**ICT STRATEGIC PLAN**

1. INTRODUCTION ........................................................................................................................................... 22

1.1. Background of the Capital Markets Authority .................................................................................. 22

1.2. Considerations in developing the Strategic Plan .............................................................................. 23

1.3. Process of developing the Strategic Plan ......................................................................................... 25

2. SITUATION ANALYSIS .................................................................................................................................. 25

2.1. Industry structure ............................................................................................................................ 25

2.2. External environment ....................................................................................................................... 28

2.3. Internal environment ........................................................................................................................ 34

2.4. SWOT analysis ................................................................................................................................. 35

2.5. Review of the CMA’s 2013-2017 Strategic Plan .................................................................................. 36

2.6. Summary of strategic priorities for the CMA .................................................................................... 39

2.7. CMA’s strategic positioning to support the Big 4 Agenda ................................................................. 42

3. STRATEGIC DIRECTION ............................................................................................................................... 43

3.1. Vision ............................................................................................................................................... 43

3.2. Mission ............................................................................................................................................ 43

3.3. Core Values ...................................................................................................................................... 43

3.4. Strategic objectives, initiatives and activities ................................................................................... 43

4. ALIGNING THE ORGANISATION TO THE STRATEGIC PLAN .......................................................................

1. INTRODUCTION

**1.1. BACKGROUND OF THE CAPITAL MARKETS AUTHORITY**

The Capital Markets Authority (CMA) was established by an Act of Parliament Cap 485A in 1989 and formerly inaugurated in 1990, with a dual mandate of regulating and facilitating the development of orderly, fair and efficient capital markets in Kenya. This mandate was extended to include regulation of spot commodities markets through an amendment to the CM Act via the Finance Bill 2016.

The principal functions of the Authority include:

i) Licensing and supervising all the capital market intermediaries;

ii) Ensuring proper conduct of all licensed persons and market institutions;

iii) Regulating the issuance of capital market products,

iv) Promoting market development through the creation of a conducive environment for product innovation, supporting institutional capacity development and stimulating robust market infrastructure;

v) Promoting investor education and public awareness;

vi) Protecting investors’ interest; and

vii) Develop a framework to facilitate the use of e-commerce.

The current organizational structure of CMA can be broadly categorized into two tiers, Governance and Management as described below:

**Governance**

The CMA is governed by a non-executive Board of Directors which is the highest decision-making organ of the Authority. The Board is responsible for the overall policy direction and strategic leadership of the Authority. The Board is also responsible for the protection of the interests of the Authority’s employees, ensuring effective coordination with Government policy, promoting responsive engagement with existing and potential investors, issuers of securities and market intermediaries. The composition of the Board of the Authority is stipulated in the Capital Markets Act under Section 5(3) as follows:

i) A Chairman appointed by the President on the recommendation of the Cabinet Secretary to the National Treasury;

ii) Six other members appointed by the Cabinet Secretary to the National Treasury;

iii) The Principal Secretary to the National Treasury or a person deputized by that office;

iv) The Governor of the Central Bank of Kenya or a person deputized by that office;

v) The Attorney General or a person deputized by that office; and

vi) The Chief Executive of the Authority appointed by the Cabinet Secretary to the National Treasury on the recommendation of the Board

Management

The management is responsible for the day-to-day operations of the Authority. The management is structured as follows:

i) The Chief Executive: Subject to the guidance of the Board, the Chief Executive is charged with providing direction to the affairs of the Authority in discharging its objectives, functions and duties as well as the administration and management of the staff of the Authority.

ii) Directorates: The Authority is organized into Directorates and independent departments/units as follows:

a) Directorate of Market Operations (DMO): The Directorate’s functions and responsibilities include: market supervision; conducting investigations; enforcement of laws, rules and regulations; financial analysis; arbitration of market disputes, resolution of investor complaints and undertaking licensing and corporate approvals for capital market institutions, intermediaries, issuers and products.

b) Directorate of Regulatory Policy and Strategy (DRPS): The Directorate’s functions and responsibilities include carrying out research; production and management of capital market data and statistics; assessment of modalities for the deepening of capital market operations, products and services; developing recommendations on the refinement and strengthening of market structure and institutional arrangements; formulation of the capital market policy; coordinating the development, implementation and monitoring of the Authority’s Strategic Plan and Performance Contracting commitments with the Government of Kenya; legal and regulatory framework drafting and interpretation investor education and public awareness.

c) Directorate of Corporate Services (DCS): The Directorate is charged with responsibility for the Authority’s Information Communication Technology (ICT) infrastructure and services, Human Capital management and administration, Finance and administrative oversight of Procurement functions.

e) Derivatives Unit: The unit is charged with preliminary formulation and implementation of the policy, legal and institutional framework for the operationalization of derivatives markets in Kenya including: the licensing process for derivatives exchanges, derivatives market intermediaries, spot commodities exchanges, commodities market intermediaries and online forex brokers; spot commodities and financial derivatives market research and policy analysis and determining the suitability of derivatives contracts to be listed in a derivatives exchange. It is also responsible for identifying incidents of market manipulation, investigating complaints of the Derivatives Exchange and monitoring and surveillance of trades in Derivatives contracts.

g) Legal Affairs & Corporation Secretary: Responsible for the efficient and effective delivery of the Authority’s litigation, contracting and corporate secretarial services. It also ensures that the Authority complies with relevant legislation, regulations and Government Circulars, and relevant legal reforms affecting the corporate entity.

h) Strategic Projects: Charged with coordination, monitoring and evaluation of the implementation of the Authority’s key organizational initiatives being carried out as strategic projects; developing and championing project management best practices across all functions and coordination of sectoral, national, regional and international engagements and stakeholders in support of and complementary to the strategic delivery of the organization.

**1.2. CONSIDERATIONS IN DEVELOPING THE ICT STRATEGIC PLAN**

The process of developing the 2018-2023 Strategic Plan was informed by the following:

i) The need to transform Kenya’s capital markets into an international powerhouse – in 2015, 2016 and 2017 the CMA won recognition as the ‘Most Innovative Capital Markets Regulator in Africa’ from multiple publications. This recognition was in respect to the effort of ICT Department developing an information systems that supports the authority activities.

ii) The need to align the CMA’s ICT Strategic Planning and Implementation with effective Enterprise Risk Management system. This new Plan will be focused on ensuring that the strategies articulated inform and acknowledge the risks facing the Organization to ensure mitigating actions translate into strategy delivery.

iii) Changing technological landscape – Since 2012 there have been significant leaps in technology, both locally and globally, that have a bearing on capital markets. The emergence of artificial intelligence and analytics, robo-advice technology, distributed ledger technology (DLT) and alternative funding platforms (crowdfunding), for example, has the potential to fundamentally change the capital markets value chain.

iv) Changing consumer/investor needs – The needs of local investors and the demands of foreign investors have become more sophisticated. This is evident in the increasing range of investment vehicles on offer in the market that cater to different risk-return profiles. As an ICT department assessing the changing landscape of investor demand requires business intelligence through data mining and data processing.

vi) Aligning the Authority and its resources to the market infrastructure – The development of market infrastructure is a core tool for the CMA to ensure it is utilizing its resources effectively and efficiently. Hence the design of an effective market infrastructure is preceded by a reflection on performance against the objectives set for the previous five years as a basis for aligning the Authority and its resources to the needs of the market. As a policymaker, the Authority is obligated to have regard to and proactively respond to the views of market investors, issuers and market intermediaries when developing its Strategy.

**2. SITUATION ANALYSIS**

This section provides an assessment of CMA’s ICT operating environment including an overview of the capital markets in Kenya and the broader external and internal environment facing the Authority using PESTEL and SWOT analytical tools.

2.1 EXTERNAL ENVIRONMENT

Below is a brief political, economic, social, technological, environmental and legal/regulatory (PESTEL) analysis of the historical

and likely future operating environment of ICT within CMA.

Political environment

The last five years have been historic for Kenya from a political standpoint. In 2017 Kenya witnessed two presidential general elections after the Supreme Court nullified the first election. The protracted election period has had significant downside impact on the overall economy and the financial sector. The increased political uncertainty during this period created a ‘wait-and-watch’ environment in the market whereby investors held-off on investing to avoid any risk associated with transactions. The ICT department was in the process of developing Risk management system where the actual date of deployment was affected. Despite a volatile and uncertain 2017 the subsequent years are promising including this year of hand shake where the capital market will thrive well.

