CAPITAL
MARKETS AUTHORITY
Promoting the Integrity and Growth of the Capital Markets

The Capital Markets Soundness Report

Volume XXIV Quarter 3 2022

"Leveraging the Capital Markets to support the Kenya Kwanza Economic Blue Print"

Quarterly Publication of the Capital Markets Authority (Kenya)

Quarter 3 (July – September) 2022

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SPECIAL MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Valued Reader,

Welcome to the **24th Edition of the Capital Markets Soundness Report (CMSR)** for the quarter ended 30th September 2022.

This report analyses the soundness of the Kenyan capital markets, as influenced by global, regional, and domestic political, socio-economic developments.

This quarterly report has been prepared against the backdrop of a projected global slowdown in economic activity. In its September 2022global economic outlook report, Fitch Ratings expects the world GDP to grow by 2.4% in 2022 – revised down by 0.5% – and by just 1.7% in 2023, cut by 1%.

Uncertainty surrounding the escalating global conflicts which have led to high inflation across the globe coupled with sovereign and corporate debt deteriorations, are exerting negative pressure on the world economy. The Russia-Ukraine crisis is dragging down economic growth and putting additional upward pressure on prices, above all for food and energy. However, the monetary and fiscal measures currently being undertaken offer a glimmer of hope of economic recovery in the future.

On the domestic scene, the 2022 Budget Review and Outlook Paper (BROP) by the National Treasury and Planning notes that the Kenyan economy has demonstrated remarkable resilience after the August 9th national elections. Domestically, leading indicators of economic activity show continued strong performance in the second quarter of 2022, supported by strong activity in transport and storage, wholesale and retail trade, construction, information and communication, accommodation and food services sectors.

I wish to reiterate the Authority’s commitment to positioning the capital markets to support the realization of the aspirations in the Bottom-Up Economic Transformation Agenda. CMA Kenya sits at a critical vantage point as an enabler in facilitating access to market-based financing to enable the financing of key Kenya Kwanza Manifesto projects.

I take this opportunity to underscore the need for enhanced partnerships and stakeholder collaboration to further deepen the market. The recently signed up Memorandum of Understanding (MoU) between CMA and Kenya Development Corporation (KDC) to promote greater utilization of the capital markets through structured financial products by corporates including SMEs underscores our commitment. I wish to laud the Nairobi Securities Exchange (NSE) on the extension of the fee’s waiver for day trades as this will serve to attract more retail participation which will boost liquidity at the Bourse.

We are delighted to continue collaborating with you, our esteemed stakeholders, to deepen the market. Therefore, as you read this report, we request you to share your thoughts on the report's key findings, lessons learned, opportunities, risks and potential mitigations so that we can improve our capital markets policy and regulatory framework to make Kenya an investment destination of choice.

Happy Reading!

FCPA Wyckliffe Shamiah

CHIEF EXCECUTIVE OFFICER

EDITORIAL

Greetings!

The 24th edition of the Capital Markets Soundness Report (CMSR) themed, **'Leveraging the Capital Markets to support the Kenya Kwanza Economic Blue Print''**aptly underscores the critical role the capital markets will play in support of the aspirations of the Bottom-up economic blueprint. This edition of the CMSR has a special feature on how the capital market is well positioned to assist both the public and private sector actors in leveraging the capital markets for financing.

On the global front, high inflation, high interest rates, foreign exchange pressures, the European gas crisis and sharp acceleration in the pace of global monetary policy tightening are taking a heavy toll on economic prospects. This is against the backdrop of the prevailing Russia-Ukraine crisis with the greatest concern being the war spiraling out of control. China's recovery is constrained by Covid-19 pandemic restrictions and a prolonged property slump is additionally dragging down prospects of economic recovery.

Key global capital markets indicators have declined evidencing the negative investor sentiments posed by fears of an economic recession and a looming energy shock arising from the Ukraine crisis. Global capital markets registered negative returns with the Morgan Stanley Capital International (MSCI) World Index and Emerging Market Index declining by 6.19% and 11.57 % respectively in United States Dollar terms, between June 30th and September 30th 2022.

The Committee on Payment Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published a discussion paper on Central Counterparties practices for addressing non-default losses. The Financial Conduct Authority (FCA) and the

United States Securities and Exchange Commission released reports on their plans to support SME financing via the capital markets. The Authority will glean off key lessons as we seek to support SMEs financing via the capital markets.

On the regional front the Johannesburg Stock Exchange (JSE) Clear was granted Independent Clearing House & Central Counterparty (CCP) license status by the Financial Sector Conduct Authority. The Authority will seek to learn from South Africa as we craft guidelines for licensing CCP's. The Financial Services Commission Mauritius during the quarter updated its Guidance for Virtual Assets Service Providers, this is in line with the FATF guidance of licensing virtual asset exchanges for AML/CTF purposes. We note the developments concerning the oversight over virtual asset exchanges across the globe as this will inform our policy response.

On the domestic front, the markets were resilient, shaking off the fears related with the elections. The volatility of the NASI, NSE 20 and NSE 25 share indices for the third quarter of 2022 remained relatively low, that is, below 1%; at 0.60%, 0.49%, and 0.89% respectively. Before the general elections in July, NSE All Share Index was relatively high at 1.03%

The equity turnover ratio in Q3 reduced slightly to 1.08% from 1.26%. The deterioration is attributed to the Kenya general elections with foreign investors taking a cautionary stance whilst exiting the market to chase yield in their home markets as interest rates rise there.

The market recorded a further foreign investor equity net outflow of Kshs 6.97 billion, from the net outflow of Ksh 10.90 billion. This trend has been occasioned by a combination of factors including search for yield in other jurisdictions and foreign exchange administration pressures. This poses a major risk to the Kenyan secondary market as market activity which is largely driven by foreign investors declines and compromises the sustainability of market intermediaries such as stockbrokers and investment banks. Initiatives such as day trading, investor education, market deepening engagements with domestic institutional investors such as pension schemes and Saccos, as well as use of technology to drive domestic retail investor participation, need to be stepped up to mitigate this risk.

We conclude with the capital markets stability analysis with details on the trends in market volatility, liquidity, concentration and foreign portfolios flow, the key highlights being increased activity in the equities market supported by renewed investor interest in large cap stocks notably in the telecommunication, banking and manufacturing and allied sectors

Enjoy your read.

Mr. Luke E. Ombara

DIRECTOR, POLICY AND MARKET DEVELOPMENT

1. SPECIAL FEATURE: THE BOTTOM-UP ECONOMIC PLAN

1.1 Overview of the Economic Transformation Plan of the New Government

His Excellency. Dr. William Samoei Ruto, C.G.H was sworn in on 13th September 2022 as **President of the Republic of Kenya and Commander-In-Chief of the Defence Forces**.

The New Government's economic transformation agenda and plan, launched on 30th June 2022 pronounced itself on key thematic deliverables to steer Kenya to economic prosperity. The manifesto details out an in-depth description of its bottom-up economic model together with the implementation plan to realize its aspirations.

The plan connotes **"investing the limited capital available where it will create the most jobs – at the bottom of the pyramid".** It additionally notes that there must be a commitment to end exclusion and criminalisation of livelihoods and providing for a level playing field for all investors big and small. In a nutshell, it means making Kenya not just a middle-income country in terms of GDP averages, but a middle-class society in every sense of the word.

The key pillars of the manifesto have been prioritized to be implemented sequentially as 'quick wins, short, medium and long-term' subject to the financing principles and framework. Agriculture: micro, small and medium enterprise (MSME) economy: housing and settlement: healthcare, a digital superhighway and creative economy have been identified as the key pillars of the Bottom-up economic transformation agenda.

The financing principles and framework is well crafted to achieve economic growth amidst a tough operating context of external negative shocks, growing risk of financial distress and thirdly the structural weaknesses and imbalances in the real economy. The Bottom-up economic plan is to be financed within the budget deficit target of three percent by implementing a budget neutrality approach when financing new programmes whilst ensuring revenue projections remain conservative coupled with a capping of expenditure growth at 75%.

The Bottom-up economic plan will deploy a credible macroeconomic framework and growth strategy to strengthen external creditworthiness, enabling government to borrow externally cheaply and end crowding out of private sector from the domestic credit market.

1.2. CMA’s Strategic Positioning to Support the Bottom-Up Economic Plan Implementation

a. **Hustler Fund-**The manifesto is hinged on a well-funded Hustler Fund as a primary anchor in the promotion of SME businesses in the country. The manifesto details that the fund will at a minimum have an allocation of Kshs 50 billion. The plan has committed to finance Kenyan ICT start-ups annually to the tune of Kshs 2.5 billion. The Government will leverage the financial support that will be provided to the boda boda sector through the Hustler Fund to develop the nascent Electric Vehicles motorcycle assembly industry. Further the creative economy will get support from the hustler fund aimed at upgrading business skills and facilitating the setting-up of businesses.

Opportunities in the capital markets

In its current regulatory overhaul initiatives, CMA has adopted a deliberate approach in ensuring the scope of its regulations enable small, medium enterprises to raise capital through capital markets instruments. The concept and objective behind the hustler fund is thus a timely initiative. While more details of the source of funding for the Hustler Fund will be known in due course, prior to its expected launch in December 2022, are opportunities to enhance it through an array of capital markets debt instruments such as social impact bonds. Should this option be pursued, CMA Kenya has a robust policy, legal and regulatory framework to facilitate the Fund.

b. **Privatization-**The manifesto makes mention of an infrastructure fund that will be established from privatization proceeds to fund commercially viable infrastructure projects. Privatisation has proven to be one of the strongest levers for influencing issuer demand. Initial public offers by state owned enterprises have in the past served to attract equity listings and debt issuance by the private sector.

His Excellency the President reiterated the same on the 28th of September 2022 during the Joint NCBA, KCB and Safaricom media briefing on the Revamped Fuliza Offering reiterated his support for the privatization program with the aim of broadening ownership of state-owned enterprises whilst raising money for the government.

A significant number of successful (oversubscribed) IPOs by State Owned Enterprises, generated significant interest in the market, thus attracting a good number of private companies. Kenya Commercial Bank (KCB)'s 327% subscription in 1988 immediately brought onboard companies like Total Oil Company (106%), Nation Printers (113%) and Standard Chartered Bank (233%).

Housing Finance Corporation of Kenya (HFCK) IPO of 1992 which was 303% subscribed, similarly attracted new companies like Crown Berger, East African oxygen (BOC), NIC, Firestone, Rea Vipingo and East African Portland Cement to the stock market over the following five years.

Additional issues by KCB in 1999 and 2004 brought in companies like Athi River Mining, Pan African Insurance, African Lakes, Standard Newspapers, Diamond Trust, Scan Group and Eveready. Without doubt, the "privatization effect" was felt through subsequent capital raising and listing by private enterprises.

CMA Action Plan

Privatization has been a key component in the promotion of market deepening activities by the Authority. However, the absence of a full board of the Privatization Commission (PC) and a non-responsive Privatization Act have been key bottleneck to progress.

Presently, the Commission is fully established with a functional board, but a speedy review of the Privatization Act is crucial in the immediate term. CMA Kenya welcomes this policy pronouncement and shall proactively make its submissions on review of the Act to ensure that the capital market plays its role in facilitating divestitures and privatizations through both private transactions and public offerings. This will complement plugging of the budget deficit, enable public and private entities raise capital and provide an investment opportunity for millions of Kenyans.

Infrastructure Financing

Infrastructure has in the recent past primarily been financed through issuance of infrastructure bonds by the National Treasury complemented by budgetary allocations. The Bottom-up economic transformation plan notes the timely need to progressively finance infrastructure development by establishing an infrastructure fund.

FIGURE 1:LAYING OF THE RAILWAY

Source: Kenya Railways

Project bonds and green bonds structured as infrastructure bonds are good alternatives. The use of project bonds will allow the proposed Infrastructure Fund to tap into the Kshs 1.3 trillion worth of long-term institutional capital. Further counties can issue project bonds to finance strategic infrastructure projects such as water and sewerage works, hospitals and roads. With growing international investor appetite for project and green bonds from developing countries especially those with wider societal benefits; the fund will find cheaper capital for financing infrastructure projects.

The Government in a bid to ease fiscal pressures, ramped up its utilization of Public-Private Partnerships framework for the construction of road projects. Securitization of the Roads Maintenance Levy Fund charged at Sh18 per litre of petrol can be utilized to issue a Roads Bond to ease off pressure from the national budget in financing the completion and upgrading of roads as promised in the manifesto. The securitization of the roads levy can add value to Public-Private Partnerships framework by mobilizing long term institutional capital to support the financing of roads infrastructure.

Globally, pension funds are increasingly moving into new asset classes in a search for enhanced yields, with infrastructure being one type of investment that is frequently discussed, given its potential to match the long-term nature of pension payments with the return profile of infrastructure projects. This will position pension funds being one of the largest private capital sources to fund infrastructure driven by the synergies of their business structure and what infrastructure offers.

The Kenya Pension Fund Investment Consortium (KEPFIC) was conceptualized and officially launched on 21st October 2020. KEPFIC is a consortium of Kenyan retirement benefits funds that have come together to make long-term infrastructure and alternative asset investments in the region. To do this, KEPFIC aims to identify suitable infrastructure opportunities, pool investment capital from local pension funds and co-investors, and build the technical and investment capacity of its member funds, to enable them to make informed infrastructure investment decisions.

CMA Action Plan

Historically, the Capital Markets have provided the platform for capital mobilization for Government in undertaking infrastructure development in the country. A tax-free environment also exists for investors in infrastructure bond issuances with more than 3 years tenure as well as green bonds. CMA Kenya will work with the Retirements Benefits Authority, pension funds and key stakeholders in reviewing the relevant policy and legal frameworks to support investment diversification by the pension funds through investment vehicles such as KEPFIC.

Public-private partnerships when financing infrastructure projects can leverage on project bonds in their financing structure to complement other sources of funding for such projects. Kenya's capital markets industry boasts of such sophistication.

c. **Pending bills.** The Bottom-up economic plan plans to settle pending bills innovatively by securitization of the outstanding bills subject to verification. The private sector has been adversely affected by the accumulating pending bills. The sector in April 2019 brought to the attention of the President the impact of pending bills on their operations with emphasis on the ripple effects that the bills have on the primary supplier of goods and on other firms who trade with the affected primary firms.

Through the Kenya Private Sector Alliance (KEPSA), the sector reported that in general, pending bills had led to decreased liquidity, increased bankruptcy, and a decline in profits which has in turn led to closure of some SMEs.

Securitization programs have a standard structure in which a special purpose vehicle (SPV) is established as an independent legal entity. The originator—that is, the institution raising capital—then sells the rights to its cash flows, be they loan repayments or other kinds of future receivables, to the SPV, and the SPV issues a bond that is bought by investors. The capital raised by the bond is then put to use by the originator, whereas the underlying cash flows to the SPV are used to ensure that investors are repaid the principal and interest on the bond.

Tax revenues form the receivables for a majority of securitization programmes by a number of Governments and their agencies. A Special Purpose Vehicle may be established to take up all pending bills, ringfence a portion of tax revenues as the receivables to back the issue of a bond, whose proceeds may be used to settle the bills in a securitization programme.

