



SECURITIES AND EXCHANGE COMMISSION

Protecting Investors in the Capital Markets



SECURITIES AND THE STOCK MARKET

BASIC FACTS



WHAT IS A SECURITIES EXCHANGE

A securities exchange is a regulated market where the securities of companies or firms are bought and sold, i.e. Traded.

WHAT ARE SECURITIES?

Securities are financial instruments issued by companies or firms to raise finance. They come in two types: equity securities and debt securities. Equity securities, which are also known as shares or stocks, represent part-ownership of a company, and the right to a share of the company's dividends if declared.

Debt securities represent debt by an organization. They can be issued by companies and governments both local and central. They do not give their owners ownership of the firm or government. They are usually issued for a fixed term and the amount of debt represented by them has to be paid back at the end of the debt security's term. Debt securities Usually also carry an interest charge which is paid to their holders at specified periods during the debt security term.



WHAT IS A TRADE?

A trade is the act of transacting in securities on the securities exchange. A trade is effected when a buyer's and seller's orders match at a given Price.

WHAT IS A PRIMARY MARKET?

A Primary market is where securities are offered for sale to the public for the first time.

WHAT IS A SECONDARY MARKET?

A secondary market is where Shares or securities that were bought in the primary market are traded between parties, either individuals or Companies.

WHAT LAW GOVERNS THE OPERATION OF A SECURITIES EXCHANGE IN ZAMBIA?

The operation of a securities exchange is governed by the Securities Act, No. 41 of 2016 (as amended by Act No. 21 of 2022) of the Laws of Zambia. The enforcement of the Securities Act is the role of the Securities and Exchange Commission (SEC) Zambia.



WHAT IS THE PROOF OF OWNERSHIP OF SECURITIES?

A Contract Note (CN) is issued after a trade has settled and ownership transferred on the securities exchange. The CN is produced and ownership transferred by the buyer's stockbroker who then hands it over to the buyer of a security.

WHAT IS THE CENTRAL SHARE DEPOSITORY

The Central Securities Depository (CSD) is a computerized central point in which all the shares of listed and quoted companies and all listed debt securities are held. It is a type of "warehouse" of records for the holders of all instruments that are tradable on a Securities Exchange such as the Lusaka Securities Exchange. An account is opened for every holder of the instrument. On that account is the name of the instrument, the name of the holder of the instrument, a record of how much of a given instrument an individual owns and when the instrument was purchased.

WHAT IS MEANT BY A LISTED COMPANY?

A listed company, also known as a public company, is one which has shares that are traded on a regulated securities or stock exchange and has met all the listing requirements.

WHAT IS MEANT BY A QUOTED COMPANY?

A company that has registered its issued equity securities with the SEC will automatically be quoted on the securities exchange. Although a quoted company has not met the requirements to be listed, it is expected that this company will work towards being a listed company.

WHAT IS AN ISIN CODE?

Each security on the securities exchange is assigned an International Security Identification Number (ISIN) which identifies each security uniquely. This is one of the features of a modern securities Exchange.

WHAT IS AN INITIAL PUBLIC OFFERING?

An Initial Public Offering (IPO) occurs when a company offers its shares for sale to the public on the securities exchange's primary market for the first time.

When a company decides to have an IPO it is said to be "Going Public". Going Public describes the process through which a company converts itself from a private limited company to a public limited company (Plc) and subsequently sells its shares to the general public via an IPO over a licensed securities Exchange.

WHAT ARE LISTED DEBT SECURITIES?

In order to be listed, debt securities must have first been registered with the SEC Zambia. After the debt securities have been offered and bought on the open market, the listing application is formally applied for after which the debt securities are indicated on the securities exchange listed debt securities tier.

WHAT ARE QUOTED DEBT SECURITIES?

As with listed debt securities, quoted debt securities must be registered with the SEC Zambia. However, issuers of these debt securities never formally apply for listing on the securities Exchange. As such, they remain on the quoted tier.

