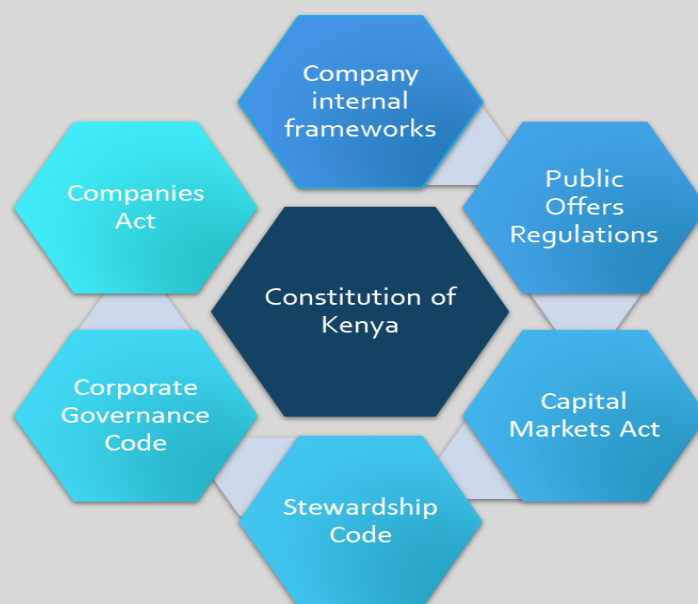




THE REPORT ON THE STATE OF CORPORATE GOVERNANCE OF ISSUERS OF SECURITIES TO THE PUBLIC IN KENYA

2021



This Report on the State of Corporate Governance of Issuers of Securities to the Public in Kenya is a publication of the Capital Markets Authority on the status of corporate governance for issuers. While reasonable care has been taken in preparation of this report, the Authority accepts no responsibility or liability whatsoever resulting from the use of information contained herein. Please note that CMA has no objection to the material contained herein being referenced, provided an acknowledgement of the same is made. Any comments or suggestions on any of the details may be sent to issuergovernance@cma.or.ke

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ABBREVIATIONS

AIMS	Alternative Investment Market Segment
CDP	Climate Disclosure Project
CDSB	Climate Disclosure Standards Board
CMA	Capital Markets Authority
FY	Financial Year
ESG	Environmental, Social and Governance
GEMS	Growth Enterprise Market Segment
GRI	Global Reporting Initiative
LLP	Limited Liability Partnership
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
MIMS	Main Investment Market Segment
MoU	Memorandum of Understanding
NSE	Nairobi Securities Exchange
OECD	Organization for Economic Cooperation and Development
SASB	Sustainability Accounting Standards Board
SME	Small & Medium Enterprise

1. FOREWARD

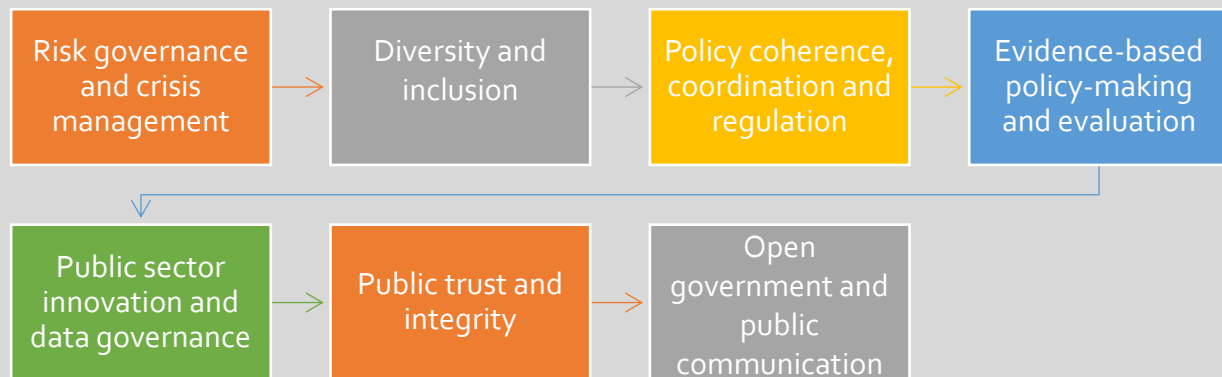
Message from Mr. Wyckliffe Shamiah, FCPA, Chief Executive Officer



The Capital Markets Authority continues to provide the necessary policy, regulatory and related interventions to build the

According to the Organization for Economic Cooperation and Development (OECD), the rules of governance in the era of Covid-19

momentum on the progress made on embedding good governance and sustainability for issuers. I particularly appreciate the important role that the boards of issuers have played. We continue to see boards of issuers exercising their duties and responsibilities with clarity, assurance and effectiveness in line with the Code of Corporate Governance Practices for Issuers of Securities to the Public (the Code). apply more than ever. Some of the evidence-based policy responses for a sustainable recovery include:



While the Authority supports its policy and regulatory role, I call upon issuers to enhance the areas highlighted above.

It is my pleasure to release the report on the state of corporate governance of issuers of securities to the public in Kenya, 2021. The Report highlights the incremental steps that issuers are making to embed good governance into their business dealings and culture. It is worth noting that issuers have

integrated risk management and enhanced the spectrum of disclosures required by the Code. The Authority continues to appreciate the importance of collaboration and partnerships, as demonstrated by the MoUs signed with a number of institutions including but not limited to the Institute of Certified Secretaries, Fund Managers Association and Association of Retirement Benefits Schemes.

Message from Mr. Abubakar H. Abubakar, Director, Market Operations



The global Corona Virus (Covid-19) pandemic continues to shape the importance of governance and sustainability while disrupting long-held modes of doing business. For Kenya's issuers, the effects of Covid-19 continue to be felt, in varying proportions. It is worth noting that issuers continue to demonstrate their resilience during the pandemic while regulators, including CMA, provide the necessary regulatory interventions.

The board of any institution occupies a key strategic, visionary and influential role,

which is more pronounced for issuers, given their stewardship role on behalf of investors. On this basis, the Authority's overriding mandate of investor protection can only be achieved when the board is responsible, fair, transparent and accountable.

I am happy to note that the annual governance assessments for issuers, together with the financial, governance and legal audits, continue to reinforce the importance of good governance. According to the report on the state of corporate governance of the issuers of securities to the public in Kenya, 2021, issuers have continued to demonstrate their focus on good corporate governance practices as evidenced by the overall weighted score of a "Good rating"

2. EXECUTIVE SUMMARY

Good corporate governance practices by companies enhance efficiency leading to decreased operational risks. Additionally, it facilitates the achievement of strategies by corporates.

This report has been prepared based on an assessment of corporate governance practices by 49 issuers. It is important to note that two issuers who have the same governance structure were assessed as one hence bringing down the number of assessed issuers to 48. However, a number of issuers were excluded from the assessment as they failed to submit either the reporting template or the full set of annual reports for assessment purposes. The Authority is considering taking appropriate enforcement action against issuers who have repeatedly violated the continuous reporting requirements.

The weighted average score by the assessed companies remained at a "Good Rating" as the previous assessment but with a slight decrease in the percentage score from 72% to 70.15% as discussed in the subsequent sections of this report. The number of issuers in the leadership category remained 25, those in the good rating category decreased from 11 to 8, those in fair rating increased from 8 to 10 while those in needs improvement rating increased from 4 to 5. The reduction in the number of issuers in good rating was occasioned by penalty imposed on some issuers under the principle of commitment to good governance due to their failure to submit their comments on the assessment findings within the requisite time. The additional one issuer in 'needs improvement' rating had not been assessed and rated in the previous year.

The table below represents the distribution of the issuers in the leadership category across different sectors. The sectors not mentioned did not have issuers in the leadership category.

	Sectors	No. of Issuers
1	Banking	10
2	Commercial & services/telecommunications	3
3	Automobiles & accessories/manufacturing & allied	2
4	Energy & petroleum	2
5	Insurance	4
6	Investment & investment services	3
7	Construction & allied	1
	TOTAL	25

A sectoral performance analysis revealed that the banking sector had the best weighted score with a leadership rating across all the principles of the code while the agricultural sector had the least weighted score with a fair rating.

An analysis of performance per principle indicated that the best performing principle was rights of shareholders while the least performing was commitment to good corporate governance as detailed in the report.

3. BACKGROUND

The annual assessment of corporate governance practices by issuers of securities commenced in 2017/2018, against the principles outlined in the Code. The Code requires issuers to implement the Principles and Recommendations in the Code and report at the end of every financial year on how they have applied the requirements. The Authority undertakes an independent assessment of the issuers' self-assessment, leading to the issuance of the final report to each issuer.

The report on the state of corporate governance of issuers of securities to the public is then developed which presents the performance of all issuers on corporate governance and sustainability requirements.

3.1 Assessment methodology

3.1.1 Assessment tools

The Corporate Governance Reporting Template, Corporate Governance Scorecard and the Assessment Methodology are the main tools for reporting, measuring and monitoring the application of the Code. The reporting template, filled and submitted by issuers, serves to enhance adherence to governance requirements as well as disclosing the status of application of each requirement. On the other hand, the Corporate Governance Scorecard is used internally by the Authority to determine the level of implementation of the Code.

