

THE REPORT ON THE STATE OF CORPORATE GOVERNANCE OF ISSUERS OF SECURITIES TO THE PUBLIC IN KENYA 2022



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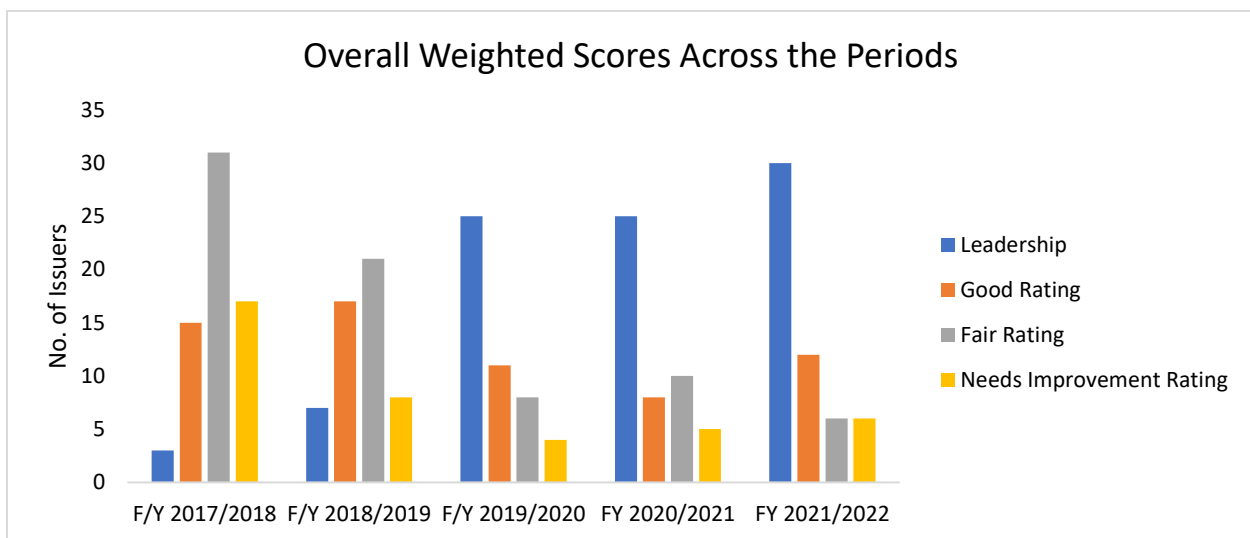
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1. FOREWARD

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



Every journey begins with small incremental steps. We have been on a journey to good governance and sustainability in the capital markets. Since 2016 when the Code of Corporate Governance Practices for Issuers of Securities to the Public (the Code) came into effect, we have continued to see transformation amongst issuers. This can be demonstrated by the annual governance reports that the Authority has been publishing every year since 2018. According to the assessment reports for the last five years, the progress is as highlighted below:



In the beginning, the requirements under the Code were considered heavy and costly. But aware of the benefits and value derived from strengthening good governance, the Authority as well as issuers were committed to implementing the Code. Some of the requirements such as independent legal and governance audits, annual training of board members, ESG and sustainability reporting, among others were unexpected. But over the years, these requirements, among others, have become the practice for issuers. Governance audits have been entrenched and issuers have benefitted from the audit findings and recommendations.

The State of Corporate Governance Report for 2022 exemplifies the progress made and the direction the Kenyan capital market is taking. It is worth noting that on the commitment to good governance, there is commendable progress. Board structures, appointment procedures, diversity, skill set and capacity development have gained ground. Inevitably, the principle of commitment to good corporate governance had the best score compared to other principles.

Message from Mr. Daniel Warutere, Ag. Director, Market Operations



The enactment of the Code brought a new dawn in the capital markets in Kenya. The Code created an environment where issuers and the Authority would periodically hold sessions to discuss the state of governance for issuers, raise any areas of improvement and highlight emerging issues. This has been the practice for the past five years.

At the end of each financial year, every issuer submits a self-assessment report on how it has applied the provisions of the Code. Upon receipt of the self-assessment report, the Authority undertakes an independent assessment to ascertain the issuer's state of application of the Code. Arising from this, a governance assessment report for each issuer is generated, discussed with the issuer and findings and recommendations agreed upon.

As a result of this practice, we have continued to witness commendable improvement from each of the issuers. Boards, with the support of company secretaries, have continued to play a pivotal role in entrenching good corporate governance and sustainability practices. The Authority calls on the boards of each issuer to make the annual governance assessment report a part of the board's agenda.

2. EXECUTIVE SUMMARY

Good corporate governance practices are positively linked to corporate sustainability performance, and corporate sustainability performance leads to improved financial performance. In addition, corporate sustainability performance mediates the link between corporate governance and financial performance.

This report has been prepared based on an assessment of corporate governance practices by 55 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 54. However, some 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 governance requirements.

The weighted average score by the assessed companies remained at a "Good Rating" as the previous assessment but with a slight increase in the percentage score from 70.15% to 72.27% as discussed in the subsequent sections of this report. The number of issuers in the leadership category increased from 25 to 30, those in the good rating category increased from 8 to 12, those in fair rating decreased from 10 to 6 while those in the needs improvement rating increased from 5 to 6.

It is important to note that all sectors had a fair rating and above in all the principles save for the Construction and Allied sector which had a needs improvement on stakeholder relations. It is important to note, however, that only the banking sector scored a leadership rating on all the principles.

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 disclose the status of the 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 to 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. To minimize assessor subjectivity and to enhance accuracy and consistency in the review process, a check and balance methodology is applied through peer review.

In summary, the assessment process follows clear steps as depicted below:



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 related 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	10
2	Commercial & services/telecommunications	10
3	Automobiles & accessories/manufacturing & allied	7
4	Energy & petroleum	4
5	Insurance	6
6	Agricultural	6
7	Investment & investment services	5
8	Construction & allied	4
9	Non-listed	3
	TOTAL	55

4. FINDINGS AND RECOMMENDATIONS ON SPECIFIC CORPORATE GOVERNANCE PRINCIPLES

This section provides a summary of findings and trend analysis on all the seven corporate governance principles as set out in the Code.

4.1. COMMITMENT TO GOOD CORPORATE GOVERNANCE

The principle measures issuers' commitment to good governance based on inter alia including the development, implementation and regular review of a board charter, distinction of the responsibilities of the board from management, awareness of the requirements of the Code, and focus on sustainability, among others.

The average performance of Issuers on the commitment to good corporate governance

The figure below represents the overall performance of issuers on this principle.

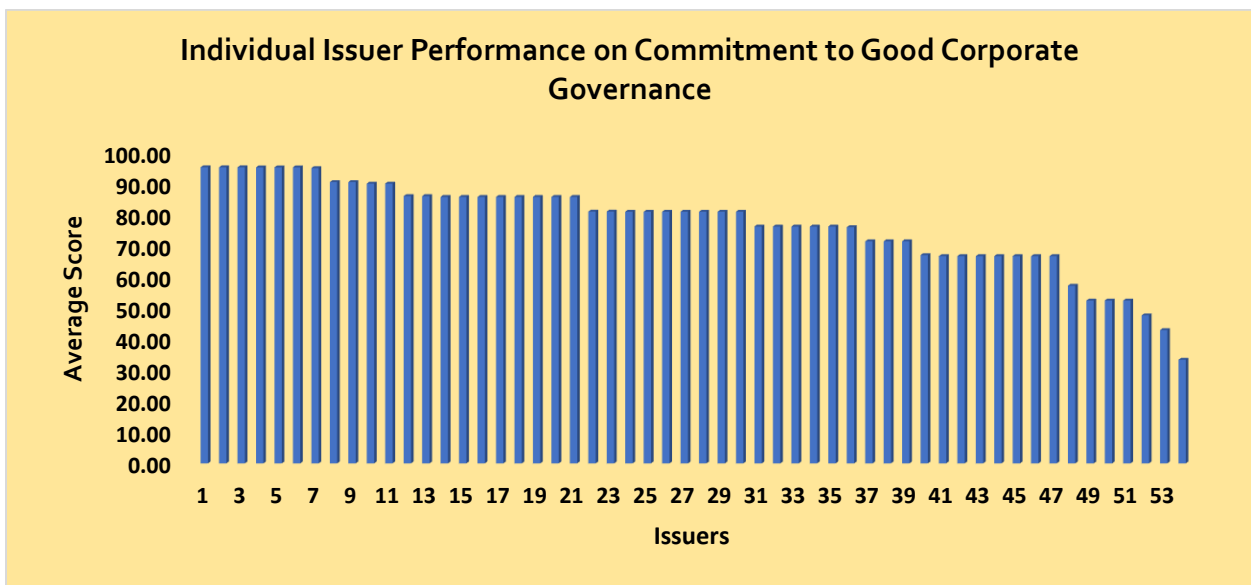


Figure 4.1.1: Issuers' Performance on Commitment to Good Corporate Governance

An analysis of performance on this principle shows that 32 and 15 issuers scored leadership rating and good rating respectively. 3 Issuers had a fair rating while the rest had a needs improvement rating.

