CMA Forum

A Publication of the Capital Markets Authority

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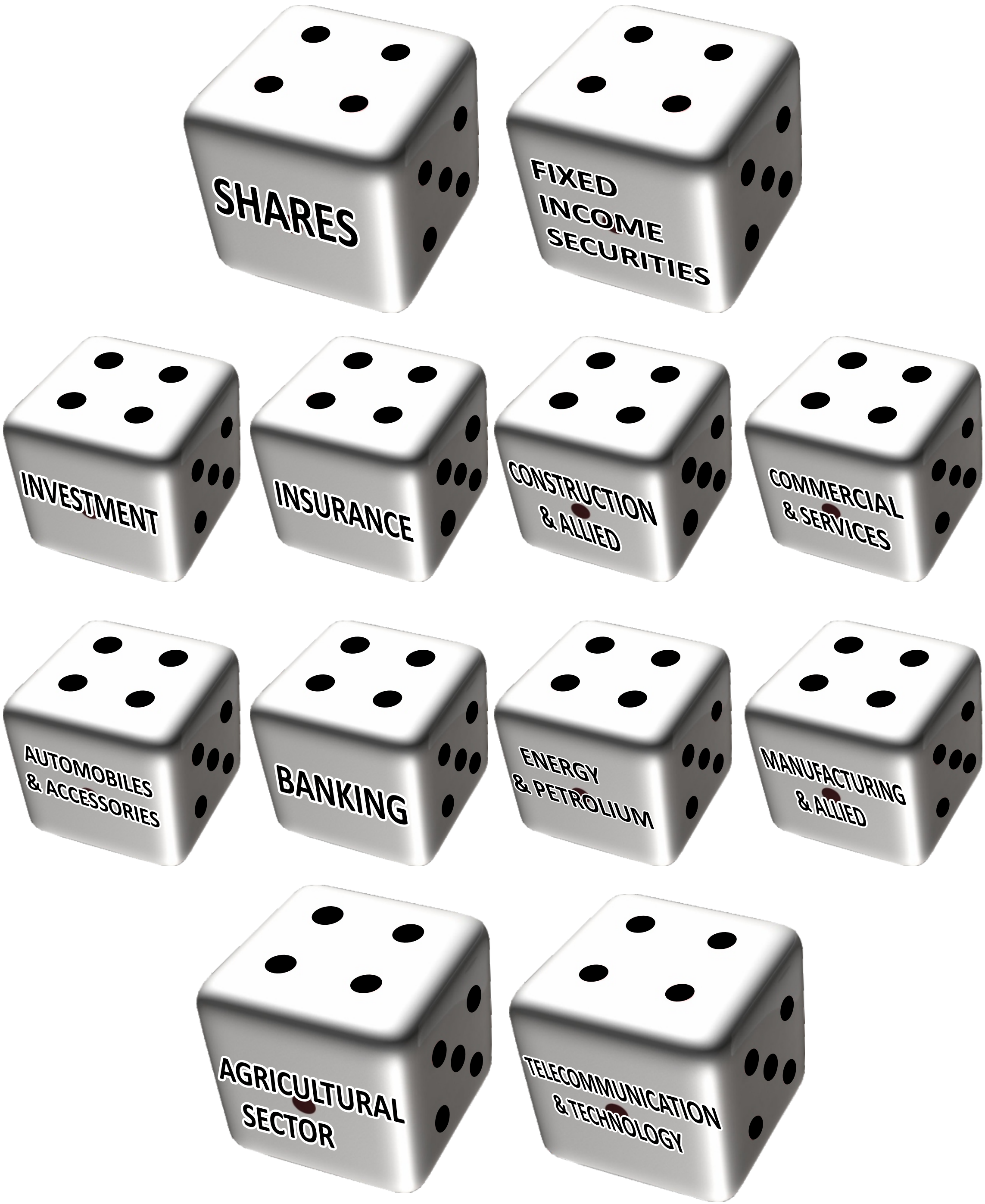

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Chief Executive's Message

Mr. Paul Muthaura, Acting Chief Executive

Developing and deepening the Capital markets in Kenya remains a priority agenda. We are continually focusing our efforts on activities and initiatives that will drive the markets towards the realization of this objective.

In mid-October, the Authority announced the appointment of a 16-member Capital Markets Master Plan Steering Committee, with a diverse mix of skills and expertise, which is expected to formulate the Capital Markets Master Plan within a period of 9 -12 months.

