



# CMA Forum

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# Chief Executive's Message



**Mr. Paul Muthaura**  
Acting Chief Executive

In the first half of the financial year, the Authority continued to focus on the implementation of the Capital Markets Master Plan, a flagship project under the Vision 2030 Economic Pillar. Our efforts and interventions were motivated by the need to contribute to the attainment of International Financial Centre status for Nairobi, the deepening of the capital markets, and integration of financial services in the East African Community.

The Cabinet Secretary, National Treasury also launched the Capital Markets Master Plan in November 2014, leaving no doubt that the Government has fully embrace the 10-year industry blueprint.

The Authority in collaboration with industry stakeholders continued to implement interventions to promote the development of the capital markets in Kenya. Some notable milestones during the first half included upscaling the scope of risk-based supervision; demutualization and self-listing of the Nairobi Securities Exchange; development of the Derivatives market; review of legal framework in line with International Organization

of Securities Commission (IOSCO) principles and the development of a roadmap for the introduction of international certification standards for industry participants in Kenya's capital market sector.

To achieve the critical objective of developing all aspects of the capital markets while removing impediments to, and creating incentives for long term investments in productive enterprise, the Authority also brought together stakeholders to discuss policies and incentives that would spur the development of the capital markets. The proposed recommendations for policy interventions through the annual Budget statement by the Cabinet Secretary to the National Treasury include: extending equal access to listing tax benefits to all classes

of companies listed at the Nairobi Securities Exchange; the promotion of credit rating among issuers including zero-rating credit fees; development of policy, legal and regulatory framework to operationalize Shariah compliant products and services and review of capital markets fees and levies to support competition and sustainable market activity. In addition, the Authority in collaboration with industry players will continue to engage Government in order to review foreign ownership restrictions in listed companies so as to improve competitiveness and liquidity of local markets.

We appreciate your enduring support of the Authority and wish you pleasant reading on key interventions in the first half of the year 2014-15.

# Financial Empowerment Through Mobile Technology

By Faith Mwendu

Financial education and literacy is very important as an informed investor is a protected investor. Investor education is also a key mandate of the Authority. As part of its efforts to enhance investor education among the investing public, the Capital Markets Authority (CMA) held various financial literacy and awareness initiatives, in partnership with industry stakeholders in the first half of the 2014-15 financial year.

These initiatives include: county investor education fora, hosting higher education institutions and investment clubs, National Trivia Competitions, University Challenges, print and electronic media-driven investor education promotions

such as media infusion of capital market themes in local TV programs such as Gavana, Inspekta Mwala and Beba Beba among others.

In addition to the above, youth are a key target of the Investor Education strategy and hence the National Trivia Competitions were targeted mainly at them. These competitions leveraged mobile technology such that all entries were through mobile phone by way of subscription for users duly registered in Kenya.

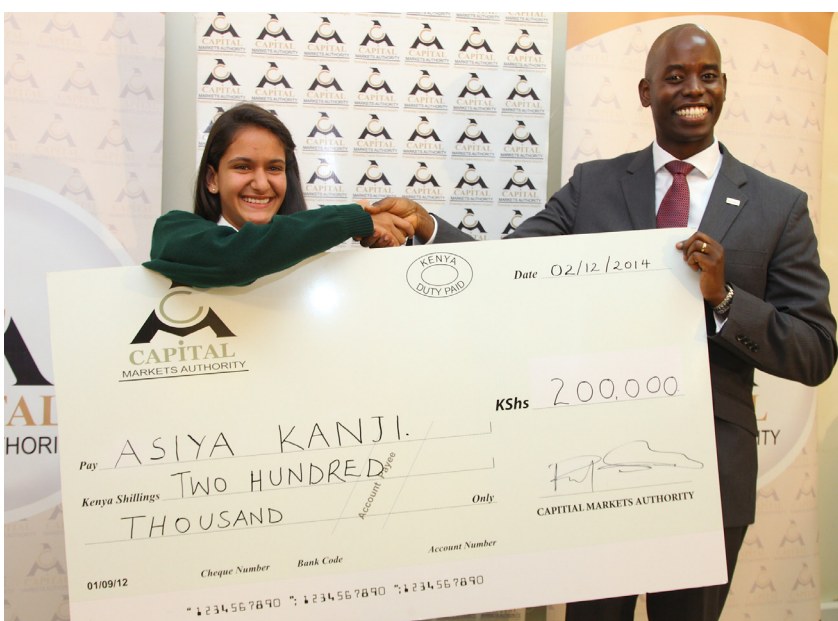
The Capital Markets National Trivia leveraged mobile technology to effectively reach out to the youth. The trivia was SMS based and participants responded to a set of questions that were provided by the Authority. From a set of 10

