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"Surviving Global Economic Shocks and a Look into Special Purpose Acquisition Companies (SPACs) as a Listing Option for Potential Issuers "

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Table of Contents

List of Figures 4

List of Tables 5

SPECIAL MESSAGE FROM THE CHIEF EXECUTIVE OFFICER 6

EDITORIAL 9

I: SPECIAL FEATURE ON SPECIAL PURPOSE ACQUISITION COMPANIES(SPACs) IPOs 11

1.1 An Overview on the Trend of Initial Public Offerings in Sub Saharan Africa and the case for SPAC IPOs 11

1.3 Declining SPAC Performance in Q1.2022 and US SEC's Newly Proposed Rules on SPACs....14

1.4 An Overview of Regulatory Provisions on Special Purpose Acquisition Companies for Select Jurisdictions 16

II: INTERNATIONAL DEVELOPMENTS 19

2.0 An Overview of Global Growth in 2022 19

2.1 The Russian-Ukraine Crisis – Impact on Economic, Financial and Capital Markets....22

2.1.1 Overview on Ukraine's Economic Status and Sanctions on Russia....22

2.1.2 Effect of Sanctions on Russia's Economy and Response by Central Bank....24

2.1.3 Actions Taken by The Central Bank of Russia to Combat an Economic Downfall....27

2.1.4 Impact of the Russian-Ukraine Crisis on Global Markets and Trade 27

2.1.5 Potential Implications on the Kenyan Capital Markets Stability:.... 28

3.2 Equities Markets....30

3.4 Bonds Markets 32

4.0 Developments by the International Organisation of Securities Commissions (IOSCO)....32

4.1 IOSCO Supports "Supervisory Colleges" for Internationally Active Credit Rating Agencies 32

4.2 IOSCO Publishes its Inaugural Investment Funds Statistics Report. 33

4.3 Consultation paper on measures to address risks arising from digitalization of retail marketing and distribution. 34

5.0 SME listing in a Post-Pandemic World-World Federation of Exchanges....36

II: SUB SAHARAN AFRICA AND REGIONAL DEVELOPMENTS 38

6.0 Financial Regulatory Authority Egypt Launch Responsible Finance and Protection of Customer Rights Initiative....38

7.0 SEC Ghana issues a public notice on extension of moratorium on the Fund Management Licenses................39

III: LOCAL DEVELOPMENTS 39

8.0 NSE Records losses due to Ukraine-Russian War...39

9.0 Fintech: Sycamore Capital Ltd admitted to Regulatory Sandbox...41

10.0 The Kenyan Senate approves the Bill targeting Kenyans abroad to invest......................................42

11.0 Performance in the Domestic Capital Markets..42

11.1 Overview of Key Soundness Indicators...42

11.2 Performance in the Bond Market...43

11.2.1 Treasury Bond Markets 43

11.2.2 Corporate Bond Market..43

IV: CAPITAL MARKETS STABILITY SOUNDNESS INDICATORS FOR THE PERIOD JANUARY – MARCH 2022 45

List of Figures

Figure 1: SPAC IPO Activity (2018 – 2022) 11

Figure 2: How Special Purpose Acquisition Companies Work 12

Figure 3: Key Differences between SPACs and Initial Public Offerings (IPO) 12

Figure 4: Summary of SPAC Transactions By Year (2009 – 2022) 13

Figure 5: Advantages/Benefits of SPACs 13

Figure 6: Pitchbook deSPAC Index Vs S&P 500 (2018 – End Q1.2022) 14

Figure 7: Top 10 Global Risks by Severityyears 19

Figure 8:Price of Principal Export commodities 19

Figure 9: Estimated World Growth Projections for 2022 20

Figure 10: Growth Projections for Different Regions 21

Figure 12: Year on Year Change in Consumer Prices in Russia (10th Jan to 18th March 2022)Source: Statista 24

Figure 13: Trend of the Russian Rubble in Q1.2022 25

Figure 14: Trend of the Russian Rubble to the USD over the years and within 2012 - 2022 25

Figure 15: Trend of the MOEX Index in Q1.2022 26

Figure 16: Russia's weight in the MSCI Emerging Markets Index (%) 26

Figure 17: Inflation Levels in select OECD Countries in January 2022 27

Figure 18: Trend of the VIX (Oct 2020 – Feb 2022) against the No of IPOs Issuances 30

Figure 19: Portfolio Flows to Emerging Markets (Bns of US Dollars) 30

Figure 20: Performance of the MSCI World Index Vs MSCI Emerging Markets Index 30

Figure 21: Performance Trend of Chinese Stocks on the Shanghai Stock Exchange (January – March) 2022 31

Figure 22: Trend of the NSE Market Capitalization (Jan - March) 2021 Vs 2022 40

Figure 23: Performance Trend of the NASI Index in Q1.2022 40

Figure 24: Performance Trend of the NSE 20 and NSE 25 Share Indices in Q1.2022 41

List of Tables

Table 1: Definition of Key Terms Related to SPACs 14
Table 2: Comparative Regulatory Provisions on SPACs Across Different Jurisdictions......16
Table 3: Profile of Sanctions Imposed on Russian Government......23
Table 4: Proposed Policy Toolkit 35
Table 5: Proposed Enforcement Toolkit 36
Table 6: Summary of Equity Markets Performance ...... **Error! Bookmark not defined.**
Table 7: Summary of Treasury Bond Primary Market Performance 43
Table 8: Capital Markets Stability Indicators (January – March 2022) 45

SPECIAL MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Valued Reader,

The first quarter of the year 2022 has bid us farewell already and I am glad that you remain a key participant and contributor in the growth and development of the Kenyan Capital Markets landscape.

I present to you the 22nd edition of the Capital Markets Soundness Report covering events in the first quarter of the year 2022. As in subsequent editions, the report provides an assessment of positive and adverse economic, policy and financial developments cross cutting global, regional and domestic markets with a focus on the risks and opportunities presented for capital markets practitioners both in the domestic and foreign markets.

Performance of the Capital Markets continues to be impacted by the growing list of global economic shocks that continue to tilt the macroeconomic environment within which all operations and investments are anchored. Just as the market was rebooting from the effects of the covid 19 pandemic in the last two quarters, the world woke up to news of Russia's invasion into Ukraine on 24th February 2022. This coupled with pre-existing risks on climate change, crises on natural resources particularly energy, geo-economic confrontation, extreme weather conditions continue to exert pressure on the quality of livelihood for all humanity today.

The Russian-Ukraine crisis has injected a negative shock to the global economy with spillover effects witnessed in other economies, manifested mainly through commodity price hikes, impacting both monetary and fiscal policy decisions for Governments. Prior to the outbreak of the crisis, most key global macroeconomic variables were seen as returning to normalcy with a hope on resumption to pre-pandemic levels. This was mainly anchored on the fact that Russia and Ukraine are large producers and exporters of key food items, minerals and energy across the world. This coupled with pandemic induced global supply chain challenges has resulted in sizeable economic and financial shocks, particularly in commodity markets, with the prices of oil, gas and wheat soaring.

The spillover effects continue to be felt across the globe with various institutions downgrading global growth projections across board with International Monetary Fund (IMF) and Organization for Economic Cooperation and Development (OECD) projecting an optimistic 4.4% growth in 2022 while United Nations Conference on Trade and Development (UNCTAD) forwarded the lowest projection of 2.6% down from an average growth of 5.7% recorded in 2021.With the crisis still persistent, further downgrades are expected in subsequent months.

Bloomberg reports for the first quarter of 2022 show that Initial public offerings (IPOs) have plummeted globally in the first quarter of this year after a record showing last year, as volatility stoked by the war in Ukraine and soaring inflation set investors on edge and inhibited deals. These sentiments have equally translated to depressed capital markets activity in the international capital markets with minimal initial public offerings recorded in Q1.2022, engineered by increased volatility of stocks in the developed world given the level of exposure of listed stocks to Russian investments.

On the first trading day in January this year, equities market capitalization at the Nairobi Securities Exchange Plc was Kshs 2,601 billion, levelling at Kshs 2,425 billion, translating into a decline of investor net worth of Kshs 176 billion, attributed largely to foreign sales. In spite of this, the Kenyan Government continued to utilize the domestic capital markets for fund raising with a total of Kshs 260 billion raised in the quarter under review, mainly in funding its development budget.

We however continue to encourage increased private sector participation within the domestic capital markets as this is a critical factor in the growth and success of our capital markets. Our commitment to support such entities continues to be seen through our broad policy and regulatory review undertaken in close collaboration with our stakeholders cutting across different social strata.

The Authority undertook a comprehensive review of its Collective Investment Scheme Regulation during the quarter as we sought to facilitate increased retail and institutional investments in this asset class. Other legislations under review include the Public Offers Listings and Disclosure Regulations, that we believe will provide more flexibility in capital raising without compromising on investor protection.

As we focus on the homestretch towards sharing drafts of these regulations with you for input and comments, I encourage you to actively review and share your comments with us once they are published. The success of our capital markets is dependent on our continued unity of purpose in ensuring that we remove any impediments to growth and development, I count on you to play your part as we execute our mandate.

I therefore extend my gratitude to you, our reader, for your patronage in supporting the Capital Markets Authority, year on year towards the attainment of its mandate through your continued readership of this publication.

Enjoy your read!!

FCPA Wyckliffe Shamiah

CHIEF EXCECUTIVE OFFICER

EDITORIAL

Greetings to you this Easter season!

It is my pleasure to present to you the 22nd Edition of capital market soundness analysis for the period January to March 2022, themed "**Surviving Global Economic Shocks and a Look into Special Purpose Acquisition Companies (SPACs) as a Listing Option for Potential Issuers** ".

Allow me to therefore engage you on this issue's special feature as highlighted in the theme of the report; Special Purpose Acquisition Companies also known as SPACs or blank check companies. While details on what SPACs are, is captured within the report, I forward to you the Authority's thinking on this subject to welcome your participation.

Kenya, like many other jurisdictions has been characterized by an Initial Public Offerings (IPO) drought for about a decade now. This has been the outcome of multi-faceted and unique challenges coupled with a consistently changing economic and business environment. The costs related to IPOs remains a global debate as the profile of private equity investments continue grows. SPAC listings provide an alternative listing model within shorter time periods when compared to traditional IPO listing procedures.

SPACs are therefore currently being considered as an alternative capital raising and listing method in the ongoing Public Offers Listings and Disclosures review. Through this publication and subsequent stakeholder engagement, we aim to create a platform through which we can receive your comments, views and perspectives relating to SPAC listings in Kenya while learning from other jurisdictions – successes and failures in equal measure.

Other features covered in this issue include an overview of the International Organization of Securities Commission (IOSCO) report supporting use of "Supervisory Colleges" for Internationally Active Credit Rating

Agencies, as well as lessons on measures to address risks arising from digitalization of retail marketing and distribution. An overview of World Federation of Exchanges (WFE) propositions to regulators on how best to leverage on flexibilities for listed issuers to promote increased Small and Medium Enterprise (SME) participation is also provided, as well as Singapore's proposed methodologies for responsible use of Artificial Intelligence by financial institutions.

In the Sub-Saharan Africa region, we provide an outline of Egypt's Financial Regulatory Authority's responsible finance and protection of customer rights initiative and Ghana's approach on moratorium issuance on its fund management license to enable the Commission to review the current licensing regime for a stronger and more resilient market to facilitate issuance of new licensing guidelines and directives on this license category.

In the local scene, we highlight admission of Sycamore Capital Limited into the Authority's regulatory sandbox as it tests its Collective Investment Schemes (CIS) based mobile app solution. We further cover Senate's approval of a new Bill targeting Kenyans living in the diaspora given the significant contribution the Diaspora community makes in our domestic economy.

On market performance, the Kenyan capital markets recorded mixed fortunes in the soundness indicators during the period under review. Average foreign trading in the equity market was 54.88%, down from 57.73% recorded in the previous quarter. A net equity outflow of Kshs 1.69 billion was recorded in the same period, an improvement, compared to an outflow of Kshs 5.32 billion, in spite of the impact of the Russian invasion to Ukraine during the quarter.

Turnover ratio averaged at 0.35% down from 0.46% recorded in the previous quarter signaling persistently low liquidity levels.

Despite a relatively volatile macroeconomic environment, we continue to encourage increased investment in the domestic market by both institutional and retail investors as the success of our markets greatly depends on our involvement across all asset classes.

I look forward to your continued support in supporting the Authority as it implements its mandate of regulation and market development.

Enjoy your read.

Mr. Luke E. Ombara

DIRECTOR, POLICY AND MARKET DEVELOPMENT

I: SPECIAL FEATURE ON SPECIAL PURPOSE ACQUISITION COMPANIES(SPACs) IPOs

1.1 An Overview on the Trend of Initial Public Offerings in Sub Saharan Africa and the case for SPAC IPOs

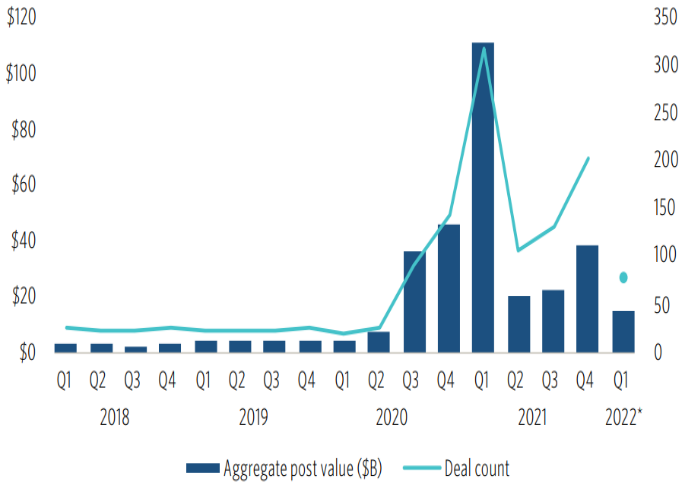
In the last five to ten years, the Kenyan Capital Markets has witnessed limited listing of companies on the Nairobi Securities Exchange. The same has been observed in Africa with companies systematically pulling away from the equity markets. The reduction of IPOs and capital raising in 2021 indicates that Africa may be falling behind the international market's ability to leverage the private sector in order to create investment and wealth.

For example, South Africa, reported a reduction of approximately 73% in equity capital raised in 2021, when compared to 2020. This is a trend that has been seen over the past five years, in which the number of delisting's outweigh the number of listings on the JSE. The same trend is being experienced throughout the rest of Sub-Saharan Africa with investor relations experts speculating that the reasons for the exodus could be low valuations and high costs related to corporate actions.

On the other hand, a few jurisdictions continue to attract IPOs such as the United States, Hong Kong, China and the United Kingdom with the United States recording the highest IPO listings in 2021 globally at 53%, according to the Africa Capital Markets Watch, 2021 published by the PWC.

A key reason that has resulted in this success has been increased profile of SPAC listings and subsequent listings of the same. As a result, different jurisdictions are developing and adopting SPAC listings as a complimentary addition to traditional IPO listings.

Figure 1: SPAC IPO Activity (2018 – 2022)



Source: PitchBook | Geography: Global
*As of March 15, 2022

Companies typically pursue an initial public offering to raise capital, provide shareholder liquidity, create brand awareness and obtain resources to further expand their business. Increasingly, companies across critical sectors are considering mergers with special purpose acquisition companies (also known as SPACs or blank check companies), rather than a traditional IPO, to achieve these goals[1].Special Purpose Acquisition Companies ("SPACs") continue to be increasingly popular vehicles for entities or individuals to raise capital to pursue merger opportunities, and for private companies seeking to raise capital, obtain liquidity for existing shareholders and become publicly traded[2].

