

**Corporate Risks Management Report**

**[**For the Period Ended 3o September 2018**]**

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# 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 revised Enterprise Risk Management Framework of the Authority that was adopted by the Board in August 2017. Presented below is the risk assessment and ranking methodology adopted;

| **Impact Rating and Score** | | | | |
| --- | --- | --- | --- | --- |
| **Insignificant** | **Minor** | **Moderate** | **Major** | **Catastrophic/ (Transformational for Opportunities)** |
| **1** | **2** | **3** | **4** | **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 continued existence of the Authority or the project under consideration is terminated |
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|

| **Likelihood Rating and Score** | | | | |
| --- | --- | --- | --- | --- |
| **Probability** | **Description** | **Score** | **Consideration** |
| Almost Certain | 90% or greater chance of the event occurring during the life of the objective | 5 | The risk 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 | There is a history of frequent occurrence. The risk 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 | There is a history of casual occurrence. The risk 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 | The risk event occurs from time to time. The risk 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 | The risk 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/ Opportunity Rating

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

Risk Treatment Decision

| **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 |

# RISK ANALYSIS

## Overview

In the period to 30 September 2018 the “Top” corporate risks impacting on the achievement of CMA’s mandate and strategic objectives are summarized in Table 1 below:

### **Table 1: CMA Top Risks**

|  |  |  |
| --- | --- | --- |
| **No** | **Risk Description** | **Score** |
|  | Significant Revenue short fall from budget | 25 |
|  | Challenges in influencing potential issuers uptake | 25 |
|  | Financial distress of listed companies due to poor governance practices, weak internal controls and failed strategies | 25 |
|  | Litigation against CMA enforcement processes and unfavourable court decisions | 25 |
|  | Spot Commodities Exchange: Conflicting and competing interests on part of National Government Ministries, and Regulators, County Governments and Private Sector Players | 25 |
|  | Unfavourable changes in the macro-economic and/ or political environment | 20 |
|  | Delayed implementation of the new system by the CDSC and suboptimal upgrade of the NSE trading system leading to postponement of go-live date from 23rd July to an unspecified date in Quarter 1, 2019. | 20 |
|  | Increased Expenditure requirements for the new 2018/23 strategic plan beyond the means of the Authority | 20 |
|  | Strategy execution delay arising from reliance on external funding partners | 20 |
|  | Loss of high potential talent | 20 |
|  | Low staff motivation and engagement | 20 |
|  | Delayed implementation of the 2018-23 Strategic Plan | 20 |
|  | Suboptimal external capacity by licensed advisers (technical skills) | 20 |
|  | Regulated entities engaging in unlicensed/new business lines without prior regulatory approval | 20 |
|  | Sub-optimal internal staff capacity (Technical Skills) | 20 |
|  | Server and Network Infrastructure Failures | 20 |
|  | Cybersecurity threats | 20 |
|  | Sub-optimal levels of uptake of new and/or existing capital markets products and services | 20 |
|  | Time lag between innovation/ research and actual implementation | 20 |
|  | Information systems and Data security breaches | 20 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Impact** | **Catastrophic** |  |  |  | 6, 10, 16, 19, 20, | 1, 2, 3, 4, 5 |
| **Major** |  |  |  |  | 7, 8, 9, 11, 12, 13, 14, 15, 17, 18, |
| **Moderate** |  |  |  |  |  |
| **Minor** |  |  |  |  |  |
| **Insignificant** |  |  |  |  |  |
|  | | **Rare** | **Unlikely** | **Likely** | **Highly Likely** | **Almost Certain** |
| **Likelihood** | | | | |

## Detailed Status of Corporate Risks

The Committee is requested to note the progress made by Management in the implementation of risk management strategies in the Authority for the period to September 30, 2018 as provided in Table 2.

**KEY:**

|  |  |
| --- | --- |
|  | Red arrow facing upwards denotes a risk that has increased in rating in the current period or a new risk |
|  | Amber arrow facing left-right denotes a risk has remained constant in rating from previous period |
|  | Green arrow facing downwards denotes a risk that has decreased in rating in the current period. |
| I for Risk Impact | I stands for the probable impact of a risk crystallizing on a scale of 1 to 5 |
| L for Risk Likelihood | L stands for the likelihood of a risk occurring on a scale of 1 to 5 |

