THE EFFECT OF REGULATORY FRAMEWORK ON THE GROWTH OF
NAIROBI SECURITIES EXCHANGE: A TRADER'S PERSPECTIVE

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D61/63899/2010

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR AWARD OF DEGREE OF MASTER OF BUSINESS
ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

OCTOBER, 2012
DECLARATION

This research is my original work and has not been presented for the award of any degree in any other university.

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This research proposal has been submitted for examination with my approval as the University Supervisor.

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ACKNOWLEDGEMENT

I would like to thank the Almighty God for giving me the will and strength to carry out this research. To my family and parents for the encouragement and support. Lots of thanks and gratitude to my research project supervisor, Dr. Wanjare for the valuable advice and encouragement that he accorded me throughout this research process. To all my colleagues who reviewed this research project, thank you very much for your clarifications, corrections and criticisms that helped me to achieve the objectives of this work.

Finally, I would like to thank the management of University of Nairobi for availing to me all the resources without which I would not have been able to carry out this research.
<table>
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<tr>
<th>Abbreviation</th>
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<tr>
<td>CDS</td>
<td>Central Depository System</td>
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<tr>
<td>CMA</td>
<td>Capital Markets Authority</td>
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<tr>
<td>IASB</td>
<td>International Accountants Standard Board</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IOSCO</td>
<td>International Organization of Securities Commission</td>
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<td>IPO</td>
<td>Initial Public Offer</td>
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<td>NSE</td>
<td>Nairobi Securities Exchange</td>
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<td>SEC</td>
<td>Securities and Exchange Commission</td>
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The study concentrated on the effects of legal regulatory framework on the growth of Nairobi Securities Exchange from the trader's perspective. Legal regulatory framework is considered a determinant of an effectively and efficiently run organization, it relates to attainment of quality in the securities market chain. The survey was carried out in Nairobi Securities Exchange member firms. The specific objectives of the study was to establish how investors' awareness creation required by regulation influence the growth of Nairobi Securities Exchange, to find out if the level of transparency of transactions required by regulations influence the growth of Nairobi Securities Exchange, to determine whether the trading system required by regulations influence the growth of Nairobi Securities Exchange and to assess the extent to which government intervention influence the growth of Nairobi Securities Exchange. The results of this study will be of great significance to the small and medium firms seeking to be listed at the NSE, the CMA, CDSC, corporate sector and the government of Kenya. The results will directly point to the development of capital market and the management of the organizations. The study will be relevant for academicians and researchers, and may form a basis for further research on the topic of the study. The stakeholders who are usually interested in understanding developments within the stock market and the financials will also go a long way in enhancing good management and good financial practices within the financial market in Kenya. Review of literature was done from secondary sources. The study adopted a case study research design. The researcher targeted a total population of 17 member firms at the NSE. Census technique was adopted to give respondents equal chance of participation. Questionnaires were the main tools of data collection. The Data collected was analyzed qualitatively and presented on tables, pie charts and graphs. Each questionnaire was carefully checked to ensure it contributed to the research problem, enhance the quality of the Questionnaires and produce reliable results. The data analysis was done after editing process, where completed questionnaires were checked for accuracy and completeness. The findings demonstrated that creating legal regulatory framework in the NSE is a participative process that uses the entire capacity of stakeholders and is designed to encourage and achieve organizational success as the market regulation is necessary in dealing with market failure. It also reported that the creation of legal regulatory framework led to introduction of CDS which has enhanced the settlement of transactions, reduced frauds and settlement period and established stringent eligibility requirements that have created barriers to potential investors.
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Developing countries are working towards reforming and deepening financial systems, through the expansion of capital markets in order to improve their ability to mobilize resources and efficiently allocate them to the most productive sectors of the economy. A significant policy change has been the establishment of privatization programs, which have facilitated reduction in public debt, improved incentives and efficiency in the operations of the privatized entities, and facilitated better access to capital through the floating of shares to the general public (Claessens, Klingebiel, and Schmukler, 2005).

The role of long-term capital in the economic development of a nation cannot be over emphasized. Most economic managers recognize that a well organized capital market is crucial for mobilizing both domestic and international capital. In many developing countries, however, capital has been a major constraint in economic development.

As Pardy (1991), observes, securities markets have an important role to play in financial liberalization and deepening. The author contends that apart from providing a means of diversifying risk for both capital raisers and investors, securities markets could play other roles. For example, they are a mechanism for capital allocation and corporate monitoring, and a means for government to exercise market-based rather than direct fiscal and monetary policies.

Stock markets fulfill a number of functions. Firstly, the market acts as a means of raising capital for companies. This is referred to as its primary market function and is accomplished either in the initial “floatation” (formation of a public company) or by an existing company issuing new shares. Secondly, a more important role is the secondary market function, which is the transfer of previously issued shares. This function enables shareholders to adjust their portfolios by increasing the ownership of shares in certain companies or liquidating shares in other companies. An efficient and liquid secondary
market is vital to encourage the primary market role. Moreover, the stock market is an independent financial organization comprising of many individuals seeking to obtain the best return at the lowest risk. The share price is seen as an objective measure of investors’ assessment and expectations, hence acting as an external discipline over the investment behavior and management performance of a company. Finally, stock markets efficiently spread the risk of long-term investment projects by channeling the savings of individual investors into different companies.

1.1.1 Securities Markets Regulations

The International Organization of securities Commission (IOSCO) is an association of organization that regulates the world’s securities and futures market. It has a membership from over 100 different countries that regulate more than 90% of the world’s securities market. In 1988, it adopted a comprehensive set of objectives and principles of securities regulations. These continue to be developed and expanded and has recommended all her members to adopt these and helps her members access the level of compliance with principles which includes the regulatory principles designed to improve audit independence and oversight, corporate financial disclosures and transparency and code of conduct for credit rating agencies.

IOSCO is structured into a number of committees that meet several times per year at different locations around the world and it has a permanent secretariat based in Madrid. It’s main objectives are to assist her members to cooperate together to promote high standards of regulations in order to maintain just, efficient and sound market; exchange information on their respective experience in order to promote the development of domestic market; unite their efforts to establish standards and an effective surveillance of international securities transactions and provide mutual assistance to promote the integrity of the market’s by a vigorous application of the standard and by effective enforcement against offences.

In compliance with the above, the Kenya government established the Capital Markets Authority (CMA) in 1990 to stimulate the development of the long term debt, it has the
powers to control the activities of the Nairobi Securities Exchange (NSE) and it is empowered to fix the prices of the shares that have been floated to ensure that these shares are bought off by the potential investors and to suspend or cancel the listing of any securities or trading of any securities for the protection of investors, granting of licence to any entity to operate as a broker, investment adviser, a unit or mutual fund. The NSE has undergone major changes in terms of services after Central Depository System (CDS) was put in place. The CDS is a computerized “ledger” system that enables the holding and transfer of securities without the need for physical movement; hence ownership of a security has been via book entry, rather than physical exchange (Lwande, 2002).

As a result, NSE has enjoyed the benefits which are varied like reduction of the systematic risk arising from clearing and settlement processes, enhanced transparency of the market, reduction in the instance of fraud as a result of immobilized securities, establishment of the infrastructure to hasten clearance of options, greater turnover due to improved liquidity lowering transaction costs, improved and timely communication from the insurer to the investor, faster back office efficiency through standardized procedures and controls.

