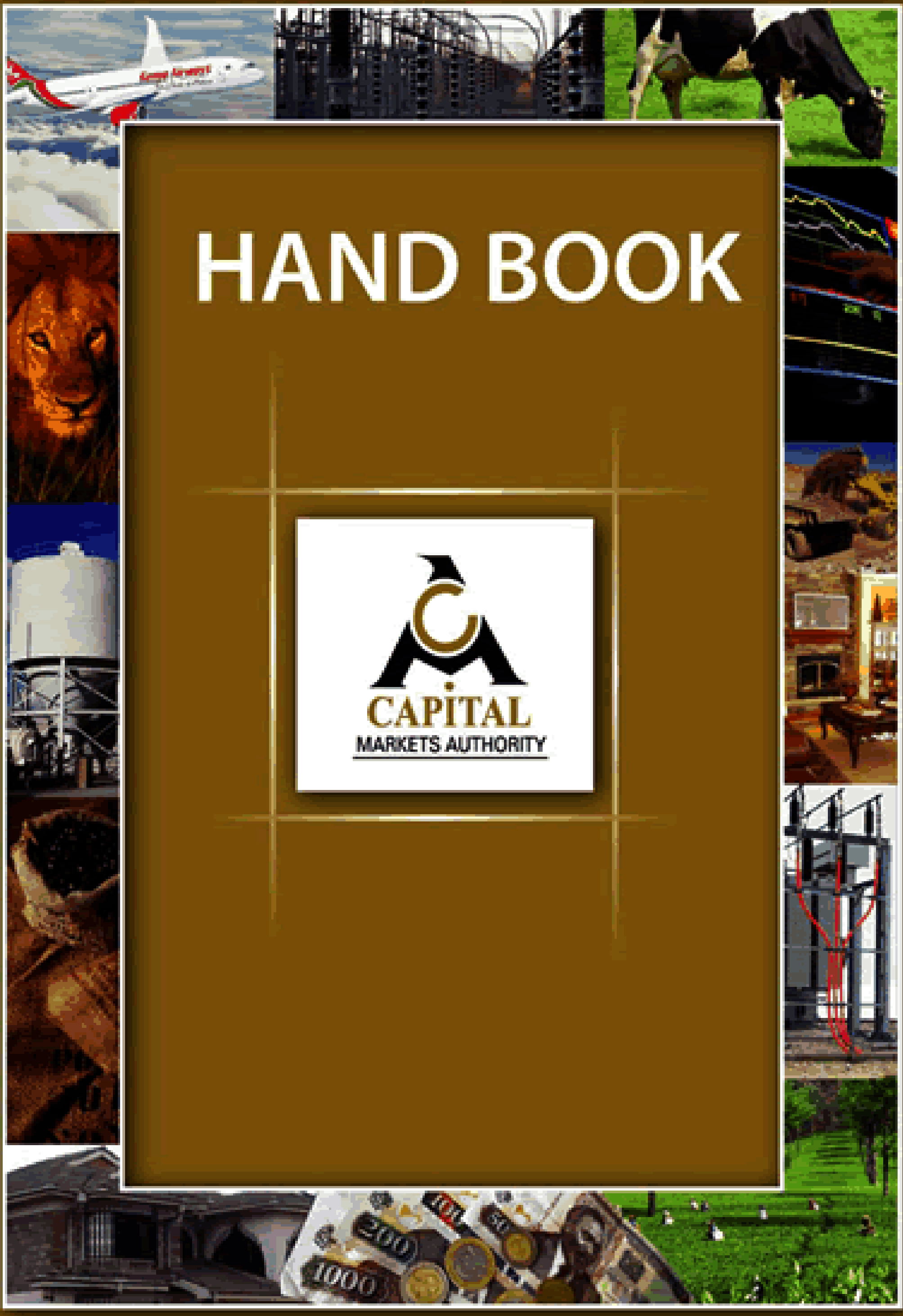

HAND BOOK

CAPITAL
MARKETS AUTHORITY

FORWARD

This CMA Handbook is the first of its kind to be produced by the Capital Markets Authority. In this handbook we have attempted to define in simple terms some of the capital markets concepts and procedures with a view to giving the reader an easy and enjoyable readership. We have also given a glance view of the Authority's background as well the mission, objectives, vision and core values. This is meant to bring out clearly the role of the Authority in regulating and supervising the capital markets industry in Kenya.

As a regulatory institution it is important that our regulatory framework, which we use to ensure that there is orderliness, fairness, efficiency and security in the capital markets industry is understood by both the current and potential players in the capital markets. We have therefore elaborated the same in this hand book. Again, in this Handbook we have also defined the intermediaries that have been licensed by the Authority to offer various services within the industry and the requirements for setting them up. We have also mentioned the range of products that are offered within our market and also the requirements for issuing them.

Corporate Governance the world over has become an increasingly important aspect in the corporate scene. The running of organizations especially those that area listed at the stock exchanges has become of great concern both to regulators and to the general public. The Authority recognizes this fact, and in this Handbook therefore, we have highlighted some of the critical issues that need to be observed in adherence to corporate governance by those responsible in the day to day running of organizations as well as the rights and obligations of the shareholder.

This Handbook is particularly meant to address the needs of both beginners in the capital markets industry as well as those of other interested parties. It is also important to point out that the development of this Handbook is in recognition of the fact that we, at the Capital Markets Authority have a great responsibility of educating the public on issues of the capital markets industry. Indeed this hand book is part of our investor education and awareness initiatives.

In conclusion we want to say that the capital markets industry is a knowledge based industry, and therefore the provision of adequate and accurate information is critical to deepening the capital markets; a fact, which we fully recognize at the Authority. We therefore hope that this Handbook will provide you with simple understanding of some of the capital markets issues and give you the necessary head-start as you participate in these markets.

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CHAPTER 1

THE CAPITAL MARKETS AUTHORITY

Definition
The Capital Markets Authority (CMA) was set up in 1989 through an Act of Parliament Cap. 485A Laws of Kenya. The CMA, which is a body corporate with perpetual succession and a common seal, was constituted and inaugurated in 1990. The CMA is a statutory agency charged with the prime responsibility of regulating the development of orderly, fair and efficient capital markets in Kenya. It licenses and supervises market intermediaries, conducts on-site and off-site market surveillance and enforces compliance, and promotes market integrity and investor confidence.

Establishment of the Capital Markets Authority
In the 1980s the Government of Kenya realized the need to design and implement policy reforms to foster sustainable economic development with an efficient and stable financial system. In particular, it set out to enhance the role of the private sector in the economy, reduce the demands of public enterprises on the exchequer, rationalize the operations of the public enterprise sector to broaden the base of ownership and enhance capital market development. It had become evident that the commercial banks could not support and sustain a desirable economic development because they could not offer the necessary long-term credit.

In 1984, a study on the Development of Money and Capital Markets in Kenya was jointly undertaken by the Central Bank of Kenya and the International Finance Corporation with the objectives of making recommendations on measures that would ensure active development and strengthening of the financial sector. This became a blueprint for structural reforms in the financial markets. The Government further re-affirmed its commitment to the creation of a regulatory body for the capital markets in the 1986 Sessional Paper on "Economic Management of Renewed Growth".

In November 1988, the Government set up Capital Markets Development Advisory Council and charged it with the role of working out the necessary modalities including the drafting of a bill to establish the Capital Markets Authority (the Authority).

In November1989, the bill was passed in parliament and subsequently received Presidential assent (The Capital Markets Authority was set up in 1989 through an Act Parliament (Cap 485A, Laws of Kenya). The Authority was eventually constituted in January 1990 and inaugurated on 7th March 1990. The Authority is a body corporate with perpetual succession and a common seal.

Vision
The Vision of the Authority is to be a trusted and professional regulator and promoter of deep and vibrant capital markets in Kenya.

Mission
The mission of the Authority is to facilitate the development of orderly, fair and efficient capital markets in Kenya through effective regulation that encourages innovation and safeguards market integrity.

Core Values
- Integrity
- Transparency
- Accountability
- Responsiveness
- Teamwork
- Innovativeness
- Efficiency

• Fairness

Principle objectives of the Authority

The principle objectives of the Authority are:

(a) The development of all aspects of the capital markets with particular emphasis on the removal of impediments to, and the creation of incentives for longer term investments in, productive activities;

(b) To facilitate the existence of a nationwide system of stock market and brokerage services so as to enable wider participation of the general public in stock market.

(c) To create, maintain and regulate a market in which securities can be issued and traded in an orderly, fair, and efficient manner, through the implementation of a system in which the market participants regulate themselves to the maximum practicable extent;

(d) To protect investor interests;

(e) To operate a compensation fund to protect investors from financial loss arising from the failure of a licensed broker or dealer to meet his contractual obligations; and

(f) To develop a framework to facilitate the use of electronic commerce for the development of capital markets in Kenya.

Composition of the Board

The board of directors of the Authority consists of -

(a) A Chairman appointed by the President on the recommendation of the Minister of Finance;
(b) Six other members appointed by the Minister;
(c) The Permanent Secretary to the Treasury or a person deputed by him;
(d) The Governor of the Central Bank of Kenya or a person deputed by him;
(e) The Attorney General or a person deputed by him;
(f) The Chief Executive of the Authority, who serves for a four-year term and is eligible for re-appointment for four-year term.

The chairman and the six members are persons who have experience and expertise in legal, financial, banking, accounting, economics or insurance matters, serve for a period of three years and are eligible for re-appointment for another three years.]

The Enabling Legislation

1. The Capital Markets Authority Act,
2. The Central Depositories Act, 2000 (August 2000);
1. The Capital Markets (Collective Investment Schemes) Regulations, 2001
2. The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002
3. The Capital Markets (Licensing Requirements) (General) Regulations, 2002
4. The Capital Markets (Takeovers and Mergers) Regulations, 2002
5. The Capital Markets (Foreign Investors) Regulations, 2002
6. The Capital Markets Tribunal Rules, 2002
7. Guidelines on Corporate Governance Practices by Public Listed Companies
8. Guidelines on the Approval and Registration of Credit Rating Agencies

Note: The Authority has also developed Regulations for Asset Backed Securities and Venture Capital Funds.

LICENSEES

The Authority licenses the following categories of market players:

(a) Securities Exchange (Nairobi Stock Exchange)
(b) Central Depository (the Central Depository and Settlement Corporation)
(c) Investment Banks
(d) Stockbrokers
(e) Dealers
(f) Investment Advisers

(g) Fund Managers
(h) Authorized Securities Dealers
(i) Authorized Depositories
(j) Credit Rating Agencies
(k) Venture Capital Fund

Existing Incentives in the Capital Markets

One of the most critical water-way that policymakers use to facilitate advances in innovation and investments is policy incentives both for corporations and individuals. This is in recognition of the fact that the more money that remains in the hands of the private sector, the more there will be available to investors. Indeed there is arguably a strong correlation between a strong economy and good policy incentives.

In particular studies have shown that economies grow fastest when taxes are low. In an economy that is increasingly dependent on the flow and size of the capital stock, a fiscal system that is hostile to economic growth must be changed. Again globalization of capital markets has continuously forced governments to reduce taxes, in bid to create a more hospitable environment for investors, and lure more capital to their country.