questions developed per week, each participant entered the competition's weekly and final draw by correctly answering at least one of up to ten questions. The more questions one responded to, the higher the chances of winning prizes in the draw. There was no limit as to the number of times a person could enter. The set of 10 questions were changed weekly for the duration of the Capital Markets National Trivia which ran for 6 weeks from October 6, 2014 and ended on November 17, 2014.

Success and impact of our investor education and financial literacy initiatives is key and therefore the Authority also collaborated with media houses and used vernacular radio stations to reach a wider spectrum in addition to social media sites such as Facebook and Twitter. The Authority targeted radio stations with high youth listenership such as Ghetto Radio to increase participation by youth in the competition.

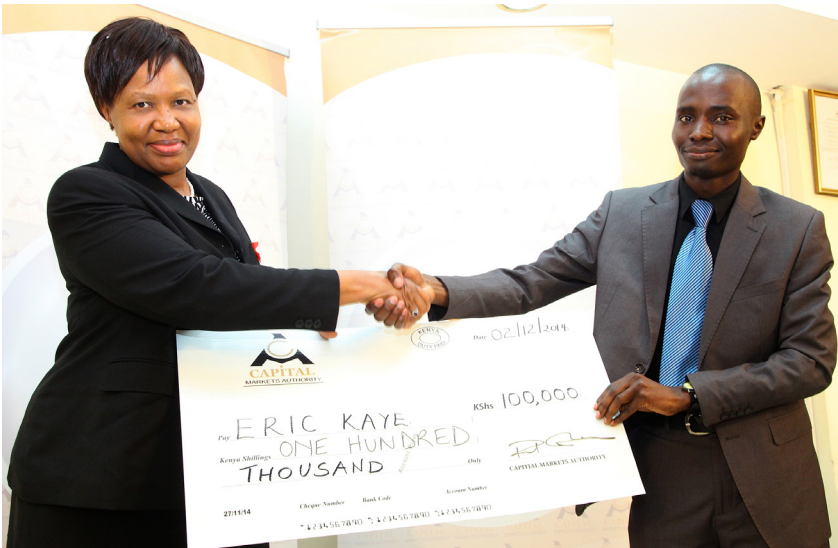
The Investor Education and Awareness Department of the Authority also hosted various universities between September and December 2015 and used the opportunity to create awareness about the National Trivia to the students.

As a way of encouraging the public to participate, the Authority gave out daily



The Acting Chief Executive Capital Markets Authority Mr. Paul Muthaura hands over the grand prize of Kshs 200,000 to Ms. Asiya Kanji of Nairobi County. Ms Asiya was the overall winner of the Capital Markets National Trivia competition





First runner-up Mr. Eric Kaye of Kisumu County (right), receives a cheque from CMA Board Member Ms. Rose Detho, during the Grand Finale Ceremony of the CMA National Trivia competition

consolation prizes worth Kshs10,000 to 30 winners over the six week period. The selection of the daily winners was done without human intervention each day at 6.00pm. Each question answered automatically entered a participant into the grand draw competition for prizes which were Kshs200,000 for the grand prize winner, Kshs100,000 for the first runner-up and Kshs 50,000 for the second runner-up. The prize money was exclusively applied to the purchase of shares in companies listed at the Nairobi Securities Exchange.

The Authority held a grand finale ceremony on December 2, 2014 in the Authority's conference room where winners received the prizes. The event was well attended including the three grand prize winners.

The ceremony was also attended by invited industry stakeholders such as the Central Depository and Settlement Corporation (CDSC), Kenya Association of Investment Groups (KAIG) as

well as CMA Board members and staff representatives from different directorates. The grand prize of Kshs200,000 was won by Ms. Asiya Kanji from Nairobi county who is currently a student in Aga Khan Academy in Nairobi.

