THE CMA Forum

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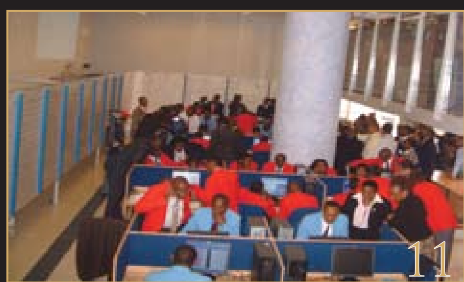
In This Issue



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.

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CHIEF EXECUTIVE'S MESSAGE

Mrs. Stella Kilonzo
Chief Executive,
Capital Markets Authority

I am pleased to once again welcome you to this issue of the CMA Forum, the official newsletter of the Capital Markets Authority. This issue gives insights to the following:

- Use of capital markets products for infrastructural development
- The facilitation of broker back office systems by CMA
- The launch of anti-fraud body for capital markets
- The kind of a financial professional that is right for you as an investor
- The signing of the IOSCO multilateral memorandum of understanding by CMA

The roadmap to restoring public confidence in the capital markets began with the statement by the Deputy Prime Minister and Minister for Finance in February 2009. Public confidence in the capital markets has been affected by the following; the global financial crisis, the political climate, irregularities in the capital markets.
The Authority is therefore of the view that there is great potential within our capital markets.
Investors, and the general public, should note the following with regard to the situation of our capital market over the last one year.
The Stock market in Kenya has been experiencing a bear run. This is a condition in which share prices of securities are depreciating. However, this is not unique to our market as this trend is being experienced globally. The Nairobi Stock Exchange (NSE) has specifically experienced similar bear runs in the past. Most recently between October 2000 and September 2002 the share index declined by 50% from a high of 2043 points to a low of 1043 points. As a result of reduced activity market intermediaries, just like in any other businesses, have adopted efficiency measures to reduce overheads, such as staff layoffs.
Many investors entered the market during the Kengen IPO in 2006 and later during the Safaricom IPO in 2008 and in both instances the stock market was experiencing a bull run. A Bull Run or bull market is a market condition in which stock prices have increased in price for an extended period of time. It is advisable for investors to have a medium to long term horizon for retaining their investments rather than a short term horizon. A bear run also provides the opportunity for investors to buy shares in the market when prices in the market are low.
Where shares have been immobilized, the securities are held in custody of the Central Depository and Settlement Corporation (CDSC). Immobilization is the conversion of physical share certificates to electronically held share balances for which the Central Depository has responsibility of maintenance and issuing of regular account statements. CDSC is an independent company established in 2004 under the Central Depositories Act, 2000 and approved by the Authority for purposes of operating a system for the handling of depository of trades in and settlement securities. Investors can use the CDSC SMS service to confirm the status of their share holdings in their CDS accounts by sending the word 'REG' to 2372.
We would like to encourage the investing public to fully participate in the capital market as it is a buyer's market now.

USE OF CAPITAL MARKETS PRODUCTS FOR INFRASTRUCTURAL DEVELOPMENT

The country's long-term economic blueprint has recognised infrastructure as the spine around which other development programmes in the country will flourish. The blueprint appreciates that Kenya's growth potential has over the years been constrained by inadequate infrastructure. Transport, energy, water and sewerage infrastructure, have in particular, suffered from years of underinvestment. Inadequate road networks, railway systems, ports, reliable and affordable energy, equipped airports, telecommunication systems, water and sanitation, it is very difficult to attract private sector investment.

The Government has therefore prioritised investment in infrastructural development as a priority area in its development agenda. In both the Vision 2030 and the Medium Term Plan 2008-2012, the country aims to be firmly interconnected through a world class network of roads, railways, ports, airports, water and sanitation facilities and telecommunications. It is appreciated that effective and reliable infrastructure is important in lowering the cost of doing business and increasing the competitiveness of the country.

The resource requirements to realise the envisaged infrastructure base within the given time frame is however a significant challenge. To mitigate this challenge, the Government has identified capital markets as a major source of alternative financing, particularly for infrastructure projects. Efforts have been put in place to widen the financing opportunities for the infrastructure sector projects within the capital markets. In line with the focus of the Vision 2030 and the Medium Term plan 2008 – 2012, the capital markets will be expected to play a key role in mobilising resources for infrastructure development. This will be done mainly through issuance of infrastructure bonds. Infrastructure bonds are fixed income securities issued to raise funds to finance infrastructure projects. The Public Private Partnerships (PPPs) arrangements have been identified as a major source of funding to implement most activities within the infrastructure sector. The government gazetted the PPP guidelines in March 2009 as part of its efforts to crowd-in private sector participants into provision of infrastructure. The guidelines are expected to provide an enabling legal framework that would facilitate active participation of private sector into provision of services that have in the past been provided by the government. Capital markets are an obvious source of financing for the PPP projects, hence the need for Kenya to have a deep and vibrant capital market.

To demonstrate its commitment to raise long term capital for infrastructure development through the capital markets, the government organized a very successful first ever Infrastructure Bond Conference in October 27th – 28th, 2008 at the Kenya School of Monetary Studies, Nairobi. The primary objective of the conference was to sensitise State Corporations and Municipalities on how to tap into the capital markets by issuing bonds to finance their infrastructure projects that normally requires large capital outlays. Targeted key outcomes of the conference were to enable the participants appreciate the concept of using infrastructure bonds to finance large and long-term development projects. Some of the issues discussed during the conference were, bond structuring processes; institutional arrangement prerequisites; role of advisory services; and legal and regulatory requirements pertaining to the issuance of infrastructure bonds. The interested generated amongst parastatals and local authorities are a clear manifestation that the conference achieved its objectives.

