

# ANNUAL REPORT



AND  
REVIEW OF CAPITAL MARKETS' OPERATIONS FOR THE  
PERIOD 1990 TO 1998

Major Progress so far albeit Enormous  
Challenges Ahead

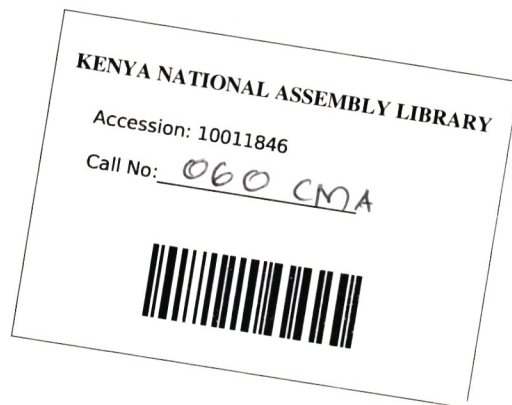
*We promote and facilitate the development of orderly, fair and efficient capital markets in Kenya*

060  
CMA



**SUBMISSION OF THE ANNUAL REPORT AND REVIEW OF THE  
CAPITAL MARKETS OPERATIONS FOR THE PERIOD 1990 TO 1998  
BY THE CHIEF EXECUTIVE TO THE MINISTER FOR FINANCE**

MINISTER FOR FINANCE  
MINISTRY OF FINANCE  
THE TREASURY  
NAIROBI



Dear Honourable Minister

I have the honour on behalf of the Authority to present to you the Capital Markets Authority's Annual Report covering the period July 1, 1997 to December 31, 1998 pursuant to the provisions of the requirements of Section 36(3) of the Capital Markets Authority Act Cap 485A. The report also reviews Kenya's capital markets operations for the period 1990 to 1998 and highlight major progress and challenges ahead.

Respectfully submitted

**Paul K. Melly**  
**CHIEF EXECUTIVE**

## TABLE OF CONTENTS

1.	Table of Contents .....	3
2.	BOARD MEMBERS .....	6
3.	SENIOR MANAGEMENT.....	7
4.	MISSION STATEMENT.....	8
5.	CHAIRMAN'S STATEMENT.....	9
6.	CHIEF EXECUTIVE'S REPORT:	
	Global Financial Market Continued Volatility.....	11
	Kenya's Economic Growth Challenges .....	12
	Kenya's Financial Markets Confidence.....	14
	Challenges of Regulating and Facilitating Capital Markets Development.....	15
	Essential Government Support for the Capital Markets Environment.	16
	Measures to Strengthen Institutional Development.....	17
	Market Performance 1990 – 1998.....	18
	Stock Exchange Trading Turnover.....	18
	Market Capitalisation Level.....	18
	Nairobi Stock Exchange Index Trend.....	19
	Foreign Investors Participation.....	19
	Corporate Debt Issues and Bond Market.....	20
	Downward Trend on Interest Rates Expected to Stimulate Capital Markets.....	20
	New Public Issues including Privatisation.....	22
	Challenges in Privatising Major Public Enterprises.....	24
	Current Capital Markets Regulatory Framework.....	25
	Major Capital Markets Legislative Review Under Way.....	26
	Legislative Delay Inhibits the Central Depository Project Progress...	27
	Human Capital Development and Improvement of Terms of Service...	28
	CMA Hosted Top Financial Markets Regulators in Nairobi.....	29
	Capital Markets Authority Moving Towards Self Financing.....	29
	Reduced Dependence on the Exchequer.....	30
	CMA Plans of Action - 1999.....	31
	Implementation of the Central Depository System Project.....	32

Establishment of a Credit Rating Agency .....	32
Comprehensive Review of the Capital Markets Regulatory Framework and Re-Issue of Revised Rules and Regulations.....	32
New Financial Disclosure Requirements.....	33
East African Capital Markets and Securities Regulatory Authorities Collaboration.....	33
Policy Framework Governing the Participation of Foreign Portfolio Investors.....	33
Establishment of a Capital Markets Annual Review Forum.....	34
Measures to Enhance Liquidity through Dealers.....	34
New Financial Instruments.....	34
Development of Action Plan to Facilitate the Establishment of Collective Investment Schemes.....	35
Development of an Over the Counter Market (OTC).....	35
Strategy Towards a Consolidated Financial Services Regulatory Framework.....	35
Conclusion.....	36

**7. TOP WORLD SECURITIES AND FUTURES REGULATORS  
ANNUAL CONFERENCE IN NAIROBI**

IOSCO's Contribution to Global Financial Markets.....	37
(i) Regulators Agree to Adopt an Internationally Acceptable Document for Securities Regulation .....	37
(ii) Regulators Agree on International Disclosure Standards for Cross Border Listings .....	41
(iii) Regulators Agree to Develop Guidelines on Regulation of Securities Offerings through the Internet .....	49
(v) Statement of the IOSCO Technical Committee on Year 2000 ...	50
(vi) Kenya's Minister for Finance Advises Top Global Financial Markets .....	53

**APPENDICES**

a) Comparative Market Statistics: 1990 - 1998.....	57
b) Audited 1997/98 CMA Financial Statements and Accounts .....	63

c)	Notable Events in Pictures .....	77
d)	List of Licensed Market Operators	
	(i) Stockbrokers .....	79
	(ii) Investment Advisers .....	80
	(iii) Authorized Depositories .....	82
e)	List of CMA Enabling Legislation .....	83



THE AUTHORITY'S MEMBERS



**Denis D. Afande**  
**CHAIRMAN**



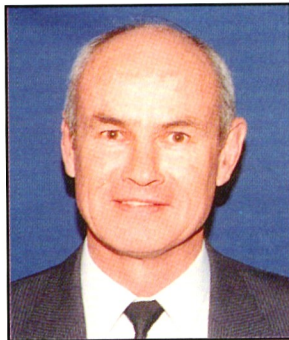
**Paul Melly**  
**CHIEF EXECUTIVE**



**Kimanathi Mutua**  
**MEMBER**



**Dr. Edward Sambili**  
**MEMBER**



**James B. McFie**  
**MEMBER**



**Isaac Awuondo**  
**MEMBER**



**George Ayino**  
**MEMBER**



**Leonard Njagi**  
**MEMBER**



**Margaret Chemengich**  
**MEMBER**



**Micah Cheserem**  
**MEMBER**



**Amos Wako**  
**MEMBER**



**Joseph Kinyua**  
**ALTERNATE**



**Dr. Thomas Kibua**  
**ALTERNATE**



**Dan Ameyo**  
**ALTERNATE**

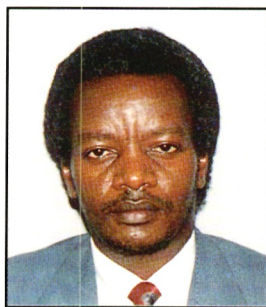
**THE AUTHORITY'S SENIOR MANAGEMENT  
FOLLOWING RE-ORGANISED FUNCTIONS IN JANUARY 1999**



**Paul Melly**  
*CHIEF EXECUTIVE*



**Catherine Kola**  
*Head, Enforcement & Admin. Department*



**Stephen Maina**  
*Head, Research & Corporate Affairs Department*



**Francis Omolo**  
*Head Compliance & Finance Department*



**Peter Ole Nkeri**  
*Asst. Manager-Compliance & finance /Chief Accountant*



**Michael Nyamute**  
*Ass. Manager- Research & Corporate Affairs*



**Wangui Mwaniki**  
*Asst. Manager-Admin*

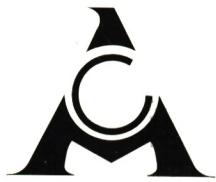


**Shamira Hussein**  
*Senior Enforcement Officer*



## **Mission Statement**

The mission of the Capital Markets Authority is to promote the development of an orderly, fair, efficient, secure, transparent and dynamic capital markets in Kenya within a framework which facilitates innovation through an effective but flexible system of regulation for the maintenance of investor confidence and safeguards the interest of all market participants.



I am pleased to make this forwarding statement of the Capital Markets Authority Annual Report and Review of Capital Markets operations for the period 1990 to 1998. In my last year's statement I made reference to regional initiatives and co-operation with other regulatory authorities and the enabling environment created by the Government that has enabled the Authority to pursue its objectives of promoting the development of fair and orderly capital markets in Kenya.

The Authority was honoured during 1998 to play host to over 300 delegates from the world's developed and emerging financial markets associated with the International Organisation of Securities Commissions (IOSCO) from September 12-18, 1998. The Government and many private sector organisations gave tremendous support to the conference. I am pleased, therefore, in this message to acknowledge their invaluable participation which contributed to the success of this historic meeting, when IOSCO's annual conference was taking place on African soil for the first time. The Authority was further honoured by the election of the Chief Executive, Mr Paul Melly, as the Vice Chairman of Emerging Markets Committee, a position that also makes him a member of the Executive Committee of IOSCO.

This augurs well for our efforts to develop the market in line with international standards, and attract foreign investment into Kenya, both of which are prerequisites for a vibrant market.

At the regional level, the Authority continues to play its part in the efforts for integration of East African capital markets, following the signing of a Memorandum of Understanding of the East African Member States Securities Regulatory Authorities (EASRA) in 1997. During the past year, reasonable progress has been made towards identifying policy, legislative and regulatory measures necessary to create a common regime for the regional capital markets operations.

As the Authority braces itself for the challenges of the new millennium, the Authority in consultation with the industry, has devoted a lot of effort in reviewing the legislative and regulatory framework based on experience of the past nine years, with a view to creating a framework that allows for innovation and development of new products to give investors and issuers more choices.

New legislation by way of amendment to the Capital Markets Authority Act is expected to be tabled in Parliament during the coming year aimed at creating a flexible legislative regime that can respond to the needs of a growing market and accommodate emerging issues in a dynamic and vibrant environment.

The details of the Authority's contributions and performance during the years under review are provided in the Chief Executive's report.

I wish to thank members and management of the Authority for their dedication to duty and warmly welcome on board the Permanent Secretary to the Ministry of Finance, Ms Margaret Chemengich who replaced Mr Simeon Lesirma during the year under review following his reassignment to the Ministry of Rural Development.

A handwritten signature in black ink, appearing to read 'D. Afande', with a stylized flourish at the end.

**Denis D. Afande, CBS**

**CHAIRMAN**



It gives me great pleasure to report on the activities and operations of the Capital Markets Authority and Kenya's capital markets for the period beginning July 1997 to December 1998. The Capital Markets Authority has been in operation for nine years now, four of which I have served as the Chief Executive.

First, I wish to record the contribution made by the founding members of the Board under the leadership of Mr. Nick Asinjo, Chairman and my predecessor, Bill Arap Chelashaw, Chief Executive, in laying important foundations. I wish also to record appreciation and thanks to the current Chairman, Denis D Afande, Board Members and Staff for their continued support and dedication towards the objectives and realisation of the mandate of the Authority. This report seeks to review the performance of the Authority in fulfilling its mandate of developing and regulating the capital markets during the period 1990/98. It in particular highlights the main achievements and challenges during the last four years and identifies critical measures that have to be implemented in order to position Kenya's capital markets appropriately in the global financial markets.

### **Global Financial Market Continued Volatility**

During 1997 the South East Asia financial crisis contributed to major financial turbulence in the global financial markets. The impact of the South East Asia crisis continued to be felt during 1998 across the emerging markets as investors took a critical look at these markets and shifted their investments to markets considered to be more secure. A number of emerging markets saw increased market volatility in East Asia such as Thailand, Malaysia, Hong Kong and Korea. The effect subsequently spread to Russia and Latin America countries such as Argentina, Brazil and Mexico as well as closer home in the South African markets, among others.

The consequence of this volatility in the financial markets has had far reaching effects in the emerging markets which have suffered a great loss of confidence.

It is also apparent that during this period most investors were largely engaged in an effort of “preservation of value” rather than yield driven investments decision. This has now dampened the global economy, growth prospects and given rise to recessionary pressures. It would appear from recent trends that 1999 is likely to be characterised by continued global financial markets volatility in view of the continued Brazilian financial markets crisis.

This report is being prepared against a backdrop of major challenges in the global financial system that has seen continued volatility in the financial markets across various regions. The period has also seen renewed call for a critical review of the overall global financial system architecture.

### **Kenya’s Economic Growth Challenges**

The performance of the economy for the last two years has been significantly lower than the projected growth (gross domestic product) rate. For example, during 1997 the economic growth rate was projected to grow at a rate of 5% but only 2.3% was realised. During 1998 the economic growth rate realised was 1.6% against a projected target of 5%. It has therefore been elusive to achieve the widely held view that a minimum growth rate of 7% is required in order to contribute significantly towards poverty reduction, improvement of per capita income level and creation of employment, among others.

During the 1998/99 Budget Speech the Minister for Finance underscored the need to increase private sector investments as part of measures to achieve faster economic growth. The critical factors that have to be addressed in order to stimulate the economy include the following:

- Reduction in domestic debt;
- Reduction in the level of interest rates;
- Improvement in physical infrastructure, particularly roads;

- Improvement in the delivery of critical public services such as telecommunications, power and water;
- Improvement in the efficiency of the Civil Service and public sector management;
- Improvement in public security and administration of justice;
- Reduction in corruption especially in areas of tax evasion; and
- Improvement in relations with donor community and other development partners, among others.

It is needless to emphasise that the solution to these challenges lie with the determination and collective responsibility of private sector and Government. The latter plays a critical role in policy formulation towards creating an enabling environment to facilitate private sector investment. It is in this regard that the President of the World Bank in the 1998 Annual Report underscored the importance of African leadership in economic development of Africa following a meeting of African leaders in Kampala and Dakar respectively in January 1998. He stated **“African leaders hold the key to the success of the continent’s economic, social and political growth and stability but they face a tougher challenge to deepen the macro-economic stability and economic reform that many have begun and to reshape the role of the state, to improve capacity to manage resources and state of social services and infrastructure and creating attractive business environment”**.

