



**THE REPORT ON THE STATE OF
CORPORATE GOVERNANCE OF ISSUERS
OF SECURITIES TO THE PUBLIC IN
KENYA 2024**

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DISCLAIMER

This Report on the State of Corporate Governance of Issuers of Securities to the Public in Kenya is a publication of the Capital Markets Authority on the status of corporate governance for issuers. While reasonable care has been taken in the preparation of this report, the Authority accepts no responsibility or liability whatsoever resulting from the use of information contained herein. Please note that the CMA has no objection to the material contained herein being referenced, provided an acknowledgement of the same is made. Any comments or suggestions on any of the details may be sent to issuergovernance@cma.or.ke



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ABBREVIATIONS

APRM	African Peer Review Mechanism
CG Code	The Code of Corporate Governance Practices For Issuers of Securities to the Public 2015
CMA	Capital Markets Authority
ESG	Environmental, Social and Governance
FY	Financial Year
FSDK	Financial Sector Deepening Kenya
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
ICS	Institute of Certified Secretaries
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
NSE	Nairobi Securities Exchange
OECD	Organization for Economic Cooperation and Development
POLD Regulations 2023	The Capital Markets (Public Offers, Listings and Disclosures) Regulations, 2023
SASB	Sustainability Accounting Standards Board

1. FOREWORD

1.1. Message From Chief Executive Officer, Capital Markets Authority (Kenya), FCPA, Wyckliffe Shamiah



The State of Corporate Governance Report, 7th Edition, stands as a testament reflecting a journey of continuous improvement toward strengthening governance practices in Kenya's capital markets. It reflects not only the strides we have made but also our collective commitment to upholding global standards.

One of the standout achievements is the significant improvement in the annual weighted overall governance score of issuers (listed companies). From a Fair rating of 55% in the financial year 2017/2018, issuers have advanced to an impressive Good rating of 73.56% in 2023/2024. This remarkable improvement underscores the collective effort by issuers to refine & implement their governance frameworks, elevating corporate transparency, accountability, investor confidence and market integrity.

The Authority is currently conducting a deep dive ESG assessment to evaluate current ESG practices and the broader ecosystem within Kenya's capital markets. This comprehensive review will inform the refinement of the ESG Policy Framework while also identifying strategic incentives to attract ESG focused investments in Kenya.

Looking forward, the CMA is embracing cutting-edge technology to revolutionize ESG integration. By leveraging Artificial Intelligence (AI), machine learning and blockchain technology, the Authority is pioneering efforts to enhance how ESG data is analyzed, managed and reported. Such innovation positions Kenya's capital markets as a leader in modern, data-driven ESG practices, ensuring sustainability remains at the core of our developmental agenda.

Together, let us forge a future where integrity, sustainability and innovation define corporate governance, not only within Kenya but across Africa and beyond. By surpassing expectations and setting new benchmarks, Kenya's issuers can lead the way in shaping a resilient and inclusive financial ecosystem. Together, we are building a capital market ecosystem that is resilient, inclusive and forward-looking, a reflection of Kenya's position as a rising hub for sustainable investment in Africa.

1.2. Message from Director, Markets Operations, Capital Markets Authority (Kenya), Mr. Daniel Warutere



The launch of the inaugural Report on the State of Corporate Governance for Issuers of Securities to the Public in 2018 was an important moment in the evolution of corporate governance standards. It marked not just a milestone, but a transformative leap towards realizing an ambitious vision: to position issuers as regional and global leaders in governance excellence. This vision extends beyond Kenya, aiming to elevate corporate governance practices across Africa and set a benchmark on the global stage. With increasing focus on transparency, accountability and sustainability, the report underscores the commitment to shaping a more responsible and resilient corporate sector, one that meets the expectations of stakeholders, drives economic growth and fosters trust in capital markets.

Kenya's corporate governance transformation mirrors broader trends across Africa, where initiatives such as the African Peer Review Mechanism (APRM) and the King IV Report on Corporate Governance (South Africa) have encouraged greater accountability and integration of governance with sustainability imperatives. Globally, frameworks like the OECD Principles of Corporate Governance and Integrated Reporting have further inspired issuers to align their practices with international standards, balancing financial performance with ESG priorities.

While many Kenyan issuers have demonstrated commendable progress in adopting sound governance practices, there remains a pressing need to enhance several key areas:

- a. Boards must transcend mere compliance and focus on providing strategic oversight that ensures long-term value creation. This involves fostering diversity not only in gender but also in expertise, experience and perspective to promote more balanced, informed

decision-making. Board members should actively challenge management decisions, ensure independent thinking and consider the impact of their decisions on shareholders and other stakeholders.

- b. Ensuring the protection of shareholder rights is paramount. Issuers must be committed to transparent communication and regular, accurate reporting on financial performance, governance practices and the strategic direction of the business.
- c. Strong internal controls and risk management systems are the backbone of a well-governed issuer. Issuers must adopt comprehensive frameworks that address various forms of risks and ensure that mechanisms for detecting fraud, mitigating conflicts of interest and safeguarding stakeholder interests are in place.
- d. Issuers must establish mechanisms for regular and inclusive engagement, ensuring that the perspectives of all relevant parties are considered in corporate decision-making processes.
- e. Corporate governance goes beyond financial performance to include ethical leadership and social responsibility. Issuers must embed ethical practices at every level of their operations, ensuring that decisions are made with integrity and that the issuer contributes positively to society.

As we look toward the future, the journey is far from over. The CMA is intensifying its engagement with issuers and stakeholders to co-create pathways toward governance excellence. This collaboration is rooted in the understanding that governance is not a box-ticking exercise but a dynamic process of cultivating resilience, innovation and sustainability.

These efforts signify a leap toward a future where good governance and sustainability practices are not aspirational goals but entrenched realities. Kenya stands at the forefront of driving corporate governance excellence in Africa, setting an example for issuers globally. Together, with the support of stakeholders, the vision is clear: fostering a resilient, sustainable and inclusive capital market ecosystem that thrives in a rapidly evolving global landscape.

2. EXECUTIVE SUMMARY

One of the standout achievements is the significant improvement in the annual weighted overall governance score of issuers (listed companies). From a Fair Rating of 55% in the financial year 2017/2018, issuers have advanced to an impressive Good Rating of 73.56% in 2023/2024. This remarkable improvement underscores the collective effort by issuers to refine & implement their governance frameworks, elevating corporate transparency, accountability, investor confidence and market integrity.

However, the annual weighted overall score for all issuers showed a decrease in performance, declining by 2.15% from 75.71% (Leadership rating) in the 2022/2023 financial year to 73.56% (Good rating) in the 2023/2024 financial year.

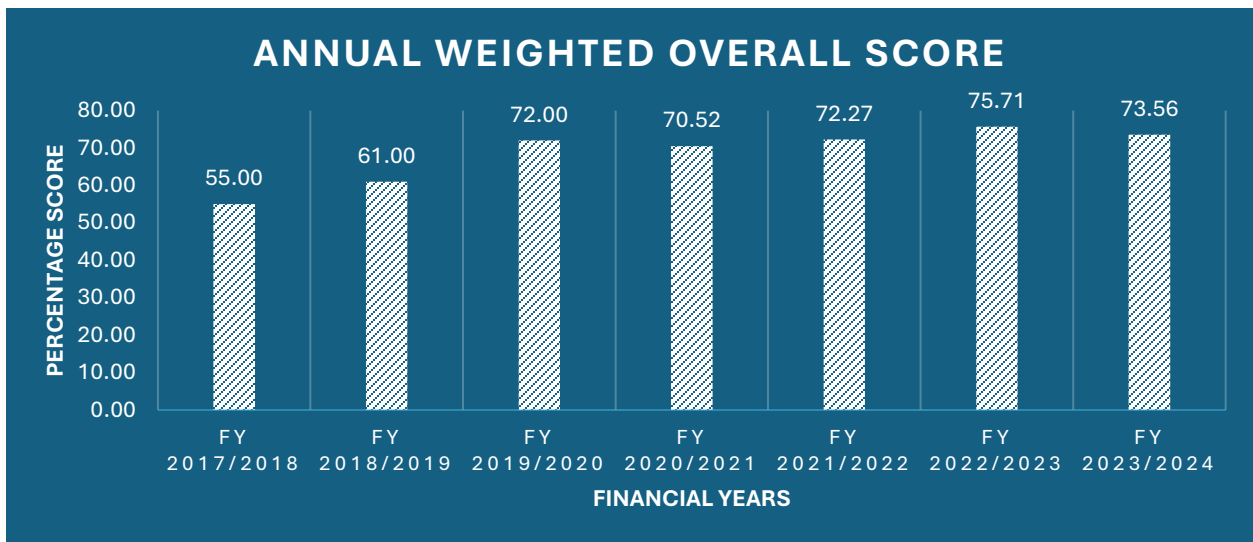


Figure 2.1: Annual Weighted Overall Score by all Issuers

The decline was attributed to the following:

- a) Failure to adhere to the principles of the CG Code following the enactment of POLD Regulations 2023 which has made the CG Code mandatory. Some of the key provisions implemented included the designation of Independent Directors and Non-Executive Directors in compliance with POLD Regulations 2023, constitution of various board committees and approval of specified policies and procedures by shareholders.
- b) Move from disclosure-based assessment by the Authority to implementation-based approach where Issuers were expected to document specific initiatives on how they were implementing the provisions of the CG Code.

- c) Issuers failed to provide specific details and documentation on how their governance framework recognizes the need for equitable treatment of all shareholders while also providing mechanisms for protection of minority and foreign shareholders.

Despite the decline in the overall performance by Issuers, the following three (3) principles improved in comparison to the FY 2022/2023: Commitment to good corporate governance improved from 78.60% (Leadership Rating) to 81.31% (Leadership Rating), Ethics and Social Responsibility principle improved from 74.82% (Good Rating) to 74.94% (Good Rating) whereas Accountability, Risk Management and Internal Control improved from 80.7% (Leadership Rating) to 80.72% (Leadership Rating).

This comprehensive assessment serves as a vital guide for Issuers, highlighting areas of excellence and pinpointing avenues for refinement, with an overarching aim to fortify corporate governance and sustainability practices, ensuring sustained growth, transparency and stakeholder confidence in the capital markets sector.

3. BACKGROUND

Since the 2017/2018 financial year, issuers of securities to the public have been assessed annually on their corporate governance practices against the principles, recommendations and guidelines outlined in the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 ("the Code"). This Code, issued by the Authority, requires issuers to implement their provisions and report on their application at the end of each financial year. To ensure impartiality and accuracy, the Authority independently evaluates the issuers' self-assessment reports alongside publicly available information, culminating in the issuance of a comprehensive report to each issuer.

The *State of Corporate Governance Report* compiles the results of these assessments, presenting an objective evaluation of the level of compliance and adherence to governance standards by all issuers. Published annually on the Authority's website, this report not only highlights areas of commendable performance but also identifies gaps that require improvement including new developments, fostering a culture of transparency, accountability and continuous enhancement of good governance and sustainability practices.

Significantly, this year marks a turning point for the enforceability of the Corporate Governance Code. Clause 8 of the Thirteenth Schedule of The Capital Markets (Public Offers, Listings and Disclosures) Regulations, 2023 explicitly requires compliance with the Code, stating that:

"Every issuer shall comply with the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 issued by the Authority and as may be amended from time to time and any other codes as may be prescribed by the Authority for specific issuers or segments."

This provision, drafted in a mandatory language, resolves the long-standing debate surrounding the voluntary versus mandatory nature of corporate governance requirements. With the enactment and implementation of the POLD Regulations, compliance with the Code has transitioned from being an aspirational goal to a mandatory obligation, ensuring a higher standard of governance across all issuers.

Further emphasizing the importance of corporate governance in fostering economic development, the African Peer Review Mechanism has reiterated the central role of governance in achieving the aspirations of Agenda 2063. This report also echoes the APRM's recognition of corporate governance as a cornerstone for sustainable economic transformation in Africa, drawing parallels with global governance principles that prioritize transparency, accountability and the protection of shareholder and stakeholder interests.

The Authority's commitment to entrenching sound governance practices continues to position Kenya as a leader in fostering sustainable and transparent capital markets in Africa. Through the

insights provided in this report, issuers are encouraged to address identified gaps while building on their strengths, thereby aligning with the domestic and global governance expectations and contributing to the realization of sustainable economic growth.

4. ASSESSMENT METHODOLOGY

4.1. Governance Assessment Tools

The Corporate Governance Self Reporting Template, Corporate Governance Scorecard and Assessment Methodology serve as pivotal instruments for reporting, assessing and monitoring the implementation of the CG Code's principles, recommendations and guidelines.

Issuers utilize the Corporate Governance Self Reporting Template to disclose their adherence to governance requirements and reveal the status of each requirement's application. Issuers are encouraged to provide detailed explanations and relevant sources of information on how they have applied the various principles, recommendations and guidelines of the CG Code.

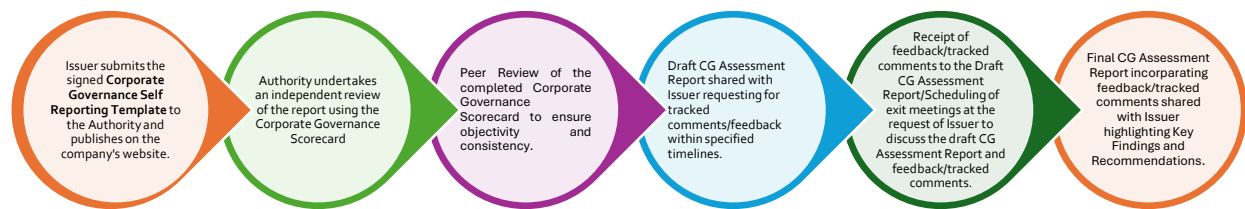
The Authority vide Circular No. MRT/CMA/004/2017 on the Format for Reporting the Application of CG Code guided issuers to fill and sign the Corporate Governance Self Reporting Template and submit the same to Authority and publish on the company's website within four (4) months after the end of the issuers' financial year.

After receipt of the Corporate Governance Self Reporting Template from the issuer, the Authority uses the internal Corporate Governance Scorecard to assess the level of implementation while also taking into consideration publicly available and accessible information. The Corporate Governance Scorecard covers the seven (7) principles of the CG Code: commitment to good governance, Board operations and control, Rights of shareholders, Stakeholder relations, Ethical and social responsibility, Accountability, risk management and internal control; and Transparency and disclosure.

4.2. Governance Assessment Process

The assessments of Corporate Governance Practices by issuers is based on the completed Corporate Governance Self Reporting Template and publicly available and accessible information such as Annual Reports, company's Websites, Notices, Circulars, Articles of Association, Resolutions of Shareholders' Meetings, Board Charter, Media Publications, Codes of conduct, Sustainability Reports and other sources of public information as available. To minimize assessor subjectivity and to enhance accuracy and consistency in the review process, a check and balance methodology is applied through peer review.

Further, the Authority shares the draft Assessment Reports with the issuers and requests for tracked comments and submission of further documentation to enhance the correctness of the report. Finally, at the request of an issuer, the Authority conducts virtual exit meetings to discuss the draft findings and comments from the issuer before retreating to prepare the final CG Assessment Report.



Under the Corporate Governance Scorecard employed by the Authority to assess implementation of the CG Code, an issuer scores Zero points on each question if they have not observed the practices, one (1) point if they have partially observed, two (2) points if they have fully observed and three (3) points if they have gone above and beyond the requirements of the code.

Based on the final score, issuers will be grouped into four groups; Leadership Rating (75% and above), Good Rating (between 65% and 74%), Fair Rating (between 50% and 64%) and Needs Improvement Rating (below 50%).

4.3. Governance Assessment Analysis

The CG Assessment process considers unique circumstances where specific sectors such as Automobiles & Accessories, Telecommunications and Investment Services contain only one issuer each.

To maintain anonymity, these sectors were consolidated with similar categories. This consolidation facilitates a more meaningful and robust analysis of the governance and sustainability landscape within these sectors allowing for better comparative assessments and a deeper understanding of the governance and sustainability practices involved. The result was that:

1. Automobiles & Accessories was consolidated with Manufacturing & Allied.
2. Telecommunications was consolidated with Commercial & Services; and
3. Investment Services was consolidated with Investments.

	Sectors	Number of Issuer
1.	Banking	9
2.	Commercial Services and Telecommunications	9
3.	Automobiles & Accessories and Manufacturing & Allied	7
4.	Energy & Petroleum	4
5.	Insurance	6
6.	Agricultural	6
7.	Investment and Investment Services	4
8.	Construction & Allied	3
9.	Non-Listed	4
	TOTAL	52

This was based on the assessment of **52 Issuers** who completed their Corporate Governance Self Reporting Template and submitted their reports to the Authority. However, it is important to note that two issuers were assessed as one hence reducing the total number to 51 issuers. This was occasioned by the fact that two issuers have the same board and same management, hence a similar governance structure.

5. FINDINGS AND RECOMMENDATIONS ON SPECIFIC CORPORATE GOVERNANCE PRINCIPLES UNDER THE CG CODE



The CG Code sets out seven (7) principles and specific recommendations on structures and processes, which companies should adopt in making good corporate governance an integral part of their business dealings and culture. This section provides a summary of findings and trend analysis on all the seven corporate governance principles as set out in the CG Code.

5.1. COMMITMENT TO GOOD CORPORATE GOVERNANCE

The CG Code places the responsibility on the Board of Directors to formulate policies, procedures and guidelines that will ensure all management decisions are made in accordance with prudent corporate governance practices. Therefore, it cannot be understated the critical Boards of Director set the tone of how companies adhere to best corporate governance practices.

Whereas, this responsibility is placed on the Boards of Directors, shareholders have the appropriate checks and balances as the CG Code gives them the responsibility of appointing competent and dedicated Board of Directors that will entrench good corporate governance practices.

At the center of commitment to good corporate governance principle is transparency of how Board of Directors conducts its business through publication of the Board Charter, Board Committee Terms of References (TORs) and policies on the company’s website.

5.1.1. The average performance of Issuers on the Commitment to Good Corporate Governance

The figure below illustrates the individual performance of issuers on their commitment to good corporate governance principle.

