CAPITAL MARKETS AUTHORITY

STRATEGIC PLAN

2013 - 2017

CONTENTS

LIST OF ABBREVIATIONS AND ACRONYMS

ASCA	-	Accumulating Savings and Credit Association
BSC	-	Balance Score Card
CBK	-	Central Bank of Kenya
CDS	-	Central Depository of Securities
CDSC	-	Central Depository and Settlement Corporation
CE	-	Chief Executive
CIS	-	Collective Investment Schemes
CMA	-	Capital Markets Authority
CMFIU	-	Capital Markets Fraud Investigation Unit
CMMP	-	Capital Markets Master Plan
CMMSC	-	Capital Markets Master Plan Steering Committee
CPSS	-	Committee on Payment and Settlement Systems
CSI	-	Corporate Social Investment
DRPS	-	Directorate of Regulatory Policy and Strategy
DvP	-	Delivery versus Payment
EAC	-	East Africa Community
EAMU	-	East Africa Monetary Union
EASRA	-	East Africa Securities Regulatory Authorities
FDIs	-	Foreign Direct Investments
FSB	-	Financial Stability Board
GDN	-	Global Depository Note
GDR	-	Global Depositary Receipt
GEMS	-	Growth Enterprise Market Segment
ICT	-	Information Communication Technology
IE	-	Investor Education
IOSCO	-	International Organization of Securities Commissions
IPO	-	Initial Public Offer
IRA	-	Insurance Regulatory Authority
LSK	-	Law Society of Kenya
KSL	-	Kenya School of Law
MTP	-	Medium Term Plan
NIFC	-	Nairobi International Financial Centre
NSE	-	Nairobi Securities Exchange
OTC	-	Over the Counter
PC	-	Privatization Commission
RBA	-	Retirement Benefits Authority
RBS	-	Risk Based Supervision
REITS	-	Real Estate Investment Trust
ROSCA	-	Rotating Credit And Savings Association
RPS	-	Regulatory Policy and Strategy
RTGS	-	Real Time Gross Settlement System
SASRA	-	Sacco Societies Regulatory Authority
SRO	-	Self Regulatory Organization

FOREWORD FROM THE CHAIRMAN

Our 2013-17 Strategic Plan sets out the Capital Market Authority's road map for the 5-year period ending in June 2018. The development of the Plan was informed by broad consultations with internal and external stakeholders, the primary objective being to secure concurrence on relevance and prioritization of activities. It forms a crucial guide in our journey to realize our vision to become **"A proactive regulator of a competitive and robust capital market.''**

Through this Plan, we intend to position Kenya's capital markets as the investment destination of choice through facilitative regulation and innovation. This transformation will be achieved through entrenchment of best practices in capital market regulation and proactive facilitation of market development initiatives.

A key cornerstone of our achievements in the previous plan period were efforts to improve corporate governance in the market which has resulted in enhanced investor confidence in line with our core mandate of maintaining a fair and efficient market in which the investors' interests are paramount.

Through our key results areas outlined in this Plan, we are committing ourselves to the pursuit of strengthened policy and regulatory environment to support market development, enhanced efficiency and integrity of the capital market infrastructure and institutional arrangements while focusing on investor protection through creating awareness and supporting investor education.

Our strategic objectives include:

1. **To establish a robust, facilitative policy, legal and regulatory framework for capital market development;**
2. **To develop and deepen the capital market products and services;**
3. **To promote investor education, awareness and interest in the capital markets;**
4. **To enhance the efficiency and integrity of the capital market infrastructure and institutional arrangements; and**
5. **To strengthen the institutional capacity of the CMA to effectively and efficiently deliver on its mandate.**

A critical guiding principle in the development of the previous and current plans remains the Kenya Vision 2030 which recognizes the capital market as critical in mobilizing savings and investments. Our strategic objectives have therefore been formulated with a view to ensuring that the Kenyan Capital Market is increasingly efficient, competitive, financially sound and dynamic to facilitate greater innovation of different capital market products and services to meet the diverse needs of issuers and investors. Robust and functional capital markets will be instrumental in the delivery of the Kenya Vision 2030 flagship projects, notably the development of Nairobi as an International Financial Centre (IFC).

In order to support an enabling environment for the establishment of the IFC, the Authority in conjunction with our industry partners, will allocate resources to the development and implementation of a 10 year Capital Markets Master Plan (CMMP) to drive the transformational growth of the Kenyan capital markets as the gateway to Africa's capital markets. The Master Plan, unlike the strategic plan which is CMA specific, is a comprehensive road map for the development of the industry as a whole, with a view to establishing the Kenyan capital markets as the gateway to investment in the African continent. The master plan will also guide further work on existing priority projects involving harnessing Real Estate Investment Trusts (REITs), Commodity Futures and Derivatives Market, the development of the Growth Enterprise Market Segment (GEMS) to meet the capital raising and listing needs of Small and Medium Enterprises and the burgeoning extractions industry.

Besides focusing on reforms in the domestic market, the Authority will also pursue opportunities created through the ongoing regional integration initiatives and other strategic alliances to broaden the scope for resource mobilization.

Ultimately our performance hinges on the dedication of our staff to whom I express deep gratitude for their resilience while urging continued service with integrity, dedication and professionalism. I wish to conclude by noting the importance of close collaboration with all our stakeholders and the Government and its agencies, especially the National Treasury, in spearheading capital markets transformation as outlined in this strategic plan to support the government and the private sector in accessing affordable and long term capital and providing investors with safe and diversified portfolio options.

Kung'u Gatabaki
Chairman

PREFACE

The Capital Markets Authority 2013-2017 Strategic Plan (SP), like its predecessor, for the period 2009-2012, has been aligned to the relevant Medium Term Plan (MTP2) of the Kenya Vision 2030 economic blueprint for Kenya. It details the strategic direction of the Authority with respect to the development and regulation of the capital markets industry over the next five years.

The peaceful political transition in Kenya and the coming into effect of a devolved government towards the end of the Strategic Plan 2009-2012 required the Authority to review its strategic focus and direction in order to take into account the county governments' perspectives, in addition to calling for greater innovation in its approach to the facilitation of a conducive environment for capital markets operation and growth. Therefore, in developing this Plan, the Authority has outlined possible opportunities for capital raising and investment service provision not only in the context of the county governments but with a view to positioning the markets as a globally competitive destination for investment.

This Plan is a product of a detailed assessment of the Kenyan capital markets, taking into account necessary enablers for a substantial increase in market growth identified over the 2009-2012 Strategic Plan period and beyond. This has involved prioritizing the strengthening of our competitiveness globally in areas such as regulation and supervision of the market; enhancing access to market products and services; effectiveness of enforcement and facilitating fund mobilization. In developing this Plan, the Authority reviewed all internal and external diagnostic reports on the Kenyan capital markets through a market assessment exercise which was shared with key internal and external stakeholders through a number of channels, the most crucial being round-table meetings to appreciate perspectives from each category of market players.

The Authority fully appreciates recent emerging issues in the operating environment locally and regionally such as the likely benefits of an East African Monetary Union (EAMU) the implementation of which is expected to revolutionize cross-border trading, settlement and payments systems as well as the opportunities for capital raising across the region. In addition, we will continue to actively participate in the regional and international arena to contribute to the development of and benchmark with the best international standards and practices through organizations such as International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB).

In formulating the Plan, external factors as well the Kenyan markets strengths and weaknesses have been taken into account as a guide in the right direction in promoting market development while maintaining market integrity and investor confidence both locally and internationally. It is appreciated that successful implementation of this plan will depend on commitment from major stakeholders and on the availability of resources in connection with which appropriate strategies have been identified.

It is envisioned that during this Strategic Planning period the capital markets will not only be the main avenue for funding for the Vision 2030 Flagships Projects but will also play a crucial role in unlocking the potential for fully tapping our recently discovered natural resources in addition to providing transparent and effective mechanisms to support local participation in this promising sector.

The Authority's Vision captures our aspirations to be a versatile, proactive regulator and developer of the capital markets. In order to fully leverage the geographical advantage of the country on the continent, relative political and macro-economic stability, strong institutional frameworks, technological innovations, established local and foreign private sector, Kenya is looking beyond its current position as the region's financial hub and focusing on evolving into a Gateway to the capital markets in the African continent.

The key strategic focus of the Authority over the next five years will therefore be to create an enabling environment for the emergence of an International Financial Center and ultimately facilitate the market to achieve Gateway status.

Broadly the Plan's key result areas are : Facilitative Legal and Regulatory Environment; Capital Market Products and Services; Capital Market Infrastructure and Institutional Arrangements; Investor Education and Public Awareness; and Institutional Capacity of the Authority, all which require further strengthening.

The implementation of the Strategic Plan is reliant on an effective system to monitor organization performance against strategic goals alongside elaborate communication strategies for both internal and external stakeholders. This will further involve continuous assessment and calls for the Authority's organizational structure to ensure it is well aligned to deliver the desired results. The Authority is committed to ensuring high performance and will implement the Balanced Score Card system throughout the Plan period to ensure that all initiatives resonate with the Authority's Vision, Mission and Core Values

Finally, I wish to thank the CMA Board for their unwavering support and active participation throughout the strategic planning process and the staff of the Authority for their commitment and engagement.

Paul Muthaura

Acting Chief Executive

EXECUTIVE SUMMARY

Introduction

The Capital Markets Authority (CMA) is a statutory institution established in 1989 via an Act of Parliament with the prime responsibility of regulating and facilitating the development of orderly, fair and efficient capital markets in Kenya. This Strategic Plan has been drawn for a period of five years from July 2013 to June 2018 to guide the Authority's delivery of its mandate. The Strategic Plan is a product of a number of processes that included wide consultations within the Authority as well as external stakeholders. These included roundtable discussions with the Capital Markets Master Plan Steering Committee (CMMSC), consultative discussions with capital market players, and strategic planning workshops.
The capital markets, which include but are not limited to the markets in equity and debt securities, play an important role in promoting economic activity. The capital market provides a conduit to mobilize and channel funds to enterprises, and provide an effective source of investment in the economy. As the regulator, CMA has the role of providing a facilitative environment for the efficient functioning and development of the capital markets. It is in this respect that the Authority continues to dedicate its resources towards the deepening of the capital markets in Kenya including developing strategic plans to guide this course.

Current Situation

An evaluation of the previous strategic plan for 2009-2012 reveals that the CMA took significant steps to improve the regulatory environment. While the Authority made considerable progress towards strengthening the regulatory framework and operational processes that has enhanced market integrity, the market players have noted that there remain opportunities for increased flexibility and responsiveness in order to support greater market innovation. This calls for increased resources directed towards refining and restructuring regulatory environment with an increased focus on facilitating overall capital markets development and growth without losing sight of the priorities with respect to systemic stability, market transparency, and efficiency and investor protection.

Taking into account the increased funding needs of Kenya, it is becoming more evident that there is still shortage in the supply of sufficiently diversified capital market products and services amid increasing appetite for investment especially from foreign institutions and investors abroad. Notwithstanding this surge, it is notable that domestic investor participation in the capital market remains low which may be attributable to low financial literacy and saving levels. In considering the necessary foundations for an effective and efficient capital markets industry, due attention must also be paid to the capital market infrastructure and institutional arrangements which may require strengthening, refinement, empowerment and capacity building in order to ensure trading, clearing and settlement systems and practices are aligned to international best practice for improved integration with the global economy. Given its cross cutting mandate of both market regulation and facilitation of development, the institutional capacity of the Authority to effectively deliver its mandate also requires consistent strengthening with particular focus on internal processes, human resources and financial sustainability.

Strategic Orientation

Based on a review of its strategic direction, the Authority reviewed its Vision as follows:
"A proactive regulator of a competitive and robust capital market.'' The mission that will guide the Authority was reviewed as follows: ***'To promote the development of Kenya's capital market to be an investment destination of choice through facilitative regulation and innovation.***

Strategic Objectives and Strategies

In order to achieve its Mission and Vision the Authority has formulated the following five strategic objectives to guide its operations over the planning period:

Strategic Objective 1: ***To establish a robust, facilitative policy, legal and regulatory framework for capital market development.*** This objective will be achieved through the following strategies:

a) Enhance the responsiveness, comprehensiveness and enforceability of the legal and regulatory framework;

b) Strengthen policy and regulatory frameworks to facilitate development and deepening of the capital markets; and

c) Enhance stakeholder participation and support for legislative changes.

