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# THE CMA Forum

A QUARTERLY PUBLICATION OF CAPITAL MARKET AUTHORITY
ISSUE 05 2009

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- Financial regulator's MOU
- Risk Based Supervision
- 2009 / 2010 budget outcome

# THE CMA Forum

CAPITAL

MARKETS AUTHORITY

## Our Mission

To promote market confidence, investor protection and access to financial services within capital markets in Kenya and the region through effective regulation and innovation.

## Our Vision

To be a world-class regulator of a vibrant capital market.





| | |
|---|---|
| J.W. Seagon Limited | P.O. Box634201 - 00619, Nairobi |
| Regnum Consultants Limited | P.O. Box 11431 - 00400, Nairobi |
| The Profin Group (Kenya) Limited | P. O. Box 9980 – 00100, Nairobi |
| Tsavo Securities Limited | P.O. Box 11987 - 00100, Nairobi |
| VFS International (K) Limited | P.O. Box 4 – 00621, Nairobi |
| Winton Investment Services Limited | P.O. Box 607 - 00621, Nairobi |
| Emerging Africa Capital Limited | P.O. Box 32200 - 00600, Nairobi |
| Equilibrium Capital Limited | P.O. Box 9000 - 00100, Nairobi |
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| Franklin Management Consultants Limited | P.O. Box 61843 – 00200, Nairobi |
| Alliance Capital Partners Limited | P. O. Box 12181 – 00100, Nairobi |
| Citidell Company Limited | P.O. Box 185 – 00606, Nairobi |
| Lifestyle Management Limited | P.O. Box 1342 – 00606, Nairobi |
| PricewaterhouseCoopers Associates Limited | P.O. Box 43963 – 00100, Nairobi |
| Prudential Capital Limited | P.O. Box 32510 – 00600, Nairobi |

**FUND MANAGERS:**

| NAME | ADDRESS |
|---|---|
| African Alliance Kenya Management Company Limited | P.O. Box 27639 - 00506, Nairobi |
| Amana Capital Limited | P.O. Box 9480 - 00100, Nairobi |
| AIG Global Investment Co. (E.A) Limited | P.O. Box 67262 – 00200, Nairobi |
| Aureos Kenya Managers Limited | P.O. Box 30375 – 00100, Nairobi |
| British American Asset Managers Limited | P.O. Box 43233 – 00100, Nairobi |
| Co-optrust Investment Services Limited | P.O. Box 48231 – 00100, Nairobi |
| Genesis (K) Investment Management Limited | P.O. Box 79217 – 00200, Nairobi |
| ICEA Asset Management Limited | P.O. Box 46143 – 00100, Nairobi |
| InvesteQ Capital Limited | P.O. Box 56977 - 00200, Nairobi |
| Old Mutual Investment Services (K) Limited | P.O. Box 30059 – 00100, Nairobi |
| Old Mutual Asset Managers (K) Limited | P.O. Box 11589–00400, Nairobi |
| Sanlam Investment Management (K) Limited | P.O. Box 7848 - 00100, Nairobi |
| Standard Chartered Investment Services Limited | P.O. Box 30003 – 00100, Nairobi |
| Stanbic Investment Management Services (E.A.) Limited | P.O. Box 30550 – 00100,Nairobi |
| Zimele Asset Management Co. Limited | P.O. Box 76528 - 00508, Nairobi |
| CIC Asset Management Limited | P.O. Box 59485 – 00200, Nairobi |
| Madison Asset Management Services Limited | P.O. Box 20092 – 00100, Nairobi |

**AUTHORIZED DEPOSITORIES**

| NAME | ADDRESS |
|---|---|
| African Banking Corporation Limited | P.O. Box 46452 - 00100, Nairobi |
| Barclays Bank of Kenya Limited | P.O. Box 30120 – 00100, Nairobi |
| CFC Stanbic Bank Limited | P.O. Box 72833 – 00200, Nairobi |
| Co-operative Bank of Kenya Limited | P.O. Box 48231 - 00100, Nairobi |
| Dubai Bank Kenya Limited | P.O. Box 11129 - 00400, Nairobi |
| Equatorial Commercial Bank Limited | P.O. Box 52467 - 00200, Nairobi |
| Equity Bank Limited | P.O. Box 75104 - 00200, Nairobi |
| I & M Bank Limited | P.O. Box 30238 - 00100, Nairobi |
| Kenya Commercial Bank Limited | P.O. Box 48400 – 00100, Nairobi |
| National Bank of Kenya Limited | P.O. Box 72866 – 00200, Nairobi |
| NIC Bank Limited | P.O. Box 44599 – 00100, Nairobi |
| Prime Bank Limited | P.O. Box 43825 -00100, Nairobi |
| Transnational Bank Limited | P.O. Box 75840 – 00200, Nairobi |
| Chase Bank Limited | P.O Box 66049 – 00800, Nairobi |

**APPROVED COLLECTIVE INVESTMENT SCHEMES:**

1. African Alliance Kenya Unit Trust Scheme:
   - i. African Alliance Kenya Shilling Fund.
   - ii. African Alliance Kenya Fixed Income Fund.
   - iii. African Alliance Kenya Managed Fund.
2. Old Mutual Unit Trust Scheme:
   - i. Old Mutual Equity Fund.
   - ii. Old Mutual Money Market Fund.
   - iii. Old Mutual Balanced Fund.
   - iv. Old Mutual East Africa Fund.
   - v. Old Mutual Bond Fund.
   - vi. Old Mutual East African Fund
3. British American Unit Trust Scheme:
   - i. British American Money Market Fund.
   - ii. British American Income Fund.
   - iii. British American Balanced Fund.
   - iv. British American Managed Retirement Fund.
   - v. British American Equity Fund.
4. Stanbic Unit Trust Scheme:
   - i. Stanbic Money Market Fund.
   - ii. Stanbic Flexible Income Fund.
   - iii. Stanbic Managed Prudential Fund.
5. Commercial Bank of Africa Unit Trust Scheme:
   - i. Commercial Bank of Africa Money Market Fund.
   - ii. Commercial Bank of Africa Equity Fund.
6. Zimele Unit Trust Scheme:
   - i. Zimele Balanced Fund
   - ii. Zimele Money Market Fund
7. Suntra Unit Trust:
   - i. Suntra Money Market Fund
   - ii. Suntra Equity Fund
   - iii. Suntra Balanced Fund
8. ICEA Unit Trust:
   - i. ICEA Money Market Fund
   - ii. ICEA Equity Fund
   - iii. ICEA Growth Fund
9. Standard Investment Trust Funds:
   - i. Standard Equity Growth Fund
   - ii. Standard Income Fund
   - iii. Standard Balanced Fund
10. Dyer and Blair Unit Trust Scheme:
    - i. Dyer and Blair Diversified Fund
    - ii. Dyer and Blair Bond Fund
    - iii. Dyer and Blair Money Market Fund
    - iv. Dyer and Blair Equity Fund
11. CFC Unit Trust Fund
12. Amana Capital Unit Trust Scheme

**APPROVED EMPLOYEE SHARE OWNERSHIP PLANS (ESOPS):**

1. EABL Employee Share Ownership Plan.
2. KENOL Employee Share Ownership Plan.
3. ARM Employee Share Ownership Plan.
4. AccessKenya Group Employee Share Ownership Plan.
5. Scangroup Employee Share Ownership Plan.
6. Safaricom Employee Share Ownership Plan.
7. Housing Finance Employee Share Ownership Plan.
8. Kenya Commercial Bank Limited Employee Share Option Plan.
9. Equity Bank Limited Employee Share Ownership Plan.
10. Standard Group Limited Employee Share Ownership Plan

## CAPITAL MARKETS AUTHORITY LICENSEES (AS AT DECEMBER 2009)

### APPROVED INSTITUTIONS:

| NAME OF THE COMPANY | ADDRESS | NATURE OF OPERATION |
|---|---|---|
| Acacia Fund Limited | P.O. Box 43233 - 00100, Nairobi | Venture Capital. |
| Central Depositories and Settlement Corporation Limited | P.O. Box 3464 - 00100, Nairobi | Central Depository. |
| Global Credit Rating Company | P.O. Box 76667, Wendywood 2144, South Africa | Credit Rating Agency. |
| The Nairobi Stock Exchange | P.O. Box 43633- 00100, Nairobi | Securities Exchange. |

