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**CA  
Performance Risk Management Report Quarter ended October - December (Quarter 2), 2019-2020**

**Background**

The main objective of the established Enterprise Risk Management (ERM) framework is to ensure alignment of strategy, processes, people, technology and funds in order to identify, evaluate and manage opportunities, uncertainties and threats in a structured and disciplined manner and geared towards achieving strategic objectives.

As part of the reporting requirements contained in the Risk Management Policy and Procedures, Management is mandated to report on a periodic basis to the Board on the extent of implementation of risk management strategies. This report presents progress made in the implementation of risk mitigation strategies established under the Enterprise Risk Management Framework that was adopted by the Board in August 2017. Presented below is the risk assessment and ranking methodology adopted;

**Risk Impact Rating And Score**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Insignificant 1** | **Minor 2** | **Moderate 3** | **Major 4** | **Catastrophic 5** |
| An event that, if it occurs would have no effect on the achievement of the targets set | An event that, if it occurs, will cause small cost (and/or schedule) increases that, in most cases, can be absorbed by the activity, project or department | An event that, if it occurred, would cause moderate cost and schedule increases, but important requirements would still be met | An event that, if it occurred, would cause major cost and schedule increases. Secondary requirements may not be achieved | The regulatory or statutory standing of the Authority is brought into serious question or the project is terminated |

**Opportunity Impact Rating And Score**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Insignificant 1** | **Minor 2** | **Moderate 3** | **Major 4** | **Transformational 5** |
| An opportunity that if it materializes would have no noticeable effect on the achievement of the targets set. | An opportunity that if it materializes would yield a small cost and/or schedule saving to an activity, project or department | An opportunity that if it materializes would yield a moderate cost and/or schedule savings and would enhance the achievement of important requirements | An opportunity that if it materializes would yield a major cost and/or schedule savings and would greatly enhance the achievement of important and secondary requirements | An opportunity that if it materializes would greatly transform the strategic impact of the Authority and the continued realization of its strategic mandate. |

**Risk/ Opportunity Likelihood Rating and Score**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Probability** | **Description** | **Risk Score** | **Opportunity Score** | **Consideration** |
| Almost Certain | 90% or greater chance of the event occurring during the life of the objective | 5 | 5 | The risk/ opportunity event has occurred during the last 3-6 months or is certain to occur in the next 3-6 months |
| Highly Likely | 65% to 90% chance of the event occurring during the life of the objective | 4 | 4 | There is a history of frequent occurrence. The risk/ opportunity event has occurred during the last 6-12 months or may occur in the next 6-12 months |
| Likely | 35% to 65% chance of the event occurring during the life of the objective | 3 | 3 | There is a history of casual occurrence. The risk/ opportunity event has occurred during the last 12-36 months or may occur in the next 12-36 months |
| Unlikely | 10% to 35% chance of the event occurring during the life of the objective | 2 | 2 | The risk/ opportunity event occurs from time to time. The event has occurred during the last 36-60 months or may occur in the next 36-60 months |
| Rare | Less than 10% chance of the event occurring during the life of the objective | 1 | 1 | The risk/ opportunity event has not occurred in CMA but has occurred in other similar organizations. The risk event may occur beyond the next 60 months |

**Overall Risk Rating Risk Treatment Decision**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Impact | Catastrophic 5 | 5 | 10 | 15 | 20 | 25 |
| Major 4 | 4 | 8 | 12 | 16 | 20 |
| Moderate 3 | 3 | 6 | 9 | 12 | 15 |
| Minor 2 | 2 | 4 | 6 | 8 | 10 |
| Insignificant 1 | 1 | 2 | 3 | 4 | 5 |
|  | | Rare 1 | Unlikely 2 | Likely 3 | Highly Likely 4 | Almost Certain 5 |
| Likelihood | | | | |

|  |  |  |
| --- | --- | --- |
| **Overall Score** | **Overall Rating** | **Risk Treatment Decision** |
| 20-25 | Very High | Extensive management essential |
| 10-16 | High | Management effort required |
| 5-9 | Medium | Management effort worthwhile |
| 3-4 | Low | Risk may be worth accepting while monitoring |
| 1-2 | Very Low | Accept |