It is clear from this legitimate view that the solution of creating and building on a sustainable basis a market driven economy rests with the domestic resources including human capital that must all be nurtured and appropriately channelled towards productive ventures.

## **Kenya's Financial Markets Confidence**

During the period under review Kenya's financial markets in particular the money markets faced major challenges. These events, however, appear to be largely influenced by the domestic situations and not as a direct consequence of the events in the global financial markets.

It is in this respect that the financial markets in Kenya must continue to be nurtured and strengthened in order to safeguard their soundness and stability. This is crucial if the confidence of the financial system is to be maintained as a critical pillar of economic development.

The recent events in the money markets that saw the failure of some banks and threatened stability of others including some of the large banks demonstrate further the need to preserve confidence of the sector.

The following are useful lessons that emerged from the banking crisis:

- Financial intermediaries must be well managed regardless of the levels of prudential supervision or regulation notwithstanding apparent need for strengthening of current supervisory and regulatory tools;
- Need to strengthen the evaluation and lending criteria as lending purely on collateral may not necessarily provide adequate security due to market risks or excessive sectoral exposure;
- Depressed economic activities have direct bearing on corporate earnings and ability to service financial obligations thereby contributing significantly to non performing loan portfolios of the banks;
- Need to develop maximum financial gearing requirements as part of lending criteria in order to compel some of the companies with good track records seeking bank financing to venture into the capital markets;

- Mis-match of assets could rapidly occur in an environment where short term money is generally applied to long term usage in absence of a well developed venture capital industry;
- Need to curb against excessive corporate exposure and possible default as well as system risks. This in particular applies to large corporate concerns whose financing requirements cannot be fulfilled by one bank but have to borrow from several banks in view of current single client exposure requirements;
- Need for banks to share confidential information as well as the use of credit reference bureaux and rating agencies. It is also important at the same time to safeguard the borrowers' confidentiality in order to promote confidence in the system;
- Need for internal bank compliance officers to ensure compliance with regulations and the lending procedures as part of essential risk management practices and internal check and control systems.

It is important to note that the money market confidence has a direct impact on the capital markets performance as it constitutes an alternative source of financing for both private and public sector. It also offers the investors an alternative option for savings in financial assets. In this regard confidence across the spectrum of the financial system is critical and must be nurtured at all costs as it cannot be legislated.

### **Challenges of Regulating and Facilitating Capital Markets Development**

The capital markets have continued to play an important role in the mobilisation of domestic and international capital and facilitated efficient allocation to productive investments. The coming into operation of the Capital Markets Authority in 1990 constituted one of the major steps by the Government towards strengthening the domestic capital markets as part of essential financial sector reforms.

The dual mandate of regulating and developing the capital markets poses a major challenge to any regulatory organisation.

In this regard, it is essential to ensure that the regulatory framework grows in tandem with the development of the market and at the same time avoid excessive regulations which could inhibit market innovation and growth. On the other hand lack of regulation can only help serve to undermine market confidence.

The Capital Markets Authority has, therefore, endeavoured to balance these dual roles of developing and regulating the market reasonably well over the last nine years. The Authority has also established itself as an independent lead regulator and facilitator. The Nairobi Stock Exchange has also achieved tremendous transformation as evidenced in its increased turnover and its enhanced regional profile

### **Essential Government Support for the Capital Markets Environment**

The Government has supported the growth of the capital markets through creation of an enabling environment and removal of impediments. These measures have seen significant growth of the capital markets activities as evidenced from the performance for the period under review.

A number of measures have been implemented in the last nine years to support the development of the capital markets. These measures include the following:

- Exemption of stamp duty and value added tax on the transfer of listed securities;
- Withholding tax rate applicable to dividend income arising from investment on listed securities has been reduced from 15% to 5% for local investors and 7.5% for foreign investors;
- Costs of initial public offerings have been made tax deductible;
- Investment by insurance companies on listed securities has been exempted from tax arising out of capital gains on sale of shares;
- The cost of rating has been made tax deductible in order to encourage credit rating;

- Registered venture capital funds have been accorded major tax incentives including tax holiday of up to 10 years on the fund's income;
- Elimination of double taxation on collective investment schemes such as unit trusts and mutual funds including exemption from tax income earned from the scheme;
- Policy decision has been made to encourage the participation of foreign brokers and fund management companies in the domestic capital markets by encouraging joint ventures. This is subject to a minimum of 51% of the shareholding being held by local investors for brokers and 30% for fund management companies.
- Policy decision to facilitate the participation of foreign investors in listed securities subject to a maximum of 40% of the share capital or such higher amount held by foreign investors at the time of promulgation of the regulation;
- Withholding tax rate on interest income arising out of fixed income securities such as bonds as well as bank deposits has been reduced to 15% and made a final tax.

### **Measures to Strengthen Institutional Development**

The Authority in collaboration with the Nairobi Stock Exchange has implemented a number of measures to strengthen and facilitate capital markets institutional development. The measures include the following:

- Establishment of a physical presence of the stock exchange including a trading facility and independent management;
- Improvement in the trading practices and transparency in the price formation process;
- Increase in the number of stockbrokerage firms from six to twenty and strengthening of their operations and capitalization level;

- Licensing of investment advisers;
- Establishment of investor compensation funds at the Nairobi Stock Exchange and at the Capital Markets Authority;
- Building of an appropriate professional capacity to strengthen the management of Nairobi Stock Exchange and the capacity of the Authority.

### **Market Performance 1990 – 1998**

It is evident from the bench mark of market turnover, capitalization, index trend and the participation of foreign investors as well as a range of financial instruments now available, that the market has witnessed a steady growth albeit with several challenges. The market performance during 1998 did not record growth but declined in terms of index level and turnover. This is attributed among other things to the slow down in the performance of the domestic economy and competition from high yield fixed income securities. The confidence in emerging markets following the East Asia financial markets crisis also affected the participation of foreign investors.

### **Stock Exchange Trading Turnover**

The annual turnover stood at KShs.230 million in 1990 when the Authority became operational and rose to a position of KShs.824 million by the end of 1993. During 1994 the market achieved a tremendous growth when the turnover grew more than threefold to KShs.3.08 billion. However during 1995 the market achieved a moderate turnover of KShs.3.34 billion and KShs.3.96 billion in 1996.

The market performance during 1997 was equally impressive as the turnover rose by nearly 55% to KShs.6.15 billion. As was the case in most emerging markets, the turnover in 1998 declined to KShs.4.56 billion representing a drop of nearly 25.8%.

### **Market Capitalization Level**

The market capitalization in 1990 stood at KShs.11 billion and witnessed a steady growth to a level of KShs.72 billion in 1993.

In 1994 the market capitalization rose to an all time level of KShs.137 billion. The capitalization level however for the period 1995 declined to KShs.107 billion, KShs.98 billion in 1996, KShs.114 billion in 1997 and the position by end of 1998 was KShs.128.9 billion.

### **Nairobi Stock Exchange Index Trend**

The index is a useful bench mark in determining the trend of price changes and appreciation or erosion of value of securities. The Nairobi Stock Exchange Index is made up of 20 listed companies' shares which represented 80.3% of the total market capitalization during 1998.

In 1990 the index stood at 915 level and witnessed an upward trend to a level of 2,514 by end of 1993 which indicates general improvement in prices of traded securities. During 1994 the index rose to an all time high level of 4,559 when NSE performance was one of the leading among emerging markets in terms of equity investment return in dollars equivalent. The index however dropped to a level of 3,469 by end of 1995 and maintained an average of 3,114 in 1996 and 3,000 during 1997 although in 1998 the index closing level was 2,962.

### **Foreign Investors Participation**

Foreign investors were allowed to participate in the Stock Exchange as part of liberalization program in January 1995. Their participation has helped to stimulate the activities of the stock market and was a major contributor to increased turnover realized during 1997. The experience so far has not shown any destabilizing effect on market. The period 1995 – 1998 has recorded a net inflow though not significant except during 1997 when the net inflow was KShs.1.58 billion which indicates the low foreign portfolio investments level in the equity market.

## **Corporate Debt Issues and Bond Market**

The stock market had been skewed towards equity issues until the emergence of corporate bonds when the East African Development Bank (EADB) during 1996 pioneered the first issue of a listed bond at the Nairobi Stock Exchange. The Central Bank of Kenya acting as a fiscal agent of the Government of Kenya has also made several issues of floating rate bonds since 1997 which are listed at the Exchange. The interest on these bond issues is bench marked on the 91-day treasury bill rates.

The tenor of the Government bonds ranges from one to two years while that of EADB bond is upto three years. The value of bonds traded at the Nairobi Stock Exchange secondary market during 1997 amounted to Kshs.15 billion. The traded position during 1998 was Kshs.8.22 billion. The low turnover in the bonds is attributed, among other things, to the attractive yield and regular primary market issues of the treasury bonds and treasury bills.

In addition to the corporate bonds, commercial papers are becoming important alternatives for the corporate sector for short term working capital financing. A number of companies have issued commercial papers and many others have already made application to the Authority for approval. During 1997 the Authority issued new guidelines to govern the issuance of corporate bonds and commercial papers. These guidelines continue to apply and have proved to be useful towards the development of an active corporate debt market.

## **Downward Trend on Interest Rates Expected to Stimulate Capital Markets**

During the last three years the interest rates have been extremely high but have recently witnessed a drastic downward trend. In a period of high interest rates the corporate sector tends to rely on banks for short term loans to facilitate their working capital financial requirements. The environment has therefore not been conducive for active commercial paper and corporate bond issues for the reason that the effective cost of using these instruments to raise capital during a period of high interest regime is not competitive.

The emerging scenario however shows a shift towards the adoption of commercial paper as a basis of raising working capital requirements. The treasury bill rates for the last three months of 1998 have witnessed a drastic reduction from an all time high level of 28% over the last one year to an average of 11% for the 91-day bench mark on treasury bills. The drastic fall in the rate of interest may be attributed, among others, to the following factors:

- Reduction in Government borrowings and enhanced control of expenditure as well as overall improvement in fiscal discipline;
- Enhanced measures on revenue collections including preventive measures on revenue seepage;
- Central Bank's monetary policy that has seen continued management of inflation at reasonable level and relative stability in the foreign exchange market;
- Increased liquidity occasioned by the banking sector crisis that saw the placing of some banks under the Central Bank Statutory Management and threatened depositors confidence in some banks leading to shift of deposits to institutions considered to be less vulnerable;
- Enhanced liquidity following the easing of the statutory cash ratio level and minimum liquidity ratio to 12% and 20% respectively;
- Banks became risk averse leading to reduction in lending level and liquidity build-up following reported cases of high profile non-performing loan portfolios;
- Improved export earnings in particular from tea, coffee and horticultural products due to improved prices and relative stability in the Kenyan Shilling exchange rate vis-à-vis other currencies during 1997 and part of 1998 period.

The real challenge now is to translate the benefit of reduction in the level of interest rates to stimulate economic growth and ensure that the interest rates continue to be maintained at a reasonable level. It is also however essential to ensure that interest rates for bank deposits remain reasonable in order to encourage savings.

This offers an opportunity for the Central Bank to issue more long tenor treasury bonds of say 3 to 5 years and to readjust the national debt profile further to long term. It is however important to state that this desirable objective of issuing long term bonds can only be realised among other factors on a predictable macro economic environment where the level of the budget deficit, Government borrowing and Government revenue continues to be satisfactory while expenditure is maintained at budgeted levels. In this regard the reported high build up of Government's unpaid bills for services rendered should be resolved by bringing all such expenditure under budget through budget rationalisation. The settlement of such expenditure will also contribute to stimulate economic growth due to its multiplier effect. It is needless to state that investors commit to long term only under predictable macro economic and socio-political environment.

### **New Public Issues including Privatisations**

The fundamental role of the capital markets is to facilitate the mobilisation of savings from both local and international markets and their efficient channelling to productive sectors of the economy.

This raising of capital through the capital markets entails a process of disintermediation where corporate organisations seeking to raise capital do so directly by issuing financial securities or investment products to savers or investors.

Over the years the capital markets have facilitated the raising of significant amount of capital by private sector companies as well as Government through the divestiture or privatisation programme. For example, during the period 1990 to 1993 there were seven public issues including privatisation which issued a total of nearly 58.5 million shares and raised about KShs.900 million.

The year 1994 was however significant as there were three major public issues comprising the offer of 98 million shares which raised nearly KShs.2.8 billion from two private companies and one from the privatisation programme, including one rights issue. The year 1994 also saw major privatisation issues including the national airline and two leading national banks. There were, however, no public issues during the year 1995 which demonstrates the irregular utilisation of the capital markets by the corporate sector.

The year 1996 was the most active in terms of public issues as there were five public issues comprising about 367 million shares which raised an amount of nearly KShs.5 billion. The period 1997 saw only two public issues which raised an amount of KShs.400 million. In addition there was a rights issue by one of the public listed companies which raised an amount of KShs.1.5 billion bringing the total amount raised from the capital markets during 1997 to KShs.1.9 billion.

The year 1998 saw only one significant privatisation issue of the largest national bank representing an offer of 28 million shares and raising of an amount of KShs.1.8 billion. During the year there was also one rights issue from one of the listed companies which raised an amount of KShs.282.5 million bringing the total amount raised during 1998 to KShs.2 billion.

It is evident from the foregoing statistics that Kenya's capital markets potential remains enormous. During the period 1990 to 1998 the public offering of shares, including rights and privatisation issues raised an amount of KShs.12.68 billion through the capital markets. The amount of KShs.12.68 billion excludes any private placement of shares during the period. This therefore demonstrates that the capital markets represent an important sector of the financial system. It is also evident that the Government privatisation programme has been a major boost to the capital markets operation.

## **Challenges in Privatising Major Public Enterprises**

It is, however, a daunting task to progress the privatisation of the major state enterprises that are earmarked for privatisation such as Mumias Sugar Company, Chemelil Sugar Company, Kenya Reinsurance Corporation and Kenya Posts and Telecommunications Corporation among others due to:

- Management of the interest of stakeholders;
- Need for Balance Sheet restructuring and strengthening of management;
- Selection of strategic investor;
- Concern on valuation, among other issues.