### STOCKBROKERS:

| NAME | ADDRESS |
|---|---|
| ABC Capital Limited | P.O. Box 34137 – 00100,Nairobi |
| African Alliance Kenya Securities Limited | P.O. Box 27639 - 00506, Nairobi |
| Kingdom Securities Limited | P.O. Box 73253 - 00200, Nairobi |
| NIC Capital Securities Limited | P.O. Box 63046 - 00200, Nairobi |
| Genghis Capital Limited | P.O. Box 28987 - 00200, Nairobi |
| Ngenye Kariuki and Company Limited | P.O. Box 12185 – 00400, Nairobi |
| Reliable Securities Limited | P.O. Box 50338 - 00200, Nairobi |

### INVESTMENT BANKS:

| NAME | ADDRESS |
|---|---|
| African Alliance Kenya Investment Bank Limited | P.O. Box 27639-00506, Nairobi |
| Afrika Investment Bank Limited | P.O. Box 41684 - 00100, Nairobi |
| Apex Africa Investment Bank Limited | P.O. Box 43646 – 00100, Nairobi |
| Barclays Financial Services Limited | P.O. Box 30120 – 00100, Nairobi |
| CBA Capital Limited | P.O. Box 30437 – 00100, Nairobi |
| CFC Stanbic Financial Services Limited | P.O. Box 44074 – 00100, Nairobi |
| Dry Associates Limited | P.O. Box 684 – 00606, Nairobi |
| Drummond Investment Bank Limited | P.O. Box 45465 - 00100, Nairobi |
| Dyer and Blair Investment Bank Limited | P.O. Box 45396 – 00100, Nairobi |
| Equatorial Investment Bank Limited | P.O. Box 52467 - 00200, Nairobi |
| Equity Investment Bank Limited | P. O. Box 75104 - 00200, Nairobi |
| Faida Investment Bank Limited | P.O. Box 45236 - 00100, Nairobi |
| Kestrel Capital (East Africa) Limited | P.O. Box 40005 – 00100, Nairobi |
| NIC Capital Limited | P.O. Box 44599 - 00100, Nairobi |
| Renaissance Capital (Kenya) Limited | P.O. Box 40560 - 00100, Nairobi |
| Standard Investment Bank Limited | P.O. Box 13714 - 00800, Nairobi |
| Sterling Investment Bank Limited | P.O. Box 45080 – 00100, Nairobi |
| Suntra Investment Bank Limited | P.O. Box 74016 – 00200, Nairobi |
| FCB Capital Limited | P.O. Box 56793 – 00300, Nairobi |

### INVESTMENT ADVISERS:

| NAME | ADDRESS |
|---|---|
| Bridges Capital Limited | P.O. Box 62341 – 00200, Nairobi |
| Cititrust Kenya Limited | P.O. Box 30711 – 00100, Nairobi |
| Co-operative Consultancy Services (K) Limited | P.O. Box 48231 – 00100, Nairobi |
| Deloitte Financial Advisory Limited | P.O. Box 40092 - 00100, Nairobi |
| Executive & Corporate Advisory Services (K) Limited | P.O. Box 72216 – 00200, Nairobi |
| Finconsult Company Limited | P.O. Box 38725 - 00623 Nairobi |
| First Africa E.A Limited | P.O. Box 56179 - 00200, Nairobi |
| Iroko Securities (Kenya) Limited | P.O. Box 66249 – 00800, Nairobi |
| Jani Consultancy Services Limited | P.O. Box 40583 – 00100, Nairobi |
| Loita Asset Management Limited | P.O. Box 39466 – 00623, Nairobi |



# THE CMA Forum

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## CHIEF EXECUTIVE'S MESSAGE

Mrs. Stella Kilonzo
Chief Executive,
Capital Markets Authority

Once again it's my great pleasure to welcome you to this issue of the CMA Forum, the official Newsletter of the Capital Markets Authority. This issue of our Newsletter gives an insight on the following issues;

- The Financial Regulators MOU'S;
- The Introduction of a Risk Based Supervision Model;
- The Introduction of Prudential Regulations in the Capital Markets and;
- The Development of a vibrant Bond Market .

During this period, the Authority sustained the momentum for reforms within our capital markets. Of particular importance among these reforms is the introduction of the Risk Based approach to supervision of our intermediaries, which is an approach that places strong emphasis on understanding of inherent risks and assessing the adequacy of each market intermediary risk management systems in identifying, monitoring and controlling risks.

As part of our commitment to protect investors' interests, the Authority also undertook compensation for those investors who lost money in Nyaga Stockbrokers Ltd (under statutory management) through the investor compensation fund.

Again the Authority continues to engage stakeholders in all its efforts to bring change and development of our capital markets. We consider it critical that all the stakeholders pull in the same direction if our market is to progress to greater heights of development. It is in this spirit that the four regulators in charge of supervising financial institutions in Kenya, that is the Authority, Central Bank of Kenya, the Retirement Benefits Authority and the Insurance Regulatory Authority, came together and signed a Memorandum of Understanding (MOU) for collaboration. The MOU is facilitating implementation of cross-sector supervision and cooperation.

At the same time the process of demutualization of the Nairobi Stock Exchange (NSE) to, among other things, separate ownership and management of the exchange, remain a key milestone for us to accelerate the development of the capital markets in Kenya, and the Authority is very keen on ensuring that this process is concluded.

Finally I encourage all Kenyans to invest in the capital market.

# RISK BASED SUPERVISION – THE SHIFT

The existence of a strong and effective supervisory framework is essential to the creation of a credible capital market which is attractive to both investors seeking to find a legitimate place to invest their funds and issuers seeking to raise capital to support their businesses.

One of the core mandates of the CMA is to supervise licensed market intermediaries to ensure that they comply with regulatory requirements. The Authority carries out this function through both on-site and off-site surveillance.

Continuing changes in the capital markets in Kenya such as the range and sophistication of market intermediaries, products and services, speed of financial transactions and technology has led the Capital Markets Authority to refine and revamp its supervisory policies, procedures and practices in order to provide a dynamic, efficient, structured and risk-oriented supervision framework. This has therefore necessitated the adoption of Risk Based Supervision (RBS). By adopting RBS, The Authority will be moving away from a rules-based style of regulation to one more reliant on the supervisors' discretion and professional judgement.

Risk Based Supervision (RBS) is an approach that places strong emphasis on understanding the inherent risks and assessing the adequacy of each market intermediary's risk management systems in identifying, measuring, monitoring and controlling risks. It assigns the highest priority to areas of the highest risk.

Differences between Risk-based and compliance based (Traditional) Supervision;

**Traditional Approach**

- Transactions-based testing
- Point-in-time assessments
- Standard procedures
- Historical performance
- Focuses on risk avoidance
- Bottom-up approach

**Risk Based Approach**

- Process-oriented
- Continuous assessments
- Risk-profile driven procedures
- Forward looking indicators
- Focuses on risk mitigation

**Top- up approach**

RBS saves regulatory resources because it focuses the resources on areas of highest risk. It promotes a safer and sound system because at the heart of risk-based supervision is an assessment of how well institutions manage risk. By getting institutions to do a better job of managing risks as opposed to correcting symptoms of problems, as is often the case with traditional supervision, regulators focus their actions on correcting causes of problems and thereby requiring improvements in management practices and management systems

Whereas RBS is a higher form of supervision, it is not practiced at the exclusion of traditional supervision. Like the doctor who detects symptoms or high-risk factors and prescribes extensive testing to determine the nature and extent of problems, regulators who find symptoms of problems or high-risk factors and less-than-satisfactory risk-management practices should do sufficient transaction testing to determine if problems exist and, if so, their nature, cause, and extent.

**Benefits**

Several benefits will accrue from the adoption of risk-based supervision, such as;

- Greater emphasis on early identification of emerging risks through enhanced off-site surveillance;
- Enabling market supervisors to effectively evaluate risks through separate assessment of inherent risks and risk management processes;
- Cost effective use of resources through a sharper focus on areas exhibiting higher risk;
- Encourages intermediaries to enhance ability to identify, measure, manage and control risks within their business lines;

**Milestones**

Several key steps have been taken by the Authority towards full adoption of the RBS Approach. These include:

- Preparation of a diagnostic report by ISC consultants, detailing the current supervisory regime and the attendant weaknesses.
- Preliminary training of core staff
- Introduction of Relationship Management within Market Supervision to allow for effective and continuous monitoring and assessments of market intermediaries.
- Development of a risk-oriented manual for the supervision of intermediaries.
- Preliminary risk profiling and categorization of licensees.
- Conduct of risk management survey in order to determine the current status of risk management systems practised in the capital markets sector in Kenya.

