The Capital Markets Soundness Report (CMSR)

Volume XXVI

1 January -31 March 2023

“Sustainable Finance in the Capital Markets”

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SPECIAL MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Esteemed Reader,

Welcome to the **26th edition of the Capital Markets Soundness Report** that covers developments and emerging trends in the first quarter of the year 2023. This report analyses the soundness of the Kenyan capital markets as influenced by global, regional, domestic, political, and socio-economic developments.

The global economy continued to struggle from the escalating Russia-Ukraine crisis, uncertainty on interest rate hikes across the developed world in 2023, and most recently, the fears of a global banking crisis following the collapse of Silicon Valley and Credit Suisse Banks. With the fears of a global recession fading, the Organization for Economic Co-operation and Development (OECD, Interim Report March 2023) noted that with the downside risks, the world's economic growth is projected to remain at 2.6% and 2.9% in 2023 and 2024.

As global financial conditions continue to tighten, debt servicing in emerging and frontier markets still poses a significant risk, with frontier economies across Africa, Asia, and Latin America remaining susceptible. On the brighter side, it is worth noting that during the quarter, African economies registered modest economic resilience despite macroeconomic headwinds. Over the next two years, the continent is set to surpass the rest of the world's economic growth, with an average real gross domestic product (GDP) of approximately 4% in 2023. This rate is higher than the projected global averages highlighted above.

I am pleased to announce that the Laptrust Imara I-REIT listing ended the prolonged listing drought on the NSE.

In executing its regulatory oversight mandate over the commodities market, CMA Kenya extended the in-principle approval granted to the Nairobi Coffee Exchange (NCE) in January

2023 to continue operating as a coffee exchange until 30 April, 2023. Additionally, four coffee brokers were licensed, bringing the number of this category of licensees to ten (10).

I remain supportive of the reforms being undertaken in the coffee sub-sector in line with our regulatory mandate and in realizing the aspirations of the Bottom-Up Economic Transformation Agenda (BeTA).

We are honoured to continue collaborating with you, our esteemed stakeholders, to deepen the market. CMA Kenya has just published the *Draft Capital Markets (Licensing Requirements) Regulations 2023* and the *Capital Markets (Takeover and Mergers) Regulations 2023* for your valued feedback, in enriching them, to reflect the capital markets industry needs.

Finally, as you peruse through this report, we would request you to feel free to share your thoughts on its key lessons , opportunities, risks, and potential mitigations, to help us improve our capital markets policy and regulatory framework, to make Kenya the investment destination of choice in Africa.

Enjoy the read!

FCPA, Wyckliffe Shamiah
CHIEF EXECUTIVE OFFICER

EDITORIAL

Greetings!

The **26th edition** of the Capital Markets Soundness Report (CMSR) themed **'Sustainable Finance in Capital Markets'** highlights how the capital markets can be leveraged to tackle social issues such as education, health, and housing, through innovative products like social bonds.

Global capital markets weathered a difficult economic environment to register strong performance. The MSCI World and Emerging Market Index registered gross returns of 7.88 % and 4.02 % in US Dollar terms in the quarter. This followed growing investor optimism that the US Federal Reserve will likely slacken the hiking of interest rates to address rising inflation. Additionally, the United Kingdom, the European Union, the USA, and the Chinese economy showed signs of economic resilience, even as fears over a looming global crisis abated.

However, with increasing debt vulnerabilities, several African countries continue to face difficulties in raising money from the regional and international capital markets as investors demand higher interest rates.

During this reporting period, the Securities and Exchange Board of India (SEBI) designated specific stockbrokers as Qualified Stockbrokers (QSBs) based on risks posed by their scale and size of business, subjecting them to higher regulatory requirements.

Ghana's Securities Commission's issue of Over the Counter (OTC) Guidelines 2022, reflects the growing need globally by securities regulators to provide some level of oversight of private markets.

Ethiopia published three directives covering licensing and supervision of capital market service providers (CMSPs), securities exchanges, trading platforms, as well as recognition of self-regulatory organizations (SROs).

On the domestic front, the capital markets industry remained resilient amidst foreign investors' exits. During the period under review, market liquidity as measured by turnover ratio tripled to 2.49% compared to the previous quarter's 0.89%, buoyed by the block trading of East African Breweries Limited (EABL) shares, while the volatility of the three market indices- NSE 20, NSE 25, and NASI- remained low at less than 1%.

The domestic debt and equity market remains attractive to investors with a longer-term horizon, as securities at the NSE remain undervalued. CMA continues to lead the implementation of a joint industry market deepening and product uptake strategy aimed at rekindling activity in the capital markets, especially by bottom of the pyramid investors. Products targeting the Kenyan Diaspora and Sukuks will also be rolled out in the near future to attract portfolio capital flows into Kenya.

We conclude with a detailed capital markets stability analysis of trends in market volatility, liquidity, concentration, and foreign portfolios flow, the key highlight being a 34.92% increase in the net asset base of licensees on a quarter-by-quarter analysis.

Enjoy your read!

Mr. Luke E. Ombara
DIRECTOR, POLICY AND MARKET DEVELOPMENT

SPECIAL FEATURE: SUSTAINABLE FINANCE IN THE CAPITAL MARKETS

Sustainable finance has become a key focus area for global investors and policymakers in embedding environmental, social and governance considerations in making investment decisions in the financial sector. Figure 1 below highlights the different environmental, social and governance considerations.

Figure 1ESG Considerations

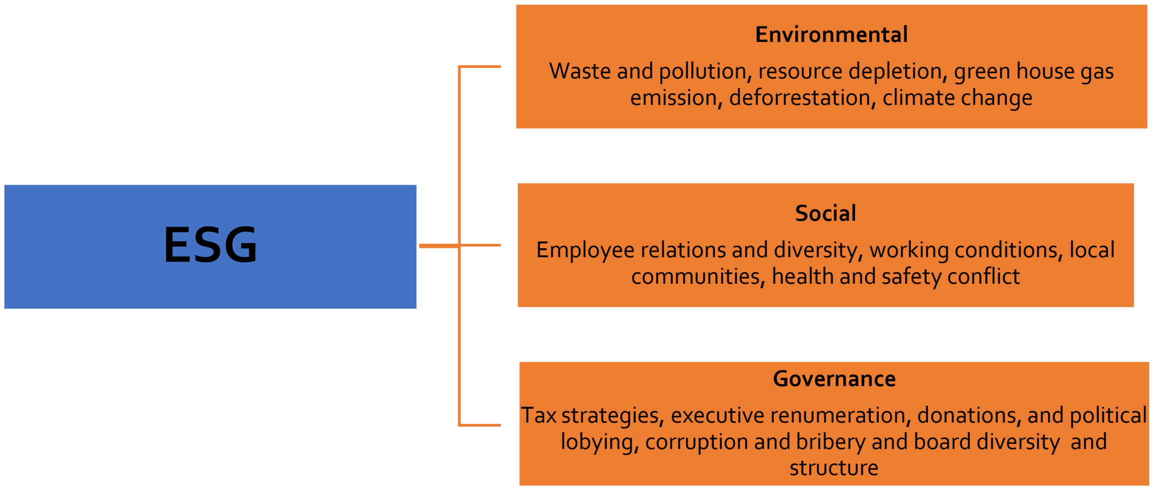
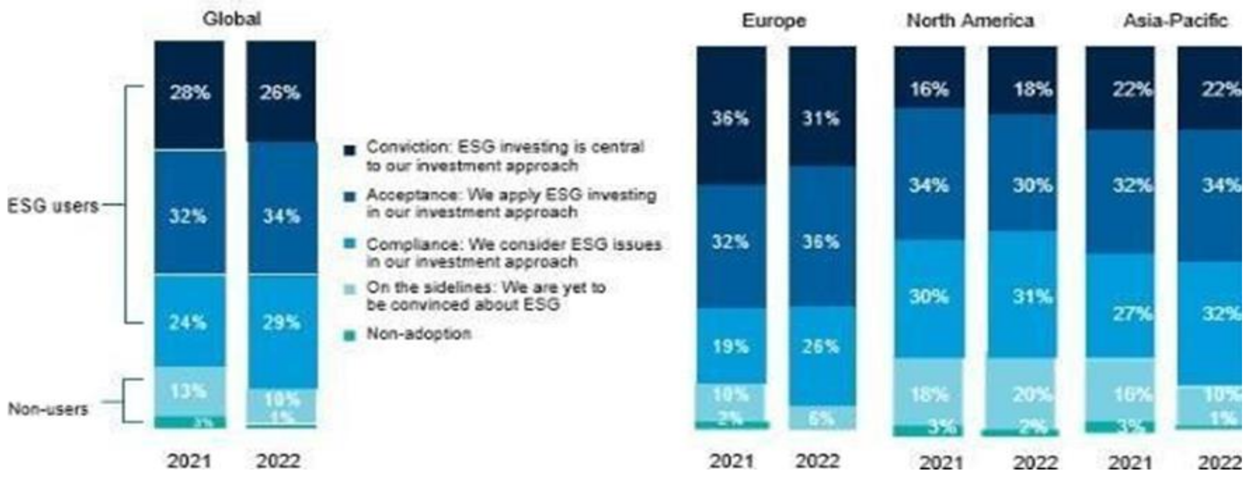


Figure 2: ESG Considerations

Source: CMA

Over time, the emphasis on ESG has grown as major institutional investors are making it clear they expect the companies they invest in to adopt ESG considerations in their business operations. ESG adoption rate has particularly been fueled by clients' desire to make an impact. A study by Harvard Law School in 2022 showed continued momentum toward ESG. As with 2021, more than a quarter of global investors said ESG is central to their investment approach.

Figure 3: ESG Adoption Levels



Source: Harvard Law School

Sustainable Finance in the Capital Markets

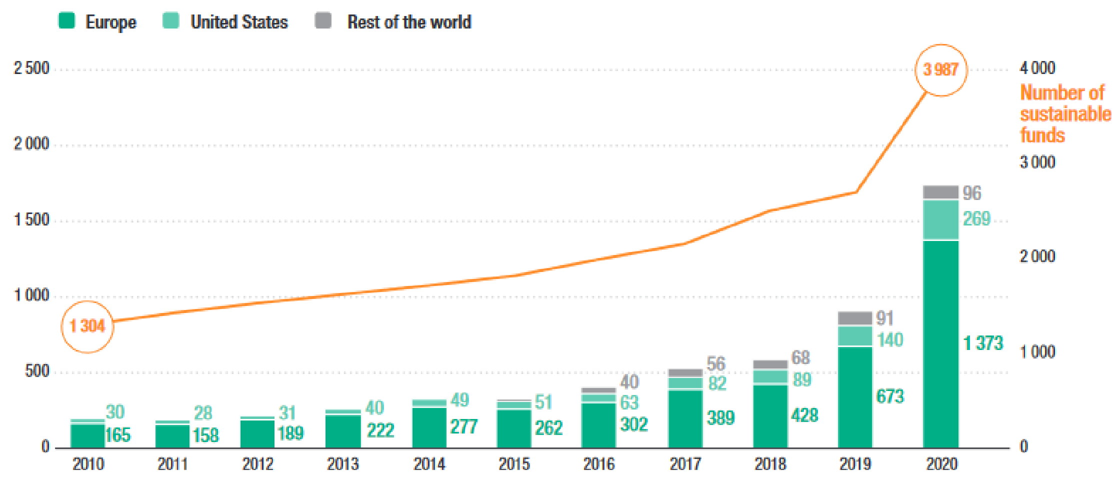
The sustainable investment market has been steadily expanding despite extreme market volatility in 2020. This is evidenced by the increase in sustainability-themed financial products, capital flows, and initiatives developed by market actors. The pursuit of sustainability, particularly in the global fight against the pandemic and climate change, has led to rapid growth in sustainable investment products, estimated to be worth US$3.2 trillion in 2020, an increase of more than 80% from 2019. These products include sustainable funds, green bonds, social bonds, and mixed-sustainability bonds, mostly in developed countries and targeted at developed markets.

a) Sustainability Themed Funds

The fund management industry has shown a fast adoption of sustainability in the last five years, with increased funds and indices dedicated to sustainability themes. In 2020, sustainable funds, including mutual funds and Exchange Traded Funds (ETFs) incorporating ESG factors, experienced a significant surge. The number of sustainability-themed funds increased by 30% in 2020 to reach 3,987 with roughly half of all sustainable funds launched in the last five years. The assets under management

(AUM) of sustainable funds have quadrupled in the last five years, with an increase from $900 billion in 2019 to over $1.7 trillion in 2020, representing 3.3% of the assets of all open-ended funds worldwide.

