The Capital Markets Soundness Report (CMSR)

Volume XIX Quarter 2 2021

"Sustained capital markets recovery on the back of renewed optimism in economic growth"

Quarterly Publication of the Capital Markets Authority (Kenya)

Quarter 2 (April – June) 2021

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SPECIAL MESSAGE FROM THE CHIEF EXECUTIVE

Mr. Wyckliffe Shamiah, FCPA
Chief Executive,
Capital Markets Authority, Kenya

On behalf of the Authority, I am delighted to welcome you to the 19th Edition of the Capital Markets Soundness Report (CMSR) for the Quarter ended June 2021. This report provides an overview of global, regional and domestic political, socio-economic and cultural developments and the risks and opportunities presented to Kenya's capital markets. It further presents a window for industry stakeholders to appreciate and contribute towards emerging policy issues influencing growth as well as development of the industry and economy as a whole.

According to the Organization for Economic Co-operation and Development (OECD), the global economy is projected to grow at a rate of 5.6% in 2021, up from the initial growth outlook of 4.2%. Similarly, according to the World Bank June 2021 report, the growth in 2021 will be broad-based with advanced economies projected to grow at 5.4%, while emerging and developing economies are projected to grow at 6.0%. On the other hand, the International Monetary Fund (IMF) projects that the Sub-Saharan Africa region will expand by 3.3% in 2021 from -2% in 2020. These growth forecasts are premised on enhanced vaccination programs and sustained policy measures to tame the spread of new Covid-19 variants.

The Kenyan economy is projected to grow at a higher rate of 6.6 percent in 2021 up from the 0.6 percent recorded in 2020 as per the National Treasury and Planning Budget Statement. The risks to this outlook include the Covid-19 pandemic, desert locusts, and floods that have caused deaths, displacements and destruction to infrastructure across the country. The sustained recovery of the capital markets is hinged upon robust economic recovery supported by the Post Covid-19 Economic Recovery Strategy and I wish to greatly appreciate the Kenyan Government for the incentives and regulatory amendments pronounced by Hon. Amb. Ukur Yatani, EGH, Cabinet Secretary, National Treasury and Planning in his delivery of the Budget Speech on June 10, 2021. These will go a long way in improving the Authority's regulatory and development mandate. We particularly laud the proposals towards reinstating the VAT exemption for transfer of assets into Real Estate Investment Trusts (REITs) and Asset Backed Securities (ABS); improving the management of omnibus accounts; and establishment of an electronic Over-The-Counter (OTC) secondary market platform for Government securities.

I further take this opportunity to explain the regulatory model that applies to the capital markets, amidst current debate around regulated and unregulated markets. The Authority just like most securities market regulators, has adopted a disclosure-based approach to regulation guided by international standards. Indeed, the Capital Markets (CM) Act mandates us to strike a delicate balance between market development and regulation, so that we promote growth while oversighting the market. We nevertheless strive to continuously improve in both roles and to this end we continue to fast-track regulatory reforms, such as overhaul of Public Offers, Listings and Disclosures Regulations, Collective Investment Schemes and Alternative Investment Funds Regulations to address gaps in investor protection. In the next set of policy, legal and regulatory submissions to the National Treasury and Planning that we will be presenting to the Government, we seek to expand the Authority's regulatory perimeter to cover both Public and Private Markets to the most practicable extent.

We are further advocating for reconsideration of the Draft Securities, Investments and Derivatives Bill which will accord CMA more powers over unregulated products and services. Additionally, the Authority will be retooling its investor and public awareness strategy and enhancing its research and analytics capacity to more proactively identify, assess and mitigate risks from unregulated products and services.

During the period under review, the Authority granted licenses to five coffee brokers reaffirming its full support for the reforms in the coffee subsector and its readiness to execute its mandate as envisaged in the regulatory framework. We remain committed to working with all relevant stakeholders to support implementation of reforms in the coffee subsector. As a result, these conditional licenses have been issued to ensure that the trading of coffee continues at the Nairobi Coffee Exchange without disruption even beyond the 30th of June 2021 deadline.

On the state of corporate governance during the quarter, the Authority continuously supported Nairobi Securities Exchange (NSE) in the development of Draft Environmental, Social and Governance (ESG) Disclosure Guidelines for listed companies. On this front, we also developed a comprehensive roadmap for adopting and supporting ESG practices and integrated reporting amongst issuers.

We are delighted to continue collaborating with you, our esteemed stakeholders, to deepen the market. Therefore, as you read this report, we request you to share your thoughts on the report's key findings, lessons learnt, opportunities, risks and potential mitigations so that we can improve our capital markets regulatory framework to make Kenya an investment destination of choice. We also invite you, as key stakeholders, to share further thoughts and proposals for additional actions to aid the industry's recovery strategy.

Happy Reading!

EDITORIAL

Mr. Luke E. Ombara
Director,
Policy and Market Development

Greetings!

The theme for this quarter ***"Sustained Capital Markets Recovery on The Back Of Renewed Optimism in Economic Growth"*** aptly captures the resurgence in capital markets activity premised on economic recovery as the National Government aims to reposition the economy on an inclusive and sustainable growth trajectory.

While the Covid-19 Pandemic has had a devastating economic effect around the world, the rollout and sustenance of vaccination programs globally has bolstered hopes in global economic recovery going forward, with countries that have a higher coverage of vaccination experiencing faster recovery in the economy and capital markets. In what signaled robust global investor interest and confidence, the National Treasury and Planning successfully raised USD 1 billion through issuance of a 12-year Eurobond in the international financial markets, following a successful 3-day virtual Eurobond Roadshow.

Global capital markets sustained equity markets return in positive territory with the MSCI World Index and Emerging Market Index rising by 7.54% and 5.05 % respectively in US Dollar terms, between June 2006 and June 2021. Investor sentiments are improving on the back of optimism in global economic recovery buoyed by the economic stimulus programs in the United States and China, stabilizing of inflation rate, improving oil prices and reopening of economies, among other factors.

On the global front, the International Organization for Securities Commissions (IOSCO) published a review on the implementation of Recommendations and Standards on Business Continuity Plans (BCPs) for Trading Venues and Market Intermediaries, to determine the extent to which participating IOSCO member jurisdictions have implemented regulatory measures consistent with previous recommendations. The findings are particularly important in ensuring that firms in the capital markets remain going concerns amidst the pandemic. In addition, IOSCO held two roundtables during the quarter to support its work on securities issuers' sustainability-related disclosures and to engage in a constructive dialogue with global stakeholders on IOSCO's priorities to enhance the reliability, comparability, and consistency of sustainability-related disclosures.

This 19th edition further delves into capital markets reforms in other jurisdictions that are of key interest to Kenya such as Thailand Securities and Exchange Commission (SEC)'s proposed regulations on establishment and management of a Distressed Bond Fund to the Securities and the Securities Exchange Board of India (SEBI)'s ongoing work on the establishment of a Social Stock Exchange.

Within sub -Saharan Africa, we examine the partnership between the Securities and Exchange Commission (SEC) of Ghana and the International Finance Corporation to facilitate investments in projects that address climate and environmental issues through the green bonds market and the former's launch of its inaugural Capital Market Master Plan (CMMP) to serve as the Blueprint for developing the capital market in Ghana over the next ten years.

The report further analyses key developments on the domestic front with an impact on market stability, notably the revitalization of the primary corporate debt market as well as a special feature on an analysis of the policy incentives and pronouncements in the Budget Statement 2021 and the Finance Act 2021 that impact the soundness of the market. Other interesting developments contained in this issue is how South Africa is gearing up to oversighting crypto-assets and how Kenya's Regulatory Sandbox has performed since its launch.

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

Enjoy your read.

SOUNDNESS SNAPSHOT

The domestic Capital Markets remained resilient during the quarter under review, supported by positive investor sentiments and steady economic recovery. The projected economic growth of 6.6 percent in 2021 up from the 0.6 percent recorded in 2020 as per the National Treasury and Planning Budget Statement, builds hope in sustained capital markets recovery.

With regards to market depth, the equity markets sustained low volatility for the second quarter, albeit supported by renewed investor interest in large cap stocks notably in the telecommunication, banking, manufacturing, and allied sectors as they gradually priced-in the Covid-19 Pandemic Risks and are steadily returning to the Bourse.

On the state of corporate governance during the quarter, the Authority supported the Nairobi Securities Exchange (NSE) in the development of Draft ESG disclosure guidelines for companies listed on the NSE, even as it developed a comprehensive roadmap for adopting and supporting ESG practices and integrated reporting amongst issuers.

Market infrastructure remained sound during the period under review. The launch of the NSE Unquoted Securities Platform (USP) that facilitates the trading, clearing and settlement of securities of unquoted companies in Kenya further enhanced capital market infrastructure. This development is part of NSE's ongoing initiatives to ensure our market is able to facilitate the trading and clearing of all financial market transactions conducted in our market.

EABL's early bond redemption, Family Banks's bond issuance, Crown Paints Rights issue and continuous growth in Assets under Management by Collective Investment Schemes (CIS) served to highlight the business case of entities utilizing the various financing options in the capital markets to meet their financing and investment objectives.

Key Risk Identified

I. *The socio-economic disruption posed by the Covid-19 pandemic and its dampening impact on capital markets activity remained a key risk especially with the renewed waves of infections and new variants occasioning re-introduction of containment measures to stem the spread of the virus. The Authority continues to collaborate with market stakeholders to ensure that there is minimal disruption to market activities while supporting the Government of Kenya strategies to contain the spread of the Coronavirus. While we remain confident with efforts being taken by the Government to manage the pandemic, more ground needs to be covered in full vaccinations to enhance productivity to spur capital markets and by extension economic recovery in Kenya.*

II. *The Authority has adopted a disclosure-based approach of regulations which by international standards is deemed a more responsive approach towards growing our nascent capital markets. This model of regulation is premised on stakeholders' and particularly investors conducting due diligence and heeding to warnings by CMA to exercise caution in investing. However, the high-risk appetite especially by retail investors, their search for impractically high yields and proliferation of unregulated products in the industry that may circumvent the existing securities laws is a risk that has already crystalized. CMA Kenya will be retooling its public awareness programs towards clear and regular messaging on unregulated products and services, even as it reviews gaps in the capital markets policy, legal and regulatory framework. Further the regulator's research and analytics capacity will be enhanced to be able to more proactively detect and mitigate the risks of unregulated products and services*

Key Opportunities Identified

I. *The projected rebounding of economic growth would act as a foundation for the steady recovery of the Capital Markets amidst the Covid-19 Pandemic.*

II. *Leveraging on the key policy incentives and legal amendments as contained in the Finance Act 2021 and Budget Statement 2021 to deepen the market; and*

III. *Spurring sovereign and corporate green bond issues through the capital markets.*

Key Policy Consideration

i. *Sustained implementation of the capital markets short-term recovery strategy in view of harnessing the unique advantage of the resilience of the capital market especially in it playing a facilitative role in promoting uptake of capital markets products.*

ii. *Fast-tracking regulatory reforms especially overhaul of Public Offers, Listings and Disclosures Regulations, Collective Investment Schemes and Alternative Investments Funds Regulations, reconsideration of the Securities, Investments and Derivatives Bill to provide a responsive environment for product uptake and providing more powers to the Authority over unregulated products and services.*

Table 1: Summary of Performance of Key Capital Markets indicators.

Performance Metric	Q1. 2021 (Jan-March)	Q2. 2021 (April-Jun)	% Change (Q1. 2021 Vs Q2. 2021)
Net Foreign Flows (KES Bns)	(976)	(2,009)	**+105.84%**
Average Foreign Investor Participation (%)	60.37%	58.73%	**-2.72%**
Equity Turnover (KES Bns)	31.73	37.98	**+19.70%**
Volume of Traded Shares (Bns)	0.9978	1.0993	**+10.17%**
I-REIT Turnover (KES Mns)	10.36	7.39	**-28.67%**
ETF Turnover (KES Mns)	54.17	1.49	**-97.25%**
Treasury Bond Turnover (KES Bns)	191.56	259.95	**+35.70%**
Corporate Bond Turnover (KES Mns)	88.30	358.50	**+306.00%**
Market Cap (KES Bns)	2,437.04	2,702.22	**+10.88%**
NSE 20 Share Index (Points)	1,846.41	1,927.53	**+4.39%**
NASI Index (Points)	158.62	173.53	**+9.40%**
NSE 25 Share Index (Points)	3,531.58	3,772.19	**+6.81%**
Number of Contracts Traded (Derivatives)	1,101	2,485	**+125.70%**

Source: NSE

The report is organized into five sections. Section 1 covers the special feature, section 2 covers global capital markets development, section 3 covers regional capital markets developments, while section 4 covers domestic capital markets developments with section 5 providing a detailed analysis of capital markets stability indicators.

1.0 Special Feature: Finance Act 2021 and Budget Statement 2021; Policy Incentives and Pronouncements

The Authority continuously engages the stakeholders on identifying impediments to the development of the capital markets. These policy issues are consolidated and submitted annually as policy proposals to the Cabinet Secretary, National Treasury and Planning for consideration in the Fiscal Budget. The focus of these proposals is to create an enabling environment for Capital Market development to facilitate mobilizing of long-term financial resources for realization of Vision 2030 objectives and national development priority areas.

To develop these set of proposals, a review of policy issues received during the year and past policy proposals made to the National Treasury and Planning was done. Stakeholders were also requested to share their policy proposals and an industry stakeholders' roundtable workshop was held on 22nd October 2020. Following stakeholder feedback, an analysis of practices in other jurisdictions was conducted to inform the final policy proposals.

The Authority welcomes the robust and excellent support extended by the National Treasury for the overall development of the capital markets. To this end we would like to highlight the key policy incentives and pronouncements in the Budget Statement 2021 and the Finance Act 2021 that impact on the soundness of the market.

The Finance Act, 2021 (the Act) was signed into law by the President on 29th June 2021 and thereafter gazetted on 1 July 2021 while the Budget Statement was presented by The Cabinet Secretary Hon. (Amb.)Ukur Yatani, EGH, Cabinet Secretary for The National Treasury and Planning on 10th June 2021.The following matrix captures the key policy incentives and pronouncements as described above.

Table 2: Summary of Policy Incentives and pronouncements in Budget Statement for FY 2021/22 and Finance Act 2021

Budget Theme FY 2021/2022: **"Building Back Better: Strategy for Resilient and Sustainable Economic Recovery and Inclusive Growth"**			
Reference	**Issue**	**Policy pronouncement**	**Implication**
Page 26 Budget Statement	Coffee Exchange Regulations	**In line with the ongoing reforms in the coffee and tea sectors, The CS will be proposing further measures to enhance competitiveness of these sub-sectors.**	As part of the measures to enhance Coffee production, the Government has embarked on the implementation of coffee subsector reforms. The Cabinet Secretary to the National Treasury in his 2021 Budget Speech committed to fast track the coffee sub-sector reforms. To this end, the Authority licensed 5 coffee brokers as one of the ways of improving the marketing of coffee and hence Kenya's coffee production value chain. The Authority is fully supportive of the reforms in the coffee subsector and is ready to execute its mandate as envisaged in the regulatory framework. As a result, these conditional licenses are our commitment to ensuring that the trading of coffee continues at the NCE without disruption even beyond the 30 June 2021 deadline. In order to ensure that there is no disruption in the coffee value chain, the Authority has granted an extension of 3 months to the Marketing Agents currently trading at NCE for them to apply for the coffee broker license. The Authority continues to work with the National Treasury and Planning, the Central Bank of Kenya, the Ministry of Agriculture, Livestock, Fisheries and Cooperative, Agriculture and Food Authority, NCE, the State Department for Trade, Council of Governors, County Governments, Coffee Cooperatives ,Growers, Unions, the Coffee Millers and Marketers, the Coffee Traders and other stakeholders through the coordination of the Coffee Subsector Reforms Implementation Standing Committee (CSRISC) which is domiciled in the Office of the President to support implementation of reforms in the coffee subsector.