To comply with the Authority's continuous reporting requirements, all issuers are expected to submit the completed reporting template together with the complete annual report within four (4) months following the end of the financial year. Subsequently the same is be uploaded on the issuer's website.

On receiving the Corporate Governance reporting templates and the annual reports, the Authority undertakes an independent assessment to verify the status of governance of each issuer. This is done in line with an approved methodology and scoring criteria.

The Scorecard covers the seven (7) principles of the Code:

1. Introduction to the Code (focus on commitment to good governance);
2. Board operations and control
3. Rights of shareholders
4. Stakeholder relations
5. Ethical and social responsibility
6. Accountability, risk management and internal control; and
7. Transparency and disclosure

3.1.2 Governance assessment

The assessments of corporate governance practices by issuers is based on publicly available and accessible information such as annual reports, issuer websites, notices, circulars, articles of association, resolutions of shareholders' meetings, Board Charter, media publications, codes of conduct, sustainability reports and other sources of public information as available.

The assessment process is as discussed in the steps below:

1. **Submission of the self-reporting template by the issuer:** The issuer submits the self-reporting template. The matrix indicates the level of compliance with the requirements of the Code from the issuer's perspective.
2. **Review:** Upon receipt of the template, a thorough review is carried out for each issuer based on publicly available information and evidence provided by the issuer to the Authority.
3. **Peer-review:** A peer review is carried out by another member of the team who was not involved in the initial review to ensure accuracy and consistency.
4. **Comments from the issuer:** Comments from the issuer are sought through their respective company secretaries or through an exit meeting between the issuer and CMA Issuer Governance team.
5. **Final review:** The draft findings and recommendations are then amended accordingly depending on the discussions and comments in the exit meetings or emails. The final report is then formally shared with the issuer in writing after approval.



The issuer scores zero points on each question if they have not observed the practices, 1 point if they have partially observed, 2 points if they have fully observed and 3 points if they have gone above and beyond the requirements of the code.

Based on the final score, issuers will be grouped into four groups; Leadership rating (75% and above), Good rating (between 65% and 74%), Fair rating (between 50% and 64%) and Needs improvement rating (below 50%).

3.1.3 Assessment analysis

The review process takes into consideration the fact that some sectors like automobiles & accessories, telecommunications and investment services contain a single issuer. The sectors were therefore consolidated with similar categories for analysis purposes. The result was that:

- a) Automobiles & Accessories was consolidated with Manufacturing & Allied;
- b) Telecommunications was consolidated with Commercial & Services; and
- c) Investment Services was consolidated with Investments.

A breakdown of the number of assessed issuers per sector:

Table 3.1: Breakdown of issuers per sector

	Sectors	No. of Issuers
1	Banking	11
2	Commercial & services/telecommunications	8
3	Automobiles & accessories/manufacturing & allied	7
4	Energy & petroleum	3
5	Insurance	6
6	Agricultural	5
7	Investment & investment services	5
8	Construction & allied	3
	TOTAL	48

4. FINDINGS AND RECOMMENDATIONS ON SPECIFIC CORPORATE GOVERNANCE PRINCIPLES

4.1 COMMITMENT TO GOOD CORPORATE GOVERNANCE

The board plays a crucial role in embedding and integrating good governance in an issuer. Good corporate governance is an integral part of a business. Strong and effective governance helps to cultivate a company's culture of integrity, leading to positive performance and a sustainable business. This Principle measures issuers' commitment to good governance based on the development, implementation and regular review of a board charter, distinction of the responsibilities of the board from management, awareness on the requirements of the Code, focus on sustainability, among others.

For the fourth year running, the Authority notes that there has been improvement on the development, disclosure and review of board charters by issuers. In addition, the board charters continue to emphasize the strategic and oversight roles of the board, while delineating the roles of management. During the assessment period, it was evident that issuers have embedded sustainability in their business strategies and decisions, heralding a new dawn for integration of sustainability.

4.1.1 Average performance of Issuers on commitment to good corporate governance in FY 2021

Figure 4.1 below shows the performance of each of the issuers that were assessed during the period under review.

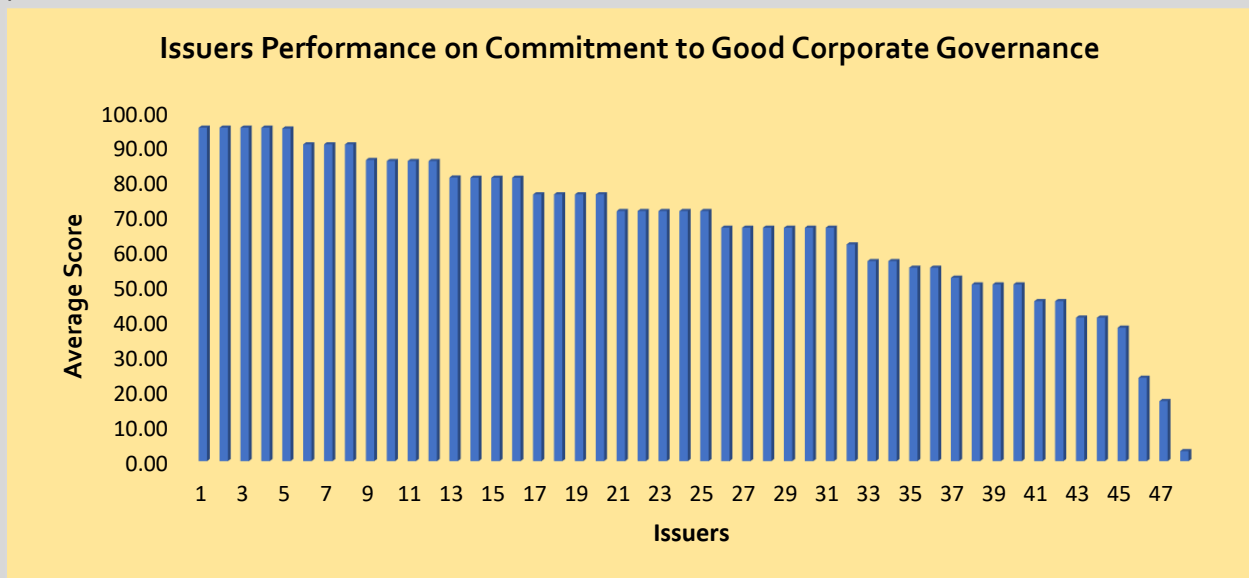


Figure 4.1: Issuers Performance on commitment to good corporate governance

The figure shows that 20 issuers had a leadership score, 11 issuers had a good rating, 9 had a fair rating while 8 had a needs improvement rating.

4.1.2: Trend analysis on the overall performance on commitment to good corporate governance (2017/2018-2020/2021)

Figure 4.2 below shows the average aggregate performance of all issuers on this principal and the trend analysis.

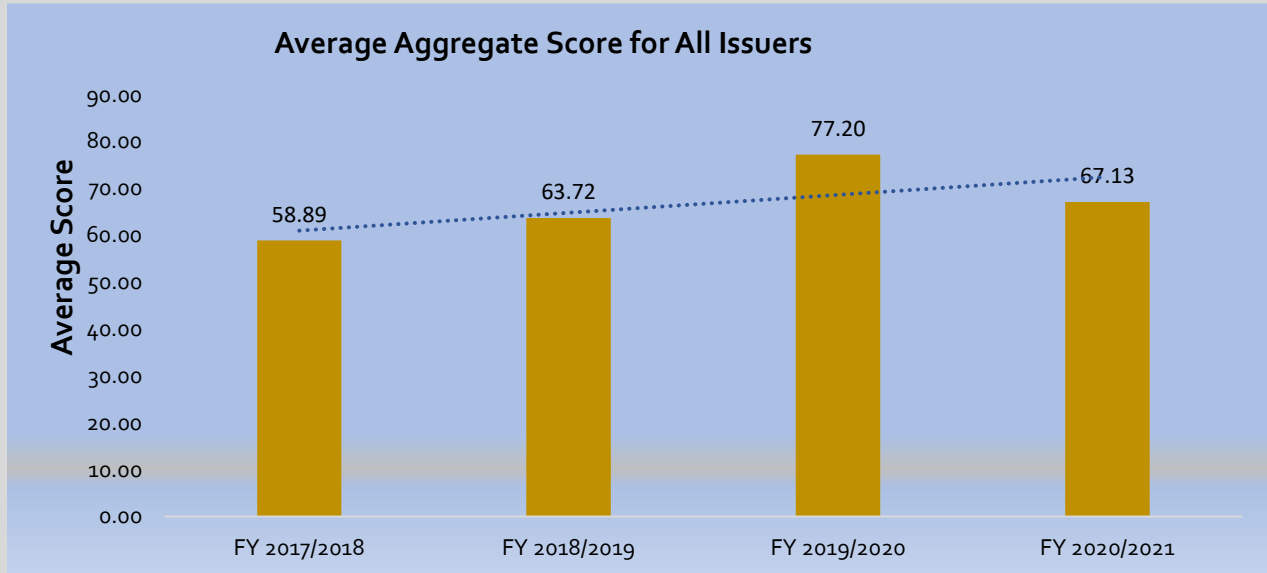


Figure 4.2: Average Aggregate Score on Commitment to Good Corporate Governance

Issuers have been improving on performance of this particular principle from FY 2017/2018 up until FY 2019/2020. However, it is important to note that the performance in the current period of assessment dropped to 67.13% from 77.20% in the previous period.