Undoubtedly this approach, on full adoption, will enable the Authority to be more proactive and better positioned to pre-empt any serious threat to the stability of the capital markets from any current or emerging risks. In addition, it will allow the Authority to continue to deliver consistent, high-quality supervision as the capital markets sector develops and as risk profiles of intermediaries change in reaction to competitive forces. The enhanced supervisory regime will promote both competition and the safety and soundness of the sector. This approach should also benefit the intermediaries as the regulatory effort is more focused on high-risk areas and provides for more efficient supervision.

Overall, Risk Based Supervision Approach will enable the Authority to perform its market supervision

*by Stephen K'odera*
*Technical Advisor, Market Supervision Department*





**CMA Welcomes:**

**Veronica Waiyaki**
**Manager, Human Capital and Administration**

Mrs Waiyaki joined the Authority on 2 November 2009. She holds an MBA, and BSc – Business Administration from Alliant University (previously USIU-San Diego) and USIU Africa respectively. She is also a full Member of the Institute of Human Resource Management (IHRM), Kenya and a member of the Society of Human Resource Management, USA.

She has wide experience in Human Resource Management having worked for ILRI, Nairobi, Kenya and International Institute of Tropical Agriculture, Ibadan, Nigeria among others.

**Rose Leruk**
**Registry Clerk**

Rose joined the Authority on 5 November 2009. She holds a Diploma in Information Studies from the University of Nairobi and a Certificate in Computer Applications.

She has over two years experience, having been attached at the Authority as a library assistant and also as a Stores Assistant.

**Lydia Kinyanjui**
**Policy Analysis and Planning Officer**

Lydia joined the Authority on 4 January 2010. She holds a Masters degree in Economic Policy and Management and a bachelor's degree in Economics.

She has experience gained from the Ministry of public works as an Economist. This includes policy formulation and coordinating economic planning policies.

**Justus Agoti**
**Research Officer**
Justus joined the Authority on 14 January 2010. He is a holder of a Master of Arts Degree in Economics, BA in Economics, Higher Diploma in HRM and CPA I.

He was working for Sterling Investment Bank as the Head of Research for the last 4 years. Between 2005 and 2006, he worked as a Researcher at KIPPRA.

**Mary Njuguna**
**Senior Legal Officer**

Mary joined the Authority on December 15, 2009. She holds a Bachelor of Law Degree (LLB) and Diploma in Law. She is an Advocate of the High Court of Kenya.

She was working as an Associate Advocate at the firm of A.F. Gross Advocates charged with the running of the commercial and Conveyancing department a position she held for five years

**Long Service Awards:**

*Standing from L - R Mr. Luke, Wycliffe, Zephaniah Michael & Johnstone. Seated from R - L Emmy, Richard & Rose*

The Authority awarded Long services Awards to employees who had served the Authority for 10 years and above. The ceremony was held on 11 December 2009 The following staff were awarded certificates for long service to the Authority:

**Emmy Rotich**
Officer Assistant – 18 years

**Roseline Mkongo**
Driver - 15 years

**Richard O Oliech**
Office Assistant – 15 years

**Zephania K Chebii**
Registry Assistant – 15 years

**Mary Kiptoo**
Administration Officer – 15 years

**Michael Oloitiptip**
Corporate Communications and Market Development Officer – 14 years

**Luke E Ombara**
Assistant Manager, Research – 14 years

**Wycliffe Shamiah**
Manager, Market Supervision - 12 Years

**Johnstone Oltetia**
Assistant Manager, Compliance – 12 years

## DOMESTIC FINANCIAL REGULATORS SIGN MEMORANDUM OF UNDERSTANDING (MOU)

The Capital Markets Authority (CMA), the Central Bank of Kenya (CBK), the Insurance Regulatory Authority (IRA) and the Retirement Benefits Authority (RBA) on August 31, 2009 signed a Memorandum of Understanding (MOU) to strengthen collaboration between them in the supervision of financial institutions and on other matters of mutual interest.

The four regulators in charge of supervising financial institutions in Kenya, came together being committed to the principles of effective consolidated supervision and cooperation among supervisory authorities. The collaboration in supervision is in line with the long term development plan of the country as envisioned in Kenya's Vision 2030 which puts provision of financial services at the centre of the planned economic growth trajectory to the year 2030. In light of the fact that some financial institutions conduct part of their business across the financial sector or through subsidiaries and affiliates that are not supervised or regulated by the lead supervisor, yet their activities have the potential to affect the safety and soundness of the financial institutions, the MOU facilitates implementation of cross-sector supervision and cooperation.

*"The collaboration in supervision is in line with the long term development plan of the country as envisioned in Kenya's Vision 2030"*

### Objectives of the Memorandum of Understanding

The MOU sets forth a statement of intent of the Regulators to establish a framework for mutual assistance and collaboration in the following areas:

1. Information sharing;
2. Joint onsite supervision;
3. Registration and licensing;
4. Risk based supervision;
5. Staff exchange programs;
6. Joint financial literacy and coordinated public education campaign;
7. Research and statistics;
8. Coordinated review of emerging products;
9. Consolidated strategy to influence policy and legislation;
10. Review of legal and compliance framework;
11. Customer protection and compensation;
12. Investigations and enforcement action;
13. Joint capacity building;
14. Programme coordination for development assistance work plans; and
15. Other areas of mutual interest as may be agreed upon by the Regulators.

### Exchange of Information

The Regulators recognize that exchange of supervisory information is necessary to support effective consolidated supervision of financial institutions operating under their jurisdiction. The Regulators have, therefore, committed to exchange information with respect to licensing, ongoing supervision, handling of financial institutions and other matters of mutual interest.

### Licensing

The Regulators will inform each other in the event of a subsidiary or affiliate of a financial institution licensed in one sub-sector seeking a license in another sub-sector and where necessary obtain verification and supplementary information from each other. To the extent permitted by law, the Regulators will share information on the fitness and probity of prospective directors, managers or significant or controlling shareholders of a cross-sector establishment.

### Supervision

The Regulators will provide relevant information to each other regarding material developments or supervisory concerns with respect to the operations of a financial institution under their respective jurisdictions. They will also provide information on their supervisory systems and inform each other on any significant changes or modifications thereto, in particular those having a significant bearing on the operations of the cross-sector establishments. The Regulators will inform each other of material sanctions, administrative penalties imposed, or other formal enforcement action taken, against a cross-sector establishment.

### Inspections

The Regulators recognize the mutual advantage in coordinating their inspection activities with respect to cross-sector establishments and will thus undertake coordinated cross-sector inspections. As may be mutually agreed on a case-by-case basis between the Regulators, inspections may be carried individually or jointly but in either case, the Regulators will share with each other their views on any material findings.

### Coordination

The Regulators will be meeting between any or all of them, on a mutually agreed schedule or as required, to discuss issues concerning financial institutions that maintain cross-sector establishments in their respective areas of jurisdiction, the smooth functioning of the MOU and other matters of mutual interest. The Regulators will also, to the extent possible, pursue opportunities for staff exchanges, joint financial literacy campaigns, joint capacity building, joint research, joint investigations and enforcement, customer protection and compensation, risk based supervision and any other activities to contribute to sound regulatory practices.

### Technical Committee

To prioritise the working of the MOU, the Regulators have established a Technical Committee, consisting of 3 representatives from each of the four regulators, to oversee its implementation. The Technical committee will, inter alia:

1. Be in charge of following up on recommendations made to the Regulators to ensure implementation.
2. Be responsible for co-ordinating responses to various cross regulatory issues in the financial sector.
3. Identify other areas of collaboration from time to time that will be of benefit to the Regulators.
4. Undertake bi-annual monitoring and evaluation of the outputs of the MOU.

*The Chief Executive and the Chairman of the Authority at the MOU signing Ceremony*






## PRUDENTIAL REGULATION

Within a fairly short span of time, the capital markets, both locally and internationally have witnessed a significant increase in instances of fraud and manipulation. On an international front, cases such as Madoff and Stanford ponzi schemes and the Tannenbaum scandal involving substantial fraud continue to make headlines. Add onto this the Global Financial Crisis whose effects continue to ravage global markets and it is no wonder that investors are wary of the integrity and soundness of financial institutions. It is perhaps against this backdrop that international capital markets regulators believe that there is a need to intensify regulation of the financial sectors, specifically with regard to prudential regulation.