**Overall Opportunity Rating Opportunity Treatment Decision**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Impact | Transformational 5 | 5 | 10 | 15 | 20 | 25 |
| Major 4 | 4 | 8 | 12 | 16 | 20 |
| Moderate 3 | 3 | 6 | 9 | 12 | 15 |
| Minor 2 | 2 | 4 | 6 | 8 | 10 |
| Insignificant 1 | 1 | 2 | 3 | 4 | 5 |
|  | | Rare 1 | Unlikely 2 | Likely 3 | Highly Likely 4 | Almost Certain 5 |
| Likelihood | | | | |

|  |  |  |
| --- | --- | --- |
| **Overall Score** | **Overall Rating** | **Opportunity Treatment Decision** |
| 20-25 | Very High | Extensive management effort essential to harness opportunity |
| 10-16 | High | Management effort required to actualize opportunity |
| 5-9 | Medium | Management effort worthwhile to pursue opportunity |
| 3-4 | Low | Opportunity worth monitoring |
| 1-2 | Very Low | Opportunity worth noting |

**Detailed Activities With Risks**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **NO** | **Strategic Objective** | **Strategic Outcome** | **Strategic KPI** | **Departmental Objective** | **Related Risk/s** | **Activity Description** | **Departmental Activity KPI** | **Activity Performance Update** |
| 1 | To Ensure sound market infrastructure, institutions and operations | -> Supervision, Stability and Governance | ->100% implementation of supervision program on compliance status of issuers and market intermediaries. | To enhance adherence and enforcement of sound financial reporting standards and continuous reporting obligations | High Cost of continuous reporting obligations (publication of financial statements and advertisements especially for small size companies) 15Failure of reporting system (RBSS) 12Sub optimal external capacity (technical skills) 15 | To Review compliance by participants with International Financial Reporting Standards (IFRS) **78 %** | 100% review of compliance by participants with International Financial Reporting Standards (IFRS) | All submissions of financial statements in the quarter were reviewed in line with the International Financial reporting standards |
| 2 | To Ensure sound market infrastructure, institutions and operations | -> Supervision, Stability and Governance | ->100% compliance of applications with regulatory requirements, eligibility criteria and turnaround times. | To act as gate keepers in ensuring that compliant firms and products are admitted into the capital markets leading to sound institutions and operations | Failure to timely detect misleading or falsified third party information and financial statements used in approvals and analysis 16Un-updated checklists 6Sub optimal external capacity (technical skills) 15Succumbing to external influence/pressure 16Gaps/inconsistencies in the regulatory framework eg Collective Investment Schemes regulations 15Stringent regulatory requirements 15 | To co-ordinate the review and approval of applications in compliance with regulatory requirements **95 %** | 95% compliance of approved applications with regulatory requirements | Applications received in the quarter were reviewed in line with regulatory provisions |
| 3 | To Ensure sound market infrastructure, institutions and operations | -> Supervision, Stability and Governance | ->100% compliance of applications with regulatory requirements, eligibility criteria and turnaround times. | To act as gate keepers in ensuring that compliant firms and products are admitted into the capital markets leading to sound institutions and operations | Failure to timely detect misleading or falsified third party information and financial statements used in approvals and analysis 16Sub optimal internal capacity (staff numbers and skills set in review of new products) 20 | To co-ordinate the review and approval of applications within set timelines **100 %** | 100% compliance with set timelines | i) The turnaround time for issuance of licenses is 25 days ; the turnaround time achieved for this quarter was 9 days ) ii) The turnaround time for approval of issue of securities and private transfers is 14 days; the turnaround time for this quarter was achieved in 4.71 days hence an over achievement ii) Approval of corporate actions ought to be achieved within 7 days , the days achieved was 1 day |
| 4 | To Ensure sound market infrastructure, institutions and operations | -> Supervision, Stability and Governance | ->100% implementation of supervision program on compliance status of issuers and market intermediaries. | To enhance adherence and enforcement of sound financial reporting standards and continuous reporting obligations | Sensitization of market participants on new and existing application requirements and continuous reporting obligations 15High Cost of continuous reporting obligations (publication of financial statements and advertisements especially for small size companies) 15Failure of reporting system (RBSS) 12Failure by government majority owned listed companies to submit and publish audited financial statements 20 | To review compliance by issuers of securities and market intermediaries with the continuous reporting obligations. **90 %** | Ensure 100% of firms comply with continuous reporting obligations | All reviews due in the quarter were done |
