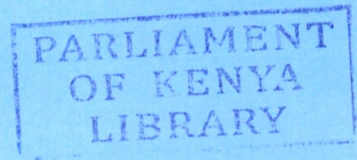


REPUBLIC OF KENYA



Enhancing Accountability



REPORT

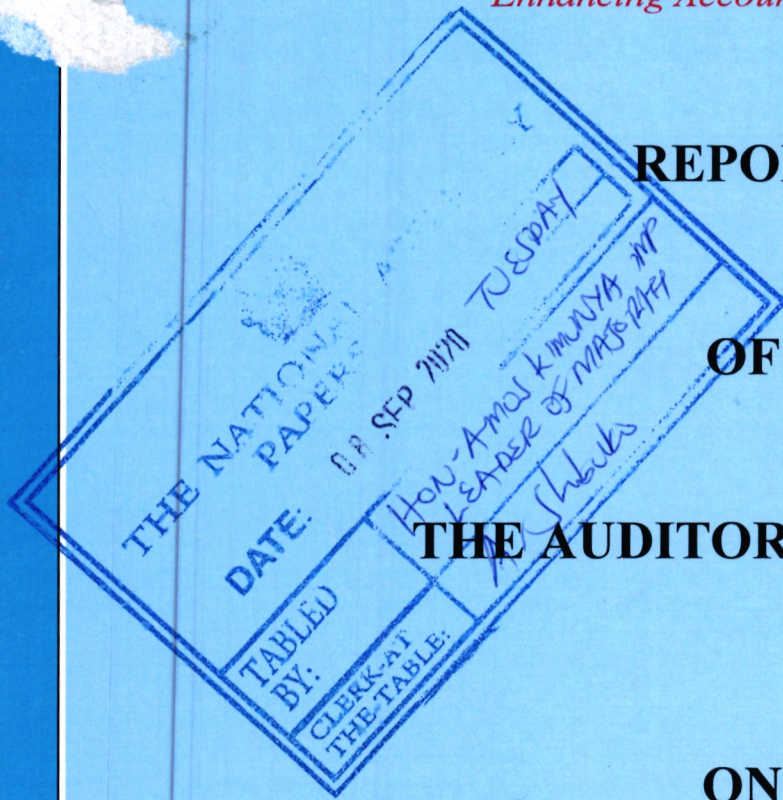
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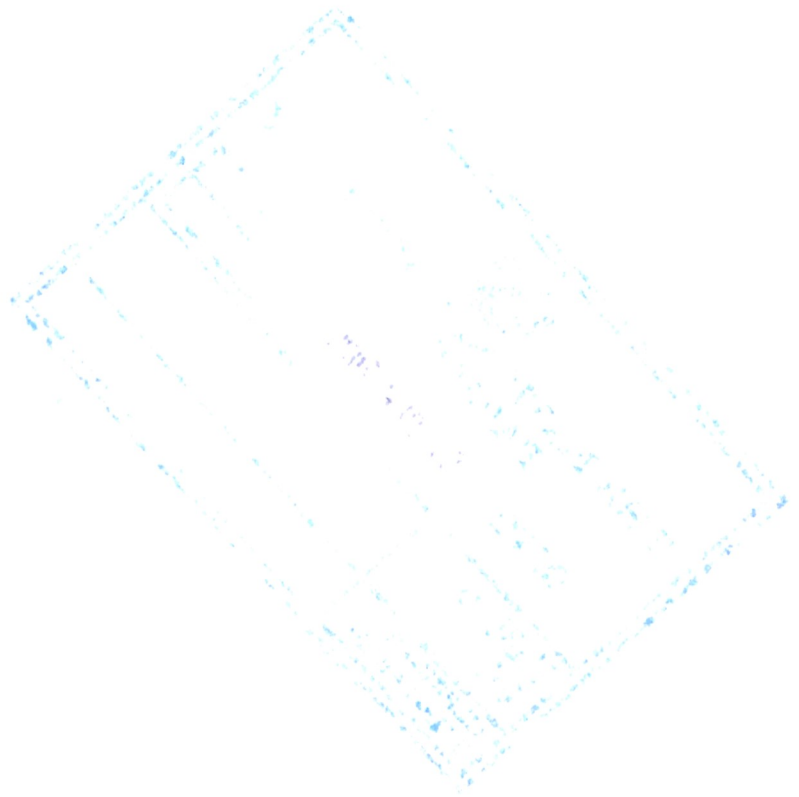
THE AUDITOR-GENERAL

ON

CAPITAL MARKETS AUTHORITY

**FOR THE YEAR ENDED
30 JUNE, 2019**

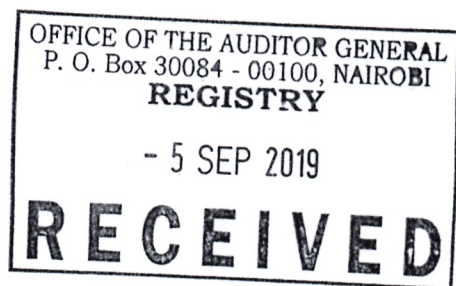




CAPITAL MARKETS AUTHORITY

DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2019



Capital Markets Authority
Annual report and financial statements
For the year ended 30th June 2019

CONTENTS	PAGE
Authority Information	1 - 6
Chairman's Statement	7 - 10
Report of the Chief Executive Officer	11 - 13
Corporate Governance Statement	14- 17
Corporate Social Responsibility Statement	18
Board Committee Meetings Attendance	19-20
Report of the Board Members of the Authority	21
Statement of the Board Members responsibilities	22-23
Management Discussion and Analysis	24-25
Report of the Auditor General of the Authority	26-27
Financial statements:	
Statement of financial performance	28
Statement of financial position	29-31
Statement of changes in net assets	32
Statement of cash flows	33-35
Statement of comparison of budget and actual amounts	36-37
Notes	38-56
Supplementary information:	
Schedule of progress on follow up of Auditor recommendations	Appendix I
Projects Implemented, Inter -Entity Transfers & Transfers from Other Government Entities	Appendix 1, 2 & 3

Capital Markets Authority
Authority Information
For the year ended 30th June 2019

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

Capital Markets Authority
Authority Information (continued)
For the year ended 30th June 2019

Principal legal adviser (continued)

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

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

**Capital Markets Authority
Authority Information
For the year ended 30th June 2019**

Background information

Capital Markets Authority (the 'Authority') is a body corporate established under the Capital Markets Authority Act, 1989. The Act was amended in 2000 and renamed as Capital Markets Act.

Principal activities

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

Board Members of the Authority

Name	Date of Birth	
Mr. James Ndegwa	24 th June, 1964	Chairman
Mr. Paul. M. Muthaura	27 th April, 1978	Chief Executive
Dr. Kamau Thugge, EBS	1 st August, 1957	Principal Secretary to the National Treasury
Dr. Geoffrey Mwau	11 th November, 1957	Alternate to the Cabinet Secretary, The National Treasury
Mr. Paul Kihara Kariuki	11 th May, 1954	Attorney General
Mr. Nevis Ombasa	24 th October, 1980	Alternate to the Attorney General
Dr. Patrick Njoroge	2 nd December, 1961	Governor Central Bank of Kenya
Mr. William Nyagaka	22 nd February, 1965	Alternate to Governor, Central Bank of Kenya
Mr. Paul Ngugi	13 th July, 1952	Member(Term ended 30 May 2019)
Mr. Moibi Mose	18 th June, 1974	Member
Ms. Christine Okoth	26 th May, 1975	Member
Dr. Thomas Kibua	20 th August, 1948	Member
Mr. John Birech	10 th May, 1958	Member
Dr. Freshia Mugo Waweru	31 st October 1980	Member
Mr. Peter Mungai	9th July 1983	Member (Appointed on 3 May 2019)

Capital Markets Authority
Authority Information (continued)
For the year ended 30th June 2019

Management team

Paul Muriithi Muthaura

Position
 Date joined the Authority
 Profession
 Key qualifications

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



Wyckliffe Shamiah

Position
 Date joined the Authority
 Profession
 Key qualifications

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



Edwin Nyaga Njamura

Position
 Date joined the Authority
 Profession
 Key qualifications

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



Luke Evans Ombara

Position
 Date joined the Authority
 Profession
 Key qualifications

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



Esther J. Maiyo

Position
 Date joined the Authority
 Profession
 Key qualifications

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



Daniel Ngenga Warutere

Position
 Date joined the Authority
 Profession
 Key qualifications

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



Samuel Kamunyu Njoroge

Position
 Date joined the Authority
 Profession
 Key qualifications

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



Capital Markets Authority
Authority Information (continued)
For the year ended 30th June 2019

Management team

Hellen Ombati

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



Andrew Muthabuku

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



Richard Chirchir

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



John Njoroge

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



Matthew Mukisu

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



James Kivuva

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



Mary Njuguna

Position Resigned on October 5, 2018
 Date joined the Authority December 15, 2009
 Profession Advocate of the High Court of Kenya
 Key qualifications MSC, LLB, Dip-French, CPS(K)



Willyson Nyale

Position Ag. Manager, Corporate Approvals
 Date joined the Authority December 15, 2005
 Profession Accountant
 Key qualifications MBA, BCOM, CPA(K), CPS(K)



Abubakar Hassan

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



Capital Markets Authority
Authority Information (continued)
For the year ended 30th June 2019

Key

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

Global economy

The global economy is experiencing a broad-based growth slowdown, reinforcing projections in the World Economic Situation and Prospects (WESP) 2019 that the current growth cycle has peaked. In tandem with slowing industrial production, international trade activity has visibly weakened, magnified by the unresolved trade disputes between the United States of America and China. Economic sentiment and business confidence indicators have also deteriorated, amid persistent uncertainty in the international policy environment. In many developed and developing countries, the moderation in Gross Domestic Product (GDP) growth has been more pronounced than expected, as some risks to economic activity materialized. Slackening economic activity and low inflationary pressures have prompted shifts in the monetary policy stances of major central banks. While looser monetary conditions have contributed to some stabilization in global financial markets and capital flows, the world economy continues to face considerable downside risks arising from persistent trade tensions, a shutdown of British manufacturing operations in Europe and relocation of financial services out of the United Kingdom following uncertainty over Brexit, build-up of financial imbalances, and intensifying climate change. Against this backdrop, world GDP is now expected to moderate from 3.0 per cent in 2018 to 2.7 per cent in 2019 and 2.9 per cent in 2020, reflecting a downward revision from WESP 2019 forecasts released in January 2019¹

We however see great opportunity for Kenya with these developments. For instance as the United Kingdom's political transition crystallizes, this will most likely lead to the renegotiation of trade deals linked to the European Union (EU). The deals include the Economic Partnership Agreements, under which developing countries such as Kenya are to be allowed duty free exports of tea and flowers into the EU and in turn let in manufactured goods. As the Board of the Authority we will advocate for inclusion of capital market investments in the new trade deal once the negotiations commence as well as engaging relevant stakeholders to establish the progress of the dual-listing on London Stock Exchange (LSE) and Nairobi Securities Exchange (NSE) of the Kenya Upstream Oil Company which targets to raise \$1 billion through a sale of shares in an initial public offering. We envisage similar opportunities amidst the US-China trade tensions

Africa and the East African Community Region

The economic outlook for Africa remains challenging. While growth is estimated to pick up, the region faces difficulties in embarking on a robust and sustained growth trajectory, amid a global slowdown, tepid commodity prices and protracted fragilities in many commodity exporters. Aggregate GDP growth is projected at 3.2 per cent in 2019 and 3.7 per cent in 2020, after an estimated expansion of only 2.7 per cent in 2018. Inflation prospects are improving, due to strong agricultural and food production and stable exchange rates in most economies. But growth rates are insufficient to absorb a fast-growing labour force.

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

On the capital markets front, the Authority continued to work closely with the East African Securities Regulators. On 13th July 2018, EASRA members adopted a regional framework for fit and proper assessments of market practitioners. This is to ensure that only operators meeting the highest ethical standards operate regionally. The Authority also granted approval for the cross-listing by introduction of Bank of Kigali Group Plc (BK), a holding company of Bank of Kigali Plc, BK Insurance, BK Capital and BKTechHouse on the Nairobi Securities Exchange (NSE). This marked the cross-listing of the first Rwandese Company on the Bourse.

Securities regulators in Africa and Middle East under the chairmanship of Mr. Paul Muthaura, the Authority's Chief Executive, approved a joint project with Financial Sector Deepening Africa (FSDA) to develop strategies to increase listings and the uptake of capital markets products in the region. During the 42nd Meeting of the Africa Middle East Regional Committee (AMERC) of the International Organisation of Securities Commissions (IOSCO) the members agreed that promoting additional listings was key to tackling market liquidity challenges faced in multiple markets as well as reinforcing the central role of securities markets to support sustainable economic growth through increased market-based financing.

