



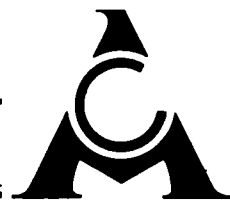
ANNUAL REPORT

1994/95



We promote and facilitate the development of orderly, fair and efficient capital markets in Kenya

060
CMA



Honourable W. Musalia Mudavadi, EGH, MP,

Minister for Finance

Ministry of Finance

The Treasury

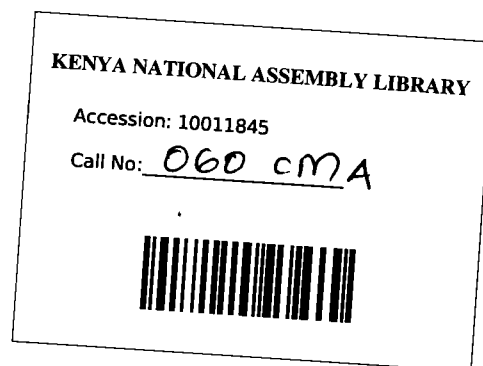
Nairobi

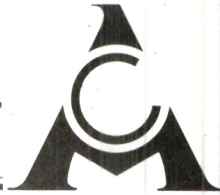
Dear Honourable Minister

We have the honour to submit to you the Annual Report of the Authority for the period ended 30th June, 1995 in compliance with section 36(3) of the CMA Act, (Cap 485A).

Respectfully submitted.

**Paul K. Melly
CHIEF EXECUTIVE
CAPITAL MARKETS AUTHORITY**





Nicodemus Asinjo
CHAIRMAN

I am pleased to take this opportunity to make a Statement on the Authority's report for the period ended 30th June, 1995.

The Authority's mission as stated in Section II of the Capital Markets Authority Act, Chapter 485A of the Laws of Kenya is to oversee the orderly development of all aspects of the capital markets in Kenya. This has been and remains the mission of the Authority since its inception in 1989.

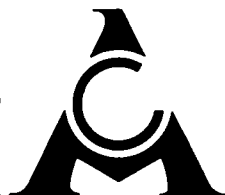
In addressing its mission, the Authority reviews the legal, administrative, and fiscal environment with a view to providing a more conducive enabling environment for market development.

Since its inception the Authority has continued to liaise with other government institutions, and private sector market participants with a view to hastening market development. In particular, the Authority makes recommendations on a regular basis on fiscal policy changes that would enhance market development to the Ministry of Finance for consideration and implementation.

The ultimate objective in enhancing market development is to promote mobilisation and efficient allocation of long term capital for investment. Indeed, as echoed in the Sessional paper No 1 of 1994 on "Recovery and Sustainable Development to the Year 2010", effective mobilisation of domestic and foreign savings for productive investments is a pre-requisite to economic growth and the attainment of sustainable development. The Sessional Paper also notes that a country that is able to generate a high savings ratio is able to finance more rapid development and employment generation. The Authority's mission is closely intertwined with these sentiments and it is our intention to rededicate ourselves to this noble course of ensuring that our emerging capital market becomes a focal point for facilitating capital formation and employment generation in our economy.

In fulfilling its mandate as stipulated in the CMA Act, the Authority takes cognisance of the fact that the orderly development of the market calls for an enabling regulatory framework. Yet the framework must be reviewed regularly to keep pace with the changes and dynamism in the market. It is in this spirit that the CMA Act was amended in 1994 and new Rules and Regulations gazetted in July of the same year.

Several notable events took place in 1994. Mr. P K Melly, the former Operations Manager was appointed the Chief Executive in September replacing Mr. W K B Arap Chelashaw who was appointed the Managing Director of Kenya National Assurance. Mr. Terry Davidson also left the Authority following his re-location and promotion as Regional Director of Citi-Bank. Mr. Omurembe Iyadi was also appointed in November 1994 as an Authority member. During the same month, Dr. Darin C Gunsekera, the long term Advisor to the Authority, left the country at the expiry of his 3 year contract. I would like to take this opportunity to thank



the former Chief Executive and the Advisor for the invaluable contribution to the Authority and wish them success in their new stations. I wish also to take this opportunity to congratulate the new Chief Executive Mr. P K Melly and wish him success in the new capacity.

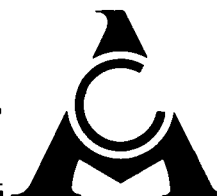
During the period under review, the Authority benefited from the United States Agency for International Development (USAID) donor assistance which enabled it to train its professional staff locally and abroad and also undertake several market studies. The assistance programme ended in March 1995 and I would like on behalf of the Authority to thank the USAID for the assistance.

In my concluding remarks, I wish to reiterate that with the continued full cooperation of government institutions, private sector and also lessons from other emerging markets, the Authority will remain on course in achieving its set mission. I would also like to take this opportunity to thank the Government for its continued support and the Authority Members, Chief Executive, Management and staff for their continued dedication towards the attainment of the objectives of the Authority.

Thank you.

N. Asinjo
CHAIRMAN

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MEMBERS OF CAPITAL MARKETS AUTHORITY



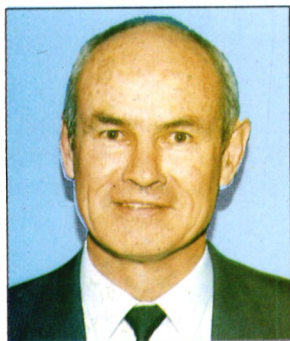
Nicodemus Asinjo
CHAIRMAN



Manu Chandaria
MEMBER



George Ayino
MEMBER



James Mcfie
MEMBER



Omurembe Iyadi
MEMBER



George Oraro
MEMBER



Jared Kangwana
MEMBER



Benjamin Kipkulei
MEMBER



Amos Wako
MEMBER



Micah Cheserem
MEMBER



Paul Melly
MEMBER



Dan Ameyo
ALTERNATE



Francis Awuor
ALTERNATE



DR. T. N. Kibua
ALTERNATE



Paul K. Melly
CHIEF EXECUTIVE



Catherine A. Kola
LEGAL AFFAIRS
MANAGER



Stephen Maina
AG. RESEARCH &
DEVELOPMENT MANAGER



F. W. Omollo
MARKET SUPERVISION
MANAGER



A. K. Cherop
ASSISTANT MANAGER
HUMAN RESOURCES &
ADMINISTRATION



Wangui Mwaniki
SENIOR CORPORATE AFFAIRS
OFFICER



This report is prepared in compliance with section 36 (3) of the CMA Act, Cap 485 A which requires the Authority to submit an annual report to the Minister for Finance. This report covers the period ended 30th June, 1995. The following is a summary of the report.

THE CHAIRMAN'S STATEMENT

The Chairman reaffirms the mission of the Authority which is to "oversee the orderly development of all aspects of the capital markets". In order for the Authority to fulfil its mission, the Chairman emphasises the need for mutual support and cooperation by the necessary government departments and market players. The overall objective is to enhance the Authority's role in facilitating mobilisation and allocation of long term capital to efficient investments in our economy.

The Chairman also takes the opportunity to thank the past Chief Executive Mr. W K B Arap Chelashaw and the former Advisor to the Authority, Dr. Darin C Gunsekera for their contribution. He also takes the opportunity to congratulate Mr. P K Melly for his appointment as the Authority's Chief Executive in September, 1994.

THE AUTHORITY

The Authority comprises eleven Members including the Chairman and Chief Executive. It has three permanent members, namely the Permanent Secretary to the Treasury, the Attorney General and the Governor of the Central Bank of Kenya. The Chairman and the other six members are drawn from the private sector.

The Authority has three departments and two divisions. These are the Legal Affairs, Market Supervision and Research & Development Departments, Human Resources & Administration and Corporate Affairs Divisions.

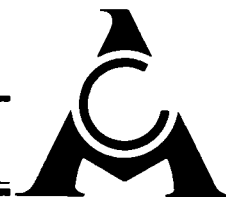
CHIEF EXECUTIVE'S REPORT

The Chief Executive Report comprises of a detailed review of the main issues, policy changes and institutional development.

Institutional Development

The report highlights the main developmental issues that were addressed during the period, under review. These issues include the computerisation of operations of the Authority and the Stock Exchange. The report also emphasises the importance of manpower development within the key institutions in the market for efficiency.

The report also emphasises the need to computerise the operations of the brokerage houses which are now 20 in number.



Research and Market Studies

The report emphasises the need for research and studies with the aim of identifying development issues in the market. During the period under review, two key studies were commissioned and the subsequent recommendations are currently being studied prior to implementation. The first study was on the "Review of Capital Market Institutions and the Development of Standard Accounting Systems" while the second one was on the "Establishment of a Clearing and Depository System. The studies were commissioned in February - March 1995.

ACTIVITIES IN THE MARKET

Primary Market

During the period under review several companies went public by issuing shares in the market. There were also two cases of divestiture of government interest and another one by a major shareholder in a listed company.

In 1992, three companies namely; Housing Finance Company of Kenya Limited (HFCK), Uchumi Supermarkets Limited and Crown Berger Limited issued a total of 43 million shares to the public and raised about Kshs. 500 million.

In 1993, the government, under the privatisation and divestiture programme, sold 2.0 million and 1.6 million shares that it owned in CMC and East African Oxygen, respectively and raised Kshs.62.4 million. The two companies are listed on the Stock Exchange.

In 1994, in one of the most remarkable event in the market, three companies issued a total of 98 million shares and raised Kshs. 2.8 billion. The companies were the Firestone (EA) Limited, National Bank of Kenya Limited (NBK) and the National Industrial Credit Limited (NIC).

Secondary Market Activities

Remarkable performance was registered in the secondary market during the period under review. The NSE index rose from 1076 in January 1992 to 2514 by December 1993. It reached a historical peak of 5030 in February 1994. The market turnover grew from Kshs. 375 million in 1992 to Kshs. 835 million in 1993. The market turnover for 1994 was Kshs. 3 billion, which was also a historical achievement. Market capitalization rose from kshs. 23 billion in December 1992 to Kshs. 136.8 billion in December 1994.

