CAPITAL
MARKETS AUTHORITY
Promoting the Integrity and Growth of the Capital Markets

THE CAPITAL MARKETS AUTHORITY HANDBOOK

May 2021

MESSAGE FROM THE CHIEF EXECUTIVE

FCPA Mr. Wycliffe Shamiah
Chief Executive
Capital Markets Authority
Kenya

Dear Valued Reader,

The Capital Markets Authority is keen on actively playing our role in positioning Kenya as the choice market for domestic, regional and international issuers and investors looking for a safe and secure investment destination. Increasingly the world over, capital markets are taking pole position in not only facilitating the process of mobilizing long-term capital for project finance, but also contributing to overall financial sector stability. Indeed, there has been growing realization that wealth creation can be achieved through various investments avenues such as the capital markets. To this end, Kenya has maintained relevance and visibility in the capital markets arena both regionally and globally and this goes on to reinforce Nairobi's position of becoming an International Financial Centre.

For Kenya to become an International Financial Centre, there has to be a legal and regulatory regime that gives confidence to investors, an attractive business environment with access to experienced and qualified staff and critical mass of financial and professional services firms present and a network of connections with other financial centres. The Authority has continued to undertake robust investor education and public awareness programs that provide support to facilitate growth in our financial literacy, which will translate to an improved economy. It is no secret that individuals who are financially literate have the ability to make sound and informed decisions pertaining to savings, investments and personal debt management. Financial literacy has become so relevant to our society given the increasingly complex products that are being launched. In addition, several initiatives continue to be undertaken aimed at encouraging potential issuers including the small and medium enterprises to raise capital through the capital markets.

The Capital Markets Handbook is indeed one of the many initiatives that have been undertaken in support of financial literacy as envisaged under Pillar I of the Capital Markets Master Plan 2014-2023.

Enjoy the reading!

FCPA Mr. Wyckliffe Shamiah
CHIEF EXECUTIVE

MESSAGE FROM DIRECTOR, POLICY AND MARKET DEVELOPMENT

Mr. Luke Ombara
Director, Policy and Market Development
Capital Markets Authority
Kenya

The Capital Markets Handbook is a guide to the public on capital markets concepts, products, procedures and investor protection. It aims to give investors insight on the capital markets industry, licensed entities and approved institutions, key capital markets operations, the Authority's background as well its mission, strategic objectives, vision and core values.

The Handbook is structured in seven chapters, highlighting: Capital Markets Authority and Financial Instruments; Investor Protection; Licencees and Potential Licencees Guide; Collective Investment Schemes (CIS); Public Offers and Listing of Securities; The Code of Corporate Governance and the Stewardship Code; and the Definition of Terms. An overview of Chapters content is included at the beginning of each chapter. An appendix with list of licencees and policy/tax incentives granted from 1995 to date have been attached.

The Handbook comprehensively captures diverse but key aspects in the capital markets and the words carefully chosen to make it friendly to both technical and non-technical audiences. To ensure that the Handbook remains relevant, hyperlinks to information that is prone to changes in future have been inserted. The Authority will however ensure that the Handbook is continuously updated, to the extent possible to incorporate new developments in the capital markets industry and any emerging markets policy and regulatory developments.

It is envisaged that the Handbook will demystify the capital markets thereby promote product uptake by both the supply and demand side. Further, investor protection being one of the key objectives of the Capital Markets Authority, it is envisioned that the information provided in the Handbook will enhance investor protection. Indeed, an informed investor is a protected investor!

For any queries, additional information and/or clarification on the Handbook, kindly contact the Education, Awareness and Certification Department on iepa@cma.or.ke or Tel: +254-20-2264900 2221910, 2226225, 0722207767, 0734651550. Additional contacts are provided in respective sections of the Handbook.

I am confident that this Handbook will equip readers with much-needed information as we strive to move the capital markets to the next level.

Happy reading!

Mr. Luke Ombara
Director, Policy and Market Development

TABLE OF CONTENTS

LIST OF ACRONYMS 6

CHAPTER 1: CAPITAL MARKETS AUTHORITY AND FINANCIAL INSTRUMENTS

The Capital Markets Authority 7

Establishment of the Capital Markets Authority 7

The Enabling Legislation 11

Role of the Capital Markets in the Economy 14

Information on Financial Instruments (Products) 16

Investment Opportunities Available in the Kenyan Capital Markets 17

Harmonization of the East African Community Capital Markets Legal And Regulatory Framework 32

Existing Incentives Within the Capital Markets 33

CHAPTER 2: INVESTOR PROTECTION

Investor Protection Defined 35

Internal Structures that Enhance Investor Protection 35

The Capital Markets Fraud Investigations Unit 37

Complaints Handling 40

Complaints Reporting Channels 40

How an Investor can Protect Himself/Herself 41

CHAPTER 3: LICENCEES AND POTENTIAL LICENCEES GUIDE

The Main Capital Markets Players in the Kenyan Capital Market and Licensing Requirements 44

License Application Procedure 56

CHAPTER 4: UNDERSTANDING THE COLLECTIVE INVESTMENT SCHEMES (CIS)

Collective Investment Schemes Defined 61

Types of Collective Investment Schemes 62

The Benefits of Collective Investment Schemes to an Investor 65

Understanding the Risks of Investing in CISs 67

Investing Wisely in a CIS 68

CHAPTER 5: PUBLIC OFFERS AND LISTING OF SECURITIES

Capital Markets Requirements for all Offers and Listing of Securities to the Public in Kenya 69

CHAPTER 6: CORPORATE GOVERNANCE AND STEWARDSHIP CODES
The Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 . 82
Objectives of the Code of Corporate Governance 82
The Stewardship Code for Institutional Investors, 2017 85
Objective of the Stewardship Code for Institutional Investors 85

CHAPTER 7: DEFINITION OF TERMS
Glossary of Some Commonly Used Terms 87

APPENDICES
APPENDIX I: LIST OF LICENCEES 121
APPENDIX II: POLICY/TAX INCENTIVES GRANTED FROM 1995 TO DATE 122

BIBLIOGRAPHY 129

LIST OF ACRONYMS

ABS	-	Asset Backed Securities
AIMS	-	Alternative Investment Market Segment
CBK	-	Central Bank of Kenya
CDSC	-	Central Depository and Settlement Corporation
CIS	-	Collective Investment Scheme
CMA	-	Capital Markets Authority
CPI	-	Consumer Price Index
D-REIT	-	Development Real Estate Investment Trust
DRs	-	Depositary Receipts
EAC	-	East Africa Community
EASRA	-	East African Securities Regulatory Authorities
E-KYC	-	Electronic Know Your Customer/Client
ERSWEC	-	Economic Recovery Strategy for Wealth and Employment Creation
ESOP	-	Employee Share Ownership Plan
ETF	-	Exchange Traded Fund
ETP	-	Exchange Traded Products
FISMS	-	Fixed Income Securities Market Segment
GDN	-	Global Depositary Notes
GDR	-	Global Depositary Receipt
GEMS	-	Growth Enterprise Market Segment
IFC	-	International Finance Corporation
IPO	-	Initial Public Offer
I-REIT	-	Income Real Estate Investment Trusts
KDR	-	Kenya Depositary Receipt
MIMS	-	Main Investment Market Segment
MoU	-	Memorandum of Understanding
NAV	-	Net Asset Value
NIFC	-	Nairobi International Financial Centre
NSE	-	Nairobi Securities Exchange
OTC	-	Over the Counter
PE	-	Private Equity
REIT	-	Real Estate Investment Trust
SPV	-	Special Purpose Vehicle

CHAPTER 1: CAPITAL MARKETS AUTHORITY AND FINANCIAL INSTRUMENTS

INTRODUCTION

This Chapter highlights the establishment and mandate of the Authority, the industry regulatory framework, approved market intermediaries, financial instruments and capital markets products available for investment in Kenya. Further, the Chapter discusses the role of the Authority the harmonization of the East African Community capital markets legal and regulatory framework, incentives within the capital markets and the role of capital markets in the economy.

THE CAPITAL MARKETS AUTHORITY

The Capital Markets Authority (CMA) is an independent public agency under The National Treasury and Planning established by an Act of Parliament, the Capital Markets Act Cap 485A Laws of Kenya. The Authority came into being on December 15, 1989 upon enactment of the Act and was later inaugurated in March 1990, with a dual mandate of regulating and facilitating the development of orderly, fair and efficient capital markets in Kenya.

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 for an efficient and stable financial system. It sought 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. At the time, it was evident that the commercial banks could not support and sustain a desirable economic development as 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 (CBK) and the International Finance Corporation

(IFC) with the objective 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 the 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 November 1989, the Bill was passed in Parliament and subsequently received Presidential assent. 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.

The CMA is the regulatory body with the core responsibility of licensing and supervising all capital market intermediaries, ensuring proper conduct of all licensed persons and entities, regulating the issuance of capital market products, regulating securities, derivative and spot commodity exchanges, promoting market development through the creation of a conducive environment for product innovation, supporting institutional capacity development, supporting robust market infrastructure, promoting investor, issuer and intermediary education and awareness, and protecting investors.

Accordingly, the Authority plays a critical role in the economy by facilitating mobilization and allocation of capital resources to finance long-term productive investments.

What We Do

The Authority derives its powers to regulate and supervise the capital markets industry from the Capital Markets Act and the Regulations issued there under. The regulatory functions of the Authority as provided by the Act and the regulations include the following:

- Licensing and supervising all the capital market intermediaries.
- Ensuring proper conduct of all licensed persons and market institutions.

- Regulating the issuance of the capital market products (bonds, shares, ETFs, REITs) and market activities such as online forex trading.
- Promoting market development through research on new products and institutions.
- Promoting investor education and public awareness.
- Protecting investors' interest.

Vision: To be an innovative regulator of a robust and globally competitive capital market.

Mission: To make Kenya's capital market the premier choice for investors and issuers through robust regulation, supporting innovation and enhanced investor protection.

Our Core Values: To fulfil its mandate, pursue the Vision and accomplish its Mission, the CMA is guided by its core values of:

a) **Integrity** – We are always committed to acting with honesty, fairness, accountability, transparency, ethically and above board in all our operations;

b) **Commitment** - We shall perform our duties with the highest level of professionalism, dedication with a view to exceeding the expectations of our clients and stakeholder;

c) **Responsiveness** - We are sensitive to and will deal with issues and situations affecting all our stakeholders in proactive and timely manner, using flexible decision-making processes;

d) **Innovation and Continuous Learning** - We are committed to facilitating continuous learning and innovation; and

e) **Collaboration and Teamwork** - We are committed to teamwork within the Authority and collaboration with our partners in the provisions of our services.

Strategic Objectives

The principle objectives of the Authority are:

1. Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency;

2. Facilitating the development, diversification and uptake of capital markets products and services;
3. Ensuring sound market infrastructure, institutions and operations;
4. Leveraging technology to drive efficiency in the capital markets value chain;
5. Ensuring optimal institutional efficiency and effectiveness of CMA; and
6. Enhancing strategic influence.

Composition of Capital Markets Authority Board

The Board is responsible for the overall policy direction and leadership of the Authority. Its commitment, professionalism, diversity of talent and experience as well as independence of mind are critical factors in the successful execution of the mandate of the Authority. Its primary responsibility is to ensure protection of the interest of investors, the government, employees, issuers of securities and the market intermediaries.

The board of directors of the Authority consists of:

1. A Chairman appointed by the President on the recommendation of the Cabinet Secretary of The National Treasury;
2. Six other members appointed by the Cabinet Secretary;
3. The Principal Secretary of the National Treasury or a person deputed by him;
4. The Governor of the Central Bank of Kenya or a person deputed by him;
5. The Attorney General or a person deputed by him; and
6. The Chief Executive of the Authority, who serves for a four-year term and is eligible for re-appointment for another four-year term.

The chairman and the six members appointed by the Cabinet Secretary are persons with 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

The Authority, led by the Board of Directors and supported by the Chief Executive together with the management, carries out its mandate through a regulatory framework that is deliberately designed to meet this objective.

Just like any other industry, the capital markets industry operates within a certain regulatory framework within which its players are required to adhere to in the course of offering services. Since its inception, the Authority has strived to deepen and broaden the capital markets by developing a regulatory framework that facilitates the development of new financial products and institutions through research and ensuring fairness and orderliness in the capital markets industry. The regulatory framework of the Authority is comprised of the following:

Acts

1. The Capital Markets Act;
2. The Central Depositories Act, 2000

Regulations and Rules

1. The Capital Markets (Commodity Markets) Regulations, 2020
2. The Capital Markets (Coffee Exchange) Regulations, 2020
3. The Capital Markets (Derivatives Markets) (Fees) Regulations, 2019
4. The Capital Markets (Securities Lending Borrowing and Short-Selling) Regulations 2017.
5. Capital Markets (Online Foreign Exchange Trading) Regulations, 2017
6. The Capital Markets (Collective Investment Schemes) Regulations, 2001
7. The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 – amended 2019
8. The Capital Markets (Takeovers and Mergers) Regulations, 2002
9. The Capital Markets Tribunal Rules, 2002
10. The Capital Markets (Registered Venture Capital Companies) Regulations 2007.
11. The Capital Markets (Foreign Investors) Regulations with 2015 Amendments

12. The Capital Markets (Conduct of Business) (Market Intermediaries) Regulations 2011
13. The Capital Markets (Corporate Governance) (Market Intermediaries) Regulations, 2011
14. The Capital Markets (Demutualization of the Nairobi Securities Exchange Limited) Regulations 2012
15. The Capital Markets Real Estate Investment Trusts Collective Investment Schemes Regulations 2013
16. Capital Markets (Derivatives Markets) Regulations, 2015
17. Capital Markets NSE Limited Shareholding Regulations, 2016
18. Central Depositories (Regulation of Central Depositories) Rules, 2004 – March 2008
19. Central Depositories (Operational) rules, 2003

Guidelines

1. Guidelines on Financial Resource Requirements for Market Intermediaries
2. Credit Rating Agency Guidelines
3. Management Supervision Internal Control Guidelines May 2012
4. Guidelines on the Prevention of Money Laundering in the Capital Markets

Codes

1. Code of Corporate Governance Practices for Issuers of Securities to the Public 2015
2. Stewardship Code for Institutional Investors, 2017

Policy Guidance Notes

1. Regulatory Sandbox Policy Guidance Note – March 2019
2. Policy Guidance Note for Green Bonds
3. Policy Guidance Note for Exchange Traded Funds in Kenya
4. Policy Guidance Note on Issue of Asset Backed Securities, 2017
5. Policy Guidance Note on Global Depository Receipts and Global Depositary Notes.

The above pieces of Legislation, together with circulars issued by the Authority from time to time, are what the Authority uses to supervise and regulate market activities. The regulatory framework support self-regulation to the maximum practical extent.

For more information on regulations (including draft regulations and East Africa Community directives) please refer to the Regulatory Framework section of the CMA website on www.cma.or.ke

Who are our Approved Institutions and Licensees?

