CAPITAL MARKETS AUTHORITY

Promoting the Integrity and Growth of the Capital Markets

The Capital Markets Soundness Report (CMSR)

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"Driving Capital Markets' Growth through Facilitative Regulation "

Quarterly Publication of the Capital Markets Authority (Kenya)

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SPECIAL MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Mr. Wyckliffe Shamiah, FCPA

Chief Executive Officer

Capital Markets Authority, Kenya

Dear Esteemed Reader,

The Capital Markets Authority (CMA) is delighted to publish the 31st Edition of the Capital Markets Soundness Report, that covers capital markets development and emerging trends in the second quarter of 2024. The report also provides a comprehensive analysis of the health and soundness of the Kenyan Capital Markets as influenced by domestic, regional and global political and socio-economic developments.

The global economy continued to show resilience despite continued increased challenges from macro-risks including geo-political tension in the Middle East and Eastern Europe.

High inflation also continues to be a major risk to global economic growth, despite recording a faster than initially projected decline during the quarter.

On the domestic front, projections from the World Bank show that the Kenyan economy is expected to grow by 5.2 percent on average between 2024 and 2026. We are delighted to report that in comparison to June 2023, inflation declined considerably, by 14.56 percent in June 2024; an indication that the economy is stabilizing.

I further wish to highlight that CMA-Kenya has remained true to its course in ensuring that it perform its licensing Mandate effectively, even as I commend the newly licensed market intermediaries as captured in the report. We remain committed to providing the necessary support to new market entrants to ensure deepening of the Kenyan Capital and Commodities Markets.

Additionally, I wish to laud Kenya Commercial Bank (KCB) Group for being added to the Morgan Stanley Frontier Market Index. This has enhanced the visibility of domestic issuers in the international market and their potential to raise capital beyond the Kenyan borders.

Lastly, I extend my gratitude to you, our esteemed reader, for your continued support to the CMA year-on-year, towards the attainment of our Mandate through you continued readership of this publication. As you peruse through the report, feel free to forward your thoughts on the key findings, lessons learnt, opportunities, risk and mitigation measures.

Your feedback will go a long way in improving this quarterly publication.

Happy Reading!

FCPA Wyckliffe Shamiah

CHIEF EXECUTIVE OFFICER

EDITORIAL

Greetings!

I am pleased to present this quarter's edition of Kenya's capital markets soundness, themed **"Driving Capital Markets Growth through Facilitative Regulations."**

The special feature is a deep dive into es the recently gazetted Capital Markets (**Public Offers, Listings, and Disclosures**) Regulations, 2023. It details the key provisions of the regulation and the policy rationale for its overhaul, alongside key issues raised by stakeholders, concerning the new regulations during its exposure to public participation. It is important to note that the regulatory framework for issuance and listing is now well aligned with global standards, albeit, with due consideration for the size and level of sophistication of the Kenyan capital markets. A country-wide sensitization program on the new legislation will shortly be undertaken to provide potential issuers with the necessary support to ensure a smooth listing process; and investors to promote uptake.

This Edition further highlights important insights from the Malaysia Securities Commission, which introduced a plan to enhance Micro Small and Medium Enterprises (MSMEs) and Medium Tier Companies (MTCs) access to the capital markets. Additionally, to improve access to the capital markets, the Nigeria Exchange Group launched a new platform enabling investors to access real-time stock market information and connect with stockbrokers.

During the period under review, the MSCI World Index and Emerging Market Index posted positive returns of 12.045% and 7.68%, respectively, even as Kenya maintained its position among the best performing markets globally, with an index return of t 56.78% in dollar terms; largely driven by increased foreign participation.

On the domestic front, the performance of the capital markets continued to improve, majorly driven by increased interest and participation by foreign investors. Market liquidity, as measured by turnover ratio, rose to 1.65%, up from 1.14% in the first quarter. This boost in liquidity is, likewise, attributed to the higher share of market trading volumes by foreign investors in the equities market. The volatility of the three market indices NSE 20, NSE 25, and NASI remained low at under 1%, with values of 0.54%, 0.68%, and 0.65%, respectively.

The average foreign trading in the equity market was 57.29%, down from 60.31% in the previous quarter reflecting increased domestic participation. A net equity inflow of Kshs.2.98 billion was recorded, a significant improvement compared to the outflow of Kshs.2.23 billion recorded in the preceding quarter.

CMA continues to encourage a collaborative industry approach towards promoting increased investment in the domestic market both from institutional and retail investors, as the success of our markets relies heavily on broad participation across all asset classes.

We conclude with a detailed analysis of capital market stability, examining trends in market volatility, liquidity, concentration, and foreign portfolio flows. A key highlight is the recorded capital inflow into the market during the quarter.

We look forward to your continued support in helping the Authority fulfil its Mandate of regulation and market development.

Enjoy your read!

Mr. Luke E. Ombara

DIRECTOR, POLICY AND MARKET DEVELOPMENT

1.0 SPECIAL FEATURE:

THE CAPITAL MARKETS (PUBLIC OFFERS, LISTINGS AND DISCLOSURES) REGULATIONS, 2023

Capital Markets play an essential role in modern economies by connecting capital suppliers with those in need of funds, thereby ensuring efficient money flow and providing vital financing opportunities for both private and public sector entities as well as investment avenues for retail and institutional investors. To this end, the management facilitated the enactment of the Public Offers, Listing and Disclosure Regulations (POLD) regulations, an overarching set of regulations in the securities industry that determine the market-entry criteria, ~~and~~ therefore determining products and players in the market.

In 2002, the Public Offering, Listing and Disclosure Regulations (POLD, 2002) were enacted with a view to supporting the continued development of a dynamic Capital Markets. Since then, significant achievements in terms of market growth and complexity have been witnessed.

Over the years (2009 – 2021), the regulator has conducted various market studies to establish key challenges inhibiting increased participation within the Capital Markets industry. Through these studies, key gaps and challenges in the POLD regulations were identified. The review of the POLD regulations was also informed by the need to align Kenya's regulatory operating environment with the international standards and jurisdictions as well as international regulatory institutions such as International Organization of Securities Commission (IOSCO). Further, the regulatory review sought to address unique industry needs within the Kenyan context for greater impact as the regulatory body sought to grow the pool of domestic retail and institutional investors participating in the capital markets industry.

Having conducted a comparative study with other jurisdictions and global standards, the regulator established the following gaps in the Public Offering, Listing and Disclosure Regulations (POLD, 2002):

First, there was no clear distinction between a private and public offer, therefore there was a need to have a clear distinction between the two.

Second, POLD regulations did not provide for a definition of a sophisticated investor with respect to minimum investment. There was therefore needed to provide clarity on the definition of a sophisticated investor for the purposes of these regulations.

Third, there was need for the regulations to provide flexibility with respect to the establishment of multiple exchanges across the country aimed at promoting competition in the industry and facilitate innovation in financing of businesses through the capital markets.

Fourth, there was need to provide more clarity on market segmentation and flexibility provided to allow exchanges to set up own market segments informed by demand. There was also lack of explicit reference on regional equity securities offerings as is the case for regional fixed income security issuances.

Finally, there was lack of clarity on the scope of the regulations with respect to issuers such as State Corporations, County Governments and Multinationals. The overhaul of these regulations is aimed to address the identified gaps, making the regulations more accommodative.

1.1 Key Provisions of the Capital Markets (Public Offers, Listings and Disclosures) Regulations, 2023

The repealed Capital Markets (Public Offers, Listing and Disclosures) Regulations, 2002 contained three (3) Parts and eight (8) Schedules. The three sections consisted of preliminary provisions, eligibility criteria, disclosure and general requirements for public offerings, as well as continuing obligations and miscellaneous provisions. On the other hand. the Schedules encompassed the Eligibility criteria for public offering of shares and listing, Eligibility criteria for public offering of debt securities and listing on the Fixed Income Securities Market Segment, Main Investment Market Segment disclosure requirements for public offerings, Alternative Investment Market Segment disclosure requirements for public offerings, Fixed Income Securities Market Segment disclosure requirements for public issues, Growth Enterprises Market Segment Disclosure Requirements, Disclosure Requirements for Listing by Introduction, Disclosure requirements for additional issues (Rights, scrip dividend and capitalization issues and open offers.), Continuing obligations, Listing Fees and Requirements for offer of securities using a Book Building process.

The prevailing POLD regulations comprises of 17 Parts and 17 Schedules, underscoring their extensive scope in addressing the gaps identified in the earlier POLD framework.

Below is a summary of each Part and Schedule of the current Public Offers regulations.

Table 1 Provisions of the POLD Regulations

PART	DESCRIPTION
PART I- PRELIMINARY	Outlines the citation, interpretation of key terms, application scope, and guiding principles aimed at establishing fair, transparent, and efficient capital markets, promoting good governance, investor protection, and technological integration.
PART II– APPROVAL OF OFFERS OF SECURITIES AND LISTING	Outlines the application of regulations to all public offers of securities in Kenya, the approval and delegation processes by the regulatory body and securities exchanges, the maintenance of an Official List of listed securities, and the establishment of additional market segments.
PART III—PUBLIC OFFERS, ELIGIBILITY, DISCLOSURE AND GENERAL REQUIREMENTS	Defines what constitutes a public offer of securities, outlines approval and eligibility requirements for listing securities on various market segments and details the procedures and restrictions for issuers regarding the issuance, listing, and transfer of securities.
PART IV—PRIVATE OFFERS	Outlines the conditions under which an offer of securities is considered a private offer, restricting it to specific groups and limiting its scope to avoid public solicitation.
PART V—REQUIREMENTS FOR PUBLISHING INFORMATION MEMORANDUM, SHORT FORM PROSPECTUS AND INFORMATION NOTICE	The section mandates that an offer of securities to the public must be accompanied by a detailed information memorandum, approved by the relevant authority, containing comprehensive financial and legal disclosures, and specifies the methods and conditions for its publication.

PART VI– TRANSACTION ADVISORS AND COMPLIANCE OFFICERS	This part requires entities offering or listing securities to appoint a transaction advisor to ensure compliance with regulations and manage conflicts of interest, and mandates issuers to appoint compliance officers responsible for ongoing regulatory adherence, disclosures, and board education in corporate governance.
PART VII– UNDERWRITING AND VALUATION OF SECURITIES	Addresses the underwriting of public offers, requiring disclosure of underwriting arrangements to the Authority and specifying procedures for related underwriters, alongside provisions for valuation methodologies used in public offers.
PART VIII- GREEN SHOE OPTION	Outlines provisions for a green shoe option in public offerings, allowing issuers to manage oversubscription and stabilize post-listing securities prices, with detailed requirements for disclosure, procedures, and responsibilities of the stabilizing agent.
PART IX– SHELF PROSPECTUSES	Enables issuers meeting specific financial and regulatory criteria to submit shelf prospectuses to the Authority, allowing for multiple offerings of securities within a designated validity period without the need for further prospectuses, provided supplementary notes are timely published to reflect material changes.
PART X– SPECIAL PURPOSE ACQUISITION COMPANIES	Outlines regulations for Special Purpose Acquisition Companies (SPACs), requiring them to be incorporated in Kenya and prohibiting them from engaging in business operations before listing. It sets clear criteria for listing, including governance standards and escrow requirements for IPO proceeds, aiming to ensure transparency and investor protection throughout the process of business ~~combination~~ transactions.
PART XI– SHARE BUYBACKS	Outlines comprehensive regulations governing share buybacks by listed companies, including approval procedures, disclosure requirements, limits on buyback volumes and prices, treatment of

	treasury shares, and compliance with corporate governance and market regulations.
PART XII– TRADING HALT, SUSPENSION AND DELISTING	Governs trading halts, suspensions, and delisting of listed securities, detailing procedures for trading halts, suspension criteria (including default of listing obligations), requirements for delisting approvals, resumption proposals post-suspension, exit offers during delisting, and the establishment of a recovery list for issuers failing to meet listing obligations.
PART XIII– PUBLIC ANNOUNCEMENTS, CIRCULARS AND ELECTRONIC COMMUNICATIONS	Regulates public announcements, circulars, and electronic communications concerning issuers and their securities. It mandates that issuers must submit circular drafts for approval before circulation, ensures factual accuracy in public announcements and advertisements submitted for approval, specifies content requirements for circulars to inform shareholders adequately, permits electronic communication for documents with shareholder consent or per issuer's constitutional provisions, and allows electronic methods for issuing and subscribing to securities in public offers in compliance with the regulation.
PART XIV— TRANSACTIONS OF LISTED SECURITIES OUTSIDE A SECURITIES EXCHANGE	This section governs transactions of listed securities outside a securities exchange. It outlines conditions under which private transactions require the securities regulator's approval, specifies exemption from brokerage commissions for certain transactions, mandates central depository endorsement for private transfers, sets approval fees, and requires detailed disclosures and public announcements for certain private transactions.
PART XV— CONTINUING OBLIGATIONS	Outlines continuing obligations for issuers with publicly offered and listed securities, specifying requirements for immediate disclosure of material information affecting market activity, exemptions for confidential or incomplete information, and penalties for non-compliance with disclosure obligations.