Budget Theme FY 2021/2022: **"Building Back Better: Strategy for Resilient and Sustainable Economic Recovery and Inclusive Growth"**			
Reference	**Issue**	**Policy pronouncement**	**Implication**
Finance Act 2021 & Page 39 Budget Statement	**Omnibus Accounts**	**The Act has amended the Central Depositories Act, 2000, to: Sec 30: allow a securities account to be opened in a CSD in the name of beneficial owner, legal owner or authorized nominees and so declared Sec 30B (2)- An authorized nominee shall on request furnish the CSD with such information as may be required on beneficial owners, legal owners, securities accounts or omnibus accounts in respect of securities deposited in the securities or omnibus account**	**The sector welcomes this amendment as envisaged in the Capital Markets Masterplan which aims at enhancing Kenya's capital markets competitiveness by its inclusion in the Morgan Stanley Capital International (MSCI) emerging market index. The operationalization of omnibus accounts is one of the parameters tracked by MSCI to assess the operational enhancements that effectively increases the opening of the market to international institutional investors. Management is keen in taking measures to keep track of beneficial owners where there is need to do so.**
Finance Act 2021 & Page 40 Budget Statement	**Capital Markets Tribunal**	**The Finance Act 2021 sets a 90-day period commencing on the date of filing of an appeal for the Capital Markets Tribunal to hear and determine that appeal. Currently, save for maintaining the status quo for a matter that is subject to appeal until the appeal is determined, the law does not provide for a specific period that a matter should be heard and determined. This is expected to improve efficiency in resolving disputes by the Tribunal.**	**Capital Markets fraternity welcomes these amendments to mitigate against frivolous appeals against the Authority's determination. As currently worded the provisions of Section 35A (17) of the Capital Markets Act, entitle a party to obtain an automatic stay of a decision of the Authority, by mere filing of an appeal against the Authority's decision. The interim and automatic orders are not subject of review or consideration and are expected to stay in place until hearing and determination of the appeal proceedings.**
Page 40 Budget Statement	**Over the Counter Government Securities Trading**	**Working with the Kenya Bankers Association and other industry players the National Treasury shall establish an electronic Over-The–Counter secondary market platform for Government securities.**	**The platform will help in deepening our domestic debt market, improve pricing efficiency and transparency in securities trading thereby lowering yields and cost of credit in the economy.**

Budget Theme FY 2021/2022: **"Building Back Better: Strategy for Resilient and Sustainable Economic Recovery and Inclusive Growth"**

Reference	Issue	Policy pronouncement	Implication
Page 94 Budget Statement	Real Estate Investment Trust	**The VAT Act is amended to exempt "The Transfer of assets and other transactions to transfer of assets into Real Estate Investment Trusts and Asset Backed Securities".**	**The Tax (Amendment) Act 2020 deleted Paragraph II of the First Schedule of the Value Added Tax Act which had earlier exempted "Asset transfers and other transactions related to the transfer of assets into real estate investment trusts and asset backed securities." Thus, the transfer of properties which was an exempt supply before became a taxable supply.** **With the deletion, VAT would be collected at the point of acquisition of property thus constraining REIT promoter's cash flow wise. Subsequently the REIT's will charge and account for VAT after the acquisition hence there will be no incremental increase in tax collection by the Kenya Revenue Authority. At the same time Real Estate Developers have to pay stamp duty when acquiring properties hence any additional charge will make REIT transactions expensive and unattractive to potential issuers. The deletion made REIT's unattractive to potential promoters with those in the pipeline holding off their issuance plans.** **The re-introduction of the VAT exemption will ensure tax neutrality in raising capital to finance housing and other developmental projects.**

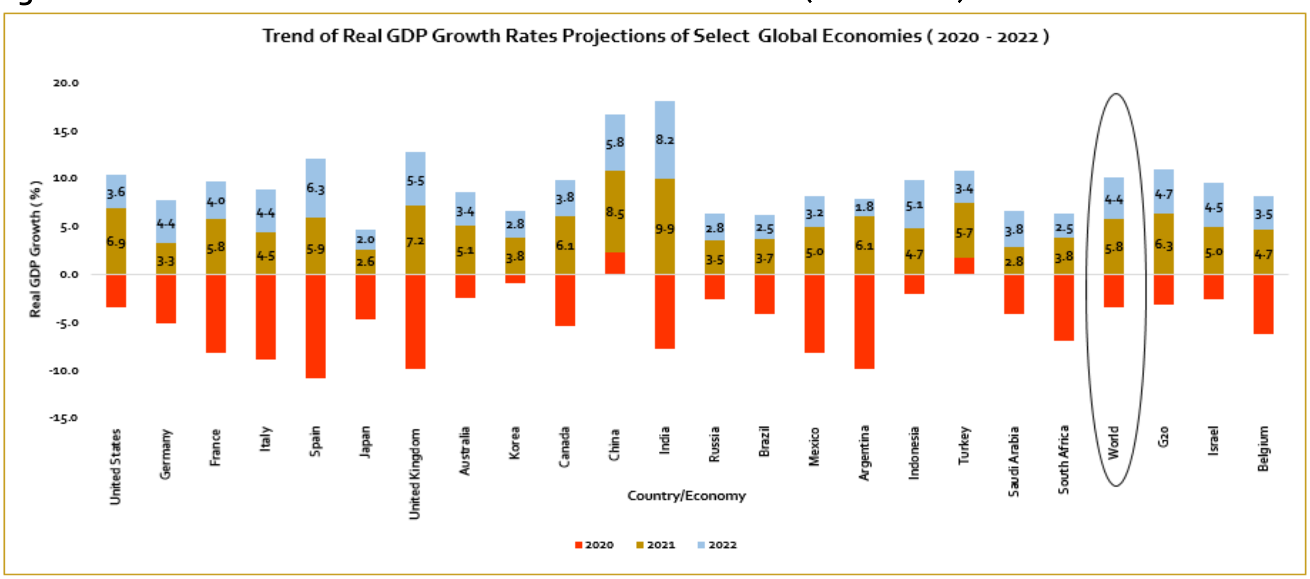
2.0 GLOBAL DEVELOPMENTS

2.1 Global Economic and Capital Markets Outlook

2.1.1 Economic Outlook

After last year's false start, the prospects for a sustained reopening of economies through the second half of 2021 are promising. However, the world still battles with different waves of covid-19 and new variants occasioning re-introduction of containment measures to stem the spread of the virus. Statistics by the Organization for Economic Co-operation and Development (OECD) project global economic expansion across major economies with a projected global expansion of 5.8% in 2021. This is a sharp upwards revision from the December 2020 Economic Outlook projection of 4.2% for 2021. The vaccination rollout which is expected to pick up significantly in the second half of 2021, plus the latest massive fiscal stimulus package by the few large economies like United States which has pumped additional fiscal support —to the tune of $1.8 trillion is expected to drive the improvement thus the projected recovery.

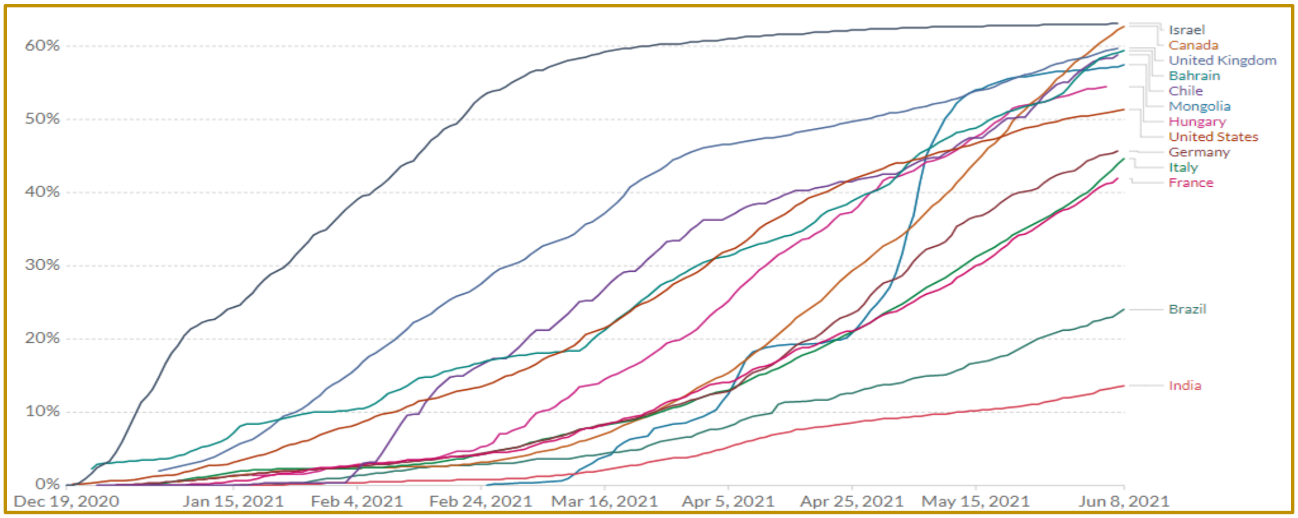
Figure 1: Trend of GDP Performance in Select Global Economies (2020 – 2022)



Source: OECD Economic Outlook May 2021 ** Statistics provided are based on OECD* projected *estimates*

Countries that have been quick to vaccinate their population against COVID-19 and that are managing to control infections through effective public health strategies are seeing their economies recover more quickly.

Figure 2: Comparative Trend of People Vaccinated against Covid-19 in Select Global Economies

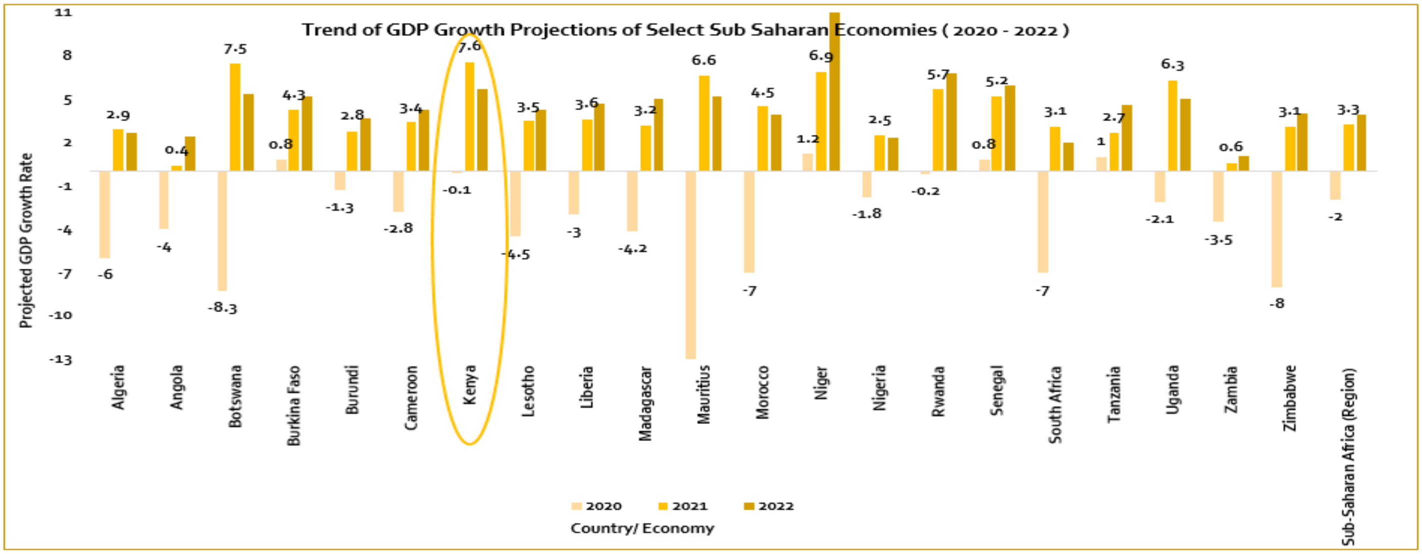


Source: World Health Organization (WHO) Website

The same trend is observed across Sub-Saharan African economies most of whom are expected to expand as well. Data[1] from World Economic Outlook by IMF in April 2021 release show that economic growth in Sub-Saharan Africa region is projected to expand by 3.3% in 2021 from -2% in 2020. This growth is hinged on recovery in both private consumption and investment as economies re-open.

[1] https://www.imf.org/en/Publications/REO/SSA/Issues/2021/04/15/regional-economic-outlook-for-sub-saharan-africa-april-2021

Figure 3: Trend of Economic Performance of Select Sub Saharan African Economies[2]



Source: Regional Economic Outlook, Sub Saharan Africa by IMF – April 2021

The 2021/22 Budget Statement has projected an optimistic growth of 6.6% in 2021, 1% lower from the IMF's World Economic Outlook projection in April 2021. The downward revision of growth could be attributed to adverse impact of the pandemic. In addition, the Kenyan economy experienced two other shocks: invasion of desert locusts and floods.

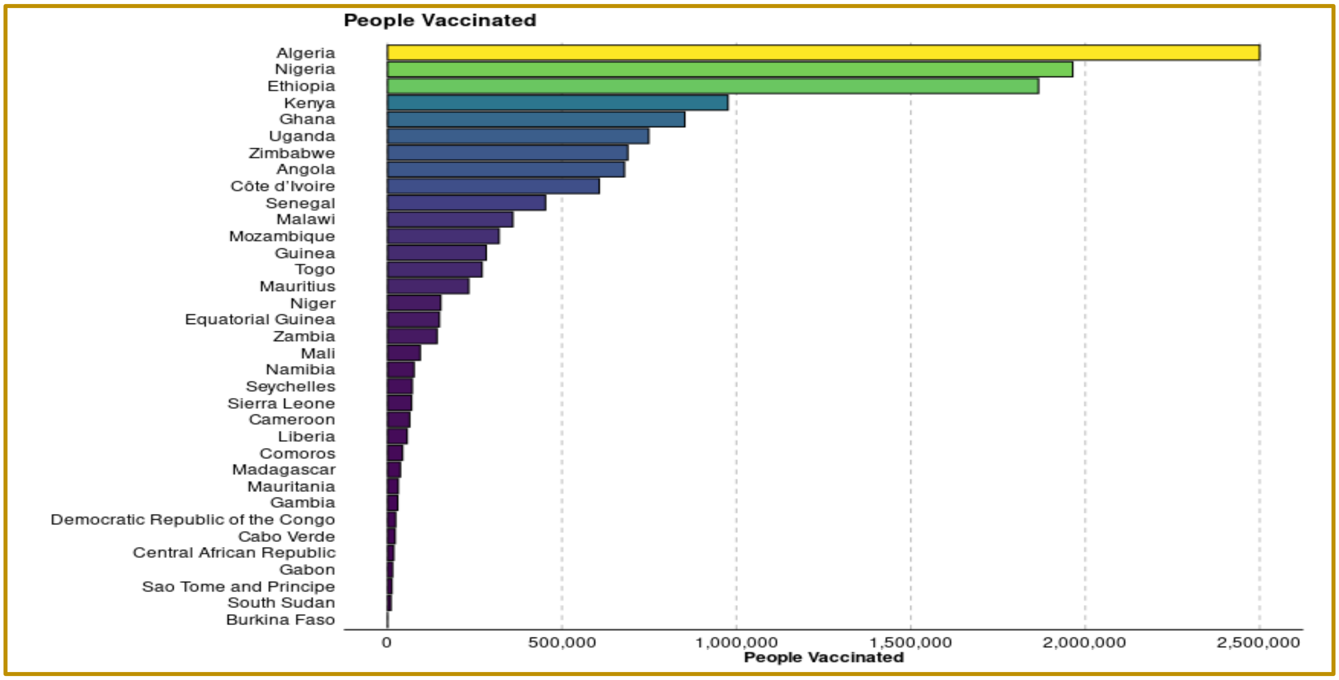
As noted in the Budget Statement, the Government remains committed in implementing the Post Covid -19 Economic Recovery Strategy. The Government is set to implement an elaborate Economic Recovery Strategy that aims to reposition the economy on an inclusive and sustainable growth trajectory.

Further, financing of the fiscal deficit will continue to be strictly guided by the Debt and Borrowing Policy and the annual Medium-Term Debt Strategy to reduce the level of fiscal deficit from 8.7 percent of GDP in the current Budget to 7.5 percent of GDP in the FY 2021/22 and further to 3.6 percent of GDP in the FY 2024/25.

To support economic recovery, the National Treasury and Planning has prioritized the scaling up the vaccination program in the country for a faster resumption in economic activities normalcy. According to the Ministry of Health, as of June 25th, 2021, Kenya had administered 1.22 million doses of Covid-19 vaccines. However, in order to facilitate further roll out of vaccines to create herd immunity, the Treasury proposed in Budget Statement to allocate Shs14.3 billion in the FY 2021/22 and Shs7.6 billion appropriated in the current ending FY 2020/21. In Sub-Saharan Africa Kenya is ranked among the top five countries in the rollout of vaccination program.

[2] Regional Economic Outlook, Sub Saharan Africa by IMF – April 2021

Figure 4: Comparative Trend of People Vaccinated against Covid-19 in Sub-Saharan Africa



Source: World Health Organization (WHO) Website

2.1.2 Global Capital markets Overview

Figure 5: MSCI World and Emerging Markets Index

INDEX PERFORMANCE — NET RETURNS (%) (JUN 30, 2021) / **FUNDAMENTALS (JUN 30, 2021)**

	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED 3 Yr	5 Yr	10 Yr	Since Dec 29, 2000	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI World	1.49	7.74	39.04	13.05	14.99	14.83	10.65	6.50	1.65	27.38	19.85	3.25
MSCI Emerging Markets	0.17	5.05	40.90	7.45	11.27	13.03	4.28	9.72	1.85	18.65	14.13	2.13
MSCI ACWI	1.32	7.39	39.26	12.30	14.57	14.61	9.90	6.57	1.68	25.81	18.87	3.04

INDEX RISK AND RETURN CHARACTERISTICS (JUN 30, 2021)

		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 29, 2000	(%)	Period YYYY-MM-DD
MSCI World	2.44	18.21	14.68	13.93	0.78	0.93	0.75	0.38	57.82	2007-10-31—2009-03-09
MSCI Emerging Markets	8.45	18.79	16.23	17.66	0.59	0.76	0.28	0.47	65.25	2007-10-29—2008-10-27
MSCI ACWI	3.17	17.95	14.52	14.04	0.77	0.93	0.69	0.38	58.38	2007-10-31—2009-03-09

1 Last 12 months 2 Based on monthly net returns data 3 Based on ICE LIBOR 1M

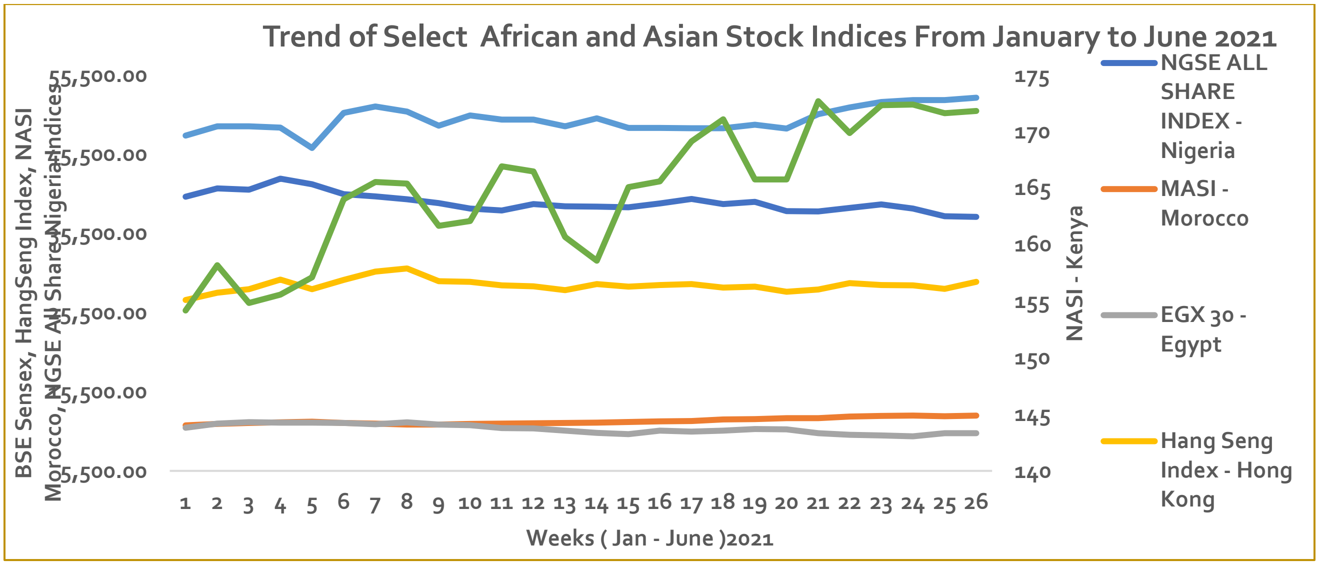
Source: MSCI Website

As of 30th June 2021, global equity markets returned to positive territory for the fourth month in a row. Progress on vaccinations, notably in Europe, has helped to reopen the global economy, boosting the stock prices of economically sensitive cyclical companies. Inflation fears has stabilized, with labor shortages beginning to show up in a number of service industries and commodity costs rising sharply year over year.