Economic environment

In the past five years, Kenya has managed to achieve commendable real economic growth averaging at approximately 5% on an

annual basis (Figure 4). While this growth is relatively high by regional and developed market standards, Kenya has not met its

Vision 2030 target of 10% growth per annum and this has, in turn, dampened expectations about the growth of Kenya’s capital

markets. Over the Strategic Plan review period (2013-2017), the Kenyan currency, inflation and lending rates remained fairly stable,

creating an attractive environment for investors, as the steep global decline in oil prices in 2015 had a positive impact on the

From a business standpoint, a large portion of Kenya’s large and medium-sized enterprises are family-owned. This creates a significant challenge to encourage firms to utilize capital markets as a means of raising funding for growth. There are also several cultural issues that dissuade companies from raising finance from capital markets, including the fear of dilution or loss of ownership that comes with a listing, the perceived stringency of legal and regulatory requirements, and a general aversion to public scrutiny of their business model and financial accounts. These issues are common in emerging capital markets but need to be addressed in a strategic and coordinated manner in order to grow the usage of capital markets in Kenya.

Technological factors

The success of M-PESA, makes Kenya to be regarded by many foreign investors as a technologically-sophisticated market by regional standards. When considering the technology in a capital market context, two key themes emerge; the growing influence of social media and the application of new technology to enhance the functioning of capital markets. The growing influence of social media – According to the Communications Authority of Kenya (CAK), mobile phone penetration in Kenya exceeds 90%, smartphone uptake is at 44% and internet penetration is at 49%.11 In addition, social media, search, email and video are the most popular activities amongst smartphone users in Kenya on a weekly basis. Social media dominates with 58% followed by search engines at 39%, email at 30%, and lastly, video/YouTube at 25%. This growing use of the internet, smartphones and social media engagement, presents a unique opportunity for increasing the level of awareness and interaction with capital markets. Social media, in particular, provides a platform for market intermediaries, education providers and other relevant players to reach retail investors and potential entrepreneurs in a cost-effective manner. The importance of social media is expected to increase further and will be a key propositional tool for many capital market operators for years to come.

The application of new technology to capital markets – A growing topic of interest in emerging and developed markets alike, is the surging prevalence of FinTech solutions. M-PESA was a world-first and showcased the power of mobile USSD-based innovation. Today, the M-PESA platform enables Person to Person (P2P), Business to Person (B2P), Person to Business (P2B), and Person to Government (P2G) payments as well as a host of adjacent financial services, including the provision of micro-consumer credit. The success of the M-PESA has led to the proliferation of other FinTech companies providing services ranging from access to finance, healthcare and agricultural solutions. More recently it has led to the development of M-AKIBA which was launched in June 2017 as a platform that allows any Kenyan investor with a mobile phone to buy Government bonds for as little KES 3,000. Notwithstanding the introduction of M-AKIBA, the application of FinTech to capital markets is a relatively new concept. The impact of FinTech innovation is also being considered by other sectoral regulators, particularly in banking and insurance. The Authority has taken active steps to foster and promote the growth of FinTech through the establishment of a regulatory sandbox which seeks to provide a relaxed regulatory environment for promising FinTech to operate within, subject to applicable restrictions on client access and investment size, prior to becoming subject to full regulatory compliance. However, if developments in other markets are an indicator of what to expect in Kenya, disruptions across the capital market value-chain – from investment advice to capital raising, algorithmic trading and decentralized clearing and settlement – are on the horizon and will soon require a coordinated regulatory response.

In order to provide some context to this outlook, a recent study identifies that FinTech has the potential to disrupt the capital

market value-chain in five core ways:

i) Core market infrastructure – This refers to technology with the ability to decentralize and promote a reduction in physical

assets. FinTech solutions in this space have focused on aggregating liquidity across markets and providing a single platform/

exchange for trading. This concept is supported by the use of Distributed Ledger Technology (DLT) of which Blockchain is

a manifestation. The potential implications of DLT on core market infrastructure are far-reaching for the capital markets,

offering a path to a more efficient market infrastructure.

ii) Post-trade digitization – This refers to the automation of many of the manual processes that still exist in compliance,

regulation, collateral management, and securities lending; bringing efficiencies to clearing and settlement and facilitating

the launch of innovative solutions to manage enterprise stress-testing, risk attribution and reporting processes. Now

common terms in this area are RegTech (Regulatory Technology) and SupTech (Supervisory Technology). Both are key

areas of interest to capital market regulators, with innovative technology and software being applied to assist in intelligently

managing regulatory and supervisory processes. For example, the Monetary Authority of Singapore (MAS) has set up a Data

Analytics Group within which it has a dedicated unit for SupTech.

iii) Artificial Intelligence and analytics – These are technologies that utilize in-memory computing and machine learning

to leverage the massive surge of structured and unstructured data to make predictions and to integrate real-time analytics

at the point of trade. There is an emergence of alternative trading platforms and unique trading styles, such as multilateral

trading facilities (MTFs) and High-Frequency Trading (HFT) which will impact the way in which the Authority approaches its

supervision.

iv) Investment technology – These are software and tools that enhance investment decision-making and contribute to

accelerating the shift towards passive investments. A key interest area here is the implementation of robo-advice technology.

Large incumbents such as brokers, custodians, are leveraging economies of scale to roll out low-cost, or even zero-cost

portfolio management platforms, or to partner with robo-advisors. The application of these technologies over the medium-

term may be difficult in the Kenyan context due to relatively lower investment appetite from market players. However, a few

bank brokers are attempting to work with or build scalable, low-cost platforms to address the needs of their less affluent

clientele.

v) Alternative funding platforms (crowdfunding) – Perhaps the most relevant form of FinTech for Kenya are platforms

that allow an alternative way to raise funding for large companies, and small enterprises and even retail borrowers. With

the emergence of international players such as Kiva (peer to peer lending platform) in Kenya, this is a space that is gaining

traction and that requires particular regulatory scrutiny. The emergence of these technologies needs to be treated with caution. On the one hand, they introduce opportunities to drive

additional demand for capital market products and services; and on the other hand, they also have the potential to introduce

new prudential risks that can, not only destabilize the market, but also present a new scope of market conduct risks that can

put-off retail investors for years to come if not properly managed.

Environmental issues

More recently, Kenya has adopted a strong stance on averting climate change by ratifying the Paris Agreement. It has further reiterated its commitment to public participation and provision of incentives to stakeholders in order to combat negative effects of climate change, with the Authority and the NSE being pioneer signatories of the Marrakech Pledge during the twenty second session of the Conference of Parties (COP 22) in November 2016. The growing awareness of climate change has had a significant impact in the way in which the public and private sectors operate. Countries are moving towards greener and more efficient ways of energy extraction and management, with companies now required to be increasingly aware of their environmental footprint. As such there are key themes such as ESG (Environmental, Social and Governance) policies emerging, with issuers signaling to the market, their environmental intentions with regards to the issuance of green bonds. Kenya has taken some important strides towards environmental sustainability, by initiating its Green Bond Program in 2017, which aims to develop a domestic green bond market. The Program is brought together by the Kenya Bankers’ Association, NSE, Climate Bonds Initiative and Financial Sector Deepening Africa, in collaboration with the Dutch development bank FMO and the IFC. Over the next five years and beyond, green instruments will play an important but niche role in driving the growth of the nation’s capital markets, in line with the Marrakech declaration which calls for an increase in the volume, flow and access to finance for climate projects, alongside improved capacity and technology from developed to developing countries.

Legal and regulatory environment

In Kenya, the National Treasury is responsible for formulating, implementing and monitoring macro-economic policies involving Expenditure and revenue; managing the level and composition of national public debt, national guarantees and other financial obligations of national government; formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities; mobilize domestic and external resources for financing national and county government budgetary requirements; design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting a well as strengthen financial and fiscal relations between the national government and county governments while assisting to develop their capacity for efficient, effective and transparent financial management. The powers of the Cabinet Secretary for the National Treasury are prominent and manifested in the making of rules and regulations and approving of sources of finance and fees payable to the Authority, as it is, in the appointment of board members; whereas the power to remove the Chairman is vested in the President. While these powers enhance accountability, they potentially have an impact on the speed and efficiency in which the Authority may respond to changing market dynamics. As such, the Authority’s autonomy may need to be augmented to be flexible enough to enable quicker response times to capital market crisis. In this

context, one of the fundamental tenets of the discussions on regulator consolidation was to ensure that the CMA’s internal structures are able to facilitate cross-sectoral crisis coordination.

The Authority has adopted an evidence-based policy-driven approach to the development of legal and regulatory frameworks, aligned to IOSCO Principles with significant peer review/international benchmarking, balanced with the local environment and stakeholder involvement, including validation. The regulatory frameworks are therefore largely seen as fit for purpose. A principle-based approach to regulatory approvals has also been instrumental in addressing its responsiveness to evolving market needs and trends.