Cognizance to the above, the government of Kenya in consultation with the Capital markets Authority and stakeholders has provided a policy framework for the capital markets, which is largely considered conducive for capital markets development. This is manifest in a wide range of fiscal and other incentives to encourage capital markets activities which include but are not limited to the following:

1. The Minister exempted from income tax interest income accruing from the cash flows of securitized assets. In this case the cash flows managed by the SPV will be earning interest income prior to payment of interest and principal to securities holders, and such income will be exempt from withholding tax. (2006)
2. Minister exempted from income tax interest income accruing from all listed bonds with at least a maturity period of three years. (2006)
3. As part of the measures to ensure such investors access their returns in future as and when they resurface in light of the limitation of Actions Act which restricts access to information after seven years and to minimize fraudulent activities arising from such unclaimed dividends, the Minister amended section 18 of the Capital Markets Act so that that unclaimed dividends outstanding in listed companies for more than seven years is paid to Investor Compensation Fund. (2006)
4. To encourage employers to set up ESOPs and to make such schemes attractive to employees; The Minister directed that as part of employee benefit to only subject to tax the difference between the subscription price and the market value of securities. In this regard for instance, if company X sets up an ESOP and the subscription price is Ksh 30 while the market price is Ksh 40 at the time of granting the option, and the price at exercising the option is say Ksh 100 the then the benefit to employees is Ksh 10 (40-30). As a result the employee benefit will be subject to tax at the time of exercising the option. (2006)
5. To promote listings at the NSE the Minister proposed to extend the deduction of expenditure of a capital nature incurred by a company on legal costs, and other incidental expenses while being processed for listing without raising additional capital. (2006)
6. Effective 1 January 2006 the minister increased the mortgage interest deduction limit by 50% to Kshs. 50, 000 per annum. This change is expected to impact on the demand within the mortgage industry which should precipitate demand for mortgage bonds especially so within the environment of the asset backed securities
7. As an incentive to encourage more investors at the Nairobi Stock Exchange, the Minister proposed that newly listed companies pay corporation tax at a lower rate of 20%, for a period of 5 years, provided these companies offer at least 40% of their shares to the Kenyan public (2005)
8. Securitization based on bankable assets and ability to generate cash has become a viable alternative in most emerging markets, particularly for institutions providing infrastructural services to raise long term capital. In this regard, the Minister proposed to exempt investment income of Special Purpose Vehicles (SPVs) from income tax. This is to encourage institutions providing infrastructural services to set up SPVs

for purposes of issuing asset backed securities. (2005)

9. Foreign investors can now acquire shares freely in the stock market subject to a minimum reserved ratio of 25% for domestic investors in each listed company. (2002)
10. Investment ceiling by retirement benefits schemes in fixed income securities (e.g. bonds and commercial papers) was raised from 15% to 30%. (2002)
11. To encourage savings, collective investment schemes set up by employers on behalf of employees to invest in listed shares, will be exempted from income tax. (2002)
12. Effective 1 January 2003, newly listed companies are to pay a lower corporation tax of 25% (i.e. 5 percentage points lower than the standard corporation tax of 30%) for a period of 5 years following their listing. The new legislation applies to companies that float at least 30% of their issued share capital to the public.(2002)
13. New and expanded share capital by listed companies or those seeking listing exempt from stamp duty (2000/2001)
14. Transfers of assets involved in the issuance of asset-backed securities shall be exempt from stamp duty (2000/2001)
15. Newly listed companies to be taxed at a lower rate of 27% as compared to the standard rate of 30% for a period of three years following the date of listing. This is also dependent on such companies offering at least 20% of the share capital to the public (2001)
16. Companies that apply and are listed shall get a tax amnesty on their past omitted income, provided they make a full disclosure of their assets and liabilities and undertake to pay all their future due taxes (2001)
17. Income accruing to registered collective investment schemes tax-free (1999)
18. Licensed dealers to enjoy tax benefits, as long as they turn their portfolios within 24 months and according to laid down guidelines (1999)
19. To encourage the transfer of technology and skills, foreign investors allowed to acquire up to 49% of local brokerage firms; and up to 70% of local fund management companies (1999)
20. Investments by Insurance companies on listed securities exempted from tax arising out of capital gains on sale of shares (1996/97)
21. Expenses incurred by companies in having their financial instruments rated by an independent rating agency are tax deductible. (1997/98)
22. Registered venture capital funds have been accorded major tax incentives including tax holidays of up to ten years on the funds income (1997/98)
23. Policy decision to facilitate the participation of foreign investors in listed securities subject to a maximum of 40% of the share capital in aggregate and 5% for individual investors, or such higher amount held by foreign investors at the time of promulgation of the regulation (1995/96)
24. Reduction of withholding tax applicable to dividend income arising from investment on listed securities for both local and foreign investors. Foreign 10%; Local 10% to7.5% to 5%. (1995/96/97)
25. Exemption of stamp duty and value added tax on the transfer of listed securities (1995)
26. Costs of IPOs were made tax deductible (1995)
27. 35% Capital Gains Tax introduced in 1975 suspended (1985)

The government of Kenya has therefore yielded to over 20 fiscal and tax incentive measures to address impediments to market growth. In addition, relevant institutional and market infrastructure reforms have been initiated to enable capital markets play a significant role in the economic recovery effort.
The Capital Markets Authority is further committed to continue consulting with the Government to put in place any additional appropriate measures to support the development and deepening of the Capital Markets as a critical pillar for effective long-term resource mobilization and allocation to the productive sectors of the economy.

Role of Capital Markets in the economy

The financial sector reforms initiated in Kenya in 1980s were as a result of the failure of the few development banks to support the development needs of the economy, in a country dominated by the commercial banks whose assets are not available for long term lending. The capital markets has an intricate role to play in mobilizing savings and channeling them into the most efficient investments. Kenya has for many years financed development from foreign institutional loans at high servicing rates. However, at present time of tight finance and new economic order, the inflow of capital from the developed world which characterized yester years cannot be expected to remain available unless Kenya develops itself into an attractive investment destination. By developing its capital markets, the very same nations that Kenya has grown accustomed to borrowing from in the past will be contributing to the growth of the country in a more dynamic manner.

It is against this background that the Government Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) 2003 – 2007 paper recognizes the significant role of a robust financial sector, particularly the capital markets in facilitating the mobilization of resources and allocating the same to productive investments. Therefore, the capitals markets become a fundamental component of the financial sector in achieving a robust and sustaining economic development in the following ways:

- Provides an important alternative source of long-term finance for long-term productive investments. This helps in diffusing stresses on the banking system by matching long-term investments with long-term capital.
- Provides equity capital and infrastructure development capital that has strong socio-economic benefits - roads, water and sewer systems, housing, energy, telecommunications, public transport, etc. - ideal for financing through capital markets via long dated bonds and asset backed securities.
- Provides avenues for investment opportunities that encourage a thrift culture critical in increasing domestic savings and investment ratios that are essential for rapid industrialization. The Savings and investment ratios are too low, below 10% of GDP.
- Encourages broader ownership of productive assets by small savers to enable them benefit from Kenya's economic growth and wealth distribution. Equitable distribution of wealth is a key indicator of poverty reduction.
- Promotes public-private sector partnerships to encourage participation of private sector in productive investments. Pursuit of economic efficiency shifting driving force of economic development from public to private sector to enhance economic productivity has become inevitable as resources continue to diminish.
- Assists the Government to close resource gap, and complement its effort in financing essential socio-economic development, through raising long-term project based capital.
- Improves the efficiency of capital allocation through competitive pricing mechanism for better utilization of scarce resources for increased economic growth.
- Provides a gateway to Kenya for global and foreign portfolio investors, which is critical in supplementing the low domestic saving ratio.

CHAPTER 2

THE CAPITAL MARKETS PLAYERS LICENSING REQUIREMENTS

Introduction

The objective of this chapter is to prescribe the Licensing Requirements for various Licensees of Capital Markets Authority and their continuous reporting obligations. A more in-depth version of the requirement will be found in the Capital Markets (Licensing Requirements (General) Regulations, 2002

The main players in the Kenyan capital market

The main market intermediaries in the Kenyan capital markets include: Stockbrokers, Stock Dealers, Investment Advisers, Fund Managers, Authorized Securities Dealers, Credit Rating Agencies, Collective Investment Schemes, Custodians and Venture Capital Funds. The roles and the licensing requirements for each of these market intermediaries are as briefly outlined below:

A. Stockbroker

A stockbroker is a market professional who buys and sells securities on behalf of clients at a Stock Exchange in return for a brokerage commission.

Main requirements to be licensed and to continue as a stockbroker include:

a) Certificate of Incorporation and Memorandum and Articles of Association (must be incorporated as a company).
b) A detailed business plan.
c) Lodgment of a security of Kshs 1.5 million or such higher amount with a securities exchange or a central depository (or such other amount as the Authority may determine, taking into account the financial position and settlement record of the applicant) or provide a guarantee in a form acceptable to the Authority from a bank.
d) Paid up share capital of not less than Kshs 5 million.
e) The level of shareholders funds shall not be below Kshs 5 million at any time during the licence period.
f) The minimum paid up share capital shall be unimpaired and shall not be advanced to directors or associates of the stockbroker.
g) The working capital shall not be below 20% of the prescribed minimum shareholders funds.
h) Unsecured advances, loans and other amounts to directors or associates shall in aggregate not exceed 10% of prescribed shareholders funds at any time.
i) The ratio of the stockbroker's bank overdraft to the paid capital shall not exceed 20% at all times.

B. Stock Dealer

A stock dealer is a person who carries on the business of buying, selling, dealing, trading, underwriting or retailing securities as a principal (i.e. on his own behalf).

Main requirements to be licensed and to continue as a stock dealer include:

a) Certificate of Incorporation and Memorandum and Articles of Association (must be incorporated as a company)
b) A detailed business plan
c) Lodgment of a security of Kshs 1.5 million with a Securities Exchange or a Central Depository (or such other amount as the Authority may determined, taking into account the financial position and settlement record of the applicant) or provide a guarantee in a form acceptable to the Authority from a bank.
d) Must be an institution willing to commit funds for investment as principal in securities dealings?
e) Paid up share capital of not less than Kshs 20 million.
f) Set aside investment capital of not less than Kshs 20 million in cash or portfolio of listed securities

(except where a dealer is promoted by a stockbroker through a subsidiary where the minimum investment capital is Kshs 5 million).

g) The working capital shall not be below 20% of the prescribed minimum shareholders funds (paid up capital and reserves).
h) Dealer's borrowings, except bank overdrafts, shall be for the purpose of investment in securities and such borrowings shall not exceed 40% of the shareholders funds or market value of the listed securities whichever is higher.
i) Unsecured advances, loans and other amounts to directors or associates shall be made out of shareholders funds which are in excess of the prescribed minimum provided that such loans shall not exceed 10% of the shareholders funds.
j) The ratio of the dealer's bank overdraft to the paid up capital shall not exceed 20% at all times.

C. Investment Advisers / Fund Managers

An investment adviser and/or a fund manager are market professionals who promulgate analysis and research on capital markets securities, and advise investors on such securities at a commission. They also manage portfolios of securities on behalf of clients pursuant to a contract.

Main requirements to be licensed and to continue as an Investment adviser/ a fund manager include:

a) Certificate of Incorporation and Memorandum and Articles of Association (must be incorporated as a company).
b) A detailed business plan.
c) Paid up share capital of not less than Kshs 2.5 million for an Investment Adviser and Kshs 10 million for a Fund Manager.
d) The level of shareholders funds shall not be below Kshs 2.5 million for an Investment Adviser and Kshs 10 million for a fund manager at any time during the licence period.
e) The minimum paid up share capital shall be unimpaired and shall not be advanced to directors or associates of the investment adviser or fund manager.
f) The working capital of an investment adviser or a fund manager shall not be below 20% of the prescribed minimum shareholders funds.
g) Unsecured advances, loans and other amounts to directors or associates shall in aggregate not exceed 10% of prescribed shareholders funds at any time.
h) The ratio of the investment adviser's or fund manager's bank overdraft to the paid capital shall not exceed 20% at any time.
i) The aggregate maximum value of all clients' portfolio managed under the investment adviser's licence as prescribed shall not exceed Kshs 10 million and any amount in excess shall be managed under the fund manager's licence.