Figure 4: Number of sustainable funds and assets under management, 2010–2020 (Billions of Dollars)



Source: UNCTAD, based on Morningstar and TrackInsight data.

Note: Numbers of funds do not include funds that were liquidated

Net inflows from sustainable funds have grown from US$8 billion in 2012 to $164 billion in 2020. The surge in investments into these funds showcases their increasing popularity as an investment option. Despite the increase in net inflows, they are still relatively insignificant compared to the overall assets under management (AUM) of sustainability-themed funds. This indicates that the growth in their assets is largely driven by appreciation in their market value, which has been buoyed by the robust stock markets, particularly in Europe and the United States, over the last two years.

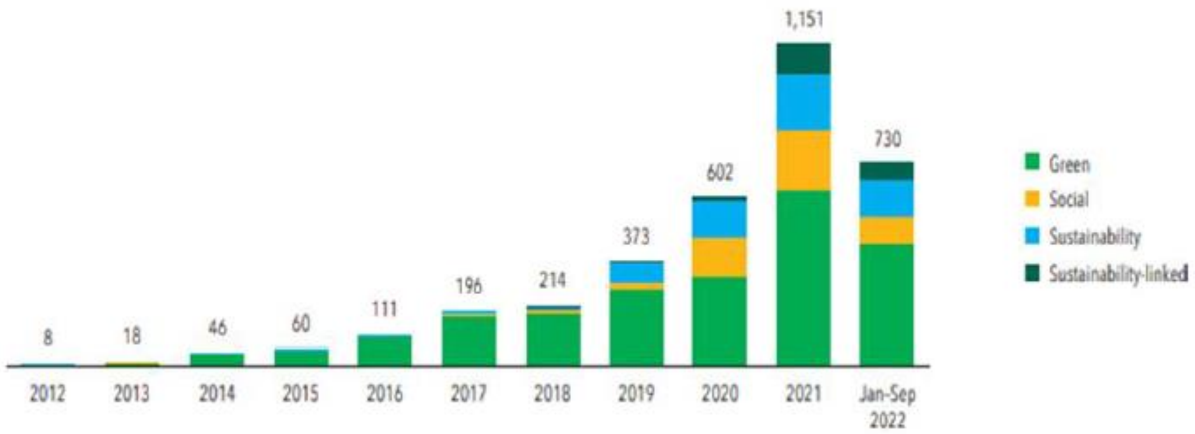
b) Sustainability Linked Bonds

Sustainability-Linked Bonds (SLBs) are a type of bond where the financial and structural characteristics can change based on whether the issuer meets certain Sustainability/ ESG goals. This means that the issuer commits to improving their sustainability outcomes within a specific timeframe, as outlined in the bond documentation. SLBs are a performance-based instrument that use predefined Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs) to measure progress towards these goals. The funds raised from SLBs can be used for general purposes and are not tied to a specific project or initiative.

The principles of Sustainability-Linked Bond (SLB) are not mandatory rules, but rather a set of recommended procedures that outline the best ways to integrate forward-looking ESG (Environmental, Social, and Governance) outcomes and maintain honesty while establishing the Sustainability-Linked Bond market. The aim of SLBP is to support the industry by providing guidance to issuers on how to launch a credible and ambitious SLB, assisting investors in holding issuers accountable for their sustainability strategy and providing sufficient information to assess SLB investments, and helping underwriters by encouraging credible transactions through expected approaches to structuring and disclosures. These principles are meant to be widely used in the market.

It's important to note that SLBs are different from Sustainability Bonds, which are Use-of-Proceeds bonds defined by the Sustainability Bond Guidelines. The sustainable bond market includes green, social, and mixed-sustainability bonds.

Figure4: Global Sustainable Bond Market (In USD billions)



Source: World Bank based on data from Bloomberg 2022

According to Bloomberg's data in 2022, emerging markets make up only 15% of the total bonds issued, but their popularity is on the rise. In 2021, thematic bond issuances from emerging market issuers reached USD 182 billion, more than three times the amount issued in 2020. The first nine months of 2022 saw emerging markets issue USD 131 billion in thematic bonds, more than double the total amount issued in 2020. Emerging market green bond issuances are projected to reach USD 150 billion annually by 2023.

Over the next five years, the sustainable bond market will likely experience a growth boost as both investors and issuers gain confidence in this established investment option. The urgency around financing the SDGs, particularly climate action, creates a favorable policy environment for such investments. If the market reaches 5% of the total global market by 2025, it could bring over $6 trillion of new investments in SDG sectors. The rise of sustainable finance has been facilitated in part by stock exchanges, with 37 now featuring specialized market segments to increase the visibility of sustainable investment products.

c) Mixed-Sustainability Bonds

Mixed-sustainability bonds are financial instruments that combine both environmental and social objectives and adhere to the guidelines set forth by the International Capital Markets Association (ICMA) Sustainability Bond Guidelines. These bonds align with the Green Bond and Social Bond Principles established by ICMA.

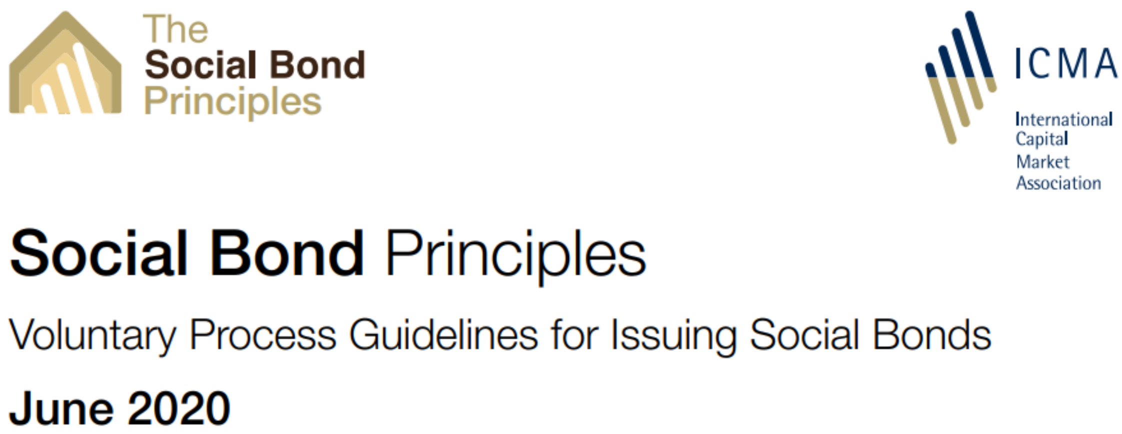
Given the interconnected social and environmental concerns they address, mixed-sustainability bonds are particularly beneficial for financing sustainable development initiatives. In 2020, the mixed-sustainability bond market experienced a remarkable surge in volume, growing by 226%, similar to the social bond market.

d) Social Bonds

Social Bonds are a type of bond that generate funds for new or ongoing projects focused on addressing or minimizing a particular social problem while striving to achieve positive social results. The Social Bond Principles (SBP) promote ethical conduct in the Social Bond market by putting forth guidelines that urge transparency, disclosure, and reporting. These principles are meant for use by individuals involved in the market and are designed to encourage the provision of information required to increase the allocation of capital to social projects without any sole authority.

Covid-19 catalyzed social bond issuance, where the issued social bonds increased by 900% in 2020. These sustainable debt instruments follow the Social Bond Principles, a set of principles or guidelines established by the International Capital Market Association (ICMA).

Figure 5: Social Bond Principles


The Social Bond Principles

ICMA International Capital Market Association

Social Bond Principles

Voluntary Process Guidelines for Issuing Social Bonds

June 2020

Source: International Capital Markets Association

There are currently four types of Social Bonds (additional types may emerge as the market develops, and these will be incorporated in annual SBP updates):

• **Standard Social Use of Proceeds Bond:** a standard recourse-to-the-issuer debt obligation aligned with the SBP.

• **Social Revenue Bond:** a non-recourse-to-the-issuer debt obligation aligned with the SBP in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes etc., and whose use of proceeds go to related or unrelated Social Project(s).

• **Social Project Bond:** a project bond for a single or multiple Social Project(s) for which the investor has direct exposure to the project(s) risk with or without potential recourse to the issuer, and that is aligned with the SBP.

• **Social Securitised and Covered Bond:** a bond collateralised by one or more specific Social Project(s), including but not limited to covered bonds, Asset Backed Securities (ABS), Mortgage- Backed Securities (MBS), and other structures; and aligned with the SBP. The first source of repayment is generally the cash flows of the assets. This type of bond covers, for example, covered bonds backed by social housing, hospitals, schools.

a) Fight COVID-19 Social Bond

The African Development Bank won the Global Capital Bond Awards after selection from a pool of bond market players as the best issuer in 2020 of a COVID-19 bond for its US$3 billion dollar-denominated Fight COVID-19 social bond. The Fight COVID-19 bond, floated on the Luxembourg Stock Exchange and significantly oversubscribed, was the world's largest social bond at the time of issuance.

Figure 6: ADB Fight Covid-19 Bond

Source: African Development Bank

The bond has since been listed on the London Stock Exchange and was admitted on the Nasdaq Sustainable Bond Platform. Bond proceeds, with a three-year maturity going to alleviate the impact of the pandemic on livelihoods and Africa's economies.

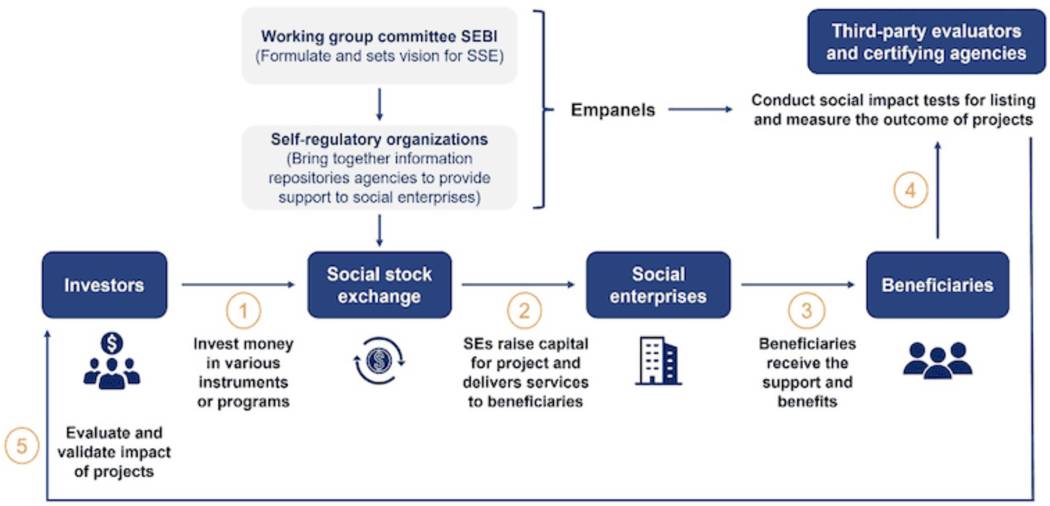
e) Social Stock Exchange -India Case Study

The National Stock Exchange (NSE) received the Securities and Exchange Board of India's approval to launch a Social Stock Exchange (SSE) as a new segment in February 2023.

Social enterprises are classified into two main categories, non-profit organizations (NPOs) and for-profit social enterprises (FPEs), both non-governmental organizations. NPOs are typically set up as charitable trusts or societies that do not operate with the goal of making a profit. On the other hand, FPEs are corporate bodies or companies operating in the social sector that aim to generate profits while contributing to social causes.

As per SEBI's regulations, a non-profit organization seeking registration on a social stock exchange must meet certain criteria. The organization should be in operation for a minimum of three years, possess a valid income tax certificate, and must spend a minimum of Rs. 50 lakhs (approximately Kshs 8,311,065.26) annually, with at least Rs. 10 lakhs (approximately Kshs 1,662,213.05) utilized for the previous year. In addition, social stock exchanges may request further information or impose additional registration requirements.