The appointment brought to conclusion a consultative process that began in November 2011. The committee's membership comprises; Mr Paul Kavuma (Independent Chairperson); a representative nominated by the Permanent Secretary, Ministry of Finance; the Chairman of the Technical and Policy Committee of the Authority's Board (Dr. Gituro Wainaina); Mr Gerald Nyaoma from the Central Bank of Kenya; Ms. Wanjiku Mugane; Mr. Mutuma Marangu; Mr Amish Gupta representing the Kenya Association of Stockbrokers and Investment Banks; Mr. Donald Ouma from the Nairobi Securities Exchange; Mr James Muratha representing the Association of Fund Managers; Mr Nathif Adam; Ms. Anne Aliker; Dr. Freshia Waweru; Mr Victor Nkiiri representing the Kenya Banker's Association; Ms. Fahima Zein; Ms. Caroline Musyoka; and the Chief Executive of the Authority. The committee is charged with conceptualizing, designing, and developing a work plan for the implementation of the Capital Markets Master Plan which will provide direction for the industry for a period of 10 years. With the formation of the steering comittee we look forward to an extensive process of consultation and engagement involving all capital market stakeholders to harness creativity and innovation in the industry and ensure that the plan is owned by the industry as a whole.

Additionally, we continue to work to enhance compliance with the corporate governance guidelines for listed companies and licensed capital markets players. We are convening a Corporate Governance Steering Committee drawn from key stakeholders to inform the review of the Code for Corporate Governance for the country. A first round of industry brainstorming meetings facilitated by a World Bank Corporate Governance expert was held in late November bringing together potential nominees to the committee. The following were subsequently appointed to the committee; Ms Maryanne Macheru of the Ethics and Integrity Institute; Ms. Jackline Nyandege nominated by State Corporations Advisory Committee; Mr. Job Kihumba representing the Nairobi Securities Exchange; Rev. Geoffrey Njenga representing the Center for Corporate Governance; Mr. Mirie Mwangi from the University of Nairobi Business School; Ms Catherine Musakali representing the Institute of Certified Public Secretaries of Kenya as Chairperson; Mr. Mahmood Manji representing the Capital Markets Authority Board; Dr. Gituro Wainanina appointed as an independent member with experience on Corporate Governance from a regulatory perspective; and Mr James Mworia representing listed companies.

This latest initiative further underscores our commitment to strengthen the corporate governance framework in our market to enhance investor and issuer confidence. This is key to positioning the capital markets to play their pivotal role of mobilizing funds to help achieve the objectives of the Vision 2030 Economic Blueprint. I wish you a merry Christmas and a prosperous year ahead.

A STUDY ON THE COMPARATIVE PERFORMANCE OF AFRICAN EQUITY MARKETS IN 2011

1.0 INTRODUCTION

The year 2011 saw some of the strongest economies of the world recede; the Japanese tsunami resulted in the slowdown of that economy, the Euro zone debt crisis ensured the downgrade of economic giants such as France (by Fitch) and Italy (by Moody's); and the US debt-ceiling crisis caused a downgrade of the US sovereign credit rating by Standard and Poor's.

After suffering a major setback during 2011, global prospects are gradually strengthening again, but downside risks remain elevated. Improved activity in the United States during the second half of 2011 and better policies in the Euro area in response to its deepening economic crisis reduced the threat of a sharp global slowdown.

Accordingly, weak recovery will likely resume in the major advanced economies, and activity is expected to remain relatively solid in most emerging and developing economies. However, the recent improvements are very fragile.Global growth is projected to drop from about 4 percent in 2011 to about 3½ percent in 2012 because of weak activity during the second half of 2011 and the first half of 2012. Real GDP growth in the emerging and developing economies is projected to slow from 6¼ percent in 2011 to 5¾ percent in 2012 but rise to 6 percent in 2013, supported by easier macroeconomic policies and strengthened foreign demand.

Nevertheless, downside risks continue to loom large in advanced economies including slow economic growth in the USA and the Euro zone, further escalation of the Euro area crisis, high unemployment rates, excessively tight macroeconomic policies and shocks in petroleum prices. Sub-Saharan Africa continues to record strong economic growth, despite the weaker global economic environment. Economic activity in sub-Saharan Africa expanded at a solid pace in 2011, with the region's output growing by 5 percent—a faster pace than the world economy as a whole, but still significantly slower than in the pre-crisis period (2004-08), when regional growth averaged 6½ percent.

The outlook for 2012 remains broadly favorable, with one-off factors contributing to a modest pick-up in the pace of growth, although downside risks, both external and domestic, threaten to undermine some of the region's growth momentum. Sub-regional problems include drought in the Sahel, lingering inflation in eastern Africa, a sluggish recovery in South Africa, and increasing security tensions in parts of West Africa. Global financial markets saw significant decline during the year, as investors cut back on their investments. This was mainly spurred on by widespread negative sentiments about stock markets (mainly as a result of the poor state of most economies of the world), with the memory of the just-ended credit crunch exacerbating the downturn.

The global stock market index (according to MSCI Barra) recorded -7.61% in 2011 and the indices for North America, Europe and Asia were all in the red, recording -1.56%, -13.82% and -17.83% respectively.