The drop in performance was occasioned by the fact that the Authority noted with concern that some issuers were not reviewing the draft reports within the required timeline. Given that responsiveness is a factor in measuring an issuer's commitment to good governance, some issuers had their scores dropped due to their delays in reviewing the draft assessment reports and sharing their feedback. This resulted in a drop on this principle during this assessment year.

4.1.3: Areas of Improvement

Some notable areas of improvement were:

- a) The boards should ensure that they are responsive to their stakeholders, particularly the Authority and other relevant stakeholders.
- b) Issuers should continue embedding their sustainability practices into their strategies, business decisions and culture.

4.2 BOARD OPERATIONS AND CONTROL

This Principle focuses on the structure, appointment, composition, size, diversity and qualification of board members, functions, and independence as well as compliance with laws, regulations, and standards. The assessment checks how boards of issuers have applied the Code's requirement on its operations and control environment.

4.2.1 Average Aggregate performance of Issuers on Board Operations and Control

Figure 4.3 below shows the performance of issuers on this principle.

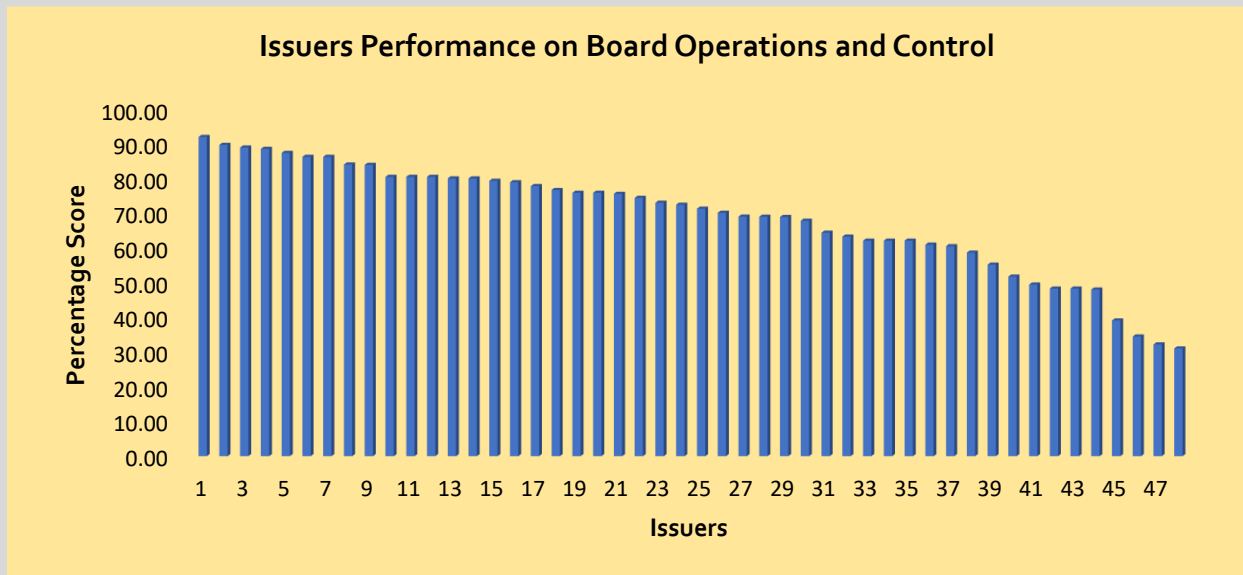


Figure 4.3: Issuer Performance on Board Operations and Control

In the period under review, 21 issuers had a leadership rating on board operations and control, 9 had a good rating, 10 had a fair rating while the rest had a needs improvement rating.

4.2.2 Trend analysis on the overall performance of Issuers on Board Operations and Control (2017/2018-2020/2021)

Figure 4.4 below shows the performance of this principle across different assessment periods.

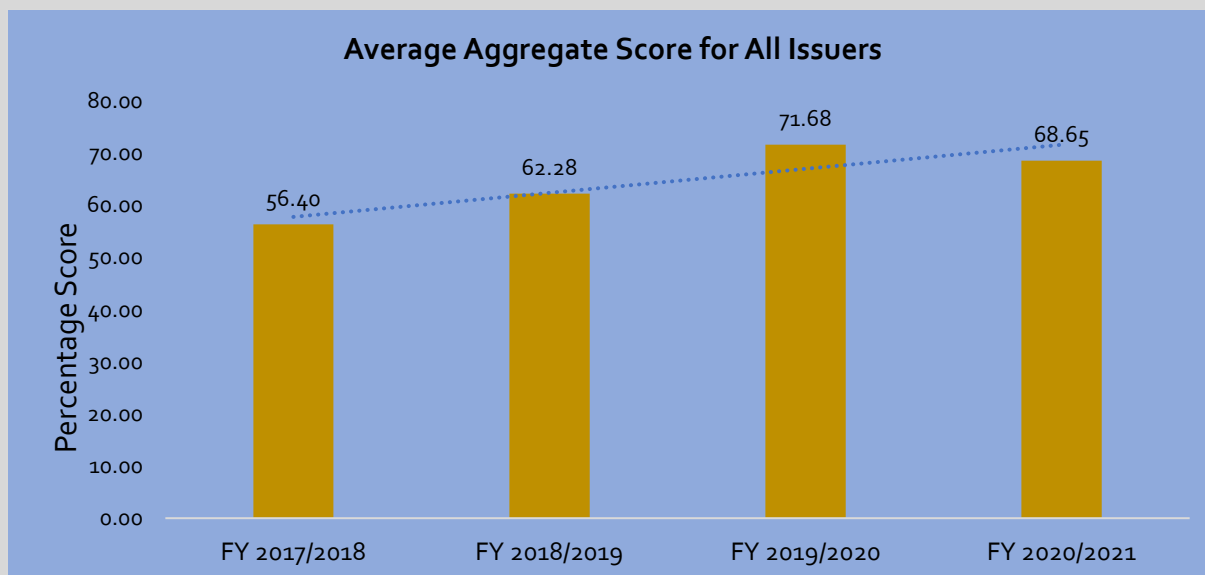


Figure 4.4: Average Aggregate Score for all Issuers on Board Operations and Control

A comparison across different periods on this principle indicates that there was consistent improvement in performance in the first three assessment periods. However, there was a slight drop from 71.68% in FY 2019/2020 to 68.65% in FY 2020/2021. The drop was occasioned by: Failure by a number of issuers who were exempted from carrying out governance audits to inform the Authority on the status of implementation of previous governance audit recommendations, failure by some issuers to demonstrate how they assess the independence of independent directors annually, some issuers had a great number of board meetings way above what had been provided for in the annual board work plan and failure by some issuers to disclose the nature of independence of their directors and the composition of board committees

4.2.3 Areas of improvement

- a) There is a need for boards to develop clear succession planning and measurable standards to align performance-based remuneration of the directors and senior management with long-term interests of the companies.
- b) Issuers should endeavour to update the Authority on the status of implementation of the previous governance audit recommendations in the period in which a governance audit has not been undertaken.
- c) Issuers should put in place measures to annually assess the independence of independent directors and clearly demonstrate this.

4.3 RIGHTS OF SHAREHOLDERS

This Principle sets out the requirement for an issuer to protect, respect, and enhance the rights of all shareholders, including the minority. For this to be achieved, the governance framework of an issuer must indicate how this has been done including through the articles of association, the Board Charter, annual reports, information on the issuer's website, among others. This is demonstrated during an issuer's meetings with shareholders, disclosure of information and treatment of all shareholders equitably.

4.3.1 Average Aggregate performance of Issuers on Rights of Shareholders

The figure 4.5 below shows performance on the rights of shareholders principle.

