




**CAPITAL**  
MARKETS AUTHORITY

*Promoting the Integrity and Growth of the Capital Markets*



Annual Report &  
Financial Statements 2016

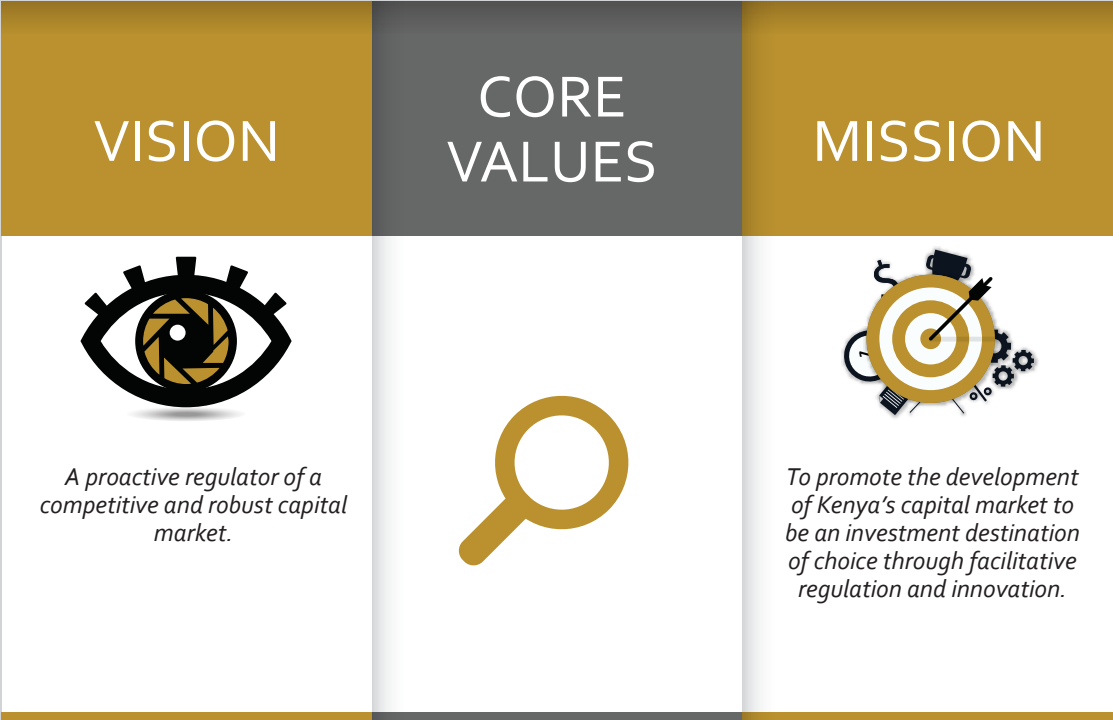




ANNUAL REPORT AND FINANCIAL STATEMENTS

For the Year Ended

June 30, 2016



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## Letter of Transmittal

**The Cabinet Secretary**

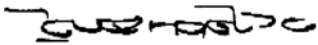
**The National Treasury**

**Nairobi**

Dear Hon. Cabinet Secretary,

I have the honour of submitting the Annual Report of the Capital Markets Authority for the fiscal year ended June 30, 2016. The report has been prepared in accordance with the provisions and requirements of Section 36 (2) of the Capital Markets Act, Cap 485A.

Respectfully yours



James P.M. Ndegwa

**Chairman**

## Authority Information

### Background Information

The Capital Markets Authority is a body corporate established under the Capital Markets Act, 1989. The Act was amended in 2000 and renamed as Capital Markets Act.

### Principal Activities

The Authority promotes and facilitates the development of an ordinary, fair, and efficient capital market in Kenya.

### Key Management



#### Paul M. Muthaura

Position	Chief Executive
Date joined the Authority	September 15, 2005
Profession	Advocate of the High Court of Kenya
Key qualifications	LLM, LLB, MPhil, Dip Law, Dip in Financial Management



#### Wyckliffe Shamiah

Position	Director, Market Operations
Date joined the Authority	May 20, 1995
Profession	Accountant
Key qualifications	MBA, BA, CPA (K)



#### Edwin Njamura

Position	Director, Corporate Services
Date joined the Authority	July 17, 2012
Profession	Management
Key qualifications	EMBA, BCOM, CPA(K), FA, BSP, MKIM, M. IoD (K)



#### Luke Ombara

Position	Acting Director, Regulatory Policy and Strategy
Date joined the Authority	February, 15 1995
Profession	Economist
Key qualifications	MA, BA, BSP

## Authority Information (Continued)



### Hellen Ombati

Position	Head Legal Affairs & Corporation Secretary
Date joined the Authority	May 6, 2016
Profession	Lawyer and Certified Secretary
Key qualifications	MBA, LLB, Dip-French, Dip in Law, CPS (K)



### Esther Maiyo

Position	Manager, Internal Audit
Date joined the Authority	February 15, 1995
Profession	Accountant
Key qualifications	MBA, BCOM, CPA(K), CPS (K), CISA



### Johnstone Oltetia

Position	Manager, Market Supervision
Date joined the Authority	May 20, 1997
Profession	Financial Analyst
Key qualifications	MBA, BCOM, CFE



### Kamunyu Njoroge

Position	Manager, Investor Education & Public Awareness
Date joined the Authority	January 3, 2005
Profession	Economist
Key qualifications	MA (Econ), BA (Econ), ASCI (UK), MKIM, M.IoD (K)



### James Kivuva

Position	Manager, Strategic Projects
Date joined the Authority	February, 15 2016
Profession	Information Technologist
Key qualifications	BSC, PRINCE 2, CBAP, Advanced Sysbase Database Administration and Performance Tuning Certification



### Abubakar Hassan

Position	Manager, Investigation and Enforcement
Date joined the Authority	April 1, 2016
Profession	Advocate of the High Court of Kenya
Key qualifications	MBA, LLB, CPA, CPS(K), CIFA, CFE(US)



## Authority Information (Continued)



### Andrew Muthabuku

Position	Manager, Human Capital & Administration
Date joined the Authority	July 1, 2011
Profession	Human Resources & Administration
Key qualifications	MBA, BA, H-Dip (HRM)



### Richard Chirchir

Position	Manager, Information Communications & Technology
Date joined the Authority	June 22, 2009
Profession	Computer Science Engineering
Key qualifications	BSC, Pg Dip - Computer Science



### John Njoroge

Position	Manager, Finance
Date joined the Authority	February 4, 2008
Profession	Accountant/Economist
Key qualifications	BA, CPA(K), CPS(K), BSP



### Matthew Mukisu

Position	Manager, Derivatives
Date joined the Authority	March 7, 2016
Profession	Economist
Key qualifications	MA (Economics), BSC, CPA(K)



### Mary Njuguna

Position	Manager, Corporate Approvals
Date joined the Authority	December 15, 2009
Profession	Advocate of the High Court of Kenya
Key qualifications	MSC, LLB, Dip-French, CPS(K)

## Key



<b>BA</b>	Bachelor of Arts
<b>BCOM</b>	Bachelor of Commerce
<b>BSC</b>	Bachelor of Science
<b>BSP</b>	Balanced Scorecard Professional
<b>CFE</b>	Certified Fraud Examiner
<b>CISA</b>	Certified Information Systems Auditor
<b>CPA</b>	Certified Public Accountant
<b>CPS</b>	Certified Public Secretary
<b>DBA</b>	Doctor of Business Administration
<b>Dip</b>	Diploma
<b>EMBA</b>	Executive Master of Business Administration
<b>H. Dip</b>	Higher Diploma
<b>HRM</b>	Human Resource Management
<b>IOD</b>	Institute of Directors
<b>KIM</b>	Kenya Institute of Management
<b>LLB</b>	Bachelor of Law
<b>LLM</b>	Master of Law
<b>MA</b>	Master of Arts
<b>Pg Dip</b>	Post Graduate Diploma
<b>PhD</b>	Doctor of Philosophy

## Board Members of the Authority

Name	
Mr. James Ndegwa	Chairman
Mr. Paul. Muthaura	Chief Executive (Appointed on January 2 2016)
Dr. Kamau Thugge, EBS	Principal Secretary, The National Treasury
Dr. Geoffrey Mwau	Alternate to the Principal Secretary, The National Treasury
Hon. Prof. Githu Muigai	Attorney General
Ms. Njeri Wachira	Alternate to the Attorney General (Term ended on November 10 2015)
Mr. Nevis Ombasa	Alternate to the Attorney General (Appointed on November 10 2015)
Dr. Patrick Njoroge	Governor, Central Bank of Kenya
Ms. Rose Detho	Alternate to the Governor - Central Bank of Kenya (Term ended on April 5 2016)
Mr. John Birech	Alternate to the Governor Central Bank of Kenya (Appointed on April 6 2016)
Mr. Paul Ngugi	Member (Term ended on February 19 2016, reappointed on May 31 2016)
Ms. Linda Muriuki	Member
Mr. Moibi Mose	Member (Appointed on October 2 2015)
Dr. Thomas Kibua	Member (Appointed on October 2 2015)
Ms. Christine Okoth	Member (Appointed on May 31 2016)
Mr. Harry Kimtai	Member (Appointed on May 31 2016)
Dr. Chris Kiptoo	Member (Resigned on December 17 2015)
Ms. Nafisa Abass	Member (Term ended on February 19 2016)

## Authority Information



### REGISTERED OFFICE

3rd Floor, Embankment Plaza  
Longonot Road, Upper Hill  
P.O. Box 74800, 00200  
Nairobi

### AUTHORITY CONTACTS

Telephone: (254) 2221910/ 2264900/  
2221869/2226225  
E-mail: corporate@cma.or.ke  
Website: www.cma.or.ke

### PRINCIPAL BANKERS

**Commercial Bank of Africa Limited**  
Mara / Ragati Roads Upper Hill  
P.O. Box 30437, 00100  
Nairobi

### HFC Limited

Kenyatta Avenue/Koinange Street,  
Rehani House  
P.O. Box 30088, 00100  
Nairobi

### KCB Mortgage Centre

Salama House  
Mama Ngina Street  
P.O. Box 45129, 00100  
Nairobi

### AUDITORS

#### Authorized Independent Auditor

### RSM Eastern Africa

1st Floor, Pacis Centre  
Slip Road, Off Waiyaki Way,  
Westlands  
P.O. Box 349, 00606  
Nairobi

#### On Behalf of

### The Auditor-General

Kenya National Audit Office  
Anniversary Towers  
University Way  
P.O. Box 30084, 00100  
Nairobi

### PRINCIPAL LEGAL ADVISER

#### The Attorney General

State Law Office  
Harambee Avenue  
P.O. Box 40112, 00200  
Nairobi

### OTHER LEGAL ADVISERS

#### Archer & Wilcock Advocates

Marakwet Close, Kilimani  
P.O. Box 10201, 00400  
Nairobi

#### Hamilton Harrison & Mathews

14 ICEA Building  
Kenyatta Avenue  
P.O. Box 30333, 00100  
Nairobi

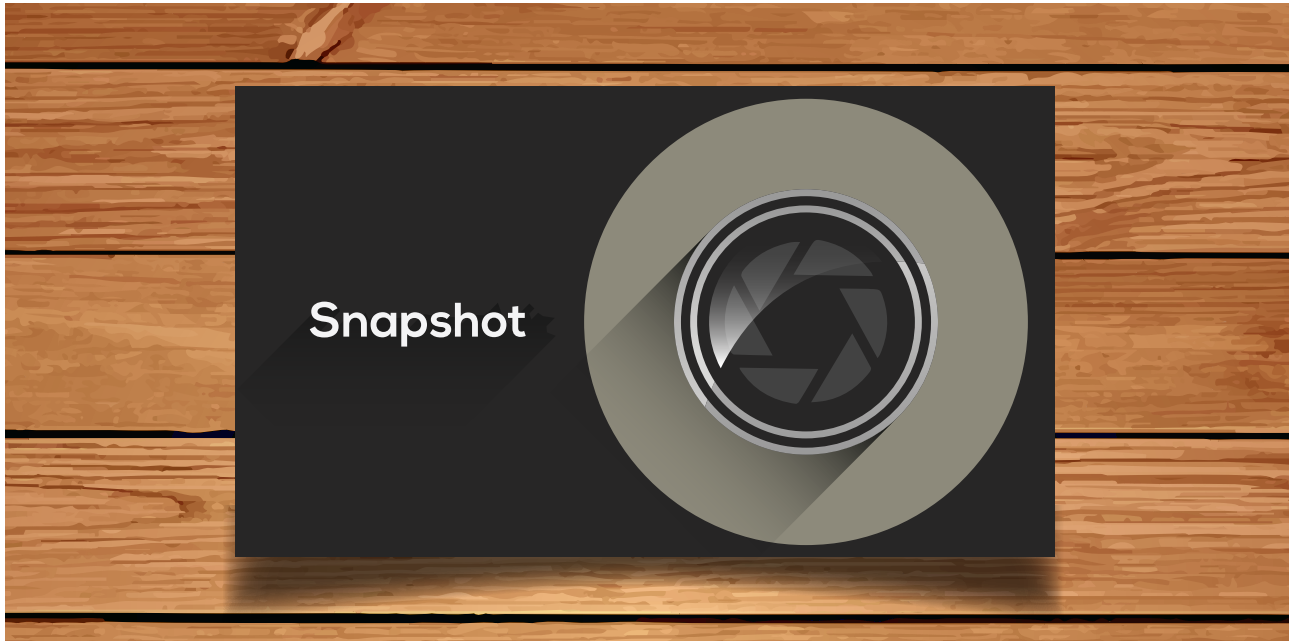
#### RH Advocates

Transnational Plaza,  
City Hall Way, City Centre  
P.O. Box 50515, 00200  
Nairobi

#### Waweru Gatonye & Co. Advocates

Timau Plaza, 4th Floor,  
Argwings Kodhek  
Timau Road Junction  
P.O. Box 55207, 00200  
Nairobi

## Snapshot of Approved institutions and Licensees



Approved Institutions	-	2
Registered Venture Capital Company	-	1
Credit Rating Agencies	-	3
Investment Banks	-	14
Stockbrokers	-	9
Authorized Securities Dealer	-	1
Fund Managers	-	26
Investment Advisers	-	14
Authorized Depositories	-	14
REIT Managers	-	8
REIT Trustees	-	3
Authorized REITS	-	3
Approved Collective Investment Schemes	-	24
Approved Employee Share Ownership Plans (ESOPS)	-	12

## 2015 Overview



The following information summarizes activities and statistics of

#### CHIEF EXECUTIVE'S OFFICE

##### International Relations

- 41 Local and international delegations received

##### Strategic Projects

- 19 Projects ongoing with 7 marked for completion within FY 2015/16

##### Derivatives

- 1 Derivatives exchange license issued (Provisional)
- 2 Derivative products namely; single stock futures and equity index futures

Legal Notice No. 37-Capital Markets (Derivative Market Regulations), 2015.

NSE derivatives rules; proposed derivatives market fees structure; as well as policies and procedures guiding the operationalisation of the Derivatives Market

#### DIRECTORATE OF CORPORATE SERVICES

##### Finance

Financials for 2015/16 received an unqualified opinion from the Auditor General

Kshs 1.365 Billion revenue budget approved for 2016/2017

##### ICT

New CMA Website launched; Fixed Income Surveillance Module; ICT System security enhanced

##### Human Capital

- 106 Permanent employees
- 10 Police staff seconded to the authority
- 10 Graduate trainees recruited under the Graduate Trainee Programme
- 10 Interns recruited
- 4 Employees on long-term training
- 46 International training opportunities
- 61 Local training opportunities
- 1 Uwezo Kipeo Change Management Project launched

#### DIRECTORATE OF MARKET OPERATIONS

##### Market Supervision

- 6 Anti-money laundering focused inspections conducted
- 16 Onsite inspections conducted

##### Investigation & Enforcement

- 130 Complaints received & finalised
- 16 Enforcement actions taken
- 3 Special investigations commenced
- 1 Special investigations concluded

#### DIRECTORATE OF REGULATORY, POLICY, AND STRATEGY

##### Strategy, Policy & Regulatory Framework

- 3 New bills drafted
- 3 New regulations gazetted
- 4 New draft regulations (Awaiting board approval and or public exposure)
- 2 New guidelines gazetted
- 2 Amendments to existing Capital Markets Legislation.
- 1 Policy guidance Note-ETF'S
- 3 New Capital Markets Products Introduced
- 8 Research Papers & Studies

CMA Business Plan

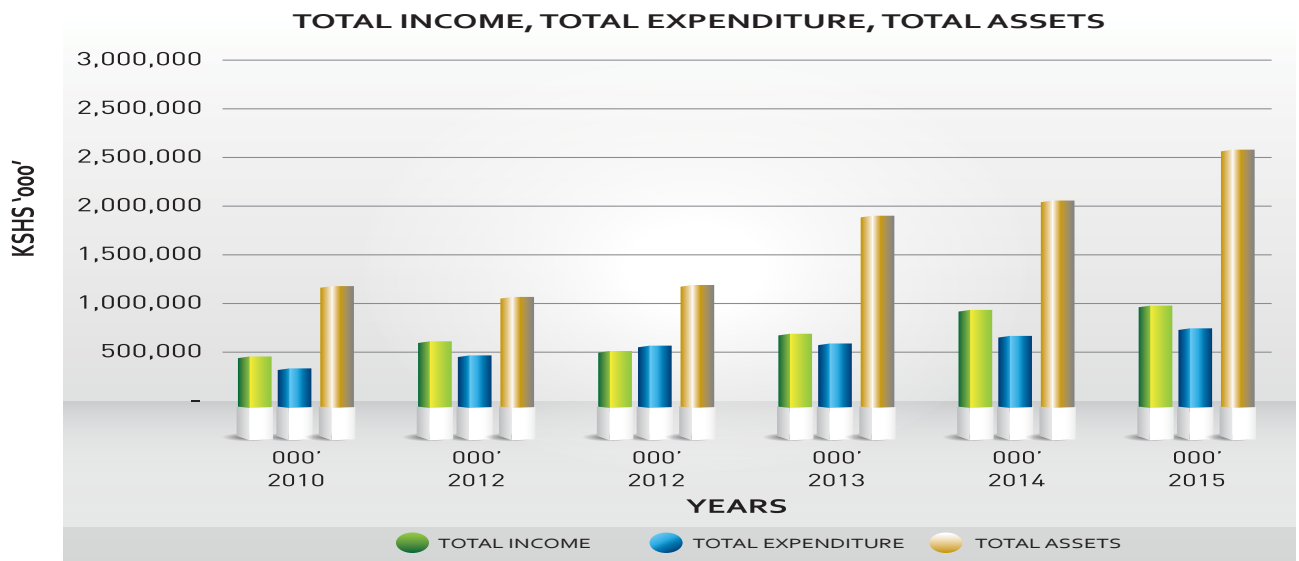
CMA 2015-2016 BUSINESS PLAN SUMMARY

Regulatory Approach	<ul style="list-style-type: none"> <li>a. Gradual shift from merit to disclosure-based Regulation</li> <li>b. Adoption of risk based supervision</li> </ul>
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Strategic Themes in Action

Strategic Theme	Aim	Deliverables
Facilitative policy, legal and regulatory environment	To ensure the policy, legal and regulatory environment attracts interest from both the issuers and investors	<ul style="list-style-type: none"> <li>1. Facilitative capital markets policies</li> <li>2. Facilitative and robust laws</li> </ul>
Capital market products and services	Increase the range, depth and liquidity of available capital markets products and services	A wide variety of capital markets products and services available to investors
Capital market infrastructure and institutional arrangements	To have a capital market infrastructure and institutions that meets international standards	Capital market infrastructure and institutions of world class integrity
Investor education and public awareness	To have a public that is well educated and aware of capital market opportunities	<ul style="list-style-type: none"> <li>1. Increased segments of various capital markets users</li> <li>2. Increased avenues for the delivery of capital market education</li> </ul>

	2010	2011	2012	2013	2014	2015
	000'	000'	000'	000'	000'	000'
Total Income	485,260	564,881	510,290	672,319	880,961	993,036
Total Expenditure	336,587	478,809	518,018	518,738	660,609	715,739
Total Assets	1,301,536	1,171,393	1,297,400	1,857,046	2,085,523	2,645,130



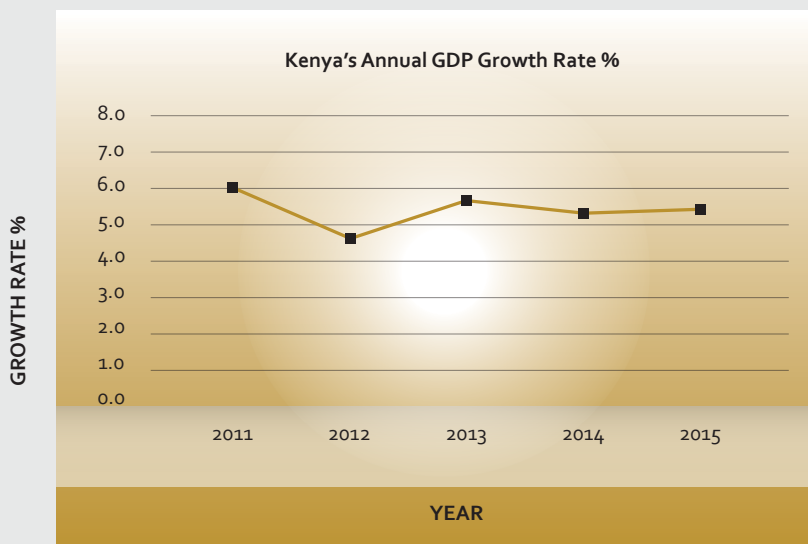
Source: Capital Markets Authority

## Performance Highlights



Kenya's economic growth in 2015 was 5.6 percent and is projected to rise to 5.9 percent in 2016 and 6.1 percent in 2017.

Source: Kenya National Bureau of Statistics (KNBS)

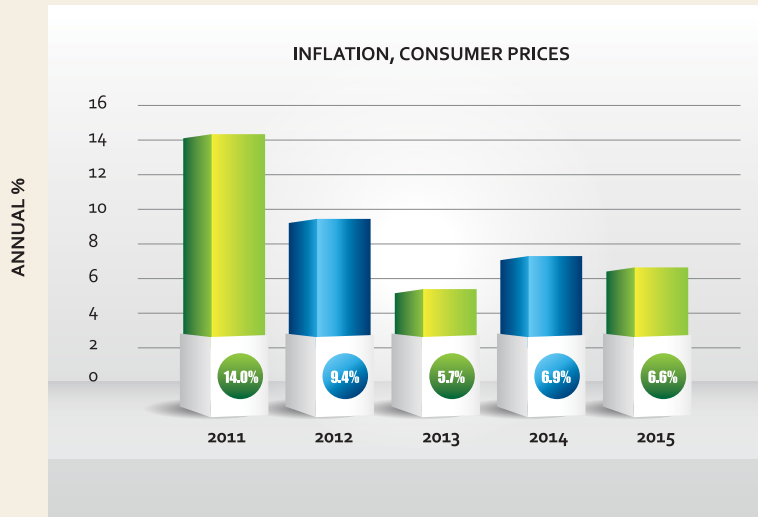


Kenya's Gross Domestic Product (GDP) growth in 2015 was 3.1 percent having declined from the 3.4 percent recorded in 2014. In 2016, the World Bank revised its forecast of global growth to 2.4 percent in June from the 2.9 percent pace projected in January 2016. This reduced outlook arises from the sluggish growth in advanced economies

Source: The World Bank Group

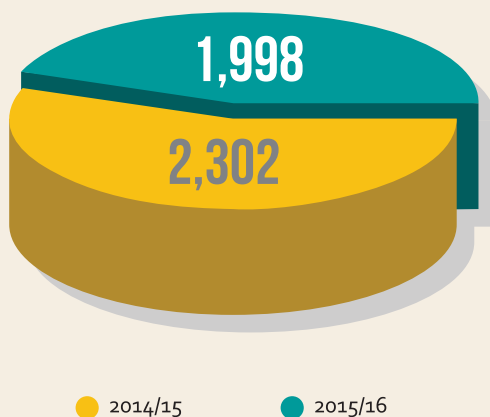


## Performance Highlights



Fiscal consolidation is expected to ease pressure on domestic interest rates and increase credit uptake by the private sector. Key macroeconomic indicators remained relatively stable during the review period. Overall, inflation eased from 6.9 percent in 2014 to 6.6 percent in 2015 due to lower energy and transport prices.

### MARKET CAPITALIZATION



Similarly, market capitalization recorded a 13.2 percentage decrease in 2015/16 to Kshs. 1,998 Billion against Kshs. 2,302 Billion registered during the corresponding period in the previous financial year. During the financial year ended 30th June 2016, the Kenyan market registered an equities turnover of Kshs. 176.46 Billion.

## Chairman's Statement



“In line with pillar two of the Capital Market Master Plan of ensuring improvements in listings, liquidity and performance of new product areas, the Authority has made positive strides towards the establishment of new products in the market.”

Chairman’s Statement (Continued)



5.9%

Projected economic growth in 2016



Source: Kenya National Bureau of Statistics (KNBS)

**Economic Overview**

The world real gross domestic Product (GDP) growth in 2015 was 3.1 percent having declined from the 3.4 percent recorded in 2014. In 2016, the World Bank revised its forecast of global growth to 2.4 percent in June from the 2.9 percent projected in January 2016. This outlook arises from the sluggish growth in advanced economies, stubbornly low commodity prices, weak global trade, and diminishing capital flows. Growth in emerging markets and developing economies is projected to advance at a marginal 0.4 percent this year, whereas growth in imports has been more resilient. These projections are of course still subject to substantial downside risks, including additional growth disappointments in advanced economies and key emerging markets. Rising policy and geopolitical uncertainties. However, and much more positively, the World Bank forecasts growth in Sub-Saharan Africa at 4.2 percent; an ambitious rate following the recorded growth rate in 2015 of 3.8 percent.

The historic and largely unexpected vote in the United Kingdom to withdraw from the European Union portends uncertainty for Britain’s economy and their capital markets. Kenya remains exposed to “Brexit” consequences given its trade ties with the United Kingdom and the considerable UK investments in leading listed companies, in several of which the UK shareholding exceeds 50 percent and in one case is as high

as 96.82 percent. Within two weeks of the Brexit vote, the NSE 20-share index declined by 3.4 percent, continuing the already bearish investor sentiment that has the year to date declined by 10.5 percent. The trend however presents good opportunities for potential investors, especially with the shilling exchange rate and interest rates remaining stable.

Turning to Kenya, the country’s economic growth in 2015 was 5.6 percent and is projected to rise to 5.9 percent in 2016 and 6.1 percent in 2017. The positive outlook is predicated on, among other factors, the major infrastructure investments. Fiscal consolidation is expected to ease pressure on domestic interest rates and increase credit uptake by the private sector. Key macroeconomic

Kenya remains exposed to “Brexit” consequences given its trade ties with the United Kingdom and the considerable UK investments on the Nairobi Securities Exchange in various leading listed companies, in several of which the UK shareholding exceeds 50 percent and in one case is as high as 96.82 percent.

## Chairman's Statement (Continued)

indicators remained relatively stable during the review period. Overall, inflation eased from 6.9 percent in 2014 to 6.6 percent in 2015 due to lower energy and transport prices. The Kenya Shilling depreciated against major currencies largely driven by the strengthening of the US dollar globally and high imports associated with the infrastructure spending. It is important to note that the Kenya shilling remained comparatively strong against other currencies in the region and has maintained stability at the Kshs 101 – Kshs 102 level to the US dollar. The current account deficit as a percentage of GDP was at 11.4 percent in 2015. Forecasts of the same also indicate a further drop in the deficit to about 6.5 percent attributed to improved tea and horticulture export earning, two of Kenya's main revenue earners as well as rising remittances from Kenyans living abroad. Kenya's ranking on the Global Competitiveness Index Survey also witnessed an upward trend in 2015. This was largely attributable to improved market efficiency and well developed financial markets when compared to other Sub-Saharan Africa countries other than Mauritius and South Africa.

### The Capital Markets

Kenya's capital market performance had some bright spots in 2015 and the first half of 2016 amid the broader turbulence affecting emerging markets around the world. Operating

under the stewardship of the Capital Market Master Plan (2014 – 2023), the Authority in conjunction with industry players such as the Nairobi Securities Exchange, has worked towards the rolling-out of new products in the market aimed at boosting liquidity and attracting more domestic retail investors given that only about 5 percent of the population currently participates in the local market. This inclusion is in line with the objectives of having a demutualized exchange with one of the benefits being that greater investor participation in the governance of the exchange is being realized. On the regional front, Tanzania took a bold move of opening its capital markets by letting foreigners beyond East Africa invest in Treasury bills and other debt. The Authority applauds this move as it is in line with commitments made amongst the East African Community member countries of deepening the regional capital markets.

### Strategic Direction

During the year, Mr. Paul Muthaura was confirmed as the Chief Executive Officer of the Authority through a gazette notice dated 22nd April 2016. Mr. Muthaura had held the position in an acting capacity since July 2012, and during this period he steered the institution through very significant initiatives and innovations including the formulation and launch of the Capital Market Master Plan (2014 – 2023); a Vision 2030 flagship project. Under his leadership the profile and

standing of the Authority was raised both locally and abroad, and the various initiatives have resulted in several accolades and international awards.

On behalf of the Authority's Board, I congratulate Mr. Muthaura on his well-deserved appointment as he steers the Authority and other stakeholders towards the implementation of the Capital Market Master Plan whose vision is to make Kenya the heart of African Capital Markets. His distinguished leadership resulted to his appointment to the Board of the International Organization of Securities Commissions (IOSCO) in September 2014, a position he continues to hold and serve in informing and shaping IOSCO policies and standards which are adopted by member jurisdictions, Kenya included.

### Market Development Reforms

In line with pillar two of the Capital Market Master Plan of ensuring improvements in listings, liquidity and performance of new product areas, the Authority has made positive strides towards the establishment of new products in the market. Islamic Finance is one of the key areas of interest and with technical and funding support from Financial Sector Deepening Africa (FSDA) the Authority commissioned IFAAS (Islamic Finance Advisory & Assurance Services, an international consultancy specialized in Islamic finance), in association with Simmons & Simmons

## Chairman's Statement (Continued)

(an international law firm), to lead the Project Management Office (PMO).

The Authority is carrying out these functions on behalf of the Financial Services Regulators Forum (FRSF) comprising of CMA, RBA, IRA, CBK and SASRA. Kenya's Islamic Finance Industry is at its nascent stages of development currently with two fully-fledged Islamic banks, five Islamic windows of conventional banks, one fund, one Takaful (Islamic insurance) company, and one Retakaful window which are among the licensed financial institutions operating in the country. In addition, two Islamic Saccos have since been registered by the Commissioner of Co-operatives Development.

The Authority thus foresees a positive future for Kenya and the Islamic market and encourages the public to actively participate in building the sector.

On the regulatory front, the Authority introduced the following legislative instruments:

- i. Code of Corporate Governance for issuers of securities to the public, 2015
- ii. Capital Markets (licensing requirements)(General) (Amendment) Regulations, 2016
- iii. Guidelines on the prevention of money laundering and

terrorism financing in the capital markets, 2015

- iv. Capital markets (Derivatives) Regulations 2015
- v. Capital Markets (Securities) (Public Offers, Listing and Disclosure)(Amendment) Regulations 2016.
- vi. Policy Guidance Note on Exchange Traded Funds

Additionally, the Authority has granted the Nairobi Securities Exchange an initial set of powers to operate as a Self-Regulatory Organization (SRO). This was approved after the NSE successfully separated its management structures for its commercial and regulatory functions in line with the Capital Markets (Demutualization of the Nairobi Securities Exchange Limited) Regulations of 2012. This is in line with the Capital Market Master Plan strategy, where a demutualized exchange would be given the Authority to set its own fees, create and enforce industry regulations and standards, helping it obtain and allocate the resources it needs to rapidly respond to market developments and opportunities. This comes ahead of a derivatives market soon to be launched by the exchange.

