



**SUBMISSION OF THE ANNUAL REPORT AND REVIEW OF
THE CAPITAL MARKETS OPERATIONS FOR THE PERIOD
ENDED DECEMBER 31, 2002 BY THE CHIEF EXECUTIVE
TO THE MINISTER FOR FINANCE**

Honourable Minister for Finance
Ministry of Finance and Planning
The Treasury
Nairobi

Dear Honourable Minister

I have the honour on behalf of the Authority to present to you my eighth Capital Markets Authority's Annual Report for the period ended December 31, 2002, pursuant to the provisions and requirements of Section 36(3) of the Capital Markets Act, Cap 485A. The report reviews the capital markets operations and outlines continuing critical reforms and medium term action plan, as outlined in *"The Capital Markets Strategic Plan: Vision 2002 – 2005"*. The new capital markets Reform Agenda represents a plan of action aimed at comprehensive strategic positioning as well as broadening and deepening Kenya's capital markets as a leading regional financial centre.

Respectfully submitted

Paul K Melly
CHIEF EXECUTIVE



THE MISSION STATEMENT OF THE AUTHORITY

The mission of the Capital Markets Authority is to promote the development of orderly, fair, efficient, secure, transparent and dynamic capital markets in Kenya within a framework which facilitates innovation through an effective but flexible system of regulation for the maintenance of investor confidence and safeguards the interest of all market participants.

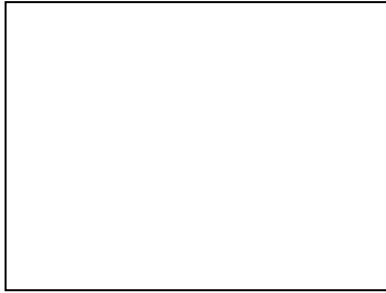


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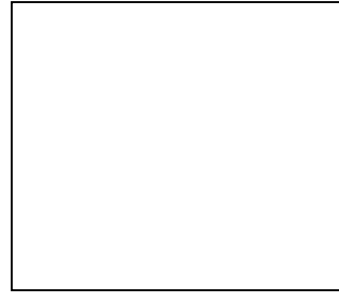
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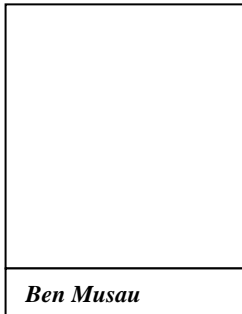
MEMBERS OF THE CAPITAL MARKETS AUTHORITY BOARD



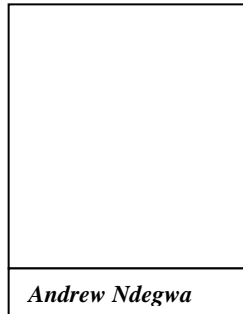
Isaac Awuondo -Chairman



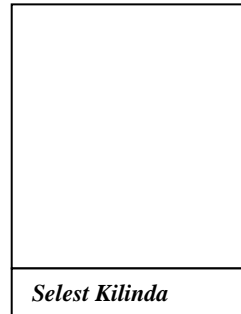
Paul K Melly – Chief Executive



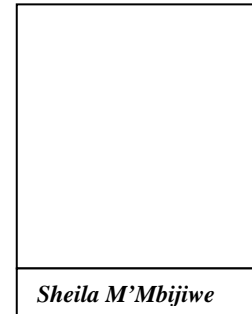
Ben Musau



Andrew Ndegwa



Selest Kilinda



Sheila M'Mbijiwe



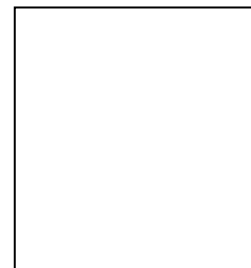
Prof. Arthur Eshiwani



*Nahashon Nyagah –
Governor, Central Bank*



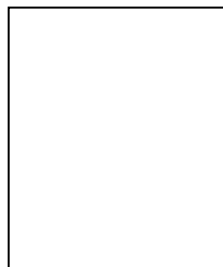
*Hon. Amos Wako –
Attorney General*



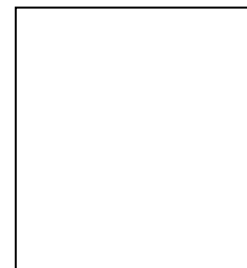
*Joseph Kinyua – PS
Treasury*



Dr. Moses Chesang



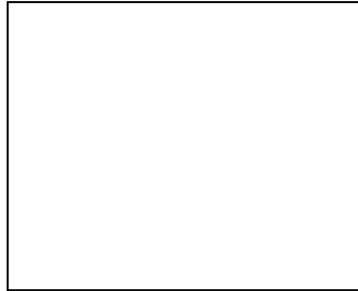
*Dr Edward Sambili – Alt. to
Governor*



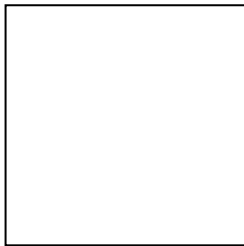
*Dan Ameyo – Alt. to Attorney
General*



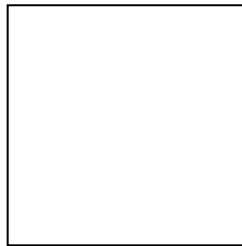
SENIOR MANAGEMENT



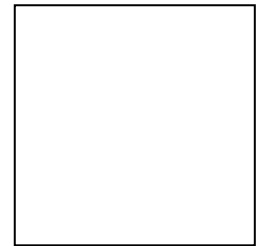
Paul K Melly – Chief Executive



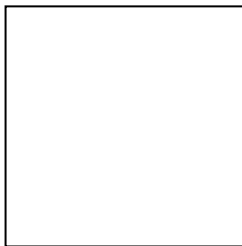
*Simon P Ole Nkeri – HoD,
Compliance & Finance*



*Michael N Nyamute – HoD,
Research & Corporate Affairs*



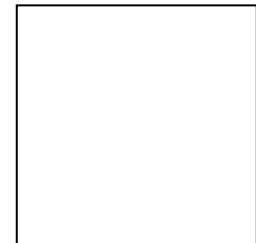
*Shamira Hussein – HoD,
Enforcement & Legal Affairs*



*Esther Maiyo –Assistant
Manager, Finance*



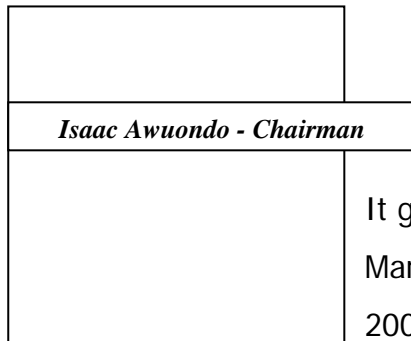
*Edwin Kipsitet – Assistant
Manager, Research*



*Wyckliffe Shamia – Assistant
Manager, Compliance*



CHAIRMAN'S STATEMENT



It gives me great pleasure to present the Capital Markets Authority Annual Report for the year 2002.

This Annual Report marks a milestone in the operations of the Capital Markets Authority, as it is the first under the mandate of the new Board.

Allow me also to take this opportunity to thank His Excellency the President for appointing me to serve as the Chairman of an organization that plays a crucial role in the management of a very important sector of our economy. On behalf of my new colleagues, I also wish to thank the Minister for Finance for appointing them to serve on the Board.

Let me also pay tribute to the outgoing Board under the able Chairmanship of Ambassador Denis D Afande for the tremendous work they did during their tenure.

During the past three years, the Authority, through a proactive and focused Management, has pursued a seven-pronged reform agenda through which several important milestones were achieved in the reform process, especially in the modernization of the Legal and Regulatory Framework.



During the tenure of the out-going Board, a new Legal and Regulatory Framework that conforms to the best international practice and trends was put in place by the Authority. The following sets of regulations and guidelines, were developed and gazetted:

- The Capital Markets (Collective Investment Schemes) Regulations, 2001
- The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002
- The Capital Markets (Licensing Requirements) (General) Regulations, 2002
- The Capital Markets (Takeovers and Mergers) Regulations, 2002
- The Capital Markets (Foreign Investors) Regulations, 2002
- The Capital Markets Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya
- The Capital Markets Guidelines on the Approval and Registration of Credit Rating Agencies

I wish to reiterate that the Authority is not just putting in place regulations, but is committed to enforcing them in order to ensure full compliance with all aspects of the regulatory framework. This will enhance our efforts to build and sustain investor confidence in our market. Already we have seen encouraging trends by a good number of listed companies to comply with their continuous reporting obligations, whereby they have started reporting half yearly results on a timely basis.



We wish to advise all listed companies and indeed all our licensees to comply with all the prescribed requirements relating to continuous reporting obligations and corporate governance practices.

I wish further to reiterate that in case of default or non-compliance, the Authority will be obliged to enforce the penalties and sanctions prescribed in the regulations.

During the tenure of the new Board, the following issues will form part of its priorities and challenge:

- i. ensuring that the Central Depository System and Automated Trading System projects are implemented successfully;
- ii. implementing a comprehensive investor education program;
- iii. fostering meaningful dialogue with all stakeholders to ensure that there is a clear understanding of the roles each can play in the development of a vibrant capital market as a source of resources.
- iv. ensuring enforcement and compliance to the new legal and regulatory framework; and
- v. continuing efforts towards the development of an integrated East African capital market.

The Authority shall continue to be focused on the capital market development agenda as outlined in our strategic plan of action and vision. As part of these efforts, the Authority has discussed and agreed on the following two important initiatives:



- (a) developed and released the Capital Markets Strategic Plan for the three-year period of 2002 to 2005. The details of this are provided in the Chief Executive report and the full text of the Strategic Plan is also annexed to this report.
- (b) we have also determined the need for and constituted a new Capital Markets Advisory Committee, which will serve as a forum to facilitate dialogue with our stakeholders.
- (c) we at the same time constituted the Authority's Audit Committee in order to comply with good corporate governance Practices.

The mandate of the Capital Markets Advisory Committee shall be to act as an important forum for open discussion between the Authority and stakeholders on all matters pertaining to capital markets and shall be advisory to the Authority.

The Advisory Committee members and mandate have now been gazetted.

The membership of the Capital Markets Advisory Committee and the Audit Committee are also shown as an annex to this report.

On the East African Capital Market, I wish to underscore the crucial role played by the Authority in acting as an agent of change to facilitate faster integration of the markets within the framework of the East African Community.



In particular, I wish to recognize the important part played by the Chief Executive of the Authority as the founding Chairman of the East African Member States Securities Regulatory Authorities (EASRA) from inception in 1997 until his retirement in the year 2002. The chairmanship has now shifted to Mr Japheth Katto, Chief Executive Capital Markets Authority, Uganda and we wish him well in his new regional leadership role.

During the last five years, the following milestones were achieved:

- facilitation of the establishment of stock exchanges in Uganda and Tanzania ;
- technical cooperation, including staff secondments and attachments;
- harmonization of the legal and regulatory framework, including listing requirements, disclosure requirements, trading rules, corporate governance guidelines, etc.;
- facilitation of cross border listing between the Nairobi Stock Exchange and Uganda Securities Exchange;
- joint market studies on fiscal and monetary policy, on financial service proficiency certification;
- facilitation of joint investor education programs.

The Authority shall continue to support and play an active role in the efforts towards integration process of the East African capital markets as an active member of both the EASRA Forum and the Capital Markets Development Committee.



On the international scene, the Authority continues to be active member of the International Organization of Securities Commissions (IOSCO), and especially of the Emerging Markets Committee (EMC). The Chief Executive has in the past served as the Chairman of the EMC as well as a member of the IOSCO's Executive Committee and continues to be an active member of the EMC Advisory Board. In view of the emerging international scenario dominated by corporate governance and regulatory challenges, it is imperative that the Authority continues to cooperate with other regulatory authorities in the development and implementation of new regulatory standards to meet the growing challenges.

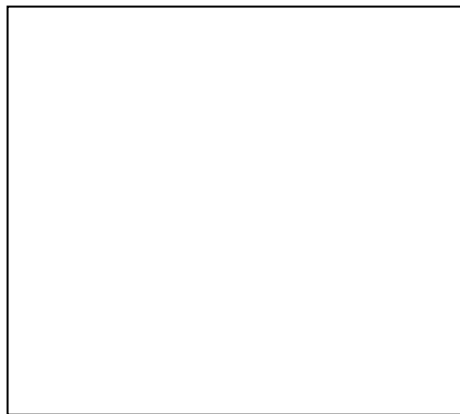
Finally, I wish to record sincere appreciation for the continued support of the Government in the development of the capital markets.

Thank you.

Isaac Awuondo
Chairman



CHIEF EXECUTIVE'S REPORT



Introduction

It is with great pleasure that I review the operations and performance of Kenya's capital markets and report on our continuing reforms programme for the year ended December 31, 2002.

Paul K Melly – Chief Executive

I am particularly honoured as this represents my eighth report as the Chief Executive of the Authority. During the year, the term of office of the Board under the chairmanship of Mr. Denis Afande ended and a new Board was constituted under the chairmanship of Mr. Isaac Awuondo who had also previously served as a Member for six years. I wish to congratulate our new Chairman and Members on their appointment and continued invaluable inspiration as well as support and once again thank the former Chairman and Members for their contributions.

As we are in a threshold to a new political dispensation and administration I find it appropriate to record our sincere appreciation for the Government's support towards the development of Kenya's capital markets. In this regard, I wish in particular to thank His Excellency the President Daniel T. Arap Moi for his Government's and personal support during my tenure as the Chief



Executive of the Authority and wish him well in his imminent retirement and future endeavours.

It will be recalled that in the last year's report, I outlined our progress in the reform vision and agenda for the capital markets of which we have now completed the process towards establishment of a robust and facilitative legal and regulatory regime.

Capital Markets Strategic Plan: Vision 2002 – 2005

Following the appointment of the new Chairman and Board I am pleased to report on the development, approval and release of a Capital Markets Strategic Plan: Vision 2002-2005. This represents a comprehensive blueprint aimed at charting out in a sequential yet methodical and pragmatic manner continued reform measures for the broadening and deepening of the capital markets horizons in Kenya.

In this regard, this annual report has been prepared under the theme **"Broadening and Deepening the Capital Markets Horizons in Kenya"**.

The Capital Markets Strategic Plan: Vision 2002 – 2005 envisages that by the year 2005, Kenya's capital markets would have been strengthened significantly towards becoming a leading regional financial center. These reforms are underpinned by the following strategic pillars and objectives:

- Development of a robust and scalable infrastructure for the depository, trading, clearing and settlement of capital markets securities.



- Establishment of an enabling facilitative and sound regulatory framework and standards, which conform with the best international practices.
- Establishment of a competitive and integrated regional capital markets.
- Facilitation of an investor education programme so as to ensure an informed investor and sensitized general public as well as users of the capital markets.
- Facilitation of diverse capital markets financial products to mobilize savings in financial assets.
- Development of an efficient, trained and diverse capital markets professionals as well as service providers.
- Achievement by the Authority of a position of high regulatory efficiency, financial self-sustenance, and maintenance of quality human capital capacity.
- Contributions towards establishment of an enabling and facilitative macro economic environment for the growth of the capital markets and the economy.

The Capital Markets Authority has been implementing a series of measures aimed at revitalizing the capital markets as an integral part of Kenya's financial system. As part of these measures the Authority has been implementing a **Seven-Prong Strategic Reform Agenda** to position the capital markets appropriately in the mobilization and allocation of financial resources to the productive sectors so as to engender economic development.



In this regard, the strategic plan is further aimed at positioning the capital markets competitively and strategically in support of national aspirations and economic needs. This must of necessity, take cognisance of the vision and development in the regional and global financial markets.

This strategic plan further outlines the vision of Kenya's capital markets by the year 2005, within the Seven-Prong Reform Agenda, and highlights some of the main milestones realized and sequenced reform measures and action plan for the period 2002-2005.

The Progress and the Main Strategic Thrusts are as follows:

First, Establishment of a Robust and Scalable Capital Markets Infrastructure

The Capital Markets Authority in collaboration with other stakeholders in particular the Nairobi Stock Exchange (NSE), is implementing a programme aimed at developing a robust and scalable capital markets infrastructure. This is in order to minimize systemic risk and maintain financial stability, which are critical for the maintenance of investor confidence.

As part of these measures the following milestones have been achieved:

- Enabling legislations for a central depository environment has been established.
- A Capital Markets Challenge Fund has been established to facilitate the participation of institutional investors in the Central Depository project.



- A Central Depository and Settlement Corporation (CDSC) has been established.
- The CDSC is to be capitalized at Kshs 100 million.
- The Capital Markets Challenge Fund has invested 50% with the Nairobi Stock Exchange investing 20%, the Association of Kenya Stockbrokers is to invest 18%, the CMA Investor Compensation Fund has invested 7%, while Uganda Securities Exchange (USE) and Dar es Salaam Stock Exchange (DSE) are to invest 2.5% each.

As part of an ongoing progress towards establishment of the Central Depository System and Automated Trading System a number of actions are planned which should culminate in the commencement of CDS and ATS operations by July 2003.

The implementation of the project, however, encountered temporary setback following unexpected financial difficulties by the selected technology solution provider. It is, however, important to note that negotiations with alternative technology solution provider are expected to be concluded by end of December, 2002.

Secondly, Enhancement of the Capital Markets Institutional Arrangement

The capital markets institutional arrangement is critical for the success of this strategic plan. In this regard, the plan focuses on specific measures targeted at each of the identified capital markets institutions within the overall reform agenda.



The Authority over the last ten years has implemented specific measures to re-organize and strengthen Nairobi Stock Exchange, build its own internal capacity, facilitate emergence of a number of capital markets institutions and seek to promote new vehicles to mobilize savings in financial assets.

During the current reform period the Authority will continue with its programme of strengthening the capital markets institutional arrangement, including:

- developing a robust and state-of-the-art corporate database and Management Information Systems capacity;
- strengthening of the Authority's surveillance, compliance, enforcement and research capacity;
- facilitating the establishment of new institutions in the market, such as investment banks;
- introduction of Financial Services Proficiency certification for prescribed key staff of licensees;
- gradual replacement of retail stockbrokers with investment banks through consolidation, acquisition and transformation.

Third, Establishment of a Robust and Facilitative Legal and Regulatory Framework

A robust and facilitative regulatory environment is critical for the maintenance of investor confidence as well as investor protection. The Authority has, in this regard, been implementing far reaching reform measures to strengthen its legal and regulatory framework.



During the year for example, new guidelines were issued to promote good corporate governance practices by public listed companies and issuers. Among the new principles of good corporate governance prescribed in the regulations are those restricting an individual's board directorships to five and chairmanships to two. Every listed company shall also now have an audit committee made up of non-executive directors on a mandatory basis. Chief financial officers of listed companies shall also be required to be members of the Institute of Certified Public Accountants of Kenya (ICPAK), while company secretaries shall be members of the Institute of Certified Public Secretaries of Kenya (ICPSK).

These reform measures have seen the implementation of a number of milestones in the reshaping of the capital markets legal and regulatory landscape (*see appendix on the legal and regulatory framework*).

The new regulatory framework has been established in line with international best practices and is considered critical in order to facilitate as well as underpin further development of the capital markets. It is further, envisioned that the regulatory framework shall contribute towards nurturing and maintenance of investor confidence as well as facilitate improvement in capital markets transparency. In this regard, the Authority is to further strengthen its enforcement and compliance measures with respect to the new regulatory framework.



Fourth, Development of New Financial Products and Expanding of the Market Horizon

The domestic capital markets potential with respect to new financial products, mobilization of capital and management of risk remain under utilized. It is envisioned that during the reform period further enhancements will be implemented in order to cater for investment needs of institutional investors and users of the capital markets.

This follows the recent fundamental re-organisation of the market structure to create three distinct market segments namely main investment market segment, alternative investment market segment and the fixed income securities market segment.

During this reform period additional measures will be implemented in order to encourage secondary market activity in fixed income securities market segment, promote liquidity, as well as minimize counter-part risk.

Fifth, Creating an Enabling and Facilitative Environment for the Capital Markets

An enabling and facilitative environment is critical for the broadening and deepening of the capital markets and the financial system in general. In this regard the legal and fiscal environment as well as other macro economic policies should promote stability, investor confidence through consistency and be enabling or facilitative so as to engender economic growth.



The Authority as part of its mandate reviews on a continuous basis the operating environment, identifies impediments or distortions to the smooth functioning of capital markets and necessary incentives to stimulate growth. The Authority has in particular established a robust and facilitative legal and regulatory environment and has achieved several milestones with respect to the fiscal policies and other measures to create an enabling environment for the capital markets (*see the Capital Markets Policy Environment and Incentives in this report*).

During the year a new Policy to facilitate international portfolio investments was implemented.

In this regard, the capital market has seen gradual liberalization as part of measures aimed at facilitating mobilization of international capital to supplement low domestic savings level. This is further aimed at expanding the role of the capital markets in facilitating mobilisation of long term financing needs of the economy.

Following this policy changes, the new regulations governing the participation of foreign portfolio investors in the capital markets have been issued. The new regulations prescribe new thresholds and policy shift that now focuses on limits to be reserved for domestic investors as well as establishment of a "free float" to be available for all categories of investors including domestic investors, East Africans and foreign portfolio investors. The regulations have also prescribed a new concept of a 'beneficial interest' in the determination of the category of investors.



The new policy framework is as follows:

- Every listed company is now required to reserve 25% of its share capital for investment by domestic investors;
- Any shareholding in excess of 25% which is 75% of the share capital has been defined as a 'free float' and is available for investment by East Africans, foreign investors as well as domestic investors without any limitation whatsoever.
- Issuers of shares through initial public offers are also required to reserve 25% of the value of the shares being issued for investment by domestic investors and that any portion so reserved may be allocated to East Africans and foreign investors if they are not subscribed for by the domestic investors albeit with the approval of the Authority.