CMA Action Plan

CMA Kenya has licensed several of investment banks that can competently package a securitization issuance as transaction advisors. Noting the characteristically large size of such securitization issuances and the relative complexity of a securitization, a consortium of transaction advisors would be advisable. The capital markets legislative framework currently permits such innovative structuring that will further profile the capital markets as a solution in meeting funding needs of real sectors of Kenya's economy. We will continue to engage stakeholders in exploring innovative ways of actualizing the Government's commitment on pending bills including but not limited to facilitating institutions interested in buying off the said pending bills at a premium and then setting up structures to recover the same.

d. Commodities Market

Kenya's envisages to position itself as a centre of excellence in spot commodities markets in agriculture, energy, minerals and metals supported by national derivatives exchanges to stimulate development and economic transformation in the country.

The Kenya Kwanza manifesto notes the need to *d*eploy modern agricultural risk management instruments that ensure farming is profitable and income is predictable. The plan outlines the use of instruments such as commodity market instruments such as forward contracts and futures contracts among others.

FIGURE 2:KOMEX

de I : Chuka ,Price=Ksh 38,092 : Perc Change = -1.16% | Cow Peas : Grade I : Eldroret KOMEX Warehouse ,Price=Ksh 70,026 : Perc Change = 0.4% | Wheat : Grade II : Gilgil ,Avg Pric

Kenya Commodity Exchange Platform

The Kenya National Multi Commodities Exchange (Komex) operates warehouses where farmers will deposit produce for storage pending a decision to sell when prices improve. As a result, the platform provides real time commodity prices about exchange trading which provides openness in the interaction between the supplier and the trader or the consumer. .

Komex

To facilitate the setting up of structured commodities trading in Kenya, by establishing commodities markets, the Capital Markets (Commodities Markets) Regulations 2020 and Capital Markets (Coffee Exchange), Regulations 2020 were gazetted by the Cabinet Secretary for the National Treasury and Planning on 3 April 2020.

The Capital Markets Authority has issued so far issued six licenses to coffee brokers namely, Embu Coffee Farmers Marketing Agency, Kipkelion Brokerage Company Limited, Murang'a County Coffee Dealers Company, Mt. Elgon Coffee Marketing Agency Limited, Meru County Coffee Marketing Agency Ltd and United Eastern Kenya Coffee Marketing Company Limited.

FIGURE 3:COFFEE BROKERS LICENSED BY CMA

CMA EXTENDS COFFEE BROKERS' LICENSES

The four are:

1. Kipkelion Brokerage Company
2. Murang'a County Coffee Dealers Company
3. Mt. Elgon Coffee Marketing Agency
4. United Eastern Kenya Coffee Marketing Company

REGULATING COFFEE BROKERS

CMA SEEKS TO ENSURE COMPLIANCE WITH COFFEE EXCHANGE REGULATIONS 2020

Covid-19: Total recoveries stood at 241,828 on Friday

Source: Nation Media Group (NTV)

Kenya's Warehouse receipts system currently supports the warehousing of maize, green grams, beans, potatoes, coffee, wheat and rice. With the operalisation of the Warehouse Receipts System, combined with an organized market in which to trade them, is anticipated to provide a transparent, efficient and structured trading system, quality assurance for commodities, efficient price discovery and in the long-term, facilitate improved export competitiveness for Kenyan commodities, by stimulating domestic value addition and processing, while at the same time improving the country's food security status.

The warehouse receipt indicating ownership are transferable and negotiable instruments for boosting access to credit. Farmers can use them to access short-term credit from financial institutions. Further the receipts can be used for secondary trading in the futures market.

With the operalisation of commodities exchanges (the Kenya National Multi Commodity Exchange) futures contracts which are standardized legal agreements to buy or sell a specified quantity of a commodity for an agreed price, with delivery at a particular future time can trade on such exchanges providing a secondary market, for trading of commodities.

Opportunities

With the removal of the pending regulatory hurdles for the development of Kenya's commodities market coupled with the operalization of Kenya's National Multi Commodities Exchange, Kenya is poised to a regional leader in commodities trading.

e. Transforming the Micro, Small and Medium Enterprise (MSME) Economy

The Kenya Association of Manufacturers estimates that Kenya's Micro, Small and Medium Enterprises (MSMEs) contribute approximately 40% of the GDP with the majority falling in the informal sector. While there are about 7.41 million MSMEs in Kenya, only 1.56 million are licensed whereas 5.85 million are unlicensed.

While Kenyan SMEs provide over 80% of the country's employment making the sector a major contributor to socio-economic development, the growth of the sector is hampered by limited access to finance. Despite a landscape of financial service providers, including microfinance banks, banks, digital credit providers there are critical gaps in serving the SME financing needs. The current risk assessment conducted by several financial institutions and structural bureaucratic bottlenecks have served as an impediment for SMEs to access working and growth capital.

CMA Action Plan

The Growth Enterprise Market Segment (GEMS), in the current regulations facilitates listing by introduction and has so far attracted five SMEs. However, unlike the Main Investment Market Segment and the Alternative Investment Market Segments, companies listed on the GEMS market cannot raise capital despite the listing. The Draft Public Offers regulations, currently at the tail end of drafting will for the first time allow SMEs to raise equity and debt capital, enabling thousands of SMEs to raise capital via the capital markets which traditionally have only been accessed by medium and large enterprises. Corporate governance requirements for SMEs will be tailored accordingly to ensure that they are commensurate with their sizes.

Further the Investment Based Crowdfunding regulations, already in force, will allow SMEs to raise capital via crowdfunding platforms. It is expected that Micro and Small enterprises

registered as such under the Micro, Small and Medium Act 2012 would have an opportunity to raise either debt or equity capital up to a maximum of Kshs 200 million, as capped by the gazetted crowdfunding regulations. The draft regulations provide for start-ups which are in the process of developing a scalable product or service to also raise financing. Whilst for large companies the Public Offers regulations have required a profitability track record, the draft investment based crowdfunding regulations only require an operating track record.

f. Housing and Settlement

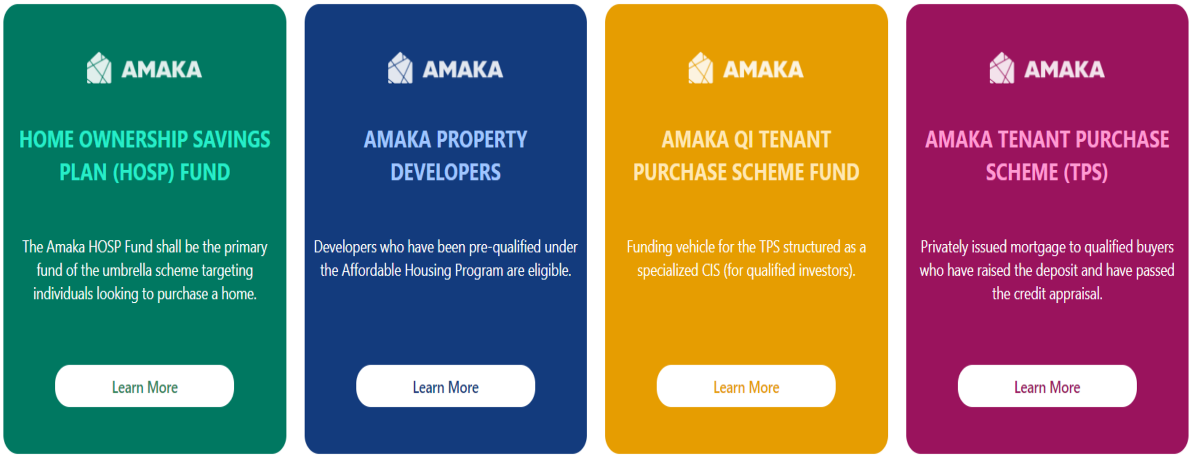
The Kenya Kwanza plan aims at increasing supply of up to 250,000 units by structuring affordable long term housing finance schemes including a National Housing Fund and Cooperative Social Housing Schemes to that will guarantee offtake of houses from developers. The government also plans to establish a Settlement fund to purchase land that will be subject to land use planning where beneficiaries will own transferable residential plots in planned settlement, and right to lease non-transferable agricultural land.

As part of its efforts to facilitate affordable housing, on 2nd December 2021, which is a pillar of the National Government Agenda, the Capital Markets Authority (CMA) approved the issuance of a secured Ksh3.9 billion Medium Term Note programme for Urban Housing Renewal Development Limited. The Medium-Term Note Programme, which has a Kshs 600 million green-shoe option, and an 18-month tenor is a restricted public offer for sophisticated investors. It was offered at an interest rate of 11 percent. The proceeds are intended to support an affordable housing project in Pangani in Nairobi, comprising 1,562 housing units is a partnership with the Nairobi County Government.

Further the Authority on April 28th 2022 approved the set up of the Amaka Unit Trust (Umbrella Fund) comprising of the Amaka Hosp Fixed Income Fund and the Amaka Qualified Investor Tenant purchase scheme fund. The approval will facilitate the over 300,000 registered users on the BomaYangu Portal to finally be allowed to participate in, and own homes through an affordable Tenant Purchase Scheme. Amaka Home Ownership Saving Plan allows potential homeowners to save towards home ownership whilst their savings earn a return, compounded. The Amaka

Qualified Investor Tenant Purchase Schemes Fund provides offtake guarantees to property developers which then secures their investment in the programme.

FIGURE 4:AMAKA UMBRELLA FUND



HOME OWNERSHIP SAVINGS PLAN (HOSP) FUND

The Amaka HOSP Fund shall be the primary fund of the umbrella scheme targeting individuals looking to purchase a home.

AMAKA PROPERTY DEVELOPERS

Developers who have been pre-qualified under the Affordable Housing Program are eligible.

AMAKA QI TENANT PURCHASE SCHEME FUND

Funding vehicle for the TPS structured as a specialized CIS (for qualified investors).

AMAKA TENANT PURCHASE SCHEME (TPS)

Privately issued mortgage to qualified buyers who have raised the deposit and have passed the credit appraisal.

Source: Amaka Website

Opportunities

While various innovative models for supporting funding of affordable housing may be adopted, the capital market is well positioned to support such models through its legal and regulatory framework, as well as tax incentives. CMA Kenya is currently looking at its tax and regulatory framework to ensure that any hurdles to capital raising are minimized should the options adopted require its facilitation. For instance, the Kenya Mortgage Refinance Company's Kshs 1.4 billion bond which was oversubscribed by 480% is currently supporting the housing agenda by providing for the refinancing of home loans. This capital raise underscored the importance of the innovative capital markets financing solution through a corporate bond to deliver relatively cheaper houses to Kenyans.

Overall, the Authority has undertaken a consultative and collaborative approach in ensuring market and industry synergies are optimally maximised in supporting the efforts of the new Government as outlined herein.

Key partners include the Nairobi Securities Exchange, Kenya Association of Stockbrokers and Investment Banks, financial sector regulators, Fund Managers Association, Kenya Private

Sector Alliance, Privatization Commission, Micro and Small Enterprises Authority amongst others.

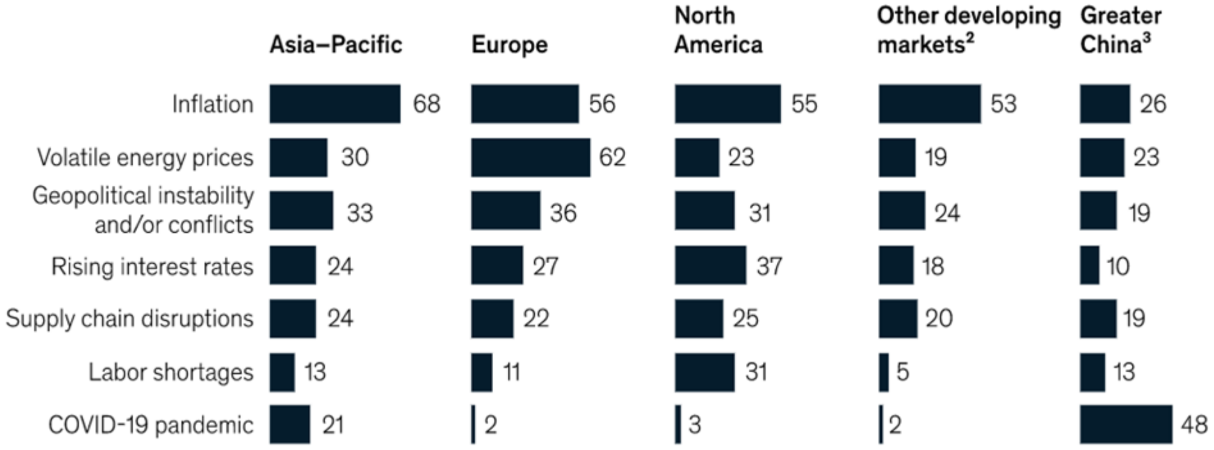
We remain positive that collaborative efforts are a critical success factor in ensuring successful implementation and impact in the domestic economic development of the country.

2. INTERNATIONAL DEVELOPMENTS

2.1 The Global Economic and Capital Market performance Outlook

This quarterly report has been prepared against the backdrop of fears of a projected global slowdown in economic growth and the uncertainty surrounding the escalating global conflicts which has led to high inflation[1] across the globe. The Russia-Ukraine war is dragging down economic growth and putting additional upward pressure on prices, above all for food and energy. However, the monetary and fiscal measures currently being undertaken give a glimmer of hope if they will spur economic stability

FIGURE 5:POTENTIAL RISKS TO ECONOMIC GROWTH



[1] Out of 18 risks that were presented as answer choices. Risks are ordered from the first- to seventh-most-cited overall answer.
[2] Includes Latin America, Middle East, North Africa, South Asia, and sub-Saharan Africa.
[3] Includes Hong Kong and Taiwan.

