

REPUBLIC OF KENYA



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**REPORT**



**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
CAPITAL MARKETS AUTHORITY**

**FOR THE YEAR  
ENDED 30 JUNE 2018**

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100 NAIROBI

30 AUG 2018

**RECEIVED**

CAPITAL MARKETS AUTHORITY

DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2018

**Capital Markets Authority**  
**Annual report and financial statements**  
**For the year ended 30th June 2018**

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**Capital Markets Authority**  
**Authority Information**  
**For the year ended 30th June 2018**

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**Registered office**

3rd Floor, Embankment Plaza  
Longonot Road, Upper Hill  
P.O. Box 74800, 00200  
Nairobi,  
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**Authority contacts**

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HFC Limited  
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**Authorized independent auditor**

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Certified Public Accountants  
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Kenya

**On behalf of**

The Auditor-General  
Kenya National Audit Office  
Anniversary Towers  
University Way  
P.O. Box 30084, 00100  
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Kenya

**Principal legal adviser**

The Attorney General  
State Law Office  
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Archer & Wilcock Advocates  
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Nairobi,  
Kenya

**Capital Markets Authority**  
**Authority Information (continued)**  
**For the year ended 30th June 2018**

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**Principal legal adviser (continued)**

Hamilton Harrison & Mathews  
1st Floor, Delta Office Suites  
Waiyaki Way  
P.O. Box 30333, 00100  
Nairobi,  
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Kenya

RH Advocates  
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P.O. Box 50515, 00200  
Nairobi,  
Kenya

**Capital Markets Authority  
Authority Information  
For the year ended 30th June 2018**

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**Background information**

Capital Markets Authority (the 'Authority') is a body corporate established under the Capital Markets Authority Act, 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.

**Board Members of the Authority**

<b>Name</b>	<b>Date of Birth</b>	
Mr James Ndegwa	24 <sup>th</sup> June, 1964	Chairman
Mr Paul. M. Muthaura	27 <sup>th</sup> April, 1978	Chief Executive
Dr Kamau Thugge, EBS	1 <sup>st</sup> August, 1957	Principal Secretary to the National Treasury
Dr Geoffrey Mwau	11 <sup>th</sup> November, 1957	Alternate to the Principal Secretary, The National Treasury
Hon. Prof. Githu Muigai	31 <sup>st</sup> January, 1960	Attorney General (Resigned during the year)
Mr. Paul Kihara Kariuki	11 <sup>th</sup> May, 1954	Attorney General (Appointed during the year)
Mr Nevis Ombasa	24 <sup>th</sup> October, 1980	Alternate to the Attorney General
Dr Patrick Njoroge	2 <sup>nd</sup> December, 1961	Governor Central Bank of Kenya
Mr. William Nyagaka	23 <sup>rd</sup> February 1965	Alternate to Governor, Central Bank of Kenya (Appointed on 14 <sup>th</sup> May 2018)
Mr Paul Ngugi	13 <sup>th</sup> July, 1952	Member
Mr Moibi Mose	18 <sup>th</sup> June, 1974	Member
Dr Thomas Kibua	20 <sup>th</sup> August, 1948	Member
Ms. Christine Okoth	26 <sup>th</sup> May, 1975	Member
Mr John Birech	10 <sup>th</sup> May, 1958	Member (Alternate to Governor, Central Bank of Kenya upto 10th May 2018. Appointed member on 6th June 2018)
Dr Freshia Mugo Waweru	31 <sup>st</sup> October 1980	Member (Appointed on 6th June 2018)

**Capital Markets Authority**  
**Authority Information (continued)**  
**For the year ended 30th June 2018**

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**Management team**

**Paul Muriithi Muthaura**

Position  
 Date joined the Authority  
 Profession  
 Key qualifications

Chief Executive  
 September 15, 2005  
 Lawyer  
 LLM, LLB, MPhil, Dip Law, Dip in Financial Management.



**Wyckliffe Shamiah**

Position  
 Date joined the Authority  
 Profession  
 Key qualifications

Director, Market Operations  
 May 20, 1995  
 Accountant  
 MBA, BA, CPA (K)



**Edwin Nyaga Njamura**

Position  
 Date joined the Authority  
 Profession  
 Key qualifications

Director, Corporate Services  
 July 17, 2012  
 Management  
 EMBA, BCOM, CPA(K), BSP



**Luke Evans Ombara**

Position  
 Date joined the Authority  
 Profession  
 Key qualifications

Director, Regulatory Policy and Strategy  
 February, 15 1995  
 Economist  
 BA, BSP



**Esther J. Maiyo**

Position  
 Date joined the Authority  
 Profession  
 Key qualifications

Manager, Internal Audit  
 February 15, 1995  
 Accountant  
 MBA, BCOM, CPA(K), CPS (K), CISA



**Daniel Ngenga Warutere**

Position  
 Date joined the Authority  
 Profession  
 Key qualifications

Manager, Market Supervision  
 November 10, 2008  
 Lawyer,  
 LLB, CPS, CPA, Post Grad Cert, Capital Markets



**Samuel Kamunyu Njoroge**

Position  
 Date joined the Authority  
 Profession  
 Key qualifications

Manager, Investor Education and Public  
 Awareness  
 January 3, 2005  
 Economist  
 MA, B.A



**Capital Markets Authority**  
**Authority Information (continued)**  
**For the year ended 30th June 2018**

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**Management team**

**Hellen Ombati**

Position Head, Legal Affairs & Corporation Secretary  
 Date joined the Authority May 6, 2016  
 Profession Lawyer & Certified Secretary  
 Key qualifications MBA, LLB, Dip-French, Dip in Law, CPS(K)



**Andrew Muthabuku**

Position Manager, Human Capital & Administration  
 Date joined the Authority July 1, 2011  
 Profession Human Resources & Administration  
 Key qualifications MBA, BA, H-Dip (HRM)



**Richard Chirchir**

Position Manager, Information Communications & Technology  
 Date joined the Authority June 22, 2009  
 Profession Computer Science Engineering  
 Key qualifications BSC, Pg Dip - Computer Science



**John Njoroge**

Position Manager, Finance  
 Date joined the Authority February 4, 2008  
 Profession Accountant/Economist  
 Key qualifications BA, CPA(K), CPS(K), BSP



**Matthew Mukisu**

Position Manager, Derivatives  
 Date joined the Authority March 7, 2016  
 Profession Economist  
 Key qualifications MA (Economics), BSC, CPA(K)



**James Kivuva**

Position Manager, Strategic Projects  
 Date joined the Authority February 15, 2016  
 Profession Information Technologist  
 Key qualifications BSC, PRINCE 2, CBAP, Advanced Sysbase Database Administration and Performance Tuning Certification



**Mary Njunguna**

Position Manager, Corporate Approvals  
 Date joined the Authority December 15, 2009  
 Profession Advocate of the High Court of Kenya  
 Key qualifications MSC, LLB, Dip-French, CPS(K)



**Abubakar Hassan**

Position Manager, Investigation and Enforcement  
 Date joined the Authority April 1, 2016  
 Profession Advocate of the High Court of Kenya  
 Key qualifications MBA, LLB, CPA(K), CPS(K), CISA, CFE



**Capital Markets Authority**  
**Authority Information (continued)**  
**For the year ended 30th June 2018**

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**Key**

<b>BA</b>	Bachelor of Arts
<b>BCOM</b>	Bachelor of Commerce
<b>BSC</b>	Bachelor of Science
<b>BSP</b>	Balanced Scorecard Professional
<b>CFE</b>	Certified Fraud Examiner
<b>CISA</b>	Certified Information Systems Auditor
<b>CPA</b>	Certified Public Accountant
<b>CPS</b>	Certified Public Secretary
<b>Dip</b>	Diploma
<b>EMBA</b>	Executive Master of Business Administration
<b>H. Dip</b>	High Diploma
<b>HRM</b>	Human Resource Management
<b>LLB</b>	Bachelor of Law
<b>LLM</b>	Master of Law
<b>MA</b>	Master of Arts
<b>Pg Dip</b>	Post Graduate Diploma

### An Overview of Global Growth

The upswing in global investment and trade continued in the second half of 2017 at 3.8%. With financial conditions still supportive, global growth is expected to tick up to a 3.9% in both 2018 and 2019 driven by faster growth in the Euro area, Japan, China, and the United States, all of which grew above expectations in 2017, along with some recovery in commodity exporters<sup>1</sup>.

This positive momentum will eventually slow, however, leaving many countries with a challenging medium-term outlook. Downside concerns include a possibly sharp tightening of financial conditions, waning popular support for global economic integration, growing trade tensions and risks of a shift toward protectionist policies, and geopolitical strains. The current recovery therefore offers a window of opportunity to advance policies and reforms that secure the current upswing and raise medium-term growth for the benefit of all. Such policies should focus on strengthening the potential for higher and more inclusive growth, building buffers to deal more effectively with the next downturn, improving financial resilience to contain market risks and stability concerns, and fostering international cooperation.

Lower-middle-income, such as Kenya, and Low-income developing countries face multiple challenges in their effort to progress toward the 2030 Sustainable Development Goals. These include broad-based increase in public debt burdens calling for urgent fiscal prudence, improved debt management capacity, and greater debt transparency on the part of debtors and creditors, as well as concerted efforts from the international community. Several countries need to make room in their budgets to accommodate higher spending on social services such as health care and education through public investment by mobilizing domestic revenues and improving spending efficiency. The Government of Kenya has firmly articulated this through the Big Four Agenda.

### Regional Outlook

African economies have been resilient and continue to gain momentum. Real output growth is estimated to have increased 3.6 percent in 2017 up from 2.2 percent in 2016 and to accelerate to 4.1 percent in 2018 and 2019. Overall, the recovery of growth has been faster than envisaged, especially among non-resource-intensive economies. This reflects generally sound macroeconomic policies, buoyant domestic demand, progress in structural reforms (especially in infrastructure development), and generally sensible policy frameworks. East Africa recorded the highest real GDP growth rate of 5.6 in 2017 compared to the continent's average of 3.6<sup>2</sup>.

Most of the low-income African countries should however strengthen their economic resilience and dynamism to lift their economies to a new growth equilibrium driven by innovation and productivity rather than by natural resources. Macroeconomic policy strategy should aim at ensuring external competitiveness to avoid real exchange rate overvaluation and take the full benefits of trade, improve fiscal revenue, and rationalize public expenditure.

Estimates by the African Development Bank suggest that the continent's infrastructure needs amount to \$130–170 billion a year, with a financing gap in the range \$68–\$108 billion. Major investments in infrastructure, financed principally by external borrowing, have raised concerns about a currency and maturity mismatch in debt service, as revenue streams accrue predominantly in local currencies and debt obligations mature before these streams begin. This gap is notwithstanding that Institutional investors such as insurance companies, pension funds, and sovereign wealth funds have more than \$100 trillion in assets under management globally. A small fraction of these global savings which are currently deployed to low-yield investments would be enough to plug Africa's financing gap and finance productive and profitable infrastructure. However, for this to be achieved, relevant projects must be structured to be "bankable" with identifiable income streams to service potential debt and equity investment.

<sup>1</sup> <https://www.imf.org/-/media/Files/Publications/WEO/2018/April/text.ashx>

<sup>2</sup> [https://www.afdb.org/fileadmin/uploads/.../African\\_Economic\\_Outlook\\_2018\\_-\\_EN.pdf](https://www.afdb.org/fileadmin/uploads/.../African_Economic_Outlook_2018_-_EN.pdf)

### **National Outlook**

Despite the significant challenges in 2017 particularly the severe drought and prolonged electioneering period, Kenya's economy remained resilient expanding by 4.9 percent supported by strong public investment and macroeconomic stability. This is projected to grow further to 5.8 percent in 2018 supported by growing investor confidence, improved agricultural activities bolstered by favourable weather, ongoing public investments and the improved demand for our exports due to improved global and regional growth coupled with the ratification of the African Continental Free Trade Area (AfCFTA).

### **Capital Markets Policy Issues**

#### ***Proposed Repeal of Interest rates cap***

In the Budget Speech 2018-19, the Cabinet Secretary proposed the repeal of section 33B of the Banking (Amendment) Act, 2016 which imposed a maximum rate of interest for all types of credit offered by banks, as well as a minimum rate of interest on deposits. The aim of the interest rate cap ceiling was to expand credit access to the private sector and increase return on savings but to the contrary caused banks to shy away from borrowers whose risk they price above the maximum lending rate. In parallel the banks responded to floor on deposit interest by either building non-interest earning deposit accounts or reclassifying interest earning deposit accounts to transaction accounts which do not earn interest. As a result, financial access and economic growth has been seen to be adversely impacted with slower annual private sector credit growth rate of 2.8% below the ideal growth rate of 12-15% according to the Central Bank. The proposed repeal is expected to rejuvenate credit growth in the country and subsequently spur the economic growth. However, latent concerns remain over a return to what were seen to be extortionate interest rates that triggered parliamentary intervention through the caps law. The National Treasury has therefore sought to present potential alternatives.

#### ***Deliberations on the Establishment of Four New Entities to Regulate Credit Access.***

In May 2018, the National Treasury developed the Financial Markets Conduct Bill, 2018 which proposes to create four new entities namely Financial Markets Conduct Authority, the Financial Sector Ombudsman, the Conduct Compensation Fund Board and the Financial Services Tribunal. These agencies are targeted to create an effective financial consumer protection environment making credit more accessible and supporting financial innovation and competition in a more coherent way. The Bill provides for uniform practices and standards in relation to the supervision and conduct of providers of retail financial services based on International best practices. However, the Bill in its draft form creates substantial overlap with existing market conduct authorities, especially the Capital Markets Authority, and Treating-Customers-Fairly (TCF) mandates of insurance, pension and sacco's regulators, which will need to be robustly addressed to avoid regulatory uncertainty, costs and arbitrage.

#### ***Nairobi International Financial Centre Authority***

The Nairobi International Financial Centre Authority Act was assented into law on 21st July, 2017. The Act seeks to provide the legal framework to facilitate and support development of an efficient and globally competitive financial services sector that generates high levels of national savings and investments. This will be achieved through the establishment of the Nairobi International Financial Centre and the NIFC Authority. The Centre will bolster the Capital Market 10 year Master Plan's vision of making Kenya 'the Heart of African Capital Markets' and contribute in providing an integrated framework for the coordination of financial sector policies, laws and strategies to improve Kenya competitiveness.