During the year corporation tax for newly listed companies has also been reduced from the standard rate of 30% to 25% as an incentive to new listings. This tax incentive scale applies for a period of five years following listing and subject to issuance of at least 30% of the share capital of the company to the public.

During this reform period, the Authority will continue with its mandate of identifying impediments and necessary incentives to support and create an enabling environment for the capital markets in consultation with other stakeholders and the Treasury.



Sixth, Training and Investor Education

The maintenance of high quality team of market professionals and informed investors is critical for the development of the capital markets and such training and investor empowerment is to be part of the priorities of the capital markets reform agenda.

The programme also entails financial service proficiency certification and sensitization of the general public as well as focus on shareholders rights and other good corporate governance practices.

The Authority has, therefore, developed an investor education programme and is initiating measures to develop appropriate curriculum programme on financial service proficiency certification.

Seventh, The Establishment of integrated East African Markets

The establishment of an integrated East African markets represents an important strategy of the East African Community that is aimed at facilitating cross border transactions in financial markets. This is also aimed at facilitating linkages on a virtual basis of the three East African capital markets through appropriate infrastructure to establish an East African regional capital market.

As part of these measures the capital markets regulatory authorities of Kenya, Uganda, and Tanzania have agreed on an harmonization programme that started with the harmonization of the legal and regulatory framework.



It will also lead to establishing an appropriate infrastructure for central depository and settlement as well as implementation of specific measures and benchmarks for convergence of the markets.

During the reform period a number of measures will be implemented as part of deliberate efforts towards building of an integrated East Africa regional market.

The capital markets Strategic Plan 2002 – 2005 that contains all sequenced reform measures during the plan period is provided as an appendix to this report.

Performance of Kenya's Economy and the Capital Markets

Let me state at the outset that the performance of the capital markets is directly correlated with the performance of the economy and as such closely interrelated. It is for this reason that the soundness of the financial system affects the performance of the economy and vice versa.

The soundness of the financial system is further critical for the development of our economy. In this regard, the performance of the financial system influences economic activity which in turn has significant impact on the capital markets operations.



The capital markets, as an integral part of the financial system has been re-organized and continues to be revitalized in order to facilitate mobilization and allocation of capital to the productive sectors of our economy.

A sustained downturn in the economy has, however, impacted severely on corporate earnings of the listed companies leading to declined profitability, increased losses and less or no dividend payout by some listed companies. In this regard, performance of the equities market has declined considerably since 1997 in terms of the market turnover, market capitalization, index and initial public offerings benchmarks. The Fixed Income Securities Market Segment is however rapidly developing as an alternative source of financing with respect to the issuance of both Government and corporate securities through the capital markets following the reorganization of the market.

The investors in the capital markets have therefore witnessed mixed results in terms of their yields including losses due to continued decline in share prices to an all time low in several companies while a few companies have, however, witnessed marginal capital appreciation in their share prices.

The poor yield and depressed market activity has led to depressed investor confidence and “flight” from the equity markets by institutional investors who have now shifted a significant portion of their portfolio to fixed income securities in particular Government securities.



Challenges Facing Kenya's Economy

The Kenyan economy has over the last 10 years faced significant challenges and more so during the last five years. These challenges as evidenced by the Central Bank of Kenya economic statistics include but are not limited to the following:

- Significant decline in the economic growth as evidenced by the Gross Domestic Product (GDP) that has seen a drop from a rate of 2.4% in 1997, 1.8% in 1998, 1.4% in 1999 and unprecedented negative of 0.2% in the year 2000. The year 2001 rate is estimated at nearly 1.2% while the projected level for the year 2002 is at a rate of less than 1.0%.
- The per capita income has witnessed continued decline from the position of US\$.325 in 1997, \$322 in 1998, \$319 in 1999, \$311 in 2000, \$309 in 2001 and could fall below \$300 in the year 2002.
- The gross domestic savings which indicate the propensity to save by Kenyans on average has witnessed a sustained decline from a percentage of 10.5% of GDP in 1997, to 7.4% in the year 2000 and 6.5% in the year 2001.
- The gross domestic investment also shows a continued decline from a position of 18.5% GDP in 1997 to 15.4% for the year 2000 and 14.5% in the year 2001.
- The domestic debt has increased from a level of Kshs 190.5 billion in December 2000 to Kshs.220 billion at December 2001 and is estimated at nearly Kshs 253 billion as at October 2002.



- Creation of new employment opportunities in the economy to absorb increasing unemployment.
- Dealing with the challenges of restoring domestic security as well as safeguard against vulnerability to terrorism following August 1998 and November 2002 terrorist attacks.
- Creation of wealth and improvement in the general standard of living of our people as part of radical measures to address increasing poverty level which is now estimated at 57% of the Kenyan population.

It is for this reason that these challenges require a serious and pragmatic approach that focuses on the development and wealth creation in order to stimulate the growth of the economy so as to reverse course, create investor confidence and encourage domestic and international investors. This also calls for additional intervention including measures for general improvement in the management of the public sector as well as the overall restructuring of Government.

The new Government is faced with the daunting task of restoring the country's infrastructure, improving the security situation and carrying out judicial reforms (including enforcement of property rights and creditor protection) in order to boost investor confidence. It is by resolving the uncertainty situation facing investors that the role of the private sector will be further enhanced. This will promote investor confidence and improve activity in the equities market. The pursuit of public accountability and good governance practices is crucial to combat corruption in private enterprises and the public sector. It is also important to note that claims of corruption arise



from lack of transparency and poor information flow to the general public as well as apparent abuse of discretionary powers in the public sector to serve vested interests. It is therefore absolutely essential to reform the structure of Government and to strengthen the overall management of the public sector including the civil service and state corporations.

In order to facilitate economic growth, it will be necessary to allocate significant resources towards improvement of the infrastructure in particular the road and rail network, which are in a dilapidated state. Additional measures should be implemented to improve the information technology and telecommunication.

The capital markets should become a major source of finance for the development of the road network in particular through such funding measures as securitisation that will facilitate issuance of infrastructure, long term Government bonds. Future revenue from toll charges on the users of such roads would be dedicated to meet redemption obligations of the bonds say in a period of 10 – 15 years.

It is for this reason that the Capital Markets Authority will during the first quarter of the year 2003 issue new guidelines to facilitate issuance of asset-backed securities to facilitate securitisation of and raising of capital, based on underlying quality assets.

As already indicated the performance of the global capital markets, in particular, the equity markets has equally been depressed due to the depressed investor confidence in both emerging and developed markets. This



has seen sustained decline in most of the equity markets and substantial decline on international portfolio flows to emerging markets including Kenya. This position is illustrated by the performance of the market indices e.g. NASDAQ, FTSE, Dow Jones, Hang Seng and Nikkei (*see graphical presentation in the statistical part of this report*).

The performance of the global equities market appears to be influenced significantly by unexpected slow down in the world economic growth and recessionary pressures attributed largely to sustained decline in the United States and Japanese economy as well as slow down in the European Union countries. This follows economic impact on the unfortunate September 11, 2001 terrorist attack in the United States and subsequent events.

Primary Market Performance

Initial Public Offerings

The sustained downturn in the economy coupled with delay in the privatization programme has resulted in no new initial public offerings (IPOs) during the year. There was, however, a few corporate issuance of bonus shares.

Bond Market

The debt securities primary market continued to show remarkable growth in terms of the number and amounts of securities issued during the year 2002 by both Government and corporate issuers.



During the year, a total of Kshs 73.12 billion (face value) of Treasury Bonds were processed and approved by the Authority for listing at the Stock Exchange as compared with Kshs 78.9 billion during the year 2001. As a result of the issues, the Government raised about Kshs 69.18 billion by November, 2002 compared to Kshs 67.9 billion raised in the year 2001. Since 1998, a cumulative total of Kshs 227.97 billion worth of Treasury Bonds have been approved and listed at the Stock Exchange as at November 2002.

Following increased liquidity in commercial banks, the base lending rates declined reasonably. This resulted in a decline in the issuance of the commercial papers (CPs) as a major source of short term financing. There were no new CP issues during 2002, but nine issues amounting to Kshs 2.85 billion were renewed as compared with Kshs.8.95 billion during the year 2002.

Secondary Market Performance in 2002

As we come to the end of the year 2002, the volume of shares traded at the Nairobi Stock Exchange is expected to be slightly over 146.96 million, which is over 34% higher than in the year 2001. The turnover value is, however, expected to drop by slightly over 6% to about Kshs 2.93 billion from Kshs 3.12 billion. Market capitalization is projected to show a recovery, going up by slightly over 22% from Kshs 86.1 billion in 2001 to about Kshs 105.3 billion. The index is also projected to further drop from last year's close of 1355 points to nearly 1270 points.



It is, however, encouraging to note that by the end of the year 2002, bond trading turnover is projected to rise significantly by over 250% to slightly over Kshs 35 billion over the year 2001 turnover of Kshs 9.46 billion. This further demonstrates the growing importance of the Fixed Income Securities Market Segment.

The foreign portfolio flows, however, continued to show a downward trend, with the gross turnover expected to further decrease by slightly over 15% from Kshs 390 million in the year 2001 to Kshs 330 million in 2002. The foreign investors participation in the market has declined from a level of 36% of the total market turnover in 1997 to a level of over about 14% during 2002. The net foreign portfolio inflow to equities declined to negative of Kshs 144 million from a positive Kshs 120 million in 2001.

The market statistics as well as graphical presentations are also shown as appendix to this report in order to underscore the performance of the capital markets.

Manpower Development

In the course of the year 2002, the Authority continued its staff rationalization exercise. The exercise is aimed at identifying the skills requirements, and matching the same with the available resources in terms of human capital and expected future regulatory role of the Authority.

The Authority will, therefore, continue to expose and train its human capital on modern and emerging regulatory approaches in line with development in



other markets. The Authority considers this investment as essential in view of increasing sophistication and challenges being faced by regulators globally. This is also in recognition of the fact that the human capital is the main asset of a regulatory body. Consequently, it is expected that additional skills will be acquired to strengthen compliance and enforcement functions.

Compliance and Enforcement Actions

The Authority has ushered in a new legal and regulatory framework following a comprehensive review of the Capital Markets Act and gazettelement of several new regulations. In this regard, the Authority will continue to ensure full compliance with the established regulatory regime without fear or favour.

It is for this reason that the Authority is in the process of strengthening its compliance and enforcement function in order to ensure that it appropriately deals with emerging present and future regulatory challenges.

During the year the Authority continued with its offsite and onsite inspections and surveillance measures of licensees, listed companies and investors. As part of this continued exercise the Authority identified a number of discrepancies as well as violations with established regulatory requirements and took necessary corrective actions including advising the concerned parties of appropriate remedial measures.

During the year the Authority imposed a number of regulatory sanctions and penalties in the course of conducting its regulatory mandate. As part of its regulatory role, the Authority conducted during the year an inquiry into the conduct of one of the licensed stockbrokers, Shah Munge and Partners and



established that the stockbroker was in violation of the Capital Markets Act and the regulations issued thereunder with respect to the management and handling of clients funds. The Authority further accorded the stockbroker and its directors an opportunity to be heard in accordance with the provisions of the Capital Markets Act and having established the extent of the violations, imposed regulatory sanctions and penalties.

The regulatory sanctions and penalties imposed on the stockbroker included suspension from rendering services as a stockbroker for a period of thirty days, a financial penalty of Kshs.1.5 million which is payable to the CMA Investor Compensation Fund and removal of all directors and chief executive.

The lifting of the suspension of the licence shall be subject to full compliance with the requirements of the Capital Markets Act and Capital Markets (Licensing Requirements) (General) Regulations 2002 including the appointment of new directors and chief executive acceptable to the Authority and the fulfilment of the said conditions.

The licensee, however, has appealed in line with established procedures and legal requirements against regulatory decision of the Authority to the Capital Markets Appeal Tribunal, which was also established during the year.

In the first instance, Shah Munge and Partners appealed to the Tribunal to suspend the regulatory sanctions and penalties pending the determination of the appeal. The position was vigorously contested by the Authority as not being consistent with the legal provisions under the Capital Markets Act, which requires the status quo with regard to the decisions of the Authority to



remain in force until an appeal is heard and determined. The Tribunal after considering the arguments of both parties determined that the status quo with regard to regulatory sanctions and penalties shall remain pending the hearing and determination of the appeal. Shah Munge and Partners have further appealed to High Court against the decision of the Capital Markets Tribunal and the hearing date had not yet been fixed at the time of writing this report. The Authority will continue to vigorously contest any such appeal in order to safeguard its regulatory position and market integrity.

At the time of preparing this report Capital Markets Tribunal the hearing date of the appeal had been fixed for December 16, 2002 and it is expected that it will be determined by end of December 2002.

The Authority's Financial Position

During the year the Authority continued to maintain its tight budgetary and financial control to ensure maintenance of the expenditure at budgeted levels. The revenue position of the Authority also witnessed some improvement largely due to continued earnings from fees for approval and listings of Government as well as corporate securities in the Fixed Income Securities market segment at the Nairobi Stock Exchange.

During the year the Authority maintained its zero based budgetary approach policy, which requires the expenditure and revenue levels to be justified afresh regardless of the actual position of the previous years.



As stated previously, the Authority has endeavoured to move to a self-sustenance position in terms of its funding requirements as part of measures to ensure full regulatory autonomy. The revenue position of the Authority has further broadly been affected by declined market turnover due to continued economic down turn. As already indicated in this report there was no new issuance of securities at the primary level in particular new initial public offerings (IPO's) due to sustained economic decline and as such the Authority did not receive any revenue with respect to approval of new issues of shares.

It is, however, encouraging to note that the Authority's overall financial position improved during the year that saw an overall net surplus position rise to Kshs.41.2 m as compared to a restated surplus of Kshs.5.4 million during the previous year. The revenue position, attributed largely to approval fees for listings at the Fixed Income Securities Market Segment, rose from Kshs.75.9 million during the year ended June 2001 to a level of Kshs.113.3 million during the year ended June 2002. The overall expenditure level including depreciation stood at Kshs.92 million during the year 2002 as compared to Kshs.83 million during the previous financial year. As indicated during last years report, the Authority expects to continue saving on office rental following the shift towards an open office plan that is now generating significant savings from the reduced rented office space.

The Authority maintains a Defined Benefits Staff Retirement Scheme to which the funding of the scheme is guaranteed by the Authority in order to ensure the employees' benefits based on the last salary at the time of retirement.



In the course of the year, an actuarial valuation, done triennially, was carried out on the CMA Staff Retirement Benefits Scheme. The actuarial valuation revealed that the market value of the assets of the Scheme was Shs.21.5 million and indicated that the level of funding (the ratio of the value of the assets to the past services liability) is 75%, which is slightly below the prescribed minimum funding requirement of 80%. There was a past service actuarial deficit of Kshs.7,239,000, which was occasioned by a strain attributed to increase on staff salaries during the last three years as well as decline in the investments return due to the depressed equities market and low interest rates. The Authority provided for the full amount through a prior year adjustment in order to eliminate the deficit through lump sum payments by December 2002.

The Authority's financial position is provided in the audited financial statements for the period ended June 30, 2002 in this report. The condensed interim financial statements for the six months to December 31, 2002 as well as a five-year financial review are also provided in subsequent pages of this report.

In order to ensure continued funding stability, the Authority is conserving realised surplus to meet future shortfalls during a period of decline in revenues in particular reduction in the listing of Government and corporate securities in the Fixed Income Securities Market Segment, as well as decline in the market turnover.



During the year the Authority also identified additional sources of revenue which will be used largely to support the development of market infrastructure and funding for the investor education programme which the Authority is committed to embark on during the first quarter of the year 2003. This revenue sources represent a fee payable by listed companies as well as issuers of listed fixed income securities. It is also important to note that during the year the Minister for Finance approved and gazetted a new fees structure for the Authority, which has also seen a further reduction in the rate of the fees charged on listings of Government Securities. The new fee structure took effect on July 19, 2002.

Conclusion

In conclusion, I wish to underscore that the Authority is committed to ensuring continued reform course to facilitate broadening and deepening the capital markets and realising the declared vision as contained in the Capital Markets Strategic Plan: Vision 2002-2005.

The Authority as a lead institution charged with developing and regulating the capital markets is further committed to the development of a robust, fair, efficient, liquid and transparent capital markets.

It is further my expectation and that of the Authority that as we brace ourselves to a new Government following current political transition, economic issues will, as from January 2003, receive the desired priority.



It is further envisaged that appropriate stimulus and reform package will be implemented by the new Government to enhance economic productivity so as to improve investor confidence. I am further optimistic that during the next two years the capital markets will rebound with investors once again finding investment in equities as a definite option as part of their overall portfolio diversification.

This coupled with measures that are being implemented by the Authority including the new legal framework and market infrastructure should see improvement in the market turnover as well as the liquidity in the capital markets thereby contributing to further enhancement of investor confidence for both domestic and international portfolio investors.

Thank you.

Paul K Melly
CHIEF EXECUTIVE



CAPITAL MARKETS POLICY ENVIRONMENT AND INCENTIVES

The Government, on the advice of the Authority, has provided the following incentives to support the development of capital markets.

Taxation Measures

- Newly listed companies to be taxed at a lower rate of 25% as compared to the standard rate of 30% (or 32.5% for foreign companies) for a period of five years following the date of listing. This is also dependent on such companies offering at least 30% of their share capital to the public.

- Companies that apply and are listed shall get a tax amnesty on their past omitted income, provided they make a full disclosure of their assets and liabilities and undertake to pay all their future due taxes.

- Withholding tax on dividend income has been reduced from a high of 15% to 7.5% (for foreign investors) and 5% (for local investors) and made a final tax.

- Expenses of companies issuing shares to the public are fully tax deductible.



- New and expanded share capital for companies approved for listing or already listed are exempted from stamp duty charges.
- Transfer of assets to a special purpose vehicle for the purposes of issuing asset-backed securities are also exempted from stamp duty.
- Expenses incurred by companies in having their financial instruments rated by an independent rating agency are also tax deductible.
- Registered and approved venture capital funds now enjoy a 10-year tax holiday.
- Income accruing to registered collective investment schemes is also tax-free.
- Licensed dealers also enjoy tax benefits, as long as they turn their portfolios within 24 months and according to laid down regulations.
- Transfer of listed securities is exempt from stamp duty and VAT.
- Investment ceiling by retirement benefits schemes in fixed income securities (e.g. bonds and commercial papers) has been raised from 15% to 30%.



- Individuals will now enjoy a tax relief of 15% subject to a maximum of Kshs 3,000 per month on the premium paid on Life and Education Policies of at least ten years maturity.

- To encourage savings, collective investment schemes set up by employers on behalf of employees to invest in listed shares, will be exempt from income tax.

Other Policy Measures

- Foreign investors can now acquire shares freely in the stock market subject to a minimum reserved ratio of 25% for domestic investors in each listed company.

- In order to encourage the transfer of technology and skills, foreign investors are now allowed to acquire up to 49% of local brokerage companies; and up to 70% of local fund management companies.



THE FOURTH CAPITAL MARKETS ANNUAL REVIEW FORUM LUCHEON

The Fourth Capital Markets Annual Review Forum was held on Wednesday September 11, 2002. The Annual Review Forum was set up four years ago to facilitate useful dialogue between the Authority and the various capital market stakeholders.

This year's forum was attended by about one hundred and thirty participants, representing several stakeholders. The participants comprised senior Government officials, chief executives of listed companies, chief executives of CMA licensees and senior executives drawn from the financial markets and financial services industry, including the Senior Resident Representative of the International Monetary Fund.



From Left: Dr Chesang (CMA Board Member), Mr. Musau (CMA Board Member), Mr. Awuondo (CMA Board Chairman), Mr Melly (CMA Chief Executive) and Mr Ameyo (CMA Board Member, Alt.) during the Fourth Annual Review Forum



Opening Address by the Chairman Mr Isaac Awuondo

In his welcoming remarks, the new Chairman of the Capital Markets Authority, Mr. Isaac Awuondo observed the following:

- He thanked H.E the President and the Minister for Finance for the appointment of the new Chairman and Members, respectively;
- noted that the forum brings together the capital markets stakeholders to deliberate on a range of issues that are critical in the development of the market;
- paid tribute to the out-going Board members for their contribution towards the realization of the Authority's objectives and mandate, especially the modernization of the legal and regulatory framework, which has seen six different sets of regulations and guidelines being developed and gazetted;
- noted that the Authority is committed to enforcing full compliance with all aspects of the regulatory framework in order to enhance our efforts to build and sustain investor confidence in the market;
- noted that the challenges facing the new Board include: ensuring the successful implementation of the Central Depository project; implementing a comprehensive investor education program; and continuing the efforts towards the establishment of an integrated East African capital market;

The Chairman also unveiled the new Capital Markets Advisory Committee, which will serve as a forum to facilitate dialogue with our stakeholders.



The mandate include acting as an important forum for open discussion between the Authority and stakeholders on all matters pertaining to capital markets and advise the Authority on various issues relating to capital markets development.

The committee membership is composed of professionals from both the public and private sectors, well versed in legal, accounting, finance and economics matters.

The capital market strategic plan: Vision 2002 – 2005 is Unveiled.

During the Forum the Chief Executive Mr. Paul Melly unveiled the Capital Market's Strategic Plan 2002 – 2005 under the theme **Broadening and Deepening the Capital Markets horizon in Kenya**. The details of the Strategic Plan are contained In the Chief Executive's report and are annexed to this report.

In his general remarks the Chief Executive started by stating that the Capital Markets Annual Forum represented an essential platform for which the Authority dialogued with the stakeholders in the same way an annual general meeting of a public company facilitates dialogue between the board, management and shareholders.