In May alone, oil prices increased by almost 10%. Energy equities, the leading equity sector in 2021, rose even higher as a result. Materials stocks also rose as demand and supply chain mismatches improved. Technology stocks fell somewhat on predictions that expenditure would shift away from the names that had thrived during the pandemic and toward larger capital projects. The value of the US dollar dropped, boosting gains in other overseas markets.

Europe was the strongest region, as investors were encouraged by the faster speed of vaccine rollouts and took advantage of relatively low valuations. Emerging markets had a good month as well. Despite a jump in COVID-19 deaths, Asian markets gained a moderate amount of ground, aided by India, which gained almost 8% in the month. Investors profited from many of Taiwan's costly technology and shipping firm names, causing the country to lag. While the US market remained positive, it slowed due to the country's large technology industry. Throughout the developed markets, high than average volatility equities were favored by investors. In developed markets, value outperformed growth. In emerging markets, growth outpaced value, high-volatility equities underperformed, and more volatile stocks were preferred. Stock price momentum and analyst upgrades, both indicators of positive mood, worked well in developed markets but not in emerging countries. With the exception of Japan, quality measures yielded somewhat positive results globally.

Figure 6: Performance of Select Indices in Sub-Saharan Africa and South East Asia



Source: WFE

Table 3: Performance of Select Indices

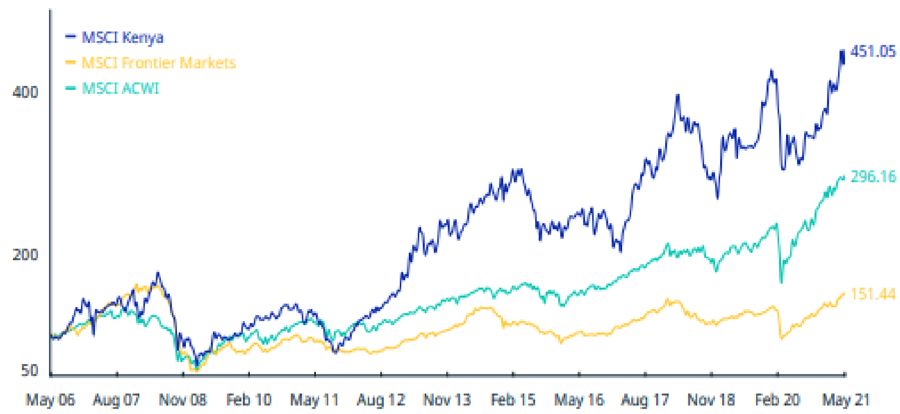
Performance Metric	31st March 2021	30th June 2021	% Change
S&P 500	3,972.89	4,297.50	8.17%
FTSE 100	6,713.63	7,037.47	4.82%
Nikkei 225	29,178.80	28,791.53	1.33%
Karachi 100	44,587.85	47,356.02	6.21%
BSE Sensex	49,509.15	52,482.71	6.01%
JSE FTSE All Share Index	66,485.29	66,248.74	0.36%
Nigeria All Share Index	39,045.13	37,907.28	2.91%
Nairobi All Share Index (NASI)	158.62	173.53	9.40%

Source: Various Sources

Globally there seems to be renewed investor interest in global equities market.

Figure 7: MSCI Kenya and Frontier Markets Index

CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD) (MAY 2006 – MAY 2021)



ANNUAL PERFORMANCE (%)

Year	MSCI Kenya	MSCI Frontier Markets	MSCI ACWI
2020	-9.50	1.43	16.25
2019	48.73	17.99	26.60
2018	-12.51	-16.41	-9.41
2017	35.97	31.86	23.97
2016	1.11	2.66	7.86
2015	-18.34	-14.46	-2.36
2014	23.39	6.84	4.16
2013	47.74	25.89	22.80
2012	61.90	8.85	16.13
2011	-27.22	-18.73	-7.35
2010	30.29	23.75	12.67
2009	6.44	11.61	34.63
2008	-37.38	-54.15	-42.19
2007	12.34	41.94	11.66

Source: MSCI Website

Figure 8: MSCI Net Returns and Risk Characteristics

INDEX PERFORMANCE — NET RETURNS (%) (MAY 31, 2021) / **FUNDAMENTALS (MAY 31, 2021)**

					ANNUALIZED							
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since May 31, 2002	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI Kenya	3.48	10.38	37.46	20.32	8.60	12.86	13.54	20.21	2.46	18.59	na	4.84
MSCI Frontier Markets	4.01	11.46	37.16	12.02	6.64	8.03	4.97	7.94	2.86	17.51	na	2.12
MSCI ACWI	1.56	8.83	41.85	10.84	13.86	14.18	9.58	8.16	1.70	25.88	18.79	2.98

INDEX RISK AND RETURN CHARACTERISTICS (MAY 31, 2021)

		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	26.85	21.53	21.58	21.33	0.42	0.61	0.67	0.78	65.34	2008-06-05—2009-03-09
MSCI Frontier Markets	51.23	17.70	15.39	13.70	0.38	0.50	0.37	0.43	67.47	2008-01-15—2009-03-03
MSCI ACWI	3.17	17.98	14.54	14.06	0.73	0.90	0.67	0.49	58.38	2007-10-31—2009-03-09

[1] Last 12 months [2] Based on monthly net returns data [3] Based on ICE LIBOR 1M

Source: MSCI Website

Just like the global markets, the Kenya MSCI index posted a positive return for the fourth straight month in May 2021 from February 2021. Progress on vaccinations, with administration of second dose kicking off in Kenya during the quarter and reopening of the economy after easing of containment measures imposed to control spread of the virus in the third wave of the pandemic, improved investor sentiment at Nairobi Securities Exchange (NSE).

Capital Markets Stability Implications:

The Capital Markets registered steady recovery on the backdrop of slow global economic recovery and tough local economic conditions. The recovery of the Capital Markets amidst the covid-19 pandemic is premised on the rebounding of global economic growth specifically Kenya's projected economic recovery. The Finance Act 2021 contains tax and non-tax incentives that will support the recovery in the capital markets

CMA will continue implementing both the capital markets short-term recovery strategy and fast-track the mid-term review of the Capital Markets Master Plan in the face of COVID-19, to ensure that the industry contributes to the overall Economic Recovery Strategy of Kenya. The key areas of focus will be: Enhancing liquidity, supporting market based long-term funding for all sizes of businesses, promoting alternative approaches to increase retail and institutional investor participation, strengthen business continuity by embracing digital technology and application of ICT and ensuring that market intermediaries remain sustainable. Review of the Public Offers Listings and Disclosure Regulations, the Collective Investment Schemes Regulations and drafting new Capital Markets Alternative Investments Regulations, all expected to be completed in the next quarter, will also greatly improve the responsiveness of the capital markets policy and regulatory environment as well as oversight.

2.2 International Organization of Securities Commissions (IOSCO) Developments during the quarter

2.2.1 IOSCO sees strong support for its vision for an International Sustainability Standards Board under the IFRS Foundation.

The Sustainable Finance Taskforce (STF) of the International Organization of Securities Commissions (IOSCO) held two roundtables in April and May 2021 to support its work on securities issuers' sustainability-related disclosures. The objective of the roundtables was to engage in a constructive dialogue with global stakeholders on IOSCO's priorities to enhance the reliability, comparability, and consistency of sustainability-related disclosures.

Participants emphasized the importance of continuing the pace and building on the existing momentum to deliver the urgent improvements needed in sustainability reporting. Across the two sessions, there was strong support for the key elements of IOSCO's vision for an International Sustainability Standards Board (ISSB) under the IFRS Foundation and a clear willingness among participants from all stakeholder constituencies to work collaboratively with IOSCO and the IFRS Foundation to deliver this vision.

There was also broad-based agreement that, building on existing initiatives, the ISSB would be able to deliver high-quality international sustainability-related reporting standards to address the priority needs of capital market participants on a reasonable timeframe. Roundtable participants identified some important matters for IOSCO to consider before recommending to its members that ISSB standards be used for cross-border offerings or when setting sustainability reporting requirements at the domestic level. IOSCO will reflect on the detailed feedback received.

Across the two sessions, IOSCO gathered views and feedback from stakeholders on three main topics:

I. How best to give the ISSB a running start in the development of investor-oriented standards with an enterprise value lens by building on the existing content of leading sustainability reporting organizations and the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

II. How to accelerate the implementation of ISSB standards and set a clear pathway towards adoption as a baseline for consistent and comparable approaches to mandatory sustainability-related disclosures across jurisdictions.

III. how in practice to deliver a building blocks approach, which sets ISSB standards as a common global baseline and ensures effective interoperability with any complementary standards to meet the demands of other stakeholders or jurisdiction-specific requirements. Among the main messages from the roundtables:

- Roundtable participants were united in their support for globally aligned reporting standards to promote comparability of sustainability-related disclosures across jurisdictions and to avoid market fragmentation. Many participants stressed that voluntary disclosure would not be enough and hence supported clear pathways towards mandatory reporting requirements aligned across jurisdictions, along with robust frameworks for audit and assurance.

- There was good support for taking as a starting point the climate-related financial disclosure prototype developed by the 'group of five' leading sustainability reporting organizations, published in December 2020. This prototype builds from the TCFD's recommendations and other existing content. Roundtable participants agreed that the prototype would be a sound basis on which to develop a climate first reporting standard that could set a common baseline for globally consistent and comparable sustainability related disclosures across jurisdictions. However, participants stressed the importance of setting a clear roadmap to extend the scope of standards to a wider spectrum of sustainability topics on an accelerated timeframe.

- Participants noted the importance of the work of the newly- formed IOSCO Technical Expert Group (TEG), in close cooperation with the IFRS Foundation Technical Working Group (TWG), to assess the key features of the prototype. Priority areas of focus suggested by participants included:

  - ✓ Emphasis on quantitative metrics and standardization to promote consistency and comparability.

- ✓ Clarity on how to report forward-looking metrics, as well as on methodologies for scenario analysis.
- ✓ Encouragement of a strong linkage between sustainability reporting and financial statements, including disclosure of key assumptions.

- The IFRS Foundation was also encouraged to leverage existing advisory groups within its architecture that provide input to the standard setting process. In this way, the ISSB would benefit from the existing inclusive and multi-stakeholder due process already in place, including channels for consultation with stakeholders across regions. Importantly, the proposed consultative committee should complement – and not supersede – existing advisory groups and outreach arrangements.

- The discussions noted that the design of ISSB standards should allow for interoperability, not only with jurisdiction-specific requirements that go beyond enterprise value creation, but also for the expansion of scope to other sustainability topics beyond climate and ongoing standards evolution to accommodate the dynamic materiality of sustainability topics over time.

Capital Markets Stability Implications:

CMA-Kenya is alive to the fact that a sustainability is key to the longevity of the capital market and its long-term financial sustainability. As a member of IOSCO, it supports globally aligned reporting standards to promote comparability of sustainability-related disclosures across jurisdictions and to avoid market fragmentation and greenwashing. To this end a framework to standardize sustainability of listed entities is under development and a roadmap for adopting and supporting environmental, social and governance (ESG) practices and integrated reporting amongst issuers has been developed. The Authority is additionally providing regulatory support to the Nairobi Securities Exchange in the development of draft ESG disclosure guidelines for companies listed on the NSE.

2.2.2 IOSCO reviews implementation of Recommendations and Standards on BCPs for Trading Venues and Market Intermediaries.

The Board of the International Organization of Securities Commissions has published a Thematic Review ('Review') on the extent to which participating IOSCO member jurisdictions have implemented regulatory measures consistent with the two Recommendations and the two Standards set out in the 2015 IOSCO reports on Business Continuity Plans (BCPs) for Trading Venues and Market Intermediaries.

Authorities from 33 jurisdictions (16 developed jurisdictions and 17 emerging market jurisdictions) participated in the Review, which found that thirteen participating jurisdictions are Fully Consistent with the two Recommendations and the two Standards under review

The Review assessed the consistency of regulatory frameworks with the Recommendations and Standards. As such, it examined the legislative, regulatory and policy measures reported as being in place by Participating Jurisdictions as of September 2019 (cut-off date of the assessment). The exercise did not assess the effectiveness of implementation and market practices in the Participating Jurisdictions.

This means that the actual implementation of BCP measures for trading venues and intermediaries in

Participating Jurisdictions may be more or less effective than indicated by this Review.

The Recommendations state that regulators should require trading venues to:

- ✓ Have in place mechanisms to help ensure the resiliency, reliability, and integrity (including security) of critical systems, and
- ✓ Establish, maintain, and implement as appropriate a Business Continuity Plan (BCP).
- ✓ The Standards state that regulators should require market intermediaries to:
- ✓ Create and maintain a written BCP identifying procedures relating to an emergency or significant business disruption.
- ✓ Update their BCP in the event of any material change to operations, structure, business, or location and conduct an annual review of it to determine whether any modifications are necessary considering changes to the market intermediary's operations, structure, business, or location.

Key findings and observations from the Review include, among others, the following:

Thirteen Participating Jurisdictions have been found to be "Fully Consistent" with the two Recommendations and the two Standards. Some gaps or shortcomings of different degrees of materiality have been found in the other Participating Jurisdictions for one or more of the Recommendations or Standards.

Table 4: Summary of Key findings and observations from the Review

Recommendation 1	• 20 Participating Jurisdictions are Fully Consistent. • The regulatory framework of Participating Jurisdictions that are Fully Consistent also ensures that the relevant provisions for critical systems of trading venues extend to any outsourced functions. • The great majority of Participating Jurisdictions have regulatory recognition of some sort of critical systems for trading venues. • Participating Jurisdictions that were rated Fully Consistent had requirements relating to governance, accountability for process, systems monitoring (by trading venues), and stress testing
Recommendation 2	• Participating Jurisdictions that were rated Fully Consistent had requirements relating to governance, periodic review, and regular testing
Standard 1	• 21 Participating Jurisdictions are Fully Consistent with Standard 1. • In general, the regulatory frameworks for intermediaries set out the minimum elements that must be covered by an intermediary's BCP, although it was not common to find a formal definition of business continuity plan. • Conversely, some Participating Jurisdictions' regulations include specific requirements for disaster recovery plans or business interruption plans for technology systems, but they do not require intermediaries to have broader BCPs.

	• In some cases, although the regulatory framework requires intermediaries to have a BCP, there are no clear requirements relating to the governance or the periodic review or testing of the BCP.
Standard 2	15 Participating Jurisdictions are Fully Consistent with Standard 2. The following are some of the findings in relation to Standard 2. • Several Participating Jurisdictions have an explicit obligation on intermediaries to carry out "regular" or "periodic" reviews of BCP arrangements, but do not stipulate that this must occur on an annual basis. In some cases, there is no set frequency for these reviews. • In a few cases there are no obligations on intermediaries for regular review of BCP arrangements or for updating of BCPs in response to material changes.

Source: IOSCO

To enhance their regulatory frameworks, the AC recommends that IOSCO members consider:

From a broad perspective:

Including in regulatory frameworks the necessary or appropriate powers for the regulator to set and enforce requirements or clear expectations on the establishment and proper maintenance and update of BCPs by trading venues and intermediaries.

- Enhancing their regulatory frameworks to include more specific and detailed guidance to address the issues and topics raised in the Trading Venues Report and the BCP Report. This might be beneficial regardless of the regulatory approach they employ (i.e., rule-based or a principles-based approach).
- Whether their existing regulatory frameworks provide adequate direction or guidance on the range of situations to which BCPs need to be responsive (e.g., natural disasters or public health emergencies and pandemics).
- Ensuring regulatory frameworks require enterprise-wide business continuity plans for both trading venues and intermediaries, rather than only disaster recovery or contingency measures for IT systems.
- Where regulatory frameworks require establishment of BCPs, assessing whether the regulation is sufficient to enable them to require firms to carry out regular reviews and necessary updates to BCPs.
- Adopting measures to require or encourage industry or market-wide scenario or stress testing of BCPs.
- For jurisdictions with more than one responsible regulatory authority and jurisdictions that rely on SROs for performance of frontline regulation, reviewing cooperation arrangements.to ensure that these allow for appropriate coordination of policies and effective supervisory cooperation.

Regarding Recommendation 1:

- Ensuring that requirements aimed at critical systems sufficiently cover all aspects of business that falls within the definition of "critical systems" in the Recommendations.
- Whether measures for critical systems are broad enough to require trading venues to address all three elements of the Recommendation; that is resiliency, reliability, and integrity (including security).

- Whether the regulatory regimes provide sufficient clarity on governance and accountability of Boards or senior management in relation to critical systems.

- Where trading venues are permitted to outsource any critical functions, allowing regulators to enforce the same standards for resiliency, reliability, and integrity (Including security) of critical systems operated or provided by outsource providers.

- Complementing the requirements for the identification, management, and mitigation of risks with bespoke requirements for periodic reviews of critical systems, periodic capacity testing and periodic stress testing of critical systems.