Trend analysis on the overall performance on commitment to good corporate governance

The figure below represents the overall performance of issuers on the commitment to good corporate governance.

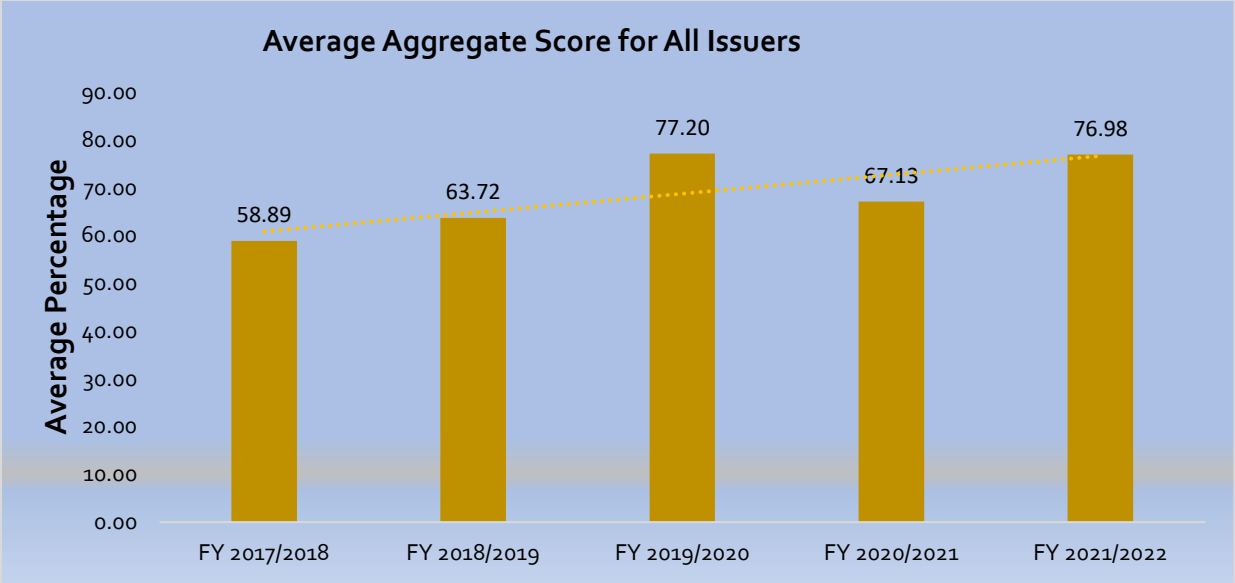


Figure 4.1.2: Average Aggregate Score on all Issuers

The average score by all assessed issuers on this principle was 76.98% (Leadership Score). This was an improvement from the previous assessments 67.13% which was a good rating. The improvement was a result of the improved responsiveness by issuers on incorporating sustainability practices in their strategies.

4.2. BOARD OPERATIONS AND CONTROL

The structure and composition of the board affect the development and functioning of institutions. The economic success of an organization is not only dependent on efficiency, innovation and quality management but also on how effective the board is. The assessment of this principle checks how boards of issuers have applied the Code’s requirement to its operations and control environment.

The average performance of Issuers on board operations and control

Assessment of board practices implemented by issuers in the period under review revealed that 24 issuers had a leadership Score, 15 had a good rating, 10 had a fair rating and 6 had a needs improvement rating as illustrated in figure 4.2.1 below.

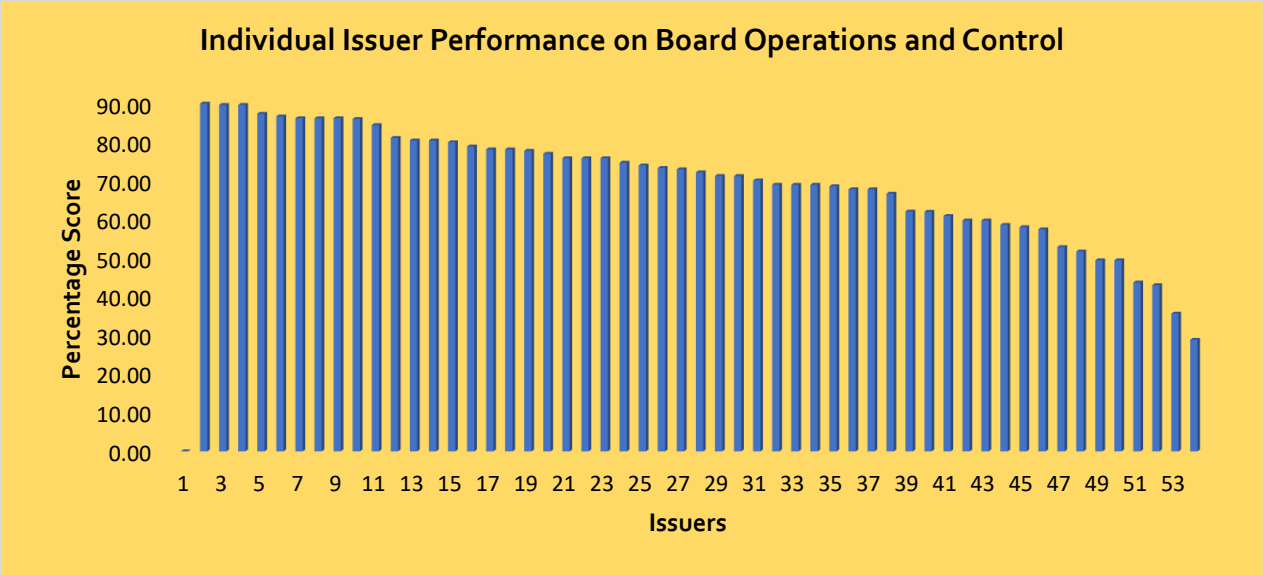


Figure 4.2.1: Issuers' Performance on Board Operations and Control

Trend analysis on the overall performance on board operations and control

Figure 4.2.2 below shows the aggregate performance of all issuers on this principle.

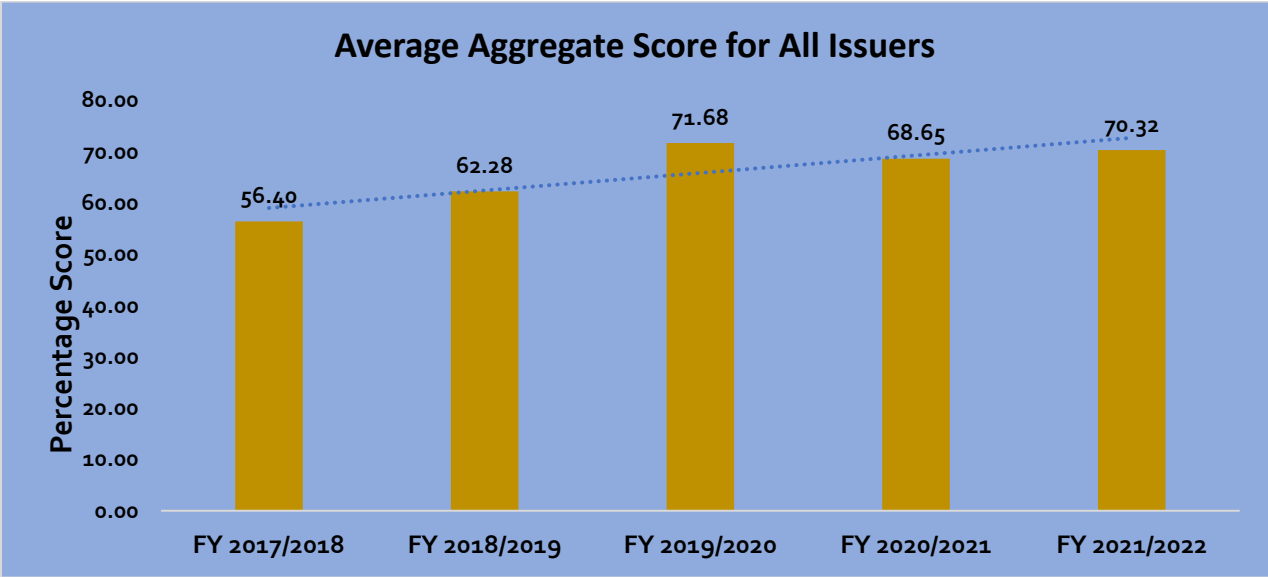


Figure 4.2.2: Aggregate scores on board operations and control

The performance on this principle has steadily improved across the assessment periods from 68.65% (good rating) in FY 2020/2021 to 70.32% (good rating) in FY 2021/2022. The improvement between FY 2020/2021 and FY 2021/2022 was a result of proper board and committee composition by issuers, the development of the various corporate governance policies as required by the code, and most issuers are now undertaking governance audits to check on their level of compliance with sound governance practices and publishing the auditors'

opinions as part of their annual reports. The Authority encourages issuers to continue implementing the findings and recommendations arising from these audits and calls on the issuers that are yet to undertake these audits to do so.