He said that it was important for the stakeholders to take the opportunity to raise any issues towards broadening and deepening the capital markets and ensuring a facilitative regulatory regime.



He further underscored the soundness of the financial system as critical for the development of the economy.

The Chief Executive said that the capital markets as an integral part of the financial system had been re-organised and revitalized to facilitate mobilization and allocation of capital to the productive sectors of the economy. He emphasized that the Capital Markets Authority as a lead institution charged with developing and regulating the capital markets is committed to the development of a robust, fair, efficient, liquid and transparent capital markets.

He said that the success as the capital markets Regulator should be judged in terms of effectiveness, efficiency and competence, which depends on the ability to reform and proactiveness.

He noted that capital markets as a regulator was changing the approach to avoid a crisis of confidence in the capital markets that would force the Authority to change and become reactive, hence the responding to change in both the domestic and international financial market structure.

He further mentioned that to apply this analogy with respect to the development of the economy, we either focus on our priorities to build a sustainable economic development that will lead to creation of wealth, employment opportunities and, improvement in the standards of living of our people or we maintain the status quo or respond to dealing with symptoms such as insecurity, and the so called poverty alleviation measures or covetous politics.



He proposed that the key priority area for the next Government should be the **Economy**. The Authority had strived to build what it considered as a robust and facilitative legal and regulatory framework.

The Chief Executive further reviewed the performance of the market and observed that the equities market has been declining over the last several years, mainly due to the dismal performance of the general economy.

He noted that a sustained downturn in the economy has impacted severely on corporate earnings of the listed companies leading to declining profitability, increase in losses, and less dividend payout.

The Chief Executive, however, noted that the fixed income securities market segment is developing as an alternative source of financing for investment opportunities through the capital markets. This was mainly due to the poor yield and depressed market activity in equities, which has led to depressed investor confidence and “flight” from the capital markets by investors who have shifted a significant portion of their portfolio to fixed income securities in particular Government securities.

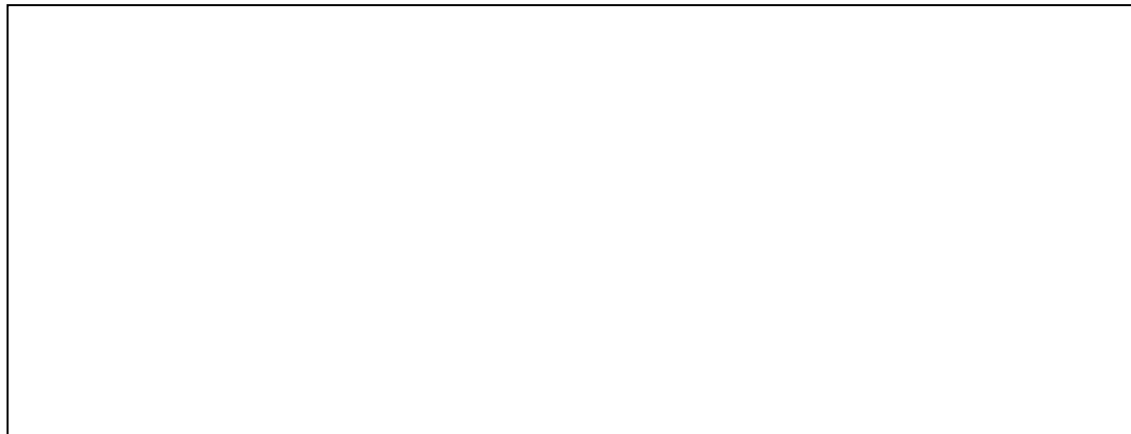
The Chief Executive also reviewed the legal and regulatory framework that has been developed and implemented by the Authority, and noted that the fundamental objectives of securities regulations include:-

- Protection of investors interests;
- Ensuring that markets are fair, efficient and transparent; and
- Minimization of systemic risk.



New CMA Board Inaugurated

The Fourth Annual Review Forum also served as an occasion to officially inaugurate the Authority's new Board. The Minister for Finance Hon Chris Obure did the inauguration.



The Minister for Finance, Hon. Chris Obure, Presents a Farewell Gift to the out-going Chairman of the CMA Board, Mr. Denis Afande, during the inauguration of the new CMA Board.

Excerpts from the Board inauguration address delivered by the Minister for Finance Hon. Christopher Obure during the Fourth Annual Review Luncheon

Hon. Chris Obure Minister for Finance started his speech by expressing his great pleasure to address the distinguished gathering of senior corporate executives from the public and private sector as well as professionals from the financial sector.



The Minister also underlined the Government's recognition of the important role played by the capital market and the financial system in general in engendering economic development of the Nation. He further stated that the Government's commitment to the development of a strong and efficient financial system in general and the capital market in particular is a demonstration of this recognition. He added that in order to realise this objective the Government it had implemented consistently far reaching economic and financial sector reform measures over the last ten years or so.

Hon. Minister noted that the main reason for the Government to implement these policies was to create wealth, alleviate poverty and improve the overall welfare of the people and for that, the Government had in this context identified the private sector as the main engine of economic growth, with the public sector roles increasingly being limited to core regulatory areas and that of creating an enabling environment. He further said that the Government had implemented far reaching economic reforms that had seen a virtual liberalization of all sectors of the economy.

Hon. Obure emphasized that the existence of a capital market symbolised a strong presence of the private sector in the domestic economy and that the capital market or financial markets in general were critical for a modern economy as they were indispensable vehicles for the mobilization and efficient allocation of domestic savings as well as international capital to support economic development.



In his address the Minister also said that in realising the importance of capital markets, the Government had established the Capital Markets Authority in 1990 as part of the essential financial sector reforms and for that reason, the Government was pleased to note that the Capital Markets Authority had now established itself as a proactive regulator and facilitator of the development of the financial markets. He further said that the Authority had indeed transformed and revitalized the role of the capital markets in the Kenya's economy.

The Minister said that the Government was particularly impressed with the focused approach of the management of the Authority in its reform course which was demonstrated by the Authority's reforms programme that was unveiled during the Review Forum; vision 2002-2005 and which he noted were guided by a strategic plan of actions.

He also noted with satisfaction that the Authority had also become broadly self sustaining in its funding with limited support from the exchequer.

The Minister further noted that, the Government had taken other measures to support the development of the capital market. He cited the several tax incentives and measures to address a number of structural distortions in the tax system as among measures, which have been implemented by the Government thereby creating an environment conducive for the development of a robust capital market.



The Minister further highlighted in particular the recent Government's decision to grant listed companies at the Nairobi Stock Exchange a lower tax rate of 25% as compared to the applicable corporate rate of 30% as one such measure.

Hon. Obure also underscored that the development of the capital markets depends to a large extent on the ability of the economy to generate savings. He noted that savings represent an indispensable 'power' for economic growth and for that the Government had implemented specific measures to encourage savings through tax incentives and restructured the pension and retirement benefits sector.

The Minister further added that the development of an active collective investment scheme industry should play an important role in saving mobilizations and access to the capital markets by small investors. He also stated that it was expected that these measures would facilitate further mobilization of financial savings through the capital and money market, as well as the retirement benefits and insurance schemes.

He also stated that the Government had liberalised the participation of portfolio investors in the capital markets with the objective of attracting international capital to supplement the domestic savings. Hon. Obure reiterated that the new policy on foreign portfolio participation entails reservations of a minimum of 25% of share capital of listed companies shares for investment by domestic investors.



He explained that, seventy five percent (75%) of the share capital of listed companies now constituted a 'free float' for investment by foreign portfolio investors, who shall include East Africans as well as domestic investors. He said that it was the Government's expectation that the new policy will lead to active participation in the capital markets by domestic, regional and international investors.

The Minister for Finance further commended the Capital Markets Authority for working closely with the Government in the process of identifying critical reforms in the financial sector. At the same time he urged other Government Institutions to emulate the Authority's significant proactive contribution to the reform process.

Hon Obure also advised that, it would be necessary for the Capital Markets Authority to keep abreast with the developments in the global financial markets in order to continue to perform well in discharging its responsibilities. This he said, was necessary in order to ensure that the domestic market structure and regulatory standards were sustained in line with the international trends.

He urged the Authority and the Central Bank of Kenya in collaboration with other stakeholders in the market to facilitate the development of new financial products in order to deepen the financial system and consequently promoting further domestic savings. He emphasized on the urgent need to move in this direction given the current low level of savings ratio (8% of GDP) and the need to promote high growth rate.



He further reiterated that all players in the financial market, that is regulators as well as providers of banking services, should promote and nurture integrity in the financial system through adoption of good corporate governance practices.

The Minister for Finance underscored that as regulators, the Capital Markets Authority and the Central Bank of Kenya must ensure that the financial system remains secure and operates in an orderly, transparent and efficient manner and that the Investors as well as depositors must be protected otherwise the confidence in the entire financial system could be undermined with far reaching consequences on the economy. He also emphasized that, a sound financial system constituted a critical pillar for economic development.

Hon Obure said that It was in recognition of the important role played by the regulatory institutions that the Government had taken deliberate steps to enhance the autonomy of such institutions in order to enable them effectively fulfil their regulatory mandate with no interference whatsoever from any quarter.

He further added that the Government, would, in appointing chairmen, chief executives and board members to regulatory institutions continue to take into cognizance the particular skills and expertise required of such members.



The minister touched on the issue of rationalizing the current regulatory regime, which is characterized by a multiplicity of agencies. He recalled that the Government had expressed in its various policy documents its intention for further reform of the financial sector regulatory regime and still wanted to move in the direction of achieving a consolidated regime that would see the regulation of the capital market, retirement benefits and insurance sector conducted by a single regulatory institution. This, he said would be achieved through a process involving a review of the entire financial system under an IMF/World Bank supported financial sector assessment programme.

He added that the aim of such a consolidated regulatory regime was to minimise both regulatory costs and to harmonise the regulatory regime for the financial services consistent with the international trend.

He further said that the government was also working on a regulatory framework for the micro finance sector in order to ensure maximum benefits to the economy from this sector.

He had some specific remarks to the Capital Markets Authority. He said that it was notable the new board of the Capital Markets Authority recently appointed, comprised of a team of professionals with undoubtedly valuable and diverse skills and expertise. He congratulated the new chairman and all the board members noting that this team of achievers had what it takes to guide the authority to even higher levels of performance.



He further stated that these appointments were consistent with the requirements of the amended Capital Markets Act, 2000, which prescribed a fixed term of office for the chairman, chief executive and board members as well as the qualification and expertise of potential board members.

He also commended the Chief Executive of the Authority and management for remaining focused, which had partly contributed to the significant improvements of the capital market. He said that it was the government's expectation that the new team would, together with the management of the Authority, build on the important foundation that had been established by the retiring members to further deepen the development of the capital market.

He at the same time commended the retiring Chairman and Board Members of the Authority for their splendid performance wishing them well in their future endeavours.

In conclusion, Hon. Obure commended the Authority for establishing the annual capital markets review forum, a forum that had continued to serve as an important meeting point to dialogue with various stakeholders on matters relevant to capital markets development and regulation.

It was at this point that the Minister declared the new Capital Markets Authority Board inaugurated.



APPENDIXES

**AUDITED FINANCIAL STATEMENTS AND
ACCOUNTS FOR THE YEAR 2001/2002**

***FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2002***

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MEMBERS OF THE AUTHORITY AND ADVISORS

MEMBERS OF THE AUTHORITY

The present members of the Authority are:

Mr. Isaac Awuondo	-	Chairman
Mr. Ben Musau		
Mr. Andrew Ndegwa		
Mr. Selest Kilinda		
Mrs. Sheila M'Mbijiwe		
Dr. Moses Chesang		
Prof. Arthur Eshiwani		
Mr. Joseph Kinyua	-	Permanent Secretary to the Treasury
Mr. Nahashon Nyaga	-	Governor, Central Bank of Kenya
Hon Amos Wako	-	Attorney General
Dr Edward Sambili	-	(Alternate to Governor, Central Bank of Kenya)
Mr. Dan Ameyo	-	(Alternate to Attorney General)
Mr. Paul K Melly	-	Chief Executive

CHIEF EXECUTIVE

Mr. Paul K Melly
P O Box 74800
Nairobi

Telephone: 254 2 221910/221869
e-mail: corporate@cma.or.ke
Website: www.cma.or.ke

BANKERS

Commercial Bank of Africa Limited
Mama Ngina Street
P O Box 45136
Nairobi

Savings and Loans Kenya Limited
Mama Ngina Street
P O Box 49129
Nairobi

AUDITORS

Deloitte & Touche
"Kirungii", Ring Road, Westlands
P O Box 40092
Nairobi



REPORT OF THE MEMBERS OF THE AUTHORITY

The members of the Authority have pleasure in presenting their report and audited financial statements for the year ended 30 June 2002.

INCORPORATION

Capital Markets Authority is a body corporate established under the Capital Markets Authority Act, Cap 485A, 1989, which became operational on 15 December 1989. The Act was amended in 2000 and renamed Capital Markets Act.

ACTIVITIES

The Authority promotes and facilitates the development of an orderly, fair and efficient capital market in Kenya. It licences, regulates and supervises the operators in the capital market.

RESULTS

	2002 Sh
Total income from services for the year	114,801,610
Total expenditure for the year	<u>(92,094,362)</u>
Gross surplus from services	22,707,248
Government grants	15,000,000
Finance income	<u>3,410,686</u>
Surplus for the year transferred to the general fund	41,117,934 =====

AUTHORITY MEMBERS

The present members of the Authority are shown on page [2](#).

The following changes took place on 12 July 2002:

Mr. Isaac Awuondo was appointed chairman of the Authority to replace Ambassador D D Afande who retired at the end of his term;

Prof Arthur Eshiwani, Mrs. Sheila M'Mbijiwe and Dr Moses Chesang were appointed to serve for a 3-year term;

Mr. Ben Musau, Mr. Andrew Ndegwa and Mr. Selest Kilinda were appointed to serve for a 2-year term;

Mr. Desterio Oyatsi, Mr. James Boyd McFie, Mr. Kimanthi Mutua and Mr. Leonard Njagi retired at the end of their term.



REPORT OF THE MEMBERS OF THE AUTHORITY (Cont'd)

AUDITORS

The auditors, Deloitte & Touché, have expressed their willingness to continue in office.

BY ORDER OF THE BOARD

Chief Executive

Nairobi

2002

STATEMENT OF AUTHORITY MEMBERS' RESPONSIBILITIES

The Capital Markets Act requires the Authority members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of its income and expenditure for that period. In preparing those financial statements, the Authority members are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Authority will continue with its operations.

The Authority members are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Authority and to enable them to ensure that the financial statements comply with the Capital Markets Act . They are also responsible for safeguarding the assets of the Authority and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



REPORT OF THE AUDITORS



**INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2002**

	Note	2002 Sh	2001 (Restated) Sh
FEE INCOME	2	113,297,070	75,878,598
OTHER INCOME		1,504,540	1,370,798
-		-----	-----
TOTAL INCOME FROM SERVICES		114,801,610	77,249,396
EXPENDITURE	3	(92,094,362)	(83,043,846)
-		-----	-----
GROSS SURPLUS/(DEFICIT) FROM SERVICES		22,707,248	(5,794,450)
PROVISION FOR STAFF RETIREMENT BENEFITS	12	-	(7,239,000)
GOVERNMENT GRANTS		15,000,000	18,000,000
FINANCE INCOME	4	3,410,686	438,085
-		-----	-----
SURPLUS FOR THE YEAR		41,117,934	5,404,635
		=====	=====

**BALANCE SHEET - 30 JUNE 2002**

	Note	2002 Sh	2001 (Restated) Sh
ASSETS			
Non-current assets			
Property and equipment	6	16,403,081	8,413,377
Staff car loans - long term		3,343,149	4,106,621
Staff house loans – long term		1,620,452	2,763,511
Other staff advances-long term		8,425,426	4,707,034
		<hr/>	<hr/>
		29,792,108	19,990,543
		<hr/>	<hr/>
Current assets			
Accounts receivable	7	13,012,955	7,851,129
Investors' Compensation Fund bank balance		27,255,928	21,977,650
Staff Benevolent Fund bank balance		2,078,048	1,344,820
Millennium Staff Savings Scheme		2,011,198	2,676,693
Investment in Government Securities	8	40,537,565	14,771,251
Bank and cash balances		2,886,794	8,401,312
		<hr/>	<hr/>
		87,782,488	57,022,855
		<hr/>	<hr/>
Total assets		117,574,596	77,013,398
		<hr/>	<hr/>
FUNDS AND LIABILITIES			
Funds			
Capital fund		27,885,508	27,885,508
General fund		42,274,494	1,156,560
		<hr/>	<hr/>
		70,160,002	29,042,068
		<hr/>	<hr/>

**BALANCE SHEET - 30 JUNE 2002 (CONT'D)**

	Note	2002 Sh	2001 (Restated) Sh
Current liabilities			
Accounts payable	9	16,069,420	21,972,167
Investors' Compensation Fund	10	27,255,928	21,977,650
Staff Benevolent Fund		2,078,048	1,344,820
Millennium Staff Savings Scheme		2,011,198	2,676,693
		<hr/>	<hr/>
		47,414,594	47,971,330
		<hr/>	<hr/>
Total funds and liabilities		117,574,596	77,013,398
		<hr/> <hr/>	<hr/> <hr/>

The financial statements on pages [6 to 16](#) were approved by the members of the authority on 2002 and were signed on their behalf by:

-) CHAIRMAN
-)
-) CHIEF EXECUTIVE



**STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED 30 JUNE 2002**

	Capital Fund Sh	General Fund Sh	Total Sh
At 1 July 2000-as previously reported	28,855,508	(1,222,871)	27,632,637
Prior year adjustment	-	(3,995,204)	(3,995,204)
	-----	-----	-----
At 1 July 2000-as restated	28,855,508	(5,218,075)	23,637,433
Surplus for the year	-	5,404,635	5,404,635
Revaluation surplus transferred on reversal of revaluation of motor vehicles	(970,000)	970,000	-
	-----	-----	-----
At 30 June 2001	27,885,508	1,156,560	29,042,068
	=====	=====	=====
At 1 July 2001	27,885,508	1,156,560	29,042,068
Surplus for the year	-	41,117,934	41,117,934
	-----	-----	-----
At 30 June 2002	27,885,508	42,274,494	70,160,002
	=====	=====	=====

The prior year adjustment represents prior year obligations on staff benefits which were identified in the current year. A prior year adjustment has also been processed through the income statement for the year ended 30 June 2001 to recognize a past service actuarial deficit of Sh 7,239,000 on the defined benefits pension scheme, based on an actuarial valuation carried out as at 1 July 2001. Consequently the prior year surplus reflected above has been restated to take account of this adjustment.



**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2002**

	Note	2002 Sh	2001 Sh
OPERATING ACTIVITIES			
Cash generated from operations	11(a)	33,350,650	13,527,282
Interest received		3,410,686	626,763
		<hr/>	<hr/>
Net cash generated from operating activities		36,761,336	14,154,045
		<hr/>	<hr/>
INVESTING ACTIVITIES			
Purchase of property and equipment		(11,850,702)	(1,606,585)
Proceeds of disposal of property and equipment		687,173	18,500
Purchase of Treasury bills		(9,689,080)	-
Purchase of Treasury bonds		(20,962,712)	-
		<hr/>	<hr/>
Net cash used in investing activities		(41,815,321)	(1,588,085)
		<hr/>	<hr/>
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(5,053,985)	12,565,960
CASH AND CASH EQUIVALENTS			
AT 1 JULY		49,171,726	36,605,766
		<hr/>	<hr/>
AT 30 JUNE	11(b)	44,117,741	49,171,726
		<hr/> <hr/>	<hr/> <hr/>



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2002**

1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Accounting Standards. The principal accounting policies remain unchanged from the previous year and are set out below:

(a) **Basis of accounting**

The financial statements are prepared under the historical cost convention.

(b) **Government grants**

Government grants are recognized to income when received.

(c) **Fees, interest and other income**

Fees, interest and other income are recognized to income on the accruals basis.

(d) **Treasury bills**

Treasury bills are stated at redemption value less unearned discount on purchase. Discounts on purchase are recognized to income over the period to maturity of the related instruments.

(e) **Treasury bonds**

Investments in Treasury bonds are stated at cost. Interest receivable is recognized to income on the accruals basis.

(f) **Motor vehicle, furniture and equipment and depreciation**

Motor vehicles, furniture and equipment are stated at cost less depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of motor vehicles, furniture and equipment over their estimated useful lives at the following annual rates:

Furniture and fittings	12.5%
Equipment	20%
Motor vehicles	25%



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(g) Retirement benefit obligations

The Authority's obligations to both the staff retirement benefit scheme and the National Social Security Fund are charged to the income and expenditure statement as they fall due.

(h) Foreign currency translation

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at rates ruling at the dates of the transactions. Exchange gains and losses are dealt with in the income and expenditure statement.