The bulk of Africa's major frontier markets realised a positive year in 2010, as the world continued to recover from the bank crisis induced malaise of 2008.

East Africa dominated the region, with Kenya and Uganda coming out number one and two with USD returns of 36.5% and 27.70%, respectively over the course of the year. Like other frontier and emerging markets, stock markets in Africa were affected by the events on the global front in 2011. The index for Frontier Markets Africa, according to MSCI Barra, recorded a -19.76% decline during the review period.

The positive macroeconomic outlook for Africa's economies (the IMF's projected GDP growth rate for Sub-Saharan Africa in 2012 is 5.9%, while that of North Africa is pegged at 4.2%) is expected to translate into improved participation in Africa's capital markets. The outlook of the performance of stock markets in Africa is remains positive.

2.0 THE PERFORMANCE OF AFRICAN EQUITY MARKETS

2.1 STOCK MARKET SIZE

I.Market Capitalization:

As at December 2011, the WFE total market capitalization was US$47.5 trillion. African stock market capitalization accounted for a meager 2.7% during the period under review. In 2010, the data indicates that the Nairobi Stock Exchange was ranked 7th in Africa behind South Africa, Namibia, Egypt, Morocco, Botswana and Nigeria. It would suffice to also note that East African exchanges dominated in capital gains appreciation with Rwanda (84%), Uganda (47%), and Kenya (32%) leading the pack. However, as at December 2011, Kenya was ranked 8th in Africa in terms of market capitalization behind South Africa, Namibia, Morocco, Botswana, Egypt, Nigeria and Ghana.

ii.Number of Listed Companies

On the global front, African stock markets accounted for approximately 3% of listed companies as at end of 2011. The JSE has the highest number of listings on the continent numbering 406 and accounting for approximately 29% of the total number of listings in African stock exchanges. The Egyptian Exchange follows with 213 listings (15%) and Nigeria with 198 listings (14%). Kenya ranks 7th in this indicator of stock market size behind South Africa, Egypt, Nigeria, Mauritius, Zimbabwe and Morocco.

iii.Market Capitalization as a %age of GDP

1. Databank Research, Performance of African Stock Markets - The Year 2011 in Review

2. As of December 2011, there are 32 companies listed on the stock exchange. In addition, there are 25 companies with more than one listing, and also 17 companies listed on the JSE in South Africa. The Namibian Stock Exchange has only seven individual domestic listings constituting approximately 5% of Market Capitalization.

3. The Botswana Stock Exchange has both Domestic and Foreign Boards. The Domestic Board constitutes approximately 10% of Total Market Capitalization.

4. Ghana's market capitalization was significantly boosted by the Listing of Tullow Oil Plc which constitutes 60% of total market capitalization.

The mean market capitalization (as a percentage of GDP) of 50.6% (35.4% excluding S. Africa) pales in comparison to that of Malaysia of 147.5% but comparable to that of Turkey, Argentina and South Korea. The size of the markets has, however been growing, with the mean for Africa growing from 17% of GDP in 1991 to 50% in 2011. South Africa leads the pack with a moving average market capitalization to GDP ratio of 243%. This is then followed by Zimbabwe (96%); Ghana (65%); Morocco (60%); Mauritius (60%); Egypt (49) and Kenya at 34%,

2.2 LIQUIDITY OF AFRICAN CAPITAL MARKETS:

2.2.1 Volume Related Liquidity Measures

i.Turnover:

As of 2011, the analysis suggests that the most actively traded market in Africa is South Africa, accounting for approximately 90% of the entire African stock exchanges turnover. Egypt, Morocco and Nigeria account for 6%, 1.4%, and 1% respectively. Tunisia (0.25%) and Kenya (0.2%) rank 5th and 6th respectively. The global equities turnover was approximately USD 63 trillion in 2011 making Africa's contribution to this figure stand at approximately 0.7%. Nevertheless, 2011 was a depressed year with average equity turnover in African stock markets declining by 16%.

ii.Volume:

From the analysis, stock market volume continued to be dominated by Nigeria of which accounts for 46% of total African stock exchanges share volume in 2011. This is followed by South Africa (37%); Egypt (9.5%); and Kenya (3%). Kenya is ranked 4th in this indicator. The top four exchanges account for approximately 95.5% of total share volume with the top two accounting for 83% of total share volume. Total African Volume accounted for less than 1% of global volume. There was also a general decline experienced in volume levels for Africa as whole with mean reduction of 7% and 10% experienced in 2010 and 2011 respectively.

2.2.2 Time Related Liquidity Measure:

Time-related liquidity measures indicate how often transactions or orders take place. There-fore, high values of these measures indicate high liquidity.