¹ World Economic Situation and Prospects as of mid-2019

Domestic Performance and National Outlook

Kenya's economy expanded by between 5.6% and 6% during the period under review as inflation rates and currency rates remained stable. However there was a slowdown in agricultural production, one of Kenya's economic mainstays, following delay in the onset of long rains. While manufacturing and construction grew by 3.2 per cent and 6.6 per cent respectively other sectors experienced a contraction amid the continued monetary tightening instigated by high borrowing rates. We welcome Government's proposal to remove the interest rate cap during the Budget reading in June 2019 as it will pave way for the extension of credit to the private sector. Further the move by Government towards operationalizing the Kenya Mortgage Refinance Company and the Credit Guarantee Fund is an important statement of intent to implement the "Big 4" Agenda

I would further wish to laud the unveiling of new generation banknotes as a key national policy measure towards curbing fraud and money laundering following the pronouncement by Government that the Kshs. 1000 note will cease to be legal tender by October 2019. My Board is alert to the possibility that in a rush to meet the deadline for use of the old notes, the Capital Markets could be susceptible to money laundering attempts and will continue to engage with market intermediaries such as stockbrokers, investment banks and fund managers to step up their Know Your Client (KYC) and customer due diligence process during onboarding and execution of instructions in line with the regulatory guidelines on Anti Money laundering & Combatting the Financing of Terror (AML & CFT). The surveillance teams both at the NSE and CMA will heighten their monitoring of transactions to pick up any alerts that require further analysis and/or investigations

We will continue to advocate for enhanced intra-African trade following the coming into force of the African Continental Free Trade Agreement (AfCFTA) on May 31st 2019, clearing a key procedural hurdle following ratification by the Parliaments of 24 countries. The now unified market is expected to be launched in July 2019 and its successful implementation portends a continent with a combined consumer and business spending capacity of \$6.7 trillion in 2030, making Africa home to the world's largest free trade area since the establishment of the World Trade Organization (WTO).

Strategic Influence

Driven by our Mission of making Kenya's capital market the premier choice for investors and issuers through robust regulation, supporting innovation and enhanced investor protection, we strive to be strategic and responsive in the faces of challenges as they arise. True to our resolve to enhance our strategic influence, we signed new cooperation arrangements domestically and internationally, while implementing already existing partnership agreements in the year.

On January 30th 2019, the Capital Markets Authority was admitted to the Global Financial Innovation Network (GFIN), a move to support the transformation of the capital markets in Kenya through nurturing innovation. This buttresses the Authority's efforts to support innovation in the capital markets, noting the important role of financial technology (Fintech) as a key enabler of performance excellence under the 10-year Kenya Capital Market Masterplan, 2014-2023.

During the year, Memoranda of Understanding (MoUs) were also signed with the Kenya Bankers Association (KBA) as well the Kenya Association of Manufacturers on areas such as joint research and policy formulation as well as product uptake, while another was initiated with the Kenya Private Sector Alliance (KEPSA). The Authority further leveraged its IOSCO networks to lead delegations comprising its senior staff as well as representatives of the National Treasury and Planning, the Central Bank of Kenya (CBK), the Nairobi Securities Exchange (NSE) and the Central Depository and Settlement Corporation (CDSC) to Brazil and India during the period under review as we moved towards operationalizing Securities Lending and Borrowing and Short Selling in Kenya following the gazettelement of Regulations.

Other Achievements

In line with the Marrakech Pledge which calls for an increase in the volume, flow and access to finance for climate projects, alongside improved capacity and technology from developed to developing countries, the Authority launched the framework for issuance of listed and unlisted green bonds on 20th February 2019. It is expected that over the next five years and beyond, green instruments will play an important but niche role in driving the growth of Kenya's capital markets. Mobilizing domestic resources and international capital flows earmarked exclusively for environmentally beneficial investments will support the country's transition to a sustainable economy. Additionally, this will enable investors balance financial returns with environmental benefits whilst hedging against climate risk.

Investor Protection

The Board stewarded the successful investigation of malpractices in the market resulting to surrender of potentially illegal gains amounting to over Ksh483 million from the investigations into insider trading on Kenol-Kobil during the period under review. A further Kshs 19 million was recovered through No Contest Settlement Agreements while two prominent individuals were banned from transacting in the capital markets. Financial penalties of twice the amount of benefit received from irregular trading by two fixed income securities traders were imposed as we adopted a more focused and proactive approach to fraud prevention as well as enhanced regulatory framework to provide for more enforcement powers by the Authority.

With the introduction of the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (the Code), the Authority published the first Corporate Governance Scorecard. The issuers weighted overall score in the application of the Code was 55%. In comparison, with the ASEAN Corporate Governance Scorecard Country Reports and Assessments 2014 which indicated that Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam scored 43.29%, 62.29%, 48.90%, 55.67%, 67.66% and 28.42% respectively, this was therefore a fair status.

In view of the critical contribution to confidence in capital markets made by sound financial reporting, we shall work with relevant stakeholders to ensure that existing arrangements on sound financial reporting remain as effective as possible. The Authority will also adopt new supervisory approaches including encouraging adoption of Regulatory & Supervisory Technology (RegTech and SupTech) even as we continue strengthening our capacity to pursue actions for serious misconduct and accelerating enforcement initiatives through greater use of collaboration with the market and peer regulators

Additionally, following the success of the Securities Industry Certification Program, the Authority in collaboration with the Chartered Institute for Securities & Investment (CISI) and the Institute of Certified Investment & Financial Analysis (ICIFA) will finalize a Continuous Development Program (CPD) for industry Practitioners in the coming financial year, in an effort towards further ensuring that professional standards in our markets are constantly in harmony with global standards and evolving domestic trends.

Regulatory responsiveness

The Authority in conjunction with industry continues to implement the 10 year Master Plan through our Strategic Plan 2018-2023 launched in July 2018 which serves as a strategic guide to position Kenya's Capital Market as the premier choice for investors and issuers through robust regulation, supportive innovation and enhanced investor protection. The Plan provides a blueprint for the Authority to align its resources to best meet the demands of a more connected, digital and sophisticated capital market in the country.

Furthermore, the Authority's five year Strategic Plan envisaged a new organisation structure and enhanced resources aligned to the strategic direction of the Authority. We believe that expedient approvals will greatly help in meeting our overall mandates of regulation and market development. The implementation of this new structure will also introduce a paradigm shift in the manner the Authority approaches data analytics and optimizes the use of technology for effective decision making.

To drive forward our regulatory transformation, the Authority has established a Financial Markets Law Review Panel. In selecting appointees, careful consideration was given to key attributes such as: diversity, technical and professional competence, scope of achievement, engagement with innovation, leadership, independence and integrity. The appointees embody expertise in capital markets law, commercial law, tax law, venture capital or private equity, Islamic finance, legislative drafting, domestic and regional investment banking and financial market operations expertise. The Financial Law Review Panel will act as an independent committee of the board to deepen our capacity for early identification of potential legislative gaps or challenges that could affect the functioning of the capital markets including ancillary legislation, and propose legal and regulatory reforms. The Panel will facilitate effective mitigation against the risk of new legislation failing to meet its purpose and ensure that existing legislation is fit to deliver the national development agenda.

The Authority and the National Council for Law Reporting (Kenya Law) jointly released a premier Digest of capital markets decisions delivered by Courts in Kenya. This Digest, summarizes critical milestones in capital markets jurisprudence, is the first of its kind to be published in the financial sector in Kenya. It covers a ten-year period from 2008 to 2018 and is indexed into seven categories covering civil cases, civil appeals, constitutional petitions, judicial review applications, miscellaneous applications, civil suits and criminal cases. The Authority trusts that this Digest will go a long way to demystify some of the myths and misconceptions on the operations of capital markets as well as supporting greater consistency in judicial decision making. The Authority is therefore committed to the regular publication of further volumes as relevant precedents evolve.

Challenges

The unresolved confidence issues emanating from the insolvency issues surrounding the corporate bond market continued to be a challenge resulting in reduced interest in corporate bonds as a debt financing instrument reemphasised the calls for clear settlement default carve outs across the full scope of capital markets products. To this end the Authority will continue to engage key stakeholders such as: the Fund Managers Association (FMA); National Treasury and Planning; the Kenya Deposit Insurance Company (KDIC), the Central Bank of Kenya (CBK); as well as the Nairobi International Financial Centre and Capital Markets Master Plan National Steering Committees to seek lasting interventions to these uncertainties.

Other developments and strategic priorities

To achieve our vision and mission, our strategic initiatives for the coming year include:

Support for National Economic Development Objectives

The Vision 2030 Medium Term Plan III which was launched in November 2018 presents a myriad of opportunities for the capital markets to actively participate, especially in the realization of the Big 4 agenda. The Plan outlines projects and programmes earmarked for implementation by Ministries, Departments and Agencies estimated at a total cost of **Kshs 11.5 Trillion**, while the aggregated value of projects outlined in the CIDPs (2018-2022) for counties is **Kshs. 1.4 Trillion**. In total **Kshs. 12.9 Trillion²** is required for funding these projects, which are also well aligned to the Government's "Big 4" Agenda that aims to leverage on food security, universal healthcare, affordable housing and the manufacturing sector to transform Kenya's economy. Noting that a substantial number of these projects are medium to long-term in nature their funding requirements must be similarly matched, with the ideal resource mobilization avenue being the capital markets. The Authority will therefore continue engagement with the National Government, County Governments and State Owned Enterprises to facilitate financing of infrastructure projects through capital markets products ranging from Corporate Bonds, Green Bonds, County bonds, Asset Backed Securities, Shariah Compliant Bonds to , Real Estate Investment Trusts (REITs).

Considering its expanded mandate that entails regulating the spot commodities exchanges, the Authority will also seek to facilitate the growth and efficient operation of these markets with the aim of promoting the agricultural sector and specifically food security by putting in place the requisite regulatory framework.

To deepen the capital markets, the Authority will continue to diversify products and services. These will be informed by demand assessments to ensure that there is sufficient uptake of the products and services once launched. The Authority will continue to work closely with the Joint Financial Sector Regulators and the National Treasury in developing the Islamic Financial Markets through policy and regulatory reforms.

While Kenya enjoys its stature as a hub of innovation, the country's capital markets have some ground to cover in seeking to utilize the opportunity presented by Fintech innovations to push capital market activity to the next level by broadening product and service offerings, deepening market participation and liquidity, and driving transformative economic development. In this regard, and in line with our strategic objective on leveraging technology to drive the efficiency in the capital markets value chain, the Authority looks forward to building on the positive strides following the launch of our Regulatory Sandbox to support innovation and development of new products and services.

Appreciation and Outlook

Finally, the Authority recognizes that building requisite internal capabilities is critical to its mission and vision accomplishment. At the core of this internal capability building is an organizational culture that supports institutional excellence, timely delivery of appropriate outcomes, effective decision making and high performance. In this regard we will therefore continue to pursue implementation of our regulatory excellence dubbed "Uwezo Kipeo" together with organisation restructuring aligned to the Strategic Plan to ensure adequate capacity to effectively discharge our mandate whilst ensuring efficient utilization of resources.

I wish to acknowledge the Government for the support granted to the Authority through the year which has been critical in achieving our mandate. I wish to further extend my appreciation to the National Treasury and Planning, the entire capital markets fraternity and our peer Financial Services Regulators, for their immense contribution towards achieving our regulatory and market development mandate.

Guided by our recently adopted Vision to be an innovative regulator of a robust and globally competitive capital market, the Authority shall continue to play its critical role in transforming Nairobi into a competitive International Financial Centre and the Heart of Africa's Capital Markets. This remains attainable due to the commitment of the CMA Board, Management and Staff.



.....
Mr. James Ndegwa
Chairman

² The figure is a sum total of the development funding requirements for 44 counties as stipulated in the 2nd edition of the County Integrated Development Plans

Global Capital Market Performance

Globally, equity markets registered weak performance in the first half of the 2018/2019 Financial Year attributed to the US inflationary pressure with attendant rate adjustments, coupled with the trade war between the United States (U.S.) and China and weakness in consumption and industrial production in China.

For most of the second half of the year global stocks came under heavy pressure as they reacted to the U.S. - China trade tensions and news of plans to add tariffs on goods from Mexico. Specifically, in early May 2019, the breakdown in trade talks with China set-off a shift towards safe haven assets, sending U.S. stocks to their worst May performance in nine years¹. The negative sentiment across global markets manifested itself with developed and emerging market equities ending lower for the month of May 2019. After losing ground in May 2019, the international equity markets rebounded in June along with the U.S. market. The S&P 500 reached an all-time high after the best June for decades, up 6.9%, and the best first half of the year since 1997. The Dow Jones and NASDAQ also rebounded. Analysts have attributed the gains to expectations of an interest rate cut rather than strong Q2 corporate earnings expectations as the markets are widely expecting the Federal Reserve to cut rates in July 2019.

