



**DAY TRADING
OPERATIONAL GUIDELINES**

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1.0 BACKGROUND

The Nairobi Securities Exchange has championed the implementation of day trading in equity securities as part of its strategic objective to enhance liquidity. The strategy is to achieve both day trading and also continue with the current settlement cycle of T+3.

2.0 PURPOSE

This document describes the operational guidelines for Day Trading

3.0 NOTES

The operational guidelines are made pursuant to:

- A. The Capital Markets Act (Cap. 485A) of the Laws of Kenya
- B. The Central Depositories Act 2000
- C. The NSE Equities Trading Rules

4.0 DEFINITIONS

| | |
|---------------------------|---|
| “Day Trading” | Means the buying and selling or selling and buying of shares of the same security on the same account on the same day. It is also referred as intraday trading. |
| “Exchange “or NSE” | The Nairobi Securities Exchange Plc |
| “Margin” | A cash collateral that is deposited with the broker by a client for purposes of taking buy or sell positions in the market. Margining is a risk management tool to cover settlement risk. |
| “Rebate” | A discount / waiver of a portion of fees or levies accruing to the client for a transaction |

Acronyms:

| | |
|--------------|--|
| “BBO” | Broker Back Office (system) |
| “TWS” | Trader Work Station |
| “IDT” | Intra-Day Trading or Day Trading |
| “ATS” | Automated Trading System |
| “T+” | A number indicated after T+ means the number of days after the day the transaction is completed. “T+1” therefore means one day following the day the transaction is effected and so forth. |

5.0 DAY TRADING

5.1. Day Trading Models

The Intra-Day trading models that will be supported by the Exchange are;

- i. Non-Leveraged Intra-Day Trading;
- ii. Leveraged Intra-Day Trading.

Leveraged Intra-Day Trading will be operationalised once the legal supporting policies are in place.

5.1.1. Non-Leveraged Intra-Day Trading

In the Non-leveraged IDT Model;

- i. Buy orders will be allowed in BBO if funds are available in the client account.
- ii. Sell orders will be allowed if there is sufficient holding in the investor account, including any positions created on the same day.
- iii. Any offsetting trades will qualify for the day trading rebate.
- iv. Cash settlement will proceed normally in line with the subclause 6.8.1 of the NSE Equity Trading rules
- v. Only non-squared off positions proceed to normal settlement as per clause 6.8 of the NSE Equity Trading rules.
- vi. There is no new risk introduced to the trading participants on short sells or non-funded purchases.

All trading participants must be able to support non-leveraged IDT within their back office systems for all their clients

Non-Leveraged IDT Illustration;

| Available Balance: 15,000 KES | | Security - ABC CDSC holding - 1000 | | | |
|-------------------------------|----------|-------------------------------------|-------------|--------------|--|
| Order | Quantity | Price | Order Value | Order Status | Notes |
| Buy | 1000 | 10.00 | 10,000 | Executed | Order value is within the available ledger balance and hence accepted |
| Sell | 1500 | 10.25 | 15,375 | Executed | Sell order quantity is accepted because the available holdings is 2000. (Holding Quantity = 1000, Todays Purchase=1000 Available Sale Quantity = 2000) |

In this example;

- The client stock settlement obligation is 500 shares. The client has a net settlement of 500 shares arising from the sell of 1500 shares from the available 2000 shares.
- The settlement of the 500 shares will follow the normal settlement cycle
- The client will receive net cash settlement within normal settlement cycle.

5.1.2. Leveraged Intra-Day Trading

In the leveraged IDT model;

- i. Buy and sell orders are allowed against margin money.
- ii. It will be possible to set scrip level margins for both buy and sell sides separately.
- iii. Any offsetting trade within the trading session will attract a day trading rebate.

Margin trading will be supported through the trading participants and therefore all trading participants need to profile their clients as they will be responsible for settlement as provided for in the current provisions.

Leveraged IDT commissioning will be commissioned at a later stage after go live of non-leveraged IDT to ensure all policies, processes and guidelines are deliberated and agreed.

5.2. Responsibilities of the Parties Involved

5.3.1. Responsibilities of the Trading Participants

- i. Responsible for setting up the securities allowed for day trading. In the case of non-leveraged IDT, the trading participants must activate it for all their clients
- ii. Responsible for setting up all clients for non-leveraged day trading
- iii. Responsible for passing the applicable rebate to the client at the end of trading.
- iv. Responsible for day to day monitoring of client trading risk.

5.3.2. Responsibilities of the Exchange

- i. Responsible for publishing the IDT rebates applicable from time to time.
- ii. Responsible for formulating any rules and guidelines relating to IDT and communicating them to stakeholders following the necessary approvals.

5.3. Day Trade Selection and Rebate Application

5.3.3. Day trade Selection criteria

- iii. Only trades executed on the same day for the same security on the same CDS account with a single broker will qualify for selection as day trades.
- iv. Trade alterations that result in (i) above will qualify for selection as day trades
- v. Trades executed by the same client on the same security WILL NOT qualify for selection
- vi. Trades Reallocated on T+1 will not be considered for selection as day trades

5.3.4. Rebated Application

Rebates will be offered on all trade offsetting positions created on the same day as qualified in *part 5.3.1* above. The rebate will be a percentage of the transaction levies prescribed and published by the Exchange from time to time.

Applicable Rebates;

| | Transaction Levy | Applicable Rebate % | Chargeable Levy after Rebate |
|------|------------------|---------------------|------------------------------|
| NSE | 0.12% | 5% | 0.0114% |
| CMA | 0.12% | 0% | 0.12% |
| CDSC | 0.08% | 0% | 0.08% |

5.3.5. Rebated Computation Flow chart

