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Annual Report  
2013



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## **VISION**

To be a world class regulator of vibrant capital market

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## **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

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## **MOTTO**

Promoting Capital Markets Integrity

*Kuimarisha uadilifu wa soko la mitaji*

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## **CORE VALUES**

Integrity

Responsiveness

Collaboration and Teamwork

Fairness

Commitment

Innovation and Continuous learning

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# Letter of Transmittal

The Cabinet Secretary  
The National Treasury  
NAIROBI

**Dear Hon. Secretary,**

I have the honour of submitting the Annual Report of Capital Markets Authority for the fiscal year ended June 30, 2013. The report has been prepared in accordance with the provisions and requirements of Section 36(3) of the Capital Markets Act, Cap 485A.

Respectfully yours



**Kung'u Gatabaki**  
CHAIRMAN

The members of the Authority are:

Mr. Kung'u Gatabaki	-	Chairman
Mr. Joseph Kinyua, CBS	-	Permanent Secretary to the Treasury: (Term expired on June 27th 2013)
Dr. Kamau Thugge, EBS	-	Principal Secretary to the National Treasury (Appointed on June 27th 2013)
Dr. Geoffrey Mwau	-	Alternate to the Permanent Secretary to the Treasury
Prof. Njuguna Ndung'u, CBS	-	Governor, Central Bank of Kenya
Ms. Rose Detho	-	Alternate to the Governor, Central Bank of Kenya
Hon. Prof. Githu Muigai, EGH, MP	-	Attorney General
Mr. James Waweru	-	Alternate to the Attorney General: (Term expired on 3rd December 2012)
Ms. Jane Joram	-	Alternate to the Attorney General: (Appointed on 4th December 2012)
Ms. Nafisa Abass	-	Member (Term expired January 3rd 2013 and re-appointed February 20th 2013)
Mr. Humphrey Muga	-	Member
Mr. Mahmood Manji	-	Member
Ms. Judy Thuo	-	Member (Appointed on July 2nd, 2012)
Mrs. Anne Schofield	-	Member (Appointed on 20th February, 2013)
Mr. Paul Ngugi	-	Member (Appointed on 20th February 2013)
Dr. Gituro Wainaina	-	Term expired on January 3rd, 2013
Mr. Paul Muthaura	-	Ag. Chief Executive

# Corporate Information

## REGISTERED OFFICE

3<sup>rd</sup> Floor, Embankment Plaza  
Longonot Road, Upper Hill  
P. O. Box 74800 - 00200  
Nairobi.  
Tel: +254 20 2221910 / 2264900 / 2221869 / 2226225  
Cell: +254 722 207767 / +254 734 651550  
E-mail: corporate@cma.or.ke  
Website: www.cma.or.ke

## BANKERS

**Commercial Bank of Africa Limited**  
Mara/Ragati Roads Upper Hill  
P. O. Box 30437 - 00100  
Nairobi

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

## AUDITORS

Authorised Independent Auditor

**RSM Ashvir**  
Certified Public Accountants  
1<sup>st</sup> Floor, Reliance Centre  
Woodvale Groove, Westlands  
P. O. Box 349 - 00606  
Nairobi  
On behalf of

**The Auditor General,**  
Kenya National Audit Office  
P. O. Box 30084 - 00100  
Nairobi

## ADVOCATES

**Archer & Wilcock Advocates**  
Marakwet Close, Kilimani  
P. O. Box 10201 - 00400  
Nairobi

**Hamilton, Harrison & Mathews**  
ICEA Building, Kenyatta Avenue  
P. O. Box 30333-00100  
Nairobi

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

**RH Advocates**  
Transnational Plaza, City Hall Way, City Center  
P. O. Box 50515 - 00200  
Nairobi



# Chairman's Statement

***"I am pleased to present the  
Authority's Annual Report  
for the year ended  
30 June 2013"***

## **INTRODUCTION**

The year was both exciting and challenging for the Authority with several key initiatives introduced in the capital markets.

According to the National Treasury estimates in 2012, Kenya's GDP growth rose slightly to 4.7 per cent from 4.4 per cent in 2011. The economy grew by a further 5.2 per cent during the first quarter of 2013 compared to a growth of 3.9 per cent realized during the same quarter in 2012. The marked growth in the first quarter of 2013 was mainly attributed to improved weather conditions for some key crops compared to the same quarter of 2012 and the peaceful conduct of the first general elections under the Constitution in March 2013 which to a degree also shaped the pace of the economic growth during the quarter.

This strong performance is expected to be sustained with the implementation of the Second Medium Term Plan (MTP2) of the Vision 2030 economic blueprint. In this connection the Authority's goal remains that of positioning Kenya's capital markets as the investment destination of choice through facilitative regulation and innovation. This transformation will be achieved through entrenchment of best practices in capital market regulation and proactive facilitation of market

development initiatives as envisaged in the Authority's new Strategic Plan for the period July 2013-June 2018. This is especially the case given that the Vision 2030 recognizes the capital market as critical in mobilizing savings and investments. As a consequence, the importance of capital mobilization to be directed to value-adding enterprises cannot be overstated, calling for the capital markets to occupy the centre stage in Kenya's development agenda. This is an enormous task and the Authority, in close collaboration with market stakeholders, is committed to initiating appropriate reforms necessary to support productive enterprises in accessing affordable and long term capital.

## **STRATEGIC OBJECTIVES**

As a public institution entrusted with the responsibility of facilitating development of orderly and efficient capital markets, the Authority's strategic objectives have been formulated with a view to ensuring that the Kenyan Capital Market is increasingly efficient, competitive, financially sound and dynamic to facilitate greater innovation of different capital market products and services to meet the diverse needs of issuers and investors. In this regard the following strategic objectives provided the foundations for the initiatives undertaken during the year:

## Chairman's Statement Continued

- i. Facilitate the development of capital market products and services;
- ii. Establish a robust, facilitative, legal and regulatory framework that conforms to international best practice;
- iii. Strengthen the institutional capacity and corporate image of the Authority;
- iv. Enhance capital market infrastructure and institutional arrangement;
- v. Strengthen professional and operational capacity of capital market institutions and intermediaries;
- vi. Promote investor education and public awareness;
- vii. Enhance the policy environment; and
- viii. Build strategic alliances.

### MARKET REFORMS

The Authority continued with its reform agenda and facilitated the introduction of new products to diversify and deepen the capital market in line with the critical role of the capital market in mobilizing resources to meet the Vision 2030 objectives. Significant steps were therefore made to reform the regulatory framework during the period under review with a view to strengthening and enhancing the same to make it more comprehensive, consistent and flexible for capital market development, and in order to bring it into compliance with international best practices including the IOSCO principles of securities regulation. This is in recognition of the fact that the regulatory framework must adapt to the fast-changing market environment to ensure that public confidence in the integrity of the market is preserved at all times, and that systemic stability is not compromised.

Additionally, focus and resources were also channeled towards ensuring that we have in place truly world class capital markets that will be able to intermediate funding for economic development of Kenya and the region as a whole by putting in place the requisite environment for introduction of new products and services in the market

#### Development of Capital Markets Master Plan

The Authority is spearheading the development of a Capital Markets Master Plan (CMMP) through a consultative process, which will provide the direction for the capital markets over the next 10 years. The extensive process involving all capital market participants and stakeholders is expected to harness creativity and innovation in the industry.

The consultative approach is intended to enhance commitment to the collective agreements expected to be incorporated in the plan to ensure industry ownership. The CMMP is projected to facilitate the positioning of Kenya's capital markets as the heart of African capital markets investment in order to support national economic growth and meet future challenges from regional and continental competition and globalization as Kenya endeavors to position itself to be an International Financial Services Hub as outlined in the Kenya Vision 2030 Economic Blueprint.

Through the guidance of the Capital Markets Master Plan Steering Committee comprising of industry experts and the Board of the Capital Markets Authority, a consultancy to carry out an in-depth assessment of the current condition of the capital markets in Kenya has been completed and high-level recommendations on the targeted actions and initiatives necessary in order to support the eventual transformation of Kenya's capital markets into the gateway to capital markets investment in Africa adopted.

These findings and recommendations will be further developed, detailed and refined in order to design a 10 year Capital Markets Master Plan under Phase II of this project. The development of the Master Plan and a sequenced implementation plan for that Master Plan is the critical stage to address the challenges identified in the Market Assessment as well as to ensure the timely implementation of the high level recommendations made.

#### Capital Markets Corporate Governance Committee

As part of its effort to strengthen the corporate governance framework in the capital markets, the Authority appointed a nine-member Capital Markets Corporate Governance Steering Committee (CMCGC). The current chair of the Institute of Certified Public Secretaries of Kenya (ICPSK) leads the committee, with members drawn from professionals in the Registrar of Companies/Attorney General's Office; Ethics and Integrity Institute, the Nairobi Securities Exchange; Centre for Corporate Governance; listed companies and academia.

The CMCGC is charged with: guiding regular review of the corporate governance standards for publicly listed companies in adherence to best international practice

# Chairman's Statement Continued

and trends; driving the implementation of amendments to the corporate governance guidelines and applicable regulatory requirements; identifying the necessary legal framework and institutional strengthening requirements to promote corporate governance; addressing weaknesses in the enforcement of the corporate governance guidelines and strengthening capacity building and professionalism of key stakeholders in the market through sensitization initiatives.

The committee is currently undertaking the following assignments:

- Review of the Draft Companies Bill, 2012
- Development of a Corporate Governance Blue Print
- Draft revised Corporate Governance Code
- Sensitization and Educational Forums

## Commodity and Financial Futures and Derivatives Market

Futures exchange licensing regulations are now in place following their gazettelement in June 2013 by the Cabinet Secretary, National Treasury. The Authority is in the process of drafting the final set of regulations that will complete the framework for a robust commodity and financial futures and derivatives market, namely, Regulations on Derivatives Brokers and those for Business of Derivatives Contracts. These will be put on statutory public exposure by end of August 2013.

Further, the Authority appreciates the importance of continuous training of its staff and stakeholders and has facilitated training for seven technical staff on policy and regulatory framework for futures and derivatives markets in Johannesburg and Abidjan, since the last reporting period. Other key activities aimed at developing the futures and derivatives market that are lined up for the next Financial Year include:

- (a) Roll out of a futures and derivatives certification programme;
- (b) Recruitment of functional heads within the Futures Unit;
- (c) Licensing of eligible exchange(s) and futures market intermediaries;
- (d) Review of the tax framework for futures contracts transactions and treatment of financial statements of futures market players;
- (e) Stakeholder engagement on implementation of a Warehousing Receipting System (WRS)

## Real Estate Investment Trusts (REITS)

The Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations were gazetted on June 18 2013. The benefits expected to accrue from investments through REITS include:

- i. Enhanced mobilization of savings to the real estate sector of the economy by providing a mechanism to pool capital for investment into capital intensive long-term income producing real estate projects, which supplements other capital raising avenues like debt and equity.
- ii. Increased availability of housing which is a priority area championed under Vision 2030 in addition to increasing the availability of commercial and residential real estate to support projects like Konza Technopolis and the resort cities identified in the Vision.
- iii. Introduction of additional capital markets instruments to both retail and institutional investors for investment and diversification of risk, by providing access to the property market with professional investment management at a relatively low transaction and management cost.

The real estate sector in Kenya is expected to take advantage of REITS to help increase the number of housing units in Kenya to bridge the supply deficit. The current units developed annually stand at 50,000 units, while REITS have the potential to develop housing units to the tune of 200,000 units annually.

## Establishment of a Growth Enterprise Market Segment (GEMS)

The Authority in collaboration with the Nairobi Securities Exchange (NSE) and the Central Depository & Settlement Corporation (CDSC), set up the Growth Enterprise Market Segment (GEMS), which was officially launched in January 2013. The segment is expected to unlock the potential of Small and Medium Enterprises through access to capital to facilitate growth and business expansion. The segment is also expected to play a role in providing venture financing for the emerging mining, minerals and energy sector as well as providing a mechanism for diversification of ownership in this sector.

# Chairman's Statement Continued

## Bond Market Reforms

The Capital Markets Act was amended to facilitate the ongoing reforms in the bond markets sector, more particularly to allow for the introduction of a hybrid bond market in Kenya. Through technical assistance from International Finance Corporation (IFC) and Efficient Securities Markets Institutional Development (ESMID), an operational framework for implementing the hybrid bonds market has been designed with the identification of a platform to provide the reporting infrastructure that will facilitate the operationalization of an Over-the-Counter Market being well underway.

In connection with this, the licensing framework for Authorized Securities Dealers (ASDs) has been amended to create a dedicated license for bond traders to trade fixed income securities on exchange just like members of the NSE.

In addition the regulatory framework was amended to provide for harmonized requirements for issuance of bonds and other fixed income securities in the East African Community as well as provide for a book-building process in public offers of securities.

## Demutualization of the Nairobi Securities Exchange (NSE)

Progress towards demutualization of the NSE, which has been hampered by challenges in complying with the shareholding requirements and market access criteria, was boosted with the gazettment of an amendment to the Capital Markets (Demutualization of the NSE) Regulations, 2013. The NSE has now been able to allot the shares as per the Regulations, while the Market Access criteria are being revised. The demutualized exchange is expected to be licensed in the financial year 2013/2014. In addition, the NSE has appointed Transaction Advisers for its self-listing and the preparations are progressing in earnest.

## Dematerialization of Listed Securities

The Central Depositories & Settlement Corporation Limited (CDSC), following consultation with the listed companies, the Capital Markets Authority and the Nairobi Securities Exchange (NSE), set November 2013 as the deadline for dematerialization of all securities listed at the exchange. Dematerialization refers to the process of converting share certificates in paper form into

electronic form, the main difference being that on the dematerialization date, all securities will be held in electronic form and the underlying physical certificate will cease to be evidence of ownership of securities of any company quoted at the NSE. Evidence of ownership will be in the electronic holdings maintained in the Central Depository System (CDS) operated by CDSC. The move towards dematerialization follows the successful immobilization of share certificates over a nine-year period beginning 2004.

## COOPERATION

The Authority continues to actively participate in the regional and international arena. This is important to ensure that robust mutual arrangements and cooperation are promoted to assist our efforts in advancing market development. We work closely with organizations such as International Organization of Securities Commissions (IOSCO) and East African Securities Regulatory Authorities (EASRA) in sharing experience, knowledge and expertise. The establishment of an integrated East African market presents important opportunities for the capital markets including expanding the range of financial products and services and the scope for mobilization of capital from a larger market.

In conclusion, the significant progress registered in our capital market during the year was made possible by the wise counsel and dedication of my fellow board members. I wish also to extend my gratitude to them and to the staff and management of the Authority, for their dedication, commitment and continuing contribution to our reform agenda and look forward to their support in the coming years to turn our vision into reality.



**Kungu Gatabaki**  
Chairman

# Board Members of the Authority



**Mr Kung'u Gatabaki**  
Chairman



**Mr Paul Muthaura**  
Ag. Chief Executive



**Dr. Kamau Thugge**  
PS National Treasury



**Prof. Njuguna Ndung'u**  
Governor, CBK



**Hon Prof Githu Muigai**  
Attorney General



**Ms Nafisa Abass**  
Member



**Dr. Geoffrey Mwau**  
Alt to PS, National Treasury



**Ms Rose Detho**  
Alt to Governor, CBK



**Ms Jane Joram**  
Alt to the Attorney General



**Mr. Humphrey Muga**  
Member



**Mr Mahmood Manji**  
Member



**Mrs. Judy Thuo**  
Member



**Mrs Anne Schofield**  
Member



**Mr. Paul Ngugi**  
Member

# Corporate Governance Report

The Board of the Authority (the Board) is responsible and accountable to the Government of Kenya, through The National Treasury, in ensuring that the Authority complies with the law and the highest standards of corporate governance.

- There are eleven members of the Board all of whom, save for the Chief Executive, are non-executive directors.
- The Members possess a broad range of skills and competencies, including legal, finance, banking, economics and management.
- During the period under review, the Board met nine times.

## COMPOSITION OF THE BOARD

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

### 1. Mr. Kung'u Gatabaki

Mr. Gatabaki, the Chairman of the Board is an Economist and holds a Bachelor of Science Degree in Economics from Legon University, Ghana and a Diploma in Project Planning and Management from the Bradford University, UK. He has acquired wide experience in project finance, portfolio management and corporate board business. He started his working career with Firestone Africa (1969) Limited in 1972, briefly moving to Nation Media Group, where he served as Marketing Assistant before joining CDC Group, Plc (formerly Commonwealth Development Corporation) in 1974 where he worked until 2004. He currently serves as the Chairman of Micro-Africa Limited (Micro Kenya/Micro Africa). He is also a Non-executive Director of Development Bank of Kenya, Grain Bulk Handlers Limited, Jacaranda Hotels, Kenya Safari Lodges & Hotels, and Uganda Micro Finance among others. He previously served as a Director of Housing Finance Company of Kenya Limited and Shelter Afrique Limited.

### 2. Dr. Kamau Thugge, EBS (Principal Secretary, The National Treasury)

Dr. Kamau Thugge holds a doctorate in Economics from the Johns Hopkins University. He was appointed an Economic Advisor to the National Treasury in December 2005 after serving as an Economic Affairs Director, in the same Ministry since July 29, 2004. Prior

to joining National Treasury, he worked at the International Monetary Fund between 1985 and 2004.

### 3. Dr. Geoffrey Mwangi : Alternate to Principal Secretary, The National Treasury (Economic Secretary, National Treasury)

Dr. Mwangi graduated from McGill University in Canada with a PhD in Economics in 1994. He worked as a Senior Advisor to the Executive Director representing Kenya and 21 other African countries at the Executive Board of World Bank. Prior to joining the World Bank, he was a Senior Regional Advisor on Economic Policy Analysis with the United Nations Economic Commission for Africa. Previously, Dr. Mwangi worked for the International Monetary Fund (IMF) as an economist for Rwanda, Malawi, Botswana, and Uganda.

### 4. Hon. Prof Githu Muigai, EGH, MP

Professor Muigai is the Attorney General of the Republic of Kenya. He holds a Bachelor's Degree in Law and was called to the bar in 1985. He also holds a Master's Degree in International Law from Columbia University School of Law, New York and a PhD in Constitutional Law from the University of Nairobi.

He is a Fellow of the Chartered Institute of Arbitrators (UK) and a member of the American Association of Trial Lawyers. In addition to Legal practice, he is an Associate Professor of Public Law at University of Nairobi the School of Law. He specialises in Public Law, Human Rights and trans-national legal practice.

### 5. Ms. Jane Joram: Alternate to Hon. Attorney General

Ms. Jane Joram is an Advocate of the High Court of Kenya, and holds a Bachelor of Laws Degree from the University of Nairobi and currently undertaking a Master's Degree in International Studies at the University of Nairobi.

She is a Senior Deputy Registrar in the Department of the Registrar General, Attorney General's Chambers. She is the head of the Companies Registry and spearheaded major reforms that have taken place in the Registry, including modernization of the Registry and computerization.

**6. Prof. Njuguna S. Ndung'u, CBS, Governor, Central Bank of Kenya**

An Economist by profession, Prof. Ndung'u holds a PhD in Economics from the University of Gothenburg, Sweden, and Masters and Bachelor's degrees in Economics from the University of Nairobi. He's an Associate Professor of Economics at the University of Nairobi, and has worked in various capacities with the International Development Research Centre (IDRC) Canada, and the Kenya Institute of Public Policy Research and Analysis (KIPPPRA), among other Institutions.

**7. Ms. Rose Detho: Alternate to Governor, Central Bank of Kenya**

Ms. Detho holds a Master of Business Administration and Bachelor of Commerce degrees from the University of Nairobi. She is the Director of the Deposit Protection Fund Board. Ms Detho joined Central Bank of Kenya on August 10, 1988 and has served the bank in various capacities. She has served as Statutory Manager, appointed by the Bank, to manage financially distressed institutions.

**8. Mr. Mahmood Manji**

Mr. Manji is a Non-Executive Director of TPS Eastern Africa (Serena) Limited. He is also a fellow of the Institute of Chartered Accountants in England and Wales and the Kenya Institute of Bankers. He is the Chairman of Air Uganda Limited and the Property Development and Management Group of Companies amongst others. Mr. Manji is a member of the International Who's Who of professionals and previously served as the Chairman of Diamond Trust Bank (East Africa).

**9. Mr. Humphrey Muga**

Mr. Muga holds a Master of Arts in Economics degree from the McGill University, Canada and has previously worked in various capacities at the Central Bank of Kenya.

**10. Ms. Nafisa Abass**

Ms. Abass holds a Bachelor of Business Administration degree from the American University in Cairo, and an MBA from the United States International University Nairobi. She has diverse experience in the business sector where she holds directorship roles, and has some

non-executive responsibilities in non-profit organizations.

**11. Mrs. Judy Thuo**

Mrs. Judy Thuo holds a Bachelor of Arts in Communications (major) Community Development (minor) from Daystar University College (Messiah University). She is currently a director in City Hopper Limited and Kwani Trust. She has extensive experience in the Transport, IT and Telecommunications, Advertising, and Integrated Communications among other sectors.

**12. Mrs. Anne Schofield**

Mrs. Anne Schofield holds a Bachelor Degree in Law (LLB Hons Degree) from the University of Nairobi. She has extensive legal professional experience in Kenya, the Caribbean, the Mediterranean and the United Kingdom particularly in the Banking and Trust sector in the Cayman Islands.

**13. Mr. Paul Ngugi**

Mr. Paul Ngugi holds a Masters of Social Science (M.Soc.SC) in Development Administration from the University of Birmingham (UK), a Bachelor of Arts from the University of Nairobi and a Diploma of Professional Development in Management with Specialization in Budgeting and Financial Management from the University of Connecticut (USA). He has served as Alternate Director to the Permanent Secretary, Ministry of Finance and also in various boards of state corporations including Kenya Roads Board, Housing Finance, Kenya Meat Commission, National Oil Corporation, and as a Director at the Kenya Dairy Board.

**14. Mr. Paul Muthaura (Acting Chief Executive)**

Mr. Muthaura is an Advocate of the High Court of Kenya and is the holder of a Bachelor of Laws degree from the University of Warwick, a Masters in Banking and Finance Law from the London School of Economics and Political Science, a Masters in Philosophy from the Maastricht School of Management and is currently undertaking a Doctorate in Business Administration at the Maastricht School of Management. Mr. Muthaura is an ex officio member of the Boards of Directors of the Retirement Benefits Authority and the Insurance Regulatory

Authority. In addition, he sits on the Consultative Committee of the East African Securities Regulatory Authorities (EASRA) which coordinates securities regulation within the East African Community Member States. Mr. Muthaura is also a member of the Regional Consultative Group for Sub-Saharan Africa of the Financial Stability Board.

## EXITS FROM THE BOARD

During the Financial Year, the following board members exited from service of the Board:

### 1. Mr. Joseph Kinyua, CBS (PS, Treasury)

Mr. Kinyua was the Permanent Secretary, Treasury and served in the Board until June 27, 2013 when he was replaced by Dr. Kamau Thugge.

### 2. Mr. James Waweru (Alternate to Hon. Attorney General)

Mr Waweru was the Alternate to Hon. Attorney General and served in the Board until December 3, 2013. Ms. Jane Joram replaced him as the Alternate to the Attorney General.

### 3. Dr. Gituro Wainaina

Dr. Wainaina exited the Board on January 3, 2013 after the lapse of his two terms of service that commenced in January 4, 2007.

## STATEMENT OF THE BOARD MEMBERS' RESPONSIBILITIES

The principal responsibility of the Board is to establish the long term goals of the Authority and to ensure that effective plans are developed and implemented. The members of the Board exercise their best judgment to act in what they reasonably believe to be in the best interests of the Authority and its stakeholders. In discharging that obligation, Members rely on the professionalism, honesty and integrity of the Authority's management, senior staff and its external advisors and auditors.