Regarding Recommendation 2:

- Providing regulators with the ability to obtain a copy of the BCP as well as the power to challenge the trading venues' Board and/or senior officers in relation to material deficiencies of the BCP arrangements or in relation to the Board or senior management responsibility for the establishment and maintenance of the BCP.

- Specifically requiring periodic review, update, and testing of the BCP.

- Where trading venues are permitted to outsource any functions that are required for business continuity, considering whether the regulator has authority to require trading venues to ensure that outsource providers have and maintain adequate BCPs.

Regarding Standard 1, in addition to the recommendations relevant to BCPs for trading venues:

- Including clear requirements on the role and responsibility of the intermediary's Board and/or senior management in relation to BCPs.

Regarding Standard 2:

- Adding specific requirements for intermediaries to conduct regular or periodic reviews of their BCPs and on the minimum periods for these reviews to occur (reviews should be at least annual). More specific requirements may also be needed for intermediaries. To update their BCPs based on the outcomes of those periodic reviews and in response to material changes.

Capital Markets Stability Implications:

The Authority is fully compliant with IOSCO's Recommendations that regulators should require trading venues to have in place mechanisms to help ensure the resiliency, reliability, and integrity (including security) of critical systems, and establish, maintain, and implement as appropriate a Business Continuity Plan (BCP).

CMA will continue to collaborate with NSE and CDSC, market intermediaries, issuers and other capital markets industry stakeholders to ensure that there is minimal disruption to market activities while supporting the Government of Kenya strategies to contain the spread of Covid-19 as contained in the Short-term capital markets recovery strategy. The NSE and the CDSC already have in place sound Business Continuity Plans to ensure seamless trading & settlement of all securities traded at the exchange.

2.3 The Green Bond Principles (GBP) by International Capital Markets Association (ICMA)

During the quarter, ICMA Issued the updated Green Bond Principles (GBP) which seek to support issuers in financing environmentally sound and sustainable projects that foster a net-zero emissions economy and protect the environment. GBP-aligned issuance should provide transparent green credentials alongside an investment opportunity. By recommending that issuers report on the use of Green Bond proceeds, the GBP promote a step change in transparency that facilitates the tracking of funds to environmental projects, while simultaneously aiming to improve insight into their estimated impact.

The GBP are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. The GBP recommend a clear process and disclosure for issuers, which investors, banks, underwriters, arrangers, placement agents and others may use to understand the characteristics of any given Green Bond. The GBP emphasize the required transparency, accuracy and integrity of the information that will be disclosed and reported by issuers to stakeholders through core components and key recommendations.

The Green and Social Bond Principles are the global standard for a $1.6 trillion market representing the largest source of market finance dedicated to sustainability and climate transition available internationally to corporates, banks, and sovereigns. In 2020, these standards were referenced by an estimated 97% of sustainable bonds issued globally. The 2021 editions of the social bond principles and sustainability bond guidelines have been revised.

The green bond principles 2021 edition features:

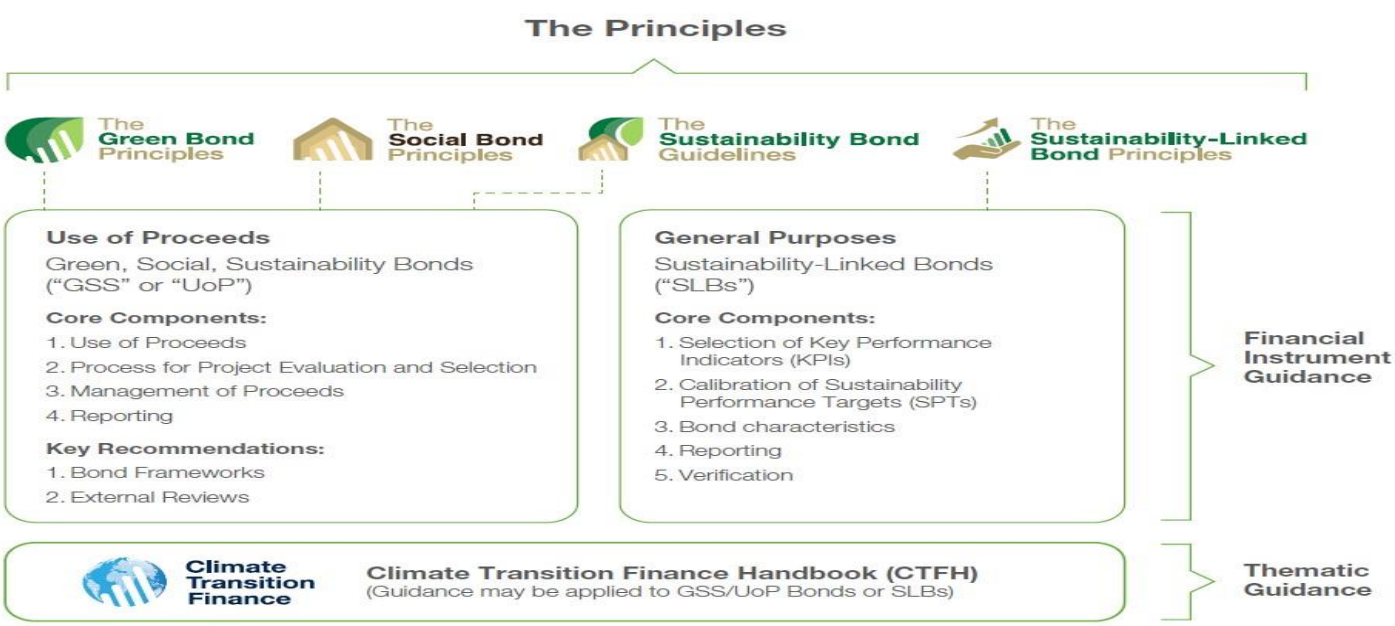
- Two key recommendations on the Bond Framework and External Reviews designed to increase transparency alongside the four core components (Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting).
- A recommendation of heightened transparency for issuer-level sustainability strategies and commitments.
- Encouragement to supply information, if relevant, on the degree of alignment of projects with official or market-based taxonomies.
- Promotion of transparency on issuer processes to identify and manage perceived and known social and/or environmental risks.
- Links and references to the complementary guidance of the Climate Transition Finance Handbook, the Harmonized Framework for Impact Reporting, the Guidelines for External Reviews, which are supplemented by the Guidance Handbook.

Key Recommendations.

➢ Green Bond Frameworks Issuers should explain the alignment of their Green Bond or Green Bond programme with the four core components of the GBP (i.e., Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting) in a Green Bond Framework or in their legal documentation. Such Green Bond Framework and/or legal documentation should be available in a readily accessible format to investors.

- It is recommended that issuers summarize in their Green Bond Framework relevant information within the context of the issuer's overarching sustainability strategy. This may include reference to the five high level environmental objectives of the GBP (climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control). Issuers are also encouraged to disclose any taxonomies, green standards or certifications referenced in project selection.
- When communicating Paris-aligned transition strategies in the context of projects targeting climate change mitigation, issuers are encouraged to use guidance from the Climate Transition Finance Handbook.

Figure 9: Principles of Green Bond



Source: ICMA

Capital Markets Stability Implications:

The Authority will continue engaging with potential issuers to create a pipeline of green bond issuers to facilitate effective matching of demand and supply of green-centric capital and climate-resilient investing opportunities. As per the Budget speech 2021/2022 the Kenya Mortgage Refinance Company plans to issue Green Bonds to finance climate friendly housing projects. The Government has also developed and approved the Sovereign Green Bond Framework, identified a portfolio of projects for consideration under the framework and is prepared to issue the first Sovereign Green Bond to raise capital to finance green projects under the economic recovery strategy. Management will continue to advocate for the roll out of previously anticipated sovereign green bond spur the corporate sector to issue the same s and promote the status of Nairobi as a green financing hub.

2.3 Securities Exchange Commission (SEC)-Thailand public hearing on proposed regulations on establishment of distressed bond[3]

The Securities and Exchange Commission (SEC) Thailand is seeking public comments on the proposed regulations on establishment and management of distressed bond fund to increase liquidity for holders of distressed bonds and support distressed bonds transformed from high yield bonds in high yield bond funds.

Distressed bonds are defaulted bonds as defined by the terms and conditions, cross-defaulted bonds caused by default in related bonds, including subordinated perpetual bonds, and bonds issued by a company undergoing rehabilitation.

Earlier, SEC issued regulations on establishment and management of high-yield bond funds. The regulations aim to provide bridge financing for high-yield bond issuers to have liquidity to support business continuity.

Now, SEC is proposing to issue regulations on establishment and management of distressed bond funds to support the high-yield bond funds wherein high-yield bonds subsequently become distressed bonds, and to provide liquidity for the holders of distressed bonds. The distressed bond fund would be set up as a non-redeemable fund with a maturity period prescribed in the disclosure document. Automatic redemption would require pre-specified terms and conditions, and investment would be limited to institutional and ultra-high-net-worth investors.

Capital Markets Stability Implications:

CMA has already engaged the NSE, CDSC and its development partners on the establishment of a Capital Markets Development Fund. There is however room to expand the scope of this fund to cover

[3] https://www.sec.or.th/EN/Pages/News_Detail.aspx?SECID=8958&NewsNo=91&NewsYear=2021&Lang=EN

distressed bonds or have in place a stand-alone Distressed Bond Fund benchmarked on the Thai model. This, together with other ongoing reforms in the debt capital markets is likely to restore confidence in the corporate bond market sooner and the Authority will be seeking support from both the private and public sector to realize this initiative.

2.4 Securities and Exchange Board of India (SEBI) seeks public comments on the Report Submitted by the Technical Group on Social Stock Exchange (SSE)

Pursuant to announcement made by the Hon'ble Finance Minister in her budget speech for FY 2019-20 regarding Social Stock Exchanges, SEBI constituted a Working Group (WG) on Social Stock Exchange (SSE) in September 2019.

The WG made appropriate recommendations relating to -permitting participation of Social Enterprises on SSE, minimum reporting requirements, possible means/ mechanisms of raising finance, creation of separate Self-Regulatory Organizations (SROs) for Social Auditors etc. This report was put in public domain for comments. While analyzing the comments received on this report, it was felt that further expert advice and clarity may be needed on certain critical operational issues before comprehensively firming up views in the matter. This informed the press release given by SEBI to seek further public comments.

Capital Markets Stability Implications:

The Authority and capital markets stakeholders have an opportunity to present to the multi-billion social enterprises and not-for-profit organizations the business case for utilizing market-based financing to meet their development budget needs, for instance Issuance of debt instruments.

3.0 REGIONAL-SUB-SAHARAN AFRICA DEVELOPMENTS

3.1 Securities Exchange Commission (SEC) of Ghana developments during the quarter

3.1.1 IFC and Ghana's Securities Exchange Commission to Develop Green Bonds Market[4]

[4] https://sec.gov.gh/ifc-and-ghanas-securities-exchange-commission-to-develop-green-bonds-market/

Source: IFC

Securities and Exchange Commission (SEC) of Ghana and the International Finance Corporation (IFC), a member of the World Bank Group, on May 05th 2021 announced a partnership to facilitate investments in projects that address climate and environmental issues through green bonds.

Under the agreement, IFC, will help the SEC develop guidelines for issuers and investors for green bonds in Ghana. The introduction of green bonds will give investors opportunities to finance green buildings, clean transportation, renewable energy, sustainable water management, and other climate-friendly projects. Green bonds will support Ghana's transition to a lower-carbon future as specified in the country's agreed contributions under the Paris Agreement.

IFC's green Bond Program, launched in 2010, has helped catalyze the market and unlock investment for private sector projects that support renewable energy and energy efficiency. IFC has issued roughly 170 green bonds in 20 currencies amounting to over $10 billion[5].

This partnership will enable the SEC to tap into IFC's deep knowledge and develop a comprehensive reference guide appropriate for the Ghanaian market. IFC has played a leading role in developing guidelines for the green bond market globally. In Africa, it has benefited Egypt, Kenya, Morocco, Tunisia, the West African Economic and Monetary Union, and the Economic Community of Central African States.

[5] https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26337

3.1.2 Ghana Capital Markets Masterplan (CMMP) (2020 – 2029)[6]

Source: SEC Ghana

The Securities and Exchange Commission (SEC) of Ghana on May, 24th 2021 launched its maiden Capital Market Master Plan (CMMP) to serve as the blueprint for developing the capital market in Ghana over the next ten years.

The vision of the CMMP is to create a deep, efficient, diversified and well-regulated capital market with full range of products attractive to domestic and international investors. The vision will be achieved on the back of the four (4) keys pillars of the Capital Market Master Plan which includes:

1. Improving the diversity of investment products and liquidity of securities markets (to enhance investor participation and improve market liquidity),
2. Increasing the investor base and promoting innovation and product diversification,
3. Strengthening infrastructure and improving market services (to improve market integrity and accessibility), and
4. Strengthening regulation, enforcement, and market confidence.

The implementation of the CMMP would focus on three phases; making the market attractive (2020 – 2022), increasing the competitiveness of the market by ensuring more firms list (2023 – 2025), and introducing more sophisticated products and consolidating gains made (2025 – 2029). By 2025, the master plan envisages Municipal Bonds, Private Equity, Currency Trading,

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[6] https://sec.gov.gh/wp-content/uploads/Press-Release/SEC_CMMP.pdf

Repos, Derivatives, Real Estate Investment Trusts (REITs), inter alia would be traded in addition to current products in the market.

But in order to ensure the materialising of the CMMP, the high interest rate that discourages the issuance of corporates bonds, the high transaction cost that discourage listing on the Ghana Stock Exchange, the limited investor base as well as the low market confidence would have to be overcome in the immediate term.

SEC has aligned its CMMP to national priorities as well as Sustainable Development Goals (SDGs).

It is worth noting that, although the master plan is a long term one (2020 – 2029), most of the targets are in the next five years.

Figure 10: Linkage of The Sec's Master Plan to National Development Strategy

Capital Market Master Plan		National Priorities	Sustainable Dvt. Goals
PILLAR 1	Creating diversity of investment products and liquidity of securities market	Increase Manufacturing and Agricultural Value Chain	13, 2
PILLAR 2	Increasing the investor base	Strengthen Institutions and the Rule of Law	5, 4
PILLAR 3	Strengthening infrastructure and improving market services	Strengthen Infrastructure and Technology adoption to enhance business efficiency	9, 8
PILLAR 4	Improving regulation, enforcement and market confidence	Enhance Public Services Delivery	16, 11

Source: SEC Ghana

Capital Markets Stability Implications:

Management notes some strategies that are worth considering in the current review of the CMMP, bearing in mind the similarity of the two economies. Pillar 2 of Ghana SEC's CMMP aims at increasing the investor base. This is crucially important as the Authority has been keen on increasing retail investor participation. The Authority will glean off lessons to enrich the review the Capital Markets Master Plan on which the Strategic Plan 2018-2023 is hinged on.

3.1.3 Update on Bailout Implementation Programme[7]

Source: SEC Ghana

After several (forty-seven) fund management companies collapsed in Ghana, the Securities and Exchange Commission (SEC), acting within its mandate of protecting investors and the integrity of the market, begun deliberations with Government regarding social and humanitarian intervention for all customers of the failed Fund Management Companies. Subsequently, Government authorized a partial bailout which involves a partial payment of up to Fifty Thousand Ghana Cedis (GHS50, 000) to all customers of the affected Fund Management Companies while the court process on the liquidation petition and other matters continue.

The SEC however has assured all affected clients of the collapsed 47 fund management companies that they will receive their money in full. The commission has therefore urged them not to panic, as it is going through all the processes to ensure that they receive their money.

Giving up update on the bailout implementation programme, SEC reported the following progress has been made:

- The Government had made provisions to cover all validated claims with the recent additional allocation of GH¢5.5 billion in the 2021 Budget to support the clean-up exercise in the industry.
- The courts had granted 37 liquidation orders to the official liquidator (the Registrar-General) as of March 31, 2021, out of the 47 Fund Management Companies with claims from investors after the revocation.
- Out of 100,898 claims received against the 47 companies valued at GH¢11.70 billion, a total of 100,700 claims valued at GH¢8.31 billion were validated as of March 31, 2021. This means that an estimated 99.8 per cent of the total claims filed have been validated with an almost 30 per cent found to be unwarranted. Claimants who disagree with validated amounts are engaging the agent of the SEC for further examination.

[7] https://sec.gov.gh/update-on-bailout-implementation-programme/

- 8,370 out of a total of 11,665 claimants had signed up for the full bailout programme as of March 31, 2021.

SEC further reported with regards to the full bailout programme, had so far been executed over three phases with the total value of claims that have been considered within the three phases amounting to GH¢4.13 billion from 36 companies whose liquidation orders have been granted by the courts and gazetted. Out of this amount, GH¢2.57 billion has been validated.

In addition, out of the total claimants who have signed up for the full bailout programme, a total amount of GH¢768.26 million has been paid as of March 31, 2021. This represents 83 per cent of total claimants paid out of total sign-ups done, and 78 per cent of the total value paid of examined claims.

On partial bailout front,

- As of March 31, 2021, 64,685 claimants had signed up for the programme out of which 89,233 claimants, representing 72 per cent of total claimants signed up under the partial bailout programme.
- The total value of the claimants who signed up for the partial bailout amounted to GH¢3.5 billion.
- Actual payments made under this programme amounted to GH¢995 million which went to 52,264 claimants. This represents 81 per cent of total claimants and 83 per cent of the total corresponding partial bailout value.
- The partial bailout authorised by the government had resulted in about 66 per cent of claimants being fully paid.

SEC reported that the rollout of the full and partial bailout packages had been quite successful.

Capital Markets Stability Implications:

Compared to the Ghanaian capital markets, the Kenyan Asset Management sub-sector remains resilient and has registered steady growth over the years. The Authority assures all market operators, investors, and the public that it is committed to ensuring the soundness of the capital markets licensees through its risk-based supervision framework.

3.2 Crypto assets to be brought into South African regulatory purview

During the quarter, the Intergovernmental Fintech Working Group (IFWG), through the Crypto Assets Regulatory Working Group (CAR WG), published a position paper on crypto assets. The paper confirms that crypto assets will be brought into the South African regulatory purview in a phased and structured manner.