PART XVI—LISTING FEES AND OTHER CHARGES	Outlines that each issuer must pay prescribed listing fees and charges to both the Authority and the securities exchange, with provisions for waivers at the discretion of either entity.
PART XVII—REPEAL AND TRANSITIONAL PROVISIONS	Involves the repeal of the 2002 Capital Markets (Securities) Regulations, transitional provisions for securities listed on different market segments, and requirements for securities exchanges to align their rules with the new regulations within a specified timeframe.
Schedules	
First Schedule	Eligibility requirements for Public Offering and Listing of Equities in the Main Investment Market Segment and the SME Market Segment.
Second Schedule	Eligibility Requirements for Public Offering of Fixed Income Securities and Listing on the Main Fixed Income Securities Market Segment.
Third Schedule	Eligibility Requirements for Public Offering of Fixed Income Securities, and Listing on the SME Fixed Income Securities Market Segment (SME.FISMS).
Fourth Schedule	Requirements for Issuance of Regional Fixed Income.
Fifth Schedule	Eligibility and Other Requirements for Issuance of Green Bonds.
Sixth Schedule	Main Investment Market Segment Disclosure Requirements for Public Offerings.
Seventh Schedule	Disclosure Requirements for Listing by Introduction in the Main Investment Market Segment.
Eighth Schedule	SME Market Segment Disclosure Requirements for Public Offers and Listing.
Ninth Schedule	SME Market Segment Disclosure Requirements (Listing by Introduction).
Tenth Schedule	Main Fixed Income Securities Market Segment Disclosure Requirements for Public Issues.

Eleventh Schedule	SME Fixed Income Securities Market Segment Disclosure Requirements for Public Issues (Listed and Unlisted).
Twelfth Schedule	Disclosure and Other Requirements for Additional Issues (Rights, Scrip Dividend, Capitalization Issues and Open Offers).
Thirteenth Schedule	Continuing Obligations.
Fourteenth Schedule	Short Form Prospectus for a restricted Public Offer.
Fifteenth Schedule	Information Notice.
Sixteenth Schedule	Requirements for Offer of Securities Using a Book Building Process.
Seventeenth Schedule	Approval and Listing Fees.

1.2 Key Issues Raised by Market Participants Regarding the Capital Markets (Public Offers, listings and Disclosures) Regulations, 2023

In line with section 23 (1) of the Statutory Instruments Act, the POLD Regulations, 2023 became effective upon gazettement on 15th December 2023. Since the Regulations came into force, some provisions were highlighted and required direction to ensure clarity in their interpretation and application amongst market intermediaries and investors.

In this regard on June 11, 2024, the Capital Markets Authority published a Circular to all issuers of securities to the public and capital markets intermediaries. The circular aimed to clarify on key governance issues raised by market following gazettement of the Capital Markets (Public Offers, Listings and Disclosures) Regulations, 2023

For greater clarity, the regulator offered the following guidance to ensure that stakeholders and the public have a clear understanding, interpretation and applicability of those key provisions.

1.2.1Validity of the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015

Paragraph 8 of the Thirteenth Schedule to the Regulations states that "Every issuer shall comply with the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 issued by the Authority and as may be amended from time to time and any other codes as may be prescribed for specific issuers or segments."

Figure 1Extract of Paragraph 8 of 13th Schedule

8.	Corporate Governance
8.1.	Every issuer shall comply with the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 issued by the Authority and as may be amended from time to time and any other codes as may be prescribed by the Authority for specific issuers or segments.

In order to entrench the Code and ensure that there are no doubts as to its enforceability, the above provision is drafted in **a mandatory language i.e. shall comply**. Therefore, the debate surrounding mandatory versus voluntary requirements in the Corporate Governance Code has been settled with the coming into force of the POLD Regulations, 2023.

Further, it envisages amendment or development of specific Codes applicable to various issues for instance SME-specific Code. This addresses the concern that Regulation 92 of the POLD Regulations, 2023, which revoked the Capital Markets (Securities) (Public Offers, Listing, and Disclosures) Regulations, 2002, automatically revoked the Code of Corporate Governance Practices for Issuers of Securities (2015)

To ensure consistency and coherence between the two frameworks, the CMA shall review and harmonize the Code of Corporate Governance with the POLD Regulations 2023. This alignment will facilitate smoother implementation, reduce potential regulatory conflicts and enhance the clarity and effectiveness of governance practices for issuers. In the interim, where there is any conflict between the POLD Regulations 2023 and the Code of Corporate Governance provisions, the POLD 2023 provisions takes precedence.

1. **1.2.2 Independent Directors and Non-Executive Directors**

a. **Independent Directors**

Under the previous Capital Markets (Public Offers, Listings and Disclosures) Regulations of 2002, the definition of an independent director closely mirrored that which is outlined in the newly Gazetted Capital Markets (Public Offers, Listings and Disclosures) Regulations of 2023 as well as the provisions in the Code of Corporate Governance for Issuers of Securities, 2015.

However, Regulation 2 of the POLD Regulations, 2023 defines an independent director to mean "a member of a board of directors who is not an executive director, does not have a material or pecuniary relationship with the company or related persons, is compensated through sitting ~~fees or~~ allowances and does not own shares in the company, provided that after six years of continuous service, such person shall no longer be considered as an independent director."

The primary distinction between the two versions lies in the duration of service permitted for independent directors. Specifically, while under the previous regulations, independent directors were allowed a continuous tenure of nine years, the revised regulations limit this period to six years. Upon the completion of the specified term, the individual in question transits from the role of an independent director to that of a non-executive director.

While the initial draft put on public exposure had sought to retain the maximum tenure of 9 years, stakeholders' feedback was that the tenure should be limited to maximum of 5 years. Following further analysis, and especially considering the domestic governance dynamics, the maximum tenure of independent directors was settled at 6 years. This is fully aligned with the Public Sector *Mwongozo* framework which provides a term of 3 years renewable once for directors in public entities.

It is however important to note that companies have the option to retain an independent director after the six-year period of service, but as non-executive director.

To ensure smooth transition of the new Regulations, the provision on term of Independent Directors shall apply prospectively to only new appointments and not the existing directors who were appointed before the regulation came into force.

b. Non-Executive Directors

Regulation 2 of the POLD Regulations, 2023 defines a non-executive director as "a board member of a company who is not an executive director or employee of a related entity". This implies that non-executive directors cannot have a formal day-to-day responsibility in another company/entity that is closely connected or affiliated with the issuer where they serve as a non-executive director.

The rationale behind the non-involvement of a non-executive director in the day-to-day management of the company and their exclusion as an executive director or employee of any related entity is to uphold independence and objectivity. By avoiding direct involvement in operational matters or affiliations with related entities, non-executive directors are positioned to offer impartial oversight and counsel. They introduce novel viewpoints and operate in the company's and shareholders' best interests, devoid of influence from personal or professional connections within the group. This practice serves to uphold transparency, accountability and robust governance standards.

Moreover, by excluding individuals who are executives or employees of related entities from serving as non-executive directors, the company reduces the risk of real or perceived conflicts of interest. For example, a non-executive director who also serves as an executive director or employee in a parent, sister or subsidiary company may have divided loyalty thus potentially compromising their ability to act in the best interest of shareholders. In addition, this could lead to a lack of impartiality in decision-making as their allegiance might lean towards the broader corporate group rather than the specific issuer they are meant to oversee. This helps maintain the integrity of the board's decision-making process and enhances trust among the stakeholders. This approach ensures a judicious balance between safeguarding against conflicts of interest and capitalizing on diverse expertise and perspectives within the boardroom.

It is however important to note that the definition of non-executive directors does not exclude appointment of non-executive directors who are independent non-executive directors or non-executive of related entities.

b. Executive Directors

Regulation 2 of the Capital Markets (Public Offers, Listings and Disclosures) Regulations 2023 defines an Executive Director as member of a board of directors of a company who also serves as a manager in the company. This implies that an Executive Director not only participates in the strategic decision-making process as part of the board but also oversees the day-to-day operational of the company’s activities. Their hands-on involvement in the daily operations of the company allows them to provide valuable insights and feedback to the board enhancing the overall governance of the company.

Key Impact

The overhauled Capital Markets (Public Offers, Listings, and Disclosures) Regulations, 2023, has provided a more favourable environment for both large and small firms to secure funding through the capital markets. CMA is committed towards providing the right mix of policy and institutional support to both new entrants and existing market players to leverage the overhauled regulations, to optimize product uptake opportunities.

2.0 GLOBAL ECONOMIC AND CAPITAL MARKETS OUTLOOK

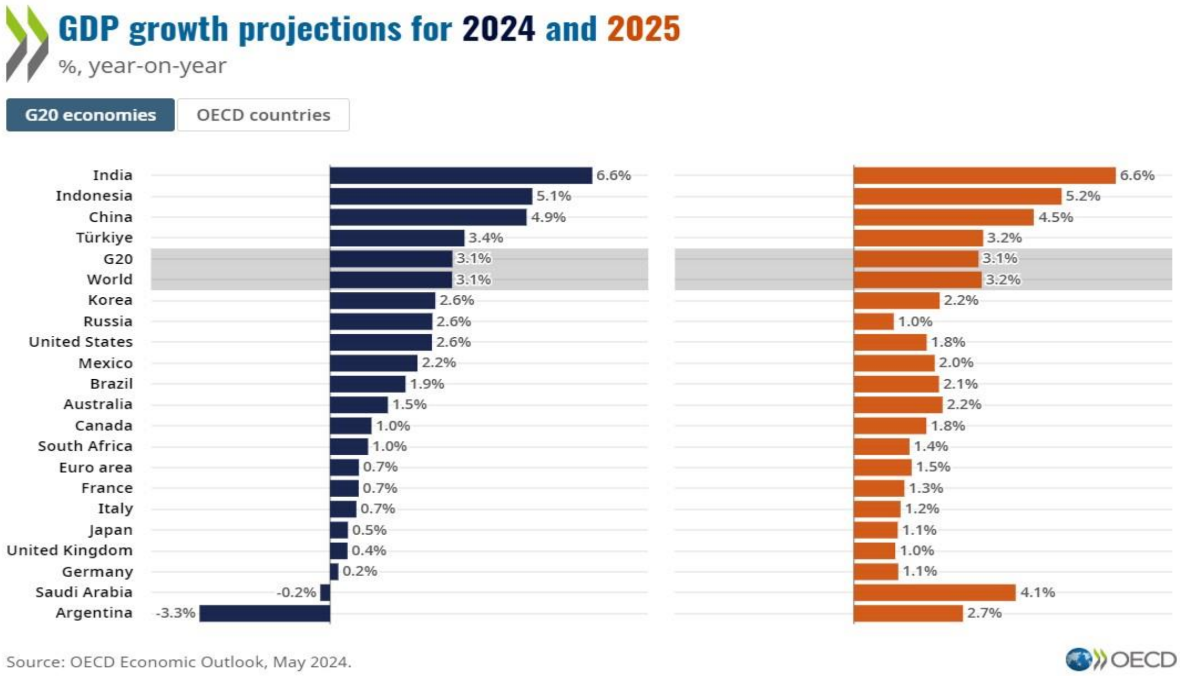
2.1 Global Economic Outlook

The global economic outlook improved, with resilience being noted in global activity, despite modest growth during the quarter under review. Inflation recorded a decline, which was faster than initially projected, with private sector confidence continuing to improve. The Organization for Economic Cooperation and Development (OECD) projects the global GDP to remain at 3.1% in 2024 and rise to 3.2% in 2025, driven by better real income growth and lower interest rates. This is against the backdrop of key global macro-developments such as China's policy to adopt low interest rates and its substantial fiscal support to support domestic demand in the post covid-19 era.

