

**Factors Affecting Financial Derivatives in Financial Performance in Nairobi Securities
Exchange Market in Kenya**

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D190/101290/2016

Abstract

This study investigated the factors affecting financial derivatives in financial performance in Nairobi securities exchange market in Kenya financial sector and had the following specific objectives: To determine effect of financial innovation in financial performance of the NSE, to determine the effect of legal and regulatory framework in financial performance in the NSE market, to investigate the effect of risk management in the financial performance of the NSE.

The study was conducted through a descriptive survey of 7 listed firms in the NSE market. sample consisted of 7 company listed by the NSE market. The data was analyzed through questionnaire and descriptive analysis with the help of the Statistical Package for Social Sciences software (SPSS). This gave distribution measures for the data collected such as frequency and percentages. The qualitative data was presented in narrative form under relevant identified themes while the quantitative data was presented in form of figures and tables including charts and tables.

The study found that the Kenyan Financial derivatives market is still in the development stage as characterized by the poor technology in the marketing of the derivatives, political unrest in the country and discourage of the small enterprises by the big firms into the NSE entry. Usage of financial derivatives in Kenya was mainly found to be highly demanded by the need for many firms and financial institutions to hedge risk of losses from political, interest rates and the fluctuating value of the Kenyan currency. The study also found the main challenge facing financial performance of the financial derivatives in Kenya also include poor structural facilities including poor trading platforms, poor governors in the systems and weak trading leadership. The study also concluded that the financial performance of financial derivatives in Kenya would only be possible if financial innovation, legal and regulatory framework and the company size were well funded by the government in Kenya.

The study recommends that the Capital Markets Authority, Central Bank and the Government in Kenya take serious in investing in the financial derivative market growth for the increased improvement in the financial performance.