



CDAs COMPLIANCE POLICY

Adopted by the CDSC Board of Directors on July 7th 2014

PREFACE

CDSC is committed to implementing a framework which facilitates the appointment and management of agents or other intermediaries authorized to act on behalf of CDSC on a basis which ensures compliance with the standards of business conduct required by the law, CDSC's policies and internationally accepted standards and best practices. At the core of these efforts are integrity, safeguarding of assets under CDSC's custody, and the potential reputational risk CDSC faces from any failure by CDSC or its Agents to comply the required standards.

This Policy sets out CDSC's ethical and legal compliance policy for the entering into and ongoing monitoring of all agency or other similar intermediary arrangements by CDSC or any of its subsidiaries and is part of CDSC's corporate governance and internal control arrangements.

The Policy will be subject to review every three years or as needed to ensure that it reflects developments in the market, best practices and international standards, taking into account the changing environment of the Central Depository and Settlement Corporation ("CDSC" or "the Company") and the capital market in Kenya. This Policy shall be published at the Corporation's website.

DEFINITION OF KEY TERMS AND ABBREVIATIONS

In this Policy the following words and abbreviation shall have the meaning assigned to them unless the context otherwise requires.

The Act	The Central Depositories Act, 2000
Agents, CDAs	Central Depository Agents
The Authority	Capital Markets Authority
CDSC	Central Depository and Settlement Corporation Limited
Board	The Board of Directors of CDSC
BCC	Business Conduct Committee
NSE	Nairobi Securities Exchange

1. INTRODUCTION

Compliance refers to the lawful, responsible and proper conduct of business. Each agent is obligated to obey all applicable laws and corporate guidelines in their work for CDSC. This CDAs Compliance Policy serves as the basis for this. It does not, however, cover all conceivable situations or describe all of the particular rules that must be followed.

The Central Depositories Act requires a central depository to formulate and implement appropriate procedures to ensure that the agents comply with its rules. Section 5 (1) (e) of the Act requires that a central depository ensures compliance of its rules by its agents.

2. PURPOSE

The objective of this Compliance Policy is to promote honest, ethical conduct and to ensure compliance with laws, regulations, rules and international standards and best practices as well as with the Corporation's policies in order to protect the integrity of the capital market.

Compliance with applicable laws, regulations, rules and standards is critical from a risk management and governance perspective. Failure to comply therewith creates potentially material risks, for example the financial penalties applicable for non-compliance with the Capital Markets Act, Central Depositories Act, the Companies Act.

In addition, non-compliance indicates poor governance and has reputational implications.

The Central Depository Agents (CDAs) and other intermediaries authorized to act on behalf of CDSC must carry out diligently, efficiently and to the best of their abilities the responsibilities entrusted to them. They must act with loyalty to the Company where the legitimate interest of the clients and its stakeholders shall prevail, and must act honestly, independently, impartially, with discretion and without regard to self-interest.

3. SCOPE

This Policy is applicable to all business dealings and transactions undertaken by Central Depository Agents (CDAs) on behalf of CDSC and to entities over which CDSC is able to exercise effective control. Authorized representatives or agents of CDSC are under obligation to abide by this CDAs Compliance Policy.

This Policy should be read and applied in conjunction with the laws, regulations, rules and prevailing CDSC Policies and Procedures and guidelines on related matters, including but not limited to:

- The Central Depositories Act
- The Central Depositories Rules 2011
- The Capital Markets Act and all the Regulations, Rules and other statutory instruments issued there under;
- Anti-corruption, anti-money laundering and any associated laws and policy guidelines;
- CDSC Policy on Insider Trading;
- CDSC Policy on Information Security Management System;
- Central Depositories Rules February 2011;
- CDS Operational Procedures 2012;
- Central Depository Agency Agreements.

4. CDSC APPROACH TO COMPLIANCE

Compliance is a matter of principle. Unlawful and unethical behaviour can have far-reaching consequences and ultimately harms the company.

Section 8 (4) of the Act requires a central depository to formulate and implement appropriate procedures to ensure that the agents comply with its rules.

CDSC's approach towards compliance in this policy is to provide a framework of broad principles and guidelines rather than a set of hard and fast rules. CDSC believes that it is not possible to provide a set of rules that will cover every possible scenario and it therefore accepts that it is preferable to rather provide principles and guidelines against which conduct can be tested. This also provides flexibility for adaptation and adjustment as and when circumstances and practices change from time to time. This policy should therefore be interpreted and understood as a set of principles and guidelines against which conduct is to be measured.

As such, this Policy does not replace any existing policies or legal provisions but is rather to be treated as a high level Policy dealing with responsible corporate behaviour as it provides the background and framework against which all conduct as a CDA and all existing policies should be measured and interpreted.

5. COMPLIANCE BY CENTRAL DEPOSITORY AGENTS

5.1 Appointment of CDAs

Only persons prescribed under Section 9 of the Act and Rule 10 of the CMA Central Depository Rules shall be eligible for appointment as CDA.

In accordance with Section 9 of the Act, all appointments of CDAs shall be made by CDSC in writing under the hand of the Chief Executive for the time being of CDSC.

5.2 Compliance Standards

Compliance laws, rules and standards have various sources, including primary legislation, rules and standards issued by legislators and supervisors, market conventions, codes of practice promoted by industry associations, and internal codes of conduct. Compliance laws typically include specific areas such as the prevention of money laundering and terrorist financing and tax laws.