D. Authorized Securities Dealers

This is a bank licensed under the Banking Act or a financial institution approved by the Authority to deal in fixed-income securities listed on the Fixed Income Securities Market Segment at a stock exchange. Authorized Securities Dealers are also required to act as market makers and dealers in this market segment; facilitate deepening of the fixed income securities market; enhance trading and liquidity in the fixed income securities market; and minimize counter party risk.

The main requirements to be licensed and to continue as an Authorized Securities dealer include:

a) Certificate of incorporation and Memorandum and Articles of Association (must be incorporated as a company).
b) A detailed business plan.
c) Commitment to invest a minimum of Kshs 200 million in FISMS turned over every 6 months either on sale or purchase.
d) Trade and dealing only in minimum lots of Kshs 5 million. Any trades below this amount shall be

transacted through stockbrokers.

E. Investment Banks

These are non-deposit taking institutions that advise on offers of securities to the public or a section of the public, corporate financial restructuring, takeovers, mergers, privatization of companies, underwriting of securities, etc. They can also engage in the business of a stockbroker, a dealer, and fund manager of collective investment schemes and provider of contractual portfolio management services.

Main requirements to be licensed and to continue as an Investment Bank includes:

a) Certificate of Incorporation and Memorandum and Articles of Association (must be incorporated as a company).
b) A detailed business plan.
c) Paid up share capital of not less than Kshs 30 million.
d) The level of shareholders funds shall not be below Kshs 30 million at any time during the license period.
e) The minimum paid up share capital shall be unimpaired and shall not be advanced to directors or associates of the Investment Bank.
f) The net working capital shall not be below 20% of the share capital.
g) The ratio of the Investment Bank's borrowings, including overdraft facilities, at any time shall not exceed 40% of its shareholders funds and such borrowings shall be for investment in securities.
h) Unsecured advances, loans and other amounts to directors or associates shall be made out of shareholders funds which are in excess of the prescribed minimum provided that such loans shall not exceed 10% of prescribed shareholders funds at any time.

Currently, there are 11 licensed Investment Banks in Kenya.

F. Credit Rating Agencies

A Credit Rating Agent is a professional whose role is to give an objective and independent opinion on the general creditworthiness of an issuer of a debt instrument, and its ability to meet its obligations in a timely manner over the life of the financial instrument based on relevant risk factors including the ability of the issuer to generate cash in the future.
Main Requirements to be licensed as a Credit Rating Agency include:

a) Evidence of capacity to perform the role of a rating agency
b) Have a background and experience as well as professional expertise to provide the service of a rating agency
c) Demonstrate its independence, objectivity, and demonstrate a proven rating methodology.
d) Must be a body corporate with a preponderance of an institutional shareholding of repute and its shareholders, board of directors, management and professional analytical staff should be persons of impeccable character
e) Should partly be owned by an internationally recognized rating agency or have a contractual arrangement with an internationally recognized rating agency that provides technical and strategic support drawn from international experience.
f) The applicant shall have a stable financial base with a minimum paid up capital of Kshs 12 million.

G. Collective Investment Schemes

These are specialized market players licensed to mobilize savings in financial assets and to enhance access to capital markets by small investors. They include Mutual Funds, Unit Trusts, Investment Trusts and other forms of Specialized Collective Investment Schemes.
Collective Investment Schemes offer a unique opportunity to investors in terms of professional management, economies of scale and diversification of portfolio and risk.

The main requirements to be licensed as Collective Investment Schemes include:

a) Draft incorporation documents of the collective investment scheme; memorandum and articles of association of the promoter; memorandum and articles of association of the proposed fund manager.
b) A business plan
c) One bank reference and two professional or business references.
d) Appointment of a trustee which should be a bank or financial institution approved for that purpose by the Authority.
e) Appointment of a custodian which should be a bank or financial institution approved for that purpose by the Authority.
f) A collective investment scheme set up as an investment company must raise a minimum of Kshs 25 million.
g) An investment company will be registered as a collective investment scheme upon providing proof that it has raised the minimum amount of Kshs 25 million.

H. Custodians

This is a bank licensed under the Banking Act or a financial institution approved by the Authority to hold in custody funds, securities, financial instruments or documents of title to assets registered in the name of local investors, East African investors, or foreign investors or of an investment portfolio. Every investment adviser and fund manager that manages discretionary funds shall appoint a custodian for the assets of the fund.

The main requirements to be licensed as a custodian include:

1. Must be licensed to operate as a bank under the Banking Act or as a financial institution or an authorized depository.
2. A custodian shall not contract agents to discharge its functions except where a portion of the portfolio is invested in offshore investments (need to engage an overseas sub-custodian).
3. Custodian shall render custodial services to the investment portfolio in accordance with the written service agreement between the custodian and the investment adviser or fund manager.

I. Venture Capital Funds:

Theses are companies incorporated for purposes of providing risk capital to small and medium sized business which are new and have a high growth potential, whereby not less than 75% of the funds so invested consist of equity or quasi equity investment in eligible enterprises.

The main requirements to be licensed as a Venture Capital Fund
a. Must be a company incorporated in Kenya for the purposes of investing in a new or expanding company
b. Registered by the Commissioner of Insurance
c. A fund manager manages it.
d. 75% or more of its portfolio of investible funds is invested in the equity shares of venture companies
e. The primary activities of the venture company in which it has invested approved activities.

The continuous reporting obligations of the licensees of the Authority are as follows:

Licensees	Stock Broker	Stock Dealer	Investment Adviser/ Fund Manager	Authorised Securities Dealers	Investment Banks	Credit Rating Agencies	Collective Investment Schemes		
							Fund manager	Custodians	Trustees***
Continuous Reporting Obligations									
Submission of quarterly reports and accounts	✓	✓	✓	✓	✓	N/A	✓	✓	(Oversight role) ✓
Submission of half-year reports and accounts	✓	✓	✓	✓	✓	N/A	✓	✓	(Oversight role) ✓
Submission of audited annual reports and accounts	✓	✓	✓	✓	✓	N/A	✓	✓	(Oversight role) ✓
Quarterly, Hal-year and Annual report of the total value of the clients' portfolio under its management	N/A	N/A	✓	N/A	✓	N/A	N/A	N/A	N/A
General fee structure, downgrades of ratings and ratings of commercial paper or corporate bonds as applicable	N/A	N/A	N/A	N/A	N/A	✓	✓	✓	N/A
List of all assets of the scheme and a full account of all receipts and payments made (at agreed dates).	N/A	N/A	N/A	N/A	N/A	N/A	✓	✓	N/A
Annual report on compliance with the Regulations, incorporation documents and rules of the CIS.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✓	N/A
Quarterly valuation report, investment performance review report and periods investment transactions	N/A	N/A	N/A	N/A	N/A	N/A	✓	N/A	N/A

CHAPTER 3

COLLECTIVE INVESTMENT SCHEMES (CIS)

Definitions

Collective investment schemes are pools of funds that are managed on behalf of investors by a professional money manager. They are arrangements made or offered by any company under which the contributions, or payments made by the investors, are pooled and utilized with a view to receive profits, income, produce or property, and is managed on behalf of the investors.

The manager invests the pooled money in portfolio of securities such as shares, bonds, or other securities according to specific investment objectives that have been established for the scheme. In return for putting money into these funds, the investor receives shares or units that represent his/her pro-rata share of the pool of fund assets. The fund earns income from the investments in the form of dividends, interest income and capital gains. In return for administering the fund and managing its investment portfolio, the fund manager charges a fee based on the value of the fund's assets.

The Capital Markets Authority (CMA) is empowered under section 30 of the Capital Markets Act to approve institutions to promote Collective Investment Schemes and it does this under Capital Markets (Collective Investment Schemes) Regulations, 2001.

Various types of Collective Investment schemes

Collective Investment Schemes can be in the form of Mutual Funds, Unit Trusts, Employer Share Ownership Plans and Special Interest Collective Investment Schemes.

A Mutual Fund

A mutual fund is a public or external company incorporated solely to hold and manage securities or other financial assets. The company accepts funds from investors and uses those funds to buy a portfolio of securities and other financial assets and employs a professional fund manager to manage the investment. The company issues shares, which represent pro-rata share of the pool of fund assets to investors. A mutual fund may either be open-ended or closed-ended.

Open-Ended Funds

These are funds, which stand ready to repurchase their shares from the holders in any quantity and whenever the holder should desire. In addition they sell shares in any quantity to prospective investors at whatever time the investors determine. In other words, open-ended funds stand ready to issue new shares or redeem outstanding shares on a continuous basis. The numbers of shares of the fund, therefore, fluctuates as investors purchase or redeem shares. The price of a share in an open-ended fund is determined by the net asset value per share of the fund, where net asset value per share refers to the total value of the assets in the fund's portfolio, less any fund liabilities, divided by the number of shares outstanding.

Closed-End Funds

These are funds, which issue a fixed number of shares and do not stand ready to repurchase their shares from their shareholders when they decide to sell them. Such funds are listed on a stock exchange to enable shareholders dispose of shares if they so wish.

Parties to a CIS

The main parties involved in the organization and operation of a CIS are:

i) The CIS itself;

Which can either be a mutual fund or a unit trust or an investment company approved by CMA

ii)The Fund Manager
A CIS has to appoint in writing a fund manager who has been approved by CMA. The Fund Manager will carry out the administration of the fund including the management of the whole investment in accordance with the direction of the trustees or the board of directors. Some of the principal duties of a fund manager include:

i) Advising the trustee or board of directors on the assets classes, which are available for investment;
ii) Formulating investment policy;
iii) Investing the scheme's assets in accordance with the scheme's investment policy;
iv) Ensuring pricing of units is in accordance with CIS rules;
v) Reinvesting any income of the scheme fund which is not required for immediate payments;
vi) Purchasing at the request of a holder any units held by such holder on the terms and at a price calculated in accordance with the CIS rules;
vii) Should not sell units other than on the terms and at a price calculated in accordance with the rules of CIS;
viii) Publishing daily the price of units in at least two daily newspapers of national circulation, in English.

iii)The Custodian
It is a company appointed by the CIS to keep custody of all the securities owned by the Scheme. The custodian must either be a bank or a financial institution and has to be approved by CMA.

iv)The Trustee
Every CIS is required to appoint a trustee and such trustee has to be approved by CMA. A trustee has to be either a bank or financial institution. The trustee has to ensure that the custodian takes into custody all the CIS assets, has to ensure CIS is well managed by the fund manager as per agreement of service.

A Unit Trust
A unit trust is an arrangement whereby investors' funds are pooled together and used to invest in a portfolio of securities and other financial assets, with the beneficial interest in the assets of the trust divided into units. A professional manager manages the funds. A unit trust is constituted by a document known as the trust deed. Unit trusts are open-ended funds and their managers stand ready to issue new units or redeem outstanding units on a continuous basis.

Employee Share Ownership Plans (ESOPS)
As provided in the CMA CIS Regulations 2001, a listed company can set up an employee share owner –ship (ESOP) to enable its employees own shares of the listed company. The CMA approves ESOPS and they have to be structured as unit trusts.