Chaves and Gonzalez-Vega (1994) defined prudential regulation as the set of general principles or legal rules that aim to contribute to the stable and efficient performance of financial institutions and markets. They further opine that these rules represent constraints placed on the actions of financial intermediaries to limit the danger of opportunistic behaviour, prevent excessive risk taking and subsequently ensure the safety and soundness of the system.

The International Organization of Securities Commissions (IOSCO) in its report on the Impact on and Responses of Emerging Markets to the Financial Crisis acknowledged the need for prudential regulation and supervision. The authors of the report observe that prudential regulation concerning the financial soundness of individual firms be done in conjunction with supervision over how practices at firms may contribute to systemic risk.

The White Paper on Financial Market Regulation issued by the US Treasury Department after the Global Financial Crisis echoed similar sentiments, specifically indicating their proposals that the largest, most interconnected, and highly leveraged institutions should face stricter prudential regulation than other regulated firms, including higher capital requirements and more robust consolidated supervision.

The concept of prudential regulation is perhaps perceived as being severely complex and involving an intricate web of craftily drafted regulation. This however is not the case. Below is a description of some of the key elements of prudential regulation and their application in the Kenyan market.

*"international capital markets regulators believe that there is a need to intensify regulation"*

**Fit and proper requirements**:

Decisions taken by Directors and Key Personnel of market intermediaries have reverberating effects on the market. Therefore, it is of paramount importance to ensure that such individuals are not only of high moral integrity but also that they do not have propensity towards financial crime. In this regard, Section 29(1)(b) of the Capital Markets Act requires the Authority to satisfy itself of the fitness and propriety of key personnel prior to granting any licence under the Act. Regulation 52 of the Capital Markets (Licensing Requirements)(General) Regulations, 2002 gives guidance on the key elements to be considered in determining the suitability of individuals to hold key positions in the licensed intermediaries.

**Changes to personnel, shareholders and directors**:

As part of the safeguard to the fit and proper requirements, amendments have also been effected prohibiting any licensed entity from changing its shareholders, directors or any key personnel except with prior confirmation, in writing, that the Authority has no objection to the proposed change. With this amendment, it is envisaged that Capital Markets Authority will have closer supervision of the individuals employed in the securities industry and consequently ascertain recidivists are prevented from endangering the market and investors.

**Minimum Capital adequacy:**

One of the key features of prudential regulation is a minimum capital requirement. It is considered that minimum capital is required to demonstrate a financial commitment to the industry by not only new entrants, but by existing players in the industry. In the banking sector, it has been rationalized that requiring that banks have sufficient capital reduces their incentive to take on high risks as by holding a large amount of equity capital they have more to lose when they fail. The same concept is applicable amongst market intermediaries. The capital requirements for stock brokers and investment banks in Kenya has for many years remained Kshs. 5 million and Kshs. 30 million respectively, however, the Minister for Finance in his 2009/2010 budget speech delivered to the National Assembly, proposed the amendment of the capital markets regulations to increase the share capital for Stockbrokers and Investment Banks from Kshs.5 million and Kshs.30 million to Kshs.50 million and Kshs.250 million respectively. Regulation 15 and 39 of the Capital Markets (Licensing Requirements)(General) Regulations was subsequently amended mandating all stockbrokers to maintain a minimum paid up share capital of Kshs. 50 milllion and Investment Banks Kshs 250 million effective 1st January 2011.

Having said the above, it is acknowledged that prudential regulation is not the panacea for all the ills in the market; however, such regulation is instrumental in the development of a well functioning financial sector, and, at the end of the day whether the stakeholders are the investors, market intermediaries or the regulator, the objective is the same: to have a fair and efficient capital market which is deep and vibrant.

*by Pamela Akivaga*
*Legal Officer, Legal Affairs Department*

# DEVELOPING A VIBRANT BOND MARKET IN KENYA

As part of the market reforms agenda, the Authority initiated market reforms in 2001 which led to the reorganization of the market into three distinct market segments i.e. the Main Investments Market Segment (MIMS); the Alternative Investments Market Segment (AIMS); and the Fixed Income Securities Market Segment (FISMS). The latter was created specifically to provide a facility for secondary trading of fixed income securities.

These reforms were meant to create a framework that not only facilitates mobilization of long term funds by recognizing the uniqueness of the issuers in terms of track record, profitability, capital size among others; but also protects investors' interests by recognizing their uniqueness and the extent of sophistication.

*"The Authority consequently constituted a Bond Market steering committee in April 2009 comprising of the immediate stakeholders in this market."*

In spite of these reforms, the primary corporate bond market remains lukewarm with only Kshs 23.5 billion having been raised during the past 14 years representing a meager 1% of the current Gross Domestic Product (GDP). Treasury bonds on the other hand have been more vibrant with a total of Kshs 600 billion or 35% of GDP, raised by the Government over the same period, with regular trading in the secondary market averaging Kshs 6 billion monthly.

The Authority's mandate is to facilitate the development of all aspects of the capital markets. One way of achieving this, is by promoting the establishment of a bond trading infrastructure to enhance efficiency; hence contributing towards sustained socio-economic growth in the country through employment and wealth creation. In addition, the operations of the bonds market can be extended in other Eastern Africa Community Member States through the ongoing regional integration initiatives.

In furtherance of its developmental mandate, the Authority has continued to implement reform measures aimed at strengthening the market place for trading bonds and improve liquidity in the secondary bond market. This has been achieved through collaborative studies, as well as development of an enabling policy and regulatory framework.

Following a cooperation agreement with the International Finance Corporation (IFC), a study was commissioned under the development agency's Efficient Securities Markets Institutional Development (ESMID) to NASDAX–OMX consultants. The study was designed to deepen and develop bond markets, infrastructure, and other components, through developing a proper trading and post-trade bond model.

In November 2008, the consultants presented their final report at a workshop held in Safari Park Hotel in Nairobi during which the Authority was mandated to oversee the implementation of a more vibrant bond market in Kenya. The Authority consequently constituted a Bond Market steering committee in April 2009 comprising of the immediate stakeholders in this market.

The Terms of Reference (ToRs) of this team included: putting in place appropriate structural arrangements for an OTC market for bonds; developing a policy framework that will inform the the OTC bond market; reviewing and enhancing the proposed regulatory framework for an OTC bond market; evaluating and establishing the appropriate infrastructure and systems for OTC bond trading and settlement systems; creating an efficient post trade processing infrastructure including clearing, settlement, registry and depository functionalities; determining listing, trading and reporting mechanisms, rules and procedures including a clear framework for post trade transparency responsibilities and requirements; determining the constitution and role of the Bond Dealers Association as a Self Regulatory Organization (SRO); designing appropriate capacity building programmes for bond traders and regulators; and overseeing the overall implementation of an OTC trading platform for bonds.

The key activities of this committee that are currently being implemented include:

a. Adopting a hybrid bond market structure; meaning trading of bonds in a formal Exchange and at the same time at the Over the Counter Market

b. Amending the Capital Market Act to allow trading of bonds outside the Nairobi Stock Exchange (NSE);

c. Determining the appropriate technology type and trading platform with in-built flexibility borrowing from international best practices;

d. Facilitating a unified Central Securities Depository (covering existing securities at the NSE, including Treasury Bonds);

e. Reviewing existing regulatory framework to ensure that trade reporting is linked with the clearing and settlement process to ensure the quality of the information reported;

f. Developing rules on trade reporting that ensures a move towards real-time trade reporting in the short to long-term;

g. NSE setting up an internal structure to manage trade reporting (i.e. to ensure accuracy of reported and disseminated market data);

h. Creating a common bond trading authorization for commercial banks, investment banks and brokers;

i. Reviewing licensing requirements especially with regard to admission of ASDs; and

j. Licensing new players under the new requirements.