The great potential for Kenyan capital markets to mobilise

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resources for infrastructure development is manifested in the high subscription of some of the recent IPOs. The Kengen and Safaricom IPOs were oversubscribed by 240 percent and 363 percent respectively. In February 2009, the government issued an infrastructure bond worth Ksh 18.5 billion to finance projects in energy, roads and water. The timing of the bond was at the time when country was experiencing a bear capital market. The bearish market notwithstanding, the bond was oversubscribed by 45 percent. This is a clear indication that the financial resources available for long term investment in Kenya are potentially enormous.

The Capital Markets Authority has continued to actively play its role in facilitating development of infrastructure bonds. From the policy perspective, the Authority has advised the government to grant a number of incentives to the capital markets industry with infrastructure bonds in mind.

Currently interest income accruing from all listed bonds used to raise funds for infrastructure and social services tax exempt, provided that the bonds shall have a maturity of at least three years; while any instrument that is certified by the Capital Markets Authority to be, or to have been, executed pursuant to or in connection with the issue of asset-backed securities through a scheme approved by the Capital Markets Authority is exempt from the provisions of the Act.

To ensure a robust regulatory framework for the issuance of Infrastructure Bonds in Kenya, there is currently in place a comprehensive set of rules and regulations on issuance of fixed income securities under the Capital Markets Public Offers, Listings and Disclosures Regulations 2001. More recently, the Capital Markets (Asset Backed Securities) Regulations, 2007 were issued to support issuance of bonds that can finance infrastructure. These pieces of legislation are currently under review to bring on board any emerging issue that deepen the capital markets.

The Authority was also an active member as one of the sponsors and member of the steering committee for the first ever Infrastructure Bond Conference held in 2008. During the planning stage of the first infrastructure bond issued by the government, the authority played a crucial advisory role.

JAIRUS MUAKA
RESEARCH , POLICY & ANALYSIS

CMA to Facilitate Upgrade of Broker Back Office Systems

"The Capital Markets Authority has continued to actively play its role in facilitating development of infrastructure bonds."

The development of a vibrant capital markets remains at the core of the country's economic development objective. The modernization of market infrastructure particularly the implementation of automated trading system and the central depository system has greatly improved efficiency in the market.
However, the lack of automation of the consumer end of the process and existing weaknesses within current stockbroker IT systems has continued to undermine market efficiency. It is in the best interest of the market that stakeholders work together towards putting in place end-to-end electronic trading solutions.

Back-office operations of stockbrokers have been automated to some extent. However, there is a need to strengthen the back-office systems particularly with regard to ensuring efficiency of operations and ensuring the integrity of data in the systems. There is also a need to improve on the system security mechanisms in broker back-office IT systems. The fact that these systems are not integrated with the trading platform has further weakened the integrity of data exchange between the two systems, making it prone to abuse and manipulation.
This situation has in the past resulted in heavy financial losses by market intermediaries and over time has contributed to undermining investors' confidence in the capital markets.

It is against this background that the Capital Markets Authority (CMA), Nairobi Stock Exchange (NSE), Central Depository and Settlements Corporation (CDSC) and the Kenya Association of Stockbrokers and Investment Banks (KASIB) are undertaking a joint initiative to spearhead the implementation of a standard back-office system that has the capabilities to address these challenges.
The project team has already commenced work and the new system is expected to be in place in one year's time. ■

RICHARD NGENO
ICT

Anti-Fraud Body Launched To Enhance Market Supervision

The Capital Markets Authority recently set up an anti-fraud unit to investigate wrongdoing in the capital markets industry in a bid to stem the increasing cases of fraud in the stock market. The unit comprises senior officers seconded from the Criminal Investigation Department, specializing in economic and cyber crime.

" We have observed a trend which points to a surge in fraud-related cases in the recent past."

According to CMA's Chief Executive Mrs Stella Kilonzo, the setting up of the Capital Markets Fraud Investigation Unit (CMFIU) is underpinned by the recognition that as the market develops, securities fraud and other related irregularities get more sophisticated.

'We have observed a trend which points to a surge in fraud-related cases in the recent past. The establishment of the unit is part of our efforts to enhance our market supervision capacity as we respond to challenges posed by fraud,'' she said.

The CMA boss explains that the unit In a move aimed at enhancing its market supervision capacity, the Capital Markets Authority (CMA) has established a Capital Markets Fraud Investigation Unit (CMFIU).

The new unit dubbed the Capital Markets Fraud Inspection Unit will be charged with the responsibility of investigating all cases related to fraud including; impersonation, diversion of investor funds and employee pilferage in market intermediaries with a view to building evidence for prosecution offenders.

The Capital Markets Authority will also endeavor to train the CMFIU officers in securities fraud and other irregularities, locally and abroad.
This approach is informed by the recognition that capital markets fraud related incidences are unique in nature and the market regulator requires well equipped officers to stem the tide of rising cases.


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What Kind of a Financial Professional is Right For You?

Investment advisors

An investment adviser and/or a fund manager is a market professional who undertakes analysis and research on capital markets securities, and advises investors at a commission. They also manage portfolios of securities on behalf of clients.

Stock agents

Stock agents are persons appointed in writing by a licensee (stockbroker/investment bank), to perform any of the functions on their behalf.

Stock agents are not directly regulated by the Authority but are required to abide to their contractual obligations given by their licensee (stockbroker/investment bank).
The main difference between an agent appointed by a licensee and an investment advisor is that the later is regulated by the Capital Markets Authority while the former is the sole responsibility of the licensee who appoints them.

Regulation of investment advisors is governed by regulation 28 of the Capital Markets (Licensing Requirements) (General), 2002. The Authority ensures that the licensed entity has gone through a vetting process. CMA must be satisfied that the candidate (investment advisor) is fit and proper, as defined by its “Fit and Proper test for Approved persons”, to perform the function.