It is therefore essential that a speedy and decisive action be made in order to progress the privatisation of some of these companies whose targeted implementation dates have become elusive. It is also now apparent that advance announcement of the privatisation dates serves no basis as it raises unnecessary expectations and disappointment, especially where such privatisation are planned through the capital markets. The success in the privatisation programme is also demonstrated through enhanced corporate performance post-exercise. Hence every effort should be made towards self sustenance of the privatised institutions for continued value-added contribution in the economy.

Opportunities exist for further privatisation in the energy sector in such companies as Kenya Power & Lighting Company and Kenya Pipeline Company Limited. The privatisation of these companies could also provide an avenue not only for significant contribution to the Exchequer through divestiture but also raising of additional capital for further investment within the same sector.

## **Current Capital Markets Regulatory Framework**

The capital markets regulatory framework is governed by the Capital Markets Authority Act Cap 485A of 1989 and its subsequent promulgated Rules and Regulations. This framework has served the purpose of facilitating the maintenance of appropriate regulatory environment essential for the growth of the capital markets.

The Authority's regulatory structure entails the building of an effective system of market oversight including mechanism for monitoring compliance with specific regulatory requirements. It also includes a strong enforcement programme, all of which are aimed at safeguarding the integrity of the market.

The regulatory framework also entails an annual licensing programme for all market practitioners in order to ensure they continue to comply with oversight regulations as well as the self-regulatory rules of the stock exchange in case of stockbrokers and dealers.

The Authority has now in place an effective compliance and enforcement capability which is essential for enhancing investor confidence and maintenance of the integrity of the markets and that of market intermediaries.

In exercising its regulatory role over the last nine years the Authority has faced a number of challenges in compliance and enforcement. This also includes the need to ensure that the regulatory framework remains relevant and adequate to deal with the challenges of developing the capital markets.

The Authority has therefore effected the following specific measures:

- Sanctioned market intermediaries who have failed to comply with the regulatory requirements including revocation of licences of one investment adviser and one brokerage firm;
- Sanctioned some public listed companies for failing to fulfil listing requirements and continued reporting obligation to the stock exchange.

This has resulted in at least four companies being suspended and delisted from the official list of the stock exchange;

- Enhanced the capital requirement for Stockbrokers and Investment Advisers from an initial paid up share capital of KShs.100,000 in 1993 to the present amount of KShs.5 million for brokers and KShs.1 million for Investment Advisers;
- Reviewed the rules and regulations and issued amendment or additional rules where necessary to strengthen the regulatory framework during the years 1992, 1994, 1995 and 1996;
- Issued guidelines to govern issuance of corporate bonds and commercial paper during 1997;
- Issued specific guidelines in 1998 to promote good corporate governance practices by listed companies through constitution of audit committees with effect from January 1999.

### **Major Capital Markets Legislative Review Under Way**

A comprehensive review of the legislative framework is underway as part of measures aimed at enhancing the regulatory powers of the Authority as well as strengthening the self-regulatory mechanism of the stock exchange.

This comprehensive review has been completed and is awaiting publication and tabling in Parliament for legislative approval. This also envisages the renaming of the Act as the Capital Markets Act in place of the present Capital Markets Authority Act.

As part of this legislative action the Authority will also carry out a comprehensive review of rules and regulations. The revised rules and regulations will be reissued during 1999. The main highlights of this legislative review include the following:

- Specific provision for regulating collective investment schemes to be included in the new Capital Markets Act;

- Powers to facilitate the establishment of an independent appeal tribunal to consider and determine appeals against decisions of the Authority in place of the current requirement where such appeals are referred to the Minister for Finance;
- Powers to facilitate appointment of statutory managers to oversee the activities of licensed intermediaries where it is deemed it is in the investors' and public interest. This is an additional requirement to address the current situation where the other sanctions available entail suspending the licence or delicensing of such intermediary;
- Specific provision to empower the Authority to fully regulate the issuance of public and private placements of securities including promulgation of regulation or guidelines to govern disclosure requirements. This is to address the current weakness of fragmented requirements under the Companies Act and the Capital Markets Authority Act.

### **Legislative Delay Inhibits the Central Depository Project Progress**

As part of the major legislative programme a Central Depository Bill has been prepared and is awaiting publication and tabling in Parliament. This Bill is aimed at providing an enabling legislation for the establishment of an important market infrastructure to facilitate efficient clearing and settlement of capital markets transactions. The Central Depository system is also to facilitate the immobilisation of all share certificates and an electronic transfer of ownership without the physical movement of such certificates. This will contribute towards minimising systemic risk and the settlement period which is envisaged to drastically increase trading operation at the stock exchange.

The Authority has spent considerable resources in the drafting of the Legislation and Project business plan. It is, however, regrettable to report that this Central Depository Bill and the Incidental Amendment to the Capital Markets Authority Act have been pending for publication and tabling in Parliament for the last two years due to what the Attorney General's office say is attributed to other priority legislation.

The Authority continues to press for the enactment of this now very priority legislation, the absence of which is inhibiting progress in the development of the capital markets and the economy at large. We have also been assured by the Attorney General that the legislation is now receiving priority attention.

### **Human Capital Development and Improvement of Terms of Service**

The most valued resources of the Authority are its human capital or the employees, being a service organisation. During the last four years the Authority has recruited additional professional staff to strengthen its functions. The Authority has further reorganised management functions in order to position the Authority's services in line with its demanding role.

The Authority continues to spend significant resources on the development of its human capital as part of measures to ensure the maintenance of appropriate capacity to deal with the challenges of developing and regulation the capital markets.

The Authority has in this regard spent significant resources on training during 1997/98 when several staff members were sent overseas for exposure training and attachment. CMA plans to continue with its training programmes albeit with limited financing which has in fact necessitated a reduction on allocation for this purpose in the financial year 1998/99.

It is also important to note that the Authority has endeavoured and will continue to enhance the terms of service for its staff in order to ensure continued attraction and retention of professional staff, in the very competitive field of the financial markets.

The Authority's current staff establishment is now adequate and future recruitment will only be restricted to cases of replacements.

## **CMA Hosted Top Financial Markets Regulators in Nairobi**

The year 1998 was significant in the history of the domestic capital markets as the top world securities and futures market regulators gathered for the annual meeting of the International Organisation of Securities Commissions (IOSCO) in September. The meeting significantly raised the international profile of the Capital Markets Authority and the capital markets in general as it was the first such meeting to be held in the African continent.

A detailed report on the milestone decisions made during the conference that will have significant impact on the operation of the global capital markets is given elsewhere in this report.

## **Capital Markets Authority Moving Towards Self Financing**

As a public agency, the Capital Markets Authority continued to be wholly financed from the Exchequer upto 1994. In July 1995 the Authority developed a framework to facilitate the charging of fees for its services. This was a negotiated arrangement with the capital markets practitioners and the stock exchange.

This period also saw the establishment of the Capital Markets Investor Compensation Fund. The Minister for Finance gazetted the new fees structure in July 1997 that empowered the Authority to charge fees for its services mainly from public issues, stock exchange transactions and licensing.

It is significant to note the following on the Authority's finances and accounts:

- The Authority's total revenue for the period 1991/92 amounted to Kshs.20.8 million comprising of Government grant of Kshs.18 million while the total revenue position for the period 1994/95 was Kshs.35.1 million comprising Government grant of Kshs.23.2 million.
- The Authority's total expenditure for the period 1991/92 amounted to Kshs.13.7 million while the total expenditure for the period 1994/95 amounted to Kshs.38.2 million inclusive of depreciation of Kshs.2.2 million.

- Following the approval of the Authority to charge fees for its services, the total income from services for the period 1995/96 amounted to KShs.32.5 million and the Government grant stood at KShs.31.1 million.
- During the period 1996/97 the Authority's income from its services rose to KShs.41.7 million while Government grant stood at KShs.25.8 million.

The total income from services for the period 1997/98 from its services was KShs.46.9 million while Government grant dropped to KShs.21.3 million.

- The Authority's total expenditure for the period 1996/97 amounted to KShs.57.9 million inclusive of depreciation of KShs.4.8 million. During the period 1997/98 expenditure rose to KShs.76.5 million inclusive of depreciation of KShs.4.8 million. The main contributing factor to the increase in expenditure during 1998 is largely attributed to increased training, conference expenditure and enhanced terms of service for the CMA staff.
- The Authority's surplus for the period 1991/92 was KShs.7.1 million while during 1994/95 the Authority recorded a deficit of KShs.3.1 million. During 1995/96 the Authority achieved a surplus of 21.6 million. The surplus position reduced to KShs.9.5 million during the period 1996/97. The Authority recorded a deficit of KShs.8.2 million during the period 1998.

### **Reduced Dependence on the Exchequer**

The foregoing position demonstrates that the Authority's total budget and revenue level has increased over the last few years in line with its expanded capacity and demand of its mandate.

The overall dependency on the Exchequer has also significantly reduced from 100% dependency during the period preceding 1995 to a position of less than 28% dependency on Government support during the period ended June 1998.

This position is expected to decline further during the period ending June 1999 as the grant to the Authority has reduced to Kshs.15 million.

The Authority has further undertaken budgetary rationalisation in order to ensure its self sustenance within the next five years. In this regard the Authority's budgetary policy entails a zero-based budgetary approach which requires each budget item to be reviewed and justified afresh every financial year regardless of the position of expenditure or revenue in the previous year. In this regard the Authority's total budget for the period 1998/99 is about Kshs.60 million as compared to the total expenditure of Kshs.76.5 million during the period ended June 1998.

It is also worthwhile to note that the investor compensation fund which was non-existent prior to the period 1994/95 stood at Kshs.14.8 million during the financial year ended June 1998. The details of the accounts are set out as annexes to this report.

Finally, it should be noted that the Authority's operations are geared towards a non-profit making but self sustenance basis where revenue equals expenditure.

### **CMA Plans of Action - 1999**

As a leading institution in the capital markets the Authority must continue to be proactive in positioning development of the markets. It must therefore implement an action oriented programme that will contribute towards modernisation of the market and place the local capital markets appropriately in line with emerging development of global financial markets. It is evident from the review of the performance of the Authority for the last nine years that the Authority has made major contribution towards the growth of the capital markets. There are, however, enormous challenges yet to be tackled in the tasks of building a modern capital market. The Authority will endeavour to implement the following as part of current priorities during 1999.

## **1. Implementation of the Central Depository System Project**

As already stated, the unforeseen legislative delay has made the Central Depository System project implementation target date elusive. The Authority in collaboration with the Nairobi Stock Exchange and other stake holders will endeavour to see the implementation of this project during 1999. A two-prong approach encompassing the pursuance of the legislative programme and the selection of investors and systems has been put in place as a fast track strategy of implementation.

## **2. Establishment of a Credit Rating Agency**

The establishment of a credit rating agency has been in the Authority's plan for the last few years. Following the creation of an enabling environment and policy decisions it is now expected that the implementation of this desired objective will be realised during 1999. The Authority will collaborate with other stake holders in facilitating the establishment of an East African rating agency to be spearheaded by an international rating agency. This is essential in order to deepen the development of an active corporate debt market.

The Authority will also support and work towards the issuance of guidelines to govern operations of credit reference bureaux as part of its efforts to contribute towards credit discipline and confidence in the financial market.

## **3. Comprehensive Review of the Capital Markets Regulatory Framework and Re-Issue of Revised Rules and Regulations**

As already indicated in this report the review of the capital markets rules and regulations will be undertaken in addition to the establishment of a legal framework for the Central Depository System (CDS) and Incidental Amendments to the CMA Act. The Authority will complete this review during 1999. It will also continue to press for a publication and tabling of the CDS Bill and Incidental Amendments to the CMA Act. The Authority also plans to reissue the revised rules and regulations during 1999.

#### **4. New Financial Disclosure Requirements**

The Authority is in the process of finalising the development of a comprehensive set of new capital markets disclosure requirements for both public offering of securities as well as continued reporting obligations, among others. A study which is underway is expected to be completed shortly and the resultant recommendations, which will be comparable to the best international practice on disclosure requirements, will be issued by the Authority during 1999.

#### **5. East African Capital Markets and Securities Regulatory Authorities Collaboration**

As part of the initiative within the East African Co-operation, the East African Securities Regulatory Authorities have agreed to collaborate in the task of building the East African capital markets.

The Authority will continue during 1999 to play its role towards this important cause in order to facilitate the harmonisation of the legal framework and policies governing the operation of the capital markets as well as modalities for building an East African capital markets infrastructure.

#### **6. Policy Framework Governing the Participation of Foreign Portfolio Investors**

The policy governing the participation of foreign portfolio investors in listed securities as part of the on-going liberalisation of the capital markets will be reviewed during 1999 in consultation with other stake holders and the Government. The Authority will make specific proposals to the Government on specific measures to facilitate enhanced participation of foreign portfolio investors in order to supplement the low domestic savings level. The planned review will, however, ensure that the local investors will continue to play their due role in the capital markets and will aim at eliminating perception of imposition of barriers on foreign investments.

## **7. Establishment of a Capital Markets Annual Review Forum**

An annual review forum will be facilitated by the Authority comprising of the stock exchange, stockbrokers, investment advisers, fund managers and listed companies among others. This is aimed at providing an opportunity for capital markets stake holders to share ideas, experiences and review the performance of the market. It will also act as a forum for development and sensitising the industry of the plans of action for the next year.

## **8. Measures to Enhance Liquidity through Dealers**

The Authority's plan to licence market dealers at the stock exchange as part of measures to enhance liquidity was postponed. This was due to the financial market volatility during 1998 and need for further consultation with the stakeholders among other factors. The Authority plans to issue during 1999 guidelines on the operating and licensing modalities for the Dealers.

## **9. New Financial Instruments**

It is important to facilitate the emergency of additional financial instruments in the capital markets. This is part of efforts to facilitate increased savings in financial assets and at the same time to develop alternative financial market instruments to raise capital. In this regard the Authority will, during 1999, collaborate with the Central Bank of Kenya and other capital markets practitioners to develop guidelines which will help mortgage finance companies to issue "asset backed securities" on the basis of their well performing mortgages. These new instruments will facilitate the raising of additional long term capital which will contribute towards the development of the housing sector.