Figure 7: India's Social Stock Exchange



Source: SEBI

Social enterprises raise funds by issuing instruments like Zero Coupon Zero Principal (ZCZP) bonds, donations through mutual fund schemes or other means specified by SEBI. For-profit social enterprises (FPEs) have various options for raising funds. They can issue equity shares on a stock exchange's main board, SME platform, or innovators growth platform. Additionally, FPEs can raise funds by issuing equity to an Alternative Investment Fund (AIF), including social impact funds, or by issuing debt instruments.

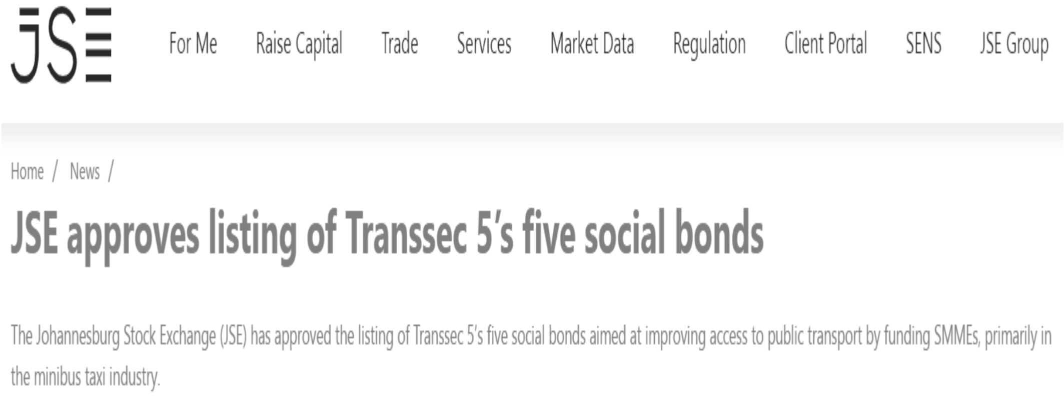
Under the Main Board, retail investors can only invest in shares offered by for-profit social enterprises. For all other cases, securities issued by social enterprises are available for investment exclusively to institutional and non-institutional investors.

f) Johannesburg Securities Exchange (JSE)-Sustainability Segment

JSE was the first stock exchange globally to introduce a sustainability index and to incorporate a move toward integrated reporting. The JSE also introduced the JSE's Sustainability Segment, a first for Africa. This segment enables companies to raise debt for green, social, and sustainable initiatives in a trusted, global marketplace.

Under the JSE rules, a social bond must meet certain criteria, such as those contained in the Social Bond Principles and Sustainability Bond Guidelines issued and governed by the ICMA (or any other standard acceptable to the JSE).

Figure 8: JSE Sustainability Exchange


JSE For Me Raise Capital Trade Services Market Data Regulation Client Portal SENS JSE Group

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JSE approves listing of Transsec 5's five social bonds

The Johannesburg Stock Exchange (JSE) has approved the listing of Transsec 5's five social bonds aimed at improving access to public transport by funding SMMEs, primarily in the minibus taxi industry.

Source: JSE

The Johannesburg Stock Exchange (JSE) has approved the listing of Transsec 5's five social bonds to improve access to public transport by funding SMMEs, primarily in the minibus taxi industry. The 10-year bonds, which have raised R543 million, form part of the first tranche of Transsec 5's planned R2.5 billion capital raising programme, which was registered with the JSE on May 14 2021.

The five bonds, namely Transsec 5 APS A1, Transsec 5 APS A2, Transsec 5 APS B2, Transsec 5 APS C2, and Transsec 5 APS Omega, will mature on June 20 2031 and will be up for refinancing between April 20 and July 20 2024.The bonds will trade on the JSE's Sustainability Segment, established by the Johannesburg-based bourse to assist companies to raise debt for green, social and sustainable investment projects.

Lessons Learnt

The draft Fourth Medium Term Plan (MTPIV) for the Financial Services Sector (FSS) covering the Period 2023-2027 has prioritized the development of Green Financial Markets, amongst other measures as part of Kenya's climate finance program.

CMA Kenya would welcome the financing of projects and businesses with broader social outcomes through an industry workstream on Sustainable Finance working in consultation with the National Treasury and Economic Planning to bring together the diverse stakeholders on this area. Kenya should leverage its recent success in the Green bonds space to explore and ultimately introduce other sustainability-linked products, such as Social Bonds and Gender bonds to tackle the more diverse challenges faced in Kenya concerning unemployment, the inadequacy of health infrastructure, and lack of proper housing, amongst other social concerns. This will be in line with the aspirations of the Bottom-Up Economic Plan (BeTA). Some of its key priorities should be towards upskilling local professional on ESG related services such as ESG ratings, ESG Principles and packaging of ESG products to mitigate against the high costs of hiring foreign experts as the products are ultimately rolled out.

1. INTERNATIONAL DEVELOPMENTS

1.1. The Global Economic and Capital Market performance Outlook

This quarter the fears of a global economic downturn seemed to have waned with the US, the EU, the UK, and Mainland China showing signs of economic resilience. The re-opening of the Chinese economy eased fears of China's economic slowdown and supply chain difficulties witnessed most of last year. Governments have been undertaking targeted fiscal support programs to shield households from energy and food price hikes.

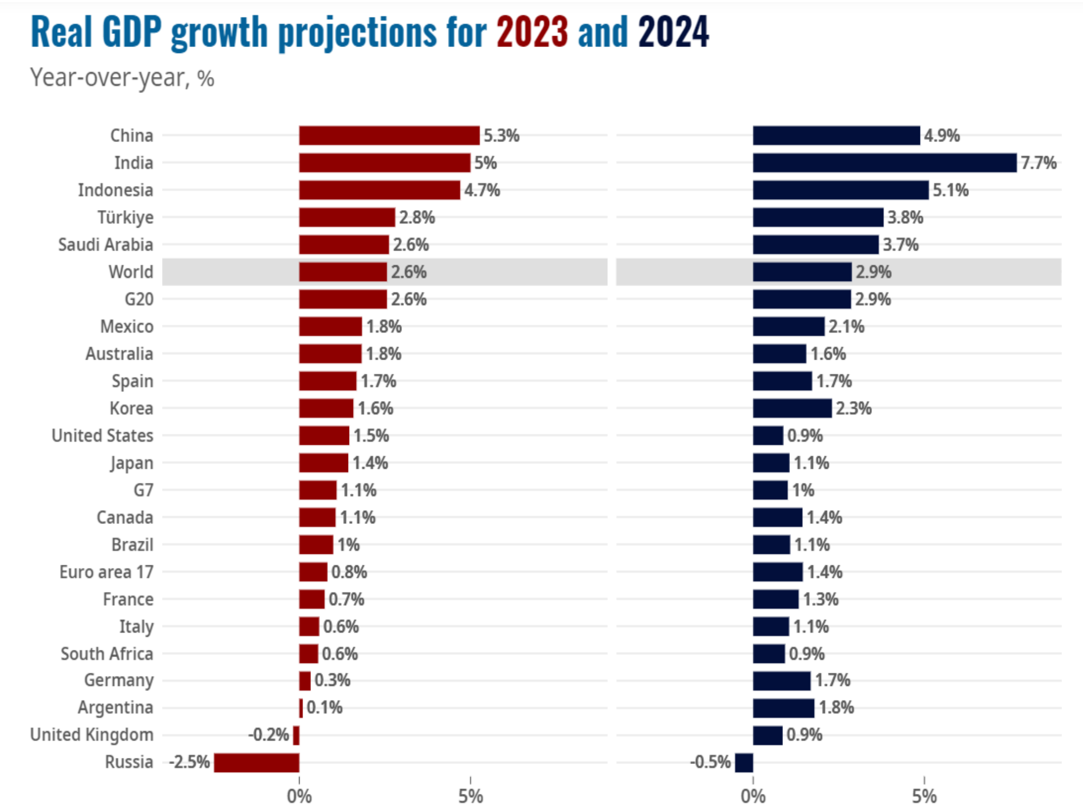
The Russia-Ukraine crisis, nearing its one-year mark continued to present the top global economic risk. Debt servicing[1] in emerging markets remains a key risk to watch as several frontier economies across Africa, Asia and Latin America remain vulnerable to tighter global financial conditions. Even if we witness lower rate hikes or pauses moving forward, interest rates will remain in the restrictive region for a while.

Across the globe a number of countries witnessed food protests with developing countries still facing cost of living crisis. This may end up disrupting business continuity and posing socio-political stability challenges. The recent bank collapses and rescue deals have re-ignited concerns on global economic recovery. Most notably the collapse of the United States Silicon Valley Bank and Credit Suisse's take-over have re-ignited global recession fears.

According to the Organization for Economic Co-operation and Development (OECD, Interim Report March 2023) report, global growth is projected to remain fragile as the downside risks dominate. Global growth[2] slowed in 2022 to 3.2%, more than 1 percentage point weaker than expected at the end of 2021, weighed down by Russia's war of aggression in Ukraine and the associated cost-of-living crisis in many countries. Growth is projected to remain at below-trend rates in 2023 and 2024.

[1] https://www.dnb.com/perspectives/finance-credit-risk/quarterly-global-business-risk-report.html
[2] https://www.oecd.org/economic-outlook/march-2023/

Figure 9: OECD Economic Outlook, Interim Report Interim Report March 2023



Source: OECD Economic Outlook, Interim Report Interim Report March 2023

The global IPO market in Q1 2023 registered fewer deals[3], with a total of 299 IPOs raising US$21.5b, an 8% and 61% decrease year-over-year (YOY). This was on the back of the prevailing economic uncertainties worsened by fears of a looming banking crisis. This has affected market sentiment, with the IPO pipeline building up waiting out for improved market sentiments and better market conditions.

[3] https://www.ey.com/en_gl/news/2023/03/q1-2023-global-ipo-market-a-continued-unwelcome-environment

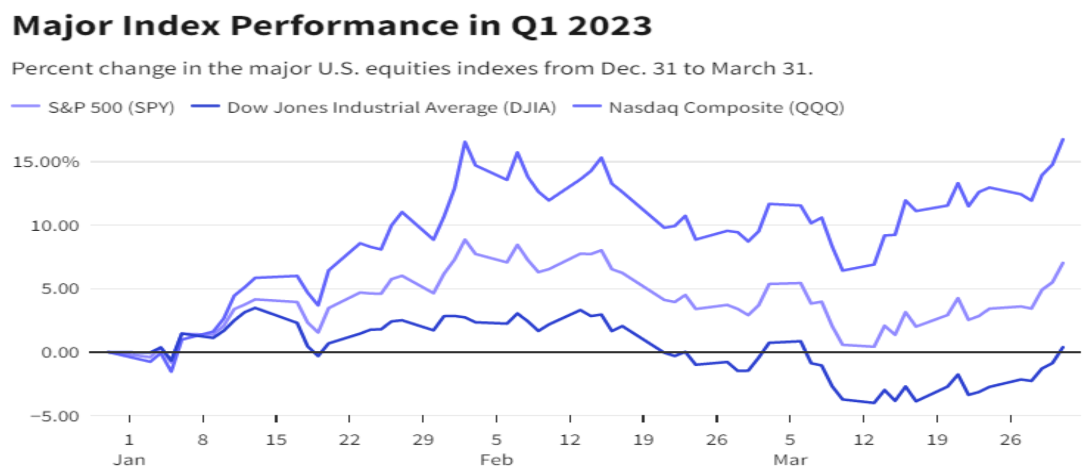
Figure 10: IPO ACTIVITY

Global	Q1 2023	Q1 2022	% change
Number of IPOs	299	326	-8%
Proceeds (US$b)	21.5	54.6	-61%
Americas	Q1 2023	Q1 2022	% change
Number of IPOs	40	36	11%
Proceeds (US$b)	2.6	2.4	9%
Asia-Pacific	Q1 2023	Q1 2022	% change
Number of IPOs	175	186	-6%
Proceeds (US$b)	12.7	42.7	-70%
EMEIA	Q1 2023	Q1 2022	% change
Number of IPOs	84	104	-19%
Proceeds (US$b)	6.2	9.5	-36%

Sources: EY analysis, Dealogic

The global equities market continues to take the heat from the confluence of geopolitical uncertainty, persistent high inflation, and more recently fears of an economic recession fuelled by the potential of a global banking crisis on the back of the Silicon Valley Bank and Credit Suisse collapse. Three major US indices, Nasdaq Composite, S&P 500 (SPY) and the Dow Jones Industrial Average (DJIA) rallied in Q1 2023 on the back of hopes that the US Federal Reserve Bank would ease interest hikes, with the expectation mixed with the fears of global banking crisis in February but it seems investor sentiments improved as of 31 March 2023.

