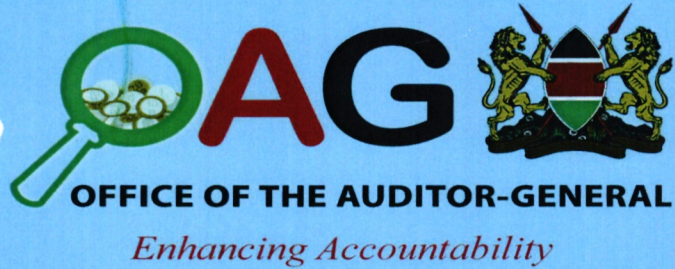


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL


ON

CAPITAL MARKETS AUTHORITY

FOR THE YEAR ENDED

30 JUNE, 2020

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CAPITAL MARKETS AUTHORITY
DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDING JUNE 30, 2020

Prepared in accordance with the Accrual Basis of Accounting Method under the International
Public Sector Accounting Standards (IPSAS)

*Capital Markets Authority
Annual report and financial statements
For the year ended June 30, 2020*

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Capital Markets Authority
Authority Information
For the year ended June 30, 2020

Registered office	3rd Floor, Embankment Plaza Longonot Road, Upper Hill P.O. Box 74800, 00200 Nairobi, Kenya
Authority contacts	Telephone: (254) 2221910/ 2264900/2221869/2226225 E-mail: corporate@cma.or.ke Website: www.cma.or.ke
Principal bankers	NCBA Bank Kenya PLC Mara / Ragati Roads Upper Hill P.O. Box 30437, 00100 Nairobi, Kenya HFC Limited Kenyatta Avenue/Koinange Street, Rehani House P.O. Box 30088, 00100 Nairobi, Kenya KCB Mortgage Centre, Salama House Mama Ngina Street P.O. Box 45129, 00100 Nairobi, Kenya
Authorized independent auditor	Mbaya & Associates Certified Public Accountants 3rd Floor, Westlands Heights Karuna Road, Westlands P.O. Box 45390, 00100 Nairobi, Kenya
On behalf of	The Auditor-General Office of the Auditor General Anniversary Towers University Way P.O. Box 30084, 00100 Nairobi, Kenya
Principal legal adviser	The Attorney General State Law Office Harambee Avenue P.O. Box 40112, 00200 Nairobi, Kenya

Capital Markets Authority
Authority Information (continued)
For the year ended June 30, 2020

Principal legal adviser (continued)

Mohammed Muigai LLP
MMC Chambers 4th Floor, K-REP Centre
Wood Avenue Off Lenana Road Kilimani
P.O. Box 61323, 00200
Nairobi,
Kenya

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

Capital Markets Authority
Authority Information
For the year ended June 30, 2020

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 orderly, fair and efficient capital markets in Kenya.

Board Members of the Authority

Name	Date of Birth	
Mr. James Ndegwa	24 th June, 1964	Chairman
FCCA. Wycliffe Shamiah	3 rd September, 1969	Acting Chief Executive
Mr. Paul. M. Muthaura	27 th April, 1978	Chief Executive *up to 31 st December 2019
Hon (Amb.) Ukur Yatani	12 th March, 1967	Cabinet Secretary, The National Treasury & Planning
Dr. Geoffrey Mwa	11 th November, 1957	Alternate to the Cabinet Secretary, The National Treasury & Planning up to 22 nd April 2020
Prof. Dulacha Galgalo Barako	23 rd November, 1969	Alternate to the Cabinet Secretary, The National Treasury & planning appointed 23 rd April 2020
Mr. Paul Kihara Kariuki	11 th May, 1954	Attorney General
Mr. Nevis Ombasa	24 th October, 1980	Alternate to the Attorney General
Dr. Patrick Njoroge	2 nd December, 1961	Governor Central Bank of Kenya
Mr. William Nyagaka	22 nd February, 1965	Alternate to Governor, Central Bank of Kenya up to 31 st March 2020
Mr. David Luusa	17 th June, 1977	Alternate to Governor, Central Bank of Kenya appointed 1 st April 2020
Mr. Moibi Mose	18 th June, 1974	Member
Ms. Christine Okoth	26 th May, 1975	Member
Dr. Thomas Kibua	20 th August, 1948	Member
Mr. John Birech	10 th May, 1958	Member
Dr. Freshia Mugo Waweru	31 st October 1980	Member
Mr. Peter Mungai	9 th July 1983	Member

Management team

Wyckliffe Shamiah

Position Ag. Chief Executive from 2nd January 2020
 Date joined the Authority May 20, 1997
 Profession Accountant
 Key qualifications MBA, BA, CPA (K)



Paul Muthaura

Position *Chief Executive up to 31st December 2019
 Date joined the Authority September 15, 2005
 Profession Advocate of The High Court of Kenya
 Key qualifications LLM, LLB, MPhil, Dip Law, Dip in Financial Management.



Edwin Njamura

Position Director, Corporate Services
 Date joined the Authority July 17, 2012
 Profession Management
 Key qualifications EMBA, BCOM, CPA(K), FA, BSP



Luke Ombara

Position Director, Regulatory Policy and Strategy
 Date joined the Authority February, 15 1995
 Profession Economist
 Key qualifications BA, BSP



Abubakar Hassan

Position Ag. Director Market Operations from January 13, 2020
 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



Esther Maiyo

Position Manager, Internal Audit
 Date joined the Authority February 15, 1995
 Profession Accountant
 Key qualifications MBA, BCOM, CPA(K), CPS (K), CISA



Daniel Warutere

Position Manager, Market Supervision
 Date joined the Authority November 10, 2008
 Profession Lawyer,
 Key qualifications LLB, CPS, CPA, Pg Cert Capital Markets



Kamunyu Njoroge

Position Manager, Investor Education and Public Awareness
 Date joined the Authority January 3, 2005
 Profession Economist
 Key qualifications MA, B.A



Capital Markets Authority
Authority Information (continued)
For the year ended June 30, 2020

Management team

Hellen Ombati

Position Manager, 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 Sybase Database Administration and Performance Tuning Certification



Willyson Nyale

Position Manager, Corporate Approvals
 Date joined the Authority December 15, 2005
 Profession Accountant
 Key qualifications MBA, BCOM, CPA(K), CPS(K), Pg Cert Capital Markets



Capital Markets Authority
Authority Information (continued)
For the year ended June 30, 2020

Key

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

CORPORATE GOVERNANCE STATEMENT

The Board of the Authority (the Board) is responsible and accountable to the Government of Kenya, through The National Treasury & Planning, 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 management.
- iii) During the period under review, the Board met fourteen 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. Hon. (Amb.) Ukur Yatani (Cabinet Secretary, The National Treasury & Planning)

Hon. Amb. Ukur Yatani Kanacho has over 27-year experience in public administration, politics, diplomacy and governance in public sector since 1992. Before his appointment as Cabinet Secretary for The National Treasury & Planning, he served as the Cabinet Secretary for Labour and Social Protection since January 2018. Between the years 2006-2007, while Member of Parliament for North Horr constituency, he also served as an Assistant Minister for Science and Technology. At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya.

Between June 2009 and October 2012, he served as Kenya's Ambassador to Austria with accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. In this position, he aggressively pursued and advanced Kenya's foreign interests. He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against Transnational Organized Crime (UNTOC), Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and chair of African Group of Ambassadors among others.

From 1992 to 2015, he served in different positions in Kenya's Public Administration including a District Commissioner, where he sharpened his management and administrative skills.

Hon. (Amb.) Ukur Yatani holds a Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005 and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.

3. Alternate to Cabinet Secretary, The National Treasury & Planning : Dr. Geoffrey Mwau (Director General, Budget, Economics and Fiscal Affairs, The National Treasury) - up to 22 April 2020

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. Alternate to Cabinet Secretary, The National Treasury: Prof. Dulacha Galgallo Barako (Director, Financial and Sectoral Affairs Department, National Treasury) (Appointed on 23rd April 2020)

Prof. Barako is currently, Director, Financial and Sectoral Affairs Department at The National Treasury. He previously worked at the Central Bank of Kenya and served as Head of Academic Division at the Kenya School of Monetary Studies (KSMS). He taught at Curtin University (Australia), Strathmore University and Moi University through the postgraduate collaborative programs at KSMS. He also served as Policy Advisor at the Commission on Revenue Allocation.

At the Central Bank of Kenya, he worked in various Departments: Banking, Bank Supervision and Research.

He completed his PhD study at the University of Western Australia in 2005, and Bachelor of Commerce (1993) and Master of Business Administration (1996) Degrees at the University of Nairobi. He has co-supervised a number of PhD students and supervised several Masters' research students. He has examined several postgraduate theses. He also served as external examiner for Curtin University, Australia (Curtin Business School) and Strathmore University, Kenya (Strathmore Business School). He served as Adjunct Professor at Curtin University, School of Business; Moi University, Associate Professor, School of Business and Economics, and Adjunct Professor at the KCA University.

COMPOSITION OF THE BOARD (Continued)

He is a member of the Institute of Public Accountants, Australia as well as the Accounting and Finance Association of Australia and New Zealand (AFAANZ). He is also a practicing member of the Institute of Chartered Investment and Financial Analysts of Kenya (ICIFA). He served in various boards: Chairman of Council, Dedan Kimathi University of Technology; Chairman of Council, Meru University of Science and Technology; Treasurer of Council, Moi University; and board member, Agricultural Finance Corporation.

5. Mr. Paul Kihara Kariuki

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. He 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 a judge in the High Court of Kenya (2003- 2011). He served in the Civil and Commercial divisions of the Court and as a judge in the Election Court for various parliamentary petitions. Previously he was a partner, Messrs Ndungu Njoroge and Kwach Advocates, Nairobi (1986- 2000) and legal assistant and partner, Messrs 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 Master's 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 (up to 31st March 2020)

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 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. Alternate to Governor, Central Bank of Kenya: Mr. David Luusa (Appointed from 1st April 2020)

Mr. David Luusa joined the Central Bank of Kenya in April 2020 and was appointed Director, Financial Markets Department (FMD).

Prior to joining the Bank, David served at Standard Chartered Bank as a member of the Executive Committee and Head of Financial Markets in the East Africa region. He has extensive banking experience across different markets in Africa and Europe holding senior leadership responsibility within financial markets. He holds a Master of Arts degree in Economic Science from the University of Aberdeen and serves on the Monetary Policy Committee of the Central Bank of Kenya.

10. 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 Master of Laws (LLM) and a Bachelor of Laws (LLB) degree (Honours) both from the University of Nairobi.

COMPOSITION OF THE BOARD (Continued)

Mr. Moibi is the Managing Partner and co-founder of Meritad Law Africa LLP, Nairobi, and has a vast experience in conveyancing, commercial, corporate, banking, insurance, international, and public finance law, litigation, arbitration, mediation, Real Estate, Family Court, Election Petitions and Immigration Law. He previously worked at Ongweny & Moibi Advocates as a Managing Partner, and an Associate of both Sichale & Company Advocates as well as Munoru Kagiri & Wamae Advocates

11. Ms. Christine Okoth

Christine is currently the Managing Director - MAL Consultancy Limited. She is an experienced Human Resource (HR) 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. Dr. Thomas Kibua

Dr Kibua is Senior Faculty at Strathmore University Institute of Public Policy and Governance and Economic Advisor to the Governor of Makueni County. 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 Program 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.

13. Mr. John Birech

Mr. John Birech holds an MA (Economics); B Phil. (Economics) and BA (Economics) from the University of Nairobi. He is an independent director of the Board and has previously served in various capacities at the Central Bank of Kenya, his last appointment being the Ag. Director, Financial Markets Department before retirement.

14. Dr. Freshia Mugo – Waweru

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, 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.

COMPOSITION OF THE BOARD (Continued)

15. Mr. Peter Mungai

Mr. Mungai is an Advocate of the High Court of Kenya and holds a Bachelor of Laws Degree (LLB) and a Masters in Business Administration (MBA) from University of Nairobi (UoN). He is currently pursuing a Ph.D. in Business Administration from the same institution. He is a Certified Public Accountant (CPA) and a Certified Public Secretary (CPS) as well an Associate of the Kenya Institute of Bankers (AKIB). He also holds a Certificate in Banking and Financial Services (CBFS).

Mr. Mungai is the Head of Tax for ABSA Bank of Kenya Limited and has over 12 years' experience in tax management and policy. Prior to joining ABSA bank, Mr. Mungai worked with PricewaterhouseCoopers (PwC) and KPMG East Africa. He is a Trustee for ABSA Bank Pension Schemes and a Member of the Standards Tribunal. He has also worked with Diamond Trust Bank (DTB).

16. Mr. Paul M. Muthaura (Chief Executive) (up to 31st December 2019)

Mr. Muthaura was the Chief Executive, Capital Markets Authority up to 31st December 2019. Prior to the Chief Executive position, he held other positions as the Director, Regulatory Policy and Strategy; Head of Legal Framework and Head of Enforcement. Mr. Muthaura was 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 was 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 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 an Honorary Fellow of the Institute of Certified Secretaries. He holds 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.

17. FCPA. Wyckliffe Shamiah (Ag. Chief Executive) from 1st January 2020

Mr. Shamiah is the Acting Chief Executive of the Capital Markets Authority effective January 2020. He was previously the Director of Market Operations. He has worked at the Authority for over 22 years in various capacities with all round exposure in various aspects of capital markets.

During this period, Mr. Shamiah has been the nominee of the Capital Markets Authority to the Council of the Institute of Certified Public Accountants of Kenya for more than 11 years and a representative of the Authority to the Financial Stability Board Regional Consultative Committee for Sub-Saharan Africa. Regionally, he has played a major role in development of capital markets having contributed immensely in capacity building programmes in Tanzania, Uganda, Rwanda and Burundi. He chairs one of the technical committees of association of securities markets regulators in East Africa (EASRA), the Market Supervision and Risk Management Sub-Committee. He sits on various boards including Insurance Regulatory Authority, Retirement Benefits Authority and Vision 2030 Delivery Board. Mr. Shamiah is a Fellow of the Institute of Certified Public Accountants (FCPA)(K) and holds a Masters in Business Administration from the University of Nairobi and a Bachelor of Arts Degree in Mathematics and Economics from Egerton University.

