



**ANNUAL REPORT AND
FINANCIAL STATEMENTS
2018 -2019**

MISSION

“To promote the development of Kenya’s capital market to be an investment destination of choice through facilitative regulation and innovation.”

VISION

“A proactive regulator of a competitive and robust capital market.”

Core Values

Integrity
Responsiveness
Collaboration and Teamwork
Commitment
Innovation and Continuous learning





CAPITAL
MARKETS AUTHORITY

Promoting the Integrity and Growth of the Capital Markets



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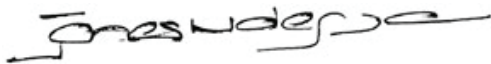
Letter of Transmittal

The Cabinet Secretary
The National Treasury & Planning
Nairobi

Dear Hon. Cabinet Secretary,

I have the honour of submitting the Annual Report of Capital Markets Authority for the fiscal year ended 30 June, 2019. 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

Capital Markets Authority (the 'Authority') is a body corporate established under the Capital Markets Authority 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 orderly, fair and efficient capital markets in Kenya.

Board Members of the Authority: 1 July 2018 - 30 June 2019

Name	Position
Mr. James Ndegwa	Chairman
Mr. Paul. M. Muthaura	Chief Executive*
Hon (Amb) Ukur Kanacho Yatani, EGH	Cabinet Secretary, National Treasury and Planning
Dr. Geoffrey Mwau	Alternate to the Cabinet Secretary, National Treasury and Planning
Mr. Paul Kihara Kariuki	Attorney General
Mr. Nevis Ombasa	Alternate to the Attorney General
Dr. Patrick Njoroge	Governor Central Bank of Kenya
Mr. William Nyagaka	Alternate to Governor, Central Bank of Kenya
Mr. Paul Ngugi	Member (Term ended 30 May 2019)
Mr. Moibi Mose	Member
Ms. Christine Okoth	Member
Dr. Thomas Kibua	Member
Mr. John Birech	Member
Dr. Freshia Mugo Waweru	Member
Mr. Peter Mungai	Member

* Mr. Paul. M. Muthaura left the Authority on 31 December 2019

Authority Information



Paul M. Muthaura

Position: Chief Executive
Date joined: 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: May 20, 1997
Profession: Accountant
Key qualifications: MBA, BA, FCPA (K)



Edwin Nyaga Njamura

Position: Director, Corporate Services
Date joined: July 17, 2012
Profession: Management
Key qualifications: EMBA, BCOM, CPA(K), BSP



Luke Ombara

Position: Director, Regulatory Policy and Strategy
Date joined: 15 February, 1995
Profession: Economist
Key qualifications: BA, BSP



Abubakar Hassan

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



Esther Maiyo

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

Authority Information

Daniel Ngenga Warutere

Position: Manager, Market Supervision
 Date joined: November 10, 2008
 Profession: Advocate of the High Court of Kenya
 Key qualifications: LLB,CPS,CPA,Post Grad Cert, Capital Markets



Kamunyu Njoroge (Samuel)

Position: Manager, Investor Education & Public Awareness
 Date joined: 3 January, 2005
 Profession: Economist
 Key qualifications: MA (Econ), BA (Econ), MCSI(CISI,UK), M.LoD(K), MKIM, CIFA, Fellow, FLPFI (USA)



Hellen Ombati

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



Andrew Muthabuku

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



Richard Chirchir

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



John Njoroge

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



Authority Information



Matthew Mukisu

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



James Kivuva

Position: Manager, Strategic Projects
 Date joined: 15 February 2016
 Profession: Strategy, Projects and Information Technology Professional
 Key Qualifications: M.A PPM, BSC, PRINCE 2, CBAP, Database Administration
 *PPM – Project Planning and Management
 *CBAP – Certified Business Analysis Professional



Nyale Yanga

Position: Ag. Manager, Corporate Approvals
 Date joined: December 15, 2005
 Profession: Financial Analyst
 Key qualifications: MBA, BCOM, CPA(K), CPS(K), Post Graduate Certificate, Capital Markets Development
 He was appointed acting Manager Corporate Approval - 8 October 2018



Mary Njuguna*

Position: Manager, Corporate Approvals
 Date joined: 15 December, 2009
 Profession: Advocate of the High Court of Kenya
 Key qualifications: MSC,LLB, Dip-French, CPS(K)
 She left the Authority on 5 October 2018

* Resigned on 5 October, 2018

Key

BA	Bachelor of Arts
BCOM	Bachelor of Commerce
BSC	Bachelor of Science
BSP	Balanced Scorecard Professional
CBAP	Certified Business Analysis Professional
CFE	Certified Fraud Examiner
CISA	Certified Information Systems Auditor
CPA	Certified Public Accountant
CPS	Certified Public Secretary
Dip	Diploma
EMBA	Executive Master of Business Administration
FLPFI (USA)	Fellow of The Fletcher School Leadership Program for Financial Inclusion; Tufts University. USA.
H. Dip	High Diploma
HRM	Human Resource Management
LLB	Bachelor of Law
LLM	Master of Law
MA	Master of Arts
MCSI	Member of Chartered Institute for Securities and Investment (CISI) United Kingdom.
Pg Dip	Post Graduate Diploma
PPM	Project Planning and Management

Authority Information

Registered office

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

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,
Kenya

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

KCB Mortgage Centre, Salama House
Mama Ngina Street
P.O. Box 45129, 00100
Nairobi,
Kenya

Principal Auditor

The Auditor-General
Office of the Auditor General
Anniversary Towers
University Way
P.O. Box 30084, 00100
Nairobi,
Kenya

Authorized/Delegated Auditor

Mbaya & Associates
Certified Public Accountants
3rd Floor, Westlands Heights
Karuna Road, Westlands
P. O. Box 45390 - 00100
Nairobi,
Kenya

Principal legal advisers

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112, 00200
Nairobi,
Kenya

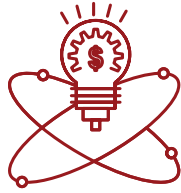
Mohammed Muigai LLP
MMC Chambers 4th Floor , K-REP Centre
Wood Avenue Off Lenana Road Kilimani
P.O. Box 61323, 00200
Nairobi,
Kenya

Waweru Gatonye & Co. Advocates
Timau Plaza, 4th Floor, Argwings Kodhek
Timau Road Junction
P.O. Box 55207, 00200
Nairobi,
Kenya

Snapshot of Approved Institutions and Licensees



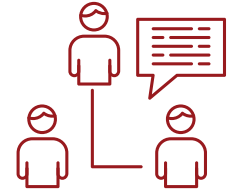
1 Central Depositories



4 Credit Rating Agencies



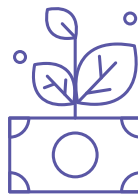
1 Securities Exchanges



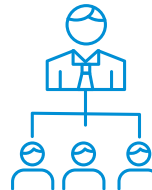
3 Authorized Securities Dealers



19 Authorized Depositories



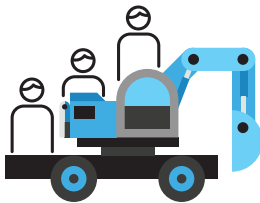
16 Investment Banks



24 Fund Managers



10 Stock Brokers



1 Authorized REITs



14 Investment Advisers



9 REIT Managers



3 REIT Trustees



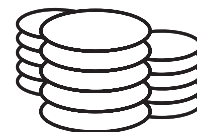
24 Registered Collective Investment Schemes



16 Registered Employee Share Ownership Plans (ESOP)



2 Non-Dealing Online Foreign Exchange Brokers



1 Money Manager

2018/2019 OVERVIEW

Market capitalisation

Kshs. **2.3** billion



8.61%

Revenue earned in 2018/19

Financial Year was **8%**
higher than previous year



Listed Equity
turnover
stood at **Kshs.
145.51** billion in
2018/19

25

New Licenses
and Approvals
granted

Secondary Government
bond rose with
19.54% with
turnover increasing to
Kshs 607.43
billion



30,000

Retail Investors across
23 Counties engaged



Financial Penalties
imposed

**Kshs.
477,000,000/-**

In addition no contest
settlements of Kshs.

49,012,007/-
executed.

**23 Treasury
Bonds issued
with
Kshs 444.07
billion accepted**



The total number of staff as
at 30 June, 2019 was 147. Staff
gender distribution of the
Authority



Male **62%** Female **38%**

Chairman's Statement



Mr. James Ndegwa
Chairman

Global economy

It is becoming evident that the global economy is experiencing a broad-based slowdown with Gross Domestic Product (GDP) growth projected to moderate to 2.7% for 2019 from 3.0% in 2018. These statistics reinforce findings in the World Economic Situation and Prospects (WESP) Report 2019¹ that the current growth cycle has peaked and the projections for 2019 and 2020 (at 2.9%) are downward revisions on the WESP forecasts released in January 2019¹.

In tandem with slowing industrial production, international trade activity has visibly weakened, mainly due to the unresolved trade dispute between the United States of America and China. Economic sentiment and business confidence indicators have also deteriorated, amid persistent uncertainty in the international policy environment. In many developed and developing countries, the moderation in GDP growth has been more pronounced than expected, as some risks to economic activity materialized. Slackening economic activity and low inflationary pressures have prompted shifts in the monetary policy stances of major central banks. While looser monetary conditions have contributed to some stabilization in global financial markets and capital flows, the world economy continues to face considerable downside risks. These risks arise from persistent trade tensions, the

prospect of a shutdown of British manufacturing operations in Europe and relocation of financial services out of the United Kingdom due to uncertainty over Brexit, the build-up of financial imbalances, and intensifying climate change.

However, we see opportunity for Kenya with these developments. For instance, as the United Kingdom's political transition out of the European Union (EU) crystallizes, this will most likely lead to the renegotiation of trade deals that currently rely on their EU membership. As the Board of the Authority we advocate for the inclusion of capital market investments in the new trade deals once the negotiations commence. We envisage similar possible opportunities amidst the US-China trade tensions.

Africa and the East African Community Region

The economic outlook for Africa remains challenging, with the region expected to face difficulties in embarking on a robust and sustained growth trajectory, amid the global slowdown, tepid commodity prices and protracted fragilities in many commodity exporters. Aggregate GDP growth is projected at 3.2 per cent in 2019 and 3.7 per cent in 2020, after an estimated expansion of only 2.7 per cent in 2018. Inflation prospects are improving, due to strong agricultural and food production and stable exchange rates in most economies. However perhaps the greatest challenge

¹World Economic Situation and Prospects as of mid-2019

Chairman's Statement (Cont'd)

is that these growth rates are insufficient to absorb a fast-growing labour force.

We will continue to advocate for enhanced intra-African trade following the coming into force of the African Continental Free Trade Agreement (ACFTA) on 31 May 2019. The unified market is expected to be launched in July 2019 and its successful implementation portends a continent with a combined consumer and business spending capacity of \$6.7 trillion by 2030.

East Africa remains the fastest-growing sub-region, and the short-term outlook is positive with projected growth as at the end of 2019 being 6.4% compared to 3.2% regional average growth. Robust growth in Ethiopia, Kenya and Tanzania is underpinned by strong domestic demand and public investments in infrastructure.

On the capital markets front, we continue to work closely with the East African Securities Regulators Association (EASRA) and market players. On 13 July 2018, EASRA members adopted a regional framework for fit and proper assessments of market practitioners. The Authority further granted approval for the cross-listing by introduction of Bank of Kigali Group Plc on the Nairobi Securities Exchange, being the first Rwandese company on the Nairobi bourse. During the 42nd Meeting of the Africa and Middle East Regional Committee (AMERC) of the International Organisation of Securities Commissions (IOSCO) under the chairmanship of the Authority's Chief Executive, Mr. Paul Muthaura, a joint project with Financial Sector Deepening Africa (FSDA) was approved to develop strategies to increase listings and product uptake, as this was a challenge across both regions.

Domestic Performance and National Outlook

Kenya's economy expanded by between 5.6% and 6.0% during the period under review as inflation rates and currency rates remained stable. However, there was a slowdown in agricultural production, one of Kenya's economic mainstays, following delay in the onset of the long rains. While manufacturing and construction grew by 3.2 per cent and 6.6 per cent respectively, other sectors experienced a contraction amid continued monetary policy tightening driven by high rates offered on Government paper and thereby redirecting potential liquidity for private sector credit. We welcome the Government's proposal to remove the interest rate cap during the Budget reading in June 2019 as it will pave way for the extension of credit to the private sector. Further the move by Government towards operationalizing the Kenya Mortgage Refinance Company and the Credit Guarantee Fund is an important statement of its intent to implement the 'Big 4' Agenda.

Strategic Influence

Driven by our mission of making Kenya's capital market the premier choice for investors and issuers through robust

regulation, supporting innovation and enhanced investor protection, we strive to be strategic and responsive in the face of challenges as they arise.

On 30 January 2019, CMA was admitted to the Global Financial Innovation Network (GFIN) in recognition of its commitment to support capital markets' transformation through nurturing innovation. This recognition buttresses the Authority's efforts to support innovation, noting the important role of financial technology (Fintech) as a key enabler of performance excellence under the 10-year Capital Market Master Plan, 2014-2023.

During the year, Memoranda of Understanding (MoUs) were signed with the Kenya Bankers Association (KBA) and the Kenya Association of Manufacturers for collaboration on areas such as joint research, policy formulation and product uptake. A further MoU has been initiated with the Kenya Private Sector Alliance (KEPSA) to similar ends and we expect the sign offs to be concluded in the coming Financial Year. The Authority additionally led delegations including representatives of the National Treasury and Planning, the Central Bank of Kenya (CBK), NSE and the Central Depository and Settlement Corporation to Brazil and India as we progressed towards introducing regulated Securities Lending and Borrowing and Short Selling in Kenya.

Other Achievements

In line with the Marrakech Pledge of November 2016 which calls for an increase in the volume, flow and access to finance for climate projects, alongside improved capacity and technology from developed to developing countries, the Authority launched a framework for the issuance of listed and unlisted green bonds on 20 February 2019. This positions the Authority as supportive of green financing which is expected to play an important but niche role in driving the growth of Kenya's capital markets.

Investor Protection

Good Corporate Governance is essential for investor protection. Following the introduction of the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (the Code), the Authority published the first Corporate Governance Scorecard, during the year under review. The issuers' weighted overall score in the application of the Code was 55%, which compares well with our peers under the Association of South East Asian Nations (ASEAN) and that forms an important baseline against which future evaluations of the corporate governance environment may be assessed.

In view of the critical contribution of sound financial reporting to confidence in capital markets, the Authority will continue to work with relevant stakeholders to ensure the arrangements on sound financial reporting remain effective. This includes the adoption of technology-driven approaches to enhance regulation and supervision, manage

Chairman's Statement (Cont'd)

costs and efficiency of compliance for the industry. The enhanced use of technology also enables greater efficiency in enforcement processes.

During the year, the Board adopted more proactive enforcement strategies to address securities fraud prevention while the regulatory framework was strengthened to provide the Authority with enhanced powers to deal with fraud cases.

The successful investigation of market misconduct involving insider trading on the Kenol-Kobil counter was among the cases the Authority dealt with during the year. This resulted in the surrender of potential illegal gains amounting to over Kshs487 million and the further disgorgement of Kshs24 million. In connection with the same, the Board further took enforcement action against two individuals who were barred from transacting in the capital markets for varying periods.

In another case, financial penalties of Kshs375 million were imposed on two fixed income securities traders, being twice the amount of benefit received from irregular trading of Government bonds.

Regulatory responsiveness

During the year the Authority in conjunction with the industry progressed implementation of the 10-year Capital Market Master Plan, through the Strategic Plan 2018-2023 launched in July 2018. The Strategic Plan sets out the Authority's role in positioning Kenya's Capital Market as the premier choice for investors and issuers through robust regulation, supportive innovation, and enhanced investor protection. It further provides a blueprint for the Authority to align its resources to best meet the demands of a more connected, digital and sophisticated capital market in the country.

The Plan additionally envisages a new organization structure for effective achievement of its targeted performance outcomes. Once approvals are obtained from the relevant agencies, this structure will support the Authority in meeting its dual core mandate of regulation and market development, while introducing a paradigm shift in the use of data analytics and technology for effective decision-making.

To drive forward our regulatory transformation, the Authority has established a Financial Markets Law Review Panel. With its membership drawn from expertise in law (capital markets, commercial and tax law), venture capital and private equity, Islamic finance, legislative drafting, domestic and regional investment banking, and financial market operations, the Panel will act as an independent committee

of the Board. The Panel is expected to deepen capacity for early identification of potential legislative opportunities or challenges that could impact the functioning, efficiency and attractiveness of the capital markets.

Further, the Authority partnered with the National Council for Law Reporting (Kenya Law) to release a premier Digest of Capital Markets decisions delivered by Courts in Kenya. This document, which summarizes critical milestones in capital markets jurisprudence, is the first of its kind to be published in the financial sector in Kenya, covers a ten-year period from 2008 to 2018 and is indexed into seven categories covering civil cases, civil appeals, constitutional petitions, judicial review applications, miscellaneous applications, civil suits and criminal cases. The Authority trusts that the Digest will go a long way to demystify misconceptions on the operations of the capital markets as well as support greater consistency in judicial decision-making.

Challenges

The delayed resolution of bank insolvencies that affected the corporate bond market continued to be a challenge resulting in reduced interest in corporate bonds as a debt financing instrument. This situation re-emphasizes the need for clear settlement finality and insolvency netting carve outs in the law across the full scope of capital market products. To this end the Authority will continue to engage key stakeholders such as: the Fund Managers Association (FMA); the Kenya Deposit Insurance Company (KDIC), the Central Bank of Kenya (CBK) and the National Treasury and Planning; as well as the Nairobi International Financial Centre and Capital Market Master Plan National Steering Committees to seek lasting interventions to these uncertainties.

Other developments and strategic priorities

To achieve our vision and mission, our strategic initiatives for the coming year include:

Support for National Economic Development Objectives

The Vision 2030 Medium Term Plan III, launched in November 2018, presents opportunities for the capital markets. The Plan outlines projects and programmes earmarked for implementation by Ministries, Departments and Agencies estimated at a total cost of Kshs 11.5 Trillion, while the aggregated value of projects outlined in the County Integrated Development Plans (2018-2022) for counties is Kshs 1.4 Trillion. In total Kshs 12.9² Trillion is required for funding these projects, which are aligned to realizing the Government's 'Big 4' Agenda that aims to leverage food security, universal healthcare, affordable housing and the manufacturing sector to transform Kenya's economy.

² The figure is a sum total of the development funding requirements for 44 counties as stipulated in the 2nd edition of the County Integrated Development Plans

Chairman's Statement (Cont'd)

The Authority will continue engaging the National Government, County Governments and State-Owned Enterprises to facilitate financing of a significant portion of these projects that require long-term market-based financing through products such as Corporate Bonds, Green Bonds, County Bonds, Asset Backed Securities, Shariah Compliant Bonds and Real Estate Investment Trusts (REITs).

Considering our expanded mandate to regulate spot commodities exchanges, the Authority will also seek to facilitate the growth and efficient operation of these markets with the aim of promoting the agricultural sector and specifically food security by putting in place the requisite regulatory framework to support expansion of solutions to a broader set of mining and energy commodities.

While Kenya enjoys its stature as a hub of innovation, the country's capital markets have some ground to cover in seeking to utilize the opportunity presented by Fintech innovations to push capital market activity to the next level by broadening product and service offerings, deepening market participation and liquidity, and driving transformative economic development. In this regard, and in line with our strategic objective on leveraging technology to drive efficiency in the capital markets value chain, the Authority looks forward to building on the positive strides achieved following the launch of the Regulatory Sandbox to support innovation and development of new products and services.

International Financial Centre

Guided by our Vision to be an innovative regulator of a robust and globally competitive capital market, the Authority shall also continue to play its critical role in transforming Nairobi into a competitive International Financial Centre and the Heart of Africa's Capital Markets.

Internal Capacity

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

In this regard we will continue to pursue implementation of our regulatory excellence model dubbed "Uwezo Kipeo" together with the organisation restructuring, that I referred to earlier, aligned to the Strategic Plan to ensure adequate capacity to effectively discharge our mandate whilst ensuring efficient utilization of resources.

Appreciation

As I conclude, I wish to appreciate the Government for the support granted to the Authority during the year, which was critical in achieving our mandate. I wish to further extend my gratitude to the National Treasury and Planning, the entire capital markets fraternity and our peer Financial Services Regulators, for their immense contribution towards achieving our regulatory and market development mandate.

I also recognize my colleagues on the Board, the Chief Executive, the Management and Staff for their dedicated service and contribution to the Authority through the year. The successes and results recorded in this Report have been achieved due to the high degree of commitment of the whole CMA Team to deliver on the Authority's mandate.

I thank you all.



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.

- 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
- iii) During the period under review, the Board met thirteen times.

COMPOSITION OF THE BOARD

During the period under review, the Board was composed as follows:

1. Mr. James Ndegwa

Mr. 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 his present position, he was the Managing Director of Lion of Kenya Insurance Company Limited until 2003.

2. Hon (Amb) Ukur Kanacho Yatani, EGH, Cabinet Secretary, National Treasury and Planning

Ambassador Yatani has over 27 years' experience in Public Administration, Politics, Diplomacy and Governance in the public sector since 1992. Between 2006-2007, while Member of Parliament for North Horr constituency, he also served as an Assistant Minister for Science and Technology. At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya. Between June 2009 and October 2012, he served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. In this position, he aggressively pursued and advanced Kenya's foreign interests. He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against Transnational Organized Crime (UNTOC), Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and Chair of African Group of Ambassadors among others. He has Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.

3. Alternate to Cabinet Secretary, National Treasury and Planning: Dr. Geoffrey Mwau (Director General, Budget, Economic 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.

4. Justice (Rtd) Paul Kihara Kariuki CBS, Hon. Attorney General

Justice (Rtd) Kihara Kariuki is the Attorney General of the Republic of Kenya with effect from April 2018. He obtained a Bachelor's Degree in law from University of Nairobi in 1977 and Post Graduate Diploma in Law from Kenya School of Law in 1978. As the President of Court of Appeal of Kenya, between 2013 and March 2018, he was instrumental in the decentralization of the Court of Appeal to Malindi, Kisumu and Nyeri Counties. Directed the development of the blueprint ten-point strategy for the transformation of the Court that culminated in the Court of Appeal Bill and the strategic plan for the Court of Appeal in Kenya. As the first director of the Judiciary Training Institute (2009- 2013), Kenya, he was instrumental in establishing all the operational systems for the technical arm of the judiciary incorporating professional development for all judges, magistrates and all cadres of the paralegal staff at the judiciary. Justice (Rtd) Kihara Kariuki also served as a judge in the High Court of Kenya (2003- 2011). He Served in the Civil and Commercial divisions of the Court and as a judge in the Election Court for various parliamentary petitions. Previously he was a partner, Messer Ndungu Njoroge and Kwach Advocates, Nairobi (1986- 2000) and legal assistant and partner, Messer Hamilton Harrison and Mathews Advocates, Nairobi (1977 1985).

Corporate Governance Statement (Cont'd)

5. Alternate to Hon. Attorney General: Mr. Nevis Ombasa

Mr. 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.

6. 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 Masters degree in Economics and a Bachelors 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.

7. Alternate to Governor, Central Bank of Kenya: Mr. William Nyagaka

Mr Nyagaka joined the Central Bank of Kenya in May 1994. He was appointed Director, Financial Markets Department in May 2018. He previously served as Director, Internal Audit. He holds an MBA (Finance), and a Bachelor of Commerce (Accounting) degree from the University of Nairobi. He is a Certified Public Accountant (CPAK) and a Certified Public Secretary (CPSK). Mr Nyagaka also holds a Bachelor of Laws degree (LLB) from the University of Nairobi and a Diploma in Law from the Kenya School of Law. He is an Advocate of the High Court of Kenya.

Prior to joining the Central Bank of Kenya, he worked with the Kenya Power and Lighting Company Limited as a financial accountant, in addition to with working with KENAO. He has served in various departments in Central Bank of Kenya, including Finance, Banking, Financial Markets, Bank Supervision and Deposit Protection Fund Board. He also served, on secondment, at the Kenya Revenue Authority (KRA) during its formative stages.

8. Mr. Moibi Mose

Mr. Moibi 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 Master of Law (LLM), Public Finance and Bachelor of Laws (LLB) degree (Honours) from the University of Nairobi. Mr. Moibi is a Co-Founder and Managing Partner at Meritad Law Africa LLP 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 Ongweny and Moibi Advocates, Sichale & Company Advocates as well as Munoru Kagiri & Wamae Advocates.

9. Ms. Christine Okoth

Ms. Okoth is currently the Managing Director - MAL Consultancy Limited. She is an experienced Human Resource (HR) and Business Leader, with over 15 years of HR and business partnering practice. Prior to her current position, Ms. Okoth 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.

10. Dr. Thomas Kibua

Dr Kibua is Senior Faculty at Strathmore University Institute of Public Policy and Governance, Economic Advisor to the Governor of Makueni County. 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 specialising 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

Corporate Governance Statement (Cont'd)

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 Doctor of Philosophy degree from the University of Nairobi in 1983.

11. Mr. Paul Ngugi (Term ended 30th May, 2019)

Mr. 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 in various boards of state corporations including Kenya Roads Board, Housing Finance, Kenya Meat Commission and 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 Mwangozo 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.

12. Mr. John Birech

Mr. Birech holds an MA (Economics); B Phil. (Economics) and BA (Economics) from the University of Nairobi. He is an independent director of the Board and has previously served in various capacities at the Central Bank of Kenya: His last appointment being the Ag. Director, Financial Markets Department before his retirement.

13. Dr. Freshia Mugo – Waweru

Dr. Waweru earned her Ph.D. in International Finance (Derivatives Trading) from Sogang University in Seoul (South Korea), a Masters in Business Administration (MBA) and Bachelors of Commerce (Accounting) from Kenyatta University. She is also a Certified Public Accountant of Kenya (CPA-K). In 2012, she was appointed as part of a 16 member steering committee to come up with 10- year Master Plan of the Capital Markets Authority (CMA) of Kenya which was launched in November 2014. In January 2015, she was appointed as a member of the Capital Markets Master Plan Implementation Committee and the chairperson of the Financial Deepening Committee, especially on the introduction of derivatives market in Kenya. In April 2015, Dr. Waweru was appointed as a member of the Anti – Money Laundering Board where she was a member of the Finance Committee and the Chair of the Human Resources Committee. In October 2015, she was appointed as a member of the Nairobi Securities Exchange (NSE) Derivatives Risk Management Committee.

Dr. Waweru has extensive training and consultancy experience in different areas like; Corporate Governance, Leadership, Finance for Non-Finance Directors & Managers, Derivatives Markets & Trading, Financial Management, and Investment Analysis and Portfolio Management.

She is a senior lecturer at Strathmore University teaching Derivatives Markets, Advanced Investment Analysis and Portfolio Management, Managerial Finance, Corporate Finance, International Finance, Public Sector Financial Management, Financial and Management Accounting among others.

14. Mr. Peter Mungai (Appointed on 3rd May, 2019)

Mr. Mungai is an Advocate of the High Court of Kenya and holds a Bachelor of Laws Degree (LLB) and a Masters in Business Administration (MBA) from University of Nairobi (UON). He is currently pursuing a Ph.D. in Business Administration from the same institution. He is a Certified Public Accountant (CPA) and a Certified Public Secretary (CPS) as well an Associate of the Kenya Institute of Bankers (AKIB). He also holds a Certificate in Banking and Financial Services (CBFS).

Corporate Governance Statement (Cont'd)

Mr. Mungai is the Head of Tax for Barclays Bank of Kenya Limited and has over 12 years experience in tax management and policy. Prior to joining Barclays, Mr. Mungai worked with PricewaterhouseCoopers (PwC) and KPMG East Africa. He is a Trustee for Barclays Bank Pension Schemes and a Member of the Standards Tribunal. He has also worked with Diamond Trust Bank (DTB).

15. Mr. Paul M. Muthaura, MBS, 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), the Steering Committee of the Growth and Emerging Markets Committee of IOSCO, Chairman of the Africa and Middle-East Regional Committee of IOSCO, the Financial Stability Board (FSB) Regional Consultative Group for Sub-Saharan Africa and the Chairman of the Consultative Committee of the East African Securities Regulatory Authorities (EASRA). Mr. Muthaura is also 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 an Honorary Fellow of the Institute of Certified Secretaries. He holds 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.

Board and committee meetings attendance

No.	Board Member	Classification	Designation	Finance and Planning Committee (FPC) Total number of Meetings:4 (3 scheduled and 1 Special)	Audit Corporate Governance and Risk Management Committee (ACM) Total number of Meetings:7	Technical and Policy Committee (TPC) Total number of Meetings:8 (7 Scheduled and 1 Special)	Human Resources and Corporate Communication Committee (HRCC) Total number of Meetings:8(4 scheduled and 4 Special)	Joint Audit and Finance and Planning Committee:1	ICT Ad hoc Committee Total number of Meetings:3	KenolKobil Plc Ad hoc Committee	Board Total number of Meetings: 12(8 scheduled and 4 special)
1.	Mr. James Ndegwa	Independent	Board Chairman							8/8	12/12
2.	Mr. Nevis Ombasa	Alt. Attorney General			3/7	3/8	5/8	1/1			9/12
3.	Ms. Christine Okoth	Independent Member	Chairperson HRCC	1/4 (Co-opted)	4/7	2/8	8/8		3/3		12/12
4.	M. Paul Ngugi	Independent Member		3/4	1/7 (Co-opted)	6/8	5/8	1/1			10/12
5.	Mr. John Birech	Independent Member	Chairperson TPC	4/4	4/7	6/8	1/8 (Co-opted)	1/1			12/12
6.	Mr. Geoffrey Mwau	Alt. to the Cabinet Secretary National Treasury		2/4	3/7	3/8				6/8	5/12
7.	Christopher Oisebe	Representing Principal Secretary National Treasury									3/12
8.	Mr. Musa Kathanje	Representing Principal Secretary National Treasury		1/4	1/7	1/8		1/1			2/12

Board and committee meetings attendance (Cont'd)

No.	Board Member	Classification	Designation	Finance and Planning Committee (FPC) Total number of Meetings:4 (3 scheduled and 1 Special)	Audit Corporate Governance and Risk Management Committee (ACM) Total number of Meetings:7	Technical and Policy Committee (TPC) Total number of Meetings:8 (7 Scheduled and 1 Special)	Human Resources and Corporate Communication Committee (HRCC) Total number of Meetings:8 (4 scheduled and 4 Special)	Joint Audit and Finance and Planning Committee:1	ICT Ad hoc Committee Total number of Meetings:3	Keno/Kobil Plc Ad hoc Committee	Board Total number of Meetings: 12 (8 scheduled and 4 special)
9.	Mr. William Nyagaka	Alt. to the Governor Central Bank of Kenya			4/7	5/8	2/8 (co-opted)		3/3		10/12
10.	Dr. Freshia Mugo Waweru	Independent Member	Chairperson ACM	*1/4	4/7	6/8				7/8	11/12
11.	Dr. Thomas Kibua	Independent Member	Chairperson FPC	3/4	1/7 (Co-opted)		6/8			6/8	8/12
12.	Mr. Moibi Mose	Independent Member	Chairperson ICT Ad hoc Committee		*1/7		3/8		2/3		6/12
13.	Mr. Peter Mungai	Independent Member				*1/8					2/12
14.	Ms. Joyce Wesonga	Representing Inspector general of State Corporation		2/4	5/7	2/8	3/8	1/1			6/12
15.	Mr. Andrew Meme								3/3		

NOTES:

* Freshia Mugo - The Member was appointed to the Audit Committee effective 7 December 2018, hence ceased being member of Finance and Planning Committee immediately.

