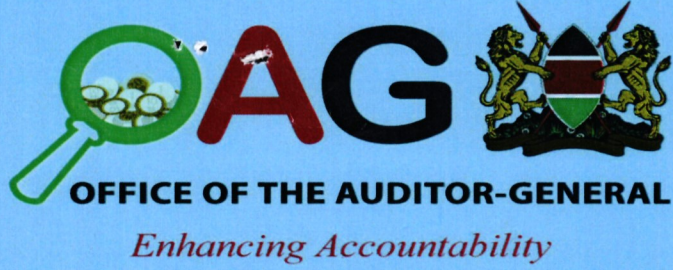


REPUBLIC OF KENYA



THE NATIONAL ASSEMBLY PARLIAMENT OF KENYA	
DATE: 13 OCT 2021	REPORT
TABLED BY:	<i>M. J. KATUP</i>
CLERK-AT THE-TABLE:	<i>S. K. K. M. S.</i> OF



THE AUDITOR-GENERAL

ON

CAPITAL MARKETS AUTHORITY

**FOR THE YEAR ENDED
30 JUNE, 2021**

CAPITAL MARKETS AUTHORITY
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDING JUNE 30, 2021

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, 2021

CONTENTS	PAGE
Authority Information	1 - 6
Corporate Governance Statement	7 - 10
Report of the Board Members of the Authority	11
Report of the Chief Executive Officer	12-14
Chairman's Statement	15-16
Review of the Authority's Performance	17-19
Board Committee Meetings Attendance	20
Statement of the Board Members responsibilities	21-22
Management Discussion and Analysis	23-24
Environmental and Sustainability Statement	25
Report of the Directors	26

Capital Markets Authority
Annual report and financial statements
For the year ended June 30, 2021

CONTENTS	PAGE
Financial statements:	
Statement of financial performance	27
Statement of financial position	28-30
Statement of changes in net assets	31
Statement of cash flows	32-34
Statement of comparison of budget and actual amounts	35-36
Notes	37-55
Supplementary information:	
Schedule of progress on follow up of Auditor recommendations	Appendix I
Projects Implemented, Inter -Entity Transfers & Transfers from Other Government Entities	Appendix 1, 2 & 3

Capital Markets Authority
Authority Information
For the year ended June 30, 2021

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, 2021

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

Robson Harris & Co.
Transnational Plaza, 6th Floor
City Hall Way
P.O. BOX 67845 – 00200
Nairobi
Kenya

Muma & Kanjama Advocates
I&M Bank House, 4th Floor
2nd Ng'ong Avenue
P. O. Box 528-00100
Nairobi
Kenya

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 (2nd Term as Chairman ended on 17th April 2021)
Mr. Wycliffe Shamiah	3rd September, 1969	Chief Executive (effective 16 November 2020)
Hon (Amb.) Ukur Yatani	12 th March, 1967	Cabinet Secretary, The National Treasury & Planning
Mr. Musa Kathanje	26th June, 1970	Alternate to the Cabinet Secretary, The National Treasury
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. David Luusa	17 th June, 1977	Alternate to Governor, Central Bank of Kenya
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 (Term ended on 5th June 2021)
Dr. Freshia Mugo Waweru	31 st October 1980	Member (Term ended on 5th June 2021)
Mr. Peter Mungai	9th July 1983	Member

Capital Markets Authority
Authority Information (continued)
For the year ended June 30, 2021

Management team

Wyckliffe Shamiah

Position Chief Executive
 Date joined the Authority May 20, 1997
 Profession Accountant
 Key qualifications MBA, BA, CPA (K)



Edwin Nyaga Njamura

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



Luke Evans Ombara

Position Director, Policy & Market Development
 Date joined the Authority February, 15 1995
 Profession Economist
 Key qualifications BA, BSP



Abubakar Hassan

Position Director Market Operations
 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 J. Maiyo

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



Hellen Ombati

Position Director 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)



Daniel Ngenga Warutere

Position Senior Manager, Approvals, Analysis and Issuer Governance
 Date joined the Authority November 10, 2008
 Profession Lawyer,
 Key qualifications LLB, CPS, CPA, Post Grad Cert, Capital Markets



Capital Markets Authority
Authority Information (continued)
For the year ended June 30, 2021

Management team

Samuel Kamunyu Njoroge

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



Andrew Muthabuku

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



Richard Chirchir

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



Matthew Mukisu

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



James Kivuva

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



Willyson Nyale

Position Senior Manager, Market Supervision
 Date joined the Authority December 15, 2005
 Profession Accountant
 Key qualifications MBA, BCOM, CPA(K), CPS(K)



Jairus Muaka

Position Senior Manager, Policy & Regulatory Framework
 Date joined the Authority January 5, 2009
 Profession Economist
 Key qualifications M.A Economic Policy, B.A Economics



Capital Markets Authority
Authority Information (continued)
For the year ended June 30, 2021

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, 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 eleven times.

COMPOSITION OF THE BOARD

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

1. Mr. James Ndegwa (2nd Term as Chairman ended on 17th April 2021)

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.

Between 1992—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 has 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: Musa Kathanje

Mr. Musa Kathanje was appointed to the Capital Markets Authority Board as the Alternate to the Cabinet Secretary, National Treasury and Planning (13th August 2018, and 17th July 2020 to date). He is currently the Director of Macro and Fiscal Affairs Department at the National Treasury. He joined the National Treasury in June 2013 as the Head of Macro Division in the Economic Affairs Department, on secondment from the Central Bank of Kenya where he was the Head of Monetary Policy Analysis Division. Mr. Kathanje served at the Central Bank of Kenya from June 1996 to June 2013 before he was seconded to the National Treasury. He has over 25 years of experience in macroeconomic policy formulation and analysis, fiscal policy, monetary policy formulation as well as regional economic integration policy gained from both the Central Bank of Kenya (June 1996 to June 2013) and at the National Treasury (June 2013 to date). He was appointed the Director of Macro and Fiscal Affairs Department in November 2016 by the Public Service Commission of Kenya.

Mr. Kathanje has attended various trainings by among others, the International Monetary Fund and its various regional training Centers; the United Nations Department of Economic and Social Affairs, the United States Federal Reserve Bank of New York, the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) and the IMF East Afritac. He holds among others, a two-year certificate in macroeconomic modeling under the United Nations/African Research Network for Development Policy Analysis from the University of Pretoria, South Africa. He holds both Masters and Bachelor degrees (first class honours in Economics) from the University of Nairobi and is currently finalizing a PhD in Business Administration - Finance from Jomo Kenyatta University of Agriculture and Technology (JKUAT), Kenya.

Mr. Kathanje also currently represents the Principal Secretary, National Treasury at the Central Bank of Kenya, Monetary Policy Committee meetings (May 2017 to date) and is an Alternate to the Cabinet Secretary, National Treasury and Planning at the Vision 2030 Delivery Secretariat Board (4th September 2019 to date). He also represents the Principal Secretary at the National Development Implementation Technical Committee (NDITC) Programmes and Policies Sub-Committee (July 17th, 2019 to date). He has previously served as the Alternate to the Cabinet Secretary, National Treasury and Planning at the Konza Technopolis Board (14th October 2015 to September 30, 2019) and at the Kenya Institute of Public Policy Research and Analysis (KIPPRA) (14th October 2015 to August 19, 2019).

COMPOSITION OF THE BOARD (Continued)

4. Hon. Paul Kihara Kariuki

Hon. 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, Messer Ndungu Njoroge and Kwach Advocates, Nairobi (1986- 2000) and legal assistant and partner, Messer Hamilton Harrison and Mathews Advocates, Nairobi (1977- 1985).

5. 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.

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

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

7. Alternate to Governor, Central Bank of Kenya: Mr. David Luusa

Mr David Luusa joined the Central Bank of Kenya in April 2020 and was appointed Director, Financial Markets Department (FMD). He serves on the Board of The Capital Markets Authority as an alternate to the Governor of the Central Bank of Kenya. 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.

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

9. 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.

COMPOSITION OF THE BOARD (Continued)

10. 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 Programme as Economic Advisor to the Kenyan Ministry of Health (health care financing) (1991-1993) and sat on several Boards of State Corporations (Capital Markets Authority, Export Processing Zones Authority, Export Promotion Council and Deposit Protection Fund) and private companies.

Dr Kibua graduated from the University of Nairobi with a Bachelor’s degree and a Master’s degree in Economics in April 1974 and June 1976, respectively; a Master’s degree in Economics from Yale University, USA, in 1979; and a Doctor of Philosophy degree from the University of Nairobi in 1983.

11. Mr. John Birech (Term ended on 5th June 2021)

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.

12. Dr. Freshia Mugo – Waweru (Term ended on 5th June 2021)

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.

Capital Markets Authority
Corporate Governance Statement (continued)
For the year ended June 30, 2021

COMPOSITION OF THE BOARD (Continued)

13. 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).

14. Mr. Wyckliffe Shamiah

Mr. Shamiah is the Chief Executive of the Capital Markets Authority. Prior to his appointment, on 19th November 2020, he was the Acting Chief Executive from January 2020. He was previously the Director of Market Operations, and has worked at the Authority for over 22 years in various capacities with all round exposure in various aspects of capital markets.

He is the Chairman of the Market Supervision and Risk Management sub-committee of the East African Securities Regulators Forum. He also sits on the Financial Stability Board Regional Group of Sub-Sahara.

Mr. Shamiah holds a Bachelor's Degree in Economics and Mathematics from Egerton University and a Master's in Business Administration from the University of Nairobi. He is a Certified Public Accountant of Kenya and a member of the Institute of Certified Public Accountants of Kenya. He has served on the ICPAK Council since 2009.

I. Market Performance

Primary Market

In the equities market, during the 2020/21 financial year, Homeboyz Entertainment Plc – a public relations and advertising agency, listed by introduction, 63.2 million shares on the Growth Enterprise Market Segment (GEMS) of the Nairobi Securities Exchange (NSE), at a price of Ksh 4.60 per share. Additionally, during the period, Crown Paints Plc, a paint manufacturer operating in Kenya within the East African region successfully issued 71.2 million new ordinary shares at a price of KSh.10.00 per ordinary share. The rights were issued on the basis of one new ordinary share for every one existing share. The rights issue had an over subscription rate of 13.7 percent, with shareholders applying for 81.0 million shares, as against the 71.2 million shares available. The funds would be used to firm up the company's capital base in the face of the challenges of the COVID-19 pandemic.

In the primary bond market, twenty nine (29) Treasury bonds were issued, as the Government sought to raise KShs.725.00 billion. In response, KShs. 1,078.06 billion worth of bond applications was received, with the Government accepting KShs 785.35 billion. On the Corporate Bond Issuance front, during the financial year, Centum Investment's subsidiary - Centum Real Estate Limited, raised KShs. 3 billion to finance construction of its ongoing housing projects. The company is seeking to raise KShs. 4 billion in total over the next three years. The minimum target raise in this issue was KES 2 billion against which, the KES 3 billion was raised, exceeding the minimum target by 50%. To cap the year, Family Bank listed its KShs. 3 billion Bond on the NSE. The Bank raised KShs. 4.42 billion, as against the target KShs. 3 billion with a green shoe option of KShs. 1 billion, implying a subscription of 147.3%, against a KES 3 billion target with a green shoe option of KES 1 billion. The funds raised will be used to increase the bank's lending to MSMEs and strengthen its capital base as it seeks to increase its investment in technology in this digital age.

Secondary Market

In the face of the Outbreak of the Covid-19 pandemic in early 2020, the 2020/21 financial year was dominated by efforts to mitigate against the adverse effects of the pandemic and redirect the economy on a path to recovery.

During the year ending June 2021, equity turnover totaled KShs. 135.17 billion, a 14.9 percent reduction on the KShs. 158.90 billion turnover level recorded in FY 2019/20. The end-period NSE 20-Share index was down by 0.75 percent to 1927.53 points, compared to a decrease by 26.25 percent, or to 1942.12 points in the preceding year. In terms of market capitalization, end-period market value increased by 28.41 percent in the financial year, to KShs. 2,702.22 billion, compared to the 7.66 percent decrease to KShs. 2,104.33 billion recorded in the previous financial year.

