The Capital Markets Soundness Report (CMSR) Volume XX Quarter 3 2021

"Capital Markets Resurgence Hinged on Sustained Economic Recovery"

Quarterly Publication of the Capital Markets Authority (Kenya)
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Mr. Wyckliffe Shamiah, FCPA

Chief Executive Officer, Capital Markets Authority - Kenya

Welcome to the 20th Edition of the Capital Markets Soundness Report (CMSR) for the Quarter ended September 2021.

This report analyses the health and soundness of the Kenyan capital markets, as influenced by global, regional, and domestic political, socio-economic, and cultural developments. It further highlights the risks and opportunities presented to the industry and provides a window for industry stakeholders to appreciate and contribute towards emerging policy issues in market development and oversight.

This issue has been released against the backdrop of a projected global economic recovery amidst exogenous shocks. Economic growth has picked up, supported by strong policy support, the ongoing broader Covid-19 vaccinations coverage across the globe and the gradual resumption of many economic activities, particularly in service sectors. According to the Organization for Economic Co-operation and Development (OECD, September 2021) report, global economy is projected to grow by 5.7 per cent in 2021 from a contraction of 3.4 per cent in 2020. However, the economic outlook varies by country, with developing and emerging economies anticipated to grow more slowly than developed countries. In Africa, growth is expected to expand to 3.4 percent in 2021.

On the domestic scene, the National Treasury and Planning Budget Review and Outlook Paper, August 2021 projected that the Kenyan economy will rebound to 6 per cent in 2021 with the outlook being reinforced by the current stable macroeconomic environment, as well as the continuous implementation of the Government's strategic initiatives under the "Big Four" Agenda and the Economic Recovery Strategy. The sustained recovery of the capital markets is hinged on the projected economic recovery. Further, the enhanced Covid -19 vaccination program brings the country closer to full re-opening through lifting of curfew restrictions. This outlook could however be dampened by the heightening political activity in Kenya as we approach the 2022 General Elections.

The rebasing of Kenya's economy will be key in strategic planning within the capital markets given the new data on current economic activities that make up the Gross Domestic Product (GDP).

In the quarter under review, CMA Kenya continued to work with its licensees to ensure they understand and abide by their obligations. Public sensitization was further enhanced with the key message to the public being, to invest through its licensed and regulated entities. Further, the Authority will continue to use all regulatory tools at its disposal to take enforcement action against bad actors seeking to exploit or cause harm to investors.

I take this opportunity to underscore the need for enhanced partnerships and stakeholder collaboration to further deepen the market. The Memorandum of Understanding (MoU) between CMA and Kenya Private Sector Alliance (KEPSA) to support uptake of capital markets products; the co-operation agreement Kenya inked with the United Kingdom to position Nairobi as Africa's financial hub; Safaricom's partnership with the Nairobi Securities Exchange enabling customers to invest using 'Bonga Points' are among the initiatives towards such ends undertaken during the period under review. The Authority will continue undertaking structured dialogue and strategic partnerships to develop the market.

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

Happy Reading!

The rebasing of Kenya's economy will be key in strategic planning within the capital markets given the new data on current economic activities that make up the Gross Domestic Product (GDP).

Mr. Luke E. Ombara

Director, Policy and Market Development

Greetings!
The 20th edition of the Capital Markets Soundness Report (CMSR) themed, "**Capital Markets Resurgence Hinged on Sustained Economic Recovery**" aptly reflects the positive impact the economic rebound will have in steady capital markets activities resurgence.

With some of the fastest growing developed and emerging economies already attaining Covid-19 vaccination coverage rates of up to 75%, the ongoing enhanced vaccination program in the country will be key in supporting a faster resumption in economic normalcy, thereby supporting the projected economic growth. We are closely monitoring the impact of political developments in this pre-election year on the domestic capital markets.

The MSCI World Index and Emerging Market Index registered -0.01% and -8.09 % net returns respectively in US Dollar terms in the quarter, after enduring their worst monthly performance year-to-date of -4.15% and -3.97% in September 2021. Investor sentiments were uncertain as they factored in the US Treasury's bond repurchase program, with the negative returns signalling anticipated tapering in the next quarter. Other factors adversely influencing investor perceptions included the impact of new mutations of Covid-19 and national fiscal policy shifts. Additionally, investors seemed to have priced in the impact of China's slowing growth coupled by its current energy crisis and the negative impacts of its regulatory actions in the technology and property sectors.

This Edition of the CMSR has a special feature on the health and soundness of the Kenyan financial markets as presented in the Kenya Financial Stability Report 2020 released in the period under review; concluding that overall, the sector remained resilient amidst the Covid-19 Pandemic.

On the global front, the International Organization for Securities Commissions (IOSCO) published a consultation report on Environmental, Social and Governance (ESG) Ratings and Data Products Providers which aims at assisting its members in understanding the implications of the activities of such providers and in establishing frameworks to mitigate risks stemming from them. In addition, IOSCO's newly formed Special Purpose Acquisition Companies (SPAC) Network began its operations to explore the concerns posed by SPACs. The organization further published guidance for intermediaries and asset managers using Artificial Intelligence (AI) and Machine Learning (ML) which will help members develop frameworks to regulate and supervise their use by highlighting the inherent risks and mitigation measures.

We further delve into topical issues of interest including push for diversity and inclusion in capital markets, as well as the US Securities Commission's open data enhancements that seek to provide public access to financial statements and other disclosures made by publicly traded companies, to retail investors.

On the innovations and technology space we update on a new entry into the capital markets regulatory sandbox.

The report concludes with detailed quantitative capital markets stability analysis together with ongoing measures to mitigate against high-risk indicators.
Enjoy your read.

SOUNDNESS SNAPSHOT

The domestic Capital Markets remained sound during the quarter under review, supported by positive investor sentiments and steady economic recovery. The enhanced vaccination program which will anchor the gradual re-opening of the economy will serve to support steady economic recovery on which the capital markets development is premised.

With regards to market depth, the equity markets sustained low volatility for the third quarter, with much activity attributable to large cap stocks notably in the telecommunication, banking, manufacturing, and allied sectors coupled with increasing investor interest in alternatives especially fixed income investments. The NSE 20-Share index volatility dropped marginally to 0.31% in the quarter ending September 2021, compared to the 0.34% recorded in the previous quarter, while that of the NSE 25 Share Index declined from 0.49% to 0.41%.

Foreign investors' contribution to equities turnover at the NSE has been on a decline as local investors continue to actively ramp up their positions following exits by the former. During the period under review, foreign investors' contribution to value of shares traded reduced to 51.5% compared to the 58.73% registered in June 2021.

The quarter however witnessed reduction in market liquidity with an equities turnover ratio 1.1% compared to 1.41% in the preceding quarter.
Key market infrastructure housed at CDSC and NSE remained robust during the period under review. A total of 12,673 CDS accounts were activated during the quarter, a 103.94 per cent increase compared to 6,214 in June 2021 as CDSC rolled out an aggressive account reactivation campaign. This comes on the backdrop of the entire

industry's intensified investor education and awareness amongst the members of the public and as well as increased adoption of technology. It is expected that with the increased active accounts, the market will witness increased activities which will translate to improvement in the market liquidity levels.

The Authority remained vigilant in protecting investors by undertaking several regulatory actions to ensure market soundness and safety.

Key Risk Identified

i.The socio-economic disruption posed by the Covid-19 pandemic and its dampening impact on capital markets activity remains 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 Corona virus. 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 and spur capital markets and by extension economic recovery in Kenya.

ii.Heightened political activities within the political class as the country gears for 2022 General Elections which may portend negative investor sentiment and adoption of a cautious wait and see approach which may hamper investor interest in capital markets.

iii.Slow re-opening of the economy could further derail economic recovery slowing down capital markets recovery.

Key Opportunities Identified

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

ii.The roll out liquidity enhancement initiatives such as market making, securities lending and borrowing, short selling and intra-day trading could substantially restore vibrancy in the Capital Markets.

iii.The CMA regulatory sandbox could nurture FinTechs with transformative impact for Kenya and the rest of the work.

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

Performance Metric	2021 (April-Jun)	2021 (July-Sep)	% Change (Q2. 2021 Vs Q3. 2021)
Net Foreign Flows (Kshs Bns)	(2 009)	934	**+146.49%**
Average Foreign Investor Participation (%)	58 73%	51 53%	**-7.2%**
NSE 20 Share Index Volatility	0 34%	0 31%	**-0.03%**
NSE 25 Share Index Volatility	0 49%	0 41%	**-0.08%**
NSE NASI Index Volatility	0 61%	0 53%	**-0.08%**
Equity Turnover Ratio	0 48%	0 37%	**-0.11%**
Market Capitalization Concentration (Top 5 listed companies)	80 61%	80.85%	**+1.40%**
Number of Contracts Traded (Derivatives)	2 485	2 115	**-14.89%**
Total Value of Contracts Traded (Kshs Mns)	92.81	78.52	**-15.40%**
Total Net Assets Under Management (Kshs Bns)	16 70	17 31	**+3.63**
Accounts Activated at CDSC	6 214	12 673	**+103.94**

Source: NSE

The report is organized into five sections. Section 1 covers 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 : Financial Sector Stability Report 2020

1.0 Special Feature: Financial Sector Stability Report 2020

During the quarter, the Financial Sector Regulators released a joint report giving key highlights on performance, risk assessment, outlook, and stability of the financial sector since the onset of Covid-19. The report notes that Kenya's financial sector was relatively resilient to the impact of the COVID–19 pandemic in 2020.

Prior to the COVID-19 outbreak, the banking sector was stable with strong growth, underpinned by market–based consolidation, repeal of the interest rates capping law and gains following reforms undertaken since 2015. Even with the pandemic still evolving, the credit risk stress test results indicate that banks are well capitalized to withstand adverse scenario under the COVID-19 shock.

The capital market recorded significant decline in key indicators on account of foreign investors' sale of assets at the height of the pandemic, while local investors divested to the safe bonds market. Market volatility was high at the onset of the lockdown with liquidity of the equities market declining to the lowest level. However, the markets have recovered strongly due to easing of restrictions and reopening of the economy. On the other hand, the insurance sector, experienced declining investment returns, and gross premiums paid, while pension sector experiencing reduced returns on investment and pensions contributions, and rising risk score. The developments in the Sacco sector mirrored the banking sector performance and is yet to fully recover from the pandemic.