I. Market Performance

Performance in the Financial Year (FY) 2019/20 is best viewed based on the performance recorded during the two halves of the year. Compared to the second half, the first half of the year registered a relatively strong performance pattern, buoyed by relative stability in market performance following a number of positive factors including the enhanced market infrastructure for facilitating trading, a calm political environment and the launch of new products and innovations.

During the period under review, we observed enhancement of the capital markets infrastructure with the implementation of upgraded Automated Trading System (ATS) at the Nairobi Securities Exchange (NSE) and the commissioning of a new Central Depository System (CDS) at the Central Depository and Settlement Corporation (CDSC) undertaken in October 2019. This was the culmination of a process that was initiated in 2014 noting that the systems had been in operation for a period of about 13 to 15 years. This exercise was conducted under the close supervision of the Authority in administering its regulatory function. The new system has since improved customer experience in the trading of securities by:

- i. Reducing the risk of system failure or break downs;
- ii. De-coupling the ATS and CDS by separating trading and depository functions into independent but inter-dependent system for greater speed and efficiency;
- iii. Enabling use of up-to-date market infrastructure able to support the rollout of new Capital markets products as envisioned in the Capital Markets Master Plan such as, Securities Lending and Borrowing (SLB), short selling, day trading as well as multiple settlement cycles;
- iv. Removal of pre-validation of trades (which required securities to be in the sellers account prior to any trades being effected) as a risk management measure to remove inefficiencies impacting market liquidity, as securities were forced to remain idle for the duration of the trading cycle (T+3), increasing the cost of trading in the market and blocking execution of trading strategies such as short selling and securities lending; and
- v. Increasing the ability of the systems to connect with global and broader domestic financial systems to improve efficiency.

The benefits of the upgraded infrastructure were further cemented through the admission of the Central Depository and Settlement Corporation (CDSC) onto the Authority's regulatory sandbox program on 8th April 2020 to test its proposed screen-based Securities Lending and Borrowing (SLB) platform for a period of five months. A total of six companies have been admitted in the sandbox as at June 30, 2020.

In addition, the Capital Markets in conjunction with other market regulators oversaw the successful launch of a derivatives market in Kenya resulting in the subsequent trading of the six listed Single Stock Futures (SSF) namely; the NSE 25 Share Index, Safaricom PLC, British American Tobacco (BAT), Kenya Commercial Bank (KCB), Equity Group and ABSA, formerly Barclays Bank of Kenya (BBK) in October 2019. Futures played a significant role in creating a favourable environment for trading by market participants with 572 contracts traded between 4th July 2019 and 15th June 2020.

Performance in the second half of the year started on a relatively stable footing with the NSE 20 share index recording 2,673.98 on 2nd January 2020. However, with the announcement of first case of Covid-19 in Kenya on 13th March 2020, volatility in market performance was observed with the index plummeting to 1,942.12 as at end of the financial year. This was further characterised by increased foreign equity outflows between January and June 2020 reaching a record high of Kshs. 21,434 Million compared to an outflow of Kshs. 582 Million and Kshs. 11,416 Million recorded between July 2019 and December 2019 and in the financial year 2018/19

Equity turnover levels increased by 9.20 percent to Kshs. 158.90 Billion in the financial year 2019/20 compared to Kshs. 145.51 Billion in 2018/19. Fortunately, as foreign outflows increased, local institutions took advantage of the increased supply to increase their holdings in several blue-chip counters.

In the primary fixed income market, the Central Bank of Kenya as a fiscal agent of the Government of Kenya issued 15 fixed coupon Treasury Bonds, three Infrastructure Bonds and four tap sales as the Government sought to raise Kshs. 712 Billion to finance development and budgetary support. This was against Kshs. 803 Billion and Kshs. 570 Billion received and accepted respectively, reflecting an oversubscription by 12.62 percent and an acceptance rate of 79.94 percent in FY 2019/20. This reflected the increased year-on-year appetite for Government securities as investors sought safer asset classes in the wake of the Covid-19 pandemic.

Capital Markets Authority
Report of the Chief Executive Officer (continued)
For the year ended June 30, 2020

In the secondary fixed income market, Treasury Bonds dominated Corporate Bonds with Treasury Bond turnover levels in FY 2019/20 amounting to Kshs. 554.49 Billion against a Corporate Bond turnover value of Kshs. 4.43 Billion. This compares with Kshs.569.94 Billion and Kshs. 313.85 Million in Treasury and Corporate Bond turnover levels recorded in FY 2018/19.

Further, in the second half of the year, the role of gold as a psychological barometer of market sentiment was witnessed in the face of Covid-19 based on the asset's ability to retain investment value. As a result, more trades were observed on the listed ABSA New Gold Exchange Traded Fund (ETF) in the second half of the year. ETF turnover performed favourably in the financial year with 37 ETF deals closed in FY 2019/20 and a turnover level of Kshs. 164.97 million, with Kshs.163.49 million(99.1%) recorded in the second half of the financial year. This is compared to four ETF deals with a turnover of Kshs. 1.47 Million in the FY 2018/19.

II. Measures Undertaken by the Authority in the Face of Covid-19 Pandemic

The effects of Covid-19 have been witnessed across all sectors of the economy with various regulators innovating and adopting flexible measures to support their respective markets. The Authority was no exception and made various industry interventions to support market participants.

Table 1: Measures Undertaken by the Authority in the Face of Covid-19 Pandemic:

	Matter/Issue	Measure Undertaken
1	Reporting Requirements	<ul style="list-style-type: none"> The Authority reviewed reporting requirements with the lifting of the publishing of financial statements in two newspapers. Listed companies are now required to publish through their websites, but those who can do the former are encouraged to follow through with the requirements to reduce regulatory and compliance costs for market intermediaries.
2	Business Continuity Interventions	<ul style="list-style-type: none"> The Authority put in place necessary business continuity plans to ensure the safe and orderly conduct of its business during this time and is working with the entire capital markets industry so that appropriate measures are taken as the usual service is made available. Review and temporarily relax existing prudential and market conduct requirements for listed entities and market intermediaries where practical to keep business afloat.
3	Payment of Dividends	<ul style="list-style-type: none"> The Authority facilitated the approval for payment of dividends to shareholders before Annual General Meetings (AGMs).
4	Capital Markets Co-ordination	<ul style="list-style-type: none"> The Authority developed an industry consultative approach ((CMA/NSE/CDSC/KASIB/FMA) in addressing market interventions aimed at supporting stakeholders to ensure minimal disruption to market activities while supporting the Government of Kenya strategies to contain the spread of the virus.

Capital Markets Authority
Report of the Chief Executive Officer (continued)
For the year ended June 30, 2020

Table 1: Measures Undertaken by the Authority in the Face of Covid -19 Pandemic:- continued

	Matter/Issue	Measure Undertaken
5	Holding of Annual General Meetings (AGMs) by Licensees	<ul style="list-style-type: none"> The Authority allowed listed companies and licensed persons including collective investment schemes scheduled to hold AGMs in March, April and May 2020, to postpone the meetings whilst they explored virtual platforms that could be used to hold the meetings.
6	Leveraging Technology in Stakeholder Engagements	<ul style="list-style-type: none"> The Authority has adopted the use of and promotion of digital technology and application of ICT in disclosures, compliance and stakeholder engagements. The technology enabled stakeholder engagements through platforms such as Facebook live streaming which allow for interaction with both local and diaspora /foreign investors.
7	Communication with the Public	<ul style="list-style-type: none"> The Authority has maintained consistent communication with the public through circulars and press releases aimed at keeping its stakeholders and the general public abreast with its activities in the face of Covid-19.
8	Regulatory Provisions	<ul style="list-style-type: none"> Review infrastructure, policy, legal and regulatory requirements to support access to capital markets investors and services. In this period, this has been undertaken through: <ol style="list-style-type: none"> Development of draft regulations to put into operation section 20 c and d of the Income Tax Act on the exemption of Real Estate Investment Trusts alongside Unit Trusts and Collective Investment Schemes from Income Tax. The draft regulations were put out for stakeholder comments with the process closed on 2nd July 2020. Development of guidelines for the valuation of Collective Investment Schemes, investment performance measurement and reporting as a way of standardizing reporting requirements of the different CISs in the industry. Review of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 to create room for different classes of issuers (Government and corporate)
9	Measures to Support continuous investment in the capital markets during the Covid-19 Pandemic period	<ul style="list-style-type: none"> The Authority has guided the public as well as institutional investors such as pension schemes on taking advantage of the undervalued securities occasioned by panic selling on the securities exchange and buying and holding the same for future capital gain. Further the Authority continues to collaborate with the NSE and market intermediaries in supporting the use of mobile phones and general online access by retail investors to enhance market activities at this period where physical movement is limited by social distancing rules.
10	Contribution to the Covid-19 National Kitty	<ul style="list-style-type: none"> In line with the commitment to support the national efforts to address the adverse effects of the coronavirus pandemic, the capital markets industry stakeholders led by the Capital Markets Authority (CMA) donated Ksh.30 million to the Covid-19 Emergency Response Fund in May 2020. The contribution came on the back of a raft of measures unveiled in April 2020 to ensure business continuity in the capital markets industry in the wake of the Coronavirus pandemic.

Source: CMA

III: Capital Markets-Related Policy Pronouncements – Budget Statement 2020

The Budget Statement for the Financial Year 2020/21 presented by the Cabinet Secretary on 11th June 2020 under the theme; "Stimulating the Economy to Safeguard Livelihoods, Jobs, Businesses and Industrial Recovery" made provisions that further position the Capital Markets as a favourable investment destination by industry participants.

These provisions include,

- Amendments to the Capital Market Act, to provide for the regulation of private equity and venture capital companies by the Authority. This is aimed at complimenting the amendments to the Investment Guidelines under the Retirement Benefits Regulations in 2015 to allow pension schemes to invest up to 10% of their assets in private equity funds and venture capital funds licensed by the Capital Markets Authority.
- Amendment of the Capital Markets Act to remove the function of payment of beneficiaries from collected unclaimed dividends since this is a function currently domiciled under the Unclaimed Financial Assets Authority

Capital Markets Authority
Report of the Chief Executive Officer
For the year ended June 30, 2020

IV. Other Policy and Regulatory Frameworks

a) Gazettement and Implementation of the Capital Markets (Commodities markets) Regulations 2020 and Capital Markets (Coffee Exchange) Regulations 2020.

On 3rd April 2020, the Cabinet Secretary of the National Treasury gazetted the Capital Markets (Commodities Markets) Regulations 2020 LN No 41 and Capital Markets (Coffee Exchange), Regulations 2020 L.N No.40 which are expected to play a major role in promoting food security and nutrition as outlined by the Big 4 Agenda blueprint. Entities that deal with this business are expected to comply with the regulations as the Authority aims at engaging all the concerned stakeholders to ensure a smooth transition.

b) Guidelines on Share Buybacks for listed companies.

CMA in June 2020 issued guidelines on the acquisition by listed companies of their own shares which was introduced in Kenya pursuant to the Companies Act, 2015 (the Companies Act) to provide limited companies share buybacks for listed companies with a unique opportunity to consider this option as an additional strategy for them to re-invest in their operations.

c) Roll out CPD Program for the Capital Market Practitioners in Kenya.

As part of the Authority's drive for enhancing professionalism for customer-facing staff working for capital market intermediaries in Kenya, the Capital Markets Authority (CMA) announced plans to roll out a Continuous Professional Development (CPD) Program with effect from 7 August 2019. The CPD program is a follow-up to introduction of securities industry certification program in 2016 under an MoU between the Authority and the Chartered Institute for Securities & Investment (CISI).

d) Publication of the Second State of Corporate Governance Report.

The Authority published the second State of Corporate Governance Report based on an assessment of 53 issuers of securities to the public in FY 2018/19. The report is aimed at raising visibility of the state of corporate governance of issuers of securities to the public in Kenya in order to empower investors and respective boards as well as to encourage continuous improvement in practices. The report follows the evaluation of the second set of regulatory reports submitted in accordance with the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (the Code), which became effective in March 2017.

e) Capital Markets Industry Webinar on Industry Challenges and Solutions.

The Authority in its bid to achieve its market development mandate, realized there was a continuous trend of low uptake of new products both on the supply and demand side. Over the years the Authority has taken different initiatives to try and address this challenge which include undertaking research, benchmarking with other jurisdictions and holding various forums with the market stakeholders. This trend, however, has persisted especially during the Covid-19 pandemic season. There was therefore a need to hold a meeting and engage the stakeholders on the challenges they were facing and develop collaborative solutions.

V. Financial Highlights

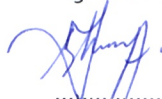
RESULTS		As at 30th June 2020	As at 30th June 2019
		Shs '000	Shs '000
The results for the year are summarised below: -	Notes		
Total income for the year	6-9	<u>1,064,116</u>	<u>1,044,093</u>
Total operating expenditure for the year	29	<u>(808,566)</u>	<u>(900,341)</u>
Surplus under accrual accounting		<u>255,550</u>	<u>143,752</u>
Cashflow / balance sheet items	11(a)	(58,230)	(40,746)
Surplus before 90% due to the Exchequer		<u>197,320</u>	<u>103,006</u>
90% Surplus due to Exchequer	11(a)	<u>(177,588)</u>	<u>(92,706)</u>
Adjusted Retained Surplus		19,732	10,300
Add back: balance sheet/cashflow items		58,230	40,746
Retained Surplus under accrual basis		<u><u>77,962</u></u>	<u><u>51,046</u></u>

VI. Prospects

The uncertainty presented by the Covid-19 pandemic cannot be understated. With projections for economic decline across the globe, a multi-faceted approach towards attaining economic recovery remains a critical success factor. The Authority has since developed a short to medium term economic recovery strategy that will be implemented within the next two to three years with the following projected outcome;

- i. Increasing the utilization of Capital Markets and listings by Micro, Small and Medium Enterprises (MSMEs), existing and potential large cap business and Counties to fund their longer-term expansion and contribution to Kenya's economic development;
- ii. Increasing primary and secondary equity and debt market liquidity;
- iii. Improving Capital Markets soundness by reducing concentration risks and
- iv. Increased mobilization of savings and investments by Kenyan populace towards achievement of the 'Big 4' Agenda, looking forward to creating the right partnerships for success.