**10. Development of Action Plan to Facilitate the Establishment of Collective Investment Schemes**

The legal framework to provide a suitable environment for the establishment of collective investment schemes is expected to be passed during 1999. The Authority will during 1999 issue specific guidelines to promote and sensitise institutional investors to create investment schemes such as mutual funds, unit trusts and property trusts.

**11. Development of an Over the Counter Market (OTC)**

During 1999 the Authority plans to carry out a study to facilitate the development of an appropriate over the counter market. The over the counter market will facilitate high growth potential companies not yet eligible for listing at the Exchange to raise capital through private placements and to have essential secondary market liquidity for the issued securities.

The study will also develop and determine trading systems and rules of trading, clearing and settlement mechanism as well as eligible investors and financial products.

**12. Strategy Towards a Consolidated Financial Services Regulatory Framework**

The Capital Markets Authority welcomes the enactment of the Retirement Benefits Authority Act in order to regulate the retirement and pension sector. This brings the regulatory authorities to three, namely the Capital Markets Authority, the Insurance Commissioner and the Retirement Benefits Authority which regulate a highly integrated financial services sector with potential overlapping regulatory jurisdictions that could impede market development. It is therefore necessary to harmonise and work towards building a consolidated framework for the financial services sector in order to address the fragmented positions.

In this regard the Capital Markets Authority plans during 1999 to consult with the Commissioner of Insurance and the Advisory Board, the Retirement Benefits Authority Board, the Central Bank of Kenya and the Ministry of Finance on development of appropriate modalities that will help in building a suitable regulatory framework for the financial services sector relevant for the next millennium.

The emerging global trend now is to establish a consolidated regulatory regime such as the Financial Services Authority of UK, the Financial Services Supervisory Board of Japan, the Financial Supervisory Commission of Korea, the Financial Supervisor of New Zealand, the Financial Services Board of South Africa, the Securities and Investments Commission of Australia among others.

## **Conclusion**

Finally, I wish to conclude by underscoring that financial markets are important national assets essential for the enhancement of economic growth and prosperity. Hence, every effort must be made to nurture them through the creation of a supportive environment and the maintenance of an appropriate regulatory framework that promotes market confidence and safeguards investors interests.



**Paul K Melly**  
**CHIEF EXECUTIVE**

## **Top World Securities and Futures Regulators Annual Conference in Nairobi**

The world's securities and futures regulators and members of the financial community gathered in Nairobi from 12-18 September 1998 on the occasion of the 23<sup>rd</sup> Annual Conference of the International Organization of Securities Commissions (IOSCO), hosted by the Capital Markets Authority of Kenya. The Conference took place at a time of significant market volatility, and presented an invaluable opportunity to discuss the regulatory and market issues that currently concern the international financial community and regulatory authorities.

### **IOSCO's Contribution to Global Financial Markets**

During the Nairobi conference certain milestone decisions were made particularly the adoption of the following:

- (i) IOSCO document on Objectives and Principles of Securities Regulation
  - (ii) IOSCO document on International Disclosure Standards for Cross Border Offerings and Initial Listings by Foreign Issuers.
- (i) Regulators Agree to Adopt an Internationally Acceptable Document on Principles of Securities Regulation**

In an effort to improve the regulatory framework for securities, the regulators meeting in Nairobi adopted the IOSCO Objectives and Principles of Securities Regulation document. This document sets out 30 principles of securities regulation, which are based upon three objectives of securities regulation. These are:

- The protection of investors;
- Ensuring that markets are fair, efficient and transparent; and
- The reduction of systemic risk.

The 30 principles need to be practically implemented under the relevant legal framework to achieve the objectives of regulation described above. The principles are grouped into eight categories.

A. **Principles Relating to the Regulator**

1. The responsibilities of the regulatory should be clear and objectively stated.
2. The regulator should be operationally independent and accountable in the exercise of its functions and powers.
2. The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.
4. The regulator should adopt clear and consistent regulatory processes.
5. The staff of the regulator should observe the highest professional standards including appropriate standards of confidentiality.

B. **Principles of Self-Regulation**

6. The regulatory regime should make appropriate use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, to the extent appropriate to the size and complexity of the markets.
7. SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.

C. **Principles for the Enforcement of Securities Regulation**

8. The regulator should have comprehensive inspection, investigation and surveillance powers.
9. The regulator should have comprehensive enforcement powers.

10. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.

**D. Principles for Co-operation in Regulation**

11. The regulator should have authority to share both public and non-public information with domestic and foreign counterparts.
12. Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.
13. The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.

**E. Principles for Issuers**

14. There should be full, timely and accurate disclosure of financial results and other information that is material to investors' decisions.
15. Holders of securities in a company should be treated in a fair and equitable manner.
16. Accounting and auditing standards should be of a high and internationally acceptable quality.

**F. Principles for Collective Investment Schemes**

17. The regulatory system should set standards for the licensing and the regulation of those who wish to market or operate a collective investment scheme.

18. The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.
19. Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.
20. Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.

**G. Principles for Market Intermediaries**

21. Regulation should provide for minimum entry standards for market intermediaries.
22. There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.
23. Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters.
24. There should be procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.

## H. **Principles for the Secondary Market**

25. The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.
26. There should be ongoing regulatory supervision of exchanges and trading systems which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.
27. Regulation should promote transparency of trading.
28. Regulation should be designed to detect and deter manipulation and other unfair trading practices.
29. Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.
30. Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.

### **(ii) Regulators Agree on International Disclosure Standards for Cross Border Listing**

In order for securities regulators to facilitate cross border offerings and listings by multinational issuers, the IOSCO agreed to adopt harmonised disclosure standards. This was done through the adoption of the document “International Disclosure Standards for Cross Border Offerings and Initial Listings by Foreign Issuers”. This document sets out the following disclosure standards to enhance comparability of information while ensuring a high level of investor protection.

## A. **Definition of Critical Terms**

- **Affiliate** of specified person/entity is one who, directly or indirectly either controls, is controlled by or is under common control with, the specified person/entity.
- **Beneficial owner** of securities is a person who, even if not the recorded owner of the securities, has or shares the underlying benefits of ownership.
- **Company** - the company whose shares are being offered or listed.
- **Directors and Senior Management** - includes company directors, members of its administrative supervisory or management bodies, partners with unlimited liability, nominees to serve in any of the afore mentioned positions and founders.
- **Documents** - prospectuses and offering documents used in connection with a public offering of securities.
- **Equity Securities** - includes common or ordinary shares, preference shares, options or warrants and any securities other than debt securities.
- **Group** - a parent and its subsidiaries.
- **Home Country**- the jurisdiction in which the company is legally organised, incorporated or established.
- **Host Country** - jurisdiction, other than the home country, in which the company is seeking to offer, register or list its securities.
- **Pre-emptive issue** - offering made to the company's existing shareholders in order to permit them to maintain their pro-rata ownership in the company.

**B. Identity of Directors, Senior Management and Advisers**

- Identify the company representatives and other individuals involved in the listing.
- Provide names and addresses of:
  - directors
  - senior management
  - principal bankers
  - legal advisers
  - sponsor of the listing
  - auditors (for the preceding three years, together with the membership of a professional body).

**C. Offer Statistics and Expected Timetable**

Provide key information regarding the conduct of any offering and the identification of important dates.

- method of offering (e.g. rights, general etc)
- Expected amount of issue
- expected issue price or method of determining the price
- number of securities to be issued
- time period during which the offer will be open
- receiving agents
- manner and dates on which amounts due are to be paid
- method and time limits for delivery of securities to subscribers

- procedure for the exercise of any pre-emption rights
- full description of the manner in which results of the distribution are to be made public.

#### D. **Key Information**

- Summarise key information about the company financial condition, capitalization and risk factors.
  - five most recent financial years' data (or such shorter period that the company has been in operation).
  - such data shall include, at minimum; net sales or operating revenue, income (loss) net income (loss) per share, total assets, net assets, capital stock (excluding long term debt) number of shares adjusted to reflect changes in capital, dividend per share (in both the currency of the host and home country)
  - disclosure of exchange rate between home country currency and host country currency
  - statement of capitalisation and indebtedness (distinguishing between guaranteed and unguaranteed, secured and unsecured debt) as of a date not earlier than 60 days prior to the date of the document
  - estimated net amount of the proceeds and each principal use thereof
  - description of any assets to be acquired from the proceeds and their cost
  - description of any other businesses to be acquired from the proceeds
  - description of interest rate and maturity of any debt to be discharged using the proceeds

- disclosure of risk factors that are specific to the company or industry in order of priority.

#### E. **Information on the Company**

- Provide information about the company's business operations, products or services and factors which affect the business
  - legal and commercial name of the company
  - date of incorporation and country of incorporation
  - domicile and legal form including the legislation under which it operates
  - registered office including address and telephone number
  - name and address of agent in host country
  - important events in the development of the company e.g. material re-classification, mergers, consolidation, acquisitions or disposal of material assets, etc.
  - principal capital expenditures and divestitures in the last three years
  - indication of any take-over offers by third parties for the company or by the company for other companies
  - description of the company's operations and its principal activities including main categories of products/services for the last three years
  - description of company's principal markets, and other related matters such as raw materials, patents, licences, etc
  - description of the group and the company's position in the group

- description of material tangible assets including leased properties, productive capacity of the company's facilities, how the assets are held, etc.

F. **Operating and Financial Review and Prospects**

- Management's explanation of factors that have affected the company's financial condition and results of operation for the historical periods covered by the financial statements; and management's assessment of factors and trends which are anticipated to have material effect on the company's financial condition and results of operations in future periods. These explanations will include factors such as:

- material new developments affecting the company's income
- impact of inflation and foreign currency fluctuations
- impact of government economic, fiscal, monetary and political policies
- liquidity and capital resources (sources)
- research and development, patents, licenses
- trends in products, sales, inventory etc.

G. **Directors and Employees**

- Information on the company's directors and managers that will allow investors to assess such individuals' experience, qualifications and levels of compensation.

- names, business experience, functions and areas of experience in the company

- business activities performed outside the company
- age
- nature of any family relationship between any of the persons
- amount of compensation paid and benefits granted
- amounts set aside by the company to provide pension, retirement benefits, etc.
- details of directors' service contracts
- number of employees
- description of any share ownership schemes for employees and directors

#### H. **Major shareholders and Related Party Transactions**

- Provide information regarding the major shareholders and others that control or may control the company.
- Provide information regarding transaction's the company has entered into with persons affiliated with the company.
  - names and number of shares of major shareholders (5% beneficial ownership)
  - significant changes in percentage ownership
  - voting rights of major shareholders

#### I. **Financial Information**

- Specify which financial statements must be included in the document, as well as the periods to be covered, the age of the financial statements and other information of financial nature; e.g.

- balance sheet
- income statement
- cash flow statement
- changes in shareholders equity
- audit reports
- dividend policy statements

J. **The Offer and Listing**

- Provide information regarding the offer or listing of securities, the plan of distribution and related matters, e.g.
  - offer statistics
  - underwriting agreements
  - targeted (potential) investors
  - allotment criteria
  - expenses of the issue

K. **Additional Information**

- Any information, not covered elsewhere in the document. Most of it is statutory, e.g.
  - memorandum and articles of association
  - material contracts
  - taxation

**(iii) Regulators Agree to Develop Guidelines on Regulation of Securities Offerings through the Internet**

Internet technology is profoundly affecting the evolution of financial services activities. At a relatively low cost, the Internet offers unprecedented immediacy, flexibility and interactivity, magnifying the financial services industry's ability to reach into the investing public. These developments provide significant advantages for financial service providers and investors alike, but they also present new challenges for securities regulators and self-regulatory organizations.

In response to these challenges, the IOSCO Technical Committee's Internet Task Force, with participation from the EMC and the SRO Consultative Committee, prepared a report that provides guidance on the impact of the Internet on securities regulation. This Report, which has been endorsed for publication by the Technical Committee, addresses the regulatory and enforcement issues posed by securities activities conducted over the Internet.

The Report sets out five key principles that should guide regulatory approaches to the Internet and that should be considered when formulating policies regarding specific activities on the Internet:

- the fundamental principles of securities regulation apply equally to securities activity on the Internet as to securities activity using more traditional communications methods. Hence, the use of the Internet for securities transactions should be subject to regulation that promotes the fundamental objectives of the protection of investors, market fairness, efficiency and transparency, and the reduction of systemic risk;
- consistent with the fundamental principles of securities regulation, regulators should not unnecessarily impede the legitimate use of the Internet by market participants and markets. They should resist imposing any more restrictions on the use of the Internet than are necessary to promote the fundamental objectives of securities regulation in their countries;

- regulators should strive for transparency and consistency regarding how their regulations apply in an Internet environment;
- regulators should cooperate and share information in order to monitor and police securities activity on the Internet effectively; and
- regulators should recognize that electronic media and the use of such media is likely to evolve.

**(iv) Statement of the IOSCO Technical Committee on Year 2000**

The Year 2000 issue presents a serious challenge to the world's financial markets. Calendar dates are part of every securities transaction, and directly or indirectly affect such critical processes as delivery and payment obligations, risk management, and product design.

At midnight on January 1st, 2000, the internal date in many of the world's computers will change from "12/31/99" to "01/01/00". All hardware and software that uses the two-digit year convention will potentially malfunction because the systems will incorrectly read the latter date as the year 1900 or some other erroneous date. It has been estimated that, without corrective measures, 90% of all computer applications worldwide will fail or create erroneous results because of an inability to properly recognize the century change.

Two features of the Year 2000 event stand out, that is, it will occur simultaneously for all organizations, and it cannot be delayed or deferred. The potential operational problems will range from the obvious, such as hardware shut down, to subtle, such as data corruption resulting from embedded date calculations. Because the world's securities markets are highly interconnected, a disruption in one segment can spread quickly to others.