I.Number of Transactions:

As at December 2011, the total number of trades recorded in African stock exchanges was 34.5 million, which accounted for 0.3% of total global trades. South Africa dominates Africa in this indicator accounting for 77% of total African trades. Egypt (16%), Nigeria (3.6%), Tunisia (1.2%) and Kenya (1.1%) complete the list of the top five markets in number of deals executed. It would also suffice to note that there was a significant decrease, of 43%, in deal numbers across the continent attributable to various factors including the Eurozone crisis, the Arab Spring, tight monetary conditions, high inflation e.t.c. The same trend was observed within the global context where deal volumes decreased by 6%.

2.2.3 Operational Efficiency Indicators

i.Turnover Ratio (Stock market Turnover as a % of Market Capitalization): The mean turnover ratio for African stock exchanges for the period under analysis was 9.3%. Kenya ranked 6th in this indicator with a ratio of 9% after Egypt (48%), South Africa (46%), Zimbabwe (13%), Tunisia (11%) and Morocco (10%).

ii.Turnover as a percentage of GDP

South Africa ranks first in Africa in this indicator registering a turnover to GDP ratio of 111% in 2011. This is then followed by Egypt (11%); Morocco (7%); Mauritius (5%), Namibia (4%); and Kenya (3%). Kenya was ranked 6th in the continent.

iii.Number and Value of Issues:

Data indicates that capital raising activities in Africa are nascent when viewed from a global perspective, i.e. less than 0.5% of global capital raised. In 2010, Kenya ranked 4TH in debt issuance after South Africa, Nigeria and Tunisia. However, equity issues have remained subdued across African markets. In terms of capital mobilization depth, Kenya managed to raise USD 1.3 bn in debt, only surpassed by South Africa and Nigeria in 2011 and raised USD 1.9bn in 2010, again, only outperformed by South Africa and Nigeria. This ranks Kenya 4th in Africa, after South Africa, Nigeria and Egypt managing to raise USD 7 bn in the last 4 years, 90% of which has been through debt issuance.

2.3 RETURNS IN AFRICAN CAPITAL MARKETS

I.Annualized Index Returns

The bulk of Africa's major frontier markets realised a positive year in 2010, as the world continued to recover from the bank crisis induced malaise of 2008. East Africa dominated the table, with Uganda (63%) and Kenya (36%) coming out number one (1) and number two (2) respectively over the course of the year in local currency terms. However, Kenya was the best performing market in Africa in USD terms and 13th globally with annualized equity dollar index returns of 36.5%. In 2011, with the exception of a few advancers such as the Lusaka Stock Exchange of Zambia, the Malawi Stock Exchange and the Dar es Salaam Stock Exchange of Tanzania, most stock markets closed the year in the red zone. As at H1-2012, East African Markets demonstrated their resilience and bounced back from a difficult 2011 with impressive results as demonstrated by Kenya (35%), Uganda (24.5%) and Tanzania (12%). Nigeria also posted impressive results registering a 28% return.

3.0 THE STATE OF AFRICAN BOND MARKETS

I. Bond Turnover:

The largest bond exchange in the continent is the Bond Exchange of South Africa accounting for 99% bond turnover in the continent. The rest of Africa's bond markets numbers are simply negligible. In 2011, the total value of bonds traded (in USD bn) stood at USD 2,503 bn. When compared to global bond markets, Africa accounted for 8% of global bond turnover. However, without South Africa, African Bond markets accounted for a measly 0.05% of global bond turnover.

Kenya's bond market is the second most active in Africa closely followed by Egypt registering turnovers of USD 5.4 and 5.1 billion respectively in 2011. South Africa registered a BTO of USD 2.5 trillion over the review period.

ii. Bond Turnover as a % of GDP

South Africa's bond market turnover is 7 times the size of its GDP with other African markets having marginal bond market activity when compared with broader economic activity. Of notable improvement is Kenya's bond market which has grown quite significantly during the review period and ranks 2nd in the continent at 17% of GDP. Other markets that have exhibited significant growth include Ghana and Mozambique.

4.0 PROFILES OF AFRICAN STOCK EXCHANGES

Sub-Saharan African stock exchanges have generally adapted to electronic systems with the exception of Swaziland and Rwanda. Most African countries have no derivative markets, with the exception of South Africa and the North African economies of Morocco, Egypt and Tunisia, where the volume of derivative transactions is small but growing.

Ethiopia, Zambia and Malawi also have agricultural commodity exchanges. A commodities spot and derivatives exchange is being established in Botswana as a hub for pan-African trading. The African OTC markets are nascent and informal in nature with only Egypt operating a formal OTC market for equities.

BESA, the South Africa Bond Market prior to 2009 operated as formal OTC market but was acquired by the JSE and converted to an exchange traded market. The diversified nature of trading mechanisms significantly increases volumes and turnovers of stock exchanges. Egypt, Nigeria and South Africa markets allow for a diverse range of trading mechanisms including Margin, Intra Day and Online trading.