* Moibi Mose - Member was appointed to the ICT Ad hoc Committee on 22 May 2019

* Peter Mungai - Member was appointed to the Committee on 22 May 2019

Board and committee meetings attendance (Cont'd)

No.	Board Member	Classification	Designation	Finance and Planning Committee (FPC) Total number of Meetings:4 (3 scheduled and 1 Special)	Audit Corporate Governance and Risk Management Committee (ACM) Total number of Meetings:7	Technical and Policy Committee (TPC) Total number of Meetings:8 (7 Scheduled and 1 Special)	Human Resources and Corporate Communication Committee (HRCC) Total number of Meetings:8(4 scheduled and 4 Special)	Joint Audit and Finance and Planning Committee:1	ICT Ad hoc Committee Total number of Meetings:3	KenolKobil Plc Ad hoc Committee	Board Total number of Meetings: 12(8 scheduled and 4 special)
16.	Mr. Muchemi Wambugu								3/3		
17.	Mr. Geoffrey Ngetich								1/3		
18.	Dr. Willy Mutunga									8/8	
19.	Ms. Anne Ericksson									8/8	
20.	Ms. Patricia Kiwanuka									8/8	
21.	Dr. James Boyd Mcfife									8/8	

NOTES:

- Mr. Paul Mungai was appointed effective 3 May 2019
- Mr. Paul Ngugi second term expired on 31 May 2019
- Mr. Moibi Mose was reappointed for the second term effective 19 December 2018
- Dr. Thomas Kibua was reappointed for the second term effective 19 December 2018
- The Authority constituted an Adhoc Board Committee comprising of 4 CMA board members and 4 independent persons for the sole purpose of hearing and determination of the allegations on the suspicious trades in KenolKobil shares.
- The Authority has constituted a standing ICT Ad hoc Committee comprising of 3 independent and CMA Board members.

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 2019, which show the state of the affairs of the Authority.

Principal activities

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

Results

The results of the Authority for the year ended 30th June 2019 are set out on page 44.

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 3.

Dividends/Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority remits Ksh 92.7 million (FY 2018: Ksh. 21.1 million) to the consolidated fund .

Auditor

The Auditor-General is responsible for the statutory audit of the Authority in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act 2015. Section 23(i) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf.

Accordingly, Mbaya & Associates Certified Public Accountants were appointed by the Auditor General to carry out the audit of the Authority for the year ended 30th June 2019 and report to the Auditor General.

By order of the Board



.....
Chief Executive

Nairobi

29th August, 2019

Statement of Board Members' 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 arise. 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 up to May 2019 and subsequently by Dr. Thomas Kibua. This committee has oversight on all financial issues including budgets, financial reporting process and controls and procurement. The committee met four times during the year and had two special meetings.

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 Dr. Freshia Mugo-Waweru. 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. The committee met five 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. Christine Okoth. It is responsible for human resource matters including recruitment, management succession as well as the corporate communication function. The committee met five times during the year and had one special meeting.

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 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 seven times during the year and had one special meeting.

Ad-Hoc Board Committees

The following were the Ad hoc Committees in the financial year:

- i) **The Implementation Committee for the Capital Markets Master Plan** - Launched in 2015.
- ii) The Board established the **ICT Adhoc Committee** in February 2017. This committee consists of five members three of whom are recruited from the ICT Industry with ICT Technical Skills. The committee is chaired by Mr. Moibi Mose. It consists of two non executive members of the Board, and three external experts from ICT industry. It is responsible for continuous assessment of opportunities/innovation to improve service delivery through ICT, provide oversight and guidance on the initiative to automate and deliver effective technological solutions to access and provide inputs on strategies to deliver reliable ICT infrastructure and ensure Security (Confidentiality, Integrity and Availability) of ICT systems and to provide strategic guidance to ensure ICT operations, processes and resources are managed prudently. The committee met three time in the year.
- iii) **Ad hoc Committee on Kenol Kobil PLC.** This committee consisted of eight members four of whom were appointed from the industry with Finance, auditing & Legal Skills. The committee is chaired by Mr. James Ndegwa. The committee was appointed by the Board to conduct the enforcement action hearings in the alleged "insider-trading activities" in Kenol-Kobil PLC shares. The Ad hoc committee met 8 times in the year.
- iv) **Financial Markets Law Review Panel**
The Board of the Capital Markets Authority (CMA), in line with the targets set out in the Capital Market Master Plan (2014 – 2023), established a Financial Markets Law Review Panel of 16 leading domestic and international financial market lawyers and practitioners. The Panel will play a key advisory role to the Board in exercising its mandate to ensure that capital markets law remains responsive to market realities and appropriately facilitative to evolving market expectations from both a domestic and international perspective. The Panel will meet 2 – 4 times annually.

Statement of Board Members' Responsibilities (Cont'd)

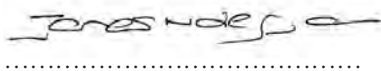
The Board Members are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on 30th June 2019. This responsibility includes: (i) maintaining adequate 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 30th June 2019, 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.

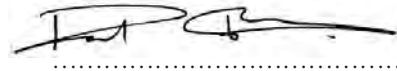
Nothing has come to the attention of the Board Members to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Authority's financial statements were approved by the Board on 29th August, 2019 and signed on its behalf by:



.....
Chairman



.....
Chief Executive



CMA Chief Executive Mr. Paul Muthaura (centre) poses for a photo with winners of the Scavenger Hunt Competition. The competition was organized as part of the World Investor Week 2018 activities.



Kenya Law CEO Mr. Long'et Terer (Left) and CMA Chief Executive Mr. Paul Muthaura, MBS pose for a photo during the launch of the Digest on Decisions on Capital Markets in November 2018.

Board of Directors



Standing from left to right:

Hon (Amb) Ukur Kanacho Yatani, EGH - Cabinet Secretary, National Treasury and Planning • **Dr. Geoffrey Mwau** - Alt. PS National Treasury & Planning • **Mr. Peter Mungai*** • **Mr William Nyagaka** - Alt to the CBK Governor • **Mr. John Birech*** • **Ms. Christine Okoth*** • **Mr. Nevis Ombasa** - Alt. Attorney General • **Dr. Thomas Kibua** • **Hon. Justice (Rtd) P Kihara Kariuki** - Attorney General • **Dr. Patrick Njoroge** - Governor CBK

* Independent Directors



Seated from left to right:
Mr. Moibi Mose* • Dr. Freshia Mugo* - Waweru • Mr. James Ndegwa - Chairman • Mr. Paul Muthaura - Chief Executive

Chief Executive's Statement



Mr. Paul Muthaura
Chief Executive

Global Capital Market Performance

Globally, equity markets registered weak performance in the first half of the 2018/2019 Financial Year attributed to the US inflationary pressure with attendant rate adjustments, coupled with the trade war between the United States (U.S.) and China and weakness in consumption and industrial production in China.

This notwithstanding, the international equity markets rebounded in June particularly in the U.S. market. The S&P 500 reached an all-time high after the best June for decades, up 6.9%, and the best first half of the year since 1997. The Dow Jones and NASDAQ also rebounded. Analysts have attributed the gains to expectations of an interest rate cut rather than strong Q2 corporate earnings expectations as the markets are widely expecting the Federal Reserve to cut rates in July 2019. Sovereign Bond yields also fell in major economies as another pointer towards a looming recession, although Central Banks may step in with lower rates to try to forestall the downward trend².

Domestically, the equities market was on downward trend with the NSE 20 declining by 14.8% largely as a result of declining profitability of blue chip companies, profit warnings and persistent foreign portfolio outflows in search for yield. There are however prospects of international investors coming back to our market if performance of both equity and debt returns decline in the US and Europe on fear of recession.

Listed Equity turnover stood at Kshs. 145.51 billion in

2018/19 compared with the Kshs 197.89 billion registered in 2017/18, a 26.47% decline. An 8.61% drop was also recorded in market capitalization to Kshs. 2,354 billion from Kshs. 2,576 Billion recorded in 2017/2018. The NSE 20-share index was also on a downward trend at 2796.84 points at the end of April 2019 compared to 3285.73 as at April 2018 a 14.8% decline in the index.

Conversely, there was a significant rise 19.54% in secondary Government bond trading activity in the period under review, with turnover increasing to Kshs 607.43 billion from the Kshs 508.15 billion recorded in 2017/18. The corporate bond turnover however recorded a 25.96 % decline with turnover falling to Kshs 1.84 billion, as measured against the preceding Financial Year's Kshs 2.485 billion reflecting depressed corporate bond activity due to wider market circumstances. In this context, Treasury bond trading accounted for 99.62% of total bond trading during the period under review, reinforcing the continued high concentration level.

Implementation of the Capital Markets Master Plan

The capital market remains a key component of the foundations for National Transformation and the Capital Markets 10 Year Master Plan (2014 – 2023) was once again retained as a Vision 2030 flagship project in the Medium Term Plan III launched in November 2018. This buttresses the importance attached to the role of capital markets in bridging the resource gap in funding Vision 2030 Projects through mobilizing savings and investments to support Kenya's aspirations to be an upper-middle-income economy.

¹<http://www.mrminv.com/commentary/index.html>

²<https://www.wsj.com/articles/world-economy-comes-to-grips-with-bond-yield-plunge-11561311410>

Chief Executive's Statement (Cont'd)

The milestones achieved in the year under review include:

- i. The Nairobi Securities Exchange (NSE) successfully completed a six-month Derivatives Pilot Test Phase conducted between July and December 2018. This culminated in the grant of approval to the NSE to launch the NEXT derivatives market in May 2019. Initially, the Derivatives Market will offer investors Equity Single Stock Futures (SSF) and Equity Index Futures (EIF) and later introduce other financial and commodities derivatives. The Derivatives exchange is scheduled to be formally launched in July 2019;
- ii. Finalization of policy, legal and technical specifications as well as a road map for the implementation of the Hybrid Bond Market model that is expected to promote a more efficient and transparent bond market in Kenya;
- iii. In the 2019 Ease of Doing Business Report, Kenya was ranked the seventh most improved country globally in providing an attractive environment for doing business, recording an improvement of 19 places to position 61 globally from position 80 in 2018, out of 190 countries. In 2013, Kenya ranked 129th, this significant improvement underscores Kenya's enhanced potential in attracting both domestic and Foreign Direct Investment, a key prerequisite for job creation and poverty alleviation; and
- iv. The conclusion of a study on Opportunities for Access to Capital Market Financing for National and County Governments in Kenya which lays the foundation for a framework for facilitating market based financing for County and National Government Projects

Review of the Policy and Regulatory Framework

a. Capital Markets (Amendment) Act, 2018

The Capital Markets (Amendment) Act, 2018 that was enacted on 31st December 2018 provided inter alia, for penalties to be imposed on persons involved in embezzlement activities, established clearer offences of front-running and obtaining gain by fraud and further ensured that the administrative enforcement action process set out is sufficiently explicit in its applicability to key employees of listed companies.

The Act further provided for payment of reward to any person who provides new and timely information with respect to market misconduct or breaches of the law leading to the recovery of sums payable to the Investor Compensation Fund (ICF). It abolished the provisions providing for the appointment of an and independent ICF Board noting the same had not been operationalized since their introduction in 2010 due to a change in national policy with the establishment of the Unclaimed Financial Assets Authority. In line with the operating practice and the law since 2000 the management of the fund in the ICF will remain vested in the Authority to ensure that the Investor Compensation Fund (ICF) is managed sustainably

by avoiding the imposition of higher administrative costs on the ICF from a dedicated management board. The Act also established clearer obligations on issuers of securities, licensed and approved persons to maintain a system of internal controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with the International Financial Reporting Standards (IFRS).

b. Other Policy and Regulatory Frameworks

The Authority developed a number of stand-alone policy and legal frameworks to support product development including:

- i. Policy Guidance Note on Green Bonds; and
- ii. Policy Guidance Note on the establishment of a Regulatory Sandbox to support FinTech

Additional policies, statutes, and regulations under development that will be finalized in the next financial year include:

- i. Capital Markets (Amendments) Bill, 2019: Targeted to consolidate and refine the extensive amendments made to the Act in recent years.
- ii. Commodities Exchange Regulations:

At a regional level the Authority together with its peers in the East African Securities Regulatory Authorities (EASRA) played a pivotal role in the development of the East African Financial Services Policy and Bill, which proposes the establishment of "Centre-Lite" Model of an East African Financial Services Commission (EAFSC). The policy and draft bill were both adopted by the Sectoral Council of Finance and Economic Affairs (SCFEA) in May 2019 pending adoption by Council of Ministers. In this model, the EAFSC if created will play a coordination role in facilitating the development common regulatory principles/rules books, as well as market development within the financial sectors within Member States.

Following my May 2018 appointment as the Chairman of the Africa, Middle East Regional Committee (AMERC) of the International Organization of Securities Commissions (IOSCO), I received excellent regional support on prioritizing policy and regulatory matters pertinent to the region. Particularly, we have progressed work to develop tools to: i) address challenges relating to low listings and capital raising activity, ii) identify opportunities for building sustainable capital markets, iii) enhance investor education and financial literacy as well as iv) step up capacity building and the leverage of financial innovation to deepen regional markets. Significant work is already going on towards these priority areas, with a direct bearing on the strategic direction of the Kenyan capital markets as we continue to pursue Morgan Stanley Capital Investment (MSCI) Emerging Market Index status.

Chief Executive's Statement (Cont'd)

Financial Highlights RESULTS

The results for the year are summarised below:-

	As at 30th June 2019 Shs '000	As at 30th June 2018 Shs '000
Total income for the year	1,044,093	967,469
Total operating expenditure for the year	(900,341)	(889,282)
Surplus for the year before transfer	143,752	78,187
Transfer to National Treasury	(92,706)	(21,127)
Surplus for the year	51,046*	57,060

*Out of the surplus for the year, the Authority has allocated Ksh20million towards the building fund kitty as plans are underway to acquire permanent premises upon receipt of necessary approval.

Outlook

The outlook for 2019/20 is positive amidst projected stable economic growth forecasted at 6.0%³ despite anticipated risks including an escalation of global trade-related tensions, a rise in oil prices and weather-related shocks. From a capital markets development perspective, I remain upbeat based on the milestones already mentioned above as well as others such as the NSE-led Ibuka incubator and accelerator hosting program to raise visibility of and develop a pipeline of future listings; and CMA (Kenya) admission to the Global Financial Innovation Network (GFIN).

Notably, on 13th June 2019, the Cabinet Secretary, the National Treasury and Planning made budget policy pronouncements, proposing:

- i. Measures to enhance transparency and predictability in the issuance and trading process for Treasury Bills and Treasury Bonds;
- ii. Exemption from the Capital Gains Tax for transfer of property that is necessitated by restructuring of corporate entities;

- iii. Introduction of an amnesty on the tax penalties and interest, on any outstanding tax for two years prior to the listing, for SME's that list under the GEMS program to encourage them to list and clean their tax records. The principal taxes shall however be paid in full;
- iv. Empowerment of the Authority to enforce penalties and sanctions on market players who violate laid down rules and procedures; and
- v. Tax neutrality treatment of Special purpose Vehicles used for the issuance of Real Estate Investment Trusts (REITs)

While the actual outcome of these proposals will be known during the first half of the next financial year, the Authority plans to fully leverage on these incentives and to take advantage of the projected positive macro environment through continued implementation of its Strategic Plan 2018-2023 to facilitate deeper and more liquid capital markets and position Kenya as the Heart of Capital Markets Investment in Africa, as envisioned in the Capital Markets Master Plan. This will be achieved through reinforcing our commitment to regulatory excellence,

³ World Bank Press Release April 2019

investor protection, innovation and overall efficiency in the Authority's operations. We will do so by continuing to expand our behavioural insights capabilities to better understand our customers and the investors to drive uptake of capital markets products and services. Additionally, we shall focus on enhanced market infrastructure oversight, strengthen data collection and analytics capacity, corporate governance and risk management by issuers of securities to the public and market intermediaries as well as revolutionise our investor education strategy to promote self-protection by investors.

To leverage on Kenya's growing influence on capital markets policy, we will continue to advocate for regional engagements on work related to Regulatory Technology (RegTech) and Supervisory Technology (SupTech) to complement Fintech facilitation while taking into account the attendant risks such as cyber security and cyber resilience. I am confident that

Kenya will benefit significantly from these engagements. I wish to acknowledge that all the achievements during the period under review would not have been possible without the firm support of the CMA Board, our strategic partners and other stakeholders who have been instrumental and I wish appreciate them all for their unrelenting assistance. Special recognition goes the Management and staff of the Authority for their commitment and drive to effectively execute our twin mandate of regulation and development of a fair and efficient capital market.



Mr. Paul Muthaura, MBS
Chief Executive



From Left to Right : KBA Director Of Communications- Nuru Mugambi, Climate Bonds Africa Programme Manager- Olumide Lala , NSE Chief Executive Officer- Geoffrey Odundo, CMA Chief Executive- Mr. Paul Muthaura, CBK Governor- Dr. Patrick Njoroge and Financial Sector Deepening Africa Director Capital Markets- Mark Napier pose for a photo during the launch of the Green Bond Rules & Guidelines in Kenya in February 2019.

Corporate Social Responsibility Statement

The Authority continues to be a responsible corporate citizen with focus on participation in various initiatives as part of its corporate social investment strategy and taking responsibility to both its external and internal stakeholders.

In line with the Presidential directive for State Corporations to plant as part of their Corporate Social Responsibilities(CSR), the Authority planted 550 indigenous trees in the 2018/19 Financial Year. This was done in a collaboration agreement with the Kenya Forestry Service(KFS) in an area measuring 1/2 hectare in the Ngong Forest Nairobi. The cumulative number of trees planted by the Authority over a two year period is 1,550, and is well above 10% of the total Corporate Social Investment budget for the two years.

The Authority has in the last three years sponsored the construction of a multi purpose modern science laboratory for Nthunguni Secondary School in Machakos County. During the year, the Authority partnered with the Science Equipment Production Unit (SEPU) Limited to finish equipping of two laboratories (Chemistry and Biology Lab combined and Physics Lab separate) at a cost of Ksh. 3.5 million. We are glad that the facilities will be utilized by the current form four candidates in the School as they do their Science practical examinations in their 2019 K.C.S.E.

On the internal stakeholders, the following initiatives have been taken:

The Authority remains keen on compliance with the Occupational Safety and Health Act. This is achieved through

continuous sensitization on safety in addition to initiatives to optimize work place ergonomics and productivity.

The Authority has on regular basis conducted HIV Testing Services as an initiative for HIV/AIDS prevention as well as establishing access to independent counselling for staff.

The Authority has consistently ensured compliance with the 1/3 gender rule, with the current ratio of Female to Male standing at 41% : 59% respectively thereby exceeding the minimum threshold of 33%.

The Authority also takes into consideration the Face of Kenya when conducting recruitment and promotions respectively for various positions in line with the Presidential initiatives on national values.

In line with the Public Procurement and Asset Disposal Act 2015's requirement on preference and reservations, the Authority has ensured that the Access to Government Procurement Opportunities(AGPO), is maintained to above the minimum 30% threshold, and runs initiatives to empower Youth, Women and Persons with Disabilities to better leverage available opportunities.

The main entrance to the premises remains easily accessible to People With Disabilities(PWD), and deliberate effort is also made to attract PWDs into employment by sharing information with the National Council of Persons with Disability.



Members of Staff - Ms. Rose Leruk (Left) together with Ms. Margaret Charagu take part in the tree planting day at Ngong Forest in November 2018.

Management Discussion and Analysis

SECTION A

Operational and Financial performance

The Authority promotes and facilitates the development of an ordinary, fair, and efficient Capital Market in Kenya. This mandate has continued to be delivered in the year. Revenue earned was 8% higher than last financial year with the recurrent surplus of Ksh123million, a significant increase from the previous year of 57 million. The increase in the realized revenue and surplus is mainly attributable to the approval fee earned from the acquisition of the Kenol-Kobil by Rubis Energie in the year.

The Authority is in a strong cashflow position capable of meeting obligations as they fall due. The performance at hand has a bearing on the future market activities. It is of importance to note that any changes affecting investors in the economic, social and political environment, has a significant impact on the capital markets industry.

SECTION B

Compliance with statutory requirements

The Authority is in compliance with all statutory obligations including but not limited to: remittances of PAYE, NHIF, NSSF, VAT, HELB, Withholding tax etc within the stipulated deadlines.

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. A full provision has been made in the books, and CMA has a prequalified list of legal consultants, from which services are sourced competitively from time to time.

SECTION C

Key projects and investment decisions being implemented

The following is the major project being implemented at CMA.

Project	Brief description	Viability	Funding	Sustainability
Change Management (Uwezo Kipeo)	Cultivating a culture of excellence driven by outcomes, staff empowerment and a globally benchmarked code of conduct and ethics. This involves complete review of how we manage and motivate staff, the single most important resource in achieving the mandate of Authority.	More skills, systems, agility, and raising the capability of CMA to regulate the capital markets, and being ready to take on new challenges in making Kenya a great place to invest.	Donor Funded/ CMA	The project is fully successful

SECTION D

Major risks identified in the ERM

The Authority updated its Enterprise Risk Management (ERM) Framework in 2017, on the basis of which Risk Management has been mainstreamed within the Authority to allow for structured risk assessments on a continuous basis. During the financial year, the Authority aligned its ERM Framework to its new 2018-2023 Strategic Plan and also automated its ERM Framework with the development and roll out of its Performance and Risk Management System. The Authority also integrated ERM with strategy and risk reporting is now linked to performance reporting.

The Board is responsible for the Authority's risk management and at least once every quarter receives reports to enable the review, monitoring and evaluation of the implementation and effectiveness of the ERM framework. The Authority in the course of its mandate identified key corporate risks, the associated risk levels, and their mitigation strategies as defined below:

Management Discussion and Analysis (Cont'd)

1. Financial distress of listed companies due to poor governance practices, weak internal controls, and failed strategies.

The Authority will mitigate the risk by:

- a) Taking timely enforcement action against violations;
- b) Strengthening supervision of Listed Companies;
- c) Verification of data/ information from external sources such as audit and media reports;
- d) Enforcing implementation of the Code of Corporate Governance Practices; and
- e) Encouraging institutional investors to adopt the Stewardship Code thus getting opportunities to critique strategies adopted by issuers.

2. Degradation of IT Infrastructure/Applications because of Aging Hardware and Outdated Systems

The Authority mitigated this risk by:

- (a) Upgrading all Microsoft Operating Systems from 2008, 2012 R2 to the latest 2019 version;
- (b) Upgrading the Enterprise systems which include the Enterprise Resource Planning System, Risk Based Supervision System, Share point, Surveillance System, Correspondence Management System, Intranet and Team Mate and corresponding Database Software;
- (c) Procuring new hardware infrastructure and associated peripherals as well as the Network Infrastructure to replace the aging hardware;
- (d) Ensuring valid maintenance contracts were in place; and
- (e) Ensuring that there was effective monitoring of the ICT infrastructure and proactive resolution of degradation in a timely manner.

3. Unstable macro-economic environment

The Authority is mitigating this risk by:

- (a) Highlighting measures to address a volatile macro-environment in stakeholder engagements conducted periodically, through the Capital Markets Soundness Stakeholder sessions;
- (b) Facilitating the operationalization and efficient working of the Derivatives market;
- (c) Facilitating the operationalization of Commodity markets and Commodity Derivatives;
- (d) Prioritizing the implementation of strategic initiatives e.g. the Capital Markets Masterplan, the Big 4 Agenda items and Vision 2030.

4. Sub-optimal level of uptake of new and/or existing capital markets products and services

The Authority is mitigating this risk by:

- (a) Having a robust investor education and public awareness initiatives on capital markets initiatives e.g. through University challenge competition and other target groups
- (b) Holding targeted Focus Group Discussions with various entities such as Chamas, Saccos, Pension Funds, Women in Business among others
- (c) Partnering with relevant stakeholders to create a facilitative environment for issuance trading and settlement of capital markets products and services

5. Lack of a mechanism to ensure that the Authority is actively represented towards implementation of Coffee Sector Reforms as well as establishment of the Kenya Multi Commodities Exchange (KOMEX)

The Authority successfully advocated for its inclusion in the membership of the KOMEX taskforce and Coffee Reforms Implementation Committee (CSIC) of which has significantly assisted towards the articulation of our mandate to the other stakeholders.

6. Failure to timely detect misleading or falsified third party and financial statement information submitted by regulated entities either publicly or through regulatory filings.

The Authority is addressing this risk by doing frequent onsite verification of information and also working with parties who can provide independent references.

7. Cyber security threats

The Authority is continuously mitigating the risks to its ICT Infrastructure, Information Systems and data by:

- (a) Conducting scheduled preventive maintenance exercise for ICT infrastructure and network components;
- (b) Conducting failover tests for ICT systems to the hot Disaster Recovery sites;
- (c) Implementing appropriate security measures and controls on the enterprise firewall and network components.

Management Discussion and Analysis (Cont'd)

- (d) Restricting access to the Primary data center to authorized personnel and maintaining a server access log
- (e) Monitoring and managing the backup process to ensure all critical data is included in the scheduled backups.
- (f) Conducting cyber security awareness workshops for staff on current threats.

SECTION E

Material arrears in statutory/financial obligations

The Authority has no statutory arrears and promptly meets all its statutory obligations. The Authority's pension scheme is oversighted by a Board of Trustees and is administered by an independent administrator.

There is an ongoing engagement with KRA for the latter to grant waiver of penalties and interest in line with prior confirmations being pursued in conjunction with the Authority's tax consultants.

SECTION F

Financial probity and serious governance issues

There are no issues of financial improbity reported by Management, any board committee or by external auditors. There are no governance issues and conflicts of interest at the Board or top management of the Authority are disclosed accordingly when they arise.

Report of the Auditor General

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Capital Markets Authority set out on pages 44 to 79, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Mbaya & Associates, auditors appointed under Section 23 of the Public Audit Act, 2015. 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.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Capital Markets Authority as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Capital Markets Authority Act, Cap.485A of the Laws of Kenya.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Capital Markets Authority in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. These matters were addressed in the context of the audit of the financial statements, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a

Report of the Auditor-General on Capital Markets Authority for the year ended 30 June 2019

description of how the audit addressed the matter is provided in that context. I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

	Key Audit Matters	How the Audit Addresses the Key Audit Matter
1.	<p>Revenue from non-exchange transaction</p> <p>Revenue from exchange transactions amounted to Kshs. 888 million. This forms 85% of the total revenue compared to the prior year. This increase is mainly attributed to increase in capitalization fees and application and licensing fees.</p> <p>This is a key audit matter due to its materiality and its status as the core source of income stream to the Authority.</p>	<p>The following procedures were performed:</p> <ul style="list-style-type: none"> • Evaluation of internal controls and walkthrough procedures on key control and confirming that they were adequate. • Performing analytical review items compared to prior year. • Testing completeness by tracing revenue earned to the bank statements. • Verifying that the rates charged on the fees are as per the Capital Markets Regulations, 2002.
2.	<p>Investors' Compensation Fund (ICF)</p> <p>Investors' Compensation Fund comprises of marketable securities, share investment, fees receivables and bank balance. The Authority holds Investors' Compensation Fund worth Kshs.3.1 billion. This represents a 37% increase from the previous year. This is attributed to increased investments in Treasury Bills. In addition, the ICF fees from penalties increased from Kshs.42 million to Kshs.552 million in the financial year 2018/2019.</p> <p>This was considered a key audit matter given its significance in the financial statements. Also, the Authority is required by law to maintain the fund.</p>	<p>The audit procedures included:</p> <ul style="list-style-type: none"> • Verifying accuracy of the Investors' Compensation Fund (ICF) receivables and agreed to invoices and demand letters. • Reviewing the annual securities statement and verifying them against the books of accounts to test their accuracy, completeness, existence and cut-off.

Report of the Auditor-General on Capital Markets Authority for the year ended 30 June, 2019

Other Information

The Directors are responsible for the other information, which comprises the statement of corporate governance, Directors' report and the statement of Directors' responsibilities. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis of Conclusion

High Employees Costs

Contrary to the provisions of Section 26(a) of the Public Finance Management (National Government) Regulations, 2015, that requires compensation of employees not to exceed 35% of revenue, the Authority employees' expenses amounted to Kshs.491,668,000 or 47% of the total revenue of Kshs.1,043,961,000.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND OVERALL GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on my audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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 maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how the Authority monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high

Report of the Auditor-General on Capital Markets Authority for the year ended 30 June, 2019

level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the Internal Control would not necessarily disclose all matters in the Internal Control that might be material weaknesses under ISSAIs. A material weakness is a condition in which the design or operation of one or more of the Internal Control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue to sustain its services
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the Key Audit Matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.


 Nancy Gathungu
AUDITOR-GENERAL

Nairobi

10 August, 2020

NOTE:

This is a copy of the Audit Report by the Auditor General on the financial statements for the year ended 30th June 2019. 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. The financial statements as presented in this report are in pages 44 to 79.

