

THE CMA *Forum*

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Welcome to The CMA Forum, the official newsletter of the Capital Markets Authority.

- **This issue gives insights to the following:**
- **The proposed capital markets policy and regulatory changes in the 2008/9 Budget;**
- **Reforms being undertaken to strengthen CMA;**
- **Benefits associated with diversifying products and**
- **The major role the Authority plays in mobilizing savings and investment.**

As the Authority, we are charged with the prime responsibility of regulating and facilitating the development of an orderly, fair and efficient capital markets in the country. We therefore have a direct responsibility of supervising and monitoring the activities of the capital markets intermediaries including the Nairobi Stock Exchange (NSE).

The potential of the local capital markets is great as has been witnessed over the years where some of the counters have realized very impressive gains. These are some of the positive attributes that we strive to sustain.

We have therefore developed a feasible vision to make Kenya the leading financial hub in the East and Central Africa region by pursuing major reforms to strengthen our regulatory framework with the view to preserving market integrity and enhancing investor confidence.

This is in addition to establishing an integrated East African market an important strategy in line with the larger East African Community which includes Uganda, Tanzania, Rwanda and Burundi. This will in effect ensure a robust and facilitative regulatory framework which is critical for the maintenance of investor protection and confidence. Some of the measures we have proposed include:

- **The requirement that all market intermediaries that collect funds from the public, secure professional indemnity insurance to cover any liabilities arising from their negligence and omissions;**
- **Make corporate governance guidelines mandatory for licensees handling public funds and review capital adequacy requirements for licensees to reflect current markets dynamics.**

Similarly, relevant institutional and market infrastructure reforms have been initiated to enable the capital markets play a pivotal role in the country's economic recovery efforts.

This includes the automation of CMA processes through development of a workflow system and the adoption of risk-based supervision to ensure that inspection of our licensees is channeled to areas posing greatest risk to the market.

The Authority has further developed corporate governance guidelines to be adhered by all the listed firms at the Nairobi Stock Exchange. The guidelines are intended to enhance effectiveness, competitiveness and sustainability of corporations as well as enhancing shareholder value. They are also supposed to ensure that leaders act in the best interest of corporations and stakeholders.

Additionally, we seek to introduce new financial products to allow organizations to raise cheap and long-term capital. Equally, important, is to enhance the existing products, developing new products and advocating for privatization of more firms through the Nairobi Stock Exchange to broaden the ownership and allow investors share in the wealth created by these companies.

Investor awareness is vital, since market abuses and malpractices target the unsophisticated investor. The best way to protect such an investor is to raise his/her knowledge base and skills on issues related to investment in this sector.

As part of our investor education and awareness campaigns we have organized exhibitions to cover sectors of the economy such as



Stella Kilonzo - CMA's Chief Executive

Investment, Banking and Insurance. Such forums bring together diverse categories of players in the financial services industry that include insurance companies and insurance brokers, commercial banks, stockbrokers, fund managers, investment banks, the stock exchange, the Central Depository and Settlement Corporation among other private companies.

The Kenyan capital markets offer an array of investment products in the form of shares, bonds and unit trusts. The type of products chosen by the investor depends largely on his financial goals, time frame and amount of capital available.

Unit trusts, for instance, have grown in acceptance and popularity in recent years. This is evidenced by the growth in the number of approved unit trust funds from virtually zero in 2001 to 11 currently. Such products are the small investor's answer to achieving wide investment diversification without the need of prohibitive sums of money.

As markets become sophisticated and more volatile, unit trusts become safe havens for less sophisticated and less capitalized, conservative individuals in the market place.

These investment schemes, (managed by professional managers), pool money together from many investors. They earn income from the investments in form of dividends, interest income and capital gains.

Conscious of the need to broaden and deepen the capital markets in Kenya, as well as being responsive to the ever changing needs of the market, the Authority has undertaken a number of studies with the view to addressing key issues which include:

- **The viability and form of an Over the Counter Market**
- **The viability of Real Estate Investment Trusts**
- **The impediments to growth of Collective Investment Schemes Industry**
- **The operations of Stock broking agents in Kenya.**

These studies have been used by the Capital Markets Authority and its stakeholders to create an efficient system for service delivery due to their recommendations for appropriate policy and regulatory interventions. We are also pleased with the incentives the Government has extended to the capital markets in the past few years such as fiscal and tax measures to address the impediments to market growth.

On behalf of The CMA Forum Editorial Team, I would like to thank my fellow colleagues, licensees and readers.

What investors should know about Collective Investment Schemes

Background

The Kenyan capital markets offer an array of investment products in the form of shares, bonds and unit trusts. The type of products chosen by the investor to commit his capital depends largely on his financial goals, time frame, and amount of capital available. Unit trusts have grown in acceptance and popularity in recent years. This is evidenced by the growth in the number of approved unit trust funds from virtually zero in 2001 to 11 in 2008. Unit trusts are the small investor's answer to achieving wide investment diversification without the need of prohibitive sums of money. As a market becomes sophisticated and more volatile, unit trusts become safe havens for less, sophisticated and less capitalized, conservative individuals in the market place.

Name	Type of Fund(s)	Minimum Investment Amount (Kshs.)
African Alliance Kenya Unit Trust Scheme	<ul style="list-style-type: none"> • Shilling Fund • Fixed Income • Managed Fund • Equity Fund 	100,000 (all the funds)
Old Mutual Unit Trust Scheme	<ul style="list-style-type: none"> • Equity Fund • Money Market Fund • Balanced Fund 	100,000 (all the funds)
British American Unit Trust Scheme	<ul style="list-style-type: none"> • Money Market Fund • Income Fund • Balanced Fund • Equity Fund • Managed Retirement Fund 	250,000 (all the funds) 150, 000 and a top of 25,000 per month for four consecutive months.
Stanbic Unit Trust Scheme	<ul style="list-style-type: none"> • Money Market Fund • Flexible Income Fund • Managed Prudential Fund 	1,000,000 (all the funds)
Commercial Bank of Africa Unit Trust Scheme	<ul style="list-style-type: none"> • Money Market Fund • Equity Fund 	500,000 (all the funds)
Zimele Unit Trust Scheme	<ul style="list-style-type: none"> • Balanced Fund • Money Market Fund 	5,000 (Balanced Fund) 5,000 (Money Market Fund)
Suntra Unit Trust Scheme	<ul style="list-style-type: none"> • Balanced Fund • Money Market Fund 	100,000 (all the funds)
Suntra Unit Trust Scheme	<ul style="list-style-type: none"> • Balanced Fund • Money Market Fund • Equity Fund 	100,000 (all the funds)
ICEA Unit Trust Scheme	<ul style="list-style-type: none"> • Money Market Fund • Equity Fund • Growth Fund 	100,000 (all the funds)