Sovereign Bond yields also fell in major economies as another pointer towards a looming recession, although Central Banks may step in with lower rates to try to forestall the downward trend².

Domestically, the equities market was on downward trend with the NSE 20 declining by 14.8% largely as a result of declining profitability of blue chip companies, profit warnings and persisted foreign portfolio outflows in search for yield. There are however high prospects of international investors coming back to our market given indications of declining performance of both equity and debt returns in the US and Europe towards the end of June 2019, based on fear of recession.

Equity turnover stood at Kshs. 145.51 billion in 2018/19 compared with the Kshs 197.89 billion registered in 2017/18, a 26.47% decline. An 8.61% drop was also recorded in market capitalization to Kshs. 2,354 billion from Kshs. 2,576 Billion recorded in 2017/2018. The NSE 20-share index was also on a downward trend at 2796.84 points at the end of April 2019 compared to 3285.73 as at April 2018 a 14.8% decline in the index.

Conversely, there was a significant rise 19.54% in secondary Government bond trading activity in the period under review, with turnover increasing to Kshs 607.43 billion from the Kshs 508.15 billion recorded in 2017/18. The corporate bond turnover however recorded a 25.96 % decline with turnover falling to Kshs 1.84 billion, as measured against the preceding Financial Year's Kshs 2.485 billion reflecting depressed corporate bond activity due to wider market circumstances. In this context, Treasury bond trading accounted for 99.62% of total bond trading during the period under review, reemphasizing the continued high concentration level.

Implementation of the Capital Markets Master Plan

The capital market remains a key component of the Foundations for National Transformation and was once again retained as a Vision 2030 flagship project in the Medium Term Plan III launched in November 2018. This buttresses the role of capital markets in bridging the resource gap in funding Vision 2030 Projects through mobilizing savings and investments to support Kenya's aspirations to be an upper-middle-income economy. The milestones achieved in the year under review include:

- i. The Nairobi Securities Exchange (NSE) successfully completed a six -month Derivatives Pilot Test Phase conducted between July and December 2018. This culminated with the grant of approval to the NSE for the launch of the derivatives market in May 2019, following resolution of key issues that emanated from the test phase. Initially, the Derivatives Market will offer investors Equity Single Stock Futures (SSF) and Equity Index Futures (EIF) and later introduce other financial and commodities derivatives. The Derivatives exchange is scheduled to be formally launched in July 2019;
- ii. Finalization of policy, legal and technical specifications as well as a road map for the implementation of the Hybrid Bond Market model that is expected to promote a more efficient and transparent bond market in Kenya;

¹ <http://www.mrminv.com/commentary/index.html>

² <https://www.wsj.com/articles/world-economy-comes-to-grips-with-bond-yield-plunge-11561311410>

Capital Markets Authority
Report of the Chief Executive Officer (continued)
For the year ended 30th June 2019

- iii. In the 2019 Ease of Doing Business Report, Kenya was ranked the seventh most improved country globally in providing an attractive environment for doing business, recording an improvement of 19 places to position 61 globally from position 80 in 2018, out of 190 countries. In 2013, Kenya ranked 129th, this significant improvement underscores Kenya's enhanced potential in attracting both domestic and Foreign Direct Investment, a key prerequisite for job creation and poverty alleviation; and
- iv. The conclusion of a study on Opportunities for Access to Capital Market Financing for National and County Governments in Kenya which lays the foundation for a framework for facilitating market based financing for County and National Government Projects

Review of the Policy and Regulatory Framework

a. Capital Markets (Amendment) Act, 2018

The Capital Markets (Amendment) Act, 2018 that was enacted on 31st December 2018 provided *inter alia*, for penalties to be imposed on persons involved in embezzlement activities, established clearer offences of front-running and obtaining gain by fraud and further ensured that the administrative enforcement action process set out is sufficiently explicit in its applicability to key employees of listed companies.

The Act further provided for payment of reward to any person who provides new and timely information with respect to market misconduct or breaches of the law leading to the recovery of sums payable to the Investor Compensation Fund (ICF). It abolished the provisions catering the appointment of an ICF Board noting the same had not been operationalized since their introduction in 2010 due to a change in national policy. In line with the operating practice and the law since 2000 the management of the fund in the ICF was vested back to the Authority. This change will ensure that the Investor Compensation Fund (ICF) is managed more sustainably by reducing the administrative costs on the ICF. The Act also established clearer obligations on issuers of securities, licensed and approved persons to maintain a system of internal controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with the International Financial Reporting Standards (IFRS).

b. Other policy and Regulatory Frameworks

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

- i. Policy Guidance Note on Green Bonds; and
- ii. Policy Guidance Note on the establishment of a Regulatory Sandbox to support FinTech

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

- i. Capital Markets (Amendments) Bill, 2019: Targetted to consolidate and refine the extensive amendments made to the Act.
- ii. Commodities Exchange Regulations:
- iii Policy Framework on Sponsored Direct Market Access.

At a regional level the Authority together with its peers in the East African Securities Regulatory Authorities (EASRA) played a pivotal role in the development of the East African Financial Services Policy and Bill, which proposes the establishment of "Centre-Lite" Model of an East African Financial Services Commission (EAFSC), both of which were adopted by the Sectoral Council of Finance and Economic Affairs (SCFEA) in May 2019. In this model, the EAFSC will play a coordination role in facilitating the development common regulatory principles/rules books, as well as market development within the financial sectors within Member States

Further, following my appointment as the Chairman of the Africa, Middle East Regional Committee (AMERC) of the International Organization of Securities Commissions (IOSCO), I received excellent regional support on prioritizing policy and regulatory matters pertinent to the region and particularly we have progressed work to develop tools to address challenges relating to low listings and capital raising, identifying the opportunities for building sustainable capital markets, enhancing investor education and financial literacy as well as stepping up capacity building and the leverage of financial innovation. Significant work is already going on towards these priority areas, with a direct bearing on the strategic direction of the Kenyan capital markets as we continue to pursue Morgan Stanley Capital Investment (MSCI) Emerging Market Index status.

Capital Markets Authority
Report of the Chief Executive Officer (continued)
For the year ended 30th June 2019

Financial Highlights

RESULTS	As at 30th June 2019 Shs '000	As at 30th June 2018 Shs '000
The results for the year are summarised below:-		
Total income for the year	<u>1,044,093</u>	<u>967,469</u>
Total operating expenditure for the year	<u>(900,341)</u>	<u>(889,282)</u>
Surplus for the year before transfer	<u>143,752</u>	<u>78,187</u>
Transfer to National Treasury	<u>(92,706)</u>	<u>(21,127)</u>
Surplus for the year	<u>51,046 *</u>	<u>57,060</u>

**Out of the surplus for the year, the Authority has allocated Ksh20million towards the building fund kitty as plans are underway to acquire permanent premises upon receipt of necessary approval.*

Outlook

The outlook for 2019/20 is positive amidst a projected stable economic growth, whose forecast for 2020 stands at 6.0%³ despite the anticipated risks to this outlook including an escalation of global trade-related tensions, a rise in oil prices and weather related shocks. From a capital markets development perspectives, I remain upbeat amidst milestones already mentioned above as well as others such as the NSE-led Ibuka incubator and accelerator hosting program; and CMA (Kenya) admission to the Global Financial Innovation Network (GFIN).

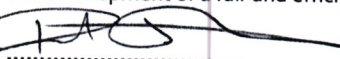
Notably, on 13th June 2019, the Cabinet Secretary, the National Treasury and Planning made budget policy pronouncements, proposing:

- i. Measures to enhance transparency and predictability in the issuance and trading process for Treasury Bills and Treasury Bonds;
- ii. Exemption from the Capital Gains Tax for transfer of property that is necessitated by restructuring of corporate entities;
- iii. Introduction of an amnesty on the tax penalties and interest, on any outstanding tax for two years prior to the listing, for SME's that list under the GEMS program to encourage them to list and clean their tax records. The principal taxes shall however be paid in full;
- iv. Empowerment of the Authority to enforce penalties and sanctions on market players who violate laid down rules and procedures; and
- v. Tax neutrality treatment of Special purpose Vehicles used for the issuance of Real Estate Investment Trusts (REITs)

While the actual outcome of these proposals will be known during the first half of the next financial year, the Authority plans to fully leverage on these incentives and to take advantage of the projected positive macro environment through continued implementation of its Strategic Plan 2018-2023 to facilitate deeper and more liquid capital markets and position Kenya as the Heart of Capital Markets Investment in Africa, as envisioned in the Capital Markets Master Plan. This will be achieved through reinforcing the tenets of regulatory excellence, investor protection, innovation and overall efficiency in the Authority's operations. We will do so by continuing to expand our behavioural insights capabilities to better understand our customers and the investors to drive uptake of capital markets products and services. Additionally we shall focus on enhanced market infrastructure oversight, strengthen data collection and analytics capacity corporate governance and risk management by issuers of securities to the public and market intermediaries as well as revolutionise our investor education strategy to facilitate self-protection by investors.

To leverage on Kenya's growing influence on capital markets policy, We will continue to advocate for regional engagements on work related to Regulatory Technology (RegTech) and Supervisory Technology (SupTech) to complement Fintech facilitation while taking into account the attendant risks such as cyber security and cyber resilience. I am confident that Kenya will benefit significantly from these engagements.

I wish to acknowledge that all the achievements during the period under review would not have been possible without the firm support of the CMA Board. I therefore take this opportunity to sincerely thank them. Our strategic partners and other stakeholders have also been instrumental and I wish appreciate them all for their unrelenting assistance. Special recognition goes the Management and staff of the Authority for their commitment and drive to effectively execute our twin mandate of regulation and development of a fair and efficient capital market.



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

CORPORATE GOVERNANCE STATEMENT

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

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

COMPOSITION OF THE BOARD

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

1. Mr. James Ndegwa

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

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

Dr Kamau Thugge holds a doctorate in Economics from the Johns Hopkins University. He was appointed an Economic Advisor to the Treasury in December 2005 after serving as an Economic Affairs Director, Treasury since July 29, 2004. Prior to joining Treasury, he worked at the International Monetary Fund from 1985 to 2004.

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

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

4 Mr. Paul Kihara Kariuki

Paul Kihara Kariuki is the Attorney General of the Republic of Kenya with effect from April 2018. He obtained a Bachelor's Degree in Law from University of Nairobi in 1977 and Post Graduate Diploma in Law from Kenya School of Law in 1978. As The President of Court of Appeal of Kenya, between 2013 and March 2018, he was instrumental in the decentralization of the Court of Appeal to Malindi, Kisumu and Nyeri Counties. Directed the development of the blueprint ten-point strategy for the transformation of the Court that culminated in the Court of Appeal Bill and the Strategic Plan for the Court of Appeal in Kenya. As the first director of the Judiciary Training Institute (2009- 2013), Kenya., he was instrumental in establishing all the operational systems for the technical arm of the judiciary incorporating professional development for all judges, magistrates and all cadres of the paralegal staff at the Judiciary. Mr Kihara also served as Judge in the High Court of Kenya (2003- 2011). He Served in the Civil and Commercial divisions of the Court and as judge in the Election Court for various parliamentary petitions. Previously He was a Partner, Messer Ndungu Njoroge and Kwach Advocates, Nairobi (1986- 2000) and Legal Assistant and Partner, Messer Hamilton Harrison and Mathews Advocates, Nairobi (1977- 1985).

COMPOSITION OF THE BOARD (Continued)

5 Alternate to Hon. Attorney General: Mr. Nevis Ombasa

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

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

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

7 Alternate to Governor, Central Bank of Kenya: Mr. William Nyagaka

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

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

8 Mr. Moibi Mose

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

9. Ms. Christine Okoth

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

COMPOSITION OF THE BOARD (Continued)

10. Dr. Thomas Kibua

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

11. Mr. Paul Ngugi (Term ended 30th May, 2019)

Mr. Paul Ngugi holds a Masters of Social Science (M.Soc.SC) in Development Administration from the University of Birmingham (UK), a Bachelor of Arts from the University of Nairobi and a Diploma of Professional Development in Management with Specialization in Budgeting and Financial Management from the University of Connecticut (USA). Mr. Ngugi is a Member of the Institute of Directors of Kenya. He has served as Alternate Director to Permanent Secretary, Ministry of Finance in various boards of state corporations including Kenya Roads Board, Housing Finance, Kenya Meat Commission and National Oil Corporation among others. He also served as Director in Kenya Dairy Board and Chairman of the Micro and Small Enterprises Authority (MSEA). He has attended a course in Corporate Governance for Directors and Mwangozo Induction Programme for Boards of State Corporations, among others. Mr. Ngugi was a long serving public servant and retired as Director of Budget at the National Treasury in the year 2013.