On the flip side the Exchange Traded Funds (ETFs) market sustained its phenomenal growth witnessed in the 2019/20 financial year with a KShs 164.1 million turnover recorded in 2020/21 financial year, a 0.1 percent growth. In the Derivatives market significant performance improvement was registered, with turnover increasing to KShs. 213.08 million, a 168.9 percent increase, compared to the KShs. 44.2 million turnover recorded in FY2019/20, on the strength of market making.

As regards foreign portfolio flows, FY2020/21 witnessed a reduction in outflow by 46.25 percent to KShs. 10.18 billion, as against the KShs. 22.01 billion outflow recorded in 2019/20. In terms of the performance of the Unit Trust market, as at June 2021, Assets under Management (AuM) stood at KShs. 101.09 billion, a 26.1 percent increase over the KShs. 88.1 billion registered as at the end of the 2019/20 financial year.

In the Bonds market, bond turnover rose by a significant 47.93 percent to KShs. 867.7 billion in the 2020/21 financial year, compared to KShs. 586.6 billion worth of bonds traded in the previous financial year.

Capital Markets Authority
Report of the Chief Executive Officer (continued)
For the year ended June 30, 2021

II Major Market Developments

Signing of MoUs to facilitate implementation of the Stewardship Code for Institutional Investors:

In March 2021, CMA signed MoUs with two institutions, the Fund Managers Association (FMA) and the Institute of Certified Secretaries (ICS). The two MoUs seek to deepen the implementation and partnership in the implementation of the Stewardship Code, a key document that seeks to ensure that institutional investors understand their roles in the capital market and become agents for promoting accountability, responsibility, and sustainability in the capital market.

ii. Stakeholder Engagements

The Authority continued to implement several initiatives leveraging technology targeting the various constituents in our awareness program. With the continued Covid-19 pandemic prevalence, the Authority continued to leverage online mediums of communication and social media to disseminate capital markets information aimed at enhancing awareness and investor protection. A highlight of key initiatives for the reporting period includes the following:

- a. Stakeholder Engagement on the Capital Markets Soundness Report:** The Authority held quarterly Stakeholder Engagements on Capital Markets Soundness targeting financial sector stakeholders and intermediaries with a view to receive as well as provide current information on market trends and interventions for the reporting period. In addition, the Authority further participated in a subsequent online forum on the state of the financial markets in Kenya and the region.
- b. Resource Persons Train the Trainer forum:** The outsourcing strategy continued to be implemented leveraging on partnerships and other professionals despite the current Covid-19 pandemic, with the Resource Persons' contracts getting amended to include a temporary provision to cater for the implementation of online initiatives.
- c. Curbing Market Abuse Webinar:** With respect to investor protection, the Authority partnered with the Chartered Institute for Securities and Investment (CISI) on a joint webinar addressing market abuse issues and mitigation measures. The session was also offered as part of the Continuous Professional Development (CPD) for market practitioners.
- d. Forums Targeting Professionals:** The Authority participated at the Singapore Fintech Festival addressing Green Bonds with respect to the growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education. In addition, the Authority showcased the developments on the Regulatory Sandbox program.
- e. Social Media campaigns:** The Authority continued to implement a robust campaign with key capital markets messages in the various Social Media platforms targeting various groups on investor protection as well as products and services. The campaign included but was not limited to Vlogs, Infographics, and testimonials.

ii. Certification program

The Authority has continued to support initiatives and forums as part of the industry-side certification program. This is meant to improve the quality of service provision within the capital markets industry especially by client facing professions. As of June 30, 2021, a total of 1,552 had undertaken the International Introduction to Securities & Investment (Kenya) and 1,432 the Regulations & Market Practice (Kenya) giving an overall total of 3,012 market practitioners who have been certified for Level I, Level II or both. With regard to Continuous Professional Development (CPD) program, a total of 247 market practitioners had logged in CPD Points with CISI and ICIFA by end of June 2021. This is an increase of 15.42% compared to the 214 practitioners reported as at end of June 2020.

Capital Markets Authority
Report of the Chief Executive Officer (continued)
For the year ended June 30, 2021

iv. Television Infusion of Capital Markets:

The Authority infused capital markets content as part of some local TV shows to promote awareness and improve uptake.

v. County Engagements:

The Authority held engagements with the counties of Uasin Gishu, Tranz Nzoia and Kiambu, targeting the Business Community to present to them on avenues for sourcing finance through Capital Markets.

III Regulatory Developments

During the year, among others, the following regulatory approvals, licenses, reforms were effected.

i. Licenses and approvals:

During the period July 2020 to June 2021, the following approvals were granted:

- a. Liberty Kenya Holdings Plc for the Proposed Acquisition of 84,235,930 Ordinary Shares in the Capital of Liberty Kenya Holdings by Liberty Holding Limited. Approved on March 17, 2021.
- b. Carbacid Investments Plc for a Shareholder and Independent Adviser Circulars on the takeover of BOC Kenya Plc by Carbacid Investments Plc. Approved on February 15, 2021.
- c. ABSA Asset Management for the Registration of Absa Unit Trust Funds. Approved on February 11, 2021.
- d. Zimele Asset Management Company Limited for the Registration of the Zimele Fixed Income Fund to be added to the Zimele Unit Trust. Approved on March 1, 2021.
- e. Approval to Genghis Capital Limited for the Registration of the Gencap Specialized unit Trust Scheme approved on February 11, 2021.

ii. Public Notice Licensing of Coffee Brokers in line with the Capital Markets Coffee Exchange Regulations, 2020

The Capital Markets (Coffee Exchange) Regulations, 2020 were gazetted on 3rd April 2020 and became effective at the beginning of this financial year on July 2020. The Public Notice was aimed at compelling marketing agents intending to operate as coffee brokers at the Nairobi Coffee Exchange to apply for licensing in line with Regulation 8 of the Capital Markets (Coffee Exchange) Regulations, 2020.

iii. Guidance to Collective Investment Schemes on Performance Measurement and Presentation

During the year the Authority published new Guidance to Fund Managers of Collective Investment Schemes (CISs) on Valuation, Performance Measurement and Reporting. The Guidance took effect on 1 January 2021 and is expected to standardize investment performance measurement and presentation by collective investment schemes.

IV Capital Markets Related Policy Pronouncements – Budget Statement 2020/21

The Budget Statement for the financial year 2021/22 was presented by the Cabinet Secretary, National Treasury & Planning on 10th June 2021 under the theme; “Building back better Strategy for Resilient and Sustainable Economic Recovery and Inclusive Growth” made provisions that shall further facilitate the country’s Capital Markets to become the preferable avenue for raising capital.

These included;

- i. Allowing the opening of omnibus accounts for foreign investors by Global Custodians;
- ii. Working with the Kenya Bankers Association and other industry players the National Treasury shall establish an electronic Over-The-Counter secondary market platform for Government securities;
- iii. Inline with the ongoing reforms in the coffee and tea sectors, The CS National Treasury & Planning will be proposing further measures to enhance competitiveness of these sub-sector; and
- iv. An amendment to the VAT Act to exempt “The Transfer of assets and other transactions into Real Estate Investment Trusts and Asset Backed Securities”.

Capital Markets Authority
Report of the Chief Executive Officer
For the year ended June 30, 2021

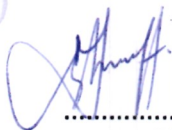
V Financial Highlights

RESULTS		As at 30th June 2021	As at 30th June 2020
		Shs '000	Shs '000
The results for the year are summarised below:-	Notes		
Total income for the year	6-9	<u>1,161,030</u>	<u>1,064,116</u>
Total operating expenditure for the year	29	<u>(872,302)</u>	<u>(808,566)</u>
Surplus under accrual accounting		<u>288,728</u>	<u>255,550</u>
Cashflow / balance sheet items	11(a)	28,916	(58,230)
Surplus before 90% due to the Exchequer		<u>317,644</u>	<u>197,320</u>
90% Surplus due to Exchequer	11(a)	<u>(285,880)</u>	<u>(177,588)</u>
Adjusted Retained Surplus		31,764	19,732
Add back: balance sheet/cashflow items		(28,916)	58,230
Retained Surplus under accrual basis		<u><u>2,848</u></u>	<u><u>77,962</u></u>

**Details of each line are found under respective notes in the Financial statements.*

VI Future Prospects

The Authority remains optimistic that the measures already implemented, added to ongoing reforms shall present substantial opportunities to market stakeholders, thus facilitating them to actively participate in the country's capital markets and ultimately help contribute significantly to growing the country's economy. This is further informed by progress in Covid-19 vaccine outreach globally that is reopening economies, improving global oil prices and the positive outcomes of macro-economic interventions being taken by various economies, this rekindling investor interest in the capital markets



.....
Mr. Wyckliffe Shamiah, FCPA
Chief Executive Officer

Overview of the Global Economy

During the financial year, the Global economy registered significant recovery as most countries strived to emerge out of the effects of the Covid-19 pandemic. World trade registered remarkable growth, with some countries achieving a performance well above the pre-pandemic levels. Prices of key global raw materials recovered, reaching impressive levels in the second quarter of 2021, with Crude oil prices rising to a 2-year high of above \$70 per barrel in June 2021. Against this backdrop, we anticipate the world GDP to expand by over 5 per cent in the 2021 Calendar year. However, risks still abound, with threats of a re-emergence of the Covid-19 pandemic through new variants, slow vaccination levels in some countries and vaccine supply constraints, likely to adversely impact on the economic recovery of several countries across the globe.

Regional Economy

At the onset of the Covid-19 pandemic, the African continent was confronted by an unprecedented challenge, with containment measures taking centre stage. This led to significant contractions in economic activity, with 2021 becoming a year of easing of these measures, as vaccinations started to take effect. By the end of the financial year, a number of countries in the continent had registered gains in conducting vaccinations. On the economic front, projections indicate that the continent will likely grow by over 3 percent in the 2021 Calendar year, underpinned by a rebound in commodity prices and a rollback of pandemic-induced restrictions. The positive outlook will however be subject to significant uncertainty emanating from both external and domestic risks, as the emergence of new variants of the Covid 19 pandemic pose a new headache.

As regards East Africa, the sub-region has the advantage of having a relatively reliance on primary commodities while enjoying better diversification. Nevertheless, the sub-region witnessed a significant drop in performance as the effects of the coronavirus (COVID-19) pandemic took a toll on the sub-region's economies. Recent estimates indicate that the sub-region will grow by about 3.0 percent in the 2021 Calendar year, with marked growth anticipated in the 2021/22 financial year. Figures from the African Development bank indicate that the top performers in 2021 would be Djibouti (9.9 percent), Kenya (5.0 percent), Tanzania (4.1 percent), and Rwanda (3.9 percent).

Domestic Front

The COVID-19 shock adversely impacted Kenya's economy, disrupting supply and demand chains. This led to a sharp decline in GDP in 2020, with a number of sectors including Tourism and Manufacturing getting significantly negatively affected. Nevertheless, with a raft of positive initiatives including vaccinations and active containment measures, the severity of the pandemic has remained under relatively better management. The growth outlook remains positive, with estimates from the African Development Bank projecting the country's economy to grow by 5.0% in 2021 and 5.9% in 2022, assuming that economic activity will among others, normalize.

During the year, the Authority as usual among Government Ministries, Departments and Agencies (MDAs) identified targets to be met in realization of its mandate which translated into Performance Contracts between the Authority and Government through the National Treasury and Planning Ministry. I am happy to note that the Authority managed to meet nearly all its targets during the year, enabling it to be ranged among the top ten (10) among all the NDAs in the Country. I take this opportunity to thank the CMA Board for the policy guidance, staff for their dedication and effectiveness, and all our stakeholders for the support during the year.

The year also saw us progress a number of activities including among others;

- i. In collaboration with key stakeholders, the Authority conducted a midterm review of the Capital Markets Master Plan, with a draft market assessment report getting developed. Once finalized, the reviewed CMMP will form the basis of engagement with stakeholders going forward.
- ii. The Authority's Board and management hosted a Capital Markets Consultative webinar on 13 April 2021 for all capital markets industry stakeholders themed "Building Back a Better resilient Capital Markets" to receive updates and explore ways of leveraging capital markets to support the recovery strategy to mitigate against the effects of the Covid-19 pandemic.
- iii. The Authority commenced enforcement proceedings against former Board members of Imperial Bank Limited and Board Members of Real People Kenya Limited (RPKL) among others, in an effort aligned with its mandate of protecting investors.