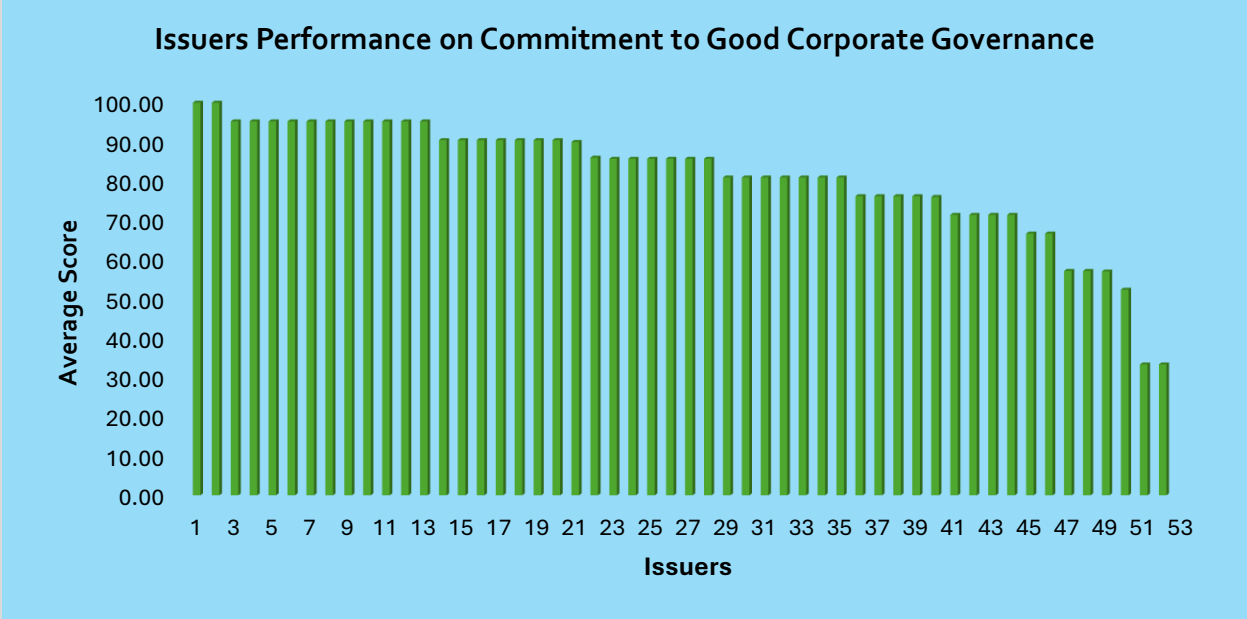


Figure 5.1.1: Average performance of Issuers on Commitment to good corporate governance

An analysis of performance on the Commitment to Good Corporate Governance principle shows that **forty (40)** scored Leadership Rating, **six (6)** Issuers scored Good Rating, and **Four (4)** Issuers had a Fair Rating while **Two (2)** Issuers had a Needs Improvement Rating.

5.1.2. Trend analysis on the overall performance on Commitment to Good Corporate Governance

The figure below illustrates the overall performance of issuers on the commitment to good corporate governance principle.

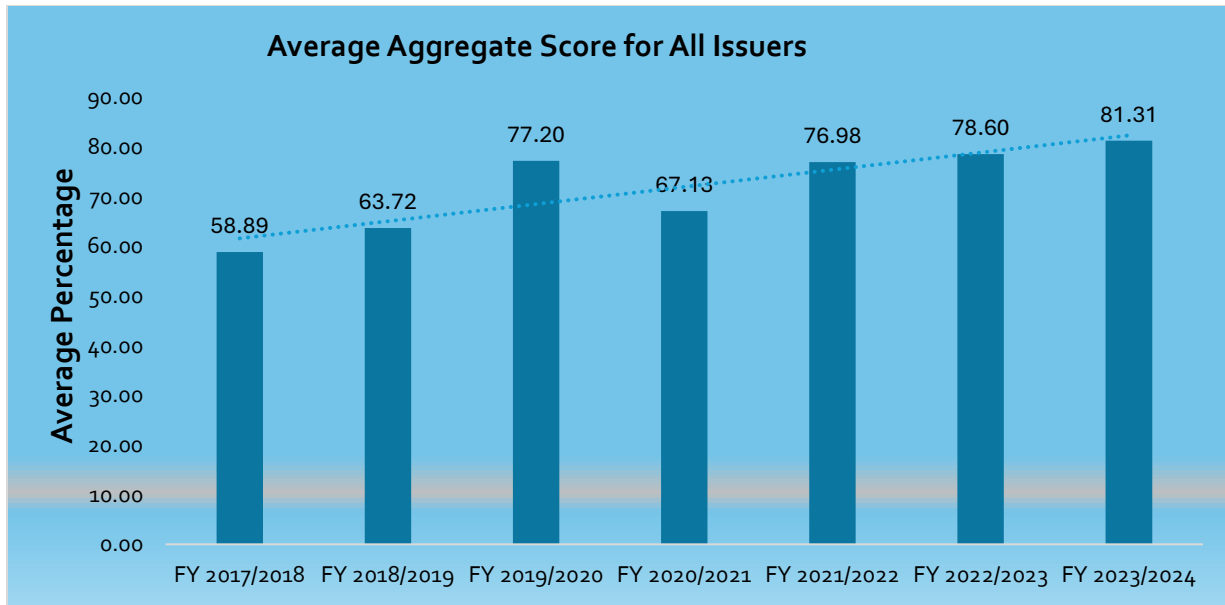


Figure 5.1.2: Average Aggregate Score for all issuers on Commitment to good corporate governance

On commitment to good governance principle, FY 2023/2024 assessment reveals that there was significant improvement by Issuers from the previous FY 2022/2023 **score of 78.60% (Leadership Score Rating) to 81.31% (Leadership Rating)**. The improvement demonstrates the growing appreciation and integrating good corporate governance practices as an integral part of the company's strategies. Further, it is commendable that most of the Issuers have developed, updated and published their Board Charters on the company's websites. The next steps in assessment would be to ascertain to what extent do Board of Directors adhere to their board charters in monitoring the affairs of the company.

5.1.3. Strengths and Opportunities for Improvement

During the Year under review, the Authority noted the following opportunities for improvement for consideration by issuers:

- a. Publication of updated Terms of References (TORs) of Board Committees on the company's website alongside the Board Charters. Whereas the CG Code requires that issuers disclose TORs of Board Committees, there has been resistance from some issuers to publish the TORs on the company website decriing the CG Code does not require them to publish as it has explicitly provided for the Board Charter and the various policies. In the spirit of transparency and going over and beyond the minimum requirements of the CG Code, issuers are encouraged to publish the Board Committee TORs on their websites.
- b. In demonstrating how issuers have ensured all directors, CEOs and Management are fully aware of the requirements of the CG Code, the Authority encourages issuers while

responding to the Corporate Governance Self Reporting Template to provide specific details how this has been achieved. Where issuers have sought third party service providers in terms of training and capacity buildings, the Authority encourages the attachment of relevant documentation when submitting the Corporate Governance Self Reporting Templates.

5.2. BOARD OPERATIONS AND CONTROL



Board of Directors are an integral part in enhancing good corporate practices in a company as they establish the culture, values and ethics of the company. To this end, the need by shareholders to appoint competent and qualified Directors is crucial as they set and monitor the company's strategy including their overall commitment to good corporate governance practices. Consequently, it is in the best interest of shareholders that the Boards are properly constituted to ensure a balanced mix of proficient individuals and that each of those appointed directors is able to add value and bring independent judgment in the decision-making process.

Increasingly, shareholders are placing increased importance on the need for delivering long-term business and economic success, hence Board of Directors play a critical role in integrating Environmental, Social and Environmental (ESG) practices in the company. Therefore, it is important for Boards of Directors to develop and implement an ESG Policy that would govern the issuer's sustainability related activities, adopt a reporting standard mapping the various stakeholders and disclosing their measurable objectives.

5.2.1. The Average Performance of Issuers on Board Operations and Control

Assessment of board practices implemented by issuers in the period under review revealed that **Eighteen (18)** Issuers had a Leadership Rating Score, **seventeen (17)** Issuers had a Good Rating

Score, **Ten (10)** had a fair rating and **Seven (7)** had a needs improvement rating as illustrated in figure 5.3 below:

We note that the Issuers in Leadership Rating reduced from **twenty-four (24)** in the FY 2023/2024 **to eighteen (18)** in the FY 2023/2024. However, there was a significant increase in Issuers in the Good Rating Category from the previous **Ten (10)** in the FY 2022/2023 to **Seventeen (17)** in the FY 2023/2024 reflecting the growing appreciation by Boards of Directors of their integral part in enhancing good corporate governance practices.

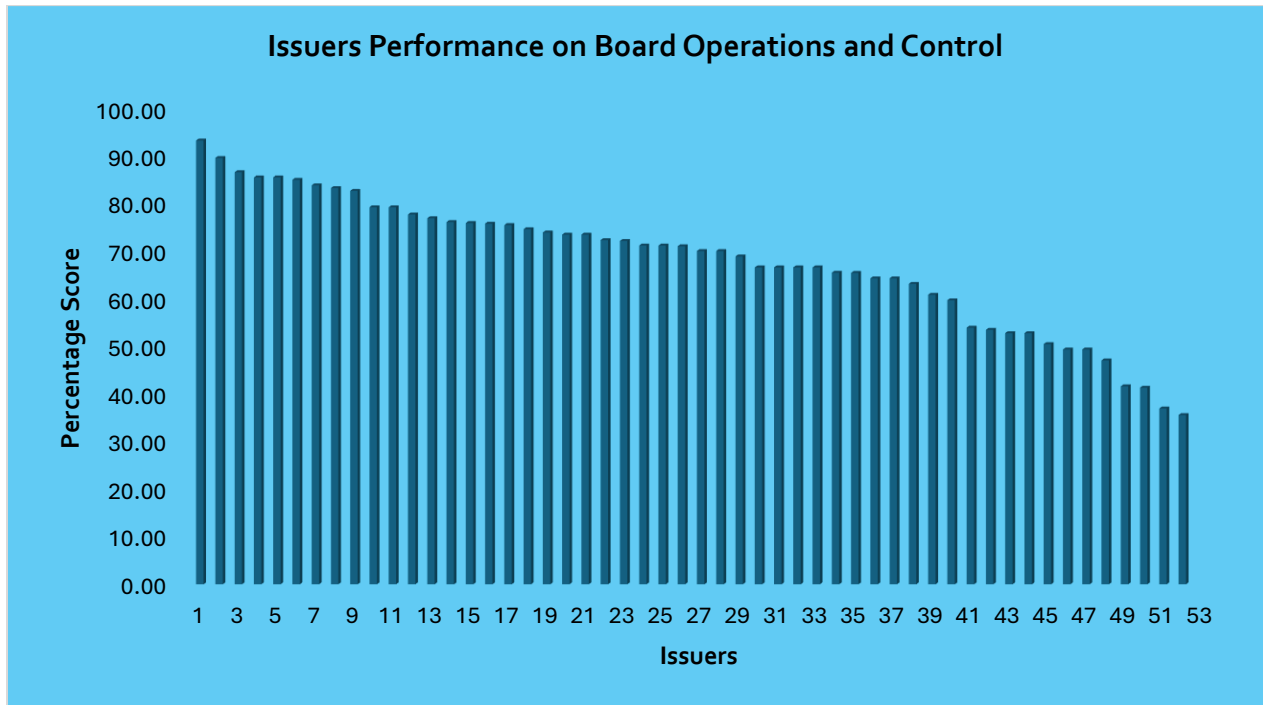


Figure 5.2.1: Issuers Performance on Board Operations and Control

5.2.2. Trend Analysis on the Overall performance on Board Operations and Control

The figure below illustrates the overall Average Aggregate score for all Issuers on Board Operations and Control:

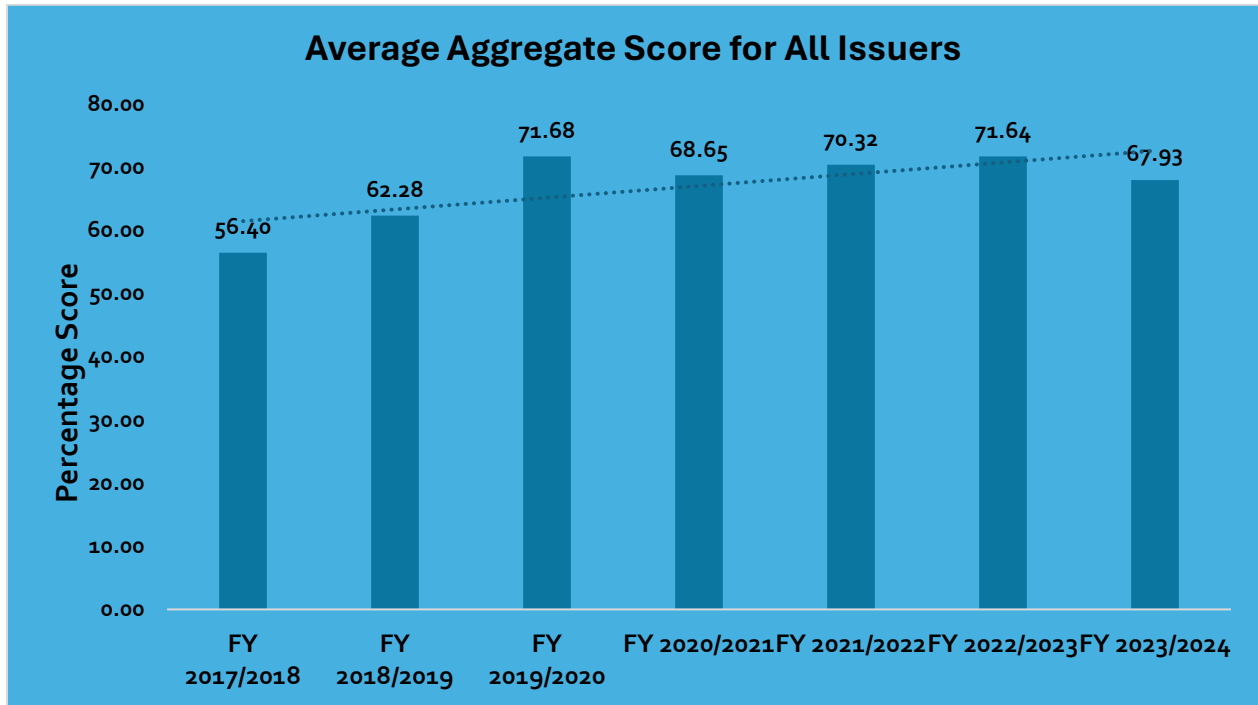


Figure 5.2.2: Average Aggregate Score for all Issuers on Board Operations and Control

The performance on this principle decreased from **71.64%** (Good Rating) in FY 2022/2023 to **67.93%** (Good Rating) in FY 2023/2024. The drop in performance was a result of Issuers failing to comply with POLD Regulations 2023 definitions of Directors. Specifically, the designation of individuals as Non-Executive Directors of an Issuer where these individuals are employees and Executive Directors of related entities contrary to the provisions of POLD Regulations 2023.

Further, the performance was affected by the decision of Issuers within a group structure to second Independent Non-Executive Directors to sit on boards of related entities contrary to the POLD Regulations 2023 which prohibits Independent Non-Executive Directors from having material and pecuniary interest with the company or related entities.

The performance was also affected by the failure by some Issuers to conduct an internal legal and compliance audit where the Issuer had not procured and conducted an independent and external legal and compliance audit as per the CG Code.

Further, during the year under review, the Authority conducted searches on the Institute of Certified Secretaries (ICS) website to confirm that the Company Secretaries were members and in good standing with ICS.

Finally, the Authority noted that some of the Issuers indicated in the Corporate Governance Self Reporting Template that they had conducted evaluation of the Boards, the Chairperson, the Chief Executive Officer and Company Secretary but did not disclose this information in the Annual Report. Further, the Issuers did not disclose any development needs of the Board members that were determined from the results of the evaluation exercise.

5.2.3. Strengths and Opportunities for Improvement

The Authority noted the following areas of strengths under the Board Operations and Controls Principle of the CG Code:

- a. Appointment of Independent Non-Executive Directors as the Chairperson of the Board: Whereas Clause 2.3.4 of the CG Code provides that the chairperson of an issuer shall be a Non-Executive Board member, the Authority noted that some issuers have gone over and beyond the minimum provisions of the CG Code by designating an INED to be the Chair of the Board. The Authority notes that this is intended to enhance the independent oversight of the board while not undermining the collective responsibility of the board in exercising independent judgement. The Authority notes that this is best practice in jurisdictions such as South Africa's King IV Code.
- b. Complying with the requirement that Independent Directors shall be at least one third of the total number of Board Directors: The Authority noted that some of the issuers headed the call by Clause 1.1.1 of the CG Code for adopting standards that go beyond the minimum prescribed by legislation by having almost half of the Board Members as Independent Non-Executive Directors. The Authority commends such issuers and encourages the rest to strategize their nominations of more Independent Directors to their Boards.

The Authority notes the following areas of improvement under the Board Operations and Controls principle of the CG Code:

- a. Designation of specific Board Committees to oversee ESG practices of the Board: There is increasing importance placed by investors on the need of delivering long-term business and economic success through integration of Environmental, Social and Environmental (ESG) practices to enhance sustainability of the company. To this end and pursuant to Clause 2.2.2 of the CG Code, Boards can establish or designate a specific committee to oversee implementation of good ESG practices in the company.

- b. Secondment of Independent Non-Executives Directors to board of related entities (subsidiaries) to harness synergies between the group and subsidiaries. Whereas POLD Regulations 2023 recognizes this need by allowing Non-Executive Directors to sit in Boards of subsidiaries, the Authority notes that some issuers opted to second INEDs to these boards contrary to POLD Regulations and best practices on the need to ensure that INEDs provide an independent view on corporate strategy, performance, resources, appointments which would be impaired by their sitting in boards of related entities.
- c. Appointment of Alternate Directors: The Authority noted that some of the issuers appointed members of Management to be alternate directors of Non-Executive Directors of the company. The Authority contends that this practice contravenes the CG Code as the alternate director has all the obligations imposed on the substantive director which cannot be achieved by having a member of Management (Executive Director) alternating a Non-Executive Director.

