



**CAPITAL  
MARKETS AUTHORITY**  
*Promoting the Integrity and Growth of the Capital Markets*

**ANNUAL REPORT AND  
FINANCIAL STATEMENTS | 2017-2018**

### VISION

“A proactive regulator of a competitive and robust capital market.”



### MISSION

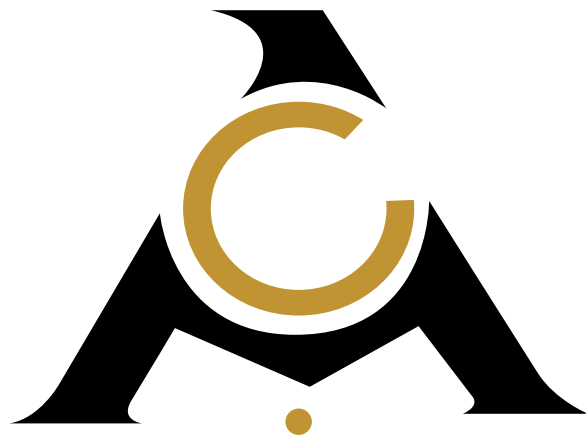
“To promote the development of Kenya’s capital market to be an investment destination of choice through facilitative regulation and innovation.”



### Core Values

- Integrity
- Responsiveness
- Collaboration and Teamwork
- Commitment
- Innovation and Continuous learning





**CAPITAL**  
**MARKETS AUTHORITY**

*Promoting the Integrity and Growth of the Capital Markets*





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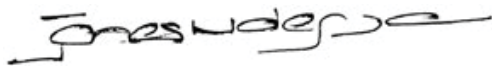
## LETTER OF TRANSMITTAL

**The Cabinet Secretary  
The National Treasury & Planning  
Nairobi**

Dear Hon. Cabinet Secretary,

I have the honour of submitting the Annual Report of Capital Markets Authority for the fiscal year ended 30 June, 2018. The Report has been prepared in accordance with the provisions and requirements of Section 36 (2) of the Capital Markets Act, Cap 485A.

Respectfully yours,



**James P.M. Ndegwa**  
Chairman

## AUTHORITY INFORMATION

### Background Information

Capital Markets Authority (the 'Authority') is a body corporate established under the Capital Markets Authority Act, 1989. The Act was amended in 2000 and renamed as Capital Markets Act.

### Principal Activities

The Authority promotes and facilitates the development of an orderly, fair and efficient capital markets in Kenya.

### Board Members of the Authority

| Name                                |   |
|-------------------------------------|---|
| Mr James Ndegwa                     | Chairman  |
| Mr Paul. M. Muthaura                | Chief Executive   |
| Dr Kamau Thugge, EBS                | Principal Secretary to the National Treasury & Planning   |
| Dr Geoffrey Mwau                    | Alternate to the Principal Secretary, The National Treasury & Planning  |
| Hon. Prof. Githu Muigai             | Attorney General (Resigned on 13th February 2018)   |
| Hon. Justice (Rtd) P Kihara Kariuki | Attorney General (Appointed on 28th March 2018)   |
| Mr Nevis Ombasa                     | Alternate to the Attorney General   |
| Dr Patrick Njoroge                  | Governor, Central Bank of Kenya   |
| Mr. William Nyagaka                 | Alternate to Governor, Central Bank of Kenya (Appointed on 14th May 2018)   |
| Mr Paul Ngugi                       | Independent Member  |
| Mr Moibi Mose*                      | Independent Member  |
| Dr Thomas Kibua*                    | Independent Member  |
| Ms. Christine Okoth                 | Independent Member  |
| Mr John Birech                      | Independent Member (Alternate to Governor, Central Bank of Kenya upto 10th May 2018. Appointed independent member on 6th June 2018) |
| Dr. Freshia Mugo-Waweru             | Independent Member (Appointed on 6th June 2018)   |
| Ms. Linda Muriuki                   | Independent Member (Resigned on 3rd August 2017)  |

\*Members' term expired on 01 October 2018 and the appropriate notice of the vacancy has been notified to the appointing authority



## AUTHORITY INFORMATION

**Paul M. Muthaura**

|                            |  |
|----------------------------|--|
| <b>Position:</b>           | Chief Executive  |
| <b>Date joined:</b>        | September 15, 2005                                       |
| <b>Profession:</b>         | Advocate of the High Court of Kenya                      |
| <b>Key qualifications:</b> | LLM, LLB, MPhil, Dip Law,<br>Dip in Financial Management |

**Wyckliffe Shamiah**

|                            |                             |
|----------------------------|-----------------------------|
| <b>Position:</b>           | Director, Market Operations |
| <b>Date joined:</b>        | May 20, 1995                |
| <b>Profession:</b>         | Accountant                  |
| <b>Key qualifications:</b> | MBA, BA, CPA (K)            |

**Edwin Njamura**

|                            |   |
|----------------------------|---|
| <b>Position:</b>           | Director, Corporate Services                    |
| <b>Date joined:</b>        | July 17, 2012                                   |
| <b>Profession:</b>         | Management                                      |
| <b>Key qualifications:</b> | EMBA, BCOM, CPA(K), FA, BSP, MKIM,<br>M.IoD (K) |

**Luke Ombara**

|                            |  |
|----------------------------|--|
| <b>Position:</b>           | Director, Regulatory Policy and Strategy |
| <b>Date joined:</b>        | 15 February, 1995                        |
| <b>Profession:</b>         | Economist                                |
| <b>Key qualifications:</b> | BA, BSP                                  |

**Esther Maiyo**

|                            |                                  |
|----------------------------|----------------------------------|
| <b>Position:</b>           | Manager, Internal Audit          |
| <b>Date joined:</b>        | 15 February, 1995                |
| <b>Profession:</b>         | Accountant                       |
| <b>Key qualifications:</b> | MBA, BCOM, CPA(K), CPS (K), CISA |

**Daniel Warutere\***

|                            |   |
|----------------------------|---|
| <b>Position:</b>           | Manager, Market Supervision                   |
| <b>Date joined:</b>        | 4 January, 2008                               |
| <b>Profession:</b>         | Advocate of the High Court of Kenya           |
| <b>Key qualifications:</b> | LLB, CPA, CPS, IFC-Milken<br>Institute Fellow |

\*Daniel Warutere was appointed to this position on 25 May, 2017 following the secondment of Johnstone Oltetia to The National Treasury on 2 May, 2017



## AUTHORITY INFORMATION



**Kamunyu Njoroge**

|                            |  |
|----------------------------|--|
| <b>Position:</b>           | Manager, Investor Education & Public Awareness         |
| <b>Date joined:</b>        | 3 January, 2005  |
| <b>Profession:</b>         | Economist  |
| <b>Key qualifications:</b> | MA (Econ), BA (Econ), ACSI (UK), CIFA, MKIM, M.IoD (K) |



**Hellen Ombati**

|                            |  |
|----------------------------|--|
| <b>Position:</b>           | Manager, Legal Affairs & Corporation Secretary |
| <b>Date joined:</b>        | 6 May, 2016                                    |
| <b>Profession:</b>         | Lawyer and Certified Secretary                 |
| <b>Key qualifications:</b> | MBA, LLB, Dip-French, Dip in Law, CPS (K)      |



**Andrew Muthabuku**

|                            |   |
|----------------------------|---|
| <b>Position:</b>           | Manager, Human Capital & Administration |
| <b>Date joined:</b>        | 1 July, 2011                            |
| <b>Profession:</b>         | Human Resources & Administration        |
| <b>Key qualifications:</b> | MBA, BA, H-Dip (HRM)                    |



**Richard Chirchir**

|                            |  |
|----------------------------|--|
| <b>Position:</b>           | Manager, Information Communications & Technology |
| <b>Date joined:</b>        | 22 June, 2009                                    |
| <b>Profession:</b>         | Computer Science Engineering                     |
| <b>Key qualifications:</b> | BSC, Pg Dip - Computer Science                   |



**John Njoroge**

|                            |                         |
|----------------------------|-------------------------|
| <b>Position:</b>           | Manager, Finance        |
| <b>Date joined:</b>        | 4 February, 2008        |
| <b>Profession:</b>         | Accountant/Economist    |
| <b>Key qualifications:</b> | BA, CPA(K), CPS(K), BSP |



**Matthew Mukisu**

|                            |                             |
|----------------------------|-----------------------------|
| <b>Position:</b>           | Manager, Derivatives        |
| <b>Date joined:</b>        | 7 March, 2016               |
| <b>Profession:</b>         | Economist                   |
| <b>Key qualifications:</b> | MA (Economics), BSC, CPA(K) |

## AUTHORITY INFORMATION



**James Kivuva**

|                            |  |
|----------------------------|--|
| <b>Position:</b>           | Manager, Strategic Projects  |
| <b>Date joined:</b>        | 15 February, 2016  |
| <b>Profession:</b>         | Information Technologist   |
| <b>Key qualifications:</b> | BSC, PRINCE 2, CBAP, Advanced Sysbase Database Administration and Performance Tuning Certification |



**Mary Njuguna**

|                            |                                     |
|----------------------------|-------------------------------------|
| <b>Position:</b>           | Manager, Corporate Approvals        |
| <b>Date joined:</b>        | 15 December, 2009                   |
| <b>Profession:</b>         | Advocate of the High Court of Kenya |
| <b>Key qualifications:</b> | MSC, LLB, Dip-French, CPS(K)        |



**Abubakar Hassan**

|                            |  |
|----------------------------|--|
| <b>Position:</b>           | Manager, Investigation and Enforcement |
| <b>Date joined:</b>        | 1 April, 2016                          |
| <b>Profession:</b>         | Advocate of the High Court of Kenya    |
| <b>Key qualifications:</b> | MBA, LLB, CPA, CPS(K), CIFA, CFE(US)   |

## KEY

|                 |   |
|-----------------|---|
| <b>ACSI</b>     | Associate Chartered Institute of Securities and Investments |
| <b>BA</b>       | Bachelor of Arts  |
| <b>BCOM</b>     | Bachelor of Commerce  |
| <b>BSC</b>      | Bachelor of Science   |
| <b>BSP</b>      | Balanced Scorecard Professional                             |
| <b>CBAP</b>     | Certified Business Analysis Professional                    |
| <b>CIFA</b>     | Certified Investment and Financial Analyst                  |
| <b>CFE</b>      | Certified Fraud Examiner                                    |
| <b>CISA</b>     | Certified Information Systems Auditor                       |
| <b>CPA</b>      | Certified Public Accountant                                 |
| <b>CPS</b>      | Certified Public Secretary                                  |
| <b>Dip</b>      | Diploma   |
| <b>EMBA</b>     | Executive Master of Business Administration                 |
| <b>FA</b>       | Financial Analyst   |
| <b>H. Dip</b>   | Higher Diploma  |
| <b>HRM</b>      | Human Resource Management                                   |
| <b>IFC</b>      | International Finance Corporation                           |
| <b>IOD</b>      | Institute of Directors                                      |
| <b>KIM</b>      | Kenya Institute of Management                               |
| <b>LLB</b>      | Bachelor of Laws  |
| <b>LLM</b>      | Master of Laws  |
| <b>MA</b>       | Master of Arts  |
| <b>MBA</b>      | Master of Business Administration                           |
| <b>MPhil</b>    | Master of Philosophy  |
| <b>MSc.</b>     | Master of Science   |
| <b>Pg Dip</b>   | Post Graduate Diploma                                       |
| <b>Prince 2</b> | Projects In Controlled Environments                         |

## AUTHORITY INFORMATION

### Registered office

3rd Floor, Embankment Plaza  
Longonot Road, Upper Hill  
P.O. Box 74800, 00200  
Nairobi,  
Kenya

### Authority contacts

Tel: +254 20 2264000/ 2264900 / 2221869,  
Cell: +254 722 207767  
E-mail: corporate@cma.or.ke  
Website: www.cma.or.ke

### Principal Bankers

**Commercial Bank of Africa Limited**  
Mara / Ragati Roads Upper Hill  
P.O. Box 30437, 00100  
Nairobi,  
Kenya

### HFC Limited

Kenyatta Avenue/Koinange Street, Rehani House  
P.O. Box 30088, 00100  
Nairobi,  
Kenya

### KCB Mortgage Centre

Salama House, Mama Ngina Street  
P.O. Box 45129, 00100  
Nairobi,  
Kenya

### Authorized Independent Auditor

**Mbaya & Associates**  
Certified Public Accountants  
3rd Floor, Westlands Heights  
Karuna Road, Westlands  
P. O. Box 45390 - 00100  
Nairobi,  
Kenya

### On behalf of

**The Auditor-General**  
Kenya National Audit Office  
Anniversary Towers  
University Way  
P.O. Box 30084, 00100  
Nairobi,  
Kenya

### Principal Legal Adviser

**The Attorney General**  
State Law Office  
Harambee Avenue  
P.O. Box 40112, 00200  
Nairobi,  
Kenya

### Other Legal Advisers

**Waweru Gatonye & Co. Advocates**  
Timau Plaza, 4th Floor, Argwings Kodhek  
Timau Road Junction  
P.O. Box 55207, 00200  
Nairobi,  
Kenya

### Mohammed Muigai Advocates

MM Chambers, 4th Floor, K-Rep Centre  
Wood Avenue, Off Lenana Road, Kilimani  
P. O. Box 61323-00200, Nairobi, Kenya



## SNAPSHOT OF APPROVED INSTITUTIONS AND LICENSEES



### \*APPROVED INSTITUTIONS

| INSTITUTION  | ADDRESS                                      | NATURE OF OPERATION  |
|--|--|----------------------|
| 1. The Nairobi Securities Exchange                       | P.O. Box 43633- 00100, Nairobi               | Securities Exchange  |
| 2. Central Depository and Settlement Corporation Limited | P.O. Box 3464 - 00100, Nairobi               | Central Depository   |
| 3. Global Credit Rating Company                          | P.O. Box 76667, Wendywood 2144, South Africa | Credit Rating Agency |
| 4. Augusto & Company Limited                             | P.O. Box 56136, Ikoyi Lagos, Nigeria         | Credit Rating Agency |
| 5. Metropol Corporation Limited                          | P.O. Box 35331 – 00200, Nairobi              | Credit Rating Agency |

## 2017/2018 OVERVIEW

Market capitalisation

Kshs. **2.2** trillion



**11.35%**

Revenue earned in 2017/18

Financial Year was **17%**  
higher than previous year



M-Akiba Minimum investment

**3,000**

Coupon rate  
**10%**  
per year



The turnaround time for issuance of licences did not exceed

**25**

working days upon meeting all Requirements

**77**  
Stakeholders forums held  
**55%**  
held in counties



**128**

Approved Institutions and Licensees



Financial Penalties imposed

**Kshs.**  
**113,481,196/-**

In addition no contest settlements of Kshs.

**49,012,007/-**  
executed.

**Treasury Bonds**  
issuances  
accepted

**Kshs 298.43**  
**billion**

The total number of staff as at 30 June, 2018 was 107. Staff gender distribution of the Authority



Male  
**59%**

Female  
**41%**

## CHAIRMAN'S STATEMENT



*Mr. James Ndegwa*  
Chairman

### **An Overview of Global Growth**

The upswing in global investment and trade continued in the second half of 2017 at 3.8%. With financial conditions still supportive, global growth is expected to tick up to a 3.9% in both 2018 and 2019 driven by faster growth in the Euro area, Japan, China, and the United States, all of which grew above expectations in 2017, along with some recovery in commodity exporters<sup>1</sup>.

This positive momentum will eventually slow, however, leaving many countries with a challenging medium-term outlook. Downside concerns include a possibly sharp tightening of financial conditions, waning popular support for global economic integration, growing trade tensions and risks of a shift toward protectionist policies, and geopolitical strains. The current recovery therefore offers a window of opportunity to advance policies and reforms that secure the current upswing and raise medium-term growth for the benefit of all. Such policies should focus on strengthening

the potential for higher and more inclusive growth, building buffers to deal more effectively with the next downturn, improving financial resilience to contain market risks and stability concerns, and fostering international cooperation. Lower middle-income, such as Kenya, and low-income developing countries face multiple challenges in their effort to progress toward the 2030 Sustainable Development Goals. These include broad-based increase in the public debt burden calling for urgent fiscal prudence, improved debt management capacity, and greater debt transparency on the part of debtors and creditors, as well as concerted efforts from the international community.

Several countries need to make room in their budgets to accommodate higher spending on social services such as health care and education through public investment by mobilizing domestic revenues and improving spending efficiency. The Government of Kenya has firmly articulated this through the Big Four Agenda.

<sup>1</sup> <https://www.imf.org/-/media/Files/Publications/WEO/2018/April/text.ashx>

## CHAIRMAN'S STATEMENT (Cont'd)

### Regional Outlook

African economies have been resilient and continue to gain momentum. Real output growth is estimated to have increased 3.6 percent in 2017 up from 2.2 percent in 2016 and to accelerate to 4.1 percent in 2018 and 2019. Overall, the recovery of growth has been faster than envisaged, especially among non-resource – intensive economies. This reflects generally sound macroeconomic policies, buoyant domestic demand, progress in structural reforms (especially in infrastructure development), and generally sensible policy frameworks. East Africa recorded the highest real GDP growth rate of 5.6 in 2017 compared to the continent's average of 3.6<sup>2</sup>.

Most of the low-income African countries should however strengthen their economic resilience and dynamism to lift their economies to a new growth equilibrium driven by innovation and productivity rather than by natural resources. Macroeconomic policy strategy should aim at ensuring external competitiveness to avoid real exchange rate overvaluation and take the full benefits of trade, improve fiscal revenue, and rationalize public expenditure.

Estimates by the African Development Bank suggest that the continent's infrastructure needs amount to \$130–170 billion a year, with a financing gap in the range \$68–\$108 billion. Major investments in infrastructure, financed principally by external borrowing, have raised concerns about a currency and maturity mismatch in debt service, as revenue streams accrue predominantly in local currencies and debt obligations mature before these streams begin. This gap not withstanding that Institutional investors such as insurance companies, pension funds, and sovereign wealth funds have more than \$100 trillion in

assets under management globally. A small fraction of these global savings which are currently deployed to low-yield investments would be enough to plug Africa's financing gap and finance productive and profitable infrastructure. However, for this to be achieved, relevant projects must be structured to be "bankable" with identifiable income streams to service potential debt and equity investment.

### National Outlook

Despite the significant challenges in 2017 particularly the severe drought and prolonged electioneering period, Kenya's economy remained resilient expanding by 4.9 percent supported by strong public investment and macroeconomic stability. This is projected to grow further to 5.8 percent in 2018 supported by growing investor confidence, improved agricultural activities bolstered by favourable weather, ongoing public investments and the improved demand for our exports due to improved global and regional growth coupled with the ratification of the African Continental Free Trade Area (AfCFTA).

### Capital Markets Policy Issues

#### **Proposed Repeal of Interest rates cap**

In the Budget Speech 2018-19, the Cabinet Secretary proposed the repeal of section 33B of the Banking (Amendment) Act, 2016 which imposed a maximum rate of interest for all types of credit offered by banks, as well as a minimum rate of interest on deposits. The aim of the interest rate cap ceiling was to expand credit access to the private sector and increase return on savings but to the contrary caused banks to shy away from borrowers whose risk they price above the maximum lending rate. In parallel the banks responded to floor on deposit interest by either building non-interest earning deposit accounts

or reclassifying interest earning deposit accounts to transaction accounts which do not earn interest. As a result, financial access and economic growth has been seen to be adversely impacted with slower annual private sector credit growth rate of 2.8% below the ideal growth rate of 12-15% according to the Central Bank. The proposed repeal is expected to rejuvenate credit growth in the country and subsequently spur the economic growth. However, latent concerns remain over a return to what were seen to be extortionate interest rates that triggered Parliamentary intervention through the caps law. The National Treasury has therefore sought to present potential alternatives.

#### **Deliberations on the Establishment of Four New Entities to Regulate Credit Access.**

In May 2018, the National Treasury developed the Financial Markets Conduct Bill, 2018 which proposes to create four new entities namely; Financial Markets Conduct Authority, the Financial Sector Ombudsman, the Conduct Compensation Fund Board and the Financial Services Tribunal. These agencies are targeted to create an effective financial consumer protection environment making credit more accessible and supporting financial innovation and competition in a more coherent way.

The Bill provides for uniform practices and standards in relation to the supervision and conduct of providers of retail financial services based on International best practices. However, the Bill in its draft form creates substantial overlap with existing market conduct authorities, especially the Capital Markets Authority, and Treating - Customers - Fairly (TCF) mandates of insurance, pension and saccos' regulators, which will need to be robustly addressed to avoid regulatory uncertainty, costs and arbitrage.

<sup>2</sup> [https://www.afdb.org/fileadmin/uploads/.../African\\_Economic\\_Outlook\\_2018\\_-\\_EN.pdf](https://www.afdb.org/fileadmin/uploads/.../African_Economic_Outlook_2018_-_EN.pdf)



### **Nairobi International Financial Centre Authority**

The Nairobi International Financial Centre Authority Act was assented into law on 21st July, 2017. The Act seeks to provide the legal framework to facilitate and support development of an efficient and globally competitive financial services sector. This will be achieved through the establishment of the Nairobi International Financial Centre and the NIFC Authority. The Centre will bolster the Capital Market 10 - year Master Plan's vision of making Kenya 'the Heart of African Capital Markets' and contribute in providing an integrated framework for the coordination of financial sector policies, laws and strategies to improve Kenya competitiveness.

### **EAC Council Directives**

In the spirit of regional integration, the following seven EAC council directives were issued on 27th October 2017:

- EAC Council Directive on Investor Education and Protection;
- EAC Council Directive on Self-Regulatory Organizations;
- EAC Council Directive on Takeovers and Mergers;
- EAC Council Directive on Licensing in the Securities Market;
- EAC Council Directive on Investor Compensation Funds;
- EAC Council Directive on Anti-Money Laundering in Securities Markets; and
- EAC Council Directive on Conduct of Business

These put in place yet another critical set of regional convergence standards for the securities markets as we work towards the full implementation of the East African Community Common Market Protocol with the free movement of capital and services and ultimately the East African Monetary Union.

### **Market Development Reforms and Innovations**

In line with the Authority's objective to stimulate innovation to broaden

product and service offerings, deepen market participation and liquidity, and drive transformative economic development a regulatory sandbox policy framework was developed with support from Financial Sector Deepening Kenya (FSDK).

A mapping of the universe of FinTech companies in Kenya was also undertaken concurrently to determine appetite for and the focus areas of the sandbox environment.

During the period under review, specifically on 5th February, 2018, the Authority granted its first Non-dealing Online Forex Broker License to Execution Point Limited (now EGM Securities Limited).

This followed the gazette of the Capital Markets (Online Foreign Exchange Trading) Regulations on 25th August 2017 compelling all Kenya's online currency traders, dealers and money managers to obtain a license from the Authority to continue in the business. The need to develop the regulatory framework was informed by the global developments in the market, the need for regulatory oversight for the increasing active participation of traders and investors in the local market as well as leveraging the opportunity to provide transparent short term speculative investment products to further diversify the capital markets.

With respect to M-AKIBA, the National Treasury, Central Bank of Kenya and the Central Depository and Settlement Corporation with funding support from Financial Sector Deepening Africa and technical support from BFA Global Consultants conducted a post issuance survey on the M-Akiba product to determine the factors underlying the low uptake.

The key findings informed recommendations on simplifying the customer messaging and user interface; improving customer journey with respect to conversion; enhancing

secondary trading mechanisms and customer care; product redesign to clearly indicate features on interest, reinvestment and secondary market trading to the investor to ensure successful future issuances.

The Authority continued to work closely with the Joint Financial Sector Regulators and the National Treasury & Planning in developing the Islamic Financial Markets through policy and regulatory reforms. During the period, the Authority in partnership with the National Treasury & Planning, the Joint Financial Sector Regulators and the Islamic Financial Services Board (IFSB) hosted a regional conference on Islamic finance in the banking, insurance and capital markets subsectors. The Authority remains highly conscious of the importance of devolution and in line with the first pillar of the Capital Market Master Plan, we on-boarded a consultant to conduct a study of the funding gap within the County and National Governments. The study is nearing finalization and will inform a strategy for engagement with the County Governments, National Government and state owned enterprises to facilitate financing of infrastructure projects through capital markets.

### **International Recognition**

The Authority remains committed to facilitating Kenya's capital markets to be a premier investment destination. In evidence of this commitment we received continued recognition as the most innovative capital markets regulator in Africa for the third consecutive years-2015, 2016 and 2017. Cementing our success in the global scene, I am further pleased to report that CMA's Chief Executive, Mr. Paul Muthaura, was elected in April 2018 Chairman of the Africa and Middle-East Regional Committee (AMERC) of the International Organization of Securities Commissions (IOSCO) for the term 2018-2020.

This followed his election in August 2017 as the Vice Chairman of the

## CHAIRMAN'S STATEMENT (Continued)

Growth and Emerging Markets Committee of IOSCO and builds on his repeated election to the prestigious IOSCO Board in different capacities since September 2014. IOSCO is the premiere reference point for securities regulation and the standard setter for the global capital markets regulatory community.

With his election as the Regional Chairman, Mr. Muthaura also took up a seat on the Growth and Emerging Markets Steering Committee (GEMSC) which is charged with representing the interests of more than 75 percent of the membership of IOSCO covering the spectrum of the most developed emerging markets including the BRICS (Brazil, Russia, India, China and South Africa) to frontier and nascent capital markets. The Africa Middle East Region includes a number of significant emerging capital markets such as Saudi Arabia, South Africa, Nigeria, Egypt, Kuwait, Dubai Financial Centre and Morocco. Mr. Muthaura takes over the chairmanship from the long serving Securities and Exchange Commission of Nigeria.

The AMERC Chair position strengthens Kenya's voice on the global stage to inform policy and regulatory standards formulation and its impact on developing capital markets. The confidence and support shown through Mr. Muthaura's election serves as a significant boost to Kenya's aspiration for Nairobi to become an International Financial Center in line with the ambitions of the Vision 2030 Economic Blueprint.

### Looking Forward

#### **Our Strategic Direction**

Following the expiry of the 2013-17 Strategic Plan, the Authority developed a new Strategic Plan running from July 2018 to June 2023 to guide it over the next five years. The Capital Markets Authority Strategic Plan 2018-2023 serves as a strategic guide to position Kenya's Capital Market as the premier choice for

investors and issuers through robust regulation, supportive innovation and enhanced investor protection. To this end, the Authority has aligned its strategic direction with key national and international development goals, notably the Big 4 Agenda, The Kenya Vision 2030, Third Medium Term Plan (MTP III), the Capital Market Master Plan (CMMP) and the United Nations' Sustainable Development Goals to ensure that Kenya's capital markets have their desired impact in supporting economic development and empowerment.

Our new five-year Strategic Plan projects the creation of a regulatory framework that fosters growth which is inclusive and sustainable, promotes innovation and the deployment of financial technology and one that strengthens and builds a sound and resilient capital market. Through implementation of the Strategic Plan the Authority will help ensure that the Kenyan capital market is increasingly efficient, competitive, financially sound and dynamic to facilitate greater innovation and responsiveness of different capital market products and services to meet the diverse needs of issuers and investors. It will also enable CMA steer the development of Kenya's capital markets in a way that supports national and international development objectives outlined and the ultimate achievement of Morgan Stanley Capital International (MSCI) Emerging Market status for the country.

#### **The Strategic Plan 2018-2023 encompasses six key Strategic objectives:**

1. Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency;
2. Facilitating the development, diversification and uptake of capital markets products and services;
3. Ensuring sound market infrastructure operations and

- market institutions;
4. Leveraging technology to drive efficiency in the capital markets value chain;
5. Ensuring optimal institutional efficiency and effectiveness of CMA; and
6. Enhancing strategic influence

### Appreciation and Outlook

I would like to extend my gratitude to the President of the Republic of Kenya for my reappointment for a second term on the Board of the Authority. In conjunction with my colleagues on the Board I extend my appreciation to the Government for the support granted to the Authority through the year which has been critical in achieving our mandate. I wish to acknowledge the National Treasury & Planning, the capital markets industry players, the other financial services regulators for the immense support given. Given the ever changing global landscape, the Authority is cognizant of the need to strengthen its core resource, its people, through unlocking innovation by building and deepening the necessary capabilities. In doing this, the Authority will be guided by the Uwezo Kipeo Regulatory Excellence Model.

Through the commitment of the CMA Board and Management, and the renewed vigour to enhance our strategic influence both locally and internationally, the Authority will continue to rise to the challenge in playing its central role in spearheading the transformation of Nairobi into a competitive International Financial Centre underpinned by the Capital Market Master Plan aspiration to become "The Heart of Africa's Capital Market."



**Mr. James Ndegwa**  
Chairman

## CORPORATE GOVERNANCE STATEMENT

The Board of the Authority (the Board) is responsible and accountable to the Government of Kenya, through The National Treasury, in ensuring that the Authority complies with the law and the highest standards of corporate governance.

- i) There are eleven members of the Board all of whom, save for the Chief Executive, are non-executive directors.
- ii) The Members possess a broad range of skills and competencies, including legal, finance, banking, economics and management.
- iii) During the period under review, the Board met thirteen times.

### COMPOSITION OF THE BOARD

During the period under review, the Board was composed as follows:

#### 1. Mr. James Ndegwa (Chairman)

James Ndegwa holds a BA (Hons) and an MA degree from Oxford University. An insurer by profession, he is an Associate of the Chartered Insurance Institute (UK) and an Associate of the Insurance Institute of Kenya. He is the Chairman of First Chartered Securities Limited and a director of several companies. Prior to his present position, he was the Managing Director of Lion of Kenya Insurance Company Limited until 2003.

#### 2. Dr. Kamau Thugge (Principal Secretary, The National Treasury & Planning)

Dr. Kamau Thugge holds a doctorate in Economics from the John Hopkins University. He was appointed an Economic Advisor to the Treasury in December 2005 after serving as an Economic Affairs Director, Treasury since July 29, 2004. Prior to joining Treasury, he worked at the International Monetary Fund from 1985 to 2004.

#### 3. Alternate to Principal Secretary, The National Treasury & Planning: Dr. Geoffrey Mwau (Director General,

#### Budget, Economic and Fiscal Affairs, The National Treasury & Planning)

Dr. Mwau graduated from McGill University in Canada with a PhD in Economics in 1994. He worked as a Senior Advisor to the Executive Director representing Kenya and 21 other African countries at the Executive Board of World Bank. Prior to joining the World Bank, he was a Senior Regional Advisor on Economic Policy Analysis with the United Nations Economic Commission for Africa. Previously, Dr Mwau also worked for the International Monetary Fund (IMF) as an economist for Rwanda, Malawi, Botswana, and Uganda.

#### 4. Hon. Prof Githu Muigai (Resigned as AG on 13 February 2018)

Professor Muigai was the Attorney General of the Republic of Kenya upto February 2018. He holds a Bachelor's Degree in Law and was called to the bar in 1985. He also holds a Master's Degree in International Law from Columbia University School of Law, New York and a PhD in Constitutional Law from the University of Nairobi.

He is a Fellow of the Chartered Institute of Arbitrators (UK) and a member of the American Association of Trial Lawyers. In addition to Law practice, he is an Associate Professor of Public Law in the School of Law of the University of Nairobi. He specialises in Public Law, Human Rights and trans-national legal practice.

#### 5. Hon. Justice (Rtd) P Kihara Kariuki (Appointed as AG on 28 March 2018)

He is the Attorney General of the Republic of Kenya with effect from March 2018. He obtained a Bachelor's Degree in Law from University of Nairobi in 1977 and Post Graduate Diploma in Law from Kenya School of Law in 1978. As the President of Court of Appeal of Kenya, between 2013 and March 2018, he was instrumental in the decentralization of the Court of Appeal to Malindi, Kisumu and Nyeri Counties. Directed the development

of the blueprint ten-point strategy for the transformation of the Court that culminated in the Court of Appeal Bill and the Strategic Plan for the Court of Appeal in Kenya. As the first director of the Judiciary Training Institute (2009- 2013), Kenya, he was instrumental in establishing all the operational systems for the technical arm of the judiciary incorporating professional development for all judges, magistrates and all cadres of the paralegal staff at the Judiciary.

In 2003, he was appointed to serve as Principal and Chief Executive Officer at the Kenya School of Law. He also served as Judge in the High Court of Kenya (2003- 2011). He was a Partner, Messer Ndungu Njoroge and Kwach Advocates, Nairobi (1986- 2000) and Hamilton Harrison and Mathews Advocates, Nairobi (1977- 1985).

He has served as Chancellor or Honorary Legal Advisor for The Anglican Church of Kenya, Member of the Kenya Anti-Corruption Authority Advisory Board and as chair of Thomas Barnado House and Rotary International.

#### 6. Alternate to Hon. Attorney General: Mr. Nevis Ombasa

Mr. Nevis Ombasa is a lawyer by profession. He holds a Bachelor of Arts (Econs) degree from D.A.V.V University India and a Bachelor of Laws (LLB) degree from Karnataka University, India. He has previously worked in the law firm of Maobe Maotsetung & Co. Advocates and Omboga & Co. Advocates. Mr. Ombasa is currently working in the Office of the Attorney General and Department of Justice as a Senior State Counsel in the Government Transactions division.

#### 7. Dr. Patrick Njoroge (Governor, Central Bank of Kenya)

Dr. Njoroge is an economist by profession, and holds a PhD in Economics from the University of Yale, USA. He holds a Masters degree in Economics and a Bachelors degree

## CORPORATE GOVERNANCE STATEMENT (Cont'd)

in the same discipline from the University of Nairobi. He joined the Washington-based IMF in 1995 as an economist and rose through the ranks to hold the position of adviser. Prior to that, he worked briefly in the mid 1980s at the Ministry of Planning and as an economist at the Ministry of Finance in the 1990's.

### 8. Mr. William Nyagaka (Alternate to Governor, Central Bank of Kenya - Appointed on 14th May 2018)

Mr. William Nyagaka joined the Central Bank of Kenya in May 1994. He was appointed Director, Financial Markets Department in May 2018. He previously served as Director, Internal Audit. He holds an MBA (Finance), and a Bachelor of Commerce (Accounting) degree from the University of Nairobi. He is a Certified Public Accountant (CPAK) and a Certified Public Secretary (CPSK). Mr. Nyagaka also holds a Bachelor of Laws degree (LLB) from the University of Nairobi and a Diploma in Law from the Kenya School of Law. He is an Advocate of the High Court of Kenya.

Prior to joining the Central Bank of Kenya, he worked with the Kenya Power and Lighting Company Limited as a financial accountant, in addition to working with KENAO. He has served in various departments in Central bank of Kenya, including Finance, Banking, Financial Markets, Bank Supervision and Deposit Protection Fund Board. He also served, on secondment, at the Kenya Revenue Authority (KRA) during its formative stage.

### 9. Mr. George Moibi Mose

Mr. George Moibi Mose is an Advocate of the High Court of Kenya with over fifteen years experience. He is a Commissioner for Oaths and Notary Public. Mr. Moibi holds a Bachelor of Laws (LLB) degree (Honours) from the University of Nairobi and is currently pursuing a Master of Laws (LLM) from the same institution. Mr. Moibi is a Managing Partner at

Ongweny & Moibi Advocates with vast experience in Conveyancing, Civil and Commercial Litigation, Company Secretarial Services, Wills and Estates, Real Estate, Family Court, Election Petitions and Immigration Law. He previously worked at Sichale & Company Advocates as well as Munoru Kagiri & Wamae Advocates.

### 10. Dr. Thomas Kibua

Dr. Kibua is Director of Academic Programmes at Strathmore University Institute of Public Policy and Governance, Economic Advisor to the Governor of Makueni County and Partner and Senior Economist with African Development and Economic Consultants Ltd (ADEC), a Kenyan firm he co-founded in 1979 and which offers advisory services in economics, management, finance and development. Previously, he served as Director of Health Policy and Systems Research at the African Medical and Research Foundation (April 2008 -March 2011); the Executive Director of the Institute of Policy Analysis and Research (IPAR) a non-governmental think-tank specialising in policy analysis and research (2003-2008); and Chairman of Egerton University Council (2009-2012).

He previously taught for many years at the Department of Economics, University of Nairobi. He was Deputy Governor of the Central Bank of Kenya for the statutory period of eight years (1993-2001), served as Advisor to the President of East and Southern Africa Trade and Development Bank (2001), worked on long Term Technical Assistance Programme as Economic Advisor to the Kenyan Ministry of Health (health care financing) (1991-1993) and sat on several Boards of State Corporations (Capital Markets Authority, Export Processing Zones Authority, Export Promotion Council and Deposit Protection Fund) and private companies.

Dr. Kibua graduated from the University of Nairobi with a Bachelor's

degree and a Master's degree in Economics in April 1974 and June 1976, respectively; a Master's degree in Economics from Yale University, USA, in 1979; and a Doctor of Philosophy degree from the University of Nairobi in 1983. He has extensive hands-on experience in: (a) the management of macro-economic affairs (especially public finance management), (b) university teaching, (c) research, research management and capacity building, (d) knowledge management and (e) and consultancy on development and economic governance and management issues.

His areas of specialisation include development economics, economic governance and management (macroeconomic management and public finance management) and quantitative methods. He has written extensively on development and economic policy issues.

### 11. Ms. Christine Okoth

Ms Okoth is currently the Managing Director - MAL Consultancy Limited. She is an experienced Human Resource and Business Leader, with over 15 years of Human Resource and Business Partnering Practice. Prior to her current position, Christine worked at Safaricom Limited where she held several roles including HR Systems and Communications, Head of Talent and Resourcing and Head of HR Business Partnership.

She holds a degree in International Relations and Marketing from The United States International University. She is a certified Lead and Internal Auditor, Project Manager, HR Information Systems Manager, Competency Assessor, Organization Design Expert, a Leadership Coach and Mentor. Christine is a member of the Institute of Human Resource Management (IHRM) Kenya, and Chartered Institute of Personnel Development (CIPD) in the United Kingdom.



## CORPORATE GOVERNANCE STATEMENT (Cont'd)

### 12. Mr. Paul Ngugi

Mr. Paul Ngugi holds a Masters of Social Science (M.Soc.SC) in Development Administration from the University of Birmingham (UK), a Bachelor of Arts from the University of Nairobi and a Diploma of Professional Development in Management with Specialization in Budgeting and Financial Management from the University of Connecticut (USA). Mr. Ngugi is a Member of the Institute of Directors of Kenya.

He has served as Alternate Director to Permanent Secretary, Ministry of Finance in various boards of state corporations including Kenya Roads Board, Housing Finance, Kenya Meat Commission and National Oil Corporation among others. He also served as Director in Kenya Dairy Board and Chairman of the Micro and Small Enterprises Authority (MSEA). He has attended a course in Corporate Governance for Directors and Mwongozo Induction Programme for Boards of State Corporations, among others. Mr. Ngugi was a long serving public servant and retired as Director of Budget at the National Treasury in the year 2013.

### 13. Dr. Freshia Mugo – Waweru

Dr. Mugo-Waweru earned her Ph.D in International Finance (Derivatives Trading) from Sogang University in Seoul (South Korea), a Masters in Business Administration (MBA) and Bachelors of Commerce (Accounting) from Kenyatta University. She is also a Certified Public Accountant of Kenya (CPA-K). In 2012, she was appointed as part of a 16- member steering committee to come up with the 10- year Master Plan of the Capital Markets Authority, which was launched in November 2014.

Dr. Mugo-Waweru was appointed as a member of the Anti – Money Laundering Board where she was a member of the Finance Committee and the Chair of the HR Committee. Dr. Mugo-Waweru has extensive training and consultancy experience

in different areas such as; Corporate Governance, Leadership, Finance for Non-Finance Directors & Managers, Derivatives Markets & Trading, Financial Management, and Investment Analysis and Portfolio Management.

