
**GROUND RULES FOR GENERATION OF NSE 25 SHARE
INDEX**

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SECTION 1

INTRODUCTION

- This document sets out the Ground Rules for the construction and management of the NSE 25 share index. Copies of the Ground Rules are available from NSE website: www.nse.co.ke
- The NSE 25 share index is designed to represent the performance of the top 25 Kenyan companies listed on Nairobi Securities Exchange providing investors with a comprehensive and complementary benchmark to measure the performance of the Kenyan stock market.
- The index is officially referred to as **“The NSE 25 Share Index”**
- The index has been designed guided by industry best practice with a view to provide opportunities to develop structured products based on indices. As such the index represents a standard, transparent basis for investors to assess measure and gain access to the Kenyan equity market.

SECTION 2

NSE RESPONSIBILITIES

The NSE shall be responsible for the **operation** of the Index by undertaking the following tasks;

- By maintaining records of the market capitalisation of all constituents and making changes to the constituents and their weightings in accordance with the Ground Rules.
- By Maintaining constituent changes resulting from the semi-annual review, or as otherwise required by this methodology.
- By making changes to the constituent weightings in accordance with the Ground Rules and keeping a record of all changes to constituent weightings.
- NSE shall be responsible for monitoring the performance of the NSE 25 share Index through-out the day and, determine whether its status should be Firm, Indicative, Held or Part.

Recalculations

- The index will be recalculated whenever inaccuracies or distortions occur that are deemed to be significant. Users of the Index are notified through appropriate media.

Status of these Ground Rules

- These Ground Rules set out the methodology and provide information about the publication of the NSE Index Series

Amendments and exceptions to these Ground Rules

- In the event that the NSE considers that an exception should be made to any of the Ground Rules it will publish the change with adequate notice to the market.

SECTION 3

ELIGIBILITY CRITERIA

In order for a company to qualify for inclusion in the NSE 25 share Index, the issuer shall fulfill the following conditions:

- i). Shares must have their primary listing on the Nairobi Securities Exchange.
- ii). Must have a least 20% of its shares quoted on the NSE.
- iii). Must have been continuously quoted for a least 1 year.
- iv). Must have a minimum market capitalization of Kes.1 billion
- v). Should ideally be a “blue chip” superior profitability and dividend record.

SECTION 4

PERIODIC REVIEW OF CONSTITUENT COMPANIES

The Trading Committee which is the Index Management Committee meets semi-annually to review the constituents of the index. The constituent reviews are based on data collected. Details of the outcome of the review will be published as soon as possible after the NSE Board approval.

The periodic review of constituents will be conducted using the following steps:

- i). Create database of all securities listed on the Nairobi Securities Exchange;
- ii). Apply all liquidity tests set out in Ground Rules;
Weighting all the activity measures as set out in Ground Rules as follows;
Market capitalisation (40%), shares traded (30%) Number of Deals (20%)
Turnover (10%)
- iii). Exclude securities which do not fulfil criteria set out in Ground Rules;
- iv). Rank all eligible securities by market capitalisation, largest first and smallest last;
- v). Existing constituents which have fallen to position 26 or above will qualify to be removed from the index at the periodic review; Where a greater number of securities qualify to be included in the index than those qualifying to be removed, the lowest ranking securities presently included in the index will be removed to ensure that the number of securities remains constant. Likewise, where a greater number of securities qualify to be removed from the index than those qualifying for inclusion, the highest ranking securities which are presently not in the index will be included to match the number of securities being removed at the periodic review.
- vi). Adjust share weightings for availability to all investors.

SECTION 5

RESERVE LIST

- The Nairobi Securities Exchange is responsible for publishing the five highest ranking non-constituent securities of the Index following each semi-annual review. This Reserve List will be used in the event that one or more constituent securities are removed from the NSE 25 share Index during the period up to the next semi-annual review of the Index.
- Where a security is removed from the Index after the Index management Committee has met and approved semi-annual changes to the Index but before the semi-annual changes have been implemented, the highest ranking security by full market capitalisation from the new Reserve List (excluding current Index constituents) will replace the deleted security.

SECTION 6

CHANGES TO CONSTITUENT COMPANIES

Removal and Replacement

- If a constituent is delisted, or ceases to have a firm quotation, or is subject to a takeover offer which has been declared wholly unconditional or has, in the opinion of the Index Management Committee, ceased to be a viable constituent as defined by the Ground Rules, it will be removed from the list of constituents and replaced by the reserve list security ranking highest by full market capitalisation as at close of business on the day preceding the inclusion of the replacement security.
- The removal and replacement are effected simultaneously, before the start of business on the day following the day on which the event justifying removal was announced. Announcement after close of business are normally deemed to be made on the following business day. In the case of a takeover, the qualifying event is an announcement that the offer has been declared wholly unconditional.