#### ***EAC Council Directives***

In the spirit of regional integration, the following seven EAC council directives were issued on 27th October 2017:

- EAC Council Directive on Investor Education and Protection;
- EAC Council Directive on Self-Regulatory Organizations;
- EAC Council Directive on Takeovers and Mergers;
- EAC Council Directive on Licensing in the Securities Market;
- EAC Council Directive on Investor Compensation Funds;
- EAC Council Directive on Anti-Money Laundering in Securities Markets;
- EAC Council Directive on Conduct of Business

These put in place yet another critical set of regional convergence standards for the securities markets as we work towards the full implementation of the East African Community Common Market Protocol with the Free Movement of Capital and Services and ultimately the East African Monetary Union.

### **Market Development Reforms and Innovations**

In line with the Authority's objective to stimulate innovation to broaden product and service offerings, deepen market participation and liquidity, and drive transformative economic development a regulatory sandbox policy framework was developed with support from Financial Sector Deepening Kenya (FSDK). A mapping of the universe of FinTech companies in Kenya was also undertaken concurrently to determine appetite for and the focus areas of the sandbox environment. During the period under review, specifically on 5th February, 2018, the Authority granted its first Non-dealing Online Forex Broker License to Execution Point Limited (now ESG Capital Limited). This followed the gazettment of the Capital Markets (Online Foreign Exchange Trading) Regulations on 25th August 2017 compelling all Kenya's online currency traders, dealers and money managers to obtain a license from the Authority to continue in the business. The need to develop the regulatory framework was informed by the global developments in the market, the need for regulatory oversight for the increasing active participation of traders and investors in the local market as well as leveraging the opportunity to provide transparent short term speculative investment products to further diversify the capital markets.

With respect to M-AKIBA, the National Treasury, Central Bank of Kenya and the Central Depository and Settlement Corporation with funding support from Financial Sector Deepening Africa and technical support from BFA Global Consultants conducted a post issuance survey on the M-Akiba product to determine the factors underlying the low uptake. The key findings informed recommendations on simplifying the customer messaging and user interface; improving customer journey with respect to conversion; enhancing secondary trading mechanisms and customer care; product redesign to clearly indicate features on interest, reinvestment and secondary market trading to the investor to ensure successful future issuances.

The Authority continued to work closely with the Joint Financial Sector Regulators and the National Treasury in developing the Islamic Financial Markets through policy and regulatory reforms. During the period, the Authority in partnership with the National Treasury, the Joint Financial Sector Regulators and the Islamic Financial Services Board (IFSB) hosted a regional conference on Islamic finance in the banking, insurance and capital markets subsectors.

The Authority remains highly conscious of the importance of devolution and in line with the first pillar of the Capital Markets Master Plan, we on-boarded a consultant to conduct a study of the funding gap within the County and National Governments. The study is nearing finalization and will inform a strategy for engagement with the County Governments, National Government and state owned enterprises to facilitate financing of infrastructure projects through capital markets.

### **International Recognition**

The Authority remains committed to facilitating Kenya's capital markets to be a premier investment destination. In evidence of this commitment we received continued recognition as the most innovative capital markets regulator in Africa for the third consecutive years- 2015, 2016 and 2017.

Cementing our success in the global scene, I am further pleased to report that CMA's Chief Executive, Mr. Paul Muthaura, was elected in April 2018 Chairman of the Africa and Middle-East Regional Committee (AMERC) of the International Organization of Securities Commissions (IOSCO) for the term 2018-2020. This followed his election in August 2017 as the Vice Chairman of the Growth and Emerging Markets Committee of IOSCO and builds on his repeated election to the prestigious IOSCO Board in different capacities since September 2014. IOSCO is the premiere reference point for securities regulation and the standard setter for the global capital markets regulatory community.

With his election as the Regional Chairman, Mr. Muthaura also took up a seat on the Growth and Emerging Markets Steering Committee (GEMSC) which is charged with representing the interests of more than 75 percent of the membership of IOSCO covering the spectrum of the most developed emerging markets including the BRICS (Brazil, Russia, India, China and South Africa) to frontier and nascent capital markets. The Africa Middle East Region includes a number of significant emerging capital markets including Saudi Arabia, South Africa, Nigeria, Egypt, Kuwait, Dubai Financial Centre and Morocco. Mr. Muthaura takes over the chairmanship from the long serving Securities and Exchange Commission of Nigeria.

The AMERC Chair position strengthens Kenya's voice on the global stage to inform policy and regulatory standards formulation and its impact on developing capital markets. The confidence and support shown through Mr. Muthaura's election serves as a significant boost to Kenya's aspiration for Nairobi to become an International Financial Center in line with the ambitions of the Vision 2030 Economic Blueprint.

### **Looking Forward**

#### ***The Strategic Direction***

Following the expiry of the 2013-17 Strategic Plan, the Authority developed a new Strategic Plan running from July 2018 to June 2023 to guide it over the next five years. The Capital Markets Authority Strategic Plan 2018-2023 serves as a strategic guide to position Kenya's Capital Market as the premier choice for investors and issuers through robust regulation, supportive innovation and enhanced investor protection. To this end, the Authority has aligned its strategic direction with key national and international development goals, notably the Big 4 Agenda, The Kenya Vision 2030, Third Medium Term Plan (MTP III), the Capital Market Master Plan (CMMP) and the United Nations' Sustainable Development Goals to ensure that Kenya's capital markets have their desired impact in supporting economic development and empowerment.

Our new five-year Strategic Plan projects the creation of a regulatory framework that fosters growth which is inclusive and sustainable, promotes innovation and the deployment of financial technology and one that strengthens and builds a sound and resilient capital market. Through implementation of the Strategic Plan the Authority will help ensure that the Kenyan capital market is increasingly efficient, competitive, financially sound and dynamic to facilitate greater innovation and responsiveness of different capital market products and services to meet the diverse needs of issuers and investors. It will also enable CMA steer the development of Kenya's capital markets in a way that supports national and international development objectives outlined and the ultimate achievement of Morgan Stanley Capital International (MSCI) Emerging Market status for the country.

The Plan encompasses six key Strategic objectives:


1. Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency;
2. Facilitating the development, diversification and uptake of capital markets products and services;
3. Ensuring sound market infrastructure operations and market institutions;
4. Leveraging technology to drive efficiency in the capital markets value chain;
5. Ensuring optimal institutional efficiency and effectiveness of CMA; and
6. Enhancing strategic influence

#### **Appreciation and Outlook**

I would like to extend my gratitude to the President of the Republic of Kenya for my reappointment for a second term on the Board of the Authority. In conjunction with my colleagues on the Board I extend my appreciation to the Government for the support granted to the Authority through the year which has been critical in achieving our mandate. I wish to acknowledge the National Treasury, the capital markets industry players, the other financial services regulators for the immense support given.

Given the ever changing global landscape, the Authority is cognizant of the need to strengthen its core resource, its people, through unlocking innovation by building and deepening the necessary capabilities. In doing this, the Authority will be guided by the Uwezo Kipeo Regulatory Excellence Model.

Through the commitment of the CMA Board and Management, and the renewed vigour to enhance our strategic influence both locally and internationally, the Authority will continue to rise to the challenge in playing its central role in spearheading the transformation of Nairobi into a competitive International Financial Centre underpinned by the Capital Markets Master Plan aspiration to become "The Heart of Africa's Capital Markets."



.....  
**Mr. James Ndegwa**  
**Chairman**

## **I. Market Performance**

Globally, capital markets registered strong performance in first half of the 2017/2018 Financial Year but as we progressed into the remaining half of the period, markets tightened and became more volatile as the destabilizing potential of US inflationary pressure increased with attendant rate adjustments, coupled with uncertainty on the risks to global trade looming large. This reflected itself in the lower performance of global equity and bond indicators as the first half of 2018 came to a close.

Domestically, the market stabilized as it sought to shake off the "wait and see" sentiments from a pro-longed electioneering period taking a positive cue from the main political parties agreeing to focus on the "building of bridges" for national development. Equity turnover stood at Kshs. 197.29 billion in 2017/18 compared with the Kshs 155.51 billion registered in 2016/17, a 26.86 % increase. A 15.98 % increase was also recorded in capitalization as the market rose in value to Kshs. 2,576.23 billion compared to Kshs. 2,221.29 Billion recorded in 2016/2017. The NSE 20-share index was however at 3,285.73 points at the end of June 2018 compared to 3,607.18 as at June 2017 an 8.9% decline in the index.

There was a substantial rise of 29.91% in secondary Government bond trading activity in the period under review, with turnover increasing to Kshs 491.65 billion from the Kshs 403.29 billion recorded in 2016/17. The corporate bond turnover also recorded a 182% growth with turnover rising to Kshs 6.63 billion, as measured against the preceding Financial Year's Kshs 2.35 billion which reflected heavily depressed corporate bond activity due to wider market circumstances. Overall, total bond turnover increased by 22.02% to Kshs 498.28 billion as at end of June 2018 in comparison to the Kshs 407.99 billion registered in 2016/17. It is also worth noting that generally, Treasury bond trading accounted for 98.67% of total bond trading during the period under review, reemphasizing the continued high concentration level.

Outlook for the 2018/2019 Financial Year is upbeat, following restoration of political certainty under the Building Bridges initiative of the Kenyan political leadership; the expected positive impact of policy outcomes granted to the capital markets as pronounced by the Cabinet Secretary for the National Treasury and Planning during his delivery of the 2018/2019 Budget Statement. These key statements include: plans to revive the privatization program through new listings of State Owned Enterprises (SoEs); the amendment of the Capital Markets Act to address key capital markets malpractices including corporate governance breaches, embezzlement of investor funds, front running, provision of misleading information and effective management of the Investor Compensation Fund (ICF); and the Government's intent to remove the interest rate caps. These top line policy indicators are further supported by the alignment of the new CMA Strategic Plan 2018-2023 to the Big Four Agenda. As a consequence of litigation following the reading of the Budget Statement, the impact and ultimate sustainability of a number of fiscal proposals which could adversely affect financial market activity including the "Robin Hood Tax" and excise duty on mobile money transactions remains in question.

## **II. Capital Markets Master Plan**

The capital market remains a key component of the Foundations for National Transformation, as it helps in bridging the resource gap in funding Vision 2030 Projects through mobilizing savings and investments to support Kenya's aspirations to be an upper-middle-income economy. I am pleased to report that in its fourth (4th) year of implementation of the CMMP, we have achieved an implementation level of 55% translating to an average performance rate of 13.5% against the project annual rate of 10% over its ten year tenure. The milestones achieved in the year under review include;

- i. The gazettelement of the Securities Lending and Borrowing (SLB) and Short Selling Regulations, 2017 on 12th January, 2018 which seek to create an efficient and transparent regulatory framework to foster liquidity and price formation without undue increase in volatility in the capital markets. This is in line with the Authority's mandate to create deeper, more liquid domestic markets;
- ii. Chartered Institute for Securities and Investments (CISI) professional certification for growing numbers of both Authority staff and market practitioners and key strategies to implement a Continuous Professional Development (CPD) program for industry professionals;
- iii. The Nairobi Securities Exchange was admitted as a full member of the World Federation of Exchanges (WFE), a global organization that works with standard setters, policy makers, regulators and Government organizations around the world to support and promote the development of fair, transparent, stable and efficient markets;
- iv. Onboarding of consultants, in conjunction with the bond Market Steering Committee, to assist the Authority and work with industry to implement a the Hybrid Bond Market model that is expected to promote a more efficient and transparent bond market in Kenya;
- v. Kenya's Improved ranking in the World Bank "Doing Business" Report 2018 by 25 positions which was largely influenced by strong performance on indicators on protecting minority investors; and
- vi. The conclusion of a study to interrogate and present recommendations to address low uptake of capital markets products and services. The recommendations from the industry consultative workshop held on 29th June 2018 will be instrumental in addressing the low uptake and leverage initiatives to spur capital markets listings interest and ultimately develop the market.

To enhance Monitoring and Implementation of the CMMP initiatives, the Authority launched an online CMMP Scorecard on 5th February, 2018. The portal caters for the need to update both internal and external stakeholders on the activities of and progress on the implementation of the Capital Market Master Plan (2014-2023) with platform updates carried out on an ongoing basis. The portal can be accessed through the link: <http://cmmp.or.ke/>

## **Review of the Policy and Regulatory Framework**

### **a. Annual Policy Memorandum**

The Authority continued to exercise its mandate to develop all aspects of the Capital Markets with particular emphasis on the removal of impediments to, and the creation of incentives for, long-term investments in productive enterprises through submission of policy memoranda for inclusion in the 2018 Budget. All policy submissions were subjected to extensive stakeholder engagements and leveraged issues identified through Capital Market Soundness Reports. Below is a highlight of some of the policy pronouncements and the expected direct and indirect implications to the capital markets:

**Capital Markets Authority**  
**Report of the Chief Executive Officer (continued)**  
**For the year ended 30th June 2018**

**Table 1: Capital Markets Related Policy Pronouncements – Budget Statement 2017**

	<b>Policy Pronouncement</b>	<b>Positive Implications</b>
1	Revival of the privatization program	• The program will be partly carried out through the capital markets and could stimulate the capital markets through new listings of State Owned Enterprises and a multiplier effect of listing by private sector entities
2	Establishment of a National Toll Fund to support the development of national trunk roads	• This will reinforce the roll out of the Debt Infrastructure Fund program and other securitization transactions in the medium to long term;
3	Setting up of the National Credit Guarantee Fund	• This will provide support to MSME to grow to a level that they can form a consistent pipeline for listing on the NSE Growth Enterprise Market Segment (GEMS);
4	Repealing of 33B of the Banking Amendment Act 2016 on capped lending at 4%	•This is expected to reverse the negative impact of the interest rate capping which was introduced in 2016, especially on listed commercial banks;
5	Establishment of the Kenya Mortgage Refinancing Company (KMRC)	•It is expected that the KMRC will leverage on capital markets to raise funds through bonds for on-lending to banks and other mortgage financing companies and is therefore also a positive development for capital markets deepening;
6	Establishment of the Kenya Development Bank	•It is anticipated that the new bank will leverage the capital markets to meet the financing requirements of the sectors previously served by the three entities, a positive impact;