She is a senior lecturer at Strathmore University teaching Derivatives Markets, Advanced Investment Analysis and Portfolio Management, Managerial Finance, Corporate Finance, International Finance, Public Sector Financial Management, Financial and Management Accounting among others.

### 14. Mr. John Birech

Mr. Birech holds an MA (Economics); B Phil. (Economics) and BA (Economics) from the University of Nairobi. Mr. Birech joined the Central Bank of Kenya in September, 1984 and has served in various areas of the Bank including Banking, Bank Supervision and Financial Markets Department. Mr. Birech also sits in the Monetary Policy Committee of the Bank.

He was the alternate to the Governor, Central Bank of Kenya until 11th May, 2018. He retired from the Central Bank of Kenya as the acting Director, Financial Markets Department. He was appointed as an independent member of the Board effective 6th June, 2018. He is currently the Chairperson of the Technical and Policy Committee of the Board.

### 15. Ms. Linda Muriuki (Resigned on 3 August 2017)

Ms. Muriuki is an Advocate of the High Court of Kenya with over Twenty-Five years' experience. Ms. Muriuki obtained a B.A. Economics degree from York University, Canada after which she graduated with an LLB (Honours) from the University of Leeds, United Kingdom. She obtained a Masters Degree as a Graduate of the Global Executive Masters of Business Administration from United States International University,

Kenya in collaboration with Columbia University New York, U.S.A. She is a Commissioner for Oaths, Notary Public, Certified Public Secretary (Kenya) and a Professional Director.

### 16. Mr. Paul M. Muthaura (Chief Executive)

Mr. Muthaura is the Chief Executive, Capital Markets Authority. In his time with the Authority he has held positions as the Director, Regulatory Policy and Strategy; Head of Legal Framework and Head of Enforcement. Mr. Muthaura is a member of the Board of the International Organization of Securities Commissions (IOSCO), the Steering Committee of the Growth and Emerging Markets Committee of IOSCO, and the Chairman of the Africa and Middle East Regional Committee (AMERC) of IOSCO.

Mr. Muthaura is also a member of the Financial Stability Board (FSB) Regional Consultative Group for Sub-Saharan Africa and the Consultative Committee of the East African Securities Regulatory Authorities (EASRA). Mr. Muthaura is also an ex-officio member of the Boards of Directors of the Retirement Benefits Authority, the Insurance Regulatory Authority and the Vision 2030 Delivery Secretariat.

He has previously worked as an Emerging Markets Advisor with the General Secretariat of the International Organization of Securities Commissions (IOSCO). Before moving into the regulatory industry, Mr. Muthaura was a senior commercial associate with the law firm of Daly and Figgis Advocates.

Mr. Muthaura is an Advocate of the High Court of Kenya and is the holder of a Bachelor of Laws degree from the University of Warwick, a Masters in Banking and Finance Law from the London School of Economics and Political Science and a Masters in Philosophy from the Maastricht School of Management.

## CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Authority continues to be a responsible corporate citizen with focus on participation in various initiatives as part of its corporate social investment strategy and taking responsibility to both its external and internal stakeholders.

In line with the commitment within the Environmental Sustainability Audit done in the 2016/17 Financial Year as part of the Performance Contracting requirement, the Authority signed a collaboration agreement with the Kenya Forestry Service (KFS) and undertook a tree planting activity in partnership with Kenya Forest Services (KFS) and undertook to plant 1,100 indigenous trees in the 2017/18 Financial Year in an area measuring on hectare in the Ngong Forest Nairobi.

The Authority has in the year continued with the support to environmental and ecosystem sustainability, by contributing Ksh. 250,000 to the NSE Charity Trading Day, whose key initiative is to support the protection of rhinos in Kenya. The rhino is one of the most endangered species in the world, and Kenya in particular.

The Authority has in the last three years sponsored the construction

of a multi purpose modern science laboratory for Nthunguni Secondary School in Machakos County. We are glad that the project was completed this Financial year. During the year the Authority participated in a Joint initiative with NSE and CDSC in raising the technical skills of the less fortunate in the society and donated carpentry tools to the Naivasha Children's Rescue Shelter. The Shelter accommodates and rehabilitates street boys with an aim of giving them hope and integrating them back into society by equipping them with carpentry skills to help them be self-reliant in future.

On the internal stakeholders, the following initiatives have been undertaken:

The Authority remains keen on compliance with the Occupational Safety and Health Act 2007. This is achieved through continuous sensitization on safety in addition to initiatives to optimize work place ergonomics and productivity.

The Authority has on regular basis conducted HIV testing services as an initiative for HIV/AIDS prevention. The Authority has consistently

ensured compliance with the 1/3 gender rule, with the current ratio of Female to Male standing at 41% : 59% respectively thereby exceeding the minimum threshold of 33%.

The Authority also takes into consideration the 'Face of Kenya' when conducting recruitment and promotions respectively for various positions in line with the Presidential initiatives on national values.

In line with the Public Procurement and Asset Disposal Act 2015 requirement on preference and reservations, the Authority has ensured that the Access to Government Procurement Opportunities (AGPO), is maintained to above the minimum 30% threshold, and runs initiatives to empower Youth, Women and Persons with Disabilities to better leverage available opportunities.

The main entrance to the premises was fitted with ramps for ease of access by People With Disabilities (PWD), and deliberate effort is also made to attract PWDs into employment by sharing information with the National Council of Persons with Disability.



*From Left: Central Depository and Settlement Corporation (CDSC) Chairman Mike Bristow, Nairobi Securities Exchange Chief Executive Officer Geoffrey Odundo, Naivasha Children's Shelter Executive Director Eunice Murage, CDSC Chief Executive Officer Rose Mambo and Capital Markets Authority Chairman James Ndegwa display carpentry tools. The Boards of CMA, CDSC and NSE donated tools worth Kshs235,000 to Naivasha Children's Shelter in April 2018.*

## BOARD AND COMMITTEE MEETINGS ATTENDANCE FOR THE YEAR 2017/2018

| No. | Board Member           | Classification                                | Designation    | Finance and Planning Committee (FPC): Total number of meetings scheduled and 2 special) | Audit Corporate Governance and Risk Management Committee (AC): Total number of meetings 5 (all scheduled) | Technical and Policy Committee (TPC): Total number of meetings 8 (7 scheduled and 1 special) | Human Resource and Corporate Communications (HRCC): Total number of meetings 6 (5 scheduled and 1 special) | Joint Audit and Finance and Policy Committee (AC & FPC): Total number of meetings 1 (all scheduled) | ICT Ad Hoc Committee (ICTAD): Total number of meetings 3 (all scheduled) | Board : Total number of meetings scheduled and 11 special) |
|-----|------------------------|---|----------------|---|---|--|--|---|--|--|
| 1.  | Mr. James Ndegwa       | Independent                                   | Board Chairman |   |   |  |  |   |  | 18/18  |
| 2.  | Mr. Nevis Ombasa       | Alt. Attorney General                         |                | 1/6 (Co-opted)  |   | 5/8  | 5/6  |   |  | 8/18   |
| 3.  | Mr. John Birech        | Alt. to the Governor, CBK                     | Chairman TPC   | 1/6 (Co-opted)  | 5/5   | 8/8  |  |   | 2/3  | 16/18  |
| 4.  | Dr. Geoffrey Mwau      | Alt. To the Principal Secretary Treasury      |                | 1/6   | 1/5   |  |  |   |  | -  |
| 5.  | Mr. Musa Kathanje      | Representing the Principal Secretary Treasury |                | 1/6   | 1/5   | 3/8  |  |   |  | 3/18   |
| 6.  | Mr. Christopher Oisebe | Representing the Principal Secretary Treasury |                |   |   |  |  |   |  | 2/18   |
| 7.  | Mr. Paul Ngugi         | Independent                                   | Chairman FPC   | 6/6   | 2/5 (Co-opted)  | 7/8  | 2/6 (Co-opted)   | 1/1   | 1/3 (Co-opted)   | 18/18  |
| 8.  | Dr. Thomas Kibua       | Independent                                   | Chairman AC    | 2/6 (Co-opted)  | 5/5   | 1/8 (Co-opted)   | 4/6  | 1/1   | 2/3  | 18/18  |

## BOARD AND COMMITTEE MEETINGS ATTENDANCE FOR THE YEAR 2017/2018

| No. | Board Member          | Classification                                 | Designation                  | Finance and Planning Committee (FPC): Total number of meetings scheduled and 2 special) | Audit Corporate Governance and Risk Management Committee (AC): Total number of meetings 5 (all scheduled) | Technical and Policy Committee (TPC): Total number of meetings 8 (7 scheduled and 1 special) | Human Resource and Corporate Communications (HRCC): Total number of meetings 6 (5 scheduled and 1 special) | Joint Audit and Finance and Policy Committee (AC & FPC): Total number of meetings 1 (all scheduled) | ICT Ad Hoc Committee (ICTAD): Total number of meetings 3 (all scheduled) | Board : Total number of meetings 18 (7 scheduled and 11 special) |
|-----|-----------------------|--|------------------------------|---|---|--|--|---|--|--|
| 9.  | Mr. Moibi Mose        | Independent                                    | Chairman HRCC                | 5/6   | 1/5 (Co-opted)  |  | 6/6  | 1/1   | 1/3 (co-opted)   | 15/18  |
| 10. | Ms. Christine Okoth   | Independent                                    | Chairman ICT Adhoc Committee | 1/6 (Co-opted)  | 3/5   | 2/8 (Co-opted)   | 4/6  | 1/1   | 2/3  | 16/18  |
| 11. | Mr. William Nyagaka   | Alt. to the Governor, CBK- Effective 14/5/2018 |                              |   |   |  |  |   | 1/3  | 1/18   |
| 12. | Ms. Linda Muriuki     | Independent                                    |                              |   |   | 1/8  |  |   |  | 1/18   |
| 13. | Ms. Joyce Wesonga     | Representing Inspector of State Corporations   |                              | 2/6 (Co-opted)  | 2/5 (Co-opted)  | 3/8 (Co-opted)   |  |   |  | 4/18   |
| 14. | Mr. Andrew Meme       |  |                              |   |   |  |  |   | 2/3  |  |
| 15. | Mr. Muchemi Wambugu   |  |                              |   |   |  |  |   | 3/3  |  |
| 16. | Mr. Geoffrey Ng'etich |  |                              |   |   |  |  |   | 1/3  |  |

**NOTES:**

1. Linda Muriuki resigned with effect from 3 August, 2017
2. Mr. John Birech's term as Alternate to the Governor CBK expired on 11 May, 2018, He was appointed as an Independent Member effective 6 June 2018
3. Mr. William Nyagaka was appointed as Alternate to the Governor CBK on 14 May, 2018
4. Mr. Moibi Mose joined ICT Adhoc Committee effective 13 June, 2018
5. Dr. Freshia Mugo- Waweru was appointed as an independent member of the Board effective 6 June 2018
6. The Board held 8 Enforcement Hearings and attended 2 Strategic Planning meetings.



## REPORT OF THE BOARD MEMBERS OF THE AUTHORITY

The Board Members of the Authority submit their Report together with the audited financial statements for the year ended 30th June 2018, which show the state of the affairs of the Authority.

### Principal activities

The Authority promotes and facilitates the development of an orderly, fair and efficient capital market in Kenya.

### Results

The results of the Authority for the year ended 30th June 2018 are set out on page 42 to 71.

### Board Members of the Authority

The Board Members of the Authority who held office during the year and to the date of this report are set out on page 17-19.

### Auditor

The Auditor-General is responsible for the statutory audit of the Authority in accordance with Article 229 of the Constitution of Kenya. Section 39 (1) of the Public Audit Act 2012, empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Mbaya & Associates Certified Public Accountants were nominated by the Auditor General to carry out the audit of the Authority for the year ended 30th June 2018.

### By order of the Board



**Chief Executive**  
Nairobi  
23 August, 2018

## STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES

### Board Committees

Subject to fundamental, strategic, policy and formal matters reserved for its decision, pursuant to Section 14 of Capital Markets Act, the Board works through a number of committees which operate within defined Terms of Reference. Other committees are formed on ad-hoc basis as need arise. During the period under review, the Board constituted the following committees:

#### The Finance and Planning Committee

This committee consists of four members all of whom are non-executive members of the Board. The committee was chaired by Mr. Paul Ngugi. This committee has oversight on all financial issues including budgets, financial reporting process and controls and procurement. The committee met four times during the year and had two special meetings.

#### The Audit, Corporate Governance and Risk Management Committee

This committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Dr. Thomas Kibua. It has oversight responsibility of reviewing, assessing adequacy and monitoring of internal controls, risk management and corporate governance processes; examining internal and external audit reports and recommendations; overseeing financial reporting and reviewing the accounting principles, policies and practices adopted in the preparation of financial statements. The committee met five times in the year.

#### The Human Resource and Communication Committee

This committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Mr. Moibi Mose. It is responsible for human resource matters including recruitment, management succession as well as the corporate communication function. The committee met five times during the year and had one special meeting.

#### The Technical and Policy Committee

The committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Mr. John Birech. It is responsible for considering technical and policy matters of the Authority, including reviewing the Authority's strategy and continuous oversight of the review of the capital market legal and regulatory frameworks. The committee met seven times during the year and had one special meeting.

### Ad-Hoc Board Committees

The following were the Ad hoc Committees in the financial year:

- i) The Implementation Committee for the Capital Market Master Plan- Launched in 2015.
- ii) The Board established the ICT Adhoc Committee in February 2017. It consists of two non executive members of the Board, and three external experts from ICT industry. It is a dedicated ICT Committee to assist in providing Strategic Oversight of ICT at the Authority. The committee met three times in the year.

## STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES (Cont'd)

The Board Members are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on 30th June 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Board Members accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) and in the manner required by the Public Finance Management Act and the State Corporations Act. The Board Members are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority transactions during the financial year ended 30th June 2018, and of the Authority's financial position as at that date. The Board Members further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Board Members to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Authority's financial statements were approved by the Board on 23 August, 2018 and signed on its behalf by:



.....  
Chairman



.....  
Chief Executive

## BOARD OF DIRECTORS



**Standing from left to right:**

**Dr. Kamau Thugge** - PS National Treasury & Planning • **Dr. Geoffrey Mwu** - Alt. PS National Treasury & Planning  
**Mr. William Nyagaka** - Alt to the CBK Governor • **Mr. Moibi Mose** • **Mr. Nevis Ombasa** - Alt. Attorney General • **Mr. Paul Ngugi**  
**Mr. John Birech** • **Dr. Thomas Kibua** • **Hon. Justice (Rtd) P Kihara Kariuki** - Attorney General  
**Dr. Patrick Njoroge** - Governor CBK





**Seated from left to right:**

Dr. Freshia Mugo – Waweru • Mr. Paul Muthaura - Chief Executive • Mr. James Ndegwa - Chairman • Ms. Christine Okoth

## CHIEF EXECUTIVE'S STATEMENT



*Mr. Paul Muthaura*  
Chief Executive

### I. Market Performance

Globally, capital markets registered strong performance in first half of the 2017/2018 Financial Year but as we progressed into the remaining half of the period, markets tightened and became more volatile as the destabilizing potential of US inflationary pressure increased with attendant rate adjustments, coupled with uncertainty on the risks to global trade looming large. This reflected itself in the lower performance of global equity and bond indicators as the first half of 2018 came to a close.

Domestically, the market stabilized as it sought to shake off the "wait and see" sentiments from a pro-longed electioneering period taking a positive cue from the main political parties agreeing to focus on the "building of bridges" for national development. Equity turnover stood at Kshs. 197.29 billion in 2017/18 compared with the Kshs 155.51 billion registered in 2016/17, a 26.86% increase. A 15.98% increase was also recorded in capitalization as the market rose in value to Kshs. 2,576.23 billion compared to Kshs. 2,221.29 Billion recorded in 2016/2017. The NSE 20-share index was however at 3,285.73 points at the end

of June 2018 compared to 3,607.18 as at June 2017 an 8.9% decline in the index.

There was a substantial rise of 29.91% in secondary Government bond trading activity in the period under review, with turnover increasing to Kshs 491.65 billion from the Kshs 403.29 billion recorded in 2016/17. The corporate bond turnover also recorded a 182% growth with turnover rising to Kshs 6.63 billion, as measured against the preceding Financial Year's Kshs 2.35 billion which reflected heavily depressed corporate bond activity due to wider market circumstances. Overall, total bond turnover increased by 22.02% to Kshs 498.28 billion as at end of June 2018 in comparison to the Kshs 407.99 billion registered in 2016/17. It is also worth noting that generally, Treasury bond trading accounted for 98.67% of total bond trading during the period under review, reemphasizing the continued high concentration level.

Outlook for the 2018/2019 Financial Year is upbeat, following restoration of political certainty under the Building Bridges Initiative of the Kenyan political leadership; the expected positive impact of policy outcomes granted to the capital markets as pronounced by the Cabinet Secretary for the National Treasury and Planning during his delivery of the 2018/2019 Budget Statement. These key statements include: plans to revive the privatization program through new listings of State-Owned Enterprises (SOEs); the amendment of the Capital Markets Act to address key capital markets malpractices including corporate governance breaches, embezzlement of investor funds, front running, provision of misleading information and effective management of the Investor Compensation Fund (ICF); and the Government's intent to remove the interest rate caps. These top line policy indicators are further supported by the alignment of the new CMA Strategic Plan 2018-2023 to the Big Four Agenda. As a consequence of litigation following the reading of the Budget Statement, the impact and ultimate sustainability of a number of fiscal proposals which could adversely affect financial market



activity including the “Robin Hood Tax” and excise duty on mobile money transactions remains in question.

## II. Capital Market Master Plan

The capital market remains a key component of the Foundations for National Transformation, as it helps in bridging the resource gap in funding Vision 2030 Projects through mobilizing savings and investments to support Kenya’s aspirations to be an upper-middle-income economy. I am pleased to report that in its fourth (4th) year of implementation of the CMMP, we have achieved an implementation level of 55% translating to an average performance rate of 13.5% against the project annual rate of 10% over its ten-year tenure. The milestones achieved in the year under review include;

- i. The gazettement of the Securities Lending and Borrowing (SLB) and Short Selling Regulations, 2017 on 12th January, 2018 which seek to create an efficient and transparent regulatory framework to foster liquidity and price formation without undue increase in volatility in the capital markets. This is in line with the Authority’s mandate to create deeper, more liquid domestic markets;
- ii. Chartered Institute for Securities and Investments (CISI) professional certification for growing numbers of both Authority staff and market practitioners and key strategies

to implement a Continuous Professional Development (CPD) program for industry professionals;

- iii. The Nairobi Securities Exchange was admitted as a full member of the World Federation of Exchanges (WFE), a global organization that works with standard setters, policy makers, regulators and Government organizations around the world to support and promote the development of fair, transparent, stable and efficient markets;
- iv. Onboarding of consultants, in conjunction with the Bond Market Steering Committee, to assist the Authority and work with industry to implement a the Hybrid Bond Market model that is expected to promote a more efficient and transparent bond market in Kenya;
- v. Kenya’s Improved ranking in the World Bank “Doing Business” Report 2018 by 25 positions which was largely influenced by strong performance on indicators on protecting minority investors; and
- vi. The conclusion of a study to interrogate and present recommendations to address low uptake of capital markets products and services. The recommendations from the industry consultative workshop held on 29th June 2018 will be instrumental in addressing the low uptake and leverage initiatives

to spur capital markets listings interest and ultimately develop the market.

To enhance monitoring and implementation of the CMMP initiatives, the Authority launched an online CMMP Scorecard on 5th February, 2018. The portal caters for the need to update both internal and external stakeholders on the activities of and progress on the implementation of the Capital Market Master Plan (2014-2023) with platform updates carried out on an ongoing basis. The portal can be accessed through the link: <http://cmmp.or.ke/>

## Review of the Policy and Regulatory Framework

### a. Annual Policy Memorandum

The Authority continued to exercise its mandate to develop all aspects of the Capital Markets with particular emphasis on the removal of impediments to, and the creation of incentives for, long-term investments in productive enterprises through submission of policy memoranda for inclusion in the 2018 Budget. All policy submissions were subjected to extensive stakeholder engagements and leveraged issues identified through Capital Market Soundness Reports. Below is a highlight of some of the policy pronouncements and the expected direct and indirect implications to the capital markets:

**Table 1: Capital Markets Related Policy Pronouncements – Budget Statement 2017**

|   | Policy Pronouncement   | Positive Implications   |
|---|--|---|
| 1 | Revival of the privatization program   | <ul style="list-style-type: none"> <li>The program will be partly carried out through the capital markets and could stimulate the capital markets through new listings of State Owned Enterprises and a multiplier effect of listing by private sector entities</li> </ul>              |
| 2 | Establishment of a National Toll Fund to support the development of national trunk roads | <ul style="list-style-type: none"> <li>This will reinforce the roll out of the Debt Infrastructure Fund program and other securitization transactions in the medium to long term;</li> </ul>  |
| 3 | Setting up of the National Credit Guarantee Fund   | <ul style="list-style-type: none"> <li>This will provide support to MSME to grow to a level that they can form a consistent pipeline for listing on the NSE Growth Enterprise Market Segment (GEMS);</li> </ul>   |
| 4 | Repealing of 33B of the Banking Amendment Act 2016 on capped lending at 4%               | <ul style="list-style-type: none"> <li>This is expected to reverse the negative impact of the interest rate capping which was introduced in 2016, especially on listed commercial banks;</li> </ul>   |
| 5 | Establishment of the Kenya Mortgage Refinancing Company (KMRC)                           | <ul style="list-style-type: none"> <li>It is expected that the KMRC will leverage on capital markets to raise funds through bonds for on-lending to banks and other mortgage financing companies and is therefore also a positive development for capital markets deepening;</li> </ul> |
| 6 | Establishment of the Kenya Development Bank  | <ul style="list-style-type: none"> <li>It is anticipated that the new bank will leverage the capital markets to meet the financing requirements of the sectors previously served by the three entities, a positive impact;</li> </ul>   |

## CHIEF EXECUTIVE'S STATEMENT (Cont'd)

Table 2: Capital Markets Related Policy Pronouncements – Budget Statement 2017

|   | Policy Pronouncement  | Potentially Adverse Implications  |
|---|---|---|
| 1 | Expansion of the scope of definition of dividends to include other distributed assets   | <ul style="list-style-type: none"> <li>With the expanded definition of the term "dividend", all transactions between a company and its shareholders (including where the shareholder derives an indirect benefit) should be scrutinized carefully as they are likely to be caught by the expanded definition;</li> </ul>  |
| 2 | Proposal to increase the excise duty fees charged on money transfer services by cellular phone service providers from 10% to 12%  | <ul style="list-style-type: none"> <li>This will increase the mobile money transfer charges; and is hence likely to adversely impact capital markets FinTech innovations that are pegged on the mobile money transfer platforms such as M-Akiba transactions;</li> </ul>  |
| 3 | The Robin Hood Tax of 0.05% proposed to be introduced on any amounts of five hundred thousand shillings (Kshs 500,000) or more transferred through banks and other financial institutions                       | <ul style="list-style-type: none"> <li>This may result in asset shrinkage, shrinkage in private savings and a far less liquid capital market as it incentivizes investors to minimize trading activity. This will also put a number of fund managers businesses at risk given the erosion in returns.</li> </ul>  |
| 4 | Amendments to the Kenya Revenue Authority Act and the Public Finance Management Regulations to allow Kenya Revenue Authority collect the surplus from regulatory authorities and remit to the Consolidated Fund | <ul style="list-style-type: none"> <li>With reduced activity in the market, this may impact on the revenue for the Authority which is highly dependent on trading activity at the NSE.</li> <li>This is expected to negatively impact the Authority in the following ways;               <ol style="list-style-type: none"> <li>Monies that could have been utilized for market development may form part of the remittance slowing down market transformation;</li> <li>Industry wide innovation initiatives requiring regulatory support may have to be postponed due to unavailability of surplus funds for re-allocation;</li> <li>Long term organizational planning may be frustrated in the absence of surplus funds being available to cushion against revenue volatility;</li> <li>Institutional capacity to attract and retain talent may be undermined in the event of the constraints on incentive and benefit schemes backed by surplus funds.</li> </ol> </li> </ul> |

### b. Capital Markets (Amendment) Bill, 2018

The Capital Markets (Amendment) Bill, 2018 that was published on 19th June 2018 seeks to amend the Capital Markets Act to provide, inter alia, for penalties to persons involved in embezzlement activities, establishes clearer offences of front-running and obtaining gain by fraud and further ensures that administrative enforcement action process set out is sufficiently explicit

in its applicability to key employees of listed companies.

The Bill further provides for payment of reward to any person who provides new and timely information leading to the recovery of sums payable to the Investor Compensation Fund. It will also ensure that the Investor Compensation Fund (ICF) is managed more sustainably by abolishing the ICF Board and vesting the management of the fund in the Authority. It establishes clearer obligations on

issuers of securities, licensed and approved persons to maintain a system of internal controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with the International Financial Reporting Standards (IFRS).

### c. Other policy and Regulatory Frameworks

The Authority developed a number

of stand-alone policy and legal frameworks to support product development including:

- i. The Capital Markets (Online Foreign Exchange Trading) Regulations, 2017;
- ii. Policy Guidance Note on Asset Backed Securitization; and
- iii. Policy Guidance Note on Global Depository Receipts and Notes

Other policies and regulations under development that will be finalized in the next financial year include:

- i. Capital Markets (Amendments) Bill, 2018;
- ii. Policy Guidance Note on establishment of a Regulatory Sandbox to support FinTech; and
- iii. Policy Framework on Sponsored Direct Market Access

### Strategic Partnerships

During the period under review, the Authority further enhanced its strategic partnerships with a view to improve oversight and the development of the capital markets:

- A Memorandum of Understanding (MoU) was signed between The London Stock Exchange Group (LSEG) and the CMA, the Nairobi Securities Exchange (NSE), as well as the Central Depository and Settlement Corporation (CDSC), aimed at developing a bridge between Kenyan and London Markets to allow the dual listing of securities in both the Kenyan and London market;
- A Business Editors' forum was jointly held with the Association of Chartered Certified Accountants (ACCA) and the Media Council of Kenya (MCK) aimed at enhancing the skills of media professionals through deepening of their knowledge base to support accurate reporting and demystification of capital markets activity;
- A forum for market intermediaries and listed firms on the Implementation of IFRS 9 was held in collaboration with Institute of Certified Public Accountants Kenya (ICPAK), targeting to sensitize Chief Financial Officers of licensed and listed entities to ensure smooth implementation of the standard and proper understanding of implementation guidelines;
- A Regional Securities Regulators Conference was organized by CMA Kenya to provide a forum to exchange best practices in the enforcement and oversight of capital markets. The forum was facilitated by senior experts from the U.S. Securities and Exchange Commission and the Authority;
- The Authority in conjunction with the IOSCO African and Middle East Regional Committee (AMERC) hosted a Technical Assistance Programme for regional regulators on the development of Onsite Inspection Manuals. The Onsite Inspection Manual developed with the assistance of IOSCO- AMERC was subsequently finalized and approved by the Board of the Authority for implementation; and
- A meeting with institutional investors (asset managers and asset owners) and other stakeholders was held to raise awareness on their responsibilities on the implementation of the Stewardship Code in supporting the effective implementation of the Corporate Governance Code.

## Financial Highlights

| RESULTS   | As at 30th June 2018<br>Shs '000 | As at 30th June 2017<br>Shs '000 |
|---|----------------------------------|----------------------------------|
| The results for the year are summarised below:- |                                  |                                  |
| Total income for the year                       | 967,469                          | 983,540                          |
| Total operating expenditure for the year        | (889,282)                        | (970,011)                        |
| Surplus for the year before transfer            | 78,187                           | 13,529                           |
| Transfer to National Treasury                   | (21,127)                         | -                                |
| <b>Surplus for the year</b>                     | <b>57,060</b>                    | <b>13,529</b>                    |

## CHIEF EXECUTIVE'S STATEMENT (Cont'd)

### Future Prospects

The Authority has in 2017/18 made tremendous progress in both regulation and development of capital markets in Kenya as attested by our recognition by Africa Investor and International Finance Magazine as the Most Innovative Capital Markets Regulator in Africa.

Through its new Strategic Plan 2018-2023, the Authority seeks to reaffirm its position as a benchmark for other regulatory institutions in its pursuit of regulatory excellence, investor protection, innovation and overall efficiency in its operations. With the rapidly rising growth and impact of disruptive technology within the global

financial markets space, the Strategic Plan aims to leverage global best practices in aligning the Authority's internal infrastructure to support market efficiency, while concurrently facilitating the deployment of Financial Technology (FinTech) by the industry. The Plan envisions significant further investments by the Authority in its technology infrastructure and market supervision techniques to complement and facilitate the significant innovation already taking root within the capital markets.

I take this opportunity to sincerely thank the Board for their counsel and unwavering support throughout the year. I wish to also to appreciate all our stakeholders who have supported us

in the implementation of our strategic objectives and delivering remarkable performance.

My special appreciation to the Management and Staff of the Authority for their commitment and drive to effectively execute our twin mandate of regulation and development of a fair and efficient capital market and look forward to pressing on in line with our new Vision of being "an innovative regulator of a robust and globally competitive capital market.



**Mr. Paul Muthaura, MBS**  
Chief Executive



*International Organization of Securities Commissions (IOSCO) Consultant Greg Tanzer discusses different models of inspection manuals and inspections approaches. Capital Market Authority, Kenya hosted a technical assistance program for securities markets regulators from Africa on the development of an onsite-inspections manual.*

## MANAGEMENT DISCUSSION AND ANALYSIS

### SECTION A

#### Operational and Financial performance

The Authority promotes and facilitates the development of an orderly, fair, and efficient Capital Market in Kenya. This mandate has continued to be delivered in the year. Revenue earned was 2% lower than last financial year driven mainly by the market activity. The results in the year are a recurrent surplus of 78 million, a significant increase from the previous year.

The Authority is in a strong cashflow position capable of meeting obligations as they fall due. The performance at hand has a bearing on the future market activities. It is of importance to note that any changes affecting investors in the economic, social and political environment, has a significant impact on the capital markets industry.

### SECTION B

#### Compliance with statutory requirements

The Authority is in compliance with all statutory obligations including but not limited to: remittances of PAYE, NHIF, NSSF, VAT, HELB and Withholding tax within the stipulated deadlines.

The Authority being the Capital Markets regulator in Kenya, is subject to legal proceedings in the normal course of business. While it is not possible to forecast or determine the final results of all pending legal proceedings, the Authority assesses the adequacy of its provisions periodically against case developments and related legal costs, based on advice from the legal advisers handling specific matters.

### SECTION C

#### Key projects and investment decisions being implemented

The following is the major project being implemented at CMA.

| Project                         | Brief description   | Viability  | Funding      | Sustainability                  |
|---------------------------------|---|--|--------------|---------------------------------|
| Change Management (Uwezo Kipeo) | Cultivating a culture of excellence driven by outcomes, staff empowerment and a globally benchmarked code of conduct and ethics. This involves complete review of how we manage and motivate staff, the single most important resource in achieving the mandate of Authority. | More skills, systems, agility, and raising the capability of CMA to regulate the capital markets, and being ready to take on new challenges in making Kenya a great place to invest. | Donor Funded | The project is fully successful |

### SECTION D

#### Major risks identified in the ERM

The Authority updated its Enterprise Risk Management Framework in 2017, on the basis of which Risk Management has been mainstreamed within the Authority to allow for structured risk assessments on a continuous basis.

The Board is responsible for the Authority's risk management and at least once every quarter receives reports to enable the review, monitoring and evaluation of the implementation and effectiveness of the ERM framework. The Authority in the course of its mandate identified key corporate risks, the associated risk levels, and their mitigation strategies as defined below:



## MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

### 1. Financial distress of listed companies due to poor governance practices, weak internal controls and failed strategies

The Authority will mitigate the risk by:

- a) Ensuring implementation of the Principles for Financial Markets Infrastructure and effective business plan by the market players.
- (b) Taking enforcement action against violations
- (c) Strengthening supervision of Listed Companies.
- (d) Verification of data/ information from external sources such as audit and media reports.
- (e) Enforcing implementation of the Code of Corporate Governance Practices.

### 2. Litigation against CMA enforcement processes and unfavourable court decisions

The Authority is mitigating this risk by:

- (a) Lodging appeals where adverse judgements were delivered
- (b) Building capacity of internal counsel to enable proper representation.

### 3. Spot Commodities Exchange: Conflicting and competing interests on the part of National Government Ministries, and Regulators, County Governments and Private Sector Players

The Authority is positively engaging all the interested parties to create awareness on CMA mandate and the benefits to the economy of having a Spot Commodities Exchange.

### 4. Sub-optimal level of uptake of new and/or existing capital markets products and services

The Authority shall collaborate with relevant stakeholders on investor education and awareness programmes on new products and services to support and successful implementation and maintain an updated database on necessary reforms and continuously review the market to provide guidance to the relevant stakeholders.

### 5. Sub-optimal staff capacity

The Authority shall effectively train the staff and align the departmental activities to the corporate activities and projects, while optimizing vacancy ratios and supporting effective learning and development programs.

### 6. Low and stagnated revenue growth

The Authority is addressing this risk associated with the current market state by scaling down budgeted activities. In addition to fast tracking sensitization on uptake of new products, example, REITS and the launch of new market driven products, example, Derivatives.

### 7. Cyber security threats

The Authority is continuously mitigating the risks to its ICT Infrastructure, Information Systems and data by:

- (a) Conducting scheduled preventive maintenance exercise for ICT infrastructure and network components
- (b) Conducting fail over tests for ICT systems to the hot Disaster Recovery sites
- (c) Implementing appropriate security measures and controls on the enterprise fire wall and network components.
- (d) Restricting access to the Primary data center to authorized personnel and maintaining a server access log
- (e) Monitoring and managing the backup process to ensure all critical data is included in the scheduled backups.
- (f) Conducting cyber security awareness workshops for staff on current threats.



## MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

### SECTION E

#### **Material arrears in statutory/financial obligations**

The Authority has no statutory arrears and has been prompt to remit all pension deductions to an independent administrator appointed competitively by the Trustees. There is an existing engagement with KRA for the latter to grant waiver of penalties and interest in line with prior confirmations being pursued in conjunction with the Authority's tax consultants.

### SECTION F

#### **Financial probity and serious governance issues**

There are no issues of financial improbity reported by any board committee or by external auditors. There are no governance issues and no undisclosed conflicts of interest at the Board or top management of the Authority.

## REPUBLIC OF KENYA

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P.O. Box 30084-00100  
 NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

**REPORT OF THE AUDITOR-GENERAL ON CAPITAL MARKETS AUTHORITY FOR  
 THE YEAR ENDED 30 JUNE 2018**
**REPORT ON THE FINANCIAL STATEMENTS**
**Opinion**

The accompanying financial statements of Capital Markets Authority set out on page 29 to 56, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Mbaya & Associates, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Capital Markets Authority as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS Accrual Basis) and comply with the Capital Markets Authority Act, Cap.485A of the Laws of Kenya

**Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit (ISSIAs). I am independent of the Capital Markets Authority in accordance with the ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with ISSAI and accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context. I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of

*Report of the Auditor-General on the Financial Statements of Capital Markets Authority for the year ended 30 June 2018*



procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

|    | <b>Key Audit Matters</b>   | <b>How the Audit Addresses the Key Audit Matter</b>  |
|----|--|--|
| 1. | <p><b>Revenue</b><br/>Revenue constitutes capitalization, rights, new issue and market development fees. We consider this as a key audit matter due to its materiality &amp; its status as the core source income stream of the organization.<br/>The risk for interest income from Investor Compensation Fund (ICF) being recognized as revenue for the authority presents a key audit matter due to its financial significance it has in the financial statements.</p> | <p>We addressed revenue as a key audit matter by performing the following audit procedures applicable to this area;</p> <ul style="list-style-type: none"> <li>- We evaluated internal control activities and supporting documentation on revenue recognition, consequently we performed walkthrough procedures on key controls and Confirmed they were adequate &amp; sufficient.</li> <li>-We inspected significant investment securities and investment statement to verify ownership.</li> <li>-We tested revenue recognition by comparing individual income items to the related investment security &amp; verified their accuracy &amp; completeness.</li> </ul> |
| 2. | <p><b>Investors Compensation Fund</b><br/>The authority holds financial assets worth <b>2.3 billion</b>. This represents a 20% increase from the previous financial year investments which include tradable securities as well as share Investments.<br/>We considered this as part of the key audit matter given their significance in the financial statements. Failure to disclose them properly would lead to a huge misstatement in the financial statements.</p>   | <p>Our audit procedures in respect to this area include;</p> <ul style="list-style-type: none"> <li>-Obtaining valuation reports of the quoted securities &amp; verified them against the market rates as of 30th June 2018.</li> <li>-We reviewed the annual securities statement &amp; verified them against the books of accounts to test for their accuracy, completeness, existence &amp; cut-off.</li> </ul>   |
| 3. | <p><b>Legal Matters</b><br/>The authority being a regulator is charged with supervision and monitoring institutions in capital markets. In so doing, they are at odds of being sued by parties who are aggrieved by some of the regulators decisions.</p>  | <p>We addressed legal matters as a key audit matter by performing the following audit procedures applicable to this area;;</p> <ul style="list-style-type: none"> <li>- We evaluated the board meetings minutes approving the provisions to be made to mitigate incase the cases are decided against the authority.</li> </ul>   |



|    |  |  |
|----|--|--|
|    | <p>We consider legal matters as part of our key audit matters due to the high amounts of provisions made for legal proceedings where the authority has been sued by or sued against.</p>   | <p>-We verified the advice received by the authorities attorneys on the status of current legal and regulatory matters including any potential for settlement. -<br/>-We reviewed the managements estimates of the level of provisions required and their adequacy of those provisions based on the available information and evidence.</p>  |
| 4. | <p><b>Budget analysis</b><br/>Budget is a financial estimation tool of income and expenditure for a set period of time. The authority operates a budget prepared by the board in conjunction with the relevant department.<br/>We consider budget analysis as part of our key audit matter because of the risks associated with the variances that occur due to over expenditure or underutilization of the allocations. Consequently, variances indicate inadequate measure were put in place while coming up with the projection.</p>  | <p>We addressed budget analysis as a key audit matters by performing the following audit procedures:<br/>-We reviewed the Authority's board meetings minutes on the budgetary allocations for the year under review.<br/>-We reviewed the budget for the year against the actual expenditure to determine the variances thereon.</p>   |
| 5. | <p><b>Corporate governance</b><br/>Good corporate governance has become a vital element in running both public &amp; private entities. The authority has 11 members 7 of whom are independent. Board members are drawn from various professional backgrounds such as finance, economics, banking, human resources &amp; law. This board is charged with accountability to the Government via the National Treasury in ensuring that there is accountability and compliance to the law and especially as per the Mwongozo code. We consider this a key audit matter given the mandate the authority has in ensuring there's compliance on how the licensed institutions are managed. Also there's increased demand in compliance with Mwongozo code to ensure accountability by the board</p> | <p>Our audit procedures in respect to corporate Governance include the following;<br/>- We obtained the CMA Act within which we determined the basis of their appointment. Worthy noting, there was two new appointments to the board for the year under review in which both were verified.<br/>- We discussed applicable policies &amp; procedures with the various departmental heads. Consequently, we reviewed the board minutes &amp; internal audit reports for potential noncompliance.<br/>-We reviewed the Authority's correspondences with respect to relevant legal matters. We discussed the position of these matters with the authorities legal team.</p> |

## **Report on Compliance with Lawfulness and Effectiveness**

As required by article 229(6) of the Constitution, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

## **Report on Effectiveness of Internal Controls**

As required by Section 7(1)(a) of the Public Audit Act, 2015, I confirm that, nothing has come to my attention to cause me to believe that internal controls were not operating in an effective way.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the corporation's financial reporting process.

