CAPITAL
MARKETS AUTHORITY
Promoting the Integrity and Growth of the Capital Markets

THE CAPITAL MARKETS SOUNDNESS REPORT (CMSR)

Volume XVIII, Quarter 1 2021

"2021-A Year of Optimism in Capital Markets Resilience amidst exogenous shocks"

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Special Message From the Chief Executive

Mr. Wyckliffe Shamiah, FCPA
CHIEF EXECUTIVE, CAPITAL MARKETS AUTHORITY, KENYA

On behalf of the Authority, I am delighted to welcome you to the 18th Edition of the Capital Markets Soundness Report (CMSR) for the Quarter ended March 2021. The report provides an overview of global, regional and domestic political, socio-economic and cultural developments and the risks and opportunities presented to Kenya's capital markets. The report further presents a window for industry stakeholders to appreciate and contribute towards emerging policy issues influencing growth as well as development of the industry and economy as a whole.

Although the Covid-19 Pandemic continued to pose a threat to the overall recovery of economies globally, the Capital Markets remained resilient during the quarter under review. The world's economy began a subdued resurgence with the recent vaccine programs raising hopes of a rebound later this year, even as renewed waves and new variants of the virus posed glaring concerns on the projected outlook. Latest growth forecasts for the global economy is at 3% in 2021, driven largely by the US Fiscal Stimulus Package of US Ksh. 1.9 Trillion, while in Sub-Saharan Africa, it is expected to rebound moderately to 2.7% in 2021. Kenya's economy is similarly projected to weather the Covid-19 storm and register a 6.4 % growth rate this year.

The Global capital markets was similarly on a recovery path with the MSCI World Index and MSCI Emerging Market Index rising by 5% and 2.4% respectively in US Dollar terms, between January and March 2021, even as major equity markets registered similar gains of 5%, except for China which fell by 0.31%, against the backdrop of monetary policy tightening.

> *During the period under review , the world's economy began a subdued resurgence with the recent vaccine programs raising hopes of an economic rebound later this year, even as renewed waves and new variants of the virus posed glaring concerns on the projected outlook.*

The domestic capital markets remained sound, characterized by low volatility in equity prices as the economy adjusted to the Pandemic occasioned by predictability of corporate actions by listed companies under the new normal. Liquidity and concentration risk however persisted as reflected in the low turnover ratio and high market concentration by few large cap companies. Net foreign portfolio outflow also continued, attributable to cashing in on stocks whose prices had gone up ahead of book closures on dividends during the period under review.

Amidst the external shocks, the Authority remains committed to undertaking regulatory interventions and providing oversight to enhance the soundness of the market for the overall benefit of raising its attractiveness. The current Capital Markets Short-Term Recovery Strategy will continue to be implemented in line with the Strategic Plan 2018-2023 deliverables, together with the Capital Markets Master Plan (CMMP) 2014-2023 to position Kenya as a leading regional capital markets hub.

The market continued to register notable progress in terms of sound corporate governance practices amongst listed companies. According to 2019/2020 State of Corporate Governance Report for Issuers of Securities in Kenya, the weighted overall score for all issuers was a 72% improvement from the previous year's 61% with 25 issuers attaining the highest rating (Leadership), based on an assessment of 51 issuers who did their governance self-assessments and submitted their reports to the Authority.

As you peruse this report, we continue to welcome feedback on its key identified issues, lessons, and proposed mitigations to enrich our capital markets policy framework to support Kenya's economic recovery. We further call upon you as key stakeholders and the public, to share additional ideas and proposals for more interventions to support the industry in post-Covid-19 recovery strategy.

I thank you all for your invaluable support.

Enjoy your read.

EDITORIAL

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

Greetings!

The theme for this quarter ***"2021-A Year of Optimism in Capital Markets Resilience amidst exogenous shocks"***, aptly captures the rebounding in capital markets activity amidst external shocks mostly related to the impact of covid-19 on Kenya's economic growth.

Globally, capital markets remained resilient. The accelerating global rollout of the COVID-19 vaccines and passage of $1.9 trillion US stimulus bill provided hope that the global recovery would pick-up speed despite weaker-than-expected employment growth. The renewed optimism attracted more investors back to the markets during the period under review. The risk appetite for the investors in emerging stock markets decreased. Most major equity markets showed gains around 5%, except for China which fell more than 6% in the month. However, the divergence in speed and impact of vaccination in developed, emerging and frontier economies poses an emerging risk as this could compromise the level and quality of the much needed support towards recovery, across many adversely affected economies. Another global risk that could slow down recovery is the persistent public debt burden.

This edition examines ongoing policy discussions in the capital markets development and regulatory space, with focus on investor complaints handling and redress mechanisms across various jurisdictions, the future of crypto-assets oversight in Nigeria, review of ownership and governance norms to facilitate new entrants to set up stock exchange and depositories in India. Further we take you through Egypt's progress in establishing a "Regional Center for Sustainable Finance," a qualitative step towards strengthening its economy's presence on the global green economy map as well its launch of a "Fintech Innovation Sprint to address COVID-19 challenges. Another pertinent area covered in this issue is a special feature on the root causes of "market failure" relating to Initial Public Offerings ("IPOs") on African stock exchanges.

On the domestic front, we demonstrate the resilience of the capital markets despite the Covid-19 challenges, with the launch of the Nairobi Securities Exchange (NSE) Unquoted Securities Platform (USP) and the proposed floating of a Kshs. 1.4 billion infrastructure bond by Laikipia County to fund capital-intensive development projects in the County, among other developments. We further welcome you to a guest editorial on the huge potential of pension funds to support infrastructure projects in Kenya.

The report concludes with the capital markets stability analysis with details on the trend in market volatility, liquidity, concentration and foreign portfolios flow, the key highlights being increased activity in the equities market supported by the dividend announcements in the banking and telecommunications sector.

Enjoy your read.

Soundness Snapshot

The domestic Capital Markets remained resilient during the quarter under review, even as the Covid-19 Pandemic continued to pose an existential threat to the overall recovery of economies globally. Kenya's economy is projected to weather the Covid-19 storm and register a 6.4 % growth rate, further sustaining this resilience.

Globally, capital markets remained robust with a number of jurisdictions undertaking regulatory revisions to steer their domestic markets to recovery amidst the challenging environment posed by Covid-19. The Thailand Securities Exchange Commission's proposed Strategic Plan 2021-2023 introduced a new goal of "recovery and strengthening" to ensure that the capital market's regulations will not impose obstacles, and will provide tools for building liquidity for businesses affected by Covid-19 Pandemic.

Regionally, peer jurisdictions prioritized the uptake of capital markets products, rollout of new policy and regulatory frameworks and adoption of mechanisms of fostering innovation in the capital markets amongst other measures. Egypt's Financial Regulatory Authority (FRA) set up the "Regional Center for Sustainable Finance", seen as a qualitative step towards strengthening the Egyptian economy's presence on the map of the global green economy. The same regulator launched a Fintech Innovation Sprint to address Covid-19 Pandemic challenges.

On the domestic front, Market Infrastructure during the period under review remained resilient as underscored by the transitioning of Nairobi Securities Exchange to a new broker network on 1st February 2021 and Integration of its (NSE) bond system with Refinitiv's Fixed Income Call Outs Application. These solutions have enhanced the robustness of the trading infrastructure building on the resilience of the local capital markets given the advances in network security, efficiency and stability.

Source: ACORN

On governance, the market registered notable progress with a weighted overall score for all issuers was 72% in 2019/2020, an improvement from the previous year's 61%. 25 issuers scored a Leadership rating, while 11 scored a Good Rating, 8 scored with a Fair Rating and 4 scored a Needs Improvement Rating. This score was based on an assessment of 51 issuers who did their governance self-assessments and submitted their reports to the Authority.

Centum's issuance of a Ksh. 3 billion medium term note together with Acorn Investment Management Limited listing two of its Real Estate Investment Trusts (REITs) on the Nairobi Securities Exchange (NSE) unquoted securities platform (USP) worth Kshs 7.5 billion served to signal positive issuer sentiments in leveraging the capital markets for their financing strategy.

Key Risks Identified

I. The socio-economic disruption posed by the Covid-19 pandemic and its dampening impact on capital markets activity remained a key risk;
II. Divergence in speed and impact of vaccination in developed, emerging and frontier economies and risk of ununiform recovery that it could pose to adversely affected economies;
III. Persistent public debt burden and how this could further slow down recovery;
IV. Sustainability of regulated entities in a period of sustained erosion of their incomes is an issue of concern as evidenced also in peer markets such as Thailand focusing on liquidity management with the goal of building a resilient capital market.

Key Opportunities Identified

I. Projected economic recovery would serve as a bedrock for the steady recovery of the capital markets;
II. Leveraging of technology to address challenges posed by Covid-19, case in point the innovation sprint undertaken by the Financial Regulatory Authority (FRA) Egypt;
III. Focused implementation of the Capital Markets Recovery Strategy in view of harnessing the unique advantage of the resilience of the capital market especially in it playing a facilitative role in promoting uptake of capital markets products.

Key Policy Considerations

I. The Authority may glean off lessons from other jurisdictions on building liquidity, recovery and strengthening capital markets to support economic growth and competitiveness in their review of the Capital Markets Master Plan.
II. Adopting regulatory flexibility when undertaking regulatory reform in crafting key pieces of legislation such as the Collective Investment Schemes, Crowdfunding and Public Offers Regulations in view of supporting businesses and investors weather the covid-19 pandemic.

With regards to equity market depth, the market experienced low volatility generally, but slightly higher (0.37%) compared to 0.35% during the previous quarter for the NSE 20 Share Index. Similarly, the NASI on the other hand experienced slightly higher volatility of 0.62% while the turnover ratio for the equities remained low at 0.43% compared to the global targets of over 8%.

Foreign investor participation during the quarter under review decreased significantly by 5.60% to close the period at 60.37% compared to 65.97% recorded in the previous quarter. During the quarter under review, there was an unprecedented phenomenon whereby the Net Foreign Portfolio Flow for the month of January 2021 recorded an inflow of Ksh. 621 Million, which value was realized as an outflow in the month of February. The month of March experienced an outflow of Ksh. 976 Million.

With regards to market concentration, the top five companies by market capitalization remained high during the period under review with the average concentration at 79.21%, a 1.43% increase, from the previous quarters' percentage of 77.78%

The report is organized into four sections. Section 1 covers global capital markets development, section 2 covers regional capital markets developments, section 3 covers domestic capital markets developments and section 4 provides a detailed analysis of capital markets stability indicators.

1.0 Special Feature I: Market Analysis - IPOs in Selected African Stock Exchanges (2014-2019)

During the quarter, a study was released by FSD Africa who had tasked RisCura to undertake a capital market analysis, seeking to identify, explain and address the root causes of "market failure" relating to Initial Public Offerings ("IPOs") on African stock exchanges. The study took a robust comparative approach, drawing out common challenges and recommended solutions from deep individual analysis of seven stock exchanges, ranging from West Africa (Ghana and Nigeria) to East and Southern Africa (Kenya, Tanzania, and Zambia) and Francophone countries.

From the study it was noted that underperformance on African stock exchanges has no single cause; instead, multiple interrelated factors are at play. These factors can be grouped into three broad categories.

Source: FSD Africa

Under each, causal factors fall under one of two further headings: issues affecting suppliers of capital or issues affecting intermediaries and users of capital. The Challenges and recommended solutions are herein summarized in the table below.

Table 1: Factors affecting performance of African Stock Exchanges and Solutions to Challenges Identified

Challenge/ Factor	Issues affecting suppliers of capital	Issues affecting intermediaries and users of capital	Solutions
Market Structure/ Infrastructure	•Low liquidity levels (including the small average size of trades) which is for example, due to the fact that large institutions are the main players on most African exchanges and typically adopt a 'buy-and-hold' strategy. •Excessive stock concentration, which implies a limited investible universe of securities and a lack of sectoral diversification.	• Fear of loss of control and ownership, in addition to other cultural attitudes that create resistance to public listings (such as a reluctance to engage in full transparency over financial results or tax positions). • Market illiquidity, which results in under-valuation.	• More incentives are required to allow for digital and mobile savings products that provide low-cost exposure to equity markets. • Regulation must be amended to allow for greater allocation to risk assets by financial institutions (including local African banks and pension funds), and clear long-term horizons should be put in place to measure associated financial performance. • There is a need for 'softer' reforms and initiatives in the form of enhancedadvocacy, awareness-raising, and information-sharing.

<table>
<tr><th>Challenge/ Factor</th><th>Issues affecting suppliers of capital</th><th>Issues affecting intermediaries and users of capital</th><th>Solutions</th></tr>
<tr><td>2.Regulation</td><td>• Crowding out of the local public equity market by high levels of government borrowing from domestic capital markets (a commonly observed theme was that local financial institutions across Africa tend to prefer short-dated treasuries due to the perceived lower cost, time/effort and risk associated with them versus locally listed stocks).

• Restrictive or outdated investment guidelines for IPOs.

• Weak regulatory oversight and enforcement regarding stock exchange activity.</td><td>• Prohibitive costs (both the compliance and governance cost burden, and on-going compliance and reporting costs).</td><td>• Amortizing the cost of IPO regulatory compliance over a longer period would reduce the up-front costs that deter some companies from listing (specifically, a clear and workable mechanism is required to defer and/or reduce the regulatory and tax-related costs at IPO).

• Regulation needs to strike a well-considered balance of encouraging new listings whilst enforcing high compliance standards.</td></tr>
<tr><td>3.Maturity/ Level of development of the overall ecosystem</td><td>From a market development perspective, suppliers of capital pinpointed two aspects of the generally under-developed research, advisory and reporting ecosystem around IPOs that represent barriers to market growth and confidence.

• Degree of rigidity and uniformity of pre-conceived views among market participants with respect to the quality of companies seeking to IPO.

• Too many companies have a "checkered track record" prior to listing, which creates real or perceived uncertainty over quality across the entire IPO market (in this sense, the so-called 'lemons problem' of information asymmetry – whereby sellers of shares have more and better information than buyers – looms large).

• Both thorny challenges are exacerbated, respondents noted, by insufficient and inadequate sell-side research for most African public equity markets.</td><td>Regarding overall ecosystem development, interviewees referenced the following:

• General lack of appreciation of investor requirements.

• The overly burdensome frequency of reporting.

• Issues over the quality of reporting.</td><td>• Well-publicized study on the benefits of IPOs showing tangible wins (pre- and post-IPO) in terms of greater employment, tax revenue and turnover at recently listed companies.

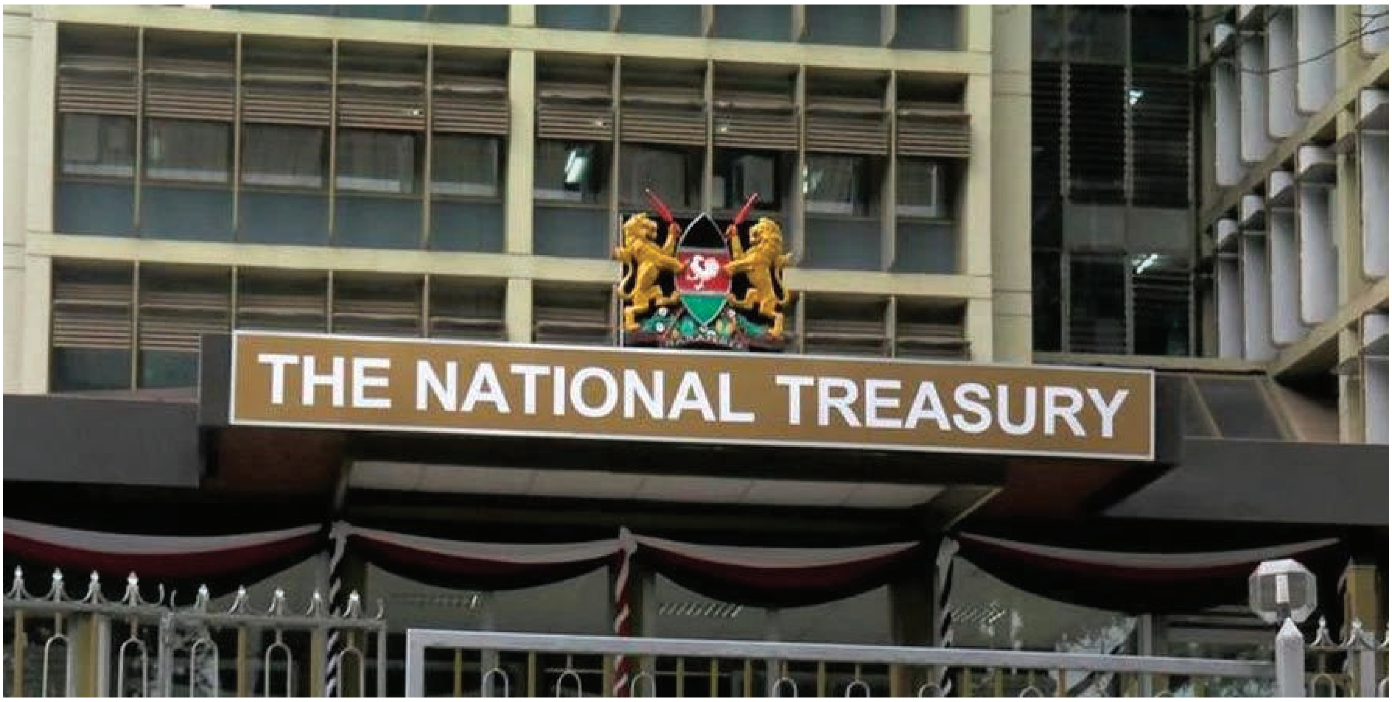
• The creation of private capital placement pools under the auspices of stock exchanges was also proposed.