### **Table 2: Analysis of CMA Top Risks**

| **Current Ranking** | **Risk Description** | **Current Rating** | **Prior Ranking** | **Prior Rating** | **Risk Drivers** | **Risk Management Strategies Undertaken**  **[July 2018 – September 2018]** | **Effect and Impact of Risk on the Authority (Happened/ Expected if risk materialized)** | **Action to be Undertaken  [October 2018 – June 2019** | **Risk Owner** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Significant Revenue short fall from budget | 25  (L5, I5) | N/A  (New Risk) | N/A  (New Risk) | * Over dependence on existing revenue streams * Lack of new active market driven products * Delayed invoicing * Low market activities | * Scaling down on budgeted activities. | * Activities may not be undertaken as earlier budgeted or as per plan. | * Implementing strategies to increase market activity * Optimizing budget use on high impact activities | MF |
|  | Challenges in influencing potential issuers uptake | 25  (L5, I5) | 11 | 20  (L, I4) | * Competition from the banking and other sectors * Perceived stringent process, length of time and regulations * Fear of lack of control * Corporate governance requirements * Low investor confidence and low literacy levels * Failure of market intermediaries within the sector to advertise their services (e.g. brokers, investment banks etc). * Lack of escalation of sensitization of workshops into deals. | * The Authority engaged potential issuers of Mombasa County in collaboration with Kenya National Chambers of Commerce. | * Challenge in making compelling case to issuers due to due to the declining macro environment, declining index and significant investor outflow. | * The Authority will continue to undertake one on one follow-up meetings with potential issuers, NSE and market intermediaries * Proposed Business Incubator and Accelerator on the Listing and Capital Raising Experience in collaboration with NSE with focus on those most likely to issue in the near term. * Support NSE on their Rapid Mass Visibility Strategy to support longer term pipeline of issuers. | MIEPA |
|  | Financial distress of listed companies due to poor governance practices, weak internal controls, and failed strategies. | 25  (L5, I5)  Nj | 1 | 25  (L5, I5) | * Sub-optimal implementation of best practice Governance Principles. * Lack of External/ Internal Auditor independence. * Departure of company policies from practice. * Sub-optimal implementation of business strategies. * Shifting business landscape. | * Corporate Governance assessment for listed companies which will enhance their overall Governance practices and Internal Control measures. CG assessment for all issuers for the financial years ending 2017 have been conducted and feedback provided to them. * Initiated one-on-one engagements with issuers currently facing challenges to seek understanding of their issues and challenges and understand their strategies to alleviate their predicament. | * Reputational Risk * Loss of investor confidence | * Strengthen supervision of Listed Companies. * Verification of data/ information from external sources such as auditor and media reports. * Enforce implementation of the Code of Corporate Governance practices. * The Authority to explore establishment of a recovery board by NSE. | MMS |
|  | Litigation against CMA enforcement processes and unfavourable court decisions | 25  (L5, I5)  Nj | 2 | 25  (L5, I5) | * Court orders issued against the Authority * Lack of appreciation of capital market operations by the judiciary * Enforcement actions not based on substantive and procedural law | * Compliance with the Constitution of Kenya, CMA Act and Fair Administrative Actions Act in the enforcement procedure and in taking enforcement actions. * Court judgements in the suits related to Uchumi Supermarkets enforcement were determined against the Authority | * Slows down enforcement proceedings and action | * Compliance of the enforcement procedure and enforcement actions with the regulatory framework (CM Act, FAAA and Constitution). * Sensitization of judiciary officers * Appeals to be lodged in matters where adverse judgements were delivered | MIE |
|  | Spot Commodities Exchange: Conflicting and competing interests on part of National Government Ministries and Regulators, County Government, and Private Sector Players | 25  (L5, I5)  Nj | 3 | 25  (L5, I5) | * Conflicting & competing interests between parties | * Escalation for high level lobbying * Positively engage the interested parties to create awareness on CMA mandate | * Failure of project * Quality of output not as envisioned | * Proactively engage the interested parties to create awareness on CMA mandate | MDU |
|  | Unfavourable changes in the macro-economic and/ or political environment | 20  (L4, I5) | N/A | N/A | * Changes in inflation, interest rates, Exchange rates etc. * Development in other jurisdictions * Different standpoints on the implementation of various cross border agreements | * Monitored and assessed the local and international political and economic environment through the development of the Capital Markets Soundness Report for Q3 2018. * Provided periodic advisory on mitigation measures. | * Low investor/issuer confidence * Decline in uptake of new and/or existing capital markets products and services * Capital Flight * Shift of investments from capital markets to other sectors | * Continuous monitoring, assessment, reporting and recommending of possible mitigation measures through CMSR, QSB. | AMRS |
|  | Delayed implementation of the new system by the CDSC and suboptimal upgrade of the NSE trading system leading to postponement of go-live date from 23rd July to an unspecified date in Quarter 1, 2019. | 20  (L5, I4)  Nj | 4 | 20  (L5, I4) | * Failure by counterparties to meet their obligations * Inadequate system development and testing * Cybersecurity threats * Constant system changes requests * Inadequate implementation of PFMIs | * A system review of NSE and CDSC trading and settlement systems was conducted and areas of concern that need to be addressed by both institutions were identified. The initial findings report was shared for implementation. * Representation of CMA in the steering committee at CDSC. * CDSC has been requested to submit a Go-Live work plan considering the delays in the project. | * Loss of stakeholder confidence * Lost opportunities that were pegged on implementation of the new system e.g. SLB | * Make follow-ups to ensure the gaps identified in the inspection and system review are addressed by NSE and CDSC. * Follow-up to ensure that system audit of NSE and CDSC by PWC is completed and its recommendations implemented. | MMS |
|  | Increased expenditure requirements for the new 2018/23 strategic plan beyond the means of the Authority | 20  (L5, I4) | New  Risk | New Risk | * Costs of implementing New directorate * Transitioning to a new organization structure * New activities under the new strategic plan * Strategic influence (e.g. legislature engagement especially on new policies & legal framework) * Implementation of SBA findings for increase in product uptake | * Scaling down on budgeted activities * Budget revision * Resource prioritization | * Slow implementation of the set objectives as per the strategic plan. | * Prioritization and timing of expenditure. * Budget revision to be done within the cycle | MF |
|  | Strategy execution delay arising from reliance on external funding partners | 20  (L5, I4)  Nj | 7 | 20  (L5, I4) | * Delays in projects kick off. * Slow procurement processes from PIU of the NT. * Too many projects competing for the same resources. | * Continued liaison between external partners and internal coordination teams to ensure minimal delay in strategy execution. * Noting lessons learned from existing consultancies to learn how to do the next ones better. * Ensuring internal project teams have signed off on any documentation or process before engaging external partners. | * Delay in the Authority meeting its strategic objectives. * Resources being stretched to accommodate timelines that have been delayed. * Declining budget and project performance. * Fatigue of resources from waiting on projects that do not kick off. | * Continued liaison with FSSP PIU to continue improving on project turnaround times and coordination with the National Treasury to decrease procurement delays. * Increase pressure on PIU to deliver on their proposed execution timelines. | MSP |
|  | Loss of high potential talent | 20  (L4, I5) | N/A | N/A | * Stagnation in pay due limited /no pay increase * Uncompetitive remuneration * Limited career mobility | * Continuous implementation of succession planning & talent management policy. | * Low productivity * In the last quarter, 4 staff left the organization | * Implement critical HR policies on talent management | MHCA |
|  | Low staff motivation and engagement | 20  (L5, I4)  Nj | 9 | 20  (L5, I4) | * Weak people management skills * High work overload * Poor work-life balance * Stagnated pay levels that don’t match the duties performed and the market equivalent compensation | * Evaluation of a Leadership Development provider | * Low productivity and quality of work | * Continuous implementation of the change management initiatives and regular communication to staff. | DCS |
|  | Delayed implementation of the 2018-23 Strategic Plan | 20  (L5, I4) | New  Risk | New Risk | * Financial constraints * Inadequate capacity by the Authority to effectively execute activities culminating to the achievement of the MSCI Emerging market status for Kenya by 2023. 3. Non-adoption of the Strategic Plan by staff | * Build staff capacity to ensure that expected deliverables are met. * Appropriate planning to ensure currently available resources both human and financial are optimized * . | * Failure to meet the Authority’s Strategic objectives * Failure to attain the MSCI Emerging Market status for Kenya by 2023 | * Build capacity of the CMA to meet its Strategic objectives * Pursue target exemptions from State Corporations Act and SCAC circulars to improve execution autonomy. | DRPS/  AMSP/  MHCA |
