

## The Capital Market Authority Effectiveness in the Regulation of Financial Markets perspectives from the financial sector actors

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### ABSTRACT

*Capital Market Authority in Kenya is in a development phase in order to be effective in the regulation of the financial markets. The market participants and the regulators are increasingly adopting international standards in order to make the capital markets in sync with those of developed markets. New products are being introduced and new business lines are being established. The Capital Markets Authority (Regulator) is constantly reviewing existing regulations and recommending changes to regulate the market properly. Business lines and activities are being harmonized by market participants to provide a one stop solution in order to meet the financial and securities services needs of the investors. The convergence of business lines and activities of market intermediaries gives rise to the diversity of a firm's business operations to meet multiplicity of regulations that its activities are subject to. The methodology used in this study was designed to examine the relationship between capital markets Authority effective regulation and the performance of the financial markets. The study used correlation design, the study population consisted of 30 employees in financial institutions regulated by Capital Markets Authority and 80 investors. The study found out that effective financial market regulation has a significant relationship with the financial market performance indicated by ( $r=0.571$ ,  $p<0.01$ ) and ( $r=0.716$ ,  $p\leq 0.01$ ), the study recommended a further research on the factors that hinder effective financial regulation by the Capital Markets Authority.*

**Keywords:** capital markets, regulations, performance

### BACKGROUND OF THE STUDY

The Capital Markets Authority (CMA) was established in December 1989 under the Capital Markets Authority Act, renamed the Capital Markets Act in 2000 after amendments. ( Ball, R. 2001) The CMA is responsible for the licensing, regulation and supervision of all capital markets participants. The CMA also disseminates rules and regulations within its jurisdiction, and is empowered to carry out enforcement and sanctions. All companies that issue securities are regulated under the Capital Markets Act, the Companies Act, and the CMA's regulations. According to the 2004 World Bank Project Appraisal Document, the CMA lacks sufficient capacity and operational independence. The CMA is mandated to supervise securities exchanges, fund managers, Central Depository Systems, custodians, investment banks, collective investment schemes, investment advisers, stock brokers, securities dealers, listed companies, credit rating agencies and venture capital firms ( World Bank, 2004)

The Capital Markets Authority (CMA), the country's capital market regulatory body, has drafted several regulations geared at safeguarding the interests of the investor and reducing the stranglehold that the stock brokers have on the Nairobi Stock Exchange (NSE). A significant number of amendments and regulations have been provided for in The Finance Bill 2010 which increased security and investor confidence in the capital market. The Bill provides for the demutualization of the NSE by the conversion of Nairobi Stock Exchange Company from a company limited by guarantee to a company limited by shares. The CMA has already drafted regulations, the draft Demutualization (Nairobi Stock Exchange) Act, to that effect and is taking part in the implementation of key reforms which would see the shareholding of stockbrokers in the stock exchange reduced to less than 40% in three years. The CMA has further introduced the Capital Markets Corporate Governance and Market Intermediaries Regulations 2010 which govern stockbrokers, investment advisers, fund managers, investment banks and other authorized securities dealers. These rules provide that each market intermediary shall have a board of directors that shall be collectively responsible for the governance of its business.

Adelegan, J.O ( 2008) observed that over the period 2000-2007, Sub-Saharan Africa enjoyed robust growth and, in a context of abundant global liquidity, attracted an increasing number of investors in search of high yields. As a consequence, private capital inflows, portfolio equity flows and debt flows; portfolio bond flows and bank