1.1.2 Securities Markets Growth and its measurement

The securities exchange is a vital organ of the modern business world. It is a nerve centre of the finances of the nation and indispensable for the proper functioning of corporate enterprises (Lwande, 2002). The NSE has continued to provide ready market for stocks and bonds which in turn has facilitated the sale of securities by the organizations in need of long-term fund. Investors require capital and the NSE growth has enhanced the capital accumulation by stimulating industrial investment, promotion of savings and risk. The awareness of the investors on the need to direct the flow of capital and provide safety to investors has also enhanced the growth of the NSE.

Engberg (1999) recognizes the need for capital markets even for less developed economies. He avers that capital markets can significantly raise the level of domestic savings and contribute to a more efficient allocation of such savings among competing
uses. Through the NSE, variety of financial assets, carrying different risks, yields and liquidity is added to the traditional types of financial assets such as demand and savings deposits. The growth of securities market is measured using the Securities Exchange Index. Lwande (2002) argues that index is a device for combining the variations that have come in a group of related variables over a period of time, with view to obtaining a figure that faithfully represents the net result of change in the constituent variables. The NSE index is an index comparing the total value of securities sold in a given day with the total sales of a given reference point in time here called the base year. In case of the NSE, if not specified, the base year is taken as 1966. For instance, if the stock index is 123, then we are saying the total sales today was 123% of what was sold at the same time in 1966.

1.1.3 Nairobi Securities Exchange (NSE)

Nairobi Securities Exchange (formerly Nairobi Stock Exchange) (NSE) is the principal stock exchange of Kenya. It began in 1954 as an overseas stock exchange while Kenya was still a British colony with permission of the London Stock Exchange. The NSE is a member of the African Stock Exchange Association. It is Africa’s fourth largest stock exchange in terms of trading volumes, and fifth in terms of market capitalization as a percentage of GDP (NSE, 2012). The Exchange works in cooperation with the Uganda Security Exchange and the Dar salaam Stock Exchange, including the cross listing of various equities.

The membership of the NSE entitles a person to transact the business in the listed securities. According to Saleemi (1993) only the members or their representatives can enter the floor of the stock exchange to transact the business, these members are required to pay certain fees and obtain a license from the CMA. Lwande (2002) argues that the NSE has the following members; Jobbers who are generally the principals who buys and sell securities in their own names and earn ‘Jobber turn”, they include the bulls, who are speculator on the NSE, they buy stocks in speculation that the stocks prices are currently low but will soon appreciate in near future. The bear are also jobbers who sells stocks in anticipation of a fall in the prices and buy them back at a cheaper price and deliver them to the potential buyer at the former higher price, finally the stags deals in new issues, they buy shares on this expectation that the value of newly issued shares will soon rise and
they deal basically in the primary markets. Apart from Jobbers, there are Brokers who are
the middlemen between the investing public and the NSE. They act as the agents of that
investing public and earn commission on the deals they arrange for their principals and
the investing public, in addition they have no personal risks and only work to the best
interest of their clients.

1.2 Research Problem

The problem was to study the effect of regulatory framework on the growth of the
Nairobi Securities Exchange. A study by Negi (2011) states that there is abundant
evidence that most African businesses lack long-term capital as they have depended
mainly on short-term financing such as overdrafts to finance even long-term capital. Based
on the maturity matching concept, such financing is risky. All such firms need to
raise an appropriate mix of short- and long-term capital.

The government through the NSE realized the need to design and implement policy
reforms to foster sustainable economic development with an efficient and stable financial
system. In particular, it set out 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 sector to broaden the base of ownership and enhance capital market
development. NSE has phased out the “call over’ trading system in favour of the floor-
based “open outcry system” with an extensive modernization exercise and enhanced
computerization.

Unpublished research by Waiyaki (2004), states that the political and economic decisions
that were translated into legal framework for the establishment and operation of the stock
exchanges were rushed in many African countries. Therefore, the exchanges have not
been successful in attracting a large number of other market transactions in addition to
the privatized public enterprises. Asea (2003), states that many of Africa’s stock
exchanges are small, underdeveloped and illiquid. They tend to operate in isolation from
other markets, have low trading volumes, are sheltered from competition by national
regulations and face barriers to capital mobility because of high costs of travel and
communications.
African exchanges tend to be highly concentrated with the best shares being held by local pension funds, banks and insurance firms that do not want to sell because they have few alternative assets to buy with sales proceeds. In addition, the market infrastructure is underdeveloped particularly with regard to settlement and processes dominate their operations. Stringent eligibility requirements have discouraged local entrepreneurs and indigenous enterprises that wish to raise funds from capital markets. The eligibility requirements as exemplified in the requirements for listing at the NSE have created high barriers to potential entrants to the stock exchanges such as the numerous family owned businesses in Africa. Thus, the stock exchanges tend to operate like closed membership organizations.

Sheehan, Michael and Zavala (2005), political uncertainties and economic policies in some African countries have facilitated the decline in confidence in and subsequent poor performance of the stock markets because of the risk of deterioration in the business climate. Before, 2002 general elections in Kenya, the Nairobi Stock Exchange experienced decline in market performance due to political and economic policies adopted by the government that led to the withdrawal of donor funding. However, there was renewed confidence in the market evidenced by improved performance in market capitalization and turnover when a new government came into power in 2003. Turbulence in the NSE was later experience after the 2007 election that led to violence in Kenya for a period of time leading to suspension of transaction in at the NSE.

Nevertheless, the extent to which regulatory framework could contribute towards this end is unknown at the NSE. The researcher therefore sought to examine how legal management issues are practiced at the NSE with a view to providing data towards its growth strategic direction.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of this study was to explore the effect of regulatory frameworks on the growth of Nairobi Securities Exchange from the trader's perspective.
1.3.2 Specific Objectives

In order to address the above stated general objective, the specific objectives were:

a) To establish how investors’ awareness creation required by regulation influence the growth of Nairobi Security Exchange
b) To find out if the level of transparency of transactions required by regulations influence the growth of Nairobi Security Exchange
c) To determine whether the trading system required by regulations influence the growth of Nairobi Security Exchange
d) To assess the extent to which government intervention influence the growth of Nairobi Security Exchange

1.4 Research Questions

The study sought to answer the following questions;

a) How does the investors’ awareness influence the growth at Nairobi Security Exchange?

b) To what extent does the level of transparency of transactions influence the growth of NSE?

c) How does trading system affect the growth of the NSE?

d) What are the effects of government intervention on the growth of the NSE?

1.5 Value of the Study

The results of this study will be of great significance to the small and medium firms seeking to be listed at the (NSE), corporate sector and the government of Kenya. The results will directly points to the development of capital market and the management of the organizations.

The study will be relevant for academicians and researchers, and may form a basis for further research on the topic of the study. The stakeholders who are usually interested in understanding developments within the stock market and the financials will also go a long way in enhancing good management and good financial practices within the financial market in Kenya.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter aims to compile and organize information on the capital markets approaches as applied in the growth of the Nairobi Securities Exchange more so, on the regulatory frameworks variables.