5.3. RIGHTS OF SHAREHOLDERS

Protection of investors is one of the Authority's primary objectives as stipulated in the Capital Markets Act. In recognition of this mandate, the Authority enacted the Stewardship Code for Institutional Investors 2017 which seeks to encourage institutional investors to take action and serve as responsible stewards for their beneficiaries and to help promote good corporate governance and sustainability practices of listed companies.

Issuers shall recognize, respect and protect the rights of shareholders and ensure that this is enshrined within their governance framework. Further, the Authority notes that under the CG Code, issuers are expected to demonstrate how the Board facilitates the effective exercise of shareholders' rights and that the governance framework recognizes the need to equitably treat all shareholders, including the minority and foreign shareholders. However, the Authority is not prescriptive on how every issuer achieves this but the burden of demonstrating the same lies with the issuer which shall be on a case-by-case basis depending on the size of the issuer, sector among other factors.

Shareholders play a critical role in promoting good corporate governance by actively participating in Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs). Their involvement in scrutinizing policies and financial statements ensures transparency and accountability, ultimately enhancing the quality of investments considered by the company. By providing informed opinions and exercising their voting rights, shareholders contribute significantly to the company's governance framework.

5.3.1. The Average Performance of Issuers on Rights of Shareholders

The figure below illustrates the individual performance of issuers on the Rights of Shareholders principle.

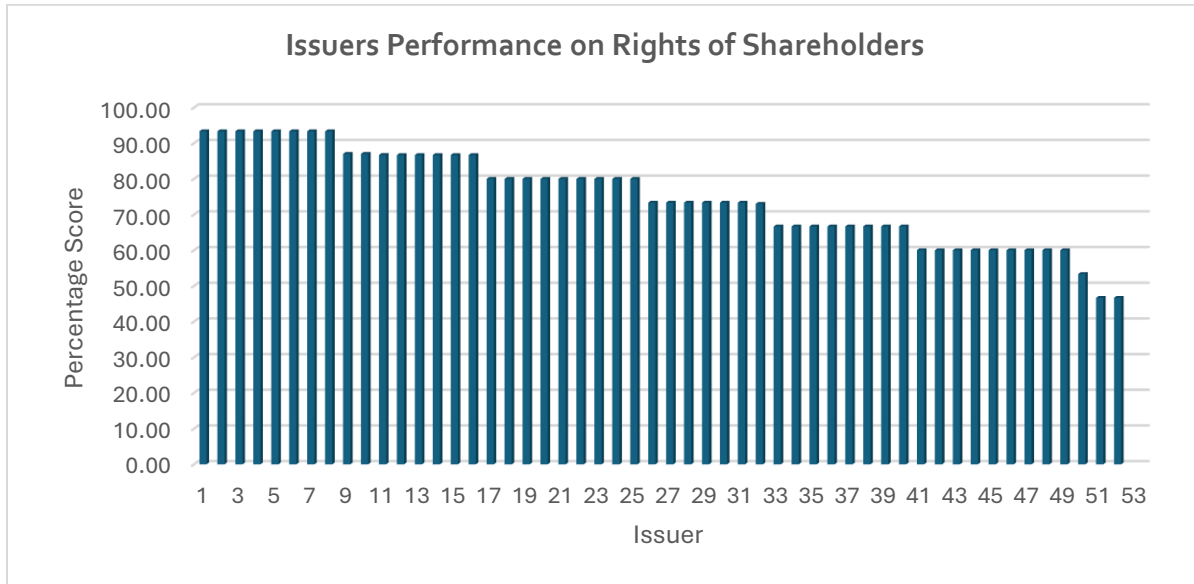


Figure 5.3.1: Issuers Performance on Rights of Shareholders

The analysis showed that **Twenty- five (25)** issuers had a Leadership Rating Score and **Fifteen (15)** Issuers had a Good Rating whereas **Nine (9)** Issuers had a Fair Rating while **Three (3)** Issuers had a Needs Improvement Rating.

5.3.2. Trend Analysis on the Overall performance on Rights of Shareholders

The figure below illustrates the overall performance of issuers on the Rights of Shareholders principle.

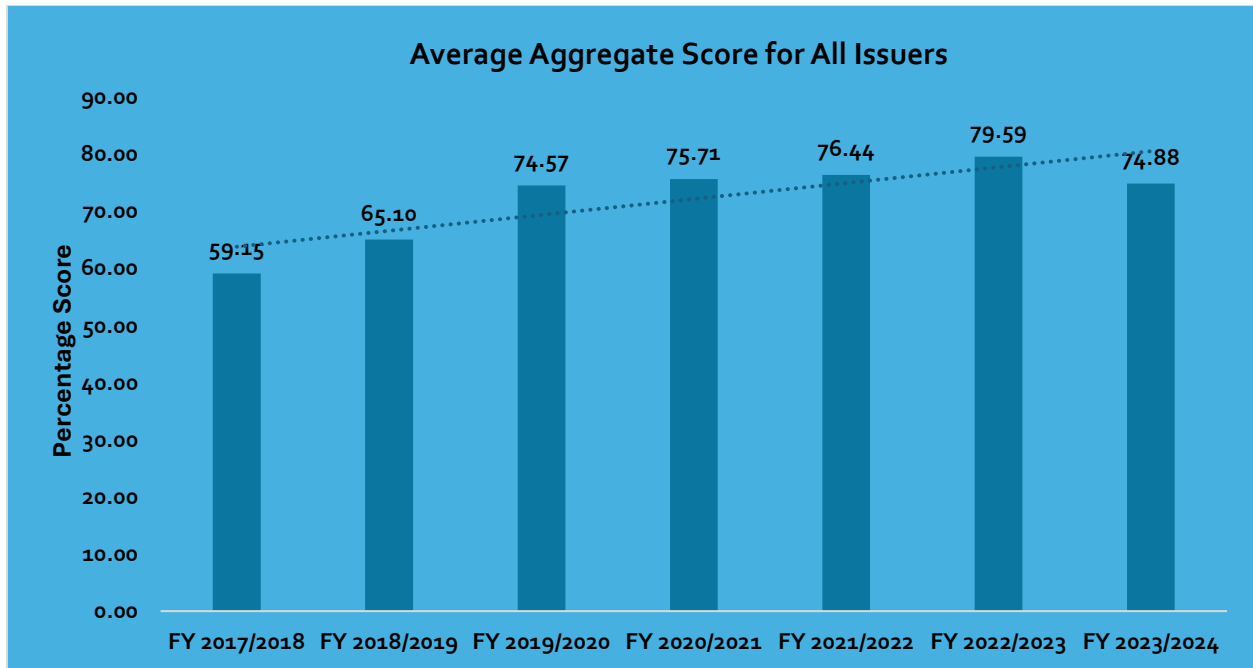


Figure 5.3.2: Average Aggregate Score for all Issuers on Rights of Shareholders

During the FY 2023/2024, the performance of rights of shareholders reduced from **79.59% Score (Leadership Rating)** to **74.88 (Leadership Rating)**. The decrease was significantly due to the Authority implementation of the requirement for shareholders to approve specific policies. The Authority noted several Issuers had the policies in place, but they had not been approved by shareholders.

Further, the Authority noted that some of the Issuers failed to provide specific details and documentation on how their governance framework recognizes the need to equitable treatment of all shareholders while also providing mechanisms for protection of minority and foreign shareholders.

5.3.3. Strengths and Opportunities for Improvement

The Authority notes the following areas of improvement under the Rights of Shareholders principle:

- a. Approval of specific policies by shareholders: The Authority notes that Clause 8.21 of the Thirteenth Schedule of POLD Regulations 2023 requires that shareholders shall approve certain policies and procedures. The Authority notes that this is not a new provision as it was provided under Paragraph F.13 of the Fifth Schedule of the repealed Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002. The Authority has

contended that the Regulations do not envision the delegation of such authority and therefore this right must be exercised by shareholders during the AGM.

- b. Without undermining the need for protection of all shareholders, Issuers should disclose specific initiatives under its governance framework that ensures minority and foreign shareholders are treated in an equitable manner.
- c. Further, Issuers with institutional investors must disclose specific initiatives to enhance their participation in company affairs. For guidance, Issuers are encouraged to review and implement the Stewardship Code for Institutional Investors 2017.

5.4. STAKEHOLDER RELATIONS

Issuers are expected to map and identify the needs of their stakeholders which shall include shareholders, customers, suppliers, employees, creditors, regulators, lenders, media, auditors and potential investors among other stakeholders. Catering for the needs of stakeholders is an important aspect of an issuer discharging its responsibility as a corporate citizen.

Recognizing the importance of diverse stakeholders, issuers are actively engaged with employees, customers, regulators and the community to address their concerns.

5.4.1. The Average Performance of Issuers on Stakeholder Relations Principle

The figure below illustrates the individual performance of issuers on Stakeholder Relations principle.

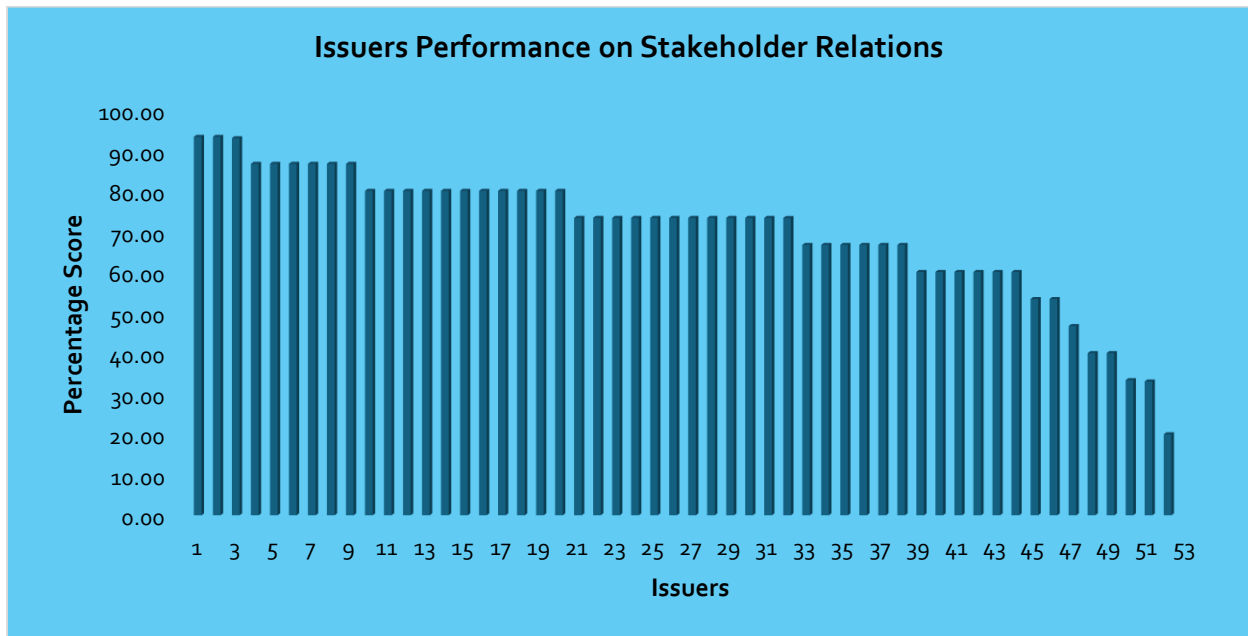


Figure 5.4.1: Issuers Performance on Stakeholder Relations

An analysis of the performance of Issuers performance on the stakeholder's principle indicates that **Twenty (20)** Issuers achieved a Leadership Rating, **Seventeen (17)** scored a Good Rating, **Eight (8)** Issuers scored a Fair Rating while **Six (6)** Issuers scored a Needs Improvement Rating.

5.4.2. Trend Analysis on the Overall performance on Stakeholder Relations Principle

The figure below illustrates the overall performance of issuers on Stakeholder Relations principle.

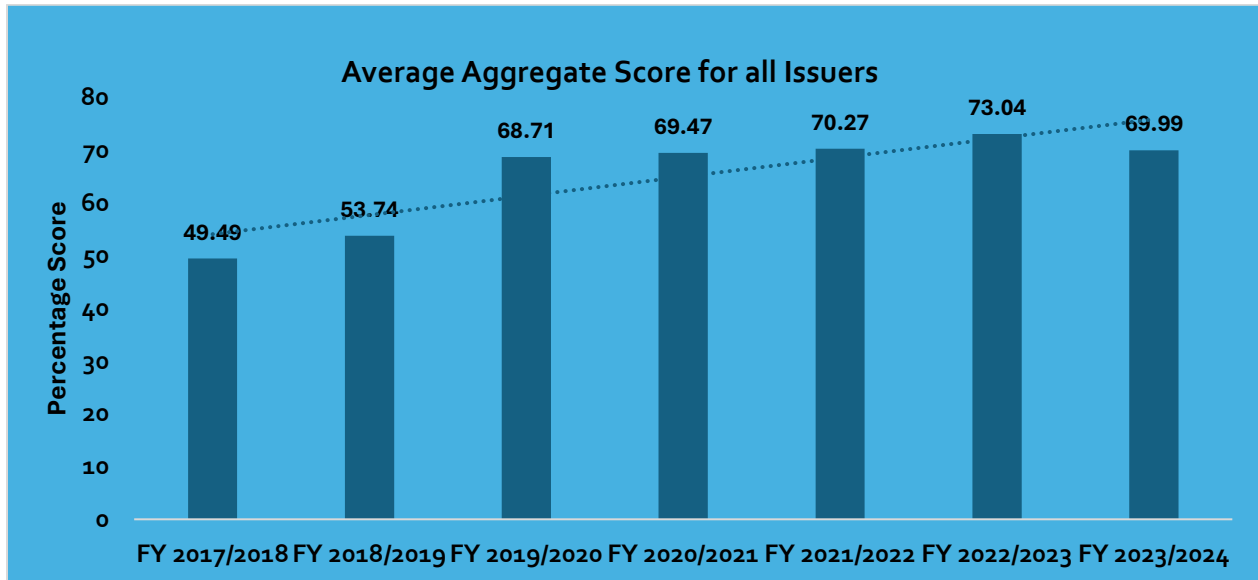


Figure 5.4.2: Average Aggregate Score for all Issuers on Stakeholder Relations

The performance of Issuers dropped in the FY 2023/2024 with the score at **69.99% (Good Rating)** from the previous **73.04% (Good Rating)** in the FY 2022/2023. This can be attributed to Issuers failing to demonstrate how various decisions took into consideration the stakeholders' input. The Authority recognizes that the majority of Issuers have mapped their stakeholder, and the challenge therefore has to be how the interests of these stakeholders were taken into consideration in the various decisions undertaken by Issuers.

5.4.3. Strengths and Opportunities for Improvement

The Authority notes the following areas of improvement under the Stakeholder Relations Principle:

- a. Issuers are encouraged to provide evidence of how they have specifically dealt with their mapped stakeholders during the financial year. Further, Issuers are encouraged to demonstrate how they have achieved a stakeholder inclusive approach in their decision making.
- b. Issuers should ensure that the policies and procedures for effective communication with stakeholders are approved by shareholders in accordance with POLD Regulations 2023.

5.5. ETHICS AND SOCIAL RESPONSIBILITY



This Principle underscores the need for Issuers to go beyond legal compliance and embrace ethical practices that align with the expectations of their stakeholders. It emphasizes the role of companies as good corporate citizens that contribute positively to society and the environment while upholding high standards of ethical behavior.

At its core, this principle requires the Board of Directors to champion ethical leadership and corporate citizenship by integrating ethical considerations into decision-making, ensuring the effective management of ethical risks and adopting a proactive stance toward social and environmental stewardship. The ultimate goal is to balance economic performance with social equity and environmental sustainability, a concept widely recognized as the *triple bottom line*.

Triple Bottom Line Sustainability



Adherence to ethical and social responsibility obligation by Issuers is vital in the alignment with global trends in ESG practices that have gained prominence. By committing to ethical leadership and social responsibility, issuers can enhance investor confidence, signaling long-term value creation and reliability. This not only strengthens the market reputation but also attracts ESG-focused capital, broadening funding opportunities and aligning corporate strategies with global sustainability standards.

Effective adherence to this principle also mitigates risks, ensuring compliance with regulatory and ethical frameworks while protecting issuers from reputational damage, legal liabilities, and operational disruptions. Additionally, by embracing the *triple bottom line* approach, which evaluates financial, social, and environmental performance, issuers foster inclusive growth, safeguard the natural environment and drive innovation through sustainable business models.

Ultimately, *Ethics and Social Responsibility* is more than a compliance requirement, it is a strategic imperative that positions issuers for sustainable growth, global competitiveness and resilience in a dynamic global market. By embedding these principles, issuers contribute to a robust and sustainable capital markets ecosystem, ensuring they remain accountable, relevant, and impactful in a world increasingly focused on ESG outcomes.

Issuers demonstrated their commitment to corporate citizenship and sustainability by developing and implementing well-coordinated policies in these areas. This commitment was evident in their Annual Reports, which highlighted focused and deliberate efforts to address

environmental and social issues alongside governance matters. These actions reflect a focus by issuers toward a broader perspective that goes beyond profit-making, acknowledging their impact and responsibilities to society and the environment.

5.5.1. The Average Performance of Issuers on Ethics and Social Responsibility Principle

The figure below illustrates the individual performance of issuers on Ethics and Social Responsibility principle.