## **Auditor-General's Responsibilities for the Audit of the Financial Statements**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



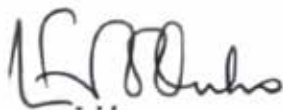
As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements and internal control of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**18 October 2018**

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*Report of the Auditor-General on the Financial Statements of Capital Markets Authority for the year ended 30 June 2018*

**NOTE:**

*This is a copy of the Audit Report by the Auditor General on the financial statements for the year ended 30th June 2018. Whereas the financial statements published in this annual report are the same as in the signed accounts, the pagination is slightly different from that referenced in the auditor's report because of the additional business-related material included in the annual report. The financial statements as presented in this report are in pages 42 to 71.*

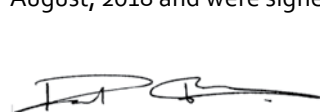
## STATEMENT OF FINANCIAL PERFORMANCE

|   | Note      | 2018<br>Shs'000  | 2017<br>Shs'000  |
|---|-----------|------------------|------------------|
| <b>Revenue from non-exchange transactions</b>     |           |                  |                  |
| Capitalization, rights and new issue fees         | 6         | 825,828          | 759,059          |
| Donor fund income                                 | 7         | 34,303           | 109,246          |
|   |           | <b>860,131</b>   | <b>868,304</b>   |
| <b>Revenue from exchange transactions</b>         |           |                  |                  |
| Other income                                      | 8         | 107,355          | 115,457          |
| <b>Total revenue</b>                              |           | <b>967,486</b>   | <b>983,761</b>   |
| <b>Expenses</b>                                   |           |                  |                  |
| Operating expenditure                             | 31        | (889,282)        | (970,011)        |
| <b>Total expenses</b>                             |           | <b>(889,282)</b> | <b>(970,011)</b> |
| <b>Other gains/ (losses)</b>                      |           |                  |                  |
| (Loss)/Gain on disposal of property and equipment | 9         | (17)             | (221)            |
| <b>Surplus before tax</b>                         | <b>10</b> | <b>78,187</b>    | <b>13,529</b>    |
| Surplus to National Treasury                      | 30        | (21,127)         | -                |
| <b>Surplus for the year</b>                       |           | <b>57,060</b>    | <b>13,529</b>    |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (INCLUDING INVESTOR COMPENSATION FUND)

|  | Note  | 2018<br>Shs'000  | 2017<br>Shs'000  |
|--|-------|------------------|------------------|
| <b>ASSETS</b>  |       |                  |                  |
| <b>Current assets</b>                                      |       |                  |                  |
| Inventories  | 12    | 1,638            | 1,102            |
| Trade and other receivables from non exchange transactions | 13(a) | 52,515           | 47,639           |
| Trade and other receivables from exchange transactions     | 13(b) | 12,707           | 22,134           |
| Staff loans and advances/guarantee fund                    | 14    | 48,548           | 47,095           |
| Held-to-maturity investments                               | 15    | 836,536          | 626,967          |
| Cash at bank and in hand                                   | 16    | 42,875           | 64,350           |
| Investors' Compensation Fund                               | 17    | 998,149          | 689,791          |
|  |       | <b>1,992,968</b> | <b>1,499,078</b> |
| <b>Non-current assets</b>                                  |       |                  |                  |
| Property and equipment                                     | 18    | 38,312           | 56,314           |
| Intangible assets  | 19    | 4,943            | 6,019            |
| Staff loans and advances/guarantee fund                    | 14    | 329,858          | 324,292          |
| Held-to-maturity investments                               | 15    | 190,476          | 260,999          |
| Investors' Compensation Fund's investments                 | 17    | 1,272,668        | 1,193,520        |
|  |       | <b>1,836,257</b> | <b>1,841,144</b> |
| <b>Total Assets</b>  |       | <b>3,829,225</b> | <b>3,340,222</b> |
| <b>Liabilities</b>   |       |                  |                  |
| <b>Current liabilities</b>                                 |       |                  |                  |
| Trade and other payables                                   | 20    | 198,706          | 168,639          |
| Provision for liabilities and charges                      | 21    | 79,084           | 85,842           |
| Current tax payable  | 22    | -                | -                |
| Deferred income  | 23    | -                | -                |
| Investors' Compensation Fund                               | 17    | 998,149          | 689,790          |
| Surplus payable to National Treasury                       | 30    | 21,127           | -                |
|  |       | <b>1,297,066</b> | <b>944,271</b>   |
| <b>Non-current liabilities</b>                             |       |                  |                  |
| Investors' Compensation Fund liabilities                   | 17    | 1,272,668        | 1,193,520        |
| <b>Total liabilities</b>                                   |       | <b>2,569,734</b> | <b>2,137,791</b> |
| <b>Net assets</b>  |       | <b>1,259,491</b> | <b>1,202,431</b> |
| <b>Funds</b>   |       |                  |                  |
| Capital fund   | 24    | 27,886           | 27,886           |
| General fund   | 25    | 695,642          | 698,582          |
| Building fund  | 26    | 535,963          | 475,963          |
| <b>Total Funds</b>   |       | <b>1,259,491</b> | <b>1,202,431</b> |
| <b>Total Funds and Liabilities</b>                         |       | <b>3,829,225</b> | <b>3,340,222</b> |

The financial statements set out on pages 42 to 71 were approved for issue by the Board Members of the Authority on 23 August, 2018 and were signed on its behalf by:



Chief Executive  
23 August, 2018



ICPAK No. 1849  
Director, Corporate Services  
23 August, 2018



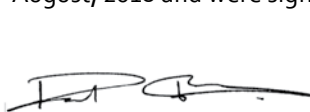
Chairman of the Board  
23 August, 2018

## CMA STATEMENT OF FINANCIAL POSITION

### AS AT 30TH JUNE 2018

|  | Note  | 2018<br>Shs'000  | 2017<br>Shs'000  |
|--|-------|------------------|------------------|
| <b>ASSETS</b>  |       |                  |                  |
| <b>Current assets</b>                                      |       |                  |                  |
| Inventories  | 12    | 1,638            | 1,102            |
| Trade and other receivables from non exchange transactions | 13(a) | 52,515           | 47,639           |
| Trade and other receivables from exchange transactions     | 13(b) | 12,707           | 22,134           |
| Staff loans and advances/guarantee fund                    | 14    | 48,548           | 47,095           |
| Held-to-maturity investments                               | 15    | 836,536          | 626,967          |
| Cash at bank and in hand                                   | 16    | 42,875           | 64,350           |
|  |       | <b>994,819</b>   | <b>809,287</b>   |
| <b>Non-current assets</b>                                  |       |                  |                  |
| Property and equipment                                     | 18    | 38,312           | 56,314           |
| Intangible assets  | 19    | 4,943            | 6,019            |
| Staff loans and advances/guarantee fund                    | 14    | 329,858          | 324,292          |
| Held-to-maturity investments                               | 15    | 190,476          | 260,999          |
|  |       | <b>563,589</b>   | <b>647,624</b>   |
| <b>Total Assets</b>  |       | <b>1,558,408</b> | <b>1,456,911</b> |
| <b>Liabilities</b>   |       |                  |                  |
| <b>Current liabilities</b>                                 |       |                  |                  |
| Trade and other payables                                   | 20    | 198,706          | 168,639          |
| Provision for liabilities and charges                      | 21    | 79,084           | 85,842           |
| Current tax payable  | 22    | -                | -                |
| Deferred income  | 23    | -                | -                |
| Surplus payable to National Treasury                       | 30    | 21,127           | -                |
|  |       | <b>298,917</b>   | <b>254,481</b>   |
| <b>Non-current liabilities</b>                             |       |                  |                  |
| <b>Total liabilities</b>                                   |       | <b>298,917</b>   | <b>254,481</b>   |
| <b>Net assets</b>  |       | <b>1,259,491</b> | <b>1,202,431</b> |
| <b>Funds</b>   |       |                  |                  |
| Capital fund   | 24    | 27,886           | 27,886           |
| General fund   | 25    | 695,642          | 698,582          |
| Building fund  | 26    | 535,963          | 475,963          |
| <b>Total Funds</b>   |       | <b>1,259,491</b> | <b>1,202,431</b> |
| <b>Total Funds and Liabilities</b>                         |       | <b>1,558,408</b> | <b>1,456,911</b> |

The financial statements set out on pages 42 to 71 were approved for issue by the Board Members of the Authority on 23 August, 2018 and were signed on its behalf by:



Chief Executive  
23 August, 2018



ICPAK No. 1849  
Director, Corporate Services  
23 August, 2018



Chairman of the Board  
23 August, 2018

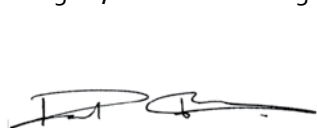


## INVESTOR COMPENSATION FUND (ICF) STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2018

|   | Note | 2018<br>Shs'000  | 2017<br>Shs'000  |
|---|------|------------------|------------------|
| <b>ASSETS</b>   |      |                  |                  |
| <b>Current assets</b>                                       |      |                  |                  |
| Fees receivable   | 17   | 47,242           | 33,707           |
| Cash and cash equivalents                                   | 17   | 24,953           | 95,632           |
| Investor Compensation Fund investments Held-to-maturity     | 17   | 925,953          | 560,452          |
|   |      | <b>998,149</b>   | <b>689,791</b>   |
| <b>Non-current assets</b>                                   |      |                  |                  |
| Investments in Listed Companies                             | 17   | 167,125          | 116,594          |
| Investors' Compensation Fund's investments Held to maturity | 17   | 1,105,543        | 1,076,926        |
|   |      | <b>1,272,668</b> | <b>1,193,520</b> |
| <b>Total Assets</b>   |      | <b>2,270,817</b> | <b>1,883,311</b> |
| <b>Liabilities</b>  |      |                  |                  |
| <b>Current liabilities</b>                                  |      |                  |                  |
| Investors' Compensation Fund                                | 17   | 998,149          | 689,791          |
|   |      | <b>998,149</b>   | <b>689,791</b>   |
| <b>Non-current liabilities</b>                              |      |                  |                  |
| Investors' Compensation Fund liabilities                    | 17   | 1,272,668        | 1,193,520        |
| <b>Total Funds</b>  |      | <b>2,270,817</b> | <b>1,883,311</b> |

The Authority is required to maintain a fund to be known as the Investors' Compensation Fund for the purpose of granting compensation to investors who may suffer pecuniary loss resulting from the failure of a licensed broker or dealer to meet its contractual obligations. The Fund value was Shs 2.2 billion (2017: Sh 1.9 billion).

The financial statements set out on pages 42 to 71 were approved for issue by the Board Members of the Authority on 23 August, 2018 and were signed on its behalf by:



Chief Executive  
23 August, 2018



ICPAK No. 1849  
Director, Corporate Services  
23 August, 2018



Chairman of the Board  
23 August, 2018

## STATEMENT OF CHANGES IN NET ASSETS

|                           | Capital<br>fund<br>Shs'000 | General<br>fund<br>Shs'000 | Building<br>fund<br>Shs'000 | Total<br>Shs'000 |
|---------------------------|----------------------------|----------------------------|-----------------------------|------------------|
| <b>At 1st July 2016</b>   | <b>27,886</b>              | <b>931,016</b>             | <b>230,000</b>              | <b>1,188,902</b> |
| Surplus for the year      | -                          | 13,529                     | -                           | 13,529           |
| Transfer to building fund | -                          | (245,963)                  | 245,963                     | -                |
| <b>At 30th June 2017</b>  | <b>27,886</b>              | <b>698,582</b>             | <b>475,963</b>              | <b>1,202,431</b> |
| <b>At 1st July 2017</b>   | <b>27,886</b>              | <b>698,582</b>             | <b>475,963</b>              | <b>1,202,431</b> |
| Surplus for the year      | -                          | 57,060                     | -                           | 57,060           |
| Transfer to building fund | -                          | (60,000)                   | 60,000                      | -                |
| <b>At 30th June 2018</b>  | <b>27,886</b>              | <b>695,642</b>             | <b>535,963</b>              | <b>1,259,491</b> |

## STATEMENT OF CASH FLOWS

|   | Note | 2018<br>Shs'000  | 2017<br>Shs'000  |
|---|------|------------------|------------------|
| <b>Cash flows from operating activities</b>                             |      |                  |                  |
| Surplus for the year  |      | 78,187           | 13,529           |
| <b>Adjustments for:</b>   |      |                  |                  |
| Tax expense   | 11   | -                | -                |
| Depreciation of property and equipment                                  | 18   | 23,594           | 51,791           |
| Amortisation of intangible assets                                       | 19   | 3,359            | 3,785            |
| Deferred donor funded income  |      | 0                | (7,200)          |
| Gain on disposal of property and equipment                              | 9    | 17               | 221              |
| Interest income   | 8    | (103,972)        | (100,569)        |
| <b>Operating profit before working capital changes</b>                  |      | <b>1,185</b>     | <b>(38,442)</b>  |
| Decrease/(increase) in:   |      |                  |                  |
| Inventories   |      | (536)            | 489              |
| Trade and other receivables   |      | 4,551            | 7,161            |
| Staff loans and advances  |      | (7,019)          | (87,453)         |
| Increase/(decrease) in:   |      |                  |                  |
| Trade and other payables  |      | 30,067           | 29,393           |
| Provision for liabilities and charges                                   |      | (6,758)          | (10,064)         |
| Investors' Compensation Fund  |      | 387,505          | 378,306          |
| Staff benevolent fund   |      | -                | -                |
| <b>Cash generated from operations</b>                                   |      | <b>408,995</b>   | <b>279,391</b>   |
| Interest received   | 8    | 103,972          | 100,569          |
| Income tax paid   |      |                  |                  |
| <b>Net cash generated from operating activities</b>                     |      | <b>512,967</b>   | <b>379,959</b>   |
| <b>Cash flows from investing activities</b>                             |      |                  |                  |
| Purchase of property and equipment                                      | 18   | (5,628)          | (26,046)         |
| Purchase of intangible assets   | 19   | (2,283)          | (5,102)          |
| Proceeds from disposal of property and equipment                        |      | 20               | 376              |
| Purchase of treasury bonds from the Investors' Compensation Fund        |      | (138,874)        | (194,311)        |
| (Purchase)/sale of treasury bills from the Investors' Compensation Fund |      | (319,310)        | (157,818)        |
| (Purchase)/sale of treasury bonds                                       |      | 82,942           | 24,716           |
| (Purchase)/sale of treasury bills                                       |      | (221,988)        | (200,631)        |
| <b>Net cash used in investing activities</b>                            |      | <b>(605,121)</b> | <b>(558,816)</b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b>             |      | <b>(92,154)</b>  | <b>(178,857)</b> |
| <b>Cash and cash equivalents at start of the year</b>                   |      | <b>159,982</b>   | <b>338,839</b>   |
| <b>Cash and cash equivalents at end of the year</b>                     | 16   | <b>67,828</b>    | <b>159,982</b>   |

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

|   | Approved<br>budget<br>2017-2018<br>Shs'000 | Adjustments<br>(Reallocations)<br>2017-2018<br>Shs'000 | Final<br>budget<br>2017-2018<br>Shs'000 | Actual on<br>comparable<br>basis<br>2017-2018<br>Shs'000 | Performance<br>difference<br>2017-2018<br>Shs'000 |
|---|--|--|---|--|---|
| <b>Revenue</b>                                    |  |  |   |  |   |
| Fee income from NSE                               | 590,850                                    | -  | 590,850                                 | 490,176  | (100,674) (a)                                     |
| Licenses and permits                              | 21,600                                     | -  | 21,600                                  | 17,439   | (4,161) (b)                                       |
| Market development Fees                           | 13,392                                     | -  | 13,392                                  | 12,697   | (695)   |
| Capitalisation and bond approvals                 | 428,500                                    | -  | 428,500                                 | 305,515  | (122,985) (c)                                     |
| <b>Fee based income</b>                           | <b>1,054,342</b>                           | -  | <b>1,054,342</b>                        | <b>825,828</b>   | <b>(228,514)</b>                                  |
| Donor Funding- gifts and services-in-kind         | 140,000                                    | -  | 140,000                                 | 34,303   | (105,697) (d)                                     |
| Finance income - external investments             | 56,000                                     | -  | 56,000                                  | 103,972  | 47,972 (e)  |
| Gains on disposal, rental income and agency fees  | -  | -  | -                                       | (18)   | (18)  |
| Other income                                      | 4,000                                      | -  | 4,000                                   | 3,384  | (617) (f)   |
| <b>Total income</b>                               | <b>1,254,342</b>                           | -  | <b>1,254,342</b>                        | <b>967,469</b>   | <b>(286,873)</b>                                  |
| <b>Expenses</b>                                   |  |  |   |  |   |
| Personnel cost                                    | 561,890                                    | -  | 561,890                                 | 468,404  | 93,486 (a)  |
| Rent and maintenance                              | 43,778                                     | -  | 43,778                                  | 37,155   | 6,623 (b)   |
| Equipment maintenance and stationery              | 45,612                                     | -  | 45,612                                  | 42,216   | 3,396   |
| Telephone, postage and utilities                  | 32,485                                     | -  | 32,485                                  | 15,654   | 16,831 (c)  |
| Entertainment and public relations                | 37,750                                     | (12,400)   | 25,350                                  | 17,231   | 8,119 (d)   |
| Medical scheme and insurance expenses             | 33,000                                     | -  | 33,000                                  | 32,997   | 3   |
| Training and conferences                          | 74,130                                     | (11,100)   | 63,030                                  | 62,849   | 181   |
| Motor vehicle running expenses                    | 7,600                                      | -  | 7,600                                   | 6,008  | 1,592 (e)   |
| Subscriptions and IOSCO membership                | 15,056                                     | -  | 15,056                                  | 9,854  | 5,202 (f)   |
| Authority board members' emoluments and allowance | 37,129                                     | -  | 37,129                                  | 32,298   | 4,831 (g)   |
| Professional & consultancy services               | 25,734                                     | 26,500   | 52,234                                  | 46,555   | 5,679 (h)   |
| Litigation/legal expenses                         | 26,400                                     | -  | 26,400                                  | 23,236   | 3,164 (i)   |
| Market Development & Islamic Finance              | 39,144                                     | (3,000)  | 36,144                                  | 13,581   | 22,563 (j)  |
| Capital Markets Masterplan                        | 10,000                                     | -  | 10,000                                  | 6,154  | 3,846 (k)   |
| Donor Funded Projects                             | 103,850                                    | -  | 103,850                                 | 20,456   | 83,394 (l)  |
| Depreciation of property, plant and equipment     | 104,310                                    | -  | 104,310                                 | 23,594   | 80,716 (m)  |
| Amortisation of intangible assets                 | -  | 0  | -                                       | 3,359  | (3,359)   |
| Auditor's remuneration                            | 1,726                                      | -  | 1,726                                   | 1,726  | 0   |
| Investors' education and awareness programme      | 35,300                                     | -  | 35,300                                  | 24,213   | 11,087 (n)  |
| Tribunal expenses                                 | 7,066                                      | -  | 7,066                                   | 1,302  | 5,764 (o)   |
| Provision for doubtful debts                      | -  | -  | 0                                       | 441  | (441) (p)   |
| <b>Total expenditure</b>                          | <b>1,241,960</b>                           | -  | <b>1,241,960</b>                        | <b>889,282</b>   | <b>352,678</b>                                    |
| <b>Surplus for the period</b>                     | <b>12,382</b>                              | -  | <b>12,382</b>                           | <b>78,187</b>  | <b>65,805</b>                                     |

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (Cont'd)

Notes on Significant variances (10% and above) between actual and budget.

### REVENUE

- a) **Fee income from NSE** was affected by lower than expected market trading volumes for equities in the year; trading volume declined from 171.61B in 2017 to 108.29 billion in 2018.
- b) **License fees** were not as budgeted due to fewer license applications than projected during the year.
- c) The performance of the **Capitalization and bond approvals** fees was lower than budget arising from low market activity mainly from institutions(borrowers).
- d) **Donor Funding- gifts and services-in-kind** was low, as income expected didn't come through due to delayed procurement process for the projects that were envisaged to be completed within the FY2017/18.
- e) **Finance income from external investments** was above the budget as the Authority continued investing excess cash while adhering to a policy for return optimisation.
- f) **Other income** line was above budget arising from partnering support for investor education activities.

### EXPENDITURE

- a) The Authority's staff complement was gradually filled in the year, and the **Personnel cost** was well within the approved budgeted amount.
- b) Reduction in **rent and maintenance costs** is mainly due to reduction in rent charges following renegotiation of rental rates.
- c) **Telephone, postage and utilities** - was below budget due to cost control strategies that the Authority continued to apply including leveraging on already existing broad band infrastructure and led technology among other initiatives under "Uwezo Kipeo" culture change project.
- d) **Advertising and public relations** - There has been a shift in strategy on advertising with focus on publicity through Social media which has wider impact and is more cost effective than airing of television documentaries."
- e) **Motor vehicle running expenses** were within the budget as cost control strategies (e.g. use of fuel cards, negotiated transport rates, pooling of taxi cabs) contributed to the low costs.
- f) **Subscriptions and IOSCO membership** - was affected by scaled down participation of technical staff because of travel restrictions.

- g) **Authority board members' emoluments and allowances** were well within budgeted but note that some member development programmes were delayed.
- h) **Professional & consultancy services** - spent below budget with carry over of some activities into next year.
- i) **Litigation/legal expenses** - was lower than budget with reversal of a number of prior year provisions after several respondents agreed to out of court settlement. This is in line with enhancement of alternative dispute resolution mechanisms.
- j) **Market Development & Islamic Finance expenses** were lower than budget due to support of programmes from direct donor funding thus saving on internal resources.
- k) **Capital Markets Masterplan** - Through a more proactive approach all the main activities in the implementation road map for the year were achieved at less cost and time.
- l) **Donor Funded Projects cost** - long drawn negotiations and lengthy procurement processes delayed kick off of certain planned donor funded projects and related acquisitions.
- m) **Depreciation of property, plant and equipment and amortization cost** was well within budget. Difference was due to assets not acquired, see (l) above, during the period as well as assets which were fully depreciated in the year
- n) **Investors' education and awareness programme expenses** were below budget as partnering (cost sharing) with other stakeholders was improvised for some of the activities undertaken.
- o) Although substantial number of meetings were held in Quarters 1 and 2, most **Tribunal** membership terms ended in Quarter 3 and it was not quorate thereafter.
- p) **Provision for doubtful debt** is due to additional specific provisions: Atlas development company (suspended from trading pending determination of delisting) - Ksh100,000, Chase Bank (unpaid fees for listed Bonds, pending advice from KDIC)-Ksh 241,000 and Regnum Consultants (provision made due to long outstanding license fees)-Ksh 100,000.



## NOTES TO THE FINANCIAL STATEMENTS

### 1. Statement of compliance and basis of preparation

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the authority and all values are rounded to the nearest thousand (Shs '000'). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

The Authority adopted IPSAS in the year 2014 following the gazette of the Public Sector Accounting Standards Board (PSASB) which was established by the Public Financial Management Act (PFM) No. 18 of 24th July 2012. PSASB issued financial reporting standards and guidelines to be adopted by all state organs and public sector entities, which the Authority complies with.

### 2. ADOPTION OF NEW AND REVISED STANDARDS

New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

| Standard                                    | Impact   |
|---|--|
| <b>IPSAS 39: Employee Benefits</b>          | <p><b>Applicable: 1st January 2018</b></p> <p>The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.</p> |
| <b>IPSAS 40: Public Sector Combinations</b> | <p><b>Applicable: 1st January 2019</b></p> <p>The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.</p>                             |

### 3. Summary of significant accounting policies

#### a) Revenue recognition

##### i) Revenue from non-exchange transactions

###### Fees

The Authority recognizes revenues from fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Authority and the fair value of the asset can be measured reliably.

###### Donor Income

Donor funds are received through Government supported programmes and other development Agencies. These funds are recognised at fair value when there is reasonable assurance that the Authority will comply with the conditions attaching to them and the funds will be received. Donor funds related to purchase of assets are treated as deferred

## NOTES (Cont'd)

income and allocated to statement of financial performance income over the useful lives of the related assets while grants related to expenses are treated as donor fund income in the income statement.

### ii) Revenue from exchange transactions

The Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

### Interest income

Interest income is accrued as it is earned over the life of the investments held.

### b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

### c) Taxes

#### Current income tax

The Authority is exempt from income tax vide PFMA Regulation No. 34 of 2015.

On 20th March 2015, The National Treasury issued PFMA Regulation No. 34 which under Section 219 exempts the Authority from paying taxes in the future. The Authority will however be required to submit 90% of its surplus to the National Treasury.

### d) Property and equipment

All property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation is calculated using the straight line method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

| Rate                       |       |
|----------------------------|-------|
| Motor vehicles             | 25%   |
| Furniture & fitting        | 12.5% |
| Office equipment           | 20%   |
| Computers, copiers & faxes | 25%   |

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining surplus for the year.

## NOTES (Cont'd)

### e) Leases

#### Operating leases

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

### f) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life of three years.

The useful life of the intangible assets is assessed as finite.

### g) Financial instruments

#### Financial assets

##### Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

##### Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Authority has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

##### Impairment of financial assets

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- i) The debtors or a group of debtors are experiencing significant financial difficulty.

## NOTES (Cont'd)

- ii) Default or delinquency in interest or principal payments.
- iii) The probability that debtors will enter bankruptcy or other financial reorganization.
- iv) Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

#### h) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

#### Contingent liabilities

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is not remote.

#### i) Employee benefits

##### Retirement benefit plans

The Authority provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

The Authority and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the Authority's contributions are charged to the statement of comprehensive income in the year to which they relate.

#### j) Gratuity obligations

The Authority pays service gratuity to staff on contract under their terms of employment. Employee entitlements to gratuity are recognized when they accrue to employees. A provision for gratuity payable is made in the statement of financial position. The gratuity is not subject to actuarial valuation.

#### k) Foreign currency transaction

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting

## NOTES (Cont'd)

date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

### l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

The Authority manages the Investor Compensation Fund (ICF) and reports the funds held in the bank, call accounts on behalf of ICF as part of cash and cash equivalents.

### m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### n) Related party

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. Members of key management are regarded as related parties.

### o) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

## 4. Significant judgments and sources of estimation uncertainty

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

### a) Significant judgements made in applying the Authority's accounting policies

The judgements made by the board members of the Authority in the process of applying the Authority's accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

Whether the Authority has the ability to hold 'held-to maturity' investments until they mature. If the Authority were to sell other than an insignificant amount of such investments before maturity, it would be required to classify the entire class as 'available-for-sale' and measure them at fair value.

### b) Key sources of estimation uncertainty

Key assumptions made about the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include:

#### i) Retirement benefit obligations

The pensions contributions into the Defined Contribution (DC) Scheme are expensed as incurred in the year .



## NOTES (Cont'd)

### ii) Impairment losses

Estimates made in determining the impairment losses on receivables. Such estimates include the determination of the net realisable value or the recoverable amount of the asset. The movement on the impairment provision is set out in Note 12.

## 5. Risk management objectives and policies

### a) Financial risk management

The Authority's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Authority's overall risk management policies are set out by the board and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the Authority's performance by setting acceptable levels of risk. The Authority does not hedge against any risks.

#### i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a Authority-wide basis. The Authority does not grade the credit quality of financial assets that are neither past due nor impaired.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institute.

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilisation of the credit limits and the credit period is monitored by management on a monthly basis.

|  | Fully performing<br>Shs'000 | Past due but not impaired<br>Shs'000 | Impaired<br>Shs'000 | Total<br>Shs'000 |
|--|-----------------------------|--------------------------------------|---------------------|------------------|
| <b>At 30th June 2018</b>               |                             |                                      |                     |                  |
| Held-to-maturity investments           | 1,027,012                   | -                                    | -                   | 1,027,012        |
| Staff loans and advances/ fund         | 378,406                     | -                                    | -                   | 378,406          |
| Trade receivables                      | 48,496                      | -                                    | -                   | 48,496           |
| Other receivables                      | 5,055                       | -                                    | -                   | 5,055            |
| Cash at bank, in hand and deposits     | 42,735                      | -                                    | -                   | 42,735           |
| <b>Maximum exposure to credit risk</b> | <b>1,501,704</b>            | <b>-</b>                             | <b>-</b>            | <b>1,501,704</b> |

|  | Fully performing<br>Shs'000 | Past due but not impaired<br>Shs'000 | Impaired<br>Shs'000 | Total<br>Shs'000 |
|--|-----------------------------|--------------------------------------|---------------------|------------------|
| <b>At 30th June 2017</b>               |                             |                                      |                     |                  |
| Held-to-maturity investments           | 887,966                     | -                                    | -                   | 887,966          |
| Staff loans and advances/ fund         | 367,208                     | -                                    | 4,179               | 371,387          |
| Trade receivables                      | 48,089                      | -                                    | -                   | 48,089           |
| Other receivables                      | 13,219                      | -                                    | -                   | 13,219           |
| Cash at bank, in hand and deposits     | 64,210                      | -                                    | -                   | 64,210           |
| <b>Maximum exposure to credit risk</b> | <b>1,380,691</b>            | <b>-</b>                             | <b>4,179</b>        | <b>1,384,870</b> |

## NOTES (Cont'd)

The ageing analysis of past due but not impaired trade receivables is

|               | 2018<br>Shs'000 | 2017<br>Shs'000 |
|---------------|-----------------|-----------------|
| Over 6 months | -               | 4,179           |
|               | <b>0</b>        | <b>4,179</b>    |

The past due debtors are nil. An impairment provision of Shs 4,546,000 (2017: Shs 4,104,000) is held against the impaired receivables. The Authority does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

### ii) Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the Authority's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The Authority manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

The table below summarises the maturity analysis for financial liabilities to their remaining contractual maturities. The amounts disclosed are the contractual undiscounted cash flows.

|                                       | Less than<br>one month<br>Shs'000 | Between<br>1-3 months<br>Shs'000 | Between<br>3-12 months<br>Shs'000 | Over<br>1 year<br>Shs'000 | Total<br>Shs'000 |
|---------------------------------------|-----------------------------------|----------------------------------|-----------------------------------|---------------------------|------------------|
| <b>Year ended 30th June 2018</b>      |                                   |                                  |                                   |                           |                  |
| Trade and other payables              | 10,131                            | 18                               | -                                 | -                         | 10,149           |
| Accruals                              | 35,786                            | -                                | 32,410                            | 3,164                     | 71,360           |
| Provision for liabilities and charges | 21,833                            | 42,414                           | -                                 | 28,060                    | 92,307           |
| Gratuity obligations                  | 24,890                            | -                                | -                                 | -                         | 24,890           |
|                                       | <b>92,641</b>                     | <b>42,432</b>                    | <b>32,410</b>                     | <b>31,224</b>             | <b>198,706</b>   |

|                                  | Less than<br>one month<br>Shs'000 | Between<br>1-3 months<br>Shs'000 | Between<br>3-12 months<br>Shs'000 | Over<br>1 year<br>Shs'000 | Total<br>Shs'000 |
|----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|---------------------------|------------------|
| <b>Year ended 30th June 2017</b> |                                   |                                  |                                   |                           |                  |
| Trade and other payables         | 41,443                            | -                                | 196                               | -                         | 41,639           |
| Accruals                         | 31,079                            | -                                | 3,144                             | 9,110                     | 43,333           |
| Provision                        | 42,338                            | -                                | 28,060                            | -                         | 70,398           |
| Gratuity obligations             | 13,269                            | -                                | -                                 | -                         | 13,269           |
|                                  | <b>128,129</b>                    | <b>-</b>                         | <b>31,400</b>                     | <b>9,110</b>              | <b>168,639</b>   |

### iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: interest rate risk, price risk and foreign exchange risk.

#### Interest rate risk

Interest rate risk is the risk that the interest rate movement may have a significant impact on Authority's value of investments.

## NOTES (Cont'd)

The Authority's investments in fixed rate bonds expose it to fair value interest rate risk. The Authority has no interest bearing liabilities. The Authority considers that a change in interest rates of 2 percentage points in the year ending 30th June 2018 is reasonably possible. If the interest rates on the Authority's held-to-maturity investments at the year-end were to decrease/increase by this number of percentage points, with all other factors remaining constant, the surplus would be lower/higher by Kshs13million (2017: Shs 13,000,000).

### Price risk

Marketable instruments held by the Authority include Treasury Bonds and Treasury Bills whose market prices are subject to change. The Authority review the portfolio, set exposure limits and respond to market price changes and conditions to secure both fair values and cash flow from such instruments.

### Foreign exchange risk

Foreign exchange risk would arise where transactions or bank balances are denominated in foreign currency. The Authority's transactions and bank balances are denominated in Kenya Shillings. Hence the exposure to foreign exchange risk does not exist.

## 6. Revenue from non - exchange transactions

|   | 2018<br>Shs'000 | 2017<br>Shs'000 |
|---|-----------------|-----------------|
| <b>Fees income</b>                        |                 |                 |
| Capitalization, rights and new issue fees | 305,515         | 340,699         |
| NSE - transaction fees                    | 490,176         | 385,547         |
| Application and licensing fees            | 17,439          | 19,789          |
| Market development fees                   | 12,697          | 13,023          |
|   | <b>825,828</b>  | <b>759,059</b>  |

The Authority charges fees on the following basis :

- Capitalization / rights issues at a rate of 0.25% of the value of the issue.
- Approval for listing of Government securities is charged at a rate of 0.075% of the amount raised.
- New issues / IPOs at a rate of 0.15% of the value of the issue.
- NSE Transaction fees at a rate of 0.12% of the value of the equities traded and 0.0015% of the value of bonds traded.
- Application for license at Kshs 2,500 while annual licensing fees are up to a maximum of Shs 250,000.
- Market development fees are charged to listed companies at a rate of 0.01% subject to a minimum of Shs 50,000 and a maximum of Shs 100,000 per annum.

## 7. Donor fund income

|                   | 2018<br>Shs'000 | 2017<br>Shs'000 |
|-------------------|-----------------|-----------------|
| Donor fund income | 34,303          | 109,246         |

The Authority received support worth Shs24.8 million (2017:Shs69.7 million) in the year to support institutional capacity for Medium Term resident advisory on Derivatives in Kenya, Consultancy for the Hybrid Bond Market, Assess the Funding Gaps at National and County Governments and Consultancy Services to Develop Specifications for an Information Repository, Advance Financial Analysis System, E-Learning System and Communications/IT Infrastructure for the Capital Markets Authority.

## NOTES (Cont'd)

## 8. Revenue from exchange transactions - other income

|                      | 2018<br>Shs'000 | 2017<br>Shs'000 |
|----------------------|-----------------|-----------------|
| Interest income      | 103,972         | 100,569         |
| Miscellaneous income | 3,384           | 14,888          |
|                      | <b>107,355</b>  | <b>115,457</b>  |

## 9. (Loss)/Gain on disposal of property and equipment

|   |      |       |
|---|------|-------|
| Gain or (loss) on disposal of obsolete and retired Property and Equipment | (17) | (221) |
|---|------|-------|

## 10. Surplus before tax

|  | Notes | 2018<br>Shs'000 | 2017<br>Shs'000 |
|--|-------|-----------------|-----------------|
| <b>a) Items charged</b>  |       |                 |                 |
| The following items have been charged in arriving at net surplus for the year    |       |                 |                 |
| Depreciation of property and equipment   | 17    | 23,594          | 51,791          |
| Amortisation of intangible assets  | 18    | 3,359           | 3,785           |
| Authority board members' emoluments, allowances and other Board related expenses | 27    | 32,298          | 36,968          |
| Post employment benefits expense   | 10(b) | 34,478          | 31,763          |
| Provision for impairment of financial assets                                     |       |                 |                 |
| Trade and other receivables  |       | -               | -               |
| <b>b) Employee benefits expense</b>  |       |                 |                 |
| The following items are included in employee benefits expense:                   |       |                 |                 |
| Retirement benefit costs   |       |                 |                 |
| Defined contribution scheme  |       | 34,136          | 31,451          |
| National Social Security Fund  |       | 342             | 312             |
|  |       | <b>34,478</b>   | <b>31,763</b>   |

The Authority operated an in-house defined benefits pension scheme for its employees and made contributions up to 31 December 2011. The investment of the scheme's assets is managed by an independent fund manager, Genesis Kenya Investment Management Limited, on behalf of the Trustees.

Though the scheme is subjected to triennial valuations by independent actuaries to fulfil the statutory requirements under the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Rules 2000, the scheme is in the process of purchasing annuities for the 3 pensioners, and the winding up cause will begin. Hence the valuation will not be necessary once it becomes due. All active members already transferred to DC scheme, and all the pensioners will have an annuity in force. The scheme has sufficient funding for the annuity arrangement, and for the winding up process.