In terms of the G20 economic position, the group's inflation rate is expected to decline to 3.6% in 2025 from 5.9% in 2024, returning to target levels by late 2025.

At this global level, the key macro- risks include geopolitical tensions from the conflicts in Rusia-Ukraine and in the Middle East, slower-than-expected inflation reduction, high real interest rates, financial instability, and potential weaker growth in China.

Figure 2GDP Growth Projections for 2024 and 2025



Source: OECD

2.2 Global Capital Markets Outlook

During the quarter under review, there were 271 Initial Public Offerings (IPOs) globally, representing a 15% decline from the same period in 2023. The proceeds from these IPOs totalled 27.8 billion US Dollars, a 31% decrease from Q2 2023. This is due to a slowdown in Asia-Pacific IPO activity, while the Americas and Europe, the Middle East, India, and Africa (EMEIA) experienced robust growth in the first half of the year. EMEIA regained the No. 1 global IPO market share by number for the first time in 16 years[1].

Figure 3IPO Activity in Q2 2024

[1]https://www.ey.com/en_gl/insights/ipo/trends#:~:text=The%20complete%20data%20per%20regions,with%20IPO%20proceeds%20down%2073%25.

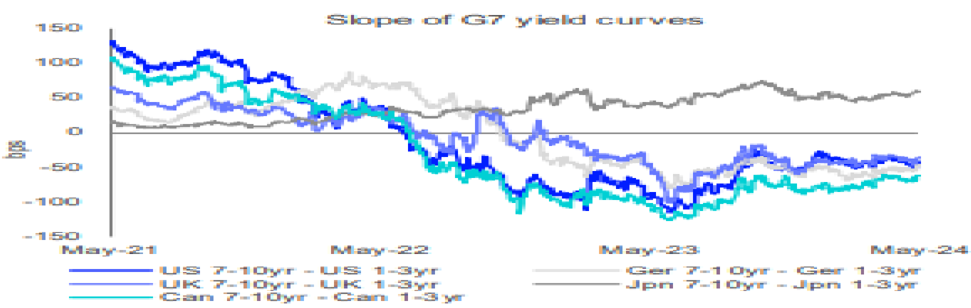
	Number			Proceeds (US$b)		
	Q2 2023	Q2 2024	% change	Q2 2023	Q2 2024	% change
Global	**317**	**271**	**-15%**	**40.4**	**27.8**	**-31%**
Americas	**34**	**45**	**32%**	**7.6**	**9.1**	**19%**
% of global	*11%*	*17%*		*19%*	*33%*	
Asia Pacific	**196**	**98**	**-50%**	**26.1**	**4.6**	**-82%**
% of global	*62%*	*36%*		*64%*	*16%*	
EMEIA	**87**	**128**	**47%**	**6.7**	**14.1**	**111%**
% of global	*27%*	*47%*		*17%*	*51%*	

Source: Ernst and Young

2.3 Global Bond Market

During the second quarter of 2024, 7–10-year bonds outperformed modestly. Global bond markets are experiencing rallies driven by inflation moderation and anticipations of policy easing. Credit spreads, especially for investment-grade bonds, are tight, indicating strong demand but also suggesting limited room for further tightening without risking increased volatility.

Figure 4G7 Yield Curves



Source: LSEG

In June, the European Central Bank (ECB) easing of interest rates in Europe boosted short-term bonds, leading to an outperformance of shorts over 3-month periods. Coupons contributed to gilts and Treasuries yielding a 1% return in sterling. However, the strength of sterling reduced non-UK returns year-to-date, with Japanese Government Bonds (JGBs) experiencing losses of up to 20% in sterling terms. Conversely, bonds from China and emerging markets continued to serve as safe havens, achieving year-to-date gains of 5-8% in long-term bonds.

2.4 Global Equity Market

Global equity markets registered a rise in returns, with the MSCI World Index recording a positive return of 12.04 % and the Emerging Market Index recording a return of 7.68%, in United States Dollar terms, on a year-to-date basis.

Figure 5MSCI World Index

CUMULATIVE INDEX PERFORMANCE — GROSS RETURNS (USD) (JUN 2009 – JUN 2024)

ANNUAL PERFORMANCE (%)

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

INDEX PERFORMANCE — GROSS RETURNS (%) (JUN 28, 2024)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987
MSCI World	2.07	2.78	20.75	12.04	7.38	12.32	9.73	8.50
MSCI Emerging Markets	4.01	5.12	12.97	7.68	-4.68	3.49	3.18	9.60
MSCI ACWI	2.26	3.01	19.92	11.58	5.94	11.28	8.99	8.31

FUNDAMENTALS (JUN 28, 2024)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI World	1.80	22.07	18.57	3.42
MSCI Emerging Markets	2.63	15.99	12.27	1.79
MSCI ACWI	1.88	21.24	17.65	3.13

INDEX RISK AND RETURN CHARACTERISTICS (JUN 28, 2024)

		ANNUALIZED STD DEV (%) 2			SHARPE RATIO 2,3				MAXIMUM DRAWDOWN	
	Turnover (%) 1	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987	(%)	Period YYYY-MM-DD
MSCI World	2.25	17.23	17.80	15.03	0.32	0.62	0.59	0.40	57.46	2007-10-31—2009-03-09
MSCI Emerging Markets	5.10	17.80	18.61	17.18	-0.36	0.16	0.18	0.38	65.14	2007-10-29—2008-10-27
MSCI ACWI	2.41	16.77	17.43	14.83	0.25	0.58	0.55	0.39	58.06	2007-10-31—2009-03-09

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

Source: MSCI

2.5 Top Local & Global Risks and Opportunities During the Quarter

Top Risks

i. ***Uncertainty over delayed resolution of "Generation Z" -led issues and protracted protests is likely to negatively impact the capital markets and the broader economy[2].***
ii. ***Slower-than-expected inflation reduction and resultant high interest rates increasing borrowing costs, reducing disposable income and consumer spending, potentially slowing down economic growth. This is in return dampening the sustained recovery of global and domestic capital markets.***
iii. ***Rising geopolitical tensions, particularly in the Middle East, along with the deteriorating Russia-Ukraine crisis, are jeopardizing global economic recovery prospects and could result in prolonged tightening of global financing conditions in 2024 to control inflation.***
iv. ***Climate change continues to be a significant risk, with the increasing frequency and severity of floods and droughts impacting Kenya's economic recovery after COVID-19.***

Key opportunity

The Government through the Central Bank of Kenya Plans to establish a new bond platform for hustlers therefore attracting more retail investors and reactivate the M-Akiba program. Investors will buy securities with as low as US$5. The new investment opportunity is expected to grow access to the treasury instruments hence expanding the capital market.

[2] Similar risks apply beyond the Kenyan borders and include France, Bangladesh and Thailand

3.0 INTERNATIONAL DEVELOPMENTS

3.1 Launch of the Collaborative Sharing of Money Laundering /TF Information & Cases (COSMIC) Platform- Monetary Authority of Singapore

At the beginning of the quarter, the Monetary regulator in Singapore launched the Collaborative Sharing of Money Laundering /TF Information & Cases (COSMIC) Platform. This centralized digital platform is designed to enable the sharing of customer information among Financial Institutions (FIs) to combat money laundering (ML), terrorism financing (TF) and proliferation financing (PF) globally. Simultaneously, the Financial Services and Markets (Amendment) Act 2023 (FSMAA) which provides the legal framework for Financial Institutions to share information on customers through COSMIC came into force. The FSMAA outlines the conditions on how and when to share customer-related information. It also establishes strong legal and operational safeguards to protect the confidentiality of the shared information and the interests of legitimate customers. To protect legitimate customers, participants FIs should **(i)** assess whether a customer's profile or behaviour warrant concern before sharing the information, **(ii)** Consider other information sources and not rely solely on COSMIC information **(iii)** allow customers an opportunity to explain the behaviours observed and **(iv)** ensure the accuracy and completeness of the information shared.

A COSMIC participant FI can share customer information with another participant FI only when the customer's profile or behaviour exhibits specific, objectively defined indicators of suspicion, known as "red flags." The FSMAA mandates that participant FIs implement policies and operational safeguards to protect the confidentiality of shared information. The framework also allows participant FIs to exchange information on potential criminal activities while safeguarding the interests of many legitimate customers. Customers are encouraged to respond promptly to requests for clarifications on their risk profiles or transactions, enabling FIs to make informed risk assessments.

As the owner of the COSMIC platform, MAS is responsible for ensuring that information is exchanged and stored securely. The platform will incorporate robust controls, including cybersecurity measures, which will undergo periodic audits to verify their effectiveness.

Key Takeaway

i. ***Following the enactment of the AML/CFT/PF (Amendment) Bill 2023 the National Government has adopted initiatives that are expected to ensure enhanced AML oversight within the financial sector.***

ii. ***CMA has enhanced reporting through the Draft Capital Markets (Market Conduct), Market Intermediaries Regulations 2024.***

iii. ***CMA will advocate for a centralized digital platform designed to facilitate the exchange of customer information among financial institutions (FIs) in Kenya as further improvement to the reporting framework.***

3.2 IOSCO Publishes Good Practices to Improve Trading Venues' Resilience in Case of Market Outage

The International Organization of Securities Commissions (IOSCO) published guidelines aimed at improving the resilience of trading venues in the event of market outages. These outages, often caused by technical or operational issues, disrupt trading and impact market integrity and price discovery. To address these challenges, IOSCO's report, based on a survey of equity trading venue outages from 2018 to 2022, proposes a set of best practices designed to enhance market stability and continuity.

Key recommendations include the development of comprehensive outage plans, timely communication strategies, clear procedures for market reopening, and post-outage reviews to share lessons learned with regulators. Emphasis is placed on strengthening operational resilience through robust frameworks and regular system testing, as well as creating detailed business continuity plans (BCPs) with recovery procedures and conducting regular drills to prepare for various outage scenarios.

Effective communication protocols are essential to keep market participants informed during outages, while coordination with regulatory authorities is crucial for managing and mitigating the impact of disruptions. This involves transparent reporting and collaboration throughout the process. IOSCO also highlights the importance of structured incident management processes to quickly identify and address the root causes of outages, followed by post-incident reviews to improve future responses. Additionally, investing in resilient and scalable technology infrastructure, along with regular assessments and upgrades, is vital to handle increased loads and cyber threats.

By implementing these practices, trading venues can enhance market confidence, reduce downtime, and improve market integrity. Ensuring that trading venues are well-prepared for outages fosters greater trust in the markets' stability and reliability. Effective planning and rapid response can minimize the duration of outages, thereby reducing their impact on trading activities. Overall, IOSCO's guidelines are part of a broader effort to strengthen the global financial system's resilience, ensuring smooth trading operations even in the face of unexpected disruptions.