These activities will ultimately ensure that we deliver on our dual mandate of regulation and market development.

It is important to note that as the Authority will remain focused on steering the market forward despite the COVID 19 challenges. To achieve this objective, the Authority will deepen and broaden implementation of its short-term recovery strategy. The Authority's 2021-2023 Short-Term Recovery Strategy outlines the Authority's blueprint for the next two-and-a-half-year period commencing January 2021 and seeks to address the foregoing impact of the pandemic on capital markets and is aligned to the Draft National Post COVID-19 Economic Recovery Strategy. The plan enlists the requisite measures to enable the capital markets effectively contribute to the re-positioning of the economy on a sustainable growth trajectory including:

- i. Enhancing liquidity.
- ii. Market based financing.
- iii. Retail & institutional investor participation alternative approaches.
- iv. Leveraging technology.
- v. Business sustainability and enabling capital markets.

Appreciation and Outlook

Given the better performance of the country's capital markets during the financial year that included significant improvement in bond turnover, oversubscribed issuances in the corporate bond market, added to better equity market capitalization figures and facilitative policy changes that were approved by the National Treasury & Planning, we have reason to believe that the country's capital market is on a rebound. We are confident that our stakeholders will continue playing their very important part in lifting the position and use of Kenya's Capital Markets

I take this opportunity to thank the Kenya Government through the National Treasury & Planning, development partners, Government agencies and Departments and Financial Sector Regulators for supporting the Authority in this endeavor.

I wish to single out the National Treasury and Planning, State Corporation Advisory Committee the Head of Public Service for facilitating the timely approval of the new Human Resource (HR) instruments and supporting their implementation. The new HR instruments were aligned to the new organizational structure. With the implementation of the new HR instruments and a facilitative organizational structure, the Authority is well positioned to deliver on the Revised Capital Markets Master Plan and the Strategic Plan 2018/2023.

Finally let me wish to thank Authority's Board of Directors and staff for their invaluable contribution, even as we strive to place the country's capital markets on a higher pedestal.

We are excited about the future of the country's Capital Markets and wishing our stakeholders a rewarding year ahead.


.....
Chairman

Capital Markets Authority
Review of the Authority's Performance
For the year ended June 30, 2021

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. 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 Strategy, CMA came up with annual obligations to ensure strategy is fully met. CMA therefore develops its annual work plans based on the above six objectives and identifies key thematic areas to be tackled in a specific year. (The thematic areas show the area of concentration). The key thematic areas for 2020/2021 are:

- i. Optimal product and Services Uptake and Market Deepening
- ii. Supervision, Stability and Governance
- iii. 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 2020/2021 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	<ul style="list-style-type: none"> i) A circular on performance measurement and presentation issued to fund managers for CIS management by 30th June 2021 ii) Submission of an annual compliance report to the Board on the compliance status of both listed companies and market intermediaries by 30th June 2021. iii) Implementation matrix from the recommendations of the Consultant's Report on enhancing supervisory capacity of NSE and other identified/potential SROs by 30th June 2021. iv) Support provided to capital markets stakeholders during the Covid-19 period through reduction of regulatory and compliance costs and backing their sustainability efforts. 	<ul style="list-style-type: none"> i) Develop and issue framework on performance, measurement, and reporting adapting from Global Investment Performance Standards (GIPS) and IOSCO principles to the fund management industry. ii) Support the procurement process of a consultant by FSDA, facilitate the onboarding process, and support the development of a new RBS Model. iii) Develop and execute gatekeeping role, supervision and enforcement programs. iv) Coordinate the consultancy on Strengthening of NSE's capacity as an SRO and Building capacity to potential/SROs Candidates v) Regulatory flexibility on publication of accounts, AGMS, remote access 	<ul style="list-style-type: none"> i) Development and issue of framework on performance, measurement, and reporting adapting from global investment performance standards (GIPS) and IOSCO principles to fund management industry was completed and circular issued to Fund Managers in September 2020. Monitoring for compliance is done quarterly on a continuous basis and the first reporting was done by March 31, 2021. ii) Annual Compliance Report was submitted to the board in March 2021. iii) Procurement and on-boarding of a consultant to develop a new RBS Model was completed and development of the RBS tool is ongoing. The Market Supervision team has been holding two weekly meetings with the consultant to discuss the tool. iv) The SRO consultancy is largely complete with the following achievements; <ul style="list-style-type: none"> a) Delivery of a final report that outlines a proposed road map to the adoption of the recommended supervision framework for SROs and the onboarding of potential SRO candidates. b) A training plan for the CMA, NSE and CDSC v) Issuers and licensed entities were allowed to publish financial statements via own website, NSE or CMA. The Authority granted 'No Objections' to issuers to conduct virtual AGMs. In addition, the Authority inspected, tested and approved four virtual AGM system providers.
	Optimal Product and Services Uptake and Market Deepening	An approved Commodity Exchange and Commodity Brokers	Coordinating the transition / development (institutions, operations and their infrastructure) of Commodities Exchanges to CMA regulatory oversight	The Nairobi Coffee Exchange and 5 Coffee Brokers were approved and licensed in June 2021.

Capital Markets Authority
Review of the Authority's Performance (continued)
For the year ended June 30, 2021

Strategic Pillar/Issues	Objective/Outcome	Key Performance Indicators	Activities	Achievements
To ensure a robust, facilitative and responsive policy and regulatory framework for capital market development and efficiency	Supervision, Stability and Governance	i) Draft whistle blower regulations ii) Increased cases of whistle-blower Reporting iii) A capital markets crisis and resolution management framework developed by June 2021.	Support the development of the draft whistle blower regulations which are financial incentives based. Coordinate the development of a capital markets crisis management framework.	The Draft Whistleblower Regulation underwent a 30 days public participation ending on 30 April, 2021 and were subsequently approved by the Technical and Policy Committee of the Board on 14th June 2021 and by the Full Board on June 24, 2021 for onward submission to the National Treasury. A Crisis Management Framework that guides and describes how the Authority will respond to a major emergency occurring in the Kenyan capital markets industry and advises on the responsibilities, infrastructure and implementation procedures needed to support recovery from a crisis was submitted to the Board in March 2021.
	Optimal Product and Services Uptake and Market Deepening	i) An OTC bond and/or equity trading platform approved by 30th June 2021. ii) Capital markets liquidity enhancing products and services operationalized by May 2021 iii) One (1) Sandbox product/service transitioned to the mainstream capital markets in FY 2020/21. iv) Publication of a one-year report on opportunities and lessons learnt since inception of the Policy	i) Develop and implement a stakeholder engagement strategy for market deepening to support the development of debt and equity platforms to enhance secondary capital markets liquidity. ii) Facilitate applications received for an OTC Bond and Equity trading platform iii) Handhold and engage with companies/entities admitted into the regulatory sandbox with potential to rollout their products/services from the Sandbox to the mainstream capital markets. iv) Develop and design a milestone report v) Develop and/or support internal and external review (s) of the policy and regulatory frameworks to support uptake of capital markets and products and services by March 2021	i) The Authority granted an in-principal approval to East Africa Bond Exchange to fundraise in readiness for application of a license. The applicant however did not apply during the period. However, the National Treasury has pronounced through the budget speech that they will work with the Kenya Bankers Association and other industry players to establish an electronic Over-the-Counter secondary market platform for Government securities. ii) The Authority granted the Nairobi Securities Exchange on 17th December 2020 approval to operate an Unquoted Securities Platform (USP). This is in view of providing for exchange services for both unlisted and listed securities iii) Two products Mali and Pezesh transitioned to the mainstream capital markets in FY 2020/21. iv) The sandbox one year report show casing the progress made since launch of the Sandbox platform was released in the month of May 2021. v) The development of the POLD Regulations was delayed at Phase I when a diagnostic report and road map by external consultants (Palladium) was completed but deemed not to have met the requirements of the TORs. The Authority proceeded to partner with the Kenya Investment Mechanism (KIM) to engage another consultant to assist in developing the policy framework (based on the Diagnostic study and previous reports on capital markets product uptake; as well as the actual drafting of regulations (Phase II). The procurement of the consultants commenced on 31st March 2021 but the consultants were only on boarded on June 21, 2021. The Authority as a mitigation for this delay established a joint cross Directorate Team on 1st March 2021 to develop a draft policy framework and draft regulations to be reviewed by the consultants. This KPI has therefore not been achieved and is expected to spill into the 2021/2022 Financial Year. vi) CIS Regulations- The proposed new Collective Investment Scheme framework was developed through partnership with Financial Sector Deepening Africa. Internal stakeholder engagements are being concluded in preparation for public exposure of the proposed draft Collective Investment Scheme framework. vii) The Policy Framework for Private Equity Funds was approved by the CMA Board. <u>Draft Regulations undergoing internal review</u>
To facilitate the development, diversification and uptake of capital market products and services	Optimal Product and Services Uptake and Market Deepening	i) 3 additional digital platforms for trading in securities in FY 2020/21. ii) Two capital markets product issues approved by the CMA Board to support the "Big 4" Agenda and National Economic Recovery Strategy by June 2021. iii) Capital markets uptake and market deepening gap analysis submitted to the CMA Board report developed and recommendations actioned by December 2020.	Intensify digital & social media engagements to promote uptake by: i) Collaborating with NSE to improve uptake through the NSE App; ii) Using digital platforms (e.g. Vlogs) to relay the uptake message. iii) Progress partnership with Safaricom on awareness on Capital markets products using SCOM digital platform. iv) Utilize social media platforms to attract youth to participate in capital markets. Contract social media resource persons to push for traffic and encourage responses/feedback. v) Support finalization of four (4) fund raising transactions through the capital markets to support the "Big 4" Agenda and Kenya's Economic Recovery Strategy. vi) Organize high-level stakeholder consultative forums to assess uptake and market deepening of conventional and non-conventional products and services	i) The NSE App was promoted in all the Diaspora and retail forums. ii) Traffic mainly driven internally through boosting. iii) Social Media Influencers identified to support efforts. iv) Online forums and social media represented over 95% of all engagement. Leveraged YouTube, LinkedIn and Twitter to push out CMA related content. v) The following issuances were approved during the period; a) Acorn I-REIT & D-REIT listed on the USP (Housing). b) Centum RE Medium-Term Note (Senior Secured) c) Batian Income Properties LLP i) The Capital Markets Consultative Forum held on 13th April 2021 bringing together industry players and the CMA Board. A roadmap comprising of all key issues that were raised, and actions compiled and submitted to the Board.
Enhancing Strategic Influence	Optimal Product and Services Uptake and Market Deepening	i) A database of potential issuers in the manufacturing sector jointly prepared with KAM by March 2021. ii) A report on initial engagements with the identified potential issuers presented to the Board together with an issuance preparation plan, by June 2021. iii) A 5% increase in Assets Under Management (AUM) allocated by pensions schemes to PE investments.	i) Undertake research done in collaboration with relevant industry associations (e.g. KAM and KEPISA) to identify companies that could be candidates for listing. ii) Develop an awareness, capital raising and listing journey/ program for selected companies iii) Engage with private equity firms, RBA and other stakeholders to enhance broader diversification of investments by pension schemes and collective investment schemes into Private Equity (PE) as an asset class	i) A comprehensive database of potential issuers developed by the department. ii) Reports of engagements prepared and they will inform the report to be tabled to the Board. iii) The Authority has continued to partner with KAM in enhancing the uptake of capital Markets amongst SME's iv) The Authority has continued to partner with IRA, RBA and Kenya Diaspora Alliance in creating awareness. Engagements with KEPFIC, signing of an MOU between KEPFIC, NSE & CMA to promote the diversification of pension funds as alternative asset classes. v) Draft PE regulations developed.