2.2 Theoretical Review

Securities regulation is defined in a broad sense as government intervention aimed at coping with failures in securities market by means of laws, economic policies, administrative orders, and self-regulation. According to studies carried out on the regulation of securities markets from an institutional economics perspective, such as Kahn (1970) and Peltzman (1976, 1993), securities market public regulation is a necessary and efficient method of dealing with “market failures” if regulatory activities are properly defined and effectively carried out. Based on these studies, we conceive that the role of the government in securities market regulation is to complete the market, as opposed to stepping into the shoes of market participants to an excessive extent. Therefore, the subtle and delicate relationship between the “government” as the regulator and the “securities market” as the means of exchange is the key for institutional choices in securities market regulation (North, 1990).

Schwert (1977) examines the “capture hypothesis” of the public regulation of national securities exchanges in the USA and finds that there is no evidence that the members of national securities exchanges have received net benefits from the regulatory activities of the Securities and Exchange Commission (SEC). Schwert (1981) discusses the methods and measures, the effects of existing and anticipated regulation on securities markets.

Jarrell (1981) tests Stigler’s theory by investigating the economic effects of federal regulation of new security issue, the results suggests that government should ensure traders have access to fair, accurate information. Burk (1985) concludes that social controls over securities markets were established in response to the appearance of market
failure and the structural pressures of electoral politics. In terms of practice issues, Macey and O'Hara (1999) propose a regulatory framework of alternative trading systems, which fosters innovation and competition. Based on these studies, we conceive that the role of the government in securities market regulation is to complete the market, as opposed to excessively stepping into the shoes of market participants. We, therefore, consider that the subtle and delicate relationship between the “government” as the regulator and the “securities market” as the means of exchange is the key for institutional choices in securities market regulation (North, 1990).

In most developed countries such as the USA and the UK, where the financial market has been fully developed for centuries, the market is at the center of resource allocation. The priority for securities regulation in such market-oriented countries is to set rules and laws to ensure a fair and transparent market, rather than directly intervening in stock market capitalization accumulation and trading activities (Stigler, 1964, 1971). In contrast, research on financial regulation in developing countries and their emerging securities markets can be divided into the following two branches. The first branch is the “financial liberalization” branch, as typified by McKinnon (1991), which focuses on domestic financial policy in a transition from classical socialism to a market economy and suggests a liberal financial policy in which the government exerts very limited control over and intervenes in the market to minimal extent.

2.2.1 Statutory Regulatory Framework in Kenya

A statutory regulatory framework was established as part of the ongoing capital market reforms in an effort to strengthen the regulatory infrastructure. The establishment was recommended by the IFC/ Central Bank of Kenya study (1984) and reaffirmed in the Sessional Paper No. 1 of 1986. In order to establish a regulatory body, legislation was adopted to facilitate formulation of rules and enhancing the effectiveness and efficiency of the operations of the Capital Market Authority (CMA).

The Authority was established in 1990 through the Capital Market Authority Act (Cap 485A). The process involved the Government setting up a Capital Market Development Advisory Council in November 1988 whose role was to work out modalities for
establishing the CMA. In November 1989, the Bill was passed by Parliament and the CMA was constituted in January 1990 and inaugurated in March 1990. It is important to note that while statutory regulation is desirable to provide necessary oversight of the market and ensure its stability by inter alia preventing conflict of interest, it should complement rather than substitute self-regulation (Akamiokhor, 1996).

The main purpose of setting up the CMA was to have a body specifically charged with the responsibility of promoting and facilitating the development of an orderly and efficient capital market in Kenya. As spelt out in the Capital Markets Authority Act (Cap 485A. 2(11)) the aim of the CMA is to develop all aspects of the capital market with particular emphasis on the removal of impediments and the creation of incentives for long-term investment in productive enterprises. It also targets to protect investors' interests by operating a comprehensive fund to cushion investors from financial loss arising from the failure of a licensed broker or dealer to meet contractual obligations.

The CMA is composed of eleven members who include: the Chairman, who is a non-executive member appointed by the President on recommendation of the Minister for Finance; six members who include professionals in law, business, accountancy, finance and insurance and appointed by the Minister for Finance; the Chief Executive who is appointed by the Minister for Finance; and three permanent members, that is the Permanent Secretary (Treasury), the Governor of the Central Bank of Kenya, and the Attorney General. Except for the three permanent members, the rest are appointed for a three-year period and are eligible for re-appointment.

Efforts were made to make the regulatory body financially independent. As indicated in the CMA annual report (1990/91 and 1991/92), the main source of revenue for CMA when it was established was limited to licensing fees of market players and this was not adequate to meet its operational costs. The Government was therefore financing a significant proportion of the CMA activities, which was supplemented by substantial donor support from the United States Agency for International Development (USAID). However, there was growing need to make CMA self-financing and reduce its reliance on the Treasury. In the 1995 CMA (Amendments) Act, the Authority was allowed to collect
fees from the market to finance its operations. A framework to facilitate the charge of fee for its services was developed and in January 1996. CMA was allowed to levy charges on public issues, bonuses, rights and private placement by public companies. The new fee structure was gazetted in July 1997 empowering the CMA to charge fees for its services mainly from public issue stock exchange transactions and licensing.

At the same time, the Government in 1996 exempted the Authority from the State Corporations Act (Cap 446 of the Laws of Kenya) to facilitate flexibility and enhance autonomy in discharge of its operations. This saw the dependencies on the exchequer reduce from 100% to less than 28% by end of June 1998. The CMA took a zero-based budgetary approach which required each budget item to be reviewed and justified afresh every financial year regardless of the position of expenditure or revenue in the previous years (CMA Annual Report, 1997/98). The charges, however, seem to have substituted the taxation relieves for both the listed companies and investors. As a result, the effective withholding tax was more than the set 7.5% while the listing costs were still high though tax-deductible for firms intending to go public.

To meet its developmental role, the CMA (Amendments) Act of 1995 spelt out regulations providing for foreign investors’ participation in the domestic capital market. This facilitated the expansion of market scope. In 1997, guidelines to govern the issuance of corporate bonds and commercial paper were issued in order to facilitate diversity of financial assets traded in the market. To facilitate its regulatory role, the 1996 review spelt out the requirements on take-over, mergers and de-listing to protect minority shareholders. The CMA also issued guidelines to promote good corporate governance practices by listed companies through the constitution of audit committees in January 1999. Further, in July 1995, the CMA established the investor compensation fund aimed to compensate traders for financial losses arising from the failure of a licensed broker or dealer to meet contractual obligations. In 1998, the CMA published new guidelines on the disclosure standards by listed companies which required them to form audit committees composed of non-executive directors with knowledge of business and accountancy. The disclosure requirements were meant for both public offerings of securities as well as continued reporting obligations, among others.
2.2.2 Enhancing Market Participation and Liquidity for NSE

Performance of the NSE to a large extent reflects on policy and institutional framework and the political environment: for example, while the stock market showed remarkable performance during the colonial period, policy changes implemented in the post-independence period and before the implementation of revitalization reforms saw the market experience a state of dormancy. In the post-independence period, the new government implemented the Kenyanisation policy as part of its commitment to initiate and implement a process of orderly transfer of assets from the hands of immigrants to those of Kenyan citizens. This saw change in composition of stock market investors and firms as foreign investors' participation in trading activities went down while most of the foreign controlled firms were delisted. Despite government efforts to enhance local participation either because of little knowledge in share trading among local investors, low savings, or because the private sector was yet to gain its momentum – the participation of local citizens (or investors) failed to match that of foreign investors.

