CAPITAL
MARKETS AUTHORITY

Promoting the Integrity and Growth of the Capital Markets

Strategic Plan

2018 - 2023

Vision

To be an innovative regulator of a robust and globally competitive capital market.

Mission

To make Kenya's capital market the premier choice for investors and issuers through robust regulation, supporting innovation and enhanced investor protection.

Core Values

To fulfill its mandate and accomplish the above vision and mission, the Authority will be guided by its core values of:

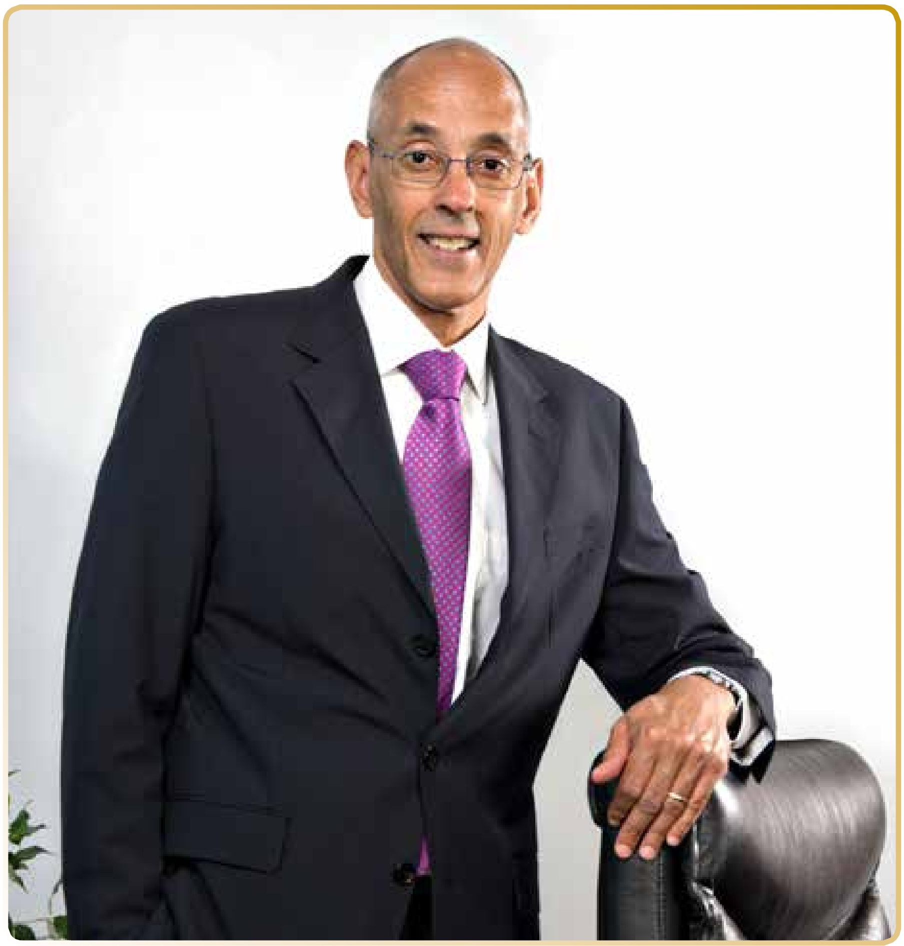
i) Integrity;
ii) Commitment;
iii) Responsiveness;
iv) innovation and continuous learning; and
v) Collaboration and teamwork.

CONTENTS

ACRONYMS

ABS	-	Asset Backed Securities
ABTO	-	Average Bond Turnover
ACCA	-	Association of Chartered Certified Accountants
ASCA	-	Accumulating Savings and Credit Association
ASIC	-	Australian Securities and Investments Commission
CBK	-	Central Bank of Kenya
CSD	-	Central Securities Depository
CDSC	-	Central Depository and Settlement Corporation
CIS	-	Collective Investment Scheme
CISI	-	Chartered Institute for Securities & Investment
CMA	-	Capital Markets Authority
CMMP	-	Capital Market Master Plan (2014 – 2023)
CPMI	-	Committee on Payments and Market Infrastructures
CPSS	-	Committee on Payment and Settlement Systems
CVM	-	Securities and Exchange Commission of Brazil
DLT	-	Distributed Ledger Technology
ESG	-	Environmental, Social and Governance
ETF	-	Exchange Traded Fund
FCA	-	Financial Conduct Authority
FSA	-	Financial Services Authority
FSB	-	Financial Services Board
FSDA	-	Financial Sector Deepening, Africa
FSDK	-	Financial Sector Deepening, Kenya
FSSP	-	Financial Sector Support Project
GDNs	-	Global Depositary Notes
GDRs	-	Global Depositary Receipts
ICF	-	Investor Compensation Fund
ICPAK	-	Institute of Certified Public Accountants
IFC	-	International Finance Corporation
IOSCO	-	International Organization of Securities Commissions
IRA	-	Insurance Regulatory Authority
ISO	-	International Organization for Standardization
KES	-	Kenya Shillings
KRA	-	Kenya Revenue Authority
MCAP	-	Market Capitalization
NIFCA	-	Nairobi International Financial Centre Authority
NSE	-	Nairobi Securities Exchange
OTC	-	Over the Counter
PFMI	-	Principles for Financial Market Infrastructures
PGN	-	Policy Guidance Note
RBA	-	Retirement Benefits Authority
RegTech	-	Regulatory Technology
REIT	-	Real Estate Investment Trust
ROSCA	-	Rotating Savings and Credit Association
SEC	-	Securities Exchange Commission
SID	-	Securities, Investments and Derivatives
SLB	-	Securities Lending and Borrowing
SRI	-	Socially Responsible Investing
SupTech	-	Supervisory Technology
TCF	-	Treating Customers Fairly
UK	-	United Kingdom
US	-	United States
USD	-	United States Dollar
WRS	-	Warehouse Receipt System

FOREWORD FROM THE CHAIRMAN



The Capital Markets Authority's 2018-2023 Strategic Plan outlines the Authority's blueprint for the five-year period commencing July 2018 and comes at a critical time when the domestic financial market is primed to rebound and to experience greater activity and performance. The development of the new Plan was substantially informed by extensive consultations both internally and externally - locally and internationally, with the Authority's Board playing a key role in offering guidance towards the crystallisation of our Vision **"To be an innovative regulator of a robust and globally competitive capital market."**

The Plan envisages the positioning of Kenya's domestic capital markets as the premier choice for investors and issuers through robust regulation, supportive innovation and enhanced investor protection. This international high standard will be achieved through the adoption of dynamic and evolving capital markets regulation, proactive development practices and outcome-based actions designed to ensure that the Kenyan market will be positioned to compete with the best globally.

With the rapidly rising growth and impact of disruptive technology within the global financial markets space, the Plan aims to leverage global best practices in aligning its 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 the very significant innovation already taking root within the capital markets.

In line with the globally competitive key outcome areas in this Plan, the following are the Authority's 2018-2023 strategic objectives:

- Ensure a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency;
- Facilitate the development, diversification, and uptake of capital market products and services;
- Ensure sound market infrastructure, institutions, and operations;
- Leveraging technology to drive efficiency in the capital markets value chain;
- Ensure optimal efficiency and effectiveness of the CMA; and
- Enhancing strategic influence

Kenya's Vision 2030 which identifies the capital markets as central to mobilizing savings and enhancing investments to support economic development has been an essential guide and reference towards the development of this strategy. The ten-year Capital Market Master Plan, a flagship project within Vision 2030 Medium Term Plan II and now III, continues to be a significant pillar guiding the transformational direction of the Kenyan capital markets industry towards ensuring that Kenya becomes "The heart of Africa's capital markets", and this Strategic Plan underpins the Authority's role in the implementation of the Master Plan.

The Government's Big 4 Agenda targeting affordable housing, universal healthcare, manufacturing and food security will guide priority objectives within this Plan towards the accomplishment of among others; the Commodities Exchange, the growth of the Real Estate Investment Trusts (REITs) segment, the Fintech space and Green financing. The Plan has carefully considered the outcomes anticipated in this Agenda alongside other national and global sustainable development goals and identified those areas where the Authority may have the greatest impact within its mandate.

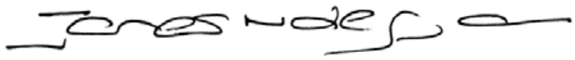
The recent establishment of the Nairobi International Financial Centre Authority (NIFCA), to provide a coordinated framework for a financial centre that complements the existing domestic financial system in attracting global financial services institutions, further expands the critical pool of stakeholders the Authority will work with to deliver on the Nation's ambitions. Conscious of the shifting perspectives of global investors, the Plan re-emphasises potential opportunities from mainstreaming Environmental, Social and Governance (ESG) transparency.

The Authority remains highly conscious of the importance of devolution as provided for in Kenya's Constitution and the Plan has identified policy and regulatory interventions as well as precursors necessary to support County financing through capital markets. This further expands the stakeholders mapped and targeted for engagement to ensure credible and sustainable outcomes to support devolved wealth creation.

I must note that achievement of the Plan's objectives will require concerted engagement with and influence of relevant stakeholders to create an improved capital markets experience for investors and issuers and to promote sound market conduct with an emphasis on Treating Customers Fairly.

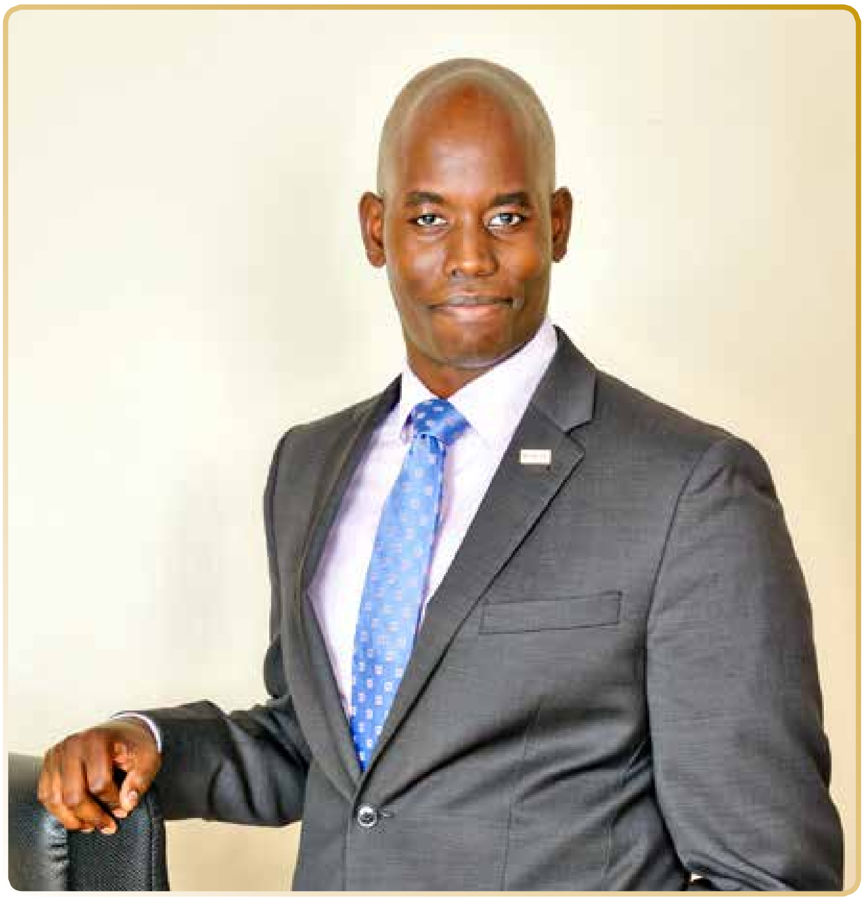
I am confident that through the commitment of the CMA Board and Management, the Authority will continue to rise to the challenge in playing its fundamental role in spearheading the transformation of Nairobi into a competitive International Financial Centre.

I commend this Strategic Plan to all the Authority's stakeholders and commit the CMA to the required close collaboration with all parties that is essential to its success.



James Ndegwa
Chairman

PREFACE



This Strategic Plan 2018-2023 is the culmination of extensive analysis of the achievements, learnings and challenges from our previous Strategic Plan 2013-2017 as well as an internalization of the expectations from the capital markets and the Authority in the Vision 2030, the Big 4 Agenda of the Jubilee Government, the 10 year Capital Markets Master Plan and the Sustainable Development Goals. Through the guidance of the Board, the Plan has prioritized the Authority's alignment with institutional, industry and national aspirations.

Kenya's Vision 2030 MTP III 2018-2023 recognizes the role of the capital markets as a core driver of the Financial Services Sector with a vision to: Create a vibrant and globally competitive financial sector that will promote a high level of savings to finance Kenya's overall investment needs.

In order to live up to this sector vision and the Master Plan's vision of Making Kenya the heart of capital markets financing in Africa, the Plan design process set us on a course of comprehensively analysing and reviewing trends and projections in the domestic, regional and international capital markets and the wider financial sector. The product of this assessment, which theme cuts across all the strategic objectives identified, is the prioritisation of growing our stature to proactively engage and influence stakeholders and domestic, regional and international policy and standard setters to ensure delivery of the ambitious outcomes targeted in the Plan.

As an institution, we have reiterated our commitment to an evidence-based and policy-driven approach to execution of our regulatory and development mandates. Through this approach, we are confident we will strengthen our credibility in the global capital markets space as a leading voice on policy and regulatory concerns that affect developing economies with evolving frontier and emerging capital markets.

In empowering ourselves and our industry to harness the opportunities and manage the risks from technology, we will continue to refine our supervisory model to align regulatory requirements with market needs cutting across product/services design, infrastructure and supervision. The imminent launch of our regulatory sandbox is expected to serve as an important catalyst for promising innovations to operate in a transparent and accountable environment.

The Authority is cognizant of the African Union (AU)

Agenda 2063 that envisions the development of African capital markets to strengthen domestic resource mobilisation and to double market based financings' contribution to bridge the development financing gap. We intend to build on Kenya's location and capacity advantage in respect to the East African and Middle African region with regard to a predictable and stable macro-economic environment, favourable political environment and market leading technology innovation to support Kenya's emergence as a competitive International Financial Centre.

The Authority will deploy its resources to ensure that the performance targets set out herein will be met through realigning our organizational structure, ensuring effective communication between key stakeholders as well as continuously improving monitoring and evaluation mechanisms to support successful execution of this Plan. To this end, Uwezo Kipeo, the CMA's organizational change program, and our overall regulatory excellence model will remain core drivers to enhance the Authority's effectiveness and impact.

I want to extend my sincere gratitude to the CMA Board for their strategic guidance and support; our internal and external stakeholders who have contributed immensely to the development of this Strategic Plan; the outstanding team from Genesis Analytics and Bourse Consult who worked with us to spearheaded its development; and the CMA staff whose dedication and talents will ensure its realisation.

Paul M. Muthaura, MBS
Chief Executive

Strategic Outcomes 2018-2023 Highlights

Strategic Outcomes 2018-2023 Highlights

EXECUTIVE SUMMARY

1. Introduction

The Capital Markets Authority (CMA) is a statutory institution established in 1989 through an Act of Parliament with the core responsibility of licensing and supervising all capital market intermediaries, ensuring proper conduct of all licensed persons and entities, regulating the issuance of capital market products, regulating securities, derivative and spot commodity exchanges, promoting market development through the creation of a conducive environment for product innovation, supporting institutional capacity development, supporting robust market infrastructure, promoting investor, issuer and intermediary education and awareness, and protecting investors.

To achieve this mandate, the Authority has developed a new Strategic Plan running from July 2018 to June 2023 to guide it over the next five years. In addition, this Strategic Plan serves as a blueprint for the Authority to steer the development of Kenya's capital markets to support national development objectives and the achievement of MSCI emerging market status. The Plan was developed using a comprehensive process, which involved consultations with key stakeholders such as partner regulators, licensed intermediaries and investors, benchmarking with developed and emerging markets (including the US, UK, Australia, Malaysia, South Africa and Brazil) and support from capital market consultants with expertise from across the UK, Europe, Latin America, Asia and Africa.

Further, to ensure that Kenya's capital markets have their desired impact in supporting economic development and empowerment, the Plan has been aligned with a number of local and international priorities, including the Government's National Development Agenda, the Big 4 Agenda, The Vision 2030 Third Medium Term Plan (MTP III), the Capital Market Master Plan (CMMP) and the United Nations' Sustainable Development Goals. This Plan is also timely in that it addresses the technological revolution happening in Kenya and the evolving needs of local and international investors. The Plan, therefore, provides a blueprint for the Authority to align its resources to best meet the demands of a more connected, digital and sophisticated capital market in the country.

2. Situation Analysis

A review of international best practices in capital market regulation and development identified a number of areas where the Authority could sharpen its focus in order to align to international best practices, build on its core strengths and address weaknesses, opportunities and threats arising from its external environment. Benchmarked against emerging markets, it was determined that the Authority should seek to: i) broaden the extent of cooperation between itself and the market, ii) grow its profile for domestic influence and iii) enhance the issuer/investor experience in the capital markets. In comparison to developed markets, it was identified that the Authority should seek to: i) research and target investor and issuer needs as a basis to drive product uptake across the capital markets, ii) enhance the issuance culture across the market, including but not limited to, potentially strengthening the disclosure of environmental, social and governance (ESG) information, and iii) work closely with the banking and private equity sectors in order to spur growth in the capital markets by creating a pipeline of issuers.

On the domestic front, although the country underwent a protracted election period in 2017 that adversely affected the investment climate, the prospects for 2018 and beyond, are more positive, owing to commitment by the political leadership to rebuild the economy, a move that has restored investor confidence. Economic growth has remained stable, averaging 5% over the last five years but is still below the annual Vision 2030 target of 10% due to a number of socio-economic and geo-political factors. The outlook for the Kenyan markets is however more positive over the next five years, driven by an improved political environment, a focused National developmental plan and higher global liquidity. The International Monetary Fund (IMF) projects growth to border the 6% mark with the Central Bank projecting a growth of 6.3%.

From a social standpoint, Kenya's population is relatively young with low awareness of the capital markets thus creating a large pool of potential investors for the future that needs to be educated about the benefits of capital markets. There are also a growing number of middle and high-income earners presenting more opportunities for growing retail investment in capital market products. However, there are also risks that need to be managed. A growing portion of Kenyan youth are utilizing their limited incomes on sports gambling, thus undermining the emergence of a much needed savings culture which is central to supporting transformational economic growth. On the supply-side, family-owned businesses continue to avoid capital markets due to fear of loss of ownership and control, perceived regulatory hurdles and a general aversion to public scrutiny. Addressing these challenges in a coordinated manner is a key priority for this Plan.

Kenya is now regarded by many foreign investors as a sophisticated technology market by regional standards. The success of M-PESA has also led to the proliferation of other FinTech companies providing solutions ranging from access to finance, healthcare and agricultural solutions. More recently, it has led to the development of M-AKIBA which was launched in June 2017 as a platform for retail investors to purchase Government bonds for as little as KES 3,000 on their mobile phone. When considering technology in a capital market context, two key themes emerge: the growing influence of social media and the application of new technology to enhance market functioning. CMA has taken active steps to foster and promote the responsible growth of FinTech through the establishment of a regulatory sandbox which seeks to provide a supportive regulatory environment for such promising innovations to operate, subject to applicable restrictions on client access and investment size. If developments in other markets are an indicator of what to expect in Kenya, disruptions across the capital market value-chain – from investment advice to capital raising, algorithmic trading to decentralized clearing and settlement – are on the horizon. These will soon require a coordinated regulatory response to manage external enquiries, awareness, systemic stability, market conduct and prudential risk which are therefore a focus for the Plan.

Kenya has also taken a strong stance against climate change by ratifying the Paris Agreement and banning all plastic bags in the spirit of the Pact. The CMA and NSE were also pioneer signatories to the Marrakech Pledge during the 22nd Conference of Parties (COP 22) to the United Nations Framework Convention on Climate Change (UNFCCC) of November 2017. The growing awareness of climate change has had a significant impact on the ways in which the public and private sectors operate. Internationally, countries are moving towards greener and more sustainable ways of energy extraction and management, and companies are required to be increasingly aware of their environmental footprints. ESG (Environmental, Social and Governance) policies are emerging across the world, and issuers have signaled to the market their environmental intentions with regards to the issuance of green bonds. These environmental trends will require a focused and strategic response from the Authority and other capital market players.

From a legal and regulatory perspective, there are three key areas that will impact the CMA over the next five years. These include the extension of CMA's mandate to regulate the spot commodities exchanges, the outlook on the FSA Bill, and the establishment of the Nairobi International Financial Centre Authority (NIFCA). In 2016, the Finance Act amended the Capital Markets Act, making the Authority the primary regulator of spot commodities exchanges in Kenya. This is expected to have a significant impact on CMA's organizational structure, suggesting a need to build internal capacity in order to effectively deliver on the expanded mandate. Meanwhile, the FSA Bill proposes to consolidate the four non-bank financial sector regulators (the RBA, SASRA, IRA and the CMA) under a single regulator and to provide a cross-sectoral framework for regulating market conduct. While the FSA Bill has been drafted, there has been a delay in its enactment. Further, NIFCA has been tasked with the establishment of a coordinated framework for a financial centre that complements the existing domestic financial system in attracting global financial services institutions. While this is an industry-wide initiative, the CMA has a key role to play in its formation, operation and success. Finally, in 2016, an interest rate cap on lending regime set at 4% above the Central Bank Rate (CBR) was introduced across the banking sector. This price control measure could lead to depressed activity in the capital markets as investors remain wary of banking securities (bonds and equities) together with the transmission effect of the caps on economic growth as a consequence of a slowdown in private sector credit. The likely replacement of the existing lending interest rate cap regulation, with the proposed establishment of new entities, through the Finance Bill 2018, to regulate access to credit, the key one being the Financial Markets Conduct Authority, whose key objective will be to protect retail financial customers by determining and setting maximum lending rates, is expected to have a positive impact on the capital markets.

The Authority recognizes that building requisite internal capabilities is critical to its mission and vision accomplishment. At the core of this internal capability building is an organizational culture that supports institutional excellence, timely delivery of appropriate outcomes, effective decision making and high performance. Under the banner of Uwezo Kipeo, the Authority has been implementing changes in the way we manage our core asset – our people – with a view to making CMA a truly world-class regulatory agency. This HR-driven cultural transformation is undergirded by the Authority's Long Run Excellence Model that, inter alia, aims to enhance its organizational effectiveness (and therefore its capacity to effectively discharge its mandate) through deepening its independence, strengthening its capacity to carry out effective regulation and supervision, ensuring efficient utilization of resources, building requisite skills, intelligent multi-stakeholder coordination and the effective deployment of support functions.

3. Review of the 2013-2017 Strategic Plan

Over the last Strategic Plan period the Authority made significant progress against key performance indicators for the five Strategic Objectives it had set out. Of the 106 activities contained in the 2013-2017 Strategic Plan, a total of 88 were achieved; equivalent to an achievement rate of 83%. The primary area of activities that were not completed relate to the development of a robust clearing and settlement environment. This is therefore a renewed focus for the new Strategic Plan given the critical foundational importance of the soundness of the clearing and settlement environment to market growth and deepening.

The table below summarizes the Authority's performance across all objectives set for the 2013-2017 Strategic Plan. It also provides a commentary on the achievement and progress relating to each objective.

#	Strategic objective	Activities	Activities implemented	% implemented	Comments
1	To ensure a robust, facilitative policy, regulatory framework for capital market development	17	16	94%	Delayed activity related to reprioritisation of industry-wide financial legislation
2	To facilitate the development and diversification of capital market products and services	21	17	81%	Most of the delayed activities are nonetheless on track for completion
3	To promote investor education, awareness and interest in the capital markets	12	12	100%	Most of the activities were continuous and needed constant engagement with partners
4	To enhance the efficiency of and integrity of the capital market infrastructure and institutional arrangements	28	20	71%	Most of the delayed activities were related to necessary reforms in the clearing and settlement environment
5	To strengthen the institutional capacity of the CMA to effectively and efficiently deliver on its mandate	28	23	82%	Most of the delayed activities were related to relocating to own premises, an objective that was re-prioritized in the context of regulator consolidation
	Total	**106**	**88**	**83%**	

Beyond the activity-based indicators, the CMA also set targets based on market outcomes such as liquidity, volatility, and efficiency and investor diversity among others. While performance against these targets has been impressive, it is important to note that market outcomes are dependent on the actions or responses of multiple players including market intermediaries, investors, issuers, the Government and other regulators. Over the course of 2013-2017, Kenya witnessed the statutory management of two prominent banks, the collapse of the largest retailer, an uncertain environment on financial regulator consolidation, the introduction of an interest rate cap on lending and an extended election cycle all of which negatively impacted the broader financial sector. Despite this, the CMA was able to achieve a commendable outcome, with 8 out of the 15 indicators recording an achievement score of 80% and above while 5 of those indicators recorded significant outperformance.

The table below provides a summary of achievement scores for each proposed key performance indicator (KPI). An achievement score below 50% is marked in red; a score that is above 50% but is below 80% is marked in amber while a score equal to or above 80% is marked in green.

#	Strategic objective	Measure	Actual 2012	Target 2017	Actual 2017	Achieved
1.	Equity Market Capitalisation (E- MCAP)	KES bn	1 272	3 165	2 521	80%
2.	Bond Market Capitalisation (B-MCAP)	KES bn	716	1 781	1 669	94%
3.	Equity MCAP/GDP	% of GDP	38	50	33	66%
4.	Bond MCAP/GDP	% of GDP	21	28	22	78.5%
5.	Market Turnover (Equity + Bonds)	KES bn	652	6 836	607	9%
6.	Market Turnover (Equity +Bonds)/GDP	% of GDP	15	108	8	7%
7.	No of foreign investors (with CSD Accounts)/Total number of adult population	%	0.27	0.32	0.06	19%
8.	No of investors investing in the market through institutional investors (CIS, Pension Schemes / Fund Managers / Custodians) / total number of adult population	%	0.83	0.93	4.2	452%
9.	No of capital markets products for channelling investments into infrastructure, real estate, and oil, gas, mining and metals exploration and extraction	No.	2.00	4.00	3.00	75%
10.	No of capital markets interlinked to the infrastructure of the Kenyan capital markets to support cross-border trading and investment	No.	2.00	5.00	2.00	40%
11.	Efficiency (Average Equity Turnover/MCAP or Turnover ratio	%	0.57	1.15	6.8	591%
12.	Efficiency (Average Bond Turnover/B-MCAP)	%	6.58	7.00	26	371%
13.	Stability (Annual Volatility of NSE 20 Index)	%	28.00	10.00	9.1	109.8%
14.	Concentration (MCAP of top 5 companies/Total MCAP)	%	53.00	48.00	65	73.8%
15.	Concentration (Equity Market Turnover of top 5 companies/Total Market Cap)	%	75.00	70.00	75.7	92.5%

4. Strategic Direction

Drawing on a review of the external and internal environment facing the CMA, international practice in capital market development and regulation, progress made against the 2013-2017 Strategic Plan and consultations with stakeholders across the industry, a number of focus areas were identified. These are summarized in the table below.

