



CAPITAL MARKETS





Capital Markets are part of the Non-Bank Financial Institutions (NBFI) Sector and their main purpose is to provide a platform for raising capital mainly through the issuance of securities such as shares, bonds, and other long-term and short-term investments.

The wealth of savers is channeled to those who can put it to long-term productive use, such as companies or governments making long-term investments.

The Securities Market consists of:

1. **Primary Market:** provides a channel for the creation and sale of new securities by public limited companies or by government agencies either through public issue or private placement.
2. **Secondary Market:** deals in securities already issued by shareholders where they are afforded the opportunity to make changes to their holdings in response to their assessment of risk and returns. In the secondary market, securities can be traded Over-the-Counter or Exchange-Traded-Market.

The Industry comprises the following:

- i. The operator of a securities exchange;
- ii. A person operating a central securities depository (CSD);
- iii. A securities Dealer/Broker;
- iv. A trustee of a collective investment undertaking;
- v. A Collective Investment Undertaking that is an investment company with variable capital;
- vi. A person operating a Collective Investment Undertaking other than one described above;
- vii. A custodian;
- viii. Management Company for a collective investment undertaking (MANCO);
- ix. An Asset Manager;
- x. Investment Advisor;
- xi. International Financial Services Centre (IFSC) Accredited NBFIs; and
- xii. A transfer agent/transfer secretary.

Three Main Types of Investment Objectives:

- **Capital Appreciation:** Securities are capital assets and capital appreciation is only achieved by selling an asset. This strategy is usually applied by investors who want to grow their assets.
- **Income Generation:** Involves investing in securities that pay a consistent and high dividend. Most investors who pursue this investment objective are retired and use the income to cover augment their living expenses.
- **Capital Preservation:** Investing in government-issued securities in stable economies is considered the most secure way to preserve capital. This strategy is often used by retired or nearly retired individuals who want to make sure that they do not outlive their income stream.

What is Investment Risk?

Investment risk is the likelihood of the occurrence of losses relative to the expected return on any particular investment.

The risk level of an investment is linked to many factors including various risk categories (e.g. market risk, political risk, interest rate risk, legislation risk, inflation risk, taxation risk etc.).

- Low Risk Investment:** is where you are likely to gain a return on your money (or at least preserve the amount of money you put in). However, the earnings are bound to be relatively small compared to other investments. Treasury Bills (TB) are considered to be free of domestic credit risk and therefore have a lower yield than other money market instruments.
- Moderate Risk Investment:** is where the investor values reducing risks and enhancing returns equally. Government Bonds are essentially risk-free within a country as they constitute evidence of debt of the government. Semi-gilt stock may have a degree of credit risk, whilst the quality of corporate bonds depends on the issuer.
- High Risk Investment:** is when there is a high probability of losing the capital you have invested as well as the possibility of earning a much higher return. Equities are high risk and represent shareholder ownership in a business or company. Derivative instruments which also form part of securities, such as futures and options are even riskier than equities.



What is a Dividend and how is it Paid Out?

- a) **Dividend:** is a distribution of profits by a listed corporation to its shareholders.
- b) **Dividend Payouts:** Dividend payouts do not include the principal amount invested and are only paid out if the company has declared so and in line with its dividend policy. The frequency and size of the dividend payout is determined by the terms and conditions of the respective corporation's dividend policy.
- c) **Dividend Policy:** is a document contained in the prospectus which guides financial decisions that refers to the proportion of the firm's earnings to be paid out to the shareholders. A firm decides on the portion of revenue that is to be distributed to the shareholders as dividends or to be ploughed back into the firm. The amount of earnings to be retained back within the firm depends upon the availability of investment opportunities. Once declared, dividends are paid out on a half yearly basis.

Online Trading of Securities

Online trading platforms are frequently offered by brokers either for free or at a discount in exchange for maintaining a funded account and/or making a specified number of trades per month.

Online trading platforms:

- Offer a mix of robust features and low fees;
- Allow for trading (i.e. opening, closing, and managing market positions) through a financial intermediary such as an online broker.
- Are software tools used to manage and execute market positions;
- Range from basic order entry screens for beginner investors to complex and sophisticated toolkits with live streaming quotes and charts for advanced traders;
- Traders and investors are advised to be mindful of various considerations and balance trade-offs when selecting a trading platform.

Regulation and Supervision of Online Trading Services:

- **Legislation:** The Securities (Online Trading Services) Regulations (2020) that regulate online trading of securities are only be applicable to securities as defined in the Securities Act (2014) such as shares and derivatives.

The public is advised to **ONLY** access services from market players licensed by the **Regulatory Authority** so that it may intervene to protect the client, should there be non-compliance to the terms and conditions of the license issued.





Remember.....

- 1. NBFIRA Licensed:** make sure to only engage representatives licensed by NBFIRA. Any unlicensed service provider is operating illegally and must be reported to by the **Regulatory Authority**. All licensed entities are required to display their licenses at their place of business. If you are in any doubt check on the **Regulatory Authority's** website for an up-to-date list of licensed service providers.
- 2. Be Informed:** become an informed investor and monitor the performance of your investments;
- 3. Ask Questions:** ensure to ask the representative questions about an investment prospectus until you are satisfied that the information you have been provided with will enable you to make an informed investment decision. Do not sign up for something you do not understand
- 4. Understand T's & C's:** before investing, understand the terms and conditions required to redeem or exit the investment. Do not sign up for something you do not understand.
- 5. Return on Investment:** the purpose of an investment is to get a return on funds invested, whether in the short, medium or long term.

Consumer Protection – How do I Lodge my complaint with NBFIRA?

The **Regulatory Authority** has a legal duty to protect consumers by promoting Fairness, Efficiency & Orderliness within the Insurance industry.

If you are unsatisfied with the nature and quality of service from a service provider within the Capital Market industry or are unable to amicably resolve a dispute, you may escalate your complaint to the **Regulatory Authority** through our Complaints Portal on our website www.nbfira.org.bw.

Refer to our Complaints Procedure on guidelines on how to lodge a complaint.

How is the Capital Markets Industry Regulated?

The Capital Markets Industry is regulated by the **Regulatory Authority** using the NBFIRA Act (2016) as well as following industry specific legal framework:

- a) Securities Act (2014)
- b) Income Tax Act Part XVI
- c) Collective Investment Undertaking Act (2001)
- d) NBFIRA Commodities Exchange Licensing Regulations (2008)
- e) Securities (Institutions Licensing) Regulations (2017)
- f) Securities (Persons Operating a Securities Infrastructure Business) Regulations (2017)
- g) NBFIRA Market Intermediaries Licensing Rules (2012) NBFIRA (Securities Business Corporate Governance) Rules (2012)
- h) CIU Regulations (2001)
- i) NBFIRA Market Intermediaries 'Conduct of Business) Rules (2012)
- j) NBFIRA Persons Operating a Securities Infrastructure Business Rules (2012)
- k) Securities (Online Trading Services) Regulations 2020

NBFIRA Ethics Hotline

Have you observed or suspect fraudulent or unethical activities within the NBFIRA sector or the **Regulatory Authority**? Be part of the solution and make an anonymous report to:

Call on the Toll-Free Number: 16133

Email to: nbfira@tipoffs.com

Website: www.tipoffs.com

Postal address: P.O. Box 448, Gaborone

NBFIRA CONTACT DETAILS

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NBFIRA



"NBFIRA... Working Towards Financial Stability"