• The need for a public ownership model that is tailored to business landscapes where family ownership, and a traditional preference for debt rather than equity capital, predominates (for example, dual class/multi-class share structures that enable continued family control but without a degradation in investor disclosures or minority protections). In other words, African stock exchanges should consider developing listing requirements that are business model-sensitive, as opposed to a one-size-fits all approach (with the additional possibility of a tiered compliance regime with 'light', 'medium' and 'full' options).</td></tr>
</table>

Capital Markets Stability Implications:

The Capital Markets on the listings front has lagged for years but the future portends a number of listings in the medium to long-term. As the exciting range of actionable solutions summarized above suggests, the past track record for IPOs on African public equity markets may be mixed but the future potential is significant. The Authority is committed to making the capital markets attractive to both existing and potential issuers by wooing potential large-cap and SME quality listings, regulatory reforms to spur listings among other measures

In line with CMA's aspiration to be a responsive regulator, Management has been on a journey of reviewing a number of regulatory provisions to align them to current and the ever-evolving capital raising and listing realities and is currently at the tail end of overhauling its Public Offers and Listing Disclosure (POLD) and Collective Investment Schemes (CIS) Regulations. The FSDA RisCura report has been analyzed and key elements in IPO failure taken into consideration in the reviews to ensure that the regulations are more responsive to the needs of both issuers and investors.

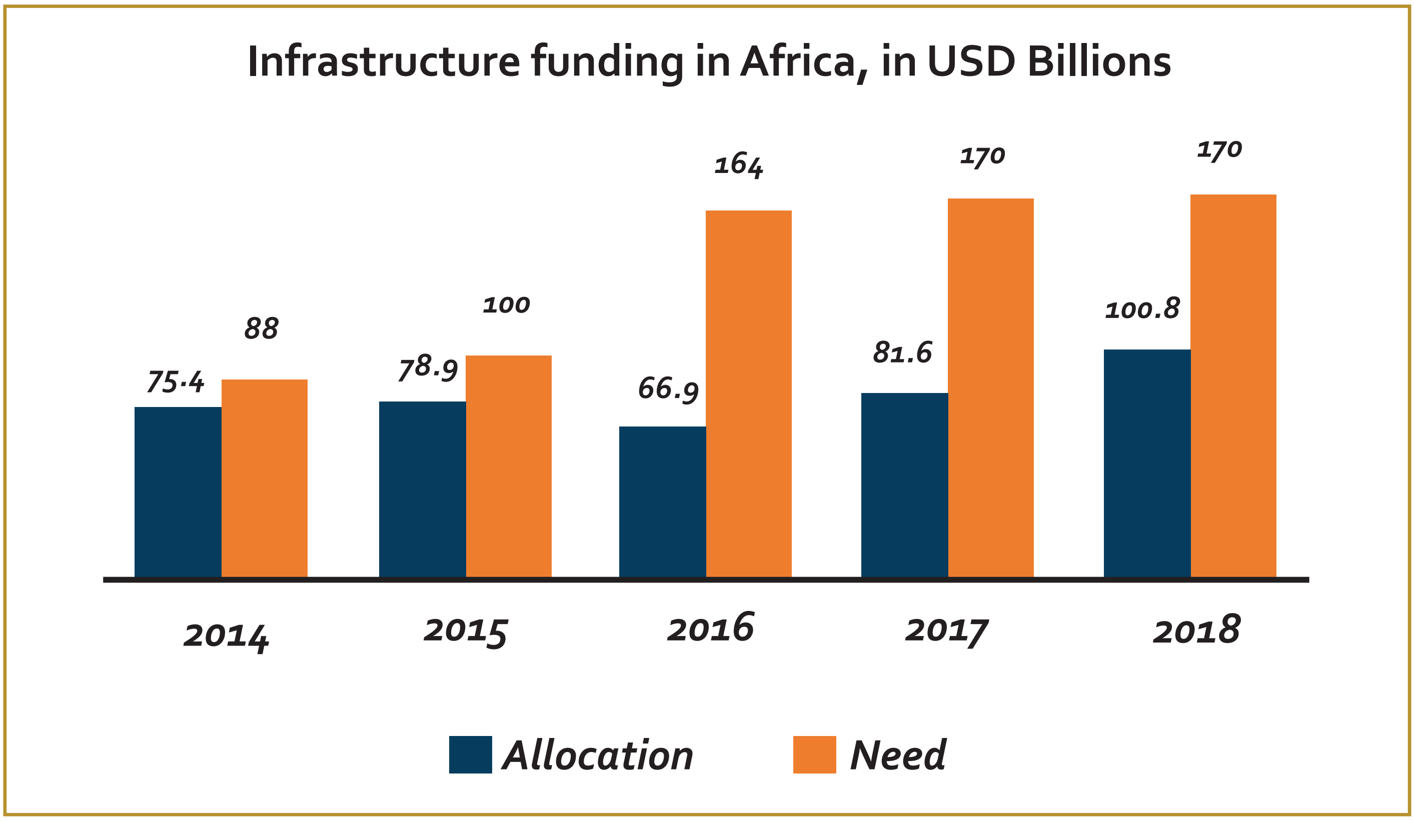


The National Treasury (Kenya)
Source: treasury.go.ke

2.0 Special Feature II: The Critical Role of Pension Funds in Financing Infrastructure

Financing Infrastructure: The Critical Role of Pension Funds

Infrastructure investments have gained traction over the past years, with significant capital being directed to the sector from institutional investors. This is partly driven by the need for diversification of investment asset classes and the search for enhanced returns. Previously, infrastructure investment was a preserve of the Government, especially in the Sub-Saharan Africa region. This made Governments in this region the leading but weak source of funding due to the fiscal budget constraints that have accrued in the recent years. As highlighted below:



Source: Infrastructure Financing Trends in Africa – 2018, The Infrastructure Consortium for Africa

An example is Kenya, whose budget deficit was estimated to be 7.0% of the GDP as of December of 2020. This has led to the widening of the infrastructure annual funding gap to an estimated USD 70 billion, with Kenya's annual funding gap estimated at USD 2-3 billion according to the World Bank. This is despite the increasing demand, mainly necessitated by aging infrastructure, rising quality standards, and environmental concerns with a focus on climatic friendly infrastructure. This therefore presents a compelling opportunity for institutional clients such as pension funds and mutual funds to leverage on.

Infrastructure as an asset class is not an entirely new concept. Traditionally, the concept has been viewed in two broad categories: economic and social infrastructure. The economic aspect incorporates commerce-supporting assets e.g., toll roads, power stations, airports, bridges, etc. in which a fee is typically charged. The social aspect, on the other hand, includes but is not limited to, public healthcare, education, and social housing and is mainly financed through public/private partnerships. Despite the two broad categories, a distinguishing feature is that they both have a significant drive on economic growth, from their creation, upgrading, maintenance, and, most importantly, in their use. This therefore underpins the importance of infrastructure development, especially in Kenya.

To achieve the foregoing objective, it is important for the Government to work together with key stakeholders to maximize the potential of the pension sector that is long-term and can stir economic growth. There is need to increase the pool of savings, offer additional incentives, introduce mandatory savings and ensure savings are channelled into productive areas of the economy.

To support capital flows from institutional and private clients towards infrastructure, the Retirement Benefits Authority guidelines were recently amended to allow pension funds in Kenya to invest up to 10% of their 'Asset Under Management' into infrastructure, potentially unlocking over KES 100 billion, as the industry had Assets Under Management of KES 1.3 trillion as at the end of the third quarter of 2020. This provides immense opportunity for pension funds. To illustrate this, despite the recent efforts directed at deepening our local capital markets, Pension Funds' asset allocation by June 2020 towards Government Securities stood at 44.0% and equity securities at 14.2%. This was a historical low, attributable to the declines recorded by major trading counters, which saw the Nairobi all share index shed 17.0% in the first half of the year. Focusing on the equities market, investments regulations and policies limit cumulative exposure to listed equity securities at 70% and 30% of the aggregate market value of total assets of a scheme in the quoted equity of any one company. Despite this limitations, Safaricom plc represents approximately 60% of the local equities market, thus presenting fewer options for Pension funds, despite their huge portfolios, thus elevating the market risk further. It is due to this that a need for alternative asset classes that can yield commensurate returns whilst matching their long-term liabilities from the conventional traditional asset classes arises.

Source: Octagon Africa

It is evident that the need for diversification by pension funds has never been more important. Infrastructure provides a viable opportunity for this with several benefits accrued to it which also align with the business structure of the Funds offering an efficient and optimized portfolio. Infrastructure offers a neat fit between the long-term liabilities of the funds with the time horizons for the maturity of infrastructure developments. From a return perspective, infrastructure provides diversification due to its lower correlation with other financial asset classes, provides a hedge against inflation, improves cash flow stability as well as generates optimal returns also driven by the fact that it tends to operate with the reduced or non-market competition.

Long after the development of the Retirement Benefits Authority regulatory framework, KES 1.3 trillion pension funds are invested in fixed income, Government securities and the equities at the Nairobi Securities Exchange. There is very little contributions to long term investments and economic growth which compromises the returns to the members of these pension funds.

The current decade has seen a significant transformation in the modalities of provision of infrastructure services concurrent with pension reform. There has been a major increase in private sector participation in the provision of infrastructure services. This is particularly the case in the countries that undertook pension reform. The main reasons for the increase in private participation has been the need to modernize and expand the services which the state can no longer finance and to redirect resources used to finance the deficits of public utilities to more pressing social needs. This has led most countries to privatize public utilities and to concession transportation services, leaving in the hands of the private sector the financing of the rehabilitation and expansion.

Globally, pension funds are increasingly moving into new asset classes in a search for enhanced yields, with infrastructure being one type of investment that is frequently discussed, given its potential to match long-term pension assets and provide diversification. This has seen pension funds being one of the largest private capital sources to fund infrastructure driven by the synergies of their business structure and what infrastructure offers. Closer home, this has not been the case with the below being listed as the main constraints:

Limited Awareness of Opportunities	Amajor reason for the apparent mismatch between infrastructure investment demand and the supply of infrastructure finance is the supply of a sufficient and predictable pipeline of infrastructure investment opportunities
Limited Investment Expertise	Infrastructure projects are often complex and involve a large number of partners. Low investor expertise is one of the biggest barriers to increasing institutional investment in infrastructure, highlighting the need for a credible investor body such as KEPFIC for the industry.
Large Investment Size	Infrastructure Investments have large ticket sizes, hindering local invester participation. KEPFIC as a consortium, facilitates the pooling of resources by pension funds thus opening up the members to such opportunities.
Regulatory Uncertainty	The political factor plays more of a macro effect on infrastructure. Different governments will have different stances on developing infrastructure and how to regulate it.

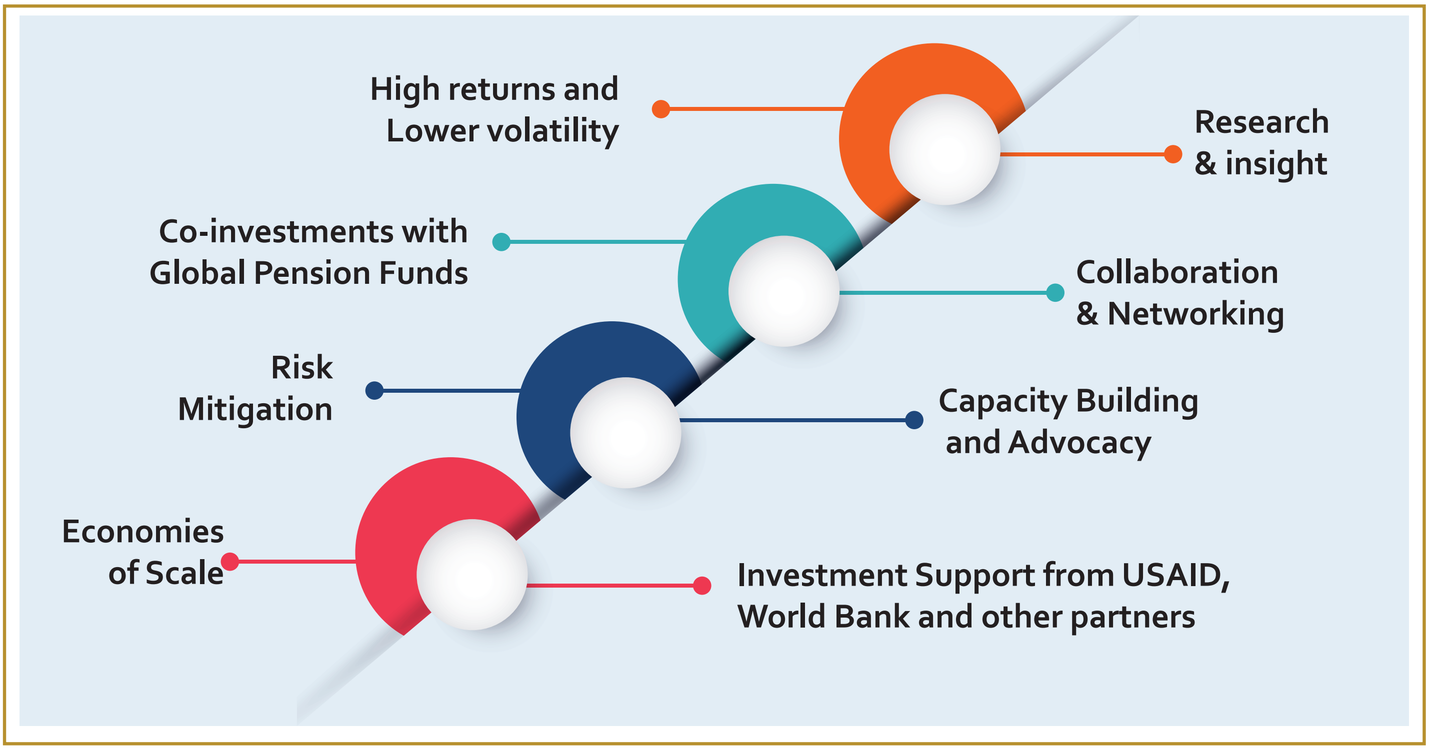
Source: KEPFIC 2021

To address all these challenges, the Kenya Pension Fund Investment Consortium (KEPFIC) was conceptualized and officially launched on 21st October 2020. KEPFIC is a consortium of Kenyan retirement benefits funds that have come together to make long-term infrastructure and alternative asset investments in the region. To do this, KEPFIC aims to identify suitable infrastructure opportunities, pool investment capital from local pension funds and co-investors, and build the technical and investment capacity of its member funds, to enable them to make informed infrastructure investment decisions.

The consortium, supported by the U.S. Government through USAID's Kenya Investment Mechanism, Power Africa, the World Bank Group, and MiDA Advisors (in partnership with USAID INVEST), provides an opportunity for beneficial collaboration between Kenyan and American pension funds and other institutional investors.

KEPFIC as a consortium is not a new phenomenon globally and has been executed successfully in other jurisdictions. In the United Kingdom for instance, Pensions Infrastructure Platform (PiP) a £1.8bn fund was founded in 2012 as an infrastructure investment platform specifically to facilitate long-term investment into UK infrastructure by pension schemes. PiP was founded to allow pension schemes of all sizes to gain exposure to the well-recognised benefits of investing in core infrastructure, and to participate in the opportunities arising from the UK's drive to improve the nation's infrastructure.

