The Capital Markets Soundness Report (CMSR)

Volume XIV

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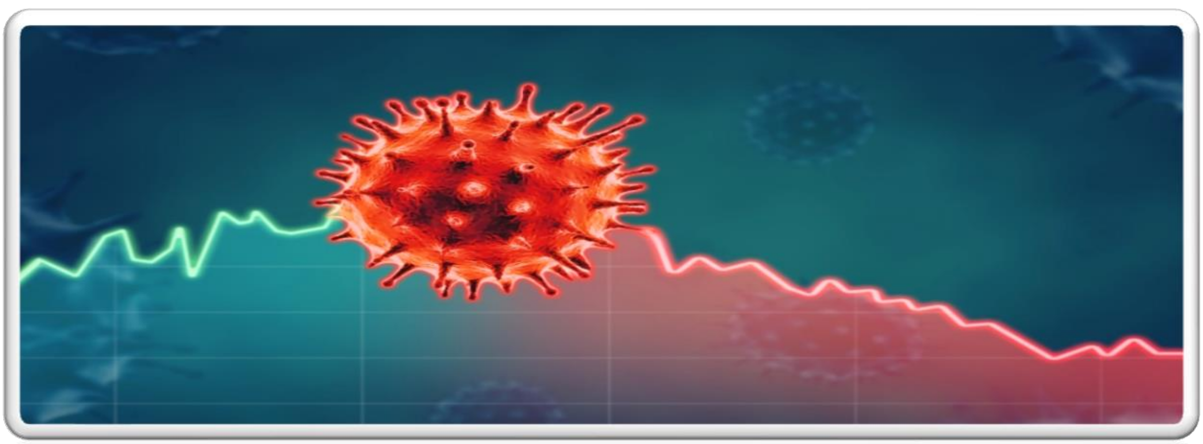

Theme: Capital Markets development amidst global pandemics

About this Report

The Capital Markets Soundness Report examines global, regional and domestic political and socio-economic events that pose risks to the performance of the capital markets and facilitate informed debate amongst industry players, policy makers and investors on market soundness.

It further links the impact of such events to Kenya's Capital Markets industry to help devise risk mitigation measures, interrogate key market risks to reduce the exposure of capital markets to identified risks as well as utilize the report as a key reference document for collaborative evidence based policy formulation and analysis.

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SPECIAL MESSAGE FROM THE AG. CHIEF EXECUTIVE

I wish to welcome you to the 14th Edition of the Capital Markets Soundness Report (CMSR) which provides a view on salient matters affecting the development of capital markets, as well as an opportunity to industry stakeholders to appreciate and contribute towards policy. As most countries in the world continue to grapple with the effects of e COVID-19, the global financial markets are among the most adversely affected. Indeed, these are precarious times that require bold policy and administrative solutions to mitigate against the risks that the virus poses to the economy and broadly, our way of life. We remain committed to supporting the Kenyan Government's current and future interventions, even as we continue to play our more direct role in providing support to players within the capital market space.

The Authority is keen to ensure that the capital markets remain functional and accessible during this challenging period, through collaborative efforts with industry stakeholders. More specifically efforts, have been made to ensure the continued stability of the market infrastructure and facilitating smooth operation and business continuity by market intermediaries. In adhering to National policy and guidelines, the Authority has additionally instituted flexible guidance to listed companies and licensees that ensure the adherence to social distancing guidance, while at the same time ensuring continued flow of information and services to investors.

There are key lessons to be learnt moving forward as we fight to overcome this Pandemic. The Authority remains steadfast in providing an enabling environment to industry stakeholders that will ensure emerging opportunities and solutions within the capital markets are explored and tested. As you peruse the report, we call upon you as key stakeholders and the general public, to share additional ideas and proposals for additional interventions to sustain the industry, even as the Authority takes the lead in developing and implementing a post-Covid-19 recovery strategy for the capital markets. This is in line with one of our primary objectives of deepening the capital markets, even as we remain committed to become the most innovative regulator in Africa and beyond.

Thank you and enjoy the read.

FCPA Wycliffe Shamiah,

AG. CHIEF EXECUTIVE.

EDITORIAL

Without a shadow of doubt, the morbid Covid-19 remains one of the biggest threats to the global economy, with most jurisdictions having already implemented decisive measures to block its spread- placing several cities under lockdown, imposing travel restrictions, closure of schools, churches, entertainment venues, restrictions of small gatherings, amongst other measures. With global GDP already on a decline before the Pandemic, it now poses a serious risk of sending many countries into recession and had already plunged most of the largest securities exchanges in the world into a bear market in the period under review. Specific to securities markets, investors globally have been rushing to sell off their portfolios amidst very low demand leading to substantial declines in key indices. Further, the anticipated global downturn is expected to result in further decline in the performance of most sectors of the economy leading to projections of further drops in share prices in listed entities in sectors such as tourism and travel, oil and gas, investment banking, traditional retail and entertainment, professional sport, banking, healthcare, manufacturing and education.

In mitigation, Governments and Central Banks have applied a cocktail of fiscal and monetary stimulus tools ranging from economic stimulus measures like; reduction of central bank rates, cash reserve ratios, reverse repo operations, quantitative easing, loosened capital adequacy on banks and other firms; to direct measures to support the capital markets directly such: as Primary Dealer Credit Facilities (PDCF) an, Money Market Mutual Fund Liquidity Facilities (MMLF). In Africa Egypt stands out among markets that have weathered this storm, thanks to a USD 1.3 billion injection by the Central Bank of Egypt into the Egyptian Stock Exchange, making it the world's best performer during the period under review.

This Edition details the measures being taken by policy makers at the highest level, to mitigate the impact of Covid-19 globally but focuses on the interventions that have already been implemented to support business continuity in the capital markets in Kenya, under CMA's leadership, as well as other measures under discussions to ensure stability, access and efficiency in the industry.

We further delve into actual Kenyan capital markets soundness during the period under review, with emphasis on how astute investors have leveraged capital markets products fit for such times, to hedge against risks, notably the Absa Gold Exchange, Exchange Traded Funds (ETF), Online Forex Trading and Derivatives.

While Covid-19 eclipsed a number of much publicized global developments, with Governments applying most of their energies towards mitigating against its adverse impact, the report goes further in keeping tabs with these issues including: the status of United Kingdom's financial regulatory regime after Brexit crystallized earlier this year; Lebanon's default on its sovereign bond and implication on global debt restructuring and moratoria, the new oil crisis and South Africa's slide in recession..

We commit to continue keeping you abreast of the critical global and domestic issues that shape the functioning and prosperity of the Kenyan Capital Markets, to inform decision making at both micro and macro level.

Happy reading!

Mr. Luke E. Ombara
DIRECTOR, REGULATORY POLICY & STRATEGY

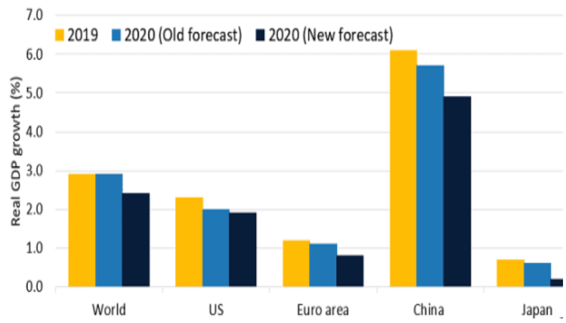
1.Special feature: Sustaining Capital Markets development amidst covid-19 pandemic and possible opportunities.

1.1 Global and regional developments

1.1.1 Global economic growth slowdown

The outbreak of Covid-19 has led to downgrading in economic forecasts for global economies. The Organization for Economic Co-operation and Development (OECD) has downgraded all economies in its 2020 economic growth forecasts

Figure 1: Economic Growth Forecast



Source: OECD Economic outlook Report 2020 (March 2020)

Various economic publication point to a decline in the global Gross Domestic Product (GDP) at different levels.

China being with the highest economic growth in the Asian market is forecasted to grow its economy by 4.9% in year 2020 as compared to pre-virus forecast of 5.7%. In overall the global economic growth has been re-forecasted at 2.4%, signaling a downward adjustment from the pre-COVID earlier 2.9% projection.

