The Capital Markets Soundness Report (CMSR)

Volume XXIX Quarter 4 2023(1 October – 31 December) 2023

"Enhancing market liquidity through transparency and efficiency in Over the Counter (OTC) trading and trade reporting"

A Quarterly Publication of the Capital Markets Authority (Kenya)

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SPECIAL MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Valued Reader,

The Capital Markets Authority is pleased to publish the 29th edition of the Capital Markets Soundness Report (CMSR) for the fourth quarter of 2023.

The report provides you, our esteemed reader, with a comprehensive analysis of global, regional, and domestic economic and capital market performance. It further presents key risks and opportunities defining the capital markets during the quarter, and the interventions the Authority has undertaken.

Despite the geopolitical pressures that defined the year 2023, the global economy continued to demonstrate elevated levels of resilience. Growth is projected at 2.7 [1]percent in 2024 with Asian economies expected to continue to be major contributors, according to the Organization for Economic Cooperation and Development (OECD) economic outlook report of November 2023. Global IPOs have seen a decline both in proceeds and in numbers. However, the global equity markets beat the odds and posted the best performance in 3 years in November and December 2023.

I commend the issuers of securities for their dedication in implementing the principles and recommendations outlined in the 2015 Code of Corporate Governance Practices for Issuers of Securities to the Public. According to the 6th edition of the report, all listed companies' annual weighted overall score increased to 75.71 percent (Leadership rating) in the financial year 2022/2023, up from 72.27 percent (Good rating) the previous year. Eight companies attained a rating of "good", obtaining between 65 and 74 percent. Six companies achieved a "fair" rating (between 50 and 64 percent), while four companies were categorized as "needing improvement".

[1] https://www.oecd.org/newsroom/economic-outlook-a-mild-slowdown-in-2024-and-slightly-improved-growth-in-2025.htm

The Authority is also pleased to announce the admission of First Future Holdings Limited (FFHL), to test a USSD-based platform that simplifies Central Depository System (CDS) account opening and subsequent trading at the Nairobi Securities Exchange (NSE) in partnership with Sterling Capital, into its Regulatory Sandbox.

Finally, I am delighted to inform you of the gazettement of the Capital Markets (Alternative Investment Funds) Regulations, 2023, the Capital Markets (Credit Rating Agencies) Regulations, 2023, the Capital Markets (Public Offers, Listings, and Disclosures) Regulations, 2023, and the Capital Markets (Collective Investment Schemes) Regulations, 2023. The gazettement of these regulations will unlock previous barriers to access and investment in the capital markets, foster innovation and promote market development.

We look forward to continued collaboration with you, our esteemed stakeholders, to deepen the market. As you peruse this report, we request you to share your thoughts on its key findings, lessons learned, opportunities, risks and potential mitigations so we can improve our capital markets policy and regulatory framework to make Kenya an inclusive, investment destination of choice.

Enjoy the read!

FCPA Wyckliffe M. Shamiah

CHIEF EXECUTIVE OFFICER

EDITORIAL

Greetings!

The 29th edition of the Capital Markets Soundness Report (CMSR), themed " **Enhancing capital markets' liquidity through transparency and efficiency in Over the Counter (OTC) trading and trade reporting**," delves into the benefits of over-the-counter trading to support the ongoing bond market reforms in Kenya.

The global capital markets remained resilient amidst the tough geopolitical and macro-economic developments. The MSCI World Index and Emerging Market Index registered positive returns by 24.42 % and 10.27 %, respectively, in United States Dollar terms, on a year-to-date basis as of 29 December 2023, mainly driven by optimism that falling inflation would lead to interest rate cuts by central banks, coupled with growing sentiments that borrowing costs had peaked globally.

In the quarter under review, the International Organization of Securities Commission (IOSCO) published policy recommendations for Crypto Asset Markets. Further, the Malaysia Securities Commission (SC) unveiled Principles-based Maqasid Al-shariah Guidance for the Islamic Capital Market, while the International Capital Market Association (ICMA) released a new paper on Market Integrity and Greenwashing Risks in Sustainable Finance. These international developments underscore the growing need for regulators to address sustainability issues, develop Islamic capital markets, deepen the markets and enhance regulatory oversight of crypto assets as a key area of public interest.

Regionally, Tanzania launched the dual-tranche Jamii bond, worth TZS 1 Trillion (Kshs 64 billion), to finance various sustainability projects, with the first tranche of TZS 75 billion and USD 10 million subscribed by 284% and 730% respectively. Additionally, the Namibian Stock Exchange launched a new Automated Trading System (ATS) for bond trading to underscore its dedication to driving technological advancements in the capital markets.

On the domestic front, His Excellency President William Ruto assented to the Privatization Bill 2023 after the National Assembly passed it in September 2023. The Nairobi Securities Exchange PLC (NSE) approved the listing of Linzi Sukuk on the bourse's Unquoted Securities Platform (USP) as the first Shariah-compliant product to be admitted on the platform.

The domestic capital markets registered negative returns, with the MSCI Kenya Index declining by 46.61% on a year-to-date basis in United States Dollar terms in the quarter. The volatility of the three market indices, namely NSE 20, NSE 25, and NASI remained low at 0.39%, 0.45%, and 0.52%, respectively. Market liquidity as measured by turnover ratio decreased from 1.56% to 1.04% during the quarter due to a decline in equity markets activity. During the quarter, CMA continued to undertake a raft of interventions to support enhanced retail investor participation with Assets Under Management (AUM) of Collective Investment Schemes (CIS) crossing the Kshs 200 billion mark, the highest in Kenya’s history.

Average foreign participation in the equities market increased from 46.85% in Q3 2023 to 59.09% in Q4 2023, indicating an increase in foreign investors' participation during the quarter. The net equity portfolio outflow as of 31 December 2023 stood at Ksh 2.34 billion million, lower than the Kshs.3.54 billion million recorded in the third quarter. The market concluded the year on a positive note, marked by a substantial decline in net equity portfolio outflows, as foreign investors eyed select blue chips at the Nairobi Bourse.

Capital markets licensees during the quarter remained sound as evidenced by the increase in their net assets position between 1 September and 31 December 2023.

We conclude this edition with a detailed capital markets stability analysis of trends in volatility, liquidity, concentration, foreign portfolio flow, derivatives statistics and net asset base of licensees on a quarter-by-quarter analysis.

Enjoy your read!

Mr. Luke E. Ombara

DIRECTOR, POLICY AND MARKET DEVELOPMENT

1.0 SPECIAL FEATURE: OVER THE COUNTER (OTC) TRADING

The over-the-counter market, commonly referred to as the OTC market, is where securities not listed on exchanges are traded. OTC trading is done in over-the-counter markets through dealer networks and dedicated OTC securities exchanges. No physical location is associated with the OTC market, but all trades occur electronically and directly between two parties in a decentralized market.

OTC dealers convey their bid, ask quotes, and negotiate execution prices by telephone, mass e-mail messages, and, increasingly, mobile text messaging. The process is often enhanced through electronic bulletin boards where dealers post their quotes[2]. Negotiating by phone or electronic message, whether customer to dealer or dealer to dealer, is known as bilateral trading because only the two market participants directly observe the quotes or execution. OTC markets have two dimensions: the customer market (Bilateral trades between dealers and customers) and the inter-dealer market (Dealers quoting prices to each other).

The OTC market is the alternative method of organizing the financial market other than having a securities exchange. The OTC markets started as off-exchange platforms for bringing together issuers and investors. This was through a decentralized market where the market participants traded non-listed securities.

The nature of the OTC markets has evolved over the years by introducing technology and rules that fostered transparency and disclosure so much that there is a thin line between the Exchange and OTC platforms. The changes include:

- Many of the instruments traded have documentation on the nature of the instrument and standard contracts, which include clearing, settlement, and accounting provisions.
- Prices are arrived at via prices quoted by dealers (Who are also market makers), who trade for clients and in their own accounts.
- Traders may use common Electronic Trading Platforms to agree on pricing.

[2] https://www.imf.org/en/Publications/fandd/issues/Series/Back-to-Basics/Financial-Markets

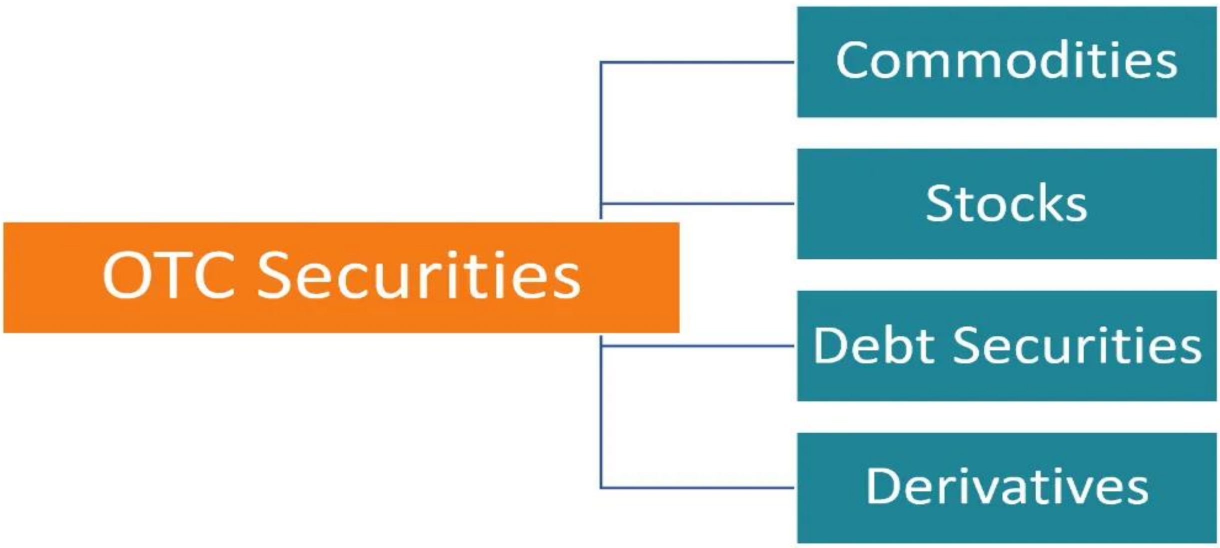
- There are designated "market makers" drawn from associations of financial market participants.
- Price transparency is promoted through the publication of multilateral trades.
- Counterparty risk is reduced through Central counterparty (CCP), Delivery Versus Payment (DvP) and other market standards and infrastructure, and
- Specific-trade guarantors and insurers were introduced to manage pre-trade and other risks across the clearing and settlement process.

OTC Securities

OTC securities comprise a wide range of financial instruments and commodities. Financial instruments traded over-the-counter include stocks, debt securities, and derivatives. Stocks traded over-the-counter usually belong to small companies that lack the resources to be listed on formal exchanges. However, sometimes even large companies' stocks are traded over-the-counter.

Derivatives represent a substantial part of over-the-counter trading, which is especially crucial in hedging risks using derivatives. The lack of limitations on the quantity and quality of traded items allows the parties involved in the trading to tailor the specifications of the contracts in the transaction to the risk exposure. Thus, these instruments could be used for a "perfect hedge."

Figure 1 Over the Counter Securities



Source: Corporate Finance Institute Resources

Benefits and Risks of OTC Trading

One of the key benefits of OTC trading is that it enables small businesses to fundraise without the necessity of being listed on a stock exchange. Unlike corporations listed on stock exchanges, these businesses can enjoy reduced financial and administrative costs. OTC trading is also used for hedging, risk transfer, and business operations leverage. Corporations that trade on OTC are not bound by the same set of rules as exchange-traded securities and, therefore more flexible. OTC platforms provide unlisted companies with consistent prices for securities to their clients.

Securities purchased on OTC markets are considered high-risk. First, securities bought and sold on OTC markets are not frequently traded. Because of this, they have low liquidity, which could make it difficult for them to sell. Secondly, OTC markets have little to no oversight by regulators. Companies and their securities traded on exchanges have rigorous listing conditions and ongoing regulations they must follow.

Many companies that are unable to meet these conditions and regulations end up trading on OTC markets. Third, many companies that trade on OTC markets have little or no business history. This gives potential investors no reliable information to check or research before investing. Finally, fraudsters can use OTC markets to operate pump-and-dump schemes because there is less regulatory oversight, and securities typically have low values.

OTC Bond Trading

Bonds represent an entity's long-term debt obligation. Bond investors effectively lend funds to the bond issuer for a defined period to meet their financing needs. Like most loans or lending arrangements, bonds are interest-bearing securities issued at fixed or variable interest rates, and the interest is paid either in the form of a periodic coupon throughout the bond's tenor or as a discount at the issuance of the bond. By issuing a bond, the issuer (borrower) commits to make both interest and principal payments to the investors (lenders).

In most jurisdictions, most bond trading takes place over the counter (OTC) where several dealers act as market makers. Dealers provide bids and ask for quotes upon solicitation from interested buyers and sellers, who could be clients or other dealers. To facilitate these trades, dealers maintain, on their books, an inventory of bonds whose size fluctuates depending on the direction in which they trade. This inventory carries market risk, which dealers try to minimize or at least be compensated for. One way for dealers to manage their inventories is to trade with other dealers in what is called the inter-dealer market, which is typically out of reach for most other market participants and, as such, constitutes a separate tier in OTC bond markets.