The legal and regulatory environment in Kenya has seen several draft regulations and policies tabled and some passed over the

past five years. Some key regulations that directly impact the capital markets include:

i) Expansion of the Authority’s mandate beyond traditional capital markets instruments and products to also cover spot

commodities exchanges through the Capital Markets (Amendment) Act 2016.

ii) The Financial Services Authority (FSA) Bill - which seeks to consolidate the four non- bank financial sector regulators: the

RBA, SASRA, IRA and the CMA under a single regulator and to provide a cross-sectoral framework for regulating market

conduct. While the FSA Bill has been drafted, there has been a delay in its enactment.

2.3. INTERNAL ENVIRONMENT

The ICT Department recognizes that building requisite internal capabilities is critical to its mission and vision accomplishment. At the core of this internal capability building an organizational culture that supports institutional excellence, timely delivery of appropriate outcomes, effective decision making and high performance. Under the banner of Uwezo Kipeo, the ICT Department has been implementing changes in the way we manage our core asset – our people – with a view to making CMA a truly world-class regulatory agency. This HR-driven cultural transformation is guarded by the Authority’s Long Run Excellence Model that, inter alia, aims to enhance its organizational effectiveness (and therefore its capacity to effectively discharge its mandate) through deepening its independence, strengthening its capacity to carry out effective regulation and supervision, ensuring efficient utilization of resources, building requisite skills, intelligent multi stakeholder coordination and the effective deployment of support functions. Uwezo Kipeo seeks to catalyze deep-seated organizational transformation in order to embed a “new normal” at the CMA through:

i) Empowering staff: Uwezo Kipeo represents a fundamentally different approach in the way CMA manages employees. Through Uwezo Kipeo, the Authority has been laying the building blocks for empowering employees to take appropriate decisions at their various levels through clarifying job expectations, broadening the scope of Learning and Development to align it better with its mandate, rolling out an elaborate talent management program and transferring the accountability for managing employees to the frontline supervisors.

ii) Linking performance to reward: the ICT Department has, through Uwezo Kipeo, redesigned the way it facilitates the evaluation of work of its employees. As a consequence of Uwezo Kipeo, employee achievements and successes are measured and rewarded based on the attainment of positive objectively-verifiable outcomes that are aligned to CMA’s strategic mandate and not the mere completion and ticking off of tasks and processes. The CMA Performance Management System (PMS) – dubbed the annual Capability Review (ACR) – focuses on positive and impactful results delivered in a way that is demonstrably aligned to its core values and job-specific behavioral capabilities and special objectives as the principal basis for appraising and rewarding performance.;

iii) Recognizing CMA employees: To reinforce appropriate behaviors and attitudes that are aligned to the CMA Way, a key innovation has been the appropriate deployment of the Recognition Policy where employees are recognized by their reports, peers, or supervisors for doing outstanding things in an extraordinary manner or doing normal things outstandingly well. In CMA’s experience, this has been an extraordinarily powerful tool in driving uptake and adoption of appropriate culture.

The ICT Department will leverage on the Uwezo Kipeo regulatory excellence model that has been inculcated in its organizational fabric

to optimize on its existing strengths and opportunities and to mitigate against the identified weaknesses and threats outlined in

the table below:

2.4. SWOT ANALYSIS `

The outcome of a high-level SWOT analysis is provided below to assess the ICT Department strategic positioning in relation to its external

and internal environment.

|  |  |  |  |
| --- | --- | --- | --- |
| Strengths | Weaknesses | Opportunities | Threats |
| CMMP which is a site that provides a detailed blueprint for the CMA’s development activities | Unclear roadmap for |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

Strengths Weaknesses Opportunities Threats

• CMMP in place which • Unclear roadmap for • Growing prevalence and use • Vested interests from various

provides a detailed organizational structure of technology to enhance market players slowing or

blueprint for the CMA’s pending policy direction on efficiency and reduce costs undermining market reforms

developmental activities the way forward on the FSA

bill • The Government has set up • Lead times from playing a

• Competent and skilled a Blockchain and Internet of coordination role across other

staff • Limited control or flexibility Things (IoT) task force that regulators leads to inefficient

to ramp up financial and could be leveraged upon allocation of resources

• Positive market reputation human capital resources to

from all stakeholders implement reforms aligned • Growing reputation of Kenya • Misaligned objectives across

• ISO Certification that to an evolving market and globally as an investment sector regulators

guides best practices technology innovation in destination

the absence of exemption • Low market confidence in

• Self-funded organization from public sector oversight • Increased global connectivity the capital markets due to

constraints of financial markets historical challenges

• Won several market

innovation awards across • IT systems still require • A large pool of unlisted • Extension of interest rate cap

Africa strengthening and more companies on lending

automation with regards to

• CMA well represented on market surveillance • Active donor partners and • Diminished pipeline for new

international standard- industry associations to company listings

setting bodies (IOSCO, • Institutional capacity has support the CMA

Financial Stability Board been focused on traditional • Increased sources of funding

-Regional Consultative securities markets oversight • Growing pool of diaspora to business from Private

Group (FSB-RCG), Islamic and requires re-tooling to remittances Equity not domiciled in Kenya

Financial Services Board tackle spot commodities and poor track record of exits

(IFSB) and African exchanges’ oversight • Clear objectives set by the through the capital markets

Integrated Reporting Government’s Big 4 Agenda

Committee(AIRC)) • Risks of exogenous shocks

• CMMP industry Working such as recession or terrorism

• Principle-based approvals Groups provide an effective

powers allowing for platform for multi-stakeholder • Delays in the passage of

accelerated consideration consultation and engagement legislations

and introduction of new on proposed market

products and services developments • The increased threat of

cybercrime

• Leadership position in • Opportunity for diversification

IOSCO and within the EAC of revenues based on the • Limited knowledge of the

design of programs to risks associated with new

generate revenue such as technologies such as FinTech,

certification and training RegTech and SupTech

• Potential to work with Banking • Low levels of awareness

sector to assist companies of capital market products

transition to raise longer term persist

financing through the capital

markets and free banking • Inconsistent progress by

sector balance sheets CBK CSD and CDSC toward

full compliance with IOSCO-

PFMIs

2.5. REVIEW OF THE ICT 2013-2017 STRATEGIC PLAN

This section reviews the CMA performance in implementing the Strategic Plan 2013-2017 based on five key results areas.

Figure 5: CMA Key Result Areas, 2013-2017

Facilitate legal and regulatory framework

Capital Market

Capital Markets Investor Education Infrastructure

products & Services & Public Awareness and Institutional

Arrangements

Institutional Capacity of the Authority

Source: CMA Strategic Plan, 2013-2017

Under these key result areas, the Authority identified 106 activities that would drive specific strategic objectives.

2.5.1. To ensure a robust, facilitative policy, legal and regulatory framework for capital market development

Of the 17 activities set for this objective, the Authority carried out and/or completed 16 activities equivalent to a 94% achievement

rate. The only delayed activity was the revision of the Securities, Investment and Derivatives (SID) Bill as a consequence of the

National Treasury prioritizing progress on the overall financial sector legislation related to the Financial Services Authority (FSA)

Bill.

2.5.2. To facilitate the development and diversification of capital market products and services

Of the 21 activities that were proposed, the Authority carried out and/or completed 17, translating into an achievement rate of

81%. The activities that were not completed related to the development of margin trading rules and over the counter (OTC)

derivatives with the latter marked as ‘on-track’ because there was on-going research to determine the depth of the market

and the appropriate requirements. The development of a policy framework for margin trading was delayed as there was an

intentional decision to initially monitor the progress of the demand for securities lending and borrowing and short selling. The

other incomplete activities included development of modalities to increase free float and identification of funding requirements

and structuring considerations for different sectors in the economy. The latter, was however, in progress as a market segmenting

exercise was already being conducted.

2.5.3. To promote investor education, awareness and interest in the capital markets

The Authority undertook all the 12 activities, achieving an implementation rate of 100%. Most of the activities were continuous

in nature and are therefore aimed at maintaining progress/partnerships. Given that market intermediaries have limited financial

resources to drive investor education, the Authority has notably played an increasing role in this space. The impact and reach

has, however, been limited with minimal direct interaction with investors.

2.5.4. To enhance the efficiency and integrity of the capital market infrastructure and institutional arrangements

Of the 28 activities that were proposed, the Authority was able to carry out and/or complete 20 of the activities translating

into 71% achievement. The delayed activities were related to licensing new trading, clearing and settlement platforms and the

change in strategy with regard to operationalising the Investor Compensation Fund (ICF) board. The activities that were on

track but were not completed included: holding stakeholder workshops on internet trading, facilitating the strengthening of the capacity of CDSC, approving SROs and giving them the responsibility to regulate their members, establishing requirements for

significant disclosures of market-related information by listed companies and developing a policy to enhance participation of

minority investors in the primary market.