The value proposition of KEPFIC to address the constraints identified by pension funds in investing in infrastructure include:



Source: KEPFIC 2021

Following the experiences and the lessons learned through professional bodies such as Kenya Pension Fund Investment Consortium, the following key learning points and recommendations can be deduced:

- There is need for the Government, RBA, CMA and all relevant stakeholders to work together and introduce a rage of new products which can enable pension funds meaningfully contribute to national economic development while increasing the pensioners returns;
- Review the relevant policy and legal frameworks to support investment diversification by the pension funds;
- The Government to promote and incentivize pension funds as well as supporting the development of new products and services;
- In view of the limited investment expertise, the government with the support of its entities such as CMA, RBA and other entities to invest resources in harnessing investment expertise within the market; and
- The government to come up with dedicated measures to support uptake of economic activities by the MSMEs.

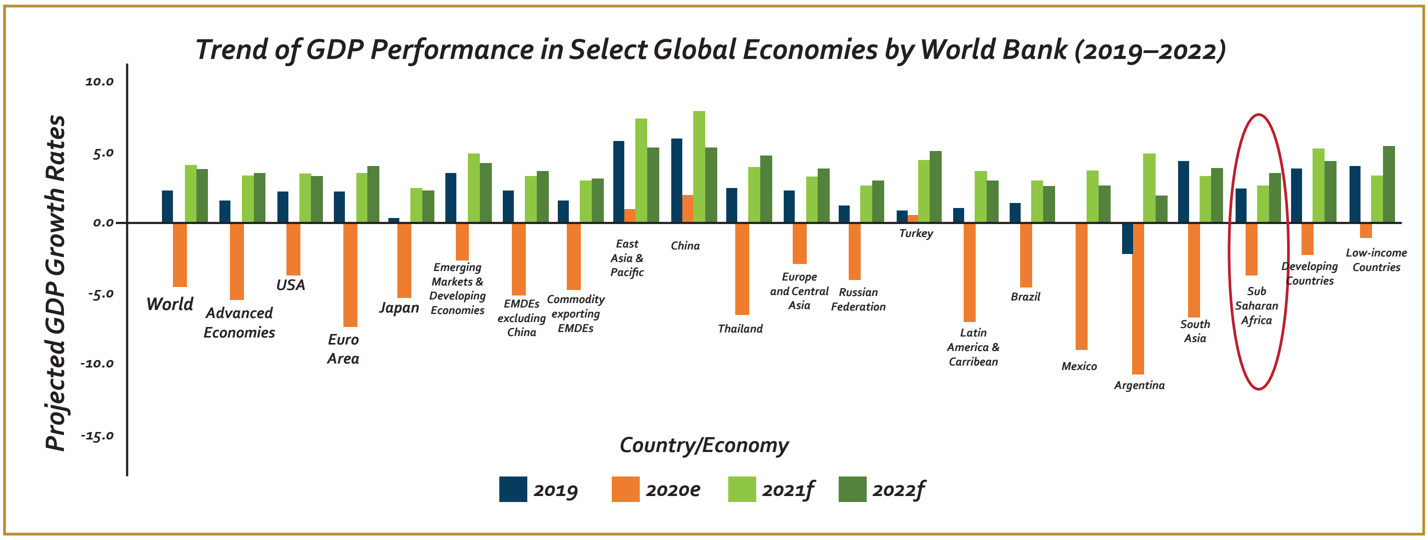
3.0 Global Capital Markets Developments

1.1 Economic Prospects 2021

The COVID-19 pandemic has tipped the global economy into its deepest recession since the Second World War. However, following the devastating health and economic crisis, the global economy appears to be emerging from one of its deepest recessions and beginning a subdued recovery.

The recent vaccine programs have raised hopes of an economic turnaround from the Pandemic later this year, however renewed waves and new variants of the virus still pose glaring concerns on the projected economic outlook. In the baseline forecast by the World Bank in January 2021, the global economy is projected to grow by three (3%) percent in 2021 but still remain more than five (5%) percent below its pre-pandemic trend. After this year's pickup, global growth is projected to moderate to three-point eight (3.8%) percent in 2022, weighed down by the Pandemic's lasting damage to potential growth.

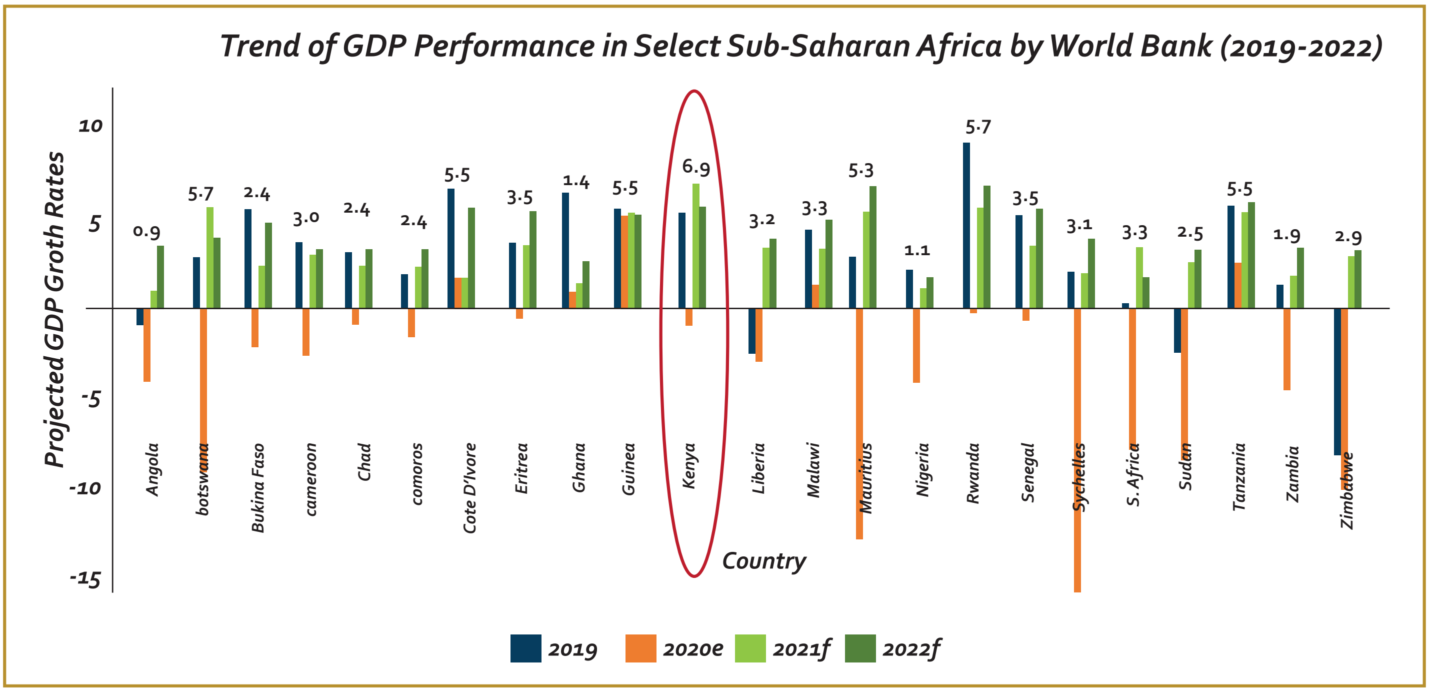
Figure 1: Trend of GDP Performance in Select Global Economies by World Bank (2019–2022)[1]



Source: World Bank Global Economic Prospects 2021
**Statistics provided are based on Global Economic Prospects 2021 Data*

Nonetheless, the strength of the recovery is projected to vary significantly across regions and countries, depending on proper pandemic management and effective vaccination limiting the community spread of COVID-19, as well as effectiveness of both monetary and fiscal policy support.

Figure 2: Trend of GDP Performance in Select Sub-Saharan Africa by World Bank (2019-2022)

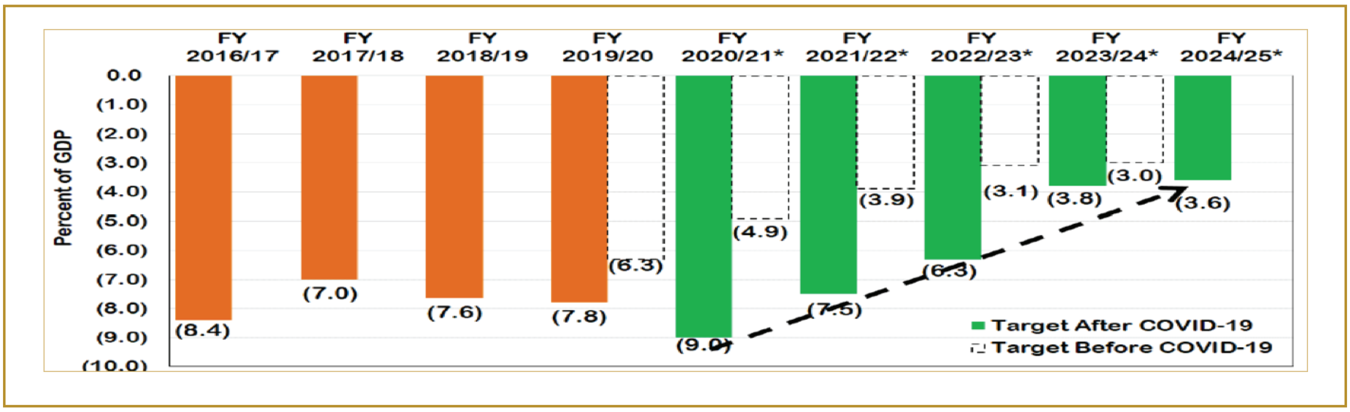


Source: World Bank Global Economic Prospects 2021 *Statistics provided are based on Global Economic Prospects 2021 Data

Sub-Saharan Africa (SSA) is no exception, SSA has been hard hit by the COVID-19 pandemic, with activity in the region shrinking by an estimated 3.7 percent in 2020. Growth in Sub-Saharan Africa is expected to rebound only moderately to 2.7 percent in 2021—0.4 percentage point weaker than previously projected—before firming to 3.3 percent in 2022.

The pandemic has further exacerbated the risks associated with a decade-long wave of global debt accumulation. Debt levels have reached historic highs, making the global economy particularly vulnerable to financial market stress. The pandemic is likely to steepen the long-expected slowdown in potential growth over the next decade, undermining prospects for poverty reduction. The heightened level of uncertainty around the global outlook highlights policy makers' role in raising the likelihood of better growth outcomes while warding off worse ones.

Figure 3: Trend of Fiscal Consolidation Path, Fiscal Deficit, a percent of GDP in Kenya.



Source: National Treasury, Budget Policy Statement

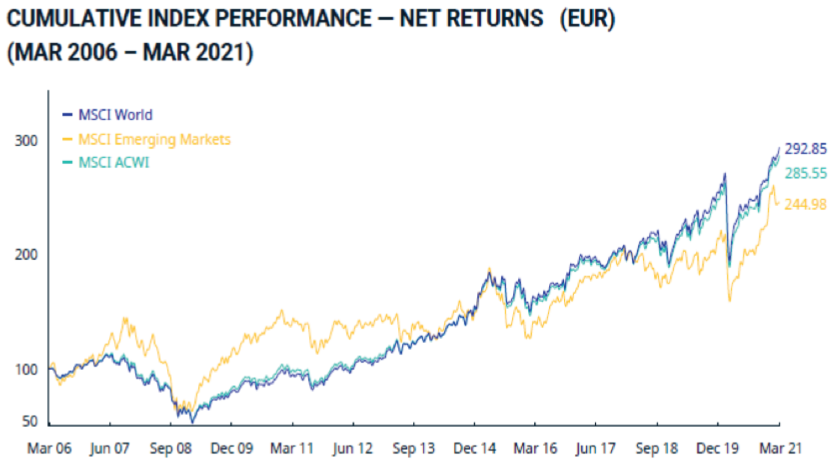
The Kenya Government, through the National Treasury in its' 2021/22 Budget Policy Statement has projected an optimistic local growth of 6.4% in 2021 but slow down to 5.5% in 2022 due to uncertainty associated with 2022 general elections.

In the draft budget policy statement the National Treasury notes that official external sources for loans on concessional terms will be maximized while non-concessional, commercial external borrowing and sovereign bond issuance will be limited to projects with high financial and economic returns in line with government`s developmental Big 4 Agenda. The government will continue to diversify these resources by maintaining its presence in the international and domestic capital markets. The government also intends to explore other sources of possible financing options, such as Islamic financing instruments, Green bonds, and diaspora bonds over the medium term among other measures including debt restructuring.

In February 2021, the IMF and Kenya agreed on a three-year, KSh262.5 billion ($2.4 billion) loan to assist Kenya in its response to the covid19 pandemic and to put strong effort to reduce the country's debt levels relative to GDP. The package program is under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements. Further in quest to get an opportunity and break on the liquidity desired and fiscal consolidation amidst debt distress and health crisis, Kenya received a Shs32.9 Billion loan repayment break from Paris Club of countries and an additional Sh40.6 Billion debt suspension waiver from G20 countries under the Debt Service Suspension Initiative (DSSI) framework.

Global Capital Markets Overview

Globally there is improved investor sentiments supported by the recent vaccine approvals and the commencement of vaccination programs. The renewed optimism has increasingly attracted more investors back to the markets during the period under review.



ANNUAL PERFORMANCE (%)

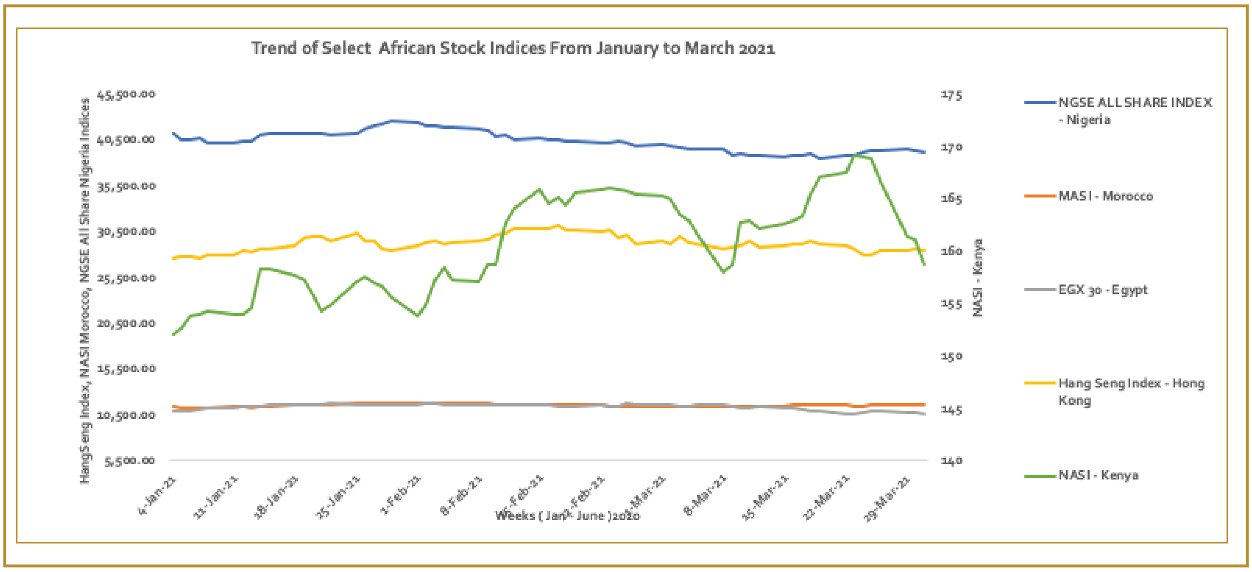
Year	MSCI World	MSCI Emerging Markets	MSCI ACWI
2020	6.33	8.54	6.65
2019	30.02	20.60	28.93
2018	-4.11	-10.26	-4.85
2017	7.51	20.59	8.89
2016	10.73	14.51	11.09
2015	10.42	-5.23	8.76
2014	19.50	11.38	18.61
2013	21.20	-6.81	17.49
2012	14.05	16.41	14.35
2011	-2.38	-15.70	-4.25
2010	19.53	27.14	20.50
2009	25.94	72.94	30.43
2008	-37.64	-50.92	-39.20
2007	-1.66	25.74	0.71

Source: MSCI World Index (EUR)

The global capital markets remained stable and resilient during the period under review. On the equity markets front, the global equity markets rebounded strongly posting a gain in March of 2.3% and generally closing the quarter with a gain of 5% . The accelerating global rollout of the COVID-19 vaccines and passage of $1.9 trillion US stimulus bill provided hope that the global recovery would pick-up speed despite weaker-than-expected employment growth. However, the outlook depends not just on the outcome of the battle between the virus and vaccines—it also hinges on how effectively economic policies deployed under high uncertainty can limit lasting damage from this unprecedented crisis. Oil prices and commodity prices rose in mid-month (March), but ultimately closed flat for March. The risk appetite for the investors in emerging stock markets decreased. Most major equity markets showed gains around 5%, except for China, which fell more than 6% in the month.