Table 2: Capital Markets Related Policy Pronouncements – Budget Statement 2017

	Policy Pronouncement	Potentially Adverse Implications
1	Expansion of the scope of definition of dividends to include other distributed assets	<ul style="list-style-type: none"> <li>With the expanded definition of the term "dividend", all transactions between a company and its shareholders (including where the shareholder derives an indirect benefit) should be scrutinized carefully as they are likely to be caught by the expanded definition;</li> </ul>
2	Proposal to increase the excise duty fees charged on money transfer services by cellular phone service providers from 10% to 12%	<ul style="list-style-type: none"> <li>This will increase the mobile money transfer charges; and is hence likely to adversely impact capital markets FinTech innovations that are pegged on the mobile money transfer platforms such as M-Akiba transactions;</li> </ul>
3	The Robin Hood Tax of 0.05% proposed to be introduced on any amounts of five hundred thousand shillings (Kshs 500,000) or more transferred through banks and other financial institutions	<ul style="list-style-type: none"> <li>This may result in asset shrinkage, shrinkage in private savings and a far less liquid capital market as it incentivizes investors to minimize trading activity. This will also put a number of fund managers businesses at risk given the erosion in returns.</li> <li>With reduced activity in the market, this may impact on the revenue for the Authority which is highly dependent on trading activity at the NSE.</li> </ul>
4	Amendments to the Kenya Revenue Authority Act and the Public Finance Management Regulations to allow Kenya Revenue Authority collect the surplus from regulatory authorities and remit to the Consolidated Fund	<ul style="list-style-type: none"> <li>This is expected to negatively impact the Authority in the following ways;               <ol style="list-style-type: none"> <li>Monies that could have been utilized for market development may form part of the remittance slowing down market transformation;</li> <li>Industry wide innovation initiatives requiring regulatory support may have to be postponed due to unavailability of surplus funds for re allocation;</li> <li>Long term organizational planning may be frustrated in the absence of surplus funds being available to cushion against revenue volatility;</li> <li>Institutional capacity to attract and retain talent may be undermined in the event of the constraints on incentive and benefit schemes backed by surplus funds.</li> </ol> </li> </ul>

**b. Capital Markets (Amendment) Bill, 2018**

The Capital Markets (Amendment) Bill, 2018 that was published on 19th June 2018 seeks to amend the Capital Markets Act to provide, inter alia, for penalties to persons involved in embezzlement activities, establishes clearer offences of front-running and obtaining gain by fraud and further ensures that administrative enforcement action process set out is sufficiently explicit in its applicability to key employees of listed companies.

The Bill further provides for payment of reward to any person who provides new and timely information leading to the recovery of sums payable to the Investor Compensation Fund. It will also ensure that the Investor Compensation Fund (ICF) is managed more sustainably by abolishing the ICF Board and vesting the management of the fund in the Authority. It establishes clearer obligations on issuers of securities, licensed and approved persons to maintain a system of internal controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with the International Financial Reporting Standards (IFRS).

**c. Other policy and Regulatory Frameworks**

The Authority developed a number of stand-alone policy and legal frameworks to support product development including:

- i. The Capital Markets (Online Foreign Exchange Trading) Regulations, 2017;
- ii. Policy Guidance Note on Asset Backed Securitization; and
- iii. Policy Guidance Note on Global Depository Receipts and Notes

Other policies and regulations under development that will be finalized in the next financial year include:

- i. Capital Markets (Amendments) Bill, 2018;
- ii. Policy Guidance Note on establishment of a Regulatory Sandbox to support FinTech; and
- iii. Policy Framework on Sponsored Direct Market Access.

**Strategic Partnerships**

During the period under review, the Authority further enhanced its strategic partnerships with a view to improve oversight and the development of the capital markets:

- A Memorandum of Understanding (MoU) was signed between The London Stock Exchange Group (LSEG) and the CMA, the Nairobi Securities Exchange (NSE), as well as the Central Depository and Settlement Corporation (CDSC), aimed at developing a bridge between Kenyan and London Markets to allow the dual listing of securities in both the Kenyan and London market;
- A Business Editors' forum was jointly held with the Association of Chartered Certified Accountants (ACCA) and the Media Council of Kenya (MCK) aimed at enhancing the skills of media professionals through deepening of their knowledge base to support accurate reporting and demystification of capital markets activity;
- A forum for market intermediaries and listed firms on the Implementation of IFRS 9 was held in collaboration with Institute of Certified Public Accountants Kenya (ICPAK), targeting to sensitize Chief Financial Officers of licensed and listed entities to ensure smooth implementation of the standard and proper understanding of implementation guidelines;
- A Regional Securities Regulators Conference was organized by CMA Kenya to provide a forum to exchange best practices in the enforcement and oversight of capital markets. The forum was facilitated by senior experts from the U.S. Securities and Exchange Commission and the Authority;

**Capital Markets Authority**  
**Report of the Chief Executive Officer (continued)**  
**For the year ended 30th June 2018**

- The Authority in conjunction with the IOSCO African and Middle East Regional Committee (AMERC) hosted a Technical Assistance program for regional regulators on the development of Onsite Inspection Manuals. The Onsite Inspection Manual developed with the assistance of IOSCO- AMERC was subsequently finalized and approved by the Board of the Authority for implementation; and
- A meeting with institutional investors (asset managers and asset owners) and other stakeholders was held to raise awareness on their responsibilities on the implementation of the Stewardship Code in supporting the effective implementation of the Corporate Governance Code.

**Financial Highlights**

RESULTS	As at 30th June 2018 Shs '000	As at 30th June 2017 Shs '000
The results for the year are summarised below:-		
Total income for the year	967,469	983,540
Total operating expenditure for the year	<u>-889,282</u>	<u>-970,011</u>
Surplus for the year before transfer	<u>78,187</u>	<u>13,529</u>
Transfer to National Treasury	<u>-21,127</u>	<u>-</u>
Surplus for the year	<u><u>57,060</u></u>	<u><u>13,529</u></u>

**Future Prospects**

The Authority has in 2017/18 made tremendous progress in both regulation and development of capital markets in Kenya as attested by our recognition by Africa Investor and International Finance Magazine as the Most Innovative Capital Markets Regulator in Africa.

Through its new Strategic Plan 2018-2023, the Authority seeks to reaffirm its position as a benchmark for other regulatory institutions in its pursuit of regulatory excellence, investor protection, innovation and overall efficiency in its operations. With the rapidly rising growth and impact of disruptive technology within the global financial markets space, the Strategic Plan aims to leverage global best practices in aligning the Authority's internal infrastructure to support market efficiency, while concurrently facilitating the deployment of Financial Technology (FinTech) by the industry. The Plan envisions significant further investments by the Authority in its technology infrastructure and market supervision techniques to complement and facilitate the significant innovation already taking root within the capital markets.

I take this opportunity to sincerely thank the Board for their counsel and unwavering support throughout the year. I wish to also to appreciate all our stakeholders who have supported us in the implementation of our strategic objectives and delivering remarkable performance.

I take this opportunity to sincerely thank the Board for their counsel and unwavering support throughout the year. I wish to also to appreciate all our stakeholders who have supported us in the implementation of our strategic objectives and delivering remarkable performance.

My special appreciation to the Management and staff of the Authority for their commitment and drive to effectively execute our twin mandate of regulation and development of a fair and efficient capital market and look forward to pressing on in line with our new Vision of being "an innovative regulator of a robust and globally competitive capital market."

.....  
**Mr. Paul Muthaura, MBS**  
**Chief Executive**

## **CORPORATE GOVERNANCE STATEMENT**

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.

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

## **COMPOSITION OF THE BOARD**

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

### **1. Mr. James Ndegwa**

James Ndegwa holds a BA (Hons) and an MA degree from Oxford University. An insurer by profession, he is an Associate of the Chartered Insurance Institute (UK) and an Associate of the Insurance Institute of Kenya. He is the Chairman of First Chartered Securities Limited and a director of several companies. Prior to his present position, he was the Managing Director of Lion of Kenya Insurance Company Limited until 2003.

### **2. Dr .Kamau Thugge (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 Treasury in December 2005 after serving as an Economic Affairs Director, Treasury since July 29, 2004. Prior to joining Treasury, he worked at the International Monetary Fund from 1985 to 2004.

### **3. Alternate to Principal Secretary, The National Treasury: Dr. Geoffrey Mwau (Director General, Budget, Economics and Fiscal Affairs, The National Treasury)**

Dr Mwau 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 Mwau also worked for the International Monetary Fund (IMF) as an economist for Rwanda, Malawi, Botswana, and Uganda.

### **4. Hon. Prof Githu Muigai (Resigned during the year)**

Professor Muigai was the Attorney General of the Republic of Kenya upto February 2018. 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 Law practice, he is an Associate Professor of Public Law in the School of Law of the University of Nairobi. He specialises in Public Law, Human Rights and trans-national legal practice.

**COMPOSITION OF THE BOARD (Continued)**

**5. Mr. Paul Kihara Kariuki (Appointed during the Year)**

Paul Kihara Kariuki is the Attorney General of the Republic of Kenya with effect from April 2018. He obtained a Bachelor's Degree in Law from University of Nairobi in 1977 and Post Graduate Diploma in Law from Kenya School of Law in 1978.

As The President of Court of Appeal of Kenya, between 2013 and March 2018, he was instrumental in the decentralization of the Court of Appeal to Malindi, Kisumu and Nyeri Counties. Directed the development of the blueprint ten-point strategy for the transformation of the Court that culminated in the Court of Appeal Bill and the Strategic Plan for the Court of Appeal in Kenya.

As the first director of the Judiciary Training Institute (2009- 2013), Kenya., he was instrumental in establishing all the operational systems for the technical arm of the judiciary incorporating professional development for all judges, magistrates and all cadres of the paralegal staff at the Judiciary.

Mr Kihara also served as Judge in the High Court of Kenya (2003- 2011). He Served in the Civil and Commercial divisions of the Court and as judge in the Election Court for various parliamentary petitions. Previously He was a Partner, Messer Ndungu Njoroge and Kwach Advocates, Nairobi (1986- 2000) and Legal Assistant and Partner, Messer Hamilton Harrison and Mathews Advocates, Nairobi (1977- 1985).

**6. Alternate to Hon. Attorney General: Mr. Nevis Ombasa**

Mr. Nevis Ombasa is a lawyer by profession. He holds a Bachelor of Arts (Econs) degree from D.A.V.V University India and a Bachelor of Laws (LLB) degree from Karnataka University, India. He has previously worked in the law firm of Maobe Maotsetung & Co. Advocates and Omboga & Co. Advocates. Mr. Ombasa is currently working in the Office of the Attorney General and Department of Justice as a State Counsel in the Government Transactions division.

**7. Dr. Patrick Njoroge (Governor, Central Bank of Kenya)**

Dr. Njoroge is an economist by profession, and holds a PhD in Economics from the University of Yale, USA. He holds a Masters degree in Economics and a Bachelors degree in the same discipline from the University of Nairobi. He joined the Washington-based IMF in 1995 as an economist and rose through the ranks to hold the position of adviser. Prior to that, he worked briefly in the mid 1980s at the Ministry of Planning and as an economist at the Ministry of Finance in the 1990s.

**8. Alternate to Governor, Central Bank of Kenya: Mr. William Nyagaka (Appointed on 14<sup>th</sup> May 2018)**

Mr William Nyagaka joined the Central Bank of Kenya in May 1994. He was appointed Director, Financial Markets Department in May 2018. He previously served as Director, Internal Audit. He holds an MBA (Finance), and a Bachelor of Commerce (Accounting) degree from the University of Nairobi. He is a Certified Public Accountant (CPAK) and a Certified Public Secretary (CPSK). Mr Nyagaka also holds a Bachelor of Laws degree (LLB) from the University of Nairobi and a Diploma in Law from the Kenya School of Law. He is an Advocate of the High Court of Kenya.

Prior to joining the Central Bank of Kenya, he worked with the Kenya Power and Lighting Company Limited as a financial accountant, in addition to with working with KENAO . He has served in various departments in Central bank of Kenya, including Finance, Banking, Financial Markets, Bank Supervision and Deposit Protection Fund Board. He also served, on secondment, at the Kenya Revenue Authority (KRA) during its formative stages.

**9. Mr. Moibi Mose**

George Moibi Mose is an Advocate of the High Court of Kenya with over fifteen years experience. He is a Commissioner for Oaths and Notary Public. Mr. Moibi holds a Bachelor of Laws (LLB) degree (Honours) from the University of Nairobi and is currently pursuing a Master of Laws (LLM) from the same institution. Mr. Moibi is a Managing Partner at Ongweny & Moibi Advocates with vast experience in Conveyancing, Civil and Commercial Litigation, Company Secretarial Services, Wills and Estates, Real Estate, Family Court, Election Petitions and Immigration Law. He previously worked at Sichale & Company Advocates as well as Munoru Kagiri & Wamae Advocates.

**COMPOSITION OF THE BOARD (Continued)**

**10. Dr. Thomas Kibua**

Dr. Kibua is Director of Academic Programmes at Strathmore University Institute of Public Policy and Governance, Economic Advisor to the Governor of Makueni County and Partner and Senior Economist with African Development and Economic Consultants Ltd (ADEC), a Kenyan firm he co-founded in 1979 and which offers advisory services in economics, management, finance and development. Previously, he served as Director of Health Policy and Systems Research at the African Medical and Research Foundation (April 2008 -March 2011); the Executive Director of the Institute of Policy Analysis and Research (IPAR) a non-governmental think –tank specialising in policy analysis and research (2003-2008); and Chairman of Egerton University Council (2009-2012). He previously taught for many years at the Department of Economics, University of Nairobi. He was Deputy Governor of the Central Bank of Kenya for the statutory period of eight years (1993-2001), served as Advisor to the President of East and Southern Africa Trade and Development Bank (2001), worked on long Term Technical Assistance Programme as Economic Advisor to the Kenyan Ministry of Health (health care financing) (1991-1993) and sat on several Boards of State Corporations (Capital Markets Authority, Export Processing Zones Authority, Export Promotion Council and Deposit Protection Fund) and private companies. Dr. Kibua graduated from the University of Nairobi with a Bachelor's degree and a Master's degree in Economics in April 1974 and June 1976, respectively; a Master's degree in Economics from Yale University, USA, in 1979; and a Doctor of Philosophy degree from the University of Nairobi in 1983. He has extensive hands-on experience in: (a) the management of macro-economic affairs (especially public finance management), (b) university teaching, (c) research, research management and capacity building, (d) knowledge management and (e) and consultancy on development and economic governance and management issues. His areas of specialisation include development economics, economic governance and management (macroeconomic management and public finance management) and quantitative methods. He has written extensively on development and economic policy issues.