| 5 | To Ensure sound market infrastructure, institutions and operations | -> Supervision, Stability and Governance | ->100% implementation of supervision program on compliance status of issuers and market intermediaries. | To enhance adherence and enforcement of sound financial reporting standards and continuous reporting obligations | High Cost of continuous reporting obligations (publication of financial statements and advertisements especially for small size companies) 15Failure of reporting system (RBSS) 12Sub optimal external capacity (technical skills) 15 | To review compliance by issuers of securities and market intermediaries with financial requirements **90 %** | 100% Review of firm’s compliance with financial requirements | All the reviews due in the quarter for issuer, market intermediaries and collective investment schemes were done |
| 6 | To Ensure sound market infrastructure, institutions and operations | -> Supervision, Stability and Governance | ->100% compliance of applications with regulatory requirements, eligibility criteria and turnaround times. | To facilitate approval of notifications and announcements by listed companies and licensed entities | Failure to timely detect misleading or falsified third party information and financial statements used in approvals and analysis 16 | To establish the fitness and probity of key personnel of licensed entities at entry and on an ongoing basis **100 %** | Ensure 100% of key personnel are fit and proper at the point of entry | All fit and proper applicants received in the quarter have been reviewed and feedback given |
| 7 | To Ensure sound market infrastructure, institutions and operations | -> Supervision, Stability and Governance | ->100% compliance of applications with regulatory requirements, eligibility criteria and turnaround times. | To identify gaps in regulations during application review process and send proposals for amendments of regulations or policy to DRPS | Failure to timely detect misleading or falsified third party information and financial statements used in approvals and analysis 16Sub optimal external capacity (technical skills) 15Succumbing to external influence/pressure 16Gaps/inconsistencies in the regulatory framework eg Collective Investment Schemes regulations 15 | Continuously identify regulatory requirements creating unintended barriers to access or unduly increasing cost of compliance for revision and waiver pending amendment as appropriate **80 %** | To send proposals for review of public offers regulations by 31st March 2020 | A team was set up to review issuance of securities by Limited Liability Partnerships (LLPs) . Other regulatory changes like amendment to guidance note on credit rating was done in the quarter |
| 8 | To Ensure sound market infrastructure, institutions and operations | -> Supervision, Stability and Governance | ->100% compliance of applications with regulatory requirements, eligibility criteria and turnaround times. | To facilitate approval of notifications and announcements by listed companies and licensed entities | Sub optimal internal capacity (staff numbers and skills set in review of new products) 20 | To facilitate the approval of announcements of material changes in listed companies **100 %** | 100% compliance with set timelines | The turnaround times for announcements and advertisements is 1 day; announcements were approved within a day as per the timelines. |
| 9 | To Ensure sound market infrastructure, institutions and operations | -> Supervision, Stability and Governance -> Supervision, Stability and Governance | ->Adoption of GIPS by at least 30% of licensed fund managers. ->Adoption of GIPS by at least 30% of licensed fund managers. | To act as gate keepers in ensuring that compliant firms and products are admitted into the capital markets leading to sound institutions and operations | Strategic engagements with stakeholders such as ICPAK, FMA, KASIB, KBA etc 16Lack of uniformity in reporting yield by fund managers 15Overlapping mandate between the Authority and other regulatory bodies 6Yield driven investment decisions by fund managers without due regard to quality of the investment 20 | Investigate the appetite and requirement to implement GIPS across the fund management industry **45 %** | Adoption of GIPS by at least 30% of licensed fund managers. | Specific aspects of the GIPS are being compiled to be considered in the revision of the Collective Investment Scheme regulations. The TORs for consultant for CIS regulations has already been drafted |
| 10 | To facilitate the development, diversification and uptake of capital market products and services | -> Optimal Product and Services Uptake and Market Deepening | ->Number of capital markets issuers with capital markets products related to the manufacturing, housing, agriculture and healthcare sector increased by two (2) by June 2020. | To continuously engage with identified potential issuers of securities by DRPS including private equity firms, banks, Government entities, Public Private partnerships | Sub optimal internal capacity (staff numbers and skills set in review of new products) 20Sub optimal external capacity (technical skills) 15Gaps/inconsistencies in the regulatory framework eg Collective Investment Schemes regulations 15Stringent regulatory requirements 15 | To engage with various stakeholders and potential issuers identified by DRPS to facilitate market deepening **90 %** | Number of meetings with potential applicants identified with DRPS | Engagements were held with a few potential applicants in the quarter |