Capital Markets Authority
Review of the Authority's Performance (continued)
For the year ended June 30, 2021

Strategic Pillar/ Issues	Objective/Outcome	Key Performance Indicators	Activities	Achievements
Leveraging technology to drive efficiency in the capital markets value chain	Institutional Service Delivery, Operational Efficiency and Sustainability	i) Increased ICT automation levels by 2 points to 77.5%. ii) Enterprise Architecture approved by the CMA Board, by June 2021 iii) A Business Continuity Plan (BCP) Review Framework in place and operational by June 2021	i) Continued drive to deploy ICT capabilities to enhance service delivery. ii) Improve governance and oversight of corporate ICT resources and risk management. iii) Review and consolidate existing Business Continuity Plan initiatives into a comprehensive corporate Business Continuity Plan.	i) Survey has not been undertaken yet to determine the score ii) Procurement process in progress for the enterprise architecture. This was re-advertised twice and was non-responsive.
Ensure optimal institutional efficiency and effectiveness of CMA	Institutional Service Delivery, Operational Efficiency and Sustainability	i) Enhanced evidence-based business intelligence and analytics. ii) Enhanced policy formulation and decision-making process across the Authority informed by research and data analytics. iii) Priority positions filled by June 2021. iv) An approved Learning and Development (L&D) Plan implemented through June 2021. v) Annual Employee Performance Evaluation Report submitted. vi) Meet Revenue target of 1047 million, by June 2021 vii) An approved Corporate Procurement Plan, effected through June 2021 viii) Expenditure within approved budget by June 2021. ix) Returns aligned to non-competitive bids for the 182-day Treasury Bills, by June 2021.	i) Undertake internal/collaborative research, surveys and data analytics to inform policy direction and or management decisions in achieving 2020/2021 outcomes relating to market deepening, supervision stability and governance, Operational Efficiency and Sustainability. ii) Working paper on the application of big data analytics in the Authority's day to day business by March 2021. iii) Roll out a plan of implementing revised HR instruments iv) Identify corporate recruitment needs and fill priority positions. v) Develop and Implement 2020 / 2021 staff L&D Plans. vi) Oversee the planning, review, and evaluation of employee performance at the Authority vii) Maintain financial discipline and controls to ensure organizational sustainability through adherence to Best Practices, PFMA, PPADA, other laws, regulations and directives from the GoK and other relevant supervisory bodies. viii) Manage ICF funds including maintenance of accurate Fund records in order to ensure safety of principal and generation of reasonable returns.	i) The following studies were completed: a) A Central Counterparty (CCP) survey to establish demand and preparedness in the Kenyan market. b) Research paper on assessment of Authority's performance targets. ii) Prepared working paper on application of big data in the Authority. iii) The Human Resource Instruments were approved in September 2020 and implementation commenced immediately. Board approvals on HR Instruments were implemented from December 2020 through May 2021. Implementation of Leadership courses as per the Career Guidelines requirements is now ongoing with CMA Partnership with Kenya School of Government iv) L & D Plans were developed and are in implementation through in-person courses as well as virtual programs. v) Mid-year reviews were done in Quarter 3. vi) CMA Career guidelines have been operationalized and it is a continuous process. In December 2020, the first group of staff were promoted in line with provisions of Career guidelines. vii) Health and Safety Requirements to support Covid 19 measures were implemented and continue to be monitored. Among them include:- Enhanced medical cover to support Covid 19 admissions, provision of sanitizers in strategic places, month provision of face masks to staff, periodic staff sensitizations, provision of psychosocial support by professionals in the medical pool, periodic fumigation of offices, doors, surfaces and motor vehicles. viii) The revenue target was exceeded with an AIA of Kshs 1137 million achieved ix) Procurement plan approved and submitted to PPOA by August 2020 x) Expenditure was within the approved budget with an absorption rate of 96%.

Over and above being in our Annual workplan, 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.

No	Board Member	Classification	Designation	Finance and Planning Committee(FPC) Total number of Meetings:6 (6 Scheduled)	Audit, Corporate Governance and Risk Management Committee(ACM) Total number of Meetings:5(5 Scheduled)	Technical and Policy Committee(TPC) Total number of Meetings:8(8 Scheduled)	Human Resources and Corporate Communication Committee(HRCC) Total number of Meetings:9(4 Scheduled and 5 Special)	Joint Audit and Planning Committees:1(1)	Joint ICT & Audit Committee Total number of Meetings:1	ICT Ad hoc Committee Total number of Meetings:3 (3 Scheduled)	AD Hoc Committee on Real People K Limited & Imperial Bank Limited Hearings: Total number of Meetings:18	Board Total number of Meetings: 11 (7 Scheduled and 4 special)	Other Board Engagements Meetings:8
1	Mr. James Ndegwa	Independent	Board Chairman, 2 nd Term as Chairman of CMA ended on 17 th April 2021.	2/6 (co-opted)		6/8	9/9				10/11	7/8	
2	Mr. Nevis Omibasa	Alt. Attorney General				8/8	4/9 (co-opted)				10/11	4/8	
3	Ms. Christina Okoth	Independent Member	Chairperson HRCC up to June 2021. 4 th Term expired effective 5 th June 2021.	6/6	5/5		9/9	1/1	1/1	3/3	10/11	4/8	
4	Mr. John Birech	Independent Member											
5	Ms. Aisa Kathenje	Representing Principal Secretary National Treasury		4/6	1/5	6/8					8/11	3/8	
6	Dr. Freshia Mugo Waweru	Independent Member	Chairperson FPC up to June 2021. 1 st Term expired effective 5 th June 2021.	5/6	2/5		9/9	1/1	1/1		9/11	3/8	
7	Mr. Peter Mungai	Independent Member	Chairperson Audit Committee		5/5		9/9	1/1	1/1		10/11	5/8	
8	Dr. Thomas Kibua	Independent Member	Chairperson TPC		4/5	8/8		1/1	1/1		10/11	4/8	
9	Mr. Davis Luusa	Alt. to the Governor Central Bank of Kenya			3/5	7/8					10/11	4/8	
10	Mr. Molihi Mose												
11	Prof. Dulacha Galgalo					7/8							
12	Mr. Andrew Iteme	ICT Ad hoc Member	Chairperson of the ICT Ad hoc Committee	1/6	2/5	1/8		1/1	1/1	3/3		3/8	
13	Mr. Ntueni Wambuuu	ICT Ad hoc Member											
14	Dr. Willy Njirunga	Ad hoc Member											
15	Ms. Patricia Kiwamuka	Ad hoc Member											
16	Dr. James Boya McGie	Ad hoc Member											
17	Ms. Anne Eriksson	Ad hoc Member											
18	Mr. Geoffrey Ng'etich	ICT Ad hoc Member											

Notes

- *Mr. James Ndegwa-2nd Term as Chairman of CMA ended on 17th April 2021.
- *Mr. John Birech-1st Term expired effective 5th June 2021.
- *Dr. Freshia Mugo Waweru-1st Term expired effective 5th June 2021.
- *Mr. Isaac Omond Odek and Christopher Ombeba Mosoti are SCAC officials and attended the board evaluations within the year.
- *There were Eight (8) Financial Law Review Panel (FLRP) meetings/engagements within FY 2020-2021. The panel constituted the following members; Ms. Lilian Matararo, Mr. Habib Moranji, Dr. Robert Barnes, Mr. Steven Galbraith, Mr. Paras Shah, Mr. Naval Sood, Ms. Elizabeth Howard, Mr. Kairo Thuo, Ms. Louise Kabucho, Mr. Peter Musyimi, Ms. Rahma Hersi, Mr. Fred Muriimi and Alison Harwood
- *Ms. Joyce Wasonoa is an alternate to the Inspector General, State Corporations.
- *Other Engagements Meetings included consultations with CMA Management, Workshops and Retreats etc

Capital Markets Authority
Statement of the Board Members responsibilities
For the year ended June 30, 2021

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. Freshia Mugo-Waweru upto June 5 2021, and subsequently it was chaired by Mr. Moibi Mose . 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 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 five times (see the table) in the year.

The Human Resource and Communication Committee

This committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Mr. John Birech up to June 5 2021. 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 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 eight 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 three times in the year.
- iii) **Ad hoc Committee on Real People K Limited & Imperial Bank Limited**. This committee consisted of seven 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 to conduct enforcement proceedings against former Board members of Imperial Bank Limited and Board Members of Real People Kenya Limited (RPKL) among others, in an effort aligned with its mandate of protecting investors. The committee had eighteen sessions during 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. There were Eight (8) Financial Law Review Panel (FLRP) meetings/engagements within FY 2020-2021

Capital Markets Authority
Statement of the Board Members responsibilities (Continued)
For the year ended June 30, 2021


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 2021. 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 2021, 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 26th August 2021 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 National Treasury were 6% and 113% above last year's performance, respectively. The increase in the realized revenue and surplus is mainly attributable to the approval fees collected from issuance of CBK bonds in the year.

The Authority is in a strong cashflow position capable of meeting obligations as they fall due. The performance at hand has a bearing on the future market activities. It is of importance to note that any changes affecting investors in the economic, social and political environment, has a significant impact on the capital markets industry. The Authority is cognizant in particular of the effects of 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 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	World Bank through Financial Sector Support Program (FSPP)	The implementation of the Project is currently underway

SECTION D

Major risks identified in the 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. 1. Emergence of Covid-19 new wave & overall Covid-19 effects on products uptake.

Management is mitigating the threat by continuously observing the MOH guidelines and measures that have been adopted by the Authority and approved by the Board.

Additionally, the Authority, in partnership with key stakeholders shall be hosting one regional conference to promote uptake of Real Estate Investment Trusts.

2. Reduced Investor Confidence in the Fund Management industry due to Asset and Liability mismatch in the CIS

The Authority has been conducting close supervision of CIS and verification of assets and liabilities. Additionally, the CIS regulations is also reviewed, while also ensuring strict enforcement of the CIS published guidelines.

3. Emergence of unregulated entities/unregulated products/unapproved public issuance of securities

The Authority has been publishing caution and investor, alerts as well as conducting issuance of cease-and-desist orders.

4. Leverage the Regulatory Sandbox and Fintech to develop innovative and transformative capital markets solutions (Opportunity)

The Authority is maximizing on this opportunity by conducting engagements with global regulators and developing cooperation agreements towards cross-border testing.

5. Negative corporate image and reputation of the Authority

To address the threat on negative corporate image, Management has consistently implemented the CMA's Citizen's Service Delivery Charter

6. Ineffective vendor project planning

The Authority has picked lessons from the BI project inadequacies and will in future seek to have more control on contracts.

7. Delayed approval of budget for FY2021/22

The budget has since been approved following various engagements.

8. Collusion with conflicted parties to water down important provisions from laws and regulations and policies.

The Authority is supporting other departments in review of legal and regulatory framework and ensure involvement of all stakeholders and leverage on Authority goodwill in the amendments of laws.

9. Delayed business decision making by potential issuers and market organizers to come to market

The Authority has activated a Market deepening department in the revised organizational structure with a view to shepherding interested parties to come into the Capital Market at an accelerated pace.

SECTION E

Material arrears in statutory/financial obligations

The Authority has no statutory arrears and promptly meets all its statutory obligations. The Authority's defined contribution pension scheme is oversighted by a Board of Trustees and is administered by an independent administrator. Remittance of Staff contributions is up to date.

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.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The Authority exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer/citizen first, delivering relevant goods and services, and improving operational excellence.

Below is an outline of the organisation's policies and activities that promote sustainability.

As a good corporate citizen, the Authority participated in projects to sustain its social and environmental capital. On 16 April 2021, the Authority planted 550 trees on a 1.25-acre space allocated by the Kenya Forest Service in Ngong Forest.

The Authority's partnership with Kenya Forest Service began in 2013-2014 financial year through a tree planting exercise undertaken in collaboration with Financial Sector Regulators namely: - Central Bank of Kenya, Insurance Regulatory Authority, Retirement Benefits Authority and Sacco Society Regulatory Authority. Through the partnership, the Regulators planted 1,100 trees on 2.5 acres in Kuwinda Grounds, Ngong Forest. Since then, the Authority in an exclusive partnership with KFS has planted 2,200 trees in Ngong Forest with 10 percent of its annual Corporate Social Investment budget earmarked for tree planting.