## NOTES (Cont'd)

| 11. Tax expense                                 | 2018<br>Shs'000 | 2017<br>Shs'000 |
|---|-----------------|-----------------|
| Current income tax                              | -               | -               |
| Deferred income tax (Note 19)                   | -               | -               |
| Income tax expense                              | -               | -               |
| <b>Surplus before income tax</b>                |                 |                 |
| Tax calculated at the statutory tax rate of 30% | -               | -               |
| Tax effect of:                                  |                 |                 |
| Deferred tax asset not recognised               | -               | -               |
| Income not subject to tax                       | -               | -               |
| Expenses not deductible for tax purposes        | -               | -               |
| Income tax expense                              | -               | -               |

On 20th March 2015, The National Treasury issued PFMA Regulation No.34 which under section 219 exempts the Authority from paying taxes in the future. The regulation requires corporations exempted from income tax to remit 90% of surplus to National Treasury. No remission was done in the year.

| 12. Inventories | 2018<br>Shs'000 | 2017<br>Shs'000 |
|-----------------|-----------------|-----------------|
| Consumables     | 1,638           | 1,102           |

Inventories consist of stationery and computer consumables required for day to day use by the Authority.

| 13a. Trade and other receivables from non exchange transactions | 2018<br>Shs'000 | 2017<br>Shs'000 |
|---|-----------------|-----------------|
| Trade receivables   | 49,936          | 47,382          |
| Statutory management expenses receivable                        | -               | -               |
| Less: Provision for impairment losses                           | (4,546)         | (4,104)         |
| Net trade receivables   | 45,390          | 43,278          |
| Other receivables   | 7,124           | 4,361           |
| Trade and other receivables from non exchange transactions      | 52,514          | 47,639          |



## NOTES (Cont'd)

| 13b. Trade and other receivables from exchange transactions                   | 2018<br>Shs'ooo | 2017<br>Shs'ooo |
|---|-----------------|-----------------|
| Trade receivables   | 3,106           | 4,811           |
| Less: Provision for impairment losses   | -               | -               |
| Net trade receivables   | 3,106           | 4,811           |
| Prepayments   | 9,601           | 17,323          |
| Trade and other receivables from exchange transactions                        | 12,707          | 22,134          |
| Total trade and other receivables from non exchange and exchange transactions | 65,221          | 69,773          |

The movement on the provision for impairment losses for non exchange transactions is as follows:

|   |       |          |
|---|-------|----------|
| At 1st July                                   | 4,104 | 57,866   |
| Less: Provision utilised as debts written off | -     | (53,762) |
| Less: Provision reversed on debt collection   | -     | -        |
| At 30th June                                  | 4,104 | 4,104    |

The movement on the provision for impairment losses for exchange transactions is as follows:

|                           |       |     |
|---------------------------|-------|-----|
| At 1st July               | -     | 208 |
| Add: Additional provision | (441) | -   |
| At 30th June              | (441) | -   |

## 14. Staff loans and advances

|                                 | Current<br>2018 | Current<br>2017 | Non- current<br>2018 | Non- current<br>2017 | Total<br>2018  | Total<br>2017  |
|---------------------------------|-----------------|-----------------|----------------------|----------------------|----------------|----------------|
| Car loans                       | 11,828          | 10,177          | 20,209               | 23,455               | 32,036         | 33,632         |
| Other loans and advances        | 4,481           | 4,921           | -                    | -                    | 4,481          | 4,921          |
| Provision for impairment losses |                 |                 |                      | (1,922)              | -              | (1,922)        |
| Miscellaneous advances          |                 |                 | (0)                  | 4,179                | (0)            | 4,179          |
| Staff mortgage back up funds*   | 32,240          | 31,996          | 309,649              | 298,580              | 341,888        | 330,577        |
|                                 | <b>48,548</b>   | <b>47,094</b>   | <b>329,858</b>       | <b>324,292</b>       | <b>378,406</b> | <b>371,386</b> |

\* These funds are deposited with the bank to support concessionary interest rate facilities to staff.

|  |                |
|--|----------------|
| Mortgage back up accounts are:                   | Shs'ooo        |
| HFC: Mortgage 3000013543 and Mortgage 2000094161 | 164,690        |
| KCB Mortgage MM1509100194                        | 177,198        |
| <b>Total</b>                                     | <b>341,888</b> |

## NOTES (Cont'd)

## 15. Held-to-maturity investments - government securities

|                                | 2018<br>Shs'000  | 2017<br>Shs'000 |
|--------------------------------|------------------|-----------------|
| <b>Non-current</b>             |                  |                 |
| Treasury bonds                 |                  |                 |
| Maturing after four years      | 135,000          | 155,375         |
| Unamortised premium            | (9,994)          | (11,525)        |
|                                | <b>125,006</b>   | <b>143,850</b>  |
| Treasury bonds                 |                  |                 |
| Maturing after one year        | 65,484           | 117,153         |
| Unamortised (discount)/premium | (14)             | (4)             |
|                                | <b>65,470</b>    | <b>117,149</b>  |
|                                | <b>190,476</b>   | <b>260,999</b>  |
| <b>Current</b>                 |                  |                 |
| Treasury bonds                 |                  |                 |
| Maturing within one year       | 62,976           | 75,000          |
| Unamortised premium            | 9                | -               |
|                                | <b>62,984</b>    | <b>75,403</b>   |
| Treasury bills                 | 818,800          | 581,600         |
| Unamortised discount           | (45,248)         | (30,036)        |
|                                | <b>773,552</b>   | <b>551,564</b>  |
|                                | <b>836,536</b>   | <b>626,967</b>  |
|                                | <b>1,027,012</b> | <b>887,966</b>  |

The fair value of the held-to-maturity assets -treasury bonds and treasury bills at the reporting date were:

|                              |         |         |
|------------------------------|---------|---------|
| <b>Non- current</b>          |         |         |
| Held-to-maturity investments | 190,476 | 260,999 |
| <b>Current</b>               |         |         |
| Held-to-maturity investments | 836,536 | 626,967 |

## NOTES (Cont'd)

## 16a. Banks

| Name of the Bank                  | Bank account no. | Account currency | 2018 Shs'000 | 2017 Shs'000 |
|-----------------------------------|------------------|------------------|--------------|--------------|
| Commercial Bank of Africa Limited | 6580810018       | Shs              | 17,735       | 5,520        |

## 16b. Cash in hand

|            |            |            |
|------------|------------|------------|
| <b>Shs</b> | <b>140</b> | <b>140</b> |
|------------|------------|------------|

## 16c. Short term deposits

|                                   |                  |     |        |        |
|-----------------------------------|------------------|-----|--------|--------|
| Commercial Bank of Africa Limited | MM1816900016     | Shs | 25,000 | 20,000 |
| Commercial Bank of Africa Limited | MM1718100101     | Shs |        | 7,000  |
| HFC Bank                          | A/c 1345823403-0 | Shs |        | 31,690 |
|                                   |                  |     | 25,000 | 58,690 |

**Total cash in hand and bank**

|               |               |
|---------------|---------------|
| <b>42,875</b> | <b>64,350</b> |
|---------------|---------------|

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

|  |               |                |
|--|---------------|----------------|
| Short-term bank deposits   | 25,000        | 58,690         |
| Cash at bank and in hand   | 17,875        | 5,660          |
| Investors Compensation Fund bank balance (Note 16) - (KCB)                 | 24,953        | 3,632          |
| Investors Compensation Fund bank balance (Note 16) - (Call accounts - KCB) | -             | 92,000         |
|  | <b>67,828</b> | <b>159,982</b> |

## 17. Investors' Compensation Fund

In accordance with Section 18 of Capital Markets Act, Cap 485A, the Authority is required to maintain a fund to be known as the Investors' Compensation Fund for the purpose of granting compensation to investors who may suffer pecuniary loss resulting from the failure of a licensed broker or dealer to meet its contractual obligations. This requirement was implemented in July 1995.

The fund derives its income from the following sources:

- i) Interest accruing on funds received from subscribers to public issues, between the day of closing the issue and making the refunds.
- ii) 0.01% of the consideration from sale and purchase of shares through the Nairobi Securities Exchange.
- iii) 0.004% of the consideration from sale and purchase of bonds traded through the Nairobi Securities Exchange.
- iv) Interest earned from investment of the funds held in this account.
- v) Financial penalties imposed on operators for non-compliance with Capital Markets Authority Rules and Regulations.

The movement in the fund balance during the year is as shown on the next page:

## NOTES (Cont'd)

|  | 2018<br>Shs'000         | 2017<br>Shs'000         |
|--|-------------------------|-------------------------|
| At beginning of the year   | 1,883,311               | 1,505,006               |
| Nairobi Securities Exchange transactions fees                                    | 80,230                  | 63,819                  |
| Interest on investments  | 214,234                 | 169,773                 |
| Financial penalties  | 43,029                  | 162,284                 |
| Management fees  | (500)                   | (500)                   |
| Gain/(loss)in Investment in NSE  | 50,531                  | (17,754)                |
| Bank Charges   | (18)                    | 683                     |
| <b>At end of the year</b>  | <b>2,270,817</b>        | <b>1,883,311</b>        |
| The Investors' Compensation Fund balance is represented by the following assets: |                         |                         |
| <b>Non-current</b>   | <b>2018<br/>Shs'000</b> | <b>2017<br/>Shs'000</b> |
| Equity investment in the Central Depository and Settlement                       | 12,250                  | 7,000                   |
| Equity investment in the NSE   | 154,875                 | 109,594                 |
|  | <b>167,125</b>          | <b>116,594</b>          |
| Treasury bonds   |                         |                         |
| Maturing after five years  | 802,000                 | 737,000                 |
| Unamortised discount (premium)   | (1,211)                 | (9,977)                 |
|  | <b>800,789</b>          | <b>727,023</b>          |
| Maturing after one year  | 303,450                 | 348,250                 |
| Unamortised discount   | 1,304                   | 1,654                   |
|  | 304,754                 | 349,904                 |
|  | 1,105,543               | 1,076,927               |
|  | <b>1,272,668</b>        | <b>1,193,521</b>        |
| <b>Current</b>   |                         |                         |
| Treasury bonds   | 94,800                  | 35,000                  |
| Unamortised discount   | 157                     | 231                     |
|  | <b>94,957</b>           | <b>35,231</b>           |
| Treasury bills   | 877,900                 | 554,950                 |
| Unamortised discount   | (46,904)                | (29,729)                |
|  | <b>830,996</b>          | <b>525,221</b>          |
| Fees receivable  | 47,242                  | 33,707                  |
| Bank balance   | 24,953                  | 3,632                   |
| Call account   | -                       | 92,000                  |
|  | 72,195                  | 129,339                 |
|  | 998,149                 | 689,791                 |
|  | <b>2,270,816</b>        | <b>1,883,311</b>        |



## NOTES (Cont'd)

## 18. Property and equipment

|  | Motor<br>vehicles<br>Shs'000 | Computer<br>copiers &<br>faxes<br>Shs'000 | Office<br>equipment<br>Shs'000 | Furniture<br>& fittings<br>Shs'000 | Capital<br>work-in-<br>progress<br>Shs'000 | Total<br>Shs'000 |
|--|------------------------------|---|--------------------------------|------------------------------------|--|------------------|
| <b>Cost</b>                                      |                              |   |                                |                                    |  |                  |
| At 1st July 2016                                 | 22,092                       | 116,460                                   | 22,794                         | 88,182                             | -  | 249,529          |
| Additions  | -                            | 7,309                                     | 3,934                          | 3,039                              | -  | 26,046           |
| Disposals  | -                            | (9,365)                                   | (3,639)                        | (3,254)                            | -  | (16,258)         |
| <b>At 30th June 2017</b>                         | <b>29,818</b>                | <b>114,404</b>                            | <b>23,090</b>                  | <b>87,968</b>                      | <b>4,037</b>                               | <b>259,317</b>   |
| Additions  | -                            | 5,137                                     | 430                            | 3,705                              | 393  | 9,666            |
| Disposals  | -                            | (335)                                     | -                              | -                                  | -  | (335)            |
| Reversal   | -                            | -   | -                              | -                                  | (4,037)                                    | (4,037)          |
| <b>At 30th June 2018</b>                         | <b>29,818</b>                | <b>119,206</b>                            | <b>23,520</b>                  | <b>91,673</b>                      | <b>393</b>                                 | <b>264,611</b>   |
| <b>Depreciation</b>                              |                              |   |                                |                                    |  |                  |
| At 1st July 2016                                 | (17,529)                     | (88,779)                                  | (17,273)                       | (43,291)                           | -  | (166,872)        |
| Depreciation                                     | (4,028)                      | (17,864)                                  | (2,416)                        | (27,484)                           | -  | (51,791)         |
| Accumulated depreciation<br>reversed on disposal | -                            | 9,365                                     | 3,639                          | 2,656                              | -  | 15,660           |
| <b>At 30th June 2017</b>                         | <b>(21,557)</b>              | <b>(97,277)</b>                           | <b>(16,050)</b>                | <b>(68,119)</b>                    | <b>-</b>                                   | <b>(203,003)</b> |
| Depreciation                                     | (2,950)                      | (7,980)                                   | (2,146)                        | (10,518)                           | -  | (23,594)         |
| Accumulated depreciation<br>reversed on disposal | -                            | 298                                       | -                              | -                                  | -  | 298              |
| <b>At 30th June 2018</b>                         | <b>(24,506)</b>              | <b>(104,960)</b>                          | <b>(18,197)</b>                | <b>(78,637)</b>                    | <b>-</b>                                   | <b>(226,299)</b> |
| <b>Net carrying amount</b>                       |                              |   |                                |                                    |  |                  |
| <b>At 30th June 2018</b>                         | <b>5,312</b>                 | <b>14,247</b>                             | <b>5,323</b>                   | <b>13,036</b>                      | <b>393</b>                                 | <b>38,312</b>    |
| <b>At 30th June 2017</b>                         | <b>8,261</b>                 | <b>17,127</b>                             | <b>7,039</b>                   | <b>19,849</b>                      | <b>4,037</b>                               | <b>56,314</b>    |

Included above in the items of property and equipment is the cost of fully depreciated assets of Shs 147,432,099 (2017: Shs 136,126,943) which are still in use and have not been impaired. Work in progress was carried at cost.

Work in progress relates to 3 Ipad Pro which are to be delivered by July 2018. The detailed works are as follows:

| Description  | Cost<br>Ksh'000 |
|--------------|-----------------|
| 3 Ipad Pro   | 393             |
| <b>Total</b> | <b>393</b>      |

## NOTES (Cont'd)

|                                   | <b>Intangible<br/>assets<br/>Shs'000</b> |
|-----------------------------------|--|
| <b>19. Intangible assets</b>      |  |
| <b>Software costs</b>             |  |
| <b>Cost</b>                       |  |
| At 1st July 2016                  | 161,078                                  |
| Additions                         | 5,102                                    |
| Derecognition of intangible asset |  |
| <b>At 30th June 2017</b>          | <b>166,180</b>                           |
| Additions                         | 2,283                                    |
| <b>At 30th June 2018</b>          | <b>168,463</b>                           |
| <b>Amortisation</b>               |  |
| <b>At 1st July 2016</b>           | <b>156,376</b>                           |
| Amortisation                      | 3,785                                    |
| <b>At 30th June 2017</b>          | <b>160,161</b>                           |
| Amortisation                      | 3,359                                    |
| <b>At 30th June 2018</b>          | <b>163,520</b>                           |
| <b>Net book value</b>             |  |
| <b>At 30th June 2018</b>          | <b>4,943</b>                             |
| <b>At 30th June 2017</b>          | <b>6,018</b>                             |

## NOTES (Cont'd)

|                                     | 2018<br>Shs'000 | 2017<br>Shs'000 |
|-------------------------------------|-----------------|-----------------|
| <b>20. Trade and other payables</b> |                 |                 |
| Trade payables                      | 10,149          | 41,639          |
| Provisions                          | 92,307          | 70,398          |
| Gratuity obligations                | 24,890          | 13,269          |
| Accruals                            | 71,360          | 43,333          |
|                                     | <b>198,706</b>  | <b>168,640</b>  |

Included under accruals are the provisions for various services whose movement has been presented below:

| Provisions                   | Leave benefits<br>Shs'000 | Performance bonus<br>Shs'000 | Total<br>Shs'000 |
|------------------------------|---------------------------|------------------------------|------------------|
| At 1st July 2017             | 16,505                    | 53,893                       | 70,398           |
| Additional provisions raised | 14,429                    | 23,985                       | 38,414           |
| Provision utilized/reversed  | (16,505)                  | -                            | (16,505)         |
| <b>At 30th June 2018</b>     | <b>14,429</b>             | <b>77,878</b>                | <b>92,307</b>    |

| Accruals                 | Consultancies<br>Shs'000 | Other Provisions<br>Shs'000 | Total<br>Shs'000 |
|--------------------------|--------------------------|-----------------------------|------------------|
| At 1st July 2017         | 9,940                    | 33,535                      | 43,475           |
| Additional accruals      | 5,541                    | 40,449                      | 45,990           |
| Accruals realized        | (9,573)                  | (28,137)                    | (37,710)         |
| <b>At 30th June 2018</b> | <b>5,908</b>             | <b>45,847</b>               | <b>51,755</b>    |

**21. Provision for liabilities and charges**

|                              |               |               |
|------------------------------|---------------|---------------|
| At 1st July 2017             | 95,906        | 88,740        |
| Add: Additional provision    | 44,689        | 8,044         |
| Less: Provision written back | (61,510)      | (878)         |
| <b>At 30th June 2018</b>     | <b>79,085</b> | <b>95,906</b> |

The Authority being the Capital Markets regulator in Kenya, is subject to legal proceedings in the normal course of business. While it is not possible to forecast or determine the final results of all pending legal proceedings, the Authority assesses the adequacy of its provisions periodically against case developments and related legal costs.

## NOTES (Cont'd)

| 22. Current tax payable | 2018<br>Shs'000 | 2017<br>Shs'000 |
|-------------------------|-----------------|-----------------|
| Current year tax        | -               | -               |

## 23. Deferred income

In line with the Authority's accounting policy, Nil (2017: Shs 7,200,000 ) of the donor funded income has been deferred for future periods.

|                        | 2018<br>Shs'000 | 2017<br>Shs'000 |
|------------------------|-----------------|-----------------|
| At 1 July              | 0               | 7,200           |
| Recognised in the year | 0               | (7,200)         |
| <b>At 30 June</b>      | <b>-</b>        | <b>-</b>        |

## 24. Capital fund

**At 1st July 2017 and at 30th June 2018**

|   | 2018<br>Shs'000 | 2017<br>Shs'000 |
|---|-----------------|-----------------|
| <b>At 1st July 2017 and at 30th June 2018</b> | <b>27,886</b>   | <b>27,886</b>   |

Capital fund represents the initial contribution by the Government of Kenya towards the establishment of the Capital Markets Authority.

## 25. General fund

At 1 July  
Surplus for the year  
Transfer to building fund (Note 26)

|                                     | 2018<br>Shs'000 | 2017<br>Shs'000 |
|-------------------------------------|-----------------|-----------------|
| At 1 July                           | 698,582         | 931,016         |
| Surplus for the year                | 57,060          | 13,529          |
| Transfer to building fund (Note 26) | (60,000)        | (245,963)       |
| <b>At 30 June</b>                   | <b>695,642</b>  | <b>698,582</b>  |

General fund represents accumulated surpluses over the years.

## 26. Building fund

At 1 July  
Appropriation from general fund (Note 25)

|   | 2018<br>Shs'000 | 2017<br>Shs'000 |
|---|-----------------|-----------------|
| At 1 July                                 | 475,963         | 230,000         |
| Appropriation from general fund (Note 25) | 60,000          | 245,963         |
| <b>At 30 June</b>                         | <b>535,963</b>  | <b>475,963</b>  |

Building fund represents an appropriation from the general fund towards the construction of the Authority's future building. The appropriations are in line with the approved budget for the year.

## NOTES (Cont'd)

| 27. Related party transactions                        | 2018<br>Shs'000 | 2017<br>Shs'000 |
|---|-----------------|-----------------|
| <b>i) Board members of the Authority remuneration</b> |                 |                 |
| Honoraria   | 1,044           | 1,044           |
| Retainer  | 6,911           | 8,498           |
| Sitting allowances                                    | 5,740           | 8,140           |
| Training expenses                                     | 7,879           | 7,622           |
| Others (medical, mileage, bonus)                      | 10,724          | 11,664          |
|   | <b>32,298</b>   | <b>36,968</b>   |
| There were 10 board members during the year (2017:10) |                 |                 |
| <b>ii) Key management compensation</b>                |                 |                 |
| Gross salaries  | 37,155          | 36,958          |
| Pension   | 10              | 313             |
| Gratuity  | 9,331           | 8,252           |
|   | <b>46,496</b>   | <b>45,523</b>   |

There were 4 members of senior management who served during the year (2017:5)

## 28. Commitments

## a. Contracted for but not recognised

Capital expenditure and recurrent expenditures contracted for at the balance sheet date but not recognised in the financial statements is as follows:

|                                      | 2018<br>Shs'000            | 2017<br>Shs'000              |                          |
|--------------------------------------|----------------------------|------------------------------|--------------------------|
| Capital expenditure contracted for   | 10,000                     | 10,000                       |                          |
| Recurrent expenditure contracted for | 23,615                     | 19,505                       |                          |
|                                      | <b>33,615</b>              | <b>29,505</b>                |                          |
| <b>b. Item description</b>           | <b>Capital<br/>Shs'000</b> | <b>Recurrent<br/>Shs'000</b> | <b>Total<br/>Shs'000</b> |
| Strategic Plan Launch                |                            | 6,495                        | 6,495                    |
| Employee engagement survey           |                            | 1,000                        | 1,000                    |
| Investor education                   |                            | 1,393                        | 1,393                    |
| Publicity and advertisement          |                            | 12,775                       | 12,775                   |
| Repairs and maintenance              |                            | 1,625                        | 1,625                    |
| Training travel cost                 |                            | 327                          | 327                      |
| Business Intelligence system         | 10,000                     | -                            | 10,000                   |
| <b>Total</b>                         | <b>10,000</b>              | <b>23,615</b>                | <b>33,615</b>            |



## NOTES (Cont'd)

### Operating lease commitments

Operating lease commitments represent rentals payable by the Authority for rented office space. Rental expenses during the year amounted to Shs 36,387,000 (2017: Shs45,783,000).

The future minimum lease payments under operating leases are as follows:

|  | 2018<br>Shs'000 | 2017<br>Shs'000 |
|--|-----------------|-----------------|
| Not later than 1 year                        | 36,387          | 45,783          |
| Later than 1 year and not later than 5 years | 130,556         | 165,510         |
|  | <b>166,943</b>  | <b>211,293</b>  |

The board members of the Authority are of the view that future net revenues and funding will be sufficient to cover these commitments.

### 29. Contingent liabilities

- a) In the normal course of operation, Kenya Revenue Authority (KRA) had completed a tax audit for the period 2007 to 2012 and had issued an assessment notice. The total tax liability arising from the year 2012 assessment was Shs 46 million. The Authority in conjunction with its tax agents has been following up on the outstanding tax issues raised. Principal tax arrears amounting to Shs 12 million were paid in the previous years and the Authority had applied for set-off of tax paid in error in previous years amounting to Shs 14.8 million. The Authority had also applied for waiver of interest and penalties amounting to Shs 19 million providing mitigating grounds in support of the waiver. The KRA has in the course of the financial year 2015/16 granted full waiver of interest and penalties for the years 2003-2009 estimated at Shs 9.5 million. The balance on the Statement of Account (comprising of penalties and interest for the years 2010-2012), for which waiver was applied for is being addressed by KRA. Based on the professional advice received and the mitigating grounds provided, the Authority is of the opinion that no material liability is expected to arise to have an impact on these financial statements.
- b) In the course of the conduct of its regulatory mandate claims for specified and unspecified damages have been lodged against the Authority before the Courts and the Capital Markets Tribunal and the proceedings are still ongoing. In this regard, as permitted by IAS 37.92, in order not to prejudice the outcomes of the proceedings and the interests of the Authority, and noting the uncertainty regarding the timing or amount of contingent liabilities in connection with these cases, the Directors have not made any further disclosures about estimates.

As at the year end there has been identified one specified contingent liability of Kshs.95 million arising from a legal case. The Directors note that the matter in question was struck out at first instance in favour of the Authority and is currently the subject of appeal. Legal advice obtained indicates that it is unlikely that liability for the Kshs. 95 Million will arise. The directors are of the view that no material losses will arise in respect of the legal claim at the date of these financial statements and therefore have made no provision.

## NOTES (Cont'd)

## 30. Transfer of Surplus to National Treasury

|                               | Shs'000  | 2018<br>Shs'000 | 2017<br>Shs'000 | Shs'000   |
|-------------------------------|----------|-----------------|-----------------|-----------|
| Total Revenue                 | -        | 967,469         | -               | 983,540   |
| Operating Expenses            | -        | (889,282)       | -               | (970,011) |
| Surplus before tax            | -        | 78,187          | -               | 13,529    |
| Add back:                     |          |                 |                 |           |
| Depreciation                  | 23,594   | -               | 51,791          | -         |
| Amortization                  | 3,359    | 26,952          | 3,785           | 55,577    |
| Adjusted Surplus              | -        | 105,140         | -               | 211,416   |
| Transfer from Deferred Income | -        | -               | -               | (7,200)   |
| Adjusted Surplus              | -        | 105,140         | -               | 204,216   |
| Less:                         |          |                 |                 |           |
| Building fund                 | (60,000) | -               | (245,963)       | -         |
| Capital expenditure           | (9,666)  | -               | (26,046)        | -         |
| Intangible Assets             | (2,283)  | -               | (5,102)         | -         |
| Staff Mortgages net           | (11,312) | -               | (80,003)        | -         |
| Staff Car loans net           | 1,595    | -               | (3,632)         | -         |
|                               | -        | (81,666)        | -               | (360,746) |
| Net Surplus/ (Deficit)        | -        | 23,474          | -               | (156,530) |
| 90%                           | -        | 21,127          | -               | (140,877) |
| 90% Surplus due to KRA        | -        | 21,127          | -               | -         |

## 31. Operating expenditure



## 31.1 Employment expense

|  | 2018<br>Kshs'000 | 2017<br>Kshs'000 |
|--|------------------|------------------|
| Consolidated pay, leave pay and passages | 401,697          | 377,940          |
| Staff uniform expenses                   | 405              | 85               |
| Staff welfare and other costs            | 20,376           | 10,560           |
| Staff retirement benefits                | 34,136           | 31,451           |
| Staff gratuity                           | 11,449           | 9,541            |
| National Social Security Fund (NSSF)     | 342              | 312              |
|  | <b>468,404</b>   | <b>429,889</b>   |

## 31.2 Other administrative expenses

|  |                |                |
|--|----------------|----------------|
| Rent and maintenance                               | 37,155         | 53,365         |
| Equipment maintenance and stationery               | 42,216         | 29,501         |
| Telephone, postage and utilities                   | 15,654         | 14,327         |
| Entertainment and public relations                 | 17,231         | 33,183         |
| Medical scheme and insurance expenses              | 32,997         | 26,365         |
| Training and conferences                           | 62,849         | 62,047         |
| Motor vehicle running expenses                     | 6,008          | 6,113          |
| Subscriptions and IOSCO membership                 | 9,854          | 11,946         |
| Authority board members' emoluments and allowances | 32,298         | 36,968         |
| Professional and market development services       | 109,982        | 178,106        |
| Depreciation of property and equipment             | 23,594         | 51,791         |
| Amortisation of intangible assets                  | 3,359          | 3,785          |
| Auditor's remuneration                             | 1,726          | 1,760          |
| Investors' education and awareness programme       | 24,213         | 26,767         |
| Tribunal expenses                                  | 1,302          | 4,097          |
| Provision for doubtful debts                       | 441            | -              |
|  | <b>420,877</b> | <b>540,122</b> |
| <b>Total expenditure</b>                           | <b>889,282</b> | <b>970,011</b> |

## PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATION

| Reference No. on the external audit Report   | Issue/ Observations from Auditor | Management Comments   | "Focal Point person to resolve the issue (Name and Designation)" | Status: (Resolved/ Not Resolved) | Time frame: (Put a date when you expect the issue to be resolved) |
|--|----------------------------------|---|--|----------------------------------|---|
| All observations made in the Management Letter were resolved in the financial statements of FY2016/17.                         |                                  |   |  |                                  |   |
|  |                                  |   |  |                                  |   |
| <br><b>Chief Executive</b><br>23 August, 2018 |                                  | <br><b>Chairman of the Board</b><br>23 August, 2018 |  |                                  |   |

## ORGANIZATIONAL UPDATES

### MARKET SURVEILLANCE

The Authority continued to ensure that markets are fair and orderly through market surveillance. Several cases of suspected market abuses were referred for further investigation with a number being forwarded for enforcement action.

The Nairobi Securities Exchange (NSE) is in the process of upgrading its automated trading system while the Central Depository and Settlement Corporation (CDSC) is also installing a new central securities depository system. The upgraded market infrastructure systems will facilitate the introduction of, among others, short selling, securities lending and borrowing, day trading amongst others. To this end, the Authority is closely working with the NSE and CDSC and other relevant stakeholders to ensure the systems are installed and there is seamless integration.

#### Risk & Compliance:

##### a) Implementation of Corporate Governance code

The Code of Corporate Governance Practices for Issuers of Securities to the Public came into force on March 4, 2017. The Code applies to issuers of both equity and corporate bonds in public markets and approved by the Authority. The new code is principles-based and requires issuers to apply or explain how they have implemented the provisions of the Code. However, there are minimum corporate governance practices which are mandatory and which all issuers are expected to apply without exception. The code departs from the retired 2002 Guideline which required issuers to comply or explain.

The issuers are required to complete a Corporate Governance Reporting Template. The CG Reporting Template

is required to be submitted alongside the annual report before the end of four months from the close of an issuer's financial year. This Template is reviewed and scored by the Authority using an internal Corporate Governance scorecard. The Authority will assess all the reporting templates and prepare an aggregated report on the state of corporate governance of all the issuers for the year ending 31 December 2017. In the interim, and this being the first year of assessment, the Authority does not intend to publish the results. However, the outcome from the assessment will be shared with the issuers to enable them note the areas for improvement prior to the next reporting cycle.

##### b) Prudential Risk Based Supervision

In execution of its oversight responsibilities, the Authority conducted on-site inspections on 50 capital markets intermediaries. This included an inspection of all fund managers managing collective investment schemes. In addition, all intermediaries and listed companies have continued to be monitored off-site to ensure they are in compliance with the regulatory framework. A comprehensive inspection of the Nairobi Securities Exchange and Central Depository and Settlement System was also conducted in the course of the year.

##### c) AML/CFT Risk Based Supervision

The Authority, being a supervisory institution under the Proceeds of Crime and Anti-Money Laundering Act, continues to supervise market intermediaries to ensure that they meet their reporting obligations as envisaged under that Act. The Authority has continued to implement measures geared towards ensuring that its supervisory capacity is enhanced as well as continued rolling

out of capacity building programmes for the market intermediaries.

##### d) Collaboration with other jurisdictions

The Authority has continued to work with other financial regulators in the region. In the year 2017/2018 the Authority's Market Supervision Department hosted staff from several jurisdictions among them Uganda Capital markets Authority, Botswana Stock Exchange, Swaziland Financial Services Regulatory Authority, Zambia Securities & Exchange Commission, Ghana Securities and Exchange Commission and Tanzania Capital Markets & Securities Authority.

The Authority also conducted joint inspections with CMA Uganda on Nairobi Securities Exchange and the Central Depository and Settlement Corporation in March 2018.

##### (e) Development of an On-site Inspection Manual

The Authority was one of the beneficiaries of IOSCO Africa/Middle East Regional Committee (AMERC) Technical Assistance (TA) project for Development of an On-site Inspection Manual. The development of the Manual was guided by the IOSCO Secretariat and IOSCO consultant, Mr. Greg Tanzer, a former Secretary General of IOSCO and ASIC Commissioner (Australian Regulator).

The other participants included Uganda, Zambia, Tanzania and Ghana. The Authority hosted Phase I of the TA in Nairobi from 27 Nov to 01 Dec, 2017. Through the TA, the Authority now has a revised Onsite Inspection Manual which serves both as a guide and capacity building tool for its staff in conduct of onsite inspection activities.

## ENFORCEMENT ACTIONS TAKEN BY THE AUTHORITY IN 2017/ 2018 FINANCIAL YEAR

| Licensee/ Listed Company                               | Nature of Breach  | Sanction Imposed  |
|--|---|---|
| East African Cables Limited                            | Non-compliance with listing obligations for issuers of equity securities. Operating with a negative working capital contrary to the Fifth Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002.                          | Regulatory Directive issued for the company to provide monthly status updates on the implementation of its undertaking to remedy its working capital position within one year, pursuant to section 11(3)(i) of the Capital Markets Act.   |
| Stanlib Kenya Limited                                  | Non-compliance with minimum Liquid Capital Requirements from the month of December 2016 to May 2017 contrary to Regulations 30(4) of the Capital Markets (Licensing Requirements) (General) Regulations, 2002 Amended 2016.   | Regulatory Directive issued to Stanlib Kenya Limited to provide the Authority with undertaking on actions to be taken to remedy the non-compliance pursuant to section 11(3)(i) of the Capital Markets Act  |
| Cytonn Investments Management Ltd (Cytonn Investments) | Conduct of capital markets regulated business without a valid license contrary to section 23(1) of the Capital Markets Act  | Regulatory Directive to Cytonn Investments Ltd directing the company to ensure it takes requisite steps to bring Cytonn entities into compliance with the capital markets regulatory framework within 30 days and not later than 18th September 2017 pursuant to section 11(3)(cc) of the Capital Markets Act.<br><br><b>Cytonn Investments complied with the directive and Cytonn Asset Managers Limited was licensed by the Authority as a Fund Manager. Other related entities are in the process of being finalised</b> |
| East African Portland Cement Ltd                       | Failure to submit shareholding category status report for August 2017 within the regulatory timelines contrary to Regulations 4(1) and 4(2) of the Capital Markets (Foreign Investors) Regulations, 2002 amended 2015   | Regulatory Directive issued to the company to comply with reporting obligations and regulatory timelines, pursuant to Section 11(3)(i) of the Capital Markets Act.  |
| Transcentury Ltd                                       | Failure to maintain adequate working capital contrary to the First schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations, 2002   | Regulatory Directive issued to the company to provide quarterly updates on progress made in improving negative working capital pursuant to Section 11(3)(i) of the Capital Markets Act.   |
| Kenya Orchards Ltd                                     | Failure to publish interim financial statements for half year ending 30th June 2017 in two newspapers of national circulation contrary to Paragraph B.07 of the 5th schedule of the Capital Markets (Securities) (Public offers, Listing and Disclosure) Regulations, 2002. | A financial penalty of Kshs. 220,000/= issued against the company pursuant to Section 11(3)(cc)(i) of the Capital Markets Act for failure to publish its interim financial statements in two newspapers of national circulation.  |
| Shelter Afrique  | Late submission of half year interim financial statements for period ending 30th June 2017 contrary to Paragraph B.07 of the 5th schedule of the Capital Markets (Securities) (Public offers, Listing and Disclosure) Regulations, 2002.                                    | A financial penalty of Kshs. 59,999.94/= issued against the company pursuant to Section 11(3)(cc)(i) and section 25(A)(6) (b) of the Capital Markets Act and Regulation 19(5) of the Capital Markets (Securities) (Public offers, Listing and Disclosure) Regulations, 2002.  |
| Umeme Ltd  | Late submissions of half year interim financial statements for the period ending  | Financial penalty of Kshs 128,888.76/-, issued to the company pursuant to Section 11(3)(cc)(i) of the Capital Markets Act.  |



## ENFORCEMENT ACTIONS (Cont'd)

| Licensee/ Listed Company  | Nature of Breach  | Sanction Imposed  |
|---|---|---|
|   | June 30,2017 contrary to Paragraph B.07 of the Fifth schedule of the Capital Markets (Securities) (Public offers, Listing and Disclosure) Regulations ,2002.  |   |
| Cannon Asset Managers Ltd   | Late submission of Non- Collective Investments Schemes portfolio returns contrary to the reporting requirements outlined under Regulation 32 (1) of the Capital Markets (Licensing requirements) (General) Regulations 2002 amended 2016.   | Financial penalty of Kshs. 37,778/= issued against the company pursuant to Section 11(3)(cc)(i) of the Capital Markets Act.   |
| Fusion Investments Management Ltd   | Late submission of Non- Collective Investments Schemes portfolio returns in breach of the reporting requirements outlined under Regulation 32 (1) of the Capital Markets (Licensing requirements) (General) Regulations: 2002, amended 2016.  | Financial penalty of Kshs. 33,333.30 issued against the firm pursuant to Section 11(3)(cc)(i) of the Capital Markets Act.   |
| Car & General (Kenya) Ltd   | Late Publication of full year financial statements for the year ended September 30,2017 contrary to Regulations 19(1) and Paragraph B.20 of the Fifth Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations, 2002.<br><br>Failure to maintain adequate working capital contrary to the First schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations ,2002  | Financial penalty of Kshs. 35,555.55/= issued against the company pursuant to Section 11(3)(cc)(i) and Section 25(A) (6) (b) of the Capital Markets Act and Regulation 19 (5) of the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations, 2002.<br><br>Regulatory Directive issued to the company to provide quarterly updates on progress made in improving negative working capital pursuant to Section 11(3)(i) of the Capital Markets Act. |
| Mr. Wycliffe Kivunira (Former Ag. Chief Financial Officer, National Bank of Kenya Ltd | Misrepresentation of financial statements for the period ended 30th June 2015 and 30th September 2015 leading to presentation and publication of misleading financial statements in contravention of Regulation B.06 of the Fifth Schedule of the Capital Markets(Securities)(Public Offers, Listing and Disclosure) Regulations 2002.<br><br>Failure to supply the Board of NBK with relevant, accurate and timely information to enable the Board discharge its duties contrary to Article 2.1.3 of the Guidelines on Corporate Governance Practices by Listed Companies in Kenya, 2002 | Financial penalty of Kshs. 1 Million issued against Mr. Kivunira pursuant to Section 11(3)(cc)(i) of the Capital Markets Act.<br><br><b>Mr. Kivunira has challenged the Authority's Enforcement Action at the Capital Markets Tribunal.</b>   |
| Sanlam Investments East Africa Ltd  | Late submission of Non-Collective Investment Scheme Portfolio returns in breach of the reporting requirements outlined under Regulation 32 (1) of the Capital Markets (Licensing requirements) (General) Regulations 2002 amended 2016.   | Financial penalty of Kshs. 35,555.52/= issued against the company pursuant to Section 11(3)(cc)(i) of the Capital Markets Act.  |
| Natbank Trustees & Investment Services Ltd  | <ul style="list-style-type: none"> <li>Non-compliance with regulatory requirements and continuous reporting obligations for market intermediaries.</li> <li>Late submission of the annual audited accounts for the year ending 31st December 2014 and failure to submit the</li> </ul>  | Regulatory Caution issued to Natbank Trustees & Investment Services Limited pursuant to section 11(3) (cc) of the Capital Markets Act   |

| Licensee/ Listed Company                          | Nature of Breach   | Sanction Imposed   |
|---|--|--|
|   | <p>annual audited accounts for the period ending 31st December 2016 contrary to Regulation 32(1)(d) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 amended 2016.</p> <ul style="list-style-type: none"> <li>Late submission of monthly management accounts for the months ending 31st January 2015, to 31st May 2015 and Late submission of RBCA forms for the months of November 2015 to January 2016 contrary to Regulation 32(2) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 amended 2016 and Clause 45 (1) of the Guidelines on Financial Resource Requirements for Market Intermediaries.</li> <li>Failure to publish interim accounts for the period ended 30th June 2016 contrary to Regulation 32(1)(b) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 amended 2016.</li> </ul> |  |
| Kenya Orchards Ltd                                | Failure to announce change of managing director within 24 hours of the happening of the event contrary to Paragraph G.05 of the Fifth Schedule of the Capital Markets (Securities)(Public Offers, Listing And Disclosures) Regulations,2002  | A Regulatory Caution issued pursuant to Section 11(3) (cc) of the Capital Markets Act.   |
| Francis Drummond & Co Ltd.                        | Alleged market manipulation of Transcentury shares contrary to Section 32G (1)(b) and (2) (b) of the Capital Markets Act and Regulation 24(1) (d) of the Capital Markets (Licensing Requirements) (General) Regulations, 2002 amended 2016.  | A Regulatory Caution issued pursuant to Section 11 (3) (cc) of the Capital Markets Act for the manner in which the firm handled the sale transaction of Transcentury shares on behalf of its client. |
| Citidell Ltd                                      | Late submission of Resource Based Capital Adequacy (RBCA) forms for the period ended 31st January 2018 contrary to Clause 45 (1) of the Guidelines on Financial Resource Requirements for Market Intermediaries.   | A Regulatory Caution issued against the company pursuant to Section 11 (3) (cc) of the Capital Markets Act.  |
| UAP Old Mutual Investments Group Ltd              | Late submission of Risk Based Capital Adequacy forms for the period ended 31st January 2018 contrary to Clause 45 (1) of the Guidelines on Financial Resource Requirements for Market Intermediaries.  | A Regulatory Caution issued against the company pursuant to Section 11 (3) (cc) of the Capital Markets Act.  |
| Board members of National Bank of Kenya Ltd (NBK) | <p>Failure to effectively execute the duties and responsibilities of a director of NBK both individually and collectively as a board of a company whose securities are publicly traded.</p> <p>The directors failed to ensure NBK had in place and maintained an adequate system of internal controls to safeguard shareholders' investments and assets during the year 2014-2015 contrary to Article 3.1.1(v) of</p>  | Regulatory Caution issued to the board members pursuant to Section 11(3)(cc) of the Capital Markets Act.   |