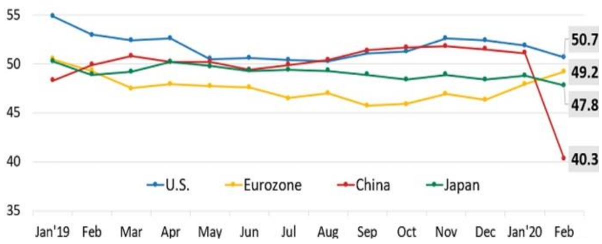
The latest economic update from Fitch projects world economic activity to decline by 1.9% in 2020 with US GDP down by 3.3%, the eurozone down by 4.2% and the UK down by 3.9%. China's recovery from the disruption in the first quarter will be sharply curtailed by the global recession and annual growth will be below 2%.

Moody's on the other hand forecasts that advanced economies will contract 2% in 2020, increase by 1.9% for emerging countries and decline by 2.2% for the eurozone.

1.1.2 Manufacturing activities in major economies

Data from the Caixin/Markit Manufacturing Purchasing Managers' Index (a survey of private companies) revealed that activities in Chinese factories went down in the month of February 2020, recording 40.3 (a figure below 50 clearly indicates a contraction). China being a global manufacturing hub, reduction in its industrial production is likely to lead to undersupply of manufactures to various countries in the world. China makes up a third of manufacturing output globally and is the world's largest exporter of goods.

Figure2: Index Highlighting Manufacturing Activity

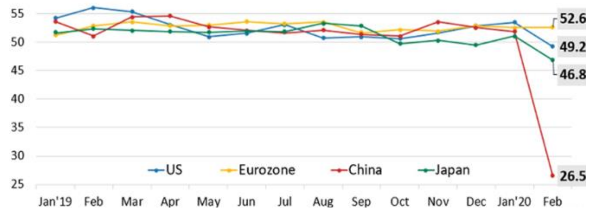


Source: Refinitiv, IHS markit, caixin, au jibun bank

1.1.3 Service Industry in major economies

The global services industry including tourism has been affected by the Covid-19 virus outbreak and has resulted in reduced consumer spending within retail stores, hotels and in the aviation industry. Global economic uncertainty has caused many existing and potential customers from various parts of the world to cancel pending orders or adopt a wait and see attitude. Governments in most of the countries have advised their residents to stay indoors for long periods of time which has resulted into adverse effects on service industries including hotels and restaurants.

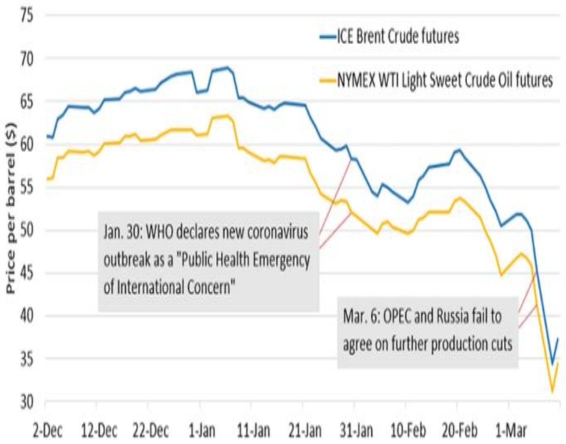
Figure 3: Index Tracking Service Industry



1.1.4 Slump in oil prices

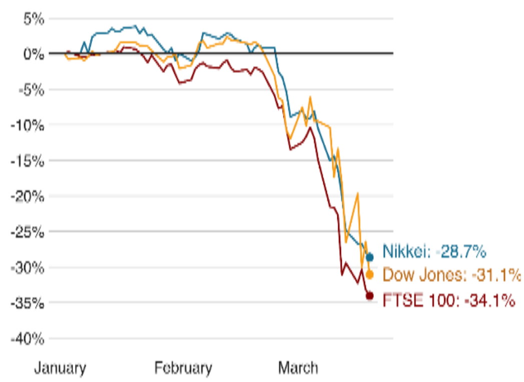
Effects of the virus has led to a decline in global activities and as a result led to less consumption of oil. The reduced demand for oil had been experienced way before oil production cuts resulting from disagreements between Organization of the Petroleum Exporting Countries (OPEC) and its allies as shown in the figure below. Further reduction in oil demand due to the effects of Covid-19 as well as increased supply of oil might reduce oil prices further. This situation has further been compounded by less consumption in China, being one of the highest oil importer and consumer in the world as well as less consumption in Italy and other European countries. Reduced oil prices will likely have a negative effect on African oil exporting countries such as Nigeria and Angola

Figure 4: Oil Barrel Price and Futures Price Movement



Source: Refinitiv (data captured up to March 10th, 2020)

Figure 5: Effects of Covid-19 on Stock Markets since outbreak



Source: Bloomberg/BBC (up to March 19, 2020)

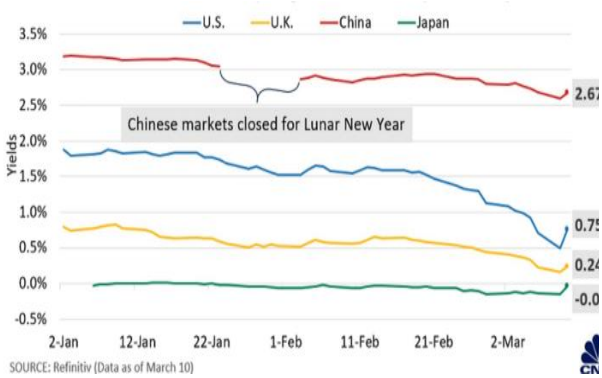
1.1.5 Slump in Stock market prices

COVID-19 has had an adverse effect on stock prices in global markets. In most markets, investors have been rushing to sell off their portfolios but there is less demand for listed stocks leading to a decline in stock prices as shown below. Slump on shares have negative effects on investments in the pension industry.

1.1.6 Lower bond yields

Covid-19 effects has made investors to rebalance their portfolios by looking for more stable avenues to invest in. As a result, this has driven up bond prices globally and leading to the lowering bond yields. The US Treasury Bond yield fell to below 1% in the first week of March 2020 as shown below. The US 10-year benchmark bond fell to a historic low of 0.3%.

Figure 6: 10-year Government Bond Yields of Major Economies.



1.1.7 Measures taken by select Governments, Central Banks and Financial Sector Regulators to boost mitigate against the impact of COVID-19

In mitigation Governments and Central Banks have applied a mix of fiscal and monetary stimulus tools to counteract the disruption. These range from economic stimulus measures like, reduction of Central Bank rates, cash reserve ratios, reverse repo operations, quantitative easing, loosened capital requirements on banks, to measures to support the capital markets such as Primary Dealer Credit Facilities (PDCF) and Money Market Mutual Fund Liquidity Facilities (MMLF). Egypt has stood out in Africa with its Central Bank pledging to inject USD 1.3 Billion into its stock market.

Table 1: Summary of actions taken by select jurisdictions

Jurisdiction	Fiscal interventions	Monetary Interventions	Capital Markets Interventions
1. USA	• The US lawmakers have approved a US$2 trillion stimulus package.This includes direct payments of up to $1200 to individuals, hundreds of billions of dollars in loans and grants to businesses, increases to unemployment benefits, and support for hospitals and health-care providers. • Tax payments delayed to July 15, 2020. • Significant tax rebates for individuals and expansion of unemployment insurance coverage. • Legislation that provides direct relief to businesses has been passed by the Senate. • Short-term expansion of paid sick leave; total fiscal relief under negotiation could exceed $1 trillion.	• The Federal Reserve cut interest rates close to zero, reducing bank reserve requirements to zero. • Rapidly purchasing hundreds of billions of dollars in Treasuries and mortgage-backed securities, buying corporate debt, and extending emergency credit to nonbanks.	• The Securities Exchange Commission (SEC) announced a suspension in trading of ZOOM on March 25, 2020 because of concerns about the adequacy and accuracy of publicly available information concerning ZOOM and about investors confusing this issuer with ZM, a similarly named NASDAQ-listed issuer. • On March 19, 2020 the SEC issued an order in pending Administrative Proceedings to encourage parties to file and serve documents electronically. • Office of Compliance Inspections and Examinations (OCIE) has moved to conducting examinations off-site through correspondence, unless it is absolutely necessary to be on-site. • SEC has urged issuers to work with their audit committees and auditors to ensure that their financial reporting, auditing and review processes meet the applicable requirements in light of their obligations and the unforeseen circumstances. • SEC has articulated the Commission's general policy to grant appropriate relief from filing deadlines in situations where, in light of circumstances beyond the control of the issuer, filings cannot be completed on time with the appropriate level of review and attention.
2. China	• China's State has offered industry, and cheap loans for small businesses.	• China's central bank has taken relatively modest actions, reducing reserve requirements	• China's State Council has authorised new bonds to fund infrastructure.

