Thinking of Joining any NSE Market?

Deciding whether to list your company on the Nairobi Stock Exchange (NSE) is an important decision. Joining one of the NSE’s markets provides your company with the opportunity to benefit from improved access to capital, increased global profile and access to liquidity.

Listing benefits

- Access to capital for growth: listing gives you the opportunity to raise capital to fund acquisitions as well as growth. You can also use your listing as a springboard into the rest of Africa.

- Boost your profile: listing generally heightens your company’s public profile with customers, suppliers, the media and investors. As a result more business opportunities become available to you. Your company may be eligible for inclusion in the FTSE/NSE Index Series and the NSE 20 Share Index, thus creating additional exposure for your company both locally and internationally.

- Create value and liquidity for shareholders: because your company’s value is independently assessed, shareholders can realize their investment, liquidity is stimulated and your shareholder base may be broadened.

- You may offer share incentives to employees to encourage commitment and improve productivity at work.

Are you ready for a listing?

The decision to list your company needs to be made once you have realistically assessed your company, its management, resources, stage of development, long-term strategy, goals and future prospects. You would also need to consider the timing of a listing in terms of market conditions and where your business is at that point in time.

You will be required to appoint advisors such as stockbrokers/investment bank, legal team, accountants, marketers etc. The advisers you appoint all play their part in making sure your company satisfies the rules and regulations and meets the market’s expectations.

Public companies have to adhere to certain rules and regulations, which differ according to the market your company joins, and also have to meet accepted standards of corporate governance.

You will need to persuade investors – in Kenya, East African region and if need be, around the world – of the qualities of your company and its prospects, so that they will be prepared to invest in your company
and ensure the success of your flotation. You will need to demonstrate that the business is soundly managed, that you have a robust business plan and that the management has the right skills and commitment.

To make sure that a flotation is the right step both for you and your company, there are five main questions you need to ask:

- What are the benefits of joining a public equity/bond market?
- Is your company ready to float?
- Which is the right market for you?
- Which method of flotation should you seek?
- What type of security (bonds, shares, etc) do you want to admit to the market?

Which is the right market for you?

You can join any of the following NSE Market segments.

a. Market for issuing shares
   1. Main Investments Market Segment (MIMS)
   2. Alternative Investments Market Segment (AIMS)

b. Market for issuing bonds
   3. Fixed Income Securities Market Segment (FISMS)

And the listing requirements are:-

1. Main Investments Market Segment (Mims)
The Minimum Eligibility Conditions and Listing Requirements for the Main Investment Market Segment (MIMS) are:

1. Company to be listed must be a company limited by shares and registered under the Companies Act (Cap 486) as a public limited company.
2. Company must have a minimum authorized, issued and fully paid up share capital of Kshs 50 million and net assets of Kshs 100 million before the public offering of shares.
3. Shares to be listed must be freely transferable and not subject to any restrictions on marketability or pre-emptive rights.
4. Company must have published audited and financial statements (complying with international accounting standards) for an accounting period ending on a date not more than 3 months prior to the proposed date of the offer.
5. If more than 3 months will have elapsed since the end of the company's last accounting period for which audited financial statements have been prepared and the proposed offer date, then the company must prepare a set of un-audited interim financial statements for the period following the end of the financial period.
6. The un-audited interim financial statements should not however exceed 6 months, unless the issuer is already listed in any market segment. In this regard unlisted issuers who have published accounts exceeding a period of 6 months will have to carry out an interim audit for the period, or plan the date of offer to immediately follow the completion of the next annual audit.

7. Company must have prepared financial statements for the latest accounting period on a going concern basis and audited report must not contain any emphasis of matter or qualification in this regard.

8. At the date of application, the company must not be in breach of any of its loan covenants particularly in regard to the maximum debt capacity.

9. As at the date of the application and for a period of at least 2 years prior to the date of the application, Directors of the issuer must not have:

   ▪ any petition under bankruptcy laws filed against him/her (for individuals), or any winding-up petition pending or threatened against it (for body corporate);
   ▪ any criminal proceedings in which he/she was convicted of fraud or any criminal offence, nor be named subject of pending criminal proceeding against him/her (for individuals), or any offence or action either within or outside Kenya (for body corporate);
   ▪ been the subject of any ruling of a court of competent jurisdiction or any governmental body, that permanently or temporarily prohibits him or her from acting as an investment adviser or as a director or employee or a broker or dealer, director or employee of any financial institution or engaging in any type of business practice or activity.

10. Company to be listed must have declared positive profits after tax attributable to shareholders in at least three of the last five completed accounting periods to the date of the offer.