Besides the strengths identified, we noted the following areas of improvement:

- a) Issuers should have policies and procedures in place to annually assess the independence of independent Board members and disclose through their annual reports that this has been undertaken.
- b) Issuers should develop policies on conflict of interest and related party transactions which meet the requirements of the Code.
- c) The Boards of Issuers should continue ensuring that the formal strategies promoting sustainability give attention to the Environmental, Social and Governance (ESG) aspects of the business which underpin sustainability.
- d) Issuers should highlight key findings of the Board, CS and CEO annual evaluations in the annual report.
- e) In the letter and spirit of the CG Code, the Boards of Issuers are encouraged to ensure that the structure of the Board comprises several directors, which fairly reflects the Company's shareholding structure. In this regard, the Board composition should not be biased toward representation by a substantial shareholder but should reflect the Company's broad shareholding structure.

4.3. RIGHTS OF SHAREHOLDERS

The Code of Corporate Governance places a strong emphasis on the rights of shareholders. The boards of directors should be an effective oversight mechanism in safeguarding the interests of all shareholders including improving the role of Annual General Meetings (AGMs), proactive provision of information to the shareholders and strengthening minority shareholder legal rights and protection.

The average performance of Issuers on Rights of Shareholders

Figure 4.3.1 shows the performance of all the assessed issues on the Rights of shareholders principle.

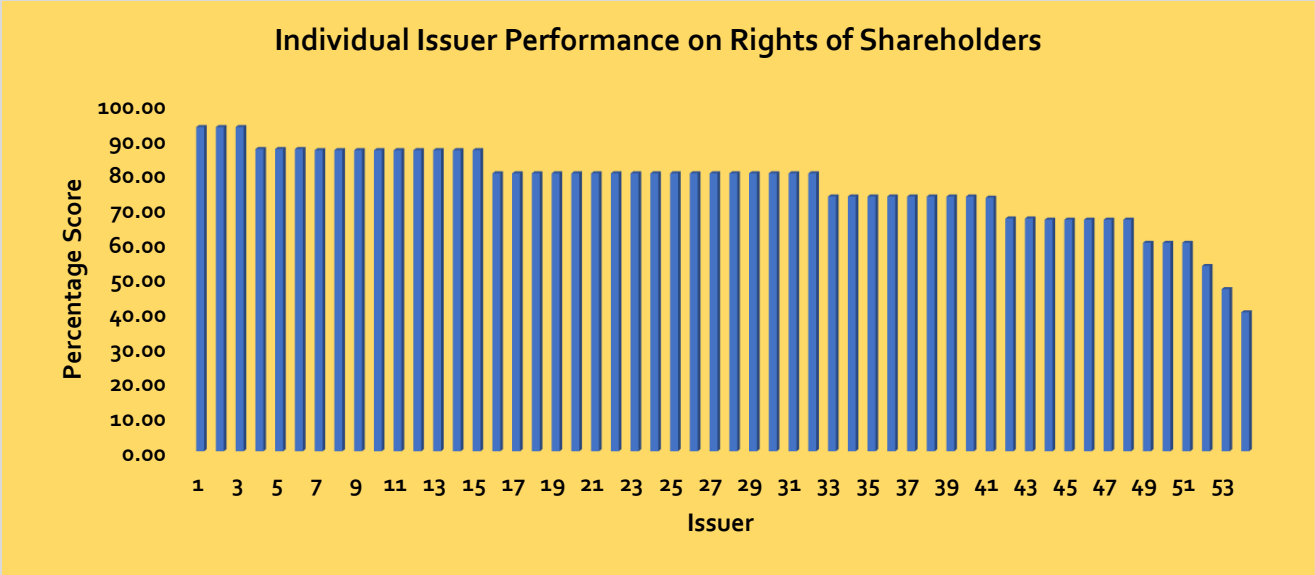


Figure 4.3.1: Issuers' Performance on Rights of Shareholders

The analysis showed that 32 and 16 issuers had a leadership and good rating respectively. 4 issuers had a fair rating while the rest had a needs improvement rating.

Trend analysis on the overall performance on Rights of Shareholders

Figure 4.3.2 below shows the overall performance on the rights of shareholders.

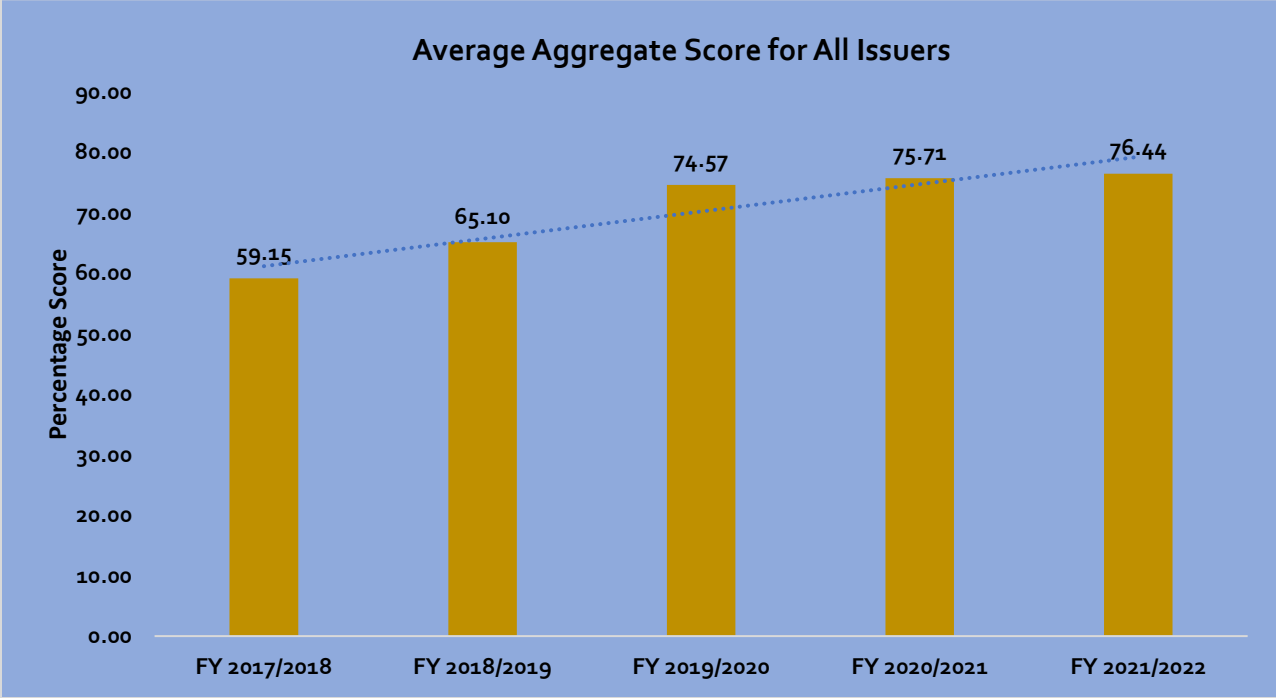


Figure 4.3.2: Aggregate Scores on the rights of shareholders

The performance on this principle has been improving in all the assessment cycles. An increase in performance from 75.71% (Leadership rating) in FY 2020/2021 to 76.44% (Leadership rating) in FY 2021/2022 was occasioned by the improved proactive provision of information to the shareholders. The Authority also commends issuers for increased facilitation of virtual AGM attendance by shareholders.