1.2 So What are Special Purpose Acquisition Companies (SPACs)?

A Special Purpose Acquisition Company (SPAC) refers to an entity with no commercial operations but intends to merge with or acquire an existing business. The shell firm created or sponsored by institutional investors and underwriters raises capital to incorporate and go public through an initial public offering (IPO). A SPAC raises

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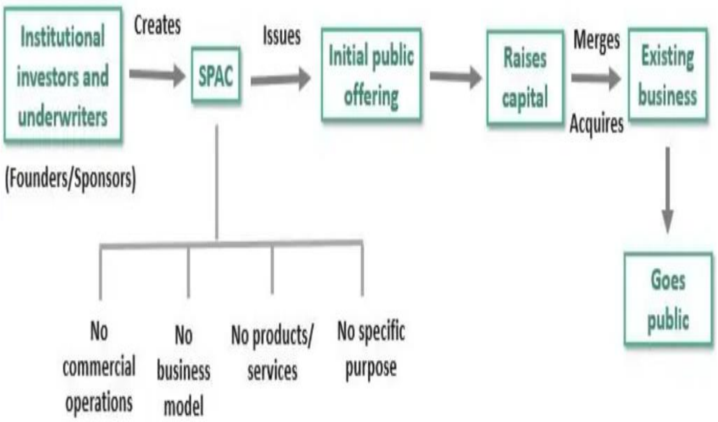
[1] Why companies are joining the SPAC boom: PwC

[2] Update on Special Purpose Acquisition Companies (harvard.edu)

capital through an initial public offering (IPO) for the purpose of acquiring an existing operating company. Subsequently, an operating company can merge with (or be acquired by) the publicly traded SPAC and become a listed company in lieu of executing its own IPO.

Figure 2: How Special Purpose Acquisition Companies Work



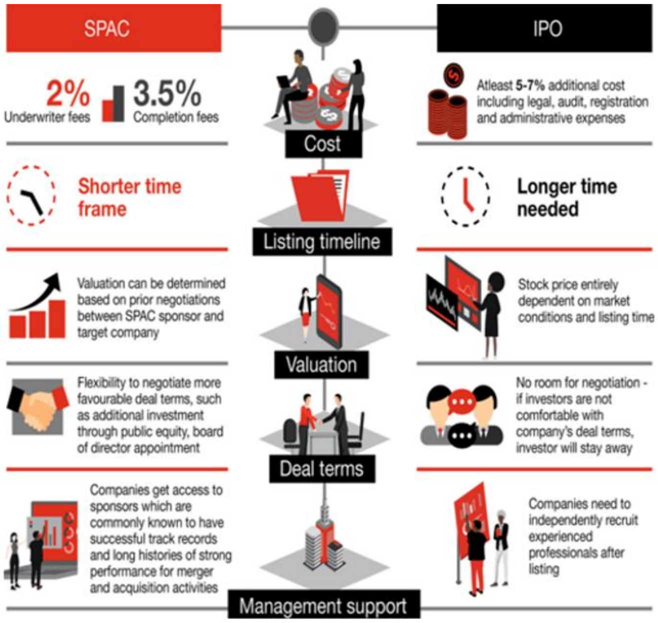
Source: WallStreetMojo

SPACs are shell companies usually formed by sponsors with expertise in a particular industry or business sector, with the intention of pursuing deals in that area. At the time of their IPOs, SPACs have no existing business operations or stated targets for acquisition. Once the IPO raises capital, the funds raised are placed in an interest-bearing trust account until such time that the SPAC's sponsors identify a target (usually, a private company looking to go public through a merger or business combination). Once a target company is identified and a merger is announced, the proposed merger (also known as a de-SPAC) is put to a vote by SPAC shareholders.

The SPAC's investors can either swap their shares for shares of the merged entity or redeem their SPAC shares prior to closing of the de-SPAC transaction to get back their original investment, plus the interest accrued while that money was in trust. SPAC sponsors typically receive about a 20% stake in the merged entity with nominal invested capital. SPAC sponsors also have a deadline by which they must find a suitable deal, typically within about two years of the IPO. Otherwise, the SPAC is liquidated, and the IPO proceeds are returned to the public shareholders[3].

Generally, a SPAC is formed by an experienced management team or a sponsor with nominal invested capital, typically translating into a ~20% interest in the SPAC (commonly known as founder shares). The remaining ~80% interest is held by public shareholders through "units" offered in an IPO of the SPAC's shares. Each unit consists of a share of common stock and a fraction of a warrant.

Figure 3: Key Differences between SPACs and Initial Public Offerings (IPO)



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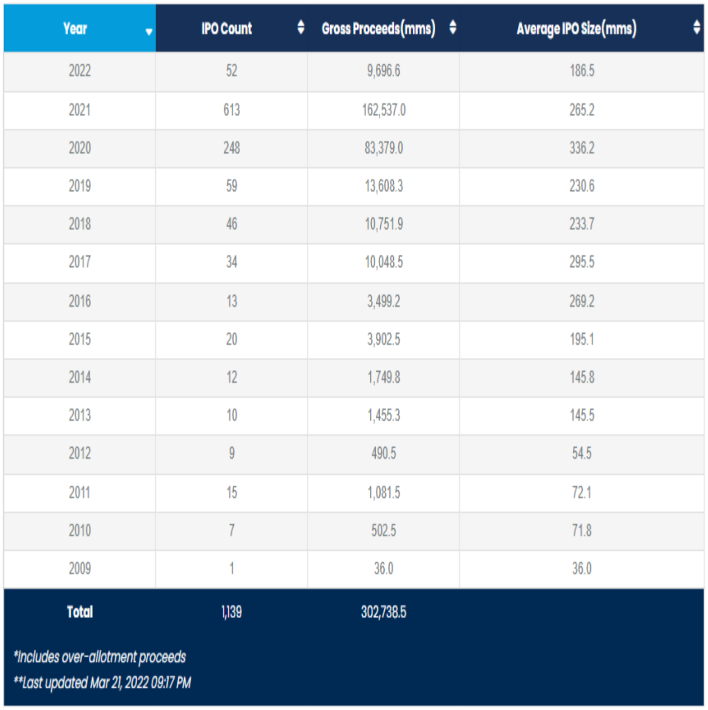
[3] [SPAC Listings - Lexology]

Founder shares and public shares generally have similar voting rights, with the exception that founder shares usually have sole right to elect SPAC directors. Warrant holders generally do not have voting rights and only whole warrants are exercisable. The surge became more common in recent years as more blue-chip private equity firms, banks, and high-profile entrepreneurs formed SPACs[4].

Following an initial discussion on this issue, the IOSCO Board agreed at its meeting on 9 June 2021 to establish an IOSCO SPAC Network to facilitate information sharing about SPACs and monitor developments in this area. The IOSCO SPAC network will be chaired by Jean-Paul Servais, Chairman of the Financial Services and Markets Authority, Belgium and Vice-Chair of the IOSCO Board[5].

Figure 4: Summary of SPAC Transactions By Year (2009 – 2022)

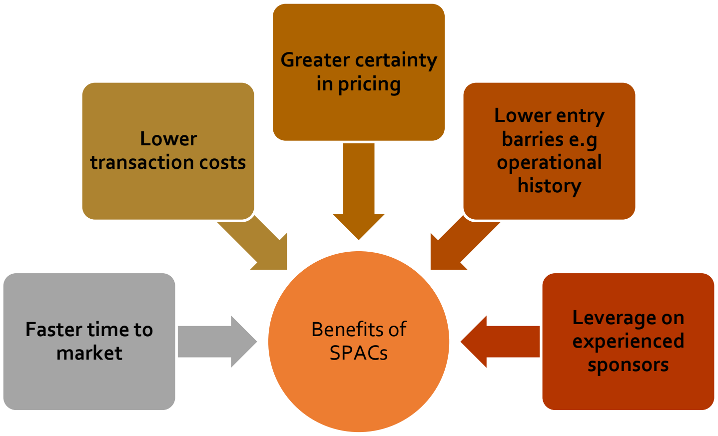


Year	IPO Count	Gross Proceeds(mms)	Average IPO Size(mms)
2022	52	9,696.6	186.5
2021	613	162,537.0	265.2
2020	248	83,379.0	336.2
2019	59	13,608.3	230.6
2018	46	10,751.9	233.7
2017	34	10,048.5	295.5
2016	13	3,499.2	269.2
2015	20	3,902.5	195.1
2014	12	1,749.8	145.8
2013	10	1,455.3	145.5
2012	9	490.5	54.5
2011	15	1,081.5	72.1
2010	7	502.5	71.8
2009	1	36.0	36.0
Total	1,139	302,738.5	

**Includes over-allotment proceeds*

***Last updated Mar 21, 2022 09:17 PM*

Figure 5: Advantages/Benefits of SPACs



An analysis on the landscape of SPAC issuances in countries that have already implemented provisions of the same, shows certain common themes and characteristics to take note of in considering establishment of an enabling environment on the operation of SPACs in the domestic market. These include;

- SPACs are most popular within industrial, healthcare, consumer, energy and technology sectors. They largely target high growth tech companies, given the high investor appetite for tech companies
- Digital-driven companies with resilient business models and fast growth potential in the new world are great target companies for mergers.
- SPAC issuances may include a warrant or contract that allows investors to buy a whole share of common stock in cash at a specified price and a later date.

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[4] Growing prospects of SPAC listings in Asia I What's behind the trend (asiafundmanagers.com)

[5] Iosco explores Spac regulatory issues (finextra.com)

- Funds raised from a SPAC IPO must be placed in a trust account until it finds a target firm for merger or acquisition within two years. This account generates interest for use as working capital for the company.
- Failure to conclude a deal leads to liquidation of the company and the return of IPO funds to investors and public shareholders.
- The expertise and reputation of sponsors determine the performance of the SPAC.
- After the SPAC goes public, it lists on a stock exchange.
- Sponsors receive on average between 15% to 20% of founder shares in the SPAC at a discounted price. However, it makes it a not-so-profitable deal for public shareholders who purchase the remaining 80% SPAC shares through units at a fixed market price.

Table 1: Definition of Key Terms Related to SPACs

	Term	Definition
1	Sponsor	Founding investors that lead the SPAC process
2	Target	Private company that is the target of an acquisition and ultimately becomes a public company after the merger is consummated
3	De-SPAC	The process that begins after a letter of intent is executed and ends when the shareholders approve the transaction and the merger into the SPAC is consummated
4	PIPE	A means of raising additional capital after a target is identified to finance a significant portion of the acquisition price
5	Lock-up period	The period after an IPO in which certain shareholders are restricted from selling shares. The lock-up period for a SPAC IPO is typically longer than that for a traditional IPO.

Source: PWC

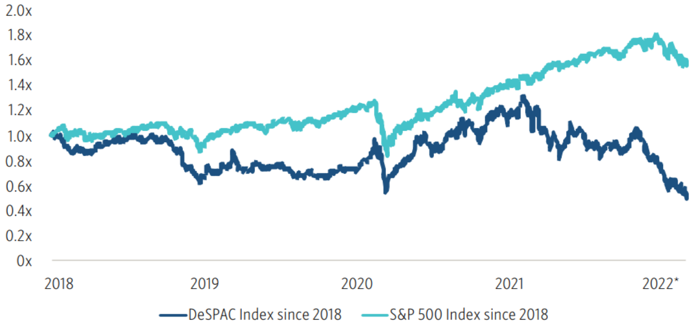
1.3 Declining SPAC Performance in Q1.2022 and US SEC's Newly Proposed Rules on SPACs

However, performance of SPACs in Q1.2022 has come under much more scrutiny informed by the underperformance of de-SPAC entities. According to Pitchbook Data, companies that have completed the deSPAC process have significantly underperformed the S&P 500, with the majority of that underperformance occurring during the last year.

The recent rout in public markets (SPACs), which began around the last few trading days of 2021 and has continued through the first quarter of 2022, has steepened the rate of loss for these recently public companies; however, the initial slide in performance started much earlier in 2021.

Pitchbook's deSPAC Index has posted a decline of 47.8% since 2018, as well as a 35.6% drop since the beginning of 2022 relative to the S&P 500's 59.4% gain since 2018 and 10.6% decline in YTD 2022[6] as shown in fig 7 below.

Figure 6: Pitchbook deSPAC Index Vs S&P 500 (2018 – End Q1.2022)



Source: PitchBook | Geography: Global
*As of March 15, 2022

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[6] PitchBook's Q1 2022 SPAC Update and Performance: Introducing an index to track public performance of deSPAC combinations

The lag in performance of SPACs especially in the US has been met with regulatory intervention with the US SEC introducing rules to govern the operations of SPACs. The proposed rules would require SPACs to provide more investor disclosures with information on ownership of the public shell companies, along with performance forecasts. Some SPACs may also have to register as investment companies, forcing them to face stricter rules[7]. The rules also propose for the amendment of safe harbor rules, leaving SPACs open to investor lawsuits for projecting excessively rosy business forecasts. the SEC also hopes to address complaints about incomplete information and insufficient protection against conflicts of interest and fraud.

Capital Markets Stability Implication:

Kenya, like other Sub Sharan Countries has had a prolonged period of limited initial public offerings. Studies and engagements with industry players has historically indicated that the existing Public Offers Listing and Disclosure Regulations.,2002 are a key barrier to this. As a result, the Authority has embarked on a complete overhaul of the existing POLD regulations in a bid to address some of the key challenges and gaps identified by stakeholders. The new regulations seek to ensure that there is regulatory clarity for issuers, questions relating to high costs of public offering are addressed, provision of a flexible regulatory environment that is pro-innovation. Additionally, regulations will ensure that the growth of small and medium enterprises is supported. Additionally, we are expanding provision for initial public offerings to include SPAC IPOs as we seek to limit the time it takes to come to market for companies that opt to use this capital raising option.

To inform this process, engagements have been initiated with other markets such as Egypt, Pakistan and SA who have successfully introduced SPAC regulations to learn from their experiences to inform a customised approach to our regulations in support of SPACs.

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[7] https://therealdeal.com/2022/03/31/sec-proposes-heightened-rules-for-spacs/

1.4 An Overview of Regulatory Provisions on Special Purpose Acquisition Companies for Select Jurisdictions

Table 2: Comparative Regulatory Provisions on SPACs Across Different Jurisdictions

Singapore	**Hong Kong**	**Egypt**	**South Africa**
▪ Minimum market capitalisation of S$150 million approximately, US $ 110 Million ▪ De-SPAC[8]must take place within 24 months of IPO with an extension of up to 12 months subject to fulfilment of prescribed conditions. ▪ Moratorium on Sponsors' shares from IPO to de-SPAC, a 6-month moratorium after de-SPAC and for applicable resulting issuers, a further 6-month moratorium thereafter on 50% of shareholdings. ▪ Sponsors must subscribe to at least 2.5% to 3.5% of the IPO shares/units/warrants depending on the market capitalisation of the SPAC.	▪ The initial market capitalisation of the securities must be at least HK$25 million. However, this amount can be changed from time to time by Hong Kong Stock Exchange. ▪ At least 25% of the amount placed must be made available to investors other than clients of the lead broker who has received special notification with respect to the placing. ▪ There should not be less than three holders for each HK$1 million of the placing, with a minimum of 100 holders. ▪ Written consent from HKEX required for allocations to certain persons, including 'connected clients' of the lead	▪ The SPAC must have at least EGP 100 mn in capital to complete an acquisition or merger — and at least 80% of the SPAC's capital must be used to acquire a target company. ▪ Until a firm merge with a target company, SPACs will be exempt from some of the measures imposed on listed companies, including requirements to submit financial statements.	▪ The applicant must not carry on any commercial and/or business operations at the time of application to the JSE. An applicant may consider an acquisition of Viable Assets provided that the applicant has not entered into any formal and binding acquisition agreement/s. A statement to this effect must be included in the prospectus/pre-listing statement of the applicant. ▪ It must disclose the acquisition criteria for Viable Assets to allow the board of the applicant to consider and assess the potential acquisition of Viable Assets. The acquisition criteria may not be changed unless a resolution is passed at a meeting of security holders by achieving a 75% majority of the votes cast to that effect. ▪ It must disclose the estimated operating expenses in the prospectus/prelisting statement of the applicant in respect of the operational costs which will be incurred by the applicant during the initial period. ▪ The applicant may not exceed the estimated operating expenses as disclosed in the prospectus/pre-listing statement unless a resolution is passed at a meeting of security holders by achieving a 75% majority of the votes cast to that effect;

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[8] A de-SPAC transaction is a company merger of the Special Purchase Acquisition Company (SPAC), the buying entity, and a target private business. By SEC proxy rules, as a public company the SPAC must obtain shareholder approval of an intended merger. Obtaining shareholder approval for the proposed merger requires holding shareholder meetings, filing proxy statements and obtaining approval from the SEC which can take months

Singapore	Hong Kong	Egypt	South Africa
▪ De-SPAC can proceed if more than 50% of independent directors approve the transaction and more than 50% of shareholders vote in support of the transaction. ▪ Warrants issued to shareholders will be detachable and maximum percentage dilution to shareholders arising from the conversion of warrants issued at IPO is capped at 50%. ▪ All independent shareholders are entitled to redemption rights. ▪ Sponsors promote limit of up to 20% of issued shares at IPO	broker and directors or existing shareholders of the applicant or their associates. ▪ Not more than 25% of the placing may be allocated to 'discretionary managed portfolios' ▪ Not more than 10% of the placing may be offered to employees or past employees of the applicant. ▪ Neither the lead broker nor any distributor may retain any material amount of the securities being placed for their own account.	▪ At least 25% of a SPAC's shares (pre-merger) must be held by institutional investors, while sponsors need to commit at least EGP 10 mn in capital and hold at least 5% of the company's equity post fundraising. ▪ Sponsors must also hold onto their shares for two years or until the SPAC pulls the trigger on an acquisition, whichever comes first. ▪ Fully 50% of shares are to be earmarked for individual investors.	▪ The board of directors may receive remuneration prior to the acquisition of Viable Assets. Details of such remuneration must be disclosed in the prospectus/pre-listing statement of the applicant; ▪ The board of directors must have subscribed for shares or units in the applicant representing at least a 5% interest, on a collective basis, in the applicant on the date of listing. ▪ The subscription shares or units of the board of directors must be held in trust by the applicant's attorneys or other party providing custodial services and must not be sold for a period of at least six months from the date the acquisition of Viable Assets have been completed by the applicant. ▪ The terms of the subscription by the board of directors and the terms of the custodial arrangements must be disclosed in the prospectus/pre-listing statement of the applicant; ▪ The applicant must satisfy the JSE that its board of directors has sufficient and satisfactory experience in the management of the type of Viable Assets in which acquisitions are proposed to be made; ▪ It must have raised a minimum of R500 million through the issue of shares and/or units for listing on the Main Board and R50 million for listing on AltX; and ▪ All capital raised must be paid directly into an account managed by an escrow agent pursuant to paragraph 4.36. A

Singapore	Hong Kong	Egypt	South Africa
			statement to this effect and details of the escrow arrangements must be included in the prospectus/prelisting statement of the applicant.