The value of the fund or the price to be paid by unit holders or the amount to be received when the units are sold is based on the net asset value of the fund plus charges (if any)

This is the number that is currently operational and making the necessary reporting in the local dailies others who are licensed by CMA include CFC Unit Trust, Dyer and Blair Unit Trust and Standard Unit Trust

What Unit Trusts Are

A Unit Trust Fund is an investment scheme that pools money together from many investors who share the same financial objective to be managed by a group of professional managers who invest the pooled money in a portfolio of securities such as shares, bonds and money market instruments or other authorized securities to achieve the objectives of the fund. In exchange of the money received from the investors, the fund issues units to investors who are known as unit holders. The fund earns income from the investment in the form of dividends, interest income and capital gains. The underlying value of the assets of a Unit trusts is always directly represented by the total number of units issued multiplied by the unit price less the transaction or management fee charged and any other associated costs.

How a Unit Trust Works

To invest in a unit trust fund, investors buy units through the fund manager at the prevailing selling price which is calculated daily. These units can be bought any time as long as the fund has not reached its maximum approved size. Unit holders can also sell their units back to the fund manager at the prevailing buying price. It is because of this repurchase feature that units are called open-ended funds. The fund manager not only issues new units to incoming investors, they are also required to repurchase or redeem units from outgoing investors.

The value of the fund or the price to be paid by unit holders or the amount to be received when the units are sold is based on the net asset value of the fund plus charges (if any). It is important to note that in the case of funds where a substantial portion is invested in stocks and shares, the performance of the fund would be affected by the performance of the stock market. Hence, a unit holders selling price could either be higher or lower relative to the stock market's performance when units were bought.

How Unit Trust Fund earn income

The unit holders have the potential to earn money either by capital growth or dividend income. Each unit in the fund represents a slice or share of the fund's underlying portfolio of securities. Therefore if the value of the portfolio goes up, so does the value of each unit. This is called capital growth, or capital appreciation. If one sells the units at a higher price than they bought, a profit would be gained. The converse will mean a loss is incurred if the units are sold for less than price they were bought. Whatever income received by the fund from its investments may be passed on to unit holders as dividends. However, dividends are not guaranteed if the fund makes little or no income, it may not pay any dividend. Moreover, a fund that concentrates on achieving capital growth may have a policy of paying very little or no dividend at all. In such cases you may have to sell your units if you need to redeem some cash. It is therefore important to read the prospectus to find out the type of fund being offered and whether it matches your investment objectives.

The advantages of investing in unit trusts

Diversification

Investors in unit trusts can access a broader range of securities than they could when investing on their own. With a given amount of money, the individual investor can buy a small number of shares in a few companies. But when one's money is pooled with that of other investors, it gets spread out over many other companies. The loss made by a few counters can be absorbed by the gain made in other counters. The risk is therefore reduced and the investor can further reduce his risk by investing in other funds instead of just one fund.

Liquidity

There is ease in selling and buying the units compared with investing directly in shares of companies where prices and opportunities to transact depend on the supply and demand at that time.

Continuous professional management

Unit trusts are managed by a team of experienced professionals who manage the fund in a structured manner as opposed to the individual investor who may invest in a random fashion. Investment decisions made by fund managers are based on extensive research, and they continuously monitor the portfolio based on researched information.

Access to a broader array of assets

Unit trusts fund managers can trade in investment products that are normally inaccessible to the individual investor, such as government and corporate bonds, which may be restricted to institutional investors. Some of these products are traded in large amounts, which limit the individual investor even when he has the opportunity.

What information to look for

- The fund's investment objective and strategy, investment limits, its current portfolio and any commentary on its recent performance. This should also give you a rough idea of the risk level of the fund.
- Check the past performance of the fund. Do not pay too much attention to periods of a year or shorter.
- Look for good and consistent performance over the longer term. Be warned that the past success of a fund is no guarantee of good performance in the future.
- See if there are any specific features and constraints which may conflict your needs or preferences. For example, the fund may have a policy of not distributing dividends, the minimum investment required may be higher than what you want to invest or the procedures for buying and selling of units in the fund may be inconvenient.
- When deciding which fund to invest, you should also look for information on the shareholders, board of directors and key management staff of the fund manager.
- You should assess the financial strength, track record and expertise of the company and its staff.



Every investor has different goals, needs and constraints. Yet there are a number of general rules that every investor should follow for his or her protection;

Investing wisely

- Every investor has different goals, needs and constraints. Yet there are a number of general rules that every investor should follow for his or her protection;
- Read the prospectus carefully. Make sure you understand where and how your money is to be invested and the risks involved. You should be aware of how a unit trust works, the charges and fees involved and your rights as a unit holder. The Investment objectives must be clearly stated or it gives leeway to the fund manager not to carry out your intentions of choosing the fund.
- Ensure that you deal with only licensed fund managers. This will help you in the event that you are aggrieved by the actions of the fund manager for recourse from the relevant authorities.
- Do not rush into a decision. Resist pushy salespeople. Units are not only sold during the initial period but throughout the life of the fund, as long as the units in circulation do not exceed the approved limit.
- Keep good records of your investments and check any statements or certificates you receive to make sure they are correct.
- Be wary of representations of spectacular profit or guarantees that you will not lose money or will earn a certain minimum return.
- Resist any pressure to purchase a product that is inconsistent with your investment goals and the risk you want or can afford to take.
- Resist any pressure to invest a larger amount of money in unit trusts than you think you should, for example by borrowing at a higher margin.