	2002 Sh	2001 Sh
2	FEE INCOME	
	101,420,563	59,269,627
	6,486,507	11,249,614
	5,390,000	5,359,357
	-----	-----
	113,297,070	75,878,598
	=====	=====
3	EXPENDITURE	
	54,006,437	45,111,721
	9,119,925	10,715,882
	4,735,200	7,266,610
	3,395,091	2,186,315
	2,652,494	2,218,122
	3,843,619	3,529,415
	3,396,265	2,805,745
	1,149,461	1,088,125
	1,454,052	1,233,033
	1,288,292	991,728
	2,150,254	1,741,653
	717,169	1,268,864
	3,839,331	2,596,633
	346,772	290,000
	-----	-----
	92,094,362	83,043,846
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

4	FINANCE INCOME		
	Interest earned on investments	3,410,686	438,085
		=====	=====
5	PERSONNEL COSTS		
	Consolidated pay, leave pay and passages	45,651,818	39,213,110
	Staff retirement benefits and gratuity	8,132,199	5,703,491
	Benevolent Fund Contributions	148,500	154,800
	National Social Security Fund (NSSF)	73,920	40,320
		-----	-----
		54,006,437	45,111,721
		=====	=====
	 Average number of employees during the year	 41	 42
		=====	=====

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

6 MOTOR VEHICLES, FURNITURE AND EQUIPMENT

	Motor vehicles Sh	Office equipment Sh	Furniture and fittings Sh	Total Sh
COST				
At 1 July 2001	8,569,062	9,644,700	15,760,535	33,974,297
Additions	6,565,160	1,820,717	3,464,825	11,850,702
Disposals	(1,212,937)	(1,125,004)	(1,734,421)	(4,072,362)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	13,921,285	10,340,413	17,490,939	41,752,637
	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION				
At 1 July 2001	6,749,879	5,768,880	13,042,161	25,560,920
Charge for the year	1,694,500	1,409,509	735,322	3,839,331
Eliminated on disposals	(1,212,937)	(1,117,127)	(1,720,631)	(4,050,695)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	7,231,442	6,061,262	12,056,852	25,349,556
	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUE				
At 30 June 2002	6,689,843	4,279,151	5,434,087	16,403,081
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2001	1,819,183	3,875,820	2,718,374	8,413,377
	<hr/>	<hr/>	<hr/>	<hr/>

Included in motor vehicles, furniture and equipment are assets with a cost of Sh 14,954,425 (2001 – Sh 5,607,800), which are fully depreciated. The normal annual depreciation charge would have been Sh 2,617,810 (2001 – Sh 1,401,950)

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

	2002 Sh	2001 Sh
7		
ACCOUNTS RECEIVABLE		
Staff loans and advances	6,182,403	2,917,034
Transaction fees receivable	310,965	788,698
Other fees receivable	2,244,971	375,000
Sundry debtors	1,463,936	948,173
Staff car loans - short term	1,610,680	1,558,284
Staff house loans – short term	1,200,000	1,164,546
Staff benevolent fund	-	99,394
	<hr/>	<hr/>
	13,012,955	7,851,129
	<hr/> <hr/>	<hr/> <hr/>
8		
GOVERNMENT SECURITIES		
(a) Treasury bonds		
Maturing within 1 year	20,000,000	-
Accrued interest	962,712	-
	<hr/>	<hr/>
	20,962,712	-
	<hr/>	<hr/>
(b) Treasury bills		
Redemption value –maturing within 3 months	10,000,000	15,000,000
Less: unearned discount	(114,227)	(228,749)
	<hr/>	<hr/>
	9,885,773	14,771,251
	<hr/>	<hr/>
Redemption value-maturing within 6 months	10,000,000	-
Less: unearned discount	(310,920)	-
	<hr/>	<hr/>
	9,689,080	-
	<hr/>	<hr/>
	40,537,565	14,771,251
	<hr/> <hr/>	<hr/> <hr/>

The average interest rate earned on Treasury bonds during the year was 13%
The average interest rate earned on Treasury bills during the year was 8% (2001 – 12%).

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

	2002 Sh	2001 Sh
9		
ACCOUNTS PAYABLE		
Sundry payables	4,571,724	4,455,571
Statutory deductions	-	31,511
Audit fees	320,000	342,200
Staff retirement benefits	3,818,336	9,859,380
Actuarial valuation deficit on pension scheme	7,239,000	7,239,000
Investors' compensation fund	-	44,505
Actuarial fees	120,360	-
	-----	-----
	16,069,420	21,972,167
	=====	=====

10 INVESTORS' COMPENSATION FUND

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

The fund derives its income from the following sources:

- (i) Interest accruing on funds received from subscribers to public issues, between the day of closing the issue and making the refunds.
- (ii) 0.01% of the consideration from sale and purchase of shares through the Nairobi Stock Exchange.
- (iii) Interest earned from investment of the funds
- (iv) Financial penalties imposed for non-compliance with CMA Rules and Regulations.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

The Authority charges management fees to the Fund. The fees are charged at the rate of 3% of the Fund balance at the end of each financial year subject to a minimum of Sh 200,000 and a maximum of Sh 500,000 per year.

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

	2002 Sh	2001 Sh
At 1 July	21,977,650	19,152,817
Nairobi Stock Exchange transactions fees	408,798	710,191
Fees on Public Issues	2,704,477	-
Interest on investments	2,665,003	2,199,172
Management fees	(500,000)	(500,000)
Financial penalties	-	415,470
	-----	-----
At 30 June	27,255,928	21,977,650
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

	2002	2001
	Sh	(Restated) Sh
11	NOTES TO THE CASH FLOW STATEMENT	
(a)	Reconciliation of surplus/(deficit) from services to cash generated from operations	
	Gross surplus/(deficit) from services	(5,794,450)
	Depreciation	2,596,633
	Pension scheme actuarial deficit	(7,239,000)
	Government grants	18,000,000
	Gain on disposal of property and equipment	(18,500)
	-----	-----
	Cash generated from operations	7,544,683
	(Increase)/decrease in accounts receivable	1,046,684
	(Decrease)/increase in payables	5,527,494
	Increase in investors compensation fund	2,824,833
	Increase in staff benevolent fund	332,793
	(Decrease)/increase in millennium staff savings scheme	475,150
	Decrease/(increase) in staff car loans	(296,298)
	Decrease/(increase) in staff house loans	(3,928,057)
	Increase in other staff advances	-
	-----	-----
	Net cash generated from operations	13,527,282
	=====	=====
(b)	Analysis of cash and cash equivalents	
	Bank and cash balances	8,401,312
	Staff benevolent fund bank balance	1,344,820
	Investors compensation fund bank balance	21,977,650
	Millennium Staff Savings Scheme	2,676,693
	Treasury bills-3 months	14,771,251
	-----	-----
	44,117,741	49,171,726
	=====	=====



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 RETIREMENT BENEFIT OBLIGATIONS

The Authority operates a defined benefits pension scheme for its staff. The investment of the scheme's assets is managed by a fund manager, KCB Trustee and Investment Services Ltd, on behalf of the Trustees.

The Scheme had two pensioners in receipt of pension and no deferred pensioners with entitlement to a deferred pension at the valuation date. The scheme is subjected to a triennial valuation by independent Actuaries to fulfil the statutory requirements under the Income Tax (Retirement Benefits) rules 1994 and the Retirement Benefits Act 1997. The last actuarial valuation was carried out as at 1 July 2001. The actuarial valuation method adopted entailed the comparison of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

The key actuarial assumptions applied in the valuation are:

- | | |
|------------------------------|---------------|
| • Investment returns | 10% per annum |
| • Rates of salary escalation | 5% per annum |
| • Rate of pension increases | 3% per annum |

The actuarial valuation revealed that the market value of the assets of the scheme was Sh 21,461,000 and indicated that the level of funding (the ratio of the value of the assets to the past service liability) is 75%, which is slightly below the minimum funding requirement of 80% prescribed on the Retirement benefits regulations 2000, giving rise to a past service actuarial deficit of Sh 7,239,000. The deficit was as a result of reduced investment returns and strain due to increases in salaries over the last three years. The Authority has recognized the deficit in the income statement for the year ended 30 June 2001, through a prior year adjustment, and has undertaken to make a lump-sum payment of the actuarial deficit to the scheme. In addition, the contributions to the scheme were increased by 1% in order to support the minimum benefits promised to the scheme members.

The Authority's contributions to this scheme for the year to 30 June 2002 amounted to Sh 3,104,763 (2001 – Sh 2,021,839).

The Authority also contributes to the statutory defined contribution pension scheme, the National Social Security Fund. Contributions to the statutory scheme are determined by local statute and are currently limited to the Sh 200 per employee per month. Contributions to this scheme during the year amounted to Sh 73,920 (2001 – Sh 40,320).



INTERIM FINANCIAL STATEMENTS FOR SIX MONTHS
TO DECEMBER 31, 2002

(a) INCOME AND EXPENDITURE ACCOUNT

		2002 <u>Sh</u>	2001 <u>Sh</u>
FEE INCOME	1	37,428,602	54,540,143
OTHER INCOME		119,567	366,985
TOTAL INCOME FROM SERVICES		37,548,169	54,907,128
EXPENDITURE	2	(46,484,043)	(42,093,007)
GROSS DEFICIT FROM SERVICES		(9,150,874)	12,,814,121
GOVERNMENT GRANTS		7,500,000	9,000,000
FINANCE INCOME	3	605,897	504,284
(DEFICIT)/SURPLUS FOR THE HALF-YEAR		(1,044,977)	22,318,405
		=====	=====

**(b) BALANCE SHEET as at 31 December**

	2002	2001
	<u>Sh</u>	<u>Sh</u>
ASSETS		
Non-current assets		
Property and equipment	15,550,370	15,538,235
Staff car loans - long term	3,029,495	4,659,988
Staff House Loan balance	1,020,452	2,699,731
	-----	-----
	19,600,317	20,897,954
	=====	=====
Current assets		
Receivables	17,000,803	13,360,287
Investors Compensation Fund bank balance	27,855,508	21,977,650
Staff Benevolent Fund bank balance	2,043,580	1,344,820
Fixed deposits/Government securities	32,601,895	29,289,315
Bank and cash balances	1,619,717	2,972,934
	-----	-----
	81,121,503	68,945,006
	=====	=====
Total assets	100,721,820	89,842,960
	=====	=====
FUNDS AND LIABILITIES		
Funds		
Capital fund	27,855,508	27,855,508
General fund	41,229,517	36,052,753
	-----	-----
	69,085,025	63,908,261
	-----	-----
Current liabilities		
Payables	2,047,723	2,600,229
Investors' Compensation Fund	27,545,492	21,977,650
Staff Benevolent Fund	2,043,580	1,356,820
	-----	-----
	31,636,795	27,062,699
	-----	-----
Total funds and liabilities	100,721,820	89,842,960
	=====	=====

**NOTES**

	2002 Sh	2001 Sh
1	FEE INCOME	
	29,517,012	47,713,853
Capitalization, rights and new issues fees	4,053,880	3,078,790
NSE - Transaction fees	3,857,710	3,747,500
Application and licensing fees	-----	-----
	37,428,602	54,540,143
	=====	=====
2	EXPENDITURE	
	28,287,365	23,324,652
Personnel costs	4,093,156	5,686,825
Rent, rates and maintenance	4,243,560	1,265,241
Public Education, Training and conferences	1,626,917	2,662,132
Medical Scheme and Insurance expenses	1,042,182	1,548,282
Entertainment expenses	1,282,391	1,651,203
Telephone and postage and utilities	778,233	1,968,652
Office equipment operating and stationery expenses	420,673	631,186
Motor vehicle running expenses	187,491	319,403
IOSCO membership and other Subscriptions	1,076,300	519,970
Authority members allowances	1,523,426	804,237
Professional and Market Development Services	1,809,031	1,497,996
Depreciation expense	244,286	297,814
Staff uniforms and Miscellaneous expenses	84,032	30,384
Audit fees	-----	-----
	46,699,043	42,093,007
	=====	=====
3	FINANCE INCOME	
	605,897	504,284
Interest on bank deposits	-----	-----
4	PERSONNEL COSTS	
	25,513,016	22,080,498
Consolidated Pay, leave pay and passages	2,651,349	1,118,154
Pension, gratuity and long service compensation	123,000	126,000
Benevolent Fund Contributions	-----	-----
	28,287,365	23,324,652
	=====	=====
Number of employees	41	42
	-----	-----



FIVE-YEAR FINANCIAL REVIEW

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30**JUNE**

	2002	2001	2000	1999	1998
	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>
Fees Income	113,297,070	75,878,598	45,013,407	57,306,033	40,678,184
Other Incomes	<u>1,504,540</u>	<u>1,370,298</u>	<u>1,268,868</u>	<u>802,049</u>	<u>2,356,456</u>
Total Income from Services	114,801,610	77,249,396	46,282,275	58,108,082	43,034,640
Total Expenditure	<u>(92,094,362)</u>	<u>(90,282,846)</u>	<u>(85,240,149)</u>	<u>(72,734,949)</u>	<u>(76,557,967)</u>
Gross (deficit)/surplus from Services	22,707,248	(13,033,450)	(38,957,874)	(14,626,867)	(33,523,327)
Government Grants	15,000,000	18,000,000	30,000,000	18,644,500	21,328,700
Finance Income	<u>3,410,686</u>	<u>438,085</u>	<u>1,662,005</u>	<u>3,398,764</u>	<u>3,957,452</u>
Surplus/(Deficit) for the Year	<u>41,117,937</u>	<u>5,404,635</u>	<u>(7,295,869)</u>	<u>7,416,397</u>	<u>(8,237,175)</u>



BALANCE SHEET (AS AT JUNE 30)

	2002	2001	2000	1999	1998
Non-current assets					
Property and Equipment	16,403,081	8,413,377	9,403,425	6,044,260	9,803,211
Staff Car Loans – Long term	3,343,149	4,106,621	4,298,546	4,139,391	3,226,403
Staff house Loans – long term	1,620,452	2,763,511	-	-	-
Other Staff advances–Long Term	8,425,426	4,707,034	-	-	-
	<u>29,792,108</u>	<u>19,990,543</u>	<u>13,701,971</u>	<u>10,183,651</u>	<u>13,029,614</u>
Current Assets					
Receivables	13,012,955	7,851,129	12,140,756	16,929,590	9,242,133
Investors Compensation Fund bank balance	27,255,928	21,977,650	17,819,601	15,435,625	13,603,130
Staff Housing Loan Fund bank balance	-	-	8,890,468	12,850,000	12,850,000
Staff Benevolent Fund bank balance	2,078,048	1,344,820	1,191,072	805,199	531,552
Millennium Staff Savings Scheme	2,011,198	2,676,693	2,201,543	-	-
Treasury bills	40,537,565	14,771,251	-	-	-
Fixed deposits	-	-	3,500,000	12,540,721	12,000,000
Bank and cash balances	2,886,794	8,401,312	3,003,082	1,034,476	1,379,601
	<u>87,782,488</u>	<u>57,022,855</u>	<u>48,746,522</u>	<u>59,595,611</u>	<u>49,606,416</u>
Total assets	<u>117,574,596</u>	<u>77,013,398</u>	<u>62,448,493</u>	<u>69,779,262</u>	<u>62,636,030</u>
Funds and Liabilities					
Funds					
Capital Fund	27,885,508	27,885,508	28,855,508	29,884,508	29,884,508
General Fund	42,274,494	1,156,560	(1,222,871)	16,911,885	9,495,488
	<u>70,160,002</u>	<u>29,042,068</u>	<u>27,632,637</u>	<u>46,796,393</u>	<u>39,379,996</u>
Current Liabilities					
Payables	16,069,420	21,972,167	12,449,469	4,589,640	7,942,460
Investors' Compensation Fund	27,255,928	21,977,650	19,152,817	17,655,032	14,839,522
Staff Benevolent Fund	2,078,048	1,344,820	1,012,027	738,197	474,052
Millennium Staff Savings Scheme	2,011,198	2,676,693	2,201,543	-	-
	<u>47,414,494</u>	<u>47,971,330</u>	<u>34,815,856</u>	<u>22,982,869</u>	<u>23,256,034</u>
Total Funds and Liabilities	<u>117,574,596</u>	<u>77,013,398</u>	<u>62,448,493</u>	<u>69,779,262</u>	<u>62,636,030</u>



SUMMARY OF REVENUES AND EXPENDITURE (Kshs Million): 1997/98 – 2001/2002

	2001/2002	2000/2001	1999/2000	1998/99	1997/98
Revenue from Services	114,801,610	77,230,896	46,282,275	58,108,082	43,034,640
Govt. Grants	15,000,000	18,000,000	30,000,000	18,644,500	21,328,700
Total Income	129,801,610	95,230,896	76,282,275	76,752,582	64,363,340
Total Expenditure	92,094,362	81,681,762	87,486,894	72,734,949	76,557,967



MARKET STATISTICS

Table 1 – Gross Market Statistics

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*
Shares Volume (M)	27.30	42.76	62.10	113.60	143.47	111.11	157.49	141.42	109.19	146.96
Shares Turnover (Kshs B)	0.82	3.08	3.34	3.96	6.15	4.58	5.16	3.63	3.12	2.93
Market Cap. (Kshs B)	72.00	136.83	107.20	98.68	114.31	128.94	106.74	101.42	86.10	105.30
Index (Year Close)	2514	4559	3469	3114	3115	2962	2303	1913	1355	1270
Av. T-Bill Rate (%)	43.54	18.70	21.67	21.60	26.40	12.60	20.00	11.20	11.50	8.40
Av. Base Lending Rates (%)	38.55	30.93	33.14	34.58	30.30	28.80	24.80	19.90	19.60	18.60
GDP Growth Rate (%)	0.20	3.00	4.80	4.60	2.40	1.80	1.40	(0.20)	1.20	1.00
Av. Annual Inflation (%)	45.60	6.70	1.60	9.00	11.20	6.60	3.50	6.20	5.80	1.80
Mean Kshs/US\$ Exchange Rate	68.20	44.80	51.40	57.10	58.80	60.40	70.30	76.10	78.60	79.60

* End of year projection



Chart 1

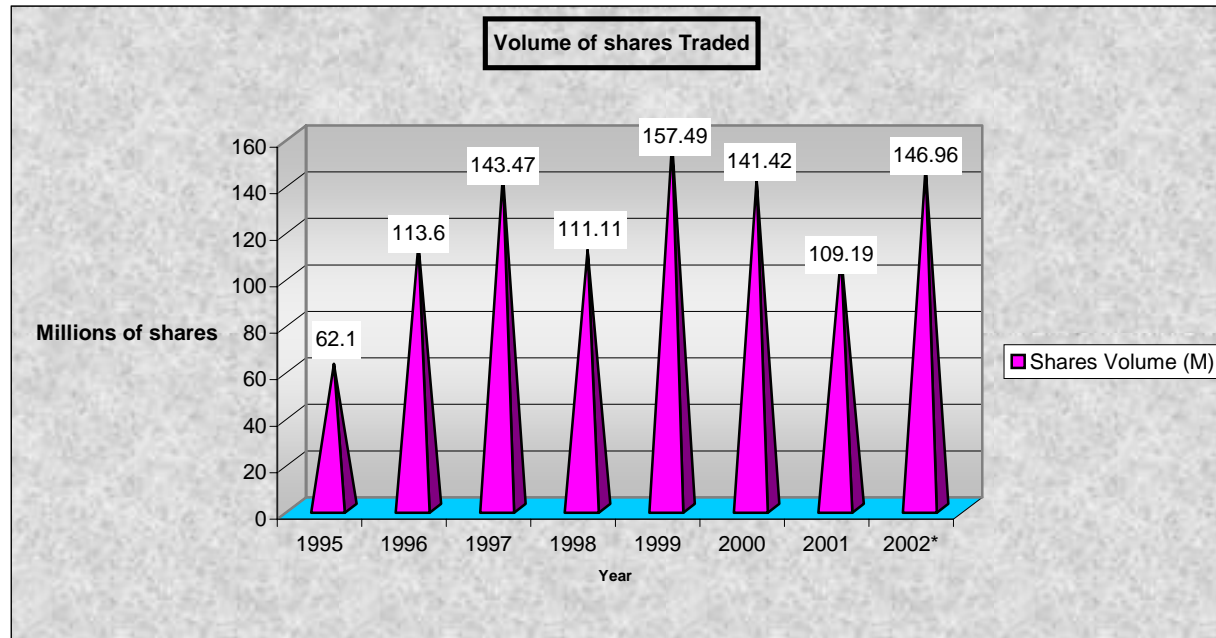




Chart 2

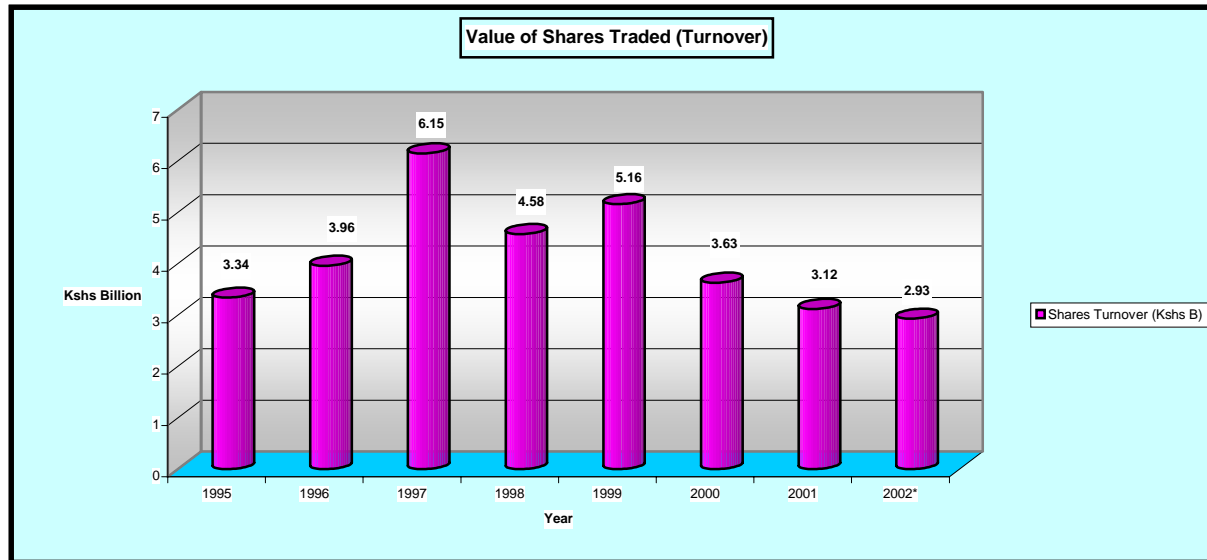
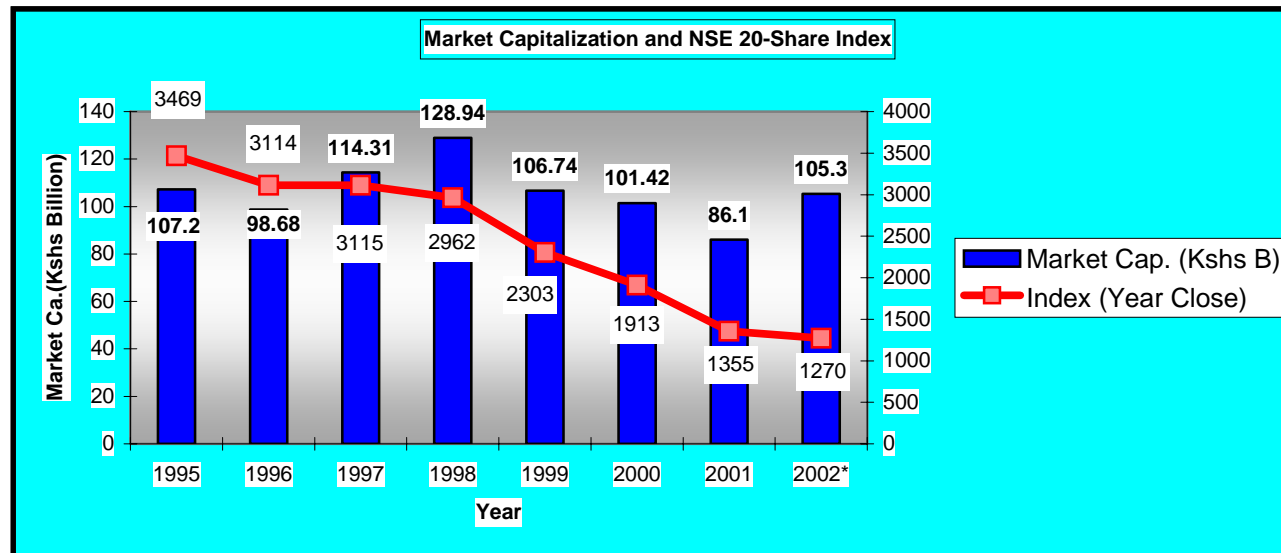