The initial South African public statement on crypto assets was issued by National Treasury in 2014 as a joint initiative with all financial sector regulators warning and advising the public on the risks associated with the use of crypto assets. Therefore, at the time, no legal protection or recourse was being offered to users or investors of crypto assets. The 2014

South African national policy position, namely that crypto assets are largely unregulated in South Africa, and that parties engaging in crypto related activities do so at their own risk and without any regulatory recourse, has been revised to bring crypto assets into the South African regulatory remit in a phased and structured manner. It is, however, reiterated that with or without regulation, crypto assets remain inherently risky and volatile, and consumers' chances of incurring financial losses through investing in crypto assets remain high.

The IFWG's CAR WG position paper on crypto assets makes 25 recommendations on how to bring crypto assets into the South African regulatory remit in a phased and structured approach across three main areas:

1. Anti-money laundering and combating the financing of terrorism (AML/CFT): This now explicitly requires jurisdictions to regulate crypto assets and crypto asset service providers (CASPs) for AML/CFT purposes.

2. Cross-border financial flows: From an exchange control perspective, the current Exchange Control Regulations do not explicitly cater for crypto assets, with the implication that the SARB's Financial Surveillance Department (FinSurv) does not have explicit powers to require South African crypto asset trading platforms to report transactions involving crypto assets. Daily crypto asset trading values in South Africa exceeded R2 billion for the first time in January 2021, providing some anecdotal evidence that there may be significant value moving into crypto assets without FinSurv having oversight over such flows, or the requisite powers to direct market behaviour as appropriate for South Africa.

3. Application of financial sector laws: Given the increased retail interest in crypto assets, growing instances of consumer abuse, fraud and market misconduct have been noted both internationally and in South Africa. Recent schemes highlighted in the media further emphasise the need for the South African authorities, predominantly through the FSCA, to act against the growing tendency for market abuse under the guise of crypto assets.

By gradually bringing crypto assets into the South African regulatory purview, the most pertinent and immediate risks that have been identified around AML/CFT, cross-border financial flows and consumer protection will be addressed.

The IFWG therefore reiterates the following:

- The decision to regulate crypto assets as described above does not signal or suggest the endorsement of crypto assets by the government, the South African regulators and/or individual IFWG members. Rather, the decision to regulate crypto assets aims to promote responsible innovation.

- Crypto assets remain highly volatile and inherently risky given their decentralised and disintermediated value proposition (i.e., crypto assets offer a direct, peer-to peer transactional capability that does not require a financial intermediary, such as a bank).

- Crypto assets' decentralised nature leads to the challenge of decentralised responsibility in the event of something going wrong: because there is no central intermediary, issuer or ledger keeper, and consumers essentially have no recourse to any authority or entity to address or resolve user errors (e.g., using the wrong crypto asset address).

- The already high inherent risks associated with crypto assets are further compounded by scam

- activity, with many Ponzi-type schemes using crypto assets as a lure to justify the excessive promised returns.
- Crypto asset marketing material is often strongly biased towards highlighting only the potential upside of crypto assets, with little or no consideration of the massive potential downside associated with investing in crypto assets.
- The crypto asset ecosystem is evolving at a rapid pace, and developments continue to challenge the applicability of existing legislation and regulations to emerging activities. Consumers are therefore strongly urged to ensure that they fully understand the products and services they are gaining

- exposure to, as well as the associated risks. Consumers are also urged to ensure that they only deal with registered and regulated CASPs.

The IFWG further articulates the following six high-level principles that will continue to guide the national approach to regulating crypto assets in South Africa:

Table 5: Six high-level principles that will continue to guide the national approach to regulating crypto assets in South Africa

Principle	***Details***
Principle 1	*Crypto assets must be regulated appropriately*
Principle 2	*An activities-based perspective must be maintained, and the principle of 'same activity, same risk, same regulations must continue to apply and inform the regulatory approach.*
Principle 3	*Proportionate regulations that are commensurate with the risks posed must apply (i.e., a risked-based approach to crypto asset regulation must apply).*

Principle 4	*A truly collaborative and joint approach to crypto asset regulation by the IFWG must be maintained.*
Principle 5	*The dynamic development of the crypto market must continue to be proactively monitored, including maintaining knowledge on emerging international best practices (through standard-setting bodies, etc.).*
Principle 6	*Digital literacy and digital financial literacy levels must be increased amongst consumers and potential consumers of crypto assets.*

Source: FSCA, South Africa.

Capital Markets Stability Implications:

CMA and CBK have similarly been issuing statements on cryptocurrency but with convergence around their risks but will going forward be looking into how specific crypto-assets may now be brought under each organizations regulatory remit, noting positive developments in this area in jurisdictions such as Nigeria, Malaysia and India.

3.3 MTN Rwanda cell PLC lists by introduction on Rwanda Stock Exchange (RSE)

MTN Rwanda cell PLC (MTN Rwanda) during the quarter made history in Rwanda becoming the first mobile network operator to list its shares on the on the 10-year-old bourse.

The listing, which has been called a key milestone for the country's financial sector, will see 100 per cent of MTN Rwanda cell listed on the market, but only the 20 per cent previously owned by Crystal Telecom Limited (CTL) will be floated to the public. As part of the May 4th listing by introduction, Crystal Telecom Limited's shareholders now hold a direct 20% stake in MTN Rwanda and can trade their MTN Rwanda shares directly on the RSE.

The development gives the Rwandan public an opportunity to own a piece of the country's biggest telecom player, a growth Rwandan customer have contributed to for the last 23 years. Although the telecom company has floated only the 20 per cent so far, players in the market say the 80 per cent will bring a lot of value to the market capitalisation, and they are optimistic that with time the firm will increase the size of shares it is floating.

Capital Markets Stability Implications:

The listing on a 10-year bourse signals a vote of confidence in Rwanda capital markets. The Authority to consider viability of revisiting the proposals to the National Treasury for mandatory listing of entities in critical sectors of economy like telecoms and mining.

4.0 DOMESTIC MARKET DEVELOPMENTS DURING THE QUARTER

4.1 IMF Executive Board Completes the First Reviews of the Extended Arrangement under the EFF and ECF Arrangements for Kenya[8]

During the quarter under review, the IMF Executive Board completed the first reviews of the EFF/ECF arrangements with Kenya, allowing for an aggregate immediate disbursement equivalent to US$ 407 million for budget support, bringing Kenya's total disbursements for budget support under the arrangements to about US$ 714.5 million.

Kenya's EFF and ECF arrangements are aimed at supporting Kenya's program to address debt vulnerabilities, support the response to the COVID-19 crisis and enhance governance.

Kenya Growth is now estimated to pick up to 6.3 percent in 2021. However, uncertainty and pandemic-related pressures will persist until vaccinations become widely available. Kenya's economic program aims to reduce debt vulnerabilities through a multi-year fiscal consolidation effort centered on raising tax revenues and tightly controlling spending, while safeguarding resources to protect vulnerable groups. The draft FY21/22 budget delivers on these objectives with a 1.6 percentage points of GDP reduction in the primary balance.

Kenya has also made notable advances on its structural reform and anti-corruption agendas. Fiscal governance and transparency are being bolstered by the recent publication of comprehensive audits of COVID-19 related expenditures. As part of their strategy to address challenges in the SOE sector and put firms on a financially viable footing, the authorities have conducted an in-depth evaluation of the financial health of major state-owned enterprises (SOEs) facing the largest risks. The authorities also plan to further enhance their monetary policy framework and to continue supporting financial stability. Therefore, IMF noted that Kenyan authorities have shown strong commitment to their reform agenda in challenging circumstances and are acting to reduce debt vulnerabilities while maintaining support for the economic recovery.

In the report, the IMF further noted that the Kenyan authorities continue to demonstrate strong commitment to their fiscal reform agenda during

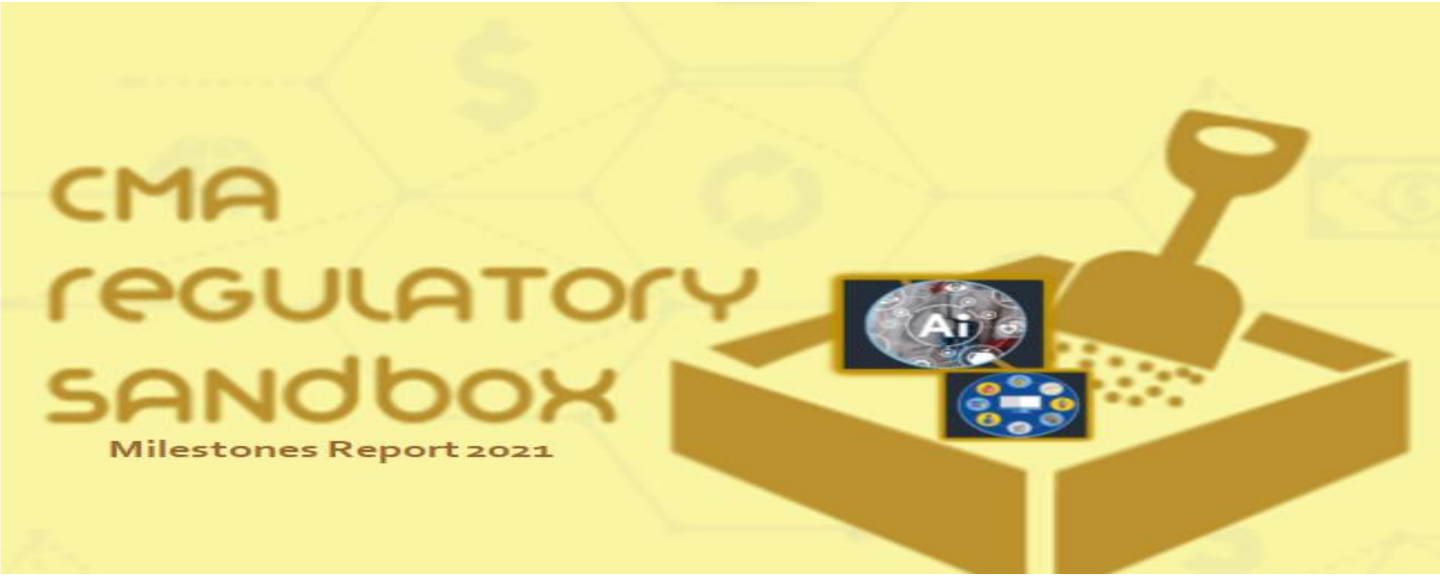
8 https://www.imf.org/en/Publications/CR/Issues/2021/06/25/Kenya-First-Reviews-of-the-Extended-Arrangement-Under-the-Extended-Fund-Facility-and-an-461274

this unprecedented global shock. Performance under the EFF/ECF arrangements has been broadly satisfactory despite a challenging environment. The authorities' program sets the basis for a return to durable and inclusive growth and identifies a clear path to reduce debt vulnerabilities, while securing space for needed social and development spending. Looking ahead, the authorities should sustain their consolidation efforts by continuing to improve spending efficiency and undertaking further revenue administration and tax policy measures.

Capital Markets Stability Implications:

The very substantial progress made in assessing the financial situations of state-owned enterprises (SOEs) that pose the largest fiscal risks provides a solid basis for identifying least-cost approaches to address their financial challenges and should be complemented with efforts to improve oversight and management of SOEs more broadly. CMA Kenya supports the efforts and measures being undertaken by the National Treasury and planning to support the continued listing of State owned SOEs.

4.2 Authority Launches Regulatory Sandbox Milestones Report



Source: CMA

As part of its strategic priority to leverage technology across the capital markets value chain, as espoused in its 2018-2023 Strategic Plan, the Capital Markets Authority (CMA) has facilitated the admission of seven firms in the CMA Regulatory Sandbox since its launch in March 2019. This follows the approval of the Regulatory Sandbox Policy Guidance Note (Regulatory Sandbox PGN) in March 2019.[9]

The firms admitted into the Regulatory Sandbox are Pezesha Africa, Innova Limited, Genghis Capital Limited, the Central Depository and Settlement Corporation (CDSC), Pyypl Group limited, Belrium Kenya ltd and four front management. CMA has received 24 applications in; robo-advisory, blockchain technology, tokenization of real estate, providing access to global stocks, crowdfunding platforms, Electronic Know Your Customer platform, Screen-Based Security Lending and Borrowing platform, Reg tech solutions and Data Analytics.

The report covers some of the key milestones including [10]SMEs benefitting from funding through the crowdfunding platform operated by Pezesha Limited. It also covers the key lessons the sandbox review committee has learnt, opportunities identified so far and how these will be entrenched to make the future sandbox engagements better. The Authority has also gathered insights to inform the development of a facilitative regulatory framework for FinTech's.

Over the past 12 months, the Regulatory Sandbox has provided us a conducive environment within which to conceptualize, test and implement innovative solutions that address specific capital market challenges. However, to achieve this, a significant amount of investment in human resource and capacity, technical infrastructure (hardware & software + associated licenses) as well as time was required from participating firms.

Capital Market Stability Implications:

The Authority will continue to strategically leverage the potential impact of technological advancements and champion the adoption of new technologies in the capital markets value chain. More so, the Authority will continue to work closely with innovators locally and internationally towards harnessing FinTech to improve deepen and grow the capital markets.

[9] [9] https://www.cma.or.ke/index.php?option=com_content&view=article&id=708:cma-launches-regulatory-sandbox-milestones-report-2&catid=12&Itemid=207

[10] https://www.cma.or.ke/index.php?option=com_content&view=article&id=708:cma-launches-regulatory-sandbox-milestones-report-2&catid=12&Itemid=207

4.3 State of Corporate Governance

4.3.1 The Nairobi Securities Exchange (NSE) supported in the development of draft ESG disclosure guidelines for companies listed on the NSE

CMA Kenya recognizes the increased demand for transparency on sustainable and socially responsible practices including climate-related financial disclosures by various stakeholders and potential investors. The Code of Corporate Governance for Issuers emphasizes the need for boards to adopt an ESG framework to guide strategy thereby promoting sustainable practices. Additionally, the Stewardship Code for Institutional Investors, seeks to encourage the institutional investor community to take action as they serve as responsible stewards in promoting the sustainable success of issuers. Institutional investors are required to factor an issuer's social, environmental and ethical performance into its monitoring, voting and engagement activities in creating sustainable capital markets, including supporting mandatory requirements to promote sustainability disclosure that is consistent and comparable across markets.

4.3.2 A comprehensive roadmap for adopting and supporting environmental, social and governance (ESG) practices and integrated reporting amongst issuer developed.

As envisioned in the Capital Markets Authority's Strategic Plan 2018-2023, a key strategic focus for developed markets was ensuring that capital market players enhance their policies around general corporate governance and ESG factors. This was identified as an important issue for the Authority to consider especially as Kenya seeks to enhance its attractiveness to foreign direct investments.

The development of this roadmap was informed by corporate governance advancements and the Authority's continuous efforts to foster good governance practices, with the focus currently being on ESG factors and integrated reporting as components of promoting sustainability. ESG has become a global concern with investors increasingly using it as a measure for responsible investment and business operation.

Capital Markets Stability Implications:

During the quarter, CMA Kenya supported the NSE to develop the draft ESG disclosure guidelines that are now out for comments and stakeholder feedback.

CMA will work towards implementing the roadmap for adopting and supporting environmental, social and governance (ESG) practices and integrated reporting amongst issuers going forward.

4.4 Corporate Bond Market

Source: Family Bank Website

4.4.1 EABL to pay 6bn corporate bond by 28th June 2021[11]

The early redemption will be effected on 28th June 2021 (the Early Redemption Date). The total outstanding principal amount of the Notes is Kenya Shillings six billion (KES 6,000,000,000). The Notes will be redeemed at an amount equal to the nominal value of the Notes, together with accrued but unpaid interest from the preceding Interest Payment Date, up to and including the Early Redemption Date (the Early Redemption Amount). Following the early redemption, the Notes will be delisted from the Fixed Income Securities Market Segment of the Nairobi Securities Exchange and this will mark the conclusion of its MTN Programme.

4.4.2 Family Bank to float Sh8 billion bond[12]

Early June, the Family Bank received formal approval from the Capital Markets Authority to raise up to Sh8 billion to strengthen its capital base and support lending. The bond will be in tranches through a multi-currency Medium Term Note (MTN). The Bank targeted to raise Shs3 billion in its first tranche with the balance to be raised within the next five years in various tranches.

[11] https://eabl.diageoplatform.com/sites/default/files/notice_of_mtn.pdf

[12] https://familybank.co.ke/family-bank/wp-content/uploads/2021/06/FBL-INFORMATION-MEMORANDUM-MAY-2021-FINAL.pdf

The first tranche comprising 3 billion KES with an approved green shoe option of Kshs1 billion was issued on 8 June 2021. It was fully subscribed, raising 4,417,710,000 KES from local fund managers, banks, retail investors, insurance companies and other institutional investors. This was equivalent to oversubscription of 147.3 percent.

The MTN programme will be issued as both Fixed Rate Notes and Floating Rate Notes. The notes will have a maturity period of not less than five years. The Floating Rate Notes will bear fixed interest payable on dates to be specified in the Pricing Supplement, while the Floating Rate Notes will bear interest benchmarked against the prevailing Treasury bill rate. The Kenya Shillings denominated notes will be listed on the Fixed Income Securities Market Segment of the Nairobi Securities Exchange.

The Notes will be issued as Dematerialized Notes in denominations of KES 100,000 and in integral multiples of KES 100,000 in excess thereof, subject to a minimum subscription amount of KES 100,000. The Notes shall rank as specified in the Summary of the Programme and as specified under the Terms and Conditions of the Notes.

Capital Markets Stability Implications:

These two developments signals recovery and soundness of corporate debt markets. The success of Family Banks bond issuance signals soundness and recovery of the corporate bond market as well as giving a clear indication of the depth of the capital markets as a good avenue to fund well-structured and innovative instruments.