The main responsibilities entail:

- Reviewing the values, vision and mission and

developing and adopting appropriate policy and strategy;

- Putting in place management structures [organization, systems and people] to achieve those objectives;
- Setting targets and monitoring performance;
- Guiding the implementation of strategic decisions and actions and advising management as appropriate;
- The review and adoption of annual budgets for the financial performance of the Authority and monitoring the Authority's performance and results;
- Management of risk, overseeing the implementation of adequate control systems and relevant compliance with the law, governance, accounting and auditing standards;
- Ensuring the preparation of annual financial statements and reports, communication, and disclosure of information to stakeholders; and
- Delegating authority to the Chief Executive, for the corporate, financial and personnel management of the institution; and to establish and keep under regular review the policies, procedures and limits within which such management functions shall be undertaken by and under the authority of the head of the institution.

## Board Committees

Subject to fundamental, strategic, policy and formal matters reserved for its decision, pursuant to Section 14 of the Capital Markets Act, the Board works through a number of committees which operate within defined Terms of Reference. Other committees are formed on an ad-hoc basis as the need arise. During the period under review, the Board constituted the following committees:

### The Finance and Planning Committee

This committee consists of five members, all of whom are non-executive members of the Board. The committee was chaired by Dr. Gituro Wainaina, until the expiry of his term and thereafter by Mr. Paul Ngugi. This Committee has oversight on all financial issues including budgets, financial reporting process and controls, and procurement. The committee met six times during the period.

### **The Audit, Corporate Governance and Risk Management Committee**

This committee consists of five members, all of whom are non-executive members of the Board. The committee was chaired by Mr. Mahmood Manji. It has an oversight responsibility of reviewing, assessing adequacy and monitoring of internal controls, risk management and corporate governance processes; examining internal and external audit reports and recommendations; overseeing financial reporting and reviewing the accounting principles, policies and practices adopted in the preparation of the financial statements. It is also charged with reviewing the risk management and corporate governance practices of licensees and listed companies. The committee met five times during the period.

### **The Human Resource and Communications Committee**

This committee consists of five members, all of whom are non-executive members of the Board. The committee was chaired by Mr. Humphrey Muga up to March 26, 2013 when the board committees were reconstituted to incorporate newly appointed board members and Mrs. Judy Thuo was appointed the committee chair. It is responsible for human resource matters including recruitment, management succession as well as the corporate communications function. The committee met twelve times during the year.

### **Technical and Policy Committee**

The committee consists of six members all of whom are non-executive members of the Board. The committee was chaired by Dr. Gituro Wainaina until the expiry of his term and thereafter by Mr. Humphrey Muga. It is responsible for considering technical and policy matters of the Authority, including reviewing the Authority's strategy and continuous oversight of the review of the capital market legal and regulatory frameworks. The Committee met eight times during the year.

### **Ad-Hoc Board Committees**

During the financial year, four ad-hoc committee of the board were as follows:

- Capital Markets Master Plan Steering Committee - launched in October 2012, to spearhead the

development of a capital markets master plan.

- Capital Markets Corporate Governance Steering Committee - constituted in December 2012, to review the corporate governance guidelines.
- Fraudulent Creation of Bonds - constituted in February 2013, to deal with the fraudulent bonds creation.
- Bond Sale Buy Back - Constituted in June 2013, to deal with the failed bond sale buy back transactions.

### **Supply of Information**

Directors have full access to management. They are consistently updated on the activities of the Authority and are provided with all information needed to carry out their duties and responsibilities fully and effectively. In addition, the Board are entitled where necessary to task management to seek independent professional advice concerning the affairs of the Authority.

### **Accountability and Audit**

Directors presented a balanced and understandable assessment of the Authority's financial position and prospects. The Authority continued to release its reports and statements as required by various stakeholders.

### **Risk Management and Internal Controls**

The Board continued to monitor the operational and financial risk aspects of the Authority's activities through the Audit, Corporate Governance and Risk Management Committee. The Committee and Board take into account the advice of external and internal auditors and recommendations from other technical advisors, in considering appropriate actions relevant to any operational and financial risk that the Authority may face. In addition, the Board approved various internal control procedures and continues to investigate ways of further enhancing existing risk management strategies and procedures.

### **Compliance with the Law**

The Board as a collective entity and the individual directors are satisfied that the Authority has to the best of their knowledge complied with all applicable laws. To the knowledge of the Board, no director or employee has acted or committed any offence or indulged in any unethical behaviour in the conduct of the lawfully authorized business of the Authority.

# Management Team



**Mr Paul Muthaura**  
Ag. Chief Executive



**Mr Wycliffe Shamiah**  
Director, Market Operations



**Mr. Luke Ombara**  
Acting Director, Regulatory,  
Policy & Strategy



**Mrs. Rose Lumumba**  
Director, Corporation  
Secretary & Communication



**Mr. Edwin Njamura**  
Director, Corporate Services



**Mr Andrew Muthabuku,**  
Manager, Human Capital and  
Administration



**Ms. Esther Maiyo**  
Manager, Internal Audit



**Mr. Samuel Njoroge**  
Manager, Investor Education  
& Public Awareness



**Mr. Sammy Mulang'a**  
Manager, Research Market  
Infrastructure & Product  
Development



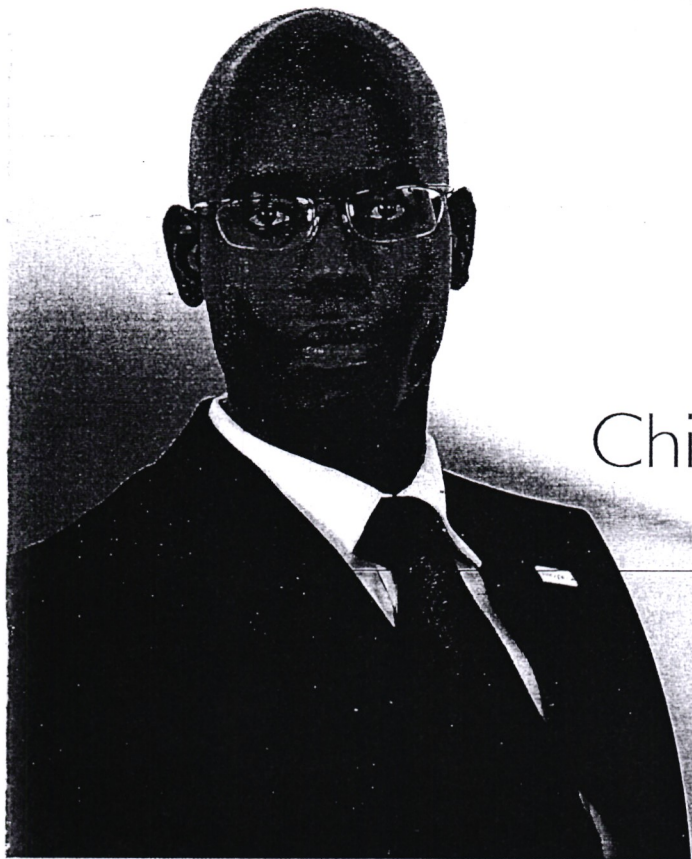
**Mr Johnstone Olfetia,**  
Manager Market Supervision



**Mr. John Njoroge**  
Manager Finance



**Mr. Richard Chirchir**  
Manager, ICT



## Chief Executive's Statement

***Trading performance at the Nairobi Securities Exchange during the period under review improved compared to the previous financial year, 2011/2012.***

### MARKET PERFORMANCE

Trading performance at the Nairobi Securities Exchange during the period under review improved compared to the previous financial year, 2011/2012. The NSE 20 Share Index closed the year at 4,598 points gaining 24 percent from its opening level in July 2012, reflecting the increase in share prices and gains made by investors in our market. Market capitalization also increased by Kshs570 billion during the year to close at Kshs1.3 trillion, (a 54 percent increase) a mark once realized in 2008 when Safaricom was listed. The NSE 20 Share Index - which tracks the performance of the 20 most traded shares - crossed the 5,000 level in May 2013 for the first time in more than four years. The index, which closed at 3,205.02 points in 2011, was the third highest gainer among stock exchanges in Africa and Middle East, after the Egyptian and Nigerian Securities Exchanges, and the eighth globally.

Market activity during the review period was characterised by increased trading and active investor demand as the half-year earnings season gathered pace. Equity turnover rose by 85 percent compared to a similar comparable period the previous year. In addition, there was strong foreign investor activity which accounted, on average, for 49 percent of total traded

equity value. Their strong participation was motivated by the strong gains in the market due to relatively low valuations. There was a switch back to equities by local investors as money market yields reduced with the decline in short term interest rates.

In the period under review, two (2) companies - Longhorn Kenya and CIC Insurance Group listed by introduction at the NSE. While Longhorn Kenya listed on the Alternative Investment Market Segment of the Nairobi Securities Exchange, CIC Insurance Group listed on the Main Investment Market Segment of the same Exchange. On the regional front, Uganda power distributor Umeme was cross-listed on the Nairobi Securities Exchange (NSE). Two firms also issued restricted public offers; a financial services firm, UAP Holdings, launched a public share sale while SMEP Deposit Taking Microfinance Limited launched a public share offer.

The year 2012-2013 saw a record number of rights issues. Most of the issues were heavily oversubscribed reinforcing investor confidence in these companies. Four rights issues were conducted during the review period namely Diamond Trust Bank's (DTB), NIC Bank, Standard Chartered Bank and CFC Stanbic Holdings cumulatively raising Kshs1.3 billion.

## Chief Executive's Statement Continued

### REVIEW OF THE POLICY AND LEGAL FRAMEWORK

The Authority, in consultation with industry stakeholders initiated a number of policy and regulatory measures aimed at developing the Kenyan securities markets. The thrust of the 2013 policy and regulatory interventions mainly targeted introduction of new products into the market and ensured efficient market environment. Following the submissions made by the Authority to the National Treasury, the Government in its 2013 budget speech adopted the following policy proposals.

**Table 1 Adopted Policy Proposals 2012/2013**

Legislative Instrument	Reference	Expected Impact
1. A regulatory framework to promote pooling of investments in income producing real estate assets through Real Estate Investment Trusts (REITs)	Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013  Legal Notice No. 116 of 2013	Benefits expected to accrue from investment through REITs include:-  1. Encouragement and mobilization of savings to the real estate sector of the economy with housing as a priority area as championed under Vision 2030; and  2. Introducing additional capital markets instruments to both retail and institutional investors for investment and diversification of risk.
2. A regulatory framework to provide for licensing of futures exchanges which will provide the trading facilities for trading of futures and other derivatives.	Capital Markets (Futures Exchanges) (Licensing Requirements) Regulations, 2013  Legal Notice No. 108 of 2013.	Regulated futures markets will provide the necessary financial vehicles for hedging of currency and interest rate fluctuations as well as provide stability in commodities prices.
3. An amendment to the regulatory framework for issuance of securities to the public to provide for harmonized requirements for issuance of bonds and other fixed income securities in the East African Community as well as provide for book building process in public offers of securities.	Capital Markets (Securities) (Public Offers, Listing and Disclosure) (Amendment) Regulations, 2013  Legal Notice No. 113 of 2013.	1. These Regulations will enable institutions to access a larger pool of investors and increase their capital raising opportunities.  2. Issuers will be able to access a more effective price discovery mechanism that will effectively promote additional public offers of securities.
4. An amendment to the regulatory framework that provides for licensing of market players to:  a) introduce the risk based markets intermediaries;	Capital Markets (Licensing Requirements) (General) (Amendment) Regulations, 2013 Legal Notice No. 112 of 2013.	1. The risk based supervision model will - (i) introduce an enhanced ability to identify, prioritize and proactively intervene where risks exist; (ii) Ensure targeted examination and

## Chief Executive's Statement Continued

<p>b) Reform the license category of specialist fixed income securities dealers, known as Authorized Securities Dealers (ASDs); and c) Streamline the process of transfer of listed securities outside a securities exchange.</p>	<p>surveillance efforts; and (iii) Ensure a more optimal utilization of resources available to the Authority.</p>
<p>2. Licensing of ASDs will lead to deepening of the fixed income securities market segment as a result of enhanced liquidity and price stability.</p>	<p>3. Increased efficiency in granting the necessary approvals for transfer of securities outside securities exchanges including distribution of the estates of deceased persons.</p>
<p>5. An amendment to the regulatory framework that provide for the authorization of central depository agents to provide for objective criteria for authorization of additional corporate bodies that intend to offer central depository services.</p>	<p>Central Depositories (Regulation of Central Depositories) (Amendment) Rules, 2013 Legal Notice No. 107 of 2013. Ensure increased accessibility and competitiveness to capital markets services.</p>
<p>6. An amendment to the Regulations that govern corporate governance standards applicable to entities licensed by the Authority to make them more efficient and enhance compliance levels.</p>	<p>Capital Markets (Corporate Governance) (Market Intermediaries) (Amendment) Regulations, 2013 Legal Notice No. 115 of 2013. Effective guide market to intermediaries in respect of the specific and limited provisions under the Regulations which a market intermediary may apply for exemption or variation of application.</p>
<p>7. An amendment to the Regulations that govern conduct of business by entities licensed by the Authority to ensure clarity in interpretation.</p>	<p>Capital Markets (Conduct of Business) (Market Intermediaries) (Amendment) Regulations, 2013 Legal Notice No. 105 of 2013. Ease in interpretation of the Regulations and operational compliance.</p>
<p>8. Proposed amendments to the Capital Markets Act, Cap 485A Laws of Kenya, to introduce reforms with the twin objectives of both market development and better regulation. These reforms include: (i) Introduction of clarity in the methods of public offers of securities as well as introduce new ways of capital raising</p>	<p>1. Ensure accelerated development of the capital markets in Kenya through provision of a clear guidance on the introduction of new capital markets products and services. 2. Create a suitable environment for mobilization of long-term resources to finance capital intensive projects necessary for the achievement of Vision 2030.</p>

## Chief Executive's Statement Continued

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including securitization;

(ii) Ensuring that regard is given to suitability of capital markets products and services to different categories of investors;

(iii) Introduction of key provisions to provide the necessary regulatory environment for derivatives markets in Kenya; and

(iv) Facilitating simultaneous raising and free movement of capital across the EAC region as well as provide for a regulatory framework for regulation of cross border service providers to implement the EAC Common Market Protocol.

3. Promote the international attractiveness of Kenya as an investment destination of choice

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### **SUPERVISION AND MARKET OPERATIONS DEVELOPMENTS**

The Authority held five industry workshops in a bid to improve skills and capacity in the capital markets and sensitize the market on new legal requirements. The five industry workshops were on Corporate Governance for Market Intermediaries, Business Conduct Regulations on Market Intermediaries, Combating Money Laundering and Terrorist Financing, Stakeholders Sensitization on Credit Rating process by Standard & Poor's and EAC Study on Risk Based Supervision Integration. The workshops also served as stakeholder consultation workshops mainly for feedback and interaction on areas of partnership for improved services in the capital markets.

In addition, the Authority commenced the implementation of the newly developed Risk Based Supervision System (RBSS). The system has a number of functionalities including internal review of financial statements of intermediaries, risk profiling and online interaction with external stakeholders. The system will also facilitate online reporting and submission of Returns by Market Intermediaries and Listed Companies. This

will not only significantly enhance compliance but will also provide a mechanism for systematic and standardized data collection and management as well as improve efficiency and effectiveness in service delivery through automation of the process.

Market surveillance is a proactive tool and plays a significant role in anticipating the potential vulnerabilities to a capital market. It is a pre-emptive measure aimed at detecting and deterring potential market abuse and avoiding disruptions to the market from anomalous trading activity, including market and price manipulation, insider trading and front running. The Authority undertakes surveillance of both listed companies and licensed intermediaries to ensure provision of a fair, orderly and transparent market. In fostering continued partnership to enhance collaborative market surveillance, the Authority approved sharing of the surveillance system with the Nairobi Securities Exchange to strengthen their capacity as a first line regulator of exchange related activities. This initiative was driven by the need to ensure economies of scale as well as roll out collaborative efforts in the interest of market transparency. Implementation of the robust surveillance system is expected to increase the depth and numbers of

## Chief Executive's Statement Continued

investors while attracting new issuers to the market due to improved market integrity and investor confidence.

### RESEARCH AND MARKET STATISTICS

During the year, the Authority completed the following research studies to inform the market development process;

- i. **Study on Key Impediments to the Growth of Mutual Funds in Kenya:** This was a collaborative study between IFC, IOSCO and CMA. The main objective was to review the state of development of mutual funds in Kenya, their legal, regulatory and operational environment in order to identify any major impediments to their successful development and to make recommendations as to how such impediments may be addressed.
- ii. **Study on capital markets fees, commissions and levies:** One area that the Authority is currently undertaking reforms is that of Fees, Commissions and Levies paid by both investors and issuers.

The level of investor participation has increased in depth and numbers; trading activity has reached new heights; and there is evidently a growing interest to list and source financing through the capital markets. These developments point to the need for constant monitoring and review of the various aspects of the market to ensure the growth momentum is sustained.

One of the areas that has come under scrutiny is the issue of fees and commissions charged in the market. It has been argued that the cost of investing may go a long way in influencing market development. Commissions and levies paid by investors as well as listing and approval fees have been seen to have a bearing on market activities, and will be key factors in realizing transformation in the Kenyan capital markets.

In view of the above, the Authority engaged an independent consultant to review the various fees, levies and commissions charged in the market. This will particularly address the charges paid by investors and issuers of securities to CMA, NSE, CDSC and intermediaries among other players.

- iii. **Feasibility Study on the Establishment of an Equity OTC Market in Kenya:** This study examined the status of the current and informal OTC market in Kenya with a view towards how it could be formalized making the market more efficient and transparent.

It's expected that the recommendations of these three studies will inform policy on various aspects of the market in the coming financial year, 2013/2014.

The Authority also continued to publish its quarterly statistical bulletin in its website in an effort to ensure that capital market statistical information is available and accessible to the general public.

### REGIONAL INTEGRATION AND INTERNATIONAL COOPERATION

Following the entry into force of the EAC Common Market protocol on 1st July 2010, the East African Community Sectoral Council of Finance and Economic Affairs (SCFEA) resolved that the harmonization of the EAC securities legal and regulatory framework would proceed by way of EAC Council Directives. The development of Council Directives, setting down regional standards to guide convergence, was viewed as the most feasible option given the different levels of development in the EAC Partner States capital markets. It was agreed that the development of an overarching EAC Capital Markets law would be pursued as a long-term option once a high degree of convergence had been attained.

Following this determination a Technical Working Group (TWG) comprised of the Regulatory Authorities within the EAC, Securities Exchanges and CSDs was formed to undertake the harmonization exercise for the regulatory framework. The TWG is in the process of developing the EAC Capital Markets Legal and Regulatory Framework Directives which will be exposed to the public to enable their finalization and approval by the various Boards of the respective Regulatory Authorities and finally presented to the Capital Markets Insurance and Pension Committee of the EAC and the SCFEA for approval and promulgation. The adoption of the EAC Directives will be followed by the transposition of those Directives into National Laws of each Partner State.

The Authority continued to participate actively as a

## Chief Executive's Statement Continued

member of Financial Stability Board (FSB) Regional Consultative Group for Sub-Saharan Africa. The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. The FSB Regional Consultative Group for Sub-Saharan Africa was co-chaired during the review period by South Africa and Kenya. Membership includes financial authorities from Angola, Botswana, Ghana, Kenya, Mauritius, Namibia, Nigeria, South Africa and Tanzania, as well as the Central Bank of West African States based in Senegal. Permanent observers include the Committee of Central Bank Governors of the Southern African Development Community, and the East African Community. The Authority participated in the second FSB regional consultative group for Sub-Saharan Africa in Cape Town in September 2012, the third meeting in Nairobi in February 2013 and will be attending its fourth meeting in the next financial year in Mauritius.

### **RAPID RESULTS INITIATIVE**

The Authority held the end term review of the Rapid Results Initiative (RRI) program in April 2013. The first project sought to increase the level of quality services provided by market intermediaries in the capital markets by domesticating the Regional Certification Programme as approved by Regulatory Authorities and East African Securities Exchange Association (EASEA); while the other sought to increase customer satisfaction by facilitating the claim of 50 percent of uncollected Investor Compensation Fund (ICF) refunds in respect of two collapsed stock broking companies.

The project on facilitating claims was very successful with the 50% target exceeded. With regard to the certification programme the Authority signed a Memorandum of Understanding (MOU) with the Securities Industry Training Institute (SITI). The project will continue in the coming financial year with a stronger focus on securing a clear examinations timetable from SITI and thereafter, the roll out of the certification process.

### **DEVELOPMENT OF CMA STRATEGIC PLAN**

The CMA Strategic Plan 2009-2012, expired on June 2013. In this regard, a new strategic plan that will guide the Authority's programmes over the next five years was developed and comes into force on July 1, 2013. The Authority will be cascading the plan through implementation of a Balanced Scorecard performance management system.

### **IMPLEMENTATION OF THE ERP SYSTEM**

In May 2013, in an effort to enhance its efficiency and service delivery, the Authority (CMA) invested in a world-class Enterprise Resource Planning (ERP) system. The ERP System is expected to enhance efficiency by integrating the Authority's internal processes to ensure improved service delivery to all stakeholders including licensees, the investing public, vendors, and staff members.

### **FINANCIAL HIGHLIGHTS**

The Authority's financial position will be presented in detail in the audited financial statements for the financial year ended 30 June 2013.

The Authority experienced an increase of 32 percent in total revenue in the year to Ksh672.3 million from Ksh510.2 million last year. The increase is largely attributed to improved market activities experienced in the year, caused by improved investor confidence and stable macroeconomic environment. Fee income went up by 56 percent to Ksh588 million this year from Ksh377 million in 2012.

A surplus of Ksh116.1 million after tax is reported compared to a deficit, of Kshs7.7 million realized last year.

## Chief Executive's Statement Continued

### INCOME & EXPENDITURE SUMMARY:

	30.06.2013 Kshs' 000	30.06.2012 Kshs' 000
<b>INCOME</b>		
Government Bonds and Capitalization fees	246,756	177,911
NSE Transaction fees	316,169	174,337
Others	84,735	127,489
<b>TOTAL OPERATING INCOME</b>	<b>647,660</b>	<b>479,737</b>
Donor Funding	24,659	30,553
<b>Total Income</b>	<b>672,319</b>	<b>510,290</b>
<b>EXPENDITURE</b>		
Salaries and Staff costs	280,934	266,457
Rent and Maintenance	27,592	36,980
Trainings and Conferences	27,134	25,866
Investor Education	18,538	21,296
Authority Members' Allowances	22,015	29,140
Professional and Market Development	52,424	56,374
Depreciation on Property, Plant and Equipment	24,037	19,134
Others	66,064	62,771
<b>TOTAL EXPENDITURE</b>	<b>518,738</b>	<b>518,018</b>

## FUTURE OUTLOOK

The capital markets in Kenya have evolved as a viable and critical component of the financial system, complementing the conventional money markets as a driver for economic growth and development. We must therefore position ourselves to take advantage of the opportunities the market presents. In this regard, while a great deal has been achieved, I believe that the years ahead call for much more work and collaborative effort. We must continue to be proactive in further developing our market. We must strive to look and act beyond our frontier. With Kenya assuming an increasingly prominent role as a regional financial hub, the capital market is poised to play an increasingly important role in supporting national socio-economic goals and aspirations.

In conclusion, I want to thank the Authority's Board for its guidance and support throughout the year and their commitment to the ideal of developing a world class capital markets in Kenya. My appreciation also goes to management and staff who have put in tremendous efforts and showed great commitment, enthusiasm and high standards in carrying out their work in fulfilment of the responsibility entrusted to us. I'm confident that with everyone's continued support and teamwork the capital markets in Kenya are poised to scale even greater heights in the years ahead.



Mr Paul Muthaura

Ag. CHIEF EXECUTIVE

# Organizational Updates

## MARKET SUPERVISION DEVELOPMENTS

### Inspections & Risk Based Supervision

The Authority continued to make improvements in its oversight role by monitoring market intermediaries to ensure compliance with capital markets laws and regulations. During the year the Market Supervision department carried out a number of onsite inspections for Fund Managers, Investment Banks, Stockbrokers and Investment Advisors based on a Risk Based Supervision approach. A total of 64 inspections were carried out in the year. Out of these, 25 were jointly conducted with the Nairobi Securities Exchange (NSE).