Statement of Financial Performance

	Note	2019 Shs'000	2018 Shs'000
Revenue from non-exchange transactions			
Capitalization, rights and new issue fees	6	887,998	825,828
Donor fund income	7	50,144	34,303
		938,142	860,131
Revenue from exchange transactions			
Other income	8	105,819	107,355
Total revenue		1,043,961	967,486
Expenses			
Operating expenditure	28	(900,341)	(889,282)
Total expenses		(900,341)	(889,282)
Other gains/ (losses)			
(Loss)/Gain on disposal of property and equipment	9	132	(17)
Surplus (gross)	10	143,752	78,187
Surplus due to National Treasury	11(a)	(92,706)	(21,127)
Net Surplus		51,046	57,060

Consolidated Statement of Financial Position

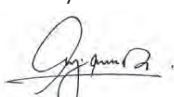
(Including investor compensation fund)

	Note	2019 Shs'000	2018 Shs'000
ASSETS			
Current assets			
Inventories	12	1,622	1,638
Trade and other receivables from non exchange transactions	13(a)	45,207	52,515
Trade and other receivables from exchange transactions	13(b)	14,676	12,707
Staff loans and advances/guarantee fund	14	50,208	48,548
Held-to-maturity investments	15	1,029,420	836,536
Cash at bank and in hand	16	29,615	42,875
Investors' Compensation Fund	17	1,934,621	998,149
		3,105,369	1,992,968
Non-current assets			
Property and equipment	18	44,316	38,312
Intangible assets	19	2,307	4,943
Staff loans and advances/guarantee fund	14	342,568	329,858
Held-to-maturity investments	15	141,861	190,476
Investors' Compensation Fund's investments	17	1,187,129	1,272,668
		1,718,181	1,836,257
Total Assets		4,823,550	3,829,225
Liabilities			
Current liabilities			
Trade and other payables	20	216,112	198,706
Provision for liabilities and charges	21	82,445	79,084
Investors' Compensation Fund	17	1,934,621	998,149
Surplus payable to National Treasury	11(a)	92,706	21,127
		2,325,884	1,297,066
Non-current liabilities			
Investors' Compensation Fund liabilities	17	1,187,129	1,272,668
Total liabilities		3,513,013	2,569,734
Net assets		1,310,537	1,259,491
Funds			
Capital fund	24	27,886	27,886
General fund	25	726,688	695,642
Building fund	26	555,963	535,963
Total Funds		1,310,537	1,259,491
Total Funds and Liabilities		4,823,550	3,829,225


The financial statements set out on pages 44 to 79 were approved for issue by the Board Members of the Authority on 29th August, 2019 and were signed on its behalf by:



Chief Executive
29th August, 2019



ICPAK No. 1849
Director, Corporate Services
29th August, 2019



Chairman of the Board
29th August, 2019

CMA Statement of Financial Position

As at 30th June 2019

	Note	2019 Shs'000	2018 Shs'000
ASSETS			
Current assets			
Inventories	12	1,622	1,638
Trade and other receivables from non exchange transactions	13(a)	45,207	52,515
Trade and other receivables from exchange transactions	13(b)	14,676	12,707
Staff loans and advances/guarantee fund	14	50,208	48,548
Held-to-maturity investments	15	1,029,420	836,536
Cash at bank and in hand	16	29,615	42,875
		1,170,748	994,819
Non-current assets			
Property and equipment	18	44,316	38,312
Intangible assets	19	2,307	4,943
Staff loans and advances/guarantee fund	14	342,568	329,858
Held-to-maturity investments	15	141,861	190,476
		531,052	563,589
Total Assets		1,701,800	1,558,408
Liabilities			
Current liabilities			
Trade and other payables	20	216,112	198,706
Provision for liabilities and charges	21	82,445	79,084
Surplus payable to National Treasury	11(a)	92,706	21,127
		391,263	298,917
Non-current liabilities			
Total liabilities		391,263	298,917
Net assets		1,310,537	1,259,491
Funds			
Capital fund	24	27,886	27,886
General fund	25	726,688	695,642
Building fund	26	555,963	535,963
Total Funds		1,310,537	1,259,491
Total Funds and Liabilities		1,701,800	1,558,408

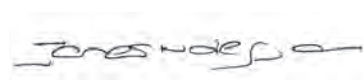
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Chief Executive
29th August, 2019



ICPAK No. 1849
Director, Corporate Services
29th August, 2019



Chairman of the Board
29th August, 2019

Investor Compensation Fund (ICF) Statement of Financial Position

As at 30th June 2019

	Note	2019 Shs'000	2018 Shs'000
ASSETS			
Current assets			
Fees receivable	17	44,516	47,242
Cash and cash equivalents	17	1,176	24,953
Investor Compensation Fund investments Held-to-maturity	17	1,888,928	925,953
		1,934,621	998,149
Non-current assets			
Investments in Listed Companies	17	119,438	167,125
Investors' Compensation Fund's investments Held to maturity	17	1,067,691	1,105,543
		1,187,129	1,272,668
Total Assets		3,121,749	2,270,817
The Fund	17	3,121,749	2,270,817

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. The Fund value was Shs3.12billion (2018: Sh2.27billion).

The financial statements set out on pages 44 to 79 were approved for issue by the Board Members of the Authority on 29th August, 2019 and were signed on its behalf by:



Chief Executive
29th August, 2019



ICPAK No. 1849
Director, Corporate Services
29th August, 2019



Chairman of the Board
29th August, 2019

Statement of changes in Net Assets

	Capital fund Shs'000	General fund Shs'000	Building fund Shs'000	Total Shs'000
At 1st July 2017	27,886	698,582	475,963	1,202,431
Surplus for the year	-	57,060	-	57,060
Transfer to building fund	-	(60,000)	60,000	-
At 30th June 2018	27,886	695,642	535,963	1,259,491
At 1st July 2018	27,886	695,642	535,963	1,259,491
Surplus for the year	-	51,046	-	51,046
Transfer to building fund	-	(20,000)	20,000	-
At 30th June 2019	27,886	726,688	555,963	1,310,537

Consolidated Statement of Cash Flows

	Note	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Surplus for the year		143,752	78,187
Adjustments for:			
Tax expense			-
Depreciation of property and equipment	18	16,939	23,594
Amortisation of intangible assets	19	2,636	3,359
Gain on disposal of property and equipment	9	(132)	17
Interest income	8	(104,106)	(103,972)
Operating Surplus before working capital changes		59,089	1,185
Decrease/(increase) in:			
Inventories		16	(536)
Trade and other receivables		5,339	4,551
Staff loans and advances		(14,370)	(7,019)
Increase/(decrease) in:			
Trade and other payables		17,406	30,067
Provision for liabilities and charges		3,361	(6,758)
Investors' Compensation Fund		850,933	387,505
Cash generated from operations		921,774	408,995
Interest received	8	104,106	103,972
Surplus paid		(21,127)	-
Net cash generated from operating activities		1,004,753	512,967
Cash flows from investing activities			
Purchase of property and equipment	18	(23,289)	(5,628)
Purchase of intangible assets	19	-	(2,283)
Proceeds from disposal of property and equipment		478	20
Purchase of treasury bonds from the Investors' Compensation Fund		160,503	(138,874)
(Purchase)/sale of treasury bills from the Investors' Compensation Fund		(1,035,213)	(319,310)
(Purchase)/sale of treasury bonds		66,496	82,942
(Purchase)/sale of treasury bills		(210,765)	(221,988)
Net cash used in from investing activities		(1,041,790)	(605,121)
Net increase/(decrease) in cash and cash equivalents		(37,036)	(92,154)
Cash and cash equivalents at start of the year		67,828	159,982
Cash and cash equivalents at end of the year	16	30,791	67,828

CMA Statement of Cash Flows

	Note	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Surplus for the year		143,752	78,187
Adjustments for:			
Depreciation of property and equipment	18	16,939	23,594
Amortisation of intangible assets	19	2,636	3,359
Gain on disposal of property and equipment	9	(132)	17
Interest income	8	(104,106)	(103,972)
		59,089	1,185
Operating Surplus before working capital changes			
Decrease/(increase) in:			
Inventories		16	(536)
Trade and other receivables		5,339	4,551
Staff loans and advances		(14,370)	(7,019)
Increase/(decrease) in:			
Trade and other payables		17,406	30,067
Provision for liabilities and charges		3,361	(6,758)
		70,841	21,490
Cash generated from operations			
Interest received	8	104,106	103,972
Surplus paid		(21,127)	-
		153,820	125,462
Net cash generated from operating activities			
Cash flows from investing activities			
Purchase of property and equipment	18	(23,289)	(5,628)
Purchase of intangible assets	19	-	(2,283)
Proceeds from disposal of property and equipment		478	20
(Purchase)/sale of treasury bonds		66,496	82,942
(Purchase)/sale of treasury bills		(210,765)	(221,988)
		(167,080)	(146,937)
Net cash used in from investing activities			
Net increase/(decrease) in cash and cash equivalents			
		(13,259)	(21,475)
Cash and cash equivalents at start of the year			
		42,875	64,350
Cash and cash equivalents at end of the year			
	16	29,615	42,875

(ICF) Statement of Cash Flows

	Note	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Interest income	17	(263,116)	(214,234)
Operating Surplus before working capital changes			
Decrease/(increase) in:			
Trade and other receivables		2,726	(13,535)
Increase/(decrease) in:			
ICF Fund		848,207	401,040
Cash generated from operations			
Interest received	17	587,817	173,271
Surplus paid		263,116	214,234
Net cash generated from operating activities			
		850,933	387,505
Cash flows from investing activities			
Purchase of treasury bonds from the Investors' Compensation Fund	17	160,503	(138,874)
(Purchase)/sale of treasury bills from the Investors' Compensation Fund	17	(1,035,213)	(319,310)
Net cash used in from investing activities			
		(874,710)	(458,184)
Net increase/(decrease) in cash and cash equivalents			
		(23,777)	(70,679)
Cash and cash equivalents at start of the year			
		24,953	95,632
Cash and cash equivalents at end of the year			
	17	1,176	24,953

Statement of Comparison of Budget and Actual Amounts

	Approved budget 2018-2019 Shs'000	Adjustments (Reallo- -cations) 2018-2019 Shs'000	Final budget 2018-2019 Shs'000	Actual on comparable basis 2018-2019 Shs'000	Performance difference 2018-2019 Shs'000	
Revenue						
Fee income from NSE	553,170	-	553,170	367,575	(185,595)	a)
Licenses and permits	21,500	-	21,500	26,676	5,176	b)
Market development Fees	12,752	-	12,752	11,123	(1,629)	c)
Capitalisation and bond approvals	332,500	-	332,500	482,623	150,123	d)
Fee based income	919,922	-	919,922	887,998	(31,924)	
Donor Funding- gifts and services-in-kind	69,000	-	69,000	50,144	(18,856)	e)
Finance income - external investments	95,000	-	95,000	104,106	9,106	f)
Gains on disposal, rental income and agency fees	-	-	-	132	132	g)
Other income	14,562	-	14,562	1,713	(12,849)	h)
Total income	1,098,484	-	1,098,484	1,044,093	(54,391)	
Expenses						
Personnel cost	492,750	-	492,750	491,668	1,082	a)
Rent and maintenance	43,200	-	43,200	38,610	4,591	b)
Equipment maintenance and stationery	51,190	-	51,190	38,103	13,087	
Telephone, postage and utilities	18,410	-	18,410	14,765	3,645	c)
Entertainment and public relations	34,309	(4,600)	29,709	18,726	10,983	d)
Medical scheme and insurance expenses	37,887	4,600	42,487	36,146	6,341	
Training and conferences	70,000	-	70,000	64,546	5,454	
Motor vehicle running expenses	6,180	401	6,581	5,870	711	e)
Subscriptions and IOSCO membership	14,105	-	14,105	11,390	2,715	f)
Authority board members' emoluments and allowance	39,181	-	39,181	31,553	7,628	g)
Professional & consultancy services	34,645	-	34,645	18,054	16,591	h)
Litigation/legal expenses	19,200	-	19,200	17,599	1,601	i)
Market Development & Islamic Finance	35,453	-	35,453	18,024	17,428	j)
Capital Markets Masterplan	8,900	-	8,900	7,031	1,869	k)
Donor Funded Projects	69,000	-	69,000	50,539	18,461	l)
Depreciation of property, plant and equipment	60,086	-	60,086	16,939	43,147	m)
Amortisation of intangible assets	6,541	-	6,541	2,636	3,905	
Auditor's remuneration	2,090	-	2,090	1,726	364	
Investors' education and awareness programme	33,190	-	33,190	16,016	17,174	n)
Tribunal expenses	6,002	(401)	5,601	399	5,202	o)
Total expenditure	1,082,320	-	1,082,320	900,341	181,979	
Surplus for the period	16,164	-	16,164	143,752	127,588	

Statement of Comparison of Budget and Actual Amounts (Cont'd)

Notes on Significant variances (10% and above) between actual and budget.

REVENUE

- a) **Transaction Fee** income from NSE was affected as the market reported low trading volumes for equities dropping from Ksh197.89billion last year to Ksh145.5billion in 2018/19.
- b) **Licensing fees** were above annual budget with the licensing of the Nairobi Securities Exchange (NSE) to operate the derivatives trading, significantly contributing to this.
- c) **Market Development fee** income was below annual budget as the volume of issued and listed corporate bonds was below budget by 35% with no new issuers coming to the market.
- d) **Capitalization and bond approvals income** was higher than budget mainly due to the one-off transaction for the takeover of 1,145,757,700 shares of Kenol Kobil by Rubies Energie generating approval fee of Ksh 131million. Increased GoK's appetite(40% above budget) for local borrowing to complete strategic projects has also contributed to this increase.
- e) **Donor Funding- gifts and services-in-kind** was low, as income expected didn't come through due to delayed procurement process for the projects that were envisaged to be completed within the FY2018/19.
- f) **Finance income from external investments** was above budget by 10% as the Authority continued investing excess cash while adhering to a policy for return optimisation.
- g) **Gains on disposal** income was due to the receipts from disposal of obsolete assets through competitive bidding.
- h) **Other income** realized were mainly from the Sponsorships of the Authority programmes by local partners, the main events being the successful University Challenge activity.

EXPENDITURE

- a) The Authority's staff complement was gradually filled in the year, and the **Personnel cost** was well within the approved budgeted amount.
- b) Reduction in **rent and maintenance costs** is mainly due to the delay in the acquisition of the budgeted offsite storage space and lower than anticipated maintenance costs.
- c) **Telephone, postage and utilities** - was below budget due to cost control strategies that the Authority continued to apply including leveraging on competitive service provision negotiations for cheaper broad band infrastructure and led technology among other initiatives. This is commensurate to the "Uwezo Kipeo" culture change project.
- d) **Advertising and public relations**-There has been a shift in strategy on advertising with more focus on

Social Media platforms as opposed to Print Media, as well as conscious cost reduction strategies in the year.

- e) **Motor vehicle running expenses** were within the budget as cost control strategies (e.g. use of fuel cards, negotiated transport rates, pooling of taxi cabs) contributed to the low costs.
- f) **Subscriptions and IOSCO membership** - was below budget as participation of technical staff were scaled down arising from the previous year's travel restrictions.
- g) **Authority board members' emoluments and allowances** were below budgeted level as the Board suspended various activities like trainings, as part of own austerity measures to reduce costs based on the market performance in Q1 and Q2.
- h) **Professional & consultancy services** - spent below budget as there were mainly two consultancies in the year, namely:
Leadership development Programme for all staff (Ksh7.8million) and Development of Knowledge and Information Technology Strategy (Ksh4.8million) with carry over of some activities into next year.
- i) **Litigation/legal expenses**- were within budget as the Authority replaced previous lawyers and procured new advocates in the ongoing litigation against the former directors of the defunct Nyaga Stock Brokers.
- j) **Market Development & Islamic Finance** activities in implementing the 2018/23 Strategic Plan continues being done by use of internal resources, and partnerships. Some of these programmes are, Regulatory Sandbox, M-Akiba events, Islamic Products events, among others.
- k) **Capital Market Master Plan**- Through a more proactive approach all the main activities in the implementation road map for the year were achieved at less cost and time.
- l) **Donor Funded Projects cost** - were below the anticipated level as lengthy donor procurement processes delayed finalization of certain planned donor funded projects and related acquisitions.
- m) **Depreciation of property, plant and equipment and amortization cost** was below budget. Difference was due to assets not acquired, see (l) above, during the period as well as assets which were fully depreciated in the year.
- n) **Investors' education and awareness programme expenses** were below budget as partnering (cost sharing) with other stakeholders was improvised for some of the activities undertaken.
- o) **Capital Markets Appeals Tribunal** expenses remained low against budget as the tribunal membership was not quorate for the better part of the year and was only constituted in Q4.

Notes to the Financial Statements

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). 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 (Shs '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 24th 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. ADOPTION OF NEW AND REVISED STANDARDS

New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Standard	Impact
IPSAS 39: Employee Benefits	<p>Applicable: 1st January 2018</p> <p>The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.</p>
IPSAS 40: Public Sector Combinations	<p>Applicable: 1st January 2019</p> <p>The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.</p>

3. Summary of significant accounting policies

a) 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 recognised 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

Notes (Cont'd)

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.

b) 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.

c) Taxes / Surplus due to the National Treasury

Current income tax

The Authority is exempt from income tax vide PFMA regulation no.34 of 2015.

On 20th 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% of its surplus to the National Treasury.

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

	Rate
Motor vehicles	25%
Furniture & fitting	12.5%
Office equipment	20%
Computers & copiers	25%

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.

Notes (Cont'd)

e) 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.

f) 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. Amortisation is calculated using the straight line method to write down the cost of each licence 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.

g) 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.

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.

Notes (Cont'd)

- 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.

h) 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 not remote.

i) Employee benefits

Retirement benefit plans

The Authority provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

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.

j) 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.

k) Foreign currency transaction

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

Notes (Cont'd)

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.

l) 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.

m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

n) 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.

o) Comparative figures

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

4. 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 recognised 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.

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) Retirement benefit obligations

The pensions contributions into the Defined Contribution (DC) Scheme are expensed as incurred in the year.

Notes (Cont'd)

ii) Impairment losses

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

5. 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 minimise 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 a 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 institution.

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 utilisation of the credit limits and the credit period is monitored by management on a monthly basis.

	Fully performing Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
At 30th June 2019				
Held-to-maturity investments	1,171,281	-	-	1,171,281
Staff loans and advances/ fund	392,776	-	-	392,776
Trade receivables	41,589	-	-	41,589
Other receivables	6,566	-	-	6,566
Cash at bank, in hand and deposits	29,475	-	-	29,475
Maximum exposure to credit risk	1,641,688	-	-	1,641,688

	Fully performing Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
At 30th June 2018				
Held-to-maturity investments	1,027,012	-	-	1,027,012
Staff loans and advances/ fund	378,406	-	-	378,406
Trade receivables	48,496	-	-	48,496
Other receivables	5,055	-	-	5,055
Cash at bank, in hand and deposits	42,735	-	-	42,735
Maximum exposure to credit risk	1,501,704	0	0	1,501,704

Notes (Cont'd)

The ageing analysis of past due but not impaired trade receivables is

	2019 Shs'000	2018 Shs'000
Over 6 months	0	0

The past due debtors are nil. An impairment provision of Shs 4,546,000 (2018: Shs4,546,000) 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 below summarises the maturity analysis for financial liabilities to their remaining contractual maturities. The amounts disclosed are the contractual undiscounted cash flows.

	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
Year ended 30th June 2019					
Trade payables	27,152	2			27,154
Other payables	31,908	4	1,395	665	33,972
Provision for liabilities and charges	39,244			77,878	117,122
Gratuity obligations	37,865				37,865
	136,169	6	1,395	78,543	216,113
Year ended 30th June 2018					
Trade and other payables	10,131	18			10,149
Accruals	35,786		32,410	3,164	71,360
Provision	21,833	42,414		28,060	92,307
Gratuity obligations	24,890				24,890
	92,641	42,432	32,410	31,224	198,706

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.

Notes (Cont'd)

The Authority's investments in fixed rate bonds expose it to fair value interest rate risk. The Authority has no interest bearing liabilities. The Authority considers that a change in interest rates of 2 percentage points in the year ending 30th June 2019 is reasonably possible. If the interest rates on the Authority's held-to-maturity investments at the year-end were to decrease/increase by this number of percentage points, with all other factors remaining constant, the surplus would be lower/higher by Kshs13million (2018: Shs 13,000,000).

Price risk

Marketable instruments held by the Authority include Treasury Bonds and Treasury Bills whose market prices are subject to change. The Authority review the portfolio, set exposure limits and respond to market price changes and conditions to secure both fair values and cash flow from such instruments.

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.

6. Revenue from non - exchange transactions

	2019 Shs'000	2018 Shs'000
Fees income		
Capitalization, rights and new issue fees	149,776	68,091
Approval for listing of Government securities	332,848	237,424
NSE - transaction fees	367,575	490,176
Application and licensing fees	26,676	17,439
Market development fees	11,123	12,697
	887,998	825,828

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 Shs 250,000.
- Market development fees are charged to listed companies at a rate of 0.01% subject to a minimum of Shs 50,000 and a maximum of Shs 100,000 per annum.

7. Donor fund income

	2019 Shs'000	2018 Shs'000
Donor fund income	50,144	34,303

The Authority received support worth Shs42.8 million (2018:Shs24.8 million) in the year to support institutional capacity for Medium Term resident advisory on Funding Gap assessment in Kenya, Consultancy for the Hybrid Bond Market, to Develop Specifications for an Information Repository, System, and advisory for the E-Learning System and Communications/ IT Infrastructure for the Capital Market Authority.

Notes (Cont'd)

8. Revenue from exchange transactions - other income

	2019 Shs'000	2018 Shs'000
Interest income	104,106	103,972
Miscellaneous income	1,713	3,384
	105,819	107,355

9. (Loss)/Gain on disposal of property and equipment

Gain or (loss) on disposal of obsolete and retired Property and Equipment	132	(17)
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10. Surplus before tax

	2019 Shs'000	2018 Shs'000
a) Items charged		
The following items have been charged in arriving at net surplus for the year		
Depreciation of property and equipment	17 16,939	23,594
Amortisation of intangible assets	18 2,636	3,359
Authority board members' emoluments, allowances and other Board related expenses	27 31,553	32,298
Post employment benefits expense	10(b) 32,180	34,478
Provision on Trade and other receivables	13(b) 100	441

b) Employee benefits expense

The following items are included in employee benefits expense:

	2019 Shs'000	2018 Shs'000
Retirement benefit costs		
Defined contribution scheme	31,822	34,136
National Social Security Fund	358	342
	32,180	34,478

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, GenAfrica Investment Management Limited, on behalf of the Trustees. **The DB Scheme has since been wound up and the assets were in the process of being transferred to the DC Scheme by 30th June 2019.**

Notes (Cont'd)

11 a. Transfer of Surplus to National Treasury

	2019 Shs'000	2019 Shs'000	2018 Shs'000	2018 Shs'000
Total Revenue (Note No.6, 7,8 and 9)		1,044,093		967,469
Operating Expenses		(900,341)		(889,282)
Surplus before tax		143,752		78,187
Add back: Depreciation	16,939		23,594	
Amortization	2,636	19,575	3,359	26,952
Adjusted Surplus		163,328		105,140
Transfer from Deferred Income				
Adjusted Surplus		163,328		105,140
Less: Building fund	(20,000)		(60,000)	
Capital expenditure	(23,683)		(9,666)	
Intangible Assets	-		(2,283)	
Staff Mortgages net	(16,593)		(11,312)	
Staff Car loans net	(45)		1,595	
		(60,321)		(81,666)
Net Surplus/ (Deficit)		103,006		23,474
90%		92,706		21,127
90% Surplus due to KRA		92,706		21,127

On 20th 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 National Treasury. The Authority will remit Ksh92.7 million (FY 2017/18- Ksh21.1 million) in the year.

11b. The Authority is an appointed agent of KRA for Withholding agency Tax and Withholding VAT respectively. In the Financial Year 2018/19 remittances of Ksh. 9.06 million (FY 2017/18: Ksh 10.38 million) for Withholding Tax and Ksh. 10.76 million (FY 2017/18: Ksh 8.58 million) for Withholding VAT were made.

12. Inventories

	2019 Shs'000	2018 Shs'000
Consumables	1,622	1,638

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

13a. Trade and other receivables from non-exchange transactions

	2019 Shs'000	2018 Shs'000
Trade receivables	42,571	49,936
Statutory management expenses receivable	-	-
Less: Provision for impairment losses	(4,546)	(4,546)
Net trade receivables	38,025	45,390
Other receivables	7,181	7,124
Trade and other receivables from non exchange transactions	45,206	52,514

Notes (Cont'd)

13b. Trade and other receivables from exchange transactions

	2019 Shs'000	2018 Shs'000
Trade receivables	3,564	3,106
Less: Provision for impairment losses		
Net trade receivables	3,564	3,106
Prepayments	11,112	9,601
Trade and other receivables from exchange transactions	14,676	12,707
Total trade and other receivables from non exchange and exchange transactions	59,882	65,221
The movement on the provision for impairment losses for non exchange transactions is as follows:		
At 1st July	4,546	4,104
Less: Provision utilised as debts written off	-	-
Less: Provision reversed on debt collection	-	-
At 30th June	4,546	4,104
The movement on the provision for impairment losses for exchange transactions is as follows:		
At 1st July	-	-
Add: Additional provision	-	(441)
At 30th June	-	(441)

14. Staff loans and advances

	Current 2019 Shs'000	Current 2018 Shs'000	Non- current 2019 Shs'000	Non- current 2018 Shs'000	Total 2019 Shs'000	Total 2018 Shs'000
Car loans	13,827	11,828	18,255	20,209	32,082	32,036
Other loans and advances	2,213	4,481	-	-	2,213	4,481
Staff mortgage back up funds*	34,169	32,240	324,313	309,649	358,482	341,888
	50,209	48,549	342,568	329,858	392,777	378,405

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

	Shs'000
Mortgage back up accounts are:	
HFC: Mortgage 3000013543 and Mortgage 2000094161	180,899
KCB Mortgage MM1509100194	177,582
Total	358,481

Notes (Cont'd)

15. Held-to-maturity investments - government securities

	2019 Shs'000	2018 Shs'000
Non-current		
Treasury bonds		
Maturing after four years	129,950	135,000
Unamortised premium	(8,464)	(9,994)
	121,486	125,006
Treasury bonds		
Maturing after one year	20,375	65,484
Unamortised (discount)/premium	-	(14)
	20,375	65,470
	141,861	190,476
Current		
Treasury bonds		
Maturing within one year	45,110	62,976
Unamortised (discount)/premium	(7)	9
	45,103	62,984
Treasury bills	1,014,150	818,800
Unamortised discount	(29,833)	(45,248)
	984,317	773,552
	1,029,420	836,536
	1,171,281	1,027,012

The fair value of the held-to-maturity assets - treasury bonds and treasury bills at the reporting date were:

Non-current		
Held-to-maturity investments	141,861	190,476
Current		
Held-to-maturity investments	1,029,420	836,536

Notes (Cont'd)

16a. Banks

Name of the Bank	Bank account no.	Account currency	2019 Shs'000	2018 Shs'000
Commercial Bank of Africa Limited	6580810018	Shs	5,475	17,735

16b. Cash in hand

Cash in hand	Shs	140	140
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16c. Short term deposits

Commercial Bank of Africa Limited	MM1816900016	Shs	24,000	25,000
			24,000	25,000

Total cash in hand and bank

			29,615	42,875
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For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

Short-term bank deposits	24,000	25,000
Cash at bank and in hand	5,615	17,875
Investors Compensation Fund bank balance (Note 16) - (KCB)	1,176	24,953

	30,791	67,828
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17. 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:

- Interest accruing on funds received from subscribers to public issues, between the day of closing the issue and making the refunds.
- 0.01% of the consideration from sale and purchase of shares through the Nairobi Securities Exchange.
- 0.004% of the consideration from sale and purchase of bonds traded through the Nairobi Securities Exchange.
- Interest earned from investment of the funds held in this account.
- 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:

	2019 Shs'000	2018 Shs'000
At beginning of the year	2,270,817	1,883,311
Nairobi Securities Exchange transactions fees	78,033	80,230
Interest on investments	263,116	214,234
Financial penalties	555,286	43,029
Withdrawals (Investor Claims)	(563)	-
Gain/(loss) in Investment in NSE	(44,396)	50,531
Management Fees	(500)	(500)
Bank Charges	(44)	(18)
At end of the year	3,121,749	2,270,817

Notes (Cont'd)

17. Investors' Compensation Fund (continued)

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

	2019 Shs'000	2018 Shs'000
Non-current		
Equity investment in the Central Depository and Settlement	12,250	12,250
Equity investment in the NSE	107,188	154,875
	119,438	167,125
Treasury bonds		
Maturing after five years	776,950	802,000
Unamortised discount (premium)	(513)	(1,211)
	776,437	800,789
Maturing after one year	290,465	303,450
Unamortised discount	789	1,304
	291,254	304,754
	1,067,691	1,105,543
	1,187,129	1,272,668
Current		
Treasury bonds	20,000	94,800
Unamortised discount	(7)	157
	19,993	94,957
Treasury bills	1,973,500	877,900
Unamortised discount	(104,565)	(46,904)
	1,868,935	830,996
Fees receivable	44,516	47,242
Bank balance	1,176	24,953
Call account	-	-
	45,692	72,195
	1,934,621	998,149
	3,121,749	2,270,816

Notes (Cont'd)

18. Property and equipment

	Motor vehicles Shs'000	Computer copiers & faxes Shs'000	Office equipment Shs'000	Furniture & fittings Shs'000	Capital work-in- progress Shs'000	Total Shs'000
Cost						
At 1st July 2017	29,818	114,404	23,090	87,968	4,037	259,317
Additions	-	5,137	430	3,705	-	9,666
Disposals	-	(335)	-	-	-	(335)
Reversal	-	-	-	-	(4,037)	(4,037)
At 30th June 2018	29,818	119,206	23,520	91,673	393	264,611
Additions	11,300	8,035	296	101	3,951	23,683
Disposals	-	(4,598)	(1,992)	(1,984)	-	(8,574)
Reversal	-	-	-	-	(393)	(393)
At 30th June 2019	41,118	122,643	21,823	89,791	3,951	279,327
Depreciation						
At 1st July 2017	(21,557)	(97,277)	(16,050)	(68,119)	-	(203,003)
Depreciation	(2,950)	(7,980)	(2,146)	(10,518)	-	(23,594)
Accumulated depreciation reversed on disposal	-	298	-	-	-	298
At 30th June 2018	(24,506)	(104,960)	(18,197)	(78,637)	-	(226,299)
Depreciation	(2,638)	(7,674)	(2,164)	(4,464)	-	(16,939)
Accumulated depreciation reversed on disposal	-	4,343	1,992	1,893	-	8,228
At 30th June 2019	(27,144)	(108,290)	(18,368)	(81,208)	-	(235,011)
Net carrying amount						
At 30th June 2019	13,974	14,353	3,455	8,582	3,951	44,316
At 30th June 2018	5,312	14,247	5,323	13,036	393	38,312

Included above in the items of property and equipment is the cost of fully depreciated assets of Shs 185,361,090 (2018: Shs 147,432,099) which are still in use and have not been impaired. Work in progress was carried at cost.

Work in progress relates to the works on the new employees Lounge on 3rd Floor which was completed by July 2019. The detailed works are as follows:

Description	Cost Ksh'000
New Employee Lounge on 3rd Floor	3,951
Total	3,951

Notes (Cont'd)

19. Intangible assets	Intangible assets Shs'000
Software costs	
Cost	
At 1st July 2017	166,180
Additions	2,283
Derecognition of intangible asset	-
At 30th June 2018	168,463
Additions	-
At 30th June 2019	168,463
Amortisation	
At 1st July 2017	160,161
Amortisation	3,359
At 30th June 2018	163,520
Amortisation	2,636
At 30th June 2019	166,156
Net book value	
At 30th June 2019	2,307
At 30th June 2018	4,943

Notes (Cont'd)

20. Trade and other payables

	2019 Shs'000	2018 Shs'000
Trade payables	27,154	10,149
Provisions	117,122	92,307
Gratuity obligations	37,865	24,890
Accruals	33,972	71,360
	216,113	198,706

Included under trade and other payables 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 1st July 2018	14,429	77,878	92,307
Additional provisions raised	15,108	24,136	39,244
Provision utilized/reversed	(14,429)	-	(14,429)
At 30th June 2019	15,108	102,014	117,122

Accruals	Consultancies Shs'000	Other Provisions Shs'000	Total Shs'000
At 1st July 2018	5,908	45,847	51,755
Additional accruals	865	26,810	27,674
Accruals realized	(5,691)	(40,267)	(45,958)
At 30th June 2019	1,082	32,390	33,472

21. Provision for liabilities and charges

At 1st July 2018	79,085	95,906
Add: Additional provision	31,405	44,689
Less: Provision written back	(28,044)	(61,510)
At 30th June 2019	82,446	79,085

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.