4.5 Capital markets approves Crown Paints rights issue

Source: Crown Paints

The Capital Markets Authority (CMA) granted approval to Crown Paints Kenya Plc to undertake a rights issue to raise Ksh711, 810,000 by issuing and listing 71,181,000 new ordinary shares on the Nairobi Securities Exchange. The rights will be issued based on one new ordinary share for every one existing share.

According to the Information Memorandum, the main aim of the rights issue is to give the company financial flexibility to mitigate the challenges posed by the ongoing Covid-19 pandemic and boost the growth strategy for the company. The Group's management plans to use the rights issue funds to facilitate development of new products, retiring of current facilities, and funding regional expansion. CMA Chief Executive Officer, Wyckliffe Shamiah, observed that the disclosures made on the rights issue comply with the requirements of the Fourth Schedule to the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002, and contain information that will enable investors to make an informed decision on the rights issue.[13]

The Authority had reviewed the application for exemptions from complying with Regulation 4 of the Capital Markets (Take Over and Mergers) Regulations, 2002 in relation to the intention of the company's major shareholders, who have undertaken to take up their full rights entitlements. They are also willing to take more than their initial entitlements subject to availability during the rights issue.

Crown Paints Kenya Plc is expected to make bi-annual updates to the Authority on use of the proceeds of the rights issue in line with the disclosures contained in the Information Memorandum.

Capital Markets Stability Implications:

Crown Paints raised Ksh.642.7 million from its just concluded rights issue/additional shares issuance. Shareholders registered an over-subscription of bids for the rights issue under which they sought 81 million more shares for a combined Ksh.809.6 million.

The success of this rights issuance signals recovery of the equity market as well as giving a clear indication of the depth of the capital markets as a good avenue to fund well-structured and innovative instruments. This will spur greater equity listings that are in the pipeline.

[13] https://www.cma.or.ke/index.php?option=com_content&view=article&id=706:cma-approves-crown-paints-kenya-plc-rights-issue&catid=12&Itemid=207

4.6 Nation Media Group Share Buy Back

Source: NSE

Share buybacks, like dividends, are a frequent means for firms to share their wealth with investors because they not only generate price appreciation but also enhance investors' ownership stake by reducing the number of outstanding shares.

Globally, companies have been witnessed companies engaging in share buybacks for various reasons. They include but not limited to:

- Allocation of excess cash to shareholders in a straightforward manner.
- To take advantage of undervaluation.
- To facilitate the exit of a member through the disposal of the shares.
- Quick fix for financial statements to boost financial ratios.
- To avoid aggressive takeover threats.
- To absorb increases in outstanding shares resulting from prior employee stock options, as well as to use spare cash by repurchasing shares instead of paying special dividends.

Share buy backs are known to be more prevalent in the US than in other markets, although recent trends show that the concept has been embraced in Europe as well as in Asia and is making inroads in Africa with South Africa having already embraced it.

Following Covid-19 pandemic which has ravaged many economies including world's advanced economies, lots of activities on share buy backs has been experienced. In 2021, several corporations have announced share buybacks, with more expected to follow. Several global corporations, including Advanced Micro Devices Inc. (AMD), Apple, and Warren Buffett's Berkshire Hathaway, have lately undertaken massive stock repurchase transactions.

In Kenya, share buyback was introduced in the Companies Act way back in 2015 to allow companies to take advantage of the situations. Whereas the Companies Act provides for share buybacks, there are Do's and Don'ts. The Don'ts are basically to guard against abuses such as price manipulation.

Nation Media Group is the first listed company since the Companies Act of 2015 was enacted to do a share buyback. The company intends to repurchase up to 10% of its issued stock (about 20,739,652 shares).

Capital Markets Stability Implications:

Nation Media Group is the first listed firm in Kenya to do a share buyback. CMA-Kenya notes that this will pre-empt interest by other listed entities to consider this option as an additional strategy for them to re-invest in their operations and is ready to support them, if deemed eligible.

4.7 CMA approves registration of Masaru Unit Trust Fund

During the period under review CMA-Kenya granted approval to Synesis Capital Limited to register Masaru Unit Trust Fund as a Collective Investment Scheme consisting of two sub-funds: Masaru Money Market Fund and Masaru Wealth Fund. The fund manager for the Collective Investment Scheme is Orient Asset Managers Limited.[14]

[14] https://www.cma.or.ke/index.php?option=com_content&view=article&id=711:press-release-cma-approves-registration-of-masaru-unit-trust-fund&catid=12:press-center&Itemid=207#:~:text=The%20Board%20of%20the%20Capital,Fund%20and%20Masaru%20Wealth%20Fund.

The Fund seeks to obtain a moderate level of growth of investor's capital over time. To achieve this, it will seek to outperform other benchmark government securities available by investing in medium to long term interest-bearing securities and strong blue-chip companies both listed and unlisted on security exchanges.

CMA noted that approval was granted following in compliance with the requirements under Section 30 of the Capital Markets Act and Regulation 5 of the Capital Markets (Collective Investment Schemes) Regulations, 2001.

There are 26 licensed and approved collective investment schemes in the capital markets.

Capital Markets Stability implication:

The Authority recognizes that the development of a strong asset management sector is critical to creating investor confidence that boosts deepening of the capital markets. By putting in place a robust legal framework it will spur increased interest and participation by investors in Collective Investment Scheme. To this end the ongoing CIS regulations overhaul will serve to remove bottlenecks to the industry's growth.

4.8 CMA grants licenses to five coffee brokers

Source: Northern Ireland

On 28th June 2021, the Capital Markets Authority (CMA) issued the first set of licenses to five coffee brokers in line with the Capital Markets (Coffee Exchange) Regulations, 2020. The licenses will allow the brokers to carry out the role of coffee brokerage services at the Nairobi Coffee Exchange (NCE) with effect from 1 July 2021.

The five coffee brokers include: Meru County Coffee Marketing Agency Limited which is now a fully licensed coffee broker, while Kipkelion Brokerage Company Limited, Murang'a County Coffee Dealers Company, Mt. Elgon Coffee Marketing Agency Limited and United Eastern Kenya Coffee Marketing Company Limited have been granted conditional licenses. They are expected to come into full compliance with the requirements of the Coffee Exchange Regulations within the next three months.

Capital Markets Stability Implications:

CMA Kenya is fully supportive of the reforms in the coffee subsector and is ready to execute its mandate as envisaged in the regulatory framework as well as working with all relevant stakeholders to support implementation of reforms in the coffee subsector. As a result, these conditional licenses are our commitment to ensuring that the trading of coffee continues at the Nairobi Coffee Exchange without disruption even beyond the 30 June 2021 deadline. To ensure that there is no disruption in the coffee value chain, the Authority has granted an extension of 3 months to the Marketing Agents currently trading at NCE for them to apply for the coffee broker license.

4.9 EGM Securities introduces NSE Derivatives Trading

Source: NSE

On 20th April 2021 EGM Securities became Kenya's first online trading broker to offer derivative contracts on the NSE Derivatives Market. NSE derivatives contracts are based on the most liquid traded equities and index in Kenya.

The new NSE derivatives offering will provide investors with a revolutionary on boarding process that will take less than five minutes to start trading as opposed to the current average two-day processing time, putting Kenya at par with global standards.

Collaboration between the NSE Derivatives Market, EGM Securities, and their parent company Equity Group's global Product team, has made this new NSE derivatives offering possible for Kenyan investors.

EGM Securities will initially introduce futures contracts on the six most traded Kenyan stocks, namely: British American Tobacco Kenya, KCB Group Plc, Equity Group Holdings, Safaricom Plc, East African Breweries Plc and ABSA Bank Kenya Plc, as well as the NSE 25 Index created to cover 25 of the most liquid and blue-chip stocks in Kenya.

Capital Markets Stability Implications:

The Authority notes that this innovative development will enable investors take quick advantage of intraday trading opportunities on the derivatives markets leading to the attractiveness of the derivatives market segment.

4.10 Market Infrastructure

4.10.1 NSE launches unquoted platform

Source: NSE

The Nairobi Securities Exchange (NSE) Plc has officially launched its Unquoted Securities Platform (USP). The USP is a market infrastructure that facilitates the trading, clearing and settlement of securities of unquoted companies in Kenya. This development is part of NSE's ongoing initiatives to ensure the market can facilitate the trading and clearing of all financial market transactions conducted in the market. [15]

Mr. Geoffrey Odundo, NSE Chief Executive, noted "There has been substantial growth in the number of securities trading over the counter. Most involve leading securities of well-developed companies across various sectors of the economy

[15] https://kenyanwallstreet.com/nse-launches-unquoted-securities-platform-2/

including commercial banks and insurance companies, co-operative societies, leading private companies among many more."

"Equally, the last few years have witnessed an increase in the number of companies raising long term initial and ongoing equity and debt capital through private placements." He added.

The automated USP solution offers numerous advantages that companies can explore as they pursue capital raising and price discovery while offering an easier transfer platform for investors. Investors enjoy a reduction of settlement delays, and the system allows surveillance by the Exchange and the Regulator, thereby protecting investors in the market.

The register of investors is managed by an independent registrar protecting the register from possible manipulation. Additionally, the platform eliminates possibilities of human error associated with manual processing. For issuers, the platform provides access to capital and an introduction to capital market transactions easing their possible transition into the main quoted market. This development is part of NSE's ongoing initiatives to ensure the market can facilitate the trading and clearing of all financial market transactions.

Capital Markets Stability Implications:

The Authority welcomes this positive development in its mandate to develop the market as quoting securities on the unquoted securities platform (USP) will allow different asset classes to access a wider pool of investors, enhance liquidity of the asset classes as well as support capital raising needs in the future.

5.0.2 NSE Launches Mini NSE 25 Index Futures Contracts for the Derivatives Market.

The NSE Derivatives Market (NEXT) has formally launched the Mini NSE 25 index futures contracts. The Mini NSE 25 index futures contract will appeal to retail investors due to its lower initial margin requirements.

Figure 11: The Initial Margin requirements for the mini-index.

Expiry (Maturity)	16-Sep-21	16-Dec-21	17-Mar-22	16-Jun-22
Margin Requirements (KES)	4,500	4,700	4,900	5,100

Source: NSE

Equity Index Futures are derivative instruments that give investors exposure to price movements on an underlying Index. Market participants can profit from the price movements of a basket of equities without trading the individual constituents. An index futures contract gives investors the ability to buy or sell an underlying listed financial instrument at a fixed price on a future date. These products are cash settled and easily accessible via NSE Derivatives Trading Members.

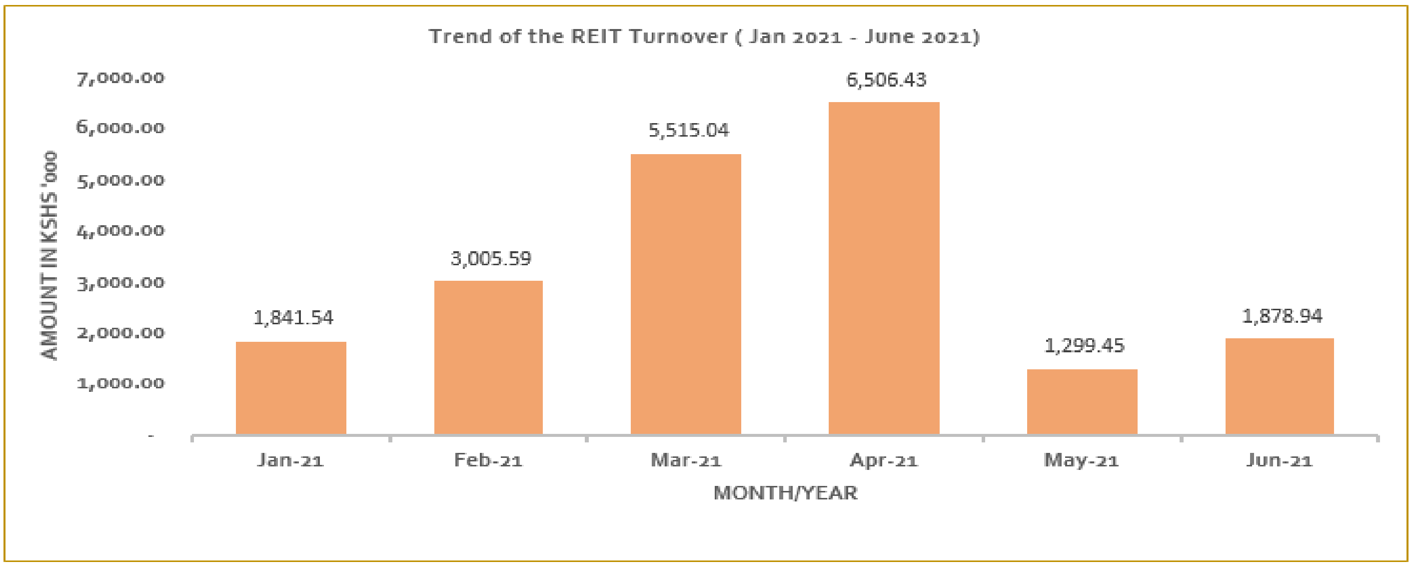
Capital Markets Stability Implications:

The Authority notes that this will go a long way in increasing liquidity and encouraging broad exposure to the Kenyan equities market through the equity index futures contracts and that, the Derivatives market in Kenya is coming of age.

4.11 Performance of Alternative Asset Classes Listed at the NSE – REITs and ETFs

In 2021, the rally in the Real Estate Investment Trusts (REITs) at the Nairobi Securities Exchange (NSE) continued from January to April 2021 before slowing down in May and picking up in June 2021. The REITs market is showing recovery, which could as well be seen in price gain of the share of ILAM Fahari I-REIT.

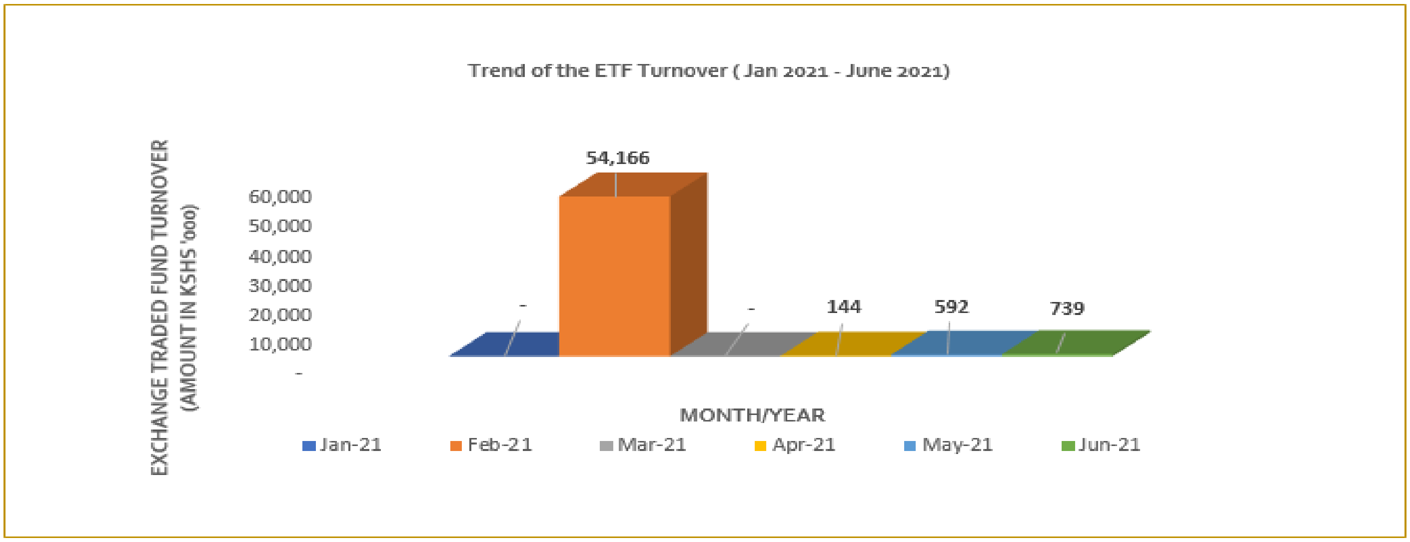
Figure 12: Trend of Performance of Real Estate Investment Trusts in Kenya (Jan 2021 – June 2021)



Source: CMA/NSE

Similarly, during the quarter, investors in the gold-backed exchange traded fund (ETF) at the Nairobi Securities Exchange (NSE) enjoyed a resumption of activities in gold ETF after a dry spell recorded in January and March 2021 as shown in increasing turnover levels in figure 12 following a sharp rise in the global price of the precious metal as gold is seen as a haven investment at times of economic shocks.