During the year, the Authority commenced the implementation of the newly developed Risk Based Supervision System (RBSS). The system has a number of functions including internal review of financial statements of intermediaries, risk profiling and online interaction with external stakeholders. The system will also facilitate online reporting and submission of Returns by market intermediaries and listed companies. This will not only significantly enhance compliance but will also provide a mechanism for systematic and standardized data collection and management.

To bring into effect the financial resources requirements (FRR), the licensing regulations were amended and gazetted on June 18, 2013. The amendments facilitate the full implementation of Risk Based Capital Adequacy (RBCA) requirements through the Financial Resources Requirements Guidelines. These guidelines have been factored in the development of the RBS system to guide intermediaries in the compliance process.

### On-site inspections

The Authority conducted a series of on-site examinations during the year to assess compliance with the Capital Markets Act and Regulations. The examinations conducted sought to identify any material risks within the firms in line with the risk-based supervision approach. In the year 2012/2013, 64 reviews were conducted involving 20 investment banks, 23 stockbrokers, 14 fund managers, three investment advisers and four premise inspections for new licensees. The assessments were mainly aimed at examining compliance with corporate governance and conduct of business requirements, continuous reporting obligations, internal controls and record-keeping

requirements. The inspections also targeted key risk areas within the respective firms as identified from the risk assessment. Some deficiencies were identified during the exercise all of which were communicated to the respective institutions and the necessary remedial actions taken.

### Market Surveillance system

Market surveillance is a proactive tool that plays a significant role in anticipating the potential vulnerabilities to a capital markets. It is a pre-emptive measure aimed at detecting and deterring potential market abuse and avoiding disruptions to the market from anomalous trading activity, including market and price manipulation, insider trading and front running.

Market integrity is a core regulatory objective of securities regulators, and is critical for the well-functioning of any capital market. Having a transparent set of trading rules which are effectively enforced where parties have access to the same amount of information at the same time is critical in any market. The Authority undertakes surveillance of both listed companies and licensed intermediaries to ensure provision of a fair, orderly and efficient market.

During the year, the Authority continued to enhance the implementation of the expert market surveillance system so as to enhance its mandate to maintain an orderly, fair and efficient market thus protecting investor interests.

In fostering continued partnership to enhance collaborative market surveillance, the Authority approved sharing of the surveillance system with the Nairobi Securities Exchange to strengthen their capacity as a first line regulator of exchange related activities. This initiative was driven by the need to ensure economies of scale as well as roll out collaborative efforts in the interest of market transparency.

The Authority has further increased oversight activities on listed companies as follows;

- i. **Attendance of Investor briefings and AGMs:** The Authority's compliance staff have been designated as Relationship Managers for listed companies thus placing responsibility for effective monitoring of each listed company on a specific officer. In addition to constant interaction with identified contact, persons

# Organizational Updates Continued

among the listed companies, the officers also attend annual general meetings and investor briefings for listed companies.

- ii. **Oversight of disclosure of material information:** The regulations require that material information that is price sensitive or which may affect decision making process of investors shall be disclosed. In this regard, we monitor local dailies and other news media on daily basis to ascertain that material put out to the public is factual and we ensure that regulatory actions are enforced for any unauthorized publication.

The benefits expected to accrue from investment through REITs include -

- a) Enhanced mobilization of savings to the real estate sector of the economy to increase availability of housing which is a priority area championed under Vision 2030; and
- b) Introduction of additional capital markets instruments to both retail and institutional investors for investment and diversification of risk.

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## LEGAL FRAMEWORK, LICENSING AND ENFORCEMENT ACTIONS

### Developments in the Capital Markets Legal and Regulatory Framework

In the financial year 2011-2012, we reported that the Authority had submitted the Capital Markets (Real Estate Investment Trusts) Regulations, 2012 and the Capital Markets (Demutualization of the Nairobi Securities Exchange) Regulations, 2012 to the Cabinet Secretary, The National Treasury for consideration and gazettment. Additionally, the Capital Markets (Amendment) Bill, 2012, was under consideration by the Parliament. Several amendments to various pieces of Regulations had also been submitted to the Cabinet Secretary in the course of the year 2011-2012. The Authority is pleased to report that the following regulations were enacted in the course of the financial year 2012 - 2013:

#### **1. Capital Markets (Amendment) Act, No. 37 of 2012;**

The amendments enacted on 26th October 2012 have enhanced the Authority's capacity to co-operate with other regulatory organizations both locally and internationally in order to strengthen the orderly supervision of increasingly interconnected capital markets and to introduce a criteria for determining the suitability of persons applying for licenses.

#### **2. Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 (Legal Notice No. 116 of 2013) (gazetted on 18th June 2013)**

The REITs regulatory framework seeks to promote the pooling of investments in income producing real estate assets through Real Estate Investment Trusts (REITs).

#### **3. Capital Markets (Futures Exchanges) (Licensing Requirements) Regulations, 2013 (Legal Notice No. 108 of 2013) (gazetted on 18th June 2013)**

This regulatory instrument provides the framework for licensing of futures exchanges which are set to provide the trading facilities for futures and other derivatives. Regulated futures markets will provide, amongst others, the necessary financial instruments for hedging of currency and interest rate fluctuations as well as enhancing stability in the prices of commodities.

#### **4. Capital Markets (Securities)(Public Offers, Listing and Disclosure) (Amendment) Regulations, 2013 (Legal Notice No. 113 of 2013) (gazetted on 18th June 2013)**

This is an amendment to the regulatory framework for issuance of securities to the public to provide for harmonized requirements for issuance of bonds and other fixed income securities in the East African Community as well as provide for book building process in public offers of securities. These Regulations will:-

- a) Enable institutions to access a larger pool of investors and increase their capital raising opportunities; and
- b) Issuers will be able to access a more effective price discovery mechanism that will better align investor and issuer interests during the public offers of securities.

#### **5. Capital Markets (Licensing Requirements)(General) (Amendment) Regulations, 2013 (Legal Notice No. 112 of 2013) (gazetted on 18th June, 2013)**

# Organizational Updates Continued

These amendments to the regulatory framework provides for licensing of market players to:-

- (i) Introduce risk based supervision model for capital market intermediaries. The risk based supervision model will -Introduce an enhanced ability to identify, prioritize and proactively intervene where risks exist through the assessment of capital adequacy standards;
  - (ii) Ensure targeted examination and surveillance efforts; and ensure a more optimal utilization of supervisory resources available to the Authority.
- c) Reform the license category of specialist fixed income securities dealers, known as Authorized Securities Dealers (ASDs). Licensing of ASDs will lead to deepening of the fixed income securities market segment as a result of enhanced liquidity and reduced costs with the introduction of additional players as well as supporting the emergence of a market maker program for government securities.
  - d) Streamline the process of private transfer of listed securities outside a securities exchange in specific circumstances. Increased efficiency in the processing of necessary approvals for transfer of securities outside securities exchanges particularly in respect of the settlement of the estates of deceased persons.

## **6. Central Depositories (Regulation of Central Depositories) (Amendment) Rules, 2013 (Legal Notice No. 107 of 2013) (gazetted on 18th June, 2013)**

This amendment to the regulatory framework for the authorization of central depository agents provides objective criteria for authorization of additional corporate bodies desirous of offering central depository services. This amendment will ensure increased accessibility and competitiveness in capital markets services as well as facilitating the provision of CDS accounts to diaspora investors.

## **7. Capital Markets (Demutualization of the Nairobi Securities Exchange) (Amendment) Regulations, 2013 (Legal Notice No. 104 of 2013) (gazetted on 18th June 2013)**

Following the gazettelement of Demutualization Regulations in 2012, the Nairobi Securities Exchange (NSE) submitted its application to demutualize. However, it become apparent that the requirement that the Government be allotted 10 percent of the shareholding at the NSE was not achievable. The Amendment Regulations amended the requirement to prescribe that a total of 10 percent of the NSE shareholding will be allotted to the CMA Investor Compensation Fund with no shareholding going directly to the Government of Kenya.

## **8. Capital Markets (Corporate Governance) (Market Intermediaries) (Amendment) Regulations, 2013 (Legal Notice No. 115 of 2013) (gazetted on 18th June 2013)**

This is an amendment to the Regulations that govern corporate governance standards applicable to entities licensed by the Authority to ensure greater clarity and enhance compliance levels. The amendment enhances clarity in respect of the specific and limited provisions under the Regulations which a market intermediary may apply for exemption or variation of application.

## **9. Capital Markets (Conduct of Business) (Market Intermediaries) (Amendment) Regulations, 2013 (Legal Notice No. 105 of 2013) (gazetted on 18th June 2013)**

An amendment to the Regulations that govern conduct of business by entities licensed by the Authority to ensure clarity in interpretation to facilitate operational compliance.

## **The Capital Markets (Amendment) Bill, 2013**

The Bill seeks to introduce reforms with the twin objectives of market development and enhanced regulation. These reforms include:-

- i. Empowerment of the Authority to introduce a principles based approach to the introduction of new products and services;
- ii. Introduction of clarity in the methods of public offers of securities;
- iii. The introduction of alternative structures for capital raising including securitization;
- iv. Allowing for the design and targeting of capital markets products and services to different categories of investors;

# Organizational Updates Continued

- v. Introduction of clearer regulatory provisions to tackle market manipulation and insider trading;
- vi. Introduction of key provisions necessary to the regulatory environment for derivatives markets in Kenya;
- vii. Facilitating simultaneous raising of capital across the EAC region;
- viii. Providing a framework for regulation of cross border service providers;
- ix. Clarifying and strengthening the Authority's powers to supervise and intervene in market intermediaries as well as to implement enforcement actions; and
- x. Broadening the rights of investors and the powers of the Authority in the event of publication of misleading information

It is expected that the following impact will be felt in the capital markets once the Bill is enacted:-

1. Accelerated development of the capital markets in Kenya through provision of clear guidance on the introduction of new capital markets products and services;
2. Creation of a suitable environment for mobilization of long-term resources to finance capital intensive projects necessary for the achievement of Vision 2030; and
3. Promotion of the international attractiveness of Kenya as an investment destination of choice.

## LICENSING AND APPROVALS

### New Licenses

During the 2012/2013 financial year, the Authority issued new licenses to the following:-

- a) Raya Limited - Investment Adviser
- b) Fusion Capital Asset Management Limited - Fund Manager
- a) Centum Asset Managers Limited - Fund Manager
- b) Emerging Africa Capital Limited - Investment Adviser

### Renewed Licenses

The Authority renewed seventy one (71) licenses as follows:-

- a) Ten Investment Banks
- b) Eleven Stockbrokers
- c) Nineteen Fund Managers
- d) Sixteen Investment Advisers
- e) Fifteen Authorized Depositories

### Revoked licenses

The Authority revoked the following license due to its non-compliance with minimum licensing requirements:-

- a) Loita Asset Management Limited- Investment Adviser

### Voluntary Withdrawal of License

The following licenses were withdrawn by the Authority following the licensee's election not to continue providing the regulated business:

- a) Alliance Capital Partners- Investment Adviser
- b) InvesteQ Capital Limited- Fund Manager
- c) Jubilee Financial Services Limited- Fund Manager
- d) Standard Chartered Securities (Kenya) Limited- Investment Adviser

### Extended Licenses

The Authority extended Investment Adviser License for Franklin Management Consultants Limited due to its non-compliance with minimum licensing requirements.

# Organizational Updates Continued

## ENFORCEMENT ACTIONS

The following breaches were noted during the period under review and enforcement action taken as follows;

**Table 2 Enforcement Actions 2012/2013**

	<b>NAME OF LICENSEE OR APPROVED PERSON</b>	<b>CATEGORY</b>	<b>NATURE OF BREACH</b>	<b>SANCTION IMPOSED</b>
1.	Equity Investment Bank Limited	Investment Bank	Late Submission of Management Accounts for the quarter ending 31 March 2012 contrary to Regulation 43 of the Capital Markets (Licensing Requirements)(General)Regulations 2002 which requires all licensees to submit to the Authority their management Accounts within fifteen(15) days of the end of each calendar quarter.	Pursuant to Sections 11(3)(w),25A(1)(a)(vi) and 34A(1)(b) of the Capital markets Act, the Authority Imposed sanctions on Equity Investment Bank on 31 October 2012 as follows: <ul style="list-style-type: none"> <li>• A public reprimand</li> <li>• A financial penalty of kshs.5,555.56 for the delay of one day</li> </ul>
2.	Citidell Company Limited	Investment Advisors	Late Submission of Management Accounts for the quarter ending 31 March 2012 contrary to Regulation 32(1) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 which requires all licensees to submit to the Authority their management Accounts within fifteen(15) days of the end of each calendar quarter	Pursuant to Sections 11(3)(w),25A(1)(a)(vi) and 34A(1)(b) of the Capital markets Act, the Authority Imposed sanctions on Citidell Company Limited on 31 October 2012 as follows: <ul style="list-style-type: none"> <li>• A public reprimand</li> <li>• A financial penalty of kshs.2, 222.22 for the delay of One (1) day.</li> </ul>
3.	Tsavo Securities Limited	Investment Advisors	Late Submission of Management Accounts for the quarter ending 31 March 2012 contrary to Regulation 32(1) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 which requires all licensees to submit to the Authority their management Accounts within fifteen(15) days of the end of each calendar quarter.	Pursuant to Sections 11(3)(w),25A(1)(a)(vi) and 34A(1)(b) of the Capital markets Act, the Authority Imposed sanctions on Tsavo Securities Limited on 31 October 2012 as follows: <ul style="list-style-type: none"> <li>• A public reprimand</li> <li>• A financial penalty of kshs.42, 222.18 for the delay of nineteen days (19).</li> </ul>
4.	Express Kenya Limited	Listed Company	Late submission of audited financial statements for the year ending 31 December 2011 which is in breach of Paragraph B.20(1) of the Fifth Schedule of the Capital Markets(Licensing Requirements)(General)Regul	Pursuant to Sections 11(3)(w),25A(1)(a)(vi) and 34A(1)(b) of the Capital markets Act, the Authority Imposed sanctions on Express Kenya Limited on 31 October 2012 as follows:

## Organizational Updates Continued

			ations,2002 which requires that Audited Accounts be Submitted to the Authority within Four(4) months of the close of the financial year.	<ul style="list-style-type: none"> <li>• A public reprimand</li> <li>• A financial penalty of kshs. 186,666.48 for the delay of Eighty four days (84).</li> </ul>
5.	Dry Associates limited	Fund Managers	Late Submission of Management Accounts for the quarter ending 31 March 2012 contrary to Regulation 32(1) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 which requires all licensees to submit to the Authority their management Accounts within fifteen(15) days of the end of each calendar quarter.	Pursuant to Sections 11(3)(w),25A(1)(a)(vi) and 34A(1)(b) of the Capital markets Act, the Authority Imposed sanctions on Dry Associates Limited on 31 October 2012 as follows; <ul style="list-style-type: none"> <li>• A public reprimand</li> <li>• A financial penalty of kshs.28, 888.86 for the delay of Twenty six days (26).</li> </ul>
6.	Aureos Kenya Limited	Fund Managers	Late Submission of Management Accounts for the quarter ending 31 March 2012 contrary to Regulation 32(1) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 which requires all licensees to submit to the Authority their Management Accounts within fifteen(15) days of the end of each calendar quarter.	Pursuant to Sections 11(3)(w),25A(1)(a)(vi) and 34A(1)(b) of the Capital markets Act, the Authority Imposed sanctions on Aureos Kenya Limited on 31 October 2012 as follows; <ul style="list-style-type: none"> <li>• A public reprimand</li> <li>• A financial penalty of kshs.57,777.72 for the delay of Twenty six days (26).</li> </ul>
7.	Iroko Securities(k) Limited	Investment Advisors	Late Submission of Management Accounts for the quarter ending 31 March 2012 contrary to Regulation 32(1) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 which requires all licensees to submit to the Authority their management Accounts within fifteen(15) days of the end of each calendar quarter.	Pursuant to Sections 11(3)(w),25A(1)(a)(vi) and 34A(1)(b) of the Capital markets Act, the Authority Imposed sanctions on Iroko Securities (K) Limited on 31 October 2012 as follows: <ul style="list-style-type: none"> <li>• A public reprimand</li> <li>• A financial penalty of kshs.2; 222.22 for the delay of one (1) day.</li> </ul>
8.	Cititrust Kenya Limited	Investment Advisors	Late Submission of Management Accounts for the quarter ending 31 March 2012 contrary to Regulation 32(1) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 which requires all licensees to	Pursuant to Sections 11(3)(w),25A(1)(a)(vi) and 34A(1)(b) of the Capital markets Act, the Authority Imposed sanctions on Cititrust Kenya Limited on 31 October 2012 as follows:

# Organizational Updates Continued

			submit to the Authority their management Accounts within fifteen(15) days of the end of each calendar quarter	<ul style="list-style-type: none"> <li>• A public reprimand</li> <li>• A financial penalty of kshs.6, 666.66 for the delay of Three (3) days.</li> </ul>
9.	Sanlam Investment Management Kenya Limited	Fund Managers	Late Submission of Management Accounts for the quarter ending 31 March 2012 contrary to Regulation 32(1) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 which requires all licensees to submit to the Authority their management Accounts within fifteen(15) days of the end of each calendar quarter.	<p>Pursuant to Sections 11(3)(w),25A(1)(a)(vi) and 34A(1)(b) of the Capital markets Act, the Authority Imposed sanctions on Sanlam Investment Management Kenya Limited on 31 October 2012 as follows;</p> <ul style="list-style-type: none"> <li>• A public Reprimand</li> <li>• A financial penalty of kshs.2, 222.22 for the delay of Two (2) days.</li> </ul>
10.	Africa Alliance Investment Bank Limited	Investment Bank	Late submission of Half year Management accounts for the period ending 30 June 2012 Contrary to Regulation 32(1)(b) of the Capital Markets (Licensing Requirements) (General)Regulations 2002 which requires all licensees to submit their half year management accounts to the Authority within thirty(30) days of the end of each half year.	<p>Pursuant to Sections 11(3)(w),25A(1)(a)(vi) and 34A(1)(b) of the Capital markets Act, the Authority took the following actions against Africa Alliance Investment Bank Limited on 5 November 2012;</p> <ul style="list-style-type: none"> <li>• A public Reprimand</li> <li>• A financial penalty of kshs.3, 333.33 for the delay of three days (3).</li> </ul>
11.	Tsavo Securities Limited	Investment Advisors	Late Submission of Management Accounts for the quarter ending 30 September 2012 contrary to Regulation 32(1) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 which requires all licensees to submit to the Authority their management Accounts within fifteen(15) days of the end of each calendar quarter	<p>Pursuant to Section 11(3) (w) and Section 25A (1) (a) (vi) as read with Section 34A (1) (b) of the Capital Markets Act, for the late submission of management accounts for the quarter ending the 30 September 2012:</p> <ul style="list-style-type: none"> <li>• A Public Reprimand;</li> <li>• A financial penalty of Kes. 8,888.88 issued against Tsavo Securities Limited</li> </ul>
12.	FCB Capital	Fund Managers	Late Submission of Management Accounts for the quarter ending 30 September 2012 contrary to Regulation 32(1) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 which requires all licensees to	Being a first time violation by FCB Capital Ltd) set out below pursuant to Section 11(3) (w) and Section 25A (1) (a) (vi) as read with Section 34A (1) (b) of the Capital Markets Act, for the late submission of management

			submit to the Authority their management Accounts within fifteen(15) days of the end of each calendar quarter.	accounts for the quarter ending the 30 September 2012:  • A Public Reprimand;
13.	Tsavo Securities	Investment Advisors	Failure to produce documents on several occasions on request by the Authority	On 21 December 2012, former Managing Director, Mr. Fred Mweni was disqualified from appointment and service as a Director in a listed company or firm licensed or approved by the Authority.
14.	ABC Capital & Tsavo Securities Limited	Investment advisers	Unauthorised sale of securities	ABC Capital Limited was directed on June 19, 2013 to reinstate the affected Client, Rosalie Osborne for securities sold
15.	Nation Media Group Limited	Listed company	Unauthorized publication contrary to Regulation 63(7) of the Capital Markets (Licensing requirements) (General) Regulations, 2002	Pursuant to Section 11(3) (w) and Section 25A (1) (a) (vi) as read with Section 34A (1) (b) of the Capital Markets Act, for the late submission of management accounts for the quarter ending the 30 September 2012 Nation Media Group Limited was issued with a Public Reprimand.
16.	Uchumi Supermarkets Limited	Listed company	Unauthorized publication contrary to Regulation 63(7) of the Capital Markets (Licensing requirements) (General) Regulations, 2002	Company issued with a caution.
17.	British American Asset Managers Limited	Fund managers	Publication of misleading information in the print media contrary to Section 34(1)(b) of the Capital Markets Act	Company directed to correct misleading information published in the local media.

## CMC Holdings Limited

The Authority further notes that pursuant to section 25A (1) (c) (i) of the Capital Markets Act, the Board of the Capital Markets Authority in its meeting of 3rd August, 2012 unanimously resolved to disqualify with immediate effect, the following past and current directors of CMC Holdings (CMCH) from appointment as a director (s) of any listed company or licensed or approved person,

including a securities exchange in the capital markets in Kenya:

- 1) Mr. Martin Henry Forster;
- 2) Mr. Jeremiah Gitau Kiereini;
- 3) Mr. Charles Njonjo;
- 4) Mr. Peter Muthoka;
- 5) Mr. Richard Kemoli;
- 6) Mr. Andrew Hamilton;
- 7) Mr. Sobakchand Shah.

## Organizational Updates Continued

The Board of the Authority further resolved to disqualify Mr. Joseph Mumo Kivai with respect to his directorship in CMCH only.

The Authority further took the following enforcement actions and measures against some of the disqualified directors pursuant to section 11(3)(cc) and section 25A and 34A of the Capital Markets Act as part of its mandate to uphold market integrity and confidence:

- a) Recommended the recovery from Mr. Jeremiah Kiereini and Mr. Martin Forster an amount equivalent to two times the amount of the benefit accruing to them from the offshore arrangements pursuant to Section 25A(1)(c)(ii) of the Capital Markets Act;
- b) Recommended restitution to CMCH of the amount of the benefit accruing to Mr. Jeremiah Kiereini and Mr. Martin Forster from the offshore arrangements (that would be ascertained by CMCH or such other investigatory body) pursuant to Section 25A (2) and (3) of the Capital Markets Act;
- c) Reprimanded Mr. Martin Henry Forster; Mr. Jeremiah Gitau Kiereini; Mr. Charles Njonjo; Mr. Peter Muthoka; Mr. Richard Kemoli and Mr. Andrew Hamilton for signing off the accounts for the year ended September 30, 2009 and 2010 not prepared in compliance with IFRS and for non-disclosure on the extent of CMCH's compliance with the Guidelines on Corporate Governance;
- d) Reprimanded Mr. Sobakchand Shah for non-disclosure on the extent of CMCH's compliance with the Guidelines on Corporate Governance for listed public companies.

### **New Developments in respect to CMC Matters**

Following the enforcement action taken by the Authority (as indicated above) Mr. Muthoka, Mr. Kivai and Mr. Kiereini, being aggrieved by the decision of the Authority disqualifying them as directors filed separate suits in the courts seeking to overturn the Authority's decision. However following extensive discussions and deliberations between the Authority's legal representatives and Mr. Muthoka and Mr. Kivai's legal representatives the latter two parties filed a notice of withdrawal of the two judicial review matters (being JR Misc. Application 356 and 355 of 2012 respectively) as

well as the Appeal matter. This effectively brought to an end the litigation matters in respect to CMCH filed by the two parties separately before the courts.

Further to the culmination of the filing of the notice of withdrawal of the JR suits, the Authority reached a settlement in respect to the legal costs that had been incurred by the Authority in hiring a law firm to represent it in the proceedings before court. In this regard, the Authority recovered Kshs.7 Million being the settlement amount of legal costs accrued by the Authority in respect to the Judicial Review (JR) cases that were initiated by Mr. Kivai and Mr. Muthoka separately (being JR Misc. Application 355 and 356 of 2012 respectively) against the Authority's enforcement action that disqualified them as directors.