Figure 11: Major Indices Performance Q1 2023

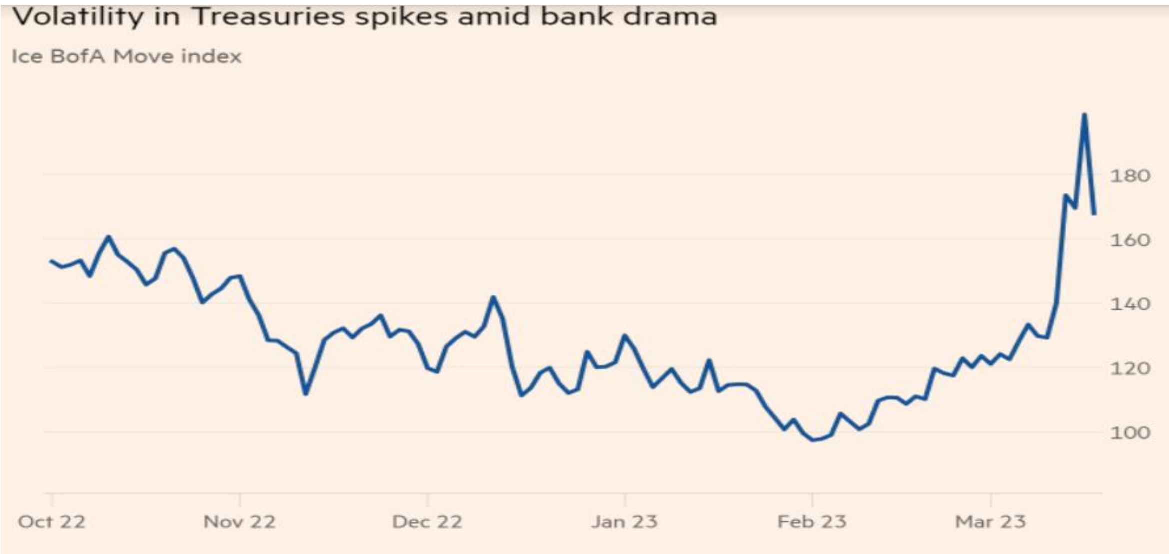


Source: YCharts

The global bond markets during the quarter showed initial signs of recovery but this was short lived given the impact of Silicon Valley Banks collapse. With the Federal Reserve aggressively hiking rates to tame inflation, bond prices took a hit. Silicon Valley Bank invested a large chunk of deposits in high yielding long-term government bonds which were more sensitive to interest rate changes. Hence, as interest rates had increased rapidly the banks bonds plummeted in value leading to a liquidity crisis.

Globally bond investors are fearful of a bank contagion and have flocked to the safety of treasuries and alternative safer assets such as gold. Volatility in the US treasuries market, tracked by the Ice BofA Move index, reached its highest level since 2008. Signs of banking stress seem to have filtered through to the fixed-income market.

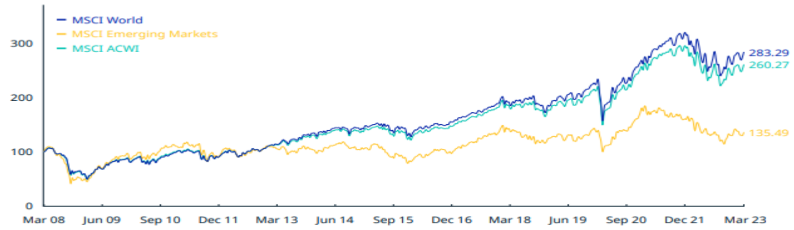
Figure 12: Volatility in US Treasuries Amidst Banking Stress



Source: Bloomberg

Global capital markets registered positive returns with the MSCI World Index and Emerging Market Index improving by 7.88% and 4.02 % respectively in United States Dollar terms, on a year-to-date basis as of 31 March 2023.

CUMULATIVE INDEX PERFORMANCE — GROSS RETURNS (USD) (MAR 2008 – MAR 2023)



ANNUAL PERFORMANCE (%)

Year	MSCI World	MSCI Emerging Markets	MSCI ACWI
2022	-17.73	-19.74	-17.96
2021	22.35	-2.22	19.04
2020	16.50	18.69	16.82
2019	28.40	18.88	27.30
2018	-8.20	-14.24	-8.93
2017	23.07	37.75	24.62
2016	8.15	11.60	8.48
2015	-0.32	-14.60	-1.84
2014	5.50	-1.82	4.71
2013	27.37	-2.27	23.44
2012	16.54	18.63	16.80
2011	-5.02	-18.17	-6.86
2010	12.34	19.20	13.21
2009	30.79	79.02	35.41

INDEX PERFORMANCE — GROSS RETURNS (%) (MAR 31, 2023)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987
MSCI World	3.16	7.88	-6.54	7.88	16.96	8.57	9.44	8.02
MSCI Emerging Markets	3.07	4.02	-10.30	4.02	8.23	-0.53	2.37	9.54
MSCI ACWI	3.15	7.44	-6.96	7.44	15.90	7.46	8.62	7.87

FUNDAMENTALS (MAR 31, 2023)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI World	2.11	19.14	16.22	2.82
MSCI Emerging Markets	3.32	12.37	11.84	1.61
MSCI ACWI	2.24	18.06	15.59	2.61

INDEX RISK AND RETURN CHARACTERISTICS (MAR 31, 2023)

		ANNUALIZED STD DEV (%) 2			SHARPE RATIO 2, 3				MAXIMUM DRAWDOWN	
	Turnover (%) 1	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987	(%)	Period YYYY-MM-DD
MSCI World	2.23	18.62	18.11	14.63	0.89	0.47	0.63	0.38	57.46	2007-10-31—2009-03-09
MSCI Emerging Markets	4.98	18.85	18.94	17.02	0.46	-0.01	0.17	0.38	65.14	2007-10-29—2008-10-27
MSCI ACWI	2.46	18.04	17.74	14.46	0.86	0.41	0.58	0.36	58.06	2007-10-31—2009-03-09

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

Source: MSCI

Africa's Capital Markets

African economies registered modest economic resilience despite macroeconomic headwinds including the spillover effects of rising geopolitical tensions, particularly the Russian invasion of Ukraine. The African Development Bank's Macroeconomic Performance and Outlook (MEO) 2023 notes that Africa's average GDP growth is projected to stabilize in 2023-2024 amidst tightening financial conditions and the appreciating US dollar that has had dire consequences for most African economies. Africa[4] is set to outperform the rest of the world in economic growth over the next two years, with real gross domestic product (GDP) averaging around 4% in 2023 and 2024.This is higher than projected global averages of 2.7% and 3.2% respectively for the same period.

Amidst the economic resilience, Africa's capital markets continued to experience macro-economic shocks. Several countries are struggling to raise funds on the regional capital market, as investors demand higher interest rates amid tightening liquidity and fears of debt vulnerability. Ivory Coast[5] failed to issue local currency debt in March, while Senegal, Mali, Niger, and Burkina Faso have cancelled or postponed bond issuance in recent weeks. During the quarter there were glimmers of hope as investors oversubscribed Egypt's first Islamic bond issue at US$6.1 billion against an initial booking of US$1.5 billion while Morocco successfully floated two bond offerings worth US$2.5 billion.

Performance Across Select African Markets

Noteworthy across Africa, select equity markets such as Nigeria, Tunisia and Senegal, Zimbabwe registered positive MSCI Index returns whilst others such as Kenya and Morocco posted negative returns. With foreign investors pulling out of a number of African stock markets, African equity markets remained attractive on the back individual companies' strong fundamentals.

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[4] https://www.afdb.org/en/news-and-events/press-releases/africas-economic-growth-outpace-global-forecast-2023-2024-african-development-bank-biannual-report-58293

[5] https://www.reuters.com/world/africa/west-african-countries-struggle-raise-funds-regional-debt-market-2023-04-05/

Table 1: PERFORMANCE ACROSS SELECT AFRICAN MARKETS - MSCI

***Zimbabwe is currently a stand-alone country index**

Country	Last	Day	MTD	3MTD	YTD
KENYA	881.628	0.57%	-17.10%	-20.17%	-20.17%
MOROCCO	216.94	-0.68%	-3.51%	-1.81%	-1.81%
NIGERIA	176.881	-1.55%	-4.49%	5.30%	5.30%
SENEGAL	674.252	-0.44%	-1.27%	5.82%	5.82%
TUNISIA	762.119	-0.72%	3.45%	1.08%	1.08%
ZIMBAMBWE*	1,346.02	-0.06%	51.13%	41.11%	41.11%

Source: MSCI

Top Global Risks and Opportunities During the Quarter

The Q1 2023 Capital Markets Soundness assessment notes the following key risks and opportunities arising from the developments on the global, regional, and domestic front.

Key Risks Identified

1. ***The uncertainty on interest rate hikes across the developed world particularly the United States, remain a top risk with a negative impact on the mark-to-market value of bonds currently held by institutional investors such as pension schemes and commercial banks. This could result in investment losses, liquidity risks and non-compliance with regulatory capital requirements, as experienced by the Silicon Valley Bank (SBV). The Authority will ensure that its licensees apply enhanced risk management in determining the right mix of investment held in their respective portfolios.***
2. ***Foreign investors have continued to exit the market, thus extending the bear run at the NSE.***
3. ***The fears of a global banking crisis and its potential contagion effect has led to investors seeking safer assets such as gold and platinum, further reducing portfolio flows into emerging and frontier markets.***

Key Opportunities

The capital markets industry to develop a strategy to increase domestic investor participation to reduce dependance on foreign investors. Retail investors will be encouraged to participate in the capital markets through Collective Investment

Schemes and directly through mobile platforms. The Kenyan Diaspora community will also be incentivized to take up equity and Treasury bond investments at cheap valuations. New Products such as Diaspora Bonds and Islamic Financial Products such as Sukuk's will soon be introduced in the Kenyan capital markets to attract capital flows.

Capital Markets Stability Implication

The domestic debt and equity markets remain sound with attractive opportunities in undervalued securities, that investors should seize amidst the tough operating capital markets context. The ongoing implementation of the joint CMA, NSE, CDSC and KASIB market deepening and product uptake strategy is expected to complement and catalyse other ongoing reforms towards revitalizing the Kenyan capital markets.

1.2. Securities and Exchange Board of India Regulatory Developments

1.2.1. SEBI Publishes Enhanced Obligations and Responsibilities on Qualified Stockbrokers (QSBs)

The Securities and Exchange Board of India amended the SEBI (Stockbroker) Regulations, 1992, for redesignating certain stockbrokers, having regard to their size and scale of operations, likely impact on investors and securities market, as well as governance and service standards, as Qualified Stockbrokers (QSBs) based on certain parameters and appropriate weights. The amendments seek to strengthen the compliance and monitoring requirements relating to stockbrokers.

Figure 13: SEBI Designates 15 brokers as QSBs

Source: Economic Times India

The enhanced obligations and responsibilities of Qualified Stock Brokers (QSBs) target large stockbrokers, get large trading volumes and handle huge clients' funds, which in turn affects having a concentration of activity among few stock brokers. These stockbrokers monopolize the market and thus have a large pool of investors who ought to be protected by ensuring adherence to regulations to avoid the risk that would be occasioned to the many investors by their failure and the widespread impact the same would have in the securities market.

These QSBs shall be required to meet the said obligations and discharge responsibilities to ensure there is: appropriate governance structure, appropriate risk management policy and processes, scalable infrastructure, appropriate technical capacity, framework for orderly winding down, ensuring integrity of operations, robust cyber security framework, processes such as vulnerability assessment and penetration testing (VAPT), business continuity plans and periodic audit and investor services, including online compliant redressal mechanism.

The parameters to be considered for designating a stockbroker as a QSB are also provided for that include the total number of active clients, their available assets, the trading volumes and the end-of-day margin obligations of the stockbrokers in all segments. The procedure for assigning scores to the stockbrokers is also provided.