> “ Instead of relying on the skills of a single a dvisor to help you achieve your goals, you get to leverage the talents and resources of an entire industry, with specialists in every aspect of your portfolio.. ”

Why have an investment advisor

The Role of an Investment Advisor

For years, most people who wanted to invest in the stock market worked with a traditional stockbroker who provided free advice and was compensated through a commission, when a product was sold or bought. Each stockbroker had access to a limited array of investment products. Many of them conducted capital markets research, identified securities, and managed client portfolios themselves. Although this arrangement is still the dominant business model in the insurance industry and many major brokerage firms, the model is changing.

Advancement in information technology has created opportunities for investment advisors to access specialists in every area of the business from stocks and bonds, and firms specializing in capital markets research, and the construction of asset allocation models. Other areas include; the evaluation of money management firms and the creation of investment portfolios designed to meet specific objectives (e.g. long-term growth, current income, etc.). Many of these services are provided on a fee-basis, which is generally a percentage of the amount invested. If the assets grow, the advisor is rewarded for the success because the fee percentage is now calculated on a larger asset base. If difficult markets reduce the assets, the advisor's fee falls because the fee percentage is now calculated on a smaller asset base. So, in a reversal of the traditional model, advisors are paid to give advice and, in many cases, earn nothing from the sale of a specific investment product.

What This Means to You

Instead of relying on the skills of a single advisor to help you achieve your goals, you get to leverage the talents and resources of an entire industry, with specialists in every aspect of your portfolio. Instead of paying a commission to purchase a product, you pay a fee for advice or a combination of fees/commissions depending on your investment needs.

The Role of Your Advisor

So with access to all of these specialists, some investors are unclear about the role their advisor plays. Some come right out and ask, "What does my advisor do for me?" Here's the answer. Your investment advisor:

- Works with you to discover your personal financial objectives.
- Assesses your entire financial situation (all major holdings including equity and bonds).
- Designs a customized investment plan that offers a realistic opportunity to achieve your goals.
- Screens the industry's best service providers to identify those that offer services that complement your goals.
- Works with those licensees to implement your customized investment plan
- Monitors the providers and replaces them if they fail to meet your objectives.
- Tracks the licensees to be sure they don't stray from the investment style they were hired to implement.
- Monitors your portfolio and recommends adjustments to your strategy based on conditions in the capital markets, changes in your life and progress toward your goals.
- Provides education and guidance to help you understand your investments and to keep your goals in sight and portfolio on track regardless of current market conditions.

In addition to these benefits, you get peace of mind. At a time when everything at the bourse has been called into question, you work with a partner whose intentions you never have to doubt because the only way your advisor's dreams will come true is if yours do.

DAVID KANYI
MARKET SUPERVISION

CMA Joins Global Securities Body

OICU-IOSCO

The Capital Markets Authority (CMA), is now a full signatory of the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMOU) concerning Consultation, Cooperation and the Exchange of Information. The MMOU is an international benchmark for co-operation and information sharing that builds on existing IOSCO principles to combat cross-border fraud and other securities violations.

The Authority deems this as a practical tool which describes the particular types of information to be shared between securities regulators. For a regulatory authority to qualify to sign the MMOU, it must demonstrate capacity, legally and practically, to meet specific MMOU provisions which are essential to mutual assistance and the exchange of information in order to successfully enforce securities and derivatives laws.

The IOSCO has members representing more than 95 percent of the world's securities markets with presence in over 100 countries. In the African continent, Kenya is the fourth country to be a signatory. Other countries that are already signatories to the MMOU are Morocco, Nigeria and South Africa.

As a member of IOSCO and a signatory of MMOU, CMA is now able to keep abreast, and influence international developments in regulation and supervision of this very important sector of the capital markets industry.

Broadening the Market - Collective Investment Vehicles

A collective investment scheme (CIS) is any financial instrument that allows you to pool your money and invest it together with other like-minded individuals. The various CIS range from investment trusts, mutual funds, exchange-traded funds and unit trusts. In Kenya, unit trusts are the most common examples. With CIS an investment management company such as Old Mutual invests your money in a spread of investments. This spread of investments is called a portfolio. You will receive units from Old Mutual in return for your investment. Generally, CIS operate have clear mandates defining what assets to invest in, give recommended time period to maximize returns with acceptable risk exposure.

Brief development of CIS

Since 2001, when the market regulator, Capital Market Authority (CMA) gazetted regulations for collective investment vehicles, the market has been slowly accepting the concept of unit trusts, seen with increased number of management companies that offer the product. CIS are evolving very fast in Kenya largely because of the enabling environment which facilitates them to thrive. Key incentive offered by the government is making legislation of tax exemption funds to stimulate investments and encourage the creation of a savings culture in Kenya.

In Africa, unit trusts are key investment vehicles for growth of the stock markets; a good example is in South Africa where there are more Unit Trust products than there are listed companies, other countries were CIS continue to gain momentum include: Nigeria, Ghana, and Mauritius

“ CIS yield better ways to invest because you are advised by a financial adviser with whom you can plan feasible way of meet your financial goals with consideration of current circumstances.”

Why consider CIS for investing

Initially perceived as a preserve of elite investors, Unit Trusts are becoming the investment of choice for many Kenyans because they offer you opportunity for wealth creation and preservation, with their unique value propositions, some of which include:

Diversification – CIS are well diversified, thus reducing your risk exposure to one particular asset class. For example, the fund managers will buy interest earning assets such as T-bills and Bonds to protect your capital and simultaneously purchase shares from listed companies in different industries. This saves you time and money, from having to figure out which share to buy and sell or how much money to allocate for each asset.

Access to professional fund managers – You are able to access professional fund managers whose daily activities include doing research on companies and trading. The hassle and bustle is taken up by the fund manager and you are left with time to enjoy the things you love to do best.