The Authority approves and licenses the following institutions as market intermediaries in the capital markets:

a) Approved Institutions

- Securities Exchanges
- Derivatives Exchange
- Credit Rating Agencies
- Venture Capital Companies
- Central Depository and Settlement Corporations
- Commodity Exchanges

b) Licensees

- Investment Banks
- Derivatives Brokers
- Stockbrokers
- Investment Advisers
- Fund Managers
- Authorized Securities Dealers
- Authorized Depositories (Custodians)
- REIT Trustees
- REIT Managers
- Non-Dealing Online Foreign Exchange Broker
- Online Foreign Exchange Money Manager
- Commodity Brokers

c) Other Approved Products

- Collective Investment Schemes
- Employee Share Ownership Plans

A list of the number of institutions licensed under each category of licensees is provided in ***Appendix I*** and can be accessed online through ***https://www.cma.or.ke/index.php?option=com_phocadownload&view=category&id=49&Itemid=254***

ROLE OF THE 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 market 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. The capital 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 the private sector in productive investments. The 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 socioeconomic 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.

INFORMATION ON FINANCIAL INSTRUMENTS (PRODUCTS)

Kenya Capital Markets Industry Product Structure

Equity Market	Debt Market	Derivatives Market	Regulatory Sandbox	Collective Investment Schemes	Commodities Market	Others
• Ordinary Shares • REITS (D REIT and I REIT) • Sharia compliant stocks* • Sharia compliant funds • Equity Based Crowdfunding* • Exchange Traded Funds • Global Depositary Receipts***	• Treasury Bonds • Corporate Bonds • Green Bonds • M-Akiba • Preference Shares • Infrastructure Bonds • Commercial Papers • Sustainable Bonds* • Blue Bonds* • Social Bonds* • County Bonds* • Sukuk* • Asset Backed Securities*** • Global Depositary Notes*** • Debt Based Crowdfunding****	• Futures • Swaps** • Options** • Swaptions** • Online Foreign Exchange Trading	• Robo Advisory • RegTech • SupTech • Blockchain • Data Analytics • E-KYC • Crowdfunding • Tokenization of Assets	• Money Market Funds • Equity Funds • Fixed Income Funds • Balanced Funds • Special Funds • Employee Share Ownership Plans	• Commodity contracts for various commodities	• Securities Lending and Borrowing • Short Selling • Margin Trading* • REPO* • Unquoted Securities Platform • IBUKA

Notes:

* In the pipeline

** OTC Market active but exchange traded products due to be introduced in the near term.

*** Regulations and/or guidelines in place awaiting issue of the products.

**** Products in the mass market (through the sandbox) awaiting development of regulations and/or guidelines.

Source: CMA

INVESTMENT OPPORTUNITIES AVAILABLE IN THE KENYAN CAPITAL MARKETS

A highlight of the main financial products available to investors in the capital markets in Kenya include, but not limited to, the following:

1.0 Equity

This is the oldest financial instrument in the Kenyan Market. Equity refers to the ownership of interest in a company and carries limited liability. Offers of equity securities to the public are governed by the Capital Markets (Securities, Public Offers, Listing and Disclosures) Regulations, 2002. Potential investors can invest in this product through the primary market; an Initial Public Offer (IPO) a Rights Issue or through the secondary market on the Nairobi Securities Exchange.

As at 31st December 2020, Kenya had a quarterly equity turnover of Kshs. 27.51 Billion compared to KShs. 45.01 Billion registered in Q4. 2019; a 38.88% decrease. The decrease in investor participation at the Nairobi Securities Exchange is attributed to the impact of COVID-19 pandemic. For updated equity turnover statistics, please follow the following link: https://www.cma.or.ke/index.php?option=com_phocadownload&view=category&id=79&Itemid=259

2.0 Bonds

A bond is a debt investment/instrument in which an investor loans money to an entity, corporate or government, which borrows the funds for a defined period at a variable or fixed interest rate. Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. Owners of bonds are referred to as debt holders or creditors of the issuer. There are two main categories of bonds issued in the Kenyan Market namely: -

2.1 Treasury Bonds

These are medium to long term, debt instruments, usually older than a year, issued by the Government of Kenya to raise money in local currency that is used to finance budgetary goals. The types of Treasury bonds may be defined by the purpose, interest rate structure, maturity structure, and even by the issuer. So far, the Government has issued Fixed-Coupon/Rate Bonds, Zero-Coupon, Floating Rate, Infrastructure (project-specific), Restructuring/Special bonds, and Savings Development bonds.

Most issued bonds in Kenya are fixed-coupon bonds that have huge investor demand. Treasury bonds which are issued on a monthly basis are available in both the primary market (through auctions) and the secondary market (through the Nairobi Securities Exchange). An investor needs at least Kshs. 50,000 to purchase Treasury bonds in Kenya.

2.1.1 M-Akiba Bond

A government of Kenya mobile-based retail bond that sought to enhance financial inclusion for economic development. It was launched into the Kenyan market on March 23rd, 2017 by the National Treasury aimed at mobilizing funds for infrastructural development projects, both new and existing.

CMA approved the listing of the Special Limited Offer bond valued at Kshs One Hundred and Fifty Million (Kshs 150,000,000/=) on the Fixed Income Securities Market Segment of the Nairobi Securities Exchange. Following the success of the Limited Offer, a subsequent offer, M-Akiba 2, was made on June 30, 2017. The 3-year mobile phone-based bond modelled as an infrastructure bond allowed buyers an initial investment minimum amount of Kshs. 3,000/= exclusively via mobile phones. The M-Akiba bond was tax-free and the interest rate of the bond was 10% per annum payable semi-annually.

Final payout of principal amount and final interest to both M-Akiba 1 and M-Akiba 2 had been made to investors on April 7, 2020 and September 7, 2020 respectively following maturity of the bonds. As at the time of publishing the Handbook, the Government of Kenya had not issued other M-Akiba bonds. However, given the success of the first two bonds, it is expected that the Government will from time to time be issuing the bond as and when need arises.

2.2 Corporate Bonds

These are long-term (at least one year and above) debt instruments issued by private and public institutions. The prescribed minimum lot as per the public offers regulations is Ksh 100,000/=. This implies that this product is available to an investor who is willing to invest a minimum amount of Kshs 100,000/=.

3.0 Treasury Bills

Treasury Bills are short-term borrowing instruments issued by the Government of Kenya through the Central Bank of Kenya (as a fiscal agent) to raise money on short-term basis usually for a period up to one year. Treasury bills are issued in maturities of 91, 182 and 364 days.

4.0 Commercial Papers

These are short-term debt instruments issued by companies to raise funds for a time period. Commercial papers are not transferable or to be listed at a securities exchange.

5.0 Loan Stocks & Preference Shares

These are less frequently used Financial Instruments in the Kenyan Market and have characteristics of both equity and debt. Despite priority in payment from the balance sheet of loan stockholders over equity holders, yields on these securities are relatively low.

a. Preference shares

These are shares of a company's stock with dividends that are paid out to shareholders before common stock dividends are issued. If the company enters bankruptcy, the shareholders with preferred stock are entitled to be paid from company assets first.

b. Loan stock

Loan stock is shares in a business that have been pledged as collateral for a loan. This type of collateral is most valuable for a lender when the shares are publicly traded on a securities exchange and are unrestricted, so that the shares can be easily sold for cash.

6.0 Collective Investment Schemes

Collective investment schemes are pools of funds that are managed on behalf of investors by a professional fund manager. These are arrangements made or offered under which the contributions, or payments made by the investors, are pooled and utilized with a view to receiving profits, income, produce or property, and is managed on behalf of investors according to specific shared investment objectives that have been established for the scheme. Collective investment funds groups assets from individuals and organizations to develop a larger, diversified portfolio.

In return for putting money into these funds, the investor receives units that represent his/her pro-rata share of the pool of fund assets. The performance of the fund is is dependent on the market value of the instruments in which the pool of money is invested, therefore it it fluctuates. The yield for money market funds and the price for the other funds is calculated daily.

Collective Investment Schemes may take the form of:

i. Equity funds
ii. Bond/fixed income funds
iii. Balanced funds
iv. Money market funds
v. Special funds

As at March 31, 2021, there were 25 fund managers and 24 collective investment schemes licensed by the Capital Markets Authority. For updated list on licensed fund managers and CISs, please follow this link:
https://www.cma.or.ke/index.php?option=com_phocadownload&view=category&id=49&Itemid=254

7.0 Employee Share Ownership Plans (ESOPS)

This is an employee-ownership program that provides a company's workforce with an ownership interest in the company. A listed company may set up an employee share ownership plan (ESOP), to enable its employees to own shares of the listed company, subject to approval of the Authority. These shares are often made available to the employees as an employee award mechanism at no cost or at a discounted rate.

The Capital Markets Collective Investment Schemes Regulations, 2013 provide that an ESOP can only invest in the securities of the primary listed company. This means that the fund cannot invest in any other listed company except the listed company from which it is created. For example, a Safaricom ESOP can only invest in Safaricom securities, and no other listed company.

As at March 31, 2021, there were 14 Employee Share Ownership Plans approved by the Capital Markets Authority. For updated list of approved ESOPs please follow this link: https://www.cma.or.ke/index.php?option=com_phocadownload&view=category&id=49&Itemid=254

8.0 Real Estate Investment Trusts (REITs)

Real Estate Investment Trusts are designed to enable the investing public to benefit from investments in large-scale real estate enterprises. They invest in real estate through property or mortgages and often trades on the securities exchange like a stock. REITs provide investors with an extremely liquid stake in real estate and mortgage properties. There are two main types of REITs in Kenya namely:

a. Income Real Estate Investment Trusts (I-REITs)

This is a real estate investment trust that primarily derives its revenue from property rentals. It owns and manages income generating real estate for the benefit of its investors. Distributions to investors are underpinned by commercial leases. I-REITs provide an instrument for investing in the real estate market which offers both liquidity and a stable income stream.

Kenya's first Real Estate Investment Trust, the Stanlib Fahari Income REIT got listed through an Initial Public Offer process in the Real Estate Investment Segment of the NSE in October 2015. The REIT raised KES3.6 billion to be invested in identified real estate projects.

b. Development Real Estate Investment Trust (D-REIT)

This is a real estate investment scheme where the proceeds of the REIT go towards development and construction of property for sale and/or rental. The returns from D-REITs come from capital gains from the project when the company completes development and exits by either sale to the open market, or to an I-REIT.

As at March 31, 2021, there were 10 REIT Managers, 3 REIT Trustees and 3 Authorized REITS (1 D-REIT and 2 I-REITs) approved by the Capital Markets Authority.

9.0 Asset Backed Securities

Asset-backed securities (ABS) are created by buying and bundling loans or payables – such as residential mortgage loans, commercial loans or student loans – and creating securities backed by those assets, which are then sold to investors. Often, a bundle of loans is divided into separate securities with different levels of risk and returns. Payments on the loans are distributed to the holders of the lower-risk, lower-interest securities first, and then to the holders of the higher-risk securities. For investors, asset-backed securities are an alternative to investing in corporate debt. They are mainly used to finance roads, power, energy, ports, railways and many other projects. Asset-backed securities constitute a growing segment of the global capital markets. In recent years the ABS market has enabled companies and banks to finance a wide range of assets in the public debt market and has attracted a variety of fixed-income investors.

Companies use securitization as borrowing instruments through the creation of Special Purpose Vehicles (SPV). An SPV is a subsidiary of an originating company whose books are run independently from those of the parent company. The parent company then transfers assets to the Special Purpose Vehicle which issues securities that are collateralized by the assets with the proceeds transferred back to the parent company.

10.0 Derivative Instruments

A derivative is a financial instrument whose value is based on the performance of one or more underlying asset(s). They generally take the form of (legal) contracts under which the parties agree to payments between them based upon the value of an underlying asset or other data at a point in time. The main use of derivatives is to transfer risk. Derivatives can be based on different types of assets such as commodities, equities (stocks), bonds, interest rates, exchange rates, or indices (such as a stock market index, consumer price index (CPI) or even an index of weather conditions, or other derivatives) offering the potential for a high return (at increased risk) to another.

Derivatives can either be traded Over the Counter (OTC) or on an exchange. An Over the Counter transaction involves trades done directly between two parties without any supervision of an exchange as opposed to trading on an exchange characterized with rules upon which parties can engage. There are four most common types of derivative instruments:

10.1 Forward Contract

A forward contract is a non-standardized agreement between two parties – a buyer and a seller – to purchase or sell an asset later at a price agreed upon at the time of signing the contract. It is thus traded over the counter.

10.2 Futures Contract

This is a highly standardized agreement between two parties – a buyer and a seller – to buy or sell an asset at a future date. Prices are determined by the forces of demand and supply as the contracts are traded on an organized exchange.

10.3 Options Contracts

An option bestows upon the holder the right, but not the obligation, to buy or sell the asset underlying the option at a predetermined price during or at the end of a specified period.

10.4 Swaps

These are private agreements between two parties to exchange one financial instrument for another between parties concerned in the future according to a prearranged formula. The exchange takes place at a predetermined time as specified in the contract. They can be regarded as portfolios of forward contracts. The two commonly used swaps are interest rate swaps and currency swaps.

A financial derivatives market will help primary dealers in the bond market better able to manage their risks, aid wider risk management for the whole economy and improve portfolio returns for institutional investors. This could be achieved by products such as foreign exchange, interest rate and equity-based derivatives.

11.0 Venture Capital Funds

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. Venture capital Funds are emerging as critical in addressing the funding needs of entrepreneurial companies that generally do not have the size, assets, and operating histories necessary to obtain capital from more traditional sources, such as public markets and banks. In Kenya, the number of venture firms has increased significantly over the years given that Nairobi is considered an investment hub within the East African region from external investors.

12.0 Private Equity Fund

Private equity (PE) funds invest and acquire equity ownership in private companies, typically those in high-growth stages. These PE funds purchase shares of private companies or those of public companies that go private and become delisted from the public securities exchange.

There are various types of private equity firms, and depending on strategy, the firm may take on either a passive or active role in the portfolio company. Passive involvement is common with mature companies with proven business models that need capital to expand or restructure their operations, enter new markets, or finance an acquisition. Active involvement does not mean the PE firm runs the company on a day-to-day basis, it does mean that the firm plays a direct role in restructuring the company, reshuffling the senior management, and provides advice, support, and introductions.

While venture capital is a subset of private equity, there are differences between the two. The most notable difference is that venture capital funds raise capital from investors to specifically invest in startups and small- and medium-size private companies with strong growth potential.

13.0 Exchange-Traded Fund (ETF)

An exchange traded fund (ETF) is a pooled investment vehicle with shares that can be bought or sold throughout the day on a securities exchange at a market-determined price. Like a mutual fund, an ETF offers investors a proportionate share in a pool of stocks, bonds and other assets. Generally, the price at which an ETF trades on a securities exchange is a close approximation to the market value of the underlying securities that it holds in its portfolio. An ETF can be managed either passively or actively. Constituents of a passive ETF follow underlying indices or sectoral securities and are not at the discretion of a fund manager, whereas for active ETFs the fund manager would continuously make portfolio adjustments so as to maximize the returns.

In the case of a commodity ETF, such an ETF invests in real commodities such as agricultural goods, natural resources and precious metals like Gold and Silver. It is also possible for a commodity ETF to focus on a single commodity, with holdings in a physical storage safe or to invest in futures commodities contracts. Furthermore, there are also other more complex commodity ETFs that track the performance of a commodity index (created out of pooled commodities or derivatives positions).