The Technical Committee is concerned that securities market participants and related parties should be adequately addressing the risks associated with Year 2000 in sufficient time.

While the Technical Committee recognizes that there are competing resource demands on firms and regulators alike, the failure to adequately confront this problem may have very serious, and in some cases catastrophic, consequences for firms and markets. **The Technical Committee therefore exhorts all IOSCO members and market participants in their jurisdictions to take all appropriate and necessary action to address this critical matter.**

Year 2000 is not simply a technology issue, but a core business and regulatory concern. As such, it must receive the attention and support at the highest levels within all affected organizations. The risks that Year 2000 pose must be carefully identified and addressed. The following risks should be considered, at a minimum:

- completion risk: priorities must be established and a business plan developed in the event that all computer processes cannot be converted in time;
- implementation risk: adequate planning must consider that projects may be delayed or encounter unforeseen problems;
- relationship risk: all external system relationships (e.g., vendors, counterparts, agents, clients, regulators) must be evaluated for their potential effect on the organization if these external systems are not ready in time;
- contingency risk: the organization must identify reasonably foreseeable operational disruptions that could occur even if it believes that all of its internal and external systems are Year 2000 compliant; and
- legal risk: the organization must evaluate what liabilities it will incur if its systems are not ready in time, including the likelihood that market authorities will not accept a failure to prepare for Year 2000 as an excuse for non-compliance with regulatory requirements.

The key elements of dealing with these and other risks are thorough evaluation, planning (including contingency planning for possible post-implementation problems), implementation, and testing.

As of the date of this statement, evaluation, planning, and implementation should be well under way, with the objective of completing these stages by the end of 1998 in order to allow for a year of testing in 1999.

Timely preparation for this event also requires co-operation and communication within and across markets. The Technical Committee encourages IOSCO members to consult with each other on efforts within their jurisdictions to meet this challenge.

Moreover, members should have in place effective information sharing arrangements to deal with firm or market disruptions that may occur at the start of the next millennium. In this regard, the Technical Committee directs members to its publications dealing with co-operation and information sharing to deal with market and firm disruptions.

To further promote member readiness, the IOSCO Secretary General will serve as a clearinghouse for references to Year 2000 materials that members consider useful. This information will be available on the IOSCO Internet Web Site, located at **<http://www.iosco.org/>**.

**(v) Kenya's Minister For Finance Advises Top Global Financial Markets Regulators**

Kenya's Minister for Finance, Hon. Simeon Nyachae, began by extending a very warm and hearty welcome to the visitors and wished them a pleasant stay in Kenya. He encouraged them to take time after the conference to see our tourist attractions. He intimated that Kenyans felt honoured that their country had been chosen as a venue for such an important international conference that was being held on the African soil for the first time.

The Minister noted that during the last one decade, a new world order has emerged characterised by drastic economic changes necessitating a concerted program of liberalisation of the affected economies which has minimised the role of the state in commercial business while strengthening the role of state in the development of appropriate policies in order to improve the operating environment, including the development of appropriate legal framework. In addition, he observed, this necessitated a review of responsibilities of regulatory agencies to ensure they remained up to date. Furthermore, emergence of this new world order has given rise to the establishment of new regulatory agencies to provide oversight in a number of specialised fields.

These changes, he further observed, had enormous impacts on the capital and financial markets and continued to exert pressure on the regulators as they endeavour to cope with regulation of new and innovative financial products that have emerged as these markets diversify and expand as a result of mobilising capital and managing new risks. The Minister observed that the new scenario coupled with technological advances and globalisation of these markets, created new challenges and opportunities for both market practitioners and regulators alike necessitating the added need for more collaborative and collective efforts within and between countries. He stated that this was essential in order to enhance and harness the new development in the capital and financial markets, for faster economic growth and for improvement of the living standards of the world's poor.

Nonetheless, he pointed out that, although the new scenario offered hope for the emerging economies of the world to access external capital, it was imperative that their financial systems be transparent, efficient and well managed which could only happen if the regulatory environment facilitates the development of credible markets that nurture innovation on a sustainable basis.

Globalisation of the capital and financial markets, he intimated, made it imperative for every country to pay attention to the developments in other parts of the world. For this reason, national development strategies, in the field of financial markets, need to be consistent with global expectations of the market players. Indeed if these expectations are not met, capital will move out quickly to markets that are more enabling. It is this phenomenon that is making the world economies closely inter-dependent with capital flowing freely from one market to another. Similarly, the inherent market risks move swiftly from one market to another. This has been clearly demonstrated by the recent developments in both South East Asia and Russia. Market instabilities in the two regions resulted in huge losses and affected all major capital markets of the world.

He further underscored the fact that in a globalized world economy, all financial markets, whether large or small, are important actors in one form or another and radical market fluctuations can be minimized if the appropriate message is disseminated to the market players and the regulations used to reduce over reaction.

The Minister told the gathering that the Government of Kenya attached a lot of importance to the development of the capital markets and the overall strengthening of the financial markets as a recognition of the fact that an efficient financial sector constitutes one of the critical pillars of a well functioning market economy. It was in this regard, he noted that the Government established the Capital Markets Authority which had played an important role in the further development and stabilization of the securities market in Kenya. He further noted that since inception, the Authority had improved the operating environment to the extent that international investors are now an essential component of the Nairobi Stock Exchange.

He further told the gathering that the Central Bank of Kenya and the Capital Markets Authority are the two leading regulators in the money and capital markets and are vested with adequate powers to ensure development of viable financial markets operating in a sound regulatory environment and also in accordance with the international standards. The two institutions, he observed, had the added responsibility of enforcing both ethical and operational standards which are necessary to position the local financial markets appropriately in the global market.

He observed that among the most challenging tasks of capital and financial market regulators is the creation of financial harmony in the emerging economic and monetary unions. Transition from national to regional monetary and capital authorities though, called for a high degree of co-operation and collaboration. The Minister noted that Kenya, like many other countries represented at the conference was a member of a regional group namely the Common Market for Eastern and Southern Africa (COMESA) which brings together several independent national regulators to whom, integration proceeds, the need for harmonization and consistency of fiscal and monetary policy will become important. Otherwise market failure in one country can lead to a regional collapse as occurred in South East Asia.

Africa, the Minister noted, needed to attract investments from external sources to supplement the low domestic savings to finance the resource gaps which was only feasible by turning to the global financial markets. The onus, he added, rested with the capital markets regulators whose duty it is to ensure the elimination of barriers to capital flows.

On the Kenya economy the Minister informed the gathering that various policy measures to revitalize the economy and achieve high growth rates had been implemented with a view to enhancing private sector growth. He observed that market regulators had an enormous responsibility of reshaping the world financial markets and to ensure they retain integrity, cultivate confidence of all the players and ensure smooth integration of the global financial systems. He further stated that it is necessary that regulators needed to develop guidelines which will minimize distortions on financial markets operations and influences caused by financial speculators.

In this regard, the Minister emphasised the need for regulators to understand the markets well if they were to ensure the regulatory environment did not become an impediment to market growth and efficiency by curbing on such vices as unfair market practices, insider trading, price manipulation and money laundering.

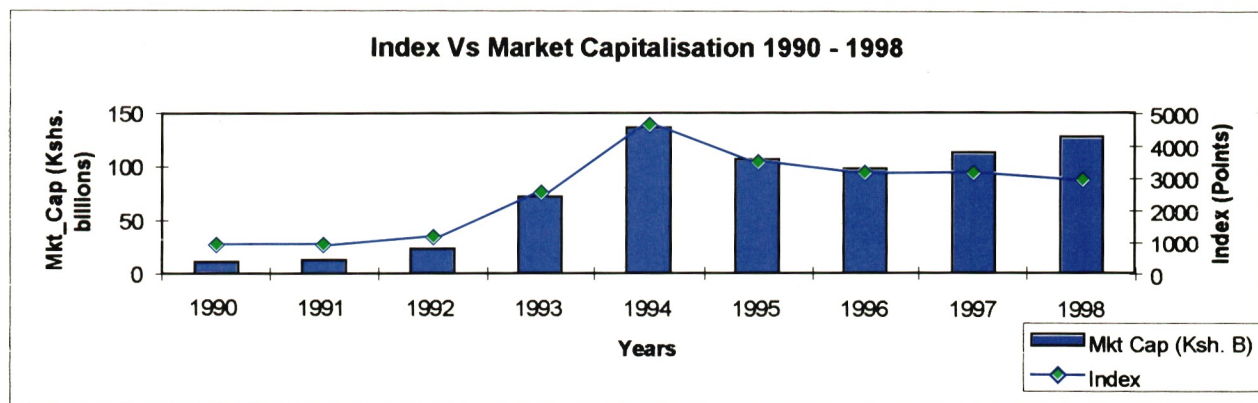
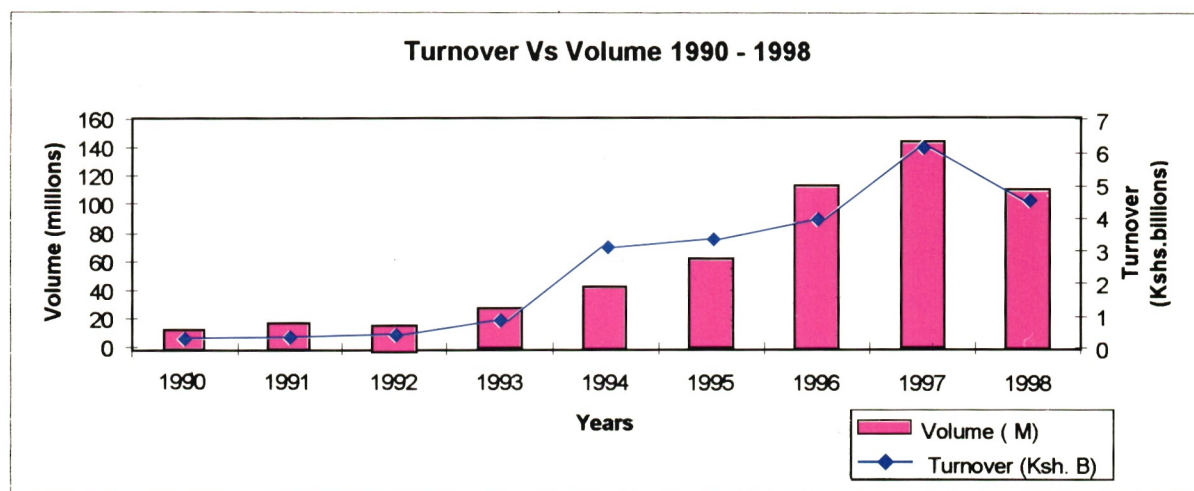
The Minister concluded his opening statement by underscoring the essence of maintaining market integrity, confidence and protection of investors through maintenance of high ethical and performance standards in all market operations. Finally, he wished the participants well in their deliberations and looked foreword to receiving their final recommendations and suggestions which could be adopted for implementation in order to improve capital and financial markets in Kenya as part of global initiatives.

## Comparative Market Statistics: 1990 - 1998

### Table 1 – Gross Market Statistics (Equities)

	1990	1991	1992	1993	1994	1995	1996	1997	1998*
Turnover (Ksh. bn)	0.23	0.30	0.38	0.82	3.08	3.34	3.96	6.15	4.56
Shares vol. (m)	11.0	16.60	14.80	27.30	42.76	62.10	113.60	143.47	111.11
Mkt Cap (Ksh. bn)	10.9	12.71	23.0	72.0	136.83	107.20	98.68	114.31	128.94
Index	915	958	1167	2514	4559	3469	3114	3115	2962

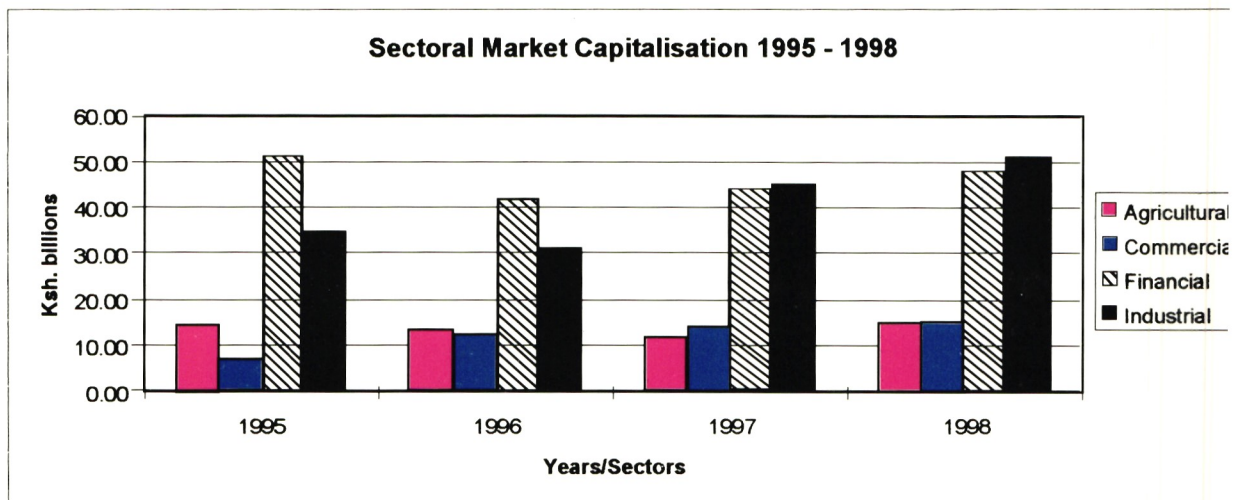
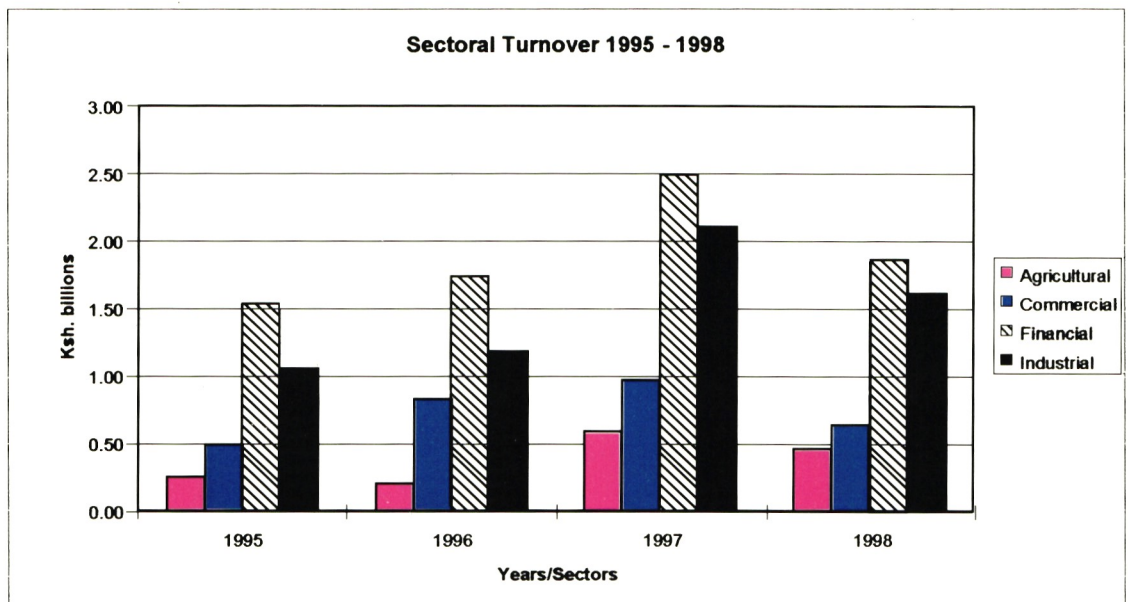
\* Provisional