Jurisdiction	Fiscal interventions	Monetary Interventions	Capital Markets Interventions
	• VAT reduced from 3 percent to 1 percent for small businesses until the end of May 2020. • VAT cut on supplies related to the outbreak. • There is an additional central bank credit line of 1 trillion yuan (US$140 billion) to small lenders. • Increased fiscal support for credit guarantees,	for banks, which will allow them to loan an additional $80 billion to struggling businesses, and indicating that it will cut interest rates in the months ahead. • An additional 1 trillion yuan for small banks to spur lending to small businesses.	• China's central bank injected 1.2 trillion yuan ($173.8 billion) of liquidity into the markets via reverse repo operations. • Bond issuance by financial institutions to finance SME lending • Flexibility in the implementation of the asset management reform
3. Australia	• 2March,20–$17.6bn stimulus package including $4.76bn for $750 payments to welfare recipients and $6.7bn for businesses for wage subsidies. • 22 March, 20 – $66bn including a $550 coronavirus supplement to jobseeker payments and a second $750 payment to welfare recipients. • 30 March,20- $130bn in the third support package, including a $1,500 fortnightly job keeper payment for employers to pass on to employees to keep them in work, and extending eligibility for jobseeker payments.	• The Reserve Bank of Australia has announced a $90bn three-year funding facility to help banks continue to lend to businesses.	• ASIC Confirmed to licensees Confirms that it will take no action if the AGMs (due by 31 May,2020) are postponed for two months; that is, until the end of July 2020 and supported the holding of AGMs using appropriate technology. • ASIC is helping listed companies raise capital quickly by giving temporary relief to enable certain 'low doc' offers (including rights offers, placements and share purchase plans) to be made to investors, even if they do not meet all the normal requirements. This will assist companies that need to raise funds from investors urgently because of the impact of COVID-19.
4. Hong Kong	• HK$10,000 (US$1,284) to each permanent resident of the city aged 18 or older, aiding the population. • Relief measures for businesses including a low-interest loan with 100% guarantee provided by the government, to a ceiling of HK$2 million, and a profits tax reduction of 100% on the first HK$20,000.	• Hong Kong Monetary Authority (HKMA) lowered a key interest rate by 50 basis points to 1.5% on 4th March 2020.	• Hong Kong's stock exchange has directed companies aiming to list in Asia's biggest IPO centre to disclose the impact of the coronavirus on their businesses and detail plans to mitigate the effects.

Jurisdiction	Fiscal interventions	Monetary Interventions	Capital Markets Interventions
	• Waiving of business registration fees, extending subsidies on electricity and water and sewage bills. • Hk$ 700 million to promote tourism in the city once the coronavirus epidemic passes. • For citizens, measures including salaries tax reduction of 100% on the first HK$20,000, waiving rates on residential properties to a ceiling of HK$1,500 per quarter, one month's rent for lower income tenants. • Total recurrent funding of HK$75 billion provided to the Hospital Authority in 2020-2021.		
5. South Africa	• Eextension of the Employment Tax Incentive for a further 10 years, with a review after five years, greater support for public employment programmes, additional support for the clothing and textiles sector, and the use of funds from the Unemployment Insurance Fund to support labour activation programmes. • Companies can claim back up to R1 500 (80 US $) a month per employee who earns less than R6 500 (for those younger than 30), and R500 for those 30 and older. These amounts will be paid back every month by SARS as part of the Employment Tax Incentive (ETI) programme. Instead of paying 50% of their expected tax bill six months into the tax year, and then settling the full amount at the end of the tax year, companies are now allowed to pay only 15% after six months, and another 50% by the end of the tax year. Then, by 30 September 2021 (or six months after the end of its financial year),	• South African Reserve Bank (SARB) cut its main lending rate by 100 basis points to 5.25% on March 19, 2020. • On March 25, 2020 SARB rolled out a program to buy bonds on secondary market.	• The South African Reserve Bank has issued an instruction to the SA banking community that no dividends should be paid to shareholders and no bonuses paid to executive officers in 2020.

Jurisdiction	Fiscal interventions	Monetary Interventions	Capital Markets Interventions
	the company needs to pay the outstanding balance. • Businesses with an annual turnover of less that R50 million can also keep back 20% of the pay-as-you-earn (PAYE) payments they were supposed to hand over to the SA Revenue Service (SARS) for the next four months. • Entrepreneurs (formal sole proprietors) can get a cash payment of R25 000 - which doesn't need to be repaid. Businesses can also get the cash payment, plus a low-interest loan of up to R1 million. The loan comes with a 12-month repayment holiday.		
6. Brazil	• 90-day suspension of deadlines and charges concerning tax debts. • Tax on financial transactions (IOF) reduced to zero. • Extended deadline to June 2020 for filing individual income tax return for 2019. • Extended period for collecting federal taxes • Excise tax rates reduced to 0% on products considered essential. • Import tax reduced to 0% on certain goods, medical equipment, and medicines used to address COVID-19. • Suspension for 90 days of certain tax administrative procedures and suspended deadlines to 30 April 2020 for certain procedural acts in administrative proceedings • Suspension of certain tax deadlines for São Paulo for 30 day.	• Lowered the benchmark Selic rate by 50 basis points to a record low 3.75%. • Selling $9.8 billion of reserves in the spot market, $14 billion in repurchase auctions and $10.5 billion in currency swaps. • Opening a $60 billion swap line with the U.S. Federal Reserve that will be in place for at least six months, allowing the central bank to access dollar liquidity at favourable rates. • Repurchasing Brazilian dollar-denominated sovereign bonds from domestic financial institutions. So far, $2.95 billion	• Brazil's Central Bank is proposing constitutional amendments that will allow for the bank to exercise emergency bond-buying powers among other measures i.e. quantitative easing. The central bank is currently authorized to buy government bonds for interest rate or money supply management purposes. • Brazil's central bank has also prohibited financial institutions from paying dividends beyond the minimum legal requirement through September 2020, as well as not initiating new share buyback programs, in a move to strengthen liquidity amid the coronavirus pandemic.

Jurisdiction	Fiscal interventions	Monetary Interventions	Capital Markets Interventions
	• Suspension of tax filing and other deadlines for Rio de Janeiro and 60-day extension of validity periods of certain certificate • Suspension of tax court procedures for São Paulo state tax court.	has been purchased, out of a potential stock of up to $31 billion. • Injecting up to 1.2 trillion reais of liquidity into the economy - some 16.7% of GDP - through loans to banks backed by their securitized credit portfolios (670 billion reais) and corporate bonds (91 billion reais), and through halving reserve requirements for long-term deposits (203 billion reais). • Letting small lenders raise 200 billion reais by issuing special long-term deposits backed by the Credit Guarantee Fund.	
7. India	• Extensions of time to make payments of direct tax arising during the period from 31 March 2020 to 30 June 2020, without additions to tax if paid on or before 30 June 2020 (similar relief is provided with regard to indirect taxes). • Additional time to comply with requirements when the specified time for the action falls during the period 20 March 2020 to 29 June 2020 (or after 29 June 2020, if the government has provided notice of additional time). • An economic stimulus package worth 1.7 trillion rupees ($22.5 billion) to be disbursed through food	• The Reserve Bank of India (RBI) cut repo to 4.4 per cent, the lowest in at least 15 years. • Reduced the cash reserve ratio maintained by the banks for the first time in over seven years CRR for all banks was cut by 100 basis points to release Rs 1.37 lakh crore across the banking system.	• The Securities and Exchange Board of India (SEBI) in late March 2020 indicated that it had written to all states and union territories to exempt the staff of notified entities from the nationwide 21-day lockdown. The state clarified that all essential services will remain functional. SEBI further made assurances that the order will exempt capital and debt market services. • The National Stock Exchange (NSE) has penalized over 50 brokers for failing to comply with the new derivative market rules that were introduced by the capital markets regulator later in March 2020

Jurisdiction	Fiscal interventions	Monetary Interventions	Capital Markets Interventions
	security measures for poor households and through direct cash transfers.		to damp down wild bets in the wake of the spread of the coronavirus in the country. • Securities and Exchange Board of India (SEBI) instituted new measures barring short selling. The jury is still out on whether the cost of this move outweighs the benefits; drawing lessons from a similar imposition by US SEC during the 2008 financial crisis.