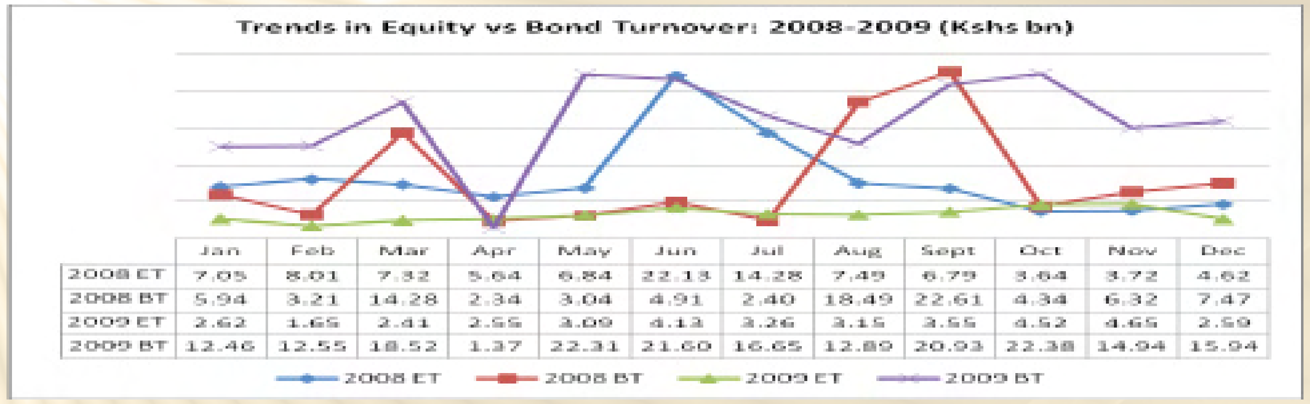
To date a number of other milestones have been achieved towards developing a vibrant bond market in Kenya through joint efforts of the Authority and the Central Bank of Kenya (CBK). These include: Improved pricing mechanism for bonds- the establishment of a stable yield curve through issuance of bench-mark bonds has been very successful in improving bond pricing methodology; reopening of Treasury bonds- all re-opened bonds have been oversubscribed; enhanced liquidity- the lowering of the minimum subscription for corporate bond issuance to Kshs 100,000 has resulted in higher participation by retail investors; the issuance of the first infrastructure bond by the Government has also boosted the bond market by paving the way for the issue of similar structured debt instruments by the private sector; enhanced tax incentives by further reducing or removing altogether with-holding tax on interest income earned from investing in bonds; and enhanced investor awareness- more efforts are being made towards enhancing financial literacy, especially among retail investors. Potential issuers also need to be continually engaged on the benefits of issuing bonds.

***by Luke Ombara***
***Assistant Manager,***
***Research Policy Analysis &***
***Planning Department***





## Trends in Bond Vs equity turnover




Source: NSE

## Remittances to Kenya (In USD '000)

| Year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| January | 25,154 | 28,564 | 31,506 | 40,930 | 53,925 | 39,535 |
| February | 27,676 | 26,056 | 30,283 | 39,533 | 50,382 | 53,353 |
| March | 29,944 | 31,219 | 36,354 | 48,562 | 59,344 | 55,361 |
| April | 27,773 | 29,216 | 35,369 | 38,251 | 67,872 | 48,117 |
| May | 26,931 | 32,358 | 42,427 | 41,163 | 48,538 | 49,180 |
| June | 30,047 | 34,360 | 35,667 | 48,643 | 49,490 | 46,347 |
| July | 33,187 | 29,133 | 41,065 | 53,350 | 44,137 | 50,372 |
| August | 28,894 | 31,759 | 30,587 | 58,803 | 43,388 | 55,947 |
| September | 28,894 | 31,616 | 28,841 | 60,575 | 48,953 | 53,347 |

Source: CBK

## Corporate Actions, June to December 2009

| COMPANY | DATE OF ANNOUNCEMENT | DIVIDEND ANNOUNCEMENT | BONUS/ RIGHTS ISSUE | DPS (KSHS) |
|---|---|---|---|---|
| KQ | 05-Jun-09 | First & Final | | 0.20 |
| Kapchorua Tea | 24-Jun-09 | First & Final | | 2.50 |
| Williamson Tea | 24-Jun-09 | First & Final | | 4.00 |
| BAT | 17-Jul-09 | Interim | | 4.50 |
| Olympia Capital | 03-Aug-09 | Final dividend | | 0.10 |
| BBK | 04-Aug-09 | Interim | | 0.50 |
| SCBK | 05-Aug-09 | Interim | | 2.05 |
| NIC Bank | 13-Aug-09 | Interim | | 0.25 |
| Jubilee Holdings | 19-Aug-09 | Interim | | 1.00 |
| BOC Gases | 19-Aug-09 | Interim | | 2.00 |
| NMG | 23-Aug-09 | Interim | | 1.50 |
| EABL | 27-Aug-09 | Final | | 5.55 |
| Mumias Sugar | 28-Aug-09 | Final | | 0.40 |
| EAPCC | 30-Sep-09 | First & Final | | 1.30 |
| EA Cables | 13-Oct-09 | Interim | | 0.50 |
| KENGEN | 16-Oct-09 | Final | | 0.50 |
| Carbacid | 22-Oct-09 | Final | | 5.00 |
| Carbacid | 22-Oct-09 | Special Div | | 5.00 |
| Carbacid | 22-Oct-09 | Bonus | 2:1 | |
| Citi Trust | 28-Oct-09 | Final | | 1.00 |
| KPLC | 28-Oct-09 | Final | | 6.00 |
| SCBK | 02-Nov-09 | 2nd Interim Dividend | | 2.50 |
| Sasini | 9-Dec-09 | Final | | 0.20 |

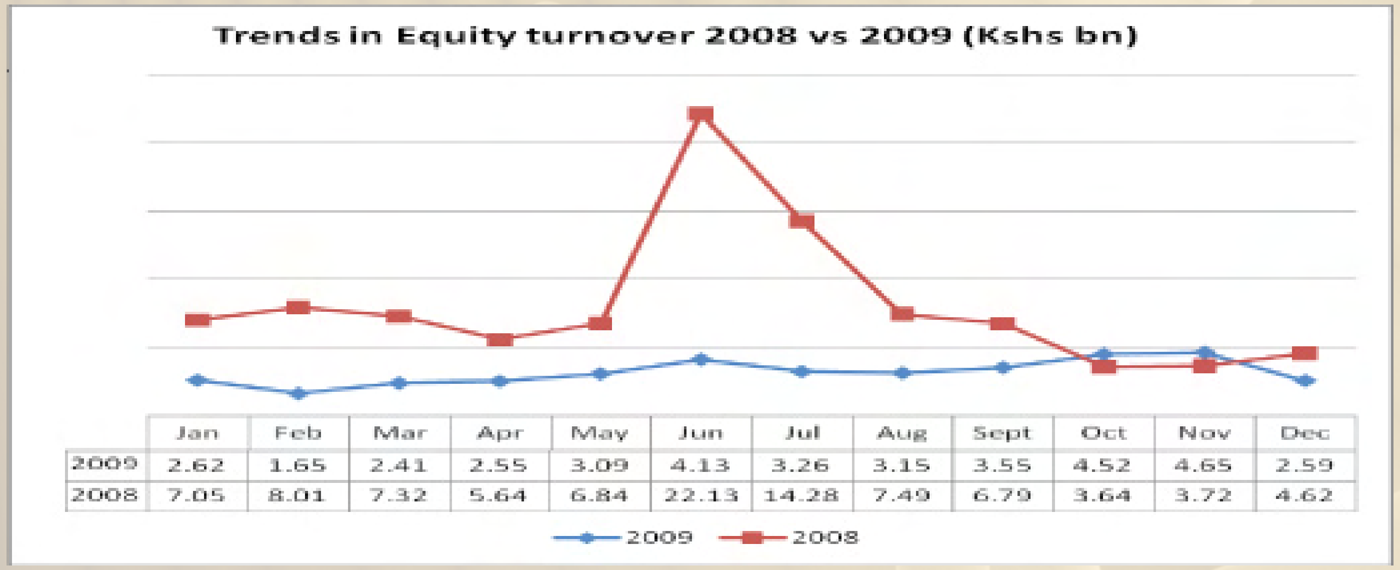
Source: NSE

under review in part due to the KenGen PIBO and 2nd IFB, which were expected to show a good performance. The decline in inflation also bodes well for the market; the market has seen marginally declining yields towards the shorter end which are expected to continue declining in the coming weeks. Short and Medium term papers are likely to continue trading actively in the coming weeks, and it is hoped this will smoothen the yield curve. However, the market still remains quite keen on short papers. Overall, the bullishness of the market is expected to continue in the near future as interest rates and redemptions continue to decline. In addition, the Automated Trading of Bonds went live on December 7th 2009. As expected, this has led to increased liquidity, as well as addressed the issue of information asymmetry due to enhanced transparency and more efficient price discovery in the bonds markets.