Major Policy Issues and Sanctions

In a new development, the Trade Bank Limited which had issued 8 million shares through private placement sought listing on the Exchange in late 1992 but was declined due to irregularities in disclosure and management.



Foreign portfolio investment was allowed in the domestic capital markets with effect from January, 1995. Subsequently CMA published guidelines to be observed in facilitating this type of investment.

In an unprecedented move, a stockbrokerage firm - Bob Mathews Stockbrokers - was suspended from the Exchange Trading Floor in January 1995 due to irregularities in its operations. The renewal of its licence was later declined in May 1995 after the Authority found the firm to be in gross violation of the CMA Act and the CMA Rules and Regulations.

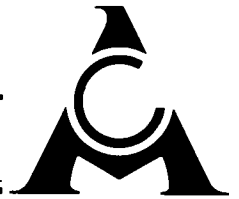
The CMA Act was amended in 1994 in light of new issues and developments in the market. The Act as amended, requires an exchange to be approved by the Authority to be a company limited by guarantee. The amendments also addressed the issue of composition of an Exchange Board. The amendments also require the separate licensing and operation of stockbrokers as commission agents and dealers as principals, respectively.

In June 1995, the Authority overcame a major funding impediment when it was allowed to collect various fees for services rendered to the market to finance and enhance its core activities.

Future Plans

The Authority, in an endeavour to enhance market development as stipulated in its mission, will address the following issues:-

1. Enhance market surveillance and compliance by computerisation of all its key functions. Similarly the Exchange and Brokerage houses will be required to computerise all their operations for efficiency and to facilitate surveillance.
2. A Central Depository Corporation will be set up to enhance efficiency and liquidity in the market.
3. Efforts will be directed towards the establishment of at least one Rating Agency and the nurturing of underwriting services.
4. The Authority and the Central Bank in liaison with the Treasury will explore ways of facilitating Brokers to participate in the money market.
5. An Investor's Compensation Fund will be set up as required by the CMA Act.
6. An examinable training course will be introduced for all market operators.
7. An operating framework to allow the licensing of special Dealers at the exchange will be developed.



8. Rules and Regulations governing operations of Private Placement and those of Unit Trusts will be developed.
9. The Authority will further carry out an extensive review of its Rules and Regulations in order to harmonize them with the overall development of the regulatory framework. These will also bring them in line with subsequent development as well as the current operations of the market.
10. The Authority will continue to review capital and other requirements for all market operators, mainly the brokers, dealers and investment advisors.



The Authority comprises of eleven members. The Chairman is non executive and is appointed by the President on the recommendations of the Minister for Finance. Six of the eleven members are appointed by the Minister for Finance and include professionals in law, business, accountancy, finance and insurance. The Chief Executive is appointed by the Minister for Finance and is also a member of the Authority. There are three permanent members of the Authority, namely the Permanent Secretary to the Treasury, the Governor of the Central Bank and the Attorney General. All the Authority Members, except the three permanent ones, are appointed for a three year period and are eligible for re-appointment.

The Authority is responsible for all policy decisions concerning the overall development of the market. The Authority meets at least once in a month to conduct its business.

MANAGEMENT STRUCTURE

The Authority Management consists of the Chief Executive, the Legal Affairs Manager, Market Supervision Manager, Research & Development Manager, Assistant Manager Human Resources and Administration and a Senior Corporate Affairs Officer.

Chief Executive

The Chief Executive heads the Management Team and is in charge of the day to day operations and activities of the Authority. He is also responsible for initiating regulatory and policy changes that are desirable in promoting capital markets development. The proposals and recommendations are presented at the monthly meeting of the Authority where they are discussed and the necessary decisions taken.

The Management functions of the Authority are organised into three departments and two divisions. These are the Legal Affairs, Market Supervision, Research and Development Departments, Human Resources and Administration Divisions. All the departments are headed by a Manager and the Divisions by an Assistant Manager. All these Departments/Division heads report to the Chief Executive. The overview of the departments and their functions are as follows:

Legal Affairs Department

This department is responsible for secretarial work of the Authority and the formulation, interpretation and enforcement of Rules and Regulations pertaining to the development and regulation of the market in liaison with the other departments. It is responsible for carrying out research into the existing company laws and related statutes to see what changes need to be made or harmonized to enhance the development and regulation on capital markets. The department also provides legal advice to the Authority on matters of litigation or dialogue with other interested parties including investors and market players. Legal review of prospectuses and offer for sale documents, compliance and enforcement activities as well as licensing of market operators also fall under this department.



Market Supervision Department

This department deals with compliance and surveillance in the market besides carrying out routine inspections on market operators. The department also reviews the accounting standards in liaison with the accounting professionals for purposes of implementation of accounting systems that facilitate full disclosure of information. The Department is responsible for monitoring Market activities to ensure compliance with CMA Rules and Regulations and guidelines as well as market integrity. It also reviews and ensures continuous financial reporting by the market players. Examination of public offering documents also falls under this department.

Research and Development Department

This department is charged with reviewing economic factors and trends as well as carrying out research and long term planning through identification of possible policy options. The department analyses the available policy options with a view of developing appropriate recommendation for implementation.

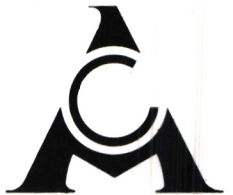
The department assists in the creation and implementation of amendment to the existing rules and regulations. It is also charged with the development and maintenance of the CMA's information data base. The other function of the department is the development and strengthening of the research capacity of the Authority and corporate strategy, including the research and development of new market instruments. Information Technology and exchange of information with other securities commissions also falls under this department.

Human Resources and Administration Division

The Division is charged with the responsibility of providing administrative and personnel services. The services include personnel or staff welfare, repairs, maintenance, supplies, stores, transport and security of Authority properties. All matters pertaining to general administration of the Authority fall under this department.

Corporate Affairs Division

The division is charged with the Authority's relations with the public, the media, other corporate entities and the rest of the world. Investor complaints, public awareness and education also fall under this division. The Division is also responsible for all CMA staff training matters. ◆

**THE CHIEF EXECUTIVE'S REPORT ON THE CAPITAL MARKETS ACTIVITIES AND DEVELOPMENTS FOR THE PERIOD ENDED 30TH JUNE, 1995**

Paul K. Melly
CHIEF EXECUTIVE

It gives me great pleasure to report on the operation of the Authority and the development of the capital markets as a whole. This being my first report following my appointment as Chief Executive of the Authority I wish to thank the Government for the appointment and acknowledge its support and that of the Authority members as well as my colleagues in management. The support has facilitated further development in the market as a whole.

This report attempts to highlight major developments since July 1992 and the vision for the future.

During the period, the Authority implemented various projects aimed at market development. Several policy issues relating to the market development were also adopted during the same period. A number of initial public offerings were recorded, while the NSE restructuring was kept on course.

The overall economy, of which the capital markets is part and parcel, witnessed some unprecedented changes due to the restructuring and liberalization particularly in the financial and international trade sector. The highlights of the main activities and policy issues during that period are contained in this report.

AN OVERVIEW OF THE EXTERNAL AND LOCAL ECONOMIC ENVIRONMENT

The Kenyan economy has witnessed far reaching liberalisation with external trade accounting for 40% of the gross domestic product. The degree of openness of our economy as reflected by this ratio is an indication of the extent to which we are dependent on the rest of the world for our economic well being through exports and imports. It is also a reflection of the extent to which performance in the world economy affects us.

The world economy is reported to have gone through a weak recovery in 1992 and 1993 and that the Organisation of Economic Cooperation and Development (OECD) recorded a 1.5% and 1.1% growth rate for the years 1992 and 1993, respectively.

The poor performance in the external economy, exacerbated by other auxiliary issues, saw our economy perform poorly during the period. The economy recorded unprecedented low growth rates of 0.4% and 0.1% in 1992 and 1993 respectively.



There are heartening indications however that this decline in performance will be reversed. The growth rate for 1994 was 3.0% and is expected to continue rising. The overall objective is to attain a sustainable growth rate of 5.6% by 1996 as forecast in the Sessional Paper No 1 of 1994.

The envisaged economic recovery calls for increased mobilisation of savings and allocation of the same to productive activities especially in the export sector. The objective, as stated by the Minister for Finance in his 1993/94 Budget Speech, is to reverse the decline in our investment levels from the unprecedented drop of 16.4% in 1993 to investment ratios in the order of at least 31% which is the average for low income countries. The strategy in achieving the projected 5.6% GDP growth lies in efficient utilisation of our meagre resources, promotion of the private sector as the engine of much of this growth, provision of an enabling environment including investment incentives and a shift to a production structure that is diversified and export oriented.

Macro-Economic Policy Measures

The 1992/94/95 period will be remembered as the time when bold and indeed radical policy measures were instituted by the government as part of the structural adjustment programme aimed at economic efficiency.

In 1992, the administered fixed interest rate and directed credit regime was phased out in preference for market determined rates. This move has had profound effect on resource allocation to various sectors with the financial intermediaries extending credit purely on financial and commercial basis.

In 1992, in a move that was part of the gradual dismantling of the exchange control regime, the government implemented several exchange control measures that instituted changes in the foreign exchange market. The introduction of the foreign exchange certificates - forex "C" - culminated not only in the creation of a viable secondary market for foreign exchange acquisition but also in the evolution of a market exchange rate that provided a measure of comparative valuation in the official rate. Eventually in 1994, the government abolished the official exchange rate in preference for market based rates that are dependent on the demand and supply of foreign exchange. This measure that saw the floatation of the Kenya shilling resulted in frequent fluctuation in the exchange rates. The period was also full of surprises on the movement of the exchange rate through rapid depreciations and appreciations. There is however some gradual movement towards stability. The liberalisation of the foreign exchange and trade sector also led to a recovery in foreign reserves accumulation which rose to 7.5 months import bill equivalent by the end of that year.