### **Major assignments ongoing**

During the period under review, the Authority received two complaints in respect to the Fraudulent Creation of Fixed Income Securities at CBK and subsequent sale of Fixed Income Securities at the NSE as well as failed bonds sale buy back transactions which have been summarized hereunder:

#### ***1. Bond Fraud in respect to the Fraudulent Creation of Fixed Income Securities at CBK and subsequent sale of Fixed Income Securities at the NSE***

The Capital Markets Authority Board appointed a Committee comprising of some members of its Board to provide an opportunity to be heard to persons adversely mentioned in the Report by Management as having been directly or indirectly involved in the fraudulent creation and sale of bonds at the Central Bank of Kenya in breach of the Capital Markets Legal and Regulatory Framework.

The following is a summary of the enforcement actions that have been taken:

- a) Mr. Moses Muregi (Assistant Manager, Monetary Operations and Debt Management at Central Bank of Kenya):
  - i) Mr. Muregi has been disqualified with immediate effect from appointment as a director of any listed company or licensed or approved person, including a securities exchange in the capital markets in Kenya for a period of 15 years

## Organizational Updates Continued

- pursuant to Section 11 (3) (w) of the Capital Markets Act; and,
- ii) Mr. Muregi has further been disqualified with immediate effect from being an employee of a licensed or approved person including a securities exchange for a period of fifteen (15) years pursuant to Section 11 (3) (w) of the Capital Markets Act.
- b) Mr. Fredrick Tsofa Mweni (immediate former Managing Director of Tsavo Securities Limited):
- i) Mr. Mweni has been disqualified with immediate effect from appointment as a director of any listed company or licensed or approved person, including a securities exchange in the capital markets in Kenya for a period of 15 years pursuant to Section 25A (1)(i) of the Capital Markets Act; and,
  - ii) Mr. Mweni has further been disqualified with immediate effect from being an employee of a licensed or approved person including a securities exchange for a period of 15 years pursuant to Section 11 (3) (w) of the Capital Markets Act.
- c) Mr. Bokole Masha (Board director at Tsavo Securities Limited):
- i) Mr. Masha has been disqualified with immediate effect from appointment as a director of any listed company or licensed or approved person, including a securities exchange in the capital markets in Kenya for a period of 10 years pursuant to Section 25A (1)(c) of the Capital Markets Act; and,
  - ii) Mr. Masha has further been disqualified with immediate effect from being an employee of a licensed or approved person including a securities exchange for a period of 10 years pursuant to Section 11 (3) (w) of the Capital Markets Act.
- d) Duncan Weru (Director, Manline Telecommunication Services):
- i) Mr. Weru has been disqualified with immediate effect from appointment as a director of any listed company or licensed or approved person, including a securities exchange in the capital markets in Kenya for a period of 15 years pursuant to Section 11 (3) (w) of the Capital Markets Act; and,
  - ii) Mr. Weru has further been disqualified with immediate effect from being an employee of a licensed or approved person including a securities exchange for a period of 15 years pursuant to Section 11 (3) (w) of the Capital Markets Act.
- e) James Wambugu (Director Manline Telecommunication Services):
- i) Mr. Wambugu has been disqualified with immediate effect from appointment as a director of any listed company or licensed or approved person, including a securities exchange in the capital markets in Kenya for a period of 15 years pursuant to Section 11 (3) (w) of the Capital Markets Act; and,
  - ii) Mr. Wambugu has further been disqualified with immediate effect from being an employee of a licensed or approved person including a securities exchange for a period of 15 years pursuant to Section 11 (3) (w) of the Capital Markets Act.
- f) Mr. Brian Muchiri (Associate Director and Head of Fixed Income Trading at Apex Africa Limited):
- i) Mr. Muchiri has been disqualified from appointment as a director of any listed company or licensed or approved person, including a securities exchange in the capital markets in Kenya for a period of seven years pursuant to Section 25A (1)(i) of the Capital Markets Act;
  - ii) Mr. Muchiri has further been disqualified from being an employee of a licensed or approved person including a securities exchange for a period of seven years pursuant to Section 25A (1)(b)(ii) of the Capital Markets Act; and,
  - iii) Mr. Muchiri has been required to surrender the capital gains earned worth Kshs3.741 million derived from purchase and sale of the fraudulent bonds through conduct amounting to front

## Organizational Updates Continued

running pursuant to section 11(3)(cc)(ii) and 11(3)(i) of the Capital Markets Act. The surrendered amount will be paid into the Capital Markets Authority (CMA) Investor Compensation Fund.

### g) Tsavo Securities Limited:

- i) Tsavo Securities Limited has been reprimanded for failure to conduct its business efficiently with the integrity and professional skills appropriate to the nature and scale of its activities pursuant to section 25A(1)(a)(i) of the Capital Markets Act;
- ii) The members of the Board of Tsavo Securities Limited have been reprimanded for their collective and/or individual failure to implement effective oversight over the company's operations and the activities of its key employees, pursuant to Section 11(3)(w) and 25A(1)(a)(i) of the Capital Markets Act;
- iii) Tsavo Securities Limited's license has been restricted to the conduct of investment advisory business pursuant to section 25A(1)(a)(iv) of the Capital Markets Act. This means that Tsavo Securities Limited shall not conduct any other business activities under its current license other than the business of advising others concerning securities as defined in Section 2 of the Act;
- iv) Tsavo Securities Limited has been required to surrender the capital gains earned worth Kshs3.8467 million being the amount derived from purchase and sale of the discounted fraudulent bonds by Mr. Fred Mweni and Mr. Bokole Masha pursuant to section 11(3)(cc)(ii) as read with Section 11(3)(i) of the Capital Markets Act. The surrendered amount is to be paid into the Capital Markets Authority (CMA) Investor Compensation Fund;

### h) Apex Africa Limited:

- i) The entire amount made in commissions by Apex Africa Limited in relation to the subject transactions, totaling Kshs.57,687.90, is to be surrendered to the Capital Markets Authority (CMA) Investor Compensation Fund pursuant to section 11(3)(cc)(ii) as read with Section 11(3)(i) of the Capital Markets Act; and;

- ii) The Board of Directors of Apex Africa Capital Limited have been reprimanded for their collective and/or individual (director) failure to have effective oversight over the company's operations and on its key employees pursuant to Section 11(3)(w) and Section 25A(1)(a)(i) of the Capital Markets Act.

## 2. Bonds Sale Buy Back Transactions

Following receipt of information on failed buy back transactions in fixed income securities, the Authority established a Board Committee to grant the parties adversely mentioned an opportunity to be heard and make recommendations on suitable regulatory action. The Board Committee commences its work in July 2013.

## HUMAN CAPITAL AND ADMINISTRATION

### Capacity Building

The Authority has continued to enhance competence development of staff at all levels as reflected by a rise in competency index from 68 percent by June 2012 to 72 percent by June 2013. During the year, members of staff attended local and overseas training. Local training included individual and group trainings aimed at enhancing technical and soft skills across the organization. Team building sessions were conducted to promote the team spirit and to reinforce commitment to the team's shared goals. Staff were also exposed through workshops and study tours in various overseas countries such as U.S, U.K, Turkey, Canada and Malaysia.

The Authority filled positions during the year increasing the total number of staff from 72 in June 2012 to 74 in June 2013 and finalized the selection process for 5 staff expected to report by September 2013. Recruitment for various vacant positions continues in the coming year.

### ISO 9001:2008

The Authority has continued to maintain and improve its Quality Management System as evidenced by ISO 9001:2008 recertification in December 2012.

### Performance Management System

The Authority implemented a Balanced Scorecard

## Organizational Updates Continued

Performance Management System with a view of aligning key performance measures with strategy as well as promoting communication and understanding of goals and strategies at all levels of the Authority. The ultimate goal is to enhance performance and overall organizational efficiency.

### **INVESTOR EDUCATION AND PUBLIC AWARENESS**

The increased role and complexity of financial markets and their products particularly in developing nations continues to reinforce the Authority's mandate of promoting investor education. Financial and capital markets awareness therefore continued to be an important priority of the Authority. As key examples, during the year under review, the Authority undertook various initiatives in collaboration with stakeholders which targeted; all categories of investors with focus on the under-represented constituents in various parts of the country; investment groups; key government institutions, licensed intermediaries, listed companies, as well as potential issuers (equities and debt), including corporate entities, the youth (emphasis on university students) and Diaspora. The Authority used various outreach initiatives such as forums, workshops, exhibitions, media and open days.

At the County level, the Authority recognized media as an effective medium of reaching out to the public through the dissemination of information at a national level. It is in this regard that the Authority organized for staff to appear on vernacular radio stations as well as respond to live questions across the country such as Coast, North Eastern, Western and Nyanza. The Authority will continue to engage other communities in vernacular. The Authority also participated in ASK Shows in addition to hosting forums and workshops in Kisumu and Mombasa jointly with capital markets intermediaries and other financial sector regulators (Insurance Regulatory Authority, The Retirement Benefits Authority and the Central Bank of Kenya).

In addition to an Open Day held in Nakuru, the Authority in partnership with capital markets industry stakeholders organized the Capital Markets Open Day and Exhibition at the Kenyatta International Conference Center (KICC). The event presented an opportunity for current and potential investors and issuers to engage capital markets intermediaries to understand and access

information that will assist them to make informed decisions with wealth creation, as the ultimate target. About 31 market intermediaries exhibited at the Open Day.

The youth remain a crucial stakeholder of the Authority as they are a key driver of the economy. It is in this regard that the Authority, through its revamped program of hosting students, held several forums for university students from the various parts of the country such as Mount Kenya University, University of Nairobi, Moi University, Kenyatta University, United States International University, Kabarak University, Bondo University and Maseno University just to mention a few. In addition, the Authority is continuing to collaborate with the Kenya Institute of Curriculum Development on including capital markets information in the curriculum for primary and secondary education.

Solid partnerships are an effective tool that support's an organization's business, and objectives. It involves situation analysis, team work, conceptualizing appropriate strategies and action plans, and determining the measurement of results. As an example, the Authority held several initiatives in collaboration with stakeholders such as a joint CMA and Association of Chartered Certified Accountants (ACCA) media breakfast roundtable that was informed by a collaboration MoU signed between the two institutions. The event provided a platform to discuss the status of capital markets for select business journalists from all media houses.

On the Diaspora front, the Authority revamped its website to include more investor education information as well as collaborated with the Ministry of Foreign Affairs in developing a National Diaspora Policy aimed at providing more opportunities and support for the Diaspora which has been identified as a key target audience to the development of the country.

Finally, the Authority recognizes the importance of investor education materials with regards to information dissemination. In this regard, the Authority developed 'An Outlook of Capital Markets in Kenya' brochure, 'A Capital Markets Fraud' Brochure, 'A Rights and Responsibilities of Shareholders' brochure, 'A Key On-going Capital Markets Reforms in Kenya' brochure, 'Intermediaries Corporate Governance' handbook, and a 'Market Intermediaries Conduct of Business' handbook.

# Organizational Updates Continued

## **INFORMATION, COMMUNICATION & TECHNOLOGY**

ICT has continued to play a critical role in ensuring efficiency of internal processes so as to guarantee better services to stakeholders. The Authority utilized ICT for its functions including investor education, research, communication and market surveillance.

During the year under review, we made a number of significant investments in ICT systems. Through the assistance of the National Treasury under the recently concluded Financial and Legal Sector Technical Assistance Project (FLSTAP) the Authority implemented new Applications and ICT Infrastructure that will enable the Authority to significantly upscale its oversight ability over the market.

Key among the new products are: - the Risk Based Supervision System (RBSS), Enterprise Resource Planning System (ERP), and the enhancement of the E-Board Portal. Along with the above systems, ICT has adopted the concept of "cloud computing" with a view to raising efficiency and turn around in service delivery. This is backed by a robust Local Area Network and Wide Area Network complete with Wi-Fi wireless connectivity powered by network solutions provider CISCO towards a mobile office concept. The improvement of ICT infrastructure has raised the uptime guarantee of crucial systems to the highest levels. The infrastructure is housed in a new ultra-modern medium size Data Centre that runs round the clock. Communication is integrated via a "CISCO call manager" that gives the users facilities with direct lines and access to all the network service providers. This service is linked to an integrated "RING" fiber connection with a redundant wireless connection.

Among the highlights on this front include:

- i. Development and launch of an ERP powered by Microsoft Dynamics
- ii. Development in preparation for launch of RBSS that has modules such as Licensing and Approvals, Inspections, Risk Profiling, Complaints Management, and Investigations and Enforcement;
- iii. Improvement of the Advanced Capital Markets Surveillance System to further boost the Authority's oversight over automated trading in the market;
- iv. Improvement of the Interactive Website for the Authority. The website's focus is on investor education, increased interactivity and dissemination of information to stakeholders in a timely and effective manner;
- v. Improvement and Integration of the ICT Infrastructure; and
- vi. Improvement of the E-board System.

## **CAPITAL MARKETS FRAUD AND INVESTIGATION UNIT**

During the year under review, the officers under the unit stepped up their effort to contain crimes within the securities industry. Notably their efforts were geared towards the reduction of pending investigations and court cases as well as detection of securities related fraud. The unit continued to work with all stakeholders to speed up cases within the securities industry, to restore investor confidence, identify fraud risk areas and recommend preventive measures to the Authority. The unit remained committed to effective investigation and prosecution of persons who committed fraud within the Securities market.

The unit kept track of new approaches to fraudulent activities that kept changing over time from simple fraudulent sale of shares to electronic fraud involving access to high net worth clients' accounts through identity fraud. The officers embarked on adaption of preventive measures and liaised with market players in developing strategies including updating market players on various prevalent trends. In the near future, the focus will be on emerging fraud targeted at high net worth clients' accounts that are reasonably inactive or completely dormant especially for elderly, deceased persons and Diaspora clients.

The Unit experienced a steady decrease in cases reported since its inception. In the year under review, a total of 23 cases were reported as compared to 40 cases in 2011/12 and 51 in 2010/11.

## Organizational Updates Continued

POSITION OF CASES	2010/11	2011/12	2012/2013
PENDING BEFORE COURT	7	16	11
PENDING ARREST OF KNOWN ACCUSED PERSON	5	2	4
SETTLEMENT THROUGH COURT	-	-	-
RECOMMENDATION FOR ENFORCEMENT ACTION	-	2	-
FORWARDED TO CID DIRECTOR FOR FURTHER ACTION	1	-	-
PENDING UNDER INVESTIGATION	38	15	8
WITHDRAWAL BY COMPLAINANT AFTER SETTLEMENT	-	5	-
<b>TOTAL CASES REPORTED</b>	<b>51</b>	<b>40</b>	<b>23</b>

In addition, the Officer-in-Charge Mr. Sammy Mukeku, SSP, and his Deputy Mr Ali Samatar, SP, were transferred out of the Unit to Trans Nzoia County and Kilifi District respectively. The Unit is currently under the command of Mr. Michael K. Sang (SP).

### FUTURES UNIT

The unit organized meetings with stakeholders during the year to obtain views on the policy and institutional framework for a futures and derivatives market in Kenya. This culminated into the development of a comprehensive policy document, which is the futures and derivatives blue-print for Kenya. It outlines policy recommendations taking into account international best practice for establishment and operation of futures and derivatives markets, as well as selected stakeholders views following these comprehensive engagements. It outlines the rationale for development of regulations as well as amendments to existing legislations to facilitate the futures and derivatives market in Kenya.

The unit further worked together with the long-term futures consultant in developing its operational structures. The core and essential functions of the unit and the human capital requirements were determined together with the relevant qualifications, skills and competencies. In addition, the lines of communications between the Authority as the apex regulator and the yet to be licensed futures and derivatives exchange were clarified. The Authority will be carrying out recruitments of local and foreign futures and derivatives professionals over the next five years to ensure that there is sufficient capacity in the unit to carry out its oversight role effectively. The futures consultant will also develop

operations manuals, standard operating procedures and checklists for the day to day functioning of the Futures Unit during the coming financial year.

### CORPORATE COMMUNICATIONS

During the period under review, the Corporate Communications Department drew its strategic direction from one of the Authority's five corporate objectives which was to; 'Promote Investor Education and Public Awareness'. In order to achieve this specific objective, various strategies and tactics were executed jointly with the Investor Education and Public Awareness department as well as other functions within the Authority. The key strategic initiatives included:

- i. Enhancing corporate image of Capital Markets Authority;
- ii. Enhancing understanding of capital markets products and services.

The Authority also carried out several activities and initiatives including:

- Production and airing of two documentaries and infomercials on KBC and NTV in June 2013;
- Translation of the Service Charter into Braille, which was distributed among visually impaired stakeholders by the Kenya Institute of the Blind;
- Strategic stakeholder engagement sessions aimed at sharing information on the Authority and enhancing understanding of capital markets products and services;

## Organizational Updates Continued

- Scheduled media engagement sessions between business journalists and the acting Chief Executive;
- Production of the quarterly newsletter, 'CMA Forum', which was distributed to stakeholders;
- Release of corporate information in a timely manner; and
- Participation in three Corporate Social Responsibility activities including a tree planting activity in collaboration with financial sector regulators at Ngong Forest's Kuwinda Grounds; donation of books to five secondary schools in Mombasa; and donation of computers to Wema Centre in Mombasa in collaboration with the Central Depository and Settlement Corporation (CDSC) and the Nairobi Securities Exchange (NSE).

We continue to endeavor to improve the corporate communications function within the Authority with a strategic focus on enhancing media relations.

### **STATUTORY MANAGEMENT**

#### **Restructuring of Ngenye Kariuki & Company Limited**

The Authority lifted the Statutory Management of Ngenye Kariuki & Co. on 14 December 2011 after successful restructuring efforts at the company. The company was handed back to the shareholders to carry out further restructuring that would facilitate normal operations at the company as a pre-condition for consideration of licensing. The company has since indicated that it would apply for a trading licence after satisfying all the licensing requirements.

#### **Compensation of former clients of Discount Securities Limited (Under Statutory Management)**

The Capital Markets Authority commenced the process of compensation to former clients of Discount Securities Limited as from 8 February 2012 and is still ongoing. The compensation was drawn from the Investor Compensation Fund established under the Capital Markets Act which is managed by the Authority. So as to save the affected investors from inconvenience and costs associated with travel to Nairobi for payment, the Authority competitively procured services of Co-

operative Bank of Kenya Limited which has a nationwide network from which the investors could access their payments. All genuine claims lodged were settled immediately after verification. Compensation is its second stage.

### **OPERATING ENVIRONMENT**

#### **THE GLOBAL ECONOMY**

##### **Overview**

After a weak ending to the year 2012, the global economy picked up during the first months of the year 2013, driven by resilience in emerging economies. The outlook for the first half of 2013 is for a return to slow but steady growth in the United States and Canada, and an improving outlook in Japan. In Europe, a meaningful recovery is likely to take longer. Generally, the performance of emerging economies remains much more robust than that of advanced countries, although with significant variations across regions. Business confidence has generally improved since the start of the year, supported by improvements in equity markets, in particular. In the Eurozone however, confidence weakened.

Continuing shocks emanating from the Eurozone, including the aftermath of Cyprus's recent sovereign debt crisis, have acted as a rein on the global recovery. World trade growth of 2.0 percent in 2012 was down sharply compared to the 5.2 percent recorded in 2011. Despite this, transmission to African economies has been tempered by more intensive financial and trade linkages between the continent and other economically dynamic regions.

The importance of countries such as China, Brazil, and India as trading partners, export destinations, and sources of investment in Africa is growing. Africa's merchandise exports to developing economies in 2011 accounted for almost 42 percent of total exports, compared to 28 percent in 2005. There has been a marked shift toward Asia as an export destination, which accounted for 25 percent of total export flows in 2011, compared to just 16 percent in 2005.

##### **Gradual recovery in global economy**

Economic developments over the past 12 months have been bumpy, punctuated by: - slowing real activity in

## Organizational Updates Continued

advanced economies, and large swings in investor sentiment, amid periods of relative calm and improving prospects. Output in the second half of 2012 was constrained, buffeted by a noticeable slowdown in emerging markets and developing economies. However, the pace of the global economy picked up in the first quarter of 2013 from the lows posted at year-end 2012. Global activity is evolving at a three-speed pace. Growth is regaining strong momentum in emerging economies; activity picking up substantially in the US, Canada and Japan; but the eurozone is experiencing stagnation, reflecting a lack of investor confidence and weak consumer demand triggered by stringent austerity measures undertaken in many countries.

Taking these factors into account, global output is forecast to increase by 3.3 percent in 2013, driven mainly by 5.3 percent GDP growth in emerging and developing economies. In the US, economic figures for the first quarter of 2013 were stronger than expected. Unemployment is falling gradually, consumer spending is increasing and sales of new and previously owned homes are performing well. Nonetheless, the federal government's fiscal difficulties could weigh on growth later in the year, as an increase in payroll tax and cuts in federal spending start to take hold. Political gridlock in the US may be easing, which could open the way for more targeted measures to be introduced to support the recovery. The Federal Reserve has signaled that its most recent program of quantitative easing will not be withdrawn, but as the economy picks up, transitioning to a less accommodative policy stance could prove challenging. The IMF is forecasting real GDP growth of just below 2 percent for the US in 2013.

The slowdown in emerging economies during 2012 reflected slackening manufacturing output due to decreasing orders from advanced economies, combined with domestic monetary policy tightening. The first quarter of 2013 saw a slowing of China's growth to 7.7 percent, missing forecasts for 8 percent year-on-year growth, with mining stocks significantly hit. Nonetheless, with consumer demand resilient and exports reviving, most regions of Asia, Latin America, and Sub-Saharan Africa are expected to maintain strong growth in 2013.

### **Buoyant Financial Markets**

The first quarter of 2013 saw investors return in large

numbers to equity markets, as a reaction to low interest rates and a shift away from bonds. Equity markets continue to hit new highs, but the rally remains narrow and is mostly driven by US and Japan. The S&P 500 is now just a few points off its all-time high. The remarkable resilience shown by the US economy to weather the fiscal cliff headwinds is boosting investors' confidence in US equities, which are outperforming their global counterparts.

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## **AFRICA IN THE WORLD ECONOMY**

### **Strong growth overall, despite mixed country performances**

Economic growth in Africa remained robust at 4.6 percent in 2012, despite the slowdown in the global recovery. Africa's resilience is linked to continued momentum in emerging economies, the continent's attractiveness as an FDI destination, robust domestic demand, ongoing investment in infrastructure, and activation of new capacity in the extractive sectors. This overall positive performance far from uniform across the continent, as domestic factors - including monetary policy tightening (Kenya and Uganda), protracted labor disputes (South Africa), and political unrest (Egypt, Tunisia, Mali, and Guinea Bissau) have impeded growth in a number of African countries.

The continent's strong performance during 2012 was largely due to high commodity prices and an increase in private capital flows, particularly to the natural resources sector, in the form of FDI. Exports grew strongly in the first half of the year; however a sharp deceleration of industrial commodities and oil exports occurred in the second half of 2012. Tourism, an important driver of growth for many countries, remained robust with a high level of arrivals in many of the traditional destinations, including South Africa, Kenya, and Madagascar. However, the North African countries of Tunisia and Egypt, whose economies also rely heavily on the sector, are struggling to win back holidaymakers - particularly tourists from the austerity-hit eurozone - some two years after the sociopolitical unrest of the Arab Spring erupted.