Source: Various

II: INTERNATIONAL DEVELOPMENTS

2.0 An Overview of Global Growth in 2022

Global growth in 2022 has been characterized by a myriad of risks that continue to pose a threat to economic recovery to pre-pandemic levels as was envisioned in the beginning of the year 2022 including climate change, geopolitical tensions, debt crises, infectious diseases amongst others as depicted in figure 7 below.

The Russian-Ukraine crisis has injected a negative shock to the global economy with spillover effects witnessed in other economies, translated mainly through commodity prices impacting both monetary and fiscal decisions for Governments. Prior to the outbreak of the crisis, most key global macroeconomic variables were seen as returning to normality with a hope on resumption to pre-pandemic levels.

This is mainly anchored on the fact that Russia and Ukraine are large producers and exporters of key food items, minerals and energy across the world. This coupled with pandemic induced global supply chain challenges has resulted in sizeable economic and financial shocks, particularly in commodity markets, with the prices of oil, gas and wheat soaring. The March 2022 issue of the Global Economic Outlook estimates that Russia supplies around 10% of the world's energy, including 17% of its natural gas and 12% of its oil.

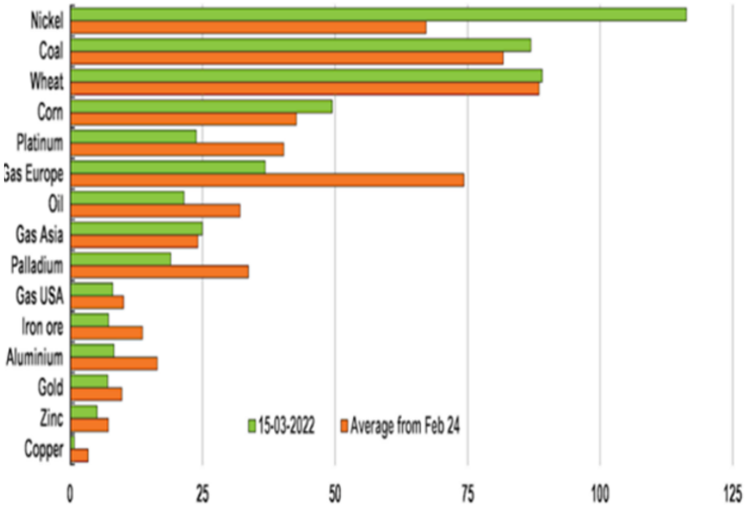
It is now close to two months since Russia's invasion into Ukraine that started on 24th February 2022; with the world witnessing a humanitarian crisis with a record population of 3.1 million Ukrainians becoming refugees in neighboring countries such as Poland, Romania, Slovakia and Hungary.

Figure 7: Top 10 Global Risks by Severity

Source: WEO

Given Russia's geographical location, member countries of the European Union have suffered the immediate effects of the crisis ranging from refugee influx to economic risks related to hiking fuel prices and inflation, further increasing the cost of living in the region.

Figure 8:Price of Principal Export commodities

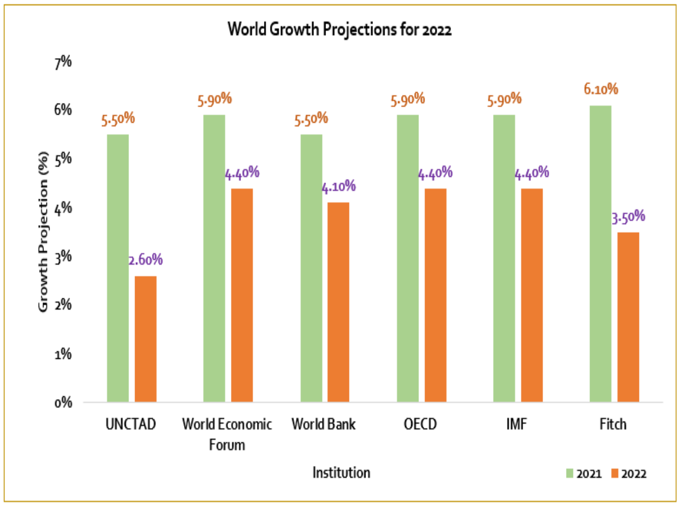


Source: Refinitiv

The spill over effects are expected to be felt across the globe with various institutions downgrading global growth projections across board as summarized in figure 3 below with IMF's and OECD projections forwarding an optimistic 4.4% growth in 2022.

With the crisis still on course, we expect further downgrades if a cease fire on the war is not reached soon.

Figure 9: Estimated World Growth Projections for 2022



Source: UNCTAD/IMF/OECD/Fitch/World Bank

The downgrade is expected to cut across all other regions including developed nations with greatest impact expected in countries that import key inputs from both Russia and Ukraine.

Russia is the world's top wheat exporter, and together with Ukraine, both account for roughly 29% of the global wheat export market.

China is also a big recipient of Ukrainian corn — in fact, Ukraine replaced the U.S. as China's top corn supplier in 2021.

While most of the European Union has been affected by the escalating crisis, Germany seems to be facing the highest risk given its level of trade with Russia. Germany derives most of its energy needs for manufacturing and electricity from the natural gas it gets from Russia.

On the other hand, rising expenses are denting sentiments in Asia, with input prices at a 14-year high in Japan and a record in Australia. In the euro zone, which borders Ukraine, manufacturers are facing an "unprecedented" rise in costs for parts and raw materials that's set to feed into consumer inflation[9].

There are signs of disruption in Germany, where the crisis has thrown into doubt a planned spin-off of Thyssenkrupp AG's steel business. Car-parts maker Schaeffler AG has also scrapped its earnings forecast, while Mercedes-Benz AG is readying plans to cope with potential natural-gas shortages[10].

The IMF has projected economic growth in Sub-Saharan Africa to firm slightly at 3.7% and 3.8% in 2022 and 2023 respectively; while in low income developing countries, 5.3% and 5.5% respectively in 2022 and 2023 with emerging markets and middle-income countries trailing at 4.8% and 4.6% in 2022 and 2023 respectively.

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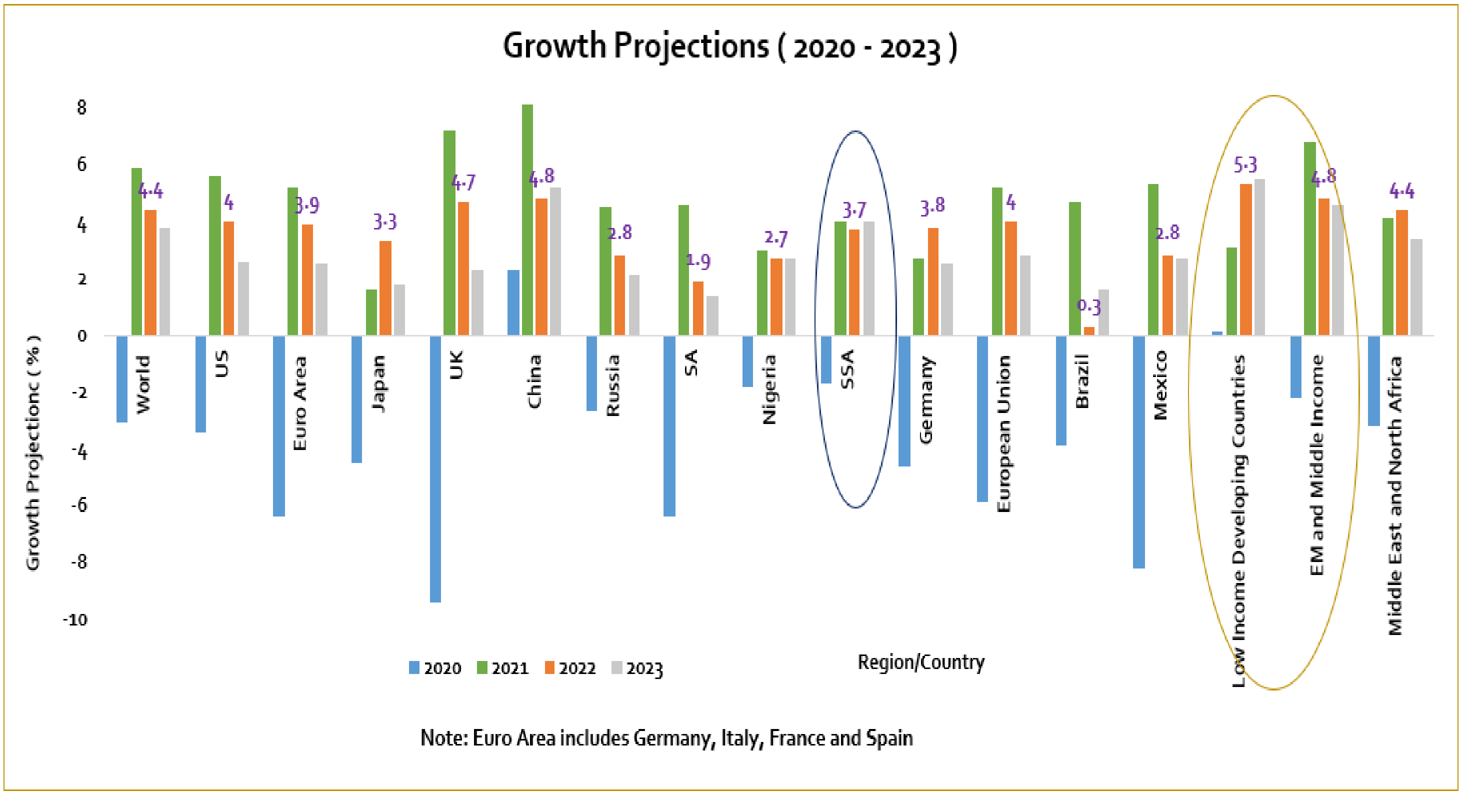
[9] War Dims Global Business Outlook as Inflation Plight Worsens - Bloomberg

[10] War Dims Global Business Outlook as Inflation Plight Worsens - Bloomberg

Figure 10: Growth Projections for Different Regions



Source: IMF, World Economic Update, January 2022

We however expect downward revisions in the coming months to factor in the total effects on the Ukraine-Russia crisis as the lag effect of the crisis manifests in other regions.

Capital Markets Stability Implication:

We note that Q1(Jan-March)2022 has been characterized by negative shocks in addition to the already existing effects of the pandemic, further slowing down the rate of economic regeneration across the globe.

The Russian-Ukraine crisis only added to already existing global risks including climate change, debt crisis particularly in some middle income and low-income countries, infectious diseases, crypto assets, geopolitical tensions, cybersecurity amongst others; all collectively affecting the global financial system in one way or another.

The surge in geopolitical tensions pose a threat to the benefits of globalization that have been accumulated thus far. While the impact of these risks has not had adverse effects in the Sub-Saharan region, it is time for African nations to consider investing in the potential of their domestic economies through increased investments in the real sectors such as manufacturing and agriculture.

For Kenya this calls for a fast-track of the 'Big 4' flagship projects, especially food security and manufacturing. This will further create a sufficient buffer to sustain positive and increased growth with limited dependance on foreign investments and imports as a key catalyst of growth. We therefore encourage more issuers to leverage on the existing infrastructure in the domestic capital markets to raise funds for growth and expansion as businesses slowly regain stability

2.1 The Russian-Ukraine Crisis – Impact on Economic, Financial and Capital Markets

2.1.1 Overview on Ukraine's Economic Status and Sanctions on Russia

Russian- Ukraine crisis has caused a humanitarian crisis in Ukraine. In addition to the human toll, the economic damage is already substantial. Ukraine's economy is expected to shrink by an estimated 45.1 percent this year, although the magnitude of the contraction will depend on the duration and intensity of the war. Hit by unprecedented sanctions, Russia's economy has already plunged into a deep recession with output projected to contract by 11.2 percent in 2022[11].Sea ports and airports are closed and have been damaged, and many roads and bridges have been damaged or destroyed. In addition, Fitch Ratings has downgraded 10 Ukrainian corporate issuers following Ukraine's military invasion by Russia, which increases the issuers' operating risks and jeopardizes their ability to service their financial obligations. The rating actions also follow the agency's downgrade of Ukraine's sovereign ratings on 25 February 2022 to CCC.

While it is very difficult to assess financing needs precisely at this stage, it is already clear that Ukraine will face significant recovery and reconstruction costs. According to an IMF Report published on 7th March 2022, Ukraine is stated to have an external financing gap of $4.8 billion, but its financing needs are expected to grow, and it would

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[11] https://www.worldbank.org/en/news/press-release/2022/04/10/russian-invasion-to-shrink-ukraine-economy-by-45-percent-this-year

require significant additional concessional financing because of the war.

Ukraine has already requested emergency financing of $1.4 billion under the IMF's Rapid Financing Instrument[12]. The IMF further estimates that Ukraine's economic output could shrink by 25 percent to 35 percent, based on real wartime gross domestic product data from Iraq, Lebanon and other countries that have been at war[13]. Thus, the IMF is working to set up a trust fund instrument through which bilateral donors can channel resources to Ukraine. Russia on the other hand is facing its gravest economic crisis in more than 20 years, also induced by the number of sanctions that have been placed on the country by various countries and regions. Table 3 below summarizes the scope of sanctions that has been placed on Russia's financial and economic system thus far.