As part of measures aimed at enhancing competition in the foreign exchange market, 38 forex bureaus were approved by the Central Bank in May 1995 and they are expected to provide efficient services in the foreign exchange market. The ultimate objective is to attain a stable and competitive foreign exchange rate and to repeal the Exchange Control Act by the end of 1995.



OPERATIONS AND MARKET ACTIVITIES

During the period under review, the Authority enhanced its operation in both scope and breadth with the objective of achieving its set mission. The market activities, too, registered remarkable growth as noted in this report.

INSTITUTIONAL DEVELOPMENT

Capital Markets Authority (CMA)

The Authority continued to strengthen its role in the market with a view to achieving its mandate.

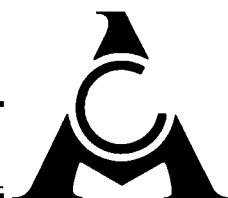
As part of measures designed to improve efficiency and make management responsive to the emerging challenges of capital markets development the Authority's management functions have been re-organized. This measure entailed refocusing specific core mandate of the Authority and ensuring that every member of staff was given responsibility commensurate to their level of experience and expertise as well as allowing for a career path to the professionals. The repositioning of management was also aimed at removing duplication in efforts and ambiguity in functions as well as assigning responsibilities and accountability to optimise the human resource utilization.

As part of strengthening and re-organisation of management several promotions and re-designations have been effected. The former department of Financial Affairs was abolished and replaced with a Market Supervision Department. Accordingly, the title of the head of the new department is the Market Supervision Manager. The Senior Economist in the Research and Development Department was promoted to Assistant Manager and is currently the acting departmental head. The Personnel and Administration Division was changed to be the Human Resources & Administration Division. The former Personnel & Administration Executive was promoted to Assistant Manager level and is the head of the Division. The former Public Relations Officer was re-designated Senior Corporate Affairs Officer and heads the Corporate Affairs Division.

In order to strengthen the middle level management in the Authority, a Senior Financial Analyst was recruited. He is incharge of CMA Accounts and assists the Market Supervision Manager. Similarly, one Legal Officer was promoted to the position of Senior Legal Officer while the Research Officer I was elevated to the level of Senior Research and Development Officer.

Capacity Building and Training

During the period under review the Authority has also endeavoured to enhance its internal capacity to facilitate the realisation of its mission. Additional staff have also been recruited to strengthen the Authority's management capacity.



Capacity building through manpower development and training remains a key priority as indicated at Appendix I which contains a list of various training courses, seminars and workshops that staff members were sponsored to attend during the last three years.

In the first quarter of 1995, two significant training and learning programmes were undertaken with financial assistance from the United States Agency for International Development (USAID). In February 1995, a regional training course on "the Development and Regulation of Capital Markets in Kenya" was held at a Nairobi hotel. The course was organised by the Authority and the Washington-based International Management Group - INTRADOS provided the resources persons, some of whom were drawn from the Securities and Exchange Commission (SEC) of United States and the Chicago Stock Exchange. The course was attended by all the technical staff of the Authority, various licencees of the Authority, representatives from the Central Banks of Kenya, Tanzania and Uganda.

In March 1995, an educational trip to South East Asia was undertaken. The delegation to the South East Asia was led by the Authority's Chief Executive and included two Managers and one Senior Officer from the Authority, the Chief Executive of the Nairobi Stock Exchange and three Stockbrokers. The Delegation visited Malaysia, Singapore, Phillipines, Thailand, Hong Kong and South Korea. The overall objective was to gain first hand knowledge on various aspects of these fast growing Markets. Among the institutions visited in these countries were the Securities and Exchange Commissions, Stock Exchanges, Central Monetary Authorities, Clearing and Depository Corporations, Merchant Banks and a Rating Agency.

Computerisation

In May 1995, the Authority installed a modern computer network which will enhance its operations and facilitate information collation, analysis and dissemination. The long-term objective is to computerize all operations of the Authority.

Nairobi Stock Exchange

The Exchange has continued to review and restructure itself with the assistance of CMA, to be in line with similar institutions in other markets. In 1994, the Exchange shifted to new and more spacious premises at the Nation Centre on Kimathi Street. Another major development has been the computerisation of post trading activities. This was achieved through the adoption of the computerised Delivery and Settlement System (DASS). The objective is to enhance efficiency in delivery and settlement. Future plans at the Exchange include adoption of computerised trading.

This will however be dependent on the attainment of adequate trading volumes to warrant the envisaged additional capital expenditure. There are indications that the build up in trading activities will rise to levels necessitating computerised trading.



The Exchange has also focused on manpower development and training and also recruitment of new staff. Issues related to strengthening of its management are being addressed with the aim of enhancing its activities and its role as a self-regulatory organisation that can oversee its members performance and conduct and be able to discipline and institute penalties whenever necessary.

Brokerage Houses

During the period under review the number of stock brokerage houses increased from 6 to 21. The number of brokerage houses had, prior to this remained at 6 since the establishment of the Exchange in 1954, an issue that generated a lot of interest since the inception of CMA in 1989.

Indeed, during the Budget Speech in June 1994 the Honourable Minister expressed his concern on this issue and directed CMA to review the issue of licensing and admission of new brokerage firms with the objectives of facilitating healthy business competition by streamlining the requirements for entry into the market. Subsequently, CMA licensed 7 more brokers, bringing the total to 13 in July 1994. An additional 8 brokers were licensed in June 1995. The Authority has however declined to renew the licence for one brokerage company leaving the number of licensed stock brokers to 20 (twenty companies). CMA will be reviewing the issue of licensing dealers firm in future depending on market performance and new developments but it is now not a priority to license more brokers.

Investment Advisors

During the period under review, 9 (nine) Investment Advisors were licensed by the Authority to operate in the securities industry. They provide a vital service to the investors as professional analyst and portfolio managers. Their role in the market will continue to be crucial as the market grows in terms of new securities, volume of activities and sophistication in investment analysis.

Like in the case of brokers and dealers, the Authority will shortly be reviewing the minimum capital and other requirements for these advisors.

RESEARCH AND MARKET STUDIES

The key to hastening the orderly development of our capital markets lies in our understanding the issues involved, setting out priorities and implementation of desirable policies. There are times when the issues involved require in depth study, review and analysis with resources beyond internal capacity, a situation that necessitates contracting professional firms to carry out research with an objective of identifying the desirable course of action. The Authority during the period under review continued to solicit proposals on market development from the market players, other interested parties and professional associations. Traditionally,



these ideas and proposals, which touch on fiscal, administrative and regulatory issues, are analyzed and incorporated into the Authority's annual submissions of policy recommendations and proposals to the Minister for Finance for consideration. There are cases, however, that are implemented by the Authority directly whenever it is feasible to do so.

In March 1995, two studies were undertaken on issues related to market development. Ernst and Young, a firm of consultants, was commissioned to carry out a study on "The Review of Capital Markets Institutions and Development of Standard Accounting Systems". The objectives of the study was to review the current practices in our market, compare them with other similar markets and set out appropriate standardised operating and accounting systems to be adopted by all operators. The recommendations of the study are being implemented. The new procedures will not only facilitate efficiency in the operating firms but also enhance detection of areas of non-compliance. The overall objective is to ensure that institutions operating in our market are well managed and manned by competent staff as well as to ensure adequate internal controls and checks and balances aimed at protecting investors interests.

The second study was on the establishment of "A Clearing and Depository System" which was carried out by Messrs Price Waterhouse. The objective of this study was to review the current procedures on delivery, settlement and transfer of securities and assess the modalities of setting up a Clearing and Depository Corporation. The aim of setting up the Corporation is to speed up trade and transfer of securities and enhance efficiency in settlement as well as minimize exposure to systemic risks. These improvements would increase market turnover and improve upon the current levels of liquidity. The Authority will shortly be working out an enabling operational legal framework to facilitate the establishment of the Corporation. In doing so, we shall be drawing on the experience of other emerging markets where similar Corporations have been set up.

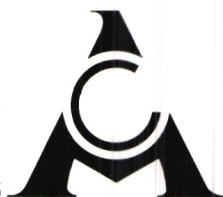
ACTIVITIES IN THE MARKET

During the period under review, market activities increased phenomenally through initial public offerings and bonus issues. The secondary market also witnessed unprecedented peaks in trading activities especially in 1993 and 1994.

The situation in early 1995 reflects market correction through decline in the index level.

Primary Market Activities

The activities at the primary market are critical as an avenue through which long term savings by investors in securities are availed to issuing companies for capital formation. In 1992, three companies namely, Housing Finance Company of Kenya Limited (HFCK), Uchumi Supermarkets Limited and Crown Berger Limited issued a total of 43 million shares and raised close to Kshs. 500 million. All the issues were oversubscribed.



Issues in 1992

ISSUER	SHARES ISSUED (MILL.)	ISSUE PRICE (SHS. M)	AMOUNT RAISED (SHS. M)
HFCK	18.0	7.00	126.00
UCHUMI SUPERMARKET	16.0	14.00	232.00
CROWN BERGER	8.6	16.00	138.00

In 1993, there were two divestiture issues which involved the sale of 3.6 million shares worth Kshs. 62.4 million that were held by the government in Cooper Motor Corporation Holding Ltd (CMC) and East African Oxygen Ltd which are quoted companies.

Issues in 1993

ISSUER	SHARES ISSUED (MILL.)	ISSUE PRICE (SHS. M)	AMOUNT RAISED (SHS. M)
EA OXYGEN	1.6	26.50	42.40
CMC	2.0	10.00	20.00

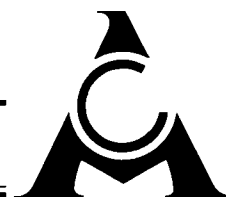
In 1994, a historical record was achieved when three other companies, namely Firestone (EA) Limited, the National Bank of Kenya Limited (NBK) and the National Industrial Credit (NIC) issued a total of 98 million shares. The 3 issues raised Kshs. 2.8 billion. It was the first time in our market that such a huge amount was raised in a year. With the exception of the NIC issue the other two were oversubscribed.