I wish to acknowledge that all the achievements during the period under review would not have been possible without the firm support of the CMA Board. I therefore take this opportunity to sincerely thank them. Our strategic partners and other stakeholders have also been instrumental, and I wish to appreciate them all for their steadfast support. Special recognition goes 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.



.....
Chief Executive

Overview of the Global Economy

The period under review was characterized by declining global economic growth with serious risks of recession in many economies occasioned by the Covid-19 pandemic. It is estimated that on average global output will decline by 4.9 percent in 2020, followed by a partial recovery, with growth of 5.4 percent in 2021. Businesses ranging from giant to micro continued to close shop with significant layoffs which are expected to cause significant negative impact to households across the globe.

Within the capital markets space, the pandemic sent most of the largest securities exchanges in the world into a bear market as investors globally, rushed to sell off their portfolios amidst very low demand leading to substantial declines in value of the various portfolios. Generally, capital markets instruments are projected to continue experiencing a general drop in share prices and bond yields in the coming financial year.

Kenya has continued to grapple with growing public debt as the country endeavours to close the fiscal gap arising from the constrained tax revenues and the widening resource requirements. The trend is no different in both advanced and developing economies with the highest ratios of public debt to GDP expected between 2020 and 2021. Countries have continued to receive less favourable credit-ratings, implying that borrowing costs could increase substantially. This together with a depreciating Kenya shilling against major world currencies is expected to worsen the debt crisis.

Regional Outlook

The outlook for 2020 for sub-Saharan Africa is considerably worse than earlier anticipated, with economic activity in 2020 projected to contract by 3.2 percent, reflecting a weaker external environment and measures to contain the Covid-19 outbreak. Growth is however projected to recover to 3.4 percent in 2021 subject to the continued gradual easing of restrictions and, importantly, if the region avoids the same epidemic dynamics that have played out elsewhere. Africa's authorities have acted swiftly to support the economy, but such efforts have been constrained by falling revenues and limited fiscal space. Regional policies remain focused on safeguarding public health, supporting people and businesses hardest hit by the crisis, and facilitating the recovery. The region cannot tackle these challenges alone and a coordinated effort by all development partners will be key.

East Africa remains the fastest-growing sub region, and the short-term outlook is positive with projected growth as at end of 2019 being 6.4% compared to 3.2% regional average growth. Robust growth in Ethiopia, Kenya and the United Republic of Tanzania is underpinned by strong domestic demand and public investments in infrastructure.

The Covid-19 pandemic is further projected to negatively impact foreign direct investment (FDI) flows to Africa and the rest of the world, with the United Nations Conference on Trade and Development (UNCTAD, 2020) predicting a contraction by 25 to 40 percent in 2020. The International Monetary Fund projects Africa's GDP to fall from 3.2 per cent to -2.8 per cent in 2020.

Policy and Legal Reforms

The tax structure for corporate bonds in Kenya was previously skewed in favour of fixed income instruments issued by players in the banking Sector attractive as compared to players in the non-banking space. There was lack of clarity regarding whether the 15 percent withholding tax on interest income from fixed income securities issued by non-bank corporations – such as Safaricom's 5-year bond or EABL's bond – is a final tax for individuals. Following extensive engagements between the Capital Markets Authority, the National Treasury and Planning as well as other stakeholders, the Cabinet Secretary, the National Treasury amended the Third Schedule of the Income Tax Act to provide for the finality of withholding tax on interest income from all Corporate Bonds. Similarly, the Cabinet Secretary amended the Income Tax Act to clearly provide for tax exemption for all green bonds issued as part of green financing initiatives.

The other key policy highlight of the year under review is the gazettelement and implementation of the Capital Markets (Commodities markets) regulations 2020 and Capital Markets (Coffee Exchange) Regulations 2020. In line with the Government's Big 4 Agenda on initiatives enhancing food security and nutrition in the country and to facilitate the setting up of structured commodities trading in Kenya, the Capital Markets (Commodities Markets) Regulations 2020, LN. No. 41, and Capital Markets (Coffee Exchange), Regulations 2020 L.N. No.40 were gazetted by the Cabinet Secretary for the National Treasury and Planning on 3rd April, 2020. Sections 19 and 23 (1) of the Capital Markets Act (CAP 485A) prohibit any person from carrying on the business of a commodities exchange or commodity broker unless they hold a valid licence or approval issued by the Capital Markets Authority.

Policy and Legal Reforms... (continued)

I am confident that if this trend continues, good corporate governance will become an integral part of each issuer's business dealings, and our market will be more stable, competitive, resilient and attractive. This is a clear demonstration of the positive results of close collaboration with stakeholders to embed a culture of corporate governance among issuers of securities to the public in Kenya.

The Cabinet Secretary for the National Treasury amended the Investment Guidelines contained in the Retirement Benefits (Forms and Fees) Regulations to create a clear Private Equity distinction and doubled the allowable investment threshold to 10%. The amendments however did not provide clarity on mechanisms to ensure protection of pensions funds given that they are public funds. As part of measures to ensure that public funds are invested in a regulated environment, the Cabinet Secretary to the National Treasury amended the Capital Markets Act to grant the Capital Markets Authority powers to provide regulatory oversight to Private Equity and Venture Capital firms accessing pension funds.

The final key policy and legal reform measure was the amendments to the Income Tax Act to extend a tax amnesty to entities getting listed to the Nairobi Securities Exchange on all past interest and penalties as long as they declare their past incomes in compliance with the Act.

Market Development Reforms and Innovations

The Authority on 15th August 2019 approved the issuance of Kenya's first unlisted Green bond, to be issued by Acorn Project (Two) Limited Liability Partnership following the launch of the Policy Guidance Note on Green Bonds in February 2019. This offered investors the chance to put money into an environmentally friendly fixed income security for the first time in the bourse's 65-year history. The issuance is a critical step in advancing the development of an effective ecosystem to support the establishment of green capital markets in Kenya in line with the Marrakech Pledge 2016.

The Authority has admitted six firms into the Regulatory Sandbox; Central Depository and Settlement Corporation (CDSC), Pezesha Africa Limited, Innova Limited, Belrium Kenya, and Pyypl Group Limited, as one company exited the environment to test its innovation in the market. This underscores our commitment to supporting innovation that will serve to deepen the market while enhancing the investor experience with capital markets products, processes and services.

With regards to development of capital markets infrastructure and institutions, the year witnessed upgrade of systems both at the Nairobi Securities Exchange (NSE) as well as at the CDSC. This is part of the efforts the Authority is putting in place to align the Country's capital markets infrastructure to international standards.

Lastly towards the end of the period under review, the Authority proactively developed a 5-point short-term capital markets recovery strategy to not only counter the effects of Covid-19 but to position the capital markets as the key driver for Kenya's economic recovery.

Appreciation and Outlook

We remain indebted to the excellent support extended to the Authority by the Government to meet our constitutional obligations. I wish to thank the National Treasury and Planning, capital markets stakeholders, development partners, Government agencies and departments and all the other financial services regulators who have played a significant role in supporting the Authority as it executes its mandate.

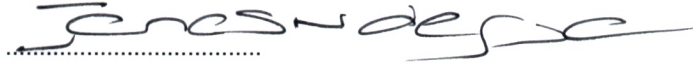
On behalf of the Board, I would like to pay tribute to the former Chief Executive, Mr. Paul Muthaura, who left the Authority on 31 December 2019 after serving for 15 years with half of this time as Chief Executive. During his tenure as the Chief Executive, Mr. Muthaura was instrumental in enhancing the regulatory and legal framework, expanding the scope of capital markets products that have positioned Kenya in the regional and global capital markets arena and supporting fintech innovations through the Regulatory Sandbox. Some of the new products introduced in Kenya's capital markets during his watch include Real Estate Investment Trusts, Global Depository Receipts and Notes, Derivatives, and Securities Lending and Borrowing.

He also spearheaded the development of the Capital Market Master Plan (CMMP, 2018-2023) in collaboration with the capital markets industry in Kenya. The Board wishes Paul well in his future endeavours.

I wish to commend the Authority's staff and our industry partners for the zeal with which they have worked towards achieving the 10 Year Capital Markets Master Plan and the Strategic Plan 2018-2023. With their invaluable contribution, I am confident that they will collectively steer the capital markets to greater heights to position Kenya as the "Heart of African Capital Markets" by the year 2023.

Capital Markets Authority
Chairman's Statement (continued)
For the year ended June 30, 2020

We therefore look forward to the exciting years ahead in the capital markets as new products and innovations are introduced to meet demands from the dynamic set of local, regional and international investors with eyes set on Kenya as an investment destination of choice.



.....
Mr. James Ndegwa
Chairman

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the Accounting Officer to include in the Financial Statement, a statement of the national government entity's performance against predetermined objectives. The Capital Markets Authority (CMA) has six (6) strategic objectives within its Strategic Plan for the FY 2018/2019- 2022/2023. The strategic objectives are as follows:

- i. To ensure a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency;
- ii. To facilitate the development, diversification and uptake of capital markets products and services;
- iii. To ensure sound market infrastructure, institutions and operations;
- iv. To leverage technology to drive efficiency in the capital markets value chain;
- v. To ensure optimal institutional efficiency and effectiveness of Capital Markets Authority; and
- vi. To enhance the strategic influence of the Capital Markets Authority.

From the Strategic plan, CMA came up with annual obligations to ensure the strategic plan is fully met. CMA therefore develops its annual work plans based on the above six objectives pillars and identifies key thematic areas to be implemented in a specific year. (The thematic areas show the area of concentration). The key thematic areas for 2019/2020 are:

- 1) Optimal product, services uptake and market deepening;
- 2) Supervision, stability and governance; and
- 3) Institutional service delivery, operational efficiency and sustainability.

Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The CMA achieved its performance targets set for the FY 2019/2020 period for six (6) of its strategic objectives, as indicated in the table below:

Table 2: Performance against predetermined objectives.

Strategic Objective	Outcome	Key Performance Indicators	Activities	Achievements
Ensure sound market infrastructure, institutions and operations	Supervision, stability and governance	Complete assessment of the soundness of market infrastructures at NSE and CDSC by September 30, 2019.	<ol style="list-style-type: none"> 1. To assess NSE upgraded ATS and make recommendations on its support for the Capital Markets Master Plan (CMMP) outlook for trading environment and Principles of Financial Markets Infrastructure (PFMI) compliance. 2. To assess CDSC new Perago System and make recommendations on implementation considerations in line with the CMMP outlook for clearing and settlement environment and PFMI compliance. 3. Board approval of revisions to NSE and CDSC rules and procedures to inform system alignment 4. To get commitment from CDSC Board on the CDSC system upgrade completion. 5. Clear directives issued on way forward for both infrastructures at NSE and CDSC after reviewing the assessments. 	<ol style="list-style-type: none"> 1. The upgraded NSE system and CDSC Perago system were assessed, approved and commissioned in October 2019. 2. CDSC carried out the PFMI assessment and shared the preliminary report with CMA. 3. The board approved the NSE rules as well as the CDSC operational rules.
To ensure a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency	Optimal product and services uptake and market Deepening	Five (5) FinTech admitted to the test environment under the regulatory sandbox.	To review applications submitted for admission to regulatory sandbox.	We admitted six (6) companies into the sandbox during the financial year.

Capital Markets Authority
Review of the Authority's Performance (continued)
For the year ended June 30, 2020

Strategic Objective	Outcome	Key Performance Indicators	Activities	Achievements
Enhancing Strategic Influence	Optimal product and services uptake and market deepening	Non-regulatory gaps inhibiting product uptake identified and documented for staggered implementation as per Implementation Action Plan.	Coordinate and oversee the formation of a market wide influential think tank team to address market wide challenges and propose solutions that will drive uptake of capital markets products and services.	A proposal on the formation of a Think Tank was presented to the Board with useful feedback being received on key aspects that need to be addressed first. Following the guidance by the board, to go the Capital Markets Consultative forum way, the team held Stakeholder sessions with issuers, intermediaries, individual CEOs and regulators alike (including the National Treasury), culminating in a Webinar. The identified issues, challenges and have formed a firm basis for uptake strategies that will be presented to the Board in the new financial year.
To facilitate the development, diversification and uptake of capital market products and services		Number of capital markets issuers with capital markets products related to the manufacturing, housing, agriculture and healthcare sector increased by two (2) by June 2020.	Develop and implement a market deepening strategy focusing on programs and resources to drive change and ultimately onboard development innovation and uptake of capital markets products and services.	<ol style="list-style-type: none"> 1. There was issuance and listing of Kenya's first Corporate green bond by Acorn Project (Two) Limited liability partnership. 2. The Government through the National Treasury issued two (2) Infrastructure Bonds (a 9-year in April and a 6-year in May 2020). 3. The CMA Board approved a Home ownership Savings Plan CIS by Genghis Capital. There was an issuance of a Kenya Roads Board Bond for roads rehabilitation by the National Treasury through CBK. 4. Plans are at an advanced stage to issue the first Sovereign Bond.
Leveraging technology to drive efficiency in the capital markets value chain	Institutional service delivery, operational efficiency and sustainability	Enhanced business intelligence, analytics, policy formulation and decision making process across the Authority.	Implement the Information Repository and Business Intelligence systems by June 2020.	The Implementation of the Information Repository and Business Intelligence systems is at an advanced stage. The Data Warehouse and Financial Analysis, HCA, ERP and Market Surveillance System (MSS) data models have been developed. End users have had at least one training and or user acceptance testing (UAT) session.
Ensure optimal institutional efficiency and effectiveness of CMA		<ol style="list-style-type: none"> 1. Minimum revenue target of 1,051million. 2. Expenditure ≤ 1,033 million budget in the absence of revenue escalation. 3. 100% safety of Principal 4. Return above 91-day T-Bills 	<ol style="list-style-type: none"> 1. Efficient allocation and control of resources to ensure all key activities and programs are funded on time and best value within budget. 2. Effective management of ICF to offer investor protection. 3. Invest the Investor compensation fund (ICF) and CMA monies prudently for safety of principal and reasonable returns as per investment 	<p>Collections in the year were Ksh1,064million or 1% above target. The Authority fully funded all the key activities in the year.</p> <p>CMA and ICF funds have been well managed, and earned a non- competitive return above the 91day Treasury bill.</p>

Over and above being in our Annual work plan, the above items have been captured in the Authority's performance contract under specific categories such as ease of doing business, regulatory sandbox, A-I-A (Fees and levies), Competency development and Public awareness and market deepening.