Notes (Cont'd)

22. Capital fund

At 1st July 2018 and at 30th June 2019

Capital fund represents the initial contribution by the Government of Kenya towards the establishment of the Capital Markets Authority.

2019 Shs'000	2018 Shs'000
27,886	27,886

23. General fund

At 1 July
Surplus for the year
Transfer to building fund (Note 24)

At 30 June

General fund represents accumulated surpluses over the years.

695,642	698,582
51,046	57,060
(20,000)	(60,000)
726,688	695,642

24. Building fund

At 1 July
Appropriation from general fund (Note 23)

At 30 June

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.

2019 Shs'000	2018 Shs'000
535,963	475,963
20,000	60,000
555,963	535,963

25. General fund

i) Board members of the Authority' remuneration

Honoraria
Retainer
Sitting allowances
Training expenses
Others (medical, mileage, bonus)

There were 10 board members during the year (2018:10)

ii) Key management compensation

Gross salaries include accrual for increment
Pension-NSSF
Gratuity

There were 4 members of senior management who served during the year (2018:4)

2019 Shs'000	2018 Shs'000
348	1,044
8,179	6,911
8,100	5,740
7,727	7,879
7,200	10,724
31,553	32,298
39,550	37,155
10	10
9,360	9,331
48,919	46,496

Notes (Cont'd)

26. Commitments

a. Contracted for but not recognised

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

	2019 Shs'000	2018 Shs'000
Capital expenditure contracted for	4,614	10,000
Recurrent expenditure contracted for	2,792	23,615
	7,406	33,615

b. Item description

	Capital Shs'000	Recurrent Shs'000	Total Shs'000
CCTV Surveillance System	653		653
Network Access Control	3,962		3,962
Fire detection & Suppression Maintenance		696	696
Off site storage services		500	500
Bar Code readable tags and scanner		594	594
Office renovation/ repainting		1,002	1,002
Total	4,614	2,792	7,406

Operating lease commitments represent rentals payable by the Authority for rented office space. Rental expenses during the year amounted to Shs 36,363,000 (2018: Shs36,387,000).

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

	2019 Shs'000	2018 Shs'000
Not later than 1 year	36,363	36,387
Later than 1 year and not later than 5 years	142,872	130,556
	179,235	166,943

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

27. Contingent liabilities

a. 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 the years 2010-2012), 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 to have an impact on these financial statements.

Notes (Cont'd)

27. Contingent liabilities (continued)



b) In the course of the conduct of its regulatory mandate claims for specified and unspecified damages have been lodged against the Authority before the Courts and the Capital Markets Tribunal and the proceedings are still ongoing. In this regard, as permitted by IAS 37.92, in order not to prejudice the outcomes of the proceedings and the interests of the Authority, and noting the uncertainty regarding the timing or amount of contingent liabilities in connection with these cases, the Directors have not made any further disclosures about estimates.

There has been one specified contingent liability of Kshs.95 million arising from a legal case that arose in the previous year. The matter in question was struck out at first instance and also later when the plaintiffs moved to the court of appeal in favour of the Authority. Legal advice obtained indicates that it is unlikely that liability for the Kshs. 95 Million will arise should the matter proceed to the apex court. The directors are of the view that no material losses will arise in respect of the legal claim at the date of these financial statements and therefore have made no provision.

28 Operating expenditure

	2019 Shs'000	2018 Shs'000
28.1 Employment expense		
Consolidated pay, leave pay and passages	434,023	401,697
Staff uniform expenses	408	405
Staff welfare and other costs	12,266	20,376
Staff retirement benefits	31,822	34,136
Staff gratuity	12,791	11,449
National Social Security Fund (NSSF)	358	342
	491,668	468,404
28.2 Other administrative expenses		
Rent and maintenance	38,610	37,155
Equipment maintenance and stationery	38,103	42,216
Telephone, postage and utilities	14,765	15,654
Entertainment and public relations	18,726	17,231
Medical scheme and insurance expenses	36,146	32,997
Training and conferences	64,546	62,849
Motor vehicle running expenses	5,870	6,008
Subscriptions and IOSCO membership	11,390	9,854
Authority board members' emoluments and allowances	31,553	32,298
Professional and market development services	111,248	109,982
Depreciation of property and equipment	16,939	23,594
Amortisation of intangible assets	2,636	3,359
Auditor's remuneration	1,726	1,726
Investors' education and awareness programme	16,016	24,213
Tribunal expenses	399	1,302
Provision for doubtful debts	-	441
	408,673	420,877
Total expenditure	900,341	889,282

Progress on Follow up of Auditor Recommendation

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)	Time frame: (Put a date when you expect the issue to be resolved)
During the previous year, the Authority Auditor's Report was unmodified/unqualified. There were no issue for follow up					
 Chief Executive 29 th August, 2019			 Chairman of the Board 29 th August, 2019		

Appendix 1: Projects Implemented by the Entity

Projects implemented by the State Corporation Funded by development partners (Financial Sector Support Programme)

Project title	Number	Donor	Period/ duration	Donor commit- ment	Separate donor reporting (yes/ no)	Comments
Medium Term resident advisory on Derivatives in Kenya	00020	World Bank through FSSP	25 months (15th May 2017 – 31st Dec 2019)	\$158,850	Yes	Ongoing
Consultancy for the Hybrid Bond Market	00015	World Bank through FSSP	12 months (15th February – 18th August 2019)	\$161,250	Yes	Ongoing
Assess the Funding Gaps at National and County Governments	00016	World Bank through FSSP	20 months (2nd May – 31st Dec 2018)	\$104,300	Yes	Completed
Develop Specifications for an Information Repository, Advanced Financial Analysis System, E-Learning System and Communications/IT Infrastructure	0009	World Bank through FSSP	22 months (28th August 2017 – 30th June 2020)	\$285,000	Yes	Ongoing
Review and Design securities Market Surveillance System	00019	World Bank through FSSP	12 months (29th April 2019 – 28th April 2020)	\$290,000	Yes	Ongoing
Upgrade and integration of the Capital Markets Authority's Market Surveillance system to the new Automated Trading System at the Exchange and the Central Depository system		World Bank through FSSP	3 months (3rd May 2019 – 3rd August 2019)	\$66,671	Yes	Ongoing

Status of Projects completion

Project title	Total project Cost (USD)	Total expended to date (USD)	Comple- tion % to date	Budget	Actual Invoice for Quarter 4 2018/19	Paid by PIU in Q3	Sources
Medium Term resident advisory on Derivatives in Kenya	\$158,850	\$120,117.57	90%	\$158,850	-	-	Contract, Paid Invoices
Consultancy for the Hybrid Bond Market	\$181,512	\$134,749	95%	\$161,250	\$36,302.43	\$36,302.43	Contract, Paid Invoices
Assess the Funding Gaps at National and County Governments	\$104,300	\$99,655	95%	\$104,300	-	-	Contract, Paid Invoices
Develop Specifications for an Information Repository, Advanced Financial Analysis System, E-Learning System and Communications/IT Infrastructure	\$284,998	\$227,999	70%	\$285,000	\$28,499.80	\$28,499.80	Contract, Paid Invoices
Review and Design securities Market Surveillance System	\$290,000	\$29,000	10%	\$290,000	\$29,000	\$29,000	Contract, Paid Invoices
Upgrade and integration of the Capital Markets Authority's Market Surveillance system to the new Automated Trading System at the Exchange and the Central Depository system	\$66,671	\$6,667	10%	\$66,671	\$6,672.10	\$6,672.10	Contract, Paid Invoices

Appendix 2- Inter Entity Transfers

Name of the MDA/ Donor Transferring the funds	Date received		Where Recorded/ recognized					Total Transfers during the Year	
	as per bank statement	Nature: Recurrent/Development/ Others	Total Amount - KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receiv- ables		Others - must be specific
FSSP	See Appendix 3	Recurrent	8,215,943	8,215,943	-	-	-	-	8,215,943
FSSP	See Appendix 3	Direct Payments	41,801,765	41,801,765	-	-	-	-	41,801,765
National Treasury		Direct Payments	11,736,393	11,736,393	-	-	-	-	11,736,393
Total			61,754,101	61,754,101					61,754,101

As per note 7 - Donor Fund income : The Authority received support from FSDA, FSSP, and the funds were paid directly to the consultants.

The above amounts have been communicated to and reconciled with FSSP-Project implementation Unit of the National Treasury

Finance Manager
Capital Markets Authority



Sign _____

KEY:

FSSP: Financial Sector Support Project : This is a World Bank funded project that strengthens the legal regulatory and institutional environment for improved financial stability.

Appendix 3: Recording of Transfers from Donors

For the year ended 30th June 2019

ENTITY NAME: CAPITAL MARKETS AUTHORITY Break down of Transfers from Donors FY 2018/2019				
	Reimbursements for Capacity building Technical Costs.	Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
a.	Financial Sector Support Project (FSSP) Reimbursement for Staff training and Development for Various Capital Markets technical skills trainings.	Between 01/07/2018 and 30/06/2019 Sub Total	7,289,924.15 7,289,924.15	2018/19
b.	Details of the Payment Reimbursements for National Treasury Seconded staff Reimbursements for National Treasury Seconded staff Reimbursements for National Treasury Seconded staff Reimbursements for National Treasury Seconded staff	Transaction Description Q1 2018/2019 Q2 2018/2019 Q3 2018/2019 Q4 2018/2019	Amount (KShs) 2,757,101.05 2,992,148.00 2,896,756.40 3,090,387.70 11,736,393.15	2018/19 2018/19 2018/19 2018/19
b(i)	Capacity Building Advertisements on Market Consultancies	Contra-Donor Funded Consultancies and Donor Funding income	926,018.60	2018/19
b(ii)	Donor funded Consultancies. Consultancy to provide Medium Term Resident Advisory on Derivatives to the CMA Consultancy to develop specifications for an Information Repository - Advanced Financial System, E-learning system and communications/IT Infrastructure for CMA, ISCL Consultancy to assess the funding gaps at the National and County governments to inform development of CMA products/services Consultancy for the implementation of the Hybrid Bond Market in Kenya Multi Asset Surveillance system	Sub Total Contra-Donor Funded Consultancies and Donor Funding income Contra-Donor Funded Consultancies and Donor Funding income Contra-Donor Funded Consultancies and Donor Funding income Contra-Donor Funded Consultancies and Donor Funding income	926,018.60 7,187,986.00 13,093,711.60 5,666,305.80 12,181,953.45 3,671,807.80 41,801,764.65	2018/19 2018/19 2018/19 2018/19 2018/19 2018/19
		Sub Total	41,801,764.65	
		GRAND TOTAL	61,754,100.55	

As per note 7 - Donor Fund income : The Authority received support from FSSP, and the funds were paid directly to the consultants.

Appendix 4: Capital Markets Authority 5 Year Statement Of Financial Performance

	2019 Shs'000	2018 Shs'000	2017 Shs'000	2016 Shs'000	2015 Shs'000
Revenue from non-exchange transactions					
Capitalization, rights and new issue fees	887,998	825,828	759,059	749,682	853,337
Donor fund income	50,144	34,303	109,246	91,140	60,414
	938,142	860,131	868,304	840,822	913,751
Revenue from exchange transactions					
Other income	105,819	107,355	115,457	108,510	78,595
Total revenue	1,043,961	967,486	983,761	949,332	992,346
Expenses					
Operating expenditure	(900,341)	(889,282)	(970,011)	(812,206)	(715,739)
Total expenses	(900,341)	(889,282)	(970,011)	(812,206)	(715,739)
Other gains/ (losses)					
(Loss)/Gain on disposal of property and equipment	132	(17)	(221)	654	690
Surplus (gross)	143,752	78,187	13,529	137,780	277,297
Tax Expense	-	-	-	-	(133,045)
Surplus paid to National Treasury	(92,706)	(21,127)	-	-	-
Net Surplus	51,046	57,060	13,529	137,780	144,252

Appendix 5: Capital Markets Authority 5 Year Financial Position

	2019 Shs'000	2018 Shs'000	2017 Shs'000	2016 Shs'000	2015 Shs'000
Current assets					
Inventories	1,622	1,638	1,102	1,591	2,040
Trade and other receivables from non exchange transactions	45,207	52,515	47,639	52,154	83,596
Trade and other receivables from exchange transactions	14,676	12,707	22,134	24,780	20,457
Staff loans and advances/guarantee fund	50,208	48,548	47,095	34,759	33,656
Held-to-maturity investments	1,029,420	836,536	626,967	370,934	333,337
Cash at bank and in hand	29,615	42,875	64,350	269,384	183,397
Investors' Compensation Fund	1,934,621	998,149	689,791	512,558	515,119
	3,105,369	1,992,968	1,499,078	1,266,160	1,171,602
Non-current assets					
Property and equipment	44,316	38,312	56,314	82,657	104,910
Intangible assets	2,307	4,943	6,019	4,702	42,287
Staff loans and advances/guarantee fund	342,568	329,858	324,292	249,175	232,569
Held-to-maturity investments	141,861	190,476	260,999	341,118	310,444
Investors' Compensation Fund's investments	1,187,129	1,272,668	1,193,520	992,448	783,318
	1,718,181	1,836,257	1,841,144	1,670,100	1,473,528
Total Assets	4,823,550	3,829,225	3,340,222	2,936,260	2,645,130
Liabilities					
Current liabilities					
Trade and other payables	216,112	198,706	168,639	139,246	146,766
Provision for liabilities and charges	82,445	79,084	85,842	95,906	88,740
Current tax payable	-	-	-	-	18,003
Deferred income	-	-	-	7,200	42,062
Investors' Compensation Fund	1,934,621	998,149	689,790	512,558	515,119
Surplus payable to National Treasury	92,706	21,127	-	-	-
	2,325,884	1,297,066	944,271	754,910	810,690
Non-current liabilities					
Investors' Compensation Fund liabilities	1,187,129	1,272,668	1,193,520	992,448	783,318
	3,513,013	2,569,734	2,137,791	1,747,358	1,594,008
Total liabilities	3,513,013	2,569,734	2,137,791	1,747,358	1,594,008
Net assets	1,310,537	1,259,491	1,202,431	1,188,902	1,051,122
Funds					
Capital fund	27,886	27,886	27,886	27,886	27,886
General fund	726,688	695,642	698,582	931,016	923,236
Building fund	555,963	535,963	475,963	230,000	100,000
	1,310,537	1,259,491	1,202,431	1,188,902	1,051,122
Total Funds	1,310,537	1,259,491	1,202,431	1,188,902	1,051,122
Total Funds and Liabilities	4,823,550	3,829,225	3,340,222	2,936,260	2,645,130



From Left to Right- Ms. Catherine Karita, Executive Director, Brokerage, NCBA Investment Bank Ltd., Mr. Eric Bundugu Acting Executive Director CMA Rwanda, CMA Chief Executive Mr. Paul Muthaura, and Mr. Mutuma Marangu Chairman Capital Markets Master Plan Working Group 4 pose for a photo during the Hybrid Bonds stakeholder engagement session.



CMA Chief Executive Mr. Paul Muthaura (Right) and the Kenya Bankers Association Chief Executive, Mr. Habil Okaka, sign a Memorandum of Understanding in September 2018 to support closer collaboration between the two organizations in the areas of research, data sharing, analysis, and stakeholder engagement.

Market Supervision

Market Surveillance

The Authority continued to ensure that the market is fair, orderly and transparent through real time and offline market surveillance. The Nairobi Securities Exchange PLC (NSE) is in the process of upgrading its automated trading system while the Central Depository and Settlement Corporation Ltd (CDSC) is also overhauling its central securities depository system. The upgraded market infrastructure systems are intended to facilitate the introduction of short selling, securities lending and borrowing, day trading amongst other products and services. The Authority is constantly engaging the NSE and CDSC to ensure that the two projects meet the required standards for financial markets infrastructure, are responsive to market needs and ensure seamless integration of all market players into the new environment.

The Authority acknowledges that it has to keep pace with technological developments and, in conjunction with its development partners, is conducting a detailed review of its current surveillance needs to ensure it can sufficiently carry out its mandate. This review is expected to culminate in the development or acquisition of a multi asset surveillance system with advanced surveillance capabilities. In order to clearly identify the surveillance needs of the Authority, several capacity building initiatives were rolled out in the course of the year. The capacity building programme included enlisting the support of various jurisdictions with more experience in surveillance of multiple asset classes. The surveillance teams in CMA and the NSE were trained on market surveillance through the support of the Dubai Financial Services Authority (DFSA).

The training covered monitoring of the equities and bond market, securities and lending borrowing, exchange traded derivatives, online forex trading, commodities training among others. Additional capacity building programme

was also facilitated by the Securities and Exchange Board of India (SEBI) and the National Stock Exchange in India. Further, Shenzhen Stock Exchange, China Peoples' Republic is also supporting training of the surveillance team especially considering the new products being introduced at the Kenyan bourse. In addition to capacity building, benchmarking with more advanced markets will enable the Authority to make informed decisions when developing or procuring a suitable multi-asset surveillance system consistent with realities of the Kenyan market and scalable to accommodate continued products rollout pipeline as envisioned under the Capital Market Master Plan.

Risk & Compliance:

a) Implementation of Corporate Governance code

The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the Code) came into force on March 4, 2017. The Code applies to issuers of both equity and corporate bonds in public markets. The Code is principles-based and requires issuers to apply and explain how they have implemented the provisions of the Code. However, there are minimum corporate governance practices which are mandatory and which all issuers are expected to apply without exception. These mandatory provisions are captured under the Capital Markets (Securities) (Public Offers, Listings and Disclosure) Regulations 2002 as amended in 2016. The Code departs from the repealed Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya 2002 which required issuers to comply or explain.

The Authority in February 2019 published the inaugural State of Corporate Governance Report for Issuers of Securities to the Public in Kenya for the FY 2017/2018. The report followed the evaluation of regulatory

Jurisdictions/Agencies partnered with for capacity building on surveillance of multiple asset classes in the year under review:



**Dubai Financial
Services Authority**



**Securities and Exchange
Board of India**



**The National Stock
Exchange, India**



**Shenzhen Stock
Exchange, China People's
Republic**

reports submitted by the end of the calendar year 2017 in accordance with the Code. Issuers are required to submit the completed reporting templates together with the complete set of annual reports within four months following the end of their financial year. The submitted templates were individually assessed and rated based on information which is publicly available to shareholders and potential investors.

The objective of the report is to raise visibility of the state of corporate governance of issuers of securities to the public in Kenya. It is expected to avail corporate governance information of all issuers to shareholders, potential investors and other stakeholders in a concise manner. The report is available on the Authority's website and was shared with the issuers to enable them to note the areas for improvement prior to the next reporting cycle.

b) Prudential Risk Based Supervision

In execution of its oversight responsibilities, the Authority conducted onsite inspections on 39 capital markets intermediaries during financial year 2018-19. Additionally, all intermediaries and listed companies are continuously monitored offsite to ensure they comply with the regulatory framework including prudential, conduct of business and corporate governance requirements.

In March 2019, the Authority benefitted from technical assistance from the International Monetary Fund (IMF) geared towards enhancing staff capacity on risk-based supervision framework as well as stress testing.

c) AML/CFT Risk Based Supervision

The Authority, being a supervisory institution under the Proceeds of Crime and Anti-Money Laundering Act, continues to supervise market intermediaries to ensure that they meet their reporting obligations as envisaged under this Act. The Authority has continued to implement measures geared towards ensuring that its supervisory capacity is enhanced as well as continued rolling out capacity building programs for the market intermediaries.

In collaboration with the International Monetary Fund (IMF), the Authority has developed a robust AML/CFT risk-based supervision framework for the capital markets sector. The IMF also facilitated a capacity building programme for Authority's staff, Central Depository & Settlement Corporation (CDSC) and Nairobi Securities Exchange (NSE) on AML/CFT risk-based assessments and onsite examinations.

d) Collaboration with other jurisdictions

The Authority has continued to work with other financial regulators and partners in the region. In the year 2018/2019 the Authority hosted staff from several jurisdictions including the Securities and Exchange Commission of Zimbabwe and the Securities and Exchange Commission Ghana.

In addition, the Authority hosted the Board members of the Investor Protection Fund of Zimbabwe as well as fellows from the Macroeconomic and Financial Management Institute of East and Southern Africa (MEFMI).

Jurisdictions/Agencies hosted for benchmarking and study visits:



Securities and Exchange Commission of Zimbabwe



Securities and Exchange Commission of Ghana

Board of Directors of the Investor Protection Fund of Zimbabwe



Macroeconomic and Financial Management Institute of East and Southern Africa

Capital Markets Fraud Investigation Unit

INTRODUCTION

The Capital Markets Fraud Investigation Unit is a specialized Unit under Criminal Investigations Branch (IB) DCI HQRS, that undertakes Criminal Investigations of cases falling under the Capital Markets Authority. The Unit was set up in 2009. The functions of the Unit include; detection and prevention of frauds in the securities industry; investigation of all detected and reported cases of fraud in the securities industry; apprehension of offenders; and acts as a liaison between CMA and other Law Enforcement Agencies.

During the financial year 2018/2019, it was noted that crime trends has changed since the fraudsters are tricking

unsuspecting investors in conjunction with employees of the brokerage firms, resulting from fraudulent disposal of shares leading to losses to investors. In order to counter the frauds, CMFIU has engaged the market intermediaries and agreed that before any transactions take place, the documents involved should be availed to CMA for scrutiny and authentication.

CRIME TRENDS

The Unit has maintained a gradual and significant constancy in cases reported. A total of 24 cases were reported in the year under review as compared to 31 cases in the 2018/19 Financial Year.

Summary of cases

YEAR	PBC	PUI	PAKA	ENFORCEMENT	FINALISED	NFPA	TOTAL
2014	5	20	3	2	3		22
2015	6	22	4	-	4		36
2016	6	10	2	1	5		25
2017	4	13	2	2	0		21
2018	7	14	5	1	14		40
2019	3	16	2	1	11	2	35

PBC	- Pending before court
PUI	- Pending under investigation
PAKA	- Pending arrest of known accused
ENFORCEMENT	- Referred to Directorate of Market Operations for consideration and action
FINALIZED	- The files that have been closed after judgement from court
NFPA	- No further Police action

Enforcement actions taken by the Authority in 2018/2019 Financial Year

S/No	Licensee/ Listed Company	Nature of Breach	Sanction Imposed
1.	Jacob Israel Segman	Non- Compliance with the Regulatory Requirements on Disclosure of Shareholding Information in Kenol Kobil Limited through Energy Resources Capital Limited contrary to Regulation 19(1) of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations (2002) and Paragraph D.01 of the Fifth Schedule and E.05 of the Third Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) (2002). These provisions require disclosure of the aggregate of the direct and indirect interests of directors holding in excess of 3% of the share capital of the issuer distinguishing between beneficial and non-beneficial interests.	In August 2018, a Financial penalty of Kshs.5 million was issued against Mr. Segman pursuant to Section 11(3) (cc)(i) and Section 25A(1) (c)(iii) of the Capital Markets Act. Mr. Segman has filed an appeal at the Tribunal.
2.	Pesos Capital Markets Limited	Holding themselves out as carrying on the business of a Fund Manager and an Online Forex Dealer in Kenya without holding a valid license issued under the Capital Markets Act.	In October 2018, a Notice to Cease and Desist was issued against the Company for carrying on capital markets business without holding a valid license.
3.	David Maena Tumaini	Irregular trading in fixed income securities contrary to Sections 32H(b), 32I(b) and 31(5) of the Capital Markets Act and Regulations 24(1)(a), 24(1)(d) of the Capital Markets (Licensing Requirements) (General) Regulations (2002) and Regulations 3(a) and 12(3) and(4) of the Capital Markets (Conduct of Business) (Market Intermediaries) Regulations(2011).	<ul style="list-style-type: none"> • In February 2019, Mr. Maena was disqualified from holding office as a key officer of a public listed company and or issuer, Licensee or any approved institution of the Capital Markets Authority; and • Mr. Maena was fined Kshs. 166,950,000/= being twice the amount of the benefit which directly accrued to him from the irregular trading;
4.	Rodrick Muhoro Ngugi	Irregular trading in fixed income securities contrary to Sections 32I (a) and (b) and 32JA (1) and (2) of the Capital Markets Act.	<ul style="list-style-type: none"> • In May 2019, Mr. Muhoro was restricted from conducting bonds trading for a period of ten (10) years pursuant to the provisions of Section 11 (3) (cc) and 11 (3) (w) of the Capital Markets Act. • Mr. Muhoro was fined Kshs. 208,303,718/= being an amount equivalent to two times the benefit of Kshs. 104,151,859/= which he made from the scheme in the bonds transactions.

NOTES:

- 1) The Capital Markets Authority recovered a total of Kshs. 477 Million following signing of No Contest Settlement Agreements in the case of Insider trading in the Kenol Kobil PLC Counter in the Period March to May 2019; and
- 2) The Capital Markets Authority recovered Kshs. 82,890,986.95/= following signing of No Contest Settlements in cases involving unethical trading of Fixed Income Securities during the period July 01, 2018 to June 30, 2019.
- 3) The Authority took action against three individuals namely: Mr. Andre Desimone(former CEO and Executive Director Kestrel Capital(East Africa)Ltd), Mr. Aly Khan Satchu and Mr. Kunal Kamlesh Bid(both stockbroking agents of Kestrel Capital(East Africa)Ltd, for involvement in the insider trading of Kenol Kobil Plc shares prior to the takeover announcement being publicized in October 2018. The Authority imposed enforcement actions ranging from financial penalties, disgorgement of commissions and disqualification from holding office as a key officer and director of a public listed company and or issuer, licensee or in any other approved institution under the Capital Markets Authority. Appeals against the enforcement actions are pending at the Capital Markets Tribunal and Court of Appeal.
- 4) During the period under review, the Authority took minor administrative actions(issuance of warning, reprimand or cautions) against market intermediaries arising from contraventions which were found not to be material in nature. Examples of such contraventions include delay in settlement of market development fees by issuers, failure to ensure that financial reports submitted to the Authority match the required format and failure to seek the Authority's approval prior to making publications.

Strategic Projects

The Strategic Projects unit is mandated with ensuring the Authority achieves its strategic objectives and the implementation of the Capital Market Master Plan by ensuring projects are run within a defined set of constraints as outlined in the Authority's Project Management Guidelines. This entails management for internal and external stakeholders such as donors who include the World Bank and Financial Sector Deepening Africa (FSDA) and external consultants.

The projects can be either internally or externally funded.

During the year under review, the Authority on-boarded the following projects:

Project Name	Funded by	Project Outcome
Develop a Knowledge Management and Technology strategy (2018-2023) appropriate for the proposed Directorate of Knowledge Management and Information Technology.	CMA	The Authority's first Knowledge Management and Technology Strategic Plan (2018-2023) and a suitable organization structure for Directorate of Knowledge Management and Information Technology.
Project, Performance and Risk Management Information System.	CMA	The Authority embarked on its first internally developed information system. The system enables the efficient and effective monitoring and evaluation of the Authority's risks, running projects and performance against set criteria in the Strategic Plan, Capital Market Master Plan, and Performance Contract among others. Once fully rolled out, the system will enable effective decision making within the Authority.
Review and design of the securities market surveillance system.	FSSP	Roll out of a multi asset surveillance system with advanced surveillance capabilities that would allow effective and efficient real time and offline monitoring of all traded instruments including but not limited to equities, bonds, ETFs and derivatives (warrants, futures and options). The system will be modern, robust and will be flexible enough to meet the rapidly changing market needs.
Development of an Oversight Framework and capacity building on supervision of Self-Regulatory Organizations (SROs) in Kenya	FSSP	An oversight framework on the supervision of Self-Regulatory Organizations (SROs) that adheres to international best practice and a capacity building programme on the same to benefit the Authority, existing SROs and SRO candidates.
Build licensing and supervisory capacity for new products	FSSP	To upscale licensing and supervision capacity within the Authority to effectively process applications and supervise new products such as Exchange Traded Funds, Global Depository Receipts/Notes, Securities Lending & Borrowing and short selling, Online Forex Trading, Real Estate Investment Trusts, Hybrid Bond Market, Asset Backed Securitization and Spot commodities exchange.
Assess the funding gaps at the National and county governments to inform development of Capital Markets products/services	FSSP	To undertake an in-depth analysis of the funding gap at the national and county level as well as make policy recommendations aimed at enhancing the uptake of capital markets products and services that can be leveraged towards bridging those gaps.

Project Name	Funded by	Project Outcome
		The project was completed in December 2018 and the Authority has since embarked on approval and roll-out of the recommendations highlighted in the final report.
Implementation of the Hybrid Bond Market in Kenya	FSSP	Development/amendment of regulations, rules and guidelines for effective and transparent bond trading operations and oversight, develop modalities for the restructuring and empowerment of an appropriate industry body to take up the role of a Self-Regulatory Organization (SRO) for Over The Counter (OTC) bond transactions and act as a market maker/organizer. This will also entail defining perimeters for the OTC trading and reporting infrastructure/platform including its interaction with the settlement systems and surveillance.



The Cabinet Secretary, Ministry of Devolution and ASALs in conjunction with Governors; H.E Hon Prof Anyang' Nyongó of Kisumu County, H.E Hon Mike Sonko of Nairobi County, H.E Hon Ali Hassan Joho of Mombasa County and H.E Hon Daniel Kiprotich Deputy Governor of Uasin Gishu County join the interagency team of which CMA is a member for a meeting in Mombasa County on how the Kenyan Cities can leverage Capital Markets resources for infrastructure development.



The Central Bank of Kenya Governor, Dr. Patrick Njoroge poses for a photo with select members of the interagency team working on hosting a National Conference in 2020 aimed at mobilizing supply side and demand side players to develop a national framework towards mobilizing capital for infrastructure financing for Kenyan cities.

Human Capital & Administration

The Human Capital and Administration (HCA) function is responsible for ensuring the Authority attracts, motivates and retains the talent required to support the achievement of mission-critical outcomes in line with the CMA twin mandate of regulating and developing Kenya's capital markets.

During the Financial Year 2018/19, the function continued to play this critical role with a particular focus on providing innovative solutions geared towards optimizing employee motivation and engagement. In this regard, HCA function continued to focus attention on ensuring high-quality and timely hiring outcomes, effective evaluation of employee performance, continuous capability development and retooling, embedding a culture of values-driven employee reward and recognition as well as the provision of a conducive working environment. In addition, the function has been overseeing the delivery of the Authority's culture change program that started in 2016 whose overall objective is to embed excellence, high performance, innovation and a results orientation in support of the delivery of the CMA mandate.