|  | Suboptimal external capacity by licensed advisors (technical skills) | 20  (L5\*I4)  Nj | 12 | 20  (L5\*I4) | * Insufficient understanding by market players on regulatory requirements and transaction advisory * Inadequate sensitization of market participants on new and existing capital market products, services and processes * 2. Complex regulatory requirements | * One on one meetings with applicants to give clarity on regulatory requirements * Recommendations for enforcement were done in the quarter for market players who contravened financial reporting requirements | * A lot of back and forth with applicants * Some contravention with reporting requirements reported in the quarter | * Pre-engagements with applicants before submitting their applications * Issuance of revised checklists and circulars/market guidance * Enactment of revised legislation consolidating and simplifying regulatory requirements (Securities and Investments Bill) * Develop investor education programs to strengthen intermediary capacity. * Recommendations for Enforcement | MCA/  DRPS |
|  | Regulated entities engaging in unlicensed/ new business lines without prior regulatory approval | 20  (L5, I4) | New  Risk | New Risk | * Undue delay in regulation of new products. * Stiff competition in traditional revenue generating activities * Innovation * Poor market performance * Market dominance by foreign investors who transact through a few intermediaries leaving the majority to less than 20% of the market share. | * Conducted inspections of licensed entities to ascertain their compliance levels, sources of income and nature of business. * Review of CIS framework is ongoing. * Review of applications for new products/ services on a principle-based approval. * Discussions held with licensees seeking voluntary license revocations prior to making decision on the applications. * Conducted a thematic inspection on Margin Trading at Sterling Capital to determine the adequacy of controls and the structure of the product. | * Potential erosion of paid up capital. * Potential misapplication of clients’ assets. * Loss of confidence in the regulator in case their clients discover that the new business lines lacked regulator’s approval. | * Conduct routine/ thematic inspections to ascertain business practices and collate feedback to inform the establishment of proper frameworks. * Unlicensed business lines/ firms involved in capital market business are brought under regulatory ambit. * Continuous engagement with the market. * Continuous review of the regulatory frameworks. * Submission of information gathered through market intelligence to Market Development and Policy and Regulatory Framework Departments. | MMS/  MCA/  DMO |
|  | Sub-optimal internal staff capacity (Technical Skills) | 20  (L5, I4)  Nj | 5 | 20  (I4 \* L5) | * Inadequate staff complement * Inadequate technical skills on new and existing complex capital markets products and services * Competing corporate and departmental priorities | * Continuous capacity building on critical skills | * Low productivity and quality of work | * Review of the Organization Structure in line with the New Strategic Plan | MHCA |
|  | Server and Network Infrastructure Failures | 20  (L4, I5) | 14  Nj | 20  (L4, I5) | * Use of obsolete or End-of-Life/End-of-Support technology. * Poorly maintained servers. * Use of outdated firmware and Internetwork operating systems (IOS) software on network devices. * Failed servers peripherals such PSU's, Processors, Hard disks etc. * Unavailability of network/server resources. * Lack of logical and technical controls. * Physical damage of server and network devices. * Lack of stand-by replacements. * Lack of proper monitoring on server/network systems. | * Ensured SLA’s are in place for IT assets and maintenance services programs are executed as per schedule. * Monitored and evaluated the effectiveness of the implemented patch management process. * Repaired the Biometric access control to the Data Centre. * Ensured availability of stand-by server and network peripheral replacements such as storage system and server hard drives. | * Unavailability of network and computing resources. * Partial or full business disruption. * User frustration and poor ICT service delivery   Degraded performance of installed applications and databases | * Purchase additional server and Storage hard drives as peripheral replacements * Conduct the scheduled preventative maintenance on IT Assets * Manage the patch management program for server, application, database and client’s systems * Deploy an implement Multi-Factor Authentication (MFA) to compliment the Domain Authentication Single-Sign on (SSO) * Develop a Bring Your Own Devices (BYOD) policy * Implement a Mobile Device management program with remote wipe and scanning capabilities | MICT |
|  | Cybersecurity threats | 20  (L5, I4) | New risk | New risk | * Ransomware such as Wannacry, Locky etc * Malware, spyware and Adware * phishing through spam or fraudulent emails * Social Engineering * Brute force attacks on user passwords * Use of weak guessable passwords * Lack of a patched perimeter firewall and network devices * Lack of an effective web filtering process | * New Risk identified and adopted | * Data corruption * Data theft * Breach of employee privacy * Reputation damage because of successful data breaches | * Maintain a robust email spam filtering solution * Maintain an updated and licensed enterprise anti-virus * Send out monthly ICT security tips to staff on Cyber threats * Maintain a successful backup solution and process * Maintain an effective web filtering solution and introduce multi-layer passwords and filtering for external personal gadgets connected to the network. * Maintain and manage an effective perimeter firewall with relevant patches * Conduct a Vulnerability Assessment and Penetration testing (VAPT) exercise on the ICT infrastructure | MICT |
|  | Sub Optimal levels of uptake of new and/ or existing capital markets products and services. | 20  (L4, I5)  Nj | 10 | 20  (L4, I5) | * In exhaustive feasibility studies, research, surveys etc. on new and existing products and services. * Inadequate investor education, awareness and protection programmes on new and existing products * Inefficiencies in Market Infrastructure. * Low investor confidence. * Lack of collaboration with/ facilitation by regulators, National Treasury and other key stakeholders * Untimely release of products to the market. * Unfavourable market conditions. * Low level of financial capability | * The Authority has pursued the implementation of key recommendations from the low uptake stakeholder workshop. * The NSE made a presentation to CMA on the NSE/KASIB Rapid Mass Visibilities Strategy (RMVS) proposition. This is aimed at spurring capital markets listings interest and ultimately develop the market. * Targeted investor education initiatives including the WIW, Radio, university and county campaigns. * Implementation of the KBA MOU to boost uptake of the capital markets products and services. * Launch the NSE Derivatives market pilot test phase. | * Low/ Failed uptake of new Capital Markets products and services. * Poor market performance i.e. declining securities market index and market turnover. * Increased market concentration and low liquidity levels. * Illiquid Bond Market. | * Introduction and implementation of the hybrid bond market model that will allow trading of bonds both on and off the Exchange. * Revival of the privatization program which will partly be carried out through the capital markets. * Introduction of the Regulatory Sandbox * Robust investor education and public awareness. * Continuous media engagement to project capital markets products and services to the public * Launch of NSE derivatives trading | AMRS |
|  | Time lag between innovation/ research and actual implementation | 20  (L4, I5) | New  Risk | New Risk | * Inadequate knowledge on new products and services * Inadequate market knowledge & capacity on capital market product development * Lengthy processes of onboarding issuers of new products and services * Competition, from other investment options thus affecting capital markets development * vi. Ambiguity in the law * vii. Changes in regulatory environment and institutional framework | * Development and implementation of follow up mechanisms. * Development of a comprehensive work plan encompassing key strategic plan, PC and CMMP deliverables and mapping to task owners and responsible persons. * Continuous monitoring and reporting on the status of key projects including the Fintech and Regulatory Sandbox Project, Islamic Finance Project and County Financing. | * Forfeited market development opportunities * Delayed rollout of new products and services | * Continuous monitoring of deliverables in line with Policy documents timelines. * Exhaustive inclusion of market development initiatives in policy documents e.g. strategic plan, CMMP & PC. | AMRS |
|  | Information systems and Data security breaches | 20  (I5 \* L4) | 19  Nj | 20  (I5 \* L4) | * Poor patch management process. * Use of obsolete server and network technology * Increased incidents of malware, phishing, pharming and Distributed Denial of Service (DDoS) attacks. * Unauthorized network intrusions. * Increase in social engineering attacks. * Theft of confidential information. * Use of backdoor or trapdoor access modes on applications | * Maintain an approved Disaster Recovery Plan. * Maintained an up-to-date anti-virus software. * Maintained an up-to-date perimeter firewall able to neutralize external threats * Enhanced existing Access control lists on the file server and network devices * Participated in the Vulnerability Assessment and Penetration Testing (VAPT) exercise * Generated EOP reports to confirm spam and malware filtering is effective * Maintained and managed a successful backup process for recovery from data corruption or loss * Conducted data and database backup restores to ascertain the integrity of the backed-up data. | * Network disruption * Loss or corruption of critical information * Inability to survey the market * Partial or full denial of service or access to ICT resources. * Communication failures or disruptions | * Conduct Regular updates of security controls. * Maintain a successful backup schedule process * Conduct periodic backup restores to ascertain the integrity of the backed-up data * Conduct monthly email Sensitization to staff on ICT security threats. * Maintain a sound and tested Disaster Recovery Plan * Minimize use of portable storage devices on client machines * Conduct failover and fall back to and from the Disaster Recovery site of critical systems * Conduct a Vulnerability Assessment and Penetration testing (VAPT) exercise on the ICT infrastructure | MICT |