Data on investor profiles of African stock exchanges is scanty. However, from data collated inferences can be made on the following;

i. That African markets have allowed for foreign investor participation through reducing entry barriers and incentivizing the investor class.
ii. Most markets exhibit a robust local investor base
iii. Most African stock markets exhibit a significant skewdness towards institutional investors with regards to investment activity. African stock markets face serious challenges in terms of product depth compared to other emerging markets such as Malaysia and South Africa. This may imply that investors have very few investment opportunities available. As a result, a large pool of savings ideally suited to investment in financial markets is trapped or stagnant. In Africa, only two exchanges are fully demutualized i.e. the Johannesburg Stock Exchange (JSE) and the Rwanda Stock Exchange (RSE). However, several other exchanges are in the process of implementing demutualization. Ghana, Kenya, Nigeria and Zimbabwe's exchanges have made significant progress towards actualizing this initiative while Tanzania has commenced a study to inform the implementation process.

CONCLUSION

Studies of the comparative performance of African stock markets are few and far between. This study is an effort to fill the data void in this area of study. We compare the performance of an un-balanced panel of 19 securities markets in Africa during the year 2011. This follows the baseline research paper on the comparative performance of African securities markets, 1997-2007, as well as the second volume (2008-2009) which have provided significant input to this paper. This research paper has been adopted as a working paper for the Authority and forms the third study in a series of comparative performance of Africa's securities markets. The paper finds that most African markets continue to be small and illiquid. The exceptions are countries like Nigeria or South Africa. This low level of liquidity makes African markets less attractive and limits their expansion.

The paper also recommends further areas of research within the Kenyan capital markets context. This edition has been improved from earlier versions by including data on Number of Transactions, Number and Value of Issues, Market Infrastructure and Microstructure as well as Investor Profile's.

By Joseph Mwenda, Senior Officer,
Market Infrastructure & Product Development

"WHAT'S IN IT FOR ME", ASKED THE MARKET: A LOOK AT THE BENEFITS OF PROACTIVE IMPLEMENTATION OF THE PROPOSED GUIDELINES ON THE PREVENTION OF MONEY LAUNDERING IN THE CAPITAL MARKETS.

The Capital Markets Authority exposed the Proposed Guidelines on the Prevention of Money Laundering in the capital markets for public comments on 15 August 2012. By so doing, the Authority made it known that the fight against money laundering had officially arrived at the door step of the Kenyan capital markets.

The Guidelines are drafted in the context of the Proceeds of Crime and Anti Money Laundering Act, 2009, and the recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering and the Combating Financing of Terrorism.

The Guidelines lay out very detailed and extensive obligations for the boards of directors of all the licensed and approved persons relating to setting up Anti-Money Laundering (AML) compliance frameworks within their institutions, Know Your Customer (KYC) processes and procedures as well as requiring the institutionalisation of the risk based approach to AML. It is noteworthy that, in order to achieve ownership of the AML regime to the "top", the Guidelines have vested the ultimate compliance responsibility, not on the firm itself, nor to its management, but upon the board of directors.

A major hurdle that the implementation of the Guidelines is sure to face from the market intermediaries and approved persons is the question "What's in it for me?" They will want to be convinced that implementation of the AML compliance frameworks will be in their interests and that the cost of compliance will be justified both in the short term and long run.

One benefit that should be carefully considered is the introduction of a risk based compliance culture. Implementation of the AML compliance programme will ensure that the intermediaries and approved persons deploy their compliance resources efficiently and effectively by concentrating on the areas upon which they are most required. Ordinarily, risk based compliance in this context will merely require the firm to set up a series of procedures to identify and assess non-compliance risks associated with money laundering, on the one hand, and then proceeding with the implementation of appropriate control measures to alleviate these risks, on the other.

At the end of the day, a culture that adheres to these activities would excel in proactive compliance, thereby reducing all the costs associated with reactive compliance, and even more so, those arising from non-compliance. An indication on the importance to which the Authority has placed the Know Your Customer component is the extent to which the elements relating to customer identification, due diligence, and monitoring are sprinkled generously all over the text of the Guidelines. The inverse correlation between a firm's quantified fraud risk, and the ranking of its KYC programme against the industry accepted standard, cannot be overstated.

To put it more succinctly, the more effective the KYC programme is at its gatekeeping role, the less the number of undesirable clients the firm will engage, and in turn, the fewer the incidences of client fraud and credit risk the firm will suffer.

Furthermore, the more information the firm obtains on its customers as a result of its KYC programme, the more of the same can be applied in product development and marketing targeting the same clients. Now that you know more about your own clients, you can fashion your promotional information in a more relevant and targeted manner. Also, because customers respond very well to individual recognition and attention, the firm is likely to have happier and more satisfied customers in its stable, which of course will translate to increased business and loyalty from the customers.