2.5.5. To strengthen the institutional capacity of the CMA to effectively and efficiently deliver on its mandate

The Authority had proposed to undertake 28 activities and was able to conduct 23, achieving an implementation rate of 82%.

The delayed activities were mainly related to the implementation of proposals on relocating to CMA’s own premises but this

was reprioritized and focus changed to obtaining additional space in the existing building. The activities related to developing a

business intelligence system were also delayed. Most of the other activities were continuous in nature and there was a need to

constantly conduct assessments and address any gaps that arose. Based on the internal review and feedback from management,

it is clear that the CMA has effectively strengthened its institutional capacity especially in regards to human capital.

A major achievement of the Authority was enhancing human capital capabilities and successfully implementing an organizational

culture change through the Uwezo Kipeo program. The challenge will, therefore, be in sustaining and deepening these changes

in the next five years with a focus on optimising outcomes.

2.5.6. Overall implementation score and achievement against Key Performance Indicators

Overall the CMA has made significant progress against its set KPIs and of the 106 activities envisioned, a total of 88 were

achieved translating into an achievement rate of approximately 83%.

The Key lessons drawn from the performance of the 2013-2017 Plan were:

i) The need to engage and identify potential issuers before having any new regulation or products launched while finding

an appropriate balance with global best practice standards to ensure efforts towards market development translate into

market activity.

ii) Consider reviewing requirements and investment restrictions that prove to be barriers to potential issuers and investors

respectively, while taking investor protection into consideration.

iii) Aware of the CMA’s limitations in trying to drive demand for capital market products, there is a need for market participants

to play an equally proactive role to ensure product uptake.

iv) Perceived complexity of capital market products, with both institutional and retail investors continuing to prefer traditional

instrument coupled with limited financial resources by intermediaries to drive marketing campaigns in order to properly

articulate their value proposition to potential investors.

v) Indication of a demand for deepened existing markets which would necessitate strengthening the both the bond market

and equity market hence the need for more coordination and collaboration with overarching and complementary bodies to

ensure that there is an alignment of incentives for both local and foreign market participants.

vi) Investor education is a complex and multi-sectoral issue, there needs to be a holistic and coordinated approach where a

consistent message is conveyed across the market.

vii) The need for a clear crisis management framework for the financial sector, sound financial reporting and robust market

infrastructure.

viii) Opportunity to leverage data acquisition systems as tools that can provide information crucial to decision making and

further enable it to enhance its supervisory control.

ix) The need for more efforts to enhance financial sustainability by pursuing additional revenue sources and adopting prudent

financial management practices. This can be achieved through setting up a fundraising desk to coordinate the raising of

capital for strategic projects.

2.6. SUMMARY OF STRATEGIC PRIORITIES FOR THE CMA

Strategic priorities for the CMA have been identified using the preceding analysis, that is, the PESTEL, SWOT, international

benchmarking and the previous Strategic Plan (SP) review.

Table 5: Summary of Strategic Priorities

Strategic objective Strategic issues

Ensuring a robust, facilitative Enhance the responsiveness and enforceability of the regulatory framework to improve

and responsive policy and investor experience – the placement under statutory management of Chase Bank and Imperial

regulatory framework for Bank highlighted the systemic risk arising from the high concentration of the banking sector in the

capital market development and capital markets and malpractice in financial reporting. The CMA will consider further the issues

efficiency arising from sectoral concentration in the capital markets and pursue stricter adherence to the

Corporate Governance Code. In view of the critical contribution to confidence in capital markets

made by sound financial reporting, the CMA will work with the National Treasury to operationalize

the independent auditor oversight legislation and with ICPAK to ensure that existing arrangements

on sound financial reporting remain as effective as possible. Given that the banks had also issued

corporate bonds, there is a need for a clear crisis management framework on which the Authority

will work with the Government and other regulators, to ensure that investors are appropriately

protected in case of such events.

Develop and review regulations that are in alignment with the National Development

Agenda – the Government is currently pursuing a National Development Agenda as articulated

in the Third Medium Term Plan of the Vision 2030 and its Big 4 Agenda; thus it is imperative for

the CMA to align its strategy to aid in the achievement of broader National goals. Considering its

expanded mandate that entails regulating the spot commodities exchanges, the Authority will also

seek to facilitate the growth and efficient operation of this market with the aim of supporting the Big

4 Agenda that is linked to promoting the agricultural sector and specifically food security.

Facilitate the development, Enhance awareness and delivery of Capital Market education for investors and issuers -

diversification and uptake of there was generally low uptake for new products on both the supply and demand side despite CMA’s

capital markets products and efforts to ease regulatory barriers. The Authority has examined in greater depth the reasons for

services this, following an Investor Education and Public Awareness Impact Assessment and Opportunities

Study and determined clearer approaches for achieving stronger results. New strategies to be

implemented will include one-on- one business incubator and accelerator meetings, market

intermediaries- driven awareness programmes, one stop shop stakeholder engagements , social

media engagements, diaspora on boarding initiatives, edutainment initiatives, as well as use of

awareness ambassadors.

Strategic objective Strategic issues

Create and review regulations to attract a broader set of investors – as part of the Third Medium

Term Plan, there is an ambition to establish Kenya and Nairobi as an international financial centre.

A key strategic focus for developed markets was ensuring that capital market players enhance their

policies around general corporate governance and environmental, social and governance (ESG)

factors. This was identified as an important issue for CMA to consider especially when attempting to

attract foreign investors. The Authority will explore the extent to which issuers, actual and potential,

have the capacity and appetite for extending the range of ESG reporting and the extent to which

the costs of complying with increased reporting standards are likely to be justified. The Authority

will have particular regard to the relevance of governance and financial reporting requirements to

investor protection and to facilitating access to capital by Small and Medium Enterprises (SMEs)

as key drivers of economic growth. Further the Authority will engage its development partners and

the NSE in developing policy, regulatory and institutional framework to support green financing.

Create and review regulations to ensure optimal uptake of products and increased market

participation - the activity in the primary equity market has remained stagnant while there is

a continued overreliance on the Government bond market to provide high return investment

instruments. Reputable large-sized corporates and Small and Medium Enterprises (SMEs) are not

taking advantage of cheaper capital available in the capital markets and this is a cause for concern

even for the top leadership in Kenya, given the existing high interest rate regime. The CMA will

examine the strategies necessary to generate a pipeline of issuers of traditional and new products,

including a review and possible relaxing of existing eligibility and disclosure requirements to attract

both large private companies and SMEs, following the finalization of a comprehensive study aimed

at determining the factors are presently seen as inhibiting take up of such products. The Authority

will further advocate for review of relevant legislations to revitalising of the privatisation programme

for eligible State Owned Enterprises as a listing pipeline such the State Corporations Act, as well as

the possible merging of the existing segments at the NSE for greater efficiency and targeted listing

of large private corporates aligned to the Big 4 Agenda to support the manufacturing, housing,

agriculture and healthcare sectors. Other initiatives will include creating and /or reviewing

regulations to facilitate on-market exits for private equity investors as well as the issuance of

approved restricted institutional placement as distinct from full retail listing.

These strategies will require engagements with the Government to enable it to signal the

importance it gives to the use of the capital markets to support economic growth and support in

educating potential issuers on the advantages of capital market finance. The CMA will leverage

on banking sector to assess the preparedness of corporates to raise capital in the markets as well

engaging banks on the opportunities to take up early stage financing of long term projects on the

appreciation of opportunities to seek refinancing of such projects through the capital markets,

once commercial viability is achieved. The Authority will additionally explore ways in which to

demonstrate to investors that corporate failures are a natural part of risk taking in investment

products and the importance for investors to examine the corporate governance and financial

reporting of the companies they invest in as addition to headline results. The CMA will also seek

to demonstrate that its own response to failures is in line with international capital market norms.

Ensure sound market Support the operationalization of an efficient pre-trading environment including trade

infrastructure, institutions and facilitation, access to data and information and stable technology - there is a clear need

operations to improve liquidity in the capital markets through the implementation of Primary Dealership

and market making for Government securities together with effective pre -trade and post-trade

infrastructure. An efficient secondary market is also expected to improve price discovery and provide

a pricing benchmark for other market products and subsequently support collateral management,

as well as securities lending and borrowing opportunities in the market.

Ensure efficiency and risk minimization in the trading and post-trading environment

(clearing, custody & settlement) - there is a clear need to ensure that market infrastructure,

including its regional and global connectivity, is suitable over time for Kenya to demonstrate it will

maintain its capacity to act as a competitive financial centre, strengthen the CDSC and especially

address its issues on risk management and its ability to ensure settlement of all types of products.