The fact that CDSC is bound directly by national laws and is under the supervision of a national authority results in a specific need to address potential risks by adopting an extensive set of guidelines, regulations, rules and instructions governing the activities of the Corporation and its agents. These are likely to go beyond what is legally binding and embrace broader standards of integrity and ethical conduct. CDAs are required and expected to familiarize themselves with these as appropriate.

In providing its services to central depository agents and their clients as well as other users of its services, CDSC will be subject to certain domestic and foreign laws, rules, regulations and treaties, and to agreements entered into, instruments and declarations made and acts done by CDSC from time to time and the CDAs are required to comply therewith.

Every CDA will be provided with a copy of CDSC's CDAs Compliance Policy. A written acknowledgement of their receipt and understanding of the Compliance Policy must be obtained. All CDAs will be kept informed of any revisions to the policy and shall be required to provide updated written acknowledgements.

5.2.1 Agency Agreements

A Central Depository Agency Agreement which provides for the terms of engagement of the CDA must be entered into before an Agent undertakes any work as a CDA. The Agreement must be signed in duplicate, with the CDA keeping one copy and the CDSC retaining the duplicate copy.

5.2.2 Fees and Charges

Every CDA shall pay the annual subscription fee stipulated in the Rules, which shall be payable at the commencement of every calendar year following the year of appointment.

Every CDA shall ensure that all other fees and charges payable under the Act, Rules, Procedures and/or as may be directed by CDSC are paid within the stipulated timeframes.

5.2.3 Record Keeping

All CDAs must ensure that they have in place internal control systems which must provide for the proper documentation of all transaction details and ensure that these transactions are fully and correctly captured in accordance with the applicable legislation and legal requirements.

Section 9 (4) of the Act requires that in the performance of its functions under the Act, a central depository agent shall, when so required, produce or make available to the central depository or to the Authority, any information or document relating to a securities account.

Section 61 of the Act and the CDSC Operational Procedures require CDAs to maintain records for a minimum period of seven (7) years.

5.2.4 Conflicts of Interest

The conduct of business, execution of a contract or continuation or termination of a business relationship with a third party must not be influenced by personal relationships, personal interests or tangible or intangible personal advantages. Where a conflict appears likely, such must be disclosed in accordance with the applicable legislation and other requirements.

5.3 Monitoring Compliance

In accordance with Section 5A (1) (g) of the Act, CDSC will conduct annual inspections on all CDAs to ensure compliance with the laws, and specifically with matters set out under Rule 8 and 9 of the Central Depository Rules and this Policy.

CDSC will also consider application of risk based supervision where CDAs will be profiled and inspected in accordance with their risk level. This may necessitate conducting of inspections more regularly than annually; monthly, quarterly, bi-annually or as may be necessary, depending on each CDA's risk profile.

In addition to compliance with Rule 8 and 9, the inspections will also check for the CDAs':

- a) Handling of complaints;
- b) General compliance with the CDSC Operating Procedures;
- c) Compliance with the terms of the CDA Agreement.

Upon conclusion of the inspection, the CDSC officer responsible for carrying out the inspections will prepare compliance reports which will be submitted to the BCC and recommendations made to the Board for any action or escalation where necessary.

5.4 Escalation for non-compliance

A Central depository agent that has failed, or has become unable or is likely to be unable to meet its obligations must report such inability to CDSC as soon as it becomes aware of the fact of such inability. CDSC may also identify areas of non-compliance during the inspection of the CDAs premises.

CDSC will take appropriate measures to address non-compliance. Such measures will include, and will not be limited to:

- a) Meting out sanctions and penalties for non-compliance as provided in the Act and this Policy;
- b) Escalation to the Authority in accordance with Section 8 (7) of the Act;
- c) Reporting to the state law enforcement agencies and courts of law

5.5 Sanctions and Penalties for non-compliance

In accordance with Section 5A (1) (i) of the Act, CDSC has the powers to suspend, expel or otherwise discipline a Central depository agent that has failed, or has become unable or is likely to be unable to meet its obligations.

The CDSC Operational Procedures also set out various monetary penalties and surcharges that will be levied against CDAs for non-compliance. These will be applied as and when necessary.

Certain instances of non-compliance may also require the intervention of the state law enforcement agencies and competent courts of law and the non-compliant CDA may be visited with penalties such as court fines and imprisonment of the CDAs employees and representatives.

5.6 Collaboration with Complimentary Institutions

The overall responsibility of the Compliance Policy is to assist CDSC in identifying, assessing, monitoring and reporting on, compliance risk in matters relating to the institution, and its agents. In this regard, CDSC will work closely with other institutions to ensure compliance with the set laws and established rules and policies. These institutions include the CMA, NSE and the CDAs primary regulators.

The Act gives the Authority powers to set standards of competence for central depository agents and to take the necessary measures to ensure the provisions of the Act are complied with.

All the stockbroker and investment bank CDAs are members of the NSE, either as trading or non-trading participants. As such the NSE also has a supervisory role over these CDAs and CDSC will work closely with the NSE to ensure compliance for stability of the market.

6. RESPONSIBILITY FOR IMPLEMENTATION

In accordance with the Act, it is the responsibility of CDSC Board of Directors, Management, staff and agents to ensure compliance with the relevant obligations under this Policy.

The CDSC Compliance Officer is responsible for:

- a) Conducting annual compliance inspections of the CDAs;
- b) providing guidance and support to all staff and CDAs in meeting their obligations;
- c) liaising with external parties;
- d) ensuring that obligations are monitored and met; and
- e) Making recommendations to the BCC on sanctions and penalties in the event of non-compliance.

7. EFFECTIVE DATE

This Policy is approved by the Board of Directors and enters into force as of July 7th 2014.