Source: Various internet links

1.1.8 UK's Potential post-Brexit financial regulatory regime

For the longest time the UK has been the hub of business among all the members of the European Union. It has also served as a strategic link between the world and the European Union, whereby many financial institutions have established branches in UK to access clients in the EU nations. There is therefore bound to be major changes after the Brexit most especially in the financial sector. The EU has promoted integration of the financial markets of member countries since the year 1999, this has made it possible for institutions who have branches in one-member country to access other countries. It also led to the development of a uniform rulebook which applies to all the countries.

UK's regulations are affected by various sources such as international bodies (e.g. Financial Stability Board), the EU, Parliament and UK financial sector regulators such as Financial Conduct Authority, Bank of England and Prudential Regulation Authority. With regards to International Standards; they are non-binding hence they can be implemented by incorporation into the national law since they are not enforceable. Some of the international standards setters include; the Basel committee on Banking Standards, International Organization of Securities Commissions (IOSCO),Financial Stability Board ,International Accounting Standards Board, International Association of Insurance Supervisors (IAIS). UK has been playing a very crucial role in setting standards through the International bodies, therefore it remains under these regulations even after the Brexit. Secondly the EU rules which also play a big role in defining UK's regulation; the main aspect of the EU that will be affected is the Passport operation, hence the UK should partner with the EU to see that the transition does not disrupt financial stability.

Effects on Banking and Investment services, Insurance and Fund Management

No major impact will be felt by UK firms, but for firms who have been utilizing the passport system (accessing any EU member country by virtue of being licensed to operate in one country) will be affected if their passport term ends.

Derivatives

The G20 countries made a deal in 2009 to continuously improve the derivatives market globally. Given that UK's market is very large they will be required to continue reporting to the respective authorities on the following; threshold capital, compulsory clearing and giving an account of the operations to a central repository.

Government agencies need to review existing Memorandum of understandings with European Union and member countries and ensure that they are valid post-Brexit.

1.1.9 Lebanon defaults on Sovereign Bond

In a live televised address in early March 2020, the Lebanese Prime Minister announced that his government would default on its Eurobond repayment. The country was due to pay $1.2 Billion Eurobond on 9th March while two others valued at $700 million and $600 million in April and June respectively[1]. Even after weathering through the 1975-1990 civil war, up to this point Lebanon had never defaulted in any of its Eurobonds. However, with slowed foreign currency inflows, corruption and street protests against the political class due to lack of reform this seemed to have been a ticking time bomb.

As it stands the debt levels of Lebanon are 1.7 times its GDP even as the Prime Minister was quick to assure that the state intended to restructure its debts through fair negotiations with creditors and an aim to keep national interest paramount.

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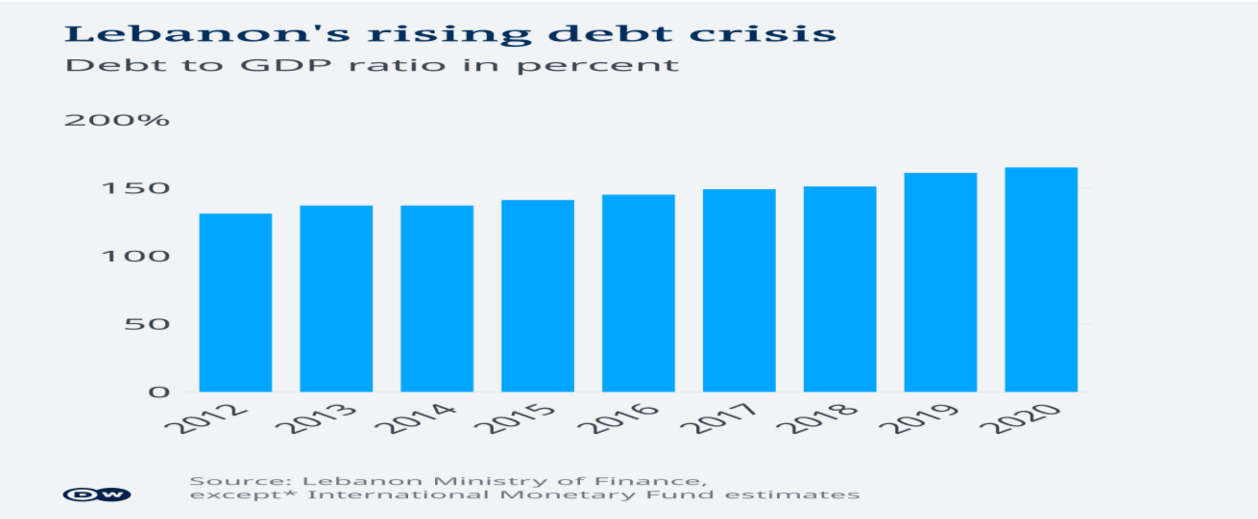
[1] https://www.theguardian.com/world/2020/mar/07/lebanon-to-default-on-debt-for-first-time-amid-financial-crisis

Figure 7: Lebanon's Debt to GDP Ratio



The effect of the default will immediately be felt by the local banks and reduce their liquidity. The banks held up to $12.7bn of the country's outstanding $30bn Eurobonds as of the end of January 20201. In addition to this, local banks had also sold a significant proportion of the Eurobonds to foreign creditors and fear that a default on payment would compromise their relationship with them. As is highly likely, credit rating agencies would adversely rate any future Eurobonds in the event of a current default thereby limiting the state's ability to raise debt capital.

Lebanon is currently seeking a bailout program with the assistance of the International Monetary Fund which likely include austerity measures within the package.

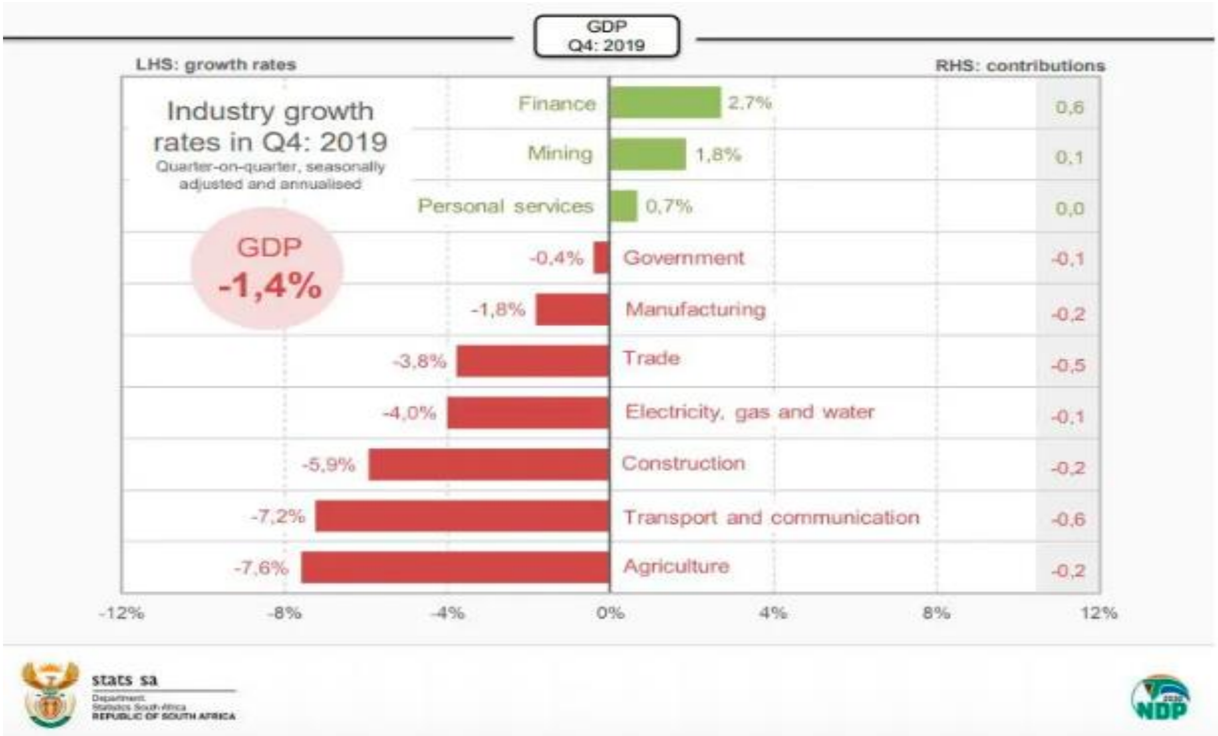
The cost of raising funds in international Markets could go up if Lebanon defaults sovereign debt repayments. This may affect future Kenyan government sovereign bonds and thus limit government debt raising avenues.