| 11 | To Ensure sound market infrastructure, institutions and operations | -> Supervision, Stability and Governance | ->100% compliance of applications with regulatory requirements, eligibility criteria and turnaround times. | To continuously engage with identified potential issuers of securities by DRPS including private equity firms, banks, Government entities, Public Private partnerships | Sub optimal internal capacity (staff numbers and skills set in review of new products) 20Gaps/inconsistencies in the regulatory framework eg Collective Investment Schemes regulations 15Lack of appreciation of the existing products and their supporting regulatory frameworks 9 | Hold pre review meetings with applicants **80 %** | Number of meetings with applicants (20 meetings by June 2020) | More than four pre review meetings were held in the quarter |
| 12 | Leveraging technology to drive efficiency in the capital markets value chain | -> Institutional Service Delivery, Operational Efficiency and Sustainability | ->Enhanced business intelligence, analytics, policy formulation and decision making process across the Authority. | Internally leverage Information, communication and technology to enhance efficiency and service delivery | Failure of reporting system (RBSS) 12Sub optimal internal capacity (staff numbers and skills set in review of new products) 20Failure to timely detect misleading or falsified third party information and financial statements used in approvals and analysis 16 | Advanced Financial Analysis System Implemented **39 %** | To commence implementation of Advanced FA system | The consultant is expected in the authority from October 28th to November 8th for Business Intelligence and Data Repository project requirement gathering schedule |
| 13 | Leveraging technology to drive efficiency in the capital markets value chain | -> Institutional Service Delivery, Operational Efficiency and Sustainability | ->Enhanced business intelligence, analytics, policy formulation and decision making process across the Authority. | Internally leverage Information, communication and technology to enhance efficiency and service delivery | Optimal use of the RBSS system in the licensing and approval process and in undertaking financial analysis 16Failure of reporting system (RBSS) 12 | To ensure ease of submission of applications and returns by the market participants **42 %** | Online system is up and running | Attain system developer was placed in the department to streamline licensing and approval module and update some areas of reporting module. Extensive work has been done and testing of the system is ongoing. |
| 14 | Leveraging technology to drive efficiency in the capital markets value chain | -> Institutional Service Delivery, Operational Efficiency and Sustainability | ->Enhanced business intelligence, analytics, policy formulation and decision making process across the Authority. | Internally leverage Information, communication and technology to enhance efficiency and service delivery | Optimal use of the RBSS system in the licensing and approval process and in undertaking financial analysis 16Failure of reporting system (RBSS) 12 | To ensure ease of submission of applications and returns by the market participants Liaise with ICT department and populate more information on licensees. **42 %** | Detailed information on licensees available on our website (like broker checker in FINRA) | Attain system developer was placed in the department to streamline licensing and approval module and update some areas of reporting module. Extensive work has been done and testing of the system is ongoing. |
| 15 | To facilitate the development, diversification and uptake of capital market products and services | -> Optimal Product and Services Uptake and Market Deepening | ->Five (5) FinTech admitted to the test environment under the regulatory sandbox. | To act as gate keepers in ensuring that compliant firms and products are admitted into the capital markets leading to sound institutions and operations | Sub optimal internal capacity (staff numbers and skills set in review of new products) 20 | To review applications submitted for admission to regulatory sandbox. **100 %** | 100% compliance with policy guidance note | Three firms were admitted in the quarter that is Genghis, Wezesha and Inova |
| 16 | To Ensure sound market infrastructure, institutions and operations | -> Supervision, Stability and Governance | ->100% compliance of applications with regulatory requirements, eligibility criteria and turnaround times. | To act as gate keepers in ensuring that compliant firms and products are admitted into the capital markets leading to sound institutions and operations | Sub optimal external capacity (technical skills) 15Failure to timely detect misleading or falsified third party information and financial statements used in approvals and analysis 16Succumbing to external influence/pressure 16Sub optimal internal capacity (staff numbers and skills set in review of new products) 20 | Issuance of licenses within 25 working days after a complete application has been submitted **90 %** | Compliance with turn around time | The average issuance days was 9 days |