Chart 3





Sector Statistics

Table 2a - Shares Turnover by Sector by (Kshs Billion)

	1995	1996	1997	1998	1999	2000	2001	2002*
Agricultural	0.25	0.20	0.59	0.45	0.26	0.13	0.15	0.14
Commercial	0.50	0.83	0.97	0.65	1.09	0.95	0.52	0.40
Financial	1.53	1.75	2.50	1.87	1.63	1.30	1.33	1.12
Industrial	1.06	1.18	2.09	1.61	1.83	1.25	1.12	1.27
								2.93

* End of year projection



Chart 4

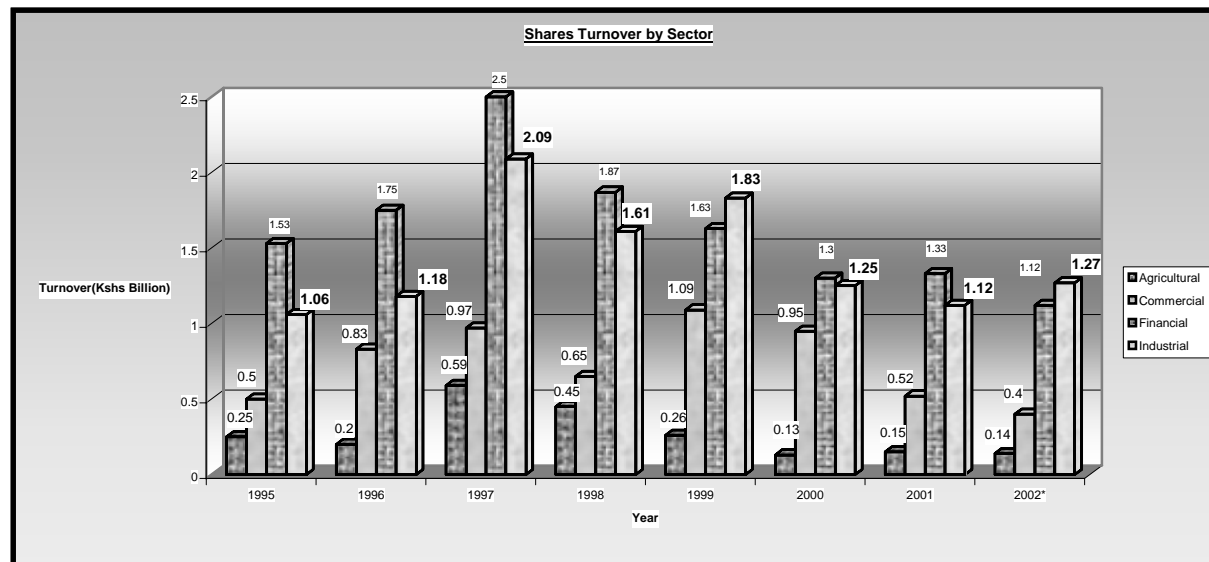




Table 2b - Market Capitalization by Sector (Kshs Billion)

	1995	1996	1997	1998	1999	2000	2001	2002*
Agricultural	14.50	13.62	11.74	14.88	10.50	9.00	7.24	5.16
Commercial	7.25	12.50	13.81	15.23	12.64	15.38	13.40	13.02
Financial	50.85	41.78	43.93	48.01	40.64	37.12	35.96	42.72
Industrial	34.61	30.80	44.83	50.82	42.93	39.89	29.50	44.40
								105.30

* End of year projection



Chart 5

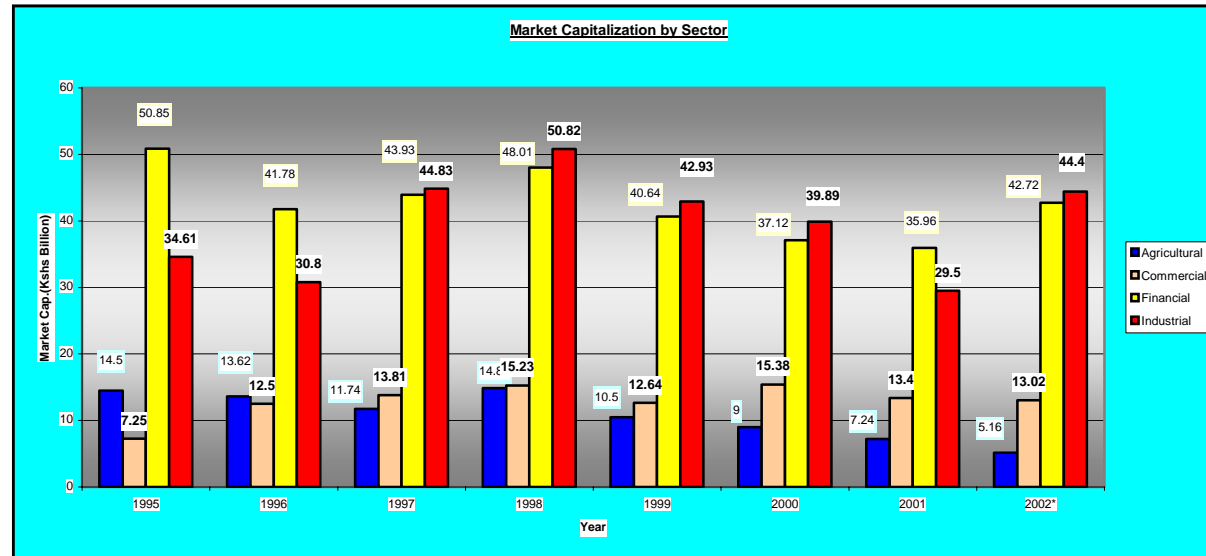




Table 3 - Foreign Investors Activity (Kshs Billion)

	1995	1996	1997	1998	1999	2000	2001	2002*
Foreign Investors Turnover	0.22	0.99	2.23	1.16	1.13	0.70	0.39	0.33
Net Foreign Inflow	0.17	0.60	1.58	0.08	0.01	0.49	0.12	(0.14)

** End of year projection



Chart 6

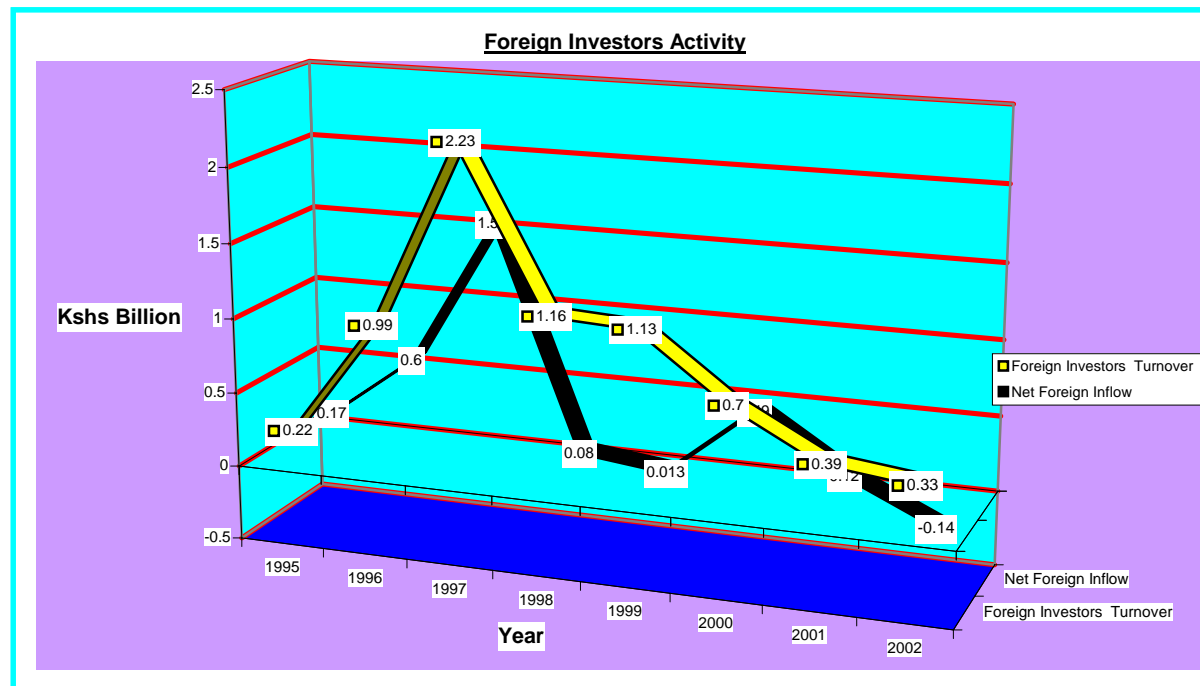




Table 4 - Bond Trading
(Kshs Billion)

	1997	1998	1999	2000	2001	2002*
Bond Turnover	15.08	8.22	8.07	6.47	9.46	35.93

* End of year projection



Chart 7

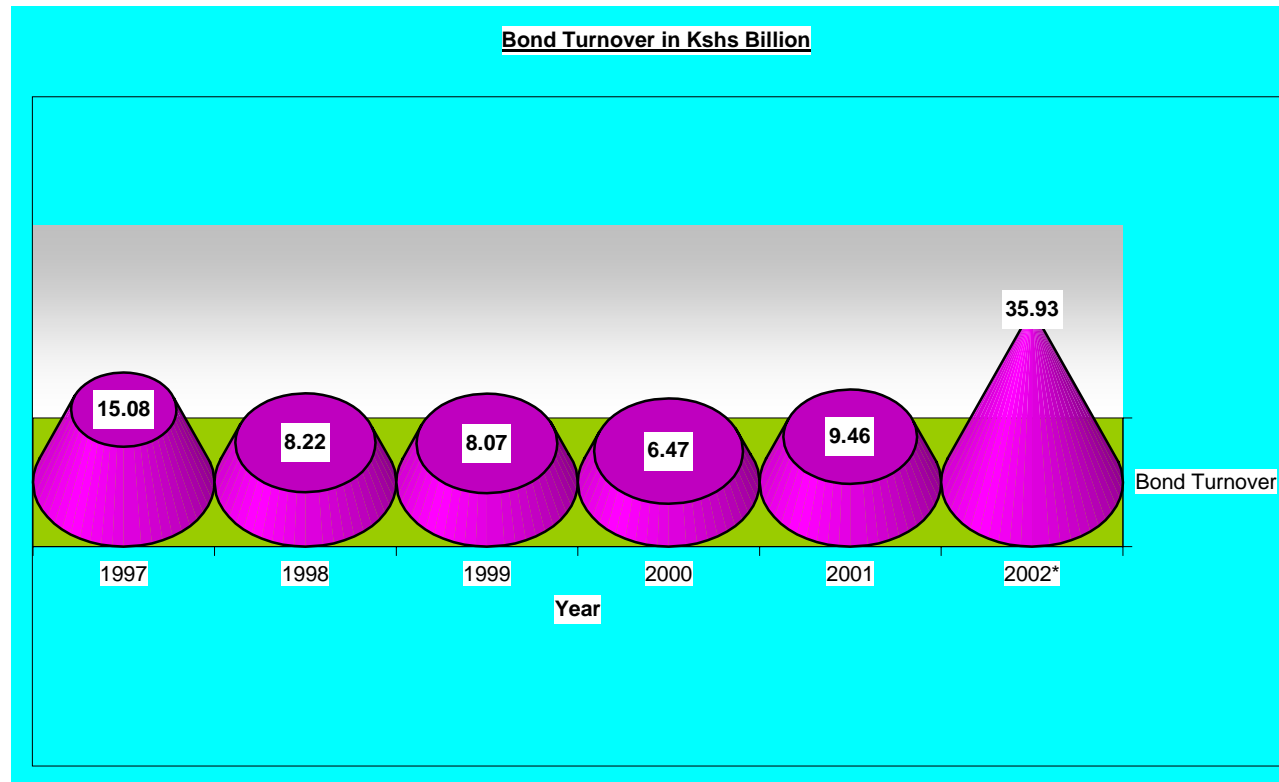




Table 5 - Other Market Statistics

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
No of new Issues	1	3	2	3	0	5	3	2	1	3	3	0
No. of new shares (M)	3.2	42.63	3.6	98	0	366.9	63.89	37.42	26.58	22.61	404.97	0
Value of New Shares(Kshs bn)	0.04	0.5	0.06	2.8	0	4.93	1.94	2.1	0.37	0.45	2.4	0
Total No. of listed Companies				56	56	57	57	56	56	54	54	51
Total No. of listed Companies MIMS*										39	40	40
Total No. of listed Companies AIMS*										9	10	10
Total No. of listed Companies FISMS*										7	13	3
No. of Stockbrokers	6	6	6	13	12	20	20	20	18	18	18	18
No. of Investment Advisors							19	19	22	22	26	25
No. of Authorized Depositories							5	5	5	5	5	5
No. of Dealers									1	1	1	1
No. of Investment Banks												2
No. of CIS												2

* Categorization of the companies into various segments was done in 2000 (note that some companies appear more than once i.e. on the equities and preference shares boards)



Chart 8

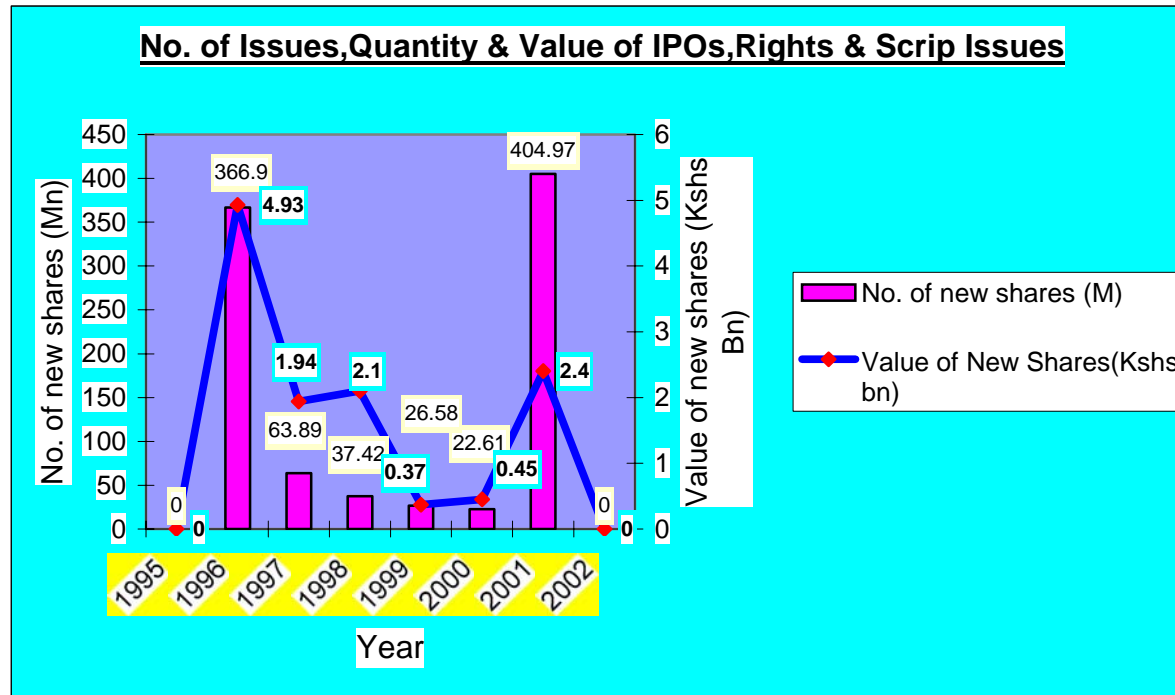




Table 6 – NSE Top Ten Companies by Market Capitalization (Kshs Billion) as at November 30, 2002

	1995	1996	1997	1998	1999	2000	2001	2002
Barclays Bank	16.82	12.79	14.79	20.06	15.89	13.98	13.42	16.85
Brooke Bond	9.29	8.21	5.38	6.89	5.08	4.74	3.52	2.14
Standard Chartered Bank	8.74	7.99	7.58	8.32	9.31	12.24	11.62	14.09
Kenya Commercial Bank	7.15	8.08	8.64	6.9			2.45	
British American Tobacco	6.68	4.73	3.75	5.74	5.81	6.05	4.9	5.75
Bamburi Cement	5.73	4.72	13.16	13.07	9.53	12.25	6.04	12.43
Total	4.75	3.64					3.24	3.23
National Bank	4.65							
Firestone	4.59	5.1	4.36	4.48	4.45	3.2		
Diamond Trust Bank	4.13							
Kenya Airways		3.95	3.46		3.62	4.15	3.37	2.45
East African Breweries		3.31	3.18	6.27	6.55	7.26	8.07	11.12
Kenya Power & Lighting			9.5	9.89	7.56	3.17		
Nation Media				4.88	3.56			3.24
African Lakes						3.31	3.94	2.48
Total	72.53	62.52	73.8	86.5	71.36	70.35	57.33	73.78
As % of Total Market Cap.	67.66%	63.36%	64.56%	67.09%	67.09%	69.39%	66.59%	76.70%



Table 7a - Approved Commercial Paper Issues

Year	New Issues	Face value(Kshs)
1997	1	500,000,000
1998	2	450,000,000
1999	19	10,650,000,000
2000	4	600,000,000
2001	2	800,000,000
2002	—	—
Cumulative Total	28	13,000,000,000

Table 7b - Outstanding CP Issues as at November 30, 2002

Company	Maximum Face Value (Kshs)	Date of Approval / Renewal	Status of Program
** Unilever (Kenya) Limited	500,000,000	Jan-02	Third renewal
Kenya Oil Company Limited	500,000,000	Feb-02	First Renewal
CMC Holdings Limited	350,000,000	May-02	Second Renewal
TPS Serena	200,000,000	May-02	Third Renewal
** Crown Berger	100,000,000	Jun-02	First Renewal
** Pan Paper Mills	500,000,000	Jul-02	Second Renewal
** Kenya Hotel Properties	150,000,000	Sep-02	Second Renewal
** Ecta (Kenya) Limited	50,000,000	Sep-02	Second Renewal
** Mabati Rolling Mills	500,000,000	Sep-02	Fifth Renewal
Total outstanding	2,850,000,000		

** Bank Guaranteed

Table 7c - Outstanding Medium Term Notes (Corporate Bonds)
as at November 30, 2002

Year	Issues Approved	Face Value (Kshs)
1999	1	1,200,000,000.00
2000	1	350,000,000.00
2001	2	6,000,000,000.00
2002	1	1,000,000,000.00
Cumulative Total	4 Issuers	8,550,000,000.00

Table 7d - Issuers of Medium term Notes
(Corporate Bonds)

Company	Amount (Kshs)	Date of approval	Status of programme	Subscription (%)
EADB	1,200,000	Jul-99	First Issue	100.00
Shelter Afrique	150,000,000	Nov-00	First Tranche	137.33
	200,000,000	Jul-01	Second Tranche	76.50
EADB	2,000,000,000	Mar-01	First Issue	100.00
Safaricom	4,000,000,000	May-01	First Issue	100.00
Mabati Rolling Mills	1,000,000,000	Sep-02	First Issue	112.00
Total	8,550,000,000			

Table 8 - Summary of profitability by the NSE Index Companies (Aggregate)

	Profit After Tax (Kshs billion)	Dividends Paid Out (Kshs billion)	% Dividends to Profit
1996	11.76	4.98	42.33%
1997	11.21	5.81	51.80%
1998	8.02	6.82	85%
1999	7.91	6.35	80%
2000	9.68	7.94	82%
2001	7.00	7.24	103.46%*

* Some companies posted losses, but still declared dividends out of retained earnings.