Management projects a debt repayment/default crisis across the globe due to a combination of foreign exposure risks experienced pre-corona as well as an already growing and projected increase in anticipated rise in sovereign and corporate borrowings to address the imminent recession. As mentioned above, this will however depend on the response of the key lending countries and institutions to appeals for moratoria, restructuring, as well as the decision to offer interest free lending facilities by institutions such as the IMF and the impact of risk management products such as bilateral currency and interest rate swaps

1.1.10 South Africa slides in recession in Q1, 2020

Data from the last quarter of 2019 shows that South Africa slides recession even as its key sectors such as agriculture, transportation and construction showed contracted growth.[2] In 2019's fourth quarter the economy shrank by 1.4% following a contraction of 0.8% in the third quarter. On this premise, the Finance ministry revised the 2020 economic growth forecast to 0.9%. The nation last recession occurred 2 years ago as the first and second quarters of 2018, even as the current administration is grappling with challenges such as a ballooning public wage bill.[2]

Figure 8: Industry Growth Rates in Q4 2019



Source: Stats SA

[2] https://www.cnbcafrica.com/news/financial/2020/03/03/south-african-economy-enters-recession-what-you-need-to-know/

Even in the wake of the recent global surge in infection rates of the coronavirus there has been increased need for the relevant regulators to inspire some confidence among South African investors. With over 500 and 1700 confirmed coronavirus infections as at March 24th, and April 7th 2020 respectively, South Africa remains the most affected African state.[3]

In a statement published on 19 March 2020, the Financial Sector Conduct Authority (FSCA) stated that it was working closely with the industry stakeholders to "ensure that markets continue to work well, and there are minimal disruptions to customers during the covid-19 disaster period". The regulator also expects that financial service players would be looking into contingency plans and reassess their products and services during and after the outbreak.[4]

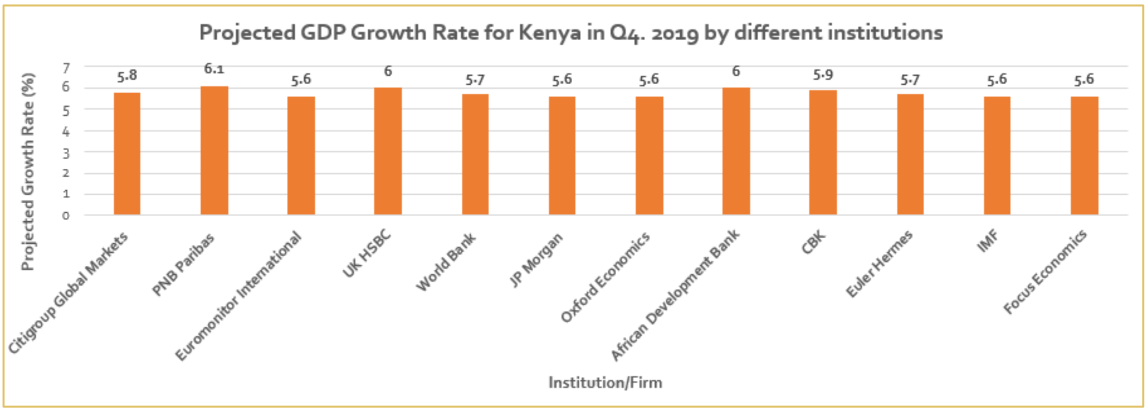
[3] https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

[4] https://international-adviser.com/south-africa-financial-services-industry-gets-ready/

1.2 Domestic Developments

1.2.1 Macro-economic environment

Figure 9 : Kenya's Forecasted Gross Domestic Product for Quarter Four 2019



Source: Citigroup Global Markets/Pnp Paribas/Euromonitor International/Ukhsbc/World Bank/Jp Morgan/Oxford Economics/African Development Bank/Cbk/Euler Hermes/Imf/Focus Economics.

As indicated in the above figure, various institutions have projected Kenya's fourth quarter 2019 GDP would grow at an average growth rate of 5.77 per cent. However, Kenya's GDP growth is expected to contract significantly in year 2020, as a result of Covid-19 pandemic which has affected various sectors including, tourism and transport, as well as the impact of locust invasion on agricultural output.

The CBK has already revised its estimates for 2020 from initial 6.2 per cent to 3.4 per cent. Other factors cited by CBK that are likely to dampen growth in 2020 includes fiscal consolidation that would reduce government expenditure, weak domestic demand, non-performing loans, political noise, and global recession. However, this might be an optimistic projection where International Monetary Fund IMF) as well has revised the real GDP growth prediction for Kenya at 1.0 per cent[5].

Locust invasion and the pandemic will have an adverse effect on listed companies that fall under; agriculture, tourism, manufacturing and transport, among other sectors.

According to the Kenya National Bureau of Statistics (KNBS), overall year-on-year inflation stood at 6.0 per cent in March 2020 compared to 4.35 per cent recorded in February 2019 and 6.37 per cent in February 2020.

5 https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/KEN

1.2.2 Measures already taken by financial sector regulators in response to Covid-19 pandemic as at 31st March 2020

1.2.2.1 Central Bank of Kenya

The Governor of Central Bank of Kenya announced the following emergence measures on 16th March 2020 to protect borrowers affected by the Virus in the Kenyan market:

- Banks will seek to provide relief to borrowers on their personal loans based on their individual circumstances arising from the pandemic;
- To provide relief on personal loans, banks will review requests from borrowers for extension of their loan for a period of up to one year. To initiate this process, borrowers should contact their respective banks. Medium-sized enterprises (SMEs) and corporate borrowers can contact their banks for assessment and restructuring of their loans based on their respective circumstances arising from the pandemic;
- Banks will meet all the costs related to the extension and restructuring of loans;
- To facilitate increased use of mobile digital platforms, banks will waive all charges for balance inquiry;
- All charges for transfers between mobile money wallets and bank accounts have been eliminated;
- The Central Bank of Kenya has also transferred ksh.7.4 billion from its general reserve fund to the government consolidated fund to support government's effort in containing Covid-19 spread in Kenya.

The Central Bank has proposed to assist the National Government through donating ksh.7.4 billion from its general reserve fund to the government consolidated fund. This Authority can explore ways of donating funds that can assist in Covid-19.

1.2.2.2 Retirement Benefits Authority-Kenya

The Retirement Benefits Authority issued a communique to the pension sector guiding as follows:

- The RBA has requested the Cabinet Secretary National Treasury and Planning to consider gazetting waiver of penalties accruing from late submission of audited financial statement that are due on March 31, 2020 for a period of sixty days.

- Where schemes with financial year end of December 31, 2019 have not finalized their audited financial statements, retirement benefit levy due on April 30, 2020 can be paid based on last audited accounts as at December 2018. Any resultant underpayments shall be paid once the accounts are finalized and such underpayment will not attract penalties. Overpayments will be refunded or credited against future levy.
- Trustee to postpone Scheme Annual General Meetings and reschedule their own meetings or hold them through video conferencing and other alternative methods.
- On other matters, individual schemes are encouraged to notify the Authority where there are challenges, for guidance on a case-by-case basis.

1.2.2.3 Measures taken by the CMA

The Authority has put in place necessary business continuity plans to ensure the safe and orderly conduct of its business during this time and is working with the entire capital markets industry so that appropriate measures are taken as the usual service is made available.

CMA has assured the market on its continued collaboration 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 the Coronavirus.

The Authority advised listed companies and licensed persons including collective investment schemes scheduled to hold their Annual General Meetings (AGMs) in March, April and May 2020, to defer the meetings to a later date while ensuring all affected stakeholders are notified in good time.

1.2.3 Opportunities

Investment opportunities in the capital markets: Amidst the global risks that are expected to impact many countries, Kenya inclusive we project a number of opportunities. While many stock markets have declined substantially, it has been argued that in some instances the extent of decline may not be commensurate with the fundamentals of the affected companies and may have been driven by panic. Further, some listed companies are likely to expand and increase in value due to growing demand in response to Covid-19. While initially most sectors are expected to take a hit, the sectors that are likely to benefit the most from the scourge include: ICT and e-commerce, pharmaceutical, logistics and delivery, research and data analytics, video-conferencing, entertainment streaming and gaming sector.

This is therefore an excellent opportunity for long-term investors to take advantage of the underpriced shares for future capital gains and dividend payments.

Post Covid-10 business expansion through capital markets: Management anticipates that once the short-term policy interventions being implemented across the world are successful to keep businesses afloat, the same entities will require to expand. The most ideal tolls for such business strategies will be equity and debt financing and it shall be a perfect opportunity for the capital markets to play its role in mobilizing savings for long-term investments.