The Authority signed a Memorandum of Understanding (MoU) with the Service Security of Government Buildings and VIP Protection Unit under the Administration Police. Through the partnership, CMA donated Kshs500,000 towards the construction of a changing room for 400 officers attached to the Unit's Uhuru Camp situated near Madaraka Estate to improve their working environment.

The Authority has consistently ensured compliance with the 1/3 gender rule, with the current ratio of Female to Male standing at 41% : 59% respectively thereby exceeding the minimum threshold of 33%. The Authority also takes into consideration the Face of Kenya when conducting recruitment and promotions respectively for various positions in line with the Presidential initiatives on national values.

In 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 stakeholder 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 The Authority engaged its peer regulators around the world through the International Organization of Securities Commissions (IOSCO). In the period, the Chief Executive who sits on the Growth and Emerging Markets Committee of IOSCO was appointed as the Committee's representative to the IOSCO Board.

Capital Markets Authority
Report of the Directors
For the year ended June 30, 2021

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021, which show the state of the Capital Markets Authority's affairs.

i) Principal activities

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

ii) Results

The results of the Authority for the year ended June 30, 2021, are set out on page 27 to 55.

iii) Directors

The members of the Board of Directors who served during the year are shown on page 3. During the year 2021, Mr. James Ndegwa's 2nd term as Chairman ended (on 17th April 2021). Mr. John Birech and Dr. Freshia Mugo Waweru first terms as Directors ended on 5th June 2021.

iv) Surplus remission

In accordance with Regulation 219 (2) of the Public Financial Management (National Government) Regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year.

The Authority will remit 90% Surplus amounting to **Ksh285.88million** (2020: Ksh177.588million), of which an installment of Kshs 120.0 Million was paid before year end, leaving a balance of Ksh165.80 million. This will be remitted per applicable guidelines.

v) Auditors

Mbaya & Associates Certified Public Accountants were nominated by the Auditor General to carry out the audit of the Authority for the year ended June 30, 2021 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board

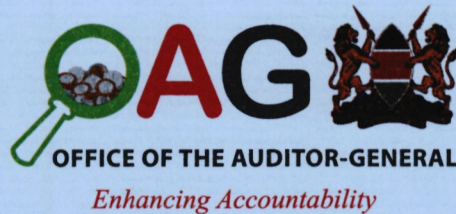
Hellen Ombati
Corporation Secretary/Secretary to the Board

Uluamboka
.....

Date... *26.08.2021*

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the financial statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in use of public resources which considers compliance with applicable laws, regulations, policies, gazetted notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

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, 2021, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Mbaya & Associates, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Capital Markets Authority as at 30 June, 2021, 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 Act, Cap.485A of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the 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
	Intangible Assets	Procedures Included;
1.	This was considered a Key Audit Matter due to significant increase of 92% from the prior period and need for compliance with Public Procurement and Asset Disposal Act, 2015.	<ul style="list-style-type: none"> ▪ Obtained and verified the procurement plan and checked compliance with Public Procurement and Asset Disposal Act, 2015. ▪ Verified additions to supporting documentation for completeness. ▪ Obtained an updated copy of the Asset register and agreed the additions amounts to the general ledger (PPE).
	Revenue Recognition	Procedures Included;
2.	Revenue to the Authority amounting to Kshs.1.3 billion was considered a Key Audit Matter because it was the major source of funds inflow. Therefore, its misstatement would lead to misstated financial performance of the Authority.	<ul style="list-style-type: none"> ▪ Obtained transaction schedules from NSE and CDSC and verified the accuracy of the amounts transacted. ▪ Reviewed the revenue recognition policy and ensured it was in accordance with IPSAS 9 and 23 (Revenue from exchange and non-exchange transactions respectively)
	Employee Costs	Procedures Performed;
3.	Compared to the prior year, employee cost increased by 9% to the current amount of Kshs.510.6 Million. We considered this as a key audit matter because it comprised 43.9% of the total revenue which was above the prescribed 35% but also considered the authorized business and cost structure of the Authority as a financial regulator with staff and skills as the principal and essential assets.	<ul style="list-style-type: none"> ▪ Obtained reasons for changes in employee costs since the account was material also contributed to it being performing the analytical review. Considered as a key audit matter. ▪ Performed walkthrough procedures to confirm that internal controls were adequate.

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 comply, 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 the Board of Directors

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 the 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 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

28 September, 2021

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

STATEMENT OF FINANCIAL PERFORMANCE For the year ended June 30, 2021

	Note	2021 Shs'000	2020 Shs'000
Revenue from non-exchange transactions			
Capitalization, rights and new issue fees	6	1,039,197	950,838
Donor fund income	7	<u>41,760</u>	<u>18,556</u>
		<u>1,080,957</u>	<u>969,394</u>
Revenue from exchange transactions			
Other income	8	<u>80,011</u>	<u>93,136</u>
Total revenue		<u>1,160,968</u>	<u>1,062,530</u>
Expenses			
Operating expenditure	30	<u>(872,302)</u>	<u>(808,566)</u>
Total expenses		<u>(872,302)</u>	<u>(808,566)</u>
Other gains/ (losses)			
(Loss)/Gain on disposal of property and equipment	9	<u>62</u>	<u>1,586</u>
Surplus under accrual accounting	10	288,728	255,550
Cashflow/Balance Sheet items	11(a)		
Add back:			
Depreciation and Amortization.		41,335	18,411
Less:			
Increase in Approved Building fund reserve		-	(44,037)
Transfer from Deferred Income		(25,686)	-
Capital expenditure during the year		(6,929)	(17,110)
Utilisation of approved staff housing/other facilities		20,195	(15,494)
Surplus before 90% due to the Exchequer		317,644	197,320
90% Surplus due to Exchequer	11(a)	<u>(285,880)</u>	<u>(177,588)</u>
Adjusted Retained Surplus		31,764	19,732
Add back:			
Balance Sheet/ cashflow Items	11(a)	(28,916)	58,230
Retained Surplus under accrual basis		<u><u>2,848</u></u>	<u><u>77,962</u></u>

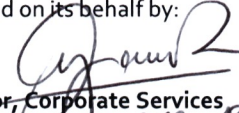
Capital Markets Authority
Financial statements
For the year ended June 30, 2021


CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2021
(INCLUDING INVESTOR COMPENSATION FUND)

		2021	2020
	Note	Shs'000	Shs'000
ASSETS			
Current assets			
Inventories	12	1,786	2,067
Trade and other receivables from non exchange transactions	13(a)	71,674	36,912
Trade and other receivables from exchange transactions	13(b)	10,306	9,919
Staff loans and advances/guarantee fund	14	55,424	47,957
Held-to-maturity investments	15	857,952	713,377
Cash at bank and in hand	16	60,166	62,298
Investors' Compensation Fund	17	<u>1,483,238</u>	<u>2,051,182</u>
		<u>2,540,546</u>	<u>2,923,712</u>
Non-current assets			
Property and equipment	18	55,661	59,082
Intangible assets	19	126,964	66,167
Staff loans and advances/guarantee fund	14	320,611	343,137
Held-to-maturity investments	15	108,301	168,495
Investors' Compensation Fund's investments	17	<u>2,522,695</u>	<u>1,481,997</u>
		<u>3,134,232</u>	<u>2,118,878</u>
Total Assets		<u>5,674,778</u>	<u>5,042,590</u>
Liabilities			
Current liabilities			
Trade and other payables	20	225,750	174,654
Provision for liabilities and charges	21	92,965	92,018
Investors' Compensation Fund	17	1,483,238	2,051,182
Deferred income	22	52,997	83,947
Surplus payable to National Treasury	11(a)	165,880	177,588
Prior years' tax settlement provision	29	<u>49,994</u>	<u>-</u>
		<u>2,070,823</u>	<u>2,579,389</u>
Non-current liabilities			
Investors' Compensation Fund liabilities	17	2,522,695	1,481,997
Non current provisions-Work in Progress	21b	97,208	-
Total liabilities		<u>4,690,726</u>	<u>4,061,386</u>
Net assets			
Funds			
Capital fund	24	27,886	27,886
General fund	23	356,166	353,318
Building fund	25	<u>600,000</u>	<u>600,000</u>
Total Funds		<u>984,052</u>	<u>981,204</u>
Total Funds and Liabilities		<u>5,674,778</u>	<u>5,042,590</u>

The financial statements set out on pages 27 to 55 were approved for issue by the Board Members of the Authority on 26th August 2021 and were signed on its behalf by:


 Chief Executive


 Director, Corporate Services


 Chairman of the Board

Date 26.08.2021

Date 26.08.2021

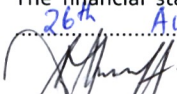
Date 03/09/2021

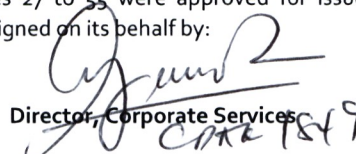
**Capital Markets Authority
Financial statements
For the year ended June 30, 2021**

CAPITAL MARKETS AUTHORITY (CMA) STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2021

	Note	2021 Shs'000	2020 Shs'000
ASSETS			
Current assets			
Inventories	12	1,786	2,067
Trade and other receivables from non exchange transactions	13(a)	71,674	36,912
Trade and other receivables from exchange transactions	13(b)	10,306	9,919
Staff loans and advances/guarantee fund	14	55,424	47,957
Held-to-maturity investments	15	857,952	713,377
Cash at bank and in hand	16	60,166	62,298
		<u>1,057,308</u>	<u>872,530</u>
Non-current assets			
Property and equipment	18	55,661	59,082
Intangible assets	19	126,964	66,167
Staff loans and advances/guarantee fund	14	320,611	343,137
Held-to-maturity investments	15	108,301	168,495
		<u>611,537</u>	<u>636,881</u>
Total Assets		<u>1,668,845</u>	<u>1,509,411</u>
Liabilities			
Current liabilities			
Trade and other payables	20	225,750	174,654
Provision for liabilities and charges	21	92,965	92,018
Deferred Income	22	52,997	83,947
Surplus to National Treasury	11(a)	165,880	177,588
Prior years' tax settlement provision	29	49,994	-
		<u>587,585</u>	<u>528,207</u>
Non-current liabilities			
Non current provisions-Work in Progress	21b	97,208	-
Total liabilities		<u>684,793</u>	<u>528,207</u>
Net assets			
Funds		984,052	981,204
Capital fund	24	27,886	27,886
General fund	23	356,166	353,318
Building fund	25	600,000	600,000
Total Funds		<u>984,052</u>	<u>981,204</u>
Total Funds and Liabilities		<u>1,668,845</u>	<u>1,509,411</u>

The financial statements set out on pages 27 to 55 were approved for issue by the Board Members of the Authority on 26th August 2021 and were signed on its behalf by:


Chief Executive


Director, Corporate Services


Chairman of the Board

Date 26.08.2021

Date 26.08.2021

Date 03/09/2021

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

INVESTOR COMPENSATION FUND (ICF) STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2021

ASSETS	Note	2021 Shs'000	2020 Shs'000
Current assets			
Fees receivable	17	88,132	55,534
Cash and cash equivalents	17	2,485	7,598
Investor Compensation Fund investments Held-to-maturity	17	<u>1,392,621</u>	<u>1,988,050</u>
		<u>1,483,238</u>	<u>2,051,182</u>
Non-current assets			
Investments in Listed Companies	17	85,400	80,500
Investors' Compensation Fund's investments Held to maturity	17	<u>2,437,295</u>	<u>1,401,497</u>
		<u>2,522,695</u>	<u>1,481,997</u>
Total Assets		<u><u>4,005,933</u></u>	<u><u>3,533,179</u></u>
The Fund	17	<u><u>4,005,933</u></u>	<u><u>3,533,179</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 Shs4.005billion (2020: Sh3.533billion).