**Gross market statistics-2009**

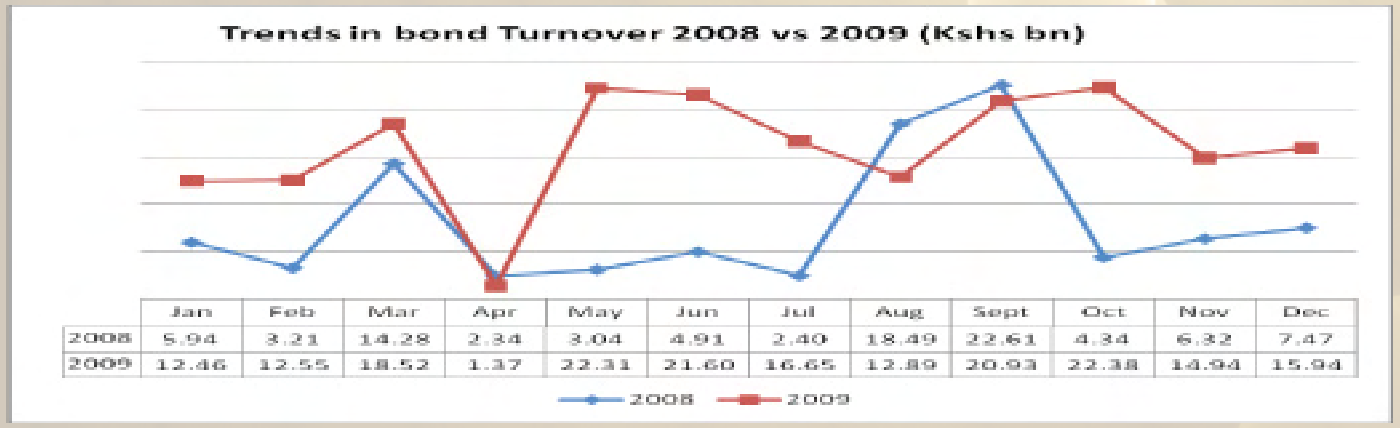
| YEAR | MONTH | EQUITY TURNOVER (KSHS BN) | SHARE VOLUME (MN) | NSE 20-SHARE INDEX | MARKET CAP (KSHS BN) | BOND TURNOVER (KSHS BN) |
|---|---|---|---|---|---|---|
| **2006** | Jan to Dec | 94.9 | 1,454.7 | 5646 | 791.6 | 48.6 |
| **2007** | Jan to Dec | 88.6 | 1,938.2 | 5445 | 851.1 | 84.9 |
| **2008** | Jan to Dec | 97.5 | 5,856.5 | 3521 | 853.67 | 95.3 |
| **2009** | Jan to Dec | 38.17 | 3,169.12 | 3247 | 834.17 | 192.54 |
| **% change (annual)** | | **(60.85** | **(45.89)** | **(7.78)** | **(2.28)** | **102.04** |
| **Annualized Kshs Returns** | **-8.09%** | | | | | |

**Source: NSE Monthly Bulletins, CMA Research Database**




**Source: NSE**

**Trends in Bond Turnover**




**Source: NSE**





## 2009/2010 BUDGET OUTCOME WITH REGARDS TO CAPITAL MARKETS

Following The Presentation Of The Budget Speech For 2009/2010 By The Honourable Deputy Prime Minister And Minister For Finance, The Capital Markets Authority Would Like To Bring To The Attention Of He Stakeholders And The General Public The Following Changes That Affect The Capital Markets Industry.

| Issue | Change | Implications |
|---|---|---|
| Changes To The Capital Markets (Licensing Requirements) (General) Regulations, 2002 made via Legal Notice No. 99 of 2009. All amendments became effective on 11 June 2009 unless where effective date otherwise specified. | | |
| Minimum paid up share capital for stockbrokers | All stockbrokers to maintain a minimum paid up share capital of Kshs. 50,000,000. Effective 1st January 2011. | To better reflect the nature of the exposures incurred. |
| Reporting obligations for stockbrokers and dealers | All stockbrokers and dealers to prepare monthly reports and accounts within 15 days of the end of each calendar month. | To clarify and strengthen reporting obligations. |
| Reporting obligations | To require arrangers of commercial papers and corporate bonds to submit quarterly returns in the prescribed form by the 10th day of the month following the end of each quarter. | To enable the Authority to effectively carry out its regulatory mandate. |
| Minimum paid up share capital for investment banks | All investment banks to maintain a minimum paid up share capital of Kshs 250,000,000. Effective 1st January 2011. | To better reflect the nature of the exposures incurred. |
| Changes to capital structure | Every licensed person shall notify the Authority of any changes to its capital structure within 5 working days from the date of the change. | To strengthen reporting obligations. |
| Stock broking agents | Stock broking agents must be contracted in writing and a register of such agents and any changes thereto filed with the Authority. No stockbroker shall appoint as its agent any person already appointed by another stockbroker as its agent. (Where a stockbroker has appointed an agent who acts for more than one stockbroker shall comply within 6 months thereof.) Stockbroking agents shall not handle or deal with clients' funds. The stockbroker shall be responsible for ensuring that the stockbroking agent conducts its business in accordance with the requirements of the Capital Markets Act and Regulations issued there under. | Recognizing the role played in interfacing the remote investors and stockbrokers' offices and risk involved the regulation introduces a level of supervision of these agents without creating a separate licence class under the Capital Markets Act. |

| Issues | Change | Implications |
|---|---|---|
| Reporting obligations for investment advisers and fund managers | All investment advisers and fund managers to prepare monthly reports and accounts within 15 days of the end of each calendar month. In addition, to prepare quarterly management accounts and reports of the portfolio under their management within 15 days of the end of each calendar quarter. | To clarify and strengthen reporting obligations. |
| Renewal of licences | All licencees to submit their applications for licence renewal by 30th November together with the fee prescribed. | To ensure that there is a clear deadline for submission of information. |
| Financial year | The financial year of every licensed person shall be the period of 12 months ending on the 31st December in each year. (Where the financial year of a licensed person does not comply with this requirement the licensed person shall comply within 12 months of its commencement.) | To clarify and strengthen reporting obligations. |
| Publication and display of financial statements in places of business | All financial statements prepared by licensees shall be prepared in accordance with International Financial Reporting Standards (IFRS).<br><br>Collective Investment Schemes, Stockbrokers, Dealers, Fund Managers and Investment Banks shall publish in at least two daily newspapers of national circulation:<br>Half-year unaudited financial statements within two months after the end of the first half of the financial year; and<br>Full-year audited financial statements within three months after the end of the financial year. | In order for investors to make an informed decision about the financial intermediary they want to invest through, there must be adequate transparency and access to information on the financial health of those intermediaries. |
| Insurance indemnity | Stockbrokers and Investment Banks shall obtain professional indemnity insurance to secure an amount not less than five times their daily average turnover. (The daily average turnover shall be calculated based on the firm's turnover for the previous year, where applicable, or such amount as the Authority may determine.)<br>Fund Managers shall obtain professional indemnity insurance to secure such amount as the Authority may determine based on the portfolio under the management of the Fund Manager. | To ensure that the market and investors are not exposed to losses that might arise from breach of fiduciary duties by stockbrokers, investment banks and fund managers through negligence, omissions, misrepresentation or malpractices. |
| Compliance officers | Every licensed person shall designate in writing a compliance officer who is to coordinate all compliance matters with the Authority. | To enable the Authority to effectively carry out its regulatory mandate. |
| Change of directors, shareholders, etc | Any person licensed by the Authority shall not change its shareholders, directors, chief executive or key personnel except with the prior confirmation, in writing, by the Authority that it has no objection to the proposed change and subject to compliance with any conditions imposed by the Authority. | To ensure that licensees are managed by competent persons and that persons involved in market misfeasance do not move from one licensee to another. |
| Auditor | No licensed or approved person shall appoint or remove its auditor except with the prior written approval of the Authority at least one month prior to such appointment or removal. | To grant auditors authority to disclose relevant information to the Authority and to allow them respond to queries raised by the Authority. |