The section below provides summary highlights of the function's milestones and accomplishments during the FY 2018/19 period.

Recruitment and Selection

Effective and timely filling of positions to address strategic workload needs is critical to impactful delivery of the CMA mandate. To ensure timely and high-quality hiring outcomes, the HCA function continued to work closely with user departments to identify hiring needs and develop appropriate recruitment solutions which included filling such gaps on permanent, temporary or contract basis. The use of the CMA recruitment portal has improved the efficiency and transparency of the long listing process while the use of an expanded suite of recruitment methodologies and tools (outcomes-driven face-to-face interviews, assessment centres and psychometric testing) has improved hiring outcomes. During the FY2018/19, CMA's total staff complement stood at 117 permanent staff and 30 on temporary terms. This compares with 118 permanent staff and 34 temporary and contract staff in the previous year.

Human Capital & Administration (Cont'd)

FY2018/19



117 Permanent staff **30** Temporary terms

During the year, three (3) permanent positions were competitively filled namely: Board Coordination Officer in Legal Affairs and Corporation Secretary Department, System Administrator, and Database Administrator in the Information Communications Technology (ICT) Department. During the year, a total of 6 staff on permanent terms exited the Authority compared to 5 the previous year.

The Authority, in line with Government Policy, continued to provide training opportunities for students and school leavers through a vibrant internship, apprenticeship and student attachment program. During the year, a total of 22 paid internships were offered to young Kenyans to gain hands-on experience in their area of study and interest.

In terms of gender distribution, the Authority employees were 62 percent male and 38% female as at June 30, 2019.



Gender Distribution

62% Male

38% Female

Learning and Development (L&D)

Capability development is critical to ensuring the Authority has the appropriate skills needed to accomplish its strategic goals. As part of the change management program, the Authority remapped its learning approach with a view to ensuring scarce training resources are redirected to areas of high strategic impact.

During FY2018/19, the Authority continued to streamline and consolidate the 65:20:15 Learning and Development approach with a particular focus on directorate-level management of training budgets, experiential learning and

exposure. As part of the international exposure program, the Authority seconded one staff to Securities Commission of Malaysia in order to gain international perspective in the running of capital markets regulations.

Internally, a program of internal knowledge transfer – dubbed the Subject Matter Experts (SME) Programme – to cement the experiential learning component of the L&D Policy was rolled out during the year and covers diverse fields such as policy research, FinTEch, mergers and acquisition and public speaking. The SME program has a pool of 20 staff drawn from all directorates.

Talent Management and Succession Planning

A key pillar of CMA talent management strategy is the Graduate Trainee (GT) programme where the Authority recruits ten (10) newly-graduated university leavers for a two-year period during which they are exposed to all aspects of capital markets development and regulation. This is an innovative program that seeks to develop a pool of skills that can be deployed both internally at the CMA and externally amongst the various stakeholders in the capital markets space.

In FY 2018/19, the Authority recruited the second cohort of GTs who are undergoing an intense programme internal and external work placement programmes. It is important to highlight that during the year all the GTs were placed on a three-month external work placement program as part of the Authority's strategic partnership and alliance building with the industry. The GT external placements were at Nairobi Securities Exchange (NSE), Britam, NIC Securities, Cooperative Bank, CDSC and CIC Group.

GT External Placements



Annual Capability Review (ACR)

As part of the culture change programme, the Authority developed an outcome-driven performance evaluation process and tool called the Annual Capability Review (ACR). This system evaluates the works of CMA staff based not just on their ability meet their workplan objectives but, importantly also, on whether they delivered their workplan in line with CMA values. During the year under review, the ACR process was fully automated and staff and their supervisors were able to complete the entire evaluation process online.

Values-driven Recognition and Reward

During the year, the Authority, reviewed its recognition operationalization framework with a view to making it more impactful. As a result of the review, the CMA adopted an enhanced approach two-tier approach with the directorate as the fulcrum of recognitions. Under the tiered approach, nominations and awards primarily take place at the directorate overseen by directorate level champions and committees. The names of those awarded at the directorate are then forwarded to the corporate recognition committee who then organize quarterly or annual draws from which the quarterly and annual CMA culture warrior is chosen through a staff vote.

Leadership Development Program (LDP)

During FY 2018/19, the Authority embarked on an organization-wide Leadership Development Program whose objective was to build appropriate capabilities for employees at all levels. The program had four core levels targeting individual contributors, supervisors, managers and the senior leadership team. The program has been running through most of FY2018/19 and involves a mix of self-evaluation and subsequent action planning.

Human Resource Management Information System (HRMIS) Upgrade

During FY2018/19, the Authority undertook a structured enhancement of its HRMIS with a view to providing employees with an online platform that enables them to access HR services in a timely and efficient manner. The HRMIS upgrade targeted enhancements key HR services delivery areas such as leave application and approvals, ACR management, mortgage and car loan applications and approvals, transport requisitions and medical balances update. There is on-going work to address any technical glitches that are common in such an upgrade.

Employee Engagement

During FY 2018/19, the Authority undertook the following initiatives aimed at gauging the level of employee engagement or supporting staff to be better-engaged and motivated.

a) Employee Engagement Survey

During FY18/19, the Authority conducted an employee engagement survey that pointed to the need to consolidate ongoing initiatives geared towards enhancing employee motivation and engagement. In particular, the survey pointed an arrow to the need to keep working on improving employee communications around key initiatives and programs, work evaluation, reward and capability development.

b) Staff Lounge

During FY18/19, the Authority refurbished a state-of-the-art employee lounge where staff go for meals and drinks as well as to take a well-deserved break in a relaxing environment. This is part of the CMA's effort to provide a conducive work environment.



CMA Staff led by the Chief Executive Mr. Paul Muthaura cut a cake to celebrate the launch of the state-of-the-art CMA Staff Lounge Area.

c) Team Building

A team building exercise targeting trust building, collaboration and innovation was organized for all staff in September 2018 at the Kenya School of Adventure and Leadership on the slopes of Mt. Kenya. Staff reported that the program was well-executed and structured to address the core objectives.



CMA Football team celebrates after a football match against the Retirement Benefits Authority (RBA) at the Joint Financial Sector Regulators' (JFSR) sports Day. The sporting activities were held at the Public Service Sports Club on March 22, 2019.

d) Joint Regulators' Sports Day

As part of building sector trust and collaboration, CMA joined other players in the financial regulatory sector for a one-day Joint Financial Sector Regulators' (JFSR) sports Day. CMA competed against the Retirement Benefits Authority, Insurance Regulatory Authority and Sacco Societies Regulatory Authority and took home trophies in football, volley ball and relay among others.

CMA Culture Change Program: The CMA Way

The CMA change culture program (Uwezo Kipeo) seeks to reorient the Authority's culture from one that is focused on tasks to one that puts a premium on excellence, outcomes, empowerment, innovation and high performance.

Human Capital & Administration (Cont'd)

In the first phase of the programme, the Authority developed an array of Policies, Procedures and Frameworks for anchoring the culture change program in all facets of CMA's people management processes. Four of the most impactful policies from a culture change perspective developed in the first phase were the Performance Management System which changed the way CMA evaluates the work of its employees, the remuneration and benefits policy which tightened the link between performance and reward, the recognition policy which provides for all round awards for staff who demonstrate alignment with CMA values in the delivery of their day-to-day responsibilities and the Staff Capability Framework that outlines the key technical skills and experience required to deliver outstanding outcomes for each CMA employee.

During the year under review, the program has primarily focused on embedding the culture envisioned under Uwezo Kipeo through regular and structured employee communications (refresher updates on the objective and content of anchor policies) via face-to-face meetings or

through online messaging platforms such as WhatsApp, team events to support teamwork and collaboration, targeted roll out of the recognition program at the unit level as well building individual capabilities to lead self and others through the CMA Leadership Development Program. The CMA leadership remains committed to the effective implementation of the program through an inclusive process that involves staff at all levels through their [staff] participation in technical workstreams and providing regular feedback on program implementation and impact.

ISO 9001:2015

The Authority successfully maintained and continually improved the Quality Management System (QMS). Recertification to ISO 9001:2015 was attained after successful recertification audits conducted in November 2018 by Kenya Bureau of Standards. Other milestones achieved included capacity building for new staff, training of internal auditors, internal assessment of the QMS and conducting of management review meeting.

Corporate Communications

Corporate Communications is responsible for developing and implementing communication strategies to ensure that the Authority's brand is appropriately positioned among all capital markets industry stakeholders. As such, the department supports units within the organization to achieve intermediate strategic outcomes determined for the first year following the launch of the Strategic Plan 2018-2023 in July 2018.

Stakeholder Engagement

Communications strategies were designed to promote the uptake of capital markets products and services by investors and issuers. Different media channels were used to reach different stakeholders. Social media, for instance, continues to be the most effective channel for meaningful engagement with the youth. Through four properties namely Facebook, Twitter, YouTube and LinkedIn the Authority has successfully built an online community and reached specific demographics with investor-relevant educational content. Social media has also been instrumental in enhancing our visibility and tracking follower sentiments globally. Noting the substantial gains that can be realised from scaling up the use of digital media, the Authority made substantial investment in hardware and software technologies that will aid in the design and production of digitised content.

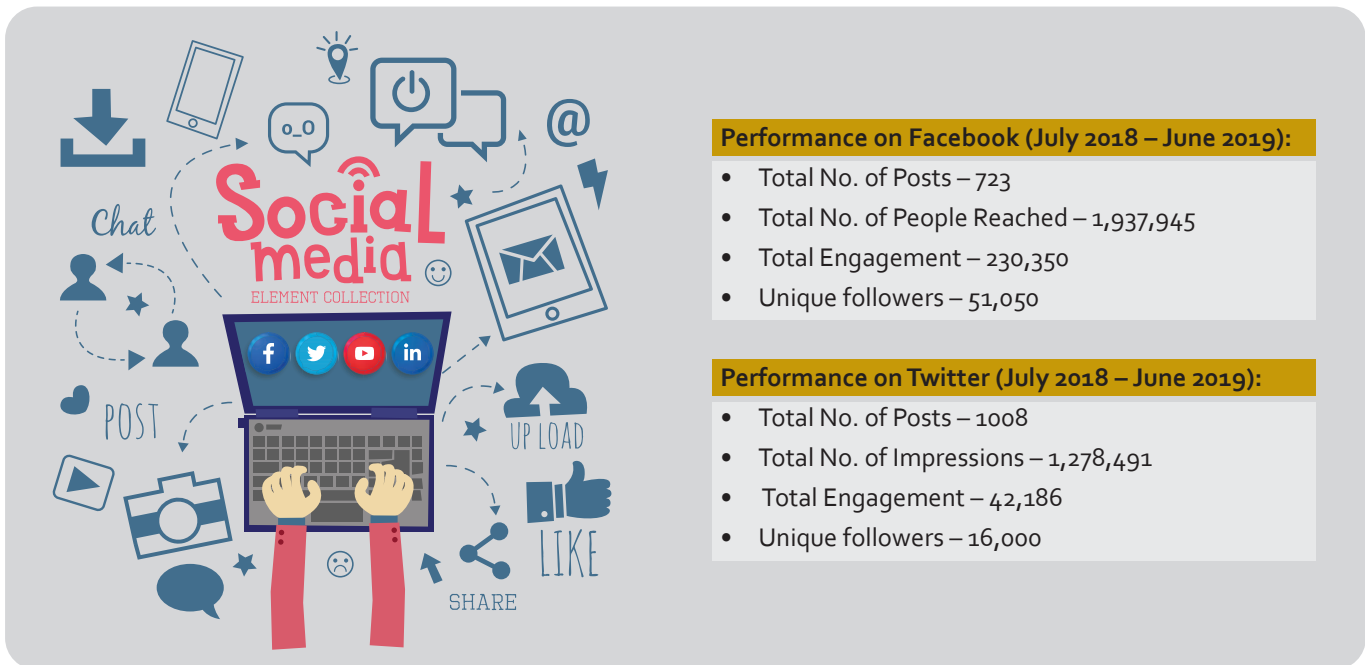
Concurrently, the technical capabilities of the staff in the department have been developed to respond to the direction the Authority is taking with social media. The investment is expected to result in cost savings in the long term as most of the design and production services

that have previously been outsourced will be handled in-house, going forward. The launch of the CMA Strategic Plan 2018-2023, World Investor Week 2018 and Capital Markets University Challenge are examples of campaigns that were executed through social media.



A snapshot of the social media campaign by the Authority during the launch of the Strategic Plan 2018-2023 in July 2018.

Leveraging mutually beneficial media relationships, the Authority's staff authored eight opinion pieces, which were published in newspapers to increase awareness about



capital markets products, services and developments, targeting stakeholders who may not be on social media. The same opinions were published on social media properties to enhance reach and virility. In the review period, the Authority responded to 20 media enquiries on various capital markets issues, a 50 percent decline in the number of enquiries responded to the previous year. The decline in response rate can be attributed to matters that are in Court or under investigations, for which a discussion by the Authority would result in contempt of the Court or compromise the investigations process. Other enquiries received were outside the ambit of the Authority and for such, the enquirer would be directed to the relevant institution.

Information Sharing

To ensure sound market infrastructure, institutions and operations, Corporate Communications published and disseminated information and updates on wide ranging capital markets issues such as license approvals, enforcement action, and research reports like the State of Corporate Governance for Issuers of Securities to the Public.

Corporate Social Investment and Sustainability

During the year, the Authority continued to sustain its strategic alliances with its partners. On the domestic

front, implementation of the terms of a Memorandum of Understanding (MoU) between the Authority and Kenya Forest Service continued in earnest. The Authority planted an additional 1,100 trees in Ngong Forest, noting the need to replenish the natural capital it uses in the course of its operations. Through the partnership, we have contributed to the national agenda of increasing Kenya's forest cover from seven to 10 percent by 2022. The Authority also completed the construction and equipping of Chemistry, Biology and Physics laboratories in Nthunguni Secondary School, Machakos County. Prior to the construction of the laboratory, the school relied on facilities in neighbouring schools for practical learning and examination purposes. We will be monitoring the impact of the new facilities, especially on the ability to improve students' performance in the sciences.

International Affairs

Following the Chief Executive's appointment as the Chairman of the International Organization of Securities Commissions (IOSCO) - Africa Middle East Regional Committee (AMERC) in May 2018, the department coordinated communications and meetings for the Committee's 28-member and 14 associate member jurisdictions in Kuwait in January 2019 and Australia in May 2019, respectively.

Information and Communications Technology

The department derives its mandate from the strategic objectives; To ensure optimal institutional efficiency and effectiveness of CMA and Leveraging on technology to drive efficiency in the capital markets value chain. The key outcomes of these two objectives are enhanced operational efficiency and increased capacity to respond to the impact and support the implementation of new technologies. As a department we effectively work to preserve the confidentiality, integrity and availability (CIA) of the Authority's data and information sources. This is achieved through proper management and maintenance of the ICT infrastructure to improve efficiency of internal operations and optimal use of the available technology.

Availability

The Authority is highly reliant on the ICT infrastructure for both strategic and operational activities. ICT managed and maintained the infrastructure to ensure availability of the respective systems, applications and databases through effective monitoring, implementation of the scheduled preventive maintenance program, prompt repair and replacement of failed units, installation of redundant but independent Internet and point-to-point links and sufficient power backup system. Additionally, we provisioned secure access of ICT resources from remote locations through the remote access VPN connection or published the same on the internet to facilitate seamless operations for highly mobile workforce at the Authority.

Security

Following guidance from the ICT Ad hoc committee of the Board which was constituted during the year, we conducted a Vulnerability Assessment and Penetration (VAPT) exercise with a view to determine the effectiveness of the security measures implemented over time and to expose inherent vulnerabilities in the internetwork system. Consequently, we are continuously addressing the gaps identified key among them introducing the Network Access Control (NAC) solution to improve visibility, monitoring and management of the network where each connecting device is authenticated and authorized.

The Authority also identified a solution that will integrate with our Next Generation Firewall to support the Multi-Factor Authentication (MFA) through the remote access Virtual Private Network (VPN) as a start. A Proof of Concept (PoC) has been successfully conducted for the two-level authentication. The PoC will be extended to assess the two-factor authentication on the published ICT services on the internet.

We also conducted effective patch management program for the client and server systems.

Automation and Upgrades

ICT facilitated the operationalization of the Human Resource Management Information System (HRMIS) and

has continued to manage system enhancements arising from the approved change requests to ensure optimal use of the new platform. This was an upgrade of the human resource module from the previous Enterprise Resource Planning (ERP) system. The ERP system is set for a full upgrade from the current 2013 version to 2018.

The integration between the Market Surveillance System (MSS) at the Authority and the Automated Trading System (ATS) at the exchange and the Central Depository System (CDS) is ongoing but on the test environments. The new CDS system is still undergoing enhancements to fully capture the requirements specifications. To improve the Authority's payments turnaround times, we automated the process of posting payments on the bank platform, by setting up a secure connection over the internet commonly known as a site-to-site VPN connection, between CMA and the bank.

To support effective decision making through analytics and business intelligence, the Authority through the support of the Financial Sector Support Project (FSSP) will implement Information Repository System (Datawarehouse) to consolidate the respective information sources and data and a Business Intelligence (BI) system that will apply big data analytics to derive meaning, sense and establish patterns from the available data. Also, the Authority intends to upgrade the Operating system software, server and storage infrastructure and power backup systems through the same support. To this end, we participated in the technical evaluation of the above and the respective evaluation reports submitted to the Project Implementation Unit (PIU) for review and subsequent award.

ICT also offered technical support to the Market Surveillance department in the acquisition of a Multi-Asset Surveillance System.

Governance

ICT revised the previous policies into one consolidated and enhanced ICT policy in compliance with the ISO 9001:2015 and ISO/IEC 27001:2013 and ICT Authority (ICTA) standards. The revised policy was subsequently approved by the Board. To fully operationalize the revised policy, ICT conducted a staff sensitization. To complement and support the existing staff capacity at the department, a Database and Systems administrator were onboarded. As a result, we will be able to optimize specialization of the respective ICT skills to achieve higher levels of effectiveness.

Disaster Recovery

We managed and maintained an effective disaster recovery collocated in a secure site to ensure recoverability and continuity of critical systems in use at the Authority. As guided by the ICT policy, we conducted two failover tests of the HRMIS, ERP/RBSS, File Services and Intranet systems for a period of three (3) days in each of the tests.

NO	CMA ICT Policy	Global Standard Aligned To
1	Account Management Policy	ICTA-3.001:2016 - Information Security Standard
2	Password Policy	ICTA-3.001:2016 - Information Security Standard
3	Device Management Policy	ICTA-2.001:2016 - End-User Equipment Standards
4	Acceptable Use Policy	ICTA. 5.001: 2016IT Governance Standard
5	Software Use Policy	ICTA-6.001:2016 - Systems & Applications Standard
6	Security Policy	ICTA-3.001:2016 - Information Security Standard
7	Network Policy	ICTA-2.001:2016 - Network Standard
8	Backup and Recovery Policy	ICTA-2.001:2016 - Data Center Standard
9	Change Management Policy	ICTA. 5.001: 2016 – T Governance Standard
10	Cloud Policy	ICTA-2.001:2016 - Cloud Computing Standard
11	Email Policy	ICTA-6.001:2016 - Systems & Applications Standard
12	Internet and Intranet Policy	ICTA-6.001:2016 - Systems & Applications Standard
13	BYOD Policy	ICTA-2.001:2016 - End-User Equipment Standards
14	E-Waste Policy	ICTA-4.001: 2016 - Electronic records and Data Management Standard
15	ISMS Policy	ISO 270001:2013 & ICTA-3.001:2016 - Information Security Standard

Investor Education and Public Awareness

The Authority continued to implement robust and effective investor education initiatives targeting the various segments to support the strategic objective of facilitating the development, diversification and uptake of capital markets products and services.

Key to the strategic direction was the development of a new awareness strategy informed by a Capital Markets Investor Education Behavioral and Situational Analysis Study. The study which was completed during the year under review drilled down to the investment habits, challenges and opportunities of all the various sub-segments within each main target group of the investor education programme. Arising from this study, the Authority implemented initiatives based on the following strategies during the financial year:

- a) With the wide scope of structural and geographical outreach by CMA's Investor Education and Public Awareness program, human and financial resources are scarce. To better manage the resources, the Authority focused on a single priority for the period under review by applying 50% concentration on a key strategic initiative and focus for a specified period and additional 50% on other cumulative programs;
- b) County clustering initiatives by targeting select groups within the specific regions before moving to the next County to enhance impact;
- c) Leveraging bloggers and ambassadors;
- d) Using strategic partnerships;
- e) Use of targeted and specific approach towards potential issuers; and
- f) Leveraging technology, social media and the CMA Resource Centre Portal.

Based on this model, the Authority undertook 122 impactful engagements which included seminars, workshops and exhibitions. Various medium of outreach and campaigns were used during this engagements. They included: the print media, television, social media, through Facebook & Twitter, and above all Radio, mostly vernacular based in different regions. Key highlights of the key initiatives undertaken during the financial year are as discussed below.

1) 2018 Capital Markets University Challenge

Youth remain a key constituent destined to drive the Vision 2030 economy to the next level. In this regard, the Authority held 49 youth fora within Nairobi County and its environs during the reporting period representing 60 percent of the total number of fora held.

Key to the youth programme was the Capital Markets University Challenge 2018/2019 that comprised 5 stages, leveraging both technology and standard fora. This was an inter-university competition that focused on testing participants' knowledge and understanding of capital markets and financial sector matters.

A total of 6,010 students from 37 universities registered for the challenge, with 3,151 sitting for the Stage one exams. A total number of 1,794 sat for Stage 2 scavenger hunt exams out of 2,615 who had qualified representing 69 percent participation rate. The top 10 candidates from each of the 37 participating universities then proceeded to Stage 3 (presentation stage) this was done at the various universities spread across the country. The top 2 from each of the 37 universities then participated in Stage 4 (structured question competition) at the Authority. This led to selection of 12 finalists who competed in the Grand Finale held on 17 May 2019, where the top 3 overall winners were unveiled.



Winners of the Capital Markets University Challenge 2018. From Left to Right - Overall Winner – Mr. Jacob Masara from Alupe University College, 1st Runners Up – Ms. Lorna Waweru from Maasai Mara University and 2nd Runners Up – Mr. James Mwangi from Strathmore University.

With respect to the impact of the University Challenge, a survey conducted, during and immediately after the challenge, indicated significant progress in increased knowledge. Twenty four percent of the 748 respondents enhanced their knowledge in buying and selling of securities, 23 percent gained more understanding on what shares are while 19 percent indicated that they understood more about government bonds. In addition, several universities have created investment clubs as a result of the university challenge. Another notable impact was the introduction of weekly roundtable discussions, centered on capital market products and developments, at some of the participating universities.

2) Outsourcing Strategy (Resource Persons)

In collaboration with the contracted capital markets resource persons, the Authority held a total of 20 forums conducted in partnership with Resource Persons; this represented 24 percent of the total number of forums conducted. To further enhance the Capital Markets Resource Persons programme, the Authority undertook a ‘training of trainers’ forum for resource persons to hone their skills and update them on emerging issues. This was aimed at charting the strategic direction of the investor education and public awareness initiatives in line with the Strategic Plan and the recommendations of the Capital Markets Investor Education Behavioural and Situational Analysis Study.



CMA Resource Person, Stanley Gitau having one on one sessions with members of the public at Nakuru Huduma Centre during the 2018 WIW.

3) County Forums

During the financial year, the Authority conducted initiatives in 22 Counties reaching approximately 30,000 retail and institutional investors comprising largely of opinion/groups leaders. A total of 37 forums were held in the 22 Counties representing 44.14% of the total number of forums held. In line with the new investor awareness strategy, the outreach programs targeted the various constituents at a more granular level with respect to their actual needs. Examples of the various target groups included Community

Based Organizations (CBOs), structured men and women investment groups, youth groups as well as potential issuers of securities.

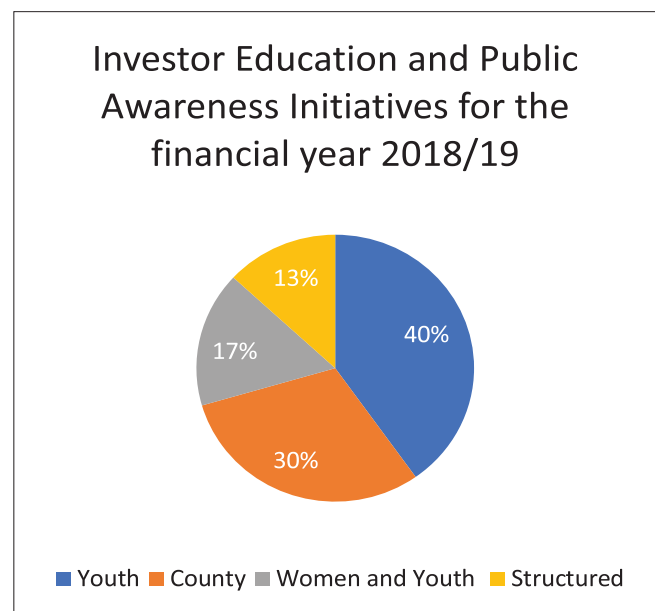
The Counties visited within the financial year included: Nairobi, Nyeri, Trans Nzoia, Kisii, Kitui, Meru, Kisumu, Nakuru, Mombasa, Kakamega, Siaya, Kericho, Kirinyaga, Embu, Makeni, Taita Taveta, Garissa, Murang’a, Kiambu, Busia, Narok and Uasin Gishu. Within Nairobi County, 16 structured forums were held targeting market intermediaries, youth, various stakeholders, potential investors and policy makers representing 20 percent of the total number of forums held.

4) Huduma Centre Initiatives

Key to the investor education programme during the financial year was the investor protection. To facilitate reaching the public across the country, the Authority partnered with the Secretariat of the Huduma Centre to set up working desks and exhibitions points at select Counties’ Huduma Centres for purposes of sensitizing the public on capital market issues. Public engagement forums were conducted in Nakuru, Kisii and Trans Nzoia.

The sessions were geared at providing face-to-face interactions between the Authority and potential investors to enhance their understanding of the various capital market investment opportunities available. Investors who could not travel to Nairobi to resolve their complaints, were sensitized on how to report malpractices in the market, how to launch complaints and where to go in case they needed any help. Investors were also taken through the tips on protection of investors and they were given the whistle-blower brochure to keep them more informed and for sharing with their groups and friends.

Below is a pie chart representing the 122 forums held during the financial year capturing the Youth, County, Structured and Women and Youth forums.



Investor Education and Public Awareness (Cont'd)

5) Strategic Partnerships

The Authority held various structured forums in collaboration with the following 7 strategic partners:

- Association of Chartered Certified Accountants (ACCA)
- Kenya Institute of Public Policy Research and Analysis (KIPPRA)
- Institute of Certified Public Accountants of Kenya (ICPAK)
- Kenya Diaspora Alliance
- Ministry of Foreign Affairs
- County Governments
- Media Council of Kenya



One of the groups discussing allocated questions during the Women Focus Group Discussion forum held at the Capital Markets Authority offices on 28 June, 2019.

6) National and Global Campaign

As a member of the International Organization of Securities Commissions (IOSCO), the Authority participated in World Investor Week (WIW 2018). This is an annual global initiative to raise awareness about the importance of investor education and protection, and highlight the various initiatives by securities regulators.

As part of the initiative, the Authority held several county fora and campaigns through print, radio and social media. Following the success of the scavenger hunt in 2017, CMA incorporated a themed scavenger hunt during the WIW where participants responded to questions by searching for the answers within our Resource Centre Portal and Website to win prizes to purchase M-AKIBA Bonds. A total of 500 participated in the scavenger hunt with 35 winners being rewarded.

7) Leveraging Technology

Cognizant of the role information technology continue to play in service delivery, the Authority developed a Capital Markets Information Toolkit and an E-Brochure. The toolkit is user-friendly and contains comprehensive content. It is very rich, and interactive, with relevant information in form of a homepage that is indexed and easy to navigate. It is a one-stop shop which supports efforts of enhancing knowledge about capital markets investments worldwide; this is in addition to other various outreach medium including social media, infographics and memes amongst others.

8) Monitoring and Evaluation

In order to measure the impact and value for money for the investor education and public awareness initiatives, the Authority developed a measurement index that is forward looking in terms of measuring impact. The Authority used the assessment tool to capture views, insights and general comments from a random selection of engagements held from 2015 to 2019. This is part of the Authority's new approach of conducting more aggressive follow up interventions to measure impact.

Further, the development of the Investor Education Measurement Index, to be tracked periodically, will enable measurement of the impact of investor awareness interventions informed by conclusive scientific data with respect to Knowledge, Attitude and Practice.

9) Industry Certification and Continuous Professional Development

In terms of capacity building in the capital markets industry, the certification programme which is being implemented in partnership with the Chartered Institute of Securities and Investment (CISI) progressed. Over 2,500 candidates have passed the stage one and two exams. The programme aims at creating a highly skilled talent pool in line with the Capital Market Master Plan.

The Authority further introduced policy guidelines targeting key staff in capital market intermediaries to undertake an annual Continuous Professional Development (CPD) standards to ensure that engagement with investors is consistent and to the highest possible standards informed by the most current information; this was achieved in consultation with stakeholder through various stakeholder engagements.

Corporate Social Investment

In 2018/2019 financial year, the Authority entered into its second Memorandum of Understanding (MoU) with Kenya Forest Service for a three-year term to facilitate planting of an additional 550 trees on 0.5 hectare (1.75 acres) in Bomas Site, Ngong Forest. Under the terms of the MoU, Kenya Forest Service took on the responsibility of providing labour for preparing the tree-planting site; maintaining the planted tree seedlings for an initial period of 3 years and replacing all seedlings that will have withered within 3 months of the tree planting exercise free of charge. The Authority staff planted the trees on 16 November 2018.

While the initiative was a proactive move by the Authority that began in 2013/2014, it further supports a Presidential Directive to Ministries, Departments and Agencies (MDAs) to take steps to effect appropriate implementation of tree planting as part of Corporate Social Responsibility (CSR). The Directive further required MDAs to allocate 10 percent of CSR budget to plantable tree seedlings that could be distributed to Kenyans across the country to achieve 10% forest cover by 2022.

On the educational front, the Authority constructed a Chemistry, Physics and Biology Laboratory in Nthunguni Day

Secondary School, located in Machakos County. The project was undertaken through a collaboration with the Ministry of Public Works and the community around the school. The community was responsible for provision of labour and raw materials in exchange for school fees and some cash.

Through engagement with the Ministry of Education and School Equipment Production Unit (SEPU) a contract was entered into for SEPU to equip the laboratories at a cost of Kshs3.8 million within a period of six weeks in 2019/2020 financial year. The completed laboratory will be handed over to the school in 2019/2020 financial year. Observing that the school did not have a laboratory prior to the project's commencement, the Authority will be seeking to track performance of the students to assess the impact of the laboratory facilities.

The Authority has a Corporate Social Investment (CSI) Management Committee charged with among other responsibilities; recommending for approval, CSI programmes, activities and budgets and monitoring and evaluating the impact and sustainability of CSI programmes and activities undertaken by the Authority.