Management of risk- Every investment has an inherent risk and if you were to invest directly in the market you would face higher risks because of having fewer investments options , however, if you invest in a fund managed scheme you have the possibility of owning more investments thus reducing your risk exposure to any one asset.

Regulation – Fund managed investments such as Old Mutual Units trusts are regulated by the capital markets authority which ensures adherence to regulations that aim to promote transparency of managing your account.

Security- Capital Market Authorities' protect investors' wealth by enforcing compliance to CIS rules and regulations. Regular audits are undertaken and companies that do not meet standards face the risk of having their licenses withdrawn.

Tax benefits- some Unit trusts such as Old Mutual Unit Trusts Funds are exempt from withholding tax after the government offered an incentive in its 2002/2003 Budget speech, therefore increasing your overall investment value. This is because the funds are taxed at source and the withholding taxes are paid directly to the government, you; therefore, do not receive any tax certificates from the Fund Manager.

Liquidity- CIS are very liquid hence allowing for immediate withdrawal of funds on client request. As per regulations, you can have funds within 6 working days.

Flexibility- CIS provide flexibility for investor who wants to change from one fund to another. For instance, a client invested in high risk fund such as Equity fund can move some of his money to a lower risk fund. In addition, there is flexibility in the term of investment whereby there is no fixed investment period meaning that one can invest for as long or as briefly as they like.

Impact of CIS

Lately, you may have read or observed the meager returns from direct investments in the stock market have prompted many retail investors in Kenya to consider unit trusts as a better investment option. Also, market

continuation from page 8

players and regulators continue to support CIS as the best way for you to access diversified investments and professional financial advice, evidenced by the publication on page 24 of Daily Nation on April 4th 2008. CIS yield better ways to invest because you are advised by a financial adviser with whom you can plan feasible way of meet your financial goals with consideration of current circumstances.

How the idea has been embraced by Investors in other emerging and developed markets

In Africa, CIS offer the best opportunity to generate long term savings directed towards long term economic development. For instance, In Kenya, the newly introduced lower amount for investing in T/bills and Bonds helps to avail these instruments to more Kenyans, who can now gain relatively higher interest earnings than those obtained in a savings account.

In addition, infrastructural development such as roads, bridges, ports and airports prerequisites for economic growth of any country offer attractive investment opportunities. However these projects call for high capital outlay, best made available through a CIS with considerable pooled funds hence you access such investments at affordable investment amounts.

Traditionally brick and mortar were the only sound investments and preferred investment option. However, CIS that target property developments such as real estate investment trust (REITS) are an excellent and feasible channel for you to invest in property development, practice in place in southern Africa countries such as South Africa.

Performance of CIS's

CISs performance varies according to the type of fund. This is because the performance of a fund is a factor of the investment objective and strategy and the investment limits which dictate the funds risk profile and investment horizon. Generally, higher risk investments, like equity funds, generate higher returns over the longer term than lower risk investments, like money market funds, which are shorter term in nature. So, both investors and financial advisers need to appreciate the risk profile of the client and the expected returns. This understanding of risk/reward relationship is a rule of thumb for investments and helps build financially sound plan that does not change with the performance of the CIS. Therefore, when an investor is looking at a fund's performance they should focus on good and consistent performance over the longer term and not pay too much attention to periods of one year or less bearing in mind that past performance is not a guarantee of future good performance.

In summary, Old Mutual Kenya, which offers one of the most affordable investments starting from KES 7, 500 only, we encourage you to take advantage of professional services from managers, whose full time occupation is to make investment decisions on your behalf, giving you more time to enjoy doing other things, while money works for you. ■

BY OLD MUTUAL KENYA

CMA Drafts New Regulations on Real Estate Investment Trusts. (REITS)

The Capital Markets industry in Kenya has over the last ten years experienced robust growth as well as rapid changes in the range and sophistication of market products, services as well as technology. To provide a legal and regulatory framework that is supportive and effective the Capital Markets Authority is reviewing the entire legal and regulatory framework to identify any gaps and weaknesses and to provide a framework for introduction of new products. The framework also needs to be brought into compliance with the International Organization of Securities Commissions (IOSCO) core principles of securities regulation.

To this end, the Ministry of Finance contracted International Securities Consultants of Hong Kong (ISC) and Kaplan and Stratton Advocates to review the regulatory framework through a phased process. Under phase one, the consultants were required to review the capital markets legal and regulatory framework to determine its adequacy and determine its comprehensiveness and enforceability. At the end of this phase the consultants delivered a report with findings towards the end of 2008.

In the second phase, the consultants are expected to propose and draft necessary legislative and regulatory amendments and suggest areas for new regulations and further development. The consultants have already submitted the proposed Capital Markets (Corporate Governance) (Market Intermediaries) Regulations 2009 and Capital Markets (Conduct of Business) (Market Intermediaries) Regulations 2009.

The Legal Affairs department has also drafted regulations on Real Estate Investment Trusts (REITS). Capital Markets (Corporate Governance) (Market Intermediaries) Regulations 2009, Capital Markets (Conduct of Business) (Market Intermediaries) Regulations 2009 and the Capital Markets (Real Estate Investment Trusts) Regulations, 2009 were exposed for stakeholders' and public comment for the period between April 15 and May 15, 2009 as required under section 12 of the Capital Markets Act.

DANIEL WARUTERE
LEGAL AFFAIRS

1. CMA's Board Chairman Mr Micah Cheserem together with the Authority's Chief Executive Mrs Stella Kilonzo during the recent launch of the ongoing Public Investor Education Campaign

2. Cliff O Mogere,a Strathmore University Student receives a cheque from the Authority's Chairman ,Mr Micah Cheserem on scooping top position in the recently concluded CMA University Challenge Competition

3. The Anti-Fraud Team at work.The Anti-Fraud body was recently launched to combat fraudulent activities in the Capital Markets Industry.

