

What are the benefits of having a CDS account?

- Immediate transfer of securities
- Elimination of risks associated with physical certificates such as bad delivery, fake securities among others
- Reduction in paperwork involved in transfer of securities;
- Reduction of transaction cost
- Nomination facility
- Change in address recorded when CDA gets registered electronically with all companies in which investor holds securities eliminating the need to correspond with each of them separately
- Transmission of securities is done by CDA eliminating correspondence with companies
- Convenient method of consolidation of CDA accounts
- Holding investments in equity, debt instruments and Government securities in a single account
- Automatic credit into securities account, of shares, arising out of split or a consolidation or a merger among others.

How do I open a CDS account?

By completing and signing a securities account opening/maintenance form with your CDA. The form is called CDS 1.

What do I need to open a securities account?

You need two recently taken passport size photographs, original National ID or passport. In the case of a company you need the original certificate of incorporation, and if you are an organization registered in any other way you need the certificate of registration. Directors of a company will also need to provide their ID Cards and passport size photographs. You need to sign the form (CDS 1) before your Central Depository Agent (CDA)

What do I get when I open an account?

You will obtain from your CDA a CDS account number together with a duplicate copy of the account opening form for your records. You will also agree a secret question and answer with your CDA for purposes of identifying you. Please keep the question and answer confidential.

What is the process of depositing shares?

- Visit a CDA with the certificates you want to deposit.
- Be sure you have already opened an account or are ready to do so.
- You will be issued with and assisted to complete a Security Deposit Form (CDS 2).
- Sign your form with the signature used when buying the shares.

- Return the form to the CDA together with the certificates you have included on the form to be deposited.
- You will be given a duplicate copy of the completed and signed form, after the CDA has countersigned as evidence of your deposit.
- The CDA will forward the form and the certificate to CDSC.
- CDSC will forward the certificates and forms to the company's shares registrar for verification.
- When the registrar confirms the certificates as genuine, the shares will be deposited in your account.
- Once the shares are in your account you can trade in them.

What do I get to prove I have deposited shares into my CDS A/C?

- You get the duplicate copy of the deposit form (CDS 2)
- You get a monthly statement from CDSC if you have a trade that month.
- You get a quarterly statement if you have not had a trade for three months.
- The statements are issued directly to your address as indicated on the form.

What if I want my certificate back?

You complete a withdrawal form (CDS 3). Kshs. 500 is chargeable for every certificate you may wish to withdraw. However, if you wish to trade again, you will need to re-submit the certificate for immobilization.

Can I use my shares as collateral/security for a loan?

Yes. You and the lender will complete a Pledge Form (CDS 5) and deliver it to your CDA. The lender will forward the forms to CDSC through your CDA. CDSC thus marks the shares as pledged to the lender and confirms this to the lender and yourself. When shares are pledged you cannot sell them.

How can I move from one Stockbroker to another?

By completing and signing the Securities Transfer Form, (CDS 4(A) + CDS 4(B) supplied to you by your stockbroker. The form must be signed also by your current CDA (CDS 4A) and your new CDA (CDS 4B).

How do I lodge a complaint?

When aggrieved by the actions of an intermediary in any way, the initial step should be to try to resolve the complaint with the intermediary. However, in the event that an amicable solution is not achieved, then the complaints especially those related to the secondary market should be forwarded to the Nairobi Securities Exchange Complaints Handling Unit.

Depending on the nature of the complaint, the NSE will either deal with the complaint or refer it for the necessary regulatory intervention by the CMA.

In all other cases that may not relate to the secondary market transactions however, the Authority is compelled to intervene directly. In this case even where complaints are filed with the NSE, they will immediately be forwarded to the Authority.



For further information, please contact:



CAPITAL MARKETS AUTHORITY

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Disclaimer

This brochure is by no means a conclusive document. The Capital Markets Authority takes no responsibility for any consequences arising from decisions taken on the basis of the contents of this brochure. For more information or clarification on Collective Investment Schemes, please refer to our regulations on the same which are available at our website: www.cma.or.ke

FREQUENTLY ASKED QUESTIONS



What is the role of the Capital Markets Authority?

The Capital Markets Authority (CMA) was set up in 1989 through an Act of Parliament Cap. 485A Laws of Kenya. The CMA, which is a body corporate with perpetual succession and a common seal, was constituted and inaugurated in 1990.

The CMA is a statutory agency charged with the prime responsibility of regulating the development of orderly, fair and efficient capital markets in Kenya. It licenses and supervises market intermediaries, conducts on-site and off-site market surveillance and enforces compliance, and promotes market integrity and investor confidence.

What are Collective Investment Schemes?

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

What is the NSE?

The Nairobi Securities Exchange is an organized market for buying and selling of listed securities (shares, bonds). It is licensed and regulated by the Capital Markets Authority. The NSE is a private company limited by guarantee and is owned by its members who are stockbrokers and investment banks.