Regulation of Unit Trusts

Only unit trusts schemes that are approved by the Capital Markets Authority may be offered for sale to the Kenyan public. Such schemes must comply with the Capital Markets Act Cap 485 A and also the Capital Markets (Collective Investment Schemes) Regulations, 2001. An approved fund can easily be identified by the cover of its prospectus which contains a statement that a copy of the prospectus has been lodged and approved by the Capital Markets Authority.

Although there are laws and guidelines to aid investor protection, it is ultimately investor's responsibility to evaluate the suitability, profitability and viability of an investment. An investor must read the information which is required to be provided in the prospectus and make the decision whether to invest or not, based on their own circumstance and attitude to risk.

The information contained in this article is meant to be a general guide in the interest of investor education. It should not be construed as constituting investment advice which can be obtained from one's investment adviser.

Bold reforms to strengthen regulator

The Capital Markets Authority (CMA) is pursuing major reforms to strengthen its regulatory framework in a bid to make Kenya the leading financial hub in the East and Central Africa region.

This grand plan is intended to ensure a robust and facilitative regulatory framework which is critical for the maintenance of investor protection and confidence. Like a new beginning, the eight-point reform agenda for the regulator, includes reviewing of the current legal and regulatory framework, and to enhance its enforcement, enforcement mechanisms and dispute resolution mechanisms. According to the Chief Executive Mrs Stella Kilonzo, in its short and medium term reform agenda the Authority in consultation with stakeholders will among others things be seeking to:-

- **Come up with prudential guidelines akin to those used in the banking sector.**
- **Require licensees to publish accounts.**
- **Require that all market intermediaries collecting funds from the public should secure professional indemnity insurance to cover any liabilities arising from their negligence and omissions.**
- **Require that all licensees appoint or designate a compliance resource/officer who will be responsible for ensuring that the licensee's operations are in compliance at all times**
- **Require licensees to fully automate their back offices.**
- **Make corporate governance guidelines mandatory for Licensees handling public funds**
- **Review capital adequacy requirements for licensees to reflect current markets dynamics**

The Authority also seeks to introduce new financial products to allow organizations to raise cheap and long-term capital. This will be achieved by enhancing the existing products, developing new products and advocating for privatization of more firms through the Nairobi Stock Exchange. Kilonzo sees the review of market structure to accommodate different classes of issuers and investors as critical in this process.

The Authority says that creating an enabling and

supporting environment is necessary to deepen the capital markets. Moving forward, CMA plans to establish an integrated East African market as an important strategy in line with the larger East African Community which includes Rwanda and Burundi.

The agenda also aims at facilitating cross-border transactions and harmonizing the legal and regulatory framework to give more confidence to a number of firms listed on two or more stock exchanges in the region.

Similarly, CMA has for the first time produced a CMA Handbook which attempts to define, in simple terms, some of the capital markets concepts and procedure to clearly bring out the role of the Authority in regulating and supervising the industry in the country.

"As a regulatory institution it is important that our regulatory framework, which we use to ensure that there is orderliness, fairness, efficiency and security in the capital markets industry is understood by both the current and potential players in the capital markets," says the Chief Executive. She adds, that the capital markets industry is a knowledge-based industry which calls for adequate and accurate information to deepening of the capital markets in the country.

CMA says that investor awareness is vital, since market abuses and malpractice target the unsophisticated investor. The best way to protect such an investor is to raise his/her knowledge base and skills on issues related to investment in equities.

Similarly, relevant institutional and market infrastructure reforms have been initiated to enable the capital markets to play a pivotal role in the country's economic recovery effort. This includes the automation of CMA processes through development of a workflow system which is currently underway, and the adoption of risk based supervision to ensure that CMA's resources are channeled to areas posing greatest risk to the market. CMA also indicates commitment to facilitating demutualization of the Nairobi Stock Exchange and have it self-list on the exchange.

“**As a regulatory institution it is important that our regulatory framework, which we use to ensure that there is orderliness, fairness, efficiency and security in the capital markets industry is understood by both the current and potential players in the capital markets.**”



CMA undertakes three key studies

Conscious of the need to broaden and deepen the capital markets in Kenya as well as being responsive to the ever changing needs of the market, the Authority has undertaken a number of studies with the view to addressing these issues. The demand for new products by investors in this market cannot be overemphasized. This is easily discerned from the recent Safaricom IPO where the issue was over subscribed by close to 400 percent. This is a clear demonstration of the fact that the current available financial products in our market cannot satiate the demand for them hence the need for more financial assets.

Real Estate Investment Trusts (REITs)

Real Estate Investment Trusts or “REITs” as they are sometimes called are Close ended investment companies with majority of their asset portfolio consisting of real estate. These Real Estate Investment Trusts are traded on an exchange. The share price can be at premium or discount to NAV. The risk/return profile is dependent upon underlying property portfolio.

These are products derived from the property market. In the recent past there has been an increased demand for investment in the property market which has largely been financed through bank finance. Most of these projects in property market are long term in nature and are therefore better financed when they are matched with long-term finance.

Out of this realization the players in this sector are now looking at the possibility of raising this long-term finance through the capital markets. This way the development of the property market will be enhanced besides providing new entry into the market where liquidity, diversification and high return are guaranteed. But without the requisite legal and regulatory framework this cannot be possible. In response to this need the Authority commissioned a study and organized a workshop to discuss this new concept with the view to collect, collate and incorporate the views of the stakeholders before any regulatory framework

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Real Estate Investment Trusts are traded on an exchange. The share price can be at premium or discount to NAV. The risk/return profile is dependent upon underlying property portfolio.

Collective Investment Schemes

Collective Investment Schemes are pooled investment funds by a group of investors, managed by professional fund managers with each investor entitled to a proportional share of the net benefits of ownership of underlying assets.

Collective Investment Schemes or Unit Trusts as they are sometimes called have emerged as an important investment vehicle in the recent past and have grown in popularity. Typically this product is meant for small investors who otherwise cannot access a wide array of investments given their small savings. Unfortunately the scenario in Kenya is such that they are more of institutional products than retail. To address this concern, the Authority commissioned a study to look into the factors that have constrained the growth of the CISs despite being introduced in 2001.

