



## INVESTOR PROTECTION

### INTRODUCTION

The Capital Markets Authority (CMA) was set up in 1989 through an Act of Parliament Cap. 485A Laws of Kenya. The CMA is a statutory agency charged with the prime responsibility of regulating the development of orderly, fair and efficient capital markets in Kenya, with a view of promoting market integrity and investor confidence.

One of the core objective of the Capital Markets Authority is to protect investors' interests and to operate a compensation fund to protect investors from financial loss arising from the failure of a licensed broker or dealer to meet his contractual obligations.

### What is investor protection?

This is the role played by the Capital Markets Authority in ensuring that local, foreign and Diaspora investors' funds and interests are secured across the capital markets industry in Kenya.

### Who is an investor?

This is an individual or institution that has invested in securities and/or other capital markets products. There are two categories of investors as follows:



**Institutional Investors:** Organizations, which pool large sums of money and invest those sums in securities, real property, and other investment instruments such as Collective Investment Schemes.



**Retail Investors:** These are individuals who invest in securities, real property, and other investment instruments.

### How does CMA ensure investor protection?

- Formulation of regulations within the capital markets industry.
- Dissemination of information to the public on various aspects of capital markets.
- Licensing of market intermediaries.
- Continuous supervision of the licensed intermediaries.
- Investigate and take enforcement actions against market violations.
- In addition to setting up a Fraud Investigations Unit, the Authority has created avenues for complaints reporting and whistle blowing by the public in the event of market violations.

### What specific tools does CMA implement to ensure investor protection for the Diaspora in addition to the above?

- Risk Based Supervision for improved risk mitigation.
- A robust website that includes an Investor Toolkit.
- Online Complaints Portal on the CMA website.
- Online Whistle Blowing Portal on the CMA website.
- Resource Centre Portal that also includes a specific Diaspora section.
- Certification and Continuous Professional Development requirements aimed at sustaining a professional and highly skilled practitioners in the market.



### What innovations are the capital markets to facilitate trading for the Diaspora?

The Authority has approved several intermediaries that can facilitate online trading. Please visit the website at [www.cma.or.ke](http://www.cma.or.ke) for the complete list. The Authority also has in place a Regulatory Sandbox that allows companies to test Fintech innovative solutions in a controlled environment before roll-out.

### Who is CMFIU?

The Capital Market Fraud Investigations Unit (CMFIU) was formed in May 2009 through collaboration by the Kenya Police and Capital Markets Authority (CMA) with a view of consolidating the investigations of all securities related fraud cases under one roof. Visit the CMA website at [www.cma.or.ke](http://www.cma.or.ke) to view the CMFIU Brochure for more details).

### What are the functions of the Capital Markets Fraud Investigation Unit?

1. Detection, prevention and apprehension of offenders perpetrating fraud within the securities market.
2. Collection, analysis and dissemination of relevant criminal intelligence, within the market.
3. Investigation and prosecution of detected/reported cases relating to the securities market.
4. Act as liaison unit between the Authority and other investigative agencies.
5. Co-ordinates with the Authority's Investigation and Enforcement Department whereby it takes up matters which have a criminal aspect for investigation and prosecution whilst the Authority's Investigation & Enforcement Department pursues compliance with the Capital Markets Regulatory framework.
6. Assist members of the public in the spirit of "Utumishi Kwa Wote" on relevant capital market issues.

### What are the examples of fraudulent offences?

1. Impersonation of investors and undertaking unauthorized transactions in their securities accounts.
2. Collection and encashment of sales proceeds by fraudsters posing as genuine investors.
3. Unauthorized variation of client details in securities accounts.
4. Conducting trade of securities on basis of information that has not yet been released to the market/general public (i.e. insider trading).

### How can an investor protect himself/herself?

Some of the tips that enhance investor protection include:



1. Conducting financial self-examination - Analyze your financial objectives, your income sources, constraints and risk tolerance.
2. Deal only with licensed Entities - Identify your financial investment advisor and open an account with them. Your investment advisor, be they an investment bank, a stockbroker or any other firm advising you on investment must be a licensee of the Capital Markets Authority (CMA).
3. Open a Central Depository System (CDS) account - A Central Depository System (CDS) is a computer system operated by Central Depository and Settlement Corporation (CDSC), which facilitates holding of securities in electronic accounts opened by shareholders. You open a CDS account by completing and signing a securities account opening/maintenance form with your Central Depository Agent (CDA), providing two recent passport size photographs and a photocopy of your national identity card. A CDA is a central depository agent, either a Stockbroker an Investment Bank or a Custodian Bank, who has been authorized by Central Depository and Settlement Corporation (CDSC) to open CDS accounts on behalf of investors.
4. Take Control of your Trading Account - Ensure that your stockbroker/investment bank does not trade in your account without your knowledge. It is important to make sure that you are receiving all documents relevant to your transactions including; receipts, transaction statement, purchase and sales contracts, CDS account statements, etc. It is this account you will be referring to find out what transaction have been made by the stockbroker on your behalf. You can also receive SMS account alerts from the CDSC by sending "Register" to 22372.
5. For all investors especially the Diaspora, conduct due diligence with agencies.
6. Seek references from credible investors especially if you are domiciled abroad.

In addition to mainstream forums and initiatives, how does CMA reach out to investors, particularly the Diaspora, to provide investor protection information?

- Through online Facebook Live Conferences in collaboration with Diaspora Associations.
- Through webinars using various online tools.

### **Important Contacts**

Contact Capital Markets Authority, call 2264900 or the Nairobi Securities Exchange (NSE) On 2230692

Email to [complaints@cma.or.ke](mailto:complaints@cma.or.ke) or [info@nse.co.ke](mailto:info@nse.co.ke)

Complete an Online Complaints Form on the CMA website

Report abuses in the industry to the Capital Markets Fraud Investigation Unit using the contacts below:

0714 693414/0714 693365, 0731 544389, 0773 199622

E-mail: [antifraudunit@cma.or.ke](mailto:antifraudunit@cma.or.ke)

Website: [www.cma.or.ke](http://www.cma.or.ke)

For further information, please contact:



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