Strategic Objective 2: ***To develop and deepen the capital market products and services.*** The strategies to attain this objective include:

a) Improve the uptake of capital market products and services;

b) Provide a facilitative environment for cross border investments;

c) Establish a facilitative environment for County Governments to utilize the capital market services;

d) Continuously facilitate improvement of liquidity in the capital market;

e) Enhance the depth of capital market products and services; and

f) Strengthen the Bond Market Steering Committee.

Strategic Objective 3: ***To promote investor education, awareness and interest in the capital markets.*** The objective will be achieved through the following strategies:

a) Enhance dissemination of investor education to various segments of the target market;

b) Increase avenues for the delivery of capital market education; and

c) Enhance awareness of capital markets opportunities and developments.

Strategic Objective 4: ***To enhance the efficiency and integrity of the capital market infrastructure and institutional arrangements***. This will be achieved through strategies indicated below:

a) Improve platforms for market access, trading, clearing and settlement;

b) Ensure effective monitoring and supervision of capital market operations;

c) Enhance market structures to facilitate local and cross-border investments;

d) Promote a competitive environment for capital markets service delivery;

e) Enhance professional standards, conduct and consumer protection in the delivery of capital markets services;

f) Facilitate effective and efficient delivery of services by market participants and listed companies;

g) Minimize capital market fraud; and

h) Strengthen capital markets Investor Compensation Fund (ICF).

Strategic Objective 5: To ***strengthen the institutional capacity of the CMA to effectively and efficiently deliver on its mandate.*** The strategies to attain the objective are:

a) Ensure optimal staff complement and productivity;

b) Enhance financial sustainability;

c) Strengthen internal systems, processes and controls;

d) Leverage information, communication and technology to enhance efficiency and service delivery;

e) Improve and uphold corporate image of the Authority; and

f) Build strategic alliances with relevant institutions.

Strategy Implementation and monitoring

Details on how the Plan will be implemented, summary of the strategic objectives, activities, outputs, performance indicators and timelines are presented in appendix 1. The Chief Executive (CE) and Heads of Directorates and Departments will be responsible for the day-to-day implementation, monitoring, and evaluation of the Plan. The strategy implementation will be monitored by the respective departments on a monthly basis. The Plan will also be evaluated on quarterly and annual bases to ensure that it remains relevant, feasible and delivers outputs that contribute to sustainable development. At the expiry of the Plan period, a comprehensive review of the Strategic Plan will be undertaken and results incorporated in the next planning period.

CHAPTER ONE:

INTRODUCTION

This chapter provides background information on the Capital Markets Authority (CMA), the Role of CMA in the Kenya Vision 2030, Organizational Structure of the Authority, the rationale and methodology for developing the Strategic Plan.

1.1 BACKGROUND OF THE CAPITAL MARKETS AUTHORITY

Establishment of the Capital Markets Authority (CMA) dates back to the 1980s when the Government of Kenya appreciated the need to design and implement policy reforms to foster sustainable economic development for an efficient and stable financial system. A joint study by the Central Bank of Kenya (CBK) and the International Finance Corporation (IFC) on "The Development of Money and Capital Markets in Kenya" in 1984 provided the foundation for reforms in the financial markets including the creation of a regulatory body for the capital markets.

In 1988, the Government set up the Capital Markets Development Advisory Council and charged it with the role of working out modalities to establish an Authority for the Capital Markets. In 1989 the Capital Markets Act came into force, thereby establishing the Capital Markets Authority with the twin mandate of regulation and facilitating the development of the capital markets in Kenya. The prime responsibility of the Authority is thus to regulate and facilitate the development of orderly, fair and efficient capital markets in Kenya.

As the regulatory and supervisory authority for the securities markets and institutions in Kenya, CMA determines the operational principles of the capital markets and is responsible for the protection of the rights and interests of investors. The Authority is empowered by the Capital Markets Act to license, supervise and monitor the activities of market intermediaries, including the securities exchange, the central securities depository system and all other persons licensed, approved or regulated under the Act.

1.2 FUNCTIONS OF THE CAPITAL MARKETS AUTHORITY

The principal functions of the Authority are derived from the Capital Markets Act and the Regulations issued there under. The functions include the following:

a) Licensing and supervising all the capital market intermediaries;
b) Ensuring proper conduct of all licensed persons and market institutions;
c) Regulating the issuance of capital market products such as bonds and shares,
d) Promoting market development through provision of a conducive environment for product innovation, supporting institutional capacity development and stimulating robust market infrastructure;
e) Promoting investor education and public awareness; and
f) Protecting investors' interests.

1.3 ORGANIZATION OF THE CMA

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

1.3.1 Governance Structure

The Capital Markets Authority 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 leadership to the Authority. The Board is also responsible for the protection of the interest of the employees, coordination with government policy, engagement with investors, issuers of securities and the market intermediaries.

The composition of the Board of the Authority is stipulated in the Capital Markets Act Article 5(3) as follows:

- A Chairman appointed by the President on the recommendation of the Cabinet Secretary to the National Treasury;
- Six other members appointed by the Minister;
- The Principal Secretary to the Treasury or a person deputed by him;
- The Governor of the Central Bank of Kenya or a person deputed by him;
- The Attorney General or a person deputed by him; and
- The Chief Executive of the Authority.

1.3.2 Management Structure

The management is responsible for the day-to-day operations of the Authority. The management of the CMA is structured as follows:

a) The Chief Executive

The Chief Executive is charged, subject to the guidance of the Board, with the direction of the affairs and transactions of the Authority, the exercise, discharge and performance of its objectives, functions and duties, and the administration and management of the staff of the Authority.

b) Directorates

The CMA is organized into four Directorates and two independent departments as follows:

i) 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; and undertaking licensing and corporate approvals for capital market institutions, intermediaries and issuers.

ii) Directorate of Regulatory Policy and Strategy (DRPS)

The Directorate's functions and responsibilities include carrying out research; assessment of modalities for the deepening of capital market products and services; developing recommendations on the refinement and strengthening of market structure and institutional arrangements; formulation of the capital market policy; legal and regulatory framework drafting and interpretation; production and management of capital market data and statistics; investor education and public awareness; and coordinating the development, implementation and monitoring of the Authority's strategic plan and performance contracting commitments with the Government of Kenya.

iii) Directorate of Corporation Secretary and Communications (DCSC)

The Directorate is responsible for providing secretarial functions to the Board of the Authority; coordinating external legal counsel to the Authority; overseeing legal compliance of the Authority with the laws of Kenya and Government guidelines; managing external and internal communication processes, handling complaints and dealing with customer care.

iv) Directorate of Corporate Services (DCS)

The Directorate is charged with responsibilities of the Authority's Information Communication Technology (ICT) infrastructure and services, Human Capital management and administration, Finance and Procurement functions.

v) 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.

vi) Capital Market Fraud Investigation Department
This is a unit of the Criminal Investigation Department (CID) that is charged with investigations of capital market fraud in support of investigations and enforcement functions of the Authority and is empowered to pursue enforcement of criminal sanctions in coordination with other relevant arms of the Government.

The figure in Appendix 2 shows the organizational structure that will be expected to deliver the CMA 2013-2017 Strategic Plan.

1.4 THE GOVERNMENT DEVELOPMENT AGENDA

The Kenya Vision 2030 is the overarching national development blue print which seeks to guide the transformation of the country into modern, globally competitive, middle income economy by the year 2030. The Vision 2030 road map is highlighted by specific flagship projects targeted to have a transformative impact within the three core pillars of the Vision namely: economic, political and social as well as under the macros and enablers identified therein. The economic pillar of Vision 2030 identifies financial services as a priority sector with the key objectives of increasing access; improving efficiency and enhancing stability.

The Kenya Vision 2030 is being implemented through a series of five year Medium Term Plans (MTPs). The first MTP (referred to as MTP1) covered the period 2008-2012. The Medium Term Plan II which covers the period 2013-2017 sets out, amongst others, a strategic framework for the development of the financial services sector.

The intention of MTPII is to establish a clear strategy for the development of the financial services sector over the period. The financial services sector consists of a number of sub-sectors: banking, microfinance, capital markets, insurance, retirement benefits/pensions, development finance institutions, and savings and credit co-operatives. The MTPII will provide a strategic framework to guide existing plans and establish the necessary coordination to ensure that the overall goals for the sector are realized. A series of key sector-wide, transformational projects and programmes are identified, which will provide the basis for far-reaching change over the next five years.

The medium term plan recognizes that the capital markets are expected to play a critical role in mobilizing savings and investments to achieve the growth targets and implement flagship projects under the Vision 2030. These expectations are posited on the existence and operation of credible, transparent and competitive capital markets.

The capital markets, just like under the MTPI, will continue to be a critical driver of the Vision 2030 Flagship Projects, especially the development of Nairobi as an International Financial Centre (IFC). The capital market's key role in the establishment of the IFC will be through the following three main transformational projects among others: Real Estate Investment Trusts (REITs), Commodity and Financial Futures and Derivatives Market and the development of a Growth Enterprise Market Segment (GEMS) to cater for Small and Medium Enterprises capital raising and listing needs'. The programmes that are planned to be pursued for the capital markets include:

a) Development and implementation of a 10 year Capital Markets Master Plan (CMMP) to drive the transformational growth of Kenyan capital markets as the gateway to Africa's capital markets.
b) Strengthening market infrastructure and interconnectivity of the Kenyan capital markets with regional and international capital markets.
c) Developing robust and sufficiently diversified capital markets products to provide options for savings and investment for the full spectrum of investors and key sectors of the economy.

1.5 ROLE OF CMA IN THE KENYA VISION 2030

The role of CMA in the achievement of the Kenya Vision 2030 is intertwined with the pivotal role that capital markets play towards advancement of the national economic development goals. The capital market provides a conduit to channel and mobilize funds to enterprises as an effective source of investment in the economy.

The Authority recognizes that substantial capital will be required to support the delivery of the Kenya Vision 2030 and that the capital markets are expected to play a critical role in funding the envisaged capital-intensive development projects. As the regulator, CMA has the role of providing a facilitative environment for the efficient functioning and development of the capital markets. It is in this respect that the Authority continues to dedicate its resources towards the deepening of the capital markets in Kenya especially through facilitating access to capital markets products and services, financing large Vision 2030 flagship projects and general mobilizing of savings and investments in productive enterprise

The capital market is strategically positioned to be one of the key catalysts to the establishment of an international financial Centre in Nairobi. As in many other jurisdictions the development of an international financial Centre will provide a secure and efficient platform for business and financial institutions to reach into and out of the emerging markets in Africa and beyond. The effectiveness of the IFC will however depend on the responsiveness as well as robustness of the Kenyan capital markets in addition to the quality of its regulatory framework, supportive infrastructure and tax regime in order to make it globally competitive

1.6 RATIONALE FOR DEVELOPMENT OF THE STRATEGIC PLAN

CMA has been developing five year strategic plans to guide the delivery of its mandate of regulating and developing Kenya's capital markets. The Authority has registered considerable success in implementing its third Strategic Plan covering the period 2008 – 2012. However, an environment of high public expectations, globalization and an evolving Securities industry driven by high demand for product diversification requires a refocus of the strategic direction.

In order to ensure effective coordination with the wider government policy agenda, it is necessary to ensure proper alignment of the Authoprity's Strategic direction with the second Medium Term Plan of the Kenya Vision 2030 and the Capital Markets Master Plan (CMMP) which is intended to provide a roadmap for the development of the Capital Market over next 10 years.