Technological information to enhance the customer journey: In light of the social distancing measures and travel restrictions that have been implemented to combat COVID-19, the Canadian Securities Administrators advised that conducting Meetings by means of electronic or telephonic means is permissible for companies incorporated in Ontario, while companies incorporated federally or in Alberta may require express permission in their by-laws to do so.

Issuers' board of directors were advised to consult with their legal counsel and review their issuer's by-laws to determine whether or not such a meeting is permissible. If an issuer's by-laws do not permit an electronic meeting, accommodation may be sought by way of a court order. Further, issuers were advised to practically assess the risk of proceeding with an uncontested electronic or virtual Meeting when their incorporating documents (or declaration of trusts) are silent or vague on the matter.

This is an excellent opportunity for introduction of virtual meetings and especially electronic Annual General Meetings (e-AGMs) not only in Kenya, which has been faced with the challenge, but the rest of the world. Management projects the proliferation of FinTechs to provide solutions to not only AGMs but other client onboarding, trading and settlement platforms in response to Covid-19.

1.2.4 Additional Policy Considerations for the Kenya Capital Markets

Management appreciates the raft of policy interventions already implemented to stabilize the capital markets. In line with other measures taken by other jurisdictions and taking due care not to blindly replicate what others have done and to also consider home grown solutions, we propose the following additional measures:

- The Authority should come up with various public sensitization programs to instill investors' confidence during and after Covid-19 period. Low- hanging fruits include issuance of Opinion Editorials (Op-eds) by various staff and stakeholders to encourage and promote the benefits of long-term investing in the securities market and especially in the current environment when prices are discounted;
- There is need to explore viability of Electronic Annual General Meetings (e-AGMs) for capital market intermediaries in Kenya. This concept can be tested in the CMA regulatory sandbox to inform future approach;
- It may also be the right time to start thinking about completely transforming capital markets transactions into e-mobile where clients are on-boarded, trade and receive cash through their mobile handsets;
- Licensees should be instructed to include effects of Covid-19, on their businesses plans and projections, such as the effects on financials and returns. They should also put in place robust Business Continuity Plans;
- Small and Medium Enterprises (SMEs) in the manufacturing sector should be sensitized and encouraged to explore capital markets as one of capital raising avenues in business expansion in the long-term (post Covid-19) to enhance production in order to meet deficit created by global manufacturers; and

- Crisis management and communication strategy for CMA should be developed and immediately implemented'. JFSR crisis management should also be pursued with a view to even having joint communications among financial sector regulators.
- The policy on staff working from home could be sustained, even after COVID-19, to reduce operating costs, increase work-life balance, as well as to reduce man hours spent on the road when commuting. This has a likely effect of increasing staff productivity and well-being concurrently, if implemented properly.

The Authority should continue guiding the market on various issues including holding or postponement of general meetings as well exploring viability of electronic meetings.

1.2.5 Other Developments in the Capital Market

1.2.5.1 CMA Regulatory Sandbox One year on

On 26th March 2019, the Board of the Capital Markets Authority (CMA) approved the Regulatory Sandbox Policy Guidance Note (PGN) setting the stage for the Authority to commence receiving applications for admission of fintech firms to its Regulatory Sandbox. The PGN's objective includes to provide a framework to allow for testing innovative products and services with the potential to deepen/accelerate the capital market; provide evidence-based tool for fostering innovation without overlooking investor protection, stability and integrity risks; set out the eligibility requirements and application as well as testing processes for innovative products and services.

Where successful, candidates were to be granted a 12-month period to deploy and conduct live-tests of their innovative products, solutions and services. At minimum, Sandbox applicants need to be companies incorporated in Kenya, including existing licensees of the Authority. For foreign applicants, the requirement is for them to be licensed by an equivalent capital markets regulator.

One of the caveats emphasized early on was that the Sandbox is not an incubation centre and would not receive applications based on ideas that have not been developed to the level of operational testing.

Figure 10 Poster for Sandbox Application advertised on the CMA Twitter Page

Source: CMA

Since its inception the scope of applications include areas such as crowdfunding, tokenization of real estate, E-KYC platforms, Reg-tech and investor portfolio management. The benefit of such applications include building capacity of internal staff who would eventually regulate the products if a 'no objection' approval is granted as well as inform the reassessment of existing regulation that may be prohibiting beneficial innovation.

However, one year on the learning curve is still active. Whereas some applications meet the admission criteria practicality of their testing may prove to be a challenge e.g. those that cut across many jurisdictions.

1.2.5.2 New capital markets approvals

During the period January 2020 to March 2020, the Authority granted the following licenses and other major approvals including:

a) Granted a non-dealing Online Foreign Exchange Broker License to Pepperstone Markets Kenya Limited
b) Granted a Fund Manager License to Absa Asset Management Limited; and
c) Approved the listing by introduction on the Fixed Income Securities Market Segment of The Nairobi Securities exchange of the notes issued by Acorn Project (Two) Limited Liability Partnership under the Medium-Term Note Programme of up to Kshs.5 billion.

1.2.5.3 Gazettement of a new class of licensees

Pursuant to the powers conferred by section 29 (7) (e) of the Capital Markets Act, the Authority prescribed a new class of licensees under Gazette notice No. 30 dated February 14, 2020 which comprises of: the dealing online foreign exchange broker, non-dealing online foreign exchange broker, REIT Trustee and REIT Manager.

The gazettement was necessitated by the coming into force of the Capital Markets (Online Foreign Exchange Trading) Regulations, 2017 and the Capital Markets (Real Estate Investment Trust Collective Investment Schemes) Regulations, 2013.

1.3 Performance of Capital Markets Stability Indicators (CMSIs)

Table 2: Capital Markets Stability Indicators

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level (High – Medium – Low)	Performance Brief for the Quarter	Ongoing Intervention Measures
1.0 Equity Market Depth								
NSE 20 Index Volatility **Base Year = 2010**	**Q1.2020**	**Jan**	**Feb**	**March**	**Q.Avg**	**Medium** **(indicative – Low < 1% Medium : >1% high; >10%)**	• The NSE 20 Share and NASI Index volatility for the quarter ended March 2020 averaged at **0.65%** and **0.83%**	▪ The level of volatility of the market as evidenced by the NSE 20 Share and NASI index, was relatively high compared to comparative preceding quarters on the background of the first case of the global pandemic, Covid-19
		0.44%	0.45%	1.06%	0.65%			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		0.44%	0.54%	0.42%	0.47%			
	Q3. 2019	**July**	**Aug**	**Sep**	**Q.Avg**			
		0.49%	0.31%	0.52%	0.44%			
	Q2.2019	**April**	**May**	**June**	**Q. Avg**			
		0.64%	0.42%	0.31%	0.46%			

<table>
<tr><td rowspan="8">NASI Volatility

Base Year = 2010</td><td rowspan="2">Q1.2020</td><td>Jan</td><td>Feb</td><td>March</td><td>Q.Avg</td><td rowspan="8">indicative – Low < 1% Medium : >1% high; >10%)</td><td rowspan="8">respectively compared to 0.47% and 0.53% respectively recorded in Q4.2019 with March 2020 indicating the highest volatility during the quarter for both indices. 1.06%.and NASI 1.35%.</td><td rowspan="8">being registered in Kenya on Friday 13th March 2020. Following the announcement of Kenya's first case, the markets witnessed panic sales leading to the high volatility levels. This forced the NSE to halt trading in line with Rule 9.4.1 (ii) of the NSE Equity Trading Rules. The halt was effected to give investors some time to reflect and reconsider their trading position.</td></tr>
<tr><td>0.50%</td><td>0.64%</td><td>1.35%</td><td>0.83%</td></tr>
<tr><td rowspan="2">Q4.2019</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
<tr><td>0.50%</td><td>0.76%</td><td>0.32%</td><td>0.53%</td></tr>
<tr><td rowspan="2">Q3.2019</td><td>July</td><td>Aug</td><td>Sep</td><td>Q. Avg</td></tr>
<tr><td>0.41%</td><td>0.36%</td><td>0.57%</td><td>0.45%</td></tr>
<tr><td rowspan="2">Q2.2019</td><td>April</td><td>May</td><td>June</td><td>Q.Avg</td></tr>
<tr><td>0.23%</td><td>0.80%</td><td>0.30%</td><td>0.44%</td></tr>
</table>