Table 9 – NSE 20-Share Index Companies (Market Capitalization, Kshs Billion)

	1995	1996	1997	1998	1999	2000	2001	2002*
Bamburi	5.73	4.72	13.16	13.07	9.53	12.25	6.04	12.43
Barclays	16.82	12.79	14.79	20.06	15.89	13.98	13.42	16.85
BOC Gases	1.42	1.05	1.28	1.39	1.26	0.92	0.59	0.72
BAT	6.68	4.73	3.75	5.74	5.81	6.05	4.90	5.75
Brooke Bond	9.29	8.21	5.38	6.89	5.08	4.74	3.52	2.14
Diamond Trust	4.13	2.54	1.73	1.75	2.07	1.11	0.72	0.83
EABL	3.52	3.31	3.18	6.27	6.55	7.26	8.07	11.12
EA Packaging	0.53	0.53	0.38	0.12	0.80	0.06	0.06	0.06
George Williamson	0.75	0.61	0.75	1.23	0.81	0.85	0.58	0.38
Kakuzi	1.84	1.91	1.88	2.76	1.71	1.08	0.71	0.28
Kenya Airways/CMC**	0.72	3.95	3.46	3.76	3.62	4.15	3.37	2.45
KCB	7.15	8.08	8.64	6.90	3.53	2.86	2.45	1.80
KNM	1.03	0.91	1.00	1.14	0.64	0.47	0.45	0.45
KPLC	3.08	2.48	9.50	9.89	6.56	3.17	1.51	0.71
Lonrho/African Lakes***	2.34	2.74	2.49	1.40	0.85	0.82	0.82	3.76
Nation Media	1.16	1.30	2.34	4.88	3.57	2.46	1.50	3.24
Sasini	1.62	1.50	2.38	2.66	1.71	1.29	0.60	0.51
SCB	8.74	7.99	7.58	8.32	9.31	12.24	11.62	14.09
Total	4.79	3.64	2.94	2.74	2.70	3.08	1.98	3.23
Uchumi	1.60	2.14	2.34	2.64	2.40	2.94	1.89	0.93
Total	82.94	75.13	88.95	103.61	84.40	81.78	64.80	81.73
% of Total Market Cap.	77.37%	76.13%	77.81%	80.36%	79.07%	80.66%	75.26%	84.97%
Total Market Cap.	107.20	98.68	114.31	128.94	106.74	101.39	86.10	96.19

* As at November 30,2002

** Kenya Airways replaced CMC from 1996 onwards

*** Africa Lakes Corporation replaced Lonrho Motors from July 2000 onwards



Table 10 - Comparative Index Movement

	NASDAQ	FTSE - 100	Hang Seng	Nikkei - 225	Dow Jones	NSE - 20
1992	677	2847	5512	16925	1205	1167
1993	777	3418	11888	17417	1381	2514
1994	752	3065	8191	19723	1274	4559
1995	1052	3689	10073	19868	1693	3469
1996	1291	4119	13451	19361	2026	3114
1997	1570	5136	10722	15259	2607	3115
1998	2193	5882	10048	13842	2871	2692
1999	4069	6930	16962	18934	3214	2303
2000	2470	6222	15095	13785	3317	1913
2001	1950	5217	11397	10542	2892	1355
2002	1361	4085	9613	8465	2219	1270



Chart 9

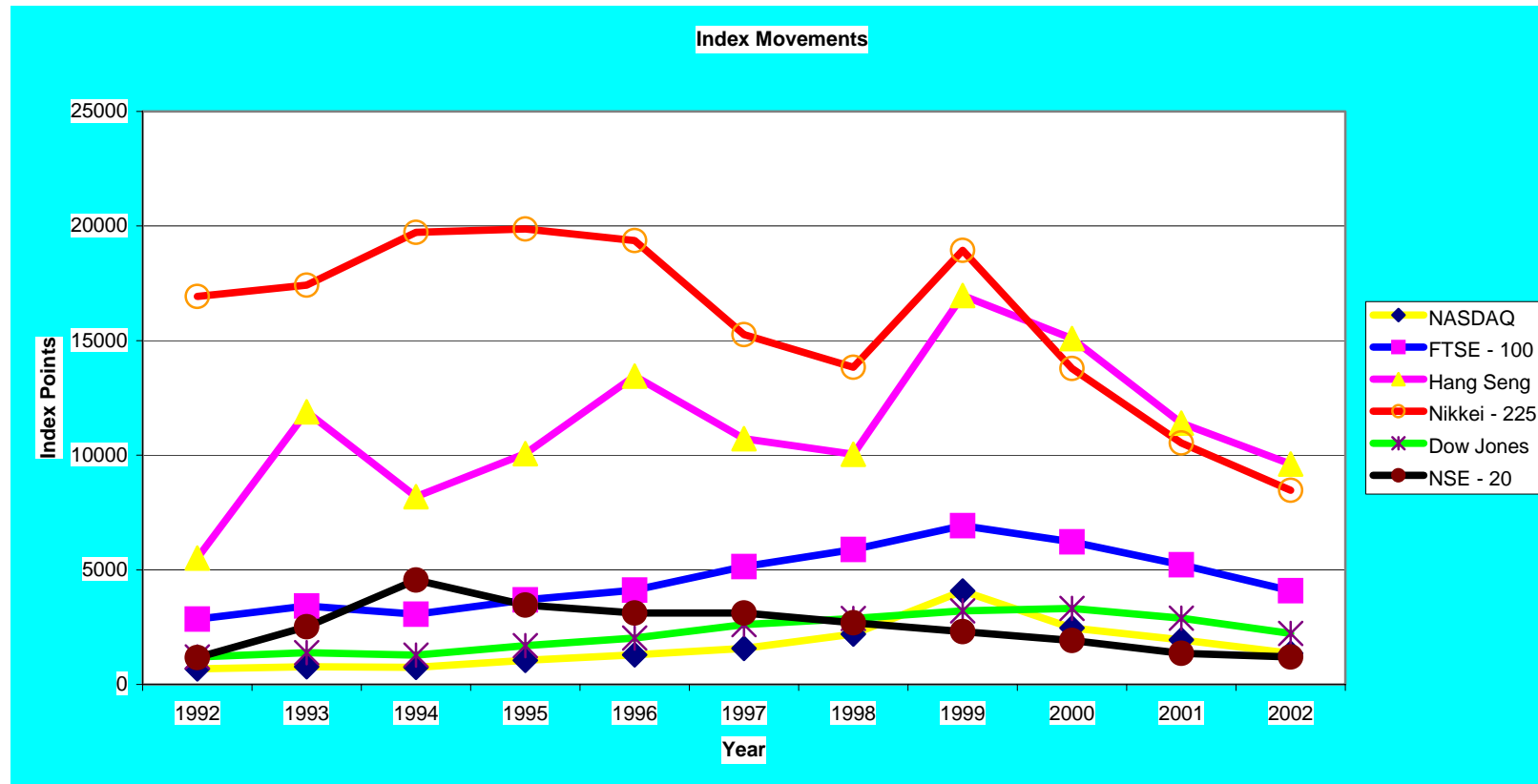




Table 11a – Holdings of Government Securities: Treasury Bonds (Kshs billion)

	1999	2000	2001	2002*
Commercial Banks	7.30	11.00	32.00	46.40
Non-Bank Financial Institutions	-	2.10	0.80	2.00
Others**	21.10	21.00	47.50	61.50
Total	28.40	34.10	80.30	109.90

Source: Central Bank of Kenya, Monthly Economic Surveys (various)

* August

** Includes parastatals, individuals and other corporate bodies

Table 11b – Holdings of Government Securities: Treasury Bills (Kshs billion)

	1999	2000	2001	2002*
Commercial Banks	59.30	51.20	43.50	32.30
Non-Bank Financial Institutions	2.10	2.20	1.80	1.40
Others**	50.30	57.30	41.10	53.00
Total	111.70	110.70	96.40	86.70

Source: Central Bank of Kenya, Monthly Economic Surveys (various)

* August

** Includes parastatals, individuals and other corporate bodies

Table 11c – Categorization of Government Domestic Debt (Kshs billion)

	1999	2000	2001	2002*
Treasury Bills	111.70	110.70	96.80	86.70
Treasury Bonds	28.40	34.10	80.30	109.90
Long Term Stocks	3.00	1.90	1.50	1.50
Non-Interest Bearing Stocks	36.90	36.90	36.90	36.90
Others	10.20	9.10	6.50	13.70
Total	190.20	192.70	222.00	248.20

Source: Central Bank of Kenya, Monthly Economic Surveys (various)

* August 2002



Table 11d – Banking Sector Assets and other Statistics (Kshs billion)

	1999	2000	2001	2002*
Total Assets	455.50	434.4	426.8	449.9
Loans and Advances	241.90	230.4	214.1	246.8
Investments in Government Securities	72.88	76.5	89.5	94.1
Capital Reserves	52.00	53.1	55.6	56.2
Deposits	315.20	325.1	335.4	346.4
Non-Performing Loans	103.50	116.8	117.6	73.1

Source: Central Bank of Kenya, Monthly Economic Survey (various)

* August



NOTABLE OCCASIONS AND EVENTS IN 2002

- April**
- Kenya Airways shares are cross-listed at the Uganda Securities Exchange
 - The new Nairobi Stock Exchange Trading and Settlement Rules are approved by the Authority
- May**
- The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations are gazetted.
 - The Capital Markets Guidelines on Corporate Governance Practices by Public Listed Companies are gazetted.
 - The Authority publishes its Annual Report for 2001
- June**
- CFC Financial Services Ltd is licensed as the first Investment Bank in Kenya.
- July**
- The new CMA Board is appointed.
 - African Alliance (K) Ltd is licensed as the second Investment Bank in Kenya.
 - African Alliance (K) Ltd and Old Mutual Investment Services Ltd are approved to promote Collective Investment Schemes in Kenya
 - The Capital Markets (Licensing Requirements) (General) Regulations are gazetted.
 - The Capital Markets (Takeovers and Mergers) Regulations are gazetted.



- August**
- The Capital Markets Challenge Fund is formed as a vehicle for institutional investors to invest in the Central Depository and Settlement Corporation (CDSC).
 - A new shareholders' agreement is signed by the shareholders of the CDSC.
 - The new Board of the CDSC is constituted.
 - The Capital Markets (Foreign Investors) Regulations are gazetted.
- September**
- The Authority holds its Fourth Annual Review Forum
 - The Authority launches the Capital Markets Strategic Plan: Vision 2002 – 2005.
 - The new CMA Board is officially inaugurated.
- October**
- The Authority suspends Shah Munge and Partners stockbrokers for thirty days for professional misconduct.
 - A Kshs 1 billion corporate bond by Mabati Rolling Mills is approved by the Authority and gets listed at the NSE.
- November**
- The Capital Markets Tribunal members are appointed.
 - The Chief Justice gazettes the Capital Markets Tribunal Rules.
 - The Institute of Certified Public Accountants of Kenya (ICPAK) and the Capital Markets Authority launches the Financial Reporting (FiRE) Award of Excellence. Imperial Commercial Bank emerges as the overall winner.



**LIST OF CMA LICENSEES AS AT DECEMBER 31, 2002
SECURITIES EXCHANGES**

Nairobi Stock Exchange Ltd.

Kimathi Street, Nation Center, 1st Floor
P.O. Box 43633
Nairobi
Tel: 254 2 230692
Fax: 254 2 224200
Email: info@nse.co.ke
Home page: www.nse.co.ke

INVESTMENT BANKS

African Alliance Kenya Ltd.

4th Floor, Kenya Re Towers, Upper Hill
P.O. Box 27639 - 00506 Nairobi
Tel. 2710978
Fax. 2710247
E-mail:

(Commenced operations December 2002)

CFC Financial Services Ltd.

CFC Center, Chiromo Road
P.O. Box 44074 Nairobi
Tel. 3741861/3752900
Fax. 3752951/3752907
E-Email: cfcfs@cfcgroup.co.ke

Apex Africa Investment Bank Ltd

Rehani House (HFCK), 4th Floor
Corner of Kenyatta Avenue and Koinange Street
P O Box 43676
NAIROBI
Tel: 254 2 242170
Fax: 254 2 215554
Email: hak@insightkenya.com
(Formerly Hak Securities Ltd – to commence operations in January 2003)



STOCK BROKERS

Ngenye Kariuki & Co. Ltd.

Travel (UTC) House, 5th floor
P O Box 12185

Nairobi

Tel: 224333/226250

Fax: 217199

E-mail: N/A

Francis Drummond & Co. Limited

Hughes Building, 3rd floor
P.O. Box 45465,

Nairobi

Tel: 334533

Fax: 223061

E-mail: francisdrummond@wananchi.com

Dyer & Blair Ltd

Reinsurance Plaza, 12th Floor

P.O Box 45396

Nairobi

Tel: 227803/4/5

Fax: 218633

E-mail: admin@dyer.africaonline.co.ke

Nyaga Stockbrokers Ltd.

IPS Building, 10th floor

P O Box 41868

Nairobi

Tel: 332783/4

Fax: 332785

E-mail: nyagastk@users.africaonline.co.ke

Ashbhu Securities

Finance House, 13th floor

P.O Box 41684

Nairobi

Tel: 210178/212989

Fax: 210500

Email: ashbhu@net2000.co.ke

Faida securities Ltd.

Windsor House, 1st floor

P O Box 45236

Nairobi

Tel: 243811/2/3

Fax: 243814

E-mail: info@faidastocks.com

faidastocks@wananchi.com

Homepage: www.faidastocks.com



Francis Thuo & Partners Ltd.

International House, 13th Floor

P O Box 46524

Nairobi

Tel: 226531/2/3

Fax: 228498

E-mail: ftbrokers@wananchi.com

Suntra stocks Ltd.

Commonwealth House, 5th Floor

P O Box 74016

Nairobi

Tel: 337220/223294

Fax: 224327

E-mail: info@suntrastocks.co.ke

Homepage: <http://www.suntrastocks.co.ke>

Standard Stocks Ltd.

Hazina towers, 17th floor

P.O Box 13714

Nairobi

Tel: 220225/227004

Fax: 240297

E-mail: info@standardstocks.com

Homepage: <http://www.standardstocks.com>

Shah Munge & Partners Ltd

Nation Centre, 12th Floor

P.O Box 14686

Nairobi

Tel: 227300

Fax: 213024

E-mail: shahmunge@africaonline.co.ke

shahmunge@mitsuminet.com

Reliable Securities Limited

Standard Building, 4th Floor

P O Box 50338

Nairobi

Tel: 241350/54/79

Fax: 241392

E-mail: reliable@gt.co.ke

Solid Investment Ltd.

Contrust Building, 6th Floor

P O Box 63046

Nairobi

Tel: 244272

Fax: 244280

E-mail: sisl@solidkenya.com



Crossfield Securities Ltd

Vedic House, 2nd floor

P O Box 34137

Nairobi

Tel: 246036

Fax: 245971

E-mail: crossfield@wananchi.com

Discount Securities Ltd.

Phoenix House, 3rd floor,

P O Box 42489

Nairobi

Tel: 219552/38

Fax: 336553

E-mail: discount@dsl.co.ke

Kestrel Capital (EA) Limited

Hughes Building, 7th Floor

P.O Box 40005

Nairobi

Tel: 251758

Fax: 243264

E-mail: info@kestrelcapital.com

Homepage: <http://www.kestrelcapital.com>

INVESTEMENT ADVISERS/FUND MANAGERS

CFC Financial Services Ltd.

CFC Center, Chiromo Road

P.O. Box 44074

Nairobi

Tel: 3741861/3752900

Fax: 3752905/907

E-mail : cfcs@cfcgroup.co.ke

Natbank Investment Services

National Bank Building, 9th Floor, Harambee Avenue

P.O. Box 72866, Nairobi

Tel : 243615

Fax: 330784

Home page: www.nationalbank.co.ke



Co-op Trust Investment Services Ltd.

Co-operative Hse Mezzanine 1

P.O. Box 48231

Nairobi

Tel: 32076000

Fax: 246054

AIG Global Investment Co. (EA) Ltd

ICEA Building, 2nd floor

P.O Box 67262

Nairobi

Tel: 249444 - 7

Fax: 249451

E-mail: admin@aigea.co.ke

Web page: www.aignet.aig.com

Genesis (K) Ltd Management Ltd Ltd

Lonhro Hse, 12th Floor

P.O Box 79217

Nairobi

Tel: 251012

Fax: 250716

E-mail: genesis@swiftkenya.com

Creative Finance & Provident Services

Kenya Cinema Plaza, 3rd floor

P.O. Box 57312

Nairobi

Tel. 332299/337233

Fax. 212681

E-mail: spellman@kenyaweb.com

ICEA Investment Services Ltd.

ICEA Bldg 14th Floor

P.O. Box 46143

Nairobi

Tel: 340365/6

Fax: 338089

E-mail: iisl@icea.co.ke

Homepage: www.icea.co.ke

Bridges Capital Ltd.

No. 209/362 Lenana Road

P.O. Box 62341

Nairobi

Tel: 2714372/3

Fax: 2714657

E-mail: bridges@africaonline.co.ke

Homepage: www.bridgescapital.com



Tradition Securities (K) Ltd.

Fedha Towers, 2nd Floor

P.O. Box 49584

Nairobi

Tel: 249634/249674

Fax: 225694

Co-operative Merchant Bank Limited

International House

Mama Ngina Street

P.O. Box 48231

Nairobi

Tel: 228711/2/3

Fax: 219821

Email: cmb@africaonline.co.ke

First American Bank Ltd.

First American Bank Centre

Nyerere Road

P.O. Box 30691

Nairobi

Tel: 2710455

Fax: 2714511

E-mail: fabk@saamnet.com

CBA Capital Ltd

International House,

Ground floor

P.O. Box 30437

Nairobi

Tel: 228802

Fax: 335827

E-mail: cba@cba.co.ke

Web page: www.cba.co.ke



Dry Associates

Dry Associates House
Brookside Grove/Matundu Lane
P.O Box 684 Sarit Centre 00606
Nairobi
Tel: 4450520/1/2/3/4, 4440546
Fax: 4441330
E-mail: dryassoc@wananchi.com

Loita Asset Management Ltd

Victoria Towers, 8th floor
P.O Box 39466
Nairobi
Tel: 219015/219033
Fax: 218992
Homepage: www.loita.com

Old Mutual Asset Managers (EA) Ltd Services

Mutual House, Mara Road Upper Hill
P.O Box 11589-00400 Tom Mboya
Nairobi
Fax: 243251/246117
Fax: 253226
E-mail: omam@omamkenya.com
Web page: www.omam.com

Stanbic Investment Management Services (EA) Ltd

Stanbic Building, Kenyatta Avenue
P.O. Box 30550, Nairobi
Tel: 335888
Fax: 247285
E-mail: sims@africaonline.co.ke
Homepage: www.stanbic.co.ke

Kenya Capital Partners Ltd.

Norfolk Towers, Kijabe Street 1st Floor
P.O. Box 43233
Nairobi
Tel: 228870-/337828
Fax: 330120/219744
E-mail: general_manager@kcpafrica.com
Homepage: www.kcpafrica.com

Citibank, NA

Citibank House, Upper Hill
P.O. Box 30711
Nairobi
Tel: 2711221/222248
Fax: 714811
Home page: www.citibank.co.ke



Professional Investment Consultants Ltd.

Muthaiga Shopping Center
P.O. Box 63998, Muthaiga -00609
Nairobi
Tel: 352072/ 3747243
Fax: 3747243
E-mail: pic@accesskenya.com
Homepage: www.123-pic.com

First Africa Capital Ltd.

I & M Bank Hse 5th Floor Ngong Rd.
P.O. Box 56179 - 00200
Nairobi
Tel: 711279/ 710821
Fax: 711331
E-mail: firstaf@firstafrica.co.ke

Standard Chartered Investment Services Ltd.

Stanbank House, Moi Avenue

P.O. Box 30003

Nairobi

Tel: 32093703

Fax: 223380

E-mail:

Venture Capital Investment Management Ltd.

P.O. Box 62213

Nairobi

Tel: 222550

Fax: 222553

BA Financial Management (K) Ltd.

P.O. Box 555 Sarit Center 00606
Nairobi
Email: bafinance@exchange.uk.com

Barclays Bank of Kenya Ltd.

Barclays Plaza, Loita Street
P.O. Box 30120
Nairobi
Tel: 241270
Fax: 313405

Zimele Asset Management Co. Ltd.

Upper Hill, Hill lane next to Kenya Re-Towers
Bishops Garden Towers 2nd Floor
P.O. Box 76528

Nairobi

Tel: 2729078

Fax: 2722953

E-mail: zimele@africaonline.co.ke

Homepage: www.zimele.co.ke

Kenya Funds Management

Rehani House Koinange Street, 4th Floor
P.O. Box 11408

Nairobi

Tel: 210716/ 250069

Fax: 250069



Cititrust (K) Limited

Citibank House,
P.O. Box 30711,
Nairobi
Tel: 2711221/222248
Fax: 2714811

African Alliance Management Co. Ltd.

Kenya Re Towers, 4th Floor
P.O. Box 27639-00506
Nairobi
Tel: 2710978
Fax: 2710247

AUTHORIZED DEPOSITORIES

Barclays Bank of Kenya Ltd.

Barclays Plaza, Loita Street
P.O. Box 30120
Nairobi
Tel: 332230

Stanbic Bank of Kenya Ltd.

Stanbic Building
P.O. Box 30550
Nairobi
Tel: 254 2 335888
Fax: 254 2 330227
E-mail: stanbic@africaonline.co.ke
Homepage: stanbic@africaonline.co.ke

Kenya Commercial Bank Ltd.