1.7 PROCESS OF DEVELOPING THE STRATEGIC PLAN

This strategic plan is the outcome of a number of processes that begun with a review of various documents including in-depth analysis of the CMA Strategic Plan 2008-2012, the draft Medium Term Plan II and the Phase I Capital Market Assessment Report conducted towards the development of the Capital Markets Master Plan (CMMP). The process also included consultative meetings with the CMA management team and Board members as well as roundtable discussions with stakeholders of the Authority such as members of the Capital Markets Master Plan Steering Committee (CMMSC), financial regulators, Government Ministries, industry licensees and market participants. These were enhanced through a strategic planning workshop with the CMA management team which culminated in a draft Strategic Plan and concluded with a review and validation workshop with the CMA Board of Directors. These processes were intended to ensure consensus-building and ownership in the design and implementation of the Strategic Plan.

CHAPTER TWO

SITUATIONAL ANALYSIS

This chapter provides an assessment of CMA's operating environment including an overview of the financial service system and the capital markets industry in Kenya. It further provides analysis of external and internal environment assessment using the PESTL and SWOT analytical tools. The chapter concludes with identifications of the key issues that informed the strategic direction of CMA.

2.1 INDUSTRY ANALYSIS

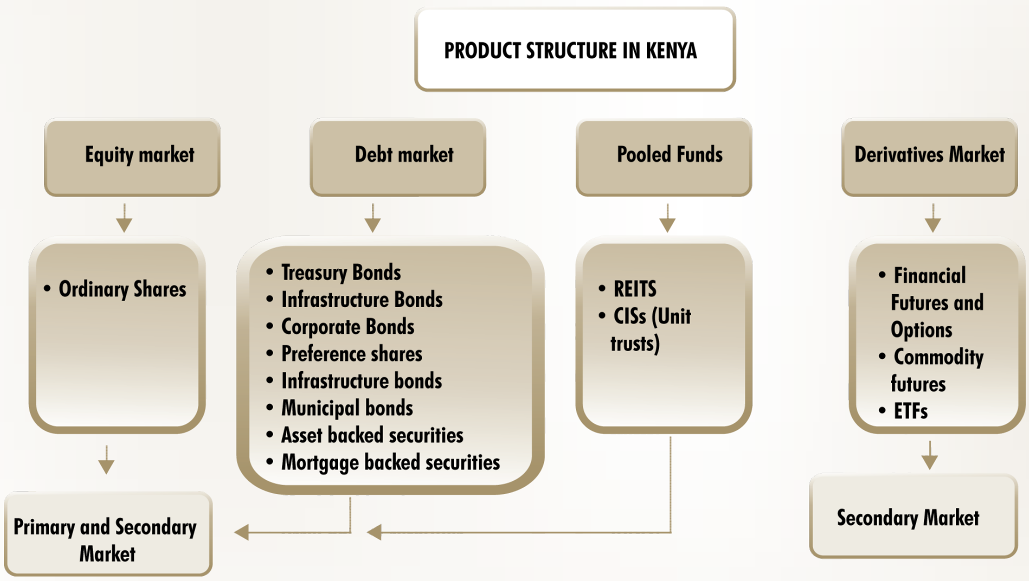
2.1.1 The Financial Service System

Kenya's financial sector is segmented and dualistic (formal and informal) in structure. The formal financial sector comprises banking, pension, insurance, capital markets, SACCOs Societies, microfinance and Development Finance Institutions like the Kenya Post Office Savings Bank (KPOSB) and the Agricultural Finance Corporation). It also consists of financial infrastructure to facilitate trading, payments and settlements systems. The informal sector on the other hand comprises of unregulated financial services providers ranging from ROSCAs and ASCAs, merry go rounds or *chamas*, shopkeepers and moneylenders, among others.

The various subsectors within the Kenyan Financial System have independent apex regulators. Apart from the Capital Markets Authority (CMA), the regulator of capital markets, there are four other regulators in the sector. They include the Central Bank of Kenya (CBK) which regulates commercial banks and microfinance institutions; the Sacco Societies Regulatory Authority (SASRA) which regulates deposit-taking Saccos; the Insurance Regulatory Authority (IRA) which regulates insurance companies; and the Retirement Benefits Authority (RBA) which regulates retirement and pension schemes. As at March 2013, Capital Market capitalization was Kshs.1.67 trillion.

2.1.2 The Capital Market

The capital market is part of the larger financial service system that facilitates the raising of long term funds for development. It brings together lenders (investors) of capital and borrowers (companies that sell securities to the public) of capital. The following is the product structure in the capital markets in Kenya:



2.1.2.1 Capital Market Institutions

Access to the capital markets is provided by institutions that are licensed and authorized by the CMA to operate in the capital markets. The capital market institutions in Kenya include: the securities exchanges; central securities depositories; credit rating agencies; investment banks; stockbrokers; investment advisers; fund managers; authorized depositories; collective investment schemes and registered venture capital companies. The industry associations are the Kenya Association of Stock Brokers and Investment Banks (KASIB), Fund Managers Association and Association of Collective Investment Schemes and emerging sector specific associations such as the Bond Market Association. As at April 2013 a total of 94 institutions had been licensed by the CMA to operate in the capital markets as illustrated in table 1.

Table 1: Licensed/Approved institutions as at April 2013

Name/Type of Institution	Number as at April 2013
Securities Exchange (NSE)	1
Central Securities Depositories (CDSC)	1
Investment Banks	10
Stockbrokers	11
Investment advisers	17
Fund Managers	20
Collective Investment Schemes	16
Authorized depositories/Custodians	15
Credit Rating Agencies	2
Venture Capital Companies	1
Total	**94**

Source: CMA Annual Licenses (Gazette Notice No. 5777)

2.1.2.2 Institutional Infrastructure

It is critical that the core market institutions responsible for the fair, efficient and orderly functioning of the capital markets are sufficiently robust to provide investors with confidence to channel their funds through the Kenyan markets. This involves ensuring that:

1. <u>The capital markets regulator is:</u>

    a) duly empowered by a clear, transparent and enforceable legal framework in line with international best practice standards;

    b) vested with sufficient autonomy and independence from central government to ensure that it is able to remain responsive to changing market dynamics;

    c) granted sufficient resources to invest in competitive human capital as well as systems and technology to fully execute its regulatory functions;

    d) is headed by an independent board with an appropriate mix of skills and experience as well as strong awareness of sound corporate governance ;

    e) vested with adequate discretion and flexibility with respect to determining and applying budgets for its regulatory purposes;

    f) vested with authority to approve market guidelines and rules to support responsive market development and facilitation of innovation;

g) vested with adequate autonomy with respect to setting market fees and levies to ensure flexibility and responsiveness to market dynamics to promote competition within the market as well as competitiveness of the Kenyan market against global markets;

h) vested with sufficient supervisory independence to allow for ex post as opposed to ex ante regulation in order to provide a more conducive environment for innovation; and

i) Vested with sufficient supervisory and enforcement powers to ensure compliance with market rules and conduct requirements.

2. The securities exchange has in place:

   a) world class trading systems;

   b) strong and transparent governance structures and clear rules on market access and competition;

   c) proactive benchmarking with competing international exchange providers to ensure product diversification, market inter-connectivity and effective straight through processing; and

   d) adequate regulatory capacity and resources to operate as an effective self-regulatory organization;

3. The central depository, clearing and settlement system:

   a) is compliant with international best practice standards on clearing, payment and settlement systems for financial markets infrastructure;

   b) has a robust clearing infrastructure that ensures stability in the face of intermediary insolvency;

   c) provides reliable records on securities ownership and real-time records on all transaction activity;

   d) provides seamless connectivity with all relevant trading platforms and, where possible, allows for sufficient consolidation for the management of costs; and

   e) Creates confidence for all users.

2.1.2.3 Capital Market Efficiency

There have been significant strides in capital markets efficiency, with two Unit trusts having leveraged on the M-PESA technology to facilitate their clients access the market using their phones in the just previous strategic plan year. Similarly three (3) investment banks have implemented systems that allow investors to buy and trade securities online hence facilitating market access via internet in a move that has raised the local and global profiles of shares trading at the Nairobi Securities Exchange (NSE). Investors are able to securely place their orders, modify and cancel orders, view order histories, and order status in a real-time environment. Clients can also have real time access to various reports including portfolio valuations, transaction statements, margin reports, contract notes, and stock holding reports. The system also provides Kenyans working and living in the Diaspora with an avenue for participating in share-trading at the NSE.

The Authority has facilitated the implementation of a Broker Back Office System (BBOS) which is currently live. This is in line with the principle objectives of the CMA to fully automate the market place so as to enhance efficiency within the market microstructure and effectively mitigate potential risks to investors. The development is expected to further boost the introduction of internet trading in the capital market. We expect to see improved market efficiency, reporting and liquidity.

Further, the Authority has installed an information system to support the implementation of Risk Based Supervision. The system will facilitate online reporting for both listed companies and CMA licensees as well as calculating the capital adequacy levels for licensees. In addition the Authority has begun the process of reviewing the risk profiling tool for investment banks and stockbrokers with the aim of formulating a risk profiling tool for Fund Managers and this should be completed

The Capital Markets Act was, in the (2008-2013) strategic planning period, amended to facilitate the ongoing reforms in the bond markets sector, more particularly to allow for the introduction of a hybrid bond market in Kenya. Through technical assistance from IFC/ESMID, an operational framework for implementing the hybrid bonds market has been designed with the Nairobi Securities Exchange (NSE) expected to provide the reporting infrastructure that will facilitate the operationalization of an Over the Counter Market.

Other significant developments to increase market efficiency include: the introduction of multiple settlement banks and risk margin requirements as well as settlement finality with the CDS, shortening of settlement cycle and introduction of Real Time Gross Settlement System (RTGS) for settling large payments.

Other important initiatives aimed at enhancing market efficiency that have been implemented during the past strategic plan period include the introduction of automated bond-trading linking the Nairobi Securities Exchange (NSE) and Central Bank of Kenya (CBK), which undertakes settlement of Government bonds; procurement of a state-of-the-art surveillance system to enhance market monitoring. In spite of these developments and successes, concerns have been reiterated, especially on the trading and settlement processes and capacity of capital market institutions to support market innovation and development. In this planning period, efforts will be made to expedite ongoing initiatives to unify the central depositories. Issues of systemic relationships among capital market institutions via a robust capital market infrastructure will be addressed.

2.1.2.4 Capital Market Integrity and Stability

The stability and integrity of the capital markets is founded on the prudential supervision of the intermediaries which collectively provide the trading, clearing and settlement infrastructure for securities. The conduct of the market intermediaries is a significant factor in supporting the long-term function and stability of the capital markets.

Financial soundness indicators such as capital adequacy ratio (core capital to total assets) and the profitability ratio (return on assets) have been developed for market intermediaries. Licensed, capital markets intermediaries are also required to adhere to guidelines for management supervision and internal controls. These are meant to mitigate credit risk to ensure firms establish and maintain an effective credit rating system to evaluate client and counterparty creditworthiness, operational risk and market risk to ensure that the management specifies authorised products and instruments the firm may deal in and enforces effective procedures to ensure compliance.

Major initiatives aimed at enhancing market integrity and investor confidence include the implementation of Risk Based Supervision (RBS); enhancement of the capital markets regulatory structure to address business conduct and corporate governance within market intermediaries. In addition, there is comprehensive on-going work on corporate governance including: regular review of the corporate governance standards for publicly listed companies in adherence to best international practice and trends; implementation of amendments to the corporate governance guidelines and applicable regulatory requirements; identification of the necessary legal framework and institutional strengthening requirements to promote corporate governance; addressing weaknesses in the enforcement of the corporate governance guidelines; and strengthening capacity building and professionalism of key stakeholders in the market through sensitization initiatives. In addition regulations have already been gazetted paving way for demutualisation of the NSE and self-listing as another key measure towards enhancing corporate governance, enhancing consumer protection and ensuring maximization of shareholder value and therefore driving increased efficiency and effectiveness.

Moving forward, there is still need to increase supervision of the capital market players and operations. Best practices include utilizing market-based systems for frontline regulations. This requires establishment of Self-Regulatory Organizations (SROs) and bestowing upon them the responsibility to regulate their own members. This approach can strengthen supervision capacity by allowing for increased resources and expertise to be applied across multiple complementary entities for more effective detection of any market malpractice.