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## Outlook

Africa is expected to grow by 4.6 per cent this year and 5.1 per cent in 2014. This implies a very moderate downward revision by 0.2 percentage points for the current year mostly owing to the negative impact of the slowdown in developed economies on economic activity. Over the forecast horizon, growth drivers include further increases in output in the natural resources sector, which underpins rising fiscal expenditure, especially in infrastructure projects. West Africa, in particular Nigeria, will benefit from continued high oil prices, despite some declines in output. At the same time, Africa's trade and investment ties with emerging and developing economies are expected to intensify further. Across the region, rising incomes and urbanisation are supporting growth of domestic demand, which helps to reduce the exposure to external economic shocks. As a consequence, increasing diversification, for example, into services such as telecommunications and construction, will continue to create a more solid growth profile. In East Africa, these sectors as well as a growing banking sector will contribute to continued economic expansion, especially in Kenya. Growth is expected to strengthen only slowly in Southern Africa, pulled down by South Africa, which faces massive labour market challenges. High unemployment, combined with massive under-employment, continue to constitute a major policy challenge in many countries. Average inflation is forecast to moderate further, based on lower food prices and slightly moderating oil prices. However, this cannot mask the fact that in several countries, such as Sudan and Malawi, inflation remains stubbornly high. Egypt faces a problematic combination of rising prices, unsustainable subsidies and falling currency reserves. Risks to the outlook include a more severe global economic slowdown with negative impacts on trade, tourism and remittances; a more pronounced negative effect of the fiscal problems in developed countries on ODA flows; and adverse weather conditions.

## Sub-Saharan stock markets are booming

In recent years, developments in many Sub-Saharan Africa economies have caught the attention of international investors looking for higher returns in emerging markets. Parallel with the uptrend in global stock markets since mid-2012, African equity indexes overall have registered robust performances, despite some divergences among subregions. North Africa is

one exception, where the current environment is weighing heavily on equity markets and dampening investor confidence.

Stock markets in West Africa posted good performances in the first quarter of 2013. The Bourse Régionale des Valeurs Mobilières SA (BRVM) index climbed by 18.2 percent between December 2012 and March 2013, as the outlook for the sub-region strengthened. At the same time, Botswana, Kenya, Mauritius and Nigeria, all recorded a double-digit uptick in stock markets.

The rally in South Africa's equity market during the second half of 2012 has tempered somewhat since the start of 2013. The strong performance displayed by the domestic share market in 2012 continued, helped by higher international equity prices, improving business sentiment, and the depreciation in the exchange value of the Rand. The FTSE/JSE All-Share Price Index increased by around 2.0 percent in March 2013 from December 2012 and by 18.8 percent compared to 12 months previously.

## DOMESTIC ECONOMIC ENVIRONMENT

Kenya's economy experienced slow growth in 2012, recorded at 3.9 percent, compared to an annual real GDP growth rate of 4.4 percent in 2011 and 5.8 percent in 2010. The estimated growth of 4.2 percent in 2012 was mainly curtailed by a slowdown in most economic sectors. Agriculture - the mainstay of Kenya's economy recorded suppressed activity (mainly in the industrial crops sub-sector) and was further affected by slowed demand for Kenyan horticultural exports in the European market. Similarly, the tourism, manufacturing and construction sectors did not reach the anticipated growth levels. Overall, economic activity in 2012 showed resilience despite a myriad of challenges that include: turbulent global economy, delayed long rains and a weakened Kenya shilling in the beginning of the year. This performance was supported by: stable macroeconomic environment, increased domestic demand, modest growth in credit and notable growths in Wholesale and Retail Trade and Transport and Communication.

Kenya entered 2013 from an improving economic position with low inflation and stable interest rates. Peaceful national elections in March 2013 and a smooth

## Organizational Updates Continued

transition of power renewed business confidence, strengthening prospects for the economy to achieve a growth rate of five percent in 2013, compared to 4.3 percent in 2012.

Real GDP growth is expected to increase to 4.5 percent in 2013 and 5.2 percent in 2014. Similarly, consumer price index inflation is expected to remain in the single-digit range over the same period.

Kenya is still under-performing its peers and the economy remains out of balance with sharp differences in sectorial performance, says the latest World Bank economic analysis. Macroeconomic management, the financial sector and the Information and Communications Technology (ICT) sectors remain very strong, but the port of Mombasa and agriculture are weak, notes the Bank analysis in February 2013, which builds on the key findings of the Bank's December 2012 Kenya Economic Update. The economy remains vulnerable to external shocks, as the current account deficit is above 10 percent of gross domestic product (GDP), despite global fuel prices moderating in recent months. Service exports have increased but goods exports remain weak. Short-term capital inflows have helped stabilize the exchange rate, but heightened vulnerability to external shocks. Moreover, the real exchange rate is 34 percent stronger than a decade ago, constraining economic competitiveness. Growth in 2013 will mainly be driven by recovery in agriculture and more stable energy supplies due to good rains, compensating a slowdown in tourism.

## MARKET PERFORMANCE

### PRIMARY EQUITY MARKETS

In the period under review, two companies - Longhorn Kenya and CIC Insurance Group listed by introduction at the Nairobi Securities Exchange (NSE). While Longhorn Kenya listed on the Alternative Investment Market Segment of the Nairobi Securities Exchange, CIC Insurance Group listed on the Main Investment Market Segment of the Nairobi Securities Exchange.

On the regional front, Uganda power distributor Umeme was cross-listed on the NSE in December 2012, at a price of Sh8.80, making it the 61st company to list on the NSE. The company had earlier been listed on the Uganda Securities Exchange at an IPO price of Sh9.00. A total of 1,623,878,005 ordinary shares were listed on NSE's Main Investment Market Segment.

### Restricted Public Offers

- Financial services firm UAP Holdings launched a public share sale in November 2012 that sought to raise Kshs750 million. The offer was oversubscribed by 30 percent. The proceeds together with the Kshs4.6 billion earlier raised in June last year from Private Equity investors brought the total amount to KES 5.4 billion. The firm intends to formerly list on the main board of the NSE within 12 to e18 months. In the interim, the new shares will be traded on the Over the Counter (OTC) market.
- In October 2012, SMEP Deposit Taking Microfinance Limited launched a share offer seeking to raise Kshs1.6 billion to fund its expansion. The offer managed to raise Kshs267 million.

**Table 3: Initial Public Offers (IPOs) 2000-2013\***

Company	Shares on Issue	Type of issue	Year of Issue	Issue Price	Sum Raised	Subscription level
	Ordinary Shares		Year/Month	Kshs	Kshs.	%
African Lakes (Delisted in 2003)	4,000,000	IPO	2000 March	94.50	378,000,000.00	150%
Mumias Sugar Company	300,000,000	IPO	2001 Nov	6.25	1,125,000,000	60%
Kengen	658,900,000	IPO	2006 April	11.90	7,840,910,000.00	333%
Scangroup	69,000,000	IPO	2006 June	10.45	721,050,000.00	620%

## Organizational Updates Continued

Eveready	63,000,000	IPO	2006 Aug	9.50	598,500,000.00	830%
Access Kenya	80,000,000	IPO	2007 March	10.00	800,000,000.00	363%
Kenya Re	240,000,000	IPO	2007 July	9.50	2,280,000,000.00	334%
Safaricom	10,000,000,000	IPO	2008 June	5.00	50,000,000,000.00	532%
Co-op Bank	701,000,000	IPO	2008 Oct	9.50	5,400,000,000.00	81%
British American	660,000,000	IPO	2011 Sept	9.00	3,515,103,000	60%
<b>TOTAL</b>	<b>15,475,900,000.00</b>				<b>72,658,563,000.00</b>	

*\*up to June; Source: Capital Markets Authority*

**Table 4: Additional Offers (AOs) and POs 2000-2013\***

Company	Shares on Issue	Type of issue	Year of Issue	Offer Price	Sum Raised	Subscription level
	Ordinary Shares	OFS/Introd.	Year	Kshs	Kshs.	%
Pan African Insurance Holdings	24,000,000	AO	2000	21.50	516,000,000.00	100%
ICDC	8,948,725	AO	2001	37.00	211,905,808.00	64%
Mumias Sugar Company	91,999,220	AO	2006	49.50	4,320,000,000.00	95%
Deacons Kenya	12,800,000	PO	2010	62.50	700,990,000.00	87.5%
UAP	12,500,000	PO	2012	60.00	971,910,000	129.59%
SMEP DTM	145,454,546	PO	2012	11.00	266,658,887.00	16.67%

*\*up to June; Source: Capital Markets Authority*

**Table 5: Introductions 2000-2013\***

Company	Shares on Issue	Type of issue	Year of Issue	Offer Price	Sum Raised	Subscription level
Equity Bank	90,500,000	Introduction	2006	90.00	N/A	N/A
CFC Insurance Holdings	515,270,364	Introduction	2011	6.15	N/A	N/A
Transcentury Limited	267,038,090	Introduction	2011	50.00	N/A	N/A
Longhorn Publishers	58,500,000	Introduction	2012	14.00	N/A	N/A
CIC Insurance	2,179,615,440	Introduction	2012	3.50	N/A	N/A
Umeme	1,623,878,005	Introduction	2012	8.80	-	-

*\*up to June; Source: Capital Markets Authority*

*\*N/A - Not Applicable*

# Organizational Updates Continued

## PRIMARY BOND MARKETS

### TREASURY BONDS

In the primary Treasury bonds market, twelve (12) new fixed rate bonds were issued. In addition, six (6) previously issued bonds were re-opened. The government had sought to raise Kshs234 billion but accepted Kshs228 billion compared to Kshs182 billion and Kshs121 billion respectively during the previous year. The average subscription rate, coupon and yield were 224 percent, 12.16 percent and 12.97 percent respectively.

Further, the National Treasury is committed to issuing Kenya's first ever Eurobond within the financial year 2013-2014. This will be Sub-Saharan Africa's biggest debut sovereign bond issue with a \$1.5 billion note. Kenya will use proceeds from the sale to retire a \$600 million syndicated loan taken out last year at an overall cost of seven percent and to fund infrastructure projects. Kenya would be the 10th country in Africa to issue such a bond after earlier issues by Ghana, Namibia, Nigeria, Rwanda, Zambia, Senegal, Gabon, Tanzania and Angola all of which floated Eurobonds and which attracted a lot of demand.

**Table 6: Issued and re-opened bonds FY 2012/2013**

Bond Issue	Tenor	Due Date	Offered (Kshs. M)	Bids (Kshs. M)	Accepted	Performance Rate	Coupon Rate (%)	Average Yield (%)
<b>Jul. 2012</b>								
FXD 1/2012/5 (Re-opened)	5-year	22/05/2017	10.0	10.98	7.46	172.11%	11.85%	13.54%
FXD 1/2012/10 (Re-opened)	10-year	13/06/2022		6.23	5.04		13.55%	13.63%
<b>Aug. 2012</b>								
FXD 2/2012/2 (New Issue)	2-year	25/08/2014	10.0	30.30	16.31	303%	11.11%	11.64%
<b>Sep. 2012</b>								
FXD 1/2012/15 (New Issue)	15-year	06/09/2027	15.0	21.15	19.53	161%	11.00%	12.09%
<b>Oct. 2012</b>								
FXD 3/2012/2 (New Issue)	2-year	27/10/2017	12.0	25.12	13.79	209%	12.50%	13.16%
<b>Nov. 2012</b>								
FXD 1 /2012/20 (New Issue)	20-year	01/10/2032	12.0	12.72	3.17	106%	12.00%	14.22%
<b>Dec. 2012</b>								
FXD 4 /2012/2 (New Issue)	2-year	22/12/2014	15.0	37.89	20.78	253%	12.38%	13.01%
<b>Jan. 2013</b>								
FXD 1/2012/5 (Re-open)	5-year	22/05/2017		26.07	17.69		11.85%	13.20%
FXD 1/2012/20 (Re-open)	20-year	01/11/2032	15	6.28	4.39	216%	12.00%	13.88%
<b>Feb. 2013</b>								
FXD 1/2013/2 (New Issue)	2-year	23/02/2015	15.0	34.97	20.47	298%	12.84%	13.23%
FXD 1/2013/15 (New Issue)	15-year	07/07/2028	15.0	9.78	4.99	298%	11.25%	12.08%

## Organizational Updates Continued

<b>Mar. 2013</b>								
FXD 2/2013/2 (New Issue)	2-year	23/02/2015	20.0	39.37	19.97	269%	12.94%	13.28%
FXD 1/2012/10 (Re-open)	10-year	13/06/2022	20.0	14.39	11.52	269%	12.70%	13.86%
<b>Apr. 2013</b>								
FXD1/2013/5 (New Issue)	5-year	23/04/2018	25.00	33.82	20.17	226%	12.89%	12.89%
FXD2/2013/15 (New Issue)	15-year	10/04/2018		22.74	15.65		12.00%	13.66%
<b>May 2013</b>								
FXD1/2012/20 (Re-opened)	20-year	27/11/2021	10.00	25.88	10.13	259%	12.00%	12.98%
<b>June 2013</b>								
FXD 2/2013/5 (New Issue)	5-year	25/06/2018	20.00	18.03	12.9	160%	11.31%	11.31%
FXD 1/2013/10 (New Issue)	10-year	19/06/2023	20.00	14.08	12.1	160%	12.37%	12.37%
<b>TOTAL</b>			<b>234</b>	<b>378.82</b>	<b>228.6</b>	<b>223.94%</b>	<b>12.16%</b>	<b>12.97%</b>

\* Average yield has been taken to be equivalent to the market weighted average rate

Source: Central Bank of Kenya (CBK)

## CORPORATE BONDS

In the first quarter of 2012-2013, Consolidated Bank listed its Kshs1.7 billion bond on the Fixed Income Market Segment of the NSE. The bond was the first tranche of the bank's Kshs4 billion Corporate Bond which was launched in July 2012 that raised Kshs1.7 billion out of an intended Kshs2 billion.

During the second quarter, Centum issued a Kshs4 billion bond that was listed on the Fixed Investment Market Segment of the NSE by way of Introduction. The issue was sold through private placement. The bonds features were as follows:

- 13.75% Senior Unsecured Fixed Rate Notes due September 18, 2017;
- Senior Unsecured Equity Linked Notes due in September 18, 2017; and

- 13.50% Senior Unsecured Fixed Rate Notes and 12.75% Senior Unsecured Equity Linked Notes with a Green Shoe Option of Kenya Shillings One Billion (Kshs. 1,000,000,000).

The total amount raised was Kshs4.2 billion as follows:

- Kshs.2,917,100,000 13.5% Senior Unsecured Fixed Rate Notes due in September, 2017
- Kshs.1,250,800,000 12.75% Senior Unsecured Equity Linked Notes due in September, 2017;

# Organizational Updates Continued

**Table 7: Corporate Bond Issues as at June 2013**

Issuer	Approved Amount (Kshs mn)	Issued Amount (Kshs mn)	Date of approval	Maturity	Outstanding (Kshs mn)	Yield (%)
PTA Bank (2007)	1,000	1,000	17-Sep-07	17-Sep-14	700.0	1% above the most recent average 182-day T-bill rate.
Barclays Bank K Ltd (1st Tranche)	1,000	1,000	9-Oct-07	19-Nov-14	1,000.0	0.6% above the most recent average 91 day T-bill rate.
Barclays Bank (2nd Tranche)	2,000	2,000	16-Jul-08	16-Jul-13	2,000.0	- Fixed rate of 0.75% above the spot 7-year Treasury yield rate, with an indicative fixed coupon rate of 11.5%. - Floating rate equivalent to the spot 182-day Treasury Bill yield rate plus a margin of 1%.
Mabati Rolling Mills	2,000	1,200	1-Sep-08	1-Sep-16	1,273.5	182 Day T-Bill rate + 1.75% re-priced semi-annually
Mabati Rolling Mills		800	1-Sep-08	1-Sep-16	726.5	FXD 13.00%
Shelter Afrique (New)	2,500	2,500	18-Aug-11	18-Aug-16	2,500.0	FR: 1.5% above the prevailing 182-day but capped at 13.5%. FXD 12.5%
CFC Stanbic (1st Tranche FXR - Kshs 2.4b)	5,000	2,402	10-Jun-09	1-Sep-16	2,402.0	FXD: 12.5%
CFC Stanbic (1st Tranche FLR - Kshs 0.098b)		97.9	10-Jun-09	1-Sep-16	97.9	FR: +1.75% above prevailing 182-day T-Bill rates
CFC Stanbic (2nd Tranche)		2,500	17-Dec-10	17-Dec-14	2,500.0	FXD 7.5%
Safaricom* (1st Tranche - Kshs 5b) FXD: 12.25%	12,000	7,513	2-Oct-09	3-Nov-14	95.2 7,049.6	FR: T.B (182) + 1.85%
Safaricom (2nd Tranche - Kshs 4.5b)		4,500	30-Nov-10	30-Nov-15	200.0 4,287.0	FXD-7.75% FR 185 basis points above the prevailing 182 day TB rates

## Organizational Updates Continued

Housing Finance (1st Tranche - Kshs. 7b)	10,000	7,000	20-Sep-10 20-Sep-10	20-Sep-17 20-Sep-17	5,865.4 1,165.5	FXD: 8.5% FR: 182 day + 3% with a floor of 5% and a cap of 9.5%
KenGen* Consolidated Bank	15,000 4,000	25,000 2,000	2-Nov-10 30-Jul-12	31-Oct-19 22-Jul-19	25,000.0 1.0 1,481.6 196.5	FXD 12.5% Senior FR notes (182-day T-bill + 2%) Senior FXD notes (13.25%) Subordinated FXD notes (13.60)
Centum	4,000	4,198.9	10-Sep-12	10-Sep-17	4,198.9	Senior unsecured FXD 13.5% Senior unsecured Equity -linked notes are at a fixed rate of 12.75 percent payable semi-annually. and will enjoy an equity upside linked to the growth of the Company's Net Asset Value subject to a maximum of 15% of the par value of the notes. The fixed rate notes constituted 57% of the amount raised while the equity linked notes were 43 % of the notes raised.
<b>TOTAL</b>	<b>58,500</b>	<b>63,712</b>			<b>62,741</b>	

**Table 8: Corporate bonds holdings\* by category of investors in (percent) as at June 2013**

ISSUER	Banks (%)	Ins.Com. (%)	F/man. (%)	Inv.Com. & Inst. (%)	Individ. (%)	Average yield (%)
Barclays Bank of Kenya Ltd Tranche 1	4.50	2.50	87.30	5.00	0.70	9.75
Barclays Bank of Kenya Ltd Tranche 2	3.05	6.33	72.49	6.00	12.14	11.50
PTA Bank Ltd 2007	16.80	4.00	79.20	-	-	4.58
Mabati Rolling Mills - Fixed	0.00	24.78	75.02	0.00	0.21	13.00
Mabati Rolling Mills - Floating	41.62	1.96	54.50	0.00	1.92	17.04
CFC Stanbic Bank Ltd Tranche 1 - Fixed	20.99	15.91	59.78	0.00	3.32	12.50
CFC Stanbic Bank Ltd Tranche 1 - Floating	0.00	30.95	67.97	0.00	1.08	11.66
CFC Stanbic Bank Ltd Tranche 2	19.85	3.57	76.57	0.00	0.01	7.25
Shelter Afrique Ltd - fixed	22.10	18.10	58.08	0.00	1.71	11.00
Shelter Afrique Ltd - floating	3.78	0.00	96.22	0.00	0.00	11.81
Safaricom Ltd Tranche 1 - Fixed	44.09	4.40	44.41	0.00	7.10	12.25

## Organizational Updates Continued

Safaricom Ltd Tranche 1 - Floating	0.00	0.00	100.00	0.00	0.00	17.21
New Shelter Afrique Ltd - fixed	33.31	17.17	37.91	0.00	11.61	12.50
New Shelter Afrique Ltd - floating	57.88	14.40	27.59	0.00	0.13	11.35
Safaricom Ltd Tranche 2 - Fixed	43.62	2.76	52.99	-	0.63	7.75
Safaricom Ltd Tranche 2 - Floating	0.00	0.00	100.00	0.00	0.00	17.14
HFCK Ltd Tranche 2 Fixed	22.16	29.15	46.49	0.27	1.93	8.50
HFCK Ltd Tranche 2 Floating	0.00	0.00	100.00	0.00	0.00	9.50
Kenya Electricity Generating Company Ltd	3.55	3.21	77.14	3.67	12.43	12.00
Consolidated Bank of Kenya	0.00%	10.43%	70.43%	11.04%	8.10%	-

Source: Capital Markets Authority

### RIGHTS ISSUES

The year 2012-2013 saw a record number of rights issues. Most of the issues were heavily oversubscribed reinforcing investor confidence in these companies.

In July 2012, Diamond Trust Bank concluded its third rights issue. The rights issue had sought to raise Kshs 1.8 billion by offering 24.45 million additional shares to the existing shareholders in the ratio of one share for every eight held (1:8) at a price of Kshs74 per share. However, the bank's shareholders applied for a total number of 45.53 million additional shares raising Kshs3.36 billion, an 86.2 percent over-subscription.

Three rights issues were conducted during the second quarter of the financial year 2012-2013. NIC Bank issued 98,724,391 rights shares, raising Kshs7.0 billion, a 338 percent subscription level, at an offer price of Kshs21.00 per share. The rights were issued in the ratio of one new ordinary share for every four ordinary shares held. Further, Standard Chartered Bank Kenya issued 22.08 million rights shares in the ratio of one share for every 13 held at a price of Kshs145.00 and raised Kshs8.2 billion - a 258.4 percent subscription level. In addition, CFC Stanbic Holdings successfully conducted a four shares for every nine held rights issue after offering 121.6 million rights shares at a price of Kshs33.00. The company raised Kshs4.49 billion reflecting a 112.8 percent performance rate.

Table 9: Rights Issues 2012/2013

Company	Gross Proceeds (KES)	Subscription Rate
DTB Bank	3.4Bn	186.2%
NIC Bank	2.1Bn	338.0%
CFC Stanbic Bank	4.0Bn	112.8%
StanChart Bank	3.2Bn	258.4%
<b>TOTAL</b>	<b>12.7 Bn</b>	

Table 10: Rights Issues 2004 - 2013\*

Company	Shares on Issue	Date of Issue	Offer Price	Sum Raised	Subscription level
KCB	50,000,000	2004	49.00	2,750,125,000.00	112%
Uchumi	120,000,000	2005	10.00	1,269,600,000.00	106%
CfC Bank	12,000,000	2005	62.00	744,000,000.00	100%
DTB	15,527,343	2006	50.00	2,305,810,436.00	297%

## Organizational Updates Continued

Olympia Capital	30,000,000	2007	14.00	428,400,000.00	102%
DTB	23,291,015	2007	70.00	2,902,060,469.00	178%
NIC Bank	16,482,910	2007	70.00	1,719,167,513.00	149%
HFCK	115,000,000	2008	20.00	2,369,000,000.00	103%
KCB	221,777,777	2008	25.00	8,122,024,075.00	146%
KCB	887,111,110	July 2010	17.00	12,500,000,000.00	82.5%
TPS East Africa	24,701,774	Sept 2010	48.00	1,185,685,152.00	135%
Standard Chartered	15,109,323	Oct 2010	165.45	2,499,837,490.00	161%
KPLC	488,630,245	Nov 2010	19.50	9,830,340,000.00	103%
KQ	1,477,169,549	Mar 2012	14.00	14,487,949,714.00	70.06%
DTB	24,455,566	Jul 2012	74.00	3,369,522,734	186.2%
NIC	98,724,391	Sept 2012	21.00	7,007,457,273.00	338%
CFC Stanbic Holdings	121,637,427	Oct 2012	33.00	4,495,719,302.00	112%
Standard Chartered Bank	22,080,000	Oct 2012	145.00	8,272,934,400.00	258%
<b>TOTAL</b>	<b>3,763,698,430.00</b>			<b>84,699,822,708.00</b>	

Source: NSE/CMA | \*As at June 2013

## COLLECTIVE INVESTMENT SCHEMES

The total Net Asset Value of unit trusts in Kenya was Kshs31.4 billion as at June 2013, 31 percent higher than the value registered in the preceding financial year. This was mainly occasioned by expansionary monetary policy resulting in increased liquidity in the market and fund managers shifting funds to higher yielding short and

medium term government securities and equity markets, leading to a price rally in the stock market. In addition, and as a result of the peaceful election, investor activity on the demand side remained robust culminating into bullish conditions prevailing in the equities market leading to an uptrend in portfolio revaluations. Nevertheless, investors remained cautiously optimistic and significant funds were invested in short term Fixed Deposits.