The table below summarizes key highlights in the report

Table 2: Financial Sector Performance, Risks and Outlook

Sector	Performance	Risks	Stability and Outlook
Banking	The banking sector remained stable and resilient in 2020, with positive growth outlook in 2021, due to prospects of strong economic recovery supported by authorities' measures to contain and mitigate the impact of COVID–19 pandemic and rollout of vaccines.	Credit risk, which remains elevated due to COVID–19 shock. Operational and governance risks are expected to remain high as banks become more interconnected with sectoral and cross–border operations coupled with rapid adoption of technology. Flight to safety concerns is also emerging as banks and customers seek safe assets with positive return and preservation of value. Political noise around the 2022 General Elections could impact the	Overall, the sector outlook for 2021, is stable and resilient underpinned by strong capital and liquidity buffers coupled with economic recovery as COVID–19 pandemic wanes on increased vaccinations, and Government policy measures. The Banking Sector Credit Risk Stress Test results conducted in April 2021, indicated that under Adverse Scenario for COVID–19 pandemic, Non-Performing Loans (NPLs) ratio is expected to

Sector	Performance	Risks	Stability and Outlook
		economy and in turn pose concerns on banks stability.	worsen to about 18.9 percent in December 2021.
Insurance	The insurance sector categorised into; general insurance and long–term insurance business lines, has general insurance business accounting for 56 percent of total premium income. The sector weathered COVID–19 pandemic, with assets and gross premium income growing by 7.4 percent and 1.5 percent in 2020, respectively. Investments and profitability were, however, impacted negatively with Profit After Tax declining by 42.5 percent and investment income declining by 24.3 percent in 2020. The Return on Assets (ROA) and Returns on Equity (ROE) declined by 1.3 percentage points and 4.7 percentage points, respectively, in 2020, as a result of increased expenses and volatility in the capital markets, a key source of investment income, due to COVID–19 pandemic.	Uncertainty regarding COVID–19 pandemic intensity and duration. The insurance risk – actual claims and benefits exceeds the carrying amount of insurance liabilities is emerging in the sector. Market risk occasioned by adverse fluctuations in interest rates, asset prices, exchange rates, and stock prices. Credit risk is also evident where a counterparty is unable to pay amounts when due including amounts due from reinsurers in respect of claims already paid, and amounts due from insurance intermediaries, among others. Cybersecurity threats and insurance frauds have increased.	The sector outlook remains positive in terms of growth, stability, and resilience. The Insurance Regulatory Authority (IRA) has enhanced surveillance and taken measures to address existing challenges to improve the sector's performance. This is complimented by rapid adoption of technology and digital platforms, and innovative distribution channels as well as raising risk awareness. Further, IRA operationalized regulatory sandbox framework and issued a regulatory sandbox policy and guidance note in 2020, enabling innovators to test their products and business models with customers under a controlled environment. As the economy recovers, insurers see opportunities to produce innovative and value-based products meeting consumer needs.
Pension	The pensions sector recorded sluggish growth in assets in 2020, reflecting valuation losses in capital markets. Total assets grew by 7.8 percent to Kshs 1,399.0 billion in 2020, highlighting the	Low level of pension's penetration and very low pension sector adequacy coverage. The impact of COVID-19 pandemic to the sector has been significant	Overall, the sector is expected to remain subdued with elevated risks in 2021.

Sector	Performance	Risks	Stability and Outlook
	impact of COVID–19 pandemic on the equities markets. This performance was compounded by empty and/or renegotiated rentals for office and residential properties held by pension schemes. In some cases, there were rent defaults and delayed sale of properties, leading to losses.	given the unprecedented human, economic and social costs. Longevity risk attributed to increasing life expectancy after retirement. Many retirees are outliving their pension savings, which exposes them to poverty and suffering as the savings are quickly wiped out	
SACCO	The Savings and Credit Cooperatives (Sacco) Societies remained resilient to COVID–19 pandemic, growing by 13.5 percent in total assets to Kshs 630.9 billion in 2020. Gross loans grew by 12.9 percent to Kshs 474.7 billion in 2020, mainly funded by 13.1 percent increase in members' deposits. The sector had adequate capital buffers above the statutory requirements, indicating stability amid the pandemic. Liquidity ratio averaged 70.8 percent in 2020 with increased members' savings. External borrowings to total assets ratio declined to 3.7 percent in 2020, from 5.0 percent in 2016, signifying low external funding and lower interest rate risks to Saccos.	While the credit risk facing the Sacco sector is moderate, Saccos in the Agriculture sector recorded 16.6 percent increase in NPLs ratio, highlighting the impact of COVID–19 pandemic on households' livelihoods. Operational risk, arising from cyber-attacks through their software vendors also remains high as the use of technology increases.	Sacco sector has shown resilience and is showing gradual recovery.
Capital Markets	The COVID-19 pandemic caused volatility in the stock prices, with the NASI and NSE 20 share price indices and market capitalisation declining to the lowest levels since 2008. All equity market indicators declined to historical	Operational risks remain a key risk among listed firms due to loss of business to COVID-19 pandemic. Technology related risks have increased due to adoption of digital	Overall, the sector has shown signs of recovery but continues to face elevated risk and volatility in 2021, as COVID–19 wanes and economic recovery picks momentum.

Sector	Performance	Risks	Stability and Outlook
	lows in the first half of 2020, as COVID-19 cases soared.	platforms, innovative products, and automation of processes. Liquidity risk as measured by equities turnover ratio remains high, with just 6.4 percent in 2020, way below the peak of 10.2 percent liquidity ratio recorded in 2015.	

Source: Financial Sector Regulators Report 2020

Capital Markets Stability Implications:

Kenya's financial sector is expected to remain resilient amidst shocks in 2021, and beyond. Given the interdependence of the various financial markets' subsector; CMA Kenya will continue to engage with its peer regulators under Joint Financial Sector Regulators Forum (JFSRF) to ensure that emerging risks are regularly identified and mitigated and new opportunities are tapped. This will enhance financial inclusion and stability across the financial services sector hence promoting mobilization of savings towards long-term investment in crucial sectors of the economy.

2.0 Global Capital Markets Developments and Outlook

2.0 GLOBAL CAPITAL MARKETS DEVELOPMENTS AND OUTLOOK

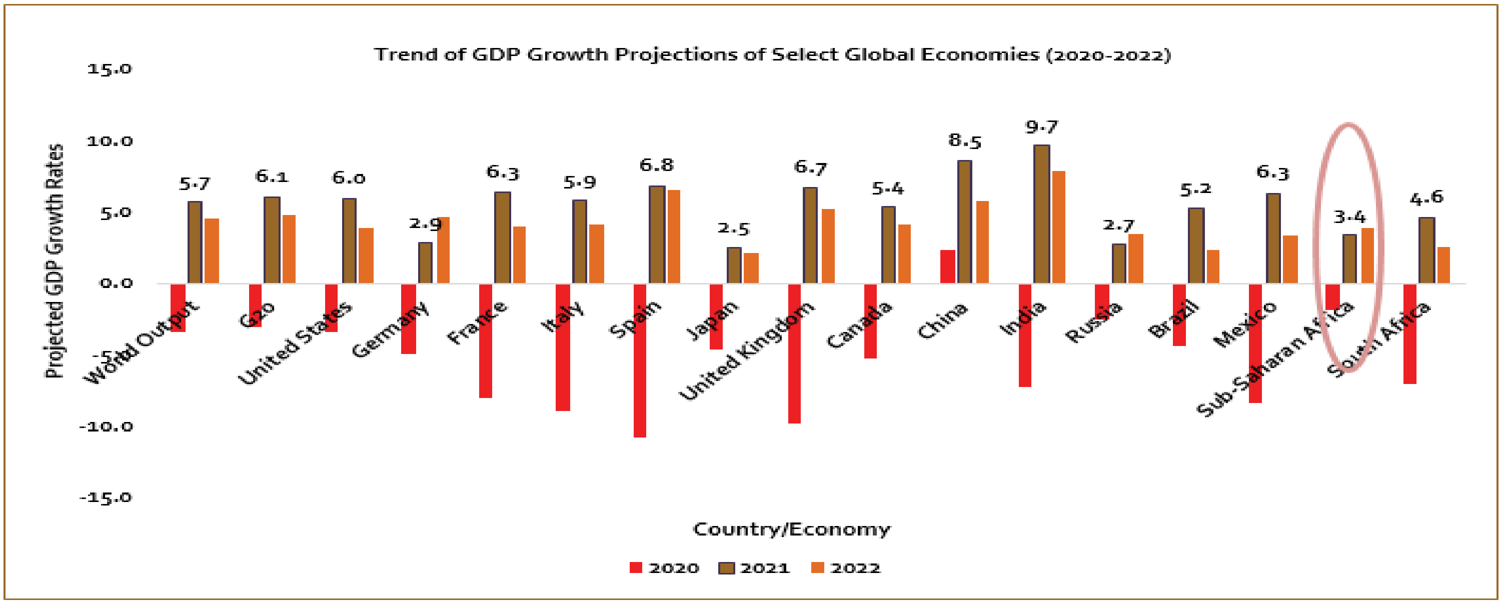
2.1 Global Economic and Capital Markets Outlook

a. Recent Economic Performance and Outlook

This quarterly report has been prepared against the backdrop of a projected global economic recovery and the uncertainty surrounding new Covid-19 mutations, particularly the Delta form, which could necessitate restoration of greater containment restrictions. However, the broader vaccinations coverage across the globe offers some glimmer of hope.

According to the Organization for Economic Co-operation and Development (OECD, September 2021) report, the global economy is projected to grow by 5.7 per cent in 2021 from a contraction of 3.4 per cent in 2020. However, the economic outlook varies by country, with developing and emerging economies anticipated to grow more slowly than developed countries. In Africa, growth is expected to expand to 3.4 percent in 2021. However, due to differing country policy responses to the pandemic, economic prospects vary by country, with emerging and developing economies anticipated to recover more slowly than advanced economies. This is due to the fact that developed economies have made great strides in Covid-19 vaccinations, with a number of them like United States and United Kingdom fully vaccinating over three quarter of their population. Further, the projected recovery in advanced economies, reflects the anticipated additional fiscal support in the second half of 2021 and broader vaccinations coverage across the group.