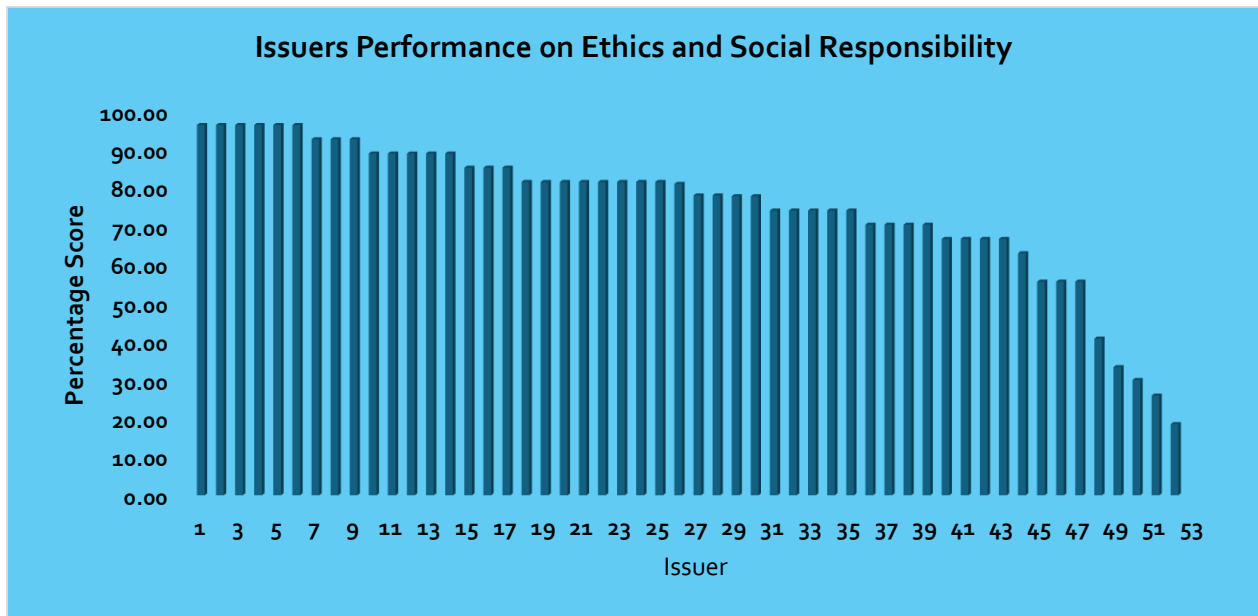


Figure 5.5.1: Issuers Performance on Ethics and Social Responsibility

An illustration on this principle indicates that thirty (30) Issuers had a Leadership rating, thirteen (13) had a good rating, four (4) had a Fair rating and five (5) were in the Needs Improvement category.

5.5.2. Trend Analysis on the Overall performance on Ethics and Social Responsibility Principle

The figure below illustrates the overall performance on Ethics and Social Responsibility across different assessment periods.

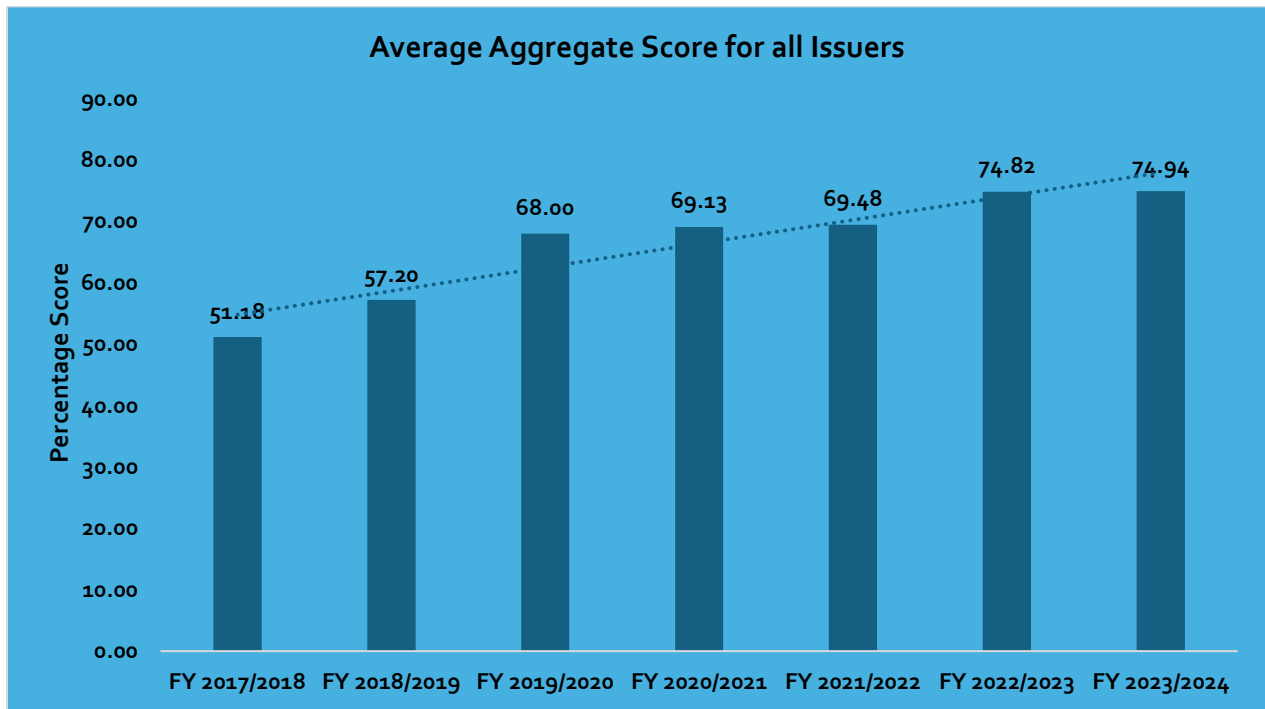


Figure 5.5.2: Average Aggregate Score for all Issuers on Ethics and Social Responsibility

The average aggregate performance on Ethics and Social Responsibility slightly increased by 0.12% in the FY 2023/2024 compared to the FY 2022/2023. The increase from 74.82 % (Good rating) in FY 2022/2023 to 74.94% (Good rating) in FY 2023/2024, was attributed to the fact that Issuers have established and published their whistleblowing policies and procedures, as well as implemented whistleblowing platforms that allow employees and stakeholders to report suspected improper, unethical or inappropriate behavior with confidence.

5.5.3. Strengths and Opportunities for Improvement

Issuers can significantly enhance their performance on Ethics and Social Responsibility by:

- a. Effectively disclosing and demonstrating how ethical and sustainability risks are integrated into their risk management processes. Specifically, issuers should compile comprehensive ethics risk profiles that not only identify negative ethical risks but also highlight positive

ethical opportunities to allow them to capitalize on potential benefits while mitigating threats.

- b. Actively assessing, monitoring, and transparently disclosing their ethical performance to both internal and external stakeholders to ensure accountability and reinforce their commitment to high standards of conduct.
- c. Ensuring that ethical standards are seamlessly integrated into their overall strategy and operations. This will foster a culture of ethical decision-making and ensure that sustainability and ethics are embedded in every aspect of the business, driving long-term, responsible growth.
- d. Adopt ethical and sustainability practices that go beyond the minimum legislative standards to position themselves as leaders in responsible business. By implementing best practices and pioneering innovative approaches, issuers can build trust with stakeholders, enhance their reputation, and foster long-term value creation.

5.6. ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL



The principle of Accountability, Risk Management and Internal Control is crucial for issuers because it ensures the integrity of their operations, safeguarding shareholder interests and fostering investor confidence. Adherence to this principle helps in identifying and mitigating risks, ensuring compliance with laws and safeguarding company assets.

It also promotes transparent financial reporting, which is vital for maintaining trust in the capital markets. The role of the Board is central to ensuring that robust systems and processes are in place for managing risks, implementing internal controls and overseeing financial reporting. The Board must take responsibility for the integrity of the company's financial statements, risk management framework, and the effectiveness of internal controls.

Issuers are required to establish and maintain effective risk management frameworks to identify, assess and manage risks, balancing potential rewards with risks. They must ensure the company has adequate internal control systems that are regularly reviewed and updated.

Furthermore, the Board must disclose its responsibilities for risk management and internal control in the Board Charter, ensuring management's role in their design, implementation and monitoring. Issuers must also have an Audit Committee to oversee the financial reporting process, evaluate internal controls and ensure the independence and competence of external auditors. Regular audits and reviews of the company's financial statements and risk

management processes are essential to maintain accountability and meet governance expectations.

The Authority commends issuers for their strides in adopting and implementing integrated reporting. Many issuers have adopted this approach by disclosing, within their annual reports, information that extends beyond financial performance to include social and environmental considerations that reflect the broader contexts in which their businesses operate. Notably, some issuers have gone further to produce standalone sustainability reports, highlighting their sustainability initiatives.

This progress underscores issuers' commitment to addressing the interests of diverse stakeholders while fostering better management and control. By understanding, disclosing and accounting for the environments in which they operate, issuers demonstrate greater transparency and accountability.

5.6.1. The Average Performance of Issuers on Accountability, Risk Management and Internal Control Principle

The figure below illustrates the individual performance of issuers on Accountability, Risk Management and Internal Control principle.

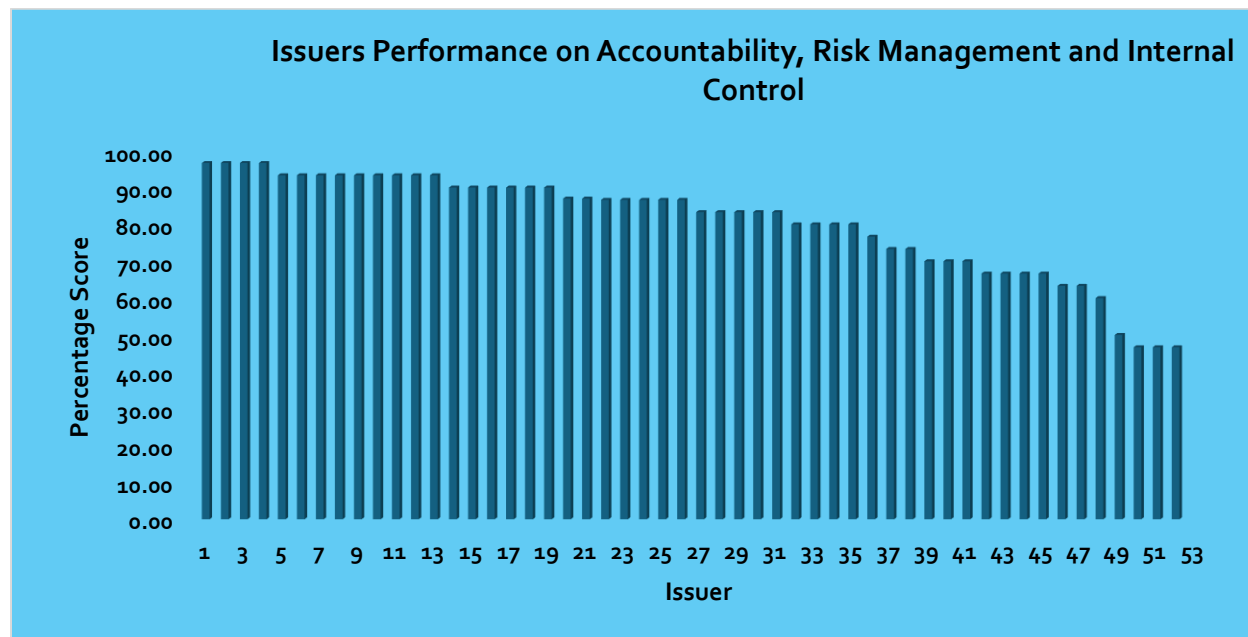


Figure 5.6.1: Average Performance for Issuers on Accountability, Risk Management and Internal Control

An illustration on this principle indicates that thirty-six (36) Issuers had a Leadership rating, nine (9) had a good rating, four (4) had a Fair rating and three (3) were in the needs improvement category.

5.6.2. Trend Analysis on the Overall performance on Accountability, Risk Management and Internal Control Principle

The figure below illustrates the overall performance on Ethics and Social Responsibility across different assessment periods.

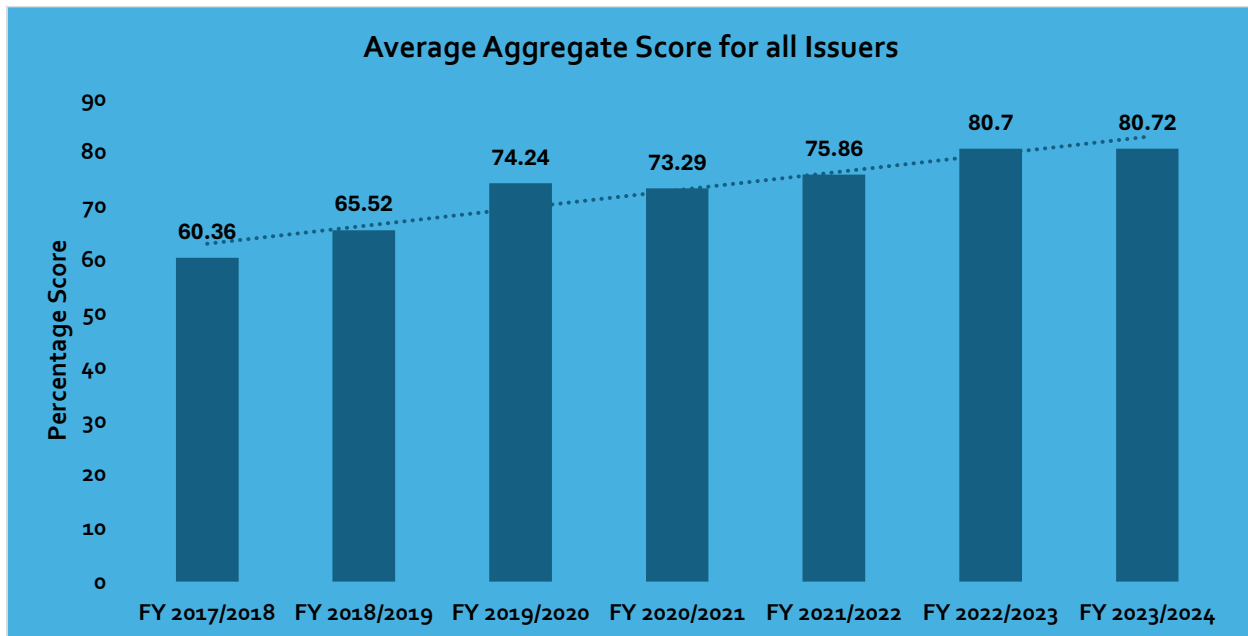


Figure 5.6.2: Average Aggregate Score for all Issuers on Accountability, Risk Management and Internal Control

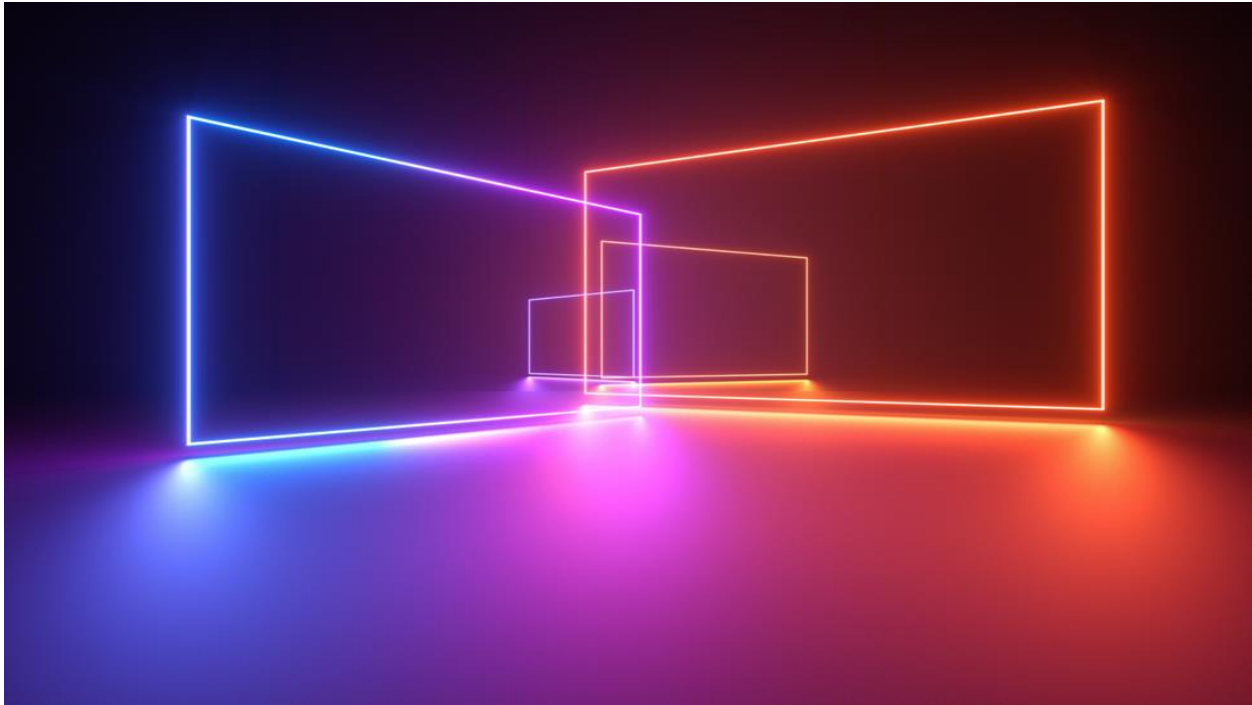
The average aggregate performance on Accountability, Risk Management and Internal Control slightly increased by 0.02% in FY 2023/2024 compared to the FY 2022/2023. The increase from 80.7 % (Leadership rating) in FY 2022/2023 to 80.72% (Leadership rating) in FY 2023/2024, was attributed to the fact that Boards have taken a proactive approach to ensuring the integrity of the financial reporting process. This was evident in the inclusion of clear roles for Audit Committees within their Terms of Reference, specifically regarding the review and consideration of financial statements, as well as the assessment of the objectivity and independence of external auditors. The existence of well-defined policies, processes and procedures for financial accountability, risk management and internal control further demonstrated these efforts.