After reporting GDP growth well more than the government target of 6%, investors were concerned about a tightening of monetary policy in China to avoid inflationary pressures. However, the global rebound in stock markets has been divergent across different sectors. Industrial stocks posted significant improvement as level of optimism among investors improved due to expectations that the recovery would benefit deeper cyclical companies. Surprisingly, Information technology stocks performed poorly becoming the second weakest sector during the quarter under review.

Figure 2: Performance of Select Indices in Africa and South East Asia



Source:CMA Research

Table 2: Performance of Select Indices

Performance Metric	31.12.2020	26.03.2021	% Change
S&P 500	3756.07	3974.54	5.82%
FTSE 100	6460.5	6740.6	4.34%
Nikkei 225	27444.17	29176.7	6.31%
Karachi 100	43755.38	45521.63	4.04%
BSE Sensex	47751.33	49008	2.63%
JSE FTSE All Share Index	3673.63	3842.23	4.59%
Nigeria All Share Index	39512.31	39216.7	-0.75%

Source: Various

On the global fixed income front during the quarter investors flocked into China's capital markets , spurred by stable FX outlook, attractive yield, index inclusion and reforms. China onshore bonds' relatively attractive yields, good liquidity, and ongoing inclusion in global bond indices has resulted in a significant increase in interest from investors from all over the world.

Capital Markets Stability Implications:

The Capital Markets remains resilient amidst the tough global and local economic context. The recovery of the Capital Markets amidst the covid-19 pandemic is premised on the rebounding of global economic growth specifically Kenya's projected economic recovery.

Management will continue implementing both the capital markets short-term recovery strategy and fast-track the mid-term review of the Capital Markets Master Plan in the face of COVID-19, to ensure that the industry contributes to the overall Economic Recovery Strategy of Kenya. The key areas of focus will be: Enhancing liquidity, supporting market based long-term funding for all sizes of businesses, promoting alternative approaches to increase retail and institutional investor participation, strengthen business continuity by embracing digital technology and application of ICT and ensuring that market intermediaries remain sustainable.

1.2 Regulatory Reforms In India

Sebi India Floats A Discussion Paper On "Review Of Ownership And Governance Norms For Facilitating New Entrants To Set Up Stock Exchange / Depository."

The Securities and Exchange Board of India (SEBI) has floated a discussion paper on review of ownership and governance norms to facilitate new entrants to set up stock exchange and depositories and liberalize their ownership framework. The paper highlights the need for more competition among market infrastructure institutions (MIIs), reduced dominance level of market concentration by a single entity, to improve overall efficiency, governance as well as to better adapt to new-age disruptive technologies.

According to SEBI, the present framework caps the ownership of MIIs at a lower shareholding limit, which is not more than 5 per cent for individuals and institutions (domestic or foreign) in general and permits only up to 15 per cent ownership stake by select category of institutions .

In the discussion paper, the regulator has suggested a liberalized framework in the landscape of MIIs (Market Infrastructure Institutions) by allowing higher shareholding at the inception stage and prescribing a dilution in the ownership over a period of time among the following key proposals:

Source: orfonline.org

1. Changes Relating to Ownership Requirements

Table 3: Changes Relating to Ownership Requirements

In Case of setting up new (Market infrastructure institutions) MIIs	Case of existing MIIs
• Foreign individuals / entities, who belong to Financial Action Task Force (FATF) member jurisdictions who are setting up the MII (as promoter) may hold up to 49% shareholding and Their shareholding shall be brought down to either 26% or 15% in 10 years from the date of commencement of business.	• Foreign individuals / entities, who belong to FATF member jurisdictions may directly or indirectly, hold up to 49% shareholding in a MII which shall be brought down to not more than (either 26% or 15%) in 10 years.
• Any person (domestic or foreign), other than the promoter, may hold less than 25% shareholding	• Foreign individuals / entities from other than FATF member jurisdictions, may acquire or hold up to 10% in a MII. [9]
• At least 50% of ownership of the MII, shall be represented by Individuals / Entities having experience (5 years or more) in areas of capital markets or technology related to financial services.	• Combined holdings of all person's resident outside India in a MII, shall not exceed 49% in terms of consolidated FDI Policy 2020.
• If a jurisdiction withdraws from FATF, individuals/entities belonging to such jurisdiction, shall be required to bring down their shareholding in the MII to not more than 10% in five years from the date of withdrawal.	• In the event of withdrawal of membership of any jurisdiction from the FATF, individuals/ entities belonging in such jurisdiction, shall be required to bring down their shareholding in the MII to not more than 10% in five years from the date of withdrawal.

Source: SEBI India

2. Changes in Governance Requirements

The paper also highlights diversification in the composition of statutory committees at MIIs to have wider representation of stakeholder as follows:

- The appointment of MD & CEO shall be for a maximum three terms of three years each instead of two terms of up to 5 years each.
- Grievance Redressal Committee will include a Public Interest Director in case of claims exceeding Rs. 25 lakhs to boost investors' confidence in the grievance redressal process and boost the corporate governance practices while dealing with aggrieved investors.
- Nomination and Remuneration Committee will include two Public interests Directors (PIDs), two shareholder directors and MD & CEO shall be permanent invitee to the committee
- Standing Committee on Technology will include MD & CEO and Chief technology officer as permanent invitee. The mandate of the committee is to monitor adequacy of systems along with other technology requirements and require proficient people. The proposed composition shall facilitate better decision making and risk management.

- Regulatory Oversight Committee will include Shareholder directors (including MD & CEO) and at least 50% Public interest directors. The committee is Mandated to oversee functioning of exchange and depositories, compliance with SEBI inspection report observations and implementation of SECC Regulations and SEBI (D&P) Regulation.
- Risk Management Committee will include a Shareholder directors HD (including MD & CEO) and at least 50% public interest directors to have a balanced representation from all stakeholders since the committee deals with formulation of risk management policy.

Capital Markets Stability Implications:

The Authority notes and will explore the efficacy of India's proposal of having a public interest director sitting on the grievance redressal committee in view of the investing public's interest in the operations of key market infrastructure, particularly in the Nairobi Securities Exchange (NSE) and the Central Depository and Settlement Corporation (CDSC) in the current mid-term review of the CMMP. The proposal on a Standing Committee on Technology is another welcome proposal one given the evolving nature of market infrastructure business to be more of "technology platform providers", although both the NSE and CDSC already have similar Committees-perhaps we may need to benchmark their roles.

1.3 IOSCO Undertakings during the Quarter under Review

a) IOSCO Publishes A Report On Complaint Handling And Redress System For Retail Investors.

On 27th January 2021, The Board of the International Organization of Securities Commissions (IOSCO) published a report that sets forth nine Sound Practices aimed at assisting its members in developing and improving their complaint handling procedures and mechanisms for retail investors.

Investor protection is the responsibility as well as one of the goals of securities regulators worldwide. It is one of the three main objectives of securities regulation and of IOSCO. Retail investors are important participants in the capital markets and the protection of their rights and interests is fundamental to the healthy and stable development of capital markets. An important element of investor protection is providing retail investors with effective mechanisms for handling complaints.

Given the importance of handling retail investor complaints fairly and efficiently. IOSCO Committee 8 on Retail Investors (C8) undertook a survey aimed at providing an overview of investor complaint handling and redress mechanisms based on IOSCO members' practices and approaches. The analysis covered topics such as. [11]

(i) Internal handling of complaints by financial service providers and authorized agent.
(ii) Alternative dispute resolution (ADR) mechanisms for out-of-court resolution of disputes, including those established by public authorities and private sector entities.
(iii) Mechanisms put in place by regulators to handle complaints against financial service providers and their representatives.
(iv) Judicial remedies, including class actions, when an investor demands compensation for harm caused by misconduct (compensatory redress).

The Report was intended to be a resource for IOSCO members in identifying and ameliorating possible gaps in their complaint handling and redress systems. It also gives snapshot of existing complaint handling systems as summarized below.

Table 4: Summary of current complaint handling systems in various jurisdictions.

Country	Complainant handling by FSPs (financial service provider)	Complainant handling by security regulators	Alternative dispute resolution
Australia	complaints about financial products and services that cannot be resolved by the FSP are escalated to Australia's single ADR body.	-The regulator does not act on behalf of individual investors; investor complaints are outsourced to independent dispute resolution body. -There is use of complaint data to identify gaps in policy or regulation are a source of information that may assist the regulator in deciding on the need for regulatory action (such action is more likely when the action will be in the wider public interest. -To gauge investor satisfaction with complaint handling processes the regulator seeks feedback from investors once a complaint has been closed.	-The regulator provides access to an independent external dispute resolution facility to handle investor complaints. It is a not-for-profit company, governed by a board of directors composed of equal numbers of consumer and industry representatives and an independent chair. Services are free for consumers. -FSPs in Australia are contractually bound to comply with the procedures of its ADR scheme. -If investors are not satisfied with the FSP's response to their complaint, individuals may initiate legal action. In cases where the investor has suffered a large loss that exceeds the ADR cap of $5,000, court action may be the only avenue available for compensation
South Africa	-FSPs inform retail investors on complainant handling procedures in south Africa FSPs include a notice of complainant handling procedures in the account opening documents.	The regulator has minimal involvement in complaint handling procedure.	-Has a mix of ombudsman schemes set up by industry on a voluntary basis and those established by statute. There are currently six ombudsman schemes, each providing a free, impartial dispute resolution platform.
United states	The Financial Industry Regulatory Authority (FINRA), a securities SRO for broker-dealers, requires member broker-dealers to make quarterly statistical reports of all written complaints and to report promptly investor complaints against the firm or its associated persons alleging: (a) one or more sales practice violations for amounts exceeding a certain dollar threshold, or (b) forgery, theft, misappropriation or conversion of funds or securities.	The Securities and Exchange Commission's (SEC) Office of Investor Education and Advocacy (OIEA) assists investors with problems with their investments, their investment accounts, and their investment professionals. Retail investor complaints submitted to OIEA alleging fraud are generally forwarded to the agency's enforcement or examination units and can lead to formal investigations. With the investor's consent, OIEA forwards the investor's complaint to the FSP, requesting a response for the investor.	-FINRA's primary role in the dispute resolution process is to administer cases brought to the FINRA forum in a neutral, efficient, and fair manner. FINRA does not participate in or assist either party in pursuing the outcome of arbitrations or mediations. -FINRA can suspend its member broker-dealers and their associated persons for failure to pay ADR awards. -FINRA publishes detailed arbitration statistics on its website, including: (a) an interactive map that gives a breakdown of available arbitrators in each hearing location.

			(b) a chart that displays special pools of arbitrators. (c) common claims and products involved. (d) year-end statistics for the last five years.
United Kingdom	-Time limit for an investor to file a complainant with FSP is, it is within three years from when the investor knew or could reasonably have known he/she had cause to complain. -Once a complaint is filed, FSPs in the United Kingdom must provide investors a final written response within eight (8) weeks. -FSPs also report twice a year and they provide the regulator a complete report concerning complaints received, pending, and resolved that is published on the regulator's website.	-The regulator does not handle complaints. Individuals can make a complaint directly to an FSP. If the FSP fails to respond within the relevant time period or the individual is unhappy with the response received, they can take their complaint to the ADR body.	-ADR is provided by the Financial Ombudsman Service (FOS), which can generally consider a complaint after the FSP has issued a final response, unless the parties agree to initiate ADR earlier. -Investors may pursue legal action instead of ADR. The court has wide discretion to impose remedies, including ordering an FSP to pay compensation to the investor.
China	-FSPs accept investor complaints by mail, telephone, email, web form, social media, online portal, or other reasonable channel and many acknowledge receipt of the complaint. Investors may submit complaints in their own words or complete an online form with pre-populated questions and categories to indicate the type of allegation. -Depending on the type of complaint, resolutions may include offering explanations by telephone or onsite visit, lowering fees, upgrading services, or monetary compensation.	The China Securities Regulatory Commission (CSRC) forwards complaints received on its 12,386 Service Hotline to FSPs for processing.	-There are 56 securities and futures dispute resolution forums that offer mediation services. The Securities Association of China has a dispute mediation center and a dispute mechanism for securities associations and member institutions. The Asset Management Association of China (AMAC) also provides mediation services for investors with investment fund-related disputes with AMAC members

India	Investors submit complaints through a centralized web-based grievance redress system operated by the regulator that automatically forwards complaints to the appropriate FSP. Complaints can also be submitted to stock exchanges for redress of grievances against stockbrokers. Where an amicable solution cannot be reached, the regulator refers the investor to arbitration.	Complainant data can used for regulatory functions. The data pertaining to the nature of queries/complaints received is analyzed and incorporated in various educational materials for educating investors during investor education and awareness programs and in the formulation of regulations and laying down good market practices	stock exchanges and depositories disclose details of arbitration/appellate arbitration proceedings in a specified format.

Source: IOSCO

Based on survey responses from the Participating Jurisdictions, IOSCO C8 has developed a set of Sound Practices (SPs) intended to assist jurisdictions in developing their complaint handling mechanisms and making them more user-friendly. These Sound Practices speak to the importance of implementing complaint handling systems in ways that optimize the benefit to investors. The Report also highlights the importance of hearing the views investors[12]

The Sound practices include:

- Establishing a system for handling retail investor complaints.
- Taking steps to raise investor awareness of various available complaint handling systems.
- Making available as many channels as possible for retail investors to submit complaints.
- Taking steps to support complaint handling systems.
- Encouraging FSPs to offer a wide range of resolutions to retail investor complaints.
- Using complaint data to identify areas for new or enhanced investor education initiatives.
- Using complaint data for regulatory and supervisory purposes.
- Seeking input from retail investors about their experience with complaint handling systems.
- Making ADR facilities operated by or affiliated with a regulator more accessible for retail invest.

In line with the recommendations in the IOSCOs, the Authority has implemented an online complaint handling system which allows for flexibility and convenience for retail investors to launch their complaints. It is noted that these improvements have gone further to enhance even the resolutions of those particular complaints.

Capital Markets Stability Implications

The Authorityt remains committed and has consistently ensured that public complaints are promptly handled in line with regulatory requirements and global best practice. The Authority is fully compliant with the Commission for Administrative Justice requirement on matters public complaints, we have consistently scored 100% over the years. As a member of IOSCO, CMA Kenya welcomes the prescribed Sound Practices aimed at developing and improving complaint handling procedures and mechanisms for retail investors and will be considering which aspects to adopt in improving its existing processes.

[12] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD670.pdf;

Further, the Authority will continue to enhance its complaints handling procedures to align to best international practices. We note some key complainant handling procedures like use of alternative dispute resolution bodies and using complaint data for regulatory and supervisory purposes to better enhance our public complaints handling procedures.

b) IOSCO Publishes Work Program for 2021-2022.

The Board of the International Organization of Securities Commissions (IOSCO) has published its 2021-2022 work program to further its core objectives of protecting investors, maintaining fair, efficient, and transparent markets, and addressing systemic risks.
The work program covers a two-year horizon and will be reviewed and refreshed as appropriate at end-2021 to ensure its ongoing relevance. The 2021-2022 work program encompasses work with respect to two new priorities, namely:

- Financial stability and systemic risks of non-bank financial intermediation activities (NBFI).
- Risks exacerbated by the COVID-19 pandemic – misconduct risks, fraud, and [13]operational resilience.

The 2021-2022 work program calls on IOSCO through these two new priorities to maintain a core focus on critical work underway since March 2020 to respond to the ongoing impacts of the pandemic in the capital markets. As a central tenet of its agenda, the priority to address financial stability and systemic risks in NBFI in response to the COVID-19 induced market stresses will continue to be led by the IOSCO Financial Stability Engagement Group to drive the initiatives identified under this work program. [14]

Alongside this, the COVID-19 pandemic has created economic and social situations, such as job losses, financial strains, physical and social isolation, and active online engagement, which can increase conduct risk and magnify retail investors' susceptibility to scams and frauds. Work in this area under the second new priority will be led by the IOSCO Retail Market Conduct Task Force, while IOSCO's Committees on Secondary Markets and Market Intermediaries will initiate joint work on operational risks.