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



Source: OECD Economic Outlook – September 2021

In Sub-Saharan Africa, economic growth is expected to expand to 3.4 percent in 2021 from a contraction of 1.8 percent in 2020 due to increasing exports and commodity prices, as well as the high rollout of vaccination programs. As economies reopen, this growth will be aided by a recovery in both private consumption and investment. However, the recent surge in infection rates in Sub-Saharan Africa, on the other hand, is likely to slow the region's recovery in 2022.

Revision and Rebasing of Kenya's GDP

During the quarter, the Kenya National Bureau of Statistics (KNBS) released the annual Economic Survey 2021 and also rebased the national economy.

The National Treasury rebased the country's economy by changing the base year to 2016 from 2009 thereby pushing the nominal GDP upwards by 4.85 percent to Ksh10.75 trillion ($97.72 billion) from Ksh10.25 trillion ($93.18 billion) in 2019. In 2014, Kenya rebased its economy, which increased its size by 25 per cent and propelled the country to lower middle-income status.

Table 3: Kenya GDP (2016 – 2020)

Year	Nominal GDP[1] (Kshs Millions)	% Change in Size
2016	**7,594,063.5**	**-**
2017	**8,483,396.0**	**11.71%**
2018	**9,340,307.0**	**10.10%**
2019	**10,255,654.0**	**9.80%**
2020	**10,752,992.0**	**4.85%**

Source: Kenya National Bureau of Statistics, Revised & Rebased National Accounts Report 2021

Key Findings after GDP Rebase:

The revised GDP is higher by 4.85 percent in 2020 after rebasing.

The revised nominal GDP is Ksh10.75 trillion ($97.72 billion).

[1] GDP at Market Prices

Agriculture remains the backbone of the economy, with its GDP contribution now at 23% of the total value of the economy in 2020 while Transport and Real Estate contributes 10.8 percent and 9.3 per cent of GDP respectively with financial sector contributing 6.5 percent of GDP.

Implications of Rebasing GDP

Evidenced Based Policies using up to date data

The rebasing helps improve the understanding of the economy and helps present a much more accurate reflection of the current economic activities that makes up the Gross Domestic Product (GDP).

By updating the base year to 2016 and taking into account a new set of data sources, GDP figures of Kenya will reflect more accurately the performance of the most important parts of the economy. The national income increased to Ksh10.75 trillion ($97.72 billion) from Ksh10.25 trillion ($93.18 billion) in 2019. This is evidence that relying on the previous benchmark is like constructing policies with obsolete statistics since the economy has changed.

Increased Investor's Confidence

The true reflection of the economy helps investors while making their asset allocation decisions as they can easily tell where there are better returns expected in the future. The new GDP estimates will result to an improved international perception and rating for Kenya, and this will help improve the ability of the government and Kenyan corporations to attract investments.

b. Global Capital markets Overview

Global capital markets registered negative returns with the MSCI World Index and Emerging Market Index declining by -4.15% and -3.97 % respectively in US Dollar terms, enduring their worst monthly performance year-to-date. Investor sentiments were uncertain as they factored in the US treasury's bond repurchase program, the negative returns signalling they had factored the possibility of tapering the next quarter. This comes on the backdrop of the global economy coming out of recession and with new mutations of COVID-19 and differing policy interventions negatively impacting on investor sentiment. Investors seemed also to have priced in the impact of China's slowing growth coupled by its current energy crisis and the negative impacts of its regulatory actions in the technology and property sectors.

Table 4: MSCI World and Emerging Markets Performance

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

	1 Mo	3 Mo	1 Yr	YTD	3 Yr (Annualized)	5 Yr (Annualized)	10 Yr (Annualized)	Since Dec 29, 2000 (Annualized)	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI World	-4.15	-0.01	28.82	13.04	13.14	13.74	12.68	6.42	1.73	22.85	18.68	3.20
MSCI Emerging Markets	-3.97	-8.09	18.20	-1.25	8.58	9.23	6.09	9.15	2.24	15.07	12.55	1.92
MSCI ACWI	-4.13	-1.05	27.44	11.12	12.58	13.20	11.90	6.43	1.79	21.52	17.65	2.96

INDEX RISK AND RETURN CHARACTERISTICS (SEP 30, 2021)

	Turnover (%) [1]	Annualized Std Dev (%) [2] 3 Yr	Annualized Std Dev (%) [2] 5 Yr	Annualized Std Dev (%) [2] 10 Yr	Sharpe Ratio [2,3] 3 Yr	Sharpe Ratio [2,3] 5 Yr	Sharpe Ratio [2,3] 10 Yr	Sharpe Ratio [2,3] Since Dec 29, 2000	Maximum Drawdown (%)	Maximum Drawdown Period YYYY-MM-DD
MSCI World	2.65	18.46	14.81	13.43	0.70	0.86	0.90	0.38	57.82	2007-10-31—2009-03-09
MSCI Emerging Markets	7.99	19.40	16.66	16.95	0.46	0.54	0.39	0.45	65.25	2007-10-29—2008-10-27
MSCI ACWI	3.33	18.20	14.65	13.47	0.68	0.84	0.85	0.37	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

Table 5: MSCI World, Emerging, and Frontier Markets Index as of September 2021.

Equities	Market Returns (%)		
	1 Month	*3 Months*	*1 Year*
MSCI All-Country World	*-4.15*	*-0.01*	*28.82*
MSCI UK	*-2.03*	*-0.29*	*31.24*
MSCI Europe	*-4.71*	*-1.46*	*27.97*
MSCI Europe excluding UK	*-3.71*	*0.49*	*30.92*
MSCI USA	*-4.72*	*0.41*	*30.51*
MSCI China	*-5.01*	*-18.13*	*-7.24*
MSCI Japan	*2.88*	*4.70*	*22.46*
MSCI South Africa	*-4.81*	*-5.75*	*27.18*
MSCI Emerging Markets	*-3.97*	*-8.09*	*18.20*
MSCI Frontier Markets	*1.18*	*3.37*	*32.20*
MSCI Kenya[2]	*-2.59*	*-1.05*	*27.44*
Bonds			
USD Treasuries	*1.0*	*2.6*	*-7.5*

Source: MSCI, US Treasury Dept – Compiled by CMA

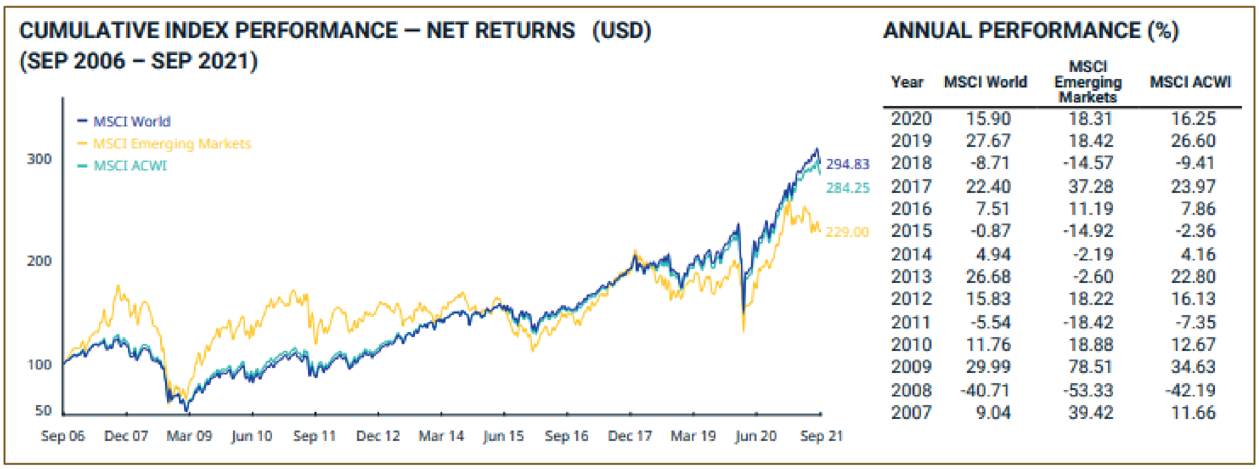
[2] The MSCI Kenya Index is designed to measure the performance of the large and mid-cap segments of the Kenya market. With 3 constituents, the index covers approximately 85% of the Kenya equity universe.

Noteworthy, the Chinese equity market has been on a downward trend since early 2021 as decelerating growth and regulatory crackdowns on large Mainland companies weigh on sentiment. This caution has been exacerbated recently by news that Evergrande, one of the country's biggest property developers, could default on its large debts, potentially leading to a liquidity crisis hitting the second largest economy in the world.

Similar to global equity markets performance, in the international arena, Kenya MSCI index ended on a low, having dropped 2.59 per cent in the month of September 2021.