Going forward, the Authority calls on issuers to ensure that:

- a) The virtual AGMs mirror physical AGMs to the extent possible by allowing shareholders enough time to ask questions and seek clarifications on the company’s performance or any relevant matters.
- b) Their annual reports and accounts are made available to shareholders through multiple communication channels including uploading on their respective websites and social media channels when issuing AGM Notices to allow sufficient time for scrutiny.
- c) The minority shareholders are protected from any adverse actions by the controlling shareholders and have effective means of redress.

4.4. STAKEHOLDER RELATIONS

Stakeholders play a very important role in the achievement of the company’s strategy and long-term growth. A company not only deals with its shareholders, customers and regulators but also with the interest of its suppliers, society, media and potential investors in mind.

The average performance of Issuers on Stakeholder Relations

Figure 4.4.1 below illustrates the average performance of issuers on stakeholder relations.

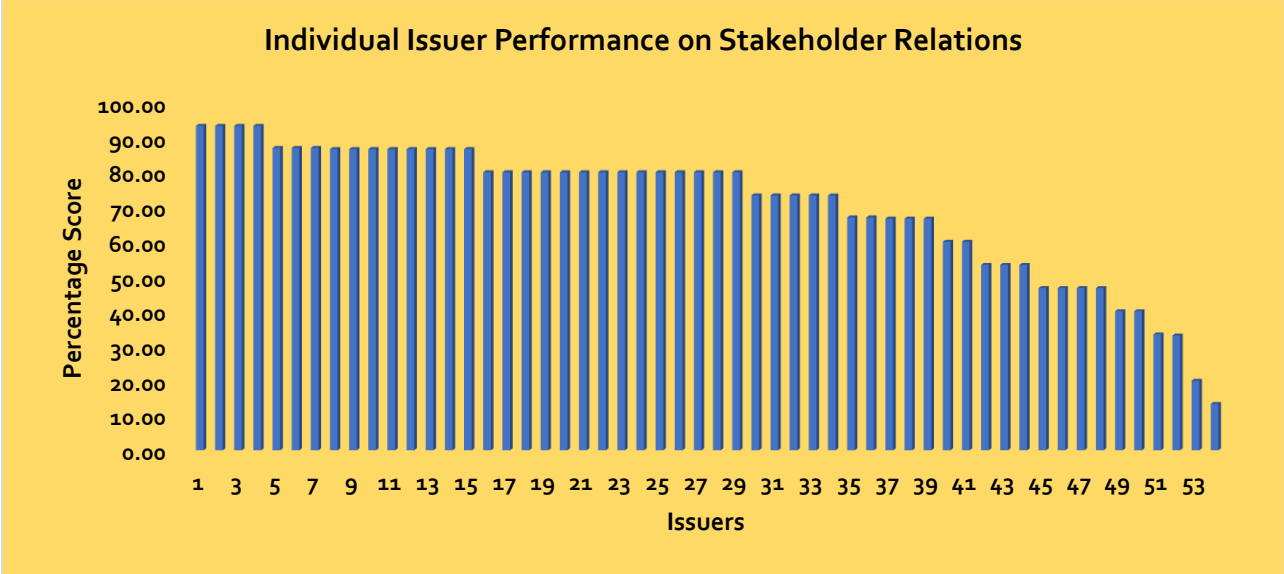


Figure 4.4.1: Issuers' Performance on Stakeholder Relations

29 and 10 issuers had leadership and good ratings respectively. 5 issuers had a fair rating while the rest had a needs improvement rating.

Trend analysis on the overall performance on Stakeholder Relations

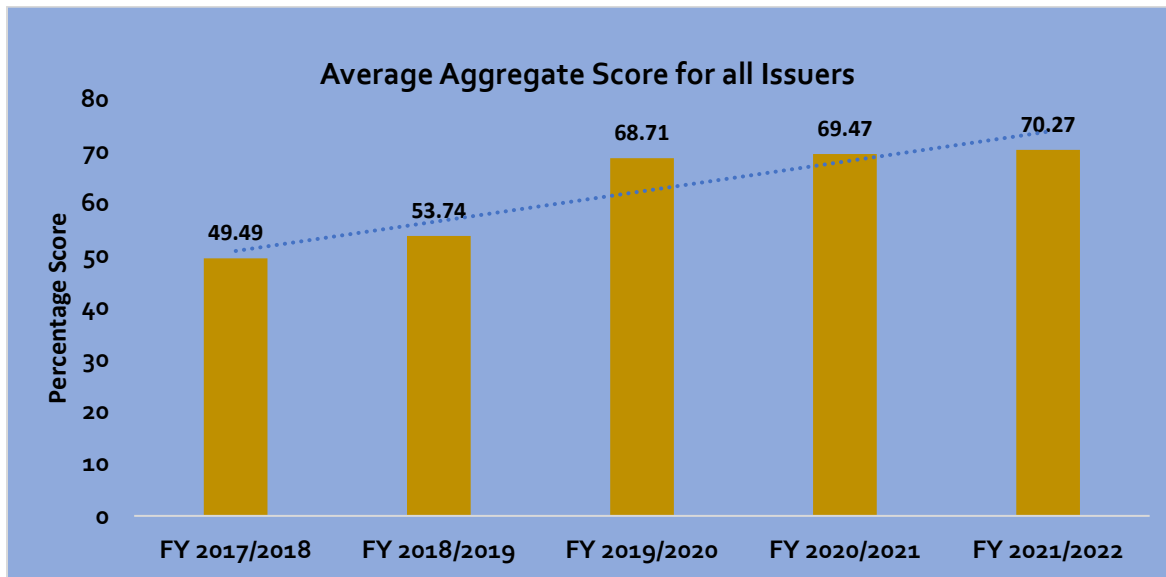


Figure 4.4.2: Average Aggregate Score for All Issuers

The average score under this principle has shown a steady improvement across the assessment periods. The performance improved from 69.47% (good rating) in FY 2020/2021 to 70.27% (good rating) in FY 2021/2022. This was occasioned by most issuers developing policies to manage their stakeholders, stakeholder mapping and increased stakeholder engagement.

As an area of improvement, the Authority encourages issuers to establish formal channels of internal and external dispute resolution that is cost-effective. In this regard, issuers are encouraged to develop and publish their dispute resolution policies for handling both internal and external disputes.

4.5. ETHICS AND SOCIAL RESPONSIBILITY

With the current increased pressure from business stakeholders on companies to make meaningful contributions to the greater social good, issuers are encouraged to be good corporate citizens to the society in which they operate. This principle assesses the extent to which the issuer considers not only the financial performance but also the impact of the company's operations on society and the environment.

The average performance of Issuers on Ethics and Social Responsibility

Figure 4.5.1 below illustrates the individual performance of issuers on Ethics and Social Responsibility.

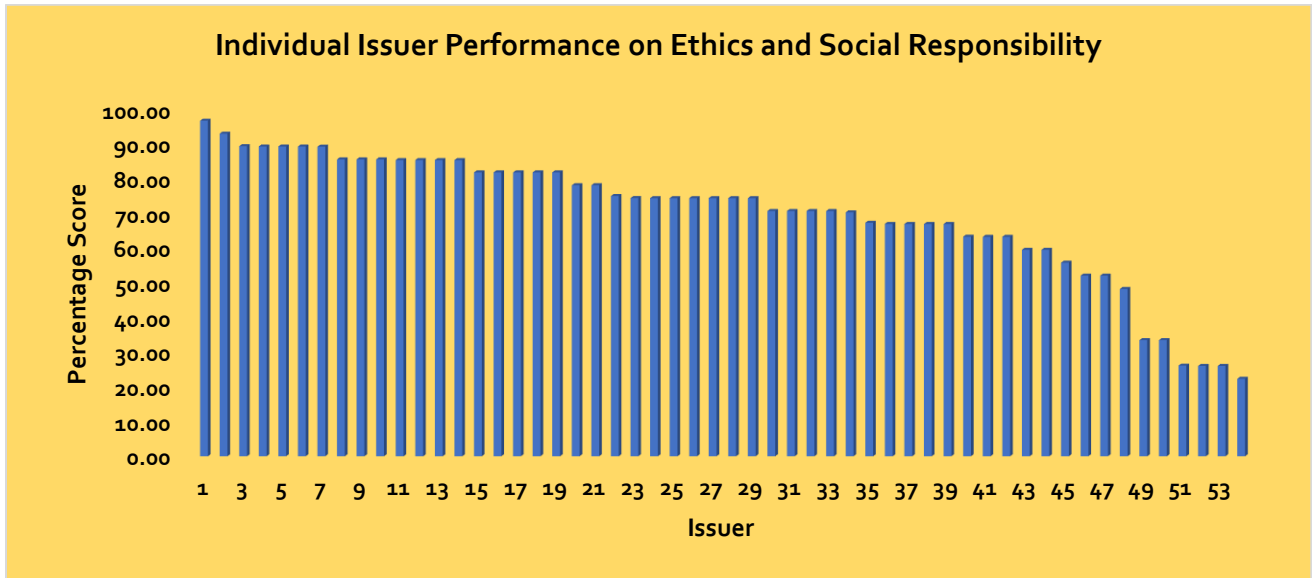


Figure 4.5.1: Issuers' Performance on Ethics and Social Responsibility

On this principle, 21 issuers had a leadership rating, 18 had a good rating, 8 had a fair rating and the rest had a needs improvement rating.