Source: McKinsey &Company

According to the Organization for Economic Co-operation and Development (OECD, September 2022) report, global growth is projected to remain subdued in the second half of

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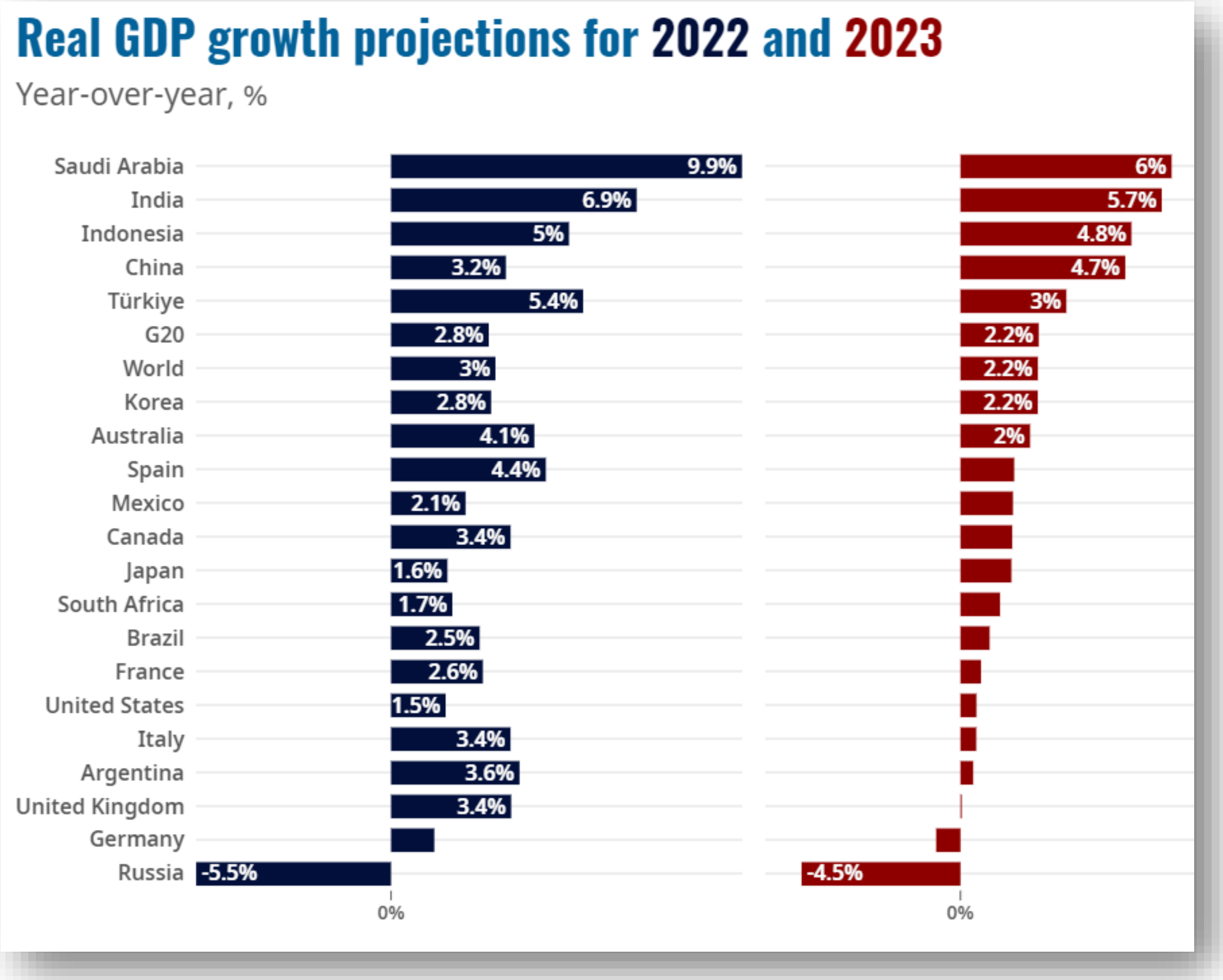
[1] **https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/economic-conditions-outlook-2022**

2022, before slowing further in 2023 to an annual growth of just 2.2%. The tightening of monetary policy to arrest inflation has contributed its fair share to slowing global growth.

FIGURE 6:OECD ECONOMIC OUTLOOK, INTERIM REPORT SEPTEMBER 2022



Source: OECD Economic Outlook, Interim Report September 2022

Africa has felt the heat from declining demand for its products by the European union (representing about 33 per cent of African exports). This has been further complicated by weak monetary and fiscal support which has constrained economic recovery. Soaring energy prices have affected net energy importers whilst greatly benefitting oil exporting jurisdictions. This has exacerbated fiscal pressures with several governments seeking bilateral and multilateral support to finance budget deficits.

The Shenzhen Stock Exchange and the Shanghai Stock Exchange are set to retain the top two positions in the global IPO ranking[2] by capital raised. Hong Kong Stock Exchange will rise to 4th place after IPOs by a retail business and a battery manufacturer. Since its introduction in June 2019, registration-based reform has supported listings by many technology and innovative businesses seeking to raise funds. This is clear given IPO volume and funds on the SSE STAR Market (Shanghai Stock Exchange Science and Technology Innovation Board) and ChiNext (a subsidiary of Shenzhen Stock Exchange) are expected to have surpassed those on the two main boards in the first three quarters.

The global equities market is likely to continue to feel the weight of United States Federal Reserve policy tightening, shrinking market liquidity and slower economic growth. The S&P 500 index breached the bear market territory (that is, a drop of 20% or more from a recent peak) in mid-June, with many of its constituent stocks being in bear market category. The global sharp rallies within an underlying downward trend are typical of bear markets and portend much more volatility.

FIGURE 7:PERCENTAGE CHANGE IN THE S&P 500 SINCE ITS PEAK ON JAN. 3

Source: Refinitiv

Tighter monetary policy has had far reaching implications for the global capital market given the fact that it dampens economic growth. Key global capital markets indicators have declined evidencing the negative investor sentiments posed by the potential of an economic recession.

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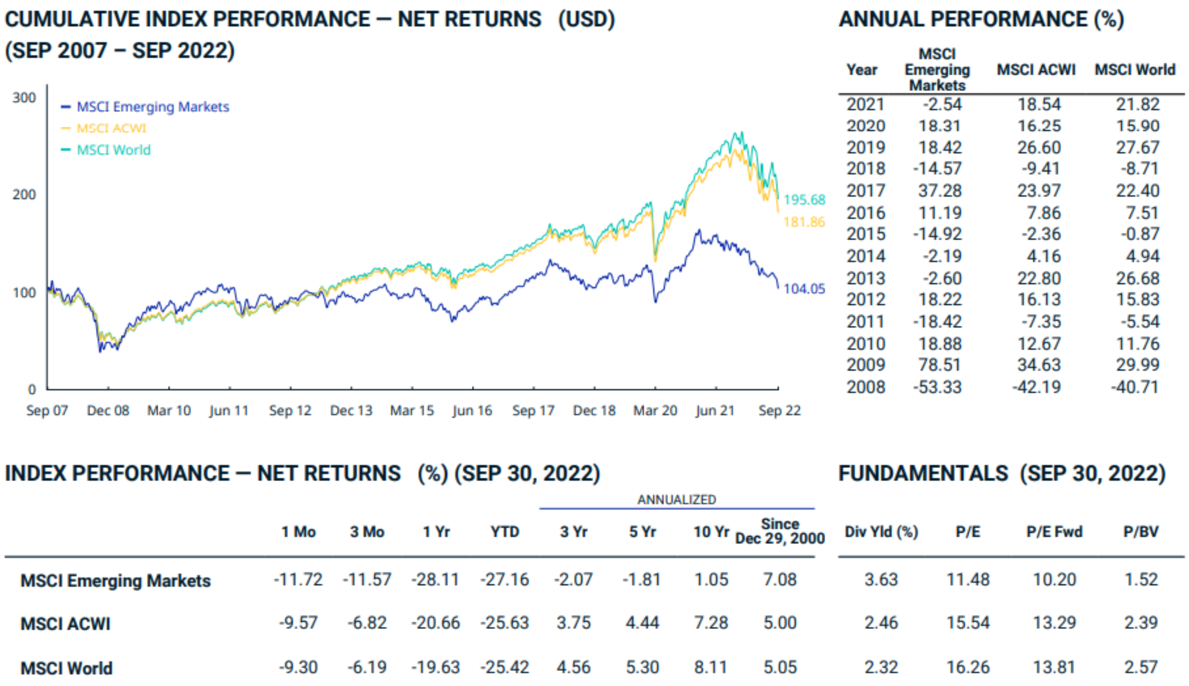
[2] **https://www2.deloitte.com/cn/en/pages/audit/articles/mainland-and-hk-ipo-markets-in-q3-2022.html**

Global capital markets registered negative returns with the MSCI World Index and Emerging Market Index declining by 6.19% and 11.57% respectively in United States Dollar terms, between 1st July and September 30th 2022.

FIGURE 8: MSCI INDEX EMERGING MARKETS



CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD) (SEP 2007 – SEP 2022)

ANNUAL PERFORMANCE (%)

Year	MSCI Emerging Markets	MSCI ACWI	MSCI World
2021	-2.54	18.54	21.82
2020	18.31	16.25	15.90
2019	18.42	26.60	27.67
2018	-14.57	-9.41	-8.71
2017	37.28	23.97	22.40
2016	11.19	7.86	7.51
2015	-14.92	-2.36	-0.87
2014	-2.19	4.16	4.94
2013	-2.60	22.80	26.68
2012	18.22	16.13	15.83
2011	-18.42	-7.35	-5.54
2010	18.88	12.67	11.76
2009	78.51	34.63	29.99
2008	-53.33	-42.19	-40.71

INDEX PERFORMANCE — NET RETURNS (%) (SEP 30, 2022)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Dec 29, 2000
MSCI Emerging Markets	-11.72	-11.57	-28.11	-27.16	-2.07	-1.81	1.05	7.08
MSCI ACWI	-9.57	-6.82	-20.66	-25.63	3.75	4.44	7.28	5.00
MSCI World	-9.30	-6.19	-19.63	-25.42	4.56	5.30	8.11	5.05

FUNDAMENTALS (SEP 30, 2022)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI Emerging Markets	3.63	11.48	10.20	1.52
MSCI ACWI	2.46	15.54	13.29	2.39
MSCI World	2.32	16.26	13.81	2.57

Source: MSCI

A significant number of frontier markets who issued international debt see their bonds trading at a premium of over 1000 basis points above the United States bonds. It is noted that with regards to Kenya and Egypt, they are a whisker away from these levels. Such wide bond yield spreads mean these countries are effectively shut out of the international capital markets and unable to refinance at this stage. Ghana and Egypt are currently in different stages of negotiations with the International Monetary Fund (IMF) to help shore up their funding.

Performance Across Select African Markets

Noteworthy across Africa, select equity markets have registered negative returns during this quarter with only Kenya, Tunisia and Mauritius registering positive returns as global investors seek return in treasuries and corporate bonds in developed markets where interest rates have increased.

TABLE 1:PERFORMANCE ACROSS SELECT AFRICAN MARKETS -MSCI

MSCI Index	Last	Day	MTD	3MTD	YTD
BOTSWANA	164.906	0.20%	-14.18%	-22.45%	-18.53%
KENYA	1,140.416	-0.73%	-8.70%	0.03%	-31.89%
MOROCCO	233.521	-0.23%	-9.23%	-12.81%	-30.32%
NIGERIA	163.003	-0.05%	-5.06%	-16.01%	-12.09%
SENEGAL	557.949	-0.35%	-4.52%	-6.23%	-10.62%
TUNISIA	816.414	0.47%	-2.61%	1.99%	-12.58%
ZIMBABWE	687.121	1.41%	-3.21%	-55.61%	-74.70%
MAURITIUS	638.623	-0.53%	-0.28%	2.25%	-7.35%

Source: MSCI

Top Global Risks and Opportunities During the Quarter

The Q3 2022 Capital Markets Soundness assessment notes the following key risks and opportunities arising from the developments on the global, regional and domestic front.

Key Risks Identified

I. *While inflation is currently the most highly rated risk globally, followed by high energy costs and high interest rates, according the survey by McKinsey and Company as outlined earlier, change continues to cause increasingly frequent extreme weather events such as heatwaves, storms, drought, the disruption of food systems and poor health with a dampening effect on economic growth. The combination of all these risks continue to squeeze household budgets leading to retail investors scaling back on their investment in the capital markets, as global per capita income continues to drop.*

II. *Interest rate hikes in particular is causing global investors are fleeing emerging and frontier markets for the developed markets treasuries whose returns have improved with* *the interest rate increases. This may lower foreign investor participation at the Nairobi bourse.*

Key Opportunities

I. *The industry can strategically position itself to leverage on the key policy pronouncements in the Bottom-up economic plan and with HE. DR. William Ruto's pronouncements on the role the capital markets can play to deploy products and services profitably and innovatively to better the savings and investment profiles of ordinary Kenyans.*

II. *There is a case for encouraging more domestic investors to take up positions with the flight of global investors through making initiatives such as day trading more attractive. The fee waiver by the NSE would serve as an incentive to attract more trading by domestic retail investors.*

CMA Stability Implication

Tighter monetary policy has had far reaching implications for the global capital market given the fact that while it is reducing money supply, it also dampens economic growth due to reduced credit Further current trends in global inflation is driven by global supply disruption (cost- push inflation). Effectively, key global capital markets indicators have declined evidencing the negative investor sentiments posed by the potential of an economic recession and stagflation. With more Central banks pursuing interest rate increases in a bid to stem rising, bond prices have been falling, more drastically where rate hikes have been steep. Management projects this situation to persist until food and energy prices stabilize in the short to medium term.

Amidst the fears of a global economic slowdown looming, investors still find Treasury Bonds safe portending sustained activity especially for frontier markets in the medium to long-term. Under the Kenya Government's Bottom-Up Economic Transformation Plan, Management recommends the revitalization of the M-Akiba savings bond program to democratize investments in Treasury bond through FinTech to further boost the fixed income market.

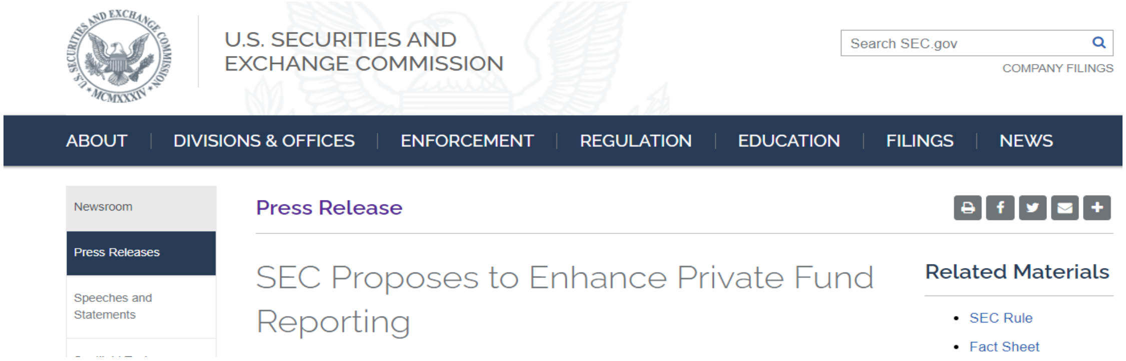
The domestic Capital Markets was sound during the quarter under review, supported by positive investor sentiments following the electioneering period. The Bottom-Up Economic plan will serve to support steady economic recovery on which the capital markets recovery is premised.

CMA will continue implementing key initiatives as outlined in the Capital Markets Master Plan and Strategic Plan 2018-2023 whilst positing itself to support market-based financing to both the public and private sector to ensure that the industry contributes to economic growth in support of the Kenya Kwanza manifesto.

2.2 The US Securities and Exchange Commission (SEC) Proposes to Enhance Private Fund Reporting

The Securities and Exchange Commission proposed amendments to Form PF1, the confidential reporting form for certain SEC-registered investment advisers to private funds. The amendments, which the Commodity Futures Trading Commission (CFTC) is concurrently considering proposing jointly with the SEC, are designed to enhance the Financial Stability Oversight Council's (FSOC) [3]ability to assess systemic risk as well as to bolster the SEC's regulatory oversight of private fund advisers and its investor protection efforts considering the growth of the private fund industry in the United States. Key elements of the proposals include.