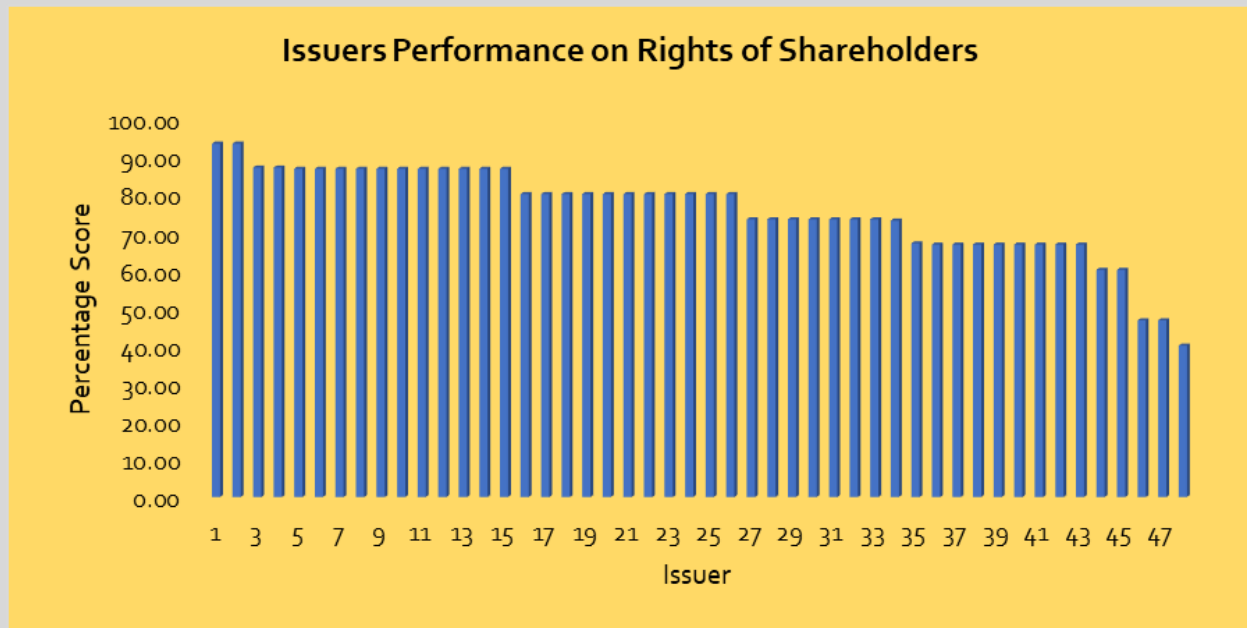


Figure 4.5: Issuers Performance on Rights of Shareholders

The rights of shareholders principle was the best performing principle with 26 and 17 issuers in leadership and good ratings respectively. 2 issuers had a fair rating while the rest had a needs improvement rating.

4.3.2 Trend analysis on the overall performance of Issuers on Rights of Shareholders (2017/2018-2020/2021)

The figure below represents performance of issuers on this principle across different sectors.

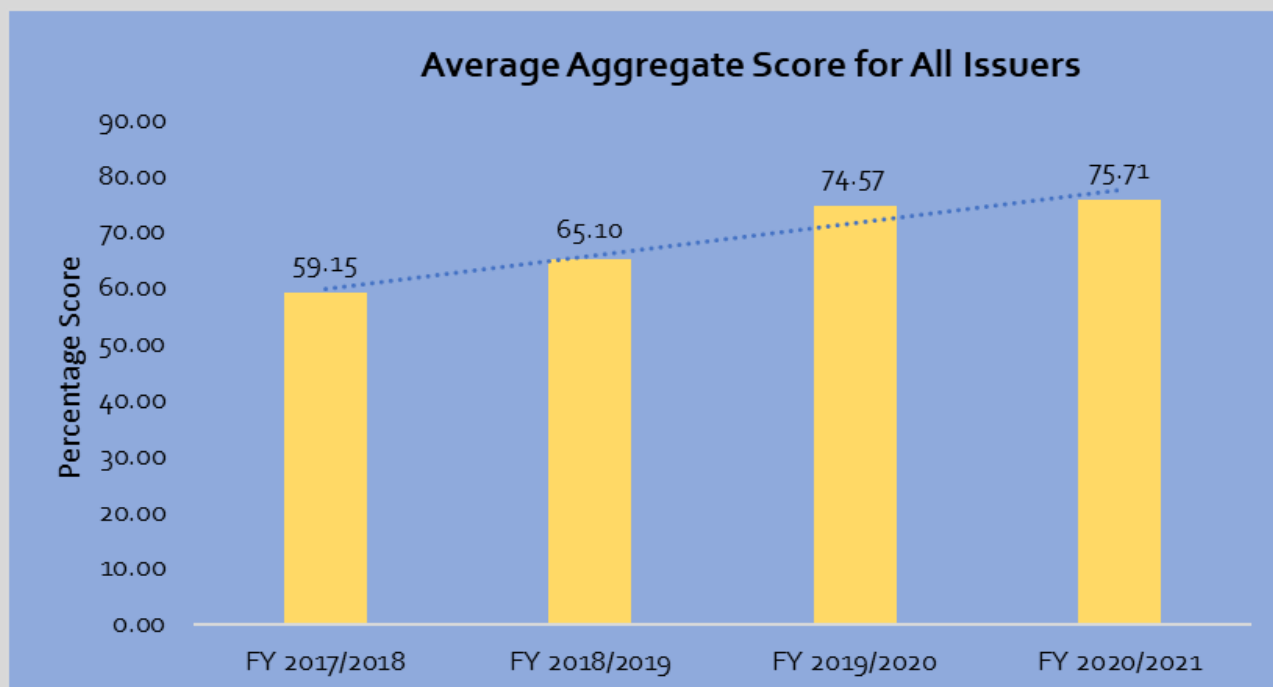


Figure 4.6: Average Aggregate Score on Rights of Shareholders

The performance on this principle by issuers has consistently increased over the four assessment periods with the current score being a leadership rating of 75.71. This increase has been occasioned by issuers continually proactively providing information to the shareholders and facilitation of attendance of virtual AGMs amidst the pandemic.

4.3.3 Areas of improvement

- a) Issuers should ensure that there are no technical hitches during the virtual AGMs to enable shareholders to seamlessly follow and participate in the meeting.
- b) Issuers should allow more time for investors to register and ask questions on the AGM online platform.
- c) Institutional investors should take up the role of stewardship as the representatives of their clients or investors in listed companies, ask questions and vote during virtual AGMs.

4.4 STAKEHOLDER RELATIONS

We are living in an era where there is a lot of interconnectedness and integration. An issuer does not exist in isolation, the issuer needs people and operate in an environment to deliver on its objectives and strategies. This Principle calls for issuers to identify and involve its stakeholders in their operations, decisions, and strategies. A stakeholder-inclusive approach in governance is critical.

4.4.1 Average Aggregate performance of Issuers on Stakeholder Relations

Figure 4.7 below shows the performance of issuers on this principle.

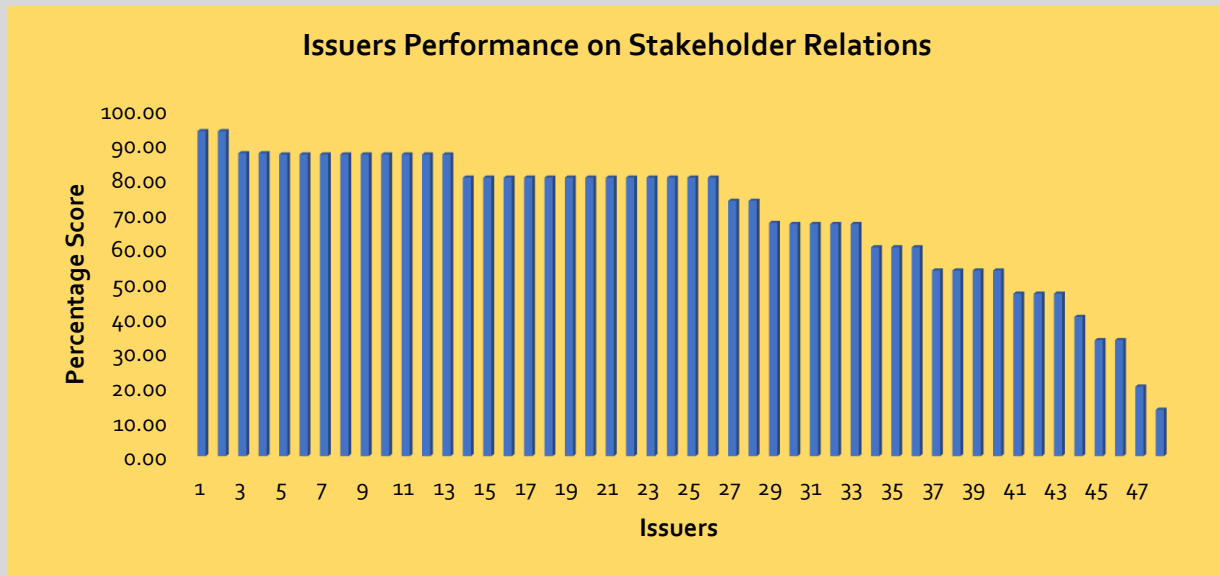


Figure 4.7: Performance on Stakeholder Relations

An analysis of individual issuer performance shows that 26 issuers had a leadership rating, 6 had a good rating, 7 were rated fair and the rest were rated as needs improvement.

4.4.2 Trend analysis on the overall performance of Issuers on Stakeholder Relations (2017/2018-2020/2021)

The figure below illustrates performance on this principle across various periods.