11. Companies wishing to be listed should be solvent and the auditor’s report must be unqualified.

12. Company to be listed must have declared positive profits after tax attributable to shareholders in at least three of the last five completed accounting periods to the date of the offer.

13. Companies wishing to be listed should be solvent and the auditor’s report must be unqualified.

2. Alternative Investments Market Segment (Aims)

   The Minimum Eligibility Conditions and Listing Requirements for the Alternative Investment Market Segment (AIMS) are:

   1. Company seeking listing must be incorporated or registered as a public limited company under the Companies Act (Cap 486).
   2. Company to be listed must also be a company limited by shares.
   3. Company must have a minimum authorized, issued and fully paid up shares of Kshs 20 million and net assets of Kshs 20 million before seeking listing.
   4. The shares to be listed must be freely transferable and not subject to any restriction on their marketability or pre-emptive rights.
   5. At the date of application, the company must not be in breach of any of its loan covenants particularly in regard to the maximum debt capacity.
6. As at the date of the application and for a period of at least 2 years prior to the date of the application, Directors of the issuer must not have:
   - any petition under bankruptcy laws filed against him/her (for individuals), or any winding-up petition pending or threatened against it (for body corporate);
   - any criminal proceedings in which he/she was convicted of fraud or any criminal offence, nor be named subject of pending criminal proceeding against him/her (for individuals), or any offence or action either within or outside Kenya (for body corporate);
   - been the subject of any ruling of a court of competent jurisdiction or any governmental body, that permanently or temporarily prohibits him or her from acting as an investment adviser or as a director or employee or a broker or dealer, director or employee of any financial institution or engaging in any type of business practice or activity.

7. Company shall not be eligible to list unless:
   (i) It has a minimum of 25 investors;
   (ii) At least 20% of the paid up capital after listing, excluding any holding by the employees or family members, is held by not less than the prescribed minimum number of investors; and
   (iii) No investor shall hold more than 3% of the shares in (ii) above.

8. Company must have been in existence in the same line of business for a minimum of 2 years with good growth potential in order to provide a comparative and reliable track record.

9. A subsidiary whose parent company has a five year track record may list, provided that the subsidiary has an operating track record of at least one year.

10. The accounts of the company must not be older than 4 months before the listing and must be audited.

11. Company must be solvent and the auditor’s report must be unqualified.

12. Company must have suitably qualified senior management with relevant experience, for at least one year prior to the application for listing, none of whom shall have committed any serious offence that may be considered inappropriate for the management of a listed company.

13. Company may not use the proceeds of a public issue to redeem any loans by the directors or the shareholders prior to the listing.

14. Company must ensure that the existing shareholders, related persons or such other group of controlling shareholders who have influence over management, undertake not to sell their shareholding, before the expiry of a period of 24 months following listing.

15. Company must have at least two non-executive and independent directors on its board of directors.

16. Company must disclose a clear policy on dividends.

17. Company listed on AIMS may only change from this segment after a minimum of one year and on satisfying, the requirements for Main Investments Market Segment.

18. All companies seeking listing in MIMS shall have their information memoranda or prospectuses approved by the Capital Markets Authority.

### 3. FIXED INCOME SECURITIES MARKET SEGMENT (FISMS)

Eligibility conditions and listing requirements for Fixed Income Securities Market Segment (FISMS)

Companies intending to list their commercial papers or corporate bonds in the Fixed Income Securities Market Segment must satisfy the following eligibility requirements:

1. Company to be listed must be a company limited by shares and registered under the Companies Act (Cap 486).
2. The company must have a minimum authorized, issued and fully paid up share capital of Kshs 50 million and net assets of Kshs 100 million before the public offering of the securities. In the event that the issuer does not have net assets of Kshs 100 million, the issuer must obtain from a bank or any other approved institution a financial Guarantee to support the issue.

3. The securities to be listed must be freely transferable and not subject to any restrictions on marketability or pre-emption rights.

4. The company must have published audited financial statements complying with International Accounting Standards for an accounting period ending on a date not more than 3 months prior to the proposed date of the offer.

5. If more than 3 months will have elapsed since the end of the company's last accounting period for which audited financial statements have been prepared and the proposed offer date, then the company must prepare a set of unaudited interim financial statements for the period following the end of the financial period

6. The unaudited interim financial statements should not however exceed 6 months, unless the issuer is already listed in any market segment. In this regard, unlisted issuers with published accounts exceeding a period of 6 months will have to carry out an interim audit for the period, or plan the date of offer to immediately follow completion of the next annual audit.