CMAs Stability Implication

One of CMA's strategic objectives under its Strategic Plan 2018-2023 is to enhance the institutional framework for market intermediaries and institutions. To this end, India's proposed amendments will be assessed for applicability to market intermediaries within the Kenyan capital markets, that have significantly higher trading volumes and general client exposure due to their high market share. There is a strong case for enhancing the existing criteria outlining thresholds that should apply in the Kenyan stock brokerage, investment banking and other market intermediaries and the enhanced obligations and responsibilities they should meet commensurate to the risk attributed to their market share size, amount of client funds held and their relative market turnover share.

1.2.2. SEBI Publishes Revised Disclosure Requirements for Issuance and Listing of Green Debt Securities.

The Securities and Exchange Board of India (SEBI) published a circular on revised disclosure requirements for issuing and listing Green Debt securities. An issuer who want to issue green debt securities must make additional disclosures in the offer document for public issues or private placements. This has come against the backdrop of increasing interest in sustainable finance in India and globally. It will result in the amendment of Chapter IX of the Non-Convertible Securities (NCS) Operational circular. The objective is to align the framework for green debt securities with the updated Green Bond Principles recognized by IOSCO.

The regulatory framework defines Green Debt Securities as debt securities issued for raising funds that are to be utilized for projects or assets that fall under certain categories. The circular identifies the following with respect to issuance of green debt securities (i)Additional disclosure requirements in the offer documents(ii)Continuous disclosure requirements in the annual report and financial results; and (iii) Responsibilities of the issuer.

Issuers of green bonds will have to disclose brief details of the decision-making process followed for determining the eligibility of projects, for which the proceeds are raised through the issuance of green debt securities. Issuers should be apprised of details of the procedures to be employed for tracking the deployment of the proceeds of the issue and the details related to the recognized social and environmental risks and proposed mitigation plan associated with the project proposed to be financed through the proceeds.

The issuer should disclose information about the utilization of the proceeds of the issue according to the tracking done by the issuer using the internal processes as set out in the offer document. Such utilization will be verified by an external auditor's report who will verify the internal tracking method and the allocation of funds towards the project from the proceeds of the green debt securities. The issuer should also disclose details about unutilized proceeds, including the temporary placement of unallocated and unutilized proceeds from each ISIN of green debt security issued by the issuer.

In the annual report, the issuer should disclose the methods and the main underlying assumptions used in preparing the performance indicators and metrics and details of the deployment of the mitigation plan for the perceived social and environmental risks. Additionally, the issuer should disclose on a project-by-project basis, reporting the environmental impact of the projects financed by the green debt securities. The reporting standards or taxonomies used by the issuer regarding reporting environmental impact, if any, should also be disclosed.

An issuer is now mandatorily required to appoint an independent third-party reviewer/certifier for a green debt security for the post-issue management of the use of proceeds from the green debt security, and verification of the internal tracking and impact reporting. This requirement is applicable on a 'comply or explain' basis for a period of two years.

An issuer will have to maintain a decision-making process which it uses to decide on the continuing eligibility of the project in regard to responsibility. This includes, without limitation statement on the environmental objectives of the green debt securities and a process to determine whether the project meets the eligibility requirements.

Overall, the circular aims to enhance the transparency and credibility of green debt securities' disclosures resulting in enhanced investor confidence in these instruments.

Lessons Learnt

CLear guidelines and standards for what is green, establishes the foundation for a vibrant and attractive green bond market. The Kenya Green Bond guidelines are continuously being aligned to international best practice as we aim to position Kenya as a green financing hub.

There is a need to widen the scope of the Green Bond Framework to cover blue and yellow bonds issuance as a specific sub-category of Green Bonds.

The Financial Sector Deepening Trust Kenya (FSD Kenya) in partnership with key stakeholders, is currently assessing Vihiga, Nandi, Laikipia, Kisumu, Wajir, Nairobi, Embu, Makueni and Taita-Taveta counties as part of the national green bond potential assessment to inform the specific projects to be financed by green bonds.

2. REGIONAL DEVELOPMENTS

2.1 SEC Ghana Publishes New Guidelines- The Securities Industry (Over-The-Counter Market) Guidelines 2022

The Securities and Exchange Commission (SEC) of Ghana issued Guidelines under Section 209 of the Securities Industry Act to strengthen supervision and fill gaps in its regulatory framework. The Guidelines apply to issuers of securities and those who intend to have their securities traded on licensed over-the-counter markets and the public. They cover many areas, including the scope of application, registration requirements, disclosure and reporting requirements, and ongoing obligations of issuers and market participants.

To be registered under OTC Guidelines, one must fulfil the following registration requirements: filing an application with the SEC accompanied by various documents, such as a certified copy of the constitution, certificate of incorporation, and annual reports for the previous five years. Issuers must also provide any other relevant information, such as audited financial statements, a summary of the company's objectives and business, and a copy of the statement-in-lieu of prospectus filed with the Registrar of Companies.

The issuer must also provide information on the type and general character of the securities, including details on any other security that may impact the registered security. The issuer must also include a report on the security valuation for OTC trading. Issuers must indicate the market where their securities are to be traded and provide information on the type and general character of the securities.

The guidelines provide for the suspension and revocation of licenses for market operators who fail to comply with the requirements, breach the said provisions, or engage in fraudulent trades. Generally, the OTC Market Guidelines aim to promote accountability, transparency, and investor protection in the said market.

Lessons Learnt

Private markets and platforms where unlisted securities trade need to be under some level regulatory oversight given the transmission risks that they pose to the public markets and the financial stability risks they pose to the wider financial system. In light of this, Over-the-Counter platforms trading securities in Kenya must be registered with the Authority. The ongoing public offers licensing regulations overhaul will look into the fit-for-purpose regulatory option in providing for oversight such platforms.

2.2 Egypt's Initial Public Offer (IPO) Programme

Egypt intends to sell 32 state-owned companies and banks through Initial Public Offerings (IPOs) or to strategic investors. These include two military-owned companies, three banks, and energy, insurance, and petrochemical companies. The IPO program backed by an International Monetary Fund (IMF) loan is set to run for one year between the first quarter of 2023 and the first quarter of 2024. Out of the 32 companies, approximately 25 percent will be listed in the Egyptian Exchange (EGX) within six months. The program will mark the first time Egypt will sell shares for the IPO on the EGX.

Figure 14: EGX ON IPO Program


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BUSINESS INTERVIEWS

EGX ready for government's IPOs programme: Chairperson

Source: Daily News

Under the IMF-backed $3 billion program, the IMF conducted the first review in March, which paved the way for Egypt to receive the second tranche of the loan worth USD 347 million by end-March once the fund approves the review results.

Through the program, the government intends to raise private sector contribution from 30 per cent to 65 per cent within three years, a strategic goal for the State Ownership Policy Document, which aligns with the International Monetary Fund's (IMF) recommendations under the USD3 billion loan. Egypt has committed to securing USD 2.5 billion from selling its public assets by the end of the fiscal year (FY) 2022/2023. Selling these assets occurs through the Sovereign Fund of Egypt's (SFE) pre-IPO fund, which prepares the state-owned companies for listing. Egypt's plan to engage in IPO dates back to 2016, when the government first announced its intention to sell state-owned assets and companies.

In 2022, the Government of Egypt planned to offer ten (10) companies. However, this plan was hit by the Russian-Ukrainian war that started in February 2022 and pushed capital markets down. In 2022 alone, Ghazal El Mahalla Club was offered in June; however, the offering failed to achieve the required target.

Lessons Learnt

CMA Kenya will seek to benefit from Egypt's privatization journey, especially on the policy, legal and institutional framework in place to support the program. Kenya's proposed Privatization Bill seeks to fast track the approval process for the privatization of Government entities. The Cabinet

dispatch noted that in addition to raising revenues for the Government, increasing private sector participation in the economy, another key objective is to develop Kenya's capital markets.

This is a welcome development on the back of His Excellency, The President's second visit to the NSE where he reiterated his commitment to privatization via the capital markets.

2.3 Developments in Ethiopia's Capital Market

Ethiopia's Capital Market Authority Unveils Three New Directives for Regulatory Framework

The Ethiopia Capital Markets Authority (ECMA) has made a major stride toward developing its capital markets by approving and releasing three directives for public consultation. This is in furtherance of the Capital Markets Establishment Proclamation, which was given the go-ahead in 2021 and serves as a legal basis for developing capital markets.

Figure 15: Ethiopia Capital Markets Authority

Source: ECMA Twitter Page

The move is critical in Ethiopia's bid to operationalize the stock market in the 2024/2025 fiscal year. The underlying objective is to regulate and supervise the establishment operation of securities exchanges, derivatives exchanges and other trading platforms and facilities, capital market service providers and self-regulatory organizations (SROs).

The **Directive on Licensing and Operating Securities Exchanges and Trading Platforms** seek to ensure the protection of investors, market integrity and the existence of fair, efficient and transparent markets while encouraging the development of Ethiopia's capital markets. It sets out the regulatory requirements for establishing and operating securities exchanges and other trading platforms, ensuring that they conform to the highest governance standards, stability and accountability standards.

The **Capital Market Service Providers Licensing Supervision Directive addresses the licensing and supervision of capital market service providers (CMSPs)** consisting of individuals and entities providing capital market-related services such as underwriting, brokering and asset management. It details the rules and requirements for licensing, stating the criteria for senior officials of capital markets service providers as well as the educational and practical qualifications for appointed representatives. It also addresses violations of the directive's provisions by detailing the fines and sentences for individuals and entities.

Finally, the Recognition of **Self-Regulatory Organization Directive** provides rules for recognizing self-regulatory organizations (SROs), which are professional associations of capital market service providers.

With the legal instruments coming along, the Authority intends to commence licensing service providers in the next six months, which is a major step in establishing a full-fledged capital market in Ethiopia. The creation of a stock market will mitigate the risk occasioned by overreliance on banks and impose the allocation of resources.

Lessons Learnt

CMA Kenya commends the ECMA on this development and are proud of the technical support that it has provided to Ethiopia in its journey towards these reforms. This will create more investment opportunities for its citizens. Kenya needs to strategically position itself to attract issuers from Ethiopia through cross-listings. CMA Kenya will initiate an MoU with ECMA to establish early linkages beneficial to both regulators in their area of work and practice.

2.4 Financial Action Task Force (FATF) adds South Africa and Nigeria to the grey list

Financial Action Task Force (FATF) is the international financial crime watchdog that conducts research on terrorism funding and money laundering processes and promotes global standards to mitigate the risks and assesses whether countries are taking effective action to mitigate these risks. When the FATF places a jurisdiction under increased monitoring, it means the country has committed to resolving swiftly the identified strategic deficiencies within agreed timeframes and is subject to increased monitoring. This list is often externally referred to as the "grey list."

Figure 16: FATF Gray Listing

Source: V***inciworks.com***

Over the years, jurisdictions worldwide have worked closely with FATF and FATF-style regional bodies (FSRBs) as they report on the progress in addressing their strategic deficiencies. FATF is committed to closely monitoring the progress of these jurisdictions to ensure that they complete their action plans expeditiously and within the agreed time frames.