Table 11: Unit Trusts Portfolio Valuation as at June 2013

Asset Class	Amount (KES)
Cash and Demand deposits	1,420,567,883.00
Treasury bills & bonds	5,320,162,603.00
Unquoted securities	-
Fixed Deposits	11,216,965,864.00
Corporate Bonds	3,457,843,261.00
Other Unit Trusts	1,334,162,677.00
Money Market	147,901,654.00
Commercial Paper	71,680,323.00
Local and Regional Equities	8,109,695,302.00
Offshore Investment	325,670,340.00
<b>TOTAL</b>	<b>31,404,649,907.00</b>

Source: CMA Database

# Organizational Updates Continued

## SECONDARY MARKETS

### EQUITY MARKET

#### July - December 2012

The NSE 20 Share Index closed the year at 4,133.02 points gaining 8 percent from its opening level in July 2012, reflecting the increase in share prices and gains made by investors in our market. Market capitalization also increased by a whopping Kshs570 billion during the year to close at Kshs1.3 trillion, a mark once realized in 2008 when Safaricom was listed. The index, which closed at 3,205.02 points in 2011, became the third highest gainer among stock exchanges in Africa and Middle East, after the Egyptian and Nigerian Securities Exchanges, and the eighth globally. In addition, there was strong foreign investor activity who accounted, on average, for 49 percent of total traded equity value. Their strong participation was motivated by the strong gains in the market due to relatively low valuations. There was a switch back to equities by local investors as

money market yields reduced with the decline in short term interest rates.

#### January - June 2013

The value of shares traded at the NSE jumped by almost 12 times in the first six months of the year on account of a sharp rise in prices and volumes traded at the bourse. The NSE 20 Share Index crossed the 5,000 points level in May, for the first time in more than four years. As a result, the NSE 20 Share Index closed the first six months of this year having appreciated by 11 percent.

Market activity during the review period was characterised by increased trading and active investor demand as the half year earnings season gathered pace. Equity turnover rose by 85 percent compared to a similar period the previous year. Overall prices reflected active investor demand, with the NSE 20 index edging up 24 percent. As at year end, market capitalization increased by 54 percent compared to the end period last year.

**Table 12: Market Statistics 2012/2013**

YEAR	MONTH	EQUITY TURNOVER (KSHS BILLION)	SHARE VOLUME (MN)	NSE 20 SHARE INDEX	MARKET CAPITALIZATION (KSHS BILLION)	BOND TURNOVER (KSHS BILLION)
2012	July	6.0	383.6	3,832	1,098.9	34.2
	August	5.7	338.9	3,866	1,117.4	86.9
	September	9.8	470.2	3,972	1,147.3	95.9
	October	11.1	917.0	4,147	1,117.0	73.0
	November	10.5	827.0	4,083	1,250.0	39.0
	December	7.6	462.0	4,133	1,272.0	27.0
2013	January	8.5	519.0	4,417	1,388.0	21.0
	February	14.7	629.0	4,519	1,451.0	20.0
	March	11.2	571.0	4,861	1,600.0	26.0
	April	9.9	596.9	4,765	1,601.9	35.42
	May	16.1	778.2	5,006	1,720.4	73.52
	June	13.0	727.8	4,598	1,618.3	85.90
<b>TOTAL FY 2012/2013</b>		<b>124.1</b>	<b>7,220.6</b>	<b>4,598</b>	<b>1,618</b>	<b>617.84</b>
<b>TOTAL FY 2011/2012</b>		<b>67.1</b>	<b>5,389</b>	<b>3,704</b>	<b>1,049</b>	<b>409.8</b>
<b>Percent Change</b>		<b>85%</b>	<b>34%</b>	<b>24%</b>	<b>54%</b>	<b>51%</b>

Source: NSE

# Organizational Updates Continued

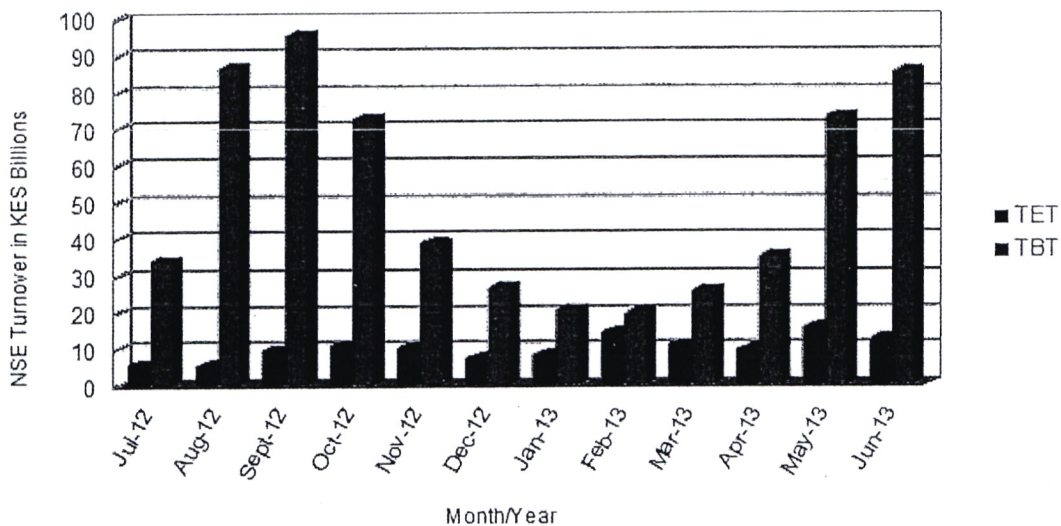
## BOND MARKETS

Total bond turnover amounted to Kshs618 Billion compared to Kshs410 billion registered in a similar comparable period the previous year, an increase of 51 percent. As turnover rises, yields at the bond market have also been on the rise. Interest rates on most bonds at NSE currently average 13 percent. They have been

on the rise since January 2013, where they averaged 12 percent. The strong performance of the bond market is attributed to vibrant performance of foreign investors, who accounted for 50 percent of turnover at the NSE last year. Analysts expect the market to continue to rally in the coming months as investor's confidence remains in the country.

**Chart 1: Trends in Equity Vs Bond Turnover**

Total Equity Turnover (TET) and Total Bond Turnover (TBT) Trends in KES Billions



## Market Outlook

Market Capitalization decreased from a high of Kshs 1.72 Trillion in May 2013 to Kshs 1.62 Trillion in June 2013. Analysts attribute the decline to news that the US Federal Reserve was cutting down its stimulus programme. The US Fed moved to cut back its quantitative easing programme - one of the most aggressive easing strategies in the Fed's history, and is projected to ease aggressive buying of public bonds that has kept interest rates in the world's biggest economies low. The move has triggered equities sell-offs as investors seek to protect their wealth. The programme has been the key supplier of global liquidity that has helped drive markets across the world. Market players have experienced reduced demand from foreign buyers who have been the main drivers of the NSE's Bull Run.

It is inevitable that a global correction of markets will affect the NSE, especially given the fact that the Nairobi

bourse is one of the world's three best performing emerging markets. NSE data indicates that foreign participation has steadily declined in the past four months, dropping from 56 percent in February to 42 percent in May. Foreign investors have been the key movers of the market and have consistently put more money into the NSE than they have taken out. They have taken a defensive stance in the market, contributing to the June slump. This may mirror what is going on in international markets, especially the recent correction in emerging markets.

The market could have been reacting to the uncertainties surrounding announcement of plans to re-introduce capital gains tax, which market players believe would adversely affect the development of the country's capital markets. However, the National Treasury has moved to calm investor nerves over the return of capital gains tax, stating that it was yet to decide which sectors would be subject to the tax.

## Organizational Updates Continued

Going forward, prospects at the exchange continue to look bright. As at June 2013, the Nairobi Securities Exchange had dropped to third place in the Merrill Lynch Global Frontier Markets Index, but continues to be among the most attractive markets to invest in half-way down the year. The NSE is the third best performing market gaining 45 per cent year-to-date, behind United Arab Emirates which has gained 51.3 per cent and Bulgaria at 51.4 per cent over the same period. In April 2013, NSE was the top performing market but dropped to second place, behind UAE in May 2013

### TRENDS IN FOREIGN INVESTORS PORTFOLIO ACTIVITY

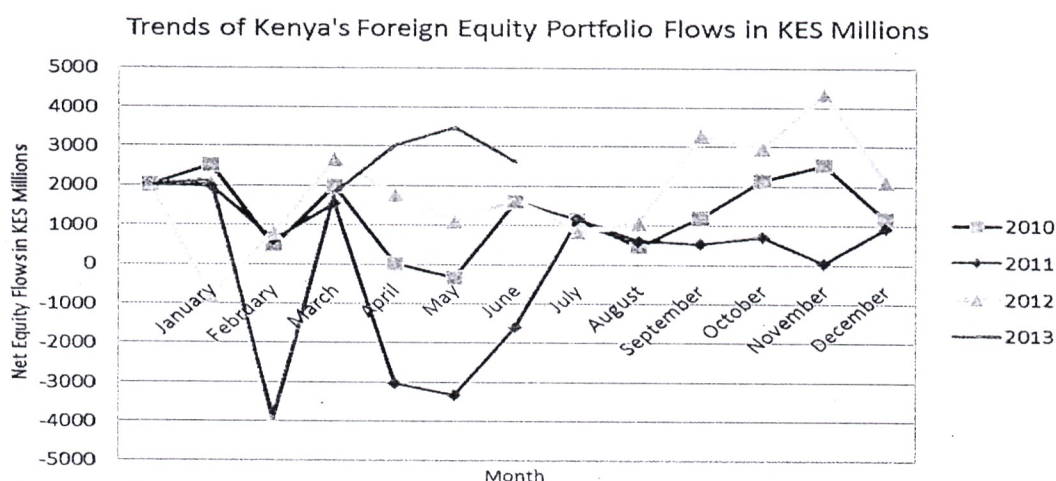
The total net equity foreign portfolio inflow during the financial year 2012/2013 was Kshs23.7 billion, the highest in the history of the NSE.

**Table 11: Foreign Investor Net Cash Inflow Activity (Kshs Millions)**

	2010	2011	2012	2013
January	2,517	1,987	(812)	2,133
February	489	622	795	(3,927)
March	1,998	1,552	2,651	1,810
April	151	(3,024)	1,771	3,026
May	(325)	(3,334)	1,099	3,475
June	1,601	(1,597)	1,639	2,602
July	1,159	1,173	828	
August	471	621	1,048	
September	1,206	535	3,286	
October	2,147	719	2,965	
November	2,526	31	4,335	
December	1,186	935	2,129	
<b>NET CASH INFLOW</b>	<b>15,126</b>	<b>220.00</b>	<b>7,143</b>	

\*Up to June; Source: NSE

**Chart 2: Trends in Foreign Investor Cash Inflows – [2009 – 2013\*]**



Source: Capital Markets Authority

# Organizational Updates Continued

## CORPORATE ACTIONS

Company	Announcement Date	Corporate Action	Dividend(Kshs)/ Bonus/Split
Kenya Airways	14-06-12	1st & Final	0.25
Olympia Capital	19-07-12	1st & Final	0.10
Eaagads	24-07-12	1st & Final	1.25
Mumias	31-08-12	1st & Final	0.50
KenGen	27-09-12	1st & Final	0.60
Unga group	28-09-12	1st & Final	0.75
Uchumi	17-10-12	1st & Final	0.30
Carbacid	23-10-12	Final	3.00
Kenya Power	27-10-12	Final	0.30
Sameer Africa	26-11-12	Interim	0.25
EA Cables	26-11-12	Interim	0.40
Sasini	20-12-12	Final	0.25
Car & General	21-12-12	Final	0.55
Rea Vipingo	14-01-13	1st & Final	1.10
City Trust	23-01-13	Split	5:1
Barclays Bank	12-02-13	Final	0.70
Housing Finance	20-02-13	Final	0.70
NIC Bank	21-02-13	1st & Final	1.00
Pan Africa Insurance	21-02-13	1st & Final	3.00
EA Cables	26-02-13	Final	0.60
Scangroup	28-02-13	1st & Final	0.60
Co-op Bank	28-02-13	1st & Final	0.50
Equity Bank	28-02-13	1st & Final	1.25
Bamburi	01-03-13	Final	8.50
KCB	01-03-13	1st & Final	1.90
BAT	01-03-13	Final	29.00
AccessKenya	13-03-13	Final	0.30
Britam	14-03-13	1st & Final	0.25
Diamond Trust Bank	14-03-13	1st & Final	1.90
Standard Chartered	15-03-13	Final	12.50
Liberty Holdings	15-03-13	1st & Final	0.40

## Organizational Updates Continued

Carbacid	19-03-13	Interim	3.00
LimuruTea	21-03-13	Final	7.50
Nation Media Group	21-03-13	Final	7.50
Nation Media Group	21-03-13	Bonus	1:5
ARM	21-03-13	1st & Final	0.50
National Bank	25-03-13	Final	0.20
BOC Gases	27-03-13	Final	3.05
CIC	25-03-13	1st & Final	0.10
Umeme	27-03-13	Final	15.00 (Ushs)
Kakuzi	02-04-13	1st & Final	3.75
Transcentury	12-04-13	Final	0.40
Kenya Re	24-04-13	1st & Final	0.40
Crown Paints	02-05-13	Dividend	1.25
Jubilee Holdings	02-05-13	Final	6.00
Safaricom	14-05-12	Dividend	0.31
Sasini	24-05-13	Interim	0.25
Kapchorua	31-05-13	Final	7.50
Williamson Tea	31-05-13	Final	7.50

**STA – Subject to approval**

# Report of the board members of the Authority

For the year ended 30th June 2013

The board members of the Authority submit their report together with the audited financial statements for the year ended 30th June 2013, which disclose the state of affairs of the Authority.

## **Incorporation**

Capital Markets Authority is a body corporate established under the Capital Markets Authority Act, Cap 485A, 1989. The Act was amended in 2000 and renamed as Capital Markets Act.

## **Principal activities**

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

## **Results and dividends**

The net profit/(loss) for the year is Kshs 116,131,000 (2012: Kshs (7,728,000))

## **Board members of the Authority**

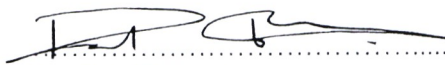
The board members of the Authority who held office during the year and to the date of this report are set out on page 3.

## **Auditor**

The Auditor-General is responsible for the statutory audit of the Authority's financial statement in accordance with Section 14 of the Public Audit Act, 2003 and Section 39(i) of the Act, empowers the Auditor-General to nominate other auditors to carry out audit on behalf.

During the year, RSM Ashvir was appointed by the Auditor-General to carry out the audit for the year ended 30 June 2013.

By order of the board



Ag. Chief Executive

Nairobi

8<sup>th</sup> November, 2013

# Statement of board members of the Authority' responsibilities

For the year ended 30th June 2013

The board members of the Authority accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.


The board members of the Authority are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority as at 30th June 2013 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Approved by the board members of the Authority on **8<sup>th</sup> November, 2013** and signed on its behalf by:



.....  
Chairman



.....  
Ag. Chief Executive

# Auditor General's Report

REPUBLIC OF KENYA

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Fax: +254-20-311482  
E-Mail: [cag@kenao.go.ke](mailto:cag@kenao.go.ke)  
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P.O. Box 30084-00100  
NAIROBI



## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2013

#### REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Capital Markets Authority set out on pages 6 to 30, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information have been audited on my behalf by RSM Ashvir, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

#### **Management's Responsibility for the Financial Statements**

The management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain

# Auditor General's Report

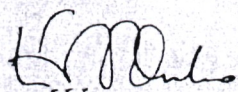
reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Capital Markets Authority Act, Cap. 485A of the Laws of Kenya.



Edward R.O. Ouko, CBS  
AUDITOR-GENERAL

Nairobi

19 November 2013

# Statement of Comprehensive Income

For the year ended 30th June 2013

	Note	2013 Kshs'000	2012 Kshs'000
Fee income	4	588,008	376,772
Other income	5	84,311	133,518
<b>Total income</b>		<b>672,319</b>	<b>510,290</b>
Operating expenditure	30	(518,738)	(518,018)
Profit/(loss) before tax expense	7	153,581	(7,728)
Tax expense	8	(37,450)	-
<b>Net profit/(loss) for the year</b>		<b>116,131</b>	<b>(7,728)</b>

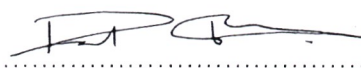
# Statement of Financial Position

For the year ended 30th June 2013

	Note	2013 Kshs'000	2012 Kshs'000
<b>FUNDS</b>			
Capital fund	9	27,886	27,886
General fund	10	757,322	641,191
<b>Total funds</b>		<b>785,208</b>	<b>669,077</b>
Non-current liabilities			
Investors' Compensation Fund liabilities	11	446,705	210,299
		<b>1,231,913</b>	<b>879,376</b>
<b>REPRESENTED BY</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	117,573	102,575
Intangible assets	13	126,828	13,828
Staff loans and advances/guarantee fund	14	146,624	73,639
Held-to-maturity investments	15	245,096	378,431
Investors' compensation fund's investments	11	446,705	210,299
Deferred tax asset	18	17,154	-
		<b>1,099,980</b>	<b>778,772</b>
<b>Current assets</b>			
Inventories	16	1,133	1,999
Trade and other receivables	17	87,018	41,444
Staff loans and advances/guarantee fund	14	20,382	6,441
Held-to-maturity investments	15	266,168	89,089
Staff benevolent fund	19	7,231	6,093
Cash at bank and in hand	20	94,085	161,543
Investors' compensation fund	11	281,049	212,019
		<b>757,066</b>	<b>518,628</b>
<b>Current liabilities</b>			
Staff benevolent fund	19	7,231	6,093
Trade and other payables	21	118,615	131,563
Borrowings	22	-	15,709
Provision for liabilities and charges	23	43,555	41,700
Current tax payable	24	47,821	3,078
Deferred income	26	126,862	7,862
Investors' compensation fund	11	281,049	212,019
		<b>625,133</b>	<b>418,024</b>
<b>Net current assets</b>		<b>131,933</b>	<b>100,604</b>
<b>Total</b>		<b>1,231,913</b>	<b>879,376</b>

The financial statements on pages 56 to 82 were authorised for issue by the board members of the Authority on 8<sup>th</sup> November, 2013 and were signed on its behalf by:

  
.....  
Chairman

  
.....  
Ag. Chief Executive

# Statement of Changes in Equity

For the year ended 30th June 2013

	Note	Capital fund Kshs'000	General fund Kshs'000	Total Kshs'000
<b>At 1st July 2011</b>		27,886	683,919	711,805
Loss for the year		-	(7,728)	(7,728)
Utilization of accumulated surplus to enhance Investors' compensation fund	11	-	(35,000)	(35,000)
<b>At 30th June 2012</b>		<b>27,886</b>	<b>641,191</b>	<b>669,077</b>
<b>At 1st July 2012</b>		27,886	641,191	669,077
Profit for the year		-	116,131	116,131
<b>At 30th June 2013</b>		<b>27,886</b>	<b>757,322</b>	<b>785,208</b>

# Statement of Cash Flows

For the year ended 30th June 2013

	Note	2013 Kshs'000	2012 Kshs'000
<b>Cash flows from operating activities</b>			
<b>Surplus/(deficit) for the year</b>		<b>116,131</b>	<b>(7,728)</b>
<b>Adjustments for:</b>			
Tax expense	8	37,450	-
Depreciation of property, plant and equipment	12	24,037	19,134
Amortisation of intangible assets	13	12,245	4,771
Surplus to the Ministry of Finance		-	(63,795)
Deferred donor funded income		119,000	7,862
Gain on disposal of property, plant and equipment	5	(1,019)	(4,652)
Interest income	5	(57,939)	(88,764)
<b>Operating profit/(loss) before working capital changes</b>		<b>249,905</b>	<b>(133,172)</b>
Decrease/(increase) in:			
Inventories	16	866	-
Trade and other receivables	17	(45,574)	3,847
Staff loans and advances	14	(86,926)	(20,596)
Increase/(decrease) in:			
Trade and other payables	21	(12,948)	85,604
Provision for liabilities and charges	23	1,855	(17,554)
Investors' compensation fund	11	305,435	144,565
Staff benevolent fund	19	1,138	795
<b>Cash generated from operations</b>		<b>413,751</b>	<b>63,489</b>
Interest received	5	57,939	88,764
Income tax paid		(9,862)	-
<b>Net cash generated from operating activities</b>		<b>461,828</b>	<b>152,253</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	12	(53,018)	(91,876)
Purchase of intangible assets	13	(113,698)	(17,033)
Proceeds from disposal of property, plant and equipment		3,275	6,886
Purchase of treasury bonds from the Investors' Compensation Fund		(256,500)	(12,717)
(Purchase)/sale of treasury bills from the Investors' Compensation Fund		(115,487)	97,654
Sale of treasury bonds		70,000	64,487
Purchase of treasury bills		(113,744)	(18,478)
Purchase of treasury bills from the Benevolent fund		(654)	(1,234)
<b>Net cash (used in)/generated from investing activities</b>		<b>(579,826)</b>	<b>27,689</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(117,998)</b>	<b>179,942</b>
<b>Cash and cash equivalents at start of the year</b>		<b>269,536</b>	<b>89,594</b>
<b>Cash and cash equivalents at end of the year</b>	<b>20</b>	<b>151,538</b>	<b>269,536</b>

# Notes to the Financial Statements

## 1. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these general purpose financial statements are set out below:

### a) Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings, which is also the functional currency (see (c) below), rounded to the nearest thousand (Kshs'000). The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

The financial statements comprise a statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income, are recognised in the profit and loss account. Transactions with the owners of the Authority in their capacity as owners are recognised in the statement of changes in equity.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the accounting policies adopted by the Authority. Although such estimates and assumptions are based on the board members of the Authority's best knowledge of the information available, actual results may differ from those estimates. The judgements and estimates are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made. The areas involving the judgements of most significance to the financial statements, and the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year, are disclosed in Note 2.

### b) New and revised standards

#### i) Adoption of new and revised standards

The following new and revised standards have become effective for the first time in the financial year beginning 1st July 2012 and have been adopted by the Authority where relevant to its operations:

- IFRS 7 (Amendment) - Disclosures - Transfers of financial assets: The amendments improve the disclosure requirements in relation to transferred financial assets.

The adoption of the amendment to IFRS 7 has had no material effect on the Authority's accounting policies or disclosures.

#### ii) New and revised standards and interpretations which have been issued but are not yet effective

The following revised standards and interpretations have been published but are not yet effective for the year beginning 1st July 2012. The Authority has not early adopted any of these amendments or interpretations.

- IAS 1 (Amendment) - *Presentation of financial statements*: the amendment will require entities to group items of other comprehensive income according to whether or not they will be subsequently re-classified to profit or loss. It is effective for accounting periods beginning on or after 1st January 2012.
- IAS 19 (Amendment) - *Employee Benefits*: The key amendments include elimination of the 'corridor approach', modification of accounting for termination payments, and changes to the disclosure requirements for defined benefit plans. The amendments are effective for accounting periods beginning on or after 1st July 2013.

## Notes to the Financial Statements Continued

- IFRS 9 - Financial Instruments will eventually replace IAS 39 - Financial Instruments, Recognition and Measurement. The new standard will be effective for annual periods beginning on or after 1st July 2015. The chapters published to date cover recognition, derecognition, classification and measurement of financial assets and financial liabilities. Most gains or losses on financial assets measured at fair value will then be recognised in profit or loss, but the Authority will be able to make an irrevocable election to present changes in fair value of investments in equity instruments in other comprehensive income.
- IFRS 13 - Fair Value Measurement: the new standard defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 applies when other standards require or permit fair value measurements: it does not introduce any new requirements to measure an asset or a liability at fair value. The new standard is effective for accounting periods beginning on or after 1st July 2013.
- IFRS 7 (Amendment) - Financial Instruments - Disclosures: this amends the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities on the entity's financial position. The amendment is effective for accounting periods beginning on or after 1st July 2013.
- The annual improvements project published in May 2012.