2.2 THE CAPITAL MARKETS MASTER PLAN (CMMP)

The Authority is spearheading the development of a Capital Markets Master Plan (CMMP) through a consultative process, which will provide the direction of the Kenyan capital markets over the next 10 years. The extensive process involving all capital market participants and stakeholders is expected to harness creativity and innovation in the industry. The consultative approach is intended to enhance commitment to the collective agreements expected to be incorporated in the Plan to ensure ownership of an "industry" Plan. The CMMP is projected to facilitate the positioning of Kenya's capital markets as the continental gateway to African capital markets investment in order to support national economic growth and to meet future challenges from regional and continental competition and globalization as Kenya endeavors to position itself to be an International Financial Services Hub as outlined in the Kenya Vision 2030 economic blueprint.

Through the guidance of the Capital Markets Master Plan Steering Committee (CMMSC) comprising of industry experts and the Board of the Capital Markets Authority, a consultancy to carry out an in-depth assessment of the current condition of the capital markets in Kenya has been completed and high-level recommendations on the targeted actions and initiatives necessary in order to support the eventual transformation of Kenya's capital markets into the gateway to capital markets investment in Africa adopted.

These findings and recommendations will be further developed, detailed and refined in order to design a 10 year Capital Markets Master Plan under Phase II of this project. The development of the Master Plan and a sequenced implementation plan for that Master Plan is the critical stage to address the challenges identified in the Market Assessment as well as to ensure the timely implementation of the high level recommendations made.

Preliminary market assessment undertaken towards the development of the CMMP raised various issues that needed to be addressed to improve the capital market environment. One of the key findings was that achieving gateway or financial Centre status required a combination of institutional, policy and infrastructure elements being in place; as well as a visible commitment by the country to:

- Achieve political stability, consistency in financial sector policy and a market-based approach to regulation and development;
- Enforce the rule of law in a consistent and transparent manner, particularly relating to property rights and freedom to transact for international investors;
- Raise the status of the currency and maintain an investment grade sovereign rating to attract institutional investors;
- Relax exchange and capital controls relating to foreign non-residents and avoid prescribing foreign investment into developmental assets;
- Modernize the payments infrastructure in the financial sector and align securities infrastructure to modern standards (for example those set by the set by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO);
- Focus on growing liquidity in the domestic market through reducing costs and improving efficiency. Integration of markets, reductions in transaction taxes, upgrades to the settlement infrastructure and introduction of value-added services such as securities borrowing and lending are examples of approaches adopted in South Africa to achieve these objectives; and
- Pursue business environment-related reform (including tax, legal and governance reforms) to improve the country's attractiveness to foreign multinationals.

Other key findings were: inadequate capital markets legislation, inefficient regulatory structure, market infrastructure and institutional arrangements falling short of world-class levels, limited supply of products and service and low financial literacy and financial access levels.

A number of recommendations were made from the market assessment to which CMA has aligned this strategic plan, the key one being that for Kenya to develop IFC status it should:

- Develop and strengthen the domestic market first as a means to attract regional and international investment;
- Design and implement sound and market-based institutional frameworks, giving due consideration to updating legal and regulatory frameworks and working alongside market infrastructures to grant them SRO status; and carefully considering the impact of integrating financial sector regulation (of capital markets, insurance and retirement saving) on achieving the CMMP vision;
- Promote the development of modern and efficient market infrastructure through upgrade settlement and clearing infrastructure in the country; and
- Take additional steps to improve liquidity by considering integrating exchange infrastructure where possible; reduce and/or eliminate all transaction taxes on securities; promoting the introduction of additional services such as stock borrowing and lending and market making; and consider alternative strategies to maximize foreign demand such as the use of Global Depository Receipts

As in many other jurisdictions, the development of an international financial Centre will provide a secure and efficient platform for business and financial institutions to reach into and out of the emerging markets in Africa and beyond. The effectiveness of the IFC will however depend on the responsiveness as well as robustness of the Kenyan capital markets in addition to the quality of its regulatory framework, supportive infrastructure and tax regime in order to make it globally competitive

2.3 EXTERNAL ENVIRONMENT

PESTL[1] analysis was applied in assessing CMA's external operating environment. These were established as follows:

2.3.1 Political Environment

Administratively, the securities markets in Kenya fall under the National Treasury which is in turn accountable to the Parliament. The powers of the cabinet secretary are prominent and manifested in the appointment, removal and fixing of remuneration of members of the Authority, powers to make rules and regulations, and approval of sources of finance and fees payable to the Authority. While these powers may enhance accountability, they may impact on the speed and efficiency in which the Authority may respond to changing market dynamics. The Authority's autonomy may need to be augmented to be flexible enough as its services will be required as counties gear up to address financing gaps through issuance of county bonds, IPOs and other capital markets products. This will call for more decentralized oversight as issuers and market intermediaries move to the counties.

While political uncertainty was expected ahead of the March, 2013 General Election, analysis by the Authority shows that there was little impact on the capital markets. Incidentally, capital markets performance indicators registered historic highs particularly between November 2012 and March 2013 when the Kenyan elections were held. Further, following the smooth transition of power business has returned to normalcy and companies have reactivated their expansions plans. This is expected to spur growth of the capital markets for the period of the strategic plan

---

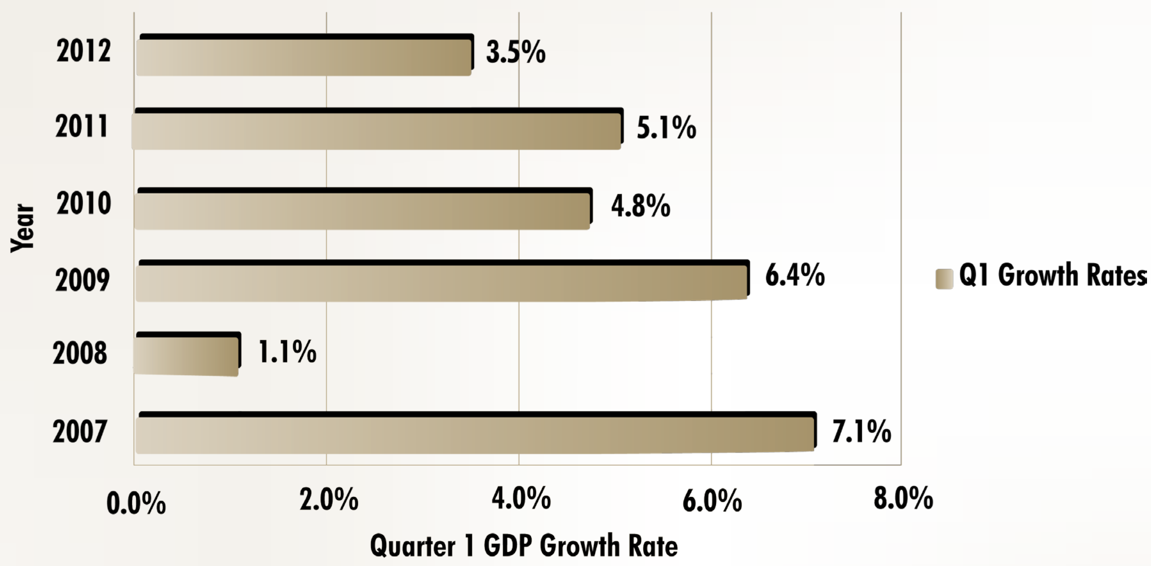
1 *PESTL is an acronym for Political, Economic, Social, Technological, and Legal factors*

2.3.2 Economic Environment

According to the National Treasury estimates in 2012, Kenya's GDP growth rose slightly to 4.7 per cent from 4.4 per cent in 2011. In 2013, the Treasury estimates that GDP growth is likely to improve to about 5.6 per cent, based on expectations of steady inflows of foreign direct investment, adequate rainfall, continued reforms in the use of public funds, and macro-economic stability. Both the World Bank and the International Monetary Fund have predicted an estimate of about 5 per cent, with a chance for higher growth if economic and political conditions are more favorable.

Official Kenya National Bureau of Statistics (KNBS) figures indicate that Kenya's economy expanded by 4.7 percent in the third quarter of 2012 compared 4.0 percent growth recorded in the same quarter of 2011. In Q1/2013, Kenya's economy is expected to perform better compared to a similar period in 2012 because of the relative drop in interest rates, increased household consumption, better rainfall and successful elections.

Chart 1: Kenya's 1st Quarter GDP Growth Rate - (2007 - 2012)



Source: KNBS

On the foreign exchange front, the Kenya Shilling recorded mixed performance during the quarter compared to the preceding quarter, appreciating against the major international currencies, while depreciating against some of the regional currencies. The shilling appreciated by 0.5%, 6.8% 3.5%, 8.8% and 3.1% against the US Dollar, the Sterling Pound, the Euro, the Rand and the Uganda Shilling respectively.

According to the National Economic Survey 2013, the key sectors driving the Kenyan economy include Agriculture, Wholesale and Retail Trade, Transport and Communication, Manufacturing, Financial Intermediation, and Construction. The Financial sector in particular grew by of 6.5 per cent in 2012. The performance of the stock market improved during 2012 with the NSE 20 Share Index rising by 29.0 per cent to 4,133 from 3,205 in December 2011. On the other hand, market capitalization increased by 46.5 per cent from Ksh 868 billion in 2011 to Ksh 1,272 billion in December 2012 (Economic Survey 2013).

The total value of new private and public buildings completed went up by 9.6 per cent from Ksh 46.4 billion in 2011 to Ksh 50.8 billion in 2012. This growth in real estate has also created an alternative avenue for savings to be channeled towards home ownership and other real estate investments. This trend is expected to provide a boost for the proposed capital market products such as REITS.

On the international scene, oil prices, economic conditions of the advanced and emerging economies also have implications in the Kenyan economy. The 2008/2009 financial crisis for instance, had far reaching implications that affected business income, investments, and employment rates. These have negative impacts on the capital markets with market capitalization declining from Ksh.1150 billion in 2008 to Ksh.1060 billion in 2009.

An analysis of the structure of the retail investors at NSE shows that many of the local investors can be described as low-income. Due to restrictions for amounts (lots) that can be traded in the securities, several potential investors who cannot marshal the minimum required funds then get locked out. Collective investment schemes therefore provide options for small savers to pool resources and invest in the capital markets. However, many Kenyans are still not able to afford the minimum individual investment amounts required by the current unit trusts and mutual funds. This calls for the need to create low-contribution schemes targeting small savers.

2.3.3 Socio-cultural Issues

The population structure shows that the Kenyan population is relatively young with approximately 56 percent below the age of 30 years. These young people are 'the investors of tomorrow' and enhancing their literacy in the capital markets is important in preparing them to make early choices for future investments. The current weak domestic participation in the capital markets especially by retail investors partially points to their low literacy levels about the capital markets.

Post IPO market performance of listed shares may also have significant impact on future investments in the capital markets. With low literacy levels mentioned above high capital gains on shares listed on the secondary market immediately after listing tends to attract more and more retail investors into the market, as they hope to make quick returns, when the shares are eventually introduced for trading. However, few isolated circumstances as in the Safaricom's 2008 offer, have led to a dent in investor confidence and erodes their appetite for the capital markets.

These issues indicate the need to educate the Kenyan public on the capital markets since their investment literacy level is central to their level of participation. For instance, any investor needs to understand how the market operates, the products and the mathematics that explain it. As new products emerge on the national and regional capital market, investors need to understand all of this from an informed perspective.

Further, there is need to leverage on opportunities that that will address Kenya's demographic landscape. Kenya, with a Muslim population of approximately 10 million, has ambitions of becoming the Islamic finance hub of East Africa and has the first mover advantage. The Central Bank of Kenya (CBK) has already licensed two Islamic banks - Gulf African Bank (GAB) and First Community Bank (FCB). Since starting operations in June 2008, FCB has also during the strategic planning year been authorized by the CMA to launch FCB Capital, which will offer Islamic asset management business and capital markets products especially Sukuk. Old Mutual Investment Service has also been allowed to operate a unit trust focusing of Shariah compliant listed companies

This has posed an opportunity to develop Sharia-compliant financial instruments that conform to the doctrines of the Islamic community. However for Islamic capital market products and services to be deemed as *Sharia*-compliant, they need to undergo a pre-defined vetting and approval process by *Sharia* advisers.