Table III: Summary of strategic priorities

Strategic focus area	Strategic issues
Strategic focus area Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency	**Enhance the responsiveness and enforceability of the regulatory framework to improve investor experience** –The Authority will consider further the issues arising from sectoral concentration in the capital markets and pursue stricter adherence to the Corporate Governance Code. In view of the critical contribution to confidence in capital markets made by sound financial reporting, the CMA will work with the National Treasury to operationalize the independent auditor oversight legislation and with ICPAK to ensure that existing arrangements on sound financial reporting remain as effective as possible. Given that the banks had also issued corporate bonds, there is a need for a clear crisis management framework on which the Authority will work with the Government and other regulators, to ensure that investors are appropriately protected in case of such events.
	Develop and review regulations that are in alignment with the National Development Agenda – the Government is currently pursuing a National Development Agenda as articulated in its Big 4 Agenda and the wider Third Medium Term Plan of the Vision 2030 ; thus it is imperative for the CMA to align its strategy to aid in the achievement of broader National goals. Considering its expanded mandate that entails regulating the spot commodities exchanges, the Authority will also seek to facilitate the growth and efficient operation of these markets with the aim of, as a first priority, of supporting the Big 4 Agenda on promoting the agricultural sector and specifically food security.
Facilitate the development, diversification and uptake of capital markets products and services	**Enhance awareness and delivery of Capital Market education for investors and issuers** - there was generally low uptake for new products on both the supply and demand side despite CMA's efforts to ease regulatory barriers. The Authority has examined in greater depth the reasons for this, following an Investor Education and Public Awareness Impact Assessment and Opportunities Study and determined clearer approaches for achieving stronger and more measurable results. New strategies to be implemented will include one-on- one business incubator and accelerator meetings, market intermediary-driven awareness programmes, one stop shop stakeholder engagements, social media engagements, diaspora on boarding initiatives, edutainment initiatives, as well as the use of awareness ambassadors.
	Create and review regulations to attract a broader set of investors – as part of the Third Medium Term Plan, there is an ambition to establish Kenya and Nairobi as an international financial centre. A key strategic focus for developed markets was ensuring that capital market players enhance their policies around general corporate governance and environmental, social and governance (ESG) factors. This was identified as an important issue for CMA to consider especially when attempting to attract foreign investors. The Authority will explore the extent to which issuers, actual and potential, have the capacity and appetite for extending the range of ESG reporting and the extent to which the costs of complying with increased reporting standards are likely to be offset by increased funding flows. The Authority will have particular regard to the relevance of governance and financial reporting requirements to investor protection and to facilitating access to capital by Small and Medium Enterprises (SMEs) as key drivers of economic growth. Further the Authority will engage its development partners and the NSE in developing policy, regulatory and institutional framework to support green / sustainable / ethical / Shariah compliant financing.
	Create and review regulations to ensure optimal uptake of products and increased market participation - activity in the primary equity market has remained stagnant while there is a continued overreliance on the Government bond market to provide high return investment instruments. Reputable large-sized corporates and Small and Medium Enterprises (SMEs) are not taking advantage of cheaper capital available in the capital markets and this is a cause for concern at the highest levels of leadership in Kenya. The Authority will examine the strategies necessary to generate a pipeline of issuers of traditional and new products, including a review and possible revision of existing eligibility and disclosure requirements to attract both large private companies and SMEs. This follows the finalization of a comprehensive study aimed at determining the factors seen as inhibiting up take of such products. The Authority will further advocate for review of relevant legislations to revitalise the privatisation programme for

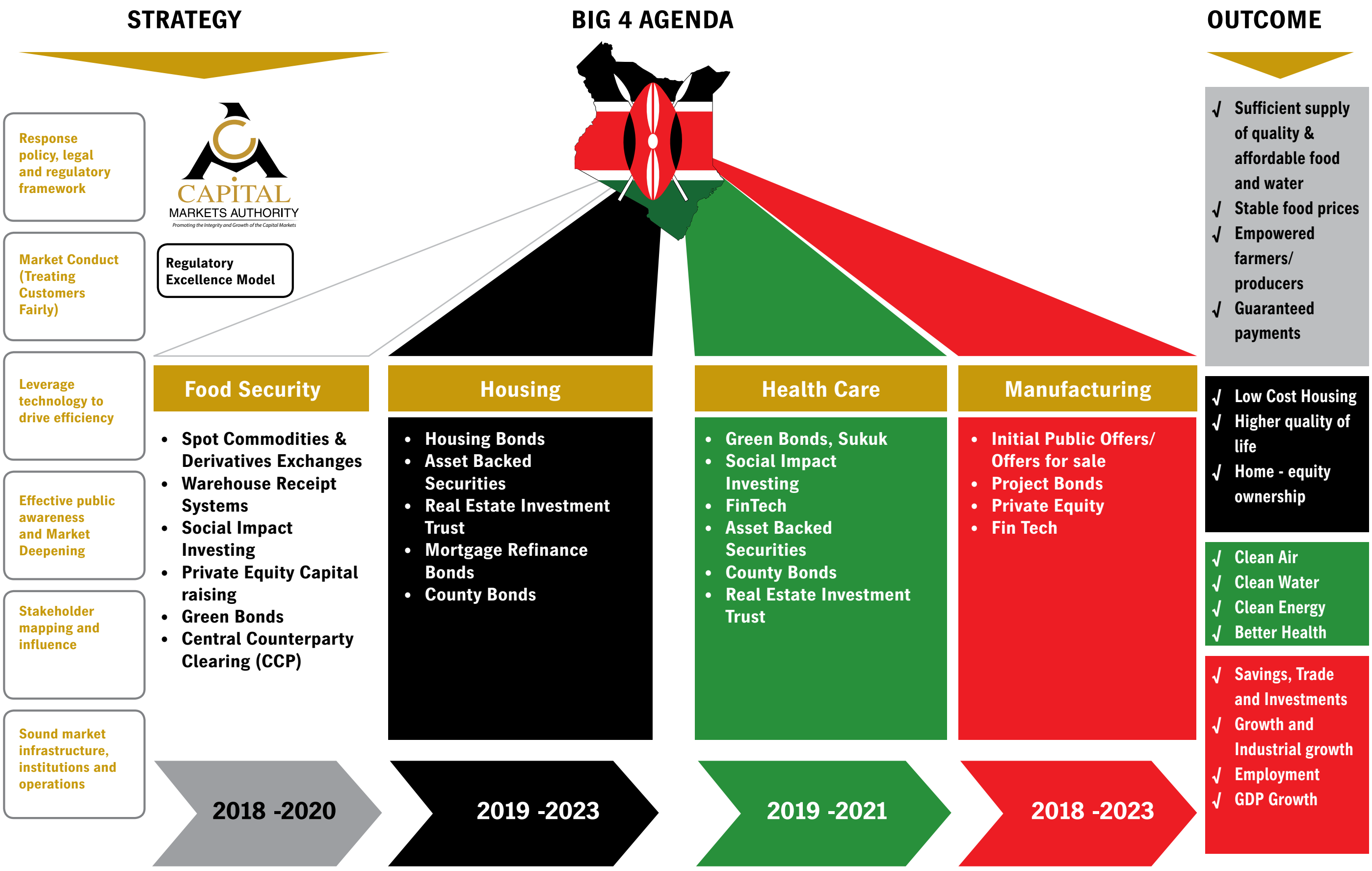
Strategic focus area	Strategic issues
	eligible State Owned Enterprises to bolster the listing pipeline. Other initiatives will include the possible merging of the existing segments at the NSE for greater efficiency and targeted listing of large private corporates aligned to the Big 4 Agenda to support the manufacturing, housing, agriculture and healthcare sectors. Further initiatives will include creating and /or reviewing regulations to facilitate on-market exits for private equity investors as well as the issuance of approved restricted institutional placements as distinct from retail targeted listings. These strategies will require engagements with the Government to enable it to signal the importance it gives to the use of the capital markets to support economic growth and support in educating potential issuers on the advantages of capital market finance. The Authority will leverage on banking sector to assess the preparedness of corporates to raise capital in the markets as well engaging banks on the opportunities to take up early stage financing of long term projects and leverage opportunities to seek refinancing of such projects through the capital markets, once commercial viability is achieved. The Authority will additionally explore ways in which to demonstrate to investors that corporate failures are a natural part of risk taking in investment products and champion the importance for investors to examine the corporate governance and financial reporting of the companies in which they invest in addition to headline results. CMA will also seek to demonstrate that its own response to failures is in line with international capital market norms.
Ensure sound market infrastructure, institutions and operations	**Support the operationalization of an efficient pre-trading environment including trade facilitation, access to data and information and stable technology** - there is a clear need to improve liquidity in the capital markets through the implementation of Primary Dealership and market making for Government securities together with effective pre -trade and post-trade infrastructure. An efficient secondary market is also expected to improve price discovery and provide a pricing benchmark for other market products and subsequently support collateral management, as well as securities lending and borrowing opportunities in the market.
	Ensure efficiency and risk minimization in the trading and post-trading environment (clearing, custody & settlement) - there is a clear need to ensure that market infrastructure, including its regional and global connectivity, is suitable over time for Kenya to demonstrate it will reinforce its capacity to act as a competitive financial centre, strengthen the CDSC and especially address its risk management capacity and its ability to ensure settlement of all types of products. In addition to strengthening the CDSC, there is a need to facilitate the CBK's CSD for Government bonds to evolve complementarily as opposed to duplicating infrastructure rolled out by the CDSC to ensure strategic market segmentation as opposed to fragmentation and a longer-term strategy for CSD consolidation to realize efficiencies and economies of scale.
	Ensure effective monitoring and supervision of capital market operations to minimize misconduct – there is a continuous need to improve market surveillance to evolve with market dynamics
Leveraging technology to drive efficiency in the capital markets value chain	**Strategically leverage the potential impact of and Champion the adoption of new technologies in the capital market value-chain** – the impact of FinTech is being considered by financial sector regulators across the globe and will be a key factor to take into consideration over the next few years especially given its potential to disrupt the capital markets value chain. New technological developments have the potential to disrupt existing models for both users of financial services and regulators, and will have relevance to the CMA's role in protecting actual and potential investors. The Authority has a strategic objective to address the potential aspects of technological disruption and will provide a strategic response to each of them. The CMA has been proactive in supporting FinTech through its regulatory sandbox, but strong coordination will be needed with other regulators to ensure there are no gaps or overlaps, as well as to make sure that scalable solutions touching on multiple sectors are able to be put in place where necessary. The CMA will keep abreast of developments in the area of artificial intelligence, disintermediating capital raising and analytics and further ensure that new developments in techniques for the giving of advice and raising funding do not impede regulatory objectives of customer protection. The Authority will additionally take steps to ascertain that the disclosure arrangements surrounding the introduction of platforms such as crowdfunding are adequate for participants to understand the nature of the risks they are potentially taking.

Strategic focus area	Strategic issues
	Internally leverage Information, communication and technology to enhance efficiency and service delivery - The Authority will remain abreast of developments in the field of post-trade digitization to ensure the maintenance of consistently high standards and of developments in RegTech. The CMA will explore the scope for use of SupTech technology (or RegTech for supervisors) for automating and streamlining administrative and operational procedures, digitizing data and working tools, and improving data analytics. The Authority will consider assisting firms by recommending common RegTech solutions. It will explore ways in which they can encourage firms to introduce appropriate technological improvements and will also examine ways in which they can be utilized in their own operations. The Authority will further spearhead the establishment of a Fintech support facility managed through the Joint Financial Sector Regulators' Forum with dedicated personnel to facilitate timely follow up and resolution of inquiries on FinTech products and services
Ensure optimal institutional efficiency and effectiveness of CMA	Based on the review of the previous strategic plan and the preceding issues, four key areas of focus were identified: • Enhance and align staff competency in line with the changing operating environment; • Prioritize the development of internal data analytics and systems design and programming capacity to optimize customization to business needs; • Enhance financial sustainability and operational efficiency; and • Improve and uphold the corporate image of the Authority
Enhancing strategic influence	**Continue to build strategic alliances with domestic and international partners** – Based on international benchmarking it was identified that the Authority could grow its profile for domestic influence comparative to the benchmarked regulators by building alliances.
	Consistently engage with key stakeholders to ensure deepening of the capital markets – from the benchmarking exercise it was also observed that the Authority could play a key role in market and regulatory cooperation, to drive cross-market initiatives.

5. CMA's Strategic Positioning to Support the Big 4 Agenda

The Authority is well aware that Kenya's national development goals and priorities are very dynamic and in drawing up this Plan, carefully took into consideration existing long-term domestic and global socio-economic priorities when setting out its strategic priorities, objectives and initiatives. These include the over-arching Vision 2030, its supporting Third Medium Term Plan (MTPIII) and Sustainable Development Goals. However noting the Government's continuous emphasis on the Big 4 Agenda, the CMA envisages its role in supporting its achievement as depicted below:

Fig I: CMA's strategic positioning to support the Big 4 Agenda



Source: CMA

6. Aligning the Organization Structure to the Strategic Plan

In line with the Authority's new strategic objectives, it is imperative that the organization structure is re-evaluated to deliver on its mandate and improve service delivery. The table below highlights the required changes aligned to the strategic objective and provides a strategic reasoning for each.

Table IV: Summary of changes to organizational structure

Strategic objective	Required organizational change	Strategic reasoning
Ensuring a robust, facilitative and responsive policy and regulatory framework for capital markets development and efficiency	• Restructure Regulatory, Policy and Strategy Directorate to become the Strategy & Market Development Directorate • Split the Strategy, Policy and Regulatory Framework Managerial role into Policy & Legal Framework; and Strategy, Risk & Performance	• There is a need to adopt a more coordinated and holistic approach to market engagement and product development whereby policy formulation and implementation is informed by the market development needs • The distinct separation of roles between strategy & performance and policy & legal framework will allow for more coordinated resourcing and execution of policy formulation and influence on its implementation on the one hand and effective strategy development and execution through coordination, monitoring and evaluation of strategy implementation and enterprise risk management, project management and ISO 9001:2015 compliance, on the other hand
Facilitate the development, diversification and uptake of capital markets products and services	• Expand the remit of the investor education and public awareness function to more proactively address market engagement on product development and uptake	• The Authority has supported the development of a wide spectrum of new products and services that has seen limited product uptake and a significant slowdown in product issuance. A more holistic approach to market engagement on the product development process and coordinated follow

Strategic objective	Required organizational change	Strategic reasoning
	on both the supply and demand side, together with intermediary education • Create a spot commodities oversight unit to lead the transition of this sector to CMA regulation and to build capacity for the effective regulation of this segment	through to ensure an issuance pipeline, is expected to deepen the pool of investable products and address market concentration risk • The regulation of the spot commodities markets falls within the remit of the CMA and as such it will be important for the Authority to create a transitionary function that will enable the building of capacity around regulating this new segment of the market. In the long run the Authority, in consultation with relevant stakeholders and subject to Government policy, will determine the strategy for regulating this segment including but not limited to considering spin-off a new commodities regulator
Ensure sound market infrastructure, operations and institutions	• Strengthen the operational focus of market supervision functions on proactive and outcomes-focused market facing risk management • Merge the oversight of Derivatives into Directorate of Market Operations • Expand the remit of the market operations directorate to also include providing oversight to the spot commodities exchange	• There are strategic initiatives that include enhancing investor protection through specific interventions such as Global Investment Performance Standards (GIPS) and this will require a more directed focus beyond market surveillance • It was noted that the existing unit on Derivatives function was established to launch the new product. While some markets have opted to keep derivatives oversight functions separate from traditional market operations, such as the US, in a relatively nascent market like Kenya the separation could create inefficiencies as both tasks require similar skills and oversight gaps and exposure risks as the size of the markets grow • The regulation of the spot commodities markets falls within the remit of the CMA and as such it will be important for the Authority to create a transitional function that will enable the building of capacity around regulating this new segment of the market. In the long run the Authority, in consultation with relevant stakeholders and subject to Government policy, will determine the strategy for regulating this segment including but not limited to considering spin-off a new commodities regulator
Leveraging technology to drive efficiency in the capital markets value chain	• Establish a distinct and robust business technology and analytics directorate capable of servicing the whole organization with business intelligence	• In order to ensure the business is able to leverage and evolve its internal systems to respond to changing market technology and to promote analytics-based decision making • Technology such as SupTech has the potential to bring efficiencies to the regulator and thus there is a need for improved coordination of research and data analytics, knowledge management and ICT infrastructure to support internal efficiency as well as the experience of the regulated community • The implementation of a regulatory sandbox will call for greater nimbleness in cross-organizational capacity to support FinTech evolutions from industry
Ensure optimal institutional efficiency and effectiveness of CMA	• Consolidate and coordinate all internal research and analytics, knowledge management and business technology development functions within a single directorate capable of servicing the business intelligence needs of the organization	• Reduce fragmentation of internal analytics capacity while building capacity for continuous review and refinement of ICT and information processing platforms to support effective decision making

Strategic objective	Required organizational change	Strategic reasoning
	• Restructure Corporate Services Directorate to streamline procurement and contract management capacity and to consolidate ICT infrastructure management and development within a dedicated directorate handling information consolidation, analysis and technology optimization	
Enhancing strategic influence	• In addition to consolidating resources with a focus on Policy and Framework development and implementation, the creation of a more effective Corporate Affairs function is expected to improve both domestic and international institutional influence	• There is a need to raise the profile of the Authority locally and internationally. Based on an international benchmarking exercise, the Policy and Framework teams and Corporate Affairs teams will coordinate to support improved institutional capacity to influence

In addition to the above changes, a human capital audit will determine the roles and responsibilities of each role and function and identify areas of possible synergy.

7. Strategic Plan Implementation

As part of the implementation of this Strategic Plan, 101 activities are envisaged over the next five years. Of these activities, 53 are a high priority, 36 are a medium priority, and 12 are a low priority. A full list of activities is provided in the body of this Strategy Plan document. It is appreciated that the forgoing activities regardless of their prioritization are interdependent and correlated with regard to the envisaged outcomes.

Overall Key Performance Indicators

Defined key performance indicators based on market outcomes have been identified and directly linked to specific strategic initiatives. This approach is expected to empower the Authority to more effectively track whether the activities carried out under each strategic initiative are having direct market outcomes, including those that involve coordination with other regulators or stakeholders and allow for more proactive risk mitigation and opportunity maximization. The overall key performance indicators are summarized in the table below.

Table V: Summary of Overall KPIs

Strategic Objective	Strategic Initiatives	Overall KPIs	2018	2023 (Expected)	Source
Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency	Enhance the responsiveness and enforceability of the policy and regulatory framework to improve investor experience	MSCI Ranking	Frontier Market Status	Emerging Market Status	MSCI reports
	Review policy and develop the regulatory framework to be in alignment with the National Development Agenda	Number of Commodities Exchanges	0	2	Kenya Commodity Exchange (COMEX) Feasibility Study 2017
		Number of commodities traded on licensed Commodities Exchanges in Kenya.	0	4	
		Value of traded commodities (in KES)	0	1.7 trillion per annum	

Strategic Objective	Strategic Initiatives	Overall KPIs	2018	2023 (Expected)	Source
		Number of capital markets issuers with capital markets products related to the manufacturing, housing, agriculture and healthcare sectors	20	30	Research Reports (various) , H.E. The President's Speech during the 54th Jamhuri Day Celebrations on 12th December 2017
Facilitate the development, diversification and uptake of capital markets products and services	Enhance awareness and delivery of Capital Market education for investors	Composite Unweighted Investor Education Measurement Index (IEMI)	41%	52%	CMA Investor Education Impact Assessment and Opportunities study, June 2018
		Percentage of market intermediaries conducting investor education programmes	7%	21%	
	Review the policy and regulatory environment to attract a broader set of investors and issuers	Proportion of total investors (as % of adult population)	19%	30%	
	Assess and refine the policy and regulatory framework to ensure optimal uptake of products and market participation	Market capitalization (equity)	KES 2.6 trillion	KES 3.5 trillion	CMA Statistical Bulletin, CMMP and Capital Markets Soundness reports
		Value of new corporate debt listings on NSE	KES 79.7 billion	KES 80	
		Assets under CIS management	KES 60 billion	KES 100 billion	
		Number of issuers of other products (REITs, derivatives markets, ABS, ETFs, Islamic products, GDRs &GDNs)	2	7	
	Supervise the maintenance of efficient pre-trading environment including trade facilitation, access to data & information and stable technology	Equity Market liquidity (Average Equity Turnover/ MCAP)	6.8%	25%	
		Bond Market liquidity (Average Bond Turnover/ Value of Outstanding Bonds)	26.8%	40%	
Ensure sound market infrastructure operations and institutions	Ensure efficiency and risk minimization in the trading and post-trading environment	DvP Status	Partially implemented	Fully implemented	Bond Market Steering Committee Reports (various)
	Promote proper market conduct through proactive supervision of capital market operations and effective enforcement	Percentage of cases completed, resulting in Administrative Action	N/A	75%	Investigations and Enforcement Reports (various)
		Percentage of cases completed,resulting in prosecution	N/A	50%	

Strategic Objective	Strategic Initiatives	Overall KPIs	2018	2023 (Expected)	Source
		Percentage of cases completed resulting in recoveries	N/A	25%	
		Turnaround time to conclude investigations and prosecutions	9 months	6 months	Internal Fraud Intelligence Reports (various)
Leveraging technology to drive efficiency in the capital markets value chain	Build capacity to respond to the impact of and support the implementation of new technologies in the capital market value-chain	Number of FinTechs admitted to the test environment under the regulatory sandbox	0	5	CMA/FSDK/C-GAP Report 2018
	Internally leverage Information, communication and technology to enhance efficiency and service delivery	Level of Automation within the Authority	74%	>75%	Self -assessments against ICT Authority Guidelines
Enhancing Strategic Influence	Continue to build strategic alliances with domestic and international partners	Percentage implementation of activities carried out under mutual agreements	20%	50%	CMA Monitoring and Evaluation Reports
		Number of capacity building partnerships.	5	10	CMA Monitoring and Evaluation Reports
	Consistently engage with key stakeholders to ensure deepening of the capital markets	Counties using capital markets to raise funds	0	2	National and County Funding Gap Analysis Report
		Percentage of completed activities within the strategic plan	83%	85%	CMA Monitoring and Evaluation Reports
Ensure optimal institutional efficiency and effectiveness of CMA	Enhance and align staff competency with the changing operating environment	Average % achievement of annual Aggregated Performance Ratings of Staff (for the strategic plan period)	70%	72%	CMA Monitoring and Evaluation Reports
	Enhance financial sustainability and operational efficiency	Total Revenue	KES 983 million	KES1.3 billion	CMA Budget Estimates
	Improve and uphold the corporate image of the Authority	Customer satisfaction index	73%	76%	CMA Customer Satisfaction survey 2016

8. Alignment of the Strategic Plan with Risks

Following the development of the new Strategic Plan, a number of current and emerging risks were identified. The table below aligns the new strategic objectives to these risks. Risks with a very high rating (those that could threaten the survival or continued effective functioning of the department or Authority and where immediate action is required) are marked in red. Risks with a high rating are marked in amber. These are risks that likely to cause some damage, disruption or breach of controls and therefore need to be managed by the Authority's Heads of Department through a detailed mitigation plan.

Table VI: Summary of strategic risks aligned to new strategic objectives

Strategic objective	Possible Risks	Risk Rating
Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency	Failure to initiate timely enforcement proceedings against non-compliant entities within the capital markets and delayed enforcement actions	
	Unfavourable judicial judgements or policy decisions or orders that may threaten or impede CMA from realizing its mandate	
	Policy and Regulatory gaps and lack of clarity in securities policies and laws	
	Ineffective application of the Investor Compensation Fund to address key investor confidence and protection mandates	
	Collapse or insolvency of a market intermediary, an issuer of securities or financial institution	
Facilitate the development, diversification and uptake of capital markets products and services	Low interest from potential issuers	
	Low level of financial capability of potential investors (Investments attitude, knowledge, skills and savings level)	
	Sub-optimal levels of uptake of new and/or existing capital markets products and services	
	Negative perceptions of capital markets by investors	
	Unfavourable changes in the macro-economic environment	
	Uncertain/ Unfavourable political environment	
Ensure sound market infrastructure, operations and institutions	Money laundering and terrorism financing through the capital markets	
	Trading, clearing and settlement systems failure	
	Clearing and settlement process failure	
Leveraging technology to drive efficiency in the capital markets value chain	CMA Business disruption and loss of critical data	
	Cyber-resilience failure in key market infrastructure or internal systems	
	Failure to embrace/adopt New Technology	
Ensure optimal institutional efficiency and effectiveness of CMA	Sub-optimal staff capacity	
	Inadequate capacity to optimize business technology and intelligence to inform decision making	
	Inadequate internal financial resources	
	Erosion of the corporate image and reputation of the Authority	
Enhancing Strategic Influence	Non-adoption/rejection of policy and regulatory proposals by the National Treasury or Parliament	
	Uncertainties occasioned by the proposed merger of regulators into FSA	
	Inadequate crisis management response to the collapse of systemically important financial institutions (SIFIs)	

9. Monitoring and Evaluation of the Plan

There are five main ways in which the Plan will be monitored, and evaluated, namely:

i) Utilizing the strategy and performance team to collate and critically review the measurement and tracking of Key Performance Indicators (KPIs) against Key Risk Indicators (KRIs) across all departments and units, production of the Monitoring and Evaluation (M&E) reports, ensuring discussions of these reports and ensuring implementation of remedial actions;
ii) Cascading the Plan and allocate work plan activities across all departments;
iii) Utilizing the Annual Capability Review (ACR) approach to performance management;
iv) Developing capacity in new data and information collection, consolidation, analysis and dissemination in line with the new strategy; and
v) Scheduling Periodic Review meetings at departmental, managerial and board level to ensure implementation is on track.

1. INTRODUCTION

1.1. BACKGROUND OF THE CAPITAL MARKETS AUTHORITY

The Capital Markets Authority (CMA) was established by an Act of Parliament Cap 485A in 1989 and formerly inaugurated in 1990, with a dual mandate of regulating and facilitating the development of orderly, fair and efficient capital markets in Kenya. This mandate was extended to include regulation of spot commodities markets through an amendment to the CM Act via the Finance Bill 2016.

The principal functions of the Authority include:
i) Licensing and supervising all the capital market intermediaries;
ii) Ensuring proper conduct of all licensed persons and market institutions;
iii) Regulating the issuance of capital market products,
iv) Promoting market development through the creation of a conducive environment for product innovation, supporting institutional capacity development and stimulating robust market infrastructure;
v) Promoting investor education and public awareness;
vi) Protecting investors' interest; and
vii) Develop a framework to facilitate the use of e-commerce.

The current organizational structure of CMA can be broadly categorized into two tiers, Governance and Management as described below.

Governance
The CMA is governed by a non-executive Board of Directors which is the highest decision-making organ of the Authority. The Board is responsible for the overall policy direction and strategic leadership of the Authority. The Board is also responsible for the protection of the interests of the Authority's employees, ensuring effective coordination with Government policy, promoting responsive engagement with existing and potential investors, issuers of securities and market intermediaries.

The composition of the Board of the Authority is stipulated in the Capital Markets Act under Section 5(3) as follows:
i) A Chairman appointed by the President on the recommendation of the Cabinet Secretary to the National Treasury;
ii) Six other members appointed by the Cabinet Secretary to the National Treasury;
iii) The Principal Secretary to the National Treasury or a person deputized by that office;
iv) The Governor of the Central Bank of Kenya or a person deputized by that office;
v) The Attorney General or a person deputized by that office; and
vi) The Chief Executive of the Authority appointed by the Cabinet Secretary to the National Treasury on the recommendation of the Board

Management
The management is responsible for the day-to-day operations of the Authority. The management is structured as follows:
i) **The Chief Executive:** Subject to the guidance of the Board, the Chief Executive is charged with providing direction to the affairs of the Authority in discharging its objectives, functions and duties as well as the administration and management of the staff of the Authority.

ii) **Directorates:** The Authority is organized into three Directorates, five independent departments/units and the Capital Markets Fraud Investigation Unit (CMFIU) as follows:

   a) **Directorate of Market Operations (DMO):** The Directorate's functions and responsibilities include: market supervision; conducting investigations; enforcement of laws, rules and regulations; financial analysis; arbitration of market disputes, resolution of investor complaints and undertaking licensing and corporate approvals for capital market institutions, intermediaries, issuers and products.
   b) **Directorate of Regulatory Policy and Strategy (DRPS):** The Directorate's functions and responsibilities include carrying out research; production and management of capital market data and statistics; assessment of modalities for the deepening of capital market operations, products and services; developing recommendations on the refinement and strengthening of market structure and institutional arrangements; formulation of the capital market policy; coordinating the development, implementation and monitoring of the Authority's Strategic Plan and Performance Contracting commitments with the Government of Kenya; legal and regulatory framework drafting and interpretation and investor education and public awareness.
   c) **Directorate of Corporate Services (DCS):** The Directorate is charged with responsibility for the Authority's Information Communication Technology (ICT) infrastructure and services, Human Capital management and administration, Finance and administrative oversight of Procurement functions.

d) **Internal Audit and Risk Management:** This is an independent department that undertakes internal audit activities and is responsible for providing independent assurance on the effectiveness of internal controls, risk management and governance processes at the Authority in addition to providing internal coordination of the Enterprise Risk Management framework in conjunction with business risk owners.

e) **Derivatives Unit:** The unit is charged with preliminary formulation and implementation of the policy, legal and institutional framework for the operationalization of derivatives markets in Kenya including: the licensing process for derivatives exchanges, derivatives market intermediaries, spot commodities exchanges, commodities market intermediaries and online forex brokers; spot commodities and financial derivatives market research and policy analysis and determining the suitability of derivatives contracts to be listed in a derivatives exchange. It is also responsible for identifying incidents of market manipulation, investigating complaints of the Derivatives Exchange and monitoring and surveillance of trades in Derivatives contracts.

f) **Corporate Communications:** Responsible for developing and implementing corporate communication strategies to ensure that the Authority's brand is well positioned among all capital market industry stakeholders including media and supporting internal communication needs.

g) **Legal Affairs & Corporation Secretary:** Responsible for the efficient and effective delivery of the Authority's litigation, contracting and corporate secretarial services. It also ensures that the Authority complies with relevant legislation, regulations and Government Circulars, and relevant legal reforms affecting the corporate entity.

h) **Strategic Projects:** Charged with coordination, monitoring and evaluation of the implementation of the Authority's key organizational initiatives being carried out as strategic projects; developing and championing project management best practices across all functions and coordination of sectoral, national, regional and international engagements and stakeholders in support of and complementary to the strategic delivery of the organization.

i) **Capital Market Fraud Investigation Unit:** This is a unit of the Criminal Investigation Department (CID) of the National Police Service that is charged with investigating capital market fraud. The unit works to complement the investigation and enforcement function of the Authority and is empowered to pursue enforcement of criminal sanctions in collaboration with other relevant arms of the Government.

1.2. CONSIDERATIONS IN DEVELOPING THE STRATEGIC PLAN

The process of developing the 2018-2023 Strategic Plan was informed by the following:

i) **The need to transform Kenya's capital markets into an international powerhouse** – in 2015, 2016 and 2017 the CMA won recognition as the 'Most Innovative Capital Markets Regulator in Africa' from multiple publications. This recognition is in respect of concerted institutional efforts to support Kenya's market to become more competitive at a global level and transition towards emerging market status. It is firmly recognized that only through the constant development of the capital markets and a clear strategic direction will this become a reality.

ii) **The need to align the CMA's Strategic Planning and Implementation with effective Enterprise Risk Management** – this new Plan will be focused on ensuring that the strategies articulated inform and acknowledge the risks facing the organization to ensure mitigating actions translate into strategy delivery.

iii) **Alignment to the CMMP which matures in 2023** – the new Plan will serve as a key guiding document to ensure the objectives related to the Authority in the CMMP are achieved enabling it to accomplish its role within the broader industry initiatives aimed at ensuring Kenya emerges as the Heart of Capital Markets Financing in Africa.

iv) **Changing technological landscape** – Since 2012 there have been significant leaps in technology, both locally and globally, that have a bearing on capital markets. The emergence of artificial intelligence and analytics, robo-advice technology, distributed ledger technology (DLT) and alternative funding platforms (crowdfunding), for example, has the potential to fundamentally change the capital markets value chain. According to a recent study by Cambridge University , Kenya is a market leader in the crowdfunding space in Africa, having raised approximately USD 60 million between 2013 and 2015. While the growing prevalence of these new technologies and platforms can stimulate greater activity in Kenya's capital markets, a careful consideration of the risks they introduce is necessary, as is a balanced approach to regulation to ensure an appropriate level of supervision. While this space is still nascent in Kenya, there are indications of its emergence through the establishment of platforms such as Kiva and M-Changa which focus on raising capital from the public markets;

Furthermore, firms across various markets are utilizing RegTech to automate their compliance and regulatory reporting with the aim of reducing costs. Similarly, regulators across the globe are facing capacity and budget constraints and as a result are looking towards implementing technological solutions to enhance market supervision through the use of SupTech.