In addition to strengthening the CDSC, there is a need to facilitate the CBK’s CSD for Government

bonds to evolve complementarily as opposed to duplicate infrastructure to what is being rolled out

by the CDSC to ensure strategic market segmentation as opposed to fragmentation and a longer-

term strategy for CSD consolidation to realize efficiencies and economies of scale.

Promote proper market conduct through effective monitoring and supervision of capital

market operations – there is a general need to improve market surveillance

Strategic objective Strategic issues

Leveraging technology to drive Strategically leverage the potential impact of and Champion the adoption of new

efficiency in the capital markets technologies in the capital market value-chain – the impact of FinTech is being considered by

value chain financial sector regulators across the globe and will be a key factor to take into consideration over

the next few years especially given its potential to disrupt the capital markets value chain. New

technological developments have the potential to disrupt existing models for both users of financial

services and regulators, and will have relevance to the CMA’s role in protecting actual and potential

investors. The Authority has a strategic objective to address the potential aspects of technological

disruption and will provide a strategic response to each of them.

The CMA has been proactive in supporting FinTech through its regulatory sandbox, but strong

coordination will be needed with other regulators to ensure there are no gaps or overlaps, as well

as to make sure that scalable solutions touching on multiple sectors are able to be put in place

where necessary. The CMA will keep abreast of developments in the area of artificial intelligence

and analytics and further ensure that new developments in techniques for the giving of advice

do not impede regulatory objectives of customer protection. The Authority will additionally take

steps to ascertain that the disclosure arrangements surrounding the introduction of platforms

such as crowdfunding are adequate for participants to understand the nature of the risks they are

potentially taking.

Internally leverage Information, communication and technology to enhance efficiency

and service delivery - The Authority will remain abreast of developments in the field of post-

trade digitization to ensure the maintenance of consistently high standards and of developments

in RegTech. The CMA will explore the scope for use of SupTech technology (or RegTech for

supervisors) for automating and streamlining administrative and operational procedures, digitizing

data and working tools, and improving data analytics. The Authority will consider assisting firms by

recommending common RegTech solutions. It will explore ways in which they can encourage firms

to introduce appropriate technological improvements and will also examine ways in which they

can be utilized in their own operations. The Authority will further spearhead the establishment of

a Fintech through the Joint Financial Sector Regulators’ Forum with dedicated personnel publicly

committed to facilitate timely follow up and resolution of inquiries

Ensure optimal institutional Based on the review of the previous strategic plan and the preceding issues four key areas of focus

efficiency and effectiveness of were identified:

CMA • Enhance and align staff competency in line with the changing operating environment;

• Prioritize the development of internal business analysis and systems programming capacity to

optimize customization to business needs;

• Enhance financial sustainability and operational efficiency; and

• Improve and uphold the corporate image of the Authority

Enhancing strategic influence Continue to build strategic alliances with domestic and international partners – Based on

international benchmarking it was identified that the Authority could grow its profile similar to the

benchmarked regulators by building alliances.

Consistently engage with key stakeholders to ensure deepening of the capital markets –

from the benchmarking exercise it was also observed that the Authority could play a key role in

market and regulatory cooperation, to drive cross-market initiatives.

2.7. CMA’S STRATEGIC POSITIONING TO SUPPORT THE BIG 4 AGENDA

The Authority is well aware that Kenya’s national development goals and priorities are very dynamic and in drawing up this Plan,

carefully took into consideration existing long-term domestic and global socio-economic priorities when setting out its strategic

priorities, objectives and initiatives. These include the over-arching Vision 2030, its supporting Third Medium Term Plan (MTPIII)

and Sustainable Development Goals. However noting the Government’s continuous emphasis on the Big 4 Agenda, the CMA

envisages its role in supporting its achievement as depicted below:

**3. STRATEGIC DIRECTION**

3.1. VISION

“To be an innovative regulator of a robust and globally competitive capital market”.

3.2. MISSION

Mission: “To make Kenya’s capital market the premier choice for investors and issuers through robust regulation, supporting

innovation and enhanced investor protection”.

3.3. CORE VALUES

To fulfill its mandate, pursue the Vision and accomplish its Mission the CMA will be guided by its core values of:

i) Integrity -We are committed to acting at all times with honesty, fairness, accountability, transparency, ethically and above

board in all our operations;

ii) Commitment - We shall perform our duties with the highest level of professionalism and dedication with a view to exceeding

the expectations of our clients and stakeholders;

iii) Responsiveness - We are sensitive to and will deal with issues and situations affecting all our stakeholders in a proactive

and timely manner, using flexible decision-making processes;

iv) Innovation and Continuous learning - We are committed to facilitating continuous learning and innovation; and

v) Collaboration and Teamwork - We are committed to teamwork within the Authority and collaboration with our partners in

the provisions of our services.

3.4. STRATEGIC OBJECTIVES, INITIATIVES AND ACTIVITIES

In line with the CMA’s Vision, Mission and based on the strategy development process of internal and external stakeholder

consultations, PESTEL & SWOT analysis, an international benchmarking exercise and a review of broader Government priorities,

six strategic objectives have been identified by the Authority over the next five years as depicted in the figure below:

Figure 7: CMA 2018 – 2023 Strategic Framework

Strategic objective Strategic Initiatives

1 Ensuring a robust, facilitative and 1. Enhance the responsiveness and enforceability of the policy and

responsive policy and regulatory regulatory framework to improve investor experience

framework for capital market

development and efficiency 2. Review policy and develop regulatory frameworks to be in alignment

with National Agenda

2 Facilitate the development, 1. Enhance awareness & delivery of capital market education for investors

diversification and uptake of capital 2. Review the policy and regulatory environment to attract a broader set of

markets products and services investors & issues

3. Assess & refine the policy and regulatory framework to ensure optimal

uptake of products and market participation

3 Ensure sound market infrastructure, 1. Supervise the maintenance of efficient pre-trading environment

institutions and operations including trade facilitation, access to data and information and stable

technology

2. Ensure efficiency and risk minimization in the trading and post-trading

environment

3. Promote proper market conduct through proactive supervision of capital

market operations and effective enforcement

4 Leveraging technology to drive 1. Build capacity to respond to the impact and support the implementation

efficiency in the capital markets of new technologies in the capital market value chain

value chain 2. Internally leverage Information, Communication and Technology (ICT) to

enhance efficiency and service delivery

5 Ensure optimal institutional 1. Enhance and align staff competency with changing operating

efficiency and effectiveness of CMA environment

2. Enhance financial sustainability and operational efficiency

3. Improve and uphold the corporate image of the Authority

Enhancing strategic influence 1. Continue to build strategic alliances with domestic and international

partner

2. Consistently engage key stakeholders to ensure deepening of the capital

markets

The complete Strategic Objectives are articulated in the sections that follow and detailed activities per initiative have been

described.

3.4.1. Ensuring a robust, facilitative and responsive policy and regulatory framework for capital market development

and efficiency

Within the first strategic objective, two initiatives have been identified in order to drive the development of the capital markets

by providing a conducive policy and regulatory environment. This will be achieved by ensuring that any policy and regulatory

framework developed is evidence-based.

3.4.1.1. Enhance the responsiveness and enforceability of the policy and regulatory framework to improve investor

experience

As Kenya aspires to transition into an MSCI emerging market and develop the Big 4 sectors, it will be increasingly important to

ensure that investors gain trust and confidence in the capital markets in order for them to finance existing funding gaps. A key

theme across developed markets is the importance of investor protection and Treating Customers Fairly (TCF). More importantly,

a large portion of Kenyans have limited knowledge of capital market products and this creates inherent customer vulnerability.

As described earlier, there is also need to fully implement and enforce the Corporate Governance and Stewardship Codes to

ensure investor interests are protected from corporate malpractice and unethical behaviour.

It is recognized that private equity firms domiciled in other countries are operating in Kenya and in order to improve transparency

on their operations, as well as increase the potential flow of domestic institutional funds into this asset class, there is need to

develop an appropriate disclosure and potential registration framework for these firms.

Steps to address the issues identified include:

i) Enhance current investor protection guidelines by including market conduct and TCF frameworks;

ii) Regularly publish corporate governance assessments reports;

iii) Ensure full implementation and adherence to the corporate governance and stewardship codes;

iv) Investigate the appetite and requirement to implement Global Investment Performance Standards (GIPS) across the fund

management industry;

v) Sensitize all market participants on investor protection;

vi) Enhance the scope of the Investor Compensation Fund to allow for effective investor protection;

vii) Examine and implement light disclosure regulations for PE firms operating in Kenya but domiciled in other countries; and

viii) Review policy and regulatory challenges on enforcing and prosecuting misconduct.