It is no secret that most business managers have inadequate knowledge of the client level business processes that are carried out by the junior officers of the firm. Due to the accountability demands that the AML compliance programme will place on senior staff with regard to business knowledge, there will be a significant increase in their level of knowledge of business processes and procedures, and also in their ability to identify the firm's auditable activities. This will in turn greatly enhance the general level of management competence and supervisory fraud deterrence in the organisation, not least due to the fact that managerial ignorance of business processes is the single highest cause of fraud by junior staff.

Without business records, a firm would be as ignorant of its past as it would be blind to its future. Recordkeeping is therefore an integral business process, without which the organisation would be unable to either learn and plan, nor organise and execute. The AML compliance programme sets higher standards on this business process and promotes it from being a mere by-product of the production function; in so doing the entire organisation benefits through better managed predictive processes such as budgeting and planning, and the demonstration of statutory compliance through proper documentation. Whereas the lack of proper records will always lead to a presumption of AML noncompliance due to the lack of evidentiary documentation, the keeping of records in the required format and manner will always provide a ready rebuttal not only to a charge of AML non-compliance, but to a charge of breach of any law.

Another benefit would be the standardisation of all business processes and procedures, which will be a by-product of the implementation activities of the AML compliance programme. The firm will use its existing process documents to establish standard operating procedures which will in turn help improve management procedures, communication processes and introduce consistency in operations.

The effects of these improvements will range from the reduction of conflicts among employees and increased management accountability, to the significantly improved identification of operational risks. Furthermore, as a result of the standardised processes and processes introduced by the AML compliance programme, the intermediaries and approved persons shall have the wherewithal to strive for peer recognition through such initiatives as ISO Certification, and thereafter to even engage with their international correspondent institutions on an equal footing.

Further, the market intermediaries and approved persons should consider the fact that a robust AML compliance programme is a very viable alternative to a fully-fledged Enterprise Risk Management programme, especially for small to mid-sized firms. The potential of a properly constructed and implemented compliance programme to adequately address all the four ERM objectives categories (strategic, operations, reporting, and compliance) is beyond question. However, the reporting institutions are encouraged to move from a tactical approach in developing their compliance programmes, to a more strategic approach, which ensures long term leveraging of the firm's other compliance and risk management efforts.

Nevertheless, at the end of the day it should be clear to all that failure to comply with the obligations set out in the Guidelines will result in liability under the Capital Markets Act and its Regulations, as well as under the Proceeds of Crime and Anti Money Laundering Act, 2009.

Therefore, from the regulator's perspective, the avoidance of regulatory enforcement intervention should be a significant motivator to the intermediaries and approved persons to ensure compliance with the Guidelines.

However, although these Guidelines shall be vigorously applied by CMA, it is neither in the interests of CMA nor the market itself for the regulator to spend resources in the application and implementation of enforcement action to drive the reporting institutions to compliance; these resources could be better spent in pursuing proactive compliance.

It is expected that the Boards of Directors of reporting institutions will take cognizance of the provisions of the Guidelines, implement initiatives for proactive compliance for the sake of the interests and reputation of the business itself, and ensure that money laundering does not develop into a threat to the reputation, growth, and development of the Kenyan capital markets.

By Michael Wanyika, Assistant Manager, Investigations & Enforcement

INVESTOR EDUCATION CONTINUES TO THRIVE AT THE AUTHORITY

As a key objective of our strategic plan, investor education and public awareness remains at the top of the Authority's development agenda. The key objectives of investor education strategy are to empower individuals to make intelligent and beneficial financial decisions on investments and investment vehicles, increase familiarity with investing, increase awareness of investors' rights and responsibilities and improve investor economic and social conditions.

The strategy also enables potential investors to increase sophistication in managing savings and developing capability in investing and creating a greater pool of informed and responsible investors in the capital market. Further, this is a win-win situation for investors, licensees and CMA where each player has a better understanding of their role in enhancing a stable capital market.

For the months of September through October, the Authority continued to engage potential and current investors at the county level due their projected impact on the economy with regards to devolution opportunities. Each of the seminars were geared at increasing financial literacy and awareness such as in Nakuru and two seminars in Mombasa. In addition, the Authority also continued to participate alongside financial sector regulars (Central Bank of Kenya, Retirement Benefits Authority and Insurance Regulatory Authority) in international trade fairs held in Mombasa and Nairobi. The Authority continued to leverage media by hosting live radio shows I n vernacular during the investor education initiatives.

During these engagements, the Authority collaborated with other stakeholders (Nairobi Securities Exchange (NSE), Central Depository and Settlement Corporation (CDSC), Madison Asset Management, and Old Mutual Asset management to mention a few. The Authority will continue to partner with stakeholders as it has proved to be an effective method in reaching out to the public.