**Table 2 - Sectoral Statistics (Equities): 1995 - 1998**

	1995	1996	1997	1998*
<b>Market Cap. (Ksh. bn)</b>				
Agricultural	14.50	13.62	11.74	14.88
Commercial	7.25	12.50	13.81	15.23
Financial	50.85	41.77	43.93	48.01
Industrial	34.61	30.80	44.83	50.82
<b>Turnover (Ksh. bn)</b>				
Agricultural	0.25	0.20	0.59	0.45
Commercial	0.50	0.83	0.97	0.64
Financial	1.53	1.75	2.50	1.86
Industrial	1.06	1.18	2.09	1.61

\* Provisional



**Table 3 - Foreign Investors Statistics (Equities): 1995 - 1998**

	1995	1996	1997	1998*
<b>Turnover (Ksh. bn)</b>	0.22	0.99	2.23	1.16
<b>Net Inflow (Ksh. bn)</b>	0.17	0.60	1.58	0.08

\* Provisional

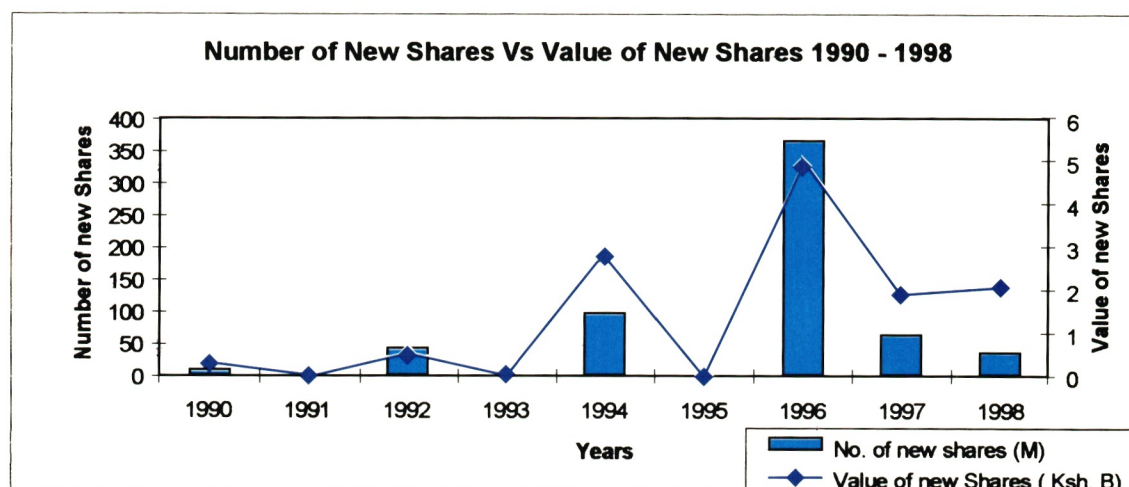
**Table 4 - Bond Statistics: 1997 - 1998**

	1997	1998*
<b>Turnover (Ksh. bn)</b>	15.08	8.22

\* Provisional

**Table 5 - New Public Offerings and Rights Issues: 1990 - 1998**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Cum. Total
<b>No. of New Issues</b>	1	1	3	2	3	-	5	3	2	20
<b>No. of New Shares (m)</b>	9	3.20	42.63	3.60	98.0	-	366.90	63.89	37.42	624.64
<b>Value of New Shares (Ksh. bn)</b>	0.30	0.04	0.50	0.06	2.80	-	4.93	1.94	2.10	12.67



**Table 6 - NSE 20-Share Index Companies (Market Cap., Kshs. bn.)**

	1995	1996	1997	1998
Brooke Bond	9.29	8.21	5.38	6.89
George Williamson	0.75	0.61	0.75	1.23
Kakuzi	1.84	1.91	1.88	2.76
Sasini	1.62	1.50	2.38	2.66
Kenya Airways/CMC *	0.72	3.95	3.46	3.76
Lonrho Motors	2.34	2.74	2.49	1.40
Nation Media	1.16	1.30	2.34	4.88
Uchumi Supermarkets	1.60	2.14	2.34	2.64
Barclays Bank	16.82	12.79	14.79	20.06
Diamond Trust	4.13	2.54	1.73	1.75
Kenya Comm. Bank	7.15	8.08	8.64	6.90
Standard Chartered Bank	8.74	7.99	7.58	8.32
Bamburi Cement	5.73	4.72	13.16	13.07
British American Tobacco	6.68	4.73	3.75	5.74
BOC Gases	1.42	1.05	1.28	1.39
East African Breweries	3.52	3.31	3.18	6.27
East African Packaging	0.53	0.53	0.38	0.12
Kenya National Mills	1.03	0.91	1.00	1.14
Kenya Power	3.08	2.48	9.50	9.89
Total Kenya	4.79	3.64	2.94	2.74
<b>Total</b>	<b>82.21</b>	<b>75.12</b>	<b>88.93</b>	<b>103.64</b>
As % of Total Market Cap.	82.29%	76.13%	77.80%	80.38%

\* In 1995, CMC Holdings was an NSE-20 Share Index company before being replaced by Kenya Airways in 1996 onwards.

**Table 7 - NSE Top 10 Companies in Market Capitalisation, 1995**

<i>Company</i>	<i>Market Capitalisation (Kshs. bn)</i>
1. Barclays Bank	16.82
2. Brooke Bond	9.29
3. Standard Chartered Bank	8.74
4. Kenya Commercial Bank	7.15
5. British American Tobacco	6.68
6. Bamburi Cement	5.73
7. Total Kenya	4.75
8. National Bank of Kenya	4.65
9. Firestone	4.59
10. Diamond Trust	4.13
<b>Total</b>	<b>72.56</b>
<i>As % of Total Market Cap.</i>	<i>67.69%</i>

**Table 8 - NSE Top 10 Companies in Market Capitalisation, 1996**

<i>Company</i>	<i>Market Capitalisation (Kshs. bn)</i>
1. Barclays Bank	12.79
2. Brooke Bond	8.21
3. Kenya Commercial Bank	8.08
4. Standard Chartered Bank	7.99
5. Firestone	5.10
6. British American Tobacco	4.73
7. Bamburi Cement	4.72
8. Kenya Airways	3.95
9. Total Kenya	3.64
10. East African Breweries	3.31
<b>Total</b>	<b>62.52</b>
<i>As % of Total Market Cap.</i>	<i>63.36%</i>

**Table 9 - NSE Top 10 Companies in Market Capitalisation, 1997**

<i>Company</i>	<i>Market Capitalisation (Kshs. bn)</i>
1. Barclays Bank	14.79
2. Bamburi Cement	13.16
3. Kenya Power & Lighting	9.50
4. Kenya Commercial Bank	8.64
5. Standard Chartered Bank	7.58
6. Brooke Bond	5.38
7. Firestone	4.36
8. British American Tobacco	3.75
9. Kenya Airways	3.46
10. East African Breweries	3.18
<b>Total</b>	<b>73.79</b>
<i>As % of Total Market Cap.</i>	<i>64.55%</i>

**Table 10 - NSE Top 10 Companies in Market Capitalisation, 1998**

<i>Company</i>	<i>Market Capitalisation (Kshs. bn)</i>
1. Barclays Bank	20.06
2. Bamburi Cement	13.07
3. Kenya Power & Lighting	9.89
4. Standard Chartered Bank	8.32
5. Kenya Commercial Bank	6.90
6. Brooke Bond	6.89
7. East African Breweries	6.27
8. British American Tobacco	5.74
9. Nation Media Group	4.88
10. Firestone	4.48
<b>Total</b>	<b>86.51</b>
<i>As % of Total Market Cap.</i>	<i>67.09%</i>

**Table 11**

<b>Other Market Statistics</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
No. of listed companies	56	56	57	57	56
No. of licenced market operators:					
• Stock Exchanges	1	1	1	1	1
• Stockbrokers	13	12	20	20	20
• Investment Advisers	-	-	-	19	19
• Authorised Depositories	-	-	-	5	5

## **Audited 1997/98 Financial Statements and Accounts**

### CAPITAL MARKETS AUTHORITY

### FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 1998

CONTENTS	PAGES
Authority members and advisors	64
Report of the members of the Authority	65
Report of the auditors	66
Income and expenditure account	67
Balance sheet	68
Cash flow statement	69
Notes to the financial statements	70-74

## CAPITAL MARKETS AUTHORITY

### AUTHORITY MEMBERS AND ADVISORS

#### MEMBERS OF THE AUTHORITY

The present members of the authority are:

Mr Denis D Afande	-	Chairman
Mr Isaac Awuondo		
Mr George Ayino		
Mr James Boyd McFie		
Mr Kimanthi Mutua		
Mr Leonard Njagi		
Dr Edward Sambili		
Ms Margaret Chemengich	-	Permanent Secretary to the Treasury
Mr Micah Cheserem	-	Governor, Central Bank of Kenya
Hon Amos Wako	-	Attorney General
Mr Joseph Kinyua	-	(Alternate to the Permanent Secretary, Treasury)
Dr Thomas Kibua	-	(Alternate to Governor, Central Bank of Kenya)
Mr Dan Ameyo	-	(Alternate to Attorney General)
Mr Paul K Melly	-	Chief Executive

#### **CHIEF EXECUTIVE**

Mr Paul K Melly  
P O Box 74800  
Nairobi

#### **BANKERS**

Kenya Commercial Bank Limited  
Harambee Plaza  
P O Box 58166  
Nairobi

Savings and Loans Kenya Limited  
Mama Ngina Street  
P O Box 49129  
Nairobi

#### **AUDITORS**

Deloitte & Touche  
"Kirungii", Ring Road, Westlands  
P O Box 40092  
Nairobi

# CAPITAL MARKETS AUTHORITY

## REPORT OF THE MEMBERS OF THE AUTHORITY

The members of the authority have pleasure in presenting their report and audited financial statements for the year ended 30 June 1998.

### INCORPORATION

Capital Markets Authority is a body corporate established under the Capital Markets Authority Act, Cap 485A, 1989, which became operational on 15 December 1989.

### ACTIVITIES

The Authority promotes and facilitates the development of an orderly, fair and efficient capital market in Kenya. It licences, regulates and supervises the operators in the capital market.

### RESULTS

	1998 Sh
Total income from services for the year	46,992,092
Total expenditure for the year	76,557,967
	-----
Gross deficit from services	(29,565,875)
Government grants	21,328,700
	-----
Deficit transferred to the general fund	<u>(8,237,175)</u>

### AUTHORITY MEMBERS

The present members of the authority are shown on page 64.

### AUDITORS

The auditors, Deloitte & Touche, have expressed their willingness to continue in office.

### BY ORDER OF THE BOARD



Chief Executive

Nairobi, October 22, 1998

REPORT OF THE AUDITORS  
TO THE MEMBERS OF CAPITAL MARKETS AUTHORITY

We have audited the financial statements on pages 67 to 74 and have obtained all the information and explanations considered necessary for our audit.

The financial statements are the responsibility of the members of the authority. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation.

In our opinion, proper books of account have been kept by the Authority and the financial statements, which are in agreement therewith, comply with the CMA Act and give a true and fair view of the Authority's state of affairs at 30 June 1998 and of its deficit and cash flows for the year ended on that date.