[3]Africa & Middle East Alternative Finance Benchmarking Report, 2017

v) **Changing consumer/investor needs** – The needs of local investors and the demands of foreign investors have become more sophisticated. This is evident in the increasing range of investment vehicles on offer in the market that cater to different risk-return profiles. Assessing the changing landscape of investor demand and creating an enabling investment environment is a primary role of the Authority and a core outcome of this Plan.

vi) **Aligning the Authority and its resources to the needs of the market** – The development of a new five year Strategic Plan is a core tool for the CMA to ensure it is utilizing its resources effectively and efficiently. Hence the design of each new Strategic Plan is preceded by a reflection on performance against the objectives set for the previous five years as a basis for aligning the Authority and its resources to the needs of the market. As a policymaker, the Authority is obligated to have regard to and proactively respond to the views of investors, issuers and market intermediaries when developing its Strategy.

vii) **Evolving Government priorities** – It is important that at all times, the CMA's strategic objectives are aligned to national development priorities. Since the previous Strategic Plan was formulated, the Government has released its Strategic Vision in the form of the Third Medium Term Plan (MTP III) for the Vision 2030 and its 'Big Four Agenda[4]. Both plans identify the capital markets as a significant source of funding for achievement of the objectives therein and hence the need for CMA's strategy to respond to these priorities. The Third Medium Term Plan has highlighted several focus areas which will directly influence the Authority's direction over the next five years as indicated below:

   a) **Sustainable Development Goals (SDGs):** The Government will implement policies, programs and projects that will facilitate the attainment of the seventeen SDGs.
   b) **Expansion of Irrigated Land:** The Government will partner with the private sector and farmers to expand the area under irrigation in order to reduce the country's dependence on rain fed agriculture. Investments will also be made in developing small-scale irrigation schemes in other parts of the country. This will also contribute to food security as well as the growth of the agriculture sector.
   c) **Infrastructure:** The Government will continue building on the significant progress that has been achieved under the preceding MTPs in developing and modernizing the country's infrastructure. New investments will include extending the construction of the Standard Gauge Railway Line from Nairobi to Malaba, increasing the generation of electricity through investment in cheaper renewable energy, investment in water projects, expanding the roads and transport network, and building adequate and affordable housing.
   d) **Industrialization:** Effect structural transformation of Kenya's economy towards increasing the share of manufacturing and industry in GDP and increasing the share of manufactured products in Kenya's exports. Special Economic Zones (SEZs) and industrial parks will be established. The Government will facilitate local and foreign private investors to invest in the SEZs.
   e) **Micro, Small and Medium Enterprises (MSMEs):** The MSME sector employs 15 million Kenyans and contributes 29 percent of GDP. Measures will be taken to support this sector in terms of improving the enabling environment including implementation of the Credit Guarantee Scheme to facilitate access to affordable credit. The sector will also be supported by the development of skills and explicit linkages to domestic and external opportunities.
   f) **Oil and Gas and Other Minerals Resources:** The Government will implement the various pieces of legislation and regulations which provide the incentives for private investment in the oil and mineral resources sector. Priority will be given to developing supporting infrastructure for the sector.
   g) **The Blue Economy:** The Government will develop the maritime sector and the Blue Economy including utilizing marine and fisheries resources in Kenya's 230,000 km square, Exclusive Economic Zone in the Indian Ocean as well as in international territorial waters. This will result in increased job creation, increased export revenue and contribute to higher economic growth.
   h) **National Skills Development Program:** The Government will implement measures to develop skills and align them to market requirements. The educational curriculum will be realigned including increasing budgetary resources to expand Technical and Vocational Training (TVET) and youth polytechnics in all parts of the country.
   i) **Social Protection:** The Government will implement measures towards achieving comprehensive social protection.
   j) **Security:** Investment in security in terms of improving welfare and housing for National Police Service and other agencies and investing in modern technology and equipment will be prioritized. Community policing initiatives will also be expanded to ensure security for all Kenyans and investors.

In furtherance of this, the Government's 'Big Four' Agenda aims to achieve the following over the period of 2018 to 2022:

a) **Support value addition through growth in Manufacturing:** raise the manufacturing sector's contribution to GDP from the current 10 percent to 15 percent by 2022. This is expected to accelerate economic growth, create jobs and reduce poverty.
b) **Ensuring food security and nutrition:** there will be a focus on initiatives that guarantee food security and nutrition to all Kenyans by 2022 through expansion of food production and supply, reduction of food prices to ensure affordability and the support of value addition in the food processing value chain. The Government aims to increase Kenya's maize production

[4]2018 Budget Policy Statement

from the current 40 million bags to 67 million by 2022 and potatoes from 1.6 million tons to 2.5 million tons over the same period.

c) **Provide Universal Health Coverage:** aimed at guaranteeing quality and affordable healthcare to all Kenyans;

d) **Affordable housing:** provision of at least five hundred thousand affordable new houses to Kenyans by 2022 and thereby improving the living conditions for Kenyans.

1.3. PROCESS OF DEVELOPING THE STRATEGIC PLAN

The Authority's 2018-2023 Strategic Plan is the outcome of four inputs. The first was a review of the Big 4 Agenda, Medium Term Plan III, the Kenya Vision 2030, the Budget Policy Statement 2018 and the progress made against the Capital Market Master Plan. The second was an in-depth literature review of internal monitoring documents prepared by the Authority to track performance against its previous Strategic Plan and the performance of the market over the period. The literature review was then used as a tool to inform a top-down approach to build consensus with the CMA Board and Management to distil the core focus areas of the Strategy.

The third was a series of consultative meetings with the CMA management team and Board members as well as roundtable discussions with stakeholders of the Authority including members of the CMMP Working Groups, other financial sector regulators, Government Ministries, industry licensees and market participants.

The fourth input was a review of the current state of international practice in capital market regulation and development to identify lessons for the Authority's approach to regulating and developing Kenya's capital markets. Benchmark jurisdictions were selected to reflect a variety of emerging and developed markets based on the Morgan Stanley Capital International (MSCI) but also to reflect a spread across Europe, Asia, Latin America, America and Australasia. Countries selected included the US, UK, Australia, Brazil, Malaysia and South Africa.

2. SITUATION ANALYSIS

This section provides an assessment of CMA's operating environment including an overview of the state of the financial services sector, the capital markets in Kenya and the broader external and internal environment facing the Authority using PESTEL and SWOT analytical tools. The section also draws on a review of international practice in capital market regulation and development together with a review of the performance of the Authority against the Strategic Plan 2013-2017. The section draws on all these inputs to conclude with a summary of key priorities that will inform the strategic direction of CMA over the next five years.

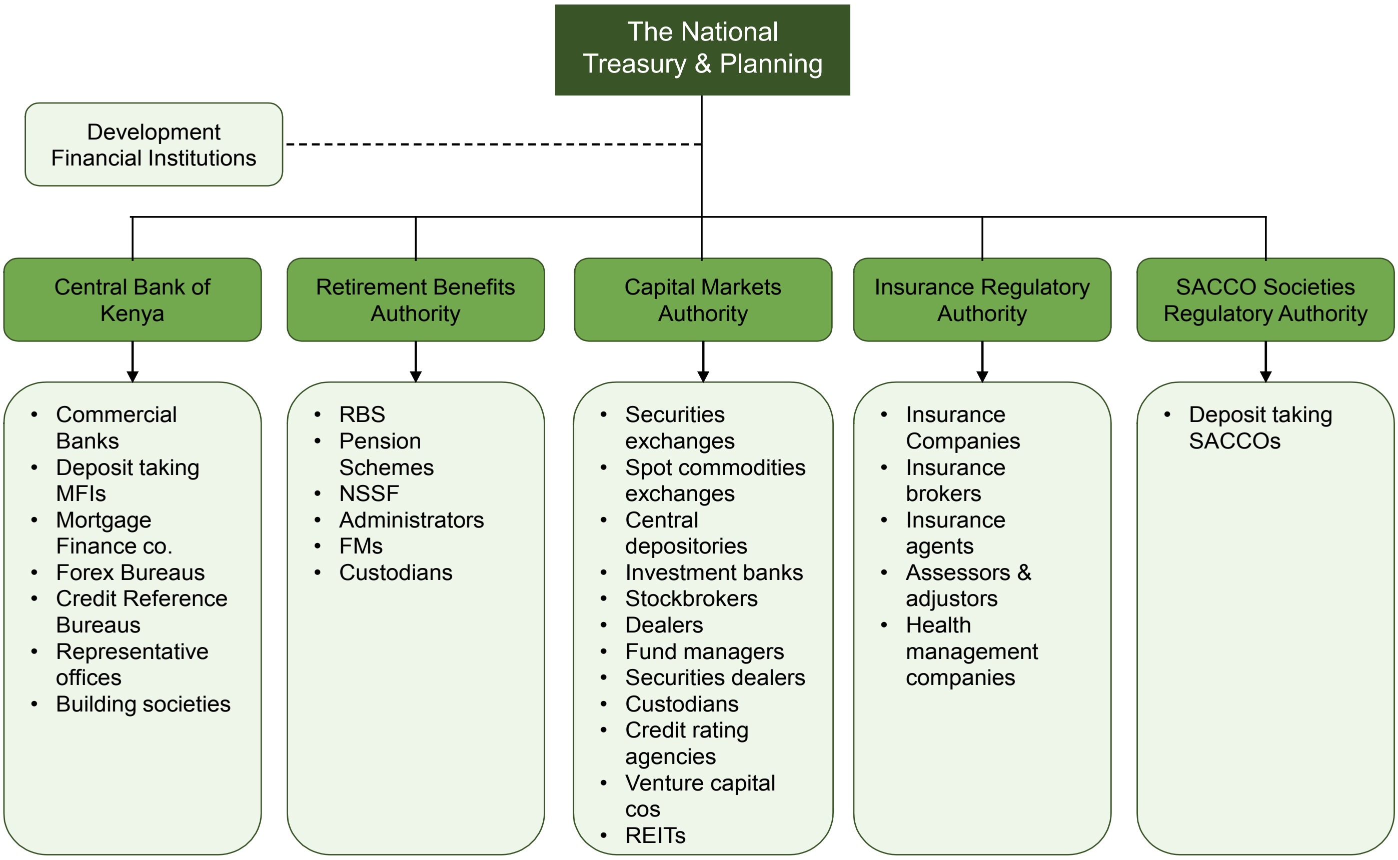
2.1. INDUSTRY STRUCTURE

2.1.1. The financial services sector

Kenya's financial sector is segmented and dualistic in structure, where a relatively sophisticated formal financial sector coexists alongside a large and unregulated informal sector. The formal sector comprises banking, pension, insurance, capital markets, savings and credit cooperatives societies (SACCOs), microfinance and development finance institutions (like the Kenya Post Office Savings Bank and the Agricultural Finance Corporation). It also consists of financial market infrastructures (securities exchange, central securities depositories and clearing houses) that facilitate trading, payment and settlement. The informal sector, on the other hand, comprises of a range of unregulated financial services providers ranging from Rotating Credit and Savings Associations (ROSCAs or merry-go-rounds/table banking) and Accumulating Savings and Credit Associations (ASCAs or chamas).

Each formal subsector has its own apex regulator. The CMA regulates capital markets and spot commodities exchanges, the Central Bank of Kenya (CBK) regulates commercial banks and microfinance institutions, the SACCO Societies Regulatory Authority (SASRA) regulates deposit-taking SACCOs; the Insurance Regulatory Authority (IRA) regulates the insurance subsector while the Retirement Benefits Authority (RBA) regulates the retirement benefits subsector. There is a Financial Services Authority (FSA) Bill that seeks to consolidate the above regulators, with the exception of CBK, under consideration by a sub-committee of the Cabinet. The rationale for the merger is to provide a better organized regulatory approach to the increasingly integrated and converged financial services industry and the establishment of financial conglomerates. This is targeted to reduce regulatory arbitrage and enhance consumer protection. Further, the merger provides an opportunity for a standard approach to product governance and service delivery to be developed under a market conduct framework. The ultimate timing and way forward on the consolidation strategy as well as overall policy guidance for the entire financial sector is coordinated by the National Treasury. The full range of regulated entities in the financial sector is illustrated below.

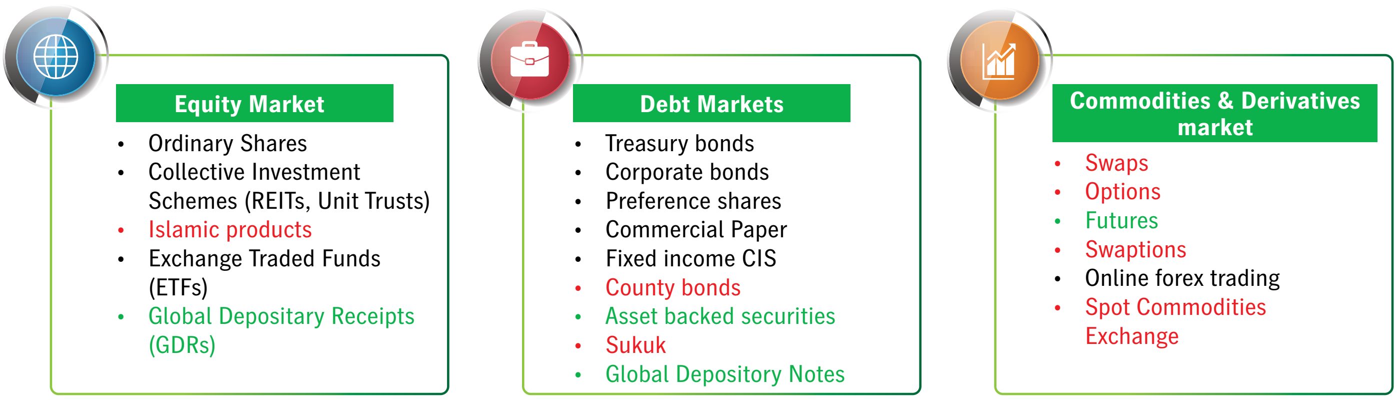
Figure 1: Regulatory structure of the Kenyan financial sector as at June 2018



Source: Regulator websites

2.1.2. The capital market

The financial sector is one of the six priority sectors under the economic pillar of the Kenya Vision 2030 with this sector's role being to create a vibrant and globally competitive financial sector that promotes high-levels of savings and financing for Kenya's investment needs. Kenya also intends to become a regional financial services center. Capital markets play an important role in promoting economic activity worldwide by facilitating and diversifying firms' access to finance. At macro level, deepening capital markets, with ample liquidity and developed secondary markets, drives wealth creation. The Kenyan capital market has grown rapidly in the recent years with equity market capitalization growing from KES. 1.45 trillion in February 2013 to KES 2.8 trillion in March 2018 (accounting for 38.4 % of GDP[5]).



Red = In the pipeline
Green = regulation launched but no issuance
Black = product launched and in use

Source: CMA

[5]Current GDP is KES 7.29 Trillion

Access to the capital markets is provided by institutions that are licensed and authorized by the Authority including; securities exchanges NSE, CDSC, credit rating agencies, investment banks, stockbrokers, investment advisers, fund managers, authorized depositories (custodians), collective investment schemes (CISs), authorized securities dealers (ASDs),real estate investment trusts (REITs) and registered venture capital companies. Additionally, a derivatives exchange is in the process of being operationalized. Furthermore, the CBK runs an independent central securities depository for all Government debt securities.

It is the obligation of the NSE and the CDSC to provide the infrastructure that allows for fair, efficient and orderly functioning of the capital markets. In 2016, the NSE received formal recognition as a self- regulatory organization (SRO), which vests in it more responsibility for first-line oversight of the trading of securities and the conduct of trading participants. This partial self-oversight also allows the NSE to approve listings on -the Growth and Enterprise Market Segment (GEMS) for small-cap and high growth potential entities in consultation with the Authority. There is, however a need to implement full self-oversight, subject to appropriate capacity development and resource allocation.

Representing the interests of market participants are four industry associations, namely the Kenya Association of Stockbrokers and Investment Banks (KASIB), the Custodians Association, the Fund Managers Association (FMA) and the Association of Collective Investment Schemes (ACIS). Other emerging associations include the Bond Market Association and REITs Association of Kenya.

In August 2016, the mandate of the Authority was broadened through an amendment to the Capital Markets Act to vest in it the responsibility for the supervision and licensing of spot commodities exchanges in Kenya. As a historically substantial exporter of agricultural commodities such as tea, coffee, pyrethrum and horticulture products, there are already in place domestic marketing and auction platforms for tea and coffee which will require to undergo reforms in preparation to be regulated by the Authority. In connection with the operationalization of a spot commodities exchange infrastructure, ongoing efforts to put in place appropriate warehouse infrastructure and warehouse receipt systems will further call for effective coordination between the Authority and relevant Government agencies. In addition to traditional agricultural commodities, there are parallel discussions on the establishment of minerals, metals and mining exchange(s) in order to support the increased diversification of the Kenyan economy and the delivery of the Vision 2030.

As at March 2018, a total of 132 institutions had been licensed by the Authority as shown below.

Name/ Type of Institution	Number as at June 2017
Securities Exchange (NSE)	1
Central Securities Depositories (CDSC)	1
Investment banks	14
Stockbrokers	10
Investment advisers	13
Fund managers	26
REIT managers	8
REIT trustees	3
Authorized REITs	1
Collective investment schemes	23
Authorized depositories/ Custodians	14
Credit rating agencies	3
Authorized securities dealer	1
Approved employee share ownership plans (ESOPS)	14
Total	**132**

Source: CMA

2.2. EXTERNAL ENVIRONMENT

An analysis of six different market regulators from both developed and developing markets was carried out. The selected regulators included; the Financial Services Board (FSB – South Africa), the Securities Commission Malaysia (SC - Malaysia), the Securities and Exchange Commission of Brazil (CVM - Brazil), the Financial Conduct Authority (FCA – United Kingdom), the Securities Exchange Commission (US-SEC) and the Australian Securities and Investment Commission (ASIC)[6] providing a balanced representation across all major continents.

This international benchmarking highlighted a number of areas in which the Authority was performing at a high standard relative to emerging and developed markets. Compared to a spectrum of markets, the Authority is effective at: i) enforcing regulation and oversight; ii) taking steps to increase its operational efficiency; iii) shaping the development of market infrastructure; and iv) conducting customer/investor education initiatives. Additionally, relative to emerging markets, the CMA stands out for its efforts to: i) develop a robust regulatory framework for the market, and ii) to boost international collaboration and relevance for the country's capital markets. These dual objectives are at the heart of CMA's mandate and are a continued focus for this Plan. Benchmarked against emerging markets, it was determined that the Authority should seek to: i) broaden the extent of cooperation between itself and the market, ii) grow its profile for domestic influence and iii) enhance the issuer/investor experience in the capital markets. These are consequently focus areas in this Plan to further develop Kenya's capital markets.

In comparison to developed markets, it was identified that the Authority should seek to: i) research and target investor and issuer needs as a basis to drive product uptake across the capital markets, ii) enhance the issuance culture across the market, including but not limited to, potentially strengthening the disclosure of environmental, social and governance (ESG) information, and iii) work closely with the banking and private equity sectors in order to spur growth in the capital markets by creating a pipeline of issuers.

Overall, these findings suggest the CMA is well aligned to its peer (developing markets) regulators and further is consistent with global (both developing and developed market) trends. Going forward, the Authority should consider adding the pillars identified above to attract a broader set of investors and drive product uptake.

From an organizational structure perspective, six key factors were identified: namely the regulatory scope, the board's involvement in the day-to-day management, the composition of the Executive Committee, departmental reporting lines, organizational structure complexity and geographical division (see Figure 4 below).

In general, the more developed markets exhibited more complex structures, had their Board of Directors more involved in the day-to-day running of the regulator, and had a higher number of department heads reporting directly to the CEO (or equivalent). Two out of three of the developing markets' regulators had a specific market development focus. For most of the developed markets, derivatives exchanges have been more vibrant than spot commodities exchanges. However, from a regulatory angle, spot commodities exchanges have been mostly treated as any other secondary market by the regulators with an emphasis on preventing market abuse, protection of participants and supervision.

In mature markets, regulatory oversight for commodities can exist at three levels[7]:

i) **External regulator:** a Government agency, or an independent agency accountable to Government, that provides regulatory oversight across national markets as a whole. An external regulator may also act as an interface with the external regulators of other national markets to ensure adequate regulation of transactions that are cross-jurisdictional in nature.
ii) **The exchange as a self-regulatory organization:** the exchange's own personnel and systems that provide regulatory oversight over exchange operations, including both the trading and where it is performed in-house, the clearing and settlement functions.
iii) **The industry self-regulatory organization:** a body that either represents market intermediaries (i.e. brokers and other entities active in the markets), or is appointed by Government to oversee the activities of market intermediaries. In particular, an industry self-regulatory organization can ensure investor protection by overseeing relations between the intermediary and the end user.

While the regulation of spot commodities markets varies across countries, commodities derivatives markets are mostly regulated by the capital market regulator. From CMA's organizational viewpoint, the spot commodities exchanges will initially be overseen under a transitional arrangement from a dedicated stand-alone unit to support its growth through policy and regulatory support as well as stakeholder management, after which specific functions will be merged into the relevant directorates. The strategy of the Authority is in the medium to long term to build a large pool of experts in diverse aspects of regulating and developing spot commodities and derivatives, such that once both markets achieve critical mass, Kenya would be in a strong position to assess the viability of establishing a single spot commodities and derivatives regulator similar to the US CFTC.

[6]Organizational structure complexity is a function of the number of departments/divisions, the interaction between these departments/ divisions and the composition of the Executive Committee.
[7]http://unctad.org/en/Docs/ditccom20089_en.pdf

On the domestic front, the **external environment** has had significant impact on the Kenyan economy over the past five years. Below is a brief political, economic, social, technological, environmental and legal/regulatory (PESTEL) analysis of the historical and likely future operating environment of CMA.

Political environment

The last five years have been historic for Kenya from a political standpoint. In 2017 Kenya witnessed two presidential general elections after the Supreme Court nullified the first election. The protracted election period has had significant downside impact on the overall economy and the financial sector. The increased political uncertainty during this period created a 'wait-and-watch' environment in the market whereby investors held-off on investing to avoid any risk associated with transactions. Despite a volatile and uncertain 2017, 2018 is looking promising: the market has started to rebound and the political environment is likely to remain stable in the next five years following a resolve by the political leadership to focus on rebuilding Kenya.

Economic environment

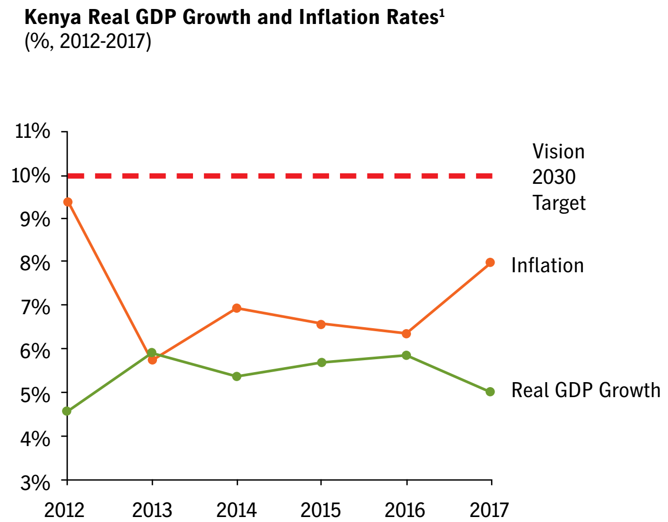
In the past five years, Kenya has managed to achieve commendable real economic growth averaging at approximately 5% on an annual basis (Figure 4). While this growth is relatively high by regional and developed market standards, Kenya has not met its Vision 2030 target of 10% growth per annum and this has, in turn, dampened expectations about the growth of Kenya's capital markets.

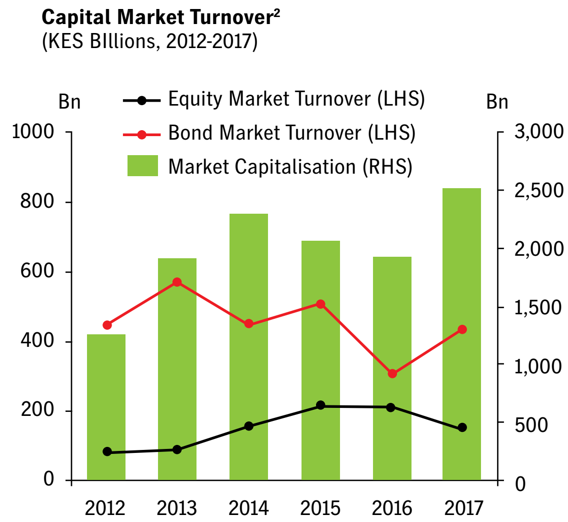
Over the Strategic Plan review period (2013-2017), the Kenyan currency, inflation and lending rates remained fairly stable, creating an attractive environment for investors, as the steep global decline in oil prices in 2015 had a positive impact on the Kenyan economy through lowering transportation costs. However, in 2016, the National Assembly introduced interest rate cap on lending and a floor on deposit rates; which resulted in a negative impact on private sector credit growth, and consequently, on bank profitability and market capitalization. In 2015 - 2016, the Kenyan market suffered from more isolated shocks in the form of three credit events relating to the placement under statutory management of two prominent banks and the failure the nation's largest retailer. This is likely to erode investor confidence in the corporate bond issues.

The outlook for the Kenyan market is more positive over the next five years, driven by an improved political environment, a focused National developmental plan and higher global liquidity. The International Monetary Fund (IMF)[8] projects growth to border the 6% mark while the CBK projects growth as high as 6.3%. However, based on the Vision 2030 goals, the Government continues to invest in major developmental and economic projects and well -functioning capital market will be critical to raising capital to ensure execution of these projects, thus re-positioning Kenya to achieve its targeted growth levels.

Figure 3 below shows that Kenya's GDP growth has struggled to break through the 6% mark. While inflation and the currency have remained stable, the capital market turnover has been relatively flat, implying a need to boost liquidity.

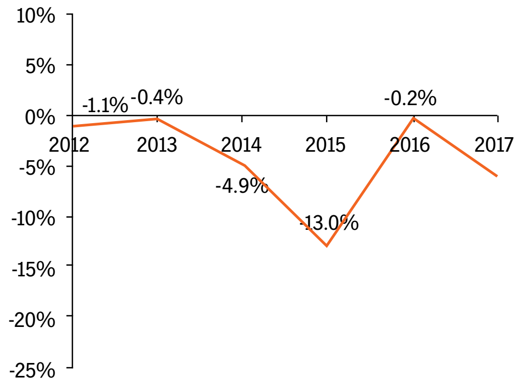
Figure 3: Economic Statistics for Kenya



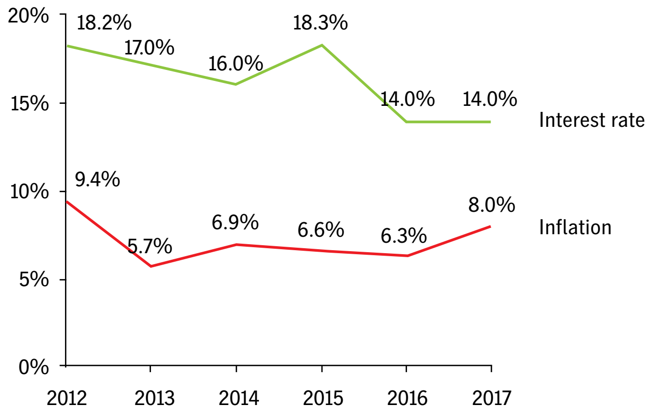


[8]https://www.imf.org/external/pubs/ft/weo/2017/02/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=61&pr1.y=9&c=664&s=NGDP_R&grp=0&a=

Kenya Currency depreciation rate [1.2]
(%, 2012-2017)



Kenya Inflation and lending rates[1.2]
(%, 2012-2017)

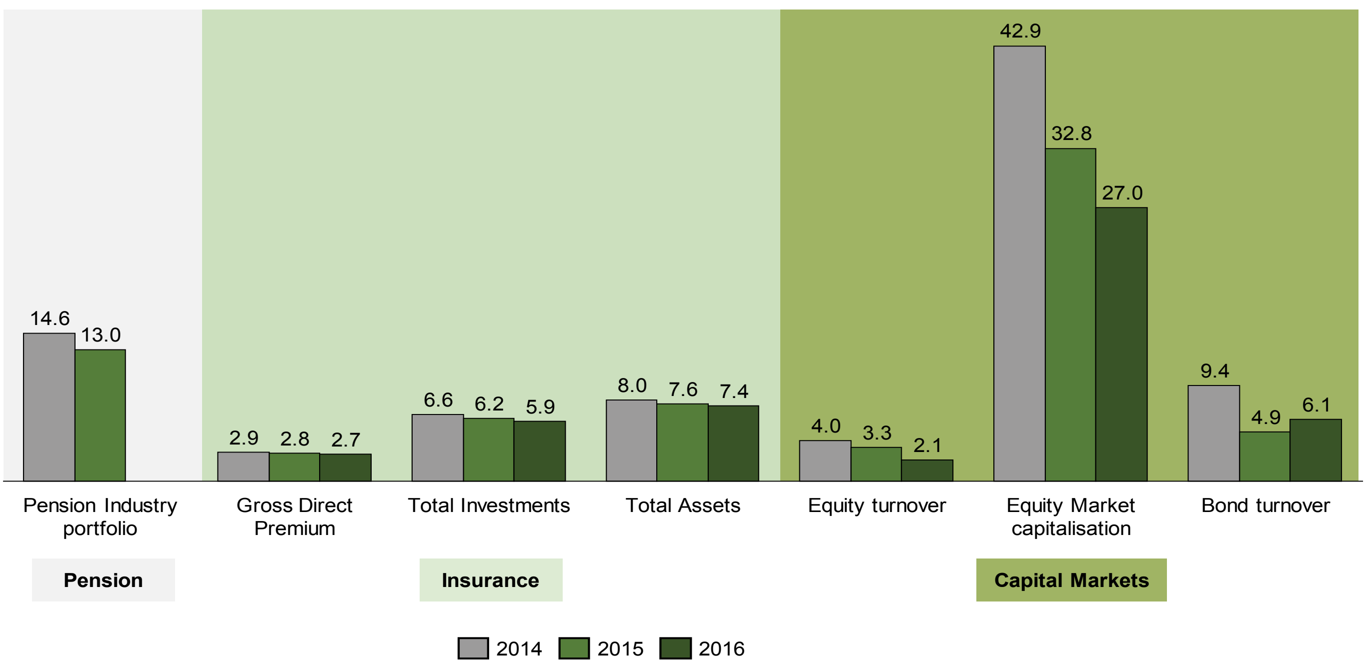


Source: 1. World Economic Outlook, 2017 | 2. CMA Quarterly Statistical Bulletin, 2012-2017

Figure 4 below shows that the penetration of insurance, pension and the capital markets remains relatively low. Investment activity in the capital markets, insurance and pension industries is highlighted as a percentage of nominal GDP which has been declining over time driven by the events described above.