Investment groups, Chamas and SACCOs control an estimated Kshs. 100 Billion in bank deposits yet they lack the opportunities to invest in projects that yield profitable returns. The Authority therefore held several initiatives in an effort to tap into the investment groups and create awareness on the investment potential at the retail and institutional level. The Authority's participation in the inaugural Summit for African Saccos and Cooperatives that drew 400 participants from across the African continent is a good example.Further, the Authority is cognisant of the fact that today's youth will be the industry leaders driving Vision 2030. The youth remain an integral constituent of the Authority's investor education target group as evident at a recent workshop held for the Kiambu Institute of Science and Technology students to sensitize them on capital markets and the operations of the Authority.

The department will continue to engage students as a key target group in its investor education strategy. Corporate governance is a key element in promoting investor confidence and protection. The Authority continues to engage market intermediaries and stakeholders on various governance and product related sensitization workshops in an effort to promote corporate governance and transparency amongst intermediaries. The Authority hosted two workshops for Compliance Officers and Risk Managers of Intermediaries.

The Authority further held two workshops targeting all stakeholders involved in the development of Real Estate Investment Trusts (REITs). As part of the Authority's initiative to promote investor protection, a workshop was held for members of the Directorate of Public Prosecutions (DPP), the Police and other law enforcement agencies.

The workshop was informed by the need to sensitize participants on the intricate nature of cases related to the capital markets industry. It was not only intended to broaden their depth of understanding of capital markets industry but also to create a forum for participants to air their views with respect to best practices in investigations and prosecutions thereby enhancing the turnaround times for cases forwarded by Capital Markets Fraud Investigation Unit (CMFIU) for prosecution.

By Konrad Afande, Assistant Manager, Investor Education and Public Awareness

CMA CONTINUES TO PROMOTE EXCELLENCE IN FINANCIAL REPORTING

The Financial Reporting (FiRe) award, an initiative which seeks to recognize excellence in financial reporting among corporate bodies continues to live up to its mission. The award seeks to promote and institutionalize transparency, integrity, and accountability in the corporate reporting process. The Award that is promoted by the Capital Markets Authority (CMA), Institute of Certified Public Accountants (ICPAK), and the Nairobi Securities Exchange (NSE) has become a regular feature on Kenya's corporate calendar. It has enjoyed enhanced recognition over the years to attract corporate organizations from the region with participants coming from Rwanda, Tanzania, and Uganda, besides Kenya. Fire Award has emerged as the undisputed benchmark for promoting excellence in corporate reporting in the region. The 2012 edition of the Financial Reporting (FiRe) Award was held at the Safari Park Hotel on October 26 2012 in Nairobi.

The Chief Guest during the Gala Award event, the Director General of the East African Development Bank, Ms Vivienne Yeda, lauded the Fire Award for promoting corporate excellence, fostering sound corporate governance practices, enhancing corporate social responsibility, and environmental reporting in East Africa. Ms Yeda encouraged companies to embrace the triple bottomline approach, where they not only report on profits but also their impact on the planet/environment and people. She observed that the Triple Bottom Line or 3Ps approach captures the essence of sustainability by measuring the impact of an organization's activities on the world including both its profitability and shareholders values and social, human and environmental capital.

Ms Yeda observed corporate excellence should be measured on the basis of sustainable business operations, and not only from a financial and governance perspective, but from a human and environmental perspective. She challenged the corporate world to adopt and develop standards to measure a company's impact on the planet and people in addition to profits. From the 2011 Fire Award event, NIC Bank was the overall winner and also the winner in Kenya. It also won in three more categories: Bank and Listed Companies, and IFRSs. The other country winners were; Stanbic Uganda (Uganda); Swissport Tanzania (Tanzania) and Bank of Kigali (Rwanda). In the Insurance Category the winner was Pan African Holdings, Centum Investments led in the Industrial, Commercial, and Services Category, while Strathmore was the winner in the Not for Profit Category. In the SACCOs Category

Unaitas (formerly Muramati Sacco) was the winner for the second year running with Sai Pharmaceuticals was leading in the SMEs Category. Barclays Bank Kenya won in the Corporate Governance Category; Barclays Bank of Kenya, while Standard Chartered Bank Kenya led in the Corporate Social Investment Category.

In the IPSAS Recognition Award Accrual Basis, Kenya Roads Board was the winner, while in the IPSAS Recognition Award Cash Basis, the Ministry of Foreign Affairs Rwanda led the nominees in the category.

Melvin Marsh International won in the IFRSs for SMEs Recognition Award, while the Promoter's Recognition Award went to AMACO Assurance in recognition of their efforts to improve Participation in the FiRe Award is on a voluntary basis, free of any charges.