lending experienced remarkable increases. Private capital inflows took off, driven by a number of domestic and external factors that contributed towards enhancing the region's attractiveness for foreign investors in search of high yields. Net foreign direct investment (FDI) inflows grew progressively; portfolio equity flows took off; bonds flows rapidly increased; and international banking activity all expanded significantly. However, the financial turmoil originating in the developed world in August 2007 has since spread to developing countries, and SSA has not been immune to the secondary effects of the global financial crisis. SSA's growth dropped from 6.9% in 2007 to 5.5% in 2008; in January 2009, the International Monetary Fund (IMF) once more cut its forecast for growth that year by 1.6 % to 3.5%. In April 2009, the IMF revised again its forecast leading to a new projection for SSA growth in 2009, equal to 1.7%. Private capital inflows to SSA were relatively robust up to the first half of 2008, but dropped sharply from the third quarter of 2008, owing to a reduced capability and propensity to invest on the part of foreign investors. Many bond issuance plans were put on hold in countries such as Ghana, Kenya, Tanzania and Uganda. Foreign Direct Investment inflows continued to grow, but at a lower rate. Portfolio equity flows slowed down and sometimes reversed, consistent with sharp falls in stock markets in South Africa, Nigeria, Kenya, Mauritius and Côte d'Ivoire<sup>1</sup>. ( Fama, E.F. 2012) In 2009 there was a marked divergence between the performance of the larger emerging markets (up 74.5%) and the G7 markets (up 24.2%) relative to frontier markets (up 7%) and Africa (down 6.9%) making 2009 the second consecutive year in which African faced with near-zero interest rates searched for higher yields among the larger, more liquid, stocks and markets. However there remained a premium attached to liquidity as investors sought to protect themselves in the event that risky positions had to be unwound quickly, resulting in a focus on the larger stocks and markets. In such an environment, the smaller African markets were doomed to underperform, equities have underperformed most of other regions of the world this was largely liquidity driven by investors ( Fama, E.F. 2012).

On 13 October 2008 the Capital Markets Authority intervened in the management of Discount Securities Ltd, a stockbroker with the Nairobi Stock Exchange, and appointed an auditing firm, KPMG, to investigate allegations weak financial base and poor corporate governance. Following these developments, the National Social Security Fund (NSSF) lost, or is likely to lose, Sh1.4 billion (approximately US\$19 million) belonging to desperately poor retirees invested through the stockbroker. Such losses are not new.( Kihara, M.N. 2006) In 2003 Euro Bank collapsed with Sh256 million (US\$3.37 million) of NSSF contributors' money. The funds had allegedly been invested in Euro Bank through Shah Munge and Partners stockbrokers. It later turned out that Munge was one of the directors of Euro Bank and has since been acquitted of charges relating to the case. In 1993 Mugoya Construction secured a contract to construct NSSF's Embakasi housing project, despite being one of the highest bidders. Although NSSF had already estimated the cost of the project to be a mind-boggling Sh11 billion (US\$160 million), Mugoya was still given an extra Sh2 billion (US\$29 million) when he asked for more funds. The issues in Kenya's financial sector seem aligned to the peccadilloes of multi-party elections. Following the 1992 general and presidential elections at least six banks, mainly associated with Asian business people, were put under statutory management, with disastrous consequences for their largely poor depositors and creditors.( Kihara,M.N. 2006)

According to Adam A.M & Tweneboah, G.( 2009) In the run up to the 1997 elections one of the country's largest banks, the National Bank of Kenya (NBK), teetered on the brink of liquidation before the NSSF and the government injected capital it was the largest bank in the country, the Kenya Commercial Bank had it not been better capitalized than NBK it would have suffered a similar fate. What ails Kenya's financial sector is poor corporate governance, resulting in weaknesses that make pensioners, creditors, employees and depositors extremely vulnerable. These weaknesses include ineffective laws, poor financial sector oversight, a base sector culture and overbearing political and executive corruption.( Musau, M.2007) There are no effective laws in Kenya that criminalize the laundering of the proceeds of drug trade, illegal arms dealings and other crimes. Money laundering rarely adds value to the country, as Kenya is only a conduit of value to other locations. Money-laundering also entrenches political corruption, as criminals fund political processes. The alleged Charterhouse Bank scam, involving money-laundering and tax evasion, was exposed by whistleblowers in 2004. Investigators believe that the cost of the tax evasion and money-laundering that took place through the bank was equivalent to 10 per cent of Kenya's national income. ( Wamalwa, 3003) The auditors' opinion was that the scale of the scandal 'threatens the stability of the Kenyan economy'. According to claims made in parliament by the shadow minister of finance, Billow Kerrow, on 21 June 2006, Charterhouse Bank was part of a network of businesses involved in money laundering and tax evasion activities relating to about Sh18 billion. The shadow minister further claimed that Andrew Mulei had been suspended as the governor of the central bank for seeking to close down the bank. Mulei had earlier been suspended on allegations of abuse of office. The bank was put under statutory management on 23 June 2006.