Capital Markets Authority
Board Committee Meetings Attendance
For the year ended 30th June 2020

No	Board Member	Classification	Designation	Finance and Planning Committee(FPC) Total number of Meetings: 6	Audit Corporate Governance and Risk Management Committee(ACM) Total number of Meetings: 9(8 scheduled and 1 Special)	Technical and Policy Committee(TPC) Total number of Meetings: 8(7 Scheduled and 1 Special)	Human Resources and Corporate Communication Committee(HRCC) Total number of Meetings: 9(4 scheduled and 5 Special)	Joint Audit and Finance and Planning Committee: 1	ICT Ad hoc Committee Meetings: 6	Board Total number of Meetings: 15 (8 scheduled and 7 special)
1	Mr. James Ndegwa	Independent	Board Chairman							
2	Mr. Nevis Ombasa	Alt. Attorney General	Chairperson HRCC up to May 2020		7/9	4/8	8/9	1/1		24/14
3	Ms. Christine Okoth	Independent Member	Chairperson TPC up to May 2020			1/8 Member appointed to the Committee in May 2020	7/9 ceased to be a Member of the Committee effective May 2020	1/1	6/6	24/14
5	Mr. John Birech	Independent Member	Chairperson HRCC up to May 2020	5/6 ceased being a Committee member effective May 2020		7/8	1/9 (co-opted)	1/1		24/14
6	Mr. Geoffrey Mwau	Alt. to the Cabinet Secretary National Treasury	Representing Principal Secretary National Treasury	1/6	2/9	2/8				6/14
7	Mr. Musa Kathanje	Alt. to the Governor Central Bank of Kenya		1/6		1/8				
8	Mr. William Nyagaka	Independent Member	Chairperson ACM up to May 2020		8/9	4/8	1/9 (co-opted)		3/3	27/14
9	Dr. Freshia Mugo-Waweru	Independent Member	Chairperson Audit Committee effective May 2020	5/6 ceased being a member of the Committee effective May 2020		4/8 Ceased to be a Committee Member in May 2020		1/1		24/14
10	Mr. Peter Mungai	Independent Member	Chairperson FPC up to May 2020	4/6 ceased being a Committee member effective May 2020		1/8 Committee Member appointed in May 2020	8/9 Ceased being a Member of the Committee effective May 2020	1/1		24/14
11	Dr. Thomas Kibua	Independent Member				1/8				2/14
12	Mr. Davis Luusa					1/8				2/14
13	Prof. Dulacha Galgalo Barako									
14	Mr. Moibi Mose		Chairperson of the ICT Ad hoc Committee		3/9		4/9 Ceased being a Member of the Committee effective May 2020		4/6	20/14
15	Mr. Andrew Meme	ICT Ad hoc Member							5/6	
16	Mr. Muchemi Wambugu	ICT Ad hoc Member							4/6	
17	Mr. Geoffrey Ngetich	ICT Ad hoc Member							2/6	

Notes

- *Mr. Geoffrey Mwau Ceased being a Board Member effective April 2020
- *Mr. William Nyagaka Ceased being a Board Member effective April 2020
- *Mr. Davis Luusa Member appointed effective May 2020
- *Prof. Dulacha Galgalo Barako Member appointed effective May 2020

Capital Markets Authority
Statement of the Board Members responsibilities
For the year ended June 30, 2020

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 Dr. Thomas Kibua upto May 2020, and subsequently chaired by Dr. Freshia Mugo-Waweru . This committee has oversight on all financial issues including budgets, financial reporting process and controls and procurement. The committee met six times during the year.

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. Freshia Mugo-Waweru upto May 2020, and subsequently by Mr. Peter Mungai. 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 eight times and had one special meeting 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 Ms. Christine Okoth up to May 2020 and subsequently by Mr. John Birech. It is responsible for human resource matters including recruitment, management succession as well as the corporate communication function. The committee met four times during the year and had five special meetings.

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 up to May 2020 and subsequently by Dr. Thomas Kibua. 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. This committee consists of five members three of whom are recruited from the ICT Industry with ICT Technical Skills. The committee was chaired by Mr. Moibi Mose. It consists of two non-executive members of the Board, and three external experts from ICT industry. It is responsible for continuous assessment of opportunities/innovation to improve service delivery through ICT, provide oversight and guidance on the initiative to automate and deliver effective technological solutions to access and provide inputs on strategies to deliver reliable ICT infrastructure and ensure Security (Confidentiality, Integrity and Availability) of ICT systems and to provide strategic guidance to ensure ICT operations, processes and resources are managed prudently. The committee met six times in the year.

iii) **Ad hoc Committee on Kenol Kobil PLC**. This committee consisted of eight members four of whom were appointed from the industry with Finance, auditing & Legal Skills. The committee was chaired by Mr. James Ndegwa. The committee was appointed by the Board to conduct the enforcement action hearings in the alleged "insider-trading activities" in Kenol-Kobil PLC shares. The Ad hoc committee met once in the year.

iv) Financial Markets Law Review Panel

The Board of the Capital Markets Authority (CMA), in line with the targets set out in the Capital Market Master Plan (2014 – 2023), established a Financial Markets Law Review Panel of 16 leading domestic and international financial market lawyers and practitioners. The Panel will play a key advisory role to the Board in exercising its mandate to ensure that capital markets law remains responsive to market realities and appropriately facilitative to evolving market expectations from both a domestic and international perspective. The Panel was scheduled to meet in March 2020 but did not due to COVID-19 challenges.

Capital Markets Authority
Statement of the Board Members responsibilities (Continued)
For the year ended June 30, 2020

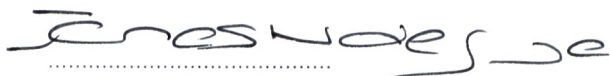
The Board Members are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on 30th June 2020. This responsibility includes; (i) maintaining adequate 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 2020, 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 13.11.20 2020 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 and surplus before transfer to the National Treasury were 2% and 77% above last year's performance, respectively. The increase in the realized revenue and surplus is mainly attributable to the approval fees collected in the year.

The Authority is in a strong cash flow position capable of meeting obligations as they fall due. The performance at hand has a bearing on the future market activities. It is important to note that any changes affecting investors in the economic, social and political environment, has a significant impact on the capital markets industry. The Authority is cognizant in particular of the effects of the Covid-19 pandemic on investor behaviour and the impact this may have on market activities.

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

Project	Brief description	Viability	Funding	Sustainability
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 the 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/ CMA	The project is fully successful
Supply, installation & commissioning of computer hardware, data repository & business intelligence system and Microsoft software upgrade at the Capital Markets	The Authority identified the need to build capacity to respond to the impact and support the implementation of new technologies in the capital market value chain. This is part of its Strategic Plan (2018-2023) which has a Strategic Objective that stipulates that the Authority intends "To leverage on technology to drive efficiency in the capital markets value chain".	Upgraded ERP and server software to accommodate the incoming software applications and solutions. This server software will be able to; i. Support a data repository solution; ii. Accommodate a business intelligence and analytics engine; and iii. Provide capacity for sustainable growth of the information repository.	World Bank through FSSP	The implementation of the Project is underway

SECTION D

Major risks identified in the Enterprise Risk Management (ERM)

The Authority has in place an Enterprise Risk Management (ERM) Framework on the basis of which Risk Management has been mainstreamed within the Authority to allow for structured risk assessments on a continuous basis. During the Financial Year, the Authority operationalized monitoring of the integration of ERM with Strategy by bringing together the functions of Strategy, Risk, Quality Assurance, Performance and Projects.

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. Potential collapse of Collective Investment Schemes.

The Authority is monitoring the quality of investment assets classes, investment restrictions and redemptions request from unit holders. Additionally, the Authority is holding quarterly engagements with Trustees on effective oversight of the schemes.

2. Covid-19 Infections & loss of life

Management is mitigating the risk on Covid-19 infection by the continued implementation of Ministry of Health guidelines on handling the Covid-19 pandemic.

3. Financially-distressed listed companies and market intermediaries

The Authority issued guidelines to listed companies on the precautions being undertaken and the fate of AGMs, as well as offering guidance to issuers on the management of corona virus in the market. Additionally, the Authority is offering regulatory flexibility through prudential easing e.g. E-AGM/EGM, E-publication, as well as relaxation of compliance with liquidity requirements.

4. Delayed business decision making and adoption of alternative funding model by potential issuers and market organizers to come to the market

Management established a Market Deepening department to address low uptake of capital markets products and services. Similarly, there have been continuous engagements with potential issuers such as Acorn to ensure a seamless issuance process.

Management is also supporting and implementing new strategies to promote issuance and enhance uptake of capital markets products and services.

5. Challenges of transitioning the coffee trading at the Nairobi Coffee Exchange

The Authority is mitigating this risk by engaging with stakeholders and issuance of public notice to guide the transition.

6. Ineffective vendor project planning

The Authority is curbing the risk on Cyber security threats by:

- (a) Having engagements with the vendor in order to resolve the issues that might have caused the delays;
- (b) Escalation of instances where the key project resources have left the vendor organization;
- (c) Escalation of instances where delivery is delayed due to lack of prioritisation by the vendor; and
- (d) Insisting on quality control and assurance documentation from vendor to ensure any technical inefficiencies are addressed.

7. Cyber security threats with increased offsite access as staff work from home

The Authority is curbing the risk on Cyber security threats by:

- (a) Maintaining a robust email spam filtering and web filtering solution;
- (b) Maintaining an updated and licensed enterprise anti-virus;
- (c) Sending out monthly ICT security tips to staff;
- (d) Maintaining a successful backup solution and process;
- (e) Managing and maintaining an effective patch management program; and
- (f) Acquiring a Security Incident and Event Management systems (SIEM) and Network Access Control for in-depth network and systems.

8. Loss or lack of financial resources

The Authority is mitigating this risk by following up on budget and requisite approvals /support with parent ministry.

9. Inadequate Human Resource

Management is awaiting approvals of the new organization structure by SCAC.

10. Capital markets Fintech solutions that transform the lives of Kenyans through efficiency and convenience in savings and investment

The Authority is enhancing this opportunity by leveraging the Regulatory Sandbox and Fintech to develop innovative and transformative capital markets solutions.

11. Increased knowledge, interest and uptake of capital markets products and services and enhanced investor protection, through enhanced technology-driven digital outreach

Management is enhancing this opportunity by leverage technology and digital platforms to implement public awareness, education, market deepening and investor protection strategies and programs.

SECTION E

Material arrears in statutory/financial obligations

The Authority has no statutory arrears and promptly meets all its statutory obligations. The Authority's pension scheme is oversighted by a Board of Trustees and is administered by an independent administrator.

There is an ongoing 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 Management, any board committee or by external auditors. There are no governance issues and conflicts of interest at the Board or top management of the Authority are disclosed accordingly when they arise.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

On 13th March 2020, the Ministry of Health reported the country's first Covid – 19 case since the outbreak of the disease in China in December 2019. A day prior to the announcement, the World Health Organization (WHO) on 12 March 2020 declared Covid-19 a pandemic, pointing to the over 300,000 cases of the coronavirus illness in over 110 countries and territories around the world and the sustained risk of further global spread. Subsequently, His Excellency the President issued several directives to contain the spread and impact of Covid-19 pandemic.

Recognizing the extra-ordinary nature of Covid-19 the Cabinet Secretary, the National Treasury and Planning, with the approval of the National Assembly, published the Public Finance Management (Covid-19 Emergency Response Fund) Regulations, 2020 through which the Covid-19 Emergency Response Fund was established to provide for a framework to mobilize resources for emergency response towards the Covid-19 pandemic.

In response, the Capital Markets Authority (CMA) established the 'Capital Markets Covid-19 Fund' in collaboration with industry stakeholders, on 3rd April 2020. The Authority mobilised the stakeholders to make contributions. Kshs.30,069,000 was collected including the Authority's contribution of Kshs.20 million and presented to the Fund's Board on 9 May 2020 by industry stakeholders led by the CMA Board Chairman, Mr. James Ndegwa.

The Authority also participated in projects to sustain its social and environmental capital. On 8 March 2020, the Authority participated in the Beyond Zero Marathon through a corporate sponsorship worth Kshs.150,000. The Charity's goal of improving maternal and child health, is aligned to the Authority's Corporate Social Investment Policy which supports initiatives in health sector.

The Authority has in place an Occupational and Safety Policy; a framework that sets out the guidelines for safeguarding a safe and healthy working environment for all employees, clients, visitors and stakeholders.

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. Other initiatives on enhancing employee welfare included sensitization of staff on prevention and management of Cancer, Diabetes, Hypertension, Stress and mental health.

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 promotes tribal diversity when conducting recruitment and promotions respectively for various positions in line with the Presidential initiatives on national values.

In carrying out its twin mandate of market development and regulation, the Authority has been ensuring the following market practices are observed:

a. Responsible competition practice

The Authority ensures that the regulated market players uphold the required regulatory standards through continuous supervision. Supervision entails both offsite and onsite monitoring to ensure observance of good conduct, deployment of safe and secure technological solutions in trading and servicing of clients' orders and contracts. Additionally, market players are required to observe good governance practices, maintain the required standards of internal controls as well as meet the stipulated financial requirements.

b. Responsible marketing and advertisement

The Authority plays the gatekeeping role to ensure that only fit and proper entities/persons/products operate and are offered in the market. Once an entity/person/product is approved to be rolled out into the capital markets space, the Authority requires such entities to submit all advertisements for their products/services for approval prior to publication.

c. Product stewardship

The Authority has consistently taken regulatory measures to ensure compensation and/or restitution of investors where they lose their investments or funds due to failure of a market intermediary to comply with their statutory obligations. The Authority's oversight role also seeks to promote responsible conduct among key officers of market intermediaries, who are responsible for safeguarding of investor's assets.