*Deloitte & Touche*

*18 November* 1998

CAPITAL MARKETS AUTHORITY

INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 30 JUNE 1998

	Note	1998 Sh	1997 Sh
FEE INCOME	2	40,678,184	34,678,550
INTEREST INCOME		3,957,452	5,773,175
OTHER INCOME		2,356,456	1,219,359
TOTAL INCOME FROM SERVICES		46,992,092	41,671,084
EXPENDITURE	3	76,557,967	57,971,431
GROSS DEFICIT FROM SERVICES		(29,565,875)	(16,300,347)
GOVERNMENT GRANTS	1	21,328,700	25,853,980
(DEFICIT)/SURPLUS FOR THE YEAR	10	(8,237,175)	9,553,633



CAPITAL MARKETS AUTHORITY

BALANCE SHEET

30 JUNE 1998

	Note	1998 Sh	1997 Sh
FIXED ASSETS	4	9,803,211	13,811,495
STAFF CAR LOANS - LONG TERM		3,226,403	3,949,921
CURRENT ASSETS			
Debtors	5	9,242,133	6,179,136
Investors Compensation Fund bank balance		13,603,130	12,748,168
Staff Housing Loan Fund bank balance	6	12,850,000	7,850,000
Staff Benevolent Fund bank balance		531,552	344,352
Fixed deposits		12,000,000	20,533,555
Bank and cash balances		1,379,601	3,079,071
		49,606,416	50,734,282
CURRENT LIABILITIES			
Creditors	7	7,942,460	6,099,209
Investors' Compensation Fund	8	14,839,522	14,867,466
Staff Benevolent Fund		474,052	286,852
		23,256,034	21,253,527
NET CURRENT ASSETS		26,350,382	29,480,755
		39,379,996	47,242,171
Financed by:			
CAPITAL FUND	9	29,884,508	29,509,508
GENERAL FUND	10	9,495,488	17,732,663
		39,379,996	47,242,171

The financial statements on pages 67 to 74 were approved by the Members of the Authority on October 22, 1998 and were signed on its behalf by:

 ) CHAIRMAN  
 )  
 )  
 ) CHIEF EXECUTIVE

CAPITAL MARKETS AUTHORITY

CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 1998

	Note	1998 Sh	1997 Sh
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	11(a)	(8,567,433)	18,890,327
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		4,887,671	5,008,230
NET CASH INFLOW FROM RETURNS ON INVESTMENTS		4,887,671	5,008,230
INVESTING ACTIVITIES			
Purchase of fixed assets		(511,101)	(1,782,885)
Proceed of sale of fixed assets		-	81,750
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(511,101)	(1,701,135)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(4,190,863)	22,197,422
INCREASE IN CASH AND CASH EQUIVALENTS	11(b)	(4,190,863)	22,197,422

# CAPITAL MARKETS AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 1998

### 1 ACCOUNTING POLICIES

#### (a) BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost basis, modified to include the revaluation of certain fixed assets.

#### (b) GOVERNMENT GRANTS

Government grants are accounted for when received.

#### (c) FEES, INTEREST AND OTHER INCOME

Fees, interest and other income are accounted for on the accruals basis.

#### (d) DEPRECIATION

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives at the following rates:

Furniture and fittings	12.5%
Equipment	20%
Motor vehicles	25%

	1998 Sh	1997 Sh
<b>2 FEE INCOME</b>		
NSE - Transaction fees	14,341,604	16,073,958
Application and licensing fees - current year	4,989,500	4,619,774
- prior year	-	(185,000)
Capitalisation, rights and new issues fees	21,347,080	14,169,818
	<u>40,678,184</u>	<u>34,678,550</u>
	=====	=====
<b>3 EXPENDITURE</b>		
Personnel costs	32,527,328	18,653,722
Medical Scheme and Insurance expenses	1,934,599	2,206,170
Motor vehicle running expenses	1,092,074	658,030
Training and conferences	11,173,730	6,576,095
Telephone and postage	1,764,356	1,053,553
Entertainment and public relations	1,624,368	1,551,024
Subscriptions	1,117,876	1,385,613
Authority members allowances	1,174,626	923,329
Utilities	842,422	691,895
Public Education, printing and stationery	4,862,907	3,013,181
Staff uniforms	212,384	139,677
Rent	10,034,534	9,113,355
Professional and Market Development Services	1,550,328	5,556,908
Computer and equipment operating expenses	1,509,184	1,432,375
Audit fees - current year	210,000	110,200
- prior year	32,866	40,000
Depreciation expense	4,894,385	4,866,304
	<u>76,557,967</u>	<u>57,971,431</u>
	=====	=====

CAPITAL MARKETS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FIXED ASSETS

	Motor vehicles Sh	Office equipment Sh	Furniture and fittings Sh	Total Sh
<b>COST</b>				
At 1 July 1997	6,572,972	8,609,666	14,149,777	29,332,415
Additions at cost	-	442,197	68,904	511,101
Deficit on revaluation	(153,235)	-	-	(153,235)
As at 30 June 1998	6,419,737	9,051,863	14,218,681	29,690,281
<b>COMPRISING:</b>				
At cost	4,420,737	9,051,863	14,218,681	27,691,281
1996 valuation	1,624,000	-	-	1,624,000
1998 valuation	375,000	-	-	375,000
At 30 June 1998	6,419,737	9,051,863	14,218,681	29,690,281
<b>DEPRECIATION</b>				
At 1 July 1997	2,490,062	4,431,160	8,599,698	15,520,920
Charge for the year	1,601,700	1,511,042	1,781,643	4,894,385
Eliminated on revaluation	(528,235)	-	-	(528,235)
As at 30 June 1998	3,563,527	5,942,202	10,381,341	19,887,070
<b>NET BOOK VALUE</b>				
At 30 June 1998	2,856,210	3,109,661	3,837,340	9,803,211
At 30 June 1997	4,082,910	4,178,506	5,550,079	13,811,495

One motor vehicle was revalued on 26 June 1998 by the Automobile Association of Kenya.

CAPITAL MARKETS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	1998	1997
	Sh	Sh
5 DEBTORS		
Staff car loan - short term	748,536	788,946
Transaction fees receivable	2,690,245	2,588,029
Interest receivable	341,026	1,271,245
Prepayments	-	455,000
Licence fees receivable	200,000	200,000
Staff advances	1,762,945	559,474
Staff insurance advances	36,954	90,657
Sundry debtors	114,500	225,785
Fees receivable on treasury bonds issues	1,500,000	-
Other fees receivable	1,012,654	-
IOSCO 98 conference prepaid expenses	835,273	-
	<u>9,242,133</u>	<u>6,179,136</u>
	=====	=====
6 STAFF HOUSING LOAN FUND BANK BALANCE		
This represents the amount deposited as security with Savings and Loans (K) Limited for staff mortgage scheme which was established in 1996.		
	1998	1997
	Sh	Sh
7 CREDITORS		
Office rent payable	5,501,706	2,073,895
Professional fees	-	3,163,500
Sundry creditors	278,308	711,614
Audit fees	250,000	150,200
Statutory deductions	851,394	-
IOSCO 98 conference receipts	1,061,052	-
	<u>7,942,460</u>	<u>6,099,209</u>
	=====	=====

# CAPITAL MARKETS AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 8 INVESTORS' COMPENSATION FUND

Under Section 18 of Capital Markets Authority Act, Cap 485A, the authority is required to maintain a Fund to be known as the Investor 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) 35% of the interest accruing on funds received from subscribers to public issues, between the day of closing the issue and making of the refunds.
- (ii) 0.01% of the consideration from sale and purchase of shares through the Nairobi Stock Exchange.
- (iii) Interest earned from investment of the funds

The authority charges the fund management fees as follows:

The fees are charged at the rate of 6% of the Fund balance at the end of the each financial year subject to a minimum of Ksh 600,000 and a maximum of Ksh 800,000 per year.

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

Sh

New shares issued	163,918
Nairobi Stock Exchange transactions fees	947,848
Interest on investments	1,020,290
Management fees charged for three years to 30 June 1998	(2,160,000)
	<hr/>
	(27,944)
	<hr/> <hr/>

	1998 Sh	1997 Sh
9 CAPITAL FUND		
At 1 July	29,509,508	29,509,508
Deficit on revaluation	(153,235)	-
Depreciation written back on revaluation of assets	528,235	-
	<hr/>	<hr/>
At 30 June	29,884,508	29,509,508
	<hr/> <hr/>	<hr/> <hr/>
10 GENERAL FUND		
At 1 July	17,732,663	8,179,030
(Deficit)/surplus for the year	(8,237,175)	9,553,633
	<hr/>	<hr/>
At 30 June	9,495,488	17,732,663
	<hr/> <hr/>	<hr/> <hr/>

CAPITAL MARKETS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

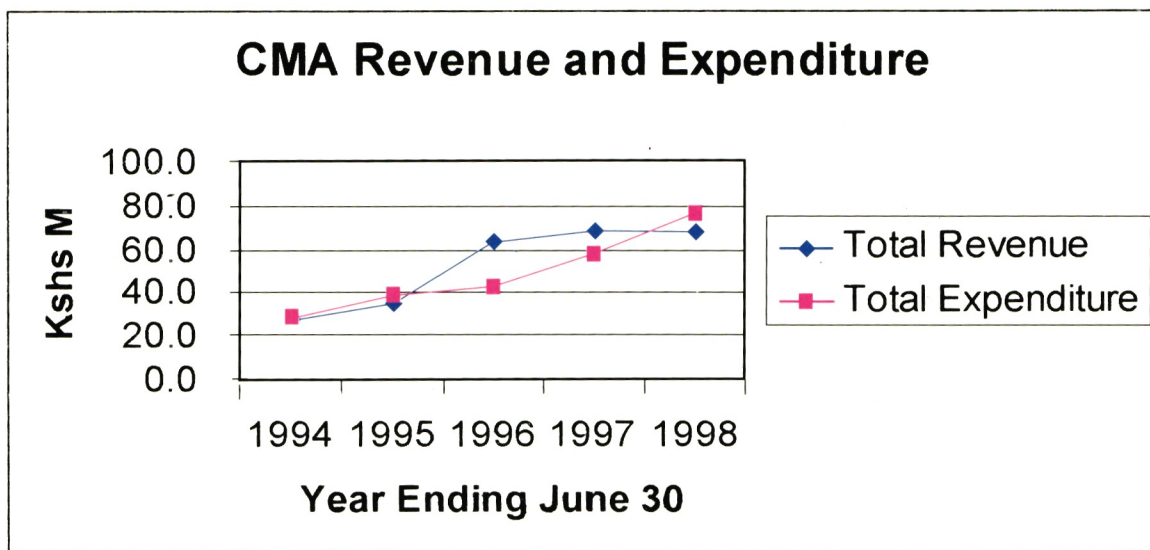
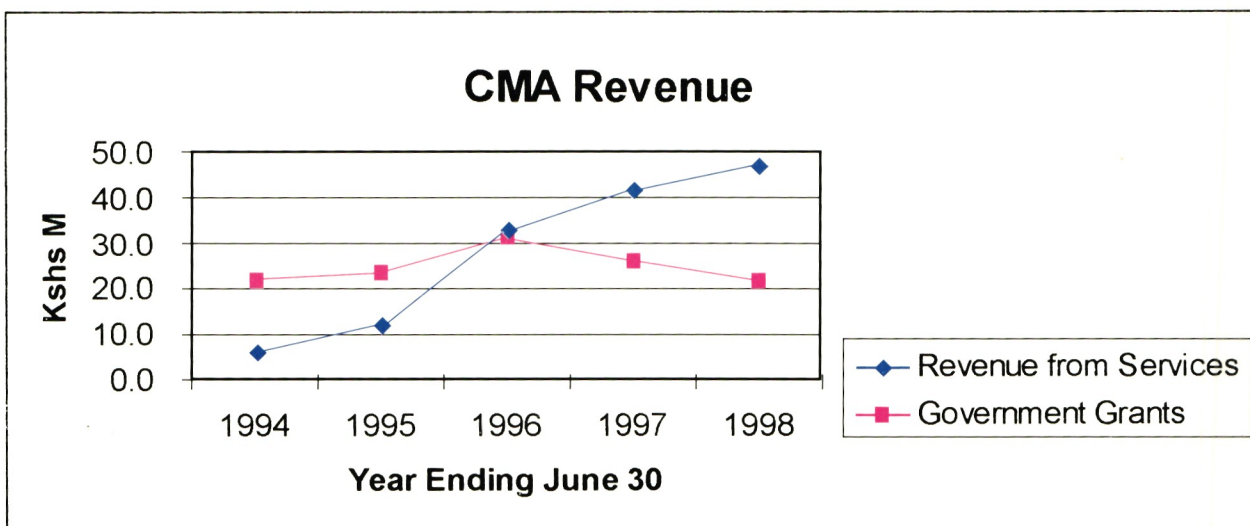
		1998	1997	
		Sh	Sh	
11	NOTES TO THE CASH FLOW STATEMENT			
(a)	Reconciliation of operating surplus to net cash (outflow)/inflow from operating activities			
	Operating (deficit)/surplus	(8,237,175)	9,553,633	
	Depreciation	4,894,385	4,866,304	
	Increase in debtors	(3,993,216)	(896,737)	
	Increase in creditors	1,843,251	1,885,212	
	(Decrease)/increase in investors compensation fund	(27,944)	10,115,688	
	Increase in staff benevolent fund	187,200	48,352	
	Interest receivable	(3,957,452)	(5,773,175)	
	(Decrease)/increase in staff loans	723,518	(908,950)	
		<u>                    </u>	<u>                    </u>	
	Net cash (outflow)/inflow from operating activities	<u>(8,567,433)</u>	<u>18,890,327</u>	
(b)	Analysis of cash and cash equivalents			
		1998	1997	Movement
		Sh	Sh	Sh
	Bank and cash balances	1,379,601	3,079,071	(1,699,470)
	Staff house loan fund bank balances	12,850,000	7,850,000	5,000,000
	Staff benevolent fund bank balance	531,552	344,352	187,200
	Investors compensation fund bank balance	13,603,130	12,748,168	854,962
	Fixed deposits	<u>12,000,000</u>	<u>20,533,555</u>	<u>(8,533,555)</u>
				<u>(4,190,863)</u>

**CMA UNAUDITED INCOME AND EXPENDITURE ACCOUNT FOR SIX MONTHS TO DECEMBER 31, 1998**

	1998 Kshs	1997 Kshs
FEES INCOME	23,324,613.00	17,339,275.00
INTEREST INCOME	2,875,664.00	2,886,587.50
	-----	-----
TOTAL INCOME FROM SERVICES	26,200,277.00	20,835,542.00
EXPENDITURE	27,276,649.00	28,985,715.50
	-----	-----
GROSS DEFICIT FROM SERVICES	(1,076,372.00)	(8,150,173.50)
GOVERNMENT GRANTS	7,976,250.00	12,926,990.00
	-----	-----
SURPLUS (DEFICIT) FOR THE PERIOD	6,899,878.00	4,776,816.50
	=====	=====