FIGURE 9:PRIVATE FUND REPORTING



Press Release

SEC Proposes to Enhance Private Fund Reporting

Source: US SEC Website

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[3] The Financial Stability Oversight Council is established under the Dodd-Frank Wall Street Reform and Consumer Protection Act and is charged with identifying risks to the financial stability of the United States; promoting market discipline; and responding to emerging risks to the stability of the United States' financial system. The Council consists of 10 voting members and 5 nonvoting members and brings together the expertise of federal financial regulators, state regulators, and an independent insurance expert appointed by the President.

- Enhance reporting by large hedge fund advisers on qualifying hedge funds. The proposal would enhance how large hedge fund advisers report investment exposures, borrowing and counterparty exposure, market factor effects, currency exposure reporting, turnover, country and industry exposure, central clearing counterparty reporting, risk metrics, investment performance by strategy, portfolio correlation, portfolio liquidity, and financing liquidity to provide better insight into the operations and strategies of these funds and their advisers and improve data quality and comparability.
- Enhance reporting on basic information about advisers and the private funds they advise. The proposal would require additional basic information about advisers and the private funds they advise including identifying information, assets under management, withdrawal and redemption rights, gross asset value and net asset value, inflows and outflows, base currency, borrowings and types of creditors, fair value hierarchy, beneficial ownership, and fund performance to provide greater insight into private funds' operations and strategies, assist in identifying trends, including those that could create systemic risk, improve data quality and comparability, and reduce reporting errors.
- Enhance reporting concerning hedge funds. The proposal would require more detailed information about the investment strategies, counterparty exposures, and trading and clearing mechanisms employed by hedge funds, while also removing duplicative questions, to provide greater insight into hedge funds' operations and strategies, assist in identifying trends, and improve data quality and comparability.

Capital Markets Stability Implication:

The recently drafted Capital Markets (Alternative Investments Funds) Regulations 2022 have provided for enhanced reporting of information to provide greater insight into private funds' operations, especially those that would pose either investor or investee risks which are of key concern in our jurisdiction and is aligned with the USSEC proposals. CMA Kenya will leverage the proposed amendments as it develops the Capital Markets Private Equity Regulations

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2.3 Committee on Payment Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) publishes a discussion paper on Central Counterparties practices for addressing non-default losses

The consultation paper addresses issues to do with scenarios that could translate to Non-Defaulters Losses (NDLs), quantifying potential NDLs, accessing the sufficiency of resources and tools to address NDLs, and a plan on how to address liquidity gaps that may arise in case of time constraints in accessing funds from liquidity providers. Additionally, the discussion paper covers areas to do with providing NDLs' effective governance, transparency regarding plans for NDLs, and engagement with participants and authorities.

FIGURE 10:PFMI PRINCIPLES RELATING TO NON-DEFAULT RISK LOSSES

Principle 3: Framework for comprehensive management of risks

A Financial Managament Infrastructure(FMI) should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Principle 15: General Business Risks

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize.

Principles on Financial Market Infrastructure

(PFMI) Related to Non Default Risk Losses

Principle 16: Custody and Investment Risks

An FMI should safeguard its own and its participants' assets and minimize the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

Principle 17: Operational Risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity.

Source: CPMI IOSCO Principles on Financial Markets Infrastructure

CPMI and IOSCO seek input on central counterparty (CCP) practices to address non-default losses (NDLs), such as losses from cyber-attacks. As non-default events can threaten a CCP's viability, CCPs need to have policies, procedures and plans to address NDLs if they materialise.

The report seeks to advance industry efforts and foster dialogue on CCPs' management of potential losses arising from NDLs[4].

The PFMI state that CCPs should hold financial resources against general business and operational risks. Under the PFMI, a CCP should hold sufficient liquid net assets funded by equity to implement its recovery or orderly wind-down plan. The severity of NDLs can be considered across a continuum, ranging from small losses that arise from minor day-to-day incidents, through larger losses from more serious but less frequent risk events to significant losses from catastrophic events that could threaten the CCP's ability to continue providing critical services and even its viability as a going concern.

All well run businesses, including CCPs, should have policies, procedures and plans to address the NDLs that may arise, in addition to a sound risk management framework to mitigate and manage those risks[5].

Specifically, they state such liquid net assets should be equal to, at a minimum, six months of current operating expenses.12 The PFMI and the CPMI-IOSCO Recovery Guidance also address comprehensive loss allocation for custody and investment losses, but not for other non-default losses. Accordingly, CCP equity would need to absorb any unallocated loss arising from the materialization of general business risk.

Capital Markets Stability Implication:

The Authority will seek to glean off key lessons from the report to inform the development of an appropriate guideline for the setting up of Central Counter Party that will provide for effective governance and oversight as pertaining to managing losses arising from non-default events.

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[4] https://www.bis.org/press/p220804.htm

[5] **Discussion Paper on Non Default Losses by CPMI and IOSCO**

2.4 Financial Conduct Authority (FCA) welcomes the Secondary Capital Raising Review Report

The report outlines proposals aimed at promoting the ability of companies to finance their businesses through the United Kingdom's public markets. The aim is to provide a valuable and timely contribution to the ongoing market reform agenda and complement the FCA's ongoing Primary Markets Effectiveness Review.

The report is aimed at ensuring that UK wholesale markets continue to be regarded as one of the leading global markets of choice for issuers, intermediaries and investors by identifying ways to streamline further capital raising and promote access for investors.

FIGURE 11:UK FCA SECONDARY CAPITAL RAISING

Source: Financial Conduct Authority

The UK Government has previously announced that it will put in place a new framework for the public offer of securities following a previous UK Listing Review. This will allow the FCA to determine when prospectuses are required, including for publicly traded companies raising new capital. Many of the recommendations directly relate to existing prospectus rules and so the FCA will carefully consider them when proposing future changes to that regime, which would be subject to further consultation and cost-benefit analysis. The report highlights the following key recommendations.

1. **Maintaining and enhancing pre-emption rights-**The maintenance of the principle of pre-emption rights for existing shareholders is a defining feature of the United Kingdom capital markets. The rights allow companies to be able to issue new shares in line with the wishes and with approval from their existing shareholders.

2. **Increasing the ability to raise smaller amounts of funds quickly-**The report recommends that entities would at each AGM seek approval for a pre-emption right disapplication authority of up to 20% – with up to 10% available for use for any purpose and up to a further 10% for use in connection with an acquisition or a specified capital investment. This having been tried during the covid-19 times would allow companies on an ongoing basis to raise up to 20% of their issued share capital quickly and cheaply each year if shareholders have given their prior approval at the annual general meeting.

3. **Allowing additional flexibility for capital hungry companies-**The report highlights those entities especially in the high growth sectors – such as tech and life sciences – may well need to raise larger sums of capital more frequently. The same could equally apply to companies who are not 'high growth' but which are in a particularly capital hungry period due to their current strategy.

4. **Involving retail investors more fully in capital raisings-**The report recommends that retail investors are involved as fully as possible in all types of secondary fundraisings, including placings. It could use one of the various market solutions and technology platforms that have already been and continue to be developed or, for example, by having a separate retail offer that follows on from a placing. Companies should have in place adequate disclosures on the regulatory approach they have undertaken to encourage retail investor participation.

5. **Reducing regulatory involvement in fundraisings-**Fundraising disclosures on secondary capital raises should focus on new information about the company and the capital raise that is relevant for shareholders in deciding whether to invest more money in the company. Similarly, transaction advisers should only be hired when there is a significant raise connected to an acquisition. Finally, a prospectus should only be required on a fundraise to

be produced by a company in relation to admission to trading where the offer size is at least 75% of the existing share capital.

6. **Making existing pre-emptive fundraising structures quicker and cheaper.**
7. **Drive to digitisation to facilitate innovation, stewardship and improved market infrastructure-**A new Digitisation Task Force should investigate supporting digitization along the capital raising process.

2.5 New Report from the Small Business Forum Includes Recommendations to Improve Capital Raising

The United States Securities and Exchange Commission notes that small businesses are the "engine that drive the U.S. economy," and their success is essential to sustain U.S. economic growth. With the Jumpstart Our Business Start-ups (JOBS) Act, the SEC focused on rulemakings to facilitate the ability of small businesses to access capital markets. The Small Business Forum provides an opportunity for the public to provide feedback and develop policy recommendations on capital raising. The following below are the highlights of the key recommendations.

Figure 12:US SEC Small Business Forum

New Report from the Small Business Forum Includes Recommendations to Improve Capital Raising

Source: US SEC

1. **Ensure capital raising rules provide equitable access to capital for underrepresented founders and investors.**
2. **Support entrepreneurs who lack the technical assistance to understand how to access traditional capital-**The commission noted that they will enhance the access to educational and technical resources to support entrepreneurs through the use interactive toils, education materials and a centralized portal for educational resources.
3. **Utilize technology and educational resources** to help facilitate small business capital markets and decentralize and democratize capital markets-The SEC's Small Business Advocacy Office will step up its efforts in deploying technological tools in facilitating small businesses access to US capital markets.
4. **Expand the accredited investor definition to include any person who invests not more than 10% of the greater of his/her annual income or net assets-**The commission in its response notes this will unlock additional investments from individual investors and achieve greater diversity among start up investors and entrepreneurs
5. **Consider the impact of the proposed environmental, social, or governance (ESG) regulations on small and medium-sized companies, including whether such requirements will discourage companies from going public.** The commission notes that there may be need to exempt small businesses from those requirements or consider scaled disclosure requirements.
6. **Collaborate with NSCC, DTCC, clearing firms, and broker-dealers to improve the clearing and settlement process for small public companies-**The SEC notes that it will continually engage with market participants in streamlining the process of capital raising for small businesses and welcomes ideas on this front.

Lessons Learnt

The overhaul of the Public Offers Listing and Disclosure (POLD) Regulations has by and large also undertaken a review of the secondary capital raising process to make it more facilitative to existing issuers and attract potential issuers including SMEs. CMA Kenya has addressed pre-emption rights, allowed establishment of segments such as technology and mining boards for 'capital hungry' firms, and delegation of supervisory powers to the NSE to enhance capital markets raising and secondary markets trading through new provisions in the POLD Regulations.

2.6 The Use of Innovation Facilitators in Growth and Emerging Markets- IOSCO

According to IOSCO Growth and Emerging Markets Committee Report, Innovation Facilitators refers to innovation hubs (IH), regulatory sandboxes (RS), and regulatory accelerators (RA). Innovation Hubs (IH) are platforms where Fintech Innovators interact and share information with the financial regulatory authority. IH also allow firms to present their queries to regulators on Fintech-related issues, as well as receive guidance on the conformity of innovative financial products, financial services, or business models with licensing or registration requirements and regulatory and supervisory expectations.

Risks and opportunities

Innovation Facilitators have not been operational for a long time and therefore it has become difficult OOto establish which risks and opportunities would materialize. The report highlights the following as the major risks and opportunities associated with regulatory sandboxes, regulatory accelerators, and innovation hubs.

TABLE 2:RISKS AND OPPORTUNITIES OF INNOVATION FACILITATORS

	Opportunities	Risks
1.	**IFs provide regulators and innovative companies with a well laid out and structured environment where they can share knowledge and conduct other engagements.**	**There is a high probability of regulatory arbitrage where a regulator relaxes its regulatory and supervisory expectations to embrace new innovative entities or business models. This is likely to compromise consumer protection and financial stability.**

2.	**Fosters a better understanding of emerging technologies for regulators and other financial market stakeholders.**	**Absence of level playing where there are vague eligibility criteria or a lack of transparency in the selection processes of applicants.**
3.	**Creates awareness to innovative companies on the applicable regulatory requirements.**	**Legal Risk- This can occur where a firm mistake indicative guidance from the competent authorities as being binding or final, resulting in the risk of legal challenges against the competent authority if the authority shifts its view.**
4.	**Provides a safe platform where innovative products services or business models can be tested in a controlled environment while at the same time observing the need to preserve investor protection and the integrity of the market.**	**Investor protection risk when innovation becomes a priority without considering proper safeguards for the investor. This risk spread to the regulator in the case where the innovation creates a prejudice against investors or the integrity of the market.**
5.	**Reduces the barriers encountered by new participants when entering the market.**	**Market Fragmentation- For instance, if a product is being live tested in a regulatory sandbox in a specific jurisdiction and it diverges significantly to other countries and is successfully developed, it becomes quite difficult to scale up cross borders.**
6.	**Stimulate competition between different providers of products and services and therefore indirectly contribute to the growth of the market.**	
7.	**Encourage financial inclusion and expand the products and services available to consumers and investors.**	

Source: **International Organization of Securities Commissions (IOSCO).**

The report '*The Use of Innovation Facilitators in Growth and Emerging Markets*' was published by IOSCO and was based on feedback provided by participating jurisdictions. From the feedback, GEM made the following four recommendations:

i) The relevant authorities are mandated with ensuring that an effective and facilitative framework supporting innovation has been put in place. Additionally, to ensure functions, scope, and operational structure alignment with the domestic market conditions and needs, an in-depth analysis should be conducted. Finally, possible impacts that IFs could have on investor protection, market integrity, and financial stability should be considered.

ii) The scope of eligible entities and the criteria for application and selection should be clearly defined, transparent, and made public.

iii) The relevant authorities should have in place mechanisms for cooperation and exchange of information with both local and foreign relevant authorities to facilitate a holistic approach and knowledge regarding issues of a cross-cutting nature or issues that may fall outside their statutory responsibility.

iv) The objectives and functions of IFs should be clearly defined and should be made public. The relevant authorities should have in place innovation support functions with adequate resources according to the scope and objectives of the IFs. Good governance and accountability should be part of the design of the innovation facilitator.

Capital Markets stability Implication

The CMA Regulatory Sandbox is just one of the options available Innovation Facilitators available. However Section 12A of the Capital Markets allows for other forms of facilitation that the Authority may consider in the future such as Innovation Hubs and Sandbox Plus. To this end CMA Kenya has a comparatively superior framework to other jurisdiction which do not have an anchoring legislation to support innovation which is very dynamic. The Policy Guidance Note on the Regulatory Sandbox has a very clear scope of eligible entities and the criteria for application as per the above recommendations. Further CMA Kenya is a member of the Global Financial Innovation Network (GFIN) that has enabled it to cooperate with other jurisdictions on **cross-cutting issues**

However, CMA's objectives and functions of IFs should be reviewed to include development of solutions that will support the CMA in undertaking it's oversight mandate more effectively through use of RegTech and SupTech.

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2.7 The Monetary Authority of Singapore (MAS) Launches the inaugural Singapore Sovereign Green Bond Issuance

During the quarter, the Monetary Authority of Singapore (MAS) issued an Inaugural Singapore Sovereign Green Bond known as Green Singapore Government Securities (Infrastructure) ["Green SGS (Infra)"]. The preparation for the issuance of the bond began with an introduction of the Singapore Green Bond Framework (Framework) in early June 2022.[6]

This is a governance framework for sovereign green bond issuances under the Significant Infrastructure Government Loan Act 2021 (SINGA), which contains safeguards to ensure fiscal prudence in government borrowing for spending on nationally significant infrastructure. The framework creates transparency by providing the details of the intended use of green bond proceeds, governance structure to evaluate and select eligible projects, operational approach to manage green bond proceeds, and commitment to post-issuance allocation and impact reporting.