4. Rwanda signs the EASRA Memorandum of Understanding as members look on.

5. CMA staff pose for a photo on completing the ISO Certification Program. The objective of the program is to have an effective quality management system in place within the Authority.

6. The CMA boss awards one of the best students during the University Challenge Award ceremony

Primary and Secondary Market Performance Highlights

Primary Market Highlights

Equity

Activity in the primary equity market remains subdued. However the GoK expects to raise Kshs 6 bn this financial year from the ongoing privatization initiatives. This is expected to raise activity in the equity markets.

Bonds

The May bonds offer (FXD3/2007/15 – Re‑opening and FXD2/2009/2 – new issue) attained a 127.76% subscription rate as they attracted bids worth Kshs 16.61bn, of which 79.16% or Kshs 13.15bn of the bids received were accepted.
In June, the Central Bank of Kenya re-opened the 2 and 20-year Treasury Bonds for a total amount of Kshs.13Billion. The auction was oversubscribed by 48% an indication that the reopening programme continues to be well taken up by the market.
The total number of bids received was 820 amounting to Kshs. 19.28Billion, while bids accepted amounted to Kshs.13.11Billion of which, Kshs. 5.92Billion and Kshs. 7.19Billion was recorded in the 2 and 20 year respectively. The Central Bank is likely to continue the bond re-opening process well into the foreseeable future.
The primary market continues to be attractive to investors as they attempt to re-allocate funds to invest in long-term financial instruments; the results of the just concluded Treasury bond offers, indicate a relatively vibrant primary bonds market.

Secondary Market Highlights

Equity Market

Market activity continues to improve and is mainly attributable to the increased participation of local institutional and high net worth investors. Foreign investors constituted 57.63 % of the total turnover.
Blue chips and high dividend yield stocks seem to be attracting renewed interest from investors as well as resurgent demand on the banking stocks
Turnover for the month of June, 2009 increased by 33.6% compared to the previous month, from Kshs. 3.09 billion to Kshs. 4.13 billion. The improved turnover figures were indicative of improvement in general liquidity and stock price of key counters.

Bond Trading

Bond activity fell during the month on the back of easing in trading on the infrastructure bond which had spurred trading in the previous month. Institutional investors continued to subscribe moderately well to new bond issues, a safety zone from riskier equities.

As a result, bond prices have improved on the back of a general decline in interest rates over the last few months. The index on government debt securities, as selected by AIG Investments indicates a general increase in bond prices over the last four months although this trend appears to be easing.

The preference for longer dated bonds continued for the second month with the average bond size traded over the period falling to Kshs 43 million from Kshs 56 million and the average tenure rose to 7.2 years from 6.7 years. A total of Kshs 21.6 billion was traded in the month of June as compared to Kshs 22.31 billion in the previous month.

Market activity is likely to remain active, as investors position themselves to participate in an increasingly liquid secondary bonds market.

Implication of Budget Proposals on the Bond market

Withholding tax on long term bonds of 10 years maturity and above was reduced from 15% to 10%. This move is expected to increase demand for longer term bonds since the interest return paid will rise. New investments made by pension schemes that receive statutory contributions are now required to be put in Government securities and infrastructure bonds issued by public institutions only. This means that the National Social Security Fund ('NSSF') is effectively barred from investing in securities other than government issued securities. The government reasons that preventing NSSF from investing in the stock market protects pension contributions. The decision should increase bond subscriptions in the wake of the pending demand for debt from government.

In the monetary area, to ease the liquidity situation, which has contracted since April due to slowed government spending, the CBK has cut its policy rate—the Central Bank Rate (CBR)—by a total of 0.75% since December 2008 and lowered banks' reserve requirement ratio from 6% to 5%.

The bank has also reduced the tenor for Repo transactions to a single fixed 5 day period. The revised monetary program for 2008/9 is expected to reign in inflation, while providing sufficient liquidity to support economic activity. However, the reality on the ground points to increased Public and Private sector borrowings from the local market of which may exacerbate and not alleviate the liquidity problem.

For 2009/10, the Government intends to stimulate the economy with additional spending. This is to be financed from borrowings from domestic sources of KES 109.5 billion (4.2 percent of GDP). Heavy government borrowing from the local markets to finance mega infrastructure projects could lead to a slow down in economic growth in the coming financial year, a possible tightening of liquidity and an interest rates surge that might prove costly to both the borrower and the economy. Investing in bonds at a time when interest rates are rising not only lower returns to existing bond holders, but also results in capital losses when existing bond holders sell before maturity.

Market Statistics

Gross Market Statistics

YEAR	MONTH	EQUITY TURNOVER (Kshs billion)	SHARE VOLUME (million)	NSE 20-SHARE INDEX	MARKET CAP (Kshs billion)	BOND TURNOVER (Kshs billion)
2005	Jan to Dec	36.5	874.2	3973	462.5	13.6
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	5856.5	3521.18	853.67	95.3
2009	January	2.62	177.55	3198.9	777.45	12.46
	February	1.65	159.64	2474.75	611.49	12.55
	March	2.41	207.39	2805.03	688.67	18.52
	April	2.55	215.56	2800.10	683.03	1.37
	May	3.09	308.00	2852.57	693.44	22.31
	June	4.13	377.56	3294.56	321.78	21.60
% change (month-on-month)		**33.66**	**22.58**	**15.49**	**18.51**	**(3.18)**