## Movement of Risks and Key Risk Indicators

Table 3 highlights how the top Corporate Risks have been measured, trend/movement of these causes and how the trend has contributed to changes in the risks profile.

### **Table 3: KRI Trend Analysis**

| **N0.** | **Risk** | **Key Risk Indicators (KRI)** | **KRI Threshold Limit** | **Current Period value of KRI**  **[July 2018 – September 2018]** | **Last Period value of KRI**  **[April 2018 – June 2018]** | **Impact of Trend on Risk** |
| --- | --- | --- | --- | --- | --- | --- |
|  | Significant Revenue short fall from budget | * % of revenue collected | * 20 % max deviation from target (below) | * -41% | * -29 % | * High risk of reducing revenue affecting SP implementation |
|  | Challenges in influencing potential issuers uptake | * Level of attractiveness of capital markets products vis a vis other sectors. | * Less than 5% relative to other sectors | * To be determined after a survey | * N/A | * Risk impact increased from 4 to 5 |
| * Level of perception of CMA's issuer requirements. | * Less than 50% positive feedback from surveys administered during forums | * 85% | * 85% |
| * Level of uptake as measured by market performance of new products | * Market drop of more than 20% | * 15.98% | * 13.3% |
| * Level of potential issuers’ awareness on availability of professional firms that can facilitate the listing process. | * Less than 60% positive feedback from the capital markets behavioral and situational analysis study | * 58% | * N/A |
|  | Financial distress of listed companies due to poor governance practices and weak internal controls. | * Issuing of profit warning/s by listed companies where the reduction is significantly ≤25%. * Decline in shareholder's fund of a listed company. * Negative media reports and qualified opinion issued by the external auditors’ reports. | * > 5 cases of fraud, governance issues or financial distress challenges for all listed companies reported by the media or other external sources during a quarter. * > 10 identified major non-compliances with listing requirements for all public issuers escalated for enforcement action during a quarter. | * N/A | * N/A | * Stable |
|  | Litigation against CMA enforcement processes and actions | * Number of suits/court orders barring enforcement processes | * One enforcement action successfully challenged in Court | * 2 stay orders and quashing orders issued in respect of Uchumi Supermarket sanctions imposed against five key officers of the Firm | * N/A | * Major |
|  | Spot Commodities Exchange: Conflicting and competing interests on part of National Government Ministries and Regulators, County Government, Private sector Players | * Level of progress | * 80% -100% | * 40% | * 40% | * N/A |
| * Quality of project outputs | * 80% - 100% | * 40% | * 40% | * N/A |
|  | Unfavourable changes in the macro-economic and/ or political environment | * Periodic measurement of trends in market performance i.e. index, market turnover etc. * Number of major political events (referenda, general elections etc.) at the local/regional/international level. | * (=>10%) decline in capital markets performance (NASI, Turnover) due to major political events and uncertainty caused by such. * % decline in the macroeconomic environment (inflation rates (5%+2.5%) interest rates (CBR>10%), Exchange Rates> Kshs 105.00 to 1USD) | For Q3 2018 decreases in market performance indicators did not exceed the KRI threshold limit as evidenced by;   * Index Levels. * The NSE 20 share index stood at 3,751.5 points as at Q3 2018 compared to 3,285.73 points in June 2018 a 14.18% increase. * The All share index stood at 162.2 points as at Q3 2018 compared to 174.36 points as at June 2018 an 6.97% decrease.   Declines in macroeconomic indicators did not exceed the KRI threshold limit as evidenced by;   * Inflation Rates- 5.70% inflation rate was recorded at the end of September 2018 a 1.42% increase compared to 4.28% in Q2 2018 which is within Kenya’s target inflation rate of 5+/-2.5 percent. * Interest Rates - the Monetary Policy Committee retained the Central Bank Rate (CBR) at 9.0 percent at September 2018 * Exchange Rates - The mean rate was Kshs.100.96 to the USD as at Q3 2018 compared to 101.5 in June 2018 an appreciation of the shilling by 0.53%. | For Q2 2018 decreases in market performance indicators did not exceed the KRI threshold limit as evidenced by;   * Index Levels. * The NSE 20 share index stood at 3,285.73 points as at Q2 2018 2018 compared to 3,845.34 points in March 2018 a 14.55% decrease. * The All share index stood at 174.36 points as at Q2 2018 compared to 191.23 points as at March 2018 an 8.82% decrease.   Declines in macroeconomic indicators did not exceed the KRI threshold limit as evidenced by;   * Inflation Rates- 4.28% inflation rate was recorded at the end of June 2018 a 2.4% increase compared to Q1 2018 which is within Kenya’s target inflation rate of 5+/-2.5 percent. * Interest Rates - the Monetary Policy Committee retained the Central Bank Rate (CBR) at 9.5 percent at June 2018 * Exchange Rates - The mean rate was Kshs.101.5 to the USD as at Q2 2018 compared to 100.85 in March 2018 an appreciation of the shilling by 0.64%. | * Decline/ high volatility in capital market performance |
|  | Delayed implementation of the new system by the CDSC and suboptimal upgrade of the NSE trading system leading to postponement of go-live date from 23rd July to an unspecified date in Quarter 1, 2019. | * ATS system downtime. * Level of security of new system. * Non-compliance with CMA requirements, IOSCO Principles for Financial Markets Infrastructure (PFMIs) applicable to an exchange. | * >1 security breach of FMIs. * Unavailability of an FMI for more than 2 hours during a trading session. * Failure to conduct an independent system audit of an FMI as required. | * To be determined on completion of the implementation | * N/A | * Rising |
|  | Increased Expenditure requirements for the new 2018/23 strategic plan beyond the means of the Authority | * Reported deficit * Projects delayed for lack of resources * Budget revisions | * Budget revision to include new items | * Updated budget template preparation underway | * N/A | * Moderate risk due to priority on strategic items |
|  | Strategy execution delay arising from reliance on external funding partners | * Disbursement of funds/ commitments outside the scheduled timelines | * > 3 months deviation from the agreed funding workplan | * During the quarter, there were delays with onboarding of consultants for the Multi-Asset Surveillance system. There is continuous mitigation of this. | * During the quarter, there were delays with onboarding of consultants for the Multi-Asset Surveillance system. There is continuous mitigation of this. | * Delay in implementation of the capital markets master plan and CMA strategic plan |
|  | Loss of high potential talent | * Turn-over rates | * <5% | * <3% | * <3% | * Loss of talent |
|  | Low staff motivation and engagement | * Culture change index | * < 60% | * 80% as per survey undertaken within the period | * 80% as per survey undertaken within the period | * Non- delivery of CMA mandate |
|  | Delayed implementation of the 2018-23 Strategic Plan | * Percentage of SP targets not implemented | * >15% of Annual targets not achieved | * Not Yet determined | * N/A | * Risk closely monitored |
|  | Suboptimal external capacity by licensed entities (technical skills) | * Compliance levels of applications submitted to the Authority | * Less than 80% level of compliance of applications with the regulations. | * 60% compliance levels | * 50% compliance levels | There was a slight improvement of the compliance level of applications received  Reducing cases of intentional misleading financial statements |
| * Number of engagements with an applicant on outstanding issues | * 3 engagements per applications | * 15 (licenses & capital raising) engagements per applications | * 5 engagements per applications |
| * More than 2% of falsified financial statements | * Less than 1% | * >1% of errors in financial statements identified | * >1% of errors in financial statements identified |
|  | Regulated entities engaging in unlicensed/new business lines without prior regulatory approval | * unregulated products discovered in one year. | * >2 unregulated products discovered in one year | * To be determined | * N/A | * Stable |
|  | Sub-optimal internal staff capacity (Technical Skills) | No. of vacant positions | * >30% | * 36% | * 36% | * Inadequate staffing levels. * Poor delivery of the CMA mandate. |
|  | Server and Network Infrastructure Failures | * Frequency of failed or faulty server/ network devices and associated peripherals. * Number of servers/ application software nearing or beyond its end-of-life or end-of-support. * Number of critical/ fault alarms generated by the monitoring tools * Frequency of unplanned server or network device restarts or shutdowns * Number of helpdesk support queries in unavailability of certain ICT resources * Specific vendor notifications or alerts on missing patches | |  | | --- | | >2 Hard disks per server or storage system | | 1 Power supply unit per server or storage unit | | 1 Operating system software beyond end of life support | | 1 application software beyond end of life support | | 3 restarts per server or network device | | 1 critical alarm per system or application or device | | >3 helpdesk support queries | | |  | | --- | | 1 | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | |  | | --- | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | * Risk well mitigated within acceptable risk appetite and tolerances |
|  | Cybersecurity threats | * Number of successful ransomware attacks * Number of reported social engineering attacks within the Authority * Number of reported successful phishing attacks through email * Number of reported cracked user passwords | * > 1 Successful breach | * No successful breach | * No successful breach | * Risk well mitigated |
|  | Sub-optimal levels of uptake of new and/or existing capital markets products and services. | * Level of uptake as measured by market performance of new products. | * Turnover ratio of zero for =>20 successive trading sessions for new capital markets products | * Products have recorded zero turnover ratio for a period exceeding 20 successive trading days during the period. * Equity Market Turnover decreased by 32.27% to Kshs 31.93 Billion in Q3 2018 in comparison to Kshs 47.14 Billion in Q2 2018. * Kshs. 133.69 Billion worth of bonds was traded in Q3.2018 compared to Kshs 158.52 Billion in Q2 2018 indicating a 15.66% decline. | * Product has recorded zero turnover ratio for a period exceeding 20 successive trading days during the period. * Equity Market Turnover decreased by 22.91% to Kshs 47.14 Billion in Q2 2018 in comparison to Kshs 61.15 Billion in Q1 2018. * Overall, total bond turnover increased by 4.06% to Kshs 158.52 Billion in Q2 2018 in comparison to Kshs 152.34 Billion in Q1 2018. | * Risk rising * Persistent low uptake of new products (REITs, ETFs etc.) * Illiquid Bond Market |
|  | Time lag between innovation/ research and actual implementation | * No. of qualified human resource persons. * Time taken to on-board issuers of new products and services/ Failure to meet set timelines. * Stakeholder feedback | * <50% knowledge of internal capacity on new capital markets products and services * => 1 year taken to on-board issuers | * During the review period the County Financing project consultancy experienced key technical inefficiencies that lead to delay in the realization of the key project outputs including the final report on the analysis and identification of funding gaps at the national and county government to inform capital markets products and services development. | * Capacity within the product and market development unit should be continuously enhanced within Islamic Finance | * Non-facilitative policy environment. * Reduced market growth opportunities registered. * Negative stakeholder feedback on facilitative environment. |
|  | Information systems and Data security breaches | * Number of attempted intrusion attacks. * Frequency of reported social engineering attempts. * Number of alerts received on unauthorized attempts to stored data. * Number of server/client computers without a valid and updated anti-virus software * Number of staff with privilege access to data they are unauthorized to access * Number of attempted unauthorized access to information * Number of scheduled hourly backup failures * Number of hours the replicated data at the Disaster Recovery sites is behind the Primary site | |  | | --- | | 1 successful intrusion | | > 3 reported attempts from staff | | > 3 alerts | | 1 Server without an anti-virus | | 1 | | 1 successful intrusion | | > 5 backup failures | | > 12 hours of replication delay | | |  | | --- | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | * 5 hours | | |  | | --- | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | * 3 hours | | * Risk is well mitigated |