Stock broking Agents

The capital market in Kenya has witnessed a remarkable growth virtually in all parameters of market development. The market infrastructure is more efficient following implementation of the CDS and ATS. Investor numbers have continued to surge and market volume and turnover has been on a steady rise. Similarly, capital market intermediaries have expanded from the traditional stock brokers to new service providers such as investment banks, fund managers, investment advisors and authorized depositories among others.

There is however an emerging concern over the demand of stock broking services. As the market continues to expand, there is a growing interest in the provision of stock broking agency services. Stock broking agents have elicited past and recent concerns as to the framework under which they operate, and whether in their current role and capacity, the investor is protected.

In view of the above, and to further create an efficient system for service delivery, the Authority conducted a study into the role of agents in Kenya information provided of which will be used to recommend appropriate policy and regulatory interventions.



Highlights of the proposed capital markets policy and regulatory changes in the Budget 2008/2009

Issue	Amendments to the Act and Regulations	Clause/effective date
Issue	<ul style="list-style-type: none"> New definitions of the terms 'beneficial owner' and 'stock broking agent' provided Venture Capital Fund replaced by Venture Capital Company Venture capital Company to have 75 percent Equity instead of 80 percent. Definition of the term securities expanded to cover 'collective investment schemes registered in Kenya and similar vehicles, whether established in Kenya or not' The term 'venture fund' is replaced with 'venture capital' 	Section 2 of Capital Markets Act & Section 11(3) of the Capital Markets Act
Licensees records	<ul style="list-style-type: none"> The Authority's power to make rules has been extended to cover the "keeping and proper maintenance" of records by licensees 	Section 12 of the Capital Markets Act
Access to licensees premises/assets by CMA officials	<ul style="list-style-type: none"> New section created whereby the Authority's CEO may authorize a person with the rank of senior officer and above, upon reasonable suspicion of an offence under the Act, to go to court to seek a warrant to enter any premises to collect records and to secure orders to require any third party to handle the assets of a person being investigated in a manner prescribed by the Authority. 	Section 13A of the Capital Markets Act
Interest accrued from IPO proceeds	<ul style="list-style-type: none"> The period for calculating the Interest deemed to accrue from proceeds of public issue has been redefined to take into consideration crediting of securities accounts or dispatch of share certificates 	Section 18, Sub-section 2(e) of the Capital Markets
Unclaimed dividends	<ul style="list-style-type: none"> The period after which unclaimed dividends are to be surrendered to the Investor Compensation Fund has been amended from seven years to the statutory limitation period. 	Section 18, Sub-section 2(e) of the Capital Markets
Unclaimed dividends	<ul style="list-style-type: none"> The period after which unclaimed dividends are to be surrendered to the Investor Compensation Fund has been amended from seven years to the statutory limitation period. 	Section 18, Sub-section 2(e) of the Capital Markets
Approval of CMA licensees' organizational / shareholding structure	<ul style="list-style-type: none"> A new subsection created that requires any change in shareholders, directors, CEOs or key personnel of licensees be approved in writing by way of a no-objection from the Authority. 	Section 24 of the Capital Markets Act
Corporate Governance	<ul style="list-style-type: none"> A new subsection 4 is created prohibiting a person controlling or having beneficial interest in excess of 25 percent of listed capital or voting right or; with the power to appoint more than 25 percent of the board of directors; or who is entitled to receive more than 25 percent of aggregate dividends and interest in shareholders' loans of a stockbroker, investment bank or fund manager, from being appointed as executive director or to a senior position in the company's management. <p>Affected persons have been given until June 30 2010 to come into compliance.</p> <ul style="list-style-type: none"> A new subsection 5 is created that bars any individual or corporate person other than- those licensed by a banking, insurance, pensions or securities regulator in Kenya or anywhere else; where the shareholding structure of that entity has no majority shareholder in excess of 25 percent. <p>from controlling or having a beneficial interest either directly or indirectly in</p> <ul style="list-style-type: none"> More than 25 percent of issued share capital or voting rights. The appointment of more than 25 percent of the Board; The receipt of more than 25 percent of the aggregate dividends and interest on shareholder loans. <p>Majority shareholders have been given until June 30, 2010 to come into compliance.</p>	Section 24 of the Capital Markets Act

CMA plays leading role at the Investments, Insurance and Banking Expo



As part of our investor education and awareness programme the Capital Markets Authority (CMA) through the Corporate Communication and Market Development Department was the main sponsor in the CMA Investment, Banking and Insurance Expo which took place at the Sarit Centre from June 13 to 16, 2008.

The Expo brought together diverse category of players in the financial services industry that included insurance companies and insurance brokers, commercial banks, stockbrokers, fund managers, investment banks, the stock exchange, the Central Depository Corporation and other private companies.

The main objective of the exhibition was to provide a forum for the Kenyan public to understand and appreciate the investment opportunities that are inherent both in the financial services sector in general and in particular the capital markets. The Expo was officially opened by Mr. Mutua Kilaka, Financial Secretary, Ministry of Finance. According to statistics provided by Sarit Centre management, about 5,000 people visited the Expo which was generally successful.

Pictorial



The VP Hon Kalonzo Musyoka presents a Trophy during the FIRE Awards ceremony held at the KICC on October 9th 2008



The Financial Secretary Mr Mutua Kilaka signs the visitor's book at a stand during the CMA Investment Banking & Insurance Expo at the Sarit Center.



CMA's Chief Executive Mrs Stella Kilonzo signs a mortgage deal between S&L, KCB's mortgage arm and the Authority during the mortgage signing ceremony at CMA headquarters in November 2008.



Members of staff during a team building exercise organized by the Authority on 11th, December 2008.



Lecturers listen keenly at a preparatory meeting on the CMA University Challenge shortly before it was launched on 13th October, 2008.