Another issue is Kenya's failure to pass the Access to Information Bill; as a result, pensioners are unable to scrutinize the NSSF's handling of their money. In addition, the laws that guide the licensing of financial institutions are grossly inadequate in protecting customers and depositors in banking, pension, insurance, securities and foreign exchange institutions. Kenya's financial sector culture has been consistently serpentine, thereby eliminating prospects for the sector's effective self-regulation. (Kamunga, J. 2009) News reports on the stockbroker firm Mwangi Thuo and Partners' collapse in April 2007, following alleged 'fraudulent dealings of its directors and staff, weak capital position and the sale of investors' shares without their consent', claim that investigations implicated both directors of the firm in drawing on clients' money for personal use. In addition, Nyaga Stockbrokers was put under statutory management by the Capital Markets Authority in March 2008, jeopardizing Sh800 million of clients' money. Company directors are suspected of indulging in insider trading and political corruption with abandon. Reports around the collapse of the Uchumi supermarkets in June 2006 raised suspicions of insider trading by some directors. According to Kamunga, J. (2009) just before. The public pronouncement was made huge sums of shares were sold off. Terry Davidson, who was the chief executive officer of Kenya Commercial Bank, a creditor for Uchumi, was arraigned in court on 27 August 2008 and charged with insider trading. Similarly, national broadsheets reported that Chris Kirubi, a major Kenyan industrialist and a former director of Uchumi, was also charged with the offence of conspiracy to defraud the supermarket of Sh147 million. Good governance demands that sector players are seen to be responsible in the conduct of their business – demonstrating their integrity in providing value to customers, adopting ethical employment practices and showing commitment to communities. Despite its admirable infrastructure, Kenya has one of the lowest rates of foreign direct investment in the region. The direct costs of corruption such as bribery for a banking license remain a deterrent to potential investors in the financial sector. Corruption is a major impediment both for existing businesses and those seeking to establish new businesses. According to the Yermek, D. (1996), corruption remains the largest obstacle in doing business. Further, the capacity of public institutions to facilitate corporate performance is ranked as weak, with a score of 3.5 on a scale of 1 to 7. At present there is a somewhat pointless debate about Kenya's constitutional review and the effectiveness of oversight institutions such as the Capital Markets Authority. The Oversight institutions such as the CMA, the central bank and the Kenya Anti-Corruption Commission would be effective in ensuring good corporate governance without undue influence from an overbearing executive. The executive powers greatly compromise the effectiveness of the oversight institutions. The KACC, for example, a supposedly independent institution, has to depend on the director of public prosecution's decision as to which cases to prosecute. The Kenyan constitution grants the director of prosecution sole prosecutorial powers (Kamunga, J. 2009)

The role of the financial institutions is to mobilize savings and allocate them to those in need of funds. They do this by providing brokerage and asset transformation services. (Onyango, V.S 1999) As brokers, financial institutions act as agents for savers and issuers of debt and equity instruments by providing information and transaction services. As asset transformers, financial institutions offer liquidity, maturity and size intermediation. The existence of financial institutions clearly encourages a higher level of savings and investment and ultimately a higher rate of economic growth. Many financial institutions provide specialized services to the economy. Banks, for example, provide payment services and provide a transmission mechanism for monetary policy; pension funds and insurance companies enable us to spread the incomes over the lifetimes; mutual funds and unit trusts provide a mechanism for pooling small savings into large pools of capital while securities firms have specialized in providing risk management instruments. Failure to provide these services can be costly to the economy since efficient financial services are a necessary condition for sustainable economic growth. A stable macroeconomic environment promotes the savings necessary to finance investments a precondition for achieving sustainable economic growth. Participants in the financial system are sensitive to economic fundamentals (Howells P.G Soliman, A.M 2004).

### **PROBLEM STATEMENT**

Foreign capital flows, has an important role to play in the development process. But it is simply impossible for a country to climb the economic ladder without domestic capital accumulation on domestic savings mobilization. This, in turn, depends on efficient domestic financial and capital markets that can manage risk and allocate capital to productive investments. Capital markets are the media by which such exchange occurs. To function effectively, the efficiency of the capital markets cannot be too strongly underscored. The importance of modernizing the market infrastructure is to enhance market efficiency and inspire the enduring confidence of both issuers and investors; capital market authority has to be modern in terms of infrastructure and practices. Availability of information technology is a great boon today. Two crucial pieces of market infrastructure spring to mind: the Central Depository System (CDS) and the Automated Trading System (ATS). The former was implemented just over a year ago and its positive impact on market has been beyond all expectations. It is universally viewed as one of the cornerstones of a safe and secure market, an essential ingredient for attracting both suppliers of capital and products into the market. It assures and comforts investors that their trades

executed at the securities exchange will be brought to completion, But the CDS is only one side of the coin to reap the full benefits of automation, trading operations and eventually should move to full on-line trading. The researcher undertook to find out the effectiveness of capital markets authority in the regulating the financial markets in Kenya.