HOW CAN ONE INVEST IN SECURITIES

In order to invest in securities that are listed or quoted on the stock exchange, the first step to take is to engage a licensed stockbroker.

A stockbroker is a firm that is licensed by the SEC Zambia to buy and sell securities on the securities exchange on behalf of investors. To start the process of investing, the stockbroker will usually request the investor to open a brokerage account/ investment account with them.

WHAT ARE THE REQUIREMENTS FOR OPENING AN ACCOUNT WITH A STOCKBROKER?

In order to open an account with a stockbroker you will be required to produce the following:

- A National Registration Card/Passport
- A document showing proof of physical Address E.g. a lease agreement with your landlord
- Agreement with a landlord, title deed a property, utility bill/receipt, letter of confirmation from employer
- Two passport size photos



IS A STOCK BROKER A BANK

No! Any monies collected from investors are held separately from the stockbroker's own funds.

WHAT ARE THE BROKER CHARGES FOR TRANSACTING ON THE SECURITIES?

The stock / securities exchange has a guided commission charge of 1.375% of the value of the Transaction.

For big transactions, the amount can be negotiated. When investing a small amount, you must weigh carefully if the amount you invest can absorb the Commission. Take note that brokers have a minimum charge and would be better placed to advise on the minimum amount to be invested.

WHAT IS AN ORDER FORM?

An Order Form lets a broker buy securities for you on the stock exchange. You choose what to invest in and fill out a Buy Order by listing the company name, number of shares, and price. To sell, you'd fill out a Sell Order. The broker then places the trade based on your instructions.

There are two principal ways in which a party benefits from investing in shares. The first is through the payment of a dividend, whilst the second is via the price appreciation of the shares that are bought, the share's capital gain. Taken together, these two factors determine your return on holding shares in a company. If for example you bought a share for K10 and the share price has risen to K12 and you have received dividends worth K1 from the company that issued the shares, then your total return from holding the share is 30% - the K2 (price appreciation) + K1 (dividend)/ K10 (price paid for the Share).

WHAT IS A DIVIDEND?

A dividend is a payment to the shareholders of a company. It is drawn from the cash reserves that a company has at the end of the year. Sometimes dividends can be issued by companies in other forms such as bonus shares.

HOW ARE DIVIDENDS ALLOCATED TO A COMPANY'S SHAREHOLDERS?

Dividends are divided up among ordinary shareholders according to how many shares they own in a company. If for example a company declares K1 per share and an investor owns 10 shares they receive a dividend amounting to K10 for the share.

HOW OFTEN DOES A COMPANY PAY DIVIDENDS TO SHAREHOLDERS?

This is entirely up to the management of the company and financial performance of the company. Generally, most companies pay out dividends at least once a year. If a company has been operating favorably it sometimes pays out dividends twice a year usually after every six-month period. A dividend that is paid out during the course of a company's operating year is known as an interim dividend. A dividend that is paid out after the close of a company's financial year is known as a final dividend.

ARE DIVIDENDS TAXED?

Yes! Withholding Tax (WHT) of 15% is payable on dividend income to Zambia Revenue Authority. The amount is usually deducted at source by the paying company. However, to encourage individuals to invest in shares, Government waived WHT on dividends payable to individuals by listed companies.

If for instance a person received dividends worth K100 what will actually be paid to that person will be K100 (Before this waiver of WHT it would have been K85 because K15 (15% of K100) would have been deducted by the paying company to pay ZRA).

WHAT IS CAPITAL GAIN/LOSS?

Capital gain / loss is the price appreciation / depreciation in the value of the shares held by an investor. It is the difference between the price at which an investor bought the shares and what the shares are worth today. If for example the price of a share was K10 when an investor bought it and it is worth K15 today, then the person who bought the shares has enjoyed a capital gain of 50% ($(15 - 10 = 5) / 10$). However, if the price of the share has fallen to K5 then the investor that bought the shares at K10 has netted a capital loss of 50% ($(5 - 10 = -5) / 10$).

CAPITAL GAIN TAXED?

No! There is absolutely no tax on capital gain in Zambia.