Further, the government introduced taxation policy changes that were not favorable in terms of encouraging participation of investors and listing of companies. For example, in 1971, with the aim of controlling the movement of funds outside the country, the government imposed a 12.5 percent tax on dividend and interest paid by corporation to residents and non-residents. In addition, a 20 percent tax on all fees royalties payable to non-residents was imposed. In June 1975, a capital gain tax was introduced, set at 36 percent aimed at generating additional revenue and curbing excessive speculation. Further, tax rate on dividends paid to non-resident was raised from 12.5 percent to 15 per cent and 20 per cent, while the interest rate increased from 12.5 per cent to 20 percent. The adopted tax policy adversely affected the development of equity and debt securities especially with the double taxation of dividend income, which reduced returns on shareholding significantly.

2.2.3 Taxation Policy

To create an enabling environment for the development of the stock market, taxation policy reforms were implemented aimed at reducing transaction costs and making shares more competitive in the financial asset basket. Such reforms as exemption of listed
securities from stamp duty, capital gains tax and value added tax, increased shareholders earnings while creating harmony among the financial assets. Capital gains tax was suspended in June 1985 while stamp duty payable on retail share transfer transaction was abolished during the 1990/91 fiscal year. Further, a withholding tax rate of 15 percent on dividend income paid to residents was made final tax to reduce incidence of double taxation on corporate dividends and other incomes arising from investment in securities.

NSE (1998) all dividend and interest income to unit trusts was subjected to final withholding taxes of 15 percent and 10 percent respectively. Withholding tax on dividend income was further reduced during the 1992/93 fiscal year to 5 percent for the local investors and 7.5 percent for non-residents. However, withholding tax on interest income was raised from 10 percent to 15 percent while withholding taxes on bearer instruments and certificates of deposit were raised from 10 percent to 20 percent respectively; in both cases, it was final tax. To enhance participation of insurance companies, gains that insurance companies were making from share trading and which were previously taxable at the normal corporate tax, were made tax-exempt during the 1997/98 fiscal year. The aim was to release for trading large stockholding in the custody of insurance companies, therefore boosting the supply of securities in the market.

2.2.4 Trading System

Efficiency of price discovery process is positively related to liquidity gains in the stock market (Madhvan, 1992; Amihud et al, 1997). At inception, NSE adopted call auction coffeehouse forum trading system for its price discovery process. However, following the recommendations of the International Finance Corporation/Central Bank of Kenya (IFC/CBK) joint study of 1984, open outcry floor trading system was adopted in November 1991 aimed at enhancing transparency in the process. Further, to reduce transaction costs, the March 1995 Report on “Clearing, Settlement and Depository Framework for Kenya’s Capital Market” recommended the establishment of a central depository system (CDS); an independent committee was constituted in March 1996 to review and co-ordinate all aspects of the proposed CDS. A major step was achieved towards the implementation of the CDS environment with the introduction of a DvP system in August 2000.
The challenge with the new trading system was to settle all transactions in five days. It is indicated that in a period of one year, the overall market settlement performance stood on average, at 4.42 days. Presently, the market is in the process of fully establishing the CDS system and automating the trading cycle (Ngugi, 2003).

### 2.2.5 Awareness Creation

Creating awareness on the activities of the stock market is viewed as essential in promoting investors participation. In the 1990/91 Capital Markets Authority (CMA) Annual Report it is noted that one of the targets in the development process of the stock market was to intensify investors’ awareness through seminars and workshops. Consequently, a workshop on the “Emerging Issues in Capital Market Development” was organized in February 1996 and attended by capital market practitioners and senior personnel of financial institutions. In addition, a special workshop to create awareness on the central depository system was organized in July 1996. The participants included licensees, listed companies and members of the legal and accounting fraternities. Further, a monthly review produced by NSE information desk provides educative materials on various aspects of stock market operations.

### 2.2.6 Diversification of Risk

Diversity in financial assets traded in the stock market introduces competition and enables diversification of risk by investors. Participation in share trading will therefore reflect on their competitiveness in the financial assets basket. The range of financial assets traded in the market increased with the issuing of the first corporate bond (from the East African Development Bank) in November 1996. This was followed closely by issuing of the Government of Kenya Treasury Bonds in February 1997, commencing its trading in April 1997. The main aim of issuing Treasury bonds was to address the inverse yield curve, by shifting the short-term debt consisting of Treasury bills to long-term debt. The type of Treasury bonds issued show diversity in terms of maturity and targeted goal; for example, the Tax Amnesty Bond issued in June 1998, aimed at encouraging compliance with the Income Tax Act.
The government issued the first two-year floating rate Treasury bond in July 1998, aimed at extending the maturity profile of domestic debt, and Special Issue Treasury bonds in 1999 aimed at covering the outstanding payments due to government contractors and suppliers. Shelter Afrique issued a medium term note on the 8th December 2000, through a private placement to institutional investors. Further, the East African Development Bank launched a medium term note and was listed on the NSE Fixed Income securities market segment on 2 May 2001. The first locally controlled firm to offer bond was Safaricom on 26 June 2001.

2.2.7 Political Stability

One other major factor that has had implications on the NSE trading activities is political change among the countries of the East African Community (EAC). Initially, NSE had a large market scope serving the three EAC members. However, in the era of political independence and policy changes adopted by the new governments, NSE was left to serve only the Kenyan market.

In the liberalization process, efforts have been made to enhance cross border listing; for example, the East African Member State Securities Regulatory Authorities (EASRA) was formed in March 1997 under the memorandum of understanding between securities’ regulators of Kenya, Uganda and Tanzania. The main aim was to promote cross-border listing, harmonize legal and regulatory framework governing capital markets in the region and the capital market policies, and to promote cooperation between the stock exchanges. As a result, East African Breweries Ltd (EABL) pioneered the move with its listing on the Uganda Securities Exchange, commencing trading on 27 March 2001. Kenya Airways followed suit on 25 March 2002.

2.3 Analytical Review

Experience shows that the process of developing the legal framework is best achieved through an interactive residential workshops bringing together all the organization’s management team (or key business owners), who will subsequently assume the role of regulation (Shutterstock, 2011). The inherent costs include the requisite consultancy fees and holding the residential workshop. If the regulatory frameworks are improperly
assessed and prioritized, time can be wasted in dealing with damages that are likely to occur. Spending too much time assessing and managing unlikely damages can divert resources that could be used more profitably. Unlikely events do occur, but if the damage is unlikely to occur, it may be better to simply retain the damage and deal with the results if in fact occur. Qualitative legal regulations is generally subjective and may lack consistency hence bureaucratic; prioritizing legal regulations frameworks too highly could keep an organization from completing a project or even getting started.

2.4 Research Gap

Creating regulatory framework is a participative process that uses the entire capacity of stakeholders and is designed to encourage and achieve organizational success (Lawler and Morhan, 1989). The literature review in this study has reported that regulatory framework is a multidimensional concept that encompasses a variety, all relating in one way or another to documentation of regulations and continuous reviews and support to sustain momentum to ensure continuous improvement of the framework.