Chief Executive Mrs Stella Kilonzo at a media briefing on the review of the Authority's entire legal framework which is currently underway. With her is the Manager Legal Affairs Mrs Rose Lumumba and Manager Corporate Communications and Market Development Mr Samuel Njoroge

Issue	Amendments to the Act and Regulations	Clause/effective date
Powers of a statutory manager to declare moratorium	<ul style="list-style-type: none"> A new sub-section empowering a statutory manager, once appointed, to declare a six-month moratorium on all payments by the licensed person to its customers and creditors. During this time the Statutory Manager will not be under an obligation to make any payments and his liability to make payments within a specified time shall be frozen until the expiry of that period. <p>Upon the expiry of the period or on termination of the statutory manager's appointment, the liability to pay shall return as if no such moratorium had been declared.</p>	Section 33A of the Capital Markets Act
Determination of compensation by the courts	<ul style="list-style-type: none"> Subsection 3 is amended to allow the court to take into account any loss suffered by a person arising from a breach of the regulations when it is determining the amount of compensation in addition to or substitution for any other penalty 	Section 34 of the Capital Markets Act
Powers of CMA Tribunal over Investor Compensation Fund (ICF) Board	<ul style="list-style-type: none"> The decisions of the ICF Board have been brought within the jurisdiction of the CMA Tribunal and the Tribunal may overturn a decision refusing to grant compensation. 	Section 35 of the Capital Markets Act
Communication of Notice of Annual General Meetings to shareholders	<ul style="list-style-type: none"> A proviso has been inserted to allow a notice of AGM to be circulated by way of: <p>Publication of a notice containing a summary of both the annual financial statement and auditors' report, in at least two local newspapers daily newspapers with national circulation for at least two consecutive days; or</p> <p>By sending to members notice through the electronic media containing a summary of both the annual financial statements and auditor's report.</p>	First Schedule of the Companies Act Table A Para 131

MARKET STATISTICS

Corporate bonds holding by class of investors in Kshs million as at October 2008

Issuer	Banks	Insurance companies	Fund Managers	Individuals	Investment Companies
Sasini Tea	49.98	0.00	550.02	0.00	0.00
Barclays Bank (1st Tranche)	45.00	25.00	873.00	7.00	50.00
East African Development Bank	174.00	84.264	0.00	0.00	221.424
Faulu (Kenya)	160.00	0.00	119.20	56.00	64.8
PTA Bank (2005)	288.832	15.232	332.032	0.00	4.032
PTA Bank (2007)	168.00	40.00	792.00	0.00	0.00
Athi River Mining	156.00	88.00	556.00	0.00	0.00
Shelter Afrique 1ST Tranche	48.00	0.00	30.00	0.00	2.00
Shelter Afrique 2nd Tranche	8.004	8.004	99.996	0.00	3.996
BBK (2nd Tranche)	957.60	114.60	579.70	268.10	80.00
Mabati	1378.60	30.00	694.00	2.60	22.00
Total (Mn)	3434.016	405.1	4625.948	333.70	448.252

My experience at CMA

By PAMELA AKIVAGA



I first learnt of the Capital Markets internship programme from an email advertisement from a friend. I wrote an essay on the twin mandate of the Capital Markets Authority, attached my resume and emailed it to the Capital Markets Authority for consideration. Ten days later I was interviewed for an internship position in the Legal Affairs Department and shortly thereafter offered the position.

I began the internship on January 2, 2008 and in all honesty, I was not sure what to expect when I joined the Authority. However, I was relieved to learn that the internship was not going to be just another routine 8.00 – 5.00 paper pushing desk job. The work was challenging, and from the onset I was accompanying the Market Supervision team on inspections, writing legal opinions, researching on best capital market practice regarding licensing and enforcement in other jurisdictions, participating in various matters pertaining to enforcement, licensing, approvals and registration under the Capital Markets Act. I was assimilated into a technical sub-committee whose mandate is to review and process various issues and applications. Under their guidance, I was able to put into practice the academic knowledge regarding Take-over transactions, Rights Issues, Initial Public Offers, Equity and Debt instruments and other critical matters relating to capital market instruments and activities. The internship programme ensured that I interacted closely with not only members of the legal team, but also stakeholders outside the confines of the Authority, including key personnel of the various firms licensed by the Capital Markets Authority, officials of other financial regulatory bodies and capital market players both within the country and in other jurisdictions around the world. The whole idea was intimidating at first, but once settled into the organization; enthusiastically accepted the challenge.

By the time my internship was drawing to a close, any fears and reservations that I had had about the internship program were long gone. I discovered that the Capital Markets Authority was a "learning organization" and was grateful for the opportunities I had had to not only observe, but also to participate in various activities of the Authority. This experience has been instrumental in not only increasing my knowledge of various legal, financial and capital markets matters, but it has also increased my self confidence and undoubtedly enhanced my interpersonal skills. During my nine months as an intern, I forged professional relationships with people from all walks of life; investors at the grassroots, seasoned investors, CEOs and local and international financial regulators. I believe these relationships will play a pivotal role in my career progression.

The writer is an intern at the Corporate Communication and Market Development Department

Fund managers and commercial banks continued to dominate investments in corporate debt accounting for 86.66% of the total portfolio. This is a decrease of 0.34% from last quarter, occasioned by the reduction of outstanding amounts owed by EADB and a small reduction in portfolio of fund managers' holdings in ARM corporate bond snapped up by Insurance companies.

Nairobi Stock Exchange

Primary market performance roundup

Equity

The Co-operative bank announced a hundred percent share allocation to all valid applicants in the recently concluded initial public offering. The offer received more than 67,000 applications for a total of 564 084 400 shares, raising close to Kshs 5.4 billion in additional capital for the bank. The IPO which opened on October 23 and ended on November 14 got an 81% subscription, which was 1.3 billion shillings less than the targeted amount of 6.7 billion shillings. Thus, the investors will not go through the frustrations of the refund process recently experienced in the market. The bank's shares will begin trading at the NSE on December 22.

Debt instruments

Treasury bonds

The November bond offer (ZC3/2008/1) attained a 161.21% subscription rate as it attracted bids worth Kshs 8.06bn, of which 66.19% or Kshs 5.33bn of the bids received were accepted. Competitive bids made up Kshs 4.92bn while non competitive bids stood at Kshs 0.438bn. The bond attained an average redemption yield of 9.943% for a price par Kshs 100 of 90.752; it is expected to begin trading in the secondary market on 24th November 2008.