Reasons For Bonds Primarily Trading On OTC

The majority of bond trading around the world takes place in over-the-counter (OTC) markets, where liquidity is provided by a small number of financial institutions (dealers who are majorly banks), who use their balance sheets to intermediate trades.

The prevalence of OTC trading in bond markets is due to the following main factors:

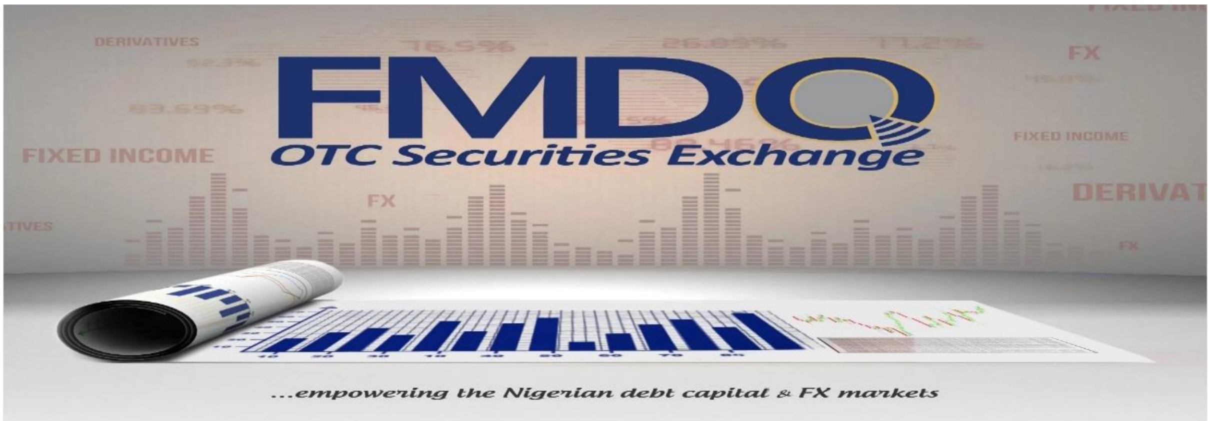
1. A large number of bond issues- a firm may issue a few types of shares, but it may issue tens of bonds with different coupons, maturities, and seniority. Unlike equity or currency markets, where products are more standardized, there is only a small chance of finding matching orders to buy or sell a particular bond with a specific tenor and coupon. Market makers play the role of matching demand and supply orders.

2. The larger trading sizes- equities trade in smaller average sizes compared to bonds. The average size of a bond trade tends to be greater than that for an equity trade.

3. There is a smaller number of bond trades- shares trade on average more frequently than bonds, with some only trading a few times a year. Unlike equities, almost all bonds trade infrequently, so there is rarely a constant supply of buyers and sellers looking to trade sufficiently to sustain a central pool of investor-provided liquidity.

Case Study

FMDQ- Nigeria



Source: FMDQ Group

Financial Markets Dealers Quotation OTC PLC (FMDQ) was registered (licensed) by the Securities & Exchange Commission (SEC) in 2012 as a self-regulatory organization (SRO) and market organizer to perform the functions of an OTC market organizer by bringing together Nigeria's fixed income and currency operations under a single market governance structure. FMDQ's objectives were to complement existing securities exchanges and provide issuers, investors, and end-users of financial market products with world-class market governance for capital transfer. Under the governance of FMDQ, the secondary bond market has witnessed revolutionary changes, hastening the development of the Nigerian financial markets by transforming and aligning home-grown market practices with international best practices.

FMDQ Exchange provides access to capital for issuers seeking to raise debt finance by providing an enabling platform that promotes requisite secondary market liquidity. It fosters transparency & information symmetry, promoting credibility and enabling investors to make more informed decisions. Issuers also benefit from the diversified investor base, highly responsive and efficient listings/quotations process, and credible benchmark pricing required for appropriate portfolio valuation, etc. With an average annual market turnover of over $554.73 billion over the last nine (9) years, FMDQ Exchange is the largest Exchange in Nigeria.

FMDQ has an Average Annual Market Turnover of ₦169.57trn($544.73bn), 46 Bonds excluding Eurobonds valued at over ₦4.27trn($5.12bn), Over 473 Listed/Quoted FGN Debt Securities valued at about ₦137.93trn($377.45bn) and 810 Listed/Quoted/Noted Corporate Debt Securities Valued at ₦7.63trn(c.$9.16bn)[3].

The dealing members trade bonds listed and admitted on FMDQ, some of which act as primary dealers to the sovereign domestic bonds. FMDQ Dealing Members (Banks) act as market makers for Nigerian sovereign bonds, thereby providing trading liquidity for these bonds.

The Debt Management Office of Nigeria (on behalf of the Federal Government of Nigeria; FGN), through the Central Bank of Nigeria, issues Bonds periodically to meet the government's medium- to long-term funding needs. FGN Bonds are usually issued through a competitive bidding process, following which they are listed and traded on relevant platforms on FMDQ. Other types of bonds listed and traded/reported on FMDQ In addition to FGN Bonds include:

- **Agency Bonds** – Bonds issued by government-owned/sponsored entities.
- **Subnational/Municipal Bonds** – State and local governments issuing bonds within a sovereign nation.
- **Corporate Bonds** – Bonds issued by corporations.
- **Supranational Bonds** – These are bonds issued by supranational entities such as the International Finance Corporation (IFC), the African Development Bank (AfDB), the World Bank Group (World Bank).
- **Eurobonds** – These are bonds issued by any of the issuer types denominated in foreign currencies, other than the domestic currencies of the issuer.
- **Sukuk (or "Sharia-compliant" bonds)** are bonds issued in compliance with Islamic law and jurisprudence. Sukuk are interest-free securities, in line with Islamic law

[3] https://fmdqgroup.com/investor-relations/

prohibiting interest payments. By investing in Sukuk, investors obtain a commensurate share in the profit and risk associated with an asset/project.

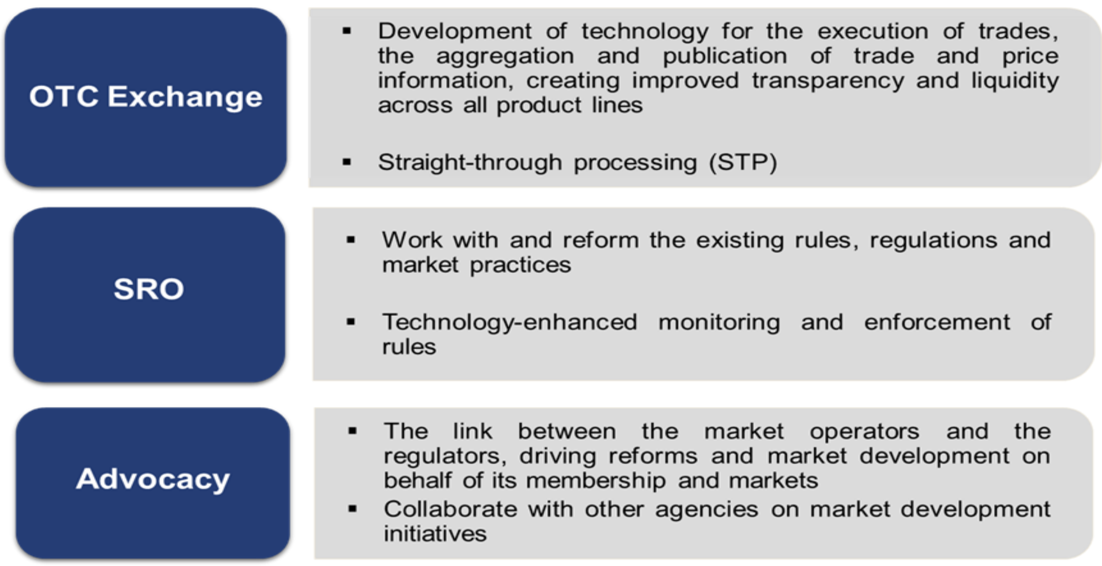
FMDQ Systems

FMDQ's board approved the addition of Bloomberg E-Bond trading and market surveillance system to the two existing trading systems in the OTC market: Thomson Reuters Dealing 3000 Extra system and the ICAP Electronic Trading Community (ETC) inter-dealer brokerage system.

Figure 2 FMDQ Footprint

Source: FMDQ Group Profile

Figure 3 Role of FMDQ OTC



Source: FMDQ Exchange

OTC Bond Market in Kenyan Capital Markets

The Capital Market Authority (CMA) has been progressively steering bond market reforms in the interest of market development. To drive this initiative the Bond Markets Steering Committee (BMSC) was established in 2009 to oversee the implementation of the bond market reforms.

The Authority has been progressing the implementation of reforms within the Kenyan Bond market. A Bond Market Steering Committee (BMSC) was established in 2009 to oversee implementation of the bond market reforms. One of the key achievements of the BMSC was to put in place a policy and regulatory framework that would support implementation of a Hybrid Bond Market model that would allow trading of bonds both on and off the exchange.

Section 31(1A)(ii) Capital Markets Act Cap 485A was subsequently amended to allow for off – exchange transactions; and part VI (Authorized Securities Dealers) of the Capital Markets (Licensing Requirements) (General) Regulations, 2002 amended to give clear responsibilities and obligations when dealing in bonds.

CMA Action Plan

There are renewed and active industry-wide efforts driven by the Cabinet Secretary, The National Treasury and Economic Planning (TNT&EP) towards revitalizing the Kenya Bond OTC Markets initiative, with the key objective being to increase market depth and liquidity of Government bonds, through efficient pricing and transparency.

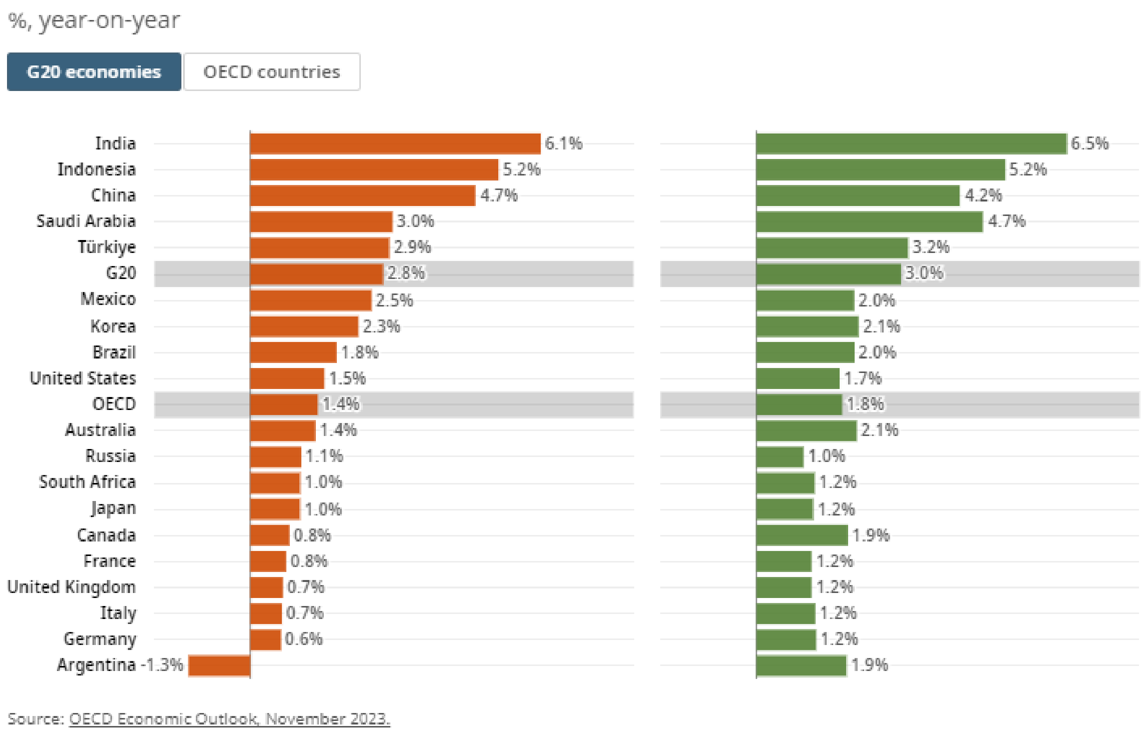
Key commitments include addressing possible market malpractices by market intermediaries and establishment of a reliable Yield Curve through enhanced levels of Pre-Trade, Trade and Post Trade transparency and crucially, trade reporting. It is expected that the ongoing bond reforms will ultimately expand both the local and foreign investor base and enhance the depth of the capital markets, particularly in light of the recent decline in market performance both locally and globally, as well as the high cost of domestic debt financing by both corporates and the Kenyan Government.

2.0 THE GLOBAL ECONOMIC AND CAPITAL MARKET PERFORMANCE OUTLOOK

In the last quarter of 2023, the global economy continued to show elevated levels of resilience despite the low growth prospects and elevated inflation. According to the Organization for Economic Cooperation and Development (OECD), global Gross Domestic Product (GDP) growth was more substantial than expected in 2023. However, the GDP was moderate due to tighter financial conditions, weak trade growth, lower business and consumer confidence. Risks to the near-term outlook remained tilted to the downside and include heightened geopolitical tensions, for example, due to the evolving conflict in the Middle east and a larger-than-expected impact of monetary policy tightening.

In 2024, economic growth is projected to remain moderate at 2.7 percent, a drop from 2.9 Percent growth recorded in 2023. The projected global GDP growth for 2025 stands at 3.0 percent and is expected to remain highly dependent on fast-growing Asian economies.