In fixed income markets, government bond yields increased as inflation continues above central banks' targets

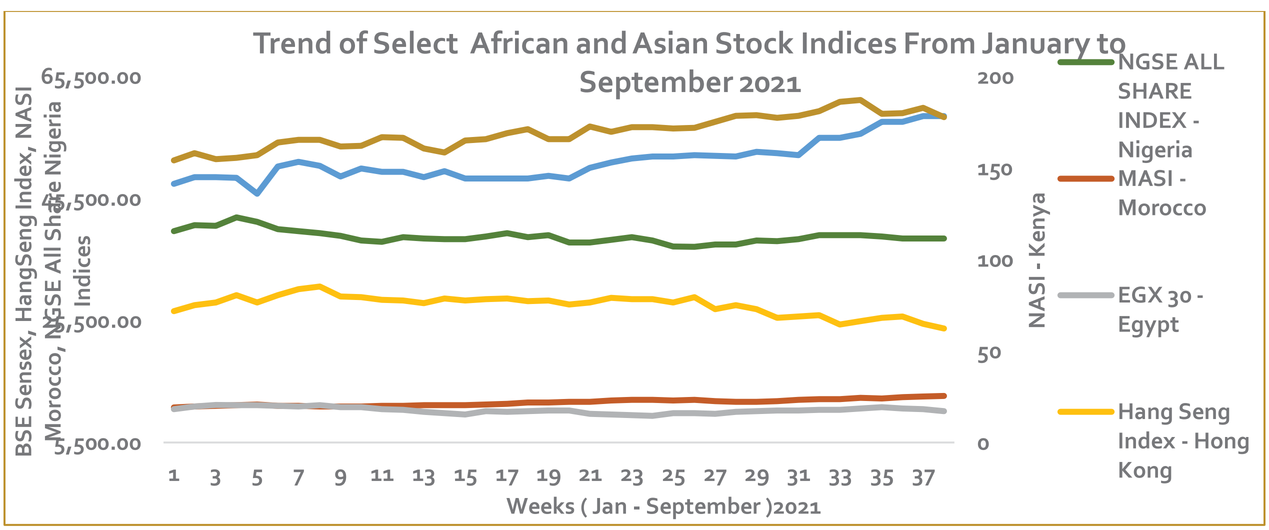
Figure 2: MSCI Frontier Markets and Kenya Performance



Year	MSCI World	MSCI Emerging Markets	MSCI ACWI
2020	15.90	18.31	16.25
2019	27.67	18.42	26.60
2018	-8.71	-14.57	-9.41
2017	22.40	37.28	23.97
2016	7.51	11.19	7.86
2015	-0.87	-14.92	-2.36
2014	4.94	-2.19	4.16
2013	26.68	-2.60	22.80
2012	15.83	18.22	16.13
2011	-5.54	-18.42	-7.35
2010	11.76	18.88	12.67
2009	29.99	78.51	34.63
2008	-40.71	-53.33	-42.19
2007	9.04	39.42	11.66

Source: MSCI

Figure 3: Performance of Select Indices in Sub-Saharan Africa and South East Asia



Source: WFE

Table 5: Performance of Select Indices

Performance Metric	30th June 2021	30th September 2021	% Change
S&P 500	4,297.50	4,307.54	0.23%
FTSE 100	7,037.47	7,086.42	0.70%
Nikkei 225	28,791.53	29,452.66	2.30%
Karachi 100	47,356.02	44,899.60	5.19%
BSE Sensex	52,482.71	59,126.36	12.66%
JSE FTSE All Share Index	66,248.74	63,836.71	3.64%
Nigeria All Share Index	37,907.28	40,221.17	6.10%
Nairobi All Share Index (NASI)	173.53	178.31	2.75%

Source: WFE

Capital Markets Stability Implications:

The domestic Capital Markets was sound during the quarter under review, supported by positive investor sentiments and steady economic recovery. The enhanced country-wide vaccination drive will anchor the gradual re-opening of the economy and serve to support steady economic recovery on which the capital markets recovery is premised.

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. 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.

The Authority notes that in most financial markets, equities market capitalization to GDP is a measure usually employed to assess the extent of development of a financial market. Before the rebasing, market capitalization to GDP stood at 27.09 percent. The ratio has consequently dropped to approximately 25.84 percent. This will impact on future strategic planning based on the revised contribution metrics of the various sectors of the economy to the overall economy.

2.2 Environmental, Social and Governance (ESG)

During the quarter, the board of the International Organization of Securities Commissions (IOSCO) published a Consultation Report on Environmental, Social and Governance (ESG) Ratings and Data Products Provider (Consultation Report) which aims at assisting IOSCO members in understanding the implications of the activities of ESG ratings and data providers and in establishing frameworks to mitigate risks stemming from these activities. In doing so, it proposes a set of recommendations to mitigate these risks and address some of the challenges faced by users of products and services from ESG ratings and data providers, and the companies that are the subject of these ESG ratings and data products.

To inform its work, IOSCO undertook a fact-finding exercise that revealed the following as summarized in table 6 below.

Table 6: IOSCO's 5 facts revealed on ESG ratings or data products

No.s	Facts
1	There is little clarity and alignment on definitions, including on what ratings or data products intend to measure.
2	There is a lack of transparency about the methodologies underpinning these ratings or data products.
3	While there is wide divergence within the ESG ratings and data products industry, there is an uneven coverage of products offered, with certain industries or geographical areas benefitting from more coverage than others, thereby leading to gaps for investors seeking to follow certain investment strategies.
4	There may be concerns about the management of conflicts of interest where the ESG ratings and data products provider or an entity closely associated with the provider performs consulting services for companies that are the subject of these ESG ratings or data products.
5	Better communication with companies that are the subject of ESG ratings or data products was identified as an area meriting further attention given the importance of ensuring the ESG ratings or other data products are based on sound information.

Source: IOSCO

IOSCO Report explores these developments and challenges and seeks to better understand the implications of the increasingly important role of ESG ratings and data products for financial markets. It does so by identifying potential areas for improvement within this part of the sustainable finance ecosystem, which in turn form the basis for a series of proposed recommendations for securities markets regulators as well as ESG ratings and data products providers, users of ESG ratings and data products and the companies that are the subject of these ratings or data products.

ESG Data Products and Services include:

i) **Raw data** which is gathered by ESG data products providers from companies' public disclosures or from other publicly available information or collected through questionnaire; ii) **Screening tools** which assess the exposure of companies, jurisdictions and bonds to ESG risks in order to define a portfolio based on ESG criteria; iii) **Controversies alerts** which enable investors to track and monitor behaviors and practices that could lead to reputational risks and affect the company and more broadly its stakeholders; iv) E SG indices; v) Consulting services such as portfolio analysis, advisory services to companies for ESG strategy development; vi) Provision of certification and second-party opinions; vii) Regulatory reporting assistance for companies and financial market participants' compliance with new sustainability regulations; and viii) Advisory services to companies on ESG ratings improvement techniques.

The challenges associated with ESG ratings and data providers include: Lack of transparency around ESG ratings methodology and ESG data products; Unreliability of ESG ratings and data providers and potential conflicts of interest; Poor Communication between ESG ratings and data products providers and companies; Time consuming for companies during data collection among others.

The report highlights 10 recommendations to mitigate risks and address challenges faced by users of products and services from ESG ratings and data providers, and the companies that are the subject of these ESG ratings and data products.

Table 7: Recommendations to mitigate risks and address challenges faced by users of products and services from ESG ratings and data providers.

	Recommendations
1	Regulators may wish to consider focusing more attention on the use of ESG ratings and data products and ESG ratings and data products providers in their jurisdictions.
2	ESG ratings and data products providers could consider issuing high quality ESG ratings and data products based on publicly disclosed data sources where possible and other information sources where necessary, using transparent and defined methodologies.
3	ESG ratings and data products providers could consider ensuring their decisions are, to the best of their knowledge, independent and free from political or economic pressures and from conflicts of interest arising due to the ESG ratings and data products providers' organizational structure, business or financial activities, or the financial interests of the ESG ratings and ESG data products providers' employees.
4	ESG ratings and data products providers could consider, on a best efforts basis, avoiding activities, procedures or relationships that may compromise or appear to compromise the independence and objectivity of the ESG rating and ESG data products provider's operations or identifying, managing and mitigating the activities that may lead to those compromises.
5	ESG ratings and data products providers could consider making high levels of public disclosure and transparency an objective in their ESG ratings and data products, including their methodologies and processes.

6	ESG ratings and data products providers could consider maintaining in confidence all non-public information communicated to them by any company, or its agents, related to their ESG ratings and data products, in a manner appropriate in the circumstances.
7	Financial market participants could consider conducting due diligence on the ESG ratings and data products that they use in their internal processes. This due diligence could include an understanding of what is being rated or assessed by the product, how it is being rated or assessed and, limitations and the purposes for which the product is being used.
8	ESG ratings and data products providers could consider improving information gathering processes with entities covered by their products in a manner that is efficient and leads to more effective outcomes for both the providers and these entities.
9	ESG ratings and data products providers could consider responding to and addressing issues flagged by entities covered by their ESG ratings and data products while maintaining the objectivity of these products.
10	Entities subject to assessment by ESG ratings and data products providers could consider streamlining their disclosure processes for sustainability related information to the extent possible, bearing in mind regulatory and other legal requirements in their jurisdictions.

Source: IOSCO

Capital Markets Stability Implications:

The market for ESG ratings and data products is currently in a phase of rapid growth and is expected to continue growing at the backdrop of global push towards a greener economy. The Authority in consultation with market stakeholders, may explore this area in future as Kenya makes strides into ESG fully.

2.3 New IOSCO Special Purpose Acquisition Companies (SPAC) Network Discusses Regulatory Issues Raised by SPACs

Following an initial discussion on SPACs, the board of the International Organization of Securities Commissions (IOSCO) agreed at its meeting on 9 June 2021 to establish an IOSCO SPAC Network to promote the exchange of information about SPACs and to keep track of advancements in this field across the globe. Subsequently, during the quarter on 27 July 2021, the inaugural meeting of IOSCO's SPAC network was conducted to explore the concerns posed by special purpose acquisition companies.

Capital Markets Stability Implications:

Management will seek to learn from the IOSCO SPACs Network as we review the Public Offers Regulations to provide for alternative innovative structuring options to fundraise via the capital markets that may be more exciting to youth and other investor categories.

2.3 IOSCO publishes guidance for intermediaries and asset managers using Artificial Intelligence and Machine Learning

Artificial Intelligence (AI) and Machine Learning (ML) are increasingly used in financial services, due to a combination of increased data availability and computing power. However, AI and ML may also create or amplify risks, potentially undermining financial market efficiency and harming consumers and other market participants. Therefore, to support use of AI and ML, IOSCO during the quarter under review published guidance to help its members regulate and supervise the use of AI and ML by market intermediaries and asset managers highlighting risks and mitigation measures to identified risks to help member countries develop framework to regulate AI and ML amongst the market intermediaries. To inform the guidance note, IOSCO extensively consulted member countries and identified five primary uses of AI and ML which are herein summarized in figure 4 below.