Figure 13: Trend of Performance of Exchange Traded Fund in Kenya (Jan 2021 – June 2021)



Source: CMA/NSE

4.12 Summary of Performance in the Domestic Economy

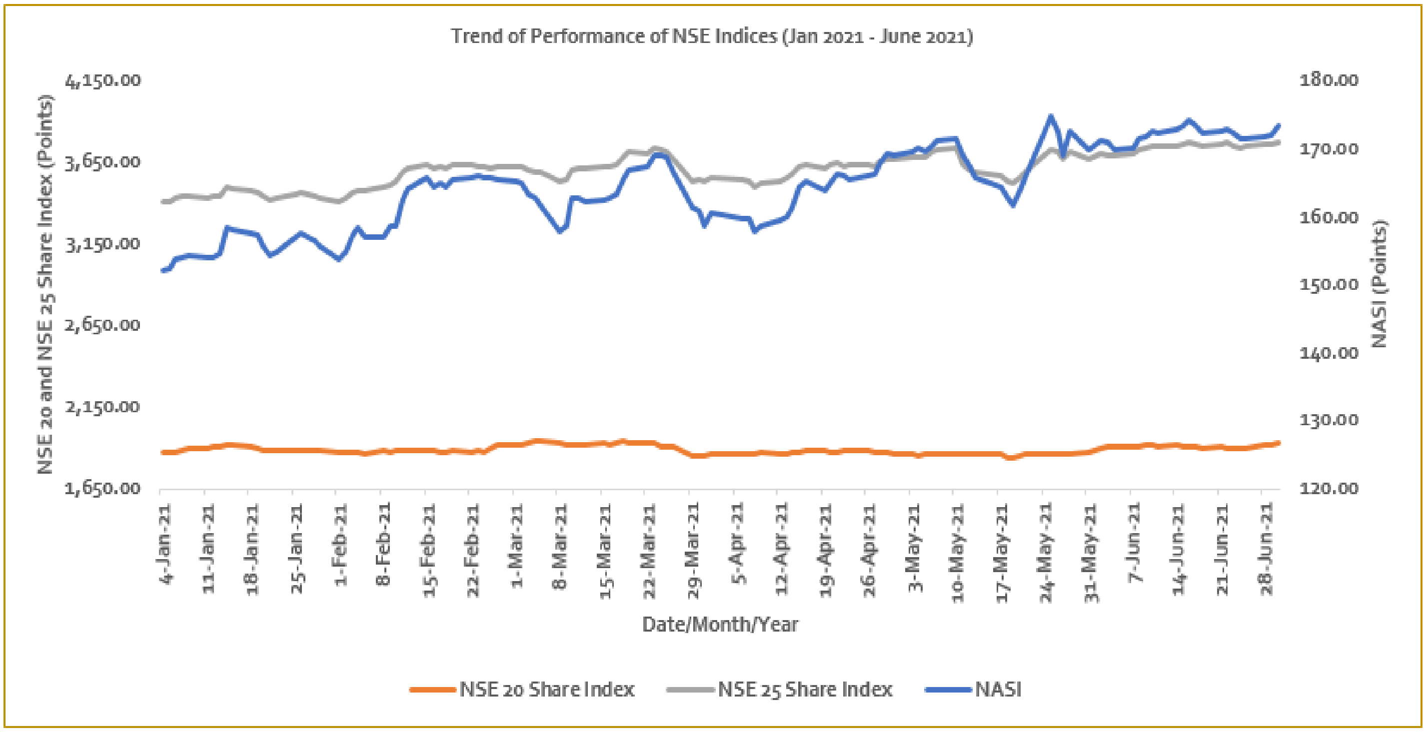
a. Performance of Equity Markets

Table 6: Summary of Equity Markets Performance

Year	Month	Equity Turnover (Kshs Bn)	Share Volume (Mn)	NASI	NSE 20 Index	NSE 25 Share	Market Cap (Kshs Bn)
Q2 2020	April	12.7	439.0	139.7	1,958.1	3,292.6	2,135.0
	May	14.6	430.3	137.1	1,948.1	3,203.9	2,095.9
	June	12.3	552.6	137.7	1,942.1	3,217.1	2,104.3
	Total	**39.6**	**1,421.9**				
Q3 2020	July	13.5	517.1	133.2	1,804.1	3,059.6	2,036.0
	Aug	10.5	470.6	139.7	1,794.9	3,223.8	2,144.4
	Sep	13.9	524.5	139.9	1,852.3	3,258.8	2,147.7
	Total	**37.9**	**1,512.2**				
Q4 2020	Oct	5.88	219.42	140.04	1,783.68	3,170.87	2,150.06
	Nov	11.39	381.02	145.20	1,759.93	3,264.15	2,229.49
	Dec	10.24	369.13	152.11	1,868.39	3,415.24	2,336.70
	Total	**27.5**	**969.57**				
Q1 2021	Jan	8.85	294.14	155.59	1,881.91	3,434.52	2,390.29
	Feb	10.82	330.68	165.39	1,915.68	3,624.96	2,541.16
	Mar	12.06	372.93	158.62	1,846.41	3,531.58	2,437.04
	Total	**31.73**	**997.75**				
Q2 2021	April	9.87	293	169.15	1,866.58	3,674.77	2,599.05
	May	14.16	385.94	169.97	1,871.55	3,669.57	2,646.71
	June	13.95	420.35	173.53	1,927.53	3,772.19	2,702.22
	Total	**37.98**	**1,099.29**				

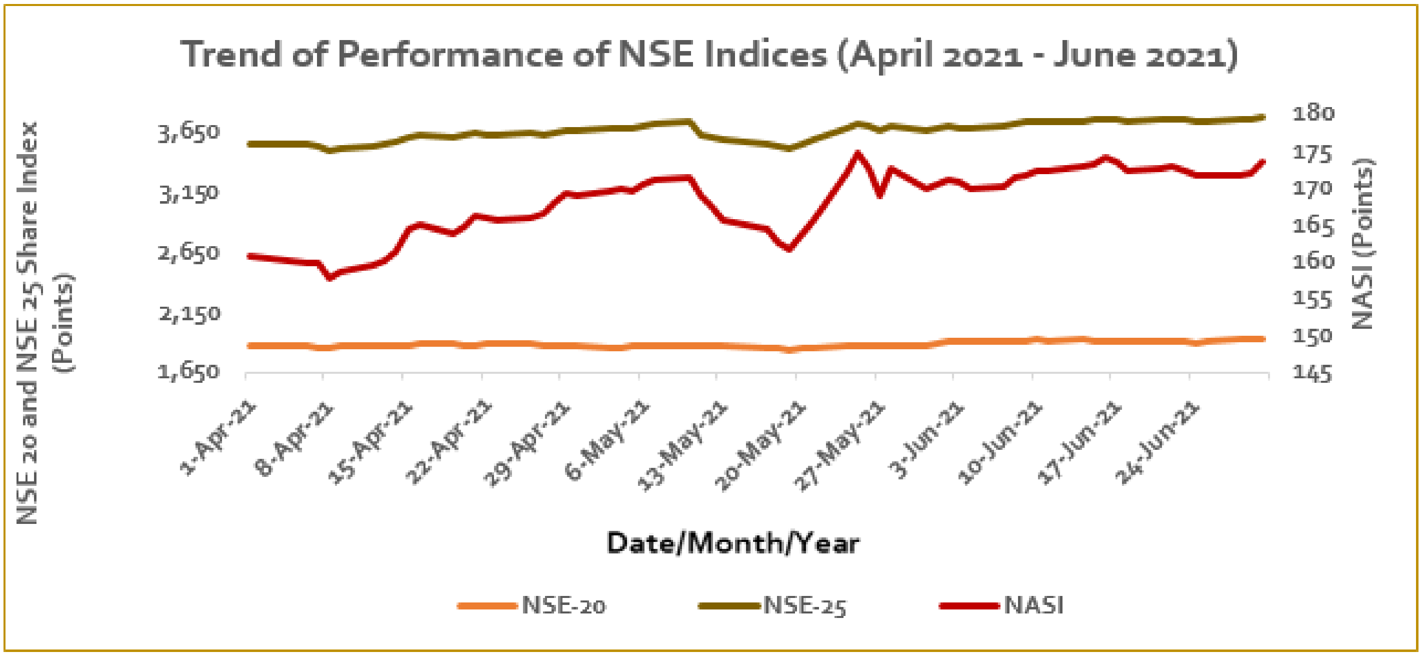
Source: CMA/NSE

Figure 14: Trend of Performance of NSE Indices (Jan 2021 – June 2021)



Source: CMA/NSE

Figure 15: Trend of Performance of NSE Indices During the Quarter (April - June) 2021



Source: NSE/CMA

b. Performance in the Bond Market

Treasury bond Market

In the primary treasury bonds market, a quarterly analysis indicates that during Q2. 2021, Five (5) Treasury bonds and Two (2) tap sales were issued. In issuing these bonds, the government sought to raise KES. 190 billion but received subscription worth KES. 255.50 billion. In the end, the government accepted bonds worth KES. 173.79 billion, indicating a 68.02 acceptance rate. Generally, the oversubscription of the treasury bonds was due to the eighteen-year amortized infrastructure bond seeking to raise KES. 60 billion which registered a subscription performance rate of 147.63%. Total bids received amounted to KES 88.58 billion with Central Bank accepting KES 81.94 billion.

Table 7: Treasury bond Performance (April 2020 - June 2021)

	BOND	Amt Issued (Kshs. Bn)	Amt Received (Kshs. Bn)	Amt Accepted (Kshs. Bn)	% AA/AI	% AR/AI
April 2020	**IFB1/2020/9**	60.00	68.41	39.01	65.02	114.02
	Tap Sale	21.00	37.84	35.39	168.52	180.19
May 2020	**FXD1/2020/5**	50.00	34.53	20.78	41.56	69.06
	FXD1/2020/5	30.00	20.58	8.95	29.83	68.6
June 2020	**IFB1/2020/6**	25.60	21.16	19.28	75.31	82.66
	FXD3/2019/5	40.00	60.89	16.53	41.33	152.22
	FXD4/2019/10		44.25	32.80	82.00	110.62
July 2020	**FXD1/2020/05**	60.00	65.34	9.34	15.57	108.90
	FXD2/2018/10		55.49	21.27	34.45	92.48
	FXD1/2019/15		60.95	50.24	83.73	101.58
	Tap Sale	40.00	40.26	41.01	102.53	100.65
August 2020	**IFB1/2020/11**	70.00	101.47	78.64	112.34	144.96
Sep 2020	**FXD2/2010/15**	50.00	17.84	11.02	22.04	35.68
	FXD1/2020/15		49.79	45.69	91.38	99.58
	FXD1/2011/20		14.04	7.47	14.94	28.08
Oct 2020	**FXD 1/2011/20**	50.00	23.16	16.99	33.98	46.32
	FXD 1/2018/25		45.98	43.03	86.06	91.96
Nov 2020	**FXD 2/2013/15**	40.00	27.10	26.22	65.55	67.75
	FXD 1/2018/20		28.88	27.49	68.73	72.20
Dec 2020	**FXD 1/2012/15**	40.00	9.26	8.55	21.38	23.15
	FXD 1/2019/15		15.08	9.71	24.28	37.70
Jan 2021	**FXD 1/2021/002**	25.00	61.15	55.86	223.44	246.20

	BOND	Amt Issued (Kshs. Bn)	Amt Received (Kshs. Bn)	Amt Accepted (Kshs. Bn)	% AA/AI	% AR/AI
	IFB1/2021/016	50.00	125.47	81.05	162.1	250.94
Feb 2021	**FXD 2/2013/15**	50.00	13.55	9.41	18.82	27.10
	FXD 1/2012/20		28.31	22.71	45.42	56.62
	Tap Sale	18.00	11.24	10.91	60.61	62.44
March 2021	**FXD 1/2019/10**	50.00	15.90	15.51	31.02	31.80
	FXD 2/2018/20		32.81	32.80	65.60	65.62
April 2021	**IFB1/2021/018**	60.00	88.58	81.94	136.57	147.63
May 2021	**FXD 2/2019/15**	30.00	11.58	6.04	20.13	38.60
	FXD 1/2021/25		31.00	14.25	47.50	103.33
	Tap Sale	20.00	20.93	20.69	103.45	104.65
June 2021	**FXD 1/2019/20**	30.00	41.05	13.40	44.67	136.83
	FXD 1/2012/20		23.88	6.29	20.97	79.60
	Tap Sale	50.00	38.48	37.47	74.84	76.96

Source: CMA/NSE

Table 8: Summary of Annual Treasury and Corporate Bond Turnover (2019-2021)

	Treasury Bond Turnover (Kshs Bn)	Corporate Bond Turnover (Kshs Bn)	Total Bond Turnover (Kshs Bn)
2019	651.35	3.70	655.06
2020	690.58	1.18	691.76
2021	470.02	0.59	470.62

Source: CMA/NSE

The bond market turnover increased significantly by 36.04 per cent with KES 271.24 billion worth of bonds traded during the second quarter of 2021 compared to KES. 199.38 billion worth of bonds traded in the first quarter of 2021. A further comparison of bonds market, Treasury bond turnover concentrated the bonds market accounting to over ninety-nine per cent.

The is attributable to local institutional investors increasing their allocation to Treasury bonds as they sought for stable returns, after increased volatility in other asset classes during times of uncertainty.

Corporate Bond issues

A lot of activities have been experienced in the corporate bond market during the quarter which will go a long way in instilling confidence in the corporate bond markets.

- EABL announced that it was planning for early redemption of KES 6 billion corporate bond by 28th June 2021.
- Family Bank redeemed its five and half years Medium-Term Notes worth KES 2.0188 billion that was due on 19th April 2021.
- Subsequently, during the same quarter under review, the Family Bank received formal approval to raise up to Sh8 billion to strengthen its capital base and support lending. The Bank targeted to raise KES 3 billion in its first tranche with the balance to be raised within the next five years in various tranches. The first tranche comprising Shs3 billion with an approved green shoe option of Kshs1 billion was issued on 8 June 2021. It was fully subscribed, raising KES 4,417,710,000 from local fund managers, banks, retail investors, insurance companies and other institutional investors. This was equivalent to oversubscription of 147.3 percent.

Early redemption of EABL bond, redemption of family bank five year and half medium-term note, and subsequent oversubscription of Family Bank bond signals strong recovery and soundness of corporate debt markets in Kenya.

5.2.3 Performance of Listed Companies

Table 9: Price Gainers

Counter	31st March 2021	30th June 2021	% change
NAIROBI BUSINESS VENTURES LTD	4.20	10.20	142.86%
NATION MEDIA GROUP LTD	16.85	25.00	48.37%
BK GROUP PLC	20.25	27.00	33.33%
JUBILEE HOLDINGS LTD	270.50	350.50	29.57%
CAR & GENERAL (K) LTD	22.15	26.50	19.64%
EQUITY GROUP HOLDINGS PLC	37.95	44.75	17.92%
UCHUMI SUPERMARKET PLC	0.23	0.27	17.39%
EAST AFRICAN BREWERIES LTD	158.00	180.75	14.40%
SAFARICOM PLC	36.25	41.45	14.34%
KAKUZI PLC	355.00	405.00	14.08%

Source: NSE

The following activities were witnessed during the quarter under review which could partly explain price gains of some stocks.

- NBV has ventured into manufacturing its own leather products and has embarked on an accelerated expansion drive which will see it roll out more than 25 stores over the next half decade.
- Nation Media Group became the first listed company since the Companies Act of 2015 was enacted to do a share buyback in Kenya. The company intends to repurchase up to 10% of its issued stock (about 20,739,652 shares).
- Equity Group announced in May 2021 that it had bought a 7.7% share in Equity Bank Congo (EBC) from the German Sovereign Wealth Fund for KES 996.0 million (KfW). This comes after Equity Group recently purchased a 66.5 percent share in Banque Commerciale Du Congo (BCDC) for KES 10.2 billion in August 2020.
- EABL announced that it was planning for early redemption of KES 6 Billion Corporate bond by 28th June 2021.
- Entry of Safaricom to Ethiopia could have been attributed to rally in firm's share price which saw high demand of Safaricom stock with investors jumping into the market to take profit on the stock.

Table 10: Price Losers

Counter	31st March 2021	30th June 2021	% change
I&M HOLDINGS PLC	50.00	21.85	56.30%
EAAGADS LTD	14.30	10.65	25.52%
TPS EASTERN AFRICA LTD	17.95	14.00	22.01%
UMEME LTD	7.12	5.84	17.98%
STANDARD GROUP PLC	21.00	17.40	17.14%
KENGEN CO. PLC	4.55	3.94	13.41%
CROWN PAINTS KENYA PLC	41.90	36.30	13.37%
THE LIMURU TEA CO. PLC	360.00	320.00	11.11%
UNGA GROUP LTD	30.70	27.80	9.45%
STANLIB FAHARI I-REIT	6.76	6.14	9.17%

Source: NSE

During the quarter, after gaining all necessary regulatory clearances, I&M Holdings PLC stated[16] that it had finalized the 90.0 percent acquisition of Orient Bank Limited Uganda (OBL) share capital. I&M Holdings was expected to pay Kshs 3.6 billion for the acquisition. I&M Holdings will also take over 14 branches from OBL, bringing the total number of branches to 80, up from 66. OBL is the 12th largest bank and a licensed and established commercial bank in Uganda.