12 Mr. John Birech

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

COMPOSITION OF THE BOARD (Continued)

13. Dr. Freshia Mugo – Waweru

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

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

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

14 Mr. Peter Mungai (Appointed on 3rd May, 2019)

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

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

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

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

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

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

Mr. Muthaura is an Advocate of the High Court of Kenya and an Honorary Fellow of the Institute of Certified Secretaries. He holds a Bachelor of Laws degree from the University of Warwick, a Masters in Banking and Finance Law from the London School of Economics and Political Science and a Masters in Philosophy from the Maastricht School of Management.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

In line with the Presidential directive for State Corporations to plant as part of their Corporate Social Responsibilities(CSR), the Authority planted 550 indigenous trees in the 2018/19 Financial Year. This was done in a collaboration agreement with the Kenya Forestry Service(KFS) in an area measuring 1/2 hectare in the Ngong Forest Nairobi. The cumulative number of trees planted by the Authority over a two year period is 1,550, and is well above 10% of the total Corporate Social Investment budget for the two years.

The Authority has in the last three years sponsored the construction of a multi purpose modern science laboratory for Nthunguni Secondary School in Machakos County. During the year, the Authority partnered with the Science Equipment Production Unit (SEPU) Limited to finish equipping of two laboratories (Chemistry and Biology Lab combined and Physics Lab separate) at a cost of Ksh. 3.5 million. We are glad that the facilities will be utilized by the current form four candidates in the School as they do their Science practical examinations in their 2019 K.C.S.E.

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

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

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

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

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

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

The main entrance to the premises remains easily accessible to People With Disabilities(PWD), and deliberate effort is also made to attract PWDs into employment by sharing information with the National Council of Persons with Disability.

Capital Markets Authority
Board Committee Meetings Attendance
For the year ended 30th June 2019

No	Board Member	Classification	Designation	Finance and Planning Committee(FPC) Total number of Meetings:4 (3 scheduled and 1 Special)	Audit Corporate Governance and Risk Management Committee(ACM) Total number of Meetings:7	Technical and Policy Committee(TPC) Total number of Meetings:8(7 Scheduled and 1 Special)	Human Resources and Corporate Communication Committee(HRCC) Total number of Meetings:8(4 scheduled and 4 Special)	Joint Audit and Finance and Planning Committee:1	ICT Ad hoc Committee Total number of Meetings:3	KenolKobil Plc Ad hoc Committee	Board Total number of Meetings: 12(8 scheduled and 4 special)
1	Mr. James Ndegwa	Independent	Board Chairman							8/8	12/12
2	Mr. Nevis Ombasa	Alt. Attorney General			3/7	3/8	5/8	1/1			9/12
3	Ms. Christine Okoth	Independent Member	Chairperson HRCC	1/4	4/7	2/8	8/8		3/3		12/12
4	M. Paul Nguji	Independent Member		3/4	1/7(co-opted)	6/8	5/8	1/1			10/12
5	Mr. John Birech	Independent Member	Chairperson TPC	4/4	4/7	6/8	1/8	1/1			12/12
6	Mr. Geoffrey Mwau	Alt. to the Cabinet Secretary National Treasury		2/4	3/7	3/8				6/8	5/12
7	Christopher Oisebe	Representing Principal Secretary National Treasury									3/12
8	Mr. Musa Kathanje	Representing Principal Secretary National Treasury		1/4	1/7	1/8		1/1			2/12
9	Mr. William Nyagaka	Alt. to the Governor Central Bank of Kenya			4/7	5/8	2/8(co-opted)		3/3		10/12
10	Dr. Freshia Mugo Waweru	Independent Member	Chairperson ACM	1/4	4/7	6/8				7/8	11/12
11	Dr. Thomas Kibua	Independent Member	Chairperson FPC	3/4	1/7(co-opted)		6/8			6/8	8/12
12	Mr. Moibi Mose	Independent Member	Chairperson ICT Ad hoc Committee		1/7		3/8		2/3		6/12

Capital Markets Authority
Board Committee Meetings Attendance (Continued)
For the year ended 30th June 2019

No	Board Member	Classification	Designation	Finance and Planning Committee (FPC) Total number of Meetings: 4 (3 scheduled and 1 Special)	Audit Corporate Governance and Risk Management Committee (ACM) Total number of Meetings: 7	Technical and Policy Committee (TPC) Total number of Meetings: 8 (7 Scheduled and 1 Special)	Human Resources and Corporate Communication Committee (HRCC) Total number of Meetings: 8 (4 scheduled and 4 Special)	Joint Audit and Finance and Planning Committee: 1	ICT Ad hoc Committee Total number of Meetings: 3	KenolKobil Plc Ad hoc Committee	Board Total number of Meetings: 12 (8 scheduled and 4 special)
13	Mr. Peter Mungai	Independent Member				1/8					2/12
14	Ms. Joyce Wesonga	Representing Inspector general of State Corporation		2/4	5/7	2/8	3/8	1/1			6/12
15	Mr. Andrew Meme								3/3		
16	Mr. Muchemi Wambugu								3/3		
17	Mr. Geoffrey Ng'etich								1/3		
18	Dr. Willy Mutunga									8/8	
19	Ms. Anne Ericksson									8/8	
20	Ms. Patricia Kiwanuka									8/8	
21	Dr. James Boyd Mcfie									8/8	

Notes

Mr. Paul Mungai was appointed effective 3 May 2019
 Mr. Paul Ngugi: second term expired on 31 May 2019
 Mr. Moibi Mose was reappointed for the second term effective 19 December 2018
 Dr. Thomas Kibua was reappointed for the second term effective 19 December 2018
 The Authority constituted an Adhoc Board Committee comprising of 4 CMA board members and 4 independent persons for the sole purpose of hearing and determination of the allegations on the suspicious trades in KenolKobil shares.

**Capital Markets Authority
Report of the board members of the Authority
For the year ended 30th June 2019**

The Board Members of the Authority submit their Report together with the audited financial statements for the year ended 30th June 2019, which show the state of the affairs of the Authority.

Principal activities

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

Results

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

Board Members of the Authority

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

Dividends/Surplus remission

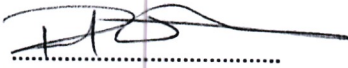
In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority remits **Ksh 92.7 million** (FY 2018: Ksh. 21.1 million) to the consolidated fund .

Auditor

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

Mbaya & Associates Certified Public Accountants were nominated by the Auditor General to carry out the audit of the Authority for the year ended 30th June 2019.

By order of the Board



.....
Chief Executive

Nairobi 2019

Capital Markets Authority
Statement of the Board Members responsibilities
For the year ended 30th June 2019

Board Committees

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

The Finance and Planning Committee

This committee consists of four members all of whom are non-executive members of the Board. The committee was chaired by Mr. Paul Ngugi up to May 2019 and subsequently by Dr. Thomas Kibua. This committee has oversight on all financial issues including budgets, financial reporting process and controls and procurement. The committee met four times during the year and had two special meetings.

The Audit, Corporate Governance and Risk Management Committee

This committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Dr. Freshia Mugo-Waweru. It has oversight responsibility of reviewing, assessing adequacy and monitoring of internal controls, risk management and corporate governance processes; examining internal and external audit reports and recommendations; overseeing financial reporting and reviewing the accounting principles, policies and practices adopted in the preparation of financial statements. The committee met five times in the year.

The Human Resource and Communication Committee

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

The Technical and Policy Committee

The committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Mr. John Birech. It is responsible for considering technical and policy matters of the Authority, including reviewing the Authority's strategy and continuous oversight of the review of the capital market legal and regulatory frameworks. The committee met seven times during the year and had one special meeting.

Ad-Hoc Board Committees

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

i) **The Implementation Committee for the Capital Markets Master Plan-** Launched in 2015.

ii) The Board established the **ICT Adhoc Committee** in February 2017. This committee consists of five members three of whom are recruited from the ICT Industry with ICT Technical Skills. The committee is chaired by Mr. Moibi Mose. It consists of two non executive members of the Board, and three external experts from ICT industry. It is responsible for continuous assessment of opportunities/innovation to improve service delivery through ICT, provide oversight and guidance on the initiative to automate and deliver effective technological solutions to access and provide inputs on strategies to deliver reliable ICT infrastructure and ensure Security (Confidentiality, Integrity and Availability) of ICT systems and to provide strategic guidance to ensure ICT operations, processes and resources are managed prudently.. The committee met three time in the year.

iii) **Ad hoc Committee on Kenol Kobil PLC.** This committee consisted of eight members four of whom were appointed from the industry with Finance, auditing & Legal Skills. The committee is chaired by Mr. James Ndegwa. The committee was appointed by the Board to conduct the enforcement action hearings in the alleged "insider-trading activities" in Kenol-Kobil PLC shares. The Ad hoc committee met 3 times in the year.

iv) **Financial Markets Law Review Panel**

The Board of the Capital Markets Authority (CMA), in line with the targets set out in the Capital Market Master Plan (2014 – 2023), established a Financial Markets Law Review Panel of 16 leading domestic and international financial market lawyers and practitioners. The Panel will play a key advisory role to the Board in exercising its mandate to ensure that capital markets law remains responsive to market realities and appropriately facilitative to evolving market expectations from both a domestic and international perspective. The Panel will meet 2 – 4 times annually.

Capital Markets Authority
Statement of the Board Members responsibilities (Continued)
For the year ended 30th June 2019

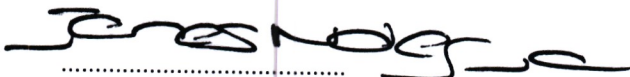
The Board Members are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on 30th June 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Board Members accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act. The Board Members are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority transactions during the financial year ended 30th June 2019, and of the Authority's financial position as at that date. The Board Members further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Authority's financial statements were approved by the Board on 29/08/19 2019 and signed on its behalf by:


.....
Chairman


.....
Chief Executive

SECTION A

Operational and Financial performance

The Authority promotes and facilitates the development of an ordinary, fair, and efficient Capital Market in Kenya. This mandate has continued to be delivered in the year. Revenue earned was 8% higher than last financial year with the recurrent surplus of Ksh123million, a significant increase from the previous year of 57 million. The increase in the realized revenue and surplus is mainly attributable to the approval fee earned from the acquisition of the Kenol-Kobil by Rubis Energie in the year.

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

SECTION B

Compliance with statutory requirements

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

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

SECTION C

Key projects and investment decisions being implemented

The following is the major project being implemented at CMA.

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

SECTION D

Major risks identified in the ERM

The Authority updated its Enterprise Risk Management Framework in 2017, on the basis of which Risk Management has been mainstreamed within the Authority to allow for structured risk assessments on a continuous basis. During the Financial Year, the Authority aligned its ERM Framework to its new 2018-2023 Strategic Plan and also automated its ERM Framework with the development and roll out of a Projects, Performance and Risk Management System.

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

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

The Authority will mitigate the risk by:

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

2. Major outage of main IT infrastructure/applications that are overdue for replacement. Core systems are past end of life or on extended maintenance thus creating business continuity challenges

The Authority is mitigating this risk by:

- (a) Effective patching of all the operating systems, application and database software nearing end-of-life
- (b) Timely replacement of failed hardware infrastructure peripherals such as hard disks and power supply unit renewal
- (c) Timely initiation of the renewal process of maintenance contracts through procurement
- (d) Managed and maintained effective monitoring on the network and server system for proactive resolution of errors, faults, outages and resource utilization

3. A combination of macro-economic, policy, legal, regulatory and institutional gaps and obstacles to uptake and sustenance of capital markets products and services

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

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

The Authority is mitigating this risk by:

- (a) Robust investor education and public awareness initiatives on capital markets initiatives e.g. through University challenge competition and other target groups
- (b) Holding targeted Focus Group Discussions for various entities such as Chamas, Saccos, Pension Funds, Women in Business among others
- (c) The CMA - KIPPRA Concept Paper on a 3-year (2018 – 2021) engagement strategy was developed to guide key research and market development initiatives going forward.

5. Ineffective Inter-governmental and stakeholder coordination on COMEX establishment

The Authority Membership in COMEX and Coffee task-forces has assisted articulation of our mandate to the other stakeholders. CMA attended stakeholder engagements at county level in order to gather feedback from the public.

6. Failure to timely detect misleading or falsified third party and financial statement information submitted by regulated entities either publicly or through regulatory filings.

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

7. Cybersecurity threats

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

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

SECTION E

Material arrears in statutory/financial obligations

The Authority has no statutory arrears and has been prompt to remit all pension deductions to an independent administrator appointed competitively by the Trustees.

There is an existing engagement with KRA for the latter to grant waiver of penalties and interest in line with prior confirmations being pursued in conjunction with the Authority's tax consultants.