Table 3: Profile of Sanctions Imposed on Russian Government

	Sanction	**Objective**	**Source Country/Institution**
1	Removal of Russia from SWIFT[14], a global messaging service that connects financial system.	To remove Russia from the international finance system by disrupting its ability to receive payments for exports, pay for imports and engage in cross-border financial transactions.	*European Commission alongside USA, UK and Canada*
2	Limit the sale of "golden passports," which allow wealthy Russians to gain citizenship in another country in exchange for an investment.	To clamp down on wealthy Russians with connections to the government becoming citizens of other countries and "gaining access to global financial systems	
3	Imposing "restrictive measures" that would prevent the Russian Central Bank from deploying its international reserves in ways that undermine the impact of sanctions.	To paralyze Russia's central bank assets and freeze its transactions, making it impossible to liquidate its assets.	*European Commission alongside USA, UK, Japan and Canada*
4	Imposing sanctions on Russian oligarchs, whose economic weight is of strategic significance to Moscow and over 300 members of the Russian Duma, their parliament as well as members of the Security Council of the Russian Federation.	To clamp down on wealthy Russians with connections to the government becoming citizens of other countries and "gaining access to global financial systems	*Australia; USA; UK*
5	Prohibiting the export of goods to the Russian military and security forces including technological solutions.	Limit Russia's ability to advance its military and aerospace sector.	*New Zealand and USA*
6	Barring Russian financial institutions such as the Russian Central Bank from making transactions in American dollars.	Limit capacity of financial institutions to transact.	*United States of America*
7	Sanction on two dozen Belarusian individuals and companies, which include "two significant Belarusian state-owned banks, nine defense firms, and seven regime-	Clamp down on financial strength of Russia's friends	

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[12] IMF Staff Statement on the Economic Impact of War in Ukraine

[13] Ukraine Economy to Contract Sharply in 2022 Due to War, IMF Report Says - The Chosun Ilbo (English Edition): Daily News from Korea - World

[14] The Society for Worldwide Interbank Financial Telecommunication is used by over 11,00 financial institutions to send secure messages and payment orders

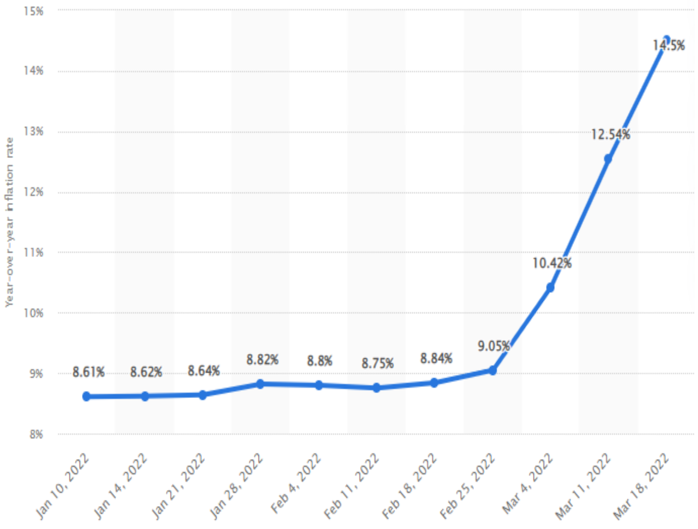
	Sanction	Objective	Source Country/Institution
	connected officials and elites."		
8	Sanctions on the state-owned Russian Direct Investment Fund and cutting off 13 major state-owned companies from raising money in the United States, including energy giant Gazprom and Sberbank, Russia's largest financial institution.	To prohibit Russia from accessing a "rainy day fund"	
ii. 9	Prevent Sberbank, Russia's largest bank, from clearing payments in Sterling with three more Russian banks; Otkritie, Sovcombank and VEB facing a full asset freeze.	Limit access to capital by financial institutions	*United Kingdom*
10	Russian state and private companies to be prevented from fund raising in the United Kingdom.		

Source: Various

2.1.2 Effect of Sanctions on Russia's Economy and Response by Central Bank

i. Rising and Unprecedented Inflation Rates: According to 18 economists polled by the Russian central bank between March 1 and 9, the average key rate this year is forecast at 18.9%[15]. Russia is expected to sustain a double-digit inflation rate as the crisis continues fueled by cost push [16]as well as imported inflation[17].

Figure 11: Year on Year Change in Consumer Prices in Russia (10th Jan to 18th March 2022)



Source: Statista

ii. **Currency Depreciation:** A month ago, the Russian rubble's one-year average exchange rate sat at about 74 per dollar. Trading on different platforms showed the ample liquidity and tight bid/ask spreads expected for a major emerging market currency. All that has changed. With the central bank bereft of a large portion of its hard currency reserves, the rubble plunged to record lows of more than 120 per dollar locally.

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[15] Russia's inflation seen at 20%, GDP down 8% in 2022, c.bank survey shows | Reuters

[16] This occurs when there is a rise in the price of raw materials, higher taxes

[17] This is brought about by a depreciation in the exchange rate , which makes imports more expensive. Therefore, the prices will increase solely due to this exchange rate effect. A depreciation will also make exports more competitive so will increase demand.

Figure 12: Trend of the Russian Rubble in Q1.2022

Note: Roubles per USD identified by platform; end-of-day bids or bid indications
Sources: MOEX, EBS, Refinitiv // Graphic: @RodrigoCampos

In offshore trade it fell as low as 160 to the greenback during the quarter. As liquidity dried up and bid/ask spreads widened, pricing the rubble has become haphazard. The exchange rate is yet to find a balance on- and offshore.

Figure 13: Trend of the Russian Rubble to the USD over the years and within 2012 - 2022

Source: Refinitiv

iii. **Spiking Interest Rates:** Greater financial market uncertainty and diminished risk appetite has pushed up investment risk premia in Russia and Ukraine as well as its surrounding neighbors such as Turkey, Bulgaria, Czech Republic, Hungary, Poland and Romania.

iv. Stock Exchange Halted Trading: The Moscow Exchange is the main liquidity and price discovery centre for Russian instruments. Moscow Exchange hosts trading in equities, bonds, derivatives, currencies, money market instruments and commodities. Securities of over 700 issuers are admitted to trading on the equity and bond markets of Moscow Exchange[18]. The Group also includes Russia's central securities depository "the National Settlement Depository" and the National Clearing Centre, which performs the function of central counterparty. Prior to the crisis, Moscow Exchange ranked among the world's top 20 exchanges by total capitalization of shares traded, and also among the 10 largest exchange platforms for bonds and derivatives trading.

However, for the greater part of the time since Russia invaded Ukraine, the Moscow stock exchange(MOEX Group) has been closed as the United States, European Union and other Western allies imposed sanctions and the Russian ruble plunged to record lows against the US dollar[19].Additionally, the website for the Moscow Stock Exchange was offline and inaccessible on February 28th, 2022, following cyberattack claims.

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[18] https://www.moex.com/s348

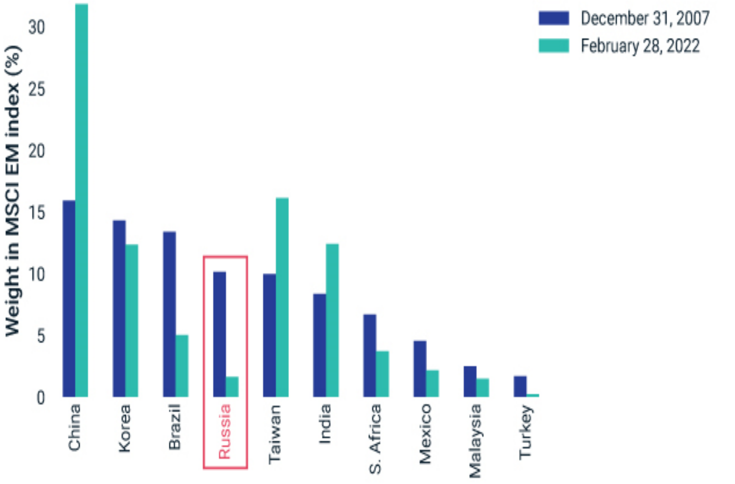
[19] (15) Moscow Stock Exchange will not resume trading next week; Russian Central Bank says (cnn.com)

Figure 14: Trend of the MOEX Index in Q1.2022

Source:https://www.tradingview.com/chart/?symbol=MOEX%3AMOEX

In an optimistic move, the MOEX Group resumed stock trading on 24th March 2022 for residents and professional market players acting on behalf of non-residents with resumption of trading for non-residents planned to start on 1st April 2022.

Figure 15: Russia's weight in the MSCI Emerging Markets Index (%)



Source:MSCI

In addition, the MSCI announced that its Russia indexes will be reclassified from emerging markets (EM) to standalone markets status after a majority of global-market participants confirmed that the Russian equity market is currently uninvest able.

V. **Downgrade of Russia's Credit Rating:** Prior to Russia invading Ukraine, the country had a coveted "investment grade" credit rating with the three major agencies S&P Global, Moody's and Fitch. That allowed it to borrow relatively cheaply, and a sovereign debt default appeared a distant prospect. Today, Russia has suffered the largest cuts ever made to a sovereign credit score. S&P downgraded Russia's rating to CC from CCC-, on March 17th, as the country reported difficulties meeting debt payments due on its dollar-denominated 2023 and 2043 Eurobonds. Fitch Ratings has withdrawn Russia's ratings for sanctions-related reasons. Moody's credit rating for Russia was last set at Ca with a negative outlook[20].

vi. Risk of Default on External Debt: With the existing sanctions, default risk by the Russian Government in the payment of coupons remains, though none has materialized yet. In March 2022, concerns were high on a possible default. However, the Russian government was able to make a $117 million interest payment on its foreign debt. However, a much bigger payment comes due on 4th April 2022 to the tune of $2.2 billion — and creditors are far less optimistic that Russia will meet its obligations.

vii. Foreign Reserve Management Challenges: Measures imposed by the U.S. and international allies have blocked a bulk of Russia's gold and foreign exchange reserves and sought to cut off Moscow from the global financial system. Russia holds over $600 billion in foreign exchange reserves and gold that it can use in currency markets to prop up the ruble. However, a rapidly depreciating currency makes it harder to

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[20] https://tradingeconomics.com/russia/rating

pay off foreign debts and has resulted on higher prices on imported goods[21].

2.1.3 Actions Taken by The Central Bank of Russia to Combat an Economic Downfall

Amidst multiple sanctions and the economic and financial instability caused by the crisis, the Russian Central Bank has taken a series of actions in a bid to maintain the functioning and competitiveness of the Russian financial markets. Some of the interventions include;

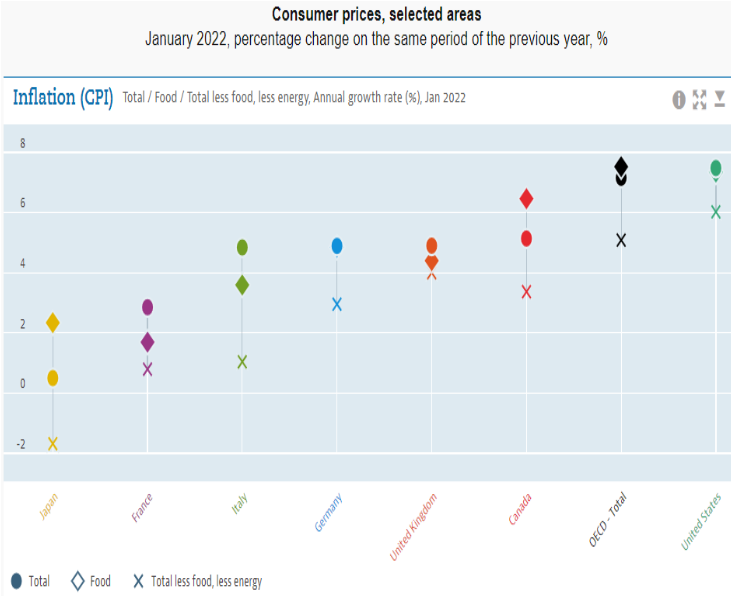
- Doubling a key interest rate to double digit to increase the ruble's appeal, barring people from transferring money to overseas accounts.
- Temporarily closing the stock market to contain the damage and tamp down panic[22].
- By limiting selling and forcing buying, Russia has manufactured demand for its battered currency. One measure being forwarded by the Russian agencies is through demanding payment for exports in the Russian Rubble.
- Consideration for acceptance of payment using cryptocurrencies such as bitcoin.

2.1.4 Impact of the Russian-Ukraine Crisis on Global Markets and Trade

The Russian-Ukraine crisis has resulted in negative economic and financial implications for the rest of the world including;

i. High cost of commodities and manufacturing inputs that has resulted to **increased cost of goods and services across the globe**, resulting to higher inflation rates in most economies, eroding household incomes and drugging down demand.

Figure 16: Inflation Levels in select OECD Countries in January 2022



ii. To sustain the economic pressure, middle income and low-income countries have opted for **support through debt programs with various institutions including the World Bank and the IMF.** Middle income countries such as Pakistan, Egypt and Sri Lanka are currently negotiating with the IMF to keep them afloat following serious political and economic pressures that have come as a result.

iii. With high inflation, **monetary policy options remain minimal for economies** with developed nations gradually increasing interest rates to cool down their economies.

iv. Reduced business confidence and higher investor uncertainty is expected to **weigh on**

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[21] Russian Central Bank Announces Currency Intervention After Ruble Plunges to Record Low After Ukraine Attack (wsj.com)

[22] How Sanctions on Russia Are Affecting the Global Economy - The New York Times (nytimes.com)

asset prices, tightening financial conditions and potentially spurring capital outflows from emerging markets.

v. In the long term, the crisis may **alter the global economic and geopolitical order** should energy trade shift, supply chains reconfigure, payment networks fragment, and countries rethink reserve currency holdings[23]. Increased geopolitical tension further raises risks of economic fragmentation, especially for trade and technology.

vi. High food and energy prices will **exacerbate the limping growth across African states**. Difficulties accessing international capital markets and reduced tourism will directly lead to fiscal pressures. Record wheat prices are particularly concerning for the African region that imports around 85 percent of its supplies, one-third of which comes from Russia or Ukraine.

vii. The conflict comes when most countries have minimal policy space to counter the effects of the shock. This is likely to **intensify socio-economic pressures, public debt vulnerability, and scarring from the pandemic** that was already confronting millions of households and businesses.

2.1.5 Potential Implications on the Kenyan Capital Markets Stability:

Kenya, like other countries is expected to bear the effects of the Russian-Ukraine crisis based on the trade relations with the two countries. Kenya imports steel from both countries.

According to UN Comtrade data, Kenya imported wheat worth Ksh 16 billion from Russia in 2020. While some parts of the country plant wheat, the country often faces deficits given climate change and the ever-increasing demand for wheat by industries. 2020 UN Comtrade World Trade Report further reports that Kenya imported fertilizer worth Ksh 4.9 billion from Russia and Kshs 13.4 billion worth of iron and steel sheets from Russia. Ukraine similarly exported the same products to Kenya worth Ksh 4.5 billion in the same period.

According to world trade data, iron sheets are Kenya's second largest imports from Russia after cereals. Based on the foregoing coupled with the fact that the country is an election year, it is evident that Kenya's financial system – Government and private sector; will need to provide sufficient cushioning to support the operations of the businesses that have been able to withstand the impact of the pandemic to date. In our previous soundness report issues, we have poised economic protectionism as a risk factor as countries seek to become self-sustainable and improve the livelihoods of its citizenry.

The ongoing Russia-Ukrainian crisis now threatens to further worsen access to global commodities and Kenya needs to mitigate against this by significantly expanding its domestic output to cushion itself against shortages.

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[23] The dollar share of international reserves has been in decline over the past two decades as central banks look to diversify their holdings into the Chinese yuan and other currencies, according to a new report by the International Monetary Fund.

Capital Markets Implications

We therefore call for more aggressive policy advocacy through funding of the "Big 4" and Vision 2030 Flagship projects through Private Public Partnerships via the capital markets, even as the Authority finalizes the overhaul of key regulations to support the same.

3.0 Performance of Global Capital Markets

3.1 Initial Public Offerings

On Initial Public Offerings, Bloomberg reports for the first quarter of 2022 show that Initial public offerings (IPOs) have plummeted globally in the first quarter of this year after a record showing last year, as volatility stoked by the war in Ukraine and soaring inflation set investors on edge and inhibited deals.

About US$65 billion has been raised via IPO around the world so far this year, down 70 percent from US$219 billion in the first three months of last year. This puts the global market on track for the lowest quarterly proceeds since the onset of the COVID-19 pandemic in 2020[24].

Stock market listings set a record in 2021 as unprecedented stimulus measures fueled a surge in global equities to all-time highs. Now, the backdrop couldn't be more different, with central banks raising interest rates in response to mounting inflation and investors spooked by Russia's invasion of Ukraine[25].

Rising interest rates combined with sharp market swings have prompted investors to steer clear of companies with high growth forecasts, but relatively little profits — the kind of stocks that dominate the IPO market. Successful IPOs need a more stable market to find the level at which IPOs can clear. As a result, some of the IPOs that had been planned for this quarter have been shelved temporarily as transaction advisors and underwriters wait for a more stable market to issue, presumably in the second quarter of 2022.