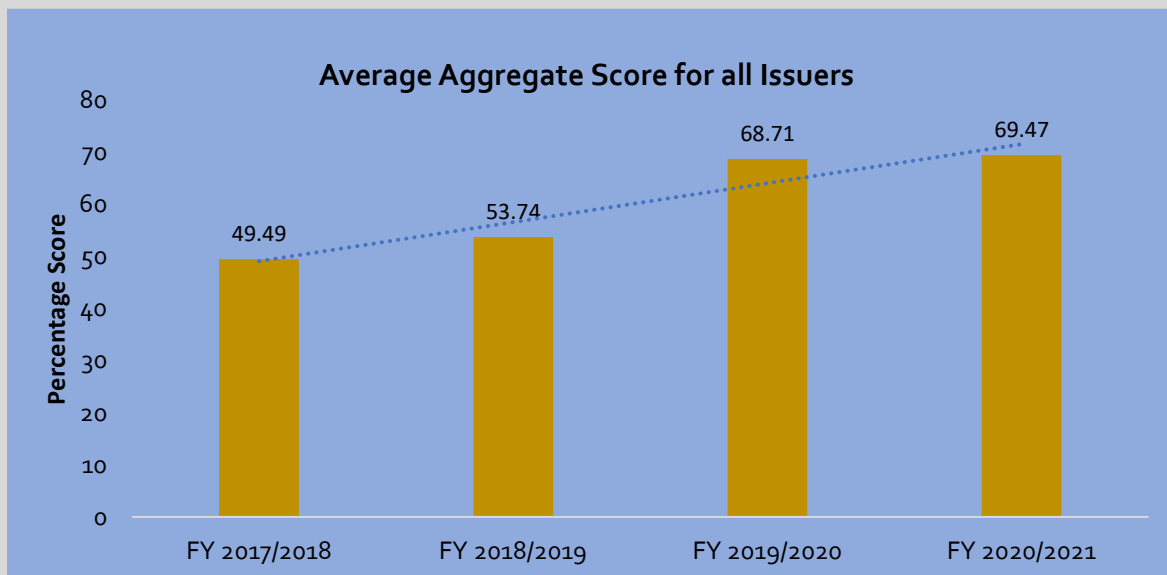


Figure 4.8: Average Aggregate Score on Stakeholder Relations

The performance on this principle was highest in FY 2020/2021 with a good rating of 69.47%. There has been a consistent improvement on this principle throughout the assessments supported by the fact that most issuers have a stakeholder inclusive approach and have developed relevant policies to help in identifying the needs of their stakeholders. In addition, most issuers have ensured consistent communication with their stakeholders.

4.4.3 Areas of improvement

- a) Issuers should continue tailoring engagement practices to the needs and interests of the company and its stakeholders. Determining what input is needed from stakeholders and how it will be used in the decision-making process.
- b) Issuers to take a long-term view on issues that are intrinsically related to company strategy, ongoing dialogue and standing stakeholder bodies can be more valuable than one-time, ad-hoc engagement. In addition, publicly disclosing information that is important to stakeholders helps to ensure that ongoing dialogue is useful for all parties involved.

4.5 ETHICS AND SOCIAL RESPONSIBILITY

For the success and sustainability of a business, ethics and social responsibility is crucial. A responsible issuer recognizes and considers the impact that its decisions and activities have on society and the environment; and behaves in a manner that positively contributes to the sustainable development and welfare of society. The assessment on this Principle checks the extent to which issuers are good corporate citizens who have established and implemented their ethical standards, while annually measuring their performance.

4.5.1 Average Aggregate performance of Issuers on Ethics and Social Responsibility

The performance by all issuers on this principle is illustrated in the figure below.

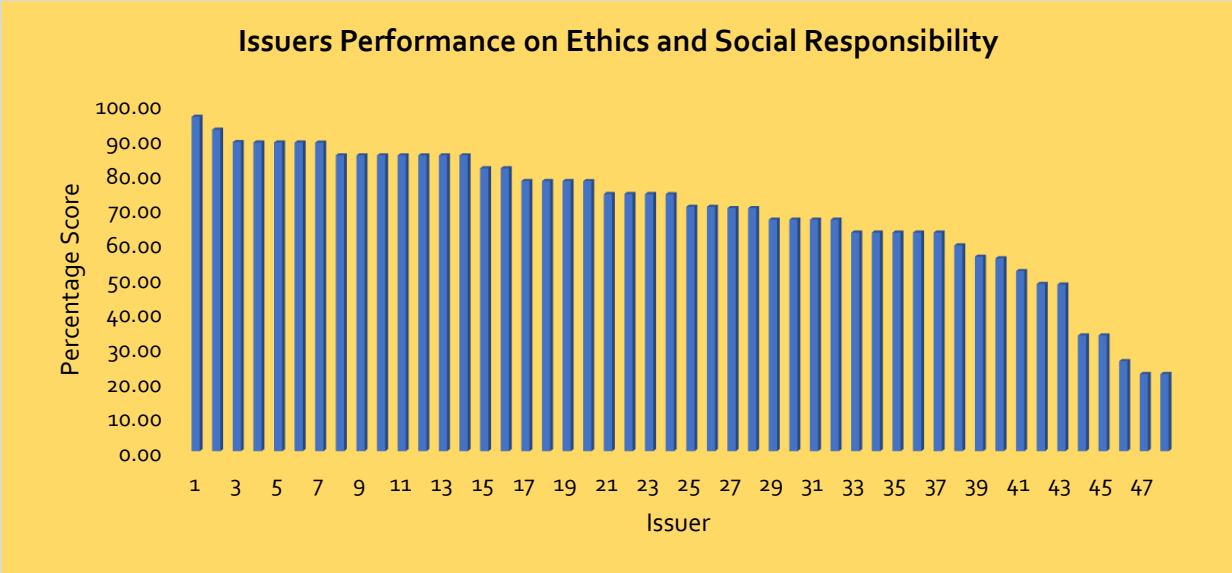


Figure 4.9: Issuers Performance on Ethics and Social Responsibility

An analysis of this principle indicates that 20 and 12 issuers had leadership and good ratings respectively. 9 issuers had a fair rating while the rest were in the needs improvement category.

4.5.2 Trend analysis on the overall performance of Issuers on Ethics and Social Responsibility (2017/2018-2020/2021)

The figure below illustrates performance on this principle across different assessment periods.

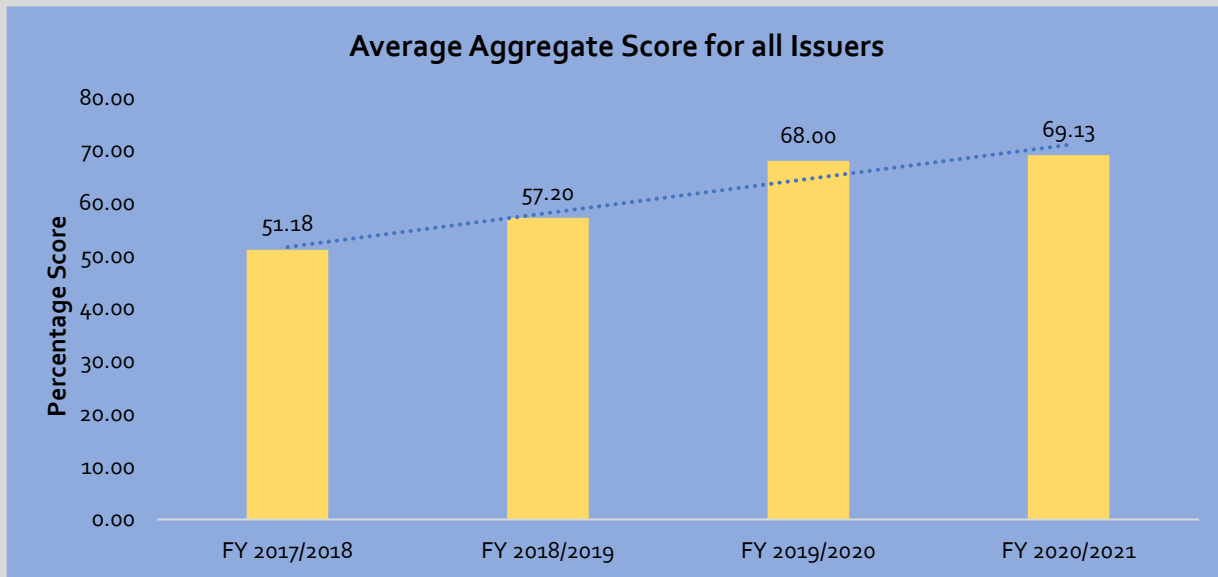


Figure 4.10: Average Aggregate Score on Ethics and Social Responsibility.

The performance on this principle has consistently improved across all periods from 51.18% in FY 2017/2018 to 69.13% in FY 2020/2021. This improvement has been as a result of many issuers developing and disclosing their codes of ethics and conduct, developing policies on corporate citizenships as well as developing and implementing whistle blowing policies.

4.5.3 Areas of improvement

Some notable areas of improvement are:

- a) Boards to continue incorporating ethical and sustainability risks in the risk management frameworks.
- b) Companies to continuously assess and monitor performance on ethics. Additionally, this should be disclosed to both internal and external stakeholders.