3.4.1.2. Establish a spot commodity unit

The regulation of the spot commodities markets falls within the remit of CMA and as such it will be important for the Authority

to a create a transitionary function that will enable the building of capacity around regulating this new segment of the market.

The functions involving research, policy and stakeholder relationship management may later be merged into the Directorate of

Strategy and Market Development.

Similarly, the functions involving market surveillance, oversight and enforcement of the spot commodities exchange may be

merged into the Directorate of Market Operations, as the Spot Commodities Unit transitions, the industry grows and Authority

builds its capacity. The long-term approach to oversight of Derivatives will be determined in the future, including consideration

for establishment of a stand-alone spot commodities and derivatives apex regulator.

As described earlier, the Kenyan Government’s priorities over the next five years will be guided by Vision 2030, MTP III, the Big

Four agenda and the National Development goals. For instance, the operationalization of Commodities Exchange (COMEX)

is expected to promote growth in the agricultural sector by improving prices for farmers and hence improve food security as

envisioned in the Big 4 Agenda. The Authority recognizes that capital markets can play a major role in financing the initiatives indicated in these documents and has thus put in place the following activities to ensure alignment with overall Government

priorities:

i) Identify and analyze the funding gaps across all sectors within Government with focus on manufacturing, housing,

agriculture and the healthcare sectors;

ii) Review policy and develop regulatory framework to support County financing through capital markets based on

recommendations from the County financing gaps study;

iii) Review current rules, regulations and laws to ensure efficient operations of the Commodities Exchanges; and

iv) Conduct an issuer survey across these respective sectors to inform the necessary regulatory amendments to bring issuers

to market.

3.4.2. Facilitate the development, diversification and uptake of capital market products and services

Within the second strategic objective, three main initiatives have been identified in order to drive the development of the capital

markets using a consultative approach.

3.4.2.1. Enhance awareness and delivery of capital market education for investors and issuers

The Authority has been very active in promoting investor education. However, significant gaps still remain in the market. There is

also a perception in the market that the CMA should be the institution to promote investor education. While some responsibility

for this lies on the Authority, there is a complementary, if not primary responsibility for market intermediaries to educate

investors and promote the uptake of products.

Many market intermediaries noted a lack of financial capacity to fund extensive education campaigns. On the other hand,

the CMA has made some notable strides in working towards enhancing investor education by working with the Ministries of

Education to embed capital market education within their curriculum design.

Based on the findings of the Investor Education Impact Assessment and Opportunities study concluded in June 2018, the

following key strategies are proposed for implementation during the Plan period:

i) More impactful promotional campaigns targeting youth

One of the reasons why the betting industry has been able to lure the youth is the use of advertising that creates an

exciting message of instant gratification. CMA should develop an impactful promotion model focusing on long term benefits

of investing in capital markets by using investors who have significantly benefited from the securities market as brand

ambassadors.

ii) Specific forums for those with surplus funds

A program targeting individuals and associations who have surplus funds from tea and coffee bonuses, athletics, royalties,

ball games, gaming, among others can be instrumental in ensuring that these extra funds are invested in the capital

markets. Given the number of Kenyan athletes who win monetary prizes, the Authority can engage them with a view of

changing their perception to thinking long term.

iii) One on one incubation and accelerator meetings

As a follow up to the proactive Business Incubator and Accelerator on the Listings Experience initiative that was launched

in 2017, the Authority will aggressively transition this into outcome focused face to face meetings with key potential issuers

in partnership with the NSE and select intermediaries with a view to bringing them to market. This strategy is expected to

be impactful given that the firms will receive special attention to address various issues.

iv) Enhanced utilization of Technology Platforms

While it is noted that there has been use of social media by CMA this will be enhanced to include more novel modes of

communication such as blogs, additional social media such as Instagram, Google Ads and YouTube, targeting the youth and

specific women groups. This will be effective given the number of hours spent on social media in a given day.

v) Diaspora Initiatives

The Authority will continue to partner with the Ministry of Foreign Affairs and International Trade in the implementation

of the diaspora policy including hosting of diaspora conferences. In doing this, it will leverage social media to host live

conferences to better utilize its resources. This is expected to be impactful given the level of diaspora inflows that are mostly

invested in direct real estate investments. REITs are among capital markets products that have potential of a high uptake

amongst the diaspora.

vi) Intermediaries to drive Investor Education

CMA can create a conducive environment by enabling intermediaries to drive product uptake akin to what happens in the

banking sector. This can be achieved through partnerships with CMA by sharing costs and use of train-the-trainer model.

Given the low market participation of issuers, there will also be an increased focus in educating potential issuers by actively

engaging them and supporting market facilitators and intermediaries in presenting the incentives and benefits of tapping the

capital markets. This will also involve developing capital market education material that targets issuers.

To strengthen capital market education and awareness, the Authority will:

i) Facilitate capacity building sessions for market intermediaries using a train-the-trainer approach;

ii) Foster an ecosystem that links incubators/accelerators, technical assistance providers, industry/trade associations,

potential issuers and investors;

iii) Conduct research on investor and issuer needs to understand their behavioural patterns;

iv) Facilitate the development, training and management of the certification and knowledge management programmes within

the capital markets;

v) Implement recommendations of Investor Education Impact Assessment and Opportunities Study;

vi) Continuously develop capital market education materials for investors and issuers and distribute these using digital

channels;

vii) Examine the effectiveness of various education delivery channels relevant to specific market segments; and

viii) Support market facilitators and intermediaries in presenting the incentives and benefits of publicly listing to potential

issuers.

3.4.2.2. Review the policy and regulatory environment to attract a broader set of investors and issuers

The operationalization of Nairobi International Financial Centre (NIFC) which is a flagship project under the MTPIII will help

Kenya gain a stronger presence in sub-Saharan Africa’s growing financial services. In order to attain this, there are several

initiatives, the Authority will pursue including; engaging international investors to understand the needs and challenges of

investing in Kenya, understand the demand for Islamic Capital Market products to ensure financing of the real economy,

support the realization of the Marrakech Pledge by supporting the Green Bond Program and actively understand the appetite for

introducing ESG within the capital markets.

The CMA has in place a Code of Corporate Governance Practices for Issuers of Securities to the Public and a Stewardship Code

to ensure responsible oversight and investing by institutional investors on behalf of their clients. The former code is intended

to ensure that listed companies abide by certain governance principles including, selection, independence, diversity, functions,

structure and compensation among others of their Boards. While this code is effective, and the Authority requires firms to fill out

a self-evaluation questionnaire, two important components namely Social and Environmental aspects are implicitly excluded.

Global markets are increasingly shifting towards green policies. According to Bloomberg13 globally, the number of funds with

a core focus on ESG indicators has increased from 990 in 2013 to 1300, in June 2017 and the corresponding Assets under

Management (AUM) increased from USD 280 billion to USD 354 billion representing an annualized growth rate of approximately

8%. The table below shows the change in the proportion of total socially responsible investment (SRI) to total investments.

vi) Intermediaries to drive Investor Education

CMA can create a conducive environment by enabling intermediaries to drive product uptake akin to what happens in the

banking sector. This can be achieved through partnerships with CMA by sharing costs and use of train-the-trainer model.

Given the low market participation of issuers, there will also be an increased focus in educating potential issuers by actively

engaging them and supporting market facilitators and intermediaries in presenting the incentives and benefits of tapping the

capital markets. This will also involve developing capital market education material that targets issuers.

To strengthen capital market education and awareness, the Authority will:

i) Facilitate capacity building sessions for market intermediaries using a train-the-trainer approach;

ii) Foster an ecosystem that links incubators/accelerators, technical assistance providers, industry/trade associations,

potential issuers and investors;

iii) Conduct research on investor and issuer needs to understand their behavioural patterns;

iv) Facilitate the development, training and management of the certification and knowledge management programmes within

the capital markets;

v) Implement recommendations of Investor Education Impact Assessment and Opportunities Study;

vi) Continuously develop capital market education materials for investors and issuers and distribute these using digital

channels;

vii) Examine the effectiveness of various education delivery channels relevant to specific market segments; and

viii) Support market facilitators and intermediaries in presenting the incentives and benefits of publicly listing to potential

issuers.