Table 2Summary of IOSCO Recommendations

Good Practice	Description	Applicability
Establish and Publish an Outage Plan	Develop a comprehensive plan detailing communication strategy, reopening procedures, closing auctions, and alternative closing prices. May be adapted for other asset classes where applicable	Primarily equities listing trading venues
Implement a Communication Plan	Ensure timely initial notices and regular updates during an outage, using appropriate communication channels. Essential for maintaining clear and meaningful communication across different trading systems	Broadly applicable across asset classes
Communicate Reopening Information Timely	Provide clear, simultaneous updates to all market participants about the status of orders and reopening processes. Includes adequate notice period before resumption of trading and interactions with business continuity plans	Primarily equities listing trading venues
Publish Procedures for Closing Auctions	Outline procedures for conducting closing auctions or alternative closing price methods and communicate them during outages. Limited applicability to non-equity markets; relevant primarily where closing auctions are a standard practice	Primarily equities listing trading venues
Conduct Post-Outage Review and Plan	Share a lessons-learned exercise with regulators, including root cause analysis and remediation actions. Helps in reducing the likelihood of future incidents and improving response strategies	Broadly applicable across asset classes

Key Take Away

CMA remains open to adopting these good practices to enhance its own market infrastructure and responsive strategies by implementing robust outage plans and clear communication protocols to better manage disruptions and maintain investor confidence. Additionally, the guidelines for reopening trading and managing closing prices will help ensure fair and orderly markets during and after outages. This alignment with international standards will not only bolster market resilience but also enhance CMA's credibility and effectiveness.

3.3 Malaysia's Securities Commission Unveils Plan to Boost MSME and MTC Capital Market Access

The Securities Commission Malaysia unveiled a 5-year Roadmap with the aim of better positioning of the capital market as an attractive and robust source of financing for micro, small and medium enterprises (MSME) and mid-tier companies (MTC). Additionally, it aims at building a solid foundation for scalable and sustainable MSME and MTC capital market solutions and seeks to position Malaysia as a preferred fundraising destination for MSME and MTC in the region. The key outcome is to increase the MSME and MTC capital market fundraising from [3]RM6.3 billion (2023) to RM40 billion (2028).

[3] 1 RM is equivalent to approx. KES 28

In developing the roadmap, an evidence-based approach was employed, comprising extensive engagements with key stakeholders, benchmarking, surveys and studies to assess the MSME and MTC capital market landscape, gaps and opportunities.

Five key issues have been identified that will be addressed by the roadmap to enhance MSME and MTC access to the capital market. They include:

MSME AND MTC

1. Lack of awareness and readiness to enter the capital market.
    a. MSME and MTC awareness and utilisation of capital market financing options are relatively low.
    - Current knowledge and capacity building programmes need to include capital market elements catered toward the diverse needs of MSME and MTC. MSME and MTC development agencies are critical change agents in enhancing awareness and ensuring effective funnelling to the capital market.
2. Relatively high cost of issuance and compliance requirements for MSME and MTC
    - MSME and MTC often face high costs associated with fundraising, in particular, professional fees and compliance expenses.
    - There is a need for targeted measures and facilitative requirements aimed at reducing costs and encouraging fundraising.

Investor

1. Liquidity and exit concerns for MSME investments.
    - Limited access and investment restrictions have contributed to liquidity and exit concerns.
    - Product innovation and regulatory facilitation are needed to tap further into the retail investor base as a source of capital for MSME and MTC. The opportunity involves product innovation and regulatory facilitation to create new products and exit strategies are crucial in catering to the different needs and risk profiles of investors.
2. Limited data or expertise to adequately assess MSME and MTC investments.
    - Investors face challenges in assessing the risks associated with MSME because of the lack of credible and transparent information.

- Limited specialised resources and skills to evaluate MSME and MTC investments reinforce reliance on traditional assessment methods and valuation models.

The Opportunity involves enhancing valuation through credible information and upskilling, followed by implementing complementary measures and public-private partnerships to mitigate investment risks.

Market Infrastructure

1. Information asymmetry and gaps in supporting infrastructure for MSME and MTC investments.

- Capital market information for MSME and MTC is fragmented across multiple channels due to multiple stakeholders within the ecosystem.
- The lack of supporting infrastructure for MSME and MTC investments has resulted in difficulty in facilitating or promoting private market deals and trade sales.

The opportunity involves ensuring that the overall market infrastructure supports the flow of information and resources, as well as facilitates transactions, by leveraging technology.

Key Takeaways

(i) ***The Authority has created a regulatory framework environment that supports SME fundraising through Public Offers regulations, 2023, Investment-based crowdfunding Regulations, 2022 and Credit Rating Regulations, 2023.***

(ii) ***More policy, infrastructure and institutional interventions are however required, and CMA will explore other initiatives including introducing diagnostic tool and referral platforms for SMEs to make Kenya's capital markets more inclusive.***

(iii) ***Discussions are also underway with a development partner towards the co-creation of an SME Fund to support small cap firms to raise market based. Other important stakeholders including Credit Rating Agencies will be consulted towards realizing this initiative.***

4.0 REGIONAL DEVELOPMENTS

4.1 Enhancement of Capital Markets Access through USSD – Nigeria Exchange Group (NGX)

Source: Nigeria Exchnage Group

USSD (Unstructured Supplementary Service Data) is a Global System for Mobile Communications (GSM) protocol that is used to send text messages. USSD operates in a manner like Short Message Service (SMS). This new platform by Nigeria Exchange Group (NGX) will help investors participate in the capital markets with much ease. The short code platform was initially launched in November 2023 in effort to bring the Exchange and the broader capital market closer to retail investors, and in alignment with its commitment to advancing financial inclusion and market accessibility. This innovative tool was launched to harness the transformative potential of USSD codes in simplifying market participation, particularly for individuals with limited access to internet resources or smartphones.

The initiative is part of NGX Investor Education Series, and it will allow investors to access real-time stock market information and connect with a stockbroker. The platform is also expected to boost financial inclusion and market participation in Nigeria by providing investors easy access to price information of listed companies and connecting them with Trading License Holders. The public can now conveniently receive market information and initiate the account opening process through their mobile phones by dialling *5474#. This represents a significant advancement in NGX's efforts to democratize access to investment opportunities and promote retail investor participation via digital channels for accessing the capital market. The bourse has continued to urge investors to leverage on the platform for enhanced capital market access.

Lesson Learnt

The launch of the USSD code enables investors to closely monitor their investments regardless of smartphone access, thereby expanding the reach of capital market information. This initiative has

the potential to significantly enhance market participation among retail investors, including market players at the grassroots. Going forward the regulator will consider adopting and implementing similar initiatives to grow and expand the capital market.

4.2 SEC Zimbabwe Launches the #MySchool CSR Project to Boost Financial Literacy in Zimbabwean Schools

The Securities and Exchange Commission of Zimbabwe (SECZim) launched the #MySchool Corporate Social Responsibility (CSR) project to enhance financial literacy and capital market awareness among primary and secondary school students across Zimbabwe. This initiative aims to empower the next generation by ensuring widespread understanding and participation in the capital market from 1 April 2024 to 31 November 2024.

Source: SECZIM Website

Recognizing the challenge of low capital market awareness, estimated at just 2% in Zimbabwe, SECZim is addressing this through a collaborative effort involving key stakeholders. The #MySchool project will use the Capital Market Toolkit, approved by the Curriculum Development Unit (CDU) of the Ministry of Primary and Secondary Education (MoPSE), and strategic partnerships. SECZim will engage individuals from both the public and private sectors, encouraging them to participate in outreach programs targeted at their former schools. Corporates, NGOs, and other bodies will also be urged to adopt schools for these outreach activities.

The project includes interactive workshops in schools, leveraging the Capital Market Toolkit to provide engaging financial education. Teachers will be trained using a "train the trainer" methodology to ensure the program's sustainability. The workshops will feature activities, giveaways, and motivational biographies of mentors or alumni to keep students engaged. Progress will be monitored through pre- and post-workshop surveys to assess knowledge growth and participation. The initiative aims to increase capital market awareness, improve financial decision-making, boost market participation, deepen financial inclusion, and empower teachers to deliver financial literacy education.

Lesson Learnt

- ***(i)*** ***CMA remains cognizant of the importance of early financial education and awareness initiatives to boost participation in capital markets.***
- ***(ii)*** ***There is ongoing work with the Kenya Institute of Curriculum Development (KICD) with finance components already piloted in Junior Secondary Schools in five Counties.***
- ***(iii)*** ***Ultimately capital markets will be infused into primary and secondary schools' syllabuses to boost literacy and early exposure on the subject in the education sector. CMA encourages interested parties in the financial literacy space to be involved in the official launch and roll out at national level.***

4.3 Development of Regional Frameworks for Sustainability Linked Financing and Carbon Credit Markets by East African Securities Regulators

The regional capital markets regulators, under the auspices of the East African Securities Regulatory Authorities (EASRA), have resolved to establish a regulatory framework for sustainable finance with the goal to build a harmonised regional framework.

The framework will lay down guidelines for regulating sustainability-related securities issuance, funds utilization, project evaluation, and reporting. As an indication of the regulators' unwavering commitment to contributing to the net-zero agenda, regional regulators will additionally conduct a regional study on the carbon credit market with the objective to gain a better understanding of the existing stakeholders and regulatory framework, which will subsequently guide an East African regional carbon credit framework for domestication at the national level.

EASRA is eager to establish a new strategy plan for the following five years (2024-2029). In order to guarantee that the plan fulfils the region's long-term finance needs, it will be founded on the East

African Community Vision 2050, African Union Agenda 2063, and United Nations Sustainable Development Goals. Further, to guarantee relevance and buy-in, the strategic plan development process will consult with a broad spectrum of stakeholders on what they would like to see regional capital markets regulators do to promote capital raising while protecting investors. It will reach out to market intermediaries across the East African region to gather their opinions on the issues they encounter and recommendations for regulatory actions that could reduce the bottlenecks and ease market developments.

Key Takeaways

The development of regional frameworks for sustainability linked financing and carbon credit markets presents opportunities for CMA to strengthen its regulatory framework, expand market opportunities, and contribute to sustainable economic development. The Authority was recently awarded a grant by the Financial Sector Deepening Trust Kenya to support ESG and Carbon Markets development and will progress initiatives such as undertaking an ESG assessment and refine the Carbon Market Policy framework to align its with EASRA deliverables. This diversified scope of the capital market does, not only create confidence among the investors, but will boost the Kenyan economy.

5.0 LOCAL DEVELOPMENTS

5.1 New Licensees by CMA

During the quarter, CMA granted five (5) new firms the green light to begin their operations in Kenya in different capacities. The licensing is intended at increasing competition and deepen and develop the domestic capital markets. Amongst the companies licensed include **Tim Walsh Advisory Services** which will now operate as an Investment Adviser whereas **IC Markets Kenya Limited** was granted a license to operate as a non-dealing online foreign exchange broker. **GTXN Investments Limited** was approved to conduct the business of a fund manager. The organization has noted an increased demand for licenses in the intermediary sector in recent years which portrays a positive emergence as it enhances competition, innovation and the reach of capital markets products and services to retail investors.

In the coffee sector, Kirinyaga Slopes Coffee Brokerage Company Limited which had previously been conditionally licensed to operate as a coffee broker at the Nairobi Coffee Exchange, was granted full license status, having satisfied all the requirements of the Capital Markets Act and Capital Markets (Coffee Exchange) Regulations, 2020. Additionally, **Coffee Estates Bourgeoisie Brokers Limited**, has been granted a conditional license valid for six months to operate as a coffee broker subject to full compliance with the Capital Markets Act and Coffee Exchange Regulations.

