

## ABSTRACT

This study that sets out to review the legal, policy and institutional framework for regulation of financial markets in Kenya and how the same is responsive to the challenges posed by technological advancement and especially the advent of electronic trading. The study was motivated by the increased use of electronic medium in financial markets transaction and the likelihood that the future of financial markets in Kenya and elsewhere is electronic. The aim of the study was, therefore, to undertake a maiden study on regulation of e-trading in the Nairobi Stock Exchange and make recommendations towards more responsive and adequate regulation of electronic trading in Kenya and the East African region at large. Chapter One is the adapted research proposal. As such, it lays down the key planks of the study including the statement of the study problem, the justifications of the study and the objectives that the study aspired to meet. In addition, a review of the available literature on the subject of the study is undertaken with the emerging consensus being that none of it addressed regulation of electronic trading as was proposed to be done in this study. Chapter Two of the study, on its part, is introduced the key terms and concepts associated with electronic trading and its regulations. Various terms and concepts including financial market and electronic trading among others are defined in the context of the study. The Chapter, further, outlines the framework of assessment of regulation of electronic trading in Kenya discussing the parameters that are to be used to gauge whether or not the regulatory framework is up to its task. Chapter Three discusses the legal and institutional framework for regulation of financial markets and electronic trading in Kenya. Firstly, the regulation of electronic trading under the Capital Market Act is discussed. This is followed by a discussion of the current regulation of electronic trading under automated trading rules of the Nairobi Stock Exchange. Further, the regulatory mandate of the central depositories system and their nexus with electronic trading in Kenya is considered. (iii) Finally, the chapter reviews a number of case studies on regulation of electronic trading from around the world in particular regulation of electronic trading in US, Hong Kong and Republic of South Africa. The aim is to afford a comparative framework on which to gauge the adequacy and effectiveness of the Kenya's regulatory framework on electronic trading. It suffices to state that chapter three entails a description of the framework regulating electronic trading in Kenya and in the diaspora. Chapter Four takes the descriptive discussion of the regulatory framework for electronic trading entailed in Chapter Three a step further by undertaking a detailed critique and analysis to determine whether or not the same is adequate for its purpose. The critique reveals profound flaws in the regulatory governance for financial markets and electronic trading in Kenya that need to be remedied. In a nutshell, the regulatory framework for electronic trading in Kenya is found to be ill-equipped for its purpose and in need of urgent reforms. Chapter Five makes recommendations for policy and regulatory reforms in regulation of electronic trading in Kenya. In essence, four key recommendations are made. First, measures to improve the institutional framework for regulation of electronic trading in Kenya especially as embodied in Capital Markets Authority are recommended. Secondly, the study proposes the enhancing of self-regulation of electronic trading in Kenya. Thirdly, proposals are made for the strengthening of the regulatory governance of electronic trading in Kenya. Lastly, measures are recommended to help adapt the Kenyan regulatory framework to meet the challenges posed by the advent of electronic trading.