**RISK ANALYSIS  
Overview**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Impact | Catastrophic 5 |  |  |  |  |  |
| Major 4 |  |  | CA/R/1 | CA/R/6 CA/R/10 | CA/R/14 CA/R/15 CA/R/2 |
| Moderate 3 |  | CA/R/3 | CA/R/9 | CA/R/12 | CA/R/8 CA/R/13 CA/R/7 CA/R/11 CA/R/4 |
| Minor 2 |  |  | CA/R/5 |  |  |
| Insignificant 1 |  |  |  |  |  |
|  | | Rare 1 | Unlikely 2 | Likely 3 | Highly Likely 4 | Almost Certain 5 |
| Likelihood | | | | |

|  |  |  |  |
| --- | --- | --- | --- |
| No | Risk | Score | Ref No |
| 1 | Failure by government majority owned listed companies to submit and publish audited financial statements | 20 | CA/R/14 |
| 2 | Yield driven investment decisions by fund managers without due regard to quality of the investment | 20 | CA/R/15 |
| 3 | Sub optimal internal capacity (staff numbers and skills set in review of new products) | 20 | CA/R/2 |
| 4 | Succumbing to external influence/pressure | 16 | CA/R/6 |
| 5 | Failure to timely detect misleading or falsified third party information and financial statements used in approvals and analysis | 16 | CA/R/10 |
| 6 | Stringent regulatory requirements | 15 | CA/R/8 |
| 7 | Lack of uniformity in reporting yield by fund managers | 15 | CA/R/13 |
| 8 | Gaps/inconsistencies in the regulatory framework eg Collective Investment Schemes regulations | 15 | CA/R/7 |
| 9 | High Cost of continuous reporting obligations (publication of financial statements and advertisements especially for small size companies) | 15 | CA/R/11 |
| 10 | Sub optimal external capacity (technical skills) | 15 | CA/R/4 |