Nonetheless, there is no systematic study that has investigated the effects of regulatory framework on the growth of the Nairobi Securities Exchange. This shall be the basis of this study.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter addresses the approach to the study. It provides an explanation of the research design, details regarding the sample, chosen measurement instruments, means of data collection, and data analysis.

3.2 Research Design
The study adopted a descriptive research design. Gay (1981) defined a descriptive research as a process of collecting data in order to test hypotheses or to answer questions concerning the current status of the subjects in study. It determines and reports the way things are. It involves formulating the objectives of the study, designing the methods of data collection, selecting the sample, data collection and analyzing the results. Mugenda & Mugenda (1999) states that the design provides an in depth account of events, relationships, experience or processes accruing in that particular instance. This design was adopted since it provided an opportunity for in-depth study into the influence of legal and regulatory framework on the growth of Nairobi securities exchange.

3.3 Study Population
The study targeted listed members of the NSE. According to NSE (2012) there are 19 listed member firms who transact business on behalf of their clients. Currently there are 2 firms under statutory management and were not be considered for the study. Rudman (1998) observes that in the instances where the population is small, then it is advisable to adopt the use of a census design. Hence a census survey was applied. (Appendix ii)

3.4 Data Collection
Data was primary in nature. Research data was collected using survey method through use of structured questionnaires. The administration of the questionnaires was done through drop and pick. This method allowed the respondents ample time to complete the questionnaires and ask questions where they don’t understand. The respondent’s approval
to participate in the research was sought before administrating the questionnaire to the two managerial staff of each listed members of the NSE.

### 3.4.1 Data Validity and Reliability

To ensure validity, the researcher tested it through the research supervisor. For reliability, the researcher administered a copy of questionnaire to the research supervisor in order to measure the degree to which research instruments yields for consistent results (Mugenda & Mugenda, 2003). The questionnaires were tested and re-tested within a lapse of 14 days between the first and second test with initial conditions remaining constant being applied to other group to give similar results of desired outcomes.

### 3.5 Data Analysis

The data collected were analyzed through descriptive statistics (qualitative) methods in form of percentages, and presented in tables, graphs or pie charts according to the variables. This was seen as an effective method since the data was generally qualitative in nature.
CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction
This chapter provides the findings of the study from data collected from the sample. The descriptive statistical method was applied for qualitative analysis of data in this section, which includes tables, charts and graphs that illustrate different variables.

4.2 Presentation of Findings

4.2.1 Research Sample Profile
Employee demographic characteristics were compiled using the part I of the questionnaire. Eight questionnaires were not adequately filled or returned and thus were not used in data analysis. Thus the actual sample consisted of 26 respondents.

Table 4.1: Age of employees by gender

<table>
<thead>
<tr>
<th>Gender</th>
<th>18 – 30 years</th>
<th>30 – 50 years</th>
<th>Over 50 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>3</td>
<td>19</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>Female</td>
<td>3</td>
<td>3</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>19</td>
<td>1</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: Author research data, 2012.

As table 4.1 indicates, 23 (88%) of the respondents were male while female were only 3 (12%). In terms of age, 6 (23%) were younger than 30 years, majority of the respondents 19(73%) were aged between 30 – 50 years; 1 (4 %) were aged over 50 years. This reveals that NSE has fairly youthful workforce which ensures continuity. Further presentation is shown in table 4.2
Figure 4.1 Pie chart showing gender distribution

Gender Distribution

Source: Owner research data, 2012

4.2.2 Employees Education Level
At least 8 (31%) are diploma/certificate holders, 13 (50%) hold bachelor degree, 5 (19%) are postgraduates. It is evident that NSE member firms employed mostly university graduates and this has necessitated most employees to realize the importance of higher education. NSE member firms have provided “study time allowances” and also sponsor some of her employees for further training through directorate of Personnel Management. The low levels of post graduates are an issue Capital markets Authority (CMA) should adequately address especially on the NSE member firms.
Figure 4.2: Pie chart showing employees' education levels

Source: Author research data, 2012.

Figure 4.3: Bar graph showing education levels

Source: Researcher own data, 2012
It was evident as shown in the above figure that 12 (52%) of the male respondents were Bachelor degree holders, 6 (26%) of the male were diploma holders and only 5 (22%) were post graduate holders. Majority of the female were diploma holders as 2 (67%) of them fall under this category and only 1 (33%) was a bachelor degree holder.

4.2.3 Length of Service

The period to which one had been employed in an organization determine the extent of proper people management. Although NSE is fairly old institution, it appears that there is a large labor turnover due to the fluidly of the capital market operations and this explains why over 14 (54%) of the respondents have served between 5 to 10 years. 7 (27%) have worked between below five years and only 5 (19%) have worked over ten years.

Figure 4.4: Bar graph showing length of service

Source: Author research data, 2012.
13 (56%) of the male respondents have served between 5 to 10 years whereas 5 (22%) of the male had served either below 5 or over 10 years. 2 (67%) of the female respondents had served the NSE member firms for below 5 years and only 1 (33%) had worked between 5 to 10 years.
4.2.4 Investors Awareness

Employee involvement was assessed in the dimensions shown in table 4.2 below.

Table 4.2: Investors awareness

<table>
<thead>
<tr>
<th>Dimensions of Investors Awareness</th>
<th>Strongly Agreed</th>
<th>Agreed</th>
<th>Not Sure</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSE operates in isolation from other markets</td>
<td>2 (8%)</td>
<td>4 (16%)</td>
<td>10 (38%)</td>
<td>10 (38%)</td>
<td></td>
</tr>
<tr>
<td>Public regulation is necessary in dealing with market failure</td>
<td>10 (38%)</td>
<td>13 (50%)</td>
<td>2 (8%)</td>
<td>1 (4%)</td>
<td></td>
</tr>
<tr>
<td>The cost of raising finance has become a disincentive through public issues</td>
<td>10 (38%)</td>
<td>11 (42%)</td>
<td>4 (16%)</td>
<td>1 (4%)</td>
<td></td>
</tr>
<tr>
<td>Most companies create awareness through advertisement in various media</td>
<td>10 (38%)</td>
<td>8 (31%)</td>
<td>2 (8%)</td>
<td>5 (19%)</td>
<td>1 (4%)</td>
</tr>
<tr>
<td>Education levels usually have an impact on investor's awareness</td>
<td>12 (46%)</td>
<td>10 (38%)</td>
<td>2 (8%)</td>
<td>2 (8%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author research data, 2012.