The ESOPS Unit Trust is required to have at least three trustees (or a corporation that will serve as sole trustee). For the CMA to approve an ESOP; board of directors and shareholders' resolution and approval of establishment of the ESOP Unit Trust is required.

The ESOP will have scheme rules that govern its operations and define the rights of employees and the pricing and valuation procedures of the units.

Special Interest Collective Investment Scheme
This refers to a CIS established by a promoter for the purposes of facilitating investment by a special group of individuals with a common interest in a listed company, and may include farmers, distributors, suppliers, among others. It's structured as a unit trust with at least three trustees. This scheme has to notify the listed company that it intends to invest in, upon approval by CMA. It will only purchase shares of listed company for which it has been established. The trustees will hold certificates representing the shares of the listed company in the trustees names' and create corresponding units in the same denomination as the listed company and allocate to entitled unit holders.

The Net Asset Value (NAV) of a fund (valuation)

NAV of the Fund is the market value of all the assets of the Fund subtracting the Liabilities. NAV reflects the Funds that will be available to the shareholders if the Fund is liquidated and all the liabilities are paid. In the Mutual Fund industry NAV refers to Net Asset Value per unit holder, which is NAV of the Fund divided by the outstanding number of units. It shows the performance of the Fund. The fund manager shall value the fund at the end of each business day.

Trust deed

Under CIS, This refers to a trust that governs the unit trust or mutual fund and includes every instrument that affects the powers or functions of the trustee or manager of the unit trust or mutual fund.

The Benefits of Collective Investment Schemes to an investor

1.Continuous professional management of the Investments

Collective investment schemes are managed by a team of experienced professionals who manage the fund in a structured and organized manner as opposed to the individual investor who may invest in random fashion. Investment decisions made by the fund managers are based on extensive research, and continuously monitor the portfolio based on researched information. These professionals constantly keep track of the market changes and news, predict the impact they will have on the investments and take quick decisions regarding the adjustments to be made in the portfolio.

2.Low costs of Investments

Due to the large amount of funds that the Fund manager manages, very low costs accrue per investor. The Fund achieves economies of scale in research, transactions and investments. It lowers the cost of brokerage, custodial and other charges.

3.Diversification

Investors in Unit Trusts can access a broader range of securities than they would when investing on their own. A common investor has limited money, which he can invest only in a few securities, and faces a great risk. But when that sum of money is pooled with that of other investors, it gets spread out over other companies. The loss made by a few counters can be absorbed by the gain made in other counters. The risk is therefore reduced and the investor can further reduce risk by investing in several funds.

4.Convenient record keeping and administration

Fund managers take care of all the record keeping including paperwork. It also deals with the problem of bad deliveries, broker's commission etc.

5.Various types of Schemes

CIS offer various types of schemes such as regular income plan, growth plan, equity Funds, debt Funds, and balanced Funds. An investor can therefore select a plan according to his needs.

6.Liquidity

There is an ease in selling and buying the units compared with investing directly in shares of companies where prices and opportunities to transact depends on the supply and demand at that time.

7.Scope for good return

Fund managers invest in various industries and sectors; therefore, the portfolio gets diversified, resulting in CIS generating equitable returns.

8.Access to a broader array of financial assets.

Unit Trust Fund Managers can trade in investment products that are normally inaccessible to the individual investor, such as government bond and corporate bonds, which may be restricted to institutional investors. Some of these products are traded in large a amount, which limits the individual investor even when he has the opportunity.

9.Tax Benefits

The CIS income is tax exempt, and this can be extended to unit holders in form of better returns.

Categories of Funds

Mutual Funds/Unit Trust Funds typically have a predetermined investment strategy in order to meet the investment objective of the funds. A management company may invest in different types of instruments to achieve the fund's objectives. It is important you understand the risk associated with the instruments that the management companies invest in, as it depicts the overall risk of the fund. The following are the main category of funds currently available in the market.

i) Equity Fund: Invest primarily in listed equities.
ii) Fixed Income Fund: Invest primarily in government securities such as treasury bonds and also corporate bonds.
iii) Money Market Fund: Invest primarily in short-term instruments such as treasury bills, fixed deposits etc.
iv) Balanced Fund: Invest primarily in a balanced-mix of both equity and fixed income instruments.

Understanding the Risks

A fundamental principle of investment is the risk reward trade-off associated with every instrument decision made. The higher the risk, the greater the return but the reverse is also true

There are generally, three basic types of investment risk:

i) General market risk that relates to a broad ranges of investments and is largely dependent on economic conditions and international markets. This form of risk is a tough one to control, short of opting out of the market totally.
ii) Market sector risk that relates to a particular sector of a market, for example finance stocks will perform better than plantation stocks at a particular period of time. This form of risk can be managed by carefully monitoring the economic scene with a view to identifying the winners and losers.
iii) Specific risk that relates to the performance of a particular security or property in an investment portfolio for example, the performance of a specific company's share. The specific risk that one investment will not perform, over another can be minimized by carefully investigating and researching before buying and by performing regular ongoing checks.

Investing Wisely in a CIS

Each investor has different goals, needs and constraints. Yet there are a number of general rules that every investor should follow for his or her protection.

i) Read the prospectus carefully. Make sure you understand where and how your money is to be invested and the risks involved. You should be aware of how a Unit Trust works, the charges and the fees involved and your rights as a unit holder.
ii) Make sure that you deal only with collective investment schemes licensed by the Capital Markets Authority. By so doing will help the Authority assist you incase of a problem.
iii) Do not rush into a decision. Take time before deciding whether to invest in the units.
iv) Keep good records of your investments and check any statements or certificates you receive to make sure they are correct.
v) Remember, the higher the expected rate of return, the higher the risk. Do not choose a fund just because its performance has been good – it may have achieved that performance by taking on more risk than you might be willing to accept.

CHAPTER 4

THE CAPITAL MARKETS REQUIREMENTS FOR ALL OFFERS, AND LISTING OF SECURITIES TO THE PUBLIC IN KENYA

Introduction
The objective of this chapter is to prescribe the requirements for a company to be approved to offer securities to the public, eligibility requirements to be listed at a stock exchange and the reporting and disclosure requirements. A more in-depth version of the requirements will be found in the Capital Markets (Securities)(Public Offers, Listing and Disclosures) Regulations, 2002

Public Offer of Shares
To issue shares to the public, the following information needs to be disclosed to all stakeholders:

Other parties involved
1. Background information of the Promoters of the issue.
2. Names and addresses of the issuer's External auditors for the last three years.
3. Name and address of the issuer's bankers, legal advisors, sponsors, reporting accountants and any other expert involved.

Key information on the issuer
1. Name and registered office.
2. Date and country of incorporation.
3. Legislation under which the issuer operates.
4. Place and date of registration.
5. Issuer's principal business.
6. The issuer's authorized and issued share capital.
7. Classes and rights of shares in issue.
8. The amount, the specific class of shares to be issued and their respective rights.
9. A summary of changes in the amount of issued capital in the last three years.
10. Names of persons who could exercise control over the issuer.
11. Details of ownership structure after the issue.
12. Identity of any parent or subsidiary companies.
13. A summary of principal contents of material contracts entered into either by the issuer or any party specified in 12 above within the last two years.
14. Details of material changes in business in the last five years.
15. Legal or arbitration proceedings having significant financial effect
16. Full names, age and address of the directors, senior management and founders of the issuer
17. Directors' remuneration for the last two years and any interest in the issuer.
18. Directors who own directly or indirectly over 3% in the issuer
19. Loans to and guarantees provided for the benefit of the issuer's directors.
20. Details of any scheme involving staff in the share ownership.
21. Amounts due to issuer's directors and details of the existing or proposed service contracts.
22. Shareholders with beneficial ownership in excess of 3% in the issuer.
23. A statement that the annual accounts have been audited for last five years.
24. The Accountant Report on the financial statements.
25. Financial statements for at least three preceding years.
26. The dividend policy, the amount of dividend, the dividend per share and the dividend cover for each of last three financial years. Indicate time limit for dividend to lapse.
27. Audited interim accounts for six months where the last audited accounts are over six months old but less than nine months. If not six months old, append un audited accounts for the period preceding the application

28. Details of material loans to the issuer.
29. Details of any property disposed off in the last five years.
30. Name and address of vendor of any asset acquired by the issuer in the preceding five years.
31. Any indemnities, guarantees or warranties given by the vendors in (32) above

Details of the issue

1. State the total amount of issue.
2. The expected issue price and the method of determining the price.
3. Number of securities expected to be issued.
4. Where and to whom purchase or subscription applications are to be addressed.
5. Specify whether purchase period can be extended or shortened.
6. Method for paying up for the Securities.
7. Method for delivery of securities to subscribers or purchasers.
8. Description of how results on distribution of securities are to be made public.
9. The manner of refunding excess amounts paid by applicants.
10. Transferability of the shares.
11. Name and address of the issuer's registrar.
12. The minimum amount to be raised by the issue to materialize.
13. Allotment criteria to be used.
14. Itemize the major categories of expenses to be incurred and give an estimate of the floatation costs.

Expected timetable

The anticipated sequence of activities in the issue procedure should be given, including:

1. Submitting the issue prospectus to the Capital Markets Authority, Nairobi Stock Exchange and the Registrar of Companies.
2. The period during which the offer will remain open
3. Time limits for paying up for the securities.
4. Time limits for delivery of securities to subscribers or purchasers.
5. When the Capital Markets Authority approves the issue for listing on either the Main or Alternative Investment Market Segments at the Nairobi Stock Exchange.
6. The date of listing at the Nairobi Stock Exchange.
7. The date of first trading at the Nairobi Stock Exchange.

Public Offer of Fixed Income Securities

To issue fixed income securities (Bonds, commercial paper, notes etc) to the public, the following information needs to be disclosed to all stakeholders:

Other parties involved

1. Background information of the directors of the issue.
2. Names and addresses of the issuer's External auditors for the last three years.
3. Name and address of the issuer's bankers, legal advisors, sponsors, reporting accountants and any other expert involved.

Key information on the issuer

1. Name and registered office.
2. Date and country of incorporation.
3. Legislation under which the issuer operates.
4. Place and date of registration.
5. Issuer's principal business.
6. The issuer's authorized and issued share capital.
7. Classes and rights of shares in issue.
8. Names of persons who could exercise control over the issuer.