Figure 4: Uses of AI and ML by market intermediaries

Source: IOSCO

Table 8: Potential Risks Posed by Use of AI and ML and Proposed Mitigation Measures

Potential Risks and Harms posed by the use of AI and ML	IOSCO Proposed guidance to address the risks
Governance and oversight - Firms have not created new roles to address dangers posed by AI and ML, instead, they're relying on existing risk management methods; Firms lack expertise of AI and ML amongst senior management.	Regulators should consider requiring firms to have designated senior management responsible for the oversight of the development, testing, deployment, monitoring and controls of AI and ML. This includes requiring firms to have a documented internal governance framework, with clear lines of accountability. Senior Management should designate an appropriate senior employee (or groups of individuals), with the relevant skill set and knowledge to sign off on initial deployment and substantial updates of the technology.
Algorithm development, testing and ongoing monitoring - Majority of intermediaries lack specific AI and ML development and experimentation/testing frameworks.	Regulators should require firms to adequately test and monitor the algorithms to validate the results of an AI and ML technique on a continuous basis. The testing should be conducted in an environment that is segregated from the live environment prior to deployment to ensure that AI and ML: (a) behave as expected in stressed and unstressed market conditions; (b) operate in a way that complies with regulatory obligations.
Data quality and bias – Some firms lack quality data which plays a crucial role in informing decisions taken.	Regulators should require firms to have the adequate skills, expertise, and experience to develop, test, deploy, monitor and oversee the controls over the AI and ML that the firm utilizes. Compliance and risk management functions should be able to understand and challenge the algorithms that are produced and conduct due diligence on any third-party provider, including on the level of knowledge, expertise, and experience present.
Transparency and explainability - AI and ML algorithms are not easily understood by all the stakeholders such as regulators and clients. For instance, regulators require extensive disclosures on all the firm's activities.	Regulators should require firms to understand their reliance and manage their relationship with third party providers, including monitoring their performance and conducting oversight. To ensure adequate accountability, firms should have a clear service level agreement and contract in place clarifying the scope of the outsourced functions and the responsibility of the service provider. This agreement should contain clear performance indicators and should also clearly determine sanctions for poor performance.

Potential Risks and Harms posed by the use of AI and ML	IOSCO Proposed guidance to address the risks
Outsourcing - Most firms lack technical expertise on the use of AI and ML hence they resulted to outsourcing these services. Outsourcing these services comes with risks such as breach on data privacy, high risks of cyber-attacks and operational risks.	Regulators should consider what level of disclosure of the use of AI and ML, is required by firms, including: (a) Regulators should consider requiring firms to disclose meaningful information to customers and clients around their use of AI and ML that impact client outcomes. (b) Regulators should consider what type of information they may require from firms using AI and ML to ensure they can have appropriate oversight of those firms.
Ethical concerns – Several firms lack measures to ensure that the outputs of the models do not discriminate clients.	Regulators should consider requiring firms to have appropriate controls in place to ensure that the data that the performance of the ML and AI is dependent on is of sufficient quality to prevent biases and sufficiently broad for a well-founded application AI and ML.

Source: IOSCO

Capital Markets Stability Implications:

The Authority welcomes and notes that the proposed guidance by IOSCO intends to address some of the potential risks surrounding the general use of Artificial Intelligence (AI) and Machine Learning (ML) by market intermediaries and asset managers. Further research and stakeholder engagement will be undertaken on risks posed by AI and ML, as we further explore the need to apply some of the guidance to the Kenyan market.

2.4 Access to Financial Disclosure Data.

During the review period, the Securities and Exchange Commission (SEC) announced open data enhancements that provide public access to financial statements and other disclosures made by publicly traded companies on its Electronic Data Gathering, Analysis, and Retrieval system (EDGAR).

The SEC is releasing for the first time Application Programming Interfaces (APIs) that aggregate financial statement data, making corporate disclosures quicker and easier for developers and third-party services to use. APIs will allow developers to create web or mobile apps that directly serve retail investors making important information about public companies more accessible and usable. This development is an important milestone in the SEC's continuing efforts to facilitate innovation and make financial disclosure data accessible to all market participants to inform decision making by market participants.

The free APIs will provide access to EDGAR submission history by filer as well as extensible Business Reporting Language (XBRL) data from financial statements, including annual and quarterly reports with SEC anticipating adding more datasets in the future.

Capital Markets Stability Implications:

This is a strong case for enhancing market transparency and visibility for the benefit of increasing retail investor participation. The Authority to look into providing non price sensitive information via an API to innovators to provide data analytics tools to investors.

2.5 Diversity and Inclusion in the Financial Sector

a. United Kingdom (UK)

During the quarter, financial sector regulators in UK published a discussion paper on driving change towards gender diversity and inclusion. In a discussion paper, the regulators have set out policy options including, among others, the use of targets for representation, measures to make senior leaders directly accountable for diversity and inclusion in their firms, linking remuneration to diversity and inclusion metrics and the regulators' approach to considering diversity and inclusion in non-financial misconduct. The paper also focuses on the importance of data and disclosure in order to enable firms, regulators and other stakeholders to monitor progress.

The Regulators therefore expect meaningful steps to be taken to achieve greater representation at all levels, in particular at the Board and senior management levels. Representation, whilst historically focused on gender, must now reflect all strands of diversity - both visible (e.g. gender, age and ethnicity) and non-visible (e.g. disability, sexual orientation and socio-economic background) and on an intersectional basis also, with the overarching objective of achieving diversity of thought.

The regulators believe that increased diversity and inclusion will advance their statutory objectives by resulting in improved governance, decision-making and risk management within firms, a more innovative industry, and products and services better suited to the diverse needs of consumers.

Suggested policy initiatives to effect diversity and inclusion progress are summarized in the table 9:

Table 9: Proposed Initiatives to achieve diversity and inclusion in UK

Initiatives	Proposed Initiative
Leadership	Leaders should set a strategy and empower teams to develop and implement initiatives that deliver cultural change at all levels. Boards should monitor and challenge progress on diversity and inclusion to satisfy themselves that decision-makers at all levels are reaping the benefits of diversity of thought.
Governance	Boards should set a diversity and inclusion strategy as well as hold management to account for promoting it and overseeing its progress.Boards themselves should ideally have diverse representation and this should be factored into recruitment and succession planning. Firms could consider setting targets to ensure diverse representation.
Individual accountability	Make senior leaders directly accountable for diversity and inclusion, including through the Senior Managers and Certification Regime.
Remuneration	Reflect performance on diversity and inclusion metrics in variable remuneration awards. Ensure that the firm's remuneration policy makes clear that all types of remuneration (fixed and variable) do not give rise to discriminatory practice.
Policies	Produce and publish a diversity and inclusion policy on the firm's website which, as a minimum, promotes diversity on the Board.
Progressing diverse representation	Consider how to progress diverse employees in terms of recruitment, promotion and succession planning.
Targets	Consider setting targets for underrepresented groups in senior management positions, customer-facing roles and the firm as a whole.
Training	Organize meaningful training sessions tailored to appropriate staff levels.
Products and services that meet diverse customer needs	Ensure product governance considers the diverse needs of consumers, including consumers in vulnerable circumstances.

Disclosure	Publicly disclose a selection of aggregated diversity data on senior management population and the employee population as a whole, together with their diversity and inclusion policies. Consider including data on pay gaps (going beyond gender to include other characteristics).
Audits	Consider carrying out internal diversity and inclusion audits.

Source: FCA

b. United States

The Securities and Exchange Commission ("SEC") approved Nasdaq Inc.'s new listing rule aimed at improving diversity on corporate boards. The new listing rule proposes that companies listed on the Nasdaq stock exchange must include women, racial minorities and LGBT individuals on their boards. Specifically, the rule requires listed companies to have at least one woman on their board, in addition to a director who is a racial minority or one who self-identifies as lesbian, gay, bisexual transgender or queer.

Nasdaq states the purpose of the rule is to demonstrate that with proper disclosures and clear goals, companies and investors can make capitalism more inclusive by making more opportunities for more people through a market driven solution. Companies that don't comply with this rule will have to justify their decision to remain listed on Nasdaq.

Capital Markets Stability Implications:

Earlier this year, 2021, the Nairobi Securities Exchange (NSE) joined the 30% club, a global campaign to take action to increase gender diversity in boards and senior management within the workplace, cementing its commitment to enhancing gender equality in corporate leadership in Kenya. By joining the 30% club, the NSE has since been championing for at least 30% representation of women on boards and senior management of companies listed on the NSE and within the larger Capital Markets. This underscores the Kenya's commitment in supporting companies leverage on various aspects of diversity to enhance business capabilities in a rapidly changing operating environment.

3.0 Regional Sub-saharan Africa Developments

3.0 REGIONAL- SUB-SAHARAN AFRICA DEVELOPMENTS

3.1 Capital Markets Regulatory Reforms

a. Mauritius

Amendments to securities rules issued by the Financial Services Commission (FSC), Mauritius.

With a view to promoting Mauritius as an International Financial Centre and Capital Market destination, the Financial Services Commission, Mauritius is proposing amendments to its regulatory framework to align it with international best practices.

The Commission is proposing the following amendments (i) The Securities (Preferential Offer) Rules 2017 (ii) The Securities (Disclosure Obligations of Reporting Issuers) Rules 2007 and (iii) The Securities (Public Offer) Rules.

Table 10: Amendments to Securities Rules – Mauritius

Amendment	Description
The Securities (Preferential Offer) Rules 2017	**Rating and Listing requirements on a Securities Exchange** (1) An issuer of debt securities who is targeting 25 investors or more, that issuer shall seek a listing on a securities exchange. (2) (i) Any offer of debt securities made under these Rules shall be rated by a credit rating agency licensed by an authority which is identified in Appendix A of the International Organization of Securities organization Multilateral Memorandum of Understanding (IOSCO MMoU) as a signatory to the IOSCO MMoU. (ii) The listing approval and credit rating shall be secured and communicated to investors at least five business days prior to the issue of the debt securities. (iii)Where the credit rating has been communicated to investors after the offer start date, investors having already subscribed for the debt securities shall have the option to cancel their subscription.
The Securities (Disclosure Obligations of Reporting Issuers) Rules 2007	These Rules may be cited as the Securities (Disclosure Obligations of Reporting Issuers) (Amendment) Rules 2021. Are rules relating to where the issuers need to be publishing their reports. The rules require firms to publish the reports in their websites, quarterly.
Securities (Public Offer) Rules	(1) The securities (public offer) rules amendments insert a section outlining that any public offer of debt securities made under these Rules shall be rated by a credit rating agency licensed by an authority which is identified in Appendix A of the International organization of Securities organization Multilateral Memorandum of Understanding (IOSCO MMoU) as a signatory to the IOSCO MMoU.

	(2) The report of the credit rating on the debt securities must be included in the prospectus being offered to the public.