**11. Ms. Christine Okoth**

Christine is currently the Managing Director - MAL Consultancy Limited. She is an experienced Human Resource and Business Leader, with over 15 years of HR and business partnering practice. Prior to her current position, Christine worked at Safaricom Limited where she held several roles including HR Systems and Communications, Head of Talent and Resourcing and Head of HR Business Partnership. She holds a degree in International Relations and Marketing from The United States International University. She is a certified Lead and Internal Auditor, Project Manager, HR Information Systems Manager, Competency Assessor, Organization Design Expert, a Leadership Coach and Mentor. Christine is a member of the Institute of Human Resource Management (IHRM) Kenya, and Chartered Institute of Personnel Development (CIPD) in the United Kingdom.

**12. 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). Mr. Ngugi is a Member of the Institute of Directors of Kenya. He has served as Alternate Director to Permanent Secretary, Ministry of Finance in various boards of state corporations including Kenya Roads Board, Housing Finance, Kenya Meat Commission and National Oil Corporation among others. He also served as Director in Kenya Dairy Board and Chairman of the Micro and Small Enterprises Authority (MSEA). He has attended a course in Corporate Governance for Directors and Mwangozo Induction Programme for Boards of State Corporations, among others. Mr. Ngugi was a long serving public servant and retired as Director of Budget at the National Treasury in the year 2013.

**COMPOSITION OF THE BOARD (Continued)**

**13. Mr. John Birech (Alternate to Governor, Central Bank of Kenya upto 10<sup>th</sup> May 2018. Appointed member on 6<sup>th</sup> June 2018)**

Mr. John Birech holds an MA (Economics); B Phil. (Economics) and BA (Economics) from the University of Nairobi. He is presently the Ag. Director, Financial Markets Department, Central Bank of Kenya. Mr. Birech joined the Central Bank of Kenya in September, 1984 and has served in various areas of the Bank including Banking, Bank supervision and Financial Markets Department. Mr. Birech also sits in the Monetary Policy Committee of the Bank.

**14. Dr. Freshia Mugo – Waweru (Appointed on 6<sup>th</sup> June 2018)**

Dr. Waweru earned her Ph.D in International Finance (Derivatives Trading) from Sogang University in Seoul (South Korea), a Masters in Business Administration (MBA) and Bachelors of Commerce (Accounting) from Kenyatta University. She is also a Certified Public Accountant of Kenya (CPA-K). In 2012, she was appointed as part of a 16 member steering committee to come up with 10- year Master Plan of the Capital Markets Authority (CMA) of Kenya which was launched in November 2014. In January 2015, she was appointed as a member of the Capital Markets Master Plan Implementation Committee and the chairperson of the Financial Deepening Committee, especially on the introduction of derivatives market in Kenya. In April 2015, Dr. Waweru was appointed as a member of the Anti – Money Laundering Board where she was a member of the Finance Committee and the Chair of the Human Resources Committee. In October 2015, she was appointed as a member of the Nairobi Securities Exchange (NSE) Derivatives Risk Management Committee.

Dr. Waweru has extensive training and consultancy experience in different areas like; Corporate Governance, Leadership, Finance for Non-Finance Directors & Managers, Derivatives Markets & Trading, Financial Management, and Investment Analysis and Portfolio Management.

She is a senior lecturer at Strathmore University teaching Derivatives Markets, Advanced Investment Analysis and Portfolio Management, Managerial Finance, Corporate Finance, International Finance, Public Sector Financial Management, Financial and Management Accounting among others.

**15. Mr. Paul M. Muthaura ( Chief Executive)**

Mr. Muthaura is the Chief Executive, Capital Markets Authority. In his time with the Authority he has held positions as the Director, Regulatory Policy and Strategy; Head of Legal Framework and Head of Enforcement.

Mr. Muthaura is a member of the Board of the International Organization of Securities Commissions (IOSCO), the Steering Committee of the Growth and Emerging Markets Committee of IOSCO, the Financial Stability Board (FSB) Regional Consultative Group for Sub-Saharan Africa and the Consultative Committee of the East African Securities Regulatory Authorities (EASRA). Mr. Muthaura is also an ex-officio member of the Boards of Directors of the Retirement Benefits Authority, the Insurance Regulatory Authority and the Vision 2030 Delivery Secretariat.

He has previously worked as an Emerging Markets Advisor with the General Secretariat of the International Organization of Securities Commissions (IOSCO). Before moving into the regulatory industry, Mr. Muthaura was a senior commercial associate with the law firm of Daly and Figgis Advocates.

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 and a Masters in Philosophy from the Maastricht School of Management.

## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

The Authority continues to be a responsible corporate citizen with focus on participation in various initiatives as part of its corporate social investment strategy and taking responsibility to both its external and internal stakeholders.

In line with the commitment within the Environmental Sustainability Audit done in the 2016/17 Financial Year as part of the Performance Contracting requirement, the Authority signed a collaboration agreement with the Kenya Forestry Service (KFS) and undertook a tree planting activity in partnership with Kenya Forest Services (KFS) and undertook to plant 1,100 indigenous trees in the 2017/18 Financial Year in an area measuring one hectare in the Ngong Forest Nairobi.

The Authority has in the year continued with the support to environmental and ecosystem sustainability, by contributing Ksh250,000 to the NSE Charity Trading Day, whose key initiative is to support the protection of rhinos in Kenya. The rhino is one of the most endangered species in the world, and Kenya in particular.

The Authority has in the last three years sponsored the construction of a multi purpose modern science laboratory for Nthunguni Secondary School in Machakos County. We are glad that the project was completed this Financial year. During the year the Authority participated in a Joint initiative with NSE and CDSC in raising the technical skills of the less fortunate in the society and donated carpentry tools to the Naivasha Children's Rescue Shelter. The Shelter accommodates and rehabilitates street boys with an aim of giving them hope and integrating them back into society by equipping them with carpentry skills to help them be self-reliant in future.

On the internal stakeholders, the following initiatives have been taken:

The Authority remains keen on compliance with the Occupational Safety and Health Act. This is achieved through continuous sensitization on safety in addition to initiatives to optimize work place ergonomics and productivity.

The Authority has on regular basis conducted HIV Testing Services as an initiative for HIV/AIDS prevention as well as establishing access to independent counselling for staff.

The Authority has consistently ensured compliance with the 1/3 gender rule, with the current ratio of Female to Male standing at 41% : 59% respectively thereby exceeding the minimum threshold of 33%.

The Authority also takes into consideration the Face of Kenya when conducting recruitment and promotions respectively for various positions in line with the Presidential initiatives on national values.

In line with the Public Procurement and Asset Disposal Act 2015's requirement on preference and reservations, the Authority has ensured that the Access to Government Procurement Opportunities (AGPO), is maintained to above the minimum 30% threshold, and runs initiatives to empower Youth, Women and Persons with Disabilities to better leverage available opportunities.

The main entrance to the premises was fitted with ramps for ease of access by People With Disabilities (PWD), and deliberate effort is also made to attract PWDs into employment by sharing information with the National Council of Persons with Disability.

**Capital Markets Authority  
Report of the board members of the Authority  
For the year ended 30th June 2018**

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The Board Members of the Authority submit their Report together with the audited financial statements for the year ended 30th June 2018, which show the state of the affairs of the Authority.

**Principal activities**

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

**Results**

The results of the Authority for the year ended 30th June 2018 are set out on page 29.

**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 in accordance with Article 229 of the Constitution of Kenya. Section 39 (1) of the Public Audit Act 2012, empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Mbaya & Associates Certified Public Accountants were nominated by the Auditor General to carry out the audit of the Authority for the year ended 30th June 2018.

**By order of the Board**



.....  
Chief Executive

Nairobi 23-08-..... 2018

## **Board Committees**

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

### **The Finance and Planning Committee**

This committee consists of four members all of whom are non-executive members of the Board. The committee was chaired by Mr. Paul Ngugi. This committee has oversight on all financial issues including budgets, financial reporting process and controls and procurement. The committee met four times during the year and had two special meetings.

### **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 Dr. Thomas Kibua. It has 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 financial statements. The committee met five times in the year.

### **The Human Resource and Communication Committee**

This committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Mr. Moibi Mose. It is responsible for human resource matters including recruitment, management succession as well as the corporate communication function. The committee met five times during the year and had one special meeting.

### **The Technical and Policy Committee**

The committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Mr. John Birech. 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 seven times during the year and had one special meeting.

## **Ad-Hoc Board Committees**

The following were the Ad hoc Committees in the financial year:

- i) The Implementation Committee for the Capital Markets Master Plan- Launched in 2015.
- ii) The Board established the ICT Adhoc Committee in February 2017. It consists of two non executive members of the Board, and three external experts from ICT industry. It is a dedicated ICT Committee to assist in providing Strategic Oversight of ICT at the Authority. The committee met three time in the year.

**Capital Markets Authority**  
**Statement of the Board Members responsibilities (Continued)**  
**For the year ended 30th June 2018**

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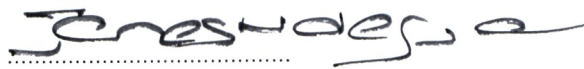
The Board Members are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on 30<sup>th</sup> June 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Board Members accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act. The Board Members are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority transactions during the financial year ended 30th June 2017, and of the Authority's financial position as at that date. The Board Members further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

**Approval of the financial statements**

The Authority's financial statements were approved by the Board on ..... 22-08-2018 and signed on its behalf by:



Chairman



Chief Executive

**SECTION A**

**Operational and Financial performance**

The Authority promotes and facilitates the development of an ordinary, fair, and efficient Capital Market in Kenya. This mandate has continued to be delivered in the year. Revenue earned was 2% lower than last financial year driven mainly by the market activity. The results in the year are a recurrent surplus of 78million, a significant increase from the previous year.

The Authority is in a strong cashflow position capable of meeting obligations as they fall due. The performance at hand has a bearing on the future market activities. It is of importance to note that any changes affecting investors in the economic, social and political environment, has a significant impact on the capital markets industry.

**SECTION B**

**Compliance with statutory requirements**

The Authority is in compliance with all statutory obligations including but not limited to: remittances of PAYE, NHIF, NSSF, VAT, HELB, Withholding tax etc within the stipulated deadlines.

The Authority being the Capital Markets regulator in Kenya, is subject to legal proceedings in the normal course of business. While it is not possible to forecast or determine the final results of all pending legal proceedings, the Authority assesses the adequacy of its provisions periodically against case developments and related legal costs. A full provision has been made in the books, and CMA has a prequalified list of legal consultants, from which services are sourced competitively from time to time.

**SECTION C**

**Key projects and investment decisions being implemented**

The following is the major project being implemented at CMA.

<b>Project</b>	<b>Brief description</b>	<b>Viability</b>	<b>Funding</b>	<b>Sustainability</b>
Change Management (Uwezo Kipeo)	Cultivating a culture of excellence driven by outcomes, staff empowerment and a globally benchmarked code of conduct and ethics. This involves complete review of how we manage and motivate staff, the single most important resource in achieving the mandate of Authority.	More skills, systems, agility, and raising the capability of CMA to regulate the capital markets, and being ready to take on new challenges in making Kenya a great place to invest.	Donor Funded	The project is fully successful

## **SECTION D**

### **Major risks identified in the ERM**

The Authority updated its Enterprise Risk Management Framework in 2017, on the basis of which Risk Management has been mainstreamed within the Authority to allow for structured risk assessments on a continuous basis.

The Board is responsible for the Authority's risk management and at least once every quarter receives reports to enable the review, monitoring and evaluation of the implementation and effectiveness of the ERM framework. The Authority in the course of its mandate identified key corporate risks, the associated risk levels, and their mitigation strategies as defined below:

#### **1. Financial distress of listed companies due to poor governance practices, weak internal controls and failed strategies**

The Authority will mitigate the risk by:

- a). Ensuring implementation of the Principles for Financial Markets Infrastructure and effective business plan by the market players.
- (b) Taking enforcement action against violations
- (c) Strengthening supervision of Listed Companies.
- (d) Verification of data/ information from external sources such as audit and media reports.
- (e) Enforcing implementation of the Code of Corporate Governance Practices.

#### **2. Litigation against CMA enforcement processes and unfavourable court decisions**

The Authority is mitigating this risk by:

- (a) Lodging appeals where adverse judgements were delivered
- (b) Building capacity of internal counsel to enable proper representation.

#### **3. Spot Commodities Exchange: Conflicting and competing interests on the part of National Government Ministries, and Regulators, County Governments and Private Sector Players**

The Authority is positively engaging all the interested parties to create awareness on CMA mandate and the benefits to the economy of having a Spot Commodities Exchange.

#### **4. Sub-optimal level of uptake of new and/or existing capital markets products and services**

The Authority shall collaborate with relevant stakeholders on investor education and awareness programmes on new products and services to support and successful implementation and maintain an updated database on necessary reforms and continuously review the market to provide guidance to the relevant stakeholders.

#### **5. Sub-optimal staff capacity**

The Authority shall effectively train the staff and align the departmental activities to the corporate activities and projects, while optimizing vacancy ratios and supporting effective learning and development programs.

#### **6. Low and stagnated revenue growth**

The Authority is addressing this risk associated with the current market state by scaling down budgeted activities. In addition to fasttracking sensitization on uptake of new products, example, REITS and the launch of new market driven products, example, Derivatives.

#### **7. Cybersecurity threats**

The Authority is continuously mitigating the risks to its ICT Infrastructure, Information Systems and data by:

- (a) Conducting scheduled preventive maintenance exercise for ICT infrastructure and network components
- (b) Conducting failover tests for ICT systems to the hot Disaster Recovery sites
- (c) Implementing appropriate security measures and controls on the enterprise firewall and network components.
- (d) Restricting access to the Primary data center to authorized personnel and maintaining a server access log
- (e) Monitoring and managing the backup process to ensure all critical data is included in the scheduled backups.
- (f) Conducting cybersecurity awareness workshops for staff on current threats.