## Opportunities Summary

In the period to 3o September 2018 the “Top” strategic opportunities impacting on the achievement of CMA mandate and strategic objectives are summarized in Table 4 below:

|  |  |  |
| --- | --- | --- |
| **No** | **Opportunity Description** | **Score** |
|  | Better multimedia software and equipment (including hardware) to support ongoing work on social media. | 25 |
|  | Key learnings from gaps in the Cash market that can be bridged by a derivatives market e.g. usage of Trust Accounts as per derivatives regulations as opposed to clients depositing funds in brokers accounts. | 20 |
|  | Leverage on lessons learnt from other derivatives markets to ensure we get it right from the beginning. There’s also an opportunity to launch other new products using the existing derivatives infrastructure | 20 |
|  | Opportunity to have an optimal surveillance mechanism for current and future products. Implementation of a Multi-asset surveillance systems will place the authority as a global leader since major regulators are yet to implement the same | 20 |
|  | Opportunity to revamp product uptake based on the recent policy pronouncements | 20 |
|  | Increased Credibility of the Authority through Publication of accurate & updated market Research & Statistics for better reliability. | 20 |
|  | Leveraging on partnerships with other stakeholders and development partners | 20 |
|  | Establishment of a regulatory sandbox to test innovative capital markets products and services | 20 |
|  | Meeting with applicants after pre- review | 20 |
|  | Alternative learning approaches e.g. exposure and experiential learnings | 20 |
|  | Identification and support to unregulated Capital Market products, and services that can be on-boarded to the capital markets sphere (e.g. Islamic Finance) | 20 |
|  | Enhanced risk-based supervision through collaboration with other departments, SROs and regulators | 20 |
|  | More targeted stakeholder engagement to establish demand and get buy-in before facilitating issuance of new products. | 20 |
|  | Optimal use of the RBSS system in the licensing and approval process and in undertaking financial analysis | 20 |
|  | Leveraging on Resource Persons programme and key staff members from all the Authority departments for investor awareness initiatives | 20 |
|  | Provide guidance to market intermediaries and issuers on internal controls environment to enhance compliance with the legal and regulatory framework | 20 |
|  | Sensitization of market participants on new and existing application requirements and continuous reporting obligations | 20 |
|  | Use of Fintech and Blockchain to Spur Market efficiency and operations | 20 |
|  | Identification of Single Point of Failures within the ICT infrastructure | 20 |
|  | Automation of payments | 20 |
|  | Integration of risk assessment and reporting into operational processes | 20 |

### **Table 4: CMA Top Opportunities**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Impact** | **Transformational** |  |  |  | 2, 4, 6, 8, 9, 11, 14, 15, 16, 17, 19, 21 | 1 |
| **Major** |  |  |  |  | 3, 5, 6, 7, 10,12, 13, 14, 18, 20 |
| **Moderate** |  |  |  |  |  |
| **Minor** |  |  |  |  |  |
| **Insignificant** |  |  |  |  |  |
|  | | **Rare** | **Unlikely** | **Likely** | **Highly Likely** | **Almost Certain** |
| **Likelihood** | | | | |

## Detailed Status of Corporate Opportunities

The Committee is requested to note the progress made by Management in the implementation of Opportunity Exploitationstrategies in the Authority for the period to September 30, 2018 as provided in Table 5.