Issues in 1994

ISSUER	SHARES ISSUED (MILL.)	ISSUE PRICE (SHS. M)	AMOUNT RAISED (SHS. M)
FIRESTONE (EA) LTD.	40	35.50	1,420
NIC	18	52.00	936
NBK	40	10.00	400

Secondary Market Activities

In 1992, a total of 15 million shares worth Kshs. 385 million were traded. In 1993, 27 million shares worth Kshs. 835 million changed hands, reflecting an increase of 117% in value terms. Most of this growth was due to general market price rise. The average price per share rose from Kshs. 26 in 1992 to Kshs. 31 in 1993. During 1992, the NSE index rose from 1076 in January to 1167 in December. Between January and December 1993, it rose by 114% from 1176 to 2514 level.



The most remarkable growth was in 1994 when a total of 43 million shares worth Kshs. 3 billion were traded. During that year the index rose to 5030 level in February, the highest peak recorded in the history of the Exchange. The average monthly index was 3990 during that year.

The market capitalization rose from Kshs. 23 billion in December 1992 to Kshs. 72.4 billion in December 1993. By December 1994, the capitalization stood at Kshs. 136.8 billion.

Between January and June 1995, a total of 35 million shares worth Kshs.2.1 billion were traded. The market capitalization stood at Kshs.99 billion by end of June 1995.

MAJOR REGULATORY DECISIONS AND OTHER POLICY ISSUES

In December 1994, the Government allowed foreigners to start investing in quoted securities with effect from January 1995. Foreign Portfolio Investors were initially allowed to invest upto 20% of the share capital of locally owned companies with each foreign investor not owning more than 2.5%. The same limits were to apply for public issues by foreign controlled companies. In June 1995, limits were doubled to 40% aggregate limit and 5% individual limits. A company whose existing foreign shareholding exceeded 40% aggregate and 5% individual limit maintains the higher applicable limits. Foreign portfolio investors are expected to respond positively to these changes. Foreign Investors are also free to invest not only in quoted securities at the Stock Exchange but also in government securities.

In view of the increase in the number of brokerage firms and the need to enhance their performance and investor confidence, the minimum capital and other requirements have been reviewed in light of new developments in the market. The minimum capital requirement for each brokerage firm is shs. 5 million and a bank guarantee of shs. 1.5 million. The firms must also ensure that they hire competent management and staff in order to provide professional services of a high standard in the market.

Under the existing legal framework as amended in 1994 brokerage firms can not deal on their own account. They execute and provide services to the investing public on an agency and commission basis. The dealers would operate and do business on their own account as principals. At the moment, the Authority is in the process of setting out the minimum capital and other requirements for dealers. Similarly the Nairobi Stock Exchange will need to review its rules to provide for the admission of dealers when they are licensed by the Authority.

The Exchange has to inspire and enjoy investors and members confidence to be able to meet its objectives as an investors' and members' facility. It is for this reason that its Board has been re-organized and Management restructured as stipulated in the CMA Act as amended in 1994. The amendments require a reconstitution of the Exchange as a Company limited



by guarantee. Under the same amendments, the new Board of the Exchange would comprise 5 (five) brokers, 2 (two) members from listed companies and 3 (three) members to represent investors interests. The Chief Executive of the Exchange is also a Board Member. The Board Members except the Chief Executive would then elect one of their own to be the Chairman.

Major Sanctions

During the period the following major sanctions were made:-

Trade Bank

In late 1992, Trade Bank Limited which had previously issued 8 million shares through a private placement was denied a listing. This decision was taken in view of the fact that the bank had failed to comply with disclosure conditions for a public issue. The Bank has since been liquidated.

Bob Mathews Stock Brokers

In January 1995 the Authority suspended Bob Mathews Stock Brokers from the trading floor at the Exchange on detection of irregularities in its operations. After appointing an independent Auditor to conduct a special audit, their findings and also other diligent review by the Authority found the firm to have been in violation of CMA Act, Rules and Regulations. Consequently the Authority declined to renew the licence of the firm in May 1995.

FUTURE PLANS

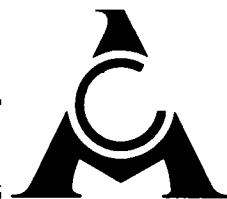
Institutional Development

In view of the growth in market activities, the existing institutions in the market will need to enhance their capacity and management in order to cope with future challenges.

Capital Markets Authority

The current computerisation of the Authority's operations will enable it to enhance its role in the market. The next stage will be to computerise our surveillance function to be able to detect non-compliance and other acts of malfeasance in the market.

Manpower development will continue to be a priority in order for the Authority to cope with future challenges in the market. In this regard the Authority will continue to send its staff to both local and overseas courses that would enhance their knowledge and output. Possibility of periodic staff attachment to similar institutions in other markets will also be explored.



As the market develops and becomes sophisticated, investors will need to be educated on these issues and provided with reliable information. In this regard, the Authority will produce a brochure that will enhance investors' knowledge on its activities and the benefits accruing from investments in securities. A public education programme will also be worked out and implemented shortly. The programme will include the organisation of seminars and workshops not only for the investors but also for financial journalists to enhance their understanding of issues and developments in the market. Plans are also under way to establish a Capital Markets Resource Centre within the Authority.

Review of the Regulatory Framework

In order to guide the Market, the Authority will review the existing regulatory framework and publish guidelines on private placements. Similarly, the Authority will publish rules and regulations on the establishment and operation of Unit Trusts. The Authority will also continue to review its existing rules and regulations in the light of new developments and challenges in the Market.

Financing of the Authority's Operations

Since inception the Authority has continued to be funded by the Exchequer. It has also received donor support from the United States Agency for International Development (USAID). The revenue generating ability of the Authority has been low and was limited to licensing fees from market operators. The summary accounts for the years ended 30th June, 1993 and 30th June, 1994 which constitute appendix III and IV show the financial position of the Authority.

In Mid June 1995, the Honourable Minister for Finance allowed the Authority to collect various fees in the market to finance its operations with effect from 1st July, 1995. The Authority will charge nominal fees on public offerings, private placements, rights and bonus issues. It will also collect fees based on the level of turnover in the market. These measures are designed to enable the Authority to move speedily to be self financing and reduce its dependence on the Government financing.

Nairobi Stock Exchange

The adoption of the new Delivery and Settlement Systems (DASS) has led to improvements in post trading activities at the Exchange. As the volume of business increases it will be necessary to adopt electronic trading at the NSE. The Exchange will therefore be called upon shortly to work out a phased programme on this issue. Staff development and capacity building at the Exchange will also be enhanced to cope with new developmental challenges.

An efficient compliance and surveillance department will eventually be created at the NSE to ensure adherence to trading rules and procedures among the members as part of enhancement of the self-regulatory capacity of the exchange.



Central Depository System

Plans are under way to establish a Central Depository System which will enhance efficiency in the market. The Authority will work out the modalities of facilitating the establishment of a Corporation in conjunction with the NSE. The Corporation will be self financing through fees levied on transactions. This will be purely a private sector venture.

Brokerage Houses and Dealership

The Authority recently reviewed the capitalization and other requirements for brokerage firms. These requirements will continue to be reviewed depending on the growth in market activities. Future plans for brokerage houses will include mandatory computerisation to improve on their services and facilitate their linkage to the Stock Exchange electronically. The recommendations made in the recently concluded study on the 'Review of Capital Markets Institutions and Development of Standard Accounting Systems' will be implemented in phases with the aim of improving upon the standards of management in brokerage houses and enhancing internal controls.

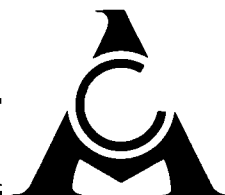
The CMA (Amendment) Act 1994 provides for licensing of Dealers who will only carry out business on their own account. The CMA Rules and Regulations will be revised accordingly to include specific minimum requirements for dealership and their operating framework.

The Authority and the Central Bank, in liaison with the Treasury will work out modalities of facilitating the participation of brokerage houses in the Money Market.

Rating Agencies & Underwriting Services

As the market becomes sophisticated in terms of the range of products and activities, demand for accurate information and risk assessment by the investors will increase. The emergence of at least one Rating Agency will alleviate this problem by providing objective analysis and rating of listed securities. Rating Agencies are also instrumental in the development of debt markets. The Authority plans to explore the potential in the market and encourage the private sector to set up such an Agency.

Underwriting services have not emerged in our market, a reason that has been explained away as owing its roots in the lack of demand for these services is over-subscription of new issues. While this may be the case as evidenced by the levels of over subscription in public issues, there is a need to keep in view the need for these services due to the expected increase in public issues. An increase in initial public offerings may lead to uncertainties as to whether some of them will be fully subscribed and thus the need for underwriting services. The Authority in consultation with the Central Bank will work out operational guidelines and modalities of encouraging merchant banks which will provide essential underwriting, placement and corporate finance services in the capital markets.



Investor Awareness and Compensation Fund

Investor education enables them to keep abreast with market development and make informed investment decisions. It is indeed the wish of the Authority to see the number of investors in the securities industry increase. As the market develops, an efficient mechanism of dealing with investor complaints will need to be instituted. The Authority will enhance its investors awareness and educational programme during 1995/96 financial year.

An Investors Compensation Fund will also be set up to deal with cases of compensation for investors who loose money due to failures of licensed persons to fulfil their obligations. The fund will be set up as stipulated in the CMA Act and will be financed by the market operators as is the case in other markets.

Training for Market Operators

In order to enhance professionalism and manpower development in the market, examinable training courses will be started shortly. A Steering Committee to work out the curriculum and modalities of starting this course has already been set up. The committee chaired by the Authority comprises representatives from the Authority, the Exchange and a few professional bodies. It is envisaged that in the next one or two years the courses will be operational.



