Capital Markets Soundness Report (CMSR)

Volume XXV Quarter 4 2022

"Digitalization in the Capital Markets"

Quarterly Publication of the Capital Markets Authority (Kenya)

Quarter 4 (October – December) 2022

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SPECIAL MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Esteemed Reader,

We are delighted to publish the **25th** edition of the Capital Markets Soundness Report (CMSR) **for the quarter ended 31st December 2022.**

This report analyses the soundness of the Kenyan capital markets, as influenced by global, regional, and domestic political, socio-economic developments.

This quarterly report comes at the end of year 2022, described by the IMF[1] as turbulent. The lingering Russia's-Ukraine crisis, re-emergence of Covid-19 in China, together with increasingly persistent food and energy inflation globally have heavily weighed on growth prospects during this quarter. I believe global economic growth rebound rests on a careful calibration of monetary and fiscal policy to tame run-away inflation, de-escalation of the Russia-Ukraine war and resolution of the global supply chain challenges. This coupled with the re-opening of China's economy offer a glimmer of hope of global economic recovery.

The World Bank Kenya Economic Update, December 2022, notes that the Kenyan economy remained resilient notwithstanding the global and domestic shocks, with GDP projected to grow by 5.2 percent on average in the financial year 2023–24. The effective implementation of the Government's Bottom-up Economic Blueprint will be key in delivering double digit economic growth.

I wish to laud the efforts by issuers of securities for the commendable efforts in applying the principles and recommendations contained in the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (CG Code). The Fifth Edition of the Report on the State

[1] https://www.imf.org/en/Blogs/Articles/2022/12/16/the-global-economy-turbulent-year-in-five-charts

of Corporate Governance for Issuers of Securities to the Public in Kenya (2022) noted that issuers adoption of corporate governance best practices had improved, with the weighted average score improving from the previous 70% to 72%. It is noteworthy, that the number of issuers in the leadership category (score of 75% and above) increased from 25 to 30; those in the good rating category (between 65% & 74%) increased from 8 to 12; those in fair rating (between 50% and 64%) decreased from 10 to 6; while those in the need's improvement rating (below 50%) increased from 5 to 6.

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

Happy Reading!

FCPA Wyckliffe Shamiah

CHIEF EXECUTIVE OFFICER

EDITORIAL

Greetings!

The 25th edition of the Capital Markets Soundness Report (CMSR) themed, **'Digitilization in the Capital Markets Blue Print'** details evolution in the delivery of capital markets products occasioned by the use of digital technologies. The special feature spotlights the impact of leveraging social media and online marketing in the offering of capital markets products.

The lingering Russia-Ukraine war, aggravated cost of living and energy crisis on the global front continue to persist as the most pressing economic risks. Consequently, global growth is forecast to decline to 2.7% in 2023 from 3.2% registered in 2022, with the World Bank warning that it could further weaken to below 2 percent.

Despite the gloomy economic prospects, global capital markets performance was encouraging with key capital markets indicators improving, evidencing the positive investor sentiments during the quarter. The MSCI World Index and Emerging Market Index increased by 9.89% and 9.79% respectively in US Dollar terms during the quarter under review.

With the global regulatory spotlight on the fraud cases in the crypto industry, there is a growing consensus on the need for regulatory oversight. The US SEC's action on the CEO of FTX, mirrors the actions by other regulators globally as they seek to intervene in the interest of investor protection. The FCA's intervention in the Contract for Difference (CFD) market following the loss of monies by over 80% of consumers in the United Kingdom, has focused on ensuring firms establish rules to protect against mis-selling of complex derivative products to retail investors, addressing inherent conflicts of interest with affiliates and protecting client assets.

In Ghana, the Government's suspension of all debt service payments under certain categories of their external debt, pending an orderly restructuring of the affected obligations; has dented investor confidence in the domestic capital market whilst limiting its access to international capital markets. The Ghana SEC is expected to play a critical role in supporting the Ghanaian Government's debt exchange program. This underscores the role of securities regulators in providing for innovative solutions engineered to support national debt management strategies.

The domestic capital markets remained sound amidst exogenous shocks. During the quarter, volatility for the three market indices NSE 20, NSE 25, and NASI reduced from 0.49%, 0.60%, and 0.89% to 0.42%, 0.46%, and 0.48% respectively. This may be attributed to the market having shaken off the post-election jitters, with no panic selling by investors, coupled with the slowing down of foreign investors trading. Volatility is projected to remain low as we head into 2023.

Estimates from regulatory filings by fund managers show that the number of retail investors participating in Unit Trusts has risen significantly to 300,000 over the past 10 years, driven mainly by use of technology in marketing, as well as approval of more fund managers and asset classes under umbrella Collective Investment Schemes (CIS) by CMA Kenya. This has led to a 5- fold increase in Assets Under Management (AUM) by CISs to more than Kshs 155 billion as at the end of this quarter, compared to the corresponding period in 2012.

The equity turnover ratio in Q4 reduced by over 29%, from 0.84% to 1.08%, reflecting lower market liquidity. Foreign investors who account for a significant contribution to equities turnover shied away from the Kenyan capital markets as they chased yields in safer jurisdictions. The foreign net equity outflow during the quarter however reduced to Kshs 4.87 billion compared with the Kshs 6.97 billion recorded in the previous quarter.

We conclude with the capital markets stability analysis with detailed trends on stability indicators including concentration and foreign portfolios flows.

Enjoy your read.

Mr. Luke E. Ombara

DIRECTOR, POLICY AND MARKET DEVELOPMENT

1. SPECIAL FEATURE: DIGITALIZATION IN THE CAPITAL MARKETS

Digitalization and the use of social media has fundamentally reshaped the way financial products are marketed and distributed; whereby capital markets players are provided with new channels to reach potential clients. This has most importantly served to ease access to a broad range of financial products particularly by retail investors. Robo advisers, online brokers (digital brokers), investment apps and web portals have multiplied the opportunities for retail investors to invest and trade in securities.

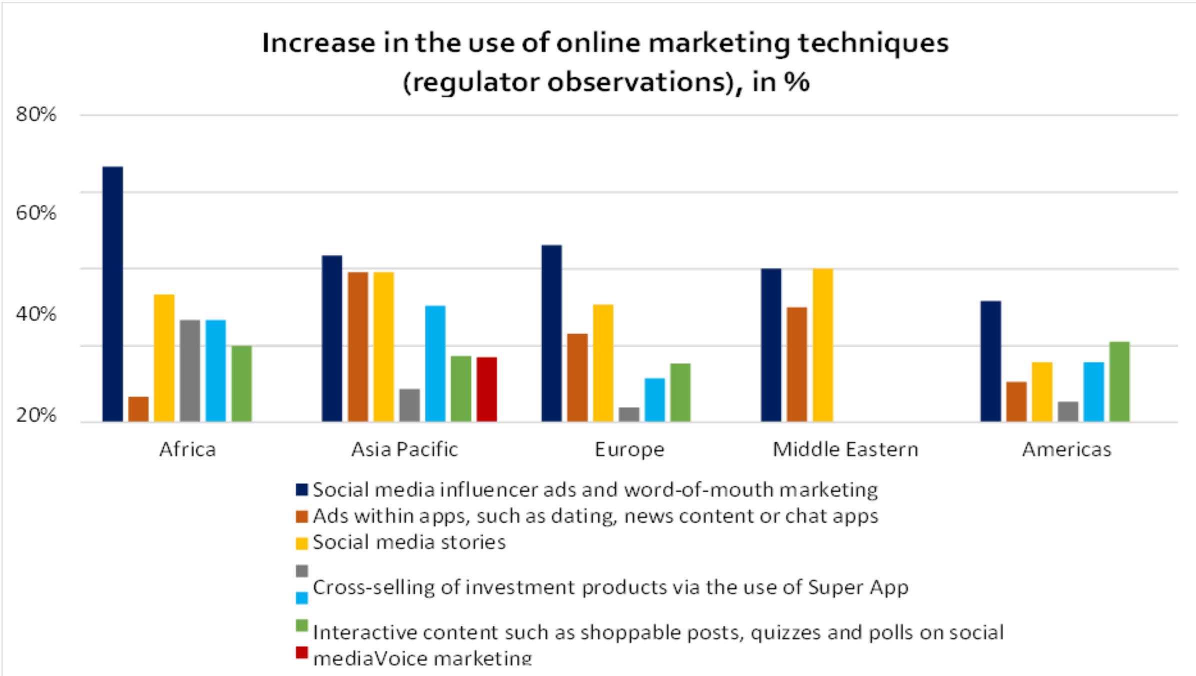
Digitalization[2] is "the use of digital technologies to change a business model and provide new revenue and value-producing opportunities; it is the process of moving to a digital business." It is distinct from digitization which is the act of transforming anything non-digital into a digital representation that computer systems may utilize to automate operations or workflows.

With increased digitalization, various risks have emerged arising from the fast-paced nature of continuous innovation, the use of emerging digital technologies and the complexity of capital markets products and services that has not been accompanied by a proportionate increase in financial consumer education. In this increasingly digitalized environment, a big challenge for firms is how they can market their products without causing investor harm.

Online marketing is a fast-growing phenomenon as firms are increasingly relying on digital tools to increase sales. It consists of tools and methodologies that promote goods and services through the internet.

[2] https://theecmconsultant.com/digitization-vs-digitalization/

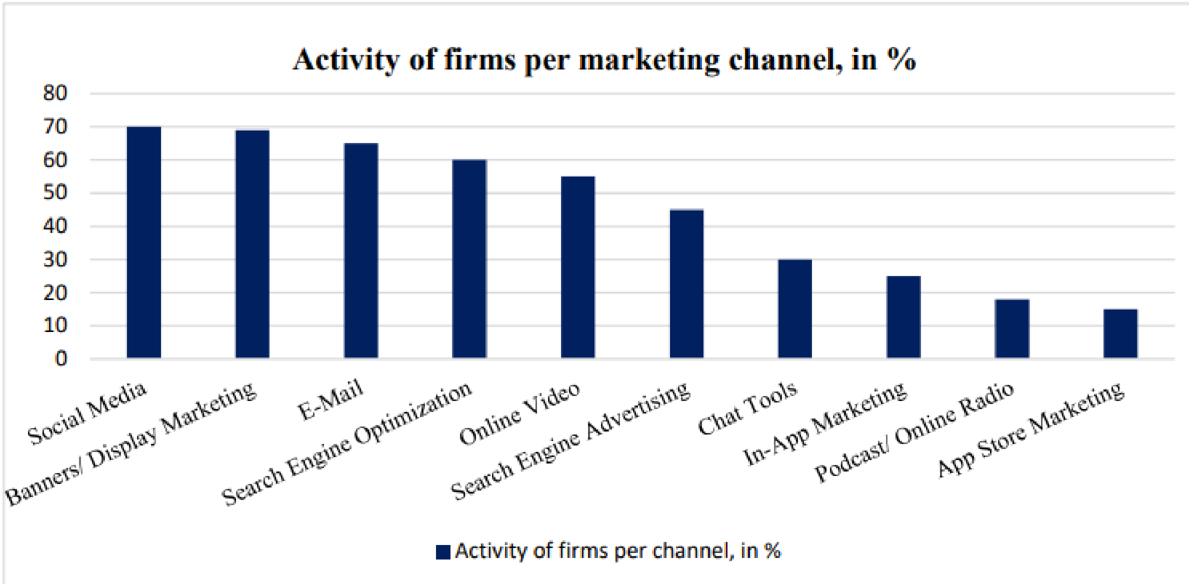
FIGURE 1: ONLINE MARKETING TECHNIQUES



Source: IOSCO Report on Retail Distribution and Digitalization (October 2022)

Market intermediaries reported using a wide range of tools and channels for online marketing with social media and banners/display marketing ranking the highest, as two-thirds of the firms make use of these channels. Furthermore, more than half of the licensed firms use email campaigns, search engine optimalisation and online video marketing. According to IOSCO survey findings, app store marketing and voice marketing are the least commonly used. Although 63% of the surveyed firms have an app, they tend to advertise their apps through other means, such as banner/display marketing.

FIGURE 2: PERCENTAGE OF MARKETING ACTIVITY PER CHANNEL BY FIRMS



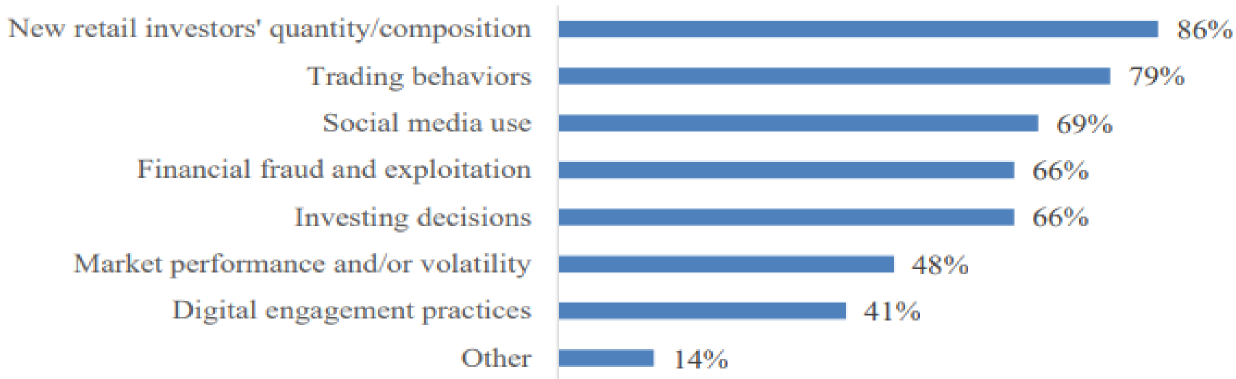
Source: IOSCO Report on Retail Distribution and Digitalization (October 2022)

Influencer marketing is the most common means of advertising financial products and services and is expected to experience the highest growth as a marketing tool. IOSCO members noted that one challenge with influencer marketing is that they only had jurisdiction over market intermediaries and their associates, but not over influencers. Additionally, remuneration structures of influencers are not transparent and there is a risk that they are not familiar with the applicable legislation despite enabling access of information on finance and investing.