Trend analysis on the overall performance on Ethics and Social Responsibility

Figure 4.5.2 shows the overall performance on Ethics and Social Responsibility.

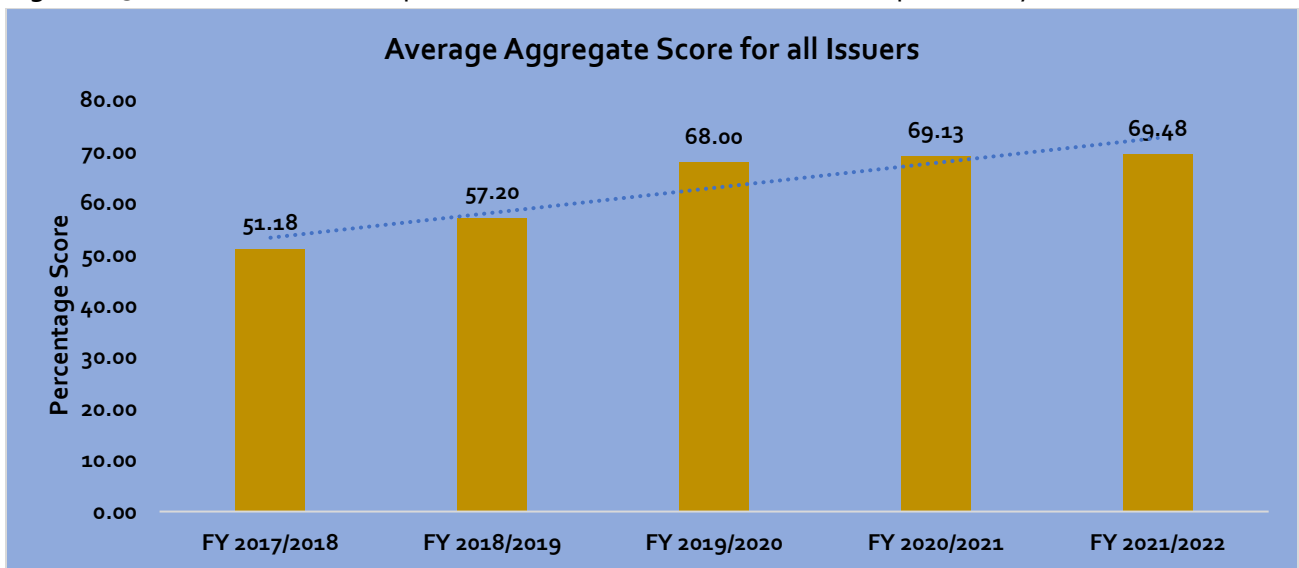


Figure 4.5.2: Average Aggregate Score for all Issuers

The overall performance on this principle increased slightly from 69.13% (good rating) in FY 2020/2021 to 69.48% (good rating) in FY 2021/2022. It's also worth noting that the performance has been on an upward trend through all the assessment cycles. This was underpinned by the fact that most issuers have developed and ensured compliance with the code of conduct and ethics policies, developing and implementing the whistle-blowing policies and monitoring and reporting activities on corporate citizenship.

Companies can further enhance their performance on this principle by:

- a) Continually assessing, disclosing and enhancing sustainability risks and opportunities in the risk management process.
- b) Continually exploiting positive ethical risk opportunities while avoiding negative ethical threats.
- c) Assessing the company's performance on ethics and disclosing the findings to internal and external stakeholders.

4.6. ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL

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 and the proper functioning of the audit committee. In addition, internal controls and risk management are important aspects of the company's corporate governance framework. Boards should therefore be committed to implementing and reviewing the company's internal control and risk management systems as the need arises.

The average performance of Issuers on Accountability, Risk Management and Internal Control

Figure 4.6.1 shows the individual issuer performance on Accountability, Risk Management and Internal Control.

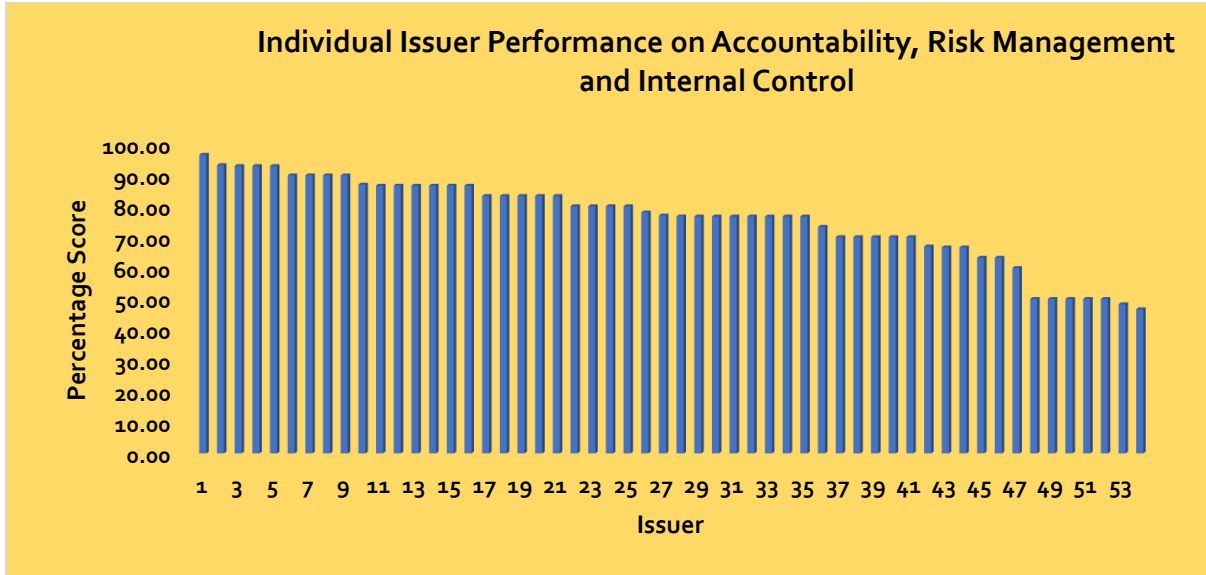


Figure 4.6.1: Issuer Performance on Accountability, Risk Management and Internal Control

The analysis indicates that 35 issuers were in leadership, 9 had a good rating, 8 had a fair rating and only 2 had a needs improvement rating.

Trend analysis on the overall performance on Accountability, Risk Management and Internal Control

The figure below shows the average aggregate score for all issuers on this principle.