9. Identity of any parent or subsidiary companies.
10. A summary of principal contents of material contracts entered into either by the issuer or any party specified in 9 above within the last two years.
11. Details of material changes in business in the last five years.
12. Legal or arbitration proceedings having significant financial effect.
13. Description of main investments.
14. Any occurrence, which could affect the position of the issuer negatively.
15. Policy on research and development of new products
16. Directors' remuneration for the last two years and any interest in the issuer.
17. Directors who own directly or indirectly over 3% in the issuer.
18. Loans to and guarantees provided for the benefit of the issuer's directors.
19. Details of any scheme involving staff in the share ownership.
20. Amounts due to issuer's directors and details of the existing or proposed service contracts.
21. Shareholders with beneficial ownership in excess of 3% in the issuer.
22. A statement that the annual accounts have been audited for last three years.
23. The Accountant Report on the financial statements.
24. Financial statements for three preceding years.
25. A table showing the changes in financial position of the Group over the last three years.
26. Borrowing powers of the issuer.
27. Details of material loans to the issuer.
28. Details of all off-balance sheet financing by the issuer and any of the subsidiaries.
29. Any person other than the Directors who directly or indirectly has interest of 10% or more in the issuer's capital.
30. Major ratios:
    a) Total indebtedness including the new issue not to exceed 400% of the company's net worth as at the latest balance sheet.
    b) The funds from operations to total debt for the three trading periods preceding the issue to be kept at a weighted average of at least 40%.
    c) A range of other ratios to be certified by the issuer's external auditors

DETAILS OF THE ISSUE

Debt Issue

1. A cautionary statement that the application has been made to the Capital Markets Authority for the securities to be listed (where applicable) in the Fixed Income Securities Market Segment.
2. State the total amount of issue.
3. The issue, redemption and nominal prices.
4. Nature, number and denominations of securities expected to be issued.
5. Where and to whom purchase or subscription applications are to be addressed.
6. Specify whether purchase period can be extended or shortened.
7. Method for paying up for the securities and currency.
8. The final repayment date and any earlier repayment dates.
9. The date from which interest becomes payable and the due dates for interest.
10. Time limit on the validity of claims to interest and repayment of principal.
11. The procedure and time limits for delivery of the debt securities.
12. Name and address of the issuer's registrar.
13. The nature and scope of the guarantees, sureties and commitments intended to ensure that the loan will be serviced.
14. Details of any arrangements for transfer of securities and any restriction.
15. If underwritten/guaranteed, description of the underwriters/ guarantors and the amounts involved. A letter of no objection to guarantee may be required from the parent regulator of the guarantor.
16. Estimated net proceeds and the purpose of the issue.
17. Rights conferred upon the holders of the units.
18. In case of convertible debt securities disclose the nature of shares offered by way of conversion, exchange or subscription, rights attached and details of the circumstances to conversion.

Expected Timetable

The anticipated sequence of activities in the issue procedure should be given, including:

1. Submitting the issue prospectus to the Capital Markets Authority, Nairobi Stock Exchange and the Registrar of Companies.
2. The period during which the offer will remain open
3. Time limits for delivery of securities to subscribers or purchasers.
4. When the Capital Markets Authority approves the issue for listing on either the Main or Alternative Investment Market Segments at the Nairobi Stock Exchange.
5. The date of listing at the Nairobi Stock Exchange.
6. The date of first trading at the Nairobi Stock Exchange.

What Are The Eligibility Requirements For Listing At The Nairobi Stock Exchange?

There are three investment market segments boards at the Nairobi Stock Exchange namely:
- Main Investment Market Segment (MIMS);
- Alternative Investment Market Segment (AIMS); and
- Fixed Income Securities Market Segment (FISMS).

To list securities on any of these boards, the following eligibility criteria must be satisfied:

REQUIREMENT	**Main Investment Market Segment (MIMS)**	**Alternative Investment Market Segment (AIMS)**	**Fixed Income Market Segment (FISMS)**
Fixed Income Market Segment (FISMS)	The issuer must be a public company limited by shares and registered under the Companies Act (Cap 486)	The issuer must be a public company limited by shares and registered under the Companies Act (Cap 486)	The issuer must be a public company limited by shares and registered under the Companies Act (Cap 486) or any other corporate body.
Share Capital	The minimum authorized, issued and fully paid up capital must be Kshs. 50 Million.	The minimum authorized, issued and fully paid capital should be Kshs.20 Million	The minimum authorized, issued and fully paid up capital must be Kshs. 50 Million
Net Assets	The net assets should not be less than Kshs. 100 Million immediately before the public offer.	Net assets immediately before the public offer should not be less than Kshs.20 Million	The net assets should not be less than Kshs. 100 Million immediately before the offer.
Transferability of shares	The shares to be listed shall be freely transferable.	The shares to be listed shall be freely transferable.	May or may not be transferable.
Financial records.	The audited financial statements of the issuer for five preceding years be availed.	The audited financial statements of the issuer for three preceding years be availed.	The audited financial statements of the issuer for three preceding years be availed (except for the government)
Directors and Management	The directors of the issuer must be competent persons without any legal encumbrances.	The directors of the issuer must be competent persons without any legal encumbrances.	The directors of the issuer must be competent persons without any legal encumbrances

Track record	The issuer must have declared positive profits after tax attributable to shareholders in at least three years within five years prior to application.	The issuer must have been operating on the same line of business for at least two years one of which it must have made profit with good growth potential.	Not a requirement.
Solvency	The issuer should be solvent and have adequate working capital.	The issuer should be solvent and have adequate working capital.	Not a requirement
Share ownership structure	At least 25% of the shares must be held by not less than 1000 shareholders excluding employees of the issuer.	At least 20% of the shares must be held by not less than 100 shareholders excluding employees of the issuer or family members of the controlling shareholders.	Not a requirement
Certificate of comfort	May be required from the primary regulator of the issuer if there is one.	May be required from the primary regulator of the issuer if there is one.	May be required from the primary regulator of the issuer if there is one.
Dividend policy	The issuer must have a clear future dividend policy	The issuer must have a clear future dividend policy	Not a requirement
Debt ratios	Not a requirement	Not a requirement	Major ratios: 1. Total indebtedness including the new issue not to exceed 400% of the company's net worth as at the latest balance sheet. 2. The funds from operations to total debt for the three trading periods preceding the issue to be kept at a weighted average of at least 40%. 3. A range of other ratios to be certified by the issuer's external auditors.
Issue lots	Not a requirement	Not a requirement	Minimum issue lot size shall be: 1.Kshs. 100,000 for corporate bonds or preference shares 2.Kshs. 1,000,000 for commercial paper programme.
Renewal date	Not a requirement	Not a requirement	Every issuer of commercial paper to apply for renewal at least three months before the expiry of the approved period of twelve months from the date of approval.

Continuous Reporting Obligations for Listed Companies

General Continuous obligations
To list securities on any of these boards, the following eligibility criteria need to be adhered to

Change in activities
Major developments in an issuer's nature of activities or expectation of performance that may have effect on the financial position or general course of business that in turn may impact substantially on the prices of its securities should be disclosed.

Information in strict confidence
An issuer may give such information to its advisers and persons with whom it is negotiating with a view to effecting a transaction or raising finance. In such case an issuer must advise, preferably in writing, the recipients of such information that it's confidential.

Price sensitive information
1. Where it is proposed to announce such information in a meeting of holders' of an issuer's listed security, it should be published to the stock exchange and the market so that the announcement at the meeting comes after it has been published to the market and forwarded to the Capital Markets Authority.
2. An issuer must publish, by way of cautionary announcement, information, which could lead to material movement in prices of its securities if confidentiality levels required couldn't be maintained.
3. Where an issuer's securities are listed on various stock exchanges, such an issuer should ensure that equivalent information is available at the same time to the market at all such securities exchanges.

Disclosure of periodic financial information

Dividend and interest
1.Payment should be notified to the Nairobi Stock Exchange, Capital Markets Authority and the securities' holders within twenty-four hours following the board's resolution/recommendation by means of a press announcement. Such resolution/recommendation is required to be at least 21 days prior to book closure date and should state:
- The closing date for determining entitlements;
- Payment date of dividend/interest;
- The cash amount to be paid for dividend/interest
- Where shareholders decline to approve a recommended dividend at an annual general meeting, the board should make an announcement through a notice within 24 hours following the annual general meeting. Interim dividends declared by an issuer should be paid within 90 days of the date of books closure and 90 days of the date of approval by shareholders in the case of final dividend.

2.Intention not to pay dividend should be disclosed in the interim or annual financial statement or by way of a press announcement.

Financial reports
1.Quarterly reports
Covers 3 months and issued in the course of the year on a best practice basis.

2.Interim reports
Half year financial reports published and issued by every issuer of securities to the public within sixty days of the interim reporting date. Such interim financial reports at minimum should have the following components (not necessarily audited):
a) Condensed balance sheet;
b) Condensed income statement;

c) Condensed cash flow statement;
d) Condensed statement of changes in equity;
e) Selected notes.

The above components should be prepared in full compliance with the International Accounting Standards.

Interim reports should be simultaneously submitted to the Nairobi Stock Exchange and the capital markets Authority at the time of release to the public.

3.Annual Financial Statements (Final reports)

Every issuer of securities to the public is required to prepare an annual report containing audited annual financial statements within four months of the close of its financial year. The components of such a report include:

1. Balance sheet;
2. Income statement;
3. Cash flow statement;
4. Statement of changes in equity;
5. Accounting policies and explanatory notes.

The above components should be prepared in full compliance with the International Accounting Standards (IAS).

Every issuer should notify the Nairobi Stock Exchange, the Capital Markets Authority and media of its annual results within 24 hours following approval of the issuer's directors for submission to shareholders.

Every issuer is required within six months after the financial year end, but at least 21 clear days before the annual general meeting date to distribute to all securities' holders

a) A notice of the annual general meeting and the relevant year's annual financial statements.
b) The auditor's report on the issuer's financial statements.

Notification relating to capital

An issuer is required to make a public announcement and notify the Nairobi Stock Exchange and also the Capital Markets Authority of the following:

- Alteration to capital structure
- New issues of debt securities
- Changes of rights attached to securities
- Basis of allotment
- Issues affecting conversion rights
- Results of new issues

Shareholding

1.An issuer is required at the end of each calendar quarter to disclose to the Nairobi Stock Exchange every person who holds or acquires 3% or more of the issuer's ordinary shares and publish in the annual report the following key information:

- Distribution of shareholders
- Names of the ten largest shareholders with their respective ownerships
- Name and address of the company secretary

2.An issuer is required to inform the Nairobi Stock Exchange and the Capital Markets Authority in writing when it becomes aware that the proportion of its securities in the hands of the public has fallen below the minimum prescribed of 25%.

Communication with shareholders

1. Any meeting of shareholders (other than adjourned meeting) should be called by a 21-day notice in

writing. All notices convening such meetings should specify the place, hour and agenda of the meeting.

2. A proxy form must be sent with the notice convening a meeting of holders of listed securities to each person entitled to vote at the meeting.
3. An issuer is required to forward to the Nairobi Stock Exchange and the Capital Markets Authority.
   a) All circulars, notices, reports, announcements or other documents at the same time as they are issued.
   b) All resolutions passed by the issuer at any general meeting of holders of listed securities within 10-days after the relevant general meeting.

Miscellaneous obligations

An issuer is required to disclose all material information and make public announcement of:

i) Any change of address of the registered office or of any other office, which the register of the holders of listed securities is kept.
ii) Any change in the directors, company secretary or auditors of the issuer
iii) Any proposed significant alteration of the memorandum and articles of the issuer
iv) Any application filed in a court of competent jurisdiction to wind up the issuer or any of its subsidiaries.
v) The appointment or imminent appointment of receiver manager or liquidator of the issuer or any of its subsidiaries
vi) Any profit warning whether there is a material discrepancy (25% lower) between the projected earnings for the current financial year and the level of earnings in the previous financial year.

CHAPTER 5

CORPORATE GOVERNANCE

Definition
Corporate Governance refers to the manner in which the power of a corporation is exercised in the running of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholders' long-term value while taking into account the interest of other stakeholders. Corporate governance seeks to ensure that leaders act in the best interests of the corporation and its stakeholders. Good corporate governance enhances effectiveness, competitiveness and sustainability of the corporation. Arising from the import of good corporate governance the CMA has developed corporate governance guidelines to be practiced by listed companies in Kenya.

Objectives of the Guidelines
The Corporate Governance guidelines set out requirements for corporate governance for public listed companies and issuers of securities in the capital markets and are both prescriptive (the principles) and non prescriptive (best practices).