Family members and staff of the Capital Markets Authority were not eligible to participate in the competition.

The competition was

successful with a total of 7,522 registrants and 123,948 recorded SMS's. It was noted that the 47 counties present in Kenya were all well represented in the competition as people came out in large numbers to take part in the competition and test their knowledge of the capital markets. The second runner-up prize of Kshs50,000 was received by Mr. Andrew Ngurario, a businessman from Kajiado County.

The Authority will continue to leverage mobile technology in educating the public. This is due to its wide reach and high penetration among the youth, a key target of the Authority's investor education strategy. This will also enable the Authority reach many potential and existing investors and increase awareness about the capital markets.

*"An educated and well informed investor is a protected investor"- Capital Markets Authority.*

*"Tell me and I forget, teach me and I may remember, involve me and I learn."- Benjamin Franklin*



CMA Board member Mrs. Judy Thuo presents a cheque to Mr. Andrew Ngururo of Kajiado County for being the second runner-up during the CMA National Trivia challenge

# Update on Corporate Approvals

**By Esther Manthi**

The Authority gave a nod for the grant of several licenses, rights and bond issues in the first half of the financial year.

Natbank Trustee and Investment Services Limited joined the list of licensed fund managers while EBI Investment Corporation Kenya Limited and Kestrel Capital (East Africa) Limited were licensed as investment banks. Metropol Corporation Limited and Pan Africa Asset Management Limited were added to the number of approved credit rating agencies and unit trust schemes respectively.

Market players took advantage of the Capital Market (Collective Investment Schemes) (Real Estate Investment Trusts) Regulations 2013, with ICEA Lion Asset Management Limited and Co-operative Bank of Kenya Limited adding to the tally of REIT Managers and Trustee respectively.

There were a number of bonds and rights issues approved

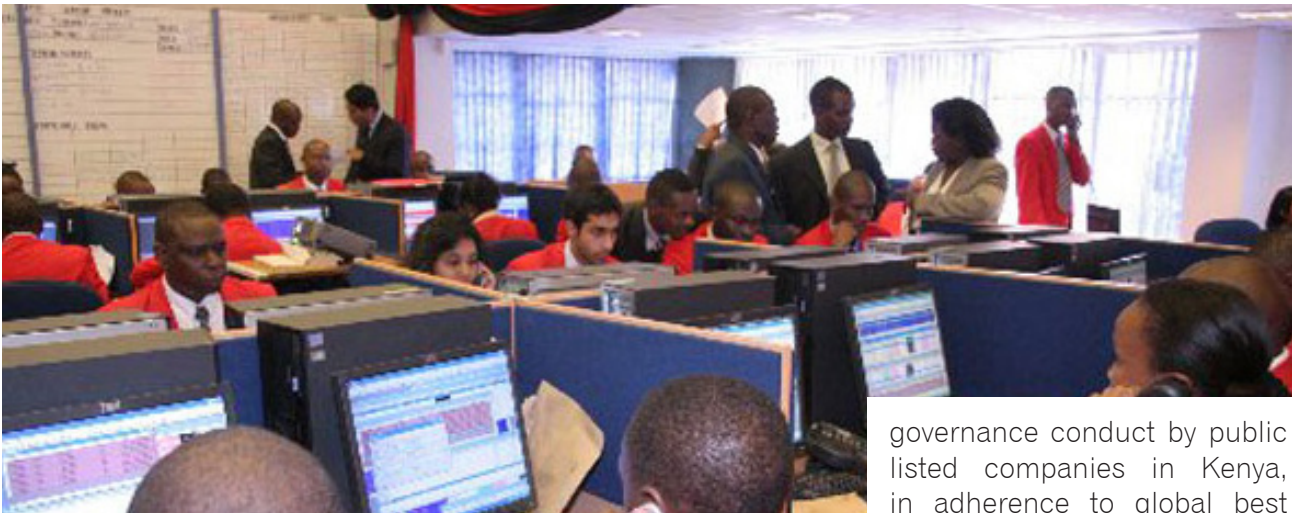
during the period. One of the significant bonds approved for listing on the Nairobi Securities Exchange was the Kshs35 billion Treasury Infrastructure Bond Issue No. IFB1/2014/12. The bond will be issued in two tranches of Kshs15 billion and Kshs20 billion respectively. Commercial Bank of Africa issued a Kshs8 billion Medium Term Note with a greenshoe option of up to Kshs2 billion.

