



MEETING OF THE JOINT BOARDS OF CMA, NSE AND CDSC

SANKARA HOTEL, WESTLANDS

THURSDAY, DECEMBER 16, 2010

PRESS COMMUNIQUE

1. The Boards of the Capital Markets Authority (CMA), Nairobi Stock Exchange (NSE) and Central Depository and Settlement Corporation (CDSC) held a Meeting on **THURSDAY DECEMBER 16, 2010 AT SANKARA HOTEL, NAIROBI**. The Meeting was the first of its kind and brought together the boards of these institutions all with a direct mandate in the securities industry in Kenya. The meeting was called to address among other things the key developmental issues and challenges that face the capital markets in Kenya.
2. The meeting was attended by the Chairmen and Members of the Boards and Chief Executives of the three institutions and it was agreed that in future, such meetings shall be held three times a year.
3. The meeting agreed that the future of capital markets in Kenya was anchored on a backdrop of the new Constitution, the regionalization of the East African member states amongst various strategies adopted by the three institutions and was very bright. The meeting also noted that the Government under the Kenya Vision 2030 plans to transform the country to a middle income economy by 2030 and Capital Markets are key in mobilizing resources to finance infrastructure and flagship projects.
4. The meeting discussed amongst others the following key matters regarding the Capital Markets:
 - a) **Demutualization of the NSE** – it was noted that the amendments to the Capital Markets Act to facilitate the demutualization of the NSE was part of the Finance Bill, 2010. Once the Finance Bill 2010 is passed into law, the process of

demutualization will be concluded in early 2011. The NSE is in the process of putting up the necessary structures as envisaged under the draft law; this will include the adoption of better corporate governance practices and taking up of increased roles as a self regulatory organization meaning it shall exercise more regulatory responsibilities as a first-line regulator.

- b) **Bond Markets Reforms-** The directors noted the increase in bond trading after the introduction of automated trading of bonds in the year. The ongoing initiatives to spur the development of the bonds markets in Kenya were supported and the meeting committed to adopt measures aimed at ensuring that more Corporate Issuers come to the market to raise capital and to ensure that liquidity in the market is increased.
- c) **Investor Education and Public Awareness** – the three institutions resolved to adopt joint and more aggressive and targeted investor education strategies to further deepen the capital markets.
- d) **Establishment of an SME market** – members noted that Kenya is an SME based economy as a result of which most companies are medium sized and may not necessarily meet the current requirements applicable to public offers and listing of securities. Members noted the initiatives towards the establishment of an SME market segment at the NSE and resolved to support its establishment. The market will provide an avenue for raising of capital by small and medium size enterprises.
- e) **Modernisation of Market Infrastructure and Practices** – the meeting noted and rendered its support to the ongoing initiatives towards the improvement of the Automated Trading System and the Central Depository System. The meeting also noted the progress made on a standardized Broker Back Office System which will be in place by end of the first quarter of 2011.
- f) **Sustaining Investor Confidence** – The meeting noted that investor confidence had greatly improved and instances of capital markets fraud had reduced greatly with the introduction of the Capital Markets Fraud Investigation Unit. It agreed that it is imperative to continue supporting policies and measures that would enhance investor confidence.
- g) **Strengthening market intermediaries** – The meeting rendered its full support towards the Capital Markets Authority's initiatives towards the strengthening of the Capital Markets intermediaries by the introduction of Risk Based supervision, good corporate governance and conduct of business codes in line with international best practice.

- h) **Fast-tracking Integration of Capital Markets in the E.A. Region** – It was noted that CMA through the East African Securities Regulatory Authorities Association (EASRA) was fully committed to the current initiatives towards the regionalization of the securities markets and proposals to harmonize the regulatory framework were in progress. The meeting also supported the initiatives by the East Africa Securities Exchange Association (EASEA), of which NSE and CDSC are members, whose objectives include integration of the trading, clearing and settlement platforms in the EAC. It was agreed that both EASRA and EASEA would work together to achieve this objective.
- i) **Introduction of New products** – The meeting noted the progress that had been made with regard to the introduction of Islamic capital markets products, Real Estate Investment Trusts, Asset Backed Securities and Exchange Traded Funds.
- j) **Capital Market Development under the New Constitution-** The meeting noted that under the new Constitution the focus of development will be at the county level and agreed to adopt strategies to devolve the services of the capital markets countrywide. The Capital Markets Industry players will also seek introduction of reforms to enhance the enforcement of contracts.



Mr. Micah Cheserem
Chairman
CMA



Mr. Eddy Njoroge
Chairman
NSE



Mr. Mike Bristow
Chairman
CDSC