**Detailed Status of Departmental Risks**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **#** | **Description** | **Current Rating** | **Prior Rating** | **Risk Drivers** | **Risk Management Strategy Undertaken** | **Effect of Risk to Authority** | **Further action to be undertaken** | **Person Responsible** |
| 1 | Yield driven investment decisions by fund manager without due regard to quality of the investment | 20 (4\*5)arrow-bi-48.png | 20 (4\*5) | - Unfair competition among fund managers in attracting public funds  - The Collective Investment Scheme does not provide a standardized method of calculating yield | - Quarterly review of assets under management to check if all investments have been correctly reflected and invested within the limits  - We reviewed the TORs of the consultant to be hired to revise Collective Investment Scheme Regulations | - 1.Possible run in the CIS Industry 2.Loss to investors  - 1.Loss to investors | - Quarterly review of assets under management to check if all investments have been correctly reflected and invested within the limits  - Inclusion of GIPS provisions in amended CIS regulations | Manager Corporate approvals |
| 2 | Failure to timely detect misleading or falsified third party information and financial statements used in approvals and analysis | 16 (4\*4)arrow-down-48.png | 20 (4\*5) | - lack of integrity by licensed entities and issuers of securities  - lack of integrity by licensed entities and issuers of securities  - Unfair competition among fund managers | - 1. We enhanced internal processes and information gathering and verification options 2.CA team engaged those suspected of submitting misleading information as informed by trend analysis  - Recommendations made for enforcement  - We reviewed Assets Under Management by Fund managers | - 1. Low market confidence 2. Loss to investors 3. Litigation  - Loss to investors | - 1. Recommend for enforcement and investigation 2.Sensitize market players on strengthening their internal control and governance structures 3. Enhance internal capacity of staff to review information gathering and verification options  - Review reports of Assets Under Management to check if any investment that needs to be impaired is still being reflected | Manager Corporate Approvals |
| 3 | Lack of uniformity in reporting yield by fund managers | 15 (3\*5)arrow-down-48.png | 20 (4\*5) | - 1.Unfair competition among fund managers 2.The CIS regulations do not provide on how net assets value should be calculated | - We reviewed the Terms of Reference (TORs) for the consultant hired to review CIS regulations to ensure that provisions have been made to include GIPs in the regulations | - 1.Low confidence in the market 2. Loss to investors 3. Collapse of a fund | - Review draft Collective Investment Scheme regulations to ensure that GIPs provisions have been captured | Manager Corporate approvals |
| 4 | Failure by government majority owned listed companies to submit and publish audited financial statements | 20 (4\*5)arrow-bi-48.png | 20 (4\*5) | - Delay to appoint the Auditor General | - 1. We granted extension to the affected companies until the Auditor General is appointed 2.The affected companies were required to publish the extension notice providing adequate reason for the delay in publication of audited financial statements | - 1.Delay to analyse performance of the listed companies leading to delay in taking appropriate actions or proposing recommendations | - The affected companies to publish the extension notice providing adequate reason for the delay in publication of audited financial statements | Manager Corporate approvals |
| 5 | Succumbing to external influence/pressure | 16 (4\*4)arrow-up-48.png | 12 (4\*3) | - Poor internal controls | - 1.Cross departmental discussion and recommendation on several non compliance issues and status of market players including actions to be taken against them 2. Update was done to the board on action taken against licensed entities and issuers 3. Joint team discussion of complex applications requiring waivers and exemptions | - 1. Reputation risk 2. Investor apathy | - Sensitization of new staff on code of conduct | Manager Corporate Approvals |
| 6 | Quest by NSE to have more GEMS listings despite compliance | 12 (4\*3)arrow-up-48.png | 9 (3\*3) | - NSE quest to have more listings despite compliance of the proposed companies with the regulatory framework.  - Sub-optimal staff capacity at the NSE (skill set and numbers) | - Continuous engagement with the NSE while reviewing applications for GEMS listing. However, no GEMS application has been reviewed during the quarter. | - 1. Reputational risk 2. Issuer apathy 3. Loss to the Authority as more resources are deployed to review applications that NSE would have fully reviewed e.g GEMS applications.  - 1. Reputational risk 2. Issuer apathy 3. Loss to the Authority as more resources are deployed to review applications that NSE would have fully reviewed e.g GEMS applications. | - 1. continue engaging with the NSE while reviewing applications for GEMS listing. | Manager Corporate Approvals , Director-Market Operations , Manager Human Capital & Administration |
| 7 | Stringent regulatory requirements | 15 (3\*5)arrow-bi-48.png | 15 (3\*5) | - Conflicting expectations eg on the lock in period, legal and financial requirements and approval fees  - Conflicting expectations eg on the lock in period, legal and financial requirements and approval fees | - Pre review meetings held with applicants | - 1. Missed opportunities for market participants 2.Low liquidity in the market | - 1.Consider exemptions on a case by case basis 2.Engage the market to understand what they consider burdensome 3. Suggest areas of regulatory amendments | Manager Corporate Approvals , Director-Market Operations |
| 8 | Un-updated checklists | 6 (3\*2)arrow-bi-48.png | 6 (3\*2) | - Many new products being rolled out and amendments to the law | - All checklists have been updated | - 1. Missed opportunities for market participants 2. Low market confidence | - Regularly review and update checklists | Manager Corporate Approvals |
| 9 | Sub optimal external capacity (technical skills) | 15 (3\*5)arrow-bi-48.png | 15 (3\*5) | - Insufficient understanding by market players on regulatory requirements and transaction advisory  - Complex regulatory requirements  - Inadequate sensitization of market participants on new and existing capital market products, services and processes | - 1. Meetings held with prospective applicants to explain regulatory requirements  - Pre review meetings held with applicants  - Circular on contents of short form prospectus and information notice was published in the Authority website | - 1. Half baked applications submitted for approval 2. so much time taken due to back and forth with applicant 3. Reputation risk 4. Financial loss due to hiring more staff to review half backed applications  - 1. Low uptake of products 2. Reduced income to the Authority due to reduced market activity  - 1. Regularity clarity on expectations of the Authority especially on private and limited restricted offers | - 1. pre-assessment review to return applications that do not meet threshold 2. Holding meetings with applications before submission of application to inform them of the regulatory requirements and expectations of the Authority  - pre review meetings with applicant  - 1. circulars and sensitization to the market | Manager Corporate Approvals |