Source: IOSCO

[12]*https://www.iosco.org/library/pubdocs/pdf/IOSCOPD670.pdf;*

With respect to sustainability-related issues in capital markets, the work program calls on IOSCO to re-double efforts in contributing to the urgent goal of improving the completeness, consistency, and comparability of sustainability reporting under the stewardship of its Sustainable Finance Task Force.

The Task Force will also continue to progress on two other important areas covering.

- Asset managers and greenwashing
- ESG ratings, and ESG data providers (please see press release on IOSCO's work in this area).

IOSCO will also continue its efforts on six specific priorities identified by the Board for 2020, all of which will continue to be priorities in 2021 and 2022, namely:

- corporate debt and leveraged finance.
- crypto assets.
- market fragmentation in securities and derivatives markets.
- artificial intelligence and machine learning,
- passive investing and index providers.
- retail distribution and digitalization.

IOSCO will also further its efforts in other important areas, including matters of special importance to growth and emerging markets (GEM), the ongoing implications for securities markets of financial innovation and digitalization developments through the ICO and Fintech Networks, its collaboration with other standard setting bodies, as well as implementation monitoring, capacity building for its members and supporting investor education as a critical pillar of investor protection.

Capital Markets Stability Implications:

Table 5: Comparison, IOSCO Vs Authority progress

IOSCO priority areas 2021-2022	Authority's Progress
Corporate Debt and Leveraged Finance	Bond market reforms is currently ongoing through various initiatives i.e Green Bond Programme
Crypto Assets	Fintech firms with crypto applications (except crypto currencies) are currently being reviewed under the Regulatory Sandbox.
Market Fragmentation in Securities and Derivatives Markets	This is not a priority area in our market currently
Artificial Intelligence and Machine Learning	Fintech firms with Artificial Intelligence and Machine Learning applications welcome to apply to the Regulatory Sandbox
Passive Investing and Index Providers.	There is notable growing demand for exchange traded funds
Retail Distribution and Digitalization	The Authority is lobbying for more digital offerings attracting retail investors i.e M-Akiba

[13] https://www.iosco.org/news/pdf/IOSCONEWS596.pdf
[14] https://www.iosco.org/news/pdf/IOSCONEWS596.pdf

The Authority's Corporate Workplan initiatives for the financial year 2020/2021 is in concert with IOSCO's work program. The authority as a member of IOSCO welcomes the work program 2021-2022 and will continue to align its efforts towards ensuring a successful implementation of the priority areas in the program.

1.5 The Securities and Exchange Committee (SEC) of Thailand proposes new a Strategic Plan 2021-2023 using 8 key strategies to achieve 5 goals for stronger capital market.

The new SEC Strategic Plan 2021-2023 maintains the four goals and seven key strategies from the SEC Strategic Plan 2020-2022 and adds the goal of "recovery and strengthening" and the Ad-hoc Master Plan to ensure that the capital markets regulations will not impose obstacles and will provide tools for building liquidity for businesses affected by COVID-19 pandemic.

The eight strategies include;

- Building a capital market ecosystem conducive to sustainability development;
- Promoting financial well-being for the public through savings and long-term investment for retirement;
- Supporting growth and financing of Small and Medium Enterprises (SMEs) and startups;
- Enabling regulatory framework and international connectivity to enhance competitiveness and create opportunities;
- Implementing digital technology to increase the capital market's capacities and supervision;
- Enhancing supervision and effective enforcement in the Thai capital market;
- Ensuring systemic risk management in a timely manner; and
- Supporting liquidity enhancement tools for businesses affected by COVID-19 crisis.

Capital Markets Stability Implications:

Most of the strategies are strikingly similar to those in the Authority's short term recovery strategy and the CMMP, Management notes some strategies which are presently not top priorities but may be worth considering in the current review of the CMMP, bearing in mind the similarity of the two economies These are: ensuring systemic risk management in a timely manner and implementation of digital technology in supervision (if established by Management to extend beyond the current risk-based supervision being implemented by CMA Kenya) learn from Thailand as we review the Capital Markets Master Plan on which the Strategic Plan 2018-2023 is hinged on.

[12] *https://www.iosco.org/library/pubdocs/pdf/IOSCOPD670.pdf;*

4.0 Regional Capital Markets Developments

2.1 Crypto-Assets Regulatory Review

SEC Nigeria and Central Bank of Nigeria (CBN) seek to provide oversight over Crypto-Asset Activities

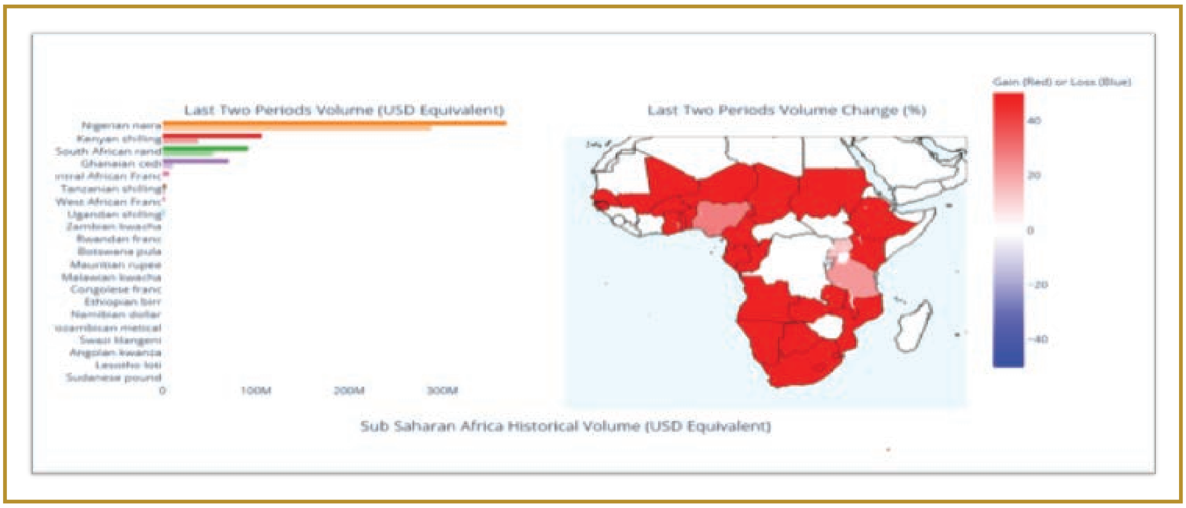
The Central Bank of Nigeria (CBN) on February 5th, 2021 issued circular prohibiting crypto activities within the banking industry. The circular addressed to deposit money banks, on-bank financial institutions and other financial institutions was a reminder on the earlier issued regulatory directives regarding dealing in crypto-assets and facilitating payments using crypto-currencies.

The Central Bank of Nigeria had earlier in through a circular dated January 12, 2017 directed all financial institutions under its mandate not to use, hold, trade and/or transact in cryptocurrencies. Indeed, this position was reiterated in another CBN Press Release dated February 27, 2018. The Central Bank noted that it is the only institution that can issue legal tender. Secondly the CBN noted the use of cryptocurrencies to facilitate illicit flows and given its rather opacity an inherent weakness as a payment mode. Finally, the CBN argued that the price volatility of Bitcoin for example and other crypto currencies would make them unsuitable for use a national payments mode. The bank though reiterated its objective of fostering meaningful fintech development through the regulatory sandbox and the open banking initiative.

The Nigerian Securities Exchange Commission (SEC) subsequently issued a “Press Release on Crypto-currencies” to address the apparent contradictions between the SEC Statement on Digital Assets and their Classification and Treatment of September 11, 2020 and the CBN Circular , while emphasizing that although they have a Mandate on investor protection, the convergence of the same with the financial system stability a mandate of the CBN, requires theme to work together for the proper oversight over crypto-asset activities.

Following the ban Nigeria’s P2P crypto market has boomed soaring past Kenya and South Africa in trading volumes. Paxful, a leading crypto exchange in Africa notes that Nigeria is the second largest bitcoin trading hub where over the past five years they have traded over $566 million USD worth of bitcoins. There has been a lot of commentary from the executive and the senate on the circular by the CBN with a number opposing it favouring the need to regulate vis a vis outrightly banning. The Nigerian senate will the take an informed position following a briefing by the CBN and the Nigerian SEC.

Figure 4: Local Bitcoins and Paxful Combined Sub-Saharan Africa Trading Volume Data (YTD)



Source: https://www.usefultulips.org/combined_Sub%20Saharan%20Africa_Page.html

The 2020 Chainalysis 2020 Geography of Cryptocurrency Report reported that Kenya is the top 5 in global crypto-trading activity. The ranking is based on an analysis of data from over 54 countries. This data compared with reports from BlockchainCenter.Net show that Kenya leads the world in in bitcoin search interest at 94.7 %. Triple A, a blockchain and crypto company conservatively estimate that close to 16.5 % of Kenyans hold crypto currency.

The aforementioned data denotes growing area of interest that has an impact on the soundness of Kenya's capital market given its consideration by Kenyans as an alternative investment class. Following the 2018 report by Citibank showing Kenyans holding over Ksh. 162 billion in crypto vis a vis the Collective Investment Schemes portfolio as of December 2018 standing at over Ksh. 61.04 billion. This an area of keen interest to the Authority given its investor protection mandate also given the prevalence of scams on this front.

Table 6: Crypto Analysis for Select Jurisdictions

Country	Score	Rank	Rank of individual weighted metrics feeding into index			
			On-chain value received	On-chain retail value received	Number of on-chain deposits	P2P Exchange trade volume
Ukraine	1	1	4	4	7	11
Russia	0.931	2	7	8	5	9
Venezuela	0.799	3	19	14	15	2
China	0.672	4	1	1	95	53
Kenya	0.645	5	37	11	57	1
USA	0.627	6	5	6	39	16
South Africa	0.526	7	12	9	41	10
Nigeria	0.459	8	14	7	112	3
Columbia	0.444	9	25	18	61	4
Vietnam	0.443	10	2	2	44	81

Source: Chainalysis 2020 Geography of Cryptocurrency Report

Capital Markets Stability Implications

CMA and CBK have equally been issuing statements on cryptocurrency but with convergence around their risks. However a more encompassing approach needs to be adopted on the broader FinTech space to onboard other financial sector regulators such as the Insurance Regulatory Authority, Retirement Benefits Authority and the Saccos Regulatory Authority so that the success of the CMA regulatory sandbox can be extrapolated to a joint Financial Sector Regulatory Sandbox, where joint expertise from the various subsectors may be leveraged to test various forms of crypto-assets and other FinTechs to inform future oversight of the same. Specific to crypto-assets the Authority is keen on forging a common stance and joint-messaging with the CBK going forward.

2.2 Capital Markets Developments in Egypt

a) Financial Regulatory Authority (FRA) Egypt launches FinTech Innovation sprint to address COVID-19 Challenges for the first time[15].

Source: IMF

During the quarter, the Central Bank of Egypt (CBE) collaborated with the Financial Regulatory Authority (FRA) to launch a three-day virtual innovation sprint in March 2021 to address the challenges caused by the novel coronavirus (COVID-19) pandemic in the non-banking sector as COVID-19 is likely to have lasting impacts on economies for years to come. The innovation sprint is supported and managed by the Financial Sector Development (FSD) Africa, in partnership with the Digital Financial Service (DFS) Innovation Lab. The DFS Lab, a digital commerce investor and accelerator that partners with early-stage digital economy startups in Africa, presents many innovations that can be employed and expanded to support the national economy.

The innovation sprint aims to strengthen international cooperation in the field of FinTech and innovation, which can play a transformational role in tackling the unprecedented challenges resulting from the COVID-19 pandemic by providing unconventional and direct solutions.

The innovation sprint would culminate with a demo day where Egyptian banks and other financial institutions are able to see the solutions startups present and can choose to move forward, bringing products and solutions to market.

Capital Markets Stability Implications:

Fintech firms admitted in the Regulatory Sandbox continue to test their applications as per the agreed test-plans and test objectives. The Authority notes that Fintech Firms can play a transformational role in tackling the unprecedented challenges faced by different markets as a result of COVID-19. It may be opportune for Kenya to consider elevating itself to a centre of excellence in FinTech in Africa.

[15] http://www.fra.gov.eg/content/efsa_en/efsa_news_en/efsa_946_en.htm
https://www.fsdafrica.org/news/dfs-lab-announces-fintech-and-digital-economy-design-sprint-to-address-covid-19-challenges-for-the-financial-community-in-egypt/

b)Financial Regulatory Authority (FRA) Egypt launches the first Regional Centre for Sustainable Finance

On March 14, 2021, the Financial Services Institute (FSI), an affiliate of the Financial Regulatory Authority (FRA) Egypt approved to establish the "Regional Center for Sustainable Finance" which would be regulated by FSI. The center is seen as a qualitative step towards strengthening the Egyptian economy's presence on the map of the global green economy. This Center will provide technical support and advice to ensure commitment of the entities obtaining green financing to invest this funding in the purpose designated for it. Also, an electronic platform will be formed to display trends and developments in the field of sustainable finance and related topics. The "Regional Center for Sustainable Finance" will complete the institutional and regulatory frame of the Financial Services Institute. On the other hand, the Center represents an important step in forming the "Knowledge Hub" that the FRA is currently establishing.

The Center will propose policies to be followed, suggest cooperation programs and exchange experiences with institutions, centers and agencies concerned with sustainable finance at the local, regional, and international levels.

Noteworthy, in 2020, Green bonds issuances globally amounted to more than $ 200 billion surpassing their biggest achievement by reaching more than a trillion dollars of issued bonds since introducing this financial instrument in 2007.

Capital Markets Stability Implications:

The Authority remains committed to support the Green Bonds Programme Initiative and other ESG compliant products in Kenya to achieve their objectives. In 2020, Kenya earned the impressive distinction of being the first country in the East and Central Africa region to successfully issue a green bond which placed Kenya Financial Sector and particularly capital markets as the regional pacesetter in the adoption of environment-friendly financing options to ensure sustainable development.

[16]http://www.fra.gov.eg/content/efsa_en/efsa_news_en/efsa_951_en.htm
[17]https://sec.gov.gh/wp-content/uploads/Public-Notices/PUBLIC-NOTICE-ON-EXTENSION-OF-MORATORIUM.pdf
[18]https://sec.gov.gh/wp-content/uploads/Public-Notices/PUBLIC-NOTICE-ON-MORATORIUM.pdf

2.3 Public Notice On Extension Of Moratorium On Fund Management Licensees In Ghana

Accra Ghana (Source: DW)

On September 30, 2019 , Securities Exchange Commission (SEC) Ghana placed a moratorium on the issuing of new Fund Management Licenses for a period of six (6) months effective 1st October 2019. During the same period, SEC was to continue to review applications for renewals for existing Fund Management Licensees and new market products

During the quarter under review, On March 11, 2021) Securities Exchange Commission (SEC) Ghana extended the moratorium on the issuing of new Fund Management Licenses for a further period of six (6) months. This is pursuant to the reasons contained in the notice issued in September 2019 when Ghana's capital markets regulator placed a moratorium on issuing of new fund management licensees.

This effort was to enable SEC focus on the following:

- A thorough review of the current licensing regime for a stronger and a more efficient and resilient market and the introduction of new licensing guidelines and directives.
- A resolution of the current challenges facing the securities industry and the capital market.
- The Introduction of new products in the capital market to deepen the existing market and to provide more investment options for investors and the public.
- A thorough overhaul of the Commission's activities.

Capital Markets Stability Implications:

Compared to the Ghanaian capital markets, the Authority notes that Kenyan capital market is open to any player who may want to conduct any capital markets activity. The Authority assures all market operators, investors, and the public that it is committed to ensuring the soundness of the capital markets licensees through its risk-based supervision framework.

5.0 Domestic Capital Market Developments During the Quarter

3.1 Centum lists Kshs3 billion Medium-Term Note on Nairobi Securities Exchange (NSE)[19]

During the quarter, Centum Real Estate Company listed Ksh. 3 billion project bond on the Nairobi Securities Exchange (NSE), allowing investors to trade the security before it matures in 2023 following approval by both the Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE). The Authority had initially approved a Ksh. 4 billion bond for Centum plc to finance its housing projects through its subsidiary Centum Real Estate Limited. The tenure of the bond is 3 years and is a zero-coupon bond issued at a rate on the 3-year treasury bond plus a market margin. The first tranche of the bond successfully raised Ksh. 3 billion, which is being deployed in funding construction of the Company's ongoing housing projects.

A Centum Real Estate Project (Source: Kenya Insights)

Earlier last year, the listed firm retired its Ksh. 6.6 billion corporate bond having paid all principal, interest due and a variable return on the equity linked component of the security. This previous performance and repayment of its listed bonds is an assurance to the new bond investors on the management of company in protecting their investments.