4.6 ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL

It is critical that the interests of the shareholders and those of the company are safeguarded. This can be achieved through prudent use of resources to realise optimum return on investments, reducing wastage, proper investment strategies and minimizing possible negative impacts of the various risks encountered in the businesses.

This Principle calls on issuers to ensure that the board takes responsibility and provides oversight on the critical functions of the company. The board is responsible for the completeness and accuracy of financial information, ensuring the independence of external auditors, proper functioning of the audit committee, effective risk management frameworks and internal audit, among other responsibilities.

4.6.1 Average Aggregate performance of Issuers on Accountability, Risk Management and Internal Control

The figure below illustrates performance of all issuers on this principle.

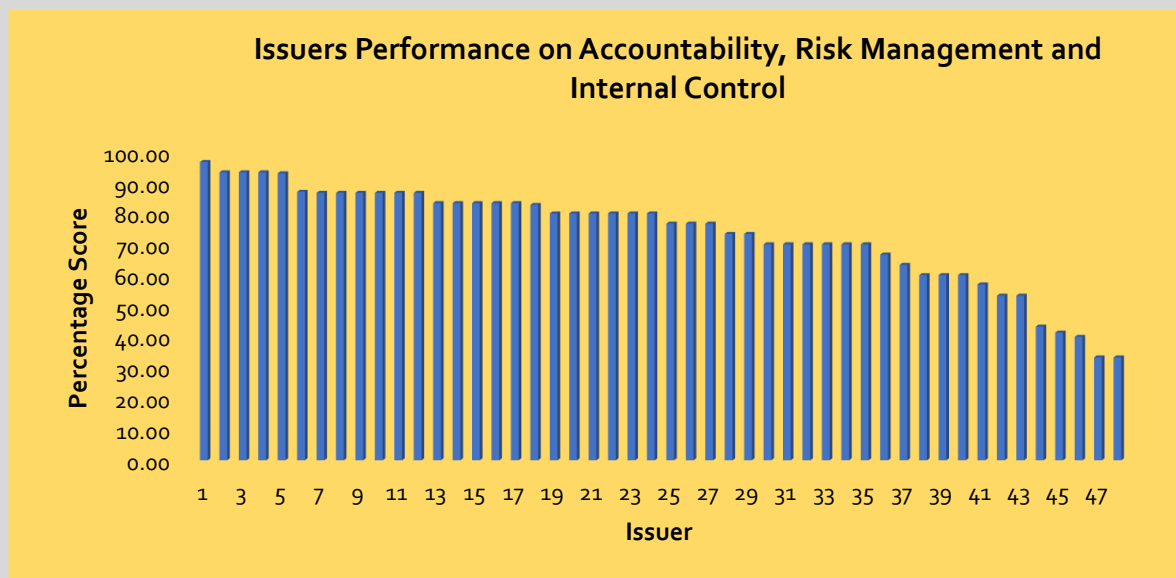


Figure 4.11: Issuers Performance on Accountability, Risk Management and Internal Control

In FY 2020/2021, 27 issuers had a leadership rating on this principle. 9 had a good rating, 7 had a fair rating while the rest had a needs improvement rating.

4.6.2 Trend analysis on the overall performance of Issuers on Accountability, Risk Management and Internal Control (2017/2018-2020/2021)

The performance and trend analysis across the different assessment periods is demonstrated below.

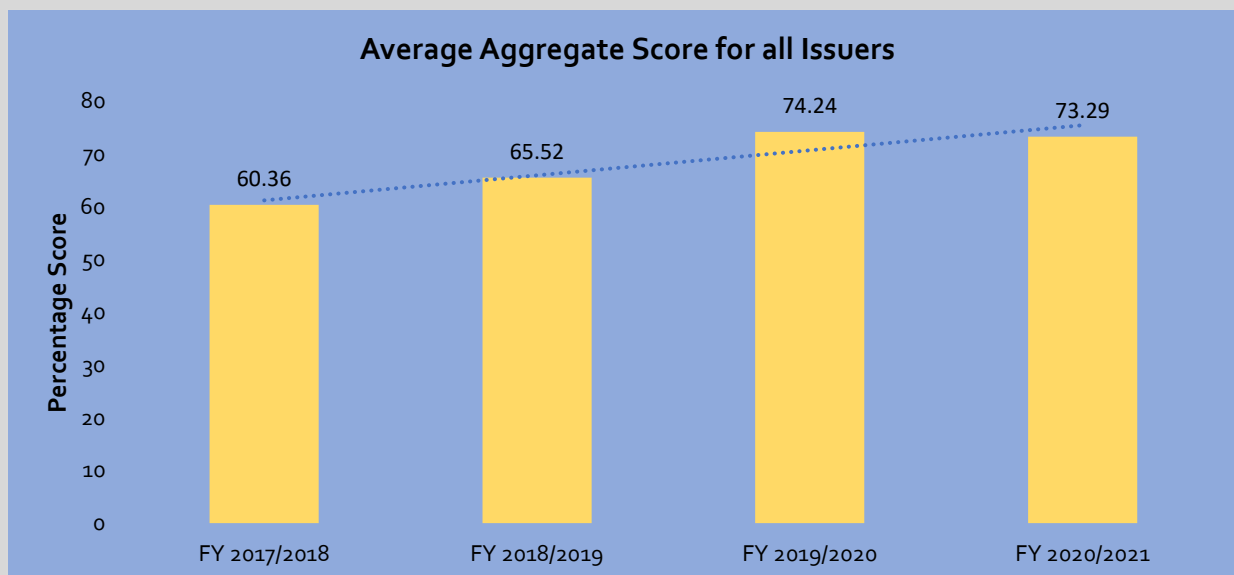


Figure 4.12: Aggregate Average Score on Accountability, Risk Management and Internal Control

The performance on this principle improved from 60.36% in FY 2017/2018 to 74.24% in FY 2019/2020. Nonetheless, the performance dropped slightly to 73.29% in FY 2020/2021. This was occasioned by a number of issuers failing to disclose the details of the audit committee activities and failing to disclose whether the board annually conducts a review on the effectiveness of the company's risk management practices and internal control systems and reports this to the shareholders.

4.6.3 Areas of improvement

- a) Oversight of governance and risk management should continually be a shared responsibility for all; boards, auditors, investors, trainers, media and the regulator.
- b) Issuers should continually give consideration to ethical, social and environmental risks while developing their risk management frameworks.

4.7 TRANSPARENCY AND DISCLOSURE

Good governance calls for timely and balanced disclosure of all material information as required by all laws, regulations and standards. Fair, timely and cost-effective access to the information by users is also very critical.

This Principle covers key disclosures on remuneration of directors and senior management, board charter, whistle blowing policy, code of ethics and information on resignation of directors, management discussion and analysis, compliance with laws, ethical leadership, conflict of interest, corporate social responsibilities and citizenship, governance audit, risk management

policy, procurement policy, insider dealings, related party transactions, information technology policy, corporate reporting, statement of policy on good governance and status of application of the Code among others.

4.7.1 Average Aggregate performance of Issuers on Transparency & Disclosure

The performance of issuers on this principle is demonstrated by the figure below.

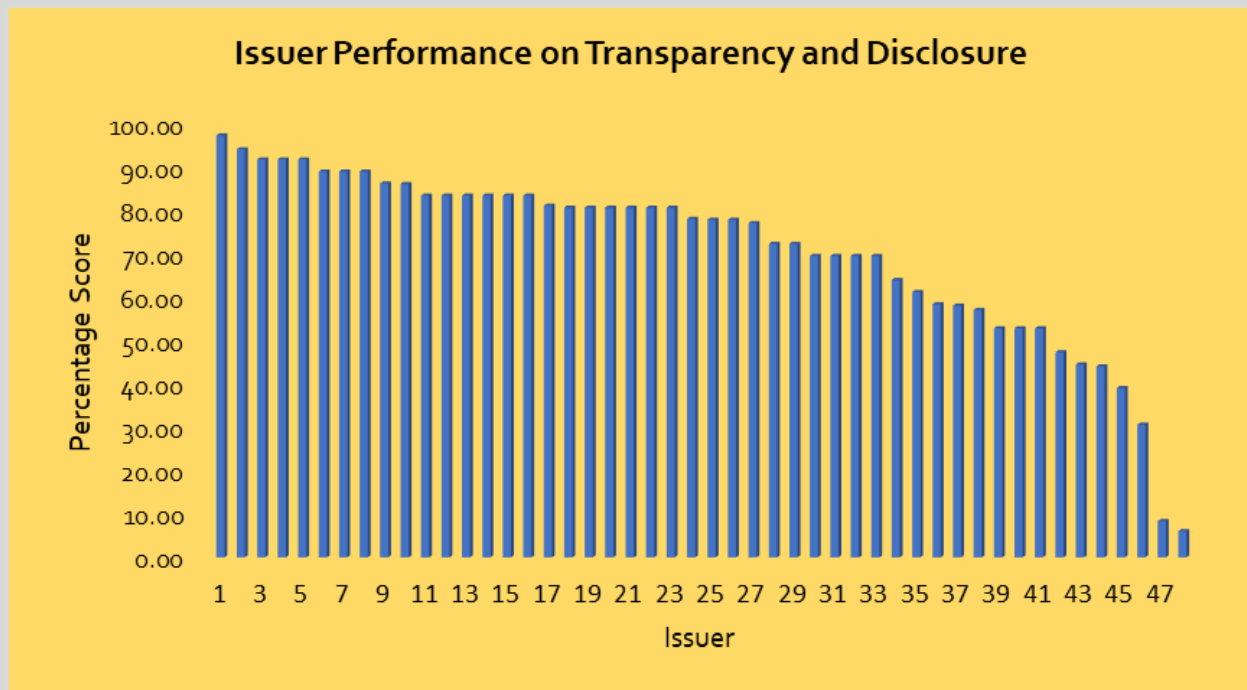


Figure 4.13: Issuer Performance on Transparency and Disclosure

27 issuers scored a leadership rating on this principle. 6 had a good rating, 8 had a fair rating while the rest had a needs improvement rating.