***Figure 4 GDP Growth Projections for 2024 and 2025*[4]**



Source: OECD

While China continued to play a significant role in driving global economic growth, its performance in the second half of 2023 fell short of its potential, a factor that was primarily

[4] Projections as of November 2023.

attributed to reduced consumption and exports. The trend is expected to continue in 2024, as persistent risks stemming from the unresolved real estate sector crisis, reduced global demand for manufactured goods, and low levels of business and consumer confidence continue to impact the Chinese economy.

In the absence of further large shocks to food and energy prices, projected headline inflation is expected to return to levels consistent with central bank targets in most major economies by the end of 2025. Annual OECD headline inflation is expected to fall gradually to 5.2% and 3.8% in 2024 and 2025, respectively, from 7.0% in 2023.

Global Capital Markets

In 2023, the global Initial Public Offers(IPO) market witnessed a significant drop in IPOs and proceeds. The positive outlook in Western IPO markets was offset by a slowdown in China, as developing market small-cap deals saw an upswing in contrast to the lackluster performance of large offerings in developed nations. Despite an increase in deal volumes in the Americas and Europe, the Middle East, India, and Africa (EMEIA) regions, the overall IPO proceeds in 2023 trailed behind the slow pace set in 2022 by approximately one-third.

During the year, there were 1,298 IPOs that managed to raise a total of US$123.2 Billion. Compared to 2022, this was an 8 percent drop, with proceeds reducing by 33 percent. In the last quarter of 2024, the number of IPOs decreased to 323 from 397, which was recorded in the fourth quarter of 2022, with the proceeds decreasing by 39 percent.

Figure 5 2023 IPO Activity

	2022		2023		% change	
	Number	Proceeds (US$b)	Number	Proceeds (US$b)	Number	Proceeds (US$b)
Global	1,415	184.3	1,298	123.2	-8%	-33%
Americas	133	8.9	153	22.7	15%	155%
% of global	*9%*	*5%*	*12%*	*18%*		
Asia-Pacific	897	124.4	732	69.4	-18%	-44%
% of global	*64%*	*67%*	*56%*	*57%*		
EMEIA	385	51.0	413	31.1	7%	-39%
% of global	*27%*	*28%*	*32%*	*25%*		

Source: Ernst and Young

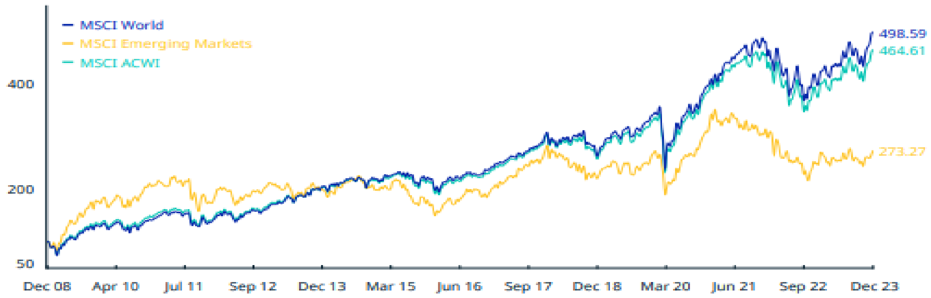
Easing inflation and potential interest rate cuts in 2024 may support more IPOs. However, it is worth noting that uncertainty on geopolitical developments has the potential to erode investor confidence. Overall, the 2024 trajectory relies on a favorable macroeconomic environment for an IPO resurgence, with companies anxiously anticipating more favorable market conditions.

Global Equity Markets

During the quarter, global equities posted the best performance in November, with the US recording an 8.9% rise, Europe rising 6%, and MSCI Asia Pacific rising by 7.8%. This was the best performance to be recorded in the last three years with interest rates being the key driver of the improved performance.[5]

Figure 6 MSCI World Index

CUMULATIVE INDEX PERFORMANCE — GROSS RETURNS (USD) (DEC 2008 – DEC 2023)



ANNUAL PERFORMANCE (%)

Year	MSCI World	MSCI Emerging Markets	MSCI ACWI
2023	24.42	10.27	22.81
2022	-17.73	-19.74	-17.96
2021	22.35	-2.22	19.04
2020	16.50	18.69	16.82
2019	28.40	18.88	27.30
2018	-8.20	-14.24	-8.93
2017	23.07	37.75	24.62
2016	8.15	11.60	8.48
2015	-0.32	-14.60	-1.84
2014	5.50	-1.82	4.71
2013	27.37	-2.27	23.44
2012	16.54	18.63	16.80
2011	-5.02	-18.17	-6.86
2010	12.34	19.20	13.21

INDEX PERFORMANCE — GROSS RETURNS (%) (DEC 29, 2023)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987
MSCI World	4.94	11.53	24.42	24.42	7.79	13.37	9.18	8.28
MSCI Emerging Markets	3.95	7.93	10.27	10.27	-4.71	4.07	3.05	9.51
MSCI ACWI	4.84	11.15	22.81	22.81	6.25	12.27	8.48	8.10

FUNDAMENTALS (DEC 29, 2023)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI World	1.93	20.69	17.40	3.09
MSCI Emerging Markets	2.90	14.54	11.74	1.63
MSCI ACWI	2.03	19.81	16.57	2.82

INDEX RISK AND RETURN CHARACTERISTICS (DEC 29, 2023)

		ANNUALIZED STD DEV (%) 2			SHARPE RATIO 2, 3				MAXIMUM DRAWDOWN	
	Turnover (%) 1	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987	(%)	Period YYYY-MM-DD
MSCI World	2.16	16.99	18.26	14.99	0.40	0.68	0.57	0.39	57.46	2007-10-31—2009-03-09
MSCI Emerging Markets	5.92	17.38	19.17	17.23	-0.32	0.21	0.18	0.38	65.14	2007-10-29—2008-10-27
MSCI ACWI	2.41	16.50	17.94	14.82	0.32	0.63	0.54	0.38	58.06	2007-10-31—2009-03-09

1 Last 12 months 2 Based on monthly gross returns data 3 Based on NY FED Overnight SOFR from Sep 1 2021 & on ICE LIBOR 1M prior that date

Source: MSCI

[5] https://www.fidelity.lu/static/master/media/pdf/analysis-research/Equities-Monthly-Dec-2023.pdf

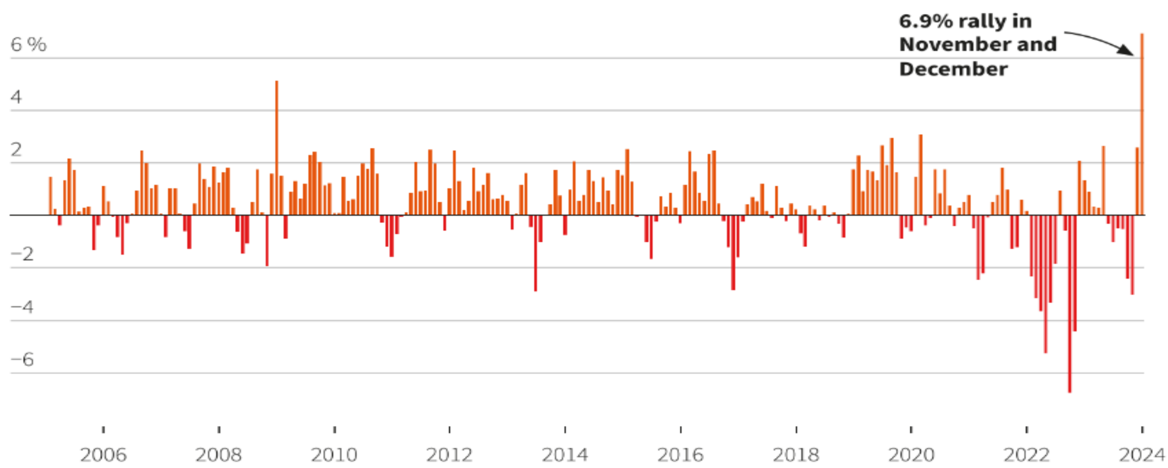
Global equity markets registered positive returns, with the MSCI World Index and Emerging Market Index improving by 24.42 % and 10.27%, respectively, in United States Dollar terms, on a year-to-date basis.

As we head into 2024 the global equity markets will be impacted by scheduled elections slated for 2024 including Russia, Mexico, India, United States. That means countries that contribute 80% of world market cap and 60% of global GDP will be voting.

Global Bond Markets

In November and December, bond prices experienced a significant surge, driven by the belief that central banks would soon lower interest rates. This rally prevented fixed-income markets from facing a rare third consecutive year of declines.

Figure 7Bond Markets Pull off Historic Rally



Source: LSEG Reuters

We believe that higher yields and less central bank intervention will ensure that more normal market conditions should prevail over time as we head into 2024.

Top Global Risks and Opportunities During the Quarter

Risks

1. ***Climate Change-*** *The effects of climate change continue to be witnessed internationally and locally, with Kenya being affected by floods in the last quarter of 2023. Cognizant of the impact of climate change, the Authority continues to encourage the adoption of ESG*

considerations by listed companies and the issuance of sustainability-related products in the fight against climate change.

2. ***Emerging public debt distress** remains a key fixed income risk as we head into 2024 with a number of international economic actors warning that the record high debt levels and high interest rates could push many countries to default.*
3. ***Reduced valuation of investments by pooled schemes and commercial banks due to** mark-to-market losses from Available for Sale (AFS) Government bonds portfolio. High interest rates have continued to erode the value of Government bonds in the secondary market. We however note that the Retirement Benefits Authority (RBA) has submitted a proposal to the National Treasury revising the methodology for calculating performance of portfolio (time weighted) using a fair value approach and that unrealized gains and losses arising from fair value valuation shall not form part of distributed income.*

Opportunities

1. ***The Gazettement of regulations -** The Capital Markets (Alternative Investment Funds) Regulations, 2023, the Capital Markets (Credit Rating Agencies) Regulations, 2023, the Capital Markets (Public Offers, Listings, and Disclosures) Regulations, 2023, and the Capital Markets (Collective Investment Schemes) Regulations, 2023 were gazetted on 15 December 2023. The timely gazettement of these regulations provides an avenue for capital markets industry players to foster market development.*
2. ***Proactive regulation of crypto assets activities-** IOSCO publication of policy recommendations for Crypto and Digital Asset Markets together with key securities regulators regulatory actions in the crypto assets markets provide for regulatory benchmarking opportunities on international best practices that Kenya can learn from and adapt to its domestic context to have a world class crypto assets regulatory regime.*

3.0 INTERNATIONAL DEVELOPMENTS

3.1The International Organization of Securities Commission (IOSCO) Publishes Policy Recommendations for Crypto and Digital Asset Markets

To support increased consistency in the oversight and development of regulation on crypto and digital assets markets, IOSCO published eighteen (18) policy recommendations. The recommendations focus on addressing concerns related to market integrity and investor protection in crypto-asset activities. The Recommendations that apply to crypto-asset and stablecoins are principles-based, outcomes-focused, and aimed at the activities performed by crypto-asset service providers (CASPs). The Recommendations also cover the need for enhanced cooperation among regulators. They aim to provide a critical benchmark for IOSCO members to cooperate, coordinate, and respond to cross-border challenges in enforcement and supervision, including regulatory arbitrage concerns, that arise from global crypto-asset activities conducted by CASPs that offer their services, often remotely, into multiple jurisdictions.

The 18 Recommendations cover six key areas, consistent with IOSCO Standards, including **(1)** Conflicts of interest arising from the vertical integration of activities and functions **(2)** Market manipulation, insider trading, and fraud **(3)** Cross-border risks and regulatory cooperation **(4)** Custody and client asset protection **(5)** Operational and technological risk and **(6)** Retail access, suitability, and distribution.

Jurisdictions are encouraged to implement the Recommendations, as they deem appropriate, within their existing or developing frameworks, considering each regulator's role within those existing or developing frameworks and the outcomes achieved through the operation of the frameworks in each jurisdiction.