The Authority continues to build strategic alliances with key stakeholders both within and outside the country to jealously secure the markets. In this regard, the Authority has partnered with the Criminal Investigations Department whose officers are seconded to specifically pursue criminal matters in the capital markets. The Authority is also closely working with the office of the Director of public Prosecution and also benefits from global regulatory cooperation on exchange of information through the IOSCO MoU.

REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Capital Markets Authority set out on pages 27 to 56, which comprise the statement of financial position as at 30 June, 2020, 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 Capital Markets Authority as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (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 Institutions (ISSAIs). I am independent of Capital Markets Authority Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in 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. These matters were addressed in the context of the audit of the financial statements, 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 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.

	Key Audit Matters	How the Audit Addressed the Key Audit Matter
1	Trade and Other Payables	Procedures done included:
	The renewed emphasis on Government Entities paying bills in a timely manner led to consideration of this as a Key Audit Matter. The trade and other payables in the year were Kshs.266.7 million, which is a 10.7% decline from Kshs.298.6 million reported in the prior year.	The following procedures were performed: <ul style="list-style-type: none"> • Verifying on the accuracy, existence and fair statement of the creditors balances by agreeing creditors statements to the confirmations; and • Reviewing the basis for provisions for liabilities and charges to verify the accuracy and assessment of reasonableness of the provisions.
2	Procurement of Goods and Services	Procedures done included:
	This was considered a Key Audit Matter due to the materiality of the goods and services procured during the year under review, as well as the need for compliance with the Public Procurement and Assets Disposal Act, 2015.	<ul style="list-style-type: none"> • Review of procurement documentation and checking compliance with the Public Procurement and Assets Disposal Act, 2015; • Verifying that there was appropriate level of segregation of duties in the procurement to payment process; • Verifying that tender invitations and quotation evaluation processes were performed in a transparent and objective manner; and • Analysing the resultant tender awards noting that the selection process ensured value for money in terms of cost and quality.

Other Information

The Directors are responsible for the other information, which comprises the statement of corporate governance, Directors' report and the statement of Directors' responsibilities. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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 maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of intention to terminate the Authority or to cease operations.

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. In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how the Authority monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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. 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 and weakness 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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of

the Internal Control would not necessarily disclose all matters in the Internal Control that might be material weaknesses under ISSAIs. A material weakness is a condition in which the design or operation of one or more of the Internal Control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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.
- 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 to sustain its services. 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 Authority to cease to continue to sustain its services
- 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 Authority 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 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 matter 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.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

15 January, 2021

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED JUNE 30, 2020

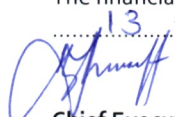
	Note	2020 Shs'000	2019 Shs'000
Revenue from non-exchange transactions			
Capitalization, rights and new issue fees	6	950,838	887,998
Donor fund income	7	<u>18,556</u>	<u>50,144</u>
		<u>969,394</u>	<u>938,142</u>
Revenue from exchange transactions			
Other income	8	<u>93,136</u>	<u>105,819</u>
Total revenue		<u>1,062,530</u>	<u>1,043,961</u>
Expenses			
Operating expenditure	29	<u>(808,566)</u>	<u>(900,341)</u>
Total expenses		<u>(808,566)</u>	<u>(900,341)</u>
Other gains/ (losses)			
(Loss)/Gain on disposal of property and equipment	9	<u>1,586</u>	<u>132</u>
Surplus under accrual accounting	10	255,550	143,752
Cashflow/Balance Sheet items			
Add back:			
Depreciation and Amortization.		18,411	19,575
Less:			
Increase in Approved Building fund reserve		(44,037)	(20,000)
Capital expenditure during the year		(17,110)	(23,683)
Utilisation of approved staff housing/other facilities		<u>(15,494)</u>	<u>(16,638)</u>
Surplus before 90% due to the Exchequer		197,320	103,006
90% Surplus due to Exchequer	11(a)	<u>(177,588)</u>	<u>(92,706)</u>
Adjusted Retained Surplus		19,732	10,300
Add back:			
Balance Sheet/ cashflow Items	11(a)	58,230	40,746
Retained Surplus under accrual basis		<u>77,962</u>	<u>51,046</u>

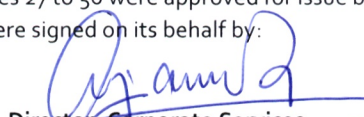
Capital Markets Authority
Financial statements
For the year ended June 30, 2020

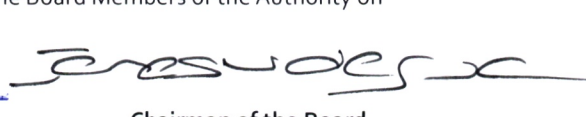
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2020
(INCLUDING INVESTOR COMPENSATION FUND)

ASSETS	Note	2020 Shs'000	2019 Shs'000
Current assets			
Inventories	12	2,067	1,622
Trade and other receivables from non-exchange transactions	13(a)	36,912	45,207
Trade and other receivables from exchange transactions	13(b)	9,919	14,676
Staff loans and advances/guarantee fund	14	47,957	50,208
Held-to-maturity investments	15	713,377	1,029,420
Cash at bank and in hand	16	62,298	29,615
Investors' Compensation Fund	17	<u>2,051,182</u>	<u>1,934,621</u>
		<u>2,923,712</u>	<u>3,105,369</u>
Non-current assets			
Property and equipment	18	59,082	44,316
Intangible assets	19	66,167	2,307
Staff loans and advances/guarantee fund	14	343,137	342,568
Held-to-maturity investments	15	168,495	141,861
Investors' Compensation Fund's investments	17	<u>1,481,997</u>	<u>1,187,129</u>
		<u>2,118,878</u>	<u>1,718,181</u>
Total Assets		<u>5,042,590</u>	<u>4,823,550</u>
Liabilities			
Current liabilities			
Trade and other payables	20	174,654	216,112
Provision for liabilities and charges	21	92,018	82,445
Investors' Compensation Fund	17	2,051,182	1,934,621
Deferred income	22	83,947	
Surplus payable to National Treasury	11(a)	177,588	92,706
		<u>2,579,389</u>	<u>2,325,884</u>
Non-current liabilities			
Investors' Compensation Fund liabilities	17	<u>1,481,997</u>	<u>1,187,129</u>
Total liabilities		<u>4,061,386</u>	<u>3,513,013</u>
Net assets			
Funds			
Capital fund	24	27,886	27,886
General fund	23	353,318	726,688
Building fund	25	<u>600,000</u>	<u>555,963</u>
Total Funds		<u>981,204</u>	<u>1,310,537</u>
Total Funds and Liabilities		<u>5,042,590</u>	<u>4,823,550</u>

The financial statements set out on pages 27 to 56 were approved for issue by the Board Members of the Authority on 13-11-2020 and were signed on its behalf by:


 Chief Executive


 Director, Corporate Services


 Chairman of the Board

Date: 13-11-2020

Date: 13-11-2020

Date: 13-11-2020

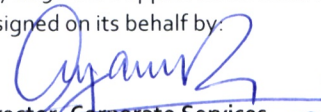
Capital Markets Authority
Financial statements
For the year ended June 30, 2020

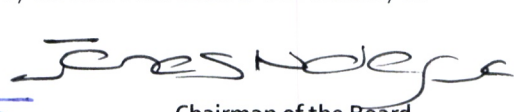
CAPITAL MARKETS AUTHORITY (CMA) STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2020

	Note	2020 Shs'000	2019 Shs'000
ASSETS			
Current assets			
Inventories	12	2,067	1,622
Trade and other receivables from non-exchange transactions	13(a)	36,912	45,207
Trade and other receivables from exchange transactions	13(b)	9,919	14,676
Staff loans and advances/guarantee fund	14	47,957	50,208
Held-to-maturity investments	15	713,377	1,029,420
Cash at bank and in hand	16	<u>62,298</u>	<u>29,615</u>
		<u>872,530</u>	<u>1,170,748</u>
Non-current assets			
Property and equipment	18	59,082	44,316
Intangible assets	19	66,167	2,307
Staff loans and advances/guarantee fund	14	343,137	342,568
Held-to-maturity investments	15	<u>168,495</u>	<u>141,861</u>
		<u>636,881</u>	<u>531,052</u>
Total Assets		<u>1,509,411</u>	<u>1,701,800</u>
Liabilities			
Current liabilities			
Trade and other payables	20	174,654	216,112
Provision for liabilities and charges	21	92,018	82,445
Deferred Income	22	83,947	
Surplus payable/ (Credit) to National Treasury	11(a)	<u>177,588</u>	<u>92,706</u>
		<u>528,207</u>	<u>391,263</u>
Non-current liabilities			
Total liabilities		<u>528,207</u>	<u>391,263</u>
Net assets		981,204	1,310,537
Funds			
Capital fund	24	27,886	27,886
General fund	23	353,318	726,688
Building fund	25	<u>600,000</u>	<u>555,963</u>
Total Funds		<u>981,204</u>	<u>1,310,537</u>
Total Funds and Liabilities		<u>1,509,411</u>	<u>1,701,800</u>

The financial statements set out on pages 27 to 56 were approved for issue by the Board Members of the Authority on 13 - 11 - 2020 and were signed on its behalf by:


 Chief Executive


 Director, Corporate Services


 Chairman of the Board

Date 13 - 11 - 2020

Date 13 - 11 - 2020

Date 13 - 11 - 2020

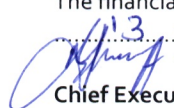
Capital Markets Authority
Financial statements
For the year ended June 30, 2020

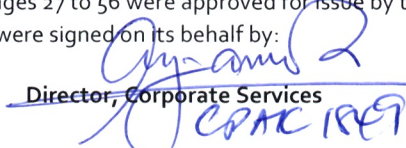
INVESTOR COMPENSATION FUND (ICF) STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2020

ASSETS	Note	2020 Shs'000	2019 Shs'000
Current assets			
Fees receivable	17	55,534	44,516
Cash and cash equivalents	17	7,598	1,176
Investor Compensation Fund Investments Held-to-maturity	17	<u>1,988,050</u>	<u>1,888,928</u>
		<u>2,051,182</u>	<u>1,934,621</u>
Non-current assets			
Investments in Listed Companies	17	80,500	119,438
Investors' Compensation Fund's investments Held to maturity	17	<u>1,401,497</u>	<u>1,067,691</u>
		<u>1,481,997</u>	<u>1,187,129</u>
Total Assets		<u><u>3,533,179</u></u>	<u><u>3,121,749</u></u>
The Fund	17	<u><u>3,533,179</u></u>	<u><u>3,121,749</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 Shs3.53billion (2019: Sh3.12billion).

The financial statements set out on pages 27 to 56 were approved for issue by the Board Members of the Authority on 13-11-2020 and were signed on its behalf by:


 Chief Executive


 Director, Corporate Services


 Chairman of the Board

Date: 13-11-2020

Date: 13-11-2020

Date: 13-11-2020

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STATEMENT OF CHANGES IN NET ASSETS For the year ended June 30, 2020

	Capital fund Shs'000	General fund Shs'000	Building fund Shs'000	Total Shs'000
At 1st July 2018	27,886	695,642	535,963	1,259,491
Surplus for the year	-	51,046	-	51,046
Transfer to building fund	-	(20,000)	20,000	-
At 30th June 2019	<u>27,886</u>	<u>726,688</u>	<u>555,963</u>	<u>1,310,537</u>
At 1st July 2019	27,886	726,688	555,963	1,310,537
Transfer of surplus to National Treasury				-
Surplus for the year	-	77,962	-	77,962
Payment to The National Treasury		(407,294)		(407,294)
Transfer to building fund	-	(44,037)	44,037	-
At 30th June 2020	<u>27,886</u>	<u>353,318</u>	<u>600,000</u>	<u>981,204</u>

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CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended June 30, 2020

	Note	2020 Shs'000	2019 Shs'000
Cash flows from operating activities			
Surplus for the year		255,550	143,752
Adjustments for:			
Tax expense			
Depreciation of property and equipment	18	16,737	16,939
Amortisation of intangible assets	19	1,674	2,636
Deferred donor funded income	22	83,947	-
Gain on disposal of property and equipment	9	(1,585)	(132)
Interest income	8	(92,567)	(104,106)
Operating Surplus before working capital changes		<u>263,756</u>	<u>59,089</u>
Decrease/(increase) in:			
Inventories		(445)	16
Trade and other receivables		13,052	5,339
Staff loans and advances		1,682	(14,370)
Increase/(decrease) in:			
Trade and other payables		(41,458)	17,406
Provision for liabilities and charges		9,573	3,361
Investors' Compensation Fund		<u>411,430</u>	<u>850,933</u>
Cash generated from operations		<u>657,590</u>	<u>921,774</u>
Interest received	8	92,567	104,106
Surplus paid		<u>(500,000)</u>	<u>(21,127)</u>
Net cash generated from operating activities		<u>250,157</u>	<u>1,004,753</u>
Cash flows from investing activities			
Purchase of property and equipment	18	(31,574)	(23,289)
Purchase of intangible assets	19	(65,533)	-
Proceeds from disposal of property and equipment		1,653	478
Purchase of treasury bonds from the Investors' Compensation Fund		(355,135)	160,503
(Purchase)/sale of treasury bills from the Investors' Compensation Fund		(49,873)	(1,035,213)
(Purchase)/sale of treasury bonds		18,469	66,496
(Purchase)/sale of treasury bills		<u>270,941</u>	<u>(210,765)</u>
Net cash used in from investing activities		<u>(211,052)</u>	<u>(1,041,790)</u>
Net increase/(decrease) in cash and cash equivalents		<u>39,105</u>	<u>(37,036)</u>
Cash and cash equivalents at start of the year		<u>30,791</u>	<u>67,828</u>
Cash and cash equivalents at end of the year	16	<u><u>69,896</u></u>	<u><u>30,791</u></u>

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CAPITAL MARKETS AUTHORITY (CMA) STATEMENT OF CASH FLOWS For the year ended June 30, 2020