The Chicago Board of Exchanges (CBOE)Volatility Index (VIX)[26], a widely watched gauge of expected market swings, jumped above 30 when Russia invaded Ukraine and has had an average reading of about 26 this year, signaling IPOs might be too risky of an investment to receive sufficient appetite. Since February 23 (the day before Russia invaded Ukraine), the VIX has hovered chiefly above 30 and hit 36.5 on March 7. It is therefore no surprise, then, that only 17 U.S. IPOs have priced in 2022, 75% off last year's pace. Historically, most global listings have been priced when the index has been below 25. However, the rule of thumb is the VIX needs to be at least under 20 (thought ideally closer to the mid-teens) for an IPO to safely price[27].

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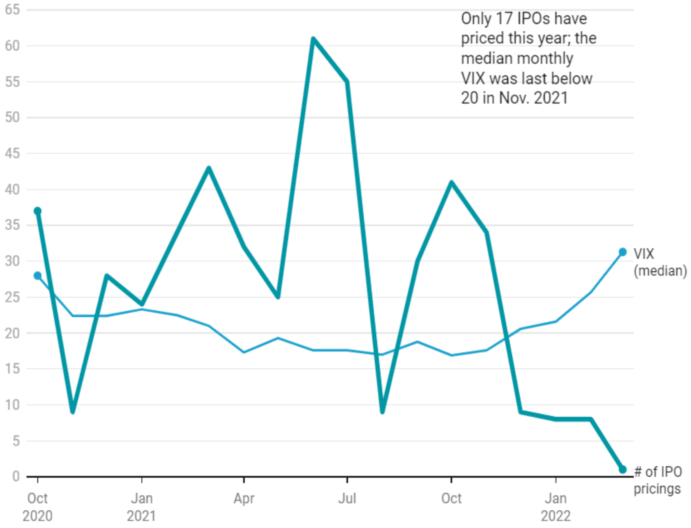
[24] https://www.taipeitimes.com/News/biz/archives/2022/03/28/2003775553

[25] https://www.livemint.com/market/ipo/ipo-market-plunges-70-as-higher-rates-war-curb-risk-appetite-11648284052548.html

[26] VIX is the ticker symbol and the popular name for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options. It is calculated and disseminated on a real-time basis by the CBOE and is often referred to as the fear index or fear gauge aims to forecast 30-day forward volatility in the S&P 500.

[27] https://www.cfo.com/credit-capital/capital-markets/2022/03/ipo-pricing-vix-cboe-volatility-index/

Figure 17: Trend of the VIX (Oct 2020 – Feb 2022) against the No of IPOs Issuances



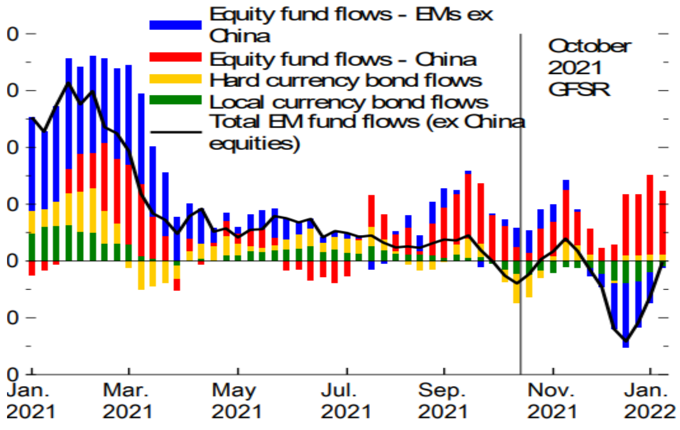
Source: Renaissance Capital, CBOE Global Markets

As shown in fig 18 above, the number of IPO pricings is negatively correlated with the VIX. When the VIX drops, companies jockey to list while the "window" is open, as occurred in mid-June 2021. Conversely, when the VIX rises, especially to 25 and above, the window typically shuts. There are however exceptions: thanks to a large backlog of companies and historic volatility in 2020, 74 IPOs priced in the last three months despite a median VIX level of 28.

3.2 Equities Markets

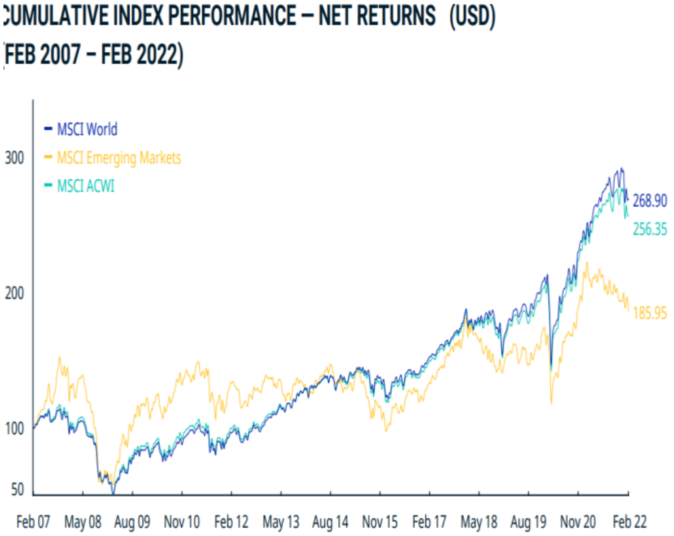
On the Equities Markets, Global capital markets sustained negative equity returns on the back of stock market volatility with the MSCI World Index and Emerging Market Index declining by 3.66 % and 3.04 % respectively in US Dollar terms, over the last 3 months. Investor apathy has also been felt given the stock market volatility witnessed with key energy stocks rising during this period.US treasury bonds continued to rally as investors seek safe havens.

Figure 18: Portfolio Flows to Emerging Markets (Bns US Dollars)



Sources: Bloomberg Finance L.P.; MSCI; and IMF staff calculations.
Note: EM = emerging market; GFSR = *Global Financial Stability Report*.

Figure 19: Performance of the MSCI World Index Vs MSCI Emerging



Source: MSCI

In China, Chinese stocks fell as the March 2022 lockdown in Shanghai took effect to combat the covid 19 virus flareup raised worries over disruptions to business operations and the toll on economic growth.

Figure 20: Performance Trend of Chinese Stocks on the Shang

Source: Bloomberg

Lockdowns add uncertainties to the outlook for Chinese equities, with investors already grappling with regulatory headwinds including a potential delisting of domestic firms from American exchanges, and the fallout from the war in Ukraine. Shanghai is home to the Chinese headquarters of many international companies and the country's largest port.

China's zero-tolerance approach to the virus is putting pressure on growth, even as authorities pledged strong support for the economy and markets via a slew of initiatives earlier this month. The CSI 300 Index is down 16% this year, the worst-performing national gauge in the region[28]. Complimentarily, the Shanghai's stock exchange committed to providing online services over IPO approval meetings, consultations and road shows, while also extending the time window for listed companies.

3.3 Removal of Russia from Key Market Indices

In early March 2022, the index providers MSCI and FTSE Russell made a decision to remove Russian equities from their benchmarks following the stringent financial sanctions from Western governments targeting the country's economy in response to its invasion of Ukraine. This was based on industry consultations with international investors whose sentiments were that the Russian equity market as "uninvestable," and that Russian securities needed to be removed from the MSCI emerging markets indexes effective 9th March 2022 and from the FTSE Russell effective 7th March 2022.

Other index providers such as S&P Dow Jones Indices are also considering removing Russian stocks from its equity-market gauges. Meanwhile, the London Stock Exchange (ticker: LSEG.U.K.) has suspended trading in secondary listings of 27 companies with strong links to Russia, including Rosneft (ROSN.U.K.), Sberbank (SBER.U.K.), Gazprom (OGZD.U.K.), En+ (ENP L.U.K.), and Lukoil 's (LKOD.U.K.) The LSE cited "recent sanctions in connection with events in Ukraine, in light of market conditions, and in order to maintain orderly markets" for the move. Global investors are racing to find ways to execute trades in Russia as sanctions, market closures, and capital controls have frozen the country out of the financial system.

Other include; the Deutsche Boerse (DB1), the New York Stock Exchange, and the Nasdaq who also halted trading in Russian companies with overseas listings[29].Equity index provider MSCI Inc. reclassified the

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[28] https://finance.yahoo.com/news/china-stocks-slide-half-shanghai-013232291.html

[29] MSCI, FTSE Russell Axe 'Uninvestable' Russian Stocks From Indices - MarketWatch

MSCI Russian Indexes from “emerging markets” to “standalone markets” status .The reclassification decision will be implemented in one step across all MSCI Indexes, including standard, custom and derived indexes, at a price that is effectively zero and as of the close of March 9, 2022.The MSCI is reported to have consulted with a number of institutional investors, who it said overwhelmingly confirmed that “the Russian equity market was uninvestable and that Russian securities should be removed from the MSCI Emerging Markets Indexes even as it continues to monitor developments within the Russian market.

3.4 Bonds Markets

On the Bonds Market, FTSE Russell also dropped Russian bonds from its fixed-income indexes informed by feedback from market participants whose response was that there was complete inability for international investors to repatriate bond proceeds in ruble and non-ruble denominated assets from the Russian government and bond issuers. Additionally, it has also been difficult to figure out what the securities are worth right following the Western sanctions as well as market closures that have made it tough to trade, leading to a complete or near-complete lack of price discovery mechanisms for such securities[30].

Capital Markets Stability Implications:

The Capital Markets remains resilient amidst the Ukraine and Russia conflict given the limited exposure of NSE listed economies to Russia. Low listings and public equity financing remain persistent for Kenya and the African Continent as whole, but for unique reasons beyond the Russian and Ukraine conflict. We will continue implementing the capital markets short-term recovery strategy and the reviewed Capital Markets Master Plan, with emphasis of privatization of Government Owned Enterprises through the capital markets as one of the key pipelines for new listings

4.0 Developments by the International Organisations of Securities Commissions (IOSCO)

4.1 IOSCO Supports "Supervisory Colleges" for Internationally Active Credit Rating Agencies

In January 2022, the International Organization of Securities Commissions (IOSCO) published a report detailing the benefits of establishing ‘supervisory colleges’ for internationally active Credit Rating Agencies. This was informed by the international regulatory bodys observation on the fact that the dispersion of internationally active CRA affiliates worldwide presented a challenge to supervisors because it provided them with only a limited perspective on activities of the CRAs in their jurisdictions. To address this issue, IOSCO has recommended the development of a "college of regulators" to operate as a forum for exchanging information about internationally active CRAs and to promote cooperation to enhance risk assessment and to support effective supervision of such CRAs[31]. IOSCO noted that a CRA college was viewed as being less likely to raise legal or regulatory issues among the various IOSCO jurisdictions than other types of

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[30] FTSE Russell Removes Russian Bonds From Indexes (wsj.com)

[31] https://www.findknowdo.com/news/01/20/2022/iosco-supports-supervisory-colleges-internationally-active-credit-rating-agencies

bodies. The potential benefits, as outlined in the report, include:

i. Improved quality of supervision resulting from the broader information base that could be available through more routine information exchanges.
ii. Improved ability to assess the risks of a particular Credit Rating Agency;
iii. Fostering of the pursuit of common regulatory objectives; and
iv. Operational efficiencies

Capital Markets Stability Implication:

The role of Credit Rating Agencies in promoting investor confidence and investment decision making with respect to both privately and publicly issued securities has remained a key factor in promoting successful issuances over the post.

Over the years, three international Credit Rating Agencies namely, Fitch Ratings, Moody's and S&P have dominated the industry. However, with the establishment of more international CRAs operating across jurisdictions globally, requires regulators to establish mechanisms of information sharing with their sister regulators as they allow such entities to operate within their jurisdictions.

The Authority has noted this development and will seek to ensure that its new regulations on Credit Rating Agencies that requires international CRAs to register with the Authority is aligned to the recommendations from the report.

4.2 IOSCO Publishes its Inaugural Investment Funds Statistics Report[32].

During the review period, the Board of the International Organization of Securities Commissions (IOSCO) published its Investment Funds Statistics Report, which provides new insights into the global investment funds industry and the potential systemic risks this industry may pose to the international financial system. Since 2010, IOSCO has undertaken a biennial data collection exercise in the form of the IOSCO Hedge Funds Survey. However, the scope of this latest report goes beyond hedge funds to include, for the first time, an analysis of the opened-ended and closed-ended funds industries. It is based on a comprehensive collection of supervisory data from IOSCO members. Going forward, the report will be an annual exercise that aims to facilitate the regular collection and analysis of investment fund data, enabling regulators to share information and observe trends regarding trading activities, leverage, liquidity management, markets, and funding in the global investment funds sector. The key highlights of the report include;

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[32] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD693.pdf

i. In aggregate, open-ended funds are not meaningfully leveraged by any metric.
ii. In normal times, the portfolio liquidity is managed in line with the liquidity offered to investors.
iii. Hedge funds exhibit strong liquidity management procedures, with portfolio liquidity far more than the liquidity offered to investors.
iv. Hedge funds aggregate leverage, while increasing, is still below leverage levels seen in most banks.
v. For closed-ended funds, liquidity management concerns are not the same as for other fund types, while leverage levels are not meaningful.
vi. Current leverage metrics inadequately capture the leverage employed by Private Equity (PE) funds. PE are heavy users of leveraged finance and are more likely to place that leverage on the balance sheet own investment target rather than on the fund´s own balance sheet

Capital Markets Implication:

A circular on Global Investment Performance Standard (GIPS) was issued to market stakeholders by CMA Kenya issued 9th September 2020 in order to address the challenges of ununiform pricing methodologies and basket of asset classes in specific sub funds in Collective Investment Schemes and Fund managers as a stop gap measure. Management will glean off lessons from IOSCO report to align the Collective Investment Schemes and Alternative Investment Funds regulations and reporting to international standards.

4.3 Consultation paper on measures to address risks arising from digitalization of retail marketing and distribution[33].

The Consultation Report published by IOSCO during the quarter is part of IOSCO's efforts to be proactive and forward looking in building trust and confidence in markets which are facing new and emerging opportunities and risks, including those posed by digitalization and the development of new products such as crypto assets.

The Report analyses the developments in online marketing and distribution of financial products to retail investors in IOSCO member jurisdictions, both domestically and on a cross-border basis. It presents proposed toolkits of policy and enforcement measures. The policy and enforcement toolkits include seven and five measures, respectively, that would help in addressing the issues and risks associated with online marketing and distribution. They are herein summarized in the table below.

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[33] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD695.pdf

Table 4: Proposed Policy Toolkit

Measure	Policy	Details
1	Firm level rules for online marketing and distribution	IOSCO members should consider requiring that firms have proper internal rules, policies, processes and tools for their online marketing and distribution, and review them on a regular basis.
2	Firm level rules for online onboarding	IOSCO members should consider requiring that firms 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.
3	Responsibility for online marketing	IOSCO members should require, subject to a jurisdiction's laws and regulations, that management 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.
4	Capacity for surveillance and supervision of online marketing and distribution	IOSCO members should consider whether they have the necessary powers and have adequate supervisory capacity to oversee an increasing volume of online marketing and distribution activity.
5	Staff qualification and/or licensing requirements for online marketing	IOSCO members should consider requiring that firms assess the necessary qualifications for digital marketing staff.
6	Ensuring compliance with third country regulations	Where firms 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.
7	Clarity about legal entities using internet domains	IOSCO members should consider requiring firms, when they offer products through multiple internet domains, to 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: IOSCO

Table 5: Proposed Enforcement Toolkit

Measure	Enforcement	Details
1	Proactive technology-based detection and investigatory techniques	IOSCO members could consider whether to use proactive technology-based monitoring tools and approaches, where appropriate, to support the detection and investigation of potentially illegal digital conduct.
2	Power to promptly take action where websites are used to conduct illegal securities and derivatives activity, and other powers effective in curbing online misconduct.	IOSCO members could consider seeking additional powers to be more effective in promptly curbing illegal online conduct, including the power to shut down or block access to illegal websites, or seeking a legal order to do so, where appropriate.
3	Increasing efficient international cooperation and liaising with criminal authorities and other local and foreign partners	IOSCO members could consider ways to increase efficient cross-border cooperation and collaboration in investigations and enforcement actions and enhancing liaison with criminal authorities and other relevant local or foreign partners.
4	Promoting enhanced understanding by and collaboration with providers of electronic intermediary services with regards to digital illegal activities	IOSCO members could consider initiatives, individually and collectively through IOSCO, to foster more meaningful understanding by and collaboration with providers of electronic intermediary services in curbing digital illegal activities and anonymous website registration.
5	Additional efforts to address regulatory and supervisory arbitrage	IOSCO members could consider additional efforts to address regulatory and supervisory arbitrage in the interest of facilitating international enforcement cooperation and enhancing investor protection on a global scale.