The year under review also saw investors gain an opportunity to

diversify their investment portfolios through Real Estate Investment Trusts (REITs). On 4th December 2015, the Stanlib Fahari Income Reit was launched for trading, making its debut on the Alternative Investment Market Segment in the Real Estate Investments sector of the NSE. It is such successes that give the Authority momentum to continue pursuing the overall goal of developing the Kenyan Capital Markets.

### Performance Management

Being a state corporation, the Authority is required to enter into a performance contract with the Government. Performance contracting is now in its 12th cycle and this initiative has to a large extent contributed towards enhanced service delivery through excellence, integrity, transparency and accountability. In the year 2015/ 2016 the performance contract introduced new aspects that the Authority has embraced and implemented, including;

- i. Implementation of the Mwongozo Code of Conduct.
- ii. Incorporating safety measures for the Authority through disaster preparedness programs.

**Deloitte Best Company to Work For 2016**

Medium Size Category - 3rd Position



## Chairman's Statement (Continued)

- iii. Sensitization and doing business with the Youth, Women and Persons with Disabilities (PWD).

The Authority takes this process and performance commitments made with complete seriousness and the Board will continue to ensure that the performance contract is cascaded to all directorates, departments, sections, units and cadres of employees for the purpose of complete integration of the process. The Authority will also continue applying the Balanced Score Card (BSC) Performance Management System (PMS) in order to link institutional performance to that of individual employees. I am glad to note that in the evaluation of its performance over the years, the Authority has consistently achieved "very good" scores.

### International Recognition and Co-Operation

In September 2015, the Authority received an award as the most innovative capital markets regulator in Africa awarded by Africa Investor in New York during the Africa Investor Summit. Launched in 2007, and linked to the Africa investor (Ai) Index Series, the Ai Institutional Investment and Capital Market Awards are based around the Ai Index Series and are the only pan-African Awards designed to recognize Africa's best performing stock exchanges, listed companies, investment banks, research teams, regulators, socially responsible companies and sovereign wealth and pension fund investors. It is a uniquely African capital markets event.

On behalf of the Board, I wish to congratulate all members of staff

The Authority takes this process and performance commitments made with complete seriousness and the Board will continue to ensure that the performance contract is cascaded to all directorates, departments, sections, units and cadres of employees for the purpose of complete integration of the process.

and stakeholders that continue to partner with the Authority to improve market liquidity and depth through continuous innovation of capital market products. This award to the Authority is an honour for Kenya and is a recognition of the highly commendable collaboration between regulator and the industry.

As part of its drive to enhance the positioning of Kenya as a premier investment destination, the Authority has launched International Certification Standards for practitioners in the capital markets industry. The launch is the product of the signing of a Memorandum of Understanding (MOU) with the Chartered Institute for Securities & Investment (CISI) in September 2014. The certification programme will ensure that practitioners in the capital markets

industry have the requisite skills and apply best practice as Kenya takes its position as "The Heart of African Capital Markets". For Kenya to be globally competitive and attract significant international flow of funds, client facing staff within capital market intermediaries will be subjected international certification standards to support the introduction of more diversified products in the market, as well as to ensure that engagement with investors is consistent and meets the highest possible professional and ethical standards.

### Appreciation and Outlook

The support extended by the Government to the Authority is critical to the success we achieve in performing our duties and responsibilities. I wish to appreciate the Government for ensuring that the Authority's Board is now fully constituted with the appointments of Dr. Thomas Kibua and Mr. Moibi Mose in October 2015 and of Ms. Christine Okoth and Mr. Harry Kimtai in May 2016 all as new independent members. At the same time, Mr. Paul Ngugi was reappointed for a second term in May 2016. I welcome these members and look forward to their contribution to the work of the Board and its committees.

I also wish to take this opportunity to appreciate the important contribution of Ms. Rose Detho, who represented the Governor of the Central Bank and Ms. Njeri Wachira, who represented the Attorney General on the Board, and to welcome the new alternates appointed during the year being, Mr. John Birech and Mr. Nevis Ombasa



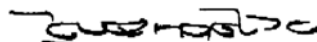
## Chairman's Statement (Continued)

As part of its drive to enhance the positioning of Kenya as a premier investment destination, the Authority has launched international certification standards for practitioners in the capital markets industry.

respectively. Dr. Chris Kiptoo also left the Board during the year following his appointment as a Principal Secretary and we wish him success in his new responsibilities.

Having completed my first year as Chairman of the Board, I wish to acknowledge the excellent work of the Authority's management and staff under the able leadership of Mr. Paul Muthaura and thank the whole team for the strong support they provide to the Board. My tenure comes during an important period of initiating implementation work of the Capital Markets Master Plan.

It is now two years since the Master Plan was launched and I am happy to report that about 30 percent of the objectives set in the plan have already been met as a result of a combined effort from all stakeholders through the four set working groups. With this rapid progress I am confident that, while there are inevitable short term challenges to be addressed, the future looks promising as Kenya prepares to position itself as the "Heart of African Capital Markets" by the year 2023. We can therefore look forward to exciting years ahead in the capital markets as new products and innovations are introduced to meet demands from the dynamic set of local, regional and international investors with eyes set on Kenya as an investment destination of choice.



.....

James Ndegwa

Chairman

## Corporate Governance Statement

The Board of the Authority (the Board) is responsible and accountable to the Government of Kenya, through The National Treasury, in ensuring that the Authority complies with the law and the highest standards of corporate governance.



The Board of the Authority (the Board) is responsible and accountable to the Government of Kenya, through The National Treasury, in ensuring that the Authority complies with the law and the highest standards of corporate governance.

- i. There are eleven members of the Board all of whom, save for the Chief Executive, are Non-Executive Directors.
- ii. The members possess a broad range of skills and competencies, including legal, finance, banking, economics and management.
- iii. During the period under review, the Board met thirteen times.

### Composition of the Board

Is as follows:

#### 1. Mr. James Ndegwa (Board Chairman)

James Ndegwa holds a BA (Hons) and an MA degree from Oxford University. An insurer by profession, he is an Associate of the Chartered Insurance Institute (UK) and an Associate of the Insurance Institute of Kenya. He is the Chairman of First Chartered Securities Limited and a Director of several companies. Prior to this, he was the Managing Director of Lion of Kenya Insurance Company Limited until 2003.

#### a. Dr. Kamau Thugge (Principal Secretary, The National Treasury)

Dr. Kamau Thugge holds a doctorate in Economics from the Johns Hopkins University. He was appointed an Economic Advisor to the Treasury in December 2005 after serving as an Economic Affairs Director, Treasury since July 29, 2004. Prior to joining Treasury, he worked at the International Monetary Fund from 1985 to 2004.



## Corporate Governance Statement (Continued)

**b. Alternate to Principal Secretary, The National Treasury: Dr. Geoffrey Mwau (Director General, Budget, Economics and Fiscal Affairs, The National Treasury)**

Dr. Mwau graduated from McGill University in Canada with a PhD in Economics in 1994. He worked as a Senior Advisor to the Executive Director representing Kenya and 21 other African countries at the Executive Board of World Bank. Prior to joining the World Bank, he was a Senior Regional Advisor on Economic Policy Analysis with the United Nations Economic Commission for Africa. Previously, Dr. Mwau also worked for the International Monetary Fund (IMF) as an economist for Rwanda, Malawi, Botswana, and Uganda.

**c. Hon. Prof Githu Muigai**

Professor Muigai is the Attorney General of the Republic of Kenya. He holds a Bachelor's Degree in Law and was called to the bar in 1985. He also holds a Master's Degree in International Law from Columbia University School of Law, New York and a PhD in Constitutional Law from the University of Nairobi. He is a Fellow of the Chartered Institute of Arbitrators (UK) and a member of the American Association of Trial Lawyers. In addition to Law practice, he is an Associate Professor of Public Law in the School of Law of the University of Nairobi. He specialises in Public Law, Human Rights and trans-national legal practice.

**d. Alternate to Hon. Attorney General: Ms. Njeri Wachira (Term ended 10th November, 2015)**

Ms. Njeri Mwangi Wachira was the Alternate Director to the Hon. Attorney-General. She holds a Bachelor of Laws (LL.B) degree from the University of Nairobi and a Master's in Public International Law (LL.M) degree from Lund University, Sweden. She is a Senior Deputy Chief State Counsel, International Law Division with vast experience in Litigation, Human Rights & International Humanitarian Law, Disarmament matters, Environmental Law, Regional Integration, and Public International Law.

**e. Alternate to Hon. Attorney General: Mr. Nevis Ombasa (Appointed 10th November 2015)**

Mr. Nevis Ombasa is a lawyer by profession. He holds a Bachelor of Arts (Econs) degree from D.A.V.V University India and a Bachelor of Laws (LLB) degree from Karnataka University, India. He has previously worked in the law firm of Maobe Maotsetung & Co. Advocates and Omboga & Co. Advocates. Mr. Ombasa is currently working in the Office of the Attorney General and Department of Justice as a State Counsel in the Government Transactions division.

**f. Dr. Patrick Njoroge (Governor, Central Bank of Kenya)**

Dr. Njoroge is an economist by profession, and holds a PhD in Economics from the University of Yale, USA. He holds a Master's degree in Economics and a Bachelor's degree in the same discipline from the University of Nairobi. He joined the Washington-based IMF in 1995 as an economist and rose through the ranks to hold the position of adviser. Prior to that, he worked briefly in the mid-1980s at the Ministry of Planning and as an economist at the Ministry of Finance in the 1990s.

**g. Alternate to Governor, Central Bank of Kenya: Ms. Rose Detho (Term Ended 5th April 2016)**

Ms. Detho holds Master of Business Administration and Bachelor of Commerce degrees from the University of Nairobi. She is the Director Strategic Management Department. Ms. Detho joined Central Bank of Kenya on August 10, 1988 and has served the bank in various capacities. She has served on several occasions as Statutory Manager, appointed by the Bank, to manage financially distressed institutions.

**h. Alternate to Governor, Central Bank of Kenya: Mr. John Birech (Appointed 6th April 2016)**

Mr. John Birech holds an MA (Economics); B Phil. (Economics) and BA (Economics) from the University of Nairobi. He is presently the Ag. Director, Financial Markets

## Corporate Governance Statement (Continued)

Department, Central Bank of Kenya. Mr. Birech joined the Central Bank of Kenya in September, 1984 and has served in various areas of the Bank including Banking, Bank supervision and Financial Markets Department. Mr. Birech also sits in the Monetary Policy Committee of the Bank.

**i. Dr. Chris Kiptoo  
(Resigned on 17th December 2015)**

Dr. Kiptoo holds several qualifications including a Doctor of Philosophy Degree (PhD) - International Macroeconomics Finance Specialization - from the University of Nairobi. He is also an Accredited Fellow of the Macroeconomic & Financial Management Institute of Eastern & Southern Africa (MEFMI), in the field of Macroeconomic Management. He is also an Associate of Kenya Chartered Institute of Bankers (A.K.I.B). Dr Kiptoo has attended several training courses locally, regionally and internationally including several courses at the IMF Institute in Washington DC, U.S.A. He resigned upon appointment as Principal Secretary at the State Department of Trade, Ministry of Industry, Trade and Co-operatives.

**j. Ms. Linda Muriuki**

Ms. Linda Watiri Muriuki is an Advocate of the High Court of Kenya with over Twenty-Five years' experience. Linda obtained a B.A. Economics degree from York University, Canada after which she graduated with an LLB (Honours) from the University Of Leeds, United Kingdom. Linda obtained a Master's Degree as a Graduate of the Global Executive Masters of Business Administration from United States International University, Kenya in collaboration

with Columbia University New York, U.S.A. She is a Commissioner for Oaths, Notary Public, Certified Public Secretary (Kenya) and a Professional Director.

**k. Ms. Nafisa Abass  
(Term ended on 19th February 2016)**

Ms. Abass holds a Bachelor of Business Administration degree from the American University in Cairo, and an MBA from the United States International University Nairobi. She has diverse experience in the business sector where she holds directorship roles, and has some non-executive responsibilities in non-profit organizations.

**l. Mr. Moibi Mose  
(Appointed October 2, 2015)**

Mr. George Moibi Mose is an Advocate of the High Court of Kenya with over fifteen years' experience. He is a Commissioner for Oaths and Notary Public. Mr. Moibi holds a Bachelor of Laws (LLB) degree (Honours) from the University of Nairobi and is currently pursuing a Master of Laws (LLM) from the same institution. Mr. Moibi is a Managing Partner at Ongweny & Moibi Advocates with vast experience in Conveyancing, Civil and Commercial Litigation, Company Secretarial Services, Wills and Estates, Real Estate, Family Court, Election Petitions and Immigration Law. He previously worked at Sichale & Company Advocates as well as Munoru Kagiri & Wamae Advocates.

**m. Dr. Thomas Kibua (Appointed October 2, 2015)**

Dr. Kibua is Director of Academic Programmes at Strathmore University Institute of Public Policy and Governance, Economic Advisor to the Governor of Makueni County and Partner and Senior Economist with African Development and Economic Consultants Ltd (ADEC), a Kenyan firm he co-founded in 1979 and which offers advisory services in economics, management, finance and development. Previously, he served as Director of Health Policy and Systems Research at the African Medical and Research Foundation (April 2008 -March 2011); the Executive Director of the Institute of Policy Analysis and Research (IPAR) a non-governmental think -tank specializing in policy analysis and research (2003-2008); and Chairman of Egerton University Council (2009-2012). He previously taught for many years at the Department of Economics, University of Nairobi. He was Deputy Governor of the Central Bank of Kenya for the statutory period of eight years (1993-2001), served as Advisor to the President of East and Southern Africa Trade and Development Bank (2001), worked on long Term Technical Assistance Programme as Economic Advisor to the Kenyan Ministry of Health (health care financing) (1991-1993) and sat on several Boards of State Corporations (Capital Markets Authority, Export Processing Zones Authority, Export Promotion Council and Deposit Protection Fund) and private companies. Dr. Kibua graduated from the University of Nairobi with a Bachelor's degree and a Master's degree in Economics in April 1974 and June 1976, respectively; a Master's degree in Economics from Yale University, USA, in 1979; and a

## Corporate Governance Statement (Continued)

Doctor of Philosophy degree from the University of Nairobi in 1983. He has extensive hands-on experience in: (a) the management of macro-economic affairs (especially public finance management), (b) university teaching, (c) research, research management and capacity building, (d) knowledge management and (e) consultancy on development and economic governance and management issues. His areas of specialization include development economics, economic governance and management (macroeconomic management and public finance management) and quantitative methods. He has written extensively on development and economic policy issues.

**n. Mr. Harry Kimtai**  
(Appointed May 31, 2016)

Mr. Harry Kimtai is an Economist and holds a Master of Philosophy degree in Economics specializing in Regional Planning and Economic Growth, a Master of Economics degree and a Bachelor degree in Arts from Bhopal University, India. He joined Kenya Revenue Authority as a Management Trainee in 1996 and rose to the rank of Principal Revenue Officer in charge of revenue. In 2007 he joined Branded Fine Foods as General Manager Administration, Planning and Logistics.

**o. Ms. Christine Okoth**  
(Appointed May 31, 2016)

Ms. Christine is currently the Managing Director - MAL Consultancy Limited. She is an experienced Human Resource expert and Business Leader, with over 15 years of HR and business partnering practice. Prior to her current position, Christine worked at Safaricom Limited where she held several roles including HR

Systems and Communications, Head of Talent and Resourcing and Head of HR Business Partnership. She holds a degree in International Relations and Marketing from the United States International University. She is a Certified Lead and Internal Auditor, Project Manager, HR Information Systems Manager, Competency Assessor, Organization Design Expert, a Leadership Coach and Mentor. Christine is a member of the Institute of Human Resource Management (IHRM) Kenya, and Chartered Institute of Personnel Development (CIPD) in the United Kingdom.

**p. Mr. Paul Ngugi (1st Term ended on February 19, 2016, re-appointed on May 31, 2016)**

Mr. Paul Ngugi holds a Masters of Social Science (M.Soc.SC) in Development Administration from the University of Birmingham (UK), a Bachelor of Arts from the University of Nairobi and a Diploma of Professional Development in Management with Specialization in Budgeting and Financial Management from the University of Connecticut (USA). Mr. Ngugi is a Member of the Institute of Directors of Kenya. He has served as Alternate Director to Permanent Secretary, Ministry of Finance and also in various boards of state corporations including Kenya Roads Board, Housing Finance, Kenya Meat Commission, National Oil Corporation, among others. He also served as Director in Kenya Dairy Board and Chairman of the Micro and Small Enterprises Authority (MSEA). He has attended a course in Corporate Governance for Directors and Mwongozo Induction Programme for Boards of State Corporations, among others. Mr. Ngugi was a long serving public servant and retired as Director of Budget at the National Treasury in the year 2013.

**q. Mr. Paul M. Muthaura**  
(Chief Executive)

Mr. Muthaura is the Chief Executive, Capital Markets Authority. In his time with the Authority he has held positions as the Director, Regulatory Policy and Strategy; Head of Legal Framework and Head of Enforcement. Mr. Muthaura is a member of the Board of the International Organization of Securities Commissions (IOSCO), Vice Chairman of the Africa-Middle East Regional Committee of IOSCO, co-Chair of IOSCO's Infrastructure Working Group (IWG) and member of the Steering Committee of the Growth and Emerging Markets Committee of IOSCO. He is also a member of the Financial Stability Board (FSB) Regional Consultative Group for Sub-Saharan Africa and the Consultative Committee of the East African Securities Regulatory Authorities (EASRA). On the domestic front, Mr. Muthaura is an ex-officio member of the Boards of Directors of the Retirement Benefits Authority, the Insurance Regulatory Authority and the Vision 2030 Delivery Secretariat. He has previously worked as an Emerging Markets Advisor with the General Secretariat of the International Organization of Securities Commissions (IOSCO). Before moving into the regulatory industry, Mr. Muthaura was a senior commercial associate with the law firm of Daly and Figgis Advocates. Mr. Muthaura is an Advocate of the High Court of Kenya and is the holder of a Bachelor of Laws degree from the University of Warwick, a Masters in Banking and Finance Law from the London School of Economics and Political Science, and a Masters in Philosophy from the Maastricht School of Management.

## Report of the Board Members' of the Authority

The board members of the Authority submit their report together with the audited financial statements for the year ended 30th June, 2016, which shows the state of affairs of the Authority.

### Principal Activities

The Authority promotes and facilitates the development of an ordinary, fair, and efficient Capital Market in Kenya.

### Results

The results of the Authority for the year ended 30th June, 2016, are set out on page 47

### Board Members of the Authority

The board members of the Authority who held office during the year and to the date of this report are set out on page 7

### Auditor

The Auditor General is responsible for the statutory audit of the Authority in accordance with Article 229 of the Constitution of Kenya. Section 39 (1) of the Public Audit Act 2012, empowers the Auditor General to nominate other Auditors to carry out the Audit on his behalf.

RSM Eastern Africa were nominated by the Auditor General to carry out the audit of the Authority for the year ended 30th June, 2016.

By order of the Board



### Chief Executive

Nairobi,

25<sup>th</sup> August 2016

## Statement of Board Member's Responsibilities

### Board Committees

Subject to fundamental strategic, policy and formal matters reserved for its decision, pursuant to Section 14 of Capital Markets Act, the Board works through a number of committees which operate within defined Terms of Reference. Other committees are formed on ad-hoc basis as need arises. During the period under review, the Board constituted the following committees:

#### The Finance and Planning Committee

This committee consists of four members all of whom are non-executive members of the Board. The committee was chaired by Mr. Paul Ngugi and during the period of his absence, by a member appointed on an ad hoc basis. This committee has oversight on all financial issues including budgets, financial reporting process and controls and procurement. The committee met three times during the year.

#### The Audit, Corporate Governance and Risk Management Committee

This committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Ms. Rose Detho up to April 5, 2016 upon expiry of her term then chaired by Dr. Thomas Kibua. It has oversight responsibility of reviewing, assessing adequacy and monitoring of internal controls, risk management and corporate governance processes;

examining internal and external audit reports and recommendations; overseeing financial reporting and reviewing the accounting principles, policies and practices adopted in the preparation of financial statements. It is also charged with reviewing the risk management and corporate governance practices of licensees and listed companies. The committee met four times in the year.

#### The Human Resource and Communication Committee

This committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Ms. Nafisa Abass until February 19, 2016 upon expiry of her term, then chaired by Mr. Moibi Mose. It is responsible for human resource matters

including recruitment, management succession as well as the corporate communication function. The committee met nine times during the year.

#### The Technical and Policy Committee

The committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Ms. Rose Detho until April 5, 2016 upon expiry of her term then chaired by Mr. John Birech. It is responsible for considering technical and policy matters of the Authority, including reviewing the Authority's strategy and continuous oversight of the review of the capital market legal and regulatory frameworks. The committee met four times during the year.

#### Ad-Hoc Board Committees

During the financial year, two ad-hoc committees of the board were as follows:

- i. The Implementation Committee for the Capital Markets Master Plan - launched in March 2015

Capital Markets Stewardship Code Committee appointed in February 2015, to develop a stewardship code for institutional investors to complement the code of the corporate governance practices for the issuers of securities to the public.

This committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Ms. Rose Detho up to April 5, 2016 upon expiry of her term then chaired by Dr. Thomas Kibua

## Statement of Board Member's Responsibilities (Continued)

### Preparation of Financial Statements

Section 68 of the Public Finance Management Act, No. 18 of 2012, requires the board members to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year and the operating results of the Authority for that year. The board members are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The board members are also responsible for safeguarding the assets of the Authority.

The board members are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the financial year ended on 30<sup>th</sup> June 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying

appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

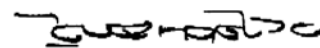
The board members accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act. The board members are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority transactions during the financial year ended 30<sup>th</sup> June 2016, and of the Authority's financial

position as at that date. The board members further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the board members to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

The Authority's financial statements were approved by the board on 25<sup>th</sup> August 2016 and signed on its behalf by:



Chairman



Chief Executive

"Nothing has come to the attention of the board members to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement."

## Corporate Social Responsibility Statement

The board has further approved the construction of a science laboratory at Nthunguni Secondary School in Machakos County for Kshs. 3.2 Million.



During the period under review, the Authority participated in one Corporate Social Investment activity at Wema Centre, a facility for rehabilitation and integration of children in Mombasa County. In addition the Authority also sponsored the Beyond Zero campaign which seeks to improve maternal health. The board has further approved the construction of a science laboratory at Nthunguni Secondary School in Machakos County for Kshs. 3.2 Million.

The Authority will continue to endeavor to improve the welfare of the less fortunate in the society, with a strategic focus on enhancing awareness of the capital markets and visibility for the Authority.



## Board Committee Membership and Number of Meetings

Statement of Financial Performance for the year ended 30th June 2016

	Board Member	Classification	Designation	Finance & Planning Committee (FPC): Total No. of meetings 3)	Audit, Corporate Governance and Risk Management (AC): Total No. of meetings 4)	Technical & Policy Committee (TPC): Total No. of meetings 8 (6 scheduled + 2 special meetings)	Human Resources and Corporate Communications (HRCC): Total No. of meetings 9 (5 scheduled + 4 special meetings)	Board [Total No. of meetings 13 (6 scheduled + 7 special meetings)]
1.	Mr. James Ndegwa <sup>1</sup>	Independent	Board Chairman			1/1		13/13
2.	Ms. Njeri Wachira <sup>2</sup>	Representing the AG			1/1	3/3		1/1
3.	Mr. Nevis Ombasa <sup>3</sup>	Representing the AG		3/3	2/2	5/5	7/7	11/11
4.	Ms. Rose Detho <sup>4</sup>	Representing the Governor, CBK	Chairperson AC and TPC		3/3	6/6	1/1	5/5
5.	Mr. John Birech <sup>5</sup>	Representing the Governor, CBK	Chairperson TPC			1/1		5/7
6.	Dr. Geoffrey Mwau / Mr. Nzomo Mutuku	Representing the Principal Secretary, National Treasury	Chairperson AC	0/3	1/4	3/8		5/13
7.	Mr. Paul Ngugi <sup>6</sup>	Independent	Chairperson FPC	2/2	1/1		6/6	6/6
8.	Ms. Linda Muriuki	Independent		1/1	2/4	6/8	1/1	9/13
9.	Dr. Thomas Kibua <sup>7</sup>	Independent	Chairperson AC	2/2	1/1	1/1	6/8	10/10
10.	Mr. Moibi Mose <sup>8</sup>	Independent	Chairperson HRCC		2/2	1/1	6/8	9/11
11.	Ms. Nafisa Abass <sup>9</sup>	Independent	Chairperson HRCC	2/2			5/6	5/6
12.	Dr. Chris Kiptoo <sup>10</sup>	Independent			2/2	3/4		2/5
13.	Ms. Christine Okoth <sup>11</sup>	Independent						
14.	Mr. Harry Kimtai <sup>12</sup>	Independent						

1 Special Technical and Policy Committee meeting with an invitation to non-committee members including the Chairman.

2 Ms. Wachira was replaced by Mr. Ombasa as Alternate to the AG on November 10, 2015.

3 Mr. Ombasa replaced Ms. Wachira as Alternate to the AG on November 10, 2015.

4 Ms. Detho was replaced by Mr. John Birech as Alternate to the Governor, Central Bank of Kenya on April 6, 2016.

5 Mr. Birech replaced Ms. Detho as Alternate to the Governor, Central Bank of Kenya on April 6, 2016.

6 Mr. Ngugi's term ended on February 19, 2016 and was reappointed on May 31, 2016. However, he could only attend his first meeting upon re-appointment in July 2016 after Induction in line with Mwongozo requirement.

7 Dr. Kibua was appointed to the Board on October 2, 2015.

8 Mr. Moibi Mose was appointed to the Board on October 2, 2015.

9 Ms. Abass's term ended on February 19, 2016.

10 Dr. Kiptoo resigned from the Board on December 17, 2015 upon appointment as PS, State Department of Trade.

11 Ms. Okoth was appointed to the Board on May 31, 2016 but could only attend her first meeting in July 2016 after Induction in line with Mwongozo requirement.

12 Mr. Kimtai was appointed to the Board on May 31, 2016 but could only attend her first meeting in July 2016 after Induction in line with Mwongozo requirement



## Board Allowances for July 2015-June 2016

Director's Name	Director	Chairman's Honoraria	Sitting allowances	Board Retainer Allowance	Total
Mr. James Ndegwa	Chairman	1,044,000.00	700,000.00	840,000.00	2,584,000.00
Dr. Chris Kiptoo	Director		200,000.00	386,129.00	586,129.00
Dr. Thomas Kibua	Director		580,000.00	627,742.00	1,207,742.00
Ms. Linda Muriuki	Director		670,000.00	770,000.00	1,440,000.00
Mr. George Moibi	Director		580,000.00	667,742.00	1,247,742.00
Ms. Nafisa Abass	Director		320,000.00	511,724.15	831,724.15
Mr. Paul Ngugi	Director		500,000.00	560,000.00	1,060,000.00
Dr. Geoffrey Mwau	Alt. to PS, National Treasury		100,000.00		100,000.00
Mr. Nzomo Mutuku	Representing, the National Treasury		120,000.00		120,000.00
Mr. Nevis Ombasa	Alt. to Attorney General		760,000.00		760,000.00
Ms. Njeri Wachira	Alt. to Attorney General		120,000.00		120,000.00
Mr. John Birech	Alt. to Governor CBK		140,000.00		140,000.00
Ms. Rose Detho	Alt. to Governor CBK		660,000.00		660,000.00
P.S. National Treasury	Payment made to office of PS National Treasury.			840,000.00	840,000.00
Office of the Attorney General				840,000.00	840,000.00
Central Bank of Kenya				840,000.00	840,000.00
		<b>1,044,000.00</b>	<b>5,450,000.00</b>	<b>6,883,337.15</b>	<b>13,377,337.15</b>

## Board Members of the Authority



1. Mr. James Ndegwa - Chairman 2. Mr. Paul Muthaura - CEO 3. Dr. Geoffery Mwau, Alt. PS National Treasury  
4. Ms. Linda Muriuki 5. Dr. Patrick Njoroge - Governor CBK 6. Dr. Kamau Thugge - PS The National Treasury  
7. Mr. Moibi Mose



8. Mr. Paul Ngugi 9. Prof. Githu Muigai - Attorney General 10. Mr. John Birech, Alt. Governor CBK  
11. Ms. Christine Okoth 12. Mr. Nevis Ombasa, Alt. Attorney General 13. Dr. Thomas Kibua 14. Mr. Harry Kimtai

## Chief Executive's Statement



“The Authority remains vibrant in spearheading full implementation of the Capital Markets Master Plan by 2023 or sooner as envisioned. Studies confirm that there is a direct and positive correlation between advancements in the financial services sector of a country and economic development.”



## Chief Executive's Statement (Continued)



### Market Performance

Financial year 2015/16 registered a relatively low level of market performance mainly due to a bear market cycle. The NSE 20- share index registered a reduction of 25.78 percent to 3,641 points during the period under review against an index level of 4,906 points during the corresponding period in the previous year. The market had earlier witnessed the highest share index in the financial year in July 2015, of 4,405 points, a 19.78 percent decrease when compared to the highest share index during 2014/15 which was registered in February 2015 at 5,491 points. Similarly, market capitalization recorded a 13.2 percentage decrease in 2015/16 to Kshs. 1,998 Billion against Kshs.2,302 Billion registered during the corresponding period in the previous financial year. During the financial year ended 30th June 2016, the Kenyan market registered

an equities turnover of Kshs. 176.46 Billion, reflecting the traded value of the 65 companies listed at the Nairobi Securities Exchange at the time.

Despite the lower performance, the market generally remained resilient albeit with uncertainties following the historic withdrawal of Britain from the European Union. The country therefore remains exposed to Brexit consequences.

### Capital Market Master Plan (CMMP)

The overall implementation of the Capital Market Master Plan is coordinated at the national level by the Capital Market Master Plan National Steering Committee (CMMP –SC) chaired by the Cabinet Secretary for the National Treasury. The role of the CMMP-SC is to provide the overall policy direction during Master Plan implementation as well as to address cross-cutting issues that require cross-sectoral policy coordination. The other members of the CMMP-SC are; the Attorney General, the Cabinet Secretary for the Ministry of Agriculture, Livestock and Fisheries; the Cabinet Secretary for the Ministry of Mining; the Governor of the Central Bank; the Chief Executive, Capital Markets Authority; the secretary to the National Economic and Social Council; the Director General, Communications Authority of Kenya; and the Chairman of the Financial Sector Regulators Forum (JFSR).

- i. The operational coordination of the CMMP implementation is being carried out by the Capital Markets Master Plan Implementation Committee (CMMP-IC) which is Chaired by the Chief Executive, Capital Markets Authority and draws

Kshs  
**176.46**  
Billion

Traded value of the 65 companies listed

The Authority remains vibrant in spearheading full implementation of the Capital Markets Master Plan by 2023 or sooner as envisioned. Studies confirm that there is a direct and positive correlation between advancements in the financial services sector of a country and economic development.