CONCLUSION

The growth in the market particularly during the period under review is encouraging and marks only an important beginning towards an uphill task of building a sustainable capital markets development. In this regard there is need to re-double our efforts towards enhancing market development and to position ourselves proactively to meet the future challenges in our economy. It is critical to increase the level of capital formation by mobilising available resources and channelling them to viable investments. In order for our emerging market to play an increasing role in facilitating capital formation in the country there is need for maintenance of a conducive environment for the private sector.

Let me conclude by underscoring that the Kenya economy will increasingly rely on capital markets to play a critical role in capital formation and wealth creation. This entails repositioning the Authority as a lead institution to provide an appropriate regulatory framework characterised by responsiveness, fairness, transparent market operation, orderliness and stability. These are essential in order to provide companies with an efficient framework of raising capital and for the investors to have confidence in the integrity of the market.

Thank you.

Paul K. Melly
CHIEF EXECUTIVE

**WORKSHOPS/SEMINARS/COURSES AND CONFERENCES ATTENDED
BY CMA MANAGEMENT AND STAFF FROM JANUARY 1993 TO
JUNE 1995**

- | | Attended By: |
|---|---|
| 1. International Institute of Securities Markets (IISM) Development Conference Washington DC, USA
26th April to 7th May 1993 | - Mr. P. K. Melly
Mr. G. Oraro |
| 2. Facilitating Capital Market Development in Emerging Economies July 1993 | - Mr. F. W. Omollo
- Mr. Nyamute and Mr. Mathu |
| 3. International Organisation of Securities Commissions (IOSCO) Conference, Mexico
20th Oct. to 6th Nov. 1993 | - Mr. N. Asinjo, Mr. P. K. Melly
and Mr. W. K. B. Arap Chelashaw |
| 4. Securities Market Management Emerging Economies, Washington DC, USA - 29th Nov. to 20th Dec. 1993 | - Mr. S. N. Maina, N. Okondo,
B. Amollo and P. Mukuria |
| 5. International Capital Markets Symposium - Gaborone, Botswana - 27th - 28th June 1994 | - Mr. P. K. Melly |
| 6. Seminar on Facilitating Capital Markets Development in Emerging Economies, Washington DC, USA
20th June to 1st July 1994 | - Mr. J. Okeyo, C. Njoroge,
- I. Mbevi and A. K. Cherop |
| 7. 12th International Conference on Economic Crime, Cambridge, UK 11th to 17th Sept. 1994 | - Mrs. C. A. Kola |
| 8. Federation of Kenya Employers (FKE) 12th Annual Top Policy Workshop Seminars, Sept. 1994
Safari Park Hotel, Nairobi | - Mr. F. Omollo and S. N. Maina |



9. IOSCO - 19th Annual Conference
Tokyo, Japan, 17th to 21st
October 1994 - Mr. N. Asinjo and
Mr. P. K. Melly

10. Commonwealth Programme on
Economic reform and Management
for Africa Region, Duduvile, ICIPE,
NAIROBI 17th Oct. to 7th Nov. 1994 - Mr. S. N. Maina

11. IISM Development Conference
Washington DC, USA
20th June to 1st July 1994 - Mr. F. W. Omollo

12. London Investment Conference
on Investment & Tourism
Brussels, 10th - 23rd Nov. 1994 - Mr. P. K. Melly

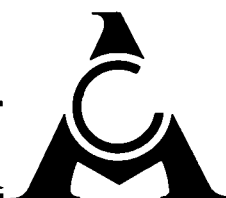
13. Time Management Course in
November 1994 - All Staff

14. Development and Regulation
of Capital Markets in Kenya
27th February - 3rd March, 1995 - All CMA Technical Staff
- Also attended by market
operators, NSE staff
and participants from Central Banks of
Kenya, Uganda and Tanzania

15. International Organisation of Securities
Commissions (IOSCO)/Emerging
Markets Committee Meeting (EMC)
Bangkok, Thailand 7th March to 11th
March 1995 - Mr. P. K. Melly and S. N. Maina

16. International Securities Markets
Association (ISMA) Annual
Foundation Certificate Programme,
Montreaux, Switzerland, 20th - 24th
March, 1995 - Mr. A. K. Cherop

17. South East Asia Study
Tour 12th to 27th March, 1995 - Mr. P. K. Melly, S. N. Maina, C. A. Kola,
R. Lumumba, J. Kihumba, B. C. Patel,
S. Ngaine and J. Murigu



MARKET STATISTICS 1992

MONTH	VOLUME SHARES	TURNOVER (KSHS)	INDEX	CAPITALIZATION (KSHS BILLION)
JAN	573,787	20,399,174	997	14
FEB	920,322	33,178,054	1,047	15
MAR	1,235,263	32,172,985	1,048	14
APR	593,994	16,243,906	1,056	14
MAY	806,555	20,482,032	1,082	15
JUN	1,365,651	29,206,084	1,145	16
JUL	1,038,535	29,355,400	1,209	16
AUG	1,260,346	31,049,147	1,236	22
SEP	2,023,700	47,457,272	1,228	22
OCT	1,968,822	53,111,983	1,234	22
NOV	1,439,169	44,916,822	1,257	22
DEC	1,282,648	26,599,586	1,167	23
TOTALS	14,508,792	384,572,445		
MONTHLY AVERAGE	1,209,066	32,047,704	1,142	17.92



MARKET STATISTICS 1993

MONTH	VOLUME SHARES	TURNOVER (KSHS)	INDEX	CAPITALIZATION (KSHS BILLION)
JAN	4,335,600	119,847,169	1,176	25
FEB	1,407,291	33,966,995	1,221	27
MAR	2,179,955	68,303,781	1,252	28
APR	1,482,789	39,581,081	1,342	30
MAY	1,753,928	46,214,888	1,398	33
JUN	1,410,866	46,035,676	1,508	37
JUL	2,040,621	59,756,623	1,650	40
AUG	2,605,356	65,401,989	1,724	42
SEP	2,765,031	70,543,517	1,811	42
OCT	2,210,512	63,418,581	1,844	46
NOV	3,131,500	128,544,767	2,096	61
DEC	1,968,576	82,690,856	2,514	72
TOTALS	27,292,007	824,305,923		
MONTHLY AVERAGE	2,274,334	68,692,160	1,628	40.25



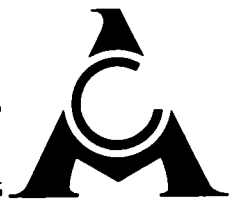
MARKET STATISTICS 1994

MONTH	VOLUME SHARES	TURNOVER (KSHS)	INDEX	CAPITALIZATION (KSHS BILLION)
JAN	3,648,752	203,445,314	3,819	97
FEB	4,327,685	393,518,794	5,031	138
MAR	4,454,893	466,624,972	4,378	118
APR	1,495,203	104,760,0551	3,559	91
MAY	2,312,191	185,111,551	3,620	91
JUN	2,476,652	226,215,936	4,137	103
JUL	2,266,135	186,053,861	4,070	108
AUG	3,999,143	312,144,072	3,916	107
SEP	4,271,627	259,991,201	3,715	102
OCT	2,541,630	154,456,673	3,586	97
NOV	4,006,269	218,659,809	3,485	97
DEC	6,957,892	365,173,479	4,559	137
TOTALS	42,758,072	3,076,155,717		
MONTHLY AVERAGE	3,563,173	256,346,310	3,990	107.17