## **LITERATURE REVIEW**

### **Financial institutions regulator**

The unprecedented growth of the Kenyan financial markets in the recent past has brought about new challenges which require concerted efforts of all players in order to safeguard the integrity of the stock exchange. ( Bhide, A. 1993) A number of stock exchange brokers have not been operating their businesses within the kind of corporate governance framework that would be expected of them. Failure to manage their businesses in a professional manner and serious governance malpractices has seen some stock brokers so far experience significant financial difficulties forcing the Capital Markets Authority to place them under receivership/statutory management( Bhide, A. 1993)

According to Capasso, Slavature ( 2008) The Government has been very much aware of these problems in the stock markets and the way they have impacted negatively on the confidence that the Kenyan as well as foreign investors, have on the stock exchange. It is, indeed, because of this recognition but more so because of the importance of the capital market in supporting the development process of the nation, that the Head of State in March 2008, issued strong warning to the wayward stock brokers urging them to stop their bad ways of running business. It is against this background and the need to strengthen the corporate governance and safeguard public interests in the capital markets industry that the Government has been undertaking a comprehensive reform program to put in place a robust supervisory and regulatory framework in the capital markets that conforms to international best practice. The reforms are aimed at enhancing professional and operational capacity of the capital market institutions and intermediaries, setting up compliance and enforcement mechanisms, as well as enhancing the capital market infrastructure ( Chen, S.N & Dodd, J. 2002)

### **Role of capital markets authority**

Berthelemy, Jeane- Caude & Aristomene Varoudaki ( 1996) observes that It's important that market participants be it licensees, banks or listed companies along with their employees are aware of the various regulatory disciplines and comply with them. In the last couple of years, the regulator has laid down the regulatory framework for the introduction of various new product lines. At the same time, CMA has framed or revised regulations to streamline various business activities like issuance of securities to the public, mergers and acquisitions, trading and settlement processes to name a few. In the year 2001, the regulator amended regulations to lay greater emphasis on compliance by various entities in the capital markets. However, considering that capital markets is incredibly dynamic and that about three years have lapsed since regulations were last reviewed, it's now necessary that more amendments are made in the regulations to among others make appointment of compliance officers mandatory for every aspect of the capital markets business. ( Boyd, John & Bruce Smith, 1996) The other area that needs to be addressed in the regulations is Insider Trading. Though insider trading is prohibited and is clearly stipulated in the current regulatory framework, there is no clear-cut procedure to ascertain or prevent the vice. There is therefore need to revise regulations to lay down procedures to prevent insider trading, market abuse and unfair trading practices. Further, there is need to strengthen the laid down guidelines for disclosures needed during issuance of securities and take over processes. Against this backdrop, it is inevitable that listed companies and all other firms that issue capital markets services and their employees are aware of the intricacies of the regulatory framework for the capital markets. It is therefore important for a firm to formalize internal policies and procedures for itself and its employees to carry on business activities in compliance to the various existing regulations( Boyd, John & Bruce Smith, 1996).

Capital Markets authority is sensitive in handling of client's information. Consequently, all firms that handle and offer capital markets services should design policies and procedures that prevent misuse of client's information, insider trading and market abuses. Insider information includes 'material' information that is non-public and has been provided to a firm on a confidential basis by an external source, such as a client or a prospective client. Information is material if it has market significance; the dissemination of such information is likely to affect the market price of any outstanding securities or is likely to be considered important by reasonable investors, including reasonable speculative investors in determining whether to trade such securities. Information is likely to be material if it relates to significant changes affecting such matters as dividends, profit or earnings estimates, significant write-down of assets or additions for bad debts, contingent liabilities, proposals involving mergers and acquisitions, liquidity problems, extra ordinary management departures and public offerings.( Demirguc- Kunt Asli & Ross Levine, 1996b) Material information entrusted to a firm on a confidential basis must continue to be treated as 'inside' information until there has been a public announcement

that is authorized by the client and enough time has lapsed for the information after it has been broadly disseminated to have been absorbed by the market. The circulation of rumours even if they are accurate, either widespread or reported in the media does not constitute public disclosure that will release a firm from its obligation not to misuse the inside information.