2.3.4 Technological Factors

Technology plays a key role in providing a level playing field and in making capital markets more transparent, safe and accessible. The desire to have financial instruments traded in an organized capital market and centrally cleared rises to the need for more transactions to be managed through a robust, centralized capital market infrastructure. At the NSE, the Broker Back Office system which has been implemented is expected to provide investors with a platform to make orders to their brokers electronically without any human interference, however the implementation of this initiative needs to be fast tracked.

The CMA has also adopted various ICT-based applications such as the market surveillance system, modernization of market infrastructure with an Automated Trading System (ATS)[2], and installed a risk based supervision system. These applications assist in enhancing regulatory and supervisory capacity of the Authority. However, there is still potential to utilize technology in enhancing the structural connectivity of the market processes such as trading processes, clearing and settlement and cross-border linkages.

As the capital markets develop with increased investor participation and volume of transactions, the challenge will be in managing the velocity and diversity of data generated which will still need to be analyzed in real time. This point to the need to adopt innovative applications that provides a unified analytics platform for data storage, analysis and processing. The current initiatives to introduce additional exchange platforms in the capital market also require the establishment of robust systems that reduce systemic risk, enhance efficiency and ensure transparency of market operations.

For the CMA, the social media platform such as Face-book, Twitter and You-tube provide channels with which to connect and communicate with a wider audience. With increasing ownership of mobile phones that are internet-enabled, the web has become an ideal platform for disseminating information to a generation which is becoming more internet savvy and shying away from printed media.

2.3.5 Legal and Regulatory Environment

The principal law for the Capital Markets is the Capital Markets Act 2000 and regulations issued there under. Being the principal government institution responsible for regulating securities markets, the CMA is responsible for all regulatory aspects of the securities markets including the enforcement of the provisions of the Capital Markets Act and other Rules and Regulations relevant to securities markets. During the previous strategic planning year the Authority substantially improved in its approvals and licensing procedures, achieving turnaround terms of less than seven (7) working days in some cases. The Authority also embraced innovation by applying principles based approvals in circumstances where the supportive regulatory framework did not exist for new products. Notable approvals included the First Government Infrastructure Bond, and an Islamic Unit Trust sub-fund.

While the Authority has immense powers to intervene in the day-today affairs of the markets, market participants have been prepared in advance of regulatory visits. A number of legislations have been passed allowing for recognition of SROs, enhancing the settlement efficiency of the CDSC, enhancing corporate governance levels in approved institutions and market intermediaries, allowing OTC trading of bonds and facilitating the establishment of a futures and derivatives market over the last strategic plan period. However more support is required for the enactment of legislations and regulations in capital market particularly by the National Treasury. Industry participants should also be more involved in pushing for the enactment or gaze ting of these laws.

Whereas regulation is important to achieving investor protection which is one of the principal functions of the CMA, the capital market participants are invariably in favor of deregulation or light regulation. The market players also believe that they should spearhead market development especially in coming up with new products while CMA should provide a framework indicating the parameters within which the market should operate. The CMA is however perceived to be making rules and regulations that are prescriptive of the products and this is seen as inhibiting innovation.

A sound and effective regulatory framework plays a critical role in the development of securities markets; it is the foundation of confidence in the market which attracts investors. The need to reconcile the regulatory framework in a manner conducive to investor protection and promotion of business is therefore of essence.

The self-regulatory[3] approach which reallocates regulatory power and its exercise between the regulatory body and the Self-Regulatory Organizations (SROs) has had a long tradition in the financial services in developed jurisdictions such as Britain, South Africa and the United States. IOSCO acknowledges that effective self-regulation must be defined within the context of government oversight. Government oversight is therefore an essential element in the self-regulatory structure. This indicates that market and government regulation are not alternatives

2 *ATS is a computerized system of trading where trades are executed online without the need of brokers and other members of the stock exchange to be physically present at the Exchange*

3 Self regulation is a cooperative regulatory model under which private governance is carried out by the market , such as through the securities exchange and other umbrella associations, with oversight by the regulatory Authority.

but complementary.

2.4 SWOT ANALYSIS

The SWOT analysis provides an overview of the Authority's internal and external environment that enables identification of the organizational strengths, weaknesses, opportunities and threats. The outcomes of the SWOT analysis are presented in Table 2 below.

Table 2: SWOT Analysis

Strengths	Weaknesses
1. Competent and skilled staff. 2. Clear mandate that is founded in law. 3. Diversity of experience and knowledge within the Board, management and staff. 4. Dynamic and flexible workforce capable of taking on innovation. 5. Automated internal systems (ERP, RBSS, and Surveillance) that enhance efficiency. 6. ISO Certification that guide best practices. 7. Well-equipped resource centre.	1. Limited financial resource base. 2. Insufficient staffing levels. 3. Ineffective structures to support leadership development. 4. Sub-optimal structures for delegation and accountability for responsibilities. 5. Inconsistent records management. 6. Poor organization culture. 7. Bureaucratic internal processes.

Opportunities	Threats
1. Recognition and prioritization of capital markets development activities in the Kenya Vision 2030 and MTP2. 2. Growing pools of global investable funds including Diaspora remittances and FDI. 3. Frontier market with large untapped natural resources. 4. Growing middle-class with appetite for investments. 5. Demand for finance in real estate sector that provide opportunity for REITS. 6. Increased number of institutions of higher learning that provide platform for investor education. 7. Growing interest in Public Private Partnerships (PPP). 8. Technological advances for enhancing innovation and efficiencies. 9. The need for devolved governments to raise funds. 10. Developed avenues for financial service mobilization such as the cooperative movement. 11. Increased global connectivity and regional integration of financial markets and institution. 12. Strategic location of Nairobi as a financial hub and gateway to capital raising in Africa. 13. Large pool of unlisted local and foreign companies. 14. Demand for Islamic financial products. 15. Availability of development partners that can support the Authority's goals.	1. Inadequate flexibility and empowerment to adopt innovative approaches to delivery of mandate. 2. Insufficient liquidity in the capital markets. 3. Risk of abrupt changes in Government policy. 4. Political risks such as the 2007/2008 post-election violence. 5. Delays in enactment of legislation. 6. Competition from other financial service sectors and jurisdictions for investable resources. 7. Economic depressions and financial crisis. 8. Increasing innovation in committing fraud and cyber-crime. 9. Vested interests from market players. 10. Low IT infrastructure levels within the capital markets. 11. Acts of terrorism, Economic sabotage and capital flight. 12. Money laundering. 13. Low Investor compensation limits.

2.5 STAKEHOLDER ANALYSIS

In executing its mandate, the Authority collaborates with a broad spectrum of sectoral, national, regional and international entities including but not limited to:

Stakeholder	Role
Nairobi Securities Exchange (NSE)	NSE provides a trading platform for the securities listed on the Exchange and overseeing its member firms.
The National Treasury	Provides executive oversight over CMA. The treasury should provide the political goodwill and support for CMA to effectively discharge its mandate.
Central Securities Depositories (CDSC)	Operates the central depository system for the electronic transfer and registration of securities. It should ensure that the delivery and settlement of securities is efficient.
Central Bank of Kenya	CBK is the principal government agency in administering fiscal policy. It provides depository for government securities. CBK also provides the national settlement system in which both processing and final settlement of funds transfer instructions take place.
Kenya Institute of Curriculum Development	Facilitating the development and integration of a curriculum on Capital market education for learning institutions
Investment Banks	Provide advice on offers of securities to the public, corporate financial restructuring, takeovers, mergers, privatization of companies and underwriting of securities. Some also engage in the business of a stockbroker, a dealer and fund manager of collective investment schemes and provider of contractual portfolio management services.
Stockbrokers	They facilitate trade by buying and selling securities on behalf of clients at a Stock Exchange in return for a brokerage commission. They are expected to maintain high levels of integrity in market conduct.
Investment advisers	They promulgate analysis and research on capital markets securities, and advise investors on such securities at a commission.
Fund Managers	They also advise on investment and manage portfolios of securities on behalf of clients.
Collective Investment Schemes	These include Mutual Funds, Unit Trusts and Investment. They mobilize savings in financial assets and enhance access to capital markets by small investors.
Authorized depositories/Custodians	They hold in custody funds, securities, financial instruments or documents of title to assets registered in the name of local investors, East African investors, or foreign investors or of an investment portfolio.

Stakeholder	Role
Credit Rating Agencies	They provide an objective and independent opinion on the general creditworthiness of an issuer of a debt instrument, and its ability to meet its obligations in a timely manner over the life of the financial instrument based on relevant risk factors including the ability of the issuer to generate cash in the future.
Venture Capital Companies	They provide risk capital to small and medium sized business which are new and have a high growth potential, whereby not less than 75% of the funds so invested consist of equity or quasi equity investment in eligible enterprises. Venture capitalists will enhance growth of the GEMS.
International Organization of Securities Commissions (IOSCO)	Assistants to assist its members to cooperate in promoting high standards of regulation in order to maintain just, efficient and sound markets; exchange information on their respective experiences in order to promote the development of domestic markets, unite their efforts to establish standards and an effective surveillance of international securities transactions; and to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.
Financial Stability Board	Coordinates, at the international level, the work of national financial authorities and international standard setting bodies in developing and promoting the implementation of effective regulatory, supervisory and other financial sector policies. It brings together national authorities responsible for financial stability in significant international financial centers, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.
Financial Sector Regulators that include: Central Bank of Kenya (CBK) Insurance Regulatory Authority (IRA) Retirement benefits Authority (RBA) Saccos Societies Regulatory Authority (SASRA)	Facilitate cooperation on areas of information sharing, financial sector stability, consumer protection, investor education.
Institute of Certified Public Accountants of Kenya (ICPAK)	Regulate the activities of all Certified Public Accountants in Kenya; promotes standards of professional competence and practice amongst members of the Institute; and promotes research into the subject of accountancy and finance and related matters, and the publication of books, periodicals, journals and articles in connection therewith. This enables accounting and audit firms that provide opinions on financial statement to facilitate corporate financing and intermediation.

Stakeholder	Role
Institute of Certified Public Secretaries of Kenya (ICPSK)	Develop and promote good governance, enhance productivity in the private and public sectors of the economy through its members by inculcating in them high standards of professional knowledge, expertise and competence in public secretarial practice, administration, public and corporate management and related disciplines.
East African Securities Regulatory Authorities (EASRA)	Bring together the securities regulators and securities exchanges in Burundi, Kenya, Rwanda, Tanzania and Uganda with the aim of harmonizing the securities laws and infrastructure of capital markets in the East African region leading to common training, conduct of business standards, and cross-border listing of companies within the region.

2.6 SUMMARY OF KEY STRATEGIC ISSUES

Based on the analysis of Kenya's development agenda, preliminary findings towards development of capital markets master plan and evaluations of the Strategic Plan 2009-2013, the issues that have been identified for the new planning period remain largely the same. This is partly because various initiatives that have been started are ongoing with several issues remaining partially resolved. They include:

a) Legal and regulatory framework for the capital markets;
b) Capital market infrastructure and institutional arrangements;
c) Deepening of capital market products and services;
d) Investor education and public awareness; and
e) Institutional capacity of the Authority.

These issues are explained in detail in the Strategic Direction of the Authority in the next Chapter.

CHAPTER THREE

STRATEGIC DIRECTION

This chapter covers the strategic intent of the CMA which includes the Vision, Mission, Core Values, Key Results Areas, Strategic Objectives and Strategies.

3.1 VISION STATEMENT

The CMA has realigned its Vision Statement to the strategic direction as follows:

"A proactive regulator of a competitive and robust capital market''

3.2 MISSION STATEMENT

The Mission statement that will guide the CMA is:

"To promote the development of Kenya's capital market to be an investment destination of choice through facilitative regulation and innovation"

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:

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

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

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

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

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

3.4 KEY RESULT AREAS

The following are the key result areas which informed the CMA's strategic direction:

3.4.1 Facilitative Legal and Regulatory Environment

Significant steps have been made to reform the regulatory framework in the previous strategic planning period. However, it is imperative that continuous efforts be directed towards strengthening and enhancing the regulatory framework to make it more comprehensive, consistent and flexible for capital market development. The framework also needs to be brought into compliance with international best practices including the IOSCO principles of securities regulation. CMA is in the process of overhauling the securities markets legal and regulatory framework to make it more robust and facilitative enough to promote market development and innovation. The review envisages establishment of two Acts namely Securities and Investments Act and Capital Markets Authority Act. One of the key focus of the legal review is to make the Authority a more responsive and efficient regulator.