## Chief Executive's Statement (Continued)



Investment Trusts (REITS), Securities Lending & Borrowing (SLB), Asset Backed Securities (ABS) and Short Selling to the National Treasury in January 2016 and subsequent submission of more proposals on Islamic Finance and reclassification of pension sector asset classes in March 2016. Further, the proposal on reclassification of pension sector was adopted through the Finance Bill 2016. The proposals that were not considered will be resubmitted in the coming financial year, with further justifications.

- vii. During the year, a validation workshop for the second module of the CISI certification programme was held. CMA staff and industry participants received level one Chartered Institute for Securities & Investment (CISI) certification. Cumulatively, 23 CMA staff and industry participants achieved Level One Introduction to International Securities & Investments (IISI) certification.
- viii. The Authority secured funding on acquiring an information repository from Financial Sector Support Project (FSSP) under the World Bank and the procurement process is underway.
- ix. The Islamic Finance Project Management Office (PMO) was set up, effective 1st December 2015. During the period under review the PMO made policy and tax submissions to the National Treasury focused on amending the Capital Markets Act to treat Islamic finance products and services like any other conventional products and services for purposes of taxation;

membership from public and private sectors as well as the academia.

- ii. The CMMP-IC executes its mandate under the guidance of both the CMMP-SC as well as the Board of the Capital Markets Authority.
- iii. The Capital Markets Master Plan identified 113 recommendations to be implemented over 10 years (2014 – 2023). The cumulative milestones achieved thus far include;
  - v. Undertaking of a shadow assessment by the Authority on the ranking of Kenya based on the Morgan Stanley Capital International (MSCI) index framework from frontier market to emerging market and adoption of the Financial Times Stock Exchange (FTSE) Index by the NSE as a first step towards the MSCI and Global Financial Centre Index (GFCI) rankings.
  - vi. Submission of Tax neutrality proposals on Real Estate

Kenya's corporate governance requirements with international standards. The Authority will in the coming financial year roll out a comprehensive sensitization program targeting all parties affected by these Codes but notably top executives listed companies and issuers of securities to the public.

## Chief Executive's Statement (Continued)

- x. Consultancy funding support to undertake the national and county financing gap analysis and recommendation of funding options through the capital markets was secured, with actual World Bank supported consultancy expected to be completed in the coming financial year
- xi. The Bond Market Steering Committee was reconstituted to address all outstanding issues relating to full implementation of a Hybrid Bond Market in Kenya. Specific milestones achieved during the year was the restructuring of the Bond Market Association into a company limited by shares as a key step towards recognition as an Over the Counter (OTC) Exchange modelled as a Self-Regulatory Organization (SRO) as well as the development of draft SRO rules to govern its expected delegated oversight role.
- xii. The Authority developed and submitted quarterly capital markets stability reports to the board every quarter during the year to update them on emerging risks in the capital markets or in the financial sector as whole that could impact financial stability, with mitigation measures
- xiii. The above achievements add onto another 10 percent achieved during 2014/15. Cumulatively, overall progress made in implementing CMMP recommendations account for about 30 percent yet this is just the second year since the launch of the CMMP.

### Review of the Policy Framework

Financial year 2015/16 was a reality check for the financial services sector, with the supervision function and the role of the regulator for listed banks in the banking industry being put to test. Three banks, namely Dubai Bank Kenya Limited, Imperial Bank Limited and Chase Bank (K) Limited were put under receivership following claims of mismanagement and under reporting of bad debts/loans from borrowers. These sparked heavy discussions on the perceived inefficiencies in market supervision amongst industry regulators. Despite the concerns, the Authority commends the Central Bank of Kenya for the speed with which interventions were made.

Going forward, the Authority is strongly advocating for a more coordinated approach in the supervision of financial service players to ensure the public is not exposed to the systemic risk of losing their hard earned investments and incomes, made outside the banking system but adversely affected by the closure of commercial banks due to non-segregation from bank deposits. We will also continue to engage with the Central Bank of Kenya and the National treasury to ensure more consultations prior to resolution of commercial banks, whose subsidiaries engage in capital markets services to avoid loss of trust in the financial services sector.

### Budget 2016 Interventions

Vision 2030 seeks to position Kenya as the heart of the African Capital Markets by making Nairobi an International Finance Center. Various Government interventions have thus been made, geared towards realizing this.

A key component is the introduction of the Financial Services Authority Bill to the public for comments. The Bill seeks to merge non-banking regulators; that is the Capital Markets Authority (CMA), the Retirement Benefits Authority (RBA), Insurance Regulatory Authority (IRA) and the Saccos Societies Regulatory Authority (SASRA). The FSA Bill seeks to establish uniform norms and standards in relation to the conduct of providers of financial products and financial services through the establishment of the Financial Services Authority, the Financial Sector Ombudsman and the Financial Sector Tribunal. This is so as to provide for the prudential supervision of prudentially regulated non-bank financial institutions, to provide for the promotion and maintenance of a fair and efficient financial sector in Kenya and for connected purposes.



In his 2016 budget speech, the Cabinet Secretary, National Treasury proposed key interventions in the financial sector summarized in table overleaf.

## Chief Executive's Statement (Continued)

Subject Matter	Budget Proposal	Expected Impact
a. Listed Companies with GOK shareholding facing challenges (KQ, MSC)	<p>On Government investments that have faced challenges recently: The Government is working to ensure Kenya Airways turns around its financial position and is able to play its role in the economy.</p> <p>On Telkom, Orange East Africa will sell its shares to a strategic investor. Through the transaction, the Government of Kenya hopes to increase its shareholding from the current 30 percent to 40 percent.</p> <p>On Mumias Sugar Company, Government allocated Shs 2.0 Billion in 2016/17 in order to support the revival of the company.</p>	<p>Government intervention in the operations of these companies is welcome. The share prices for the two listed companies, Kenya Airways and Mumias Sugar Company have been on a declining trend particularly in the year under review, contributing to a relatively contracted market capitalization. Interventions that will revive public confidence in these companies is thus welcome for improved market performance.</p>
b. CMA Recognition	<p>In the 2015/16 World Economic Forum Global Competiveness Report, Kenya ranked number 42 in the world out of 140 countries for Financial Market Development. In 2015, Kenya's capital market regulator was voted the most innovative in Africa by Africa Investor, thus placing Kenya's capital markets in line for a Global Financial Centre ranking, and the country's position as the regional financial hub.</p>	<p>The receipt of this award reaffirmed the Authority's commitment to develop Kenyan capital markets through innovation and introduction of new products as envisioned in the CMMP. Going forward, the Authority hopes it can improve its ranking from number 42 to top 30 for its market development initiatives.</p>



In the 2015/16 World Economic Forum Global Competiveness Report, Kenya ranked number 42 in the world out of 140 countries for Financial Market Development.

In 2015, Kenya's capital markets regulator was voted "The Most Innovative Capital Markets Regulator in Africa" by Africa Investor.



## Chief Executive's Statement (Continued)

Subject Matter	Budget Proposal	Expected Impact
<p>c. Placement of specific banks under statutory management</p>	<p>In order to prevent more banks from being placed under statutory management in the future, the following measures (among others) are being implemented:</p> <ul style="list-style-type: none"> <li>i. Government is insisting on strengthening corporate governance practices in banks;</li> <li>ii. Government is reviewing the quantum of penalties for regulatory violations;</li> <li>iii. CBK is also considering publication of its enforcement actions against institutions;</li> <li>iv. Working with relevant agencies government is to duly investigate and prosecute cases of financial fraud promptly;</li> </ul>	<p>In line with the Government's efforts, the Authority gazetted a new code on corporate governance. The Code sets out the principals and specific recommendations on structures and processes which companies should adopt in making good corporate governance an integral part of their business dealings and culture.</p> <p>The Code repeals the Guidelines on Corporate Governance Practices for Public Listed Companies in Kenya, 2002.</p> <p>The Code calls for the adoption of standards that go beyond the minimum prescribed by legislation. Issuers are required to apply the principles and recommendations and where they are not applied, a satisfactory explanation is required.</p>
<p>d. Facilitation of affordable housing through the Financial Sector</p>	<p>Government working with development partners to put in place a Mortgage Liquidity Facility which will provide long term funding to financial institutions, including SACCOs, to enable them provide longer tenure mortgages to the public. A raft of measures aimed at smoothening the land titling and collateralization process including the ongoing digitization of land registries developed.</p> <p>On the supply side, Government to operationalize incentives to facilitate developers of low cost housing for them to provide infrastructure, which would otherwise have been provided by the county or national Government.</p>	<p>The Mortgage Liquidity Facility for SACCOs is an important milestone as it targets majority of the middle to low income earners who are key players in retail investments. This augurs well with the Authority's vision of creating products that tap into the retail sector of the economy.</p>

## Chief Executive's Statement (Continued)

Subject Matter	Budget Proposal	Expected Impact
e. Nairobi International Financial Center Bill	Nairobi International Financial Centre (NIFC) Bill already exposed for public comment to cement progress made thus far in positioning Nairobi as the financial hub in the region	Financial sector consolidation process set in motion.
f. FSA Bill	Government to table the Financial Services Authority (FSA) Bill, which provides for much more than a simple merger of the existing non-banking regulators by encompassing issues of market conduct, financial services, consumer protection and addressing existing regulatory gaps such as regulation of credit provision.	The rationale for the merger is to provide a better organized regulatory approach to the increasingly integrated and converged financial services industry and establishment of financial conglomerates. This will ensure that industry players do not get opportunities to exploit gaps in regulation (regulatory arbitrage) or in consumer protection. Further, the merger provides an opportunity for a standard approach to product governance and service delivery to be developed under a market conduct framework.
g. M-Akiba	Government moving to strengthen both the Primary and Secondary markets for Government Securities which constitute a major component of Kenya's capital markets. This will include: <ul style="list-style-type: none"> <li data-bbox="544 1435 963 1592">i. Introducing electronic bond auctions which will spare investors from the current manual process of submitting paper bids;</li> <li data-bbox="544 1626 963 1715">ii. Separating the retail and wholesale components of the market,</li> <li data-bbox="544 1749 963 1816">iii. Introducing primary dealers and market makers; and</li> <li data-bbox="544 1850 963 1917">iv. Establishing an efficient horizontal repo market.</li> </ul>	Financial sector consolidation process set in motion.

## Chief Executive's Statement (Continued)

Subject Matter	Budget Proposal	Expected Impact
h. FSA/NIFCA/MPSR Bills	Government to introduce three landmark financial sector legislations namely the Financial Services Authority Bill, the Nairobi International Financial Centre Bill and the Moveable Property Security Rights Bill (using movable plant/machinery etc. as collateral for loan/credit facilities and promote consistency and certainty in secured financing relating to movable assets).	Bills will facilitate order, growth and stability of the financial sector.
i. Online Forex Trading	Given that the sector is currently unregulated, the Government proposed facilitative amendments to the Capital Markets Authority Act following which Cabinet Secretary, National Treasury will gazette relevant regulations for effective and secure online forex trading by Kenyans.	A regulated environment for online forex trading in Kenya
j. Amendments to RBA Investment Guidelines	Further review of the Investment Guidelines for retirement benefits schemes to facilitate their investment in new products approved by the Capital Markets Authority including exchange-traded derivatives and listed Real Estate Investment Trusts.	Opening-up the Investment Guidelines for retirement benefits schemes to diversify into new capital markets products.
k. Islamic Finance (Takaful)	With the rapid growth of interest experienced in Sharia compliant or Takaful insurance products, the Cabinet Secretary proposed amendments to anchor this form of insurance in the Insurance Act and also facilitate the issuance of regulations to govern Takaful Insurance.	Accommodation/acknowledgement of Sharia-compliant (Takaful) insurance products in conventional insurance by making relevant amendments to the Insurance Act.

## Chief Executive's Statement (Continued)

### Review of Legal and Regulatory Framework

During the year, there were a number of amendments to the Capital Markets Legal and Regulatory Framework as listed;

#### a) Companies and Insolvency Legislation (Consequential Amendments) Act, 2015

These amendments align the provisions of the Central Depositories Act, among other Acts, with the new Companies Act, 2015. The amendments also provide clarity on the definition and scope of a dematerialized security.

#### b) Capital Markets (Nairobi Securities Exchange Limited Shareholding) Regulations, 2016

These regulations introduce restrictions on shareholding of the Nairobi Securities Exchange. An individual or a private company is not allowed to own more than five percent of the equity share capital of the Exchange.

#### c) Code of Corporate Governance for Issuers of Securities to the Public, 2015

The Code of Corporate Governance for Issuers of Securities to the public, 2015 was gazetted on 4th March 2016. The Code sets out the principles and specific recommendations on structures and processes which companies should adopt in making good corporate governance an integral part of their business dealings and culture. The Code repeals the Guidelines on Corporate Governance Practices for Public Listed Companies in Kenya, 2002. The Code contains both mandatory and



During the year, The Authority carried out 48 market intermediaries' inspections. The inspections were done within the Risk Based Supervision framework.

voluntary requirements. The Code calls for the adoption of standards that go beyond the minimum prescribed by legislation. Issuers are required to apply the principles and recommendations and where they are not applied, a satisfactory explanation is required.

#### d) Capital Markets (Securities) (Public Offers, Listing and Disclosure) (Amendment) Regulations, 2016

These amendments were introduced as a result of the need to extract mandatory requirements from the Code of Corporate Governance for Issuers of Securities to the Public, 2015. The amendments provide a framework upon which companies should adopt in making good corporate governance an integral part of their business and dealings. Some of the amendments deal with definitions of directors, composition of the board, functions of the board and other corporate governance requirements.

#### e) Capital Markets (Licensing Requirements) (General) (Amendment) Regulations, 2016

The Capital Markets (Licensing Requirements) (General) (Amendment) Regulations, 2016 amend the capital market fees, commissions and levies so as to enhance the depth and scope of products and services and increase investor participation in the capital market. The amendments also introduced capping on fees payable to the Capital Markets Authority.

#### f) Guidelines on the Prevention of Money Laundering and Terrorism Financing in the Capital Markets, 2015.

## Chief Executive's Statement (Continued)

The Guidelines are made in line with section 12(1) of the Capital Markets Act and section 24A (3) of the Proceeds of Crime and Anti Money Laundering Act. The Guidelines provide a framework for prevention and detection of money laundering and terrorism financing in the capital markets. The Guidelines require Boards and management of capital market intermediaries (including stock brokers, fund managers, Investment banks, among others) to establish appropriate policies and procedures for the detection and prevention of money laundering.

### g) Capital Markets (Derivatives) Regulations, 2015

The Capital Markets (Derivatives) Regulations, 2015 provide a comprehensive framework for the establishment and operation of a derivatives market in Kenya. The Regulations repeal the Capital Markets (Futures Exchanges) (Licensing Requirements) Regulations, 2013.

### h) Policy Guidance Note for Exchange Traded Funds in Kenya

The Policy Guidance Note was approved and published in September 2015. The Guidance Note sets out the basic principles for the establishment of exchange trade funds in Kenya's capital market. The Guidance Note is a precursor to a comprehensive regulatory framework to allow for the operationalization of exchange traded funds in Kenya. The Guidance Note was developed in line with section 12A of the Capital Markets Act which allows the Authority to introduce new products and services by way of notices and guidelines.

## Market Supervision and Surveillance

### a. Compliance & Risk Management

#### a) Risk Based Supervision

The Authority continued with its efforts of protecting investors and fostering confidence by ensuring players are operating within the set market regulatory framework and also facilitate market players in meeting their disclosure requirements effectively and efficiently. During the year, the Authority carried out 48 market intermediaries' inspections. The inspections were done within the Risk Based Supervision framework.

#### b) AML/CFT Standalone Inspections

As part of the efforts in ensuring appropriate & effective oversight and further support & enhance the implementation of POCAML Regulations, the Authority developed the guidelines on Prevention of Money Laundering and Combating Financing of Terrorism in Capital Markets. The Guidelines were gazetted on Friday March 4, 2016. The guidelines are aligned to the Kenyan Anti-Money Laundering and Counter Terrorism Financing (AML/CFT) laws, benchmarked against international best practices and the recommendations of the Financial Action Task Force (FATF), the global standard setter for AML/CFT measures. With the technical assistance from the International Monetary Fund (IMF), the Authority developed a robust AML/CFT risk based supervision framework. The

Authority successfully conducted the first ever risk based AML/CFT standalone inspections on six (6) high risk market intermediaries operating in the Kenyan capital markets.

#### b. Market Surveillance

The Authority is in the process of establishing a repository whose purpose is to assist in information intelligence gathering to ensure timely information access about financial markets, securities and the economy which is a vital aspect of vibrant, orderly and transparent financial markets. As a regulator and in particular for surveillance and research, this information is key in building up cases and informing surveillance analysts by assisting in supplementing reviews of suspicious trading activities and also in documenting a case for possible investigation and enforcement. The web-based service will provide a global data streaming solution that is able to deliver data with in-depth information and analytics, news, technical data and global financial markets trends to ensure proper oversight. During the year, the Authority finalized the development of specifications for the repository system.

## Market Development

During the year, the Authority has actively pursued the operationalization of the derivatives, exchange traded funds and Islamic finance products in the country. To this date, progress has been made to the extent explained below.

## Chief Executive's Statement (Continued)

### i. Derivatives market

The Nairobi Securities Exchange is in its final stages of preparing for the launch of a derivatives exchange in Kenya. The Exchange seeks to offer index and equity futures as initial products upon the launch. The Exchange, having procured an end to end trading, clearing and settlement system in 2011, was found suitable for the day to day operations of the Clearing House and the Exchange. The system which contained a derivatives module was audited on April 2015 and was found suitable to meet the NSE and the Authorities expectations. The Exchange signed in clearing and trading members between February 2015 and December 2015. In addition, the Settlement Guarantee and the Investor Protection Funds were established as a trust and capitalized to a tune of Kshs. 100 Million and Kshs. 10 Million respectively.

Finally, three Committees were The PMO, housed by CMA, works

constituted in 2015 namely Derivatives Oversight Committee, Product Advisory Committee and the Risk Management Committee in order to provide oversight to the derivatives process.

### ii. Islamic Finance

The Capital Markets Authority (CMA) with technical and funding support from Financial Sector Deepening Africa (FSDA) commissioned IFAAS (Islamic Finance Advisory & Assurance Services, an international consultancy specialized in Islamic finance), in association with Simmons & Simmons (an international law firm), to lead the Project Management Office (PMO). CMA is carrying out these functions on behalf of the Financial Services Regulators Forum (FRSF) comprising of CMA, RBA, IRA, CBK and SASRA.

closely with the financial sector regulators on the development of an institutional, policy and regulatory framework for the Islamic finance industry in Kenya. The project, named "DARAJA" (bridge), started in December 2015 and is due to be completed by the end of March 2017.

IFAAS, Simmons & Simmons and PMO members undertook a fact-finding mission in December 2015 that enabled the team to establish the key issues that hinder the development of Islamic finance and establish relationships with all relevant stakeholders, initiating the collection of very important information and data, and, observing local practices.

Kenya's Islamic Finance Industry is at its nascent stages of development currently with two fully-fledged Islamic banks, five Islamic windows of conventional banks, one fund, one Takaful (Islamic insurance) company, and one Retakaful window which are among the licensed financial institutions operating in the country. In addition, two Islamic Saccos have since been registered by the Commissioner of Co-operatives Development.

The key challenges identified that are impeding the development of the sector classified into five main themes include;

- a. **Awareness:** Lack of understanding of Islamic finance across all levels of the market (especially regulators, practitioners, scholars and consumers); Confusion over Shariah compliance with the operations of Islamic windows; and lack of differentiation between Islamic and



"Kenya's Islamic Finance Industry is at its nascent stages of development currently with two fully-fledged Islamic banks, five Islamic windows of conventional banks, one fund, one Takaful (Islamic insurance) company, and one Retakaful window which are among the licensed financial institutions operating in the country."

## Chief Executive's Statement (Continued)

conventional products.

- b. Shariah Governance:** Lack of harmonization between scholarly opinions and Islamic finance interpretations especially on issues of Shariah compliance; Absence of a framework for Shariah compliance within the industry; Absence of a "Fit & Proper Test" criteria for the scholars; and lack of financial expertise among the Shariah scholars.
- c. Human Capital:** Staff and management of institutions offering the products are not adequately trained; Poorly trained practitioners are impeding awareness further; and lack of structured academic framework for the development of human capital;
- d. Regulation:** The current regulatory and supervisory frameworks are inadequate for Islamic finance and preventing its growth. Amendments to the tax and accounting framework are required to create a level playing field for the business operations.
- e. Technical Assistance:** the sector has not been supported to develop relevant Products, acquire the IT systems that support business operations in compliance with Shariah requirements, there is external Shariah Audit to give assurance on the level of compliance etc.

The above challenges notwithstanding, stakeholders and market players are confident that Islamic finance has a significant opportunity in Kenya's domestic market with great potential to

position Kenya on the international scene. In order to unlock this potential and avail the opportunities:

the Authority seeks to pursue quick wins to ensure development of Islamic finance in Kenya. These include;

- i. Amendments pertaining to tax treatment of Islamic financial products giving them parity with conventional products.
- ii. Providing guidance to the Kenyan Authorities for issuing a sovereign Sukuk.
- iii. Proposing Takaful regulation in the Finance Act 2016.
- iv. Producing new model bylaws for Islamic cooperatives.
- v. Launching first phase of the Awareness campaign with limited and targeted activities
- vi. Undertaking capacity building throughout the project.

The PMO has developed a detailed Project Charter and Project Plan for the period of the project to ensure regular reporting and measurement of progress of the project, as well as milestone are met and quality is sustained.

The PMO has developed a detailed Project Charter and project plan for the period of the project to ensure regular reporting and measurement of progress of the project, as well as milestone are met and quality is sustained.

In order to provide a further guidance to the capital markets sector, the Authority developed the Guidelines on the Prevention of Money Laundering and Terrorism Financing in the Capital Markets. The Guidelines are awaiting gazette by the Cabinet Secretary for National Treasury.

### Policy/Research Conducted

As one of the initiatives to deepen Kenya's capital markets, CMA initiated various studies and contributed to financial sector publications;

#### i. A Paper on Credit Linked Notes

This is a research paper that was developed to provide an overview of the structural and operational aspects of credit linked notes, the risks associated with these instruments as well as highlighting some issues for regulatory consideration.

#### ii. A study on spot, online currency trading and currency derivatives

With the expectations of an operational derivatives exchange in the country, the Authority launched a study on currency derivatives aimed at informing its role in creating market enablers for successful operationalization of the derivative products and developing necessary risk management framework. This was then followed by an enabling policy framework on the same.



## Chief Executive's Statement (Continued)

### Foreign Investor Survey 2015

Kenya recognizes the importance and potential risks associated with private and foreign capital. Worth noting from the global financial and economic crisis is that, while foreign investments have become increasingly important for developing economies, they are also sources of vulnerabilities to such economies. Results from the 2015 survey show that: Foreign Direct investment accounted for 57.2 percent while Portfolio investment accounted for 35.3 percent of the stock of foreign liabilities in 2013.

Foreign capital inflows increased by 6.1 percent from Kshs. 342,234 Million in 2012 to Kshs. 363,269 Million in 2013.

The stock of financial assets held abroad increased by 14.0 percent to Kshs. 230,514 Million in 2013 from Kshs. 202,267 Million in 2012.

The EAC remains the preferred destination of FDI assets abroad constituting 87.8 percent and 86.6 percent in 2012 and 2013 respectively. More than half of the foreign assets abroad were held in Uganda and US destinations.

Respondents perceived domestic market growth potential, rule of law and existing regulations, availability of skilled workforce, quality of Infrastructure and logistics as the five major factors attracting them to do business in Kenya. With regard to the direction of investment, majority of the respondents indicated that they would most likely improve on existing

products, diversify range of products, recruit locals, ensure gender balance and acquire additional capital goods.

### iii. Stewardship Code

The Code of Corporate Governance for Issuers of Securities to the Public, 2015 recommends that institutional investors should have transparent, honest and fair practices in their dealings with the companies in which they invest so as to promote sustainable shareholder value and long term success of such companies. This recommendation resulted in the development of the Stewardship Code for Institutional Investors. The Stewardship Code seeks to encourage the institutional investment community to take action to serve as responsible stewards for their beneficiaries and to help to promote good corporate governance and the sustainable success of listed companies. The Code was submitted to the National Treasury in November 2015 and is currently awaiting gazettment.

### Kenya Financial Sector Stability Report

This is a joint annual publication prepared by the Financial Sector Regulators Forum, which brings together the Central Bank of Kenya, Capital Markets Authority, Insurance Regulatory Authority, Retirement Benefits Authority and Sacco Societies Regulatory Authority under a Memorandum of Understanding (MOU) for collaboration in several areas of mutual interests.

### iv. Study on Direct Market Access (DMA)

In a bid to increase investor options on market access, the Authority conducted a study on Direct Market Access. This is a service that enables sophisticated private investors to place buy and sell orders directly on the exchange order books without operating through brokers. DMA enables private investors to level their playing field and trade like market professionals.

### Study on Securities Lending and Borrowing (SLB)

During the year, the Authority in conjunction with the World Bank conducted a study on the policy considerations for securities lending and borrowing and short selling. This is in line with the Authority's vision of strengthening and deepening the Kenyan Capital Markets.

### Conducted online surveys :

To inform policy and the regulatory framework the Authority conducted two online market surveys during the period under review, whose findings were informative and offered more insight on market operations. The two surveys were on;

- a) Private Equity and Venture Capital Firms; and
- b) Online currency trading in Kenya



## Chief Executive's Statement (Continued)

RESULTS	2016 Shs '000	2015 Shs '000
Total income for the year	949,986	993,036
Total operating expenditure for the year	(812,206)	(715,739)
Surplus for the year before tax and transfer	137,780	277,297
Tax expense	-	-
Surplus after tax for the year	137,780	144,252

### Financial Highlights

The Authority's financial position will be presented in detail in the audited financial statements for the financial year ended 30 June 2016. The results for the year are as summarized below.

### Future Outlook

The Authority remains vibrant in spearheading full implementation of the Capital Markets Master Plan by 2023 or sooner as envisioned. Studies confirm that there is a direct and positive correlation between advancements in the financial services sector of a country and economic development.

The World Bank for example, in computing the annual ease of doing business index, takes into account ten (10) indicators. Five of these include; ease of trading, ease of getting credit, ease with which investors are protected, ease of dealing with licenses and ease of enforcing contracts.

These indices directly reflect on the functionality and operations within the financial services and capital markets industry. To achieve this, combined efforts from all industry players is paramount. The Authority confirms its agility and commitment towards providing an enabling environment for businesses and investors to operate and raise capital ensuring resources are allocated based on the Pareto efficiency principle that seeks to ensure optimum use of resources.

In conclusion therefore, I wish to thank the Board for their guidance and unfailing support throughout the year. The achievements witnessed during the year are as a result of the Board's commitment as well as responsiveness. I would also like to extend my sincere appreciation to the various stakeholders both in Government and private sectors who have made the development and implementation of the CMMP a reality.

My special appreciation goes to the National Treasury for the overwhelming support accorded to the Authority throughout the year.

I also commend the management and staff of the Authority for their hard work and great effort in fulfillment of the responsibility entrusted to us, thus moving us ever closer to facilitating the Kenyan capital markets to become the true Heart of African Capital Markets.