Turnover Ratio	**Q1.2020**	**Jan**	**Feb**	**March**	**Q.Sum**	**Low** **(indicative – annual: <8%- Low; >15% High)**	• A turnover ratio of **1.98%** was recorded in the quarter, compared to **1.84% and 1.37%** in Q4.2019 and Q3.2019 respectively indicating increased trading frequencies in Q1.2020	• Increased trading activities witnessed by the rise in turnover levels during the quarter could also be highly attributed to the increased foreign sales following the incidence of the Covid-19 cases in Kenya since 13th March 2020. • However to ensure stability in the turnover levels and rises attributable to informed and long term trading decisions, the Authority has issued circulars to the public re-affirming to investors efforts towards
		0.50%	0.54%	0.94%	**1.98%**			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Sum**			
		0.66%	0.71%	0.47%	**1.84%**			
	Q3.2019	**July**	**Aug**	**Sep**	**Q.Sum**			
		0.50%	0.39%	0.48%	**1.37%**			
	Q2.2019	**April**	**May**	**June**	**Q.Sum**			
		0.42%	0.55%	0.42%	**1.39%**			

								long term stability of the market post Covid-19 while encouraging investors to cash in the market now that prices of securities have relatively dropped to attain maximum value in future.
2.0	**Foreign Exposure Risk**							
Foreign Investor turnover as a % of total turnover	**Q1.2020**	**Jan**	**Feb**	**Mar**	**Q.Avg**	**Medium (indicative – annual: <40%-Low; >90% High)**	• Average Foreign investor participation during the quarter averaged at **61.14%**, a	• The Kenyan market continues to be highly driven by foreign participation as they seek higher yields in alternative assets within emerging markets. While the Covid-19 is a global pandemic
		60.60%	62.81%	60.01%	**61.14%**			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		64.29%	55.97%	68.63%	**62.96 %**			
	Q3.2019	**July**	**Aug**	**Sep**	**Q.Avg**			

		66.89%	62.31%	65.65%	**64.95 %**		**1.82%** decrease from **62.96%** recorded in Q4.2019.	that started in the European economies, foreign investors were still active in the market with majority of activity being recorded on the sale side.
	Q2.2019	**April**	**May**	**June**	**Q.Avg**			
		75.80%	63.43%	74.15%	**71.13%**			
Net Foreign Portfolio Flow (In KES Millions)	**Q1.2020**	**Jan**	**Feb**	**Mar**	**Q.Sum**	**High (indicative – annual: <Kshs (50million) - High (outflow; >KShs. 50 million High inflow)**	• Net Foreign Portfolio levels during the quarter amounted to a total outflow of **Kshs 844 Mn,** compared to a total inflow of **Kshs 262** in net	• While this was expected with the pandemic spreading into Kenya and other sub-Saharan African countries, the Authority in conjunction with NSE and industry players continue to market the Kenyan market as a safe haven for investments for foreigners in the long term.
		530	(2,656)	(9,058)	**(11,184)**			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Sum**			
		(1,361)	(730)	1,247	**262**			
	Q3.2019	**July**	**Aug**	**Sep**	**Q.Sum**			
		(2,073)	1,509	827	**1,359**			
	Q2.2019	**April**	**May**	**June**	**Q.Sum**			
		93	2,166	(900)	**601**			

							foreign inflows during Q3.2019.	● In addition, through an Opinion Editorial published during the quarter, the Authority has encouraged the investing public to use this chance to actively participate in their patriotic role of developing domestic markets by buying listed securities. ● Further, purchase of 20% of Centum shares by a major shareholder during the quarter has sent a positive signal to both foreign and domestic players on the confidence levels in the Kenyan

								securities markets despite Covid-19.
3.0	**Market Concentration Risk**							
Market Concentration **(Top 5 companies by market cap)**	**Q1.2020**	**Jan**	**Feb**	**Mar[6]**	**Q.Avg**	**High** **(indicative – annual: >50% High concentration)**	• During the quarter, the top five companies by market capitalization accounted for an average of 74.14**%,** the highest in the last four quarters, further increasing	• Market concentration remains a key risk within the Kenyan Capital Markets landscape. • To diversify the number and quality of listed entities the Authority is working with market players – Privatization Commission, Kenya Private Sector Alliance, Kenya Association of Manufacturers amongst
		74.36%	74.43%	73.62%	**74.14%**			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		73.25%	73.34%	73.46%	**73.35%**			
	Q3.2019	**July**	**Aug**	**Sep**	**Q.Avg**			
		70.85%	72.02%	72.61%	**71.83%**			
	Q2.2019	**April**	**May**	**June**	**Q. Avg**			
		70.17%	71.62%	70.62%	**70.80%**			

[6] Data as at 20th March 2020

							the exposure risk that the Kenyan market faces.	others in identifying potential issuers within the Kenyan market – both large cap and SMEs as a way of increasing diversity within the Kenyan market. ● In the long term a positive outlook prevails as some companies have expressed interest in going public within the next 2 to 3 years.

<table>
<tr><th>4.0</th><th colspan="4">Derivatives Trading Statistics</th></tr>
<tr>
<td>Total Volume
(No. of contracts)</td>
<td>
<table>
<tr><th></th><th>Jan</th><th>Feb</th><th>March</th><th>Q. Sum</th></tr>
<tr><td>25-Share Index</td><td>1</td><td>6</td><td>1</td><td>8</td></tr>
<tr><td>SCOM SSF</td><td>17</td><td>24</td><td>24</td><td>65</td></tr>
<tr><td>EQTY SSF</td><td>17</td><td>8</td><td>22</td><td>47</td></tr>
<tr><td>KCBG SSF</td><td>19</td><td>44</td><td>45</td><td>108</td></tr>
<tr><td>EABL SSF</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>BATK SSF</td><td>1</td><td>-</td><td>2</td><td>3</td></tr>
<tr><td>ABSA SSF</td><td>9</td><td>6</td><td>9</td><td>24</td></tr>
<tr><td>Total</td><td>64</td><td>88</td><td>103</td><td>255</td></tr>
</table>
</td>
<td>Low</td>
<td>During the quarter, a total of 255 contracts were traded, compared to 207 in the previous quarter, with KCB Group SSF accounting for the highest number of contracts</td>
<td>The derivatives market has remained active following its launch in July 2019 with more activity being recorded across the listed SSFs.</td>
</tr>
</table>

			traded at 42.35%.	

<table>
<tr>
<td>Gross Notional Exposure (GNE)[7]

(Amount in Kshs Mn)</td>
<td>
<table>
<tr><th></th><th>Jan</th><th>Feb</th><th>March</th><th>Q.Sum</th></tr>
<tr><td>25-Share Index</td><td>405,000</td><td>2,395,900</td><td>325,300</td><td>3,126,200</td></tr>
<tr><td>SCOM SSF</td><td>548,150</td><td>720,470</td><td>631,070</td><td>1,899,690</td></tr>
<tr><td>EQTY SSF</td><td>894,300</td><td>412,250</td><td>925,740</td><td>2,232,290</td></tr>
<tr><td>KCBG SSF</td><td>1,017,800</td><td>2,193,770</td><td>1,949,850</td><td>5,161,420</td></tr>
<tr><td>EABL SSF</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>BATK SSF</td><td>47,000</td><td>-</td><td>78,000</td><td>125,000</td></tr>
</table>
</td>
<td>Low</td>
<td>The total value (Gross Notional Exposure) of contracts traded during the quarter amounted to Kshs 12.85 Mn</td>
<td>While still a relatively new asset class, industry players continue to participate in the trading of listed Futures. As more qualified practitioners and players</td>
</tr>
</table>

[7] Gross Notional Exposure = no. of Contracts * notional contract size * market price of underlying equity share 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.