It is recognized that the regulatory framework must adapt to the fast-changing market environment. In addition, strong and effective enforcement of the regulations governing the capital market is important to ensure that public confidence in the integrity of the market is preserved at all times, and that systemic stability is not compromised. The Authority therefore seeks to enhance its engagement with the relevant authorities with a view to ensuring efficient and timely delivery on its mandate.

3.4.2 Capital Market Products and Services

Capital Markets are a key component of the Financial Services sector and play a critical role in creating a facilitative environment for the attainment of the Vision. Diversified and liquid capital markets are key drivers of wealth creation and have been seen to play a central role in transformational economies. In this context, the capital markets provide the framework for the following core activities:

- Capital raising for public and private sectors;
- Promoting balance and stability in the financial system;
- Decrease reliance on donor funding for priority projects;
- Decreasing dependency on short term funding from the banking sector;
- Providing alternative options for savings; and
- Cushions the economy from adverse impact of fluctuations associated with fast-flowing nature of capital.

The Kenya Vision 2030 projection for Financial Services is to create a vibrant and globally competitive financial sector promoting high-levels of savings and financing for Kenya's investment needs. Further, Kenya also intends to become not only an international financial services center but also the gateway for capital raising throughout the capital markets in Africa.

The Kenyan capital market has grown rapidly in the recent years with equity market capitalization growing from Ksh. 851 billion as at 2007 to Ksh 1.72 trillion in May 2013. The market has also exhibited enormous capital raising capacity with some equity issues being as much as 500% oversubscribed and raising in excess of Ksh. 430 billion from equity issuances over the last decade. Through the debt markets, the Government of Kenya has raised approximately Ksh. 1.9 trillion domestically over a similar period.

The above milestones have been achieved despite the key gaps and weaknesses in the structure and operations of the capital markets in the country. This realization therefore begs the questions of how much more significant role the market could play if more conducive environment was in place. As the Nation continues to pursue middle- income status and the heavy funding needs to drive the Vision programmes, critical attention needs to be paid to how best the local markets can be leveraged to reduce reliance on expensive short term lending from banks as well as donor agencies.

In order to create an environment conducive for the continued growth and development of the market, additional focus and resources must be channeled to ensure that we have in place truly world class capital markets that will be able to intermediate funding for the Kenya Vision 2030 as well as for the economic development of the region as a whole. The size of the Kenyan stock market compared to GDP is only 46% (as of 2012) which is significantly lower than comparable countries in Africa and internationally. The capital market is strategically positioned to be one of the key catalysts to the establishment of an international financial centre in Nairobi. Like in many other jurisdictions, the IFC will provide a secure and efficient platform for business and financial institutions to reach into and out of the emerging markets in Africa and beyond. The effectiveness of the IFC will depend on the responsiveness as well as robustness of the Kenyan capital markets in addition to the quality of its regulatory framework, supportive infrastructure and tax regime in order to make it globally competitive

3.4.3 Capital Market Infrastructure and Institutional Arrangements

Capital market infrastructure and institutional arrangement determines the systemic relationships among participating institutions. CMA recognizes that a robust capital market infrastructure is key to maintaining a well-functioning capital market. It enhances efficiency, reduces systemic risk, lowers cost of doing business, and promotes investor confidence which is a determinant of market growth.

The integrity of institutions is also central to the vibrancy and stability of the capital markets. Therefore, good corporate governance, the rules and practices that govern the relationship between the managers and shareholders of corporations, as well as stakeholders such as employees and creditors, are factors that underpin market confidence, financial market integrity and economic efficiency.

With the ever-changing technology which poses significant opportunities and challenges, modernization of the capital markets infrastructure is a key priority to mitigate systemic risk and in order to move at par with the best international standards. In this Strategic Plan, the Authority seeks to address issues of market access including additional trading platforms, conduct among market intermediaries, corporate accountability among listed companies and overall supervision of the capital market institutions.There shall also be efforts to encourage effective competition and innovation and guard against the potential new risks.

It is worth noting that with Kenya positioning itself to exploit the enormous potential arising from the ongoing regionalization initiatives, efficient capital markets infrastructure and institutional arrangements will be a major boost in making Kenya realize its goals of the remaining the regional economic hub. The ongoing initiatives to integrate the capital markets infrastructure as well as institutions will be one of the kingpins of the successful implementation of this plan.

3.4.4 Investor Education and Public Awareness

The investing public is a major stakeholder in capital markets and, their financial and investment literacy is important in enhancing the development of these markets. The CMA seeks to develop education and awareness programmes and thereby ensure that public understanding of the capital markets is enhanced. Investor education will require strategic alliances with other institutions such as professional associations, institutions of learning and county level governments and institutions.

The investor education program is being restructured to target only the investors but also the issuers as well as the intermediaries. Issuers are key players within the capital markets as they create the demand for surplus capital. It is critical therefore for the issuers to be sensitized on the available fund raising opportunities within the market. Intermediaries on the other hand are the lubricants of the capital markets system through their financial intermediation activities. Financial literacy among intermediaries promotes general integrity within the market.

3.4.5 Institutional Capacity of the Authority

Given the dynamism of the capital markets the CMA needs to enhance its institutional capacity to keep pace with demands of the market. The key areas for institutional strengthening have been recognized as human resource capacity, financial sustainability and internal systems and processes. In recognition of the fact that capital markets thrive on intellectual capital, the Authority will proactively seek to attract, retain and motivate the highest quality of human resources at all levels. Leadership development and organizational culture were also identified as some of the key issues that this Strategic Plan is to address. In addition, the Authority will seek to diversify its revenue streams, and undertake reengineering of its internal processes to enhance efficiency.

In recognition of the enormous potential accruing from technology, focus has remained on automation of processes within the Authority. The automation initiatives within the Authority ranges from the internal process that involves installation of systems such as ERP to market supervision through development of Risk Based Supervision systems as well as expert market surveillance systems.

As part of the measures being put in place to make the Authority services more accessible to its customers, ICT solutions are being implemented to allow for services such as licensing and approvals applications as well as regulatory obligations such as filing of returns accessible to the stakeholders online.

3.5 STRATEGIC OBJECTIVES AND STRATEGIES

In order to address the key result areas identified above, the following strategic objectives and strategies were formulated. The implementation plan which provides the operational framework with activities, performance indicators, timelines, responsible parties and budgets, is provided in Appendix 1.

Key Result Areas		Strategy Objective		Strategies
Facilitative legal and regulatory framework	1.0	To ensure a robust, facilitative policy, legal and regulatory framework for capital market development.	1.1	Enhance the responsiveness, comprehensiveness and enforceability of the current legal and regulatory framework.
			1.2	Strengthen policy and regulatory provisions that facilitate development and deepening of the capital markets.
			1.3	Enhance stakeholder participation and support for legislative changes
Capital Market Products and Services	2.0	To facilitate the development and diversification of capital market products and services.	2.1	Improve the uptake of capital market products and services.
			2.2	Provide a facilitative environment for cross border investments.
			2.3	Establish a facilitative environment for County Governments to utilize the capital markets.
			2.4	Continuously facilitate improvement of liquidity in the capital market.
			2.5	Enhance the depth of capital market products and services.
			2.6	Strengthen the Bond Market Steering Committee.
Investor Education and Public Awareness	3.0	To promote investor education, awareness and interest in the capital markets.	3.1	Enhance dissemination of investor education to various segments of the target market.
			3.2	Increase avenues for the delivery of capital market education.
			3.3	Enhance awareness of capital markets opportunities and developments.

Key Result Areas		Strategy Objective		Strategies
Capital Market Infrastructure and Institutional Arrangements	4.0	To enhance the efficiency and integrity of the capital market infrastructure and institutional arrangements.	4.1	Improve platforms for market access, trading, clearing and settlement.
			4.2	Ensure effective monitoring and supervision of capital market operations.
			4.3	Enhance market structure to facilitate local and cross-border investments.
			4.4	Promote a competitive environment for provision of capital market services.
			4.5	Enhance professional standards and conduct in delivery of capital market services.
			4.6	Facilitate effective and efficient delivery of services by market participants and listed companies.
			4.7	Minimize capital market fraud.
			4.8	Strengthen capital markets Investor Compensation Fund (ICF).
Institutional Capacity of the Authority	5.0	To strengthen the institutional capacity of the CMA to effectively and efficiently deliver on its mandate.	5.1	Ensure optimal staff complement, competencies and productivity.
			5.2	Enhance financial sustainability.
			5.3	Strengthen internal systems, processes and controls.
			5.4	Leverage Information, communication and technology to enhance efficiency and service delivery.
			5.5	Improve and uphold the corporate image of the Authority.
			5.6	Build strategic alliances with relevant institutions.

3.6 IMPLEMENTATION OF THE STRATEGIC PLAN

3.6.1 Implementation Framework

The implementation framework is provided in appendix 1.

3.6.2 Critical Success Factors for Implementation

The Authority has identified the following critical factors that it will need to observe for the successful implementation of the Strategy:

a) Leadership and commitment;

b) Understanding of the Strategy by all those who are involved in its implementation;
c) Effective communication between all implementers on activities and outcomes;
d) Timely implementation of activities;
e) Appropriate organizational structure and allocation of resources as identified for each activity;
f) Effective translation of strategic plan targets to departmental plans and individual work plans and targets; and
g) Regular review, performance oversight, monitoring measurement and reporting.

3.6.3 Accountability

Accountability is the expectation that each employee will be responsible for results achieved in performing the assigned tasks. Employees will report results of their work to their respective departments or sections to enable management to make timely and accurate decisions.

The Board will be in charge of policy formulation, and general monitoring and evaluation of the Plan's implementation. The Chief Executive (CE) and Heads of Divisions and Departments will be responsible for the day-to-day implementation, monitoring, and evaluation of the plan.

MONITORING AND EVALUATION OF THE PLAN

4.1 INTRODUCTION

CMA will apply both **quantitative and qualitative** techniques to monitor the planned performance of its respective Units/Departments/Divisions. The major techniques of monitoring and evaluation that shall be used are variance analysis, ratio analysis, and budgets.

Variance Analysis: The departments will simply compare performance targets with the relevant actual results and any variance identified. As a consequence of variance analysis and identification of causes, the management shall take appropriate remedial actions.

Ratio Analysis: Ratio analysis is concerned with efficiency related objectives. The ratios will be calculated quarterly, semi-annually and annually and the actual results compared with target ratios. The differences between target and actual ratios will be identified and analyzed. This analysis will invoke appropriate remedial action.

Budgetary Control: Actual results will continually be checked against planned results and variances investigated. If necessary, action plans will be changed so that they are brought in line with the budgeted results or the budget will be amended to take account of new developments that require action.

4.2 MONITORING AND EVALUATION STRATEGIES

Monitoring the implementation of the strategic plan constitutes systematic tracking of activities and actions to assess progress. Progress is measured against specific targets and schedules included in the plan. This is followed by analyzing and reporting of information to various users. This helps them to remain alert to any short-falls or deviations and taking early corrective action.

Effective monitoring also helps to identify difficulties and problem areas, and to take immediate remedial action, thereby ensuring that targets are achieved. Regular reporting at all levels is necessary for follow-up and record keeping. The following M & E framework will be put in place by the Authority in order to ensure effective implementation of the strategic plan:

4.2.1 Strategy Implementation Team

The Authority will establish a Corporate Strategy Implementation Team to follow up and ensure that strategies are being implemented, performance is being measured, progress reports are made and discussed, and corrective action is taken where necessary.

4.2.2 Utilizing the Balance Scorecard (BSC)

The Authority will utilize the BSC-based performance management system to link operational actions with the strategic goals. The BSC framework will provide the following benefits:

- Set strategic milestones;
- Establish indicators (scorecards) that measure the achievement of each strategic milestone;
- Link reward to performance measures; and
- Provide feedback for strategy review and learning.