The board members of the Authority have assessed the potential impact of the above and expect that they will not have a significant impact on the Authority's financial statements for 2013.

### **c) Translation of foreign currencies**

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Authority operates), which is Kenya Shillings.

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the statement of comprehensive income in the year in which they arise, except for differences arising on translation of non-monetary available-for-sale financial assets, which are recognised in other comprehensive income.

### **d) Revenue recognition**

Revenue represents the fair value of consideration received or receivable for the rendering of services in the course of the Authority's activities. It is recognised when it is probable that future economic benefits will flow to the Authority and the amount of revenue can be measured reliably.

- Interest income is recognised on a time proportion basis using the effective interest method.
- Fees and other income are recognised on accrual basis based on services performed.

### **e) Income tax**

Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognised in the statement of comprehensive income except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

# Notes to the Financial Statements Continued

## Current tax

Current tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

## Deferred income tax

Deferred tax is determined for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the asset is recovered or the liability is settled.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Authority expects, at the end of the reporting period, to recover or settle the carrying amount of its assets or liabilities.

Deferred tax liabilities are recognised for all taxable temporary differences except those arising on the initial recognition of an asset or liability.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

## f) Financial instruments

### Classification

The Authority classifies its financial instruments into the following categories:

- i) **Financial assets and financial liabilities at fair value through profit or loss**, which comprise financial assets and financial liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term or to generate short-term profit-taking;  
  
Financial assets and financial liabilities at fair value through profit or loss, which comprise financial assets or financial liabilities designated by the Authority at fair value through profit or loss and which are managed and their performance evaluated on a fair value basis in accordance with the Authority's investment strategy.
- ii) **Held-to-maturity investments**, which comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Authority has a positive intention and ability to hold to maturity.
- iii) **Loans and receivables**, which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and excludes assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.
- iv) **Available-for-sale financial assets**, which comprise non-derivative financial assets that are designated as available-for-sale financial assets, and not classified under any of the other categories of financial assets.
- v) **Financial liabilities**, which comprise all financial liabilities except financial liabilities at fair value through profit or loss.

# Notes to the Financial Statements Continued

Financial instruments held during the year were classified as follows:

- Demand and term deposits with banking institutions and trade and other receivables were classified as 'loans and receivables'.
- Government securities were classified as 'held-to-maturity investments'.

## **Recognition and measurement**

### ***Financial assets:***

All financial assets are recognised initially using the trade date accounting which is the date the Authority commits itself to the purchase or sale. Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

Subsequently, held-to-maturity investments and loans and receivables are carried at amortised cost using the effective interest method, while all other financial assets are carried at their fair values, without deduction for transaction costs that may be incurred on sale.

Amortised cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The Authority assesses at each balance sheet whether there is objective evidence that a financial asset is impaired. If any such evidence exists, an impairment loss is recognised. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of held-to-maturity investments and loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

Changes in fair value of financial assets at fair value through profit or loss are recognised in the statement of comprehensive income.

Changes in the carrying values and impairment losses of held-to-maturity investments and loans and receivables are recognised in the statement of comprehensive income. Trade and other receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income in the year of recovery.

### ***Financial liabilities:***

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the profit and loss account.

Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities through profit or loss which are carried at fair value.

## **Presentation**

All financial assets are classified as non-current except financial assets at fair value through profit or loss, those with

## Notes to the Financial Statements Continued

maturities of less than 12 months from the balance sheet date, those which the board members of the Authority have the express intention of holding for less than 12 months from the balance sheet date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

All financial liabilities are classified as non-current except financial liabilities at fair value through profit or loss, those expected to be settled in the Authority's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the Authority does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date.

### **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Authority has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

### **Offsetting**

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## **g) Leases**

### **Operating leases**

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made/received under operating leases are charged/credited to the profit and loss account on a straight line basis over the lease period.

## **h) Provision for liabilities and charges**

Provisions are recognised when the Authority has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

## **i) Post-employment benefit obligations**

The Authority operated an in-house defined benefits pension scheme for its employees upto 31st December 2011. The assets of the scheme are held in a separate trustee administered scheme managed by a Fund manager. The Authority had obtained approval to transfer the assets of the scheme to a defined contribution scheme.

The Authority currently operates a defined contribution plan under which the Authority pays fixed contributions into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The Authority's contributions are charged to the statement of other comprehensive income in the year to which they relate.

The Authority and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the Authority's contributions are charged to the statement of comprehensive income in the year to which they relate.

# Notes to the Financial Statements Continued

## **j) Gratuity obligations**

The Authority pays service gratuity to staff on contract under their terms of employment. Employee entitlements to gratuity are recognized when they accrue to employees. A provision for gratuity payable is made in the statement of financial position. The gratuity is not subject to actuarial valuation.

## **k) Property, plant and equipment**

All categories of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that it will increase the future economic benefits associated with the item that will flow to the Authority over those originally assessed and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the statement of comprehensive income in the year in which they are incurred.

Depreciation is calculated using the straight line method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	<b>Rate</b>
Motor vehicles	25%
Furniture & fittings	12.5%
Office equipment	20%
Computers, copiers & faxes	25%

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

## **l) Intangible assets**

Software license costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the Authority are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life of three years.

## **m) Impairment of non-financial assets**

Non-financial assets that are carried at amortised cost are reviewed at the end of each reporting period for any indication that an asset may be impaired. If any such indication exists, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## **n) Inventories**

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

# Notes to the Financial Statements Continued

## **o) Cash and cash equivalents**

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

## **p) Government Grants**

Government grants are recognised at fair value when there is reasonable assurance that the Authority will comply with the conditions attaching to them and the grants will be received. Grants related to purchase of assets are treated as deferred income and allocated to statement of comprehensive income over the useful lives of the related assets while grants related to expenses are treated as other income in the income statement.

## **q) Contingent liabilities**

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured.

## **r) Comparatives**

Where necessary comparative figures have been adjusted to conform with changes in presentation in the current year.

## **2. Significant judgements and key sources of estimation uncertainty**

In the process of applying the accounting policies adopted by the Authority, the board members make certain judgements and estimates that may affect the carrying values of assets and liabilities in the next financial period. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The board members evaluate these at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available.

### **a) Significant judgements made in applying the Authority's accounting policies**

The judgements made by the board members of the Authority in the process of applying the Authority's accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

- i) Whether the Authority has the ability to hold 'held-to maturity' investments until they mature. If the Authority were to sell other than an insignificant amount of such investments before maturity, it would be required to classify the entire class as 'available-for-sale' and measure them at fair value.

### **b) Key sources of estimation uncertainty**

Key assumptions made about the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include:

- i) Retirement benefit obligations

Assumptions made by the actuary in determining the present value of retirement benefit obligations. The

# Notes to the Financial Statements Continued

carrying amount of the provision and the key assumptions made in estimating the provision are set out in Note 7.

## ii) Impairment losses

Estimates made in determining the impairment losses on receivables. Such estimates include the determination of the net realisable value or the recoverable amount of the asset. The movement on the impairment provision is set out in Note 17.

## 3. Risk management objectives and policies

### a) Financial risk management

The Authority's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Authority's overall risk management policies are set out by the board and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the Authority's performance by setting acceptable levels of risk. The Authority does not hedge against any risks.

#### i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a Authority-wide basis. The Authority does not grade the credit quality of financial assets that are neither past due nor impaired.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution.

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilisation of the credit limits and the credit period is monitored by management on a monthly basis.

The maximum exposure of the Authority to credit risk as at the balance sheet date is as follows:

	Fully performing Kshs'000	Past due but not impaired Kshs'000	Past due and impaired Kshs'000	Total Kshs'000
<b>30th June 2013</b>				
Held-to-maturity investments	511,264	-	-	511,264
Staff loans and mortgage support fund	164,749	2,257	1,922	168,928
Trade receivables	39,580	5,635	58,490	103,705
Other receivables	33,762	8,041	-	41,803
Cash at bank	94,085	-	-	94,085
<b>Gross financial assets</b>	<b>843,440</b>	<b>15,933</b>	<b>60,412</b>	<b>919,785</b>

## Notes to the Financial Statements Continued

<b>30th June 2012</b>	<b>Fully performing Kshs'000</b>	<b>Past due but not impaired Kshs'000</b>	<b>Past due and impaired Kshs'000</b>	<b>Total Kshs'000</b>
Held-to-maturity investments	467,520	-	-	467,520
Staff loans and advances/guarantee fund	77,823	2,257	1,922	82,002
Trade receivables	16,144	200	56,956	73,300
Other receivables	23,766	1,334	-	25,100
Cash at bank	161,543	-	-	161,543
<b>Gross financial assets</b>	<b>746,796</b>	<b>3,791</b>	<b>58,878</b>	<b>809,465</b>

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

	<b>2013 Kshs'000</b>	<b>2012 Kshs'000</b>
0-6 months	-	1,334
Over 6 months	15,933	2,457
	<b>15,933</b>	<b>3,791</b>

The past due debtors are not impaired and continue to be paid. An impairment provision of Kshs 60,412 (2012: Kshs 58,878) is held against the impaired receivables. The Authority does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

### ii) Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the Authority's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The Authority manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

The table below summarises the maturity analysis for financial liabilities to their remaining contractual maturities. The amounts disclosed are the contractual undiscounted cash flows.

	<b>Less than one month Kshs'000</b>	<b>Between 1-3 months Kshs'000</b>	<b>Between 3-12 months Kshs'000</b>	<b>Over 1 year Kshs'000</b>	<b>Total Kshs'000</b>
<b>Year ended 30th June 2013</b>					
Trade and other payables	14,630	1,092	597	-	16,319
Accruals	51,849	11,320	21,640	17,487	102,296
Provision for liabilities and charges	1,855	-	-	41,700	43,555
	<b>68,334</b>	<b>12,412</b>	<b>22,237</b>	<b>59,187</b>	<b>162,170</b>

## Notes to the Financial Statements Continued

	Less than one month Kshs'000	Between 1-3 months Kshs'000	Between 3-12 months Kshs'000	Over 1 year Kshs'000	Total Kshs'000
<b>Year ended 30th June 2012</b>					
Trade and other payables	7,938	2,836	-	-	10,774
Accruals	97,028	12,064	11,697	-	120,789
Provision for liabilities and charges	-	-	-	41,700	41,700
Borrowings	15,709	-	-	-	15,709
	<b>120,675</b>	<b>14,900</b>	<b>11,697</b>	<b>41,700</b>	<b>188,972</b>

### 4. Fee income

	2013 Kshs'000	2012 Kshs'000
Capitalization, rights and new issue fees	246,756	177,911
NSE - transaction fees	316,169	174,337
Application and licencing fees	14,116	13,835
Market development fees	10,967	10,689
	<b>588,008</b>	<b>376,772</b>

The Authority charges fees on the following basis :

Capitalization / rights issues at a rate of 0.25% of the value of the issue.

Approval for listing of Government securities is charged at a rate of 0.075% of the amount raised.

New Issues / IPOs is charged at a rate of 0.15% of the value of the issue.

NSE Transaction fees is charged at a rate of 0.12% of the value of the equities traded and 0.0015% of the value of bonds traded

Application for license is charged at Kshs 2,500 while annual licencing fees are up to a maximum of Kshs 250,000.

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

### 5. Other income

	2013 Kshs'000	2012 Kshs'000
Donor fund income	24,659	30,553
Gain on disposal of property, plant and equipment	1,019	4,652
Interest income	57,939	88,764
Miscellaneous income	694	9,549
	<b>84,311</b>	<b>133,518</b>

# Notes to the Financial Statements Continued

## 6. Donor funding

From the total income, the Authority received support worth Kshs 180.371 million (2012: Kshs 38.4 million) in the year mainly from the Financial and Legal Sector Assistance Programme (FLSTAP) to support implementation of the Risk Based Supervision project (RBS), IOSCO meeting support and the Enterprise Resource Planning (ERP) System. Of the total donor funding, income worth Kshs 126.862 million (2012: Kshs 7.862 million) has been deferred in line with the Authority's accounting policy.

## 7. Net surplus/(deficit) for the year

	2013 Kshs'000	2012 Kshs'000
<b>(a) Items charged</b>		
The following items have been charged in arriving at net surplus/(deficit) for the year		
Depreciation of property, plant and equipment	24,037	19,134
Amortisation of intangible assets	12,245	4,771
Authority board members' emoluments, allowances and other Board related expenses	22,015	29,140
Post employment benefits expense (Note 7(b))	18,034	38,626
Auditors' remuneration		
Current year	539	522
Provision for impairment of financial assets		
Trade and other receivables	1,534	3,176

	2013 Kshs'000	2012 Kshs'000
<b>(b) Employee benefits expense</b>		
The following items are included in employee benefits expense:		
Retirement benefit costs		
Defined benefit scheme	-	30,397
Defined contribution scheme	17,836	8,051
National Social Security Fund	198	178

The Authority operate an in-house defined benefits pension scheme for its employees and made contributions up to 31 December 2011. The investment of the scheme's assets is managed by an independent fund manager, Genesis Kenya Investment Management Limited, on behalf of the Trustees.

The scheme is subjected to triennial valuations by independent actuaries to fulfill the statutory requirements under the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Rules 2000. The latest actuarial valuation was carried out as at 31 December 2011. The actuarial valuation method adopted, 'Attained Age Method', entailed the

## Notes to the Financial Statements Continued

comparison of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members. The deficit was paid for in July 2012.

The principal actuarial assumptions applied in the valuation are:

Investment returns	9% per annum
Rates of salary escalation	7% per annum
Rate of pension increases	3% per annum

Based on the actuarial report, the actuaries estimate that the present value of past service actuarial liabilities amounted to Kshs 149,616,000 at 31 December 2011, and that the value of scheme's liabilities exceeded the assets by Kshs 18,400,000 at that date. The deficit was provided for in the year ended 30th June 2012 and paid in July 2012.

### 8. Tax Expense

	2013 Kshs'000	2012 Kshs'000
Current income tax	47,871	-
Deferred income tax (Note 18)	(17,154)	-
Prior year tax arrears	6,733	-
<b>Income tax expense/(credit)</b>	<b>37,450</b>	<b>-</b>

The tax on the Authority's profit/(loss) before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

<b>Profit/(loss) before income tax</b>	153,581	(7,728)
Tax calculated at the statutory tax rate of 30%		
Tax effect of:	46,074	(2,318)
Deferred tax recognised	(16,183)	-
Income not subject to tax	(4,749)	2,318
Expenses not deductible for tax purposes	5,575	-
Prior year tax arrears	6,733	-
<b>Income tax expense</b>	<b>37,450</b>	<b>-</b>

### 9. Capital fund

	2013 Kshs'000	2012 Kshs'000
At 1st July 2012 and at 30th June 2013	27,886	27,886

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

# Notes to the Financial Statements Continued

## 10. General fund

	2013 Kshs'000	2012 Kshs'000
At 1 July	641,191	683,919
Profit/(loss) for the year	116,131	(7,728)
Utilization of reserves to enhance investor compensation fund	-	(35,000)
<b>At 30 June</b>	<b>757,322</b>	<b>641,191</b>

General fund represents accumulated surpluses over the years.

## 11. Investors' compensation fund

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

The fund derives its income from the following sources:

- i) Interest accruing on funds received from subscribers to public issues, between the day of closing the issue and making the refunds.
- ii) 0.01% of the consideration from sale and purchase of shares through the Nairobi Securities Exchange.
- iii) 0.004% of the consideration from sale and purchase of bonds traded through the Nairobi Securities Exchange.
- iv) Interest earned from investment of the funds held in this account.
- v) Financial penalties imposed on operators for non-compliance with Capital Markets Authority Rules and Regulations.

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

	2013 Kshs'000	2012 Kshs'000
At beginning of the year	422,318	277,754
Nairobi Securities Exchange transactions fees	74,377	48,547
Interest on investments	58,142	31,495
Unamortised discounts on investments	1,356	4,217
Financial penalties	446	11,103
Management fees	(500)	(500)
Transfer from CMA	-	35,000
Public issue fees	238,486	25,343
Compensation to Discount Securities/Nyaga Stockbrokers Ltd investors	(66,872)	(10,641)
<b>At end of the year</b>	<b>727,753</b>	<b>422,318</b>

## Notes to the Financial Statements Continued

Included in the Investor Compensation Fund is Kshs 4,169,674 worth of claims payable. The amount relates to claims by investors of Nyaga Stock Brokers (Under Statutory Management) which are due for payment.

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

<b>Non-current</b>	<b>2013 Kshs'000</b>	<b>2012 Kshs'000</b>
Equity investment in the Central Depository and Settlement	7,000	7,000
Treasury bonds		
Maturing after five years	182,150	182,150
Unamortised discount	4,334	4,924
	<u>186,484</u>	<u>187,074</u>
Maturing after one year	250,000	16,300
Unamortised discount	3,220	(75)
	<u>253,220</u>	<u>16,225</u>
	439,704	203,299
	<u>446,704</u>	<u>210,299</u>
<b>Current</b>		
Treasury bonds	16,300	41,700
Unamortised discount	(10)	(121)
	<u>16,290</u>	<u>41,579</u>
Treasury bills	200,900	32,200
Unamortised discount	(8,901)	(1,601)
	<u>191,999</u>	<u>30,599</u>
Fees receivable	10,988	3,901
Bank balance	1,721	6,081
Call Account	55,614	101,789
Public issue fees receivable	-	24,769
Interest Income receivable	4,437	3,301
	<u>72,760</u>	<u>139,841</u>
	281,049	212,019
	<b><u>727,753</u></b>	<b><u>422,318</u></b>

The Authority is mandated to manage the assets of the Investor Compensation Fund until such a time that the latter will have a functional independent Board. The assets of ICF of Kshs 728 million (2012: Kshs 422 million) are invested in both long term and short term investments. The matching liabilities have been stated to reflect appropriate portions in current and noncurrent liabilities.

# Notes to the Financial Statements Continued

## 12. Property, plant and equipment

	Motor vehicles Kshs'000	Computers, copiers & faxes Kshs'000	Office equipment Kshs'000	Furniture & fittings Kshs'000	Capital work-in- progress Kshs'000	Total Kshs'000
<b>At 1st July 2011</b>						
Cost or valuation	17,876	34,004	13,833	27,205	-	92,918
Accumulated depreciation	(8,984)	(20,804)	(8,063)	(23,000)	-	(60,851)
Net carrying amount	8,892	13,200	5,770	4,205	-	32,067
<b>Year ended 30th June 2012</b>						
Opening carrying amount	8,892	13,200	5,770	4,205	-	32,067
Additions	-	14,898	3,692	59,952	13,334	91,876
Disposals	-	(892)	(1,142)	(19,665)	-	(21,699)
Accumulated depreciation reversed on disposal	-	517	1,142	17,805	-	19,464
Depreciation charge	(3,532)	(7,748)	(2,125)	(5,728)	-	(19,133)
Closing carrying amount	5,360	19,975	7,337	56,569	13,334	102,575
<b>At 30th June 2012</b>						
Cost or valuation	17,876	48,010	16,383	67,492	13,334	163,095
Accumulated depreciation	(12,516)	(28,035)	(9,046)	(10,923)	-	(60,520)
Net carrying amount	5,360	19,975	7,337	56,569	13,334	102,575
<b>Year ended 30th June 2013</b>						
Opening carrying amount	5,360	19,975	7,337	56,569	13,334	102,575
Additions	4,145	47,806	802	265	-	53,018
Reclassified to intangible assets	-	-	-	-	(11,547)	(11,547)
Reclassified to expenses	-	-	-	-	(180)	(180)
Work-in-progress capitalised	-	-	-	472	(472)	-
Disposals	(6,013)	(2,201)	(461)	(3,258)	-	(11,933)
Accumulated depreciation reversed on disposal	4,510	1,897	390	2,880	-	9,677
Depreciation charge	(2,730)	(10,905)	(2,382)	(8,020)	-	(24,037)
Closing carrying amount	5,272	56,572	5,686	48,908	1,135	117,573
<b>At 30th June 2013</b>						
Cost or valuation	16,008	93,615	16,724	64,971	1,135	192,453
Accumulated depreciation	(10,736)	(37,043)	(11,038)	(16,063)	-	(74,880)
Net carrying amount	5,272	56,572	5,686	48,908	1,135	117,573

Work in progress balance relate to the relocations works at the Authority offices at Embankment Plaza.

# Notes to the Financial Statements Continued

## 13. Intangible assets

	Intangible assets Kshs'000	Work in progress Kshs'000	Total Kshs'000
<b>Software costs</b>			
<b>Cost</b>			
At 1st July 2011	9,202	-	9,202
Additions	16,795	238	17,033
Disposals	(145)	-	(145)
At 30th June 2012	25,852	238	26,090
<b>Amortisation</b>			
At 1st July 2011	7,636	-	7,636
Amortisation	4,771	-	4,771
Eliminated on derecognition	(145)	-	(145)
At 30th June 2012	12,262	-	12,262
<b>Net book value</b>			
At 30th June 2012	13,590	238	13,828
<b>Cost</b>			
At 1st July 2012	25,852	238	26,090
Reclassification from work-in-progress	238	(238)	-
Additions	113,698	-	113,698
Reclassification from property, plant and equipment	11,547	-	11,547
At 30th June 2013	151,335	-	151,335
<b>Amortisation</b>			
At 1st July 2012	12,262	-	12,262
Amortisation	12,245	-	12,245
At 30th June 2013	24,507	-	24,507
<b>Net book value</b>			
At 30th June 2013	126,828	-	126,828

# Notes to the Financial Statements Continued

## 14. Staff loans and advances

	Short Term 2013 Kshs'000	Short Term 2012 Kshs'000	Long Term 2013 Kshs'000	Long Term 2012 Kshs'000	Total 2013 Kshs'000	Total 2012 Kshs'000
Car loans	3,644	868	13,324	11,888	16,968	12,756
Other loans and advances	2,473	213	155	85	2,628	298
Provision for impairment losses	-	-	(1,922)	(1,922)	(1,922)	(1,922)
Miscellaneous advances	-	-	4,179	4,179	4,179	4,179
House loans/staff Mortgage guarantee fund	14,265	5,360	130,888	59,409	145,153	64,769
	20,382	6,441	146,624	73,639	167,006	80,080

## 15. Held-to-maturity investments - government securities

	2013 Kshs'000	2012 Kshs'000
<b>Non-current</b>		
Treasury bonds		
Maturing after four years	145,000	145,000
	145,000	145,000
Maturing after two years	-	120,000
Unamortised discount	-	146
	-	120,146
Maturing after one year	100,000	115,000
Unamortised premium/(discount)	96	(1,715)
	100,096	113,285
	245,096	378,431
<b>Current</b>		
Maturing within one year	135,000	70,000
Unamortised discount	(228)	(95)
	134,772	69,905
Treasury bills	139,500	20,200
Unamortised discount	(8,104)	(1,016)
	131,396	19,184
	266,168	89,089
<b>Total</b>	<b>511,264</b>	<b>467,520</b>

The fair value of the held to maturity assets at the balance sheet date were:

<b>Non-current</b>	
Held-to-maturity investments - government securities	135,528
<b>Current</b>	
Held-to-maturity investments - government securities	233,472

## Notes to the Financial Statements Continued

### 16. Inventories

	2013 Kshs'000	2012 Kshs'000
Consumables	1,133	1,999

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

### 17. Trade and other receivables

	2013 Kshs'000	2012 Kshs'000
Trade receivables	54,419	24,014
Statutory management expenses receivable	49,286	49,286
Less: provision for impairment losses	(58,490)	(56,956)
Net trade receivables	45,215	16,344
Prepayments	1,371	1,718
Other receivables	40,432	23,382
	87,018	41,444
The movement on the provision for impairment losses is as follows:		
At 1st July	56,956	53,780
Net increase charged to profit and loss account	1,534	3,176
<b>At 30th June</b>	<b>58,490</b>	<b>56,956</b>

### 18. Deferred income tax

Deferred tax assets and liabilities, and the deferred tax charge/(credit) in the profit and loss account and in other comprehensive income are attributable to the following items:

Year ended 30th June 2013	At 1st July 2012 Kshs'000	(Credited)/charged to profit or loss Kshs'000	At 30th June 2013 Kshs'000
<b>Deferred income tax asset</b>			
Accrued leave	-	3,178	3,178
Provision for pending law suits	-	13,067	13,067
Staff gratuity provision	-	3,250	3,250
Provision for bonus - staff and board members	-	5,574	5,574
Provision for impairment losses	-	460	460
Provision for investor education	-	332	332

## Notes to the Financial Statements Continued

	-	25,861	25,861
<b>Deferred income tax liability</b>			
Property, plant and equipment	-	(3,895)	(3,895)
Intangible assets	-	(4,811)	(4,811)
	-	(8,706)	(8,706)
Net deferred tax asset	-	17,154	17,154

### 19. Staff benevolent funds

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Investment in government securities	7,000	6,300
Unamortised discount on T-bills	(46)	(366)
Contributions receivable	159	36
Cash and cash equivalents (Note 20)	118	123
	<b>7,231</b>	<b>6,093</b>

### 20 Cash in hand and bank

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Cash in hand and cash at bank	70,303	63,326
Short term deposits	23,782	98,217
	<b>94,085</b>	<b>161,543</b>

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

Cash and current account balances		
Short-term bank deposits	23,782	98,217
Cash at bank and in hand	70,303	63,326
Benevolent bank balance (Note 19)	118	123
Investors compensation fund bank balance (Note 11)	57,335	107,870
	<b>151,538</b>	<b>269,536</b>

# Notes to the Financial Statements Continued

## 21. Trade and other payables

	2013 Kshs'000	2012 Kshs'000
Trade payables	16,319	10,774
Accruals	102,296	120,789
	<b>118,615</b>	<b>131,563</b>

## 22. Borrowings

	2013 Kshs'000	2012 Kshs'000
<b>Current</b>		
Bank overdraft	-	15,709

The Authority operates a main bank account from where all payments are made and all collections received. There is an arrangement with the bank to transfer funds in excess of Kshs 5 million daily into an interest earning sweep account. The funds in the sweep account are available all the time for clearing payments presented to the bank at no extra cost.