Prerequisites of Investing in Exchange Traded Funds

Item	Explanation
Investment Strategy	Determining the correct investment strategy will set you on the correct path of selecting the most effective ETF.
Investment Objective	This refers to an investor's overall outlook and investment goals, that aids asset managers and investment advisors structure the optimal portfolio mix for a client.
ETF Assets	Research your chosen ETF and, where possible, even all its holdings. Even though one may be looking for overall country, market, or sector exposure, it may be of additional benefit to examine the equities underlying an ETF.
Costs, Commissions and Fees	One should be aware of the costs, commissions and fees involved in actively trading ETFs and make sure to include commissions in your cost calculations.
Tax Implications	Tax implications vary from region to region. The combination of an ETF's asset class and structure, along with how long the ETF is held (short-term gains apply to investments that are held for one year or less; long-term gains apply when a position is held for more than one year), determines its potential tax treatment.

Types of Exchange Traded Funds

Type of ETF	Role
Index ETFs	Are created to track the performance of an index. They hold assets of that index or a representative sample of the index.
Bond ETFs	Exclusively invests in bonds. They are very much like bond mutual funds in that they hold a portfolio of bonds and can differ widely in strategies, ranging from Treasuries to high yields, from long-term to short-term. Bond ETFs trade like stocks and are passively managed.
Commodity ETFs	Are exchange traded funds tracking a commodity index e.g. energy and gold ETFs.

Type of ETF	Role
Sector and Industry ETFs	Industry ETFs are types of ETFs that generally track a sector index representing a certain industry. It is perfect for gaining exposure to a certain market sector like pharmaceuticals without having to purchase individual companies.
Derivative ETFs	Do not consist of equities. Are very common with commodity ETFs. Some funds are made up of derivative contracts like futures, forwards and options. Assets in the fund can either be individual companies or in these cases derivative products.
Inverse ETFs	These are funds created to provide a short position when you buy the ETF. They have an inverse reaction to the direction of the underlying index or asset.
Foreign Currency ETFs	Currency ETFs are seemingly simple investment vehicles that track a foreign currency. Foreign currency ETFs help investors gain exposure to foreign currencies without having to complete complex transactions.

In our Kenyan case, the Capital Market Master Plan prioritizes regional and international investment as one of the areas of focus. It is against this backdrop that the Capital Markets Authority (CMA) granted approval for the listing of the first Exchange Traded Fund (ETF) in Kenya in February 2017, to be issued by NewGold Issuer (RF) Limited. NewGold Issuer (RF) Limited, a company incorporated in South Africa issued and listed 400,000 Gold Bullion Debentures as a secondary listing on the Nairobi Securities Exchange (NSE) main investment market segment with the value of NewGold ETF tracking the price of gold. The ETF commenced trading at the NSE on 27th March 2017.

14.0 Depositary Receipt/ Global Depositary Receipt and Global Depositary Note

Depositary Receipts (DRs) are a means for investors to hold and trade foreign securities as if they were local securities. A DR is an instrument issued in one country representing an interest in an underlying security issued in another country.

The underlying securities are held by a Depositary Bank, which is responsible for creating and issuing the DRs and for passing through any entitlements, such as dividends, to the holders of the DRs. The Depositary Bank either creates or cancels DRs as securities are moved into or out of this form. DRs have also been used by developing markets as a means both of raising capital and familiarizing international investors with local companies. This typically takes the form of a Global Depositary Receipt (GDR) program. Global Depository Receipts are transferable/negotiable certificates that represent an ownership interest in the ordinary share of the stock of a company.

Global Depositary Notes (GDNs) are debt instruments created by a depositary bank that evidence ownership of a local currency denominated security that is bonds. GDNs emulate the terms i.e. interest rate, maturity date and credit quality of local bonds however they trade, settle and pay interest and principal in United States Dollar (USD).

GDNs/GDRs can be further sub-divided into in-bound GDNs/GDRs and out-bound GDNs/GDRs. This distinction is primarily based on the perspective of the home country and the foreign jurisdiction that the intended listing will be made. Using our Kenyan context, for in-bound Notes, it relates to an issuer intending to list or privately offer depositary notes in Kenya. Consequently, out-bound depository notes/receipts are in reference to the issue depositary receipts or depositary notes on securities of listed companies in Kenya in a foreign jurisdiction.

GDR's and GDN's have been used by emerging markets as one of the ways to deepen market liquidity through encouraging more international investor participation. The depository receipts are envisioned to contribute to deepening of the capital markets under the Capital Markets Master Plan by:

- Developing GDR program for leading Kenyan companies, with secondary listings on an international exchange, most likely the London Stock Exchange. These would raise the international profile of these companies.
- Developing GDR program for major domestic debt issues using the Global Depositary Notes.

- Developing Kenya Depositary Receipt (KDR) program for international companies that are involved in the Kenyan economy, together with a secondary listing on NSE.
- Developing KDR program for companies from EAC countries.

15.0 Online Foreign Exchange Trading

This is the internet-based trading of foreign exchange and includes trading in contracts for difference based on an underlying foreign asset. Online Foreign Exchange brokers are firms that provide currency traders with access to a trading platform and a method to make online currency exchanges. Some brokers offer the service for free, and others will require a payment for the services, either as a portion of the spread or as a set fee.

Money Managers are also key players in the online foreign exchange trading. They are entities licensed by the Authority to engage in the business of managing the online foreign exchange portfolio of an individual or institutional investor in return for a fee based on a percentage of assets under management.

There are two types of Online Foreign Exchange brokers:

a. Non-dealing online foreign exchange broker

Refers to an entity licensed by the Authority that acts as a link between the foreign exchange market and a client in return for a commission or mark-up in spreads and does not engage in market making activities.

b. Dealing online foreign exchange broker

Refers to an entity licensed by the Authority to engage in the business of online foreign exchange trading as principal and market maker.

As at March 31, 2021, the Authority had licensed four (4) Non-Dealing Online Foreign Exchange Brokers and one (1) Online Foreign Exchange Money Manager.

16.0 Regulatory Sandbox

In March 2019, the Capital Markets Authority launched a Regulatory Sandbox as a strategy of deepening support for innovative solution in the capital markets industry. Regulatory Sandbox is a tailored regulatory environment for conducting limited scale, live tests of innovative products, solutions and services that have the potential to deepen or broaden the Kenyan capital markets. The Sandbox is expected to also accelerate CMA's understanding of emerging technologies, support adoption of an evidence-based approach to regulation and facilitate deepening and broadening of Kenya's capital markets. The Regulatory Sandbox serves financial innovations that are directly within the regulatory perimeter of the Authority. The criteria for eligibility is provided for in the Regulatory Sandbox Policy Guidance Note and applications are done online through the following link: https://www.cma.or.ke/images/sandbox/Capital-Markets-Authority-Regulatory-Sandbox-Application-Form.pdf

As at April 2021, seven (7) firms had been admitted to the Regulatory Sandbox with two (2) successful exits.

17.0 Islamic Finance

Islamic Finance refers to a type of financing mechanism that requires stakeholders to comply with the principles of Islamic Law (Sharia). The concept can also refer to the investments that are permissible under Sharia.

Principles of Islamic Finance

Islamic finance is based on principles that demarcate boundaries within which financial transactions should be conducted, highlighting the permissible and prohibited activities, products and/or services. The main principles are as below:

i. **Paying or charging an interest -** Islam considers charging of interest on lent funds as an exploitative practice that favors the lender at the expense of the borrower. This is therefore prohibited.

ii. **Investing in businesses involved in prohibited activities -** Some activities considered as harmful to society such as producing and selling alcohol, Tobacco and its products or pork, are prohibited in Islam. These activities are forbidden, just as is investing in such activities.
iii. **Gambling/Speculation -** Sharia prohibits any form of speculation or gambling because transactions done on this basis create wealth from chance on an uncertain event in the future, instead of productive activity.
iv. **Uncertainty -** Islamic finance prohibits participation in contracts with excessive risk and/or uncertainty. According to Islamic rules, parties to a transaction should have complete information on the transactions thy get into. Transactions executed based on deceit, risk or fraud that might lead to destruction or loss are prohibited.
v. **Material finality of a transaction -** Each transaction be is related to a real underlying economic transaction or activity.
vi. **Profit/loss sharing** - Parties that enter a contract in Islamic finance share profits/losses and risks associated to the contract on some pre-agreed terms.

The development of Islamic capital markets seeks to position Kenya as a Regional Islamic Financial Hub as envisioned in the 10-year Capital Markets Master Plan, a flagship project under Kenya's economic blueprint, Vision 2030.

The Authority seeks to create an enabling regulatory environment that will allow individuals to explore Shariah products as an alternative investment choice away from traditional investment channels. Towards this end, CMA licensed FCB Capital, which offers Islamic asset management services. In addition, Genghis Capital operates an Islamic Collective Investment Scheme Fund. CMA has also introduced new regulations relating to REITs and these regulations provide for the creation of Sharia-compliant REITs. These developments have enabled Kenyans and specifically, the Muslim communities in the country to have access to financial services adding to the wealth creation in the economy.

18.0 Spot Commodity Contracts

A contract for the supply of a commodity traded on a spot market which is promptly delivered when the transaction is settled. A spot commodity market is a centralized market in which commodities are sold for cash and promptly delivered when the transaction is settled.

Note: ***Additional products listed in the products structure but not discussed above have been explained or defined in the Glossary of Commonly Used Terms Section.***

HARMONIZATION OF THE EAST AFRICAN COMMUNITY CAPITAL MARKETS LEGAL AND REGULATORY FRAMEWORK

In 1997, the Capital Markets Authorities in Kenya, Uganda and Tanzania entered into a Memorandum of Understanding (MoU) and adopted a common blue print on the integration of the East African Capital Markets. This MoU formed the basis for the establishment of the East African Securities Regulatory Authorities (EASRA) which is a consultative institutional forum where the East African capital markets regulatory authorities discuss matters of mutual interest that affect their operations. The objectives of EASRA include information sharing among member states, mutual assistance and cooperation and advancing the integration of East African capital markets. The Capital Markets Authority Rwanda later joined EASRA in 2009, the Bank of Burundi (BRB) in 2011 and later on the South Sudan.

Under the MoU signed by the regulators, EASRA is mandated to among others harmonize capital markets laws and structures and developing common/similar trading system(s). EASRA is also mandated to develop common capital markets strategies; foster regional capital markets development; facilitate cross-border investments; develop market infrastructures; develop policy proposals for capital markets incentives and develop proposals for alleviation of impediments.

To date, EASRA has taken a number of initiatives to realize the full integration of the regional capital markets. One of the initiatives was the development of Council Directives which were transposed into national laws by partner states. The objective of the Council Directives was to move towards legal and regulatory harmonization in banking, accounting, securities market, insurance, pensions, payment systems and investment funds critical to achieving effective functioning as a single market for financial services. For more details on the Council Directives please visit:
https://www.cma.or.ke/index.php?option=com_phocadownload&view=category&id=40&Itemid=200

EXISTING INCENTIVES WITHIN THE CAPITAL MARKETS

One of the most critical waterways 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.

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 a bid to create a more hospitable environment for investors and attract more capital to their countries.

Cognizant of 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. These incentives are enumerated in ***Appendix II.***

The government of Kenya has yielded to provide numerous 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.

CHAPTER 2: INVESTOR PROTECTION

INTRODUCTION

One of the core objective of the Capital Markets Authority is to protect investors' interests and 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. This Chapter highlights the systems in place to enhance investor protection as well tips on how an investor can protect him/herself within the capital markets industry.

INVESTOR PROTECTION DEFINED

This is the role played by the Capital Markets Authority in ensuring that local, foreign and Diaspora investors' funds and interests are secured across the capital markets industry in Kenya.

An investor an individual or institution that has invested in securities and/or other capital markets products. There are two categories of investors as follows:

a) **Institutional Investors:** Organizations, which pool large sums of money and invest those sums in securities, real property, and other investment instruments such as Collective Investment Schemes.
b) **Retail Investors:** These are individuals who invest in securities, real property, and other investment instruments.

INTERNAL STRUCTURES THAT ENHANCE INVESTOR PROTECTION

The Authority has established internal structures that facilitate enhancement of investor protection. A highlight of the main structures and respective contacts include:

- Policy and Regulatory Framework unit that formulate regulations within the capital markets industry. Any regulatory and policy queries can be directed to: legal@cma.or.ke; research@cma.or.ke

- Education, Awareness and Certification unit that create awareness, educate and disseminate information to the public on various aspects of capital markets as well as investor protection. This is done through forums, both physical and/or online, amongst other initiatives. Further, the unit ensure professionalism within the industry and highly skilled practitioners in the market. Awareness or certification queries can be directed to: iepa@cma.or.ke
- Licensing and approvals unit that ensure all market intermediaries meet the requirements prior to being licensed. Any licensing and approval matters can be directed to: marketoperations@cma.or.ke;
- Market supervision unit that ensure continuous inspection of the licensed intermediaries for compliance with the regulations and guidelines. Issues relating to supervision can be directed to: ms@cma.or.ke; marketoperations@cma.or.ke
- Market surveillance unit that monitor daily trading at the exchange for purposes of identifying any suspicious trends. Issues relating to surveillance can be directed to: ms@cma.or.ke; marketoperations@cma.or.ke
- Investigation and enforcement unit that investigate and take enforcement actions against market violations. Investigations and enforcement matters can be directed to: ie@cma.or.ke
- Integrity Committee that ensure upholding of professionalism, integrity, transparency and fairness by the Authority staff. Any integrity issues can be directed to: integrity@cma.or.ke
- Capital Markets Fraud Investigations Unit established with a view of consolidating the investigations of all securities related fraud cases under one roof. More details on the Unit are provided in the section below. Fraud matters can be directed to: cmfiu@cma.or.ke
- Investor Compensation Fund for purposes of granting compensation to investors who suffer pecuniary loss resulting from the failure of a licensed stockbroker or dealer, to meet his contractual obligations and paying beneficiaries from collected unclaimed dividends when they resurface. Currently the law prescribes maximum compensation of Kshs.50,000 per investor. Investor compensation matters can be directed to: ceoffice2@cma.or.ke; corporate@cma.or.ke

Additional tools implemented by the Authority to enhance investor protection include:

- ✓ Risk Based Supervision for improved risk mitigation.
- ✓ A robust website that includes an Investor Toolkit.
- ✓ Online Complaints Portal on the CMA website.
- ✓ Online Whistle Blowing Portal on the CMA website.
- ✓ Resource Centre Portal that also includes a specific Diaspora section.

THE CAPITAL MARKETS FRAUD INVESTIGATIONS UNIT

The Capital Market Fraud Investigations Unit (CMFIU) was formed in May 2009 through collaboration with the Kenya Police Service and Capital Markets Authority (CMA), with a view of consolidating the investigations of all securities related fraud cases under one roof. The CMFIU is a function/Unit within the Capital Markets Authority.

Capital Markets Fraud Defined

- Fraud is defined as willful misrepresentation of the truth with intent to deceive by one party resulting in actual or potential loss to another party or illegitimate gain to the fraudster.
- Capital markets fraud is misrepresentation of information to investors of capital markets products which is the basis of their decision making and often, leads to losses for investors.
- In a capital markets context, fraud can manifest in ways not limited to: Fraudulent sale of client shares; insider trading; market manipulation; stealing of client funds; and manipulation of client records among other offences.

Functions of the Capital Markets Fraud Investigation Unit

1. Detection, prevention and apprehension of offenders perpetrating fraud within the securities market.
2. Collection, analysis and dissemination of relevant criminal intelligence, within the market.