Derivatives Unit

The Authority completed the final preparations for the launch of the Exchange Traded Derivatives Market and on February 13, 2019 as prescribed under Section 20 (1) of the Capital Markets Authority Act, provided the Exchange with a final approval to undertake the operationalization of the Derivatives Markets (NEXT) in Kenya. NEXT will be first Derivatives Exchange in East Africa and the Second Exchange in the Continent to offer trading in futures contracts. Subsequently, Stanbic Bank and Co-operative Bank were granted by the Central Bank of Kenya the no objection approval to participate as Clearing Member and Settlement Bank for Nairobi Securities Exchange Derivatives Market.

In order to ensure adequate capacity building and product uptake before and after the Market launch, the Exchange rolled out the Derivatives Market Launch Plan focusing on various sequenced activities to drum up support and invite investors to take advantage of the listed contracts to address the various investment strategies. The NSE Derivatives Market Launch Plan targets the various activities that NSE will undertake to ensure a smooth launch and subsequently market uptake. During the year various stakeholder forums were held to ensure awareness across the industry stakeholders and key market players including, CMA-NSE Boards retreats to align the decision-making arms, trustees

of the various funds, Trading Members, Clearing Members and CMA market supervision staff. In addition, a Derivatives Technical Advisory Committee (D-TAC) that comprised of technical resources from CMA, CBK, NSE (as an SRO) and the National Treasury was instrumental to enhance decision making. The D-TAC primarily facilitated consultations between the market's supervisors and policy makers on significant technical matters relating to the development and soundness of the derivatives market with the overall aim of enhancing supervisory convergence on the oversight of the derivatives market in Kenya.

The approved participants in the Derivatives Market eco-system include the Clearing House (NEXT), Clearing members - Stanbic Bank and Co-operative Bank, and Trading Members. During the July 2018 to December 2018 Pilot Test Phase of the Derivatives Market, the Exchange on boarded a total of six Trading Members who signed up to and were approved to execute derivatives contracts for their proprietary books as well as on behalf of their clients.

In anticipation of the final Derivatives Market launch, a total of 12 Trading Members have signed up, they include; Afrika Investment Bank, Standard Investment Bank, Sterling Capital Limited, Faida Investment Bank, Genghis Capital Limited, NIC Securities Limited, Kingdom Securities

Limited, Kestrel Capital(EA) Limited, Dyer and Blair Investment Bank, African Alliance Securities, Apex Africa Capital Limited and SBG Securities Limited. The Market went live on 11 July 2019.

In 2017 the Authority developed Online Forex Regulations which brought the regulatory oversight of online foreign exchange brokerage services under CMA. Subsequently, in 2018/2019 Financial Year, The Authority licensed two intermediaries SCFM Limited and EGM Securities to operate as a Non – Dealing Online Foreign Exchange Brokers in line with the Capital Markets (Online Foreign Exchange Trading) Regulations, 2017. In the same financial year, the Authority also granted the first Money Manager license to Standard Investment Bank (SIB) Limited to operate in the online foreign exchange trading space. As a money manager, Standard Investment Bank is licensed to choose and manage investments prudently for its online forex trading clients and develop appropriate investment strategy.

As part of Big 4 agenda on food security, the Authority as a member of the National Taskforce for Establishment of Commodities Exchange in Kenya contributed to the successful incorporation of the Kenya National Multi-Commodities Exchange Limited (KOMEX). Following establishment of KOMEX, the Authority as a member of the Task force, developed the draft Capital Markets (Commodities Markets) Regulations and also contributed to the development of the draft Warehouse Receipt Systems Regulations. This legal framework will enhance food security, improve post-harvest management, increase farmers productivity, increase value addition, promote transparency and price discovery through the establishment of quality warehouse infrastructure and structured commodities trading.

During the year, the Warehouse Receipt system Bill was enacted to anchor the draft Warehouse Receipt Systems Regulations. The draft Capital Markets (Commodities

Markets) Regulations will facilitate the licensing of commodity exchanges, commodity brokers and approval of clearing houses. These draft regulations further provide for the governance, trading and conduct of business of commodity exchanges and commodity brokers, including the disclosure, compliance and reporting requirements.

In addition, the Authority as a member of the Coffee Reforms Implementation Committee (CSIC) developed the draft The Capital Markets (Coffee Exchange) Regulations which have undergone extensive stakeholder engagement in anticipation of future gazettment. The draft Capital Markets (Coffee Exchange) Regulations provide for; incorporation of a coffee exchange; licensing of brokers; establishment and operationalization of a Direct Settlement System (DSS) for expedited and transparent payment of coffee sales proceeds; conducting of trading in a secure, stable and transparent manner in an environment of fair competition; and protection of the interests of the grower, the buyer and other stakeholders of a coffee exchange.



A Congratulatory message to the Nairobi Securities Exchange (NSE) from the Capital Markets Authority during the launch of the NSE Derivatives Market (NEXT).



Commodities sector and Financial sector stakeholders pose for a group photo on the sidelines of the joint consultative meeting on the draft Capital Markets (Commodity Markets) Regulations, 2019 and the draft Warehouse Receipt System Regulations, 2019 at the Kenya School of Monetary Studies.

Market Development 2018/2019 Annual Report Input

A. MAJOR HIGHLIGHTS AND DEVELOPMENTS

a. CMA Admission to the Global Financial Innovation Network (GFIN)

On January 30 2019, CMA (Kenya) was admitted to the Global Financial Innovation Network (GFIN), a key milestone in supporting the transformation of the capital markets in Kenya through nurturing innovation. GFIN an international network of 29 financial services regulators and related organizations, committed to supporting financial innovation. The Network seeks to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale new ideas. This includes a pilot for firms wishing to test innovative products, services or business models across more than one jurisdiction. It also aims to create a new framework for co-operation between financial services regulators on innovation-related topics, gaining insights and sharing different experiences, lessons and approaches. This cements Kenya's efforts towards supporting innovation in the capital markets, noting the important role of Financial Technology (FinTech) as a Centre of Excellence under the 10-year Kenya Capital Market Masterplan, 2014-2023.

b. CMA and Kenya Law Publish a Capital Markets Case Digest

The Capital Markets Authority (CMA) and the National Council for Law Reporting (Kenya Law) jointly released a premier Digest of 27 capital markets decisions delivered by Courts in Kenya in November 2018. The Digest, which summarizes critical milestones in capital markets jurisprudence, is the first of its kind to be published in the financial sector in Kenya. It covers a ten-year period from 2008 to 2018 and is indexed into seven categories covering civil cases, civil appeals, constitutional petitions, judicial review applications, miscellaneous applications, civil suits and criminal cases.

The Digest is intended to become a regular publication, noting that a number of the highlighted cases are currently the subject of Appeals. The Authority and Kenya Law remain committed to making accessible evolving judicial trends on key capital markets issues.

c. Capital Markets Strategic Plan 2018-2023 Launch

Following the expiry of the 2013-17 Strategic Plan, the Authority developed a new Strategic Plan running from July 2018 to June 2023 to serve/act as a guide over the next five years. The major thrust of the five-year Strategic Plan is to create a regulatory framework that fosters growth, which is inclusive and sustainable, promotes innovation and financial technology and one that strengthens and builds a sound and resilient capital market.

The CMA Strategic Plan further serves as a blueprint for the Authority to steer the development of Kenya's capital markets to support national development objectives.

The Plan encompasses six key Strategic objectives including:

1. Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency;
2. Facilitating the development, diversification and uptake of capital markets products and services;
3. Ensuring sound market infrastructure operations and market institutions;
4. Leveraging technology to drive efficiency in the capital markets value chain;
5. Ensure optimal institutional efficiency and effectiveness of CMA; and
6. Enhancing strategic influence.

The Strategic objectives have, therefore, been formulated with a view to ensuring that the Kenyan Capital Market is increasingly efficient, competitive, financially sound and dynamic to facilitate greater innovation of different capital market products and services to meet the diverse needs of issuers and investors.

The Plan was developed using a comprehensive process, which involved consultations with key stakeholders such as partner regulators, licensed intermediaries and investors, benchmarking with developed and emerging markets (including the US, UK, Australia, Malaysia, South Africa and Brazil) and support from capital market consultants with expertise from across the UK, Europe, Latin America, Asia and Africa.

The 2018-23 CMA strategic plan has been heavily aligned with the outcomes anticipated in the Government's "Big 4" National Economic Development Agenda, by leveraging the capital markets. The Capital Markets will be instrumental in supporting the delivery of the "Big 4" Pillars on development targeting Affordable Housing, Food Security, Universal Healthcare, and Manufacturing as follows:

- i. **Affordable Housing:** The implementation of Housing Bonds, Asset Backed Securities, Mortgage Refinance Bonds and County Bonds and the ongoing Real Estate Investment Trust market will ensure that Kenya citizens have access to affordable housing while also generating income to providers to sustain

- housing infrastructure development projects;
- ii. **Food security:** The implementation of a Spot Commodities and Derivatives Exchanges, Warehousing Receipt Systems, Social Impact Investing, Private Equity capital raising, Green Bonds, Private Equity (Agri-Funds) and a Central Clearing Counterparty (CCP) are avenues that will help guarantee food security;
- iii. **Universal Care:** Further, the issuance of Green Bonds, Sukuk, Social Impact Investing, FinTech, Asset Backed Securities, County Bonds and Real Estate Investment Trust will ensure that there are enough healthcare facilities in the country to sustain the burgeoning population; and
- iv. **Manufacturing:** Additionally, the Initial Public Offers /Offers for Sale, Project Bonds, Private Equity and FinTech initiatives will enable potential companies to raise funds to fund manufacturing.

Overall, the CMA Strategic Plan envisages the attainment of MSCI Emerging market status for Kenya which will not only boost capital flows, but will also reinforce Kenya's position as an International Financial Centre as envisaged in the 10- Year Capital Markets Master Plan.

d. The Kenya National Treasury and Planning Launches Medium Term III Plan

During the review period, the National Treasury launched the third Medium Term Plan 2018 -2022 on 23rd November themed: "Transforming Lives: Advancing Socio-Economic Development through 'the Big Four 'at the Kenyatta International Convention Centre in Nairobi.

The plan targets to increase real GDP annual growth from 5.9 % in FY 2018/19 to 7% over the plan period, increase savings and investments as a percentage of GDP from 18.8% to 23.2% and 24.4% to 27.2% respectively by 2022 as well as increase the ratio of formal sector employment from 13% to 40% by 2022.

The plan prioritizes implementation of the "Big Four" initiatives that target to increase the manufacturing share of GDP from 9.2% to 15 % and agro-processing to at least 50 % of total agricultural output; provide affordable housing by building 500,000 affordable houses in five years across the country; enhance Food and Nutrition Security (FNS) through construction of large-scale multi-purpose and smaller dams for irrigation projects, construction of food storage facilities and implementation of high impact nutritional interventions and other FNS initiatives; and achieve 100% universal health coverage (State Department

for Planning, National Treasury and Planning, Kenya).

To actualize the aspirations of the Medium-Term Plan III, significant infrastructural development is earmarked including rehabilitation of terminal 1-B, C and D at the Jomo Kenyatta International Airport, expansion of second container terminal at the Port of Mombasa, development of Dongo Kundu free trade port, development of 11-14 berths at the Lamu Port amongst others (MTP III, 2018-2022).

The plan is well aligned with the vision of the financial sector, more specifically the Capital Markets through the following:

- Retaining the Capital Markets Master Plan as a flagship project;
- Retaining the Nairobi International Financial Center Authority as a flagship project;
- Establishment of the Financial Services Authority; and
- Promotion of digital finance

B. RESEARCHES AND SURVEYS

In the 2018/19 Financial Year, the Authority conducted research studies and provided inputs to joint publications as highlighted below;

i) Capital Markets Issuer Survey

Issuers are among the most crucial stakeholders of any capital market, because they spur market activity making them the hallmarks of a vibrant capital market. In Kenya, these issuers provide an important signal, pointing to the direction of the country's capital markets. Evidently, since 2015, there has been no Initial Public Offering, but Four (4) de-listings.

During the Financial Year, the Authority conducted the issuer survey aimed at engaging issuers of securities on their capital markets experience thus far and determine on how best to address existing challenges (if any) in order to grow the country's capital markets, in line with the implementation of the Government's Big 4 Agenda.

ii) Islamic Finance and Capital Markets Demand Assessment Survey

Islamic Finance and Capital Markets is a rapidly growing system of finance that encompasses common ethical principles that among other things prohibit charging of interest and speculation, while encouraging mutual risk sharing as key tenets, with the aim of achieving financial and social objectives of ultimately improving human welfare.

¹Also known as participatory finance

Market Development (Cont'd)

During the Financial Year, the Authority conducted the Islamic Finance and Capital Markets demand assessment survey aimed at determining the current level of Kenya's demand for Islamic/participatory finance products and services, to justify deployment of any additional substantial resources to facilitate its efficient operation in the country. The findings of the survey will be useful in determining the next steps towards enabling issuance and disbursement of Islamic Finance Capital Market products.

iii) Opportunities for access to Capital Markets Financing for National and County Governments in Kenya.

The Capital Markets Master Plan envisages having counties draw 30% of their development funding from the Capital Markets by 2023. The Authority's strategic plan has then buttressed this ambition to target 20% of county financing by 2020. By 2023, the Authority's strategic plan endeavors to see 2 counties issue capital market instruments to supplement their funding. In line with achieving the above mentioned, the Authority in conjunction with the funding gap consultant developed a report on the assessment of funding requirements at the National And County Governments to inform development of capital markets products and services. Upon resubmission of the recasted report to the National Treasury and their subsequent anticipated buy in and concurrence, the Authority anticipates to host a National Validation Workshop with all 47 counties and state owned enterprises to ratify the funding gap report and its recommendations there in. The recommendations of the report will inform key policy issues regarding the issuance process for counties, county entities and state corporations and will identify the a range of products that the supra mentioned entities can use to access market based financing.

iv) Affordable Housing through the Capital Markets

According to the National Housing Corporation, Kenya has a cumulative housing deficit of 500,000 housing units growing by 200,000 units per year being driven mainly by i) rapid population growth of 2.6% per annum compared to the global average of 1.2%, and ii) a high urbanization rate of 4.4% against a global average of 2.1%.

During the Financial Year, the Authority developed an information paper on accessing funding for the Big 4 Agenda on affordable housing through Capital Markets instruments. The information paper was aimed at identifying the capital markets products that, both Government agencies and the private

sector firms active in the real estate and construction industry in Kenya, can be used to mobilize funds for the development of affordable houses as envisioned by the Country's Vision 2030 and the Big 4 agenda.

v) Market Making Research Paper

After the liquidity crisis of 2008, liquidity became the central object of interest for market microstructure. Market making is purely a passive strategy that essentially corresponds to providing liquidity to the market against a fee. Essentially, market making forms an integral part of the financial ecosystem within forex, stocks and futures in a securities market. A market maker is a bank or brokerage company that stands ready every second of the trading day with a firm ask and bid price. Without market makers, it would take considerably longer for buyers and sellers to be matched up with one another, reducing liquidity and potentially increasing trading costs as it became more difficult to enter or exit positions.

During the Financial Year, the Authority developed a research paper seeks to comprehensively review the origin, history, structure and operational framework of Market Making for Equity securities. The aim is to explore the possibility and feasibility of implementing the practice in Kenya while recommending the development of appropriate legal and regulatory changes that might have to be effected to facilitate operationability.

vi) Private Equity Research Paper

According to a World Bank report, 2017 on 'Survey of the Kenyan Private Equity and Venture Capital Landscape'², Private Equity funds invested more than US\$750 million across nearly 50 deals based in Kenya from 2013-2015 being the third highest in Africa. The report however identifies the limited nature of commercially viable exit options as the biggest challenge faced by PE investors in the country. This trend has been attributed to the inability to access public markets in order to generate exits.

During the review period, the Authority developed a research paper aimed at reviewing private equity deals and understand key competitive advantages over going public, determining approaches to increase participation of Private Equity firms in exiting through the capital markets, evaluating the level and status of private equity activity in Kenya with the ultimate goal of establishing of a light touch oversight model for PE and VC activity in Kenya to unlock further investment in the Government's Big 4 Agenda. The findings from the paper will be useful in recommending a suitable

²<http://documents.worldbank.org/curated/en/820451538402840587/Survey-of-the-Kenyan-Private-Equity-and-Venture-Capital-Landscape>

approach inform approach towards revamping private equity activity within Kenya's capital markets and also building Kenya as a credible registration regime for Private Equity and Venture Capital firms.

vii) Economic Survey 2018

The Authority provided capital markets relevant data and information to the Kenya National Bureau of Statistics Economic Survey 2018. The Economic Survey report is an annual publication prepared by the Kenya National Bureau of Statistics that provides socio-economic information covering a five-year period. Statistics presented in Economic Survey reports are produced in line with internationally sound and scientific methods that are anchored on the fundamental principles of producing official statistics.

viii) Kenya Financial Sector Stability Report 2018

The Authority provided capital markets relevant input to the Kenya Financial Sector Stability Report 2018. 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.

The publication provides an assessment of key developments in Kenya's macro-financial conditions. It highlights key developments, risks and vulnerabilities, and growth opportunities resulting from global, regional and domestic factors.

ix) CMA Publications

During the review period, the Authority also developed and published Quarterly Capital Markets Statistical Bulletin and Capital Markets Soundness Reports. The Soundness Report serves to contextualize major developments and occurrences in Kenya and beyond while highlighting the lessons and implications of those events for Kenya to inform strategies on mitigating key risks affecting Capital Markets in Kenya and leveraging on the opportunities presented. The Authority also provided input to and published other reports such as the East Africa Securities Regulatory Authority (EASRA) Kenya Country Report and the AMERC Kenya Country Report.

C. RESEARCH OPERATIONALIZATION, NEW PRODUCTS AND INNOVATION

During the year, the Authority actively pursued operationalization of researches and studies as part of the market development initiatives within the 10-year Capital Markets Master Plan and the 2018-2023 Strategic Plan. These include;

a) Regulatory Sandbox

As a strategy aimed at leveraging on Financial Technology (FinTech) to drive the capital markets value chain, the Capital Markets Authority's board on 26th March 2019 approved the Policy Guidance Note to facilitate the implementation of a Regulatory Sandbox Framework that will allow firms to test innovative products, solutions and services that have the potential to deepen or broaden Kenya's capital markets in a live environment. Fintech firms and innovators can now apply for admission to the Regulatory Sandbox.

As part of the Public Consultation process, the Authority engaged key capital markets stakeholders and Fintech ecosystem stakeholders in a series of stakeholder consultation workshops, received, and addressed stakeholder comments, on the draft Regulatory Sandbox Policy Guidance Note (PGN). To validate the PGN and give guidance on the next steps towards implementation of the regulatory sandbox, the Authority hosted a very well attended half-day validation workshop on Thursday, February 21, 2019 in Nairobi.

As at June 2019, the Authority had admitted 3 participants to the Regulatory Sandbox test environment to test various innovations.

b) Green Bond Market

As part of the strategy of diversifying products in the Kenyan capital markets, the frameworks to issue listed and unlisted green bonds were launched on 20 February 2019. A green bond is a fixed income instrument whose proceeds are used to finance or refinance projects which generate climate or other environmental benefits that conform to green guidelines and standards.

Issuers of unlisted or listed green bonds in Kenya will be required to appoint an independent verifier to conduct a pre-issuance review and confirm to the investors, the Authority, and the NSE in the case of listed green bonds, that the issuance is eligible to be classified as a green bond in line with green guidelines and standards. The procedures for listing of Green Bonds on the NSE are outlined in the NSE Listing Rules, which have been amended appropriately.

CMA has embedded the operationalization of the green bonds market in the legal framework through the publication of a Policy Guidance Note (PGN) on Issuance of Green Bonds and the approval of amendments to the NSE Listing

Market Development (Cont'd)

Rules. Over the next five years and beyond, green instruments will play an important but niche role in driving the growth of Kenya's capital markets, in line with the Marrakech Pledge, which calls for an increase in the volume, flow and access to finance for climate projects, alongside improved capacity and technology from developed to developing countries. The NSE and CMA were among the founder signatories of the Pledge during the 22nd Conference of Parties in Morocco.

c) **Online Contracts For Difference (CFD) Trading**

The Authority on 18th December 2018 granted Kenya's first Money Manager License to Standard Investment Bank (SIB) Limited to operate in the online foreign exchange trading space in line with the Capital Markets Act, and the Capital Markets (Online Foreign Exchange Trading) Regulations, 2017.

As a money manager, Standard Investment Bank is licensed to choose and manage investments prudently for its online forex trading clients and develop appropriate investment strategy. SIB will also communicate clients' buy and sell order positions through a licensed online forex trading broker, to meet clients' investment goals. The money manager will conduct financial analysis and monitor foreign exchange portfolio investments on behalf of its clients. The new SIB authorization is the first one under 'money manager' license category.

Further on 13th May 2019, Capital Markets Authority (CMA) Board approved the grant of a license to SCFM Limited to operate as a Non – Dealing Online Foreign Exchange Broker. The non-dealing online foreign exchange broker license means the entity is licensed by the Authority to act as a link between the online foreign exchange market and a client in return for a commission or mark-up in spreads and does not engage in market-making activities (buying and selling of foreign currencies).

This is the second non-dealing online foreign exchange broker license to be issued under the new regulations, which brought the oversight of online foreign exchange brokerage services under CMA. The first license was issued to EGM Securities Limited in 2018.

The total number of licensed intermediaries in Kenya's online forex trading space is therefore, three.

d) **National and County Government Financing**

Following a rigorous exercise in the consultancy conducted in two phases focusing on County Governments and State Corporations and development of a draft report summarizing key findings, the Authority hosted a half day workshop with senior leadership of key stakeholders in the consultancy on 6th December 2018 at the Kenya School of Government. The aim of the workshop was to highlight policy and regulatory barriers affecting access to market by Government entities, submitting proposed recommendations to unlock opportunities for Government entities to access funding through capital markets instruments and structures, determine general policy direction for improving access to capital markets funding by Government entities and to lock in the requisite buy in from the key players in the industry. The report was then submitted to the National Treasury, with whom the Authority has had technical engagements on report content. Ultimately, the findings of the report will inform next steps on requisite active market engagements in close collaboration with the National Treasury and other State Departments.

e) **Hybrid Bond Market Project Implementation**

The National Treasury has set priorities for development of an efficient primary and secondary market for Government bonds by undertaking to introduce several reforms among them an electronic auction system; separation of retail and wholesale market; institutionalizing an issuance calendar; establishment of an efficient and transparent over-the-counter (OTC) bond market; establishment of an efficient horizontal repurchase agreement (REPO) market as well as introducing securities lending and short selling for market participants. This is imperative for Kenya to achieve the Capital Markets Master Plan aspirations to transform Kenya into the ultimate choice market for domestic, regional and international issuers and investors looking to invest and realize their investments in Kenya, within East Africa and across Central Africa by 2023.

In line with the above, the Authority has been actively implementing key strategies to establish a transparent and efficient OTC debt market in coordination with the Bond Market Steering Committee (BMSC) which brings together bond market policy makers and industry players.

To achieve the aforementioned, the Authority on-boarded Consultants from FDHL-Salonica

Consortium to support the Capital Markets in actualizing the hybrid bond market model with support from the World Bank through the National Treasury Financial Sector Support Programme.

Further, a stakeholder's consultation workshop for stakeholders including industry associations/committees and commercial and investment banks who will play a role in the success of the new model to build consensus and ensure support for implementation was held on 24th and 26th April 2019. The final report will inform the road map for successful implementation of Kenya's Hybrid Bond Markets model.

f) M-Akiba

In line with promoting inclusivity and mobilizing longer term savings within the capital markets, during the period under review the Government opened a third offer of the M-Akiba bond in February 2019 seeking to raise KShs. 250 million. Following the expiry of the period of offer, the bond raised Kshs.197 million. This was a 79% subscription rate that attracted 82,829 new registrations. The bond will be redeemed on September 7, 2020 and will have three interest payments dates; September 9, 2019, March 9, 2020 and September 7, 2020. So far, the government has paid out interest worth Ksh59.67 million.

g) New Listings

The Authority on 30th October 2018 granted approval for the cross listing by introduction of

Bank of Kigali Group Plc (BK), a holding company of Bank of Kigali Plc, BK Insurance, BK Capital and BKTecHouse, on the Nairobi Securities Exchange (NSE). This marks the first cross listing of a Rwandese Company on the bourse. The issuer was listed on the Rwanda Stock Exchange (RSE) in 2011 through an Initial Public Offer.

It is envisioned that the cross-listing will facilitate cross-border investments, further strengthening the Memorandum of Understanding (MoU) entered into between capital markets regulators in Kenya, Uganda, Tanzania, Rwanda and Burundi through which a common blueprint on the integration of the East African capital markets was adopted. It will further enhance Kenya's position as an international financial centre and gateway for regional and international capital flows.

Further, the cross-listing of the issuer on the Nairobi Securities Exchange is expected to address challenges BK Group faces in Rwanda, due to the small size of the capital markets, by unlocking liquidity constraints and providing access to a wider pool of investors. Investors are expected to benefit from the opportunity to participate in the diverse income streams of BK Group and its future capital growth.

Operating Environment

GLOBAL ECONOMY

As per United Nations Economic Analysis and Policy Division, World Economic Situation and Prospects 2019¹, global growth is expected to remain at 2.7 per cent in 2019 and 2020, however, the steady pace of expansion in the global economy masks an increase in downside risks that could potentially exacerbate development challenges in many parts of the world. The global economy is facing a confluence of risks, which could severely disrupt economic activity and inflict significant damage on longer-term development prospects. These risks include an escalation of trade disputes, an abrupt tightening of global financial conditions, and intensifying climate risks. Further, the sharper tightening of borrowing costs, past increases in private and public debt and the intensifying trade tensions could disrupt globally interconnected value chain.

SUB-SAHARAN AFRICA

According to the World Bank Regional Overview forecasts², Growth in Sub-Saharan Africa is estimated at 2.3 percent for 2018, down from 2.5 percent in 2017. Economic growth remains below population growth for the fourth consecutive year, and although regional growth is expected to rebound to 2.8 percent in 2019, it will have remained below three percent since 2015.

The slower-than-expected overall growth in 2018 reflects ongoing global uncertainty, but increasingly comes from domestic macroeconomic instability including poorly managed debt, inflation, and deficits; political and regulatory uncertainty; and fragility that are having visible negative impacts on some African economies. It also belies stronger performance in several smaller economies that continue to grow steadily.

In Nigeria, growth reached 1.9 percent in 2018, up from 0.8 percent in 2017, reflecting a modest pick-up in the non-oil economy. South Africa came out of recession in the third quarter of 2018, but growth was subdued at 0.8 percent over the year, as policy uncertainty held back investment. Angola, the region's third largest economy, remained in recession, with growth falling sharply as oil production stayed weak.

Growth picked up in some resource-intensive countries like the Democratic Republic of Congo and Niger, as stronger mining production and commodity prices boosted activity alongside a rebound in agricultural production and public investment in infrastructure. In others, like Liberia and Zambia, growth was subdued, as high inflation and elevated debt levels continued to weigh on investor sentiment. In the Central African Economic and Monetary Community, a fragile recovery continued as reform efforts to reduce fiscal and external imbalances slowed in some countries.

Non-resource-intensive economies such as Kenya, Rwanda, Uganda, and several in the West African Economic and Monetary Union, including Benin and Côte d'Ivoire recorded solid economic growth in 2018.

DOMESTIC ECONOMIC ENVIRONMENT

A review of the period thus far in 2019 indicates a strong pick-up in economic activity was underway for Q1 of 2019 as reflected by real growth in consumer spending and stronger investor sentiment although emerging drought conditions could curtail GDP growth for the remainder of the year.

According to the 19th Edition of the Kenya Economic Update 2019, the economic environment in 2018 rebounded due to favorable harvests, improved investor sentiment and a stable macroeconomic environment. The economy expanded by 6.0 percent in the first three quarters of 2018 compared to 4.7 percent during the same period in 2017 driven by strong private consumption in part due to improved income from agricultural harvests in 2018, remittance inflows, and lower food prices. Agriculture remains a key driver of growth in Kenya and a major contributor to poverty reduction.

Further, Kenya's World Bank growth projection for 2019 is for a slight decrease to 5.7 percent, before rising to about 5.9 percent over the medium term. Boosting credit growth to the private sector and improving fiscal management could help strengthen aggregate demand and economic growth.

Kenya's GDP Growth Rates

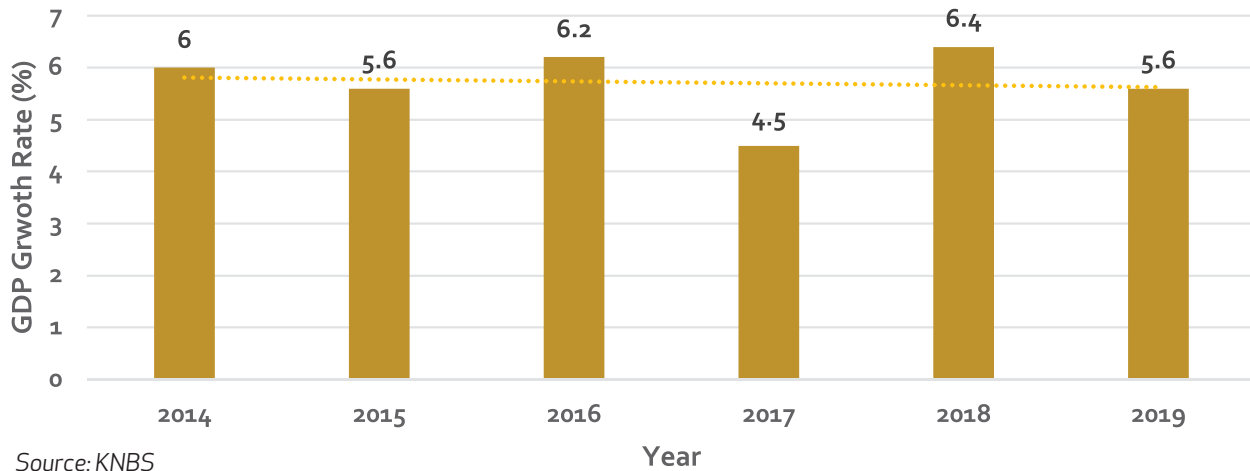
The recent release on GDP by the Kenya National Bureau of Statistics (KNBS) indicates that economic activity was notably subdued in the second quarter of 2019 relative to the performance recorded in the same quarter of 2018. The economy expanded by 5.6 per cent in Q2.2019 compared to 6.4 per cent in the corresponding quarter of 2018. The same growth rate of 5.6 per cent was recorded in Q1.2019.

A number of sectors posted impressive performances, but the overall growth was curtailed mostly by a slowdown in activities of agriculture, manufacturing and transportation. Agriculture's performance as well as that of electricity and water supply were mostly hampered by a delay in the onset of the long rains. Transportation industry was negatively impacted by rise in prices of fuel. On the other hand, accommodation and food services; information and communication; wholesale and retail trade; and construction industries maintained high growths and thereby supported the overall GDP growth.