	Note	2020 Shs'000	2019 Shs'000
Cash flows from operating activities			
Surplus for the year		255,550	143,752
Adjustments for:			
Tax expense			
Depreciation of property and equipment	18	16,737	16,939
Amortisation of intangible assets	19	1,674	2,636
Deferred donor funded income	22	83,947	-
Gain on disposal of property and equipment	9	(1,585)	(132)
Interest income	8	(92,567)	(104,106)
Operating Surplus before working capital changes		<u>263,756</u>	<u>59,089</u>
Decrease/(increase) in:			
Inventories		(445)	16
Trade and other receivables		13,052	5,339
Staff loans and advances		1,682	(14,370)
Increase/(decrease) in:			
Trade and other payables		(41,458)	17,406
Provision for liabilities and charges		<u>9,573</u>	<u>3,361</u>
Cash generated from operations		<u>246,160</u>	<u>70,841</u>
Interest received	8	92,567	104,106
Surplus paid		<u>(500,000)</u>	<u>(21,127)</u>
Net cash generated from operating activities		<u>(161,273)</u>	<u>153,820</u>
Cash flows from investing activities			
Purchase of property and equipment	18	(31,573)	(23,289)
Purchase of intangible assets	19	(65,533)	-
Proceeds from disposal of property and equipment		1,653	478
(Purchase)/sale of treasury bonds		18,469	66,496
(Purchase)/sale of treasury bills		<u>270,940</u>	<u>(210,765)</u>
Net cash used in from investing activities		<u>193,956</u>	<u>(167,080)</u>
Net increase/(decrease) in cash and cash equivalents		<u>32,683</u>	<u>(13,259)</u>
Cash and cash equivalents at start of the year		<u>29,615</u>	<u>42,875</u>
Cash and cash equivalents at end of the year	16	<u><u>62,298</u></u>	<u><u>29,615</u></u>

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INVESTOR COMPENSATION FUND (ICF) STATEMENT OF CASH FLOWS For the year ended June 30, 2020

	Note	2020 Shs'000	2019 Shs'000
Cash flows from operating activities			
Interest income	17	(334,277)	(263,116)
Operating Surplus before working capital changes		(334,277)	(263,116)
Decrease/(increase) in:			
Trade and other receivables		(11,018)	2,726
Increase/(decrease) in:			
ICF Fund		422,448	848,207
Provision for liabilities and charges		77,153	587,817
Cash generated from operations		334,277	263,116
Interest received	17	334,277	263,116
Surplus paid		-	-
Net cash generated from operating activities		411,430	850,933
Cash flows from investing activities			
Purchase of treasury bonds from the Investors' Compensation Fund	17	(355,135)	160,503
(Purchase)/sale of treasury bills from the Investors' Compensation Fund	17	(49,873)	(1,035,213)
Net cash used in from investing activities		(405,008)	(874,710)
Net increase/(decrease) in cash and cash equivalents		6,422	(23,777)
Cash and cash equivalents at start of the year		1,176	24,953
Cash and cash equivalents at end of the year	17	7,598	1,176

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Approved	Adjustments (Reallocations)	Actual on		Performance difference	
	budget		comparable			
	2019-2020 Shs'000		Final budget basis	2019-2020 Shs'000		
Revenue						
Fee income from NSE	446,183	-	446,183	398,961	(47,222)	a)
Licenses and permits	22,900	-	22,900	21,099	(1,801)	
Market development Fees	11,770	-	11,770	9,381	(2,389)	b)
Capitalisation and bond approvals	280,000	-	280,000	521,389	241,389	c)
Derivatives Fees	8,894	-	8,894	8		d)
Fee based income	769,747	-	769,747	950,838	189,977	
Donor Funding- gifts and services-in-kind	141,910	-	141,910	18,556	(123,354)	e)
Finance income - external investments	97,000	-	97,000	92,567	(4,433)	
Gains on disposal, rental income and agency fees	-	-	-	1,586	1,585.90	f)
Other income	26,570	-	26,570	570	(26,000)	g)
Total income	1,035,227	-	1,035,227	1,064,116	37,775	
Expenses						
Personnel cost	590,514	-	590,514	466,800	123,714	a)
Rent and maintenance	41,500	-	41,500	39,970	1,530	
Equipment maintenance and stationery	40,817	(3,000)	37,817	31,632	6,185	b)
Telephone, postage and utilities	15,850	-	15,850	14,667	1,183	
Publicity and Advertising	20,719	18,950	39,669	31,152	8,517	c)
Medical scheme and insurance expenses	40,383	(1,500)	38,883	33,932	4,951	d)
Training and conferences	49,472	-	49,472	43,166	6,306	e)
Motor vehicle running expenses	6,200	-	6,200	5,728	472	
Subscriptions and IOSCO membership	12,582	(3,350)	9,232	8,891	341	
Authority board members' emoluments and allowance	34,224	-	34,224	32,331	1,893	
Professional & consultancy services	8,300	(1,500)	6,800	5,220	1,580	f)
Litigation/legal expenses	20,005	7,029	27,034	25,812	1,222	
Market Development & Islamic Finance	27,850	(10,100)	17,750	16,476	1,274	
Capital Markets Masterplan	3,200	(1,400)	1,800	699	1,101	g)
Donor Funded Projects	42,000	-	42,000	18,572	23,428	h)
Depreciation of property, plant and equipment	49,139	-	49,139	16,737	32,401	i)
Amortisation of intangible assets	7,646	-	7,646	1,674	5,973	i)
Auditor's remuneration	2,090	-	2,090	2,090	0	
Investors' education and awareness programme	15,050	(2,129)	12,921	11,407	1,514	j)
Tribunal expenses	5,570	(3,000)	2,570	1,359	1,211	k)
Provision for doubtful debts	-	-	0	250	(250)	
Total expenditure	1,033,111	-	1,033,111	808,566	224,545	
Surplus for the period	2,116	-	2,116	255,550	253,434	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (CONTINUED)

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

REVENUE

- a) **Transaction Fee income from NSE:** The cumulative performance was 15% below budget but 9% above last year mainly due to low activity and suppressed stock prices of listed companies.
- b) **Market Development fee income** was below annual budget by 16% mainly as a result of redemption of the following corporate bonds in the period: CIC Insurance Group, Consolidated Bank of Kenya, Housing Finance Kenya, I&M Holdings, KenGen, NIC and UAP.
- c) **Capitalization and bond approvals income** was higher than budget mainly due to National Bank of Kenya buy-out by KCB and KCB's approval fee for the issue and listing of additional shares on the MAIN segment on NSE.
- d) **Derivative Fees** YTD was 99% below budget due to the fact that this is a new market segment and uptake has not been as favourable as had been anticipated.
- e) **Donor Funding- gifts and services-in-kind** was below budget by 83%, as income was deferred for ongoing donor funded capital projects.
- f) **Gains on disposal** income was due to the receipts from disposal of obsolete assets through competitive bidding.
- g) **Other income** realized were mainly from the CMA-ICF management fees.

EXPENDITURE

- a) **Personnel cost:** The Authority's staff complement was gradually filled in the year, and the staff cost were well within the approved budgeted amount.
- b) **Equipment maintenance and stationery costs** were 15% lower than budget attributable to re-negotiated service maintenance contract for existing systems (Enterprise Resource Program (ERP) and Risk Based Supervision System (RBSS)).
- c) **Advertising and public relations-**The expense line was 22% below budget mainly due to reduction in publicity costs. The budget line was reallocated Ksh20million from other un-utilized expense lines towards payment into the Covid-19 Emergency Fund. NB: The Authority paid Ksh20million.
- d) **Medical Scheme & Other insurance expenses** lines were 11% below budget. The low spend on medical scheme expense could have been impacted by the 'stay at home' measure for families due to the Covid-19 pandemic.
- e) **Training and conferences:** Due to Covid-19 measures there were no training activities in the quarter 4, but the expenses were 13% below budget as most of the scheduled trainings were done in the previous three quarters.
- f) **Professional & consultancy services were 18% below budget.** Several consultancies were not carried out due to stay at home measures due to Covid-19 pandemic.
- g) **Capital Markets Masterplan -** The budget line was 61% below budget mainly due to stay at home measures to contain Covid-19 pandemic.
- h) **Donor Funded Projects- cost -** were 56% below the anticipated budget level as lengthy donor procurement processes delayed completion of certain planned donor funded projects and related acquisitions.
- i) **Depreciation of property, plant and equipment and amortization cost** was below budget. Difference was due to assets not acquired, see (h) above, during the period as well as assets which were fully depreciated in the year.
- j) **Investors' education and awareness program expenses** were below budget mainly due to activities affected by Covid-19 containment measures which impacted on planned activities.
- k) **Capital Markets Appeals Tribunal** expenses remained low against budget as the tribunal membership was not quorate for the better part of the year.

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 (Kshs. '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.

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 2020

Standard	Impact
	Applicable: 1st January 2019
IPSAS40: Public Sector Combinations.	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 are covered purely under Public Sector combinations as amalgamations.
	Applicable: 1st January 2021:
IPSAS 41: Financial Instruments	The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.
	Applicable: 1st January 2021:
Other Improvements to IPSAS	a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment.

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 programs 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 / Surplus due to The National Treasury

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 is however 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	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. The Authority's lease for premises occupied as an operating lease.

If a convergence had been reached for IPSAS 13 to IFRS 16, for similar treatments of operating and financing leases, the impact of the amendment of the existing operating lease would have resulted in recognizing a lease asset/ liability amounting to Ksh109,587,249 to be amortized over the remaining lease contract period . The amortization would have resulted in a reduction in earning through interest charge in the books amounting to Ksh7,564,000 in the current financial year.

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 considering 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 considering 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; and
- 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) Changes in accounting policies and estimates

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

j) 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 also contributes to the statutory National Social Security Fund (NSSF), a national defined contribution scheme registered under the National Social Security Act. The Authority's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Ksh200 per employee per month.

k) 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.

l) 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 arise.

m) 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)

n) Inventories

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

o) 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.

p) 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 could 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 are 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 an Authority wide basis. The Authority does not grade the credit quality of financial assets that are neither past due nor impaired.

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

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by considering the financial position, 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
At 30th June 2020				
Held-to-maturity investments	881,872	-	-	881,872
Staff loans and advances/ fund	391,095	-	-	391,095
Trade receivables	31,200	-	-	31,200
Other receivables	5,897	-	-	5,897
Cash at bank, in hand and deposits	62,158	-	-	62,158
	<u>1,372,221</u>	<u>-</u>	<u>-</u>	<u>1,372,221</u>
Maximum exposure to credit risk	<u>1,372,221</u>	<u>-</u>	<u>-</u>	<u>1,372,221</u>
	Fully performing Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
At 30th June 2019				
Held-to-maturity investments	1,171,281	-	-	1,171,281
Staff loans and advances/ fund	392,776	-	-	392,776
Trade receivables	41,589	-	-	41,589
Other receivables	6,566	-	-	6,566
Cash at bank, in hand and deposits	29,475	-	-	29,475
	<u>1,641,687</u>	<u>0</u>	<u>0</u>	<u>1,641,687</u>
Maximum exposure to credit risk	<u>1,641,687</u>	<u>0</u>	<u>0</u>	<u>1,641,687</u>

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

	2020 Shs'000	2019 Shs'000
Over 6 months	<u>0</u>	<u>0</u>

The past due debtors are nil. An impairment provision of Shs 4,795,000 (2019: Shs4,546,000) 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
Year ended 30th June 2020					
Trade payables	3,800				3,800
Other payables	28,746	2,231	1,206		32,183
Provision for liabilities and charges	25,259			89,329	114,589
Gratuity obligations	24,082				24,082
	<u>81,888</u>	<u>2,231</u>	<u>1,206</u>	<u>89,329</u>	<u>174,653</u>
	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
Year ended 30th June 2019					
Trade and other payables	27,152	2			27,154
Accruals	31,908	4	1,395	665	33,972
Provision	39,244			77,878	117,122
Gratuity obligations	37,865				37,865
	<u>136,169</u>	<u>6</u>	<u>1,395</u>	<u>78,543</u>	<u>216,113</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 2020 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 Kshs. (2019: 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 reviewed the portfolio, set exposure limits and responded 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	2020 Shs'000	2019 Shs'000
Fees income		
Capitalization, rights and new issue fees	92,060	149,776
Approval for listing of Government securities	429,329	332,848
NSE - transaction fees	398,961	367,575
Application and licensing fees	21,099	26,676
Market development fees	9,381	11,123
Derivative fees	8	-
	<u>950,838</u>	<u>887,998</u>

The Authority charges fees on the following basis :

- a) Capitalization / rights issues at a rate of 0.25% of the value of the issue.
- b) Approval for listing of Government securities is charged at a rate of 0.075% of the amount raised.
- c) New issues / IPOs at a rate of 0.15% of the value of the issue.
- d) 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.
- e) Application for license at Kshs. 2,500 while annual licensing fees are up to a maximum of Shs 250,000.
- f) 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 and
- g) Derivative fees-CMA charges Levy fees with respect to derivatives contracts traded at 0.01% of value of contracts traded.

7. Donor fund income	2020 Shs'000	2019 Shs'000
Donor fund income	<u>18,556</u>	<u>50,144</u>

The Authority received support worth Shs18.6 million (2019:Shs42.8 million) in the year to support various capacity development among them being the roadmap Consultancy for the Hybrid Bond Market, and also the design of the Securities Market Multi Asset Surveillance System for the Capital Market Authority.

8. Revenue from exchange transactions - other income	2020 Shs'000	2019 Shs'000
Interest income	92,567	104,106
Miscellaneous income	<u>570</u>	<u>1,713</u>
	<u>93,136</u>	<u>105,819</u>

9. (Loss)/Gain on disposal of property and equipment

Gain or (loss) on disposal of obsolete and retired Property and Equipment	<u>1,586</u>	<u>132</u>
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10 Surplus

a) Items charged	Note	2020 Shs'000	2019 Shs'000
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The following items have been charged in arriving at net surplus for the year

Depreciation of property and equipment	17	16,737	16,939
Amortisation of intangible assets	18	1,674	2,636
Authority board members' emoluments, allowances and other Board related expenses	27	32,331	31,553
Post-employment benefits expense	10(b)	34,416	32,180
Provision on Trade and other receivables	13(b)	<u>250</u>	<u>100</u>

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NOTES (CONTINUED)

	2020 Shs'000	2019 Shs'000
10 b. Employee benefits expense		
The following items are included in employee benefits expense:		
Retirement benefit costs		
Defined contribution scheme	34,087	31,822
National Social Security Fund	<u>329</u>	<u>358</u>
	<u><u>34,416</u></u>	<u><u>32,180</u></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 was managed by an independent fund manager, GenAfrica Investment Management Limited, on behalf of the Trustees. The DB Scheme has since been wound up and all the assets transferred to the DC scheme on 31st December 2019.