| 10 | Sub optimal internal capacity (staff numbers and skills set in review of new products) | 20 (4\*5)arrow-bi-48.png | 20 (4\*5) | - Inadequate technical skills on new and existing complex capital markets products, services  - Inadequate staff complement | - 1. Some staff members were trained in the quarter and are expected to share with the rest of the staff on the knowledge gained.  - 2. Some staff had to work overtime to cover the extra work spread from exiting staff | - 1. Applications that do not fully comply with regulatory framework recommended for approval 2. Reputation risk 3. Loss of Revenue due to lack of confidence in the market  - 1. Diminishing staff morale due to being overworked and lack of career progression. 2. overworked staff leading to low productivity, staff turnover and applications that don't fully comply with the regulations recommended for approval | - 1. proper training needs assessment 2. Attachment to the market and other relevant stakeholders  - 1. Recommend for filling vacant positions 2. Recommend confirmation of long serving and competent temporary staff 3. Recommend promotion for staff who are very competent but have remained in the same position for a very long time | Manager Corporate Approvals , Manager Human Capital & Administration |
| 11 | High Cost of continuous reporting obligations (publication of financial statements and advertisements especially for small size companies) | 15 (3\*5)arrow-bi-48.png | 15 (3\*5) | - Stringent regulatory requirements  - Stringent regulatory requirements | - 1.Extension to comply with liquid capital requirements was given to several licensed entities given the tough economy in the current year 2. The Authority also approved voluntary exit of one licensed entity 3.We recommended enforcement action against several licensed entities who did not meet financial, publication and submission requirements.  - 1. Waivers for submission and publication of accounts were given to several firms partly owned by the government who are requirement to subject their accounts for further checks by the Auditor General (the seat of the Auditor General has been vacant for a while) 2. Waivers where given for the first green bond issuance by Acorn | - 1. Loss of revenue due to shrinking market 2. Waste of resources as you have licensees exiting the market after a short period after licensing e.g. Watu capital and Regnum Consultants Ltd  - 1.Issuer apathy | - 1. engaged with licensees and gave them waivers where appropriate and justifiable but they still exited 2. Recommend review of licensing requirements especially for Investment Advisers as they are too stringent and costly compared to size of firms.  - 1. Submit policy proposals for amendment of regulations | Manager Corporate Approvals |
| 12 | Failure of reporting system (RBSS) | 12 (3\*4)arrow-down-48.png | 15 (3\*5) | - System upgrade and other interference that lead to failure  - System upgrade and other interference that lead to failure  - Inadequate system | - We engaged the system provider(Attain) to solve issues in the system but issues are still pending | - 1. Inefficiencies and delay in analyzing data 2.Delay in detecting non-compliances by licensed entities  - Inefficiencies and delay in analyzing data  - Inefficiency in document handling and review process. important application supporting documents can fall through the cracks | - 1. Engage Attain (the provider) to finalize the system for optimal use 2. Empower a system administrator internally to respond to urgent system failures | Manager Corporate Approvals |
| 13 | Overlapping mandate between the Authority and other regulatory bodies | 6 (2\*3)arrow-bi-48.png | 6 (2\*3) | -  - Contradicting legal and regulatory requirements | - Companies Act provisions followed where our legal provisions were silent | - 1.litigation risk 2. Market malpractice  - 1.litigation risk 2. Market malpractice 3.Market uncertainty and investor/issuer apathy 4. Varying interpretations of regulations and legal provisions | - Engagements with various stakeholders to adopt a common interpretation of legal  - Engagements with various stakeholders to adopt a common interpretation of legal and regulatory provisions as well as jointly push for regulatory amendments. | Manager Corporate Approvals |
| 14 | Gaps/inconsistencies in the regulatory framework eg Collective Investment Schemes regulations | 15 (3\*5)arrow-bi-48.png | 15 (3\*5) | - Ambiguity in the law  - Misinterpretation of legislation/regulatory requirements  - Market being ahead of the regulator | - 1. We sent our comments to regulatory framework on the Review of TOR for the consultant for Collective Investment schemes framework 2. We sent our comments and proposals on the review of Guidance on licensing of credit rating agencies  - 1. A legal opinion was done internally by lawyers drawn from several departments on ability of an LLP to issue a bond  - We held meetings with several market players in the quarter | - 1. low product uptake 2. reduced revenue to the Authority due to low market uptake 3. Reputational risk  - 1. Investor/Issuer apathy | - 1. Review of regulatory framework to identify inconsistencies in the law and make recommendations to regulatory framework department 2. Keep a register on exemptions granted/denied to inform regulatory review  - 1. Sensitize and give industry guidance on ambiguous/conflicting regulatory requirements 2.Engaging stakeholders on regulatory changes/inconsistencies 3.Make recommendations to regulatory framework on proposed amendments to the law  - 1. Frequent meetings with the market to understand products they are structuring 2. Bench marking with other developed markets | Manager Corporate approvals |
| 15 | Lack of appreciation of the existing products and their supporting regulatory frameworks | 9 (3\*3)arrow-down-48.png | 12 (4\*3) | - Poor alignment of products and market needs | - Together with DRPS, meetings have been held with potential issuers to try help them come to the market | - 1. Low liquidity 2 low product uptake | - 1. Together with DRPS, continue to hold meetings with potential issuers to try help them come to the market 2. Make proposals for review of regulation to DRPS on amendments to the law to make it easier to come to market but at the same time, ensuring investor protection. | Manager Corporate approvals |