## **SECTION E**

### **Material arrears in statutory/financial obligations**

The Authority has no statutory arrears and has been prompt to remit all pension deductions to an independent administrator. There is an existing engagement with KRA for the latter to grant waiver of penalties and interest in line with prior confirmations being pursued in conjunction with the Authority's tax consultants.

## **SECTION F**

### **Financial probity and serious governance issues**

There are no issues of financial improbity reported by any board committee or by external auditors. There are no governance issues and no conflicts of interest at the Board or top management of the Authority.

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

The accompanying financial statements of Capital Markets Authority set out on page 29 to 56, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Mbaya & Associates, auditors appointed under Section 23 of the Public Audit Act, 2015. 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.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Capital Markets Authority as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS Accrual Basis) and comply with the Capital Markets Authority Act, Cap.485A of the Laws of Kenya

#### Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit (ISSIAs). I am independent of the Capital Markets Authority in accordance with the ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with ISSAI and accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context. I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of

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*Report of the Auditor-General on the Financial Statements of Capital Markets Authority for the year ended 30 June 2018*

procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

	<b>Key Audit Matters</b>	<b>How the Audit Addresses the Key Audit Matter</b>
1.	<p><b>Revenue</b> Revenue constitutes capitalization, rights, new issue and market development fees. We consider this as a key audit matter due to its materiality &amp; its status as the core source income stream of the organization. The risk for interest income from Investor Compensation Fund (ICF) being recognized as revenue for the authority presents a key audit matter due to its financial significance it has in the financial statements.</p>	<p>We addressed revenue as a key audit matter by performing the following audit procedures applicable to this area; - We evaluated internal control activities and supporting documentation on revenue recognition, consequently we performed walkthrough procedures on key controls and Confirmed they were adequate &amp; sufficient. -We inspected significant investment securities and investment statement to verify ownership. -We tested revenue recognition by comparing individual income items to the related investment security &amp; verified their accuracy &amp; completeness.</p>
2.	<p><b>Investors Compensation Fund</b> The authority holds financial assets worth <b>2.3 billion</b>. This represents a 20% increase from the previous financial year investments which include tradable securities as well as share Investments. We considered this as part of the key audit matter given their significance in the financial statements. Failure to disclose them properly would lead to a huge misstatement in the financial statements.</p>	<p>Our audit procedures in respect to this area include; -Obtaining valuation reports of the quoted securities &amp; verified them against the market rates as of 30th June 2018. -We reviewed the annual securities statement &amp; verified them against the books of accounts to test for their accuracy, completeness, existence &amp; cut-off.</p>
3.	<p><b>Legal Matters</b> The authority being a regulator is charged with supervision and monitoring institutions in capital markets. In so doing, they are at odds of being sued by parties who are aggrieved by some of the regulators decisions.</p>	<p>We addressed legal matters as a key audit matter by performing the following audit procedures applicable to this area;; - We evaluated the board meetings minutes approving the provisions to be made to mitigate incase the cases are decided against the authority.</p>

	<p>We consider legal matters as part of our key audit matters due to the high amounts of provisions made for legal proceedings where the authority has been sued by or sued against.</p>	<p>-We verified the advice received by the authorities attorneys on the status of current legal and regulatory matters including any potential for settlement. - -We reviewed the managements estimates of the level of provisions required and their adequacy of those provisions based on the available information and evidence.</p>
4.	<p><b>Budget analysis</b> Budget is a financial estimation tool of income and expenditure for a set period of time. The authority operates a budget prepared by the board in conjunction with the relevant department. We consider budget analysis as part of our key audit matter because of the risks associated with the variances that occur due to over expenditure or underutilization of the allocations. Consequently, variances indicate inadequate measure were put in place while coming up with the projection.</p>	<p>We addressed budget analysis as a key audit matters by performing the following audit procedures: -We reviewed the Authority's board meetings minutes on the budgetary allocations for the year under review. -We reviewed the budget for the year against the actual expenditure to determine the variances thereon.</p>
5.	<p><b>Corporate governance</b> Good corporate governance has become a vital element in running both public &amp; private entities. The authority has 11 members 7 of whom are independent. Board members are drawn from various professional backgrounds such as finance, economics, banking, human resources &amp; law. This board is charged with accountability to the Government via the National Treasury in ensuring that there is accountability and compliance to the law and especially as per the Mwongozo code. We consider this a key audit matter given the mandate the authority has in ensuring there's compliance on how the licensed institutions are managed. Also there's increased demand in compliance with Mwongozo code to ensure accountability by the board</p>	<p>Our audit procedures in respect to corporate Governance include the following; - We obtained the CMA Act within which we determined the basis of their appointment. Worthy noting, there was two new appointments to the board for the year under review in which both were verified. - We discussed applicable policies &amp; procedures with the various departmental heads. Consequently, we reviewed the board minutes &amp; internal audit reports for potential noncompliance. -We reviewed the Authority's correspondences with respect to relevant legal matters. We discussed the position of these matters with the authorities legal team.</p>

## **Report on Compliance with Lawfulness and Effectiveness**

As required by article 229(6) of the Constitution, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

## **Report on Effectiveness of Internal Controls**

As required by Section 7(1)(a) of the Public Audit Act, 2015, I confirm that, nothing has come to my attention to cause me to believe that internal controls were not operating in an effective way.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the corporation's financial reporting process.

## **Auditor-General's Responsibilities for the Audit of the Financial Statements**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

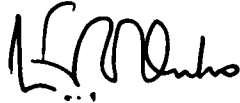
As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements and internal control of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**18 October 2018**

**Capital Markets Authority**  
**Financial statements**  
**For the year ended 30th June 2018**

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2018

	Note	2018 Shs'000	2017 Shs'000
<b>Revenue from non-exchange transactions</b>			
Capitalization, rights and new issue fees	6	825,828	759,059
Donor fund income	7	<u>34,303</u>	<u>109,246</u>
		<u>860,131</u>	<u>868,304</u>
<b>Revenue from exchange transactions</b>			
Other income	8	<u>107,355</u>	<u>115,457</u>
<b>Total revenue</b>		<u>967,486</u>	<u>983,761</u>
<b>Expenses</b>			
Operating expenditure	31	<u>-889,282</u>	<u>-970,011</u>
<b>Total expenses</b>		(889,282)	(970,011)
<b>Other gains/ (losses)</b>			
(Loss)/Gain on disposal of property and equipment	9	<u>-17</u>	<u>-221</u>
<b>Surplus before tax</b>	10	78,187	13,529
Surplus to National Treasury	30	<u>(21,127)</u>	<u>-</u>
<b>Surplus for the year</b>		<u><u>57,060</u></u>	<u><u>13,529</u></u>

**Capital Markets Authority**  
**Financial statements**  
**For the year ended 30th June 2018**

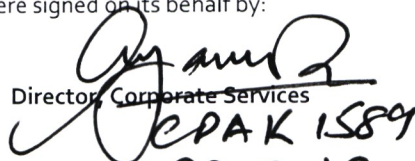
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2018**  
**(INCLUDING INVESTOR COMPENSATION FUND)**

	Note	2018 Shs'000	2017 Shs'000
<b>ASSETS</b>			
<b>Current assets</b>			
Inventories	12	1,638	1,102
Trade and other receivables from non exchange transactions	13(a)	52,515	47,639
Trade and other receivables from exchange transactions	13(b)	12,707	22,134
Staff loans and advances/guarantee fund	14	48,548	47,095
Held-to-maturity investments	15	836,536	626,967
Cash at bank and in hand	16	42,875	64,350
Investors' Compensation Fund	17	998,149	689,791
		<u>1,992,968</u>	<u>1,499,078</u>
<b>Non-current assets</b>			
Property and equipment	18	38,312	56,314
Intangible assets	19	4,943	6,019
Staff loans and advances/guarantee fund	14	329,858	324,292
Held-to-maturity investments	15	190,476	260,999
Investors' Compensation Fund's investments	17	1,272,668	1,193,520
		<u>1,836,257</u>	<u>1,841,144</u>
<b>Total Assets</b>		<u><b>3,829,225</b></u>	<u><b>3,340,222</b></u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	20	198,706	168,639
Provision for liabilities and charges	21	79,084	85,842
Current tax payable	22	-	-
Deferred income	23	-	-
Investors' Compensation Fund	17	998,149	689,790
Surplus payable to National Treasury	30	21,127	-
		<u>1,297,066</u>	<u>944,271</u>
<b>Non-current liabilities</b>			
Investors' Compensation Fund liabilities	17	1,272,668	1,193,520
<b>Total liabilities</b>		<u><b>2,569,734</b></u>	<u><b>2,137,791</b></u>
<b>Net assets</b>			
<b>Funds</b>			
Capital fund	24	27,886	27,886
General fund	25	695,642	698,582
Building fund	26	535,963	475,963
<b>Total Funds</b>		<u><b>1,259,491</b></u>	<u><b>1,202,431</b></u>
<b>Total Funds and Liabilities</b>		<u><b>3,829,225</b></u>	<u><b>3,340,222</b></u>

The financial statements set out on pages 29 to 56 were approved for issue by the Board Members of the Authority on 22-08-2018 and were signed on its behalf by:

  
 Chief Executive

Date: 23-08-2018

  
 Director, Corporate Services  
 Date: 23.8.18

  
 Chairman of the Board

Date: 24-08-2018

Capital Markets Authority  
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For the year ended 30th June 2018

CAPITAL MARKETS AUTHORITY (CMA) STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2018

	Note	2018 Shs'000	2017 Shs'000
<b>ASSETS</b>			
<b>Current assets</b>			
Inventories	12	1,638	1,102
Trade and other receivables from non exchange transactions	13(a)	52,515	47,639
Trade and other receivables from exchange transactions	13(b)	12,707	22,134
Staff loans and advances/guarantee fund	14	48,548	47,095
Held-to-maturity investments	15	836,536	626,967
Cash at bank and in hand	16	42,875	64,350
		<u>994,819</u>	<u>809,287</u>
<b>Non-current assets</b>			
Property and equipment	18	38,312	56,314
Intangible assets	19	4,943	6,019
Staff loans and advances/guarantee fund	14	329,858	324,292
Held-to-maturity investments	15	190,476	260,999
		<u>563,589</u>	<u>647,624</u>
<b>Total Assets</b>		<u><u>1,558,408</u></u>	<u><u>1,456,911</u></u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	20	198,706	168,639
Provision for liabilities and charges	21	79,084	85,842
Current tax payable	22	-	-
Deferred income	23	-	-
Surplus payable to National Treasury	30	21,127	-
		<u>298,917</u>	<u>254,481</u>
<b>Non-current liabilities</b>			
<b>Total liabilities</b>		<u><u>298,917</u></u>	<u><u>254,481</u></u>
<b>Net assets</b>		1,259,491	1,202,431
<b>Funds</b>			
Capital fund	24	27,886	27,886
General fund	25	695,642	698,582
Building fund	26	535,963	475,963
		<u>1,259,491</u>	<u>1,202,431</u>
<b>Total Funds</b>		<u><u>1,259,491</u></u>	<u><u>1,202,431</u></u>
<b>Total Funds and Liabilities</b>		<u><u>1,558,408</u></u>	<u><u>1,456,911</u></u>

The financial statements set out on pages 29 to 56 were approved for issue by the Board Members of the Authority on 22-08-2018 and were signed on its behalf by:

  
Chief Executive

Date 23-08-2018

  
Director, Corporate Services

Date 23.8.18

  
Chairman of the Board

Date 24-08-2018

Capital Markets Authority  
 Financial statements  
 For the year ended 30th June 2018

INVESTOR COMPENSATION FUND (ICF) STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2018

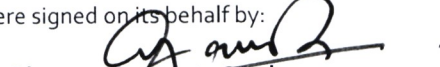
ASSETS	Note	2018 Shs'000	2017 Shs'000
<b>Current assets</b>			
Fees receivable	17	47,242	33,707
Cash and cash equivalents	17	24,953	95,632
Investor Compensation Fund investments Held-to-maturity	17	<u>925,953</u>	<u>560,452</u>
		<u>998,149</u>	<u>689,791</u>
<b>Non-current assets</b>			
Investments in Listed Companies	17	167,125	116,594
Investors' Compensation Fund's investments Held to maturity	17	<u>1,105,543</u>	<u>1,076,926</u>
		<u>1,272,668</u>	<u>1,193,520</u>
<b>Total Assets</b>		<u><u>2,270,817</u></u>	<u><u>1,883,311</u></u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Investors' Compensation Fund	17	<u>998,149</u>	<u>689,791</u>
		<u>998,149</u>	<u>689,791</u>
<b>Non-current liabilities</b>			
Investors' Compensation Fund liabilities	17	<u>1,272,668</u>	<u>1,193,520</u>
<b>Total Funds</b>		<u><u>2,270,817</u></u>	<u><u>1,883,311</u></u>

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. The Fund value was Shs2.2billion (2017: Sh1.9billion)

The financial statements set out on pages 29 to 56 were approved for issue by the Board Members of the Authority on 22-08-2018 and were signed on its behalf by:

  
 Chief Executive

Date: 23-08-2018

  
 Director, Corporate Services

Date: 23.8.18

  
 Chairman of the Board

Date: 24-08-2018

**Capital Markets Authority**  
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**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2018**

	Capital fund Shs'000	General fund Shs'000	Building fund Shs'000	Total Shs'000
<b>At 1st July 2016</b>	27,886	931,016	230,000	1,188,902
Surplus for the year	-	13,529	-	13,529
Transfer to building fund	-	(245,963)	245,963	-
<b>At 30th June 2017</b>	<u>27,886</u>	<u>698,582</u>	<u>475,963</u>	<u>1,202,431</u>
<b>At 1st July 2017</b>	27,886	698,582	475,963	1,202,431
Surplus for the year	-	57,060	-	57,060
Transfer to building fund	-	(60,000)	60,000	-
<b>At 30th June 2018</b>	<u>27,886</u>	<u>695,642</u>	<u>535,963</u>	<u>1,259,491</u>