Source: IOSCO

Capital Markets Implications

The Authority notes that the rapid growth in digitalization and use of social media is changing the way financial products are marketed and distributed. Online domestic and cross border offerings of financial services and products provide new opportunities for firms to reach potential clients and for investors to access financial products. Cognizant of this, CMA is working with the industry to develop a capital markets digitization strategy as recommended at the inaugural Capital Markets Consultative Forum.

Additionally we will be ensuring that all ongoing reviews of regulations will incorporate innovative and up to date solutions to ensure proper regulation of securities in the increasingly digitalized capital markets.

5.0 SME listing in a Post-Pandemic World-World Federation of Exchanges

The World Federation of Exchanges (WFE) published a report on how regulators should leverage on flexibilities for listed issuers to stimulate SME listing at their respective bourses. The report was prepared based on research findings of a WFE member survey on covid-related issuer flexibilities, to help companies deal with the challenges of the pandemic. The paper acts as a stock take of the measures that were introduced but also considers whether some of these relaxations are fit for purpose as we 'build back better' following the pandemic. In particular, the paper notes the following :

1. Capital raising initiatives, including relaxed pre-emption rights for shareholders, enabled companies to raise emergency funding and remain fully solvent during the pandemic.
2. Regulatory authorities extended temporary extensions for filing of annual disclosures to listed entities.
3. Virtual and hybrid Annual General Meetings enabled shareholders to effectively engage with company management, without having to be present in person.
4. Online investor roadshows enabled savings in terms of management time and costs, compared with traditional roadshows.
5. Alternative audit procedures were employed by the international audit community, to provide a 'reasonable level of assurance' over corporate reporting.
6. A number of WFE members produced guidance for issuers and investors to promote awareness of ways to deal with the novel challenges of the pandemic.
7. Effectively implementing these relaxations required close working with key stakeholders.

In relation to the nature of the companies accessing public markets, while some of WFE member markets have noted a marked shift towards technology companies (for example, in China, the percentage of certified high-tech companies across the Shenzhen exchange markets was at 73% at end December 2018, up from 33% before 2004) in other markets (such as Malaysia) technology companies remain a minority (20%) of the companies listed on the market. In Norway, while technology companies are using the market for financing, this is not to the exclusion of other types of companies. In South Africa, many small businesses are in the retail or services sectors.

The report concludes that the following are necessary for the creation of an effective equity financing environment for SMEs:

1. **Reduction of Listing Costs-**Market regulators/policymakers should identify ways to reduce costs associated with listing: The decision to list (or otherwise) entails a cost-benefit analysis for the firm. Mechanisms to reduce costs should therefore focus on addressing the complexity and scale of the requirements of listing and maintaining a listing.
2. **Addressing barriers to use of public markets -** These may include institutional investor mandates that limit the ability to invest in small cap companies, and tax structures that preference certain types of finance above others.
3. **Enhance disclosure requirements without making them too onerous-**There should also be a focus on identifying ways to enhance the information that is available about listed SMEs. This entails focusing both on finding ways to improve the quality of SME disclosure (which does not necessarily equate to more

disclosure, but rather more accurate, more efficient and relevant disclosure) and encouraging more independent, third-party coverage of SMEs.

4. **Investing in effective market education-** This is for both companies and investors: WFE research highlighted that in some instances companies are not aware of the range of financing options that are available to them, and/or the implications of particular financing choices. In other instances, companies that come to market may not understand what is required of them as a listed company and not invest sufficiently in the requisite governance, financial compliance and investor relations functions to achieve the best outcomes from their listings experience.

Capital Markets Stability Implications:

The conclusions from the report on how best to enhance equity financing for SMEs are well aligned to the policy gaps that formed the basis upon which the review of the Public Offers Listing and Disclosure Regulation is being undertaken. This provides more confidence on the Authority's policy framework informing the regulatory review process as it is well aligned to global practices, with the objective of increasing Kenya's competitiveness in the industry.

The Authority further notes the collaborative approach to support SME financing adopted by the FRA, Egypt, indicating the need for increased cooperation an partnerships across regulators and institutions in ensuring successful SME support. We will continue seeking for collaborations aimed at providing solutions to SME financing in Kenya. A look into the banking industry as a complimentary partner rather than a competitor is important in informing collaboration strategies given the expansive profile of banks in the country.

II: SUB SAHARAN AFRICA AND REGIONAL DEVELOPMENTS

6.0 Financial Regulatory Authority Egypt Launch Responsible Finance and Protection of Customer Rights Initiative[34]

Micro, Small and Medium Enterprises (MSMEs) are the backbone of any strong economy. In the MENA region (Middle East and North America), Egypt is the largest SME hub. Amongst the challenges encountered by SMEs in their daily operation in Egypt include poor financing option, regulatory issues and slow technology adoption. In particular, lack of access to sustainable financial products has hindered growth and expansion of SMEs in the region.

The financial Supervisory Authority and the Central Bank of Egypt called upon multiple financing agencies and in particular those that finance microenterprises. In order to improve the quality of financial services provided in the Egyptian Market, The Egyptian Fund for Micro, Small and Medium Enterprises adopted the initiative "responsible financing and protection of customers right." Through the joint declaration, the Financial Supervision and the Central Bank of Egypt will seek to encourage stakeholders to apply the principles of responsible finance.

The applied principles must meet the client's needs, be aligned with the international best practice of responsible finance and seek to protect the rights of the client in the microfinance industry. A financing mechanism that would allow determination of a client's ability to borrow and meet

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[34] https://fra.gov.eg/

financing and installment as required must incorporate measurement instruments both for the financing Authority and the client.

Capital Markets Stability Implication:

Capital Markets Authority notes the collaborative approach to support SME financing adopted by the FRA, Egypt, indicating the need for increased cooperation and partnerships across regulators and institutions in ensuring successful SME support. The Authority will continue seeking for collaborations aimed at providing solutions to SME financing in Kenya. A look into the banking industry as a complimentary partner rather than a competitor is important in informing collaboration strategies given the expansive profile of banks in the country.

7.0 SEC Ghana issues a public notice on further extension of moratorium on the Fund Management Licenses.

During the quarter under review (Feb 1, 2022) Securities Exchange Commission (SEC) Ghana extended the moratorium on the issuing of new Fund Management Licenses for a further period of six (6) months. This is pursuant to the reasons contained in the notice issued in September 2019 when Ghana's capital markets regulator placed a moratorium on issuing of new fund management licensees. This effort was to enable SEC focus on the following: i. A thorough review of the current licensing regime for a stronger and a more efficient and resilient market and the introduction of new licensing guidelines and directives, ii. A resolution of the current challenges facing the securities industry and the capital market iii. The Introduction of new products in the capital market to deepen the existing market and to provide more investment options for investors and the public and iv. A thorough overhaul of the Commission's activities.

Capital Markets Stability Implications

In Kenya we have witnessed many capital market intermediaries not applying the full scope of their licenses, or not carrying out the businesses, notably investment banks and investment advisors. The Authority notes that Ghana's decision to issue a moratorium on a license category informed by the need to review the existing licensing regime seems to be a welcome move in the absence of full review of its regulations on licensing. CMA Kenya similarly plans to conduct an overhaul of its licensing regulations in the next financial year and will seek to borrow lessons from the other jurisdictions such as Ghana to ensure increased uptake and competitiveness of all licensing categories within the industry.

III: LOCAL DEVELOPMENTS

8.0 NSE Records losses due to Ukraine-Russian War

On 24th February, 2022 following Russian's invasion into Ukraine, the Nairobi Security Exchange (NSE) recorded a loss of Kshs. 92 billion. This is biggest loss that NSE has made since March 2020 when the Covid Pandemic first struck. In the recent past, foreign investors have been withdrawing from the market due to the uncertainties associated with the upcoming elections. The withdrawal of the blue-chip stock which are common with foreign investors has pushed the bourse further down to a seven-month low.[35]

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[35] https://www.businessdailyafrica.com/bd/markets/capital-markets/nse-sheds-sh92bn-in-a-day-as-russia-invades-ukraine-3728776

Figure 21: Trend of the NSE Market Capitalization (Jan - March) 2021 Vs 2022

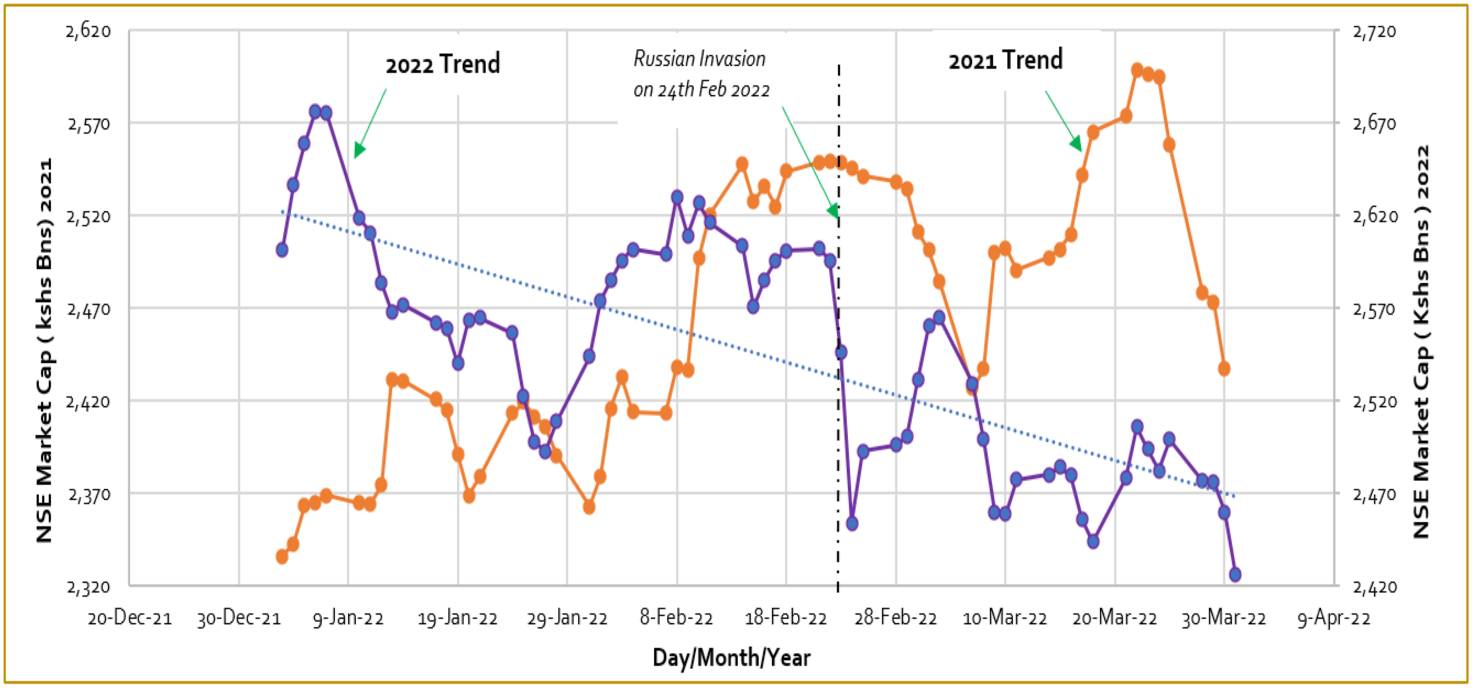
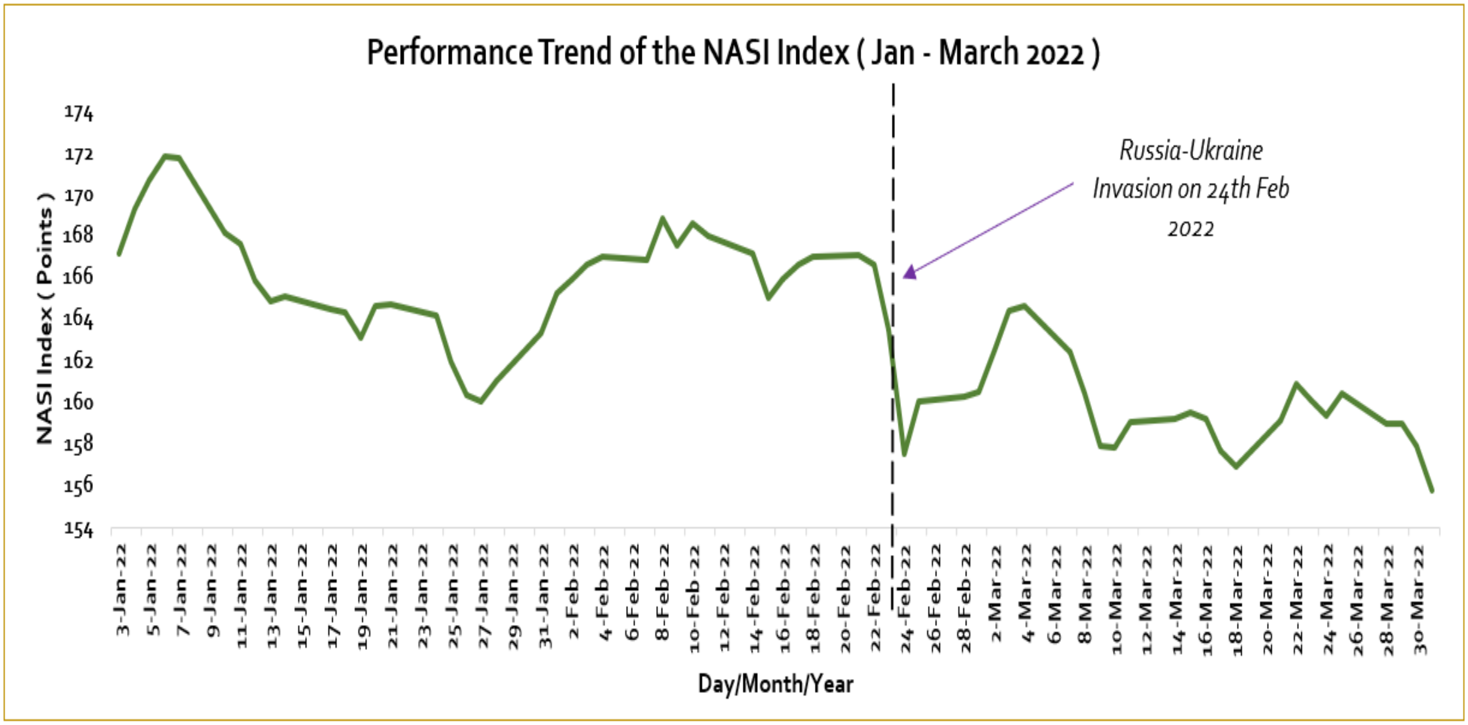
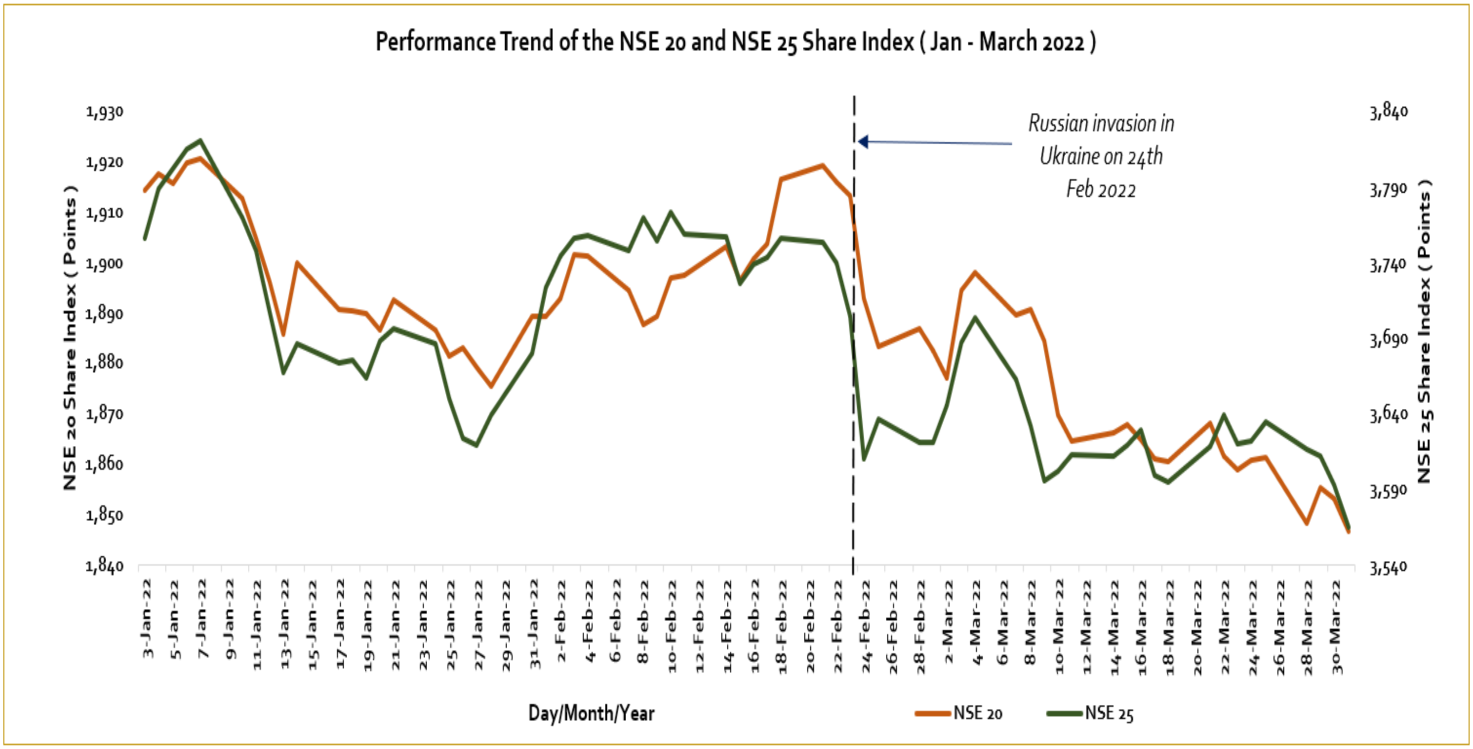