### **Table 5: Analysis of CMA Top Opportunities**

| **Current Ranking** | **Opportunity Description** | **Current Rating** | **Prior Ranking** | **Prior Rating** | **Opportunity Exploitation Strategies Undertaken**  **[July – September 2018]** | **Effect and Impact of Opportunity on the Authority (Happened/ Expected if opportunity is realized)** | **Opportunity Exploitation strategies to be undertaken**  **[October 2018 – June 2019]** | **Opportunity Owner** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Better multimedia software and equipment (including hardware) to support ongoing work on social media. | 25 | 1 | 20 | * Transformational engagement on social media and other communication platforms by employing the graphic design capabilities of staff. | * Wider reach of investor education messages. * Improved corporate image. | * Collaborate with ICT and Finance to procure the software. * Graphic design resource to share design knowledge with other staff through on-the-job experiential learning. | HCC |
|  | Key learnings from gaps in the Cash market that can be bridged by a derivatives market e.g. usage of Trust Accounts as per derivatives regulations as opposed to clients depositing funds in brokers accounts. | 20 | N/A | 15 | * Proactively engage stakeholders by articulating the CMMP objectives on development and establishment of derivatives and spot commodities markets. | * Reduced prospects of litigation and market success * Timely launch against Govt. timelines | * Proactively engage stakeholders by articulating the CMMP objectives on development and establishment of derivatives and spot commodities markets. | MDU |
|  | Leverage on lessons learned from other derivatives markets to ensure we get it right from the beginning.  Opportunity to launch other new products using the existing derivatives infrastructure | 20  Nj | N/A | 20 | * Benchmark studies * Implement the CMMP objective of market deepening by introducing new products. | * Increased demand and supply for the derivatives contracts and spot commodities * Increased innovation | * Benchmark studies * Implement the CMMP objective of market deepening by introducing new products. | MDU |
|  | Opportunity to have an optimal surveillance mechanism for current and future products. Implementation of a Multi-asset surveillance systems will place the authority as a global leader since major regulators are yet to implement the same. | 20 | N/A  Nj | 20 | * Work with key stakeholders (internally and externally) to develop plans for consultants' engagements with a view of ensuring TORs that informed the consultancies (for derivatives and spot commodities markets) are met * Positively utilize the consultants' information and time resource | * Minimized probability of market abuse | * Work with key stakeholders (internally and externally) to develop plans for consultants' engagements with a view of ensuring TORs that informed the consultancies (for derivatives and spot commodities markets) are met * Positively utilize the consultants' information and time resource | MDU |
|  | Opportunity to revamp product uptake based on the recent policy pronouncements | 20 | N/A | N/A | * Conduct assessment and inform on potential unregulated products and services and on-board them to the capital markets | * Increased product offering | * Conduct assessment and inform on potential unregulated products and services and on-board them to the capital markets | AMRS |
|  | Increased Credibility of the Authority through Publication of accurate & updated market Research & Statistics for better reliability. | 20  Nj | 2 | 20 | * A proposal to purchase an office camera was sent to CE and approved, pending procurement. | * Wider reach of investor education messages. * Improved corporate image. | * Begin to record tutorial videos using Authority camera, for upload on YouTube and other social media platforms. Focus will be on capital markets issues. | HCC |
|  | Leveraging on partnerships with other stakeholders and development partners | 20  Nj | 3 | 20 | * The Authority partnered with six major institutions during the quarter in addition to universities namely; Busia Youth Groups, Sidian Bank, Catholic Archdiocese Justice and Peace Commissioners, Annual Summit of the Media Council of Kenya and LSK. | * Partnerships continue to improve coverage by the Authority; this is expected to further enhance participation in the capital markets. | * The Authority will continue to partner with other stakeholders through MOAs, MOUs and other agreements leveraging on Authority goodwill. * Key to this is strategic partnerships as outlined in the PC such as Kepsa, KAM, etc. * This is expected to improve coverage by the Authority; this is expected to further enhance participation in the capital markets. | MIEPA |
|  | Establishment of a regulatory sandbox to test innovative capital markets products and services | 20 | 5 | 20 | * Conduct assessment on areas of collaborating using MOUs, benchmark visits etc. to learn important lessons and avoid 'similar' mistakes | * MOUs/Collaborations signed with peers | * Conduct assessment on areas of collaborating using MOUs, benchmark visits etc. to learn important lessons and avoid 'similar' mistakes | AMRS |
|  | Meeting with applicants after pre- review | 20  Nj | 4 | 20 | * The Authority has been holding meetings with potential applicants for complex or new products before submission of a formal application | * This has brought the opportunity of applicants bringing in applications that are close t0 complete thus reducing back and forth between the reviewers and the applicant | * Enhance internal capacity * Develop extra prereview checklist and checklists for new products | MCA/  MHCA |
|  | Alternative learning approaches | 20 | N/A | N/A | * E-Learning & Learning Management system * On-the-job learning e.g. benchmarking, study tours etc | * Competent staff * High return on investment | * Implementation of the L&D Framework | MHCA |
|  | Identification and support to unregulated Capital Market products, and services that can be on-boarded to the capital markets sphere (e.g. Islamic Finance) | 20 | N/A | N/A | * Periodically release informative Soundness and Stability reports to inform national capital markets policy | * Increased reputation and public image | * Periodically release informative Soundness and Stability reports to inform national capital markets policy | AMRS |
|  | Enhanced risk-based supervision through collaboration with other financial sector regulators, departments and SROs | 20 | N/A | N/A | * Included team members from various directorates to enhance joint inspections with different skills sets. | * Improved investor confidence * Improved market integrity * Increase in compliance levels | * Ongoing discussions on including NSE and CDSC participants for joint inspections as well as other departments | MMS |
|  | More targeted stakeholder engagement to establish demand and get buy-in before facilitating issuance of new products. | 20  Nj | 6 | 20 | * Enhanced and targeted stakeholder engagements | * Capital markets deepening | * Enhanced and targeted stakeholder engagements | AMRS |
|  | Optimal use of the RBSS system in the licensing and approval process and in undertaking financial analysis | 20  Nj | 7 | 20 | * Encourage applicants to submit all applications through the RBSS System * Programme the system to reject incomplete applications * Continuous training and improvement of the system to ensure its efficient operation. | * Increased applications received and reviewed through the RBSS system * Tracking progress of applications by applicants * Increased number of financial reports/returns submitted through the online portal * Ease of accessing complete information with respect to market intermediaries and issuers of securities | * Encourage applicants to submit all applications through the RBSS System * Programme the system to reject incomplete applications * Continuous training and improvement of the system to ensure its efficient operation. | MCA |
|  | Leveraging on the newly introduced Resource Persons programme and key staff members from all the Authority departments | 20  Nj | 9 | 20 | * The Authority held targeted forums through the aggressive investor education robust program using the resource persons and this led to increased profile of the Authority and led to increased number of forums. | * Leveraging of Resource Persons and other CMA staff resources led to Improved coverage by the Authority and enhanced participation in the capital markets and this created an avenue to address complaints and pick out enforcement issues. | * The Authority will continue to leverage Resource Persons and other CMA staff resources. | MIEPA |
|  | Provide guidance to market intermediaries and issuers on internal controls environment to enhance compliance with the legal and regulatory framework | 20 | 11  Nj | 20 | * Regular market sensitization on recommendations and directives issued to market intermediaries and issuers | * Reduction in repeat violations of the securities laws | * Regular market sensitization on recommendations and directives issued to market intermediaries and issuers | MIE |
|  | Sensitization of market participants on new and existing application requirements and continuous reporting obligations | 20 | 12  Nj | 20 | * Sensitize and give industry guidance on ambiguous/ conflicting regulatory requirements * Engaging stakeholders on regulatory changes/ inconsistencies and launch of new products | * Improved applicants’ compliance with regulatory requirements * Reduced turnaround timelines | * Sensitize and give industry guidance on ambiguous/ conflicting regulatory requirements * Engaging stakeholders on regulatory changes/ inconsistencies and launch of new products | MCA |
|  | Use of Fintech and Blockchain to Spur Market efficiency and operations | 20  Nj | 13 | 20 | * Pursue an analysis of the possible opportunities that Blockchain, cryptocurrencies and other technologies can offer to the financial markets * Leverage on Fintech and Blockchain to Spur Market efficiency and operations | * Market efficiency and streamlined capital markets operations | * Pursue an analysis of the possible opportunities that Blockchain, cryptocurrencies and other technologies can offer to the financial markets * Leverage on Fintech and Blockchain to Spur Market efficiency and operations | AMRS |
|  | Identification of Single Point of Failures within the ICT infrastructure | 20 | N/A | N/A | * Implementation of redundancy measures in the power and connectivity aspects of the ICT infrastructure | * Sustained availability of ICT resources at near 99% | * Procurement of a secondary Internet link to guard against WAN outage or degradation on the Primary link | MICT |
|  | Automation of payments | 20  Nj | N/A | 20 | * Automation of printing of payment cheques is already in place/ All payments to suppliers done as EFTs. | * Contributing to the society in cutting paper usage | * Have an interface between Finance and procurement. * Automate invoice approvals. | MF/MICT |
|  | Integration of risk assessment and reporting into operational processes | 20 | N/A | 16 | * Continuous monitoring and evaluation of risk management activities | * Reduced risk incidences * Enhancement of staff awareness on risk management | * Plans are underway to procure a consultant to work with the Authority to align its current risk management to the 2018-23 SP and roll out a performance and risk reporting mechanism. | MIARM |