**Capital Markets Authority**  
**Financial statements**  
**For the year ended 30th June 2018**

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2018**

	Note	2018 Shs'000	2017 Shs'000
<b>Cash flows from operating activities</b>			
Surplus for the year		78,187	13,529
<b>Adjustments for:</b>			
Tax expense	11	-	-
Depreciation of property and equipment	18	23,594	51,791
Amortisation of intangible assets	19	3,359	3,785
Deferred donor funded income		0	(7,200)
Gain on disposal of property and equipment	9	17	221
Interest income	8	-103,972	(100,569)
<b>Operating profit before working capital changes</b>		<u>1,185</u>	<u>(38,442)</u>
Decrease/(increase) in			
Inventories		-536	489
Trade and other receivables		4,551	7,161
Staff loans and advances		-7,019	(87,453)
Increase/(decrease) in.			
Trade and other payables		30,067	29,393
Provision for liabilities and charges		(6,758)	(10,064)
Investors' Compensation Fund		387,505	378,306
Staff benevolent fund		-	-
<b>Cash generated from operations</b>		<u>408,995</u>	<u>279,391</u>
Interest received	8	103,972	100,569
Income tax paid			
<b>Net cash generated from operating activities</b>		<u>512,967</u>	<u>379,959</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	18	-5,628	(26,046)
Purchase of intangible assets	19	-2,283	(5,102)
Proceeds from disposal of property and equipment		20	376
Purchase of treasury bonds from the Investors' Compensation Fund		-138,874	(194,311)
(Purchase)/sale of treasury bills from the Investors' Compensation Fund		-319,310	(157,818)
(Purchase)/sale of treasury bonds		82,942	24,716
(Purchase)/sale of treasury bills		-221,988	(200,631)
<b>Net cash used in from investing activities</b>		<u>(605,121)</u>	<u>(558,816)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>-92,154</u>	<u>-178,857</u>
<b>Cash and cash equivalents at start of the year</b>		<u>159,982</u>	<u>338,839</u>
<b>Cash and cash equivalents at end of the year</b>	16	<u><u>67,828</u></u>	<u><u>159,982</u></u>

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For the year ended 30th June 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Approved			Actual on comparable Performance		
	budget 2017-2018 Shs'000	Adjustments	Final budget 2017-2018 Shs'000	basis 2017-2018 Shs'000	difference 2017-2018 Shs'000	
		(Reallocations) 2017-2018 Shs'000				
<b>Revenue</b>						
Fee income from NSE	590,850	-	590,850	490,176	-100,674	a)
Licenses and permits	21,600	-	21,600	17,439	-4,161	b)
Market development Fees	13,392	-	13,392	12,697	-695	
Capitalisation and bond approvals	428,500	-	428,500	305,515	-122,985	c)
<b>Fee based income</b>	<b>1,054,342</b>	<b>-</b>	<b>1,054,342</b>	<b>825,828</b>	<b>-228,514</b>	
Donor Funding- gifts and services-in-kind	140,000	-	140,000	34,303	-105,697	d)
Finance income - external investments	56,000	-	56,000	103,972	47,972	e)
Gains on disposal, rental income and agency fees	-	-	-	-18	-18	
Other income	4,000	-	4,000	3,384	-617	f)
<b>Total income</b>	<b>1,254,342</b>	<b>-</b>	<b>1,254,342</b>	<b>967,469</b>	<b>-286,873</b>	
<b>Expenses</b>						
Personnel cost	561,890	-	561,890	468,404	93,486	a)
Rent and maintenance	43,778	-	43,778	37,155	6,623	b)
Equipment maintenance and stationery	45,612	-	45,612	42,216	3,396	
Telephone, postage and utilities	32,485	-	32,485	15,654	16,831	c)
Entertainment and public relations	37,750	(12,400)	25,350	17,231	8,119	d)
Medical scheme and insurance expenses	33,000	-	33,000	32,997	3	
Training and conferences	74,130	(11,100)	63,030	62,849	181	
Motor vehicle running expenses	7,600	-	7,600	6,008	1,592	e)
Subscriptions and IOSCO membership	15,056	-	15,056	9,854	5,202	f)
Authority board members' emoluments and allowance	37,129	-	37,129	32,298	4,831	g)
Professional & consultancy services	25,734	26,500	52,234	46,555	5,679	h)
Litigation/legal expenses	26,400	-	26,400	23,236	3,164	i)
Market Development & Islamic Finance	39,144	(3,000)	36,144	13,581	22,563	j)
Capital Markets Masterplan	10,000	-	10,000	6,154	3,846	k)
Donor Funded Projects	103,850	-	103,850	20,456	83,394	l)
Depreciation of property, plant and equipment	104,310	-	104,310	23,594	80,716	m)
Amortisation of intangible assets	-	-	0	3,359	-3,359	
Auditor's remuneration	1,726	-	1,726	1,726	0	
Investors' education and awareness programme	35,300	-	35,300	24,213	11,087	n)
Tribunal expenses	7,066	-	7,066	1,302	5,764	o)
Provision for doubtful debts	-	-	0	441	-441	p)
<b>Total expenditure</b>	<b>1,241,960</b>	<b>-</b>	<b>1,241,960</b>	<b>889,282</b>	<b>352,678</b>	
<b>Surplus for the period</b>	<b>12,382</b>	<b>-</b>	<b>12,382</b>	<b>78,187</b>	<b>65,805</b>	

**Capital Markets Authority**  
**Financial statements**  
**For the year ended 30th June 2018**

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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (CONTINUED)**

Notes on Significant variances (10% and above) between actual and budget.

**REVENUE**

- a) **Finance income from NSE** was affected by lower than expected market trading volumes for equities in the year; trading volume declined from 171.61B in 2017 to 108.29billion in 2018.
- b) **License fees** were not as budgeted due to fewer license applications than projected during the year.
- c) The performance of the **Capitalization and bond approvals fees** was lower than budget arising from low market activity mainly from institutions(borrowers).
- d) **Donor Funding- gifts and services-in-kind** was low, as income expected didn't come through due to delayed procurement process for the projects that were envisaged to be completed within the FY2017/18.
- e) **Finance income from external investments** was above the budget as the Authority continued investing excess cash while adhering to a policy for return optimisation.
- f) **Other income** line was above budget arising from partnering support for investor education activities.

**EXPENDITURE**

- a) The Authority's staff complement was gradually filled in the year, and the **Personnel cost** was well within the approved budgeted amount.
- b) Reduction in **rent and maintenance costs** is mainly due to reduction in rent charges following renegotiation of rental rates.
- c) **Telephone, postage and utilities** - was below budget due to cost control strategies that the Authority continued to apply including leveraging on already existing broad band infrastructure and led technology among other initiatives under "Uwezo Kipeo" culture change project.
- d) **Advertising and public relations**-There has been a shift in strategy on advertising with focus on publicity through Social media which has wider impact and is more cost effective than airing of television documentaries.
- e) **Motor vehicle running expenses** were within the budget as cost control strategies (e.g. use of fuel cards, negotiated transport rates, pooling of taxi cabs) contributed to the low costs.
- f) **Subscriptions and IOSCO membership** - was affected by scaled down participation of technical staff because of travel restrictions.
- g) **Authority board members' emoluments and allowances** were well within budgeted but note that some member development programs were delayed.
- h) **Professional & consultancy services** - spent below budget with carry over of some activities into next year.
  - i) **Litigation/legal expenses**- was lower than budget with reversal of a number of prior year provisions after several respondents agreed to out of court settlement. This is in line with enhancement of alternative resolution mechanisms.
  - j) **Market Development & Islamic Finance** expenses were lower than budget due to support of programmes from direct donor funding thus saving on internal resources.
  - k) **Capital Markets Masterplan** - Through a more proactive approach all the main activities in the implementation road map for the year were achieved at less cost and time.
  - l) **Donor Funded Projects cost** - long drawn negotiations and lengthy procurement processes delayed kick off of certain planned donor funded projects and related acquisitions.
- m) **Depreciation of property, plant and equipment and amortization cost** was well within budget. Difference was due to assets not acquired, see (l) above, during the period as well as assets which were fully depreciated in the year.
- n) **Investors' education and awareness programme expenses** were below budget as partnering (cost sharing) with other stakeholders was improvised for some of the activities undertaken.
- o) Although substantial number of meetings were held in Quarters 1 and 2, most **Tribunal** membership terms ended in Quarter 3 and it was not quorate thereafter.
- p) **Provision for doubtful debt** is due to additional specific provisions: Atlas development company (suspended from trading pending determination of delisting)-Ksh100,000, Chase Bank (unpaid fees for listed Bonds, pending advice from KDIC)-Ksh241,000 and Regnum Consultants (provision made due to long outstanding license fees)-Ksh100,000.

NOTES

1. Statement of compliance and basis of preparation

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the authority and all values are rounded to the nearest thousand (Shs '000'). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

The Authority adopted IPSAS in the year 2014 following the gazette of the Public Sector Accounting Standards Board (PSASB) which was established by the Public Financial Management Act (PFM) No.18 of 24th July 2012. PSASB issued financial reporting standards and guidelines to be adopted by all state organs and public sector entities, which the Authority complies with.

2. ADOPTION OF NEW AND REVISED STANDARDS

New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Standard	Impact
IPSAS 39: Employee Benefits	<b>Applicable: 1st January 2018</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
IPSAS 40: Public Sector Combinations	<b>Applicable: 1st January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

3. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

**Fees**

The Authority recognizes revenues from fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Authority and the fair value of the asset can be measured reliably.

**Donor Income**

Donor funds are received through Government supported programmes and other development Agencies. These funds are recognised at fair value when there is reasonable assurance that the Authority will comply with the conditions attaching to them and the funds will be received. Donor funds related to purchase of assets are treated as deferred income and allocated to statement of financial performance income over the useful lives of the related assets while grants related to expenses are treated as donor fund income in the income statement.

ii) Revenue from exchange transactions

The Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

**Interest income**

Interest income is accrued as it is earned over the life of the investments held .

b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

**NOTES (CONTINUED)**

**3. Summary of significant accounting policies (continued)**

**c) Taxes**

**Current income tax**

The Authority is exempt from income tax vide PFMA regulation no.34 of 2015.

On 20th March 2015, The National Treasury issued PFMA Regulation No. 34 which under Section 219 exempts the Authority from paying taxes in the future. The Authority will however be required to submit 90% of its surplus to the National Treasury.

**d) Property and equipment**

All property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

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:

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

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining surplus for the year.

**e) Leases**

**Operating leases**

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**f) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. 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.

The useful life of the intangible assets is assessed as finite.

**NOTES (CONTINUED)**

**3. Summary of significant accounting policies (continued)**

**g) Financial instruments**

**Financial assets**

**Initial recognition and measurement**

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

**Held-to-maturity**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Authority has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

**Impairment of financial assets**

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- i) The debtors or a group of debtors are experiencing significant financial difficulty.
- ii) Default or delinquency in interest or principal payments.
- iii) The probability that debtors will enter bankruptcy or other financial reorganization.
- iv) Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

**Financial liabilities**

**Initial recognition and measurement**

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

**NOTES (CONTINUED)**

**3. Summary of significant accounting policies (continued)**

**h) Provisions**

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

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

**Contingent liabilities**

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is not remote.

**i) Employee benefits**

**Retirement benefit plans**

The Authority provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

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.

**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) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they

**l) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

The Authority manages the Investor Compensation Fund (ICF) and reports the funds held in the bank, call accounts on behalf of ICF as part of cash and cash equivalents.

**NOTES (CONTINUED)**

**3. Summary of significant accounting policies (continued)**

**m) 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.

**n) Related party**

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. Members of key management are regarded as related parties.

**o) Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**4. Significant judgments and sources of estimation uncertainty**

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**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:

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**

The pensions contributions into the Defined Contribution (DC) Scheme are expensed as incurred in the year

**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 12.

NOTES (CONTINUED)

5. 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 institute

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.

	Fully performing Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
<b>At 30th June 2018</b>				
Held-to-maturity investments	1,027,012	-	-	1,027,012
Staff loans and advances/ fund	378,406	-	-	378,406
Trade receivables	48,496	-	-	48,496
Other receivables	5,055	-	-	5,055
Cash at bank, in hand and deposits	42,735	-	-	42,735
Maximum exposure to credit risk	1,501,704	-	-	1,501,704
	Fully performing Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
<b>At 30th June 2017</b>				
Held-to-maturity investments	887,966	-	-	887,966
Staff loans and advances/ fund	367,208	-	4,179	371,387
Trade receivables	48,089	-	-	48,089
Other receivables	13,219	-	-	13,219
Cash at bank, in hand and deposits	64,210	-	-	64,210
Maximum exposure to credit risk	1,380,691	-	4,179	1,384,870

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

	2018 Shs'000	2017 Shs'000
Over 6 months		4,179
	0	4,179

The past due debtors are nil. An impairment provision of Shs 4,546,000 (2017: Shs 4,104,000) 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.

NOTES (CONTINUED)

5. Risk management objectives and policies (continued)

a) Financial risk management (continued)

ii) Liquidity risk (continued)

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.

	Less than one month Shs'000	Between 1-3 months Shs'000	Between 3-12 months Shs'000	Over 1 year Shs'000	Total Shs'000
<b>Year ended 30th June 2018</b>					
Trade and other payables	10,131	18			10,149
Accruals	35,786		32,410	3,164	71,360
Provision for liabilities and charges	21,833	42,414		28,060	92,307
Gratuity obligations	24,890				24,890
	<u>92,641</u>	<u>42,432</u>	<u>32,410</u>	<u>31,224</u>	<u>198,706</u>
<b>Year ended 30th June 2017</b>					
Trade and other payables	41,443		196		41,639
Accruals	31,079		3,144	9,110	43,333
Provision	42,338		28,060		70,398
Gratuity obligations	13,269				13,269
	<u>128,129</u>	<u>0</u>	<u>31,400</u>	<u>9,110</u>	<u>168,639</u>

iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: interest rate risk, price risk and foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the interest rate movement may have a significant impact on Authority's value of investments.

The Authority's investments in fixed rate bonds expose it to fair value interest rate risk. The Authority has no interest bearing liabilities. The Authority considers that a change in interest rates of 2 percentage points in the year ending 30th June 2018 is reasonably possible. If the interest rates on the Authority's held-to-maturity investments at the year-end were to decrease/increase by this number of percentage points, with all other factors remaining constant, the surplus would be lower/higher by Kshs13million (2017: Shs 13,000,000).

Price risk

Marketable instruments held by the Authority include Treasury Bonds and Treasury Bills whose market prices are subject to change. The Authority review the portfolio, set exposure limits and respond to market price changes and conditions to secure both fair values and cash flow from such instruments.