4.2.3 Cascading the Plan to all Staff

The strategic plan must translate to work. The Plan will therefore be cascaded downwards to the lowest positions. This will help each member of staff to understand and plan for their respective roles.

4.2.4 Departmental and Individual Annual Work Plans

Detailed work plans with clear performance indicators and responsibility for their achievement will be developed. Key indicators that will inform management decision making will be identified and the frequency of reporting on these indicators will be determined. This will form the foundation of the M&E system.

4.2.5 Data and Information Collection Procedures

Elaborate data and information collection templates and procedures will be developed to measure performance as per the indicators and report to management. The reports will describe actions taken by the departments toward achieving the specific strategies of the Plan and will include achievements, challenges and emerging issues, costs, benefits and recommendations.

4.2.6 Regular Meetings

Monthly Review Meetings at the Departmental level will be scheduled to ensure implementation is on track. At least quarterly review meetings at Management level will be scheduled to get and give feedback. The Strategic Plan and its implementation is a responsibility of the Board of Directors. Therefore progress reporting will be an Agenda Item in Board Meetings.

4.3 STRATEGIC PLAN REVIEW

The Strategic Plan will be reviewed annually and at the mid-term to ensure that it remains relevant, feasible and delivers outputs that contribute to sustainable development. Annual review will evaluate the year's activities and indicate the extent to which the Authority has implemented the Plan. A comprehensive review of the strategic plan will be undertaken at the end of the third financial year.

4.4 KEY MARKET PERFORMANCE INDICATORS

The following table presents key market performance indicators that shall be used by the Authority to monitor and evaluate performance in achievement of objectives.

Table 4: Key Performance Indicators

			Base	Annual Targets				
	Indicator	**Measure**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
1	Capital Markets assets (Equity Market – MCAP	Kshs Bn	1,272.0	1,526.40	1,831.68	2,198.02	2,637.62	3,165.14
2	Bond MCAP– Value of outstanding bonds)	Kshs Bn	716.01	859.21	1,031.05	1,237.27	1,484.72	1,781.66
3	Equity MCAP	% of GDP	38.50	41.00	43.11	45.34	47.61	50.13
4	Bond MCAP	% of GDP	21.67	23.08	24.27	25.52	26.80	28.22
5	Market Turnover (Equity + Bonds)	KSh.bn.	652	1,043.2	1,669.1	2,670.5	4,272.9	6,836.7
6	Marketarke Turnoverry Market – MCAP + Turnover	% of GDP	19.73	28.02	39.29	55.08	77.13	108.27
7	No of foreign investors (with CDS Accounts)/Total number of adult population	%	0.27	0.29	0.25	0.30	0.31	0.32
8	No of investors investing in the market through institutional investors (CIS, Pensions / Fund Managers / Custodians) / total number of adult population	%	0.83	0.85	0.87	0.89	0.91	0.93
9	No of capital markets products for channeling investments into infrastructure, real estate, and oil, gas, mining and metals exploration and extraction	No.	2	2	4	4	4	4
10	No of capital markets interlinked to the infrastructure of the Kenyan capital markets to support cross border trading and investment	No.	2	2	2	4	4	5
11	Efficiency (Average Equity) Turnover/MCAP i.e. Turnover ratio	%	0.57	0.66	0.75	0.87	1.00	1.15
12	Efficiency (Bonds) - (ABTO/Bond MCAP)	%	6.58	6.68	6.78	6.88	6.98	7.00
13	Stability (Annual Volatility of NSE 20 Index)	%	28	10	10	10	10	10
14	Concentration of MCAP of top 5 companies/Total Market Cap	%	53	52	51	50	49	48
15	Concentration of Equity Market Turnover of top 5 companies/ Total Market Cap	%	75	74	73	72	71	70

APPENDIX 1: IMPLEMENTATION FRAMEWORK

Strategic Objective 1: To establish a robust, facilitative policy, legal and regulatory framework for capital market development

	Strategy		Activity	Indicator	Timeline
1.1	Enhance the responsiveness, comprehensiveness and enforceability of the current legal and regulatory framework	1.1.1	Assess and identify gaps in the Securities Industry bills and CMA Bills and subsidiary legislation with reference to IOSCO principle and, CMMP	Gap analysis report	June 2014
		1.1.2	Revise and re-submit the bills with supporting policy framework that is comprehensive, facilitative and enforceable	Revised drafts of SI and CMA Bills	June 2015
		1.1.3	Continuous review of appropriateness of legal and regulatory framework.	Facilitative licensing/approvals requirements	March every year
		1.1.4	Conduct impact assessment of the regulations on market development	Regulatory impact assessment report	June 2014
		1.1.5	Address the regulatory bottlenecks based on impact assessments	Full implementation of recommendations of assessment report	June 2015
1.2	Introduce new policy and regulatory provisions that facilitate development and deepening of the capital markets	1.2.1	Develop and submit futures and derivatives regulations to the National Treasury	Draft futures and derivatives regulations submitted to National Treasury	Dec 2013
		1.2.2	Review and submit regulations on market fees	Draft regulations on fees submitted to National Treasury	June 2014
		1.2.3	Develop policy and operational framework for Exchange Traded Funds (ETFs)	Policy framework in place Exchange Traded Funds regulatory framework submitted	Dec 2015 June 2016
		1.2.4	Develop policy and legal framework for international and regional cross listings as well as GDRs and GDNs	Policy framework in place regulatory framework on international and regional cross listings and GDRs and GDNs submitted	Dec 2014 June 2017
		1.2.5	Undertake Regular assessment of the market trends to inform appropriate regulatory requirements	New regulatory requirements	Annually
		1.2.6	Engage stakeholders to develop policies that support market innovation	Policy frameworks to support innovation	Continuous

	Strategy		Activity	Indicator	Timeline
1.3	Enhance stakeholder participation and support for legislative changes	1.3.1	Develop and implement a stakeholder engagement strategy	Stakeholder engagement strategy	Dec 2013
		1.3.2	Identify and develop a database of key stakeholders and allocate management contacts	Database in place and management contacts appointed	Dec 2013
		1.3.3	Hold periodic briefing sessions with stakeholders	Quarterly networking sessions Stakeholders continually updated on legislative developments	Quarterly
		1.3.4	Create a consultative committee with stakeholder representation	A consultative committee in place	Dec 2013
		1.3.5	Review Communications policy to include guidelines for social media interactions	Guidelines in place	Dec 2013
		1.3.6	Implement guidelines for social media interactions	Social media contact officers appointed	Mar 2014

Strategic Objective 2: To facilitate the development and diversification of capital market products and services

	Strategies		Activities	Performance Indicator	Timeline
2.1	Enhance the uptake of capital market products and services	2.1.1	Propose policy incentives to encourage uptake of capital markets products and services	Proposals on incentives for capital raising, listing and investment s in capital markets developed and submitted to National Treasury	January every year
		2.1.2	Conduct investor perception survey (IPS)	Investor perception report	June 2014 then biennially
		2.1.3	Implement recommendations of Investor Perception Survey (IPS)	Investor perception survey recommendations implemented	As per the IPS report
2.2	Provide a facilitative environment for cross border investment	2.2.1	Introduce an operational framework for regional and international cross listings such as Global Depository Receipts/GDNs and other cross border engagements	A policy and institutional framework on cross listings and GDR/GDN operationalization	Dec 2014
		2.2.2	Review the guidelines that rationalize foreign investment in local companies	Facilitative guidelines for foreign investment in the capital market	June 2014
		2.2.3	Develop a facilitative policy framework for Diaspora investments	Policy framework for Diaspora investments in place	March 2014
2.3	Support a facilitative environment for County Governments to utilize the capital markets	2.3.1	Develop an operational framework to guide County Governments to utilize the capital markets	An operational framework in place	June 2017
		2.3.2	Conduct consultations with national and county governments regarding access to capital markets	Number of consultative workshops	Continuous
		2.3.3	Propose incentives for county participation in capital markets	Policy proposal for incentives	Jan every year
2.4	Support improved liquidity in the capital market	2.4.1	Develop policy framework to facilitate short selling of bonds	Short selling policy for bonds framework in place	Dec 2013
		2.4.2	Develop policy framework to facilitate short selling of equities	Short selling policy for equities framework in place	June 2016
		2.4.3	Develop policy framework to facilitate margin trading of bonds	margin trading policy framework	June 2014
		2.4.4	Develop securities lending and borrowing and margin trading regulations and rules for bonds	Securities lending/ borrowing and margin trading regulations and rules for bonds	Dec 2014

	Strategies		Activities	Performance Indicator	Timeline
		2.4.5	Develop securities lending and borrowing and margin trading regulations and rules for equities	Securities lending/ borrowing and margin trading regulations and rules for equities	June 2017
		2.4.6	Develop modalities to increase the free float	Modalities to increase the free float	December 2014
2.5	Enhance the depth of capital market products and services	2.5.1	Identify funding requirements and structuring considerations relevant to different sectors of the economy and develop responsive products	Needs profile for each market segment	June 2014
		2.5.2	Develop policy framework on Islamic Capital Markets Products (Sharia-Compliant bonds (Sukuks) and Collective Investment Schemes)	A policy framework for Islamic Capital Markets Products Hire staff specialized in Islamic Finance at the Authority	June 2014 December 2013
		2.5.3	Facilitate the gazettement of REITS regulations	REITS launched	March 2014
		2.5.4	Develop regulatory frameworks for the creation of a Futures and Derivatives Exchange	Policy and regulatory frameworks for Futures and Derivatives Exchange in place	December 2013
		2.5.5	Develop policy framework for linking Warehouse Receipt System (WRS) with the Futures and Derivatives Infrastructure	WRS and Futures and Derivatives Infrastructure interlinked	June 2015
		2.5.6	Develop policy framework for swaps, options and other OTC Derivatives	Policy framework in place	December 2016
2.6	Strengthen Bond Market Steering Committee	2.6.1	Review and enhance the terms of reference of the Bond Market Steering Committee	Revised terms of reference in place	June 2014
		2.6.2	Implement the Bond Market Steering Committee TORs	Operational Bond Market Steering committee in place	July 2015

Strategic Objectives 3: To promote investor education, awareness and interest in the capital markets

	Strategies		Activities	Indicator	Timeline
3.1	Enhance targeted dissemination of investor education	3.1.1	Undertake a survey on existing and potential market participants' investor education needs	Survey report	September 2013
		3.1.2	Develop and implement investor1 education strategies for various market segments including individual investors, institutional, current and potential issuers of securities, youth (University students, schools and colleges), and market players among others.	Investor education strategy for various segments of the market in place Strategy implementation report	Dec 2013 Every quarter from Dec 2013
		3.1.3	Conduct Impact Assessment of investor education	Assessment report	Every 2 years
		3.1.4	Continuous equipping of the Resource Centre	Adequate information materials	Continuous
3.2	Increase avenues for the delivery of capital market education	3.2.1	Establish linkages with county governments and institutions in delivery of county education forums	County education forums conducted	March 2014
		3.2.2	Partner with Education institutions such as MoE, KICD, Universities and Schools to include Securities market courses in curriculum	Capital market information infused in the curriculum	Dec 2014
		3.2.3	Partner with stakeholders in delivery of capital market education to their members	Number of Partnerships	Continuous
		3.2.4	Conduct training workshop for members of the professional associations	Number of trainings conducted Number of professionals trained	Quarterly
		3.2.5	Create an interactive online resource portal for capital market information	Interactive online portal platform	Dec 2013
3.3	Enhance awareness of capital market opportunities and developments	3.3.1	Conduct sensitization on new products and services	Number of sensitization engagements	Annually
		3.3.2	Develop and distribute information materials on new products and services	Number of new sensitization materials developed	Continuous
		3.3.3	Develop and distribute information materials on available financing opportunities in the Kenyan capital markets	Number of new sensitization materials developed	Annually

Strategic Objectives 4: To enhance the efficiency and integrity of the capital market infrastructure and institutional arrangements