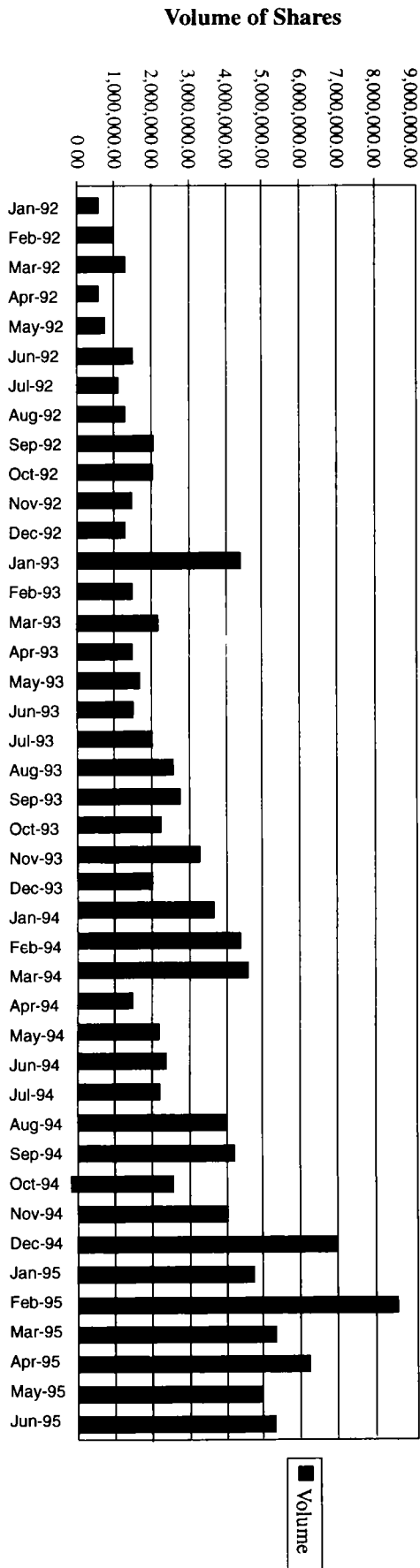


MARKET STATISTICS 1995

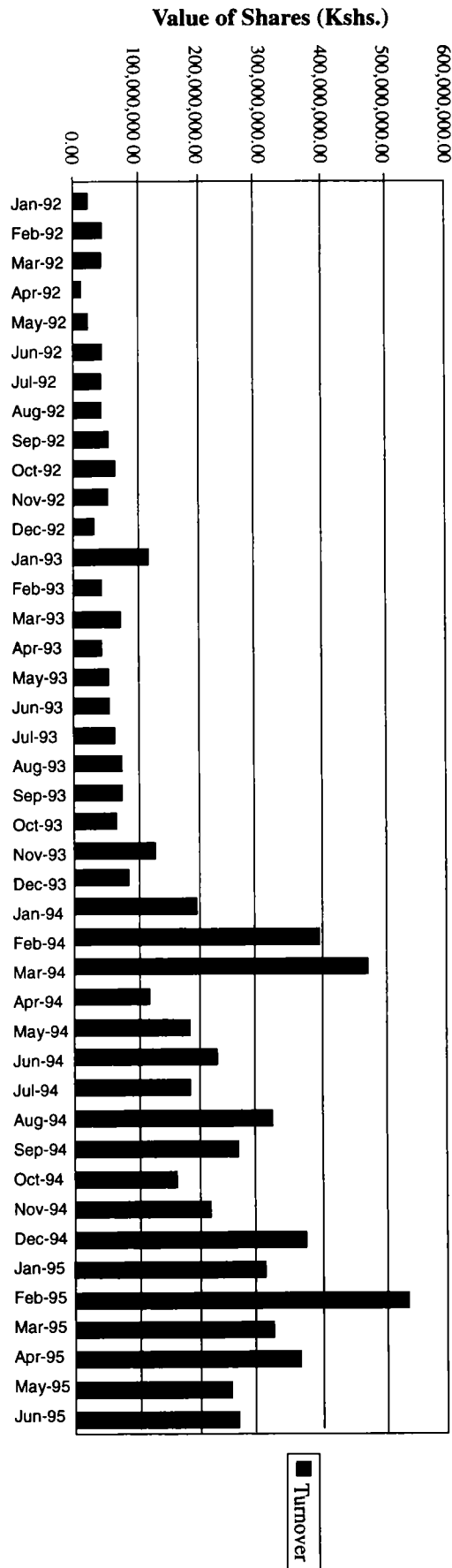
MONTH	VOLUME SHARES	TURNOVER (KSHS)	INDEX	CAPITALIZATION (KSHS BILLION)
JAN	4,867,089	318,373,660	3,940	114
FEB	8,549,380	531,760,283	3,897	119
MAR	5,179,962	315,165,236	3,640	103
APR	6,107,568	350,265,55	3,519	99
MAY	4,989,042	252,834,617	3,415	99
JUN	5,335,434	268,583,182	3,464	99
TOTALS	35,028,475	2,036,982,533		
MONTHLY AVERAGE	2,919,040	339,497,089	3,646	106



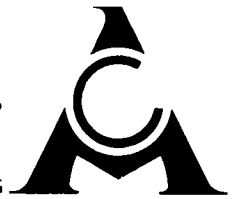
MARKET PERFORMANCE MONTHLY TURNOVER IN VOLUME & VALUES



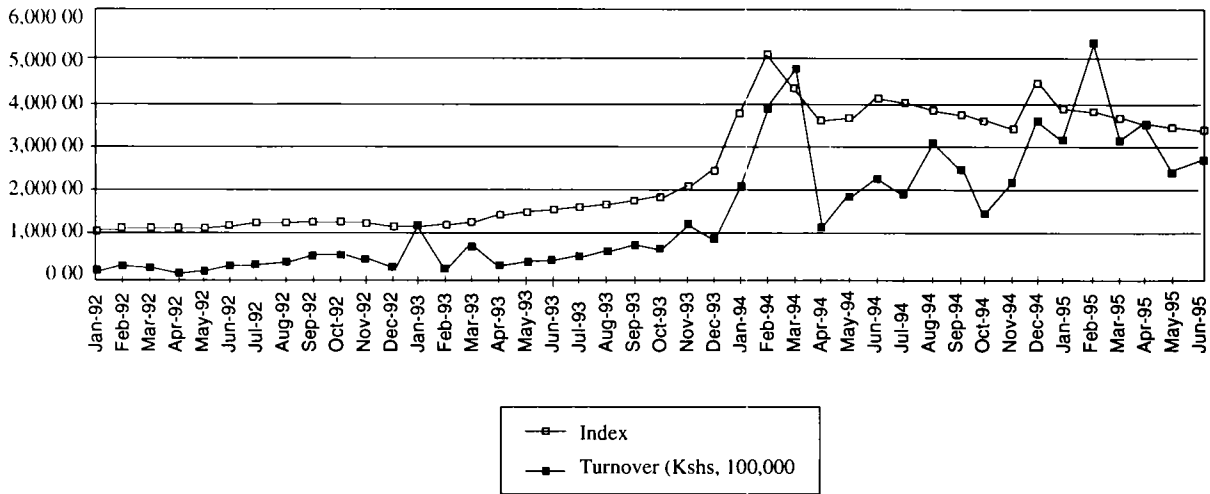
Market Performance (Volume)



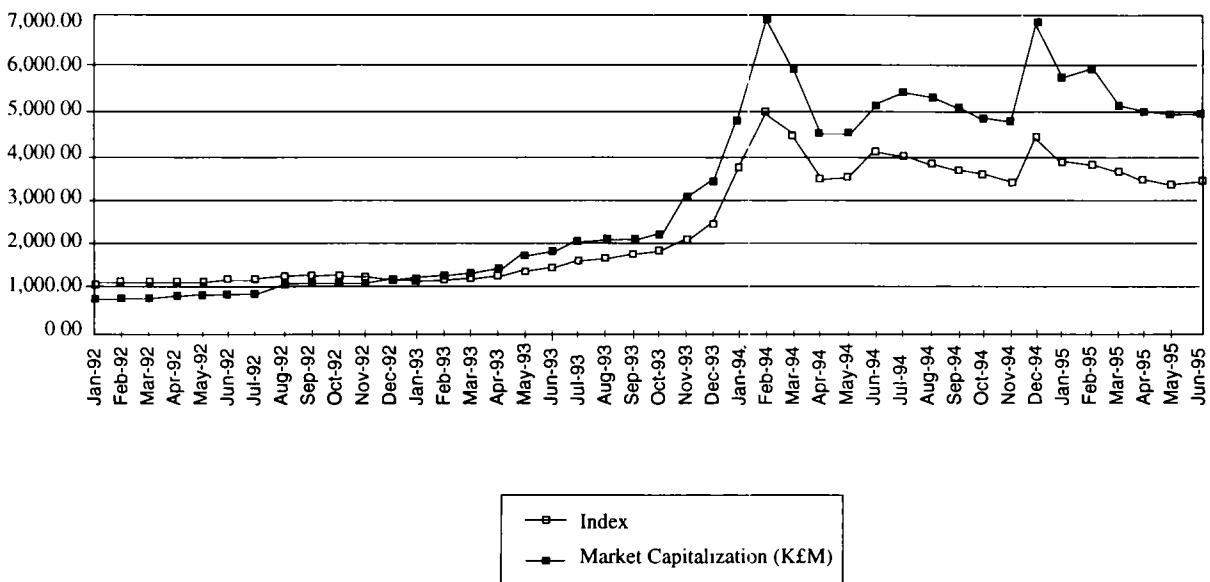
Market Performance (Turnover)



Market Performance (Index vs Turnover)



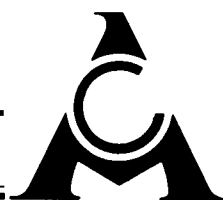
Market Performance (Index vs Market Capitalization)





**SUMMARY OF CAPITAL MARKETS AUTHORITY
ANNUAL ACCOUNTS FOR THE YEAR ENDED
30TH JUNE, 1993**

CAPITAL MARKETS AUTHORITY BALANCE SHEET AS AT 30/6/93



	NOTE	1992/93 KSHS	1991/92 KSHS
FIXED ASSETS	5	<u>10,539,147</u>	<u>11,189,044</u>
CURRENT ASSETS	6		
Debtors		1,360,191	1,137,615
Deposits, Bank & Cash Balance		<u>11,073,388</u>	<u>11,408,491</u>
		<u>12,433,579</u>	<u>12,546,106</u>
CURRENT LIABILITIES	7		
Creditors		3,235,211	1,008,288
Net Current Assets		<u>9,198,368</u>	<u>11,537,818</u>
TOTAL NET ASSETS		<u>19,737,515</u>	<u>22,726,863</u>
FINANCED BY			
Appropriation Account		3,984,492	8,586,513
Capital Fund	4	<u>15,753,023</u>	<u>14,140,350</u>
		<u>19,737,515</u>	<u>22,726,863</u>

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30/6/93

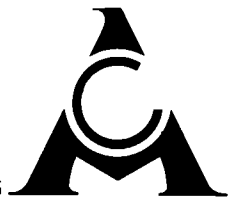


INCOME	1992/93 KSHS	1991/92 KSHS
Government Recurrent Grants	16,663,640	18,001,001
OTHER INCOMES		
Interest Income	1,528,136	1,139,788
Licence Fees	270,000	160,000
Rent	1,243,568	1,486,425
Miscellaneous	21,283	94,614
	19,726,627	20,881,828

REVENUE EXPENDITURE

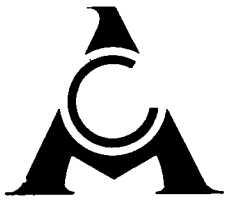
Personal Emoluments	3,638,281	3,109,510
Gratuity and Pensions Contributions	1,426,515	194,214
House Allowance	757,997	572,166
Other Allowances	260,350	56,993
Leave Allowances	251,887	—
Staff Medical Scheme	193,986	160,801
Transport Operating Scheme	511,427	165,457
Travelling & Accommodation	1,924,796	1,755,440
Postal & Telegrams Expenses	6,692	5,806
Telephone Expenses	551,898	399,561
Official Entertainment	640,866	215,779