[16] https://www.orient-bank.com/wp-content/uploads/2021/05/IM-Holdings-PLC-Completes-Acquisition-of-Orient-Bank-Limited-in-Uganda.pdf

5.0 Capital Markets Stability Soundness Indicators for the Period April – June 2021

Table 11:Summary of Capital Markets Stability Indicators for the period April – June 2021

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Soundness Review
1.0 Equity Market Depth								
NSE 20 Index Volatility **Base Year = 2010**	**Q2.2021**	**April**	**May**	**June**	**Q.Avg**	**Medium (indicative – Low < 1% Medium: >1% high; >10%)**	The average NSE 20 Share Index volatility decreased marginally by **0.03%** in the second quarter of 2021 with the month of May recording low volatility of **0.28%.** Similarly, the NASI Index volatility for the quarter under review averaged at	Volatility remains relatively low compared to last quarter as investors appeared to have priced in the covid-19 risk and are steadily returning to the bourse shopping for profitable counters.
		0.36%	0.28%	0.37%	0.34%			
	Q1.2021	**Jan**	**Feb**	**March**	**Q.Avg**			
		0.32%	0.36%	0.42%	0.37%			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		0.21%	0.44%	0.39%	0.35%			
	Q3.2020	**July**	**Aug**	**Sep**	**Q.Avg**			
		0.66%	0.70%	0.41%	0.59%			
NASI Volatility **Base Year = 2010**	**Q2.2021**	**April**	**May**	**June**	**Q. Avg**	**Medium (indicative – Low < 1% Medium:**		
		0.61%	0.86%	0.37%	0.61%			
	Q1.2021	**Jan**	**Feb**	**March**	**Q. Avg**			
		0.49%	0.65%	0.71%	0.62%			

	Q4.2020	**Oct**	**Nov**	**Dec**	**Q. Avg**	**>1% high; >10%)**	**0.61%,** compared to the Q1.2021 average of **0.62%** with the month of May recording high volatility of **0.86%.**	
		0.35%	0.67%	0.55%	0.52%			
	Q3.2020	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.73%	0.73%	0.43%	0.63%			
Turnover Ratio	**Q2.2021**	**April**	**May**	**June**	**Q. Avg**	**Low (indicative – annual: <8%- Low; >15% High)**	Turnover ratio for the second quarter of 2021 averaged at **0.48%,** recording an increase from previous quarter average of **0.43%.**	Turnover ratio rose sharply in May and June driven by the upturn in equities trading volumes of large cap stock in the telecommunication, banking and manufacturing and allied sectors.
		0.39%	0.54%	0.52%	0.48%			
	Q1.2021	**Jan**	**Feb**	**March**	**Q. Avg**			
		0.37%	0.43%	0.48%	0.43%			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.27%	0.52%	0.45%	0.41%			
	Q3.2020	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.64%	0.51%	0.65%	0.60%			

							Similar to high volatility in NASI recorded in the month of May, the same was witnessed for turnover ratio with the same month (May) recording high turnover ratio of **0.54%.**	
2.0	**Foreign Exposure Risk**							
Foreign Investor turnover as a % of total turnover	**Q2.2021**	**April**	**May**	**June**	**Q. Avg**	**Medium (indicative – annual: <40%- Low;**	The Foreign investor participation decreased by **1.64%** during the quarter under review to	The reduced foreign investor activity could be linked to profit taking following last quarter's dividend book closure. Generally, the bourse has consistently experienced a declining net foreign
		64.75%	56.71%	54.74%	**58.73%**			
	Q1.2021	**Jan**	**Feb**	**March**	**Q. Avg**			
		62.79%	61.96%	56.37%	**60.37%**			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q. Avg**			

		68.16%	67.97%	61.79%	**65.97%**	**>90% High)**	close the period at **58.73%** compared to **60.37%** recorded in Q1. 2021. Noteworthy was the month of May and June which recorded low investor participation to close the month at **56.71%** and **54.74%** respectively.	outflow for all the quarters under review.
	Q3.2020	**July**	**Aug**	**Sep**	**Q. Avg**			
		60.62%	65.14%	75.55%	**67.10%**			
	Q2.2021	**April**	**May**	**June**	**Q. Sum**	**High**		

Net Foreign Portfolio Flow (In KES Millions)		(31)	(782)	(1,196)	**(2,009)**	**(indicative – annual: <Kshs (50million) -High (outflow; >Kshs. 50 million High inflow)**	Net Foreign Portfolio for the quarter under review totaled to an outflow of **Kshs 2,009 Million** compared to Q1. 2021 outflow sum of **Kshs 976 Million** With the month of June recording high outflows accounting for **59.53%** of the outflow recorded in the months of Q2. 2021 to close the month with
	Q1.2021	**Jan**	**Feb**	**March**	**Q. Sum**		
		621	(621)	(976)	**(976)**		
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q. Sum**		
		(1128)	(1186)	(354)	**(2668)**		
	Q3.2020	**July**	**Aug**	**Sep**	**Q. Sum**		
		(5,339)	10	802	**(4528)**		

							outflow of **Kshs 1,196 Million**.	
3.0	**Market Concentration Risk**							
Market Concentration (Top 5 companies by market cap)	**Q2.2021**	**April**	**May**	**June**	**Q. Avg**	**High (indicative – annual: >50% High concentration)**	The top five companies by market capitalization remained high during the second quarter of 2021 with concentration on average during the quarter surpassing 80% to stand at **80.61%**, recording a **1.40%** increase from last	Market concentration remains a key risk within our market. The top five companies account for more than 80% of the total market share at NSE during the quarter with telecommunication sector (Safaricom) on some instances accounting for 60% of the market share. The Authority, with Nairobi Securities Exchange and Privatization Commission continues to advocate for Government's use of capital markets through privatization of some big state enterprises which would help reduce this concentration risk which has been there for years. The impending overhaul of the Public
		79.77%	80.92%	81.13%	**80.61%**			
	Q1.2021	**Jan**	**Feb**	**March**	**Q. Avg**			
		78.56%	79.43%	79.65%	**79.21%**			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		77.20%	77.96%	78.19%	**77.78%**			
	Q3.2020	**July**	**Aug**	**Sep**	**Q. Avg**			
		75.61%	76.14%	77.03	**76.24%**			

							quarter's percentage of **79.21%.**	Offers Listings and Disclosure Regulations is also expected to attract larger private sector corporates and Small and Medium Enterprises (SMEs)
4.0	**Derivatives Trading Statistics**							

		April-21	May-21	June-21	Q4. Sum				
Total Volume **(No. of contracts)**	25-Share Index	3	4	2	9		**Low**	In the month of April, the total number of contracts traded were **706** compared to **1,032** in May and **747** in June. Noteworthy, May number of contracts traded increased significantly with over **46.18%** from April 2021 contracts. The **Safaricom SSF** remained **dominant**	The derivatives market activity has consistently registered increased activity especially from the beginning of last year. With EGM Securities
	NSE-25 Mini	-	-	3	3				
	SCOM SSF	442	585	249	1,276				
	EQTY SSF	150	185	170	505				
	KCBG SSF	69	96	65	230				
	EABL SSF	18	54	49	121				
	BATK SSF	13	29	26	68				
	ABSA SSF	11	79	183	273				
	Total	**706**	**1,032**	**747**	**2,485**				

			accounting for **51.34%** of the contracts traded during the quarter, followed by **Equity** which accounted for **20.32%** contracts traded, **ABSA**, **KCB**, and **EABL** accounted for **10.99%, 9.26%,** and **4.87%** respectively. Generally, number of contracts traded increased tremendously to a high record of **2,485 contracts** compared to previous quarter where **1,101 contracts** were traded	becoming Kenya's first online trading broker to offer derivative contracts on the NSE Derivatives Market, the new NSE derivatives offering will provide investors with a more effective on-boarding process that will take less

<table>
<tr><td></td><td colspan="5"></td><td></td><td>representing a 125.70% increase in contracts traded.</td><td rowspan="7">than five minutes to start trading as opposed to the current average two-day processing time, putting Kenya at par with global standards.</td></tr>
<tr><td rowspan="6">Gross Notional Exposure (GNE)[17]</td><td></td><td>April-21</td><td>May-21</td><td>June-21</td><td>Q4. Sum</td><td rowspan="6">Low</td><td rowspan="6">The total value (Gross Notional Exposure) of contracts traded during the quarter under review totaled Kshs. 92.81 Million with the month of May accounting for that exposure by up to 42.62%.

Generally, the total value of contracts traded increased significantly by 67.01% totaling to Kshs. 92.81 Million</td></tr>
<tr><td>25-Share Index</td><td>1,081,900</td><td>1,436,300</td><td>752,600</td><td>3,270,800</td></tr>
<tr><td>NSE-25 Mini</td><td>-</td><td>-</td><td>112,940</td><td>112,940</td></tr>
<tr><td>SCOM SSF</td><td>17,199,020</td><td>23,555,530</td><td>10,290,790</td><td>51,045,340</td></tr>
<tr><td>EQTY SSF</td><td>5,825,560</td><td>7,584,790</td><td>7,561,940</td><td>20,972,290</td></tr>
<tr><td>KCBG SSF</td><td>2,765,280</td><td>3,981,430</td><td>2,779,470</td><td>9,526,180</td></tr>
</table>

[17] Gross Notional Exposure = no. of Contracts * notional contract size * market price of underlying equity shares or index. The GNE is the value amount. It is the exact conversion of the derivative into the market value of an equivalent position in the underlying asset of that derivative.

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<tr><td>EABL SSF</td><td>303,635</td><td>946,650</td><td>913,555</td><td>2,163,840</td></tr>
<tr><td>BATK SSF</td><td>591,010</td><td>1,343,025</td><td>1,154,850</td><td>3,088,885</td></tr>
<tr><td>ABSA SSF</td><td>97,570</td><td>708,780</td><td>1,821,580</td><td>2,627,930</td></tr>
<tr><td>Total</td><td>27,863,975</td><td>39,556,505</td><td>25,387,725</td><td>92,808,205</td></tr>
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<td>during the second quarter of 2021 compared to Kshs. 55.57 Million recorded in the previous quarter.</td>
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<tr>
<td>Total Open Interest[18](No. of Contracts)</td>
<td>
<table>
<tr><th></th><th>April-21</th><th>May-21</th><th>June-21</th><th>Q4. Avg</th></tr>
<tr><td>25-Share Index</td><td>-</td><td>1</td><td>1</td><td>1</td></tr>
<tr><td>NSE-25 Mini</td><td>-</td><td>-</td><td>3</td><td>3</td></tr>
<tr><td>SCOM SSF</td><td>172</td><td>143</td><td>100</td><td>138</td></tr>
<tr><td>EQTY SSF</td><td>43</td><td>36</td><td>42</td><td>40</td></tr>
<tr><td>KCBG SSF</td><td>54</td><td>41</td><td>45</td><td>47</td></tr>
</table>
</td>
<td>Low</td>
<td>Safaricom, continued to dominate total open interest during the quarter under review averaging to 138 contracts out of the total average open interest contracts of 335. ABSA came in second with 70 contracts, while KCB ranked</td>
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</table>

[18] Open interest is the total number of outstanding derivative contracts that have not been settled or closed. It is a measure of market interest.

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<tr><td>EABL SSF</td><td>18</td><td>20</td><td>23</td><td>20</td></tr>
<tr><td>BATK SSF</td><td>4</td><td>10</td><td>39</td><td>18</td></tr>
<tr><td>ABSA</td><td>53</td><td>113</td><td>44</td><td>70</td></tr>
<tr><td>Total</td><td>344</td><td>364</td><td>297</td><td>335</td></tr>
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<td>third with 47 contracts. Equity was fourth with 40 contracts.

The 25-Share index, newly introduced NSE-25 Mini and BAT contracts had the least, recording an average of 1, 3, and 7 open interest contracts respectively.</td>
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<tr>
<td>Settlement Guarantee Fund (SGF) Coverage[19] for Derivatives</td>
<td>
<table>
<tr><th></th><th>April-21</th><th>May-21</th><th>June-21</th></tr>
<tr><td>SGF</td><td>154,045,636</td><td>154,841,438</td><td>152,182,671</td></tr>
</table>
</td>
<td>Low</td>
<td>The SGF coverage ratio for the derivatives market for Q2. 2021 saw the month of April, May,</td>
<td>To maximize value from the SGF fund balances, there is</td>
</tr>
</table>

[19] An indicator of the level of coverage the SGF provides for the derivatives market. It is the total SGF amount divided by the average value of all positions in the derivatives market.

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<tr><td>Average Market Value</td><td>1,397,258</td><td>1,977,825</td><td>1,269,386</td></tr>
<tr><td>SGF Coverage</td><td>110 times</td><td>78 times</td><td>120 times</td></tr>
</table>
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<td>and June record 110, 78, and 120 times respectively.</td>
<td rowspan="2">deliberate effort by NSE to encourage increased activity by market intermediaries in this market for increased volumes of trade. For instance during the quarter, the NSE Derivatives Market (NEXT) formally</td>
</tr>
<tr>
<td>SGF Coverage of Clearing Member 1 and Clearing Member 2[20]</td>
<td>
<table>
<tr><th></th><th>April-21</th><th>May-21</th><th>June-21</th></tr>
<tr><td>SGF</td><td>154,045,636</td><td>154,841,438</td><td>152,182,671</td></tr>
<tr><td>Avg Value CM1</td><td>1,290,156</td><td>1,810,793</td><td>1,139,712</td></tr>
<tr><td>Avg Value CM2</td><td>107,101</td><td>167,032</td><td>129,674</td></tr>
<tr><td>SGF Coverage CM1</td><td>119 times</td><td>86 times</td><td>134 times</td></tr>
</table>
</td>
<td>Low</td>
<td>SGF Coverage for both clearing members remains sufficient with CM1 and CM2 recording coverage of 134 times and 1,174 times respectively in June 2021.</td>
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</table>

[20] Total SGF Amount/Average value of the positions of CM1 and CM2.

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<tr><td>SGF Coverage CM2</td><td>1,438 times</td><td>927 times</td><td>1,174 times</td></tr>
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<td>launched the Mini NSE 25 index futures contracts. The Mini NSE 25 index futures contract will appeal to retail investors due to its lower initial margin requirements. This will go a long way in increasing liquidity and encouraging broad exposure to the Kenyan</td>
</tr>
</table>

								equities market through the equity index futures contracts.
5.0	**Government Bond Market Exposure**							
Treasury Bond market turnover Concentration	**Q2.2021**	**April**	**May**	**June**	**Q. Avg**	**High (indicative – annual: >50% High concentration)**	Treasury bond turnover remained high accounting for **99.88%** of the bonds market on average during the second quarter of 2021.	Treasury bonds during the quarter sustained high turnover as investors took positions on the basis of the safety of Government paper.
		99.99%	99.66%	100%	**99.88%**			
	Q1.2021	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		99.95%	100%	99.91%	**99.95%**			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		99.90%	99.90%	99.55%	**99.78%**			
	Q3.2020	**July**	**Aug**	**Sep**	**Q. Avg**			
		99.99%	99.84%	100%	**99.94%**			

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<td>Corporate Bond Market ownership</td>
<td>
<table>
<tr><th>Category</th><th>No of Trades</th><th>Amount Outstanding (Millions)</th><th>% of total share quantity</th></tr>
<tr><td>Local Investors</td><td>31</td><td>1,192.50</td><td>94.67%</td></tr>
<tr><td>Foreign Investors</td><td>1</td><td>30.90</td><td>5.12%</td></tr>
<tr><td>East African Investors</td><td>0</td><td>0</td><td>0.24%</td></tr>
<tr><td>Total</td><td>32</td><td>1,223.40</td><td>100%</td></tr>
<tr><td colspan="4">Source: CDSC Data as of June 2021</td></tr>
</table>
</td>
<td>High (indicative – annual: >50% High concentration</td>
<td>Local Corporate bond investors were the leading investors in corporate bonds at 94.67% of the total share quantity and the balance of 5.12% being attributed to foreign investors while East African Investors accounted for 0.24%.</td>
<td>The Family Bank received formal approval from the Authority to raise up to Sh8 billion to strengthen its capital base and support lending. The bond will be in tranches through a multi-currency Medium Term Note (MTN). The Bank targeted to raise Shs3 billion in its first tranche with the balance to be raised within the next five years in various tranches.

The first tranche comprising Shs3 billion with an approved green shoe option of Kshs1 billion was issued on 8 June 2021. It was fully subscribed, raising Shs 4,417,710,00 from local fund managers, banks, retail investors, insurance companies and other institutional investors. This was equivalent to oversubscription of 147.3 percent.</td>
</tr>
</table>

				Oversubscription of this bond signals strong recovery and soundness of corporate debt markets in Kenya.
6.0	**Investor Profiles - Equity Market**			
Equity Market	(see table below)	**Medium (indicative – annual: >50% High concentration)**	Local investors accounted for **49.82%** of total shares held in the equity market, being the largest proportion. Foreign investors came second accounting for **47.43%** of total shares held in the equity market as at	Local investors exceeded Foreign corporate entities and investors by **2.39%** in the total volume of shares traded. Local investors have actively been ramping up their positions following the exits by foreign investors this quarter.

Type of Investor	Share Quantity (Millions) – Q1. 2021	Share Quantity (Millions) – Q2. 2021	% to Total Share Quantity – Q2. 2021
Local Investors	951.15	1,095.61	**49.82%**
EA Investors	39.29	60.18	**2.74%**
Foreign Investors	1,012.63	1,043.05	**47.43%**
BR	0.4796	0.4361	**0.0198%**
JR	0.0066	0.0120	**0.0005%**
Total	2,003.56	2,199.29	**100%**

Source: CDSC *Data as at June 2021

							the end of the quarter under review.	
7.0	**Settlement Compensation Coverage**							
Settlement Guarantee Fund (SGF) Coverage Ratio[21]	**Q2.2021**	**April**	**May**	**June**	**Q. Avg**	**Medium (indicative – annual: > 1 times, implies full coverage)**	The SGF Ratio, computed as the ratio of SGF balances to daily average equity turnover for the quarter under review **decreased** to **1.85 times** from average of **2.23 times** recorded in the previous	Through Risk-based supervision, the Authority has been monitoring the SGF figures and the financial position of the firms to ensure that they are in good standing and that investors are protected.
		2.27	1.59	1.70	1.85			
	Q1.2021	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		2.49	2.06	2.13	2.23			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		3.86	2.01	2.39	2.75			
	Q3.2020	**July**	**Aug**	**Sep**	**Q. Avg**			
		1.66	2.08	1.64	1.79			

[21] *Source: CDSC* ***Data as at June 2021**

<table>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>quarter, Q1. 2021.

The Guarantee Fund Settlement position closed the quarter healthily with total balance of over Kshs 1.13 Billion.</td><td></td></tr>
<tr><td></td><td colspan="5"></td><td colspan="3"></td></tr>
<tr><td>8.0</td><td colspan="8">Asset Base of Fund Managers, Stockbrokers, Investment Banks</td></tr>
<tr><td>Assets Under Management</td><td colspan="5">As of March 2021 (Amount in Kshs)
<table>
<tr><th>Category</th><th>Total Assets</th><th>Total Liabilities</th><th>Net Assets</th></tr>
<tr><td>Fund Manager</td><td>7,425,375,853</td><td>1,855,213,934</td><td>5,570,161,919</td></tr>
<tr><td>Investment Advisor</td><td>1,247,915,308</td><td>358,632,647</td><td>889,282,661</td></tr>
</table></td><td>Medium

(Indicative – the higher the figure, the more</td><td>The net assets base of Fund Managers, Stockbrokers, Investment Banks, Investment</td><td>The Authority is at the tail end of overhauling the Capital Markets (Collective Investment Schemes) Regulations, 2001 to make them more robust and facilitative to market dynamics.</td></tr>
</table>

Investment Bank	12,781,377,377	4,571,912,547	8,209,464,830
Online Forex Broker	1,359,825,565	443,565,845	413,007,166
Stockbroker	1,685,755,087	68,918,487	1,616,836,599

	stable is the market)	advisors and online forex brokers as at the end of March 2021 was, **Kshs 5,570.16 million, Kshs 889.28 million, Kshs 8,209.46 million, Kshs 413 million, and Kshs 1,616.84 million** respectively.