Source: NSE

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

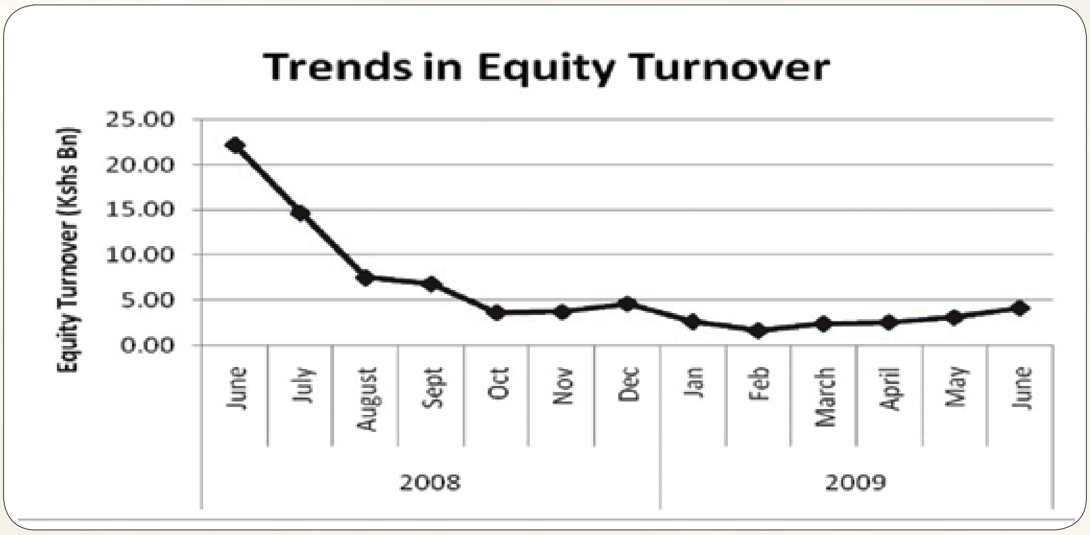
Issuer	Banks	Insurance companies	Fund Managers	Investment Companies	Individuals
Sasini Tea	49.98	0.00	550.02	0.00	0.00
Barclays Bank (1st Tranche)	45.00	25.00	873.00	50.00	7.00
East African Development Bank	174	84.264	0.00	221.424	0.00
Faulu (Kenya)	128.00	81.92	93.44	51.84	44.80
PTA Bank (2005)	288.832	15.232	332.032	4.032	0.00
PTA Bank (2007)	168.00	40.00	792.00	0.00	0.00
Athi River Mining	124.80	70.40	444.80	0.00	0.00
BBK (2nd Tranche)	957.60	114.60	579.70	80.00	268.10
Mabati	1251.40	30.00	694.00	22.00	2.60
Total (Million)	**3187.612**	**461.776**	**4358.992**	**429.296**	**322.50**