The organizations seeking to participate submit six (6) copies of their latest annual reports incorporating the financial statements. These are the same published reports that are normally issued to the shareholders and other stakeholders.The financial statements and reports undergo a rigorous evaluation exercise by high caliber panelists who are selected from among the diverse stakeholders within the financial reporting chain. The financial statements are evaluated to determine if they have been prepared in accordance with all the provisions of International Financial Reporting Standards(IFRS), the provisions of The Companies Act with respect to financial reports and any other provisions specific to various sectors.

In addition to the credibility of the key financial figures, aspects such as the accounting policies adopted by the reporting entities and the notes to the accounts are evaluated to determine whether they are clear and enhance the user's understandability of the financial statements. Recognition is also given to companies who voluntarily make disclosures over and above what is required by the various reporting standards.

With respect to corporate Citizenship Aspects, the promoters of the Award work closely with experts in the field of Corporate Governance and Corporate Social Responsibility and Environmental Reporting to develop a detailed checklist incorporating benchmarks that represent the best practice. The financial reports of the entrants are evaluated against this benchmarks and marks awarded accordingly.

The results of the evaluation findings are announced at the annual FiRe award gala and are also summarized and provided as feedback to all participating organizations.

This acts as an assessment guide upon which the organizations gauge and base their future improvements.

By Antony Mwangi, Head of Corporate Communications.

UPDATE FROM HUMAN CAPITAL

The second quarter was marked by the implementation of many initiatives in Human Capital & Administration Department. The activities were geared towards strengthening institutional capacity as outlined in the Authority strategic plan.

The department undertook capacity building initiatives mainly through staff training opportunities locally and overseas. Staff also attended capital markets exposure workshops in within the region and overseas to enhance capacity and exposure in Capital Markets issues.

During the second quarter, the Authority staff attended Balanced Scorecard training, which was facilitated by Ernst and Young. This was a major milestone as it will help enhance productivity and efficiency among the staff and help the Authority achieve its strategic objectives. For the first time, the Authority invited officials from the National Environmental Authority (NEMA) to undertake a staff environmental sustainability sensitization session on 31st October 2012. The session was a major eye-opener for staff as it emerged that environmental sustainability should be everyone's concern, with the role of the individual seen as important.

Any small thing we undertake has impact on the environment and the question to every staff at the end was 'Re-evaluate your actions and determine if they positively or negatively affect the environment". During this quarter staff from different directorates got an opportunity to attend a Disability Mainstreaming Workshop facilitated by the Ministry of Gender and Children Development. The session enlightened staff on the provisions of the People with Disabilities Act, 2003. Staff also benefitted from a Drugs and Substance Abuse awareness session facilitated by National Authority for Campaign against Alcohol and Drug Abuse (NACADA). The most exciting part of this session was a real life testimony from a reformed person having abused drugs and other substances for over 10 years.

As part of the Authority's effort to promote wellness among staff, we organized a Wellness checkup session in liaison with Clarkson Nottcutt on November 29th 2012. The session had Dentist, Opticians and other medical practitioners who undertook Body Mass Index (BMI), blood pressure among others. The session attracted the highest number of staff since virtually all staff took advantage of the presence of the medical professionals to check their wellness.

By Andrew Muthabuku, Manager, Human Capital & Administration

GALLERY

Mr. James Waweru (l) outgoing Board Member of the Capital Markets Authority receives a token of appreciation from Dr. Geoffrey Mwau, (r) Economic Secretary, Ministry of Finance. Mr. Waweru served the Authority as an alternate to the Honourable Attorney General

Dr. Gituro Wainaina(l) outgoing Board Member of the Capital Markets Authority receives a token of appreciation from the Authority's Chairman Mr. Kung'u Gatabaki, (r).

Mr. Mohammed Nyaoga (l) outgoing Board Member Capital Markets Authority receives a token of appreciation from the Authority's Chairman Mr. Kung'u Gatabaki, (r).

Mr. Paul Muthaura, Acting Chief Executive, Capital Markets Authority (l) and Mr. Antony Kariuki, Country Manager, Association of Chartered Certified Accountants (r) sign a memorandum of understanding to mark the beginning of a two year relationship in which CMA and ACCA will enhance financial literacy to stakeholders countrywide through investor education initiatives

An ophthalmologist (l) examines Mr. Zephaniah Chebii's eyes (r) during a Wellness Session organized for the Authority's staff. During the session, members of staff underwent several health checkups

Capital Markets Authority Acting Chief Executive, Mr. Paul Muthaura (l) presents a certificate to Ms. Esther Seroney (r) from CID Headquarters for her participation in a workshop organized by the Authority for the Directorate of Public Prosecutions, Kenya Police Service and other law enforcement agencies. The workshop held in October was aimed at enhancing law enforcement agencies' appreciation of capital markets with a view to increasing their capacity in handling cases related to capital markets.

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