WHAT RECOURSE DO I HAVE IF I FEEL THAT MY INTERESTS AS A SHARE INVESTOR ARE NOT BEING PROTECTED?

You can lodge a complaint with the SEC Zambia. The SEC Zambia is empowered by the Securities Act to ensure that the interests of investors are adequately protected.

MONITORING YOUR INVESTMENT HOW DO I MONITOR MY INVESTMENT?

It is very easy to keep track of one's investments on the securities exchange. Closing share prices can be obtained freely from the Lusaka Securities Exchange (LuSE) or its website. They are also aired on ZNBC TV I daily.

WHAT IS DIVIDEND PER SHARE (DPS) AND HOW IS IT CALCULATED?

Dividend Per Share (DPS) is the dividend paid for each company share. It is calculated by dividing the dividend paid by a company by the total number of shares a company has in issue. If for example a company has decided to pay a dividend of K1,00,000 and it has 500,000 shares in issue, then its DPS is $K1,000,000/500,000$ shares = K2/ share. It must be noted that DPS takes into account all of the dividends paid by a company during the Financial Year.

WHAT IS THE PRICE/ EARNINGS (P/E RATIO) AND WHY IS IT A USEFUL TOOL FOR MONITORING ONE'S INVESTMENTS IN SHARES?

The p/e ratio is the result of dividing the share price of a company by its earnings per share (EPS); EPS is arrived at by dividing a company's profit after tax by the number of shares a company has in issue. If for example, a company has made a profit after tax of K1,000,000 and has 1,000,000 shares in issue then its $EPS=K1$. If the share price of the same company is K5 on a given trading day, then the p/e ratio of the company is 5.

The p/e ratio is officially defined as the payback period from investing in a company's shares.

However, it can also be used to ascertain if ones investment is undervalued, valued correctly or

overvalued. In the Zambian context, p/e ratios of 10-12 are considered about right for the securities market. If therefore the p/e ratio is less than this amount, it may be a good idea to hold onto a share because its value may rise soon. If it is greater than this amount, it may be worth while to consider selling the shares because they may fall in price in future on account of being overvalued. However, investors should consult their stockbroker before making this decision.

WHAT IS A DIVIDEND YIELD AND HOW IS IT CALCULATED?

Dividend yield (DY) is the dividend return that one obtains from holding a share at a given share price.

It is calculated in percentage terms. It is arrived at by dividing DPS by a company's last share price. If for instance a company paid a dividend of K10 and its last reported share price was K100, then its DY will be reported as being 10%.

HOW IS THE RETURN ON A DEBT SECURITY CALCULATED?

The return on a debt security-also known as its yield-is arrived at by adding the difference between its face value and its sale price to its coupon/interest rate then dividing that sum by the debt Security's sale price. For example, if a debt security had a face value of K100 and a coupon rate of 10% and one paid K98 for it, i.e. bought it as a discount of K2, one's yield for the debt security would be:

$$2 + 10/98 = 12/98 = 12.2\%$$

"L(2" is the difference between the face value and what was paid for the debt security, i.e. K100-K98, 10% is the rate of interest on the debt security and K98 is what was paid for the debt security.

VISION

A dynamic regulator of a capital market that is the preferred destination for investments.

MISSION

To safeguard interests of investors and promote the growth of capital markets for individual and national prosperity.

VALUES

- a). **Accountability:** we take responsibility for our actions and decisions
- b). **Confidentiality:** we do not disclose privileged information to unauthorized Persons
- c). **Transparency:** we are open in the execution of our mandate
- d). **impartiality:** we treat all our stakeholders Fairly
- E). **Sustainability:** We are committed to Reducing

FOR MORE INFORMATION CONTACT US

SECURITIES AND EXCHANGE COMMISSION

 Plot no.5475, Corner of Great East Road and Libala Road, Kalundu, Lusaka. P.O. Box 35 I 65, Lusaka - Zambia.

 +260211 227012 | +260211 222 368

 Fax: +260211 225 443

M info@seczambia.zm

 www.seczambia.org.zm