Capital Markets Stability Implications:

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

[19] https://centumre.co.ke/news/centum-real-estate-lists-kes3-billion-bond-on-nse/

3.2 Acorn quotes Real Estate Investment Trusts (REITs) on Nairobi Securities Exchange (NSE) over-the-counter platform, Unquoted Securities Platform (USP).

During the quarter, Acorn Investment Management Limited listed two of its Real Estate Investment Trusts (REITs) on the Nairobi Securities Exchange (NSE) unquoted securities platform (USP). These include; Acorn Student Accommodation Development REIT (D-REIT) and Acorn Student Accommodation Income REIT (I-REIT) which are worth a total of Ksh. 7.5 billion and trading at Ksh. 20 per unit. The development and Income REITs are the first products to be listed on the unquoted securities platform (USP), which was launched in December 2020 to offer a more transparent over-the-counter marketplace for shares of unlisted companies. Acorn Chief Executive during listing noted that "Quoting on the USP will provide current and prospective investors exit and entry points for their investment, unlocking the billions of shillings held in land and property."

ACORN Project (Source: Skycrapper City)

Capital Markets Stability Implications

This is a clear indication that the Kenyan capital markets is still sound and attractive to investors despite the Covid-19 challenge. The Authority welcomes this positive development in its mandate to develop the market as quoting the REITs on the unquoted securities platform (USP) will allow the asset class to access a wider pool of investors, enhance liquidity of their shares as well as support capital raising needs in the future.

3.4 Laikipia County Gets Nod To Raise Kshs 1.4 Billion From County Bond

Laikipia County is on course to making history with the proposed floating of a Sh 1.4 billion infrastructure bond in the stock market to fund capital-intensive development projects in the County such as infrastructure projects, smart towns and irrigation including reticulation, serviced industrial parks and hospitals.

The County has also received its creditworthiness report ahead of a planned Sh1.4 billion infrastructure bond issue where a South African rating agency GCR Ratings gave the county a BB + meaning it was well placed to honor its debts. The county joins three other counties including Makueni, Kisumu and Bungoma which received their credit ratings last year aimed at enabling them to determine their ability to unlock private sector and capital markets funding. Credit ratings promote fiscal responsibilities and help investors with an independent opinion on an entity's ability to honor debt. [20]

This plan has been backed by National Treasury where Cabinet Secretary Ukur Yatani, said that 'counties are allowed to borrow as long as they meet the parameters set by the Public Finance Management (PFM) Act'. The PFM Act allows counties to borrow up to 20 per cent of recent audited revenues approved by the county assembly and not spending more than 35 per cent of total county revenues on wages and benefits. [21]

Laikipia's most recently audited books for the financial year 2019-20 show its revenue was Sh7.113 billion, meaning 20 per cent would be Sh1.4 billion. Laikipia has been releasing quarterly and annual financial results. In 2018, it became the first county to produce a statistical data abstract, providing key information on all sectors of the economy, which is crucial information for investors. If successful, the bond which is to be sold through the National Treasury, will make Laikipia the first devolved unit to raise money from the capital markets.

Infrastructure bonds are cheaper compared to conventional bank loans because It has long-term benefits and does not pile pressure on county finances and are tax-free, making them more attractive to investors.

Capital Markets Stability Implications:

The Authority remains highly conscious of the importance of devolution as provided for in Kenya's Constitution and the 2018-2022 strategic Plan has identified policy and regulatory interventions as well as precursors necessary to support County financing through capital markets. The Authority welcomes the move by Laikipia county to float 1.4billion infrastructure bond. In line with our capital markets master plan (CMMP) the authority has established guidelines (currently under review by the National Treasury for county governments that seek to tap money from local markets to finance infrastructure projects.

3.5 Market infrastructure

a) The NSE Transitions to a New Connectivity Solution

Market Infrastructure during the period under review remained resilient. This was underscored by the Nairobi Securities Exchange transitioning to a new brokers network on 1st February 2021.Safaricom is the provider of the connectivity solution as NSE's technology partner. Securities trading is premised on having a resilient, reliable, secure, and stable network infrastructure hence the choice of Safaricom, which is the industry leader in this regard.

The Nairobi Bourse as part of its digital strategy has been keen on exploring ways to offer world-class customer experience to their customers. The adoption of technology will serve to streamline the trading experience of brokers by seeking to address past delays and system downtime and performance issues experienced in the past.

[20] https://www.kenyanews.go.ke/laikipia-county-to-float-infrastructure-bond-to-finance-development-projects/
[21] https://www.standardmedia.co.ke/business/article/2001404420/laikipias-creditworthiness-revealed-ahead-of-bond-issuance
https://www.kenyanews.go.ke/laikipia-county-to-float-infrastructure-bond-to-finance-development-projects/

The new securities market network architecture, software Defined Wide Area Network commonly referred to as SD-WAN, replaces the pure Multi-Protocol Label Switching (MPLS) network that has been in use since 2011. SD-WAN is a virtual Wide Area Network (WAN) architecture that allows businesses to leverage any combination of transport services, including MPLS, Long Term Evolution (LTE) and broadband internet services – to securely connect users to business applications.

The new connectivity solution interconnects the Nairobi Securities Exchange, trading participants and the Central Depository and Settlement Corporation with the aim of offering enhanced trading platform availability. Connectivity costs of brokers will drastically reduce by over 30% as noted by the Nairobi Securities Exchange. This in addition to enhanced network security, higher uptime and performance will make the SD-WAN truly transformational.

b) The NSE Integrates its bond system with Refinitiv's Fixed Income Call Outs Application

The Nairobi Securities Exchange on 24th February 2021 announced the integration of its bond system with Refinitiv's Fixed Income Call Outs Application. This is the result of a partnership between the NSE and Refinitiv to improve on the fixed income markets price discovery and transparency.

The NSE will now be in an enviable position compared to its peers in the frontier markets to have in place an automated OTC bond trading solution. The NSE notes that, "The integration will facilitate seamless trading of fixed income transactions supporting accurate price discovery, trade negotiations and execution as well as reduce delays caused by the manual processing of bond orders.

The Nairobi Bourse will avail the **Refinitiv Fixed Income Callouts** in Kenya, an automated workflow that facilitates negotiations and agreements of secondary Fixed Income (FI) bond trading among banks, brokerage firms, and real-time integration with the Central Securities Depository (CSD).The Refinitiv solution will provide an Over the Counter fixed income flow; integrated real time to both the Central Depository and Settlement Corporation and the NSE to the benefit of market participants.

Capital Markets Stability Implications:

The connectivity solution cements the Nairobi bourse as a preferred investment destination by foreign investors given the capabilities of the exchange compared to its peers regionally and globally. The connectivity solution has enhanced the robustness of the trading infrastructure building on the resilience of the local capital markets given the advances in network security, efficiency, and stability.

The Refinitiv Fixed Income Callouts solution will serve to improve on our local market infrastructure given the efficiencies attendant to the solution with the effect of boosting confidence in Kenya's fixed income market. Kenya will now boast of an enhanced fixed income market infrastructure allowing investors and traders benefit from real-time price discovery across the Fixed Income market.

3.6 State of Corporate Governance for listed firms at the Nairobi Securities Exchange (NSE).

Table 7: State of Corporate Governance for listed firms at the Nairobi Securities Exchange

Principle	Overall score-Performance	Findings
Commitment to good governance	77.20	Most of the issuers considered the requirement of this principle which was occasioned by the most companies publicly disclosing the terms of reference of the Board Committees in the annual reports while increasingly setting out their sustainability strategies and plans.
Board operations and control	71.68	This principle had good rating which was underpinned by the fact that most boards: adopted and disclosed the necessary policies, having the majority of the members as the independent and non-executive, establishing the mandatory committees, and undertaking governance audits.
Rights of shareholders	74.57	The good performance in shareholders score was as a result of issuers providing adequate information to shareholders through various channels, expanding the scope of participation and broadening the role of the board in enriching the rights of shareholders.
Stakeholder relations	68.71	During the review period, issuers scored good on how they relate and involve their stakeholders. The score was as a result of issuers understanding the importance of stakeholder relations through development of strategies and policies to manage the stakeholders and having constructive engagements coupled with the existence of mechanisms for resolving internal and external disputes.
Ethics and social responsibility	68.0	The good rating during the review period was attributed to most issuers developing and disclosing their codes of ethics and conduct, development of corporate citizenship policies as well as whistle blowing policies and reporting on the impact of the company's operations on the environment.
Accountability, risk management and internal control	74.24	This principle calls on issuers to ensure that the board takes responsibility and provides oversight on the critical functions of the company. The good rating observed was based on several factors including more disclosures by the issuers on various aspects of the principle including areas around the composition of the audit committee and disclosure on its activities. Issuers have also made disclosures with regards to risk management processes and framework.

Principle	Overall score-Performance	Findings
Transparency and disclosure	71.24	The good rating was as a result of issuers understanding the importance of transparency and disclosures through having proper policies and processes on packaging and dissemination of information with their stakeholders. This was achieved through adoption of integrated reporting in preparation of annual reports and use of various platforms including social media, newspapers among others to share information.

Source: CMA

Capital Markets Stability Implications:

On the governance front the industry registered notable progress. In 2019/2020 the weighted overall score for all issuers was 72% an improvement from the previous year's 61%. There were 25 issuers with a leadership rating, 11 with Good, 8 with Fair and 4 with the Needs Improvement rating. This score was based on an assessment of 51 issuers who did their governance self-assessments and submitted their reports to the Authority.

1.) Weighted Overall Performance Per Sector

The Banking, Energy and Petroleum, Investments & investment services and Insurance sectors scored a leadership rating, the Construction & Allied, Commercial and Services sector scored a good rating. The Agricultural sector scored a fair rating. There was an improvement in performance from the previous year across all the sectors.

2.) Emerging Issues and New Developments

Some of the emerging issues and new developments that issuers need to consider in their governance include

- *Institutional investors are increasingly becoming an integral part in monitoring corporate governance and sustainability of companies.*

- *Investors are likely to integrate climate-change competency and risk oversight into investment guidelines in some form, and boards will need to demonstrate that they are thinking strategically about the opportunities, risks, and impact of climate change.*

- *With the dynamic operating environment and companies' rapid strategic evolvement aimed at retaining their competitive edge, investors and other stakeholders are requiring more targeted communication.*

- *There is need to promote sustainability reporting as a tool to attract, mobilize and drive sustainable investments for sustainable development in the capital markets.*

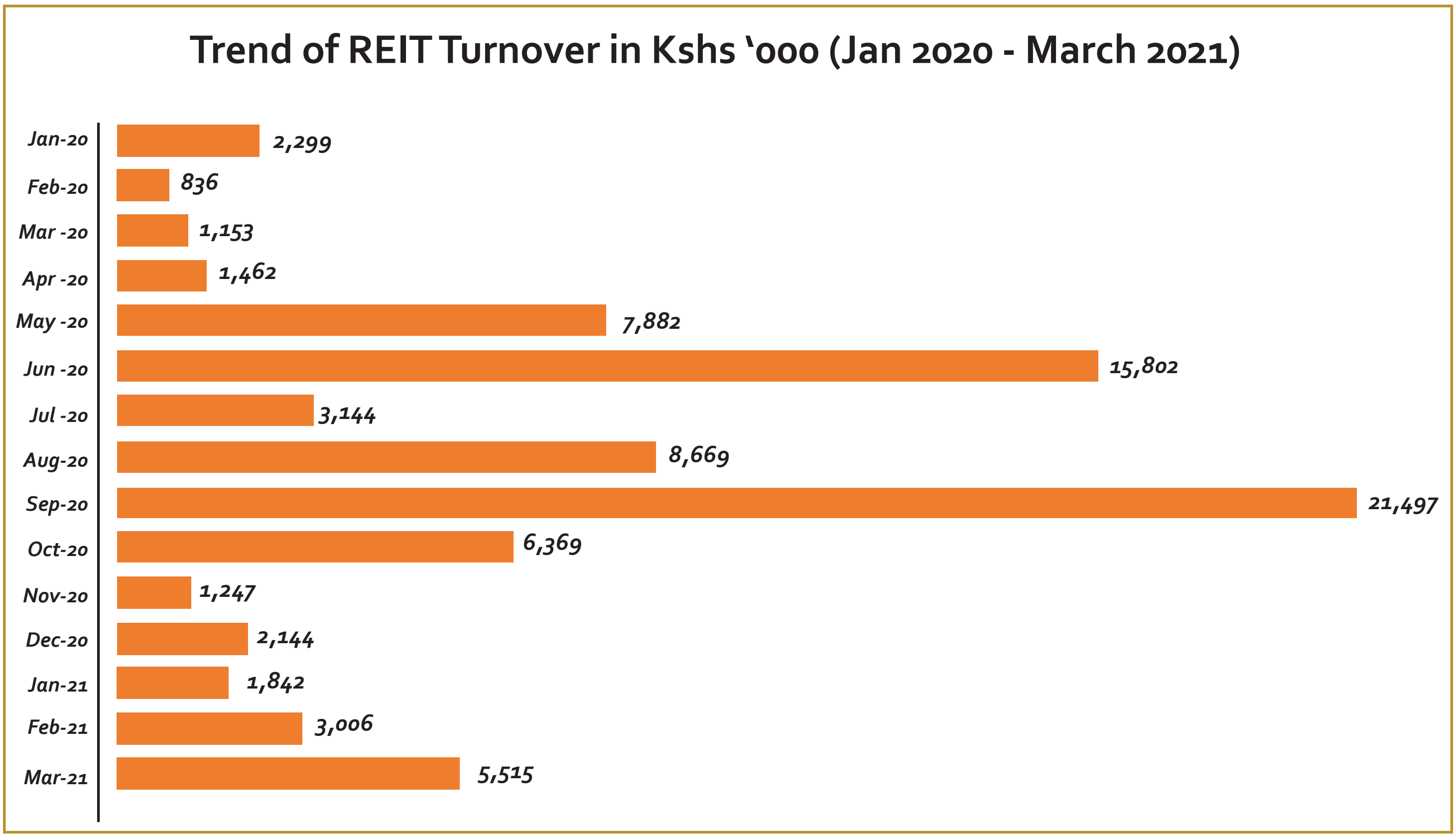
- *The need for the Board to go beyond the development of company policies and focus more on the practical implementation and integration into the company's culture.*

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

During the quarter, the REITs market showed recovery compared to previous quarter, which could as well be seen in price gain of the share of ILAM Fahari I-REIT. In addition, during the quarter, Acorn Investment Management Limited listed two of its Real Estate Investment Trusts (REITs) on the Nairobi Securities Exchange (NSE) unquoted securities platform (USP). Acorn I-REIT and D-REIT which are worth a total of Sh7.5 billion and trading at Sh20 per unit are the first products to be listed on the NSE unquoted securities platform (USP) which was launched in December 2020 to offer a more transparent over-the-counter marketplace for shares of unlisted companies.

In this regard, the Authority recently drafted and circulated the draft Income Tax (Real Estate Investment Trusts) Rules, 2020 and exposed the same to the public. The regulations are meant to operationalize section 20(c) and (d) of the Income Tax Act on exemption of REITs. The Authority is further refining the REITs policy framework to revive the market, which remains at nascent stage.