Arvocap Unit Trust Scheme was also approved during the period under review as a collective investment scheme (CIS). The Scheme comprises 10 sub-funds including Money Market Fund, Ngao Fixed Income Distribution Fund, Almasi Fixed Income Accumulation Fund, Eurofix Fixed Income Special Fund (USD), Thamani Equity Fund, Africa Equity Special Fund, Global Equity Special Fund, Multi-Asset Strategy Special Fund (USD), Global Sharia Equity Special Fund (USD) and Mabruk Sharia Special Fund (KES). Additional approvals included registration of additional sub-funds within existing unit trust schemes including Old Mutual Special Fixed Income Fund, NCBA Global Equity Special Fund and Global Fixed Income Special Fund, KCB Wealth Fund (Special Fund), Jubilee Money Market Fund (USD) and Jubilee Enhanced Fixed-Income Special Fund.

Stability Implication

This development signifies CMA's commitment to support the national development agenda in line with its market deepening objectives. It underscores the Board's commitment to fast-track intermediation services of market players in the interest of market deepening. The challenge to licensees is to be more aggressive in marketing products and services so that the current trend of improvement of market performance is maintained.

5.2 Blockchain Tokenization Platform, AlphaBloq, Gets Admitted into the CMA Regulatory Sandbox

The Capital Markets Authority admitted AlphaBloq Technologies Limited into its Regulatory Sandbox for twelve (12) months to test a blockchain-enabled real estate tokenization platform making history as the first blockchain-based investments platform to be accepted into CMA's Sandbox. During this period, AlphaBloq must adhere to several requirements, including following a testing and customer acquisition plan, developing a commercial rollout and exit roadmap, conducting quarterly product reviews, providing monthly progress updates, complying with regulatory frameworks, maintaining records, seeking approvals for new features and property tokenization, and submitting a final report.

Source: LinkedIn

AlphaBloq's goal is to make real estate investing more inclusive and affordable for younger Kenyans by demonstrating the reliability, security, and compliance of its platform while protecting investors. It's admission into the regulatory sandbox also highlights Kenya's growing prominence in the Web3 and Blockchain space, joining other African nations like Nigeria and South Africa in supporting such innovations.

Stability Implication

This significant development underscores CMA's commitment towards embracing financial innovation and inclusion in our domestic market. By carefully balancing the promotion of new technologies with robust regulatory oversight, a vibrant, inclusive, and secure capital market ecosystem will be fostered.

5.3 CDSC Reactivates 1.2m Share Accounts

The Central Depository and Settlement Corporation (CDSC) has reactivated over a million dormant share accounts on the Nairobi Securities Exchange (NSE) that were frozen in 2019 to protect against fraud. This moves benefits investors who buy shares for dividends rather than for trading. Originally, the CDSC froze these accounts to prevent fraud, requiring owners to reactivate them via their stockbrokers. Dormant accounts previously reduced trading activity, affecting revenue from trading commissions and levies for the NSE, CDSC, and brokers.

Most of these dormant accounts resulted from the oversubscribed KenGen and Safaricom IPOs in 2006 and 2008. Many investors, who had taken loans or sold property to buy shares, exited the market when Safaricom's share price fell post-IPO. The policy change, developed during the COVID-19 period, aims to ensure fairness in stock market investments, recognizing that many investors buy shares to earn dividends. Currently, the CDSC does not classify any accounts as dormant since all 1.5 to 1.6 million accounts are permitted to trade. The CDSC and NSE have been urging investors to keep their accounts active by trading or lending securities.

Stability Implication

This is a significant step towards enhancing market activity, liquidity, and investor confidence in Kenya's capital markets.

5.4 The National Treasury Sets KSh5 million as Minimum Commodities Platform Investment

The National Treasury and the Nairobi Securities Exchange (NSE) being the founding shareholders of the Kenya National Multi Commodities Exchange Limited (KOMEX) have set a minimum investment of KSh5 million as they seek new equity partners. KOMEX aims to raise at least Sh1.5 billion from private sector partners, converting their investments into equity. The firm plans to use these funds to support its operationalisation, focusing on an over-the-counter spot market for both agricultural and non-agricultural commodities and a digital marketplace. The Government has already contributed KSh500 million, covering a quarter of Komex's authorised share capital of KSh2 billion, to support infrastructure development.

The raised funds will be allocated towards building the necessary technology and infrastructure for the commodities exchange, creating institutional support assets, and investing in a Settlement Guarantee Fund. Additionally, the capital will cover corporate and operational expenses, strategic investments, trade and investment financing, and other contingencies. The National Treasury is set to hold a 25 percent stake in Komex by acquiring five million shares. Local and foreign financial institutions and development financial institutions are expected to hold a similar stake, while strategic partners in technology and commodities sectors will take a 30 percent stake, equating to six million shares.

Agribusiness firms and producer cooperatives are allocated a 10 percent stake, and the remaining 10 percent is open to corporate and institutional investors. This diversified shareholding structure is designed to enhance the exchange's operational success, with strategic and anchor investors playing a crucial role. Komex aims to establish a private sector-led shareholding structure, with significant co-investment from both government and private investors to ensure the success of the exchange.

Stability Implication

This is a welcome development to the operationalization of KOMEX to facilitate multi-commodity trading at the exchange. CMA remains committed to the ongoing commodities sector reforms.

5.5 FTSE Russel Index Provider Lifts Restrictions on the Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) is expected to see an increase in foreign investor inflows after prominent global index provider Financial Times Stock Exchange (FTSE) Russell Index eased a limitation on the bourse due to greater access to dollars in the FX market.

FTSE Russell put the Kenyan market on watch in 2022 after international investors reported challenges acquiring dollars from the local FX market for the return of dividends and share sale proceeds. This eroded investor trust in the local market, discouraging inflows and forcing those with shares to keep from selling, reducing NSE turnover and price discovery.

Following that review, however, the Index provider permitted changes to the makeup of the component firms on the NSE's index, setting the way for the restriction to be lifted in the March 2024 review. In the year ending September of last year, the London-based index provider met with CMA Kenya to discuss the matter.

Stability Implication

The easing of restrictions by FTSE Russell on the Nairobi Securities Exchange (NSE) due to improved access to the dollars in the foreign exchange market is likely to boost foreign investor participation at the Nairobi bourse.

5.6 CBK Plans New Bonds Platform For 'Hustlers'

The Central Bank of Kenya (CBK) is set to establish a new bond system to attract small retail investors to increase access to Treasury securities. It has solicited offers for consulting services for the pre- and post-implementation examination of the intended platform known as the "hustler bond system". It has set aside funds in its budget toward the cost of Request For Proposals (RFPs) for provision of consultancy services for hustler bond post-implementation review

The establishment of the hustler bond system comes in the context of the Government's drive for a lower entry level for ordinary investors in Treasury bills and bonds. Treasury bonds, including infrastructure bonds, have a minimum investment requirement of KSh50,000. Treasury bills, which mostly differ from bonds in their shorter term, need a minimum of KSh100,000. This followed a Directive by the His Excellency President William Ruto that sought the CBK to decrease the threshold for investing in Government securities to accommodate a larger pool of private investors.

Stability Implication

The introduction of the "hustler bond system" by the Central Bank of Kenya to lower the entry barrier for retail investors into Treasury securities is expected to enhance market growth and stability by broadening investor participation and increasing demand for Government bonds and bills.

5.7 Kenya Commercial Bank (KCB) Group added to Morgan Stanley Frontier Market Index

Morgan Stanley Capital International (MSCI), a global provider of investment data and analytics, recently added Kenya's KCB Group to the MSCI Frontier Markets Index, boosting the stock's visibility among international investors.

This upgrade elevates KCB from the small-cap index to the frontier markets index, which covers large and mid-cap equities from 28 frontier markets.

The upgrade of KCB Group, the fourth-largest listed corporation on the Nairobi Securities Exchange, comes after a huge stock price surge of 46.35% since the beginning of the year, trailing only Liberty Kenya, whose share price has climbed by 51.22% during the same period.

KCB's entry in the MSCI Frontier Markets Index comes as MSCI lifts its ban on new Kenyan firms accessing its global stock market platform. This suspension, established in August 2022 owing to currency shortages, was lifted in mid-May of this year. MSCI highlighted increased liquidity in foreign exchange markets and more favourable conditions for international investors to remit funds from Kenyan equities markets as factors for lifting the restriction.

Stability Implication

The inclusion of KCB Group in the MSCI Frontier Markets Index is a positive development on the attractiveness of Kenya's blue chips to foreign investors and is set to enhance international investor interest and improve the country's overall visibility and credibility in global financial markets.

6.0 PERFORMANCE OF THE DOMESTIC ECONOMIC AND CAPITAL MARKETS

6.1 Domestic Economic Outlook

Kenya's economy grew by 5% in the first quarter of 2024, a slight decline from the 5.1% growth seen in the previous quarter but still demonstrating robust performance. Agriculture, the nation's largest economic sector and primary employer, experienced a 6.1% increase, slightly down from the 6.2% growth in the last quarter of 2023, boosted by favourable weather conditions that enhanced crop and animal production. Other significant contributors to the growth included forestry and fishing, real estate, financial and insurance services, information and communication, and accommodation and food services.[4]

As at June the 12-month inflation rate stood at 6.22%, an increase from 5.7% recorded in March 2024. In comparison to Q2 2023, the inflation rate has declined by 14.56% an indication that the economy is stabilizing because of successful monetary policies.

Figure 6.12 Month Inflation Rate in Kenya

[4] https://tradingeconomics.com/kenya/gdp-growth-annual

Source: CBK

In a report published in June by World Bank Kenya, projections shows that the economy will grow by 5.2% on average during 2024-2026. The growth will be majorly attributed to private sector as business confidence strengthens and the public sector continues to scale back. Kenya's growth is also expected to benefit from the implementation of the recently signed trade agreements under the European Union Economic Partnership Agreement and the African Continental Free Trade Area**.**

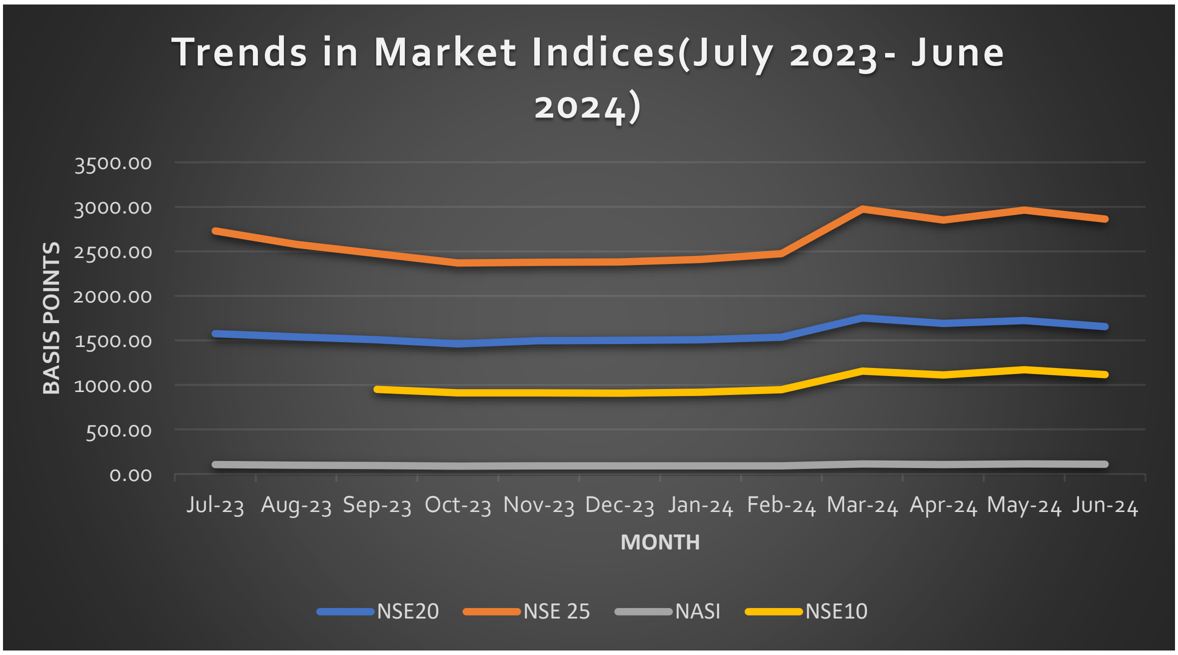
6.2 Performance of the Domestic Capital Market

6.2.1 Equity Market

Despite not experiencing significant growth, the Kenyan equity market has demonstrated resilience over the years. The quarter under review was marked by a decline in the performance of the four market indices. By the end of the quarter, the NSE20, NSE25, NASI, and NSE10 indices closed at 1,656.50, 2,861.04, 109.49, and 1,117.39 points, respectively. This represents a decrease from the first quarter of 2024, where the indices stood at 1,752.43, 2,975.42, 113.09, and 1,155.41 points, respectively. This performance is reflective of the recovery registered largely in the previous quarter being subdued by the *Generation Z* led protests which elicited investor concerns on the fiscal position of Kenya, post withdrawal of the Finance Bill 2024. Notwithstanding the jitters, at quarter end, the domestic capital markets remained sound.