5.6.3. Strengths and Opportunities for Improvement

Issuers can further enhance their performance on Accountability, Risk Management and Internal Control by:

- a. Disclosing the tenure of service of external auditors to ensure shareholders are well-informed during the appointment of independent external auditors at the Annual General Meetings. This aligns with Clause 6.1.4 of the CG Code which mandates the rotation of Independent External Auditors every six to nine years to promote objectivity, independence and professional scrutiny of the external auditors.
- b. Continuously improving the quality and scope of integrated reporting by adopting IFRS Standards S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and S2 (Climate-Related Disclosures). These standards provide a robust framework for consistent and comparable disclosures, enabling issuers to effectively communicate risks and opportunities related to sustainability and climate change.
- c. Disclosure of Ethical and sustainability risks and opportunities in the risk management framework: As part of initiatives to demonstrate that an Issuer has incorporated ethical and sustainability risks and opportunities in the risk management process, Issuers are encouraged to disclose this information in the Integrated Annual Reports as part of the Issuers' Risk Management Framework.

5.7. TRANSPARENCY AND DISCLOSURE



Transparency and Disclosure remains pivotal in empowering shareholders to exercise their ownership rights effectively, fostering accountability and reinforcing trust in issuers. By ensuring that stakeholders have timely access to relevant and accurate information, issuers not only enhance their credibility but also contribute to a resilient and informed capital market.

In today's dynamic business landscape, the demand for robust disclosures has grown significantly as stakeholders increasingly prioritize transparency in governance, operations and sustainability practices. Information should not only be comprehensive and timely but also accessible, presented in plain language and tailored formats to meet the diverse needs of shareholders, regulators and other stakeholders.

It is imperative that Issuers note that the Capital Markets (Public Offers, Listings and Disclosures) Regulations 2023 places an obligation for issuers to disclose material information to the public as part of their continuing listing obligations: any information relating to an issuer that may ordinarily affect the price of an issuer's securities or influence investment decisions of investors.

Transparency and Disclosure are no longer confined to regulatory compliance but are increasingly integral to corporate strategy and reputation management. Issuers must embrace a culture of openness and continuous improvement to stay ahead of stakeholder expectations and market demands. By fostering transparency, issuers will not only enhance trust and engagement but also position themselves as leaders in corporate governance excellence.

5.7.1. The Average Performance of Issuers on Transparency and Disclosure Principle

The figure below illustrates the individual performance of issuers on Transparency and Disclosure principle.

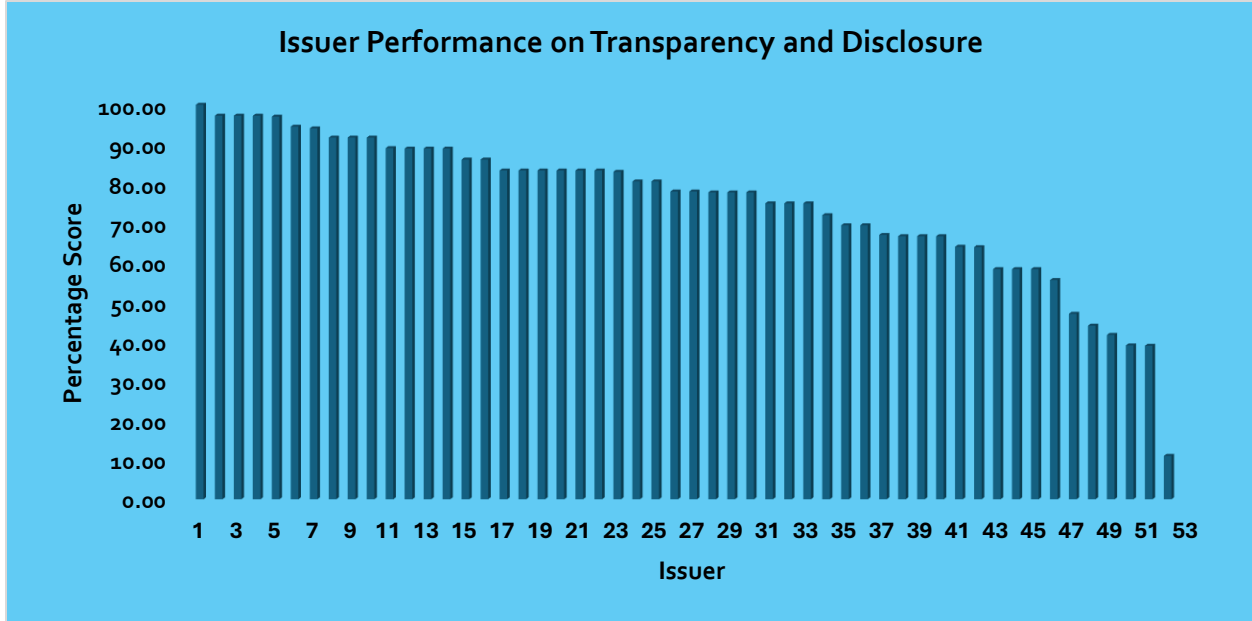


Figure 5.7.1: Issuers Performance on Transparency and Disclosure

The illustration above indicates that 33 issuers attained a Leadership rating, 7 received a Good rating, 6 were assigned a Fair rating and another 6 were categorized under the Needs Improvement rating.

5.7.2. Trend Analysis on the Overall performance on Transparency and Disclosure Principle

The figure below illustrates the overall performance of issuers on Transparency and Disclosure principle.

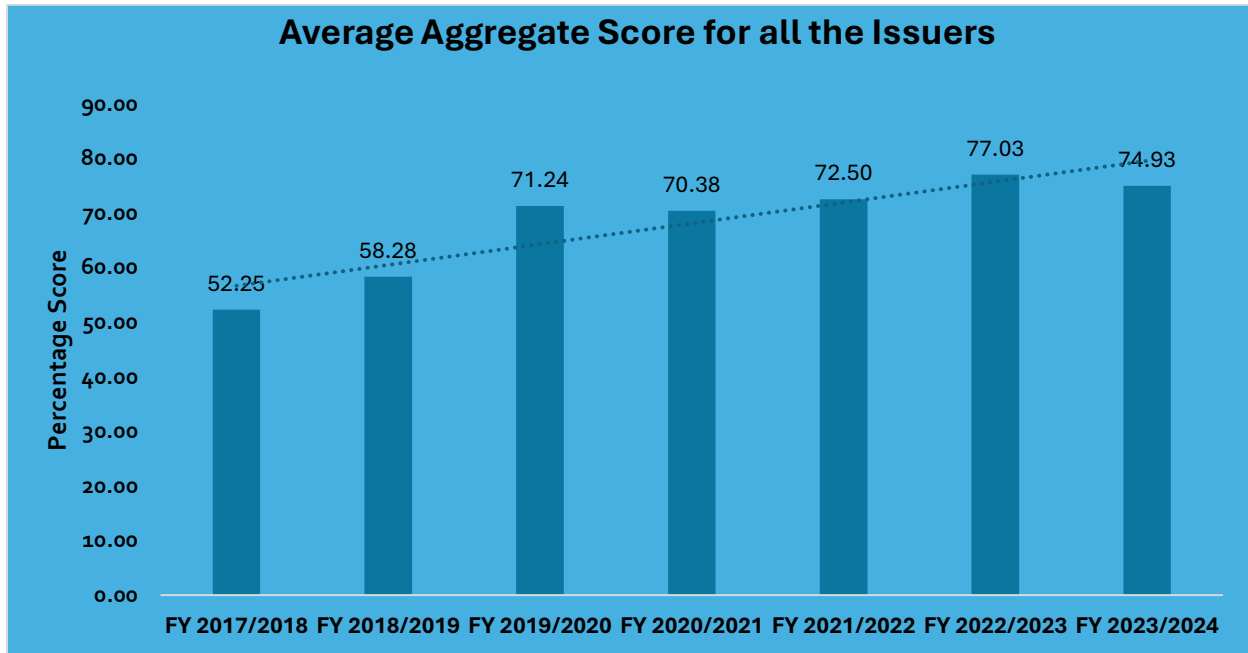


Figure 5.7.2: Average Aggregate Score for all Issuers on Transparency and Disclosure

The overall performance on the Transparency and Disclosure principle decreased by 2.1%, from 77.03% (Leadership rating) in FY 2022/2023 to 74.93% (Good rating) in FY 2023/2024. The decline in performance is attributed to gaps in key governance practices and disclosures, as observed during the corporate governance assessments. Notable issues include the non-disclosure of critical policies such as procurement, risk management and information technology policies on Issuers' websites.

There was also minimal disclosure regarding compliance with the Code of Corporate Governance principles in the Annual Report, including a lack of statements indicating aspects of the Corporate Governance Code which have not been applied, the reasons thereof, indicative timelines and proposed strategies towards application. In addition, the Directors' profiles, while disclosed in the Annual Report and on the Issuers' websites, in some instances lacked information on their other Board memberships, including any positions held on the boards of the Issuers' subsidiaries or other companies.

5.7.3. Strengths and Opportunities for Improvement

Despite the decline in performance, issuers have made notable progress in the principle of transparency and disclosure. These positive developments reflect significant adherence to key provisions of the Corporate Governance Code, including:

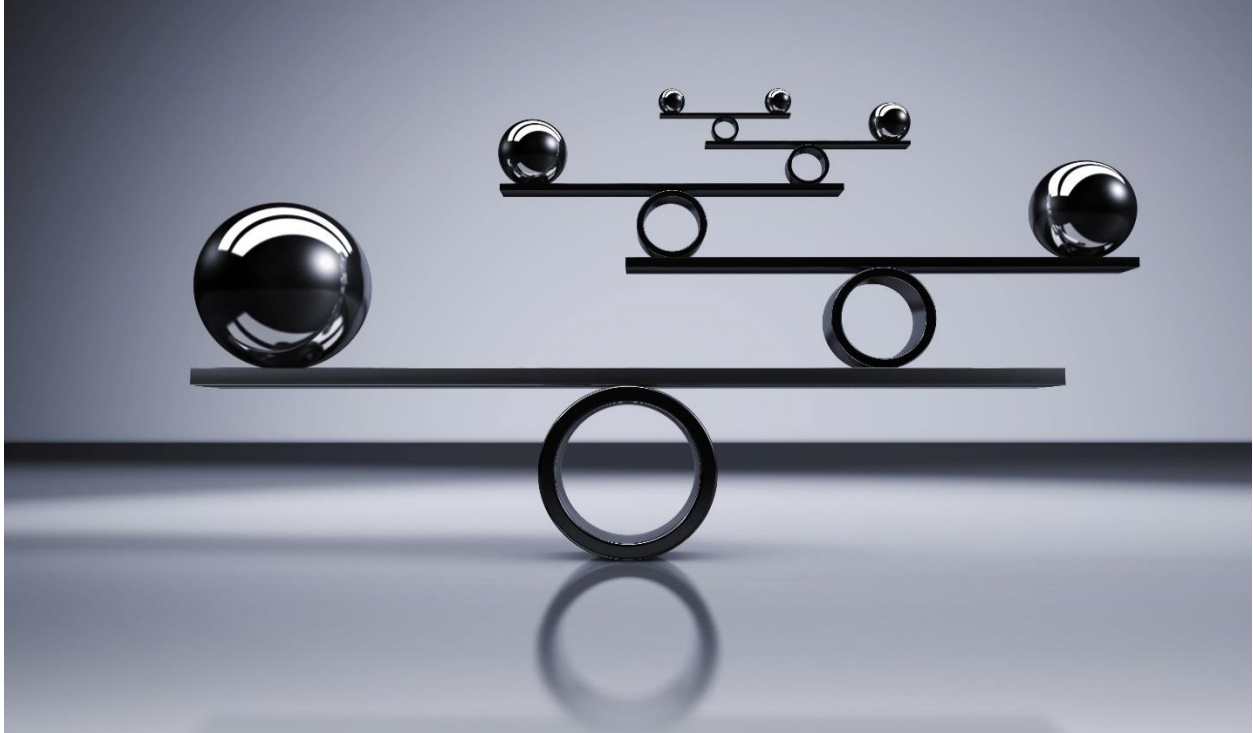
- a. Issuers have demonstrated commitment to timely and balanced disclosure of material information, ensuring stakeholders have access to accurate and up to date information/data in accordance with the Corporate Governance Code.
- b. Compliance with the requirement to disclose the composition of Audit Committees in annual reports has improved, with issuers providing details about members, their qualifications, independence and mandate, reflecting enhanced governance practices.
- c. Key policies such as the Code of Ethics and Conduct, Whistle Blowing Policy and Conflict of Interest Policy are now being disclosed on issuers' websites and in their annual reports, further strengthening transparency and stakeholder confidence.
- d. There has been progress in the timely disclosure of appointments and resignations of Board members and key personnel, such as members of the management team, enhancing corporate governance transparency to all stakeholders.
- e. Issuers are increasingly providing detailed information on sustainability initiatives, social responsibility efforts and environmental impact. The adoption of integrated reporting practices, including both financial and non-financial information, marks a positive step toward aligning with the best global practices in ESG disclosures.
- f. Communication strategies have been embraced by issuers, with Boards ensuring relevant information is supplied to stakeholders. Whistleblowing mechanisms have also been established to encourage stakeholders to report governance issues, reinforcing good corporate governance practices.

The Authority notes the following areas of improvement under the Transparency and Disclosure principle:

- a. Issuers have the opportunity to enhance their transparency by publishing key policies such as procurement, risk management and information technology on their websites. This provides stakeholders with insights into the frameworks guiding the company's operations and strengthens confidence in their governance practices.
- b. Including detailed statements on compliance with the Corporate Governance Code in Annual Reports is essential. These statements should specify aspects of the Code that have not been applied, provide reasons for non-compliance and outline strategies and timelines for alignment.

- c. The publication of conflict-of-interest policies on issuers' websites would clarify how potential conflicts are identified and mitigated. This fosters trust among investors and other stakeholders by demonstrating a proactive approach to ethical governance.
- d. The inclusion of detailed information on Board members' other affiliations, including positions held on the boards of subsidiaries or related companies, can improve transparency and enable stakeholders to assess the breadth of expertise and potential conflicts of interest within Boards.
- e. By publishing corporate social responsibility and investment policies, issuers can reflect their commitment to sustainable practices and responsible business conduct, aligning with the growing emphasis on Environmental, Social and Governance factors.
- f. Issuers can strengthen operational transparency by sharing information technology and corporate reporting policies as this demonstrates their commitment to leveraging technology for operational resilience and efficient reporting.
- g. Providing detailed disclosures on the shareholdings of directors and senior management, as required by Clause 7.1.1 of the Code of Corporate Governance, ensures alignment with best practices and transparency regarding key stakeholders who influence the company's performance and sustainability.
- h. Issuers should include procurement policies in their Annual Reports and make them accessible on their websites as this demonstrates commitment to integrity and fairness in procurement processes, which is critical for stakeholder confidence.
- i. Issuers should explore adopting governance standards that exceed the minimum requirements of the Corporate Governance Code. Doing so promotes alignment with international best practices, improves market positioning and enhances investor confidence.
- j. Issuers are encouraged to elevate their sustainability disclosures by adopting globally recognized frameworks such as IFRS S1 & S2, enabling standardized and comparable data reporting on ESG metrics.

6. WEIGHTED PERFORMANCE



6.1. Overall Weighted Score by All Issuers Across Periods

The annual weighted overall score for all issuers showed a decrease in performance, declining by 2.15% from 75.71% (Leadership rating) in the 2022/2023 financial year to 73.56% (Good rating) in the 2023/2024 financial year. The table below illustrates the annual weighted overall scores achieved by all issuers from the 2017/2018 financial year to the 2023/2024 financial year, highlighting the performance trends over the 7-year periods.

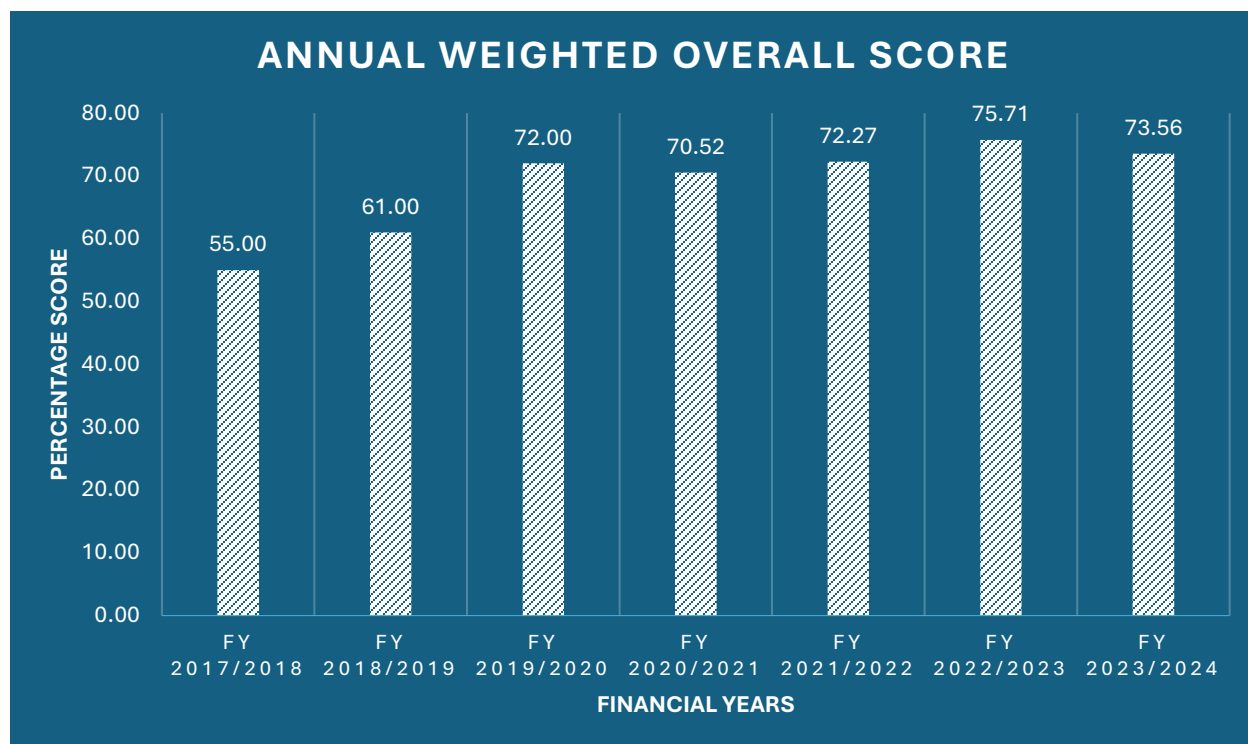


Figure 6.1: Annual Weighted Overall Score by all Issuers

The reasons for the decline in performance is attributed to the following reasons:

- a) Mandatory nature of the CG Code following the enactment of POLD Regulations 2023 which made corporate governance principles mandatory.
- b) Publication of updated Terms of References (TORs) of Board Committees on the company's website alongside the Board Charters.
- c) Failure to provide specific details of how they have ensured all directors, CEOs and Management are fully aware of the requirements of the CG Code.
- d) Secondment of Independent Non-Executives Directors to board of related entities (subsidiaries) to harness synergies between the group and subsidiaries contrary to POLD Regulations 2023.
- e) Appointment of Non-Executive Directors who do not comply with POLD Regulations 2023 definition that they shall not be employees or executive directors of related entities.
- f) Failure of Issuers presenting specific policies for approval by shareholders as per POLD Regulations, 2023.
- g) Issuers failed to provide documentation of specific initiatives under its governance framework that ensures minority, foreign shareholders and institutional investors are treated in an equitable manner.