Main provisions in the guidelines are:

A).Chairmanship and Directorship
Relevant committees such as audit and remuneration committees are to be established. The board should be well remunerated to attract and retain able directors and executive directors to be competitively remunerated subject to performance.

i) The board should be well balanced to comprise executive and at least a third non-executive and independent directors to benefit from diverse skills and to minimize individuals dominating decision making process.
ii) The chairman and chief executive roles should be clearly separated.
iii) The chairman should limit him/herself to a maximum of two companies to effectively participate in the board, the directors to limit themselves to five companies as well, while executive directors are to serve for a contract of five years subject to renewal.
iv) The board should neither be too large/small to compromise the inter-active discussion during board meeting or to limit inclusion of a wider expertise and skills that are necessary for the board to be effective.

B).Audit Committee
Establishment of an audit committee represents an important step towards promoting good corporate governance.
- Members of this committee should have broad and relevant knowledge to the company.
- The members should comprise of at least three independent and non-executive directors and be chaired by independent and non-executive director.
- They should also be given enough resources to discharge their duties.

Duties of Audit Committee
- Acts as an effective overseer of the financial reporting process and company's internal controls.
- Reviews and makes recommendations of management programs established to monitor compliance with the code of conduct.
- Considers appointment of external auditors and audit fees
- Meets with external auditor(s) before commencement of audit to review the nature and scope of audit.
- Reviews quarterly, half-yearly, year-end financial statements; particularly on change of accounting policy, major changes arising from the audit, going concern assumption and compliance with international accounting standards.

- Reviews any communication between external auditors and management.
- It undertakes any other issues as may be directed by the board including regular reviews of the capacity of internal audit function.

The committee should meet at least once a year with the external auditors without the executive board members present, to effectively monitor executives.

C).Board Obligations

The Board of Directors shall exercise all the powers of the company subject only to the limitations contained in the law and articles of incorporation.
In this regard, it is expected that the Board of Directors shall fulfill the following functions:

- Exercise leadership, integrity, and sound judgment in directing the corporation so as to achieve continuing prosperity and to act in the best interests of the enterprise while respecting the principles of transparency;
- Ensure that through a managed and effective process, board appointments are made that provide a mix of proficient directors, each of whom is able to add value and bring independent judgment to bear on the decision-making process;
- Determine the corporation's purpose and values;
- Monitor and evaluate the implementation of strategies, policies, management performance criteria and business plan;
- Serve and balance the interests of the corporation, shareholders and stakeholders;
- Regularly review processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times; and
- Ensure that all technology and systems used in the corporation are adequate to properly run the business and for it to remain effectively competitive.

D).Professional membership

In order to enhance services to shareholders, the persons holding finance manager/director positions should be members of The Institute of Certified Public Accountants of Kenya (ICPAK), while company secretaries should be members of The Institute of Certified Public Secretaries of Kenya (ICPSK).

E).Shareholder rights

It is important that shareholders participate fully in major decisions of the Company.
Basic shareholder rights include:

- They should be made aware of procedures governing the acquisition of corporate control in the capital market, and extraordinary transactions such as mergers and sales of substantial portions of corporate assets;
- Obtain relevant information on the corporation including quarterly, half-yearly, year-end financial statements on a timely and regular basis;
- Participate and vote in annual general meetings;
- Entitlement to distributed profit in the form of dividend and other rights for bonus shares, rights issue as applicable in the proportion of shares one holds;
- Right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes e.g. amendments to governing documents of the company, the authorization of additional shares and extra-ordinary transactions that affect results in the sale of the company;
- The annual reports and accounts to shareholders should include highlights of the operations of the company and financial performance;
- Have a duty and are well advised to exercise the supreme authority of the company in general meetings to hold the Board accountable for the stewardship of the company; and
- All shareholders shall be treated equitably.

However, as shareholders exercise their rights at the annual general meeting, they should not act in a manner that will undermine the company's interests.

F).Annual General Meetings of Listed Companies

- The board should provide to all its shareholders sufficient and timely information concerning the date, location and agenda of the general meeting as well as full and timely information regarding issues to be decided during the general meeting.
- The board should make shareholders expenses and convenience primary criteria when selecting venue and location of annual general meetings.
- The directors should provide sufficient time for shareholders questions on matters pertaining to the company's performance and seek to explain to the shareholders their concern.

CHAPTER 6

GLOSSARY OF SOME COMMONLY USED TERMS

Active Securities
These are securities, which are most frequently traded at the stock exchange both in terms of volumes traded as well as in terms turnover.

Acquisition
This refers to all business and corporate organization (ownership and management) brought under the control of a new management. It involves the process of acquiring shares with voting rights of another company with a view to obtaining or consolidating the control of that company.

Articles of Association
A document describing the purpose, place of business, and details of a company.

Agent
An agent is normally a representative of a stockbroker and does business of buying and selling securities for a return commission through the principal, the stockbroker.

All or None (AON)
This is a restriction placed on an order to execute the entire size of the order at a time without splitting it into several lots.

Allotment Letter
A document(s) issued by a company to investors showing the number of shares (securities) allotted to the applicant subscribing for such securities. It also indicates the number and the value of shares.

Annual Report
It is a document issued annually by a company to its shareholders containing the Chairman's statement, and the financial performance including the assets and liabilities, profit and loss and other relevant information on the company. Publication of an annual report is mandatory for all public companies.

Annual General Meeting (AGM)
It is a mandatory meeting by law held annually by all public companies and to which all shareholders are invited to attend to discuss the affairs and performance of their companies.

Amalgamation
Two firms, previously independent, coalesce to form one new business.

Asset (S)
The term "Assets" refers to all the properties and stock of investments including cash and bank deposits, which a company owns.

Asset-Backed Debt Securities (ABS)
Asset-backed securities are securities, which are based on pools of underlying assets such as credit card receivables, mortgage loans, and automobile loans. They are said to be "backed" by assets because the performance of asset-backed securities is dependent upon the performance of the underlying assets. Said another way, the cash flows from the underlying assets are the primary source of payments on the asset-backed securities.

At Best Order
This is an instruction from a client to a broker authorizing the broker to use his discretion and try to execute an order at the best possible price.

Authorized Securities Dealer
A bank licensed under the Banking Act or a financial institution approved by the Authority to deal in fixed-income securities listed on the Fixed Income Securities Market Segment at a stock exchange. They are required to act as market makers and dealers in this market segment; facilitate deepening of the fixed income securities market;

enhance trading and liquidity in the fixed income securities market; and minimize counter party risk.

Authorized Share Capital
This is the company's share capital, which is stated in the memorandum and Articles of Association as required by law. Authorized share capital is given by nominal (par) share value time's total number of shares authorized. To increase the authorized share capital, a resolution must be passed to that effect by the majority of the shareholders and an application made to the registrar of companies for authority to increase the shares.

Automated Trading System
This refers to a computerized system of trading where trades are executed online. Here stockbrokers and other members of the stock exchange enter their trades both buy and sell orders at their offices without their physical presence at the stock exchange during trading time and the trades are matched online. When this is done trades are concluded and are then ready for settlement by the respective stockbrokers.

Bad Delivery
The delivery of securities relating to a trade (either client to broker or from broker to broker) is considered "bad" when there are some defects in the share certificate or the transfer deed, or when it is not delivered within the stipulated period.

Bare Trustee
One who has no beneficial interest in the subject matter of the trust.

Bear
A market speculator who believes that the market prices will fall hence does sell their securities in anticipation of buying them back at lower prices in the future.

Beneficial Owner
The true owner of a security, which may, for convenience, be recorded under the name of a nominee.

Bid
A buy side of the quoted share, which is the highest price a buyer, is willing to pay to purchase a security.

Bonus
These are additional shares given to existing shareholders at a specified ratio and paid for from the company's normal revenue reserves. Bonus shares are mostly issued in lieu of paying cash dividends although a company can issue both.

Bonds
These are long term fixed interest securities issued by government and corporate bodies. In effect, they are promissory notes in which the issuer makes an obligation to pay interest at specified times and intervals and to pay back the principal at maturity of the Bond. The holders of bonds get interest even if the issuer does not make a profit. (Also see Treasury bonds)

Broker
An entity engaged in the business of buying and selling securities for and on behalf of investors at a commission.

Bull
A market speculator who believes that the market prices will rise hence buys securities in anticipation to sell at a profit in the future.

Call
The right in options contracts to buy underlying securities at a specified price at a specified time. Also refers to provisions in bond contracts that allow issuers to buy back bonds prior to their stated maturity.

Capital Gain
Capital gain is an amount realized at the disposal of securities, which is in excess of original cost. For example broker X buys 1000 shares of company Y at say Kshs. 60.00, which is a cost of Kshs. 60,000. He then sells them at Kshs. 70, which comes to Kshs. 70000. The increase of Kshs. 10,000 represents capital gains.

Capital Loss
Capital loss is a loss realized at the disposal of securities at a sale price below the initial purchase price. For example broker A purchases 1500 shares of company B at a price Kshs. 40 which comes to a cost Kshs. 60,000. He then sells them at a reduced price of Kshs. 35, which comes to Kshs. 52,500. The difference of Kshs. 7,500 i.e. between Kshs.60, 000 and Kshs. 52,500 represents capital loss.

Capital Markets
Refer to the aspect of financial markets, which provides long-term capital for investments. Capital markets foster the mobilization of savings into productive investments by providing an outlet for accumulated capital (savings) and allocating the capital to investments that bring the greatest value to the economy.

Capital Reserves
It is part of the company's earnings that is normally not distributed as cash dividends and is made up of revaluation of assets and share premium. It may be distributed as bonus shares to shareholders.

Capital Structure
It is the various components of a company's long-term capital e.g. debentures, ordinary shares, preference shares etc.

Central Depository & Settlement Corporation (CDSC)
A Company approved by the Authority under section 5 of The Central Depositories Act to establish and operate a central depository system for the central handling of securities. Here all securities are immobilized or dematerialized and the dealings in respect of those securities are effected by means of entries in securities accounts without the physical necessity of certificates. The CDS permits or facilitates the settlement or registration of securities transactions without the physical necessity of certificates.

Central Depository Agent
This is a person appointed by a central depository to be an agent of the central depository.

Closed –Ended Fund
A type of investment company whose securities are traded on the open market rather than being redeemed by the issuing company.

Commission
The fee charged by a broker/investment bank for services performed in buying or selling securities on behalf of a customer/investor.

Closing Date of Offer
The last day on which an offer made for subscriptions in the primary market or sale in the secondary market may be accepted.

Closing Price
The last price of the day at which a particular security was traded at the end of a trading session. This closing price is normally the opening price for that particular security on the following day's trading session.

Convertible Bond
A bond, which may be converted under specified conditions into a specified number of ordinary shares of the issuer.

Collective Investment Schemes (CIS)
Collective investment schemes are pools of funds that are managed on behalf of investors by a professional money manager who buy shares, bonds, or other securities according to specific investment objectives established for the scheme. CIS's take the following forms:

a) A mutual fund: A public or external company incorporated solely to hold and manage securities or other financial assets. The company accepts funds from investors and uses those funds to buy a portfolio of securities and other financial assets and employs a professional fund manager to manage the investment. The company issues shares, which represent pro-rata share of the pool of fund assets to investors. A mutual fund is either open ended or closed ended.

i) Open -end funds -funds, which stand ready to repurchase their shares from the holders in any quantity and whenever the holder should desire. They also sell shares in any quantity to prospective investors at whatever time the investors determine
ii) Closed- end funds - funds which issue a fixed number of shares and do not stand ready to repurchase their shares from their shareholders when they decide to sell them. The Law requires that closed ended funds be listed on an exchange in order to provide liquidity to the shareholders. These shares are traded at prices determined by the forces of supply and demand.

b) Unit Trust (s): These are collective investment vehicles that pool funds together from small investors by issuing units (specified absolute minimum lots of shares of the trust). These investors normally share the same financial objective.