According to Wamalwa (2003) every employee of a firm has an affirmative duty to safeguard the confidentiality of all information obtained in the course of doing business on behalf of a firm. Information with respect to client's requirements, whether or not publicly available, should never be discussed with, or disclosed to anyone outside the firm except as required in the performance of services of that client. It is employee's obligation to be familiar to and comply with the firm's policy and applicable laws and regulations and to demonstrate sound ethics, honesty and fairness in all their dealings. It is equally important for the firm to educate and train its employees with respect to their obligations to comply and to supervise the activities of employees to ensure the firm stays on the right side of the regulatory framework.

Wamalwa (2003) Capital markets authority monitoring procedures which are typically done by a compliance officer, capital markets institutions procedures to monitor the trading by its employees on their personal account. The best method is to have a pre-clearance procedure whereby an employee is required to take pre-clearance from his manager and the compliance officer. Seeking pre-clearance implies that an employee has made the necessary declarations regarding not being in possession of non-public information and agreed to abide by the firm's policy in respect of the trade of which pre-clearance is being sought. While approving an employee trade, the manager should consider among others possession of inside information by the employee concerned, appearance of impropriety, unusual trading activity in the market and incidences of front running or piggy backing.

Onyango V.S (1999) Capital markets authority's services takes the pivotal role in monitoring compliance by the firm and its employees, compliance is the responsibility of everybody within the firm. All employees are informed of their obligation to comply with the relevant rules, regulations and laws. As the capital markets grow and become more sophisticated, regulators take cue from those of developed markets to lay down proper supervisory procedures for each aspect of capital markets business. (Onyango V.S 1999) These procedures help those institutions to conduct their various business activities in a seamless manner and also comply with the various regulations and codes of business conducts that exist. These procedures help a firm to provide safeguards against insider trading, market abuses and unfair trade practices. It should be borne in mind that failure to comply with the regulatory framework have serious consequences including loss of business. Therefore, it is important for capital markets institutions to understand that good compliance is good business.

### **Financial market segmentation**

As the financial market segmentation takes root in Kenya, a clear separation between dis-intermediation and financial intermediation is emerging. The different types of financial players in the market place are defining the critical role of linking the deficit and surplus funds units. The conservative institutions that used to intermediate between those two units are re-thinking their relevance in the capital markets.(Mbugua, A.W 2004) For this cause the significance of investment banks is gaining relevance as more deficit-funded-enterprises struggle to look out for cheap capital to finance their operations. The implied truth in macroeconomics is that scarce resources in any country have to be matched with the needs of that particular market. In other words, it is very critical that the Kenyan enterprises are able to raise additional capital in their own market as opposed to external borrowing. This is very important in two ways: First, that domestic capital helps a local market grow in availing funds across the board and secondly, that it helps restructure the nature, availability and cost of capital in that market. However, for this to happen, there is a need to have the institutional framework and capacity in the market that will facilitate the financial dis-intermediation( Mbugua, A.W. 2004)