To ensure adherence to the market best practices, the development of the framework took into consideration (i)Alignment with internationally recognized market principles and standards, (ii) Stringent governance and oversight of project selection and allocation of proceeds, and technical screening to evaluate and identify green projects.

In the history of bond issuance in Singapore, this was the longest bond to have ever been issued by the Singapore government and the longest-tenor green bond to have been issued by a sovereign to date.

The book-building process was characterized by strong investor demand. The effective yield of 3.04% represented a significant tightening of -11 basis points from the initial price guidance at the start of the book-building, while the placement size of S$2.35 billion was at the top end of the targeted issuance size.

The bond was also characterized by a strong order book which fostered confidence in the investors in the Government's plans to build green infrastructure for a financially and environmentally sustainable future. Additionally, the maturity period of 50 years will allow the development of a Singapore Dollar bond market and in return support longer-tenor corporate issuances.

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[6] https://www.mas.gov.sg/news/media-releases/2022/singapore-green-bond-framework-introduced-for-upcoming-inaugural-singapore-sovereign-green-bond-issuance

The following table summarizes the details of the bond

FIGURE 13:SINGAPORE SOVEREIGN GREEN BOND

Product	50-year 3.00% fixed rate bonds issued by the Government of Singapore (the "Bonds")
Coupon	Fixed coupon of 3.00% per year, payable semi-annually until maturity, with the first coupon paid on 1 Feb 2023.
Price	S$98.976 per $100 in principal amount of the Bonds (or 1 application unit.
Application size	1 application unit (AU) represents S$100 in the principal amount of the Bonds. Applications must be made for a minimum of 10 AUs, and in multiples of 10 AUs (10 AUs = S$1,000 in the principal amount of the Bonds).
Issue Date	15 August 2022. Bonds will be credited to the CDP accounts of successful applicants on this date.
Maturity Date	1 August 2072. Investors to receive their final coupon payment and principal amount on this date
Use of proceeds	Finance expenditures in support of the Singapore Green Plan 2030.

***Source*: Monetary Authority of Singapore (MAS)**

The issuance introduced the use of syndication as a new method for issuing Singapore Government Securities (SGS), complementing the regular schedule of SGS auctions. Syndication involves the appointment of a group of banks, known as book-runners, to jointly market and distribute a bond. For this specific bond, the book runners for the transactions included DBS Bank Ltd. (DBS), Deutsche Bank AG Singapore Branch (DB), The Hongkong and Shanghai Banking Corporation Limited Singapore Branch (HSBC), Oversea-Chinese Banking Corporation Limited (OCBC), and Standard Chartered Bank (Singapore) Limited (SCB.

The issuance of Singapore's inaugural sovereign green bond can be considered timely as MAS and other regulators across the globe continue to implement different policies targeting to promote sustainability in the capital markets. The issuance, therefore, marks an important milestone in MAS's journey towards sustainability.

Capital Markets Stability Implications

The Government has already pronounced its position on addressing the risks of climate change and sustainability. The National Treasury and Planning has previously with support of development partners set up a a National Steering Committee which prioritized eight (8) out of the forty-nine (49) eligible green projects in Ministries, Departments and Agencies (MDAs) as the initial ones eligible for funding, following screening by a professional verifier. Some of the projects prioritized included: Construction and rehabilitation of Water Resources Monitoring Stations, Sustainable Waste Management in Nairobi City County; and Nairobi Bus Rapid Transit (BRT) Lines.

This approach is very unique in that once a Sovereign Green Bond is issued in the international capital markets, the proceeds will be directed towards each prioritized 'green project' by the MDAs.

The Authority will lobby the National Treasury to revitalize this project that stalled due to the Covid-19 crisis once costs of borrowing in the international markets. Further CMA Kenya will be facilitating the issue for green bond issuances by County governments and their related agencies. The Nairobi County Government is already considering floating a green bond to help finance the cost of modernizing the city's infrastructure that cannot be solely funded through the County's budget. It is noteworthy that Kenya has a robust legal and regulatory framework in place for issuance of green bonds and that income earned from investing in green bonds is tax exempt.

3. REGIONAL DEVELOPMENTS

3.1 JSE Clear granted Independent Clearing House & Central Counterparty license

Further, in the period under review, the Johannesburg Stock Exchange (JSE) [7] announced that JSE Clear, its wholly owned subsidiary, had been granted a license to operate as an Independent Clearing House and Central Counterparty (CCP) by the Financial Sector Conduct Authority (FSCA), in agreement with the Prudential Authority (PA) and the South African Reserve Bank (SARB). The license is subject to certain terms and conditions.

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[7] **https://www.african-markets.com/en/stock-markets/jse/jse-clear-granted-independent-clearing-house-central-counterparty-licence**

FIGURE 14:JSE CLEAR GRANTED CCP LICENSE

JSE Clear granted Independent Clearing House & Central Counterparty licence

Source: JSE Website

JSE Clear will continue to be the central counterparty and clearing house for the JSE's derivatives markets (which includes commodities, interest rates, equity and currency derivative markets), performing the clearing operations and risk management functions that allow these markets to remain a safe and attractive investment destination.

Under the new Independent Clearing House license, JSE Clear will fulfil its licensed functions and regulatory responsibilities in terms of its own rules (having previously operated as an Associated Clearing House in terms of the JSE's rules).

Capital Markets Implications:

With the global developments on CCPs and as the Kenyan financial markets matures coupled with interest from various CCP operators expressing interest to offer CCP solutions within the Kenyan securities markets, the Authority will be developing a set of guidelines and framework that will form the basis of an approval/licensing regime for CCP operations in the country in the FY 2022/23.

3.2 The Financial Services Commission Mauritius Updates its Guidance for Virtual Assets Service Providers

The Financial Services Commission (FSC) Mauritius regulates the activities of virtual asset providers in line with the Financial Action Task Force Updated Guidance on Risk- Based Approach on Virtual Assets and Virtual Asset Service Providers published in October 2021. The Virtual Asset and Initial Token Offering Services Act 2021 (the "Act") come into force on 7 February 2022. The issuance of AML/CFT Guidance Notes for Virtual Asset Service Providers & Issuers of Initial Token Offerings was followed by an update on 4th July 2022.

Mauritius concluded its National Risk Assessment (NRA) with respect to the virtual assets sector in November 2021. This risk assessment exercise relied upon the World Bank methodology and risk assessment tool. The NRA has enabled for the identification and evaluation of the associated ML/TF threats and vulnerabilities with virtual assets and virtual assets service providers through a sectoral approach. At the time of the assessment, the overall AML/CTF residual risk associated to virtual assets and virtual assets service providers was "Very High" after the consideration of mitigating measures.

Through the updated Guidance Note, virtual assets service providers have been mandated to meet their obligations on targeted financial sanctions, including sanction screening and implementation of internal controls and other procedures to prohibit transactions with designated and listed parties. The following are the key elements in the updated Guidance.

1. **Red Flag Indicators-**The Guidance highlights the salient ML/TF red flag indicators which are associated with virtual assets. This will enable regulated entities under the Virtual Asset and Initial Token Offering Services Act to better identify and prevent the ML/TF risks linked with their business activities to guide the setting up of adequate controls to mitigate those risks. This is in relation to anonymity, transaction patterns, senders and receivers, sources of funds and wealth.
2. **Categorization as a financial institution for AML/CTF purposes-**The Financial Intelligence and Anti-Money Laundering Act has been amended to enable the categorization of virtual assets service providers to be financial institutions for AML/CTF purposes.
3. **Customer Due Diligence (CDD) requirement-** Virtual assets service providers and issuers should maintain accurate and up-to-date customer information. This would include scrutinising their source of funds and wealth.

4. **Enhanced Due Diligence (EDD) requirement-** Due to the potential for increased anonymity or obfuscation of virtual assets financial flows and the challenges associated with conducting effective supervision and CDD, including customer identification and verification, virtual assets activities may be regarded as posing higher ML/TF risks that may potentially require the application of monitoring and EDD measures, where appropriate.

Capital Markets Stability Implications:

Across the globe regulators are increasingly providing oversight over the activities of crypto exchanges as per the FATF Guidance on Virtual Assets in view of the AML/CTF risks that crypto asset issuance and trading pose with crypto adoption and trade by the investing public. Kenya is known as an early adopter destination on technological innovations. As a responsive regulator, we have and continue to undertake a critical assessment on the potential of crypto based security transactions as well as supporting trading exchanges and platforms with the objective of ensuring innovative solutions are incorporated in the formal business operations within the capital markets industry.

4.0 LOCAL DEVELOPMENTS

4.1 Nairobi County Considering Floating a Green Bond to Finance the Modernization of the City Infrastructure[8]

The Nairobi County Government is considering floating a green bond to help finance the cost of modernizing the city's infrastructure that cannot be solely funded through the County's budget. This is because of the high cost involved in revamping and developing new infrastructure in the City County estimated to cost close to Kshs 150 billion, money that the County Government would not be able to raise in the medium term.

For example, the County Governor stated that the water and sewerage system alone needed more than Sh20 billion to replace old pipes and install pipes in areas previously unserved and to develop new water sources. Working closely with the Nairobi Securities Exchange, the City County is considering issuing a green bond based on the intended use of proceeds that largely aligns to the

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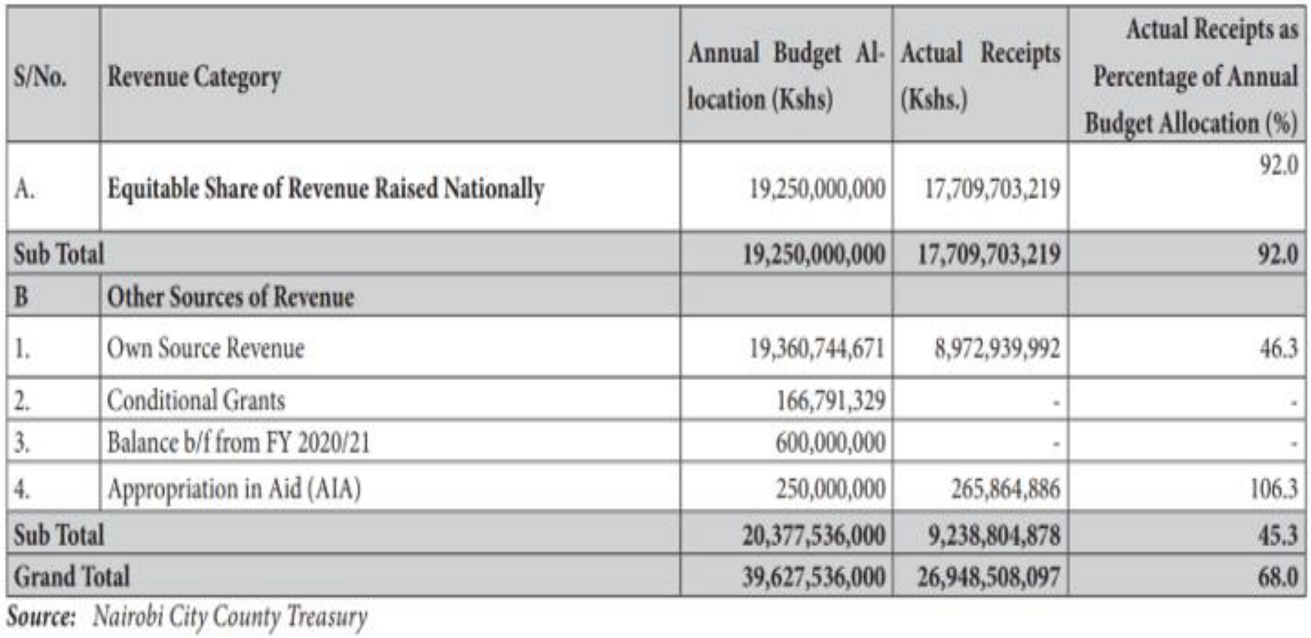
[8] https://www.businessdailyafrica.com/bd/markets/capital-markets/city-hall-mulls-sh150bn-green-bond-for-facelift-3941928

creation of an environmentally friendly, green city with a favorable and conducive living environment.

FIGURE 15:FIGURE 11: NAIROBI CITY COUNTY REVENUE PERFORMANCE FOR FY 2021/22



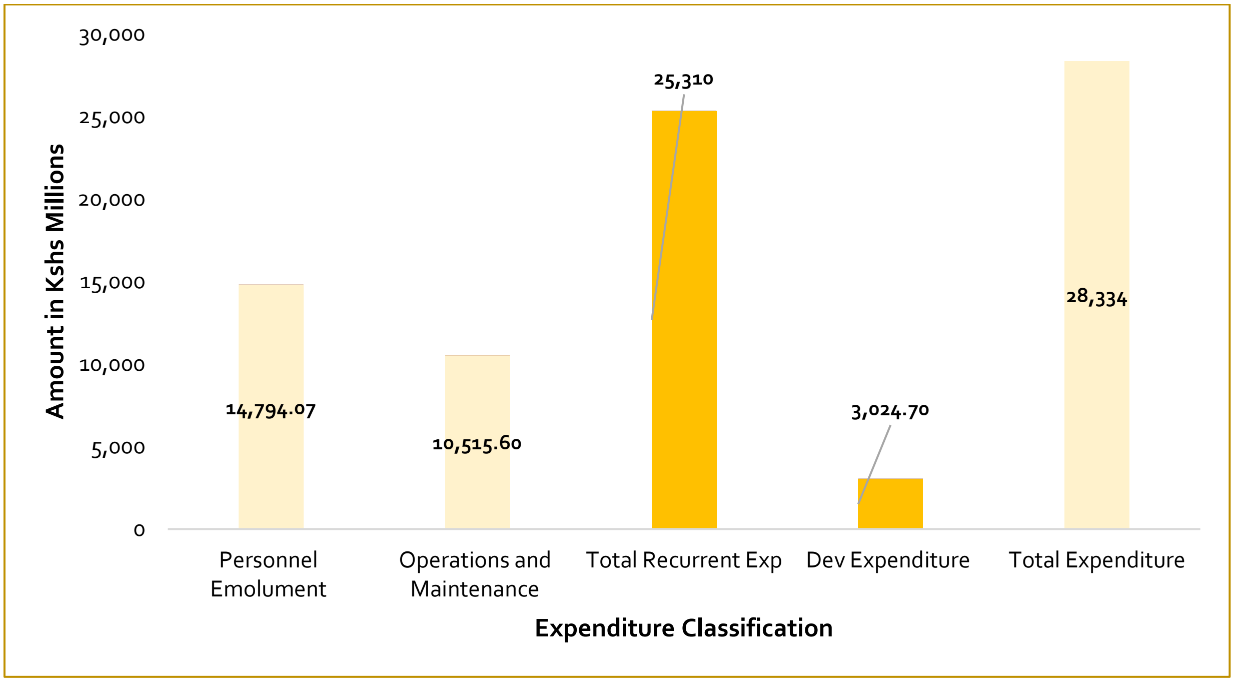
S/No.	Revenue Category	Annual Budget Allocation (Kshs)	Actual Receipts (Kshs.)	Actual Receipts as Percentage of Annual Budget Allocation (%)
A.	**Equitable Share of Revenue Raised Nationally**	19,250,000,000	17,709,703,219	92.0
Sub Total		**19,250,000,000**	**17,709,703,219**	**92.0**
B	**Other Sources of Revenue**			
1.	Own Source Revenue	19,360,744,671	8,972,939,992	46.3
2.	Conditional Grants	166,791,329	-	-
3.	Balance b/f from FY 2020/21	600,000,000	-	-
4.	Appropriation in Aid (AIA)	250,000,000	265,864,886	106.3
Sub Total		**20,377,536,000**	**9,238,804,878**	**45.3**
Grand Total		**39,627,536,000**	**26,948,508,097**	**68.0**

Source: *Nairobi City County Treasury*

Source: Nairobi City County Treasury

The County spent Kshs.27.03 billion on development and recurrent programmes during the reporting period. This expenditure represented 101.5 per cent of the total funds released by the CoB and comprised of Kshs.3.02 billion and Kshs.24.01 billion on development and recurrent programmes, respectively. Expenditure on development programmes represented an absorption rate of 29.3 per cent, while recurrent expenditure represented 82.0 per cent of the annual recurrent expenditure budget. 3.30.5 Settlement of Pending Bills The outstanding pending bills as of 30th June 2021 amounted to Kshs.85.72 billion.