Figure 4: Aggregate savings level indicators for Kenya

Investment level in capital markets, insurance and pension industries
(% of GDP, 2014 – 2016)



From a policy perspective, there are potential opportunities and risks in the proposed strategy relating to Government debt issuance through private placement in the primary market with the aim of targeting a specific pool of investors such as domestic and global pension funds and insurance companies. Therefore, the speed and flexibility offered by private placement in the primary market must be complemented by subsequent listing of the issued securities in the secondary market to improve pricing attractiveness considerations attached to liquidity options on long-dated paper, together with the important role the listing of such products offer as a pricing benchmark for other market products and supporting market contribution to collateral management and securities lending and borrowing opportunities. Having due regard to evolving global trends on liquid capital requirements and de-risking on the banking sector, the absence of transparency and liquidity may be counter-intuitive for key market participants (commercial banks account for approximately 49% of domestic Government debt investment[9]).

[9]National Treasury Public Debt Monthly Bulletin, 2016

Conversely, efforts by the National Treasury to establish a primary dealer and market maker program may serve to offer credible alternatives to the private placement of Government debt. This will promote greater efficiency in the primary market through a competitive primary dealer program and then subsequently leverage secondary market liquidity through market makers and securities lending and borrowing.

Socio-cultural issues

According to the Kenya National Bureau of Statistics, Kenya's population stood at 45,847,857 people at the end of 2016. A review of the structure of the population reveals a relatively young population with approximately 60% of the population below the age of 24. These young people are 'the investors of tomorrow' and it is important to enhance their literacy on capital market issues to prepare them to make responsible and informed choices about their future. The current low domestic participation in the capital markets, especially by retail investors, partially points to a lack of awareness of capital market products. The population is also composed of 83% Christians, 11% Muslims and 6% of others. The Muslim population represents a sizable portion of the Kenyan population, raising the importance of targeted financial products to this segment, noting that the financial instruments are also available to the non-Muslim community. At the same time, Shariah compliant products are becoming increasingly recognized as important additions to global sustainable and ethical investment asset pools and are well-suited to critical real economy financing such infrastructure, funding sustainable agricultural projects or health care, as well as providing tools for investment in non-commercial social welfare initiatives through charitable structures.

On a different note, Kenya has seen its affluent population grow quite significantly. According to a recent research report released in 2018[10] there are 1,290 individuals in Kenya valued at more than USD 5 million. The same report forecasts that Kenya's million-dollar wealth band will expand by 80% to 15,300 over the next 10 years. The growing band of wealthy individuals creates enlarging larger pool of potential investors for the capital markets. Equally, across the low and middle-income population, cultural issues such as an attachment to land investments, a poor savings culture and a youth trend on mobile platform based betting is continuing to diminish the pool of investors in the capital market, necessitating a need for targeted investor education.

From a business standpoint, a large portion of Kenya's large and medium-sized enterprises are family-owned. This creates a significant challenge to encourage these firms to utilize capital markets as a means of raising funding for growth. There are also several cultural issues that dissuade companies from raising finance from capital markets, including the fear of dilution or loss of ownership that comes with a listing, the perceived stringency of legal and regulatory requirements, and a general aversion to public scrutiny of their business model and financial accounts. These issues are common in emerging capital markets but need to be addressed in a strategic and coordinated manner in order to grow the usage of capital markets in Kenya.

Technological factors

Buoyed by the success of M-PESA, Kenya is now regarded by many foreign investors as a technologically-sophisticated market by regional standards. When considering the technology in a capital market context, two key themes emerge; the growing influence of social media and the application of new technology to enhance the functioning of capital markets.

The growing influence of social media – According to the Communications Authority of Kenya (CAK), mobile phone penetration in Kenya exceeds 90%, smartphone uptake is at 44% and internet penetration is at 49%.[11] In addition, social media, search, email and video are the most popular activities amongst smartphone users in Kenya on a weekly basis. Social media dominates with 58% followed by search engines at 39%, email at 30%, and lastly, video/YouTube at 25%. This growing use of the internet, smartphones and social media engagement, presents a unique opportunity for increasing the level of awareness and interaction with capital markets. Social media, in particular, provides a platform for market intermediaries, education providers and other relevant players to reach retail investors and potential entrepreneurs in a cost-effective manner. The importance of social media is expected to increase further and will be a key propositional tool for many capital market operators for years to come.

The application of new technology to capital markets – A growing topic of interest in emerging and developed markets alike, is the surging prevalence of FinTech solutions. M-PESA was a world-first and showcased the power of mobile USSD-based innovation. Today, the M-PESA platform enables Person to Person (P2P), Business to Person (B2P), Person to Business (P2B), and Person to Government (P2G) payments as well as a host of adjacent financial services, including the provision of micro-consumer credit. The success of the M-PESA has led to the proliferation of other FinTech companies providing services ranging from access to finance, healthcare and agricultural solutions. More recently it has led to the development of M-AKIBA which was launched in June 2017 as a platform that allows any Kenyan investor with a mobile phone to buy Government bonds for as little KES 3,000. Notwithstanding the introduction of M-AKIBA, the application of FinTech to capital markets is a relatively new concept. The impact of FinTech innovation is also being considered by other sectoral regulators, particularly in banking and insurance. The Authority has taken active steps to foster and promote the growth of FinTech through the establishment of a regulatory sandbox which seeks to provide a relaxed regulatory environment for promising FinTech to operate within, subject to applicable restrictions on client access and investment size, prior to becoming subject to full regulatory compliance. However,

[10] http://www.knightfrank.com/resources/wealthreport2018/the-wealth-report-2018.pdf
[11] Google Consumer Barometer

if developments in other markets are an indicator of what to expect in Kenya, disruptions across the capital market value-chain – from investment advice to capital raising, algorithmic trading and decentralized clearing and settlement – are on the horizon and will soon require a coordinated regulatory response.

In order to provide some context to this outlook, a recent study[12] identifies that FinTech has the potential to disrupt the capital market value-chain in five core ways:

i) **Core market infrastructure** – This refers to technology with the ability to decentralize and promote a reduction in physical assets. FinTech solutions in this space have focused on aggregating liquidity across markets and providing a single platform/ exchange for trading. This concept is supported by the use of Distributed Ledger Technology (DLT) of which Blockchain is a manifestation. The potential implications of DLT on core market infrastructure are far-reaching for the capital markets, offering a path to a more efficient market infrastructure.

ii) **Post-trade digitization** – This refers to the automation of many of the manual processes that still exist in compliance, regulation, collateral management, and securities lending; bringing efficiencies to clearing and settlement and facilitating the launch of innovative solutions to manage enterprise stress-testing, risk attribution and reporting processes. Now common terms in this area are RegTech (Regulatory Technology) and SupTech (Supervisory Technology). Both are key areas of interest to capital market regulators, with innovative technology and software being applied to assist in intelligently managing regulatory and supervisory processes. For example, the Monetary Authority of Singapore (MAS) has set up a Data Analytics Group within which it has a dedicated unit for SupTech.

iii) **Artificial Intelligence and analytics** – These are technologies that utilize in-memory computing and machine learning to leverage the massive surge of structured and unstructured data to make predictions and to integrate real-time analytics at the point of trade. There is an emergence of alternative trading platforms and unique trading styles, such as multilateral trading facilities (MTFs) and High-Frequency Trading (HFT) which will impact the way in which the Authority approaches its supervision.

iv) **Investment technology** – These are software and tools that enhance investment decision-making and contribute to accelerating the shift towards passive investments. A key interest area here is the implementation of robo-advice technology. Large incumbents such as brokers, custodians, are leveraging economies of scale to roll out low-cost, or even zero-cost portfolio management platforms, or to partner with robo-advisors. The application of these technologies over the medium-term may be difficult in the Kenyan context due to relatively lower investment appetite from market players. However, a few bank brokers are attempting to work with or build scalable, low-cost platforms to address the needs of their less affluent clientele.

v) **Alternative funding platforms (crowdfunding)** – Perhaps the most relevant form of FinTech for Kenya are platforms that allow an alternative way to raise funding for large companies, and small enterprises and even retail borrowers. With the emergence of international players such as Kiva (peer to peer lending platform) in Kenya, this is a space that is gaining traction and that requires particular regulatory scrutiny.

The emergence of these technologies needs to be treated with caution. On the one hand, they introduce opportunities to drive additional demand for capital market products and services; and on the other hand, they also have the potential to introduce new prudential risks that can, not only destabilize the market, but also present a new scope of market conduct risks that can put-off retail investors for years to come if not properly managed.

Environmental issues

More recently, Kenya has adopted a strong stance on averting climate change by ratifying the Paris Agreement. It has further reiterated its commitment to public participation and provision of incentives to stakeholders in order to combat negative effects of climate change, with the Authority and the NSE being pioneer signatories of the Marrakech Pledge during the twenty second session of the Conference of Parties (COP 22) in November 2016. The growing awareness of climate change has had a significant impact in the way in which the public and private sectors operate. Countries are moving towards greener and more efficient ways of energy extraction and management, with companies now required to be increasingly aware of their environmental footprint. As such there are key themes such as ESG (Environmental, Social and Governance) policies emerging, with issuers signalling to the market, their environmental intentions with regards to the issuance of green bonds.

Kenya has taken some important strides towards environmental sustainability, by initiating its Green Bond Program in 2017, which aims to develop a domestic green bond market. The Program is brought together by the Kenya Bankers' Association, NSE, Climate Bonds Initiative and Financial Sector Deepening Africa, in collaboration with the Dutch development bank FMO and the IFC. Over the next five years and beyond, green instruments will play an important but niche role in driving the growth of the nation's capital markets, in line with the Marrakech declaration which calls for an increase in the volume, flow and access to finance for climate projects, alongside improved capacity and technology from developed to developing countries.

[12]Future of Fintech in Capital Markets - Celent Securities (https://caia.org/aiar/access/article-1021)

Legal and regulatory environment

In Kenya, the National Treasury is responsible for formulating, implementing and monitoring macro-economic policies involving expenditure and revenue; managing the level and composition of national public debt, national guarantees and other financial obligations of national government; formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities; mobilize domestic and external resources for financing national and county government budgetary requirements; design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting a well as strengthen financial and fiscal relations between the national government and county governments while assisting to develop their capacity for efficient, effective and transparent financial management .

The powers of the Cabinet Secretary for the National Treasury are prominent and manifested in the making of rules and regulations and approving of sources of finance and fees payable to the Authority, as it is, in the appointment of board members; whereas the power to remove the Chairman is vested in the President. While these powers enhance accountability, they potentially have an impact on the speed and efficiency in which the Authority may respond to changing market dynamics. As such, the Authority's autonomy may need to be augmented to be flexible enough to enable quicker response times to capital market crisis. In this context, one of the fundamental tenets of the discussions on regulator consolidation was to ensure that the CMA's internal structures are able to facilitate cross-sectoral crisis coordination.

The Authority has adopted an evidence-based policy-driven approach to the development of legal and regulatory frameworks, aligned to IOSCO Principles with significant peer review/international benchmarking, balanced with the local environment and stakeholder involvement, including validation. The regulatory frameworks are therefore largely seen as fit for purpose. A principle-based approach to regulatory approvals has also been instrumental in addressing its responsiveness to evolving market needs and trends.

The legal and regulatory environment in Kenya has seen several draft regulations and policies tabled and some passed over the past five years. Some key regulations that directly impact the capital markets include:

i) Expansion of the Authority's mandate beyond traditional capital markets instruments and products to also cover spot commodities exchanges through the Capital Markets (Amendment) Act 2016.

ii) The Financial Services Authority (FSA) Bill - which seeks to consolidate the four non- bank financial sector regulators: the RBA, SASRA, IRA and the CMA under a single regulator and to provide a cross-sectoral framework for regulating market conduct. While the FSA Bill has been drafted, there has been a delay in its enactment.

iii) In 2016, the President signed into effect a Bill introducing an interest rate cap on lending and a floor on deposit rate across the banking sector. The lending rate cap was set at 4% above the Central Bank Benchmark Rate. The intention of the caps was to lower the relatively high cost of borrowing within the economy. However, the measure has had some negative impact. Credit growth, profitability and market capitalization of the banking sector has seen a significant decline over the past year. The reduction in banking industry profitability has largely been driven by banks opting to invest in lower yielding Government securities as opposed to lending to their customers, further exacerbated by tighter capital and higher liquidity requirements by the Central Bank following the Chase Bank and Imperial Bank receiverships. This price control could lead to depressed activity in the capital markets as investors remain wary of banking securities (bonds and equities). However, it must be noted that plans are underway to replace the existing interest rate regulation, with the proposed establishment of 4 new entities, through the Finance Bill 2018, to regulate access to credit. The key agency is the Financial Markets Conduct Authority, whose key objective will be to protect retail financial customers by determining and setting maximum lending rates. Others are The Financial Sector Ombudsman, the Conduct Compensation Fund Board and The Financial Services Tribunal and they are jointly expected to have a positive impact on the capital markets.

iv) Establishing Nairobi International Financial Centre Authority – The NIFC Authority has been tasked with the establishment of a coordinated framework for an international financial centre to complement the existing domestic financial system in attracting global financial services' institutions through offering attractive legal, regulatory and institutional frameworks, world-class infrastructure, and favorable investment and tax incentives. While this is an industry-wide initiative, the Authority has a key role to play in its formation, operation and success.

Critical Link between Banking Industry and Capital Markets

It is critical to take into full consideration the close, symbiotic relationship between the banking system and capital markets. Banks depend on the capital markets for a number of vital functions. As issuers, banks rely on the capital markets to raise capital needed for their own regulatory requirements. On the asset side, capital market instruments are necessary for collateral management and provide the capacity to mobilize liquidity and facilitate balance sheet restructuring. Banks also play a key role in providing early stage project and infrastructure finance, in addition to general corporate lending, which can in turn be repackaged in whole or part through capital market finance and taken off their books.

In most countries with developed capital markets, banks usually play a role in bringing issuers to market, through a corporate finance function, whose role is to explore with customers the whole range of financing options which might be available to them, in addition to bank finance. When the commercial viability of a borrower has been established and their revenue projections have become more reliable, they will then assist them prepare to access the sources of capital most suitable for their requirements. This will range across private equity, private placement of equity, debt or equity markets.

Based on their banking and lending relationships, banks are better placed than other advisers to assess a client's readiness to access capital market finance, being more familiar with those aspects of the company's structure which may need development in order to access investors, whether in the presentation of financial information or governance issues. Additionally, banks find it in their interest to provide such services, not only because they will charge a fee, but because it enables their clients to diversify their sources of finance, which may free up part of their loan portfolio while improving the quality of ending.

The current situation in Kenya is such that the synergies between banks and capital markets are not optimal. The Authority will therefore engage with the banking sector, including the KBA and CBK, to further deepen and grow a beneficial relationship amongst the banks, providers of capital market finance and intermediaries.

2.3. INTERNAL ENVIRONMENT

The Authority recognizes that building requisite internal capabilities is critical to its mission and vision accomplishment. At the core of this internal capability building is an organizational culture that supports institutional excellence, timely delivery of appropriate outcomes, effective decision making and high performance.

Under the banner of Uwezo Kipeo, the Authority has been implementing changes in the way we manage our core asset – our people – with a view to making CMA a truly world-class regulatory agency. This HR-driven cultural transformation is undergirded by the Authority's Long Run Excellence Model that, inter alia, aims to enhance its organizational effectiveness (and therefore its capacity to effectively discharge its mandate) through deepening its independence, strengthening its capacity to carry out effective regulation and supervision, ensuring efficient utilization of resources, building requisite skills, intelligent multi-stakeholder coordination and the effective deployment of support functions.

In executing Uwezo Kipeo, the Authority benchmarked its people management policies and practices with reputable international regulators and has developed innovative products to support culture change including a Staff Capability Framework and a suite of 34 Human Resource policies and procedures.

Uwezo Kipeo seeks to catalyze deep-seated organizational transformation in order to embed a "new normal" at the CMA through:

i) **Empowering staff:** Uwezo Kipeo represents a fundamentally different approach in the way CMA manages employees. Through Uwezo Kipeo, the Authority has been laying the building blocks for empowering employees to take appropriate decisions at their various levels through clarifying job expectations, broadening the scope of Learning and Development to align it better with its mandate, rolling out an elaborate talent management program and transferring the accountability for managing employees to the frontline supervisors. In this regard, the Authority has adopted a 65:20:15 learning approach where the vast amount of learning happens through on-the-job (65%), coaching and mentoring (20%), and formal training (15%);

ii) **Linking performance to reward:** the Authority has, through Uwezo Kipeo, redesigned the way it evaluates the work of its employees. As a consequence of Uwezo Kipeo, employee achievements and successes are measured and rewarded based on the attainment of positive objectively-verifiable outcomes that are aligned to CMA's strategic mandate and not the mere completion and ticking off of tasks and processes. The CMA Performance Management System (PMS) – dubbed the Annual Capability Review (ACR) – focuses on positive and impactful results delivered in a way that is demonstrably aligned to its core values and job-specific behavioral capabilities and special objectives as the principal basis for appraising and rewarding performance.;

iii) **Demonstrating and Living CMA values:** The Authority recognizes the critical role appropriate behavior plays in embedding culture and, through Uwezo Kipeo; it has developed and rolled out core tools and frameworks, notably the Staff Capability Framework, the Recognition Policy operationalization framework and the ACR to support appropriate behavioral alignment to its core values. Integrity is at the core of the effective delivery of CMA mandate. A simplified code which makes it easier to understand and support behaviors that are expected of staff in undertaking their work has been developed. In addition, a policy on personal dealing in securities and related investments has been put in place to outlines the behavior expected of employees in their engagement with the securities market in order to avoid conflict of interest; and

iv) **Recognizing CMA employees:** To reinforce appropriate behaviors and attitudes that are aligned to the CMA Way, a key innovation has been the appropriate deployment of the Recognition Policy where employees are recognized by their reports, peers, or supervisors for doing outstanding things in an extraordinary manner or doing normal things outstandingly well. In CMA's experience, this has been an extraordinarily powerful tool in driving uptake and adoption of appropriate culture.

The Authority will leverage on the Uwezo Kipeo regulatory excellence model that has been inculcated in its organizational fabric to optimize on its existing strengths and opportunities and to mitigate against the identified weaknesses and threats outlined in the table below:

2.4. SWOT ANALYSIS

The outcome of a high-level SWOT analysis is provided below to assess the CMA's strategic positioning in relation to its external and internal environment.

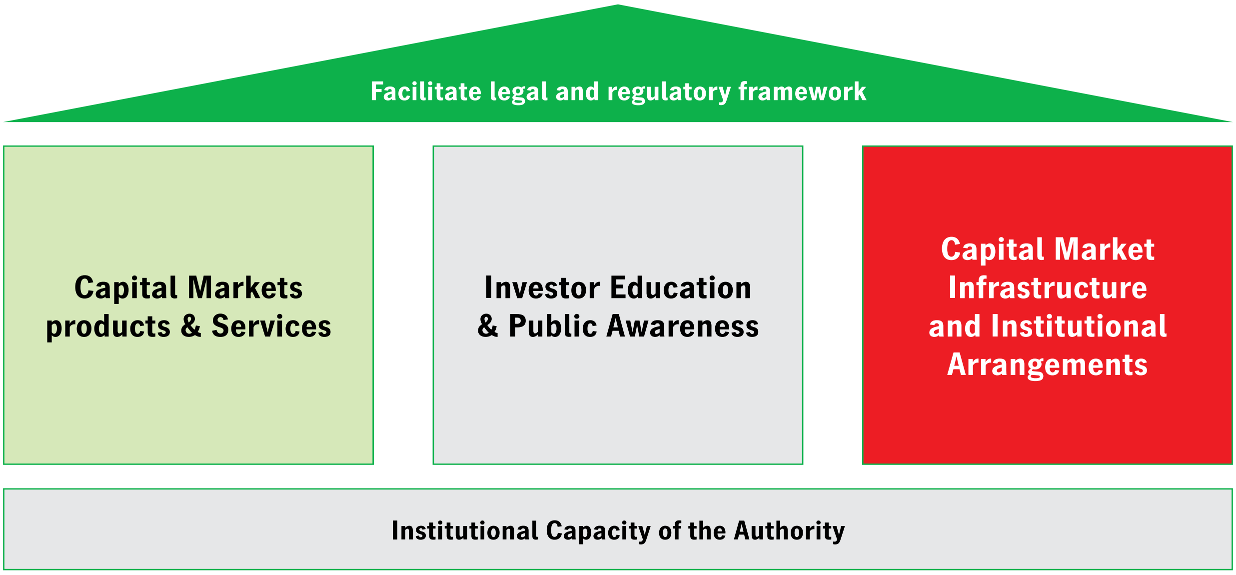
Table 2: SWOT analysis

Strengths	Weaknesses	Opportunities	Threats
• CMMP in place which provides a detailed blueprint for the CMA's developmental activities • Competent and skilled staff • Positive market reputation from all stakeholders • ISO Certification that guides best practices • Self-funded organization • Won several market innovation awards across Africa • CMA well represented on international standard-setting bodies (IOSCO, Financial Stability Board -Regional Consultative Group (FSB-RCG), Islamic Financial Services Board (IFSB) and African Integrated Reporting Committee(AIRC)) • Principle-based approvals powers allowing for accelerated consideration and introduction of new products and services • Leadership position in IOSCO and within the EAC	• Unclear roadmap for organizational structure pending policy direction on the way forward on the FSA bill • Limited control or flexibility to ramp up financial and human capital resources to implement reforms aligned to an evolving market and technology innovation in the absence of exemption from public sector oversight constraints • IT systems still require strengthening and more automation with regards to market surveillance • Institutional capacity has been focused on traditional securities markets oversight and requires re-tooling to tackle spot commodities exchanges' oversight	• Growing prevalence and use of technology to enhance efficiency and reduce costs • The Government has set up a Blockchain and Internet of Things (IoT) task force that could be leveraged upon • Growing reputation of Kenya globally as an investment destination • Increased global connectivity of financial markets • A large pool of unlisted companies • Active donor partners and industry associations to support the CMA • Growing pool of diaspora remittances • Clear objectives set by the Government's Big 4 Agenda • CMMP industry Working Groups provide an effective platform for multi-stakeholder consultation and engagement on proposed market developments • Opportunity for diversification of revenues based on the design of programs to generate revenue such as certification and training • Potential to work with Banking sector to assist companies transition to raise longer term financing through the capital markets and free banking sector balance sheets	• Vested interests from various market players slowing or undermining market reforms • Lead times from playing a coordination role across other regulators leads to inefficient allocation of resources • Misaligned objectives across sector regulators • Low market confidence in the capital markets due to historical challenges • Extension of interest rate cap on lending • Diminished pipeline for new company listings • Increased sources of funding to business from Private Equity not domiciled in Kenya and poor track record of exits through the capital markets • Risks of exogenous shocks such as recession or terrorism • Delays in the passage of legislations • The increased threat of cybercrime • Limited knowledge of the risks associated with new technologies such as FinTech, RegTech and SupTech • Low levels of awareness of capital market products persist • Inconsistent progress by CBK CSD and CDSC toward full compliance with IOSCO-PFMIs

2.5. REVIEW OF THE CMA'S 2013-2017 STRATEGIC PLAN

This section reviews the CMA performance in implementing the Strategic Plan 2013-2017 based on five key results areas.

Figure 5: CMA Key Result Areas, 2013-2017



Source: CMA Strategic Plan, 2013-2017

Under these key result areas, the Authority identified 106 activities that would drive specific strategic objectives.

2.5.1. To ensure a robust, facilitative policy, legal and regulatory framework for capital market development

Of the 17 activities set for this objective, the Authority carried out and/or completed 16 activities equivalent to a 94% achievement rate. The only delayed activity was the revision of the Securities, Investment and Derivatives (SID) Bill as a consequence of the National Treasury prioritizing progress on the overall financial sector legislation related to the Financial Services Authority (FSA) Bill.

2.5.2. To facilitate the development and diversification of capital market products and services

Of the 21 activities that were proposed, the Authority carried out and/or completed 17, translating into an achievement rate of 81%. The activities that were not completed related to the development of margin trading rules and over the counter (OTC) derivatives with the latter marked as 'on-track' because there was on-going research to determine the depth of the market and the appropriate requirements. The development of a policy framework for margin trading was delayed as there was an intentional decision to initially monitor the progress of the demand for securities lending and borrowing and short selling. The other incomplete activities included development of modalities to increase free float and identification of funding requirements and structuring considerations for different sectors in the economy. The latter, was however, in progress as a market segmenting exercise was already being conducted.

2.5.3. To promote investor education, awareness and interest in the capital markets

The Authority undertook all the 12 activities, achieving an implementation rate of 100%. Most of the activities were continuous in nature and are therefore aimed at maintaining progress/partnerships. Given that market intermediaries have limited financial resources to drive investor education, the Authority has notably played an increasing role in this space. The impact and reach has, however, been limited with minimal direct interaction with investors.

2.5.4. To enhance the efficiency and integrity of the capital market infrastructure and institutional arrangements

Of the 28 activities that were proposed, the Authority was able to carry out and/or complete 20 of the activities translating into 71% achievement. The delayed activities were related to licensing new trading, clearing and settlement platforms and the change in strategy with regard to operationalising the Investor Compensation Fund (ICF) board. The activities that were on track but were not completed included: holding stakeholder workshops on internet trading, facilitating the strengthening of the capacity of CDSC, approving SROs and giving them the responsibility to regulate their members, establishing requirements for significant disclosures of market-related information by listed companies and developing a policy to enhance participation of minority investors in the primary market.

2.5.5. To strengthen the institutional capacity of the CMA to effectively and efficiently deliver on its mandate

The Authority had proposed to undertake 28 activities and was able to conduct 23, achieving an implementation rate of 82%. The delayed activities were mainly related to the implementation of proposals on relocating to CMA's own premises but this was reprioritized and focus changed to obtaining additional space in the existing building. The activities related to developing a business intelligence system were also delayed. Most of the other activities were continuous in nature and there was a need to constantly conduct assessments and address any gaps that arose. Based on the internal review and feedback from management, it is clear that the CMA has effectively strengthened its institutional capacity especially in regards to human capital.

A major achievement of the Authority was enhancing human capital capabilities and successfully implementing an organizational culture change through the Uwezo Kipeo program. The challenge will, therefore, be in sustaining and deepening these changes in the next five years with a focus on optimising outcomes.

2.5.6. Overall implementation score and achievement against Key Performance Indicators

Overall the CMA has made significant progress against its set KPIs and of the 106 activities envisioned, a total of 88 were achieved translating into an achievement rate of approximately 83%.

Table 3: Summary of Achievement Scores

#	Strategic objective	Total no. of activities	No. of activities implemented	% of activities implemented	Comments
1	To ensure a robust, facilitative policy, regulatory framework for capital market development	17	16	94%	Delayed activity related to reprioritisation of industry-wide financial legislation
2	To facilitate the development and diversification of capital market products and services	21	17	81%	Most of the delayed activities are on track for completion
3	To promote investor education, awareness and interest in the capital markets	12	12	100%	Most of the activities were continuous and needed constant engagement with partners
4	To enhance the efficiency and integrity of the capital market infrastructure and institutional arrangements	28	20	71%	Most of the delayed activities were related to necessary reforms in the clearing and settlement environment
5	To strengthen the institutional capacity of the CMA to effectively and efficiently deliver on its mandate	28	23	82%	Most of the delayed activities were related to relocating to self-owned premises, an objective that was re-prioritized in the context of consolidation
	Total	**106**	**88**	**83%**	

Beyond the activity based KPIs, the CMA also set targets based on market outcomes such as liquidity, volatility, efficiency and investor diversity among others. While performance against these targets has been impressive, it is important to note that market outcomes are dependent on the actions or responses of multiple players including market intermediaries, investors, issuers and other regulators. Over the past five years, Kenya witnessed the statutory management of two prominent banks, the collapse of its largest retailer, an uncertain environment on financial regulators' consolidation, the introduction of interest rate controls and an extended election cycle, all of which negatively impacted the broader financial sector. Despite this, the Authority attained a commendable outcome, with 8 out of the 15 indicators recording an achievement score of 80% and above.