3. Investigation and prosecution of detected/reported cases relating to the securities market.
4. Act as liaison unit between the Authority and other investigative agencies.
5. Co-ordinates with the Authority's Investigation and Enforcement Department whereby it takes up matters which have a criminal aspect for investigation and prosecution whilst the Authority's Investigation & Enforcement Department pursues compliance with the Capital Markets Regulatory framework.
6. Assist members of the public in the spirit of "Utumishi Kwa Wote" on relevant capital market issues.

Examples of fraudulent offences

1. Impersonation of investors and undertaking unauthorized transactions in their securities accounts.
2. Collection and encashment of sales proceeds by fraudsters posing as genuine investors.
3. Unauthorized variation of client details in securities accounts.
4. Conducting trade of securities on basis of information that has not yet been released to the market/general public (i.e. insider trading).

The Capital Markets Fraud Investigation Unit deals with matters which involve criminal aspects as per the examples set out above. Upon finalizing investigations, the Capital Markets Fraud Investigation Unit pursues prosecution of identified suspects.

The standard of proof for sustaining successful prosecution of persons suspected of criminal offences is generally submission of proof beyond reasonable doubt by the prosecution. Penalties range from fines of up to **Kshs. 15,000,000.00** or a **jail term of up to 7 years**. Other matters involving failure to comply with the Capital Markets Regulatory Framework, for example failure to submit financial reports or breaches on rules of governance and conduct of business are handled administratively by the Authority.

The Authority is empowered to investigate and undertake enforcement/regulatory action. The scope of actions include fines, censures and disqualifications of persons from holding positions in the industry.

Reporting Fraudulent Activity

Report abuses in the industry to the Capital Markets Fraud Investigation Unit using: Telephone: 0 714 693414 / 0714 693365; 0731 544389; 077 3199622; or E-mail: antifraudunit@cma.or.ke

COMPLAINTS HANDLING

As part of its objective of ensuring investor protection, the Authority ensures that investors' complaints against market intermediaries are adequately addressed. Where an investor is aggrieved by any licensed or approved person falling under the regulatory jurisdiction of the Authority, such investor is urged to first seek resolution from the said licensed or approved person. However, if the investor remains unsatisfied, the complaint should immediately be escalated to the Nairobi Securities Exchange (NSE). In particular, if the complaint involves a Member of the Exchange, the investor is urged to forward the complaint to the NSE Complaints Handling Unit for resolution, with the option of escalating the same to the Authority if the investor remains unsatisfied. Further if a complainant is still not satisfied with the Authority's solution, the complainant has the option of escalating the matter to the Capital Markets Tribunal and if still not satisfied, the matter can be taken to Court.

However, as the apex regulator of the capital markets in Kenya, the Authority reserves the right to directly receive all complaints touching on any aspect of the market, irrespective of value, nature or status of resolution. Complaints can be lodged through the Authority using the channels provided below.

COMPLAINTS REPORTING CHANNELS

a) **Walk-in** – Any person is welcome to visit the offices of the Authority, at Embankment Plaza, 3rd Floor, Longonot Road, Upper hill, Nairobi, Kenya, during weekdays from 8.00-5.00 pm to report any capital markets related issues and/or make enquiries.

b) **Telephone Calls** – telephone calls can be made through the following Authority's telephone numbers: +254-20-2264900, 2221910, 2226225, 0722207767, 0734651550.

c) **Emails** – complaints can be sent via email to any of the following email addresses: ceoffice@cma.or.ke; ceoffice2@cma.or.ke; corporate@cma.or.ke; iepa@cma.or.ke; cmfiu@cma.or.ke; investigations@cma.or.ke; ms@cma.or.ke; complaints@cma.or.ke;

d) **Online Complaint Portal** – this online portal on the Authority's website www.cma.or.ke online services section on the right side below the banner, is a one-stop point of reference through which investors can have their complaints received and addressed. This centralized and automated system facilitates fast and efficient resolution of complaints. Once in the section, click on the icon for 'Lodge Complaint' or 'Send Tip-off' and follow the prompts till the end. Use the link below to access the online complaints portal: https://portal.cma.or.ke/complaints/

e) **Whistleblower Portal** – To strengthen market integrity, the Authority has established an anonymous reporting portal for whistleblowers. The portal which is accessible through the Authority's website, allows whistle blowers to share anonymous but verifiable evidence to complement and support CMA's investigation and enforcement efforts. To report malpractices in the Capital Markets, visit the whistle blower portal through the website: www.cma.or.ke on the lower left side of the website, click on the whistle icon that will take you to the Whistleblower Portal. To encourage the public to whistleblow, an incentive of 3% of the amount recovered subject to a maximum of Kenya Shilling Five Million is provided to whistleblowers. To access the Whistleblower Portal, use the following link below: https://www.cma.or.ke/index.php?option=com_content&view=article&id=289&Itemid=265 Once you are on the Whistleblower Portal, you will see the following details which you will be required to fill in, before you submit:

   i) Reporter's contact information (Optional) - This is a voluntary step to give us your identity, if you wish to be known, if not you can still proceed to whistle blow.

ii) What wrongdoing occurred?*

iii) Who did the wrongdoing?*

iv) Where did this happen (Unit, location)?*

v) What/who enabled this to happen (How)?*

vi) Key suspect to be investigated?*

vii) When did this occur (Date)?*

viii) Verifier(s) - Please provide details of 3rd party that can verify allegation (Optional)

*The information requested is mandatory and must be provide to facilitate investigation by the Authority.

f) **CMA Corruption reporting** - The Capital Markets Authority is committed to upholding professionalism, integrity, transparency and fairness. Accordingly, the Authority encourages members of the public to report all cases of corruption they encounter at the Authority using the following means:

i. Letters addressed to the Secretary, Integrity Committee may be;

   a. Dropped in the Corruption Reporting Boxes at the Authority's offices at Embankment Plaza, 3rd Floor, Longonot Road, Upper hill, Nairobi, Kenya. Or,

   b. Mailed to the address P.O. Box 74800-00200, City Square-Nairobi.

ii. Emails may be sent to the email address integrity@cma.or.ke

iii. Calls may be made to the Secretary, Integrity Committee using the following telephone numbers +254-20-2221910, 2264900, 2710810, and 2710953. Mobile: 0722 207 767.

iv. Through the EACC Website https://eacc.go.ke/default/

HOW AN INVESTOR CAN PROTECT HIMSELF/HERSELF

Despite all the efforts by the Capital Markets Authority and key industry stakeholders in enhancing investor protection, the investor also has a part to play in order to complement these efforts. Towards this end, all investors are encouraged to take the following measures that enhance investor protection:

- **Conducting financial self-examination** - Analyze your financial objectives, your income sources, constraints and risk tolerance.
- **Deal only with licensed Entities** - Identify your financial investment advisor and open an account with them. Your investment advisor, be they an investment bank, a stockbroker or any other firm advising you on investment must be a licensee of the Capital Markets Authority (CMA).
- **Open a Central Depository System (CDS) account** - A Central Depository System (CDS) is a computer system operated by Central Depository and Settlement Corporation (CDSC), which facilitates holding of securities in electronic accounts opened by shareholders. You open a CDS account by completing and signing a securities account opening/maintenance form with your Central Depository Agent (CDA), providing two recent passport size photographs and a photocopy of your national identity card. A CDA is a central depository agent, either a Stockbroker an Investment Bank or a Custodian Bank, who has been authorized by Central Depositary and Settlement Corporation (CDSC) to open CDS accounts on behalf of investors.
- **Take Control of your Trading Account** - Ensure that your stockbroker/investment bank does not trade in your account without your knowledge. It is important to make sure that you are receiving all documents relevant to your transactions including; receipts, transaction statement, purchase and sales contracts, CDS account statements, etc. It is this account you will be referring to find out what transaction have been made by the stockbroker on your behalf. You can also receive SMS account alerts from the CDSC by sending "Register" to 22372.
- **Conduct due diligence** – before investing, conduct due diligence with agencies. In addition, seek references from credible investors especially if you are domiciled abroad.
- **Subscribe to CDSC alert services** –The Central Depository and Settlement Corporation (CDSC) and the Capital Markets Authority (CMA) work together to help you keep track of your investments. The CDSC operates three electronic services to help you stay informed about your shares anywhere and at any time. All investors are encouraged to register for these services.

i. **SMS Service** - The SMS service allows you to access your CDS account and keep track of your shares through your mobile phone.
ii. **Email Service** - This service allows an investor to receive monthly CDS statements every time there is an activity in your account.
iii. **Web Service** - This service allows investors to view their statements online

For more details about these services and the registration procedures, please visit the CDSC website www.cdsckenya.com

CHAPTER 3: LICENCEES AND POTENTIAL LICENCEES GUIDE

INTRODUCTION

This Chapter sets out the Licensing Requirements and continuous reporting obligations for various Licenses issued under the Capital Markets Act and the enabling Regulations. It also highlights the license application procedure laid out by the Authority. A more in-depth version of the requirements and provisions set out for the licensees will be found in the enabling Regulations.

THE MAIN CAPITAL MARKETS PLAYERS IN THE KENYAN CAPITAL MARKET AND LICENSING REQUIREMENTS

The main market intermediaries in the Kenyan capital markets include: Securities Exchange, Central Depositories, Stock and derivatives brokers, Investment Banks Stock Dealers, Investment Advisers, Fund Managers, Authorized Securities Dealers, Credit Rating Agencies, Collective Investment Schemes, Authorized Depositories (Custodians), REITS Managers, REITS Trustees, Derivatives Exchange, Venture Capital Funds, Coffee Exchange, Coffee Brokers, Online Foreign Exchange Money Managers and Non dealing online foreign exchange brokers. The roles and the licensing requirements for each of these market intermediaries are as briefly outlined below:

1.0 Securities Exchange

A Securities Exchange refers to markets, derivatives exchange, securities organization or another place at which securities are offered for sale, purchase or exchanged, including any clearing or settlement with or without innovation or transfer services connected therewith. The following are the requirements for registration of a securities exchange:

a) Rules, Memorandum and Articles of association of the applicant company (the objectives of the company shall restrict it to business of operating as a securities exchange and services incidental thereto;
b) Details of the trading system proposed to be adopted by the Applicant;

c) Prescribed fee;

d) Any other documents as may be prescribed by the Authority.

2.0 Central (Securities) Depository

A central (securities) depository is established under the Central Depositories Act, 2013. The following are the requirements that a company must meet for it to be authorized as a central (securities) depository:

a. A company incorporated under the Companies Act with the objective of operating as a central depository;
b. The application shall be accompanied by CDS Rules made in such a manner as the Authority may prescribe, prescribed fee and any other requirement as may be prescribed by the Authority.

3.0 Commodities Exchange

A Commodities Exchange is established under The Capital Markets Act and The Capital Markets (Commodities Markets) Regulations, 2020. A Commodities Exchange means an exchange licenced by the Authority to undertake spot commodity trading, and includes any clearing or settlement or transfer services connected with the transaction;

The following documents should be submitted to the Authority in an application for a commodity exchange license:

(a) Copies of memorandum and articles of association;
(b) Rules governing the operations of the commodities exchange;
(c) Details of trading, clearing and settlement systems proposed to be adopted by the applicant;
(d) The application fees set out in the Second Schedule;
(e) Satisfactory bank references;
(f) A business feasibility plan evaluated by an entity with a proven track record and expertise in commodity markets or commodity market development, establishment, or management; and
(g) Any additional documents as the Authority may require.

4.0 Derivatives Exchange

A derivatives exchange refers to a securities exchange which has been granted a license to list exchange traded derivatives contracts. Derivatives Exchanges are regulated under the Capital Markets Act and the Capital Market (Derivatives Markets) Regulations, 2015. The following documents should be submitted to the Authority in an application for a derivatives exchange license:

a. Copies of memorandum and articles of association and rules governing the operations of the exchange, which are in a form satisfactory to the Authority; and restrict the applicant to the business of operating a derivatives market and services incidental thereto;
b. Details of trading, clearing and settlement systems proposed to be adopted by the applicant;
c. The prescribed licensing fees set out in the Second Schedule;
d. Satisfactory bank references;
e. A business feasibility plan evaluated by an entity with a proven track record and expertise in derivatives or derivatives market development, establishment or management; and
f. Such additional documents as the Authority may require.

4.1 Clearing Member

This is a sub-category of market participant of the Nairobi Securities Exchange (NSE), registered to perform clearing in the derivatives market and who has entered into a clearing house agreement with the clearing house. A clearing house means the Nairobi Securities Exchange or its wholly owned subsidiary designated and appointed by the NSE for purposes of clearing contracts on the NSE in accordance with the prescribed rules.

5.0 Derivatives Broker

A derivatives broker is a corporate body admitted to the membership of a derivatives exchange and by the Authority to engage in the business of trading in derivatives contracts as an agent for investors in return for a commission and on its own account. Main requirements to be licensed as a derivative broker include:

a) Certificate of Incorporation and Memorandum and Articles of Association (must be incorporated as a company);
b) Have a chief executive who is a fit and proper person as described under section 24A of the Act and who has experience of not less than five years in the business of buying, selling or dealing in commodities, commodity derivatives contracts or other securities;
c) Have the necessary infrastructure including office space, equipment and trained staff to effectively discharge its activities;
d) Have as its directors and key personnel, persons who are fit and proper as described under section 24A of the Act;
e) Have a minimum net capital and minimum net worth as determined by the derivatives exchange and approved by the Authority from time to time.

6.0 Stockbroker

A stockbroker is a market professional who buys and sells securities on behalf of clients at a Securities 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) Evidence of paid up share capital of a minimum of fifty (50) million shillings;
d) 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, considering the financial position and settlement record of the applicant) or provide a guarantee in a form acceptable to the Authority from a bank;
e) The level of shareholders' funds shall not be below fifty (50) million at any time during the license 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 always not exceed 20%.

7.0 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) Un-audited accounts for the period of the account year ending not earlier than six months prior to the date of application and audited accounts for the preceding two years (where applicable);
d) 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 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;
g) Must be an institution willing to commit funds for investment as principal in securities dealings;
h) Paid up share capital of not less than Kshs 20 million;
i) 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);
j) The working capital shall not be below 20% of the prescribed minimum shareholders' funds (paid up capital and reserves);

k) 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;

l) Unsecured advances, loans and other amounts to directors or associates shall be made from shareholders' funds which are in excess of the prescribed minimum provided that such loans shall not exceed 10% of the shareholders' funds;

m) The ratio of the dealer's bank overdraft to the paid-up capital shall always not exceed 20%.

8.0 Investment Adviser

An investment adviser is a market professional who undertakes analysis and research on capital markets securities and advices investors on such securities at a commission. The following are the licensing requirements for an investment advisor:

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;

d) The level of shareholders' funds shall not be below Kshs 2.5 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 adviser;

f) The working capital of an investment adviser 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 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 license as prescribed shall not exceed Kshs 10 million.

9.0 Fund Manager

A fund manager refers to a manager of a collective investment scheme, registered venture or capital company. Main requirements to be licensed and to continue as 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 Kshs 10 million at any time during the license period;
d) The minimum paid up share capital shall be unimpaired and shall not be advanced to directors or associates;
e) The working capital shall not be below 20% of the prescribed minimum shareholders' funds;
f) Unsecured advances, loans and other amounts to directors or associates shall in aggregate not exceed 10% of prescribed shareholders' funds at any time;
g) The ratio of bank overdraft to the paid capital shall not exceed 20% at any time;
h) The aggregate maximum value of all clients' portfolio managed shall be amount exceeding Kshs. 10 million.