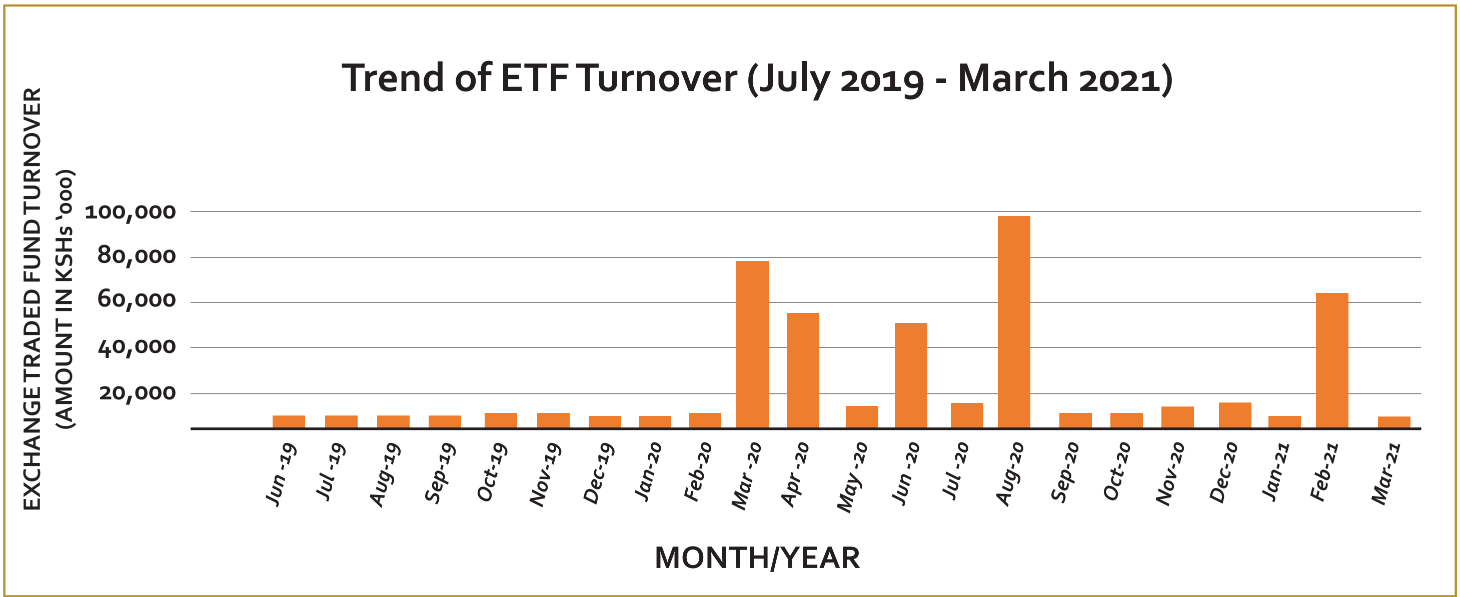
Figure 5: Trend of Performance of Real Estate Investment Trusts in Kenya (Jan 2020 – March 2021)



Source: CMA / NSE

At the onset of Covid -19 in Kenya in March 2020, investors in the gold-backed exchange traded fund enjoyed a big increase in the value of their holdings following a sharp rise in the global price of the precious metal as gold is seen as a safe haven investment at times of economic shocks. However, the listed new gold ETF has been on a decline during the quarter save for the month of February which recorded a turnover value of Kshs. 54.17 Million with other months recording zero turnover values.

Figure 6: Trend of Performance of Exchange Traded Fund in Kenya (July 2019 – March 2021)



Source: CMA / NSE

3.8 Summary of Performance in the Domestic Economy

3.8.1 Performance of Equity Markets

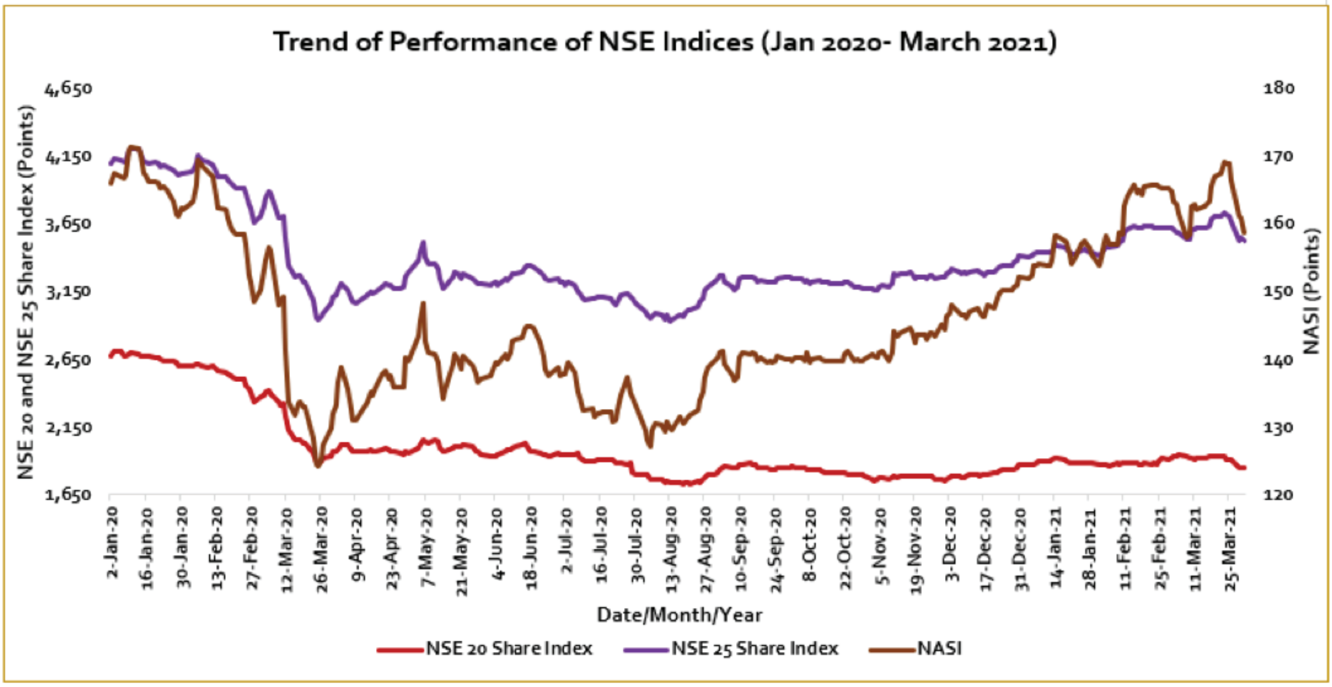
Table 8: Summary of Equity Markets Performance

Year	Month	Equity Turnover (Kshs Bn)	Share Volume (Mn)	NASI	NSE 20 Index	NSE 25 Index	Market Cap (Kshs Bn)
Q1 2020	Jan	12.3	336.0	162.1	2,600.4	4,023.4	2,473.9
	Feb	12.3	385.6	148.6	2,337.0	3,662.7	2,267.6
	Mar	19.1	639.3	131.9	1,966.1	3,109.0	2,016.1
	Total	***43.7***	***1,360.9***				
Q2 2020	April	12.7	439.0	139.7	1,958.1	3,292.6	2,135.0
	May	14.6	430.3	137.1	1,948.1	3,203.9	2,095.9
	June	12.3	552.6	137.7	1,942.1	3,217.1	2,104.3
	Total	***39.6***	***1,421.9***				

Year	Month	Equity Turnover (Kshs Bn)	Share Volume (Mn)	NASI	NSE 20 Index	NSE 25 Index	Market Cap (Kshs Bn)
Q3 2020	July	13.5	517.1	133.2	1,804.1	3,059.6	2,036.0
	Aug	10.5	470.6	139.7	1,794.9	3,223.8	2,144.4
	Sep	13.9	524.5	139.9	1,852.3	3,258.8	2,147.7
	Total	***37.9***	***1,512.2***				
Q4 2020	Oct	5.88	219.42	140.04	1,783.68	3,170.87	2,150.06
	Nov	11.39	381.02	145.20	1,759.93	3,264.15	2,229.49
	Dec	10.24	369.13	152.11	1,868.39	3,415.24	2,336.70
	Total	***27.5***	***969.57***				
Q1 2021	Jan	8.85	294.14	155.59	1,881.91	3,434.52	2,390.29
	Feb	10.82	330.68	165.39	1,915.68	3,624.96	2,541.16
	Mar	12.06	372.93	158.62	1,846.41	3,531.58	2,437.04
	TTotal	***31.73***	***997.75***				

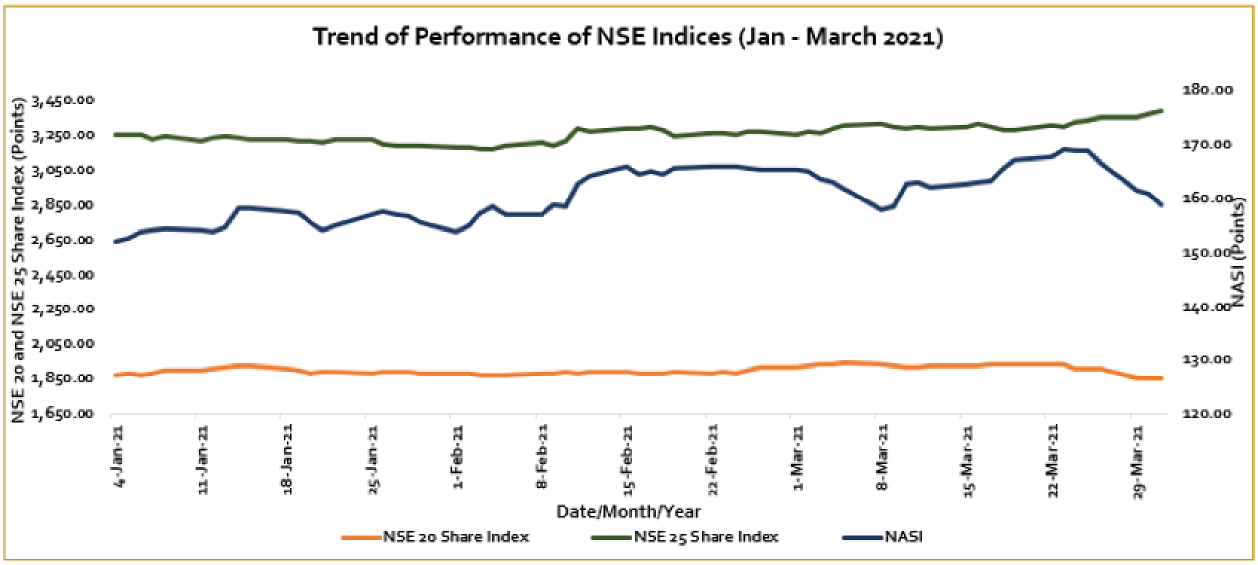
Source: CMA / NSE

Figure 7: Trend of Performance of NSE Indices (Jan 2020 – March 2021)



Source: CMA / NSE

Figure 8: Trend of Performance of NSE Indices During the Quarter (Jan - March) 2021



Source: CMA / NSE

3.8.2 Performance in the Bond Market

Treasury Bond Market

In the primary treasury bonds market, a quarterly analysis indicates that during Q1. 2021, Six (6) Treasury bonds and one (1) tap sale were issued. In issuing these bonds, the government sought to raise Kshs. 193 Billion but received subscription worth Kshs. 288.43 Billion. In the end, the government accepted bonds worth Kshs. 228.25 Billion, indicating a 78.42 acceptance rate. Generally, the oversubscription of the treasury bonds was due to the sixteen-year amortized infrastructure bond seeking to raise Kshs. 50 Billion, which registered a subscription performance rate of 250.95%. Total bids received amounted to Kshs 125.47 Billion with Central Bank accepting Kshs 81.05 Billion.

Table 9: Treasury Bond Performance (Jan 2020 - March 2021)

	BOND	Amount Issued (Kshs. Bn)	Amount Received (Kshs. Bn)	Amount Accepted (Kshs. Bn)	% AA/AI	% AR/AI
Jan 2020	FXD 1/2019/5	50.00	44.52	44.49	88.98	89.04
	FXD 1/2019/5		25.43	19.26	38.52	50.86
Feb 2020	FXD 1/2020/15	50.00	18.44	5.19	10.38	36.88
	FXD 1/2018/25		24.06	22.68	45.36	48.12
Mar 2020	FXD 1/2018/20	50.00	19.82	8.27	16.54	39.64
	FXD 1/2018/25		15.34	14.64	29.28	30.68
Apr 2020	IFB1/2020/9	60.00	68.41	39.01	65.02	114.02
	Tap Sale	21.00	37.84	35.39	168.52	180.19
May 2020	FXD1/2020/5	50.00	34.53	20.78	41.56	69.06
	FXD1/2020/5	30.00	20.58	8.95	29.83	68.6

	BOND	Amount Issued (Kshs. Bn)	Amount Received (Kshs. Bn)	Amount Accepted (Kshs. Bn)	% AA/AI	% AR/AI
Jun 2020	IFB1/2020/6	25.60	21.16	19.28	75.31	82.66
	FXD3/2019/5	40.00	60.89	16.53	41.33	152.22
	FXD4/2019/10		44.25	32.80	82.00	110.62
Jul 2020	FXD1/2020/05	60.00	65.34	9.34	15.57	108.90
	FXD2/2018/10		55.49	21.27	34.45	92.48
	FXD1/2019/15		60.95	50.24	83.73	101.58
	Tap Sale	40.00	40.26	41.01	102.53	100.65
Aug 2020	IFB1/2020/11	70.00	101.47	78.64	112.34	144.96
Sep 2020	FXD2/2010/15	50.00	17.84	11.02	22.04	35.68
	FXD1/2020/15		49.79	45.69	91.38	99.58
	FXD1/2011/20		14.04	7.47	14.94	28.08
Oct 2020	FXD 1/2011/20	50.00	23.16	16.99	33.98	46.32
	FXD 1/2018/25		45.98	43.03	86.06	91.96
Nov 2020	FXD 2/2013/15	40.00	27.10	26.22	65.55	67.75
	FXD 1/2018/20		28.88	27.49	68.73	72.20
Dec 2020	FXD 1/2012/15	40.00	9.26	8.55	21.38	23.15
	FXD 1/2019/15		15.08	9.71	24.28	37.70
Jan 2021	FXD 1/2021/002	25.00	61.15	55.86	223.44	246.20
	IFB1/2021/016	50.00	125.47	81.05	162.1	250.94
Feb 2021	FXD 2/2013/15	50.00	13.55	9.41	18.82	27.10
	FXD 1/2012/20		28.31	22.71	45.42	56.62
	Tap Sale	18.00	11.24	10.91	60.61	62.44
Mar 2021	FXD 1/2019/10	50.00	15.90	15.51	31.02	31.80
	FXD 2/2018/20		32.81	32.80	65.60	65.62

Source: CMA / NSE

Table 10: Summary of Annual Treasury and Corporate Bond Turnover (2019-2021)

	Treasury Bond Turnover (Kshs Bn)	Corporate Bond Turnover (Kshs Bn)	Total Bond Turnover (Kshs Bn)
2019	651.35	3.70	655.06
2020	690.58	1.18	691.76
2021	199.23	0.15	199.38

Source: CMA / NSE

The bond market turnover increased by 26.20 per cent with Kshs 199.38 Billion worth of bonds traded compared to Kshs. 157.99 Billion worth of bonds traded in the same period (Jan-March) for the year 2020. A further comparison of bonds market, treasury bond turnover concentrated the bonds market accounting to over ninety-nine per cent.

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

3.8.3 Corporate Bond issues

The Corporate bond market has been relatively dry. A resolution of the issues in the bonds market to address the issues of insolvency especially for bonds that have not been listed would go a long way in instilling confidence in corporate bond markets.

However, during the quarter, Centum Real Estate Company listed Sh3 billion project bond on the Nairobi Securities Exchange (NSE), allowing investors to trade the security before it matures in 2023.

The success of this bond issuance signals a recovery of the corporate bond market as well as giving a clear indication of the depth of the capital markets as a good avenue to fund well-structured and innovative instruments.

3.8.4 Performance of Listed Companies

Table 11: Price Gainers

Counter	31st Dec 2020	31st Mar, 2021	% change
BRITISH AMERICAN TOBACCO KENYA PLC	361.00	475.00	31.58%
HF GROUP PLC	3.32	4.01	20.78%
STANLIB FAHARI I-REIT	5.64	6.76	19.86%
EAAGADS LTD	12.50	14.30	14.40%
WILLIAMSON TEA KENYA LTD	130.25	147.00	12.86%
TPS EASTERN AFRICA LTD	16.00	17.95	12.19%
I&M HOLDINGS PLC	45.00	50.00	11.11%
EXPRESS KENYA LTD	3.61	4.00	10.80%
CROWN PAINTS KENYA PLC	38.00	41.90	10.26%
SAMEER AFRICA PLC	3.25	3.57	9.85%

Source: NSE

British American Tobacco (BAT)-Kenya [23]

According to BAT financial statements during the quarter, revenues for BAT net revenue was up by 5% to KSh 25.3 billion for the year ended 31 December 2020. As a result, the Board of Directors has proposed a final dividend in respect of the year ended 31 December 2020 of KSh 41.50 per share to be recommended for approval by shareholders at the Annual General Meeting to be held on 12 May 2021.

The final dividend, when added to the interim dividend already paid, gives a total dividend of KSh 45 per share. The dividend, which is subject to withholding tax, will be paid on 12 May 2021 to the shareholders on the register at the close of business on 16 April 2021.

BAT Kenya (Source: BAT)

Price Losers

During the quarter, generally, several listed companies share prices declined due to the difficult business environment as a result of impact of Covid-19. The hard economic environment impacted the performance of several listed companies and as a result, many issued cautionary profit warning statement.