From the overall rating of investors’ awareness, it is evident that securities market public regulation is necessary in dealing with market failure as 10 and 13 respondents agreed and strongly agreed on the same. Cost inherent in raising finance has also created a bottleneck in the initial public offer (IPO) as 10 and 11 respondents agreed and strongly agreed. Education levels have an impact on investors’ awareness since 12 and 10 of the respondents agreed and strongly agreed. Various media have been used for advertisements to create awareness. 10 and 8 of the respondents respectively confirmed the same. The NSE does not operate in isolation as over 77% of the respondents confirmed the same.
4.2.5: Level of transparency of transactions influence on the NSE growth

The next objective was to find how level of transparency of transactions influence the growth of NSE; the ratings along the dimensions are as presented in table 4.3

Table 4.3: Transparency levels

The dimension assessed was as from section B of the questionnaire as tabulated in table 4.3 below:

<table>
<thead>
<tr>
<th>Dimensions of transparency levels</th>
<th>Strongly Agreed</th>
<th>Agreed</th>
<th>Not Sure</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stringent eligibility requirements have create barriers to potential investors</td>
<td>12 (46%)</td>
<td>8 (31%)</td>
<td>1 (4%)</td>
<td>3 (12%)</td>
<td>2 (8%)</td>
</tr>
<tr>
<td>Quoted Companies usually publish their annual accounts</td>
<td>15 (58%)</td>
<td>10 (38%)</td>
<td></td>
<td></td>
<td>1 (4%)</td>
</tr>
<tr>
<td>Our company is usually a subject to external audit</td>
<td>16 (62%)</td>
<td>9 (35%)</td>
<td></td>
<td>1 (4%)</td>
<td></td>
</tr>
<tr>
<td>Our transactions are well documented</td>
<td>18 (69%)</td>
<td>5 (19%)</td>
<td>1 (4%)</td>
<td>1 (4%)</td>
<td>1 (4%)</td>
</tr>
<tr>
<td>Our Company is tax complaint</td>
<td>21 (81%)</td>
<td>4 (15%)</td>
<td></td>
<td></td>
<td>1 (4%)</td>
</tr>
</tbody>
</table>

Source: Author research data, 2012.

It was evident that NSE firms are tax complaint and files other returns required by the statutes, 21 (81%) and 4 (15%) strongly agreed and agreed respectively. In addition it was evident that transactions are well documented as 18 (69%) strongly agreed and 5 (19%) agreed. The firms are subject to external audit as 16 and 9 of the respondents strongly agreed and agreed respectively. The stringent requirements necessary to be quoted has acted as a barrier to potential investors as 12 and 8 of the respondents strongly agreed or agreed. The levels of transparency of transactions appear to be high in the NSE.
4.2.6 Trading System effects on the NSE growth

The ratings on the dimensions are presented in table 4.4

Table 4.4: Trading effects on the NSE growth

<table>
<thead>
<tr>
<th>Dimensions of Trading effects</th>
<th>Strongly Agreed</th>
<th>Agreed</th>
<th>Not Sure</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance of the NSE to a large extent reflects on policy and institutional framework</td>
<td>14 (54%)</td>
<td>12 (46%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The introduction of CDS has enhanced the settlement of transactions, reduced fraud and settlement period</td>
<td>17 (65%)</td>
<td>7 (27%)</td>
<td>1 (4%)</td>
<td>1 (4%)</td>
<td></td>
</tr>
<tr>
<td>Participation in share trading reflects on the stock market's competitiveness</td>
<td>14 (54%)</td>
<td>10 (38%)</td>
<td>2 (8%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversity in financial assets traded in the stock market introduces competition</td>
<td>16 (62%)</td>
<td>9 (35%)</td>
<td>1 (4%)</td>
<td>1 (4%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research own data, 2012

From the overall ratings it was evident that performance of the NSE to a large extent reflects on the policy and institutional framework, this was confirmed by 14 and 12 respondents who strongly agreed and agreed. The introduction of the CDS has enhanced and revolutionized the trading of the NSE through enhanced settlements of transactions, reduced frauds and settlement period, 17 and 7 of the respondents strongly agreed and agreed respectively. Diversity in financial assets traded in the stock exchange introduces competition within as 16 of the respondents strongly agreed while 9 agreed.
4.2.7 Government Intervention

The responses were obtained by using the section D of the questionnaire and dimension recorded are presented on table 4.5 below

<table>
<thead>
<tr>
<th>Dimensions of government intervention</th>
<th>Strongly Agreed</th>
<th>Agreed</th>
<th>Not Sure</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The security market is usually centre of resource allocation</td>
<td>14 (54%)</td>
<td>8 (31%)</td>
<td>2 (8%)</td>
<td>2 (8%)</td>
<td></td>
</tr>
<tr>
<td>Political and economic decisions that were translated into legal framework were rushed</td>
<td>10 (38%)</td>
<td>8 (31%)</td>
<td>2 (8%)</td>
<td>2 (8%)</td>
<td>4 (15%)</td>
</tr>
<tr>
<td>Political uncertainties and economic policies have facilitated the poor performance of the stock exchange</td>
<td>12 (46%)</td>
<td>11 (42%)</td>
<td>1 (4%)</td>
<td>2 (8%)</td>
<td></td>
</tr>
<tr>
<td>The level of taxation has made it more expensive for corporations to provide adequate returns</td>
<td>14 (54%)</td>
<td>8 (31%)</td>
<td>1 (4%)</td>
<td>1 (4%)</td>
<td>2 (8%)</td>
</tr>
<tr>
<td>The government usually intervene to a great extent to resolve market information</td>
<td>15 (58%)</td>
<td>8 (31%)</td>
<td>1 (4%)</td>
<td>2 (8%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research own data, 2012

15 and 8 of the respondents strongly agreed and agreed that the government usually intervene to a great extent to resolve market information with a view to enhance liquidity and performance of the NSE. 14 and 8 of the respondents strongly agreed and agreed that the level of taxation has made it more expensive for corporations to provide adequate after tax returns. It was further evident that securities market is usually the extent of centre of resource allocation as 14 and 8 of the respondents strongly agreed and agreed on the same. The political and economical adjustments translated into legal framework
for the establishment of operations of the NSE appeared to have been rushed. 8 and 10 of the respondents agreed and strongly agreed. There is need for political stability to hasten the operation of the NSE as this witnessed a strong response.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter maps out a summary of the study findings, discusses the implications of the study and suggests requisites recommendations to stakeholders in the NSE and for further research.

5.2 Summary of Findings

It is clear that NSE must analyze as many legal Regulatory Framework on the growth of the NSE as far as possible to develop a sustainable traders’ perspective which can either be satisfactory or unsatisfactory due to many success factors hampering their management operations levels. They range from investors awareness, trading system, level of transparency of transactions and the government intervention on the growth of the NSE.

The study findings showed that 14 (54%) of the respondents have served between 5 to 10 years, this is attributed to the fluidity of the securities market and labor turnover. There existed more male 23 (88%) than female 3 (12%), in addition 19 (73%) of the respondents were in the age bracket of 30 to 50 years this implies that the labor force is relatively young but experienced. 13 (50%) of the respondents are bachelor degree holders. The low ratings of post graduates was reported as only 5 (19%) were in this bracket. There was no reported case of KCSE holders as everybody was post secondary graduates. It appears that the government effort to promote education has yielded dividends.

The Capital Markets Authority (CMA) which is charged with licensing and provision of permission for companies to be quoted have put in place stringent eligibility requirements as a control measure as was rated by 20 (77%) of the respondents, other requirements are being met as 25 (96%) of the respondents confirmed that quoted companies usually publish their annual accounts and are a subject to external audit and are also tax
complaint as required the Income Tax Act. 23 (88%) of the respondents agreed that transactions are well documented with a view to enhance transparency. It was therefore evident that the level of transparency exhibited at the NSE is adequate and sufficient as the parameters investigated. Some of the respondents still strongly disagreed that securities stringent eligibility requirements have created high barriers to potential entrants to the NSE, 5 (19%) shared this opinion.