¹<https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2019/>
²<https://www.worldbank.org/en/region/afr/overview#3>

Kenya's Annual GDP Growth Rate- (2013-2018)

Second Quarter GDP Growth (2014 - 2019)



Source: KNBS

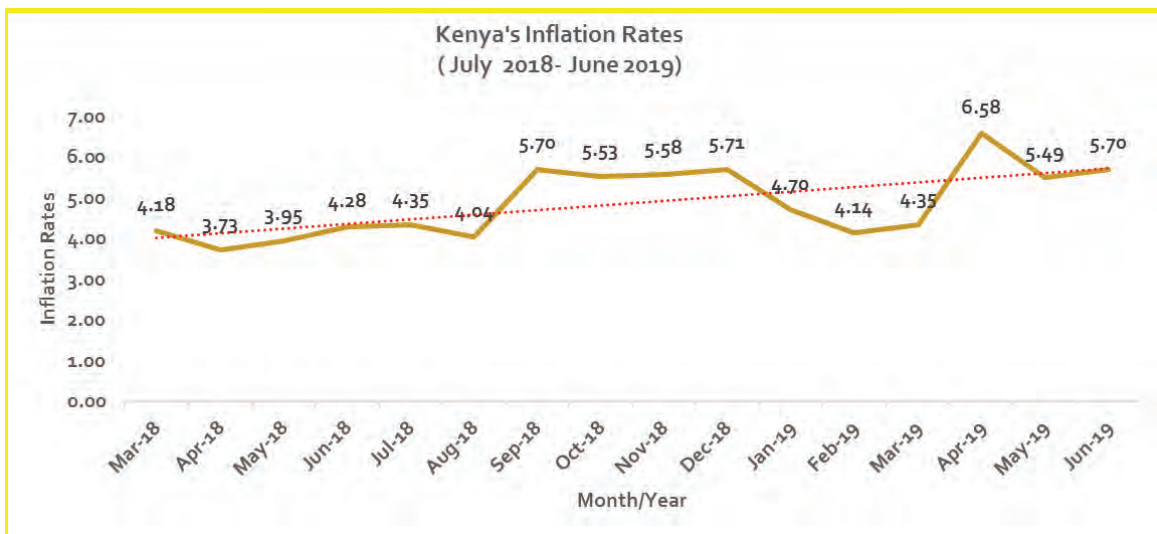
Kenya's Inflation Rate- (July 2017-June 2018)

According to the most recent publication by Kenya National Bureau of Statistics on Consumer Price Indices (CPI) and Inflation Rates, overall year-on-year inflation stood at 5.70 % in June 2019. The CPI decreased by 0.69 per cent from 205.77 in May 2019 to 204.34 in June 2019.

In June 2019, Food and Non-Alcoholic Drinks' Index decreased by 1.60 per cent compared to a decline of 0.37 per cent in May 2019. This was mainly due to favorable weather

conditions, which led to increased food production and subsequently to reduced food prices for some commodities. Over the same period, Housing, Water, Electricity, Gas and Other Fuels' Index, increased by 0.05 per cent because of higher costs of house rents that outweighed notable drops in the cost of electricity and kerosene. In this regard, the cost of consumption of 50 KWh and 200 KWh of electricity decreased by 0.91 per cent and 0.64 per cent, respectively, in June 2019. The Transport Index increased by 0.26 per cent, because of increase in pump prices of petrol and diesel.

Trend of Inflation Rate July 2018- June 2019



Source: KNBS

Operating Environment (Cont'd)

Kenya up 19 Places in the World Bank 2019 Ease of Doing Business Ranking

According to the recent Ease of Doing Business 2019 Report by the World Bank Group Kenya was ranked as the Seventh most improved country globally. Kenya improved by 19 places to position 61 globally out of 190 countries compared to position 80 in the 2018 report. The score improved by 5.1 points to 70.3 from 65.2 in the 2018 report. Kenya strengthened access to credit, protection of minority investors and ease of paying taxes by merging all permits into a single unified business permit.

The reforms highlighted include:

- a. **Registering property:** Kenya made registering property easier by introducing an online system to clear land rent rates. The Ministry of Lands and Physical Planning implemented an online land rent financial management system on the eCitizen portal, enabling property owners to determine the amount owed in land rent, make an online payment and obtain the land rates clearance certificate digitally.
- b. **Getting credit:** Kenya strengthened access to credit by introducing a new secured transactions law 'The Movable Property Security Rights Act, 2017' which creates a unified secured transactions legal framework, and establishes a new unified collateral registry. This new law facilitates the use of movable property as collateral for credit facilities, establishes the office of the Registrar of Security Rights and provide for the registration of security rights in movable property. This Act also benefits small and medium-sized enterprises, which experience difficulty in accessing finance from the formal sector.
- c. **Protecting minority investors:** Kenya strengthened minority investor protections by increasing disclosure requirements, regulating the approval of transactions with interested parties and increasing available remedies if said transactions are prejudicial, increasing shareholders' rights and role in major corporate decisions and requiring greater corporate transparency. Kenya enacted the Companies

Amendment Act 2017, which holds directors liable for transactions with interested parties valued at 10% or more of a company's assets and that cause damages to the company. Directors involved in prejudicial transactions are now required to pay damages, disgorge profits and may be disqualified from holding similar office for up to five years.

- d. **Resolving insolvency:** Kenya made resolving insolvency easier by facilitating the continuation of the debtor's business during insolvency proceedings, as well as the provision of equal treatment to creditors and granting them participation in reorganization proceedings.
- e. **Paying taxes** by merging all permits into a single unified business permit and by simplifying the value added tax schedule on its iTax platform. The country ranked the third position in the Africa behind Mauritius and Rwanda.

Key Areas of Improvement

- a. **Trading across Borders;** Kenya's rank declined to number 112 from number 106 in in the 2018 report. Although the score remained the same at 68 points, Kenya could enhance its processes to reduce the time taken to import and cost of importing.
- b. **Dealing with Construction Permits:** Kenya's rank declined to number 128 from number 124 in in the 2018 report with the score remaining the same at 63 points. Kenya could also streamline it's the number of procedures required to obtain a permit and the number of days required to obtain a permit.

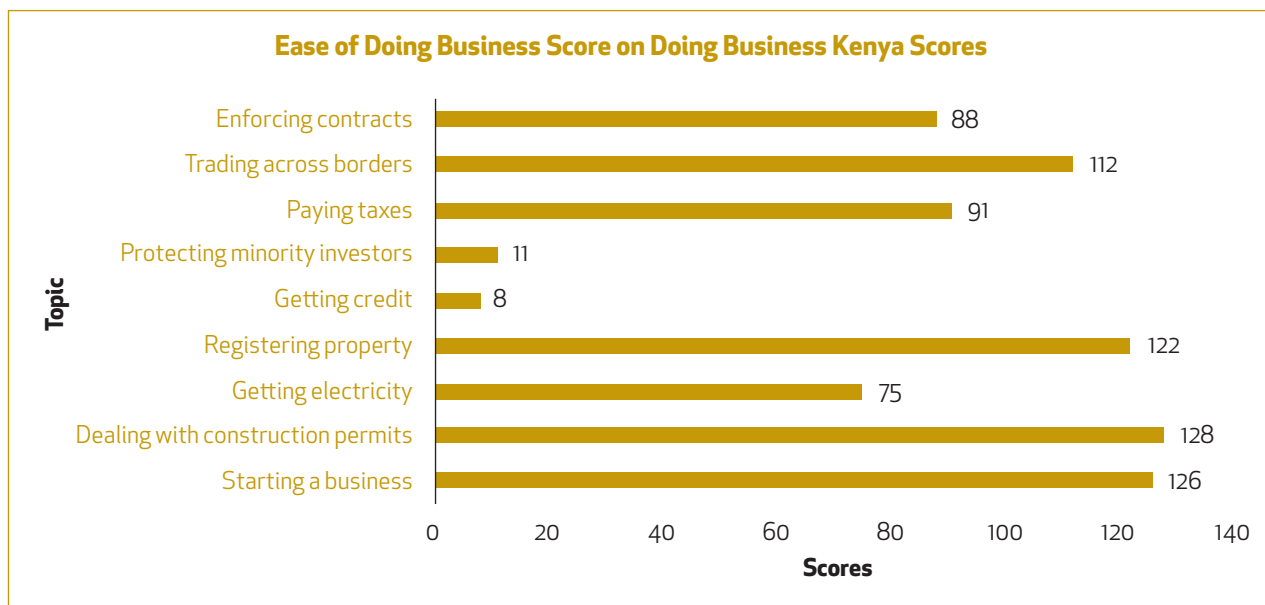
Kenya has shifted 53 positions over the past three years and the new position is Kenya's best performance in the last 15 years in the ease of doing business report. Upgrades in global ratings are intended to increase the level of efficiency for conducting businesses as well as increase the level of both local and Foreign Direct Investment which has a positive impact on Job creation and poverty alleviation. The key areas of improvement are as tabulated;

Table 1: Ease Of Doing Business Ranking DB 2019

	Topic	DB 2019	DB 2018	Change
1.	Starting a business	126	117	9
2.	Dealing with construction permits	128	124	4
3.	Getting electricity	75	71	4
4.	Registering property	122	125	3
5.	Getting credit	8	29	21
6.	Protecting minority investors	11	62	51
7.	Paying taxes	91	92	1
8.	Trading across borders	112	106	6
9.	Enforcing contracts	88	90	2
10.	Resolving Insolvency	52	95	43

Source: World Bank

Figure 1 : Ease of Doing Business Score on Doing Business topics - Kenya



Source: World Bank

African Nations Making progress in Building Deeper and more Transparent Financial Markets

In October 2019, the ABSA Official Monetary and Financial Institutions Forum published the its third edition of the ABSA Africa Financial Markets Index, which provides a toolkit for countries seeking to strengthen their financial markets infrastructure and tracks progress on financial market developments annually across a range a countries and indicators. The first edition in 2017 shed light on the disadvantages of rigid foreign exchange regimes, which handicapped investors and constrained countries’ ability to deal with global developments. Subsequently, many countries have moved to more flexible exchange rates, improving their policy responsiveness and shock absorption capability.

Similar positive changes can be seen in the growing awareness in the importance of local investors and improvements in the transparency and availability of market data. The index focuses on six fundamental pillars:

- i. Market depth, ii. Access to foreign exchange, iii. Market transparency, tax and regulatory environment, iv. Capacity of local investors, v. Macroeconomic opportunity, and vi. Legality and enforceability of standard financial markets master agreements.

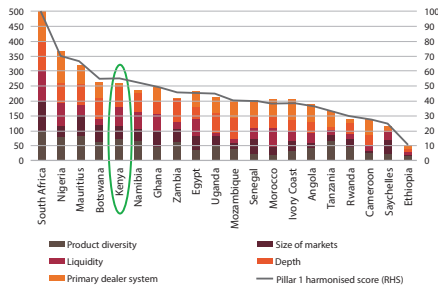
Overall assessment on the ranking of the African countries from the report showed substantial progress by African countries in developing their financial markets on the back of new products, regulatory improvements and more responsive economic policy.

The report showed that 13 of 20 countries evaluated across the continent now score more than 50 out of 100 overall, compared to just three out of 20 in 2017. Botswana, Kenya and Namibia all joined these ranks over the 2018/19 financial year, indicating a quickening development of their respective capital markets.

Figure 2: Kenya's Overall Ranking and Positioning on Absa Financial Index 2019

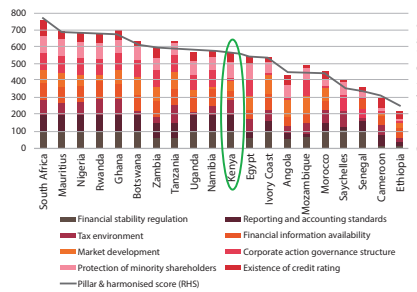
Pillar 1 : Market Depth

Rank: 5



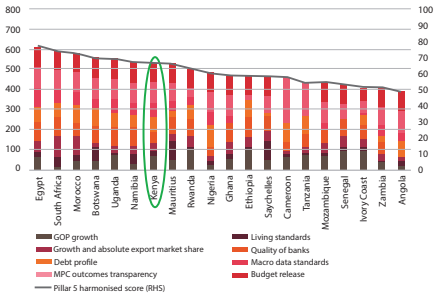
Pillar 3 : Market Transparency, Tax and Regulatory Environment

Rank: 11



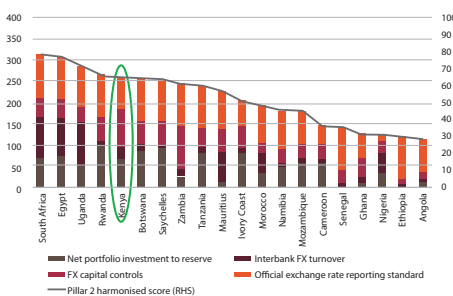
Pillar 5 : Macroeconomic Opportunity

Rank: 7



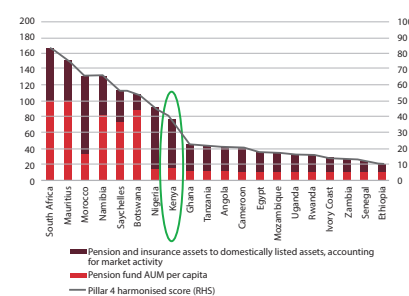
Pillar 2 : Access to Foreign Exchange

Rank: 5



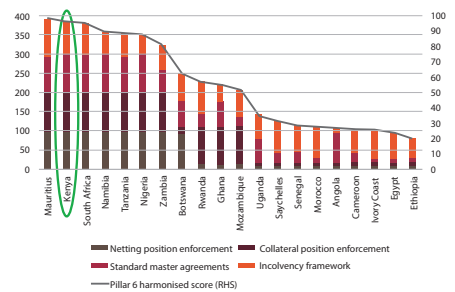
Pillar 4 : Capacity of Local Investors

Rank: 8



Pillar 6 : Legality and Enforceability of Standard Financial Markets Masters Agreements

Rank: 2



Kenya retained its third position amongst the 20 ranked African nations mainly due to the fact that the country has a progressive financial market in the African continent, with Mauritius being ranked second most improved with market depth following a substantial listing of bonds by the central bank.

A key factor that affected this year's ranking is forwarded as Kenya's perceived intermediate foreign exchange rate system³, classified with other countries as Morocco, Rwanda, Angola, Egypt and Ethiopia.

Notwithstanding Kenya's strong performance, a careful balance is required to ensure that Government participation in the Debt market does not crowd out the private sector.

KENYA'S ECONOMIC OUTLOOK

According to World Bank, Kenya's real gross domestic product is projected to grow by 5.7% in 2019, a slight decrease from the estimated 5.8% growth experienced in 2018, according to the new World Bank Kenya Economic

Update. While the medium-term growth outlook is stable, the report notes that recent threats of drought and continued subdued private sector investment could drag down growth in the near-term. The growth forecast for 2020 stands at 5.9%. The economic growth will be majorly driven by; continued growth of the agricultural sector, continued strong growth in the real estate and tourism sectors, Public infrastructural investments as a result of budgetary allocations in infrastructural projects, Growth in the manufacturing sector driven by the Kenyan Government's initiatives, like reducing the cost of energy, aimed towards supporting the various industries, such as textile, leather and agro-business.

Further, the Central Bank of Kenya Monetary and Policy Committee indicate that credit to the private sector is expected to increase in 2019 compared to 2018 supported by increasing economic activity and a stable macroeconomic environment.

³Intermediate exchange rate is defined by the ABSA report as one that floats within a pre-determined range, or the central bank may intervene occasionally in a managed float arrangement. May also be referred to as a soft or crawling peg.

Market Performance

Primary Equity Markets

LISTING BY INTRODUCTION

During the year, there was one (1) by introduction following the cross listing of 896,759,222 million ordinary shares by Bank of Kigali Group Plc (BK) on the Nairobi Securities Exchange (NSE), the first Rwandese Company on the Kenyan Bourse.

Listings by Introduction 2000 - 2019

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	1,250.00
Nairobi Business Ventures	23,600,000	2016	5.00
Barclays New Gold ETF	400,000	2017	1,205.16
Bank of Kigali group Plc	896,759,222	2018	30.00
TOTAL	6,085,250,893		

Source: CMA Data 2018

Primary Bond Markets

TREASURY BONDS

In the 2018/19 Fiscal year, 23 Treasury bonds (i.e. 4 re-opening, 15 new issues, 2 tap sales and 2 Infrastructure development bond issuances) were issued as the Government sought to raise KShs. 610.25 billion. KShs. 731.59 billion worth

of bond applications were received, with the Government accepting KShs 444.07 billion, indicating a 60.7% acceptance rate.

During Financial year 2017/18, thirty (30) Treasury bonds (i.e. 4 re-openings, 12 new issues, 12 tap sales

and 2 Infrastructure development bond issuances) were issued as the Government sought to raise KShs 420 billion. KShs. 372.33 billion worth of bond applications were received, with the Government accepting KShs 316.99 billion.

Issued and reopened Treasury Bonds FY 2018/2019

Month/Year	BOND	Amt Issued (Kshs. Bn)	Amt Received (Kshs. Bn)	Amt Accepted (Kshs. Bn)	% AA/AI	% AR/AI
Q3.2018						
July 2018	FXD 2/2018/20	40.00	13.86	10.51	26.28	34.65
Aug 2018	FXD 1/2018/10	40.00	29.83	19.36	48.4	74.6
Sep 2018	FXD1/2018/10	40.00	22.14	21.24	106.20	110.70
	FXD2/2018/20		10.33	5.31	26.55	51.65
Q4.2018						
Oct 2018	FXD 2/ 2018/15	40.00	27.05	7.85	19.63	67.63
Nov 2018	FXD 2/2018/15	32.00	25.38	21.26	66.44	79.31
	IFB 1/2018/20	50.00	40.39	27.59	55.18	80.78
	Tap Sale	22.41	8.84	8.73	38.96	39.45

Month/ Year	BOND	Amt Issued (Kshs. Bn)	Amt Received (Kshs. Bn)	Amt Accepted (Kshs. Bn)	% AA/AI	% AR/AI
Dec 2018	FXD 2/2018/10	40.00	28.86	26.16	65.40	72.15
	Tap Sale	13.84	6.62	6.62	47.83	47.83
Q1.2019						
Jan 2019	FXD 1/2019/2	40.00	76.90	23.77	59.43	192.25
	FXD 1/2019/15		25.07	14.72	36.80	62.68
Feb 2019	FXD 1/2019/2	12.00	50.20	7.47	74.00	555.08
	FXD 1/2019/15		16.41	15.96		
Feb 2019	FXD 1/2019/5	50.00	41.93	20.59	107	156.52
	FXD 1/2019/10		36.33	32.81		
Mar 2019	IFB1/2019/25	50.00	29.38	16.30	32.60	58.76
Q2.2019						
Apr 2019	FXD2/2019/10	50.00	70.93	51.33	120.70	171.22
	FXD1/2019/20		14.68	9.02		
May 2019	FXD 2/2019/5	50.00	49.30	39.21	117.06	141.68
	FXD 2/2019/15		21.54	19.32		
June 2019	FXD 1/2018/15	40.00	39.77	21.21	97.35	214.05
	FXD 1/2012/15		45.85	17.73		

Source: CBK/CMA

Update on Government of Kenya M-Akiba Bond Reopening

Bond	Offer Period	Target Amount KShs Million	Amount Raised KShs Million
MAB2/2017/03 Re-open 1	February 25, 2019-March 10, 2019	250	197
MAB2/2017/03 Re-open 2	May 27, 2019 to June 7, 2019	250	187.52

CORPORATE BONDS

KShs 58.28 Billion worth of corporate bonds were outstanding as at end of the 2018/19 Financial Year.

Corporate Bonds Issues as at June 2019

During the financial year, there were no new corporate bond issuances.

ISSUER	ARRANGERS	APPROVED AMOUNT	ISSUED AMOUNT	APPROVAL DATE	ISSUE DATE	MATURITY DATE	OUTSTANDING AMOUNT AS AT DECEMBER 2018
Centum Bond Senior Unsecured Fixed Rate and Equity Linked notes	CFC Stanbic Bank	6,000,000,000	3,899,226,700	May-15-2015	15-Jun-15	8-Jun-20	3,899,226,700
CTNB.BD.08.06.20/13			2,100,773,300	May-15-2015	15-Jun-15	8-Jun-20	2,100,773,300
CTNB.BD.08.06.20/12.5							
Consolidated Bank of Kenya Ltd Medium-Term Note Programme	NIC Capital	4,000,000,000					
CON.BD-FXD(SN)/2012/7Yr		1,481,600,000	1,480,600,000	21-Jun-12	30-Jul-12	24-Jul-19	1,480,700,000
CON.BD-FXD(SBN)/2012/7Yr			196,500,000	21-Jun-12	30-Jul-12	22-Jul-19	39,300,000
CON.BD-FR(SN)/2012/7Yr			1,000,000	21-Jun-12	30-Jul-12	22-Jul-19	1,000,000
KenGen Public Infrastructure Bond Offer 2019	Standard Chartered Bank	25,000,000,000	14,062,000,000.00	27-Aug-09	2-Nov-09	31-Oct-19	3,125,000,026
FXIB1/2009/10Yr							
Housing Finance Medium Term Note	NIC Bank & Standard Chartered Bank		2,969,100,000	16-Oct-12	22-Oct-12	14-Oct-19	2,969,100,000
FXD (HFCK) 02/2012/7Yr 2nd Tranche							
UAP HOLDINGS MEDIUM TERM NOTE	CFC Stanbic Bank & SBG Securities	2,000,000,000	2,000,000,000	24-Jun-14	28-Jul-14	22-Jul-19	2,000,000,000
NIC MEDIUM TERM NOTE	NIC Capital Limited	8,000,000,000	5,517,600,000	8-Aug-14	8-Sep-14	9-Sep-19	5,517,600,000
CIC INSURANCE GROUP LTD MEDIUM TERM NOTE	NIC Capital Limited	5,000,000,000	5,000,000,000	10-Sep-14	8-Oct-14	2-Oct-19	5,000,000,000
STANBIC MULTICURRENCY MEDIUM TERM NOTE	CFC Stanbic Bank	5,000,000,000	5,080,000,000	3-Nov-14	15-Dec-14	8-Dec-21	4,000,000,000
CBA FIXED MEDIUM TERM NOTE	CBA Capital	8,000,000,000	7,000,000,000	21-Nov-14	22-Dec-14	14-Dec-20	7,000,000,000
EABL FIXED MEDIUM TERM NOTE-First Tranche	CFC Stanbic Bank	5,000,000,000	5,000,000,000	23-Feb-15	23-Mar-15	19-Mar-20	5,000,000,000
Second Tranche		6,000,000,000	6,000,000,000	25-Jun-15	3-Apr-17	28-Mar-22	6,000,000,000
REAL PEOPLE MEDIUM TERM NOTE	NIC Capital	5,000,000,000	267,600,000		10-Aug-15	3-Aug-19	267,100,000
RPBD.BD.19/04/21-0049-13.75			1,363,900,000		10-Aug-15	3-Aug-28	1,036,000,000
RPBD.BD.03/08/20-0047-13.65							
FAMILY BANK MEDIUM TERM NOTE	Faida Investment Bank & NIC Capital	10,000,000,000	1,297,600,000	22-Sep-15	26-Oct-15	19-Apr-21	1,297,600,000

ISSUER	ARRANGERS	APPROVED AMOUNT	ISSUED AMOUNT	APPROVAL DATE	ISSUE DATE	MATURITY DATE	OUTSTANDING AMOUNT AS AT DECEMBER 2018
FAMILY-FLT							
FAMILY-MXD			600,800,000				600,800,000
FAMILY-FXD			120,400,000				120,400,000
IMPERIAL BANK MULTICURRENCY MEDIUM TERM	Dyer & Blair Investment Bank	2,000,000,000	2,000,000,000	6-Oct-14	13-Oct-15	21-Dec-20	2,000,000,000
CHASE BANK FIXED MEDIUM-TERM NOTE	Genghis Capital & NIC Capital	10,000,000,000	4,822,400,000	19-May-15	10-Jun-15	2-Jun-22	4,822,400,000
Total Outstanding Amount							58,277,000,027

Source: Capital Markets Authority

RIGHTS ISSUES

Rights Issues 2007-2019

There were no right issues during the 2018/19 Financial Year.

Company Issue	Shares on Issue Price	Date of Issue	Offer level	Sum Raised	Subscription
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%
HFCB	115,000,000	2008	20.00	2,369,000,000.00	103%
KCB	221,771,777	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%
Standard 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	121,637,427	2012	33.00	4,495,719,302.00	112.0%
SCB	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%
HFCB	116,666,667	2015	30.00	9,011,836,920.00	257.0%
LONGHORN	126,190,476	2016	4.20	533,000,000.00	101%
KenGen	4,396,722,912	2016	6.55	28,798,535,073.60	92.01%
TOTAL	8,567,451,534		130,717,803,591.10		

Source: Capital Markets Authority

BONUS ISSUES

Bonus Issues 2012-2019

There were two bonus issues during the review period.

Company	Date (Month/Year)	Bonus Issue Ratio
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	July-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
Jubilee Holdings Limited- Uganda Listing	Mar- 2017	1:10
Cooperative Bank (K) Ltd	Mar- 2017	1:5
National Bank of Kenya	Apr- 2017	1:10
Flame Tree Group	Apr- 2017	1:10
NIC Bank	Mar-2018	1:10
HFCK	Mar-2018	1:10
I&M Holdings	Mar- 2019	1:1
KenyaRe	May-2019	3:1

Source: Capital Markets Authority

STOCK SPLITS

Stock Splits (2007 - 2019)

There was no stock split during the review period.

Company	Date (Month/Year)	Bonus Issue Ratio
CMC Holdings	Jan-07	10:1
KCB	Mar-07	10:1
Nation Media Group	Mar-08	2:1
Equity Bank	Feb-09	1:10
Kenol Kobil	May-10	10:1
KPLC	Oct-10	1:8
ARM	May-12	5:1
City Trust	Jan-13	5:1
Carbacid Investments	Oct-13	1:5
Limuru Tea	May-15	1:2
Kenya Airways	Nov-17	1:20

Source: Capital Markets Authority

SECONDARY MARKETS

The 2018/19 financial year recorded increased market activity in the bond market. In contrast, in the equities market, there was a decline in market performance, with all the equities market composite indicators recording decreases, relative to the 2017/18 financial year.

Equity turnover and share volumes recorded decreases of 25.97 and 27.05 percent to KShs 146.53 billion and 5,128.52 Million from KShs 197.89 Billion and 7,030.05 Million in the 2017/18 financial year respectively. The NSE 20 Share Index and Market Capitalization also recorded decreases of 18.53% and 11.54% to close the Financial Year at 2,676.92 points and KShs 2,278.90 Billion respectively.

Bond market turnover recorded an increase of 20.33% to KShs 611.48 Billion from KShs 508.14 Billion in the last Financial year.

Market Statistics 2018/2019

Year	Month	Equity Turnover (KSHS Bn)	Share Volume (Mn)	NSE 20 Share Index	Market Capitalization (KSHS Bn)	Bond Turnover (KSHS Bn)
2018	July	9.74	323.71	3,296.68	2,519.17	48.66
	August	10.24	329.50	3,203.40	2,476.77	44.80
	September	11.95	392.93	2,875.51	2,211.33	40.23
	October	16.89	843.48	2,810.32	2,132.60	53.75
	November	10.71	407.05	2,797.44	2,183.99	42.00
	December	7.83	320.16	2,833.84	2,102.02	22.42
2019	January	16.20	557.85	2,958.36	2,250.72	47.43
	February	14.17	425.83	2,894.20	2,284.05	48.26
	March	15.91	446.41	2,846.99	2,360.52	62.38
	April	9.86	295.18	2,846.35	2,360.52	70.46
	May	12.49	452.39	2,633.32	2,268.32	57.35
	June	10.54	334.03	2,676.92	2,278.90	73.72
Total FY 2018/2019		146.53	5,128.52	2,676.92	2,278.90	611.46
Total FY 2017/2018		197.89	7,030.05	3,285.73	2,576.23	508.14
Percentage Change		25.95%	27.05%	18.53%	11.54%	20.33%

Source: Capital Markets Authority

Comparative Analysis of Kenya's Securities Market and Regional securities markets as at June 2019.

Compared to Nigeria and South Africa, Kenya's Capital market remains small in terms of size and depth. The implementation of Capital Markets Master Plan initiatives and measures will support the broadening and deepening of Kenya's capital markets.

Market Indicator	Kenya	Nigeria	Uganda	Tanzania	Egypt	South Africa	Morocco
All Share Index	149.09	29,614.61	1,617.71	1,890.70	14,100.74	58,472.52	11,269.87
Market Cap USD Billions	22.40	23.99	6.08	8.10	44.61	10.70	76.00
Listed Companies (no)	67	169	16	24	254	376	25

Market Outlook

The review period recorded noteworthy developments towards product diversification, which partly excited the secondary market. These include: more sign-ups by firms for the NSE Ibuka incubator and accelerator program; Launch of the Green Bond market, Operationalization of the Regulatory Sandbox framework to support innovations within the capital markets, CMA (Kenya) admission to the Global Financial Innovation Network and recovery of potentially ill

gained returns amounting to Ksh458 Million from the investigations into insider trading on KenolKobil shares, all aimed at promoting regulation while supporting our development mandate.

Amidst these positive capital market developments, the capital markets outlook for 2019 appears stable. In addition, the Authority submitted fresh policy proposals aimed at stimulating the capital markets,

supporting product development and innovation, promoting efficient capital markets infrastructure to the National Treasury, which, if adopted, will be fundamental in propelling the growth of the industry, further supporting Kenya's Vision 2030 and the "Big 4" Development Agenda.

Trends in Foreign Investors Portfolio Activity

The Fiscal year 2018/19 witnessed a net portfolio outflow amounting to KShs 11,416 million compared to a net outflow of KShs 27,563 million in FY 2017/18. The negative foreign investor participation recorded in the period is attributable

to declined foreign investor confidence in the equities market largely attributable to a shift in investor preference to fixed income securities, following the declining performance of equity markets during the period.