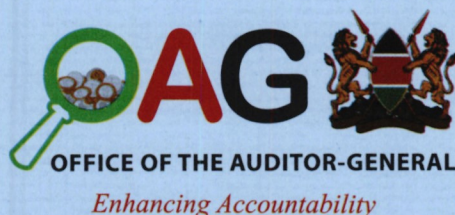
SECTION F

Financial probity and serious governance issues

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

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Capital Markets Authority set out on pages 28 to 56, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Mbaya & Associates, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Capital Markets Authority as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Capital Markets Authority Act, Cap.485A of the Laws of Kenya.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Capital Markets Authority in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. These matters were addressed in the context of the audit of the financial statements, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a

description of how the audit addressed the matter is provided in that context. I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

	Key Audit Matters	How the Audit Addresses the Key Audit Matter
1.	<p>Revenue from non-exchange transaction</p> <p>Revenue from exchange transactions amounted to Kshs. 888 million. This forms 85% of the total revenue compared to the prior year. This increase is mainly attributed to increase in capitalization fees and application and licensing fees.</p> <p>This is a key audit matter due to its materiality and its status as the core source of income stream to the Authority.</p>	<p>The following procedures were performed:</p> <ul style="list-style-type: none"> • Evaluation of internal controls and walkthrough procedures on key control and confirming that they were adequate. • Performing analytical review items compared to prior year. • Testing completeness by tracing revenue earned to the bank statements. • Verifying that the rates charged on the fees are as per the Capital Markets Regulations, 2002.
2.	<p>Investors' Compensation Fund (ICF)</p> <p>Investors' Compensation Fund comprises of marketable securities, share investment, fees receivables and bank balance. The Authority holds Investors' Compensation Fund worth Kshs.3.1 billion. This represents a 37% increase from the previous year. This is attributed to increased investments in Treasury Bills. In addition, the ICF fees from penalties increased from Kshs.42 million to Kshs.552 million in the financial year 2018/2019.</p> <p>This was considered a key audit matter given its significance in the financial statements. Also, the Authority is required by law to maintain the fund.</p>	<p>The audit procedures included:</p> <ul style="list-style-type: none"> • Verifying accuracy of the Investors' Compensation Fund (ICF) receivables and agreed to invoices and demand letters. • Reviewing the annual securities statement and verifying them against the books of accounts to test their accuracy, completeness, existence and cut-off.

Other Information

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis of Conclusion

High Employees Costs

Contrary to the provisions of Section 26(a) of the Public Finance Management (National Government) Regulations, 2015, that requires compensation of employees not to exceed 35% of revenue, the Authority employees' expenses amounted to Kshs.491,668,000 or 47% of the total revenue of Kshs.1,043,961,000.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND OVERALL GOVERNANCE

Conclusion

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

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high

level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the Internal Control would not necessarily disclose all matters in the Internal Control that might be material weaknesses under ISSAIs. A material weakness is a condition in which the design or operation of one or more of the Internal Control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue to sustain its services
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

10 August, 2020

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2019

	Note	2019 Shs'000	2018 Shs'000
Revenue from non-exchange transactions			
Capitalization, rights and new issue fees	6	887,998	825,828
Donor fund income	7	<u>50,144</u>	<u>34,303</u>
		<u>938,142</u>	<u>860,131</u>
Revenue from exchange transactions			
Other income	8	<u>105,819</u>	<u>107,355</u>
Total revenue		<u>1,043,961</u>	<u>967,486</u>
Expenses			
Operating expenditure	28	<u>(900,341)</u>	<u>(889,282)</u>
Total expenses		(900,341)	(889,282)
Other gains/ (losses)			
(Loss)/Gain on disposal of property and equipment	9	<u>132</u>	<u>(17)</u>
Surplus (gross)	10	143,752	78,187
Surplus due to National Treasury	11(a)	<u>(92,706)</u>	<u>(21,127)</u>
Net Surplus		<u><u>51,046</u></u>	<u><u>57,060</u></u>

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019
(INCLUDING INVESTOR COMPENSATION FUND)

ASSETS	Note	2019 Shs'000	2018 Shs'000
Current assets			
Inventories	12	1,622	1,638
Trade and other receivables from non exchange transactions	13(a)	45,207	52,515
Trade and other receivables from exchange transactions	13(b)	14,676	12,707
Staff loans and advances/guarantee fund	14	50,208	48,548
Held-to-maturity investments	15	1,029,420	836,536
Cash at bank and in hand	16	29,615	42,875
Investors' Compensation Fund	17	<u>1,934,621</u>	<u>998,149</u>
		<u>3,105,369</u>	<u>1,992,968</u>
Non-current assets			
Property and equipment	18	44,316	38,312
Intangible assets	19	2,307	4,943
Staff loans and advances/guarantee fund	14	342,568	329,858
Held-to-maturity investments	15	141,861	190,476
Investors' Compensation Fund's investments	17	<u>1,187,129</u>	<u>1,272,668</u>
		<u>1,718,181</u>	<u>1,836,257</u>
Total Assets		<u><u>4,823,550</u></u>	<u><u>3,829,225</u></u>
Liabilities			
Current liabilities			
Trade and other payables	20	216,112	198,706
Provision for liabilities and charges	21	82,445	79,084
Investors' Compensation Fund	17	1,934,621	998,149
Surplus payable to National Treasury	11(a)	<u>92,706</u>	<u>21,127</u>
		<u>2,325,884</u>	<u>1,297,066</u>
Non-current liabilities			
Investors' Compensation Fund liabilities	17	<u>1,187,129</u>	<u>1,272,668</u>
Total liabilities		<u><u>3,513,013</u></u>	<u><u>2,569,734</u></u>
Net assets			
Funds			
Capital fund		1,310,537	1,259,491
General fund	24	27,886	27,886
Building fund	25	726,688	695,642
	26	<u>555,963</u>	<u>535,963</u>
Total Funds		<u><u>1,310,537</u></u>	<u><u>1,259,491</u></u>
Total Funds and Liabilities		<u><u>4,823,550</u></u>	<u><u>3,829,225</u></u>

The financial statements set out on pages 28 to 56 were approved for issue by the Board Members of the Authority on 29-8-2019 and were signed on its behalf by:


 Chief Executive


 Director, Corporate Services


 Chairman of the Board

Date 30/08/2019

Date 30-8-19

30 August 2019
 Date.....

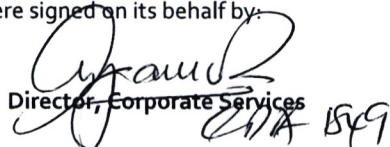
Capital Markets Authority
Financial statements
For the year ended 30th June 2019

CAPITAL MARKETS AUTHORITY (CMA) STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

ASSETS	Note	2019 Shs'000	2018 Shs'000
Current assets			
Inventories	12	1,622	1,638
Trade and other receivables from non exchange transactions	13(a)	45,207	52,515
Trade and other receivables from exchange transactions	13(b)	14,676	12,707
Staff loans and advances/guarantee fund	14	50,208	48,548
Held-to-maturity investments	15	1,029,420	836,536
Cash at bank and in hand	16	<u>29,615</u>	<u>42,875</u>
		<u>1,170,748</u>	<u>994,819</u>
Non-current assets			
Property and equipment	18	44,316	38,312
Intangible assets	19	2,307	4,943
Staff loans and advances/guarantee fund	14	342,568	329,858
Held-to-maturity investments	15	<u>141,861</u>	<u>190,476</u>
		<u>531,052</u>	<u>563,589</u>
Total Assets		<u><u>1,701,800</u></u>	<u><u>1,558,408</u></u>
Liabilities			
Current liabilities			
Trade and other payables	20	216,112	198,706
Provision for liabilities and charges	21	82,445	79,084
Surplus payable to National Treasury	11(a)	<u>92,706</u>	<u>21,127</u>
		<u>391,263</u>	<u>298,917</u>
Non-current liabilities			
		<u> </u>	<u> </u>
Total liabilities		<u><u>391,263</u></u>	<u><u>298,917</u></u>
Net assets			
Funds			
Capital fund	24	27,886	27,886
General fund	25	726,688	695,642
Building fund	26	<u>555,963</u>	<u>535,963</u>
Total Funds		<u><u>1,310,537</u></u>	<u><u>1,259,491</u></u>
Total Funds and Liabilities		<u><u>1,701,800</u></u>	<u><u>1,558,408</u></u>

The financial statements set out on pages 28 to 56 were approved for issue by the Board Members of the Authority on 29-8-2019 and were signed on its behalf by:


 Chief Executive


 Director, Corporate Services


 Chairman of the Board

Date 30/08/2019

Date 30-8-19

Date 30 August 2019

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

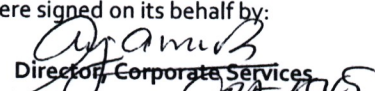
INVESTOR COMPENSATION FUND (ICF) STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

ASSETS	Note	2019 Shs'000	2018 Shs'000
Current assets			
Fees receivable	17	44,516	47,242
Cash and cash equivalents	17	1,176	24,953
Investor Compensation Fund investments Held-to-maturity	17	<u>1,888,928</u>	<u>925,953</u>
		<u>1,934,621</u>	<u>998,149</u>
Non-current assets			
Investments in Listed Companies	17	119,438	167,125
Investors' Compensation Fund's investments Held to maturity	17	<u>1,067,691</u>	<u>1,105,543</u>
		<u>1,187,129</u>	<u>1,272,668</u>
Total Assets		<u><u>3,121,749</u></u>	<u><u>2,270,817</u></u>
The Fund	17	<u><u>3,121,749</u></u>	<u><u>2,270,817</u></u>

The Authority is required to maintain a fund to be known as the Investors' Compensation Fund for the purpose of granting compensation to investors who may suffer pecuniary loss resulting from the failure of a licensed broker or dealer to meet its contractual obligations. The Fund value was Shs3.12billion (2018: Sh2.27billion).

The financial statements set out on pages 28 to 56 were approved for issue by the Board Members of the Authority on 29/8/2019 and were signed on its behalf by:


 Chief Executive


 Director, Corporate Services


 Chairman of the Board

Date: 30/08/2019

Date: 30-8-19

30 August 2019
 Date:

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2019

	Capital fund Shs'000	General fund Shs'000	Building fund Shs'000	Total Shs'000
At 1st July 2017	27,886	698,582	475,963	1,202,431
Surplus for the year	-	57,060	-	57,060
Transfer to building fund	-	(60,000)	60,000	-
At 30th June 2018	27,886	695,642	535,963	1,259,491
At 1st July 2018	27,886	695,642	535,963	1,259,491
Surplus for the year	-	51,046	-	51,046
Transfer to building fund	-	(20,000)	20,000	-
At 30th June 2019	27,886	726,688	555,963	1,310,537

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2019

	Note	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Surplus for the year		143,752	78,187
Adjustments for:			
Tax expense			-
Depreciation of property and equipment	18	16,939	23,594
Amortisation of intangible assets	19	2,636	3,359
Deferred donor funded income		-	-
Gain on disposal of property and equipment	9	(132)	17
Interest income	8	(104,106)	(103,972)
Operating Surplus before working capital changes		<u>59,089</u>	<u>1,185</u>
Decrease/(increase) in:			
Inventories		16	(536)
Trade and other receivables		5,339	4,551
Staff loans and advances		(14,370)	(7,019)
Increase/(decrease) in:			
Trade and other payables		17,406	30,067
Provision for liabilities and charges		3,361	(6,758)
Investors' Compensation Fund		850,933	387,505
Staff benevolent fund		-	-
Cash generated from operations		<u>921,774</u>	<u>408,995</u>
Interest received	8	104,106	103,972
Surplus paid		(21,127)	
Net cash generated from operating activities		<u>1,004,753</u>	<u>512,967</u>
Cash flows from investing activities			
Purchase of property and equipment	18	(23,289)	(5,628)
Purchase of intangible assets	19	0	(2,283)
Proceeds from disposal of property and equipment		478	20
Purchase of treasury bonds from the Investors' Compensation Fund		160,503	(138,874)
(Purchase)/sale of treasury bills from the Investors' Compensation Fund		(1,035,213)	(319,310)
(Purchase)/sale of treasury bonds		66,496	82,942
(Purchase)/sale of treasury bills		(210,765)	(221,988)
Net cash used in from investing activities		<u>(1,041,790)</u>	<u>(605,121)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(37,036)</u>	<u>(92,154)</u>
Cash and cash equivalents at start of the year		<u>67,828</u>	<u>159,982</u>
Cash and cash equivalents at end of the year	16	<u>30,791</u>	<u>67,828</u>

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

CAPITAL MARKETS AUTHORITY (CMA) STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2019