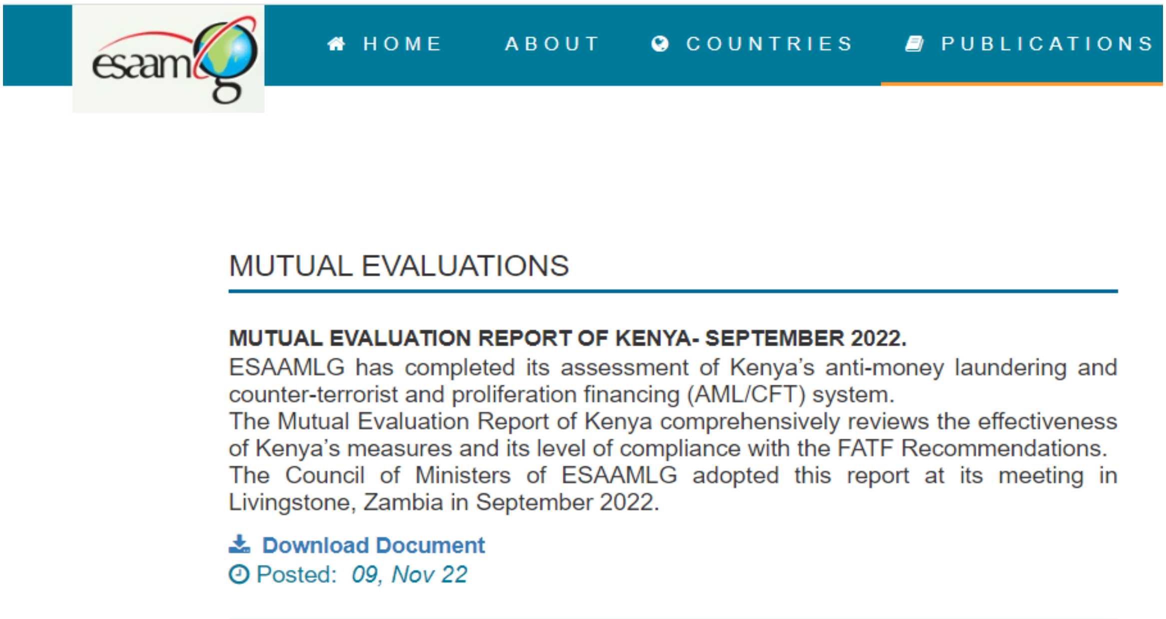
During the quarter, South Africa and Nigeria became the latest countries to be grey-listed. South Africa, therefore committed to working with the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and FATF to strengthen the effectiveness of its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime.

On the other hand, Nigeria committed to working with the FATF and Inter-Governmental Action

Group against Money Laundering in West Africa (GIABA) to strengthen the effectiveness of its AML/CFT regime.

Since adopting their MER in 2021, both countries have made progress in some of the MER's recommended actions to improve their systems. Being added to the list is a reputational setback for these two countries, which are amongst Africa's most advanced economies. The decision has serious implications for the country, specifically its financial services sector and its ability to attract investment.

Figure 17: Kenya's Mutual Evaluation Report



Source: ESAAMLG Website

CMA's Action Plan

Kenya needs to address the issues raised during the mutual evaluation to avoid falling into the grey list. The FATF has outlined several priority actions for Kenya. The main recommendation to authorities is that they continue to build their understanding of risks by conducting a more thorough risk assessment and analysis of activities generating the highest-value proceeds of crime.

3. LOCAL DEVELOPMENTS

3.1 CMA Extends Operations Nod for Coffee Auction

The Capital Markets Authority approved the Nairobi Coffee Exchange (NCE) to continue operations as a coffee exchange until 30 April 2023. However, this was on condition that the Exchange fully complies with new regulations, including admitting brokers licensed by the Authority. Additionally, the board must be reconstituted to align with the new coffee Exchange regulations and onboard a direct settlement system operator to expedite the payments from sale proceeds. Previously, a lack of a direct settlement system platform required the Exchange to facilitate trade between farmers and coffee brokers, resulting in outcry over cartel claims.

On the other hand, the Capital Markets Authority licensed four (4) new coffee brokers. Kinya Coffee Marketing Agency Limited was granted a full license. In contrast, Kiambu Coffee Marketing Company Limited, Bungoma Union Marketing Agency Limited, and Meru South Coffee Marketing Company Limited were granted in-principle-approved licenses for six months. This brought the number of capital markets coffee brokers licensees to ten(10).

Stability Implications

The momentum of the reform agenda needs to be sustained to ensure full implementation of the Coffee Exchange Regulations. This is expected to ensure the marketing and trading mechanism at the Coffee Exchange enhances price discovery, ultimately benefiting the coffee farmers. CMA Kenya has commenced programs to enhance its internal capacity as well as stakeholders such as commodities brokers. Applicants seeking licenses to operate commodities exchanges and commodity brokers licenses will continue to be facilitated.

3.2 H.E President Dr. William Ruto, C.G.H Officiates the Historic Listing of the Laptrust Imara I-Reit at the Bourse

Kenya's oldest pension scheme, the Local Authorities Pension Trust (LAPTRUST) on March 22 2023 listed the first Income- Real Estate Investment Trust (I-REIT) by a pension fund at the Nairobi Securities Exchange (NSE) in a ceremony officiated by His Excellency Dr. William Samoei Ruto, C.G.H., President of the Republic of Kenya and Commander-in-Chief of the Defence Forces. Dubbed the 'LAPTRUST Imara I-REIT', the listing of the Income REIT marks an important milestone for the LAPTRUST scheme and the Kenyan capital markets as a whole as it will provide investors with a unique opportunity to invest in a diversified portfolio of income-generating real estate assets. This should also spur other pension schemes heavily invested in physical assets to unlock liquidity for the benefit of pensioners.

Figure 18President William Ruto at the NSE

Source: The Star

The Capital Markets Authority (CMA) additionally during the quarter collaborated with the relevant market stakeholders, including Sanduku Investment Initiative, the Association of Pension Trustees and Administrators of Kenya (APTAK), Nairobi Securities Exchange (NSE) to create Kenya National REIT (KNR).

The affordable housing program, including infrastructure, will be executed under the Sanduku Investment Initiative. KNR will register all REITS to develop affordable housing and infrastructure through Special Purpose Vehicles. KNR has been conceptualised as an accreditation body for REITs and service providers within the REITs value chain and to ensure the investment grade REITs are structured for immediate investor uptake. KNR will also be the focal point for engagement with policymakers. Using REITs for affordable housing will enhance liquidity and offer investors good returns.

Lessons Learnt

REITs have been identified by the National Government as a critical avenue to ramp up the rollout of affordable housing units through a public and private sector partnership. CMA Kenya proactively submitted a number of policy incentives to support REITs through its annual policy

memorandum to the Cabinet Secretary, National Treasury and Economic Planning in December 2022 and subsequently had discussions with the Budget Team to justify the proposals in March 2023. The submissions include reduction of minimum subscriptions to REITs by investors from Kshs 5 million to Kshs 10,000 and extension of stamp duty on transfer of assets into a REITs. Further, there is an ongoing internal review of the existing REITs regulatory framework to identify and remove any impediments as applications by both public and private sector issuers are anticipated.

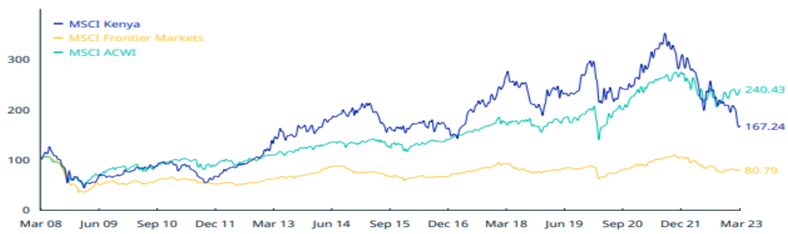
4. PERFORMANCE OF THE DOMESTIC CAPITAL MARKETS

Performance of the Domestic Equity & Debt Markets

During the quarter under review the domestic capital markets registered negative returns with the MSCI Kenya Index declining by 18.73% respectively in United States Dollar terms compared to Q4 2022.This was on the back of a depressed equity market exacerbated by tough economic conditions domestically and globally.

Figure 19MSCI Kenya Index

CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD) (MAR 2008 – MAR 2023)



ANNUAL PERFORMANCE (%)

Year	MSCI Kenya	MSCI Frontier Markets	MSCI ACWI
2022	-30.97	-26.34	-18.36
2021	13.84	19.73	18.54
2020	-9.50	1.43	16.25
2019	48.73	17.99	26.60
2018	-12.51	-16.41	-9.41
2017	35.97	31.86	23.97
2016	1.11	2.66	7.86
2015	-18.34	-14.46	-2.36
2014	23.39	6.84	4.16
2013	47.74	25.89	22.80
2012	61.90	8.85	16.13
2011	-27.22	-18.73	-7.35
2010	30.29	23.75	12.67
2009	6.44	11.61	34.63

INDEX PERFORMANCE — NET RETURNS (%) (MAR 31, 2023)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since May 31, 2002
MSCI Kenya	-15.82	-18.73	-38.36	-18.73	-8.38	-9.24	1.81	14.74
MSCI Frontier Markets	1.16	3.10	-17.55	3.10	7.90	-2.85	2.73	6.15
MSCI ACWI	3.08	7.31	-7.44	7.31	15.36	6.93	8.06	7.08

FUNDAMENTALS (MAR 31, 2023)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI Kenya	7.65	6.85	na	2.55
MSCI Frontier Markets	4.43	10.27	na	1.60
MSCI ACWI	2.24	18.06	15.59	2.61

INDEX RISK AND RETURN CHARACTERISTICS (MAR 31, 2023)

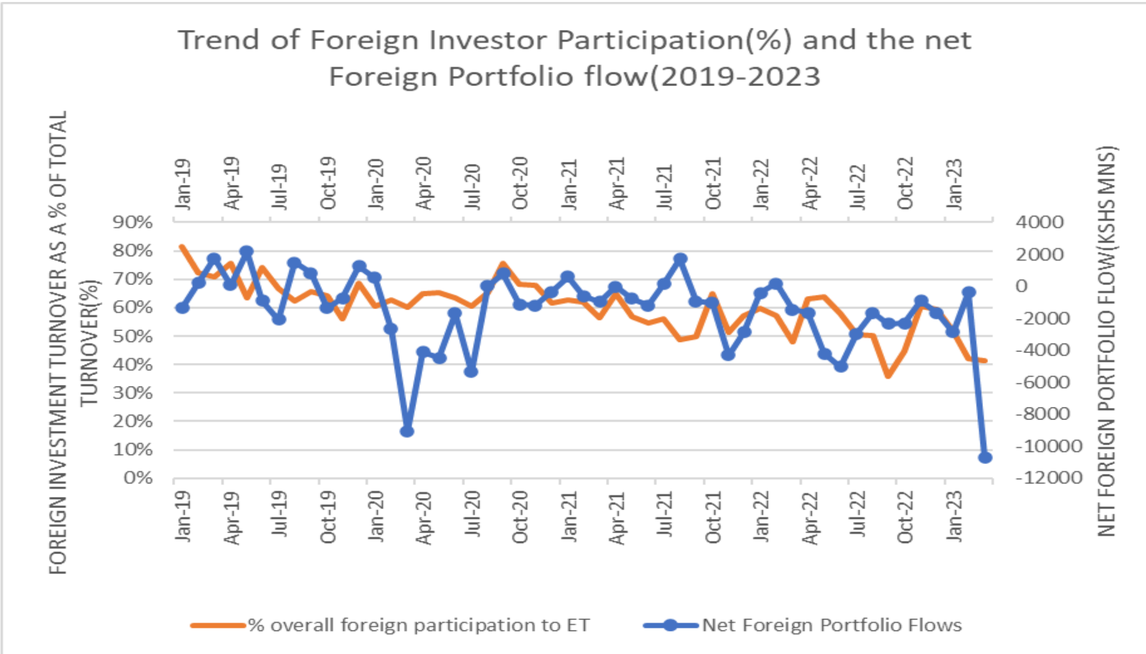
		ANNUALIZED STD DEV (%) [2]			SHARPE RATIO [2,3]				MAXIMUM DRAWDOWN	
	Turnover (%) [1]	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since May 31, 2002	(%)	Period YYYY-MM-DD
MSCI Kenya	0.00	22.32	22.50	21.51	-0.32	-0.38	0.15	0.60	65.34	2008-06-05—2009-03-09
MSCI Frontier Markets	12.91	14.03	16.59	14.22	0.54	-0.17	0.20	0.34	67.47	2008-01-15—2009-03-03
MSCI ACWI	2.46	18.04	17.75	14.46	0.83	0.39	0.54	0.42	58.38	2007-10-31—2009-03-09

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

Source: MSCI

At the end of the quarter, the NSE 20, NSE25 and NASI closed at 1,622.05, 2,965.91 and 112.76 basis points, respectively dropping from 1,676.10, 3,133.64 and 127.47 recorded as of 31 December 2022. During the quarter, volatility for the three market indices NSE 20, NSE 25, and NASI increased from 0.37%, 0.46%, and 0.48% to 0.40%, 0.47% and 0.64% respectively but remained low below 1%. Foreign investors exit from the domestic market has led to an extended bear run at the NSE as select blue chip counters valuations continue to fall due to low demand. Participation has been declining on the back of a flight to safer assets.