## ENFORCEMENT ACTIONS (Cont'd)

| Licensee/ Listed Company                                  | Nature of Breach  | Sanction Imposed   |
|---|---|--|
|   | the Guidelines on Corporate Governance Practices by Listed Companies in Kenya, 2002.  |  |
| Natbank Trustee and Investment Services Ltd               | Publishing in only one newspaper its half year financial statements for period ending June 30,2017 instead of in two newspapers of national circulation contrary to Regulation 51A(2)(a) of the Capital Markets (Licensing Requirements) (General) Regulations,2002 amended 2016  | A Regulatory Warning issued pursuant to Section 11(3) (cc) of the Capital Markets Act.   |
| Limuru Tea Co. Ltd  | Late submission and late publication of half year financial statements for period ending 30th June ,2017 contrary to Paragraph B.07 of the 5th schedule of the Capital Markets (Securities) (Public offers, Listing and Disclosure) Regulations ,2002.  | A Regulatory Warning issued to the company pursuant to Section 11 (3) (cc) of the Capital Markets Act  |
| Kurwitu Ventures Ltd                                      | Late submissions and publishing in only one newspaper its half year interim financial statements for the period ending June 30,2017 instead of two newspapers of national circulation contrary to Paragraph B.07 of the Fifth schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations ,2002. | A Regulatory Warning issued to the company pursuant to Section 11 (3)(cc) of the Capital Markets Act for failing to publish its half year interim financial statements for the period ending June 30,2017.                           |
| Equity Investment Bank Ltd                                | Publishing in only one newspaper its half year unaudited financial statements for the period ending June,30 2017 instead of in two newspapers of national circulation contrary to Regulation 51A(2)(a) of the Capital Markets (Licensing Requirements) (General) Regulations,2002 amended 2016.                                       | A Regulatory Warning issued pursuant to Section 11 (3) (cc) of the Capital Markets Act for publishing in one newspaper only.   |
| Regnum Consultants Ltd                                    | Presentation of unaudited accounts and late submissions of Audited accounts for year ended December 31, 2016 contrary to Section 34(b) of the Capital Markets Act and Regulation 32(1)(d) of the Capital Markets (Licensing Requirements) (General) Regulations, 2002 amended 2016  | A reprimand issued to the company pursuant Section 25A(1)(a)(i) of the Capital Markets Act   |
| Mr. Kunal Somchand Bid c/o Bid Management Consultancy Ltd | Wash trades conducted on Eaagads Shares counter on 23rd and 24th February 2017 contrary to Section 32G(1)(a) and (2)(b) of the Capital Markets Act  | a) Regulatory warning issued pursuant to Section 11(3) (cc) of the Capital Markets Act.<br>b) Financial penalty of Kshs.30,850/- issued Pursuant to Section 25A(i)(a)(v) of the Capital Markets Act.                                 |
| Mr. Kumar Sheth Harshad                                   | Market manipulation of Nairobi Business Ventures Ltd (NBV) shares contrary to Sections 32F(1) and 32G(1)of the Capital Markets Act.   | a) A Regulatory Warning issued pursuant to Section 11 (3) (cc) of the Capital Markets Act<br>b) A financial penalty of Kshs 50,000/- issued pursuant to Section 11(3)(cc)(i) of the Capital Markets Act.                             |
| East African Portland Cement Plc                          | Failure to publish a profit warning in respect of financial results for the year ending 30th June 2017 contrary to Regulations 19(3) and paragraph G.05(1)(f) and G.05(2) of the Fifth Schedule of the Capital Markets (Securities)   | a) Financial penalty of Kshs. 50,000/= issued against the company pursuant to Section 11(3)(cc)(i) of the Capital Markets Act.<br>b) Regulatory directive for the company to submit a plan on how it intends to address the issue of |

| Licensee/ Listed Company  | Nature of Breach   | Sanction Imposed   |
|---|--|--|
|   | (Public offers, Listing and Disclosure) Regulations, 2002.<br>Failure to maintain adequate working capital contrary to the First schedule of the Capital Markets (Securities) (Public offers, Listing and Disclosure) Regulations, 2002.   | negative working capital.  |
| Mr. Munir Ahmed Sheikh (former Managing Director of National Bank of Kenya Ltd) | <p>a) Misrepresentation of financial statements for the period ended 30th June 2015 and 30th September 2015 leading to presentation and publication of misleading financial statements in contravention of Regulation B.06 of the 5th Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations, 2002.</p> <p>b) Failure to supply the Board of NBK with relevant, accurate and timely information to enable the Board to discharge its duties contrary to Article 2.1.3 of the Guidelines on Corporate Governance Practices by Listed Companies in Kenya, 2002.</p> <p>c) Failure to execute proper due diligence and oversee the bank's deposit mobilization exercise and failure to foster the long-term business of NBK contrary to Article 3.1.1 of the Guidelines on Corporate Governance Practices by Listed Companies in Kenya, 2002.</p> | <p>a) Disqualification from holding office as a key officer of a public listed company and/or issuer, licensee or any approved institution of the Capital Markets for a period of 3 years, pursuant to Section 25A(1)(c)(i) of the Capital Markets Act.</p> <p>b) Financial penalty of Kshs 5 Million, pursuant to Section 11(3)(cc)(i) of the Capital Markets Act.</p> <p><b>Mr. Munir has challenged the Authority's Enforcement Action at the Capital Markets Tribunal and High Court.</b></p>  |
| Mr. Chris Kisire (former Chief Financial Officer, National Bank of Kenya Ltd)   | <p>a) Approval of payments to be made to the deposit mobilization agents without conducting appropriate checks to ensure that the agents had legitimately mobilized deposits in favour of NBK; and</p> <p>b) Instructing deposit mobilization agents to deposit proceeds of the fraudulent scheme in identified accounts thereby facilitating the deposit mobilization embezzlement scheme to siphon funds out of NBK- contrary to protection of investors' interests as per Section 11(1)(d) of the Capital Markets Act.</p>  | <p>a) Financial penalty of Kshs. 1 Million pursuant to Section 11(3)(cc)(i) of the Capital Markets Act.</p> <p>b) Disqualification from holding office as a key officer of a public listed company, issuer, licensee or any approved institution of the Capital Markets Authority for a period of 3 years Pursuant to Section 25A(1)(c)(i) of the Capital Markets Act.</p> <p>c) Matter was referred to the Director Public Prosecutions (DPP) for criminal investigations.</p> <p><b>Mr. Chris Kisire has filed a Constitutional Petition at the High Court challenging the Authority's enforcement action.</b></p> |
| Mr. George Jaba (former Chief Credit Officer, National Bank of Kenya Ltd.       | Failure to provide relevant, accurate, timely and adequate credit performance information to guide the Board of NBK in making an informed assessment of adequacy of provisions for non-performing loans in contravention of Article 2.1.3 of the Guidelines on Corporate Governance Practices by Listed Companies in Kenya, 2002.  | Financial penalty of Kshs 1 Million issued against Mr. Jaba pursuant to Section 11(3)(cc)(i) of the Capital Markets Act.<br><br><b>Mr. Jaba has challenged the Authority's Enforcement Action at the Capital Markets Tribunal.</b>   |
| Mr. Solomon Alubala (former Head of Treasury, National Bank of Kenya Ltd)       | a) Causing contracted deposit mobilization agents of NBK to raise invoices for payment by NBK irrespective of whether they had mobilized deposits of such amounts; and   | <p>a) Financial penalty of Kshs. 104,800,000/= issued against Mr. Alubala pursuant to Section 11(3)(cc)(i) of the Capital Markets Act.</p> <p>b) Mr. Alubala was disqualified from holding office as a key officer of a public listed company, issuer,</p>   |

## ENFORCEMENT ACTIONS (Cont'd)

| Licensee/ Listed Company | Nature of Breach  | Sanction Imposed  |
|--------------------------|---|---|
|                          | <p>b) Depositing or directing deposits amounting to Kshs. 52 million to his Advocates' client account following a deposit mobilization embezzlement scheme to siphon funds out of NBK-whose securities are publicly traded-contrary to protection of investors' interests as per Section 11(1)(d) of the Capital Markets Act.</p> | <p>licensee or any approved institution of the Capital Markets for a period of 10 years pursuant to Section 25A(1)(c)(i) of the Capital Markets Act.</p> <p>c) This matter was referred to the Director Public Prosecutions (DPP) for criminal investigations.</p> <p><b><i>Mr. Alubala has challenged the Authority's Enforcement Action at the Capital Markets Tribunal and High Court.</i></b></p> |

### NOTES:

1. During the financial year 2017/2018, the Authority imposed **Kshs. 113,481,196.07** in financial penalties for contravention of the capital markets legal and regulatory framework.
2. No contest settlements of **Kshs. 49,012,007/=** were executed between the Authority and individuals who had contravened capital markets legal and regulatory framework.
3. The Authority received additional settlement of **Kshs. 56,972,625/=** in the CMC administrative action matter.
4. All financial penalties and no contest settlements received by the Authority are payable to the investor compensation fund in accordance with Section 18(2) of the Capital Markets Act.



## STRATEGIC PROJECTS

The Strategic Projects Unit is mandated with ensuring the Authority achieves its strategic objectives and the implementation of the Capital Market Master Plan by ensuring projects are run within a defined set of constraints. This entails stakeholder management for the donors such as World Bank and the Financial Sector Deepening Africa (FSDA).

During the year under review, the Unit coordinated the following projects:

| Project Name  | Funded by | Project Outcome   |
|---|-----------|---|
| Acquiring an Information Repository System  | FSSP      | Provide central location for ease of access, mining and analysis of information within the Authority thus increasing efficiency and effectiveness in operations and decision making. This marks the commencement of the Business Intelligence and Internet of Things journey within the Authority.  |
| Enhancement Communication Infrastructure  | FSSP      | Have proper infrastructure in terms of servers, storage and associated operating systems and virtualization software to ensure the Authority has capacity for scalability for information technology solutions. Implementation of a Video Conferencing (VC) facility that aims at increasing collaboration of the members of the board, staff and the outside world.                |
| Financial Analysis Framework  | FSSP      | Consultancy to develop and implement a financial analysis system to enhance the review of financial statements by issuers and licensees of the Authority and enable detection of falsification of financial statements and early warning signs on the financial health of companies.  |
| Upgrade & Integration of the Capital Markets Authority's Market Surveillance System to the New Automated Trading System at the Exchange & the Central Depository System | FSSP      | Integration of the Authority's surveillance system with the new ATS and CDS systems that are currently under implementation at the Nairobi Securities Exchange and CDSC respectively, to ensure that the Authority has connectivity once the systems are commissioned to improve on surveillance capacity of the Authority.   |
| Acquire a trade reporting system for bond trading   | FSSP      | Establishment of a centralized and efficient trade reporting solution to ensure accurate and timely trade reporting.  |
| Islamic Finance Policy Regulatory and Institutional Framework   | FSDA      | Deepening and enhancing the Islamic finance markets in Kenya: this will be achieved by: <ol style="list-style-type: none"> <li>i. Regulatory reform, the establishment of a National Shariah Supervisory Board, capacity building and awareness,</li> <li>ii. Development of an institutional, policy and regulatory framework for the Islamic finance industry in Kenya</li> </ol> |

## HUMAN CAPITAL & ADMINISTRATION

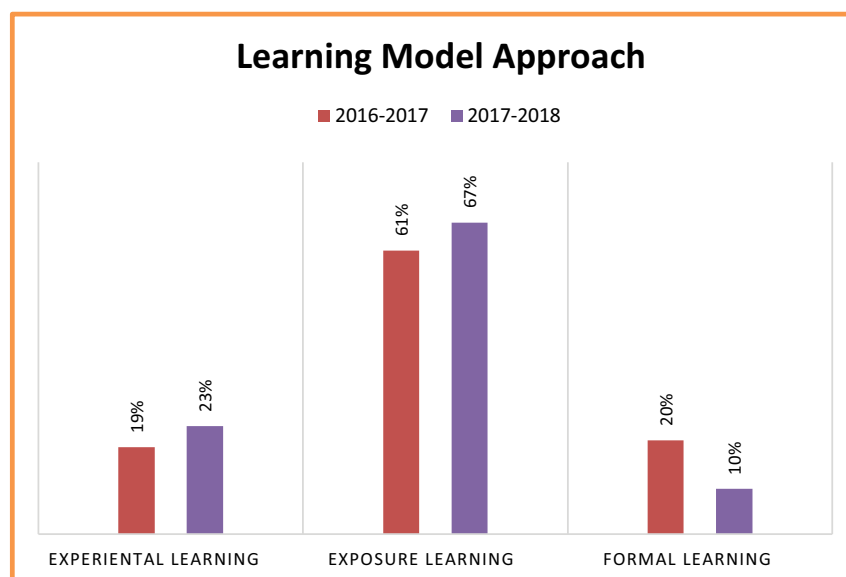
### Learning & Development Effectiveness Report – 2017/18



*East Africa Regional Training Conference on Enforcement & Oversight of Capital Markets.*

#### Learning Model (65:20:15) Analysis

The Authority has an operational framework to support implementation of the L&D Policy and in the long-run transform CMA into a learning organization through facilitative an effective learning culture which is flexible and cost-effective. The framework has established learning strategies guided by the (65 Experiential Learning): (20 Exposure Learning): (15 Formal Learning) framework. The emphasis is on informal learning (experiential & exposure) which is embedded in planned continuous activities not explicitly designated as learning (in terms of learning objectives, learning time or learning support), but which contain an important learning element compared to traditional approach to learning (formal learning). The following is a summary of the reporting period's L&D alignment to this learning model:



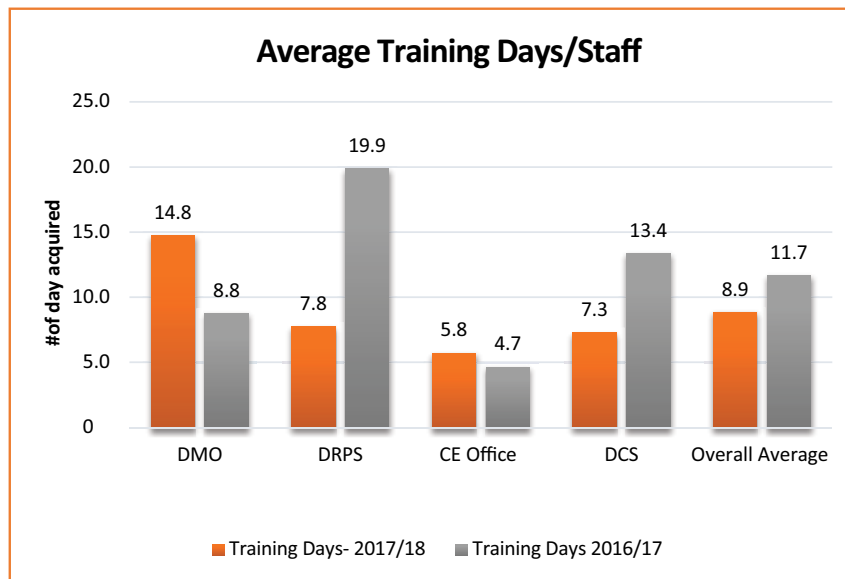
Source: CMA Training Records (2017/2018)

## ORGANIZATIONAL UPDATES (Cont'd)

As compared to year 2016/17, the Authority's learning model improved from 20% to 10% in formal learning to an enhanced exposure learning and experiential learning which increased by 6% and 4% respectively. This was a significant improvement from an application of 19:61:20 in year 2016-2017 to an application of 23:67:10 during the year 2017/18. This is expected to get near the target in the next financial year as the Authority operationalizes the framework.

### Learning Compliance Analysis

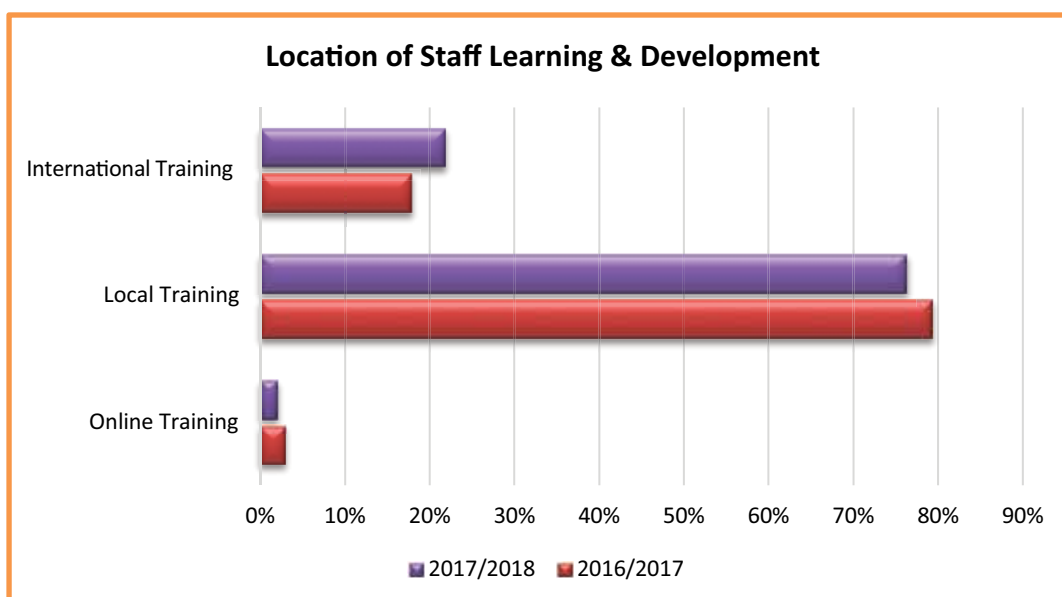
In the overall, each staff on average utilized 9 (8.9) days for learning and development against the Learning & Development policy's minimum requirement of five (5) training days per employee.



Source: CMA Training Records (2017/2018)

### Location of Training

The trainings attended by the staff were sourced locally, internationally and through e-Learning/online platforms. As indicated in the diagram below, majority of the staff attended local trainings which comprised the continuous professional development programmes for professional bodies.

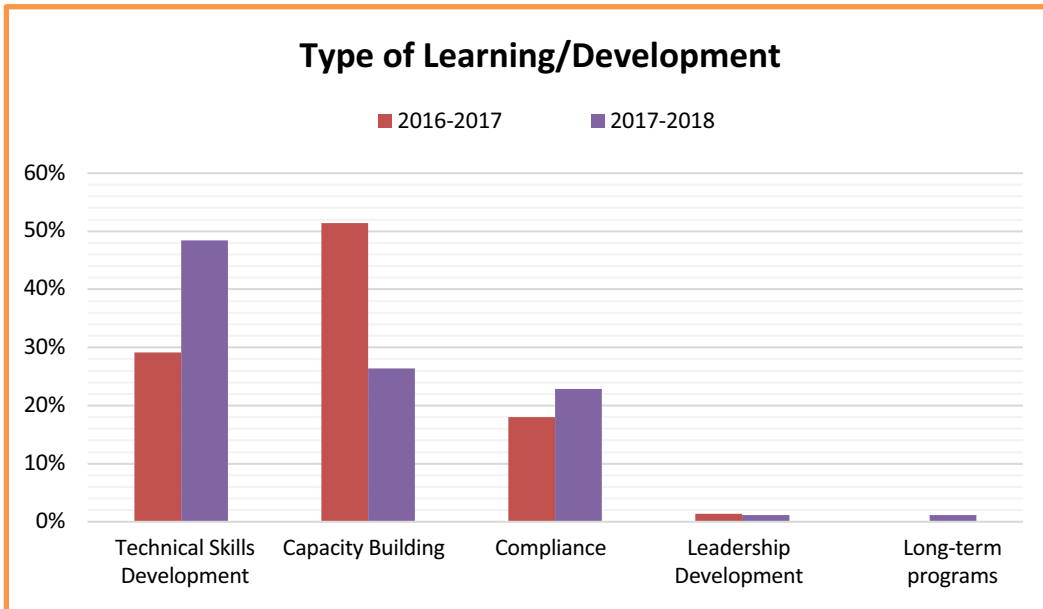


Source: CMA Training Records (2017/2018)

## HUMAN CAPITAL & ADMINISTRATION (Cont'd)

### Types of Learning/Development

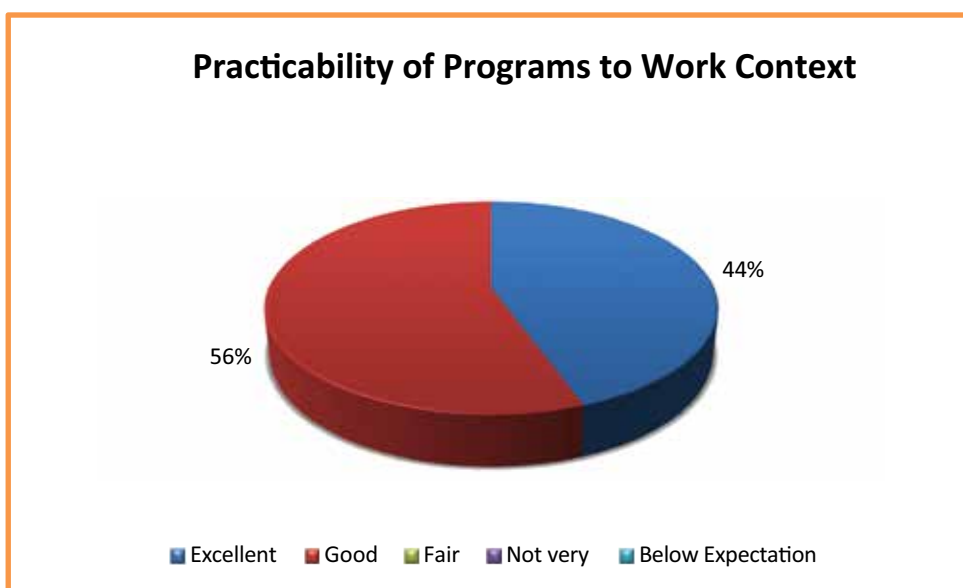
Overall, there were five (5) major types of staff development and from the analysis below, majority of the trainings undertaken were capacity-building-based. This is attributed to the high level of involvement and participation of the Authority in the wider capital markets and related sectors which lead to more requirements for exposure, workshops and networking meetings to deepen and widen knowledge and skills for the employees. The table below summarizes the distribution;



Source: CMA Training Records (2017/2018)

### Practicability of Training Programs to work context

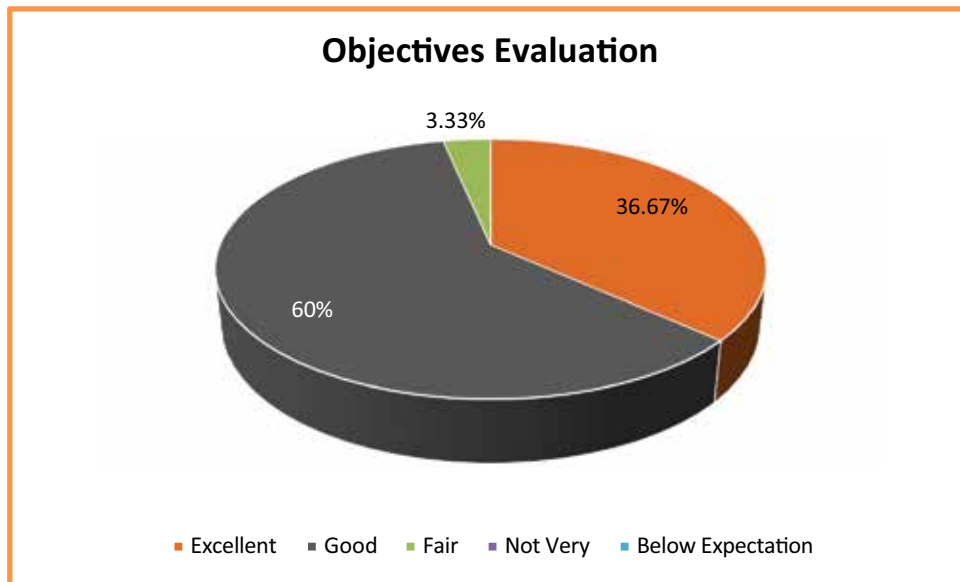
There was a unanimous agreement on the application of the programmes attended to work context in the Authority as summarized in the figure below;



Source: CMA Training Records (2017/2018)

### Objectives Evaluation

The figure below summarizes the findings on the extent to which the programmes attended met their expected objectives for various participants;



Source: CMA Training Records (2017/2018)

The analysis above shows that absolute majority of the participants were satisfied with the their programme objectives and the extent to which they were addressed.

### Alignment of training to Personal Development Plans

An absolute majority indicated that the training programmes attended were aligned or addressed their personal development plan, and that the training applied to their current job as summarized in the figure below:

Figure 1: Alignment of training to Personal Development Plan



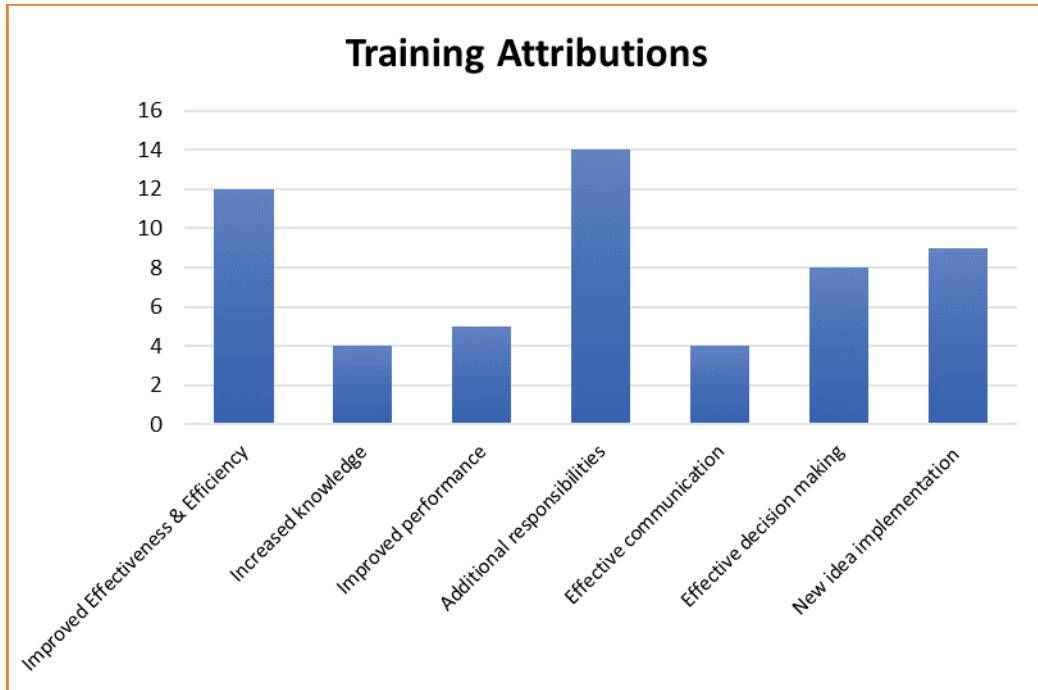
Source: CMA Training Records (2017/2018)



## HUMAN CAPITAL & ADMINISTRATION (Cont'd)

### Key Attributions to Learning & Development Initiatives

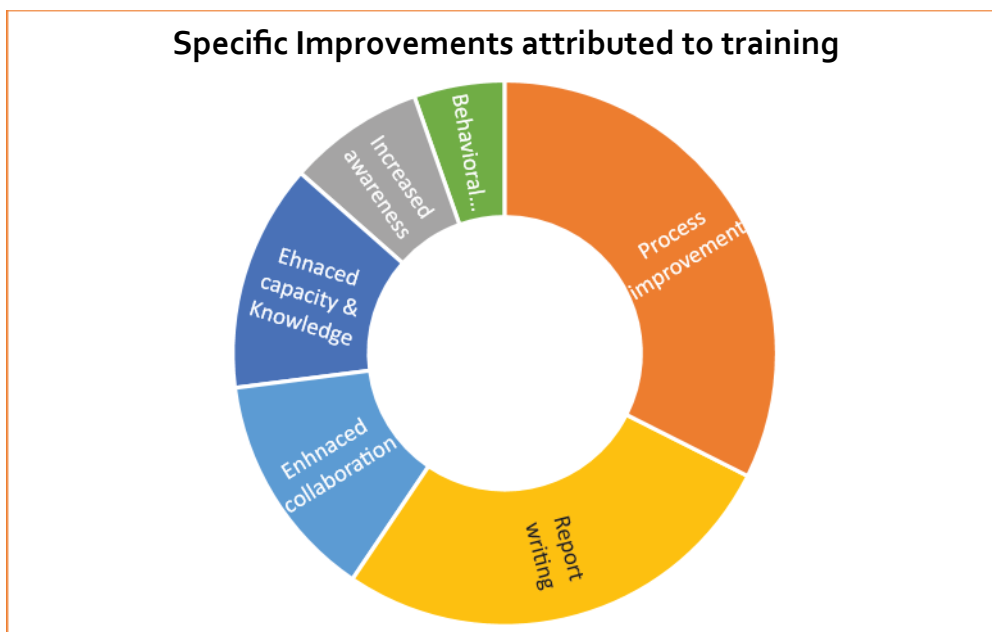
Staff attributed training to the following key contributions made in the Authority or in their respective work. This included; financial contribution (revenues, cost saving), implemented new ideas etc as summarised in the table below:



Source: CMA Training Records (2017/2018)

### Business Improvement Attributed to the staff Learning & Development

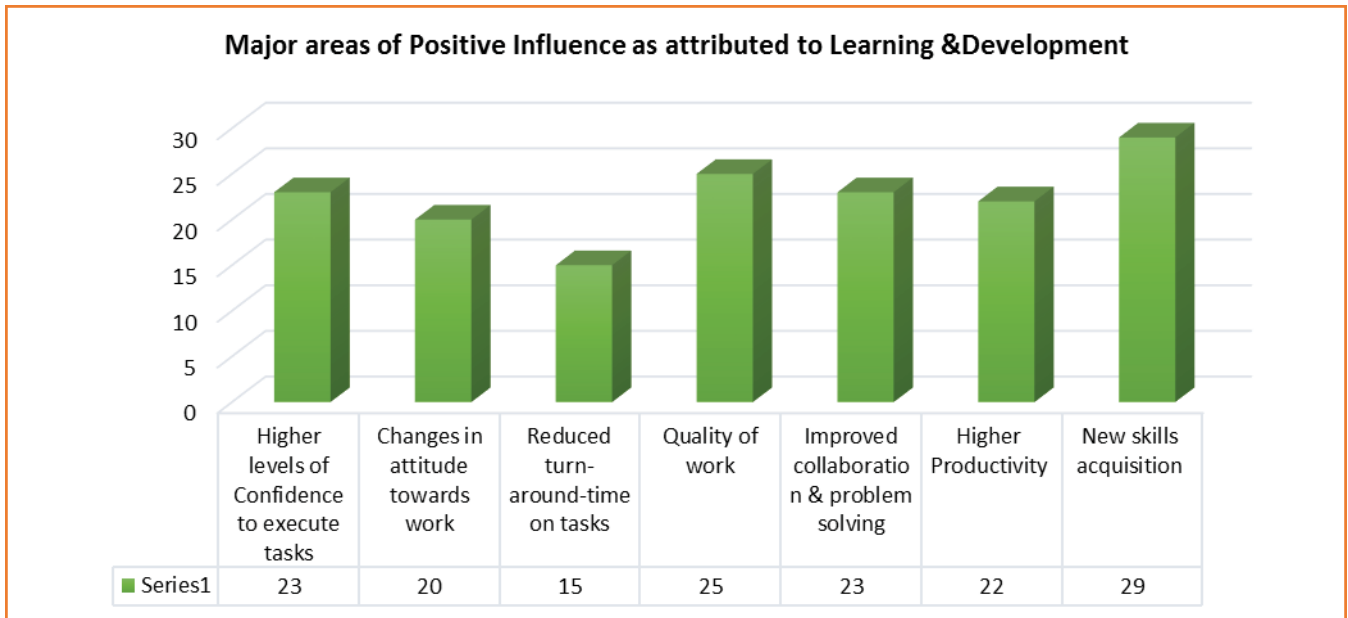
General improvements attributed to training in the Authority under the year of review. These could include culture change, change of behaviours, attitude, financials, process improvement etc. This is as summarised in the chart below:



Source: CMA Training Records (2017/2018)

### Major Areas of L&D Influence on Staff

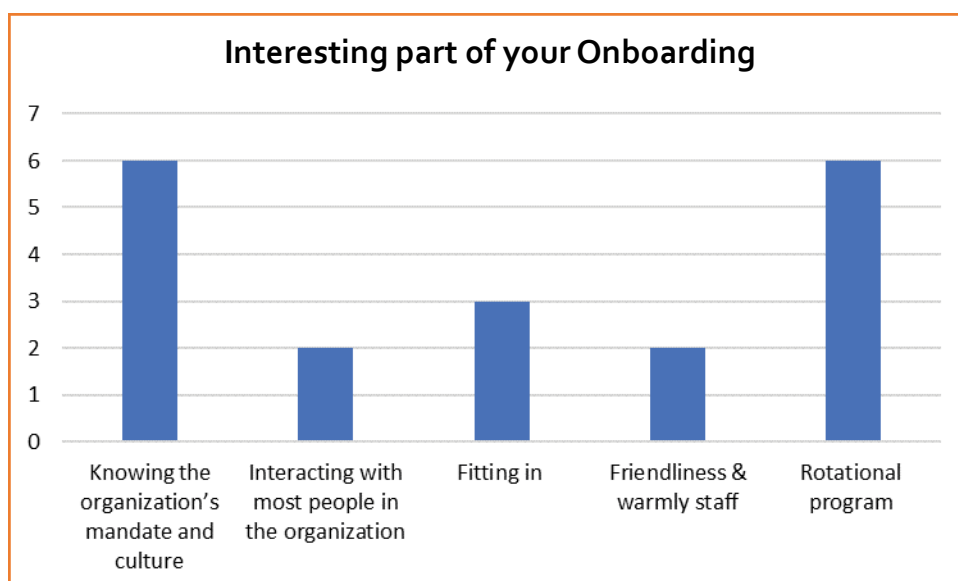
Staff were requested to rate themselves in areas of major positive influence that they would attribute to learning & development during the year under review and new skills acquisition, quality of work and increased levels of confidence to execute tasks were identified as areas with the highest influence amongst other areas as summarised below:



Source: CMA Training Records (2017/2018)

### Onboarding Experience

The goal of onboarding is to provide a supportive process that provides the new hire with the opportunity to: Build relationships; Gain knowledge about the organization and its operations; and quickly integrate into the organization. New employees complete 2 weeks, 3 months and 6 months survey to assist in gathering feedback based on the identified key onboarding processes that allow for continuous improvement of the onboarding has a long-term effect on employees' retention, engagement and productivity in an organization and therefore requires prioritization and follow through of the laid-out program. In one of the general response questions, the following summarizes the areas that onboarding had impact on them:

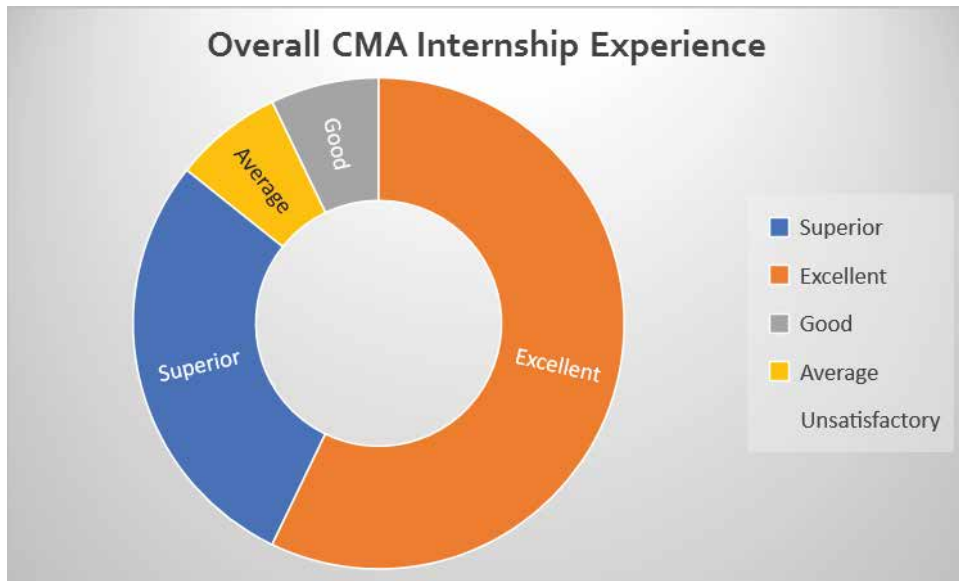


Source: CMA Training Records (2017/2018)

## HUMAN CAPITAL & ADMINISTRATION (Cont'd)

### Overall Internship Program Experience

The Authority provides recent graduates with the opportunity to acquire practical experiences to sharpen their skills and prepare them for the labour market. Graduates under internship are offered experience in a real working environment to gain insights and exposure into actual working life, to help them with subsequent career choices, as well as the opportunity to build valuable business networks. The overall experience was assessed and majority of the beneficiaries rated their experience with the programme in the overall as excellent while still a significant percentage rated as superior experience as summarized below:



Source: CMA Training Records (2017/2018)



Staff Recognition

## ORGANIZATIONAL UPDATES (Cont'd)

### CORPORATE COMMUNICATIONS

During the year, the Corporate Communications Strategy was designed to support the implementation of the Investor Education and Public Awareness Strategy. This is fundamental because the main aim of investor education and public awareness is not only to protect investors – an educated investor is a protected investor – but ultimately to improve the uptake of capital markets products and services.

To this end, the Department leveraged CMA's social media platforms namely; Facebook, Twitter, LinkedIn and YouTube to disseminate investor education information.

This is in recognition of the fact that majority of the youth, who our investor education efforts target countrywide, are accessible via social media. In October 2017 the Authority used social media as one of the many platforms through which a campaign on the World Investor Week 2017 was executed. Through the use of social media, the Authority has been able to resolve several investor queries related to private transfers, licensing and financial literacy, to name a few.

The Department prepared information on the Authority, capital markets products and services for dissemination through different communication platforms. For instance, through mutually beneficial relationships with the media, the Authority responded to over 40 media enquiries in the period under review, authored opinions editorials on topical capital markets issues for publication in print media, and facilitated media interviews and coverage of the Authority's events and corporate announcements.

One of the Authority's strategic objectives is to establish a robust, facilitative policy, legal and regulatory framework for capital market development. One way to achieve

this is by enhancing stakeholder participation and support for legislative changes. The Corporate Communications Department contributed to the results by collaborating with other departments to organize a stakeholder roundtable to discuss possible policy proposals for the financial year 2018-2019 which the Authority's Board subsequently submitted to the National Treasury & Planning for consideration.

In the period under review, the Department in collaboration with the Authority's Corporate Social Investment Management Committee (CSIMC), supported colleagues to plant 1,100 trees at the Bomas Site, Ngong Forest. The tree planting exercise was set in motion following the signing of a Memorandum of Understanding (MoU) between the Authority and Kenya Forest Service (KFS).

Through the MoU, KFS will maintain the trees for a three-year period. The Authority acknowledges that as it creates value in the course of its operations, the value has been manifested in one sense, in decreasing natural renewable capital (forests), as a result of the amount of paper that is used. As a responsible corporate citizen, the Authority seeks to replenish the natural capital that it relies on when creating value for its stakeholders.

The Authority in collaboration with the joint Financial Sector Regulators previously planted 2,200 trees in Ngong Forest, Kuwinda Grounds over a two-year period, 2013 to 2014, 80 percent of the trees planted are thriving.

The Authority is in the process of concluding the

construction of a chemistry laboratory for Nthunguni Secondary School in Machakos County. The construction of the laboratory was undertaken by involving the local community, who provided building materials. The project has been supervised by the Ministry of Public Works.

The Authority's Board in collaboration with the Boards of the Nairobi Securities Exchange and Central Depository and Settlement Corporation visited Naivasha Children's Shelter which rescues street boys, rehabilitates and reintegrates them into community and families. During the visit the Boards donated 23 toolboxes for a carpentry workshop.

Further, the joint Boards will continue to support the Shelter through a collaborative partnership which will provide vocational industrial and technical training for the parents or guardians of the children, including integrating them into value chains and promoting their goods and products. This is fundamental as it will facilitate the success of the Shelter's mission, when rehabilitated children are reintegrated into economically productive families, which are able to support their healthy upbringing.



## INVESTOR EDUCATION AND PUBLIC AWARENESS

The Authority continued to recognize investor education and public awareness as a core mandate towards creating a conducive environment that facilitates an increase in capital markets knowledge, perception and attitude. It is in this regard that the Authority implemented several strategies targeting the youth, women, county, issuers, intermediaries, structured groups and the general public. The strategies and targets included learning institutions, structured groups, counties, outsourcing strategy, national campaigns, certification, leveraging technology, partnerships, social media, educational materials and monitoring and evaluation. The key highlights of the strategies and target groups are outlined below.