Kencom Hse
P.O. Box 48400
Nairobi
Tel: 254 2 339441
Fax: 254 2 339415
E-mail:
Homepage: www.kcb.co.ke

National Bank of Kenya Ltd.

National Bank Building
P.O. Box 72866
Nairobi
Tel: 254 2 339690
Fax: 254 2 330784
E-mail: vicki@nationalbank.co.ke
Homepage: www.nationalbank.co.ke



CREDIT RATING AGENCIES

Global Credit Rating Co

P.O. Box 73366
Nairobi

VENTURE CAPITAL FUND

Acacia Fund

Norfolk Towers, Kijabe Street 1st Floor
P.O. Box 43233
Nairobi
Tel: 228870
Fax: 330120
E-mail: general_manager@kcpafrica.com
Homepage: www.kcpafrica.com



LIST OF CAPITAL MARKETS AUTHORITY ENABLING LEGISLATION, SUBSIDIARY REGULATIONS AND GUIDELINES

Main Acts:

1. The Capital Markets Authority Act, (Cap 485A, December 1989);
2. The Capital Markets Authority (Amendment) Act, 1994, (Kenya Gazette Supplement No 4 of January, 1995);
3. The Capital Markets Authority (Amendment) Act, 2000 (August 2000);
4. The Central Depositories Act, 2000 (August 2000);

Regulations:

1. The Capital Markets (Collective Investment Schemes) Regulations
2. The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations
3. The Capital Markets (Licensing Requirements) (General) Regulations
4. The Capital Markets (Takeovers and Mergers) Regulations
5. The Capital Markets (Foreign Investors) Regulations

Guidelines:

1. The Capital Markets Guidelines on Corporate Governance Practices by Public Listed Companies
2. The Capital Markets Guidelines on the Approval and Registration of Credit Rating Agencies



LIST OF COMPANIES CATEGORIZED INTO MIMS, AIMS AND FISMS

MAIN INVESTMENT MARKET SEGMENT

<u>Company</u>	<u>Market Cap. as at Nov. 31, 2002 (Kshs billion)</u>
1. African Lakes Corporation PLC Ord 5.00	2.48
2. Athi River Mining Ltd Ord 5.00	0.44
3. B.O.C. Kenya Ltd Ord 5.00	0.72
4. Bamburi Cement Ltd Ord 5.00	12.43
5. Barclays Bank Ltd Ord 10.00	16.85
6. British American Tobacco Kenya Ltd Ord 10.00	5.75
7. Brooke Bond Ltd Ord 10.00	2.14
8. Carbacid Investments Ltd Ord 5.00	0.37
9. C.F.C. Bank Ltd Ord 5.00	1.09
10. Car & General (Kenya) Ltd Ord 5.00	0.20
11. CMC Holdings Ltd Ord 5.00	0.56
12. Crown Berger Ltd Ord 5.00	0.16
13. Diamond Trust Bank(Kenya) Ltd Ord 4.00	0.83
14. Dunlop Kenya Ltd Ord 5.00	0.05
15. E.A. Cables Ltd Ord 5.00	0.17
16. E.A. Portland Cement Ltd Ord 5.00	1.17
17. East African Breweries Ltd Ord 10.00	11.12
18. Firestone(East Africa) Ltd Ord 5.00	2.37
19. Housing Finance Company Ltd Ord 5.00	0.40
20. I.C.D.C. Investments Ltd Ord 5.00	1.57
21. Jubilee Insurance Company Ltd Ord 5.00	0.58
22. Kakuzi Ltd Ord 5.00	0.28
23. Kenya Airways Ltd Ord 5.00	2.45
24. Kenya Commercial Bank Ltd Ord 10.00	1.80
26. Kenya Oil Company Ltd Ord 5.00	0.93
27. Kenya Power & Lighting Ltd Ord 20.00	0.71



MAIN INVESTMENT MARKET SEGMENT (CONT'D)

<u>Company</u>	<u>Market Cap. as at</u> <u>November 30, 2002</u> <u>(Kshs billion)</u>
28. Marshalls (East Africa) Ltd Ord 5.00	0.07
29. Mumias Sugar Company Ltd Ord 2.00	1.28
30. Nation Media Group Ltd Ord 5.00	2.78
31. National Bank of Kenya Ltd Ord 5.00	0.52
32. National Industrial Credit Ltd Ord 5.00	1.12
33. Pan Africa Insurance Ltd Ord 5.00	0.34
34. Rea Vipingo Plantations Ltd Ord 5.00	0.14
35. Sasini Tea & Coffee Ltd Ord 5.00	0.48
36. Standard Chartered Bank Ltd Ord 5.00	14.46
37. Total (Kenya) Ltd Ord 5.00	2.62
38. Tourism Promotion Services Ltd Ord 5.00	0.63
39. Uchumi Supermarkets Ltd Ord 5.00	0.87
40. Unga Group Ltd Ord 5.00	<u>0.29</u>
Total	94.45



ALTERNATIVE INVESTMENT MARKET SEGMENT

<u>Company</u>	<u>Market Cap. As at</u> <u>November 30, 2002</u> (Kshs billion)
1. A. Baumann & Company Ltd Ord 5.00	0.02
2. City Trust Ltd Ord 5.00	0.07
3. E A Packaging Ltd Ord 5.00	0.06
4. Egaads Ltd Ord 5.00	0.14
5. Express Ltd Ord 5.00	0.03
6. Kapchorua Tea Company Ltd Ord 5.00	0.54
7. Kenya Orchads Ltd Ord 5.00	0.04
8. Limuru Tea Company Ltd Ord 5.00	0.24
9. Standard Newspapers Ltd Ord 5.00	0.59
10. Williamson Tea (Kenya) Ltd Ord 5.00	<u>0.38</u>
Total	1.73

FIXED INCOME MARKET SEGMENT (PREFERENCE SHARES)

<u>Security</u>	<u>Market Cap. As at</u> <u>November 30, 2002</u> (Kshs million)
1. Kenya Hotels Pref 6.0%	0.47
2. Kenya Power & Lighting Ltd Pref 4%	9.00
3. Kenya Power & Lighting Ltd Pref 7%	<u>2.80</u>
Total	12.27



THE CAPITAL MARKETS ADVISORY COMMITTEE*

MEMBERS

1. Mr. Stewart Henderson – Chief Executive Officer (Old Mutual Life Assurance)
2. Mr. George Oraro – Partner (Oraro & Company Advocates)
3. Mr. Gideon Muriuki – Managing Director (Cooperative Bank of Kenya)
4. Mr. Naval Sood – Director (PricewaterhouseCoopers Ltd)
5. Mr. Hamish Keith – Partner (Daly & Figgis Advocates)
6. Mr. Gerald Mahinda – Group Finance Director (East African Breweries)
7. Ms. Ruth Onyancha – Company Secretary (Barclays Bank of Kenya)
8. Mrs. Catherine A Kola – Board Secretary (Electricity Regulatory Board)
9. Mr. Sandeep Raichura – Executive Director (Hymans Robertson)
10. Ms. Agnes Lutukai – Partner (KPMG (Kenya))
11. Mr. Peter Waiyaki – Assistant General Counsel (Kenya Airways)

Mandate of the Committee

- (i) *aspects of implementation of a robust capital markets infrastructure, including the automated and central depository systems;*
- (ii) *development, regulation and policy formulation for capital markets with respect to mobilizing savings in financial*



assets and allocating them to productive sectors of the economy;

- (iii) identification of impediments, legal, fiscal or otherwise and to propose measures to create an enabling environment for the deepening of the capital markets;*
- (iv) improvement of capital markets disclosure standards and corporate governance practices;*
- (v) development, refinement and maintenance of an appropriate legal and regulatory framework in the capital market; and*
- (vi) any other issues that may arise from time to time and is delegated by the Authority.*

Ex-Officio Members

1. Chief Executive – Capital Markets Authority (Chairman)
2. Chief Executive – Nairobi Stock Exchange
3. Chief Executive – Central Depository and Settlement Corporation
4. Chief Executive – Institute of Certified Public Accountants of Kenya
5. Chief Executive – Institute of Certified Public Secretaries of Kenya
6. Chairman – Association of Kenya Stockbrokers
7. Chairman – Kenya Bankers Association
8. Chairman – Association of Kenya Insurers
9. Representative – Central Bank of Kenya



** The Authority provides secretarial services*

THE CAPITAL MARKETS AUTHORITY AUDIT COMMITTEE

1. Mr. Selest Kilinda - Chair
2. Mrs. Sheila M'Mbijiwe - Member
3. Mr. Andrew Ndegwa - Member
4. Dr. Moses Chesang - Member

**PUBLIC CONFIDENCE IN CORPORATE
FINANCIAL REPORTING: (INVESTORS,**



CREDITORS AND DEPOSITORS PROTECTION)

**Excerpts from keynote address by Mr Paul Melly,
Chief Executive Capital Markets Authority during
the Financial Reporting Award Ceremony**

On November 15, 2002

Mr. Melly started his address by stating that he was honoured to give a keynote speech during the inaugural ceremony of the newly established Financial Reporting Award of Excellency (FiRe). He further congratulated the



Institute of Certified Public Accountants of Kenya for the important initiative of which he said the Capital Markets Authority was pleased to associate with in partnership with the Institute.

He focused his address mainly on public confidence in corporate financial reports and statements and its impact on investors, creditors and depositors protection objectives. He further stated that he had chosen the topic in view of the ongoing debate on reliability of corporate financial statements following several large corporate failures in the United States of America (US) that has put into question the credibility of the auditing and accounting profession as well as the effectiveness of the existing regulatory structures. Mr. Melly further sought to highlight key pillars he consider critical for promoting reliable and credible financial reports and statement.

Reliable and Credible Financial Reports and Statements

As a regulator Mr. Melly underscored categorically that reliable financial reports and statements as well as timely and accessible information represent one of the critical pillars for building credible markets, preserving public confidence and trust. This he said was because markets cannot function well without highly reliable information of which financial statements are essential for reviewing and determining the corporate operating and financial performance.

He also stated that financial statements enabled the investors, creditors and depositors to make an informed decision of the state of affairs of the company or institution whether in the money market or capital markets. Mr.



Melly also expressed that, when information is not accurately disclosed in a timely manner or is misleading, it undermines fairness and credibility of the financial statements leading to wrong investments, creditor and depositor decision.

Challenging and Interesting Time

The Chief Executive said “we were living in an interesting and challenging time where the financial markets were becoming too dynamic due to emerging complexities with regards to financing innovations, sophistications and risks which are not broadly speaking captured by traditional accounting approaches and procedures, the so called off-balance sheet derivatives issues”. He added that this required a multi-purpose strategy and approach that was adaptive to the changing circumstances and promote partnership between the users of the financial statements and those charged with the responsibility of certifying their fairness as well as regulators being the custodians of investors’ interest.

“It is against the foregoing background therefore, that the adoption of the International Accounting Standards and International Auditing Standards in Kenya represent an essential step towards ensuring that the accounting profession develops in line with the development internationally.” He said

Corporate Failures



Mr Melly further noted that the large corporate failures in the US in particularly that of Enron among several others represented the largest corporate failure in the history of the United States of America (US) and has further demonstrated clearly that without good and credible financial reporting good checks and balances in the accounting and audit practice, large companies were equally vulnerable even in the most perceived highly regulated markets.

Preservation of Public Confidence in the Financial System

The chief Executive was keen to explain that bad information or unreliable financial statements lead to bad information which in turn lead to bad decision making and a consequence of bad risks. He further stated that ultimately, this would lead to serious financial vulnerabilities and crisis of confidence in the national financial systems.

Mr Melly further emphasised on the need for preservation of public confidence in the financial systems. To underscore this further, he stated that the **main critical assets of the financial system is public confidence and trust without which all other assets such as infrastructure of a bank or a stock exchange for that matter would be valueless.** Public confidence therefore, he said was a critical asset that facilitated intermediation in the money market and the dis-intermediation in the capital markets. He illustrated that a commercial bank's ability to mobilize deposit and retain such deposit was dependant on the **confidence of savers** and their **willingness to entrust their money** to such a bank. He further added that this presupposed that those savers had confidence in the financial integrity of the



institution or in other words that their savings would be available when they needed to withdraw deposit from the bank. At this point he was keen to note that, if confidence of the financial market is undermined then the society's ability to save in financial assets would be significantly undermined with serious consequences to economic growth and the ability of the financial system to facilitate intermediation and dis-intermediation.

He further underscored that commercial banks have really **one asset** that matters which is **public confidence**, which he said the same applied to the capital markets. He went on to state that if a capital market intermediary like a stockbroker fails to fulfil its obligation arising out of capital markets transactions it will seriously undermine significantly market confidence and trust by investors.

In his speech Mr. Melly said that it was consequential for all regulators whether being a capital markets regulator, an insurance regulator, a retirement benefit regulator or for that matter a banking regulator to put in place necessary measures to safe-guard public confidence in the financial system as the most critical asset that would facilitate promotion of financial stability and minimizing of systemic risk. He further stated that **no financial market intermediary regardless of its size should consider itself as indispensable if it failed to fulfil its obligations or satisfy prescribed regulatory requirements adding that an effective regulatory regime should be seen as representing a crucial corner stone of the financial stability that promoted fairness, integrity and transparency to which he added public trust.**



KEY PILLARS TO PROMOTE RELIABLE AND CREDIBLE FINANCIAL REPORTS

Mr. Melly highlighted some key pillars that he considered critical for promoting good financial reporting and facilitating the preparation of reliable and credible financial statements.

1. Professional Accounting Staff

It is essential to ensure that accounting staff have the necessary accounting qualifications and expertise including professional qualifications in accounting. It is for this reason that the Capital Markets Authority now requires that chief financial officers and heads of accounting functions of listed companies should be members of the Institute of Certified Public Accountants of Kenya. This will further facilitate self-regulation of its members by the Institute.

2. Reliable Accounting Systems

An appropriate electronic supported processing and recording accounting system with appropriate audit trails represents a critical pillar for the processing and maintenance of accounting records as well as other financial information which are essential for the preparation of financial statements.

3. Accounting and Audit Standards



The adoption of appropriate accounting and auditing standards are essential in the process of building reliable accounting statements and in ensuring analysis and comparisons of companies in the same sector.

It is for this reason that the Authority supported the adoption of international accounting standards by the Institute as the basis for the preparation of financial statements with effect from January 1, 1999. In this regard, Board of directors of public listed companies and auditors should ensure that all the standards adopted are taken into account in the preparation of financial statements. Hence current debate on the treatment of leasehold assets under the international accounting standards number 17 should be seen in this light and any comments by the members of the accounting profession should be submitted to the International Accounting Standards Board (IASB).

The accounting policies adopted should be broadly consistent and should not be changed from time to time so as to influence the results.

4. **Audit Committees**

The audit committees play an important role in ensuring quality of financial reports and statements. It is in this regard that the Authority has made it mandatory for all listed companies to ensure the establishment of audit committees.

The Authority has also established its own audit committee and encourages other regulators to do so. It is further essential to ensure that the audit committee has one or more financial experts as one of



its members. The development of an audit function and selection of external auditors remains one of the responsibilities critical role of audit committees.

5. **Auditors Independence**

The appointment of the external auditors should ensure the safeguard of the auditor's independence. In this regard, external auditors should not provide accounting services for the same institution that it serves as external auditors or to be seen to be rendering consultancy services at a level which results in the revenue being a significant portion or higher than the audit fees.

The Authority would like to see the institute develop appropriate guidelines to facilitate rotation of auditors as well as rotation of senior partners from time to time.

6. **Analysts and Media**

Analysts' plays an important role in analysing financial statements and highlighting areas of any discrepancies as well as Off Balance Sheet issues that would otherwise change the corporate results if they were to crystallize.

The media also serves as a powerful tool for promoting good financial reporting and as such the media houses both electronic and print media should invest in their human capital to develop financial



Journalist expertise persons with background in finance and business related discipline.

7. Shareholders Association

Shareholders Association plays an important role in promoting good financial reporting, as it should be able to mobilize necessary resources to carry out financial analysis of annual reports and be able to highlight major issues that are of relevance to investors during annual general meetings.

It is in this regard that the Authority is seeking to support the operationalisation of the Kenya Shareholders Association, which has now been established. It should, however, be seen that being the shareholders lobby group, it is not intended that their role will be to challenge management but rather to promote good governance practices and shareholders value.

8. Ownership of Financial Statements

The Board of Directors and management should take full responsibility for the accuracy of financial information as contained in the annual reports and financial statements and must therefore sign the accounts to accept responsibility for the accuracy of the information.

9. Self Regulation Vs. Oversight Regulation of the Accounting Profession



The emerging scenario is developing with regulators playing an increasingly oversight regulating of the auditors with many countries now establishing specialized regulatory agencies to regulate auditors. The Authority will seek to collaborate with the Institute on ways and means to improve the existing self-regulation mechanism for its members and if shortcomings in such a system persist then Kenya may be compelled to join the bandwagon and seek to establish oversight regime.

10. Financial Reporting Awards of Excellence

Let me underscore that today's ceremony on Awarding for Excellence in financial reporting represents an important pillar towards promoting quality and credible financial reporting. It is a process that should be supported by all regulators and the Stock Exchange.

11. Mutual Cooperation for Sharing of Information by Regulators

In view of the global development in the financial markets there is an increasing collaboration and co-operation among regulators towards sharing of important information in their jurisdiction for regulatory purposes.

In this regard bi-lateral as well as multi-lateral cooperation through memorandum of understandings are being entered among regulators across various jurisdictions who are members of International Organizations of Securities Commissions (IOSCO).



In order to improve Kenya's regulatory regime the Capital Markets Authority will be seeking to enter into memorandum of understanding that should be facilitated by the Ministry of Finance among the regulators in the financial markets including the Capital Markets Authority, Retirements Benefits Authority, insurance commissioners and the Central Bank of Kenya with respect to transactions that may be conducted within the financial sector. In the event that this arrangement will not be successful, the Authority will seek amendment to its legislation to be empowered to obtain information on any matter that the Authority may be carrying out inquiries or investigations without being constrained by other statutes such as confidentiality under the banking Act. This would be essential in order for the Authority to satisfactorily fulfil its regulatory mandate.

In conclusion Mr Melly emphasized that information that may be obtained in the course of such investigations will be maintained confidentially and for the purpose of fulfilling regulatory actions.



THE CAPITAL MARKETS STRATEGIC PLAN – VISION 2002-2005

(A Blueprint for Deepening and Broadening the Capital Markets Horizon)

A Continuing Seven-Prong Reform Agenda to strategically position the Capital Markets:

- Establishment of a robust and scalable capital markets infrastructure;
- Enhancement of the capital markets institutional arrangement;
- Establishment of a robust and facilitative legal and regulatory framework;
- Development of new financial products and strengthening of the market structure;
- Creating an Enabling and Facilitative Environment for the Capital Markets;
- Training and investor education; and
- Establishing an integrated East African capital market.



I Introduction

- 1.1 The Capital Markets Authority has been implementing a series of measures aimed at revitalizing the capital markets as an integral part of Kenya's financial system
- 1.2 As part of these measures the Authority has developed a Seven-Prong Strategic Reform Agenda for Kenya's capital markets.
- 1.3 The Strategic Reform Agenda represents a comprehensive strategic plan of actions aimed at strategic positioning as well as broadening and deepening Kenya's capital markets as a leading regional financial center.
- 1.4 This is in recognition of the important role that the capital markets plays in wealth creation and the mobilization and allocation of financial resources to the productive sectors so as to engender economic development.
- 1.5 The Strategic Reform Agenda therefore, is aimed at charting out in a sequential yet methodical and pragmatic manner the development of the capital markets within the next three years or so.
- 1.6 It is therefore, guided by an effort to position the capital markets competitively and strategically in support of national aspirations and economic needs which must of necessity, take cognizance of the vision as well as development in the regional and global financial markets.
- 1.7 This strategic plan outlines the vision of Kenya's capital markets by the year 2005, Seven-Prong Reform Agenda, highlights of some main milestones realized and sequence of the reform measures and action plan for the period 2002-2005.



II The Capital Markets Vision 2005

2. The Capital Markets Strategic Plan: Vision 2002-2005 envisages that by the year 2005, Kenya would have been strengthened significantly towards becoming a **leading regional financial center**. These reforms have to be under pinned by the following strategic reform pillars and objectives: -
 - 2.1 Development of a working robust infrastructure for the depository, trading, clearing and settlement of capital markets securities.
 - 2.2 Establishment of an enabling facilitative and sound regulatory framework and standards, which conform with the best international practices.
 - 2.3 Establishment of a competitive and integrated regional capital markets.
 - 2.4 Facilitation of an investor education programme so as to ensure an informed investor and sensitized general public as well as users of the capital markets
 - 2.5 Facilitation of diverse capital markets financial products to mobilize savings in financial assets.
 - 2.6 Development of an efficient trained and diverse capital markets professionals as well as service providers.



- 2.7 Achievement by the Authority of a position of high regulatory efficiency, financial self-sustenance, and maintenance of quality human capital capacity.
- 2.8 Contributions towards establishment of an enabling and facilitative macro economic environment for the growth of the capital markets and the economy.

1. Establishment of a Robust and Scalable Capital Markets Infrastructure

- 1.1 The Capital Markets Authority in collaboration with other stakeholders in particular the Nairobi Stock Exchange (NSE), is implementing a programme aimed at developing robust capital markets infrastructure.
- 1.2 This is in order to minimize systemic risk and maintain financial stability, which are critical for the maintenance of investor confidence.
- 1.3 As part of these measures the following milestones have been achieved:
 - Enabling legislations for a central depository environment has been established.
 - A capital markets Challenge Fund has been established to facilitate the participation of institutional investors in the Central Depository project.
 - A Central Depository and Settlement Corporation (CDSC) has been established.
 - The CDSC is to be capitalized at Kshs.100 million.