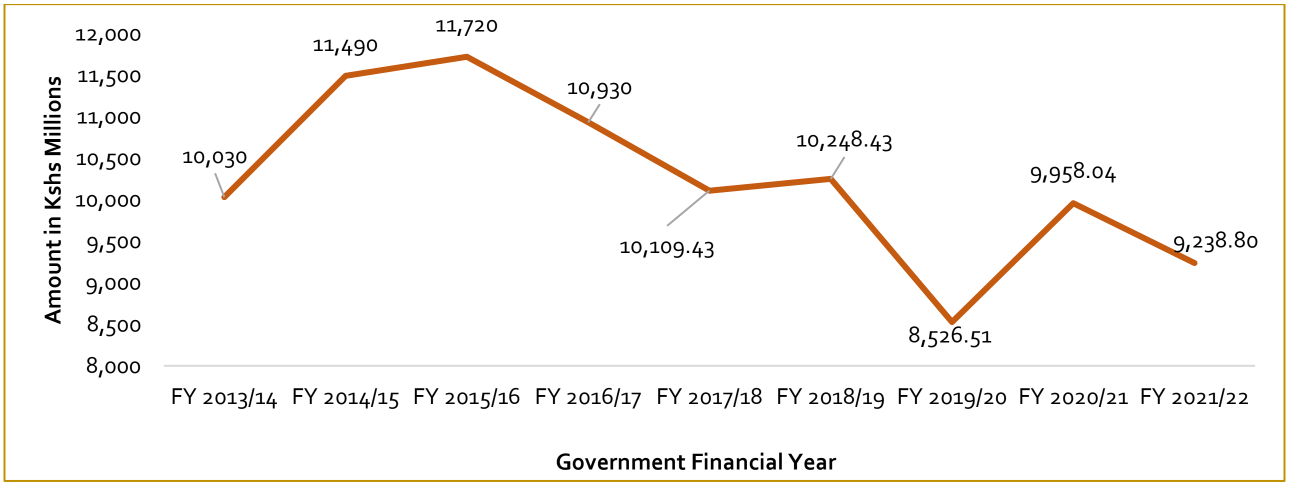
FIGURE 16:NAIROBI CITY EXPENDITURE BY MAJOR ECONOMIC CLASSIFICATION



Source: CMA Analysis using Nairobi County Statistics

At the beginning of FY 2021/22, the County failed to prepare a satisfactory payment plan for settling the pending bills in the current financial year. During the period under review, the County Treasury did not provide a report on the settlement of pending bills as of 30th June 2022

FIGURE 17: ANNUAL TREND IN OWN SOURCE REVENUE COLLECTIONS BY THE NAIROBI CITY COUNTY



Source: CMA Analysis using Nairobi County Statistics

Despite the County's interest in raising funds through capital markets, the Office of the Controller of Budget, in its County Government budget and implementation report for the FY 2021/22 identified the following challenges which hampered effective budget implementation.

TABLE 3:NAIROBI CITY COUNTY BUDGET IMPLEMENTATION CHALLENGES – FY 2021/22

	Challenge	Recommendation
1	Low absorption of development funds as indicated by the expenditure of Kshs.3.02 billion in FY 2021/22 from the annual development budget allocation of Kshs.10.33 billion. The development expenditure represented 29.3 per cent of the annual development budget.	The County should identify and address issues causing delays in implementing development projects
2	A high wage bill, which accounted for 49.8 per cent of the annual realised revenue of Kshs.26.95 billion in FY 2021/22, thus constraining funding to other programmes.	The County Public Service Board should establish an optimal staffing structure to ensure expenditure on personnel emoluments complies with Regulation 25 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015
3	The underperformance of own-source revenue at Kshs.9.24 billion against an annual projection of Kshs.19.36 billion, representing 47.1 per cent of the annual target.	The County should address its revenue performance to ensure the approved budget is fully financed
4	High level of pending bills and failure by the County to prepare a satisfactory payment plan to settle these bills. The reported outstanding pending bills were worth Kshs.99,058,655,235 as of the end of the financial year.	The County leadership should take charge of the worsening pending bills situation to ensure genuine bills are paid without delay
5	Late submission of financial reports by the County Treasury to the Controller of Budget,	The County Treasury should ensure timely preparation and submission of

	Challenge	Recommendation
	which affected the timely preparation of the budget implementation report. The report was submitted on 11th August 2022.	financial reports to the Office of the Controller of Budget in line with Section 166 of the PFM Act, 2012.

Source: Controller of Budget

Capital Market Stability Implication:

As the Authority works with different partners in promoting County Government issuances through market-based solutions such as bonds, there is need to work with the County Governments in addressing some of the identified budgeting challenges. This will assist in ensuring market-based financing issuances are based on well understood principles of capital raising, fiscal responsibility, good debt management principles, considerations for guarantees from National Government and the overall county borrowing principles and guideline by the National Treasury that are anchored on the Public Finance Management Act and regulations.

In the FY 2022/23, the Authority undertakes to work with the National Treasury and the Commission on Revenue Allocation in developing a National County Borrowing capacity framework based on a rich curriculum able to address concerns raised from the Controller of Budget report and other emerging challenges. The program seeks to target Governors, critical County Government staff in budgeting and finance from both the county executives and county assemblies. The objective of the program is to build the capacity of the newly elected Governors and their staff on county borrowing matters, with a focus on undertaking development projects only.

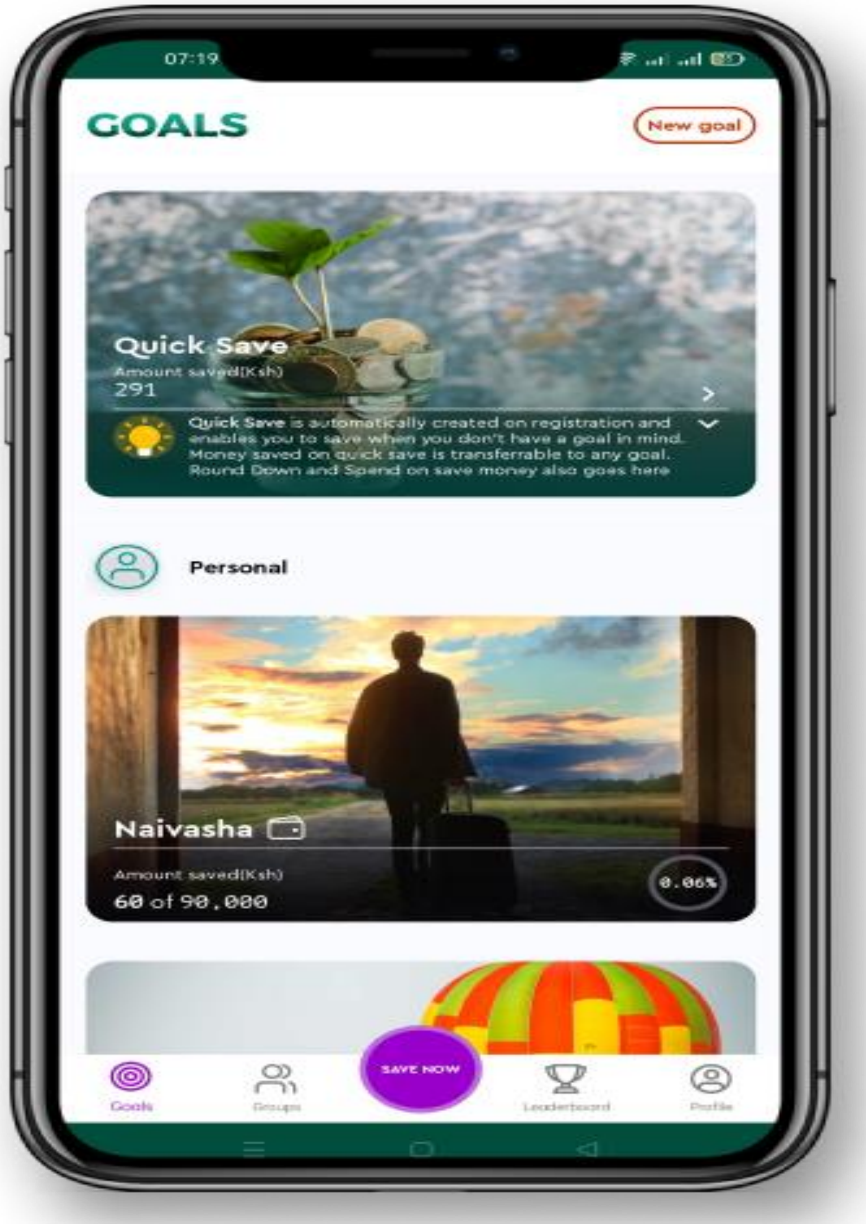
4.2 CMA graduates Chumz App from the Regulatory Sandbox

The Capital Markets Authority on 30th August 2022 announced the exit of Moneto Ventures Limited from the Regulatory Sandbox following successful testing of its innovation Chumz App. The Authority also concurrently approved the roll-out of the mobile application to the mass market.

Chumz App, built by Moneto Ventures Limited is a mobile application which functions as a collective investment scheme (CIS) intermediary service platform. It enables investors to save and invest towards a specific goal with as low as Kshs 5.

The Chumz app, so named from the Kenyan Swahili -English slang word for money, enables saving money towards diverse goals. Individuals or groups set diverse financial goals and invest their monies in line with the investment objectives, earning a return on their investment whilst tracking the same.

Figure 18: CHUMZ APP



GOALS

Quick Save

Amount saved(Ksh) 291

Quick Save is automatically created on registration and enables you to save when you don't have a goal in mind. Money saved on quick save is transferrable to any goal. Round Down and Spend on save money also goes here

Personal

Naivasha

Amount saved(Ksh) 60 of 90,000

0.06%

Moneto was admitted to the Regulatory sandbox on 26th May 2021 and successfully tested their innovation in partnership with Nabo Capital. The Chumz app, so named from the Kenyan Swahili -English slang word for money, enables saving money towards diverse goals. Individuals or groups set diverse financial goals and invest their monies in line with the investment objectives, earning a return on their investment whilst tracking the same. Moneto was admitted to the Regulatory sandbox on 26th May 2021 and successfully tested their innovation in partnership with Nabo Capital.

Moneto Ventures Limited was admitted to the CMA Regulatory Sandbox in May 2021 and becomes the sixth firm to exit after Pezesha Africa Limited, Genghis Capital Limited, Innova Limited, Central Depository and Settlement Corporation and Fourfront Management Limited.

Capital Markets Stability Implication

The innovation by Moneto Ventures Limited facilitates CMA's mandate of promoting a high level of savings and investments from retail investors and enhances investments to support economic development. The value of the Regulatory Sandbox was evident in providing a supportive regulatory environment for promising innovations to operate, subject to applicable restrictions on client access and investment size.

4.1 The Capital Markets Authority and Kenya Development Corporation Sign Collaboration Agreement

The Capital Markets Authority (CMA) and the Kenya Development Corporation (KDC) on 27th September 2022 signed an Memorandum of Understanding (MOU) to promote greater utilization of the capital markets through structured financial products by corporates including SMEs. The MOU establishes a partnership through which joint efforts in education, awareness creation, and stakeholder engagements will be executed to improve knowledge levels and uptake of financial products and services.

FIGURE 19:KDC AND CMA SIGN MOU

Source: KDC AND CMA SIGN MOU

CMA and KDC will collaborate to promote the commercialization of SME ideas that will be developed to product prototypes through the CMA Regulatory Sandbox. Business advisory services will also be jointly offered to struggling but promising businesses including distressed potential issuers. In Kenya, many SMEs remain unserved especially in the aspect of access to capital through appropriate financial products to support growth and expansion.

This partnership is anticipated to enhance SME growth capacity while diversifying financing approaches by adding capital markets to the list of potential capital raising avenues. The

MoU is aligned to the Government's Agenda of focusing on the bottom of the financial pyramid, that deliberately sheds light on SMEs, as they increasingly play a catalytic role in the country's economic transformation journey into the future.

Capital Markets Stability Implication

Strategic alliances are crucial for accelerating market development as they provide complementary expertise and support to the involved parties and consequently enhance their internal capacities. Such partnerships are important for the Authority as it aims to ensure that the country's capital markets attain international stature and provide access to other markets.

4.2 Nairobi Securities Exchange (NSE) waived a 0.12pc transaction fee on same-day equity trades

In the domestic market, the quarter began on a low note with the Nairobi Securities Exchange experiencing liquidity challenges as well as a massive exit of foreign investors. The case of foreign investors exiting the market in search of safer markets was not unique to Kenya but was also observed in frontier and emerging markets. In our domestic market, the situation was exacerbated by the uncertainty posed by the August general election, a weakening currency, dollar shortage, rising cost of living, and the general apathy by retail investors against the stock market.

The instability in the market translated into an introduction of a waiver on transaction levy which was 0.12pc on same-day equity trades for 30 days effective from July 6, 2022. The waiver would benefit the exchange through the boosting of the activities as well as the investors since this was a historic discount that presented investors with an opportunity to invest.

Immediately after the introduction of day trading, NSE reduced transaction levies on all day trading transactions by 5% from 0.12% to 0.11. However, Capital Markets Authority (CMA) and Central Depository and Settlement Corporation (CDSC) levies of 0.12 percent and 0.08 percent respectively remained unchanged.