During the eleven month period ending November 2008, the Government has issued T-bonds totaling Kshs 86 billion, 2.3% lower than when compared to a corresponding period last year, which recorded Kshs 88.04 billion. However the Government has raised only Kshs 69.34 billion; a 19.78% decrease, when compared to Kshs 86.44 billion raised last year.

The average subscription rate for Government bonds this year is 103.24% (mainly due to this months oversubscription as subscription rates have averaged at 74.95% for the preceding months) compared to 184.44% for a similar period in 2007.

Nairobi Stock Exchange

Secondary market performance roundup

Equity

During the month of October, the market has experienced a tumultuous period as the bear run persisted. The contagion effect of the credit crisis appears to have taken effect with buy side investors having limited activity. This is clearly manifested by the substantial increase in net-outflow of foreign investors to Kshs 878.63 million in October compared to the previous month. These were mainly foreign institutions.

The other cause of price drops in most counters was weak demand from the local retail market, with local institutional investors exercising extreme caution, instead of chasing the market. High inflation and rising short term interest rates also continued also exerted pressure on activity in the stock market as short term fixed income securities and cash become the preferred choice of investments.

During the month, equity turnover decreased by 46.4% compared with the previous month while share volume decreased marginally, by 14.3%, compared to a similar period. The NSE Index dropped by 19% to 3386 points. percent, largely as a result of tight liquidity prevalent in the market.

The amount raised by the Government during the first six months of 2008 from Treasury bonds is two percent higher compared to a similar period last year with Kshs 39.36 billion raised so far this year compared to Kshs 38.54 billion raised last year.



Market Statistics

YEAR	Month	Equity Turnover (Ksh BN)	Share Volume (Kshs MN)	NSE 20 Share Index	Market CAP (Kshs BN)	Bond Turnover (Kshs BN)
2005	Jan to Dec	36.5	874.2	3943	462.5	13.6
2006	Jan to Dec	95.3	1,453.3	5646	791.6	56.2
2007	Jan to Dec	91.4	1,917.2	5445	851.13	89.5
2008	January	7.4	205.3	4796	777.1	3.9
	February	8.01	198.8	5072	830.6	14.3
	March	7.3	180.6	4843	781.7	3.2
	April	5.6	141.8	5336	908.2	2.3
	May	6.8	168.0	5176	916.8	3.0
	June	22.1	2156.9	5185	1230.7	4.9
	July	14.6	984.0	4868	1122.2	2.4
2007	August	7.5	490.8	4649	1102.0	8.9
	September	6.79	485.24	4180.4	972.27	9.6
	October	3.64	415.89	3386.65	764.89	4.75
	November	3.72	290.95	3341.47	791.41	6.32
% change (monthly)		2.2%	-30.0%	-1.3%	-3.5	33.1
2008	Jan to Nov	93.46	5716.28	3341.47	791.41	63.57
2007	Jan to Nov	82.5	1776.4	5234	804.1	76.1
% change (Annual)		13.2896	221.7996	-36.1796	-1.5896	-16.4796

Trends in equity turnover



Trends in NSE 20 index vs Market Capitalization



Corporate Actions up to October 2008

Company	Date of Announcement	Dividend Announcement	Bonus/Rights Issue	DPS (KSHS)	No. of Issued/ Newshares (Kshs MN)	Dividend Payout (Kshs MN)
TPS EA Ltd	3-Apr-08	Final		1.25	107.84	134.80
Scangroup Ltd	16-Apr-08	1st & Final		0.90	159.00	143.10
Standard Grp Ltd	28-Apr-08	Interim		1.10	73.28	80.60
Limuru Tea	28-Apr-08	1st & Final		5.00	0.60	3.00
Kenya Re	28-Apr-08	1st & Final		0.35	240.00	84.00
Crown Berger	29-Apr-08	Final		1.00	23.73	23.73
HFCB	5-May-08		Rights (1:1)			
Kenol Ltd	6-May-08	Interim		1.25	147.18	184.00
KCB	23-May-08		Rights (1:9)			
CFC Bank	3-Jun-08	Interim		0.50	156.00	78.00
Williamson Tea	17-Jun-08	First & Final		0.50	8.76	4.38
Kapchorua	17-Jun-08	First & Final		0.50	3.91	1.96
Centum	26-Jun-08	First & Final		0.45	549.95	247.50
Olympia Capital	1-Jul-08	Final		0.20	40.00	8.00
BAT	18-Jul-08	First & Final		0.45	100.00	45.00
Standard Chartered	4-Aug-08	Interim		2.50	271.97	679.92
Bamburi Cement	7-Aug-08	Interim		3.20	362.96	1,161.47
Barclays Bank	8-Aug-08	Interim		0.50	1357.88	678.94
NIC Bank	14-Aug-08	Interim		0.25	296.69	74.17
Nation Media	20-Aug-08	Interim		1.50	142.61	213.92
Mumias	28-Aug-08	Final		0.40	1530.00	612.00
EABL	29-Aug-08	Final		5.65	790.77	4,467.87
Unga Group Ltd	25-Sept-08		Bonus (1:5)			
City Trust Ltd	14-Oct-2008	Final		0.5	5.21	2.61
City Trust Ltd	14-Oct -2008		Bonus (1:10)			STA
Kengen	15-Oct-2008	First & Final		0.9	2198.362	1978.53
KPLC	16-Oct-2008	Final		3	79.13	237.39
Carbacid	28-Oct-2008	Final		5	11.33	56.65
Standard Chartered	10-Nov-08	2nd iterim		2.50	271.97	679.925
Kenol Kobil	03-Nov-08	Interim		2.50	147.18	367.95
Eaagads	26-Nov-08		Bonus(1:1) STA		8.04	
Total						23,473.055

CMA appoints KPMG to restructure Discount Securities

While intervening at Discount Securities Limited to appoint KPMG Kenya as the new Executive Director of Discount Securities Limited replacing David Githaiga, to restructure the company and ensure its business continues in the interest of the capital markets and the investing public in Kenya; the Capital Markets Authority made the following observations:-

- The intervention was geared at addressing corporate governance challenges at Discount Securities Limited Initial review of the firm indicates that these challenges precipitated the formulation of a poor strategy and its subsequent poor execution; for example, this was manifested in an unsustainable expansion plan.
- The Authority had not suspended or revoked the licence of Discount Securities Limited. The firm under the new independent management of KPMG Kenya would remain open and continues to trade at the Nairobi Stock Exchange.
- KPMG Kenya's role as the new Executive Director of Discount Securities Limited was primarily to run the business as a going concern and also establish its state of affairs and advise the Authority accordingly.
- Investors could therefore continue to access services at Discount Securities Ltd. This includes; placing of orders, transferring CDS accounts, confirming the status of their CDS accounts and immobilization of shares among others. Investors can also use the CDSC SMS service to confirm the status of their CDS accounts by sending the word 'REG' to 2372.