- h) Despite mapping of stakeholders, Issuers failed to demonstrate how they have achieved a stakeholder inclusive approach in their decision making during the year under review.
- i) Disclosing and demonstrating how ethical and sustainability risks are integrated into their risk management processes.
- j) Failure to disclosing their ethical performance on ethics to both internal and external stakeholders to ensure accountability and reinforce their commitment to high standards of conduct.
- k) Failure to adopt ethical and sustainability practices that go beyond the minimum legislative standards to position themselves as leaders in responsible business.
- l) Failure to disclose the tenure of service of external auditors to ensure shareholders are well-informed during the appointment of independent external auditors to comply with the need to rotate the audit firm.
- m) Failure to improve detailed information on Board members' other affiliations, including positions held on the boards of subsidiaries or related companies, can improve transparency and enable stakeholders to assess the breadth of expertise and potential conflicts of interest within Boards.
- n) Failure to include procurement policies in their Annual Reports and make them accessible on their websites to enhance integrity and fairness in procurement processes, which is critical for stakeholder confidence.

6.2. Overall Performance Across Periods

In FY 2023/2024, the Authority assessed a total number of **fifty-two (52)** Issuers. Out of these, twenty-seven (**27**) Issuers had a Leadership Rating, thirteen (**13**) had a Good Rating, eight (**8**) had a Fair Rating and four (**4**) Needs Improvement Rating.

Despite the reduction in the number of Issuers who scored Leadership Rating Score from **thirty-one (31)** to **twenty-seven (27)** from the last assessment in the FY 2022/2023, there has been a significant increase in the number of Issuers under the Good Rating from **eight (8)** to **thirteen (13)** Issuers over the same period.

The table below shows the performance of Issuers over the past years:

Rating	FY 2017/2018	FY 2018/2019	FY 2019/2020	FY 2020/2021	FY 2021/2022	FY 2022/2023	FY 2023/2024
Leadership	3	7	25	25	30	31	27
Good	15	17	11	8	12	8	13
Fair	31	21	8	10	6	6	8
Needs Improvement	17	8	4	5	6	4	4

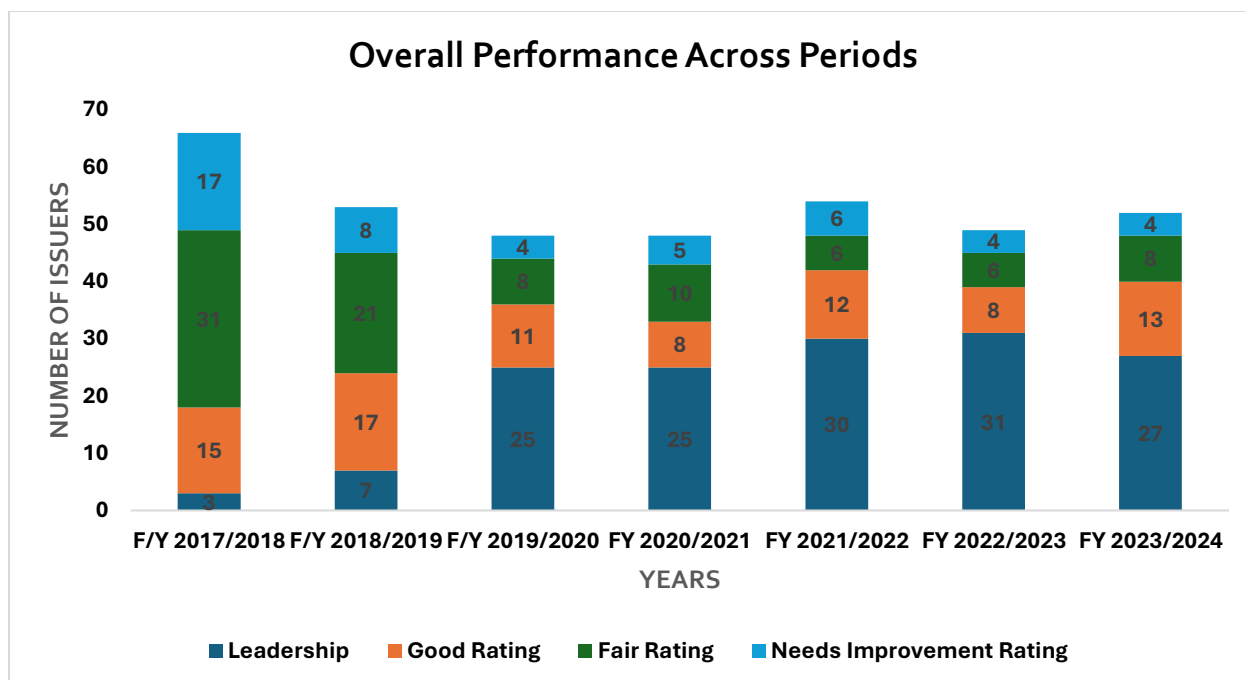


Figure 6.2: Overall Performance Across Periods

The decline in the number of issuers classified under the leadership rating category can be attributed to the following key factors:

- a. Most of the Issuers' performance dropped on the Board Operations and Control principle which has the highest weighted score of 35% among all principles and therefore a reduction of performance affected the issuers overall performance. The reduction in performance was due to the implementation of POLD Regulations 2023 definitions and designations of directors as either Executive Director, Non-Executive Director and Independent Non-Executive Directors.
- b. The Rights of Shareholders principle also reduced significantly as the Authority implemented Clause 8.21 of Thirteenth Schedule of POLD Regulations on the requirement for shareholders to approve specified policies which had not been implemented despite also having been contained in the repealed POLD Regulations 2002.
- c. Further on the Rights of Shareholders, the Authority sought documentation and explanations on how rights of minority shareholders, foreign shareholders and institutional investors were protected with the Authority noticing most issuers failing to document their initiatives.
- d. Finally, the Authority adopted an implementation assessment methodology other than just the disclosure-based assessment. The Authority sought documentation by issuers

demonstrating and evidencing how they have applied the various principles of the CG Code which led to a reduction in their performance.

6.3. Average Performance on All Principles

The figure below illustrates the performance on all the principles across the 7-year period.

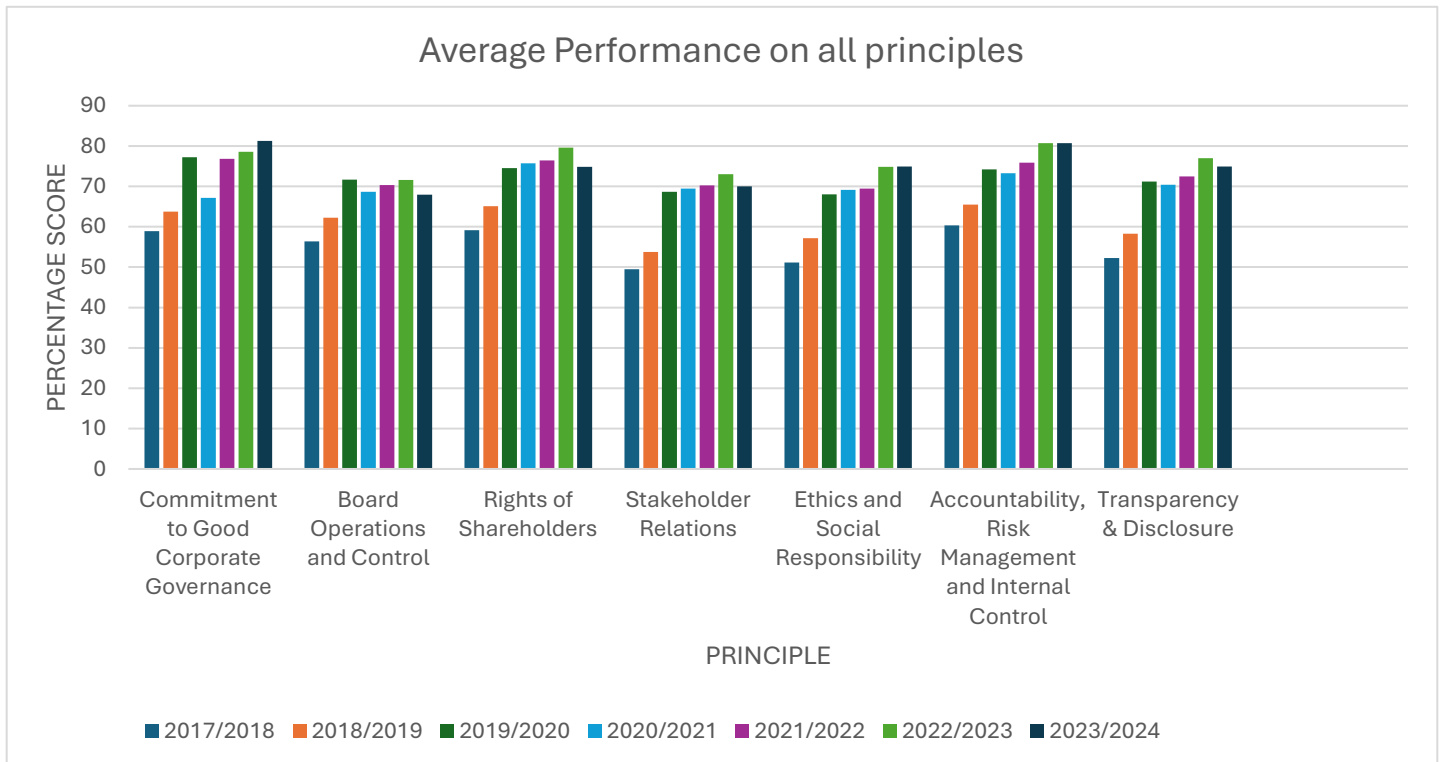


Figure 6.3: Average Score on all Principles

From the above table, the average performance on Commitment to Good Corporate Governance principle (78.6% to 81.31%), Ethics and Social Responsibility (74.82 to 74.94%) and, Accountability, Risk Management and Internal Control (80.7% to 80.72%) improved in comparison to the FY 2022/2023.

The Board Operations and Control principle along with the Stakeholder Relations principle recorded the lowest performance scores of 67.93% (Good Rating) and 69.99% (Good Rating) respectively. In comparison to the FY 2022/2023, Issuers average performance on Board Operations and Control principle was 71.64% (Good Rating) whereas the performance on Stakeholder Relations Principle was 73.04% (Good Rating).

There was a decrease in performance by Issuers in the Rights of Shareholders principle and Transparency and Disclosure principle with Issuers scoring **74.88% (Good Rating)** and **74.93% (Good Rating)** respectively. In the FY 2022/2023, Issuers achieved an average performance of 79.59% (Leadership Rating) under the Rights of Shareholders principle and 77.03% (Leadership Rating) under the Transparency and Disclosure principle.

6.4. Overall Performance Per Sector

The figure below represents the overall performance across the sectors in the FY 2023/2024.

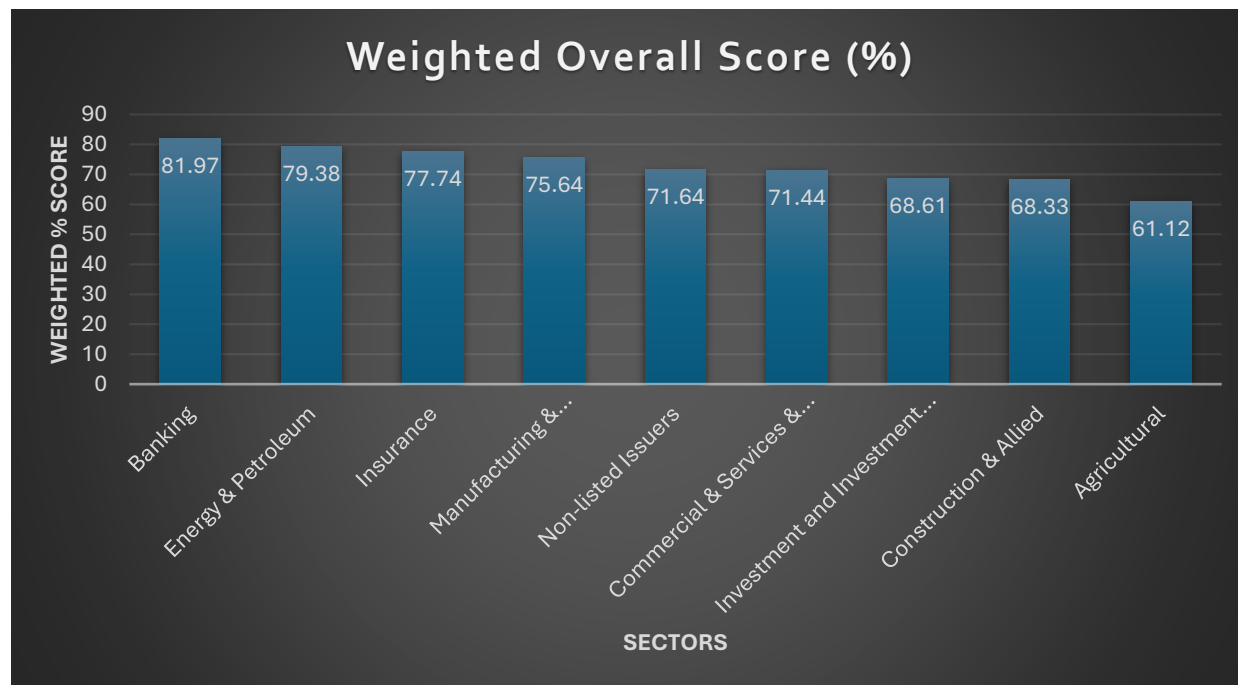


Figure 6.4: Weighted Overall Score

The above analysis illustrates that the Banking Sector, Energy & Petroleum Sector, Insurance Sector & Manufacturing & Allied/Automobiles & Accessories Sector, all, achieved Leadership ratings. All the other sectors scored a Good rating with the exception of the Agricultural Sector which scored a Fair Rating. The Energy & Petroleum Sector, Construction & Allied Sector and the Agricultural Sector all recorded improvements with the most improved being the Construction & Allied Sector which recorded an improvement of 7.73% from the previous year's score of 60.60%.

6.5. Performance By Various Sectors Across All Principles in the FY 2023/2024

The performance of all the sectors on the various principles has been illustrated in the heatmap below.

	Commitment to Good Corporate Governance	Board Operations and Control	Rights of Shareholders	Stakeholder Relations	Ethics and Social Responsibility	Accountability, Risk Management and Internal Controls	Transparency and Disclosure
Agricultural	66.67	55.59	63.34	51.11	51.85	71.78	58.74
Banking	90.42	73.27	82.30	79.96	90.51	88.96	85.84
Commercial & Services & Telecommunications	82.01	64.20	74.07	63.7	75.31	78.52	74.59
Construction & Allied	74.60	62.07	62.22	64.44	67.90	73.33	75.15
Energy & Petroleum	85.72	74.51	85.00	71.67	79.63	88.33	79.81
Insurance	81.71	73.20	75.51	73.44	79.67	87.22	76.83
Investment & Investment Services	74.97	72.44	75.00	66.58	64.91	78.34	63.86
Manufacturing & Allied/Automobiles & Accessories	84.35	69.00	76.19	79.05	79.37	76.67	80.95
Non-Listed Issuers	82.14	70.70	73.33	73.34	69.45	76.67	68.06

Table 2: Key

Leadership Rating (75% and above)

Good Rating (between 65% and 74%)

Fair Rating (between 51% and 64%)

Needs Improvement (50% and below)

The Banking Sector scored a Leadership Rating in all Principles except Board Operations and Control where it scored a Good Rating. This is a decline from last year where it scored a Leadership Rating in all principles. This can be attributed to the fact that most issuers in this sector are group entities and some of their independent directors and non-executive directors serve as directors within the group contrary to the requirements of independent directors and non-executive directors in the Capital Markets (Public Offers, Listings and Disclosures) Regulations, 2023.

The Insurance Sector also experienced a decline. While it achieved a *Leadership Rating* across all principles last year, this year it attained a *Leadership Rating* in most principles but scored a *Good Rating* in *Board Operations and Control* and *Stakeholder Relations*.

The Construction and Allied Sector demonstrated notable improvement across four principles compared to last year:

- Commitment to Good Corporate Governance: improved from a Fair Rating to a Good Rating.
- Stakeholder Relations: improved from a Needs Improvement Rating to a Fair Rating.
- Ethics and Social Responsibility: improved from a Fair Rating to a Good Rating.
- Transparency and Disclosure: improved from a Good Rating to a Leadership Rating.

Notably, the Stakeholder Relations Principle showed a decline across several sectors, including the Construction & Allied Sector, Energy & Petroleum Sector, Insurance Sector, Investment and Investment Services Sector and the Non-Listed Issuers Sector. This would be attributed to the fact that most issuers did not disclose or demonstrate how they engaged institutional investors as stakeholders to promote enhanced levels of corporate governance in line with the Stewardship Code for Institutional Investors 2017.