## 23. Provision for liabilities and charges

	2013 Kshs'000	2012 Kshs'000
Provisions for pending lawsuits	43,555	41,700

## 24. Current tax payable

	2013 Kshs'000	2012 Kshs'000
Current year tax	47,821	-
Prior period provision (2003-2009)	-	3,078
	<b>47,821</b>	<b>3,078</b>

## Notes to the Financial Statements Continued

### 25. Surplus to exchequer 2012/2013

	2013 Kshs'000	2012 Kshs'000
Surplus/(deficit) for the year	-	(7,728)
Less: Capital expenditure	-	(108,909)
Net Adjusted Surplus/(deficit)	-	(116,637)
Surplus to Exchequer @ 90%	-	-
Net Surplus for Retention @ 10%	-	-

### 26. Deferred income

In line with the Authority's accounting policy, Kshs 126,861,533 of the donor funded income has been deferred for future periods as follows:

	2013 Kshs'000	2012 Kshs'000
Within one year	47,587	3,253
Within two years	79,275	4,609
<b>Total</b>	<b>126,862</b>	<b>7,862</b>

### 27. Related party transactions

i) Board members of the Authority' remuneration		
Board members of the Authority' remuneration and allowances	<u>16,871</u>	<u>29,140</u>
ii) Key management compensation		
Salaries and other employment benefits	<u>89,100</u>	<u>77,105</u>

### 28. Commitments

#### Authorised but not recognised

Capital expenditure authorised for at the balance sheet date but not recognised in the financial statements is as follows:

Capital expenditure authorised but not contracted for	28,000	145,959
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The Authority embarked on the partitioning and refurbishment of the 5th floor. The structural plan has been drawn and the actual work will be accomplished in the following financial year at a provisional cost of Ksh 28 million.

## Notes to the Financial Statements Continued

	2013 Kshs'000	2012 Kshs'000
<b>Operating lease commitments</b>		
Operating lease commitments represent rentals payable by the Authority for rented office space. Rental expenses during the year amounted to Kshs 27,592,204 (2012: Kshs 36,633,369).		
The future minimum lease payments under operating leases are as follows:		
Not later than 1 year	27,592	36,633
Later than 1 year and not later than 5 years	119,072	113,400
	<b>146,664</b>	<b>150,033</b>

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

### 29. Contingent liabilities

- a) A former employee of the Authority had filed a suit against the Authority for wrongful dismissal and is seeking damages amounting to Kshs 16 million and the Authority has counterclaimed for a sum of Kshs 42 Million. Based on professional advice, the Authority has estimated liability of Kshs 6 million. The estimated liability has been recognised in these financial statements (Note 23). Based on the advice of the internal legal counsel, the Authority is of the opinion that no material liability is expected to arise to have an impact on these financial statements.
- b) In the normal course of operation, Kenya Revenue Authority completed a tax audit for the period 2007 to 2012 and had issued an assessment notice. The Authority is currently in process of addressing and concluding the issues raised. Principal tax arrears amounting to Kshs 12 million were paid during the year and the Authority has applied for set-off of tax over paid in previous years amounting to Kshs 14.8 million. The Authority has applied for waiver of interest and penalties amounting to Kshs 19 million providing mitigating grounds in support of the waiver. Based on the professional advice received and the mitigating ground provided, the Authority are of the opinion that no material liability is expected to arise to have an impact on these financial statements.

### 30. Operating expenditures

	2013 Kshs'000	2012 Kshs'000
Consolidated pay, leave pay and passages	251,535	225,310
Staff Uniform expenses	297	110
Staff welfare & other costs	3,676	1,980
Staff retirement benefits and gratuity	25,097	38,626
Benevolent fund contributions	131	253
National Social Security Fund (NSSF)	198	178
	<b>280,934</b>	<b>266,457</b>

## Notes to the Financial Statements Continued

### 30. Operating expenditures (continued)

Rent and maintenance	27,592	36,980
Equipment maintenance and stationery	8,009	7,282
Telephone, postage and utilities	9,454	6,349
Entertainment and public relations	8,638	14,939
Medical scheme and insurance expenses	13,882	11,542
Training and conferences	27,134	25,866
Motor vehicle running expenses	5,641	7,227
Subscriptions and IOSCO membership	2,897	4,014
Authority board members' emoluments and allowances	22,015	29,140
Professional and market development services	52,424	56,374
Depreciation of property, plant and equipment	24,037	19,134
Amortisation of intangible assets	12,245	4,771
Auditor's remuneration	539	522
Investors' education and awareness programme	18,538	21,296
Tribunal expenses	3,225	2,949
Provision for impairment losses	1,534	3,176
	<u>237,804</u>	<u>251,561</u>
<b>Total expenditure</b>	<b>518,738</b>	<b>518,018</b>

# Appendices

## I. ENABLING LEGISLATION:

### a) Main Acts

#### i) The Capital Markets Act, Cap 485A

This Act establishes the Capital Markets Authority for the purpose of promoting, regulating and facilitating the development of an orderly, fair and efficient Capital Markets in Kenya and for connected purposes.

#### ii) The Central Depositories Act, No. 4 of 2000

It was operationalized in June 2003. This Act is to facilitate the establishment, operation and regulation of central depositories, to provide for the immobilization and eventual dematerialization of, and dealings in securities deposited therewith in Kenya, and for connected purposes.

### b) Regulations

#### i) The Capital Markets (Collective Investment Schemes) Regulations, 2001

The Collective Investment Schemes Regulations are aimed at facilitating specialized mutual funds, unit trusts or special form of collective investment schemes and offer a unique opportunity to investors in terms of professional management, economies of scale and diversification of portfolio and risk.

#### ii) The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002

These regulations primarily govern public offers, disclosure requirements and listings of securities. Broadly, the regulations prescribe the approval process for the public offers of securities, requirements of information memoranda, eligibility requirements for public offers and listing of securities in each of the market segments of the securities exchange. The regulations also prescribe detailed disclosure requirements for each of the market segments as well as continuing reporting obligations for listed companies.

#### iii) The Capital Markets (Licensing Requirements) (General) Regulations, 2002

These regulations provide the requirements for licensing and approvals as well as other general requirements and reporting obligations of capital markets intermediaries.

#### iv) The Capital Markets (Takeovers & Mergers) Regulations, 2002

These Regulations govern the procedure and timing of the takeovers and mergers and set out the obligations of parties to the transactions.

#### v) The Capital Markets (Foreign Investors) Regulations, 2002

These regulations govern foreign investor participation in the Kenyan Capital Markets.

#### vi) The Capital Markets Tribunal Rules, 2002

These rules deal with the procedures of Appeals made to the Capital Markets Tribunal by persons aggrieved by a decision made by the Authority.

#### vii) The Central Depositories (Regulation of Central Depositories) Rules, 2004

These rules deal with the regulation of the Central depositories.

#### viii) The Capital Markets (Asset Backed Securities) Regulations, 2007

These Regulations apply to all offers of asset backed securities to the public or a section thereof in Kenya including issues by state corporations and other public bodies.

#### ix) The Capital Markets (Registered Venture Capital Companies) Regulations, 2007

These Regulations prescribe the requirements for a venture capital company to become registered for the purposes of the Income Tax (Venture Capital Company) rules 1997, through which venture capital investors may

# Appendices

seek a tax waiver on the income arising from their designated venture capital investments.

## **x) The Capital Markets (Corporate Governance) (Market Intermediaries) Regulations, 2011**

The objective of these regulations is to enhance corporate governance practices by all capital markets intermediaries by way of prescribing the minimum standards. These Regulations were gazetted on October 14, 2011 and their effective date is October 14, 2012.

## **xi) The Capital Markets (Conduct of Business) (Market Intermediaries) Regulations, 2011**

The regulations stipulate the minimum standards of business conduct to be observed by all market intermediaries, licensed under the Capital Markets Act, with the objective of streamlining their business activities. These Regulations were gazetted on October 14, 2011 and their effective date is October 14, 2012.

## **xii) Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 (Legal Notice No. 116 of 2013) (gazetted on 18th June 2013)**

The REITs regulatory framework seeks to promote the pooling of investments in income producing real estate assets through Real Estate Investment Trusts (REITs). The benefits expected to accrue from investment through REITs include -

c) Enhanced mobilization of savings to the real estate sector of the economy to increase availability of housing which is a priority area championed under Vision 2030; and

d) Introduction of additional capital markets instruments to both retail and institutional investors for investment and diversification of risk.

## **xiii) Capital Markets (Futures Exchanges) (Licensing Requirements) Regulations, 2013 (Legal Notice No. 108 of 2013) (gazetted on 18th June 2013)**

This regulatory instrument provides the framework

for licensing of futures exchanges which are set to provide the trading facilities for futures and other derivatives. Regulated futures markets will provide, amongst others, the necessary financial instruments for hedging of currency and interest rate fluctuations as well as enhancing stability in the prices of commodities.

## **c) Guidelines**

### **i) The Capital Markets Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya**

These regulations set out requirements for corporate governance for public listed companies and issuers of securities in the capital markets and are both prescriptive (the principles) and non prescriptive (best practices).

### **ii) The Capital Markets Guidelines on the Approval and Registration of Credit Rating Agencies**

These guidelines prescribe requirements for registration, accreditation and approval of rating agencies for the purpose of rating issuers of debt securities through the capital markets. Credit rating is an objective and independent opinion on the general-credit-worthiness of an issuer of a debt instrument and its ability to meet its obligations in a timely manner over the life of the financial instrument based on relevant risk factors including the ability of the issuer to generate cash in the future. Ratings rank the issue within a consistent framework to compare risk among the different debt instruments in the market and assign a risk grade.

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## 2. LICENSEES AS AT 30 JUNE 2013

### APPROVED INSTITUTIONS

#### Securities Exchange

Nairobi Securities Exchange Ltd.  
The Exchange Building, 55 Westlands Road  
P. O. Box 43633-00100, Nairobi  
Tel: 254 20 2831000  
Fax: 254 20 224200  
Email: info@nse.co.ke  
Website: www.nse.co.ke

#### Depository and Settlement System

Central Depository and Settlement Corporation Ltd  
Nation Centre, Kimathi Street, 10th Floor  
P. O. Box 3464-00100, Nairobi  
Tel: +254 (20) 2912000, 2229407/08  
Fax: +254 20 222 9405254  
Email: helpdesk@cdskenya.com

### CREDIT RATING AGENCIES

#### Global Credit Rating Company

First Floor, Block A, Wierda Court  
107 Johan Avenue  
Wierda Valley, Sandton  
Telephone +254 20 225 - 0696 / +254 722 593 -  
137 [Cell]  
Fax +254 20 318 - 368  
E-mail: king@globalratings.net

#### Agusto & Company Limited

7th Floor Eden Square, Block I,  
Chiromo Road, Westlands  
P.O. Box 856-00606, Nairobi  
Tel: 254 20 3673 763  
Mob: 254 703 041 763  
E-mail: info@agusto.com  
Website: www.agusto.com

### REGISTERED VENTURE CAPITAL FUND

#### Acacia Fund Limited

Norfolk Towers, Kijabe Street 1st Floor  
P.O. Box 43233, Nairobi  
Tel: 254 20 228870  
Fax: 254 20 330120  
E-mail: general\_manager@kcpafrica.com  
Website: www.kcpafrica.com

### INVESTMENT BANKS

#### African Alliance Kenya Investment Bank Ltd.

4th Floor, Kenya Re Towers, Upper Hill  
P. O. Box 27639 - 00506, Nairobi  
Tel: 254 20 2710978/2718720  
Fax: 254 20 2710247  
Email: enquiries@africanalliance.co.ke

#### Barclays Financial Services Limited

The West End Building Waiyaki Way  
P. O. Box 30120-00100, Nairobi  
Tel: 254 20 332230  
Fax: 254 20 213915  
Email: barclays.kenya@barclays.com  
Website: www.barclays.com

#### Dyer & Blair Investment Bank Ltd

Loita House, 10th Floor, Loita Street  
P. O. Box 45396 - 00100, Nairobi  
Tel: 020 3240000  
Fax: 254 20 218633  
E-mail: admin@dyer.africaonline.com  
Website: www.dyerandblair.com

#### Standard Investment Bank

ICEA Building, 16th floor  
P. O. Box 13714 - 00800, Nairobi  
Tel: +254 (020) 2220225, +254 (020) 2228963/7/9  
Fax: 254 20 240297  
Email: info@sib.co.ke  
Website: www.sib.co.ke

#### SBG Securities Limited

CFC Stanbic Center, Chiromo Road  
P. O. Box 47198 - 00100, Nairobi  
Tel: 254 20 3752900/1  
Fax: 254 20 3752905/7  
Email: enquiries@cfcbank.co.ke

#### CBA Capital Limited

Mara and Ragati Roads, Upper Hill, Nairobi  
P. O. Box 30437 - 00100, Nairobi  
Tel: +254 20 2884444  
Fax: +254 20 2734616  
Email: cbacapital@cba.co.ke  
Website: www.cba.co.ke

#### Renaissance Capital (K) Limited

Purshottam Place, 7th Floor  
Chiromo Road, Westlands

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P. O. Box 40560-00100, Nairobi  
Tel: 254 20 3673737  
Fax: 254 20 3601100  
Email: pmweheire@rencap.com

## **NIC Capital Limited**

NIC House, Masaba Road  
P. O. Box 44599-00100, Nairobi  
Tel: 254 20 2888000  
Fax: 254 20 2888505  
Email: service@nic-capital.com

## **Faida Investment Bank Limited**

Crawford Business Park, Ground Floor,  
State House Road Nairobi  
P. O. Box 45236-00100  
Tel: +254 020 7606026-37  
Mobile lines: 0701 346594,0735 188167  
Fax: +254 20 2243814  
Email: info@fib.co.ke

## **Equity Investment Bank Ltd**

Equity Centre, Ground Floor  
Hospital Road, Upper Hill  
P.O. Box 74454 - 00200  
Tel : 254 20 2736620  
Fax : 254 20 2737276  
Website : www.equitybank.co.ke

## **STOCK BROKERS**

### **AIB Capital Limited**

Finance House, 9th Floor, Loita Street  
P. O. Box 11019-00100, Nairobi  
Tel: 254 20 2210178/2212989  
Fax: 254 20 2210500  
Email: info@afrikainvestmentbank.com

### **Old Mutual Securities Limited**

IPS Building, 6th Floor  
Kimathi Street  
P. O. Box 50338 - 00200, Nairobi  
Tel: +254 20 224 1379  
Fax: 254 20 241392  
E-mail: reliable@gt.co.ke  
Website: www.oldmutualkenya.com

### **ABC Capital Limited**

IPS Building, 5th Floor  
Kimathi Street  
P. O. Box 34137-00100, Nairobi

Tel: 254 20 2241046  
Fax: 254 20 316144  
Email: headoffice@abccapital.co.ke

## **NIC Securities Limited**

NIC House, Masaba Road  
P. O. Box 44599-00200, Nairobi  
Tel: 254 20-2888000  
Fax: 254 20 2888505  
Email: info@nic-bank.com

## **Genghis Capital Limited**

Prudential Assurance Building, 6th Floor  
Wabera Street  
P. O. Box 9959-00100, Nairobi  
Tel: 254 20 2774195/199  
Fax: 254 20 2246334  
Email: info@genghiscapital.co.ke

## **Kingdom Securities Ltd**

Co-operative Bank House, 5th Floor  
Haile - Selassie Avenue  
P. O. Box 48231-00100, Nairobi  
Tel: 254 20 3276676/311898/310540  
Fax: 254 20 2210279  
Email: info@kingdomsecurities.co.ke

## **Sterling Capital Ltd**

Barclays Plaza, 11th Floor, Loita Street  
P. O. Box 45080-00100, Nairobi  
Tel: 254 20 2220225/227004/2213914  
Fax: 254 20 240297  
Email: info@sib.co.ke

## **Francis Drummond and Company Limited**

Hughes Building, 2nd Floor  
P. O. Box 45465 - 00100, Nairobi  
Tel: 254 20 318686/318689  
Fax: 254 20 223061  
E-mail: info@francisdrummond.com  
Website: www.francisdrummond.com

## **Kestrel Capital (EA) Limited**

ICEA Building, 5th Floor  
Kenyatta Avenue  
P. O. Box 40005 - 00100, Nairobi  
Tel: 254 20 251758/251893  
Fax: 254 20 243264  
Email: info@Kshstrelcapital.com

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## **Apex Africa Capital Limited**

Rehani House (HFCK), 4th Floor  
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# Appendices

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# Appendices

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## APPROVED COLLECTIVE INVESTMENT SCHEMES

### I. 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
- (iv) African Alliance Kenya Equity Fund

### 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

### 3. British American Unit Trust Scheme:

- (i) British American Money Market Fund.
- (ii) British American Income Fund.
- (vi) 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
- (iv) Stanbic Equity Fund
- (v) Stanbic Balanced 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 Scheme.

- (i) ICEA Money Market Fund
- (ii) ICEA Equity Fund
- (iii) ICEA Growth Fund
- (iv) ICEA Bond Fund

### 9. Standard Investment Trust Funds:

- i. Standard Investment Equity Growth Fund
- ii. Standard Investment Fixed Income Fund
- iii. Standard Investment 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. Genghis Unit Trust Funds

- i. Gencap Hazina Fund
- ii. Gencap Eneza Fund
- iii. Gencap Hela Fund
- iv. Gencap Iman Fund
- v. Gencap Hisa Fund

### 12. Amana Unit Trust Funds Scheme:

- i. Amana Money Market Fund
- ii. Amana Balanced Fund
- iii. Amana Growth Fund

### 13. Diaspora Unit Trust Funds Scheme

- i. Diaspora Money Market Fund
- ii. Diaspora Equity Fund
- iii. Diaspora Bond Fund

### 14. First Ethical Opportunities Fund

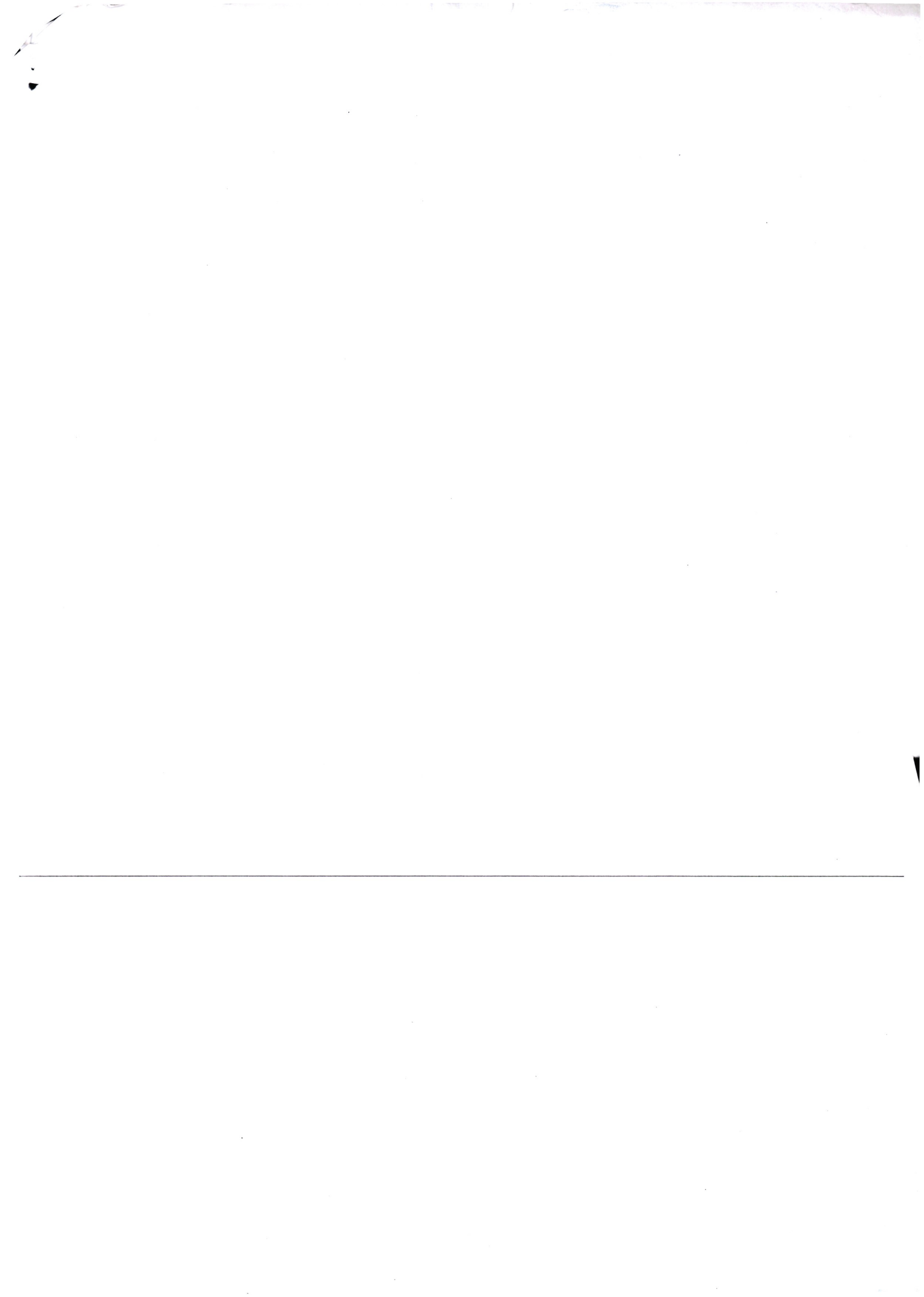
### 15. CIC Unit Trust Fund

- (i) CIC Money Market Fund
- (ii) CIC Balanced Fund
- (iii) CIC Fixed Income Fund
- (iv) CIC Equity Fund

### 16. Madison Asset Unit Trust Fund

- (i) Madison Asset Equity Fund
- (ii) Madison Asset Balanced Fund
- (iii) Madison Asset Money Market Fund
- (iv) Madison Asset Treasury Bill Fund
- (v) Madison asset Bond Fund







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