In undertaking its regulatory mandate the Authority ensures that any information it deems useful in public interest is released to all investors simultaneously.

The Authority had initially extended the 2007 stockbroking licence of Discount Securities Ltd on February 26 2008 for three months and only renewed it on May 26 2008 after the firm complied with licensing requirements. You will recall that this was the first time licenses were extended in a while. However, recent surveillance results informed the Authority's decision.

The Board of the Authority took into account several factors in determining whether to renew a license. In so doing the Board of the Authority

has the option to; renew the annual license of a licensee; renew the annual license of a licensee on condition that it meets certain requirements within a stipulated time; extend the previous year's license of the licensee for a stipulated period.

The Authority continues to fully execute its mandate to uphold market integrity and safeguard the interests of all market participants. Through assistance from the Ministry of Finance, the Authority has completed a diagnostic review of its current supervision processes with a view to profile the risks of each of its licensees for effective monitoring.

Demutualization of the Nairobi Stock Exchange is a key priority to address potential corporate governance challenges within the capital markets. This entails conversion of the Exchange from a mutual, member-owned not-for-profit company limited by guarantee to company limited by shares where ownership will be through shareholding and there will be separation of trading rights from ownership rights. A demutualized stock exchange will result in improved governance; greater investor participation; competition; and will facilitate the unlocking of the stock exchange value.

Deputy Prime Minister for local Government Hon Musalia Mudavadi launches CMA University Challenge



Deputy Prime Minister and Minister for Local Government Hon Musalia Mudavadi was the key guest during the launch of the Capital Markets Authority University Challenge.

The CMA University Challenge is university competition targeting to create awareness and increase knowledge about the capital markets among the youth.

The competition covering all universities in the country seeks to promote a savings culture among the youth as well as inform them of the risks associated with investing in alternative financial products.

The competition, which runs from October 13, 2008 is open to all undergraduate third and fourth year business students.

The winner, first runner up and second runner up will respectively receive Kshs 75,000, Kshs 50,000 and Kshs 25,000 worth of shares in companies of their choice in addition to visiting South African Capital Market.

There are many youth who graduate from various institutions of higher learning to enter the job market every year, who are all potential investors in the country's capital markets.

"The CMA University Challenge is part of our investor education and public awareness campaign which enhances the development and public understanding of capital markets issues through effective communication programmes," Capital Markets Authority Chief Executive Stella Kilonzo said during the launch.

She added that CMA has undertaken a number of reforms targeting to improve institutional capacity, creating a robust market infrastructure which enhances efficiency, reduces systemic risk, lowers cost of doing business and promotes investor confidence.

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CMA has undertaken a number of reforms targeting to improve institutional capacity, creating a robust market infrastructure which enhances efficiency,

Approved Institutions: Annual Licensees (for the period January 1, 2008 to December 31, 2008)

- The Nairobi Stock Exchange
P.O. Box 43633-00100, Nairobi
- Central Depositories and Settlement Corporation Limited.
P.O. Box 3464-00100, Nairobi
- Global Credit Rating Company
P.O. Box 76667, Wendywood 2144, South Africa
- Acacia Fund Limited
P.O. Box 43233-00100, Nairobi

Stockbrokers

- Chartered Capital Limited
P.O. Box 28987-00200, Nairobi
- African Alliance Kenya Securities Limited
P.O. Box 27639-00506, Nairobi

Extended Licenses

- Crossfield Securities Limited
P.O. Box 28987-00200, Nairobi
- Discount Securities Limited
P.O. Box 42489-00100, Nairobi
- Ngenye Kariuki and Company Limited
P.O. Box 12185-00400, Nairobi
- Solid Investment Securities Limited
P.O. Box 63046-00200, Nairobi
- Reliable Securities Limited
P.O. Box 50338-00200, Nairobi
- Bob Mathews Stockbrokers Limited
P.O. Box 73253-00200, Nairobi

Investment Banks

- African Alliance Kenya Investment Bank Limited
P.O. Box 27639-00506, Nairobi
- Apex Africa Investment Bank Limited
P.O. Box 43646-00100, Nairobi
- Barclays Financial Services Limited
P.O. Box 30120-00100, Nairobi
- CBA Capital Limited
P.O. Box 30437-00100, Nairobi
- CFC Financial Services Limited
P.O. Box 44074-00100, Nairobi
- Dyer and Blair Investment Bank Limited
P.O. Box 45396-00100, Nairobi
- Kestrel Capital (East Africa) Limited
P.O. Box 40005-00100, Nairobi
- Standard Investment Bank Limited
P.O. Box 13714-00800, Nairobi
- Suntra Investment Bank Limited
P.O. Box 74016-00200, Nairobi
- Drummond Investment Bank Limited
P.O. Box 45465-00100, Nairobi
- NIC Capital Limited
P.O. Box 44599-00100, Nairobi
- Renaissance Capital (Kenya) Limited
P.O. Box 40560-00100, Nairobi
- Equatorial Capital Services Limited
P.O. Box 52467-00200, Nairobi
- Sterling Investment Bank Limited
P.O. Box 45080-00100, Nairobi
- Afrika Investment Bank Limited
P.O. Box 41684-00100, Nairobi
- Faida Investment Bank Limited
P.O. Box 45236-00100, Nairobi
- Juanco Investments Limited
P.O. Box 381 - 00502, Nairobi