In early September, the bourse extended the waiver, presenting all investors with accounts at the Central Depository and Settlement Corporation Limited (CDSC) with an opportunity to take advantage of price changes, at a reduced cost. Statistics have shown that NSE has recorded a total turnover of Sh3.8billion in buy and sell of day trades which translates to an average of 2.20 percent of the monthly market activity.

Capital Markets Stability Implication

The decision to introduce a waiver comes after recent statistics indicating that day trading at NSE accounts for two percent of market activity. The waiver will play a pivotal role in encouraging the uptake of the product in a market characterized by institutional investors as opposed to retail investors.

The revised POLD regulations has a new provision that allows the waiver of regulatory costs where necessary, CMA Kenya may use this window to further bring down the costs of day trading to promote market liquidity and general increase in trading activities on the NSE.

4.3 Investment Based Crowdfunding Regulations Gazetted

The Capital Markets Authority (CMA) and key stakeholders have been working together to develop a facilitative and conducive environment for crowdfunding to thrive in Kenya, in line with the Capital Markets Master Plan (2014-2023) vision of making Kenya 'The Heart of African Capital Markets'

The CMA Strategic Plan (2018-2023) recognizes the importance of the various crowdfunding models and prioritizes them as shown below-

YEAR	INITIATIVE
2012	Lelapa Fund received a No Objection to operate an Equity Crowdfunding Platform in Kenya. Due to lack of a regulatory framework they opted out of the Kenyan market in 2018.
2017	CMA partners with Cambridge Centre for Alternative Finance and FSD Africa to undertake research and publish a report titled Crowdfunding in East Africa: Regulation and Policy for Market Development (2017)
2018	A process to develop crowdfunding guidelines for the East African Community under the East African Securities Regulators Association (EASRA) commenced.
March 2019	Regulatory Sandbox Policy Guidance Note (2019) approved by CMA Board as facilitative instrument for testing innovative capital markets solutions, including crowdfunding
July 2019	Pezesha, a crowdfunding platform for SMEs admitted to CMA Regulatory Sandbox to test its innovative sandbox solution that seeks to connect investors with SMEs. The Sandbox Review Committee is processing other crowdfunding applications.

The Investment based crowdfunding regulations were gazetted on 30th September 2022 to enable Kenyan SMEs access capital up to a maximum of Kshs 200 million.

CMA Response

The Authority welcomes the timely gazettement of the crowdfunding regulations by the National Treasury and Planning as they will enable SMEs to gain access to capital via the capital markets. Raising debt or equity capital via the capital markets offers SMEs an

alternative competitive source of funding which is patient capital tailored to the special funding requirements of SMEs.

5. PERFORMANCE OF THE DOMESTIC CAPITAL MARKETS

a) Economic Update

The 2022 Budget Review and Outlook Paper (BROP) by the National Treasury and Planning notes that the Kenyan economy has demonstrated remarkable resilience after the August 9th national elections. Domestically, leading indicators of economic activity show continued strong performance in the second quarter of 2022, supported by strong activity in transport and storage, wholesale and retail trade, construction, information and communication, and accommodation and food services.

The annual inflation rate in Kenya accelerated for the seventh consecutive month to 9.2% in September from 8.5% in August according to data from the Kenya National Bureau of Statistics. This was largely driven by a rise in food and energy prices. Food prices rose by 15% while energy prices went up by 11.7% over the same period. This has weighed heavily on household budgets.

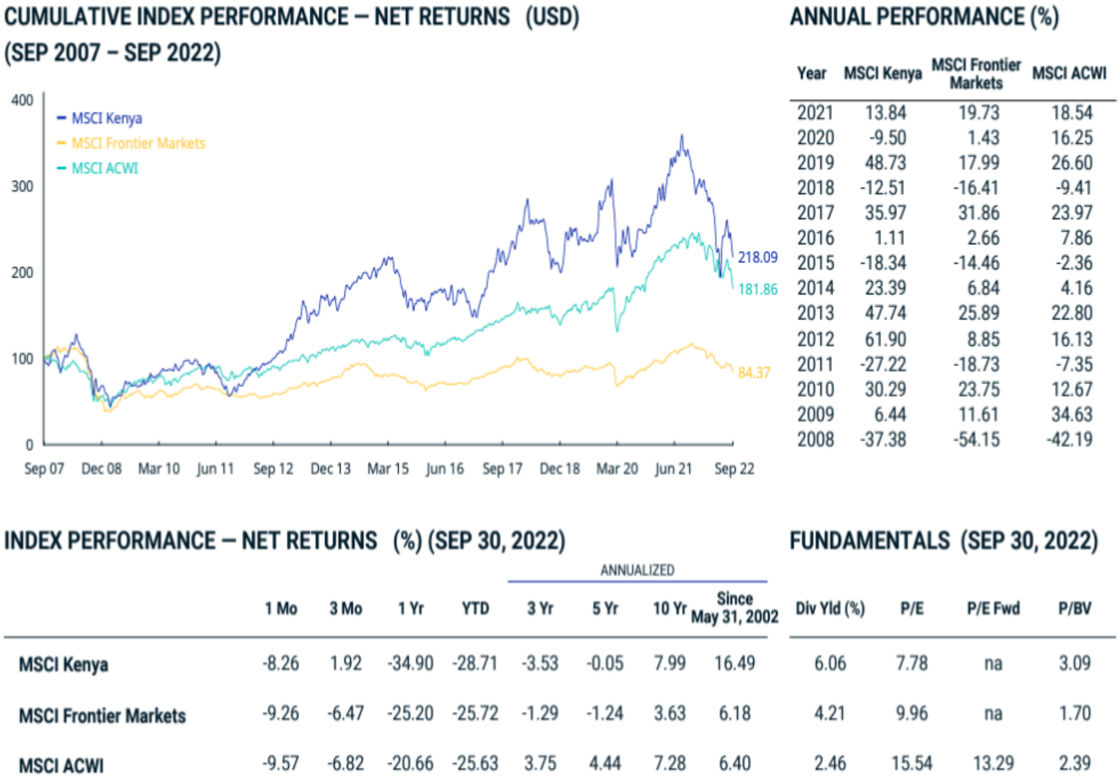
As such, the economy is expected to remain robust at 5.5 percent in 2022, with continued strong performance of the services sector despite the downside risks to global growth. The Bottom-up economic blueprint is premised on undertaking economic transformation to deliver double digit economic growth as highlighted in the special feature.

b) Performance of Domestic Equity & Debt Markets

In comparison to last quarter, foreign investor participation by equities turnover on the Nairobi Securities Exchange (NSE) fell by more than 10%, the lowest in the one past one year. This is the case as global investors adopted a cautious stance due to the elections coupled with the impact of interest rate hikes in developed markets, leading to global investors chasing yield in those jurisdictions.

The market recorded a further foreign investor equity net outflow of Kshs 6.97 billion, from the net outflow of Ksh 10.90 billion. This poses a major risk to the Kenyan secondary market as market activity declines and compromises the sustainability of market intermediaries such as stockbrokers and investment banks. Initiatives such as day trading and market deepening engagements with domestic institutional investors such as pension schemes and Saccos, as well as enhanced use of technology to drive domestic retail investor participation need to be stepped up to mitigate this risk.

FIGURE 20:MSCI KENYA INDEX AS AT SEPTEMBER 2022



CUMULATIVE INDEX PERFORMANCE – NET RETURNS (USD) (SEP 2007 – SEP 2022)

ANNUAL PERFORMANCE (%)

Year	MSCI Kenya	MSCI Frontier Markets	MSCI ACWI
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
2009	6.44	11.61	34.63
2008	-37.38	-54.15	-42.19

INDEX PERFORMANCE – NET RETURNS (%) (SEP 30, 2022)

FUNDAMENTALS (SEP 30, 2022)

					ANNUALIZED							
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since May 31, 2002	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI Kenya	-8.26	1.92	-34.90	-28.71	-3.53	-0.05	7.99	16.49	6.06	7.78	na	3.09
MSCI Frontier Markets	-9.26	-6.47	-25.20	-25.72	-1.29	-1.24	3.63	6.18	4.21	9.96	na	1.70
MSCI ACWI	-9.57	-6.82	-20.66	-25.63	3.75	4.44	7.28	6.40	2.46	15.54	13.29	2.39

Source: MSCI Kenya Index

TABLE 4:SUMMARY OF EQUITY PERFORMANCE

1. Year	Month	Share Volume (Ksh Mn)	Equity Turnover (Ksh Bn)	NSE 20 Share Index (Average)	NASI Index (Average)	NSE 25 Share (Average)	Market Cap (Ksh Bn)
Q3.2022	July	263	7.9	1,671.38	136.38	3,150.67	2,198.26
	Aug	206	5.3	1,757.20	142.60	3,333.51	2,142.12
	Sept	350	9.1	1,759.83	136.37	3,232.20	2,086.85
	Total	819	22.3				
Q2.2022	April	192	5.8	1848.32	155.97	3539.44	2340.77
	May	319	10.7	1718.60	37.40	3164.77	2006.14
	June	357	9.3	1636.37	124.52	2933.61	1939.21
	Total	868	25.8				
Q2. 2017	July	820	21.3	3666.44	154.60	4094.36	2358.73
	Aug	639	16.0	3965.89	165.70	4407.95	2478.62
	Sept	556	16.2	3787.43	164.20	4306.24	2376.69
	Total	2015	53.5				

Source: CMA/ NSE

c) Treasury Bond Market

TABLE 5:SUMMARY OF EQUITY PERFORMANCE

Date	Bond	Amount Issued (Ksh Bn	Amount Received (Kshs Bn	Amount Accepted Kshs Bn	% AA/AI	% AR/AI
July 2022	FXD2/2013/15	40.00	5.45	5.22	13.05	13.63
	FXD2/2018/15		5.12	4.09	10.23	12.80
August 2022	FXD1/2022/03	50.00	21.82	21.80	43.60	43.64
	FXD2/2019/10		8.96	8.78	17.56	17.92
	FXD1/2021/20		18.35	7.95	15.90	36.70
September 2022	FXD1/2022/010	50.00	28.52	25.62	51.24	57.04
	FXD1/2022/015		17.62	13.41	26.82	35.24
Sum			105.84	86.87		
April 2022	FXD1/2022/03	40.00	34.05	33.14	82.85	85.13
	FXD1/2022/15	30.00	32.55	27.64	92.13	108.50
May 2022	FXD1/2022/10	60.00	32.89	28.68	47.80	54.82
	FXD1/2022/15		10.23	3.06	5.10	17.05
	Tap Sale	10.00	17.01	16.97	169.71	170.12
June 2022	IFB1/2022/18	75.00	76.37	73.77	98.36	101.83
	Tap Sale	25.00	19.61	19.60	78.40	78.44
Sum			222.71	202.86		

In the third quarter of the year, seven (7) treasury bonds were issued. The government targeted to raise Ksh. 105.84billions but only managed to borrow Ksh 86.87 billion, therefore, falling short of 18.97 billion. In the last two quarters, the government has been struggling to raise the targeted amounts from the local debt market a factor attributed to investors demanding higher rates. Similarly, banks shied off from taking the bonds issued during the quarter due to valuation losses on the holdings amid secondary market yields going up.

d) Corporate Bonds Market

In Q3. 2022, the corporate bond turnover recorded a reduction to 8 million from 11.78 million recorded in Q2.2022. The Bottom-up economic plan envisions issuance of securitization bonds together with other bonds such as diaspora bonds. This will stimulate further corporate bond issues.

15.0 Capital Markets Stability Soundness Indicators for The Period 1st July – 30th September 2022

Table 3: Summary of Key Capital Markets Soundness Indicators for the period July to September 2022

ANNEXURE 1: CAPITAL MARKETS SOUNDNESS INDICATORS FOR THE PERIOD JULY – SEPTEMBER 2022

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 Base Year 2010 =	**Q3.2022**	**Jul**	**Aug**	**Sept**	**Q. Avg**	**Medium** (Indicative – Low < 1% Medium: ➢ 1% high; >10%)	The volatility for the three market indices, NSE 20, NSE 25, and NASI was 0.49%, 0.60%, and 0.89% respectively.	The volatility for the three indices has continuously increased since the beginning of the year 2022 with NASI recording the most drastic increase from 0.65% to 0.89%. However, the volatility remained relatively higher in Q3 for NSE20, NSE25 and NASI in comparison to the last three quarters. The Nairobi Securities Exchange has always registered good performance in the run-up to elections except in 2007.The increasing volatility arose from significant local investor interest with the hope of booking gains after the elections as foreign investors exited the market to take advantage of rising rates in other markets.
		0.48%	0.37%	0.61%	0.49%			
	Q2.2022	**Apr**	**May**	**Jun**	**Q. Avg**			
		0.27%	0.44%	0.41%	0.37%			
	Q1.2022	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.26%	0.43%	0.43%	0.29%			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.33%	0.23%	0.37%	0.31%			
NSE 25 Index Volatility Base Year =2015	**Q3.2022**	**Jul**	**Aug**	**Sept**	**Q. Avg**			
		0.70%	0.39%	0.70%	0.60%			
	Q2.2022	**Apr**	**May**	**Jun**	**Q. Avg**			
		0.42%	0.65%	0.42%	0.48%			

	Q1.2022	**Jan**	**Feb**	**Mar**	**Q. Avg**			On the domestic front, the markets were resilient, shaking off the fears related with the elections. The volatility of the NASI, NSE 20 and NSE 25 share indices for the third quarter of 2022 remained relatively low i.e below 1%, at 0.60%, 0.49%, and 0.89% respectively. Before the general elections in July, NSE All Share Index remained relatively high at 1.03%. However, after the conclusion of the general elections, the NASI made a quick recovery and reduced to 0.99%.
		0.42%	0.54 %	0.39 %	0.45%			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.44%	0.47 %	0.36 %	0.42%			
NASI Volatility Base Year 2010	**Q3.2022**	**Jul**	**Aug**	**Sept**	**Q. Avg**	**Medium** (Indicative – Low < 1% Medium: >1% high; >10%)		
		1.03%	0.66%	0.99 %	0.89%			
	Q2.2022	**Apr**	**May**	**Jun**	**Q. Avg**			
		0.57%	0.82%	0.56 %	0.65%			
	Q1.2022	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.55%	0.74%	0.54 %	0.61%			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.64%	0.58%	0.51%	0.57%			
Turnover Ratio	**Q3.2022**	**Jul**	**Aug**	**Sept**	**Q. Avg**	**High** (Indicative – annual: <8%- Low; >15% High)	The **average monthly** equity turnover for the third quarter of the year averaged 0.36% a reduction from last quarter's average of 0.42%.	In comparison to Q2, the equity turnover ratio in Q3 reduced slightly to 0.36% from 0.42%. The deterioration is attributed to the Kenya general elections with foreign investors taking a cautionary stance whilst exiting the market to chase yield in their home markets as interest rates rise there.
		0.36%	0.25%	0.46%	0.36%			
	Q2. 2022	**Apr**	**May**	**Jun**	**Q. Avg**			
		0.25%	0.54%	0.48%	0.42%			

								Improving the market’s turnover levels, in the long run, requires growth in more quality listings at the bourse, roll out of more liquidity enhancement tools, as well as increased quality of investors. This forms the basis of the Authority’s work on the promotion of market development through targeted investor education and market deepening initiatives spanning corporates, public corporations, private companies, and educational In addition, the Authority has partnered with the NSE in a bid to ensure that there are new products in the market such as day trading that will increase the flexibility and transparency which investors in the capital markets are able to trade and transact.