- The Capital Markets Challenge Fund has invested 50% with the Nairobi Stock Exchange investing 20%, the Association of Kenya Stockbrokers (AKS) is to invest 18%, while Uganda Securities Exchange (USE) and Dar es Salaam Stock Exchange (DSE) are to invest 2.5% each
- The CMA Compensation Fund has invested 7% of the share capital.

1.4 As part of an ongoing progress towards establishment of a Central Depository system and Automated Trading System the following actions are planned during this reform period: -

<i>CDS Project and Automated Trading System</i>			
<i>Activity</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<ul style="list-style-type: none"> • Review of the CDSC Shareholders and promotion of investment by institutional investors through a Capital Markets Challenge Fund. 	By August 2002	CMA	√ Done. New Shareholders' Agreement signed on August 5, 2002
<ul style="list-style-type: none"> • Signing of the Shareholders Agreement. 			
<ul style="list-style-type: none"> • Constitution of the Board of Directors of the Challenge Fund. 	August 2002 August/ September 2002	CMA/CDSC	
<ul style="list-style-type: none"> • Constitution of New CDSC Board of Directors including approval of Directors to represent public interest as nominated by the Challenge Fund and the AKS 	By September 15, 2002	CDSC/CMA	



CDS Project and Automated Trading System

<i>Activity</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<ul style="list-style-type: none"> • CDSC to develop and submit an implementation timetable to the Authority indicating the timelines for the following activities: <ul style="list-style-type: none"> ▪ Appointment of contract negotiating committee, ▪ Appointment of implementation committee, ▪ Negotiation of contract on supply of technology solution and hardware, ▪ Recruitment and appointment of CDSC Management Team, ▪ Identification of suitable office location, ▪ Procurement of Technology solution (software) and hardware, ▪ Installation, Testing and Training schedules. • Approval of CDS System (Technology solution). • Commencement of CDS operations. 	By December, 2002	CDSC Board and NSE Board	
	By January, 2003	CMA	CDSC to submit formal application
	July 2003	CDSC/NSE	

2. *Enhancement of the Capital Markets Institutional Arrangement*

2.1 The capital markets institutional arrangement is critical for the success of this strategic plan. In this regard, the plan focuses on specific measures targeted at each of the identified capital markets institutions within the overall reform period.

2.2 The Authority over the last ten years has implemented specific measures to re-organize and strengthen Nairobi Stock Exchange, build its own internal capacity, facilitate emergence of a number of capital markets institutions and seek to promote new vehicles to mobilize savings in financial assets.



2.3 During the current reform period the Authority will continue with its programme of strengthening the capital markets institutional arrangement as follows: -

<i>Activity</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
(a) <u>Capital Markets Authority (CMA)</u>		CMA in consultation with Treasury	√ Done
<ul style="list-style-type: none"> • Reconstitution of a New Board. • Appointment of Capital Markets Advisory Committee. 	<p>July 12, 2002 By September 15, 2002</p>	CMA	
<ul style="list-style-type: none"> • Appointment of the Capital Markets Appeal Tribunal 	By November 2002	CMA in consultation with Treasury (Minister for Finance)	√ Done



Capital Markets Authority (cont.)	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<ul style="list-style-type: none"> • Develop appropriate staff training programs (including exposure in other emerging or developed markets). • Develop a management information system strategy. • Develop appropriate exposure program for Board Members. • Determine relevant and optimum professional skills requirement and any redundancies with respect to the present and future human resource requirements and evolving mandate of the Authority as follows: <ul style="list-style-type: none"> • Financial compliance function • Legal compliance and enforcement function • Research and policy analysis function and • Administrative service • Identify areas where existing terms of service requires improvement so as to attract and retain relevant skills including funding sustainability of such terms. 	<p>November 2002</p> <p>December 2002</p> <p>February 2003</p> <p>July 2003</p> <p>2003/2005</p>	<p>CMA</p> <p>CMA</p> <p>CMA</p> <p>CMA</p> <p>CMA</p>	



Capital Markets Authority (cont.)	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<ul style="list-style-type: none"> Undertake senior management and Board study tours to gain exposure on the operations and regulation of new financial/products such as futures and options. 	2003/2004	CMA	
<ul style="list-style-type: none"> Enhance overall regulatory, management efficiency and productivity in particular with respect to compliance and enforcement capacity. 	2002/2005	CMA	



<i>Capital Markets Authority (cont.)</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<ul style="list-style-type: none"> Determine additional sources of revenue to achieve self - sustenance in funding Achieve financial self sustenance 	<p>By July 2003</p> <p>2004/2005</p>	CMA Board and Management	
<p><i>(b) Nairobi Stock Exchange (NSE)</i></p> <ul style="list-style-type: none"> Develop and submit to the Authority a plan of action indicating the following: <ul style="list-style-type: none"> enhancement of professional and management capacity. an implementation plan for the Automated Trading Systems (ATS). admission of authorized securities dealers as associate members. an investor education program and collaboration plan with the Authority on implementation. 	By December 2002	NSE	
<ul style="list-style-type: none"> In collaboration with the Authority commission an independent consultant to review, the current index. 	By July 2003	NSE/CMA	Process already commenced
<ul style="list-style-type: none"> Adoption of a new index. 	July 2003	NSE	



<i>Capital Markets Authority (cont.)</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<ul style="list-style-type: none"> Develop and submit to the Authority a plan of action on demutualisation of the stock exchange 	By June 2004	NSE/CMA	
<ul style="list-style-type: none"> The Nairobi Stock Exchange to provide electronic access to investors, market participants, information vendors and other stakeholders 	2003/2005	CMA/NSE	



<i>Activity</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<p>(c) <u>Stockbrokers, Investment Advisers, Fund Managers</u></p> <ul style="list-style-type: none"> • Registration of prescribed key staff of licensees as a condition for licensing • Authorize stockbrokers (who meet established regulatory requirements) to deal in securities as principals. • Determine minimum operating standards aimed at improvement of all licensees efficiency and back office operations, involving adoption of technology solutions. • Enhance stockbrokers' capital requirements to Kshs 10 million. 	<p>By January 2003</p> <p>By January 2003</p> <p>By June 2003</p> <p>By January 2004</p>	<p>CMA</p> <p>CMA</p> <p>All licensees (in particular stockbrokers, Fund Managers and Investments Banks)</p> <p>CMA</p>	<p>To coincide with the commencement of the CDS/ATS project</p>



<i>Stockbrokers, Investment Advisers, Fund Managers (cont.)</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<ul style="list-style-type: none"> Introduction of Financial Services Proficiency certification for prescribed key staff of licensees. 	By January 2004	CMA	Process of developing curriculum is already underway
<ul style="list-style-type: none"> Encourage consolidation of stockbrokers to improve financial soundness. 	2003/2005	CMA/NSE	
<ul style="list-style-type: none"> Gradual replacement of retail stockbrokers with investment banks through consolidation, acquisition and transformation. 	2003/2005	CMA/NSE	



<i>Activity</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<p>(d) <u>Collective Investment Schemes (CIS)</u></p> <ul style="list-style-type: none"> • Encourage and approve the establishment of various types of CIS, including: <ul style="list-style-type: none"> • Employees Share Ownership Schemes (ESOPS) and other collective schemes. • Mutual Funds, Investment Trusts and Unit Trusts. • Investment Clubs. • Special Retirement Benefits Mutual Funds. • Special Interest Mutual Funds such as Cooperative. • Societies Schemes Mutual Funds. • Venture Capital Funds. • Money Market Funds, Equity Funds, Balanced Funds. 	2002/2005	CMA in collaboration with other stakeholders	Two institutions already approved by Authority to promote CIS



<i>Collective Investment Schemes (CIS) (cont.)</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<ul style="list-style-type: none"> • Re-clarify the tax position and tax treatment of all CIS in consultation with Treasury and Kenya Revenue Authority 	By July 2003	CMA	
<ul style="list-style-type: none"> • Consult with Treasury on the possibility of facilitating tax exemptions for CIS investors (on their dividend income) for a pre-determined period (e.g. 3 – 5 years). 	March 2003		
<ul style="list-style-type: none"> • Facilitate the establishment of a framework for locally registered CIS for off-shore investments 	March 2003		



<i>Activity</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<p><i>(e) Authorized Securities Dealers (ASDs)</i></p> <ul style="list-style-type: none"> • Invite applications for licensing of ASDs. • Issue Guidelines on the participation of ASDs in the FISMS • Licensing of Authorized securities dealers and admission as associate members of the Stock Exchange. 	<p>By October/December 2002</p> <p>By December 2002</p> <p>By January 2003</p>	<p>CMA</p>	



3.0 Establishment of a Robust and Facilitative Legal and Regulatory Framework

- 3.1 A robust, facilitative and regulatory environment is critical for the maintenance of investor confidence and investor protection.
- 3.2 The Authority has in this regard been implementing far reaching reform measures to strengthen the legal and regulatory framework.
- 3.3 This reform course has seen the implementation of the following milestones in the reshaping of the capital markets legal and regulatory landscape:
- A comprehensive review of the Capital Markets Act
 - Establishment of an enabling legislation through the passage of a Central Depositories Act.
 - A comprehensive review and development of new regulations which have been gazetted as follows:
 - Capital Markets Collective Investment Scheme Regulations 2001
 - Capital Markets (Securities, Public Offers, Listing and Disclosures) Regulations 2002



- Capital Markets Licensing Requirements and General Regulations 2002
- Capital Markets Take-over and Mergers Regulations 2002
- Capital Markets Foreign Investors Regulations 2002

3.4 The following guidelines have also been issued:

- Guidelines on Good Corporate Governance Practices by in Public Listed Companies
- Guidelines on Accreditation of rating Agencies.

3.5 These regulations have been established in line with international best practices and are considered critical to underpin further development of the capital markets.

3.6 It is therefore, envisioned that these regulations will nurture and maintain investor confidence as well as improve capital markets transparency.

3.7 The new framework should also facilitate the issuers of securities through capital markets mobilization of financial resources and meet the investor protection aspiration of the Authority. The Authority has also strengthened its enforcement and compliance measures with respect to the new legal framework.

3.7 The following additional measures are planned to strengthen the legal and regulatory environment and to operationalise the Central Depository System: -



<i>Activity</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Implementing Unit/Agency</i>
<i><u>Legal and Regulatory Framework</u></i>			
<ul style="list-style-type: none"> • Identification of the provisions of the Central Depositories Act that need to be operationalised 	By October 2002	CMA	√ Done
<ul style="list-style-type: none"> • Issuance of the Capital Markets Appeals Tribunal Rules 	By December 2002	CMA/CHIEF JUSTICE	
<ul style="list-style-type: none"> • Consolidation and publishing of a comprehensive set of the Capital Markets Act, Regulations and Guidelines and avail them in print and in CD form 	By December 2002	CMA	
<ul style="list-style-type: none"> • Review and approval of the Central Depository and Settlement Corporation (CDSC) operational rules 	By January 2003	CMA/CDSC	



<i>Legal and Regulatory Framework (cont)</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<ul style="list-style-type: none"> Development and gazettelement of the CMA (CDS) Regulations 	By February 2003	CMA	CMA to monitor
<ul style="list-style-type: none"> Development of a Legal and Financial Compliance checklist to facilitate improvement on regulatory standards 	By December 2002	CMA	
<ul style="list-style-type: none"> Compliance by listed companies with the Corporate Governance Guidelines and Disclosure in their Annual Reports 	By January 2003	Listed Companies	
<ul style="list-style-type: none"> Establish a New Settlement Guarantee Framework for the market post-CDS environment 	By January/ February 2003	CMA/NSE/ AKS/CDSC	
<ul style="list-style-type: none"> Determine and recommend urgent amendments to the Capital Markets Act, Companies Act through the Miscellaneous (Statute) Amendment Act as may be necessary in line with changing international trends 	2003/2004	CMA	
<ul style="list-style-type: none"> Consultation with the Attorney General's Office on a comprehensive amendments and update of the Companies Act 	2003/2004	CMA	In consultation with the Central Bank of Kenya
<ul style="list-style-type: none"> Development and gazettelement of guidelines on asset -backed securities 	By March 2003	CMA	



<i>Legal and Regulatory Framework (cont)</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	
<ul style="list-style-type: none"> Review and consider special authorization of share buy-back by listed companies through amendments to the Companies Act, where such companies have issued at least 50% of their share capital to the public, subject to pre-determined limits and guidelines as may be prescribed by the CMA (say 10% of the share capital) albeit with the approval of the Authority and shareholders. 	By July 2004	CMA	In consultation with the Attorney General's office and Capital Markets Advisory Committee
<ul style="list-style-type: none"> Encourage listed companies to shift towards quarterly reporting regime as a matter of best practice 	2003/2005	CMA/NSE	
<ul style="list-style-type: none"> Consider the establishment of unclaimed dividend Trust and appointment of Trustees to manage unclaimed dividends being held by listed companies. Interest from the trust funds shall accrue to the benefit of the Investor Compensation Fund. 	2003/2004	CMA	



4.0 *Development of new Financial Products and Expanding of the Market Horizon*

- 4.1 The domestic capital markets potential with respect to new financial products to mobilize capital and management of risk remain under utilized.
- 4.2 The market horizon requires also further enhancement as part of measures aimed at deepening and increasing market sophistication.
- 4.3 It is envisioned that such market enhancement needs shall cater for investment needs of institutional investors, special interest investors group and at the same time facilitates liquidity through active trading generally or within a restricted special interest group.
- 4.4 The Authority has been implementing measures to strengthen the market structure and to introduce new financial products. These measures have seen fundamental re-organization of the Stock market to create three independent market segments at Nairobi Stock Exchange namely: -
- Main investment market segment
 - Fixed income securities market segment
 - Alternative investment market segment
 - It is further planned that a Futures and Option market will be established once the establishment of an electronic depository trading and settlement has been completed.



- 4.5 The following financial products are now available in the capital markets in addition to shares or equities.
- Issuance of corporate and treasury bonds for medium and long term financing.
 - Issuance of commercial paper for working capital financing.
- 4.6 During this reform period the following additional measures will be implemented In order to encourage secondary market activity in fixed income securities market segment, promote liquidity, as well as minimize counter-part risk:



<i>Activity</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<p>(a) <u>Fixed Income Securities Market</u></p> <ul style="list-style-type: none"> Review and reorganize the primary market and consider the introduction of primary market securities dealers in consultation with the Treasury and Central Bank of Kenya. Encourage Banks and other Financial Institutions to seek licensing to operate as Authorized Securities Dealers, which shall act as market makers for listed Government Securities and other fixed income securities. Encourage credit rating and issuance of diverse long-term corporate bonds and other fixed income securities. 	<p>By December 2002</p> <p>March 2003/2004</p> <p>2003/2005</p>	<p>CMA/ CBK/NSE</p> <p>CMA</p> <p>CMA</p>	



<i>Fixed Income Securities Market (cont.)</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<ul style="list-style-type: none"> Encourage the adoption of international pricing methodology for the trading of Treasury and corporate bonds as well as other fixed income securities in the secondary market. 	By March 2003	CMA	In consultation with banks and other stakeholders
<ul style="list-style-type: none"> Encourage the adoption of a two-way pricing mechanism. Encourage the issuance of Asset-Backed securities based on quality underlying assets and issue guidelines on Asset-Backed securities. 	March 2003/2005	CMA	
<ul style="list-style-type: none"> Carry out a study and consider the necessary measures to develop and deepen the Repo Securities Market to facilitate short term financing and liquidity needs in the financial system. 	2003/2005	CMA/ CBK	In consultation with CBK and other stakeholders



Activity	Envisaged Timeframe	Implementing Unit/Agency	Remarks
<p>(b) <i>Expanding the market Horizon:</i></p> <ul style="list-style-type: none"> Encourage new and cross-border listings through appropriate incentives and measures, including sensitization of potential issuers. Review and consider measures to encourage or require underwriting of all initial (new) public issues of securities. Carry out a study on the viability of establishing a Futures and Options Market post-CDS/ATS environment (including Commodities Futures and Options in tea, coffee, maize). 	<p>2002/2005</p> <p>2003/2005</p> <p>By March 2004</p>	<p>CMA/ NSE</p> <p>CMA</p> <p>CMA</p>	<p>In consultation with market stakeholders</p>



5.0 *Creating an Enabling and Facilitative Environment for the Capital Markets*

- 5.1 An enabling and facilitative environment is critical for the broadening and deepening of the capital markets and the financial system in general.
- 5.2 In this regard the legal and fiscal environment as well as other macro economic policies should promote stability, predictability and be facilitative so as to engender economic growth.
- 5.3 The Authority as part of its mandate reviews on a continuous basis the operating environment, identifies impediments or distortions to the smooth functioning of capital markets as well as necessary incentives to stimulate growth.
- 5.4 The Authority has in particular established a robust and facilitative legal and regulatory environment and has achieved the following milestones with respect to the fiscal policies and other measures to create an enabling environment (see chapter on policy environment and incentives in this report):
- 5.6. During this reform period, the Authority will continue with its mandate of identifying impediments and necessary incentives to support and create an enabling environment for the capital markets in consultation with other stakeholders and the Treasury.
- As part of measures to facilitate the integration of East African Community and encourage East Africans in the domestic markets it has been proposed that East Africans be accorded equal treatment with domestic investors with



respect to taxation of dividend income and any reservations or allocation priorities. The Authority will pursue this proposal with the Treasury by June, 2003.

6.0 *Training and Investor Education*

- 6.1 The maintenance of high quality team of market professionals and informed investors is critical for the development of the capital markets and such training and investor empowerment is to be part of priorities of the capital markets reform agenda.
- 6.2 The programme will also entail financial service proficiency certification and sensitization of the general public as well as focus on shareholders rights and other good corporate governance practices.
- 6.3 The Authority has therefore, developed an investor education programme and is initiating measures to develop appropriate curriculum programme on financial service proficiency certification.



6.4 During the reform period the following specific measures will be implemented: -

<i>Activity</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<i>(a) Investor Education</i>			
<ul style="list-style-type: none"> Develop and launch a comprehensive Investor Education Program for the period 2002 – 2005. 	By January, 2003	CMA	In collaboration with NSE and other stakeholders
<ul style="list-style-type: none"> Identify financing sources for the Investor Education Program. 	By December 2002	CMA/NSE	In collaboration with NSE and other stakeholders
<ul style="list-style-type: none"> Identify and engage a Media Adviser to facilitate the production of Investor Education Documentary programs and other related services. 	By January 2003	CMA	
<ul style="list-style-type: none"> Production of Investor Education Documentary programs. 	By March 2003	CMA	
<ul style="list-style-type: none"> Commencement and implementation of the Investor Education Documentary programs. 	Starting March 2003	CMA	



<i>Investor Education (cont.)</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<ul style="list-style-type: none"> Facilitate the operationalisation of the Kenya Shareholders Association 	2002/2003	CMA/KSA/PSCGT	In collaboration with other stakeholders
<ul style="list-style-type: none"> Develop and Implement a Sensitization Program for Non-Executive Directors of public listed companies 	February 2003/2005	CMA	In collaboration with other stakeholders
<ul style="list-style-type: none"> Encourage the establishment of an Institute for Directors 	2002/2005	CMA/NSE	In collaboration with other stakeholders



<i>(b) Training of Market Professionals</i>			
<ul style="list-style-type: none"> Develop a mandate for the Financial Services Proficiency certification programme. 	By July/ August 2002	CMA	Invitation of bids for consultancy done
<ul style="list-style-type: none"> Identify and engage a consultant to develop curriculum modules for the Financial Services Proficiency certification. 	By January 2003	CMA	In consultation with NSE and other stakeholders
<ul style="list-style-type: none"> Approve the Financial Services Proficiency Examination curriculum. 	By March 2003	CMA	
<ul style="list-style-type: none"> Release an implementation program, including the designated examining certifying body and training centres. 	By June 2003	CMA	
<ul style="list-style-type: none"> Prescribe the Financial Services Proficiency certification as part of the minimum requirements for key staff of licensed market operators. 	By January 2004	CMA	



7.0 ***The Establishment of integrated East African Markets***

- 7.1 The establishment of an integrated East African markets represents an important strategy of the East African Community that is aimed at facilitating cross border transactions in financial markets.
- 7.2 This is also aimed at facilitating linkages on a virtual basis of the three East African capital markets through appropriate infrastructure to establish an East African regional capital market.
- 7.3 As part of these measures the capital markets regulatory authorities of Kenya, Uganda, and Tanzania have agreed on an harmonization programme that should see the harmonization of the legal and regulatory framework.
- 7.4 It will also lead to establishing an appropriate infrastructure for central depository and settlement as well as implement specific measures and benchmarks for convergence of the markets.



7.5 During the reform period the following measures will be implemented as part of deliberate efforts towards building of an integrated East Africa regional market:

<i>Activity</i>	<i>Envisaged Timeframe</i>	<i>Implementing Unit/Agency</i>	<i>Remarks</i>
<ul style="list-style-type: none"> Facilitate the expansion of Kenya's Central Depository and Settlement Project to serve Uganda and Tanzania 	By December 2003	CMA/NSE	In consultation with USE/TSE
<ul style="list-style-type: none"> Proposal towards according the East African investors similar tax treatment with respect to withholding tax on dividend. 	June 2003	CMA/KRA/ Treasury/CMA	
<ul style="list-style-type: none"> Facilitate participation and linkages of market professionals in particular stockbrokers within East Africa through mergers as well as Memorandum of Understanding between licensed operations to facilitate participation in the three markets. 	2003/2005	CMA	In collaboration with CMA Uganda and CMSA Tanzania and consultation with the 3 Stock Exchanges