.....  
Mr. Paul Muthaura  
Chief Executive

## Report of the Auditor General

## REPUBLIC OF KENYA

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P.O. Box 30084-00100  
 NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

**REPORT OF THE AUDITOR-GENERAL ON CAPITAL MARKETS AUTHORITY FOR  
 THE YEAR ENDED 30 JUNE 2016**
**REPORT ON THE FINANCIAL STATEMENTS**

The accompanying financial statements of Capital Markets Authority set out on pages 29 to 53, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by RSM Ashvir, auditors appointed under Section 23 of the Public Audit Act, 2015 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

**Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

*Report of the Auditor-General on Capital Markets Authority for the year ended 30 June 2016*

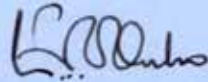
## Report of the Auditor General (Continued)

judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Capital Markets Authority as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accruals Basis) and comply with the Capital Market Authority Act, Cap 485A of the Laws of Kenya.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**08 November 2016**

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*Report of the Auditor-General on Capital Markets Authority for the year ended 30 June 2016*

**NOTE:**

*This is a copy of the Audit Report by the Auditor General on the financial statements for the year ended 30<sup>th</sup> June 2016. Whereas the financial statements published in this annual report are the same as in the signed accounts, the pagination is slightly different from that referenced in the auditor's report because of the additional business-related material included in the annual report.*

## Statement of Financial Performance

For the year ended 30<sup>th</sup> June 2016

	Note	2016 Shs'000	2015 Shs'000
<b>Revenue from non-exchange transactions</b>			
Capitalization, rights and new issue fees	5	749,682	853,337
Donor fund income	6	91,140	60,414
		840,822	913,751
<b>Revenue from exchange transactions</b>			
Other income	7	108,510	78,595
<b>Total revenue</b>		<b>949,332</b>	<b>992,346</b>
<b>Expenses</b>			
Operating expenditure	30	(812,206)	(715,739)
<b>Total expenses</b>		<b>(812,206)</b>	<b>(715,739)</b>
<b>Other gains/ (losses)</b>			
Gain on disposal of property and equipment	8	654	690
<b>Surplus before tax</b>	<b>9</b>	<b>137,780</b>	<b>277,297</b>
Tax expense	10	-	(133,045)
<b>Surplus for the year</b>		<b>137,780</b>	<b>144,252</b>

## Statement of Financial Position

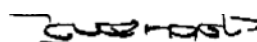
As at 30<sup>th</sup> June 2016

	Note	2016 Shs'ooo	2015 Shs'ooo
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	11	1,591	2,040
Trade and other receivables from non-exchange transactions	12(a)	52,154	83,596
Trade and other receivables from exchange transactions	12(b)	24,780	20,457
Staff loans and advances/guarantee fund	13	34,759	33,656
Held-to-maturity investments	14	370,934	333,337
Cash at bank and in hand	15	269,384	183,397
Investors' Compensation Fund's Investments	16	512,558	515,119
		<b>1,266,160</b>	<b>1,171,602</b>
<b>Non-current assets</b>			
Property and equipment	17	82,657	104,910
Intangible assets	18	4,702	42,287
Staff loans and advances/guarantee fund	13	249,175	232,569
Held-to-maturity investments	14	341,118	310,444
Investors' Compensation Fund's investments	16	992,448	783,318
		<b>1,670,100</b>	<b>1,473,528</b>
<b>Total Assets</b>		<b>2,936,260</b>	<b>2,645,130</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	20	139,246	146,766
Provision for liabilities and charges	21	95,906	88,740
Current tax payable	22	-	18,003
Deferred income	23	7,200	42,062
Investors' Compensation Fund liabilities	16	512,558	515,119
		<b>754,910</b>	<b>810,690</b>
<b>Non-current liabilities</b>			
Investors' Compensation Fund liabilities	16	992,448	783,318
<b>Total liabilities</b>		<b>1,747,358</b>	<b>1,594,008</b>
<b>Net assets</b>		<b>1,188,902</b>	<b>1,051,122</b>
<b>Funds</b>			
Capital fund	24	27,886	27,886
General fund	25	931,016	923,236
Building fund	26	230,000	100,000
<b>Total Funds</b>		<b>1,188,902</b>	<b>1,051,122</b>
<b>Total Funds and Liabilities</b>		<b>2,936,260</b>	<b>2,645,130</b>

The financial statements set out on pages 48 to 76 were approved for issue by the board members of the Authority on 25<sup>th</sup> August 2016 and were signed on its behalf by:



Chief Executive

Date: 25<sup>th</sup> August 2016


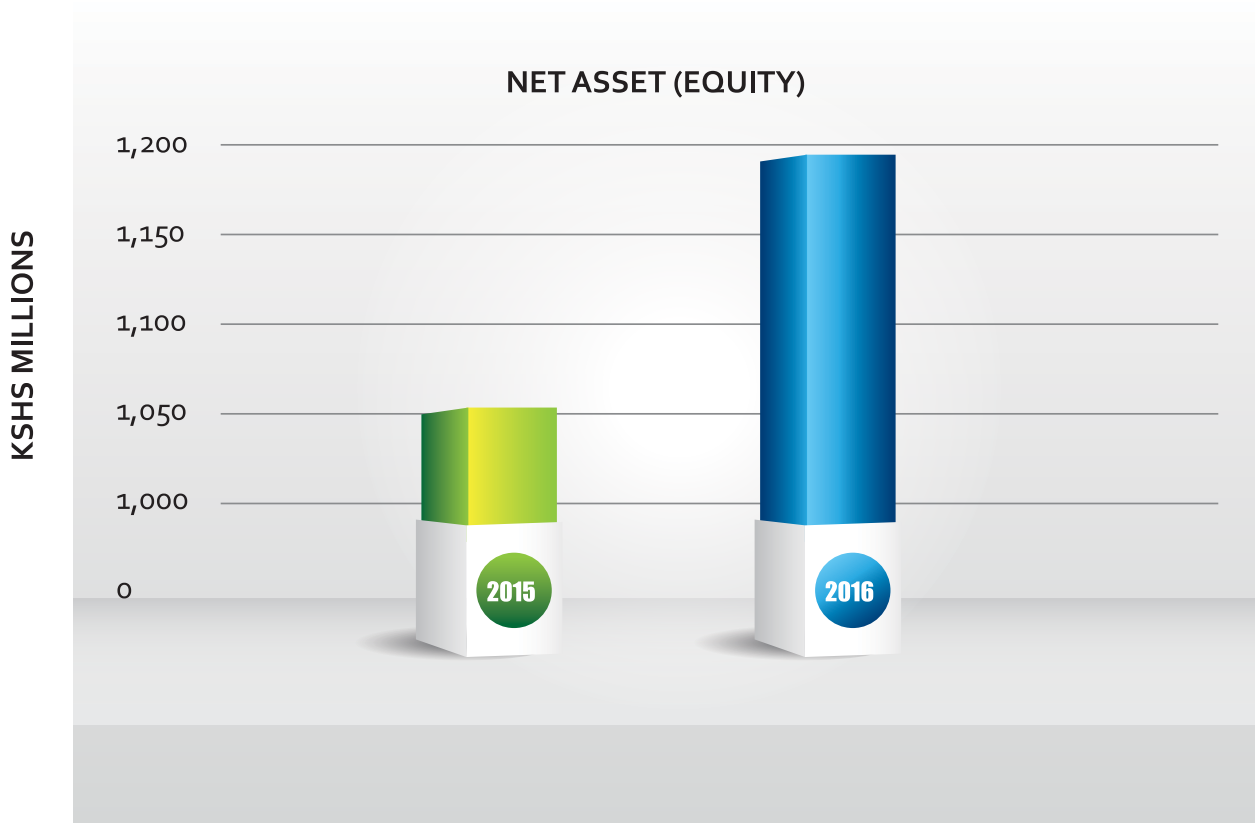
Chairman of the board

Date: 25<sup>th</sup> August 2016

## Statement of Changes in Net Asset

For the year ended 30<sup>th</sup> June 2016

	Capital fund Shs'000	General fund Shs'000	Building fund Shs'000	Total Shs'000
<b>At 1<sup>st</sup> July 2014</b>	27,886	878,984	-	906,870
Surplus for the year	-	144,252	-	144,252
Transfer to building fund	-	(100,000)	100,000	-
<b>At 30<sup>th</sup> June 2015</b>	27,886	923,236	100,000	1,051,122
<b>At 1<sup>st</sup> July 2015</b>	27,886	923,236	100,000	1,051,122
Surplus for the year	-	137,780	-	137,780
Transfer to building fund	-	(130,000)	130,000	-
<b>At 30<sup>th</sup> June 2016</b>	27,886	931,016	230,000	1,188,902



Source: Capital Markets Authority

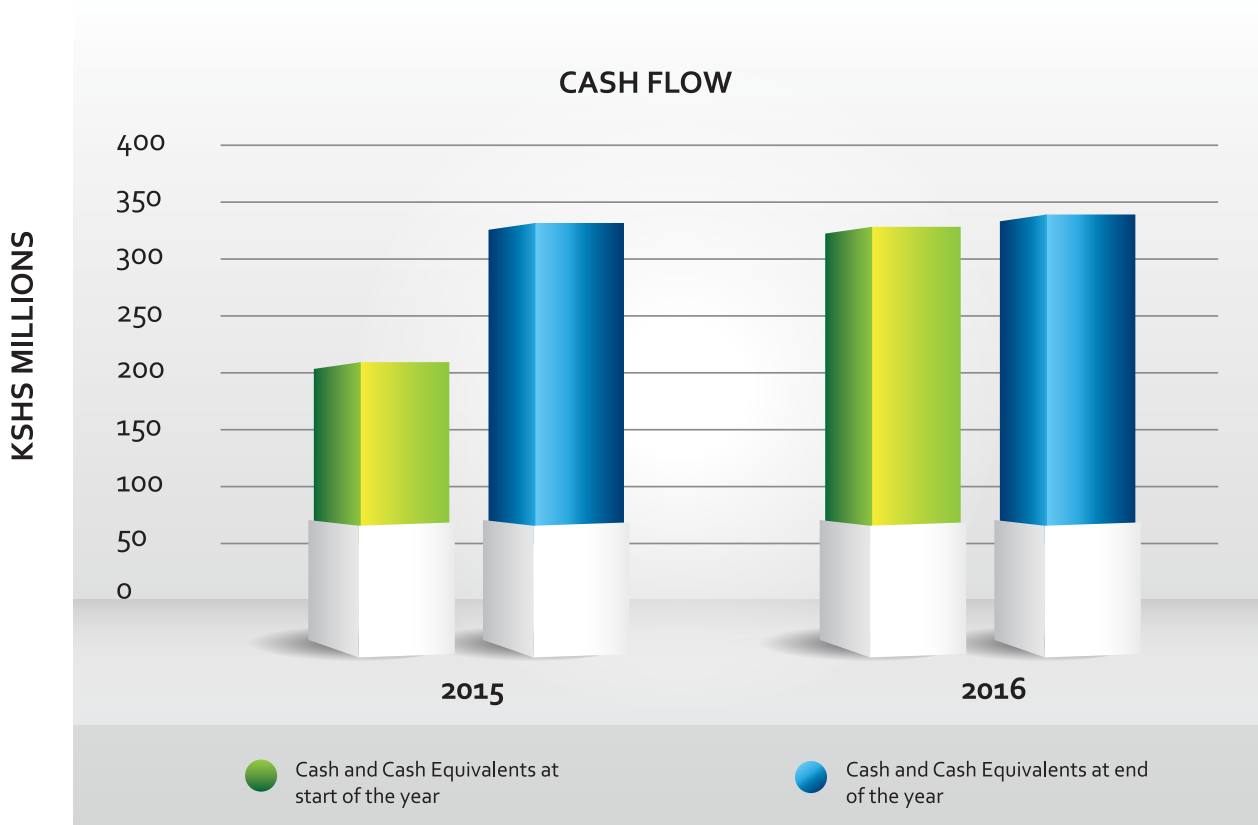


## Statement of Cash Flows

For the year ended 30<sup>th</sup> June 2016

	Note	2016 Shs'000	2015 Shs'000
<b>Cash flows from operating activities</b>			
Surplus for the year		137,780	144,252
<b>Adjustments for:</b>			
Tax expense	10	-	133,045
Depreciation of property and equipment	17	34,835	33,181
Amortisation of intangible assets	18	38,801	43,657
Deferred donor funded income		(34,862)	(41,451)
Gain on disposal of property and equipment	8	(654)	(690)
Interest income	7	(101,282)	(75,221)
<b>Operating profit before working capital changes</b>		<b>74,618</b>	<b>236,773</b>
<b>Decrease/(increase) in:</b>			
Inventories		449	(467)
Trade and other receivables		27,119	(12,569)
Staff loans and advances		(17,709)	(39,685)
<b>Increase/(decrease) in:</b>			
Trade and other payables		(7,520)	7,988
Provision for liabilities and charges		7,166	42,257
Investors' Compensation Fund		202,308	291,509
Staff benevolent fund		-	(7,882)
<b>Cash generated from operations</b>		<b>286,431</b>	<b>517,924</b>
Interest received	7	101,282	75,221
Income tax paid		(18,007)	(111,296)
<b>Net cash generated from operating activities</b>		<b>369,706</b>	<b>481,849</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	17	(12,656)	(38,729)
Purchase of intangible assets	18	(1,216)	(4,800)
Proceeds from disposal of property and equipment		654	862
Purchase of treasury bonds from the Investors' Compensation Fund		(177,620)	(119,244)
(Purchase)/sale of treasury bills from the Investors' Compensation Fund		(107,156)	(62,827)
(Purchase)/sale of treasury bonds		51,681	(40,713)
(Purchase)/sale of treasury bills		(113,579)	(91,369)
<b>Net cash used in from investing activities</b>		<b>(359,892)</b>	<b>(356,820)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>9,814</b>	<b>125,029</b>
<b>Cash and cash equivalents at start of the year</b>		<b>329,025</b>	<b>203,996</b>
<b>Cash and cash equivalents at end of the year</b>	15	<b>338,839</b>	<b>329,025</b>

Statement of Cash Flows year on year Comparison





## Statement of Comparison of Budget and Actual Amounts

	Original budget 2015-2016 Shs'000	Adjustments 2015-2016 Shs'000	Final budget 2015-2016 Shs'000	Actual on comparable basis 2015-2016 Shs'000	Performance difference 2015-2016 Shs'000	
<b>Revenue</b>						
Fee income from NSE	496,550	34,625	531,175	434,945	(96,230)	a)
Licenses and permits	15,250	16,508	31,758	33,404	1,646	b)
Market development Fees	12,508	883	13,391	13,139	(252)	c)
Capitalisation and bond approvals	317,000	(33,792)	283,208	268,194	(15,014)	d)
<b>Fee based income</b>	<b>841,308</b>	<b>18,224</b>	<b>859,532</b>	<b>749,682</b>	<b>(109,850)</b>	
Donor Funding- gifts and services-in-kind	43,782	255,380	299,162	91,140	(208,022)	e)
Finance income - external investments	62,500	36,482	98,982	101,282	2,300	f)
Gains on disposal, rental income and agency fees	-	-	-	654	654	
Other Income	1,000	3,995	4,995	7,228	2,233	g)
<b>Total income</b>	<b>948,590</b>	<b>314,081</b>	<b>1,262,671</b>	<b>949,986</b>	<b>(312,685)</b>	
<b>Expenses</b>						
Personnel cost	373,637	(19,227)	354,410	352,423	1,987	h)
Rent and maintenance	51,790	2,372	54,162	47,818	6,344	i)
Equipment maintenance and stationery	22,850	7,512	30,362	30,099	263	j)
Telephone, postage and utilities	24,760	(500)	24,260	12,337	11,923	k)
Entertainment and public relations	37,800	14,850	52,650	32,835	19,815	l)
Medical scheme and insurance expenses	27,035	(2,000)	25,035	23,444	1,591	m)
Training and conferences	69,735	1,000	70,735	68,705	2,030	n)
Motor vehicle running expenses	12,900	(7,062)	5,838	4,898	940	o)
Subscriptions and IOSCO membership	13,200	-	13,200	9,825	3,375	p)
Authority board members' emoluments and allowance	39,137	(6,100)	33,037	26,974	6,063	q)
Professional & consultancy services	17,400	5,500	22,900	9,530	13,370	r)
Litigation/legal expenses	26,098	-	26,098	8,600	17,498	s)
Market Development & Islamic Finance	61,600	2,150	63,750	16,957	46,793	t)
Capital Markets Masterplan	7,000	15,000	22,000	2,393	19,607	u)
Donor Funded Projects	-	265,917	265,917	54,766	211,151	v)
Depreciation of property, plant and equipment	66,855	949	67,804	34,835	32,969	w)
Amortisation of intangible assets	40,000	-	40,000	38,801	1,199	x)
Auditor's remuneration	1,000	-	1,000	823	177	y)
Investors' education and awareness programme	40,000	(5,000)	35,000	32,998	2,002	z)
Tribunal expenses	7,474	(2,000)	5,474	3,145	2,329	aa)
<b>Total expenditure</b>	<b>940,271</b>	<b>273,361</b>	<b>1,213,632</b>	<b>812,206</b>	<b>401,426</b>	
<b>Surplus/(Deficit) for the period</b>	<b>8,319</b>	<b>40,720</b>	<b>49,039</b>	<b>137,780</b>	<b>88,741</b>	

The Authority has not recognized in the financial statements items for which commitment in the budget had been made amounting to Shs 7.8 Million. This is in compliance to IPSAS 19. The procurement of these had been completed in 2015/16 but deliveries were made in 2016/17. (Note 28b).

## Statement of Comparison of Budget and Actual Amounts (continued)

### Notes on the significant variances

- a) Low market trading volumes in the year affected the revenue performance.
- b) Licenses of new products like REITS resulting in a higher income.
- c) Income realized was low due to reduced market capitalization of the listed companies.
- d) Low market trading volumes in the year affected the revenue performance.
- e) Substantial portion of the projects being supported by donor funding extending to 2016/17.
- f) The income level was above budget as the Authority continued investing excess cash per policy.
- g) Other income line was above budget arising from partner support for the University challenge activities.
- h) The Authority's staff complement was only gradually filled in the year.
- i) This cost is below budget due to alignment of adjusted service charges in the year.
- j) This line was well within the budget.
- k) This cost is below budget due to cost control strategies that the Authority continued to apply in the year.
- l) Particular activities (documentary production and airing) were committed to but actualization will be in early 2016/17.
- m) The medical costs were well within the budget allocation.
- n) The budget was utilized to within target, as some few trainings are being undertaken in the 2016/17.
- o) Cost control strategies (e.g. use of fuel cards, negotiated transport rates, pooling of taxi cabs) contributed to the low costs.
- p) There was less than anticipated travel and subscriptions to professional bodies.
- q) The Board was not fully constituted for part of the year.
- r) The underspend is largely due to carry over of activities into next year.
- s) The actual spend was lower than budget as the number of court cases was insignificant, and alternative complaints resolution mechanisms were enhanced.
- t) Was lower than budget due to support of programmes by donor funding.
- u) This was below budget as main activities in the implementation were working group road maps.
- v) Projects mainly supported by the donor funding were spread over two-year period. We expect the completion in the FY2016/17.
- w) Was lower than budget due to the low capital expenditure addition in the year.
- x) This line was well within the budget level as no new intangible assets were acquired.
- y) Audit fees bidding process placed actual cost lower than budget
- z) The actual was below budget as some of the activities whose commitment was done in the 2015/16, spilled over to the following year.
- aa) Although substantial number of meetings were held, the Tribunal's other activities (like training) were minimal.

## 1. Statement of compliance and basis of preparation

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). In absence of an IPSAS that specifically applies to a transaction, other event or condition, the International Financial Reporting Standards (IFRS) has been applied in selecting the accounting policy for that specific transaction, event or circumstance. The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Authority and all values are rounded to the nearest thousand (Kshs '000'). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

The Authority adopted IPSAS in the year 2014 following the gazette of the Public Sector Accounting Standards Board (PSASB) which was established by the Public Financial Management Act (PFM) No.18 of 24<sup>th</sup> July 2012. PSASB issued financial reporting standards and guidelines to be adopted by all state organs and public sector entities, which the Authority complies with.

## 2. Summary of significant accounting policies

### New and revised standards

### a) New and revised standards and interpretations which have been issued but are not yet effective

The Authority has not applied the following revised standards and interpretations that have been published but are not yet effective for the year beginning 1<sup>st</sup> July 2015.

- IPSAS 33 First Time Adoption of Accrual Basis issued in January 2015, effective for period beginning on or after 1 January 2017.
- IPSAS 34-38 Accounting for interests in Other Entities issued in January 2015, effective for period beginning on or after 1 January 2017.
- IPSAS 39, Employment Benefits to replace IPSAS 25 issued in January 2015, effective as on 1 January 2018.

The board members do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

### b) Revenue recognition

#### i. Revenue from non-exchange transactions

##### Fees

The Authority recognizes revenues from fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Authority and the fair value of the asset can be measured reliably.

### Donor Income

Donor funds are received through Government supported programmes and other development agencies. These funds are recognized at fair value when there is reasonable assurance that the Authority will comply with the conditions attaching to them and the funds will be received. Donor funds related to purchase of assets are treated as deferred income and allocated to statement of financial performance income over the useful lives of the related assets while grants related to expenses are treated as donor fund income in the income statement.

#### ii. Revenue from exchange transactions

The Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

### Interest income

Interest income is accrued as it is earned over the life of the investments held.

### c) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

## NOTES (Continued)

**d) Taxes****Current income tax**

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Authority operates and generates taxable income.

On 20<sup>th</sup> March 2015, the National Treasury issued PFMA Regulation No. 34 which under Section 219 exempts the Authority from paying taxes in the future. The Authority will however be required to submit 90 percent of its surplus to the National Treasury.

**e) Property and equipment**

All property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation is calculated using the straight line method to write down

	Rate
Motor vehicles	25%
Furniture & fittings	12.5%
Office equipment	20%
Computers, copiers & faxes	25%

the cost of each asset to its residual value over its estimated useful life using the following annual rates:

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining surplus for the year.

**f) Leases****Operating leases**

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**g) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. Amortization is calculated using the straight line method to write down the cost of each license or item of software to its residual value over its estimated useful life of three years.

The useful life of the intangible assets is assessed as finite.

**h) Financial instruments****Financial assets****Initial recognition and measurement**

Financial assets within the scope of IPSAS 29, Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

**Held-To-Maturity**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Authority has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

## NOTES (Continued)

**Impairment of financial assets**

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- i. The debtors or a group of debtors are experiencing significant financial difficulty.
- ii. Default or delinquency in interest or principal payments.
- iii. The probability that debtors will enter bankruptcy or other financial reorganization.
- iv. Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

**Financial liabilities****Initial recognition and measurement**

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

**i) Provisions**

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

**Contingent liabilities**

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

**j) Employee benefits****Retirement benefit plans**

The Authority operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by an insurance company. A defined contribution plan is a plan under which the Authority pays fixed contributions

into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The Authority's contributions are charged to the profit and loss account in the year to which they relate.

The Authority and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the Authority's contributions are charged to the statement of comprehensive income in the year to which they relate.

**k) Gratuity obligations**

The Authority pays service gratuity to staff on contract under their terms of employment. Employee entitlements to gratuity are recognized when they accrue to employees. A provision for gratuity payable is made in the statement of financial position. The gratuity is not subject to actuarial valuation.

**l) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

## NOTES (Continued)

**m) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

The Authority manages the Investor Compensation Fund (ICF) and reports the funds held in the bank, call accounts on behalf of ICF as part of cash and cash equivalents.

**n) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in first-out (FIFO) method. Inventories consist of stationery and computer consumables required for day today use by the Authority.

**o) Related party**

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice

versa. Members of key management are regarded as related parties.

**p) Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**3. Significant judgments and sources of estimation uncertainty**

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**a) Significant judgements made in applying the Authority's accounting policies**

The judgements made by the board members of the Authority in the

process of applying the Authority's accounting policies that have the most significant effect on the amounts recognized in the financial statements include:

Whether the Authority has the ability to hold 'held-to maturity' investments until they mature. If the Authority were to sell other than an insignificant amount of such investments before maturity, it would be required to classify the entire class as 'available-for-sale' and measure them at fair value.



## NOTES (Continued)

**b) Key sources of estimation uncertainty**

Key assumptions made about the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include:

**i) Impairment losses**

Estimates made in determining the impairment losses on receivables. Such estimates include the determination of the net realizable value or the recoverable amount of the asset. The movement on the impairment provision is set out in Note 12.

**4. Risk management objectives and policies****a) Financial risk management**

The Authority's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Authority's overall risk management policies are set out by the board and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Authority's performance by setting acceptable levels of risk. The Authority does not hedge against any risks.

**i) Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk mainly arises from financial assets, and is managed on an Authority-wide basis. The Authority does not grade the credit quality of financial assets that are neither past due nor impaired.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institute.

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position,

past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilization of the credit limits and the credit period is monitored by management on a monthly basis.

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**“Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.”**

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## NOTES (Continued)

	Fully Performing Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
<b>At 30<sup>th</sup> June 2016</b>				
Held-to-maturity investments	712,052	-	-	712,052
Staff loans and advances/ guarantee fund	279,755	-	4,179	283,934
Trade receivables	53,120	-	-	53,120
Other receivables	6,812	-	-	6,812
Cash at bank, in hand and deposits	269,244	-	-	269,244
Maximum exposure to credit risk	1,320,983	-	4,179	1,325,162
	Fully Performing Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
<b>At 30<sup>th</sup> June 2015</b>				
Held-to-maturity investments	643,781	-	-	643,781
Staff loans and advances/ guarantee fund	262,046	-	4,179	266,225
Trade receivables	75,229	-	-	75,229
Other receivables	15,915	-	-	15,915
Cash at bank, in hand and deposits	183,333	-	-	183,333
Maximum exposure to credit risk	1,180,304	-	4,179	1,184,483

#### 4. Risk management objectives and policies (continued)

##### a) Financial risk management (continued)

##### i) Credit risk (continued)

The past due debtors are not impaired and continue to be paid. An impairment provision of Shs 57,866,000 (2015: Shs 57,866,000) is held against the impaired receivables. The Authority does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

##### ii) Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations associated with financial

liabilities. The board has developed a risk management framework for the management of the Authority's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The Authority manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

The table overleaf summarizes the maturity analysis for financial liabilities to their remaining contractual maturities. The amounts disclosed are the contractual undiscounted cash flows.

## NOTES (Continued)

	Less than one month Shs'000	Between 1-3 months Shs'000	Between 3-12 months Shs'000	Over 1 year Shs'000	Total Shs'000
<b>Year ended 30<sup>th</sup> June 2016</b>					
Trade and other payables	19,766	1,290	-	-	21,056
Accruals	32,029	-	19,005	-	51,034
Provisions	10,651	-	-	-	10,651
Gratuity obligations	25,074	3,813	27,654	-	56,541
	87,520	5,103	46,659	-	139,282
<b>Year ended 30<sup>th</sup> June 2015</b>					
Trade and other payables	19,744	2,680	532	-	22,956
Accruals, Provisions and Gratuity Obligation	50,143	11,154	62,513	-	123,810
	69,887	13,834	63,045	-	146,766

**iii) Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: interest rate risk, price risk and foreign exchange risk.

**Interest rate risk**

Interest rate risk is the risk that the interest rate movement may have a significant impact on Authority's value of investments. The Authority is not exposed to price risk.

**Price risk**

Marketable instruments held by the Authority include Treasury Bonds and Treasury Bills whose market prices are subject to change. The Authority is not exposed to price risk.

**Foreign exchange risk**

Foreign exchange risk would arise where transactions or bank balances are denominated in foreign currency.

The Authority's transactions and bank balances are denominated in Kenya Shillings. Hence the exposure to foreign exchange risk does not exist.

## NOTES (Continued)

## 5. Revenue from non - exchange transactions

	2016 Shs'000	2015 Shs'000
<b>Fees income</b>		
Capitalization, rights and new issue fees	268,194	276,923
NSE - transaction fees	434,945	545,786
Application and licensing fees	33,404	18,567
Market development fees	13,139	12,061
	<u>749,682</u>	<u>853,337</u>

The Authority charges fees on the following basis:

- Capitalization / rights issues at a rate of 0.25 % of the value of the issue.
- Approval for listing of Government securities is charged at a rate of 0.075 % of the amount raised.
- New issues / IPOs at a rate of 0.15 % of the value of the issue.
- NSE Transaction fees at a rate of 0.12 % of the value of the equities traded and 0.0015 % of the value of bonds traded.
- Application for license at Kshs. 2,500 while annual licensing fees are up to a maximum of Kshs.250,000.
- Market development fees are charged to listed companies at a rate of 0.01 % subject to a minimum of Kshs. 50,000 and a maximum of Kshs. 100,000 per annum.

## 6. Donor fund income

	2016 Shs'000	2015 Shs'000
Donor fund income	<u>91,140</u>	<u>60,414</u>

The Authority received support worth Shs56.24 Million (2015:Shs19 Million) in the year to support institutional capacity for Islamic Finance deepening study and for the change management support initiative dubbed "Uwezo Kipeo". A further Shs.34.9 Million (2015: Shs 41.4 Million) was recognized from deferred income related purchase of Enterprise Resource Planning (ERP) software, Risk Based Supervision System (RBSS) and related Information Technology (ICT systems).

## 7. Revenue from exchange transactions - other income

	2016 Shs'000	2015 Shs'000
Interest income	101,282	75,221
Miscellaneous income	7,228	3,374
	<u>108,510</u>	<u>78,595</u>

## NOTES (Continued)

**8. Gain on disposal of property and equipment**

	2016 Shs'000	2015 Shs'000
Gain on disposal of obsolete and retired Property and Equipment	654	690

**9. Surplus before tax**

	Note	2016 Shs'000	2015 Shs'000
<b>(a) Items charged</b>			
The following items have been charged in arriving at net surplus for the year			
Depreciation of property and equipment	17	34,835	33,181
Amortisation of intangible assets	18	(38,801)	43,657
Authority board members' emoluments, allowances and other Board related expenses	27	26,974	27,798
Post-employment benefits expense (Note 9(b))	9(b)	23,137	21,260
Provision for impairment of financial assets			
Trade and other receivables	12(b)	-	250
<b>(b) Employee benefits expense</b>			
The following items are included in employee benefits expense:			
Retirement benefit costs			
Defined contribution scheme		22,870	21,020
National Social Security Fund		267	240
		23,137	21,260

The Authority operated an in-house defined benefits pension scheme for its employees and made contributions up to 31 December 2011. The investment of the scheme's assets is managed by an independent fund manager, Genesis Kenya Investment Management Limited, on behalf of the Trustees.

The scheme is subjected to triennial valuations by independent actuaries to fulfill the statutory

requirements under the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Rules 2000. The latest actuarial valuation was carried out as at 30 June 2014. The actuarial valuation method adopted, 'Attained Age Method', entailed the comparison of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

## NOTES (Continued)

The principal actuarial assumptions applied in the valuation are:

Investment returns	9 % per annum
Rates of salary escalation	7 % per annum
Rate of pension increases	3 % per annum

Based on the actuarial report, the actuaries estimated that the present value of existing assets amounted to Shs 221,904,000 exceeded the present value of past service actuarial liabilities amounting to Shs 164,332,000 as at 30 June 2014, by Shs 57,572,000 at that date. The surplus results in a funding level of 135 percent which is well above the statutory minimum limit of 100 percent prescribed in the Retirement Benefits Regulations 2000 as amended.

During the year all the members (except pensioners) transferred their benefits from the Defined Benefit scheme to the Defined Contribution Scheme without any funding gap due by the Authority. The Trustees are in the final stages of purchasing annuities for the pensioners and there are sufficient funds in the scheme for that purpose.

	2016 Shs'000	2015 Shs'000
10. Tax expense		
Current income tax	-	104,426
Deferred income tax (Note 19)	-	28,619
<b>Income tax Expense</b>	<b>-</b>	<b>133,045</b>

The tax on the Authority's surplus before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2016 Shs'000	2015 Shs'000
Surplus before income tax	137,780	277,297
Tax calculated at the statutory tax rate of 30%	41,334	83,189
Tax effect of:		
Deferred tax asset not recognised	-	48,853
Income not subject to tax	(41,334)	(4,845)
Expenses not deductible for tax purposes	-	5,848
<b>Income tax expense</b>	<b>-</b>	<b>133,045</b>

On 20<sup>th</sup> March 2015, the National Treasury issued PFMA Regulation No.34 which under Section 219 exempts the Authority from paying taxes in the future. The regulation requires corporations exempted from income tax to remit 90 % of surplus to the National Treasury.

	2016 Shs'000	2015 Shs'000
11. Inventories		
Consumables	1,591	2,040

Inventories consist of stationery and computer consumables required for day to day use by the Authority.

	2016 Shs'000	2015 Shs'000
12. a) Trade and other receivables from non-exchange transactions		
Trade receivables	53,923	76,261
Statutory management expenses receivable	49,286	49,286
Less: Provision for impairment losses	(57,866)	(57,866)
Net trade receivables	45,343	67,681

## NOTES (Continued)

	2016 Shs'000	2015 Shs'000
Other receivables	6,811	15,915
<b>Trade and other receivables from non-exchange transactions</b>	<b>52,154</b>	<b>83,596</b>

Statutory Management receivables comprise of Shs 49.286 Million due from collapsed Nyaga Stock Brokers. Full provision has been made in the books. Approval for full write off of the debts will be obtained in the financial year 2016/17.

The movement on the provision for impairment losses for exchange transactions is as follows:

	2016 Shs'000	2015 Shs'000
At 1 <sup>st</sup> July	57,866	57,616
Less: Provision utilised as debts written off	-	250
<b>At 30<sup>th</sup> June</b>	<b>57,866</b>	<b>57,866</b>

**12b) Trade and other receivables from exchange transactions**

Trade receivables	7,985	7,756
Less: Provision for impairment losses	(208)	(208)
Net trade receivables	7,777	7,548
Prepayments	17,003	12,909
Trade and other receivables from exchange transactions	24,780	20,457
<b>Total trade and other receivables from non-exchange and exchange transactions</b>	<b>76,934</b>	<b>104,053</b>

The movement on the provision for impairment losses for non-exchange transactions is as follows:

At 1 <sup>st</sup> July	208	208
<b>At 30<sup>th</sup> June</b>	<b>208</b>	<b>208</b>

**13. Staff loans and advances/  
guarantee fund**

	Current 2016 Shs'000	Current 2015 Shs'000	Non- Current 2016 Shs'000	Non- Current 2015 Shs'000	Total 2016 Shs'000	Total 2015 Shs'000
Car loans	10,032	9,440	19,968	25,161	30,000	34,601
Other loans and advances	1,103	2,961	-	-	1,103	2,961
Provision for impairment losses	-	-	(1,922)	(1,922)	(1,922)	(1,922)
Miscellaneous advances	-	-	4,179	4,179	4,179	4,179
Staff mortgage back up funds*	23,624	21,255	226,950	205,151	250,574	226,406
	<b>34,759</b>	<b>33,656</b>	<b>249,175</b>	<b>232,569</b>	<b>283,934</b>	<b>266,225</b>

\* These funds are deposited with the bank to support concessionary interest rate facilities to staff.