Source: FSC

b. Nigeria

Amendments to the Rules and Regulations of the Securities Exchange Commission (SEC), Nigeria

Securities Exchange Commission (SEC) Nigeria during the quarter proposed New Rule and Sundry Amendments to the Rules and Regulations of the Commission.

New Rule

New Rule for Public Companies and Capital Market Operators to disclose penalties and sanctions imposed on them by SEC in their Audited Financial Statements.

The justification for this new rule proposal is to enhance compliance with market regulations and regulatory directives.

Sundry Amendments

1. *Proposed amendment to Rule 8 (Exemptions).*
2. *Proposed amendment to Schedule I.*

The proposed amendments to relate to: Registration and Regulation of Financial Market Infrastructures – Registration requirements and continuing obligations/additional requirements, governance, exchange rules, market surveillance, listing requirements, Transaction fees, obligation to maintain proper records, suspension of trading and delisting; Alternative trading facilities - price determination, continuing obligations, post-trade disclosures, complaint management framework, among others.

The proposed sundry amendment is made further to the regulatory mandate of the Commission as it has become pertinent to charge fees which reflect current economic realities for efficient performance of its duties.

The Proposed amendments are intended to comprehensively update and improve the regulations as well as enhance the operations of Securities Exchanges particularly in the areas of governance and risk management. They are also aimed at classifying Securities Exchanges based on size and activities with a view to streamlining their operations and regulation. In addition, they are aimed at aligning the rules to support the current market structure as well as the operations of Securities Exchanges with international best practices.

Capital Markets Implications:

Kenya will seek to benefit from the aforementioned jurisdictions as it finalizes its review of the Public Offers, Listings and Disclosures (POLD) Regulations, Collective Investment Schemes (CIS) and Alternative Investments Funds (AIF) Regulation, among other regulations, to ensure that Kenya remains competitive as a capital markets hub.

3.2 Fintech and Innovation

a. Launch of Financial Services Commission (FSC), Mauritius One Platform

On 12 August 2021, the Financial Services Commission (FSC) launched its digital platform, FSC One, with the objective of ushering in an era of digital progress for financial services. This innovative platform will enable the internal processes of the FSC (including authorisation, supervision, finance, and enforcement) to be monitored on a real-time basis and thereby allow the FSC to:

Adopt a paperless policy and step into the league of environment-friendly organisations.

Introduce Digital Signatures and E-certificates.

Revamp its Risk Based Supervision regime; and

Support data mining and big data analysis.

Further, this digital platform launched by the FSC aims to revolutionise the financial services sector by proposing a digital solution that has been developed by a pool of local professionals and is in line with being a sustainable and environmentally friendly organization.

Capital Markets Stability Implications:

Since its inception the Regulatory Sandbox framework has facilitated the deployment and testing of innovative technology by various FinTech firms in a controlled and cost-effective environment which is in line with the Authority's strategic objective of leveraging on technology across the capital markets value chain. There is however an opportunity for the CMA itself come up with innovative services to support market development and oversight within the industry.

4.0 Domestic Market Developments during the Quarter

4.0 DOMESTIC MARKET DEVELOPMENTS DURING THE QUARTER

4.1 Investor Protection and Strengthening Market Integrity

The Authority continued to protect investors and take action against misconduct. CMA took actions to ensure investors are protected and to strengthen market integrity.

a. Cautionary Statement against Fxbitinvest.

On 12 August 2021, Capital Markets Authority (CMA) moved to caution investors and the public against engaging in any investment with Fxbitinvest. Fxbitinvest was misleading the public that it can provide investors with a return of 400% within 6 hours. CMA identified key persons associated in running the company and M-pesa pay bill numbers used to lure the public.

CMA encouraged investors defrauded by Fxbitinvest to report the matter to the nearest police station or lodge complaint directly with the Authority in our complaint's portal with various supporting documents.

Capital Markets Stability Implications:

To uphold investors' confidence in the capital markets, CMA Kenya will continue to work with regulated entities to ensure they understand and abide by their obligations as well as sensitizing the public to invest through licensed and regulated entities. Further, the Authority will continue to use all regulatory tools at its disposal to take action against unscrupulous players seeking to exploit or cause harm to investors and where we identify potential breaches of the law where the design and sale of products to investors fails the litmus test of the Capital Markets Act.

4.2 Strategic Partnerships

This quarter saw significant partnerships with different players in the market to facilitate capital markets recovery and contribution of the industry to the national economic recovery.

a. CMA and KEPSA sign MoU to support market deepening and uptake of capital market products

On 02 July 2021, the Capital Markets Authority (CMA) signed a Memorandum of Understanding (MoU) with the Kenya Private Sector Alliance (KEPSA) to support market deepening and leveraging capital market products to catalyze growth in line with the Big 4 Agenda and Sustainable Development Goals.

Through the MoU, CMA and KEPSA will seek avenues for private and public sector finance and investment necessary to support Kenya's economic growth and complement development funding gaps. The two institutions seek to collaborate in the development of policy and regulatory interventions to create a conducive business environment that will support a robust, resilient, and inclusive financial sector through the growth of the capital markets.

Capital Markets Stability Implications:

This partnership is expected to promote KEPSA's members' utilization of the capital markets to raise long-term capital in given their crucial role in economic growth.

b. Kenya deals with UK aims to turn Nairobi into Africa's financial hub.

During the quarter, Kenya and British government signed a contract to encourage investment in Nairobi, with the eventual goal of transforming the city, into the continent's financial center. The goal of the co-operation agreement, which was announced could result in at least $2bn worth of deals during the next five years, is to help funnel international investment into Kenya and east Africa more broadly. This should over time enable Nairobi to compete with Dubai, as a channel for trade in the region. The deal includes closer links between the London and Nairobi Stock Exchanges, as well as moves to ease incorporation and registration of companies in Kenya.

This saw British underwriter Prudential Plc which has grown rapidly in Africa, where it has 1.2m customers in eight countries, announce that it will set up its Africa headquarters in Nairobi after signaling its intention to join the Nairobi International Financial Centre (NIFC) as one of its anchor clients. Further, it was also reported that Kenyan mining company Mayflower Gold has also plans to dual list its shares on both the London and Nairobi Stock Exchanges in a deal worth £14m.

Capital Markets Stability Implications:

The development is expected to strengthen the MoU signed between the London Stock Exchange (LSE) and the Kenya Government to support the cross-listing of firms in London and Nairobi and capacity building. The Authority to fast track the signing of an MOU with NIFCA as the capital markets will be the biggest beneficiaries of NIFC.

4.3 Market Infrastructure

a. CDSC GOES LIVE WITH SWIFT CAPABILITIES

During the review period, the Central Depository and Settlement Corporation (CDSC) finalized the integration of the CDS SWIFT messaging functionality, thus enhancing the processing of financial information between the CSD and capital markets participants in Kenya.

This SWIFT connectivity will further heighten the security, speed and accuracy of information transfer between the CSD and its Central Depository Agents (CDAs).

Some processes enhanced due to this new capabilities include:

- Inter-depository securities transfers
- OTC market trades
- Notifications for organized market trades and;
- Automated statements; regular and ad-hoc statements of holdings and transactions to depository agents.

Banks continue to conduct internal tests and shall have SWIFT messaging functionality linkage to the CDS soon.

Capital Markets Implication:

The Authority lauds robustness of CDSC infrastructure as it will not only align CDSC with international best practice but also it will help prevent failure, reduce costs and deliver safe enhanced customer experience.

b. African Exchange Linkage Project (AELP)[3] - DirectFN, connects Nairobi Securities Exchange with African Securities Exchange

During the quarter under review, cross-border trading from one African securities exchange to another came a step closer, after the African Securities Exchanges Association (ASEA) signed a contract to procure an order-routing system. Seven of Africa's leading securities Exchanges are working together in the African Exchanges Linkage Project (AELP) to boost pan-African investment flows and bring more liquidity to African markets. The contract is for the design and rollout of the AELP Link technology platform for routing orders and trade confirmations between stockbrokers on the seven Exchanges participating in the pilot phase of the AELP. The Supplier is DirectFN, a global IT firm experienced in capital markets solutions across the Middle East and many emerging and frontier markets.

The participating exchanges are seven leading exchanges in Africa which include Nairobi Securities Exchange (NSE), Casablanca Stock Exchange, The Egyptian Exchange, Johannesburg Stock Exchange (JSE), The Nigerian Stock Exchange, the Stock Exchange of Mauritius and BRVM[4], which is a regional bourse for eight West African countries.

Investor orders in one market will be channelled by a domestic stockbroker through the AELP Link to a stockbroker on the foreign market where the security is listed, to enter that market for execution in the foreign market. African Listed Securities to be accessed through the AELP Link include all securities that are available for cross-border investors. Equity investments available include Africa's most promising and profitable businesses as well as some global leaders among more than 1,050 companies listed. Investors will also buy or sell corporate and government bonds, exchange-traded funds (ETFs) and derivatives where these are listed on the participating Exchanges and the sponsoring stockbroker provides access.

[3] The AELP is a joint initiative by ASEA and the African Development Bank (AfDB) aimed at unlocking Pan-African investment flows, promoting innovations that support diversification for investors, and addressing depth and liquidity in the markets. It is funded by a grant from the Korea-Africa Economic Cooperation (KOAFEC) Trust Fund managed by the African Development Bank.

[4] The Regional Stock Exchange (BRVM) is a bourse for eight countries of the West African Economic and Monetary Union (UEMOA) namely: BENIN, BURKINA FASO, COTE D'IVOIRE, the GUINEA-BISSAU, MALI, NIGER, SENEGAL and TOGO.

Capital Markets Stability Implications:

The software will link Nairobi Securities Exchange (NSE) with six other top bourses in Africa for seamless cross-border trading, hence bringing more liquidity. Further the move comes at a crucial moment as it will boost regional commitment to financial markets integration in Africa at the time the African Continental Free Trade Area (AfCFTA) has entered its operational phase, with the objective to boost intra-African trade, support trade facilitation and realize the potential market of 1.2 billion people.

4.4 Fintech and Innovation

a. Acorn Investment Management Limited admitted to the regulatory sandbox.