Table 4 provides a summary of achievement scores for each proposed key performance indicator (KPI). An achievement score below 50% is marked in red, a score that is above 50% but below 80% is marked in amber while a score equal to or above 80% is marked in green.

Table 4: Summary of achievement scores against KPIs

#	Indicator	Measure	Actual 2012	Target 2017	Actual 2017	Achieved
1	Equity Market Capitalisation (E- MCAP)	KES bn	1 272	3 165	2 521	80%
2	Bond Market Capitalisation (B-MCAP)	KES bn	716	1 781	1 669	94%
3	Equity MCAP/GDP	% of GDP	38	50	33	66%
4	Bond MCAP/GDP	% of GDP	21	28	22	78.5%
5	Market Turnover (Equity + Bonds)	KES bn	652	6 836	607	9%
6	Market Turnover (Equity +Bonds)/GDP	% of GDP	15	108	8	7%
7	No of foreign investors (with CSD Accounts)/Total number of adult population	%	0.27	0.32	0.06	19%
8	No of investors investing in the market through institutional investors (CIS, Pension Schemes / Fund Managers / Custodians) / total number of adult population	%	0.83	0.93	4.2	452%
9	No of capital markets products for channelling investments into infrastructure, real estate, and oil, gas, mining and metals exploration and extraction	No.	2.00	4.00	3.00	75%
10	No of capital markets interlinked to the infrastructure of the Kenyan capital markets to support cross-border trading and investment	No.	2.00	5.00	2.00	40%
11	Efficiency (Average Equity Turnover/MCAP or Turnover ratio	%	0.57	1.15	6.8	591%
12	Efficiency (Average Bond Turnover/B-MCAP)	%	6.58	7.00	26	371%
13	Stability (Annual Volatility of NSE 20 Index)	%	28.00	10.00	9.1	109.8%
14	Concentration (MCAP of top 5 companies/Total MCAP)	%	53.00	48.00	65	73.8%
15	Concentration (Equity Market Turnover of top 5 companies/Total Market Cap)	%	75.00	70.00	75.7	92.5%

According to the summary above, the indicators related to market capitalisation and turnover scored above 50% and below 100% with the exception of equity market turnover and equity market turnover as a percentage of GDP which attained 9% and 8% scores respectively. Indicators related to market concentration on the other hand were fully attained with a score above 100% while efficiency indicators performed exceptionally well with scores of more than 300%. Overall, the above average scores denote the resilience of the capital markets especially given the economic and political conditions in Kenya over the past five years.

The Key lessons drawn from the performance of the 2013-2017 Plan were:

i) The need to engage and identify potential issuers before having any new regulation or products launched while finding an appropriate balance with global best practice standards to ensure efforts towards market development translate into market activity.
ii) Consider reviewing requirements and investment restrictions that prove to be barriers to potential issuers and investors respectively, while taking investor protection into consideration.
iii) Aware of the CMA's limitations in trying to drive demand for capital market products, there is a need for market participants to play an equally proactive role to ensure product uptake.
iv) Perceived complexity of capital market products, with both institutional and retail investors continuing to prefer traditional instrument coupled with limited financial resources by intermediaries to drive marketing campaigns in order to properly articulate their value proposition to potential investors.
v) Indication of a demand for deepened existing markets which would necessitate strengthening the both the bond market and equity market hence the need for more coordination and collaboration with overarching and complementary bodies to ensure that there is an alignment of incentives for both local and foreign market participants.
vi) Investor education is a complex and multi-sectoral issue, there needs to be a holistic and coordinated approach where a consistent message is conveyed across the market.
vii) The need for a clear crisis management framework for the financial sector, sound financial reporting and robust market infrastructure.
viii) Opportunity to leverage data acquisition systems as tools that can provide information crucial to decision making and further enable it to enhance its supervisory control.
ix) The need for more efforts to enhance financial sustainability by pursuing additional revenue sources and adopting prudent financial management practices. This can be achieved through setting up a fundraising desk to coordinate the raising of capital for strategic projects.

2.6. SUMMARY OF STRATEGIC PRIORITIES FOR THE CMA

Strategic priorities for the CMA have been identified using the preceding analysis, that is, the PESTEL, SWOT, international benchmarking and the previous Strategic Plan (SP) review.

Table 5: Summary of Strategic Priorities

Strategic objective	Strategic issues
Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency	**Enhance the responsiveness and enforceability of the regulatory framework to improve investor experience** – the placement under statutory management of Chase Bank and Imperial Bank highlighted the systemic risk arising from the high concentration of the banking sector in the capital markets and malpractice in financial reporting. The CMA will consider further the issues arising from sectoral concentration in the capital markets and pursue stricter adherence to the Corporate Governance Code. In view of the critical contribution to confidence in capital markets made by sound financial reporting, the CMA will work with the National Treasury to operationalize the independent auditor oversight legislation and with ICPAK to ensure that existing arrangements on sound financial reporting remain as effective as possible. Given that the banks had also issued corporate bonds, there is a need for a clear crisis management framework on which the Authority will work with the Government and other regulators, to ensure that investors are appropriately protected in case of such events. **Develop and review regulations that are in alignment with the National Development Agenda** – the Government is currently pursuing a National Development Agenda as articulated in the Third Medium Term Plan of the Vision 2030 and its Big 4 Agenda; thus it is imperative for the CMA to align its strategy to aid in the achievement of broader National goals. Considering its expanded mandate that entails regulating the spot commodities exchanges, the Authority will also seek to facilitate the growth and efficient operation of this market with the aim of supporting the Big 4 Agenda that is linked to promoting the agricultural sector and specifically food security.
Facilitate the development, diversification and uptake of capital markets products and services	**Enhance awareness and delivery of Capital Market education for investors and issuers** - there was generally low uptake for new products on both the supply and demand side despite CMA's efforts to ease regulatory barriers. The Authority has examined in greater depth the reasons for this, following an Investor Education and Public Awareness Impact Assessment and Opportunities Study and determined clearer approaches for achieving stronger results. New strategies to be implemented will include one-on- one business incubator and accelerator meetings, market intermediaries- driven awareness programmes, one stop shop stakeholder engagements , social media engagements, diaspora on boarding initiatives, edutainment initiatives, as well as use of awareness ambassadors.

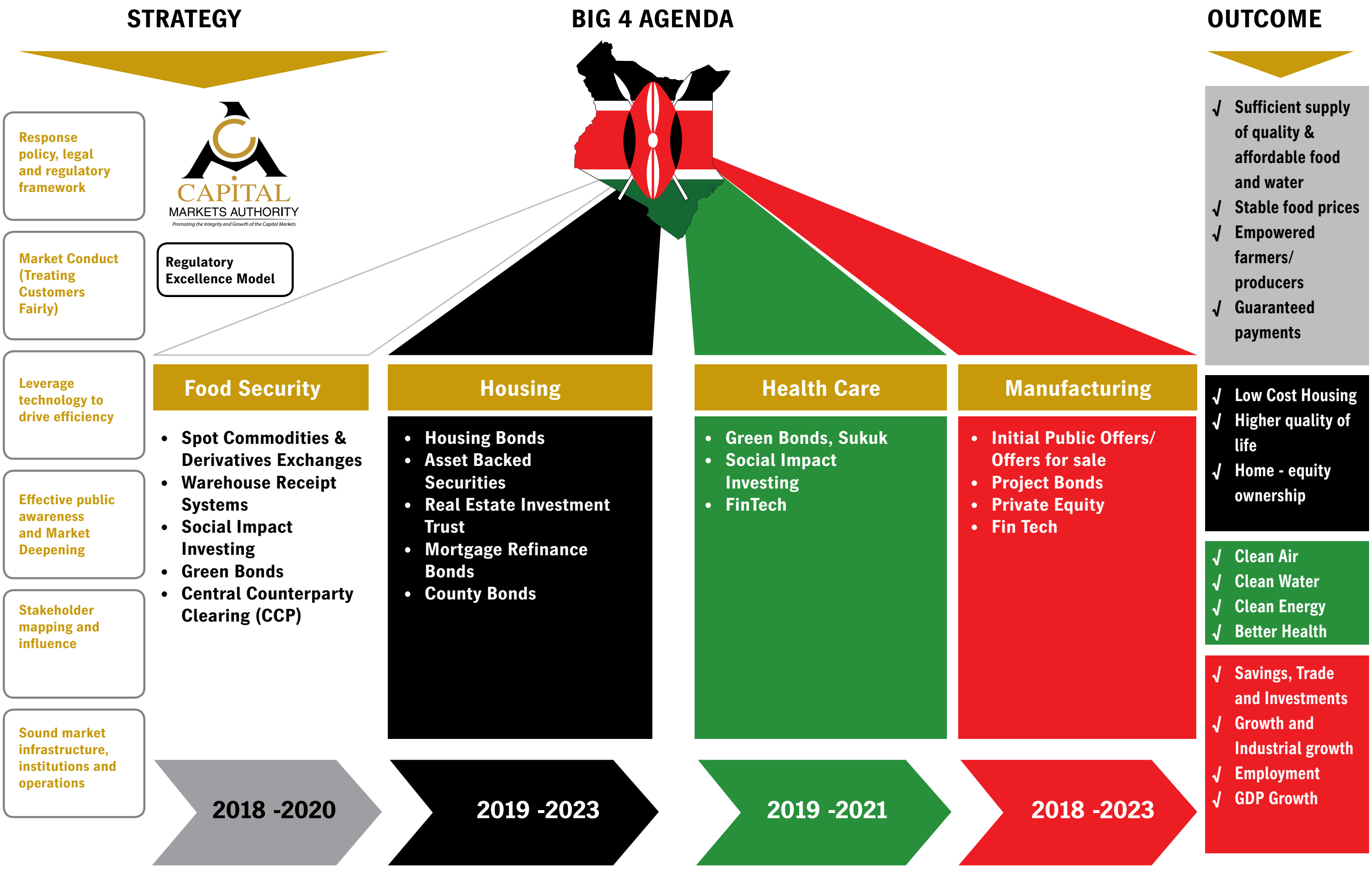
Strategic objective	Strategic issues
	Create and review regulations to attract a broader set of investors – as part of the Third Medium Term Plan, there is an ambition to establish Kenya and Nairobi as an international financial centre. A key strategic focus for developed markets was ensuring that capital market players enhance their policies around general corporate governance and environmental, social and governance (ESG) factors. This was identified as an important issue for CMA to consider especially when attempting to attract foreign investors. The Authority will explore the extent to which issuers, actual and potential, have the capacity and appetite for extending the range of ESG reporting and the extent to which the costs of complying with increased reporting standards are likely to be justified. The Authority will have particular regard to the relevance of governance and financial reporting requirements to investor protection and to facilitating access to capital by Small and Medium Enterprises (SMEs) as key drivers of economic growth. Further the Authority will engage its development partners and the NSE in developing policy, regulatory and institutional framework to support green financing. **Create and review regulations to ensure optimal uptake of products and increased market participation** - the activity in the primary equity market has remained stagnant while there is a continued overreliance on the Government bond market to provide high return investment instruments. Reputable large-sized corporates and Small and Medium Enterprises (SMEs) are not taking advantage of cheaper capital available in the capital markets and this is a cause for concern even for the top leadership in Kenya, given the existing high interest rate regime. The CMA will examine the strategies necessary to generate a pipeline of issuers of traditional and new products, including a review and possible relaxing of existing eligibility and disclosure requirements to attract both large private companies and SMEs, following the finalization of a comprehensive study aimed at determining the factors are presently seen as inhibiting take up of such products. The Authority will further advocate for review of relevant legislations to revitalising of the privatisation programme for eligible State Owned Enterprises as a listing pipeline such the State Corporations Act, as well as the possible merging of the existing segments at the NSE for greater efficiency and targeted listing of large private corporates aligned to the Big 4 Agenda to support the manufacturing, housing, agriculture and healthcare sectors. Other initiatives will include creating and /or reviewing regulations to facilitate on-market exits for private equity investors as well as the issuance of approved restricted institutional placement as distinct from full retail listing. These strategies will require engagements with the Government to enable it to signal the importance it gives to the use of the capital markets to support economic growth and support in educating potential issuers on the advantages of capital market finance. The CMA will leverage on banking sector to assess the preparedness of corporates to raise capital in the markets as well engaging banks on the opportunities to take up early stage financing of long term projects on the appreciation of opportunities to seek refinancing of such projects through the capital markets, once commercial viability is achieved. The Authority will additionally explore ways in which to demonstrate to investors that corporate failures are a natural part of risk taking in investment products and the importance for investors to examine the corporate governance and financial reporting of the companies they invest in as addition to headline results. The CMA will also seek to demonstrate that its own response to failures is in line with international capital market norms.
Ensure sound market infrastructure, institutions and operations	**Support the operationalization of an efficient pre-trading environment including trade facilitation, access to data and information and stable technology** - there is a clear need to improve liquidity in the capital markets through the implementation of Primary Dealership and market making for Government securities together with effective pre -trade and post-trade infrastructure. An efficient secondary market is also expected to improve price discovery and provide a pricing benchmark for other market products and subsequently support collateral management, as well as securities lending and borrowing opportunities in the market. **Ensure efficiency and risk minimization in the trading and post-trading environment (clearing, custody & settlement)** - there is a clear need to ensure that market infrastructure, including its regional and global connectivity, is suitable over time for Kenya to demonstrate it will maintain its capacity to act as a competitive financial centre, strengthen the CDSC and especially address its issues on risk management and its ability to ensure settlement of all types of products. In addition to strengthening the CDSC, there is a need to facilitate the CBK's CSD for Government bonds to evolve complementarily as opposed to duplicate infrastructure to what is being rolled out by the CDSC to ensure strategic market segmentation as opposed to fragmentation and a longer-term strategy for CSD consolidation to realize efficiencies and economies of scale. **Promote proper market conduct through effective monitoring and supervision of capital market operations** – there is a general need to improve market surveillance

Strategic objective	Strategic issues
Leveraging technology to drive efficiency in the capital markets value chain	**Strategically leverage the potential impact of and Champion the adoption of new technologies in the capital market value-chain** – the impact of FinTech is being considered by financial sector regulators across the globe and will be a key factor to take into consideration over the next few years especially given its potential to disrupt the capital markets value chain. New technological developments have the potential to disrupt existing models for both users of financial services and regulators, and will have relevance to the CMA's role in protecting actual and potential investors. The Authority has a strategic objective to address the potential aspects of technological disruption and will provide a strategic response to each of them. The CMA has been proactive in supporting FinTech through its regulatory sandbox, but strong coordination will be needed with other regulators to ensure there are no gaps or overlaps, as well as to make sure that scalable solutions touching on multiple sectors are able to be put in place where necessary. The CMA will keep abreast of developments in the area of artificial intelligence and analytics and further ensure that new developments in techniques for the giving of advice do not impede regulatory objectives of customer protection. The Authority will additionally take steps to ascertain that the disclosure arrangements surrounding the introduction of platforms such as crowdfunding are adequate for participants to understand the nature of the risks they are potentially taking. **Internally leverage Information, communication and technology to enhance efficiency and service delivery** - The Authority will remain abreast of developments in the field of post-trade digitization to ensure the maintenance of consistently high standards and of developments in RegTech. The CMA will explore the scope for use of SupTech technology (or RegTech for supervisors) for automating and streamlining administrative and operational procedures, digitizing data and working tools, and improving data analytics. The Authority will consider assisting firms by recommending common RegTech solutions. It will explore ways in which they can encourage firms to introduce appropriate technological improvements and will also examine ways in which they can be utilized in their own operations. The Authority will further spearhead the establishment of a Fintech through the Joint Financial Sector Regulators' Forum with dedicated personnel publicly committed to facilitate timely follow up and resolution of inquiries
Ensure optimal institutional efficiency and effectiveness of CMA	Based on the review of the previous strategic plan and the preceding issues four key areas of focus were identified: • Enhance and align staff competency in line with the changing operating environment; • Prioritize the development of internal business analysis and systems programming capacity to optimize customization to business needs; • Enhance financial sustainability and operational efficiency; and • Improve and uphold the corporate image of the Authority
Enhancing strategic influence	**Continue to build strategic alliances with domestic and international partners** – Based on international benchmarking it was identified that the Authority could grow its profile similar to the benchmarked regulators by building alliances. **Consistently engage with key stakeholders to ensure deepening of the capital markets** – from the benchmarking exercise it was also observed that the Authority could play a key role in market and regulatory cooperation, to drive cross-market initiatives.

2.7. CMA'S STRATEGIC POSITIONING TO SUPPORT THE BIG 4 AGENDA

The Authority is well aware that Kenya's national development goals and priorities are very dynamic and in drawing up this Plan, carefully took into consideration existing long-term domestic and global socio-economic priorities when setting out its strategic priorities, objectives and initiatives. These include the over-arching Vision 2030, its supporting Third Medium Term Plan (MTPIII) and Sustainable Development Goals. However noting the Government's continuous emphasis on the Big 4 Agenda, the CMA envisages its role in supporting its achievement as depicted below:

Fig 6: CMA's Strategic Positioning to support the Big 4 Agenda



Source: CMA

3. STRATEGIC DIRECTION

3.1. VISION
"To be an innovative regulator of a robust and globally competitive capital market".

3.2. MISSION
Mission: "To make Kenya's capital market the premier choice for investors and issuers through robust regulation, supporting innovation and enhanced investor protection".

3.3. CORE VALUES
To fulfill its mandate, pursue the Vision and accomplish its Mission the CMA will be guided by its core values of:

i) **Integrity** -We are committed to acting at all times with honesty, fairness, accountability, transparency, ethically and above board in all our operations;

ii) **Commitment** - We shall perform our duties with the highest level of professionalism and dedication with a view to exceeding the expectations of our clients and stakeholders;

iii) **Responsiveness** - We are sensitive to and will deal with issues and situations affecting all our stakeholders in a proactive and timely manner, using flexible decision-making processes;

iv) **Innovation and Continuous learning** - We are committed to facilitating continuous learning and innovation; and

v) **Collaboration and Teamwork** - We are committed to teamwork within the Authority and collaboration with our partners in the provisions of our services.

3.4. STRATEGIC OBJECTIVES, INITIATIVES AND ACTIVITIES

In line with the CMA's Vision, Mission and based on the strategy development process of internal and external stakeholder consultations, PESTEL & SWOT analysis, an international benchmarking exercise and a review of broader Government priorities, six strategic objectives have been identified by the Authority over the next five years as depicted in the figure below:

Figure 7: CMA 2018 – 2023 Strategic Framework

	Strategic objective	Strategic Initiatives
1	Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency	1. Enhance the responsiveness and enforceability of the policy and regulatory framework to improve investor experience 2. Review policy and develop regulatory frameworks to be in alignment with National Agenda
2	Facilitate the development, diversification and uptake of capital markets products and services	1. Enhance awareness & delivery of capital market education for investors 2. Review the policy and regulatory environment to attract a broader set of investors & issues 3. Assess & refine the policy and regulatory framework to ensure optimal uptake of products and market participation
3	Ensure sound market infrastructure, institutions and operations	1. Supervise the maintenance of efficient pre-trading environment including trade facilitation, access to data and information and stable technology 2. Ensure efficiency and risk minimization in the trading and post-trading environment 3. Promote proper market conduct through proactive supervision of capital market operations and effective enforcement
4	Leveraging technology to drive efficiency in the capital markets value chain	1. Build capacity to respond to the impact and support the implementation of new technologies in the capital market value chain 2. Internally leverage Information, Communication and Technology (ICT) to enhance efficiency and service delivery
5	Ensure optimal institutional efficiency and effectiveness of CMA	1. Enhance and align staff competency with changing operating environment 2. Enhance financial sustainability and operational efficiency 3. Improve and uphold the corporate image of the Authority

6	Enhancing strategic influence	1. Continue to build strategic alliances with domestic and international partner 2. Consistently engage key stakeholders to ensure deepening of the capital markets

The complete Strategic Objectives are articulated in the sections that follow and detailed activities per initiative have been described.

3.4.1. Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency

Within the first strategic objective, two initiatives have been identified in order to drive the development of the capital markets by providing a conducive policy and regulatory environment. This will be achieved by ensuring that any policy and regulatory framework developed is evidence-based.

3.4.1.1. Enhance the responsiveness and enforceability of the policy and regulatory framework to improve investor experience

As Kenya aspires to transition into an MSCI emerging market and develop the Big 4 sectors, it will be increasingly important to ensure that investors gain trust and confidence in the capital markets in order for them to finance existing funding gaps. A key theme across developed markets is the importance of investor protection and Treating Customers Fairly (TCF). More importantly, a large portion of Kenyans have limited knowledge of capital market products and this creates inherent customer vulnerability. As described earlier, there is also need to fully implement and enforce the Corporate Governance and Stewardship Codes to ensure investor interests are protected from corporate malpractice and unethical behaviour.

It is recognized that private equity firms domiciled in other countries are operating in Kenya and in order to improve transparency on their operations, as well as increase the potential flow of domestic institutional funds into this asset class, there is need to develop an appropriate disclosure and potential registration framework for these firms.

Steps to address the issues identified include:
- i) Enhance current investor protection guidelines by including market conduct and TCF frameworks;
- ii) Regularly publish corporate governance assessments reports;
- iii) Ensure full implementation and adherence to the corporate governance and stewardship codes;
- iv) Investigate the appetite and requirement to implement Global Investment Performance Standards (GIPS) across the fund management industry;
- v) Sensitize all market participants on investor protection;
- vi) Enhance the scope of the Investor Compensation Fund to allow for effective investor protection;
- vii) Examine and implement light disclosure regulations for PE firms operating in Kenya but domiciled in other countries; and
- viii) Review policy and regulatory challenges on enforcing and prosecuting misconduct.

3.4.1.2. Establish a spot commodity unit

The regulation of the spot commodities markets falls within the remit of CMA and as such it will be important for the Authority to a create a transitionary function that will enable the building of capacity around regulating this new segment of the market. The functions involving research, policy and stakeholder relationship management may later be merged into the Directorate of Strategy and Market Development.

Similarly, the functions involving market surveillance, oversight and enforcement of the spot commodities exchange may be merged into the Directorate of Market Operations, as the Spot Commodities Unit transitions, the industry grows and Authority builds its capacity. The long-term approach to oversight of Derivatives will be determined in the future, including consideration for establishment of a stand-alone spot commodities and derivatives apex regulator.

As described earlier, the Kenyan Government's priorities over the next five years will be guided by Vision 2030, MTP III, the Big Four agenda and the National Development goals. For instance, the operationalization of Commodities Exchange (COMEX) is expected to promote growth in the agricultural sector by improving prices for farmers and hence improve food security as envisioned in the Big 4 Agenda. The Authority recognizes that capital markets can play a major role in financing the initiatives indicated in these documents and has thus put in place the following activities to ensure alignment with overall Government priorities:

i) Identify and analyze the funding gaps across all sectors within Government with focus on manufacturing, housing, agriculture and the healthcare sectors;
ii) Review policy and develop regulatory framework to support County financing through capital markets based on recommendations from the County financing gaps study;
iii) Review current rules, regulations and laws to ensure efficient operations of the Commodities Exchanges; and
iv) Conduct an issuer survey across these respective sectors to inform the necessary regulatory amendments to bring issuers to market.

3.4.2. Facilitate the development, diversification and uptake of capital market products and services

Within the second strategic objective, three main initiatives have been identified in order to drive the development of the capital markets using a consultative approach.

3.4.2.1. Enhance awareness and delivery of capital market education for investors and issuers

The Authority has been very active in promoting investor education. However, significant gaps still remain in the market. There is also a perception in the market that the CMA should be the institution to promote investor education. While some responsibility for this lies on the Authority, there is a complementary, if not primary responsibility for market intermediaries to educate investors and promote the uptake of products.

Many market intermediaries noted a lack of financial capacity to fund extensive education campaigns. On the other hand, the CMA has made some notable strides in working towards enhancing investor education by working with the Ministries of Education to embed capital market education within their curriculum design.

Based on the findings of the Investor Education Impact Assessment and Opportunities study concluded in June 2018, the following key strategies are proposed for implementation during the Plan period:

i) **More impactful promotional campaigns targeting youth**
One of the reasons why the betting industry has been able to lure the youth is the use of advertising that creates an exciting message of instant gratification. CMA should develop an impactful promotion model focusing on long term benefits of investing in capital markets by using investors who have significantly benefited from the securities market as brand ambassadors.

ii) **Specific forums for those with surplus funds**
A program targeting individuals and associations who have surplus funds from tea and coffee bonuses, athletics, royalties, ball games, gaming, among others can be instrumental in ensuring that these extra funds are invested in the capital markets. Given the number of Kenyan athletes who win monetary prizes, the Authority can engage them with a view of changing their perception to thinking long term.

iii) **One on one incubation and accelerator meetings**
As a follow up to the proactive Business Incubator and Accelerator on the Listings Experience initiative that was launched in 2017, the Authority will aggressively transition this into outcome focused face to face meetings with key potential issuers in partnership with the NSE and select intermediaries with a view to bringing them to market. This strategy is expected to be impactful given that the firms will receive special attention to address various issues.

iv) **Enhanced utilization of Technology Platforms**
While it is noted that there has been use of social media by CMA this will be enhanced to include more novel modes of communication such as blogs, additional social media such as Instagram, Google Ads and YouTube, targeting the youth and specific women groups. This will be effective given the number of hours spent on social media in a given day.

v) **Diaspora Initiatives**
The Authority will continue to partner with the Ministry of Foreign Affairs and International Trade in the implementation of the diaspora policy including hosting of diaspora conferences. In doing this, it will leverage social media to host live conferences to better utilize its resources. This is expected to be impactful given the level of diaspora inflows that are mostly invested in direct real estate investments. REITs are among capital markets products that have potential of a high uptake amongst the diaspora.

vi) Intermediaries to drive Investor Education
CMA can create a conducive environment by enabling intermediaries to drive product uptake akin to what happens in the banking sector. This can be achieved through partnerships with CMA by sharing costs and use of train-the-trainer model.

Given the low market participation of issuers, there will also be an increased focus in educating potential issuers by actively engaging them and supporting market facilitators and intermediaries in presenting the incentives and benefits of tapping the capital markets. This will also involve developing capital market education material that targets issuers.

To strengthen capital market education and awareness, the Authority will:
i) Facilitate capacity building sessions for market intermediaries using a train-the-trainer approach;
ii) Foster an ecosystem that links incubators/accelerators, technical assistance providers, industry/trade associations, potential issuers and investors;
iii) Conduct research on investor and issuer needs to understand their behavioural patterns;
iv) Facilitate the development, training and management of the certification and knowledge management programmes within the capital markets;
v) Implement recommendations of Investor Education Impact Assessment and Opportunities Study;
vi) Continuously develop capital market education materials for investors and issuers and distribute these using digital channels;
vii) Examine the effectiveness of various education delivery channels relevant to specific market segments; and
viii) Support market facilitators and intermediaries in presenting the incentives and benefits of publicly listing to potential issuers.

3.4.2.2. Review the policy and regulatory environment to attract a broader set of investors and issuers

The operationalization of Nairobi International Financial Centre (NIFC) which is a flagship project under the MTPIII will help Kenya gain a stronger presence in sub-Saharan Africa's growing financial services. In order to attain this, there are several initiatives, the Authority will pursue including; engaging international investors to understand the needs and challenges of investing in Kenya, understand the demand for Islamic Capital Market products to ensure financing of the real economy, support the realization of the Marrakech Pledge by supporting the Green Bond Program and actively understand the appetite for introducing ESG within the capital markets.

The CMA has in place a Code of Corporate Governance Practices for Issuers of Securities to the Public and a Stewardship Code to ensure responsible oversight and investing by institutional investors on behalf of their clients. The former code is intended to ensure that listed companies abide by certain governance principles including, selection, independence, diversity, functions, structure and compensation among others of their Boards. While this code is effective, and the Authority requires firms to fill out a self-evaluation questionnaire, two important components namely Social and Environmental aspects are implicitly excluded. Global markets are increasingly shifting towards green policies. According to Bloomberg[13] globally, the number of funds with a core focus on ESG indicators has increased from 990 in 2013 to 1300, in June 2017 and the corresponding Assets under Management (AUM) increased from USD 280 billion to USD 354 billion representing an annualized growth rate of approximately 8%. The table below shows the change in the proportion of total socially responsible investment (SRI) to total investments.

Table 6: SRI as a proportion of investments

Region	2014	2016	Change
Europe	58.8%	52.6%	-6.2%
US	17.9%	21.6%	3.7%
Canada	31.3%	37.8%	6.5%
Australia/New Zealand	16.6%	50.6%	34%
Asia	0.8%	0.8%	0%
Japan	-	3.4%	3.4%
Global	30.2%	26.3%	-3.9%

Source: Bloomberg, 2017

[13]https://www.bloomberg.com/professional/blog/asset-growth-speeds-esg-shake/

The Authority will support the NSE in the development of Green Guidelines to ensure listed companies follow the global shift towards social and environmental sustainability. Some of the principles of an ESG code would be as follows:

Box 1: Overview of ESG

What is ESG?