4.7.2 Trend analysis on the overall performance of Issuers on Transparency & Disclosure (2017/2018-2020/2021)

The figure below demonstrates a trend analysis of issuers performance on this principle across various periods.

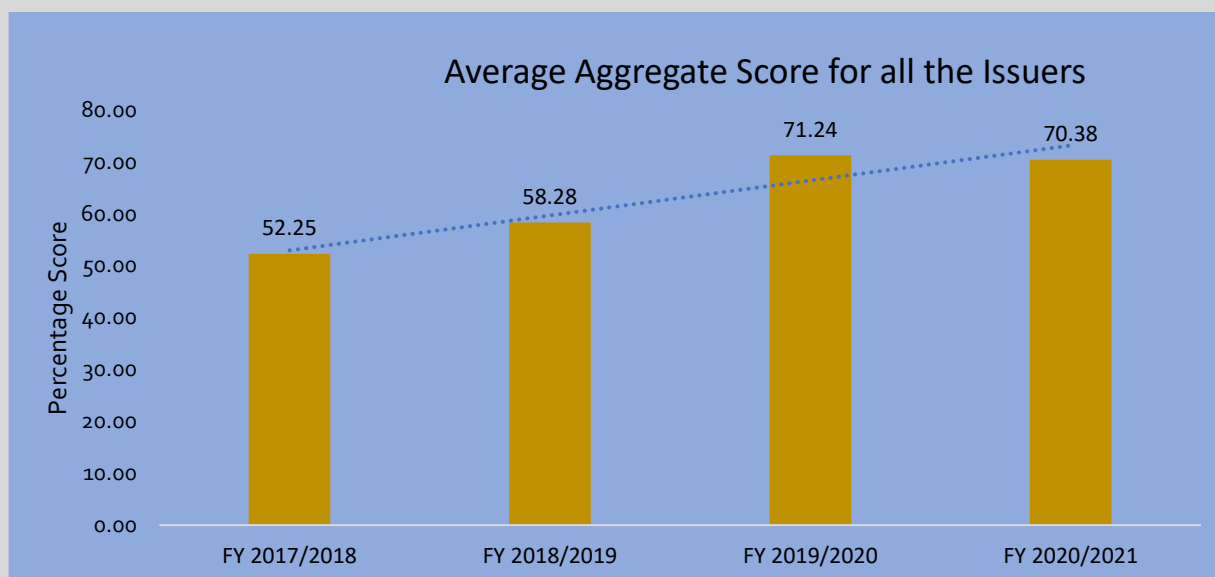


Figure 4.14: Average Aggregate Score on Transparency and Disclosure

The performance on this principle has consistently improved save for the current assessment period where it dropped to 70.38% from 71.24 in the previous period. This was as a result of a failure by some issuers to develop and disclose relevant policies (including those on related party transactions, conflict of interest and stakeholder relations) during the period under review as required by the code.

4.7.3 Areas of improvement.

- a) Issuers should disclose direct and indirect shareholding by senior management and directors in the annual report.
- b) Issuers should disclose their related party transaction policies and all related party transactions in the annual report.
- c) While most issuers have disclosed that the governance auditors and legal audits were conducted, there is need for publication of the governance and legal audit opinions in the annual report.

5. PERFORMANCE ON ALL PRINCIPLES

5.1 Overall Weighted Scores Across the Assessment Periods

Figure 5.1 and table 5.1 below shows the weighted overall scores by issuers across all periods.

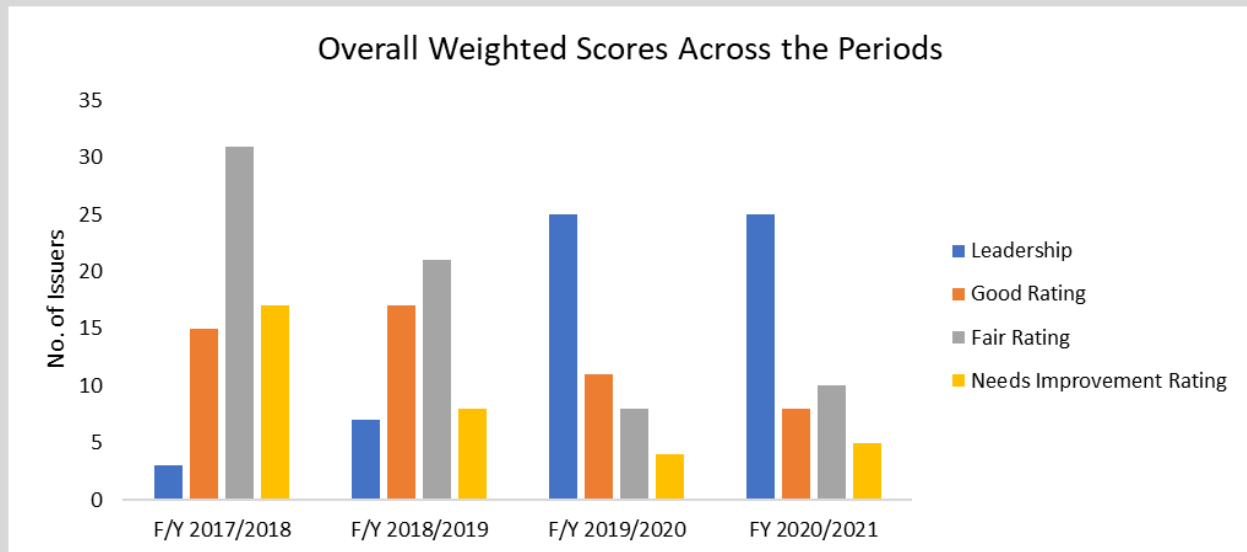


Figure 5.1: Overall Weighted Scores

Table 5.1: Weighted Overall Scores.

Rating	F/Y 2017/2018	F/Y 2018/2019	F/Y 2019/2020	FY 2020/2021
Leadership	3	7	25	25
Good Rating	15	17	11	8
Fair Rating	31	21	8	10
Needs Improvement Rating	17	8	4	5

It is worth noting that the number of issuers in the leadership category remained 25. 8 issuers were rated as 'good'. Those in the fair rating category and needs improvement increased to 20 and 5 issuers respectively.

5.2 Overall Performance on All Principles

From the recent assessment, we note that the number of issuers in the leadership rating remained the same. Those in good rating decreased to eight, those in fair rating increased to ten while those in the need improvement category increased to five. Figure 5.2 below illustrates this performance:

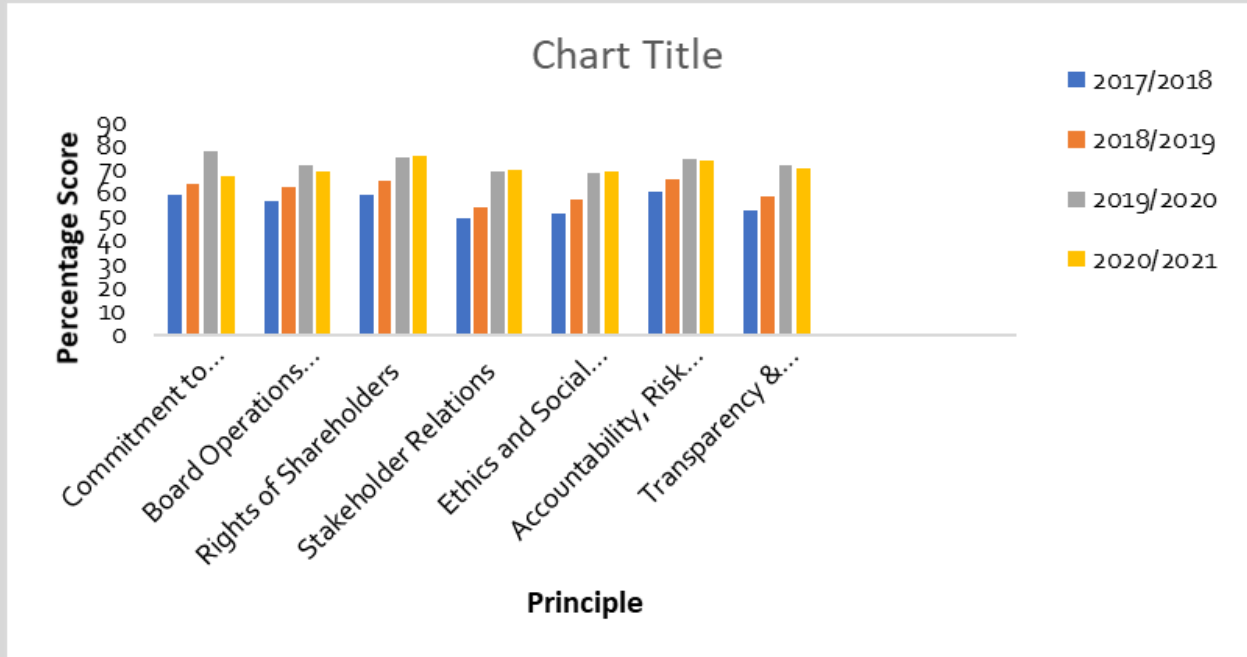


Figure 5.2: Performance on All Principles.