Source: CMA

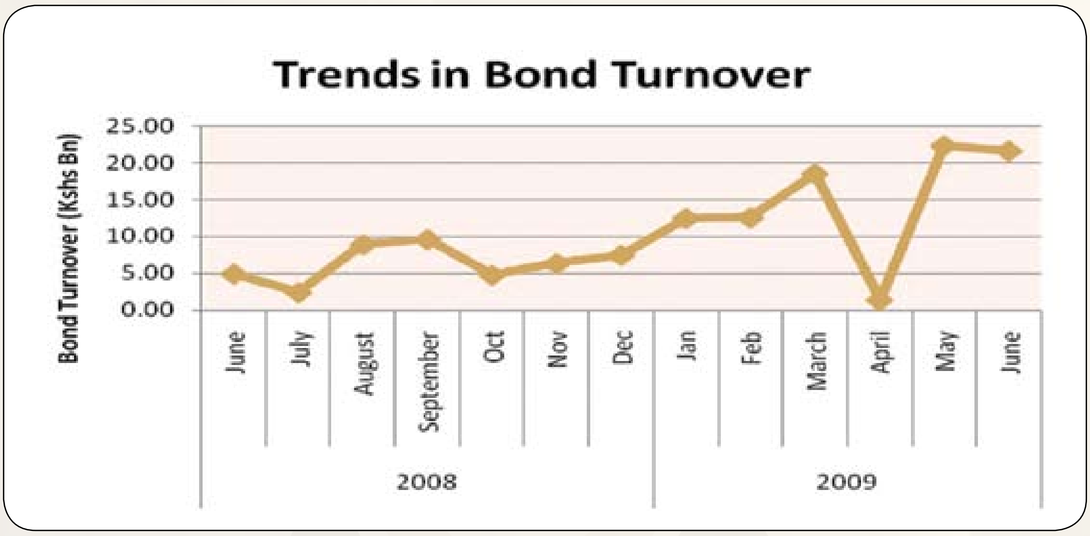
CORPORATE ACTIONS: JANUARY-JUNE 2009

COMPANY	DATE OF ANNOUNCEMENT	DIVIDEND ANNOUNCEMENT	BONUS/ RIGHTS ISSUE	DPS (KSHS)	NO OF ISSUED /NEW SHARES (mn)	DIVIDEND PAYOUT (KSHS MN)
CMC Holdings	09-Jan-09	Final		0.45	582.7	262.22
Rea Vipingo	21-Jan-09	1st & Final		0.20	60	12
Car & General	28-Jan-09	Final		0.67	22.3	14.94
E.A Cables	10-Feb-09	Final		1.00	202.5	202.5
Equity Bank	12-Feb-09		Split(1:10)	0.35		
Equity Bank	12-Feb-09	Final		3.00	370.3	1110.9
BBK	17-Feb-09	Final		1.50	1357.9	2036.85
NIC Bank	19-Feb-09		Bonus(1:10)			
NIC Bank	19-Feb-09	Final		0.25	296.7	74.18
EABL	20-Feb-09	Final		2.50	790.8	1977
Bamburi	26-Feb-09	Final		2.80	363	1016.4
BAT	26-Feb-09	Final		12.50	100	1250
KCB	27-Feb-09	First & Final		1.00	2217.8	2217.8
HFCK	03-March-09	First & Final		0.30	230	69
SCBK	05-March-09	Final		5.00	271.97	1359.85
Co-op Bank	05-March-09	First & Final		0.10	3499.2	349.92
Kakuzi	05-March-09	First & Final		1.00	19.6	19.6
DTB	09-March-09	First & Final		1.40	163.04	228.26
Access Kenya	16-March-09	Final		0.40	203.58	81.43
Nation Media	26-March-09	Final		4.00	142.61	570.44
Total Kenya	03-April-09	Final		2.50	173.01	432.53
Kenol	03-April-09	Final		3.50	147.18	515.13
Jubilee	04-April-09	Final		3.25	45	146.25
Scangroup	16-April-09		Bonus(1:1)		220.69	STA
Limuru Tea	20-April-09			10.00	0.6	6
Kenya Re	29-April-09			050	600	300
Sasini	29-April-09	Interim		0.20	228.06	46
Crown berger	05-May-09	Final		1.00	23.727	23
Eaagads	11-May-09	Final		0.625	16.079	10.05
Safaricom	21-May-09	First&Final		0.10	40,000	4000
KQ	05-May-09	First&Final		0.20	461.616	92.32
Kapchorua Tea	24-Jun-09	First&Final		2.50	3.912	9.78
Williamson Tea	24-Jun-09	First&Final		4.00	8.756	35.02
Total						**18,469.71**

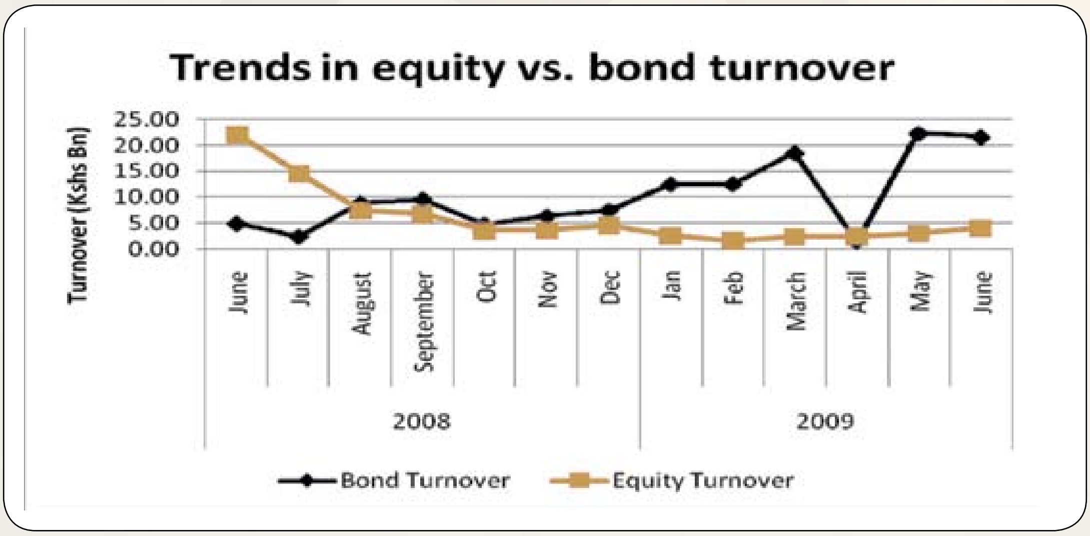
Trends in Equity Turnover



Trends in Bond



Trends in Equity vs. Bond



Approved Institutions: Annual Licensees

APPROVED INSTITUTIONS

1. **Acacia Fund Limited**
P.O. Box 43233 - 00100, Nairobi
2. **Central Depositories and Settlement Corporation Limited**
P.O. Box 3464 - 00100, Nairobi
3. **Global Credit Rating Company**
P.O. Box 76667, Wendywood 2144, South Africa
4. **The Nairobi Stock Exchange**
P.O. Box 43633- 00100, Nairobi

STOCKBROKERS

1. **ABC Capital Limited**
P.O. Box 34137–00100,Nairobi
2. **African Alliance Kenya Securities Limited**
P.O. Box 27639-00506, Nairobi
3. **Kingdom Securities Limited**
P.O. Box 73253-00200, Nairobi
4. **NIC Capital Securities Limited**
P.O. Box 63046-00200, Nairobi
5. **Genghis Capital Limited**
P.O. Box 28987-00200, Nairobi
6. **Ngenye Kariuki and Company Limited**
P.O. Box 12185–00400, Nairobi
7. **Reliable Securities Limited**
P.O. Box 50338-00200, Nairobi

INVESTMENT BANKS

1. **African Alliance Kenya Investment Bank Limited**
P.O. Box 27639-00506, Nairobi
2. **Afrika Investment Bank Limited**
P.O. Box 41684-00100, Nairobi
3. **Apex Africa Investment Bank Limited**
P.O. Box 43646–00100, Nairobi
4. **Barclays Financial Services Limited**
P.O. Box 30120–00100, Nairobi
5. **CBA Capital Limited**
P.O. Box 30437–00100, Nairobi
6. **CFC Stanbic Financial Services Limited**
P.O. Box 44074–00100, Nairobi
7. **Dry Associates Limited**
P.O. Box 684–00606, Nairobi
8. **Drummond Investment Bank Limited**
P.O. Box 45465-00100, Nairobi
9. **Dyer and Blair Investment Bank Limited**
P.O. Box 45396–00100, Nairobi
10. **Equatorial Investment Bank Limited**
P.O. Box 52467-00200, Nairobi
11. **Equity Investment Bank Limited**
P. O. Box 75104- 00200, Nairobi
12. **Faida Investment Bank Limited**
P.O. Box 45236-00100, Nairobi
13. **FCB Capital Limited**
P.O Box 56793-00300,Nairobi
14. **Kestrel Capital (East Africa) Limited**
P.O. Box 40005–00100, Nairobi
15. **NIC Capital Limited**
P.O. Box 44599-00100, Nairobi
16. **Renaissance Capital (Kenya) Limited**
P.O. Box 40560-00100, Nairobi
17. **Standard Investment Bank Limited**
P.O. Box 13714 -00800, Nairobi
18. **Sterling Investment Bank Limited**
P.O. Box 45080–00100, Nairobi
19. **Suntra Investment Bank Limited**
P.O. Box 74016–00200, Nairobi