Social media is a commonly used marketing tool due to its enormous reach, flexibility, convenience and speed. As social media operates beyond the traditional channels used by licensed firms in the past, it raises concerns about the nature of its use and impact on customers, for example the possibility of information to spread on the internet at a high speed while not being reliable. This poses various challenges for firms' internal compliance units and might expose investors to behavioural biases. To address this, the report recommended that subject to a jurisdiction's law and regulations, management should be responsible for accuracy of information provided to potential investors and timely disclosure of necessary information regarding potential risks and conflicts of interest to avoid potential financial consumer harm.

In another survey[3] conducted during the Covid-19 period assessing the impact of Covid -19 on Investor Behaviour and Investor Education, about 69% of regulators observed changes in social media use, with many reporting that it had gained popularity as an information source, particularly among young investors.

FIGURE 3:REGULATORS' OBSERVED CHANGES DURING THE COVID-19 CRISIS



Source: IOSCO Report on Investor Behaviour and Investor Education in Times of Turmoil (November 2022)

The identified potential risks with respect to online marketing are the likelihood of firms to track, experiment with and exploit investor biases, unsolicited online offerings and/or offers targeting an inappropriate market segment, push towards unsuitable products or strategies through online marketing procedures and privacy issues faced by financial consumers such as unauthorized use of personal data. IOSCO has proposed a regulators' policy toolkit to help address the risks highlighted above.

[3] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD724.pdf

TABLE 1: IOSCO REGULATORS POLICY TOOLKIT

POLICY MEASURE	HIGHLIGHTS
Market intermediaries level rules for online marketing and distribution	Market intermediaries should have proper internal rules, policies, processes and tools for their online marketing and distribution, and review them on a regular basis.
Market intermediaries level rules for online onboarding	Market intermediaries must apply appropriate filtering mechanisms, policies and procedures for financial consumer onboarding in line with the laws and regulations of the firms' jurisdiction, the financial consumers' jurisdiction, and the jurisdiction where the products or services are being marketed or distributed.
Responsibility for online marketing	The management of market intermediaries assumes responsibility for the accuracy of the information provided to potential investors on behalf of the firm, including those provided via various social media channels, including influencers, and the timely disclosure of necessary information regarding potential risks and conflicts of interest to avoid potential financial consumer harm.
Capacity for surveillance and supervision of online marketing and distribution	Regulators should consider whether they have the necessary powers and have adequate supervisory capacity to oversee an increasing volume of online marketing and distribution activity.
Staff qualification and/or licensing requirements for online marketing	Market intermediaries should assess the necessary qualifications for digital marketing staff and have staff qualifications and/or licensing requirements for online marketing staff, similar to the licensing requirements for sales staff.
Ensuring compliance with third country regulations	Where Market intermediaries may have clients from jurisdictions other than where they hold a license, the firm's home regulator should consider requiring their domestic firms to have adequate policies and procedures for onboarding these clients.
Clarity about legal entities using internet domains	Market intermediaries, when they offer products through multiple internet domains, should adopt policies and procedures requiring clear, fair and not misleading disclosure about who the underlying legal entity is offering the product and under what license (and from which jurisdiction).

Source: I IOSCO Report on Retail Distribution and Digitalization (October 2022)

Regarding regulation, IOSCO members cited factors that increase challenges in the supervision of online marketing and distribution by licensed firms such as lack of visibility, overload of information, continuously changing information and cross- border challenges (where unlicensed firms target foreign investors). IOSCO proposed that regulators should enhance their capacity for surveillance and supervision for online marketing and distribution by developing legal frameworks that give power to request access to content to detect illegal or misleading promotions, having regulatory channels in place that enable consumers to lodge their complaints and suitable evidence tracking processes to be at par with the dynamic nature of online information.

IOSCO members experience investigatory and enforcement challenges related to digital marketing and distribution. Social media and the internet, display unique features that make it difficult to achieve credible deterrence. Investigations can also be costly and time consuming and can be particularly challenging where new complex products such as crypto assets are used.

To assist members with their enforcement mandate, IOSCO has proposed an enforcement toolkit which provides for proactive technology-based detection and investigatory techniques, powers to promptly take action where websites are used to conduct illegal securities and derivatives activity, enhancing efficient international cooperation and liaising with criminal authorities and other partners, promoting enhanced understanding and collaboration with electronic intermediary services in curbing illegal digital activities.

In the domestic market, a number of firms have leveraged on technology to avail capital markets related products to investors. Four of these firms were admitted and successfully graduated into the Capital Markets Authority (CMA) Regulatory Sandbox.

Innova Limited

Innova is a Kenyan specialized fintech company that leverages on technology to provide solutions to the Financial and Capital Markets across 16 countries in Africa with over 50 clients ranging from Fund and Unit Trust Managers, Investment Banks, Custodian Banks and Central Banks. Through admission to the Regulatory Sandbox, the firm sought to pilot a Cloud-Based Automated Reporting Platform that would fully automate the current manual process of Regulatory

Reporting and submission to the CMA by licensees. Secondly Innova sought to provide Regulatory (RegTech) and Supervisory (SupTech) Capabilities that enable the Authority real-time oversight of Licensees, including compliance. Finally, the firm intended to provide Risk Based, Statistical, and Predictive Modelling tools for further analysis of Portfolios.

Innova admission to the Regulatory Sandbox provided a conducive environment for the firm to pilot the automated platform over a period of 22 months. During this period, Innova collaborated with 15 capital market Stakeholders to test and pilot the Platform, including Fund Managers, Custodians, Actuaries and the Capital Markets Authority.

The success of the Platform attracted the attention of the Securities and Exchange Commission (SEC) of Zambia who were facing similar challenges. Consequently, Innova successfully piloted the same Platform with Fund Managers and Custodians in Zambia including the SEC. The piloting of the automated platform resulted in a significant reduction in the time it takes licensees to submit Regulatory Reports to the Authority whereby, previously it took at least 3 weeks to prepare and submit the regulatory reports and currently licensees can submit these reports within a day. Additionally, there was a significant reduction in errors due to the automation of submission of reports, real-time supervisory capabilities for the Regulator, efficient reconciliation between various stakeholders such as Fund Managers and the Custodians and ability to analyse licensee portfolio compliance with the regulatory guidelines and flag those portfolios that are in breach of the guidelines by providing alerts to the stakeholders. Innova therefore continues to play a pivotal role in deepening the Capital Markets by being a Technology Enabler and Solution Provider.

Chumz App

Chumz is a goal based saving and investment platform that utilises behavioural finance to guide users on when and how to save and invest. It enables saving and investing as low as KES 5 by an individual or by a group of individuals via mobile money.

The behavioural savings and investment aspect means the app can guide users on when to save based on their behaviour. For example, clients on the app get saving alerts via the app on Fridays evening to remind clients to save before the weekend spending. For android users, the app can ask whether the users want to save some money based on their mobile money spending habits.

Since the Chumz app licensing in mid-August 2022, the firm has amassed over 50,000 registered users. Clients have transacted over Kshs 300Million in under 10 months with over 60% of the deposits below 1000. The platform has grown immensely over the period with 63% of the users being female. The majority of participants are between the age of 18-36 accounting for 70% of all users. Unique nuances of savings include goal oriented savings for instance school fees, saving for emergency purposes, business and for insurance.

According to Samuel Njuguna, the CEO of Moneto Ventures Limited, the company that owns Chumz, most Kenyans do understand the value of saving and investing. To invest and save consistently there is need to build a habit grounded in a savings culture and empower individuals with tools that guide in savings and investments and financial behaviour guides on when and how to save and invest resulting in a saving and investment culture that is currently lacking.

FourFront Management

FourFront Management is a digital company, which offers high quality investment advisory, financial planning, and investment knowledge to citizens who have moderate value investment amounts and are looking to develop into successful investors. The FourFront team pioneered mobile trading in 2009 under the brand Easy Hisa. The firm has identified four key success metrics to determine investment success of the retail investor.

The first metric focuses on a retailer's ability to know when and what to buy or sell on the Exchange whereby results are measured by the number of missed investment opportunities. The second metric revolves around a retailer knowing how to make money on the Exchange and the results are measured in terms of return from investment. FourFront deliver investor education cost effectively and individually. The third metric focuses on the ability to achieve high retailer participation and block negotiation with institutional investors on the Exchange. FourFront Retail investors have been able to negotiate block trades with institutional investors which has in return enabled retail investors to have the same opportunity for block prices and further enhance their profit opportunity. In this case results are measured by the number of retail participants in a trading event. The last metric revolves around short-selling which is seen as an investment opportunity and the result are measured by the number of short selling opportunities in a year. FourFront retail investors are able to make money when prices fall. This significant milestone is a combination of investor education, sophisticated algorithm, market timing, efficient electronic communication and coordination with High-Net-Worth counterparties.

Hisa App

On 25th November 2021, Hisa Technologies, in partnership with Faida Investment Bank and Drive Wealth LLC, received a no-objection approval from the Capital Markets Authority to launch the trading of fractional US Stocks and Exchange Traded Funds (ETFs). Since then, Hisa technologies has made tremendous progress. Products available on the platform have increased to include Kenyan stocks, US REITs and Mutual Funds. Furthermore, the firm has partnered with CDSC to allow Hisa users to be able to access their portfolios. More importantly, Hisa Technologies continues to educate retail investors about investing in regulated products through the content they generate both in the app and also on our digital marketing channels.

Through the support of the CMA, Hisa have been able to partner with more institutions to expand the product offered on Hisa. For instance, the firm recently partnered with the Central Depository & Settlement Corporation to allow users to seamlessly open CDSC accounts via Hisa application, therefore, cutting down the time taken for retail investors to start investing to just a few hours. Since launch, Hisa technologies has managed to sign up 20,000 retail investors who have traded over KES 120 million on the platform.

Licensed Collective Investment Schemes

Regulatory filings by licensed fund managers indicate that approximately 300,000 new retail investors have invested in CMA-approved Unit Trusts as of September 2022, compared to September 2012 when only 84,000 retail investors had been onboarded in these investment vehicles. This significant increase not only explains the important role of digitilization in driving up uptake of products but suggests that retail investors continue to participate in the mainstream capital markets but with preference for professional managers to take care of their investments.

CMA Action Plan

CMA Kenya, the NSE and other key market stakeholders have been embracing digitalization in promoting market uptake and investor protection in the recent past. A joint digitization strategy is to be developed and implemented by CMA, NSE, Kenya Association of Stockbrokers and Investment Banks (KASIB) and Central Depository and Settlement Corporation (CDSC) in the first quarter of 2023 to step up the campaign to encourage licensed firms to offer capital markets products and retail investors to take up the products via digital channels.

Licensees utilizing online marketing will be encouraged to adopt measures to minimize investment harm to retail investors when offering their products and services through digital platforms, in addition to existing provisions of the Capital Markets (Conduct of Business), Regulations for market intermediaries. This will be guided by the IOSCO toolkit, where applicable.

There will however be need to provide for some rules to govern influencer marketing especially when they provide financial advice without an appropriate license. This is an area of growing concern especially the use of celebrity advertising via social media platforms.

The use of appropriate technology-based monitoring tools and approaches such as social media scrapping software, will support the detection and investigation of potentially illegal digital conduct. This will be matched with timely issuance of public warnings and the use of cease-and-desist warnings where appropriate.

2. INTERNATIONAL DEVELOPMENTS

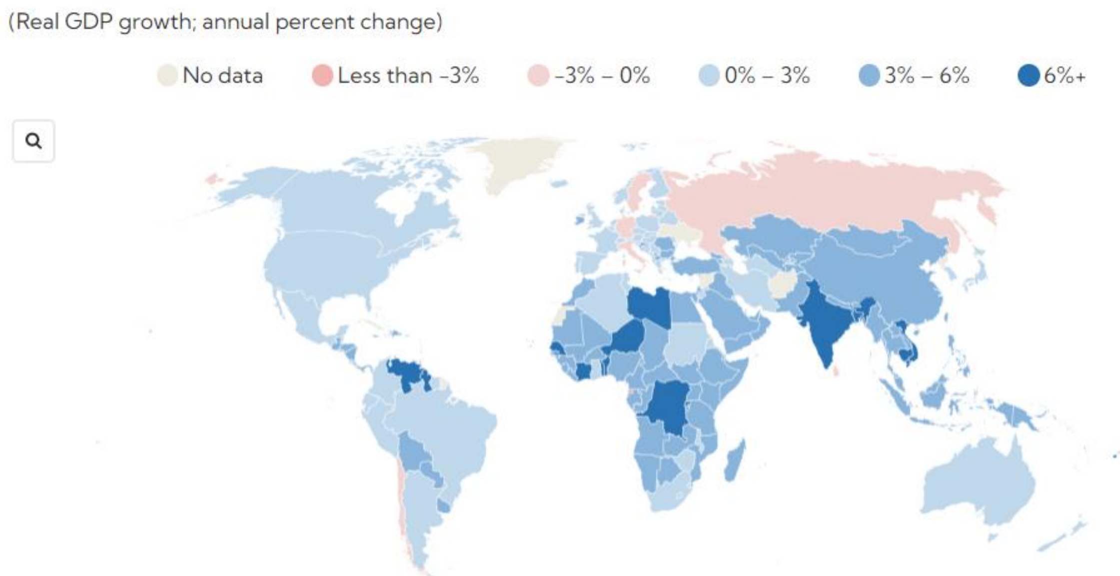
2.1 The Global Economic and Capital Market Performance Outlook

This quarterly report comes at the end of year 2022 described by the IMF[4] as a turbulent year. The lingering Russia's-Ukraine crisis, re-emergence of covid-19 in China together with increasingly persistent food and energy inflation globally; have heavily weighed on economic

[4] https://www.imf.org/en/Blogs/Articles/2022/12/16/the-global-economy-turbulent-year-in-five-charts

growth prospects during this quarter. With the world slowly rebounding from the covid-19 pandemic the recent economic risks portend a gloomy outlook for 2023.

FIGURE 4: ECONOMIC FORECAST 2023



Source: IMF World Economic Outlook, October 2022

It is against this backdrop that global policy makers[5] have sounded out warnings on the fears of a third of the world heading into recession in 2023. Global growth is forecasted to decline to 2.7% in 2023 from 3.2% registered in 2022 with the World Bank noting that it could further weaken to below 2%. With the main engines of global growth, Europe, China and the United States experiencing declining growth, 2023 is to be projected as a tough economic year for emerging and frontier markets.