7. The company must have prepared financial statements for the latest accounting period on a going concern basis and audit report must not contain any emphasis of matter or qualification in this regard

8. At the date of the application, the company must not be in breach of any of its loan covenants particularly in regard to the maximum debt capacity.

9. The company should have made profits in at least two of the last three years preceding the issue of the commercial paper or the corporate bond.

10. Companies wishing to issue or list debt securities should not be insolvent.

11. Total indebtedness of the issuer, including the new issue of the commercial paper or the corporate bond shall not exceed 400% of the company's net worth (or a gearing ratio of 4:1) as at the date of the latest balance sheet.

12. The ratio of funds generated from operations to total debt for the three trading periods preceding the issue shall be maintained at a weighted average of 40% or more. These requirements of solvency and adequacy of working capital will apply both to the issuer on its own and to the group.

13. The conditions as provided in paragraphs 12 and 13 must be maintained as long as the commercial paper or corporate bond remains outstanding.

14. The directors and senior management of an applicant must have collectively appropriate expertise and experience for the management of the groups business. Details of such expertise must be disclosed in the issue information memorandum.

15. The applicant must ensure that each director is free of any conflict of interest between the duties he/she owes to the company and his/her private interest

16. If the issuer is a banking or an insurance company, the company must obtain a clean certificate from the relevant regulatory authority.

17. Where there is a guarantor and in the event that the guarantor is a bank or an insurance company licensed to operate in Kenya, the consent [except where the guarantor is an offshore bank or insurance company not subject to regulation of the CBK or Commissioner of Insurance] of the CBK or the Commissioner of Insurance as the case may be, will be required.
Where there is a guarantor, he will provide the Capital Markets Authority with a financial capability statement dully certified by its auditors.

18. Where there is a guarantor, he will provide the CMA with a financial capability statement dully certified by its auditors.

19. Companies seeking listing in MIMS shall have their information memoranda or prospectuses approved by the Capital Markets Authority.

Which method of flotation should you seek?

You will need to discuss the different methods of going public with us or your advisers. There are three principal ways to come to the market, ranging from an ‘introduction’ – a market where no new money is raised – to the ‘initial public offering’ (IPO), where institutions and private individuals are invited to subscribe. In between is a ‘private placing’ in which shares are offered for sale on a selective basis, primarily to institutional investors.

But remember, your choice will depend on the nature of your business and its capital requirements.

**Introduction**

In an introduction, a company joins our markets without raising any capital. In general, a company can do this if some of its shares are already in public hands and there is a fair spread of shareholders. An introduction involves no underwriting fees and little requirement for advertising.

**Private Placing**

A private placing usually involves offering your company’s shares to a selected base of institutional investors. This allows you to raise capital with lower costs and greater freedom and it gives your company more discretion to choose its investors. The result, however, is a narrower shareholder base, and as such there may be lower liquidity in the shares once your company has been admitted to the market.

**Initial public offering**

In an initial public offering (IPO), your adviser offers your company’s shares to private and/or institutional investors and usually arranges for the offer to be underwritten. An IPO attracts private investors who are important in increasing the liquidity of a company’s shares. It is normally the most expensive route to market, often used by larger companies or those looking to raise substantial amounts of capital.

**What type of security do you want to admit to the market?**

Depending on you and your company’s preference, you can issue shares or bonds.

**Are there payable fees?**

Yes. Companies pay an initial fee to join any of the NSE’s markets and an annual fee thereafter. If the company issues additional shares, then it pays what we call additional listing fee. See the table below for details.
### Initial Listing Fee

<table>
<thead>
<tr>
<th>Main Investment Market Segment</th>
<th>Alternative Investment Market Segment</th>
<th>Fixed Income Securities Market Segment</th>
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<tbody>
<tr>
<td>0.06% of securities value to be listed, subject to a minimum of Kshs 200,000 and a maximum of Kshs 1,500,000</td>
<td>0.06% of securities value to be listed, subject to a minimum of Kshs 100,000 and a maximum of Kshs 1,000,000</td>
<td>0.0125% of the value of fixed income securities (bonds) to be listed as follows:</td>
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<tr>
<td></td>
<td></td>
<td>1. A minimum of Kshs 100,000 and a maximum of Kshs 1,000,000 for corporate bonds and other fixed income securities.</td>
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<td>2. A minimum of Kshs 100,000 and a maximum of Kshs 500,000 for Treasury bonds and other government securities</td>
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### Annual Listing Fees