10.0 Authorized Securities Dealer

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 (FISMS) at a securities 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.

11.0 Investment Bank

This is a 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. The investment banks can also engage in the business of a stockbroker, a dealer, and a 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) Statement of un-audited accounts for the period of the accounting year ending not earlier than six months prior to the date of application and the applicant's audited accounts for the preceding two years (where applicable);
c) A detailed business plan;
d) Paid up share capital of not less than Kshs 250million;
e) The level of shareholders' funds shall not be below Kshs 250million at any time during the license period;
f) Maintain a liquid capital of thirty million or eight percent of its total liabilities whichever is higher;
g) The minimum paid up share capital shall be unimpaired and shall not be advanced to directors or associates of the Investment Bank.

12.0 Credit Rating Agency

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.

13.0 Commodities Broker

A commodities broker means a company cleared by the exchange and licenced by the Authority to carry on the business of purchase or sale of commodities contracts as an agent for investors or on its own account. Main requirements to be licensed as commodities broker include:

(a) Be a company limited by shares;
(b) Have a chief executive officer who is a fit and proper person as described under section 24A of the Act and who has experience of not less than five years in the business of buying, selling or dealing in commodities, spot commodity contracts, derivatives contracts, or other securities;
(c) Have the necessary infrastructure including office space, equipment, and trained staff to effectively discharge its activities;
(d) Have as its directors and key personnel, persons who are fit and proper as described under section 24A of the Act; and
(e) Have a minimum net capital and minimum net worth as determined by a commodity exchange and approved by the Authority from time to time.

14.0 Collective Investment Scheme

This is a scheme constituted as a company, a trust, or any other legal entity prescribed or approved by the Authority. It is a specialized market players licensed to mobilize savings in financial assets and to enhance access to capital markets by small investors and include Mutual Funds, Unit Trusts, Investment Trusts and other forms of Specialized Collective Investment Schemes. Collective Investment Scheme 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 a Collective Investment Scheme 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.

15.0 Authorized Depository (Custodian)

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:

a) Must be licensed to operate as a bank under the Banking Act or as a financial institution or an authorized depository;

b) 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);
c) 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.

16.0 REIT Trustee

The Trustee is responsible under the Trust Deed for the safe custody of the assets for the benefit of the Unitholders as a whole and oversees the activities of the REIT Manager for compliance with the Trust Deed and regulatory requirements. The main requirements to be licensed as a trustee of a REIT Manager include:

a. Certificate of incorporation;
b. Memorandum and articles of association;
c. A business plan;
d. Statement of the unaudited accounts for the period of the accounting year ending not earlier than six months prior to the date of application and the applicant's audited accounts for the preceding two years, or, in the case of entities which, at the time of application, have been in existence for less than six months from the date of their incorporation, submit an opening balance sheet and an auditor's certification of the share capital of the company.

17.0 REIT Manager

A REIT manager is a company incorporated in Kenya and licensed by the Authority to provide real estate management services in respect of a REIT. The main requirements to be licensed as a REIT Manager are:

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 Kshs 10 million at any time during the license period;

d) The minimum paid up share capital shall be unimpaired and shall not be advanced to directors or associates;
e) The working capital shall not be below 20% of the prescribed minimum shareholders' funds.

18.0 Online Foreign Exchange Broker and Money Manager

A Dealing Online Foreign Exchange Broker is an entity licensed by the Authority to engage in the business of online foreign exchange trading as principal and market maker while a Non-Dealing Online Foreign Exchange Broker is an entity licensed by the Authority that acts as a link between the foreign exchange market and a client in return for a commission or mark-up in spreads and does not engage in market making activities.

Money Manager is an entity licensed by the Authority to engage in the business of managing the online foreign exchange portfolio of an individual or institutional investor in return for a fee based on a percentage of assets under management.

The main requirements to be licensed as a Dealing or Non-Dealing Online Foreign Exchange Broker or Money Manager include:

a) In the case of an application for a dealing online foreign exchange broker or a non-dealing online foreign exchange broker license, a letter from a recognized online foreign exchange trading platform stating that the applicant meets all the relevant requirements of that platform and that the platform will admit the applicant if licensed by the Authority;
b) In the case of a money manager, an agreement with an online foreign exchange broker who is licensed by the Authority;
c) Client on-boarding policies;
d) Business plans;
e) Individual risk assessments;
f) Anti-Money Laundering and know your client checks;
g) Product sensitization framework including client appropriateness assessment;

h) Internal dispute resolution mechanisms to be adopted to resolve customer complaints and disputes;

i) All relevant service level agreements with other online foreign exchange market service providers, where applicable; and

j) The fees as set out by the Authority from time to time.

LICENSE APPLICATION PROCEDURE

The Authority is committed to facilitating potential capital markets participants to start business and raise capital while nonetheless fully executing its gatekeeper mandate to ensure fitness and propriety of players as well as the quality and completeness of information in respect of approved products in the industry.

In as much as possible, applicants are encouraged to familiarize themselves with the regulatory requirements which are set out in the respective regulations and summarized in the application checklists (posted under the Licensing and Approvals section on the Authority website www.cma.or.ke) and to engage the Authority on areas that require clarification on the regulatory requirements. Applicants are requested to make reference to the checklists and ensure compliance with all the requirements prior to submission of applications. Applicants should submit their applications to the Authority via the 'Online Application Portal' which can be accessed via https://portal.cma.or.ke/

Licensing and Approvals Online Applications Portal

The following services are available through the online portal:

a. **Licensing** - Application and renewal of all licenses to carry out an activity regulated under the Capital Markets Act. These include stockbroker, dealer, investment adviser, fund manager, investment bank, derivatives dealer, central depository, authorized securities dealer and authorized depository licenses.

b. **Approvals** - Application for approval of public offers and listing of securities on any securities exchange in Kenya, takeovers and mergers and private transfer of securities.

c. **Reporting Obligations** - Filing of all reporting obligations (returns) by licensed entities and issuers of securities.
d. **No Objection Requests** - Application for no objections by licensed entities and issuers of securities including changes in shareholding, composition of the board among other material changes.
e. **Updating details** - Keeping your details held with the Authority up to date, including addresses and contacts.

Applications received by the Authority are broadly classified into two categories for purposes of review namely applications for license and applications for approval. The review of all applications is carried out in compliance with the Capital Markets Act and regulations issued thereunder with respect to the type of application/approval sought by an applicant.

i) License Applications

Statutory Provisions

Section 23(1) of the Capital Markets Act requires all persons intending to carry on the business of a stockbroker, dealer, investment bank, fund manager, investment adviser, and authorized depository to hold a valid license issued by the Authority.
In addition, Section 23(2) of the Capital Markets Act requires all persons intending to carry on the business of a securities exchange, registered venture capital company, collective investment scheme, central depository or credit rating agency to be approved by the Authority.

Submission of Applications

Applications should be submitted to the Authority via the Authority's Online Applications Portal or by way of a hard copy submission. The Application Form which is contained within this section of the website is to be submitted to the Authority in support of a License Application. Kindly note that the application fee of Kshs 2500 should be submitted to the Authority by way of a company cheque.

Review of Applications

It is important for applicants to note that submission of an online application does not imply that the applicant has met all the minimum requirements. Upon submission of the application, the Authority will review the same and revert to applicants regarding any areas of noncompliance with the license requirements which the applicant is required to address. In addition, the Authority conducts a premise inspection to ensure that the applicant has adequate technical and administrative capacity to carry out the business for which the license is sought. In the review of license applications the Authority conducts due diligence to ensure that the directors and key personnel of a prospective licensee are fit and proper to hold their respective positions. The application is considered by the Board of the Authority for a final determination of the application.

In the review process the Authority always reserves the right to request for any additional information that may be required to adequately evaluate the application. The Authority may also convene meetings with the applicant's technical team to facilitate progression of the application if need be.

Closure of Applications for Noncompliance with Requirements

The Authority shall close any applications that remain outstanding for a period of six (6) months from the date of submission of the application to the Authority.

Issue of License

Upon approval of the application the applicant is advised accordingly and required to settle the requisite license approval fee. In addition, the Authority will advise the applicant when the License Certificate is available for collection.

ii) Approvals Applications

Statutory Provisions

The capital markets legal and regulatory framework contains approvals requirements for the various categories of approvals sought by an applicant.

Submission of Applications

Applications should be submitted to the Authority via the Authority's Online Applications Portal or by hard copy submission to the Authority's office.

Review of Applications

The Authority reviews applications and will revert to applicants regarding any areas of noncompliance with the minimum requirements which the applicant is required to address. The Authority conducts an internal review of the application and conducts a premise inspection with regard to applications for consent to register a Collective Investment Scheme in order to ensure that the applicant has adequate technical and administrative capacity to carry out the business for which the approval is sought. In addition, the Authority conducts due diligence checks to ascertain the fitness and probity of the director and key personnel of a promoter of a Collective Investment Scheme.

In the review process the Authority always reserves the right to request for any additional information that may be required to adequately evaluate the application. The Authority may also convene meetings with the applicant's technical team to facilitate progression of the application if need be.

Approval of the Application

Upon approval of the application by the applicant is advised accordingly and required to settle the requisite approval fee (if applicable).

Due Diligence Documentation

The Authority is required to ensure that every person who is, or is to be, a director, chief executive, manager and key personnel of a licensee is fit and proper to hold the particular position that he holds or is to hold. In determining the fitness and probity of the directors, chief executive, managers and key personnel of a proposed licensee the Authority requires applicants to submit:

- A certified copy of the appointees national identity card/passport Comprehensive CV of the directors or key personnel (as defined under Regulation 53(2) of the Capital Markets (License Requirements)(General) Regulations, 2002;
- Certified copies of their Police Clearance Certificates from the Criminal Investigations Department (or its equivalent in other jurisdictions); and
- The Duly completed Fit and Proper form downloaded within online application portal section of the website.

CHAPTER 4: UNDERSTANDING THE COLLECTIVE INVESTMENT SCHEMES (CIS)

INTRODUCTION

Collective Investment Schemes (CISs) offer a pool of diversified investment options for all levels of investors in the Kenyan economy and are a solution to achieving wide investment diversification without the need of prohibitive sums of money. As the market becomes sophisticated and more volatile, CISs become safe havens for less, sophisticated and less capitalized, conservative individuals in the marketplace. They are therefore an avenue of financial inclusion as they are designed to offer diversification, liquidity, continuous professional management and a broad array of asset investment options to the low income, middle income and large income earners of the economy. This Chapter aims at demystifying CISs and discusses the types of CISs, benefits the risks of investing in CISs and tips on investing wisely in CISs.

COLLECTIVE INVESTMENT SCHEMES DEFINED

Collective investment scheme (CIS) is a scheme constituted as a company, a trust, or any other legal entity prescribed or approved by the Authority. It is a pool of funds managed on behalf of investors by a professional money manager, commonly referred to as Fund Managers in Kenya. They are arrangements made or offered by any company under which the contributions or payments made by the investors, are pooled and utilized with an aim of receiving 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 established by the scheme. In return, 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 and Circular No. 8 on the Guidance to Collective Investment Schemes on Valuation, Investment Performance Measurement, Reporting and other related matters.

TYPES OF COLLECTIVE INVESTMENT SCHEMES

Collective Investment Schemes can be in the form of Mutual Funds, Unit Trusts, Employee 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 Fund

This is a fund, which stand ready to repurchase its shares from the holders in any quantity and whenever the holder should desire. In addition, open ended fund 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 Fund

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

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 in Kenya are open-ended funds and their managers stand ready to issue new units or redeem outstanding units on a continuous basis.

Employee Share Ownership Plan (ESOP)

As provided in the CMA CIS Regulations 2001, a listed company can set up an employee share ownership plan (ESOP) to enable its employees' own shares of the listed company. The CMA approves ESOPS and they must be structured as unit trusts.

The ESOP 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 must notify the listed company that it intends to invest in, upon approval by CMA. It will only purchase shares of a 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.

Parties to a CIS

The main parties involved in the organization and operation of a CIS which can either be a mutual fund, a unit trust or an investment company approved by CMA are:

i. The Fund Manager

A CIS must 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 and the trust deed or other guiding document. Some of the principal duties of a fund manager include:

a) Advising the trustee or board of directors on the asset's classes, which are available for investment;
b) Formulating investment policy;
c) Investing the scheme's assets in accordance with the scheme's investment policy;
d) Ensuring pricing of units is in accordance with CIS rules;
e) Reinvesting any income of the scheme fund which is not required for immediate payments;
f) 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;
g) Should not sell units other than on the terms and at a price calculated in accordance with the rules of CIS;
h) Publishing daily the price of units in at least two daily newspapers of national circulation, in English.

ii. 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 must be approved by CMA.

iii. The Trustee

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

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/Unit Trust 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 legal document governing the establishment of a 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 Investment -*** 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 pooled with other investors' funds, it could be 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 and deal 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 to the market 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 may be inaccessible to the individual investor, such as government bond and corporate bonds due to a high minimum threshold of investment. Some of these products are traded in large 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 to 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 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 OF INVESTING IN CISs

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:

a) General market risk that relates to a broad range 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.
b) Market sector risk that relates to a sector of a market, for example finance stocks will perform better than plantation stocks at a period. This form of risk can be managed by carefully monitoring the economic scene with a view to identifying the winners and losers.
c) 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 several general rules that every investor should follow for his or her protection.

a) 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.
b) 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 in case of a problem.
c) Do not rush into a decision. Take time before deciding whether to invest in the units.
d) Keep good records of your investments and check any statements or certificates you receive to make sure they are correct.

The Authority publishes on quarterly basis the reports of CISs. This can be accessed through the following link: http://www.cmarcp.or.ke/index.php/cma-publications/collective-investment-schemes-reports

CHAPTER 5: PUBLIC OFFERS AND LISTING OF SECURITIES

INTRODUCTION

This Chapter sets out the requirements for the offer of securities to the public, eligibility requirements to be listed at a securities exchange and the continuous 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 – amended 2019.

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

I) Public Offer of Shares

To issue shares to the public, the following information needs to be disclosed in the offer documents commonly referred to as Prospectus or Information Memorandum:

1. Key information about the Issuer of securities.
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, sponsoring brokers, reporting accountants, registrar and any other expert involved in the issue.

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 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 and senior management.
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 unaudited accounts for the period preceding the application.
28. Details of material loans to the issuer.
29. Details of any property disposed 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 in issue.

2. 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 *but as a matter of policy the Authority does not assume any responsibility for the correctness of any statements or opinions made or reports contained in this Information Memorandum. Listing and the subsequent admission to the official list of the NSE are not to be taken as an indication of the merits of the issuer, its subsidiaries or of its shares.*
3. The expected issue price and the method of determining the price.
4. Number 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.
8. Method for delivery of securities to subscribers or purchasers.
9. Description of how results on distribution of securities are to be made public.
10. The manner of refunding excess amounts paid by applicants.
11. Transferability of the shares.
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.
15. Details on the use of proceeds.

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 Securities 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/Electronic crediting of CDSC accounts.

5. When the Capital Markets Authority approves the issue for listing on either the Main or Alternative Investment Market Segments at the Nairobi Securities Exchange.
6. The date of listing at the Nairobi Securities Exchange.
7. The date of first trading at the Nairobi Securities Exchange.
8. Date of announcement of results of the offer.
9. Refunds if an as a result of oversubscription.