[5] https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022

FIGURE 5: OVERVIEW OF THE WORLD ECONOMIC OUTLOOK PROJECTIONS

		Projections		Difference from July 2022 WEO *Update*[1]		Difference from April 2022 WEO[1]	
	2021	2022	2023	2022	2023	2022	2023
World Output	**6.0**	**3.2**	**2.7**	**0.0**	**–0.2**	**–0.4**	**–0.9**
Advanced Economies	**5.2**	**2.4**	**1.1**	**–0.1**	**–0.3**	**–0.9**	**–1.3**
United States	5.7	1.6	1.0	–0.7	0.0	–2.1	–1.3
Euro Area	5.2	3.1	0.5	0.5	–0.7	0.3	–1.8
Germany	2.6	1.5	–0.3	0.3	–1.1	–0.6	–3.0
France	6.8	2.5	0.7	0.2	–0.3	–0.4	–0.7
Italy	6.7	3.2	–0.2	0.2	–0.9	0.9	–1.9
Spain	5.1	4.3	1.2	0.3	–0.8	–0.5	–2.1
Japan	1.7	1.7	1.6	0.0	–0.1	–0.7	–0.7
United Kingdom[2]	7.4	3.6	0.3	0.4	–0.2	–0.1	–0.9
Canada	4.5	3.3	1.5	–0.1	–0.3	–0.6	–1.3
Other Advanced Economies[3]	5.3	2.8	2.3	–0.1	–0.4	–0.3	–0.7
Emerging Market and Developing Economies	**6.6**	**3.7**	**3.7**	**0.1**	**–0.2**	**–0.1**	**–0.7**
Emerging and Developing Asia	7.2	4.4	4.9	–0.2	–0.1	–1.0	–0.7
China	8.1	3.2	4.4	–0.1	–0.2	–1.2	–0.7
India[4]	8.7	6.8	6.1	–0.6	0.0	–1.4	–0.8
ASEAN-5[5]	3.4	5.3	4.9	0.0	–0.2	0.0	–1.0
Emerging and Developing Europe	6.8	0.0	0.6	1.4	–0.3	2.9	–0.7
Russia	4.7	–3.4	–2.3	2.6	1.2	5.1	0.0
Latin America and the Caribbean	6.9	3.5	1.7	0.5	–0.3	1.0	–0.8
Brazil	4.6	2.8	1.0	1.1	–0.1	2.0	–0.4
Mexico	4.8	2.1	1.2	–0.3	0.0	0.1	–1.3
Middle East and Central Asia	4.5	5.0	3.6	0.2	0.1	0.4	–0.1
Saudi Arabia	3.2	7.6	3.7	0.0	0.0	0.0	0.1
Sub-Saharan Africa	4.7	3.6	3.7	–0.2	–0.3	–0.2	–0.3
Nigeria	3.6	3.2	3.0	–0.2	–0.2	–0.2	–0.1
South Africa	4.9	2.1	1.1	–0.2	–0.3	0.2	–0.3
Memorandum							
World Growth Based on Market Exchange Rates	5.8	2.9	2.1	0.0	–0.3	–0.6	–1.0
European Union	5.4	3.2	0.7	0.4	–0.9	0.3	–1.8
Middle East and North Africa	4.1	5.0	3.6	0.1	0.2	0.0	0.0
Emerging Market and Middle-Income Economies	6.8	3.6	3.6	0.1	–0.2	–0.2	–0.7
Low-Income Developing Countries	4.1	4.8	4.9	–0.2	–0.3	0.2	–0.5
World Trade Volume (goods and services)	**10.1**	**4.3**	**2.5**	**0.2**	**–0.7**	**–0.7**	**–1.9**
Imports							
Advanced Economies	9.5	6.0	2.0	–0.2	–0.8	–0.1	–2.5
Emerging Market and Developing Economies	11.8	2.4	3.0	1.3	–0.3	–1.5	–1.8
Exports							
Advanced Economies	8.7	4.2	2.5	–0.3	–1.0	–0.8	–2.2
Emerging Market and Developing Economies	11.8	3.3	2.9	0.1	–0.4	–0.8	–0.7
Commodity Prices (US dollars)							
Oil[6]	65.9	41.4	–12.9	–9.0	–0.6	–13.3	0.4
Nonfuel (average based on world commodity import weights)	26.3	7.3	–6.2	–2.8	–2.7	–4.1	–3.7
World Consumer Prices[7]	**4.7**	**8.8**	**6.5**	**0.5**	**0.8**	**1.4**	**1.7**
Advanced Economies[8]	3.1	7.2	4.4	0.6	1.1	1.5	1.9
Emerging Market and Developing Economies[7]	5.9	9.9	8.1	0.4	0.8	1.2	1.6

Source: IMF

Global economic growth resurgence rests on a careful calibration of monetary and fiscal policy to tame run-away inflation, de-escalation of the Russia-Ukraine war and resolution of the global supply chain challenges. This coupled with the re-opening of China's economy offer a glimmer of hope of global economic recovery. With the increasing cost of living crisis being felt globally there is need for targeted fiscal support for the vulnerable to ward of the negative effects of persistent inflation.

Global Capital Markets

Global capital markets felt the heat from the Russia-Ukraine crisis, disruptions in global supply chains, the lingering Covid-19 crisis, and the persistent surge in inflation amongst other shocks. Investor sentiments seem to have been battered by exogenous shocks which have left securities markets unattractive. With the poor valuations arising from negative investor sentiments on economic recovery, entities remain averse to coming to the market with securities offerings generally.

FIGURE 6: 2022 IPO REPORT

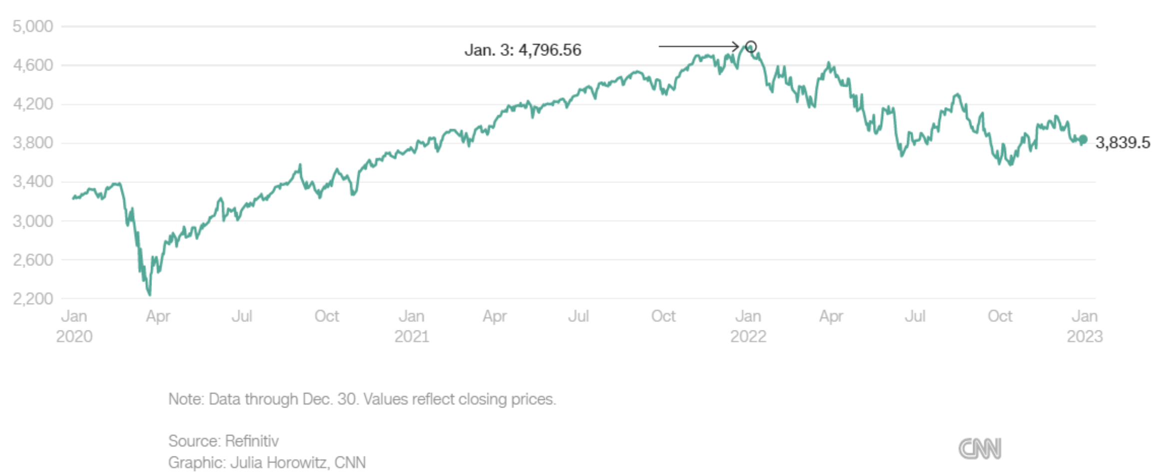
Global	2022	2021	% change
Number of IPOs	1,333	2,436	-45%
Proceeds (US$b)	179.5	459.9	-61%
Americas	2022	2021	% change
Number of IPOs	130	532	-76%
Proceeds (US$b)	9.0	174.5	-95%
Asia-Pacific	2022	2021	% change
Number of IPOs	845	1,148	-26%
Proceeds (US$b)	120.6	175.4	-31%
EMEIA	2022	2021	% change
Number of IPOs	358	756	-53%
Proceeds (US$b)	49.9	110.0	-55%

Source: Ernst & Young

Global equity markets registered high volatility in 2022 due to the sustained aggressive monetary tightening by central banks globally[6], increased bond yields and geopolitical risks. While the MSCI Emerging Markets index lost 19.74% YTD in 2022, some developed markets saw benchmark indices declining in the range between 9-20%.

The S&P 500, the top index of United States equity securities, sank from an all-time high registered in January 2022. The index declined 10 points, or 0.3% to close at 3,840, leaving it down 19.4% for the year — its worst loss since the financial crisis 14 years ago.

FIGURE 7: S&P 500 PEFORMANCE 2022

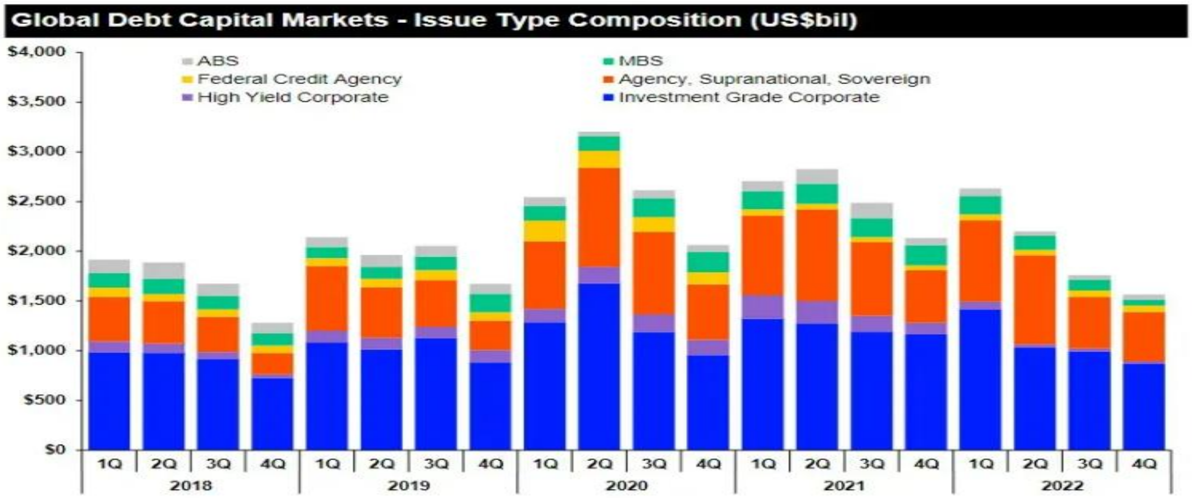


Source: Refinitiv

The fixed income markets too faced a tough year on the back of the effects of run-away inflation, appreciation of the dollar and sustained interest rates hikes. Global debt markets activity declined by 19% compared to the year 2021 totaling $8.3 trillion during full year 2022 with the number of new fixed income offerings slowing down by 12% compared to debt offering transaction values of 2021 totaling to 26,625[7] deals.

[6] https://economictimes.indiatimes.com/wealth/invest/where-to-invest-in-2023-4-sectors-to-consider-and-2-to-avoid/articleshow/96638269.cms
[7] https://www.zawya.com/en/markets/fixed-income/global-debt-capital-markets-activity-and-green-bond-issuance-decline-19-cb8xwona

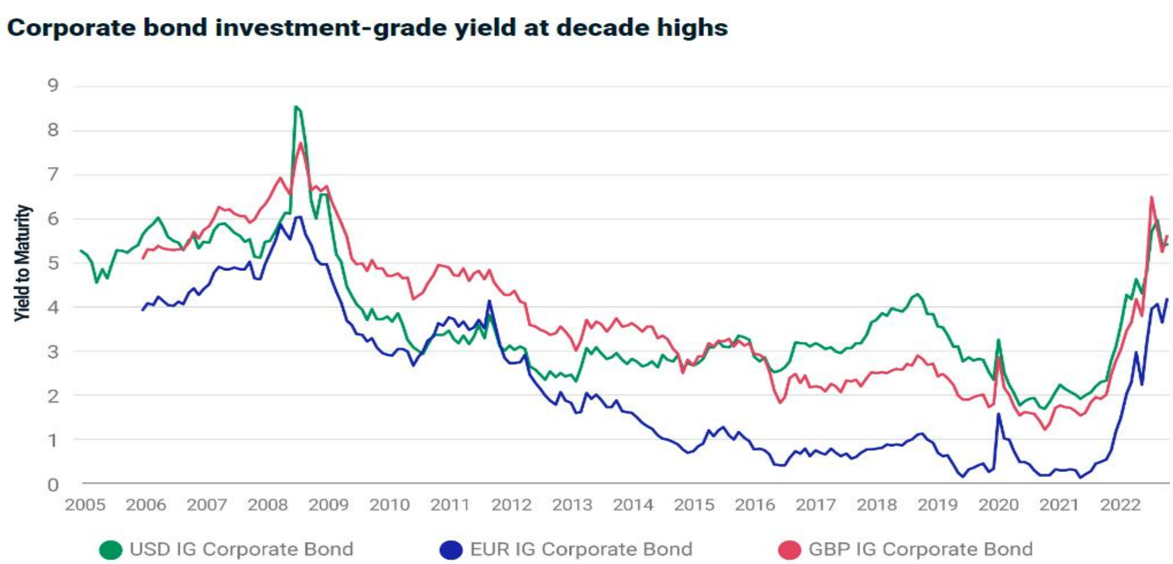
FIGURE 8: GLOBAL DEBT CAPITAL MARKETS ISSUANCE 2022



Source: Zawya.com, Refinitiv

The aggressive interest rate hikes by central bankers across Europe and in the United States increased the borrowing costs for corporates which weighed heavily on their corporate earnings.

FIGURE 9: SAMPLE CORPORATE BONDS YIELDS 2022



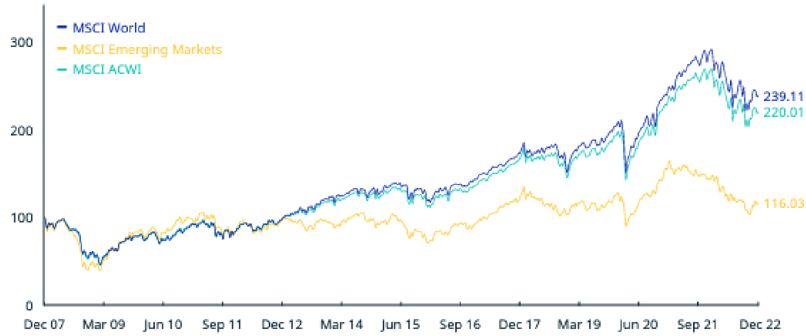
The chart shows the yield-to-maturity of the MSCI USD IG Corporate Bond Index, MSCI EUR IG Corporate Bond Index and MSCI GBP IG Corporate Bond Index. From Mar. 31, 2005, to Dec. 31, 2022 (from March 31, 2006, for EUR and GBP)

Source: MSCI Index

Global capital markets registered positive returns with the MSCI World Index and Emerging Market Index improving by 9.89% and 9.79% respectively in United States Dollar terms, for the quarter ending 31st December 2022.