Foreign exchange risk

Foreign exchange risk would arise where transactions or bank balances are denominated in foreign currency. The Authority's transactions and bank balances are denominated in Kenya Shillings. Hence the exposure to foreign exchange risk does not exist.

NOTES (CONTINUED)

6. Revenue from non - exchange transactions	2018 Shs'000	2017 Shs'000
<b>Fees income</b>		
Capitalization, rights and new issue fees	305,515	340,699
NSE - transaction fees	490,176	385,547
Application and licensing fees	17,439	19,789
Market development fees	<u>12,697</u>	<u>13,023</u>
	<u>825,828</u>	<u>759,059</u>

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 at a rate of 0.15% of the value of the issue.
- NSE Transaction fees 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 at Kshs 2,500 while annual licensing fees are up to a maximum of Shs 250,000.
  
- Market development fees are charged to listed companies at a rate of 0.01% subject to a minimum of Shs 50,000 and a maximum of Shs 100,000 per annum

7. Donor fund income	2018 Shs'000	2017 Shs'000
Donor fund income	<u>34,303</u>	<u>109,246</u>

The Authority received support worth Shs24.8 million (2017 Shs69.7 million) in the year to support institutional capacity for Medium Term resident advisory on Derivatives in Kenya, Consultancy for the Hybrid Bond Market, Assess the Funding Gaps at National and County Governments and Consultancy Services to Develop Specifications for an Information Repository, Advance Financial Analysis System, E-Learning System and Communications/ IT Infrastructure for the Capital Market Authority

8. Revenue from exchange transactions - other income	2018 Shs'000	2017 Shs'000
Interest income	103,972	100,569
Miscellaneous income	<u>3,384</u>	<u>14,888</u>
	<u>107,355</u>	<u>115,457</u>

9. (Loss)/Gain on disposal of property and equipment	2018	2017
Gain or (loss) on disposal of obsolete and retired Property and Equipment	<u>-17</u>	<u>-221</u>

10. Surplus before tax	2018 Shs'000	2017 Shs'000
a) Items charged		

The following items have been charged in arriving at net surplus for the year

	Note	2018 Shs'000	2017 Shs'000
Depreciation of property and equipment	17	23,594	51,791
Amortisation of intangible assets	18	3,359	3,785
Authority board members' emoluments, allowances and other Board related expenses	27	32,298	36,968
Post employment benefits expense	10(b)	34,478	31,763
Provision for impairment of financial assets			
Trade and other receivables			

NOTES (CONTINUED)

10. Net surplus for the year (continued)

b) Employee benefits expense	2018 Shs'000	2017 Shs'000
The following items are included in employee benefits expense:		
Retirement benefit costs		
Defined contribution scheme	34,136	31,451
National Social Security Fund	<u>342</u>	<u>312</u>
	<u>34,478</u>	<u>31,763</u>

The Authority operated 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.

Though the scheme is subjected to triennial valuations by independent actuaries to fulfil the statutory requirements under the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Rules 2000, the scheme is in the process of purchasing annuities for the 3 pensioners, and the winding up cause will begin. Hence the valuation will not be necessary once it becomes due. All active members already transferred to DC scheme, and all the pensioners will have an annuity in force.

The scheme has sufficient funding for the annuity arrangement, and for the winding up process.

11. Tax expense	2018 Shs'000	2017 Shs'000
Current income tax	-	-
Deferred income tax (Note 19)	<u>-</u>	<u>-</u>
Income tax expense	<u>-</u>	<u>-</u>
<b>Surplus before income tax</b>	<u>                    </u>	<u>                    </u>
Tax calculated at the statutory tax rate of 30%	0	0
Tax effect of:		
Deferred tax asset not recognised	-	-
Income not subject to tax	0	0
Expenses not deductible for tax purposes	<u>-</u>	<u>-</u>
Income tax expense	<u>-</u>	<u>-</u>

On 20th March 2015, The National Treasury issued PFMA Regulation No.34 which under section 219 exempts the Authority from paying taxes in the future. The regulation requires corporations exempted from income tax to remit 90% of surplus to National Treasury. No remission was done in the year.

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NOTES (CONTINUED)

	2018 Shs'000	2017 Shs'000				
<b>12. Inventories</b>						
Consumables	<u>1,638</u>	<u>1,102</u>				
Inventories consist of stationery and computer consumables required for day to day use by the Authority.						
<b>13a. Trade and other receivables from non exchange transactions</b>						
Trade receivables	49,936	47,382				
Statutory management expenses receivable	-	0				
Less: Provision for impairment losses	<u>-4,546</u>	<u>-4,104</u>				
Net trade receivables	45,390	43,278				
Other receivables	<u>7,124</u>	<u>4,361</u>				
Trade and other receivables from non exchange transactions	<u>52,514</u>	<u>47,639</u>				
<b>13b. Trade and other receivables from exchange transactions</b>						
Trade receivables	3,106	4,811				
Less: Provision for impairment losses						
Net trade receivables	3,106	4,811				
Prepayments	<u>9,601</u>	<u>17,323</u>				
Trade and other receivables from exchange transactions	<u>12,707</u>	<u>22,134</u>				
Total trade and other receivables from non exchange and exchange transactions	<u>65,221</u>	<u>69,773</u>				
The movement on the provision for impairment losses for non exchange transactions is as follows:						
At 1st July	4,104	57,866				
Less: Provision utilised as debts written off		-53,762				
Less: Provision reversed on debt collection	-	-				
At 30th June	<u>4,104</u>	<u>4,104</u>				
The movement on the provision for impairment losses for exchange transactions is as follows:						
At 1st July	0	208				
Add: Additional provision	(441)	--				
At 30th June	<u>(441)</u>	<u>0</u>				
<b>14. Staff loans and advances</b>						
	Current 2018 Shs'000	Current 2017 Shs'000	Non- current 2018 Shs'000	Non- current 2017 Shs'000	Total 2018 Shs'000	Total 2017 Shs'000
Car loans	11,828	10,177	20,209	23,455	32,036	33,632
Other loans and advances	4,481	4,921			4,481	4,921
Provision for impairment losses				(1,922)	-	(1,922)
Miscellaneous advances			(0)	4,179	(0)	4,179
Staff mortgage back up funds*	<u>32,240</u>	<u>31,996</u>	<u>309,649</u>	<u>298,580</u>	<u>341,888</u>	<u>330,577</u>
	<u>48,548</u>	<u>47,094</u>	<u>329,858</u>	<u>324,292</u>	<u>378,406</u>	<u>371,386</u>

\* These funds are deposited with the bank to support concessionary interest rate facilities to staff.

Mortgage back up accounts are:

HFC: Mortgage 3000013543 and Mortgage 2000094161

KCB Mortgage MM1509100194

**Total**

Shs'000  
164,690  
177,198  
341,888

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NOTES (CONTINUED)

15. Held-to-maturity investments - government securities	2018 Shs'000	2017 Shs'000
<b>Non-current</b>		
Treasury bonds		
Maturing after four years	135,000	155,375
Unamortised premium	<u>-9,994</u>	<u>-11,525</u>
	<u>125,006</u>	<u>143,850</u>
Treasury bonds		
Maturing after one year	65,484	117,153
Unamortised (discount)/premium	<u>-14</u>	<u>-4</u>
	<u>65,470</u>	<u>117,149</u>
	<u>190,476</u>	<u>260,999</u>
<b>Current</b>		
Treasury bonds		
Maturing within one year	62,976	75,000
Unamortised premium	<u>9</u>	<u>-</u>
	<u>62,984</u>	<u>75,403</u>
Treasury bills	818,800	581,600
Unamortised discount	<u>-45,248</u>	<u>-30,036</u>
	<u>773,552</u>	<u>551,564</u>
	<u>836,536</u>	<u>626,967</u>
	<u>1,027,012</u>	<u>887,966</u>

The fair value of the held-to-maturity assets -treasury bonds and treasury bills at the reporting date were:

<b>Non-current</b>		
Held-to-maturity investments	<u>190,476</u>	<u>260,999</u>
<b>Current</b>		
Held-to-maturity investments	<u>836,536</u>	<u>626,967</u>

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**NOTES (CONTINUED)**

				2018	2017
				Shs'000	Shs'000
<b>16a. Banks</b>	<b>Name of the Bank</b>	<b>Bank account no.</b>	<b>Account currency</b>		
	Commercial Bank of Africa Limited	6580810018	Shs	17,735	5,520
<b>16b. Cash in hand</b>	Cash in hand		Shs	140	140
<b>16c. Short term deposits</b>		MM1816900016			
	Commercial Bank of Africa Limited	MM1816900016	Shs	25,000	20,000
	Commercial Bank of Africa Limited	MM1718100101	Shs		7,000
	HFC Bank	A/c 1345823403-0	Shs		31,690
				<u>25,000</u>	<u>58,690</u>
<b>Total cash in hand and bank</b>				<u>42,875</u>	<u>64,350</u>

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

Short-term bank deposits	25,000	58,690
Cash at bank and in hand	17,875	5,660
Investors Compensation Fund bank balance (Note 16) - (KCB)	24,953	3,632
Investors Compensation Fund bank balance (Note 16) - (Call accounts - KCB)	0	92,000
	<u>67,828</u>	<u>159,982</u>

**17. 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:

	2018	2017
	Shs'000	Shs'000
At beginning of the year	1,883,311	1,505,006
Nairobi Securities Exchange transactions fees	80,230	63,819
Interest on investments	214,234	169,773
Financial penalties	43,029	162,284
Management fees	-500	-500
Gain /(loss) in Investment in NSE	50,531	-17,754
Bank Charges	-18	683
	<u>2,270,817</u>	<u>1,883,311</u>
At end of the year	<u>2,270,817</u>	<u>1,883,311</u>

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NOTES (CONTINUED)

17. Investors' Compensation Fund (continued)

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

	2018 Shs'000	2017 Shs'000
<b>Non-current</b>		
Equity investment in the Central Depository and Settlement	12,250	7,000
Equity investment in the NSE	<u>154,875</u>	<u>109,594</u>
	167,125	116,594
Treasury bonds		
Maturing after five years	802,000	737,000
Unamortised discount (premium)	<u>-1,211</u>	<u>-9,977</u>
	<u>800,789</u>	<u>727,023</u>
Maturing after one year	303,450	348,250
Unamortised discount	<u>1,304</u>	<u>1,654</u>
	<u>304,754</u>	<u>349,904</u>
	<u>1,105,543</u>	<u>1,076,927</u>
	<u>1,272,668</u>	<u>1,193,521</u>
<b>Current</b>		
Treasury bonds	94,800	35,000
Unamortised discount	<u>157</u>	<u>231</u>
	<u>94,957</u>	<u>35,231</u>
Treasury bills	877,900	554,950
Unamortised discount	<u>-46,904</u>	<u>-29,729</u>
	<u>830,996</u>	<u>525,221</u>
Fees receivable	47,242	33,707
Bank balance	24,953	3,632
Call account	<u>0</u>	<u>92,000</u>
	<u>72,195</u>	<u>129,339</u>
	<u>998,149</u>	<u>689,791</u>
	<u>2,270,816</u>	<u>1,883,311</u>

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NOTES (CONTINUED)

18. Property and equipment	Motor vehicles Shs'000	Computers, copiers & faxes Shs'000	Office equipment Shs'000	Furniture & fittings Shs'000	Capital work-in- progress Shs'000	Total Shs'000
<b>Cost</b>						
At 1st July 2016	22,092	116,460	22,794	88,182	0	249,529
Additions	-	7,309	3,934	3,039	-	26,046
Disposals		-9,365	-3,639	-3,254		-16,258
						0
<b>At 30th June 2017</b>	<b>29,818</b>	<b>114,404</b>	<b>23,090</b>	<b>87,968</b>	<b>4,037</b>	<b>259,317</b>
Additions	0	5,137	430	3,705	393	9,666
Disposals		-335				-335
Reversal					-4,037	-4,037
<b>At 30th June 2018</b>	<b>29,818</b>	<b>119,206</b>	<b>23,520</b>	<b>91,673</b>	<b>393</b>	<b>264,611</b>
<b>Depreciation</b>						
At 1st July 2016	-17,529	-88,779	-17,273	-43,291	-	-166,872
Depreciation	-4,028	-17,864	-2,416	-27,484		-51,791
Accumulated depreciation reversed on disposal		9,365	3,639	2,656		15,660
<b>At 30th June 2017</b>	<b>-21,557</b>	<b>-97,277</b>	<b>-16,050</b>	<b>-68,119</b>	<b>-</b>	<b>-203,003</b>
Depreciation	-2,950	-7,980	-2,146	-10,518		-23,594
Accumulated depreciation reversed on disposal		298				298
<b>At 30th June 2018</b>	<b>-24,506</b>	<b>-104,960</b>	<b>-18,197</b>	<b>-78,637</b>	<b>-</b>	<b>-226,299</b>
<b>Net carrying amount</b>						
<b>At 30th June 2018</b>	<b>5,312</b>	<b>14,247</b>	<b>5,323</b>	<b>13,036</b>	<b>393</b>	<b>38,312</b>
<b>At 30th June 2017</b>	<b>8,261</b>	<b>17,127</b>	<b>7,039</b>	<b>19,849</b>	<b>4,037</b>	<b>56,314</b>

Included above in the items of property and equipment is the cost of fully depreciated assets of Shs 147,432,099 (2017: Shs 136,126,943) which are still in use and have not been impaired. Work in progress was carried at cost.