- **Environmental** – Requiring companies to disclose their activities with regards to energy usage, waste pollution and management, natural resource conservation and other considerations.

- **Social** – Requiring companies to disclose their activities with regards to developing communities, providing training to staff, human rights, animal welfare, diversity and consumer protection.

- **Governance (already in place)** – Requiring companies to disclose their activities with regards to management structures, employee relations and executive compensation among others.

There is a risk of reducing the potential number of issuers by introducing more extensive reporting requirements on ESG thus the need to understand the current appetite from the market and implement ESG in a phased manner.

Based on the above, the following activities would ensure a broad spectrum of investors is attracted to the Kenyan markets:
i) Engage potential international investors to establish key reforms that would allow them to invest in Kenya;
ii) Support the NSE on the Green Bond Program and development of Green Guidelines;
iii) Conduct a demand-assessment for Islamic Finance Capital Market Products;
iv) Review milestones and determine the next steps to enable issuance and disbursement of Islamic Finance Capital Market products and services;
v) Conduct a survey among issuers and institutional investors on their opinions and appetite regarding ESG
vi) Review and approve NSE guidelines on ESG; and
vii) Develop scorecards and reporting templates to guide listed companies on ESG reporting in conjunction with the NSE.

3.4.2.3. Assess and refine the policy and regulatory framework to ensure optimal uptake of products and market participation

Over the last five years, the Authority has formulated numerous regulations to ensure there is a facilitative environment for new products in the markets. Despite this, a study on causes of low uptake of capital markets products and services in Kenya points to a number of findings, including; unpredictable macro-economic and political environment, high cost of compliance, family-owned businesses reluctance to cede power and control of their companies by going public, perceived stringent eligibility and disclosure requirements, competition from other investments and inaccurate valuation and pricing. In some cases, investment products were found not aligned to the market. For example some institutional investors considered REITs comparably unattractive compared to direct investment in the property market. However, there were some areas of activity identified with the potential to increase product uptake as highlighted by the market. For instance, CISs are only allowed to invest up to a maximum of 80% in equities and 25% in corporate bonds. This restriction impedes them from building portfolios using 100% equity index funds. There is, therefore, a need to consider reviewing these limits to allow for investors to choose their optimal portfolios given their individual risk appetite.

Several strategies will be implemented to generate a pipeline of issuers of traditional and new products through a review and possible relaxing of existing eligibility and disclosure requirements, following the finalization of a comprehensive study to determine the factors that inhibit uptake of such products. The Authority will further advocate for revitalizing of the privatization programme for eligible State Owned Enterprises as a listing pipeline; the possible merger of the existing segments at the NSE for greater efficiency and targeted listing of large private corporates and public -private partnerships aligned to the Big 4 Agenda to support manufacturing, housing, agriculture and healthcare sectors.

Over the past 10 years, Kenya has become a hub for private equity investments. East Africa accounts for 18% of the total private equity investment into Africa, with Kenya taking the lion's share. Alternative sources of funding such as private equity and bank present a critical opportunity for generating a potential issuer pipeline for the public capital markets. Therefore, strategic engagement with private equity investors can eventually lead to public issuances having benefited from PE phase strengthening of internal structures related to corporate governance and financial management. On the other hand, banks play a complementary role of assessing the preparedness of corporates to look to capital markets for long term financing. For this reason, the CMA will aim to engage with private equity firms and banks to identify potential issuers and present the capital markets as a suitable and attractive exit strategy.

More importantly, there is a need to enable more investments by domestic institutional investors such as insurance companies, pension funds and banks. At the same time, the Government, State Owned Enterprises and County entities as well as public-private partnerships need to utilize the capital markets to raise capital especially in the manufacturing, housing, agriculture and the healthcare sectors. The CMA will:

i) Review end-to-end regulations for existing capital market products and engage the relevant regulators or stakeholders such as IRA and RBA to achieve the desired uptake;
ii) Engage with stakeholder to facilitate uptake of new products such as but not limited to REITs and ETFs;
iii) Review policy and regulatory environment to facilitate Government and its entities utilize the capital markets;
iv) Review private equity deals and understand key competitive advantages over going public;
v) Engage with private equity firms and banks to identify potential issuers that are under private equity deals or need to restructure their financing and encourage public listing as a suitable exit strategy; and
vi) Leverage current surveys of companies that are prime targets for listings and engage them actively.

3.4.3. Ensure sound market infrastructure, institutions, and operations

Within the third strategic objective, three key initiatives have been identified to develop and ensure sound market infrastructure, institutions and operations.

3.4.3.1. Supervise the maintenance of efficient pre-trading environment including trade facilitation, access to data and information and stable technology

The Authority recognizes the importance of transparency and competition as it facilitates development of the capital markets. These components have, however, proved challenging to enforce especially in the bond market. Currently, the Government bond market lacks an active secondary market which has resulted in opaque pricing. As described earlier the CBK and KBA have taken active steps in developing an electronic T-bills trading platform while similar efforts have been made by the Bond Market Steering Committee (BMSC) to develop a similar platform for Government Bonds. Currently, T-Bills are discounted by the CBK while Government bonds are negotiated over the counter and reported on the NSE trading platform after the deals are struck via bilateral communication resulting in limited price discovery. It is expected that once the T- Bill and bond trading and trade reporting platforms are in place, trade prices will be reported and published allowing for greater price discovery and in the case of bonds, the development of a stable yield curve.

On the other hand, the Authority will continuously ensure sufficient transparency in the equities market by requiring that listed companies provide sufficient data and information to the public. This will be done while bearing in mind tha too many and frequent requirements may inflate compliance costs. Some of the activities that will be carried out to achieve the objectives above include:

i) Develop a proposal to allow for primary dealer arrangements in the Government bond market;
ii) Develop a proposal on guidelines for market making in the securities markets;
iii) Implement an OTC platform for the hybrid bond market;
iv) Finalize market operation rules for securities lending and borrowing;
v) Enhance the adherence to and enforcement of sound financial reporting standards;
vi) Understand the market conditions and regulatory environment required to increase competition in the trading environment; and
vii) Submit proposals and guidelines on phasing in liberalized market fees to appropriate regulators and stakeholders such as National Treasury and the Competition Authority.

3.4.3.2. Ensure efficiency and risk minimization in the trading and post-trading environment (clearing, custody & settlement)

As the Authority aims to facilitate the development and uptake of capital market products and services, there is recognition that settlement certainty is a crucial factor that both domestic and international investors consider when making investment decisions. For this reason, there will be an increased effort to ensure that the market gains confidence in the settlement process by strengthening the CDSC. This is especially important for the domestic market, where investor confidence has been greatly affected by the placement under statutory management of Chase Bank and Imperial Bank. When the settlement processes are at par with international standards, there is an opportunity to attract a broader set of international investors beyond those that specifically focus on frontier markets.

Currently, the weakness of the CDSC, especially with regards to effective risk management, remains a key challenge for the trading and post-trading environment in the capital markets. Although many of these concerns are expected to be addressed once the CDSC implements a new system, there is still a need for the Authority to facilitate the improvement process noting that the CDSC is of significant systemic importance, especially with the expected increase in the variety of products and services and growing trading volumes.

Furthermore, there is need to facilitate the CBK's CSD for Government bonds to evolve complementarily to the CDSC to avoid duplicating infrastructure and market fragmentation. In the longer-term, the consolidation of the CSD for Government bonds and the CSDC may lead to realizing efficiencies and economies of scale.

The operationalization of the Commodities Exchange (COMEX) also remains as a key priority for CMA as it is expected to facilitate the development of the agricultural and mining sectors. The development of a Warehouse Receipt System (WRS) and spot commodities exchange will, therefore, be key activities that will allow for an organized market, which is expected to result in greater mobilization of credit for agriculture, smoothened market prices, increased market power for small producers and ultimately, improved food security.

To address the issues mentioned above, the CMA will proactively focus on the following activities:

i) Facilitate CDSC to modernize its systems to facilitate the trading of all products in the capital markets efficiently and implement a real Delivery Versus Payment (DvP) system;
ii) Ensure the CDSC and the CBK CSD develop an implementation plan, including timelines, arising from the initial assessment report on CPMI-IOSCO compliance;
iii) Facilitate continuous assessment of CDSC and CBK CSD compliance with CPMI-IOSCO principles for financial markets infrastructure;
iv) Develop a CSD consolidation framework that will facilitate the alignment of the Government bond CSD with the CDSC;
v) Facilitate the linkage of the CDSC with other East African and global depositories;
vi) Conduct periodic assessments of the market readiness for a central counterparty clearing house (CCP);
vii) Determine requirements for establishment of a CCP;
viii) Support the NSE, Bond Market Organizer and CDSC to become full SROs and bestow upon them the responsibility to supervise their members;
ix) Facilitate the development of a Warehouse Receipt System (WRS) for the commodities exchange; and
x) Develop a policy and regulatory framework to facilitate the establishment of spot commodities exchanges

3.4.3.3. Promote proper market conduct through proactive supervision of capital market operations as well as spot commodities market and effective enforcement.

As discussed earlier, the impact of innovation and technology will be a key factor that will affect the monitoring and supervision of capital markets in the next few years. There will, therefore, be a need for a more proactive approach focused on fraud prevention. Fraud and misconduct detection, investigation and enforcement will continue to play an important role with the Authority building internal capacity for effective and efficient market oversight over new products such as derivatives and commodities.

Some of the activities that will be conducted in order to minimize fraud include:

i) Review and develop policies that will enhance early detection of misconduct;
ii) Sensitize and share information with all market participants on fraud and misconduct risks;
iii) Periodically submit fraud intelligence reports to management and the board;
iv) Leverage on technology to conduct effective investigations;
v) Develop monitoring and supervision framework for cross-border investment activity and risks;
vi) Increase number of sources of market intelligence information for market surveillance;
vii) Enhance enforcement manual with the intention to implement proportionate penalties for misconduct;
viii) Conduct employee training on supervision of new products and technologies in relation to potential fraud;
ix) Effectively investigate and prosecute financial crimes; and
x) Build capacity in regulation of the new spot segment of the market.

3.4.4. Leveraging technology to drive efficiency in the capital markets value chain

Within the fourth strategic objective, two main initiatives have been identified to ensure the Authority leverages technology-based legacy approaches.

3.4.4.1. Build capacity to respond to the impact and support the implementation of new technologies in the capital market value-chain

As described in the PESTEL analysis FinTech has the potential to disrupt the capital market value-chain in five core ways:

i) **Core market infrastructure** – This refers to technology with the ability to decentralize and promote a reduction in physical assets. FinTech solutions in this space have focused on aggregating liquidity across markets and providing a single platform/ exchange for trading. This concept is supported by the use of Distributed Ledger Technology (DLT) of which Block chain is a manifestation. The potential implications of DLT on core market infrastructure are far-reaching for the capital markets, offering a path to a more efficient market infrastructure.

ii) **Post-trade digitization** – This refers to the automation of many of the manual processes that still exist in compliance, regulation, collateral management, and securities lending; bringing efficiencies to clearing and settlement and facilitating the launch of innovative solutions to manage enterprise stress-testing, risk attribution and reporting processes. Now common terms in this area are RegTech (Regulatory Technology) and SupTech (Supervisory Technology). Both are key areas of interest to capital market regulators, with innovative technology and software being applied to assist in intelligently managing regulatory and supervisory processes. For example, the Monetary Authority of Singapore (MAS) has set up a Data Analytics Group within which it has a dedicated unit for SupTech.

iii) **Artificial Intelligence and analytics** – These are technologies that utilize in-memory computing and machine learning to leverage the massive surge of structured and unstructured data to make predictions and to integrate real-time analytics at the point of trade. There is an emergence of alternative trading platforms and unique trading styles, such as multilateral trading facilities (MTFs) and High-Frequency Trading (HFT) which will impact the way in which the Authority approaches its supervision.

iv) **Investment technology** – These are software and tools that enhance investment decision-making and contribute to accelerating the shift towards passive investments. A key interest area here is the implementation of robo-advice technology. Large incumbents such as brokers, custodians, are leveraging economies of scale to roll out low-cost, or even zero-cost portfolio management platforms, or to partner with robo-advisors. The application of these technologies over the medium-term may be difficult in the Kenyan context due to relatively lower investment appetite from market players. However, a few bank brokers are attempting to work with or build scalable, low-cost platforms to address the needs of their less affluent clientele.

v) **Alternative funding platforms (crowdfunding)** – Perhaps the most relevant form of FinTech for Kenya are platforms that allow an alternative way to raise funding for large companies, and small enterprises and even retail borrowers. With the emergence of international players such as Kiva (peer to peer lending platform) in Kenya, this is a space that is gaining traction and that requires particular regulatory scrutiny. There are five common types of crowdfunding business models:

Table 6: Types of crowd funding

Strategic objective	Description	Relevance for the Kenyan markets
Investment-based	Companies issue equity, debt or contractual instruments to crowd-investors, typically through an online platform	High
Lending-based (aka P2P lending)	Companies or individuals seek to obtain funds from the public through platforms in the form of a loan agreement.	High
Invoice trading	A form of asset-based financing whereby businesses sell unpaid invoices or receivables, individually or in a bundle, to a pool of investors through an online platform. Typically investors are institutions and high net worth individuals, and rates are set through online auctions	Low
Reward-based	Individuals donate to a project or business with expectations of receiving in return a non-financial reward, such as goods or services, at a later stage in exchange for their contribution. The reward may or may not be proportionate to the backers funding; when it is proportionate, this model is also defined as pre-selling crowdfunding	Low
Donation-based	Individuals donate amounts to meet the larger funding aim of a specific charitable project while receiving no financial or material return	Medium
Hybrid models	Combine elements of the other types of crowdfunding	Low

Source: Crowdfunding in the EU Capital Markets Union - commission staff working document

While Kenya's capital markets are relatively nascent on the global stage, it will be imperative for the Authority to conduct a range of activities to better understand the FinTech space. It is important to note that some of the activities listed below are not of a high priority in the short-term, given that a large component of the traditional market infrastructure in Kenya requires improvement. Following from this, the incorporation of FinTech within existing operating models is expensive and it is expected that not many market intermediaries will seek to invest in costly infrastructure such as RegTech when market volumes and uptake are still relatively low. Despite this, the CMA's activities around FinTech will be to:

i) Regularly conduct an assessment of the appetite for FinTech adoption across the capital market value chain;
ii) Implement the regulatory sandbox based on the strategic framework developed;
iii) Collaborate with any Government, industry-led working groups and Fintech innovators to consider Fintech issues/matters;
iv) Coordinate with fellow financial sector regulators to implement coordinated policy on FinTech innovation and to spearhead the establishment of a joint regulators platform to provide a single reference point on regulatory expectations on FinTech solutions across sectors;
v) Conduct policy and legal research into a portfolio of regulatory tools to support Fintech oversight in the future;
vi) Based on market need and the regulatory environment, develop appropriate policy and regulatory frameworks for the application of technological innovations and interventions in the capital market including but not limited to RegTech, automated reporting of capital market data, robo-advisory, data analytics and Artificial Intelligence (AI);
vii) Review global best practices for crowd-funding regulation and regularly monitor the growth of crowdfunding activities Kenya; and
viii) Draft regulatory guidelines for the most prevalent types of crowdfunding to ensure prudent management of investor funds and risk mitigation.

3.4.4.2. Internally leverage Information, Communication and Technology (ICT) to enhance efficiency and service delivery

The Authority will leverage on ICT as an effective tool to provide information crucial to decision making. This will involve adopting innovative technology and software that can assist in intelligently managing the regulatory and compliance processes. As the market is expected to grow and become more innovative, CMA will seek to understand the emerging technological requirements in the market. This will involve developing internal capabilities to collect, manage and analyze large sets of data. Some of the activities to achieve this will include:

i) Continuously conduct assessment reports on the level of internal ICT automation and integration and implement recommendations;
ii) Develop, periodically review and implement an ICT strategic plan (2018-2023);
iii) Periodically conduct a study on the technological evolution in the market and use findings to inform the ICT strategic plan;
iv) Leverage on ICT subcommittee of the board to give oversight of internal systems and the ICT strategic plan;
v) Ensure direct system integration of market systems with all market facilitators;
vi) Identify and implement systems that are flexible and decrease reliance on service providers;
vii) Internally coordinate efforts between ICT departments and other departments/ directorates to leverage on technology;
viii) Develop a business intelligence system; and
ix) Spearhead the establishment of a Fintech Hotline/ Office managed through the Joint Financial Sector Regulators Forum with dedicated personnel publicly committed to facilitate timely follow up and resolution of inquiries.

3.4.5. Ensure optimal efficiency and effectiveness of the CMA

Within the fifth strategic objective, three main initiatives have been identified as key in ensuring that the CMA remains optimally efficient and effective.

3.4.5.1. Enhance and align staff competency with changing operating environment

A capable and efficient staff is essential for the effective implementation of CMA's strategy and the accommodation of the expected growth envisaged arising from the strategy implementation. Over the past five years, the CMA has embarked on a successful journey of enhancing internal human capital capabilities and implementing Uwezo Kipeo as a change management program. The main focus over the next five years will, therefore, be on sustaining and deepening these changes as well as enhancing and aligning staff competency with new technology, new products and services as the market changes. This will be done with an outcomes-based approach whereby efficient service delivery will be prioritized. Some of the activities that will be carried out to achieve this include:

i) Continuously conduct training needs assessments and implement recommendations;
ii) Monitoring and implementation of the staff development program;
iii) Undertake an organizational structure assessment;
iv) Continuously review and implement the change management programme in place; and

v) Enhance ICT staffing needs to build internal capabilities, such as, data mining, management and analytics and software engineering

3.4.5.2. Enhance financial sustainability and operational efficiency

As a regulator, the Authority is mandated to collect revenue from the capital markets and disburse it by delivering public goods and services such as investor protection and education. Given that Kenya is still considered a frontier market, there are large strategic projects that are key to developing the market but cannot be solely funded by market fees. For this reason, it is important for the CMA to operate as efficiently as possible while diversifying its revenue sources. Some of the activities that to achieve this include:

i) Diversify the sources of revenue through the implementation of a capital market training programme;
ii) Set up a fundraising desk that will focus on building capacity to generate revenues for identified strategic projects;
iii) Maintain and sustain prudent financial management practices; and
iv) Continuously review and implement the risk management framework.

3.4.5.3. Improve and uphold the corporate image of the Authority

For the Authority to be considered a credible regulator that can effectively influence the capital markets, an appropriate image needs to be maintained. Feedback from a few stakeholders indicated that the stringent listing requirements and negative coverage of enforcement action have created an image of a strong but punitive regulator, especially among potential issuers. Therefore, as CMA seeks to review regulations to encourage participation in the capital markets, there will be aligned efforts to ensure that the market is aware of its facilitative approach to regulation. Given the overall loss of market confidence following the placement under statutory management of two prominent banks and a large retailer, the Authority will purpose to assure the public of its commitment to protecting investors, while ensuring that it is understood that no investment can ever be guaranteed.

Some of the activities that will be carried out to achieve this include:

i) Prepare information materials on the capital markets and the CMA, aligned to the investor education and awareness strategy, for dissemination through the media;
ii) Share corporate information from the Authority in a timely manner; and
iii) Periodically develop and implement a communications strategy

3.4.6. Enhancing strategic influence

Within the sixth strategic objective, two main initiatives have been identified to ensure CMA yields the requisite strategic influence to influence necessary changes and reforms:

3.4.6.1. Continue to build strategic alliances with domestic and international partners

Strategic alliances are crucial for accelerating market development as they provide complementary expertise and support to the involved parties and consequently enhance their internal capacities. Such partnerships are important for the CMA as it aims to ensure that the capital markets attain international standards and provide access to other markets. Some of the activities that will be carried out include:

i) Establish and fully implement mutual recognition agreements with other regulators especially in Africa and beyond;
ii) Establish and fully implement mutual recognition agreements with key industry stakeholders such as industry associations; and
iii) Enter into agreements with local and international capacity building institutions/bodies.

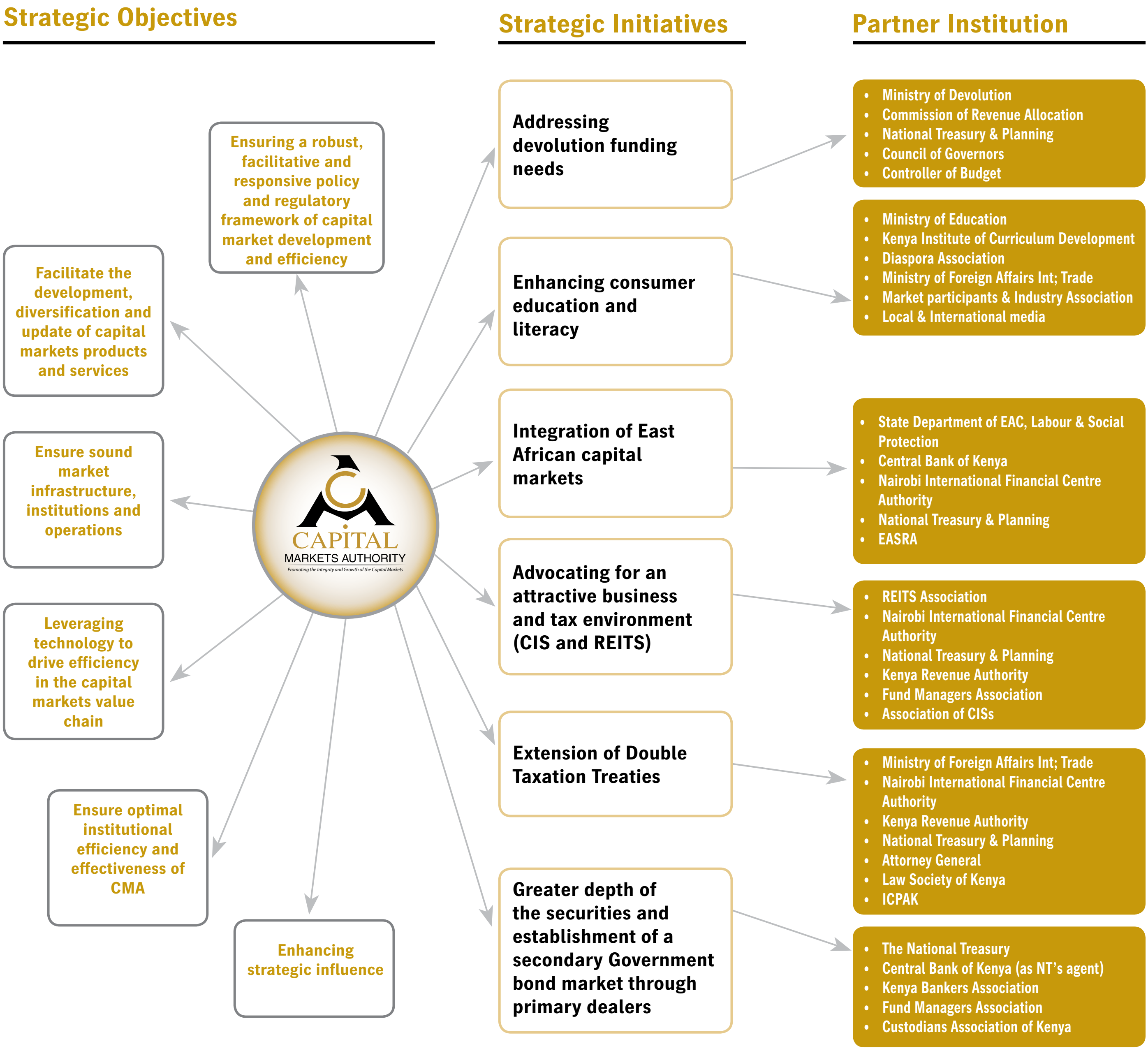
3.4.6.2. Consistently engage key stakeholders to ensure deepening of the capital markets

In the CMMP, a number of actions were identified in order to support Kenya's developmental and economic transformation needs, develop market infrastructure and build robust regulatory frameworks. While many of these initiatives held the CMA responsible, a significant number of them require the joint collaboration between various regulators.

Some of the actions requiring a collaborative effort have been summarized in figures 8 & 9 below and the collaborating institutions identified:

Figure 8: Summary of key initiatives requiring the collaboration of partner institutions

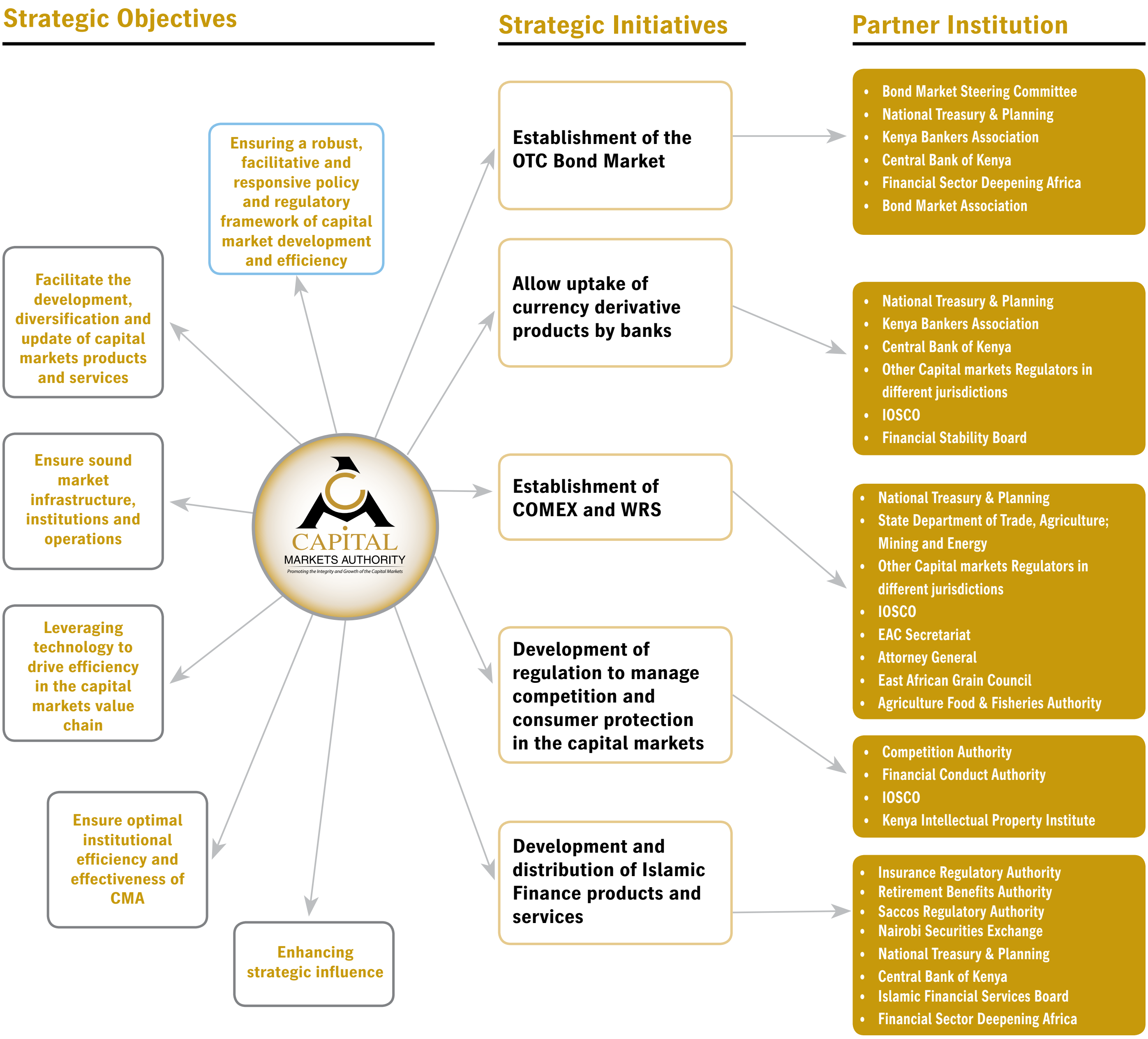
STAKEHOLDER MAPPING



Source: CMA

Figure 9: Summary of key initiatives requiring the collaboration of partner institutions

STAKEHOLDER MAPPING



Source: CMA

4. ALIGNING THE ORGANISATION TO THE STRATEGIC PLAN

In line with the Authority's new strategic objectives, it is imperative that the organizational structure is re-evaluates to deliver on its mandate and improve service delivery in an efficient manner. The table below highlights the required changes per strategic objective and provides a strategic reasoning for each.