### Learning institutions

The youth in Kenya represent a major target group given the importance of their role in moving our economy forward particularly with respect to Vision 2030. A total of 43 youth engagements were held in various counties inclusive of Nairobi during the reporting period representing 60% of the Authority's activities. The activities included forums, exhibitions and university visits to the Authority. In addition, the Authority also leveraged edutainment initiatives on the website such as a crossword puzzle, scavenger hunt and social media in reaching the youth through posts, videos and capital markets topical boosts.

### Structured groups

Cognizant of the potential for current and potential professionals to tap into the capital markets, the Authority held several initiatives in the period under review targeting specific structured groups through forums, exhibitions and print campaigns on major newspapers. As examples, some of the key target groups included potential issuers, staff of the Ministry of Foreign Affairs and International Trade, business journalists, various professionals, women and youth investment groups as well as the

Diaspora. A total of 24 forums and exhibitions were held during the year under review representing 34% of the total number of outreach programs.

Given the importance of potential issuers as a key target group to raise funds through the capital markets, the Authority held a Business Incubator and Accelerator on the Listings Experience the previous year which presented an opportunity for companies to participate in a stage by stage, one on one, engagement with relevant intermediaries in the listing process to assist in demystifying the requirements and processes of going public and to allow successful candidates to chart their own listing roadmap.

During the period under review, the Authority began making follow up visits to select potential issuers with the heads of respective organizations on an appointment basis in partnership with the NSE and select intermediaries. The Authority will continue with this initiative to allow for effective discussions through the listing process.

### Counties

County initiatives continued to be a key strategy during the period. The Authority conducted various initiatives targeting the various constituents in 16 Counties as follows: Nairobi, Karatina, Nyeri, Eldoret, Kisii, Meru, Murang'a, Kiambu, Homa Bay, Bondo, Kisumu, Kitui, Garissa, Kirinyaga, Muranga, and Mombasa. In addition, the Authority also leveraged vernacular radio to disseminate capital markets information as well as create awareness of staff presence in select counties.

### Outsourcing Strategy

The Authority had introduced a Capital Markets Resource Persons initiative the previous year that allows for professionals to conduct investor education speaking engagements targeting the Counties, University Students and Structured Groups over

a period of twelve (12) months on a part time basis. In this regard and to increase coverage, the Authority recruited and trained an additional 12 new Capital Markets Resource Persons in the period under review. The outsourcing strategy has been effective as demonstrated by a total of 42 forums which were held during the financial year representing 59% of the total number of forums held in 16 Counties.

### National campaigns

The Authority is cognizant of the general public being a key target group with respect to increased awareness of the capital markets. The Authority implemented a combination of social media, technology, print and electronic media to disseminate information to the public.

Key to national campaigns was the launch of the World Investor Week (WIW) 2017 on Friday 29th September 2017 in an event graced by key market stakeholders. The World Investor Week (WIW) 2017 took place from 2-8 October 2017. The week-long event was a global outreach by securities regulators aimed at raising awareness about the importance of investor education and protection. The WIW 2017, an initiative of the International Organization of Securities Commissions (IOSCO), saw 78 countries in six continents executing investor focused activities.

During WIW 2017, the Authority conducted engagements targeting university students, investor education outreach through Huduma Centers in Meru and Eldoret to encourage participation at the county level by taking advantage of Huduma Center's ability to attract the public, radio campaigns, a social media campaign and a competition, "The Scavenger Hunt" on the online Resource Centre Portal. The event added impetus to the Authority's Investor Education and Public Awareness Strategy, which has seen CMA reach over 60,000 people in 30 counties.



### Certification

During the year under review, the Authority was able to facilitate an increase in uptake of the domesticated International Certification Standards for Market Intermediaries Programme from 35 candidates in 2015, 559 in 2016 and 1,289 as of 30 May, 2018 in collaboration with the Chartered Institute for Securities and Investment (CISI). Additionally, Kenya emerged as one of the highest pass rates for the Introduction to Securities and Investments Kenya (ISII Kenya) at 75% against a global average of 58%. Outside the UK, in 2017 Kenya was ranked 6th in the CISI's top exam after UAE, India, Cyprus, Spain and South Africa.

Further, to promote certification as well as recognize select candidates, CMA in collaboration with CISI organized an inaugural Certification Award Breakfast Forum to recognize industry practitioners who have excelled in the exams as well as create an opportunity to engage stakeholders on future certification developments. The event presented an opportunity for the Authority to discuss the upcoming Continuous Professional Development (CPD) for industry practitioners. The Authority has begun development of a Continuous Professional Development (CPD) program for capital markets practitioners in collaboration with CISI.

### Leveraging Technology

The Authority is also cognizant of the critical role that technology plays with respect to outreach programs in terms of efficiency and reach. It is in this regard that the Authority continued to revamp its Resource Center Portal with a view to include more information that the public can access. In addition a scavenger hunt competition to retrieve specific information from the portal attracted

a total of 2,316 participants. Further, a capital markets crossword puzzle was also introduced during the year.

### Partnerships

An effective investor education strategy cannot be achieved alone given the scope that includes, time, human and financial resources among others. It is in this regard that the Authority partnered with several stakeholders in awareness activities that included forums, exhibitions, competitions and print materials. Examples of key partners during the period included capital markets intermediaries, learning institutions, the Chartered Institute for Securities and Investment, Certified Financial Analyst East Africa (CFA East Africa), Association of Chartered Certified Accountants (ACCA), Ministry of Foreign Affairs and International Trade and development partners such as Financial Sector Deepening Africa (FSD Africa).

### Social Media

The Authority leveraged Social Media with specific focus on Facebook and Twitter by creating boosts to promote events as well as capital markets topical videos and information to encourage dialogue. Social Media was a key information dissemination tool particularly targeting the youth.

### Educational materials

The Authority continued to amend and reprint all investor education brochures with a view to make them more effective, robust and more appealing to the readers. Key to the materials was the continued adjustments of all presentations used during capital markets forums.

### Monitoring and Evaluation

The Authority utilizes evaluation forms in all its engagements where applicable with a view to receive feedback as well as gauge areas for

refinement. Key to monitoring and evaluation is the conclusion of a Capital Markets Investor Behavioural and Situational Analysis Study to facilitate a more robust strategy, inform the development of a White Paper on a Consumer Financial Education Framework pertaining to the capital markets as a step towards the development of a National Consumer Financial Education Strategy as well as development of an Impact Assessment Measurement Index that the Authority can use to gauge the impact of its investor education program going forward. Some examples of key strategies that will inform a more robust investor education strategy include the following:

- More focused selected County engagements informed by data;
- More streamlined target groups within a period also informed by data;
- Target winners of lotteries with skills on management of windfall money some of which can be invested in financial securities;
- Inclusion of influencers or ambassadors on social media including sports personnel to be used to propagate messages on money management and financial literacy to youth;
- Identification of specific diaspora-suitable products (such as REITs) and either plan visits to selected countries or partner with government agencies such as Ministry of Foreign Affairs and entities such as the Kenya Tourism Board (KTB);
- Increased Social Media and Edutainment;
- Facilitation of a conducive environment by enabling intermediaries to drive the products akin to what happens in the banking sector.



## OVERVIEW OF INVESTOR EDUCATION ACTIVITIES



A group photo for Senior Staff of Ministry of Foreign Affairs & International Trade, Capital Markets Authority IEPA Team and Resource Person after an Investor Education Forum for the Ministry staff held on May 29, 2018 at KICC, Nairobi



CMA Representatives (seated) attending to participants in a CMA exhibition stand during an open day for one of the University's Career Week held in Nairobi on February 22-23, 2018.



CMA Staff, Mr. Halkano Huqa, taking Garissa NEP College of Health Sciences students through an investor education session in Garissa County in March 2018



CMA staff Mr. Geoffrey Rutto and CMA Resource Person Mr. Nebart Avutswa attending to members of the public at Kakamega Huduma Centre during the World Investor Week 2017 observed from October 2-8, 2017.



CMA staff Mr. Halkano Huqa addressing potential investors during the world investor week forum held on 6th October 2017 at Meru Huduma Centre in Meru County.





CMA staff, Mrs. Lucy Njaramba and Resource Person, Daniel Nyachiro, making a presentation to students at one of the Universities in Kiambu County in May 2018.



A group photo of the presenters at the Business Editors Breakfast Forum at the Hilton Hotel, Nairobi on May 29, 2018 (From Left: Mr. Paul Muthaura, MBS – Chief Executive CMA; Ms. Marion Mwangi – Head of ACCA Kenya, Mr. Bernard Amuka, Head Accounting Advisory Services KPMG and Mr. David Omwoyo, CEO Media Council of Kenya)



A group photo for Karatina University Students and CMA representatives after an investor education forum at the University's main campus in Nyeri County.



CMA staff Mr. Geoffrey Rutto and Ms. Rose Mkongo addressing a potential investor during the world investor week forum held on 6th October 2017 at Eldoret Huduma Centre in Uasin Gishu county.



CMA staff, Ms. Esther Gitonga talking to a student after an investor education forum attended by 250 students and staff of South Eastern Kenya University (SEKU) in Kitui County.

## DERIVATIVES UNIT

The Authority finalized the preparations for the derivatives pilot test roll out scheduled to take place in a period of six months within the first half of the 2018/19 Financial Year. The pilot test rollout is restricted to select market participants and the product category focused on Equity Indexes and selected Single Stock Futures. The overarching aim of the pilot test phase, was to test the functionality and process of end to end transactions in a live environment. In addition, the pilot test phase will inform policy and regulatory decisions on the official roll out of the Derivatives Market.

In order to ensure adequate capacity before the pilot phase, The Authority has continued to engage the market through running a series of market

awareness programs on Exchange Traded Derivatives. In the 2017/2018 financial year, the Derivatives Unit held four awareness sessions targeting respective functional areas to support the smooth operationalization of the derivatives market. The awareness program focused on the following areas; market intermediaries, policy makers value proposition on derivatives, technical training in trading and use of derivatives contracts to hedge against risk, Regulatory and coordinated supervision of Derivatives Market, compliance reporting and risk management.

In order to ensure orderly and transparent market and in line with its mandate to maintain efficient and smooth functioning financial markets,

the Central Bank of Kenya (CBK) granted a provisional approval to the Stanbic Bank of Kenya and the Co-operative Bank of Kenya to participate as clearing and settlement members during the derivatives pilot testing phase.

Finally, the Authority together with CBK and NSE constituted the Derivatives Market Technical Advisory Committee (DTAC) to facilitate information sharing, provide market and technical advice to the institutional heads of the Capital Markets Authority, the Central Bank of Kenya, and the Nairobi Securities Exchange. The committee continues to track emerging cross-cutting issues and proposed recommendations for resolution.

## MARKET DEVELOPMENT

### A. RESEARCHES AND PUBLICATIONS

In the 2017/18 Financial Year, the Authority conducted research studies and publications and provided inputs to financial sector joint publications as highlighted below;

#### i) Study on factors behind Low Uptake of Capital Markets Products and Services

While the Authority has made significant progress towards innovation, development and introduction of new products through supporting legal and regulatory frameworks, uptake of both traditional and structured products has remained relatively low over time. During the Financial Year, the authority conducted a study to identify the underlying reasons behind low uptake of capital markets products and services. The findings and recommendations of the paper culminated in a stakeholder workshop held in partnership with the Nairobi Securities Exchange, held in June 2018.

In the workshop, stakeholders were able to share insights with the Authority on approaches that need to be implemented to increase the uptake of capital markets products in the country and further grow the market. The Authority is developing an action plan based on recommendations from the workshop to ensure implementation is effected. The paper can be accessed from the Authority's website. Further, the forum was used to discuss a new concept dubbed Rapid Mass Visibilities Strategy being spearheaded by the Nairobi Securities Exchange (NSE) and the Kenya Association of Stockbrokers and Investment Banks (KASIB).

Overall, the Capital Markets Industry agreed to work more closely together to enhance product uptake and listings at the Nairobi Securities Exchange (NSE) to meet the aspirational objectives of the 10-year Capital Market Master Plan (2014-2023).

#### ii) Research into Central Counter Parties (CCP)

The usage of Central Counterparty (CCP) services has become widespread globally, with equities, repos, exchange-traded products and futures products using CCPs to interpose themselves between counter parties to a contract, becoming the buyer to every seller and the seller to every buyer. In these markets, a close alignment between a centralized marketplace (an exchange or alternative trading platform) and a related CCP or CCPs is standard practice and considered to be an optimal Capital Market arrangement. The Authority conducted research into this area to provide an overview on the evolution, structure and operational framework of Central Counter Parties and evaluate Kenya's readiness for the market with a securities Central Counter-Party as part of its efforts to improve operational efficiency for better performance.

iii) Share Buy Backs Concept Paper Globally, effecting a share buy-back is one of the ways of consolidating shareholding and potentially,

## ORGANIZATIONAL UPDATES (Cont'd)

improving value. In a share buy-back programme, a company redistributes its excess cash flow among its existing shareholders by repurchasing its own shares, usually at a premium, thus consolidating shareholding among fewer shareholders while potentially improving the earnings per share. During the Financial Year 2017/2018, the Authority developed a concept paper on the pros, cons and modalities of conducting a share buy-back while highlighting how it is handled in other jurisdictions. The recommendations of the paper will guide Kenya capital markets' policy and regulatory response on share buy-backs.

### iv) Concept Paper on Free Float

A company's free float is important to existing and prospective investors because it gives an indication of the ease of entry and exit into a counter, thus improving investor confidence and minimizing chances of high share price volatility. The 2013 – 2023 Capital Market Master Plan recognizes low liquidity levels in the country's securities markets as one of the challenges adversely affecting the Kenyan markets.

In order for the country to achieve the ambition of becoming a middle-income economy by 2030, its market stakeholders have to double efforts to significantly deepen the financial markets as a way of enabling capital markets to meet minimum liquidity thresholds so that they can qualify for international investor attention through highlights in such international benchmarks as the MSCI index. During the Financial Year 2017/2018, in order to help identify the key challenges and determine new approaches that could be used to improve the level of free float, the Authority developed a concept paper to establish the indicative level of free float in Kenya's capital markets.

### v) Ease of Doing Business Analysis Report

Ease of Doing Business Report (EoDBR) is a World Bank group

flagship publication generated annually since 2002, to evaluate regulations in different countries and determine their capacity to enhance or restrict business operations. In the most recent publication of EoDBR (2018), Kenya significantly improved its position from 129 (2013) to 80 (2017) in worldwide rankings (the lower the rank number, the better the business environment). The Authority developed the paper to identify potential capital markets factors that could be taken into consideration to improve the country's overall ease of doing business and thus attract more foreign investment inflows, with the protection of minority investors and establishment of appropriate corporate governance structures as key factors.

### vi) Foreign Investor Survey

Since 2010, the Kenya National Bureau of Statistics (KNBS) in collaboration with the Central Bank of Kenya (CBK) and the Kenya Investment Authority (KenInvest) has been conducting and publishing the Foreign Investment Survey (FIS). The survey report evaluates and monitors the progress and growth of foreign investments in Kenya. The Capital Markets Authority has been instrumental in providing relevant data on Foreign Portfolio flows and in the actual development of the FIS Report. The most recent FIS report is the FIS 2016 which was released in December 2017.

### vii) Fin Access Report

The Authority provided the relevant capital markets' input to the FinAccess 2018 Questionnaire developed by the Financial Sector Deepening Kenya FSD (K) in conjunction with the Central Bank of Kenya (CBK), KNBS and Financial Services industry regulators to measure the drivers and usage of financial services in Kenya, thus helping inform policy on Financial access in the country.

### viii) CBK @50 Book

As part of the commemoration of CBK @ 50 anniversary held in

September 2016, the Central Bank of Kenya invited the Authority to contribute to a book it was writing emphasizing key developments in the economic and financial sector since its establishment. In January 2018, the Authority gave submissions towards a chapter in the book titled 'Evolution of the Financial Sector in Kenya'. The submission touched on areas such as the structure of the capital markets in Kenya, the capital markets in the pre-independence era, as well as the 1963-1990 and the 2003 – 2015 transformational period, opportunities and innovations that lie ahead.

### ix) Kenya Financial Sector Stability Report

The Authority provided a capital markets input to the Kenya Financial Sector Stability Report 2017. This is a joint annual publication prepared by Kenya's Financial Sector Regulators, namely; the Central Bank of Kenya, Capital Markets Authority, Insurance Regulatory Authority, Retirement Benefits Authority and Sacco Societies Regulatory Authority. The publication is one of the outputs of the several areas of mutual interest agreed through a Memorandum of Understanding (MOU) for collaboration among the Kenyan Financial Sector Regulators. The publication provides an assessment of key developments in Kenya's financial markets, highlighting key developments, risks, vulnerabilities and growth opportunities resulting from global, regional and domestic factors.

### x) The Oxford Business Group Report Kenya 2017

During the review period, the Authority provided capital markets-related content for inclusion in the Oxford Business Group Report for Kenya 2017. The publication aimed to highlight Kenya's position in the EAC and Sub-Saharan Africa regions.

### xi) CMA Publications

During the period, the Authority



## MARKET DEVELOPMENT (Cont'd)

developed and published the Capital Markets Statistical Bulletins and Soundness Reports, with both being quarterly publications. The Bulletins summarize the capital markets statistical performance indicators, while the Soundness Reports serve to contextualize major developments and occurrences in Kenya and beyond, while highlighting the lessons and implications of those events for Kenya, to inform strategies aimed at mitigating key risks affecting Capital Markets in Kenya and leveraging on the opportunities presented. The Authority also provided Capital Markets relevant inputs to other reports such as the Africa/ Middle-East Regional Committee (AMERC) Quarterly, East Africa Securities Regulators Association (EASRA) Country Reports and inputs to the International Organization of Securities Commissions (IOSCO) reports.

### xii) Other Researches

- A predictive paper on the Authority's future income performance: This was a seminal research that sought to evaluate the Authority's historical performance (2012-2017) to help identify the key contributors to its income with a view to making recommendations on how the Authority could position itself to improve its revenue performance and sources.
- A Concept paper on the approaches to attracting High Net worth Individuals (HNWIs) to Kenya's Capital Market: This Research was done with the main objective being to develop a benchmark for identification of high net worth individuals in the Kenyan capital markets so as to help in properly targeting messaging of promotional capital market information.
- Discussion paper on access to finance for development of affordable low-income cost/middle income housing in Kenya: This Paper was also developed to initiate discussions with the

Ministry of Housing and Urban Development in line with the provision of affordable housing – a key Big Four Agenda project.

- Concept paper on Separate Trading of Registered Interest and Principle of Securities (STRIPS): This Paper was developed to help diversify the portfolio of products available to investors. STRIPS are created to essentially provide investors with an option to investors keen on meeting unique investment objectives that may be difficult to achieve using traditional bonds and other fixed income notes. The research paper sought to study the origin, history, structure and operational framework of STRIPS with an aim of exploring their feasibility in Kenya and the requisite legal and regulatory changes that might have to be effected to facilitate implementation.

## B. RESEARCH OPERATIONALIZATION, NEW PRODUCTS AND INNOVATIONS

During the year, the Authority actively pursued operationalization of past research studies as part of the market development initiatives within the 10-year Capital Market Master Plan. These included;

### a) Online Forex Trading

In line with its strategic objective of widening financial products in the Kenyan market, the Authority granted a non-dealing Online Forex Broker License to EGM Securities on February 5, 2018. This followed the Gazettement of the Capital Markets (Online Foreign Exchange Trading) Regulations, 2017 on 25 August 2017 compelling all Kenyan online foreign exchange non dealing brokers to obtain a license from the Authority to continue to be in the business. This is also in line with the Authority's efforts to exercise a measure of regulatory oversight over online forex business to ensure adequate arrangements are in place for investor protection.

### b) Global Depository Notes and

### Global Depository Receipts

On July 2017, the Authority approved a Policy Guidance Note (PGN) on Global Depository Receipts (GDR's) and Global Depository Notes (GDN's). The PGN is a guide on the operational environment for GDRs and GDNs and will inform the ultimate design of a comprehensive legal and regulatory framework for the products. The PGN was issued pursuant to section 12A of the Capital Markets Act which provides for a principle-based approval process used in facilitating the market to ensure a more timely introduction of new products.

The Policy Guidance Note on GDRs and GDNs provides for among other things, the responsibility for issuance of Depository Receipts and Notes, approvals for out-bound depository notes and appointment of key stakeholders in the products' operationalization. The approval of the PGN was also instrumental in progressing the implementation of the Authority's Strategic Plan 2013-2017 and the realization of the objectives of the 10-year Capital Market Master Plan.

### c) County Financing

One of the key mandates of the Authority under the Capital Market Masterplan (CMMP) is to support the growth of the domestic economy. Identifying and analyzing the funding gap at the national and county level is noted in the CMMP as one of the key steps towards informing the requisite capital market products and services that could be utilized for faster growth of Counties.

To assist in actualizing this expected outcome, the Authority with the support of the World Bank through its Financial Sector Support Project (FSSP), on boarded a consultant in May 2017, to conduct a funding gap analysis for Kenya.

The consultancy was structured in two phases, with phase 1 covering National Government entities and phase 2, County Government entities.

Phase 1 activities were implemented through the sampling of Twenty (20) State Owned Enterprises across the country in April and May 2017. In September 2017, phase 2 of the consultancy was conducted, with a representative sample of twenty County Governments getting engaged through field visits and data collection using structured questionnaires. The consultant submitted to the Authority, a legal review report that sought to determine constraints to issuance of capital markets instruments by both National and County level entities. The report has since been reviewed through internal structures and is being finalized before a validation exercise is conducted.

#### **d) Hybrid Bond Market Kenya**

The development of a liquid and transparent bond market is imperative for Kenya to achieve the Capital Market industry's aspirations of transforming the country into the ultimate choice market for domestic, regional and international issuers and investors looking to invest and realise a return on their investments in Kenya, within East Africa and across Central Africa by 2023. To achieve the aforementioned, the Authority on-boarded consultants to support the Capital Markets in actualizing the hybrid bond market model with support from the World Bank under the National Treasury & Planning Financial Sector Support Programme.

During the period under review, the consultants submitted the Inception Report to the Authority. The report had a comprehensive review of the Kenyan bond market incorporating stakeholder views in addition to charting a roadmap for successful implementation of Kenya's hybrid bond Markets.

The consultancy will further support the development/amendment of regulations, rules and guidelines for effective and transparent bond trading operations, oversight and develop approval/ licensing frameworks

for recognition of an appropriate industry body to take up the role of a Self-Regulatory Organization (SRO) for over the counter (OTC) bond transactions and act as a market organizer.

#### **e) FinTech and Regulatory Sandbox**

Increasingly, regulators globally are realizing the potential and impact of financial technology on business and thus the need to standardize the approach to allow innovations thrive while aligning regulatory requirements with market needs in a fast-changing environment. During the financial year, with the support of the Financial Sector Deepening Kenya FSD(K), the Authority on-boarded consultants to finalize the policy framework on a regulatory sandbox to support FinTech innovations within the capital markets.

The Authority, with the facilitation of FSDK brought on board a consultant to conduct a landscaping study aimed at establishing the status, size and the relevant FinTech firms whose innovations are aligned to the Authority's regulatory sandbox initiative with the potential to revolutionize how financial products and services are offered and taken up in the country. The findings from the study formed a basis upon which the regulatory framework for the operation of the regulatory sandbox in Kenya was developed in the form of a Policy Guidance Note. The consultants in conjunction with the Authority's regulatory framework department developed a draft policy guidance for the introduction of a regulatory sandbox in the capital markets.

### **OPERATING ENVIRONMENT**

#### **GLOBAL ECONOMY**

According to World Bank Global Economic Prospects June 2018 publication, the global economy is projected to remain robust reaching 3.1 percent in 2018, but edge down to 2.9 percent by 2020, with trade

and investment contracting and financing conditions tightening, as the year 2020 approaches. Growth in advanced economies is predicted to decelerate, as monetary policy of key global players becomes clearer and the effects of U.S. fiscal stimulus become visible. In emerging markets and developing economies (EMDEs), growth is anticipated to be mild, with unpredictable fluctuations in commodity prices remaining a challenge.

#### **SUB-SAHARAN AFRICA (SSA)**

According to the African Economic Outlook 2018, 2017 was a year of recovery in which, SSA's GDP growth is estimated to have grown by 3.6 percent, up from 2.2 percent in 2016. GDP is anticipated to accelerate to 4.1 percent in 2018 and 2019. AfDB attributed the improved growth to a positive turning point in net commodity exports and Africa's resilience, despite the challenges of trade imbalances. On its part, a World Bank publication forecasts growth in the Sub-Saharan Africa region to strengthen to 3.1 percent in 2018 and to 3.5 percent in 2019.

Nigeria is anticipated to grow by 2.1 percent in 2018, as non-oil sector growth remains subdued due to low investment, and at a 2.2 percent pace next year. Angola is expected to grow by 1.7 percent in 2018 and 2.2 percent in 2019 arising from natural gas production and improved business sentiment, while South Africa is forecast to expand 1.4 percent in 2018 and 1.8 percent in 2019 as a pickup in business and consumer confidence supports stronger growth in investment and consumption expenditures.

#### **DOMESTIC ECONOMIC ENVIRONMENT**

#### **KENYA'S ECONOMIC GROWTH AND OUTLOOK**

According to the Kenya National Bureau's Economic Survey 2018, Kenya's economy is estimated to have grown by 4.9 per cent in 2017



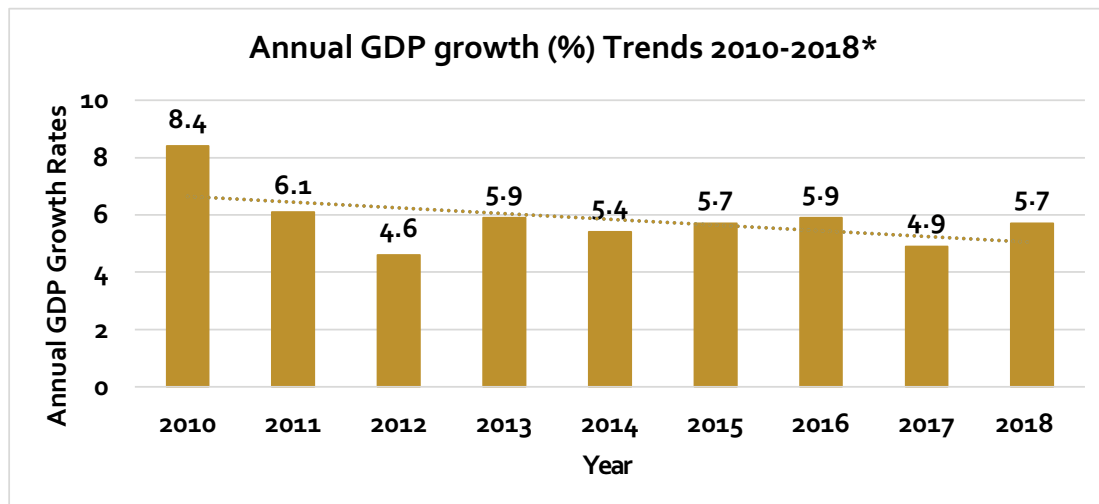
## MARKET DEVELOPMENT (Cont'd)

compared to a revised growth of 5.9 per cent in 2016. The slowdown in the performance of the economy was partly attributed to uncertainty associated with a prolonged electioneering period and effects of adverse weather conditions. KNBS indicated that generally, key macroeconomic indicators largely remained stable and therefore supportive of growth in 2017.

Interest rates declined due to the impact of their capping that became effective in September 2016. Remarkable performance improvements was noted in the information and communication, real estate and transport and storage sectors. On the other hand, construction; mining and quarrying; and financial and insurance activities registered a notable slowdown in growth.

Latest provisional estimates of Gross Domestic Product (GDP) for Kenya indicate that the economy expanded by 5.7 per cent during the first quarter of 2018 compared to 4.8 per cent in a similar quarter in 2017. The growth was mainly attributed to improved weather conditions and a boost in business and consumer confidence after the conclusion of general elections in 2017.

Kenya's Annual GDP Growth Rate- (2010-2018\*)



Source: CBK; 2018 figures are reported as at Q1 2018

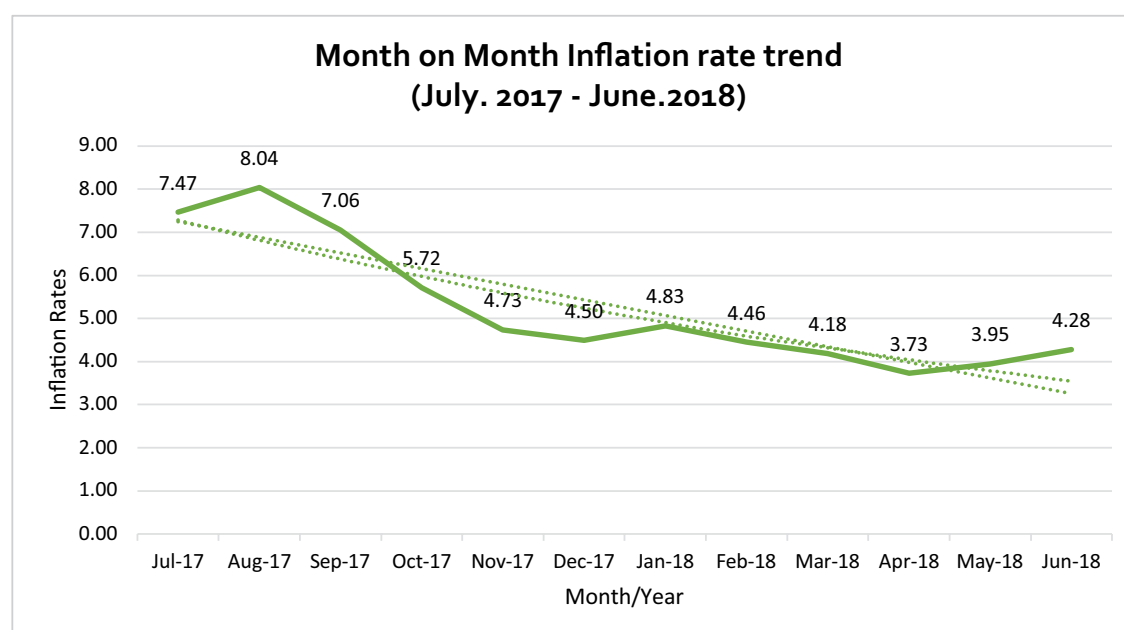
In the medium term, The National Treasury & Planning projects growth to increase by more than 6.0 per cent due to investments in strategic areas under "The Big Four" Plan, namely: increasing the share of manufacturing sector to GDP; ensuring all citizens enjoy food security and improved nutrition by 2022; expanding universal health coverage; and delivering at least five hundred thousand (500,000) affordable housing units.

### Kenya's Inflation Rate- (July 2017- June 2018)

The Kenya National Bureau of Statistics indicated that overall year-on-year inflation for Kenya stood at 4.28 per cent in June 2018, a 0.33% increase from 3.95% in May 2018. The increase was attributed to higher prices for housing and related utilities in June 2018, compared to May 2018. Housing, Water, Electricity, Gas and other Fuels' Index, increased by 0.52%

in June 2018 compared to 1.79% recorded in May 2018. This was mainly attributed to significant increases in prices of kerosene and charcoal which outweighed decreases in electricity charges. During the same review period, KNBS indicated that the Transport Index increased by 0.37%, mainly on account of increases in the pump price of petrol and diesel.

## Trend of Inflation Rate (July 2017- June 2018)



Source; KNBS Statistical Abstract 2018

## MARKET PERFORMANCE

### PRIMARY EQUITY MARKETS LISTING BY INTRODUCTION

## Listings by Introduction 2000 – 2018

| Company                   | Shares on Issue         | Year of Issue | Offer Price |
|---------------------------|-------------------------|---------------|-------------|
| Equity Bank               | 90,500,000              | 2006          | 90.00       |
| CFC Insurance Holdings    | 515,270,364             | 2011          | 6.15        |
| Trans century Limited     | 267,038,090             | 2011          | 50.00       |
| Longhorn Publishers       | 58,500,000              | 2012          | 14.00       |
| CIC Insurance             | 2,179,615,440           | 2012          | 3.50        |
| Umeme                     | 1,623,878,005           | 2012          | 8.80        |
| Home Afrika Ltd.          | 405,300,000             | 2013          | 12.00       |
| Flame Tree                | 24,287,500              | 2014          | 8.00        |
| Kurwitu Ventures          | 102,272                 | 2014          | 1,250.00    |
| Nairobi Business Ventures | 23,600,000              | 2016          | 5.00        |
| Barclays New Gold ETF     | 400,000                 | 2017          | 1,205.16    |
| <b>TOTAL</b>              | <b>5,188,091,671.00</b> |               |             |

Source: CMA Data 2018

## MARKET DEVELOPMENT (Cont'd)

### PRIMARY BOND MARKETS

#### TREASURY BONDS

During the review period, thirty (30) Treasury bonds (4 re-openings, 12 new issues, 12 tap sales and 2 Infrastructure development bond issuances) were issued as the Government sought to raise KShs. 420 billion. KShs. 372.33 billion worth of bond applications were received, with the Government accepting KShs. 316.99 billion. The two (2) new infrastructure bonds

issued in November 2017 and January 2018 sought to raise KShs. 70 billion. KShs. 101.67 billion worth of bond applications were received with the Government accepting KShs. 83.28 billion including the tap sale of the January IFB issuance. Additionally, KShs. 106.9 billion was raised from tap sales during FY 2017/18.

In the 2016/17 Fiscal year, twenty (20) Treasury bonds (i.e. eleven re-opening, 7 new issues and 2 M-Akiba

bond issuances) were issued as the Government sought to raise KShs. 361.15 billion. KShs. 443.88 billion worth of bond applications were received, with the Government accepting KShs. 298.43 billion. Out of the 20, there were two (2) new infrastructure bonds issued in October 2016 and February 2017 both seeking to raise KShs. 60 billion. KShs. 70.12 billion worth of bond applications was received with the Government accepting KShs. 36.57 billion.

| Bond Issue       | Tenor   | Due Date   | Offered (KShs. Bn) | Bids (KShs. Bn) | Accepted (KShs. Bn) | Performance Rate (%) | Coupon Rate | Average Yield |
|------------------|---------|------------|--------------------|-----------------|---------------------|----------------------|-------------|---------------|
| <b>Q3.2017</b>   |         |            |                    |                 |                     |                      |             |               |
| <b>Jul.2017</b>  |         |            |                    |                 |                     |                      |             |               |
| FXD 1/2017/10    | 10-year | 19/07/2027 | 30.00              | 19.04           | 5.19                | 63.48%               | 12.97%      | 13.32%        |
| Tap Sale         |         |            |                    | -               | 7.02                |                      |             | 12.97%        |
| <b>Aug.2017</b>  |         |            |                    |                 |                     |                      |             |               |
| FXD 1/2017/5     | 5-year  | 22/08/2022 | 30.00              | 18.72           | 12.11               | 88.90%               | 12.47%      | 12.55%        |
| FXD 1/2017/10    | 10-year | 19/07/2027 |                    | 7.95            | 5.48                |                      | 12.97%      | 13.18%        |
| Tap Sale         |         |            |                    | -               | 17.49               |                      |             | 12.47%        |
| <b>Sept.2017</b> |         |            |                    |                 |                     |                      |             |               |
| FXD 1/2017/2     | 2-year  | 23/09/2019 | 30.00              | 34.41           | 20.69               | 147.72%              | 11.62%      | 11.76%        |
| Tap Sale         |         |            |                    | -               | 11.14               |                      |             | 11.62%        |
| FXD 1/2017/10    | 10-year | 19/07/2027 |                    | 9.91            | 6.29                |                      | 12.97%      | 13.16%        |
| Tap Sale         |         |            |                    | -               | 0.63                |                      |             | 13.07%        |
| <b>Q4.2017</b>   |         |            |                    |                 |                     |                      |             |               |
| <b>Oct. 2017</b> |         |            |                    |                 |                     |                      |             |               |
| FXD2/2017/5      | 5-year  | 17/10/2022 | 30.00              | 20.08           | 13.50               | 66.93%               | 12.52%      | 12.62%        |
| Tap Sale         |         |            |                    |                 | 7.25                |                      |             | 12.52%        |
| <b>Nov.2017</b>  |         |            |                    |                 |                     |                      |             |               |
| IFB1/2017/7      | 7-year  | 18/11/2024 | 30.00              | 45.91           | 42.02               | 153.04%              | 12.50%      | 12.28%        |
| <b>Dec.2017</b>  |         |            |                    |                 |                     |                      |             |               |
| FXD1/2008/15     | 15-year | 13/03/2023 | 30.00              | 10.09           | 4.68                | 72.97%               | 12.50%      | 12.69%        |
| Tap Sale         |         |            |                    | -               | 2.68                |                      |             | 12.58%        |
| FXD1/2017/10     | 10-year | 19/07/2027 |                    | 11.81           | 5.37                |                      | 12.97%      | 13.23%        |
| Tap Sale         |         |            |                    | -               | 5.14                |                      |             | 13.09%        |
| <b>Q1.2018</b>   |         |            |                    |                 |                     |                      |             |               |
| <b>Jan. 2018</b> |         |            |                    |                 |                     |                      |             |               |
| IFB1/2018/15     | 15-year | 10/01/2033 | 40.00              | 55.76           | 5.04                | 139.39%              | 12.50%      | 13.03%        |
| Tap Sale         |         |            |                    | -               | 36.22               |                      |             | 12.51%        |
| <b>Feb. 2018</b> |         |            |                    |                 |                     |                      |             |               |
| FXD1/2010/15     | 15-year | 10/03/2025 | 40.00              | 7.97            | 4.44                | 60.35%               | 10.25%      | 12.76%        |
| Tap Sale         |         |            |                    | -               | 0.32                |                      |             | 12.68%        |
| FXD2/2013/15     | 15-year | 10/04/2028 |                    | 16.18           | 8.76                |                      | 12.00%      | 13.00%        |
| Tap Sale         |         |            |                    | -               | 3.50                |                      |             | 12.91%        |
| <b>Mar.2018</b>  |         |            |                    |                 |                     |                      |             |               |
| FXD1/2018/5      | 5-year  | 20/03/2023 | 40.00              | 37.65           | 23.07               | 128.46%              | 12.30%      | 12.39%        |
| Tap Sale         |         |            |                    | -               | 7.74                |                      |             | 12.30%        |
| FXD1/2018/20     | 20-year | 01/03/2038 |                    | 13.74           | 8.49                |                      | 13.20%      | 13.42%        |
| Tap Sale         |         |            |                    | -               | 7.77                |                      |             | 13.34%        |

| Bond Issue       | Tenor   | Due Date   | Offered (KShs. Bn) | Bids (KShs. Bn) | Accepted (KShs. Bn) | Performance Rate (%) | Coupon Rate | Average Yield |
|------------------|---------|------------|--------------------|-----------------|---------------------|----------------------|-------------|---------------|
| <b>Q2. 2018</b>  |         |            |                    |                 |                     |                      |             |               |
| <b>Apr. 2018</b> |         |            |                    |                 |                     |                      |             |               |
| FXD1/2008/15     | 15-year | 13/03/2023 | 40.00              | 22.86           | 20.15               | 81.92%               | 12.50%      | 12.35%        |
| FXD1/2018/20     | 20-year | 01/03/2038 |                    | 9.90            | 6.78                |                      | 13.20%      | 13.40%        |
| <b>May 2018</b>  |         |            |                    |                 |                     |                      |             |               |
| FXD1/2018/15     | 15-year | 09/05/2033 | 40.00              | 20.22           | 12.86               | 50.54%               | 12.60%      | 13.17%        |
| <b>Jun. 2018</b> |         |            |                    |                 |                     |                      |             |               |
| FXD1/2018/25     | 25-year | 25/06/2018 | 40.00              | 10.13           | 5.17                | 25.33%               | 13.40%      | 13.68%        |