During Q3. 2021 the Capital Markets Authority (CMA) admitted Acorn Investment Management Limited on 25th August 2021 to test its product 'Vuka' in the regulatory sandbox for one year. The licensed Real Estate Investment Trust (REIT) manager developed an investment platform called 'Vuka' to aggregate retail investors into asset-backed financial products such as real estate through a regulated and transparent structure.

b. Innova Exit Regulatory Sandbox

Further to this, during the quarter under review, Innova (one of the admitted firms) exited the Regulatory Sandbox and rolled out its innovation to the mass market upon successful testing. Innova Limited was testing its cloud-based data analytics platform designed for use by Investors, Fund Managers, Custodian Banks, Actuaries, Pension Administrators and Regulators.

Capital Markets Stability Implications:

In line with the Authority's strategic objective of leveraging on technology across the capital markets value chain, the Authority's Regulatory Sandbox has facilitated the deployment and testing of innovative technology by various FinTech firms in a controlled and cost-effective environment. CMA Kenya continues to consider other admitted firms for possible exits and enquiries for possible admissions in the subsequent quarters.

We will continue to work closely with innovators locally and internationally towards harnessing FinTech to improve, deepen and grow the capital markets. Acorn's innovation supports Kenya's Big 4 agenda on affordable housing. The Regulatory Sandbox has continued to be one of the key influencers of the policy and regulatory framework adopted in line with ensuring a robust, facilitative, and responsive policy and regulatory framework for capital market development and efficiency.

c. Safaricom Partners with the NSE to Enable Customers Invest Using Bonga Points

During the quarter under review, Safaricom partnered with capital markets participants to allow customers to use their

Bonga points to purchase shares on the Nairobi Securities Exchange (NSE) through the *Lipa Hisa na Bonga Points* Loyalty Program. The service will be available to all Safaricom mobile users who will redeem their bonga points though licensed Trading Participants.

To invest, customers will redeem their points at a rate of KES 1 for every 5 points via the 'Lipa Na Bonga' menu on USSD *126# or MySafaricom App. Customers will then key in the stockbroker's pay bill number followed by their CDSC (Central Depository and Settlement Corporation) account number.

Capital Markets Stability Implications:

Authority welcomes this positive initiative as it will unlock more investment opportunities to retail investors using convenient and innovative solutions. This partnership is timely when stock markets is on recovery following adverse effects caused by covid-19 pandemic on capital markets.

4.5 Domestic Capital Markets Reforms and New Regulatory Requirements

In order to ensure the right balance between regulation and facilitation in the market, the Capital Markets Authority during the quarter consulted relevant stakeholders on important matters reforms and new regulatory requirements.

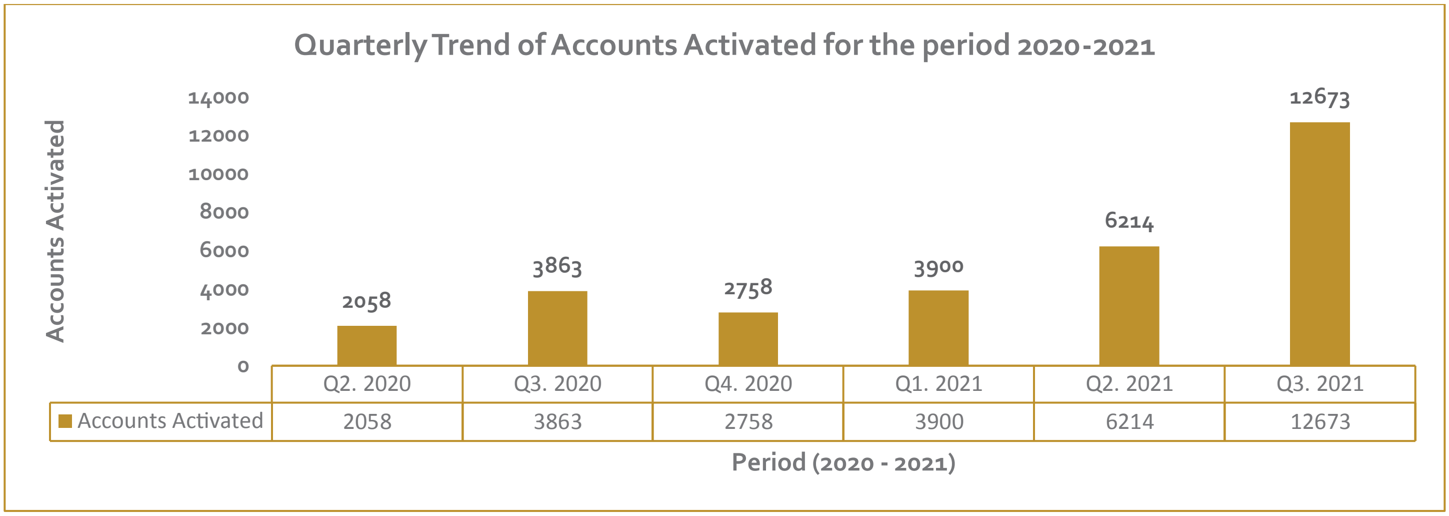
Consultation on Draft Capital Markets (Investment Based Crowdfunding) Regulations 2021

On 13 July 2021, CMA opened consultations on Investment Based Crowdfunding Regulations which provides a source of alternative finance through the capital markets. The regulations allow start-ups and growing businesses that are unable to raise capital through existing issuances to raise money from members of the public through technological portals (crowdfunding platforms) to help finance or re-finance their activities. The draft regulations require all investment based crowdfunding transactions to take place on platforms run by Capital Markets Authority licensed intermediaries. In addition, the regulations require disclosure of information and permit businesses to raise funds up to the prescribed maximums. CMA may suspend, restrict, or revoke a crowdfunding platform operator license in accordance with Section 26 and 26A of the Capital Markets Act.

4.6 CDS Accounts Activation

A total of 12,673 CDS accounts were activated during the quarter under review, a 103.94 per cent increase compared to 6,214 in Q2. 2021. Accounts activation has been increasing quarter on quarter since 2020 save Q4. 2020 which registered a 28.60 percent decrease in number of accounts activated. This comes on the backdrop of the market player's intensified investor education and awareness amongst the members of the public and as well increased adoption of technology.

Figure 6: Trend of Accounts Activated at CDSC



Source: CDSC

ANNEXURE 1: CAPITAL MARKETS SOUNDNESS INDICATORS FOR THE PERIOD JULY – SEPTEMBER 2021

Table 11: Summary of Capital Markets Stability Indicators for the period July – September 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**	**Q3.2021**	**July**	**Aug**	**Sep**	**Q. Avg**	**Medium (indicative – Low < 1% Medium: >1% high; >10%)**	The three Share Indices Volatility **decreased** during the quarter with the NSE 25 and NASI Share Index Volatility decreasing by **0.08%** while NSE 20 Share Index Volatility decreased marginally by **0.03%.**	Volatility remained relatively low compared to last quarter attributable to sustained investor interest in select large cap stocks.
		0.33%	0.23%	0.37%	0.31%			
	Q2.2021	**April**	**May**	**June**	**Q. Avg**			
		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%			
NSE 25 Index Volatility **Base Year = 2015**	**Q3.2021**	**July**	**Aug**	**Sep**	**Q. Avg**	**Medium (indicative – Low < 1% Medium: >1% high; >10%)**		
		0.39%	0.47%	0.37%	0.41%			
	Q2.2021	**April**	**May**	**June**	**Q. Avg**			
		0.44%	0.71%	0.32%	0.49%			
	Q1.2021	**Jan**	**Feb**	**March**	**Q. Avg**			
		0.31%	0.38%	0.62%	0.44%			

	Q4.2020	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.33%	0.55%	0.36%	0.41%			
NASI Volatility Base Year = 2010	**Q3.2021**	**July**	**Aug**	**Sep**	**Q. Avg**	**Medium (indicative – Low < 1% Medium: >1% high; >10%)**		
		0.60%	0.51%	0.47%	0.53%			
	Q2.2021	**April**	**May**	**June**	**Q. Avg**			
		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**			
		0.73%	0.73%	0.43%	0.63%			
Turnover Ratio	**Q3.2021**	**July**	**Aug**	**Sep**	**Q. Avg**	**Low (indicative – annual: <8%-Low; >15% High)**	The turnover ratio for the third quarter of 2021 averaged **0.37%,** recording a **0.11%** decrease from previous quarter average of **0.48%.**	Turnover ratio decreased by **0.11%** compared to last quarter by and large attributable to reducing foreign investor interest on select large cap stocks.
		0.34%	0.41%	0.36%	0.37%			
	Q2.2021	**April**	**May**	**June**	**Q. Avg**			
		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**			

		0.64%	0.51%	0.65%	0.60%			
2.0	**Foreign Exposure Risk**							
Foreign Investor turnover as a % of total turnover	**Q3.2021**	**July**	**Aug**	**Sep**	**Q. Avg**	**Medium (Indicative – annual: <40%- Low; >90% High)**	The Foreign investor participation decreased significantly by 7.20% during the quarter under review to close the period at 51.53% compared to 58.73% recorded in Q2. 2021. Noteworthy was the month of August which recorded low investor participation to close the month at 48.53%.	The reduced foreign investor activity could be attributed to profit taking on select counters. Generally, the bourse has consistently experienced a declining net foreign outflow for all the quarters under review. This trend would continue as we head into the 2022 elections.
		56.16%	48.53%	49.91%	**51.53%**			
	Q2.2021	**April**	**May**	**June**	**Q. Avg**			
		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%**			

Net Foreign Portfolio Flow (In KES Millions)	**Q3.2021**	**July**	**Aug**	**Sep**	**Q. Sum**	**High (Indicative – annual: <Kshs (50million) -High (outflow; >Kshs. 50 million High inflow)**	July and August recorded net inflow of Kshs 1,876 million with August accounting for 91.74% of the inflow. However, September recorded a net outflow of Kshs. 942 million.	
		155	1,721	(942)	**934**			
	Q2.2021	**April**	**May**	**June**	**Q. Sum**			
		(31)	(782)	(1,196)	**(2,009)**			
	Q1.2021	**Jan**	**Feb**	**March**	**Q. Sum**			
		621	(621)	(976)	**(976)**			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q. Sum**			
		(1128)	(1186)	(354)	**(2668)**			
3.0	**Market Concentration Risk**							
Market Concentration (Top 5 companies by market cap)	**Q3.2021**	**July**	**Aug**	**Sep**	**Q. Avg**	**High (Indicative – annual: >50% High concentration)**	Concentration remained high in 5 counters during 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 impending overhaul of the Public Offers Listings and Disclosure
		80.97%	80.78%	80.80%	**80.85**			
	Q2.2021	**April**	**May**	**June**	**Q. Avg**			
		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%**		quarter's percentage of **79.21%.**	Regulations is expected to attract larger private sector corporates and Small and Medium Enterprises (SMEs)
4.0	**Derivatives Trading Statistics**							