Mortgage backup accounts are:

HFC: Mortgage 3000013543 and Mortgage 2000094161

KCB: Mortgage MM1509100194

Shs'000

101,554

149,020

## NOTES (Continued)

## 14. Held-to-maturity investments-government securities

	2016 Shs'000	2015 Shs'000
<b>Non-current</b>		
Treasury bonds		
Maturing after four years	155,375	195,000
Unamortised premium	(13,055)	(826)
	142,320	194,374
Treasury bonds		
Maturing after one year	197,976	115,000
Unamortised premium/(discount)	822	1,270
	198,798	116,270
	<b>341,118</b>	<b>310,444</b>
<b>Current</b>		
Treasury bonds		
Maturing within one year	20,000	80,000
Unamortised premium	-	-
	20,000	80,000
Treasury bills	362,000	268,600
Unamortised discount	(11,066)	(15,263)
	350,934	253,337
	370,934	333,337
	<b>712,052</b>	<b>643,781</b>

The fair value of the held-to-maturity assets -treasury bonds and treasury bills at the reporting date were Shs 722,322,165

## 15. a) Banks

	2016 Shs'000	2015 Shs'000
<b>15. a) Banks</b>		
<b>Name of the Bank</b>	<b>Bank Account No.</b>	<b>Account Currency</b>
Commercial Bank of Africa Limited	6580810018	Shs
		20,487
		19,567
<b>15. b) Cash in hand</b>		
Cash in hand		Shs
		140
		64
<b>15. c) Short term deposits</b>		
Commercial Bank of Africa Limited	Call Deposit	Shs
		25,374
		69,499
Commercial Bank of Africa Limited	Fixed deposit	Shs
		137,946
		94,267
HFC Bank (Note 13)	Acct 3000019606(Sh55m) and Acct 1345823403(Sh30m)	Shs
		85,437
		-
		248,757
		163,766
<b>Total cash in hand and bank</b>		<b>269,384</b>
		<b>183,397</b>



## NOTES (Continued)

## 15. c) Short term deposits (Continued)

	2016 Shs'000	2015 Shs'000
For the purpose of the cash flow statement, cash and cash equivalents comprise the following:		
Short-term bank deposits	248,757	163,766
Cash at bank and in hand	20,627	19,631
Investors Compensation Fund bank balance (Note 16) - (KCB)	15,455	6,605
Investors Compensation Fund bank balance (Note 16) - (Call accounts - KCB)	54,000	139,023
	<b>338,839</b>	<b>329,025</b>

## 16. Investors' Compensation Fund

In accordance with Section 18 of Capital Markets Act, Cap 485A, the Authority is required to maintain a fund to be known as the Investors' Compensation Fund for the purpose of granting compensation to investors who may suffer pecuniary loss resulting from the failure of a licensed broker or dealer to meet its contractual obligations. This requirement was implemented in July 1995.

The fund derives its income from the following sources:

- i. Interest accruing on funds received from subscribers to public issues, between the day of closing the issue and making the refunds.
- ii. 0.01 % of the consideration from sale and purchase of shares through the Nairobi Securities Exchange.
- iii. 0.004 % of the consideration from sale and purchase of bonds traded through the Nairobi Securities Exchange.
- iv. Interest earned from investment of the funds held in this account.
- v. Financial penalties imposed on operators for non-compliance with Capital Markets Authority Rules and Regulations.

The movement in the fund balance during the year is as shown below:

	2016 Shs'000	2015 Shs'000
At beginning of the year	1,298,437	876,662
Nairobi Securities Exchange transactions fees	65,621	81,674
Interest on investments	148,578	101,644
Financial penalties	784	111,695
Management fees	(500)	(500)
Gain in Investment in NSE	4,261	130,266
Compensation to Discount Securities/Nyaga Stockbrokers Ltd investors	(12,175)	(3,004)
At end of the year	<b>1,505,006</b>	<b>1,298,437</b>

## NOTES (Continued)

The Investors' Compensation Fund balance is represented by the following assets:

	2016	2015
	Shs'000	Shs'000
<b>Non-current</b>		
Equity investment in the Central Depository and Settlement	7,000	7,000
Equity investment in the NSE	130,922	130,266
	137,922	137,266
Treasury bonds		
Maturing after five years	685,550	538,150
Unamortised discount(premium)	(13,662)	3,634
	671,888	541,784
Maturing after one year	182,100	104,000
Unamortised discount	538	268
	182,638	104,268
	854,526	646,052
	992,448	783,318
<b>Current</b>		
Treasury bonds	42,000	74,000
Unamortised discount	(8)	32
	41,992	74,032
Treasury bills	391,500	263,300
	(13,840)	(12,790)
	377,660	250,510
Fees receivable	23,451	44,949
Bank balance	15,455	6,605
Call account	54,000	139,023
	92,906	190,577
	512,558	515,119
	<b>1,505,006</b>	<b>1,298,437</b>

## NOTES (Continued)

## 17. Property and equipment

	Motor Vehicles Shs'000	Copiers & Faxes Shs'000	Office Equipment Shs'000	Furniture & fittings Shs'000	Work-in- Progress Shs'000	Total Shs'000
<b>Cost</b>						
At 1 <sup>st</sup> July 2014	26,388	97,934	16,854	64,937	1,881	207,994
Additions	-	13,604	5,034	20,091	-	38,729
Disposals	(2,200)	(3,118)	(346)	(52)	(1,807)	(7,523)
At 30 <sup>th</sup> June 2015	24,188	108,420	21,542	84,976	74	239,200
Additions	-	6,868	2,582	3,206	-	12,656
Disposals	(2,096)	(157)	-	-	-	(2,253)
Reversal	-	-	-	-	(74)	(74)
<b>At 30<sup>th</sup> June 2016</b>	<b>22,092</b>	<b>115,131</b>	<b>24,124</b>	<b>88,182</b>	<b>-</b>	<b>249,529</b>
<b>Depreciation</b>						
At 1 <sup>st</sup> July 2014	(14,562)	(54,944)	(13,304)	(23,843)	-	(106,653)
Depreciation	(3,632)	(18,161)	(2,349)	(9,039)	-	(33,181)
Accumulated depreciation reversed on disposal	2,200	2,957	345	42	-	5,544
<b>At 30<sup>th</sup> June 2015</b>	<b>(15,994)</b>	<b>(70,148)</b>	<b>(15,308)</b>	<b>(32,840)</b>	<b>-</b>	<b>(134,290)</b>
Depreciation	(3,631)	(18,787)	(1,966)	(10,451)	-	(34,835)
Accumulated depreciation reversed on disposal	2,096	157	-	-	-	2,253
<b>At 30<sup>th</sup> June 2016</b>	<b>(17,529)</b>	<b>(88,778)</b>	<b>(17,274)</b>	<b>(43,291)</b>	<b>-</b>	<b>(166,872)</b>
<b>Net carrying amount</b>						
<b>At 30<sup>th</sup> June 2016</b>	<b>4,563</b>	<b>26,353</b>	<b>6,850</b>	<b>44,891</b>	<b>-</b>	<b>82,657</b>
<b>At 30<sup>th</sup> June 2015</b>	<b>8,194</b>	<b>38,272</b>	<b>6,234</b>	<b>52,136</b>	<b>74</b>	<b>104,910</b>

Included above in the items of property and equipment is the cost of fully depreciated assets of Shs 65, 296, 641. (2015: Shs 56,786,000) which are still in use and have not been impaired. Work in progress was carried at cost.

## NOTES (Continued)

## 18. Intangible assets

	2016 Shs'000	2015 Shs'000
<b>Software Costs</b>		
<b>Cost</b>		
At 1 <sup>st</sup> July	159,862	159,706
Additions	1,216	4,800
Derecognition of intangible asset	-	(4,644)
<b>At 30<sup>th</sup> June</b>	<b>161,078</b>	<b>159,862</b>
<b>Amortisation</b>		
At 1 <sup>st</sup> July	(117,575)	(73,918)
Amortisation	(38,801)	(43,657)
<b>At 30<sup>th</sup> June</b>	<b>(156,376)</b>	<b>(117,575)</b>
<b>Net carrying amount</b>	<b>4,702</b>	<b>42,287</b>

## 19. Deferred income tax

As at 30<sup>th</sup> June 2015 the Authority had estimated but not recognized a deferred tax asset of Shs 28,619,000 to carry forward and offset against future taxable profits. On 20<sup>th</sup> March 2015, the National Treasury issued PFMA regulation No. 34 which under Section 219 exempts the Authority from paying taxes in the future. The Authority will be subject to submission of 90 % of its surplus to the National Treasury. This being the case, the Authority has determined that there will be no deferred assets/liabilities to carry forward.

## 20. Trade and other payables

	2016 Shs'000	2015 Shs'000
Trade payables	21,056	22,956
Provisions	56,541	30,728
Gratuity obligations	10,615	25,965
Accruals	51,034	67,117
	<b>139,246</b>	<b>146,766</b>

## NOTES (Continued)

Included under accruals are the provisions for various services whose movement has been presented below:

Provisions	Leave benefits Shs'000	Performance bonus Shs'000	Total Shs'000
At 1 <sup>st</sup> July 2015	10,821	19,907	30,728
Additional provisions raised	12,864	23,770	36,634
Provision utilized/reversed	(10,821)	-	(10,821)
<b>At 30<sup>th</sup> June 2016</b>	<b>12,864</b>	<b>43,677</b>	<b>56,541</b>

Accruals	Consultancies Shs'000	Other Provisions Shs'000	Total Shs'000
At 1 <sup>st</sup> July 2015	9,514	57,603	67,117
Additional accruals	3,859	1,742	5,601
Accruals realized	(4,417)	(17,267)	(21,684)
<b>At 30<sup>th</sup> June 2016</b>	<b>8,956</b>	<b>42,078</b>	<b>51,034</b>

## 21. Provision for liabilities and charges

At 1 <sup>st</sup> July 2015		88,740	46,483
Add: Additional provision		8,044	46,935
Less: Provision written back		(878)	(4,678)
<b>At 30<sup>th</sup> June 2016</b>		<b>95,906</b>	<b>88,740</b>

The Authority being the Capital Markets regulator in Kenya is subject to legal proceedings in the normal course of business. While it is not possible to forecast or determine the final results of all pending legal proceedings, the Authority assesses the adequacy of its provisions periodically against case developments and related legal costs.

## 22. Current Tax payable

	2016 Shs'000	2015 Shs'000
Current year tax	-	18,003

## NOTES (Continued)

**23. Deferred income**

In line with the Authority's accounting policy, Shs 7,200,000 (2015: Shs 42,062,000) of the donor funded income has been deferred for future periods.

	2016 Shs'000	2015 Shs'000
At 1 <sup>st</sup> July	42,062	83,513
Recognised in the year	(34,862)	(41,451)
<b>At 30<sup>th</sup> June</b>	<b>7,200</b>	<b>42,062</b>

**24. Capital fund**

At 1 <sup>st</sup> July 2015 and at 30 <sup>th</sup> June 2016	27,886	27,886
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Capital fund represents the initial contribution by the Government of Kenya towards the establishment of the Capital Markets Authority.

**25. General fund**

	2016 Shs'000	2015 Shs'000
At 1 <sup>st</sup> July	923,236	878,984
Surplus for the year	137,780	144,252
Transfer to building fund (Note 27)	(130,000)	(100,000)
<b>At 30<sup>th</sup> June</b>	<b>931,016</b>	<b>923,236</b>

General fund represents accumulated surpluses over the years.

**26. Building fund**

	2016 Shs'000	2015 Shs'000
At 1 <sup>st</sup> July	100,000	-
Appropriation from general fund (Note 26)	130,000	100,000
<b>At 30<sup>th</sup> June</b>	<b>230,000</b>	<b>100,000</b>

Building fund represents an appropriation from the general fund towards the construction of the Authority's future building. The appropriations are in line with the approved budget for the year.

## NOTES (Continued)

## 27. Related party transactions

	2016 Shs'000	2015 Shs'000
<b>i) Board members of the Authority remuneration</b>		
Honoraria	1,044	215
Retainer	6,926	9,128
Sitting allowances	5,567	3,880
Training expenses	3,648	6,285
Others (medical, mileage ,bonus)	9,789	8,290
	<b>26,974</b>	<b>27,798</b>

There were 10 board members during the year (2015:10)

## ii) Key management compensation

Gross salaries	35,600	37,826
Pension	680	589
Gratuity	6,684	6,751
	<b>42,964</b>	<b>45,166</b>

There were 5 members of senior management who served during the year (2015:5)

## 28. Commitments

## a) Contracted for but not recognised

Capital expenditure and recurrent expenditures contracted for at the balance sheet date but not recognized in the financial statements is as follows:

	2016 Shs'000	2015 Shs'000
Capital expenditure contracted for	8,049	-
Recurrent expenditure contracted for	7,826	22,450
	<b>15,875</b>	<b>22,450</b>

## b) Item description

	Capital Shs'000	Recurrent Shs'000	Total Shs'000
Production of 3 documentaries	-	2,227	2,227
Supply of branded corporate wear	-	2,126	2,126
Supply of office vertical blinds	-	698	698
CMA university challenge winners' tour to Egypt	-	859	859
Supply of 150 ergonomic office seats	1,800	-	1,800
Supply of mechanical mobile bulk filing unit	1,056	-	1,056
Purchase of computer firewall system	955	-	955
Team building activity kits	-	977	977



## NOTES (Continued)

## b) Item description

	Capital Shs'000	Recurrent Shs'000	Total Shs'000
Team building venue costs	-	396	396
Other team building expenses	-	114	114
Audit Management Software	4,079	-	4,079
Computer equipment	159	-	159
Supply of stationery and books	-	336	336
Staff training costs	-	93	93
<b>Total</b>	<b>8,049</b>	<b>7,826</b>	<b>15,875</b>

## Operating lease commitments

Operating lease commitments represent rentals payable by the Authority for rented office space. Rental expenses during the year amounted to Shs 42,915,000 (2015: Shs42, 760,712).

The future minimum lease payments under operating leases are as follows:

	2016 Shs'000	2015 Shs'000
Not later than 1 year	42,915	42,761
Later than 1 year and not later than 5 years	128,745	92,748
	<u>171,660</u>	<u>135,509</u>

The board members of the Authority are of the view that future net revenues and funding will be sufficient to cover these commitments.

## 29. Contingent liabilities

- A former employee of the Authority had filed a suit against the Authority for wrongful dismissal and is seeking damages amounting to Shs 46 Million. The cost has not been recognized in the books, since based on professional advice, it is likely that the outcome of the suit will be in favor of the Authority and will not materially impact on these financial statements.
- In the normal course of operation, Kenya Revenue Authority (KRA) had completed a tax audit for the period 2007 to 2012 and had issued an assessment notice. The total tax liability arising from the year 2012 assessment was Shs 46 Million. The Authority in conjunction with its tax agents has been following up on the outstanding tax issues raised. Principal tax arrears amounting to Shs 12 Million were paid in the previous years and the Authority had applied for set-off of tax paid in error in previous years amounting to Shs 14.8 Million. The Authority had also applied for waiver of interest and penalties amounting to Shs 19 Million providing mitigating grounds in support of the waiver. The KRA has in the course of the financial year 2015/16 granted full waiver of interest and penalties for the years 2003-2009 - estimated at Shs9.5Million. The balance on the Statement of Account (comprising of penalties and interest for which waiver was applied for is being addressed by KRA. Based on the professional advice received and the mitigating grounds provided, the Authority is of the opinion that no material liability is expected to arise.

## NOTES (Continued)

## 30. Operating expenditure

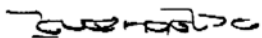
	2016 Shs'000	2015 Shs'000
<b>30.1 Employment expense</b>		
Consolidated pay, leave pay and passages	312,946	259,442
Staff uniform expenses	228	96
Staff welfare and other costs	9,428	6,601
Staff retirement benefits	22,870	21,020
Staff gratuity	6,684	6,751
National Social Security Fund (NSSF)	267	240
	<u>352,423</u>	<u>294,150</u>
<b>30.2 Other administrative expenses</b>		
Rent and maintenance	47,818	42,761
Equipment maintenance and stationery	30,099	29,955
Telephone, postage and utilities	12,337	12,955
Entertainment and public relations	32,835	10,437
Medical scheme and insurance expenses	23,444	20,443
Training and conferences	68,705	54,325
Motor vehicle running expenses	4,898	4,369
Subscriptions and IOSCO membership	9,825	7,964
Authority Board members' emoluments and allowances	26,974	27,798
Professional and market development services	92,246	90,507
Depreciation of property and equipment	34,835	33,181
Amortisation of intangible assets	38,801	43,657
Auditor's remuneration	823	620
Investors' education and awareness programme	32,998	38,774
Tribunal expenses	3,145	3,593
Provision for impairment losses	-	250
	<u>459,783</u>	<u>421,589</u>
<b>Total expenditure</b>	<b><u>812,206</u></b>	<b><u>715,739</u></b>

## Progress on follow up of prior period Auditor Recommendations

Reference No. on the External Audit Report	Issue/ Observations from Auditor	Management Comments	Focal Point person to resolve the issue (Name and Designation)	Status: (Resolved/ Not Resolved)
2.1.1	<p>Capital Markets Authority is currently headed by an Acting Chief Executive, Mr. Paul Muthaura since mid-2012. This is contrary to the Public Service Commission Circular which requires officers to act for about 6 months after which they are either confirmed or replaced.</p> <p>In 2013, the CMA Board conducted interviews for the CEO position and submitted the names of three finalists to the Cabinet Secretary, National Treasury for appointment. However, to date, no response of has been received by the Capital Markets Authority from the Cabinet Secretary regarding the appointment of a new CEO.</p>	The Chairman of the Board wrote to CS Treasury on June 10, 2015 reminding and requesting that the appointment of Chief Executive be expedited. A response is being awaited.	CS, The National Treasury	Mr. Paul Muthaura was confirmed as the Chief Executive Officer of the Authority through a gazette notice dated 22 <sup>nd</sup> April 2016.



Chief Executive

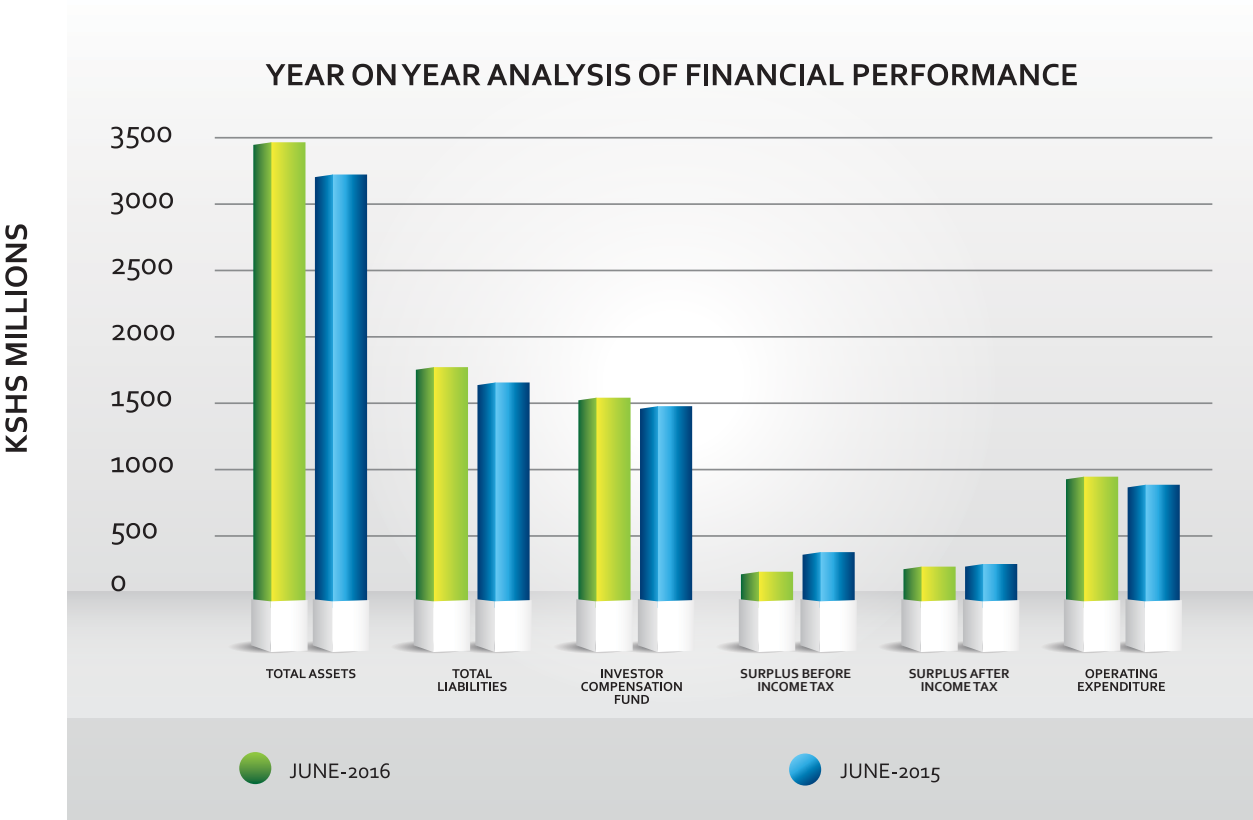
Date: 25<sup>th</sup> August 2016


Chairman

Date: 25<sup>th</sup> August 2016

## Year on Year Financial Performance Comparison

	TOTAL ASSETS	TOTAL LIABILITIES	INVESTOR COMPENSATION FUND	SURPLUS BEFORE INCOME TAX	SURPLUS AFTER INCOME TAX	OPERATING EXPENDITURE
Jun-16	2,936,260	1,747,358	1,505,006	137,780	137,780	812,206
Jun-15	2,645,130	1,594,008	1,298,437	277,297	144,252	715,739



Source: Capital Markets Authority

### Total Number of Licensees and Approved Institutions

During the period under review, there were One Hundred Thirty-Two (132) licensees and approved institutions as follows: -

- a) One Securities Exchange;
- b) One Central Depository;
- c) Three Credit Rating Agencies;
- d) One Venture Capital Company;
- e) Fourteen Investment Banks;
- f) Nine Stockbrokers;
- g) One Authorized Securities Dealer
- h) Twenty-Six Fund Managers;
- i) Fourteen Investment Advisers;
- j) Fourteen Authorized Depositories;
- k) Eight REIT Managers;
- l) Three REIT Trustees;
- m) Three Authorized Real Estate Investment Trusts
- n) Twenty-Four Collective Investment Schemes; and
- o) Twelve Employee Share Ownership Plans.

### License Revocation

The following license was revoked during the financial year:

- Meghraj Capital Limited-Investment Advisor.

## Organizational Updates

**MARKET SUPERVISION  
DEVELOPMENTS****1. Compliance & Risk Management****a) Risk Based Supervision**

The Authority continued with its efforts of protecting investors and fostering confidence by ensuring players are operating within the set market regulatory framework and also facilitate market players in meeting their disclosure requirements effectively and efficiently. During the year, the Authority carried out 48 market intermediaries' inspections. The inspections were done within the Risk-Based Supervision framework.

With regards to risk and financial reporting obligations, the Authority continued with the implementation of online reporting by sensitizing market intermediaries on their expectations on internal controls, self-risk assessment methodologies, risk-based capital adequacy requirements among others.

**b) AML/CFT Standalone Inspections**

As part of the efforts in ensuring appropriate & effective oversight and further support & enhance the implementation of Proceeds of Crime and Anti-Money Laundering Regulations, the Authority developed the Guidelines on Prevention of Money Laundering Act, 2009 (POCAMLA) and Combating Financing of Terrorism in Capital Markets. The Guidelines were gazetted on Friday March 4, 2016 and can be accessed on the CMA's website [www.cma.or.ke](http://www.cma.or.ke). The Guidelines are aligned to the Kenyan Anti-Money Laundering and Counter Terrorism Financing (AML/CFT) laws, benchmarked against international best practices and the recommendations of the Financial Action Task Force (FATF), the global standard setter for AML/CFT measures.

With the Technical Assistance from the International Monetary Fund (IMF), the Authority developed a robust AML/CFT risk based supervision framework. The Authority successfully conducted the first ever risk based AML/CFT standalone inspections on high risk market intermediaries operating in the Kenyan capital markets.

**2. Market Surveillance**

The Authority is in the process of establishing a repository to assist in information intelligence gathering to ensure timely information access about financial markets, securities and the economy which is a vital aspect of vibrant, orderly and transparent financial markets. As a regulator and in particular for surveillance and research, this information is key in building up cases and informing surveillance analysts by assisting in supplementing reviews of suspicious trading activities and also in documenting a case for possible investigation and enforcement. The web-based service will provide a global data streaming solution that is able to deliver data with in-depth information and analytics, news, technical data and global financial markets trends to ensure proper oversight. During the year, the Authority finalized the development of specifications for the repository system.

The current environment has facilitated cross border trading through coordinated oversight across the EAC region.

**LICENSING AND APPROVALS****New Licenses**

During the 2015/2016 financial year, the Authority issued new licenses to the following: -

a) Nabo Africa Funds – Collective Investment Scheme;

b) Nabo Capital Limited – REIT Manager;

c) Stanlib Fahari I-Reit-Real Estate Investment Trust Scheme

d) Sterling REIT Asset Management Ltd- Reit Manager

e) HF Development and Investment Limited- REIT Manager

f) Apollo Unit Trust Scheme- Collective Investment Scheme

g) Co-op Trust Fund- Collective Investment Scheme

h) Dry Associates Unit Trust Scheme- Collective Investment Scheme

i) Seriani Asset Managers Limited- Fund Manager

j) Fusion Real Estate Development Trust Commercial- Real Estate Investment Trust

k) Fusion Real Estate Development Trust Residential- Real Estate Investment Trust

## Enforcement Actions for the year ended 30th June 2016

Licensee/ Listed Company	Nature of breach	Sanction imposed
Marshalls East Africa Limited	Late submission of the shareholding status report for the period ending 30 April 2016 contrary to Regulation 4(1) of the Capital Markets (Foreign Investors) Regulations, 2002	<b>Enforcement Action</b> A financial penalty of Kshs43,333.29/- pursuant to Section 11(3)(cc)(i) and Section 25(A)(6)(b) of the Capital Markets Act
AIB Capital Limited	Executing sale order without the client's written instructions contrary to Regulation 23 (a) of the Capital Markets (Licensing Requirements) (General Regulations, 2002  Executing a transaction of sale before effecting the agency agreement contrary to the requirements of Regulation 22A (1) of the Capital Markets(Licensing Requirements) (General) Regulations, 2002	<b>Enforcement Action</b> a) A financial penalty of Kshs. 43,572.10/- pursuant to Section 25A(1)(a)(v) of the Capital Markets Act  b) Enforcement directive for AIB to provide to the Authority it's Procedures Manual for review of how similar contraventions are being redressed <sup>1</sup>
Marshalls East Africa Limited	Late submission of the shareholding status report for the period ending March 31 2016 contrary to Regulation 4(1) of the Capital Markets (Foreign Investors) Regulations, 2002	<b>Enforcement Action</b> A financial penalty of Kshs.17,777.76/- pursuant to Section 11(3)(cc)(i) and Section 25(A)(6)(b) of the Capital Markets Act
East African Portland Company Limited	Late submission of the shareholding status report for the period ending 31 March 2016 contrary to Regulation 4(1) of the Capital Markets(Foreign Investors) Regulations, 2002	<b>Enforcement Action</b> A financial penalty of Kshs.33,333.30/- pursuant to Section 11(3)(cc)(i) and Section 25(A)(6)(b) of the Capital Markets Act
National Bank of Kenya Limited	The bank delayed in its disclosure of changes in management of the company contrary to the requirements of Paragraph GO5(l) (b) and (3) of the 5th Schedule of the Capital Markets(Securities)(Public Offers Listing and Disclosures) Regulations,2002  Failing to disclose the changes in management to the Authority, the Exchange and the public through simultaneous notification contrary to the requirements of Regulation 19(1)(2) and (3) of the Capital Markets (Securities) )(Public Offers Listing and Disclosures) Regulations, 2002	<b>Enforcement Action</b> A financial penalty amounting to Kshs. 100,000 pursuant to Section 11(3)(cc)(i) of the Capital Markets Act

**Footnote**

<sup>1</sup> The Enforcement Action has been challenged by the Investor/Complainant who has lodged an appeal before The Capital Markets Tribunal. The appeal is pending hearing and determination.