Source: CBK/CMA Data 2018

## CORPORATE BONDS

### Corporate Bonds Issues as at June 2018

During the financial year there was one corporate bond issuance by EABL, being a second tranche, five year bond issuance.

| ISSUER  | ARRANGERS                     | APPROVED AMOUNT | ISSUED AMOUNT     | APPROVAL DATE | ISSUE DATE | MATURITY DATE | Mar-18        |
|---|-------------------------------|-----------------|-------------------|---------------|------------|---------------|---------------|
| Centum Bond Senior Unsecured Fixed Rate and Equity Linked notes | CFC Stanbic Bank              |                 |                   |               |            |               |               |
| CTNB.BD.08.06.20/13   |                               | 6,000,000,000   | 3,899,226,700     | May-15-2015   | 15-Jun-15  | 8-Jun-20      | 3,899,226,700 |
| CTNB.BD.08.06.20/12.5   |                               |                 | 2,100,773,300     | May-15-2015   | 15-Jun-15  | 8-Jun-20      | 2,100,773,300 |
| Consolidated Bank of Kenya Ltd Medium Term Note Programme       | NIC Capital                   | 4,000,000,000   |                   |               |            |               |               |
| CON.BD-FXD(SN)/2012/7Yr   |                               | 1,481,600,000   | 1,480,600,000     | 21-Jun-12     | 30-Jul-12  | 24-Jul-19     | 1,480,700,000 |
| CON.BD-FXD(SBN)/2012/7Yr  |                               |                 | 196,500,000       | 21-Jun-12     | 30-Jul-12  | 22-Jul-19     | 78,600,000    |
| CON.BD-FR(SN)/2012/7Yr  |                               |                 | 1,000,000         | 21-Jun-12     | 30-Jul-12  | 22-Jul-19     | 1,000,000     |
| Shelter Afrique Medium Term Notes                               | CFC Stanbic Bank              |                 |                   |               |            |               |               |
| FXD 1/13/05Yr   |                               | 5,000,000,000   | 4,239,700,000     | 3-Sep-13      | 30-Sep-13  | 24-Sep-18     | 699,550,498   |
| FR 1/13/05Yr  |                               |                 | 760,300,000       | 3-Sep-13      | 30-Sep-13  | 24-Sep-18     | 125,449,500   |
| Kengen Public Infrastructure Bond Offer 2019                    | Standard Chartered Bank       |                 |                   |               |            |               |               |
| FXIB 1/2009/10Yr  |                               | 25,000,000,000  | 14,062,000,000.00 | 27-Aug-09     | 2-Nov-09   | 31-Oct-19     | 6,258,031,256 |
| Housing Finance Medium Term Note                                | NIC & Stand. Chart. Bank      |                 |                   |               |            |               |               |
| FXD (HFCK) 02/2012/7Yr 2nd Tranche                              |                               |                 | 2,969,100,000     | 16-Oct-12     | 22-Oct-12  | 14-Oct-19     | 2,969,100,000 |
| I&M Medium Term Note  | Dyer and Blair I B            |                 |                   |               |            |               |               |
| FXD I&M-01/13/5.25  |                               | 10,000,000,000  | 3,429,000,000     | 14-Nov-13     | 13-Dec-13  | 8-Mar-19      | 3,429,000,000 |
| FRN I&M-01/13/5.25  |                               |                 | 226,000,000.00    | 14-Nov-13     | 13-Dec-13  | 9-Mar-19      | 226,000,000   |
| BRITAM Medium Term Note   | Dyer and Blair I B            | 6,000,000,000   | 6,000,000,000     | 6-Jun-14      | 22-Jul-14  | 8-Mar-19      | 6,000,000,000 |
| UAP HOLDINGS MTN  | CFC Stanbic Bank & SBG Sec    | 2,000,000,000   | 2,000,000,000     | 24-Jun-14     | 28-Jul-14  | 22-Jul-19     | 2,000,000,000 |
| NIC MEDIUM TERM NOTE  | NIC Capital Limited           | 8,000,000,000   | 5,517,600,000     | 8-Aug-14      | 8-Sep-14   | 9-Sep-19      | 5,517,600,000 |
| CIC INSURANCE GROUP LTD MTN                                     | NIC Capital Limited           | 5,000,000,000   | 5,000,000,000     | 10-Sep-14     | 8-Oct-14   | 2-Oct-19      | 5,000,000,000 |
| STANBIC MULTICURRENCY MTN                                       | CFC Stanbic Bank              | 5,000,000,000   | 5,080,000,000     | 3-Nov-14      | 15-Dec-14  | 8-Dec-21      | 4,000,000,000 |
| CBA FIXED MEDIUM TERM NOTE                                      | CBA Capital                   | 8,000,000,000   | 7,000,000,000     | 21-Nov-14     | 22-Dec-14  | 14-Dec-20     | 7,000,000,000 |
| EABL FIXED MEDIUM TERM NOTE                                     | CFC Stanbic Bank              |                 |                   |               |            |               |               |
| First Tranche - EABB.BD.19/03/18-0034-12.95                     |                               | 5,000,000,000   | 5,000,000,000     | 23-Feb-15     | 23-Mar-15  | 19-Mar-18     | 5,000,000,000 |
| Second Tranche - EABB.BD.28/03/22-0052.14.17                    |                               | 6,000,000,000   | 6,000,000,000     | 29-Mar-17     | 3-Apr-17   | 28-Mar-22     | 6,000,000,000 |
| REAL PEOPLE MEDIUM TERM NOTE                                    | NIC Capital                   | 5,000,000,000   |                   | 25-Jun-15     |            |               |               |
| RPBD.BD.19/04/21-0049-13.75                                     |                               |                 | 267,600,000       |               | 10-Aug-15  | 6-Aug-18      | 267,600,000   |
| RPBD.BD.03/08/20-0047-13.65                                     |                               |                 | 1,363,900,000     |               | 10-Aug-15  | 3-Aug-20      | 1,363,900,000 |
| FAMILY BANK MEDIUM TERM NOTE                                    | Faida Inv. Bank & NIC Capital | 10,000,000,000  |                   |               |            | 19-Apr-21     |               |
| FAMILY-FLT  |                               |                 | 1,297,600,000     | 22-Sep-15     | 26-Oct-15  |               | 1,297,600,000 |
| FAMILY-MXD  |                               |                 | 600,800,000       |               | 27-Oct-15  |               | 600,800,000   |
| FAMILY- FXD   |                               |                 | 120,400,000       |               | 28-Oct-15  |               | 120,400,000   |
| IMPERIAL BANK MULTI-CURRENCY MTN                                | Dyer & Blair Investment Bank  | 2,000,000,000   |                   | 12-Aug-15     |            |               | 2,000,000,000 |

## MARKET DEVELOPMENT (Cont'd)

| ISSUER                               | ARRANGERS                     | APPROVED AMOUNT | ISSUED AMOUNT | APPROVAL DATE | ISSUE DATE | MATURITY DATE | Mar-18                |
|--------------------------------------|-------------------------------|-----------------|---------------|---------------|------------|---------------|-----------------------|
| CHASE BANK FIXED MEDIUM TERM NOTE    | Genghis Capital & NIC Capital | 10,000,000,000  | 4,822,400,000 | 19-May-15     | 10-Jun-15  | 2-Jun-22      | 4,822,400,000         |
| <b>TOTAL OUTSTANDING AMOUNT Kshs</b> |                               |                 |               |               |            |               | <b>72,257,731,254</b> |

Source: CMA Data 2018

### RIGHTS ISSUES

#### Rights Issues 2007-2018

During the 2017/18 Financial Year there were no right issues.

| Company            | Shares on Issue      | Date of Issue | Offer Price               | Sum Raised        | Subscription level |
|--------------------|----------------------|---------------|---------------------------|-------------------|--------------------|
| Olympia Capital    | 30,000,000           | 2007          | 14.00                     | 428,400,000.00    | 102%               |
| DTB 23,291,015     | 2007                 | 70.00         | 2,902,060,469.00          | 178%              |                    |
| NIC Bank           | 16,482,910           | 2007          | 70.00                     | 1,719,167,513.00  | 149%               |
| HFCK               | 115,000,000          | 2008          | 20.00                     | 2,369,000,000.00  | 103%               |
| KCB 221,777,777    | 2008                 | 25.00         | 8,122,024,075.00          | 146.0%            |                    |
| KCB 887,111,110    | 2010                 | 17.00         | 12,500,000,000.00         | 82.5%             |                    |
| TPS East Africa    | 24,701,774           | 2010          | 48.00                     | 1,185,685,152.00  | 135.0%             |
| Standard Chartered | 15,109,323           | 2010          | 165.45                    | 2,499,837,490.00  | 161.0%             |
| KPLC               | 488,630,245          | 2010          | 19.50                     | 9,830,340,000.00  | 103.0%             |
| KQ 1,477,169,549   | 2012                 | 14.00         | 14,487,949,714.00         | 70.1%             |                    |
| DTB 24,455,566     | 2012                 | 74.00         | 3,369,522,734             | 186.2%            |                    |
| NIC 98,724,391     | 2012                 | 21.00         | 7,007,457,273.00          | 338.0%            |                    |
| CFC Stanbic        | 121,637,427          | 2012          | 33.00                     | 4,495,719,302.00  | 112.0%             |
| SCB 22,080,000     | 2012                 | 145.00        | 8,272,934,400.00          | 258.0%            |                    |
| Diamond Trust Bank | 22,010,009           | 2014          | 165.00                    | 3,631,651,485.00  | 440.3%             |
| NIC Bank           | 42,663,040           | 2014          | 49.25                     | 1,904,030,511.50  | 221.0%             |
| Uchumi supermarket | 99,500,000           | 2014          | 9.00                      | 579,116,043.00    | 183.6%             |
| HFCK               | 116,666,667          | 2015          | 30.00                     | 9,011,836,920.00  | 257.0%             |
| LONGHORN           | 126,190,476          | 2016          | 4.20                      | 533,000,000.00    | 101%               |
| KenGen             | 4,396,722,912        | 2016          | 6.55                      | 28,798,535,073.60 | 92.01%             |
| <b>TOTAL</b>       | <b>8,567,451,534</b> |               | <b>130,717,803,591.10</b> |                   |                    |

Source: CMA Data 2018

### BONUS ISSUES

#### Bonus Issues 2012-2018

During the period under review there were two (2) bonus issues.

| Company              | Date (Month/Year) | Bonus Issue Ratio |
|----------------------|-------------------|-------------------|
| NIC Bank             | Feb-12            | 1:10              |
| Cooperative Bank     | Mar-12            | 1:5               |
| Access Kenya         | Mar-12            | 1:20              |
| Jubilee              | Mar-12            | 1:10              |
| Standard Group       | Apr-12            | 1:10              |
| Kenya Re             | Apr-12            | 1:6               |
| Eaagads              | Jul-12            | 1:1               |
| Nation Media Group   | Mar-13            | 1:5               |
| Carbacid Investments | Oct-13            | 1:2               |
| CIC insurance        | July-14           | 1:5               |



| Company                                  | Date (Month/Year) | Bonus Issue Ratio |
|--|-------------------|-------------------|
| Longhorn Kenya                           | Sep-2014          | 3:2               |
| Panafric                                 | Feb -2015         | 1:2               |
| National Bank                            | Mar- 2015         | 1:10              |
| Jubilee                                  | Mar- 2015         | 1:10              |
| Crown Paints                             | May -2015         | 2:1               |
| WTK                                      | Jun-2015          | 1:1               |
| Kapchorua                                | Jun -2015         | 1:1               |
| Diamond Trust Bank                       | Mar-2016          | 1:10              |
| NSE                                      | Mar-2016          | 1:3               |
| Jubilee Holdings Limited- Uganda Listing | Mar- 2017         | 1:10              |
| Cooperative Bank (K) Ltd                 | Mar- 2017         | 1:5               |
| National Bank of Kenya                   | Apr- 2017         | 1:10              |
| Flame Tree Group                         | Apr- 2017         | 1:10              |
| NIC Bank                                 | Mar-2018          | 1:10              |
| HFCK                                     | Mar-2018          | 1:10              |

Source: CMA Data 2018

## STOCK SPLITS

### Stock Splits (2007 – 2018)

There was one stock split during the review period.

| Company              | Date (Month/Year) | Bonus Issue Ratio |
|----------------------|-------------------|-------------------|
| CMC Holdings         | Jan-07            | 10:1              |
| KCB                  | Mar-07            | 10:1              |
| Nation Media Group   | Mar-08            | 2:1               |
| Equity Bank          | Feb-09            | 1:10              |
| Kenol Kobil          | May-10            | 10:1              |
| KPLC                 | Oct-10            | 1:8               |
| ARM                  | May-12            | 5:1               |
| City Trust           | Jan-13            | 5:1               |
| Carbacid Investments | Oct-13            | 1:5               |
| Limuru Tea           | May-15            | 1:2               |
| Kenya Airways        | Nov-17            | 1:20              |

Source: CMA Data 2018

## SECONDARY MARKETS

The 2017/18 financial year recorded improved market performance with all composite performance indicators recording substantial increases, relative to the 2016/17 financial year, save for the NSE 20 share index. Equity turnover and share volumes recorded increases of 27.22 percent and 2.55 percent to KShs 197.89 Billion and 7,030.05 Million from KShs 155.55 Billion and 6,855.36 Million in the 2016/17 financial year respectively. Other performance indicators including, market capitalization and bond turnover recorded increases of 15.98% and 24.22% to KShs 2,576.26 Billion and KShs 508.14 Billion respectively.

| Year                      | Month     | Equity Turnover (KSHS Bn) | Share Volume (Mn) | NSE 20 Share Index | Market Capitalization (KSHS Bn) | Bond Turnover (KSHS Bn) |
|---------------------------|-----------|---------------------------|-------------------|--------------------|---------------------------------|-------------------------|
| 2017                      | July      | 21.30                     | 823.04            | 3,797.53           | 2,358.73                        | 35.78                   |
|                           | August    | 16.02                     | 640.17            | 4,027.12           | 2,478.62                        | 34.24                   |
|                           | September | 16.25                     | 556.71            | 3,751.46           | 2,376.69                        | 38.14                   |
|                           | October   | 9.39                      | 314.57            | 3,729.62           | 2,373.43                        | 27.75                   |
|                           | November  | 14.76                     | 524.64            | 3,804.69           | 2,562.41                        | 31.05                   |
|                           | December  | 11.87                     | 451.94            | 3,711.94           | 2,521.77                        | 30.32                   |
| 2018                      | January   | 20.34                     | 862.47            | 3,737.27           | 2,660.47                        | 38.76                   |
|                           | February  | 17.92                     | 572.37            | 3,750.75           | 2,677.81                        | 64.81                   |
|                           | March     | 22.89                     | 704.11            | 3,845.34           | 2,817.36                        | 48.77                   |
|                           | April     | 15.08                     | 449.24            | 3,735.06           | 2,644.69                        | 42.46                   |
|                           | May       | 18.38                     | 677.28            | 3,333.36           | 2,549.13                        | 57.31                   |
|                           | June      | 13.69                     | 453.51            | 3,285.73           | 2,576.23                        | 58.75                   |
| <b>Total FY 2017/2018</b> |           | <b>197.89</b>             | <b>7,030.05</b>   | <b>3,285.73</b>    | <b>2,576.23</b>                 | <b>508.14</b>           |
| <b>Total FY 2016/2017</b> |           | <b>155.55</b>             | <b>6,855.36</b>   | <b>3,607.18</b>    | <b>2,221.29</b>                 | <b>409.06</b>           |
| <b>Percentage Change</b>  |           | <b>27.22%</b>             | <b>2.55%</b>      | <b>8.91%</b>       | <b>15.98%</b>                   | <b>24.22%</b>           |

Source: CMA Data 2018

## MARKET DEVELOPMENT (Cont'd)

### Foreign Investor Net Cash Flow Activity (KShs Millions) 2011-2018

|                      | 2011       | 2012          | 2013          | 2014         | 2015       | 2016         | 2017            | 2018            |
|----------------------|------------|---------------|---------------|--------------|------------|--------------|-----------------|-----------------|
| January              | 1,987      | (812)         | 2,133         | (876)        | (273)      | (533)        | 1,608           | (1,464)         |
| February             | 622        | 795           | (3,927)       | (1,505)      | 201        | 281          | 435             | (5,137)         |
| March                | 1,552      | 2,651         | 1,810         | (399)        | (3,085)    | (1,334)      | (55)            | (1,483)         |
| April                | (3,024)    | 1,771         | 3,026         | 1,409        | (67)       | 80           | 433             | (1,815)         |
| May                  | (3,334)    | 1,099         | 3,475         | (2,578)      | (2,030)    | 196          | (1,888)         | (4,022)         |
| June                 | (1,597)    | 1,639         | 2,602         | 2,586        | (447)      | 100          | (813)           | (2,339)         |
| July                 | 1,173      | 828           | 1,625         | 142          | (1,127)    | 974          | (2,054)         |                 |
| August               | 621        | 1,048         | 9,839         | 3253         | 1,183      | 3,703        | (3,268)         |                 |
| September            | 535        | 3,286         | 2,063         | (850)        | 6,500      | 1,343        | (5,799)         |                 |
| October              | 719        | 2,965         | 2,723         | (1,208)      | 889        | (125)        | 486             |                 |
| November             | 31         | 4,335         | 884           | 2,535        | (829)      | 459          | (450)           |                 |
| December             | 935        | 2,129         | (690)         | 1,021        | 1          | 615          | (218)           |                 |
| <b>NET CASH FLOW</b> | <b>220</b> | <b>21,734</b> | <b>25,563</b> | <b>3,530</b> | <b>916</b> | <b>5,759</b> | <b>(11,583)</b> | <b>(16,260)</b> |

Source: Capital Markets Authority

### Market Outlook

Given that Kenya's capital markets are part of the country's economic ecosystem, the performance of the Capital Markets will to a large extent depend on the performance of the economy and the net effect of Government Policies on Capital Market operations in the new Financial Year. There are both positive policies (for instance, the Big Four Agenda, plans to revive the privatization program through new listings of State-Owned Enterprises

(SOEs) which could have a multiplier effect in attracting listing of private sector entities and the amendment of the Capital Markets Act to address key capital markets malpractices) and adverse policies (like the proposed Robin Hood Tax and excise duty on mobile money transactions).

### TRENDS IN FOREIGN INVESTOR PORTFOLIO ACTIVITY

The 2017/18 Fiscal year witnessed a net portfolio outflow amounting to

KShs. 27,563 million compared to a net inflow of KShs. 6,689 million, a 512.06% decrease. The foreign portfolio equity outflow was mainly as a result of profit-taking, uncertainty associated with electioneering in the first half of the financial year and an improved global investment return environment, specifically in the U.S, following an upward revision of the Benchmark rate.

### CORPORATE ACTIONS (July 2017 - June 2018)

| SECURITY             | Date        | Corporate Action   | Amount(KES)/Ratio |
|----------------------|-------------|--------------------|-------------------|
| KAPCHORUA            | 4-07-2017   | Final Div.         | 3.00              |
| WILLIAMSONTEA        | 4-07-2017   | Final Div.         | 10.00             |
| BAT                  | 20-07-2017  | Interim Div.       | 3.50              |
| NATION MEDIA GROUP   | 26-07-2017  | Interim Div.       | 2.50              |
| EABL                 | 28-07-2017  | Final Div.         | 5.50              |
| KENOLKOBIL           | 03-08-2017  | Interim Div.       | 0.30              |
| KCB                  | 03-08-2017  | Interim Div.       | 1.00              |
| CFC STANBIC HOLDINGS | 14-08-2017  | Interim Div.       | 1.25              |
| BARCLAYS             | 15-08-2017  | Interim Div.       | 0.20              |
| BOC GASES            | 24-08-2017  | Interim Div.       | 2.20              |
| BAMBURI CEMENT       | 25-08-2017  | Interim Div.       | 2.50              |
| JUBILEE HOLDINGS     | 28-08-2017  | Interim Div.       | 1.00              |
| SCBK                 | 30-08-2017  | Interim Div.       | 4.50              |
| UNGA GROUP           | 29-09-2017  | First& Final Div.  | 1.00              |
| LONGHORN             | 08-09-2017  | Final Div.         | 0.29              |
| KPLC                 | 23-10-2017  | First & Final Div. | 0.50              |
| CARBACID             | 09-11-2017  | Final Div.         | 0.70              |
| SASINI               | 16-Jan-2018 | Final              | 0.75              |
| EABL                 | 26-Jan-2018 | Interim            | 2.00              |
| CAR & GENERAL        | 26-Jan-2018 | First& Final       | 0.60              |
| BAT                  | 16-Feb-2018 | Final              | 22.50             |
| BARCLAYS             | 28-Feb-2018 | Final              | 0.80              |
| CFC STANBIC HOLDINGS | 05-Mar-2018 | Final              | 4.00              |

| SECURITY               | Date         | Corporate Action | Amount(KES)/Ratio |
|------------------------|--------------|------------------|-------------------|
| KCB                    | 08-Mar-2018  | Final            | 2.00              |
| KENOLKOBIL             | 14-Mar-2018  | Final            | 0.30              |
| CO-OPERATIVE BANK      | 15-Mar-2018  | First& Final     | 0.80              |
| CIC INSURANCE          | 15-Mar-2018  | First& Final     | 0.12              |
| NSE                    | 19-Mar-2018  | First& Final     | 0.30              |
| NIC BANK               | 22-Mar-2018  | First& Final     | 1.00              |
| EQUITY BANK            | 22-Mar-2018  | First& Final     | 2.00              |
| SCBK                   | 23-Mar-2018  | Final            | 12.50             |
| BRITAM                 | 23-Mar-2018  | First& Final     | 0.35              |
| KAKUZI                 | 23-Mar-2018  | First& Final     | 7.00              |
| DIAMOND TRUST          | 26-Mar-2018  | First& Final     | 2.60              |
| BAMBURI CEMENT         | 27-Mar-2018  | Final            | 1.50              |
| UMEME                  | 28-Mar-2018  | Final            | 7.60              |
| I&M HOLDINGS           | 28-Mar-2018  | First& Final     | 3.50              |
| FAHARI IREIT           | 29-Mar-2018  | First& Final     | 0.75              |
| LIBERTY KENYA HOLDINGS | 28-Mar-2018  | First& Final     | 0.50              |
| KENYA-RE               | 29-Mar-2018  | First& Final     | 0.85              |
| HFCK                   | 29-Mar-2018  | Final            | 0.35              |
| TOTAL KENYA            | 29-Mar-2018  | First& Final     | 1.30              |
| JUBILEE HOLDINGS       | 16-Apr-2018  | Final            | 8.00              |
| TPSEA                  | 17-Apr -2018 | Final            | 0.35              |
| BOC                    | 17-Apr -2018 | Final            | 3.00              |
| NMG                    | 18-Apr-2018  | Final            | 7.50              |
| WPP SCAN GROUP*        | 25-Apr-2018  | First& Final     | 0.75              |
| CROWN                  | 9-May-2018   | Final            | 0.60              |
| SAFARICOM*             | 9-May-2018   | Final            | 1.10              |
| CENTUM                 | 13-Jun-2018  | First& Final     | 1.20              |

Source: CMA Data 2018

NSE\*Subject to approval



From left: CMA staff Sam Mbugua, Willyson Yanga and Kamunyu Njoroge prepare to announce the winning team during a staff event to celebrate the launch of the Capital Markets Authority Strategic Plan 2018-2023. Staff participated in a quiz to test their knowledge and comprehension of the new Strategic Plan. The event took place in June 2018.

## STRATEGIC PLAN AND POLICY FRAMEWORK

### 1. Strategic Plan

Following the expiry of the 2013-17 Strategic Plan, the Authority developed a new Strategic Plan running from July 2018 to June 2023 to guide it over the next five years. The major thrust of the five-year Strategic Plan is to create a regulatory framework that fosters growth which is inclusive and sustainable, promotes innovation and financial technology and one that strengthens and builds a sound and resilient capital market. A critical guiding principle in the development of the previous and current plans remains the Kenya Vision 2030 which recognizes the capital market as critical in mobilizing savings and investments.

The Strategic Plan 2018-2023 will help ensure that the Kenyan Capital Market is increasingly efficient, competitive, financially sound and dynamic to facilitate greater innovation of different capital market products and services to meet the diverse needs of issuers and investors. It will also enable CMA steer the development of Kenya's capital markets in a way that supports national development objectives and the achievement of MSCI emerging market status.

**The Strategic Plan 2018-2023 encompasses six key Strategic objectives including:**

1. Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency.
2. Facilitate the development, diversification and uptake of capital markets products and services.
3. Ensure sound market infrastructure operations and market institutions
4. Leveraging technology to drive efficiency in the capital markets value chain.
5. Ensure optimal institutional efficiency and effectiveness of CMA
6. Enhancing strategic influence

The Plan which was developed through a comprehensive process, seeks to position Kenya's capital markets to be a primary choice for diverse investors and issuers through robust regulation and innovation. Well developed and properly functioning financial markets play an important role in achieving Kenya's target of transforming itself into a newly industrialized, middle income country, both by generating wealth and safeguarding it.

The Strategic Plan 2018-2023 will serve as a blueprint for the Authority to guide the development of Kenya's capital markets in a way that supports national development objectives and enhances economic development and empowerment as envisaged in the Kenya Vision 2030, the Big 4 Agenda, the Third Medium Term Plan and the 10-year Capital Market Master Plan.

### 2. 10-Year Capital Market Master Plan (CMMP)

The capital market is indeed a key component of the Foundations for National Transformation, as it helps in bridging the resource gap in funding Vision 2030 Projects, while simultaneously mobilizing savings through investments to support Kenya's aspirations to be a middle income economy as envisaged in the 10-Year Capital Market Master Plan. Kenya remains focused on the opportunities for unlocking project financing using capital markets with a Master Plan target of ensuring over 30 percent of county infrastructure financing originates from Kenya's capital markets by 2023.

**The following are the key achievements under the CMMP during the period under review:**

1. The Capital Markets (Securities Lending & Borrowing and Short Selling) Regulations, 2017 were officially gazetted on Friday 12<sup>th</sup> January 2018. Securities lending and borrowing and short selling is intended to increase overall market liquidity and flexibility of financing by increasing the

volume of securities potentially available for trading and further increase depth and efficiency in the capital markets through price discovery. It will also significantly support market-making.

2. Business intelligence and shift to effective data collection and analysis: The Authority is currently working with a consultant to develop an information repository to streamline the Authority's use of business intelligence through improved data collection and analysis and to strengthen internal capacity through e-learning. The consultancy runs from 28 August 2017 to 30 June 2018 aimed at developing specifications that would have Advanced Financial Analysis, Business Intelligence System, E-Learning System and Communication/IT infrastructure capability for the Authority. The consultant is currently collating inputs and suggestions from the Authority prior to recommending an implementation road map.
3. Under the patronage of the National Treasury & Planning and in collaboration with the other financial sector regulators, the Authority, with the support of a consultant is in the process of laying the foundation of building a regulatory framework to support the operation of Islamic Finance in the country. Already, the initial anchoring law amendments have been done, with the outstanding deliverables now planned for the medium term.
4. Funding Gap Consultancy: In line with the project activities aligned to the funding gap consultancy aimed at determining Capital Market products and services that can be used by sovereign and sub-sovereign entities in accessing funding from the Capital Market. The Authority has made progress including; review of a legal report by the consultant that identified

## ORGANIZATIONAL UPDATES (Cont'd)

legal gaps limiting access to funding by such entities.

5. The Derivatives Unit of the Authority has been undertaking various awareness and capacity building initiatives targeting key stakeholders in anticipation of successfully launching exchange traded derivative products in Kenya. To create awareness and promote coordination between regulators and policy makers, the Authority organized a workshop on 29 March 2018.

The workshop covered various aspects including; Legal, regulatory & rules framework, trading, clearing, settlement and surveillance, risk management framework, compliance, reporting, audit & Inspection and derivatives market project roll-out plan. The OTC Derivatives survey has also been concluded but a detailed analysis to inform policy

will be conducted in the second half of 2018.

6. The Authority developed a concept paper on block trading. The second stakeholder engagement with fund managers and KASIB on block trading was held in February 2018. This is in line with the fourth Building Block on the Master Plan on deeper and more liquid domestic markets.
7. The Authority is further conducting a detailed review of the existing Double Taxation Agreements. Research on the review of the effectiveness of Double Taxation Agreements and proposal for new ones is underway.
8. Management has further developed a policy framework for Direct Market Access (DMA) and received draft rules for its operationalization from the NSE.

### 3. POLICY FRAMEWORK

The Policy Framework on Online Forex Trading is in place and regulations have been issued. Similarly, Policy framework on Direct Market Access is in place awaiting refinement of the rules by NSE for consideration by the Board.

Further, during the period under review, the Authority in consultation with industry stakeholders at a roundtable meeting held on 14 November 2017 developed and submitted policy proposals to the Cabinet Secretary to the National Treasury for consideration in the 2018/19 Budget. The main focus of these proposals is to create an enabling environment for capital market development to facilitate mobilizing of long-term financial resources for realization of the Vision 2030 objectives.

Below are some of the key outcomes of the 2018 budget speech:

### Relevant Capital Market/Financial Market Budget Points in the 2018/19 Budget Statement and their Implications

| Budget Speech Page No. | Issue   | Policy pronouncement   | Implication   |
|------------------------|---|--|---|
| 18                     | Income Tax Act                                  | A comprehensive review of the Income Tax Act   | We expect the review to incorporate the proposals made by the Authority in regards to preferential corporate tax rates for companies that list on the Nairobi Securities Exchange.                      |
| 20                     | Tax Procedures Act                              | Extension of tax amnesty to 30th June 2019   | We expect that this proposal will attract entities including SMEs, previously non-tax compliant, to apply for a listing on the GEMS segment.  |
| 32                     | Sovereign Wealth Fund                           | Completion of the Sovereign Wealth Fund legislation to help deal with the windfall of resources from the extractive sector.      | We expect the investment of revenues from oil, gas and minerals in a stabilization fund to act as a counter cyclical economic stabilizer. The monies in the fund to be invested in the capital markets. |
| 36                     | Proceeds of Crime and Anti-Money Laundering Act | Proposal to address money laundering and terrorism financing risks associated with non-face-to-face businesses and transactions. | This policy pronouncement will serve to ramp up KYC and client onboarding measures for online forex traders, online share trading and other electronic commerce platforms in the capital markets.       |



## STRATEGIC PLAN AND POLICY FRAMEWORK (Cont'd)

| Budget Speech Page No. | Issue                              | Policy pronouncement   | Implication   |
|------------------------|------------------------------------|--|---|
| 37                     | Kenya Development Bank             | Creation of the Kenya Development Bank (The merging of ICDC, IDB, and the Tourism Finance Corporation).            | We expect that the Kenya Development Bank will leverage the capital markets to meet the financing requirements of the sectors previously served by the three entities.  |
|                        | Privatization Program              | Review of the privatization program  | This will support the increase of listings through privatization i.e. NOCK.   |
|                        | National Toll Fund                 | Establishment of a National Toll Fund.   | We expect that this would support of the roll out of the Debt Infrastructure Fund program in the long term.   |
| 38                     | Local Currency Financing           | Local institutional investors and pension funds to participate in Private Public Partnerships with the government. | <p>This partnership will provide local currency financing for PPP projects de-risking projects from foreign currency funding exposure.</p> <p>Further, the launch of the PPP disclosure portal will provide a one-stop shop for PPP data to all key stakeholders.</p> |
| 40                     | National Credit Guarantee Scheme   | The setting up of the National Credit Guarantee Fund.  | This initiative will provide support to potential GEMS entities (SMEs) and FinTech startups (in the regulatory sandbox).  |
| 41                     | Biashara Kenya Fund                | Merger of Uwezo Fund, Youth Enterprise and Development Fund and Women Enterprise Development Fund                  | The proposed fund will enable the provision of financing of investments in technology needed in a modern financial sector for SMEs.   |
| 42                     | Interest Rate Cap                  | Repealing of Section 33B Banking (Amendment) Act 2016. To enable banks to provide more credit.                     | This proposal should facilitate credit growth that has slowed since the interest capping law was enacted in 2016.   |
|                        | Financial Market Conduct Bill 2018 | Establishment of the Financial Markets Conduct Authority   | It will address issues related to consumer protection in regards to predatory lending and reckless behavior by credit providers.  |
| 43                     | Investor protection                | Amendment of the Capital Markets Act   | The proposal is to amend the functions and use of funds by the Investor Compensation Fund to allow for compensation to whistleblowers.  |

## Corporate Approvals

Playing the gate keeping role in the Authority, the department was involved in the grant of licences to new entrants seeking to do business as market intermediaries as well as the grant of various approvals that were significant in market. The Authority granted a Non-Dealing Online Forex Broker Licence to EGM Securities Limited, the first licence under the Capital Markets (Online Foreign Exchange Trading) Regulations, 2017.

The Non-Dealing Online Forex Broker licence allows a market intermediary to provide a platform that links foreign exchange markets and clients in return for a commission. The clients can access such a platform through electronic devices.

Standard Chartered Bank Plc were also granted a licence to operate as an Authorized Securities Dealer. This licence will allow Standard Chartered Bank to deal in fixed income securities whether on its own behalf or on behalf of others.

Other licences granted in the year include: Stockbroker Licence granted to EFG Hermes Limited; Investment Adviser Licence to Aylesfield Kenya Limited; Real Estate Investment Trust Managers Licence to Britam Asset Managers Limited; Certificate of Registration of Britam Holdings Employee Share Ownership Plan;

Certificate of Registration of the Seriani Unit Trust Scheme; Investment Bank Licence to Sterling Capital Limited and a Fund Managers Licence to Cytonn Asset Managers Limited and an Authorised Depository licence to HFC Limited.

Further, various approvals were granted in the year key among them was the restructuring of Kenya Airways Plc converting debt to equity. This transaction aimed at restructuring the balance sheet of the carrier with an aim of putting it back to profitability.

### Key Approvals

1. Allowing subscription of Britam Holdings Plc shares by AfricInvest III-SPV 1
2. Approval of bonus share issue of Kes. 319,972,800 in the proportion of one ordinary share for every ten shares held in the capital of NIC Group Plc;
3. Approval of bonus share issue of Kes. 35,000,000 in the proportion of one ordinary share for every ten shares held in the capital of HF Group Plc;
4. Approval of WPP Scan Group circular in relation to the proposed acquisition of Research and Marketing Group Investment Limited;
5. Approval of shareholder circular on the proposed sale of Mr. Price

Franchised business to MRP Retail Kenya Limited by Deacons (East Africa) Plc;

6. Approval of shareholder circular and independent financial advisers' report in relation to the proposed acquisition of 38.6% of the issued share capital of Express Kenya Plc by Diniz Holdings Limited;
7. Approval of shareholder circular in relation to the proposed acquisition of Unga Group Plc by Seaboard Corporation.

The department has also been involved in other ongoing engagements that cut across the Authority targeting to deepen the market. Such engagements include the development of the necessary legal and regulatory framework facilitating the issuance of green bonds and operationalization of the securities lending, borrowing and short selling pursuant to the enactment of the Capital Markets (Securities Lending, Borrowing and Short Selling) Regulations, 2017.

To improve capacity and skills, members of the department have participated in inspections of licenced market intermediaries and have participated in various trainings to increase knowledge in capital markets. Going forward the department seeks to leverage information technology to improve its processes.

## Regulatory Framework

### 1. Gazettement of the Capital Markets (Securities Lending, Borrowing and Short-Selling) Regulations, 2017

The Capital Market (Securities Lending, Borrowing and Short-Selling) Regulations, 2017 (the Regulations) were gazetted on January 12, 2018. The Regulations seek to create an efficient and transparent regulatory framework to enable and facilitate securities lending, borrowing and short selling to foster liquidity and price formation without undue increase in volatility in the capital markets. This is in line with

the Authority's mandate to create deeper, more liquid domestic markets as recommended in the Master Plan.

The Capital Market Master Plan seeks to transform Kenya to be the 'Heart of African Capital Markets', with one of the recommendations being the creation of deeper, more liquid domestic markets. The Master Plan also emphasizes that for market makers to effectively meet their obligations, they will require to borrow securities from time to time to meet their obligations. This calls for the establishment of a securities

lending and borrowing arrangement. This arrangement will also benefit other market participants in meeting unexpected delivery shortfalls or short selling operations. The CMMP therefore further calls for the Authority to provide for explicit recognition of securities lending and borrowing (SLB) in the legal and regulatory framework.

Securities lending and borrowing is the temporary transfer of securities from one party to another with a simultaneous formal agreement to return the securities at a pre-agreed price either on demand or at an agreed

## Regulatory Framework (Cont'd)

date in future. This facilitates overall market liquidity and flexibility in financing by increasing the volume of securities available for trading.

The Authority has been engaging market participants and the industry as it rolls out the implementation of the regulations.

### 2. Capital Markets (Online Foreign Exchange Trading) Regulations, 2017

The Capital Markets (Online Foreign Exchange Trading) Regulations, 2017 were gazetted on September 1, 2017. The Regulations establish a regulatory framework for-

- (a) licensing requirements for online foreign exchange brokers and money managers;
- (b) conduct of online foreign exchange business;
- (c) inspections;
- (d) offences and penalties

The need to develop the necessary regulatory framework for online foreign exchange trading was informed by the global developments in the market, innovation and the interest as well as active participation of traders and investors in the local market. Though there was a number of people and institutions engaging in online foreign exchange trading in Kenya, there was no regulatory framework in place either prohibiting or regulating the business. This had resulted in fraudulent dealings, loss of investments and public outcry.

The Regulations seek to broaden economic environment by providing an effective regulatory framework for the business of online foreign exchange trading. This will ensure that such business is conducted with integrity, fairness and regulatory oversight.

The Authority has licensed one non-dealing online foreign exchange broker.

### 3. Stewardship Code for Institutional Investors

After a comprehensive stakeholder

engagement process under the guidance of the industry-led Stewardship Code Committee, the Stewardship Code for Institutional Investors was gazetted in June 2017. The Stewardship Code is critical in supporting the effective implementation of the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 and will ultimately strengthen the quality of engagement between issuers and institutional investors.

The Stewardship Code calls upon institutional investors (asset owners and asset managers) to act and serve as responsible stewards for their beneficiaries and to help promote good governance and sustainable success of issuers. Upon gazettment of the Code, the Authority has been working on an implementation programme that brings on board all relevant stakeholders.

During a workshop with institutional investors in May 2018, an implementation framework for the Code was developed and is now being implemented. The framework brings on board all relevant stakeholders including institutional investors and their associations, international institutions including International Finance Corporation, training institutions, retirement benefits schemes, among others.

### 4. Nairobi International Financial Centre Authority Act, No. 25 of 2017

The Nairobi International Financial Centre Authority Act was assented into law on July 21, 2017 and commenced on August 16, 2017. The Act seeks to provide the legal framework to facilitate and support development of an efficient and globally competitive financial services sector that generates high levels of national savings and investments. This will be achieved through the establishment of the Nairobi International Financial Centre and Authority.

According to the National Treasury,

the Centre will-

- a) create more opportunities for domestic and international savings and investments;
- b) attract more foreign direct investment;
- c) create more employment in the financial sector and related sectors like ICT;
- d) support Kenyan companies to increase their competitiveness.

The Centre will bolster the Capital Market Authority's vision of making Kenya 'the Heart of African Capital Markets' and contribute in providing an integrated framework for the coordination of financial sector policies, laws and strategies. The Authority will continue to support the Centre.

### 5. Draft Policy Guidance Note on Regulatory Sandbox

As part of the Authority's the objective of developing a framework to facilitate the use of electronic commerce as set out in Section 11(1)(f) of the Capital Markets Act, there has been increased focus on tapping on innovation and technology in the capital market.