Central Depository System (CDS) introduction has enhanced settlement of transactions, reduced frauds as well as settlement period as 24 (92%) confirmed the same. With the need to spread both systematic and unsystematic risks through diversification of financial assets traded in the NSE has enhanced competition which is healthy for a robust market, this was confirmed by 24 (92%) of the respondents. The participation in the share trading reflects on the NSE competitiveness as 24(92%) were in agreement. To contain fraud, public regulation of securities markets usually protect investors as 14 (54%) and 11(42%) strongly agreed and agreed respectively. It was further observed that 19 (73%) of the respondents were not in agreement that NSE works in isolation from other related stakeholders. All the respondents were in agreement that performance of the NSE to a large extent reflects on the policy and institutional framework of the securities market. This thus confirms that trading system adopted affect the growth of the NSE.

Both political and economic factors have a strong bearing on the NSE. Much as 6 (23%) expressed their disagreement, It was evident that 18 (71%) of the respondents agreed that political and economical decisions were translated into the legal framework were rushed and 23 (88%) of the respondents believed that political uncertainties and economical policies have facilitated the poor performance of the NSE.

Although a source of revenue to the government, taxation levels appeared high and have reduced the after tax returns of the firms as per 22 (85%) of the respondents. It was evident that strong government intervention to resolve the market information was necessary as 23 (88%) agreed to this. All business entities strive to achieve optimal resource allocation which usually appears scarce, however, it was evident that NSE is usually the centre of resources allocation as 22(85%) registered their appreciation.
As regards the awareness of investors, it was evident that education levels of the potential investors had a positive impact on them as 22 (85%) were in agreement. Advertisement is usually carried out through the various media as 18 (69%) confirmed the same. Every venture requires costs, 21 (81%) of the respondents believed that the inherent costs of raising finance has become a disincentive for raising the equity through the initial public offer (IPO). In a nutshell it was also evident that securities market public regulation is necessary in dealing with the market failure as 23 (88%) were in agreement.

5.3 Conclusion
Creating regulatory framework is a participative process that uses the entire capacity of stakeholders and is designed to encourage and achieve organizational success. Regulatory framework is a multidimensional concept that encompasses a variety, all relating in one way or another to documentation of regulations and continuous reviews and support to sustain momentum to ensure continuous improvement of the framework. Moreover, legal framework is understood as a variety of techniques designed to achieve the objective of giving stakeholders some combination of information, influence and incentives. Since colossal volume of funds is involved in the transactions at the NSE, transparency and accountability is quite critical.

5.4 Recommendations
To create an enabling regulatory framework to enhance the efficiency of the NSE, the following recommendations are made to the NSE; incorporating the needs into never ending continuous training process to the members of the NSE and particularly encouraging them to enroll for post graduate courses, try to be gender sensitive and balance the mix, they should try to engage more female, the Capital Market Authority (CMA) should review her eligibility requirements for potential firms to be quoted, the government should also try to review the taxation policies on the listed companies, the inherent cost of companies to go public has been prohibitive, and there is need to adjust and make them flexible.
5.5 Suggestions for Further Research

There is need to replicate the current study to other securities markets in an endeavor to identify regulatory framework that would mitigate against delivery of total quality services in the securities markets. In addition, there is need to establish why there is low levels of female participation in the NSE and why the level of duration at the NSE by employees appears shorter.
REFERENCES


IOSCO, Annual Reports 2010

IOSCO, at http://www.iosco.org


Lwande A (2002). Kasneb Suggested Answers


Dear Sir/ Madam,

I am a post graduate student at the University of Nairobi. I am carrying out a research on the "The effect of Regulatory Framework on the Growth of Nairobi Securities Exchange: A Trader’s Perspective" to be Submitted in Partial Fulfillment of the Requirement for Award of Degree of Master of Business Administration, School of Business, University of Nairobi.

I will greatly appreciate your support in this exercise. The information you give will provide crucial knowledge about the role of legal and regulatory frameworks in the growth of the capital markets. I would like to assure you that all the information provided will be confidential and will only be used for research purposes.

Thank you.

Yours Sincerely,

Jack Gimona
PART I: DEMOGRAPHIC PROFILE

1. Name of the organization: .................................................................

2. How many years have you served?
   □ Below 5 years
   □ 5 – 10 years
   □ Over 10 years

3. What is your gender?
   □ Male
   □ Female

4. What is your age bracket?
   □ 18-30 years
   □ 31-50 years
   □ 50 and over years

5. What is your highest level of education?
   □ K.C.S.E. Certificate
   □ College Diploma
   □ Bachelor Degree
   □ Post graduate
   □ Others (specify) ...........................................................................
PART II: THE EFFECT OF REGULATORY FRAMEWORK

Given your knowledge and experience in capital markets, choose an answer from the list below which best fits your perspective. Please tick (✓) the number representing your response to statements given.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Not Sure</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

**Statements**

**Section A: Investor awareness of the regulations influence on the growth of NSE**

NSE operates in isolation from other markets

Securities market public regulation is necessary in dealing with market failure

The cost of raising finance has become a disincentive for raising equity through public issues.

Most companies create investor awareness through advertisements in various media

Education levels usually have an impact on investor's awareness

**Section B: Level of transparency of transactions influence the growth of NSE**

NSE's stringent eligibility requirements have created high barriers to potential entrants to the stock exchanges

Quoted companies usually publish their annual audited accounts and disclose other information

Our company is usually subject to external audit

Our transactions are usually documented

Our company is tax compliant and files other returns required by other institutions

**Section C: Trading system effects on the growth of NSE**

NSE operates in isolation from other markets

Public regulation of securities markets usually protect investors from fraud
Performance of the NSE to a large extent reflects on policy and institutional framework.

The introduction of CDS (Central Depository System) has enhanced the settlement of transactions, reduced fraud and the settlement period.

Participation in share trading reflects on the stock market's competitiveness.

Diversity in financial assets traded in the stock market introduces competition.

**Section D: Government intervention**

The securities market is usually the center of resource allocation.

Political and economic decisions that were translated into legal framework for the establishment and operation of the stock exchanges were rushed.

Political uncertainties and economic policies have facilitated the poor performance of the stock markets.

The government usually intervene to a greater extent to resolve market information failures.

The level of taxation has made it more expensive for corporations to provide adequate after-tax-return on equity.