FIGURE 10: MSCI INDEX EMERGING MARKETS

CUMULATIVE INDEX PERFORMANCE — GROSS RETURNS (USD) (DEC 2007 – DEC 2022)



ANNUAL PERFORMANCE (%)

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

INDEX PERFORMANCE — GROSS RETURNS (%) (DEC 30, 2022)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987
MSCI World	-4.21	9.89	-17.73	-17.73	5.45	6.69	9.44	7.85
MSCI Emerging Markets	-1.35	9.79	-19.74	-19.74	-2.34	-1.03	1.81	9.49
MSCI ACWI	-3.90	9.88	-17.96	-17.96	4.49	5.75	8.54	7.71

FUNDAMENTALS (DEC 30, 2022)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI World	2.21	17.05	15.03	2.67
MSCI Emerging Markets	3.36	12.20	11.29	1.57
MSCI ACWI	2.34	16.32	14.50	2.47

INDEX RISK AND RETURN CHARACTERISTICS (DEC 30, 2022)

		ANNUALIZED STD DEV (%) 2			SHARPE RATIO 2, 3				MAXIMUM DRAWDOWN	
	Turnover (%) 1	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987	(%)	Period YYYY-MM-DD
MSCI World	2.14	20.72	18.09	14.52	0.32	0.38	0.64	0.37	57.46	2007-10-31—2009-03-09
MSCI Emerging Markets	5.06	20.55	18.83	16.71	-0.05	-0.03	0.14	0.38	65.14	2007-10-29—2008-10-27
MSCI ACWI	2.38	20.14	17.71	14.31	0.28	0.33	0.59	0.36	58.06	2007-10-31—2009-03-09

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

Source: MSCI

Africa's Capital Markets

Noteworthy across Africa, select equity markets have registered negative returns during this quarter with only Botswana, Nigeria, Tunisia, Mauritius and Zimbabwe registering positive returns as global investors seek return in treasuries and corporate bonds in developed markets where interest rates have increased.

TABLE 2:PERFORMANCE ACROSS SELECT AFRICAN MARKETS -MSCI

MSCI Index	Last	Day	MTD	3MTD	YTD
BOTSWANA	166.809	0.13%	0.77%	1.15%	-17.59%
KENYA	1,104.361	-0.03%	-1.80%	-3.16%	-34.04%
MOROCCO	220.951	-2.12%	-0.74%	-5.38%	-34.07%
NIGERIA	67.978	-0.66%	3.23%	3.05%	-9.41%
SENEGAL	637.184	-1.56%	7.18%	14.20%	2.08%
TUNISIA	753.944	-0.15%	5.46%	-7.65%	-19.27%
ZIMBABWE	953.903	4.57%	63.54%	38.83%	-64.87%
MAURITIUS	646.670	0.85%	-1.37%	1.26%	-6.18%

Source: MSCI

Top Global Risks and Opportunities During the Quarter

The Q4 2022 Capital Markets Soundness assessment notes the following key risks and opportunities arising from the developments on the global, regional, and domestic front.

Key Risks Identified

I. ***Fears of a projected global economic slowdown will weigh down prospects of economic recovery across the globe. This is on back of projected weakening economic growth simultaneously across the United States, China and Europe. The IMF currently projects global growth to be at 2.7% this year, slowing from 3.2% in 2022. Whilst China's re-opening of its economy offers glimmers of hope the rise of Covid-19 cases may dim the global economic recovery prospects. This may impact on Kenya's economic rebound momentum arising from declining demand for Kenya's key exports and low tourism levels due to the downturn in global economic activities.***

II. ***The lack of adequate foreign exchange to enable foreign investors to uptake capital markets products and repatriate returns has been highlighted as a key issue of concern by the capital markets industry. This has been exacerbated by perception of*** *long lead times in investor onboarding especially in the opening of CDS accounts and requirements to have a Personal Identification Number (PIN).*

III. *Climate change risks persist with Kenya registering below-average rainfall for four successive seasons, the country is currently experiencing one of the longest droughts in the last 40 years in the Arid and Semi-Arid regions (ASAL).* The *devastating impact on agricultural production and water availability has negatively impacted on food security. Households are increasingly spending more on food shrinking the available investable funds.*

IV. *Sustained interest rate hikes remain a top risk with a direct impact on the attractiveness of Kenya capital markets. With the IMF in a press release noting that investors expect central banks to raise global monetary-policy rates to almost 4 percent through 2023—an increase of more than 2 percentage points over their 2021 average to tame persistent inflation; Global investors will shy away from emerging and frontier capital markets as they chase yields in the developed economies. There will be declining foreign investor participation in frontier countries capital markets including Kenya as we enter 2023 until inflation is tamed followed by a normalization of monetary policy.*

Key Opportunities

I. *The capital markets industry should proactively adopt the distribution of capital markets products via digital and electronic channels to ride on the wave of mobile phone penetration. The total number of mobile phones connected to mobile networks as of 30th June 2022 was 59.7 million, with the mobile money subscribers standing at 37 million. The Authority to continue supporting fintech's that seek to promote the uptake of capital markets products especially by domestic retail investors.*

II. *The capital markets industry to revamp its foreign investor awareness program to market Kenya as an attractive investment destination with diverse listed equity and debt securities that continue to offer attractive competitive returns.*

Stability Implication

Favorable conditions seem to be set in place to avert a global economic downturn in 2023. The effects of monetary policy tightening are projected to tame inflation by the first half of next year leading to a normalization of monetary policy. This will be critical in supporting positive investor sentiments as the securities market becomes more attractive for investors. Corporates will be enabled to borrow at lower interest rates while the equities market will be more attractive in an environment with low single digit inflation.

Kenya's domestic Capital Markets sustained their resilience during the quarter under review amidst exogenous shocks. With the resolution of the macro-economic issues making Kenya's capital markets unattractive, investor sentiments will improve leading to a sustained recovery of Kenya's capital market.

CMA will continue implementing key initiatives as outlined in the Capital Markets Master Plan and Strategic Plan 2018-2023 whilst positioning itself to support capital markets-based financing to both the public and private sector to ensure that the industry contributes to economic growth in support of the Bottom-Up economic transformation plan.

2.2 FCA Highlights Continuing Concerns about Problem Firms in the CFD Sector

On 1st December 2022, the Financial Conduct Authority (FCA) issued a letter to firms offering contracts for difference (CFD). It warned that CFDs are highly leveraged derivatives and adverse price movements can cause losses of a substantial nature to financial consumers, thereby posing risks to its consumer protection and market integrity objectives. It highlighted areas of poor practice and outlined its expectations in the letter.

To mitigate the risks that consumers face in the CFD sector (where approximately 80% of investors lose money), the FCA has undertaken extensive measures to ensure maximum protection of consumers. The sector has attracted various overseas firms that deliver negative consumer outcomes. In the period between 2020 and 2021, it stopped 24 firms marketing CFDs in the UK, which in turn prevented an estimated £100 million of harm to UK consumers. Further measures have been taken in 2022 and will progress where justified.

FIGURE 11FCA CFD PRESS RELEASE

FINANCIAL CONDUCT AUTHORITY

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FCA highlights continuing concerns about problem firms in the CFD sector

Press Releases | First published: 01/12/2022 | Last updated: 01/12/2022 |

The FCA has reminded firms offering contacts for difference (CFDs) that CFDs are highly leveraged derivatives and adverse price movements in relevant markets can lead to substantial losses for consumers.

Source: FCA Website

Some of the key problems identified in firms were the use of unregulated affiliates, the use of compensation or settlement agreements, where consumers receive substantially lower compensation as compared to the client's loss, exorbitant fees and refusal to process withdrawals and giving investment advice without authorisation.

The areas that are most relevant to firms offering CFD products are cross-cutting rules on acting in good faith, customer services, price and value and communications. Due to CFD firms' business models, issues of conflict of interest could arise where firms can profit when consumers are convinced to trade more frequently or in larger volumes than they normally would, or from consumer losses where the market risk from consumer activity is underhedged.

Firms were reminded to consider financial crime systems and controls, especially those regarding insider trading. Consequently, FCA highlighted its Market Watch newsletter, where firms were told to consider the benefits of comprehensive market abuse risk assessments, the importance of periodically reviewing arrangements to ensure the effectiveness of trade surveillance and the benefit of creating policies on monitoring of market abuse.

The letter further highlighted on how firms can reduce loss from firm failure by testing the adequacy of their prudential regime interpretation, including their internal capacity and risk assessments and their recovery and wind-down plans. Firms should also ensure that systems, governance and oversight are sturdy enough to protect consumer assets.

Stability Implication

Globally regulators are spotlighting the increasing investor harm posed by lack of adequate investor protection mechanisms by regulated firms in the CFD sector when offering their products. With over 80% of consumers losing their monies there is need to ensure firms establish rules to protect against mis selling of complex derivative products to retail investors, address inherent conflicts of interest with affiliates and protecting client assets. The Authority working together with the Central Bank has in the recent past in addition to issuance of cautionary notices taken enforcement measures and issued warnings to unregulated firms offering CFD products in Kenya. Further the CMA is keen on allocating more resources towards enhancing its capacity to oversight CFDs, among other complex capital markets products.

2.3 The US Securities and Exchange Commission (SEC) Charges Samuel Bankman-Fried with Defrauding Investors in Crypto Asset Trading Platform FTX

During the quarter, Samuel Bankman-Fried, the CEO and founder of FTX Trading Ltd (FTX) was charged with planning a scheme to defraud equity investors in FTX Trading Ltd. FTX is a company based in the Bahamas that operates as a cryptocurrency exchange. As of 13th December 2022, the SEC was still conducting further investigations to establish whether the company had engaged in other securities law violations and other entities and persons relating to the alleged misconduct. This was one of the biggest financial frauds in US history.

As of May 2019, FTX had raised at least $1.8 billion from equity of which $1.1 billion was from US-based investors. The FTX CEO had convinced investors that FTX was a safe, responsible crypto asset trading platform, specifically touting FTX's sophisticated, automated risk measures to protect customer assets.

According to the complainant, this was a well-thought fraud and the accused was able to conceal it from FTX investors through; **First,** failure to disclose the diversion of FTX customers' funds to Alameda Research LLC which was his privately held crypto hedge fund.[8] **Secondly,** Alameda Research LLC was accorded undisclosed special treatment on the FTX platform. This included the provision of a virtually unlimited "line of credit" funded by the platform's customers and exempting Alameda from certain key FTX risk mitigation measures**. Thirdly**, there were undisclosed risks arising from FTX's exposure to Alameda's significant holdings of overvalued, illiquid assets such as FTX-affiliated tokens. **Finally,** Mr. Bankman-Fried commingled FTX customers' funds at Alameda to make undisclosed venture investments, lavish real estate purchases, and large political donations.

Following this fraud, the US SEC sought injunctions against future securities law violations. As a result, Mr. Bankman-Fried would be prohibited from participating in the issuance, purchase, offer, or sale of any securities, except for his own personal account.

After the declaration of bankruptcy of FTX and the appointment of a new chief executive, it came to light that some of the factors contributing to the collapse of FTX were lack of proper internal controls and weak corporate governance rules.

Stability Implications

During the 13th Joint Financial Sector Regulators' Forum held during the quarter under review, one of the key recommendations was on the establishment of Technical Working Group to advise the National Treasury and Economic Planning on the oversight framework on crypto assets activities and players in Kenya. The actions by the United States SEC demonstrate the need to provide for oversight over crypto related activities in the interest of investor protection.

[8] Alameda Research LLC is a quantitative trading firm. The Company provides liquidity in crypto currency and digital assets markets.

2.4 The US SEC Publishes FY 2022-2026 Strategic Plan

The **United States Securities Exchange Commission (US SEC)** released its Strategic Plan for the fiscal years 2022 to 2026, which detailed how the Commission would continue to fulfill its critical mission over the next four years. The newly developed strategic plan is anchored on three main goals which include (i) Protecting the investing public against fraud, manipulation, and misconduct; (ii) Developing and implementing a robust regulatory framework that keeps pace with evolving markets, business models, and technologies; and (iii) supporting a skilled workforce that is diverse, equitable, and inclusive and is fully equipped to advance agency objectives.

FIGURE 12US SEC STRATEGIC PLAN 2022-2026

Source: United States Securities Exchange Commission (US SEC)

i) Protecting the investing public against fraud, manipulation, and misconduct

The US SEC aims to achieve the goal of ensuring the protection of the investing public through **rulemaking, enforcement**, and **examination programs**. Considering the ever-evolving technologies, SEC noted the need to be more vigilant. This may involve the reassessment of the tools, methods, and approaches used in the past and adapting them to modern markets.

In the fight against fraud, manipulation, and misconduct SEC will focus on (i) pursuing enforcement and examination initiatives focused on identifying and addressing risks and misconduct that affects individual investors, (ii) enhancing the use of market and industry data, particularly to prevent, detect, and enforce against improper behavior and (iii) modernizing design, delivery, and content of disclosures to investors, to enable retail investors access consistent, comparable, and material information to make informed investment decisions.

ii) Development and Implementation of a Robust Regulatory Framework

To achieve this specific goal of developing a robust regulatory framework that aligns with the evolving markets, business models, and technologies SEC will take the following initiative; (i) Update existing SEC rules and approaches to reflect evolving technologies, business models, and capital markets, (ii) Examine strategies to address systemic and infrastructure risks faced by its capital markets and market participants, and (iii) Recognize significant developments and trends in its evolving capital markets and adjust its activities accordingly.

iii) Supporting a diverse skilled workforce equitable, inclusive, and fully equipped to advance agency objectives.

The US SEC is cognizant of the principal role played by diversity in encouraging innovation and excellence. As a result, the Commission is planning to continuously work to attract, hire, develop, and retain high-quality, diverse talent. This will allow the agency to build and maintain a workforce that reflects a diversity of backgrounds and experiences, as well as the diversity of the investors and market participants it serves.