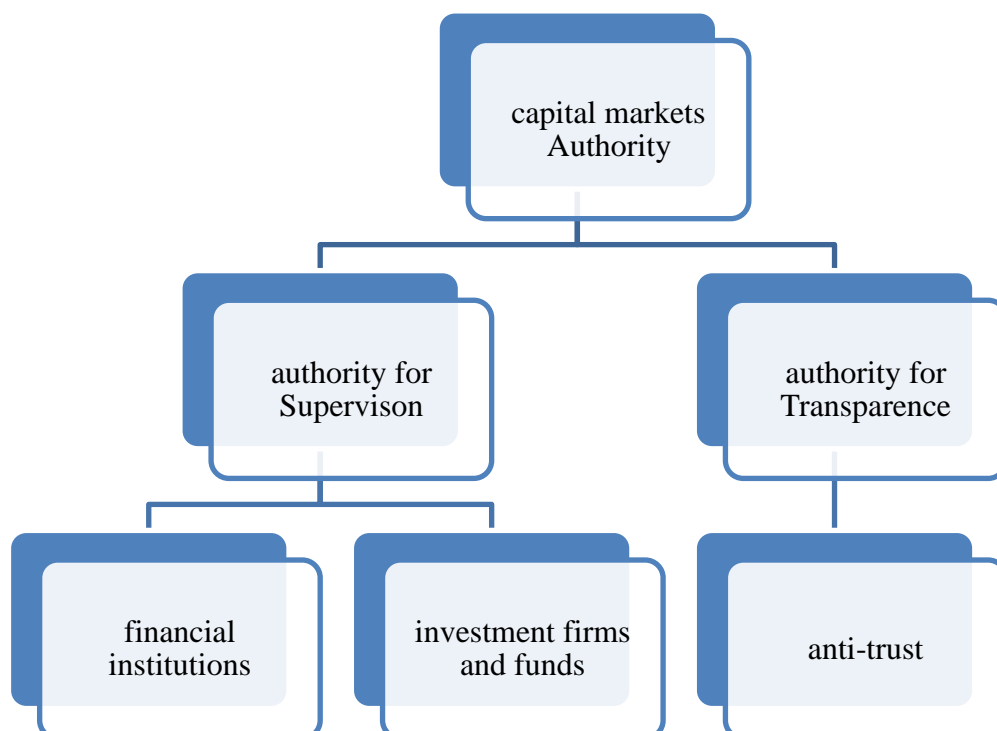
### **Capital market authority in Kenya**

The Kenyan capital markets currently boast of eleven investment banks. Most of them have emerged as a result of upgrading by stockbrokerage firms leaving the latter category with 10 players only. The entry of investment banks as full houses for issuing solutions has been hailed as a major milestone towards modernizing the market. These banks have internal institutional responsibility to offer such investment solutions in the market.( Musau, M. 2007) the key role of investment banks as the primary issuing houses in the market. An issuing house is an institution, which has the capacity and responsibility to offer all round financial solutions in the capital market world. An issuing house could be a primary dealer, securities dealer, and hybrid stockbroker or investment bank. An issuing house is an institution, which is able to take on a primary issue from its inception, to approval, preparation of issue documents, marketing and placement, to listing and secondary trading at the stock exchange.

Musau, M. (2007) indicates that in Kenya the Capital Markets Authority has up-to-date licensed stand-alone investment advisors numbering 28 in total. In some circumstances these investment advisors double as fund managers who specialize in the provident and pension schemes industry. The investment banks automatically qualify in this category in Kenya. Other resultant practices like mergers, takeovers and acquisitions fall under this category. The institution has the capacity to buy and sell securities on their own account. In other instances the dealer does underwriting assignments during primary issuance. This involves undertaking the responsibility of buying all the untaken shares/rights/bonds at the end of an initial public offer or public issue exercise. This helps stabilize the prices of the issuer in the market particularly if such company is listed in the stock exchange. This exercise does two things: first, underwriting an issue makes it popular as investors feel comfortable and secondly the issuer would not be worried about the risks of under subscription. In retrospect such dismally subscribed public issues like the Mumias Sugar IPO in 2001, Anglo Property IPO failure in 2001, the ICDC-I Rights Issue in 2001, Total Kenya Rights Issue in 2002 would not have happened. Instead an issuing house would have rescued all cases to over- or full subscription levels. In Kenya, the Capital Market Authority is keen to midwife the actualization of legislation for an OTC. Ideally a company metamorphosis leading to listing of its securities in an official stock exchange should begin with an OTC. Companies that could benefit from an OTC include privately owned companies, Saccos, Cooperatives, unquoted public companies etc. OTC can be used to facilitate private placements of syndicated products to borrowers in the capital market. In such arrangement, the borrower would have to comply with the basic issuance rules in order to facilitate trading of those securities in the secondary market ( Musau, M. 2007).