Thank you for participating.
# APPENDIX 2:

## List of Member Firms

<table>
<thead>
<tr>
<th>Firm Name</th>
<th>Address</th>
<th>Contact Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dyer &amp; Blair Investment Bank Ltd</strong></td>
<td>Pension Towers, 10th floor, P.O. Box 45396 00100</td>
<td>Tel: 3240000/2227803/4/5 Fax: 2218633 Email: <a href="mailto:share@dyerandblair.com">share@dyerandblair.com</a> Url: <a href="http://www.dyerandblair.com">www.dyerandblair.com</a></td>
</tr>
<tr>
<td><strong>Francis Drummond &amp; Company Limited</strong></td>
<td>Hughes Building, 2nd floor, P.O. Box 45465 00100</td>
<td>Tel: 318690/318689 Fax: 2223061 Email: <a href="mailto:info@drummond.co.ke">info@drummond.co.ke</a> Url: <a href="http://www.drummond.co.ke">www.drummond.co.ke</a></td>
</tr>
<tr>
<td><strong>Ngenye Kariuki &amp; Co. Ltd. (Under Statutory Management)</strong></td>
<td>Cornet House, 8th floor, P.O. Box 12185-00400</td>
<td>Tel: 224333/2220052/2220141 Fax: 2217199/241825 Email: <a href="mailto:ngenyekari@wanananchi.com">ngenyekari@wanananchi.com</a> Url: <a href="http://www.ngenyestockbrokers.co.ke">www.ngenyestockbrokers.co.ke</a></td>
</tr>
<tr>
<td><strong>Suntra Investment Bank Ltd</strong></td>
<td>Nation Centre, 7th Floor, P.O. Box 74016-00200</td>
<td>Tel: 2870000/247530/2223330/2211846/0724-257024, 0733-22216 Fax: 2242327 Email: <a href="mailto:info@suntra.co.ke">info@suntra.co.ke</a> Url: <a href="http://www.suntra.co.ke">www.suntra.co.ke</a></td>
</tr>
<tr>
<td><strong>Old Mutual Securities Ltd</strong></td>
<td>IPS Building, 6th Floor, P.O. Box 50338-00200</td>
<td>Tel: 2241350/4/79 Fax: 2241392 Email: <a href="mailto:info@reliablessecurities.co.ke">info@reliablessecurities.co.ke</a> Url: <a href="http://www.reliablessecurities.co.ke">www.reliablessecurities.co.ke</a></td>
</tr>
<tr>
<td><strong>CFC Stanbic Financial Services</strong></td>
<td>CFC Stanbic House, P.O. Box 47198 – 00100</td>
<td>Tel: 3638900 Fax: 3752950 Email: <a href="mailto:csfs@stanbic.com">csfs@stanbic.com</a> Url: <a href="http://www.csfs.co.ke">www.csfs.co.ke</a></td>
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<tr>
<td><strong>Kingdom Securities Ltd</strong></td>
<td>Co-operative Bank House, 5th Floor, P.O. Box 48231 00100</td>
<td>Tel: 3276000 Fax: 3276156 Email: <a href="mailto:info@kingdomsecurities.co.uk">info@kingdomsecurities.co.uk</a> Url: <a href="http://www.kingdomsecurities.co.uk">www.kingdomsecurities.co.uk</a></td>
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<tr>
<td><strong>Afrika Investment Bank Ltd</strong></td>
<td>Finance House, 9th Floor, P.O. Box 11019-00100</td>
<td>Tel: 2210178/2212989 Fax: 2210500 Email: <a href="mailto:info@afrikainvestmentbank.com">info@afrikainvestmentbank.com</a> Url: <a href="http://www.afrikainvestmentbank.com">www.afrikainvestmentbank.com</a></td>
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<tr>
<td><strong>ABC Capital Ltd</strong></td>
<td>IPS Building, 5th floor, P.O. Box 34137-00100</td>
<td>Tel: 2246036/2245971 Fax: 2245971 Email: <a href="mailto:headoffice@abccapital.co.ke">headoffice@abccapital.co.ke</a></td>
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<tr>
<td><strong>Sterling Capital Ltd</strong></td>
<td>Barclays Plaza, 5th Floor, P.O. Box 45080-00100</td>
<td>Tel: 2213914/244077/0723153219/0734219146 Fax: 2218261 Email: <a href="mailto:info@sterlingstocks.com">info@sterlingstocks.com</a> Url: <a href="http://www.sterlingstocks.com">www.sterlingstocks.com</a></td>
</tr>
<tr>
<td><strong>ApexAfrica Capital Ltd</strong></td>
<td>Rehani House, 4th Floor, P.O. Box 43676-00100</td>
<td>Tel: 242170/2220517 Fax: 2215554 Email: <a href="mailto:invest@apexafrica.com">invest@apexafrica.com</a> Url: <a href="http://www.apexafrica.com">www.apexafrica.com</a></td>
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<tr>
<td><strong>Faida Investment Bank Ltd</strong></td>
<td>Windsor House, 1st floor, P.O. Box 45236-00100</td>
<td>Tel: 2243811/2/3 Fax: 2243814 Email: <a href="mailto:info@faidastocks.com">info@faidastocks.com</a> Url: <a href="http://www.faidastocks.com">www.faidastocks.com</a></td>
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<tr>
<td><strong>NIC Securities Limited</strong></td>
<td>Ground Floor, NIC House, Masaba</td>
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<tr>
<td><strong>Standard Investment Bank Ltd</strong></td>
<td>ICEA Building, 16th floor,</td>
<td></td>
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<tr>
<td><strong>Kestrel Capital (EA) Limited</strong></td>
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<tr>
<td>Company</td>
<td>Address</td>
<td>Contact Information</td>
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<tr>
<td>Discount Securities Ltd. (Under Statutory management)</td>
<td>P.O. Box 13714-00800</td>
<td>Tel: 2228963/2228967/2228969</td>
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<tr>
<td></td>
<td></td>
<td>Fax: 240297</td>
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<tr>
<td></td>
<td></td>
<td>Email: <a href="mailto:info@kestrlec.com">info@kestrlec.com</a></td>
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<td>Url: <a href="http://www.kestrlec.com">www.kestrlec.com</a></td>
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<tr>
<td>African Alliance Kenya Investment Bank Ltd</td>
<td>ICEA Building, 5th floor,</td>
<td>Tel: 251758/2251893,2251815,250082</td>
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<tr>
<td></td>
<td>P.O. Box 40005-0100</td>
<td>Fax: 2243264</td>
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<td>Email: <a href="mailto:info@kestrlec.com">info@kestrlec.com</a></td>
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<td>Url: <a href="http://www.kestrlec.com">www.kestrlec.com</a></td>
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<td>Renaissance Capital (Kenya) Ltd</td>
<td>Discount Securities Ltd. (Under Statutory management)</td>
<td>Tel: 2219552/3, 2773000</td>
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<tr>
<td></td>
<td>African Alliance Kenya Investment Bank Ltd</td>
<td>Fax: 2230987</td>
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<tr>
<td></td>
<td>Renaissance Capital (Kenya) Ltd</td>
<td>Email: <a href="mailto:discount@dsl.co.ke">discount@dsl.co.ke</a></td>
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<td>Url: <a href="http://www.dsl.co.ke">www.dsl.co.ke</a></td>
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<td>Genghis Capital Ltd</td>
<td>Discount Securities Ltd. (Under Statutory management)</td>
<td>Tel: 2337535/36, 8008561,2373984/968969</td>
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<tr>
<td></td>
<td>African Alliance Kenya Investment Bank Ltd</td>
<td>Fax: 246334</td>
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<td></td>
<td>Renaissance Capital (Kenya) Ltd</td>
<td>Email: <a href="mailto:info@agenscap.co.ke">info@agenscap.co.ke</a></td>
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