Other important disclosures include:

1. Lock in provisions for anchor shareholders.
2. Free float.
3. Inclusion of legal opinion.
4. Risk factors affecting the offer and how the same are to be mitigated.
5. Economic overview of the country/sector the issuer operated in.
6. Responsibility statements by the directors (to show they are responsible for the declarations).
7. Message from the chairman of the Issuer (this usually gives a summary of the offer).
8. Disclaimer of the Authority.
9. Documents available for inspection

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:

a) Background information of the directors of the issue.
b) Names and addresses of the issuer's external auditors for the last three years.
c) Name and address of the issuer's bankers, legal advisors, sponsors, note trustee, registrar and fiscal agents, receiving bank and paying agents, media and public agent relations (if any), 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 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 (gearing ratio of 4:1).
    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 *but as a matter of policy the Authority does not assume any responsibility for the correctness of any statements or opinions made or reports contained in this Information Memorandum. Listing and the subsequent admission to the official list of the NSE are not to be taken as an indication of the merits of the issuer, its subsidiaries or of its shares*.
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. Allotment criteria.
18. Rights conferred upon the holders of the units.
19. 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. The period during which the offer will remain open (date when offer opens and closes).
2. Time limits for delivery of securities to subscribers or purchasers.
3. When the Capital Markets Authority approves the issue for listing on either the Main or Alternative Investment Market Segments at the Nairobi Securities Exchange.
4. The date of listing at the Nairobi Securities Exchange.
5. The date of first trading at the Nairobi Securities Exchange.

II) Eligibility Requirements for Listing at The Nairobi Securities Exchange

There are six investment market segments boards at the Nairobi Securities Exchange namely:

- Main Investment Market Segment (MIMS);
- Alternative Investment Market Segment (AIMS);
- Real Estate Investment Segment;
- Exchange Traded Fund Segment;
- Fixed Income Securities Market Segment (FISMS); and
- Growth Enterprise Market Segment (GEMS) - This is a market segment set up for growth of small and medium sized firms (SMEs) to raise substantial initial and continuous capital, while benefiting from increased profile and liquidity within a

regulated environment designed specifically to meet the SMEs' needs. A highlight of key eligibility requirements for listing on the GEMS are:

- The issuer to be listed shall be a public company limited by shares and registered under the Companies Act (Cap. 486 of the Laws of Kenya).
- The issuer shall have a minimum authorized and fully paid up ordinary share capital of ten million shillings.
- The issuer must have not less than one hundred thousand shares in issue.
- Shares to be listed shall be freely transferable and not subject to any restrictions on marketability or any pre-emptive rights.

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

1. Incorporation status
2. Minimum share capital and Net Assets
3. Free transferability of shares
4. Availability and reliability of financial records
5. Competence and suitability of directors and management
6. Dividend policy
7. Track record, profitability and future prospects
8. Solvency and adequacy of working capital
9. Share ownership structure
10. Certificate of comfort (if the Issuer is regulated by any other regulator)

General Continuing Reporting Obligations

Every Issuer whose securities have been offered to the public shall comply with the continuing obligations specified in the Fifth Schedule of the Capital Markets public offer regulations with respect to the relevant market segment.

The disclosure shall be immediate (within 24 hours) with respect to information which might reasonably be expected to have a material effect on market activity in the prices of its securities such as the following:

- **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.

- **Price Sensitive Information**
    i. 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 securities 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.
    ii. 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 could not be maintained.
    iii. Where an issuer's securities are listed on various securities exchanges, such an issuer should ensure that equivalent information is available at the same time to the market at all such securities exchanges.

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

Disclosure of Periodic Financial Information

Dividend and Interest

1. Payment should be notified to the Nairobi Securities 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 audited financial statement or by way of a press announcement.

Financial Reports

1. Quarterly reports – These Covers 3 months and issued in the course of the year on a best practice basis.
2. Interim reports – These are half year financial reports published and submitted 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:
    a) Condensed balance sheet (Statement of Financial Position);
    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 Securities 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:
    a) Balance sheet (Statement of Financial Position);

b) Income statement & Statement of Comprehensive Income;
c) Cash flow statement;
d) Statement of changes in equity;
e) Accounting policies and explanatory notes.

All financial reports should be prepared in full compliance with the International Financial Reporting Standards (IFRS).

Every issuer should notify the Nairobi Securities Exchange, the Capital Markets Authority and media of its annual results within 24 hours following approval of the issuer's board of directors.

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.

Quarterly Returns

1. Arrangers of commercial papers and corporate bonds are required to submit quarterly returns by the 10^{th} day of the month following the end of the quarter. The components of the return include:
2. The outstanding bond amount
3. The names and holdings of the different bond holders
4. The average yield of the bond
5. A summary showing percentage holding of banks, insurance companies, fund managers, investment companies and individual investors

Use of Proceeds Report

Issuers of both debt and equity securities to the public are required to submit to the Authority biannually, a detailed report on how the proceeds of the offer have been applied in line with the disclosures contained in the Information Memorandum on the use of proceeds.

Notification Relating to Capital

An issuer is required to make a public announcement and notify the Nairobi Securities Exchange and 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 Securities 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 Securities 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 Securities 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 6: CORPORATE GOVERNANCE AND STEWARDSHIP CODES

INTRODUCTION

Listed companies or unlisted companies that issues securities to the public are required to adhere to certain set rules and regulations including good corporate governance practices which are set by the Authority. This Chapter highlights the key provisions of the Code of Corporate Governance for Issuers of Securities to the Public, 2015 and the Stewardship Code for Institutional Investors, 2017.

THE CODE OF CORPORATE GOVERNANCE PRACTICES FOR ISSUERS OF SECURITIES TO THE PUBLIC, 2015

Corporate Governance refers to the way 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 considering 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 importance of good corporate governance the CMA has developed corporate governance guidelines to be practiced by listed companies in Kenya.

OBJECTIVES OF THE CODE OF CORPORATE GOVERNANCE

The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 is intended to provide the minimum standards required from shareholders, directors, chief executive officers and management of a listed company or an unlisted company that issues securities to the public, so as to promote high standards of conduct as well as ensure that they exercise their duties and responsibilities with clarity, assurance and effectiveness. Main provisions in the guidelines are:

A) Commitment to Good Governance

The board has the overall responsibility in ensuring that a company instils a combination of culture, systems, frameworks and capacity that delivers and sustains good governance. The introduction of The Code, although not explicitly provides for the following:

i. Development and disclosure of the board charter.
ii. Distinction of the responsibility of the board and management.
iii. Responsibility of the board members for the application of the Corporate Governance policies and procedures.
iv. The role of the board in developing and monitoring the company strategy.
v. Promotion of sustainability by the company strategy.
vi. Terms of References of Board Committees.

B) Board Operations and Control

The board and its operations is the engine that underpins the importance and centrality of good governance. The Code provides principles, guidelines and recommendations for:

i. Appointment, composition, size and qualifications of Board members
ii. Structure of the Board
iii. The functions of the Board
iv. Board independence
v. Age limit for Board members
vi. Board tools
vii. Board induction and continuous skills development
viii. Annual evaluation of Board members, including the CEO and Company Secretary
ix. Remuneration of Board members
x. Compliance with Laws, Regulations and Standards
xi. Governance audit

C) Rights of Shareholders

Shareholder rights and investor protection are key in determining the ability of companies to raise capital. This principle caters for investor protection. The Code provides principles, guidelines and recommendations for:

i. The rights of shareholders
ii. Equitable treatment of shareholders
iii. Institutional investors
iv. The media and corporate governance

D) Stakeholder Relations

This principle encompasses the management of both internal and external stakeholders to positively impact on the company's achievement of its strategy and long-term growth. The Code provides principles, guidelines and recommendations for:

i. Managing stakeholder relations
ii. Communication with stakeholders
iii. Resolving internal and external disputes

E) Ethics and Social Responsibility

Being good corporate citizens requires companies to protect, enhance and invest in the well-being of society and the environment. Social responsibility needs to be embedded into the company's core business corporate decisions. The Code provides principles, guidelines and recommendations for:

i. Ethical leadership and corporate citizenship
ii. Management of company's ethical issues
iii. The Board and corporate citizenship
iv. Strategies and policies relating to good corporate citizenship

F) Accountability, Risk Management and Internal Control

The Board has a responsibility to ensure adequate systems and processes of accountability, risk management and internal control are in place in order to achieve its strategic objectives. The Code provides principles, guidelines and recommendations for:

i. Financial and business reporting
ii. Recognition and management of risks
iii. Internal control systems
iv. Checking on risk management and internal control practices

v. Audit Committee

G) Transparency and Disclosure

Transparency and disclosure are crucial for the market-based monitoring of companies and are central to a shareholder's ability to exercise his or her ownership rights. As a result of transparency and disclosure, companies are better able to enhance their sustainability particularly on the environmental, social and governance (ESG) aspects. The Code provides principles, guidelines and recommendations for timely and balanced disclosure.

THE STEWARDSHIP CODE FOR INSTITUTIONAL INVESTORS, 2017

Stewardship in this context refers to the responsible management and oversight of assets for the benefit of the institutional investors' ultimate beneficiaries or clients.

OBJECTIVE OF THE STEWARDSHIP CODE FOR INSTITUTIONAL INVESTORS

The purpose of the Stewardship Code is to encourage the institutional investment community to take action to serve as responsible stewards for their beneficiaries, provide a framework for institutional investors to engage issuers of securities, promote good corporate governance and sustainable success of listed companies as well as enhance capital markets growth and development.

The Stewardship Code is based on seven core principles:

a) Stewardship or responsible investment policies.
b) Monitoring companies held in investment portfolios.
c) Active and informed voting practices.
d) Engagement, escalation and collaboration with other institutional investors.
e) Conflicts of interest.
f) Focus on sustainability issues, including environmental, social and ethical factors.
g) Public disclosures and client reporting.

The responsibility of the implementation and monitoring of the code lies with the following parties:

a) Asset owners
b) Asset managers
c) Listed companies (Issuers)
d) Capital Markets Authority.

For more information on the codes please follow the following link:

https://www.cma.or.ke/index.php?option=com_phocadownload&view=category&id=92&Itemid=285

CHAPTER 7: DEFINITION OF TERMS

GLOSSARY OF SOME COMMONLY USED TERMS

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.
Active Securities	-	These are securities, which are most frequently traded at the securities exchange both in terms of volumes traded as well as in terms turnover.
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.
Amalgamation	-	Two firms, previously independent, coalesce to form one new business.
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.

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.
Articles of Association	-	A document describing the purpose, place of business and details of a company.
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 securities 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 most 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 securities exchange enter their trades both buy and sell orders at their offices without their physical presence at the securities 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.

Blockchain - Refer to a digital record of transactions that is difficult or impossible to change, hack or cheat the system.

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.)**

Bonds can have different names depending on different aspects, for instance, who is the issuer, tenure, purpose, e.g. Corporate Bond, Municipal/County Bond, Treasury Bond, Blue Bond, Green Bond, Social Bond, Infrastructure Bond, Sustainable Bonds, amongst others.

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.

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 represent 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 implemented 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.

Clean Coffee - This means coffee bean or dried seed of the coffee plant separated from non-food tissues of the coffee fruit where the silver skin is reduced to the maximum possible extent.

Clearing and Settlement - This is the procedure by which a clearing house acts as an intermediary between a buyer and seller for exchange traded transactions in order to reconcile orders between transacting parties and ensure the physical or financial settlement of the transaction.

Clearing House - Means the Nairobi Securities Exchange or its wholly owned subsidiary designated and appointed by the NSE for purposes of clearing contracts on the NSE in accordance with the prescribed rules.

Clearing Member - This is a sub-category of market participant of the Nairobi Securities Exchange (NSE), registered to perform clearing in the derivatives market and who has entered into a clearing house agreement with the clearing house.

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

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.

Collective Investment Scheme (CIS) - This is a scheme constituted as a company, a trust, or any other legal entity prescribed or approved by the Authority. It is a pool 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.

Commercial Papers - These are short-term debt instruments issued by companies to raise funds for a time period.

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

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

Cornering Activity - In relation to foreign exchange means use of currency held in significant amounts to be able to manipulate its price.

Corporate Governance - Corporate Governance refers to the process and structure used to direct and manage the business and affairs of a company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking account of the interests of other stakeholders.

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.

Crowdfunding - Crowdfunding is the practice of raising money from groups, typically through an online or mobile platform. Crowdfunding platforms offer small companies a way to raise large sums of capital from a variety of minority investors, customers or lenders in a short timeframe. There are various common models of crowdfunding including investment-based crowdfunding through debt and/or equity, lending based also known as Peer-to-Peer Lending, Invoice Trading, Reward Based crowdfunding, donation based and hybrid models.

Cum-All - This term 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.

Data Analytics - This is the science of analyzing raw data in order to make conclusions about that information.

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

Dealing Online Foreign Exchange Broker - Refers to an entity licensed by the Authority to engage in the business of online foreign exchange trading as principal and market maker.

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 there are enough profits.

Debt Based Crowdfunding - This refers to the practice of raising funds from individuals, in return for interest. The person who supports your project by putting his money is known as an investor. Debt-based crowdfunding is also known as "crowdlending."

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 securities exchange as a result of inaction or poor performance, failure to fulfil 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.

Depositary Bank - This refers to a regulated financial institution that creates and issues depositary securities.

Depositary Securities - These means global depositary receipts and global depositary notes.

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.

Dividend per Share - It is the total dividends paid divide by the total number of issued and fully paid shares. It is therefore the number 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.

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.

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.
E-KYC	-	Electronic Know Your Customer or Electronic Know your Client or eKYC is a process wherein the customer's identity and address are verified electronically through an authentication system.
Eligible Securities	-	A security, which has been prescribed by a security exchange to be immobilized with a central depository.
Equity Based Crowdfunding	-	Equity crowdfunding is the process whereby people (i.e. the 'crowd') invest in a company that is not listed on a stock market in exchange for shares in that company.
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 (ESOP). 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 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-All	-	This term means "without dividend", "without 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.
Exchange Traded Fund (ETF)	-	This is a form of Exchange Traded Products (ETPs) that comprises of a ''**basket**'' of investments such as certain group of stock or other securities or indices. For example, ETFs tracking indices such as the Standard & Poor (S&P) 500 index would fluctuate based on the movement of this index - a **group (or basket)** of high market capitalization shares for companies listed in the US.
Exchange Traded Note (ETN)	-	Like ETFs, ETNs also track an underlying index of securities and trade on major exchanges. However, ETNs are baskets of unsecured debt securities. The ETN pays investors the return received from the index they track at the maturity date, less any fees or commissions. ETNs are similar to bonds in that investors receive the return of their original invested amount—the principal—at maturity. However, the ETN does not pay periodic interest payments. Also, investors who buy ETNs do not own any of the securities in the index they track. As a result, the likelihood that investors will be paid back the principal and the returns from the underlying index is dependent on the creditworthiness of the issuer.
Exchange Traded Product (ETP)	-	This is a type of securities that track underlying security, index or financial instruments. ETPs trade on exchanges and like stocks, their prices fluctuates from day to day and intraday with prices derived from the

underlying investments. There are different types of ETPs including ETFs and Exchange Traded Notes (ETNs).

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.

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.