| Issuer | Approved Amount (Kshs mn) | Issued Amount (Kshs mn) | Date of approval | Maturity | Outstanding (Kshs mn) | Yield (%) |
|---|---|---|---|---|---|---|
| Barclays Bank K Ltd (1st Tranche) | 1,000 | 1,000 | Nov-2007 | Nov-2014 | 1,000 | 0.6% above the most recent average 182 day T-bill rate. |
| Barclays Bank (2nd Tranche) | 2,000 | 2,000 | July-2008 | July-2015 | 2,000 | 1% above the most recent T-B rate |
| Mabati Rolling Mills | 2,000 | 2,000 | Sep-2008 | Sep-2016 | 2,000 | 182 Day T-Bill rate + 175 bps re-priced semi-annually |
| CFC Stanbic | 5,000 | 2,500 | June 2009 | June 2016 | 2,500 | FXD: 12.5% FR: +1.75% above prevailing 182-day T-Bill rates |
| Shelter Afrique | 1,000 | 700 | Aug-2009 | Aug 2012 | 1,000 | FXD: 2.5-year Kenyan Treasury bond+ 1.50% FR: Government 182-day Treasury bills rate+1.50% |
| KENGEN | 25000 | 25000 | Nov-2009 | Oct - 2019 | 25,000 | FXD 12.5% |
| Safaricom | 12500 | 7500 | Nov - 2009 | Nov – 2014 | 7,500 | FR: T.B (182) + 1.85% FXD: 12.25% |
| **Total** | **54,500** | **46,700** | | | **43,970** | |

Source:CMA

**Corporate bonds holding by class of investors in Kshs million as at December 2009**

| Issuer | Banks | Insurance companies | Fund Managers | Investment Companies | Individuals |
|---|---|---|---|---|---|
| Sasini Tea | 49.98 | 0 | 550.02 | 0 | 0 |
| Barclays Bank (1st Tranche) | 45 | 25 | 873 | 50 | 7 |
| BBK (2nd Tranche) | 61 | 121.8 | 1381.2 | 116 | 320 |
| East African Development Bank | 116 | 56.416 | 0 | 147.584 | 0 |
| Faulu (Kenya) | 100 | 0 | 74.5 | 40.5 | 35 |
| PTA Bank (2005) | 216.624 | 11.424 | 248.928 | 3.024 | 0 |
| PTA Bank (2007) | 168 | 40 | 792 | 0 | 0 |
| Athi River Mining | 93.6 | 52.8 | 173.6 | 0 | 0 |
| Mabati FXD | 99.966 | 40.03 | 545.02 | 40.466 | 1.017 |
| Mabati FLT | 530.03 | 24.96 | 694.057 | 22.54 | 2.037 |
| Shelter Afrique FLT | 0 | 3.598 | 91.601 | 0 | 0 |
| Shelter Afrique FXD | 199.96 | 162.773 | 5.519 | 14.567 | 521.888 |
| CFC Stanbic FXD | 603.165 | 173.19 | 1543.345 | 44.678 | 37.953 |
| CFC Stanbic FLT | 0 | 30.302 | 66.547 | 0 | 1.057 |
| Total (Mn) | **2283.325** | **742.293** | **7039.337** | **479.359** | **925.952** |

Source: CMA

# Secondary Markets Highlights

## Equity Market

Trading has been characterized by strong local institutional presence with foreign activity dominating the market on the buy side focusing on blue chip, high dividend yielding stocks. Holistically, trading has been subdued due to lesser frequency in trading by institutional and international investors coupled with liquidity shifts to the bond market. However, market activity is expected to pick up due to increased local institutional presence as they re-align portfolios for the year ahead.

## Bond Market

A lot of activity was seen on the shorter and longer ends of the yield curve. Market activity picked up over the period

# Primary Market Highlights

## EQUITY ISSUES

There were no new equity issues during the period under review.

## DEBT ISSUES

### Government Bonds

During the period, the Central Bank of Kenya issued a 15- year Treasury Bond Issue (FXD 1/2009/15) for a total amount of Kshs. 12 bn. The total bids received amounted to Kshs. 10.6 bn representing an 88.88% subscription. In December, The Central Bank of Kenya also re-opened the Kshs 10.0bn Treasury bond (FXD1/2008/20) issue for Government budgetary support. The 20-year discounted Treasury bond was oversubscribed by over 102.48%. The bond received 781 bids amounting to Kshs 20.2 bn.

### 2nd Government Infrastructure Bond

The Government launched its second infrastructure bond on November 12, 2009 to raise a further Kshs 18.5 bn, following the success of Kenya's debut infrastructure bond issued in January 2009. The issue registered a 225.9% subscription rate with the bids received amounting to Kshs 44.1 bn against a target of Kshs 18.5 bn. Secondary trading of the bond commenced on December 8, 2009 and is expected to be actively traded, owing to the liquidity and high yields.

### Corporate Bonds

- In November, the KenGen PIBO offer registered a subscription rate of 177%. KenGen raised Kshs 25bn after the Greenshoe Option, implying a subscription rate of 106%. Total subscriptions amounted to Kshs 26.6bn. Out of this amount, institutional investors raised Kshs 22.1bn while retail investors raised Kshs 4.4bn

- Safaricom Ltd ("Safaricom") listed a Kshs 12 bn 5-year medium term note program in December.This bond was offered in three tranches. The first tranche of Kshs 5 bn attracted bids worth Kshs 7.5 bn, a 50% oversubscription.

This year alone, the capital markets have raised Kshs. 44.52 Billion for corporates through the bond markets. The Kenyan debt market is a beneficiary of increased liquidity conditions, with recent issues being oversubscribed. The CBK is keen to maintain rates low, despite increased government borrowing from the domestic market. Local banks have been keen on the local bond market due to a cut back in lending while local institutional investors have also been active in new fixed income issues due to favourable rates of return.

**Corporate Bond Issues as at December 2009**

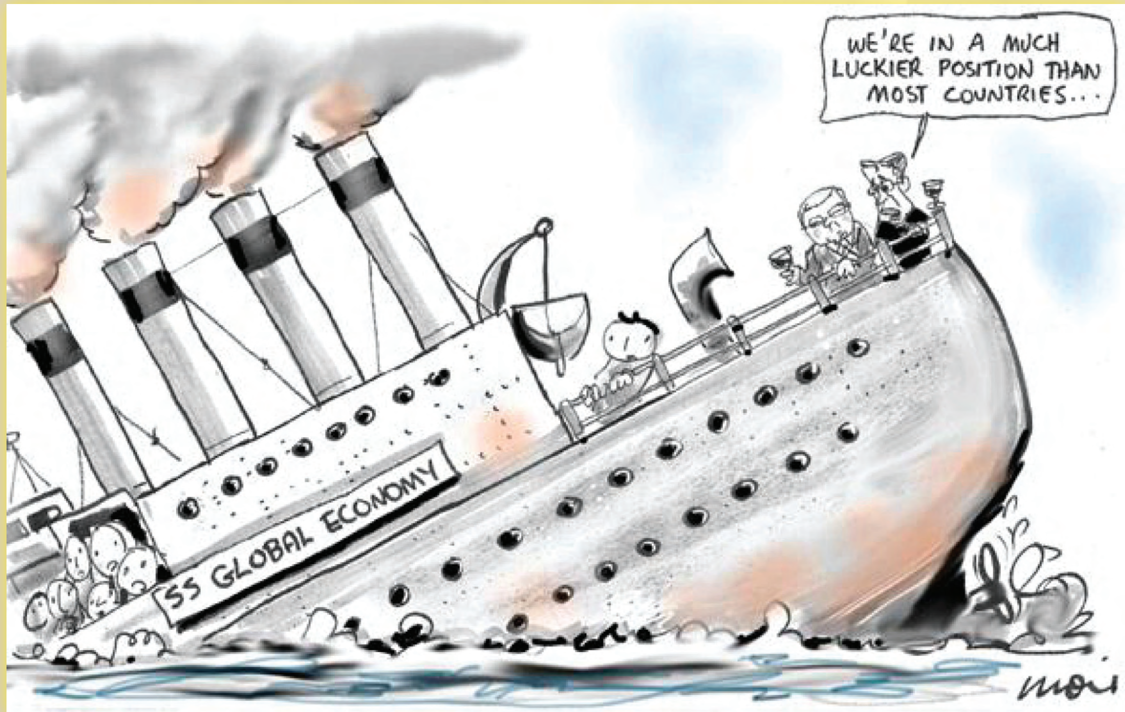
| Issuer | Approved Amount (Kshs mn) | Issued Amount (Kshs mn) | Date of approval | Maturity | Outstanding (Kshs mn) | Yield (%) |
|---|---|---|---|---|---|---|
| **East African Development Bank** | 1,500 | 1,500 | Jun-2004 | July-2011 | 320 | FXD 7.5% |
| **Faulu (K) Limited** | 500 | 500 | Feb-2005 | Apr-2010 | 250 | 0.5 % above the most recent T-B yield. |
| **PTA Bank (2005)** | 1,600 | 1,600 | July-2005 | July-2012 | 480 | 1% above the average weighted 91-day T–bill yield. |
| **Athi River Mining** | 800 | 800 | Oct-2005 | Oct-2010 | 320 | 1.75% per annum above the average weighted 91-day T–bill yield. |
| **PTA Bank (2007)** | 1,000 | 1,000 | Sep -2007 | April-2014 | 1,000 | 1% above the most recent average 182-day T-bill rate. |
| **Sasini Tea** | 600 | 600 | Nov-2007 | Mar-2012 | 600 | 11.75% |