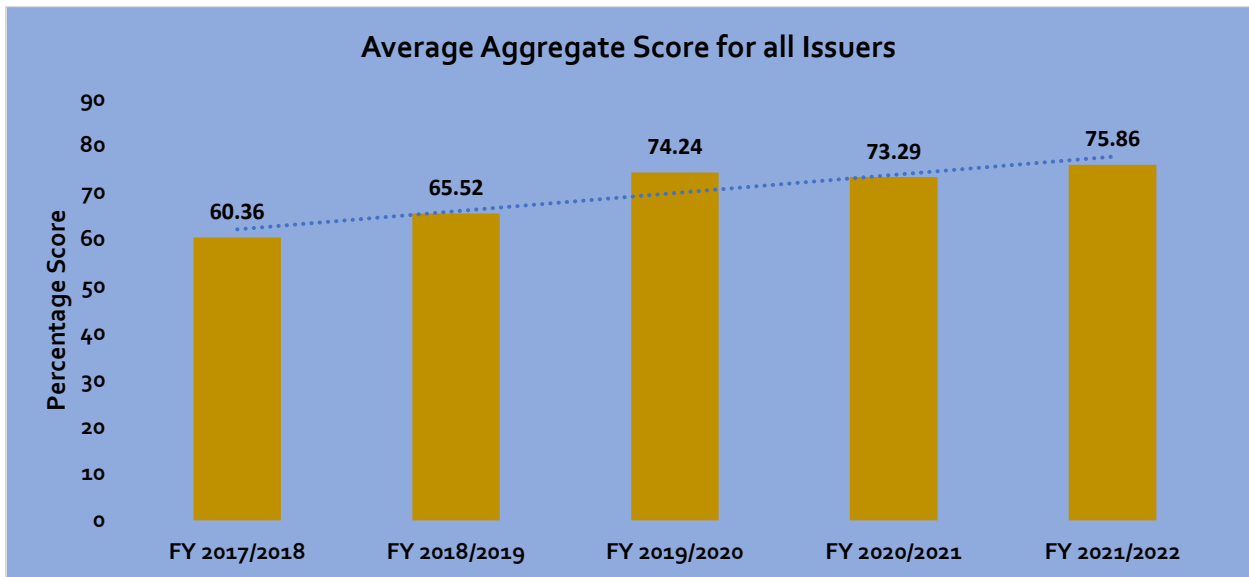


Figure 4.6.2: Average Aggregate Score for all Issuers

Similar to other principles, the performance on this principle has consistently improved throughout the years with the performance crossing the leadership rating at 75.86% in the FY

2021/2022. This resulted from many issuers progressively working towards sustainability and integrated reporting, companies disclosing their audit committee activities in detail as well as having internal controls and effective risk management frameworks in place.

To further improve the performance under this principle, issuers should:

- a) Disclose sustainability-related information including their respective significant sustainability-related risks and opportunities in their annual reports.
- b) Incorporate key risks, foreseeable risks, environmental, sustainability and social risks issues in their enterprise risk management framework.
- c) Disclose in the annual reports how the Board ensures that the external auditors are effective, objective and independent right from the onboarding stage and continuously during the year.

4.7. TRANSPARENCY AND DISCLOSURE

Disclosure of information to the public and transparency in business operations is very important for influencing companies’ performance and protecting investors. 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 as this will improve and maintain investor confidence.

The average performance of Issuers on Transparency and Disclosure.

The performance of issuers on this principle is demonstrated in the figure below:

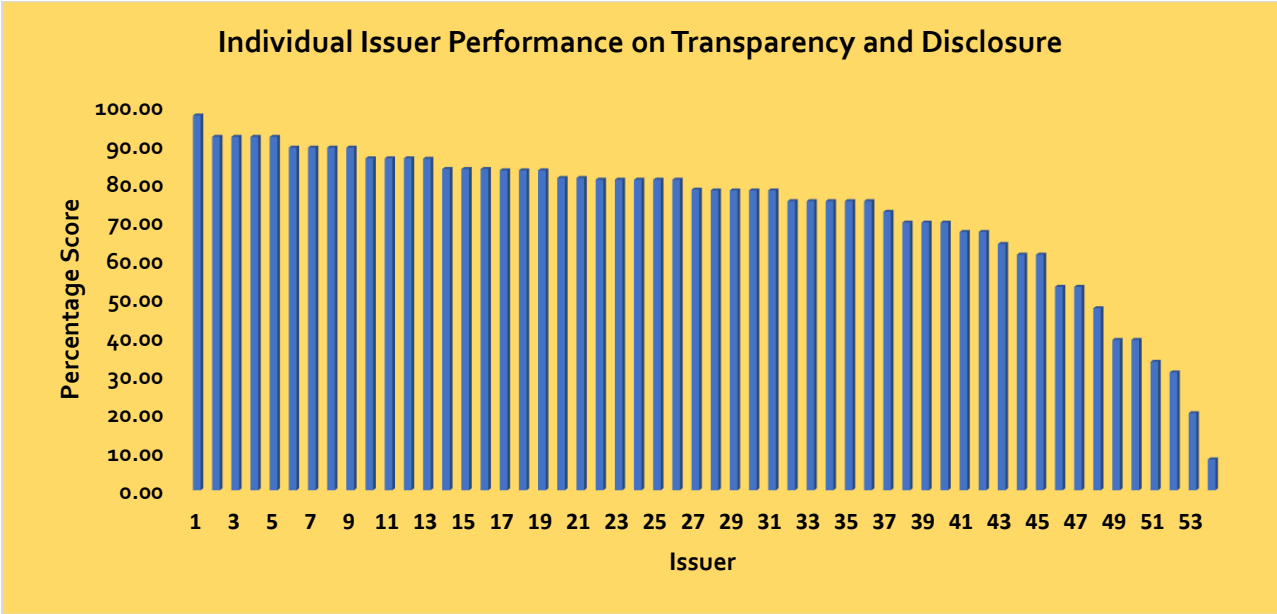


Figure 4.7.1: Issuer Performance on Transparency and Disclosure

36 Issuers scored a leadership on this principle an improvement from 27 in the previous assessment. 9 had a good rating, 2 had a fair rating and the rest had a needs improvement rating.

Trend analysis on the overall performance on Transparency and Disclosure.

The figure below demonstrates a trend analysis on the Issuers' performance on this principle.

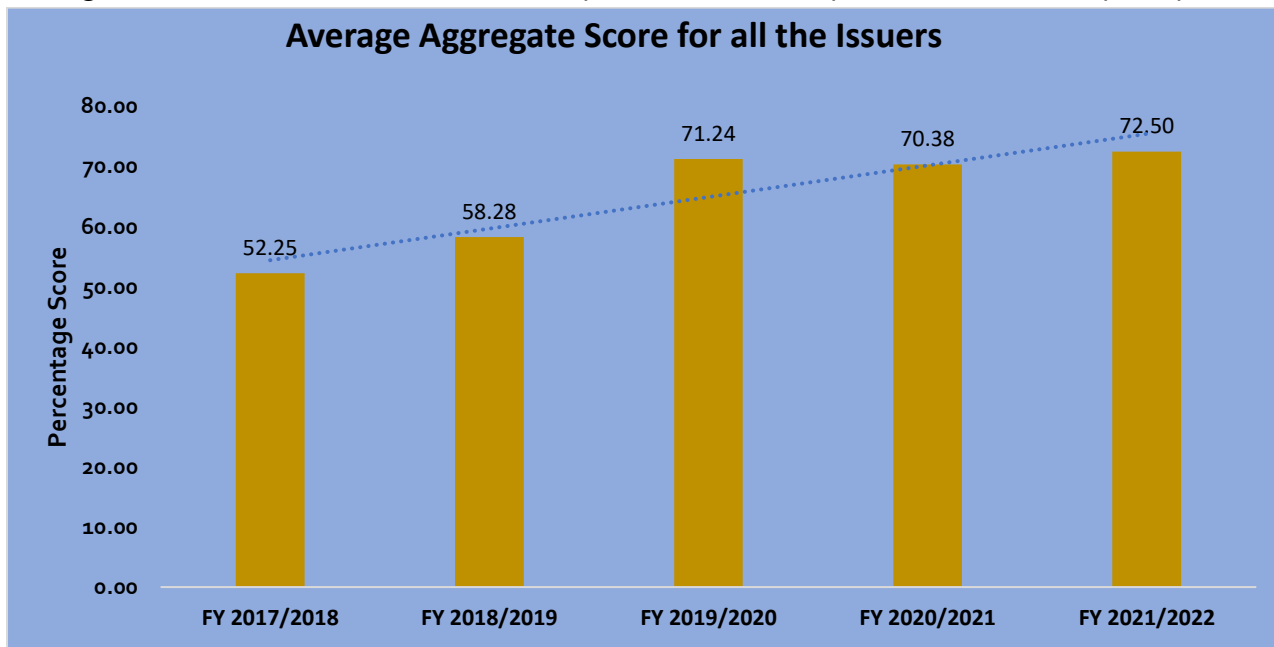


Figure 4.7.2: Average aggregate score for all issuers

There has been a consistent improvement in performance on this score over the period. The improvement from 70.38% (good rating) in FY 2020/2021 to 72.50% (good rating) in FY 2021/2022 was a result of increased adoption and disclosure of various policies by issuers.