Figure 22: Performance Trend of the NASI Index in Q1.2022



Source: CMA/NSE

Figure 23: Performance Trend of the NSE 20 and NSE 25 Share Indices in Q1.2022



Source: CMA/NSE

Other Exchanges across Africa have also been affected. Johannesburg Stock Exchange all-share index for instance, recorded a drop by 3.7 percent, Egypt Stock Exchange's EGX100 index by 7.3 percent and, the Nigeria Stock Exchange by 0.1 percent.[36]

Capital Markets Stability Implication

With the Russia's invasion into Ukraine, coupled with the politics ahead of the August 2022 elections, the risk of volatility in the NSE indices remain a key concern on market stability. The Authority will commit to monitoring the impact of these events on the NSE indices through the Capital Markets Soundness Stability indicators for increased transparency.

9.0 Fintech: Sycamore Capital Ltd admitted to Regulatory Sandbox[37].

On 10 January 2022, the Capital Markets Authority (CMA) admitted Sycamore Capital Limited in the Regulatory Sandbox for six months. The fintech firm seeks to test its application named Cashlet App, a digital mobile-based unit trusts investment application. Sycamore has partnered with licensed fund managers to avail units to the Cashlet App for testing.

The Cashlet App if successfully tested and rolled out in the open market, will play an important role in driving investor participation in the capital markets through collective investment schemes (CIS) thus providing a convenient and affordable opportunity for small

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[36] https://www.businessdailyafrica.com/bd/markets/capital-markets/nse-sheds-sh92bn-in-a-day-as-russia-invades-ukraine-3728776

[37] https://www.cma.or.ke/index.php/news-publications/press-center/453-press-release-cma-admits-sycamore-capital-ltd-to-regulatory-sandbox

investors to have access to professionally managed and diversified portfolios of assets.

Capital Markets Implication:

Since its inception the Regulatory Sandbox framework has facilitated the deployment and testing of innovative technology by various FinTech firms in a controlled and cost-effective environment which is in line with the Authority's strategic objective of leveraging on technology across the capital markets value chain. The admission of Sycamore Capital to the CMA Regulatory Sandbox raises the number of participants in the live test environment to 13.

10.0 The Kenyan Senate approves the Bill targeting Kenyans abroad to invest[38].

During the quarter, the Senate approved a bill that will give Kenyans living in the diaspora special incentives, including wealth protection to encourage them to invest back in the country. The Bill requires Foreign Affairs Cabinet secretary to craft a voluntary savings scheme for Kenyans living abroad. In addition, the bill will also open the window for Kenyans in the diaspora to form associations and voluntarily contribute to a saving scheme. The Bill seeks to amend the Kenya Citizenship and Immigration Act to require the Foreign Affairs Cabinet Secretary, in consultation with the relevant Kenya mission to promote the establishment of a voluntary savings scheme for Kenyans living abroad. However, Kenyans in the US under the Diaspora Life Think-Tank expressed dismay that it is being floated without their input and, therefore, does not reflect their priorities. They contend that the proposed Bill is a deflection from the real issues that the diaspora wants their government to tackle.

Capital Markets Implications:

Statistics from the Central Bank of Kenya shows that Kenyans living abroad remit more than Sh300 billion annually and, therefore the Senate crafted a bill meant to address investment needs of Kenyans living in Diaspora. The Authority is keen on providing financial products that attract participation from the diaspora community in promoting investments in the domestic capital markets. The Authority will review the bill and seek specific provisions that can be leveraged on in our engagements with the diaspora community. Further, the Authority may consider presenting any issues raised by the diaspora community to the Ministry of Foreign Affairs to ensure synergy is achieved.

11.0 Performance in the Domestic Capital Markets

11.1 Overview of Key Soundness Indicators

The Kenyan capital markets had mixed performance in the soundness indicators during the period under review. Average foreign trading in the equity market [39]was 59.73% and 57.02% for January and February 2022 respectively. This is against an average foreign trading of 57.73% recorded in the last quarter. From a net perspective, the months of January and February recorded a sum inflow of Kshs 235 million. This shows a positive market sentiment by foreign investors, in spite of the impact of the Russian

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[38] http://www.parliament.go.ke/sites/default/files/2021-04/INVESTMENT%20PROMOTION%20AMENDMENT%20BILL%2C%202021%20.pdf

[39] March statistics were not available as at the time of the preparation of this report.

invasion to Ukraine during the quarter, compared to a net outflow of Kshs 5.3 billion in the last quarter.

Investor net worth at the NSE shed by Kshs 117 billion as reflected by the market capitalization levels of Kshs 2,476.04 billion as of 25th March 2022 compared to Kshs 2,592.92 billion in the previous quarter end.

Market concentration for the top 5 companies by market capitalization averaged at 79.23% for the months of January and February 2022, compared to an average concentration of 80.16% recorded in Q4.2021.

Turnover ratio as of 25th March 2022 averaged at 0.35% in the period under review, down from 0.46% recorded in the previous quarter signaling a drop on market liquidity levels. Treasury bond turnover in the period under review as at 25th March 2022 amounted to Kshs 175 billion, compared to Kush's 179 billion recorded in Q4.2021. However, this was still lower than Kshs 288 billion recorded in Q3.2021.

Volatility of the NASI, NSE 20 and NSE 25 share indices for the quarter under review as of 25th March 2022 remained low at 0.60%, 0.28% and 0.45% respectively. This was an increase for the indices except the NSE 20 Share index whole volatility fell by 0.09% when compared to performance in Q4.2021

11.2 Performance in the Bond Market

11.2.1 Treasury Bond Markets

In the primary Treasury bonds market, a quarterly analysis indicates that during Q1. 2022, Eight (8) Treasury bonds were issued (6 reopening, 1 new issue and 1 tap sale). In issuing these bonds, the government sought to raise a total of KShs.216.50 Billion and received bids worth KShs.264.90 Billion. The government accepted bonds worth KShs.203.28 Billion, indicating an aggregated 76.74% acceptance rate.

11.2.2Corporate Bond Market

As at December 2021, the total outstanding amount, KShs.28.81 billion, which represents a 69.67% increase from KShs.16.98 billion reported in the previous period. This increase in total outstanding amount was brought about following issuance of EABL medium term note of Kshs.11 billion and Acorn drawdown of the seventh trance of KShs.827 million. The largest proportion of corporate bonds was held in Fund Managers and nominee accounts representing 66.1% of the outstanding corporate bonds in issue. The remaining 33.9% was distributed amongst the banks, Investment Companies, insurance Companies, and retail investors.

Table 6: Summary of Treasury Bond Primary Market Performance

Date	Bond	Amount Issued (Kshs Bn)	Amount Received (Kshs Bn)	Amount Accepted Kshs Bn)	(% AA/AI	% AR/AI
			Q1. 2021			
Jan 2021	**FXD1/2021/002**	25.00	61.15	55.86	223.44	246.20
	IFB1/2021/016	50.00	125.47	81.05	162.1	250.94
Feb 2021	**FXD1/2013/15**	50.00	13.55	9.41	18.82	27.10
	FXD1/2012/20		28.31	22.71	45.42	56.62

	Tap Sale	18.00	11.24	10.91	60.61	62.44
Mar 2021	**FXD1/2019/10**	50.00	15.90	15.51	31.02	31.80
	FXD2/2018/20		32.81	32.80	65.60	65.62
	Sum	**193**	**288.43**	**228.25**		
Q1. 2022						
Jan 2022	**FXD1/2020/05**	60	28.39	27.43	45.72	47.32
	FXD2/2018/10		10.43	7.30	12.17	17.38
	FXD1/2021/20		27.98	27.60	46.00	46.63
Feb 2022	**IFB1/2022/19**	75	132.26	98.64	131.52	176.35
March 2022	**FXD1/2021/05**	50	9.21	8.29	16.58	18.42
	FXD1/2020/15		9.14	6.22	12.44	18.28
	FXD1/2021/25		22.60	3.94	7.88	45.20
	Tap Sale	31.50	24.89	23.86	75.75	79.02
	Sum	**216.5**	**264.9**	**203.28**		

Source: CMA/NSE

IV: CAPITAL MARKETS STABILITY SOUNDNESS INDICATORS FOR THE PERIOD JANUARY – MARCH 2022

Table 7: Capital Markets Stability Indicators (January – March 2022)

Stability Indicator	Quarter/Year	Market Statistics				Assessment ofRisk Level	Performance Brief forthe Quarter	Ongoing Intervention Measures
1.0 Equity Market Depth								
NSE 20 Index Volatility Base Year = 2010	**Q1.2022**	**Jan**	**Feb**	**Mar**	**Q. Avg**	**Medium** (indicative – Low < 1% Medium: >1% high; >10%)	In the quarter under review, Volatility in the three NSE indices improved in performance quarter on quarter with the NSE 20, NSE 25 share index and the NASI averaged at 0.29%, 0.45% and 0.61%	The NSE Indices points on average stabilized relatively from the last quarter following a relaxation on some previously restrictive covid protocols across the globe as well as a wait and see approach adopted as a trading strategy. However, upon Russia's invasion into Ukraine, the indices, like other global indices suffered a decline attributable to the interconnectedness of markets. Trading has since picked up post 24th Feb 2022 but not yet to pre pandemic levels. The Authority working closely in conjunction with the NSE continue to monitor any exposures that the Kenyan market could suffer from as it forwards a policy proposition for increased domestic investor
		0.27%	0.29%	0.31%	0.29%			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.26%	0.43%	0.43%	0.37%			
	Q3.2021	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.33%	0.23%	0.37%	0.31%			
	Q2.2021	**April**	**May**	**June**	**Q. Avg**			
		0.36%	0.28%	0.37%	0.34%			
NSE 25 Index Volatility Base Year = 2015	**Q1.2022**	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.42%	0.54%	0.39%	0.45%			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.44%	0.47%	0.36%	0.42%			
	Q3.2021	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.39%	0.47%	0.37%	0.41%			
	Q2.2021	**April**	**May**	**June**	**Q. Avg**			
		0.44%	0.71%	0.32%	0.49%			
NASI Volatility Base Year = 2010	**Q1.2022**	**Jan**	**Feb**	**Mar**	**Q. Avg**	**Medium** (Indicative – Low < 1% Medium: >1% high; >10%)		
		0.55%	0.74%	0.54%	0.61%			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.64%	0.58%	0.51%	0.57%			
	Q3.2021	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.60%	0.51%	0.47%	0.53%			

Stability Indicator	Quarter/Year	Market Statistics				Assessment ofRisk Level	Performance Brief forthe Quarter	Ongoing Intervention Measures
	Q2.2021	**April**	**May**	**June**	**Q. Avg**			participation – retail and institutional alike to form a buffer against severe shocks that could greatly affect foreign investor activity at the bourse.
		0.61%	0.86%	0.37%	0.61%			
Turnover Ratio	**Q1.2022**	**Jan**	**Feb**	**Mar**	**Q. Avg**	**High** (indicative – annual: <8%- Low; >15% High)	Equity turnover ratio in the reporting period averaged at 0.365%; the lowest level recorded within the last four quarters.	Kenya's turnover levels continue to suffer from the effects of negative economic shocks even as the country approaches the August 2022 elections. Improving the markets turnover levels in the long run requires more listings as well as increased investments by both institutional and retail investors. This forms the basis of the Authority's work on the promotion of market development through targeted investor education and market deepening initiatives spanning corporates, public corporations, private companies, educational institutions etc.
		0.32%	0.40%	0.39%	0.36%			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.37%	0.61%	0.40%	0.46%			
	Q3.2021	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.34%	0.41%	0.36%	0.37%			
	Q2.2021	**April**	**May**	**June**	**Q. Avg**			
		0.39%	0.54%	0.52%	0.48%			

Stability Indicator	**Quarter/Year**	**Market Statistics**				**Assessment ofRisk Level**	**Performance Brief forthe Quarter**	**Ongoing Intervention Measures**
								In addition, the Authority has partnered with the NSE in a bid to ensure that there are new products in the market such as day trading that will increase the flexibility and transparency with which investors in the capital markets are able to trade and transact.
2.0	**Foreign Exposure Risk**							
Foreign Investor turnover as a % of total turnover	**Q.1 2022**	**Jan**	**Feb**	**Mar**[40]	**Q. Avg**	**Medium** (indicative – annual: <40%-Low; >90% High)	Average foreign investor participation the quarter ended March 2022 averaged at 54.88%; a fall from last quarters value of 57.73%	The market has historically recorded , foreign investor participation in the range of 60% to 70% between 2019 and the first half of 2021. However, with increased global economic shocks, the market has suffered loss in its foreign investor participation levels in recent months with March 2022 recording the lowest level of 47.89%. This reflects the risk poised by increased capital outflows calling for the Kenyan industry to be more strategic in
		59.73%	57.02%	47.89%	54.88%			
	Q4. 2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		64.83%	51.16%	57.20%	57.73%			
	Q3.2021	**July**	**Aug**	**Sep**	**Q. Avg**			
		56.16%	48.53%	49.91%	51.53%			
	Q2.2021	**April**	**May**	**June**	**Q.Avg**			
		64.75%	56.71%	54.74%	58.73%			
Net Foreign Portfolio Flow (In KES Millions)	**Q1.2022**	**Jan**	**Feb**	**Mar**	**Q. Sum**	**High** (indicative – annual: <Kshs (50million) - High (outflow; >KShs. 50 million High	In the period Jan – Feb 2022, the market recorded a net inflow of Kshs 235 million compared to an outflow of Kshs. 5.3	
		422	(187)	(1,451)	(1,687)			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Sum**			
		(1,021)	(4,294)	(2874)	(5,315)			
	Q3.2021	**July**	**Aug**	**Sep**	**Q. Sum**			

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[40] March data was not available during computation

Stability Indicator	**Quarter/Year**	**Market Statistics**				**Assessment of Risk Level**	**Performance Brief for the Quarter**	**Ongoing Intervention Measures**
		155	1,721	(942)	934	inflow)	Billion in the last quarter.	increasing the profile of domestic investors in the country. This is what has enabled countries such as China and the United States remain resilient over the years. The Authority will continue investing more innovative, client friendly ways of engaging its citizenry to highly consider expanding their portfolio of wealth to include financial securities both as a patriotic move and for personal growth.
	Q3.2021	**April**	**May**	**June**	**Q. Sum**			
		(31)	(782)	(1,196)	(2,009)			
3.0	**Market Concentration Risk**							
Market Concentration (Top 5 companies by market cap)	**Q1.2022**	**Jan**	**Feb**	**Mar**[41]	**Q. Avg**	**High** (indicative – annual: >50% High concentration)	Market concentration for the top 5 companies for the quarter ended March 2022 averaged at 78.83% of a market of 65 listed companies.	The market concentration risk that the Kenyan capital markets continue to face remains a key policy discussion both amongst regulators and the legislature of the country. To minimize this risk, more strategic initiatives aimed at
		79.37%	79.08%	78.05%	78.83%			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		80.91%	79.75%	79.83%	80.16%			
	Q3.2021	**July**	**Aug**	**Sep**	**Q. Avg**			
		80.97%	80.78%	80.80%	80.85%			
	Q2.2021	**April**	**May**	**June**	**Q.Avg**			