Venture capital is a critical service offered by an issuing house in helping high growth potential ventures for start up of young companies. ( Wamalwa, 2003) observes This service has been limited in Kenya due to lack of stand-alone venture capitalists or progressive investment banks willing to release either debt or equity capital to the start ups. A known player in this market is the CDC capital. The Capital Market Authority in conjunction with key market players is keen to see the development of the venture capital segment of the market. Finally Investor training is major component of an issuing house, where, time-to-time research undertaken brings in newer concepts and products to the market. Research and training is very useful to the market if a meaningful growth is to be achieved in a capital markets. This is what will determine the speed with which the market will attain its critical mass.

**Figure 1. A 4-Peak Model for Financial Regulation**



Source; Researcher Conceptualization,2012

## RESEARCH METHODOLOGY

The methodology used in this study was designed to examine the relationship between capital markets Authority effective regulation and the performance of the financial markets. The study used correlation design study on the employees of institutions regulated by Capital Markets Authority and both domestic and foreign investors. The study population consisted of 30 employees in financial institutions regulated by Capital Markets Authority and 80 investors. The researcher used a list of Companies provided by the Capital markets Authority as a complete sampling frame from whom the respondents were selected using simple random sampling. A sample size of 70 was obtained. Primary data was collected through the use of self administered questionnaires, which the researcher distributed to and collected from the respondents. To establish reliability and validity, the questionnaire was pre-tested on 20 respondents an equivalent of 10% of the sample size. Data was analyzed using the descriptive and inferential statistics .

## RESULTS AND DISCUSSION

This section presents the data, its analysis and interpretation. It dealt with employee working in the financial institutions regulated by Capital Markets Authority, the questionnaires, interviews, document analysis, and observation schedule were used for data collection.

### Respondents' Gender, Age and Educational level

Table 1.

Item		Frequency	%
Gender	Male	47	66.14%
	Female	23	33.86%
<b>Total</b>		<b>70</b>	<b>100.0%</b>
Age	Below30 Years	11	15.9%
	31-40	9	12.7%
	41-50	48	69.0%
	50 and above	2	2.4%
	<b>Total</b>	<b>70</b>	<b>100.0%</b>
Educational level	Secondary	3	9.5%
	College	5	4.0%
	University	58	83.3%
	Masters	4	3.2%
<b>Total</b>		<b>70</b>	<b>100.0%</b>

Table1 indicates that 47(66.14%) of the respondents are male while 23(33.86%) are female. It also shows that 11(15.9%) of the respondents were below30 years of age, 9(12.7%) were between 31 and 40 years, 48(69.0%) were between 41 and 50 years, while 2(2.4%) were above50 years of age. The table also shows that 3 (9.5%) of respondents have attained secondary education, 5(4.0%) have college education, 58 (83.3%) have attained university education while4 (3.2%) have attained masters level of education. It is clear from this table that there were more male respondents than female respondents in the selected financial institutions. This implies that most of the employees are male dominated. It also shows that a majority of the respondents were between 41 and 50 years of age. This is an indication that most of the respondents are mature people. It is also clear from the table that majority 58 (83.3%) of respondents are highly trained with attainment of University level of education. It is also clear that a small number of respondents 3 (9.5%) are untrained with only Secondary level of educational attainment.

**Respondents' working Duration and Number of Financial Institutions worked for**

Below is a table showing the duration respondents have worked and the number of financial institutions they have worked in.

**Table 2. Respondents' working duration and Number of financial institution worked for**

Item		Frequency	%
Duration taught	Below 4 Yrs	25	35.7%
	5-10 yrs	36	51.6%
	11 yrs and over	9	12.7%
<b>Total</b>		<b>70</b>	<b>100.0%</b>
Financial institution worked in	1	19	27.14%
	1-2	7	10 %
	3-4	9	12.86%
	5-6	28	40 %
	6 and over	7	10%
	<b>Total</b>		<b>70</b>

From table 2, 25(35.7%) of respondents have worked in the organization for a period less than Four years while a major 36(51.6%) have taught in their school for a duration of between five(5) and ten(10) years. This shows that the sampled respondents have been in the financial institution long enough and understand the financial institution's environment. It is also clear from the table that 9 (12.7%) of the respondents, have been working in their institution for more than eleven (11) years. The table also shows that 19 (27.7%) of respondents have worked in one financial institution. This implies that some respondents are still new in their organization. The table also shows that, 9 (10.3%) of respondents have worked for one to two financial institution 9(13.5%) have worked in 3-4 financial institutions 28(40.5%) have worked in more than six organizations. Only 7 (7.9%) of respondents have worked in more than six financial institution. This implies that respondents moved from one financial institution to another after a given period.