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30/6/93 *Continued*



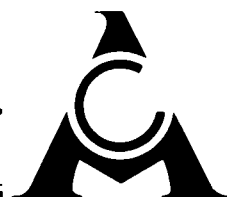
Expenses on Boards & Conferences	2,369,064	12,662
Electricity Water & Conservation	32,463	8,269
Printing & Publishing	218,377	92,609
Purchase of Uniforms	34,091	12,278
Library Expenses	109,057	43,285
Purchase of Stationery	521,311	323,110
Advertising & Publicity	253,380	173,902
Rent & Rates (Residential)	698,780	530,020
Rent & Rates (Non-Residential)	2,805,212	2,696,874
Contracted Professional Services	1,109,233	783,029
Miscellaneous & Other Charges	256,342	482,230
Insurance of Property	249,147	—
Fees, Commissions & Honoraria	157,000	102,000
Staff Training Expenses	597,530	10,090
Purchase of Equipment	52,814	1,200
Maintenance of Plant & Equipment	99,469	41,780
Maintenance of Buildings	169,400	40,072
Audit Fees (Provisions)	25,000	15,000
Depreciation (Note 5)	2,284,883	1,772,047
Previous under provision of		
Depreciation on assets sold	29,788	—
	<u>22,237,036</u>	<u>13,776,183</u>
Surplus (Deficit) to Appropriation Account	<u>(2,510,409)</u>	<u>7,105,644</u>

APPROPRIATION ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 1993

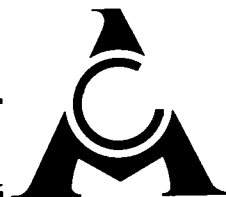


	1992/93 KSHS	1991/92 KSHS
Balance B/F	8,586,513	2,888,754
Prior Year Adjustments (Note 8)	(240,189)	—
Surplus (Deficits) for the year	(2,510,409)	7,105,644
Revaluation Surplus (Note 9)	84,788	—
Development Grants (Note 3)	(216,438)	(114,267)
Capital Fund (Note 4)	<u>(1,719,773)</u>	<u>(1,293,618)</u>
	<u>3,984,492</u>	<u>8,586,513</u>

STATEMENT OF SOURCES AND APPLICATION OF FUNDS 1992/93

**STATEMENT OF SOURCES AND APPLICATION
OF FUNDS FOR THE YEAR ENDED 30TH JUNE, 1993**

SOURCES	1992/93 KSHS	1991/92 KSHS
Surplus (Deficits) for the year	(2,510,409)	7,105,644
Add Sale of Fixed Assets	<u>55,000</u>	<u> </u>
	(2,455,409)	7,105,644
<hr/>		
Add Development Grants		
GOK Grants	200,000	200,000
USAID/CMA*		2,500,000
USAID/NSE*	<u>78,924</u>	<u>1,294,029</u>
	(2,176,485)	11,099,673
<hr/>		
Adjust for items not involving movement of funds		
Depreciation for the year	2,284,883	1,772,047
Loss on disposal	29,788	
Depreciation written off	<u>(22,313)</u>	<u> </u>
	115,874	12,871,720
<hr/>		
APPLICATION OF FUNDS		
Purchase of Fixed Assets		
Motor Vehicles	(1,172,693)	(543,863)
Equipment	(500,000)	(749,755)
Furniture & Fittings	(47,080)	(2,814,267)
Transfer to NSE*	<u>(495,362)</u>	<u>(1,294,029)</u>
Net Increase / Decrease	(2,099,261)	7,469,806

**MOVEMENT OF WORKING CAPITAL**

Increase in Debtors	222,576	(88,642)
Increase in Creditors	(1,986,735)	(474,515)

MOVEMENT OF NET LIQUID FUNDS

Increase in Current A/C	(95,795)	(234,163)
Increase in Fixed Deposits	(210,850)	8,254,673
Increase in Cash Balance	<u>(28,457)</u>	<u>12,453</u>
	<hr/> (2,099,261)	<hr/> 7,469,806

* Through Project No.615 - 0240 (PIL NO.62) USAID has been providing funds for the development of NSE through CMA hence the caption with asterisk in the Statement of Application of Funds.


Note 1 Legal Status

Capital Markets Authority is a body corporate established under the CMA Act 485A which became operational on 15/12/89.

Note 2 Accounting Policies
Basis of Accounting

- (a) The Accounts have been prepared under the historical cost convention and by revaluation of furniture and fittings.
- (b) Depreciation

Depreciation is provided for at annual Pro-rata estimated to write off the cost/valuation of the assets over their expected useful lives using straight line basis.

Assets acquired before the 15th of the month attract full month's depreciation.

The rates used are:

- (i) Furniture and Fittings 12.5%
- (ii) Equipment 20.0%
- (iii) Motor Vehicles 25.0%

Note 3 Development Grants

Grants for the Year	1992/93 KSHS	1991/93 KSHS
GOK	200,000	200,000
USAID/CMA		2,500,000
USAID/NSE	<u>78,924</u> 278,924	<u>1,294,029</u> 3,994,029
Less:		
Purchase of Fixed Assets		(2,814,267)
Transfer to NSE	<u>(495,362)</u>	<u>(1,294,029)</u>
Transfer to Appropriation Account	(216,438)	(114,267)



Note 4 Capital Fund

The Capital Fund represents the amount in Fixed Assets

	1992/93 KSHS	1991/92 KSHS
Balance B/F	14,140,350	10,032,465
- Additions to Fixed Assets		
- Appropriation Account	1,719,773	1,293,618
- Development Grants: GOK		95,570
USAID/CMA		2,718,697
Disposals	(107,100)	
	15,753,023	14,140,350

Note 5 Fixed Assets (Cost/Valuation)

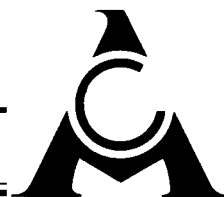
	MOTOR VEHICLE	OFFICE EQUIPMENT	FURNITURE & FITTINGS	TOTAL
As at 1/7/92	2,200,737	1,369,196	10,570,417	14,140,350
Additions At Cost	1,172,693	500,000	47,080	1,719,773
Disposals			(107,100)	(107,100)
	3,373,430	1,869,196	10,510,397	15,753,023

DEPRECIATION

As At 1/7/92	1,002,383	318,753	1,630,170	2,951,306
Charge for the Year	648,908	320,925	1,315,050	2,284,883
Disposals			(22,313)	(22,313)
AS AT 30/6/93	1,651,291	639,678	2,922,908	5,213,876

NET BOOK VALUE

As at 30/6/93	1,722,139	1,229,518	7,587,490	10,539,147
As At 30/6/92	1,198,354	1,050,443	8,940,247	11,189,044



Note 6 Current Assets

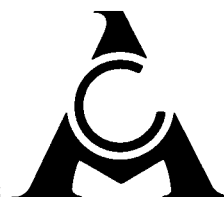
	1992/93 KSHS	1991/92 KSHS
(a) BANK/CASH		
Cash	30,203	
Bank (KCB Current Account)	973,789	1,069,584
Fixed Deposit Receipts	10,097,854	10,308,704
	11,073,388	11,408,491
(b) DEBTORS		
Interest Receivable	255,100	206,861
Advance to Staff	178,091	30,754
Nairobi Stock Exchange	900,000	900,000
Prepayments (Rent)	27,000	
	1,360,191	1,137,615
TOTAL CURRENT ASSETS a + b	12,433,579	12,546,106

Note 7 Current Liabilities

	1992/93 KSHS	1991/92 KSHS
Current Liabilities	3,235,211	1,008,288

Note 8 Prior Year Adjustment Items

(a) Leave Allowances as at 30/6/92	225,189	
(b) Honoraria	15,000	
	240,189	



Note 9 Revaluation Surplus

During the year, previously revalued furniture at Kshs.107,100.00 were disposed. The amount of Kshs.84,788 being revaluation surplus following the disposal of the furniture was transferred to Appropriation Account.

Valuation of Disposed Furniture	-	Kshs.107,100.00
Accumulated Depreciation	-	Kshs. 22,313.00
Revaluation Surplus		Kshs. 84,788.00



**SUMMARY OF CAPITAL MARKETS AUTHORITY
ANNUAL ACCOUNTS FOR THE YEAR ENDED
30TH JUNE, 1994**



CAPITAL MARKETS AUTHORITY BALANCE SHEET AS AT 30/6/94

	NOTE	1993/94 KSHS	1992/93 KSHS
FIXED ASSETS	5	8,321,334	10,539,147
CURRENT ASSETS	6		
Debtors		2,069,660	1,360,191
Deposits, Bank & Cash Balance		11,157,119	11,073,388
		13,226,779	12,433,579
CURRENT LIABILITIES	7		
Creditors		<u>2,161,642</u>	<u>3,235,211</u>
Net Current Assets		<u>11,065,137</u>	<u>9,198,368</u>
TOTAL NET ASSETS		19,386,471	19,737,515
FINANCED BY			
Appropriation Account		3,427,278	3,984,492
Capital Fund	4	<u>15,959,193</u>	<u>15,753,023</u>
		19,386,471	19,737,515

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30/6/94



INCOME	1993/94 KSHS	1992/93 KSHS
Government Recurrent Grants	21,717,120	16,663,640
OTHER INCOMES		
Interest Income	2,521,418	1,528,136
Licence Fees	910,000	270,000
Rent	1,096,886	1,243,568
Miscellaneous	903,096	21,283
Over-provision (leave expenses)	228,937	
	27,377,457	19,726,627

REVENUE EXPENDITURE

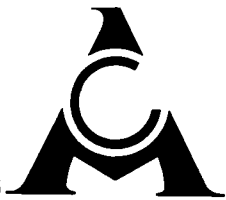
Personal Emoluments	5,632,183	3,638,281
Gratuity and Pensions Contributions	877,446	1,426,515
House Allowance	1,605,139	757,997
Other Allowances	278,000	260,350
Leave Allowances	140,330	251,887
Staff Medical Scheme	225,303	193,986
Transport Operating Scheme	779,581	511,427
Travelling & Accommodation	5,159,892	1,924,796
Postal & Telegrams Expenses	21,918	6,692
Telephone Expenses	826,348	551,898
Official Entertainment	691,944	640,866
Expenses on Boards & Conferences	870,220	2,369,064
Electricity Water & Conservation	77,352	32,463
Printing & Publishing	469,844	218,377
Purchase of Uniforms	34,400	34,091