TREND OF FOREIGN INVESTOR TURNOVER AND NET FOREIGN PORTFOLIO FLOWS (JAN 2019 – MAR 2023)



Summary of Equity Performance

Safaricom Plc, Equity Group Holdings Plc, East African Breweries Ltd, KCB Group Plc and the Co-operative Bank of Kenya Ltd continued to dominate trading at the market accounting for an average of 71.97% of the total market turnover in the first quarter of 2023.

1. Year	Month	Share Volume (Kshs Mn)	Equity Turnover (Kshs Bn)	NSE 20 Share Index (Average)	NASI Index (Average)	NSE 25 Share (Average)	Market Cap (Kshs Bn)
Q1.2023	Jan	332	7.7	1687.00	124.88	3,123.24	1,961.63
	Feb	169	4.6	1,667.37	127.60	3,167.38	1,962.73
	Mar	583	32.3	1,590.10	114.92	2,935.99	1,756.26
	Total	1084	44.6				
Q4. 2022	Oct	241	5.8	1,690.43	128.17	3,092.93	2,006.85
	Nov	227	6.4	1,660.10	127.92	3,100.54	1,970.63
	Dec	163	4.5	1,651.93	127.27	3,109.07	1,986.08
	Total	631	16.7				

Source: CMA/ NSE Statistics

Treasury Bond Market

Date	Bond	Amount Issued (Kshs Bn)	Amount Received (Kshs Bn)	Amount Accepted (Kshs Bn)	% AA/AI	% AR/AI
Jan-23	FXD1/2020/005	50.00	27.62	24.35	48.71	55.24
	FXD1/2022/015		14.01	7.16	14.32	28.02
	Tap Sale	10.00	18.02	17.63	176.27	180.22
Feb-23	FXD1/2017/010	50.00	8.03	7.47	14.94	16.06
	FXD1/2023/010		11.51	9.28	18.56	23.03

	Tap Sale		12.46	12.20	122.01	124.63
Mar-23[6]	IFB1/2023/17	50.00	59.77	50.88	101.76	119.54
	Tap Sale	20.00	12.71	12.71	63.56	63.56
SUM		**180.00**	**164.13**	**141.68**		
Oct -22	FXD1/2017/10	40.00	17.26	14.11	35.28	43.15
	FXD1/2020/15		1.54	1.01	2.53	3.85
	FXD1/2022/25	20.00	14.89	13.67	68.35	74.45
Nov-22	IFB1/2022/14	60.00	91.85	75.57	125.95	153.08
	Tap Sale	5.00	19.14	19.13	382.60	382.80
	Switch Auction	87.80	52.90	49.11	55.93	60.25
Dec-22	FXD1/2008/20	40.00	17.32	17.27	43.16	43.31
	FXD1/2022/25		13.24	7.07	17.67	33.10
	Tap Sale (IFB1/2022/006)	20.00	10.81	10.81	54.06	54.07
SUM			**258.8**	**207.75**		

Source: CMA/ NSE Statistics

At the end of the quarter eight (8) treasury bonds had been issued with a target of raising 180 billion. However, the government received bids worth Ksh 164.13 billion but only accepted bids valued at 141.68 billion. The government therefore fell short of the intended amount by 38.32bilion. Out of the eight issuances, three were tap sales. The government continues to struggle to raise the targeted amounts from the local debt market because of investors demanding higher rates amid inflation. Investors continue to shy away from longer dated paper preferring treasury bills on the back of growing market uncertainty related to the government's fiscal position.

Corporate Bonds Market

The corporate bond turnover was Kshs 7,550 million, a drastic surge from the turnover recorded in Q4. 2022 of Kshs 150.8 million. The Authority anticipates more corporate bond offerings in the year

2023.

CAPITAL MARKETS STABILITY SOUNDNESS INDICATORS FOR THE PERIOD JANUARY- MARCH 2023

CAPITAL MARKETS STABILITY INDICATORS (JANUARY- MARCH 2023)

Stability Indicator	Quarter/ Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Ongoing Intervention Measures
1.0 Equity Market Depth								
NSE 20 Index Volatility Base Year = 2010	**Q1.2023**	**Jan**	**Feb**	**Mar**	**Q. Avg**	**Low** (Indicative – Low < 1% Medium; 1% high; >10%)	The volatility for the three market indices, NSE 20, NSE 25, and NASI was 0.40%, 0.47% and 0.64% respectively.	During the quarter, volatility for the three market indices NSE 20, NSE 25, and NASI increased from 0.37%, 0.46%, and 0.48% to 0.40%, 0.47% and 0.64% respectively but remained low below 1%. Foreign investors exit from the domestic market has extended the bear run at the NSE with select blue chip counters' prices declining due to low demand. The Authority has been encouraging domestic investor participation for the long-term sustainability and resilience of the equities market.
		0.39%	**0.34%**	**0.46%**	**0.40%**			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.27%	0.44%	0.41%	0.37%			
	Q3.2022	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.48%	0.37%	0.61%	0.49%			
	Q2.2022	**April**	**May**	**June**	**Q. Avg**			
		0.27%	0.44%	0.41%	0.37%			
NSE 25 Index Volatility Base Year = 2015	**Q1.2023**	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.36%	**0.39%**	**0.66%**	**0.47%**			

	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.64%	0.36%	0.38%	0.46%			
	Q3.2022	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.70%	0.39%	0.70%	0.60%			
	Q2.2022	**April**	**May**	**June**	**Q. Avg**			
		0.42%	0.65 %	0.42%	0.48%			
NASI Volatility Base Year = 2010	**Q1.2023**	**Jan**	**Feb**	**Mar**	**Q. Avg**	**Medium** (Indicative – Low < 1% Medium: >1% high; >10%)		
		0.54%	**0.47%**	**0.93%**	**0.64%**			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.70%	0.33%	0.41%	0.48%			
	Q3.2022	**July**	**Aug**	**Sep**	**Q. Avg**			
		1.03%	0.66%	0.99%	0.89%			
	Q2.2022	**April**	**May**	**June**	**Q. Avg**			
		0.57%	0.82%	0.56%	0.65%			
Turnover Ratio	**Q1.2023**	**Jan**	**Feb**	**Mar**	**Q4.Sum**	**High** (Indicative – annual:	The recorded turnover for	Equities turnover on the Nairobi Securities Exchange (NSE) further increased to 0.83% during the quarter. Foreign investors who account for a

		0.40%	0.23%	1.84%	2.49%	<8%- Low; >15% High)	Q1.2023 was 2.49%, an increase from 0.84% in Q4 2022.	significant contribution to equities turnover were net sellers. Domestic investors also slowed down trading as they waited on booking capital gains as most listed firms did not pay any interim dividend. With foreign investors flight to other markets, domestic investors have been left holding onto securities with minimum trade. This is coupled to the fact that the fixed income market was more attractive for domestic investors given the high yields. Initiatives such as day trading, margin trading together with necessary trading incentives/concessions will be critical in enhancing domestic investor activity at the Nairobi bourse hence boosting equities turnover.
	Q4. 2022	**Oct**	**Nov**	**Dec**	**Q4.Sum**			
		0.29%	0.33%	0.22%	0.84%			
	Q3.2022	**Jul**	**Aug**	**Sept**	**Q4. Sum**			
		0.36%	0.25%	0.46%	1.08%			
	Q2.2022	**Apr**	**May**	**Jun**	**Q2.Sum**			
		0.25%	0.54%	0.48%	1.27%			
2.0 Foreign Exposure Risk								
Foreign Investor turnover as a % of total turnover	**Q1.2023**	**Jan**	**Feb**	**Mar**	**Q. Avg**	**Medium** (Indicative – annual: <40%- Low; >90% High)	Foreign investor participation at end of the Q1, 2023, averaged at 41.24%.	In Q1, foreign Investor turnover averaged 41.24% a decrease from 54.84% registered in Q4.2022.The decrease in activity was at high transaction volumes, hence the impact on equities turnover was high in comparison to Q4. 2022. Foreign investors slightly dominate trading at the Nairobi Bourse. The net foreign equity portfolio outflow increased from (4870 million) recorded in Q4.2022 to (13,930 million) recorded in Q1 2023. Increased capital outflow continues to pose a risk to our market and therefore the need for targeted
		51.71%	41.92%	30.01%	41.24%%			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		44.52%	60.46%	59.54%	54.84%			
	Q3.2022	**July**	**Aug**	**Sep**	**Q. Avg**			
		50.55%	50.18%	35.92	50.55%			

	Q2.2022	**April**	**May**	**June**	**Q. Avg**			initiatives aimed at enhancing trading at the Nairobi bourse such as day trading and reduction of investment bottlenecks for foreign investors.
		62.92%	63.96%	57.75%	61.54%			
Net Foreign Portfolio Flow	**Q1.2023**	**Jan**	**Feb**	**Mar**	**Q. Sum**	**High** (indicative – annual: <Kshs (50million) - High (outflow. >Kshs. 50 million High	In the quarter under review, the market recorded a net outflow of (4,870) million compared to an outflow of (6,965) million between April and June.	
		(2,855)	**(382)**	**(10,692)**	**(13,930)**			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Sum**			
		(2,319)	(887)	(1,664)	(4870)			
	Q3.2022	**Jul**	**Aug**	**Sept**	**Q. Sum**			
		(2,972)	(1,656)	(2,337)	(6,965)			
	Q2.2022	**Apr**	**May**	**Jun**	**Q. Sum**			
		(1,653)	(4,207)	(5,036)	(10896)			
3.0 Market Concentration Risk								
Market Concentration (Top 5 companies by market cap)	**Q1.2023**	**Jan**	**Feb**	**Mar**	**Q. Avg**	**High (Indicative – annual: >50% High Concentration)**	Market concentration for the top 5 companies for the quarter ended March 2023 averaged at	The market concentration remains a major risk in Kenya where the market is dominated by 5 specific companies. To minimise this risk, more strategic initiatives aimed at growing other sector of the economy are needed to increase the range of sectors represented by listed firms on the bourse. In reviewing its Public Offers and Listing Regulations, the Authority seeks to provide
		73.29%	**73.37%**	**69.25%**	**71.97%**			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		74.89%	74.64%	**73.56%**	74.36%			

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<tr>
<td></td>
<td><table>
<tr><td>Q3.2022</td><td>Jul</td><td>Aug</td><td>Sept</td><td>Q. Avg</td></tr>
<tr><td></td><td>77.54%</td><td>75.83%</td><td>74.47%</td><td>75.95%</td></tr>
<tr><td>Q2.2022</td><td>Apr</td><td>May</td><td>Jun</td><td>Q. Avg</td></tr>
<tr><td></td><td>77.90%</td><td>78.63%</td><td>75.17%</td><td>77.23%</td></tr>
</table></td>
<td></td>
<td>71.97% of a market of 65 listed companies</td>
<td>favourable listing requirements to attract more companies to list.</td>
</tr>
<tr><td colspan="5">4.0 Derivatives Trading Statistics</td></tr>
<tr>
<td>Total Volume (No. of contracts)</td>
<td>No of Contracts*
<table>
<tr><th></th><th>Sum Q4.22</th><th>Jan-23</th><th>Feb-23</th><th>Mar-23</th><th>Q1. Sum</th><th>%Change Q1.23 Vs Q4 22</th></tr>
<tr><td>ABSA</td><td>74</td><td>3</td><td>2</td><td>58</td><td>63</td><td>14.86%</td></tr>
<tr><td>BATK</td><td>23</td><td>1</td><td>8</td><td>30</td><td>39</td><td>69.57%</td></tr>
<tr><td>EABL</td><td>50</td><td>31</td><td>4</td><td>40</td><td>75</td><td>50.00%</td></tr>
<tr><td>EQTY</td><td>93</td><td>26</td><td>15</td><td>32</td><td>73</td><td>21.51%</td></tr>
<tr><td>KCBG</td><td>82</td><td>32</td><td>23</td><td>44</td><td>99</td><td>20.73%</td></tr>
<tr><td>N25I</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>SCOM</td><td>363</td><td>91</td><td>70</td><td>236</td><td>397</td><td>9.37%</td></tr>
<tr><td>COOP</td><td>17</td><td>7</td><td>7</td><td>11</td><td>25</td><td>47.06%</td></tr>
<tr><td>NCBA</td><td>57</td><td>18</td><td>4</td><td>11</td><td>33</td><td>42.11%</td></tr>
<tr><td>IHMP</td><td>4</td><td>4</td><td>-</td><td>2</td><td>6</td><td>50.00%</td></tr>
<tr><td>SCBK</td><td>27</td><td>-</td><td>-</td><td>2</td><td>2</td><td>92.59%</td></tr>
<tr><td>25MN</td><td>-</td><td>-</td><td>-</td><td>2</td><td>2</td><td>-</td></tr>
<tr><td>Total</td><td>790</td><td>214</td><td>133</td><td>468</td><td>815</td><td>3.16%</td></tr>
</table>
Data computed as of 31 March 2023</td>
<td>Low</td>
<td></td>
<td>The volume of contracts traded in Q1.2023 were 815 indicating a 3.16% an increase from 790 recorded in Q4.2022