Investment Advisers

- VFS International (K) Limited
P.O. Box 4-00621, Nairobi
- Bridges Capital Limited
P.O. Box 62341-00200, Nairobi
- Cititrust Kenya Limited
P.O. Box 30711-00100, Nairobi
- Co-operative Consultancy Services (K) Limited
P.O. Box 48231-00100, Nairobi
- Dry Associates Limited
P.O. Box 684-00606, Nairobi
- Executive & Corporate Advisory Services (K) Limited
P.O. Box 72216-00200, Nairobi
- Iroko Securities (Kenya) Limited
P.O. Box 66249-00800, Nairobi
- Jani Consultancy Services Limited
P.O. Box 40583-00100, Nairobi

- Loita Asset Management Limited
P.O. Box 39466-00623, Nairobi
- First Africa E.A Limited
P.O. Box 56179-00200, Nairobi
- Winton Investment Services Limited
P.O. Box 56179-00200, Nairobi
- Equilibrium Capital Limited
P.O. Box 9000-00100, Nairobi
- Inter-Alliance International Limited
P.O. Box 44249-00100, Nairobi
- Deloitte Financial Advisory Limited
P.O. Box 40092-00100, Nairobi
- Tsavo Securities Limited
P.O. Box 11987-00100, Nairobi
- Regnum Consultants Limited
P.O. Box 11431-00400, Nairobi
- The Profin Group (Kenya) Limited
P.O. Box 9980 - 00100, Nairobi
- J.W. Seagon Limited
P.O. Box 56179-00200, Nairobi

Extended Licences

- Franklin Management Consultants Limited
P.O. Box 61843-00200, Nairobi
- WSD Capital (Kenya) Limited
P.O. Box 99139, Mombasa

Fund Managers

- British American Asset Managers Limited
P.O. Box 30375-00100, Nairobi
- Aureos Kenya Managers Limited
P.O. Box 43233-00100, Nairobi
- Co-optrust Investment Services Limited
P.O. Box 48231-00100, Nairobi
- Genesis (K) Investment Management Limited
P.O. Box 79217-00200, Nairobi
- Zimele Asset Management Co. Limited
P.O. Box 76528-00508, Nairobi
- Old Mutual Investment Services (K) Limited
P.O. Box 30059-00100, Nairobi
- Stanbic Investment Management Services (E.A.) Limited.
P.O. Box 30550-00100, Nairobi
- Standard Chartered Investment Services Limited
P.O. Box 30003-00100, Nairobi
- AIG Global Investment Co. (E.A.) Limited
P.O. Box 67262-00200, Nairobi
- ICEA Asset Management Limited
P.O. Box 46143-00100, Nairobi
- Old Mutual Asset Managers (E.A.) Limited
P.O. Box 11589-00400, Nairobi
- Old Mutual Asset Managers (K) Limited
P.O. Box 11589-00400, Nairobi
- InvesteQ Capital Limited
P.O. Box 56977-00200, Nairobi
- Amana Capital Limited
P.O. Box 9480-00100, Nairobi
- Sanlam Investment Management (K) Limited
P.O. Box 7848-00100, Nairobi
- African Alliance Kenya Management Company Limited.
P.O. Box 27639-00506, Nairobi

Authorised Depositories

- Barclays Bank of Kenya Limited
P.O. Box 30120-00100, Nairobi
- National Bank of Kenya Limited
P.O. Box 72866-00200, Nairobi
- Stanbic Bank Limited
P.O. Box 30550-00100, Nairobi
- Kenya Commercial Bank Limited
P.O. Box 48400-00100, Nairobi
- National Industrial Credit Bank Limited
P.O. Box 44599-00100, Nairobi
- Co-operative Bank of Kenya Limited
P.O. Box 48231-00100, Nairobi
- Investment & Mortgages Bank Limited
P.O. Box 30238-00100, Nairobi
- CFC Bank Limited
P.O. Box 72833-00200, Nairobi
- Equity Bank Limited
P.O. Box 75104-00200, Nairobi
- Dubai Bank Kenya Limited
P.O. Box 11129-00400, Nairobi
- African Banking Corporation Limited
P.O. Box 46452-00100, Nairobi

Approved Collective Investment Schemes:

- (1) African Alliance Kenya Unit Trust Scheme:
 - African Alliance Kenya Shilling Fund.
 - African Alliance Kenya Fixed Income Fund.
 - African Alliance Kenya Managed Fund.
- (2) Old Mutual Trust Scheme:
 - Old Mutual Equity Fund.
 - Old Mutual Money Market Fund.
 - Old Mutual Balanced Fund.
- (3) British American Unit Trust Scheme:
 - British American Money Market Fund.
 - British American Income Fund.
 - British American Balanced Fund.
 - British American Managed Retirement Fund.
 - British American Equity Fund.
- (4) Stanbic Unit Trust Scheme:
 - Stanbic Money Market Fund.
 - Stanbic Flexible Income Fund.
 - Stanbic Managed Prudential Fund.
- (5) Commercial Bank of Africa Unit Trust Scheme:
 - Commercial Bank of Africa Money Market Fund.
 - Commercial Bank of Africa Equity Fund.
- (6) Zimele Unit Trust Scheme:
- (7) Suntra Unit Trust:
 - Suntra Money Market Fund
 - Suntra Equity Fund
 - Suntra Balanced Fund
- (8) ICEA Unit Trust.
 - ICEA Money Market Fund
 - ICEA Equity Fund
 - ICEA Growth Fund
- (9) Standard Investment Trust Funds:
 - Standard Equity Growth Fund
 - Standard Income Fund
 - Standard Balanced Fund
- (10) Dyer and Blair Unit Trust Scheme:
 - Dyer and Blair Diversified Fund
 - Dyer and Blair Bond Fund
 - Dyer and Blair Money Market Fund
 - Dyer and Blair Equity Fund
- (11) CFC Unit Trust Fund

Approved Employee Share Ownership Plans (ESOPs):

- EABL Employee Share Ownership Plan.
- KENOL Employee Share Ownership Plan.
- ARM Employee Share Ownership Plan.
- AccessKenya Group Employee Share Ownership Plan.
- Scangroup Employee Share Ownership Plan.
- Safaricom Employee Share Ownership Plan



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