	Note	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Surplus for the year		143,752	78,187
Adjustments for:			
Tax expense		-	-
Depreciation of property and equipment	18	16,939	23,594
Amortisation of intangible assets	19	2,636	3,359
Deferred donor funded income		-	-
Gain on disposal of property and equipment	9	(132)	17
Interest income	8	(104,106)	(103,972)
Operating Surplus before working capital changes		<u>59,089</u>	<u>1,185</u>
Decrease/(increase) in:			
Inventories		16	(536)
Trade and other receivables		5,339	4,551
Staff loans and advances		(14,370)	(7,019)
Increase/(decrease) in:			
Trade and other payables		17,406	30,067
Provision for liabilities and charges		3,361	(6,758)
Staff benevolent fund		-	-
Cash generated from operations		<u>70,841</u>	<u>21,490</u>
Interest received	8	104,106	103,972
Surplus paid		<u>(21,127)</u>	<u>-</u>
Net cash generated from operating activities		<u>153,820</u>	<u>125,462</u>
Cash flows from investing activities			
Purchase of property and equipment	18	(23,289)	(5,628)
Purchase of intangible assets	19	0	(2,283)
Proceeds from disposal of property and equipment		478	20
(Purchase)/sale of treasury bonds		66,496	82,942
(Purchase)/sale of treasury bills		<u>(210,765)</u>	<u>(221,988)</u>
Net cash used in from investing activities		<u>(167,080)</u>	<u>(146,937)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(13,259)</u>	<u>(21,475)</u>
Cash and cash equivalents at start of the year		<u>42,875</u>	<u>64,350</u>
Cash and cash equivalents at end of the year	16	<u>29,615</u>	<u>42,875</u>

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

INVESTOR COMPENSATION FUND (ICF) STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2019

	Note	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Interest income	17	(263,116)	(214,234)
Operating Surplus before working capital changes		<u>(263,116)</u>	<u>(214,234)</u>
Decrease/(increase) in:			
Trade and other receivables		2,726	(13,535)
Increase/(decrease) in:			
ICF Fund		848,207	401,040
Provision for liabilities and charges			
Cash generated from operations		<u>587,817</u>	<u>173,271</u>
Interest received	17	263,116	214,234
Surplus paid			
Net cash generated from operating activities		<u>850,933</u>	<u>387,505</u>
Cash flows from investing activities			
Purchase of treasury bonds from the Investors' Compensation Fund	17	160,503	(138,874)
(Purchase)/sale of treasury bills from the Investors' Compensation Fund	17	<u>(1,035,213)</u>	<u>(319,310)</u>
Net cash used in from investing activities		<u>(874,710)</u>	<u>(458,184)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(23,777)</u>	<u>(70,679)</u>
Cash and cash equivalents at start of the year		<u>24,953</u>	<u>95,632</u>
Cash and cash equivalents at end of the year	17	<u><u>1,176</u></u>	<u><u>24,953</u></u>

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Approved	Adjustments (Reallocations)	Final budget	Actual on	Performance		
	budget			comparable			basis
	2018-2019 Shs'000			2018-2019 Shs'000			2018-2019 Shs'000
Revenue							
Fee income from NSE	553,170	-	553,170	367,575	(185,595)	a)	
Licenses and permits	21,500	-	21,500	26,676	5,176	b)	
Market development Fees	12,752	-	12,752	11,123	(1,629)	c)	
Capitalisation and bond approvals	332,500	-	332,500	482,623	150,123	d)	
Fee based income	919,922	-	919,922	887,998	(31,924)		
Donor Funding- gifts and services-in-kind	69,000	-	69,000	50,144	(18,856)	e)	
Finance income - external investments	95,000	-	95,000	104,106	9,106	f)	
Gains on disposal, rental income and agency fees	-	-	-	132.23	132.23	g)	
Other income	14,562	-	14,562	1,713	(12,849)	h)	
Total income	1,098,484	-	1,098,484	1,044,093	(54,391)		
Expenses							
Personnel cost	492,750	-	492,750	491,668	1,082	a)	
Rent and maintenance	43,200	-	43,200	38,610	4,591	b)	
Equipment maintenance and stationery	51,190	-	51,190	38,103	13,087		
Telephone, postage and utilities	18,410	-	18,410	14,765	3,645	c)	
Entertainment and public relations	34,309	(4,600)	29,709	18,726	10,983	d)	
Medical scheme and insurance expenses	37,887	4,600	42,487	36,146	6,341		
Training and conferences	70,000	-	70,000	64,546	5,454		
Motor vehicle running expenses	6,180	401	6,581	5,870	711	e)	
Subscriptions and IOSCO membership	14,105	-	14,105	11,390	2,715	f)	
Authority board members' emoluments and allowance	39,181	-	39,181	31,553	7,628	g)	
Professional & consultancy services	34,645	-	34,645	18,054	16,591	h)	
Litigation/legal expenses	19,200	-	19,200	17,599	1,601	i)	
Market Development & Islamic Finance	35,453	-	35,453	18,024	17,428	j)	
Capital Markets Masterplan	8,900	-	8,900	7,031	1,869	k)	
Donor Funded Projects	69,000	-	69,000	50,539	18,461	l)	
Depreciation of property, plant and equipment	60,086	-	60,086	16,939	43,147	m)	
Amortisation of intangible assets	6,541	-	6,541	2,636	3,905		
Auditor's remuneration	2,090	-	2,090	1,726	364		
Investors' education and awareness programme	33,190	-	33,190	16,016	17,174	n)	
Tribunal expenses	6,002	(401)	5,601	399	5,202	o)	
Total expenditure	1,082,320	-	1,082,320	900,341	181,979		
Surplus for the period	16,164	-	16,164	143,752	127,588		

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (CONTINUED)

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

REVENUE

- a) **Transaction Fee income from NSE** was affected as the market reported low trading volumes for equities dropping from Ksh197.89billion last year to Ksh145.5billion in 2018/19.
- b) **Licensing fees** were above annual budget with the licensing of the Nairobi Securities Exchange (NSE) to operate the derivatives trading, significantly contributing to this.
- c) **Market Development fee income** was below annual budget as the volume of issued and listed corporate bonds was below budget by 35% with no new issuers coming to the market.
- d) **Capitalization and bond approvals income** was higher than budget mainly due to the one- off transaction for the takeover of 1,145,757,700 shares of Kenol Kobil by Rubies Energie generating approval fee of Ksh 131million. Increased GoK's appetite(40% above budget) for local borrowing to complete strategic projects has also contributed to this increase.
- e) **Donor Funding- gifts and services-in-kind** was low, as income expected didn't come through due to delayed procurement process for the projects that were envisaged to be completed within the FY2018/19.
- f) **Finance income from external investments** was above budget by 10% as the Authority continued investing excess cash while adhering to a policy for return optimisation.
- g) **Gains on disposal** income was due to the receipts from disposal of obsolete assets through competitive bidding.
- h) **Other income** realized were mainly from the Sponsorships of the Authority programmes by local partners, the main events being the successful University Challenge activity.

EXPENDITURE

- a) The Authority's staff complement was gradually filled in the year, and the **Personnel cost** was well within the approved budgeted amount.
- b) Reduction in **rent and maintenance costs** is mainly due to the delay in the acquisition of the budgeted offsite storage space and lower than anticipated maintenance costs.
- c) **Telephone, postage and utilities** - was below budget due to cost control strategies that the Authority continued to apply including leveraging on competitive service provision negotiations for cheaper broad band infrastructure and led technology among other initiatives. This is commensurate to the "Uwezo Kipeo" culture change project.
- d) **Advertising and public relations**-There has been a shift in strategy on advertising with more focus on Social Media platforms as opposed to Print Media, as well as conscious cost reduction strategies in the year.
- e) **Motor vehicle running expenses** were within the budget as cost control strategies (e.g. use of fuel cards, negotiated transport rates, pooling of taxi cabs) contributed to the low costs.
- f) **Subscriptions and IOSCO membership** - was below budget as participation of technical staff were scaled down arising from the previous year's travel restrictions.
- g) **Authority board members' emoluments and allowances** were below budgeted level as the Board suspended various activities like trainings, as part of own austerity measures to reduce costs based on the market performance Q1 and Q2.
- h) **Professional & consultancy services** - spent below budget as there were mainly two consultancies in the year, namely: Leadership development Programme for all staff (Ksh7.8million) and Development of Knowledge and Information Technology Strategy (Ksh4.8million) with carry over of some activities into next year.
- i) **Litigation/legal expenses**- were within budget as the Authority replaced previous lawyers and procured new advocates in the ongoing litigation against the former directors of the defunct Nyaga Stock Brokers.
- j) **Market Development & Islamic Finance** activities in implementing the 2018/23 Strategic Plan continues being done by use of internal resources, and partnerships. Some of these programmes are, Regulatory Sandbox, M-Akiba events, Islamic Products events, among others.
- k) **Capital Markets Masterplan** - Through a more proactive approach all the main activities in the implementation road map for the year were achieved at less cost and time.
- l) **Donor Funded Projects cost** - were below the anticipated level as lengthy donor procurement processes delayed finalization of certain planned donor funded projects and related acquisitions.
- m) **Depreciation of property, plant and equipment and amortization cost** was below budget. Difference was due to assets not acquired, see (l) above, during the period as well as assets which were fully depreciated in the year.
- n) **Investors' education and awareness programme expenses** were below budget as partnering (cost sharing) with other stakeholders was improvised for some of the activities undertaken.
- o) **Capital Markets Appeals Tribunal** expenses remained low against budget as the tribunal membership was not quorate for the better part of the year and was only constituted in Q4.

NOTES

1. Statement of compliance and basis of preparation

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

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

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

2. ADOPTION OF NEW AND REVISED STANDARDS

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

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

3. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees

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

Donor Income

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

ii) Revenue from exchange transactions

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

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

Interest income

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

b) Budget information

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

NOTES (CONTINUED)

3. Summary of significant accounting policies (continued)

c) Taxes / Surplus due to the National Treasury

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

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

d) Property and equipment

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

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

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

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

e) Leases

Operating leases

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

f) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life of three years.

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

NOTES (CONTINUED)

3. Summary of significant accounting policies (continued)

g) Financial instruments

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Held-to-maturity

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

Impairment of financial assets

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

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

Financial liabilities

Initial recognition and measurement

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

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

NOTES (CONTINUED)

3. Summary of significant accounting policies (continued)

h) Provisions

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

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

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

Contingent liabilities

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

i) Employee benefits

Retirement benefit plans

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

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

j) Gratuity obligations

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

k) Foreign currency transactions

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

l) Cash and cash equivalents

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

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

NOTES (CONTINUED)

3. Summary of significant accounting policies (continued)

m) Inventories

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

n) Related party

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

o) Comparative figures

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

4. Significant judgments and sources of estimation uncertainty

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

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

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

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

b) Key sources of estimation uncertainty

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

i) Retirement benefit obligations

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

ii) Impairment losses

Estimates are made in determining the impairment losses on receivables. Such estimates include the determination of the net realisable value or the recoverable amount of the asset. The movement on the impairment provision is set out in Note 12.

NOTES (CONTINUED)

5. Risk management objectives and policies

a) Financial risk management

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

i) Credit risk

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

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

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

	Fully performing Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
At 30th June 2019				
Held-to-maturity investments	1,171,281	-	-	1,171,281
Staff loans and advances/ fund	392,776	-	-	392,776
Trade receivables	41,589	-	-	41,589
Other receivables	6,566	-	-	6,566
Cash at bank, in hand and deposits	<u>29,475</u>	<u>-</u>	<u>-</u>	<u>29,475</u>
Maximum exposure to credit risk	<u>1,641,688</u>	<u>-</u>	<u>-</u>	<u>1,641,688</u>
At 30th June 2018				
Held-to-maturity investments	1,027,012	-	-	1,027,012
Staff loans and advances/ fund	378,406	-	-	378,406
Trade receivables	48,496	-	-	48,496
Other receivables	5,055	-	-	5,055
Cash at bank, in hand and deposits	<u>42,735</u>	<u>-</u>	<u>-</u>	<u>42,735</u>
Maximum exposure to credit risk	<u>1,501,704</u>	<u>0</u>	<u>0</u>	<u>1,501,704</u>

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

	2019 Shs'000	2018 Shs'000
Over 6 months	<u>0</u>	<u>0</u>

The past due debtors are nil. An impairment provision of Shs 4,546,000 (2018: Shs4,546,000) is held against the impaired receivables. The Authority does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

NOTES (CONTINUED)

5. Risk management objectives and policies (continued)

a) Financial risk management (continued)

ii) Liquidity risk (continued)

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

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

	Less than one month Shs'000	Between 1-3 months Shs'000	Between 3-12 months Shs'000	Over 1 year Shs'000	Total Shs'000
Year ended 30th June 2019					
Trade payables	27,152	2			27,154
Other payables	31,908	4	1,395	665	33,972
Provision for liabilities and charges	39,244			77,878	117,122
Gratuity obligations	37,865				37,865
	<u>136,169</u>	<u>6</u>	<u>1,395</u>	<u>78,543</u>	<u>216,113</u>
Year ended 30th June 2018					
Trade and other payables	10,131	18			10,149
Accruals	35,786		32,410	3,164	71,360
Provision	21,833	42,414		28,060	92,307
Gratuity obligations	24,890				24,890
	<u>92,641</u>	<u>42,432</u>	<u>32,410</u>	<u>31,224</u>	<u>198,706</u>

iii) Market risk

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

Interest rate risk

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

The Authority's investments in fixed rate bonds expose it to fair value interest rate risk. The Authority has no interest bearing liabilities. The Authority considers that a change in interest rates of 2 percentage points in the year ending 30th June 2019 is reasonably possible. If the interest rates on the Authority's held-to-maturity investments at the year-end were to decrease/increase by this number of percentage points, with all other factors remaining constant, the surplus would be lower/higher by Kshs13million (2018: Shs 13,000,000).