Lessons Learnt

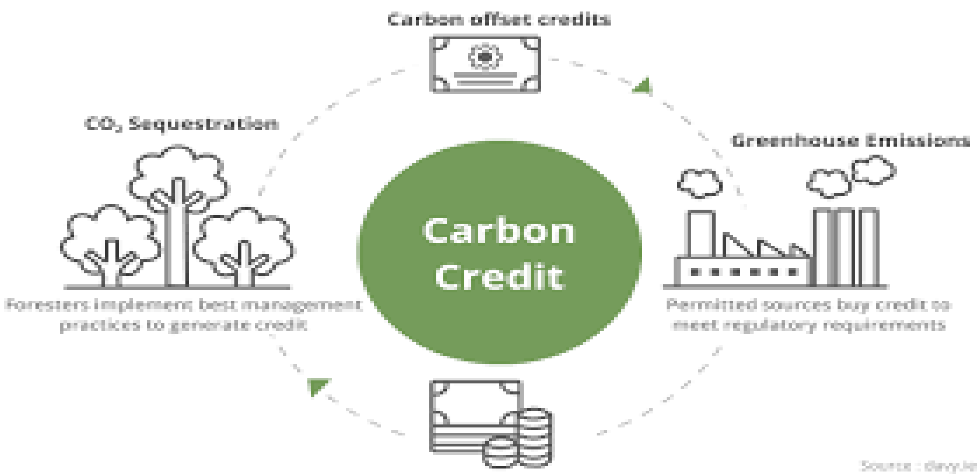
The development of the Authority's Strategic Plan for the years 2023- 2028 is underway. In crafting the new plan there will be consideration of international best practice, the existing geo-political, socio-economic and other emerging issues to ensure that CMA Kenya strategically positions itself to be a globally competitive capital market.

3. REGIONAL DEVELOPMENTS

3.1 Egypt Launches the First African Voluntary Carbon Market

The Egyptian Government launched Africa's first voluntary carbon certification market during the COP27 climate summit. Egypt's Prime Minister, Dr. Mosta fa Madbouly, pledged to provide support and assistance towards the achievement of the objectives of the voluntary African carbon market. This development conforms to the National Climate Change Strategy 2050 which aims to enhance its climate finance infrastructure in its fourth pillar.

FIGURE 13: VOLUNTARY CARBON MARKETS



Source: Blue Sky Analytics

This is a platform to aid various economic entities undertaking production activities in Egypt and Africa to participate in carbon reduction activities and benefit from the issuance and sale of certificates to companies that would like to reduce their carbon emissions where it is difficult to do so. Therefore, carbon emitters will be able to offset their unavoidable emissions by purchasing carbon credits from projects which remove or reduce greenhouse gases from the atmosphere. Through this, companies can recover part of their investment spending channelled towards reducing carbon emissions resulting from their activities and reinvest them in achieving carbon neutrality which is the overall objective.

The issuance and circulation of carbon certificates provides an opportunity for the African private sector to contribute to achieving carbon neutrality and to access innovative development financing solutions.

The relevant authorities such as the Egyptian Exchange and the Financial Supervisory Authority will develop the necessary frameworks, business models and organizational structures in order to operationalize the market. This will include creating awareness about the new market and its services, how to access and benefit from them and the necessary standards for issuance of carbon certificates while at the same time adhering to the highest levels of integrity and transparency according to international standards.

This platform will aid Egypt in achieving its vision of achieving the goals of the green economy and supporting the sustainable development strategy in addressing the effects of climate change. This will also enhance Egypt's efforts to reduce emissions without negatively impacting the economy in line with sustainable development goals.

The new market will support the African continent at all levels in achieving economic, environmental and social benefits and enhancing adaptation through the establishment of unified assets in the form of carbon credits.

Lessons Learnt

There is need for the timely development of a voluntary carbon markets program in Kenya. The NIFC Authority has been in discussions with AirCarbon Exchange (ACX), which seeks to set up a carbon exchange in Kenya. ACX on 4th July 2022 signed a collaboration agreement with the Nairobi Securities Exchange (NSE) and the NIFC Authority.

The Carbon Exchange will position Kenya as a key sustainable finance hub and will serve to support the fundraising for environmental projects such as Reforestation and Land Restoration. CMA to engage stakeholders to establish Kenya's voluntary carbon markets program together with developing a framework for Carbon Markets Trading. Kenya may lose its attractiveness as an ESG and climate friendly jurisdictions if a proper voluntary carbon markets program is not established.

The Authority will prioritize the development of a Carbon Trading Framework as a key deliverable in line with the expectations of the Fourth Medium Term Plan (MTPIV) for the financial services sector.

3.2 Crypto Assets Included Under Definition of Financial Products in South Africa

South Africa has taken a critical interim step towards protecting customers in the crypto asset environment. On 19th October 2022, the Financial Sector Conduct Authority, ("FSCA") South Africa's financial institutions regulator, declared that crypto assets are now included under the definition of 'financial products' in terms of the Financial Advisory and Intermediary Services Act, 2002 ("FAIS").

The Declaration puts in place a regulatory and licensing regime for Financial Services Providers that provide financial services in relation to crypto assets with an aim of supervision in respect of anti-money laundering and countering of terrorist financing (AML/CFT) as major deficiencies. The effect of the Declaration is that any person who provides advice or renders intermediary services in relation to crypto assets must be authorized under the FAIS Act as a financial services provider and must comply with the requirements of the FAIS Act.

FIGURE 14FCA DECLRATION ON CRYPTO

FSCA
Financial Sector
Conduct Authority

FSCA COMMUNICATION 30 OF 2022 (FAIS)

PUBLICATION OF DECLARATION OF A CRYPTO ASSET AS A FINANCIAL PRODUCT AND ACCOMPANYING EXEMPTION NOTICES

1 PURPOSE

The purpose of this Communication is to inform stakeholders that the Financial Sector Conduct Authority ("FSCA") today published the following documents on its website:

1.1.1 Declaration of a Crypto Asset as a Financial Product under the Financial Advisory and Intermediary Services Act, 2002 ("FAIS Act") ("Declaration");[1]
1.1.2 Policy Document supporting the Declaration ("including Annexure A – Response matrix to the draft Declaration); and
1.1.3 Exemption of Persons rendering Financial Services in relation to Crypto Assets from section 7(1) of the FAIS Act;
1.1.4 Draft Exemption of Particular Persons rendering Financial Services in relation to Crypto Assets from Certain Requirements; and
1.1.5 Comment Template to draft Exemption of Particular Persons rendering Financial Services in relation to Crypto Assets from Certain Requirements

2 DECLARATION OF A CRYPTO ASSET AS A FINANCIAL PRODUCT

2.1 On 20 November 2020, the FSCA published the draft Declaration of a Crypto Asset as a Financial Product under the FAIS Act for public comment.

2.2 A total of 94 individual comments on the draft Declaration were received from 22 different commentators.

2.3 Following the public consultation process, the FSCA today **published the final Declaration** in the *Government Gazette* and on the FSCA's website.

Source: FSCA Website

The Declaration also provides a wide definition for crypto assets, being a digital representation of value that: (a) is not issued by a central bank, but is capable of being traded, transferred, or stored electronically by natural and legal persons for the purpose of payment, investment and other forms of utility; (b) applies cryptographic techniques; and (c) uses distributed ledger technology.

Under FAIS, 'advice' includes recommendations, guidance or proposals of a financial nature furnished by any means or medium in respect of a defined financial product. 'Intermediary service' includes any act other than the furnishing of advice, performed by a person for or on behalf of a client or product supplier with a view to: (a) buying, selling or otherwise dealing in (whether on a discretionary or non-discretionary basis), managing, administering, keeping in safe custody, maintaining or servicing a financial product purchased by a client from a product supplier or in which the client has invested; (b) collecting or accounting for premiums or other moneys payable by the client to a product supplier in respect of a financial product; or (c) receiving, submitting or processing the claims of a client against a product supplier.

As can be seen from the breadth of the legislative framework underpinning 'financial products' under FAIS, the consequences of the Declaration will be far reaching, and will impact many businesses in South Africa dealing in crypto assets. When the draft of the Declaration was published in November 2020, it was noted that the intention behind the Declaration was to capture intermediaries that advise on or sell crypto assets to consumers, to provide adequate protection for consumers who are advised to purchase these products. Businesses in this space that have until now been operating in a largely unregulated environment will need to move quickly to become compliant.

Lessons Learnt

The National Treasury and Economic Planning via a letter dated December 9th, 2022, recommended the formation of a Technical Working Group to explore policy options and make recommendations informing the framework for oversight over crypto assets in Kenya. Thereafter the 13th Joint Financial Sector Regulators Forum through a communique dated 16th December 2022 resolved to consider the recommendation of the National Treasury and Economic Planning for the formation of a Technical Working Group of concerned regulators to make recommendations to the Cabinet Secretary on the establishment of a comprehensive oversight framework on crypto assets activities and players in Kenya.

3.3 Marrakech Pledge: A Significant Step Towards an African Green Finance

The **"Marrakech pledge"** for fostering green capital markets in Africa is one of the initiatives launched during the COP22 held in Marrakech in November 2016 to bolster climate finance. It aims to work collectively to effectively establish climate-resilient capital markets, an innovative climate-resilient capital markets system and efficient climate finance mechanisms to increase public savings and private capital flows towards low-carbon and climate resilient investments.

Stock exchanges and regulators of African capital markets met at the meeting of the signatories of the Marrakech Pledge on the side-lines of the IOSCO annual meeting on 19th October, 2022. Based on the global context that requires the financial community to partner around matters of climate change, the event brought together African financial stakeholders with the purpose of coming up with solutions for mobilization around green and sustainable finance.

Sustainable finance is an international priority and its regulation is being developed therefore it is important to ascertain how Africa can participate in order to put the continent on the map in matters of sustainable finance, through the opportunities it offers. The Marrakech Pledge was initiated to promote the development of green and sustainable finance in Africa and it aims at uniting African Capital Markets to gradually devise green financing mechanisms. Therefore, signatories of the Marrakech Pledge committed to act, both at the local and regional level, with the objective of combating climate change by focusing on resilient investments and the green economy.

Stability Implication

Kenya has made great strides regarding green finance. CMA Kenya has in place a Policy Guidance Note for issuance of Green Bonds with one green bond offering supported. The NSE has subsequently issued guidelines for listing Green Bonds as well as an ESG Manual.

The Fourth Medium Term Plan (MTPIV) for the financial services sector covering the period 2023-2027 has prioritized green finance as a key thematic area with a keen focus of spurring both public and private sector green bond issues. The Authority has stepped up its efforts in lobbying the National and County governments to leverage on issuing green bonds to raise finance for their green projects.

The revised Kenya Capital Markets Master Plan that is aligned to MTPIV outlines further measures to improve sustainable finance within the capital markets including development of a green taxonomy, development of a framework for Integrated Reporting, supporting the roll-out of innovative green finance capital markets products such as blue bonds,

conservation bonds, carbon credit-linked and Payment for Ecological Services (PES) linked-green bonds.

3.4 Egypt's PM Issues Decision to Amend Provisions of Executive Regulations of Capital Market Law

At the beginning of the quarter, the Egyptian Prime Minister issued a decision to amend some provisions of the Executive Regulations of the Capital Market Law. The decision will see the amendment of articles regulating the work of investment funds and the development of new articles to regulate the issuance of sustainable development bonds. The amendment will also include an introduction of new types of bonds which will include sustainable development bonds, social bonds, women empowerment bonds, climate bonds, and transitional brown bonds. These bonds will act as a financing tool that will facilitate meeting the climate change challenges and transitioning towards a green economy, environmentally friendly projects, and women empowerment.

The amendments are part of the state's efforts to localize sustainable development and contribute to achieving the desired progress in implementing the UN's sustainable development goals and at the same time help in achieving Egypt's Vision 2030 goals.

Stability Implications

Egypt has demonstrated the need to develop non-bank alternative financial products that support efforts to achieve the goals of sustainable development. The new Public Offers regime will allow for innovation in the types of bonds that can be issued in our domestic capital markets in support of the sustainability agenda.

3.5 Circular to Market Operators on Regulatory Support to Mitigate Impact of Government's Domestic Debt Exchange

On December 19th, 2022, Ghana announced suspension of payments on selected external debts of the Government of Ghana. The Government noted that global risk aversion triggered large capital outflows, a loss of external market access and rising domestic borrowing costs exposing Ghana to a surge in inflation, a large exchange rate depreciation and stress on the financing of the budget.

The Ghanaian government announced a suspension of all debt service payments under certain categories of their external debt, pending an orderly restructuring of the affected obligations. This suspension as per the press release includes the payments on: Ghanaian Eurobonds; commercial term loans; and on most of the bilateral debt.

Ghana in mid-December 2022 reached a preliminary agreement on a $3bn bailout from the IMF that the fund said would be dependent on receipt of financing assurances from Ghana's external creditors and on progress on the domestic debt exchange.

World Bank data show that Ghana owed more than $13bn to foreign bondholders at the end of 2021, the most recent aggregated data available, and $3.2bn to foreign governments, including China and South Korea[9].

Ghana announced an exchange of local currency government bonds with a value of more than $11bn that will sharply reduce interest payments to its domestic creditors, mostly local banks, pension funds and insurance companies.

The Securities Exchange Commission of Ghana has supported the Domestic Debt Exchange Programme (DDEP) launched on December 5th 2022 by the Ghanaian government whose aim is to enhance government's ability to attain a Debt to GDP ratio of 55% by 2028 among other benefits to the economy. The Ghana SEC appreciated the importance of a stable macroeconomic environment to the growth and development of Ghana's capital market and is therefore supportive of Government's efforts to stabilize Ghana's economy and the fiscal position with the proposed initiative. Pursuant to the above, the SEC proposed to support the market with the following reliefs amongst others:

- Regulatory capital forbearance for licensees whose capital may be impaired because of the Domestic Debt Exchange Programme.
- Licensees who participate in the programme and require some forbearance regarding full compliance to certain regulatory requirements in the Conduct of Business Guidelines, Licensing Requirement Guidelines, the Investment Guidelines for Fund Managers, and other regulatory requirements may apply accordingly to the Commission.
- In addition, Licensees that participate in the programme shall have access to the Financial Stability Fund, when established, as a last resort for liquidity needs.

[9] https://www.ft.com/content/2cffb07c-828c-400d-a51a-2c52a00bb8e0

- ❖ The SEC Ghana shall provide other reliefs and undertake interventions in support of Ghana (DDEP).

Lessons Learnt

Ghana SEC will play a critical role in supporting the Ghanaian governments debt exchange program. This underscores the role of securities regulators for countries in debt distress to work collaboratively with fellow regulators in providing solutions engineered to support their debt management strategy.