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30/6/94 *Continued*

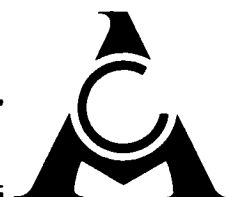


Library Expenses	414,652	109,057
Purchase of Stationery	633,293	521,311
Advertising & Publicity	552,855	253,380
Rent & Rates (Residential)	1,282,167	698,780
Rent & Rates (Non-Residential)	3,389,981	2,805,212
Contracted Professional Services	385,810	1,109,233
Miscellaneous & Other Charges	92,496	256,342
Insurance of Property	446,252	249,147
Fees, Commissions & Honoraria	145,500	157,000
Staff Training Expenses	727,576	597,530
Purchase of Equipment	18,813	52,814
Maintenance of Plant & Equipment	105,638	99,469
Maintenance of Buildings	101,680	169,400
Audit Fees (Provisions)	30,000	25,000
Depreciation	2,423,982	2,284,883
Previous under provision of Depreciation on assets sold		29,788
	28,440,595	22,237,036
Surplus/Deficit to Appropriation Account	(1,063,138)	(2,510,409)

APPROPRIATION ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 1994



	1993/94 KSHS	1992/93 KSHS
Balance B/F		
	3,984,492	8,586,513
Prior Year Adjustments (Note 8)		(240,189)
Surplus (Deficits) for the year	(1,063,138)	(2,510,409)
Revaluation Surplus		84,788
Development Grants (Note 3)	712,094	(216,438)
Capital Fund (Note 4)	(206,170)	(1,719,773)
	3,427,278	3,984,492



Note 1 Legal Status

Capital Markets Authority is a body corporate established under the CMA Act 485A which became operational on 15/12/89.

Note 2 Accounting Policies

Basis of Accounting

(a) The Accounts have been prepared under the historical cost convention as modified by revaluation of furniture and fittings.

(b) Depreciation

Depreciation is provided for annually on straight line basis to write off the cost/valuation of the assets over their expected useful lives at the following rates.

* Assets acquired before the 15th of the month attract full month's depreciation.

The rates used are:

- (i) Furniture and Fittings 12.5%
- (ii) Equipment 20.0%
- (iii) Motor Vehicles 25.0%

Note 3 Development Grants

Grants for the Year	1993/94 KSHS	1992/93 KSHS
GOK	200,000	
USAID/CMA		
USAID/NSE	712,094	78,924
	712,094	278,924
Less:		
Purchase of Fixed Assets		
Transfer to NSE		(495,362)
Transfer to Appropriation Account	712,094	(216,438)



Finance Minister Musalia Mudavadi makes a point to the Chief Executive. CMA advises government through the Ministry of Finance on policy measures required to enhance development and regulation of capital markets.



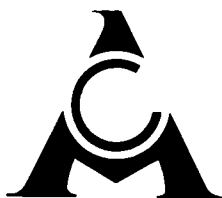
Some senior staff members of CMA in discussion. CMA is committed to the development of orderly, fair and efficient capital markets in Kenya



USAID has been providing long term development assistance to CMA. Here, CMA's Chief Executive, Paul Melly invites the Director of USAID in Kenya George Jones (4th left) to award certificates to participants of a USAID funded course. The course was run by INTRADOS of Washington (USA)



Participants of the above referred to workshop pose for a group photograph upon successful completion. Course participants were drawn from market operators, CMA, Central Bank and the neighbouring countries of Uganda and Tanzania.



Note 4 Capital Fund

The Capital Fund represents the amount in Fixed Assets

	1993/94 KSHS	1992/93 KSHS
Balance B/F	15,753,023	14,140,350
Additions to Fixed Assets		
- Appropriation Account	206,170	1,719,773
- Development Grants: GOK USAID/CMA		
Disposals		(107,100)
	15,959,193	15,753,023

Note 5 Fixed Assets (Cost/Valuation)

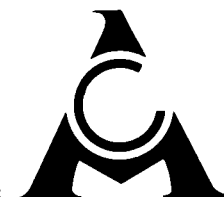
	MOTOR VEHICLE	OFFICE EQUIPMENT	FURNITURE & FITTINGS	TOTAL
As at 1/7/93	3,373,430	1,869,196	10,510,397	15,753,023
Additions At Cost Disposals		206,170		206,170
	3,373,430	2,075,366	10,510,397	15,959,193

DEPRECIATION

As At 1/7/93	1,651,291	639,678	2,922,908	5,213,877
Charge for the Year	718,358	391,824	1,313,800	2,423,982
Disposals				
AS AT 30/6/94	2,369,649	1,031,502	4,236,708	7,637,859

NET BOOK VALUE

As at 30/6/94	1,003,781	1,043,864	6,273,689	8,321,334
As At 30/6/93	1,722,139	1,229,518	7,587,489	10,539,146



Note 6 Current Assets

	1993/94	1992/93
	KSHS	KSHS
(a) BANK/CASH		
Cash	23,147	1,745
Bank (KCB Current Account)	936,348	973,789
Fixed Deposit Receipts	10,197,625	10,097,854
	11,157,119	11,073,389

(b) DEBTORS

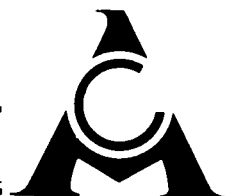
Interest Receivable	301,016	255,100
Advance to Staff	235,741	178,091
Nairobi Stock Exchange	900,000	900,000
Prepayments (Rent)	496,253	27,000
Deposit (Medical)	20,000	
SOKO	116,650	
	2,069,660	1,360,191
TOTAL CURRENT ASSETS a + b	13,226,779	12,433,579

Note 7 Current Liabilities

	1993/94	1992/93
	KSHS	KSHS
Current Liabilities	2,161,642	3,235,211

Note 8 Prior Year Adjustment Items

(a) Leave Allowances as at 30/6/92		225,189
(b) Honoraria		15,000
		240,189



1988

Appointment of the Capital Markets Development and Advisory Council by the Vice President and Minister for Finance

1989

Enactment of the Capital Markets Authority Act, Cap 485A

1990

- JANUARY** Appointment of Authority Members including the Chairman, Mr. N. Asinjo and the Chief Executive, Mr. W. K. B. Arap Chelashaw.
- MARCH** The Authority Board is Inaugurated by the Vice President and Minister for Finance.
- SEPTEMBER** Kenya Commercial Bank, which went public in 1988, issues another 9 million shares to the public.

1991

- MARCH** Kenya Finance Corporation, a listed company issues an additional 3.2 million shares to the public.
- JUNE** Stamp duty on retail share transactions abolished for listed companies
Transaction costs of public issue of shares, bonds and debenture made tax deductible 15% withholding tax made final.
- JULY** Interest rates deregulated.

1992

- OCTOBER** Housing Finance Company of Kenya (HFCK) issued 18 million shares and raised Kshs.126 million.
- NOVEMBER** Uchumi Supermarkets Limited (USL) issued 16 million shares and raised Kshs.232 million.
- Crown Berger Limited (CBL) issued 8.6 million shares and raised Kshs.138.00.



DECEMBER Gazettement of CMA Rules and Regulations through Kenya Gazette supplement No. 97 of 4th December, 1992.

1993

The Fixed Exchange rate regime replaced with a floating one determined by the market

MARCH East African Oxygen (EAO) a quoted company sold 1.6 million shares and raised Kshs.42.4 million as part of Government divestiture.

APRIL Cooper Motor Corporation Holding Limited (CMC) which is a quoted company sold 2 million shares and raised Kshs.20 million as part of Government divestiture.

MAY CMA hosts the IOSCO - Development Committee meeting in Nairobi.

SEPTEMBER CMA hosts African Capital Markets Conference.

1994

FEBRUARY Nairobi Stock Exchange Index hits 5030 historical mark.

JUNE Seven more Stockbrokers licensed.

JULY Gazettement of revised CMA Rules and Regulations through Kenya Gazette Supplement No. 44 of 22nd July, 1994.

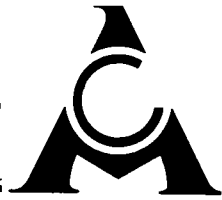
SEPTEMBER Appointment of Mr Paul K Melly as Chief Executive replacing Mr Chelashaw who was appointed the Managing Director of Kenya National Assurance Company.

National Industrial Credit (NIC) issued 18 million shares and raised Kshs.936 million.

OCTOBER Firestone (EA) Limited issued 40 million shares and raised Kshs.1,420 million.

NOVEMBER National Bank of Kenya Limited (NBK) issued 40 million shares and raised Kshs.400 million.

DECEMBER CMA Amendment Bill 1994 passed by Parliament.



1995

- JANUARY** CMA Amendment Act 1994 Assented to by the President.
- Foreign Investors allowed into the domestic Capital Markets and Foreign Investors Regulations are also gazetted through Legal Notice No. 3 in the Kenya Gazette Supplement No.1 of 6th January, 1995.
- FEBRUARY** Eight more Stockbrokers approved for licensing.
- MAY** The Authority declines to renew the licence of Bob Mathews Stockbrokers due to gross violation of CMA Rules and Regulations on Broker Conduct.
- JUNE** Foreign Investors Regulations are amended.
- NSE Board is reconstituted.
- CMA allowed to collect fees from the market to finance its operations.
- Government announces its support for the establishment of a Central Depository System and a Rating Agency in Kenya.
- Government makes appeal to its joint venture partners to consider foregoing their pre-emption rights so that the general public can participate in privatisation.
- Withholding tax lowered to 7.5% for local investors in quoted securities.
- AUGUST** New Foreign Investors Regulations Gazettement through Legal Notice No. 291 in the Kenya Gazette Supplement No.55 of 24th August, 1995.