What is the difference between a securities market and any other market?

The main difference about the securities market from other local markets is in the types of products traded, how they are traded and how they are paid for and transferred.

What products are traded at the Nairobi Securities Exchange?

The products traded at the NSE are Shares and Bonds. Shares and Bonds are money or financial products.

What Amounts can an Investor Buy?

An investor can buy as little or as much as he or she can afford. It is also possible to invest very little money in groups of small investors pooled together by money managers in the market.

What is a Share?

A share is a unit of ownership of a company or enterprise. When you buy a share, you become an investor and thereby an owner of a piece of the company's profit or losses.

Why do Companies Sell Shares?

Companies sell shares to raise (borrow) money from members of the public to expand their business activities in order to make more profits through a process known as the Initial Public Offer (IPO)

Who is a Shareholder?

A shareholder is a part owner of a company. He is an investor who buys shares with an expectation of profit.

What are the Benefits of Owning Shares?

- A source of higher returns;
- A guarantor for borrowing loans from Cooperative Societies and Banks;
- A way of saving your money for the future;
- An easy and quick asset to buy and sell;
- A new business activity that is beneficial in many ways. An investor can trade in other markets where they can trade in maize, bananas, potatoes, tomatoes, onions, mangos etc.
- Buying at low prices and selling at high prices to make a profit;
- A solution that increases financial activity and economic growth.

What are the Qualities of a Good Share?

- Frequent and generous dividends
- The company is managed productively, transparently and is accountable to shareholders
- No wastage in the use of resources
- Respect of shareholders and their opinions
- Shares that are easy to buy and sell quickly in the market
- The company abides by the rules, regulations and laws

What is a Bond?

A bond is a loan between a borrower and a lender. It is a debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. They are issued by governments, corporations, municipalities etc.

Who can Buy Bonds?

Any individual, Cooperative Society, Women Group, Investment Groups (Chamas), Youth Club, Religious Institutions (Church, Mosque), School, College, University, Insurance Company, Bank, Pension Scheme, and many other can buy bonds.

Can a Bond be Sold before Maturity?

Yes. In times of need or emergencies, an investor can sell his or her bond easily and quickly in the market. The interest on a bond grows on a daily basis and so a bond has new value and price every day. An investor can therefore buy or sell a bond on any day of his or her choice. There are no penalties for selling a bond before the maturity date.

Who Borrows Money through Bonds?

In Kenya, it is the government and private companies. In other Securities Markets, Municipal Councils, Cooperative Societies, Hospitals, Universities, Schools and other organizations can borrow money from the public through issuing bonds. All that is required is that the organization has a good reputation and members of the public have trust in the other lending institutions, a lender must trust the borrower before he or she can lend any money. The borrower must therefore be creditworthy in the eyes of the lenders or investors.

What are the Benefits of Buying Bonds?

- A bond is a very convenient asset to own; Accepted as guarantee for many types of loans by Cooperative Societies and Banks;
- A sure source of income;
 - A good money planner to meet specific needs. For example an investor can buy a bond whose interest matches payment of school fees, car or medical insurance, rent, pension allowance and much more;
 - Easy and quick to sell in the market in times of need;
 - A way of saving money for the future;
 - Convenient and confidential;
 - Easily transferable.

What is the difference between a Bondholder and a Shareholder?

A Bondholder

- A bondholder is only a lender to a company
- Expects a profit in form of an interest at a specific agreed date in future

- Does not vote or participate in the management of the company
- Invests to earn a reasonable return at a low risk
- A watchdog of the borrowers activities

A Shareholder

- Is a lender and an owner
- Expects a profit in form of a dividend, gain in share price, bonuses and cheaper shares (right issues)
- Attends Annual General Meetings, gives personal opinions about the company and votes thereby participating in the running of the company
- Invests expecting the highest return possible
- Accept risk as part of any business
- A watchdog of the management and company's activities
- An influencer of the company's performance

Can one be a Bondholder and a Shareholder at the same time?

Yes. This gives an investor the opportunity to diversify and enjoy a balance between reasonable and very high profits.

What is the CDS?

CDS stands for the Central Depository System. This is a computer system operated by The Central Depository and Settlement Corporation (CDSC) that facilitates holdings of shares in electronic accounts, opened by shareholders and manages the process of transferring shares traded at the Securities Exchange and is regulated by Capital Markets Authority (CMA)

What are the Benefits of the CDS?

The CDS assures you of safer faster and easier trading in your securities. You do not have to wait for the issue of certificates before you can trade again as your shares are credited to your account 5 days after the date of trade.

What is a CDS Account?

It is an electronic account that holds securities (bonds and shares).

Do I have to Open a CDS Account?

Yes, if you intend to trade in shares and bonds that are listed on the Nairobi Securities Exchange.