Table 1 Summary of the IOSC's Policy Recommendations for Crypto and Digital Assets Markets

No.	Recommendation	Highlight	Supporting IOSCO Principles
OVERARCHING RECOMMENDATION ADDRESSED TO ALL REGULATORS			
1	**Common Standards of Regulatory Outcomes**	The existing or developed regulatory framework should be consistent with the IOSCO Objectives and Principles for Securities Regulation and relevant supporting IOSCO	1 – 7.

		principles, standards, recommendations, and good practices.	
RECOMMENDATIONS ON GOVERNANCE AND DISCLOSURE OF CONFLICTS			
2	**Organisational Governance**	A CASP to have effective governance and organisational arrangements.	8, 23, 31, 33, 34
3	**Disclosure of Role, Capacity and Trading conflicts**	A CASP to accurately disclose the role and capacity in which it is acting at all times.	31, 34, 35 and 37
RECOMMENDATIONS ON ORDER HANDLING AND TRADE DISCLOSURES (TRADING INTERMEDIARIES VS MARKET OPERATORS)			
4	**Client Order Handling**	A CASP, when acting as an agent, should handle all client orders fairly and equitably	29, 31
5	**Market Operation Requirements**	Regulators should require a CASP that operates a market or acts as an intermediary to provide pre and post-trade disclosures in a form and manner that are the same as, or that achieve similar regulatory outcomes consistent with, those that are required in traditional financial markets.	33, 34, 35
RECOMMENDATIONS IN RELATION TO LISTING OF CRYPTO-ASSETS AND CERTAIN PRIMARY MARKET ACTIVITIES			
6	**Admission to Trading**	A CASP to establish, maintain and appropriately disclose to the public their standards—	16, 17

		including systems, policies, and procedures— for listing/admitting and removing crypto assets from trading on its market.	
7	**Management of Primary Markets Conflicts**	A CASP to manage and mitigate conflicts of interests surrounding the issuance, trading, and listing of crypto assets.	29, 31, 33, 34
RECOMMENDATIONS TO ADDRESS ABUSIVE BEHAVIORS			
8	**Fraud and Market Abuse**	Regulators should bring enforcement actions against offences involving fraud and market abuse in crypto-asset markets, taking into consideration the extent to which they are not already covered by existing regulatory frameworks.	31, 33, 34, 35, 36
9	**Market Surveillance**	Regulators should have market surveillance requirements applying to each CASP, so that market abuse risks are effectively mitigated.	31, 33, 34, 36
10	**Management of Material Non-Public Information**	Regulators should require a CASP to put in place systems, policies and procedures around the management of material non-public information, including, where relevant.	31, 34, 36

RECOMMENDATION ON CROSS-BORDER COOPERATION			
11	**Enhanced Regulatory Cooperation**	Regulators, in recognition of the cross-border nature of crypto-asset issuance, trading, and other activities, should have the ability to share information and cooperate with regulators and relevant authorities in other jurisdictions with respect to such activities	13, 14, 15
RECOMMENDATIONS ON CUSTODY OF CLIENT MONIES AND ASSETS			
12	**Overarching Custody Recommendation**	Regulators should apply the IOSCO Recommendations Regarding the Protection of Client Assets when considering the application of existing frameworks, or New Frameworks, covering CASPs that hold or safeguard Client Assets.	-
13	**Segregation and Handling of Client Monies and Assets**	Regulators should require a CASP to place Client Assets in trust, or to otherwise segregate them from the CASP's proprietary assets.	31, 32, 38
14	**Disclosure of Custody and Safekeeping Arrangements**	A CASP should disclose to the client how clients assets are held, the independent custodian, sub-custodian or related party custodian.	31, 32, 38

15	**Client Asset Reconciliation and Independent Assurance**	Regulators should require a CASP to have systems, policies, and procedures to conduct regular and frequent reconciliations of Client Assets subject to appropriate independent assurance.	31, 32, 38
16	**Securing client money and assets**	Regulators should require a CASP to adopt appropriate systems, policies, and procedures to mitigate the risk of loss, theft or inaccessibility of Client Assets	31, 32, 38
RECOMMENDATION TO ADDRESS OPERATIONAL AND TECHNOLOGICAL RISKS			
17	**Management and disclosure of Operational and Technological Risks**	Regulators should require a CASP to comply with requirements pertaining to operational and technology risk and resilience in accordance with Iosco's Recommendations and Standards	31, 32, 33, 34, 38
RECOMMENDATION FOR RETAIL DISTRIBUTION			
18	**Retail Client Appropriateness and Disclosure**	A CASP to operate in a manner consistent with IOSCO's Standards regarding interactions and dealings with retail clients.	16, 17, 23

Source: IOSCO

Lessons Learnt

Given the growing fraud and AML/CFT risks within the industry, regulatory oversight of crypto assets remains a key area of public interest. Kenya ranks 19th worldwide on the crypt adoption index and fifth globally in terms of peer-to-peer (P2P) exchange trade volume, according to the 2022 Chainlysis report.

Further the inaugural Kenya National Risk assessment on Money Laundering and Terrorism Finance (ML/TF) risks of Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs) was conducted in 2023. The assessment, undertaken by a Technical Working Group (TWG) led by the Financial Reporting Centre (FRC) and comprising the public sector (including the Central Bank of Kenya, Capital Markets Authority, and law enforcement agencies), private sector (financial sector reporting entities) and VASPs, was aimed at assist the country to identify threats and vulnerabilities that could pose risks as a result of emerging technologies such as VAs and other financial innovations in a bid to develop mitigating strategies and safeguard the country's financial system. The assessment specifically noted that Kenya does not have a legal and regulatory framework for the registration, licensing or supervision of VA-related activities and VASPs. Given the ML/TF risks identified, as well as consumer protection, data privacy, governance, and other concerns, the assessment report recommended that the country regulates VAs/VASPs to mitigate the identified risks. It further observed that banning VAs/VASPs would encourage an underground economy stemming from current usage of VAs/VASPs in the country. Accordingly, regulation of VAs/VASPs would pave the way for mitigation of the identified risks.

CMA welcomes theses recommendation on regulation of VAs and VASPs and proposes fast-tracking of the convening of the Joint Technical Committee on Crypto-Assets under the Joint Financial Sector Regulators' Forum, and that the policy recommendations by IOSCO on international best practices on the design of a fit-for-purpose regulatory oversight framework be a key reference document for developing the regulations.

3.2 Securities Commission Malaysia (SC) Unveils Principles-based Maqasid Al-shariah Guidance for Islamic Capital Market

Securities Commission of Malaysia introduced the principles-based Maqasid Al-Shariah Guidance. The guidance provides universal guiding principles to enhance the Islamic Capital Market's (ICM) competitive advantage and fortify ICM's impact and contribution to society and the real economy. The initiative is expected to sustain the trust and confidence of its stakeholders by adhering to the highest ethical standards based on core Shariah principles.

This is also in line with the SC's Capital Market Masterplan 3 (CMP3), which seeks to recognise Malaysia as a global leader in ICM and enhance Malaysia's position as a regional centre for Shariah-compliant Sustainable and Responsible Investment (SRI).

Figure 8 Islamic Sustainable finance & Investment

Source: Launch of principles-based Maqasid Al-Shariah Guidance Islamic Capital Market Malaysia

Lesson Learnt

In the recent past, CMA has achieved a number of milestones towards introducing shariah-compliant products in the domestic markets, the key ones being the approval of the Kshs 3 Billion Linzi Finco Trust Islamic Bond and engagement with a respected Shariah thought-leader and a Shariah Advisory firm from Malaysia, which has a well-developed Islamic Capital Market.

Kenya's Islamic Capital Markets reforms are guided by the Malaysia Shariah Finance Model and CMA will learn from SC Malaysia as the development of a bespoke regulatory framework for Islamic Finance is prioritized by Financial Sector Regulators in 2024. This is a key step towards stimulating the development and refinement of Islamic products in the Kenyan capital markets. Other priorities in the subsequent quarters include public awareness, sensitization and continuous capacity building on Shariah finance.

3.3 International Capital Market Association (ICMA) Releases New Paper on Market Integrity and Greenwashing Risks in Sustainable Finance

During the quarter under review, the International Capital Market Association (ICMA) released a paper on market integrity and greenwashing risks in sustainable finance. The paper was a follow-up to ICMA's earlier response to the European Supervisory Authorities (ESAs) call for evidence on greenwashing and further develops ICMA's analysis of greenwashing concerns in sustainable finance from a global perspective.

The new paper addressed key areas which included the need for **(i)** examining whether comprehensive definitions of **'greenwashing'** are necessary and evaluating the adequacy of current legal frameworks in tackling misrepresentation within the realm of sustainable finance, **(ii)** the limited prevalence of greenwashing in the (GSS) use-of-proceeds bond market and further analysis with respect to concerns in the SLB bond market (though noting ICMA research evidenced a declining trend in reported controversies and further shows the number of SLB issuers obtaining SBTi approval for their SLB targets reached 70 percent in Q2 2023) and fund naming **(iii)** the importance of identifying actionable areas of concern for both sustainable bonds and fund products and noting the effectiveness of ICMA's Principles in mitigating these concerns, backed by international endorsement and **(iv)** relevance of existing regulatory initiatives, taxonomies, and the role of future corporate reporting.

Lesson Learnt

ICMA's paper on market integrity and greenwashing risks in sustainable finance provides a critical foundation for addressing sustainability issues in the financial sector. This paper aims to promote a constructive dialogue between the market, civil society, and regulators on addressing greenwashing risks while avoiding the twin risks of market complacency and regulatory overshoot.

CMA continues to encourage more issuance of green products to promote sustainable finance, we shall consider these findings and recommendations, alongside other Global Standards that have been recently issued such as the International Sustainability Standards Board (ISSB) International Financial Reporting Standards (IFRS) S1 and S2, when undertaking the development of a Green Taxonomy for the Capital Markets and other regulatory reforms related to sustainable finance.

4.0 REGIONAL DEVELOPMENTS

4.1 The Financial Regulatory Authority, Egypt (FRA) Develops Registration Rules to Facilitate Companies Dealings in Treasury Shares

At the beginning of the quarter, the Egyptian Financial Regulatory Authority ("FRA") amended the regulations that outline the listing and delisting rules of securities on the Egyptian Stock Exchange (the "EGX"). The amendment increased the obligations of listed companies, requiring these institutions to pre-notify the EGX when dealing with treasury shares (the "Pre-notification").

Treasury shares are a portion of previously issued shares a company has repurchased from its shareholders. These shares are purchased from the market via the Egyptian Stock Exchange. The company can retain them for future issuance to potential shareholders or permanently remove them from the market, rendering them unavailable for further use. It is important to note that these shares do not have any distribution entitlement and lack voting rights during the period of the company's ownership.

Listed companies seeking to purchase or sell a portion of their treasury shares will be required to pre-notify EGX rather than being limited to purchasing them. The pre-notification must be accompanied by the meeting minutes of the company's board of directors, including the resolution to purchase or sell the treasury shares. The General Assembly must issue the decision to purchase treasury shares and not the company's Board of Directors.

Other conditions include **(i)** treasury shares to be purchased should in the form of local shares **(ii)** the company must hold the treasury shares for a period not less than three months and not exceed one year as of the date of execution. Otherwise, the company would be required to decrease its capital by an amount equivalent to the nominal value of the treasury shares **(iii),** and finally, the percentage of treasury shares shall not exceed 10 percent of the listed company's total shares.

A company must also ensure that the purchase of treasury shares does not decrease the percentage of freely traded shares in a company below the minimum that the EGX listing and delisting rules have stipulated. Additionally, companies should note that the purchase of treasury shares can only be financed through the company resources, and financing through loans is not permissible.

The company must submit disclosures to the EGX concerning the percentage of treasury shares purchased and sold at the end of each trading day. On the other hand, EGX will be required to publish such a disclosure.

Lesson Learnt

CMA will review the FRA Registration Rules and pick relevant provisions that may improve its existing regulations on Share Buybacks. In the longer-term consideration may be made for developing standalone regulatory frameworks on treasury shares for listed companies.

4.2 Financial Sector Conduct Authority (FSCA) Publishes Findings of the Crypto Assets Market Study

In South Africa, crypto assets were declared as financial products in 2022, and a legal framework was put in place to regulate these products. As of 30 November 2023, FSCA had received 120 crypto asset service provider license applications. In analyzing the prospective licensees, the Authority considered crucial factors such as the criticality of market services, whether they provide multiple services, whether they offer market support services, and applicants' operational policies and procedures. The FSCA also conducted due diligence checks with other regulatory authorities, such as the Payments Association of South Africa and the Reserve Bank Financial Surveillance Department.

To effectively regulate the crypto assets, the Authority needs to develop a deeper understanding of these risks and market dynamics to refine its approach to licensing and supervising crypto asset activities to mitigate investor protection risks appropriately and ensure better financial customer outcomes. In this regard, the FSCA requested that the Crypto Asset FSPs furnish the Authority with information about their business and business practices. 47 service providers responded, with 34 percent operating exchanges, 15 percent offered custody services, and 13 percent custodial wallet services. 49 percent relied on their Exchange as their primary business model, and 2 percent said custodial services were their business model.

Most Crypto Asset FSPs in South Africa provide financial services by using unbacked crypto assets, followed by stablecoins and security tokens. Most unbacked crypto assets are used for speculative purposes rather than as a medium of Exchange i.e., the buying and selling of goods and services. Further, the observed crypto asset-related business models are diverse.

However, the business models mirror traditional financial activities such as operating an exchange or providing advice. These activities mean consumers rely on centralized entities when engaging with the crypto asset ecosystem, contrary to the disintermediation function that crypto assets were designed for and that most consumers still think exists.

Lesson learnt

CMA Kenya appreciates ongoing studies on crypto-assets across the globe as the lessons learnt by other jurisdictions will go a long way towards deepening the understanding of the associated risks and market dynamics. Such findings and lessons are essential, as we seek the most appropriate oversight model for crypto assets in Kenya. Cognizant of the high risk involved in crypto assets trading, South Africa is keen on taking the necessary steps to ensure transparency and provide investors with adequate information. CMA will pick lessons from FSCA when developing regulations and guidelines for crypto marketing to improve consumer protection, education, regulatory Guidance, and transparency in the current financial year.

4.3 West African Capital Market Players Target June for Harmonized Capital Market Rule

The West African Capital Markets players held the third West Africa Capital Markets Conference (WACMaC), an initiative that seeks to harmonise the capital markets in the West African region. The inaugural conference in Abidjan Cote D' Ivore in 2019 drew close to 300 stakeholders globally.