11 a. Transfer of Surplus to National Treasury

	2019/2020		2018/2019	
	Shs'000	Shs'000	Shs'000	Shs'000
Total Revenue (Note No.6, 7,8 and 9)		1,064,116		1,044,093
Operating Expenses		<u>(808,566)</u>		<u>(900,341)</u>
Surplus before tax		255,550		143,752
Add back:				
Depreciation	16,737		16,939	
Amortization	<u>1,674</u>	<u>18,411</u>	<u>2,636</u>	<u>19,575</u>
Adjusted Surplus		273,961		163,328
Transfer from Deferred Income				
Adjusted Surplus		273,961		163,328
Less:				
Building fund	(44,037)		(20,000)	
Capital expenditure	(15,533)		(23,683)	
Intangible Assets	(1,577)		-	
Staff Mortgages net	(28,635)		(16,593)	
Staff Car loans net	13,141		(45)	
		<u>(76,641)</u>		<u>(60,321)</u>
Net Surplus/(Deficit)		197,320		103,006
90%		177,588		92,706
90% Surplus due to KRA		<u><u>177,588</u></u>		<u><u>92,706</u></u>

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

11 b. Status of Surplus and remittances in the Year

Surplus Computed

	Date /Year	Shs'000	2019/2020 Shs'000
90% of Surplus for FY 2018/2019	2018/2019		92,706
90% of Surplus for FY 2019/2020	2019/2020		<u>177,588</u>
Total 90% Surplus For FY 2018/2019 and 2019/2020			<u><u>270,294</u></u>

Payment of Surpluses

	Date	Shs'000	2019/2020 Shs'000
90% Surplus for FY 2018/2019	18.09.2019	92,706	92,706
Payment from accumulated Reserves			
Paid to the National Treasury	11.11.2019	85,964	
Paid to the National Treasury	13.11.2019	65,000	
Paid to the National Treasury	22.05.2020	<u>256,330</u>	
Sub total			<u>407,294</u>

Total Surplus paid as demanded by National Treasury vide letter dated 16th September 2019

500,000

11c.

The Authority is an appointed agent of KRA for Withholding agency Tax and Withholding VAT respectively. In the Financial Year 2019/20 remittances of Ksh 6.76 million (FY 2018/19: Ksh 9.06 million) for Withholding Tax and Ksh 4.77 million (FY 2018/19: Ksh 10.76 million) for Withholding VAT were made.

	2020 Shs'000	2019 Shs'000
12. Inventories		
Consumables	<u>2,067</u>	<u>1,622</u>

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

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NOTES (CONTINUED)

13a. Trade and other receivables from non-exchange transactions	2020	2019
	Shs'000	Shs'000
Trade receivables	31,974	42,571
Statutory management expenses receivable	-	-
Less: Provision for impairment losses	<u>(4,796)</u>	<u>(4,546)</u>
Net trade receivables	27,178	38,025
Other receivables	<u>9,734</u>	<u>7,181</u>
Trade and other receivables from non-exchange transactions	<u><u>36,912</u></u>	<u><u>45,206</u></u>

13b. Trade and other receivables from exchange transactions	2020	2019
	Shs'000	Shs'000
Trade receivables	4,022	3,564
Less: Provision for impairment losses	<u>-</u>	<u>-</u>
Net trade receivables	4,022	3,564
Prepayments	<u>5,897</u>	<u>11,112</u>
Trade and other receivables from exchange transactions	<u>9,919</u>	<u>14,676</u>
Total trade and other receivables from non-exchange and exchange transactions	<u><u>46,831</u></u>	<u><u>59,882</u></u>

The movement on the provision for impairment losses for non-exchange transactions is as follows:

At 1st July	4,796	4,546
Less: Provision utilised as debts written off	-	-
Less: Provision reversed on debt collection	<u>-</u>	<u>-</u>
At 30th June	<u><u>4,796</u></u>	<u><u>4,546</u></u>

The movement on the provision for impairment losses for exchange transactions is as follows:

At 1st July	-	-
Add: Additional provision	<u>250</u>	<u>-</u>
At 30th June	<u><u>250</u></u>	<u><u>-</u></u>

14. Staff loans and advances

	Current	Current	Non- current	Non-	Total	Total
	2020	2019	2020	current	2020	2019
	Shs'000	Shs'000	Shs'000	2019	Shs'000	Shs'000
Car loans	8,645	11,828	10,251	18,255	18,895	32,036
Other loans and advances	1,676	4,481	-	-	1,676	4,481
Staff mortgage back up funds*	<u>37,637</u>	<u>32,240</u>	<u>332,886</u>	<u>324,313</u>	<u>370,523</u>	<u>341,888</u>
	<u><u>47,957</u></u>	<u><u>48,548</u></u>	<u><u>343,137</u></u>	<u><u>342,568</u></u>	<u><u>391,095</u></u>	<u><u>378,406</u></u>

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

Mortgage back up accounts are:	Shs'000
HFC: Mortgage 3000013543 and Mortgage 2000094161	198,024
KCB Mortgage MM1509100194	<u>172,499</u>
Total	<u><u>370,524</u></u>

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NOTES (CONTINUED)

15. Held-to-maturity investments - government securities	2020 Shs'000	2019 Shs'000
Non-current		
Treasury bonds		
Maturing after four years	155,050	129,950
Unamortised premium	<u>(6,929)</u>	<u>(8,464)</u>
	<u>148,121</u>	<u>121,486</u>
Treasury bonds		
Maturing after one year	20,375	20,375
Unamortised (discount)/premium	<u>0</u>	<u>0</u>
	<u>20,375</u>	<u>20,375</u>
	<u>168,495</u>	<u>141,861</u>
Current		
Treasury bonds		
Maturing within one year	0	45,110
Unamortised (discount)/premium	<u>-</u>	<u>(7)</u>
	<u>0</u>	<u>45,103</u>
Treasury bills	721,550	1,014,150
Unamortised discount	<u>(8,173)</u>	<u>(29,833)</u>
	<u>713,377</u>	<u>984,317</u>
	<u>713,377</u>	<u>1,029,420</u>
	<u>881,872</u>	<u>1,171,281</u>

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

Non- current		
Held-to-maturity investments	<u>168,495</u>	<u>190,476</u>
Current		
Held-to-maturity investments	<u>713,377</u>	<u>836,536</u>

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NOTES (CONTINUED)

				2020 Shs'000	2019 Shs'000
16a. Banks					
	Name of the Bank	Bank account no.	Account currency		
	Commercial Bank of Africa Limited	6580810018	Shs	7,790	5,475
	HF Bank	3000013543-0	Shs	29,838	-
				<u>37,628</u>	
16b. Cash in hand					
	Cash in hand		Shs	<u>140</u>	<u>140</u>
16c. Short term deposits					
	Commercial Bank of Africa Limited	MM2017800056	Shs	5,000	24,000
	Commercial Bank of Africa Limited	MM1933300091		780	
	Commercial Bank of Africa Limited	MM1933300096		3,978	
	Commercial Bank of Africa Limited	MM1933300097		584	
	Commercial Bank of Africa Limited	MM1933300098		3,050	
	Commercial Bank of Africa Limited	MM2001500022		588	
	Commercial Bank of Africa Limited	MM2008500026		1,450	
	Commercial Bank of Africa Limited	MM2016000078		4,200	
	Commercial Bank of Africa Limited	MM2016000079		2,850	
	Commercial Bank of Africa Limited	MM2016000080		1,350	
	Commercial Bank of Africa Limited	MM2016000081		700	
				<u>24,530</u>	<u>24,000</u>
	Total cash in hand and bank			<u><u>62,298</u></u>	<u><u>29,615</u></u>

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

Short-term bank deposits	24,530	24,000
Cash at bank and in hand	37,768	5,615
Investors Compensation Fund bank balance (Note 16) - (KCB)	<u>7,598</u>	<u>1,176</u>
	<u><u>69,896</u></u>	<u><u>30,791</u></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; and
- 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:

	2020 Shs'000	2019 Shs'000
At beginning of the year	3,121,749	2,270,817
Nairobi Securities Exchange transactions fees	78,703	78,033
Interest on investments	334,277	263,116
Financial penalties	32,497	555,286
Withdrawals (Investor Claims)	(3)	(563)
Gain /(loss) in Investment in NSE	(33,518)	(44,396)
Management Fees	(500)	(500)
Bank Charges	(27)	(44)
At end of the year	<u><u>3,533,179</u></u>	<u><u>3,121,749</u></u>

NOTES (CONTINUED)

17. Investors' Compensation Fund (continued)

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

	2020 Shs'000	2019 Shs'000
Non-current		
Equity investment in the Central Depository and Settlement	12,250	12,250
Equity investment in the NSE	<u>68,250</u>	<u>107,188</u>
	80,500	119,438
Treasury bonds		
Maturing after five years	954,900	776,950
Unamortised discount (premium)	<u>11,567</u>	<u>(513)</u>
	<u>966,467</u>	<u>776,437</u>
Maturing after one year	442,365	290,465
Unamortised discount	<u>(7,334)</u>	<u>789</u>
	<u>435,031</u>	<u>291,254</u>
	<u>1,401,497</u>	<u>1,067,691</u>
	<u>1,481,997</u>	<u>1,187,129</u>
Current		
Treasury bonds	80,100	20,000
Unamortised discount	<u>159</u>	<u>(7)</u>
	<u>80,259</u>	<u>19,993</u>
Treasury bills	2,025,400	1,973,500
Unamortised discount	<u>(117,609)</u>	<u>(104,565)</u>
	<u>1,907,791</u>	<u>1,868,935</u>
Fees receivable	55,534	44,516
Bank balance	<u>7,598</u>	<u>1,176</u>
	<u>63,132</u>	<u>45,692</u>
	<u>2,051,182</u>	<u>1,934,621</u>
	<u><u>3,533,179</u></u>	<u><u>3,121,749</u></u>

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NOTES (CONTINUED)

18. Property and equipment	Motor vehicles Shs'000	Computers, Computer & Copiers Shs'000	Office equipment Shs'000	Furniture & fittings Shs'000	Capital work-in- progress Shs'000	Total Shs'000
Cost						
At 1st July 2018	29,818	119,206	23,520	91,673	393	264,611
Additions	-	8,035	296	101	-	23,683
Disposals	-	(4,598)	(1,992)	(1,984)	-	(8,574)
Reversal	0	0	0	0	(393)	(393)
At 30th June 2019	41,118	122,643	21,823	89,791	3,951	279,327
Additions	-	11,014	513	4,005	19,992	35,524
Disposals	(3,995)	(581)	(33)	-	-	(4,609)
Reversal	-	-	-	-	(3,951)	(3,951)
At 30th June 2020	37,123	133,077	22,303	93,796	19,992	306,291
Depreciation						
At 1st July 2018	(24,506)	(104,960)	(18,197)	(78,637)	-	(226,299)
Depreciation	(2,638)	(7,674)	(2,164)	(4,464)	-	(16,939)
Accumulated depreciation reversed on disposal	0	4,343	1,992	1,893	-	8,228
At 30th June 2019	(27,144)	(108,290)	(18,368)	(81,208)	-	(235,011)
Depreciation	(4,757)	(6,963)	(1,869)	(3,149)	-	(16,737)
Accumulated depreciation reversed on disposal	3,995	531	13	-	-	4,538
At 30th June 2020	(27,906)	(114,722)	(20,224)	(84,357)	-	(247,210)
Net carrying amount						
At 30th June 2020	9,217	18,354	2,079	9,438	19,992	59,082
At 30th June 2019	13,974	14,353	3,455	8,582	3,951	44,316

Included above in the items of property and equipment is the cost of fully depreciated assets of Shs 211,035,632 (2019: Shs 185,361,090) which are still in use and have not been impaired. Work in progress was carried at cost.

Work in progress relates to computer server hardware funded as part of ongoing ICT Projects which are yet to be commissioned. The detailed works are as follows:

Description	Cost Ksh'000
Supply, Installation & Commissioning of Computer Servers Hardware	19,992
Total	19,992

NOTES (CONTINUED)

	Intangible assets Shs'ooo
19. Intangible assets	
Software costs	
Cost	
At 1st July	168,463
2018 Additions	-
Derecognition of intangible asset	
At 30th June	<u>168,463</u>
2019 Additions	
Work in progress	<u>65,533</u>
At 30th June 2020	<u><u>233,996</u></u>
Amortisation At	
1st July 2018	163,520
Amortisation	<u>2,636</u>
At 30th June 2019	166,156
Amortisation	<u>1,674</u>
At 30th June 2020	<u><u>167,829</u></u>
Net book value At	
30th June 2020 At	<u><u>66,167</u></u>
30th June 2019	<u><u>2,307</u></u>

Work in progress relates to software for Data repository Business Intelligence System, Multi Asset market system funded as part of ongoing ICT Projects not yet to be commissioned, and ongoing installation of a self-funded Financial reporting software. These are yet to be commissioned and the detailed works are as follows:

Description

	Cost (Ksh'ooo)
Supply, Installation & Commissioning of Data Repository & Business Intelligence System	50,098
Design of the Securities Market Multi Asset Surveillance System	13,857
Installation of and implementation of Caseware Financial Reporting Software	<u>1,577</u>
	<u><u>65,533</u></u>

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NOTES (CONTINUED)

	2020	2019
	Shs'000	Shs'000
20. Trade and other payables		
Trade payables	3,800	27,154
Provisions	114,589	117,122
Gratuity obligations	24,082	37,865
Accruals	<u>32,184</u>	<u>33,971</u>
	<u><u>174,654</u></u>	<u><u>216,112</u></u>

Included under trade and other payables are the provisions for various services whose movement has been presented below:

Provisions	Leave benefits	Performance	Total
	Shs'000	Shs'000	Shs'000
At 1st July 2019	15,108	102,014	117,122
Additional provisions raised	100	27,486	27,586
Provision utilized/reversed	<u>(15,108)</u>	<u>(15,011)</u>	<u>(30,119)</u>
At 30th June 2020	<u><u>100</u></u>	<u><u>114,489</u></u>	<u><u>114,589</u></u>
Accruals	Consultancies	Other Provisions	Total
	Shs'000	Shs'000	Shs'000
At 1st July 2019	1,082	32,390	33,472
Additional accruals		29,308	29,308
Accruals realized/reversed	<u>(1,082)</u>	<u>(32,390)</u>	<u>(33,472)</u>
At 30th June 2020	<u><u>-</u></u>	<u><u>29,308</u></u>	<u><u>29,308</u></u>

21. Provision for liabilities and charges

At 1st July 2019	82,445	79,084
Add: Additional provision	41,215	31,405
Less: Provision written back	<u>(31,642)</u>	<u>(28,044)</u>
At 30th June 2020	<u><u>92,018</u></u>	<u><u>82,445</u></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 results of all pending legal proceedings, the Authority assesses the adequacy of its provisions periodically against case developments and related legal costs.