## Enforcement Actions for the year ended 30th June 2016

Licensee/ Listed Company	Nature of breach	Sanction imposed
Jubilee Holdings Limited	Late submission of the Shareholding Status Report for the period ending 29 February 2016 contrary to Regulation 4(1) of the Capital Markets(Foreign Investors) Regulations 2002	<b>Enforcement Action</b> A financial penalty of Kshs. 4,444.44 pursuant to Section 11(3)(cc)(i) and Section 25(A)(6)(b) of the Capital Markets Act
African Agricultural Capital Fund LLC	The firm placed an advertisement in one of the local daily newspapers inviting members of the public to participate in the purchase of shares in a company contrary to the requirements of Section 30A of the Capital Markets Act	<b>Enforcement Action</b> Directive to cease and desist from inviting members of the public to participate in any public offering directed to the company, its management and agents pursuant to Section 11(3)(cc)(ii) of the Capital Markets Act
Propertyzote Crowdfund Pty Limited	The firm placed an advertisement on its website purporting to engage in the promotion and marketing of an unapproved Real Estate Investment Trust(REIT) to the public contrary to the Regulation 14 and 15 of the Capital Markets(Real Estate Investment Trusts) Regulations 2013	<b>Enforcement Action</b> Directive to Cease and Desist from inviting members of the public to participate in any purported public offer by way of crowd funding, directed to the firm, its board of directors and management, pursuant to Section 11(3)(cc)(ii) of the Capital Markets Act
Longhorn Kenya Limited	Late submission of the Shareholding Status Report for the period ending 29 February 2016 contrary to Regulation 4(1) of the Capital Markets(Foreign Investors) Regulations 2002	<b>Enforcement Action</b> A financial penalty of Kshs.13,333.32 pursuant to Section 11(3)(cc)(i) and Section 25(A)(6)(b) of the Capital Markets Act
Marshalls East Africa Limited	Late submission of Shareholding Status Report for the period ending 29 February 2016 Regulation 4(1) of the Capital Markets(Foreign Investors) Regulations 2002	<b>Enforcement Action</b> A financial penalty of Kshs.18,888.89 pursuant to Section 11(3)(cc)(i) and Section 25(A)(6)(b) of the Capital Markets Act

## Enforcement Actions for the year ended 30th June 2016

Licensee/ Listed Company	Nature of breach	Sanction imposed
<b>National Bank of Kenya Limited</b>	The Bank failed to issue a profit warning contrary to the requirements set out under Regulation 19(3) of the Capital Markets (Securities) (Public Offers, Listing & Disclosures) Regulations 2002 as read together with Paragraph G.05 (1) (f) of the Fifth Schedule to The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002	<b>Enforcement Action</b> <ol style="list-style-type: none"> <li>A regulatory reprimand pursuant to the provisions of Sections 11(3)(i) and 25 A (1)(a) of the Capital Markets Act</li> <li>A financial penalty for the amount of Kshs. 50,000/- pursuant to the provisions of Section 25 A (1) (a) (vi) of the Capital Markets Act</li> <li>An Enforcement Directive that NBK prepares and submits a draft public announcement setting out material changes in it's performance, pursuant to Section 11(3)(cc)(ii) of the Capital Markets Act</li> </ol>
<b>EAAGADS Limited</b>	The firm had a negative working capital as at 31 March 2015 contrary to the listing requirements in the First Schedule to the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulation 2002	<b>Enforcement Action</b> <ol style="list-style-type: none"> <li>A Regulatory warning pursuant to the provisions of Section 11(3)(cc) of the Capital Markets Act</li> <li>A Directive to EAAGADS to submit a proposal setting out the concrete measures intended to be taken by the company to address the negative working capital position including specific timelines</li> </ol>
<b>Suntra Investments Limited</b>	<p>Failing to maintain and preserve detailed client records which set out all client transactions contrary to Regulation 19(e) of the Capital Markets (Licensing Requirements)(General) Regulations 2002</p> <p>Failing to issue the client with a refund contrary to the Regulation 22A(7) of the Capital Markets (Licensing Requirements)(General) Regulations 2002 as read together with Section 25(A)(5) of the Capital Markets Act</p> <p>Failing to issue the client with a refund contrary to the requirements of Regulation 22(b) of the Capital Markets(Licensing Requirements) (General) Regulations 2002</p>	<b>Enforcement Action</b> <ol style="list-style-type: none"> <li>A Public Reprimand pursuant to Section 25(A)(1) (a)(i) of the Capital Markets Act</li> <li>A Directive to make restitution of Kshs.15,500/- which was owing to the client pursuant to Section 25A(2) and 11(3)(cc)(ii) of the Capital Markets Act.</li> </ol>

## Enforcement Actions for the year ended 30th June 2016

Licensee/ Listed Company	Nature of breach	Sanction imposed
Faida Investment Bank	Failing to confirm the true identity and releasing a cheque for the amount of Kshs.73,500/- to a person other than the complainant, contrary to the requirements of Regulation 80(2) of the Capital Markets(Licensing Requirements)(General) Regulations 2002	<b>Enforcement Action</b> <ol style="list-style-type: none"> <li>a. A Public reprimand pursuant to Section 25A(1)(a) (i) of the Capital Markets Act</li> <li>b. A Directive to make restitution to the client with a refund amount of Kshs.73,500/-pursuant to Section 11(3)(cc)(ii) of the Capital Markets Act</li> <li>c. A financial Penalty amounting to Kshs. 147,000/- pursuant to Section 11(3)(cc)(i) and Section 25A(1) (a)(v) of the Capital Markets Act.</li> <li>d. A Directive to Faida Investment Bank to furnish the Authority with a report showing the investigations taken by it after the incident was discovered, actions if any, taken against persons implicated in such report and details of corrective and preventive measures put in place to avoid recurrence of similar incidences.</li> </ol>
	Failing to provide the client with a refund cheque of Kshs. 73,500/-contrary to the requirements of Regulation 3(b) of the Capital Markets(Conduct of Business)(Market Intermediaries) Regulations, 2011	
Sterling Capital Limited	Failing to ensure that the accrued dividends are settled by the agent pursuant to the an agreement and/ or failing to take responsibility for the actions/omissions of the agent contrary to the requirements of Regulation 22A(7) of the Capital Markets (Licensing Requirements) (General) Regulations 2002	<b>Enforcement Action</b> <ol style="list-style-type: none"> <li>a. A Public Reprimand pursuant to Section 25A(1)(a) (i) of the Capital Markets Act</li> <li>b. A Directive to Sterling Capital Limited to make restitution of 936 shares and Kshs.152,705/- to the client pursuant to Section 25 A(2) and Section 11(3)(cc)(ii) of the Capital Markets Act</li> <li>c. An Enforcement Directive, pursuant to Section 11(3)(cc)(ii) of the Capital Markets Act, for Sterling Capital Limited to furnish a report to the Authority on; <ol style="list-style-type: none"> <li>i. Whether any action has been taken against the agent who committed the fraudulent act</li> <li>ii. What internal controls have been put in place to prevent a recurrence of another case of unauthorized transactions and to protect investors against financial loss of this nature</li> </ol> </li> </ol>

Enforcement Actions for the year ended 30th June 2016

Licensee/ Listed Company	Nature of breach	Sanction imposed
Meghraj Capital Limited	The firm had a liquid capital deficit for the months ending 30 June and 31 July 2015 amounting to Kshs. 4,472,405.30 and 3.98 Million respectively contrary to the requirements of Regulation 30(4) of the Capital Markets(Licensing Requirements)(General)Regulations 2002	<b>Enforcement Action</b> A Regulatory caution pursuant to Section 11(3)(cc) of the Capital Markets Act
Kingdom Securities Limited	Failing to verify the true owner of a CDA account resulting in the impersonation of the identity of the client contrary to the requirements of Regulation 22(b) of the Capital Markets(Licensing requirements(General)Regulations, 2002  By failing to detect the forgery of the Verification Officer details, during execution of sale, orders contrary to Regulation 22(d) of the Capital Markets, (Licensing requirements, (General) Regulations, 2002	<b>Enforcement Action</b> A Regulatory caution pursuant to Section 25A(1)(a)(i) of the Capital Markets Act



## Enforcement Actions for the year ended 30th June 2016

Licensee/ Listed Company	Nature of breach	Sanction imposed
<p><b>Co-op Trust Investment Services Limited</b></p>	<p>By effecting an unauthorized transaction of sale of shares contrary to the requirements of regulation 43 as read together with regulation 33(1) (a) and 33(1)(b) of the Capital Markets (Licensing requirements)(General) Regulations, 2002</p> <p>By failing to adhere to the requirement to distribute the sums deposited by the client as per the Investment Agreement contrary to Regulation 43 as read together with Regulation 33(1) (d) and 33(1)(i) of the Capital Markets (Licensing requirements) (General) Regulations, 2002</p>	<p><b>Enforcement Action</b></p> <p>The following Enforcement directives were imposed pursuant to Section 11(3)(cc)(ii) of the Capital Markets Act</p> <ol style="list-style-type: none"> <li>a. Co-op Trust Investment Services Limited to provide a Management report on the measures that have been put in place to ensure that the dividends received on behalf of Co-op Trust clients are applied as per the clients' instruction.</li> <li>b. Co-op Trust to provide details of the firm's operational procedures which deal with crediting of dividends to client/nominee accounts</li> <li>c. Co-op Trust to reinstate to the client 600 EABL shares</li> <li>d. Co-op Trust to reinstate to the client 6000 HFCK shares</li> <li>e. Co-op Trust to make payment of all the dividends accruing to the client amounting to Kshs.56,550</li> <li>f. A Financial penalty of Kshs.255,735.59 pursuant to the Section 11(3)(cc)(i) and Section 25A(1)(a)(v) of the Capital Markets Act</li> </ol>

## Enforcement Actions for the year ended 30th June 2016

Licensee/ Listed Company	Nature of breach	Sanction imposed
Old Mutual Securities Limited	Failing to ensure that the CDS account was opened by a duly authorized representative of the estate of the deceased contrary to the requirements of Regulation 22(d) of the Capital Markets(Licensing Requirements) (General) Regulations, 2002	<b>Enforcement Action</b> <ol style="list-style-type: none"> <li>a. A restitution order that OMSL makes payment to the client totaling the amount of Kshs 53,265/-, pursuant to Section 11 (3) (cc) (ii) of the Capital Markets Act</li> <li>b. An Enforcement Directive, for OMSL to furnish the Authority with a copy of its internal investigative report on factual findings and disciplinary actions taken against employees found culpable pursuant to Section 11 (3) (cc) (ii) of the Capital Markets Act</li> </ol>
	Failing to have proper records of the client, including their identification records contrary to the requirements of Regulation 80(1)(e) of the Capital Markets (Licensing Requirements) (General) Regulations, 2002	
	Executing the sale of shares in the absence of a duly filled and written sale order contrary to the requirement of Regulation 23(b) Capital Markets(Licensing Requirements) (General) Regulations, 2002	
	Releasing the sale proceeds to a person other than the client contrary to the requirements of Regulation 20(b) and 22(b) of the Capital Markets(Licensing Requirements)(General) Regulations, 2002	

## Organizational Updates (Continued)

### Capacity Building

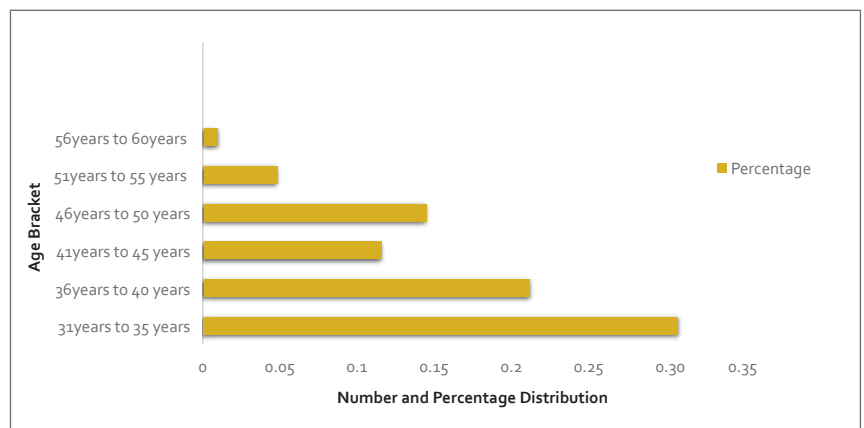
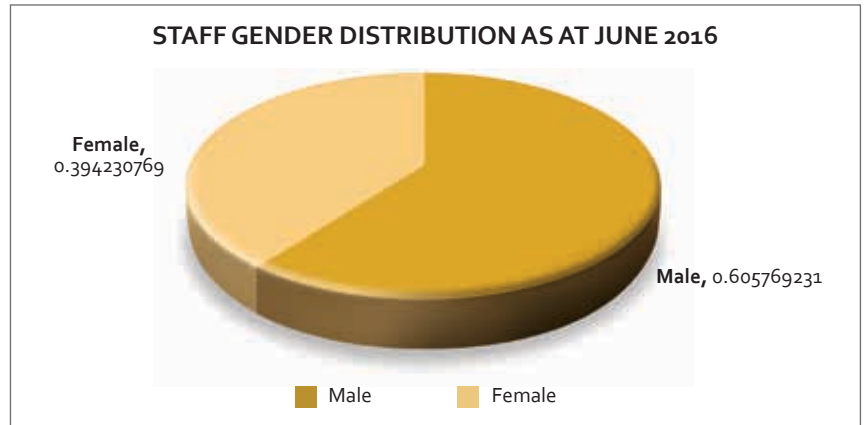
#### a. Learning & Development

The Authority has continued to develop staff competencies at all levels. During the year, members of staff attended local, online and overseas trainings. Local training included individual and group training aimed at enhancing technical and behavioral skills. For succession planning and career development, the Authority sponsored staff for long term courses. To enable staff, understand best practice in their roles, they were exposed to workshops and study tours in various overseas jurisdictions such as South Africa, Switzerland, Sri Lanka, Brazil, Spain, Tanzania, United Arab Emirates, the United Kingdom, the USA and Turkey among others. The Authority also participated in regional and International securities commission forums organized by various bodies such as International Organization of Securities Commission (IOSCO), the US Commodity Futures Trading Commission, the Securities Commission of Malaysia, Securities and Exchange Commission of Brazil and the US Securities and Exchange Commission (SEC). In total, the Authority undertook 122 trainings for 105 employees.

#### b. Staff Recruitment

The Authority continued to strengthen capacity through acquisition of talent to effectively deliver its mandate. During the year, a total of 32 positions were competitively filled. The total number of staff as at June 30, 2016 stood at 94.

In addition, the Authority rolled out the Graduate Trainee programme intended to strengthen the institutional capacity, and to enrich



Source: Capital Markets Authority

the pool of lower level staff to become future officers in the Authority. It endeavors to engage talented young people and to develop them in the organization through cross functional assignments in readiness for challenging future roles.

A total of ten (10) graduate trainees were recruited through a competitive process and commenced the two-year programme.

#### ISO 9001:2008

The Authority has continued to implement, maintain and continually improve its Quality Management System. In December 2015, the

Authority was granted recertification to ISO 9001:2008 having fulfilled the requirements.

#### Performance Management

The Authority continued to implement the balanced score card performance management system by aligning key performance measures with strategy at all levels of the organization for improved performance and overall efficiency.



## Organizational Updates (Continued)

### Uwezo Kipeo

Uwezo Kipeo is CMA's flagship organizational change and development project whose overall objective is to transform the Authority into a world-class regulator through:

- Embedding a culture of high performance and excellence at all levels of the Authority;
- Transforming the DNA of the Authority from one that is primarily defined by a focus on processes to one where the delivery of results and suitable outcomes mark every aspect of the execution of CMA's strategic mandate; and
- Empowering all CMA staff to embrace bold decision making at their level.

Uwezo Kipeo Project kicked off in January 2016 and is being implemented through eight (8) Technical Workstreams each of which is led by a CMA Manager. Promontory, an international professional services firm with extensive experience in the regulatory and financial sector, is providing consultancy services. A Promontory Consultant is embedded in each workstream to provide technical support in the execution of workstream activities and outputs. The embedded consultant is also tasked with building the capacity of workstream team members through an elaborate skills transfer program. Uwezo Kipeo is expected to draw to a close in June 2017.

### Uwezo Kipeo Project Workstreams

The following are the eight (8) technical project workstreams:

- Recruitment and Selection
- On-boarding and Training
- Talent Management and Succession Planning
- Performance Management Systems
- Staff Capabilities Framework
- Policies, Procedures and Frameworks
- Remuneration and Benefits Review
- Human Resources Management Information System

### Uwezo Kipeo Project Achievements

As indicated above, the Uwezo Kipeo Project has eight key workstreams each with clear objectives, milestones and outputs. We summarize below the key project achievements to-date

- **Re-design of the CMA recruitment and selection process:** As a result of Uwezo Kipeo, the CMA recruitment and selection process has been modernised and re-orientated away from primarily relying on face-to-face interviews as the primary selection method. The process has now been broadened to include Assessment Centres and Development and Psychometrics. The outcome has been the recruitment of better quality staff who are more aligned to CMA values and culture

- **Enhanced process of on-boarding new hires:** The first few days at an organization are critically important for a new hire and could well determine staff retention. Through Uwezo Kipeo, CMA now has an elaborate process for on-boarding new hires so that they fully internalize the CMA way fully and hit the ground running once they start executing their responsibilities

- **A new suite of CMA Policies and Procedures:** Through Uwezo Kipeo, CMA now has a brand new set of world-class HR Policies and Procedures setting out the operational boundaries and principles for guiding CMA in diverse areas ranging from recruiting and selection, Dealing in Securities, Whistleblowing, and the Code of Conduct etc. In developing the new Policies and Procedures, the review team undertook an international benchmarking process with regulators such as the US SEC, the Monetary Authority of Singapore and the Australian Securities Commission amongst others. The process also took into account local best practices and Public Service Commission regulations. CMA can now boast of having the most globally-innovative set of HR Policies and Procedures in the field

- **Re-designed Performance Management System:** CMA has now redesigned the way it evaluates the way it evaluates the works of its people and has a brand new performance management system called the Annual Capability Review (ACR). The ACR is a simpler system to apply and more focused on the strategic drivers of CMA's work at all levels. Importantly, the ACR has

## Organizational Updates (Continued)

a behavioural objectives that are critical to achieving the cultural turn around that is at the heart of Uwezo Kipeo.

- **Establishing the critical capabilities required to drive the effective delivery of the CMA mandate:** The Staff Capabilities Framework is a critical deliverable of the Uwezo Kipeo Project. The Authority has a set of agreed behavioural and technical capabilities that drive the delivery of the strategic mandate of CMA. The CMA has nine core technical capabilities and 27 sub-capabilities that are a key input in such important HR processes as performance management, learning and development and recruitment. There are six behavioural capabilities and these have already been plugged into the performance management system.

- **Re-orientating Learning and Development to better-serve the needs of the Authority:** In order to make CMA's learning and development more impactful, the Uwezo Kipeo Project has re-engineered the way Learning and Development is delivered. A key change has been re-orientating L&D away from the more traditional classroom based solutions to more innovative delivery methodologies centred around CMA's unique 65:20:15 Framework. Under this framework, CMA L&D solutions are geared towards enhancing impact and return on investment. The new CMA way of delivering L&D also includes a significant departure from the past and now allows Directorates to directly manage 40 percent of the training budget themselves.

- **Talent Management and Succession Plans:** A key output from this workstream has been Talent Management and Succession Plan that is being implemented by the Authority.

## Organizational Updates (Continued)

### Investor Education and Public Awareness

The Authority continues to take Investor Education and Public awareness as a key element in increasing financial literacy as well as investor confidence in Kenya. Towards this end, the department undertook several initiatives during the year under the review as per the approved Authority's Investor Education Strategy. The department continued with various segmented and targeted initiatives in partnership with its stakeholders such as the various County Governments, Licensed market Intermediaries, various Chapters of Kenya National Chamber of Commerce and Industry and many other under-represented investor classes who may not be fully utilizing the opportunities provided for by the Capital Markets industry.

Similar to the preceding financial year, the Authority continued to use various channels such as print media (Newspapers, Magazines, Newsletters), Electronic such as Television where documentaries and infomercials were aired. Radio mostly vernacular-based, was used in different regions such as Radio Kaya, Bahari, Mulembe, Ramogi, Inooro, and Musyi amongst others. Structured forums, open days, regional roadshows, exhibition clinics and University challenges were also undertaken. Below are some of the key initiatives during the year:

- The Authority continues to recognize the role played by youth as drivers of the economy, hence implemented several initiatives during the period under review. The Authority hosted the following forums: Investment boot camp dubbed "Valuraha boot camp"

engagement held on 19<sup>th</sup> April, 2016 at Strathmore University; Kenyatta University Economics Students Association (KUESA) held on 11<sup>th</sup> March, 2016 Homa Bay Youth held on 27<sup>th</sup> January, 2016; Youth summit forum held on 4<sup>th</sup> June, 2016 in Taita Taveta County; Laikipia youth forum held on 9<sup>th</sup> June, 2016, Forum for the Gakira Secondary School held on 16<sup>th</sup> June, 2016 at the school compound; University Main Campus Ruiru training held on 22<sup>nd</sup> June, 2016; Youth forum in Bungoma County on 23<sup>rd</sup> June, 2016; Catholic University students forum held on 23<sup>rd</sup> June, 2016; forum for Students of African Nazarene University held on 28<sup>th</sup> June, 2016 and forum for the students and teaching fraternity of Moi University Coast Campus held at Mombasa on 30<sup>th</sup> June, 2016.

In addition to youth fora, the Authority undertook a Capital Markets University Challenge from October 2015 to April 2016 to enlighten young Kenyans on capital markets issues. This was an inter-university competition focused on testing and enhancing participants' knowledge and understanding of capital markets and financial issues. The grand prize for the competition was a visit to a Securities Commission and a Stock Exchange in an emerging market.

The Authority took the three winners Mr. Gabriel Mwenda Mbiti of Jomo Kenyatta University of Agriculture and Technology, Susan Lekanaiya of Riara University and Mutava Michael Mulei of Kenyatta University to the Egyptian Financial Supervisory Authority for three days to learn Market Development and Stakeholder Engagement Initiatives,

be exposed on the operations of the Exchange, the broker back office and operations of the Association. The Authority also gave opportunities for internship to the top twelve winning students.

- As it has been the tradition the Authority in collaboration with stakeholders in the Capital Markets industry organized the fourth Annual Capital Markets Open Day from the 12<sup>th</sup> to 14<sup>th</sup> of May, 2016 at the Kenyatta International Convention Centre (KICC). To increase the value proposition of the event, five themed conferences i.e. Listing forum for Kenya Association of Manufacturers and Kenya Private Sector Alliance, Capital Markets new and upcoming products, Corporate Governance and Investing in the Capital Markets were included to run concurrently with an exhibition during the Open Day which was hosted by the Authority and included several speakers from the industry.

The event presented an opportunity for current and potential investors and issuers to meet face to face with the various capital market intermediaries to synergize their thoughts to better understand and access information that will assist them to make informed decisions with the ultimate goal being wealth creation.

- Following the Memorandum of Understanding (MOU) between the Authority with the Chartered Institute for Securities & Investment (CISI) in September 2014 for the introduction of international certification standards in the capital markets industry, CISI in collaboration with the Authority launched the

## Organizational Updates (Continued)

curriculum for stage one in April 2016 which includes International Introduction to Securities and Investment with some emphasis on the Kenyan capital markets. Stage two, which cover local conduct of business standards and market regulations was also launched on August 21<sup>st</sup>, 2016.

As part of the prerequisite for the launch of the Regulations and Market Practice Module in Kenya, CISI in collaboration with the Authority held training sessions for select Authority staff as well as trainers from institutions that have the capacity to prepare and offer training to candidates for the certification in the capital markets industry. 11 participants from the Authority and 2 from Capital Markets Authority Uganda sat for the exams while the trainers are slated to sit for the exams in September and October this year. The programme is now live in Kenya and currently working on sensitization of market players on need to undertake the exam.

To further augment the Authority's limited staffing to maximize its potential in implementing the mandate of promoting investor education and public awareness; the Authority developed an Outsourcing Strategy that provides an opportunity for professionals (Resource Persons) to conduct investor education speaking engagements targeting the Counties, University Students and Structured Groups over a period of twelve (12) months on a part time basis. The main objective of this initiative was to increase awareness and participation in the capital markets by effectively engaging

the various constituents mentioned above through partnerships with industry professionals. This is in line with the Authority's mandate to promote Investor Education and Public Awareness throughout the country. The Capital Markets Resource Persons initiative has proven effective as a means of reaching out to the public. Since the beginning of the implementation in April 2016, the Authority has conducted 34 events and reached 2,498 participants in 7 Counties this excludes about 4000 people who patronise road shows in Taita Taveta, Laikipia and Bungoma.

- In collaboration with several Capital Markets Resource Persons, the Authority held 33 fora targeting the various constituents of the Authority's investor education program such as Women and Youth, Business community, Professionals and County Governments as well as CBOs. The counties covered during the period included Taita Taveta, Kiambu, Murang'a, Laikipia, Busia, Bungoma, Mombasa, Kajiado, Nyandarua, Isiolo and Uasin Gishu respectively. Five Road Shows were also held in Homa Bay, Taita Taveta, Laikipia, Bungoma and Kwale Counties.
- This initiative will be ongoing and is expected to increase investor education initiatives in the counties using Resource Persons scheduled for 2016/2017 financial year.

Through collaborative efforts and stakeholder's engagement such as the Resource Persons County

Governments, the Kenya National Chamber of Commerce and the Industry the Authority's investor education reach and profile has been greatly enhanced.

- The Authority Resource Centre boasts of a unique collection of financial statements for all the listed companies on the Nairobi Securities Exchange dating from the 1990's to the present-day. This provides a critical reference for both local and international researchers and scholars on the securities exchange and the listed companies. In year 2015/16 cognizant of the role information technology continue to plays in information service delivery the Authority developed an Online Resource Center Portal that employs modern Information Communication Technologies to facilitate online access to the rich information held by the Resource Centre.

The Resource Centre Portal is geared towards making more information available online and removing geographical barriers. The Portal is an interface to the Resource Centre information and services through a single access and management point for the public.

### Information, Communication And Technology

The Authority leverages ICT to improve service delivery to its stakeholders, improve efficiency of internal operations, and engagement with stakeholders and the wider public.

## Organizational Updates (Continued)

During the year under review, the Authority implemented a Bonds Market Surveillance module that is used to carry out oversight over trading of fixed income securities at the Nairobi Securities Exchange in light of change of systems at the NSE. This is aimed at enhancing oversight of trading of fixed income securities in the secondary market.

The Authority also rolled out an additional module in the Enterprises Resource Planning system (ERP); the E-recruitment module to support the recruitment function. The system allows members of the public to apply for placement via online applications and facilitates HR staff to shortlist qualified candidates. The Authority also undertook enhancement of the Risk-Based Supervision System to allow whistleblowers to anonymously report malpractices in the capital markets.

ICT also provided a platform to enable the Authority reach out to its stakeholders through social media particularly targeting the youth. In the same breath, the Authority disseminated several educational videos via online video platforms. The Authority also rolled out a SharePoint intranet platform to enhance internal communication and collaboration.

In the year under review the Authority improved its ICT infrastructure in line with changing needs of both internal and external users of its ICT systems. Towards this end, the Authority made investments in a data center cooling system and a modern modular power backup system with a view of improving systems availability and uptime. A fire suppression system was installed and commissioned

within the data center to protect the infrastructure from any fire related risks. These investments have enhanced the overall performance of the associated hardware infrastructure and improved the rating of the CMA data center to Tier-Two.

ICT implemented a Security Certificate within the messaging systems to allow secure connections over the internet which enables staff to continue working even while outside the office. In recognition of the fact that the Authority receives many visitors including members of the public, students and other guests, a Wifi network was rolled out in all public areas within the Authority to facilitate connectivity and access to services.

The Authority also launched a whistleblower portal accessible through its website. The portal is expected to act as a channel through which the public may post complaints. The Authority encourages the public to take advantage of the same to avert or investigate any perceived risks.

### Capital Markets Fraud and Investigations Unit

#### Cases investigated by CMFIU for the last three years

Year	P.B.C	P.U.I	P.A.KA	ENFORCEMENT	FINALISED	TOTAL
2014	5	10	3	1	3	22
2015	6	22	4	-	4	36
2016	6	10	2	1	5	25

*Pending Before Court (PBC): Pending Under Investigation (PUI): Pending Arrest of Known Accused (PAKA)*

Source: Capital Markets Authority

The year 2016 started with new potentially emerging trends in the commission of crimes which included theft of identity for forgery. The efforts by the Unit to combat the same has greatly reduced crime within the Capital Markets fields.

The Unit has in its investigations noted with concern that most of the crimes committed to investors are due to lack of knowledge of what to do in case one intends to transact through her/his share account. However, measures have been put in place to proactively prevent the vice by use of operational and strategic information collection skills by the Unit. The public is encouraged to give information of any suspicious character to the CMA's Fraud Investigation Unit for action. This has restored a lot of confidence to Investors in the market.

During the Financial year 2015/16, the Unit has investigated a total of Eighteen (18) cases ranging from Forgery, making document without authority, and stealing among others. The same is illustrated by the table below.

The Unit is currently under the command of Chief Inspector (C.I) James Mutua as the Unit's in charge Mr. Michael Sang (SP) is attending a

## Organizational Updates (Continued)

Management course at the Loresho Police School. The Unit has seven other officers and one secretary. The Memorandum of Understanding (MOU) between the Directorate of Criminal Investigation and CMA to second the Officer In-Charge and the Deputy is now in operation.

### Derivatives Unit

The Nairobi Securities Exchange (the NSE) submitted an application for the establishment of a derivatives exchange following which the Authority gave a provisional license subject to set number of pre-conditions. Following satisfaction by the Authority that the Exchange had met the minimum requirements as set forth in Section 36A of the Capital Markets Act (the Act) and Part II of the Capital Markets (Derivatives Market) Regulations, 2015, the NSE was granted a license as a derivatives exchange.

During the year, the derivatives unit was set up with a staff compliment of 5 persons. The staff continued the review of the go live pre-conditions attached to the license. The Authority also managed to consolidate all guidelines and come with a single regulation to govern the derivatives business i.e. the Capital Markets (Derivatives Market) Regulations, 2015. The Authority further reviewed and considered the initial listing of three main contracts namely the currency futures contract, the single stock futures contract and the equity index futures contract.

During the 2015/2016 financial year, the NSE progressed the onboarding of the following members to run the Derivatives business;

The NSE continues to make progress towards the official launch of a derivatives exchange in the country. As such, the Authority in conjunction with the NSE has developed a comprehensive project plan towards the launch of the derivatives market in Kenya. The plan consists of trading members (and not their clients) who in November 2016 will be participating in a soft launch in an enclosed environment to test the contracts and have a feel of real cash flowing through the financial system. This way the Authority, the NSE and other stakeholders will be able to assess their risk management structures and close gaps before finally opening up the market to the public tentatively by January 2017.

The growth in capital market products has necessitated the need to also review the oversight mechanisms to ensure effective and efficient monitoring of trading activities. In this regard, the Authority is keen to engage a consultant(s) experienced in securities markets trading and surveillance systems to assist undertake a comprehensive review of the Authority's current surveillance methodologies and the adequacy of surveillance system used and design specifications for a multi-asset surveillance system for effective monitoring of spot and derivatives markets. This will go a long way in

streamlining surveillance practices and aligning them to international best practice.

In relation to commodities exchanges, the National Assembly passed amendments to the Capital Markets Act in order to provide anchorage to commodities exchanges in the Finance Bill 2016. The implication being that the Authority will be the regulator of the exchanges eco-system consisting of the exchange, exchange members'/trading participants and the Central Securities Depository (CSD) infrastructure. The production value chain will be regulated by the various responsible ministries and their agencies. In this regard, the State Department of Trade of the Ministry of Industry, Trade and Cooperatives, which is coordinating the initiative, has just advertised for the commissioning of a consultant to assist establish a national commodities exchange. The project management office (PMO), of which the Authority is a member, will then proceed to develop a comprehensive commodities exchange regulatory framework in addition to other responsibilities.

In the same vein, the Warehouse Receipt System Bill, 2016 (WHRS bill) was also passed. The two pieces of legislation need to be progressed together to ensure the outcomes of the production value chain spot markets are harmonized with the structured trading environment to achieve the desired goals.

It will suffice to inform, from a contextual perspective, that the initiative to develop a commodities exchanges was resultant upon a directive from the Northern Corridor Integration Projects (NCIP) Heads of State that directed that commodities exchanges be established in each of the northern corridor countries i.e. Rwanda,

License Category	Licensee
Clearing Members	CFC Stanbic Bank Limited Co-operative Bank Limited
Trading Members	Standard Investment Bank Faida Investment Bank NIC Capital Limited Kingdom Securities Limited



## Organizational Updates (Continued)

Uganda and Kenya, and interlinking of the same, to spur regional commodities trading.

In addition, the task force on the reform of the coffee sector recommended that the National Coffee Exchange (NCE) be regulated under the Authority's framework. As this was a parallel initiative directed by the Office of the President, the project is being harmonized with the broader NCIP initiative being coordinated by the Ministry of Industry, Trade and Cooperatives.

### Corporate Communications

During the year, Corporate Communications strategies and activities were designed to support the achievement of the Authority's objectives as outlined in the Strategic Plan 2013-2017 and the 10-year Capital Market Master Plan.

One of the Authority's strategic objectives is to establish a robust, facilitative policy, legal and regulatory framework for capital market development. One way to achieve this is by enhancing stakeholder participation and support for legislative changes. Corporate Communications contributed by offering support in planning stakeholder consultative workshops on the Stewardship Code for Institutional Investors in September and October 2015. Additional support was provided through media relations leading to press coverage on the Stewardship Code for Institutional Investors, Policy Guidance Note on Exchange Traded Funds, the gazetted Corporate Governance Code and Guidelines on the Prevention of Money Laundering and Terrorism Financing.

On the second strategic objective of developing and deepening capital markets products and services, the Corporate Communications

Department's work laid emphasis on increasing the uptake of capital markets products and services. This was achieved through the airing of documentaries and docucommercial on investing in the capital markets, overview of the capital markets, and the Authority and its mandate. The content included interviews and testimonials from investors and market participants, which was well received. The documentaries and docucommercial were aired on NTV over a period of four weeks, between March and April 2016. The Corporate Communications Department supported efforts to facilitate increased uptake of capital markets products and services by increasing awareness through media reporting. This is achieved by inviting media to the Authority's meetings and events. In the period under review, we issued more than 11 press releases and placed one opinion editorial in Business Daily. The department also supported investor education efforts aimed at enhancing awareness and interest in the capital markets by responding to media enquiries in a timely manner.