The initiative to harmonize the West African capital markets began in 2010 when the West Africa Capital Markets Integration Council (WACMIC) was formed. Subsequently in 2015 the West African Securities Regulators Association (WASRA) was formed, further solidifying the commitment to harmonizing the regulatory environment for financial securities issuance and trading. WACMaC and WASRA bring together securities exchanges, central securities depositories, and securities commissions of the subregions.

Figure 9 West Africa Capital Markets Conference

Source: SEC Nigeria

Member states include the Republic of Cabo Verde, Ghana, Nigeria, and the West African Economic and Monetary Union, which is the association of the eight French-speaking West African countries with Morocco as an observer member.

In the second WACMaC Conference in 2022, at least 200 stakeholders participated. The increased gathering has been a key factor in shaping the integration project, which is divided into three phases.

Phase 1: The first phase promotes facilitated trading between the stock exchanges in the sub-region through a sponsored access model. Sponsored access allows entities not Dealing Members of an Exchange to participate in the capital market by granting them access to an Exchange's trading facilities through Dealing Members of an Exchange.

Phase 2: The second phase is set to harmonize and validate regulations for the trading and settlement of securities in West African markets through the qualified West African Broker model. The phase is targeted to be completed in June 2024, and it is funded by the African Development Bank and Implemented by the West African Monetary Institute.

Phase 3: The third phase aims to deliver a fully integrated market and establish the West African Securities Market, which will reflect securities listed on all member exchanges. This phase is expected to deepen the West African capital markets, attract institutional and retail investors across member countries, and broaden the range of capital markets instruments and issuances for funding private and public enterprises and infrastructure in the West African Region.

Lessons Learnt

Regional cooperation on capital markets oversight and development has been championed over the years by the East African Securities Regulatory Authorities (EASRA) which brings together the securities regulators and securities exchanges in Kenya, Rwanda, Tanzania, and Uganda under the Common Market Protocol on free movement of capital. The main objectives of EASRA is to share information among the members, to provide mutual assistance and cooperation, and to advance the integration of the East African capital markets. It further EASRA aims to harmonize the securities laws and infrastructure of capital markets in the East African region, leading to joint training and conduct of business standards and cross-border listing of companies within the region.

The EAC Common Market Protocol envisages greater integration of the capital markets of the six EAC member states – Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda. One of the objectives is to integrate trading, clearing, and settlement infrastructures within the EAC to facilitate a faster trading system. The linking of the stock exchanges will also provide a larger pool of investment capital and make it more attractive to investors, as liquidity should improve.

The EAC Regional Economic Block has achieved significant milestones on the area of capital markets harmonization especially through Council Directives. Other areas include equal treatment of East African investors on Withholding Tax on Dividends, access to IPOs and Regional Fixed Income Issuances, Mutual Recognition of Market Intermediaries. Similar progress has been made on implementation of the East African Monetary Union. CMA will continue to advocate for further harmonization of the capital markets integration especially of Capital Markets Infrastructure and will engage with other organs in regional economic blocks globally, including the West Africa Capital Markets Integration Council (WACMIC) and the West African Securities Regulators Association (WASRA).

4.4 Bond Trading System for Namibian Bonds

Bond trading in Namibia by banks and stockbrokers is expected to grow after the Namibian Stock Exchange (NSX) announced the successful go-live of a new bond trading system. The Automated Trading System (ATS) is provided by South Africa's Securities & Trading Technology (STT), a veteran global supplier of bond market, equity, and many other capital markets systems.

Figure 10Namibia Stock Exchange

Source: African Capital Markets News Website

The ATS, developed by STT, is designed to provide the NSX with a seamless, reliable, and transparent trading platform. With improved order execution and streamlined processes, the ATS ensures a superior trading experience for investors and market participants. This initiative underscores STT's commitment to empowering exchanges with innovative, flexible solutions.

This development is expected to boost bond trading in Namibia, providing a seamless and transparent trading platform with improved order execution. The expansion allows banks in Namibia to engage in on-market trading, aligning to increase on-market bond trading as part of the Southern African Development Community (SADC) Finance protocols.

Lesson Learnt

The Authority commends NSX on achieving this significant milestone. Launching a new ATS for bond trading to the Namibian Stock Exchange underlines its dedication to driving technological advancements in the capital markets. It enhances the capabilities of the exchange to facilitate safe and regulated trading in the bond space in Namibia. The Nairobi Securities Exchange already uses the Automated Trading System supplied by the STT

4.5 Launch of NMB Multicurrency Medium Term Note Programme (MTN)- Jamii Bond

Capital Markets and Securities Authority (CMSA) Tanzania approved the Information Memorandum of NMB Bank Plc for the issuance of Multicurrency Medium Term Note Programme (MTN) worth TZS 1,000,000,000,000 (**Kshs 63,643,595,200**). The bond proceeds will finance various tranche-specific project categories, including green, social, and sustainability projects, as per the bank's sustainability bond framework.

Figure 11 Jamii Bond

Source: CMSA

The approval of the NMB MTN follows the fulfilment of eligibility requirements for the issuance of Green, Social, and Sustainability Corporate Bond including compliance with the Capital Markets and Securities (Guidelines for issuance of Corporate Bonds), as well as principles and recommendations for issuance of Green, Social and Sustainability Bond prescribed by the International Capital Market Association (ICMA). The adequacy of the bank's Green, Social, and Sustainability Bond Framework has been verified by Sustainalytics, an internationally recognized Second Party Opinion (SPO) provider.

Issuance of the NMB MTN marks an important milestone in developing capital markets in Tanzania. The bond constitutes the largest thematic corporate bond issuance in Tanzania and Sub-Saharan Africa, which would facilitate the mobilization of resources to finance multiple large-scale projects with a positive impact on social and economic development in the country. The issuance also contributes towards the successful implementation of the 10-year Financial Sector Development Master Plan (2020/21 - 2019/2030) with respect to the development of alternative long-term finance in the public and private sectors. The multiple currency structure of the bond will also contribute to addressing the challenges of foreign currency in the country by attracting the participation of both local and foreign investors.

Lesson Learnt

This significant development will attract investors who seek a lucrative return on their investments and are driven by the desire to contribute to crucial environmental and social sustainability goals. The Authority is keen to draw insights from CMSA as we aim to promote policies that facilitate the introduction of diverse financial products, contributing to a more vibrant and inclusive capital market.

5.0 LOCAL DEVELOPMENTS

5.1 The Privatisation Act 2023

On 13 October, President William Ruto assented to the Privatization Bill 2023 after the National Assembly passed it in September 2023. The Act contains the regulatory framework for privatizing public entities in Kenya. According to the Act, privatisation is defined as a transaction that transfers government entities to private entities.

Figure 12Privatization Bill 2023

Source: NTV

The Act has given the Cabinet Secretary the powers to provide policy direction on matters related to privatisation, coordinate the adherence to national, regional, and international obligations relating to privatisation and develop the privatisation programme. The implementation of the Privatisation programme must involve those impacted, including experts in relevant fields, members of the public, and organizations representing affected persons.

The Cabinet Secretary must also establish the benefits of privatization, priorities and policy goals that will be achieved, and whether the privatization might result in a monopoly, amongst other things. Once submitted to the National Assembly for ratification by the Cabinet Secretary, the privatization programme will be published in the Kenya Gazette and valid for five(5) years.

The Act provides three(3) forms of privatization which include **(1)** Initial public offering of shares **(2)** Sale of shares by public tendering, and **(3)** Sale resulting from the exercise of pre-emptive rights.

A publicly owned organization undergoing privatization can maintain its regular business operations without compromising the government's or potential buyers' interests. Nevertheless, the entity is prohibited from assuming any liabilities or acquiring assets, except in the ordinary course of business, without obtaining prior written approval from the Cabinet Secretary.

Stability Implication

This positive development is set to rejuvenate the capital markets in Kenya, providing advantages for companies seeking to raise capital within the country and will serve to encourage more retail investor participation. The recently gazetted Capital Markets (Public Offers, Listings and Disclosures Regulations), 2023 are anticipated to be very responsive to Initial Public Offerings by State Owned Enterprises (SOE) and even provide for e-IPOs.

5.2 NSE Admits First Islamic Product on its Unquoted Securities Platform

The Nairobi Securities Exchange PLC (NSE) approved the listing of Linzi Sukuk on the bourse's Unquoted Securities Platform (USP), making the product the first Shariah-compliant product to be admitted on the platform.

The Linzi Sukuk brings the total number of admitted securities on the USP to three(3). Issued by Linzi FinCo Trust, a common law unincorporated trust, the bond is a KSh3 billion Islamic secured residential-based security with a maturity period of 15 years, offering an internal rate of return of 11.13 percent.

The product is the third security to be admitted to the USP, after the Acorn Student Accommodation Development Real Estate Investment Trust (D-REIT) and the Income Real Estate Investment Trust (I-REIT). The platform is used for value discovery, capital raising, and trading experience by small and medium enterprises before graduating to the listing segments offered by the NSE.

Stability Implication

As Kenya embraces financial instruments rooted in ethical and inclusive principles, the listing of Linzi Sukuk sets a precedent for future Shariah-compliant products on the NSE, contributing to the broader development and sophistication of the country's capital markets.

5.3 Private Capital Inflows to Kenya Rise Fastest in Africa

According to the European Investment Bank (EIB), Kenya ranked 2nd highest in Africa for Private Capital Investment in 2022, after South Africa. Investment rose to five times at approximately US$1.1 billion (Sh163 billion) from the USD$226 (Sh33.5 billion) in 2021.

The financial services sector attracted the biggest share of private capital at 40 percent, along with industrials, consumer products, information technology (IT), renewable energy, healthcare, conventional energy, and telecommunications.

The new report also found that the four markets of Kenya, South Africa, Egypt, and Nigeria accounted for two-thirds of all private capital investments across the continent during the year. The East African region emerged as the most competitive in terms of share of assets held by banks, driven by Kenya, where the top three banks have a 37 percent share of bank assets.

Kenya was also rated the most advanced financial market in the region with a credit-to-GDP ratio of 30 percent followed by Burundi at 24 percent and Djibouti at 21 percent.

Action Plan

CMA Kenya remains committed supporting foreign portfolio flows into the Kenya capital markets alongside ongoing efforts by the Kenyan Government at the highest levels to mobilize foreign direct investments into Kenya. Its key areas of focus in consultation with industry stakeholders will be to attract foreign portfolio inflows through corporate and sovereign Shariah compliant capital markets products, green finance and carbon markets

5.4 CMA Admits First Future Holdings to the Regulatory Sandbox.

The Capital Markets Authority (CMA) has incorporated First Future Holdings Limited (FFHL) into its Regulatory Sandbox initiative to promote Fintech. First Future Holdings Ltd intends to test a USSD-based platform that simplifies CDS account opening and subsequent trading at the Nairobi Securities Exchange in partnership with Sterling Capital. In this regard, First Future Holdings will integrate the Immigration Population Registration System (IPRS) and the Kenya Revenue Authority (KRA) in its account-opening USSD platform. Customers who access FFHL's USSD code are prompted to enter their Identity Card number and email address and agree to the terms and conditions. FFHL then utilizes the provided ID number to retrieve the necessary data from IPRS and the KRA Pin checker, ensuring verified and up-to-date information is submitted for CDS account opening.

As an agent of Sterling Capital, FFHL electronically populates the required fields and submits electronic forms to Sterling Capital for account opening. Sterling Capital conducts its verification process before opening CDS accounts through the Central Depository and Settlement Corporation. Consequently, under the agency relationship, Sterling Capital will execute orders placed by customers through the USSD code. FFHL will then collect orders electronically and pass them through to Sterling Capital. The firm will test the innovation in compliance with the Capital Markets Regulatory Sandbox Policy Guidance Note provisions.

Stability Implication

This development is poised to transform the traditional landscape of stock trading. The collaborative effort between FFHL and Sterling Capital promises to usher in a new era of convenience and efficiency in the stock market. By streamlining the account opening process and enabling verified data retrieval through the USSD platform, FFHL aims to attract new investors by simplifying their entry into the stock market.

5.5 The Capital Markets Authority Publishes The Sixth Edition Of The Corporate Governance Report

The Capital Markets Authority (CMA) released the 6^{th} edition of its annual State of Corporate Governance Report. The report highlights the performance of listed companies in adhering to corporate governance principles within the Code of Corporate Governance Practices for Issuers of Securities to the public, 2015.

According to the report findings, all listed companies' annual weighted overall score increased to 75.71 percent (leadership rating) in the financial year 2022/2023, up from 72.27 percent (Good rating) the previous year.

The analysis also revealed that thirty-one issuers were rated in the leadership category on governance issues in the 2022/2023 financial year, up from three companies in 2017/2018 when the report was first published. A listed entity must score 75 percent and above in the assessment to be rated in the leadership category. Eight companies attained a rating of "good", having obtained between 65 and 74 percent. Six companies achieved a fair rating (between 50 and 64 percent), and four companies were categorized as needing improvement.

The Authority evaluated the listed companies based on the seven principles of the CG Code namely **(1)** Introduction to the Code **(2)** Board Operations and Control, **(3)** Rights of Shareholders, **(4)** Stakeholder Relations **(5)** Ethical and Social Responsibility **(6)** Accountability, Risk Management, and Internal Control, and **(7)** Transparency and Disclosure.