Foreign Investor Net Cash Flow Activity (KShs Millions) 2011-2019

	2012	2013	2014	2015	2016	2017	2018	2019
January	(812)	2,133	(876)	(273)	(533)	1,608	(1,464)	(1,357)
February	795	(3,927)	(1,505)	201	281	435	(5,137)	216
March	2,651	1,810	(399)	(3,085)	(1,334)	(55)	(1,483)	1,742
April	1,771	3,026	1,409	(67)	80	433	(1,815)	93
May	1,099	3,475	(2,578)	(2,030)	196	(1,888)	(4,022)	2,166
June	1,639	2,602	2,586	(447)	100	(813)	(2,339)	(900)
July	828	1,625	142	(1,127)	974	(2,054)	(2,111)	
August	1,048	9,839	3253	1,183	3,703	(3,268)	(1,565)	
September	3,286	2,063	(850)	6,500	1,343	(5,799)	(3,029)	
October	2,965	2,723	(1,208)	889	(125)	486	(4,287)	
November	4,335	884	2,535	(829)	459	(450)	(599)	
December	2,129	(690)	1,021	1	615	(218)	(1,785)	
Net Portfolio Flows	21,734	25,563	3,530	916	5,759	(11,583)	(22,965)	1,960

Source: Capital Markets Authority

Corporate Actions July 2018 to June 2019

SECURITY	Date	Corporate Action	Amount(KES)/Ratio
BAT	20-Jul-2018	Interim	3.50
EABL	27-Jul-2018	Final	5.50
KAPCHORUA	7-Jul-2018	Final	10.00
WTK	2-Aug-2018	Final	20.00
STANBIC UG	10-Aug-2018	Interim	2.25
BBK	13-Aug-2018	Interim	0.20
KCB	16-Aug-2018	Interim	1.00
NMG	20-Aug-2018	Interim	1.50
UMEME	20-Aug-2018	Interim	12.70
SCBK	22-Aug-2018	Interim	5.00
BOC	30-Aug-2018	Interim	2.35
JUBILEE	31-Aug-2018	Interim	1.00
BAMBURI	31-Aug-2018	Interim	1.00
LONGHORN	3-Sep-2018	Interim	0.42
UNGA	28-Sep-2018	First & Final	1.00
KENGEN	26-Oct-2018	Final	0.40
SASINI	19-Dec-2018	Final	0.50
CAR & GENERAL	27-Dec-2018	Final	0.80
I&M	31-Dec-2018	Interim	3.90
EABL	25-Jan-2019	Interim	2.50
BAT KENYA	14-Feb-2019	Final	31.50
CFC STANBIC	01-Mar-2019	Final	3.55
KCB	06-Mar-2019	Final	2.50
BARCLAYS	11-Mar-2019	Final	0.90
CIC	11-Mar-2019	First & Final	0.13
STANDARD GROUP	21-Mar-2019	First & Final	0.60
NIC GROUP	21-Mar-2019	First & Final	1.25
DTB	21-Mar-2019	First & Final	2.60
CO-OP	21-Mar-2019	First & Final	1.00
STANCHART	22-Mar-2019	Final	14.00
NSE	22-Mar-2019	First & Final	0.49
LIMTEA	25-Mar-2019	First & Final	1.00

SECURITY	Date	Corporate Action	Amount(KES)/Ratio
UMEME	25-Mar-2019	Final	28.20
I & M	27-Mar-2019	Bonus	1:1
EQUITY	27-Mar-2019	First & Final	2.00
TOTAL	28-Mar-2019	First & Final	1.30
BOC	29-Mar-2019	Final	2.85
KAKUZI	29-Mar-2019	First & Final	9.00
STANLIB	29-Mar-2019	First & Final	0.75
KENYA-RE	29-Mar-2019	First & Final	0.45
NMG	18-Apr-2019	Final	3.50
TPSEA	28-Jun-2019	Final	10.00
JUBILEE	26-Apr-2019	Final	8.00
SAFCOM	03-May-2019	First & Final	1.25
SAFCOM	03-May-2019	Special Dividend	0.62
CROWN	13-May-2019	Final	0.60
KENYARE	13-May-2019	Bonus	3:1
LIBERTY	17-May-2019	First & Final	0.50
CENTUM	12-June-2019	First & Final	1.20
WTK	28-June-2019	Final	20.00
KAPCHORUA	28-June-2019	Final	10.00

Source: NSE*Subject to approval

Strategic Plan and Policy Framework

1. Strategic Plan

The Strategic Plan 2018-2023 was launched on 18th July 2018 with a key focus on ensuring robust, facilitative policy and regulatory framework for capital market development, supervise the maintenance of efficient pre-trading and post trading environment including trade facilitation, access to data, information and stable technology.

Within the 1st year of implementation, some of the notable achievements include:

1. Implementation of the regulatory sandbox with ne applicant already admitted for testing and four other applications are being considered
2. Enactment of the Warehouse Receipt System Act as well as promising developments towards the development of the commodities exchange regulations with the Ministry of Trade and Industry sending out an international Expressions of Interest (EOI) to take up stake in COMEX and Ministry's keen interest to push the gazettement of commodity exchange regulations. The Authority has also provided useful advice to the Nairobi Coffee Exchange on restructuring into a demutualized entity.
3. The Authority has signed 2 MoUs as part of strengthening the Authority's strategic influence.
4. Launch of the derivatives market

However, there have been challenges affecting the achievement of the ultimate objective of attaining the MSCI emerging market status. While foreign participation in terms of contribution to monthly equities turnover is between 60 and 70% there has been significant net foreign outflow of capital in 2017 and 2018. Hence there is little to indicate that we are moving positively towards the outcome.

To drive uptake, the new organization structure envisaged a team that would drive strategies for uptake, but the structure is yet to be approved. This has necessitated

change of strategy to ensure that the outcome is still achieved without waiting for approval of structure by establishing teams.

With no concrete action on request to amend KDIC Act to define seniority of corporate bond/medium term note issuances and segregation of assets under custodial arrangements, the corporate bond market has remained dry with no new issuances.

2. Policy Framework

The policy, legal, operational and technical specifications to support implementation of a Hybrid Bond market in Kenya developed and subjected to stakeholder validation on 24-26th April 2019. Road map for implementation also developed. The white papers on Islamic Finance have been finalized. The Authority on 15th November 2018 conducted an Islamic/Participatory Capital Markets stakeholder workshop at the Kenya School of Monetary Studies (KSMS to discuss legal and policy issued cited in the respective financial services industry sectors White Papers including Capital Markets, Banking & Microfinance, Insurance, Retirement Benefits, SACCOs, Governance and Sukuk issuance. The output from the workshop was incorporated to the whitepapers. There was a meeting of the PMO on 21st June 2019 to discuss among other things the Policy and Legal Frameworks to operationalize Islamic Finance and Islamic Capital Markets.

Further, during the period under review, the Authority in consultation with industry stakeholders at a roundtable meeting held on 11 October 2018 developed and submitted policy proposals to the Cabinet Secretary to the National Treasury for consideration in the 2019/20 Budget. The focus of these proposals is to create an enabling environment for capital market development to facilitate mobilizing of long-term financial resources for realization of the Vision 2030 objectives.

NO.	PARTIES	DATE OF EXECUTION
1.	Capital Markets Authority and Chartered Institute For Securities & Investment (CISI)	6 November 2019
2.	Capital Markets Authority and Institute of Certified Investment and Financial Analysts (ICIFA)	29 August 2019
3.	Addendum No.1 to MoU between Capital Markets Authority and The Financial Services Regulatory Authority of Abu Dhabi Global Market (FSRA-ADGM)	30 July 2019
4.	MoU between Kenya Association of Manufacturers and Capital Markets Authority	27 June 2019
5.	Capital Markets Authority and Judiciary Training Institute	25 June 2019
6.	Capital Markets Authority and Strathmore University	19 March 2019
7.	Capital Markets Authority and CFA Institute	15 February 2019
8.	Capital Markets Authority and Kenya Bank ers Association	26 September 2018

The key proposals by Government impacting on the Capital Markets Sector are as follows:

REFERENCE	ISSUE	POLICY PRONOUNCEMENT	IMPLICATION
Finance Bill 2019	Interest rate capping	Amend the Banking (Amendment) Act, 2016 by repealing section 33B of the said Act, which capped lending at 4% above the CBR Rate.	<p>The interest capping law became operational in September 14, 2016 yielding negative effects on the capital markets. Banks including listed banks suffered the biggest hit from the interest rate caps, which slashed their profit by a larger margin ultimately affecting their performance. International experience shows that in most cases, caps have produced undesirable outcomes, such as reduced intermediation and transparency, reduced bank competition and increased risk to financial stability.</p> <p>With the removal in interest rate caps, we expect to see a reversal and improvement in bank performance to enable banks and other lenders provide more credit especially to borrowers they consider riskier and enhance access to credit and minimize the adverse impact of the interest rate capping on credit growth while strengthening financial access and monetary policy effectiveness.</p> <p>Additionally, considering the share of banks, we expect a rebound in their profitability and hence an upsurge in Market Cap.</p>
Page 14 of Budget Statement	Domestic Bond Market Reforms	The GoK plans to roll-out measures to enhance transparency and predictability in the issuance and trading process for Treasury Bills and Treasury Bonds.	<p>This will serve to enhance efficiency, lower costs, and risks in the fixed income securities market, as well as develop an effective yield curve for Government domestic debt securities.</p> <p>Reforms in the Government Bond market is expected to attract investors particularly foreign investors into our capital markets space.</p>
Page 17 of Budget Statement	Kenya Mortgage Refinancing Company	KMRC has received capital injection of Ksh 1.0 billion from Government, and Ksh 35 billion credit line from the World Bank and the Africa Development Bank. KMRC has also received Ksh.1.2 billion from other shareholders (Banks and SACCOs), and a further Ksh 400 million is expected from other Development Financial Institutions (IFC and Shelter Afrique) in form of equity injection	<p>It is expected that the KMRC will leverage on capital markets to raise funds through bonds for on lending to banks and other mortgage financing companies hence bringing down the cost of housing in line with the Government's "Big Four" Agenda.</p> <p>Due to the long term nature of capital markets funding and attractive rates, this will allow Primary Mortgage Lenders to lengthen tenors and offer fixed rate loans hence improved mortgage affordability and increased number of qualifying borrowers</p>
Page 19 of Budget Statement	Coffee Cherry Revolving Fund	Ksh 3.0 billion for setting up the Coffee Cherry Revolving Fund to implement prioritized reforms in the coffee sub-sector has been set aside enabling farmers access the Cherry Advance at a modest interest rate of 3 percent	This would serve to complement the reforms the Authority has been pushing at the Nairobi's Coffee Exchange through the National Taskforce on Coffee Sub-Sector Reforms

Strategic Plan and Policy Framework (Cont'd)

REFERENCE	ISSUE	POLICY PRONOUNCEMENT	IMPLICATION
Page 24 of Budget Statement	Capital Gains Tax	Exempt from the Capital Gains Tax the transfer of property that is necessitated by restructuring of corporate entities. The CS also proposed an increase in the Capital Gains Tax from 5% to 12.5%	This measure will allow listed entities to restructure their operations for efficiency and market penetration. The impact in the capital markets space will be minimal because capital markets securities are exempt from CGT.
Page 25 of Budget Statement	Income Tax Bill	Draft Income Tax Bill, 2018, to be submitted to Parliament for enactment	The Authority shared comprehensive feedback on the draft Income tax Bill and hopes Parliament will pass it with key amendments that provide for tax incentives to spur growth of the capital markets.
Page 29 of Budget Statement	Growth Enterprise Market Segment	Introduce an amnesty on the tax penalties and interest, on any outstanding tax for two years prior to the listing, for SME's that list under the GEMS program to encourage them to list and clean their tax records. The principal taxes shall however be paid in full.	The move will encourage Small Medium Enterprises and venture companies without an existing track record but with positive growth projections to come to market and realize growth prospects while scaling up their operations.
Page 30 of Budget Statement	Requirements for registering a PIN	Amend the Tax Procedures Act to empower the Commissioner to grant exemption from the PIN requirement, in certain circumstances, when opening a bank account.	Trigger an increase Foreign Direct Investments and position Kenya as a prime financial centre both regionally and globally. Foreign investors whose sole source of income is interest, dividends or capital appreciation will only be liable to withholding tax, and as they are not tax resident in Kenya, they will not be obliged to file a tax return on the income they earn. This proposal would serve to make the cost of doing business for Foreign Investors in marketable securities easier.
Page 31 of Budget Statement	Investor Confidence	Amend the Capital Markets Act to empower the Authority to enforce penalties and sanctions on market players who violate laid down rules and procedures.	In order to effectively deliver on its mandate, the Authority requires powers to sanction the players in the market in case of violation of laid down rules and procedures. This will enhance investor protection and confidence in the financial sector ultimately facilitate investment growth in the country.
Page 31 of Budget Statement	Insurance Act	Amend the Insurance Act and the Regulations to bring clarity and enable the Fund to be utilized to compensate claimants. Since its inception in 2004, the Policy Holder's Compensation Fund has not been utilized since its establishment	Promote greater confidence in the Fund thus enhance uptake of insurance products.

REFERENCE	ISSUE	POLICY PRONOUNCEMENT	IMPLICATION
		in 2004, despite 4 insurers going under statutory management. The current provisions of the law only allow compensation to claimants of an insolvent insurer.	
Page 34 of Budget Statement	SME Credit Guarantee Scheme	Launch the SME Credit Guarantee Scheme as a policy tool to direct credit to MSMEs.	Enhance access to affordable credit to Micro, Small and Medium Enterprises (SMEs) which are regarded as high-risk borrowers. The Credit Guarantee Scheme will work through easing the financial constraints of SMEs and start-ups by enabling them to access capital. Consequently, this will boost the Growth Enterprise Market Segment (GEMS) as they will be able to issue securities because they can leverage on the guarantee.
Page 36 Budget Statement	Kenya Sovereign Wealth Fund Bill	Finalization of the Sovereign Wealth Fund legislation to provide a legal framework to guide the investment of revenues from oil, gas, and mineral resources.	The Fund will be used to finance critical development programmes, build savings for future generations in order to ensure inter-generational equity, and for stabilizing budgetary expenditures in the event of fluctuations in the price of the natural resources. The fund is also expected to invest in the capital markets hence contributing to the growth of the market.
Page 37 Budget Statement	Kenya Development Bank	Creation of the Kenya Development Bank (The merging of ICDC, IDB, and the Tourism Finance Corporation).	We expect that the Kenya Development Bank will leverage the capital markets to meet the financing requirements of the sectors previously served by the three entities.
Part II of First Schedule of VAT Act	Exemption of Brokerage Services	Replace the word "Stock" with "Securities" to clarify that the exemption applies to all Securities Brokerage Services	This will bring certainty of tax status of brokers that have come on board lately including derivatives and Online forex brokers. This is expected to attract more brokers in the market. Securities cover a full spectrum of regulated capital markets brokerage services. The amendment is meant to expand the scope of application of VAT exemption of brokerage services for securities other than stocks. This will ensure certainty in the regulatory framework
Regulation 219 of the Public Finance Management Act	Due Date for Remittances of Surpluses by Regulatory Authorities	Submission of Surpluses to KRA has been extended to 31st October every year.	This will give the Authority adequate time after audit exercise.

Corporate Approvals

The Department has embraced the imperatives of the CMA 2018-2023 Strategic Plan specifically the objective gearing towards facilitating development, diversification and uptake of capital markets products and services. Corporate Approvals has granted various licenses to new entrants seeking to conduct business as market intermediaries and approved diverse corporate actions within the financial year. The Authority has witnessed advancements in online forex brokerage with the grant of the first Money Manager License to Standard Investment Bank Limited and the second Non-Dealing Online Forex Broker License to SCFM Limited under the Capital Markets (Online Foreign Exchange Trading) Regulations, 2017.

A money manager license authorizes the intermediary to choose and manage investments for its online forex trading clients and develop appropriate investment strategy in return for a fee based on a percentage of assets under management whereas a Non-Dealing Online Forex Broker license allows a market intermediary to provide a platform that links foreign exchange markets and clients in return for a commission.

Care Ratings Africa Limited and Global Credit Rating Company Limited received authorization to evaluate the relative creditworthiness of issuers of securities and assign ratings to such securities. Whilst SBM Bank Kenya Limited, Credit Bank Limited and Gulf African Bank Limited were granted Authorized Depository Licenses raising the number of licensed authorized depositories from 15 to 18. SBM Bank Kenya Limited was also granted an Authorized Securities Dealer License which allows an intermediary to deal in securities and operate in a specified market segment as may be prescribed by the Authority.

The Authority also upgraded Dry Associates Investment Group Limited's Fund Manager License to an Investment Bank License and granted another Investment Bank License to Salaam Investment Bank Limited. The Authority has also approved the acquisition of Fund manager, Seriani Asset Managers Limited together with its antecedent schemes namely; Seriani Money Market Fund, Seriani Equity Fund and Seriani Balanced Fund by Cytonn Asset Managers Limited.

Other licenses granted include: - Ace Financial Advisory Services Limited – Investment Adviser, Synesis Capital Limited – Investment Adviser, AFG Wealth Kenya Limited – Investment Adviser, Atree Capital Kenya Limited – Fund Manager, Jubilee Financial Services Limited – Fund Manager and Cytonn Asset Managers Limited – REIT Manager.

The Authority approved the registration of Wanafunzi Investment Unit Trust Scheme, CIC Wealth Fund, Nabo Kenya Shilling Fixed Income Fund and CBA Dollar Investment Fund.

Key Approvals

1. Approval of listing by introduction of a maximum of 896,759,222 shares on the Nairobi Securities Exchange by BK Group Ltd.
2. Approval of take over documents and shareholder circular in respect to proposed cash offer by Rubis Energie S.A.S to acquire all the ordinary shares of Kenol Kobil Plc not already legally or beneficially owned by Rubis Energie
3. Approval of Noteholders Circular in Relation to the Proposed Merger between Commercial Bank of Africa Limited and NIC Group Plc
4. Approval of Bonus Issue and Listing of 413,405,369 new paid up of par value Kshs. 1.00 to the shareholder of I&M Holding Plc
5. Approval of Shareholders Circular in respect to the Proposed Acquisition of all the Ordinary Shares of National Bank of Kenya Limited by KCB Group Limited
6. Approval of Express Kenya Plc Shareholder Circular on Conversion of Debt into Equity

The department has endeavored to harmonize the issuance of private offers and CMA approved commercial papers through denoting documents and disclosures required in the short form prospectus requirements and information notice form. Corporate Approvals has also issued Guidelines on Particulars of Business Plan Models Submitted During the License Review Process by Licensed Market Intermediaries and Proposed New Licensees to aid prospective market intermediaries in developing suitable and sustainable business plans.

Members of the department have embraced the need for progressive development of capacity and skills, through participation in inspections of licensed intermediaries, involvement in stakeholder engagements and application of the skills obtained in various trainings to improve review processes. The department continues to leverage on technology for process improvement to ensure value-addition in terms of the quality of intermediaries licensed and corporate actions approved, and will soon be investing in a platform for online receipt of all types of applications.

Regulatory Framework

Legislative & Regulatory Developments

(a) Enactment of the Capital Markets (Amendment) Act, 2018

The Capital Markets (Amendment) Bill, 2018 was published on June 19, 2018 and assented into law on December 31, 2018. The Act amended the Capital Markets Act to provide for penalties to persons involved in embezzlement activities and further ensure that administrative enforcement action set out is sufficiently explicit in application to key employees of listed companies.

The Amendment Act further provides for payment of reward to any person who provides new and timely information leading to the recovery of sums payable to the Investor Compensation Fund. The Act also provides that issuers of securities, licensed and approved persons should maintain a system of internal controls enough to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with the International Financial Reporting Standards. Additional offences of front-running and obtaining gain by fraud have been incorporated into the Capital Markets Act.

(b) The Warehouse Receipt System Act, 2019

The development of the policy and legal framework for warehouse receipts has been on Kenya's legislative agenda for close to ten years. In June 2019, the President signed into law the Warehouse Receipt System Act, 2019. The Act provides for the legal framework for the development and regulation of warehouse receipt system for agricultural commodities.

This framework is linked to the Authority's mandate of licensing and regulating commodities exchanges as provided for in the Capital Markets Act. The warehouse receipts for agricultural commodities once issued, will be eligible for trading at the commodities exchange. The draft Capital Market (Commodity Markets) Regulations, 2019, once finalized and gazetted, will complement the warehouse receipt system through providing a regulatory framework for the trading of such receipts.

(c) Issuance of Regulatory Sandbox Policy Guidance Note

In 2013, the Capital Markets Act was amended to introduce Section 12A which empowers the Authority to issue guidelines and notices for the regulation of capital market activities and products. This amendment introduced principle-based approach to regulation, which has contributed to the development of policy

guidance notes to regulate capital market activities and products.

The Regulatory Sandbox Policy Guidance Note (PGN) was approved by the Capital Markets Authority Board in March 2019. The PGN seeks to provide a facilitative regulatory framework to allow for testing of innovative products, solutions and services that have the potential to deepen or broaden the capital markets. By using the sandbox, the Authority and the market can make use of evidence-based tools for fostering innovation and regulatory support while taking care of investor protection, financial stability and integrity risks.

The PGN provides for the eligibility requirements, application and admission procedure, testing processes, reporting requirements and the options available at the end of the testing period. The Authority has already admitted firms into the sandbox who are testing their innovative products and services.

(d) Issuance of the Policy Guidance Note on Green Bonds

The Policy Guidance Note on Green Bonds, 2019 provides the requirements for the issuance of green bonds, whether to be listed or not. The PGN has been developed in line with Section 12A of the Capital Markets Act that empowers the Authority to issue guidelines and notices necessary for the regulation of capital market activities and products.

The PGN defines a green bond as a fixed income instrument, either unlisted or listed on a securities exchange, approved by the Authority, whose proceeds are used to finance or refinance new or existing projects that generate climate or other environmental benefits that conform to green guidelines and standards. The PGN sets out the requirements and the procedure for the issuance of green bonds, the requirement for independent verifiers and the disclosure and continuing obligations for issuers.

The Nairobi Securities Exchange Listing Rules were also amended to provide for the listing of green bonds.

(e) Draft (i) Capital Markets (Commodity Markets) Regulations, 2019, (ii) Capital Markets (Coffee Exchange) Regulations

The Capital Markets Act was amended in 2016 to provide the legal framework for the regulation of commodity exchanges, with the Authority empowered to regulate such exchanges. In order to provide a comprehensive regulatory framework for commodity markets, the Capital Markets (Commodity Markets) Regulations and Capital Markets (Coffee Exchange) Regulations were drafted and are now undergoing public consultation process.

Regulatory Framework (Cont'd)

The draft regulations provide for the licensing of commodity exchanges and commodity brokers and the requirements for the conduct of commodity exchange business.

(f) Establishment of the Financial Markets Law Review Panel

One of the factors that determine the development and deepening of the capital market is the extent to which the legal and regulatory environment is responsive and facilitative. A key target of the Capital Markets Master Plan was the commitment to establish the financial markets law review panel, bringing together local and international financial market lawyers and experts.

In March 2019, the Board of the Capital Market

Authority approved the establishment of the financial law review panel whose key mandate is to ensure that the capital market remains responsive to market realities and is appropriately facilitative to evolving market expectations from domestic and international perspectives.

The Panel panel comprises of leading local and international market players who will act as a think-tank for early identification of potential legislative gaps or challenges that could affect the functioning of financial markets including ancillary legislation and propose regulatory reforms. Some of the functions of the Panel include review of the legal framework and identification of regulatory gaps while proposing legal and institutional reforms.

Members of the Financial Markets Law Review Panel

The list of members is as follows:

International Legal Experts:	Habib Motari: Partner, Clifford Chance, London Steven Galbraith: Partner, Slaughter and May, London
Domestic Legal Experts:	Paras Shah: Partner, Bowmans, Coulson Harney Fred Ngari: Managing Director, Centum Capital
Tax Expert:	Kairo Thuo: Partner, Viva Africa, LLP
Islamic Finance Expert:	Rahma Hersi: Partner, Gateway LLP
Domestic and International Financial Markets Experts:	Alison Harwood: Former Global Head/ Practice Manager, Capital Markets and NBF, World Bank Group Ranjit Ajit Singh: Former Chairman, Securities Commission Malaysia Naval Sood: Head Corporate Finance, East Africa, Stanbic Bank Kenya Dr. Robert Barnes: Global Head of Primary Markets and CEO Turquoise, London Stock Exchange Group Louise Kabucho: Former Director of Compliance UK and EU
Innovation and Fintech experts	Elizabeth Howard, CEO Lelapa Fund and Africa Crowd Funding Association Grant Brooke, Chief Executive, Twiga Foods
Domestic Legal Experts:	Mbage Ng'ang'a: Chairman, Kenya Law Reform Commission Lillian Matagaro, Deputy Chief Parliamentary Counsel, Office of the Attorney General and Department of Justice
CMA Board Members:	Chairperson, Board Technical and Policy Committee Alternate to the Attorney General

Pictorial



Capital Markets University Challenge 2018 award ceremony. From Left to Right – Board member Mr. Nevis Ombasa, 1st Runners Up- Ms. Lorna Waweru from Maasai Mara University, CMA Chairman Mr. James Ndegwa, Overall Winner – Mr. Jacob Masara from Alupe University College, Board Member Mr. John Birech, 2nd Runners Up –Mr. James Mwangi from Strathmore University and Board Member Mr. Moibi Mose.



Winners of the Capital Markets University Challenge 2018. From Left to Right - Overall Winner – Mr. Jacob Masara from Alupe University College, 1st Runners Up- Ms. Lorna Waweru from Maasai Mara University and 2nd Runners Up –Mr. James Mwangi from Strathmore University. The Challenge, a part of the Authority's strategy of promoting investor education among the youth, ran from August 2018 to May 2019 and attracted interest from 6,015 students in 37 universities countrywide.

Pictorial



Capital Markets Authority Chief Executive Paul Muthaura (Left) together with the Kenya Association of Manufacturers CEO Phyllis Wakiaga during the signing of a Memorandum of Understanding (MoU) between the two organizations. The MoU seeks to promote the growth and development of the manufacturing sector through the capital markets, in line with the national development priorities and Sustainable Development Goals.



From Left to Right - CMA Chairman Mr. James Ndegwa, Board Member Ms. Christine Okoth, CS National Treasury & Planning Mr. Henry Rotich, CMA Chief Executive Mr. Paul Muthaura and CAS National Treasury & Planning Mr. Nelson Gaichuhie during the launch of the Capital Markets Authority Strategic Plan 2018-2023.

PICTORIAL



Staff Recognition – Marketing Development Officer - Ms. Viola Kilel (centre) is awarded with a Certificate of Recognition by Chairman of the Staff Welfare Association - Mr. Kefa Ngoiri, (Left). Looking on is Director, Regulatory Policy and Strategy - Mr. Luke Ombara.



CMA Board Members pose for a photo with members of the Kenya National Chamber of Commerce and Industry – Mombasa Branch after a Business Community Forum in Mombasa held together with the Nairobi Securities Exchange in August 2018 to encourage listing on the Nairobi Securities Exchange.

Pictorial



From Left to Right – IEPA Officer Esther Gitonga, Board Member Dr Freshia Mugo, Board Member Ms. Christine Okoth, Chief Executive Mr. Paul Muthaura and Chairman Mr. James Ndegwa during the the launch of the World Investor Week 2018 in Kenya. The global event is organized by the International Organization of Securities Commissions (IOSCO) where the Capital Markets Authority is a member.



Members of Staff pose for a photo after taking part in team building activities at the Kenya School of Adventure and Leadership in September 2018.

During the 2018/2019 financial year the Authority issued new licenses and granted approvals as follows:

LICENSES, CONSENTS AND REGISTRATIONS

1. Ace Financial Advisory – Investment Adviser License granted on July 10, 2018
2. Synesis Capital Limited – Investment Adviser License granted on July 10, 2018
3. Global Credit Rating Company Limited- Authorization to operate as a Credit Rating Agency granted on July 10, 2018
4. CBA Capital Limited (now referred to as NCBA Investment Bank Ltd.) – Consent to register CBA Dollar Investment Fund (CBA DIF) granted on July 10, 2018
5. Atree Capital Kenya Limited – Fund Manager License granted on July 10, 2018
6. Nabo Capital Limited – Consent to register Nabo Kenya Shilling Fixed Income Fund granted on September 14, 2018
7. Dry Associates Investment Group Limited – Investment Bank License granted on September 14, 2018
8. Britam Asset Managers Limited – Consent to register Britam Income Yield Fund granted on September 18, 2018
9. CIC Asset Managers Limited – Consent to register CIC Wealth Fund granted on September 18, 2018
10. Salaam Investment Bank (Kenya) Limited – Investment Bank License granted on November 6, 2018
11. Standard Investment Bank Limited – Money Manager License granted on December 17, 2018
12. Gulf African Limited – Authorized Depository License granted on February 12, 2019
13. Cytonn Asset Managers Limited - REIT Manager License granted on February 11, 2019
14. Care Ratings Africa Limited – Registration of Credit Rating Agency on February 12, 2019
15. Cytonn Asset Managers Limited – Consent to register Cytonn Africa Services Fund granted on February 12, 2019
16. Cytonn Asset Managers Limited - Consent to register Cytonn High Yield Fund granted on February 12, 2019
17. Cytonn Asset Managers Limited - Consent to register Cytonn Money Market Fund (USD) granted on February 12, 2019
18. Nairobi Securities Exchange Plc - Registration of Nairobi Securities Exchange Plc ESOP Unit Trust granted on March 19, 2019
19. Credit Bank Limited – Authorized Depository License granted on May 6, 2019
20. SBM Bank (Kenya) Limited – Authorized Depository License granted on May 6, 2019
21. SBM Bank (Kenya) Limited – Authorized Securities Dealer License granted on May 6, 2019
22. Jubilee Financial Services Limited – Fund Manager License granted on May 6, 2019
23. AFG Wealth Kenya Limited – Investment Adviser License granted on May 6, 2019
24. SCFM Limited – Non-Dealing Online Foreign Exchange Broker License granted on MAY 6, 2019
25. Wanafunzi investment Limited – Registration of Wanafunzi Investment Unit Trust Fund on May 6, 2019

CORPORATE ACTIONS

1. Approval of Take-over Document and Shareholder Circular in respect of the proposed acquisition by Rubis Energie S.A.S of 100% shares of KenolKobil Plc not already legally or beneficially held by Rubis Energie S.A.S on December 13, 2018
2. Approval of Listing by introduction of maximum of 896,759,222 shares on the Nairobi Securities Exchange Plc by BK Group Limited
3. Approval of Noteholders Circular in Relation to the Proposed Merger between Commercial Bank of Africa Limited and NIC Group Plc on April 15, 2019
4. Approval of Bonus Issue and Listing of 413,405,369 new paid up of par value Kshs. 1.00 to the shareholder of I&M Holding Plc on May 6, 2019
5. Approval of Shareholders Circular in respect to the Proposed Acquisition of all the Ordinary Shares of National Bank of Kenya Limited by KCB Group Limited on May 9, 2019
6. Approval of Express Kenya Plc Shareholder Circular on Conversion of Debt into Equity on May 10, 2019

The Authority revoked licenses and de-registered the following companies in the year 2018/2019:

REVOCATIONS AND DE-REGISTRATIONS

1. Global Credit Rating Company Limited – Voluntary de-registration of Credit Rating Agency granted on April 2, 2019
2. Citidell Company Limited-Revocation of Investment Adviser License on May 17, 2019



Embankment Plaza, 3rd Floor
Longonot Road, off Kilimanjaro Ave., Upperhill
P. O. Box 74800 - 00200, Nairobi, Kenya
Tel: +254 20 2264000/ 2264900 / 2221869,
Cell: +254 722 207767
Email: corporate@cma.or.ke
Website: cma.or.ke