### Operating Environment

#### The Global Economy

The World Bank is downgrading its 2016 global growth forecast to 2.4 percent from the 2.9 percent projected in January. The move is due to sluggish growth in advanced economies, stubbornly low commodity prices, weak global trade, and diminishing capital flows. According to the June 2016 update of its Global Economic Prospects report, commodity-exporting emerging market and developing economies have struggled to adapt to lower prices for oil and other key commodities, and this accounts for 40 percent of the downward revision. Growth in these economies is

projected to advance at a meager 0.4 percent pace this year, a downward revision of 1.2 percentage points from the January outlook.

According to the International Monetary Fund World Economic Outlook for June 2015, Before the June 23rd vote in the United Kingdom in favor of leaving the European Union, economic data and financial market developments suggested that the global economy was evolving broadly as forecast in the April 2016 World Economic Outlook (WEO). Growth in most advanced economies remained lackluster, with low potential growth and a gradual closing of output gaps. Prospects remained diverse across emerging market and developing economies, with some improvement for a few large emerging markets—in particular Brazil and Russia—pointing to a modest upward revision to 2017 global growth relative to April's forecast.

The outcome of the U.K. vote, which surprised global financial markets, implies the materialization of an important downside risk for the world economy. As a result, the global outlook for 2016-17 has worsened, despite the better-than-expected performance in early 2016. This deterioration reflects the expected macroeconomic consequences of a sizable increase in uncertainty, including on the political front. This uncertainty is projected to take a toll on confidence and investment, including through its repercussions on financial conditions and market sentiment more generally. The initial financial market reaction was severe but generally orderly. As of mid-July, the pound has weakened by about 10 percent; despite some rebound, equity prices are lower in some sectors, especially for European banks; and yields on safe assets have declined.



## Organizational Updates (Continued)

With “Brexit” still very much unfolding, the extent of uncertainty complicates the already difficult task of macroeconomic forecasting. The baseline global growth forecast has been revised down modestly relative to the April 2016 World economic outlook (by 0.1 percentage points for 2016 and 2017, as compared to a 0.1 percentage point upward revision for 2017 envisaged pre-Brexit). Brexit-related revisions are concentrated in advanced European economies, with a relatively muted impact elsewhere, including in the United States and China. Pending further clarity on the exit process, this baseline reflects the benign assumption of a gradual reduction in uncertainty going forward, with arrangements between the European Union and the United Kingdom avoiding a large increase in economic barriers, no major financial market disruption, and limited political fallout from the referendum.

The outlook for other emerging market and developing economies remains diverse. Growth projections were revised down substantially in sub-Saharan Africa, reflecting challenging macroeconomic conditions in its largest economies, which are adjusting to lower commodity revenues. In Nigeria, economic activity is now projected to contract in 2016, as the economy adjusts to foreign currency shortages as a result of lower oil receipts, low power generation, and weak investor confidence. These revisions for the largest low-income country are the main reason for the downgrade in growth prospects for the low-income developing countries group. In South Africa, GDP is projected to remain flat in 2016, with only a modest recovery next year. In the Middle East, oil exporters are benefiting from the recent modest recovery in oil prices while continuing fiscal consolidation in response to structurally lower oil revenues, but many countries in the

region are still plagued by strife and conflict.

Most advanced economies continue to confront significant economic slack and a weak inflation outlook, with further downside risks in this more uncertain environment. To address these challenges, a combination of near-term demand support and structural reforms to reinvigorate medium term growth remains essential under the baseline—all the more so given the increasingly fragile and uncertain environment. The effectiveness of policy support would be enhanced by exploiting synergies among a range of policy tools, without leaving the entire stabilization burden on the shoulders of central banks. Policy challenges are more diverse across emerging market and developing economies, but in most cases they also include a need to bolster medium-term growth prospects through structural reforms.

### Macroeconomic Prospects For Africa

According to the African Economic Outlook 2016, Africa has achieved impressive economic growth over the past 15 years. Average growth of real gross domestic product (GDP) more than doubled from just above 2 percent during the 1980s and 1990s to above 5 percent between 2001 and 2014. In the past two years, growth has been more moderate with Africa’s economies affected by headwinds from the global economy. Average growth of African economies weakened slightly in 2015 to 3.6 percent (down from 3.7 percent in 2014), about one percentage point lower than expected in the AEO 2015. Excluding Libya, where oil production remained volatile, and Africa’s overall growth reached 3.7 percent in 2015, down from 4.2 percent in 2014. The African macroeconomic outlook for Africa’s economy assumes a gradual strengthening of the world economy

and a slow recovery of commodity prices. Against this international backdrop Africa’s average economic growth is expected to remain moderate in 2016 at 3.7 percent and pick up to 4.5 percent in 2017. However, given the fragile state of the global economic recovery and the high volatility of commodity prices this forecast is uncertain.

The main reasons for the slowdown in growth in 2015 were weaker global demand and lower international commodity prices, which adversely affected Africa’s resource-rich countries. Growth of global real GDP and world trade volumes was more than one percentage point lower than assumed in the African economic outlook 2015. The African economic outlook forecast for 2015 was also based on the assumption that international oil prices would remain on average around 40 percent lower than in 2014, however prices were almost 50 percent lower. Metal prices, notably the price of copper and export prices for some agricultural products, such as cotton, were also lower than assumed.

Africa’s growth remained higher than world growth despite strong headwinds from the international economy. Growth was also much higher than in the Latin America and the Caribbean region, where GDP declined slightly due mainly to deep recessions in Brazil and Venezuela. Despite its slowdown, the African continent remained the second fastest-growing economy in the world. Several African countries (Cote d’Ivoire, Djibouti, Ethiopia, Mozambique, Rwanda and Tanzania) were among the fastest-growing countries in the world with growth between 6 percent and around 10%.

## Organizational Updates (Continued)

### East African Economic Environment

According to the African Economic Outlook 2016, Economic growth varies across countries and regions, reflecting factors such as differences in income levels, dependence on commodity exports, political and social stability, and macroeconomic and structural policies. In 2015, growth continued to be highest in East Africa, followed by West Africa and Central Africa, and remained lowest in Southern Africa and North Africa. Assuming a gradual improvement in international and domestic conditions, growth is projected to accelerate in all regions in 2016/17.

In 2015, East Africa was again the continent's fastest-growing region and is expected to continue its high growth path in 2016/17. The region benefits from large FDI inflows, although there is some uncertainty about the actual development of these flows in 2015.

The region's strong growth performance in 2015 was widespread with many countries achieving growth of more than 5 percent (Djibouti, Ethiopia, Kenya, Rwanda, Tanzania and Uganda) and expected to continue on a high growth path in 2016/17. Sudan also performed better following economic challenges in 2011. Growth in these countries was often driven by the services and construction sectors including public investment programmes, but also partly by industry and – where weather conditions remained favorable (Sudan and Tanzania) – by agriculture. Conversely, in South Sudan the fall in oil prices and oil production and the political conflict had a strong negative impact on real GDP, which contracted in 2015. The future outlook depends in particular on the timely implementation of the latest Peace Agreement.

### Domestic Economic Environment

The Kenya Economic Update (KEU) March 2016 edition by World Bank indicates that Kenya's economic performance remains solid, with the growth rate expected to improve from 5.6 percent in 2015 to 5.9 percent in 2016. It is projected to rise further to 6 percent in 2017.

This positive outlook is attributed to low oil prices, good agriculture performance, supportive monetary policy, and ongoing infrastructure investments. Kenya experienced strong economic performance in 2015, and has exceeded the average growth for Sub-Saharan Africa countries consistently since 2009.

Kenya's growth prospects are bright on expectations of infrastructure development, solid household consumption and easing monetary policy. It is also worth noting that

Kenya's economy remains vulnerable to domestic risks that could moderate the growth prospects. These include the possibility that investors could defer investment decisions until after the elections, that election-related expenditure could result to a cut back in infrastructure spending, and that security remains a threat, not just in Kenya, but globally. Finally, changes in monetary policy in industrialized countries could trigger volatility in financial markets putting the currency under pressure.

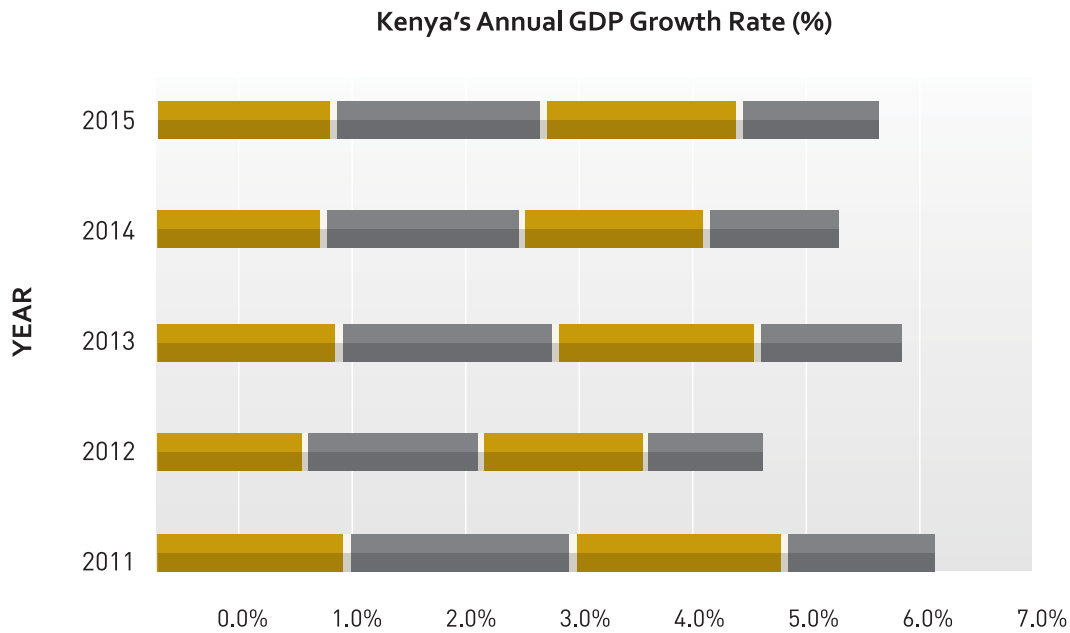
According to the Kenya National Bureau of Statistics' Economic Survey 2016, the country's Gross Domestic Product (GDP) is estimated to have expanded by 5.6 percent in 2015 compared to a 5.3 percent growth in 2014. The growth was mainly supported by a stable macroeconomic environment and improvement in outputs of agriculture; construction; finance and insurance; and real estate.



**“Kenya’s growth prospects are bright on expectations of infrastructure development, solid household consumption and easing monetary policy.”**

Organizational Updates (Continued)

Kenya’s Annual GDP Growth Rate- (2011-2015)



Source: Kenya National Bureau of Standards



Overall inflation rates have eased off in the year with the highest rate recorded in December 2015 at 8.01 percent compared to June 2016 at 5.80%. This is partially attributable to the reduced cost of energy following the decline in oil prices during the year.

**Market Performance**

**Primary Equity Markets**

During the period, the first Real Estate Investment Trust (REIT) - namely, Stanlib Fahari REIT got listed through an IPO process in the Real estate investment segment of the NSE. The Stanlib investments REIT raised KSHS3.6 Billion – or about 29.0 percent out of a possible KSHS12.5 Billion. A minimum of KSHS2.6 Billion – or 20.8 percent was targeted for the issue to be considered a success.

“According to the Kenya National Bureau of Statistics’ Economic Survey 2016, the country’s Gross Domestic Product (GDP) is estimated to have expanded by 5.6 percent in 2015 compared to a 5.3 percent growth in 2014.”

## Organizational Updates (Continued)

Table 1: Initial Public Offers (IPO's) 2000-2016

Company	Shares on Issue Ordinary Shares	Year of Issue Year/Month	Issue of Price KShs/Unit	Subscription Level Level %
Company				
African LaKshs (Delisted in 2003)	4,000,000	2,000 March	94.50	150%
Mumias Sugar Company	300,000,000	2,001 November	6.25	60%
Ken Gen	658,900,000	2,006 April	11.90	333%
Scan Group	69,000,000	2,006 June	10.45	620%
Eveready	63,000,000	2,006 Aug	9.50	830%
Access Kenya	80,000,000	2,007 March	10.00	363%
Kenya Re	240,000,000	2,007 July	9.50	334%
Safaricom	10,000,000,000	2,008 June	5.00	532%
Co-op Bank	701,000,000	2,008 October	9.50	81%
British American	660,000,000	2,011 September	9.00	60%
Nairobi Securities Exchange	66,000,000	2,014 September	9.50	764%
Stanlib Fahari Leit	625,000,000	2,015 October	20.00	28.96%
<b>TOTAL</b>	<b>16,166,900,000</b>			

\*Up to June 2016: Source: Capital Markets Authority

Table 2: Additional Offers (AOs and POs 2000-2016\*)

Company	Shares on Issue	Type of Issue	Year of Issue	Offer Price	Sum Raised	Subscription Level
	Ordinary Shares	AOs	Year	Kshs.	Kshs.	%
Pan African Insurance Holdings	24,000,000	AO	2000	21.50	516,000,000	100%
ICDC	8,948,725	AO	2001	37.00	211,905,808	64%
Mumias Sugar	91,999,220	AO	2006	49.50	4,320,000,000	95%
Deacons Kenya	12,800,000	PO	2010	62.50	700,990,000	87.5%
UAP	12,500,000	PO	2012	60.00	971,910,000	129.59%
SMEP DTM	145,454,546	PO	2012	11.00		16.67%
					266,658,887	
<b>TOTAL</b>	<b>295,702,491</b>				<b>6,987,464,695</b>	

AO-Additional Offers; PO-Private Offering

\*Up to June 2016: Source: Capital Markets Authority

## Organizational Updates (Continued)

## Listing by Introduction

During the year, Nairobi Business Ventures - a local shoe and leather accessories retail chain operating under the brand name KShoe, listed its shares by introduction on the Growth Enterprises Market Segment (GEMS) of the Nairobi Securities Exchange (NSE) on June 21<sup>st</sup> 2016. The shoe and leather accessories vendor listed 23.6 Million shares at a share price of Shs 5, giving the company a valuation of Sh118 Million shillings.

Deacons Kenya also listed 123,558,228 shares by introduction on August 2, 2016 at the NSE's alternative investment market segment (AIMs). The offer was 87.5 percent subscribed raising Sh700 Million.

Table 3: Introductions 2000-2016\*

Company	Shares on Issue	Year of Issue	Offer Price
Equity Bank	90,500,000	2006	90.00
CFC Insurance Holdings	515,270,364	2011	6.15
Trans Century Limited	267,038,090	2011	50.00
Longhorn Publishers	58,500,000	2012	14.00
CIC Insurance	2,179,615,440	2012	3.50
Umeme	1,623,878,005	2012	8.80
Home Afrika Ltd.	405,300,000	2013	12.00
Flame Tree	24,287,500	2014	8.00
Kurwitu Ventures	102,272	2014	1250.0
Nairobi Business Ventures	23,600,000	2016	5.00
Deacons Kenya	12,800,000	2016	62.5
<b>TOTAL</b>	<b>5,200,891,671</b>		

\*Up to June 2016: Source: Capital Markets Authority

## Primary Bond Markets

### Treasury Bonds

During the review period, seventeen (17) Treasury bonds (i.e. eleven new issues and six re-opening) were issued as the Government sought to raise Kshs 305 Billion. Kshs 427 Billion worth of bond applications were received, with the Government accepting Kshs 278.64 Billion. Out of the 17, there were two (2) new infrastructure bonds were issued in December 2015 and May 2016 both seeking to raise Kshs 65 Billion. Kshs 57.09 Billion worth of bond applications were received with the Government accepting Kshs 18.69 Billion.

In FY 2014/2015, Sixteen (16) Treasury bonds (i.e. nine new issues and seven re-opening) were issued as the Government sought to raise Kshs 195 Billion. Kshs 232 Billion worth of bond applications were received, with the Government accepting Kshs 163 Billion. In addition, 2 new infrastructure bonds were issued seeking to raise Kshs 40 Billion. Kshs 90 Billion worth of bond applications were received with the Government accepting Kshs 40 Billion.

This indicates a Kshs 110 Billion increase in amounts raised in the year under review when compared to the FY 2014/15. Amounts raised from infrastructure bonds also rose by Kshs 21.31 Billion.

**Table 4: Issued and reopened Bonds FY 2015/2016**

Bond Issue	Tenor	Due Date	Offered (KSHS-Bn)	Bids (KSHSbn)	Accepted (KSHSbn)	Performance Rate (%)	Coupon Rate	Average Yield
				<b>Q3 2015</b>				
<b>July 2015</b> FXD1/2015/5	5-Year	22/06/2020	15.00	12.90	12.00	85.99%	13.193%	14.273%
<b>August 2015</b> FXD2/2015/2	2-Year	26/06/2017	20.00	19.41	11.18	97.04%	12.629%	14.781%
<b>Sept. 2015</b> FXD1/2015/1 (New Issue)	1-Year	26/09/2016	30.00	26.51	24.97	88.35%	19.062%	19.062%
				<b>Q4 2015</b>				
<b>Oct. 2015</b> FXD2/2015/1 (New Issue)	1-Year	24/10/2016	20.00	31.48	20.49	157.40%	22.954%	22.954%
<b>Nov. 2015</b> FXD2/2015/9 (New Issue)	5-Year	23/11/2020	20.00	32.99	30.70	164.99%	13.920%	14.039%
<b>Dec. 2015</b> IFB1/2015/9 (New Issue)	9-Year	02/12/2024	35.00	16.58	13.96	55.25%	11.00%	14.753%

Primary Bond Markets (Continued)

Table 4: Issued and reopened Bonds FY 2015/2016

Bond Issue	Tenor	Due Date	Offered (KSHS-Bn)	Bids (KSHSBn)	Accepted (KSHSBn)	Performance Rate (%)	Coupon Rate	Average Yield
				<b>Q1 2016</b>				
<b>Jan. 2016</b> FXD1/2016/2 (New Issue)	2-Year	22-Jan-18		30.39	3.99		15.76%	15.76%
FXD1/2013/10 (New Issue)	10-Year	19-Jun-23	35.00	5.94	24.15	103.79%	12.37%	16.13%
<b>Feb. 2016</b> FXD1/2015/5 (New Issue)	5-Year	22-Jun-20		29.69	12.81		13.19%	13.95%
FXD1/2012/10 (New Issue)	10-Year	13-Jun-22	25.00	26.83	17.48	226.09%	12.71%	14.26%
<b>Mar. 2016</b> FXD1/2013/10 (Reopen)	10-Year	19-Jun-23		13.71	9.07		12.37%	14.39%
FXD2/2013/15 (Reopen)	15-Year	10-Apr-28	25.00	12.47	8.04	104.72%	12.00%	14.98%
				<b>Q2 2016</b>				
<b>April 2016</b> FXD1/2016/5 (New Issue)	5-Year	19-Apr-21	20.00	36.35	19.55	181.73%	14.33%	14.58%
<b>May 2016</b> IFB1/2016/9 (New Issue)	2-Year	21-May-18		41.51	4.73		12.02%	12.02%
FXD2/2016/2 (New Issue)	9-Year	12-May-25	30.00	39.43	34.90	269.80%	12.50%	13.34%
FXD2/2016/2 (Re-open)	2-Year	21-May-18	30.00	34.70	25.72	16.93%	12.02%	11.51%
FXD1/2012/15 (Re-open)	15-Year	06-Sep-27		16.11	4.90		11.00%	14.34%

\*Up to June 2016: Source: Capital Markets Authority

## Corporate Bonds

Table 5: Corporate Bonds Issues as at June 2016

Issuer	Approved Amount (KSHS Mn)	Issued Amount (KSHS Mn)	Date of Approval	Maturity	Tenor	Outstanding (KSHS Mn)	Yield (%)
<b>BARCLAYS KENYA</b>							
Barclays Bank FXD (MTN) 2008/7YR		1,300	14-Jul-08	15-Jul-15	7Yrs	1,300.0	Fixed rate of 0.75 percent above the spot 7-year Treasury yield rate, with an indicative fixed coupon rate of 11.5%.
Barclays Bank K Ltd FR (MTN)/7YR	1,500	700	14-Jul-08	15-Jul-15	7Yrs	700.0	Floating rate equivalent to the spot 182-day Treasury Bill yield rate plus a margin of 1%.
<b>MABATI ROLLING MILLS</b>							
Mabati Rolling Mills FR (MRM)/2008/8YR		1,378.50	27-Oct-08	3-Jan-17	8Yrs	1,273.5	182 Day T-Bill rate + 1.75 percent re-priced semi-annually
Mabati Rolling Mills FXD (M-RM)/2008/8YR	2,000	621.50	27-Oct-08	3-Jan-17	8Yrs	726.5	FXD 13.00%
<b>SHELTER AFRIQUE</b>							
Shelter Afrique FD2/2012/3YR-2nd tranche	500	500	17-Dec-12	14-Dec-15	3Yrs		FR: 1.5-2 percent above the prevailing 182-day but capped at 13.5%. FXD 12.75%
<b>CFC STANBIC</b>							
CFC Stanbic FR (CFC Stanbic) 2009/7YR		97.9	7-Jul-09	7-Jul-16	7Yrs	97.91	FR: +1.75 percent above prevailing 182-day T-Bill rate
CFC Stanbic FXD (CFC Stanbic) 2009/7YR	2,500	24,02	7-Jul-09	7-Jul-16	7Yrs	2,402.09	FXD: 12.5%



Corporate Bonds (Continued)

Table 5: Corporate Bonds Issues as at June 2016

Issuer	Approved Amount (KSHS Mn)	Issued Amount (KSHS Mn)	Date of Approval	Maturity	Tenor	Outstanding (KSHS Mn)	Yield (%)
<b>HOUSING FINANCE</b>							
FXD (HFCK) 02/2012/7YR		2,969.10	22-Oct-12	14-Oct-19	7Yrs	2,969.0	FXD: 13%
FR (HFCK) 2010/7YR		1,166.50	26-Oct-10	2-Oct-17	7Yrs	1,166.50	FR: 182 day + 3 percent with a floor of 5 percent and a cap of 9.5%
FXD (HFCK) 2010/7YR	10,000	5,864.40	26-Oct-10	2-Oct-17	7Yrs	5,864.40	FXD: 8.5%
<b>KENGEN</b>							
FXIB 1/2009/10YR	25,000	20312.50	2-Nov-10	31-Oct-19	10yrs	19,042.97	FXD: 12.5%
<b>CONSOLIDATED BANK</b>							
CON.BD-FR (SN)/2012/7YR		10	30-Jul-12	24-Jul-19	7Yrs	1.0	Senior FR notes (182-day T-bill + 2%)
Consolidated Bank CON.BD-FXD (SBN)/2012/7YR		196.5	30-Jul-12	24-Jul-19	7yrs	196.5	Subordinated FXD notes (13.60%)
Consolidated Bank CON.BD-FXD (SN)/2012/7YR	2,000.0	1,480.6	30-Jul-12	24-Jul-19	7yrs	1,480.6	Senior FXD notes (13.25%)

## Corporate Bonds (Continued)

Table 5: Corporate Bonds Issues as at June 2016

Issuer	Approved Amount (KSHS Mn)	Issued Amount (KSHS Mn)	Date of Approval	Maturity	Tenor	Outstanding (KSHS Mn)	Yield (%)
<b>CENTUM</b>							
CENTUM CTNB. BD.18.09.17/13.50; Senior Unsecured FXD Rate Notes		2,917.1	26-Sep-12	18-Sep-17	5Yrs	2,917.1	Senior unsecured FXD 13.5%
CENTUM CTNB. BD.18.09.17/12.75; Senior Unsecured Equity-Linked Notes	4,167.9	1,250.8	26-Sep-12	18-Sep-17	5Yrs	1,250.8	FXD rate of 12.75 percent payable semi-annually and will participate in an equity upside linked to the growth of the Company's NAV subject to a maximum of 15 percent of the par value of the notes.
<b>INVESTMENTS &amp; MORTGAGES</b>							
I & M FXD I & M-01/13/5.25		226	13-Dec-13	8-Mar-18	5-25Yrs	3,429.0	FXD: 12.5%
I & M FRN I & M-01/13/5.25	3,655.0	3,429	13-Dec-13	8-Mar-18	5-25Yrs	226.0	FR: 182 day + 2%
<b>BRITAM MEDIUM TERM NOTE</b>							
BRTB. BD.22/07/19-0037-13	6,000.0	6,000.0	22-Jul-14	15-Jul-19	5Yrs	6,000.0	FXD: 13.0%

Corporate Bonds (Continued)

Table 5: Corporate Bonds Issues as at June 2016

Issuer	Approved Amount (KSHS) Mn)	Issued Amount (KSHS) Mn)	Date of Approval	Maturity	Tenor	Outstanding (KSHS Mn)	Yield (%)
<b>UAP HOLDINGS MEDIUM TERM NOTE</b>							
UAP. BD.22.07.2019	2000.0	2000.0	28-Jul-14	28-Jul-19	5Yrs	2000.0	FXD: 13%
<b>NIC MEDIUM TERM NOTE</b>							
NIC.BD.09/09/19-0039-12.5	5,514.0	5,514.0	8-Sep-14	8-Sep-19	5Yrs	5,514.0	FXD:12.5%
<b>CIC INSURANCE GROUP LIMITED MEDIUM TERM NOTE</b>							
CIC.BD.2.10.2019	5,000.0	5,000.0	8-Oct-14	2-Oct-19	5Yrs	5,000.0	FXD:13%
<b>COMERCIAL BANK OF AFRICA</b>							
CBA BD 14/12/20-0041-12.27	7,000	7,000	22-Dec-14	14-Dec-20	6Yrs	7,000	FXD: 12.75 percentp.a. payable semi- annually in areas
<b>EABL</b>							
EABB FXD 19/03/18-0041-12.75	9,047	9,047	23-Mar-15	19-Dec-18	3Yrs	9,047	FXD: 12.25 percentp.a. payable semi - annually in areas
<b>CHASE BANK</b>							
CHBD. BD.02/06/22-0044-13.5	10,000	3,000	10th June 2015	2- Jun-22	7Yrs	3,000	Issue price 100 percent of aggregate Nominal Amount FXD:13.1 percent

## Corporate Bonds

Table 5: Corporate Bonds Issues as at June 2016

Issuer	Approved Amount (KSHS Mn)	Issued Amount (KSHS Mn)	Date of Approval	Maturity	Tenor	Outstanding (KSHS Mn)	Yield (%)
<b>REAL PEOPLE MEDIUM TERM NOTE</b>							
RPBD. BD.06/08/18-0046-13.65		270.30	10-Aug-15	6-Aug-18	3Yrs	270.30	FXD: 15%
RPBD. BD.03/08/20-0047-13.65	2,500	1363.90	10-Aug-15	3-Aug-20	5Yrs	1363.90	275 basis points above the prevailing 182-day Treasury bill rate.
<b>FAMILY BANK MEDIUM TERM NOTE</b>							
FBKB. BD.19/04/21-0049-13.75		1297.10	26-Oct-15	19-Apr-21	5.5Yrs	1297.10	FXD: 13.750%
FBKB. BD.19/04/21-0049-13.75		600.70	26-Oct-15	19-Apr-21	5-5Yrs	600.70	FR: (182+2.5)
FBKB. BD.19/04/21-0050-14	2,018.8	121.00	26-Oct-15	19-Apr-21	5-5Yrs	121.00	FXD:14.000
	<b>100,402.7</b>					<b>86,757.87</b>	

\*Up to June 2016: Source: Capital Markets Authority

## Rights Issues

The Authority also approved two (2) rights issues during the period, namely, the KenGen Rights issue in May 2016 and the Longhorn rights issue in April 2016. KenGen offered a total of 4,396,722,912 new shares at Kshs 6.55 per share to raise up to Kshs 28,798,535,074 in new equity capital under this rights issue, on the basis of two (2) New ordinary shares for every one (1) ordinary share held. The rights issue managed to raise Kshs 26.4 Billion out of the targeted Kshs 28.7 Billion, - a 92 percent subscription rate.

Longhorn Publishers also conducted a rights issue, offering 126,190,476 newly created shares at Kshs 4.20 per share to raise approximately Kshs 530 Million on the basis of 0.86 for every 1 ordinary share held. The rights issue was successful and raised Kshs 533 Million, implying a 101 percent subscription rate.

**Table 6. Rights Issues 2004-2016\***

Company	Shares on Issues	Date of Issue	Offer Price	Sum Raised	Subscription Level
KCB	50,000,000	2004	49.0	2,750,125,000.00	112%
Uchumi	120,000,000	2005	10.0	1,269,600,000.00	106%
CFC Bank	12,000,000	2005	62.00	744,000,000.00	100%
DTB	15,527,343	2006	50.00	2,305,810,436.00	297%
Olympia Capital	30,000,000	2007	14.00	428,400,000.00	102%
DTB	23,291,015	2007	70.00	2,902,060,469.00	178%
NIC BANK	16,482,910	2007	70.00	1,719,167,513.00	149%
HFCK	115,000,000	2008	20.00	2,369,000,000.00	103%
KCB	221,777,777	2008	25.00	8,122,024,075.00	146.0%
KCB	887,111,110	2010	17.00	12,500,000,000.00	82.5%
TPS East Africa	24,701,774	2010	48.00	1,185,685,152.00	135.0%
Standered Chartered	15,109,323	2010	165.45	2,499,837,490.00	161.0%
KPLC	488,630,245	2010	19.50	9,830,340,000.00	103.0%
KQ	1,477,169,549	2012	14.00	14,487,949,714.00	70.1%
DTB	24,455,566	2012	74.00	3,369,522,734	186.2%
NIC	98,724,391	2012	21.00	7,007,457,273.00	338.0%
CFC Stanbic Holdings	121,637,427	2012	33.00	4,495,719,302.00	112.0%
Standered Chartered Bank	22,080,000	2012	145.00	8,272,934,400.00	258.0%
Diamond Trust Bank	22,010,009	2014	165.00	3,631,651,485.00	440.3%
NIC BANK	42,663,040	2014	49.25	1,904,030,511.50	221.0%
Uchumi Supermarket	99,500,000	2014	9.00	579,116,043.00	183.6%
HFCK	116,666,667	2015	30.00	9,011,836,920.00	257.0%
LONGHORN	126,190,476	April 2016	4.20	533,000,000.00	101%
KenGen	4,396,722,912	May 2016	6.55	28,798,535,073.60	92.01%
<b>TOTAL</b>	<b>8,567,451,534</b>			<b>130,717,803,591.10</b>	

\*Up to June 2016: Source: Capital Markets Authority

## Stock Splits

**Table 7. Stock Splits**

Company	Date (Monthly/Year)	Share Split Ratio
KenolKobil	Jun-04	10:1
EA Breweries	Aug-04	5:1
E.A. Cables	Aug-04	10:1
Centum	Oct-06	10:1
Barclays	Nov-06	1:5
Sasini	Dec-06	5:1
CMC Holdings	Jan-07	10:1
KCB	Mar-07	10:1
Nation Media Group	Mar-08	2:1
Equity Bank	Feb-09	1:10
KenolKobil	May-10	10:1
KPLC	Oct-10	1:8
ARM	May-12	5:1
CityTrust	Jan-13	5:1
Carbacid Investments	Oct-13	1:5
Limuru Tea	May-15	1:2

*\*Up to June 2016: Source: Capital Markets Authority*

## Bonus Issues

Table 8. Bonus Issues

Company	Date (Monthly/Year)	Bonus Issue Ratio
NIC Bank	Feb-09	1:10
Carbacid	Oct-09	2:1
NIC Bank	Feb-10	1:10
National Bank	Mar-10	2:5
Nation Media Group	Mar-10	1:10
Jubilee Holdings	Mar-10	1:10
TPS Serena	Mar-10	1:6
Centum Investment	Jun-10	1:10
Car & General	Jan-11	1:2
Pan Africa Insurance	Mar-11	1:1
Jubilee Holdings	Apr-11	1:10
Centum Investment	Jun-11	1:10
KPLC	Oct-11	1:8
NIC Bank	Feb-12	1:10
Cooperative Bank	Mar-12	1:5
Access Kenya	Mar-12	1:20
Jubilee	Mar-12	1:10
Standard Group	Apr-12	1:10
Kenya Re	Apr-12	1:6
Eaagads	Jul-12	1:1
Nation Media Group	Mar-13	1:5
Carbacid Investments	Oct-13	1:2
CIC insurance	Jul-14	1:5
Longhorn Kenya	Sep-2014	3:2
Panafric	Feb-2015	1:2
National Bank	Mar-2015	1:10
Jubilee	Mar-2015	1:10
Crown Paints	May-2015	2:1
WTK	Jun-2015	1:1
Kapchorua	Jun-2015	1:1
Diamond Trust Bank*	Mar-2016	1:10
NSE*	Mar-2016	1:3

\*Up to June 2016: Source: Capital Markets Authority



## Secondary Markets

The review period witnessed a slackening of market activity, relative to the previous financial year, with equity turnover decreasing to Kshs 176.46 Billion from Kshs 221.9 Billion, reflecting a 20.36 percent drop. Total bond turnover amounted to Kshs 379 Billion compared to Kshs 467 Billion registered in a similar comparable period the previous year indicating an 18.87 percent decrease.