Total Volume (No. of contracts) — Low

	Q2. 2021	**July-21**	**Aug-21**	**Sep-21**	**Q3. Sum**	**% Change Q3 Vs Q2**
ABSA	273	162	121	158	441	61.54%
BATK	68	37	1	7	45	33.82%
EABL	121	69	7	50	126	4.13%
EQTY	505	56	65	124	245	51.49%
KCBG	230	38	89	142	269	16.96%
N25I	9	3	2	-	5	44.44%
SCOM	1,276	138	696	127	961	24.69%
25MN	3	5	5	13	23	666.67%
Total	**2,485**	**508**	**986**	**621**	**2,115**	**14.89%**

In the month of July, the total number of contracts traded were 508 compared to 986 in August and 621 in September. Noteworthy, August number of contracts traded increased significantly by 94.09% from July contracts. The Safaricom SSF remained dominant accounting for 45.44% of the contracts traded during the quarter, followed by ABSA which

The derivatives market activity has consistently registered increased activity especially from the beginning of last year save for this quarter Q3. 2021 which registered a slight accounted for 20.85% contracts traded, KCB, Equity, and EABL accounted for 12.72%, 11.58%, and 5.96% respectively.

Generally, number of contracts traded decreased by 14.89% from 2,485 contracts traded in Q2. 2021 to 2,115 contracts traded in Q3. 2021.

decrease with Stanbic bank ceasing being a clearing member of the derivatives exchange leaving Coop Bank as the only clearing member in the Derivatives ecosystem.

Gross Notional Exposure (GNE)[5]

	July-21	Aug-21	Sep-21	Q3. Sum	Q2. Sum	% Change Q3 Vs Q2	Low
ABSA	1,603,590	1,262,930	1,706,520	4,573,040	2,627,930	74.02%	
BATK	1,673,395	44,885	318,500	2,036,780	3,088,885	34.06%	
EABL	1,265,040	125,790	882,270	2,273,100	2,163,840	5.05%	
EQTY	2,618,740	3,320,080	6,336,170	12,274,990	20,972,290	41.47%	

The total value (Gross Notional Exposure) of contracts traded during the quarter under review totaled Kshs. 78.52 million with the month of August accounting for that

[5] 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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KCBG	1,696,290	4,288,410	6,731,900	12,716,600	9,526,180	33.49%
N25I	1,156,800	829,300	-	1,986,100	3,270,800	39.28%
SCOM	5,772,830	30,543,590	5,435,570	41,751,990	51,045,340	18.21%
25MN	191,950	198,830	514,450	905,230	112,940	701.51%
Total	**15,978,635**	**40,613,815**	**21,925,380**	**78,517,830**	**92,808,205**	15.40%

exposure by up to 51.73%.

Generally, the total value of contracts traded decreased by 15.40% totaling to Kshs. 78.52 million during the quarter under review compared to Kshs. 92.81 million recorded in second quarter of 2021.

Total Open Interest[6](No. of Contracts)

	July-21	Aug-21	Sep-21	Q3. Average	Q2. Average	% Change Q3 Vs Q2
ABSA	80	109	81	90	70	28.57%
BATK	10	10	3	8	18	55.56%
EABL	31	33	33	32	20	60.00%
EQTY	42	53	46	47	40	17.50%

Low

Safaricom, continued to dominate total open interest during the review period averaging to 391 contracts out of the total average open interest contracts of 637 accounting for 61.38%. ABSA came in second with 90 contracts, while

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

KCBG	46	78	68	64	47	**36.17%**
N25I	1	0	0	1	1	**0.00%**
SCOM	72	548	554	391	138	**183.33%**
25MN	6	5	2	4	3	**33.33%**
Total	**288**	**836**	**787**	**637**	**335**	**90.15**

KCB ranked third with 64 contracts. Equity was fourth with 47 contracts while EABL was fifth with 32 contracts.

The 25-Share index, newly introduced NSE-25 Mini and BAT contracts had the least, recording an average of 1, 4, and 8 open interest contracts respectively.

<table>
<tr>
<td>Settlement Guarantee Fund (SGF) Coverage[7] for Derivatives</td>
<td>
<table>
<tr><th></th><th>July-21</th><th>Aug-21</th><th>Sep-21</th></tr>
<tr><td>SGF</td><td>152,936,831</td><td>127,229,196</td><td>230,584,208</td></tr>
<tr><td>Average Market Value</td><td>760,887.38</td><td>1,933,991.19</td><td>1,044,065.71</td></tr>
<tr><td>SGF Coverage</td><td>201 times</td><td>66 times</td><td>221 times</td></tr>
</table>
</td>
<td>Low</td>
<td>SGF Coverage for the clearing member remains sufficient recording coverage of 201 times, 66 times, and 221 times in the month of July, August, and September 2021 respectively.</td>
<td>During the review period, Stanbic bank seized being a clearing member of the derivatives exchange leaving Coop Bank as the only clearing member in the Derivatives ecosystem.</td>
</tr>
</table>

[7] 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.

<table>
<tr><th>5.0</th><th colspan="8">Government Bond Market Exposure</th></tr>
<tr><td rowspan="8">Treasury Bond market turnover Concentration</td><td>Q3.2021</td><td>July</td><td>Aug</td><td>Sep</td><td>Q. Avg</td><td rowspan="8">High (Indicative – annual: >50% High concentration)</td><td rowspan="8">Treasury bond turnover remained high accounting for 99.97% of the bonds market on average during the third quarter of 2021.</td><td rowspan="8">Treasury bonds during the quarter sustained high turnover as investors took positions based on the safety of Government paper.</td></tr>
<tr><td></td><td>100%</td><td>99.90%</td><td>100%</td><td>99.97%</td></tr>
<tr><td>Q2.2021</td><td>April</td><td>May</td><td>June</td><td>Q. Avg</td></tr>
<tr><td></td><td>99.99%</td><td>99.66%</td><td>100%</td><td>99.88%</td></tr>
<tr><td>Q1.2021</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr>
<tr><td></td><td>99.95%</td><td>100%</td><td>99.91%</td><td>99.95%</td></tr>
<tr><td>Q4.2020</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
<tr><td></td><td>99.90%</td><td>99.90%</td><td>99.55%</td><td>99.78%</td></tr>
<tr><td>Corporate Bond Market ownership</td><td colspan="5">
<table>
<tr><th rowspan="2">Category of Investors</th><th colspan="3">Trades of Investor During the Quarter (Q3. 2021)</th><th colspan="2">Investor Holdings</th></tr>
<tr><th>No of Trades</th><th>Share Quantity (Millions)</th><th>% Of total share quantity</th><th>Number of Investors</th><th>Share Quantity (Millions)</th></tr>
<tr><td>Local Investors</td><td>9</td><td>92.52</td><td>45.17%</td><td>1,124</td><td>15,609.55</td></tr>
</table>
</td><td>High (Indicative – annual: >50% High concentration</td><td>Foreign investors were the leading investors in corporate bonds traded at the bourse in the review period accounting for 54.83% of the bonds traded followed by the</td><td>There has been increased activity in corporate bonds market this year, 2021 which signals continued strong recovery of corporate debt markets in Kenya.

The Authority is currently reviewing a number of bonds offer applications to be issued next quarter.</td></tr>
</table>

Foreign Investors	7	112.30	**54.83%**	**28**	**1,055.25**
East African Investors	0	0	**0.00%**	**2**	**55.00**
Total	16	204.82	**100%**	**1,174**	**16,719.80**

Source: CDSC *Data as at September 2021

local investors at **45.17%.**

However, local investors accounted for **80.88%** of total corporate bonds holdings, being the largest proportion followed by foreign investors.

6.0	**Settlement Compensation Coverage**							
Settlement Guarantee Fund (SGF) Coverage Ratio[8]	**Q3.2021**	**July**	**Aug**	**Sep**	**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 **increased** by **0.55** to **2.40 times** from average of **1.85 times** recorded in the previous quarter, Q2. 2021.	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.
		2.58	2.13	2.49	2.40			
	Q2.2021	**April**	**May**	**June**	**Q. Avg**			
		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			

[8] *Source: CDSC* ***Data as at September 2021**

<table>
<tr><td></td><td></td><td></td><td>The Guarantee Fund Settlement position closed the quarter healthily with total balance of over Kshs 1.15 billion.</td><td></td></tr>
<tr><td>7.0</td><td colspan="4">Working Capital Analysis</td></tr>
<tr><td>Working Capital</td><td>As of September 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>6,518,266,684.49</td><td>1,703,723,194.26</td><td>5,872,130,997.69</td></tr>
<tr><td>Investment Advisor</td><td>1,513,675,793.20</td><td>360,364,838.19</td><td>1,335,796,555.94</td></tr>
<tr><td>Investment Bank</td><td>12,628,203,425.05</td><td>4,492,851,401.90</td><td>8,473,155,991.06</td></tr>
<tr><td>Online Forex Broker</td><td>1,805,824,308.40</td><td>1,299,372,866.77</td><td>506,451,441.63</td></tr>
<tr><td>Stockbroker</td><td>2,223,020,567.52</td><td>1,114,634,859.81</td><td>1,117,069,305.72</td></tr>
</table></td><td>Medium

(Indicative – the higher the figure, the more stable is the market)</td><td>The net assets base of Fund Managers, Stockbrokers, Investment Banks, Investment advisors and online forex brokers as at the end of August 2021 was, Kshs 5,872.13 million,</td><td>Licensed players had sufficient working capital during the quarter under review.</td></tr>
</table>

			Kshs 1,335.80 million, Kshs 8,473.16 million, Kshs 506.45 million, and Kshs 1,117.07 million respectively.	

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