## Emerging Trends

CMA operates in an environment that is constantly changing. Changes in the external and internal environment impacts on the profile of the current Top risks. Table 6 provides a review of expected changes in the external and internal environment and how this may impact on existing risk management strategies.

### **Table 6: Changes in the external and internal environment**

|  | **Factor** | **External/ Internal** | **Related Risk Event** | **Changes in Risk Profile** |
| --- | --- | --- | --- | --- |
|  | Time lag between innovation/ research and actual implementation | Internal | * Forfeited market development opportunities * Delayed rollout of new products and services | Risk upgraded due to delays in some of the key Market development projects such as the County Financing Project. The County Financing project consultancy experienced key technical inefficiencies that led to delay in the realization of the key project outputs including the final report on the analysis and identification of funding gaps at the national and county government to inform capital markets products and services development. |
|  | * Low investor/issuer confidence * Decline in uptake of new and/or existing capital markets products and services * Capital Flight | External | * Unfavourable changes in the macro-economic and/ or political environment | Risk upgraded owing to changes in the macro economic environment specifically on taxation whereby the Government effected taxes that will see excise duty charged for money transfer services by banks, money transfer agencies and other financial service providers increased to twenty percent of their excisable value and excise duty on fees charged for money transfer services by cellular phone service providers increased to twelve percent of the excisable value.  **As a result**   * The new provision has now doubled the tax applicable on money transfers and other fees charged by financial institutions and increased the tax on telephone and internet services by 50%. * This newly doubled tax has a direct bearing on the cost of executing capital market transactions and ultimately, the level of participation in capital markets. * The new taxes will have a negative impact on the growth of the mobile money services (including those of capital markets) which have been critical in growing financial inclusion. |
|  | Conflicting market interest on research outcomes | External | Delayed/Suspended/Abandoned research activities  Market opposition in the implementation of research and policy outcomes | Risk stable as a result of successful implementation of a proposed mitigation measure during the review period. The Authority executed an MOU with the Kenya Bankers Association (KBA) that will facilitate a basis for continuous engagements in data sharing, collaborative and joint analyses of emerging issues, research on key thematic areas and stakeholder engagement among others, aimed at market development. |
|  | Political environment /  Government policies & directives   * Constraints on training related travel and controlled remuneration * Competing priorities * Limited travel and controlled remuneration. | External | * Sub optimal levels of uptake of new and/or existing capital markets products * Sub-optimal staff capacity | Higher risk assessment because of impact from external factors. |
|  | Competing priorities within the Authority | Internal | * Strategy execution delay | * Project execution will not be efficient and/or effective due to project team members competing priorities within the Authority. * Resource allocation and load balancing would need to be revisited. |
|  | Accessibility of ICT resources from outside the CMA network | Internal | * Information systems and Data security | * The risk of data loss or corruption on client assets when unattended after a remote connection has been established |
|  | Lack of adequate resources | Internal | * Few capacity building initiatives | * The risk of suboptimal internal capacity still remains to be a key risk |
|  | Education Industry | External | * Competition with other certification programs and lack of buy-in from other stakeholders as well as unstructured training to markets practitioners in delivery of capital market services * Proliferation of certification programmes, cost of compliance and change of Government policy/board policy | * Tolerable |
|  | Political environment | External | * Delayed launch of spot commodities products * Shallow market penetration/deepening | * Not Yet. Monitoring the environment |
|  | Legal decisions adverse to the Authority | External | Litigation against enforcement decisions barring enforcement sanctions/investigations | * Risk profile is already high to cater for adverse decisions |
|  | Continuous release of Operating System/Database or Application software by Vendors/System Owners | External | Legacy Technology | * The risk of running software’s, applications or databases that are no longer supported by vendors either through system updates or security patches |
|  | Changes in cybersecurity attack vectors and new threats signatures | External | Cybersecurity | * Continuous release of new threats may expose vulnerabilities in the security posture thereby raising this risk profile |
|  | External Support and Funding for ICT Systems and Infrastructure upgrades | External | Server and Network Infrastructure failures | * Delays in funding of projected infrastructure system and hardware upgrades may result in raising this risk profile |

## Lessons Learnt

During the period, the following lessons were learnt that can enhance the risk management process:

### ***Strategies that worked well [includes information on opportunities exploited and/or threats minimized]***

|  |  |  |
| --- | --- | --- |
|  | **Market Development** | **Opportunity/ Anticipated Positive Impact** |
|  | Launch of the Capital Markets Strategic Plan and alignment with delivery of the Big 4 agenda | * The Strategic Plan launch on 18th July 2018 presents a great opportunity for market development specifically in alignment with the Government of Kenya Big 4 agenda. * Capital markets could be leveraged to achieve the targeted 100 percent affordable Health care. * With appropriate infrastructural arrangements including competitive interest rates, Credit rating, appropriate professional advisory services and market liquidity, Capital markets can provide an ideal source of long-term financing for the housing sector. * Kenya’s Capital Markets have a fundamental role to play to improve the food security situation. * This will facilitate introduction of new products and services on **Manufacturing** *(IPOs, Project bonds, Private Equity and FinTech)*; **Health Care** *(Green Bonds and Sukuk, Social Impact Investing, FinTech*; **Affordable Housing and Capital Markets *(****Housing Bonds, asset backed securities, real estate investment trusts, mortgage refinance bonds, county bonds);* **Food Security (***Spot Commodities and Derivative Exchanges, Warehousing Receipt Systems, Social Impact Investing using such instruments as Green Bonds, Central Clearing Counterparties* |
|  | Collaboration with Peers | * In the review period, the Authority executed an MOU with KBA, this is in addition to the existing MOU with KIPPRA. These MOUs have been fundamental in enhancing strategic influence locally within the financial services industry and policy arena. * The MOU’s have also formed a basis for continuous engagements in data sharing, collaborative and joint analyses of emerging issues, research on key thematic areas and stakeholder engagement among others, aimed at market development. |

Below is a highlight of some of the new developments that present an opportunity for capital markets development, financial inclusion and to enhance market depth.

### 

### ***Other significant strategies/ opportunities***

1. Quarterly capital markets stability and soundness reports that informed management and the public on key capital markets stability issues and suggested mitigation measures.
2. Continued stakeholder engagement on key capital markets products and market development initiatives.
3. Revival of the privatization program- the program will be partly carried out through the capital markets and could stimulate the capital markets through new listings of State Owned Enterprises and a multiplier effect of listing of private sector entities
4. Pre-assessment reviews, teamwork and collaboration on review of corporate applications and analysis reports (KCB Capital, Blended Finance)
5. One on one meeting with applicants on review of application and on ongoing reporting obligations
6. Enhanced professional skepticism,
7. Drive for results, a culture of excellence,
8. The Authority began to use social media LiveChat to enhance the reach of investor education messages.
9. The Derivatives Technical Committee was formed with an aim of incorporating CBK to work closely with CMA and NSE and it became a forum for information sharing and helped unlock the
10. The second phase of derivatives pilot trading is ongoing.
11. Sensitization of staff on risk matters. ERM has been captured in individual staff work plans in the ACRs.
12. Enhanced collaboration and teamwork engagements between Finance and other departments on budget issues.
13. The team spirit within Finance department was very high, and the department managed to prepare the 2017/18 financials and received OAG certificate by 18th October 2018.
14. Upgrading the HRMIS Modules
15. Working closely with risk champions and risk owners enabled smooth coordination of risk management activities
16. Active engagement and automation of the audit recommendation follows ups with periodic alerts led to good responses from management.
17. Replacement of the traditional spam/malware filtering solution to a robust online based solution that offers visibility
18. Preventive maintenance of all ICT system reduces the failure risk. It also identifies vulnerable areas of systems failure.
19. Successful testing of the viability and effectiveness of the hot disaster recovery site of select ICT systems
20. Ensuring availability of stand-by server peripherals – hard drives – for prompt replacements of failed units
21. Maintenance of an effective backup process for application databases and data to support quick recovery from data corruption or loss
22. Implementation of power supply redundancy to support server and network devices with a single power input to achieve consistent uptimes and availability of resources even when one power backup system is unavailable.
23. Conducted the Vulnerability Assessment and Penetration Testing Exercise (VAPT) to audit the security posture of the ICT infrastructure and expose vulnerabilities that exist. Areas of improvement will be addressed once the final report is submitted and adopted by the Authority.
24. Recommendations for review of the regulatory framework were made and this has been included in the Capital Markets Amendment Bill including provisions to facilitate payment of incentives to whistleblowers from the ICF account
25. Establishment of liaison with local agencies such as the Asset Recovery Agency, have assisted the Authority where enforcement sanctions have been supported through freezing orders from the Agency
26. The liaison with foreign regulators under IOSCO MMOU provided assistance/ feedback that has been critical in enabling settlement of the CMC matter.
27. Collaboration with the Corporate Communications Department, has supported the dissemination of information on positive image of the Authority where enforcement actions are challenged in court as well as in instances where the Authority undertakes publication of enforcement actions imposed.
28. Framework contracting- Various framework contracts were executed e.g. office tea, catering and taxi servicers with others to be executed to improve on service delivery.
29. Post tender negotiations – This cost saving technique was embraced and has elicited substantial savings for the Authority.
30. Introducing Internal Service Level Agreements between Procurement with User Departments – This has greatly improved on turnaround time for delivery of goods and services in the right quantitates and quality and at the right time. This also allows for Procurement to be evaluated based on performance.
31. The Resource Persons engagements was effective in reaching various groups and counties.

### ***Strategies that did not work [includes information on missed opportunities and/or threats that materialized]***

1. **Tax Preferential Measures** - The Approved Finance Bill proposed to introduce tax preferential measures that favour the other industries such as gaming, betting etc.

This is likely to promote the development of other industries as an attractive investment choice to the youth/public as opposed to the capital markets. This could impede the growth and development of the capital markets as an avenue for saving by the Kenyan populace.

Robust investor education and public awareness campaigns to position and project the capital markets as an attractive avenue for investments by the youth and the general public are being undertaken to mitigate this.

1. **The County Financing project consultancy** experienced key technical inefficiencies that led to delay in the realization of the key project outputs including the final report on the analysis and identification of funding gaps at the national and county government to inform capital markets products and services development.

The Working Group 1 Secretariat is working on revamping the report to ensure the key report outcomes and recommendations are implementable.

1. In the Coffee environment, the Nairobi Coffee Exchange (NCE) has rejected AG and CMA advice to incorporate as a company limited by shares. The DU together with the Coffee Implementation Committee is concentrating on developing Coffee Regulations

### ***Near misses [include information on hazards that almost occurred and what we did to contain them]***

1. Possible increase in the vacancy ratio considering four staff exits during the quarter
2. Lack of adherence (although minimized) to procurement procedures.

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### ***Other Key Risks***

1. The Big 4 Agenda has not received buy-in from majority of Kenyan populace. It has not been clear what the role of the citizen is in ensuring the achievement of the initiatives in the agenda. There is need for intense awareness creation to highlight the reasons for focusing on the Big 4.
2. Recent taxation measures may impede the achievement of the target of improving the investment climate, thus affecting uptake.
3. With the spread between the risk-free rate and the market rate being too narrow, risk averse investors would opt for the risk-free instruments thus crowding out the private sector from accessing credit.

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### ***Outlook***

The country has made progress in its ease of doing business ranking 2019, moving 19 places up from position 80 in 2017 to 61 in 2018. This places Kenya ahead of other Sub Saharan economies such as South Africa, Ghana, Tanzania, Nigeria and Ethiopia who ranked positions 82, 114, 144, 146 and 159 respectively, a confirmation of Kenya’s resilience. This also further presents Kenya’s capital market as a preferred investment destination in line with the Capital Markets Master Plan aspirations.