FinTech - Financial technology (FinTech) is the term used to describe any technology that delivers financial services through software, such as online banking, mobile payment apps, etc.

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

Global Depositary Note - This refers to a negotiable certificate that represents ownership of bonds in a company listed in another country.

Global Depositary Receipt - This refers to a negotiable certificate that represents ownership of shares in a company listed in another country.

Green Bond - This means a fixed income instrument, either unlisted or listed on a securities exchange, approved by the Authority, whose proceeds are used to finance or refinance new or existing projects that generate climate or other environmental benefits that conform to green guidelines and standards.

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.

IBUKA Program - This is a program designed for aspirational companies that are driven by a firm commitment to embrace impactful changes that enhance their growth. The companies are hosted by the Nairobi Securities Exchange on the Incubator and Accelerator Boards which are non-trading boards. For more details on IBUKA program, visit the link below: https://www.nse.co.ke/ibuka.html

Immobilization - This refers to the process whereby physical share certificates are deposited with the central depository with the view to 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.

In-Bound Depositary Securities - These refers to securities whose primary jurisdiction of issuance is a foreign country and which are issued as depositary securities in Kenya.

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.

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

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.

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.
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.
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.
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.
M-Akiba	-	A government of Kenya mobile based retail bond that seeks to enhance financial inclusion for economic development.
Margin Account	-	A type of account with a broker-dealer, in which the broker agrees to lend the customer part of the amount due for the purchase of securities.
Margin Trading	-	This is a method of trading assets using funds provided by a third party. When compared to regular trading accounts, margin accounts allow **traders** to access greater sums of capital, allowing them to leverage their positions.

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 an 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 or 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 lawsuit 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 Manager	-	Means an entity licensed by the Authority to engage in the business of managing the online foreign exchange portfolio of an individual or institutional investor in return for a fee based on a percentage of assets under management.
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.
No Bid	-	This refers a lot that has not attracted any bids at an auction.
Non-Dealing Online Foreign Exchange Broker	-	Refers to an entity licensed by the Authority that acts as a link between the foreign exchange market and a client in return for a commission or mark-up in spreads and does not engage in market making activities.
Odd Lots	-	This is a lot which is less than the stipulated Board Lot. For example, a Board Lot at the Nairobi Securities 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 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.

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

Online Foreign Exchange Trading - Refers to internet-based trading of foreign exchange and includes trading in contracts for difference based on a foreign underlying asset.

Online Foreign Exchange Trading Platform - Refers to an internet-based trading system through which foreign exchange trading is conducted.

Open Outcry - "Open outcry system" refers to a system of trading at the securities 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

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.

Out-Bound Depositary Securities - Refers to securities whose primary jurisdiction of issuance is Kenya and which are to be issued as depositary securities in another jurisdiction.

Out-Turn Number - This refers to a reference number assigned by a coffee miller to a coffee consignment delivered to a mill.

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 securities 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.
Price-Earnings 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 payback 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.
Primary Regulator	-	Means the regulatory agency primarily responsible for regulating the business of the person or entity.
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.
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.
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 Date - In relation to Capital Markets Coffee Exchange regulations, prompt date means a date specified in the sales catalogue and shall not be more than five working days from the date of the sale on which coffee sales proceeds are to be received by the grower through and from the buyer through the clearing house.

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

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.

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

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.

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.

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

Rebate Rate - Means part of the interest earned by the collateral held by the securities lender that is remitted to the borrower where the collateral is in the form of cash.

Registration - Registration refers to the act of entering 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.

RegTech - Regulatory technology (RegTech) refers to management of regulatory processes within the financial industry through technology.

Regulated Person - This has the meaning assigned to it under the Act and includes pension funds, insurance companies, investment funds, exchange-traded funds and commercial banks.

Regulatory Sandbox - This means a tailored regulatory environment for conducting limited scale, live tests of innovative products, solutions and services as further defined in the Regulatory Sandbox Policy Guidance Note.

REPO - A repurchase agreement (repo) is a form of short-term borrowing for dealers in government securities. In the case of a repo, a dealer sells government securities to investors, usually on an overnight basis, and buys them back the following day at a slightly higher price.

Reserve Price - In relation to the Capital Markets Coffee Exchange regulations means the price set as the minimum price before coffee auction by a miller in consultation with the grower.

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.

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.

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.

Robo Advisory - Refers to the advisory services by robo-advisors. Robo-advisors are a class of financial advisors that provide financial advice or investment management online with moderate to minimal human intervention. They provide digital financial advice based on mathematical rules or algorithms.

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 securities 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).

Securities 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).

Securities 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 Securities Exchange (NSE) is the only licensed exchange in Kenya.

Securities Lending - This refers to the temporary transfer of securities from a lender to a borrower with the concurrent written agreement to return the securities either on demand or at a future date.

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 Securities Exchange.

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

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.

Sharia Compliant Stocks and Funds - These are investments made in equity stocks and investment funds governed by the requirements of Shariah law and the principles of the Muslim religion.

Short Position - This refers to the net investment position in a security in which the security has been borrowed and sold but not yet replaced.

Short Sale - This is the sale of securities which are not owned. The short seller borrows the securities with the intent to return them later 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.

Sponsored Depositary Security - This is a depositary security in which the issuer of the underlying security has direct involvement in the issuance of the depositary securities.

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

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 securities. It is usually used as a threshold within which trades are concluded.

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 Securities Exchange in return for a brokerage commission.

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.

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.

Sukuk - This is an Islamic financial certificate, similar to a bond that complies with Islamic religious law commonly known as Sharia. The issuer must also make a contractual promise to buy back the bond at a future date at par value.

SupTech - Supervisory technology (SupTech) is the use of innovative technology by supervisory agencies to support supervision. It helps supervisory agencies to digitize reporting and regulatory processes, resulting in more efficient and proactive monitoring of risk and compliance at financial institutions.

Swaps - These are private agreements between two parties to exchange one financial instrument for another between parties concerned in the future according to a prearranged formula. The exchange takes place at a predetermined time as specified in the contract. They can be regarded as portfolios of forward contracts.

Swaptions - This refers to an option giving the right but not the obligation to engage in a swap.

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 securities exchange where trading takes place. This includes physical and electronic space and all the facilities including items, equipment, records and assets provided by or belonging to or in use by an exchange for purposes of trading.

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.

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.

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.

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.

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:

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

Unsponsored Depositary Security - This refers to a depositary security, issued by a depositary bank without the involvement, participation or consent of the issuer of the underlying securities.

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.

Warehouse - Means any building, structure or other protected enclosure duly licensed by the relevant authority to be used for the storage or conditioning of coffee for the purposes of trading at an exchange and is specifically designed to guarantee quantity, quality and safety of the coffee.

Warehouse Inspector - Means a person empowered by the relevant authority to inspect warehouses and coffee kept therein to ensure that the warehouse operator complies with the law and the conditions of the operator's license.

Warehouse Receipt - Means a receipt issued by a licensed warehouseman in respect of coffee stored or handled in a licensed warehouse for the purposes of trading at an exchange, certifying that the specified coffee is of the stated quantity and quality and is located at the specified location, and includes an electronic warehouse receipt.

Warehouseman - Means a person duly licensed by the Agriculture and Food Authority to engage in the business of operating a warehouse for receiving, storing, shipping or handling coffee for the purposes of trading at an exchange.

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.

APPENDIX I: LIST OF LICENCEES[1]

Institution	Number
Securities Exchange (NSE)	1
Derivatives Exchange	1
Commodity Exchange	1
Central Depositories (CDSC)	1
Investment Banks	15
Authorized Securities Dealers	2
Stockbrokers	9
Investment Advisers	14
Fund Managers	25
Collective Investment Schemes	24
Authorized Depositories/Custodians	18
Credit Rating Agencies	5
REIT Managers	10
REIT Trustees	3
Employee Share Ownership Plans (ESOPS)	14
Authorized Real Estate Investment Trusts	3
Non-Dealing Online Foreign Exchange Broker	4
Online Foreign Exchange Money Manager	1

The Authority updates the list of the licensees on its website. For updates, please visit the link below:

https://www.cma.or.ke/index.php?option=com_phocadownload&view=category&id=49&Itemid=254

[1] Updated List as at March 31, 2021

APPENDIX II: POLICY/TAX INCENTIVES GRANTED FROM 1995 TO DATE[2]

NO.	POLICY INCENTIVE	TARGETED IMPACT/OBJECTIVE	YEAR
1.	Amendment of Section 2 of the Income Tax Act by inserting the following definition in proper alphabetical sequence — "investee company" has the meaning assigned to it under the Capital Markets Act and the regulations made thereunder. Amendment of Section 20 of the Income Tax Act in subsection (1) by inserting the following new paragraph immediately after paragraph (c) — (d) an investee company of a real estate investment trust.	Exemption of REIT Investee company from Income Tax - This will provide for exemption of entities or SPVs controlled by REITS from income tax in line with the "flow-through" principal applicable to REITS globally that ensures REITS are not taxed. This incentive will serve to attract more real estate investment trust listings since the launch of the segment in October 2015.	2019/2020
2.	Interest income accruing from all listed bonds, notes or other similar securities used to raise funds for infrastructure, projects and assets defined under Green Bonds Standards and Guidelines, and other social services: Provided that such bonds, notes or securities shall have a maturity of at least three years.	Green Bonds Issuance - This tax neutrality measure will promote the issuance of green bonds in support of the Kenya's green initiatives.	2019/2020
3.	Amendment of Section 12 of the Tax Procedures Act, 2015 by inserting the following new subsection immediately after subsection (5) — (5A) The Commissioner may, upon receipt of an application made by or on behalf of any person or class of persons, exempt such person or class of persons from the requirement for a PIN for any of the transactions specified in the First Schedule.	Requirements for registering a PIN - The exemption for Foreign Investors in Marketable Securities from Registering a Personal Identification Number will ease the administrative burden for foreign investors investing in the domestic capital markets.	2019/2020
4.	Amendment of the Tax Procedures Act, 2015 by inserting the following new section immediately after section 37B — No. 23 Amendment of s. 12 of No. 29 of 2015. Insertion of new section 37C in No. 29 of 2015. Commissioner to refrain from recovering penalties or interest from companies that list on the growth segment. 37C. (1) Notwithstanding any other provision of this Act, the commissioner shall refrain from recovering penalties or interest from a company that lists on the growth segment of a securities exchange in Kenya, in respect of any year of income prior to the date of listing where the company makes full disclosure of its past income, assets and liabilities for the two years immediately preceding the date of listing: Provided that the principal tax shall be paid in full. (2) This section shall not apply in respect of any tax where the person who should have paid the tax — (a) has been assessed in respect of the tax or any matter relating to the tax; or (b) is under audit or investigation in respect of the undisclosed income or any matter relating to the undisclosed income. (3) Notwithstanding subsection (1), a company that delists from the exchange in which it is listed before the expiry of five years from the date of listing.	Growth Enterprise Market Segment - The amnesty will encourage Small Medium Enterprises and venture companies with back taxes to list, by utilizing the tax amnesty provided. The Authority had recommended a waiver of all tax liabilities as incentive but this was scaled down in the final decision with the waiver applying to tax penalties and interest, on any outstanding tax for two years prior to the listing	2019/2020
5.	Amendment of Section 2 of the Capital Markets Act by deleting the words "and chief financial officers and Board of Directors of issuers of securities" appearing in paragraph (a) of the definition of "key personnel".	Fit and Proper Requirements for CEOs, CFOs and Directors of Issuers - This proposal will ensure that Chief Executive Officers, Chief Financial Officers and Board of Directors of issuers of securities are	2019/2020

[2] Update as at March 2021

NO.	POLICY INCENTIVE	TARGETED IMPACT/OBJECTIVE	YEAR
		confirmed to be fit and proper persons. This will also provide a basis for an assessment of their integrity and past conduct.	
6.	Amendment of Section 11 of the Capital Markets Act in subsection (3) (cc) by inserting the following proviso to subparagraph (i) of subparagraph (cc) — Provided that the financial penalties shall be recoverable summarily by the Authority as civil debts. Section 25A of the Capital Markets Act is amended by inserting the following new subsection immediately after subsection (1) — (1A) The financial penalties and recoveries set out under paragraphs (1) (a) (v) and (vii), (1) (b)(iii) and (iv), (1) (c) (ii) and (iii), (2) and (6) shall be recoverable summarily by the Authority as civil debts. 44. Section 34A of the Capital Markets Act is amended by inserting the following new subsection immediately after subsection (1) — (1A) The financial penalties imposed under subsections (1) and (2) shall be recoverable summarily by the Authority as civil debts.	Investor Confidence - This will enhance investor protection and confidence in the financial sector by granting the Authority powers to sanction the players in the market in case of violation of laid down rules and procedures.	2019/2020
7.	Scrapping of the Robin Hood Tax	Excise Tax - This would have resulted in asset shrinkage, shrinkage in private savings and a far less liquid capital market as it incentivizes investors to minimize trading activity. This would also put a number of fund managers businesses at risk given the erosion in returns.	2018/2019
8.	Amendment of Section 2 of the CBK Act and insertion of new part VIB: to introduce Mortgage Refinance Company that will be mandated to conduct mortgage refinance business.	Mortgage Refinancing Company - It is expected that the KMRC will leverage on capital markets to raise funds through bonds for on lending to banks and other mortgage financing companies hence bringing down the cost of housing in line with the Government's "Big Four" Agenda. Due to the long term nature of capital markets funding and attractive rates, this will allow Primary Mortgage Lenders to lengthen tenors and offer fixed rate loans hence improved mortgage affordability and increased number of qualifying borrowers.	2018/2019
9.	Amendment of the Employment Act 2007, National Housing Development Fund" means to the Fund established under section 6 of the Housing Act.	National Housing Development Fund - It is expected that the fund will invest any surplus funds in the capital markets.	2018/2019
10.	Amendment of PoCAMLA Act by inserting a new section 45A and first schedule to add a paragraph i • Reporting institutions are now required to carry out enhanced due diligence on relationships or transactions originating from Countries which are deemed to pose a higher threat of money laundering by the Financial Action Task Force or the Cabinet Secretary. • Reporting institutions may also be required to apply countermeasures to mitigate risks to do with money laundering as follows: a) Limiting or terminating business relationships with concerned countries;	Proceeds of Crime and Anti-Money Laundering Act - This policy pronouncement will serve to ramp up Know Your Client (KYC) and client onboarding measures for online forex traders, online share trading and other electronic commerce platforms in the capital markets. This is in a bid to enhance the fight against AML/CFT.	2018/2019