| Issue | Change | Implications |
|---|---|---|
| Appointment of transaction advisors | To require that any company proposing to offer securities to the public or a section of the public to appoint a transaction advisor. | To ensure that the Authority has oversight and supervision of transaction advisers in the manner in which they structure a transaction and to ensure compliance with the Capital Markets Act. |
| Branches or new places of business | No licensed person shall open in Kenya a branch or a new place of business or change the location of a branch or existing place of business in Kenya without the approval of the Authority.<br><br>No licensed person shall close any of its places of business in Kenya without first giving the Authority a three months' written notice of its intention to do so. | To enhance the Authority's regulatory role. |
| Fees | The fees payable by issuer of securities to the public has been reduced from 0.3% to 0.15%. | To facilitate raising of additional capital for expansion and growth of interested companies as well as availing the opportunity for more Kenyans to own local companies. |

# HUMOUR



# MY INVESTMENT MY RESPONSIBILITY

Capital markets the world over have traditionally been lucrative havens for investment. In the developed economies the capital markets are the engine of growth and development. This is primarily because, by investing through capital markets, investors effectively channel their investment in the most productive investments. Studies have shown that in the long run capital markets products, and especially equities, out-perform all other investment classes.

The above submission however comes with a caveat. Any type of investment will always be accompanied by inherent risks. While researched investment in capital markets will earn an investor handsome returns, investments in the capital markets are susceptible to market volatility which may drain a portfolio that has not been properly allocated. It is therefore not enough to buy shares for example and just wait, wishfully, for the price to go up. Good performance in an investors' portfolio is often a product of, among other things, investors involvement. Investors should therefore play their role in ensuring the success of their investments.

In shouldering this responsibility investors must be prepared to: identify what to look out for in securities; identify the reason for which they are investing; communicate clearly and honestly with their advisers; be realistic in their expectations of profit; appreciate that investing can involve risk that may lead to loss of money; read and understand offering documents that are provided to them; read and retain trade confirmation slips and statements of account, as well as correspondences between them and their Investment bank, broker, or adviser to enable them alert them or their advisers immediately there are errors or problems with their account; ask questions on what they don't understand; and whistle-blow in case of any infringement within the market.

These responsibilities can be categorized in three areas which we shall discuss below. They include the responsibility to; seek information; participate in one's investments; and lodge a complaint.

**Responsibility to Seek Information**

As an investor, it is important for one to do their homework before investing. It is not prudent to part with money before one understands all relevant information regarding a certain investment. To be successful, one needs to evaluate the merits and performance of a listed company in order to decide whether or not to begin to invest, continue to invest or divest from the company.

One needs to take note of the following areas: core business which reflects what the company does best and its future plans; profile of directors and management team; corporate governance practices and internal controls; financial statements; nature of related-party transactions; and contingent liabilities.

*"investors must take a center stage in ensuring they complement the Authority's mandate in performing this role by shouldering considerable responsibility over their investments"*

The above information can be obtained from annual reports; the websites of the Nairobi Stock Exchange (NSE) (www.nse.co.ke), Capital Markets Authority (CMA) (www.cma.or.ke), and the Kenya Association of Stock Brokers and Investment Banks (KASIB), and business sections of local dailies. One can also seek advice from market players like stockbrokers and Investment Banks, Fund Managers and Investment Advisers.

**Responsibility to participate in one's investments**

Investors are normally not directly involved in the running of the company in which they invest; they can however oversee their investments and indirectly influence corporate decisions by engaging in active dialogues with the directors and management of these firms on a broad spectrum of issues using an array of avenues to express concerns regarding their investments.

Investors should attend Annual General Meetings (AGM) of companies they own shares; the AGM is the only investors' meeting, which is compulsory for all companies. It provides investors with an opportunity to obtain information and engage directors and senior management regarding the company's past performance and future plans and to exercise voting rights on resolutions tabled in the agenda. By full participation at AGMs, investors can influence the general direction in companies they have invested in.

On matters of concern that are too urgent to wait until the next AGM, two or more investors holding at least 10% of the issued share capital of the company may requisition for and convene an Extraordinary General Meeting (EGM). Investors may also write or speak to the management of listed companies to raise issues of concern. At the same time there are some listed companies that have investor relations unit that are a reference point to consistently update investors and obtain feedback for management on the perceptions, concerns and interest of investors and the public.

**Responsibility to lodge complaint**

It's important that investors know the procedure to follow while trying to resolve a dispute or complaints that may arise between them and a stockbroker, investment bank or any other market intermediary. The initial step should be to try to settle their grievances amicably with the other party in the dispute. However, in the event an amicable agreement cannot be reached to both parties satisfaction then a complaint should be lodged with the NSE. If no resolution is achieved the matter should be escalated to the CMA.

Nairobi Stock Exchange in conjunction with the Authority, the Central Depository and Settlement Corporation Ltd. (CDSC) and support of stakeholders has established a Complaints Handling Unit (CHU) in a bid to resolve all the general market complaints lodged by investors. It is basically a one stop point of reference for investors to lodge complaints, track progress and receive required information. The Complaints Handling Unit ensures that there is a standardized format of collecting and reporting complaints, prevent duplication of efforts, and ease in analyzing complaints received as well as monitoring follow–up and feedback.

Again the Central Depository and Settlement Corporation Ltd. (CDSC), has put in place an SMS service for investors to monitor their investment at the NSE. This CDSC investor alert SMS is a facility that notifies an investor whenever there is activity (purchase/sale) on their CDS account. This provides an investor with an updated position of their CDS account at all times. To register one is required to SMS the word 'reg' to 2372 and then follow instructions.

In conclusion it is important to note that while the Capital Markets Authority (CMA) is mandated to protect investors, investors must take a center stage in ensuring they complement the Authority's mandate in performing this role by shouldering considerable responsibility over their investments.

The information contained in this article is meant to be a general guide. It is aimed at educating and informing investors. It should therefore not be construed as constituting investment advice.

*by Kamunyu Njoroge,*
*Manager Corporate Communications & Market Developement*



# PICTORIAL

*The Honourable Mizengo Peter Pinda Prime Minister of the United Republic of Tanzania recieves a gift from the Chief Executive Capital Markets Authority during his visit to the Nairobi Stock Exchange.*

*Hon. Dr. Oburu Odinga, Assistant Minister for Finance Presents a trophy to Fina Bank Limited officials which was declared the overall winner during the Financial Reporting (FiRE) Award ceremony, in October 2009*

*From L - R ; Mr. James Wangunyu, Managing Director Standard Investment Bank, Mr. Bob Karina, Managing Director, Faida Investment Bank & Mr. Lucas Otieno, Chief Executive Officer African Alliance Kenya Securities Ltd, follow proceedings at a workshop on the demutualization of the Nairobi Stock Exchange.*

*Mildred Aluoch of the Corporate Communications and Market Developement Department goes live on air at Ramogi radio station at the Kisumu Show.*

*From Right to left; Mr. Micah Cheserem Chairman CMA, Mr. Justus Manyara M'Igweta, Chairman RBA, Deputy Prime Minister & Minister forFinance, Hon. Uhuru Kenyatta & Governor CBK Prof. Njuguna Ndungu converse at an Industry's function.*

*Above Mr. Richard Oliech recieves an Employee-of -the-Year certificate for 2009 from the Chief Executive Mrs. Stella Kilonzo at an Authority's function*