It is worth noting that in the last one year the performance of the four market indices has remained relatively flat as shown in the graph below.

Figure 7Trends of the Performance of the Market Indices



Source: CMA

The volume of shares traded during the quarter increased to 1,369,182,900, up from 1,069,443,500 in the first quarter of the year, reflecting a 28.03 percent rise. Market capitalization on the last day of the quarter decreased slightly from Ksh 1,766.95 million to Ksh 1,710.64 million.

The MSCI Kenya Index, which tracks the performance of large and mid-cap segments of the Kenyan market, reported positive returns, closing at 56.78%. This was attributed to increased participation in the market by foreign investors.

Figure 8MSCI Kenya Index

CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD)
(JUN 2009 – JUN 2024)

ANNUAL PERFORMANCE (%)

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

INDEX PERFORMANCE — NET RETURNS (%) (JUN 28, 2024)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since May 31, 2002
MSCI Kenya	-4.08	-0.23	15.72	56.78	-18.68	-5.84	-0.64	14.01
MSCI Frontier Markets	-0.01	0.65	12.32	5.93	-3.21	2.21	0.71	6.45
MSCI ACWI	2.23	2.87	19.38	11.30	5.43	10.76	8.43	7.82

FUNDAMENTALS (JUN 28, 2024)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI Kenya	6.24	4.98	na	1.07
MSCI Frontier Markets	4.10	10.63	na	1.51
MSCI ACWI	1.88	21.24	17.65	3.13

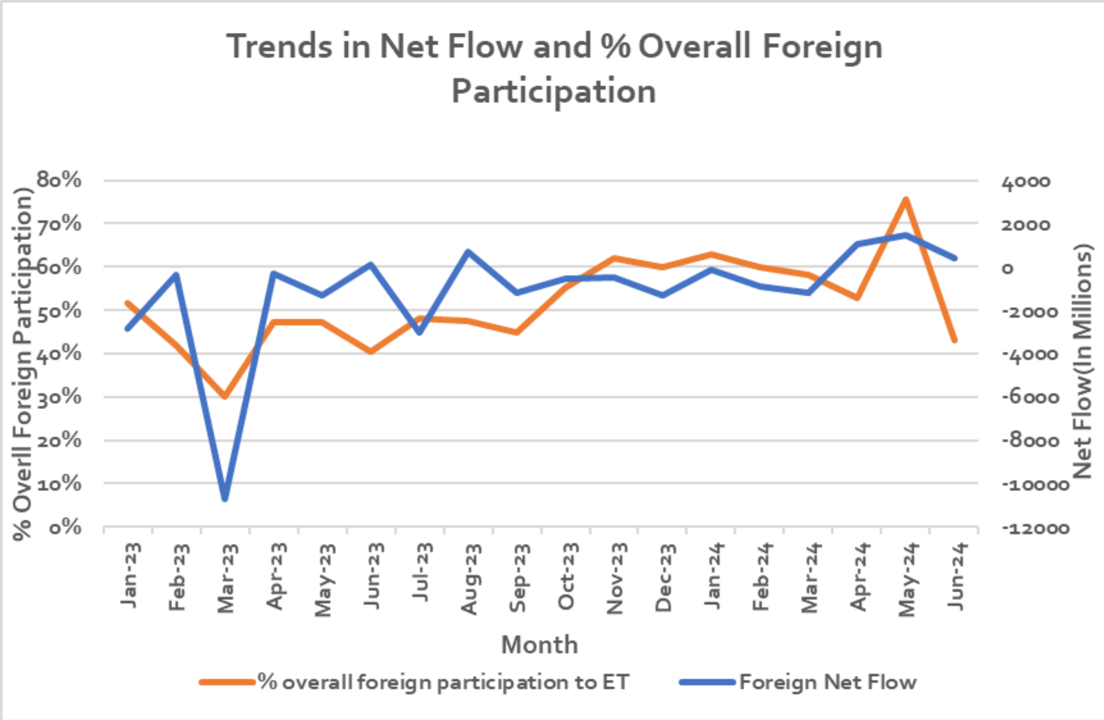
INDEX RISK AND RETURN CHARACTERISTICS (JUN 28, 2024)

		ANNUALIZED STD DEV (%) 2			SHARPE RATIO 2, 3				MAXIMUM DRAWDOWN	
	Turnover (%) 1	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since May 31, 2002	(%)	Period YYYY-MM-DD
MSCI Kenya	18.14	34.98	30.56	25.64	-0.52	-0.13	0.03	0.55	69.99	2021-08-17—2024-01-26
MSCI Frontier Markets	33.31	13.41	16.52	14.21	-0.41	0.09	0.01	0.35	67.47	2008-01-15—2009-03-03
MSCI ACWI	2.41	16.76	17.43	14.83	0.22	0.55	0.52	0.45	58.38	2007-10-31—2009-03-09

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

Source: MSCI Kenya

Figure 9Trends in Net Equity Portfolio Flow and Overall Foreign Participation (January 2022-June 2024)

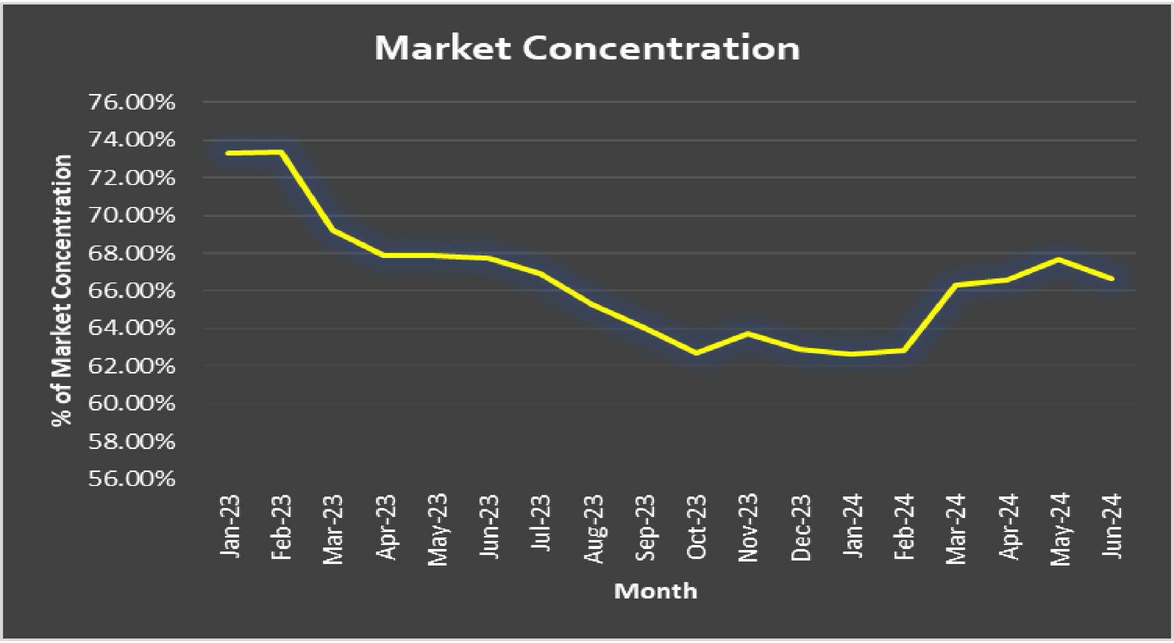


Source: CMA

The net equity portfolio inflow for the reviewed quarter reached Ksh 2.98 billion, a 33.54 percent increase from Ksh 2.23 billion in the first quarter of 2024. This rise was driven by continued interest from foreign investors, resulting in sustained capital inflows over the three-month period. However, the average foreign market share in equities turnover slightly decreased from 59.97 percent in Q1 2024 to 57.29 percent in the current quarter.

The market concentration of the top five blue-chip companies averaged 66.62 percent, up from 63.93 percent in Q1 2024. This reduction in market concentration indicates investors' growing willingness to diversify their portfolios beyond the top five blue-chip companies by market capitalization.

Figure 10Market Concentration (Top 5 Companies by Market Cap)



Source: CMA

Table 3Equity Performance (April-June 2024)

Year	Month	Share Volume	Total Equity Turnover (Ksh)	NSE 20 Share Index (Average)	NASI Index (Average)	NSE 25 Share (Average)	NSE10	Market Cap[5] (Kshs Mn)
Q2. 2024	Apr	301,351,900	7,333,802,680.66	1,711.14	109.41	2,900.24	1,132.01	1,664.54
	May	509,646,800	16,040,358,807.08	1,688.64	110.02	2,879.93	1,130.92	1,765.15
	Jun	279,092,100	5,016,484,045.01	1,726.28	112.87	2,935.53	1,152.63	1,710.64
	Total[6]	1,369,182,900	28,390,645,532.75					
Q1. 2024	Jan	151,390,600	2,682,997,820.35	1,508.05	92.36	2,409.57	919.82	1,440.14
	Feb	276,012,900	4,600,785,036.59	1,526.07	92.12	2,436.58	930.04	1,445.06
	Mar	615,770,500	11,224,846,140.29	1,624.03	101.61	2,691.49	1,035.73	1,766.95
	Total	1,069,443,500	18,508,628,997.23					

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

6.2.2 Treasury Bond Market

Table 4Treasury Bond Performance (April- June 2024)

Date	Bond	Amount Issued (Kshs Bn)	Amount Received (Kshs Bn)	Amount Accepted (Kshs Bn)	% AA/AI	% AR/AI
Apr 24	Tap sale (FXD1/2023/005)	25.00	35.59	33.95	135.81	142.34
	Tap sale (FXD1/2024/010)		12.20	11.90	47.58	48.81
	FXD1/2023/002	40.00	47.19	34.76	86.91	117.98
May 24	FXD1/2024/010	25.00	14.98	11.00	43.98	59.92
	Tap Sale (FXD1/2024/010)	15.00	7.11	7.03	46.83	47.38
June 24	FXD1/2023/02	30.00	8.45	7.08	23.58	28.15
	FXD1/2024/03		24.39	23.81	79.36	81.31
	FXD1/2023/05	30.00	31.94	22.59	75.29	106.48
	FXD1/2023/10		9.62	7.58	25.28	32.06
	FXD1/2023/02	20.00	1.80	1.80	8.98	9.00
	FXD1/2024/03		3.27	3.32	16.58	16.33
	FXD1/2023/05		11.23	10.81	54.06	56.14
	FXD1/2023/10		8.84	7.94	39.68	44.20
SUM		185.00	216.61	183.57		
Jan 24	FXD1/2024/03	35.00	29.09	22.07	63.06	83.11
	FXD1/2023/05		8.06	2.95	8.42	23.04
	Tap sale (FXD1/2024/003)	15.00	9.31	9.34	62.27	62.06
	Tap sale (FXD1/2023/005)		2.55	2.42	16.10	17.02
Feb 24	IFB1/2024/8.5	70.00	288.66	240.96	344.23	412.37
Mar 24	FXD1/2024/03	40.00	43.07	34.27	85.68	107.69
	FXD1/2023/05		35.85	17.77	44.42	89.62
	FXD1/2024/10		23.89	4.84	12.10	59.71
SUM		160.00	440.48	334.62		

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

The Government aimed to raise Ksh. 185.00 billion from the market, receiving bids totalling Ksh. 216.61 billion. However, only Ksh. 183.57 billion worth of bids were accepted. Of the thirteen bonds issued during the quarter, three were tap sales. No infrastructure bonds were issued during this period

6.3 Corporate Bonds Market

The double-digit returns on government securities continue to overshadow corporate bond issues, as companies find it challenging to offer competitive returns given the current challenging global and local macroeconomic conditions. As a result, no corporate bonds were traded during the reviewed quarter.