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<tbody>
<tr>
<td>0.06% of securities market capitalization, subject to a minimum of Kshs 200,000 and a maximum of Kshs 1,500,000</td>
<td>0.06% of securities market capitalization, subject to a minimum of Kshs 100,000 and a maximum of Kshs 1,000,000</td>
<td>0.0125% of the market value of outstanding fixed income securities (bonds) listed as follows:</td>
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<tr>
<td></td>
<td></td>
<td>1. A minimum of Kshs 100,000 and a maximum of Kshs 1,000,000 for corporate bonds and other fixed income securities.</td>
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<td></td>
<td>A minimum of Kshs 100,000 and a maximum of Kshs 2,500,000 for Treasury bonds and other government securities</td>
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### Additional Listing Fees

<table>
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<tr>
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<th>Fixed Income Securities Market Segment</th>
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<tr>
<td>0.1% of the nominal of the additional securities, subject to a minimum of Kshs 50,000 and a maximum of Kshs 500,000</td>
<td>0.1% of the nominal of the additional securities, subject to a minimum of Kshs 25,000 and a maximum of Kshs 250,000</td>
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### What are the Existing Incentives for firms wishing to list?

1. The Minister has abolished Stamp Duty payable on the share capital or increase in share capital of a company listed on the Nairobi Stock Exchange
2. Instruments executed pursuant to or in connection with issue of asset backed securities through the CMA approved scheme exempted from stamp duty
3. All citizens of the East African Community Partner States who invest in securities listed on the Nairobi Stock Exchange and earn dividend income are treated the same as Kenyan residents and therefore pay withholding tax at 5%;

4. The Capital Markets Act has been amended to increase the percentage of the equity offer in an initial public offer that is reserved for Kenyans, from 25% to 40% and citizens of the other East African Community Partner States can also access this allocation.

5. The legal costs and other incidental costs relating to the introduction of shares (when a company lists its share without raising capital) is corporate tax deductible.

6. Interest income generated from the cash flows passed to the investors who buy listed bonds as asset backed securities for the purposes of developing the infrastructure, has been exempted from both withholding and income tax.

7. Interest income accruing to all listed bonds used to raise funds for infrastructure and social services, which have a maturity of at least three years, is exempt from withholding and income tax.

8. As an incentive to encourage more issuers at the Nairobi Stock Exchange, the Minister proposed that newly listed companies pay corporation tax at a lower rate of 20%, for a period of 5 years, provided these companies offer at least 40% of their shares to the Kenyan public.

9. Securitization based on bankable assets and ability to generate cash has become a viable alternative in most emerging markets, particularly for institutions providing infrastructural services to raise long term capital. In this regard, the Minister proposed to exempt investment income of Special Purpose Vehicles (SPVs) from income tax. This is to encourage institutions providing infrastructural services to set up SPVs for purposes of issuing asset backed securities.

10. Foreign investors can now acquire shares freely in the stock market subject to a minimum reserved ratio of 25% for domestic investors in each listed company.

11. Investment ceiling by retirement benefits schemes in fixed income securities (e.g. bonds and commercial papers) has been raised from 15% to 30%.

12. To encourage savings, collective investment schemes set up by employers on behalf of employees to invest in listed shares, will be exempted from income tax.

13. Effective 1 January 2003, newly listed companies are to pay a lower corporation tax of 25% (i.e. 5 percentage points lower than the standard corporation tax of 30%) for a period of 5 years following their listing. The new legislation applies to companies with who float at least 30% of their issued share capital to the public.

14. New and expanded capital (marketable securities) by listed companies or those seeking listing exemption from stamp duty.

15. Transfers of assets involved in the issuance of asset-backed securities will to be exempt from stamp duty.

16. Newly listed companies to be taxed at a lower rate of 27% as compared to the standard rate of 30% for a period of three years following the date of listing. This is also dependent on such companies offering at least 20% of the share capital to the public.

17. Expenses incurred by companies in having their financial instruments rated by an independent rating agency are tax deductible.

18. Registered venture capital funds have been accorded major tax incentives including tax holidays of up to ten years on the funds income.

19. Reduction of withholding tax applicable to dividend income arising from investment on listed securities for both local and foreign investors. Foreign 10%; Local 10% to 7.5% to 5%.

20. Exemption of stamp duty and value added tax on the transfer of listed securities.

21. Costs of IPOs were made tax deductible.

22. 35% Capital Gains Tax was introduced in 1975 (suspended since 1985)
How to start

If you are thinking of listing and you do not know how to go about it, NSE is ready to help you. Please contact us using the contacts below:

The NSE Product Development Team
Nairobi Stock Exchange
Nation Centre, 1st Floor, Kimathi Street, Nairobi.
Telephone: +254-20-2831241 or +254-20-2831253
E-mail: marketing@nse.co.ke