Price risk

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

Foreign exchange risk

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

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

NOTES (CONTINUED)

6. Revenue from non - exchange transactions	2019	2018
	Shs'000	Shs'000
Fees income		
Capitalization, rights and new issue fees	149,776	68,091
Approval for listing of Government securities	332,848	237,424
NSE - transaction fees	367,575	490,176
Application and licensing fees	26,676	17,439
Market development fees	<u>11,123</u>	<u>12,697</u>
	<u><u>887,998</u></u>	<u><u>825,828</u></u>

The Authority charges fees on the following basis :

- a) Capitalization / rights issues at a rate of 0.25% of the value of the issue.
- b) Approval for listing of Government securities is charged at a rate of 0.075% of the amount raised.
- c) New issues / IPOs at a rate of 0.15% of the value of the issue.
- e) NSE Transaction fees at a rate of 0.12% of the value of the equities traded and 0.0015% of the value of bonds traded.
- f) Application for license at Kshs 2,500 while annual licensing fees are up to a maximum of Shs 250,000.
- g) Market development fees are charged to listed companies at a rate of 0.01% subject to a minimum of Shs 50,000 and a maximum of Shs 100,000 per annum.

7. Donor fund income	2019	2018
	Shs'000	Shs'000
Donor fund income	<u><u>50,144</u></u>	<u><u>34,303</u></u>

The Authority received support worth Shs42.8 million (2018:Shs24.8 million) in the year to support institutional capacity for Medium Term resident advisory on Funding Gap assessment in Kenya, Consultancy for the Hybrid Bond Market, to Develop Specifications for an Information Repository, System, and advisory for the E-Learning System and Communications/ IT Infrastructure for the Capital Market Authority.

8. Revenue from exchange transactions - other income	2019	2018
	Shs'000	Shs'000
Interest income	104,106	103,972
Miscellaneous income	<u>1,713</u>	<u>3,384</u>
	<u><u>105,819</u></u>	<u><u>107,355</u></u>

9. (Loss)/Gain on disposal of property and equipment		
Gain or (loss) on disposal of obsolete and retired Property and Equipment	<u>132</u>	<u>(17)</u>

10. Surplus		2019	2018
a) Items charged	Note	Shs'000	Shs'000
The following items have been charged in arriving at net surplus for the year			
Depreciation of property and equipment	17	16,939	23,594
Amortisation of intangible assets	18	2,636	3,359
Authority board members' emoluments, allowances and other Board related expenses	27	31,553	32,298
Post employment benefits expense	10(b)	32,180	34,478
Provision on Trade and other receivables	13(b)	<u>100</u>	<u>441</u>

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

NOTES (CONTINUED)

10 b. Employee benefits expense	2019	2018
	Shs'000	Shs'000
The following items are included in employee benefits expense:		
Retirement benefit costs	31,822	34,136
Defined contribution scheme	<u>358</u>	<u>342</u>
National Social Security Fund	<u>32,180</u>	<u>34,478</u>

The Authority operated an in-house defined benefits pension scheme for its employees and made contributions up to 31 December 2011. The investment of the scheme's assets is managed by an independent fund manager, GenAfrica Investment Management Limited, on behalf of the Trustees. **The DB Scheme has since been wound up and the assets were in the process of being transferred to the DC Scheme by 30th June 2019.**

11 a. Transfer of Surplus to National Treasury

	2018/2019		2017/2018	
	Shs'000	Shs'000	Shs'000	Shs'000
Total Revenue (Note No.6, 7,8 and 9)		1,044,093		967,469
Operating Expenses		<u>(900,341)</u>		<u>(889,282)</u>
Surplus before tax		143,752		78,187
Add back:				
Depreciation	16,939		23,594	
Amortization	<u>2,636</u>	<u>19,575</u>	<u>3,359</u>	<u>26,952</u>
Adjusted Surplus		163,328		105,140
Transfer from Deferred Income				
Adjusted Surplus		163,328		105,140
Less:				
Building fund	(20,000)		(60,000)	
Capital expenditure	(23,683)		(9,666)	
Intangible Assets	-		(2,283)	
Staff Mortgages net	(16,593)		(11,312)	
Staff Car loans net	(45)		1,595	
Net Surplus/ (Deficit)		<u>(60,321)</u>		<u>(81,666)</u>
90%		103,006		23,474
90% Surplus due to KRA		<u>92,706</u>		<u>21,127</u>

On 20th March 2015, The National Treasury issued PFMA Regulation No.34 which under section 219 exempts the Authority from paying taxes in the future. The regulation requires corporations exempted from income tax to remit 90% of surplus to National Treasury. The Authority will remit **Ksh92.7 million** (FY2017/18- Ksh21.1 million) in the year.

11 b. The Authority is an appointed agent of KRA for Withholding agency Tax and Withholding VAT respectively. In the Financial Year 2018/19 remittances of **Ksh. 9.06 million** (FY 2017/18: Ksh 10.38 million) for Withholding Tax and **Ksh. 10.76 million** (FY 2017/18: Ksh 8.58 million) for Withholding VAT were made.

12. Inventories	2019	2018
	Shs'000	Shs'000
Consumables	<u>1,622</u>	<u>1,638</u>

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

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

NOTES (CONTINUED)

13a. Trade and other receivables from non exchange transactions						
				2019	2018	
				Shs'000	Shs'000	
Trade receivables				42,571	49,936	
Statutory management expenses receivable				-	-	
Less: Provision for impairment losses				<u>(4,546)</u>	<u>(4,546)</u>	
Net trade receivables				38,025	45,390	
Other receivables				<u>7,181</u>	<u>7,124</u>	
Trade and other receivables from non exchange transactions				<u><u>45,206</u></u>	<u><u>52,514</u></u>	
13b. Trade and other receivables from exchange transactions				2019	2018	
				Shs'000	Shs'000	
Trade receivables				3,564	3,106	
Less: Provision for impairment losses				-	-	
Net trade receivables				<u>3,564</u>	<u>3,106</u>	
Prepayments				<u>11,112</u>	<u>9,601</u>	
Trade and other receivables from exchange transactions				<u><u>14,676</u></u>	<u><u>12,707</u></u>	
Total trade and other receivables from non exchange and exchange transactions				<u><u>59,882</u></u>	<u><u>65,221</u></u>	
The movement on the provision for impairment losses for non exchange transactions is as follows:						
At 1st July				4,546	4,104	
Less: Provision utilised as debts written off				-	-	
Less: Provision reversed on debt collection				-	-	
At 30th June				<u><u>4,546</u></u>	<u><u>4,104</u></u>	
The movement on the provision for impairment losses for exchange transactions is as follows:						
At 1st July				-	-	
Add: Additional provision				-	(441)	
At 30th June				-	<u><u>(441)</u></u>	
14. Staff loans and advances						
	Current	Current	Non- current	Non-	Total	Total
	2019	2018	2019	current	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Car loans	13,827	11,828	18,255	20,209	32,082	32,036
Other loans and advances	2,213	4,481			2,213	4,481
Staff mortgage back up funds*	<u>34,169</u>	<u>32,240</u>	<u>324,313</u>	<u>309,649</u>	<u>358,482</u>	<u>341,888</u>
	<u><u>50,208</u></u>	<u><u>48,548</u></u>	<u><u>342,568</u></u>	<u><u>329,858</u></u>	<u><u>392,776</u></u>	<u><u>378,406</u></u>

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

Mortgage back up accounts are:

HFC: Mortgage 3000013543 and Mortgage 2000094161

KCB Mortgage MM1509100194

Total

Shs'000

180,899

177,582

358,482

NOTES (CONTINUED)

15. Held-to-maturity investments - government securities

	2019	2018
	Shs'000	Shs'000
Non-current		
Treasury bonds		
Maturing after four years	129,950	135,000
Unamortised premium	<u>(8,464)</u>	<u>(9,994)</u>
	<u>121,486</u>	<u>125,006</u>
Treasury bonds		
Maturing after one year	20,375	65,484
Unamortised (discount)/premium	<u>0</u>	<u>(14)</u>
	<u>20,375</u>	<u>65,470</u>
	<u>141,861</u>	<u>190,476</u>
Current		
Treasury bonds		
Maturing within one year	45,110	62,976
Unamortised (discount)/premium	<u>(7)</u>	<u>9</u>
	<u>45,103</u>	<u>62,984</u>
Treasury bills	1,014,150	818,800
Unamortised discount	<u>(29,833)</u>	<u>(45,248)</u>
	<u>984,317</u>	<u>773,552</u>
	<u>1,029,420</u>	<u>836,536</u>
	<u>1,171,281</u>	<u>1,027,012</u>

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

Non- current		
Held-to-maturity investments	<u>141,861</u>	<u>190,476</u>
Current		
Held-to-maturity investments	<u>1,029,420</u>	<u>836,536</u>

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

NOTES (CONTINUED)

				2019 Shs'000	2018 Shs'000
16a. Banks	Name of the Bank	Bank account no.	Account currency		
	Commercial Bank of Africa Limited	6580810018	Shs	5,475	17,735
16b. Cash in hand					
	Cash in hand		Shs	140	140
16c. Short term deposits					
	Commercial Bank of Africa Limited	MM1816900016	Shs	24,000	25,000
				<u>24,000</u>	<u>25,000</u>
	Total cash in hand and bank			<u>29,615</u>	<u>42,875</u>
	For the purpose of the cash flow statement, cash and cash equivalents comprise the following:				
	Short-term bank deposits			24,000	25,000
	Cash at bank and in hand			5,615	17,875
	Investors Compensation Fund bank balance (Note 16) - (KCB)			<u>1,176</u>	<u>24,953</u>
				<u>30,791</u>	<u>67,828</u>
17. Investors' Compensation Fund					

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

The fund derives its income from the following sources:

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

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

	2019 Shs'000	2018 Shs'000
At beginning of the year	2,270,817	1,883,311
Nairobi Securities Exchange transactions fees	78,033	80,230
Interest on investments	263,116	214,234
Financial penalties	555,286	43,029
Withdrawals (Investor Claims)	(563)	-
Gain /(loss)in Investment in NSE	(44,396)	50,531
Management Fees	(500)	(500)
Bank Charges	(44)	(18)
At end of the year	<u>3,121,749</u>	<u>2,270,817</u>

NOTES (CONTINUED)

17. Investors' Compensation Fund (continued)

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

	2019 Shs'000	2018 Shs'000
Non-current		
Equity investment in the Central Depository and Settlement	12,250	12,250
Equity investment in the NSE	<u>107,188</u>	<u>154,875</u>
	119,438	167,125
Treasury bonds		
Maturing after five years	776,950	802,000
Unamortised discount (premium)	<u>(513)</u>	<u>(1,211)</u>
	<u>776,437</u>	<u>800,789</u>
Maturing after one year	290,465	303,450
Unamortised discount	<u>789</u>	<u>1,304</u>
	<u>291,254</u>	<u>304,754</u>
	<u>1,067,691</u>	<u>1,105,543</u>
	<u>1,187,129</u>	<u>1,272,668</u>
Current		
Treasury bonds	20,000	94,800
Unamortised discount	<u>(7)</u>	<u>157</u>
	<u>19,993</u>	<u>94,957</u>
Treasury bills	1,973,500	877,900
Unamortised discount	<u>(104,565)</u>	<u>(46,904)</u>
	<u>1,868,935</u>	<u>830,996</u>
Fees receivable	44,516	47,242
Bank balance	1,176	24,953
Call account	<u>-</u>	<u>-</u>
	<u>45,692</u>	<u>72,195</u>
	<u>1,934,621</u>	<u>998,149</u>
	<u>3,121,749</u>	<u>2,270,816</u>

Capital Markets Authority
Financial statements
For the year ended 30th June 2017

NOTES (CONTINUED)

18. Property and equipment	Motor vehicles Shs'000	Computers, Computer & Copiers Shs'000	Office equipment Shs'000	Furniture & fittings Shs'000	Capital work-in- progress Shs'000	Total Shs'000
Cost						
At 1st July 2017	29,818	114,404	23,090	87,968	4,037	259,317
Additions	-	5,137	430	3,705	-	9,666
Disposals		(335)				(335)
Reversal					(4,037)	(4,037)
At 30th June 2018	29,818	119,206	23,520	91,673	393	264,611
Additions	11,300	8,035	296	101	3,951	23,683
Disposals	0	(4,598)	(1,992)	(1,984)	0	(8,574)
Reversal	0	0	0	0	(393)	(393)
At 30th June 2019	41,118	122,643	21,823	89,791	3,951	279,327
Depreciation						
At 1st July 2017	(21,557)	(97,277)	(16,050)	(68,119)	-	(203,003)
Depreciation	(2,950)	(7,980)	(2,146)	(10,518)		(23,594)
Accumulated depreciation reversed on disposal		298				298
At 30th June 2018	(24,506)	(104,960)	(18,197)	(78,637)	-	(226,299)
Depreciation	(2,638)	(7,674)	(2,164)	(4,464)	0	(16,939)
Accumulated depreciation reversed on disposal	0	4,343	1,992	1,893	0	8,228
At 30th June 2019	(27,144)	(108,290)	(18,368)	(81,208)	-	(235,011)
Net carrying amount						
At 30th June 2019	<u>13,974</u>	<u>14,353</u>	<u>3,455</u>	<u>8,582</u>	<u>3,951</u>	<u>44,316</u>
At 30th June 2018	<u>5,312</u>	<u>14,247</u>	<u>5,323</u>	<u>13,036</u>	<u>393</u>	<u>38,312</u>

Included above in the items of property and equipment is the cost of fully depreciated assets of Shs 185,361,090 (2018: Shs 147,432,099) which are still in use and have not been impaired. Work in progress was carried at cost.