NOTES (CONTINUED)

22. Deferred income

In line with the Authority's accounting policy, Kshs. 83,947,161.56 of the donor funded income has been deferred for future periods the amounts relate to projects being financed by FSSP which include Supply, Installation & Commissioning of Data Repository & Business Intelligence Software and Design and installation of the Securities Market Surveillance System (Multi Asset Surveillance System).

	2020 Shs'000	2019 Shs'000
As at 1 July		-
Recognised in the year	<u>83,947</u>	
	<u>83,947</u>	<u>-</u>

23. General fund

	2020 Shs'000	2019 Shs'000
At 1 July	726,688	695,642
Surplus for the year	77,962	51,046
Payment to The National Treasury	(407,294)	-
Transfer to building fund (Note 24)	<u>(44,037)</u>	<u>(20,000)</u>
At 30 June	<u>353,318</u>	<u>726,688</u>

General fund represents accumulated surpluses over the years.

24. Capital fund

	2020 Shs'000	2019 Shs'000
At 1st July 2019 and at 30th June 2020	<u>27,886</u>	<u>27,886</u>

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

25. Building fund

	2020 Shs'000	2019 Shs'000
At 1 July	555,963	535,963
Appropriation from general fund (Note 23)	<u>44,037</u>	<u>20,000</u>
At 30 June	<u>600,000</u>	<u>555,963</u>

Building fund represents an appropriation from the general fund towards the purchase/construction of the Authority's future building for approved limit of Ksh600million. The appropriation in the year is Ksh44million to achieve the approved limit.

26. Related party transactions

	2020 Shs'000	2019 Shs'000
i) Board members of the Authority' remuneration		
Honoraria	783	348
Retainer	8,295	8,179
Sitting allowances	8,740	8,100
Training expenses	9,892	7,727
Others (medical, mileage, bonus)	<u>4,621</u>	<u>7,200</u>
	<u>32,331</u>	<u>31,553</u>

There were 10 board members during the year (2019:10)

ii) Key management compensation

Gross salaries	33,623	39,550
Pension-NSSF	8	10
Gratuity	<u>8,206</u>	<u>9,360</u>
	<u>41,838</u>	<u>48,919</u>

There were 4 members of senior management who served during the year (2019:4)

NOTES (CONTINUED)

27. 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:

	2020 Shs'000	2019 Shs'000
Capital expenditure contracted for	242	4,614
Recurrent expenditure contracted for	271	2,792
	<u>512</u>	<u>7,406</u>

b. Item description

	Capital Shs'000	Recurrent Shs'000	Total Shs'000
Fumigation		49	49
Social Media Equipment	113		113
Cellphones		159	159
Fire Resistant Cabinet	129		129
Printing License		46	46
Speed Governor		17	17
Total	<u>242</u>	<u>271</u>	<u>512</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 38,503,000 (2019: Shs36,363,000).

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

	2020 Shs'000	2019 Shs'000
Not later than 1 year	38,503	36,363
Later than 1 year and not later than 5 years	108,544	142,872
	<u>147,047</u>	<u>179,235</u>

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

The International Public Sector Accounting Standards Board (IPSASB) had issued Exposure Draft (ED) 64, Leases. The Exposure Draft proposed a single right-of-use model for lease accounting that will replace the risks and rewards incidental to ownership model in IPSAS 13, Leases. For lessees, ED 64 proposes accounting requirements that are converged with IFRS 16, Leases issued by the International Accounting Standards Board. For lessors, ED 64 proposes a right-of-use model specifically designed for public sector financial reporting.

Once adopted the new standard will gross up financial position and change income statement and cash flow presentation. Rent expense, for example, will be replaced by depreciation and interest expense in the income statement. This will result in a front-loaded lease expense, (see note 3(e)) which may decrease earnings and equity immediately after compared to the current treatment of the operating lease.

28. Contingent liabilities

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. KRA during 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.

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NOTES (CONTINUED)

	2020 Kshs.'000	2019 Kshs.'000
29 Operating expenditure		
29.1 Employment expense		
Consolidated pay, leave pay and passages	411,771	434,023
Staff uniform expenses	10	408
Staff welfare and other costs	10,319	12,266
Staff retirement benefits	34,087	31,822
Staff gratuity	10,282	12,791
National Social Security Fund (NSSF)	<u>329</u>	<u>358</u>
	<u>466,800</u>	<u>491,668</u>
29.2 Other administrative expenses		
Rent and maintenance	39,970	38,610
Equipment maintenance and stationery	31,632	38,103
Telephone, postage and utilities	14,667	14,765
Publicity and Advertising	31,152	18,726
Medical scheme and insurance expenses	33,932	36,146
Training and conferences	43,166	64,546
Motor vehicle running expenses	5,728	5,870
Subscriptions and IOSCO membership	8,891	11,390
Authority board members' emoluments and allowances	32,331	31,553
Professional and market development services	66,780	111,248
Depreciation of property and equipment	16,737	16,939
Amortisation of intangible assets	1,674	2,636
Auditor's remuneration	2,090	1,726
Investors' education and awareness program	11,407	16,016
Tribunal expenses	1,359	399
Provision for doubtful debts	<u>250</u>	<u>-</u>
	<u>341,766</u>	<u>408,673</u>
Total expenditure	<u><u>808,566</u></u>	<u><u>900,341</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)
During the previous year, the Authority Auditor's Report was unmodified/unqualified. There were no issues for follow up					


 Chief Executive


 Chairman of the Board

Date.....13-11-2020

Date.....13-11-2020

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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	Medium Term resident advisory on Derivatives in Kenya	World Bank through FSSP	35 months (15th May 2017 – 31st Dec 2019)	Yes	Yes. Quarterly reports done to World Bank through PIU
2	Consultancy for the Hybrid Bond Market	World Bank through FSSP	11 months (15th February – 18th August 2019)	Yes	Yes. Quarterly reports done to World Bank through PIU
3	Assess the Funding Gaps at National and County Governments	World Bank through FSSP	20 months (02nd May – 31st Dec 2018)	Yes	Yes. Quarterly reports done to World Bank through PIU
4	Develop Specifications for an Information Repository, Advanced Financial Analysis System, E-Learning System and Communications/IT Infrastructure	World Bank through FSSP	33 months (28th August 2017 – 30th June 2020)	Yes	Yes. Quarterly reports done to World Bank through PIU
5	Supply, installation & Commissioning of a Data Repository & Business Intelligence System at the Capital Markets Authority. (Tender 1 Lot 1)	World Bank through FSSP	23 months (30th September 2019 - 28th February 2021)	Yes	Yes. Quarterly reports done to World Bank through PIU
6	Supply, installation & Commissioning of Computer Hardware at the Capital Markets Authority. (Tender 1 Lot 2)	World Bank through FSSP	8 months (30th September 2019 - 31st May 2020)	Yes	Yes. Quarterly reports done to World Bank through PIU
7	Supply, installation & Commissioning of Microsoft Software Upgrade at the Capital Markets Authority (Tender 1 Lot 3)	World Bank through FSSP	12 months (30th August 2019 - 30th September 2020)	Yes	Yes. Quarterly reports done to World Bank through PIU
8	Supply, installation & Commissioning of a Video Conferencing System at the Capital Markets Authority (Tender 2 Lot 1)	World Bank through FSSP	8 months (30th August 2019 - 30th April 2020)	Yes	Yes. Quarterly reports done to World Bank through PIU
9	Review and Design Securities Market Surveillance System	World Bank through FSSP	22 months (29th April 2019 - 28th February 2021)	Yes	Yes. Quarterly Reports done to World Bank through PIU
10	Upgrade and integration of the Capital Markets Authority's Market Surveillance system to the new Automated Trading System at the Exchange and the Central Depository system	World Bank through FSSP	12 months (31st May 2019 - 31st May 2020)	Yes	Yes. Quarterly reports done to World Bank through PIU
11	Consultancy to develop an oversight Framework and capacity building on supervision of self-regulatory organizations (SROs) in Kenya	World Bank through FSSP	11 Months (1st May 2020 - 31st July 2020)	Yes	Yes. Quarterly reports done to World Bank through PIU

Status of Projects completion

(Summary of the status of project completion at the end of year)

Project	Total project Cost (USD)	Total expended to date (USD)	Completion % to date	Budget	Sources of Funds
1	\$158,890	\$133,894.57	100%	\$158,890	World Bank through Financial Sector Support Project (FSSP)
2	\$185,512	\$185,512	100%	\$185,512	World Bank through FSSP
3	\$104,300	\$99,655	95%	\$104,300	World Bank through FSSP
4	\$284,998	\$284,998	90%	\$285,000	World Bank through FSSP
5	KES 54,595,391.57	KES 15,861,393.04	40%	US\$ 54,595,391.57	World Bank through FSSP
6	\$435,270.70	USD 175,008.41	100%	\$435,270.70	World Bank through FSSP
7	\$ 179,367.40	\$179,367	100%	\$ 179,367.40	World Bank through FSSP
8	US\$ 15,041,680.25	US\$ 15,041,680.25	100%	US\$ 15,041,680.25	World Bank through FSSP
9	KES 8,270,718	KES 8,270,718	100%	US\$ 8,270,718	World Bank through FSSP
10	\$166,511	\$160,004	90%	\$166,511	World Bank through FSSP
11	\$294,843	\$29,484.30	10%	\$294,843	World Bank through FSSP

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Appendix 2- Inter Entity Transfers

Name of the MDA/Donor Transferring the funds	Date received	Nature: Recurrent/Development/ Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
	as per bank statement			Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
FSSP	See Appendix 3	Recurrent	2,219,042	2,219,042	-	-	-	-	2,219,042
FSSP	See Appendix 3	Recurrent	16,337,188	16,337,188	-	-	-	-	16,337,188
FSSP	See Note 23	Development	83,947,162			83,947,161.56			83,947,162
National Treasury	See Appendix 3	Others/ Reimbursement	6,094,447	6,094,447	-	-	-	-	6,094,447
Total			108,597,839	24,650,678	-	-	-	-	108,597,839

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

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

Sign 

Finance Manager
 Capital Markets Authority

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.

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Appendix 3: Recording of Transfers from Donors

ENTITY NAME: CAPITAL MARKETS AUTHORITY			
Break down of Transfers from Donors			
FY 2019/2020			
a. Reimbursements for Capacity building Technical Costs.			
	Bank Statement Date	Amount (Kshs.)	Indicate the FY to which the amounts relate
Financial Sector Support Project (FSSP)			
Reimbursement for Staff training and Development for Various Capital Markets technical skills trainings.	Between 01/07/2018 and 30/06/2019	2,219,042.30	2019/20
	Sub Total	2,219,042.30	
b. Other Payments- Reimbursement			
Details of the Payment			
	Transaction Description	Amount (Kshs.)	
Reimbursements for National Treasury Seconded staff	Q4 2018/19	3,090,387.70	2018/19
Reimbursements for National Treasury Seconded staff	Q1 2019/20	3,004,059.20	2019/20
		6,094,446.90	
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	1,637,971.90	2019/20
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	2,949,324.95	2019/20
Consultancy for the Implementation of the Hybrid Bond Market in Kenya	Contra-Donor Funded Consultancies and Donor Funding income	3,986,189.45	2019/20
Multi Asset Surveillance system	Contra-Donor Funded Consultancies and Donor Funding income	7,763,702.15	2019/20
	Total	16,337,188.45	
	GRAND TOTAL	24,650,677.65	

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

Appendix 4: CAPITAL MARKETS AUTHORITY 5 YEAR STATEMENT OF FINANCIAL PERFORMANCE

	2020 Shs'000	2019 Shs'000	2018 Shs'000	2017 Shs'000	2016 Shs'000
Revenue from non-exchange transactions					
Capitalization, rights and new issue fees	950,838	887,998	825,828	759,059	749,682
Donor fund income	18,556	50,144	34,303	109,246	91,140
	<u>969,394</u>	<u>938,142</u>	<u>860,131</u>	<u>868,304</u>	<u>840,822</u>
Revenue from exchange transactions					
Other income	93,136	105,819	107,355	115,457	108,510
	<u>0</u>				
Total revenue	<u>1,062,530</u>	<u>1,043,961</u>	<u>967,486</u>	<u>983,761</u>	<u>949,332</u>
Expenses					
Operating expenditure	(808,566)	(900,341)	(889,282)	(970,011)	(812,206)
Total expenses	<u>(808,566)</u>	<u>(900,341)</u>	<u>(889,282)</u>	<u>(970,011)</u>	<u>(812,206)</u>
Other gains/ (losses)					
(Loss)/Gain on disposal of property and equipment	1,586	132	(17)	(221)	654
Surplus (gross)	255,550	143,752	78,187	13,529	137,780
Tax Expense	-	-	-	-	-
Surplus paid to National Treasury	197,320	(92,706)	(21,127)	-	-
Net Surplus	<u>19,732</u>	<u>51,046</u>	<u>57,060</u>	<u>13,529</u>	<u>137,780</u>

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