CMA Kenya will continue to support Kenya's debt management strategy and is constantly advocating for the use of capital markets-based financing solutions and interventions to ease off financing pressures on the Government balance sheet.

4.0 LOCAL DEVELOPMENTS

4.1 CMA Issues the Fifth Edition of the State of Corporate Governance Report

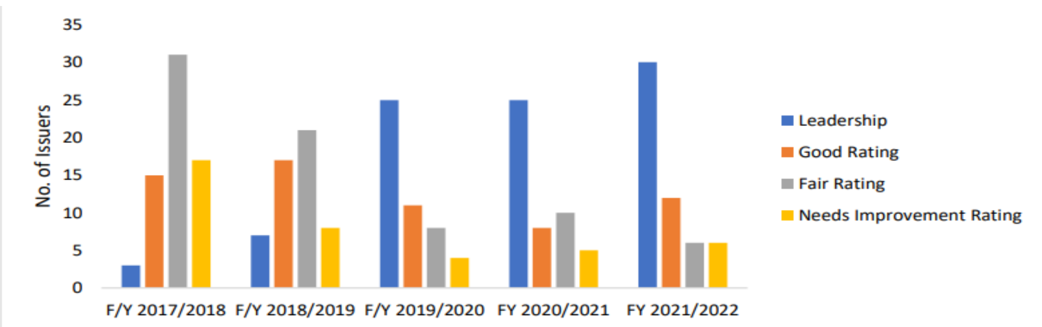
The Capital Markets Authority (CMA) has issued the Fifth Edition of the Report on the State of Corporate Governance for Issuers of Securities to the Public in Kenya. The report is for the financial year 1st July 2021 to 30th June 2022 based on an assessment of corporate governance practices by 55 issuers.

The annual publication outlines CMA's independent assessment of how companies listed on the Nairobi Securities Exchange (NSE) and issuers of corporate bonds are applying the principles and recommendations contained in the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (CG Code).

The annual report measures the extent to which issuers have adopted governance principles, in particular commitment to good governance, board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibility, accountability, risk management and internal control as well as transparency and disclosure. According to the 2022 Report, there were commendable improvements by issuers on all the corporate governance principles set out in the CG Code.

The number of issuers in the leadership category (score of 75% and above) increased from 25 to 30, those in the good rating category (between 65% & 74%) increased from 8 to 12, those in fair rating (between 50% and 64%) decreased from 10 to 6 while those in the need's improvement rating (below 50%) increased from 5 to 6.

FIGURE 15: OVERALL WEIGHTED SCORE FROM FY 2017/18 TO 2021/22



Source: CMA Data 2022

It is important to note that all sectors had a fair rating and above in all the principles save for the Construction and Allied sector which had a needs improvement on stakeholder relations. It is important to note, however, that only the banking sector scored a leadership rating on all the principles.

Stability Implication

The improved performance is attributable to the partnership and collaboration between the Authority and capital markets stakeholders on mainstreaming adoption of corporate governance best practices in the capital markets. CMA Kenya is committed to providing an enabling environment for issuers to thrive while strengthening their governance and sustainability practices.

4.2 CMA Regulatory Sandbox Updates

a) CMA exits second Robo-Advisor from the Regulatory Sandbox

Waanzilishi Capital was on 12th October 2022 granted a letter of 'No Objection' by the Authority to roll-out a robo-advisory solution to the mass market upon the successful completion of the test in the CMA Regulatory Sandbox.

The firm is licensed as both fund manager and investment advisor by CMA. Through the robo-advisory platform, investors will have access to collective investment schemes approved and registered by the Authority, Government bills and bonds and Exchange Traded Funds listed in offshore stock exchanges. Waanzilishi Capital becomes the second to successfully test a robo-advisory platform.

Figure 16: NDOVU WEBSITE

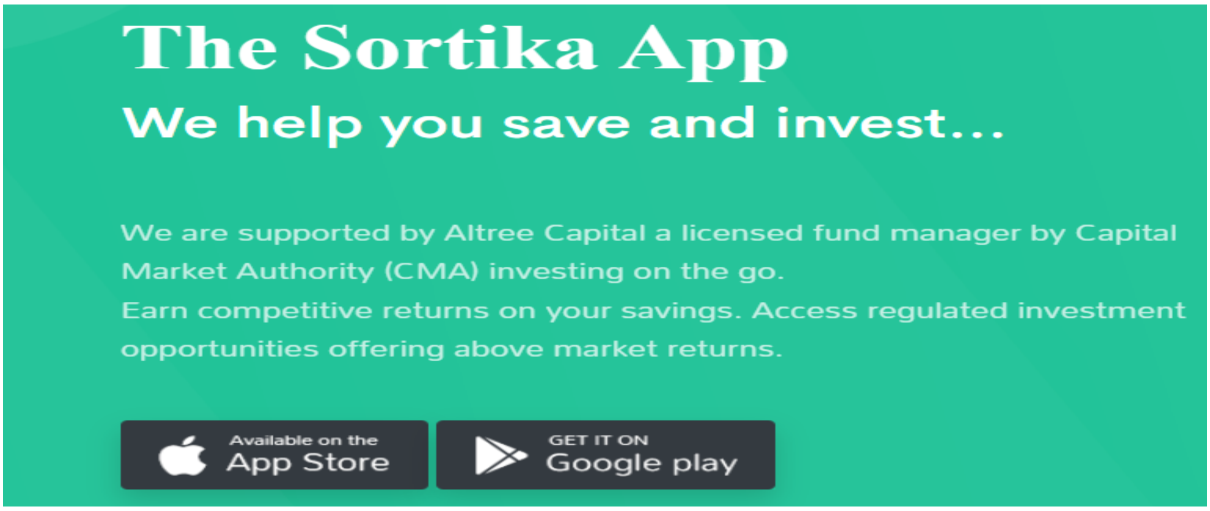
Source: Ndovu Website

The Ndovu app helps one set financial goals with investment portfolios for each goal. For an investor's short to long-term financial needs (ranging from emergencies, retirement, holidays, kids' education, or down payment), their investment strategy is built on low-cost ETFs (exchange-traded funds) and a risk profile based on how long an investor plans to invest.

b) CMA admits Sortika App to the Regulatory Sandbox

The Capital Markets Authority (CMA) admitted Altree Capital Kenya Limited, a licensed Fund Manager, to test the Sortika investment application on 26th October 2022 and robo-advisory solution pursuant to the Capital Markets (Regulatory Sandbox Policy Guidance Note). Altree Capital will operationalize the Sortika Investment Application and Robo-Advisory solution in partnership with HK Financial Markets as the technology partner.

FIGURE 17: SORTIKA APP



Source: Sortika Website

The Sortika application offers its users the ability to save and invest daily by empowering investors to save and invest via a 'passive' savings tool or reminder which prompts the customer to save each time they spend. The Sortika application "robo-advisory solution" is inbuilt with artificial intelligence (AI) capabilities that aid retail investor with various regulated investment products and decisions depending on their age and risk assessment. Funds invested through Sortika investment application will be safeguarded through a CMA-licensed custodian bank.

Stability Implication

Digitalization of investment advice will serve to make investment advisory a sustainable business model for the long-term development of the capital markets. The Regulatory Sandbox program remains facilitative in the deployment and testing of innovative technology by various FinTech firms in a controlled and cost-effective environment which is in line with CMA Kenya's strategic objective of leveraging on technology across the capital markets value chain. In its new strategic plan (under development), CMA will be keen on ensuring that the FinTech's are mainstreamed into the formal capital markets, following successful exits.

4.3 New Africa Exchange Link Eases Foreign Stake Buying

The African Exchanges Linkage Project (AELP) is a flagship project of the African Securities Exchanges Association (ASEA) and the African Development Bank (AfDB) to facilitate the cross-border trading of securities in Africa. Following the unveiling of the platform, Kenya joined a list of 13 other countries that can now buy shares of companies listed on 13 other African markets through their local stockbroker.

The AELP project launched an e-platform that incorporates stock market integration, an order routing system, and market and order-book data sharing, enabling seamless cross-border securities trading among seven African stock exchanges representing 2,000 companies with roughly $1.5 trillion market capitalization. The participating exchanges include Casablanca Stock Exchange, Bourse Regionale Des Valuers Mobilieres, Ghana Stock Exchange, Nigeria Exchange Limited, Egyptian Stock Exchange, Nairobi Securities Exchange, Botswana Securities Exchange Stock Exchange of Mauritius, and Johannesburg Stock Exchange.

Cross-border trade will initially be handled by market intermediaries on both sides. Investors will be required to issue trading orders to their broker who will route the trades to the broker in the other market. Investors are also required to have opened a securities account in the foreign market, a process which will be highly reliant on the know-your-customer (KYC) details already present with the Nairobi-based broker. Transaction charges by the respective market intermediaries will apply.

It is worth noting that the e-platform is separate from the existing online trading system, which allows clients to trade NSE-listed stocks directly without relaying instructions to brokers.

Stability Implications

CMA Kenya supports the new development as it will open new opportunities for individual and institutional investors to invest conveniently across Africa. Additionally, the initiative will draw in more international investors into the domestic market supporting the market deepening agenda.

4.4 Communique on the 13th Joint Financial Sector Regulators' Board Meeting

The 13th Joint Financial Sector Regulators Forum (JFSRF) was held in Kisumu between December 13th and 16th, 2022.The forum aptly themed fostering financial stability in the face of frontier risks, policy, and regulatory challenges; noted progress made on resolutions of the 12th Joint Boards Meeting and discussed emerging issues impacting on the Financial Sector.

The forum deliberations were being held against a backdrop of shifting dynamics in the Kenyan financial sector. The forum noted the impact of increasing digitization that has contributed to significant evolution of financial services posing new risks whilst providing opportunities for the growth of the sector.

Policy changes in the global context were highlighted with a keen focus on the sustained interest rates hikes across the developing world to tame inflation, which have not only heightened volatility in the global financial markets but also contributed to economic uncertainty in emerging and frontier economies.

The Forum also took cognizance of climate-related risks and their impact on the financial sector.

While recognizing the need for continuing collaboration and partnership among financial sector regulators, the 13th JFSRF resolved, inter alia:

- To consider the recommendation of the National Treasury and Economic Planning for the formation of a Technical Working Group of concerned regulators to make recommendations to the Cabinet Secretary on the establishment of a comprehensive oversight framework on crypto assets activities and players in Kenya. These recommendations will be subsequent to wide consultations and deliberations across the financial sector and other relevant stakeholders.
- To progress work on financial system stability surveillance, assessment and analysis including preparation, publication and dissemination of financial stability reports.
- To enhance the progress of efforts towards financial literacy and awareness programs. These programs are crucial as financial inclusion deepens, and financial products become more sophisticated and widely available.

- ❖ To coordinate the development of a framework on promoting adoption of technology and innovations in the financial services sector to enhance effective regulation and supervision.
- ❖ To task each regulator with the completion of the Islamic Finance initiatives within established timelines based on the guidance from the National Treasury and Economic Planning.
- ❖ To jointly address the risks posed by climate change and develop appropriate recommendations noting the increasing frequency of climate related disasters and their impact on the financial sector.

Stability Implication

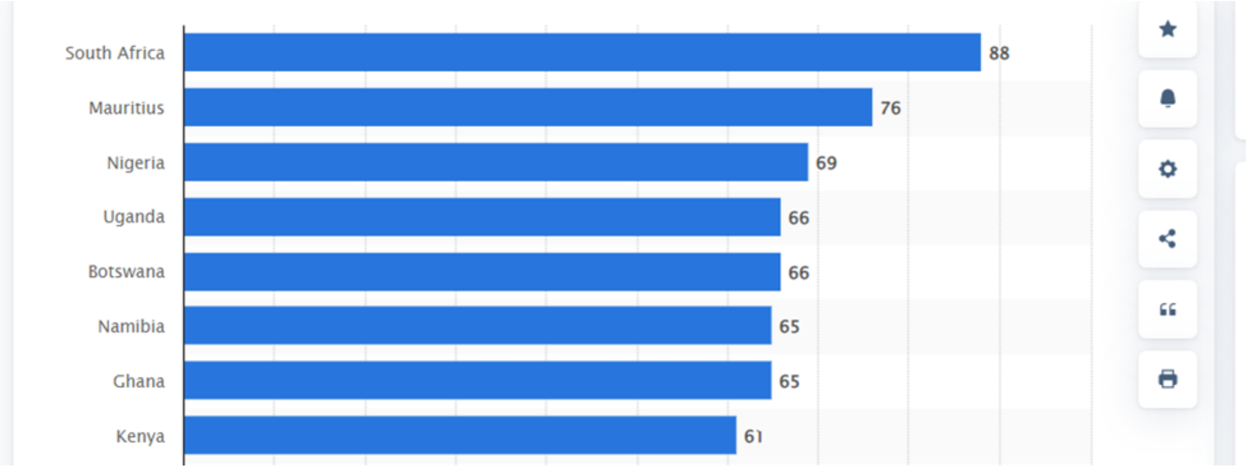
Regulatory co-ordination will be key in maintaining the resilience and stability of Kenya's financial sector in the coming year. CMA remains committed to fully supporting the implementation of the 13th Joint Financial Sector Regulators Forum recommendations.

4.6 Kenya is Up Two Places in Absa Markets Index on ESG Reporting

Kenya sprung up two places in the annual Absa Financial Markets Index (AFMI), as per the released report in London, 2022 which is attributed to the enhancement of environmental, social, and governance (ESG) reporting in the financial sector; alongside making progress in sustainable finance owing to progress in adopting ESG policies and frameworks, as well as improving market transparency, tax, and regulatory environments in capital markets.

Kenya improved its ranking in the year 2022 improving its standing by six points to 8th place out of 26 in the latest Absa Financial Markets Index (AFMI). Kenya obtained 61 points, up from 55 in the same period last year. The improved ranking was supported by having in place enhanced environmental, social, and governance (ESG) market frameworks together with enhancing market transparency, tax, and regulatory environments in capital markets. The AFMI 2022 noted Kenya's efforts in incorporation of climate risks into financial stability regulation in Kenya.

FIGURE 18: AFMI RANKING 2022



Source: Absa Group

The increase in scores of these 3 countries, which were the greatest, was ascribed to the bolstering of their environmental, social and governance market frameworks and, Kenya's incorporation of climate risks into financial stability regulation.

However, while Kenya scored highly on market transparency, tax and regulatory environment (88 points), it performed poorly on the capacity of local investors at just 20 points.