Strategies		Activities		Indicator	Timeline
4.1	Enhance platforms for market access, trading, clearing and settlement	4.1.1	Hold stakeholder workshops on internet trading	internet trading workshops	On or before Dec 2015
		4.1.2	Facilitate the strengthening of capacity of CDSC	Approval of rules	Dec 2015
		4.1.3	Facilitate assessment of CDSC compliance with IOSCO CPSS	Assessment report	December 2013
		4.1.4	Ensure CDSC develops implementation plan arising from assessment report	Implementation plan	March 2014
		4.1.5	Facilitate establishment of futures market	An operational Futures market in place	Dec 2014
		4.1.6	License new trading, clearing and settlement platforms	Number of new trading, clearing and settlement platforms	June 2017
4.2	Ensure effective monitoring and supervision of capital market operations	4.2.1	Implement risk based capital adequacy requirements	Capital adequacy requirement in place	June 2014
		4.2.2	Widen sources of intelligent information for market surveillance	Number of sources for intelligence	Dec 2014
		4.2.3	Strengthen enforcement mechanism	Enhanced enforcement manual	Feb 2014
		4.2.4	Review guidelines for effective segregation of client funds	Revised guidelines on effective segregation of client funds in place	September 2015
		4.2.5	implement management supervision and internal control guidelines for market intermediaries	Management supervision and internal control guidelines implemented	June 2014
4.3	Enhance market structure to facilitate local and cross-border investments	4.3.1	Develop policy framework for OTC market for equities	Policy framework developed	Dec 2014
		4.3.2	Widen regulatory framework to facilitate appointment of corporate bodies as CDAs for Diaspora accounts	Regulatory framework that facilitates appointment of corporate bodies as CDAs for Diaspora accounts in place	June 2015
4.4	Promote a competitive environment for provision of capital market services	4.4.1	Develop a transparent framework for licensing and admission of new stock brokers	Transparent framework for licensing and admission of new stock brokers in place	Dec 2013

Strategies		Activities		Indicator	Timeline
		4.4.2	Review the exchange trading participants rules and procedures for admission of new members to remove entry barriers	Facilitative rules in place	Dec 2013
4.5	Enhance professional standards and conduct in delivery of capital market services	4.5.1	Develop a set of procedures to ensure that SROs (when duly recognized) are actually regulating their own membership.	Procedures for SROs	June 2015
		4.5.2	Approve SROs and bestow upon them the responsibility to regulate their members	Number of SROs established	Dec 2017
		4.5.3	Conduct capacity building of SROs for effective oversight	Number of capacity building initiatives for SROs	Dec 2014
		4.5.4	Implement Certification program	Certified individuals in market intermediaries	June 2014
4.6	Facilitate effective and efficient delivery of services by market participants and listed companies	4.6.1	Complete demutualization process and approve self-listing of the NSE	1.NSE listed on the exchange	Aug 2015
		4.6.2	Review the corporate governance legal framework	Report and recommendations on corporate governance Corporate Governance Blue print	December 2013
		4.6.3	Implement the recommendations of the review of the corporate governance legal framework	Revised corporate governance legal framework	On or before December 2014
		4.6.4	Establish requirements for significant disclosures of market-related information by listed companies	Requirements for material company disclosures in place	Dec 2014
		4.6.5	Closely monitor continuous reporting obligations	Number of institutions adhering to reporting obligations	Continuous
		4.6.6	Develop a policy to enhance participation of minority investors in the primary market	Policy proposal developed	March 2014
4.7	Minimize capital markets fraud	4.7.1	Investigate and prosecute capital markets fraudsters	No of concluded investigations and cases prosecuted	Continuous
		4.7.2	Carry out capital markets fraud intelligence	Fraud intelligence reports	Continuous
4.8	Strengthening capital markets ICF	4.8.1	Operationalize a ICF Board	A Board in place	June 2014

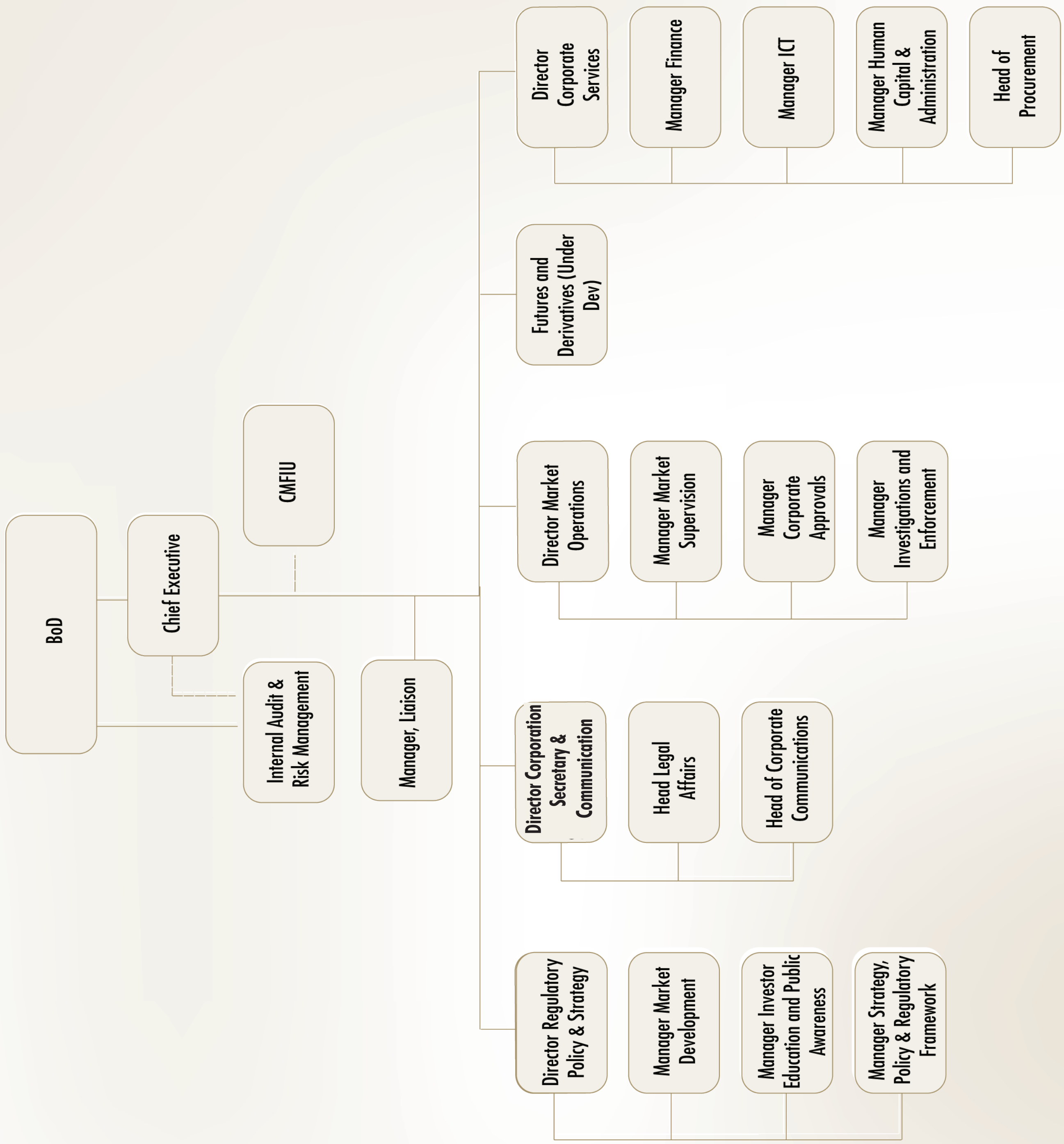
Strategic Objective 5: To strengthen the institutional capacity of the CMA to effectively and efficiently deliver on its mandate

	Strategy		Activities	Indicator	Timeline
5.1	Ensure optimal staff complement, competencies and productivity	5.1.1	Review and develop performance driven staff development program	Implementation program in place	Jan 2014
		5.1.2	Implement performance driven staff development program	Level of implementation	20% annually
		5.1.3	Conduct Training Needs Analysis	Training needs assessment report	January 2015
		5.1.4	Implement recommendations arising from the Training Needs Assessment	Number of capacity building programs implemented Competency development index	July 2015-June 2017
				Conduct capacity building on mediation	June 2014
		5.1.5	Develop and implement a change management programme	Change management programme implement Culture change index	Dec 2014
5.2	Enhance financial sustainability	5.2.1	Identify new sources of revenue	Additional sources of revues identified and utilized Increased revenue	Continuous
		5.2.2	Pursue strategic partners to support institutional programs	Number of partners identified and approach Type and level of support received	Annual
		5.5.4	Digitalize and synchronize data resources within the Authority	Electronic data bases in place Level of Integration of systems(ERP,RBSS, Workflow, Surveillance, Research databases)	June 2014
		5.2.3	Identify and adopt prudent financial management practices	Funded programs within budget Decentralized budget control	Dec 2014

	Strategy		Activities	Indicator	Timeline
		5.2.4	Develop a business intelligence system	Business intelligence system in place	June 2015
5.3	Relocate to own premises with CMA Brand name	5.3.1	Engage with relevant Government institutions on allocation of land to build own premises	Formal communication from relevant Government institutions on availability and terms of land allocation	September 2013
		5.3.2	Explore options on finance of own premises	Report on financing options tabled to the CMA Board	Jan 2014
		5.3.3	Submit proposal for owned premises to Treasury	Proposal for owned premises submitted	June 2014
		5.3.4	Commence building of new premises	Contracts signed with contractors	June 2017
5.4	Strengthen internal systems , processes and controls	5.4.1	Undertake Business Process Re-engineering	BPR report. Seamless processes Enhanced turnaround times	June 2015
		5.4.2	Observe full adherence to QMS systems requirements	ISO certification Maintained	Continuous
		5.4.3	Continuous Implementation of risk management framework	Risk management framework reports	Continuous
5.5	Leverage Information, communication and technology to enhance efficiency and service delivery	5.5.1	Train staff to fully utilize current ICT investments such as RBSS, ERP Systems	Level of utilization of ICT investments	Continuous
		5.5.2	Continuous implementation of recommendation of ICT assessment report on automation	ICT Automation levels (COBIT , PC) Assessment report on level of ICT automation	Continuous Bi-annual
		5.5.3	Provide ICT infrastructure and tools for changing business needs	ICT infrastructure and tools provided such as a modern properly kitted resource center and conference facilities e.g. Teleconferencing facilities for meetings and trainings.	June 2014

	Strategy		Activities	Indicator	Timeline
5.6	Enhance corporate image of the Authority	5.6.1	Prepare information materials on the capital markets and the CMA, for dissemination through the media	Number of Documentaries produced and aired Number of Infomercials produced and aired Number of TV commercials produced and aired	June 2014, and annually thereafter June 2015 June 2015
		5.6.2	Invest in Corporate Branding items	Banners, corporate wear and giveaways produced	June 2014 and Bi-annually thereafter
		5.6.3	Implementation of the communications policy	Feedback from Customer Satisfaction Survey	Annually
		5.6.4	Share corporate information from the Authority in a timely manner	Media coverage of the Authority in two newspapers, two TV stations, and one radio for every announcement	Continuous
		5.6.5	Develop and implement a communications strategy	Quarterly reports on the implementation of the strategy	Annually
5.7	Build strategic alliances	5.7.1	Engage with relevant international organizations and entities to inform applicable standards and prioritization (CMIPC, FSR, IOSCO, FSB)”	Number of engagements	10 annually
		5.7.2	Enter into mutual recognition agreements with other international regulators	Number of mutual recognitions	2 annually
		5.7.3	Enter into agreements with local and international capacity building institutions/bodies (such as KSL, LSK, Capacity Building Progammes by Development Partners)	Number of capacity building institutions brought on board	Dec 2014

APPENDIX 2: ORGANIZATIONAL STRUCTURE



Footnotes)

1 Investor education is a generic term that applies to both investors and issuers

CAPITAL
MARKETS AUTHORITY

Capital Markets Authority
Embankment Plaza, 3rd Floor,
Longonot Road, Upper Hill
P.O Box 74800 - 00200
Nairobi, Kenya
Tel: +254 22 64900
Fax: +254 20 228254
Email: corporate@cma.or.ke
Website: www.cma.or.ke