A unit trust is constituted by a document known as the trust deed and a professional manager manages the funds.

Corporate Governance
Corporate Governance refers to the manner in which the power of a corporation is exercised in the running of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value with the satisfaction of other stakeholders in the context of its corporate mission.

Credit Rating Agency
A professional whose role is to give an objective and independent opinion on the general creditworthiness of an issuer of a debt instrument, and its ability to meet its obligations in a timely manner over the life of the financial instrument based on relevant risk factors including the ability of the issuer to generate cash in the future.

Cum-All
This terms means "with dividend", "with bonus" or "with rights". The buyer of the security is entitled to a dividend, bonus declared or rightly to subscribe for further shares.

Cum-Dividend
This term means "with dividend". The buyer of such security is entitled not only to the share but also to a dividend that has been declared but has not been paid yet.

Custodian
A company approved by the Authority to hold in custody funds, securities, financial instruments or documents of title to assets registered in the name of a collective investment scheme, local investors, East African investors, or foreign investors. Every investment adviser and fund manager that manages discretionary funds shall appoint a custodian for the assets of the fund.

Dealing
This means the act of buying, selling or agreeing to buy or sell or trade shares by either a fund manager or stock dealer.

Debenture Stocks
A debenture is an acknowledgement of debt by a company. Debentures may be secured against certain specific properties of the company. However, debentures may also be unsecured or may be convertible to equity at a future date, to be exchanged for the company's ordinary shares at the holders' option depending on the agreement. Interest on debentures is payable on specified dates whether or not there are sufficient profits.

Debt Securities
Debt securities are fixed income securities with a fixed rate of return and are guaranteed, no voting rights and no benefits from exceptional performance by a company. They include bonds, debentures, notes, or other similar instruments representing or evidencing indebtedness whether secured or otherwise

Delisting
This refers to the process of removing a company from the official list of the stock exchange as a result of inaction or poor performance, failure to fulfill the exchange rules or failure to meet the listing requirements or the financial specifications.

Dematerialized Securities
A book-entry security that has been prescribed by the central depository whereby the physical certificate is no longer recognized.

Derivative Instruments
Financial assets whose value is dependent on the value of an underlying asset such as ordinary shares, bonds, currencies or commodities. They include forwards, futures, options and swaps. They are used for risk management or hedging in anticipation of future markets directions.

Dilution
It refers to an increase in the number of shares of a company's stock, causing the value of each share to decrease.

The number of shares increases when the company offers new stock to the public to raise cash; or when employees exercise their stock options; or when holders of convertible bonds convert their bonds to stock; or after the issue of a bonus. Companies that can afford to will frequently buy back issues of stock to fight dilution.

A Collective Investments Scheme may suffer reduction in the value of its portfolio due to factors like dealing costs incurred in dealing in its underlying investments and of any spread between the buying and selling prices of such investments.

Discretionary Account
A type of account with a broker/investment bank in which the investor authorizes the broker to buy and sell securities, selected by the broker, at a price, amount, and time the broker believes to be best.

Dividends
It is part of a company's profits, which is distributed to shareholders as cash after it has been declared and approved in an annual general meeting (AGM). The amount of profits not distributed is retained as reserves of the company.

Dividend per Share
It is the total dividends paid divide by the total number of issued and fully paid shares. It is therefore the amount of dividends paid for each share.

Dividend Yield
It is the return (yield) on every shilling invested in securities normally expressed as a percentage. It is the dividend per share expressed as a percentage of the market price per share.

Earnings per Share (EPS)
This is the monetary value of profit after tax on each ordinary share derived by dividing net income by the number of ordinary shares outstanding. It is a measure of a company's profitability.

Eligible Securities
A security, which has been prescribed by a security exchange to be immobilized with a central depository

Equity Financing
Equity finance refers to risk capital or funds raised from the capital markets by issuing securities such as shares. It is the financing of the companies' activities using shareholders funds.

ESOP (Unit Trust)
Employee Share Ownership Plans or Employee Stock Option Plan

An ESOP is an option to buy a company's share at a certain price. This price can be the market price or some other price. Normally, to make an ESOP attractive, the option price is lower than the market price. The company has the freedom to specify how many shares an employee gets, which employees get them, and when the ownership is actually transferred.

It is a Collective Investment Scheme (CIS) in the form of a unit trust. Stock options are the instruments that are offered to employees, allowing them to buy a certain number of shares in the company at a specific price. This price could either be lower than the current market-price of scrip-in which case their gains are immediate-or the same, whereupon future jumps in the share-price will show up as profits for them.

Ex-Dividend
This is the opposite of "cum-dividend". The purchaser of a security, which has been declared as "ex-div", will not be

entitled to dividends when it is paid. The security exchange marks this “XD” beside the security on the daily official trading list. Normally, the price is adjusted to reflect the dividend payment.

Ex-All
This terms means “without dividend”, “with out bonus” or “without rights”. The buyer of a security, which has been declared as “ex-all”, will not be entitled to dividends when it is paid, bonus shares and rights issues when declared and issued.

Face Value
The amount of money, which the issuer of a bond promises to repay to the bondholder on or before the maturity date.

Financial Instrument
Any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Financial Markets
Refers to money markets and capital markets, which constitute the financial system. The money market refers to the short-term aspect of the financial markets, whereas the capital markets refer to the long-term aspects, the cut-off point being the duration of one year.

Financial Plan
An ongoing process where an investor relates his financial position to his Investment objectives within a constantly changing financial environment.

Fund Manager
This is a market professional who manages a portfolio of securities for and on behalf of investors. They do this by promulgating research and analysis on the stock market and use this to make investment decisions at a fee. Investors pool together their investments so that they can be managed as collective which then reduces the cost of managing the portfolio of securities.

Futures Contract
An obligation to buy or sell a commodity or a financial instrument on a date in the future at a fixed price.

Guaranteed Bond
A bond guaranteed as to the interest and principal by a third party, usually a larger, better known, or more credit worthy than the issuer of the bond.

Hedge
This means reducing exposure to risk of loss resulting from fluctuations in exchange rates, commodity prices, interest rates etc.

Immobilization
This refers to the process whereby physical share certificates are deposited with the central depository with the view to having them eventually having them entered into electronic form ready for trading.

Immobilized Securities
Securities where the underlying physical certificates have been deposited with and are held by a central depository.

Indenture
A contract underlying a bond issue. The issuer of the bond and the trustee acting for the bondholders or the bondholders themselves sign the contract and it sets the rights and responsibilities of the issuer, trustee and bondholders, and the terms of the security issue.

Index
Statistical composition that measures changes in the economy or the financial markets, normally stated as a percentage from a base year. An index measures the up and down of the prices of such items as consumer goods and services market, shares and bonds market, and commodities market.

Information Memorandum
This means any prospectus or document, notice, circular, advertisement, or other invitation in the print and electronic form containing information on a company or other legal person authorized to issue securities.

Initial Public Offering (IPO)
An IPO is an offer made to the public to subscribe for securities by an issuer for the first time. An IPO is also termed as "going public."

Insider
This means any person who, is or was connected with a company or is deemed to have been connected with a company, and who is reasonably expected to have access, by virtue of such connection to unpublished information which if made generally available would be likely to materially affect the price or the value of the securities of the company, or who has received or had access to such published information.

Issuer
This refers to a company, corporation, government or body corporate offering (or having already offered) securities for sale to investors or to the public.

Interest
The payment a corporate or governmental issuer makes to bondholders in return for the loan of money.

Investor
A person or an institution that uses his savings or borrowings to buy securities.

Investor Compensation Fund
A fund to compensate investors who suffer loss resulting from the failure of a licensed broker or dealer to meet its contractual obligations.

Investment
An Investment is a commitment of funds to one or more assets that will be held over some future time period, in the hope that it will generate more income. The assets could be tangible like real estate properties or intangible monetary assets like securities. Investments are based on financial goals and objectives.

Investment Adviser
Licensed person(s), who engage in the business of advising their clients as to the value of securities and whether it is advisable to invest, purchase or sell securities. Investment advisers also carry out analysis or reports concerning securities and can manage portfolios of investment under a contract or an agreement with investors.

Investment Bank (s)
Non-deposit taking institutions that advise on offers of securities to the public or a section of the public, corporate financial restructuring, takeovers, mergers, privatization of companies, underwriting of securities, etc. They can also engage in the business of a stockbroker, a dealer, and fund manager of collective investment schemes and provider of contractual portfolio management services.

Investment Company
A company engaged primarily in the business of investing in securities.

Issuer
The term "Issuer" refers to any company or other legal entities whose securities are the subject of an application for listing in Kenya or have been listed.

Issued Share Capital
This is the amount of capital, which has been subscribed to and fully paid out of the authorized share capital of a company.

Last Day to Register or Books Closing Date
The day by which securities must be lodged with the company's office to qualify for dividends, rights or bonus shares.

Limit Order
An order placed by a customer with a broker stipulating a limit as to the price at which shares are to be bought or sold.

Margin Account
A type of account with a broker-dealer, in which the broker agrees to lend the customer part of the amount of due for the purchase of securities.

Market Capitalization
This is the estimated worth of the company derived by multiplying the current market price by the number of shares issued and outstanding at a specified period.

Market Price
The market price refers to the ruling price of shares on the trading floor of the exchange at any given time. The market price of share is normally a indicator of the level of demand of that security.

Material Information
This means any information that may affect the price of an issuer's securities of influence investment decisions and includes; a merger, acquisition or joint venture, a block split or stock dividend, earnings and dividend of an unusual nature, a significant law suit against the issuer etc.

Maturity Date
The date specified in a commercial paper, note, bond, or other evidence of debt on which the debt is due and payable. Maturity depends on the terms of the debt.

Merger
The combining of two or more firms into one firm where the shareholders of the combining firms retain their powers, rights and benefits in the new firm. It is also called uniting of interests. There is potentially no acquirer nor acquiree and the combining entities are almost of equal size.

Money Market
This is market for short-term debt securities with maturity of one year or less. They include treasury bills, certificates of deposits, commercial paper, and repurchase agreements (REPOS)

Money Market Fund
Generally, a mutual fund/unit trust which typically invests in short-term debt securities such as government securities, commercial paper, and certificates of deposits of banks.

Mutual Fund
A pool of stocks, bonds, or other securities purchased by a group of investors and managed by a professional/ registered investment company. The investment company itself is also commonly referred to as a mutual fund.

Net Asset Value
The value of one share of a unit trust / mutual fund at a given point in time, which is calculated by adding up the value of all the unit trust / mutual fund portfolio and dividing by the number of outstanding shares.

Odd Lots
This is a lot which is less than the stipulated Board Lot. For example a Board Lot at the Nairobi Stock Exchange comprises a trade of more than 200 shares or more than Kshs 3,000 in value and anything less than this is an Odd Lot.

Offer
This is the opposite of a bid. It is the lowest price at which a stockbroker or dealer is willing to sell a security on behalf of a client or as a principal respectively. Sometimes referred to as the "Ask".