CMA Action Points

The improved ranking is a testament of the work being undertaken across the financial sector to position Kenya as a leading financial market in Africa. The Authority is committed to work together with capital markets industry regulators in undertaking key reforms and developing key policy and regulatory frameworks aimed at developing Kenya's financial sector.

4.7 CMA Issues Public Notice on Proposals for Amendments to Various Capital Markets Regulations

The capital markets industry operates within a certain regulatory framework which the players in this industry need to adhere to while offering their services. They are the rules/ directives that the Authority uses to supervise and regulate the market intermediaries. The regulatory framework is crafted in such a way that it encourages self-regulation to the maximum practical extent.

In this regard, the Authority is in the process of reviewing the below regulations under the Regulatory Framework, in a bid to make them responsive to market needs and address new and emerging issues: -

a) The Capital Markets (Licensing Requirements) (General) Regulations, 2002
b) The Capital Markets (Take-Overs and Mergers) Regulations, 2002
c) The Capital Markets (Conduct of Business) (Market Intermediaries) Regulations, 2011
d) The Capital Markets (Corporate Governance) (Market Intermediaries) Regulations, 2011
e) The Guidelines on Financial Resource Requirements for Market Intermediaries, 2012
f) The Capital Markets (Foreign Investors) Regulations, 2002
g) The Capital Markets (Real Estate Investment Trusts Collective Investment Schemes) Regulations, 2013
h) The Central Depositories (Regulation of Central Depositories) Rules, 2004
i) The Capital Markets Tribunal Rules, 2002

Following the issuance of a public notice requesting for comments on the relevant regulations, the Authority receives comments from the public and the capital markets industry. The comments are collated, and the issues raised addressed leading to amendments to the draft Regulations. Thereafter, the Authority holds a validation meeting on the Regulations before the amendments are gazetted and published for the public.

Stability Implication

The Authority remains committed to having a set of world class regulatory friendly regulations that are to facilitate efficient capital raising and the ease of transacting in the capital markets to support the capital markets deepening agenda.

5. PERFORMANCE OF THE DOMESTIC CAPITAL MARKETS

a) Economic Update

The World Banks, Kenya' Economic Update, December 2022 notes that the Kenyan economy remained resilient notwithstanding the global and domestic shocks with the GDP projected to grow by 5.2 percent on average in financial year 2023/24.

Business confidence seems to have increased in the wake of a smooth transition of power following a largely peaceful presidential election. Whilst the economic recovery prospects remain positive there is still caution especially in relation to emerging shocks relating to tighter global financial conditions, rising inflation, persistence in the drought situation that would pose a challenge to Kenya's economic rebound trajectory.

Climate change risks persist with Kenya registering below-average rainfall for four successive seasons, the country is currently experiencing one of the longest droughts in the last 40 years in the Arid and Semi-Arid regions (ASAL). The devastating impact on agricultural production and water availability has negatively impacted on food security adding to the existing food inflation challenge.

The effective implementation of the Governments Bottom-up economic blueprint will be key in delivering double digit economic growth on which capital markets growth is hinged on.

b) Performance of Domestic Equity & Debt Markets

Foreign investor participation by equities turnover on the Nairobi Securities Exchange (NSE) further declined by 22% following a decline of over 10% last quarter. Foreign investors who account for a significant contribution to equities turnover shied away from the Kenyan capital markets as they chased yields in safer jurisdictions. Further, with investors seeming to have priced in the fears of an economic slowdown and shifted their capital out of frontier markets coupled with the appreciation of the US dollar compared to many currencies, the securities of frontier and emerging markets become less attractive in view of the currency losses foreign investors may incur.

The market recorded a further foreign investor equity net outflow of Kshs 4.87 billion, from the net outflow of Kshs 6.97 billion. Foreign investors decry the lack of foreign exchange to invest in securities and repatriate dividends leading to them shying away from Kenya's capital markets. The lack of adequate foreign exchange is a key risk which further exacerbates the impact of emerging exogenous shocks which affect the attractiveness of our domestic capital markets.

The Authority is working with industry players to enhance the participation of domestic retail investors through an enhanced investor education program. Further the Authority is working with key market stakeholders to reduce operational bottlenecks that make account opening and ultimately investing in capital markets difficult. The Authority is engaging various market players to increasingly adopt digital channels to enable mass uptake of capital markets products and services.

During the quarter under review the domestic capital markets registered negative returns with the MSCI Kenya Index declining by 3.16 % respectively in United States Dollar terms for the quarter ending 31st December 2022.

FIGURE 19: MSCI KENYA INDEX AS AT DECEMBER 2022

CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD) (DEC 2007 – DEC 2022)

ANNUAL PERFORMANCE (%)

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

INDEX PERFORMANCE — NET RETURNS (%) (DEC 30, 2022)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since May 31, 2002
MSCI Kenya	-1.80	-3.16	-30.97	-30.97	-10.74	-1.54	6.60	16.10
MSCI Frontier Markets	-1.47	-0.83	-26.34	-26.34	-3.65	-2.47	3.23	6.06
MSCI ACWI	-3.94	9.76	-18.36	-18.36	4.00	5.23	7.98	6.81

FUNDAMENTALS (DEC 30, 2022)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI Kenya	6.12	8.00	na	2.98
MSCI Frontier Markets	4.53	9.73	na	1.57
MSCI ACWI	2.34	16.32	14.50	2.47

INDEX RISK AND RETURN CHARACTERISTICS (DEC 30, 2022)

		ANNUALIZED STD DEV (%) 2			SHARPE RATIO 2, 3				MAXIMUM DRAWDOWN	
	Turnover (%) 1	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since May 31, 2002	(%)	Period YYYY-MM-DD
MSCI Kenya	0.00	22.84	22.30	21.39	-0.41	-0.02	0.37	0.65	65.34	2008-06-05—2009-03-09
MSCI Frontier Markets	11.21	19.25	16.64	14.31	-0.13	-0.14	0.24	0.34	67.47	2008-01-15—2009-03-03
MSCI ACWI	2.38	20.14	17.72	14.31	0.26	0.30	0.55	0.40	58.38	2007-10-31—2009-03-09

Source: Morgan Stanley Capital International

TABLE 3: SUMMARY OF EQUITY PEFORMANCE

1. Year	Month	Share Volume (Kshs Mn)	Equity Turnover (Kshs Bn)	NSE 20 Share Index (Average)	NASI Index (Average)	NSE 25 Share (Average)	Market Cap (Kshs Bn)
Q4. 2022	Oct	241	5.8	1,690.43	128.17	3,092.93	2,006.85
	Nov	227	6.4	1,660.10	127.92	3,100.54	1,970.63
	Dec	163	4.5	1,651.93	127.27	3,109.07	1,986.08
	Total	631	16.7				
Q3.2022	July	263	7.9	1,671.38	136.38	3,150.67	2,198.26
	Aug	206	5.3	1,757.20	142.60	3,333.51	2,142.12
	Sept	350	9.1	1,759.83	136.37	3,232.20	2,086.85
	Total	819	22.3				
Q4. 2017	Oct	313	9.3	3,654.04	159.48	4,157.54	2,373.43
	Nov	522	14.7	3,781.94	165.08	4,303.38	2,562.41
	Dec	446	11.8	3,729.70	172.43	4,324.82	2,521.77
		1281	35.8				

Source: CMA/ NSE Statistics

c) Treasury Bond Market

Date	Bond	Amount Issued (Kshs Bn	Amount Received (Kshs Bn	Amount Accepted Kshs Bn	% AA/AI	% AR/AI
Oct 2022	FXD1/2017/10	40.00	17.26	14.11	35.28	43.15
	FXD1/2020/15		1.54	1.01	2.53	3.85
	FXD1/2022/25	20.00	14.89	13.67	68.35	74.45
Nov 2022	IFB1/2022/14	60.00	91.85	75.57	125.95	153.08
	Tap Sale	5.00	19.14	19.13	382.60	382.80
	Switch Auction	87.80	52.90	49.11	55.93	60.25
Dec 2022	FXD1/2008/20	40.00	17.32	17.27	43.16	43.31
	FXD1/2022/25		13.24	7.07	17.67	33.10
	Tap Sale (IFB1/2022/006)	20.00	10.81	10.81	54.06	54.07
Sum			238.95	207.75		
July 2022	FXD2/2013/15	40.00	5.45	5.22	13.05	13.63
	FXD2/2018/15		5.12	4.09	10.23	12.80
Aug 2022	FXD1/2022/03	50.00	21.82	21.80	43.60	43.64
	FXD2/2019/10		8.96	8.78	17.56	17.92
	FXD1/2021/20		18.35	7.95	15.90	36.70
Sept 2022	FXD1/2022/010	50.00	28.52	25.62	51.24	57.04
	FXD1/2022/015		17.62	13.41	26.82	35.24
Sum			105.84	86.87		

In the last quarter of the year 2022, nine (9) treasury bonds were issued with a target of raising 238.95 billion. However, the government only managed to raise 207.75 billion, therefore, falling short of 31.2 billion. Out of the nine issuances, two were tap sales whereas one was a switch auction. The government continues to struggle to raise the targeted amounts from the local debt market because of investors demanding higher rates amid inflation.

d) Corporate Bonds Market

In Q4. 2022, the corporate bond turnover was 150.8 million a drastic increase from the turnover recorded in Q2 and Q3. 2022 of 11.78 million and 8 million respectively. The Authority anticipates more corporate bond offerings in the year 2023.

CAPITAL MARKETS STABILITY INDICATORS FOR THE PERIOD 1st OCTOBER – 31st DECEMBER 2022

TABLE 4: SUMMARY OF KEY CAPITAL MARKETS SOUNDNESS INDICATORS FOR THE PERIOD OCTOBER TO DECEMBER 2022

<table>
<tr><th>Stability Indicator</th><th>Quarter/ Year</th><th colspan="4">Market Statistics</th><th>Assessment of Risk Level</th><th>Performance Brief for the Quarter</th><th>Ongoing Intervention Measures</th></tr>
<tr><td colspan="9">1.0 Equity Market Depth</td></tr>
<tr><td rowspan="8">NSE 20 Index Base Year 2010 =</td><td rowspan="2">Q4.2022</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td><td rowspan="12">Medium
(Indicative – Low < 1%
Medium: 1%
high; >10%)</td><td rowspan="12">The volatility for the three market indices, NSE 20, NSE 25, and NASI was 0.42%, 0.46%, and 0.48% respectively.</td><td rowspan="12">During the quarter, volatility for the three market indices NSE 20, NSE 25, and NASI reduced from 0.49%, 0.60%, and 0.89% to 0.42%, 0.46%, and 0.48% respectively.

Throughout the year the volatility for all the quarters has remained relatively low below 1% despite exogenous shocks which is an indication of the resilience of the domestic market.

The market has also shaken off the post-election jitters as there was no panic selling by investors after the August elections coupled with foreign investors participation slowing down, volatility is projected to remain low as we head into 2023.</td></tr>
<tr><td>0.55%</td><td>0.38%</td><td>0.33%</td><td>0.42%</td></tr>
<tr><td rowspan="2">Q3.2022</td><td>Jul</td><td>Aug</td><td>Sept</td><td>Q. Avg</td></tr>
<tr><td>0.48%</td><td>0.37%</td><td>0.61%</td><td>0.49%</td></tr>
<tr><td rowspan="2">Q2.2022</td><td>Apr</td><td>May</td><td>Jun</td><td>Q. Avg</td></tr>
<tr><td>0.27%</td><td>0.44%</td><td>0.41%</td><td>0.37%</td></tr>
<tr><td rowspan="2">Q1.2022</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr>
<tr><td>0.26%</td><td>0.43%</td><td>0.43%</td><td>0.29%</td></tr>
<tr><td rowspan="4">NSE 25 Index Volatility

Base Year =</td><td rowspan="2">Q4.2022</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
<tr><td>0.64%</td><td>0.36%</td><td>0.38%</td><td>0.46%</td></tr>
<tr><td rowspan="2">Q3.2022</td><td>Jul</td><td>Aug</td><td>Sept</td><td>Q. Avg</td></tr>
<tr><td>0.70%</td><td>0.39%</td><td>0.70%</td><td>0.60%</td></tr>
</table>

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Ongoing Intervention Measures
2015	Q2.2022	Apr	May	Jun	Q. Avg			.
		0.42%	0.65 %	0.42%	0.48%			
	Q1.2022	Jan	Feb	Mar	Q. Avg			
		0.42%	0.54%	0.39%	0.45%			
NASI Volatility Base Year 2010	Q4. 2022	Oct	Nov	Dec	Q. Avg	**Medium** (Indicative – Low < 1% Medium: >1% high; >10%)		
		0.70%	0.33%	0.41%	0.48%			
	Q3.2022	July	Aug	Sept	Q. Avg			
		1.03%	0.66%	0.99%	0.89%			
	Q2.2022	Apr	May	Jun	Q. Avg			
		0.57%	0.82%	0.56%	0.65%			
	Q1.2022	Jan	Feb	Mar	Q. Avg			
		0.55%	0.74%	0.54%	0.61%			
Turnover Ratio	Q4.2022	Oct	Nov	Dec	Q. Avg	**High** (Indicative – annual: <8%- Low; >15% High)	The recorded turnover for Q4.2022 was **0.84% ,** a reduction from 1.08**%** in Q3.2022. The quarter,	Equities turnover on the Nairobi Securities Exchange (NSE) further declined by 22% during the quarter. Foreign investors who account for a significant contribution to equities turnover shied away from the Kenyan capital markets as they chased yields in safer
		0.29%	0.33%	0.22%	0.28%			
	Q3.2022	Jul	Aug	Sept	Q. Avg			
		0.36%	0.25%	0.46%	0.36%			

							therefore, recorded the lowest market activity in the year.	jurisdictions and other select frontier markets. Further, investors seem to have priced in their fears of an economic slowdown and shifted their capital out of some frontier markets coupled with the impact of appreciation of the US dollar compared to many currencies; the securities markets of frontier and emerging markets become less attractive in view of the currency losses foreign investors may incur. Domestic investors also slowed down trading as they waited on booking capital gains as most listed firms did not pay any interim dividend. With foreign investors flight to other markets, domestic investors have been left holding onto securities with minima trade. This is coupled to the fact that the fixed income market was more attractive for domestic investors given the high yields. Initiatives such as day trading, margin trading together with necessary trading incentives/concessions will be critical in enhancing domestic investor activity at the Nairobi bourse hence boosting equities turnover.

