

CAPITAL MARKETS IN KENYA

In Sub-Saharan Africa, Kenya's capital markets rank 3rd after Nigeria and South Africa. In East Africa, Kenya is the largest market for tradable assets. Nairobi Securities Exchange (NSE hereon) serves as the capital market for Kenya. It offers services such as clearing, trading and advisory for capital assets for listed companies. The NSE was founded through Francis Drummond who saw the need to establish a formal market for securities exchange. He approached the then finance minister who forwarded idea to the London Stock Exchange, who were impressed by the idea and agreed to it. Its association was by the European Community as a voluntary association under the Societies Act. Trade of shares and stocks began in the early 1920s but there were no rules and regulations governing this trade. The form of trade was Over the Counter (OTC) or on the basis of 'gentleman's agreements'. As at March 2016, there were 65 listings.

Banks in Kenya have also participated in the trading of securities by handling Central Depository Settlement accounts on behalf of the holders, with the payment of a percentage as commission to the stock brokers. Most Kenyans prefer having a broker assisting in trading of their assets because of limited knowledge on investments and financial markets in Kenya.

THE CAPITAL MARKETS AUTHORITY

Capital Markets Authority of Kenya, commonly referred to as CMA, is a state-owned body that deals with the regulation of capital markets in Kenya. Its main roles are supervising, monitoring and licensing market intermediaries, central deposit and settlement systems and all parties registered under CMA. It was established in December, 1989 to provide guidelines for asset (securities) collection. It was formed under the Capital Markets Act 485A,

The Authority consists of the following members: -

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- a chairman to be appointed by the President on the recommendation of the Minister
- six other members appointed by the Minister
- the Permanent Secretary to the Treasury or a person deputed by him in writing for the purposes of this Act
- the Governor of the Central Bank of Kenya or a person deputed by him in writing for the purposes of this Act
- the Attorney-General or a person deputed by him in writing for the purposes of this Act
- the Chief Executive of the Authority

Other objectives of CMA are: -

- the protection of investor interests
- running a compensation fund to indemnify investors on occurrence of an event of loss due to negligence on the part of the broker or dealer.
- implementation of a self-regulatory system where trading and issuance can be done fairly and orderly.
- develop an e-commerce system for the trade of securities.
- alienate capital markets from impediments to trade and creation of incentives for long term investments.
- make the public aware of market and brokerage services, so as to increase the number of participants.

However, there are efforts to give authority to the CMA to vet directors and management of listed companies in the NSE. This is after a significant rise in fraudulent activities where investors have made claims of unexplained withholdings and being fleeced of their returns. In

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some cases, the management of listed companies have also appeared to be colluding with auditors to give improper books of accounts, thus misleading potential investors.

THE CENTRAL DEPOSITORY AND SETTLEMENT CORPORATION (CDSC)

CDSC is responsible for clearing, delivering and settlement of securities traded at the NSE. It oversees the discipline of stockbrokers and investment firms who are members and custodians of the NSE. The CDSC is approved by the CMA under Section 5 of the Central Depositories Act, 2000, and began operating in Kenya in 2004.

NAIROBI SECURITIES EXCHANGE (N.S.E.)

Established in 1954, the NSE has grown to be hub for financial services under securities in Kenya. As at October 2014, its market capitalization (the product of shares trading and their market price) stood at Ksh.2.248 trillion.

The following is a table showing the listed companies in the NSE.

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	INDUSTRY NAME	COMPANY NAME		INDUSTRY NAME	COMPANY NAME
	1 Agricultural industry	Eaagads Ltd		6 Investments	Olympia Capital Holdings
		Kapchorua Tea Co.			Centum Investments Co. Ltd
		Kakuzi			Trans-Century limited
		Limuru Tea Co. Ltd.			Home Afrika Ltd
		Rea Vipingo Plantations Ltd.			Kurwitu Ventures
		Sasini Ltd		7 Investments Services	Nairobi Securities Exchange Ltd
		Williamson Tea Kenya Ltd.		8 Manufacturing and Allied	B.O.C. Kenya Ltd
	2 Automobiles and Accessories	Car and General K Ltd.			BAT Kenya Ltd
		Sameer Africa Ltd.			Carbacid Investments Ltd.
		Marshall's E.A. Ltd.			EABL
	3 Banking	Barclays Bank Ltd.			Mumias Sugar Co Ltd
		CFC Stanbic Holdings			Unga Group Ltd
		I&M Holdings Ltd			Eveready East Africa Ltd
		Diamond Trust Bank Kenya Ltd			Kenya Orchards Ltd
		Housing Finance Co. Ltd			A. Baumann Co. Ltd
		Kenya Commercial Bank Ltd.			Flame Tree Group Holdings Ltd
		National Bank of Kenya Ltd.		9 Telecommunication and Technology	Safaricom Ltd
		NIC Bank Ltd		10 Real Estate Investment Trust	Stanlib Fahari I-EIT
		Standard Chartered Bank Ltd		11 Energy and Petroleum	KenolKobil Ltd
		Equity Bank Ltd			Total Kenya Ltd
		The Co-operative Bank of Kenya			KenGen Ltd
	4 Commercial and Services	Express Ltd			KPLC
		Kenya Airways Ltd			Umeme Ltd
		Nation Media Group		12 Insurance	Jubilee Holdings Ltd.
		Standard Group Ltd.			Pan African Insurance Holding Ltd
		TPS Eastern Africa(Serena) Ltd			Kenya Re-Insurance Corporation
		Scangroup Ltd			Liberty Kenya Holdings Ltd
		Uchumi Supermarkets Ltd			British American Investments Co. Ltd
		Hutchings Biemer Ltd			CIC Insurance Group Ltd.
		Longhorn Kenya Ltd			
		Atlas Development and Support Services			
	5 Construction and allied	Athi River Mining			
		Bamburi Cement Ltd			
		Crown Berger Ltd			
		E.A Cables Ltd			
		E.A Portland Cement Limited			

The indices used to merit the listed companies are:

- NSE All Share Index
- NSE 20 Share Index
- FTSE NSE Index
- FTSE NSE Kenya 15 Index
- FTSE NSE Kenya 25 Index
- FTSE NSE Kenya Government Bond Index
- FTSE ASEA Pan-African Index

Securities traded at the Nairobi Securities Exchange are equity and debt, with plans underway to introduce derivatives in 2016.

Equity Securities

Equity refers to ordinary and preference shares. In the NSE, the most traded equity is ordinary shares. Other forms of equity are Real Estate Investment Trusts (REITs) where real estate properties are listed, and Exchange Traded Fund where baskets of assets are listed and traded.

Debt securities

Both government and corporate bonds are traded in the NSE. Government bonds are risk free whereas for corporate bonds, market risk is provided for.

Derivatives securities

The NSE established a market for derivative securities called NEXT. Once fully operational, it is expected to trade in future contracts with the underlying assets being equities and currencies. The tradable futures are Currency Futures, Equity Index Futures and Single Stock Futures.

The idea of trading of derivatives was developed locally because of:

- Interaction of the Kenyan market with foreign international markets that trade shares.
- The volatility of the asset prices across the globe
- The availability of risk management strategies and tools