The Accountability, Risk Management and Internal Control principle emerged as the highest-scoring principle, achieving a remarkable 80.77% (Leadership rating) score. Sector-wise analysis revealed outstanding performance in the Banking, Manufacturing & Allied/Automobiles and accessories, Insurance and Energy and Petroleum sectors, all achieving a leadership rating. Conversely, other sectors secured a good rating, except for the Agricultural, construction, and allied sectors, which recorded a fair rating. The most substantial advancement was observed in the Investment and Investment services sector, escalating from 64% to 78.74%, marking an impressive increase of 14.74%.

CMA Action Plan

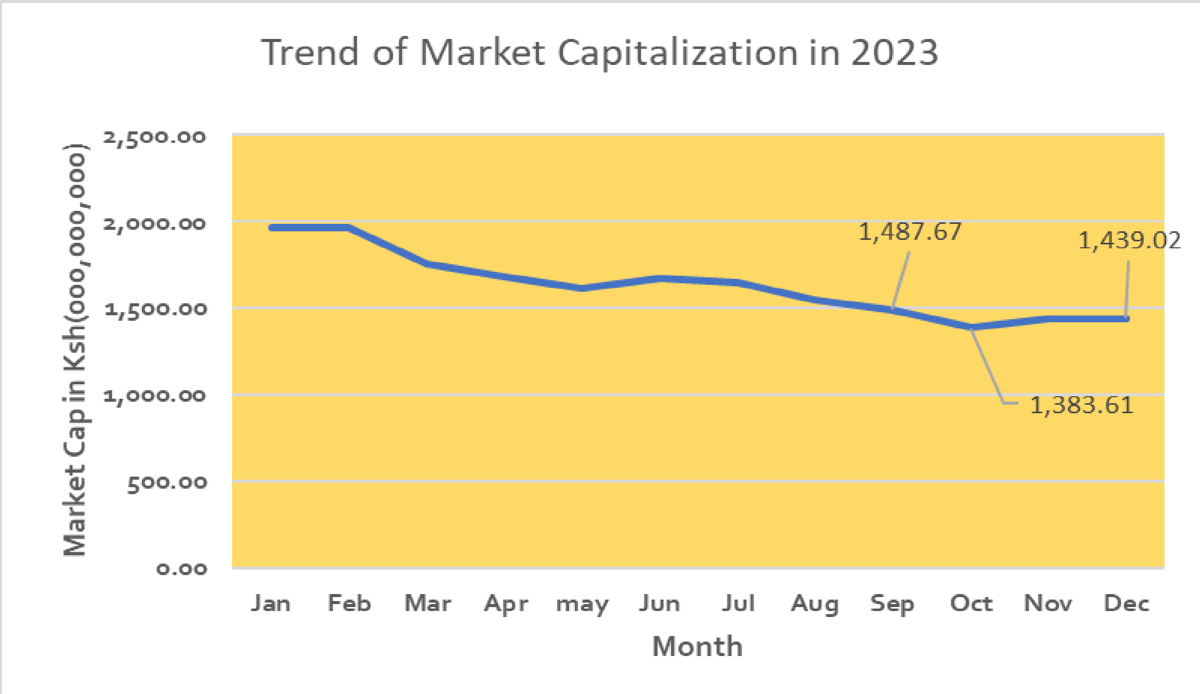
The performance of listed companies on aspects of corporate governance serves as a vital guide for issuers, highlighting areas of excellence and pinpointing avenues for refinement, aiming to fortify corporate governance and sustainability practices, ensuring sustained growth, transparency, and stakeholder confidence in the capital markets sector. CMA Kenya will in the next financial year embark on enhancing sustainability reporting for issuers as we seek to broaden the applicability of environmental and social considerations together with governance best practices in Kenya's capital markets.

6.0 PERFORMANCE OF THE DOMESTIC CAPITAL MARKETS

The equity market performance dipped from the third quarter of 2023 on the back of a difficult global and domestic macro-economic environment. The four market indices, NSE20, NSE25, NASI, and NSE10, closed at 1,501.16, 2,380.23, 92.11, and 907.51 points, respectively, a slight decline from 1,508.75, 2,473.71, 95.22, and 951.35 basis points recorded as at the end of the third quarter of the year.

The number of shares traded during the quarter stood at 780,219,000, a decrease from 1,056,316,400 shares recorded in the third quarter of the year. The market capitalisation recorded on the last day of the fourth quarter dropped slightly from Ksh 1,487.67 million to Ksh 1,439.02 million.

Figure 13 Trends of the Market Capitalization in 2023

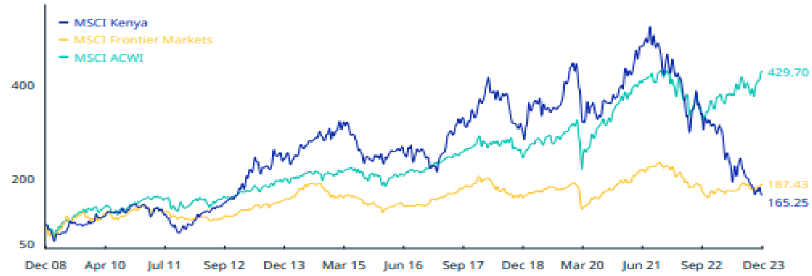


Source: CMA

The MSCI Kenya Index, designed to measure the performance of the large and mid-cap segments of the Kenya market, declined by 46.61 percent. This was a further decline from 39.66 percent decline recorded in September.

Figure 14 MSCI Kenya Index

CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD) (DEC 2008 – DEC 2023)



ANNUAL PERFORMANCE (%)

Year	MSCI Kenya	MSCI Frontier Markets	MSCI ACWI
2023	-46.61	11.63	22.20
2022	-30.97	-26.34	-18.36
2021	13.84	19.73	18.54
2020	-9.50	1.43	16.25
2019	48.73	17.99	26.60
2018	-12.51	-16.41	-9.41
2017	35.97	31.86	23.97
2016	1.11	2.66	7.86
2015	-18.34	-14.46	-2.36
2014	23.39	6.84	4.16
2013	47.74	25.89	22.80
2012	61.90	8.85	16.13
2011	-27.22	-18.73	-7.35
2010	30.29	23.75	12.67

INDEX PERFORMANCE — NET RETURNS (%) (DEC 29, 2023)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since May 31, 2002
MSCI Kenya	-5.34	-11.51	-46.61	-46.61	-25.14	-10.80	-3.72	12.00
MSCI Frontier Markets	3.05	3.97	11.63	11.63	-0.52	3.33	2.00	6.32
MSCI ACWI	4.80	11.03	22.20	22.20	5.75	11.72	7.93	7.47

FUNDAMENTALS (DEC 29, 2023)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI Kenya	9.08	5.26	na	1.43
MSCI Frontier Markets	4.14	10.72	na	1.51
MSCI ACWI	2.03	19.81	16.57	2.82

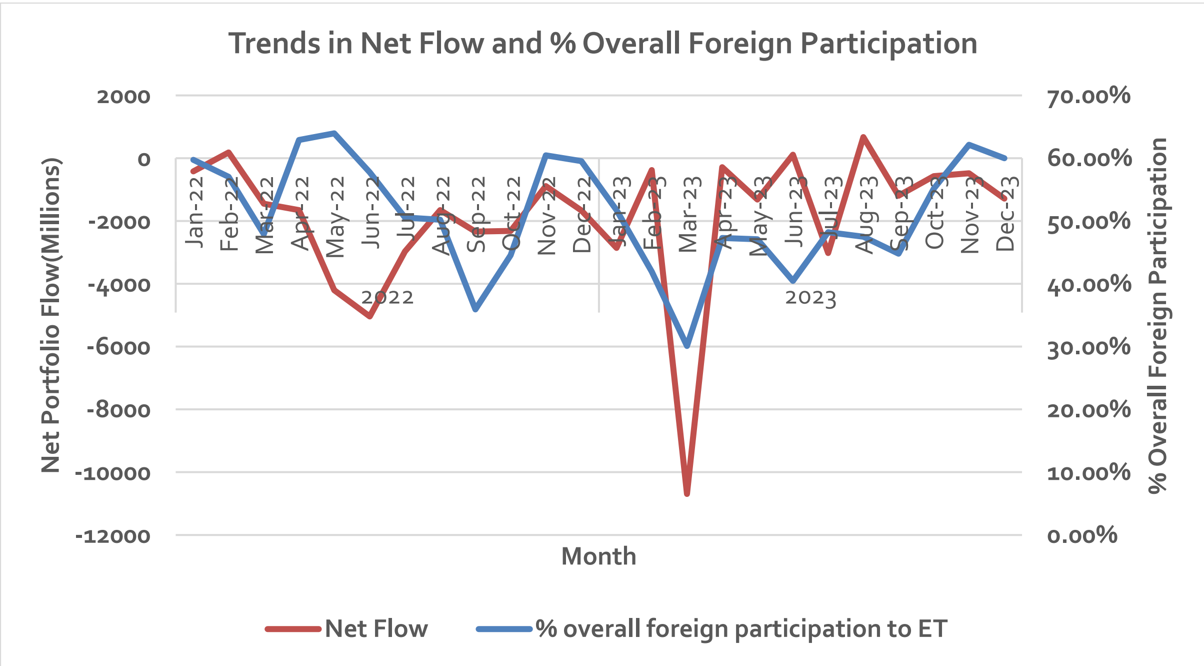
INDEX RISK AND RETURN CHARACTERISTICS (DEC 29, 2023)

		ANNUALIZED STD DEV (%) 2			SHARPE RATIO 2,3				MAXIMUM DRAWDOWN	
	Turnover (%) 1	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since May 31, 2002	(%)	Period YYYY-MM-DD
MSCI Kenya	0.00	22.02	22.85	21.15	-1.28	-0.46	-0.14	0.50	68.78	2021-08-17—2023-12-21
MSCI Frontier Markets	35.78	13.79	16.46	14.36	-0.13	0.17	0.12	0.35	67.47	2008-01-15—2009-03-03
MSCI ACWI	2.41	16.50	17.94	14.81	0.29	0.61	0.50	0.43	58.38	2007-10-31—2009-03-09

[1] Last 12 months [2] Based on monthly net returns data [3] Based on NY FED Overnight SOFR from Sep 1 2021 & on ICE LIBOR 1M prior that date

Source: MSCI

Figure 15 Trends in Net Equity Portfolio Flow and Overall Foreign Participation (January 2022- December 2023)



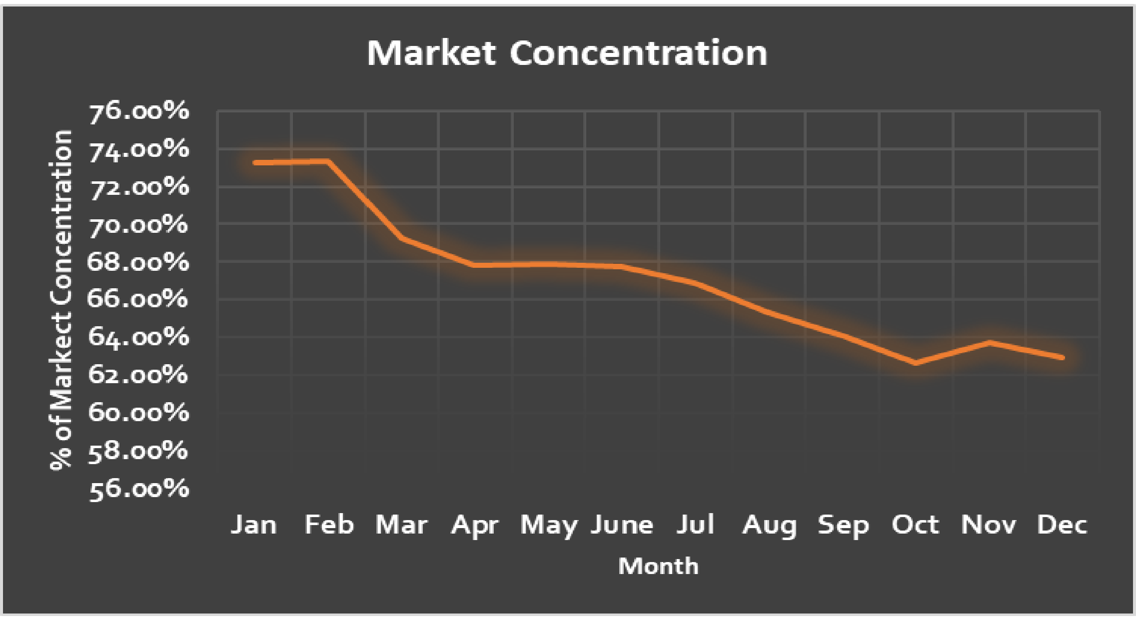
Source: CMA

The net equity portfolio outflow as of December 2023 stood at Ksh 2,337 million, a decrease from Ksh 3,540 million recorded in the third quarter. The average foreign participation in the equity market increased from 46.85 percent in Q3 2023 to 59.09 percent, indicating an increase in foreign investors' participation during the quarter.

The market concluded the year on a positive note, marked by a substantial decline in foreign investor outflows and an increase in their participation. This is noteworthy, given that the market witnessed one of the most significant recorded mass exits in history in March, totaling an outflow of 10,692 million. The return of foreign investors to the Nairobi Securities Exchange is attributed to a search for better yields.

The Market concentration of the five blue chip companies averaged at 63.11 percent, a decrease from 65.41 percent recorded in the third quarter of 2023. In the first quarter of the year, the market concentration stood at 73.29%. Over the past year, the market concentration of the five companies has consistently decreased, suggesting investors are willing to diversify their portfolios away from the five blue chip companies.