BATK, EABL, KCBG, SCOM, COOP and IHMP recorded an increase in activity from the previous quarter by 69.57%, 50.00%, 20.73% 9.37% 47.06% and 50.00 respectively whereas the rest recorded a decrease in activity</td>
</tr>
</table>

Gross Notional Exposure (GNE)[7]

Amount in Kshs*

	Q4. Sum	Jan-23	Feb-23	Mar-23	Q1. Sum	%Change (Q2/22 Vs Q4/21)
ABSA	885,450	231,850.00	25,220	706,600	963,670	8.83%
BATK	1,002,995	1,319,500.00	359,155	1,318,105	2,996,760	198.78%
EABL	829,980	594,600.00	71,240	677,350	1,343,190	61.83%
EQTY	4,411,450	390,900.00	715,880	1,282,350	2,389,130	45.84%
KCBG	3,098,830	3,269,290.00	922,850	1,476,000	5,668,140	82.91%
N25I	-	-	-	-	-	
SCOM	9,190,460	195,050.00	1,710,270	4,420,920	6,326,240	31.17%
COOP	204,710	17,950.00	88,700	134,700	241,350	17.90%
NCBA	1,911,470	383,200.00	145,210	396,550	924,960	51.61%
IHMP	70,870	515,920.00	-	35,900	551,820	678.64%
SCBK	389,215	49,480.00	-	33,400	82,880	78.71%
25MN	-	-	-	58,710	58,710	
Total	**21,995,430**	**6,967,740**	**4,038,525**	**10,540,585**	**21,546,850**	2.04%

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

The total value (Gross Exposure) of contracts traded during the quarter summed up to Kshs 21.546 million; a 2.04% decreased from Q4.2022.

[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><td></td><td>Data computed as of 31 March 2023</td><td></td><td></td><td></td></tr>
<tr>
<td>Total Open Interest (No. of Contracts)</td>
<td>No of Contracts*
<table>
<tr><th></th><th>Q4.22 Average</th><th>Jan-23</th><th>Feb-23</th><th>Mar-23</th><th>Q1. Average</th><th>%Change Q1.23 Vs Q4 22</th></tr>
<tr><td>ABSA</td><td>33</td><td>28</td><td>28</td><td>-</td><td>28</td><td>15.15%</td></tr>
<tr><td>BATK</td><td>8</td><td>9</td><td>16</td><td>3</td><td>9</td><td>12.50%</td></tr>
<tr><td>EABL</td><td>9</td><td>33</td><td>33</td><td>-</td><td>33</td><td>266.67%</td></tr>
<tr><td>EQTY</td><td>40</td><td>29</td><td>24</td><td>9</td><td>21</td><td>47.50%</td></tr>
<tr><td>KCBG</td><td>30</td><td>52</td><td>42</td><td>8</td><td>34</td><td>13.33%</td></tr>
<tr><td>N25I</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>SCOM</td><td>130</td><td>154</td><td>175</td><td>120</td><td>150</td><td>15.38%</td></tr>
<tr><td>COOP</td><td>3</td><td>3</td><td>10</td><td>1</td><td>5</td><td>66.67%</td></tr>
<tr><td>SCBK</td><td>5</td><td>2</td><td>2</td><td>-</td><td>2</td><td>60.00%</td></tr>
<tr><td>IMHP</td><td>1</td><td>3</td><td>3</td><td>1</td><td>2</td><td>100.00%</td></tr>
<tr><td>NCBA</td><td>33</td><td>10</td><td>11</td><td>-</td><td>11</td><td>66.67%</td></tr>
<tr><td>25MN</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Total</td><td>291</td><td>323</td><td>344</td><td>141</td><td>269</td><td>7.56%</td></tr>
</table>
Data computed as of 31 March 2023</td>
<td>Medium (Indicative – annual: >50% High concentration)</td>
<td>Overall, the total average number of open interest contracts recorded in Q1 2023 were 269 ; an 7.56% decrease from Q4.2022 value of 291</td>
<td>As for hedging instruments, the place of derivatives markets in the face of economic uncertainty remains important in risk management.

With the increasing profile of risks in the macro-economy, the profile of derivative instruments may grow as investors target diversification as a key investment strategy.

Currency derivatives are needed by market participants and the Authority is working with the CBK to roll-out the same.</td>
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<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Settlement Guarantee Fund (SGF) Coverage for Derivatives</td><td><table><tr><th></th><th>Jan-23</th><th>Feb-23</th><th>Mar-23</th></tr><tr><td>SGF</td><td>128,592,968</td><td>126,311,930</td><td>123,995,365</td></tr><tr><td>Average Market Value</td><td>316, 715.50</td><td>201, 926.30</td><td>458,286.30</td></tr><tr><td>SGF Coverage</td><td>406 times</td><td>626 times</td><td>271 times</td></tr></table></td><td>High (Indicative – annua l:
>50%
High concentrate ion</td><td>The SGF coverage ratio for the derivatives market in Q1.2023 decreased in March to 271.</td><td>To maximise value from the SGF fund balances, there is deliberate effort by NSE to encourage increased activity by market intermediaries in this market for increased volumes of trade.</td></tr>
<tr><td colspan="5">5.0 Government Bond Market Exposure</td></tr>
<tr><td>Treasury Bond market turnover Concentration</td><td><table><tr><th></th><th></th><th></th><th></th><th></th></tr><tr><td>Q1.2023</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr><tr><td></td><td>99.99%</td><td>100%</td><td>100%</td><td>100%</td></tr><tr><td>Q4. 2022</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr><tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr><tr><td></td><td>July</td><td>Aug</td><td>Sep</td><td>Q. Avg</td></tr></table></td><td>High (Indicative – annual: >50%High</td><td>In Q4.2022, Treasury Bond market turnover was 100%</td><td>Government activity in the bonds markets continues to dominate as the Government targets domestic market savings to fund various Government activities.</td></tr>
</table>

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<tr>
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<tr><td>Q3.2022</td><td>100%</td><td>99.99%</td><td>100%</td><td>100%</td></tr>
<tr><td rowspan="2">Q2.2022</td><td>April</td><td>May</td><td>June</td><td>Q. Avg</td></tr>
<tr><td>99.98%</td><td>100%</td><td>100%</td><td>100%</td></tr>
</table></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Bond Market ownership</td>
<td><table>
<tr><th></th><th>No of Investors</th><th>Share Outstanding</th><th>% By Share Quantity</th></tr>
<tr><td>EAC</td><td>2</td><td>146,000,000</td><td>0.49%</td></tr>
<tr><td>LI</td><td>1877</td><td>28,658,908,630</td><td>95.39%</td></tr>
<tr><td>FI</td><td>34</td><td>1,239,517,064</td><td>4.13%</td></tr>
<tr><td>Sum</td><td>1913</td><td>30,044,425,694</td><td>100.00%</td></tr>
</table>
Data as of 31 March 2023
Note: For every EAC, LI and FI, the totals calculated is a sum of both corporate and individual investors</td>
<td>High (Indicative – annual: >50% High concentration</td>
<td>Q1. 2023 data shows that local investors were the leading investors in corporate bonds at 95.39% whereas foreign investors accounting for 4.13 %as a percentage of share quantity with East African investor holding was a mere 0.49%.</td>
<td>With the successful issuance of the KMRC, Centum Real Estate bond last year, there is growing interest in corporate bonds by domestic investors.

Cognizant of this and backed by the high number of local investors in the bond markets, the Authority, through its investor education and market deepening functions has profiled retail investors to increase activity within the domestic corporate bond market.</td>
</tr>
<tr>
<td colspan="5">6.0 Investor Profiles - Equity Market</td>
</tr>
<tr>
<td>Equity Market</td>
<td><table>
<tr><th>Type of Investor</th><th>No of Investors</th><th>Share Quantity (Millions)</th></tr>
<tr><td>Local Investors</td><td>2,010,746</td><td>79,944,459,113</td></tr>
</table></td>
<td>High (Indicative – annual: >50%</td>
<td>In the quarter under review, the share quantity for</td>
<td>Local investment continues to witness an increase while on the other hand the foreign investors have continued to exit the equity market.</td>
</tr>
</table>

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<tr>
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<table>
<tr><td>EA Investors</td><td>9,024</td><td>1,314,851,809</td></tr>
<tr><td>Foreign Investors</td><td>14,807</td><td>16,442,952,592</td></tr>
<tr><td>BR</td><td>13</td><td>12,716,998</td></tr>
<tr><td>JR</td><td>342</td><td>1,146,369</td></tr>
<tr><td>Sum</td><td>2,034,932</td><td>97,716,126,881</td></tr>
<tr><td colspan="3">Data computed as of 31 March 2023</td></tr>
</table>
</td>
<td>High concentration</td>
<td>local investors increased from 78,358 million recorded in the last quarter to 79,944 million with foreign Investor share quantity decreasing from 16,674 million. in the last quarter to 16,442 million in the quarter under review</td>
<td>While the proportion of local investors is higher than foreign investors, the share quantity held by each investor on a per capita basis remains low.

The industry investor awareness and education strategy continue to target increasing retail investor participation through more roadshows, caravans and county engagements.</td>
</tr>
<tr>
<td colspan="5">7.0 Settlement Compensation Coverage</td>
</tr>
<tr>
<td>Settlement Guarantee Fund (SGF) Coverage Ratio53</td>
<td>
<table>
<tr><td>Q1.2023</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr>
<tr><td></td><td>3.39</td><td>5.52</td><td>0.91</td><td>3.27</td></tr>
<tr><td>Q4.2022</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
</table>
</td>
<td></td>
<td>The average settlement Guarantee Fund (SGF) ratio for January to March 2023 Was 3.27.</td>
<td>Through Risk-based supervision, the Authority has been monitoring the SGF figures. The fund remains adequate to guarantee settlement failure.</td>
</tr>
</table>

	4.01	4.28	4.9	4.26
Q3.2022	**July**	**Aug**	**Sep**	**Q. Avg**
	3.05	5.07	2.84	3.65
Q2.2022	**April**	**May**	**June**	**Q. Avg**
	3.70	2.24	2.73	2.89

8.0 Asset Base of Fund Managers, Stockbrokers, Investment Banks

<table>
<tr>
<td>Working Capital (Amount in Kshs Millions)</td>
<td>
<table>
<tr><th colspan="6">Amount in Kshs Millions</th></tr>
<tr><th></th><th>Total Assets</th><th>Total Liabilities</th><th>Net Assets March 2023</th><th>Net Assets December 2022</th><th>% Change</th></tr>
<tr><td>Fund Managers</td><td>9845</td><td>2942</td><td>7264</td><td>5900</td><td>23.12 %</td></tr>
<tr><td>Investment Adviser</td><td>557</td><td>188</td><td>331</td><td>156</td><td>112.18%</td></tr>
<tr><td>Investment Banks</td><td>10751</td><td>3683</td><td>6856</td><td>6099</td><td>12.41 %</td></tr>
<tr><td>Online Forex Brokers</td><td>2975</td><td>1672</td><td>1071</td><td>875</td><td>22.40 %</td></tr>
<tr><td>Stockbrokers</td><td>2024</td><td>927</td><td>1092</td><td>1045</td><td>4.50 %</td></tr>
<tr><td colspan="6">Data Computed as of 31 March 2023</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, Investment Advisor, Investment Banks, Online Forex, and Stockbrokers, as of March 31 2023 was 7264Mn, 331Mn, 6858Mn, 1071Mn, and 1,092Mn respectively.</td>
<td>Capital markets licensees net assets increased between December 2022 to March 2023.</td>
</tr>
</table>