<table>
<tr>
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<table>
<tr><td>ABSA SSF</td><td>120,750</td><td>80,320</td><td>107,880</td><td>308,950</td></tr>
<tr><td>Total</td><td>3,033,000</td><td>5,802,710</td><td>4,017,840</td><td>12,853,550</td></tr>
</table>
</td>
<td></td>
<td></td>
<td rowspan="2">enter the market, the quantum of the trades if expected to increase in the long run.</td>
</tr>
<tr>
<td>Total Open Interest[8]

(No. of Contracts)</td>
<td>
<table>
<tr><th></th><th>Jan</th><th>Feb</th><th>March</th><th>Q. Avg</th></tr>
<tr><td>25-Share Index</td><td>1</td><td>1</td><td>-</td><td>1</td></tr>
<tr><td>SCOM SSF</td><td>9</td><td>15</td><td>6</td><td>10</td></tr>
<tr><td>EQTY SSF</td><td>8</td><td>13</td><td>1</td><td>7</td></tr>
<tr><td>KCBG SSF</td><td>7</td><td>35</td><td>7</td><td>16</td></tr>
<tr><td>EABL SSF</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>BATK SSF</td><td>2</td><td>2</td><td>-</td><td>2</td></tr>
<tr><td>BBKL</td><td>8</td><td>9</td><td>-</td><td>9</td></tr>
</table>
</td>
<td>Low</td>
<td>The total open interest during the quarter was 41, with KCB being the most attractive counter in the quarter.</td>
</tr>
</table>

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

<table>
<tr><td></td><td><table><tr><td>Total</td><td>35</td><td>75</td><td>14</td><td>41</td><td></td></tr></table></td><td></td><td></td><td></td></tr>
<tr><td>Settlement Guarantee Fund (SGF) Coverage[9] for Derivatives</td><td><table><tr><td></td><td>Jan</td><td>Feb</td><td>March</td></tr><tr><td>SGF</td><td>179,818,209</td><td>180,968,960</td><td>182,730,136</td></tr><tr><td>Average Market Value</td><td>189,562.50</td><td>610,198.89</td><td>334,820.00</td></tr><tr><td>SGF Coverage</td><td>949 times</td><td>297 times</td><td>546 times</td></tr></table></td><td>Low</td><td>The SGF coverage ratio for the derivatives market as at end March 2020 was 546 times relative to 613 times in Q4.2019. Despite the fall quarter on quarter, this reflects a high level of</td><td>To maximize value from the SGF fund balances, there is deliberate effort by NSE to encourage increased activity by market intermedia</td></tr>
</table>

[9] 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.

			sufficiency of the Guarantee Fund to cover trading volumes in the market.	ries in this market for increased volumes of trade.

<table>
<tr>
<td>SGF Coverage of Clearing Member 1 and Clearing Member 2[10]</td>
<td>
<table>
<tr><th></th><th>Jan</th><th>Feb</th><th>March</th></tr>
<tr><td>SGF</td><td>179,818,209</td><td>180,968,960</td><td>182,730,136</td></tr>
<tr><td>Average Value CM1</td><td>150,861</td><td>436,090</td><td>184,936</td></tr>
<tr><td>Average Value CM2</td><td>38,702</td><td>174,109</td><td>149,884</td></tr>
<tr><td>SGF Coverage CM1</td><td>1,192 times</td><td>415 times</td><td>988 times</td></tr>
<tr><td>SGF Coverage CM2</td><td>4,646 times</td><td>1,039 times</td><td>1,219 times</td></tr>
</table>
</td>
<td>Low</td>
<td></td>
<td></td>
</tr>
</table>

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

5.0	Government Bond Market Exposure							
Treasury Bond market turnover Concentration	**Q4.2019**	**Jan**	**Feb**	**Mar**	**Q.Avg**	**High (indicative – annual: >50% High concentration)**	• During the quarter, Treasury bond turnover averaged at **98.66%** compared to **99.38%** in the previous quarter.	• The skewed shareholding of corporate bonds by local investors to the tune of 98% is an indication of demand by local investors – retail and institutional for corporate bonds as they contribute towards the growth and development of local companies. • Through its Market Deepening initiatives, the Authority is working with potential issuers to bring more activity in corporate bonds activities even as
		95.99%	99.99%	99.996%	**98.66 %**			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		99.86%	98.29%	99.98%	**99.38 %**			
	Q3.2019	**July**	**Aug**	**Sep**	**Q.Avg**			
		97.54%	98.55%	99.94%	**98.68 %**			
	Q2.2019	**April**	**May**	**June**	**Q.Avg**			
		99.99%	100%	99.96%	**99.98 %**			
	Category	**No of Investors**	**Share Quantity**	**% of total share quantity**		**High**	• Local Corporate	

<table>
<tr>
<td>Corporate Bond Market ownership</td>
<td>
<table>
<tr><td></td><td></td><td>(In Millions)</td><td></td></tr>
<tr><td>Local Investors</td><td>2,933</td><td>39,737.02</td><td>98.74%</td></tr>
<tr><td>East African Investors</td><td>7</td><td>43</td><td>0.11%</td></tr>
<tr><td>Foreign Investors</td><td>35</td><td>464.25</td><td>1.15%</td></tr>
<tr><td colspan="4">Source: CDSC Data as at December 2019</td></tr>
</table>
</td>
<td>(indicative – annual: >50% High concentration</td>
<td>bond investors were the leading investors in corporate bonds at 98.74% of amounts outstanding, while foreign bond investors held 1.15% of total corporate bond holdings.</td>
<td>fears aligned to the product are addressed in a multifaceted approach – policy, strategic influence and moral suasion.</td>
</tr>
<tr>
<td>6.0</td>
<td colspan="4">Investor Profiles - Equity Market</td>
</tr>
</table>

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<tr>
<td>Equity Market</td>
<td>
<table>
<tr><th>Type of Investor</th><th>No. of Investors</th><th>Share Quantity (In Millions)</th><th>% to Total Share Quantity</th></tr>
<tr><td>Local Investors</td><td>2,008,227</td><td>78,242.14</td><td>80.52%</td></tr>
<tr><td>EA Investors</td><td>9,102</td><td>1,023.96</td><td>1.05%</td></tr>
<tr><td>Foreign Investors</td><td>15,018</td><td>17,888.41</td><td>18.41%</td></tr>
<tr><td>BR</td><td>23</td><td>12.90</td><td>0.01%</td></tr>
<tr><td>JR</td><td>275</td><td>0.96</td><td>0.001%</td></tr>
</table>
Source: CMA- *Data as at March 2020
</td>
<td>Medium

(indicative – annual: >50% High concentration)</td>
<td>● Local investors, a sum of East African institutional and individual investors accounted for 80.52% of shares held in the equity market with 18.41% being held by foreign investors.</td>
<td>● Noting that local investors hold the greatest shares in terms of quantity, more targeted market deepening and investor education initiatives will be undertaken in the year 2020 to increase participation of local investors with the aim of discouraging dormant accounts.
● Promotion of regional trading and access to the Kenyan market by other investors within the region also remains a strategy for</td>
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								increasing participation at the Nairobi Securities Exchange through increased partnerships with respective country regulators.
7.0	**Settlement Compensation Coverage**							
Settlement Guarantee Fund (SGF) Coverage Ratio[11]	**Q1.2020**	**Jan**	**Feb**	**Mar**	**Q.Avg**	**Medium (indicative – annual: > 1 times, implies full coverage)**	• SGF Ratio for the quarter ended March 2020 averaged at 1.50. While this is an indication	• 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.
		1.77	1.55	1.17	1.50			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		1.27	1.21	1.56	1.35			
	Q3.2019	**July**	**Aug**	**Sep**	**Q.Avg**			
		2.01	2.33	1.92	2.09			
	Q2.2019	**April**	**May**	**June**	**Q.Avg**			

[11] *Source: CDSC*

		1.87	1.64	1.70	1.74		that the Guarantee Fund balances are sufficient to cover liabilities that would arise following default by securities brokers, the figures are relatively low as the ratio is a function of both SGF	

							balances and average turnover values with the latter having risen during the quarter under review.	
8.0	**Asset Base of Fund Managers, Stockbrokers, Investment Banks**							
Assets Under Management	**As at 30th November 2019 (Amount in KShs Millions)**					**Medium** **(Indicative – the higher the figure, the more**	• The total Asset Base of Fund Managers, Stockbrokers,	• The Authority continuously monitors asset levels of its licensees to ensure accurate reporting of assets and liabilities and
	CMA Licensee	**Total Assets**	**Total Liability**	**Net Assets**				

	Fund Managers	7,129.38	1,482.35	6,734.88		**stable is the market)**	Investment Banks, Investment advisors and online forex brokers as at 30th Nov 2019 was **Kshs 7,129.38 Million, 2,197.66 Billion, Kshs.13,331 .67 Million, Kshs 1,688.62 Million** and **Kshs 782.28**	monitoring sufficiency of liquid capital to monitor potential bankruptcy of licensees.
	Stockbrokers	2,197.66	744.42	1,453.23				
	Investment Banks	13,331.67	4,605.15	9,131.31				
	Investment Advisors	1,688.62	168.99	1,603.30				
	Online Forex Broker (Non-Dealing)	782.28	600.55	181.73				

							Million respectively.	