7. DEVELOPMENTS ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)



1. On November 14, 2024, ICPAK officially launched the Roadmap for the adoption of the IFRS Sustainability Disclosure Standards, IFRS S1 and S2. As a key stakeholder in the phased adoption of IFRS S1 and S2, the Authority is committed to guiding this process by providing a clear and practical implementation plan aligned to the roadmap to ensure a smooth and effective transition within the capital markets sector.
2. IFRS S1 and IFRS S2 are designed to set a global baseline to enable companies report on sustainability-related risks, climate-related risks. Since the launch of the standards by ISSB and subsequently by ICPAK in September 2023, a National Sustainability Reporting and Climate Change Steering Committee (NSRCCSC) has been established to oversee the adoption of the standards.
3. To demonstrate the global concern around this topical issue, the International Sustainability Standards Board (ISSB) Chairperson, Mr. Emmanuel Faber, visited Kenya in March 2024 and participated in an event hosted by the Institute of Certified Public Accountants of Kenya (ICPAK), the Authority and the Nairobi Securities Exchange. The discussion focused on the role of the African region in the development and implementation of the ISSB's work.

4. Kenya has committed to sustainable development through the National Green Economy Strategy and Implementation Plan (2016–2030) which focuses on the integration of sustainability into all sectors of the economy including the capital markets. The Authority is committed to advancing this agenda by embedding sustainability into the fabric of the country’s capital markets. As part of this commitment, the CMA has been actively promoting the integration of ESG factors into investment decision-making, corporate reporting and business operations.
5. It is encouraging to note that several listed companies in Kenya are taking ESG seriously and they are implementing various initiatives to promote sustainable practices. For instance, some companies have been implementing energy-efficient initiatives, promoting waste reduction, and investing in renewable energy. Some companies are also adopting sustainable supply chain practices, such as sourcing materials from sustainable sources.
6. In partnership with FSD Kenya, the Authority is currently conducting a deep dive ESG assessment to evaluate ESG practices and delve into the broader landscape of the capital markets ESG ecosystem.
7. In partnership with FSD Kenya, the Authority is also undertaking a detailed carbon market assessment, a deep dive into carbon markets in Kenya to assess the complete carbon market ecosystem, stakeholder mapping, demand, supply and risks and opportunities analysis.

8. EMERGING ISSUES AND NEW DEVELOPMENTS IN GOVERNANCE

Emerging Issues/New Developments	
Mandatory Nature of the CG Code	The Authority notes that Clause 8.1 of the Thirteenth Schedule of POLD Regulations 2023 provides that issuers shall comply with the CG Code and as may be amended from time to time and any other Codes as may be prescribed by the Authority for specific issuers or segments.
Review of the CG Code	The Authority is in the process of reviewing the CG Code to align with the Capital Markets (Public Offers, Listings and Disclosures) Regulations, 2023 and incorporate Environmental, Social and Governance (ESG) practices to be adopted by issuers. Consequently, the Authority has requested for comments on any proposed amendments to the CG Code to align with best practices and address emerging issues. Stakeholders are encouraged to share their proposals through issuergovernance@cma.or.ke
Assessment of Independent Non-Executive Directors (INEDs)	The Authority notes that in the year under review, the designation of INEDs and compliance with POLD Regulations and the CG Code proved to be a bone of contention. The Authority received feedback on the need to assess the 'independence' of the INED as provided in best practice rather than the prescriptive approach adopted in Clause 2.4.1 of the CG Code on who an INED as per the list provided therein. While taking into consideration the local context and cultural values, the Authority will explore such proposals and stakeholders are encouraged to send their feedback through issuergovernance@cma.or.ke
Representation of Shareholders on Boards/ Foreign Shareholders in Boards	<p>As provided in the CG Code, the composition of the Board shall not be biased towards representation by a substantial shareholder but shall reflect the company's broad shareholding structure and that the composition of the Board shall provide a mechanism for representation of the minority shareholders without undermining the collective responsibility of the directors.</p> <p>The Authority is cognizant that various Articles of Associations for Issuers provide that shareholders may nominate their representatives in Boards of Directors, and this is still the case under POLD Regulations 2023 and the CG Code. The only legal limitation to this privilege for shareholders is that such Non-Executive Directors seconded shall not</p>

	<p>be employees or executive directors of related entities. Related entities, relation to a company, is any entity which is its holding company, subsidiary, subsidiary of its holding company, or any person who controls that company whether alone or with such person's related parties. Therefore, in nominating various Non-Executive Directors, the board and shareholders should take into consideration this limitation.</p>
<p>Shareholders' Approval of Policies under POLD Regulations, 2023.</p>	<p>During the year under review, the Authority brought to the attention of issuers the need for shareholders' approval for specified policies and procedures under Clause 8.21 of the Thirteenth Schedule of POLD Regulations, 2023. The Authority reiterates that this is not a new requirement as this was provided in Clause F.13 of the Fifth Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002. (repealed Regulations).</p> <p>While appreciating that shareholders ordinarily delegate such powers to approve policies to the Board of Directors, the Authority contends that this shall not be the case for the policies and procedures listed in Clause 8.21 of the Thirteenth Schedule of POLD Regulations 2023. The Authority is available for consultations on how issuers shall implement this provision.</p>
<p>Gender Diversity of Boards</p>	<p>The CG Code requires that Boards achieve diversity including gender parity. The Authority received feedback from issuers recommending that the diversity requirement be amended to make gender diversity a mandatory obligation for all issuers.</p> <p>The Authority plans to engage stakeholders, including issuers, to assess the feasibility of incorporating this proposal into the CG Code, along with other recommendations, as part of the upcoming review of the CG Code.</p>
<p>Compliance Officers</p>	<p>Pursuant to Regulation 33 (1) and 97 of POLD Regulations 2023, issuers are expected to appoint, engage or designate a person to be the issuer's compliance officer within one (1) year of the effective date of the Regulations. The Compliance Officer shall ensure the compliance of the issuer with the obligations under the Regulations, the Capital Markets Act and any relevant written law during the period that the issuer's securities are listed. The obligations of the Compliance Officer are distinct from those of a Company Secretary as the latter is expected to</p>

	assist the Board by ensuring adherence to Board policies and procedures.
Limitation on the Number of Listed Companies a Company Secretary Can Serve	Clause 2.3.9 of the CG Code provides that the Board shall be assisted by a suitably qualified and competent company secretary who is a member of the Institute of Certified Secretaries of Kenya (ICSK) in good standing. The CG Code does not put a limit on the number of listed companies the company secretary can support. The CG Code places a limitation for directors in listed companies to ensure the effective participation by such directors in the Board. Noting the critical role of company secretaries in entrenching good corporate governance practices for issuers, the Authority in consultation with stakeholders shall be proposing a similar limitation for company secretaries.
Demonstrated Commitment to Governance Excellence	Many issuers have published comprehensive sustainability reports, showing transparency and their alignment with global sustainability goals. This is commendable even as the Authority is in the process of developing an overarching ESG legal and regulatory for the capital markets sector.

9. KEY OBSERVATIONS AND CHALLENGES



a) Board Composition and Appointment of Non-Executive Directors

While not undermining the collective responsibility of the Board, Non-Executive Directors play a pivotal role in enhancing governance by offering independent oversight (free from management affiliation) and strategic guidance to the board. However, recent trends reveal the appointment (secondment) of Executive Directors and employees from related entities, as Non-Executive Directors of a number of issuers.

Such appointments could compromise the independence of the board and erode its capacity to exercise independent oversight, which shall not be curtailed by the employer-employee relationship within the group.

Further, this practice raises significant concerns about compliance with Regulation 2 of POLD Regulations, 2023, which explicitly defines a Non-Executive Director as a board member who is **not** an Executive Director or an employee of a related entity. Related entity is defined in relation to a company as holding company, subsidiary, subsidiary of its holding company or any person who controls that company whether alone or with such person's related parties.

Clause 2.1.3 of the CG Code emphasizes that board composition should mirror the company's broad shareholder structure and not disproportionately represent any substantial shareholder. This principle is critical in preventing undue influence and ensuring balanced decision-making in the Board of Directors.

While issuers have expressed concerns that excluding representatives from affiliated entities may limit the ability of significant shareholders to safeguard their interests, it is important to note that the regulations still allow for qualified professionals from such entities to serve as Non-Executive Directors, provided they do not hold executive roles or employment within related entities.

Issuers are encouraged to evaluate the qualifications, independence and objectivity of potential Non-Executive Directors rigorously. By doing so, they can ensure compliance with regulatory frameworks while also leveraging the expertise and perspectives needed for effective governance and sustainable growth.

b) The Role and Effectiveness of Company Secretaries

The Company Secretary plays an important role in ensuring that the board adheres to governance practices and regulatory requirements. Their responsibilities, as outlined in the CG Code, include offering procedural and regulatory guidance, facilitating effective communication between the issuer and shareholders, coordinating governance audits and maintaining essential records such as the conflict-of-interest register. Additionally, the Company Secretary is tasked with supporting board evaluations, managing the issuer's seal and ensuring the timely preparation of board and committee minutes.

However, concerns have emerged regarding compliance with the professional organizations, in this case the Institute of Certified Secretaries (ICS). The CG Code requires that the Board shall be assisted by a suitably qualified and competent company secretary ICS in good standing.

Membership and being in good standing with ICS is fundamental, as it reflects ongoing professional development and compliance with the Institute's code of ethics. A lapse in this standing undermines their credibility and their ability to offer robust governance guidance.

Further, there is an increased trend of Company Secretaries serving multiple organizations concurrently. While their expertise is invaluable, the potential for overcommitment raises concerns about their ability to provide dedicated and effective service. Juggling responsibilities across various entities may lead to delays in fulfilling critical duties, a diminished focus on company specific needs and ultimately, a reduction in the quality of governance support provided to Boards. The Authority will be seeking stakeholder input regarding the limitation of

the number of listed companies a company secretary can serve as is the case for directors under the CG Code.

c) Independent Non-Executive Directors and Protection of Minority Shareholders

To ensure effective corporate governance and the protection of minority shareholders, it is essential that the Board complies with the requirement that at least one-third of its members be Independent Non-Executive Directors (INEDs). These directors play a critical role in providing an independent perspective on the Company's decisions and ensuring that minority shareholders, who may not have a direct voice, are adequately represented and protected.

The recent corporate governance assessments highlighted that some companies are not meeting this requirement as either they do not have adequate INEDs or the designated INEDs do not comply with the requirements of the CG Code and POLD Regulations 2023.

To align with the CG Code and POLD Regulations 2023, issuers should review and restructure their Board composition to ensure that at least one-third of the Board consists of INEDs who comply with the criteria under the CG Code and POLD Regulations 2023. This restructuring will enhance the representation of minority shareholders, safeguarding their interest in decision-making processes while not undermining the collective responsibility of the Board.

Additionally, the POLD Regulations, 2023 amended the tenure limit for INEDs from the previous nine years to six years. The Authority vide Circular No. 06 of 2024 guided that this provision shall apply prospectively to new appointments to the Board and that INEDs who had been appointed for nine (9) years tenure, shall continue to serve as such. This was in cognizance of the need to ensure smooth transition and minimize disruptions in Board activities.

Finally, to comply with these changes in POLD Regulations 2023, issuers should update their Board Charter, policies for annually assessing independence and Nominations Committee's Terms of Reference.

d) Evaluation of Board Members' Performance

The annual evaluation of the Board of Directors, including the Chairperson, Board Committees, individual Board members, the CEO and the Company Secretary, is a critical component of effective corporate governance. It helps ensure that the Board functions properly, identifies areas for improvement and supports ongoing development plans to address identified gaps.

The CG Code requires that the Board conduct this evaluation annually and that the results are used to inform decisions on the performance and development needs of the Board members.

While some Issuers are in the process of conducting their annual Board evaluation, it is essential that all companies ensure this evaluation is completed on time. The findings from this evaluation along with the necessary disclosures in the Annual Report are crucial for shareholders to make informed decisions about retaining Board members during the Annual General Meeting. Further, these disclosures help shareholders assess the effectiveness of the Board and ensure that the evaluation criteria have been met.

Additionally, it is important for Issuers to regularly review and update the parameters for the evaluation to stay aligned with evolving corporate governance practices. Engaging independent certified governance audits specialists can further enhance the process, ensuring it remains robust and in line with best practices.

e) Audit Committee's Interaction with External Auditors

An essential aspect of corporate governance is the Audit Committee's interaction with the external auditors, especially in ensuring the independence and transparency of the audit process. The CG Code requires that the Audit Committee meets with external auditors without the presence of management at least once during the year. This provision ensures that auditors can discuss their findings freely and without any influence from management, promoting transparency and safeguarding the integrity of the audit.

In some instances, it has been noted that companies disclose the attendance of Audit Committee members at meetings but fail to provide details on whether the Audit Committee met with the external auditors independently of management. This raises questions regarding whether the requisite independent discussions took place, as stipulated in the CG Code. Issuers are encouraged to provide clear disclosure of such meetings to demonstrate compliance with the CG Code and to ensure the integrity of the audit process.

f) Membership of Board Committees- Changes and Implications

Corporate governance is evolving and one of the most notable recent changes is in the membership composition of Board Committees, especially the Audit Committee and Nominations Committee.

Previously, the CG Code required the Audit Committee to consist of at least three Independent and Non-Executive Directors whereas under the POLD Regulations 2023, the Audit Committee must have at least one-third of its members as independent directors, instead of a fixed number. This change effectively decreases the emphasis on the absolute number of independent members and introduces flexibility in committee composition taking into consideration the

different sizes of Issuers, while maintaining the crucial requirement of independence. The Authority will be amending the CG Code to be in tandem with POLD Regulations 2023.

The Nominations Committee has also seen a shift in its composition under the POLD Regulations 2023. The CG Code previously recommended that the Committee be composed mainly (50%+1) of Independent and Non-Executive directors. However, the POLD Regulations 2023 requires that at least one-third of the Nominations Committee members be Independent Directors. This change further emphasizes the proportionality of independence rather than a majority in the composition of committees responsible for selecting new board members and evaluating existing directors.

Although the shift to one-third may appear to reduce the role of Independent Directors, it is an important regulatory change designed to align with broader trends in corporate governance while also taking into consideration the sizes of issuers and their board of directors which may cause compliance difficulties by placing a specified number.

The changes to the Audit Committee and Nominations Committee under the POLD Regulations, 2023, signify a shift toward more flexible governance structures while still preserving the need for independence in key committees. While these changes offer greater flexibility to issuers in structuring their committees, they also raise important questions about the potential dilution of independent oversight. Issuers must carefully review their Board Committee compositions to ensure they still provide robust and impartial governance.

In practice, this change could lead to some issuers rethinking their governance structures, ensuring that even with fewer independent directors, the Audit and Nominations Committees continue to effectively represent shareholders' interests. As corporate governance continues to evolve, it will be important for issuers to stay vigilant, ensuring compliance while also promoting the integrity of their decision-making processes.

g) Board Committees Leadership

The practice of having the Chairperson of the Board also serving as the Chairperson of key Board Committees can potentially undermine the effectiveness of these committees. It is advisable for issuers to appoint different individuals to the role of Board Chairperson and the leadership of significant committees such as the Nomination Committee and Audit Committees. This separation ensures that the committees operate independently, free from undue influence and enhances the overall checks and balances within the governance structure.

For instance, the Chairperson of the Board may hold considerable authority and when serving as the Chairperson of a committee, this could affect the objectivity of committee decisions, especially in sensitive areas like board appointments.

To maintain strong governance practices, it is recommended that companies consider selecting other Directors as the Chairpersons of their committees to foster independent decision-making and promote transparency. This approach supports the integrity of governance processes and aligns with principles that prioritize accountability and robust oversight.

h) Inconsistencies in Director Designation across Company Documents

A common issue observed this year involves discrepancies in the designation of Directors across various company documents such as the Annual Report and the Company's website. In some instances, the same Director is inconsistently referred to with varying titles, being labeled concurrently as an Independent Non-Executive Director (INED) and a Non-Executive Director (NED).

Such discrepancies can create confusion for stakeholders and therefore it is essential that companies review and correct any discrepancies in the designation of their directors across all platforms, including official publications and online presence. Ensuring consistency in these designations not only promotes transparency but also strengthens the company's adherence to corporate governance standards, providing clearer and more reliable information for stakeholders.

Further, the Authority reiterates that POLD Regulations 2023 obligates issuers to make a public announcement regarding important changes to the role, functions or responsibilities of a director. Therefore, in the event that an issuer wishes to re-designate a Director, say from an INED to NED after the lapse of their tenure, such a change shall be communicated to shareholders and stakeholders through a public announcement.

i) Legal and Compliance Audits

A growing concern observed among issuers is the inconsistent application of legal and compliance audits in line with the required alternating schedule between internal and independent legal and compliance audits. The CG Code requires that issuers conduct an independent legal and compliance audit every two years, with internal audits carried out in the alternating years.

This gap in compliance can create a situation where critical legal and regulatory risks may go undetected, compromising companies' governance standards. Further, there is an important emphasis on ensuring that independent legal and compliance audits are carried out by qualified

legal professionals who are in good standing with the Law Society of Kenya (LSK). This is key to ensuring the audit is objective, thorough and in line with the best practices in corporate governance.

Additionally, these audits should be aligned with the financial year end of the company, ensuring that audit results are incorporated into the company's Annual Report in a timely manner. Aligning the audit cycle with the financial year will enable companies to have up-to-date compliance information, which is vital for stakeholders and regulators. This adjustment also promotes a more streamlined process of audit scheduling and reporting.

It is essential for issuers to understand that compliance with the audit schedule is not just a regulatory requirement but also a strategic necessity to uphold corporate integrity, stakeholder trust and market reputation. By adhering to this framework, companies can ensure they remain transparent and accountable, mitigating the risk of legal or financial complications that may arise from non-compliance.

j) Governance Audits

The governance audit cycle plays a critical role in ensuring companies maintain strong corporate governance practices. The Authority has provided guidance through *Circular No. 01 of 2020*, recommending that governance audits be conducted every two years. These audits are essential for assessing a company's compliance with governance standards and identifying areas for improvement.