NIC Bank received approval to issue and list a Kshs8 billion Subordinated Medium Term Note in two tranches of Kshs3 billion in 2014 and Kshs5 billion in 2019. NIC Bank further issued a Kshs2.1 billion rights issue. Uchumi Supermarkets Limited also issued a Ksh895 million rights issue.

The Authority granted approval to CIC Insurance Group and Longhorn Publishers Limited to offer and list 435,923,088 new shares and 87,750,000 new shares respectively.

During the period, the largest private transfer transaction was of 3.7 billion shares by Barclays Bank of Kenya.





## Development of a Stewardship Code for Institutional Investors in Kenya

By Hillary Biwott

For the capital markets in Kenya to flourish as the Capital Markets Master Plan articulates, sound corporate governance principles are critical. The Authority defines corporate governance as:

*'The process and structure used to direct and manage the business and affairs of a company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking account of the interests of other stakeholders.'*

Corporate Governance practices for public listed companies in Kenya are governed by the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya, which were issued in 2002. In October 2012, the Authority commenced a process towards the reform of

corporate governance legal and regulatory framework for public listed companies in Kenya. The reforms were intended to address three key issues:

- 1) To update the corporate governance legal framework for public listed companies to reflect the changing business environment and financial market challenges encountered over the last decade;
- 2) To align local standards to global best practice;
- 3) To establish institutional strengthening requirements that would position public listed companies in Kenya as attractive for global capital fund flows;

The Authority established a special adhoc committee of the Board, composed of nine members, following broad and active engagement with stakeholders on the nomination of representatives. The Capital Markets Corporate Governance Steering Committee's mandate was to guide review of corporate

governance conduct by public listed companies in Kenya, in adherence to global best practice and guide review on matters of ethics and integrity as envisaged in Chapters 6 and 13 of the Constitution. The Committee was to also guide implementation of amendments to the corporate governance legal framework by listed companies, a result arising from the identification of necessary policy and institutional strengthening requirements to promote corporate governance in Kenya's capital markets. The Committee was also required to address prevailing weaknesses in the enforcement of the existing corporate governance legal framework as well as strengthen the capacity and professionalism of key stakeholders in the market.

After 18 months of extensive stakeholder consultation, research and global benchmarking, the Committee finalized the development of a Corporate Governance Blueprint and a new Code of Corporate Governance Practices for Issuers of Securities to the Public, 2014 (the new Code). The Code is currently awaiting gazettelement by the National Treasury after which it will replace the current Corporate Governance Guidelines for public listed

companies in Kenya.

One of the principles espoused in the new Code is that of Stewardship. Principle 2.3 notes that 'institutional investors should have transparent, honest and fair practices in their dealings with the companies in which they invest'. The Code recommends that:

*'Institutional investors take up the role of stewardship as the representatives of their clients or investors in listed companies and other approved products through their organizations. This means that they need to make direct contact with the Company's Management and Board to discuss performance, corporate governance and voting. Institutional investors should commit themselves to complying with principles of a Code that governs the roles and responsibilities of institutional investors operating under the jurisdiction of the CMA'. (Recommendations 2.3.1. and 2.3.2)*

In view of the foregoing recommendations on Stewardship, the Authority, in partnership with World Bank has begun the process of developing a Stewardship Code for Institutional Investors. This is a critical step in preparation for implementation of the corporate governance legal framework once it is enacted.

A Stewardship Code according to the Financial Reporting Council (UK FRC) is intended for application by institutional investors who are pension funds, insurance companies, collective investment schemes, investment trusts and fund

managers. UK FRC notes that Stewardship extends beyond voting to include monitoring and engagement between institutional investors and listed companies on strategy, performance, risk, capital structure and corporate governance.

The Authority engaged institutional investors and listed companies for nomination of suitable persons to drive the development of a Stewardship Code for Institutional Investors in Kenya. There is emphasis that the Stewardship Code must not be a replica of international codes, but one that critically interrogates local situations and circumstances then proposes equilibrium between global best practice and those situations.