Table 12: Price Losers

Counter	31st Dec 2020	31st Mar, 2021	% change
E.A. PORTLAND CEMENT CO.LTD	11.00	8.52	22.55%
KENYA POWER & LIGHTING CO LTD	1.71	1.35	21.05%
TRANS-CENTURY PLC	1.45	1.19	17.93%
UCHUMI SUPERMARKET PLC	0.28	0.23	17.86%
LONGHORN PUBLISHERS PLC	4.88	4.06	16.80%
EVEREADY EAST AFRICA LTD	1.20	1.00	16.67%
SANLAM KENYA PLC	12.95	10.80	16.60%
DIAMOND TRUST BANK KENYA LTD	75.00	62.75	16.33%
SASINI PLC	19.50	17.20	11.79%
WPP SCANGROUP PLC	6.00	5.40	10.00%

Source: CMA / NSE

[23] https://www.nse.co.ke/phocadownload/Daily-Downloads/Announcements/bat-kenya-plc---notice-of-agm-2021.pdf

6.0 Capital Markets Stability Soundness Indicators for the Period January – March 2021

Stability Indicator	Quarter/ Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Stability Implication
1.0 Equity Market Depth								
NSE 20 Index Volatility Base Year = 2010	**Q1.2021**	**Jan**	**Feb**	**March**	**Q.Avg**	**Medium (indicative – Low < 1% Medium: >1% high; >10%)**	During the quarter under review, the average NSE 20 Share Index volatility stood at **0.37%** slightly higher from previous quarter volatility of **0.35%**. Similarly, the NASI Index volatility for the quarter under review averaged at **0.62%,** compared to the Q4.2020 average of **0.52%.**	Volatility has been on a decline as the market gradually has adjusted to the covid-19 pandemic as a new normal with investors holding out their positions in view of predictability in dividend announcements and other corporate actions by listed companies especially in the telecommunications and banking sector.
		0.32%	0.36%	0.42%	0.37%			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		0.21%	0.44%	0.39%	0.35%			
	Q3.2020	**July**	**Aug**	**Sep**	**Q.Avg**			
		0.66%	0.70%	0.41%	0.59%			
	Q2.2020	**April**	**May**	**June**	**Q.Avg**			
		0.59%	0.77%	0.41%	0.59%			
NASI Volatility Base Year = 2010	**Q1.2021**	**Jan**	**Feb**	**March**	**Q. Avg**	**Medium (indicative – Low < 1% Medium : >1% high; >10%)**		
		0.49%	0.65%	0.71%	0.62%			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		0.35%	0.67%	0.55%	0.52%			
	Q3.2020	**July**	**Aug**	**Sep**	**Q.Avg**			
		0.73%	0.73%	0.43%	0.63%			
	Q2.2020	**April**	**May**	**June**	**Q.Avg**			
		1.01%	1.14%	0.51%	0.89%			

Turnover Ratio	**Q1.2021**	**Jan**	**Feb**	**March**	**Q. Avg**	**Low (indicative – annual: <8%-Low; >15% High)**	Turnover ratio for the first quarter of 2021 averaged at **0.43%,** recording a marginal increase from previous quarter average of **0.41%** with the month of March recording highest turnover value of **0.48%.**	The effect of the covid-19 pandemic has sustained low turnover ratios given the flight to alternative safer asset classes and adoption of the "wait and see approach by investors".
		0.37%	0.43%	0.48%	0.43%			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.27%	0.52%	0.45%	0.41%			
	Q3.2020	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.64%	0.51%	0.65%	0.60%			
	Q2.2020	**April**	**May**	**June**	**Q. Avg**			
		0.61%	0.68%	0.57%	0.83%			
2.0 Foreign Exposure Risk								
Foreign Investor turnover as a % of total turnover	**Q1.2021**	**Jan**	**Feb**	**March**	**Q. Avg**	**Medium (indicative – annual: <40%-Low; >90% High)**	The Foreign investor participation during the quarter under review **decreased significantly** by **5.60%** to close the period at **60.37%** compared to **65.97%** recorded in the previous quarter. This is the lowest figure recorded since the onset of Covid-19 in the country with the month of March recording **56.37%** foreign investor participation	Generally, the bourse has consistently experienced a net foreign outflow for all the four quarters under review. The notable foreign investor activity is attributable to cashing in on stocks whose prices had gone up ahead of book closures on dividends during the period under review.
		62.79%	61.96%	56.37%	60.37%			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		68.16%	67.97%	61.79%	65.97%			
	Q3.2020	**July**	**Aug**	**Sep**	**Q.Avg**			
		60.62%	65.14%	75.55%	67.10%			
	Q2.2020	**April**	**May**	**June**	**Q.Avg**			
		64.96%	65.38%	63.43%	64.59%			

Net Foreign Portfolio Flow (In KES Millions)	**Q1.2021**	**Jan**	**Feb**	**March**	**Q. Sum**	**High (indicative – annual: <Kshs (50million) -High (outflow; >KShs. 50 million High inflow)**	Net Foreign Portfolio for the quarter totaled to an outflow of **Kshs 976** Million compared to Q4. 2020 outflow sum of **Kshs 2,668 Million** With the month of January 2021 recording an inflow of **Kshs 621 Million.** Generally, the figures of 2021 signal an improvement from the huge outflows recorded last year, 2020.	
		621	(621)	(976)	**(976)**			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q.Sum**			
		(1128)	(1186)	(354)	**(2668)**			
	Q3.2020	**July**	**Aug**	**Sep**	**Q.Sum**			
		(5,339)	10	802	**(4528)**			
	Q2.2020	**April**	**May**	**June**	**Q.Sum**			
		(4,098)	(4,462)	(1,690)	**(10,250)**			

3.0 Market Concentration Risk

Market Concentration (Top 5 companies by market cap)	**Q1.2021**	**Jan**	**Feb**	**March**	**Q. Avg**	**High (indicative – annual: >50% High concentration)**	The top five companies by market capitalization remained high during the period under review with concentration on average during the quarter at **79.21%**, recording a **1.43%** increase from last quarters percentage of **77.78%.**	Market concentration remains a key risk within our market. The telecommunication sector (Safaricom) accounted for more than 50% of the market share with two sectors, Telecommunication, and banking sectors accounting for more than 80% of the total market share at the NSE during the quarter under review.
		78.56%	79.43%	79.65%	**79.21%**			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		77.20%	77.96%	78.19%	**77.78%**			
	Q3.2020	**July**	**Aug**	**Sep**	**Q.Avg**			
		75.61%	76.14%	77.03	**76.24%**			
	Q2.2020	**April**	**May**	**June**	**Q.Avg**			
		74.36%	75.53%	76.39%	**75.43%**			

4.0 Derivatives Trading Statistics

Total Volume (No. of contracts)

	Jan-21	Feb-21	Mar-21	Q4. Sum
25-Share Index	18	18	27	63
SCOM SSF	22	83	254	359
EQTY SSF	37	11	108	156
KCBG SSF	72	37	132	241
EABL SSF	22	67	41	130
BATK SSF	4	8	9	21
ABSA SSF	46	33	52	131
Total	**221**	**257**	**623**	**1,101**

Low

In the month of **January**, the total number of contracts traded were **221** compared to **257** in **February**. Noteworthy, **March** number of contracts traded increased significantly with over **140%** compared to previous month to close the month at **623 contracts**. The **Safaricom** SSF remained dominant accounting for **32.61%** of the contracts traded during the quarter, followed by KCB which accounted for **21.89%** contracts traded, Equity, ABSA, and EABL accounted for **14.17%, 11.90%,** and **11.81%** respectively.

Generally, number of contracts traded increased tremendously to a high record of **1,101 contracts** compared to previous quarter where **407 contracts** were traded representing a **170.52%** increase in contracts traded.

Gross Notional Exposure (GNE)[24]

	Jan-21	Feb-21	Mar-21	Q4. Sum
25-Share Index	6,225,800	6,483,000	9,838,800	22,547,600
SCOM SSF	767,200	3,111,900	9,612,000	13,491,100
EQTY SSF	1,357,950	414,600	4,347,750	6,120,300
KCBG SSF	2,619,300	1,383,900	5,172,550	9,175,750
EABL SSF	336,295	1,047,830	704,675	2,088,800
BATK SSF	155,770	349,000	413,870	918,640
ABSA SSF	429,070	315,830	482,310	1,227,210
Total	**11,891,385**	**13,106,060**	**30,571,955**	**55,569,400**

Low

The total value (Gross Notional Exposure) of contracts traded in the Quarter ended March 2021 totaled **Kshs. 55.57 Million** with the month of March accounting for that exposure by up to **55.02%.**

Generally, the total value of contracts traded increased significantly by **438.19%** totaling to **Kshs. 55.57 Million** during the quarter compared to **Kshs. 10.33 Million** recorded in the previous quarter.

Total Open Interest[25] (No. of Contracts)

	Jan-21	Feb-21	Mar-21	Q4. Avg
25-Share Index	3	4	1	3
SCOM SSF	25	54	66	48

Low

Surprisingly, ABSA which recorded the least open interest during the last quarter (Q4. 2020) had the most open interest contrast during the quarter (Q1. 2021) averaging to 59 contracts out of the total average open interest contracts of 216.

The derivatives market activity continually registers increasing activity especially from the beginning of last year. Year-to-date, the market turnover has registering over 100% growth over the same period in 2020 accounting for over Kshs 24.9 million in trades. The NSE integration with Refinitiv will serve to attract global investors to take up positions in the Kenyan derivatives market by availing data to the global investing market.

[24] Gross Notional Exposure = no. of Contracts * notional contract size * market price of underlying equity shares or index. The GNE is the value amount. It is the exact conversion of the derivative into the market value of an equivalent position in the underlying asset of that derivative.
[25] Open interest is the total number of outstanding derivative contracts that have not been settled or closed. It is a measure of market interest.

EQTY SSF	15	21	29	22
KCBG SSF	40	46	42	43
EABL SSF	55	49	17	40
BATK SSF	4	2	-	3
ABSA	68	58	50	59
Total	**210**	**234**	**205**	**216**

Safaricom came in second with 48 contracts, while KCB ranked third with 43 contracts. EABL was fourth with 40 contracts.

The BAT and 25-Share index contracts had the least, each recording an average of 3 open interest contracts during the quarter under review.

Settlement Guarantee Fund (SGF) Coverage[26] for Derivatives

	Jan-21	Feb-21	Mar-21
SGF	151,722,913	151,974,932	153,175,127.00
Average Mkt Value	625,862.37	655,303	1,114,392.61
SGF Coverage	**242 times**	**232 times**	**137 times**

Low

The SGF coverage ratio for the derivatives market for Q1. 2021 has been on a downward trajectory with the month of March 2021 being **137 times** compared to February and January **232 and 242 times,** respectively.

To maximize value from the SGF fund balances, there is deliberate effort by NSE to encourage increased activity by market intermediaries in this market for increased volumes of trade.

SGF Coverage of Clearing Member 1 and Clearing Member 2[27]

	Jan-21	Feb-21	Mar-21
SGF	151,722,913	151,974,932	153,175,127.00
Avg Value CM1	483,136.05	482,364.25	1,013,208.91
Avg Value CM2	142,726.32	172,938.75	101,183.70
SGF Coverage CM1	**314 times**	**315 times**	**151 times**
SGF Coverage CM2	**1,063 times**	**879 times**	**1,514 times**

Low

SGF Coverage for both clearing members remains sufficient with CM1 and CM2 recording coverage of **151 times** and **1,514 times** respectively in March 2021.

[26] *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.*
[27] *Total SGF Amount/Average value of the positions of CM1 and CM2.*

5.0 Government Bond Market Exposure

Treasury Bond market turnover Concentration	**Q1.2021**	**Jan**	**Feb**	**Mar**	**Q. Avg**	**High (indicative – annual: >50% High concentration)**	Treasury bond turnover marginally increased accounting for **99.95%** of the bonds market on average compared to the Q4. 2020 average of **99.78%.**	Treasury bonds during the quarter sustained high turnover as investors took positions on the basis of the safety of government paper. During the quarter, Centum Real Estate Company listed Sh3 billion project bond on the Nairobi Securities Exchange (NSE), allowing investors to trade the security before it matures in 2023. The success of this bond issuance signals a recovery of the corporate bond market as well as giving a clear indication of the depth of the capital markets as a good avenue to fund well-structured and innovative instruments.
		99.95%	100%	99.91%	**99.95%**			
	Q4.2020	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		99.90%	99.90%	99.55%	**99.78%**			
	Q3.2020	**July**	**Aug**	**Sep**	**Q.Avg**			
		99.99%	99.84%	100%	**99.94%**			
	Q2.2020	**April**	**May**	**June**	**Q.Avg**			
		99.95%	100.00%	100%	**99.98%**			

Corporate Bond Market ownership

Category	No of Trades	Amount Outstanding (Millions)	% of total share quantity
Local Investors	12	285.6	94.07%
Foreign Investors	0	0	5.62%
E. African Investors	0	0	0.30%
Total	**12**	**285.6**	**100%**

Source: CDSC Data as of March 2021

High (indicative – annual: >50% High concentration

Local Corporate bond investors were the leading investors in corporate bonds at **94.07%** of the total share quantity and the balance of **5.62%** being attributed to foreign investors while East African Investors accounted for **0.30%.**

In the corporate bond market segment, during the last quarter of 2020, CMA granted approval to Centum Real Estate Limited (Centum Re) to issue secured zero-coupon and secured zero-coupon equity-linked Medium-Term Notes of Kshs4 billion, with a green shoe option of Kshs2 billion. The offer, a restricted issue, targeted sophisticated investors who are sufficiently versed with the risks associated with the notes.

6.0 Investor Profiles - Equity Market

Equity Market

Type of Investor	No of Trades	Amount Outstanding (Millions)	% of total share quantity
Local Investors	105,915	951.15	47.47%
EA Investors	1,131	39.29	1.96%
Foreign Investors	20,051	1,012.63	50.54%
BR	53	0.4796	0.0239%
JR	14	0.0066	0.0003%
Total	**127,164**	**2,003.57**	**100%**

Source: CDSC Data as at December 2020

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

Local investors accounted for **47.47%** of total shares held in the equity market with **50.54%**, being the largest proportion, held by foreign investors as at the end of the quarter under review.

Foreign corporate entities and investors still hold over 50 per cent of the total equity market share quantity. Local investors have actively been ramping up their positions following exits by foreign investors post dividend declarations this quarter.

7.0 Settlement Compensation Coverage

Settlement Guarantee Fund (SGF) Coverage Ratio[28]

Q1.2021	Jan	Feb	Mar	Q. Avg
	2.49	2.06	2.13	2.23
Q4.2020	**Oct**	**Nov**	**Dec**	**Q.Avg**
	3.86	2.01	2.39	2.75
Q3.2020	**July**	**Aug**	**Sep**	**Q.Avg**
	1.66	2.08	1.64	1.79
Q2.2020	**April**	**May**	**June**	**Q.Avg**
	1.59	1.32	1.75	1.55

Source: CDSC Data as at October2020

Medium (indicative – annual: > 1 times, implies full coverage)

The SGF Ratio, computed as the ratio of SGF balances to daily average equity turnover for the quarter under review **marginally decreased to 2.23 times** from average of **2.75 times** recorded in the previous quarter, Q4. 2020.

The Guarantee Fund Settlement position closed the quarter healthily with total balance of over **Kshs 1.1 Billion.**

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.

8.0 Asset Base of Fund Managers, Stockbrokers, Investment Banks

Category	Total Assets	Total Liabilities	Net Assets
Fund Manager	6,240,469,348	1,585,220,766	4,655,248,583
Investment Advisor	972,627,408	247,526,367	725,101,041
Investment Bank	9,639,397,074	1,928,431,419	7,710,965,654
Online Forex Brokers (Non-Dealing)	620,932,257	443,565,845	177,366,412
Stockbroker	1,620,950,663	744,125,327	876,825,336

Medium (Indicative – the higher the figure, the more stable is the market)

The net assets base of Fund Managers, Stockbrokers, Investment Banks, Investment advisors and online forex brokers as at the end of December 2020 was, **Kshs 4,655 million ,Kshs 876.8 million,Kshs 7,710 million,Kshs 725 million and Kshs 177 million** respectively.

As part of its market deepening strategy, the Capital Markets Authority (CMA), with the support of FSD Africa, has onboarded a consultant to review the Capital Markets (Collective Investment Schemes) Regulations, 2001 to make them more robust and facilitative to market dynamics.