It is essential for issuers to ensure that governance audits are performed by competent professionals accredited by the Institute of Certified Secretaries (ICS), as this maintains the integrity and effectiveness of the audit process within the prescribed audit cycle.

Following the governance audit, the Board should include an explicit statement in the Annual Report regarding the company's level of compliance with governance practices for that financial year. Additionally, the governance auditor should issue an independent governance audit opinion in the annual report. This opinion should evaluate the company's adherence to corporate governance principles, identify any material deficiencies and provide recommendations for improvement. This inclusion reinforces transparency and demonstrates a commitment to upholding high standards of corporate governance.

k) Appointment of Compliance Officers

The POLD Regulations 2023 require that an issuer shall appoint, engage or designate a person to be the issuer's compliance officer. A compliance officer is defined as a person engaged by an issuer to ensure the company meets its obligations under POLD Regulations 2023 and the

relevant Act. Following the issuance or listing of securities, it is mandatory for issuers to appoint, engage or designate an individual for this role.

The compliance officer will play a crucial role in educating the board of directors about their responsibilities, including the continuing disclosure obligations. They are tasked with ensuring that the board members undergo training in corporate governance within six months of their appointment. Additionally, the compliance officer shall attend all audit committee meetings in an advisory capacity, ensuring that meetings are conducted in compliance with listing obligations.

Given the complexity of the duties of a compliance officer under POLD Regulations 2023, it is important to note that the roles of the Compliance Officer and Company Secretary, while complementary, be performed by separate individuals. Combining the roles of Company Secretary and Compliance Officer may present potential conflicts of interest, as the individual tasked with reviewing compliance processes may also be involved in executing those processes.

Further, as Clause 8.1 of the Ninth Schedule of the POLD Regulations 2023 which references the Board Secretary and the Compliance Officer as distinct roles, it is advisable that these positions be held by separate individuals to maintain objectivity and independence in fulfilling their responsibilities. Issuers should approach any potential combination of these roles cautiously, ensuring that compliance functions are carried out impartially and in the best interest of good corporate governance.

l) Ensuring Internal Controls through the Internal Audit Function

The internal audit function is a critical component of any organization's governance structure. It ensures that a company's internal controls operate effectively and comply with applicable laws, regulations and internal policies. According to the CG Code, the Board is required to establish an internal audit function that reports directly to the Audit Committee. This function can either be internally based or externally sourced but must be led by a qualified head of internal audit who has relevant accounting or auditing qualifications.

Internal auditors play a key role in providing assurance to the Board about the effectiveness of internal controls. They are required to carry out their duties in accordance with international standards, such as the International Standards in Auditing (ISA), the Institute of Internal Auditors (IIA) standards and the Code of Ethics and Conduct. This helps ensure that audits are performed with the highest level of professionalism, integrity and due care.

In line with the CG Code, it is essential for the Boards of Directors to identify and disclose the head of internal audit, ensuring that the individual possesses the appropriate qualifications to

provide assurance on the effectiveness of internal controls. To this end, it is recommended that the identity of the head of internal audit along with their qualifications be disclosed in the company's Annual Report and on its website.

m) Ensuring Transparency in External Auditor Appointments

The role of external auditors is critical in ensuring the integrity and transparency of a company's financial reporting. As part of maintaining robust governance practices, the Corporate Governance (CG) Code recommends that companies rotate their independent auditors every six to nine years. This guideline helps ensure auditor independence and minimizes the risk of complacency or over-familiarity between the auditors and the company's management.

A key aspect of this process is the transparency in the appointment and reappointment of external auditors, which should be clearly communicated to shareholders. According to the CG Code, the Board is required to disclose the duration of the external auditor's service in both the Annual General Meeting notice and the Annual Report. This disclosure provides shareholders with essential information, allowing them to assess the appropriateness of re-appointing auditors based on their tenure and whether the recommended rotation period is adhered to.

There has been a lack of clarity on the duration of service of external auditors prior to their appointment or reappointment. This absence of disclosure hinders shareholders from making informed decisions about the continued engagement of the external auditors. As a matter of best practice, it is recommended that the Board includes the number of years the external auditors have served in the company's Annual Report and AGM notice. This will enable shareholders to consider the auditor's tenure and ensure that the company complies with the six-to-nine-year rotation period outlined in the CG Code.

n) Enhancing Transparency in Policy Disclosures

In today's environment, effective corporate governance is not only about meeting the minimum legal requirements but also about fostering transparency and accountability through comprehensive disclosures. A growing trend among companies is the reluctance to disclose key policies, particularly on their websites, despite the significant role these disclosures play in reinforcing stakeholder trust and ensuring regulatory compliance.

The CG Code emphasizes the importance of making key policies readily available to the public, particularly on company websites and within the annual reports. This practice enhances transparency and provides stakeholders with valuable insights into how the company operates, manages risks and makes decisions. Despite this requirement, some companies have been

found not to disclose essential policies such as conflict-of-interest policies, risk management policies, procurement policies and information technology policies.

This lack of transparency can raise concerns among investors, regulators and other stakeholders who rely on this information to assess the company's commitment to best corporate governance practices.

As a matter of best practice, the Board should ensure that these key policies are not only disclosed in the Annual Report but also prominently featured on the company website. This allows stakeholders to easily access and review the company's commitment to transparency, governance and responsible business practices.

Boards of Companies should aim to go beyond the minimum disclosures required by law, as per the CG Code which requires issuers to continuously strive for higher standards of governance and disclosure, fostering an environment of openness and trust with stakeholders.

o) Periodic Review of Board Charter and Board Committees' Terms of Reference

It is essential for a company's governance framework to maintain clarity, relevance and adaptability to emerging corporate governance practices and business needs. As part of this process, periodic reviews of the Board Charter and the Terms of Reference (TORs) for Board Committees are crucial. The CG Code requires that these documents be updated regularly to reflect any new developments in the company's operations or governance practices.

As a best practice, it is recommended that the Board Charter be reviewed every two years to ensure it remains aligned with current corporate governance standards and practices. Additionally, for the Board Charter to reflect accountability and ownership, it is crucial that it is signed by the Chairperson of the Board as a representative of the Board.

p) The Importance of ESG Policies for Companies

In today's evolving business landscape, companies are increasingly being held accountable not only for their financial performance but also for their impact on the environment and society. The Corporate Governance Code emphasizes the importance of having robust Environmental, Social and Governance (ESG) policies. The Board is required to ensure that the company discloses its ESG policies and their implementation in both the annual report and on the company website. This requirement highlights the growing demand for corporate transparency and responsible business practices.

Having an ESG policy is not just a regulatory requirement but also a strategic advantage. A well-defined ESG framework can attract investors who prioritize sustainability and ethical business

practices. In addition, such policies help companies mitigate risks associated with environmental regulations, social challenges and governance issues, fostering long-term business resilience.

For companies, adopting ESG policies can enhance their reputation, build trust with stakeholders and position themselves as leaders in corporate responsibility. In turn, this can result in improved investor confidence, better access to capital and the ability to attract new investors who are increasingly focused on sustainable and responsible investment practices. Ultimately, embracing ESG principles not only contributes to a better society and environment but also supports a company's growth and market competitiveness.

q) Engagement with Institutional Investors, A Key Governance Requirement

Issuers of securities to the public should prioritize clear and proactive engagement with institutional investors. This engagement is a crucial aspect of corporate governance, as institutional investors play a significant role in promoting accountability and responsible ownership on behalf of their clients or beneficiaries. According to Clause 3.3.1 of the Corporate Governance Code, companies are required to facilitate such engagements, especially in areas such as performance discussions, corporate governance matters and ensuring active participation in voting during Annual General Meetings.

Despite the importance of this practice, a number of companies do not clearly disclose their approach to institutional investor engagement, which is critical for several reasons. Institutional investors are expected to act as stewards, ensuring that the companies they invest in uphold strong governance standards and make decisions in the best interest of all shareholders. Without this engagement, institutional investors may not be able to effectively carry out their stewardship responsibilities.

For best practice, it is recommended that issuers disclose detailed information about how they engage with institutional investors in their annual reports and on their websites. This disclosure should outline the mechanisms in place for communicating corporate performance, addressing governance issues and promoting active participation in AGM voting. These actions not only comply with the Stewardship Code but also enhance transparency, foster stronger investor relations and ultimately support the long-term success of the company.

Such transparency is beneficial, as it strengthens trust between the company and institutional investors, aligning governance practices with the expectations of market participants. By ensuring that institutional investors are properly informed and involved, issuers can help drive better corporate governance outcomes and attract long-term investment.

r) Integration of Ethics Risk Profile in Risk Management and Disclosure of Ethics Performance

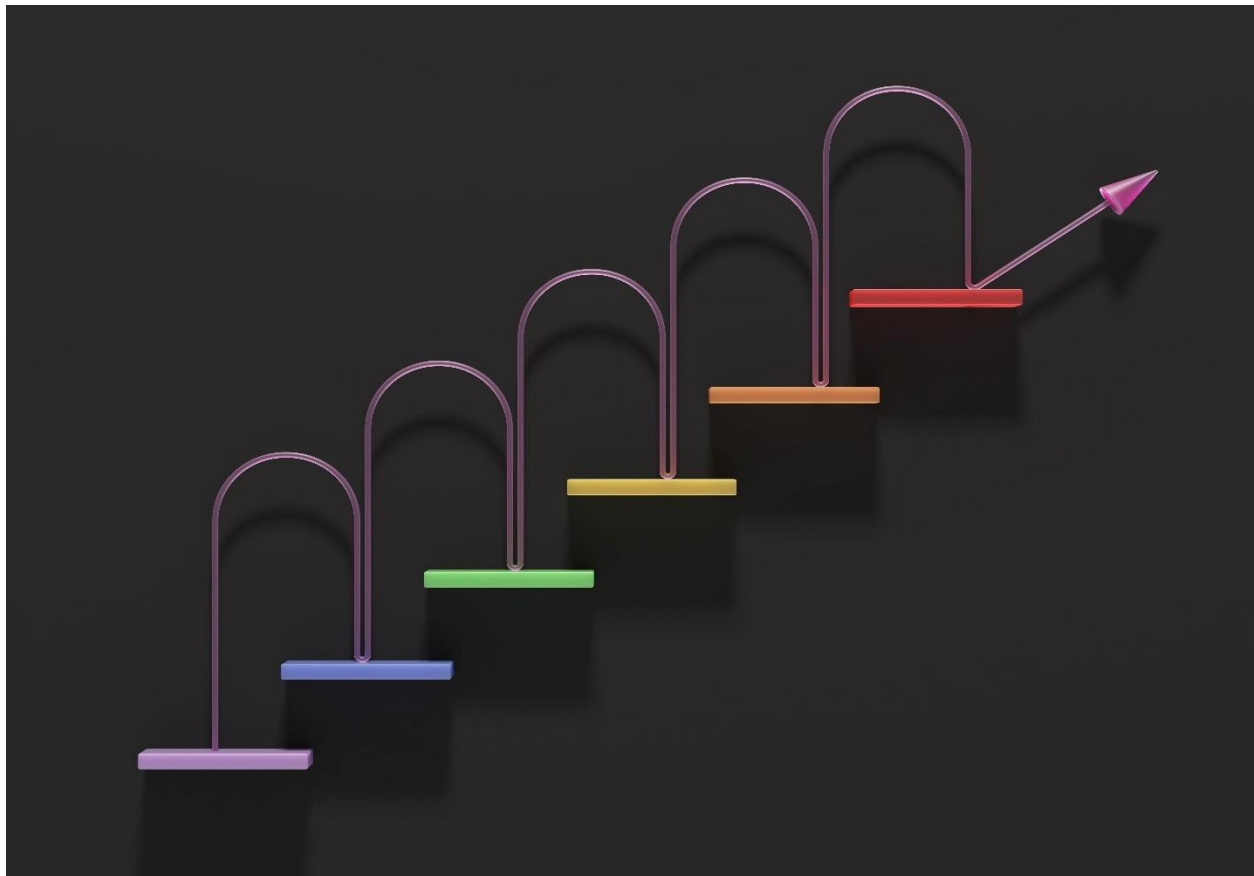
An effective risk management framework is crucial for companies to manage a range of business risks, including ethical risks, which have become increasingly important in corporate governance. It is essential for issuers to not only identify and assess the risks related to ethics but also to integrate these considerations into the broader risk management process. This includes identifying both negative ethical risks (threats) and positive ethical risks (opportunities), which helps companies mitigate threats while capitalizing on opportunities that can enhance their reputation and long-term sustainability.

In line with the best governance practices, the Board should ensure that the company develops and integrates an ethics risk profile into its overall risk management framework. This ethics risk profile would provide a comprehensive view of the ethical risks that the company faces, allowing it to proactively address potential threats and take advantage of opportunities that align with its values and business objectives.

It is equally important for companies to assess their performance on ethics and disclose these findings transparently to both internal and external stakeholders. This can be achieved through the Annual Report, which should include key metrics on ethical performance, compliance with ethical standards and any corrective actions that have been taken in response to identified ethical challenges. Disclosing this information reinforces the company's commitment to maintaining high ethical standards and ensures accountability.

By regularly reporting on ethics, companies not only demonstrate their commitment to corporate responsibility but also build trust with their stakeholders. This aligns with the best practices outlined in corporate governance codes, which emphasize the need for transparency, ethical conduct and the integration of ethical considerations into risk management.

10. NEXT STEPS AND FUTURE FOCUS AREAS



a) Exemptions for Independent and Non-Executive Directors

The implementation of the Capital Markets (Public Offers, Listings and Disclosures) Regulations, 2023 introduced revised definitions for Independent Directors and Non-Executive Directors, impacting the compliance status of some issuers. The Authority recognizes that adjusting Board composition to align with these updated definitions can be a time-intensive process, requiring careful planning to maintain continuity and avoid disruptions to strategic initiatives.

In line with the "Apply and Explain" approach, and considering the explanations provided by affected issuers **on a case-by-case basis**, the Authority is amenable to granting a one-year exemption for directors who currently do not meet the new definitions under Regulation 2 of the POLD Regulations, 2023.

Issuers are expected to use this period to ensure compliance with the updated requirements. By the end of the one-year exemption period, all Independent and Non-Executive Directors appointed to the Board must fully meet the criteria set out in Regulation 2 of the POLD Regulations, 2023, thereby reinforcing the integrity of governance structures.

b) Adoption of IFRS S1 and S2 Standards

With the release of the roadmap for the adoption of the IFRS Sustainability Disclosure Standards in Kenya in November 2024, the newly introduced IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures) have officially been incorporated into the country's sustainability reporting framework. The roadmap outlines a phased timeline for mandatory adoption, with the earliest implementation date set for January 1, 2027, depending on the category of the organization.

Issuers are therefore encouraged to begin embedding sustainability into their business strategies by identifying and understanding the sustainability risks, opportunities, and impacts relevant to their operations and transparently reporting on the outcomes. A critical component of this process is conducting readiness assessments, which involve evaluating organizational preparedness for compliance with the reporting standards. These assessments should address key factors, including capacity building, the development of robust data strategies, assurance readiness, risk management frameworks, and proactive stakeholder engagement.

The Capital Markets Authority fully supports the adoption of these standards and recognizes their importance in driving enhanced transparency, consistency, and comparability in sustainability disclosures. The Authority encourages issuers to proactively strengthen their preparedness for the transition by investing in necessary resources, training, and systems to meet these reporting requirements.

c) Updating the Code of Corporate Governance Practices for Issuers into an ESG Code and Enhancing the NSE ESG Guidelines

In recent years, Environmental, Social, and Governance (ESG) matters have gained significant global traction as investors, regulators, and other stakeholders increasingly prioritize sustainable and responsible business practices. The integration of ESG considerations into governance frameworks has become a critical factor for fostering trust, resilience, and long-term value creation in capital markets.

Recognizing this paradigm shift, the Capital Markets Authority, in collaboration with the Nairobi Securities Exchange (NSE) and other relevant stakeholders, has embarked on a process of updating the Code of Corporate Governance Practices for Issuers of Securities to the Public into a more comprehensive ESG Code. Simultaneously, the NSE ESG Guidelines will be updated to align with evolving global ESG reporting obligations and governance standards.

By transitioning the current Code of Corporate Governance into an ESG Code, the framework will expand beyond governance-focused principles to encompass critical environmental and social factors. The updated ESG Code and the NSE ESG Disclosure Manual accompanying disclosure guidance manual will provide issuers with clear legal and regulatory frameworks to address key areas such as environmental and social (E&S) risk management, sustainability, and the integration of ESG factors into corporate strategies.

These updating efforts will also seek to harmonize the ESG Code with the gazetted POLD Regulations 2023 by addressing any gaps or inconsistencies between the two frameworks. Ensuring alignment between these regulatory instruments will provide issuers with a cohesive and streamlined framework that simplifies compliance, reduces ambiguity, and enhances the efficiency of ESG reporting.

In this regard, the Authority acknowledges the importance of incorporating stakeholder views (particularly from issuers) from a market perspective to ensure the updated frameworks are aligned with the practical needs of issuers, investors, and other market participants, ultimately fostering a conducive environment for ESG integration and sustainable capital market growth in Kenya.

d) Capacity Building for Board of Directors, CEOs and Company Secretaries of Issuers

As part of initiatives to demonstrate commitment to good corporate governance practices, the CG Code obligates the Board of Directors to ensure that all Directors, Chief Executive Officers and Management are made fully aware of the requirements of the Code. During the year, the Authority received queries on whether it can conduct sensitization sessions on the CG Code to Boards of Directors and Management of issuers. As part of the Authority's initiatives to enhance corporate governance practices amongst issuers, upon prior written request, the Authority is amenable to conducting such sensitizations on the requirements of the CG Code and new developments in the corporate governance.

e) Enforcement

The Authority will take decisive and appropriate enforcement action in response to violations of the Corporate Governance Code and any breaches of corporate governance continuous reporting obligations. To maintain transparency and promote accountability, details of such enforcement actions will be published as deemed appropriate. This approach is aligned with the Authority's commitment to fostering a robust corporate governance framework, enhancing investor confidence and ensuring the long-term stability and growth of Kenya's capital markets.



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