

EXPRESSION OF INTEREST

RISK-BASED SUPERVISION (RBS) EXPERT

1. Introduction

Prior to 2009, the Capital Markets Authority Kenya (CMA or the Authority) was implementing a compliance-based supervision regime where regulatory resources were applied equally amongst all market intermediaries. In 2011/2012 the Authority transitioned to a risk-based supervision (RBS) model where regulatory resources are allocated based on the level of risk exposure to an intermediary and the market in general. The RBS model's primary focus on risk created a need for more information including financial statistics, operational data, ICT systems, internal controls, and people from the regulated entities.

The design of the risk parameters in the current CMA RBS model was informed by the prevailing market environment at that time. The implementation of the RBS model was accomplished through an excel based risk-profiling tool which was later transferred to an internally developed RBS system. The RBS system enhanced the efficiency of the various tasks within the methodology and improved the supervision staff objectivity in their risk ranking of the market intermediaries.

The Authority still utilizes the RBS system but recognizes that a lot has changed since its development; including the operating environment, products, and services in the market and categories of intermediaries which all need to inform approaches to effective supervision and aspects of risk profiling. CMA has over the years implemented patchwork amendments to the RBS tool/methodology but acknowledges that significant amendments to the current risk-profiling tool or its complete overhaul are necessary to enhance supervision outcomes.

The Capital Markets Authority with the support of FSD Africa is therefore seeking the services of a consultant to provide technical assistance in overhauling the current RBS model and tools and provide capacity building to the staff of the Authority. The consultant will be expected to work closely with staff of the Authority, dedicating most of his time as a resident consultant during the consultancy period.

2. Background

2.1 Capital Markets Authority Kenya (CMA)

The Capital Markets Authority is an independent public agency established by an Act of Parliament, Cap 485A, under the National Treasury and Planning/Ministry of Finance. The Authority was established on December 15, 1989 when the Act was passed and was inaugurated in March 1990.

The Authority has a twin mandate of regulating and facilitating the development of capital markets in Kenya. This includes licensing and supervision of market intermediaries and issuers of securities to the public as well oversight of the securities exchange(s) and central depositories and all other persons regulated under the Capital Markets Act. It plays a critical role in the economy by facilitating mobilization and allocation of capital to finance long term investments in productive investments.

The Authority derives its powers to regulate the capital markets industry from the Capital Markets Act and the Regulations issued thereunder. The regulatory functions of the Authority are provided under the Act and the regulations and include the following:

- Regulating the issuance of the capital market products (equities, fixed income, etc)

- Licensing and supervision of all the capital market intermediaries and issuers of securities to the public.
- Ensuring the proper conduct of all licensed persons and market institutions.
- Promoting market development through facilitating innovations in the securities markets industry, research on new products and institutions.
- Promoting investor education and public awareness.
- Protecting investors' interests.

2.2 Financial Sector Deepening Africa (FSD Africa)

FSD Africa is a specialist development agency working to reduce poverty by strengthening financial markets across sub-Saharan Africa. Based in Nairobi, FSD Africa's team of financial sector experts work alongside governments, business leaders, regulators, and policymakers to design and build ambitious programmes that make financial markets work better for everyone. Established in 2012, FSD Africa is incorporated as a non-profit company limited by guarantee in Kenya. It is funded by UK aid from the UK government.

3. Objective

In 2011, the Authority put in place a risk assessment model informed by a market survey that focused on the prevailing risks and the operating environment at the time. Though this was a great starting point, the model was limited and covered investment banks and stockbrokers only. Due to the passage of time, most of the risk parameters have ceased to be relevant or new risks have emerged due to macro-economic factors including innovations and technological advancement. Additionally, new licence categories have been introduced hence the need to develop a risk profiling/assessment model that is flexible and scalable.

The main objective of the consultancy (hereinafter referred to as 'the Services') is to review the existing RBS model, processes, and tools, make recommendations for modifications or overhaul. In addition, it will include a review of existing technological solutions that support risk-based analysis and propose modifications or develop more appropriate specifications, assist in procurement and implementation of an alternative automated RBS system (if required). It will also implement a programme for capacity building for the Authority's supervision staff.

The purpose of this call for expression of interest is therefore to enable FSD Africa to identify a consultant(s) who may be engaged to work closely with the Authority in the review of its RBS model, processes, and tools.

Successful consultants under this call for EOIs will then be invited submit bids based on specific terms of reference

4. Expressions of Interest

Procurement of the Services is subject to a full international tender. This requires a two-part process:

- In the first part, **Expressions of Interest (EOI)** are invited from qualifying firms in an open tender. This invitation is open for a minimum of 20 calendar days.
- In the second part, following a shortlisting process, FSD Africa will issue an **Invitation to Tender** to shortlisted firms.

A detailed Invitation to Tender document will be prepared by FSD Africa during the EOI phase.



At this point, FSD Africa is inviting EOIs from suitably qualified consulting/advisory firms. Given the specialised nature of this assignment, you are strongly advised not to send an EOI unless you have a proven track record of having undertaken the role of a risk-based supervision expert in emerging or frontier capital markets, preferably in sub-Saharan Africa.

Consultants wishing to be considered for short-listing will need to demonstrate some/all of the following:

- Undertaken comparable assignments in the last 10 years and successfully implemented a risk-based supervision model for a securities market regulator or securities market self-regulatory organization, will be desirable.
- Experience in designing and implementation of RBS frameworks in the broader financial sector.
- At least 5 years of hands-on experience in the development of risk-based supervision methodologies and tools.
- Experience in similar work in Sub-Saharan Africa or other emerging economies or comparable markets.

Please note - a fully costed proposal and/or detailed work plan is not required at this stage.

Your/your consortium's EOI should contain:

- names, CVs and location of key individuals
- an outline of team structure
- a short statement of why you believe your firm has the right experience and blend of expertise for this assignment.
- a short description of anticipated risks and how you would expect to deal with these.
- confirmation of your firm's availability to carry out this work, giving details of any prior calls on your firm's time (**NB: allowing for both parts of the procurement process, it is envisaged the project will start on 1st October 2020**)
- any other information that you believe should be considered in the shortlisting process

Your EOI, which should not exceed 3 sides of A4 (font size 11), excluding CVs, company brochures etc., should be sent to FSD Africa at bids@fsdafrica.org by noon (EAT) 11th August 2020.

5. Contact

Questions or comments in respect of this request for Expressions of Interest should be directed to bids@fsdafrica.org.

6. Applicable Taxes

As per Kenya's tax law, FSD Africa will pay the Consultant after withholding the appropriate taxes at the applicable rate between Kenya and the Consultant's country of tax residence, considering any tax treaties in force. It is the responsibility of the Consultant to keep themselves apprised of these

applicable taxes. The below table however provides guidance on the applicable rates as per tax regimes

Country	WHT Rate
Kenya	5%
United Kingdom	12.5%
Canada	15%
Germany	15%
Zambia	15%
India	10%
Non-resident rate for citizens of EAC member countries (member countries attached)	15%
All other countries	20%