5.3 Weighted Overall Performance Per Sector

There was an improved performance in three principles i.e. rights of shareholders, stakeholder relations and ethics and social responsibility. On the other hand, four principles decreased in performance i.e. commitment to good corporate governance, board operations and control, accountability, risk management and internal control as well as transparency and disclosure.

The best performing principle was rights of shareholders while the least performing was commitment to good corporate governance. The most improved principle was the rights of shareholders while the commitment to good governance principle was the most dropped. This is illustrated in the figure below:



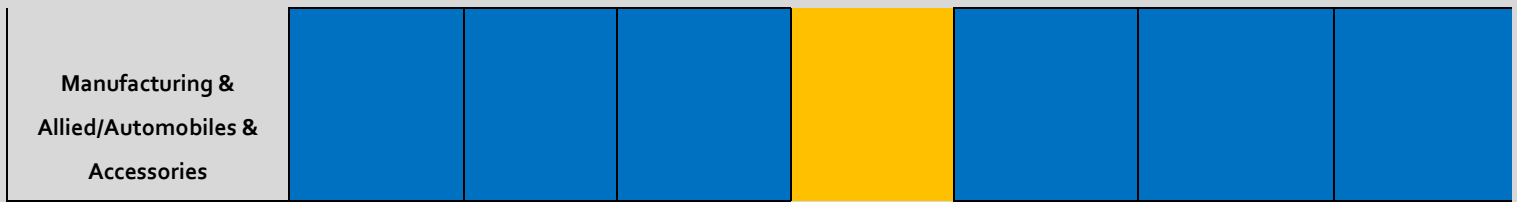
Figure 5.3: Weighted Overall Performance Per Sector

The banking and insurance sectors had a leadership rating with the banking sector having the best weighted overall of 81.74%. The Energy and petroleum sector, Manufacturing and allied as well as construction and allied sectors had a good rating. The remaining sectors had a fair rating with the agricultural sector having the least weighted overall score with a fair rating of 55.04%.

All sectors registered a drop in their weighted overall scores save for the agricultural sector which had a slight improvement of 0.02%. The investment and investment services sector was the most dropped from 75% in FY 2019/2020 to 62.31% in the current assessment period.

5.4 Heatmap Representation

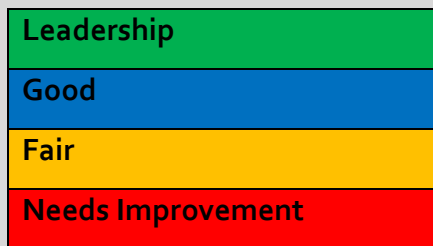
Sector/Principle	Commitment to Good Corporate Governance	Board Operations and Control	Rights of Shareholders	Stakeholder Relations	Ethics and Social Responsibility	Accountability, Risk Management and Internal Controls	Transparency and Disclosure
Agricultural	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Banking	Green	Green	Green	Green	Green	Green	Green
Commercial & Services & Telecommunications	Yellow	Blue	Blue	Yellow	Yellow	Blue	Yellow
Construction & Allied	Yellow	Yellow	Green	Blue	Blue	Blue	Blue
Energy & Petroleum	Blue	Blue	Green	Green	Blue	Green	Blue
Insurance	Blue	Blue	Green	Green	Green	Green	Green
Investment & Investment Services	Yellow	Blue	Blue	Yellow	Yellow	Yellow	Yellow



Heatmap

Figure 5.4: Heatmap Representation on Performance

Key



From the heatmap above, it can be concluded that all sectors had a fair rating and above in all the principles. It is important to note, however, that the banking sector scored a leadership on all the principles. The agricultural sector scored a fair rating in all the principles.

6. EMERGING ISSUES AND NEW DEVELOPMENTS

Some of the emerging issues and new developments that issuers need to consider in their governance practices include:

1. The International Financial Reporting Standards (IFRS) through the IFRS Foundation is establishing an International Sustainability Standards Board (ISSB) to provide a global baseline for investor-oriented sustainability related disclosure standards to ensure comparability, standardization and consistency in application. This initiative is supported by International Organization of Securities Commissions (IOSCO). Third party frameworks from Sustainability Accounting Standards

- Board (SASB), the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board (CDSB) and the Climate Disclosure Project (CDP) have also welcomed the prospect of working with the IFRS Foundation. In the meantime, the NSE has developed an ESG disclosures guidance manual, which is simply a guide and not enforceable, to facilitate reporting of ESG aspects by issuers of securities to the public in Kenya.
2. The United Nations Climate Change Conference of the Parties (COP26) summit held on 31 October to 12 November 2021 in Glasgow Scotland,

United Kingdom brought parties together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change of keeping a global temperature rise this century well below 2 degrees Celsius and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. The issuers should consider the resolutions passed during COP 26 and the extent to which they should adopt them.

3. One of the most significant changes in the human rights debate is the increased recognition of the link between business and human rights. Issuers are encouraged to respond to these trends by incorporating and addressing all facets of human rights into their daily business operations.

4. Succession planning both at the board and management levels is pivotal priority. Issuers are encouraged to ensure that they strategically develop new leaders while managing risk and stabilize & sustain growth quickly following any change.

5. Institutional investors are well placed to engage and monitor public companies, yet do not so, leaving a gap in enforcement of good governance and sustainable practices. It is important to note that institutional investors are increasingly becoming an integral part in monitoring good governance and sustainable practices of public companies and as such they are encouraged to play their roles going forward in line with the Stewardship Code for Institutional Investors 2017.

7. NEXT STEPS

1. The Authority will continue to hold sensitization and capacity building sessions with issuers to discuss and enhance governance practices with specific focus on addressing ESG, integrated reporting and the findings & recommendations following assessments and publication of the report on the state of corporate governance of issuers of securities to the public in Kenya.
2. The Authority will build the capacity of institutional investors and their respective associations to further support the implementation of the

Stewardship Code and enhancement of governance amongst listed companies.

3. The Authority is currently developing a strategy on the development/design of ESG and Integrated Reporting legal framework for the capital markets in Kenya which will inform the development of the legal and regulatory framework.
4. To strengthen the adoption of good governance structures and practices by issuers, the Authority will conduct onsite governance inspections on high-risk issuers initially focusing on related party transactions, procurement practices, code of ethics & conduct, appointment

of new board members, rights of shareholders and conflicts of interest, among others. This will further support the Authority new approach of assessing the practical implementation of the policies by issuers.

5. The Authority is working with the system providers to automate the corporate governance reporting templates and scorecards to improve accuracy, efficiency, effectiveness and accelerate the assessment process. The system will be configured and in-built with prompts/alerts/reminders to the issuers/CMA and feedback through business intelligence.
6. To facilitate SMEs to come to market and noting the inapplicability of some of the Principles of the Code of Corporate Governance Practices for Issuers of Securities 2015 to the SME sector, the Authority is developing a framework for corporate governance for small and medium enterprises in Kenya. It is envisaged that once a fit for purpose Code is developed and adopted, more SMEs will find the capital markets attractive, as well as cost effective for long term capital raising. The SMEs are potential issuers in the market hence the need for a tailor-made governance toolkit and listing requirements.

7. The company Secretary (CS) is the chief advisor on governance to the board and should not be seen or perceived to be conflicted in any way. In this regard, the Authority is reviewing the effectiveness and performance of company secretaries and especially outsourced company secretaries representing more than one issuer to guide on policy, legal and regulatory change to align with the CG Code which allows a person to be a member a maximum of 3 boards concurrently. In addition, the Authority is looking into mechanisms for ensuring that CSs who are also lawyers practicing in law firms which provide legal services to issuers are not conflicted. This arises where the issuer receives professional services from the same firm where the issuer's CS works for.
8. There are a number of issuers set up as Limited Liability Partnerships (LLP) raising funds from the public. As you may be aware, LLPs do not have well-defined governance structures, with governance responsibilities that are held separate and apart from the owners. The Authority, after consultations with key stakeholders, will develop a suitable governance guidance to cover issuers set up as LLPs.

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