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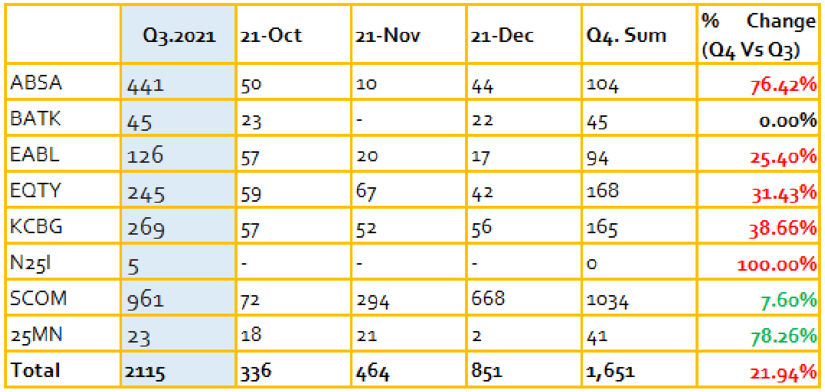
[41] Marc data unavailable during computation

<table>
<tr><th>Stability Indicator</th><th>Quarter/Year</th><th colspan="4">Market Statistics</th><th>Assessment ofRisk Level</th><th>Performance Brief forthe Quarter</th><th>Ongoing Intervention Measures</th></tr>
<tr><td></td><td></td><td>79.77%</td><td>80.92%</td><td>81.13%</td><td>80.61%</td><td></td><td></td><td>growing other sectors of the economy are needed to increase the range of sectors represented by
listed firms at the bourse. The Authority, in the review of its Public Offers and Listing Regulations seeks to provide favorable listing requirements to attract more companies to list.</td></tr>
<tr><td>4.0</td><td colspan="8">Derivatives Trading Statistics</td></tr>
<tr><td>Total Volume (No. of contracts)</td><td colspan="5">(No of Contracts)

<table>
<tr><th></th><th>Q3.2021</th><th>21-Oct</th><th>21-Nov</th><th>21-Dec</th><th>Q4. Sum</th><th>% Change (Q4 Vs Q3)</th></tr>
<tr><td>ABSA</td><td>441</td><td>50</td><td>10</td><td>44</td><td>104</td><td>76.42%</td></tr>
<tr><td>BATK</td><td>45</td><td>23</td><td>-</td><td>22</td><td>45</td><td>0.00%</td></tr>
<tr><td>EABL</td><td>126</td><td>57</td><td>20</td><td>17</td><td>94</td><td>25.40%</td></tr>
<tr><td>EQTY</td><td>245</td><td>59</td><td>67</td><td>42</td><td>168</td><td>31.43%</td></tr>
<tr><td>KCBG</td><td>269</td><td>57</td><td>52</td><td>56</td><td>165</td><td>38.66%</td></tr>
<tr><td>N25I</td><td>5</td><td>-</td><td>-</td><td>-</td><td>0</td><td>100.00%</td></tr>
<tr><td>SCOM</td><td>961</td><td>72</td><td>294</td><td>668</td><td>1034</td><td>7.60%</td></tr>
<tr><td>25MN</td><td>23</td><td>18</td><td>21</td><td>2</td><td>41</td><td>78.26%</td></tr>
<tr><td>Total</td><td>2115</td><td>336</td><td>464</td><td>851</td><td>1,651</td><td>21.94%</td></tr>
</table></td><td>Low</td><td>The volume of contracts traded in Q4.2021 were 1,652 indicating a 21.94% decrease from 2,115 recorded in Q3.2021. Safaricom and 25Mn recorded increased activity in the quarter by 7.60% and 78.26% respectively</td><td></td></tr>
</table>

<table>
<tr><th>Stability Indicator</th><th>Quarter/Year</th><th>Market Statistics</th><th>Assessment of Risk Level</th><th>Performance Brief for the Quarter</th><th>Ongoing Intervention Measures</th></tr>
<tr><td>Gross Notional Exposure (GNE)[50]</td><td colspan="2">(Amount in Kshs)
<table>
<tr><th></th><th>Q3.2021</th><th>21-Oct</th><th>21-Nov</th><th>21-Dec</th><th>Q4. Sum</th><th>% Change (Q4 Vs Q3)</th></tr>
<tr><td>ABSA</td><td>4,573,040.00</td><td>522,400</td><td>103,490</td><td>484,760</td><td>1,110,650</td><td>75.71%</td></tr>
<tr><td>BATK</td><td>2,036,780</td><td>1,033,180</td><td>-</td><td>943,800</td><td>1,976,980</td><td>2.94%</td></tr>
<tr><td>EABL</td><td>2,273,100</td><td>978,705</td><td>328,635</td><td>256,910</td><td>1,564,250</td><td>31.18%</td></tr>
<tr><td>EQTY</td><td>12,274,990</td><td>2,970,660</td><td>3,527,660</td><td>2,045,360</td><td>8,543,680</td><td>30.40%</td></tr>
<tr><td>KCBG</td><td>12,716,600</td><td>2,648,010</td><td>2,360,530</td><td>2,423,170</td><td>7,431,710</td><td>41.56%</td></tr>
<tr><td>N25I</td><td>1,986,100</td><td>-</td><td>-</td><td>-</td><td>0</td><td>100.00%</td></tr>
<tr><td>SCOM</td><td>41,751,990</td><td>3,056,530</td><td>11,912,620</td><td>25,362,060</td><td>40,331,210</td><td>3.40%</td></tr>
<tr><td>25MN</td><td>905,230</td><td>708,090</td><td>796,060</td><td>71,590</td><td>1,575,740</td><td>74.07%</td></tr>
<tr><td>Total</td><td>78,517,830</td><td>11,917,575</td><td>19,028,995</td><td>31,587,650</td><td>62,534,220</td><td>20.36%</td></tr>
</table></td><td>High (indicative – annual: >50% High concentration)</td><td>The total value (Gross Notional Exposure) of contracts traded during the quarter summed up to Kshs 62.53 Million; a 20.36% decrease from Q3.2021</td><td></td></tr>
<tr><td>Total Open Interest[51](No. of Contracts)</td><td colspan="2">(No. of Contracts)
<table>
<tr><th></th><th>Q3.Avg</th><th>21-Oct</th><th>21-Nov</th><th>21-Dec</th><th>Q4. Avg</th><th>% Change (Q4 Vs Q3)</th></tr>
<tr><td>ABSA</td><td>90</td><td>98</td><td>102</td><td>60</td><td>87</td><td>3.33%</td></tr>
<tr><td>BATK</td><td>8</td><td>22</td><td>22</td><td>0</td><td>22</td><td>175.00%</td></tr>
<tr><td>EABL</td><td>32</td><td>65</td><td>49</td><td>37</td><td>50</td><td>56.25%</td></tr>
<tr><td>EQTY</td><td>47</td><td>67</td><td>55</td><td>28</td><td>50</td><td>6.38%</td></tr>
<tr><td>KCBG</td><td>64</td><td>87</td><td>110</td><td>69</td><td>89</td><td>39.06%</td></tr>
<tr><td>N25I</td><td>1</td><td>0</td><td>0</td><td>0</td><td>0</td><td>100.00%</td></tr>
<tr><td>SCOM</td><td>391</td><td>577</td><td>527</td><td>29</td><td>378</td><td>3.32%</td></tr>
<tr><td>25MN</td><td>4</td><td>18</td><td>3</td><td>1</td><td>7</td><td>75.00%</td></tr>
<tr><td>Total</td><td>637</td><td>934</td><td>868</td><td>224</td><td>675</td><td>5.97%</td></tr>
</table></td><td>Medium (indicative – annual: >50% High concentration)</td><td>Overall, the total number of open interest contract in Q4.2021 were 675; a 5.97% increase from the last quarters value of 637</td><td>As hedging instruments, the place of derivatives markets in the face of the pandemic remains important in risk management. The Authority continues to work with market stakeholders to increase the profile of and market participation for the derivatives market in Kenya.</td></tr>
</table>

Stability Indicator	Quarter/Year	Market Statistics				Assessment ofRisk Level	Performance Brief forthe Quarter	Ongoing Intervention Measures
Settlement Guarantee Fund (SGF) Coverage52 for Derivatives						**High (indicative – annual: >50% High concentration)**	The SGF coverage ratio for the derivatives market in Q4.2021 progressively decreased month on month with December 2021 recording a coverage of 60 times	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	**Q1.2022**	**Jan**	**Feb**	**Mar[42]**	**Q. Avg**	**High** (Indicative – annual: >50%High concentration)	In Q1.2022, Treasury Bond market turnover Was 100%	The Authority has had new corporate bond issuances in the recent past including Family Bank, EABL and KMRC during the quarter under review. As more corporate bonds of listed companies continue to be issued, the Authority expects to see more trading on the instruments.
		100%	100%	100%	100%			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		99.99%	99.76%	99.97%	99.91%			
	Q3.2021	**July**	**Aug**	**Sep**	**Q. Avg**			
		100%	99.90%	100%	99.97%			
	Q2.2021	**April**	**May**	**June**	Q.**Avg**			
		99.99%	99.66%	100%	99.88%			

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[42] Marc data is upto 25th March

<table>
<tr><th>Stability Indicator</th><th>Quarter/Year</th><th>Market Statistics</th><th>Assessment ofRisk Level</th><th>Performance Brief forthe Quarter</th><th>Ongoing Intervention Measures</th></tr>
<tr><td>Corporate Bond Market ownership</td><td colspan="2">
<table>
<tr><th>Category</th><th>No of Investors</th><th>% of total share quantity</th></tr>
<tr><td>Local Investors</td><td>1,693</td><td>95.65%</td></tr>
<tr><td>East African Investors</td><td>2</td><td>0.29%</td></tr>
<tr><td>Foreign Investors</td><td>30</td><td>4.06%</td></tr>
<tr><td colspan="3">Source: CDSC Data as of December 2021</td></tr>
</table>
</td><td>High (Indicative – annual: >50% High concentration</td><td>Q4.2021 data shoes that local corporate bond investors were the leading investors in corporate bonds at 95.65% compared to 98.74% while foreign investor holding was a mere 4.06%.</td><td>During the last two years, the Authority has worked progressively with industry players to increase activity in the corporate bond market particularly form MSMEs. Foreign investor participation in the corporate bond market is a key indicator of the health of corporates in the country. Through its corporate governance framework, the Authority seeks to promote the quality of listed corporate entities to raise the profile of entities listed the NSE bourse.</td></tr>
<tr><td>6.0</td><td colspan="5">Investor Profiles - Equity Market</td></tr>
</table>

<table>
<tr><th>Stability Indicator</th><th>Quarter/Year</th><th colspan="4">Market Statistics</th><th>Assessment ofRisk Level</th><th>Performance Brief forthe Quarter</th><th>Ongoing Intervention Measures</th></tr>
<tr><td>Equity Market</td><td colspan="5">
<table>
<tr><th>Type of Investor</th><th>No. of Investors</th><th>Share Quantity (Millions)</th><th>% to Total Share Quantity</th></tr>
<tr><td>Local Investors</td><td>2,008,296</td><td>78,884</td><td>81.11%</td></tr>
<tr><td>EA Investors</td><td>8,981</td><td>1,197</td><td>1.23%</td></tr>
<tr><td>Foreign Investors</td><td>14,942</td><td>17,166</td><td>17.65%</td></tr>
<tr><td>BR</td><td>13</td><td>12.72</td><td>0.01%</td></tr>
<tr><td>JR</td><td>302</td><td>1.02</td><td>0.00%</td></tr>
</table>
Source: CMA- *Data as of March 2022</td><td>High
(Indicative – annual: >50%
High concentration)</td><td>In the quarter under review, share quantity for local investors increased from 78,851 Million recorded in the last quarter to 78,884 with foreign investor share quantity decreasing from 17,203 Million in the last quarter to 17,166 in the quarter under review.</td><td>While the proportion of local investors is higher than foreign investors, the share quantity held by each investor on a per capital basis remains low. Through its market deepening initiatives coupled with strategic partnerships with institutions offering investment solutions for retail investors, the Authority is targeting investor education investors aimed at growing the stock of shares held by domestic investors. This will minimize the effects of external shocks on the market as foreign investor holdings change in the market</td></tr>
<tr><td>7.0</td><td colspan="8">Settlement Compensation Coverage</td></tr>
<tr><td rowspan="8">Settlement Guarantee Fund (SGF) Coverage Ratio[53]</td><td>Q1.2022</td><td>Jan</td><td>Feb</td><td>Mar[43]</td><td>Q. Avg</td><td rowspan="8">Low
(Indicative – annual: > 1 times,</td><td rowspan="8">The average SGF ratio for January and February 2022 was 2.7 indicating a 0.66% increase from the last quarter.</td><td rowspan="8">Through Risk-based supervision, the Authority has been monitoring the SGF figures and the financial position of the firms to ensure that they are in good standing and that investors are protected.</td></tr>
<tr><td></td><td>3.01</td><td>2.39</td><td></td><td>2.7</td></tr>
<tr><td>Q4.2021</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
<tr><td></td><td>2.14</td><td>1.64</td><td>2.35</td><td>2.04</td></tr>
<tr><td>Q3.2021</td><td>July</td><td>Aug</td><td>Sep</td><td>Q. Avg</td></tr>
<tr><td></td><td>2.58</td><td>2.13</td><td>2.49</td><td>2.40</td></tr>
<tr><td>Q2.2021</td><td>April</td><td>May</td><td>June</td><td>Q. Avg</td></tr>
</table>

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[43] Data for March unavailable during computation

<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></td><td></td><td>2.27</td><td>1.59</td><td>1.70</td><td>1.85</td><td>implies full coverage)</td><td></td><td></td></tr>
<tr><td>8.0</td><td colspan="8">Asset Base of Fund Managers, Stockbrokers, Investment Banks</td></tr>
<tr><td>Working Capital (Amount in Kshs Millions)</td><td colspan="5">
<table>
<tr><th></th><th></th><th colspan="5">Amount in Kshs Millions</th></tr>
<tr><th></th><th></th><th>Total Assets</th><th>Total Liabilities</th><th>Net Assets (Feb 22)</th><th>Net Assets (Nov 21)</th><th>% Change</th></tr>
<tr><td>1</td><td>Fund Managers</td><td>7,333</td><td>1,910</td><td>5,423</td><td>5,266</td><td>2.98%</td></tr>
<tr><td>2</td><td>Investment Advisors</td><td>532</td><td>143</td><td>390</td><td>1,289</td><td>-69.74%</td></tr>
<tr><td>3</td><td>Investment Banks</td><td>12,224</td><td>4,048</td><td>8,176</td><td>8,000</td><td>2.20%</td></tr>
<tr><td>4</td><td>Online Forex</td><td>2,031</td><td>1,391</td><td>640</td><td>553</td><td>15.73%</td></tr>
<tr><td>5</td><td>Stockbrokers</td><td>2,175</td><td>1,016</td><td>1,159</td><td>1,121</td><td>3.39%</td></tr>
</table>
Data as of 28th February 2022</td><td>Medium (Indicative – the higher the figure, the more stable is the market)</td><td>The net assets base of Fund Managers, Investment Advisor, Investment Banks, Online Forex and Stockbrokers, as of 28th Feb 2022 was Kshs 5,423 Mn, Kshs 390 Mn, Kshs 8,176 Mn, Kshs 640 Mn and Kshs 1,159 Mn respectively</td><td>Assets Under Management within the industry has grown between November 2021 and February 2022 except for investment advisors whose net assets fell by 69.74%.

This is a positive indicator on the resilience of the businesses of licensed entities in the country as they actively participate in promoting capital markets access for players in the Kenyan industry.</td></tr>
</table>