The Capital Markets Stewardship Code Committee composed of eight members was appointed on 29 January, 2015. The terms of reference for the Committee include-

- Conduct in-depth review and analyses of Stewardship Codes globally;
- Undertake an assessment on the stewardship practices of institutional investors in Kenya in respect of listed companies on their own behalf and on behalf of their clients;
- Engage consultants or advisors with global and local experience to ensure that the proposed Code adheres to the best practice principles subject to appropriate contextualization to the special circumstances in Kenya;
- Outline principles for

effective stewardship of listed companies in Kenya by local institutional investors;

- Coordinate the drafting of the Stewardship Code for Institutional Investors
- Promote ownership of the proposed Stewardship Code among institutional investors through face-to-face and group engagements; and
- Lobby government and other policy makers locally and globally to ensure that other laws in Kenya complement the Stewardship Code and any impediments to the effective functioning of the Code are addressed.

The Committee has representation from National Treasury, the largest pension scheme in Kenya, National Social Security Fund (the mandatory pension scheme in Kenya), Fund Managers Association, Association of Kenya Insurers, Association of Retirement Benefit Schemes, Listed Companies, The Actuarial Society of Kenya and the Capital Markets Authority Board. The Committee is chaired by James Olubayi.

Presently, the Committee has developed an issues paper following an inaugural research undertaken by international consultants, involving key capital market stakeholders and is in the process of collating feedback on the position paper.

The Stewardship Code seeks to promote the long-term success of public listed companies in Kenya so as to maximize value for shareholders.

# CMA Acting Chief Executive Elected to IOSCO Board

By Antony Mwangi

Capital Market Authority (CMA) Kenya's Acting Chief Executive, Mr. Paul Muthaura, has been elected to the prestigious Board of the International Organization of Securities Commissions (IOSCO). IOSCO is the premiere reference point for securities regulation and standard setting for the global capital markets regulatory community. This position has been re-emphasized through its proactive role in developing responses for the identification as well as mitigation of systemic and emerging risks across the financial sector globally through the Financial Stability Board (FSB) and G-20 process.

With his election to the Board, Mr. Muthaura will also take up a seat on the Growth and Emerging Markets Steering Committee (GEMC) which is charged with representing the interests of more than 75 percent of the membership of IOSCO covering the spectrum of the most developed emerging markets including the BRICS to frontier and nascent capital markets. The election was conducted during the GEMC meeting held in Rio de Janeiro, Brazil on September 29, 2014 and attracted candidates from CNV Argentina, FSC Mauritius, CMB Turkey, CMA Kenya and CDVM Morocco. CMB Turkey was also elected to the IOSCO Board.

This position strengthens the voice of the more than 85 Latin American, European, African, Middle Eastern and Asian securities and derivatives

regulators in informing IOSCO policy and regulatory formulation and its impact on developing capital markets. It is also a significant boost to Kenya's aspiration for Nairobi to become an International Financial Center.

His immediate priority is to add his voice to developing practical solutions at Board level to mitigate the unintended consequences of global regulatory reforms on emerging and frontier markets, to strengthen Africa's voice in the Financial Stability Board and G-20 work-streams relating to capital markets issues and

Exchange (NSE), development of Kenya's first 10 Year Capital Markets Master Plan, as well as the roll out of a regulatory framework of the Derivatives markets. The Kenyan capital market is further at advanced stages of introducing new products such as Exchange Traded Funds (ETFs) and Real Estate Investment Trusts (REITs).

During the meeting, the International Monetary Fund (IMF) was welcomed as a new member of the GEMC. Mr. Ranjit Singh, Chairman of the Malaysian Securities



*Capital Markets Authority acting Chief Executive, Mr. Paul Muthaura, participates during the GEMC Steering Committee Meeting at the IOSCO Board and additional Committee meetings in Seoul, South Korea.*

to foster new approaches to capacity building through peer to peer programs by leveraging the expertise within the membership.

Mr. Muthaura stands out among the regulators in the growth and emerging markets for his role in spearheading the implementation of key reforms in the capital markets in Kenya, notably finalizing the demutualization and self-listing of the Nairobi Securities

Commissions was elected Chairman of the Growth and Emerging Markets Committee while Mr. Bert Chanetsa of FSB South Africa, was elected Vice Chairman.