To further improve their disclosures to move toward a more robust culture of transparency and disclosure, issuers are called upon to:

- a) Disclose in the annual reports that the governance audit was conducted and publish the governance opinions.
- b) Disclose their nonfinancial performance indicators in annual reports and company websites.
- c) Periodically report on ESG issues that are of concern to stakeholders.
- d) Highlight and disclose both in the annual reports and websites the risk management, procurement and ICT policies.
- e) Disclose the shareholding of senior management in the annual reports.
- f) Include in the annual reports a statement on compliance with corporate governance principles. The statement should indicate aspects of the Code which have not been

applied, the reasons thereof, indicative timelines and proposed strategies towards application.

5. WEIGHTED PERFORMANCE

5.1. OVERALL WEIGHTED SCORES ACROSS PERIODS

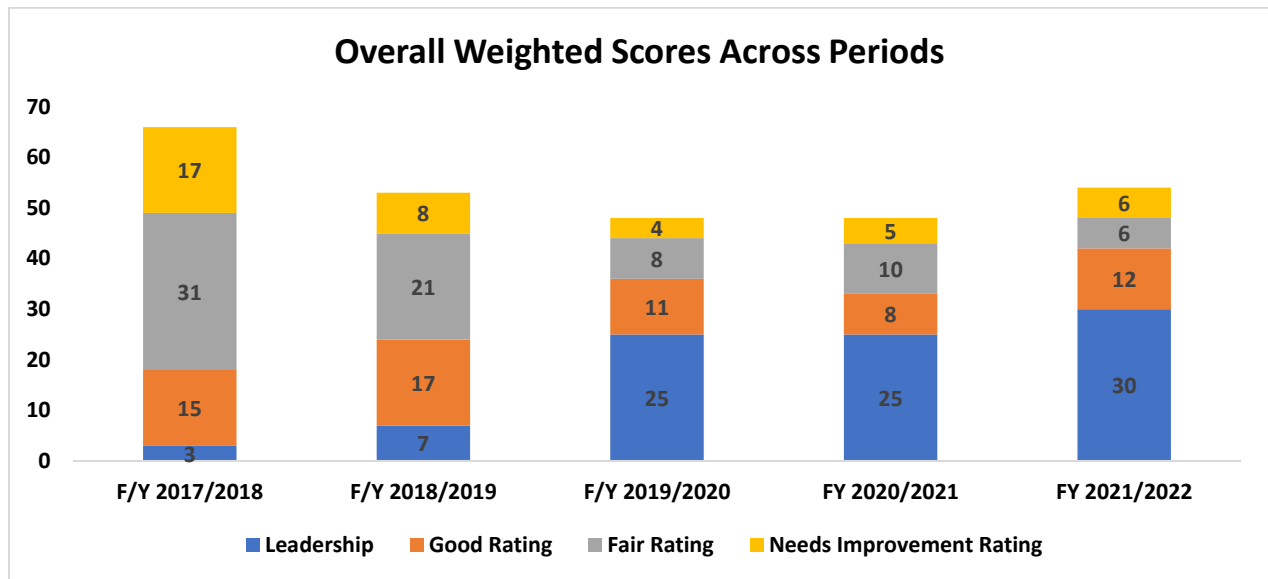


Figure 5.1.1: Overall Weighted Scores Across Periods

Table 5.1.1: Overall Weighted Scores Across Periods

Rating	F/Y 2017/2018	F/Y 2018/2019	F/Y 2019/2020	FY 2020/2021	FY 2021/2022
Leadership	3	7	25	25	30
Good Rating	15	17	11	8	12
Fair Rating	31	21	8	10	6
Needs Improvement Rating	17	8	4	5	6

A total of 30 assessed issuers had a leadership rating. 12 had a good rating, 6 had a fair rating and the rest had a Needs Improvement rating.

It is worth noting that the number of issuers in the Leadership Category has consistently increased across all the assessment periods. On the other hand, the number of issuers with a Needs Improvement rating has been dropping. This shows increased commitment toward implementing good corporate governance and sustainability practices by issuers.

5.2. WEIGHTED PERFORMANCE ON ALL PRINCIPLES

The figure below represents the performance on all the principles.

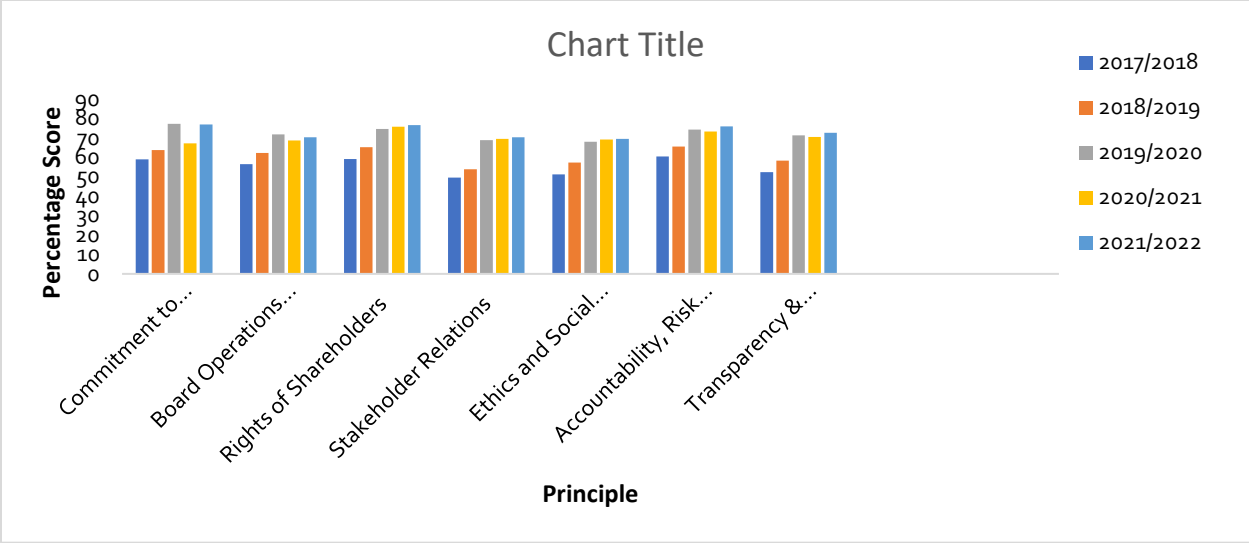


Figure 5.2.1: Overall Weighted Score Across Periods

Issuers had a leadership rating on three principles; Commitment to good corporate governance, Rights of Shareholders and Accountability, Risk Management and Internal Control. The principle of commitment to good corporate governance had the best score of 76.8%. The rest of the principles were rated 'Good' with Transparency and Disclosure, Board operations and Control, and Stakeholder relations having 72.50%, 70.32% and 70.27% respectively. The Ethics and Social Responsibility principle had the least score at 69.48%.

Commitment to good corporate governance principle was the most improved moving by nine percent from 67.13% (Good Rating) in FY 2020/2021 to 76.8% (Leadership Rating) in FY 2021/2022.

5.3. WEIGHTED OVERALL PERFORMANCE PER SECTOR

The figure below represents the overall performance across the sectors.