NO.	POLICY INCENTIVE	TARGETED IMPACT/OBJECTIVE	YEAR
	b) Moving away from relying on due diligence carried out by 3rd parties in the concerned countries; and c) Submit a report listing customers originating from Countries deemed as higher risk.		
11.	i) Amendment of sec 2 definition of "key personnel" to extend the fit and proper assessments to Chief Finance Officers and Directors of securities issuers. ii) Amendment of Sec 13 B and insertion of section 32KK to make direct reference to an offence/misconduct relating to embezzlement of funds by directors and key officers of market intermediaries and listed companies. iii) Amendment of Sec 18 to expand the scope of ICF. iv) Repeal of section 18A v) Amendment of sections 11 and 25A vi) Inserts section 30GA vii) Inserts section 32JA viii) Amendment to section 35 A	Investor protection - i) This was to enhance the attention given to the caliber of individuals undertaking the critical role of preparing the financial statements of listed companies and those reviewing and approving financial statements and having a central role in oversight and assessment of internal controls. ii) This will make the Act more facilitative with regards to punishing individuals involved in embezzlement activities and also allow the Authority to put in place interim measures to prevent further damage pending completion of an inquiry. iii) Allows the Authority to reward whistleblowers of 3 percent of the amount recovered subject to a maximum of Kshs 5 million. iv) Mandates the Authority to manage the ICF fund hence the ICF Board is scrapped. v) Clarifies the sanctions that can be imposed by the Authority by expressly providing for placing of caveats on assets acquired from illicit gains of regulatory conventions in all securities violations. vi) Gives the Authority power to take actions o offences related to financial disclosure and accounting fraud contraventions. vii) Strengthens the Authority's capacity to address front running by expanding the definition to cover the primary intermediary who receives instructions as well as any other third parties who may be involved as a conduits to layer the front running transactions. viii) This will ensure that the matters brought before the Tribunal are only presented for consideration after the Authority has made a determination.	2018/2019
12.	Amendments of the Capital Markets Act, the Cooperatives Societies Act and Sacco Societies Act to facilitate for shariah compliant finance products. Amendment of the Public Finance Management Act to provide for issuance of Sukuk bond (Islamic bond).	Provide framework for Islamic Finance - This is expected to provide a framework for introduction of Islamic products across the financial sector hence deepening the market by providing alternative investment opportunities for investors and also position Kenya as a regional hub for Islamic Finance and contribute to the Vision 2030 objective of making Nairobi an International Financial Centre. Amendment of PFM Act paves way for issuance of Sukuks as an alternative source of financing for government to finance development projects.	2017/2018

NO.	POLICY INCENTIVE	TARGETED IMPACT/OBJECTIVE	YEAR
	Amendment of the tax statutes to provide for equivalent tax treatment of these new financial products with the conventional financial products. Regulations to facilitate development of Takaful Retirement Benefits Schemes in Kenya.	The amendment of tax statutes on the other hand will improve attractiveness of the Islamic products by providing for equivalent tax treatment of these new financial products with the conventional financial products.	
13.	Amendment of VAT Act to exempt from VAT the transactions related to transfer of assets into Real Estate Investment Trusts (REITs) and Asset Backed Securities (ABS).	Tax neutrality for REITs and ABS - Increase and deepen the country's sources of infrastructure financing through support for effective uptake of infrastructure financing products as alternative measures for raising funds for such projects.	2017/2018
14.	Nairobi International Financial Centre (NIFC) Act passed on 16th August 2017.	Improved supervision of financial sector and positioning Kenya as a financial hub - The enactment of this Act kick started the establishment of the Nairobi International Financial Centre to position Nairobi as an international financial hub	2017/2018
15.	Launch of a special limited offer of the M-Akiba bond worth Ksh 150 million with minimum investment of Ksh 3000 and a maximum of Ksh 140,000 per day based on a mobile platform and a main M-Akiba bond with an offer of Ksh 4.85 billion launched in June 2017.	Financial inclusion and promotion of a savings culture aimed at achieving Kenya Vision 2030 30% target savings rate - This was primed to encourage retail uptake of treasury bond issues.	2017/2018
16.	Amendments to the Capital Markets Act, the Cooperatives Societies Act and Sacco Societies Act to facilitate for Shariah compliant finance products.	This is expected to provide a framework for introduction of Islamic products across the financial sector hence deepening the market by providing alternative investment opportunities for investors and position Kenya as a regional hub for Islamic Finance and contribute to the Vision 2030 objective of making Nairobi an International Financial Centre.	2016/17
17.	Amendment of the Public Finance Management Act to provide for issuance of Sukuk bond (Islamic bond)	Amendment of PFM Act paves way for issuance of Sukuks as an alternative source of financing for government to finance development projects.	2016/17
18.	Amend the tax statutes to provide for equivalent tax treatment of new financial products with the conventional financial products.	The amendment of tax statutes on the other hand will improve attractiveness of the Islamic products by providing for equivalent tax treatment of these new financial products with the conventional financial products.	2016/17
19.	The cap of 75% for the foreign investor shareholding of domestic listed companies removed. Foreigners can own shares in Kenyan listed companies up to a maximum of 100%, subject to a prescription by the Cabinet Secretary for the National Treasury who may by notice in the Kenya gazette prescribe a maximum foreign shareholding in an issuer or a listed company.	To attract foreign investors into the country and raise the profile of Nairobi as an international financial center.	2015/16
20.	Capital Gains Tax (CGT) of 5% that was introduced in 2014 scrapped. Instead a transaction levy of 0.3% of all sale transactions introduced.	To ensure relatively low transaction cost while raising revenue for government.	2015/16
21.	Allow retirement schemes to invest up to 10 percent of their assets in private equity funds and venture capital funds licensed by the Capital Markets Authority.	To support the growth of private equity and venture capital enterprise and help pensions schemes to diversify their investment opportunities.	2015/16
22.	Amend the Income Tax Act to provide that no stamp duty shall be chargeable on the transfer of real estate in respect of a Real Estate Investment Trust (REIT) under the Capital Markets Act whose effect is to convey or transfer:- a. Beneficial interest in property from one trustee to another trustee or to an additional trustee; or	To generate the interest of potential REITs issuers (income and/or development) in the REITs business.	2015/16

NO.	POLICY INCENTIVE	TARGETED IMPACT/OBJECTIVE	YEAR
	b. Beneficial interest in property from a person or persons for the transfer of units in the real estate investment trust.		
23.	Documents executed in connection with asset backed securities approved by the Capital Markets Authority in respect of securitization transactions or any document to give effect to or for an on-going transaction shall be exempt from payment of stamp duty under the Stamp Duty Act.	To support diversification of products and services available in the Kenyan capital markets by facilitating ABS transactions.	2015/16
24.	Amendment to demutualization Act to set the minimum shareholding for government and ICF at 5 percent.	Significantly address governance challenges and enhance the NSE business model (to traduce commercial and SRO role).	2014/15
25.	Amend the law to provide a conducive environment for a dynamic capital markets (principle-based regulation)	Facilitate introduction of new capital markets products and services on an accelerated basis.	2013/14
26.	Regional Issuance of Fixed Income securities	Allow for the raising of funds from across the regional capital markets and treating persons licensed by any of the other EAC capital markets regulators on equal terms, as if they were licensed by the Authority.	2013/14
27.	Amend the Capital Markets Act to redefine the offence of insider trading as an offence of strict liability and further propose to specifically identify a range of the most common market manipulation offences to guide the courts and the investing public on the nature of these offences.	Safeguard the integrity of the capital market by discouraging insider trading and market manipulation.	2013/14
28.	Amend the Capital Markets Act Cap 485A to vest the power to make regulations, rules, and guidelines in the Minister instead of the Authority.	This was to align the Capital Markets Act and the legislation process within the securities industry with the rest of public institutions.	2012/13
29.	Amend the Central Depositories Act, 2000 to include government securities as part of eligible security for purposes of clearing and settlement.	Enhance clearance and settlement by facilitating the move towards a single and efficient securities settlement infrastructure for both fixed income and equity securities.	2012/13
30.	Amend the law to create a framework for Growth Enterprise Market Segment within the NSE targeting small and medium enterprises (SMEs).	Provide SMEs the opportunity to access long term and relatively cheap capital through public listing as well as raising their profiles through trading on approved securities exchanges.	2012/13
31.	The Government will commence a process to establish a consolidated financial sector regulatory framework bringing together the Capital Markets Authority, Insurance Regulatory Authority and Retirement Benefits Authority.	To further strengthen the supervisory capacity, safeguard stability and enhance efficiency of the financial sector regulators.	2012/13
32.	Income Tax Act amended to exempt REITs from corporation tax in addition to exempting investors who receive dividends from REITs from withholding tax.	Enhance tax neutrality	2011/12
33.	Capital Markets Act to be amended to facilitate the trading of listed fixed income securities Over the Counter (OTC) subject to compliance with reporting requirements	Aid in the establishment of a hybrid bond market and facilitate issuance of bonds by SMEs and increase bond activity at primary and secondary market	2011/12
34.	Capital Markets Act to be amended to allow for the introduction of a regulated Futures Market	Allow establishment of a futures exchange to serve as a platform for trading futures contracts of multi-asset classes such as currency, minerals and energy derivatives	2011/12
35.	Capital Markets Act to be amended to recognize Real Estate Investment Trusts and to facilitate the regulation of pooled products for investment in real proper	Expand the range of capital markets products & solve the housing problem	2011/12

NO.	POLICY INCENTIVE	TARGETED IMPACT/OBJECTIVE	YEAR
36.	Self-Regulatory Organizations to be recognized and the Authority empowered to specifically delegate its powers to an SRO subject to the oversight of the Capital Markets Authority	Will allow the Authority to delegate regulatory functions to SROs while ensuring that they have in place proper policies, infrastructure, financial soundness and effective corporate governance.	2011/12
37.	Central Depositories Act to be amended to introduce a robust system to reduce the risk and damage associated with settlement default on securities transactions in addition to providing for insolvency set-off in respect of the obligations between settlement participants.	Align Kenyan clearing and settlement process with international best practice and significantly reduce the risks associated with large scale investment in listed securities by both local and foreign investors.	2011/12
38.	Amendment of the CDS Act- the Authority's powers of supervisions, investigation and intervention in respect of central depositories has been strengthened in the interest of securing fair efficient and transparent securities settlement.	Strengthening supervision of the central depository which will significantly reduce systemic risk	2011/12
39.	Section 2 of CM Act amended to redefine 'securities' to better cater for derivatives transactions as well as amending the definition of "key personnel" to ensure the Authority may assess the fitness of key members of management.	Enhance trade reporting and information dissemination in securities exchanges as well as ensuring that only properly qualified and vetted persons are entitled to manage licensed entities.	2011/12
40.	Sec 11 of CM Act amended to expand the principle objectives of the Authority to recognize the need to improve access to securities markets beyond traditional stocks.	To ensure investors are provided with an opportunity to access a broad spectrum of securities products.	2011/12
41.	Amendment of Capital Markets Act that will facilitate the Demutualization of the NSE and its consequent self-listing.	Improve corporate governance of the NSE	2010/11
42.	CMA Act to be amended to allow them share information obtained during surveillance with another financial sector regulator	Encourage information sharing among financial sector regulators	2010/11
43.	Reduction of withholding tax from 15% to 10% on interest on long term bonds of above 10yrs maturity	Encourage investment in long term bonds	2009/10
44.	Interest income from infrastructure & social services bonds with at least a maturity of 3 years is tax exempt.	Encourage investment in long term bonds	2009/10
45.	Infrastructure bond issued by public institutions included as an allowable investment under the government securities category.	Allow Schemes to invest a larger proportion of their assets in government securities and infrastructure bonds.	2009/10
46.	Listing fees reduced by 50 % to 0.15% for new public listing of equity.	Encourage new listings	2009/10
47.	The threshold amount for which a scheme can invest 100% in government securities increased from 5M to 100M.	Allow schemes with total assets below 100M to invest exclusively in government securities.	2009/10
48.	Requirements on stockbrokers, investment banks, and fund managers to have in place professional indemnity	To cover losses that may arise from their default or negligence to ensure investors are adequately protected.	2009/10
49.	Publishing notice of Annual General Meetings in at least two local daily newspapers with national circulation for at least two consecutive days. Notices sent to members through the electronic media should contain a summary of both the annual financial statements and auditor's report.	Informed investors and promoting transparency	2009/10
50.	The RBA may accept registration of a manager or custodian by CMA as registration under RBA Act legal notice No. 87 of 2009	Managers and custodians can obtain one-stop registration at CMA to reduce their costs	2009/10
51.	Instruments used in the transfer of property to listed property investment vehicles exempt from stamp duty in	To encourage the establishment of Real Estate Investment Trusts.	2008/09

NO.	POLICY INCENTIVE	TARGETED IMPACT/OBJECTIVE	YEAR
	order to encourage land consolidation and discourage non-productive land use.		
52.	Transfer of assets to a Special Purpose Vehicle for the purposes of issuing ABS are exempt from stamp duty.	To accelerate the creation of new products, specifically Asset Backed Securities	2007/08
53.	Foreign investors are now allowed to acquire up to 49% of local stockbrokers and up to 70% of local fund management companies.	Encourage the transfer of technology and skills	2007/08
54.	East Africans are treated as domestic investors in the payment of withholding tax on dividend income an in allocation of IPOs.	Encourage investment by East Africans in the spirit of the EAC Common Market protocol.	2007/08
55.	Income to employee share ownership schemes are tax exempt.	In order to encourage employers to establish employee share ownership plans (ESOPS).	2006/07
56.	Only the difference between the subscription price and the market value of securities in an ESOP subject to tax.	In order to encourage employers to establish employee share ownership plans (ESOPS).	2006/07
57.	Income accruing to registered CISs is tax free.	Encourage pooling resources from small investors to boost the demand for securities in the capital markets.	2005/06
58.	Foreign Investors can now acquire subject to a minimum reserved ratio of 25% for domestic investors in each listed company.	Attract more foreign investors	2004/05
59.	Stamp duty is exempt for purposes of transferring assets for issuing Asset Backed Securities (ABS).	Incentives for issuance of more diverse financial instruments.	2000/01
60.	Interest earned by Asset Backed Securities is tax exempt.	Provide incentive for issuance ABS.	2000/01
61.	Gains arising from trade in securities for dealers licensed by CMA are tax exempt if they turn their portfolios within 24 months and according to laid down regulations.	Encourage registration of more dealers	1999/00
62.	Expenditure on credit rating for purposes of listing is tax deductible.	Encourage issuers of debt instruments to be rated thus improving investor confidence.	1996/97
63.	Ten-year tax holiday for Venture Capital Companies.	Encourage the establishment of venture capital companies.	1996/97
64.	Dividends received by a venture capital company are tax exempt.	Encourage the establishment of venture capital companies.	1996/97
65.	Withholding tax reduced from 15% to 10% for foreign investors and 5% for local investors and made a final tax.	Stimulate demand for equities through increased disposable income arising from dividends.	1995/96 & 2007/08
66.	Stamp duties payable for retail share transactions quoted in the stock exchange for both individual and institutional investors were abolished.	Significantly reduce costs to an issuer or listed company, seeking to expand its share capital to sustain the issuance of additional shares through Initial Public Offerings, rights issues, share splits and bonus issues.	1995/96

For updated list of incentives, please follow the link below:

https://www.cma.or.ke/index.php?option=com_phocadownload&view=category&id=55&Itemid=257

BIBLIOGRAPHY

Capital Markets Master Plan 2014-2023

Capital Markets Quarterly Statistical Bulletins

Capital Markets Soundness Quarterly Reports

Capital Markets Strategic Plan 2018-2023

www.cdsckenya.com

www.cma.or.ke

www.nse.co.ke

CONTACT US:

Capital Markets Authority
Embankment Plaza, 3rd Floor
Longonot Road, off Kilimanjaro Avenue, Upperhill
P.O Box 74800-00200, Nairobi Kenya
Tel: +254 20 2264400/ 2264900/ 2221910/ 2221869
Backup Wireless Lines: 0722 207767/020 2611464
Cell: +254 722 207767,
Email: iepa@cma.or.ke; corporate@cma.or.ke
Website: www.cma.or.ke