investments to reduce risk and increase long term returns traded.

Transparency: REITS provide operating transparency, meaning that listed REITS are registered and regulated by the securities markets regulators and adhere to high standards of corporate governance, financial reporting and information disclosure.

Liquidity: traded REITS are liquid investments which can be sold readily on the open market to raise money quickly.

Consistent income: I-REITS are by law required to pay out at least 80% of its income to their unit holders in the form the form of distribution. Consequently, they tend to generate a stable and consistent income stream for investors.

Access to new capital: REITS provide a platform for property developers and owners to raise capital.

Low cost exposure to real estate: REITS offer access to the property market with professional investment management at a relatively low transaction and management cost.

Investment performance: REITS offer strong long-term total returns. Adding REITS to an investment portfolio can have an impact on its long-term stability and returns.

Exchange Traded Funds

What is an exchange-traded fund (ETF)?

An ETF is a listed investment product, which tracks the performance of a particular index (e.g. NSE 20, NSE 25) or "basket" of shares, bonds, money market instruments or a single commodity. These are known as underlying securities or assets. ETF are traded on an exchange just like an ordinary share and the price of a particular ETF will be determined by the demand and supply of the ETF. An ETF can be a domestic or offshore product

Types of ETFS

Index ETFS- Most ETFs are index funds that attempt to replicate the performance of a specific index. Indexes may be based on stocks, bonds, commodities, or currencies. An index fund seeks to track the performance of an index by holding in its portfolio either the contents of the index or a representative sample of the securities in the index.

Bond ETFs– They invest in bonds. They thrive during economic recessions because investors pull their money out of the stock market and into bonds (for example, government treasury bonds or those issued by companies regarded as financially stable).

Commodity ETFs (ETCs) - Invest in commodities such as precious metal, agricultural products and hydrocarbons.

Stock ETFs–This was the first and most popular ETFs. This type of ETF owns funds from other stocks

Benefits of ETFs

Diversification – ETF give investors exposure to a wide variety of securities or assets, avoiding the risk of "putting all your eggs in one basket".
Regulation – ETF are well regulated by both the Nairobi Securities Exchange (NSE) and Capital Markets Authority (CMA). Investors therefore have added protection against unjust treatment.
Cash flow distributions (dividends) – Even though owning an ETF does not give direct ownership of the underlying securities of the index being tracked, owners of an ETF are still eligible to receive dividends should the securities in the tracking index pay dividends.
Liquidity – Buying or selling ETF can be done quickly and at a low cost at the NSE.
Tax – ETF are exempt from Capital Gains Tax upon sale of the ETF.
Hassle free investment – Investors can gain exposure to a wide variety of securities or assets without having to buy each of the underlying constituents individually, conducting extensive research, nor actively managing the underlying securities
Transparency- ETFs disclose their holdings on a daily basis, thereby enabling investors to know exactly what stocks or underlying assets they hold, what the value is and to make more informed investment decisions
Flexibility- Like an equity market, ETFs trade throughout market hours.

Notes

Who can be an ETF Issuer?
Any legal person can issue ETFS
Who can buy an ETF?
ETFs are used by both professional and private investors wishing to gain exposure to different sectors, asset classes, types of Shares, Commodities or Government Bonds. They are the ideal investment vehicle for those who are new to the world of investing.
What are the fees charged for an ETF?
For a start, ETFs' fees charged shall be equivalent to charges in the equities markets subject to revision by CMA notification. All fees shall be fully disclosed in the issuance/introduction documentation.
How are ETFS listed at the NSE?
ETFs shall have their own market sub-segment as well as their own international security identification numbers (ISIN). Units in an exchange traded fund shall be listed in Kenya Shillings.
How many units can I buy?
You can buy a minimum of 100 units. This is the same as Equities.
Where and how do I buy ETFs?
You can buy them as you would any stock, at any brokerage firm

How is an ETF different from a mutual fund?

ETFs offer investors intraday liquidity and can be bought and sold with a brokerage account. Mutual funds are priced at the end of the day and cannot be bought or sold during regular trading hours. Also, ETFs are traded on a stock exchange, whereas mutual funds are bought and sold directly with the fund company or through a mutual fund trading platform.

What is the difference between ETFs and Closed End Funds?

Sometimes the two are confused since they both sell on stock exchanges. An ETF follows a designated index or benchmark very closely and can grow or shrink with investor flows. A closed end fund tries to beat a target index by actively selecting individual stocks and may deviate significantly from the index. Closed end funds are closed to new money, so investors buy and sell shares on the open market. ETF management fees tend to be far cheaper

Some things to consider

Fees – Besides the price of the ETF itself, there is a once off trading fee for the transaction when the ETF is bought or sold.
Share ownership rights – Owning an ETF does not give the investor the right to vote at Annual General Meetings (AGMs) of the underlying securities, as you own a portion (unit) in the fund and not the underlying securities themselves.

Exchange Traded Price – Bear in mind that the price of an ETF will vary slightly from the Net Asset Value (NAV) of the underlying fund. This difference is attributable to all applicable fees (e.g. management fees) and market forces such as demand and supply.

Market Risk – ETF prices fluctuate, as do the prices of its underlying securities. However, because of the advantage of diversification, the risk of losing money is lowered.

What is a derivative

It is a financial instrument that derives its value from the value or return of an underlying security or asset.

The underlying assets can be securities, commodities, currencies,, precious metals, bonds, stocks, stock indices etc.

Types of derivatives

The four most commonly traded derivatives are:

- Forwards
- Futures
- Options
- Swaps

What are forwards

- A forward is a customized contract between two parties to trade a given underlying asset or financial instrument on a specified future date at a price agreed upon today.
- The contract is custom designed and hence unique in terms of contract size, expiration date and the asset type and quality.
- The contract has to be settled by delivery of the asset on expiration date

What are futures?

- A Futures contract is a contractual agreement made through an Exchange, to buy or sell a particular financial instrument at a pre-determined price in the future.
- Futures contracts detail the quality and quantity of the underlying assets.
- They are standardized to facilitate trading on a Futures Exchange.
- Some Futures contracts may call for physical delivery of the asset, while others are settled in cash.

Difference between Forward contracts and Futures contracts

Futures	Forwards
Traded on an organized exchange	Traded over the counter
Contract terms specified e.g. price, quantity, date	Contract terms customized on a client by client basis
Requires initial and variation margin payments	Margin payments not required
Primary form of risk management is initial and variation margin and daily mark to market	No cash flows until settlement

What are margin payments

Initial margin is a minimum (good faith) deposit required from an investor for the duration of an open contract

An investor is also required to deposit a variation margin which is equal to the difference in the value of the Derivative contract from day to day.

Options

Are contracts between two parties; a buyer and a seller that give the buyer/seller the right but not an obligation to buy/sell a given quantity of an underlying asset at a given price on or before a given future date.

They enable you to adapt or adjust your position according to any position that arises.

Swaps

A swap is a derivative contract through which two parties exchange financial instruments. They are not traded on exchanges; rather, they are agreements between institutions and business people.

Benefits of investing in derivatives

- Much more flexible than the underlying instrument- while the value is still based on the price of the underlying assets.
- Insures against adverse price changes because the price is specified
- Cheap to transact- saves on transaction costs
- The transaction is quick and easier to complete than a number of individual transactions
- Hedging of risk i.e. risk can be transferred from those who don't want it to those who want it

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