Mergers, Restructuring and Complex Takeovers

- If the effect of a merger or takeover is that one constituent is absorbed by another constituent the resulting company will remain a constituent of the Index, and a vacancy will be created. This vacancy will be filled by selecting the highest ranking security from the reserve list as at close of business on the day preceding the inclusion on the replacement security.
- If a constituent company is taken over by a non-constituent company, the original constituent will be removed and replaced by the merged entity. In the event that the merged entity is ineligible for the NSE 25 share Index, it will be replaced by the highest ranking security from the reserve list as at close of business on the day preceding the removal of the original constituent.
- If a constituent company is split so as to form two or more companies, then the resulting companies will be eligible for inclusion as index constituents if their market capitalisation(s) are large enough to qualify, and if they qualify in all other respects. The lowest ranking constituent of the index is removed.

SECTION 7

NEW ISSUES

- If, in the view of the Index Management Committee, a new issue is so large that the effectiveness of the index as a market indicator would be significantly and adversely affected by its omission, the Advisory Committee may decide to include the new issue as a constituent of the index at the earliest practicable opportunity. In such a case, the timing of the inclusion of the new constituent will be at the discretion of the Index Management Committee. The security which is the lowest ranking constituent of the index in the sector where the new issue fits will be selected for removal.
- New issues of companies which do not qualify for early entry but which meet the criteria for eligible securities will be eligible for inclusion in the next review.
- If the Index Management Committee decides to include a new issue as a constituent security other than as part of the normal periodic review procedure, this decision must be publicly announced at the earliest practicable time.

Suspension of Dealing

- Where a suspension of a constituent lasts for more than 30 calendar days and in the opinion of the Index Management Committee is unlikely to return to the market, it will be deleted from the index. When a stock is otherwise removed following suspension of its quote, the stock will be removed at its suspension price unless otherwise decided by the Committee.

Treatment of relisting companies

- Securities which were removed from the index, which on relisting are larger than the smallest constituent of the index, shall be re-instated in the index at the closing price on the date of re-listing and the lowest ranking constituent of the index will be selected for removal. The addition and deletion of stocks occur simultaneously, such that there are always 25 constituent companies.
- Securities which on relisting are smaller than the smallest constituent of the index, shall then be re-instated in the same index at the price at which they were removed after the close of the index calculation on the trading day prior to relisting.

SECTION 8

CHANGES TO CONSTITUENT WEIGHTINGS

- Adjustments to reflect a major change in the amount or structure of a constituent company's issued capital must be made before the start of business on the day on which the change takes effect (e.g. the Ex-Date for a rights or capitalisation issue).
- Adjustments to reflect less significant changes (e.g. the issue of an additional block of shares under an employees' equity scheme) would be implemented as soon as possible following the announcement of the change.

SECTION 9

CORPORATE ACTIONS AND EVENTS

A ‘**Corporate Action**’ is an action on shareholders with a prescribed ex-date. The share price will be subject to an adjustment on the ex-date. The index will be adjusted in line with the ex-date.

These include the following:

1. Capital Repayments
2. Rights Issues/Entitlement Offers
3. Splits (sub-division) / Reverse splits (consolidation)
4. Scrip issues (Capitalisation or Bonus Issue)

Where an index adjustment is required NSE will provide notice advising of the timing of the change.

SECTION 10

INDEX CALCULATION

Prices

- The NSE Index uses the closing price (Volume Weighted Average Price of the constituent securities to compute the NSE 25 Share Index.

Index Calculation

- The NSE index will be displayed to two decimal points.

The NSE 25 share index will be calculated using the following formula:

$$\sum_{i=1}^N \frac{N(pi \times ei \times si \times fi \times ci)}{d}$$

Where,

I = 1, 2, ... ,

N = is the number of securities in the Index.

pi = is the latest average price of the component security (or the price at the close of the Index on the previous day where there are no trades in a given session).

ei = is the exchange rate required to convert the security's currency into the Index's base currency where applicable otherwise remains as 1

- si* =is the number of shares in issue used for the security, as defined in the Ground Rules.
- fi* =is the Investability Weighting Factor to be applied to a security (This is the percentage free float for a specific security)
- ci* =is the Capping Factor to be applied to a security which is the market capitalisation of the respective securities as compared to the total market capitalisation
- d* =the divisor, a figure that represents the total issued share Capital of the Index at the base date. The divisor can be adjusted to allow changes in the issued Share Capital of individual securities to be made without distorting the Index.

SECTION 11

AMENDMENTS TO THE GROUND RULES

- Changes and exceptions to these Ground Rules can be authorised only by the Index Management Committee. In the event that the Committee or any of those responsible for the operation and administration of the index consider that an exception should be made to any of the Ground Rules, the issue must be brought to the attention of the Chairman (or their representatives), who will normally put the matter to the Index Management Committee for a decision.

SECTION 12

PUBLICATION OF INFORMATION

The Nairobi Securities Exchange shall ensure that the following information on the indices is widely published:

1. Index values
2. List of constituents
3. Changes to constituents
4. Changes and amendments to the Ground Rules
5. Details of any recalculations or calculation amendments.

Constituent prices, weightings and other stock data together with statistics on the indices are available from the NSE Website. The daily index points will be published on the Daily Equity Pricelist and the NSE Website before the close of business