Offer Period
This refers to the period during which an offer for subscription or sale of securities to the public remains.

Offer for Sale
This refers to the process whereby a company announces its intention to issue new shares at a certain price and therefore invites the public to apply for them through a prospectus.

Open Outcry
"Open outcry system" refers to a system of trading at the stock exchange floor whereby brokers shout their bids and offers of securities on behalf of their clients.

Option
This is a contract between a dealer and a buyer, which gives the latter the right to buy, call option, or sell, put option, a given number of shares at a fixed price within a given period.

a. Call Option
   An option that that gives the owner a right to buy a security at a set price (strike price) for a predetermined period of time

b. Put Option
   This is an option allowing the holder the right to sell a security at a specific price within a specific time period.

Over-The–Counter (OTC) Market
This is a market for buying and selling stocks through a network of telephone and telecommunications system rather than going through the stock exchange. It is sometimes referred as "off-board" trading.

Over The Counter (OTC) markets operate parallel to organized securities exchanges and generally involve trading in securities not listed on the securities exchange. As suggested by the phrase "Over the Counter", the market entails the display of securities over the counter by traders on behalf of sellers. They are not advertised or displayed formally but are brought to the attention of prospective buyers or investors only upon request.

Paid Up Capital
Paid up Capital refers to the amount of money paid by shareholders of the company and is a total of all shares issued multiplied by the par value for each share.

Par Value
The face value or principal or maturity value of a security appearing on the face of the security instrument. For a traded security, the par value is for bookkeeping purposes only. It is the value given to shares when they are created and has very little relevance to the real value (market price). Dividends are expressed as a percentage of this value.

Portfolio
The entire set of security holdings of an individual or institution, or a group of securities in which members of the public are invited to acquire shares pursuant to a Collective Investment Scheme (CIS). A portfolio may include preference shares, ordinary shares and bonds of various companies.

Potential Ordinary Share
A financial instrument or other contract that give the holder the right to purchase ordinary shares. Warrants and options are examples of financial instruments that give the holders the right to purchase ordinary shares.

Privatization
This is the act of transferring government owned assets (i.e. state owned enterprises) into private hands or general public, either through public offering, tender or private contract. The act is also referred to as divestiture since it entails divestment by the government.

Proxy
An authorization by a shareholder of a company transferring his/her right to vote to another person through written instructions.

Prospectus
A document, notice, circular, advertisement or any other invitation offering to the public for subscription (or purchase) any shares or securities of a company or a mutual fund. It must explain the offer, including the terms, issuer,

objectives (if mutual fund) or planned use of the money (if securities), historical financial statements, and other information that could help an individual decide whether the investment is appropriate for him/her. It is also called offering circular or circular.

Public Offer
A public offer is an offer made by a company to the public to subscribe to new or existing shares being offered for sale to the public as in the privatization exercise.

Price Earning Ratio (P/E)
The P/E ratio refers to the number of times it takes a shareholder to recoup his investment in a share. It is given by the market price of a share over its earnings per share. It is the pay back period of a share.

Primary Market
This refers to the initial offering of a security as well as the activities of investors subscribing to securities being offered by the issuer. In the primary market, the investors buy the securities directly from the issuer as opposed to the secondary market.

Private Placement
The sale of securities directly to institutional investors, such as banks, mutual funds, insurance companies, pension funds, and foundations. Does not require CMA registration, provided the securities are bought for investment purposes rather than resale, as specified in the investment letter.

Promoter
This means a person acting alone or in conjunction with others directly or indirectly who takes the initiative in forming or organizing the business of a collective investment scheme but does not include an underwriter commission without taking part in the founding of the collective investment scheme.

Prompt Lots
These are transactions in securities, which must be delivered by 3 o'clock of the same trading day.

Public Company
A public company is a limited liability company, which is not a private company. A public company, which is listed, may not have any restriction on the transfer of shares.

Quotation (Quote)
This is the price at which a security may be bought or sold at any given time at the stock exchange. The quoted prices of security vary from time to time depending on demand and supply of the security.

Registration
Registration refers to the act of entering into a company's register the names and addresses of all shareholders. Thereafter, a shareholder receives a share certificate made out in his name and receives reports, circulars and dividends issued by the company.

Rights Issue
This is an offer to the existing shareholders to subscribe for a new issue, usually at a preferential price, in proportion to their existing shareholdings. When doing a Secondary Market Offering of shares to raise money, a company can opt to do a rights issue to raise equity. With the issued rights, existing shareholders have the privilege to buy a specified number of new shares from the firm at a specified attractive price within a specified time.

Revenue Reserves
This is part of the company's retained earnings that is distributed to shareholders as bonus or dividends in the future or may be used for company expansion.

Retained Earnings
Amounts that a company has re-invested in the business over the years and is usually a cumulative figure. Retained earnings are increased by net income and decreased by loses and the declaration of bonus.

Scrip
The term Scrip refers to share certificates.

Scrip or Stock Dividend
This refers to a share that is issued to existing shareholders in lieu of dividend.

Secondary Market
The market in which securities are traded after their primary offering. An organized stock exchange and over the counter market are examples of secondary markets.

Securities
Financial instruments or legal documents signifying either an ownership position in a company (i.e. shares) or a creditor relationship with a company or Government (i.e. stocks and bonds)

Securitization
Securitization of assets is a process by which loans, leases, receivables and other relatively illiquid assets with common features are packaged into interest bearing securities with marketable investment characteristics and put in the secondary market.

It is an arrangement, which involves the transfer of assets or risks to a third party where such transfer is funded by the issuance of debt securities to investors. Payments to investors in respect of the debt securities are primarily derived, directly or indirectly, from the cash flows of the assets or revenue streams generated by the entity regularly.

Settlement Period
The time prescribed with reference to the date of trade (T) within which brokers are required to deliver the security and pay for the trade through the Nairobi Stock Exchange.

Shares
A share is a unit of ownership. It is also referred as equity. When one purchases a share in a company he/she becomes a part owner in that company. He/she will be entitled to certain rights e.g. dividend, voting etc. There are different types and they include the following:

Ordinary shares– shares that give the shareholder part ownership of the company in proportion to the number of shares held and entitle him to dividends. It is the risk capital that is entitled to residual claim assets in the event if liquidation.

Preference shares - shares bearing a fixed annual rate of dividend with a prior right over all ordinary shares in the distribution of dividends from annual profits and have a prior claim to repayment of capital on winding up of the company.

Redeemable preference shares – preference shares that can be redeemed by the company either at fixed dates and prices, or on certain specified terms at the discretion of the board.

Convertible preference shares – preference shares, which may be converted under specified conditions into a specified number of ordinary shares of the issuer.

Share Certificate
This is a document, which shows ownership of shares. It can be used as collateral in acquiring a loan.

Short Sale
This is the sale of securities, which are not owned. The short seller borrows the securities with the intent to return them at a later date when he hopes to buy them back at a lower price hence making a profit.

Special Purpose Vehicle
This is an entity, which issues asset-backed debt securities and must satisfy certain criteria stipulated under the guidelines for issue of asset-backed debt securities. Its operations are limited to the acquisition and financing of specific assets. The SPV is usually a subsidiary company with an asset/liability structure and legal status that makes its obligations secure even if the parent company goes bankrupt. A corporation can use such a vehicle to finance a large project without putting the entire firm at risk.

Spread
This means the difference between the bid and the offer prices of a security. It is normally categorized according to the price of the particular securities. It is usually used as a threshold within which trades are concluded.

Sponsoring Broker
This refers to a stockbroker who is appointed by an issuer seeking listing to liaise between the company, CMA and the stock exchange in the process of ensuring that the issue is successful.

Stock Market Index
The Index is a measure of stock market trends and performance. The index may be used as an indicator of the movement (up and down) of the stock market prices. An upward movement in the index shows that on the average, the shares are appreciating. The index is therefore a weighted average of the market performance (see also Index).

Stockbroker
A market professional who buys and sells securities on behalf of clients at a Stock Exchange in return for a brokerage commission.

Stock Dealer
A person who carries on the business of buying, selling, dealing, trading, underwriting or retailing securities as a principal (i.e. on his own account).

Stock Exchange
This is an organized and licensed market for the buying and selling of listed securities (shares, stocks and bonds). On this market, individuals and companies can buy shares of companies through Licensed Stockbrokers and dealers hence become part-owners lenders to or creditors of the listed companies or the Government. Currently, the Nairobi Stock Exchange (NSE) is the only licensed exchange in Kenya.

Stop Order
An order with an instruction to either buy or sell once a specified price has been reached. A buy stop order is entered above the current market price whereas a sell stop order is entered below the current market price.

Stop Limit Order
An order to buy or sell only at a designated price once the market reaches a specific level. The stop and limit price can be the same or can be different. For a sell stop limit order, the price is placed below the prevailing market level whereas for a buy stop limit order, the price is placed above the prevailing market level.

Trade Volume
The total number of shares traded in a single security during a given period. Also refers to the total number of shares traded on an exchange during a given time period.

Trading Floor
The arena or area of a stock exchange where trading takes place.

Treasury bill
A non-interest bearing obligation with a maturity of one year or less, fully guaranteed by the Kenyan Government, payable to the bearer. Treasury bills offer the government short-term financing and are sold on a discount basis so that the yield is the difference between the purchase price and the face value thereof.

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that the yield is the difference between the purchase price and the face value thereof.

Treasury Bond
This is a fixed interest security issued by Government as source of long-term funds and are issued with a maturity of more than one year.

Trust
A legal arrangement in which an individual
(the trustor) gives fiduciary control of property to a person or institution (the trustee) for the benefit of beneficiaries

Trustee
An individual or organization, which holds or manages and invests assets for the benefit of another. The trustee is legally obliged to make all trust-related decisions with the trustee's interests in mind, and may be liable for damages in the event of not doing so. Trustees may be entitled to a payment for their services, if specified in the trust deed. In the specific case of the bond market, a trustee administers a bond issue for a borrower, and ensures that the issuer meets all the terms and conditions associated with the borrowing In relation to a unit trust means a trustee in which are invested the money, investments or other CIS portfolio that are subjected to trusts governing the unit trust

Trust Deed
The trust deed that sets out the trusts governing the unit trust or mutual fund every instrument that varies those trusts and their operations

Underwriters
These are specialized advisers who undertake the risk of the success or the failure of a public floatation. There are basically three types of underwriting agreements:

a) Firm contracts – the underwriting firm purchases the issue as a block for a commission and agrees to pay the issuer the full value of the security on or before the closing date of the issue, whether it is fully subscribed or not.

b) Stand by contract – the underwriter is obliged to mop all issues, which the issuer could not sell through some, other distributive channels.

c) Best effort contract – the underwriter agrees to sell as much of the securities as he can at an established price but with no responsibility for unsold proportion.

Venture Capital Fund
A company incorporated for purposes of providing risk capital to small and medium sized business, which are new and have a high growth potential but without ready access to markets, whereby not less than 80% of the funds so invested consist of equity or quasi equity investment in eligible enterprises. This is often accompanied by managerial support and board administration. This capital can take the form of ordinary shares, preference shares, convertible loans or other equity or quasi equity instruments. Very simply defined, Venture capital is capital invested in a project where there is a substantial element of risk, especially money in a new venture or an expanding business in exchange for shares in the business. It is not a loan.

Warrant
A Corporation instrument which offers the holder the right, not an obligation, to subscribe for new ordinary shares at a predetermined exercise price within a stipulated exercise period. Warrants become worthless after the expiry of the exercise period.

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