Year	Month	Equity Turnover (Kshs BN)	Share Volume (MN)	NSE 20 Share Index	Market Capitalization (Kshs BN)	Bond Turnover
2015	July	21.55	714.88	4,405	2,079.77	12.40
	August	20.79	733.96	4,176	2,005.60	18.42
	September	14.38	433.96	4,173	2,063.64	13.69
	October	17.84	540.04	3,869	1,930.81	29.93
	November	13.15	440.59	4,016	2,018.13	19.48
	December	15.12	474.87	4,040	2,053.52	21.92
2016	January	13.00	422.74	3,773	1,918.92	21.62
	February	10.16	341.03	3,871	1,988.00	24.41
	March	13.45	535.92	3,982	1,435.61	67.38
	April	10.07	426.65	4,009	2,054.73	38.50
	May	9.72	384.80	3,867	1,996.65	55.31
	June	17.25	601.40	3,641	1,998.75	55.99
<b>Total FY 2015/2016</b>		<b>176.46</b>	<b>6,050.84</b>	<b>3,641</b>	<b>1,998.75</b>	<b>379.05</b>
<b>Total FY 2015/2015</b>		<b>221.57</b>	<b>7,567.09</b>	<b>4,906</b>	<b>2,301.88</b>	<b>467.23</b>
<b>Percentage Change</b>		<b>(20%)</b>	<b>(20%)</b>	<b>(26%)</b>	<b>(13%)</b>	<b>(19%)</b>

### Market Outlook

Going forward, despite the challenges that come with a country that is heading towards an election, markets have and are expected to remain resilient well into the end of the year, buoyed by a relatively predictable interest rate environment buttressed by the capping of interest rates at specified bands.

### Trends In Foreign Investors Portfolio Activity

The review period witnessed a net portfolio inflow amounting to Kshs 5,407 Million compared to an outflow of Kshs 808 Million in FY 2014/15. The positive foreign investor participation is an indication of foreign investor confidence in Kenya's securities markets.

Further, recently, Kenya abolished restrictions on foreign shareholding in listed companies save for a few strategic ones as determined by government, in line with its efforts to transform Nairobi into an international financial hub. This is expected to attract foreign firms and international capital to finance major infrastructure projects.

## Bonus Issues

	2010	2011	2012	2013	2014	2015	2016
January	2,517	1,987	(812)	2,133	(876)	(273)	(533)
February	489	622	795	(3,927)	(1,505)	201	281
March	1,998	1,552	2,651	1,810	(399)	(3,085)	(1,334)
April	151	(3,024)	1,771	3,026	1,409	(67)	80
May	(325)	(3,334)	1,099	3,475	(2,578)	(2,030)	196
June	1,601	(1,597)	1,639	2,602	2,586	(447)	100
July	1,159	1,173	828	1,625	142	(1,127)	
August	471	621	1,048	9,839	3253	1,183	
September	1,206	535	3,286	2,063	(850)	6,500	
October	2,147	719	2,965	2,723	(1,208)	889	
November	2,526	31	4,335	884	2,535	(829)	
December	1,186	935	2,129	(690)	1,021	1	
<b>NET CASH FLOW</b>	<b>15,126</b>	<b>220</b>	<b>21,734</b>	<b>25,563</b>	<b>3,530</b>	<b>916</b>	<b>(1,210)</b>

\*Up to June 2016: Source: Capital Markets Authority

## Corporate Action

Security	Date	Corporate Action	Amount/ Kshs/Ratio
Housing finance	22-7-2015	Interim	0.65
BAT K	24-7-2015	Interim	3.50
EABL	31-7-2015	Final	6.00
NMG	7-8-2015	Interim	2.50
Kenol Kobil	11-8-2015	Interim	0.10
CFC Holdings	12-8-2015	Interim	0.75
Barclays	13-8-2015	Interim	0.20
B.O.C	17-8-2015	Interim	2.20
NIC	20-8-2015	Interim	0.25
Umeme	24-8-2015	Interim	10.80
Bamburi	28-8-2015	Interim	6.00
Jubilee Holdings- USE	1-9-2015	Interim	1.00*
Longhorn	25-9-2015	Final	0.15
Unga Group	1-10-2015	1st & Final	1.00
Carbacid	26-10-2015	1st & Final	0.70
Kenya Power	30-10-2015	Final	0.30
KenGen	27-11-2015	Final	0.65
Stan chart	27-12-2015	Interim	4.50
Sasini Tea	17-12-2015	Final	0.25

## Corporate Action (Continued)

Security	Date	Corporate Action	Amount/ Kshs/Ratio
EABL	28-01-2016	Interim	2.00
KPLC	25-02-2016	Interim	0.20
HFCK	25-02-2016	Final	0.65
BATK	26-02-2016	Final	46.00
KCB	02-03-2016	First & Final	1.00
KCB	02-03-2016	Scrip	1.00
NIC	02-03-2016	Final	1.00
EQUITY	03-03-2016	First & Final	2.00
BAMBURI	10-03-2016	Final	7.00
CIC	10-03-2016	Final	0.10
DTB	10-03-2016	Bonus issue- subject to approval	1.10
DTB	10-03-2016	First & Final	2.50
LIMTEA	11-03-2016	Final	1.00
KAKUZI	16-03-2016	Final	1.00
KENOL KOBIL	17-03-2016	Final	0.25
CO-OP BANK	17-03-2016	First & Final	0.80
UMEME	21-03-2016	Final	24.4*
NMG	22-03-2016	Final	7.50
STANCHART	23-03-2016	Final	12.50
I&M Holdings	24-03-2016	Final	3.50
NSE	24-03-2016	First & Final	0.49
NSE	24-03-2016	Bonus Issue	1:3
Kenya-RE	30-03-2016	First & Final	0.75
TOTAL	31-03-2016	First & Final	0.77
JUBILEE	01-04-2016	Final	7.50
B.O.C Kenya	06-04-2016	Final	3.00
LONGHORN	07-04-2016	Rights Issue	0.86:1
BRITAM	19-04-2016	1st & Final	0.30
EABL	28-04-2016	Special	4.50
CROWN	29-04-2016	Final	0.60
TPSEA	29-04-2016	Final	0.25
KENGEN	10-05-2016	Rights Issue	2:1
SAFCOM	11-05-2016	Final	0.76
COOP	30-05-2016	First & Final	0.80
KAKUZI	31-05-2016	First & Final	5.00
NSE	02-05-2016	Bonus	1:3
TOTAL	10-06-2016	First & Final	0.77
CIC	20-06-2016	Final	0.10

\*Up to June 2016: Source: Capital Markets Authority

## Pictorials



The Chairman Mr. James Ndegwa (left) presents a cheque of Kshs 150,000 to Gabriel Mbiti (centre), a student at Jomo Kenyatta University of Agriculture and Technology, who was the overall winner of the Nairobi County Capital Markets University Challenge. Looking on is Chief Executive Mr. Paul Muthaura (right).



National Treasury Director General, Budget, Fiscal and Economic Affairs Dr. Geoffrey Mwa, presents a token of appreciation on behalf of the Board of Capital Markets Authority to Ms. Catherine Musakali for her invaluable contribution to the development of the Code of Corporate Governance Practices for Issuers of Securities to the Public.



## Pictorials



The Chairman Mr. James Ndegwa (1st left) and Chief Executive Mr. Paul Muthaura (3rd from right) pose with winners of the Nairobi County Capital Markets University Challenge.



From left: CMA staff Roseline Mkongo, Zephania Chebii, Mary Kiptoo and Chief Executive Paul Muthaura (right) pose with an award conferred to the Authority by Africa Investor. The Authority was recognized as the most innovative capital markets regulator in Africa in September 2015.

Pictorials



The Chairman Mr. James Ndegwa poses with children of Wema Centre after presentation of a joint donation by the Boards of the Authority, Central Depository and Settlement Corporation and Nairobi Securities Exchange in August 2015.



From left: Graduate trainees Margaret Awino, Safia Ramata and Cyrilla Masiache engage with Capital Markets Authority Manager Market Supervision Johnstone Oltetia during their welcome luncheon. CMA hired 10 graduate trainees for a period of two years.



## Pictorials



Capital Markets Authority Chief Executive Paul Muthaura (left), CISI Global Business Development Director, Mr. Kevin Moore (centre) and FSD Africa Director Capital Markets, Financial Inclusion Mr. Mark Napier during the launch of the Chartered Institute for Securities and Investments, an international certification standards program for capital markets professionals in Kenya.



Acting Officer-in-charge of the Capital Markets Fraud Investigation Unit Mr. James Kivindu (left) receives a certificate from the Authority's Director of Market Operations Mr. Wyckliffe Shamiah (right) for participation in a Regulatory Compliance and Emerging Fraud Risk Workshop held in May 2016.



Pictorials



*Capital Markets Authority staff representing the Blue Team celebrate the conclusion of a task of assembling an automobile to test creativity and team work.*



*Capital Markets Authority staff during a team building event.*

## Appendices

### ENABLING LEGISLATION:

#### a) Main Acts

##### i) The Capital Markets Act, Cap 485A

This Act establishes the Capital Markets Authority for the purpose of promoting, regulating and facilitating the development of an orderly, fair and efficient securities market as well as reduce systemic risk in the Kenyan capital markets and for connected purposes.

##### ii) The Central Depositories Act, No. 4 of 2000

This Act was operationalized in June 2003. The objective of the Act is to facilitate the establishment, operation and regulation of central depositories, to provide for the immobilization and eventual dematerialization of, and dealings

in securities deposited therewith in Kenya, and for connected purposes.

#### b) Regulations

##### i) The Capital Markets (Collective Investment Schemes) Regulations, 2001

The Collective Investment Schemes Regulations are aimed at facilitating incorporation of mutual funds, unit trusts or special form of collective investment schemes and offer a unique opportunity to investors in terms of professional management, economies of scale and diversification of portfolio and risk.

##### ii) The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002

These Regulations primarily govern public offers, disclosure requirements and listings of securities. Broadly, the Regulations prescribe the approval process for the public offers of securities, requirements of information memoranda, eligibility requirements for public offers and listing of securities at securities exchanges. The Regulations also prescribe detailed disclosure requirements for each of the market segments as well as continuing reporting obligations for listed companies.

##### iii) The Capital Markets (Licensing Requirements) (General) Regulations, 2002

These Regulations provide the requirements for licensing and approvals as well as other general requirements and reporting obligations of capital markets intermediaries including securities exchanges.

##### iv) The Capital Markets (Takeovers & Mergers) Regulations, 2002

These Regulations govern the procedure and timelines of the takeovers and mergers of listed companies and set out the obligations of parties to the transactions.

##### v) The Capital Markets (Foreign Investors) Regulations, 2002

These Regulations govern foreign investor participation in the Kenyan Capital Markets.

##### vi) The Capital Markets Tribunal Rules, 2002

These Rules prescribe the procedures of Appeals made to the Capital Markets Tribunal by persons aggrieved by a decision made by the Authority.

##### vii) The Central Depositories (Regulation of Central Depositories) Rules, 2004

These Rules provide the detailed regulatory requirements for applicable to licensed Central depositories.

##### iii) The Capital Markets (Asset Backed Securities) Regulations, 2007

These Regulations apply to all offers of asset backed securities to the public or a section thereof in Kenya including issues by state corporations and other public bodies.

##### ix) The Capital Markets (Registered Venture Capital Companies) Regulations, 2007

These Regulations prescribe the requirements for a venture capital company to become registered for the purposes of the Income Tax



“The objective of the Act is to facilitate the establishment, operation and regulation of central depositories”



## Appendices (Continued)

(Venture Capital Company) Rules 1997, through which venture capital investors may seek a tax waiver on the income arising from their designated venture capital investments.

### **x) The Capital Markets (Conduct of Business)(Market Intermediaries) Regulations, 2011**

The Regulations stipulate the minimum standards of business conduct to be observed by all market intermediaries, licensed under the Capital Markets Act, with the objective of streamlining their business activities.

### **xii) Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations Legal Notice No. 116 of 2013**

The REITs regulatory framework seeks to promote the pooling of capital and channeling the investments into real estate assets through Real Estate Investment Trusts (REITs). The framework provides for investments in both income producing real estate and in development and construction projects. The benefits expected to accrue from investment through REITs include -enhanced mobilization of savings to the real estate sector of the economy to increase availability of housing which is a priority area championed under Vision 2030;

introduction of additional capital markets instruments to both retail and institutional investors for investment and diversification of risk;

make real estate investing easy and efficient, since REITs will be listed on securities exchanges and hence reduce the risk of illiquidity; and enable low cost exposure to real

estate with professional investment management at a relatively low transaction and management cost.

### **Capital Markets (Futures Exchanges) (Licensing Requirements) Regulations, Legal Notice No. 108 of 2013**

This regulatory instrument provides the framework for licensing of futures exchanges which are set to provide the trading facilities for derivatives. Regulated futures markets will provide, amongst others, the necessary financial instruments for hedging of currency and interest rate fluctuations as well as enhancing stability in the prices of commodities.

c) Guidelines

### **The Capital Markets Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya.**

These Guidelines set out requirements for corporate governance for public listed companies and other issuers of securities in the capital markets and are both prescriptive (the principles) and non-prescriptive (best practices).

### **The Capital Markets Guidelines on the Approval and Registration of Credit Rating Agencies**

These Guidelines prescribe requirements for registration, accreditation and approval of rating agencies for the purpose of rating issuers of debt securities through the capital markets. Credit rating is an objective and independent opinion on the general credit worthiness 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. Ratings rank the issue within a consistent framework to compare risk among the different debt instruments in the market and assign a risk grade.

### **Guidelines On Financial Resource Requirements for Market Intermediaries.**

These Guidelines set out the framework for the implementation of financial resource requirements for capital market intermediaries in order to enhance the implementation of Risk Based Supervision.

### **Management Supervision Internal Control Guidelines May 2012.**

These are standards developed to ensure the proper conduct of a licensed or an approved business to ensure, on a continuous basis and on a timetable determined by CMA that licensed entities which are members of a Self-Regulatory Organization (SRO) (exchange or a clearing house) or other entities undertaking licensed activities, are complying with the applicable laws, rules and regulations.

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<p><b>Global Credit Rating Company</b> 3rd Floor, Right Wing, 82 Grayston Drive, Sandton 2196 South Africa Telephone +27 11 784 - 1771 Fax +27 11 784 - 1770 Email: <a href="mailto:joffe@globalratings.net">joffe@globalratings.net</a></p>	

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<p><b>Chase Bank Kenya Ltd</b> Riverside Mews Riverside Drive P. O. Box 28987-00200, Nairobi Tel: 254 20 2774000/4454803/4/6/8 Fax: 254 20 4454816 Email: <a href="mailto:info@chasebank.co.ke">info@chasebank.co.ke</a></p>	<p><b>Standard Chartered Bank Kenya Ltd</b> Standard Chartered Chiromo, 48 Westlands Road P. O. Box 30003-00100, Nairobi Tel: 254 20 2710821/2 Fax: 254 20 2711331 Email: <a href="mailto:Talk.To-Us@standardchartered.com">Talk.To-Us@standardchartered.com</a></p>

## Approved Collective Investment Schemes

<p><b>1. African Alliance Kenya Unit Trust Scheme:</b></p> <ul style="list-style-type: none"> <li>(i) African Alliance Kenya Shilling Fund.</li> <li>(ii) African Alliance Kenya Fixed Income Fund</li> <li>(iii) African Alliance Kenya Managed Fund</li> <li>(iv) African Alliance Kenya Equity</li> </ul>	<p><b>2. Old Mutual Unit Trust Scheme:</b></p> <ul style="list-style-type: none"> <li>(i) Old Mutual Equity Fund.</li> <li>(ii) Old Mutual Money Market Fund</li> <li>(iii) Old Mutual Balanced Fund</li> <li>(iv) Old Mutual East Africa Fund</li> <li>(v) Old Mutual Bond Fund</li> </ul>
<p><b>3. British American Unit Trust Scheme:</b></p> <ul style="list-style-type: none"> <li>(i) British American Money Market Fund.</li> <li>(ii) British American Income Fund.</li> <li>(iii) British American Balanced Fund.</li> <li>(iv) British American Managed Retirement Fund.</li> <li>(v) British American Equity Fund.</li> </ul>	<p><b>4. Stanbic Unit Trust Scheme:</b></p> <ul style="list-style-type: none"> <li>(i) Stanbic Money Market Fund.</li> <li>(ii) Stanbic Flexible Income Fund.</li> <li>(iii) Stanbic Managed Prudential Fund</li> <li>(iv) Stanbic Equity Fund</li> <li>(v) Stanbic Balanced Fund</li> </ul>
<p><b>5. Commercial Bank of Africa Unit Trust Scheme:</b></p> <ul style="list-style-type: none"> <li>(i) Commercial Bank of Africa Money Market Fund.</li> <li>(ii) Commercial Bank of Africa Equity Fund.</li> </ul>	<p><b>4. Stanbic Unit Trust Scheme:</b></p> <ul style="list-style-type: none"> <li>(i) Stanbic Money Market Fund.</li> <li>(ii) Stanbic Flexible Income Fund.</li> <li>(iii) Stanbic Managed Prudential Fund</li> <li>(iv) Stanbic Equity Fund</li> <li>(v) Stanbic Balanced Fund</li> </ul>
<p><b>7. Suntra Unit Trust:</b></p> <ul style="list-style-type: none"> <li>(i) Suntra Money Market Fund</li> <li>(ii) Suntra Equity Fund</li> <li>(iii) Suntra Balanced Fund</li> </ul>	<p><b>8. ICEA Unit Trust Scheme:</b></p> <ul style="list-style-type: none"> <li>(i) ICEA Money Market Fund</li> <li>(ii) ICEA Equity Fund</li> <li>(iii) ICEA Growth Fund</li> <li>(iv) ICEA Bond Fund</li> </ul>
<p><b>9. Standard Investment Trust Funds:</b></p> <ul style="list-style-type: none"> <li>(i) Standard Investment Equity Growth Fund</li> <li>(ii) Standard Investment Fixed Income Fund</li> <li>(iii) Standard Investment Balanced Fund</li> </ul>	<p><b>10. Dyer and Blair Unit Trust Scheme:</b></p> <ul style="list-style-type: none"> <li>(i) Dyer and Blair Diversified Fund</li> <li>(ii) Dyer and Blair Bond Fund</li> <li>(iii) Dyer and Blair Money Market Fund</li> <li>(iv) Dyer and Blair Equity Fund</li> </ul>
<p><b>11. Genghis Unit Trust Funds:</b></p> <ul style="list-style-type: none"> <li>(i) Gencap Hazina Fund</li> <li>(ii) Eneza Fun</li> <li>(iii) Gencap Hela Fund</li> <li>(iv) Gencap Iman Fund</li> <li>(v) Gencap Hisa Fund</li> </ul>	<p><b>12. Amana Unit Trust Funds Scheme:</b></p> <ul style="list-style-type: none"> <li>(i) Amana Money Market Fund</li> <li>(ii) Amana Balanced Fund</li> <li>(iii) Amana Growth Fund</li> </ul>
<p><b>13. Diaspora Unit Trust Funds Scheme:</b></p> <ul style="list-style-type: none"> <li>(i) Diaspora Money Market Fund</li> <li>(ii) Diaspora Equity Fund</li> <li>(iii) Diaspora Bond Fund</li> </ul>	<p><b>14. First Ethical Opportunities Fund</b></p>

## Approved Collective Investment Schemes (Continued)

<p><b>15. CIC Unit Trust Fund</b></p> <ul style="list-style-type: none"> <li>(i) CIC Money Market Fund</li> <li>(ii) CIC Balanced Fund</li> <li>(iii) CIC Fixed Income Fund</li> <li>(iv) CIC Equity Fund</li> </ul>	<p><b>16. Madison Asset Unit Trust Fund</b></p> <ul style="list-style-type: none"> <li>(i) Madison Asset Equity Fund</li> <li>(ii) Madison Asset Balanced Fund</li> <li>(iii) Madison Asset Money Market Fund</li> <li>(iv) Madison Asset Treasury Bill Fund</li> <li>(v) Madison asset Bond Fund</li> </ul>
<p><b>17. UAP Investments Collective Investment Scheme</b></p> <ul style="list-style-type: none"> <li>(i) UAP Money Market Fund</li> <li>(ii) UAP High Yield Bond Fund</li> <li>(iii) UAP Enhanced Income Fund</li> <li>(iv) UAP Dividend Maximizer Fund</li> </ul>	<p><b>18. Pan Africa Unit Trust Scheme:</b></p> <ul style="list-style-type: none"> <li>(i) Pan Africa Money Market Fund (Pan Africa Pesa Plus Fund)</li> <li>(ii) Pan Africa Dividend Plus Fund (Pan Africa Faida Plus Fund)</li> <li>(iii) Pan Africa Balanced Fund (Pan Africa Chama Plus Fund)</li> </ul>
<p><b>19. Equity Investment Bank Collective Investment Scheme:</b></p> <ul style="list-style-type: none"> <li>i. Equity Investment Bank Money Market Fund</li> <li>ii. Equity Investment Balanced Fund</li> </ul>	<p><b>20. Nabo Unit Trust Fund:</b></p> <ul style="list-style-type: none"> <li>(i) Nabo Africa Money Market Fund</li> <li>(ii) Nabo Africa Balanced Fund</li> <li>(iii) Nabo Africa Fixed Income Fund</li> <li>(iv) Nabo Africa Equity Fund</li> </ul>
<p><b>21. Dry Associates Unit Trust Scheme:</b></p> <ul style="list-style-type: none"> <li>i. Dry Associates Money Market Fund (Kenya Shillings)</li> <li>ii. Dry Associates Money Market Fund (US Dollars)</li> <li>iii. Dry Associates Balanced Fund (Kenya Shillings)</li> </ul>	<p><b>22. Co-op Trust Fund:</b></p> <ul style="list-style-type: none"> <li>i. Co-op Balanced Fund</li> <li>ii. Co-op Equity Fund</li> <li>iii. Co-op Bond Fund</li> <li>iv. Co -op Money Market Fund</li> </ul>
<p><b>23. Apollo Unit Trust Scheme:</b></p> <ul style="list-style-type: none"> <li>i. Apollo Money Market Fund</li> <li>ii. Apollo Balanced Fund</li> <li>iii. Apollo Aggressive Growth Fund</li> <li>iv. Apollo Equity Fund</li> <li>v. Apollo East Africa Fund</li> <li>vi. Apollo Bond Fund</li> </ul>	<p><b>24. Zimele Unit Trust Scheme:</b></p> <ul style="list-style-type: none"> <li>i. Zimele Balanced Fund</li> <li>ii. Zimele Money Market Fund</li> </ul>

## Approved Employee Share Ownership Plans (ESOPs)

1. EABL Employee Share Ownership Plan.
2. KENOL Employee Share Ownership Plan.
3. ARM Employee Share Ownership Plan.
4. Scangroup Employee Share Ownership Plan.
5. Safaricom Employee Share Ownership Plan
6. Equity Employee Share Ownership Scheme
7. KCB Employee Share Ownership Plan
8. Housing Finance Employee Share Ownership Plan
9. Kenya Airways Employee Share Ownership Plan
10. I & M Bank Employee Share Ownership Plan
11. Car & General Employee Share Ownership Plan
12. Standard Group Employee Share Ownership Plan

### REIT TRUSTEES

#### 1. Housing Finance Co. (K) Ltd.

Rehani House  
Kenyatta Avenue / Koinange Street  
P. O. Box 30088-00100  
NAIROBI

#### 2. Co-operative Bank of Kenya Ltd.

Co-operative House  
Haile Selassie Avenue  
P. O. Box 48231-00100  
NAIROBI

#### 3. Kenya Commercial Bank Limited

Kencom Hse,  
P. O. Box 48400-00100 GPO,  
NAIROBI  
Phone: +254 710 306922

### AUTHORISED REAL ESTATE INVESTMENT TRUSTS

#### (REITS)

#### 1. Stanlib Fahari I-REIT

P.O Box 30550-00100  
NAIROBI

#### 2. Fusion Real Estate Development-Trust-Residential

P.O Box 47538-00100  
NAIROBI

#### 3. Fusion Real Estate Development-Trust-Commercial

P.O Box 47538-00100  
NAIROBI

### REIT MANAGERS

#### 1. UAP Investment Limited

Head Office  
Bishop Gardens Towers,  
Bishops Road  
P.O. Box 43013-00100  
NAIROBI

#### 2. Fusion Investment Management Limited

ACK Garden House, Block A  
1st Ngong Avenue  
P.O. Box 47538 – 00100  
NAIROBI

#### 3. CIC Asset Management Limited

CIC PLAZA, Mara Road  
Upper Hill.  
P.O. Box 59485 – 00200  
NAIROBI

#### 4. Stanlib Kenya Limited.

CFC House, 1st Floor  
Mamlaka Road  
P.O. Box 30550 – 00100  
NAIROBI

#### 5. Nabo Capital Limited

P.O. Box 10518-00100,  
NAIROBI.

#### 6. Sterling REIT Asset Management Limited

P.O BOX 45080-00100  
NAIROBI

#### 7. H.F. Development and Investment Limited

P.O BOX 30088-00100  
NAIROBI

#### 8. ICEA Lion Asset Management Limited

P.O BOX 46143-00100  
NAIROBI



## Listed Companies

**AGRICULTURAL**

Eaagads Ltd Ord 1.25 AIMS  
 Kakuzi Ltd Ord 5.00  
 Kapchorua Tea Co. Ltd Ord 5.00 AIMS  
 The Limuru Tea Co. Ltd Ord 20.00 AIMS  
 Rea Vipingo Plantations Ltd Ord 5.00 (Suspended)  
 Sasini Ltd Ord 1.00  
 Williamson Tea Kenya Ltd Ord 5.00 AIMS

**AUTOMOBILES & ACCESSORIES**

Car & General (K) Ltd Ord 5.00  
 Marshalls (E.A.) Ltd Ord 5.00  
 Sameer Africa Ltd Ord 5.00

**BANKING**

Barclays Bank of Kenya Ltd Ord 0.50  
 CFC Stanbic of Kenya Holdings Ltd ord 5.00  
 Diamond Trust Bank Kenya Ltd Ord 4.00  
 Equity Bank Ltd Ord 0.50  
 Housing Finance Co. Kenya Ltd Ord 5.00  
 I&M Holdings Ltd Ord 1.00  
 Kenya Commercial Bank Ltd Ord 1.00  
 National Bank of Kenya Ltd Ord 5.00  
 NIC Bank Ltd Ord 5.00  
 Standard Chartered Bank Kenya Ltd Ord 5.00  
 The Co-operative Bank of Kenya Ltd Ord 1.00

**COMMERCIAL AND SERVICES**

Atlas African Industries Ltd  
 Express Kenya Ltd Ord 5.00 AIMS  
 Hutchings Biemer Ltd Ord 5.00 (Suspended)  
 Kenya Airways Ltd Ord 5.00  
 Longhorn Kenya Ltd Ord 1.00 AIMS  
 Nairobi Business Ventures Ltd  
 Nation Media Group Ltd Ord. 2.50  
 Scangroup Ltd Ord 1.00  
 Standard Group Ltd Ord 5.00  
 TPS Eastern Africa Ltd Ord 1.00  
 Uchumi Supermarket Ltd Ord 5.00

**CONSTRUCTION & ALLIED**

ARM Cement Ltd Ord 1.00  
 Bamburi Cement Ltd Ord 5.00  
 Crown Paints Kenya Ltd Ord 5.00  
 E.A. Cables Ltd Ord 0.50  
 E.A. Portland Cement Co. Ltd Ord 5.00

**ENERGY & PETROLEUM**

KenGen Co. Ltd Ord. 2.50  
 KenolKobil Ltd Ord 0.05  
 Kenya Power & Lighting Co Ltd Ord 2.50  
 Kenya Power & Lighting Ltd 4 percent Pref 20.00  
 Kenya Power & Lighting Ltd 7 percent Pref 20.00  
 Total Kenya Ltd Ord 5.00  
 Umeme Ltd Ord 0.50

**INSURANCE**

British-American Investments Co.(Kenya) Ltd Ord 0.10  
 CIC Insurance Group Ltd Ord.1.00  
 Jubilee Holdings Ltd Ord 5.00  
 Kenya Re Insurance Corporation Ltd Ord 2.50  
 Liberty Kenya Holdings Ltd Ord.1.00  
 Pan Africa Insurance Holdings Ltd Ord 5.00

**INVESTMENT**

Centum Investment Co Ltd Ord 0.50  
 Olympia Capital Holdings Ltd Ord 5.00  
 Trans-Century Ltd Ord 0.50 AIMS  
 Home Afrika Ltd Ord 1.00  
 Kurwitu Ventures Ltd

**INVESTMENT SERVICES**

Nairobi Securities Exchange Ltd Ord 4.00

**MANUFACTURING & ALLIED**

A. Baumann & Co Ltd Ord 5.00 AIMS (Suspended)  
 B.O.C Kenya Ltd Ord 5.00  
 British American Tobacco Kenya Ltd Ord 10.00  
 Carbacid Investments Ltd Ord 1.00  
 East African Breweries Ltd Ord 2.00  
 Eveready East Africa Ltd Ord.1.00  
 Flame Tree Group  
 Kenya Orchards Ltd Ord 5.00 AIMS  
 Mumias Sugar Co. Ltd Ord 2.00  
 Unga Group Ltd Ord 5.00

**TELECOMMUNICATION & TECHNOLOGY**

Safaricom Ltd Ord 0.05

**REAL ESTATE INVESTMENT TRUST**

Stanlib Fahari I-REIT Ord 20.00











*Promoting the Integrity and Growth of the Capital Markets*

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