**OPPORTUNITY ANALYSIS  
Overview**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Impact | Transformational 5 |  |  |  |  |  |
| Major 4 |  |  |  | CA/O/3 CA/O/2 |  |
| Moderate 3 |  |  |  |  | CA/O/1 |
| Minor 2 |  |  |  |  |  |
| Insignificant 1 |  |  |  |  |  |
|  | | Rare 1 | Unlikely 2 | Likely 3 | Highly Likely 4 | Almost Certain 5 |
| Likelihood | | | | |

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Risk** | **Score** | **Ref No** |
| 1 | Optimal use of the RBSS system in the licensing and approval process and in undertaking financial analysis | 16 | CA/O/3 |
| 2 | Strategic engagements with stakeholders such as ICPAK, FMA, KASIB, KBA etc | 16 | CA/O/2 |
| 3 | Sensitization of market participants on new and existing application requirements and continuous reporting obligations | 15 | CA/O/1 |

**Detailed Status of Opportunities**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **#** | **Description** | **Current Rating** | **Prior Rating** | **Risk Drivers** | **Risk Management Strategy Undertaken** | **Effect of Risk to Authority** | **Further action to be undertaken** | **Person Responsible** |
| 1 | Optimal use of the RBSS system in the licensing and approval process and in undertaking financial analysis | 16 (4\*4)arrow-down-48.png | 20 (4\*5) | - Receipt of incomplete applications | - Continuous engagement with system provider as well as encouraging applicants to submit applications within the system once its up and running | - Receipt of complete applications 2. Tracking progress of applications by applicants 3. Ease of accessing complete information with respect to market intermediaries and issuers of securities | - Continuous engagement with system provider as well as encouraging applicants to submit applications within the system once its up and running | Manager Corporate Approvals |
| 2 | Strategic engagements with stakeholders such as ICPAK, FMA, KASIB, KBA etc | 16 (4\*4)arrow-bi-48.png | 16 (4\*4) | - Conflicting regulatory requirements and overlapping mandates | - Members of the department are members of the joint committee between the Authority and ICPAK where strategic issues have been discussed | - Improved market integrity 2. Improved relations with key stakeholders | - continuous engagement with strategic stakeholders | Manager Corporate Approvals |
| 3 | Sensitization of market participants on new and existing application requirements and continuous reporting obligations | 15 (3\*5)arrow-bi-48.png | 15 (3\*5) | - 1. Changes in market dynamics and regulatory requirements. 2. lack of clarity in exisiting regulatory requirements 3. New products | - pre-review meetings held with applicants | - 1. complete applications hence less time taken to review 2. product uptake hence creation of liquidity and revenue for the Authority | - Continuous sensitization/engagement and meetings with market participants and potential issuers/licensees | Manager Corporate Approvals |

**Emerging Trends**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **NO** | **Factor** | **External/Internal** | **Related Risk Event** | **Changes in Risk Profile** |
| 1 | Tough economic condition that has led to several licensed entities not meeting minimum financial requirements | external | High Cost of continuous reporting obligations (publication of financial statements and advertisements especially for small size companies) | The rating has not materially increase because of extensions that have been granted to the licensed entities to come to compliance |

**Warning**: implode(): Invalid arguments passed in **C:\Apache24\htdocs\p\views\reports\word\word-departmental-risk-management-report.php** on line **1771**

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