Table 8: Summary of changes to organizational structure

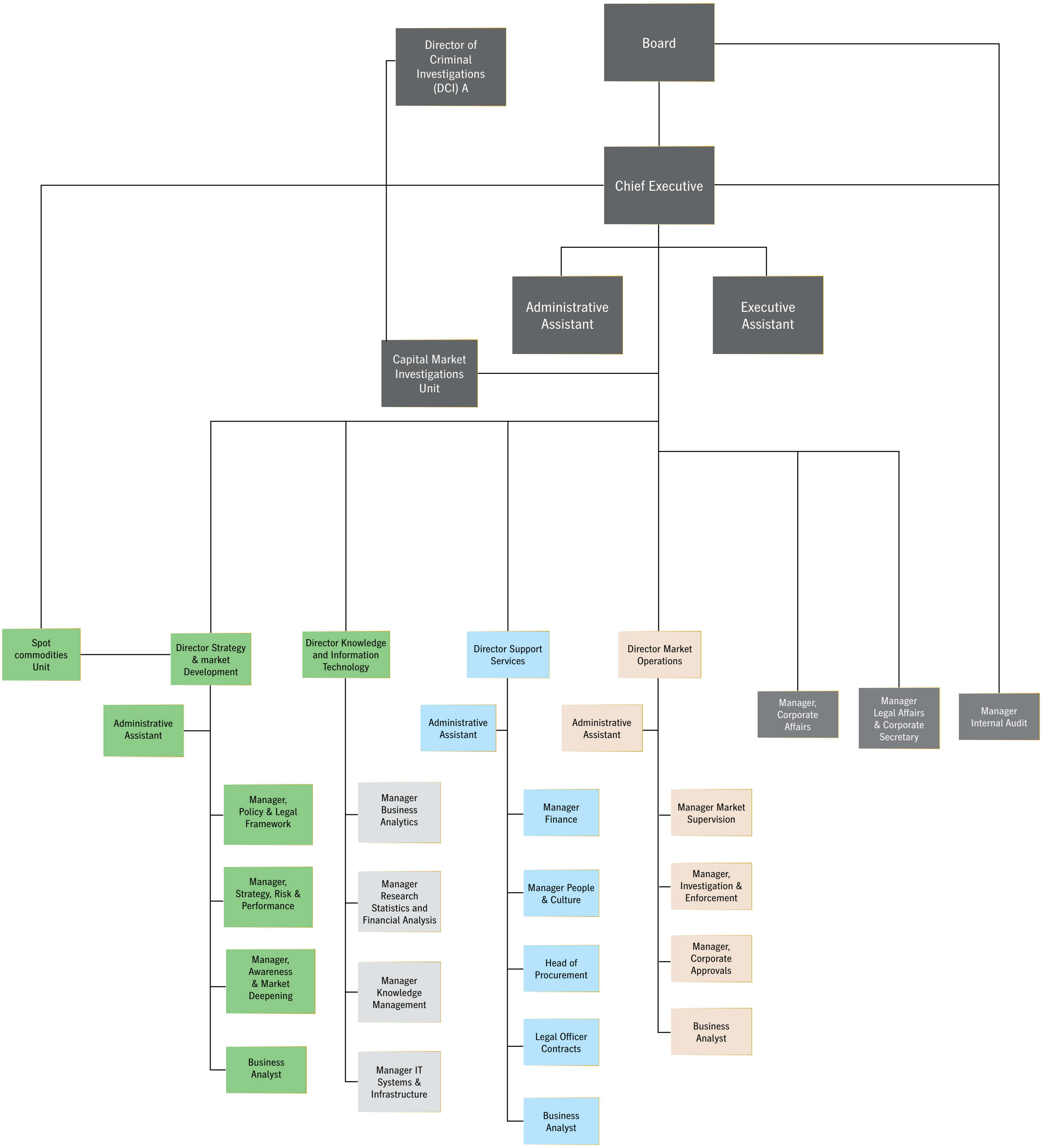
Strategic objective	Required organizational change	Strategic reasoning
Ensuring a robust, facilitative and responsive policy and regulatory framework for capital markets development and efficiency	• Restructure Regulatory, Policy and Strategy Directorate to become the Strategy & Market Development Directorate • Split the Strategy, Policy and Regulatory Framework Managerial role into Policy & Legal Framework and Strategy, Risk & Performance	• There is a need to adopt a more coordinated and holistic approach to market engagement and product development whereby policy formulation and implementation is informed by the market development needs • The distinct separation of roles between strategy & performance and policy & legal framework will allow for more coordinated resourcing and execution of policy formulation and influence on its implementation on the one hand and effective strategy development and execution through coordination, monitoring and evaluation of strategy implementation and enterprise risk management, project management and ISO 9001:2015 compliance, on the other hand
Facilitate the development, diversification and uptake of capital markets products and services	• Expand the remit of the investor education and public awareness function to more proactively address market engagement on product development and uptake on both the supply and demand side, together with intermediary education • Create a spot commodities oversight unit to lead the transition of this sector to CMA regulation and to build capacity for the effective regulation of this segment	• The Authority has supported the development of a wide spectrum of new products and services that has seen limited product uptake and a significant slowdown in product issuance. A more holistic approach to market engagement on the product development process and coordinated follow through to ensure an issuance pipeline, is expected to deepen the pool of investable products and address market concentration risk • The regulation of the spot commodities markets falls within the remit of the CMA and as such it will be important for the Authority to a create a transitionary function that will enable the building of capacity around regulating this new segment of the market. In the long run the Authority, in consultation with relevant stakeholders and subject to Government policy, will determine the strategy for regulating this segment including but not limited to considering spin-off a new commodities regulator
Ensure sound market infrastructure, operations and institutions	• Strengthen the operational focus of market supervision functions on proactive and outcomes-focused market facing risk management • Merge the oversight of Derivatives into Directorate of Market Operations • Expand the remit of the market operations directorate to also include providing oversight to the spot commodities exchange	• There are strategic initiatives that include enhancing investor protection through specific interventions such as Global Investment Performance Standards (GIPS) and this will require a more directed focus beyond market surveillance • It was noted that the existing unit on Derivatives function was established to launch the new product. While some markets have opted to keep derivatives oversight functions separate from traditional market operations, such as the US, in a relatively nascent market like Kenya the separation could create inefficiencies as both tasks require similar skills and oversight gaps and exposure risks as the size of the markets grow • The regulation of the spot commodities markets falls within the remit of the CMA and as such it will be important for the Authority to a create a transitionary function that will enable the building of capacity around regulating this new segment of the market. In the long run the Authority, in consultation with relevant stakeholders and subject to Government

Strategic objective	Required organizational change	Strategic reasoning
		policy, will determine the strategy for regulating this segment including but not limited to considering spin-off a new commodities regulator
Leveraging technology to drive efficiency in the capital markets value chain	• Establish a distinct and robust business technology and analytics directorate capable of servicing the whole organization with business intelligence	• In order to ensure the business is able to leverage and evolve its internal systems to respond to changing market technology and to promote analytics-based decision making • Technology such as SupTech has the potential to bring efficiencies to the regulator and thus there is a need for improved coordination of research and data analytics, knowledge management and ICT infrastructure to support internal efficiency as well as the experience of the regulated community • The implementation of a regulatory sandbox will call for greater nimbleness in cross-organizational capacity to support FinTech evolutions from industry
Ensure optimal institutional efficiency and effectiveness of CMA	• Consolidate and coordinate all internal research and analytics, knowledge management and business technology development functions within a single directorate capable of servicing the business intelligence needs of the organization • Restructure Corporate Services Directorate to streamline procurement and contract management capacity and to consolidate ICT infrastructure management and development within a dedicated directorate handling information consolidation, analysis and technology optimization	• Reduce fragmentation of internal analytics capacity while building capacity for continuous review and refinement of ICT and information processing platforms to support effective decision making
Enhancing strategic influence	• In addition to consolidating resources with a focus on Policy and Framework development and implementation, the creation of a more effective Corporate Affairs function is expected to improve both domestic and international institutional influence	• There is a need to raise the profile of the Authority locally and internationally. Based on an international benchmarking exercise, the Policy and Framework teams and Corporate Affairs teams will coordinate to support improved institutional capacity to influence

In addition to the above changes, a human capital audit will determine the roles and responsibilities of each role and function and identify areas of possible synergy.

The figure shows the key changes as described in the table above. Blocks in green indicate additional roles or a broader set of responsibilities per role

Figure 10: Organization Structure aligned to the Strategy



Based on the above organization structure aligned to the strategic plan, the following structural adjustments will be made:

i) **Restructuring and renaming the Regulatory, Policy and Strategy Directorate to become the Strategy & Market Development Directorate** - This directorate will manage functions that deal with: awareness and market deepening, policy and legal framework and strategy and performance management. The changes are expected to allow for: more coordinated efforts to formulate policy and further influence its implementation, effective strategic development, execution, monitoring and evaluation as well as a holistic approach to market engagement and product development in order to improve the uptake of capital markets products and services. The directorate will also assume the responsibility of creating and reviewing regulations related to the spot commodities exchange as well as facilitating its development.

ii) **Restructuring and renaming the Corporate Services Directorate to become the Support Services Directorate** - It will consist of functions dealing with: people & culture, finance and procurement. The Directorate will also get support from a business analyst and legal contracts officer in order to streamline contract management capacity and co-ordinate business technology development and knowledge management.

iii) **Strengthening the Market Operations Directorate** - which will continue managing functions related to: corporate approvals, investigations and enforcements and market supervision. The strengthening of this directorate will include adding the oversight of derivatives and the spot commodities exchange to its functions and increasing the operational focus of market supervision functions towards market facing risk management. This is expected to reduce the inefficiencies while providing market oversight across all capital market products and will also enhance investor protection.

iv) **Setting up a Knowledge and Information Technology Directorate** - which will consist of the following functions: business analytics, IT systems & infrastructure, research, statistics and financial analysis and knowledge management. The functions are expected to enhance capacity with regards to optimizing business technology and intelligence in order to support effective decision making.

v) **Setting up a transitional Spot Commodities Unit (SCU)** – which will consist of the following functions; developing regulation and policy related to the spot markets, managing stakeholder relationships with the commodities exchanges, supporting the commodities exchange with capacity and adoption of best practices and market surveillance and supervision.

vi) **Expanding the remit of the Corporate Communications function to deal with Corporate Affairs** - the unit will support the strategy and market development team with enhancing the CMA's domestic and international influence. This will also include carrying out customer-facing engagements with the aim of supporting initiatives aimed at educating potential/current investors and incentivizing potential issuers.

STRATEGIC PLAN IMPLEMENTATION

As part of the strategic implementation plan, specific Key Performance Indicators (KPIs) have been identified with the aim of tracking progress in achieving the strategic objectives, initiatives and activities. The KPIs that are assigned at each activity level will be used to determine whether the activities have been successfully completed. On the other hand, the overall KPIs will be used to assess whether the successful completion of activities resulted in the achievement of overall strategic objectives.

The complete strategic implementation plan is articulated in the sections that follow whereby the specific timelines per KPI and departments responsible have been indicated. The KPIs that are of high priority are marked in red, those are of medium priority are marked in amber whereas those that are of low priority are marked in green.

4.1. ENSURING A ROBUST, FACILITATIVE AND RESPONSIVE POLICY AND REGULATORY FRAMEWORK FOR CAPITAL MARKET DEVELOPMENT AND EFFICIENCY

Within the first strategic objective, the following indicators have been identified.

Table 9: Summary of Strategic Performance indicators per activity

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
Enhance the responsiveness and enforceability of the policy regulatory framework to improve investor experience	Enhance current investor protection guidelines by including market conduct and Treating Customers Fairly(TCF) frameworks	Assessment report on investor protection guidelines completed Investor protection guidelines amendments on market conduct and TCF are completed	August 2019 February 2020	High	Policy & Legal Framework
	Listed companies and issuers to regularly publish corporate governance assessments reports	Governance assessments reports published in listed companies and issuers annual reports and websites	Annually	Medium	Market supervision
	Ensure full implementation and adherence to the corporate governance and stewardship codes	All listed companies and regulated market intermediaries fully compliant	September 2021	High	Market supervision
	Investigate the appetite and requirement to implement Global Investment Performance Standards (GIPS) across the fund management industry	Report on GIPS requirements and appetites completed and informs approach on GIPS implementation	November 2018	Low	Policy & Regulatory Framework
	Sensitize all market participants on investor protection	Investor protection information is embedded into capital markets public education strategy	Continuous	High	Awareness & Market Deepening
	Apply a portion of recoveries/penalties towards compensation of whistleblowers	3% of recoveries/ penalties subject to a ceiling of KES 5 million segregated for supporting whistleblowers	Annual	High	Investigations and enforcement, Finance
	Enhance the scope of the Investor Compensation Fund (ICF) to allow for effective investor protection	Amendment of ICF scope to include activities such as whistle-blower compensation and forensic audits	June 2019	High	Policy & Legal Framework

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
	Examine and implement light disclosure regulations for Private Equity (PE) firms operating in Kenya but domiciled in other countries	Light disclosure regulations for PE firms in place Overall 80% increase in pension funds exposure to PE	December 2019 June 2023	Medium	Awareness & Market Deepening
	Review policy and regulatory challenges on enforcing and prosecuting misconduct	Amendments to CM Act and regulations made to enhance the enforcement and prosecution of misconduct	June 2019	High	Policy & Legal Framework
		Enforcement feedback report submitted	Semi-annually	Medium	Investigations and enforcement
Review policy and develop regulatory framework to be in alignment with the National Development Agenda	Identify and analyze the funding gaps across all the sectors within Government focus, more specifically on manufacturing, housing, agriculture and the healthcare sectors	National and County gap analysis report finalized and findings and recommendations are used to guide stakeholder engagements and product focus	December 2019	High	Awareness & Market Deepening
	Review policy and develop regulatory framework to support County financing through capital markets upon recommendation from the County financing gaps study	County financing gap study finalized	September 2018	High	Awareness & Market Deepening
		Policy and regulatory framework in place	June 2019		Policy & Legal Framework
	Review policies and develop rules, regulations and laws to ensure efficient operations of the Commodities Exchange (COMEX)	Operationalized commodities exchange	March 2020	High	Awareness & Market Deepening
	Conduct an issuer survey across these respective sectors to inform the necessary regulatory amendments to bring issuers to market	Completed issuer survey that informs regulatory amendments Regulatory amendments completed	August 2018 March 2019	Medium	Awareness & Market Deepening

4.2. FACILITATE THE DEVELOPMENT, DIVERSIFICATION AND UPTAKE OF CAPITAL MARKET PRODUCTS AND SERVICES

Within the second strategic objective, the following indicators have been identified.

Table 10: Summary of Performance Indicators per activity

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
Enhance awareness and delivery of Capital Market education for investors and issuers	Facilitate capacity building sessions for market intermediaries using a train-the- trainer approach	3 Capacity building sessions conducted	Annually	High	Awareness & Market Deepening
	Foster an ecosystem that links incubators/ accelerators, technical assistance providers, industry/trade associations, potential issuers and investors	Engage with stakeholders to create a hub that will enable these linkages Hub is established	Continuous December 2022	Medium	Awareness & Market Deepening & Corporate Affairs
	Research into investor and issuer needs and understand their behavioral patterns	Study conducted on investor and issuer needs and behavioural patterns using a rigorous behavioural economics approach Implement recommendations of behavioral study further inform investor education strategy	June 2019 December 2019	High	Awareness & Market Deepening
	Facilitate development, training and management of the CISI certification programme and knowledge management within the capital markets	Certification programme reviewed and enhanced Knowledge management program fully rolled out	Continuous	Medium	Awareness & Market Deepening Knowledge Management
	Implement recommendations based on the Investor Education Impact Assessment and Opportunities Study	All recommendations in the investor impact study are implemented	June 2023	High	Awareness & Market Deepening
	Continuously develop capital market education materials for investors and issuers and distribute these using digital channels	Adequate and impactful materials published Distribution regularly done on television, radio, print media and social media	Continuous Every Quarter	Medium	Awareness & Market Deepening
	Explore the effectiveness of various education delivery channels per target market segment	Review and implement investor education strategies for each market segment Investor Education Impact Assessment and Opportunities Study conducted	Annually Every two years	High	Awareness & Market Deepening

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
	Support market facilitators (transaction advisors, NOMADs, market intermediaries etc.) in presenting the incentives and benefits of publicly listing to potential issuers	Adequate materials and technical assistance provided to market intermediaries and facilitators engaging with potential issuers	Annually	Medium	Awareness & Market Deepening
		3 roadshows are carried out by market facilitators and/or intermediaries	Annually		
Review the policy and regulatory environment to attract a broader set of investors and issuers	Engage potential international investors to establish key reforms that would allow them to invest in Kenya	Key reforms are identified Reforms implementation is completed	September 2018 January 2020	High	Awareness & Market Deepening
	Conduct a demand-assessment for Islamic Capital Market Products	Demand Assessment Report completed	August 2018	Low	Awareness & Market Deepening
	Review existing milestones and determine the next steps towards enabling issuance and disbursement of Islamic Finance Capital Market products	Next steps identified and implemented	August 2019	Medium	Awareness & Market Deepening
	Support the NSE on the Green Bond Program	Green Bond Program operationalized	February 2019	Low	Awareness & Market Deepening
	Conduct a survey among issuers and institutional changes on their opinions regarding E.S.G	Issuer survey completed and findings inform approach on ESG	July 2019	Low	Awareness & Market Deepening
	Draft or amend regulations based on the E.S.G survey and review of the respective codes in conjunction with the NSE	Regulations drafted and/or amended	September 2019	Low	Policy & Regulatory Framework
	Develop scorecards and reporting templates to guide listed companies on E.S.G reporting in conjunction with the NSE	Scorecards and reporting templates developed	September 2018	Low	Policy & Regulatory Framework, Market Supervision
Assess and refine the policy and regulatory framework to ensure optimal uptake of products and market participation	Review end-to-end regulations on existing capital market products and engage the relevant regulators or stakeholders such as National Treasury, KRA and RBA to achieve the desired uptake	Report on end-to-end regulation reviews for products such as CIS, REITS, ETFs and ordinary shares Report findings are implemented	November 2019 April 2021	High	Policy & Regulatory Framework, Strategy, Risk & Performance, Awareness and Market Deepening
	Engage with stakeholder to facilitate uptake of new products such as but not limited to REITs and ETFs	Demand assessment report completed Report recommendations are implemented	April 2019 December 2019	Medium	Awareness and Market Deepening

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
	Review policy and regulatory environment to facilitate Government and its entities utilize the capital markets	Amendments to relevant legislations and regulations made to remove impediments to capital raising and listing by Government and its entities	April 2020	Medium	Policy & Regulatory Framework,
	Review current listing and disclosure requirements to improve issuers' listing experience and increase market participation on the securities exchange	Listing and disclosure requirements reviewed and amended	September 2019	High	Policy & Regulatory Framework, Awareness and Market Deepening
	Review private equity deals and understand key competitive advantages over going public	Review completed and findings used to inform approach on encouraging issuer participation in the capital markets	April 2019	Medium	Awareness and Market Deepening
	Engage with private equity firms and banks to identify potential issuers that are under private equity deals or need to restructure their financing and encourage public listing as a suitable exit strategy	Private equity firms operating in Kenya and banks are identified and engaged with 10 potential issuers are identified and engaged with	September 2018 and continuously thereafter Annually	Medium	Awareness and Market Deepening Corporate Approvals
	Engage with Government entities and public-private partnerships (PPPs) to consider public listing as a suitable privatization strategy	5 Public-owned entities/ PPPs are identified as potential issuers and engaged with	Annually	Medium	Policy & Regulatory Framework, Awareness and Market Deepening Corporate Approvals
	Leverage off current issuer surveys of companies that are prime targets for listings and engage them actively	Source market surveys of potential issuers and use findings to inform approach on encouraging issuer participation in the capital markets	Annually	Medium	Policy & Regulatory Framework, Corporate Approvals, Awareness and Market Deepening

4.3. ENSURE SOUND MARKET INFRASTRUCTURE, INSTITUTIONS AND OPERATIONS

Within the third strategic objective, the following indicators have been identified.

Table 11: Summary of Performance Indicators per activity

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
Supervise the maintenance of efficient pre-trading environment including trade facilitation, access to data and information and stable technology	Support initiatives to introduce primary dealer arrangements in the Government bond market	Primary dealers for Government bonds in place.	March 2019	High	Policy & Regulatory Framework Strategy, Risk and Performance Market Supervision
	Support initiatives to introduce market making in the securities markets	Market makers admitted as Trading Participants at the NSE/OTC Market Organizer	April 2019	High	Policy & Regulatory Framework, Awareness and Market Deepening Market Supervision
	Implement OTC platform for hybrid bond market	OTC platform for the Government bond market operationalized	September 2019	High	Policy & Regulatory Framework Awareness and Market Deepening Market Supervision
	Finalize market operational rules pending for securities lending and borrowing	Operational rules are finalized and SLB is operationalized	February 2019	High	Policy & Regulatory Framework, Market Supervision Awareness and Market Deepening
	Develop policy and regulatory framework for margin trading	Policy and regulatory framework in place	December 2020	Medium	Policy & Regulatory Framework, Awareness and Market Deepening
	Enhance the adherence and enforcement of sound financial reporting standards	Ensure all listed companies and regulated market participants fully adhere to IFRS accounting standing Independent oversight legislation is passed and fully implemented	March 2021 April 2022	High	Market supervision, Corporate Approvals
	Facilitate market conditions and regulatory environment required to increase competition in the trading environment	Assessment report on the market conditions and regulatory environment required to increase the number of trading platforms and potential impact on market fees Continuous implementation of assessment report	March 2020 June 2023	Low	Policy & Regulatory Framework, Awareness and Market Deepening, Corporate Approvals Market Supervision
	Submit proposals and guidelines on phasing in liberalized market fees to appropriate regulators and stakeholders	Proposal submitted to National Treasury and CAK Market fees are liberalized	January 2019 April 2022	Medium	Policy & Regulatory Framework, Awareness and Market Deepening Policy & Regulatory Framework

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
Ensure efficiency and risk minimization in the trading and post-trading environment (clearing, custody & settlement)	Facilitate CDSC to modernizes its systems to facilitate the trading of all products in the capital markets efficiently and implement a real Delivery versus Payment (DvP) system	CDSC to successfully upgrade to Perago system CDSC facilitates trading for all existing and new products in the market Full implementation of DVP system	June 2019 December 2018 February 2023	High	Market supervision Policy & Regulatory Framework, Market supervision
	Facilitate the CDSC to develops an implementation plan, including timelines, arising from the initial assessment report on CPMI-IOSCO compliance	CDSC develops an implementation plan for the initial assessment report on CPMI-IOSCO compliance	June 2019	High	Market supervision
	Facilitate continuous assessment of CDSC compliance with CPMI-IOSCO principles for financial markets infrastructure	Assessment conducted	Every four years	High	Market supervision
	Develop a framework to consolidate the CDSC with the Government bond CSD	Form institutional agreements with CBK on alignment Systems and models are aligned	April 2022 May 2023	High	Policy & Regulatory Framework, Market supervision
	Facilitate the linkage of the CDSC with global depositories	The CDSC is linked to Euroclear and/or Clearstream	May 2021	Medium	Market Supervision
	Facilitate the linkage of the CDSC with other East African CSDs	The CDSC is linked to at least 3 other East African CDSCs	June 2021	Low	Policy & Regulatory Framework, Awareness and Market Deepening Policy & Regulatory Framework
	Develop policy framework to guide the establishment of a horizontal CCP	Policy framework in place	June 2019	Low	Policy & Regulatory Framework
	Conduct periodic assessments of the market readiness for a central counterparty clearing house (CCP)	Assessment conducted Requirements for setting up a CCP are established	Every two years After assessments are conducted	Low	Policy & Regulatory Framework, Market Supervision Awareness and Market deepening
	Support the NSE, Bond Market Organizer and CDSC to become full SROs and bestow upon them the responsibility to supervise their members	NSE is approved as a full SRO Bond Market Organizer approved as an SRO CDSC is approved as a full SRO	June 2019 May 2020 June 2023	Medium	Strategy, Risk & Performance, , Market supervision &, Corporate Approvals

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
	Facilitate the development of a Warehouse Receipt System (WRS) for the commodities exchange	WRS is operationalized	November 2019	High	Awareness and Market Deepening
	Review Policy and develop regulatory framework to facilitate the establishment of spot commodities exchanges	Policy and regulatory framework in place	December 2018	Medium	Spot Commodities Unit
Promote proper market conduct through proactive supervision of capital market operations and effective enforcement	Develop policies on early detection of misconduct	Policies on whistleblowing and self-reporting are developed Fraud risk assessments conducted, submitted and used as a basis for reviewing policies	September 2018 Every two years	High	Investigations and enforcement
	Develop a framework on information sharing with market participants on fraud and misconduct risks	Adequate educational materials on market fraud are developed Information is disseminated in forums such as conferences, social media, television, radio, print media and in direct communication with market intermediaries	Annually Continuously	High	Investigations and enforcement, Awareness and Market Deepening Capital Markets Fraud Investigations Unit
	Periodically submit fraud intelligence reports to management and the board	Fraud intelligence reports are submitted to the management and board	Quarterly	Medium	Investigations and enforcement Market Deepening Capital Markets Fraud Investigations Unit
	Leverage on technology to conduct effective investigations	Identified and acquired forensic tools that can enhance investigation processes	May 2020	Medium	Investigations and enforcement, Market Deepening Capital Markets Fraud Investigations Unit
	Develop monitoring and supervision framework for cross-border investment activity and risks	Monitoring and supervision frameworks are developed Fraud and intelligence reports include cross-border market	March 2019 April 2019	High	Investigations and enforcement, Market Supervision, Knowledge Management and Information Technology Market Deepening Capital Markets Fraud Investigations Unit
	Increase number of sources of market intelligence information for market surveillance	Acquire Bloomberg terminal	September 2019	Medium	Market Supervision

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
	Enhance enforcement manual with the intention to implement proportionate penalties for misconduct	Proportionate penalties for misconduct are implemented	November 2018	High	Investigations and enforcement
	Conduct employee training on supervision of new products and technologies	2 trainings conducted	Annually	High	Market Supervision
	Effectively investigate and prosecute financial crimes	Informant policy and procedures are developed and implemented No contest settlement programme is developed and implemented	September 2019 April 2019	High	Investigations and enforcement

4.4. LEVERAGING TECHNOLOGY TO DRIVE EFFICIENCY IN THE CAPITAL MARKETS VALUE CHAIN

Within the fourth strategic objective, the following indicators have been identified.

Table 12: Summary of Performance Indicators per activity

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
Build capacity to respond to the impact and support the implementation of new technologies in the capital market value-chain	Regularly conduct an assessment of the appetite for FinTech adoption across the capital market value chain	Assessment completed and potential adopters are identified	Every two years	Medium	Policy & Regulatory Framework, Strategy, Risk & Performance, Awareness and Market Deepening
	Implement a regulatory sandbox based on the strategic framework developed	Regulatory sandbox implemented	July 2019	Medium	Policy & Regulatory Framework, Strategy, Risk & Performance, Awareness and Market Deepening, Market supervision, Corporate Approvals
	Collaborate with any Government or industry-led working groups and FinTech innovators to consider Fintech issues/matters	Proposal to include Fintech regulation as a key theme for working group 3 submitted Recommendations on FinTech issues are submitted by CMA to relevant taskforces and institutions and implemented	September 2018 Continuous	High	Policy & Regulatory Framework, Strategy, Risk & Performance Awareness and Market Deepening
	Conduct policy and legal research into a portfolio of regulatory tools to support Fintech oversight	Policy and legal toolkit for a portfolio of FinTech solutions in place Toolkit is used to inform regulatory frameworks for Fintech solutions	May 2018 Continuous	High	Policy & Regulatory Framework, Awareness and Market Deepening

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
	Based on market need and the regulatory environment, develop appropriate policy and regulatory frameworks for the application of technological innovations and interventions in the capital market including but not limited to RegTech, SupTech, automated reporting of capital market data, robo-advisory, data analytics and AI	Guidelines developed	June 2023	Low	Policy & Regulatory Framework
	Review global best practices for crowd-funding regulation and regularly monitor the growth and activities of the crowdfunding space in Kenya	Complete review and use findings to inform approach on regulating crowdfunding space Continuous monitoring	April 2021 Biannually	Medium	Policy & Regulatory Framework, Strategy & Performance, Awareness and Market Deepening
	Develop regulatory guidelines for the most prevalent types of crowdfunding to ensure prudent management of investor funds and risk mitigation	Guidelines and checklists developed	September 2021	Low	Policy & Regulatory Framework
	Support awareness and respond to enquiries relating to local and international FinTech through establishment of FinTech hotline	Joint financial sector regulators' hotline FinTech established	December 2018	High	Policy & Regulatory Framework, ICT & Corporate Affairs
Internally leverage Information, communication and technology to enhance efficiency and service delivery	Continuously conduct assessment reports on the level of internal ICT automation and integration and implement recommendations	Assessment reports on the level of ICT automation and integration completed Implementation of recommendations from assessment report completed	Annually	High	Investigations and enforcement, Knowledge Management and Information Technology
	Identify and implement systems that are flexible and decrease reliance on service providers	Systems identified and acquired/modified	Continuous	High	Knowledge Management and Information Technology, Business Analysis
	Develop and implement an ICT strategic plan (2018-2023)	ICT strategic plan developed and implemented	December 2018	High	Knowledge Management and Information Technology
	Periodically conduct a study on the technological evolution in the market and use findings to inform the ICT strategic plan	Study completed and findings inform ICT strategic plan	Every two years	Medium	Knowledge Management and Information Technology, Awareness and Market Development

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
	Leverage on ICT subcommittee on the board to give oversight of internal systems and the ICT strategic plan	Review and enhance terms of reference of the ICT subcommittee ICT subcommittee provides oversights of the strategic plan	September 2018 Annually	High	Knowledge Management and Information Technology
	Ensure direct system integration of market systems with all market facilitators	Integrate with 80% of market facilitators	June 2023	Medium	Knowledge Management and Information Technology, Market supervision
	Internally coordinate efforts between market operations and ICT departments in order to effectively monitor and supervise the evolving market	Internal institutional arrangements in place	March 2019	Medium	Knowledge Management and Information Technology, Market supervision, Corporate Approvals
	Develop a business intelligence system	Business intelligence system in place	August 2019	High	Market Supervision, Knowledge Management and Information Technology

4.5. ENSURE OPTIMAL INSTITUTIONAL EFFICIENCY AND EFFECTIVENESS OF CMA

Within the fifth strategic objective, the following indicators have been identified.