3.4.2.2. Review the policy and regulatory environment to attract a broader set of investors and issuers

The operationalization of Nairobi International Financial Centre (NIFC) which is a flagship project under the MTPIII will help

Kenya gain a stronger presence in sub-Saharan Africa’s growing financial services. In order to attain this, there are several

initiatives, the Authority will pursue including; engaging international investors to understand the needs and challenges of

investing in Kenya, understand the demand for Islamic Capital Market products to ensure financing of the real economy,

support the realization of the Marrakech Pledge by supporting the Green Bond Program and actively understand the appetite for

introducing ESG within the capital markets.

The CMA has in place a Code of Corporate Governance Practices for Issuers of Securities to the Public and a Stewardship Code

to ensure responsible oversight and investing by institutional investors on behalf of their clients. The former code is intended

to ensure that listed companies abide by certain governance principles including, selection, independence, diversity, functions,

structure and compensation among others of their Boards. While this code is effective, and the Authority requires firms to fill out

a self-evaluation questionnaire, two important components namely Social and Environmental aspects are implicitly excluded.

Global markets are increasingly shifting towards green policies. According to Bloomberg13 globally, the number of funds with

a core focus on ESG indicators has increased from 990 in 2013 to 1300, in June 2017 and the corresponding Assets under

Management (AUM) increased from USD 280 billion to USD 354 billion representing an annualized growth rate of approximately

8%. The table below shows the change in the proportion of total socially responsible investment (SRI) to total investments.

pension funds and banks. At the same time, the Government, State Owned Enterprises and County entities as well as public-

private partnerships need to utilize the capital markets to raise capital especially in the manufacturing, housing, agriculture and

the healthcare sectors. The CMA will:

i) Review end-to-end regulations for existing capital market products and engage the relevant regulators or stakeholders such

as IRA and RBA to achieve the desired uptake;

ii) Engage with stakeholder to facilitate uptake of new products such as but not limited to REITs and ETFs;

iii) Review policy and regulatory environment to facilitate Government and its entities utilize the capital markets;

iv) Review private equity deals and understand key competitive advantages over going public;

v) Engage with private equity firms and banks to identify potential issuers that are under private equity deals or need to

restructure their financing and encourage public listing as a suitable exit strategy; and

vi) Leverage current surveys of companies that are prime targets for listings and engage them actively.

3.4.3. Ensure sound market infrastructure, institutions, and operations

Within the third strategic objective, three key initiatives have been identified to develop and ensure sound market infrastructure,

institutions and operations.

3.4.3.1. Supervise the maintenance of efficient pre-trading environment including trade facilitation, access to data

and information and stable technology

The Authority recognizes the importance of transparency and competition as it facilitates development of the capital markets.

These components have, however, proved challenging to enforce especially in the bond market. Currently, the Government bond

market lacks an active secondary market which has resulted in opaque pricing. As described earlier the CBK and KBA have

taken active steps in developing an electronic T-bills trading platform while similar efforts have been made by the Bond Market

Steering Committee (BMSC) to develop a similar platform for Government Bonds. Currently, T-Bills are discounted by the CBK

while Government bonds are negotiated over the counter and reported on the NSE trading platform after the deals are struck

via bilateral communication resulting in limited price discovery. It is expected that once the T- Bill and bond trading and trade

reporting platforms are in place, trade prices will be reported and published allowing for greater price discovery and in the case

of bonds, the development of a stable yield curve.

On the other hand, the Authority will continuously ensure sufficient transparency in the equities market by requiring that listed

companies provide sufficient data and information to the public. This will be done while bearing in mind tha too many and

frequent requirements may inflate compliance costs. Some of the activities that will be carried out to achieve the objectives

above include:

i) Develop a proposal to allow for primary dealer arrangements in the Government bond market;

ii) Develop a proposal on guidelines for market making in the securities markets;

iii) Implement an OTC platform for the hybrid bond market;

iv) Finalize market operation rules for securities lending and borrowing;

v) Enhance the adherence to and enforcement of sound financial reporting standards;

vi) Understand the market conditions and regulatory environment required to increase competition in the trading environment;

and

vii) Submit proposals and guidelines on phasing in liberalized market fees to appropriate regulators and stakeholders such as

National Treasury and the Competition Authority.

3.4.3.2. Ensure efficiency and risk minimization in the trading and post-trading environment (clearing, custody &

settlement)

As the Authority aims to facilitate the development and uptake of capital market products and services, there is recognition

that settlement certainty is a crucial factor that both domestic and international investors consider when making investment

decisions. For this reason, there will be an increased effort to ensure that the market gains confidence in the settlement process

by strengthening the CDSC. This is especially important for the domestic market, where investor confidence has been greatly

affected by the placement under statutory management of Chase Bank and Imperial Bank. When the settlement processes are

at par with international standards, there is an opportunity to attract a broader set of international investors beyond those that

specifically focus on frontier markets.

Currently, the weakness of the CDSC, especially with regards to effective risk management, remains a key challenge for the

trading and post-trading environment in the capital markets. Although many of these concerns are expected to be addressed

once the CDSC implements a new system, there is still a need for the Authority to facilitate the improvement process noting that

the CDSC is of significant systemic importance, especially with the expected increase in the variety of products and services and

growing trading volumes.

Furthermore, there is need to facilitate the CBK’s CSD for Government bonds to evolve complementarily to the CDSC to avoid

duplicating infrastructure and market fragmentation. In the longer-term, the consolidation of the CSD for Government bonds and

the CSDC may lead to realizing efficiencies and economies of scale.

The operationalization of the Commodities Exchange (COMEX) also remains as a key priority for CMA as it is expected to

facilitate the development of the agricultural and mining sectors. The development of a Warehouse Receipt System (WRS) and

spot commodities exchange will, therefore, be key activities that will allow for an organized market, which is expected to result

in greater mobilization of credit for agriculture, smoothened market prices, increased market power for small producers and

ultimately, improved food security.

To address the issues mentioned above, the CMA will proactively focus on the following activities:

i) Facilitate CDSC to modernize its systems to facilitate the trading of all products in the capital markets efficiently and

implement a real Delivery Versus Payment (DvP) system;

ii) Ensure the CDSC and the CBK CSD develop an implementation plan, including timelines, arising from the initial assessment

report on CPMI-IOSCO compliance;

iii) Facilitate continuous assessment of CDSC and CBK CSD compliance with CPMI-IOSCO principles for financial markets

infrastructure;

iv) Develop a CSD consolidation framework that will facilitate the alignment of the Government bond CSD with the CDSC;

v) Facilitate the linkage of the CDSC with other East African and global depositories;

vi) Conduct periodic assessments of the market readiness for a central counterparty clearing house (CCP);

vii) Determine requirements for establishment of a CCP;

viii) Support the NSE, Bond Market Organizer and CDSC to become full SROs and bestow upon them the responsibility to

supervise their members;

ix) Facilitate the development of a Warehouse Receipt System (WRS) for the commodities exchange; and

x) Develop a policy and regulatory framework to facilitate the establishment of spot commodities exchanges

3.4.3.3. Promote proper market conduct through proactive supervision of capital market operations as well as spot

commodities market and effective enforcement.

As discussed earlier, the impact of innovation and technology will be a key factor that will affect the monitoring and supervision of

capital markets in the next few years. There will, therefore, be a need for a more proactive approach focused on fraud prevention.

Fraud and misconduct detection, investigation and enforcement will continue to play an important role with the Authority

building internal capacity for effective and efficient market oversight over new products such as derivatives and commodities.

Some of the activities that will be conducted in order to minimize fraud include:

i) Review and develop policies that will enhance early detection of misconduct;

ii) Sensitize and share information with all market participants on fraud and misconduct risks;

iii) Periodically submit fraud intelligence reports to management and the board;

iv) Leverage on technology to conduct effective investigations;

v) Develop monitoring and supervision framework for cross-border investment activity and risks;

vi) Increase number of sources of market intelligence information for market surveillance;

vii) Enhance enforcement manual with the intention to implement proportionate penalties for misconduct;

viii) Conduct employee training on supervision of new products and technologies in relation to potential fraud;

ix) Effectively investigate and prosecute financial crimes; and

x) Build capacity in regulation of the new spot segment of the market.

3.4.4. Leveraging technology to drive efficiency in the capital markets value chain

Within the fourth strategic objective, two main initiatives have been identified to ensure the Authority leverages technology-

based legacy approaches.