INVESTMENT ADVISERS

1. **Alliance Capital Partners Limited**
P.O Box 12181-00100,Nairobi
2. **Bridges Capital Limited**
P.O. Box 62341–00200, Nairobi
3. **Citidell Company Limited**
P.O Box 185-00606,Nairobi
4. **Cititrust Kenya Limited**
P.O. Box 30711–00100, Nairobi
5. **Co-operative Consultancy Services (K) Limited**
P.O. Box 48231–00100, Nairobi
6. **Deloitte Financial Advisory Limited**
P.O. Box 40092-00100, Nairobi
7. **Emerging Africa Capital Limited**
P.O. Box 32200-00600, Nairobi
8. **Equilibrium Capital Limited**
P.O. Box 9000-00100, Nairobi
9. **Executive & Corporate Advisory Services (K) Limited**
P.O. Box 72216–00200, Nairobi
10. **Finconsult Company Limited**
P.O. Box 38725-00623 Nairobi
11. **First Africa E.A Limited**
P.O. Box 56179-00200, Nairobi
12. **Franklin Management Consultants Limited**
P. O. Box 61843-00200, Nairobi
13. **Iroko Securities (Kenya) Limited**
P.O. Box 66249–00800, Nairobi
14. **Jani Consultancy Services Limited**
P.O. Box 40583–00100, Nairobi
15. **Lifestyle Management Limited**
P.O Box 1342-00606,Nairobi
16. **Loita Asset Management Limited**
P.O. Box 39466–00623, Nairobi
17. **J.W. Seagon Limited**
P.O. Box634201-00619, Nairobi
18. **Regnum Consultants Limited**
P.O. Box 11431-00400, Nairobi
19. **The Profin Group (Kenya) Limited**
P. O. Box 9980 – 00100, Nairobi
20. **Tsavo Securities Limited**
P.O. Box 11987-00100, Nairobi
21. **VFS International (K) Limited**
P.O. Box 4–00621, Nairobi
22. **Winton Investment Services Limited**
P.O. Box 607-00621, Nairobi
23. **WSD Capital (Kenya) Limited**
P.O. Box 99139, Mombasa

FUND MANAGERS

1. **African Alliance Kenya Management Company Limited**
P.O. Box 27639-00506, Nairobi
2. **Amana Capital Limited**
P.O. Box 9480-00100, Nairobi
3. **AIG Global Investment Co. (E.A) Limited**
P.O. Box 67262–00200, Nairobi
4. **Aureos Kenya Managers Limited**
P.O. Box 30375–00100, Nairobi
5. **British American Asset Managers Limited**
P.O. Box 43233–00100, Nairobi
6. **CIC Asset Management Limited**
P.O Box 59485-00200,Nairobi
7. **Co-optrust Investment Services Limited**
P.O. Box 48231–00100, Nairobi
8. **Genesis (K) Investment Management Limited**
P.O. Box 79217–00200, Nairobi
9. **ICEA Asset Management Limited**
P.O. Box 46143–00100, Nairobi
10. **InvesteQ Capital Limited**
P.O. Box 56977-00200, Nairobi
11. **Old Mutual Investment Services (K) Limited**
P.O. Box 30059–00100, Nairobi
12. **Old Mutual Asset Managers (K) Limited**
P.O. Box 11589–00400, Nairobi
13. **Sanlam Investment Management (K) Limited**
P.O. Box 7848-00100, Nairobi
14. **Standard Chartered Investment Services Limited**
P.O. Box 30003–00100, Nairobi
15. **Stanbic Investment Management Services (E.A.) Limited**
P.O. Box 30550–00100,Nairobi
16. **Zimele Asset Management Co. Limited**
P.O. Box 76528-00508, Nairobi

AUTHORIZED DEPOSITORIES

1. **African Banking Corporation Limited**
P.O. Box 46452-00100, Nairobi
2. **Barclays Bank of Kenya Limited**
P.O. Box 30120–00100, Nairobi
3. **CFC Stanbic Bank Limited**
P.O. Box 72833–00200, Nairobi
4. **Co-operative Bank of Kenya Limited**
P.O. Box 48231-00100, Nairobi
5. **Dubai Bank Kenya Limited**
P.O. Box 11129-00400, Nairobi
6. **Equatorial Commercial Bank Limited**
P.O. Box 52467-00200, Nairobi
7. **Equity Bank Limited**
P.O. Box 75104-00200, Nairobi
8. **I & M Bank Limited**
P.O. Box 30238-00100, Nairobi
9. **Kenya Commercial Bank Limited**
P.O. Box 48400–00100, Nairobi
10. **National Bank of Kenya Limited**
P.O. Box 72866–00200, Nairobi
11. **NIC Bank Limited**
P.O. Box 44599–00100, Nairobi
12. **Prime Bank Limited**
P.O. Box 43825-00100, Nairobi

SUSPENDED LICENSEE

1. **Inter-Alliance International (K) Limited**
P.O. Box 11589–00400, Nairobi

REVOKED LICENSEE

1. **Old Mutual Asset Managers (E.A.) Limited**
P.O. Box 1589–00400, 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

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. KCB Employee Share Option Plan
9. Equity Bank Employee Share Ownership Plan

CAPITAL

MARKETS AUTHORITY

Capital markets Authority
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Nairobi - Kenya
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