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	
	Q2. 2022	**Apr**	**May**	**Jun**	**Q. Avg**			
		0.25%	0.54%	0.48%	0.42%			
	Q1.2022	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.32%	0.40%	0.39%	0.36%			
2.0	**Foreign Exposure Risk**							
Foreign Investor turnover as a % of total turnover.	**Q4.2022**	**Oct**	**Nov**	**Dec[10]**	**Q. Avg**	**Medium** (Indicative – annual: <40%-Low; >90% High)	Foreign investor participation at end of the Q4, 2022, averaged **54.84%.**	In Q4, foreign Investor turnover averaged 54.84%, an increase from 45.55% registered in Q3.2022.This increase in activity was at low transaction volumes, hence the impact on equities turnover was low. Foreign investors slightly dominate trading at the Nairobi Bourse.
		44.52%	60.46%	59.54%	54.84%			
	Q3. 2022	**Jul**	**Aug**	**Sept**	**Q. Avg**			

[10] Data for December unavailable during computations.

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Ongoing Intervention Measures
		50.55%	50.18%	35.92 %	45.55%			The net foreign equity portfolio outflow declined from (6,965 million) recorded in Q3.2022 to (4,870 million) recorded in Q4 2022. Increased capital outflow continues to pose a risk to our market and therefore the need for targeted initiatives aimed at enhancing trading at the Nairobi bourse such as day trading and reduction of investment bottlenecks for foreign investors.
	Q2. 2022	Apr	May	Jun	Q. Avg			
		62.92%	63.96%	57.75%	61.54%			
	Q.1 2022	Jan	Feb	Mar	Q. Avg			
		59.73%	57.02%	47.89 %	54.88%			
Net Foreign Portfolio Flow (In KES Millions	Q4.2022	Oct	Nov	Dec[11]	Q. Sum	High (indicative – annual: <Kshs (50million) - High (outflow. >Kshs. 50 million High	In the quarter under review, the market recorded a net outflow of **(4,870) million** compared to an outflow of **(6,965) million** between April and June.	
		(2,319)	(887)	(1,166)	(4870)			
	Q3.2022	Jul	Aug	Sept	Q. Sum			
		(2,972)	(1,656)	(2,337)	(6,965)			
	Q2.2022	Apr	May	Jun	Q. Sum			
		(1,653)	(4,207)	(5,036)	(10896)			
	Q1.2022	Jan	Feb	Mar	Q. Sum			
		(423)	187	(1,451)	(1,687)			

[11] Data for December unavailable during computations.

3.0	Market Concentration Risk							
Market Concentration (Top 5 companies by market cap)	**Q4.2022**	**Oct**	**Nov**	**Dec[12]**	**Q. Avg**	**High** (Indicative – annual: >50% High Concentration)	Market concentration for the top 5 companies for the quarter ended December 2022 averaged at **74.76%** of a market of 65 listed companies	The market concentration remains a major risk in Kenya where the market is dominated by 5 specific companies. To minimize this risk, more strategic initiatives aimed at growing another sector of the economy are needed to increase the range of sectors represented by listed firms on the bourse. In reviewing its Public Offers and Listing Regulations, the Authority seeks to provide favorable listing requirements to attract more companies to list.
		74.89%	74.64%		74.76%			
	Q3.2022	**Jul**	**Aug**	**Sept**	**Q. Avg**			
		77.54%	75.83%	74.47%	75.95%			
	Q2.2022	**Apr**	**May**	**Jun**	**Q. Avg**			
		77.90%	78.63%	75.17%	77.23%			
	Q1.2022	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		79.37%	79.08%	78.05%	78.83%			

[12] Data for December unavailable during computations.

4.0	Derivatives Trading Statistics

Total Volume (No. of contracts)

No of Contracts

	Q3. Sum	Oct-22	Nov-22	Dec-22	Q4. Sum	% Change Q4Vs Q3
ABSA	322	13	36	25	74	77.02%
BATK	25	6	10	7	23	8.00%
EABL	31	11	25	14	50	61.29%
EQTY	176	20	32	41	93	47.16%
KCBG	118	24	32	26	82	30.51%
N25I	-	-	-	-	-	-
SCOM	274	140	97	126	363	32.48%
COOP	57	3	9	5	17	70.18%
NCBA	64	4	2	51	57	10.94%
IHMP	2	1	2	1	4	100.00%
SCBK	6	-	8	19	27	350.00%
25MN	39	-	-	-	-	-
Total	**1114**	**222**	**253**	**315**	**790**	**29.08%**

Low

The volume of contracts traded in Q4.2022 were **790** indicating a **29.08%** decrease from 1,114 recorded in Q3.2022.

EABL, SCOM, IHMP and SCBK recorded an increase in activity from the previous quarter by 61.29%, 32.48%,100% and 350% respectively whereas the rest recorded a decrease in activity.

<table>
<tr>
<td>Gross Notional Exposure (GNE)</td>
<td>Amount in Kshs
<table>
<tr><th></th><th>Q3. Sum</th><th>Oct-22</th><th>Nov-22</th><th>Dec-22</th><th>Q4. Sum</th><th>%Change Q4Vs Q3</th></tr>
<tr><td>ABSA</td><td>18223</td><td>151,430</td><td>431,990</td><td>302,030</td><td>885,450</td><td>4758.97%</td></tr>
<tr><td>BATK</td><td>1099480</td><td>263,345</td><td>428,670</td><td>310,980</td><td>1,002,995</td><td>8.78%</td></tr>
<tr><td>EABL</td><td>459560</td><td>182,750</td><td>415,380</td><td>231,850</td><td>829,980</td><td>80.60%</td></tr>
<tr><td>EQTY</td><td>8781230</td><td>940,500</td><td>1,565,060</td><td>1,905,890</td><td>4,411,450</td><td>49.76%</td></tr>
<tr><td>KCBG</td><td>4847810</td><td>922,660</td><td>1,198,370</td><td>977,800</td><td>3,098,830</td><td>36.08%</td></tr>
<tr><td>N25I</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>SCOM</td><td>7729830</td><td>3,574,440</td><td>2,496,530</td><td>3,119,490</td><td>9,190,460</td><td>18.90%</td></tr>
<tr><td>COOP</td><td>666240</td><td>36,020</td><td>108,620</td><td>60,070</td><td>204,710</td><td>69.27%</td></tr>
<tr><td>NCBA</td><td>1948810</td><td>120,780</td><td>61,870</td><td>1,728,820</td><td>1,911,470</td><td>1.92%</td></tr>
<tr><td>IHMP</td><td>35950</td><td>17,960</td><td>34,960</td><td>17,950</td><td>70,870</td><td>97.13%</td></tr>
<tr><td>SCBK</td><td>82230</td><td>-</td><td>111,600</td><td>277,615</td><td>389,215</td><td>373.32%</td></tr>
<tr><td>25MN</td><td>1244300</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Total</td><td>26913663</td><td>6,209,885</td><td>6,853,050</td><td>8,932,495</td><td>21,995,430</td><td>18.27%</td></tr>
</table>
</td>
<td>High (indicative – annual:
>50%
High concentration)</td>
<td>The total value (Gross Exposure) of contracts traded during the quarter summed up to Kshs 21.995 million; an 18.27% decrease from Q3.2022.</td>
</tr>
</table>

Total Open Interest (No. of Contracts)

No of Contracts

	Q3. Average	Oct-22	Nov-22	Dec-22	Q4 Average	% Change Q4 Vs Q3
ABSA	56	32	42	25	33	41.07%
BATK	7	6	9	8	8	14.29%
EABL	19	10	13	3	9	52.63%
EQTY	53	51	49	21	40	24.53%
KCBG	28	27	34	30	30	7.14%
N25I	-	-	-	-	-	-
SCOM	75	128	178	84	130	73.33%
COOP	4	2	3	-	3	25.00%
SCBK	3	-	8	1	5	66.67%
IMHP	-	1	1	-	1	-
NCBA	24	43	41	14	33	37.50%
25MN	20	-	-	-	-	-
Total	**269**	**300**	**378**	**186**	**291**	8.18%

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

Overall, the total average number of open interest contracts recorded in Q4 2022 were **291** ; an **8.18%** increase from Q3.2022 Value of 269

As for hedging instruments, the place of derivatives markets in the face of economic uncertainty remains important in risk management.

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

Currency derivatives are needed by market participants and the Authority is working with the CBK to roll-out the same.

Settlement Guarantee Fund (SGF) Coverage52 for Derivatives)

	Oct-22	Nov-22	Dec-22
SGF	125,568, 780	126,431,718	127,031,718.00
Average Market Value	444,293.68	304,821.59	321,081.40
SGF Coverage	**283 times**	**415 times**	**396 times**

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

The SGF coverage ratio for the derivatives market in Q4.2022 progressively increased in December to 396 times in comparison to September where 145 times coverage was recorded.

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.

5.0	Government Bond Market Exposure							
Treasury Bond market turnover Concentration	**Q4. 2022**	**Oct**	**Nov**	**Dec**	**Q. Avg**	**High** (Indicative – annual: >50%High	In Q4.2022, Treasury Bondmarket turnover was 102%	Government activity in the bonds markets continues to dominate as Government targets domestic market savings to fund various Government activities.
		100%	100%	105%	102%			
	Q3.2022	**Jul**	**Aug**	**Sept**	**Q. Avg**			
		100%	99.99%	100%	100%			
	Q2. 2022	**Apr**	**May**	**Jun**	**Q. Avg**			
		99.98%	100%	100%	100%			
	Q1. 2022	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		100%	100%	100%	100%			

<table>
<tr>
<td>Corporate Bond Market Ownership</td>
<td>
<table>
<tr><th></th><th>No of Investors</th><th>Share Outstanding</th><th>% By share Quantity</th></tr>
<tr><td>EAC</td><td>2</td><td>101,000,000</td><td>0.34%</td></tr>
<tr><td>LI</td><td>1,874</td><td>28,330,220,000</td><td>95.62%</td></tr>
<tr><td>FI</td><td>34</td><td>1,197,600,000</td><td>4.04%</td></tr>
<tr><td>Sum</td><td>1910</td><td>29,628,820,000</td><td>100.00%</td></tr>
</table>
Data as of 31st December 2022
Note: For every EAC, LI and FI, the totals calculated is a sum of both corporate and individual investors
</td>
<td>High (Indicative – annual: >50% High concentration</td>
<td>Q4. 2022 data shows that local investors were the leading investors in corporate bonds at 95.62% whereas foreign investors accounting for 4.04%as a percentage of share quantity with East African investor holding was a mere 0.34%.</td>
<td>With the successful issuance of the KMRC, Centum Real Estate bond issues this year, there is growing interest in corporate bonds by domestic investors.

Cognizant of this and backed by the high number of local investors in the bond markets, the Authority, through its investor education and market deepening functions has profiled retail investors to increase activity within the domestic market.</td>
</tr>
<tr>
<td>6.0</td>
<td colspan="4">Investor Profiles - Equity Market</td>
</tr>
</table>

Equity Market	<table><tr><th>Type of Investor</th><th>No of Investors</th><th>Share Quantity (Millions)</th><th>% Of total share quantity</th></tr><tr><td>Local Investors</td><td>2,011,353</td><td>79,358,869,519</td><td>81.50%</td></tr><tr><td>EA Investors</td><td>9,017</td><td>1,322,190,608</td><td>1.36%</td></tr><tr><td>Foreign Investors</td><td>14,877</td><td>16,674,864,683</td><td>17.13%</td></tr><tr><td>BR</td><td>14</td><td>12,847,398</td><td>0.01%</td></tr><tr><td>JR</td><td>327</td><td>1,138,260</td><td>0.00%</td></tr><tr><td>Sum</td><td>2,035,588</td><td>97,369,910,468</td><td>100.00%</td></tr><tr><td colspan="4">Data as of 30th December 2022</td></tr></table>	**High** (Indicative – annual: >50% High concentration)	In the quarter under review, share quantity for local investors increased from **78,986 million** recorded in the last quarter to **79,358 million** with foreign Investor share quantity decreasing from **17,025 million** in the last quarter to **16,674 million** in the quarter under review.	In the last three quarters local investment in the equity market has witnessed an increase whereas foreign investment has decreased. While the proportion of local investors is higher than foreign investors, the share quantity held by each investor on a per capital basis remains low. The industry investor awareness and education strategy will be targeted at increasing retail investor participation through more roadshows, caravans and county engagements.
7.0	**Settlement Compensation Coverage**			
Settlement Guarantee Fund (SGF) Coverage Ratio	<table><tr><th>Q4.2022</th><th>Oct</th><th>Nov</th><th>Dec</th><th>Q. Avg</th></tr><tr><td></td><td>4.01</td><td>4.28</td><td>4.9</td><td>4.26</td></tr></table>	**Low**	The average settlement Guarantee Fund (SGF) ratio for October to December 2022 was 4.26.	Through Risk-based supervision, the Authority has been monitoring the SGF figures. The fund remains adequate to guarantee settlement failure.

Q3.2022	Jul	Aug	Sept	Q. Avg	(Indicative – annual: > 1 times, implies full coverage)
	3.05	5.07	2.84	3.65	
Q2.2022	Apr	May	Jun	Q. Avg	
	3.70	2.24	2.73	2.89	
Q1.2022	Jan	Feb	Mar	Q. Avg	
	3.01	2.39	2.88	2.76	

8.0	Asset Base of Fund Managers, Stockbrokers, Investment Banks

Working (Amount Millions) Capital in Kshs.*

		Amount in Kshs Millions				
		Total Assets	Total Liabilities	Net Assets December 22	Net Assets Sept 22	% Change
1.	Fund Managers	7,979	2,079	5,900	6,340	6.94%
2.	Investment Adviser	214	58	156	765	79.61%
3.	Investment Banks	9,149	3,050	6,099	7,552	19.24%
4.	Online Forex Brokers	2,554	1,679	875	763	14.68%
5.	Stockbrokers	1,830	785	1,045	1,094	4.48%

* Data as of end December 2022

Medium

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

The net assets base of Fund Managers, Investment Advisor, Investment Banks, Online Forex, and Stockbrokers, as of **31st December 2022 was 5,900 Mn, 156 Mn, 6,099 Mn, 875 Mn, and 1,045 Mn respectively.**

Assets Under Management within the industry have reduced between September and December 2022. Only Online forex brokers recorded positive change between September and December.