The financial statements set out on pages 27 to 55 were approved for issue by the Board Members of the Authority on 26th August 2021 and were signed on its behalf by:


Chief Executive


Director, Corporate Services


Chairman of the Board

Date 26.08.2021

Date 26.08.2021

Date 03/09/2021

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

STATEMENT OF CHANGES IN NET ASSETS For the year ended June 30, 2021

	Capital fund Shs'000	General fund Shs'000	Building fund Shs'000	Total Shs'000
At 1st July 2019	27,886	726,688	555,963	1,310,537
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>
At 1st July 2020	27,886	353,318	600,000	981,204
Surplus for the year	-	2,848	-	2,848
At 30th June 2021	<u>27,886</u>	<u>356,166</u>	<u>600,000</u>	<u>984,052</u>

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended June 30, 2021

	Note	2021 Shs'000	2020 Shs'000
Cash flows from operating activities			
Surplus for the year		288,728	255,550
Adjustments for:			
Tax expense		49,994	-
Depreciation of property and equipment	18	27,105	16,737
Amortisation of intangible assets	19	14,231	1,674
Deferred donor funded income	22	(30,950)	83,947
Gain on disposal of property and equipment	9	(62)	(1,585)
Interest income	8	(79,310)	(92,567)
Operating Surplus before working capital changes		<u>269,736</u>	<u>263,756</u>
Decrease/(increase) in:			
Inventories	12	281	(445)
Trade and other receivables	13	(35,149)	13,052
Staff loans and advances	14	15,059	1,682
Increase/(decrease) in:			
Trade and other payables	20	51,096	(41,458)
Provision for liabilities and charges	21	947	9,573
Non current Provisions		97,208	
Investors' Compensation Fund	17	<u>472,754</u>	<u>411,430</u>
Cash generated from operations		<u>871,932</u>	<u>657,590</u>
Interest received	8	79,310	92,567
Surplus paid	11(a)	<u>(297,588)</u>	<u>(500,000)</u>
Net cash generated from operating activities		<u>653,654</u>	<u>250,157</u>
Cash flows from investing activities			
Purchase of property and equipment	18	(23,846)	(31,574)
Purchase of intangible assets	19	(75,027)	(65,533)
Proceeds from disposal of property and equipment		223	1,653
Purchase of treasury bonds from the Investors' Compensation Fund		(1,100,693)	(355,135)
(Purchase)/sale of treasury bills from the Investors' Compensation Fund		622,827	(49,873)
(Purchase)/sale of treasury bonds		39,820	18,469
(Purchase)/sale of treasury bills		<u>(124,201)</u>	<u>270,941</u>
Net cash used in from investing activities		<u>(660,897)</u>	<u>(211,052)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(7,243)</u>	<u>39,105</u>
Cash and cash equivalents at start of the year		<u>69,896</u>	<u>30,791</u>
Cash and cash equivalents at end of the year	16	<u><u>62,652</u></u>	<u><u>69,896</u></u>

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

CAPITAL MARKETS AUTHORITY (CMA) STATEMENT OF CASH FLOWS For the year ended June 30, 2021

	Note	2021 Shs'000	2020 Shs'000
Cash flows from operating activities			
Surplus for the year		288,728	255,550
Adjustments for:			
Tax expense		49,994	
Depreciation of property and equipment	18	27,105	16,737
Amortisation of intangible assets	19	14,231	1,674
Deferred donor funded income	22	(30,950)	83,947
Gain on disposal of property and equipment	9	(62)	(1,585)
Interest income	8	(79,310)	(92,567)
Operating Surplus before working capital changes		<u>269,735</u>	<u>263,756</u>
Decrease/(increase) in:			
Inventories	12	281	(4,45)
Trade and other receivables	13	(35,149)	13,052
Staff loans and advances	14	15,059	1,682
Increase/(decrease) in:			
Trade and other payables	20	51,096	(41,458)
Provision for liabilities and charges	21	947	9,573
Non current provisions		<u>97,208</u>	
Cash generated from operations		<u>399,177</u>	<u>246,160</u>
Interest received	8	79,310	92,567
Surplus paid		<u>(297,588)</u>	<u>(500,000)</u>
Net cash generated from operating activities		<u>180,899</u>	<u>(161,273)</u>
Cash flows from investing activities			
Purchase of property and equipment	18	(23,846)	(31,573)
Purchase of intangible assets	19	(75,027)	(65,533)
Proceeds from disposal of property and equipment		223	1,653
(Purchase)/sale of treasury bonds		39,820	18,469
(Purchase)/sale of treasury bills		<u>(124,201)</u>	<u>270,940</u>
Net cash used in from investing activities		<u>(183,031)</u>	<u>193,956</u>
Net increase/(decrease) in cash and cash equivalents		<u>(2,132)</u>	<u>32,683</u>
Cash and cash equivalents at start of the year		<u>62,298</u>	<u>29,615</u>
Cash and cash equivalents at end of the year	16	<u><u>60,166</u></u>	<u><u>62,298</u></u>

INVESTOR COMPENSATION FUND (ICF) STATEMENT OF CASH FLOWS For the year ended June 30, 2021

	Note	2021 Shs'000	2020 Shs'000
Cash flows from operating activities			
Interest income	17	(368,751)	(334,277)
Operating Surplus before working capital changes		(368,751)	(334,277)
Decrease/(increase) in:			
Trade and other receivables		(32,598)	(11,018)
Increase/(decrease) in:			
ICF Fund		505,352	422,448
Provision for liabilities and charges			
Cash generated from operations		104,003	77,153
Interest received	17	368,751	334,277
Surplus paid			
Net cash generated from operating activities		472,754	411,430
Cash flows from investing activities			
Purchase of treasury bonds from the Investors' Compensation Fund	17	(1,100,693)	(355,135)
(Purchase)/sale of treasury bills from the Investors' Compensation Fund	17	622,826	(49,873)
Net cash used in from investing activities		(477,867)	(405,008)
Net increase/(decrease) in cash and cash equivalents		(5,113)	6,422
Cash and cash equivalents at start of the year		7,598	1,176
Cash and cash equivalents at end of the year	17	2,485	7,598

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Approved	Adjustments (Reallocations)	Actual on		Performance difference	
	budget		comparable			
	2020-2021 Shs'000		2020-2021 Shs'000	2020-2021 Shs'000		
Revenue						
Fee income from Transaction fee -Equities	395,000	-	395,000	324,437	(70,563)	a)
Fee income from Transaction fee -bonds	19,265	-	19,265	26,032	6,767	
Licenses and permits	20,700	-	20,700	24,923	4,223	b)
Market development Fees	8,515	-	8,515	8,514	(1)	
Capitalization, rights & IPO's	25,000	-	25,000	15,347	(9,653)	c)
REITS approval Income	24,126	-	24,126	24,026	(100)	
Capitalisation and bond approvals	431,000	-	431,000	615,897	184,897	d)
Derivatives Fees	100	-	100	21	(79)	e)
Fee based income	923,706	-	923,706	1,039,197	115,491	
Donor Funding- gifts and services-in-kind	27,000	-	27,000	41,760	14,760	f)
Finance income - external investments	70,342	-	70,342	79,310	8,968	g)
Gains on disposal, rental income and agency fees	-	-	-	62	62	
Other income	26,000	-	26,000	701	(25,299)	h)
Total income	1,047,048	-	1,047,048	1,161,030	113,982	
Expenses						
Personnel cost	545,319	-	545,319	510,559	34,760	
Rent and maintenance	39,610	-	39,610	38,077	1,533	
Equipment maintenance and stationery	39,903	(5,994)	33,909	32,066	1,843	
Telephone, postage and utilities	17,786	-	17,786	17,400	386	
Publicity and Advertising	9,822	-	9,822	9,591	231	
Medical scheme and insurance expenses	48,238	-	48,238	37,011	11,227	a)
Training and conferences	44,500	-	44,500	44,067	433	
Motor vehicle running expenses	4,973	-	4,973	5,195	(222)	
Subscriptions and IOSCO membership	6,989	-	6,989	5,275	1,714	b)
Authority board members' emoluments and allowance	30,000	-	30,000	22,283	7,717	c)
Professional & consultancy services	11,410	3,254	14,664	13,772	892	
Litigation/legal expenses	25,000	-	25,000	11,499	13,501	d)
Market Development & Islamic Finance	18,710	-	18,710	11,442	7,268	e)
Capital Markets Masterplan	3,700	(2,500)	1,200	137	1,063	f)
Donor Funded Projects	0	-	0	16,074	(16,074)	g)
Depreciation of property, plant and equipment	24,945	5,200	30,145	27,105	3,040	
Amortisation of intangible assets	5,405	-	5,405	14,231	(8,826)	h)
Auditor's remuneration	2,090	(754)	1,336	1,335	1	
Investors' education and awareness programme	4,684	-	4,684	3,743	941	i)
Tribunal expenses	706	194	900	887	13	
Provision for doubtful debts	-	600	600	550	50	
Prior years' tax settlement	-	-	-	50,004	(50,004)	j)
Total expenditure	883,790	0	883,790	872,302	11,488	
Surplus for the period	163,258	-	163,258	288,728	125,470	

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

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 annual performance was 18% below budget and 12% below last year mainly due to low activity and suppressed stock prices of listed companies. Fees from bond transactions was 35% above budget as investors moved assets to fixed income securities.
- b) **Licenses and permits-** There was a slight increase as new applicants especially investment advisers sought approval to be licensed.
- c) **Capitalization, rights & IPO's-** The annual performance was 39% below budget as new product issuing remained minimal due to the low economic performance.
- d) **Capitalization and bond approvals income** was 43% above the budget in tandem with the increased borrowing by the government in the local market.
- e) **Derivative Fees -**The fees were 79% below budget due to the fact that this is a new market segment and uptake has not been as favourable as had been anticipated. The performance however shows a slight improvement against last year.
- f) **Donor Funding- gifts and services-in-kind** was above budget by 55% , as donor funded capital projects(ERP) that were in deferred income were capitalized in the financial year.
- g) **Finance income -** The income from investments was 13% above budget as in treasury bills and bonds anticipated to be utilized for the joint own building were not applied, as the procurement process was ongoing.
- h) **Other income** were below budget as the income chargeable from ICF management fees was kept at a minimum in the Financial Year 2020-21.

EXPENDITURE

- a) **Medical Scheme & Other insurance expenses** lines were 23% below budget. This is attributed to continued sensitizations given to staff on choices of service providers that could give services at modest costs to ensure the allocated costs are not exceeded. Limited travel abroad impacted other insurances expenses.
- b) **Subscriptions and IOSCO membership-** The expenditure was below budget by 25% attributable to restrictions of travel and physical meetings that were budgeted for in the IOSCO conferences and meetings.
- c) **Authority board members' emoluments and allowance** was below budget by 25% due to fewer training activities which were impacted by COVID-19 travel restrictions.
- d) **Litigation/legal expenses-**were 54% below budget attributed to fewer new cases in the year and competitive procurement of legal matters in the year.
- e) **Market Development & Islamic Finance-** were 35% below budget attributable to restrictions on market outreaches imposed by Covid protocols. However, numerous market deepening initiatives have been undertaken in line with the implementation of the 2018/23 strategic plan.
- f) **Capital Markets Masterplan -** The budget line was 89% below annual budget reflecting the minimal activities within the year. Substantial milestones have been earmarked in the following year.
- g) **Donor Funded expenses** for the year are the the completed consultancies to develop an oversight framework and capacity building on supervision of Self-Regulatory Organizations (SROs) and Develop Specifications for an Information Repository, Advanced Financial Analysis System, E-Learning System/Communications/IT infrastructure for the Authority.
- h) **Amortization of intangible assets** was above budget mainly due to capitalization of previously deferred donor funded ERP software, that had been envisaged to be done in the previous year, but was postponed due to delayed procurement processes.
- i) **Investors' education and awareness programme** expenses were 20% below budget mainly due to activities affected by Covid containment measures which impacted on planned activities.
- j) **Prior years taxes -** The Authority has made full accrual for tax penalties and interests levied by KRA in the Itax for historical taxes to clean up the ledger.

NOTES

1. Statement of compliance and basis of preparation

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

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

2. Adoption of New and Revised Standards

i. New and amended standards and interpretations in issue and effective in the year ended 30 June 2021

Standard	Impact
IPSAS 13: Leases	Applicable: After March 2022: a) Amendments to IPSAS 13, (to be made pursuant to adoption of Exposure Draft 75) to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks.
c)IPSAS 21, Impairment of Non- Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets	Applicable: 1st January 2021: Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.
c)IPSAS 41: Financial instruments	Applicable: 1st January 2023: 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 cashflows.
d)IPSAS 42: Social Benefits	Applicable: 1st January 2023: The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports.

3. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees

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

Donor Income

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

ii) Revenue from exchange transactions

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

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

Interest income

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

b) Budget information

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

NOTES (CONTINUED)

3. Summary of significant accounting policies (continued)

c) Taxes / 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 Ksh79,596,300 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 Ksh5,801,800 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 taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

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

Impairment of financial assets

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

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

Financial liabilities

Initial recognition and measurement

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

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

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

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

b) Key sources of estimation uncertainty

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

i) Retirement benefit obligations

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

ii) Impairment losses

Estimates 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.

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

NOTES (CONTINUED)

5. Risk management objectives and policies

a) Financial risk management

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

i) Credit risk

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

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

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

	Fully performing Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
At 30th June 2021				
Held-to-maturity investments	966,253	-	-	966,253
Staff loans and advances/ fund	376,035	-	-	376,035
Trade receivables	37,467	-	-	37,467
Other receivables	7,722	-	-	7,722
Cash at bank, in hand and deposits	60,026	-	-	60,026
Maximum exposure to credit risk	<u>1,447,503</u>	<u>0</u>	<u>0</u>	<u>1,447,503</u>
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
Maximum exposure to credit risk	<u>1,372,221</u>	<u>0</u>	<u>0</u>	<u>1,372,221</u>

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

	2021 Shs'000	2020 Shs'000
Over 6 months	<u>0</u>	<u>0</u>

The past due debtors are nil. An impairment provision of Shs 5,345,703 (2020: Shs4,795,000) 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 2021					
Trade payables	1,213				1,213
Other payables	60,681	2,688	2,403		65,772
Provision for liabilities and charges	56,408			92,876	149,284
Gratuity obligations	9,482				9,482
	<u>127,782</u>	<u>2,688</u>	<u>2,403</u>	<u>92,876</u>	<u>225,750</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 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>

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 2021 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 2.681 million.

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	2021 Shs'000	2020 Shs'000
Fees income		
Capitalization, rights and new issue fees	15,347	92,060
Approval for listing of Government securities	615,897	429,329
NSE - transaction fees	350,469	398,961
Application and licensing fees	48,949	21,099
Market development fees	8,514	9,381
Derivative fees	21	8
	<u>1,039,197</u>	<u>950,838</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.
- 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	2021 Shs'000	2020 Shs'000
Donor fund income	<u>41,760</u>	<u>18,556</u>

The Authority recognised support worth Shs17.33 million (2020:Shs18.6 million) in the year from deferred donor funded assets blade servers and video conferencing equipment.

8. Revenue from exchange transactions - other income	2021 Shs'000	2020 Shs'000
Interest income	79,310	92,567
Miscellaneous income	701	570
	<u>80,011</u>	<u>93,136</u>

9. (Loss)/Gain on disposal of property and equipment	2021 Shs'000	2020 Shs'000
Gain or (loss) on disposal of obsolete and retired Property and Equipment	<u>62</u>	<u>1,586</u>

10. Surplus	Note	2021 Shs'000	2020 Shs'000
a) Items charged			
The following items have been charged in arriving at net surplus for the year			
Depreciation of property and equipment	18	27,105	16,737
Amortisation of intangible assets	19	14,231	1,674
Authority board members' emoluments, allowances and other Board related expenses	26	22,283	32,331
Post employment benefits expense	10(b)	34,946	34,416
Provision on Trade and other receivables	13(b)	<u>550</u>	<u>250</u>

NOTES (CONTINUED)

10 b. Employee benefits expense	2021 Shs'000	2020 Shs'000
The following items are included in employee benefits expense:		
Retirement benefit costs		
Defined contribution scheme	34,622	31,822
National Social Security Fund	<u>325</u>	<u>358</u>
	<u>34,946</u>	<u>32,180</u>

The Authority operates an in-house defined contribution (DC) scheme for its employees. The investment of the scheme's assets is managed by an independent fund manager, GenAfrica Investment Management Limited, and administered by Zamara administrators & Consultants on behalf of the Trustees.

11 a. Transfer of Surplus to National Treasury

	2020/2021 Shs'000	2019/2020 Shs'000
Total Revenue (Note No.6, 7,8 and 9)	1,161,030	1,064,116
Operating Expenses	<u>(872,302)</u>	<u>(808,566)</u>
Surplus before tax	288,728	255,550
Add back:		
Depreciation	27,105	16,737
Amortization	<u>14,231</u>	<u>1,674</u>
Adjusted Surplus	330,064	273,961
Adjusted Surplus	330,064	273,961
Less:		
Building fund	-	(44,037)
Transfer from Deferred Income	(25,686)	
Capital expenditure	(6,929)	(15,533)
Intangible Assets	-	(1,577)
Staff Mortgages net	25,103	(28,635)
Staff Car loans net	(4,908)	13,141
	<u>(12,419)</u>	<u>(76,641)</u>
Net Surplus/ (Deficit)	317,644	197,320
90%	285,880	177,588
Less		
90% Surplus due to National Treasury	<u>285,880</u>	<u>177,588</u>
Installment paid in the year	<u>120,000</u>	<u>-</u>
90% Surplus balance payable	<u>165,880</u>	<u>177,588</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 /Yr	Shs'000	2020/2021 Shs'000
90% of Surplus for FY 2019/2020	2019/2020		<u>177,588</u>
Total 90% Surplus For FY 2018/2019 and 2019/2020			<u>177,588</u>

Payment of Surpluses

	Date	Shs'000	2020/2021 Shs'000
90% Surplus for FY2019/2020	10/29/2020	150,000	
	10/29/2020	13,000	
	11/6/2020	3,000	
	11/26/2020	11,588	
Payment of Instalment Surplus		177,588	
Instalment for 90% Surplus	6/28/2021	120,000	
Sub total			<u>120,000</u>
			<u>120,000</u>

11c. The Authority is an appointed agent of KRA for Withholding agency Tax and Withholding VAT respectively. In the Financial Year 2020/21 remittances of Ksh 5.49 million (FY 2019/20: Ksh 6.76 million) for Withholding Tax and Ksh 2.174 million (FY 2019/20: Ksh 4.77 million) for Withholding VAT were made.

12. Inventories	2021 Shs'000	2020 Shs'000
Consumables	<u>1,786</u>	<u>2,067</u>

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

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

NOTES (CONTINUED)

13a. Trade and other receivables from non exchange transactions	2021	2020
	Shs'000	Shs'000
Trade receivables	40,228	31,974
Statutory management expenses receivable	-	-
Less: Provision for impairment losses	<u>(5,346)</u>	<u>(4,796)</u>
Net trade receivables	34,883	27,178
Other receivables	<u>36,791</u>	<u>9,734</u>
Trade and other receivables from non exchange transactions	<u><u>71,673</u></u>	<u><u>36,912</u></u>

13b. Trade and other receivables from exchange transactions	2021	2020
	Shs'000	Shs'000
Trade receivables	2,584	4,022
Less: Provision for impairment losses	<u>-</u>	<u>-</u>
Net trade receivables	2,584	4,022
Prepayments	<u>7,722</u>	<u>5,897</u>
Trade and other receivables from exchange transactions	<u>10,306</u>	<u>9,919</u>
Total trade and other receivables from non exchange and exchange transactions	<u><u>81,979</u></u>	<u><u>46,831</u></u>

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

At 1st July	4,796	4,796
Add: Provision made in the year	600	-
Less: Provision reversed on debt collection	<u>(50)</u>	<u>-</u>
At 30th June	<u><u>5,346</u></u>	<u><u>4,796</u></u>

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

At 1st July	-	-
Add: Additional provision	<u>550</u>	<u>250</u>
At 30th June	<u><u>550</u></u>	<u><u>250</u></u>

14. Staff loans and advances	Current		Non- current		Total	
	2021	2020	2021	2020	2021	2020
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Car loans	8,624	8,645	15,179	10,251	23,803	18,895
Other loans and advances	6,812	1,676	-	-	6,812	1,676
Staff mortgage back up funds*	<u>39,989</u>	<u>37,637</u>	<u>305,431</u>	<u>332,886</u>	<u>345,420</u>	<u>370,523</u>
	<u><u>55,424</u></u>	<u><u>47,957</u></u>	<u><u>320,611</u></u>	<u><u>343,137</u></u>	<u><u>376,035</u></u>	<u><u>391,095</u></u>

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

Mortgage back up accounts are:

HFC: Mortgage 3000013543 and Mortgage 2000094161

KCB Mortgage MM1509100194

Total

Shs'000

185,936

159,485

345,420

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

NOTES (CONTINUED)

15. Held-to-maturity investments - government securities	2021 Shs'000	2020 Shs'000
Non-current		
Treasury bonds		
Maturing after four years	58,050	155,050
Unamortised premium	<u>(398)</u>	<u>(6,929)</u>
	<u>57,652</u>	<u>148,121</u>
Treasury bonds		
Maturing after one year	55,650	20,375
Unamortised (discount)/premium	<u>(5,001)</u>	<u>0</u>
	<u>50,649</u>	<u>20,375</u>
	<u>108,301</u>	<u>168,495</u>
Current		
Treasury bonds		
Maturing within one year	20,375	-
Unamortised (discount)/premium	<u>-</u>	<u>-</u>
	<u>20,375</u>	<u>-</u>
Treasury bills	848,100	721,550
Unamortised discount	<u>(10,523)</u>	<u>(8,173)</u>
	<u>837,577</u>	<u>713,377</u>
	<u>857,952</u>	<u>713,377</u>
	<u>966,253</u>	<u>881,872</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>108,301</u>	<u>168,495</u>
Current		
Held-to-maturity investments	<u>857,952</u>	<u>713,377</u>

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

NOTES (CONTINUED)

16a. Banks			2021 Shs'000	2020 Shs'000
	Name of the Bank	Bank account no.	Account currency	
	Commercial Bank of Africa Limited	6580810018	8,417	7,790
	HF Bank	3000013543-0	21,883	29,838
			<u>30,300</u>	<u>37,628</u>
16b. Cash in hand				
	Cash in hand		140	140
16c. Short term deposits				
			Shs	
	Commercial Bank of Africa Limited	AA21182S99PT	28,382	-
	Commercial Bank of Africa Limited	AA211668B52Q	1,345	-
	Commercial Bank of Africa Limited	MM2017800056		5,000
	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>29,727</u>	<u>24,530</u>
	Total cash in hand and bank		<u>60,166</u>	<u>62,298</u>
For the purpose of the cash flow statement, cash and cash equivalents comprise the following:				
	Short-term bank deposits		29,727	24,530
	Cash at bank and in hand		30,440	37,768
	Investors Compensation Fund bank balance (Note 16) - (KCB)		<u>2,485</u>	<u>7,598</u>
			<u>62,652</u>	<u>69,896</u>

17. Investors' Compensation Fund

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

The fund derives its income from the following sources:

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

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

	2021 Shs'000	2020 Shs'000
At beginning of the year	3,533,179	3,121,749
Nairobi Securities Exchange transactions fees	96,456	78,703
Interest on investments	368,751	334,277
Financial penalties	1,710	32,497
Withdrawals (Investor Claims)		(3)
Gain/(loss) in Investment in NSE	6,363	(33,518)
Management Fees	(500)	(500)
Bank Charges	(25)	(27)
At end of the year	<u>4,005,933</u>	<u>3,533,179</u>

NOTES (CONTINUED)