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Ongoing Intervention Measures
	Q1.2022	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.32%	0.40%	0.39%	0.36%			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.37%	0.61%	0.40 %	0.46%			
2.0	**Foreign Exposure Risk**							
Foreign Investor turnover as a % of total turnover	**Q3. 2022**	**Jul**	**Aug**	**Sept**	**Q. Avg**	**Medium** (Indicative – annual: <40%- Low; >90% High)	Foreign investor participationas at end of the quarter 3, 2022 averaged at 45.55%	In comparison to last quarter, investor participation fell by more than 10% and therefore recorded the lowest foreign participation in the capital markets in the one last year. This was the case as foreign investors exited the market to chase yield amidst cautio on the outcome of the Presidential elections. With Kenya having one of the most peaceful general elections since independence, this is expected to enhance foreign investor confidence in the market during electioneering periods which are usually characterized by increased
		50.55%	50.18%	35.92%	45.55%			
	Q2. 2022	**Apr**	**May**	**Jun**	**Q. Avg**			

								capital outflow.
		62.92%	63.96%	57.75%	61.54%			
	Q.1 2022	Jan	Feb	Mar	Q. Avg		a decrease from last quarter's value of **61.54%.**	Increased capital outflow continues to pose a risk to our market and therefore the need for the Kenyan industry to be more strategic in increasing the profile of domestic investors in the country. For instance, this can be done by encouraging domestic investors to expand their portfolio of wealth to include financial securities both as a patriotic move and for personal growth.
	Q.1 2022 Q4. 2021	59.73%	57.02%	47.89 %	54.88%			
		Oct	Nov	Dec	Q. Avg			
	Q4. 2021 Q3.2022	64.83%	51.16%	57.20%	57.73%			
		Jul	Aug	Sept	Q.Sum			
Net Foreign Portfolio Flow (In KES Millions	Q3.2022 Q2.2022	(2,972)	(1,656)	(2,337)	(6,965)	**High** (indicative – annual: <Kshs (50million) - High (outflow. >KShs. 50 million High	In the quarter under review the market recorded a net outflow of 6,965 million compared to an outflow of 10 896 million between April and June.	
		Apr	May	Jun	Q. Sum			
	Q2.2022 Q1.2022	(1,653)	(4,207)	(5,036)	(10896)			
		Jan	Feb	Mar	Q. Sum			
	Q1.2022 Q4.2021	(423)	187	(1,451)	(1,687)			
		Oct	Nov	Dec	Q. Sum			
	Q4.2021	(1,021)	(4,294)	(2,874)	(8,189)			

3.0	Market Concentration Risk							
Market Concentration (Top5 companies by market cap)	**Q3.2022**	**Jul**	**Aug**	**Sept**	**Q. Avg**	**High** (Indicative – annual: >50% High Concentration)	Market concentration for the top 5 companies for the quarter ended September 2022 averaged at 75.95% of a market of 65 listed companies.	The market concentration remains a major risk in Kenya where the market is dominated by 5 specific companies. To minimize this risk, more strategic initiatives aimed at growing another sector of the economy are needed to increase the range of sectors represented by listed firms at the bourse. The Authority, in the review of its Public Offers and Listing Regulations, seeks to provide favorable listing requirements to attract more companies to list.
		77.54%	75.83%	74.47%	75.95%			
	Q2.2022	**Apr**	**May**	**Jun**	**Q. Avg**			
		77.90%	78.63%	75.17%	77.23%			
	Q1.2022	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		79.37%	79.08%	78.05%	78.83%			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		80.91%	79.75%	79.83%	80.16%			
4.0	**Derivatives Trading Statistics**							

Total Volume (No. of contracts)

No of Contracts

	Q2 Sum	Jul-22	Aug-22	Sep-22	Q3. Sum	% Change Q2 VS Q3.
ABSA	188	124	140	58	322	71.28%
BATK	3	6	12	7	25	733.33%
EABL	75	3	-	28	31	58.67%
EQTY	153	11	43	122	176	15.03%
KCBG	189	3	22	93	118	37.57%
N25I	0	-	-	-	-	
SCOM	363	91	42	141	274	24.52%
COOP	16	9	29	19	57	256.25%
NCBA	6	4	3	57	64	966.67%
IHMP	5	2	-	-	2	60%
SCBK	2	-	3	3	6	200.00%
25MN	1	19	-	20	39	3800%
Total	**1001**	**272**	**294**	**548**	**1,114**	**11.29%**

Low

The volume of contracts traded in Q3.2022 were **1114** indicating a **11.29%** an increase from **1001** recorded in Q2.2022.

EQTY, KCBG and IHMP recorded a decrease in activity by 15.03%, 37.57%, and 60% respectively whereas the rest recorded an increase in activity with 25MN recording the highest increase of 3800%

Gross Notional Exposure (GNE)[50]

Amount in Ksh

	Q2. Sum	Jul-22	Aug-22	Sep-22	Q3. Sum	% Change Q2 Vs Q3
ABSA	2136350	6,674	8,231	3,319	18,223	99.15%
BATK	127060	258,290	531,010	310,180	1,099,480	765.32%
EABL	985360	41,885	-	417,675	459,560	53.36%
EQTY	6964600	476,310	2,192,880	6,112,040	8,781,230	26.08%
KCBG	7639930	119,780	930,920	3,797,110	4,847,810	36.55%
N25I	0	-	-	-	-	
SCOM	10988060	2,543,520	1,261,520	3,924,790	7,729,830	29.65%
COOP	176640	98,880	333,290	234,070	666,240	277.17%
NCBA	148850	97,990	78,280	1,772,540	1,948,810	1209.24%
IHMP	90500	35,950	-	-	35,950	60.28%
SCBK	24890	-	40,755	41,475	82,230	230.37%
25MN	30550	603,300	-	641,000	1,244,300	3973.00%
Total	**29312790**	**4,282,579**	**5,376,886**	**17,254,199**	**26,913,663**	**8.18%**

High
(indicative – annual:
>50%
High concentration)

The total value (Gross Exposure) of contracts traded during the quarter summed up to Kshs **26.91million;** an 8.18% decreasefrom Q2.2022.

Total Open Interest51(No. of Contracts)

No of Contracts

	Q2. Average	Jul-22	Aug-22	Sep-22	Q3. Average	% Change Q2 Vs Q3
ABSA	62	76	70	21	56	9.68%
BATK	1	-	6	7	7	600%
EABL	32	23	23	11	19	40.63%
EQTY	55	50	50	58	53	3.64%
KCBG	35	23	34	28	28	20.00%
N25I	0	-	-	-	-	-
SCOM	64	68	65	91	75	17.19%
COOP	3	3	8	1	4	33.33%
SCBK	1	-	3	-	3	200.00%
IMHP	1	-	-	-	-	-
NCBA	3	3	-	44	24	700%
25MN	1	20	20	-	20	1900%
Total	**258**	**266**	**279**	**261**	**269**	**12.02%**

Medium (indicative – annual: >50% High concentration)

Overall, the total number of open interest contracts recorded in Q3. 2022 were **269** ; a **12.02% increase** from Q2. 2022 value of **258.**

As hedging instruments, the place of derivatives markets remains important in risk management.
With the increasing profile of risks in the global trading economy, the profile of derivative instruments may grow as investors target diversification as a key investment strategy.

<table>
<tr>
<td>Settlement Guarantee Fund (SGF) Coverage[52] for Derivatives</td>
<td colspan="5">
<table>
<tr><th></th><th>Jul-22</th><th>Aug-22</th><th>Sep-22</th></tr>
<tr><td>SGF</td><td>123,842,916</td><td>124,597,035</td><td>125,376,201</td></tr>
<tr><td>Average Market Value</td><td>214,128.93</td><td>256,042.17</td><td>862,709.94</td></tr>
<tr><td>SGF Coverage</td><td>578 times</td><td>487 times</td><td>145 times</td></tr>
</table>
</td>
<td>High (Indicative – annual: >50% High concentrate ion</td>
<td>The SGF coverage ratio for the derivatives market in Q3.2022 progressively reduced month onmonth recording a 145 times coverage in June 2022</td>
<td>To maximize value from the SGF fund balances, there is deliberate effort by NSE to encourage increased activityby market intermediaries in this market for increased volumes of trade.

Day trading and margin trading are some of the initiatives that will boost market turnover.</td>
</tr>
<tr>
<td>5.0</td>
<td colspan="8">Government Bond Market Exposure</td>
</tr>
<tr>
<td rowspan="3">Treasury Bond market turnover Concentration</td>
<td rowspan="2">Q3.2022</td>
<td>Jul</td>
<td>Aug</td>
<td>Sept</td>
<td>Q. Avg</td>
<td rowspan="3">High (Indicative – annual: >50%High</td>
<td rowspan="3">In Q3.2022, Treasury Bond market turnoverwas 100%</td>
<td rowspan="3">Government activity in the bonds markets continues to dominate as Government targets domestic market savings to fund various</td>
</tr>
<tr>
<td>100%</td>
<td>99.99%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Q2. 2022</td>
<td>Apr</td>
<td>May</td>
<td>Jun</td>
<td>Q. Avg</td>
</tr>
</table>

<table>
<tr><td></td><td></td><td>99.98%</td><td>100%</td><td>100%</td><td>100%</td><td>concentration)</td><td></td><td>Government activities.</td></tr>
<tr><td></td><td>Q1.2022</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td><td></td><td></td><td></td></tr>
<tr><td></td><td>Q4.2021</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>99.99%</td><td>99.76%</td><td>99.97%</td><td>99.91%</td><td></td><td></td><td></td></tr>
<tr><td>Corporate Bond Market Ownership</td><td colspan="5">
<table>
<tr><th>Category</th><th>No of Investors
Investors</th><th>Shares Outstanding</th><th>% by share Quantity</th></tr>
<tr><td>LI</td><td>1870</td><td>28,490,870,000</td><td>94.62%</td></tr>
<tr><td>EAC I</td><td>2</td><td>110,000,000</td><td>0.37%</td></tr>
<tr><td>FI</td><td>34</td><td>1,510,800,000</td><td>5.02%</td></tr>
<tr><td>Sum</td><td>1906</td><td>30,111,670,000</td><td></td></tr>
</table>
Note: For every EAC, LI and FI, the totals calculated is a sum of both corporate and individual investors
</td><td>High (Indicative – annual: >50% High concentration</td><td>Q3. 2022 data showsthat local corporate bond investors were the leading investors in corporate bonds at 94.62% whereas foreign investors accounted for 5.02%as a percentage of share quantity with East African investor holding was a mere 0.37%.</td><td>The Bottom-up economic plan envisions issuance of securitization bonds together with other bonds such as diaspora bonds. This will stimulate further corporate bond issues.

With the new public offers regulations that creates two fixed income securities markets segments – for the main market and for theSMEs, the Authority hopes to see more corporate bond issuances in the coming future once the regulations are enacted.</td></tr>
<tr><td>6.0</td><td colspan="8">Investor Profiles - Equity Market</td></tr>
</table>

<table>
<tr>
<td>Equity Market</td>
<td>
<table>
<tr><th>Type of Investor</th><th>No of Investors</th><th>Share Quantity (Millions</th><th>% of total share quantity</th></tr>
<tr><td>Local Investors</td><td>2,010,426</td><td>79,239,323,126</td><td>81.38%</td></tr>
<tr><td>EA Investors</td><td>8,950</td><td>1,273,450,636</td><td>1.31%</td></tr>
<tr><td>Foreign Investors</td><td>14,864</td><td>16,843,294,483</td><td>17.30%</td></tr>
<tr><td>BR</td><td>13</td><td>12,716,998</td><td>0.01%</td></tr>
<tr><td>JR</td><td>310</td><td>1,115,065</td><td>0.00%</td></tr>
<tr><td>Sum</td><td></td><td>97,369,900,308</td><td>100.00%</td></tr>
</table>
</td>
<td>High (Indicative – annual: >50% High concentration)</td>
<td>In the quarter under review, share quantity for local investors increased from 78,986million recorded in the last quarter to 79,239million with foreign Investor share quantity decreasing from 17,025 million in the last quarter to 16,843 million in the quarter under review.</td>
<td>In the last two quarters local investment in the equity market has witnessed a modest increase whereas the Foreign investment has slightly decreased. Foreign investors were cautious amidst election fears.

Initiatives such as Day trading undertaken during the quarter are poised to increase uptake per investor of equity positions.</td>
</tr>
<tr>
<td>7.0</td>
<td colspan="4">Settlement Compensation Coverage</td>
</tr>
<tr>
<td>Settlement Guarantee Fund (SGF) Coverage Ratio</td>
<td>
<table>
<tr><th>Q3.2022</th><th>Jul</th><th>Aug</th><th>Sept</th><th>Q. Avg</th></tr>
<tr><td></td><td>3.05</td><td>5.07</td><td>2.84</td><td>3.65</td></tr>
</table>
</td>
<td>Low</td>
<td>The average SGF ratio for July and September 2022 was 3.65</td>
<td>Through Risk-based supervision, the Authority has been monitoring the SGF figures and the financial position of the firms to ensure that they are in good standing and that investors are protected.</td>
</tr>
</table>

	Q2.2022	**Apr**	**May**	**Jun**	**Q. Avg**	(Indicative – annual: > 1 times, implies full coverage)		
		3.70	2.24	2.73	2.89			
	Q1.2022	**Jan**	**Feb**	**Mar[43]**	**Q. Avg**			
		3.01	2.39	2.88	2.76			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		2.14	1.64	2.35	2.04			
8.0	**Asset Base of Fund Managers, Stockbrokers, Investment Banks**							
Working (Amount Millions) Capital in Kshs	**Amount in Kshs Millions**					**Medium** (Indicative – the higher the figure, the more stable is the market)	The net assets base of Fund Managers, Investment Advisors, Investment Banks, Online Forex (non-dealing brokers) and Stockbrokers, as of 30th June 2022 was 7102 Mn, 364 Mn, 7978 Mn, 799 Mn and 1091 Mn respectively.	Assets Under Management within the industry have increased between May and August 2022.The greatest increase was recorded by investment advisor. Only stockbrokers fund Managers negative change between May and August. Capital markets licensees were adequately capitalized to maintain their license

Name	Total Assets	Total Liabilities	Net Assets August 2022	Net Assets May 2022	% Change
Fund Manager	8,987	1,885	7,102	6290	13%
Investment Advisor	533	169	364	313	16%
Investment Bank	11,884	3,906	7,978	7662	4%
Online Forex Broker (Non-dealing)	2,357	1,558	799	723	11%
Stockbrokers				110	-1%

	| | 2,122 | 1,031 | 1,091 | 0 | | ***Q2. 2022 Data as of end August 2022**			status contributing to the soundness of the market.