In line with its facilitative role, the Authority consistently seeks to provide a regulatory environment that is conducive for the deployment of new and innovative financial technologies (FinTech) and business models that have the potential to deepen capital markets in Kenya.

This includes reviewing and adapting regulatory requirements that may unintentionally inhibit investor-friendly innovations or render them non-viable under current regulations. In 2013, the Capital Markets Act was amended to introduce Section 12A. Section 12A gives power to the Authority to issue guidelines and notices for the regulation of capital market activities and products. This amendment introduced principle-based regulatory approach as contrasted with rule-based approach. The principle-based approach has

contributed to the development of policy guidance notes to regulate capital market activities and products.

Based on this new approach, the Authority working with consultants has developed a draft Policy Guidance Note (PGN) for Regulatory Sandbox, 2018. The PGN provides a framework for the establishment of a regulatory sandbox to allow for the live testing of new products, services, and business models that have the potential to deepen the Kenyan capital markets.

Regulatory sandboxes are tailored regulatory environments for conducting small scale, live tests of innovative products and delivery models. Regulatory sandboxes provide an evidence-based tool for fostering innovation while allowing

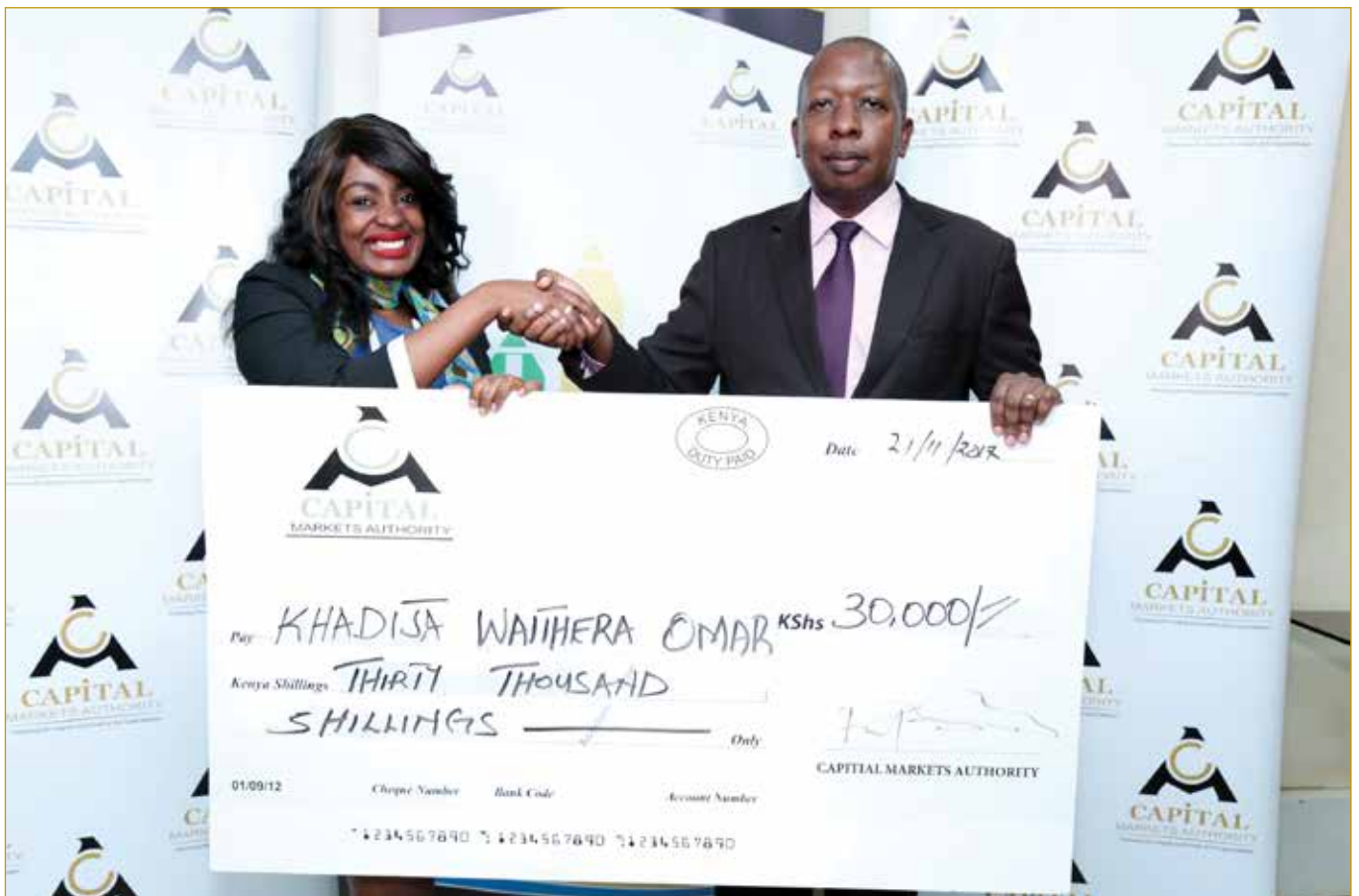
regulators to remain vigilant to investor protection, financial stability, and integrity risks.

The Regulatory Sandbox contributes to broader national policy agenda described in Kenya's Vision 2030 and the Authority's 10-year Capital Market Master Plan. Drawing on emerging global best practices, the Authority positions the Regulatory Sandbox as a tool for facilitating capital markets innovation in Kenya and helping to advance the Authority's goal of creating a vibrant and globally competitive capital market.

The PGN sets forth the eligibility, application, safeguard, and testing requirements for firms interested in live testing a new product, service, or business model with the Authority's

Regulatory Sandbox Programme. As part of this process, the Regulatory Sandbox is intended to enable new capital markets-related products, services, and business models to be deployed and tested in a live environment prior to launching into the open market, within certain specified parameters and time frames. Equally important, the Regulatory Sandbox is intended to help accelerate the Authority's understanding of emerging technologies and support evidence-based approaches to regulation that advance the goals of investor protection and capital markets deepening.

The PGN is being reviewed by stakeholders.



CMA Director, Regulatory Policy and Strategy Luke Ombara hands over a cheque of Kshs 30,000 worth of securities listed on the Nairobi Securities Exchange to Khadija Omar, the top winner of the CMA Scavenger Hunt competition. The competition took place in October 2017 to create awareness about the Authority Resource Centre Portal, which is accessible to the public.

## APPENDICES

### ENABLING LEGISLATION:

#### a) Main Acts

##### i) The Capital Markets Act, Cap 485A

This Act establishes the Capital Markets Authority for the purpose of promoting, regulating and facilitating the development of an orderly, fair and efficient securities market as well as reduce systemic risk in the Kenyan capital markets and for connected purposes.

##### ii) The Central Depositories Act, No. 4 of 2000

This Act was operationalized in June 2003. The objective of the Act is to facilitate the establishment, operation and regulation of central depositories, to provide for the immobilization and eventual dematerialization of, and dealings in securities deposited therewith in Kenya, and for connected purposes.

#### b) Regulations

##### i) The Capital Markets (Collective Investment Schemes) Regulations, 2001

The Collective Investment Schemes Regulations are aimed at facilitating specialized mutual funds, unit trusts or special form of collective investment schemes and offer a unique opportunity to investors in terms of professional management, economies of scale and diversification of portfolio and risk.

##### ii) The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002

These Regulations primarily govern public offers, disclosure requirements and listings of securities. Broadly, the Regulations prescribe the

approval process for the public offers of securities, requirements of information memoranda, eligibility requirements for public offers and listing of securities at securities exchanges. The Regulations also prescribe detailed disclosure requirements for each of the market segments as well as continuing reporting obligations for listed companies.

##### iii) The Capital Markets (Licensing Requirements) (General) Regulations, 2002

These Regulations provide the requirements for licensing and approvals as well as other general requirements and reporting obligations of capital markets intermediaries including securities exchanges.

##### iv) The Capital Markets (Takeovers & Mergers) Regulations, 2002

These Regulations govern the procedure and timelines of the takeovers and mergers of listed companies and set out the obligations of parties to the transactions.

##### v) The Capital Markets (Foreign Investors) Regulations, 2002

These Regulations govern foreign investor participation in the Kenyan Capital Markets.

##### vi) The Capital Markets Tribunal Rules, 2002

These Rules prescribe the procedures of Appeals made to the Capital Markets Tribunal by persons aggrieved by a decision made by the Authority.

##### vii) The Central Depositories (Regulation of Central Depositories) Rules, 2004

These Rules provide the detailed

regulatory requirements applicable to licensed Central depositories.

##### viii) The Capital Markets (Registered Venture Capital Companies) Regulations, 2007

These Regulations prescribe the requirements for a venture capital company to become registered for the purposes of the Income Tax (Venture Capital Company) Rules 1997, through which venture capital investors may seek a tax waiver on the income arising from their designated venture capital investments.

##### ix) The Capital Markets (Corporate Governance) (Market Intermediaries) Regulations, 2011

The objective of these Regulations is to enhance corporate governance practices by all capital markets intermediaries by way of prescribing the minimum standards. Some of the requirements include the composition and role of the Board, fit and proper requirements and the applicable corporate governance framework for market intermediaries.

##### xi) The Capital Markets (Conduct of Business) (Market Intermediaries) Regulations, 2011

The Regulations stipulate the minimum standards of business conduct to be observed by all market intermediaries, licensed under the Capital Markets Act, with the objective of streamlining their business activities.

##### xii) The Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations Legal Notice No.



## APPENDICES (Cont'd)

### 116 of 2013

The REITs regulatory framework seeks to promote the pooling of capital and channeling the investments into real estate assets through Real Estate Investment Trusts (REITs). The framework provides for investments in both income producing real estate and in development and construction projects. The benefits expected to accrue from investment through REITs include -

- Enhanced mobilization of savings to the real estate sector of the economy to increase availability of housing which is a priority area championed under Vision 2030;
- Introduction of additional capital markets instruments to both retail and institutional investors for investment and diversification of risk;
- Make real estate investing easy and efficient, since REITs will be listed on securities exchanges and hence reduce the risk of illiquidity; and
- Enable low cost exposure to real estate with professional investment management at a relatively low transaction and management cost.

### xiii) The Capital Markets (Online Foreign Exchange Trading) Regulations, Legal Notice No. 226 of 2017

This regulatory instrument provides the framework for licensing of online foreign exchange brokers and money managers whether dealing or non-dealing, setting parameters of conduct of business of online exchange brokers and setting out the offences and penalties for contravention of the regulations.

### xiv) The Capital Markets (Securities Lending, Borrowing and Short-Selling) Regulations, Legal Notice No. 295 of 2017

The regulations provide a framework to govern any transactions relating to securities lending and borrowing by establishing a criteria for identifying securities to be lent or borrowed. Short selling of securities is a regulated activity under the regulations. The purpose of these regulations is to promote liquidity and alternative investment in the Kenyan market.

#### c) Guidelines and Codes

##### i. The Capital Markets Guidelines on the Approval and Registration of Credit Rating Agencies

These Guidelines prescribe requirements for registration, accreditation and approval of rating agencies for the purpose of rating issuers of debt securities through the capital markets.

Credit rating is an objective and independent opinion on the general credit worthiness of an issuer of a debt instrument and its ability to meet its obligations in a timely manner over the life of the financial instrument based on relevant risk factors including the ability of the issuer to generate cash in the future. Ratings rank the issue within a consistent framework to compare risk among the different debt instruments in the market and assign a risk grade.

##### ii. Guidelines On Financial Resource Requirements for Market Intermediaries

These Guidelines set out the framework for the implementation of financial resource requirements for capital market intermediaries in order to enhance the implementation of

Risk Based Supervision.

##### iii. Management Supervision Internal Control Guidelines May 2012

These are standards developed to ensure the proper conduct of a licensed or an approved business to ensure, on a continuous basis and on a timetable determined by CMA that licensed entities which are members of a Self-Regulatory Organization (SRO) (exchange or a clearing house) or other entities undertaking licensed activities, are complying with the applicable laws, rules and regulations.

##### iv. Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015

The Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 sets out the principles and specific recommendations on the structures and processes which issuers should adopt in making good corporate governance an integral part of their business dealings and culture. It advocates for the application of standards on corporate governance that go beyond the minimum prescribed by legislation.

The Code was gazetted into law on March 4, 2016 and became fully applicable with effect from March 4, 2017. Issuers are therefore obliged to align their governance structures and reporting arrangements to the standards set in the Code.

##### v. Stewardship Code for Institutional Investors, 2017

The Code applies to asset owners and asset managers investing in the debt and equity of companies listed on a licensed securities exchange with focus being placed primarily on domestic investors domiciled in Kenya. The code

## APPENDICES (Cont'd)

articulates the responsibilities of institutional investors on matters of shareholder's rights, interests and engagement.

### d) Policy Guidance Notes

#### i. Policy Guidance Note for Exchange Traded Funds in Kenya, 2015

The Policy Guidance Note (PGN) is to be used in Kenya as a guide

on the operational environment of exchange traded funds and to inform the ultimate design of a comprehensive legal and regulatory framework.

#### ii. Policy Guidance Note on Asset Backed Securities, 2017

This PGN is provided to guide applicants seeking to structure or issue Asset Backed Securities.

#### iii. Policy Guidance Note on Global Depository Receipts (GDRs) and Global Depository Notes (GDNs) in Kenya, 2017

This PGN provides guidance on the operational aspects of GDRs and GDNs by providing guiding principles for listing and trading, settling and cancelling in-bound and out-bound depository receipts and depository notes.

## Guidelines on the Prevention of Money Laundering and Terrorism Financing in the Capital Markets, 2015

Under the Proceeds of Crime and Anti-Money Laundering Act, 2012, the Capital Markets Authority is designated as a supervisory body. Section 24A (3) of the Act provides that the Financial Reporting Centre (FRC) may delegate powers to a supervisory body to issue instructions, directions, guidelines or rules regarding the application of the Act to reporting

institutions regulated or supervised by the supervisory body.

Pursuant to the Act, the Authority, in consultation with stakeholders and FRC, developed the Guidelines on the Prevention of Money Laundering and Terrorism Financing in the Capital Markets, which were gazetted on March 4, 2016.

The Guidelines provide the framework for prevention of money laundering and terrorism financing in the capital markets particularly on definitions, responsibilities of the board and management of intermediaries, processes for assessing clients, record keeping, suspicious transactions as well as compliance and reporting requirements, among others.

## Appendix 1: Projects Implemented by the Entity

Projects implemented by the State Corporation Funded by development partners (Financial Sector Support Programme).

| Project Number | Project title   | Donor | Period/duration | Donor commitment | Separate donor reporting required as per the donor agreement (Yes/No) |
|----------------|---|-------|-----------------|------------------|---|
| 1              | Establish an oversight framework for derivatives market   | FSSP  | 19 months       | Yes              | Yes. Quarterly reports done to World Bank through PIU                 |
| 2              | Hybrid Bond Market Model Implementation and Acquisition of a Bond Trade Reporting System  | FSSP  | 10 months       | Yes              | Yes. Quarterly reports done to World Bank through PIU                 |
| 3              | Provide alternative funding for counties through capital markets  | FSSP  | 20 months       | Yes              | Yes. Quarterly reports done to World Bank through PIU                 |
| 4              | Consultancy services to develop specifications for Acquiring an Information Repository System, Financial Analysis Framework, Enhancement Communication Infrastructure | FSSP  | 22 months       | Yes              | Yes. Quarterly reports done to World Bank through PIU                 |

### Status of Projects completion

(Summarise the status of project completion at the end of each quarter, ie total costs incurred, stage which the project is etc)

|   | Project   | Total project Cost (USD) | Total expended to date (USD) | Completion % to date | Budget       | Sources of Funds        |
|---|---|--------------------------|------------------------------|----------------------|--------------|-------------------------|
| 1 | Establish an oversight framework for derivatives market   | \$158,850                | \$60,032.57                  | 50%                  | \$158,850    | World Bank through FSSP |
| 2 | Hybrid Bond Market Model Implementation and Acquisition of a Bond Trade Reporting System  | \$181,512                | \$18,151.22                  | 30%                  | \$181,512    | World Bank through FSSP |
| 3 | Provide alternative funding for counties through capital markets  | \$104,300                | \$59,220                     | 85%                  | \$104,300    | World Bank through FSSP |
| 4 | Consultancy services to develop specifications for Acquiring an Information Repository System, Financial Analysis Framework, Enhancement Communication Infrastructure | \$284,998.27             | \$99,749.30                  | 60%                  | \$284,998.27 | World Bank through FSSP |

## CAPITAL MARKETS FRAUD INVESTIGATIONS UNIT

| YEAR | PBC | PUI | PAKA | ENFORCEMENT | FINALISED | TOTAL |
|------|-----|-----|------|-------------|-----------|-------|
| 2014 | 5   | 20  | 3    | 2           | 3         | 22    |
| 2015 | 6   | 22  | 4    | -           | 4         | 36    |
| 2016 | 6   | 10  | 2    | 1           | 5         | 25    |
| 2017 | 4   | 13  | 2    | 2           | 0         | 21    |
| 2018 | 7   | 14  | 5    | 1           | 14        | 40    |

### KEY

- PBC** - Pending before court  
**PUI** - Pending under investigations  
**PAKA** - Pending arrest of known accused

### CAPITAL MARKETS FRAUD INVESTIGATIONS UNIT

The unit is currently under the command of Ms Josephine K. Mokaya an Assistant Superintendent of Police. The Authority executed a memorandum of understanding (MOU) with the Directorate of Criminal Investigations to second the Officer in-charge and the Deputy officer in-charge.

The main role of the Unit is to investigate fraudulent activities within the capital markets securities. It is evident that most of the affected clients or investors lack knowledge on the right procedures in dealing with shares.

During the period under review (Financial year 2017/2018), it was noted that crime trends has changed and the fraudsters have gone a step ahead in tricking unsuspecting investors in conjunction with employees of the brokerage firms, resulting to fraudulent disposal of shares leading to losses to investors.

In order to arrest the situation, the Unit has worked tirelessly and most of the culprits have been brought to book. This has greatly assisted in enhancing investor confidence. Also, through the awareness sessions conducted by the Investor Education and Public Awareness Department, investors are enlightened on how to deal with shares and sharing information with the fraud unit in case of any suspicion of fraudulent dealings.

The table above is illustrative of the number of cases handled in 2017/2018 financial year, a total of 40 cases have been reported and dealt with as indicated.

## PICTORIAL



The Board receives a certificate from Africa Investor Award, conferred to the Authority who was feted "The Most Innovative Capital Markets Regulator in Africa 2017". CMA won a similar award in 2015 from Africa Investor and International Finance Magazine.



Central Bank of Kenya Governor Dr. Patrick Njoroge (left) compares notes with Capital Markets Authority Chief Executive Mr. Paul Muthaura during the launch of the World Investor Week 2017 at the CMA offices in Kenya. The World Investor Week 2017 took place from 2-8 October, 2017. It was a global campaign to raise awareness about the importance of investor education and protection and to highlight the investor education and protection initiatives of securities regulators. It was promoted by the International Organization of Securities Commission (IOSCO).



## PICTORIAL



*From left: Capital Markets Authority resident Consultant David White, Nairobi Securities Exchange Derivatives Market Director, Terry Adembesa and Africa Alliance Asset Management Chief Executive Stephen Muriu jot down questions from asset managers during Derivatives Market Asset Managers Roundtable in September 2017.*



*From left: CMA Manager Investor Education and Public Awareness Kamunyu Njoroge, receives an award from Chartered Institute for Securities and Investments Director, Kevin Moore during the Securities Industry Certification Awards Breakfast held in January 2018. Kamunyu was the top candidate in the country for the Global Securities, Derivatives and International Certificate in Wealth and Investment Management. Looking on is CMA Chief Executive Paul Muthaura.*

## PICTORIAL



*Capital Markets Authority Chief Executive Paul Muthaura, engages with United States Securities Exchange Commission Executives; Senior Special Counsel Paul Gumagay, Associate Regional Director for Miami Glen Gordon and Senior Assistant Director for Office of International Affairs, Kurt Gresenz. The executives facilitated the East Africa Securities Regulators Regional Training Conference on Enforcement. The conference took place in Nairobi, from 26 February – 1 March, 2018. Participants were drawn from East and Southern Africa.*



*Islamic Financial Services Board Assistant Secretary General Dr. Nagwa Hussein engages with Capital Markets Authority Chief Executive Paul Muthaura during the Regional Islamic Financial Services Board Workshop. The capacity building workshop was hosted by the National Treasury, IFSB and joint financial sector regulators. Kenya was recently admitted as Associate Member of the Islamic Financial Board through the Capital Markets Authority.*



## PICTORIAL



*Capital Markets Authority Chief Executive Paul Muthaura and Kenya Forest Service Nairobi Eco-System Conservator Albert Nyabuti sign a Memorandum of Understanding. In May 2018, the Authority planted 1,100 mixed indigenous tree species in Ngong Forest as part of its contribution to the national objective of increasing forest cover in Kenya from 7 to 10 percent in 2022. Kenya Forest Service will maintain the tree seedlings for a three-year period.*



*East Africa Venture Capital Association Executive Director Eva Warigia (left), CMA Director, Regulatory Policy and Strategy Luke Ombara and International Finance Corporate Securities Market Specialist Grace Kibuthu-Ogola (right) review capital markets Policy Proposals for 2018-2019 financial year tabled before stakeholders in November 2017, prior to submission to the National Treasury for consideration.*



## PICTORIAL



*CMA Director Corporate Services Edwin Njamura plants a tree in Ngong Forest assisted by Kenya Forest Service Officers. CMA Staff planted 1,100 trees, in order to increase Kenya's forest cover from 7 to 10 percent by 2022, in line with the Government's target.*



*CMA staff, Ms Lishba Mose and Ms Mary Kiptoo during the tree planting in Ngong Forest*

## LIST OF LICENSEES AND APPROVED INSTITUTIONS – JUNE 18, 2018

| APPROVED INSTITUTIONS |   |  |                            |
|-----------------------|---|--|----------------------------|
|                       | <i>Name of the Company</i>                            | <i>Address</i>                               | <i>Nature of Operation</i> |
| 1.                    | The Nairobi Securities Exchange                       | P.O. Box 43633- 00100, Nairobi               | Securities Exchange        |
| 2.                    | Central Depository and Settlement Corporation Limited | P.O. Box 3464 - 00100, Nairobi               | Central Depository         |
| 3.                    | Global Credit Rating Company                          | P.O. Box 76667, Wendywood 2144, South Africa | Credit Rating Agency       |
| 4.                    | Agusto & Company Limited                              | P.O. Box 56136, Ikoyi Lagos, Nigeria         | Credit Rating Agency       |
| 5.                    | Metropol Corporation Limited                          | P.O. Box 35331 – 00200, Nairobi              | Credit Rating Agency       |

| INVESTMENT BANKS |  |                               |                       |
|------------------|--|-------------------------------|-----------------------|
|                  | <b>NAME</b>                                    | <b>ADDRESS</b>                | <b>LICENSE NUMBER</b> |
| 1                | African Alliance Kenya Investment Bank Limited | P.O. Box 27639, Nairobi       | 001                   |
| 2                | Barclays Financial Services Limited            | P.O. Box 30120-00100, Nairobi | 002                   |
| 3                | CBA Capital Limited                            | P.O. Box 30437-00100, Nairobi | 003                   |
| 4                | Dyer and Blair Investment Bank Limited         | P.O. Box 45396-00100, Nairobi | 004                   |
| 5                | Equity Investment Bank Limited                 | P.O. Box 74454-00200, Nairobi | 005                   |
| 6                | Faida Investment Bank Limited                  | P.O. Box 45236-00100, Nairobi | 006                   |
| 7                | Genghis Capital Limited                        | P.O. Box 9959-00100, Nairobi  | 007                   |
| 8                | KCB Capital Limited                            | P.O. Box 48400-00101, Nairobi | 008                   |
| 9                | NIC Capital Limited                            | P.O. Box 44599-00100, Nairobi | 009                   |
| 10               | Renaissance Capital (Kenya) Limited            | P.O. Box 40560-00100, Nairobi | 010                   |
| 11               | SBG Securities Limited                         | P.O. Box 47198-00100, Nairobi | 011                   |
| 12               | Standard Investment Bank Limited               | P.O. Box 13714-00800, Nairobi | 012                   |
| 13               | Kestrel Capital (East Africa) Limited          | P.O. Box 40005-00100, Nairobi | 091                   |
| 14               | Sterling Capital Limited                       | P.O. Box 45080-00100, Nairobi | 021                   |



**STOCKBROKERS**

|    |                                    |                                 |     |
|----|------------------------------------|---------------------------------|-----|
| 1  | ABC Capital Limited                | P.O. Box 34137-00100, Nairobi   | 013 |
| 2  | AIB Capital Limited                | P.O. Box 11019-00100, Nairobi   | 014 |
| 3  | Apex Africa Capital Limited        | P.O. Box 43676-00100, Nairobi   | 015 |
| 4  | Francis Drummond & Company Limited | P.O. Box 45465-00100, Nairobi   | 016 |
| 5  | Kingdom Securities Limited         | P.O. Box 48231-00100, Nairobi   | 018 |
| 6  | NIC Securities Limited             | P.O. Box 63046-00200, Nairobi   | 019 |
| 7  | Old Mutual Securities Limited      | P.O. Box 50338-00200, Nairobi   | 020 |
| 8  | Suntra Investments Limited         | P.O. Box 74016-00200, Nairobi   | 022 |
| 9  | Securities Africa Kenya Limited    | P.O. Box 43633 – 00100, Nairobi | 100 |
| 10 | EFG Hermes Kenya Limited           | P.O. Box 349 – 00623, Nairobi   | 105 |

**NON-DEALING ONLINE FOREIGN EXCHANGE BROKER**

|   |   |                               |     |
|---|---|-------------------------------|-----|
| 1 | EGM Securities Limited (formerly Execution Point Limited) | P.O. Box 57876-00200, Nairobi | 107 |
|---|---|-------------------------------|-----|

**AUTHORISED SECURITIES DEALER**

|   |                                |                                 |     |
|---|--------------------------------|---------------------------------|-----|
| 1 | Chase Bank Limited             | P.O. Box 66049-00800, Nairobi   | 096 |
| 2 | Standard Chartered (Kenya) Plc | P.O. Box 30003 – 00100, Nairobi | 109 |

**FUND MANAGERS**

|    |   |                               |     |
|----|---|-------------------------------|-----|
| 1  | Alpha Africa Asset Managers             | P.O. Box 34530-00100, Nairobi | 023 |
| 2  | Amana Capital Limited                   | P.O. Box 9480-00100, Nairobi  | 024 |
| 3  | Apollo Asset Management Company Limited | P.O. Box 30389, Nairobi       | 025 |
| 4  | Abraaj Kenya Advisers Limited           | P.O. Box 19558-00100, Nairobi | 026 |
| 5  | Britam Asset Managers (Kenya) Limited   | P.O. Box 30375-00100, Nairobi | 027 |
| 6  | Canon Asset Managers Limited            | P.O. Box 30216-00100, Nairobi | 028 |
| 7  | Nabo Capital Limited                    | P.O. Box 10518-00100, Nairobi | 029 |
| 8  | CIC Asset Management Limited            | P.O. Box 59485-00200, Nairobi | 030 |
| 9  | Co-optrust Investment Services Limited  | P.O. Box 48231-00100, Nairobi | 031 |
| 10 | Dry Associates Limited                  | P.O. Box 684-00606, Nairobi   | 032 |

|    |   |                                 |     |
|----|---|---------------------------------|-----|
| 11 | FCB Capital Limited                             | P.O. Box 26219-00100, Nairobi   | 033 |
| 12 | Fusion Investment Management Limited            | P.O. Box 47538-00100, Nairobi   | 034 |
| 13 | GenAfrica Asset Managers Limited                | P.O. Box 79217-00200, Nairobi   | 035 |
| 14 | ICEA Lion Asset Management Limited              | P.O. Box 46143-00100, Nairobi   | 036 |
| 15 | Madison Asset Management Services Limited       | P.O. Box 20092-00100, Nairobi   | 037 |
| 16 | Old Mutual Investment Group Limited             | P.O. Box 11589-00400, Nairobi   | 038 |
| 17 | Old Mutual Investment Services (K) Limited      | P.O. Box 30059-00100, Nairobi   | 039 |
| 18 | Sanlam Investments East Africa Limited          | P.O. Box 67262-00100, Nairobi   | 040 |
| 19 | Standard Chartered Investment Services Limited  | P.O. Box 30003-00100, Nairobi   | 042 |
| 20 | Stanlib Kenya Limited                           | P.O. Box 30550-00100, Nairobi   | 043 |
| 21 | Zimele Asset Management Company Limited         | P.O. Box 76528-00508, Nairobi   | 045 |
| 22 | Natbank Trustee and Investment Services Limited | P. O. Box 72866 – 00200 Nairobi | 087 |
| 23 | Seriani Asset Managers Limited                  | P. O. Box 21986-00100 Nairobi   | 099 |
| 24 | Allan Gray (Kenya) Limited                      | P. O. BOX 63946 – 00619 Nairobi | 101 |
| 25 | Watu Capital Limited                            | P. O. Box 13606-00800 Nairobi   | 102 |
| 26 | Cytonn Asset Managers Limited                   | P. O. Box 20295-00200, Nairobi  | 108 |

### INVESTMENT ADVISERS

|    |  |                                |     |
|----|--|--------------------------------|-----|
| 1  | Bora Capital Limited                         | P.O. Box 26718-00200, Nairobi  | 046 |
| 2  | I & M Burbidge Capital Limited               | P.O. Box 51525-00100, Nairobi  | 047 |
| 3  | Citidell Company Limited                     | P.O. Box 185-00606, Nairobi    | 048 |
| 4  | Co-op Consultancy & Insurance Agency Limited | P.O. Box 48231-00100, Nairobi  | 050 |
| 5  | Deloitte Financial Advisory Limited          | P.O. Box 40092-00100, Nairobi  | 051 |
| 6  | Lifestyle Management Limited                 | P.O. Box 1342-00606, Nairobi   | 054 |
| 7  | PriceWaterhouseCoopers Associates            | P.O. Box 43963-00100, Nairobi  | 056 |
| 8  | Regnum Consultants Limited                   | P.O. Box 11431, Nairobi        | 058 |
| 9  | The Profin Group (K) Limited                 | P.O. Box 9980-00100, Nairobi   | 059 |
| 10 | Liaison Financial Services Limited           | P.O. Box 58013 – 00200 Nairobi | 095 |
| 11 | Waugh McDonald Wealth Management Limited     | P.O. Box 1896 – 00606 Nairobi  | 103 |
| 12 | Aylesfield (Kenya) Limited                   | P.O Box 1380 – 00621 Nairobi   | 104 |

## AUTHORIZED DEPOSITORIES

|    |                                     |                                 |     |
|----|-------------------------------------|---------------------------------|-----|
| 1  | African Banking Corporation Limited | P.O. Box 46452-00100, Nairobi   | 062 |
| 2  | Bank of Africa Kenya Limited        | P.O. Box 69562-00400, Nairobi   | 063 |
| 3  | Barclays Bank of Kenya Limited      | P.O. Box 30120-00100, Nairobi   | 064 |
| 4  | Stanbic Bank Kenya Limited          | P.O. Box 30550-00100, Nairobi   | 065 |
| 5  | Chase Bank (Kenya) Limited          | P.O. Box 28987-00200, Nairobi   | 066 |
| 6  | Co-operative Bank of Kenya Limited  | P.O. Box 48231 -00100, Nairobi  | 067 |
| 7  | Equity Bank Limited                 | P.O. Box 75104-00200, Nairobi   | 068 |
| 8  | I & M Bank Limited                  | P.O. Box 30238-00100, Nairobi   | 069 |
| 9  | Kenya Commercial Bank Limited       | P.O. Box 30664-00100, Nairobi   | 070 |
| 10 | National Bank of Kenya Limited      | P.O. Box 72866-00200, Nairobi   | 071 |
| 11 | NIC Bank Kenya PLC                  | P.O. Box 44599-00100, Nairobi   | 072 |
| 12 | Prime Bank Limited                  | P.O. Box 43825-00100, Nairobi   | 073 |
| 13 | Standard Chartered Bank (Kenya) Plc | P.O. Box 30003-00100, Nairobi   | 074 |
| 14 | Trans National Bank Limited         | P.O. Box 34353-00100, Nairobi   | 075 |
| 15 | HFC Limited                         | P. O. Box 30888 - 00100 Nairobi | 113 |

## REIT MANAGERS

|   |   |                                 |     |
|---|---|---------------------------------|-----|
| 1 | Nabo Capital Limited                    | P.O. Box 10518-00100, Nairobi   | 076 |
| 2 | CIC Asset Management Limited            | P.O. Box 59485 - 00200, Nairobi | 080 |
| 3 | Fusion Investment Management Limited    | P.O. Box 47538 - 00100, Nairobi | 081 |
| 4 | Stanlib Kenya Limited                   | P.O. Box 30550 - 00100, Nairobi | 082 |
| 5 | ICEA Lion Asset Management Limited      | P.O. Box 46143 - 00100 Nairobi  | 092 |
| 6 | Sterling REIT Asset Management Limited  | P.O. Box 45080 - 00100 Nairobi  | 097 |
| 7 | H.F. Development and Investment Limited | P.O. Box 30088 - 00100          | 098 |
| 8 | Britam Asset Managers Limited           | P.O. Box 30375 - 00100, Nairobi | 106 |

## REIT TRUSTEES

|   |                                     |                                |     |
|---|-------------------------------------|--------------------------------|-----|
| 1 | Housing Finance Company (K) Limited | P.O. Box 30088-00100, Nairobi  | 088 |
| 2 | Co-operative Bank of Kenya Limited  | P.O. Box 48231-00100, Nairobi  | 089 |
| 3 | Kenya Commercial Bank Limited       | P.O. Box 30664 -00100, Nairobi | 090 |

## AUTHORISED REAL ESTATE INVESTMENT TRUSTS (REITS)

|   |                       |                        |        |
|---|-----------------------|------------------------|--------|
| 1 | Stanlib Fahari I-REIT | P.O. Box 30550 - 00100 | 4/2015 |
|---|-----------------------|------------------------|--------|

## APPROVED COLLECTIVE INVESTMENT SCHEMES

**1. African Alliance Kenya Unit Trust Scheme, comprising:**

- i. African Alliance Kenya Shilling Fund.
- ii. African Alliance Kenya Fixed Income Fund.
- iii. African Alliance Kenya Managed Fund.
- iv. African Alliance Kenya Equity Fund.

**2. British-American Unit Trust Scheme, comprising:**

- i. British-American Money Market Fund.
- ii. British-American Income Fund.
- iii. British-American Balanced Fund.
- iv. British-American Managed Retirement Fund.
- v. British-American Equity Fund.

**3. Stanbic Unit Trust Scheme, comprising:**

- i. Stanbic Money Market Fund.
- ii. Stanbic Fixed Income Fund.
- iii. Stanbic Managed Prudential Fund.
- iv. Stanbic Equity Fund
- v. Stanbic Balanced Fund

**4. Commercial Bank of Africa Unit Trust Scheme, comprising:**

- i. Commercial Bank of Africa Money Market Fund.
- ii. Commercial Bank of Africa Equity Fund.

**5. Zimele Unit Trust Scheme, comprising:**

- i. Zimele Balanced Fund
- ii. Zimele Money Market Fund

**6. ICEA Unit Trust Scheme, comprising:**

- i. ICEA Money Market Fund
- ii. ICEA Equity Fund
- iii. ICEA Growth Fund
- iv. ICEA Bond Fund

**7. Standard Investment Trust Funds, comprising:**

- i. Standard Investment Equity Growth Fund
- ii. Standard Investment Fixed Income Fund
- iii. Standard Investment Balanced Fund

**8. CIC Unit Trust Scheme, comprising:**

- i. CIC Money Market Fund
- ii. CIC Balanced Fund
- iii. CIC Fixed Income Fund
- iv. CIC Equity Fund

**9. Madison Asset Unit Trust Funds, comprising:**

- i. Madison Asset Equity Fund
- ii. Madison Asset Balanced Fund
- iii. Madison Asset Money Market Fund
- iv. Madison Asset Treasury Bill Fund
- v. Madison Asset Bond Fund.

**10. Dyer and Blair Unit Trust Scheme, comprising:**

- i. Dyer and Blair Diversified Fund
- ii. Dyer and Blair Bond Fund
- iii. Dyer and Blair Money Market Fund
- iv. Dyer and Blair Equity Fund

**11. Amana Unit Trust Funds Scheme, comprising:**

- i. Amana Money Market Fund
- ii. Amana Balanced Fund
- iii. Amana Growth Fund

**12. Diaspora Unit Trust Scheme, comprising:**

- i. Diaspora Money Market Fund
- ii. Diaspora Bond Fund
- iii. Diaspora Equity Fund

**13. First Ethical Opportunities Fund**

**14. Genghis Unit Trust Funds, comprising:**

- i. GenCap Hazina Fund
- ii. GenCap Eneza Fund
- iii. GenCap Hela Fund
- iv. GenCap Iman Fund
- v. Gencap Hisa Fund

**15. Sanlam Unit Trust Scheme, comprising:**

- i. Sanlam Money Market Fund (Sanlam Pesa Plus Fund)
- ii. Sanlam Dividend Plus Fund (Sanlam Faida Plus Fund)
- iii. Sanlam Balanced Fund (Sanlam Chama Plus Fund)



**16. Nabo Africa Funds, comprising;**

- i. Nabo Africa Money Market Fund (USD)
- ii. Nabo Africa Balanced Fund (USD)
- iii. Nabo Africa Fixed Income Fund (USD)
- iv. Nabo Africa Equity fund (USD)
- v. Nabo Capital Money Market Fund (KES)

**17. Old Mutual Unit Trust Scheme, comprising:**

- i. Old Mutual Equity Fund
- ii. Old Mutual Money Market Fund
- iii. Old Mutual Balanced Fund
- iv. Old Mutual East Africa Fund
- v. Old Mutual Bond Fund

**18. Equity Investment Bank Collective Investment Scheme, comprising;**

- i. Equity Investment Bank Money Market Fund
- ii. Equity Investment Bank Balanced Fund

**19. Dry Associates Unit Trust Scheme comprising;**

- i. Dry Associates Money Market Fund (Kenya Shillings)
- ii. Dry Associates Money Market Fund ( US Dollars)
- iii. Dry Associates Balanced Fund (Kenya Shillings)

**20. Co-op Trust Fund comprising;**

- i. Co-op Balanced Fund
- ii. Co-op Equity Fund
- iii. Co-op Bond Fund
- iv. Co-op Money Market Fund

**21. Apollo Unit Trust Scheme comprising;**

- i. Apollo Money Market Fund
- ii. Apollo Balanced Fund
- iii. Apollo Aggressive Growth Fund
- iv. Apollo Equity Fund
- v. Apollo East Africa Fund
- vi. Apollo Bond Fund

**22. Watu Unit Trust Scheme comprising;**

- i. Watu Money Market Fund

**23. Seriani Unit Trust Scheme comprising;**

- i. Seriani Money Market Fund
- ii. Seriani Balanced Fund
- iii. Seriani Equity Fund

## APPROVED EMPLOYEE SHARE OWNERSHIP PLANS (ESOPS)

1. ARM Employee Share Ownership Plan
2. EABL Employee Share Ownership Plan
3. Equity Employee Share Ownership Scheme
4. Housing Finance Employee Share Ownership Plan
5. I&M Bank Employee Share Ownership Plan
6. KCB Employee Share Option Plan
7. KENOL Employee Share Ownership Plan
8. Kenya Airways Employee Share Ownership Plan
9. Safaricom Employee Share Ownership Plan
10. Scangroup Employee Share Ownership Plan
11. Car & General Employee Share Ownership Plan
12. Standard Group Limited Employee Share Ownership Plan
13. Longhorn Publishers Limited, Employee Share Ownership Plan
14. Britam Holdings PLC Employee Share ownership Plan







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