Work in progress relates to 3 Ipad Pro which are to be delivered by July 2018. The detailed works are as follows:

Description	Cost Ksh'000
3 Ipad Pro	393
<b>Total</b>	<b>393</b>

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NOTES (CONTINUED)

	Intangible assets Shs'000
<b>19. Intangible assets</b>	
Software costs	
Cost	
At 1st July 2016	161,078
Additions	5,102
Derecognition of intangible asset	
At 30th June 2017	<u>166,180</u>
Additions	2,283
	<u>168,463</u>
At 30th June 2018	<u><u>168,463</u></u>
Amortisation	
At 1st July 2016	156,376
Amortisation	3,785
At 30th June 2017	<u>160,161</u>
Amortisation	3,359
	<u>163,520</u>
At 30th June 2018	<u><u>163,520</u></u>
Net book value	
At 30th June 2018	<u><u>4,943</u></u>
At 30th June 2017	<u><u>6,018</u></u>

NOTES (CONTINUED)

	2018 Shs'000	2017 Shs'000
<b>20. Trade and other payables</b>		
Trade payables	10,149	41,639
Provisions	92,307	70,398
Gratuity obligations	24,890	13,269
Accruals	<u>71,360</u>	<u>43,333</u>
	<u>198,706</u>	<u>168,640</u>

Included under accruals are the provisions for various services whose movement has been presented below:

Provisions	Leave benefits Shs'000	Performance Shs'000	Total Shs'000
At 1st July 2017	16,505	53,893	70,398
Additional provisions raised	14,429	23,985	38,414
Provision utilized/reversed	<u>-16,505</u>		<u>-16,505</u>
At 30th June 2018	<u>14,429</u>	<u>77,878</u>	<u>92,307</u>

Accruals	Consultancies Shs'000	Other Provisions Shs'000	Total Shs'000
At 1st July 2017	9,940	33,535	43,475
Additional accruals	5,541	40,449	45,990
Accruals realized	<u>-9,573</u>	<u>-28,137</u>	<u>-37,710</u>
At 30th June 2018	<u>5,908</u>	<u>45,847</u>	<u>51,755</u>

**21. Provision for liabilities and charges**

At 1st July 2017	95,906	88,740
Add: Additional provision	44,689	8,044
Less: Provision written back	<u>-61,510</u>	<u>-878</u>
At 30th June 2018	<u>79,085</u>	<u>95,906</u>

The Authority being the Capital Markets regulator in Kenya, is subject to legal proceedings in the normal course of business. While it is not possible to forecast or determine the final results of all pending legal proceedings, the Authority assesses the adequacy of its provisions periodically against case developments and related legal costs.

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NOTES (CONTINUED)

	2018 Shs'000	2017 Shs'000
<b>22. Current tax payable</b>		
Current year tax	-	-
<b>23. Deferred income</b>		
In line with the Authority's accounting policy, Nil (2017: Shs 7,200,000 ) of the donor funded income has been deferred for future periods.		
	2018 Shs'000	2017 Shs'000
At 1 July	0	7,200
Recognised in the year	0	-7,200
At 30 June	-	0
<b>24. Capital fund</b>		
At 1st July 2017 and at 30th June 2018	27,886	27,886
Capital fund represents the initial contribution by the Government of Kenya towards the establishment of the Capital Markets Authority.		
<b>25. General fund</b>	2018 Shs'000	2017 Shs'000
At 1 July	698,582	931,016
Surplus for the year	57,060	13,529
Transfer to building fund (Note 26)	(60,000)	(245,963)
At 30 June	695,642	698,582
General fund represents accumulated surpluses over the years.		
<b>26. Building fund</b>	2018 Shs'000	2017 Shs'000
At 1 July	475,963	230,000
Appropriation from general fund (Note 25)	60,000	245,963
At 30 June	535,963	475,963
Building fund represents an appropriation from the general fund towards the construction of the Authority's future building. The appropriations are in line with the approved budget for the year.		
<b>27. Related party transactions</b>	2018 Shs'000	2017 Shs'000
<b>i) Board members of the Authority' remuneration</b>		
Honoraria	1,044	1,044
Retainer	6,911	8,498
Sitting allowances	5,740	8,140
Training expenses	7,879	7,622
Others (medical, mileage, bonus)	10,724	11,664
	32,298	36,968
There were 10 board members during the year (2017:10)		
<b>ii) Key management compensation</b>		
Gross salaries	37,155	36,958
Pension	10	313
Gratuity	9,331	8,252
	46,496	45,523
There were 4 members of senior management who served during the year (2017:5)		

NOTES (CONTINUED)

28. Commitments

a. Contracted for but not recognised

Capital expenditure and recurrent expenditures contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	2018 Shs'000	2017 Shs'000
Capital expenditure contracted for	10,000	10,000
Recurrent expenditure contracted for	23,615	19,505
	<u>33,615</u>	<u>29,505</u>

b. <u>Item description</u>	Capital Shs'000	Recurrent Shs'000	Total Shs'000
Strategic plan Launch		6,495	6,495
Employee engagement survey		1,000	1,000
Investor education		1,393	1,393
Publicity and advertisement		12,775	12,775
Repairs and maintenance		1,625	1,625
Training travel cost		327	327
Business Intelligence system	10,000	-	10,000
<b>Total</b>	<u>10,000</u>	<u>23,615</u>	<u>33,615</u>

Operating lease commitments

Operating lease commitments represent rentals payable by the Authority for rented office space. Rental expenses during the year amounted to Shs 36,387,000 (2017: Shs45,783,000).

The future minimum lease payments under operating leases are as follows:

	2018 Shs'000	2017 Shs'000
Not later than 1 year	36,387	45,783
Later than 1 year and not later than 5 years	130,556	165,510
	<u>166,943</u>	<u>211,293</u>

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) In the normal course of operation, Kenya Revenue Authority (KRA) had completed a tax audit for the period 2007 to 2012 and had issued an assessment notice. The total tax liability arising from the year 2012 assessment was Shs 46 million. The Authority in conjunction with its tax agents has been following up on the outstanding tax issues raised. Principal tax arrears amounting to Shs 12 million were paid in the previous years and the Authority had applied for set-off of tax paid in error in previous years amounting to Shs 14.8 million. The Authority had also applied for waiver of interest and penalties amounting to Shs 19 million providing mitigating grounds in support of the waiver. The KRA has in the course of the financial year 2015/16 granted full waiver of interest and penalties for the years 2003-2009 estimated at Shs9.5million. The balance on the Statement of Account (comprising of penalties and interest for the years 2010-2012), for which waiver was applied for is being addressed by KRA. Based on the professional advice received and the mitigating grounds provided, 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 course of the conduct of its regulatory mandate claims for specified and unspecified damages have been lodged against the Authority before the Courts and the Capital Markets Tribunal and the proceedings are still ongoing. In this regard, as permitted by IAS 37.92, in order not to prejudice the outcomes of the proceedings and the interests of the Authority, and noting the uncertainty regarding the timing or amount of contingent liabilities in connection with these cases, the Directors have not made any further disclosures about estimates .

As at the year end there has been identified one specified contingent liability of Kshs.95 million arising from a legal case. The Directors note that the matter in question was struck out at first instance in favour of the Authority and is currently the subject of appeal. Legal advice obtained indicates that it is unlikely that liability for the Kshs. 95 Million will arise. The directors are of the view that no material losses will arise in respect of the legal claim at the date of these financial statements and therefore have made no provision.

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**NOTES (CONTINUED)**

**30. Transfer of Surplus to National Treasury**


		2017/2018		2016/2017
	Shs'000	Shs'000	Shs'000	Shs'000
Total Revenue		967,469		983,540
Operating Expenses		<u>(889,282)</u>		<u>(970,011)</u>
Surplus before tax		78,187		13,529
Add back:				
Depreciation	23,594		51,791	
Amortization	3,359	26,952	<u>3,785</u>	55,577
Adjusted Surplus		105,140		211,416
Transfer from Deferred Income		-		<u>(7,200)</u>
Adjusted Surplus		105,140		204,216
Less:				
Building fund	(60,000)		(245,963)	
Capital expenditure	(9,666)		(26,046)	
Intangible Assets	(2,283)		(5,102)	
Staff Mortgages net	(11,312)		(80,003)	
Staff Car loans net	1,595		<u>(3,632)</u>	
		<u>(81,666)</u>		<u>(360,746)</u>
Net Surplus/ (Deficit)		23,474		-156,530
90%		21,127		-140,877
90% Surplus due to KRA		<u>21,127</u>		<u>0</u>

	2018	2017
	Kshs'000	Kshs'000
<b>31. Operating expenditure</b>		
<b>31.1 Employment expense</b>		
Consolidated pay, leave pay and passages	401,697	377,940
Staff uniform expenses	405	85
Staff welfare and other costs	20,376	10,560
Staff retirement benefits	34,136	31,451
Staff gratuity	11,449	9,541
National Social Security Fund (NSSF)	<u>342</u>	<u>312</u>
	<u>468,404</u>	<u>429,889</u>
<b>31.2 Other administrative expenses</b>		
Rent and maintenance	37,155	53,365
Equipment maintenance and stationery	42,216	29,501
Telephone, postage and utilities	15,654	14,327
Entertainment and public relations	17,231	33,183
Medical scheme and insurance expenses	32,997	26,365
Training and conferences	62,849	62,047
Motor vehicle running expenses	6,008	6,113
Subscriptions and IOSCO membership	9,854	11,946
Authority board members' emoluments and allowances	32,298	36,968
Professional and market development services	109,982	178,106
Depreciation of property and equipment	23,594	51,791
Amortisation of intangible assets	3,359	3,785
Auditor's remuneration	1,726	1,760
Investors' education and awareness programme	24,213	26,767
Tribunal expenses	1,302	4,097
Provision for doubtful debts	<u>441</u>	<u>-</u>
	<u>420,877</u>	<u>540,122</u>
<b>Total expenditure</b>	<u><u>889,282</u></u>	<u><u>970,011</u></u>

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PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue/Observations from Auditor	Management Comments	Focal Point person to resolve the issue (Name and Designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
All observations made in the Management Letter were resolved in the financial statements of FY 2016/17.					

  
 Chief Executive

  
 Chairman of the Board

Date..... 23-08-2018

Date..... 24-08-2018

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Appendix 1: Projects implemented by the Entity

Projects implemented by the State Corporation Funded by development partners (Financial Sector Support Programme)

Project Number	Project title	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)
1	Establish an oversight framework for derivatives market	FSSP	19 months	Yes	Yes. Quarterly reports done to World Bank through PIU
2	Hybrid Bond Market Model Implementation and Acquisition of a Bond Trade Reporting System	FSSP	10 months	Yes	Yes. Quarterly reports done to World Bank through PIU
3	Provide alternative funding for counties through capital markets Consultancy services to develop specifications for Acquiring an Information Repository System, Financial Analysis Framework, Enhancement Communication Infrastructure	FSSP	20 months	Yes	Yes. Quarterly reports done to World Bank through PIU
4	Enhancement Communication Infrastructure	FSSP	22 months	Yes	Yes. Quarterly reports done to World Bank through PIU

Status of Projects completion

(Summarise the status of project completion at the end of each quarter, ie total costs incurred, stage which the project is etc)

Project	Total project Cost (USD)	Total expended to date (USD)	Completion % to date	Budget	Sources of Funds
1	\$158,850	\$60,032.57	50%	\$158,850	World Bank through FSSP
2	\$181,512	\$18,151.22	30%	\$181,512	World Bank through FSSP
3	\$104,300	\$59,220	8%	\$104,300	World Bank through FSSP
4	\$284,998.27	\$99,749.30	60%	\$284,998.27	World Bank through FSSP

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**Appendix 2- Inter Entity Transfers**

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/ Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
FSSP	See Appendix 3	Recurrent	8,188,485	8,188,485	-	-	-	-	8,188,485
FSSP	See Appendix 3	Direct Payments	25,704,832	25,704,832	-	-	-	-	25,704,832
FSDA	See Appendix 3	Recurrent	410,148	410,148	-	-	-	-	410,148
<b>Total</b>			<b>34,303,465</b>	<b>34,303,465</b>	-	-	-	-	<b>34,303,465</b>

*As per note 7 - Donor Fund income : The Authority received support from FSDA, FSSP, and the funds were paid directly to the consultants.*

The above amounts have been communicated to and reconciled with FSSP-Project implementation Unit of the National Treasury

Finance Manager

Capital Markets Authority

Sign  CPA 2626

**KEY:**

**FSSP** : Financial Sector Support Project : This is a World Bank funded project that strengthens the legal regulatory and institutional environment for improved financial stability.

**FSDA** : Financial Sector Deepening Africa; This is a project funded by the United Kingdom's Department of International Development which promotes financial sector Development.

Capital Markets Authority  
Financial statements

For the year ended 30th June 2018

Appendix 3: Recording of Transfers from Donors

ENTITY NAME: CAPITAL MARKETS AUTHORITY	Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
Break down of Transfers from Donors			
FY 2017/2018			
a. Reimbursements for Capacity building Technical Costs.			
Financial Sector Support Project (FSSP)			
Reimbursement for Staff training and Development for Various Capital Markets technical skills trainings	Between 01/07/2017 and 30/06/2018	5,317,257.00	2017/18
<b>Sub Total</b>		<b>5,317,257.00</b>	
b. Direct Payments			
Details of the Payment	Transaction Description	Amount (KShs)	
b(i) Capacity Building			
Flight and Accommodation Costs paid by FSDA for the London Fintech Training	Contra-Staff Training and Donor Funding income	410,148.40	
Airfares for trainings paid directly by FSSP	Contra-Staff Training and Donor Funding income	827,715.00	2017/18
Training Tuition Fees paid directly by FSSP	Contra-Staff Training and Donor Funding income	1,416,613.20	2017/18
Advertisements on Electronic Issuance Trading System	Contra-Donor Funded Consultancies and Donor Funding income	285,000.00	2017/18
Advertisements on Market Conduct	Contra-Donor Funded Consultancies and Donor Funding income	341,900.00	2017/18
	<b>Sub Total</b>	<b>3,281,376.60</b>	
b(ii) Donor funded Consultancies .			
Consultancy to provide Medium Term Resident Advisory on Derivatives to the CMA	Contra-Donor Funded Consultancies and Donor Funding income	7,335,114.40	
Consultancy to develop specifications for an Information Repository - Advanced Financial System, E-learning system and communications/IT Infrastructure for CMA, ISCL	Contra-Donor Funded Consultancies and Donor Funding income	10,411,479.65	2017/18
Consultancy to assess the funding gaps at the National and County governments to inform development of CMA products/services	Contra-Donor Funded Consultancies and Donor Funding income	6,101,902.80	2017/18
Consultancy for the Implementation of the Hybrid Bond Market in Kenya	Contra-Donor Funded Consultancies and Donor Funding income	1,856,334.90	2017/18
	<b>Total</b>	<b>25,704,831.75</b>	
	<b>GRAND TOTAL</b>	<b>34,302,455.35</b>	

As per note 7 - Donor Fund income . The Authority received support from FSDA, FSSP, and the funds were paid directly to the consultants.