Figure 16 Market Concentration (Top 5 companies by market cap)



Source: CMA

Table 2 Equity Performance (October - December 2023)

Year	Month	Share Volume	Total Equity Turnover (Ksh)	NSE 20 Share Index (Average)	NASI Index (Average)	NSE 25 Share (Average)	NSE10	Market Cap[6] (Kshs Mn)
Q4. 2023	Oct	298,983,600	4,224,655,242.71	1,485.73	92.57	2,444.45	939.26	1,383.61
	Nov	272,876,100	3,677,778,231.20	1,467.36	89.58	2,353.08	902.74	1,436.27
	Dec	208,359,300	3,282,553,114.63	1,498.07	92.36	2,386.59	911.75	1,439.02
	Total	780,219,000	11,184,986,588.54					
Q3. 2023	July	416,158,300	7,623,134,927.03	1,608.61	110.28	2,836.14		1,642.71
	Aug	223,581,700	4,223,431,348.24	1,557.55	102.47	2,656.08		1,544.94
	Sep	416,576,400	5,144,757,173.56	1,530.93	97.61	2,531.74		1,487.67
	Total	1,056,316,400	16,991, 323, 448.83					

Treasury Bond Market

Table 3 Treasury Bond Performance (October - December 2023)

Date	Bond	Amount Issued (Kshs Bn)	Amount Received (Kshs Bn)	Amount Accepted (Kshs Bn)	% AA/AI	% AR/AI
Oct 2023	Tap Sale (FXD1/2023/002)	15.00	2.63	2.61	17.40	17.54
	Tap Sale (FXD1/2016/010)		0.81	0.76	5.09	5.43
	FXD1/2023/002	35.00	6.51	4.83	13.79	18.59
	FXD1/2023/005		5.79	1.48	4.23	16.55

[6] Market Capitalization for the last trading day of the month.

Nov 2023	IFB1/2023/6.5	50.00	88.90	67.06	134.11	177.80
Dec 2023	Tap Sale (IFB1/2023/6.5	25.00	47.24	47.87	191.47	188.96
SUM		125.00	151.88	124.56		
July 2023	FXD1/2023/5	40.00	29.10	22.83	57.08	72.75
	FXD1/2016/10		22.66	15.74	39.35	56.66
	Tap Sale (FXD1/2023/5)	20.00	32.22	31.23	156.15	161.08
	Tap Sale (FXD1/2016/10)		12.21	12.21	61.05	61.06
Aug 2023	FXD1/2023/002	40.00	38.30	11.66	29.15	95.75
	FXD1/2023/005		14.70	7.46	18.64	36.76
	Tap Sale (FXD1/2023/002)	21.00	17.38	17.37	82.73	82.74
	Tap Sale (FXD1/2023/005)		6.23	6.12	29.16	29.64
Sept 2023	FXD1/2023/002	35.00	18.01	15.01	42.89	51.47
	FXD1/2016/010		15.99	6.62	18.90	45.70
	Tap Sale (FXD1/2023/002		2.63	2.61	17.40	17.54
	Tap Sale (FXD1/2023/010)	15.00	0.81	0.76	5.09	5.43
SUM		150.00	210.23	149.62		

AA-Amount Accepted; AI-Amount Issued; AR-Amount Received; (AA/A) % - Acceptance Rate; (AR/AI) % - Performance Rate; Source: CBK

The government fixed income market remains attractive to investors offering double digit returns offering diversification benefits given the bearish state of the equities market. The results for treasury bond tap sale issue no. IFB1/2023/6.5 dated 11/12/2023 indicated a coupon rate of 17.9327 %.

The government intended to collect Ksh 125 billion from the market. Bids valued at Ksh 151.88 billion were received, with the government only accepting bids worth Ksh 124.56 billion. Out of the six (6) bonds issued during the quarter, three (3) were tap sales. Infrastructure bonds remain the most attractive amongst investors, with the November and December issuance garnering a 134.11 and 191.47 percent performance rate, respectively.

Corporate Bonds Market

The value of corporate bonds traded during the quarter amounted to Ksh 35,700,000.00, marking a substantial decrease from the Ksh 107,610,000.00 reported in Q3 2023. The double digit returns offered on government paper have depressed corporate bond issues as corporates struggle to offer competing returns in the current difficult global and local macroeconomic context.

Collective Investment Schemes

Collective Investment Schemes (CIS) are currently the most popular wealth-creation vehicles. Assets Under Management (AUM) of have grown from Kshs. 175.9 billion in June 2023 to KShs.206.66 billion as at September 2023, which is a 14.88 percent increase. The CIS is an attractive investment asset for retail investors given the risk diversification benefit it offers. CMA to step up its investor awareness programs for this asset class.

Table 4 Collective Investment Schemes(Assets Under Management)

Asset Class	Jun-23 Kshs	Sep-23 Kshs	% of Total Portfolio	% Change
Cash and demand deposits	9,303,385,571.92	8,919,449,200.06	4.3%	-4.13%
Fixed Deposits	78,143,838,455.72	79,746,810,261.62	38.6%	2.05%
Listed Securities	6,031,992,900.44	7,554,693,952.82	3.7%	25.24%
Securities Issued by the Govt	75,329,438,533.84	98,405,485,700.50	47.6%	30.63%
Immovable property	527,045,369.30	340,459,969.03	0.2%	-35.40%
Other CIS	1,205,414,428.36	730,417,706.20	0.4%	-39.41%
Unlisted Securities	4,701,941,478.42	10,095,591,753.88	4.9%	114.71%
Off-shore investments	742,609,564.33	867,284,955.63	0.4%	16.79%
TOTAL	175,985,666,302.32	206,660,193,499.74	100.00%	17.43%

Source:CMA Data

7.0 CAPITAL MARKETS STABILITY SOUNDNESS INDICATORS FOR THE PERIOD 1 OCTOBER – 31 DECEMBER 2023

Table 5 Capital Markets Stability Indicators 1 October -31 December 2023

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Ongoing Intervention Measures
1.0 Equity Market Depth								
NSE 20 Index Volatility Base Year = 2010	**Q4. 2023**	**Oct**	**Nov**	**Dec**	**Q. Avg**	**Low** (Indicative – Low < 1%; Medium; 1%; High >10%)	The volatility for the three market indices, NSE 20, NSE 25, and NASI was **0.39%, 0.45%, and 0.52%,** respectively.	The market has continued to witness a prolonged period of low volatility of below 1% for the three market Indices, i.e NSE 20, NSE 25, and NASI, indicating a relatively stable market. The Bullish market has provided equity investors with an opportunity to purchase stocks at a discounted price. Additionally, the low volatility in the market provides opportunities for investors to engage in day trading and margin trading which,
		0.40%	**0.39%**	**0.38%**	**0.39%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.30%	**0.34%**	**0.19%**	**0.28%**			
	Q2.2023	**Apr**	**May**	**Jun**	**Q. Avg**			
		0.43%	**0.41%**	**0.44%**	**0.43%**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.39%	**0.34%**	**0.46%**	**0.40%**			
NSE 25 Index Volatility Base Year = 2015	**Q4. 2023**	**Oct**	**Nov**	**Dec**	**Q. Avg**	**Low** (Indicative – Low < 1% Medium: >1% high; >10%)		
		0.45%	**0.45%**	**0.44%**	**0.45%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.48%	**0.59%**	**0.26%**	**0.45%**			
	Q2.2023	**Apr**	**May**	**Jun**	**Q. Avg**			
		0.42%	**0.87%**	**0.49%**	**0.59%**			
	Q1. 2023	**Jan**	**Feb**	**Mar**	**Q. Avg**			

		0.36%	**0.39%**	**0.66%**	**0.47%**			in turn, boost overall market activity and enhance liquidity. The Capital Markets Authority is in the process of developing Margin Trading regulations. The Authority is also committed to encouraging and promoting the participation of domestic investors, recognizing their vital role in fostering the long-term sustainability and resilience of the equities market.
NASI Volatility Base Year = 2010	**Q4. 2023**	**Oct**	**Nov**	**Dec**	**Q. Avg**	**Low** (Indicative – Low < 1% Medium: >1% high; >10%)		
		0.44%	**0.68%**	**0.43%**	**0.52%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.86%	**0.80%**	**0.33%**	**0.66%**			
	Q2.2023	**Apr**	**May**	**Jun**	**Q. Avg**			
		0.63%	**1.17%**	**0.59%**	**0.80%**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.54%	**0.47%**	**0.93%**	**0.64%**			
Equities Turnover Ratio	**Q4. 2023**	**Oct**	**Nov**	**Dec**	**Q. Avg**	**Low** (Indicative – annual:	The recorded turnover for Q4 2023 was 0.26% a	Equities turnover on the Nairobi Securities Exchange (NSE) decreased from **0.36%**
		0.31%	**0.26%**	**0.23%**	**0.26%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.46%	**0.27%**	**0.35%**	**0.36%**			

	Q2.2023	**Apr**	**May**	**Jun**	**Q. Avg**	<8%- Low; >15% High)	decrease from 0.36% recorded in Q3.2023. .	to **0.26%** during the quarter. The low volatility is attributed to low market activity during the quarter coupled with foreign investor participation increasing during the quarter. Initiatives such as day trading, and margin trading together with necessary trading incentives/concessions will remain critical in enhancing domestic investor activity at the Nairobi bourse hence boosting equities turnover.
		0.25%	**0.38%**	**0.25%**	**0.29%**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.40%	**0.23%**	**1.84%**	**0.83%**			
2.0 Foreign Exposure Risk								
Percentage (%) Overall Foreign participation	**Q4. 2023**	**Oct**	**Nov**	**Dec**	**Q. Avg**	**Low** (Indicative – annual: <40%-	Foreign investor participation at end of the	In Q4, foreign Investor turnover averaged 59.09% an increase from 46.85% registered in Q3.2023.
		55.13%	**62.15%**	**59.98%**	**59.09%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		48.23%	**47.52%**	**44.79%**	**46.85%**			

to Total Equity Turnover	**Q2.2023**	**Apr**	**May**	**Jun**	**Q. Avg**	Low; >90% High)	Q4, 2023, averaged at 59.09% an increase from Q3 at 46.85%.	Foreign investors slightly dominate trading at the Nairobi Bourse. The net foreign equity portfolio outflow decreased from Ksh 3,540 millions in Q3.2023 to Ksh 2,337 Millions in Q4 2023.
		47.30%	**47.11%**	**40.45%**	**44.95%**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		51.71%	**41.92%**	**30.01%**	**41.24%**			
Net Foreign Portfolio Flow (Ksh Million)	**Q4. 2023**	**Oct**	**Nov**	**Dec**	**Q. Sum**	High (indicative – annual: <Kshs (50million) - Low (outflow. >Kshs. 50 million High	In the quarter under review, the market recorded a net outflow of 2,337 million compared to an outflow of (3540) million between July to September.	At above Ksh 50 Million, outflow are considered high. Such Outflows poses an ongoing risk to our market, highlighting the necessity for targeted initiatives aimed at bolstering trading activities at the Nairobi Securities Exchange. Such initiatives include the implementation of day trading strategies and the reduction of investment barriers for foreign investors. These measures are intended to stimulate market liquidity and
		(571)	**(480)**	**(1,286)**	**(2,337)**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Sum**			
		(3019)	**672**	**(1,193)**	**(3540)**			
	Q2. 2023	**Apr**	**May**	**Jun**	**Q. Sum**			
		(283)	**(1,312)**	**113**	**(1,482)**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Sum**			
		(2,855)	**(382)**	**(10,692)**	**(13,929)**			

								attract foreign Investment, thereby fostering a more vibrant and resilient marketplace.
3.0 Market Concentration Risk								
Market Concentration (Top 5 companies by market cap)	**Q4, 2023**	**Oct**	**Nov**	**Dec**	**Q. Avg**	**High** (Indicative – annual: >50% High Concentration)	Market concentration for the top 5 companies for the quarter ended December 2023 averaged at 63.11%.	Over the past year, there has been a continuous reduction in market concentration by five specific companies, indicating a growing openness among investors to explore opportunities beyond these select entities. Despite this positive trend, market concentration remains a significant risk. The Public Offers Listing and Disclosure Regulations 2023 were gazetted during the quarter and they set out more favorable listing requirements that attract a broader
		62.67%	**63.73%**	**62.92%**	**63.11%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		66.88%	**65.28%**	**64.06%**	**65.41%**			
	Q2.2023	**Apr**	**May**	**Jun**	**Q. Avg**			
		67.83%	**67.87%**	**67.72%**	**67.80%**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		73.29%	**73.37%**	**69.25%**	**71.97%**			

								range of companies to list on the market, thereby providing investors with a wider variety of investment choices. Furthermore, the Authority is actively engaged in investor education efforts, emphasizing the importance of diversification and promoting long-term investing strategies. By empowering investors with knowledge and information to make informed investment decisions, the aim is to reduce the inclination to concentrate investments in a limited number of dominant companies. Through these measures, the Authority seeks to foster a more diverse