17. Investors' Compensation Fund (continued)

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

	2021 Shs'000	2020 Shs'000
Non-current		
Equity investment in the Central Depository and Settlement	12,250	12,250
Equity investment in the NSE	<u>73,150</u>	<u>68,250</u>
	85,400	80,500
Treasury bonds		
Maturing after five years	2,153,050	954,900
Unamortised discount(premium)	<u>4,846</u>	<u>11,567</u>
	<u>2,157,896</u>	<u>966,467</u>
Maturing after one year	285,750	442,365
Unamortised discount	<u>(6,351)</u>	<u>(7,334)</u>
	<u>279,399</u>	<u>435,031</u>
	<u>2,437,295</u>	<u>1,401,497</u>
	<u>2,522,695</u>	<u>1,481,997</u>
Current		
Treasury bonds	140,365	80,100
Unamortised discount	<u>(111)</u>	<u>159</u>
	<u>140,254</u>	<u>80,259</u>
Treasury bills	1,317,900	2,025,400
Unamortised discount	<u>(65,533)</u>	<u>(117,609)</u>
	<u>1,252,367</u>	<u>1,907,791</u>
Fees receivable	88,132	55,534
Bank balance	<u>2,485</u>	<u>7,598</u>
	<u>90,617</u>	<u>63,132</u>
	<u>1,483,238</u>	<u>2,051,182</u>
	<u>4,005,933</u>	<u>3,533,179</u>

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

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 2019	41,118	122,643	21,823	89,791	3,951	279,327
Additions	0	11,014	513	4,005	19,992	35,524
Disposals	(3,995)	(581)	(33)	-	-	(4,609)
Reversal	0	0	0	0	(3,951)	(3,951)
At 30th June 2020	37,123	133,077	22,303	93,796	19,992	306,291
Additions	-	42,234	71	1,533	-	43,838
Disposals	-	(3,672)	(922)	(244)	-	(4,838)
Reversal/ Transfers	-	-	-	-	(19,992)	(19,992)
At 30th June 2021	37,123	171,639	21,452	95,084	0	325,299
Depreciation						
At 1st July 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	0	-	4,538
At 30th June 2020	(27,906)	(114,722)	(20,224)	(84,357)	-	(247,210)
Depreciation	(4,274)	(19,126)	(1,362)	(2,343)	-	(27,105)
Accumulated depreciation reversed on disposal	-	3,510	922	244	-	4,676
At 30th June 2021	(32,179)	(130,339)	(20,664)	(86,456)	-	(269,638)
Net carrying amount						
At 30th June 2021	4,944	41,300	788	8,628	0	55,661
At 30th June 2020	9,217	18,354	2,079	9,438	19,992	59,082

Included above in the items of property and equipment is the cost of fully depreciated assets of Shs 228,898,065 (2020: Shs 211,035,632) which are still in use and have not been impaired. Work in progress was carried at cost.

NOTES (CONTINUED)

	Intangible assets Shs'000
19. Intangible assets	
Software costs	
Cost	
At 30th June 2019	168,464
Additions	-
Work in progress	<u>65,533</u>
At 30th June 2020	233,997
Additions/ Transfers from WIP	43,352
Work in progress	<u>31,675</u>
At 30th June 2021	<u><u>309,024</u></u>
Amortisation	
At 30th June 2019	166,156
Amortisation	<u>1,674</u>
At 30th June 2020	167,829
Amortisation	<u>14,231</u>
At 30th June 2021	<u><u>182,060</u></u>
Net book value	
At 30th June 2021	<u><u>126,964</u></u>
At 30th June 2020	<u><u>66,167</u></u>

Work in progress relates to softwares for Data repository Business Intelligence System, Multi Asset market system funded as part of ongoing ICT Projects not yet to be commissioned. The detailed works are as follows:

Description	Cost (Ksh'000)
Supply, Installation & Commissioning of Data Repository & Business Intelligence System	71,252
Design of the Securities Market Multi Asset Surveillance System	<u>25,956</u>
	<u><u>97,208</u></u>

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

NOTES (CONTINUED)

	2021	2020
	Shs'000	Shs'000
20. Trade and other payables		
Trade payables	1,213	3,800
Provisions	149,284	114,589
Gratuity obligations	9,482	24,082
Accruals	<u>65,772</u>	<u>32,184</u>
	<u><u>225,750</u></u>	<u><u>174,654</u></u>

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

Provisions	Leave benefits Shs'000	Performance Shs'000	Total Shs'000
At 1st July 2020	100	114,489	114,589
Additional provisions raised	7,115	27,845	34,960
Provision utilized/reversed	<u>(100)</u>	<u>(164)</u>	<u>(264)</u>
At 30th June 2021	<u><u>7,114</u></u>	<u><u>142,170</u></u>	<u><u>149,284</u></u>

Accruals	Consultancies Shs'000	Other Provisions Shs'000	Total Shs'000
At 1st July 2020	0	29,308	29,308
Additional accruals	3,000	39,045	42,045
Accruals realized/reversed	<u></u>	<u>(5,581)</u>	<u>(5,581)</u>
At 30th June 2021	<u><u>3,000</u></u>	<u><u>62,772</u></u>	<u><u>65,772</u></u>

21. Provision for liabilities and charges

	2021 Shs'000	2020 Shs'000
At 1st July 2020	92,018	82,445
Add: Additional provision	8,322	41,215
Less: Provision written back	<u>(7,375)</u>	<u>(31,642)</u>
At 30th June 2021	<u><u>92,965</u></u>	<u><u>92,018</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 final results of all pending legal proceedings, the Authority assesses the adequacy of its provisions periodically against case developments and related legal costs.

21B Non current Provisions-Work in Progress

Non current provisions relate to provisions made based on percentage level of completion of ongoing projects/assets that are funded by externally mobilized funds (donor funded). Donor funded assets are capitalized when payment is completed or when economic use commences, whichever is earlier.

2021 Shs'000	2020 Shs'000
97,208	0
<u><u>97,208</u></u>	<u><u>0</u></u>

NOTES (CONTINUED)

22. Deferred income

In line with the Authority's accounting policy, Kshs 52,997,000 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).

	2021	2020
	Shs'000	Shs'000
As at 1 July		-
Recognised in the year	<u>52,997</u>	<u>83,947</u>
	<u>52,997</u>	<u>83,947</u>

23. General fund

	2021	2020
	Shs'000	Shs'000
At 1 July	353,318	726,688
Surplus for the year	2,848	77,962
Payment to The National Treasury	-	(407,294)
Transfer to building fund (Note 24)	<u>-</u>	<u>(44,037)</u>
At 30 June	<u>356,166</u>	<u>353,318</u>

General fund represents accumulated surpluses over the years.

24. Capital fund

	2021	2020
	Shs'000	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

	2021	2020
	Shs'000	Shs'000
At 1 July	600,000	555,963
Appropriation from general fund (Note 23)	<u>-</u>	<u>44,037</u>
At 30 June	<u>600,000</u>	<u>600,000</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. There was no appropriation in the year to the fund, (2020: Ksh44million.)

26. Related party transactions

	2021	2020
	Shs'000	Shs'000

i) Board members of the Authority' remuneration

Honoraria	0	783
Retainer	7,778	8,295
Sitting allowances	10,780	8,740
Training expenses	1,343	9,892
Others (medical, mileage, bonus)	<u>2,381</u>	<u>4,621</u>
	<u>22,283</u>	<u>32,331</u>

There were 10 board members during the year (2020:10)

ii) Key management compensation

Gross salaries	39,031	33,623
Pension-NSSF	10	8
Gratuity	<u>9,322</u>	<u>8,206</u>
	<u>48,363</u>	<u>41,838</u>

There were 6 members of senior management who served during the year (2020:4)

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

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:

	2021 Shs'000		2020 Shs'000
Capital expenditure contracted for	3,580		242
Recurrent expenditure contracted for	2,768		271
	6,348		512
			271
			512
b. <u>Item description</u>	Capital Shs'000	Recurrent Shs'000	Total Shs'000
Boardroom Camera	899		899
Website Security Vulnerability Assessment		170	170
Software License Renewal		2,598	2,598
IPAD	191		191
Cloud-Based Learning and E-Learning System	2,490		2,490
Total	3,580	2,768	6,348

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 (2020: Shs36,363,000).
The future minimum lease payments under operating leases are as follows:

	2021 Shs'000	2020 Shs'000
Not later than 1 year	35,443	38,503
Later than 1 year and not later than 5 years	108,544	108,544
	143,987	147,047

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) 75, 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 75 proposes accounting requirements that are converged with IFRS 16, Leases issued by the International Accounting Standards Board. For lessors, ED 75 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

The Authority has no contingent liabilities in the financial year as all prior year tax penalties and interest (see note 29) for which waiver had been applied for with the Kenya Revenue Authority (KRA) have been fully recognized. Full payment of these is already underway.

29 Prior years' tax settlement provision

These relate to interest and penalties imposed against principal taxes that had already been settled Authority for the period 2007 to 2012, when the Authority was a taxable entity. Although waiver of these penalties had been applied for with KRA, the Authority has ensured 100% compliance with statutory obligations by cleaning up the CMA tax ledgers through full recognition in the financials and subsequent settlement of the tax demands in I-tax.

Penalties and interest provision

	2021 Shs'000	2020 Shs'000
Penalties and interest provision	49,994	
	49,994	

Capital Markets Authority
 Financial statements
 for the year ended June 30, 2021

NOTES (CONTINUED)	2021 Kshs'000	2020 Kshs'000
30 Operating expenditure		411,771
30.1 Employment expense	451,562	10
Consolidated pay, leave pay and passages	333	10,319
Staff uniform expenses	10,181	34,087
Staff welfare and other costs	34,622	10,282
Staff retirement benefits	13,537	329
Staff gratuity	325	
National Social Security Fund (NSSF)		466,800
	<u>510,559</u>	
30.2 Other administrative expenses		39,970
Rent and maintenance	38,077	31,632
Equipment maintenance and stationery	32,066	14,667
Telephone, postage and utilities	17,400	31,152
Publicity and Advertising	9,591	33,932
Medical scheme and insurance expenses	37,011	43,166
Training and conferences	44,067	5,728
Motor vehicle running expenses	5,195	8,891
Subscriptions and IOSCO membership	5,275	32,331
Authority board members' emoluments and allowances	22,283	66,780
Professional and market development services	52,923	16,737
Depreciation of property and equipment	27,105	1,674
Amortisation of intangible assets	14,231	2,090
Auditor's remuneration	1,335	11,407
Investors' education and awareness programme	3,743	1,359
Tribunal expenses	887	0
Prior years' tax settlement	50,004	250
Provision for doubtful debts	550	
	<u>361,743</u>	<u>341,766</u>
	<u>872,302</u>	<u>808,566</u>
Total expenditure		

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: 26.08.2021

Date: 03/09/2021

*Capital Markets Authority
Financial statements
For the year ended June 30, 2021*


Appendix 2- Inter Entity Transfers

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/ Others	Total Amount - KES	Where Recorded/recognized				Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	
FSSP	See Appendix 3	Development	78,682,992	78,682,992	-	-	-	78,682,992
National Treasury	See Appendix 3	Others/ Reimbursement	2,949,780	2,949,780	-	-	-	2,949,780
Total			81,632,772	81,632,772	-	-	-	81,632,772

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

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

Senior Manager Accounting & Finance
Capital Markets Authority

Sign 

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.

Capital Markets Authority
Financial statements
For the year ended June 30, 2021

Appendix 3: Recording of Transfers from Donors

ENTITY NAME: CAPITAL MARKETS AUTHORITY					
Break down of Transfers from Donors					
FY 2020/2021					
a. Reimbursements for Capacity building Technical Costs.					
	Bank Statement Date	Amount (KShs)		Indicate the FY to which the amounts relate	
b. Other Payments- Reimbursement					
Details of the Payment	Transaction Description	Amount (KShs)			
Reimbursements for National Treasury Seconded staff	7/20/2020	2,205,327	2020/21		
Reimbursements for National Treasury Seconded staff	7/20/2020	744,453	2020/21		
		2,949,780			
b(ii) Donor funded Consultancies .					
Supply, Installation & Commissioning of Computer Hardware at the Capital Markets Authority.	Contra-Donor Funded Consultancies and Donor Funding income	40,471,513	2020/21		
Supply, Installation & Commissioning of a Video Conferencing System at the Capital Markets Authority	Contra-Donor Funded Consultancies and Donor Funding income	8,128,119	2020/21		
Supply, Installation & Commissioning of Data Repository & BIS for CMA at the Capital Markets Authority	Contra-Donor Funded Consultancies and Donor Funding income	30,083,360	2020/21		
	Total	78,682,992			
	GRAND TOTAL	81,632,772			

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