3.4.4.1. Build capacity to respond to the impact and support the implementation of new technologies in the capital

market value-chain

As described in the PESTEL analysis FinTech has the potential to disrupt the capital market value-chain in five core ways:

i) Core market infrastructure – This refers to technology with the ability to decentralize and promote a reduction in physical

assets. FinTech solutions in this space have focused on aggregating liquidity across markets and providing a single platform/

exchange for trading. This concept is supported by the use of Distributed Ledger Technology (DLT) of which Block chain is

a manifestation. The potential implications of DLT on core market infrastructure are far-reaching for the capital markets,

offering a path to a more efficient market infrastructure.

ii) Post-trade digitization – This refers to the automation of many of the manual processes that still exist in compliance,

regulation, collateral management, and securities lending; bringing efficiencies to clearing and settlement and facilitating

the launch of innovative solutions to manage enterprise stress-testing, risk attribution and reporting processes. Now

common terms in this area are RegTech (Regulatory Technology) and SupTech (Supervisory Technology). Both are key

areas of interest to capital market regulators, with innovative technology and software being applied to assist in intelligently

managing regulatory and supervisory processes. For example, the Monetary Authority of Singapore (MAS) has set up a Data

Analytics Group within which it has a dedicated unit for SupTech.

iii) Artificial Intelligence and analytics – These are technologies that utilize in-memory computing and machine learning

to leverage the massive surge of structured and unstructured data to make predictions and to integrate real-time analytics

at the point of trade. There is an emergence of alternative trading platforms and unique trading styles, such as multilateral

trading facilities (MTFs) and High-Frequency Trading (HFT) which will impact the way in which the Authority approaches its

supervision.

iv) Investment technology – These are software and tools that enhance investment decision-making and contribute to

accelerating the shift towards passive investments. A key interest area here is the implementation of robo-advice technology.

Large incumbents such as brokers, custodians, are leveraging economies of scale to roll out low-cost, or even zero-cost

portfolio management platforms, or to partner with robo-advisors. The application of these technologies over the medium-

term may be difficult in the Kenyan context due to relatively lower investment appetite from market players. However, a few

bank brokers are attempting to work with or build scalable, low-cost platforms to address the needs of their less affluent

clientele.

v) Alternative funding platforms (crowdfunding) – Perhaps the most relevant form of FinTech for Kenya are platforms

that allow an alternative way to raise funding for large companies, and small enterprises and even retail borrowers. With

the emergence of international players such as Kiva (peer to peer lending platform) in Kenya, this is a space that is gaining

traction and that requires particular regulatory scrutiny. There are five common types of crowdfunding business models:

3.4.4.2. Internally leverage Information, Communication and Technology (ICT) to enhance efficiency and service

delivery

The Authority will leverage on ICT as an effective tool to provide information crucial to decision making. This will involve adopting

innovative technology and software that can assist in intelligently managing the regulatory and compliance processes. As the

market is expected to grow and become more innovative, CMA will seek to understand the emerging technological requirements

in the market. This will involve developing internal capabilities to collect, manage and analyze large sets of data. Some of the

activities to achieve this will include:

i) Continuously conduct assessment reports on the level of internal ICT automation and integration and implement

recommendations;

ii) Develop, periodically review and implement an ICT strategic plan (2018-2023);

iii) Periodically conduct a study on the technological evolution in the market and use findings to inform the ICT strategic plan;

iv) Leverage on ICT subcommittee of the board to give oversight of internal systems and the ICT strategic plan;

v) Ensure direct system integration of market systems with all market facilitators;

vi) Identify and implement systems that are flexible and decrease reliance on service providers;

vii) Internally coordinate efforts between ICT departments and other departments/ directorates to leverage on technology;

viii) Develop a business intelligence system; and

ix) Spearhead the establishment of a Fintech Hotline/ Office managed through the Joint Financial Sector Regulators Forum

with dedicated personnel publicly committed to facilitate timely follow up and resolution of inquiries.

3.4.5. Ensure optimal efficiency and effectiveness of the CMA

Within the fifth strategic objective, three main initiatives have been identified as key in ensuring that the CMA remains optimally

efficient and effective.

3.4.5.1. Enhance and align staff competency with changing operating environment

A capable and efficient staff is essential for the effective implementation of CMA’s strategy and the accommodation of the

expected growth envisaged arising from the strategy implementation. Over the past five years, the CMA has embarked on a

successful journey of enhancing internal human capital capabilities and implementing Uwezo Kipeo as a change management

program. The main focus over the next five years will, therefore, be on sustaining and deepening these changes as well as

enhancing and aligning staff competency with new technology, new products and services as the market changes. This will be

done with an outcomes-based approach whereby efficient service delivery will be prioritized. Some of the activities that will be

carried out to achieve this include:

i) Continuously conduct training needs assessments and implement recommendations;

ii) Monitoring and implementation of the staff development program;

iii) Undertake an organizational structure assessment;

iv) Continuously review and implement the change management programme in place; and

v) Enhance ICT staffing needs to build internal capabilities, such as, data mining, management and analytics and software

engineering

3.4.5.2. Enhance financial sustainability and operational efficiency

As a regulator, the Authority is mandated to collect revenue from the capital markets and disburse it by delivering public

goods and services such as investor protection and education. Given that Kenya is still considered a frontier market, there are

large strategic projects that are key to developing the market but cannot be solely funded by market fees. For this reason, it is

important for the CMA to operate as efficiently as possible while diversifying its revenue sources. Some of the activities that to

achieve this include:

i) Diversify the sources of revenue through the implementation of a capital market training programme;

ii) Set up a fundraising desk that will focus on building capacity to generate revenues for identified strategic projects;

iii) Maintain and sustain prudent financial management practices; and

iv) Continuously review and implement the risk management framework.

3.4.5.3. Improve and uphold the corporate image of the Authority

For the Authority to be considered a credible regulator that can effectively influence the capital markets, an appropriate image

needs to be maintained. Feedback from a few stakeholders indicated that the stringent listing requirements and negative

coverage of enforcement action have created an image of a strong but punitive regulator, especially among potential issuers.

Therefore, as CMA seeks to review regulations to encourage participation in the capital markets, there will be aligned efforts to

ensure that the market is aware of its facilitative approach to regulation. Given the overall loss of market confidence following

the placement under statutory management of two prominent banks and a large retailer, the Authority will purpose to assure the

public of its commitment to protecting investors, while ensuring that it is understood that no investment can ever be guaranteed.

Some of the activities that will be carried out to achieve this include:

i) Prepare information materials on the capital markets and the CMA, aligned to the investor education and awareness

strategy, for dissemination through the media;

ii) Share corporate information from the Authority in a timely manner; and

iii) Periodically develop and implement a communications strategy

3.4.6. Enhancing strategic influence

Within the sixth strategic objective, two main initiatives have been identified to ensure CMA yields the requisite strategic influence

to influence necessary changes and reforms:

3.4.6.1. Continue to build strategic alliances with domestic and international partners

Strategic alliances are crucial for accelerating market development as they provide complementary expertise and support to the

involved parties and consequently enhance their internal capacities. Such partnerships are important for the CMA as it aims to

ensure that the capital markets attain international standards and provide access to other markets. Some of the activities that

will be carried out include:

i) Establish and fully implement mutual recognition agreements with other regulators especially in Africa and beyond;

ii) Establish and fully implement mutual recognition agreements with key industry stakeholders such as industry associations;

and

iii) Enter into agreements with local and international capacity building institutions/bodies.

3.4.6.2. Consistently engage key stakeholders to ensure deepening of the capital markets

In the CMMP, a number of actions were identified in order to support Kenya’s developmental and economic transformation

needs, develop market infrastructure and build robust regulatory frameworks. While many of these initiatives held the CMA

responsible, a significant number of them require the joint collaboration between various regulators.

Some of the actions requiring a collaborative effort have been summarized in figures 8 & 9 below and the collaborating

institutions identified:

4. ALIGNING THE ICT TO THE STRATEGIC PLAN

In line with the Authority’s new strategic objectives, it is imperative that the organizational structure is re-evaluates to deliver on

its mandate and improve service delivery in an efficient manner. The table below highlights the required changes per strategic

objective and provides a strategic reasoning for each.

**Vision**

Reliable, efficient, flexible technology driving internal and external operations

**Mission Statement**

To provide leading technology solutions for our people and our markets

**Corporate Strategic Objective**

Leveraging on Technology to drive efficiency in the Capital Markets Value chain

**DCS Strategic Objectives**

1. Development of a DRP plan
2. Acquisition of a Multi-Asset Surveillance System (MASS)
3. Upgrading of the ERP/RBSS systems

**ICT Strategic Objectives**

1. Provide and Maintain a reliable ICT infrastructure environment to support the Authority’s business activities and drive efficiency through use of technology
2. To secure ICT systems, Applications and Data
3. To operate a controlled ICT environment through appropriate Policies and Governance
4. To increase automation levels of internal processes through infrastructure, system and applications upgrades
5. To support Business Continuity process through a robust Disaster Recovery Plan (DRP)
6. To maintain a highly skilled ICT workforce through appropriate learning and development
7. To manage and monitor ICT Enterprise Risks.