<table>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>and dynamic market environment, ensuring investors have access to a broader range of investment opportunities and reducing the risks associated with excessive market concentration.</td></tr>
<tr><td colspan="9">4.0 Derivatives Trading Statistics[7]</td></tr>
<tr><td>Total Volume (No. of contracts)</td><td colspan="5">No of Contracts*
<table>
<tr><th></th><th>Q2. Sum</th><th>Jul-23</th><th>Aug-23</th><th>Sep-23</th><th>Q3. Sum</th><th>%Change Q3Vs Q2</th></tr>
<tr><td>ABSA</td><td>8</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>BATK</td><td>25</td><td>11</td><td>4</td><td>13</td><td>28</td><td>12.00%</td></tr>
<tr><td>EABL</td><td>0</td><td>-</td><td>15</td><td>8</td><td>23</td><td>-</td></tr>
<tr><td>EQTY</td><td>97</td><td>32</td><td>18</td><td>36</td><td>86</td><td>11.34%</td></tr>
<tr><td>KCBG</td><td>106</td><td>42</td><td>77</td><td>93</td><td>212</td><td>100.00%</td></tr>
<tr><td>N25I</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></tr>
<tr><td>SCOM</td><td>413</td><td>61</td><td>103</td><td>172</td><td>336</td><td>18.64%</td></tr>
<tr><td>COOP</td><td>13</td><td>-</td><td>4</td><td>-</td><td>4</td><td>69.23%</td></tr>
<tr><td>NCBA</td><td>25</td><td>-</td><td>1</td><td>4</td><td>5</td><td>80.00%</td></tr>
<tr><td>IHMP</td><td>1</td><td>-</td><td>-</td><td>-</td><td>0</td><td>100.00%</td></tr>
</table></td><td>Low</td><td></td><td>The volume of contracts traded in Q3.2023 was 707 translating to a 1.78% increase from 694 contracts recorded in Q2. 2023. In the quarter only BATK and KCBG recorded an increase in activity.</td></tr>
</table>

[7] Derivatives trading statistics to be updated once data is available

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<tr>
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<td>
<table>
<tr><td>SCBK</td><td>0</td><td>-</td><td>-</td><td>10</td><td>10</td><td></td></tr>
<tr><td>25MN</td><td>6</td><td>-</td><td>2</td><td>1</td><td>3</td><td>50.00%</td></tr>
<tr><td>Total</td><td>694</td><td>146</td><td>224</td><td>337</td><td>707</td><td>1.87%</td></tr>
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<td></td>
<td></td>
</tr>
<tr>
<td>Gross Notional Exposure (GNE)</td>
<td>
Amount in Kshs*
<table>
<tr><td></td><td>Q2. Sum</td><td>Jul-23</td><td>Aug-23</td><td>Sep-23</td><td>Q3. Sum</td><td>%Change Q3Vs Q2</td></tr>
<tr><td>ABSA</td><td>93040</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>BATK</td><td>1083125</td><td>483,000.00</td><td>173,100.00</td><td>549,615.00</td><td>1,205,715.00</td><td>11.32%</td></tr>
<tr><td>EABL</td><td>0</td><td>-</td><td>205,600.00</td><td>107,575.00</td><td>313,175.00</td><td></td></tr>
<tr><td>EQTY</td><td>3606380</td><td>1,383,900.00</td><td>736,500.00</td><td>1,346,150.00</td><td>3,466,550.00</td><td>3.88%</td></tr>
<tr><td>KCBG</td><td>3134400</td><td>1,299,150.00</td><td>2,004,120.00</td><td>2,089,270.00</td><td>5,392,540.00</td><td>72.04%</td></tr>
<tr><td>N25I</td><td>0</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>SCOM</td><td>6353990</td><td>1,072,840.00</td><td>1,624,510.00</td><td>2,624,170.00</td><td>5,321,520.00</td><td>16.25%</td></tr>
<tr><td>COOP</td><td>159400</td><td>-</td><td>45,700.00</td><td>-</td><td>45,700.00</td><td>71.33%</td></tr>
<tr><td>NCBA</td><td>925690</td><td>-</td><td>38,500.00</td><td>156,000.00</td><td>194,500.00</td><td>78.99%</td></tr>
<tr><td>IHMP</td><td>16850</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>SCBK</td><td>0</td><td>-</td><td>-</td><td>162,015.00</td><td>162,015.00</td><td>-</td></tr>
<tr><td>25MN</td><td>162830</td><td>-</td><td>52,280.00</td><td>25,170.00</td><td>77,450.00</td><td>52.44%</td></tr>
<tr><td>Total</td><td>15535705</td><td>4,238,890.00</td><td>4,880,310.00</td><td>7,059,965.00</td><td>16,179,165.00</td><td>4.14%</td></tr>
</table>
</td>
<td>High (indicative – annual: >50% High concentration)</td>
<td></td>
<td>The total value (Gross Exposure) of contracts traded during the quarter summed up to Kshs16.179 million; a 4.14% increase from Q2.2023.</td>
</tr>
<tr>
<td>Total Open Interest (No. of</td>
<td>
No of Contracts*
<table>
<tr><td></td><td>Q2 Average</td><td>Jul-23</td><td>Aug-23</td><td>Sep-23</td><td>Q3. Average</td><td>%ChangeQ3 Vs Q2</td></tr>
<tr><td>ABSA</td><td>4</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></tr>
</table>
</td>
<td>Medium (Indicative – annual: >50%</td>
<td>Overall, the total average number of open interest</td>
<td>As for hedging instruments, the place of derivatives markets in the face of</td>
</tr>
</table>

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<tr>
<td>Contracts)</td>
<td>
<table>
<tr><td>BATK</td><td>12</td><td>11</td><td>11</td><td>-</td><td>11</td><td>8.33%</td></tr>
<tr><td>EABL</td><td>0</td><td>-</td><td>5</td><td>-</td><td>5</td><td></td></tr>
<tr><td>EQTY</td><td>38</td><td>3</td><td>21</td><td>1</td><td>8</td><td>78.95%</td></tr>
<tr><td>KCBG</td><td>31</td><td>30</td><td>22</td><td>15</td><td>22</td><td>29.03%</td></tr>
<tr><td>N25I</td><td>0</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></tr>
<tr><td>SCOM</td><td>279</td><td>16</td><td>48</td><td>18</td><td>27</td><td>90.32%</td></tr>
<tr><td>COOP</td><td>7</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></tr>
<tr><td>SCBK</td><td>0</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></tr>
<tr><td>IMHP</td><td>2</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>NCBA</td><td>10</td><td>1</td><td>-</td><td>-</td><td>1</td><td>90.00%</td></tr>
<tr><td>25MN</td><td>6</td><td>3</td><td>5</td><td>4</td><td>4</td><td>33.33%</td></tr>
<tr><td>Total</td><td>389</td><td>64</td><td>112</td><td>38</td><td>71</td><td>81.75%</td></tr>
</table>
</td>
<td>High concentrati on)</td>
<td>contracts recorded in Q3 2023 were 71 ;
an 81.75% decrease from Q2.2023 value of 389</td>
<td>economic uncertainty remains important in risk management.

With the increasing profile of risks in the macro- economy, the profile of derivative instruments may grow as investors target diversification as a key investment strategy. Market participants need currency derivatives and the Authority is working with the CBK to roll-out the same.</td>
</tr>
<tr>
<td>Settlement Guarantee Fund (SGF) Coverage for Derivatives</td>
<td>
<table>
<tr><th></th><th>July-23</th><th>August-23</th><th>September-23</th></tr>
<tr><td>SGF</td><td>129,270,422</td><td>130,192,537</td><td>131,110,842</td></tr>
<tr><td>Average Market Value</td><td>141,296.33</td><td>162,677.00</td><td>235,332.17</td></tr>
<tr><td>SGF Coverage</td><td>915 times</td><td>800 times</td><td>557 times</td></tr>
</table>
</td>
<td>*High (Indicative – annua l: >50% High concentrate ion</td>
<td>The SGF coverage ratio for the derivatives market in Q3.2023 Progressively decreased from July to 557 times.</td>
<td>To maximize value from the SGF fund balances, there is a deliberate effort by the NSE to encourage increased activity for the sufficiency of the SGF.</td>
</tr>
<tr>
<td colspan="5">5.0 Government Bond Market Exposure</td>
</tr>
<tr>
<td></td>
<td>
<table>
<tr><td>Q4. 2023</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
</table>
</td>
<td>High</td>
<td>In Q3.2023,</td>
<td></td>
</tr>
</table>

<table>
<tr>
<td>Treasury Bond Market Turnover Concentration</td>
<td>
<table>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td>Q3.2023</td><td>July</td><td>Aug</td><td>Sep</td><td>Q. Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>99.89%</td><td>99.96%</td></tr>
<tr><td>Q2.2023</td><td>Apr</td><td>May</td><td>Jun</td><td>Q. Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td>Q.1.2023</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
</table>
</td>
<td>(Indicative –annual: >50%High)</td>
<td>Treasury Bond market turnover was 99.96%</td>
<td>Government activity in the bond markets continues to dominate as the government targets domestic market savings to fund various Government activities.</td>
</tr>
<tr>
<td>Corporate Bond Market ownership</td>
<td>
<table>
<tr><td>Type of Investor</td><td>Number of Investors</td><td>Share Quantity</td><td>% by share quantity</td></tr>
<tr><td>EI</td><td>2</td><td>131,000,000</td><td>0.48%</td></tr>
<tr><td>FI</td><td>28</td><td>908,056,105</td><td>3.36%</td></tr>
<tr><td>LI</td><td>1397</td><td>26,009,449,589</td><td>96.16%</td></tr>
<tr><td></td><td></td><td>27,048,505,694</td><td>100.00%</td></tr>
</table>
Data as of 31 December 2023
Note: For every EAC, LI, and FI, the total calculated is a sum of both corporate and individual investors.
</td>
<td>High (Indicative – Annual: >50% High concentration</td>
<td>The total share quantity for the corporate bonds stood at 27 million at the end of Q4. 2024.</td>
<td>Kenya has been facing a period of reduced corporate bond activity in the last year. Through its investor education and market deepening functions, the Authority has enhanced retail investor awareness to increase activity within the domestic corporate bond market.</td>
</tr>
<tr>
<td colspan="5">6.0 Investor Profiles - Equity Market</td>
</tr>
<tr>
<td>Equity Market</td>
<td>
<table>
<tr><td>Type of Investor</td><td>Number of Investor</td><td>Share Quantity</td><td>% by share quantity</td></tr>
<tr><td>BR</td><td>6</td><td>12,716,998</td><td>0.01%</td></tr>
<tr><td>EI</td><td>7405</td><td>1,325,328,437</td><td>1.35%</td></tr>
<tr><td>FI</td><td>8614</td><td>16,778,538,368</td><td>17.03%</td></tr>
<tr><td>LI</td><td>1287788</td><td>80,391,400,552</td><td>81.61%</td></tr>
</table>
</td>
<td>High (Indicative – annual: >50% High concentration</td>
<td>In Q4, share quantity for local investors stood at 80 million. With</td>
<td>While the proportion of local investors is higher than that of foreign investors, the share quantity held by each investor on a per</td>
</tr>
</table>

JR	178	1137,674	0.001%
		98,509,122,029	**100.00%**

Data as of 31 December 2023

Investor share quantity standing at 98 million.	capita basis remains low. The industry investor awareness and education strategy will be targeted at increasing retail investor participation through more roadshows, caravans, and county engagements.

7.0 Settlement Compensation Coverage

Indicator	Data				Benchmark	Comment	Action
Settlement Guarantee Fund	**Q4, 2023**	**Oct**	**Nov**	**Dec**	**Q. Avg**	(Indicative– annual: > 1 times, implies full coverage	The average settlement Guarantee Fund (SGF) ratio for October to November was 7.06	Through Risk-based supervision, the Authority has been monitoring the SGF figures. The fund remains adequate to guarantee settlement failure.
		6.24	**7.59**	**7.35**	**7.06**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		3.58	**7.13**	**5.37**	**5.36**			
	Q2.2023	**Apr**	**May**	**Jun**	**Q. Avg**			
		5.15	**4.65**	**6.35**	**5.38**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		3.39	**5.52**	**0.91**	**3.27**			

8.0 Asset Base of Fund Managers, Stockbrokers, Investment Banks

Working Capital (Amount in Kshs Millions)*

	Amount in Kshs Millions				
	Total Assets	**Total Liabilities**	**Net Assets**	**Net Assets September 2023**	**% Change**

Benchmark	Comment	Action
Medium (Indicative –the higher the figure, the more stable is	The net assets base of Fund Managers, Investment	Capital markets licensees' net assets increased between September and December 2023.

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<tr>
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<table>
<tr><td></td><td></td><td></td><td>December 2023</td><td></td><td></td></tr>
<tr><td>Fund Managers</td><td>16086</td><td>4502</td><td>11584</td><td>3660</td><td>217%</td></tr>
<tr><td>Investment Adviser</td><td>757</td><td>245</td><td>511</td><td>264</td><td>94%</td></tr>
<tr><td>Investment Banks</td><td>18598</td><td>4993</td><td>13604</td><td>3073</td><td>343%</td></tr>
<tr><td>Online Forex Brokers</td><td>7568</td><td>4234</td><td>3334</td><td>1568</td><td>113%</td></tr>
<tr><td>Stockbrokers</td><td>3926</td><td>1857</td><td>2064</td><td>977</td><td>111%</td></tr>
</table>
(Data computed as of December 2023)
</td>
<td>the market</td>
<td>Advisor, Investment Banks, Online Forex, and Stockbrokers, as of December 2023 was 11 584M, 511M 13604M 3334M and 2064M respectively.</td>
<td></td>
</tr>
</table>