Table 13: Summary of Performance Indicators per activity

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
Enhance and align staff competency with changing operating environment	Conduct training needs assessments and implement recommendations	Training needs assessments report completed and recommendations implemented	Annually	Medium	People & Culture
	Monitor and implement staff development program	Staff development program reviewed and implemented	Annually	High	People & Culture
	Undertake an organizational structure assessment	Assessment conducted New organizational structure implemented	August 2018 February 2019	High	People & Culture
	Enhance ICT staffing needs to build internal capabilities e.g. on data mining, management and analytics and software engineering.	Trainings held on data mining, management and analytics ICT team proficient in python	Biannually June 2023	High	Knowledge Management and Information Technology

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
	Review and implement change management program in place	Review of change management programme completed and recommendations are implemented	Annually	Medium	People & Culture
Enhance financial sustainability and operational efficiency	Diversify the CMA's sources of revenue through the implementation of a capital market training Institute	Capital market training institute operationalized	June 2023	High	Knowledge Management Awareness & Market Deepening
	Set up a fundraising desk that will focus on building capacity to generate revenues for strategically key projects	Fundraising desk operationalized Processes are consolidated at strategic and operational level At least 3 new partnerships are formed with donors	November 2018 December 2019 June 2023	High	Strategy, Risk & Performance Corporate Affairs
	Maintain and sustain prudent financial management practices	Budgets are aligned to programs Funded programs within budget Best procurement processes are adopted and regulatory provisions are complied with	Annually Annually Continuously	High	Finance Finance, Strategy, Risk & Performance Procurement
	Continuously review and implement the risk management framework in place	Risk management framework reviewed and implemented	Annually	High	Internal Audit
Improve and uphold the corporate image of the Authority	Prepare information materials on the capital markets and the CMA, aligned to the investor education and awareness strategy, for dissemination through the media	3 documentaries produced and aired Infomercials produced and aired 4 TV commercials produced and aired	Annually Continuous Annually	Medium	Corporate Affairs Awareness and market deepening
	Share corporate information from the Authority in a timely manner	Respond to material events within 36 hours Media coverage of the Authority in two newspapers, two TV station and one radio for every announcement	Continuous Continuous	High	Corporate Affairs
	Periodically develop and implement a communications strategy	Communications strategy developed and implemented	Annually	High	Corporate Affairs

4.6. ENHANCING STRATEGIC INFLUENCE

Within the sixth strategic objective, the following indicators have been identified.

Table 14: Summary of Performance Indicator per activity

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
Continue to build strategic alliances with domestic and international partners	Enter into and fully implement mutual recognition agreements with other regulators especially within Africa and beyond	Signing and full implementation of existing mutual agreements Enter into mutual agreements with at least 4 other regulators Report on the progress and effectiveness of agreements	June 2023 June 2023	Medium	Corporate Affairs, Legal Affairs
	Enter into and fully implement mutual recognition agreements with key industry stakeholders such as industry associations	Enter into mutual agreements with at least 4 industry stakeholders Full implementation of mutual agreements Report on the progress and effectiveness of agreements	December 2021 December 2023 June 2023	High	Corporate Affairs, Legal Affairs
	Enter into agreements with local and international capacity building institutions/bodies	4 capacity building institutions brought on board	December 2023	Medium	Corporate Affairs, Legal Affairs Awareness & Market Deepening
Consistently engage with key stakeholders to ensure deepening of the capital markets	Proactively engage the National Treasury to achieve the necessary reforms to meet County Government financing needs	Reforms in place and County Governments have the capacity to participate in the capital markets	January 2023	Medium	Policy and Legal Framework, Strategy, Risk & Performance, Awareness & Market Deepening
	Review policy and develop regulatory recommendations to support capital market development	Policy memorandum submitted to National Treasury	Annually	High	Policy and Legal Framework, Awareness & Market Deepening
	Proactively engage the Ministry of Education to achieve the necessary reforms to enable greater access to capital market education	Continuous engagement conducted Information on capital markets is embedded in the curriculum	Every Quarter September 2022	Medium	Awareness & Market Deepening
	Proactively engage the National Treasury to achieve the necessary tax reforms for investment products such as REITs and CIS and explore tax incentives for new listing companies	Tax incentives for REITs, CISs and new listing companies are established	August 2021	High	Policy & Legal Framework, Strategy, Risk & Performance, Awareness & Market Deepening

Strategic Initiative	Activities	Indicator	Timelines	Priority	Department Responsible
	Proactively engage with relevant agencies to facilitate clarity in insolvency netting and settlement finality for securities transaction such as CBK, KDIC, IRA, AG etc.	Clarity in Insolvency netting and settlement laws Clean legal opinion by ISDA and ICMA	June 2023	High	Policy & Legal Framework, Strategy, Risk & Performance, Awareness & Market Deepening, Market Supervision
	Coordinate and engage with the CBK and CDSC to consolidate the respective CSDs into one	Government bond CSD and the CDSC are consolidated	December 2023	Medium	Policy & Legal Framework, Awareness & Market Deepening, Market Supervision
	Hold stakeholder consultations workshops to identify the best approach to achieving reforms	3 stakeholder consultation workshops held	Annually	Medium	Strategy, Risk & Performance, Policy & Legal Framework, Awareness & Market Deepening
	Develop and utilize an annual stakeholder engagement calendar	Stakeholder calendar developed and utilized	Annually	High	Awareness & Market Deepening
	Coordinate the development of a multi-sectoral crisis management framework that will comprehensively deal with systemic shocks	Comprehensive crisis management framework developed	March 2020	High	Corporate Affairs Policy & Legal Framework, Market Supervision, Investigation and Enforcement
	Mid-year review of the Capital Market Master Plan to align to the current environment and future aspirations	Revised plan developed	June 2019	High	Strategy, Risk & Performance
	Proactively engage specific market intermediaries and industry associations such as KBA to achieve the necessary buy-in in policy initiatives	Stakeholder mapping exercise conducted and informs prioritization in stakeholder engagement calendar	Continuous	High	Policy and Legal Framework, Awareness & Market Deepening, Market supervision, Corporate Approvals
	Develop an education process that will enable intermediaries to play a role in fostering the standards of bookkeeping, accounting, governance which a company must meet before it is able to issue publicly	3 Business Incubator, Accelerator, listing experience themed workshops conducted with intermediaries	Annually	Medium	Awareness & Market Deepening

4.7. OVERALL KEY PERFOMANCE INDICATORS

Capital Market level outcomes are influenced by numerous factors some of which are not within the full control of the regulator. In order to deliver on the commitments in the Strategic Plan, the Authority will be depending on other stakeholders including the National Treasury, Licensed and approved intermediaries, other financial sector regulators including RBA for matters related to the pension sector, CBK for matters related to the Banking Sector, IRA for matters related to the insurance sector, SASRA for matters related to Deposit-taking SACCOs and KRA for matters related to taxes on investors, issuers, intermediaries and products, among others.

With the foregoing observation in the background, defined targets that will be based on implementation outcomes directly linked to specific strategic initiatives have been set. This way, the Authority will be able to track the activities carried out and link them with direct market outcomes.

Table 15: Summary of Overall KPIs

Strategic Objective	Strategic Initiatives	Overall KPIs	2018	Expected (2023)	Source
Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency	Enhance the responsiveness and enforceability of the policy and regulatory framework to improve investor experience	MSCI Ranking	Frontier Market Status	Emerging Market Status	MSCI Reports
	Review policy and develop regulatory framework to be in alignment with the National Development Agenda	Number of Commodities Exchanges	0	2	Kenya Commodity Exchange (COMEX) Feasibility Study 2017
		Number of commodities traded on licensed Commodities Exchanges in Kenya.	0	4	
		Value of traded commodities (in KES)	0	1.7 trillion per annum	
		Number of capital markets issuers with capital markets products related to the manufacturing, housing, agriculture and healthcare sectors	20	30	CMA State of the Capital Markets Reports (various), H.E. The President's Speech during the 54th Jamhuri Day Celebrations on 12th December 2017
Facilitate the development, diversification and uptake of capital markets products and services	Enhance awareness and delivery of Capital Market education for investors	Composite Unweighted Investor Education Measurement Index (IEMI)	41%	52%	CMA Investor Education Impact Assessment and Opportunities Study, June 2018
		Percentage of market intermediaries conducting investor education programmes	7%	21%	
	Review the policy and regulatory environment to attract a broader set of investors and issuers	Proportion of total investors (as % of adult population)	19%	30%	
	Assess and refine the policy and regulatory framework to ensure optimal uptake of products and market participation	Market capitalization (equity)	KES 2.6 trillion	KES 3.5 trillion	CMA Statistical Bulletin, CMMP and Capital Markets Soundness reports
		Value of new corporate debt listings on NSE	KES 79.7 billion	KES 80	

Strategic Objective	Strategic Initiatives	Overall KPIs	2018	Expected (2023)	Source
	Supervise the maintenance of efficient pre-trading environment including trade facilitation, access to data and information and stable technology	Assets under CIS management	KES 60 billion	KES 100 billion	
		Number of issuers of other products (REITs, derivatives markets, ABS, ETFs, Islamic products, GDRs &GDNs)	2	7	
		Equity Market liquidity (Average Equity Turnover/ MCAP)	6.8%	25%	
		Bond Market liquidity (Average Bond Turnover/ Value of Outstanding Bonds)	26.8%	40%	
Ensure sound market infrastructure operations and institutions	Ensure efficiency and risk minimization in the trading and post-trading environment	DvP Status	Partially implemented	Fully implemented	Bond Market Steering Committee Reports (various)
	Promote proper market conduct through proactive supervision of capital market operations and effective enforcement	Percentage of cases completed, resultng in Administrative Action	N/A	75%	Investigations and Enforcement Reports (various)
		Percentage of cases completed, resulting in prosecution	N/A	50%	
		Percentage of cases completed, resulting in recoveries	N/A	25%	
		Turnaround time to conclude investigations and prosecutions	9 months	6 months	Internal Fraud Intelligence Reports (various)
Leveraging technology to drive efficiency in the capital markets value chain	Build capacity to respond to the impact of and support the implementation of new technologies in the capital market value-chain	Number of FinTech admitted to the test environment under the regulatory sandbox	0	5	CMA/FSDK/C-GAP report 2018
	Internally leverage Information, communication and technology to enhance efficiency and service delivery	Level of Automation within the Authority	74%	>75%	Self -assessments against ICT Authority Guidelines
Enhancing Strategic Influence	Continue to build strategic alliances with domestic and international partners	Percentage implementation of activities carried out under mutual agreements	20%	50%	CMA Monitoring and Evaluation Reports
		Number of capacity building partnerships.	5	10	CMA Monitoring and Evaluation Reports
	Consistently engage with key stakeholders to ensure deepening of the capital markets	Counties using capital markets to raise funds	0	2	County gap analysis report

Strategic Objective	Strategic Initiatives	Overall KPIs	2018	Expected (2023)	Source
		Percentage of completed activities within the strategic plan	83%	85%	CMA Monitoring and Evaluation Reports
Ensure optimal institutional efficiency and effectiveness of CMA	Enhance and align staff competency with the changing operating environment	Average % achievement of annual Aggregated Performance Ratings of Staff (for the strategic plan period)	70%	72%	CMA Monitoring and Evaluation Reports
	Enhance financial sustainability and operational efficiency	Total Revenue	KES 983 million	KES1.3 billion	CMA budget estimates
	Improve and uphold the corporate image of the Authority	Customer satisfaction index	73%	76%	Customer Satisfaction survey 2016

N/A – Not Available

5. ALIGNMENT OF THE STRATEGIC PLAN WITH RISKS

The implementation of the Authority's new 2018-2023 Strategic Plan would inevitably be accompanied by new emerging risks that shall need to be addressed for the Plan's successful implementation. In order to successfully address the risks, there is a need to align the new strategic objectives to the identified risks. This alignment as done was done as indicated in Table 22 and contains identified risks that could potentially affect the achievement of strategic objectives. Risks with a very high rating (envisaged to threaten the survival or continued effective functioning of the department or Authority and where immediate action is required) are marked in red. Risks with a high rating (likely to cause some damage, disruption or breach of control and that need to be managed by the Authority's Heads of Department through a detailed mitigation plan) are marked in amber. It is also important to note that the risks identified are evolving in nature and may therefore change or cease to exist during the implementation period of the Strategic Plan.

Table 16: Summary of strategic risks aligned to new strategic objectives

Strategic Objective	Possible Risks	Risk Drivers	Risk Effect	Risk Rating	Mitigation Action
Responsive policy and regulatory framework for capital market development and efficiency	Failure to initiate timely enforcement proceedings against non-compliant entities within the capital markets; Delayed enforcement actions	Uncertainty with regards to wider market repercussions/ impact in the event of administrative sanctions	Exposing investors to risks related to poorly governed companies due to weak corporate Governance Loss of shareholder value		Proactive engagement with the relevant stakeholders including Government (as majority shareholder or as the sole owner) to improve corporate Governance Establishment of a Recovery Board at the NSE
		Majority Government shareholding in listed companies where decision-making delays / non-alignment of interests affect strategy implementation			
		Ineffective surveillance and supervision of market; Market manipulation, insider dealing, governance malpractices and misconduct	Reduction in investor and issuer confidence		Introduction of infringement notices Introduction of no contest settlement program
	Unfavourable judicial judgements or policy decisions or orders that may threaten or impede CMA from realizing its mandate	Lack of knowledge by Judiciary on the Capital Market Operations and the objectives of capital markets regulation	Setting of bad precedents Interference with effective execution of the Authority's mandate		Collaboration with Judiciary Training Institute to train judges and magistrates.
		Gaps in the Existing legal framework			Ensure that the legal and regulatory framework is clear through feedback from enforcement related challenges and lessons learned
		Insufficient skills within CMA in policy and regulatory formulations.	Negative consequences of implemented regulations resulting in lack of growth and deepening of the market.		Capacity building

Strategic Objective	Possible Risks	Risk Drivers	Risk Effect	Risk Rating	Mitigation Action
	Policy and Regulatory gaps and lack of clarity in securities policies and laws	Inadequate stakeholder consultations.	Unregulated products or services in the capital market (dark pool, shadow banking)		Adequate stakeholder engagement/ sensitization.
		Requirements that are too stringent for the market to meet.	Inadequate regulatory oversight of the market among regulators		Review the existing regulatory frameworks to make them suit market needs.
		External influence e.g. Unsuitable amendments along the legislative process			Proactive engagement with relevant institutions during the legislative process.
		Misalignment/conflict of capital markets laws with other relevant laws			Continuous review of legislation and engagement with relevant institutions to establish any conflicts
		Delays in the development of quality policy and regulatory frameworks.			Constantly review and update the product development and rollout plans.
	Ineffective application of the Investor Compensation Fund to address key investor confidence and protection mandates	Rigid regulatory framework governing the application of ICF	Delayed conclusion of investigations and enforcement due to inadequate resources Loss of investor confidence		Review the ICF regulatory framework to enhance utilization
	Collapse or insolvency of market intermediaries, an issuer of securities and financial institutions.	Lack of integrity in the leadership of intermediaries and issuers of securities.	Loss of investor funds Capital flight Lost opportunities Low investor confidence		Robust licensing, approval, supervision and enforcement actions Enforce SROs Separation of business and regulatory roles Engage with the National Treasury on the introduction of auditor oversight legislation and with ICPAK on quality of financial reporting and audit
		Weak governance structure within the intermediaries Insolvency due to sustained losses Financial fraud Ineffective business model			
		Low levels of compliance with the rule of law and regulatory requirements.			
		Lack of requisite skills and professional qualifications among the staff of market players.			

Strategic Objective	Possible Risks	Risk Drivers	Risk Effect	Risk Rating	Mitigation Action
		Reliance on misleading and/or inaccurate third-party information during approval and supervision			
		Ineffective execution of delegated oversight functions by SROs			
Facilitate the development, diversification and uptake of capital markets products and services	Low interest from potential issuers.	Delays in product development	Low uptake for capital markets products.		Adherence to the product development and rollout timeline, subject to wide stakeholder consultations.
		Competition from other financial sub-sectors.			Demystify the capital markets by giving a cost-benefit analysis of participating in the capital markets
		Perceived stringent issuer requirements.			Review regulations to facilitate ease and simplify the issuing process.
		Low market performance			Conduct investor education initiatives to clarify issuer requirements and process.
		Low levels of awareness among potential issuers on the availability of professional firms that can facilitate the listing process. (E.g. brokers, investment banks etc.)			Hold business incubator and accelerator sessions towards listing.
	Low level of financial capability of potential investors (Investments attitude, knowledge, skills and savings level).	Lack of a national financial literacy strategy and curriculum.	Low participation in the capital markets.		Work with other financial sector regulators to develop a national financial literacy strategy
		Cultural persuasions (tangible vs non tangible assets)			Work with Kenya Institute of Curriculum Development to include capital markets topics in the curriculum
	Sub Optimal levels of uptake of new and/or existing capital markets products and services.	In exhaustive feasibility studies, research, surveys etc. On new and existing products and services	Low/Failed uptake of new capital markets products and services		Conduct exhaustive feasibility studies, research surveys.
		Inadequate investor education, awareness and protection programmes on new and existing products	Reduced uptake of existing capital markets products and services		Increase investor education and awareness outreach programmes

Strategic Objective	Possible Risks	Risk Drivers	Risk Effect	Risk Rating	Mitigation Action
		Inefficiencies in Market Infrastructure Low investor confidence	Poor market performance i.e. declining securities market index and market turnover. Reduced Authority revenue		Implement IOSCO-Principles for Financial Market Infrastructure (PFMI)
		Lack of collaboration with/facilitation by regulators, National Treasury and other key stakeholders			Proactive engagement and collaboration with regulators, National Treasury and other key stakeholders
		Untimely release of products to the market.			Constantly review and update the product development and rollout plans.
		Unfavourable market conditions			Continuously review market status to provide objective guidance to the relevant stakeholders
		Low level of financial capability			
	Negative perceptions of capital markets by investors.	Loss of funds as a result of: • Collapsed stock brokerage • Poor corporate governance by listed companies • Approval of unsuitable listing • Poor quality capital market disclosures	Investor apathy towards capital markets Sub-optimal mobilization of resources through the capital markets.		Enhance professionalism in the market Enhance market oversight Increase sensitization and awareness sessions market trends.
		Market downturn. Unaddressed investor complaints.			Ensure efficiency and effectiveness in the handling of investor complaints
		Low capital markets literacy levels of market players			Adequate skills acquisition and training of CMA staff to effectively develop and enforce regulation
	Unfavourable changes in macro-economic environment.	Unpredictable changes in inflation, interest rates and exchange rates	Reduced market performance. Capital Flight.		Proactively assess key macroeconomic factors and suggest mitigation measures
		Development in other jurisdictions; e.g. Brexit, UK elections, Foreign policies by developed markets. Adverse climate and environmental changes (e.g. drought and floods) that have an impact on macroeconomic environment	Shift of investments from capital markets. Reduced revenue. Impact it has had on intermediary performances.		Develop a dynamic suite of capital market products to provide investors with options in both a well performing or a poorly performing economic environment

Strategic Objective	Possible Risks	Risk Drivers	Risk Effect	Risk Rating	Mitigation Action
	Uncertain/Unfavourable Political environment changes	Domestic political developments	Low investor/ issuer confidence Reduced securities market performance. Reduced Foreign direct investments Reduced foreign portfolio holdings in the capital markets.		Assess the local and international political environment and provide periodic advisory on mitigation measures.
		Regional political developments			
		Different standpoints on the implementation of various cross-border agreements			
Ensure sound market infrastructure, operations and institutions	Money laundering and terrorism financing through the capital markets sector	Lack of requisite capacity and skills to implement AML/CFT risk-based supervision at CMA	Eroded investor confidence Reduced market integrity Capital flight Reputation risk for the country at large and capital markets sector		Internal capacity building e.g. training on risk assessment and supervision skills
		Inadequate knowledge and skills on AML/CFT issues in the market.			Enhanced regulation, supervision and enforcement
		Failure of market intermediaries to develop or procure effective tools/ systems for monitoring & reporting of suspicious transactions and/or activities.			Rolling out targeted sensitization programs for market intermediaries
		Lack of collaboration with key stakeholders in supervision and information sharing.			Collaboration through MoUs etc. on supervision, intelligence and information sharing with FRC, financial sector regulators and Law Enforcement Agencies (LEAs).
		Competing interests and lack of focus on AML/CFT supervision.			Partnership/ cooperation with international organizations e.g. IMF, World Bank, FSVC etc. in offering TA on targeted supervision areas
		Lack of adequate information sharing infrastructure to enable transparency of financial transactions to curb money laundering			Separate prudential and AML/CFT supervision as advised/ recommended by IMF consultants
	Trading, clearing and settlement systems failure	System outage due to environmental and human factors.	Loss of investor confidence in the market.		Ensure implementation of the PFMIs

Strategic Objective	Possible Risks	Risk Drivers	Risk Effect	Risk Rating	Mitigation Action
		ICT systems changes that can affect market operation specifically: • Market infrastructure systems at NSE and CDSC. • CBK changes on the CBK Settlement system for treasury bonds	Loss of investors' funds. Capital flight. Lost opportunities.		Ensure implementation of effective business continuity plans by market players.
		Ineffective business continuity plans for NSE and CDSC.			Frequent review of the systems to address gaps. Ensure system audits and implementation of findings.
		Increased incidences of Cyber-attacks globally and in Kenya.			Take enforcement action against violations. Strengthen supervision of the ATS and CSD systems.
		The inability of existent market infrastructure to support new products.			Upgrade systems to support new and upcoming products. Establishment of Crisis management, safety nets and resolution frameworks.
	Clearing and settlement process failure	Failure by counterparties to meet their obligations	Loss of investors' funds Capital flight Lost opportunities Low investor confidence		Enforce settlement limits Implementation of buy-in procedures.
		Implementation of Securities Lending and Borrowing and short selling			Enforce settlement limits
		Inadequate implementation of PFMI.			Ensure implementation of the Principles for financial market infrastructures (PFMIs)
		Inadequate Guarantee Fund.			Strengthen the guarantee fund.
		Removal of pre-validation of trades.			
Leveraging technology to drive efficiency in the capital markets value chain	CMA Business disruption and loss of critical data.	Increased incidences of cyber attacks Terrorism/Insecurity attacks	Delayed/poor service delivery Negative corporate image/ brand		Sensitize users on ICT security.

Strategic Objective	Possible Risks	Risk Drivers	Risk Effect	Risk Rating	Mitigation Action
		Inadequate ICT security controls.			Regular updates of security controls.
		Inadequate maintenance			Implement a preventive maintenance program. Periodic ICT system audits to identify areas of improvement.
		Low level of ICT security awareness			Establish and maintain BCP and DRP
		Data Loss through the corruption of databases, an authorised deletion etc.			Increased internal and external surveillance and security measures
		None Availability of accessibility of Enterprise systems (e.g. ERP, Email, Internet etc.)			Enhance staff awareness on anti-terrorism and security controls
	Cyber resilience failure in key market infrastructure or internal systems	Internet connectivity outage	Inability to monitor and surveil market activities online		Maintain a valid contract with the point-to-point link service provider Enforce the SLA agreement on downtime or degraded service experienced. Establish and maintain redundant point-to-point connectivity.
		End-point device failure			
		Point-2-Point connectivity outage between CMA and CDSC			
		Site-to-Site VPN connectivity failure between CMA and NSE			
		Service Provider network configuration changes			
		None availability of key resource support persons on the service provider			
	Failure to embrace/adopt New Technology	Conservative attitude towards technology by top leadership among key stakeholders.	Poor market surveillance, Low efficiency in service delivery		Continuous benchmarking with the industry. Early and coordinated stakeholder engagement Conducting research with a view to adopting new innovations i.e. Distributed Ledgers, Bitcoins etc.
		Risk averseness among key stakeholders	No uptake for start-up FinTech		

Strategic Objective	Possible Risks	Risk Drivers	Risk Effect	Risk Rating	Mitigation Action
Enhancing Strategic Influence	Non-adoption/rejection of policy and regulatory proposals by National Treasury or Parliament.	Competing national/ regional priorities.	Non-facilitative policy and regulatory framework that hinders the growth of the market Unregulated products or services in the capital market (dark pool, shadow banking) Contagion from market failures in unregulated sectors on the regulated financial sector		Early engagement and high-level engagement and collaboration.
		Insufficient technical capacity at both National Treasury and Parliament			Sensitization of relevant stakeholders (Parliament, Attorney General's office and National Treasury)
		Ineffective assessment and timely review of perimeter of regulation to address systemically important unregulated business.			
		Ineffective coordination of financial sector regulators preventing seamless supervision of market activity			
		Ineffective assessment and timely review of perimeter of regulation to address systemically important unregulated business.			
	Uncertainties occasioned by the proposed merger of regulators into FSA	Pre-enactment: Lack of clear timelines on enactment and consolidation	Pre, During and After: • Insecurities on jobs leading to staff anxiety and turnover		Communication to stakeholders(staff, market intermediaries) on status of implementation
		During Transition: uncertainty of organization structure changes	During: • Disruption of business (supervision activities occasioned by the supervision model) and structure that FSA will adopt. • Changes in the existing legal framework		
		After Transition: • New strategic direction, Governance structure, Enforcement challenges/weaknesses compounded	After: • Potential disruption to implementation of masterplan and strategic plan		
	Collapse of a systemically important financial institution (SIFI).	Lack of collaboration among financial sector regulators on enforcement and market oversight.	Loss of investor funds Loss of investor confidence		Enhance collaboration and information sharing among financial sector regulators and the National Treasury

Strategic Objective	Possible Risks	Risk Drivers	Risk Effect	Risk Rating	Mitigation Action
		Lack of a crisis management framework for the financial sector. Lack of SIFI compliance with regulatory requirements.			Crisis management safety nets and resolution frameworks
		Sustained losses by a SIFI.			
Ensure optimal institutional efficiency and effectiveness of CMA	Sub-optimal staff capacity.	Government directives on recruitment & remuneration	Inadequate staffing levels. Poor service delivery of the CMA mandate.		Proactive engagement with SCAC and National Treasury on for critical positions recruitment Establish Human Capital Development Strategy Effective staff planning
		Shortage & complexity of critical skills in the capital markets sector.			
		Weak coordination and deployment of staff			
		Competition for talent from market players leading to skilled staff attrition from the Authority			
	CMA-Inadequate financial resources	Low revenue growth Narrow revenue sources.	Delay in meeting the Authority's mandate		Explore alternative sources of revenue & funding
		Govt. regulations-90% remission of surplus to N.T.			Proactive engagements to review of public finance regulation on 90% remission of reserves
		Market Players seeking CMA's reduction on transaction levies and issuance fees.			Proactive engagements with market participants to appreciate the Authority's development role.
		Delays in corporate approvals			Robust corporate approval process
	Inadequate capacity to optimize business technology and intelligence to inform decision making	Lack of relevant and timely information that can inform decision making	Poor and untimely decision making within the CMA		Enhance internal capacity to improve business technology Coordinate and consolidate knowledge management

Strategic Objective	Possible Risks	Risk Drivers	Risk Effect	Risk Rating	Mitigation Action
	Erosion of the corporate image and reputation of the Authority.	Negative media coverage/ commentaries on social media and main media channels arising from actual market events.	Low confidence in the capital markets.		Regular media engagement forums
		Collapse/insolvency of market players.			Robust supervisory and enforcement framework.

6. MONITORING AND EVALUATION OF THE PLAN

Monitoring and Evaluation (M&E) of the Strategic Plan is a crucial component to ensuring observance of lessons learnt, tracking progress and providing insights on any necessary adjustments required for successful implementation of the Plan. Based on the KPIs of the identified activities, the Plan will have to be monitored using both qualitative and quantitative approaches.

The main technique for M&E will be variance analysis whereby the CMA's departments will be comparing performance targets with the relevant actual results and picking out any variances identified. As a consequence of variance analysis and identification of causes, the management shall take appropriate remedial actions.

6.1. M&E AND RISK MONITORING STRATEGIES

There are five main ways in which the Plan will be successfully monitored, implemented and evaluated.

i) **Utilize the strategy implementation team** – The strategy and performance team will be responsible for the ensuring collating and critically reviewing the measurement and tracking of KPIs against KRIs across by all departments, production of the M&E reports, ensuring discussions of these reports and ensuring implementation of remedial actions.

ii) **Cascade the Plan** – Detailed work plans will be developed across all departments with clear deliverables, roles and responsibilities. Reports will be available online at any time for departmental review.

iii) **Utilize the Annual Capability Review (ACR) approach** – The ACR approach will ensure that employee KPIs are defined in line with the strategy and thus ensuring efficient implementation of the strategy.

iv) **Develop a new M&E and Risk management** – In line with the new strategy, a new M&E and Risk Management system will be developed with built-in KPIs and KRIs for Identified risks which will be updated by departmental champions on occurrence to show the progress of implementation or treatment of risks through dashboards thus ensuring clear tracking of objectives.

v) **Board and management review meetings** – The Strategic Plan and its implementation is a responsibility of the Board of Directors. Therefore, progress reporting will be a quarterly Agenda item in Board Meetings. Before this, quarterly review meetings at Management level and monthly reviews at the departmental level will be scheduled to receive and give feedback.

6.2. STRATEGIC PLAN REVIEW

The Authority will conduct a mid-term review and end-term review of the plan to ensure that its objectives, activities, KPIs and KRIs are still relevant and being adjusted to reflect realities. Additionally, the review will ensure that the Plan remains relevant, feasible and delivers outputs that contribute to sustainable development of the CMA and markets. The annual review will evaluate each year's activities and indicate the extent to which the Authority has implemented the Plan as well as the achievement of the outcome KPIs. A comprehensive review of the strategic plan will be undertaken at the end of the third financial year.

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

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