

**A STUDY TO DETERMINE THE OPTIMAL NUMBER OF STOCKBROKERS AT
NAIROBI STOCK EXCHANGE**

**By
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DECLARATION

This is my original work and has not been presented in any university or institution of higher learning to the best of my knowledge

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Date:

This project has been submitted with our approval as university supervisors.

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ABSTRACT

Dealing in shares and stocks in Kenya started in the 1920's when the country was still a British colony. In 1951, the first professional stock broking firm was set up. Further consultation thereafter resulted in the constitution of the Nairobi Stock Exchange (NSE). In 1989, Capital Markets Authority (CMA) was instituted by an Act of Parliament to assist in the market development. The NSE has since been one of the most vibrant markets in Africa and in effect has attracted investors from all over the world.

The purpose of the study was to develop an objective criteria for determining the optimal number of stockbrokers at NSE, specifically to identify the factors that determine the growth of the number of stockbrokers at NSE and to develop an objective criteria to determine the optimal number of stockbrokers that can be utilized by NSE and CMA.

Purposeful stratified random sampling was used where respondents were identified from all the market stakeholders namely stockbrokers, NSE, Central Depository and Settlement Corporation (CDSC), Ministry of Finance, CMA, institutional investors and retail investors. Questionnaire tools were used to conduct interviews. Secondary data was sourced from World Federation of Exchanges (WFE). Data were analyzed using Statistical Package for Social Scientists (SPSS) and Microsoft's Excel computer packages where linear regression techniques were employed.

The study established that NSE did not have any known criteria for recruiting new stockbrokers or determining the optimal number of stockbrokers. The study further established that NSE operated below the efficiency line, which perhaps explained the many challenges and service deterioration witnessed at the market. The optimal number of stockbrokers at the current level of activity is 67 which the study recommends.

The study also recommends that Central Depository Securities (CDS) account opening procedure be simplified with, regular and timely statements were sent to investors, alerts

on sale of shares either on email or on short text message be implemented, provision of services for unlisted securities be explored and implemented, shorter settlement period after securities sale (probably one day) and listing of CBK bonds be implemented.

The study further recommends that CMA ensure strict compliance policy for all the stock market players. Minimum capital requirements for stockbrokers be instituted, scrutiny of financial statements from the stockbrokers on a regular basis (say quarterly or semiannual basis), investor education to increase financial literacy across the country, market reforms in line with the changing technology, development of the Over The Counter (OTC) market and further development of investor compensation fund since the current levels were found to be too low should a major stockbroker become a casualty.

The study observed that being licensed by CMA to trade in securities was not enough to transact at NSE. Instead, one had to acquire a seat. To address the mismatch, the study recommends that the regulators harmonize the process of licensing and admission to trading for newly recruited stockbrokers.

The limitation of this study was that low membership was observed at WFE (57 members worldwide) and the fact that some of the member's websites especially those from South America were not available in English. However, the source formed a valid and reliable data for regression analysis since all the major stock markets worldwide were members of the federation.