6.4 Collective Investment Schemes

Total Assets Under Management (AUM) by the Collective Investment Schemes (CISs) amounted to Kshs.225.36 billion in the quarter ended March 2024, compared to Kshs.215.05 billion recorded in the previous quarter, indicating a 4.8% increase in the total AUM in Q1 2024. In the period under review, the largest part of the total AUM was invested in Securities issued by the GoK at 47.00 per cent, and 34.50 per cent was invested in Fixed deposits. The rest 18.50 per cent was invested in the remaining asset classes as shown in the table below.

Table 5 Comparison for Distribution of funds by Aset Class as at March 2024

Asset	Dec. 2023	Mar. 2023	Proportion	% Change
Securities Issued by the GoK	101,155,120,946	107,653,858,802	47.77%	**6.4%**
Fixed Deposits	74,163,801,903	66,951,529,900	29.71%	**9.7%**
Cash and demand deposits	22,930,935,025	35,284,733,875	15.66%	**53.9%**
Unlisted Securities	10,130,450,682	9,560,224,048	4.24%	**5.6%**
Listed Securities	4,550,724,124	3,810,948,317	1.69%	**16.3%**
Other CIS	751,382,941	821,637,913	0.36%	**9.4%**
Off-shore investments	821,183,851	761,305,378	0.34%	**7.3%**

Immovable property	550,632,304	517,120,527	0.23%	**6.1%**
TOTAL	**215,054,231,777**	**225,361,358,760**	**100.00%**	**4.8%**

Red-Negative; Green-Positive; Source: CMA

7.0 CAPITAL MARKETS STABILITY SOUNDNESS INDICATORS FOR THE FOR THE PERIOD 1 APRIL – 30JUNE 2024

Table 6Capital Markets Stability Indicators 1 April- 30 June 2024

Stability Indicator	Quarter/ Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Ongoing Intervention Measures
1.0 Equity Market Depth								
NSE 20 Index Volatility Base Year = 2010	**Q2. 2024**	**Apr**	**May**	**Jun**	**Q.Avg**	**Low** (Indicative – Low < 1%; Medium; 1%; High >10%)	The volatility for the three market indices, NSE 20, NSE 25, and NASI was 0.54%, 0.68%, and 0.65%, respectively	The market volatility for the three market indices, NSE20, NSE25, and NASI remained low below 1%. Both NSE20 and NSE 25 increased compared to Q1. 2024 whereas NASI stagnated. The continued improvement in volatility is attributed to improved market activity during the last two quarters attributed to increased
		0.36%	**0.69%**	**0.58%**	**0.54%**			
	Q1. 2024	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.38%	**0.33%**	**0.73%**	**0.48%**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.30%	**0.34%**	**0.19%**	**0.28%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.30%	**0.34%**	**0.19%**	**0.28%**			
NSE 25 Index Volatility Base Year = 2015	**Q2. 2024**	**Apr**	**May**	**June**	**Q. Avg**	**Low** (Indicative – Low < 1% Medium: >1%		
		0.63%	**0.77%**	**0.63%**	**0.68%**			
	Q1. 2024	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.47%	**0.38%**	**0.85%**	**0.56%**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			

		0.48%	**0.59%**	**0.26%**	**0.45%**	high; >10%)		foreign investor activity. The market volatility for the three market indices, NSE20, NSE25, and NASI remained low below 1%. Both NSE20 and NSE 25 increased compared to Q1. 2024 whereas NASI stagnated. The continued improvement in volatility is attributed to improved market activity during the last two quarters attributed to increased foreign investor activity. In the fiscal year 2023/24, the Authority initiated the development of margin trading regulations aimed at improving market volatility. Additionally,
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.48%	**0.59%**	**0.26%**	**0.45%**			
NASI Volatility Base Year = 2010	**Q2. 2024**	**Apr**	**May**	**Jun**	**Q. Avg**	**Low** (Indicative – Low < 1% Medium: >1% high; >10%)		
		0.67%	**0.75%**	**0.54%**	**0.65%**			
	Q1.2024	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.47%	**0.45%**	**1.04%**	**0.65%**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.44%	**0.68%**	**0.43%**	**0.52%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.86%	**0.80%**	**0.33%**	**0.66%**			

								measures were implemented to enhance market volatility, such as the ongoing support for day trading.
Equities Turnover Ratio	**Q2. 2024**	**Apr**	**May**	**June**	**Q. Sum**	**Low** (Indicative – annual: <8%- Low; >15% High)	The recorded turnover for Q2 2024 was 1.64% increase from 1.15% recorded in Q1.2024	Equities turnover on the Nairobi Securities Exchange (NSE) increased from 1.15% to 1.64% during the quarter. The increased turnover ratio is attributed to increased market activity supported by foreign investor participation increasing during the quarter. Initiatives such as day trading, and margin trading together with necessary trading incentives/concessions will remain critical in enhancing domestic investor activity at the Nairobi bourse hence
		0.44%	**0.91%**	**0.29%**	**1.64%**			
	Q1. 2024	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.19%	**0.32%**	**0.64%**	**1.15%**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.31%	**0.26%**	**0.23%**	**0.80%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.46%	**0.27%**	**0.35%**	**1.08%**			

								boosting equities turnover.
2.0 Foreign Exposure Risk								
Percentage (%) overall Foreign participation to Total Equity Turnover	**Q2. 2024**	**Apr**	**May**	**Jun**	**Q. Avg**	**Low (Indicative – annual: <40%- Low; >90% High)**	Foreign investor participation at end of the Q2,2024, Averaged at 57.29% n decrease from Q1 2024 at 60.31%	In Q2 2024, foreign investor turnover averaged 57.29% a decrease from 60.31% registered in Q1.2024. Foreign investors slightly dominate trading at the Nairobi Bourse. The net foreign equity portfolio outflow increased from Ksh 2,228 million in Q1.2024 to Ksh 2,978 Millions in Q2 2024. At above Ksh 50 Million, outflows are considered high. Such Outflows poses an ongoing risk to our market, highlighting the necessity for targeted initiatives aimed at bolstering trading activities at the Nairobi Securities
		52.99%	**75.76%**	**43.12%**	**57.29%**			
	Q1. 2024	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		62.84%	**59.97%**	**58.12%**	**60.31%**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		55.13%	**62.15%**	**59.98%**	**59.09%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		48.23%	**47.52%**	**44.79%**	**46.85%**			
Net Foreign Portfolio Flow (Ksh Million)	**Q2. 2024**	**Apr**	**May**	**Jun**	**Q. Sum**	High (Indicative – annual: <Kshs (50million) - High (outflow. >Kshs. 50 million High	In the quarter under review, the market recorded a net outflow of 2,228 million compared to an outflow of 2337 million between October and December 2023.	
		1,063	**1,495**	**419**	**2,978**			
	Q1. 2024	**Jan**	**Feb**	**Mar**	**Q. Sum**			
		(107)	**(918)**	**(1,203)**	**(2,228)**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Sum**			
		(571)	**(480)**	**(1,286)**	**(2,337)**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Sum**			
		(3019)	**672**	**(1,193)**	**(3540)**			

								Exchange. Such initiatives include the implementation of day trading strategies and the reduction of investment barriers for foreign investors. These measures are intended to stimulate market liquidity and attract foreign investment, thereby fostering a more vibrant and resilient marketplace.
3.0 Market Concentration Risk								
Market Concentration (Top 5 companies by market cap)	**Q2. 2024**	**Apr**	**May**	**Jun**	**Q. Avg**	**High (Indicative – annual: >50%** **High Concentration)**	Market concentration for the top 5 companies for the quarter ended June 2024 averaged at 66.62%.	Over the past year, there has been a continuous reduction in market concentration by five specific companies, indicating a growing openness among investors to explore opportunities beyond these select entities.
		65.57%	**67.66%**	**66.62%**	**66.62%**			
	Q1. 2024	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		62.62%	**62.86%**	**66.30%**	**63.93%**			
	Q4, 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		62.67%	**63.73%**	**62.92%**	**63.11%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		66.88%	**65.28%**	**64.06%**	**65.41%**			

								Despite this positive trend, market concentration remains a significant risk. To mitigate this risk, the Authority reviewed Public Offers Listing and Disclosure Regulation to establish more favorable listing requirements that attract a broader range of companies to list on the market, thereby providing investors with a wider variety of investment choices. Furthermore, the Authority is actively engaged in investor education efforts, emphasizing the importance of diversification and promoting long-term investing strategies. By empowering investors with

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<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>knowledge and information to make informed investment decisions, the aim is to reduce the inclination to concentrate investments in a limited number of dominant companies.