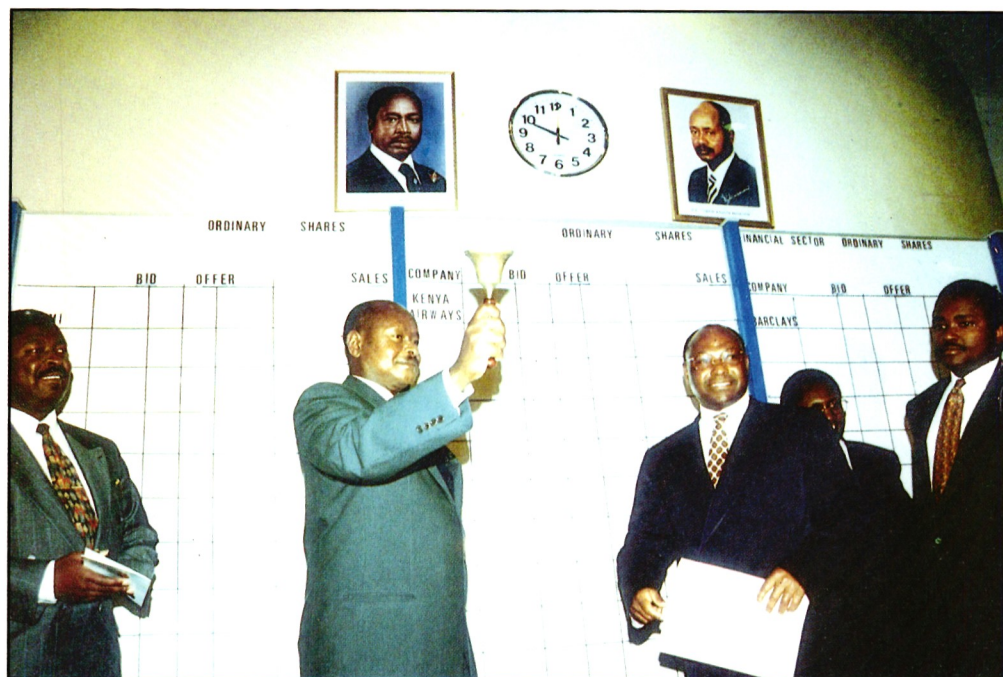
**Summary of Revenues and Expenditure (Kshs M): 1993/94 – 1997/98**

	1993/94	1994/95	1995/96	1996/97	1997/98
Revenue from Services	5.7	11.8	32.6	41.7	47.0
Govt. Grants	21.7	23.3	31.1	25.9	21.3
Total Revenues	27.4	35.1	63.7	67.6	68.3
Total Expenditure	28.4	38.3	42.0	58.0	76.6





*H.E. President Moi visited the Nairobi Stock Exchange on January 15, 1998. The President underscored the Government's continued support and the important role of the financial markets in the Kenyan economy.*



*H.E. President Y Museveni of Uganda rings the bell to commence trading at the NSE on his visit to the bourse on July 18, 1996. The visit symbolised the increasing profile of the NSE as a regional market.*



*The US Commerce Secretary, Mr William Daley, the CMA Chief Executive, and the United States Ambassador, Prudence Bushnell after the US envoy addressed financial market regulators during the 1998 IOSCO Annual Conference in Nairobi.*



*East African Securities Authorities (EASRA) holds a consultative meeting on strategies and modalities towards building an integrated regional capital market. The meeting was opened officially by Ambassador Francis Muthaura, Secretary to the East African Co-operation Secretariat (seated centre)*

## LIST OF LICENSED MARKET OPERATORS

### STOCK EXCHANGES

1. **Nairobi Stock Exchange**  
Nation Centre  
Kimathi Street  
P O Box 43633  
Nairobi  
Tel: 230692  
Fax: 224200

### STOCKBROKERS

- |   |  |
|---|--|
| 1. <b>Ashbhu Securities Limited</b><br>Ambank House, 21st floor<br>P O Box 41684<br>NAIROBI<br>Tel: 210178/211088<br>Fax: 210500    | 2. <b>Crossfield Securities Ltd</b><br>Vedic House, 2 <sup>nd</sup> floor<br>Mama Ngina Street<br>P O Box 34137<br>NAIROBI<br>Tel: 246036<br>Fax: 245971 |
| 3. <b>Discount Securities Ltd</b><br>Phoenix House<br>PO Box 57746<br>NAIROBI<br>Tel: 219538/244468<br>Fax: 336553                  | 4. <b>Dyer &amp; Blair Ltd</b><br>Reinsurance Plaza<br>P O Box 45396<br>NAIROBI<br>Tel: 227803<br>Fax: 218633  |
| 5. <b>Equity Stockbrokers Ltd</b><br>Queensway House<br>PO Box 47198<br>NAIROBI<br>Tel: 221452<br>Fax: 221672                       | 6. <b>Faida Securities Ltd</b><br>Union Towers, Moi Avenue<br>P O Box 40100<br>NAIROBI<br>Tel: 243811/2/3<br>Fax: 243814                                 |
| 7. <b>Francis Drummond &amp; Co. Ltd</b><br>Queensway House, Kaunda Street<br>PO Box 45465<br>NAIROBI<br>Tel: 334533<br>Fax: 223061 | 8. <b>Francis Thuo &amp; Partners Ltd</b><br>International House<br>P O Box 46524<br>NAIROBI<br>Tel: 226531<br>Fax: 228498                               |
| 9. <b>Hak Securities Ltd</b><br>Rehani House<br>PO Box 678<br>NAIROBI<br>Tel: 331891/220517<br>Fax: 215554                          | 10. <b>Kenya Wide Securities Ltd</b><br>Kimathi House<br>P O Box 43858<br>NAIROBI<br>Tel: 251001/2<br>Fax: 246197  |

- |   |  |
|---|--|
| <p>11. <b>Kestrel Capital (EA) Ltd</b><br/>Hughes Building, 7th Floor<br/>Kenyatta Ave./Muindi Mbingu St.<br/>PO Box 40005<br/>NAIROBI<br/>Tel: 251815/251893<br/>Fax: 243264</p> | <p>12. <b>Ngenye Kariuki &amp; Co Ltd</b><br/>Travel (UTC) House<br/>P O Box 12185<br/>NAIROBI<br/>Tel: 224333/220052<br/>Fax: 217199</p>                |
| <p>13. <b>Nyaga Stockbrokers Ltd</b><br/>IPS Building, Kimathi Street<br/>PO Box 41868<br/>NAIROBI<br/>Tel: 332783/4<br/>Fax 332785</p>   | <p>14. <b>Reliable Securities Ltd</b><br/>Eagle House<br/>P O Box 50338<br/>NAIROBI<br/>Tel: 241350/54/79<br/>Fax: 241392</p>                            |
| <p>15. <b>Shah Munge &amp; Partners Ltd</b><br/>Nation Centre<br/>PO Box 14686<br/>NAIROBI<br/>Tel: 227300/230672<br/>Fax: 213024</p>   | <p>16. <b>Solid Investment Securities Ltd</b><br/>20<sup>th</sup> Century Plaza<br/>P O Box 63046<br/>NAIROBI<br/>Tel: 244228/244272<br/>Fax: 244228</p> |
| <p>17. <b>Standard Stocks Ltd</b><br/>Hazina Towers<br/>PO Box 13714<br/>NAIROBI<br/>Tel: 220225<br/>Fax 240297</p>   | <p>18. <b>Sterling Securities Ltd</b><br/>Bruce House, 14<sup>th</sup> Floor<br/>P O Box 45213<br/>NAIROBI<br/>Tel: 211751<br/>Fax: 211843</p>           |
| <p>19. <b>Suntra Stocks Ltd</b><br/>Commonwealth House, Moi Avenue<br/>PO Box 74016<br/>NAIROBI<br/>Tel: 337220/223294<br/>Fax: 224327</p>  | <p>20. <b>Town &amp; Country Securities Ltd</b><br/>Hazina Towers<br/>P O Box 22512<br/>NAIROBI<br/>Tel: 244739<br/>Fax: 240706</p>                      |

## INVESTMENT ADVISERS

- |   |   |
|---|---|
| <p>1. <b>Alico Assets Management Limited</b><br/>Alico House, 8<sup>th</sup> Floor<br/>Mamlaka Road<br/>P O Box 30364<br/>NAIROBI<br/>Tel: 711242<br/>Fax: 723146</p> | <p>2. <b>Amicable Investments Ltd Embassy House</b><br/>P O Box 44033<br/>NAIROBI<br/>Tel: 243001<br/>Fax: 243055</p>         |
| <p>3. <b>Barclaytrust Investments Services Ltd</b><br/>Barclays Plaza<br/>Loita Street<br/>NAIROBI<br/>Tel: 332230<br/>Fax: 218207</p>                                | <p>4. <b>Bridges Capital Ltd</b><br/>No.209/362 Lenana Road<br/>P O Box 62341<br/>NAIROBI<br/>Tel: 714372<br/>Fax: 714657</p> |

5. **CBA Capital Limited**  
Commercial Bank Building, 5th Floor  
P O Box 30437  
NAIROBI  
Tel: 228881  
Fax: 335827
6. **Venture Capital Inv. Management Limited**  
Corner House  
Mama Ngina Street  
P O Box 62213  
NAIROBI  
Tel: 222550/1  
Fax: 222553
7. **Citibank, NA.**  
Citibank House  
Upper Hill Road  
P O Box 30711  
NAIROBI  
Tel: 711211  
Fax: 714811
8. **Dry Associates Limited**  
Old Mutual Building, 4<sup>th</sup> Floor  
Kimathi Street  
P O Box 20541  
NAIROBI  
Tel: 227948  
Fax: 227966
9. **Genesis (K) Inv. Management Ltd**  
Lonrho House  
P O Box 79217  
NAIROBI  
Tel: 251012  
Fax: 250716
10. **Merchant Bank of Kenya**  
View Park Towers, 7<sup>th</sup> Floor  
NAIROBI  
Tel: 248912/243315/242669  
Fax: 244203
11. **Loita Assets Management Ltd**  
Ambank House  
University Way  
P O Box 39466  
NAIROBI  
Tel 219015/219033  
Fax: 218992
12. **Meghraj Investment**  
Investment Services (K) Ltd  
Fuji Plaza  
P O Box 66290  
NAIROBI  
Tel: 440148/440372  
Fax: 447189
13. **Natbank Investments Services Ltd**  
Nat. Bank Building  
Harambee Avenue  
P O Box 72866  
NAIROBI  
Tel: 339690/226471  
Fax: 330784
14. **Endeavour Securities Ltd**  
NSSF Building, Eastern Wing  
Block A, 12<sup>th</sup> Floor  
P O Box 62420  
NAIROBI  
Tel: 720848  
Fax: 721425
15. **Co-operative Merchant Bank Ltd**  
International Life House  
Mama Ngina Street  
P O BOX 48231  
NAIROBI  
Tel 228711/3; 228090  
Fax 219821
16. **Stanbic Investment Management Services (East Africa) Limited**  
Stanbic Building  
Kenyatta Avenue  
P O Box 30550  
NAIROBI  
Tel: 335888  
Fax: 330227
17. **AIG Global Investment Company (East Africa) Limited**  
2nd Floor, ICEA Building  
Kenyatta Avenue  
P O Box 40034,  
NAIROBI  
Tel 227803  
Fax 218633
18. **Kenya Capital Partners Ltd Norfolk Towers**  
Kijabe Street  
P O Box 43233  
NAIROBI  
Tel: 228870/337828  
Fax: 330120/219744
19. **Old Mutual Assets**  
Old Mutual Building  
Kimathi Street  
P O Box 30059  
NAIROBI  
Tel: 221187/8  
Fax: 340718
20. **ABN AMRO Inv. Services Limited**  
ABN AMRO Building  
Nyerere Road  
P O Box 30262  
NAIROBI  
Tel: 710455/6  
Fax: 713391

## AUTHORISED DEPOSITORIES

1. **National Bank of Kenya Ltd**  
National Bank Building  
Harambee Avenue  
P O BOX 72866  
NAIROBI  
Tel: 339690/226471  
Fax: 330784
  
2. **Stanbic Bank of Kenya Ltd**  
Stanbic Building  
Kenyatta Avenue  
P O BOX 30550  
NAIROBI  
Tel: 335888  
Fax: 330227
  
3. **Barclays Bank of Kenya**  
Barclays Plaza  
Loita Street  
P O BOX 30120  
NAIROBI  
Tel: 332230/220688  
Fax: 213915
  
4. **Kenya Commercial Bank Ltd**  
Kencom House  
Moi Avenue  
P O BOX 52290  
NAIROBI  
Tel: 339441  
Fax: 336422
  
5. **Barclaytrust Investments Services Ltd**  
Barclays Plaza  
Loita Street  
NAIROBI  
Tel: 332230  
Fax: 218207

**LIST OF CMA ENABLING AND SUBSIDIARY LEGISLATION (ACT, RULES AND REGULATIONS)**

1. The Capital Markets Authority Act Chapter 485A Laws of Kenya
2. Capital Markets Authority (Amendment) Act 1994 Kenya Gazette Supplement No 4 on January 27, 1995.
3. The Capital Markets Authority Regulations 1992, Legislative Supplement Legal Notice No 428 dated 4th December 1992;
4. The Capital Markets Authority Rules, 1992, Legislative Supplement No 69, Legal Notice No 429 dated 4th December, 1992;
5. The Capital Markets Authority (Amendment) Regulations, 1994, Legislative Supplement No 35, Legal Notice No 233 dated 22nd July, 1994;
6. The Capital Markets Authority (Amendment) Rules, 1994, Legislative Supplement No 35 Legal Notice No 232 dated 22nd July, 1994;
7. The Capital Markets Authority (Amendment) Regulations 1995, Legislative Supplement No 28 Legal Notice No 212 dated 15th June, 1995;
8. The Capital Markets Authority (Foreign Investors) (No 2) Regulations 1995, Legislative Supplement, No 39, Legal Notice No 291 dated 24th August, 1995;
9. The Capital Markets Authority (Amendment) Rules, 1996 Legislative Supplement No 40, Legal Notice No 286 dated 13th September, 1996.