Work in progress relates to the works on the new employees Lounge on 3rd Floor which was completed by July 2019. The detailed works are as follows:

Description	Cost Ksh'000
New Employee Lounge on 3rd Floor	3,951
Total	<u>3,951</u>

NOTES (CONTINUED)

	Intangible assets Shs'000
19. Intangible assets	
Software costs	
Cost	
At 1st July 2017	166,180
Additions	2,283
Derecognition of intangible asset	
At 30th June 2018	168,463
Additions	-
	-
At 30th June 2019	168,463
Amortisation	
At 1st July 2017	160,161
Amortisation	3,359
At 30th June 2018	163,520
Amortisation	2,636
	-
At 30th June 2019	166,156
Net book value	
At 30th June 2019	2,307
At 30th June 2018	4,943

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

NOTES (CONTINUED)

	2019 Shs'000	2018 Shs'000
20. Trade and other payables		
Trade payables	27,154	10,149
Provisions	117,122	92,307
Gratuity obligations	37,865	24,890
Accruals	<u>33,972</u>	<u>71,360</u>
	<u>216,113</u>	<u>198,706</u>

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

Provisions	Leave benefits Shs'000	Performance Shs'000	Total Shs'000
At 1st July 2018	14,429	77,878	92,307
Additional provisions raised	15,108	24,136	39,244
Provision utilized/reversed	<u>(14,429)</u>	<u></u>	<u>(14,429)</u>
At 30th June 2019	<u>15,108</u>	<u>102,014</u>	<u>117,122</u>

Accruals	Consultancies Shs'000	Other Provisions Shs'000	Total Shs'000
At 1st July 2018	5,908	45,847	51,755
Additional accruals	865	26,810	27,674
Accruals realized	<u>(5,691)</u>	<u>(40,267)</u>	<u>(45,958)</u>
At 30th June 2019	<u>1,082</u>	<u>32,390</u>	<u>33,472</u>

21. Provision for liabilities and charges

At 1st July 2018	79,085	95,906
Add: Additional provision	31,405	44,689
Less: Provision written back	<u>(28,044)</u>	<u>(61,510)</u>
At 30th June 2019	<u>82,446</u>	<u>79,085</u>

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

NOTES (CONTINUED)

	2019	2018
	Shs'000	Shs'000
22. Capital fund		
At 1st July 2018 and at 30th June 2019	<u>27,886</u>	<u>27,886</u>
Capital fund represents the initial contribution by the Government of Kenya towards the establishment of the Capital Markets Authority.		
23. General fund		
At 1 July		
Surplus for the year	695,642	698,582
Transfer to building fund (Note 24)	51,046	57,060
	<u>(20,000)</u>	<u>(60,000)</u>
At 30 June	<u>726,688</u>	<u>695,642</u>
General fund represents accumulated surpluses over the years.		
24. Building fund		
At 1 July		
Appropriation from general fund (Note 23)	535,963	475,963
	<u>20,000</u>	<u>60,000</u>
At 30 June	<u>555,963</u>	<u>535,963</u>
Building fund represents an appropriation from the general fund towards the construction of the Authority's future building. The appropriations are in line with the approved budget for the year.		
25. Related party transactions		
	2019	2018
	Shs'000	Shs'000
i) Board members of the Authority' remuneration		
Honoraria	348	1,044
Retainer	8,179	6,911
Sitting allowances	8,100	5,740
Training expenses	7,727	7,879
Others (medical, mileage, bonus)	<u>7,200</u>	<u>10,724</u>
	<u>31,553</u>	<u>32,298</u>
There were 10 board members during the year (2018:10)		
ii) Key management compensation		
Gross salaries include accrual for increment	39,550	37,155
Pension-NSSF	10	10
Gratuity	<u>9,360</u>	<u>9,331</u>
	<u>48,919</u>	<u>46,496</u>
There were 4 members of senior management who served during the year (2018:4)		

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

NOTES (CONTINUED)

26. Commitments

a. Contracted for but not recognised

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

	2019 Shs'000	2018 Shs'000
Capital expenditure contracted for	4,614	10,000
Recurrent expenditure contracted for	<u>2,792</u>	<u>23,615</u>
	<u>7,406</u>	<u>33,615</u>

b. Item description

	Capital Shs'000	Recurrent Shs'000	Total Shs'000
CCTV Surveillance System	653		653
Network Access Control	3,962		3,962
Fire detection & Suppression Maintenance		696	696
Offsite storage services		500	500
Bar Code readable tags and scanner		594	594
Office renovation/ repainting		<u>1,002</u>	<u>1,002</u>
Total	<u>4,614</u>	<u>2,792</u>	<u>7,406</u>

Operating lease commitments

Operating lease commitments represent rentals payable by the Authority for rented office space. Rental expenses during the year amounted to Shs 36,363,000 (2018: Shs36,387,000).

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

	2019 Shs'000	2018 Shs'000
Not later than 1 year	36,363	36,387
Later than 1 year and not later than 5 years	<u>142,872</u>	<u>130,556</u>
	<u>179,235</u>	<u>166,943</u>

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

27. Contingent liabilities

- a) In the normal course of operation, Kenya Revenue Authority (KRA) had completed a tax audit for the period 2007 to 2012 and had issued an assessment notice. The total tax liability arising from the year 2012 assessment was Shs 46 million. The Authority in conjunction with its tax agents has been following up on the outstanding tax issues raised. Principal tax arrears amounting to Shs 12 million were paid in the previous years and the Authority had applied for set-off of tax paid in error in previous years amounting to Shs 14.8 million. The Authority had also applied for waiver of interest and penalties amounting to Shs 19 million providing mitigating grounds in support of the waiver. The KRA has in the course of the financial year 2015/16 granted full waiver of interest and penalties for the years 2003-2009 estimated at Shs9.5million. The balance on the Statement of Account (comprising of penalties and interest for the years 2010-2012), for which waiver was applied for is being addressed by KRA. Based on the professional advice received and the mitigating grounds provided, the Authority is of the opinion that no material liability is expected to arise to have an impact on these financial statements.
- b) In the course of the conduct of its regulatory mandate claims for specified and unspecified damages have been lodged against the Authority before the Courts and the Capital Markets Tribunal and the proceedings are still ongoing. In this regard, as permitted by IAS 37.92, in order not to prejudice the outcomes of the proceedings and the interests of the Authority, and noting the uncertainty regarding the timing or amount of contingent liabilities in connection with these cases, the Directors have not made any further disclosures about estimates. There has been one specified contingent liability of Kshs.95 million arising from a legal case that arose in the previous year. The matter in question was struck out at first instance and also later when the plaintiffs moved to the court of appeal in favour of the Authority. Legal advice obtained indicates that it is unlikely that liability for the Kshs. 95 Million will arise should the matter proceed to the apex court. The directors are of the view that no material losses will arise in respect of the legal claim at the date of these financial statements and therefore have made no provision.

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

NOTES (CONTINUED)

	2019 Kshs'000	2018 Kshs'000
28 Operating expenditure		
28.1 Employment expense		
Consolidated pay, leave pay and passages	434,023	401,697
Staff uniform expenses	408	405
Staff welfare and other costs	12,266	20,376
Staff retirement benefits	31,822	34,136
Staff gratuity	12,791	11,449
National Social Security Fund (NSSF)	<u>358</u>	<u>342</u>
	<u>491,668</u>	<u>468,404</u>
28.2 Other administrative expenses		
Rent and maintenance	38,610	37,155
Equipment maintenance and stationery	38,103	42,216
Telephone, postage and utilities	14,765	15,654
Entertainment and public relations	18,726	17,231
Medical scheme and insurance expenses	36,146	32,997
Training and conferences	64,546	62,849
Motor vehicle running expenses	5,870	6,008
Subscriptions and IOSCO membership	11,390	9,854
Authority board members' emoluments and allowances	31,553	32,298
Professional and market development services	111,248	109,982
Depreciation of property and equipment	16,939	23,594
Amortisation of intangible assets	2,636	3,359
Auditor's remuneration	1,726	1,726
Investors' education and awareness programme	16,016	24,213
Tribunal expenses	399	1,302
Provision for doubtful debts	<u>0</u>	<u>441</u>
	<u>408,673</u>	<u>420,877</u>
Total expenditure	<u><u>900,341</u></u>	<u><u>889,282</u></u>

Capital Markets Authority
 Financial statements
 For the year ended 30th June 2019

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue/Observations from Auditor	Management Comments	Focal Point person to resolve the issue (Name and Designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
All observations made in the Management Letter were resolved in the financial statements of FY2017/18.					


 Chief Executive


 Chairman of the Board

Date.....

Date.....

Capital Markets Authority
Financial statements
For the year ended 30th June 2019

Appendix 1: Projects implemented by the Entity

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

Project Number	Project title	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)
1	Establish an oversight framework for derivatives market	FSSP	19 months	Yes	Yes. Quarterly reports done to World Bank through PIU
2	Hybrid Bond Market Model Implementation and Acquisition of a Bond Trade Reporting System	FSSP	10 months	Yes	Yes. Quarterly reports done to World Bank through PIU
3	Provide alternative funding for counties through capital markets	FSSP	20 months	Yes	Yes. Quarterly reports done to World Bank through PIU
4	Consultancy services to develop specifications for Acquiring an Information Repository System, Financial Analysis Framework, Enhancement Communication Infrastructure	FSSP	22 months	Yes	Yes. Quarterly reports done to World Bank through PIU
5	Review and Design securities Market Surveillance System	FSSP	12 months	Yes	Yes. Quarterly reports done to World Bank through PIU
6	Upgrade and integration of the Capital Markets Authority's Market Surveillance system to the new Automated Trading System at the Exchange and the Central Depository system	FSSP	3 months	Yes	Yes. Quarterly reports done to World Bank through PIU

Status of Projects completion

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

Project	Total project Cost (USD)	Total expended to date (USD)	Completion % to date	Budget	Sources of Funds
1	\$158,850	\$120,117.57	90%	\$158,850	World Bank through FSSP
2	\$181,512	\$134,748.66	95%	\$181,512	World Bank through FSSP
3	\$104,300	\$99,555	95%	\$104,300	World Bank through FSSP
4	\$284,998.27	\$237,998.53	70%	\$284,998.27	World Bank through FSSP
5	\$290,000	\$29,000	10%	\$290,000	World Bank through FSSP
6	\$66,671	\$6,667	10%	\$66,671	World Bank through FSSP

**Capital Markets Authority
Financial statements
For the year ended 30th June 2019**

Appendix 2- Inter Entity Transfers

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/ Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
FSSP	See Appendix 3	Recurrent	8,215,943	8,215,943	-	-	-	-	8,215,943
FSSP	See Appendix 3	Direct Payments	41,801,765	41,801,765	-	-	-	-	41,801,765
Total			50,017,707	50,017,707	-	-	-	-	50,017,707

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

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

Finance Manager
Capital Markets Authority

Sign 

KEY:

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