Through these measures, the Authority seeks to foster a more diverse and dynamic market environment, ensuring investors have access to a broader range of investment opportunities and reducing the risks associated with excessive market concentration.</td></tr>
<tr><td colspan="9">4.0 Derivatives Trading Statistics</td></tr>
<tr><td>Total Volume (No. of contracts)</td><td colspan="5">No of Contracts*
<table>
<tr><th></th><th>Q1. Sum</th><th>Apr-24</th><th>May-24</th><th>Jun-24</th><th>Q2. Sum</th><th>%Change Q2 Vs Q1 24</th></tr>
<tr><td>ABSA</td><td>24</td><td>6</td><td>10</td><td>2</td><td>18</td><td>25.00%</td></tr>
<tr><td>BATK</td><td>23</td><td>6</td><td>20</td><td>30</td><td>56</td><td>143.48%</td></tr>
</table></td><td>Low</td><td></td><td>The volume of contracts traded in Q2.2024 was 1,528 translating to a 15.86% decrease from 1,816</td></tr>
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<tr><td>EABL</td><td>22</td><td>-</td><td>7</td><td>9</td><td>16</td><td>27.27%</td></tr>
<tr><td>EQTY</td><td>366</td><td>39</td><td>42</td><td>50</td><td>131</td><td>64.21%</td></tr>
<tr><td>KCBG</td><td>219</td><td>6</td><td>133</td><td>151</td><td>290</td><td>32.42%</td></tr>
<tr><td>N25I</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>SCOM</td><td>395</td><td>255</td><td>281</td><td>328</td><td>864</td><td>118.73%</td></tr>
<tr><td>COOP</td><td>240</td><td>11</td><td>-</td><td>7</td><td>18</td><td>92.50%</td></tr>
<tr><td>NCBA</td><td>-</td><td>18</td><td>5</td><td>1</td><td>24</td><td>-</td></tr>
<tr><td>IHMP</td><td>126</td><td>104</td><td>-</td><td>-</td><td>104</td><td>17.46%</td></tr>
<tr><td>SCBK</td><td>-</td><td>-</td><td>3</td><td>-</td><td>3</td><td></td></tr>
<tr><td>25MN</td><td>401</td><td>-</td><td>-</td><td>4</td><td>4</td><td>99.00%</td></tr>
<tr><td>Total</td><td>1816</td><td>445</td><td>501</td><td>582</td><td>1,528</td><td>15.86%</td></tr>
</table>
</td>
<td></td>
<td></td>
<td>contracts recorded in Q1. 2024.</td>
</tr>
<tr>
<td>Gross Notional Exposure (GNE)</td>
<td>Amount in Kshs*
<table>
<tr><th></th><th>Q1. Sum</th><th>Apr-24</th><th>May-24</th><th>Jun-24</th><th>Q2. Sum</th><th>%Change Q2. Vs Q1 24</th></tr>
<tr><td>ABSA</td><td>302,350</td><td>71,870</td><td>129,900</td><td>27,850</td><td>229,620</td><td>24.05%</td></tr>
<tr><td>BATK</td><td>967,425</td><td>244,010</td><td>812,645</td><td>1,073,100</td><td>2,129,755</td><td>120.15%</td></tr>
<tr><td>EABL</td><td>233,200</td><td>-</td><td>107,360</td><td>136,600</td><td>243,960</td><td>4.61%</td></tr>
<tr><td>EQTY</td><td>14,933,950</td><td>1,644,600</td><td>1,866,290</td><td>2,158,790</td><td>5,669,680</td><td>62.03%</td></tr>
<tr><td>KCBG</td><td>5,105,310</td><td>178,800</td><td>4,704,900</td><td>5,193,450</td><td>10,077,150</td><td>97.39%</td></tr>
<tr><td>N25I</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>SCOM</td><td>5,676,310</td><td>4,253,280</td><td>4,835,000</td><td>6,088,820</td><td>15,177,100</td><td>167.38%</td></tr>
<tr><td>COOP</td><td>3,249,040</td><td>153,000</td><td>-</td><td>92,250</td><td>245,250</td><td>92.45%</td></tr>
<tr><td>NCBA</td><td>-</td><td>781,050</td><td>194,500</td><td>41,150</td><td>1,016,700</td><td>-</td></tr>
<tr><td>IHMP</td><td>2,618,200</td><td>2,222,000</td><td>-</td><td>-</td><td>2,222,000</td><td>15.13%</td></tr>
<tr><td>SCBK</td><td>-</td><td>-</td><td>51,600</td><td>-</td><td>51,600</td><td>-</td></tr>
<tr><td>25MN</td><td>11,042,910</td><td>-</td><td>-</td><td>114,800</td><td>114,800</td><td>98.96%</td></tr>
<tr><td>Total</td><td>44,128,695</td><td>9,548,610</td><td>12,702,195</td><td>14,926,810</td><td>37,177,615</td><td>15.75%</td></tr>
</table>
</td>
<td>High (indicative – annual: >50% High concentration)</td>
<td></td>
<td>The total value (Gross Exposure) of contracts traded during the quarter summed up to Ksh 37.177 million; a 15.75% decrease from Q1.2024.</td>
</tr>
<tr>
<td>Total Open</td>
<td>No of Contracts*</td>
<td>Medium (Indicative –</td>
<td>Overall, the total average</td>
<td>As for hedging instruments, the place</td>
</tr>
</table>

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<tr>
<td>Interest (No. of Contracts)</td>
<td>
<table>
<tr><th></th><th>Q1. Average</th><th>Apr-24</th><th>May-24</th><th>Jun-24</th><th>Q2. Average</th><th>%Change (Q2 Vs Q1 24)</th></tr>
<tr><td>ABSA</td><td>6</td><td>4</td><td>1</td><td>-</td><td>1</td><td>83.33%</td></tr>
<tr><td>BATK</td><td>7</td><td>2</td><td>18</td><td>12</td><td>15</td><td>114.29%</td></tr>
<tr><td>EABL</td><td>-</td><td>-</td><td>4</td><td>1</td><td>3</td><td>-</td></tr>
<tr><td>EQTY</td><td>47</td><td>43</td><td>32</td><td>5</td><td>27</td><td>42.55%</td></tr>
<tr><td>KCBG</td><td>15</td><td>5</td><td>73</td><td>35</td><td>54</td><td>260.00%</td></tr>
<tr><td>N25l</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>SCOM</td><td>28</td><td>211</td><td>284</td><td>12</td><td>169</td><td>503.57%</td></tr>
<tr><td>COOP</td><td>6</td><td>6</td><td>6</td><td>1</td><td>4</td><td>33.33%</td></tr>
<tr><td>SCBK</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>IMHP</td><td>37</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>NCBA</td><td>-</td><td>4</td><td>1</td><td>-</td><td>3</td><td>-</td></tr>
<tr><td>25MN</td><td>2</td><td>-</td><td>-</td><td>4</td><td>4</td><td>100.00%</td></tr>
<tr><td>Total</td><td>135</td><td>258</td><td>419</td><td>70</td><td>249</td><td>84.44%</td></tr>
</table>
</td>
<td>annual:
>50%
High
concentration)</td>
<td>number of open interest contracts recorded in Q2 2024 were 249 ;
an 84.44% increase from Q1.2024 value of 135.</td>
<td>of derivatives markets in the face of economic uncertainty remains important in risk management.

With the increasing profile of risks in the macro- economy, the profile of derivative instruments may grow as investors target diversification as a key investment strategy. Currency derivatives are needed by market participants and the regulator is working with the CBK to roll-out the same.</td>
</tr>
<tr>
<td>Settlement Guarantee Fund (SGF) Coverage for Derivatives</td>
<td>
<table>
<tr><th></th><th>April-24</th><th>May-24</th><th>June-24</th></tr>
<tr><td>SGF</td><td>130,277,363</td><td>131,984,460</td><td>133,540,253</td></tr>
<tr><td>Average Market Value</td><td>318,287</td><td>409,748</td><td>497,560</td></tr>
<tr><td>SGF Coverage</td><td>409 times</td><td>322 times</td><td>268 times</td></tr>
</table>
</td>
<td>*High
(Indicative –
annua l:
>50%
High
concentrate ion</td>
<td>The SGF coverage ratio for the derivatives market in Q2.2024 Progressively decreased from April to</td>
<td>To maximize value from the SGF fund balances, there is deliberate effort by NSE to encourage increased activity by market intermediaries in this market for increased volumes of trade.</td>
</tr>
</table>

<table>
<tr><td></td><td colspan="5"></td><td></td><td>June to 268 times.</td><td></td></tr>
<tr><td colspan="9">5.0 Government Bond Market Exposure</td></tr>
<tr><td rowspan="8">Treasury Bond market turnover Concentration</td><td rowspan="2">Q2. 2024</td><td>Apr</td><td>May</td><td>Jun</td><td>Q.Avg</td><td rowspan="8">High
(Indicative –annual: >50%High)</td><td rowspan="8">In Q2.2024, Treasury Bond market turnover was 100.00 %</td><td rowspan="8">Government activity in the bonds markets continues to dominate as the Government targets domestic market savings to fund various Government activities</td></tr>
<tr><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td rowspan="2">Q1. 2024</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr>
<tr><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td rowspan="2">Q4. 2023</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
<tr><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td rowspan="2">Q3.2023</td><td>July</td><td>Aug</td><td>Sep</td><td>Q. Avg</td></tr>
<tr><td>100%</td><td>100%</td><td>99.89%</td><td>99.96%</td></tr>
<tr><td>Corporate Bond Market ownership</td><td colspan="5">

Account Type	Number of Investors	Share Quantity	% By Share Quantity
EI	2	132000000	0.49%
FI	28	788994223	2.95%
LI	1388	25781986627	96.55%
SUM	1418	26702980850	100.00%

Data as of 30 June 2024
Note: For every EAC, LI, and FI, the total calculated is a sum of both corporate and individual investors.</td><td>High (Indicative – annual: >50% High concentration</td><td>In the quarter under review Local investors constituted the greatest share in investment followed by foreign investors with East Africa Investors constituting the least</td><td>Kenya has been facing a period of reduced corporate bond activity in the last one year. The Authority, through its investor education and market deepening functions has profiled retail investors to increase activity within the domestic corporate bond market.</td></tr>
</table>

<table>
<tr><td></td><td></td><td></td><td>Number of investors.</td><td></td></tr>
<tr><td colspan="5">6.0 Investor Profiles - Equity Market</td></tr>
<tr><td>Equity Market</td><td>
<table>
<tr><th>Account Type</th><th>Number of Investors</th><th>Share Quantity</th><th>% by share quantity</th></tr>
<tr><td>BR</td><td>6</td><td>11,760,398</td><td>0.01%</td></tr>
<tr><td>EI</td><td>7387</td><td>1345290743</td><td>1.37%</td></tr>
<tr><td>FI</td><td>8549</td><td>16702215681</td><td>16.99%</td></tr>
<tr><td>LI</td><td>1286632</td><td>80,267,274,933</td><td>81.63%</td></tr>
<tr><td>JR</td><td>184</td><td>1,199,114</td><td>0.0012%</td></tr>
<tr><td></td><td>1302758</td><td>98,327,740,869</td><td>100.00%</td></tr>
</table>
</td><td>High (Indicative – annual: >50%
High concentration</td><td>In Q2 share quantity for local investors was 80.26billion which was 81.63% of the total share quantity.</td><td>While the proportion of local investors is higher than foreign investors, the share quantity held by each investor on a per capita basis remains low. The industry investor awareness and education strategy will be targetedat increasing retail investor participation through more roadshows, caravans and county engagements.</td></tr>
</table>

<table>
<tr><td colspan="8">7.0 Settlement Compensation Coverage</td></tr>
<tr><td rowspan="6">Settlement Guarantee Fund</td><td rowspan="2">Q2. 2024</td><td>Apr</td><td>May</td><td>Jun</td><td>Q. Avg</td><td rowspan="6">(Indicative– annual: > 1 times, implies full coverage</td><td rowspan="6">The settlement Guarantee Fund (SGF) ratio for January to March</td><td rowspan="6">Through Risk-based supervision, the Authority has been monitoring the SGF figures. The fund remains adequate to</td></tr>
<tr><td>3.75</td><td>1.81</td><td>5.30</td><td>3.62</td></tr>
<tr><td rowspan="2">Q1. 2024</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr>
<tr><td>11.03</td><td>6.20</td><td>2.45</td><td>6.56</td></tr>
<tr><td>Q4, 2023</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
</table>

		6.24	7.59	7.35	7.06		was 6.56	guarantee settlement failure.
	Q3.2023	July	Aug	Sep	Q. Avg			
		3.58	7.13	5.37	5.36			

8.0 Asset Base of Fund Managers, Stockbrokers, Investment Banks

Working Capital (Amount in Kshs Millions)*	Medium (Indicative –the higher the figure, the more stable is the market	The net assets base of fund Managers, Investment Advisor, Investment Banks, Online Forex, and Stockbrokers, as of June 2024 was Kshs 4,228 M, 288M, 2,760M 1,294M and 1,197M respectively.	Capital markets licensees' net assets decreased between April and June 2024 for Fund Managers, Online Forex Brokers, and investment banks while it increased for Investment advisers and stockbrokers.

	Amount in Kshs Millions				
	Total Assets	**Total Liabilities**	**Net Assets June 2024**	**Net Assets March 2023**	**% Change**
Fund Managers	6248	2020	4228	6573	**35.7%**
Investment Adviser	409	121	288	170	**69.4%**
Investment Banks	6348	3588	2760	8931	**69.1%**
Online Forex Brokers	3216	1922	1294	1640	**21.1%**
Stockbrokers	2434	1237	1197	1066	**12.3%**