**The level of effective market regulation on market performance****Table 3.**

	Sample	N	Mean	T	Df	P
Market regulation	Employees	20	5.4291	8.481	329	.000
	Investors	50	6.2641			
Effective regulation	Employees	20	5.0896	4.470	343	.000
	Investors	50	5.6880			
Market performance	Employees	20	5.1104	2.434	333	.015
	Investors	50	5.4400			

**Source: Field Survey**

These results above reveal that both the investors and the employees regarded that the capital markets authority was giving an effective market regulations through effective regulation. There was a significant difference between investors and employees in their rating of all variables of the study; the perceived capital market regulation ( $t=8.48$ ,  $DF=329$ ,  $p=0.000$ ) effective regulation ( $t=4.470$ ,  $DF=343$ ,  $p=0.000$ ) and market performance ( $t=2.434$ ,  $DF=333$ ,  $p=0.015$ ). The employees had higher mean scores for these variables than the investors.

The scores provide the employees personal perception of how effective is the market regulation they provide in the regulation of the financial market and investor's evaluation of the service quality experienced this may be due to the fact that the Capital Markets Authority has adopted many strategies to offer high regulation.

**Pearson's correlation between the variables of the study****Table 4.**

	Financial regulation	Effective market regulation	Market performance
Market regulation	1		
Effective regulation	.510**	1	
Market performance	.571**	.716**	1

**Source: field survey**

According to the study there was a significant relationship between the market regulation and market performance ( $r=0.571$ ,  $p<0.01$ ) this confirms the hypothesis that market regulation increases the market performance increases. There is a significant positive relationship between effective market regulation and market performance indicated by ( $r=0.716$ ,  $p\leq 0.01$ ) this confirms the capital market must effective effect the market regulation to achieve the market productivity through market performance.

**Prediction Model**

These results highlight the extent to which the predictors, the market regulation, effective market regulation explain the level of market performance.

**Table 5**

Model	Unstandardised coefficients B	Std Error	Standardized coefficients Beta	t	sig	Dependent variable; market performance	
Constant	.549	.340	Beta	1.613	.114	R square	.729
Market regulation	.486	.113	.468	4.290	.000	Adjusted R square	.711
Effective market regulation	.369	.069	.499	5.340	.000	F change	41.183
Financial Market performance	.018	.108	.108	.164	.871	Sig, F change	0.000

**Source; Field Survey**

These result highlight that the predictors can explain up to 71.1% of the variance in market regulation ( adjusted R square= .711) these results further reveal that the effective market regulation was very powerful in explaining market performance ( Beta= .499, sig.=.000) and this was closely followed financial market performance( Beta=.108, Sig.=0.000) overall regression model was significant ( sig. F change=.000) indeed the effective market regulation can predict up to 71.1% of market performance.

**Study Conclusion and implication**

The performance of capital markets is of significant importance to investors as they expect good returns on their investment. To policymakers, stock market parameters such as indices are recognized as leading indicators of economic activity. The level of stock prices can also have a direct impact on consumption through the wealth effect. In most African countries the public sector dominates debt issuance, mainly with debt instruments of very short tenure and activities focused on the domestic primary market with limited secondary trading. Bond markets are characterized by fragmented markets, high transaction costs, illiquidity and general dissatisfaction with the primary dealer system. There is a fragmentation of the market as evident by an excessive number of bonds issued with no benchmark bonds and insufficient liquidity in each of the issues. In some countries such as Botswana, there has been a lack of government bond issues largely because the governments has hitherto run budget surpluses or have access to cheaper concessional donor funds.

**Study recommendation**

The future of effective Capital Markets Authority in financial sector regulation lies in the apt of way of management exercises its discretion in its legislation of rules and laws governing the financial sector and promotion of the financial sector, the management needs discretion in order to handle the great expectation demanded by the finance sector institutions.

Good corporate governance practices should be emphasized in Capital Markets Authority and made to be a must to curb the mismanagement and corporate scandals that have been seen in the financial sector especially in companies listed in the Nairobi stock exchange.

A further research should be carried out in Capital Markets Authority to look at the process of legislation to establish whether it is all inclusive.

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