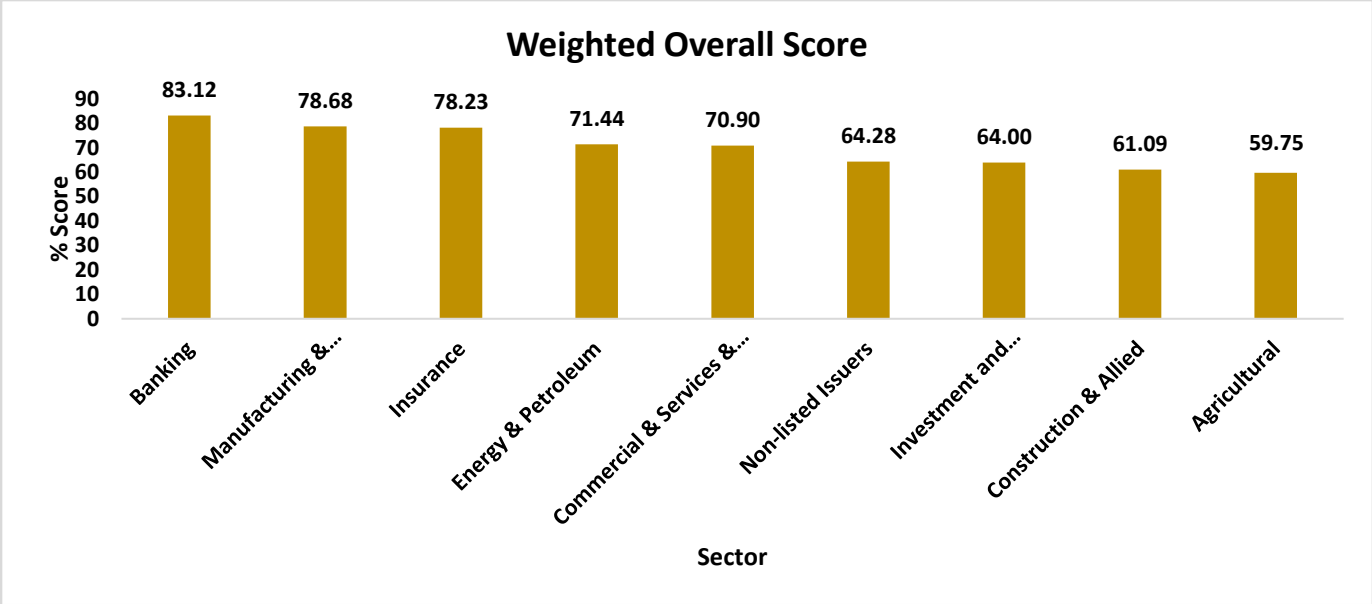


Figure 5.3.1: Overall Weighted Scores Across Sectors

An analysis of the sectoral performance indicates that three sectors had a leadership rating. The Banking sector had the highest rating at 83.12%. It is worth noting that the banking sector has had the best score across all the assessment cycles. All the other sectors had a good rating save for the Agricultural sector which had a fair rating of 59.75%. Although the sector remained to be the least performed, a slight improvement was noted from the previous rating of 55.04%.

The most improved sector was Manufacturing & Allied/Automobiles & Accessories which improved by ten percent to 78.68% (Leadership Rating) from the previous 67.99% (Good Rating) in the FY 2020/2021. On the other hand, the most dropped sector was the Construction and Allied sector which dropped by five percent from 66.34% in the FY 2020/2021 to 61.09% in the current assessment.

5.4. PERFORMANCE BY VARIOUS SECTORS ACROSS ALL PRINCIPLES

The performance of all the sectors on the various principle has been illustrated in the heatmap below.

	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	Good	Fair	Good	Fair	Fair	Good	Fair
Banking	Leadership	Leadership	Leadership	Leadership	Leadership	Leadership	Leadership
Commercial & Services & Telecommunications	Leadership	Good	Leadership	Good	Good	Leadership	Good
Construction & Allied	Good	Fair	Good	Needs Improvement	Fair	Good	Fair
Energy & Petroleum	Good	Good	Leadership	Good	Good	Leadership	Leadership
Insurance	Leadership	Good	Leadership	Leadership	Leadership	Leadership	Leadership
Investment & Investment Services	Good	Good	Good	Fair	Fair	Good	Fair
Manufacturing & Allied/Automobiles & Accessories	Leadership	Leadership	Leadership	Good	Leadership	Leadership	Leadership
Non-Listed Issuers	Leadership	Fair	Good	Good	Fair	Fair	Fair

Figure 5.4.1: Heatmap Representation

Key:

Leadership
Good
Fair
Needs Improvement

From the heatmap above, it can be concluded that all sectors had a fair rating and above in all the principles save for the Construction and Allied sector which had a needs improvement on stakeholder relations. It is important to note, however, that only the banking sector scored a leadership rating on all the principles.

6. EMERGING ISSUES & NEW DEVELOPMENTS

The global, regional and local governance landscape is dynamic and continues to evolve. Some of the emerging issues and new developments include:

Emerging Issues & New Developments		
1.	Environmental, Social & Governance (ESG)	ESG has gained ground, with the Nairobi Securities Exchange issuing the ESG Disclosure Guidance Manual. As a result, issuers, are now well-guided on how to approach, integrate and disclose ESG.
2.	Sustainability Accounting Standards Board (SASB)	SASB Standards enable organizations to provide industry-based sustainability disclosures about risks and opportunities that affect enterprise value. In August 2022, the IFRS Foundation assumed responsibility for SASB Standards when it merged with the Value Reporting Foundation (VRF), the global nonprofit that previously maintained these Standards.
3.	ISSB	<p>At the UN Climate Change Conference (COP 26) in November 2021, the International Financial Reporting Standard Foundation Trustees announced the creation of the ISSB, a standard-setting organization that is subject to the oversight of the IFRS Foundation. The ISSB was established to develop a comprehensive global baseline of sustainability disclosure standards. The ISSB consolidates the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation and builds on multiple sustainability and climate-related disclosure standards, including the Task Force on Climate-Related Financial Disclosures (TCFD), the International Integrated Reporting Council and Sustainability Accounting Standards Board (SASB) industry-based disclosure standards.</p> <p>ISSB aims to publish the IFRS Sustainability Disclosure Standards in the first half of 2023, slightly later than the original target set by the end of 2022.</p> <p>ISSB is currently requesting feedback from stakeholders to set its agenda priorities on:</p> <ul style="list-style-type: none"> • new research and standard-setting projects for the development of the ISSB’s two-year work plan; and • continued work with preparers and stakeholders in the interpretation and application of the proposed standards, once published.
4.	COP27	The United Nations Climate Change Conference of the Parties (COP27) Summit was held in November 2022 in the Egyptian coastal city of Sharm

		<p>el-Sheikh, to build on previous successes and pave the way for future ambition to effectively tackle the global challenge of climate change. The Summit concluded with a historic decision to establish and operationalize a loss and damage fund.</p> <p>The Summit 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 27 and the extent to which they should adopt them.</p>
5.	Carbon Exchange	<p>In July 2022, AirCarbon Exchange (ACX) signed a collaboration agreement with the Nairobi International Financial Centre (NIFC) and the Nairobi Securities Exchange (NSE) to develop a Kenya Carbon Exchange. ACX will develop the carbon exchange platform as part of innovative financing to shore up environmental projects, including reforestation and land restoration. A green portfolio at the NSE will create an investment value chain across Kenya's overall financial ecosystem to support climate change-mitigating projects.</p>
6.	Institutional Investors	<p>Institutional investors (both local and foreign) are well placed to engage and monitor public companies, yet do not do so, leaving a gap in the enforcement of good governance and sustainable practices. It is important to note that institutional investors are increasingly becoming an integral part of 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.</p>
7.	Succession Planning	<p>Succession planning both at the board and management levels is a pivotal priority. Issuers should line up positions strategically to develop new leaders while managing risk and stabilizing and sustaining growth quickly following a change.</p>
8.	Directors' Remuneration	<p>There are adequate regulatory frameworks and accounting standards in place governing the compensation (and reporting and disclosure) of directors' remuneration of a public company. Global trends show that companies are moving away from stock options, which can encourage excessive risk-taking, in favor of restricted stock which tends to make</p>

		people a little more risk-averse, re-enforcing the idea that directors should first preserve the value already in the company.
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7. NEXT STEPS

1. To strengthen the adoption of good governance structures and practices by issuers, the Authority will continue to conduct onsite governance inspections on high-risk issuers focusing on related party transactions, procurement practices, code of ethics and conduct, the appointment of new board members, rights of shareholders and conflicts of interest, among others. This will further support the Authority's new approach to assessing the practical implementation of the policies by issuers.
2. The Authority will continue hosting annual governance workshops bringing together boards, company secretaries and senior management of issuers to discuss the state of governance and sustainability practices, challenges, opportunities and areas of improvement.
3. The Authority is currently developing a policy framework that will inform the development of an overarching ESG and Integrated Reporting legal framework for the capital markets in Kenya.
4. To promote the uptake of the Stewardship Code for Institutional Investors, the Authority will continue engaging institutional investors and other relevant stakeholders. The Stewardship Award for Institutional Investors was successfully pioneered by the Institute of Certified Secretaries in 2022, and this will now be an annual award under the Champions of Governance Awards.
5. The Authority will continue facilitating institutional investors to sign up as signatories to the Stewardship Code to further support the implementation of the Code and enhance good governance and sustainability practices amongst issuers.
6. 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 three (3) boards concurrently. In addition, the Authority is looking into mechanisms for ensuring that CSs who are also lawyers practicing in law firms that provide legal services to issuers are not conflicted. This arises when the issuer receives professional services from the same firm with where the issuer's CS works for.
7. There are several 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 separately and apart from the owners. The Authority, after consultations with key stakeholders, will develop suitable governance guidance to cover issuers set up as LLPs.
8. The Authority will take appropriate enforcement action on violations of the mandatory provisions and continuous reporting obligations which will be published as appropriate.

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