The next IOSCO board meeting will be held in London from 15 - 16 June, 2015 during the 40th Annual Conference of IOSCO.



# Capital Markets Authority wins 2014 Microsoft Customer Excellence Award

By Edwin Njamura

The Authority's Strategic Plan, 2013-2017 includes leveraging technology for better service delivery including improvement of internal efficiencies. In view of this, the Authority has adopted Risk Based Supervision (RBS) as part of reforms aimed at enhancing market oversight functions and Enterprise Resource Planning (ERP) systems for improved internal processes. These solutions have been implemented through the Microsoft Dynamics NAV platform and funded by the World Bank through the Ministry of Finance Financial and Legal Sector Technical Assistance Project (FLSTAP). Microsoft Dynamics was chosen after a competitive procurement process. Total funding received for the project including equipment was US\$ 1,371,649.96 (Kshs 128,935,096.15).

The implementation of Microsoft Dynamics NAV has streamlined services by substantially reducing paper-based transactions and processes. Also, licensed persons can now file returns online leading to reduced turnaround times. The RBS system has internally synchronized the different functions within the Authority including licensing, approvals, inspections, financial analysis, investigations and enforcement with the resultant synergies leading to better service provision. Speedy availability of information has also made it possible for faster corrective action once an issue of concern is detected. The implementation of the systems provided the Authority with an opportunity for process re-engineering of internal and external business processes



*From left to right: Capital Markets Authority Assistant Manager Information Communication and Technology, Mr. Wilberforce Ong'ondo, Director Corporate Services Mr. Edwin Njamura and Consultant from Attain, Debie Masera receive a Microsoft® 2014 Dynamics Business: Small and Medium Business Award. The Authority was honoured with the award in Barcelona, Spain in October 2014 for its investment in Enterprise Resource Planning systems.*

in a way that has transformed the way the Authority interacts with its stakeholders and also positioned the organization to cope with expected growth & market dynamics.

The project execution was internally managed through Project Steering and Champions Committees with Attain Enterprise Solutions Limited as solution providers. The latter is a Microsoft solutions partner based in Nairobi-Kenya. It is notable that the support by FLSTAP for the RBS/ERP project was also accorded to fellow regulators in the non-bank financial sector. Owing to the focus and commitment of the Staff of the Authority, the various committees and Attain the Authority was able to expeditiously overcome implementation challenges through practical and innovative project approaches. Ultimately

the RBS system was officially launched by the Financial Secretary, National Treasury, Mr. Mutua Kilaka, on the 26th September 2013 at the Hilton Hotel, Nairobi Kenya.

In recognition of the transformative nature of the systems adopted, the Authority was nominated to compete for global recognition amongst similarly sized organizations that applied Microsoft Dynamics. CMA made the shortlist and eventually **won the 2014 Customer Excellence Award for Small and Medium Business.** Edwin Njamura, Director Corporates Services who also chaired the Project Steering committee received the award on behalf of CMA during the Annual Microsoft Convergence 2014, November 4-6th in Barcelona, Spain.



From left: Capital Markets Authority Ag. Chief Executive Mr. Paul Muthaura and the Lord Mayor of the City of London Alderman Fiona Woolf (centre) sign a Memorandum of Understanding (MOU) between the Capital Markets Authority and the Chartered Institute of Securities and Investment. Looking on is Cabinet Secretary to the National Treasury Mr. Henry Rotich (right). The MOU paves the way for the introduction of international certification standards for the capital markets in Kenya and the region.



Cabinet Secretary to the National Treasury, Mr. Henry Rotich (right) presents a certificate of appreciation to the chairman of the Capital Markets Master Plan Steering Committee Mr. Paul Kavuma (left), during the launch of the Capital Markets Master Plan. The Master Plan is a 10 year blueprint that charts the vision of the capital markets sector. The launch took place at Kenya International Convention Centre.



Capital Markets Authority Ag. Chief Executive Mr. Paul Muthaura (right) engages Awal Consulting Managing Partner Ms. Rahma Hersi during the Islamic Finance Strategic Roundtable. Looking on is Islamic Research and Training Institute Br. Yahya Aleem Ur Rehman. The roundtable brought together stakeholders from the financial sector, Islamic financial services industry, government agencies and international experts to deliberate the development of Kenya as a centre of excellence in Islamic financial products.





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