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

The Capital Markets Soundness Report (CMSR)

Volume XXIII

"Margin Trading: Boosting Trading in the Kenyan Capital Markets through liquidity enhancement tools".

Quarterly Publication of the Capital Markets Authority (K)

Quarter II (April - June) 2022

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SPECIAL MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Valued Reader,

As we close the second half of the year 2022, I am delighted to present to you the 23rd Edition of the Capital Markets Soundness Report covering events in the second quarter of the year 2022. The continuous multiple and competing risks observed globally during this period under review affirms the objectives of this report

The global economy continues to face the threat of recovery from the Covid 19 Pandemic, even as the Russian – Ukrainian crisis persists. This has greatly affected the global fuel and other commodity prices and other commodities, threatening nations' stability. Theses, coupled with other factors portend a gloomy economic growth outlook with many countries facing the challenge of delicately balancing various macroeconomic variables including exchange rate, inflation, growth, and unemployment.

Various countries are facing the risk of an economic crisis as they utilize their foreign exchange reserves to stabilize their exchange rates, some of which have been on a free fall such as Sri Lanka, that was declared bankrupt in May 2022 following its default on repaying its Eurobond debt obligations… The critically low level of foreign reserves of many economies has hampered the import of essential goods, greatly impacting inflation rates as Central Banks engage monetary policy tools to find the right balance to ensure inflation remains within target.

Consequently, countries both in developed and emerging markets have fallen victim to inflation rates surpassing target rates, further translating into higher interest rates and increasing the cost of living. Kenya for example, recorded its highest inflation yet in June 2022 at 7.9%, within in the last 12 months; 0.2% above the upper bound of the country's target inflation rate range of 5% (+/- 2.5%).

The World Bank estimates that global growth will slump from 5.7 percent in 2021 to 2.9 percent in 2022, significantly lower than 4.1 percent that was projected in January 2022. It is expected to hover around that pace over 2023-24, as the war in Ukraine disrupts activity, investment and trade in the near term, pent-up demand fades, and fiscal and monetary policy accommodation is withdrawn.

Predictably, this slack in economic growth has mirrored the performance of some asset classes in the global financial and capital markets, notably equities. According to the Ernst and Young Global IPO Report, June 2022, Initial Public Offer (IPO) momentum continued to slow from Q1 into Q2 of 2022, resulting in a considerable decline in both deal numbers and proceeds. Heightened volatility caused by geo-political tensions, macroeconomic factors, declining valuation and poor post-IPO share price performance led to the postponement of many IPOs during this period.

In spite of the volatile global map, CMA Kenya, like many other domestic regulators and public institutions continues to offer leadership and support for a resilient capital markets industry. I am glad to note that in the quarter under review, we successfully finalized the overhaul of regulations on Collective Investment Schemes, Alternative Investment Funds and Public Offering of securities for the Kenyan market; a process that entailed a number of stakeholder engagements and consultations.

Your valuable inputs and comments received and incorporated in the final drafts of the regulations have resulted in legislation that I believe will be progressive and responsive to the cross-cutting industry needs of issuers of securities particularly for small and medium enterprises, as well as investors and policy makers. I look forward to launching the regulations in the coming months, once they pass the constitutional and statutory processes required towards the official gazettement.

I urge all of you to take advantage of the opportunities brought forth by the new regulations once gazetted, to create more business opportunities in the industry as we play our dutiful role of growing the Kenyan capital markets industry in partnership with investors who are our key partners in the successful growth of this market.

Lastly, I wish to throw a challenge to market practitioners to develop products that target our domestic retail and institutional investors so that we can, not only increase local market access, but also mitigate the risks of foreign portfolio flows being experienced in frontier and emerging markets currently.

We are a few days away from the August 9th, 2022, elections and I urge you as stakeholders tol play our patriotic role in this exercise. I therefore wish you all a successful voting exercise on the day and look forward to your continued commitment in exercising your role and mandate in raising the profile of the Kenyan capital markets industry regionally and on the global scene.

Enjoy your read and be blessed!!

FCPA Wyckliffe Shamiah

CHIEF EXCECUTIVE OFFICER

EDITORIAL

Greetings!

It is my pleasure to present to you the 23rd Edition of capital market soundness analysis for the period April to June 2022, themed "**Margin Trading: Boosting trading in the Kenyan Capital Markets through liquidity enhancement tools**".

I am certain that this theme has triggered your curiosity and I urge you to read through the report's special feature for a better understanding on the Authority's ongoing work in this area.

The diverse geopolitical, socio-economic and sustainability risks prevailing in the world today have remained persistent, raising concerns over an impending economic crisis. There have been protests by citizens on the increasing cost of living in developed and developing economies like and general unrest, with high fuel and gas prices the key trigger. Despite this worrying trend, capital markets remain resilient globally.

In the quarter under review, we showcase UK's Financial Conduct Authority quest towards becoming a digital regulator by setting up a fully-fledged function on innovation services, designed to support firms at any stage of maturity, that is, from collaboration, initial idea, and proof of concept, to obtaining authorization and scaling up with the services offered including innovation pathways, digital sandboxes and techprints.

We further delve into how the US Securities Commission has published ten red flags that investors can use to identify potential pre-IPO fraud schemes, alongside its proposed amendments to enhance and modernize the Investment Company Act "Names Rule" to address changes in the fund management industry and compliance practices that have developed in the approximately 20 years since the rule was adopted. I am glad to report that like the USA, CMA Kenya, in its draft Collective Investment Schemes

(CIS) regulations seeks to address the 'naming' matter, which has featured among some of the gaps in our legal and regulatory framework in the past that have led to investment losses.

Within the continent, we highlight the African Union declaration of its decision to pursue a Pan African Credit Rating Agency to facilitate rating of Sub-Saharan Countries, under the justification that the current international credit ratings are proving unjust to African countries. Global Credit Rating and the credibility of rating institutions has necessitated jurisdictions to domesticate credit rating solutions, Kenya included.

Closer home, Ethiopia has embarked on a journey of establishing its own Stock Exchange; a game changer within the East African region, calling for increased innovation and agility in the exchange markets in the region, in the wake of competition. This quarter also marked Angola's first Initial Public Offering (IPO), eight (8) years after establishment of the Exchange, a testament to the growing capital markets activity in the continent, which further calls for greater investment in solutions that will support future integration of exchanges to attain maximum benefit of scale.

On the domestic front, the market recorded some positives in spite of the uncertainties associated with the 9th August 2022 elections. Average foreign trading in the equity market was 61.54%, up from 54.88% recorded in the previous quarter, with a net equity inflow of Kshs 10.9 million registered compared to an outflow of Kshs 1.7 million. Assets under management by Collective Investment Schemes grew to Kshs 147 billion as at June 2022.

Liquidity also improved during the quarter to 1.68% compared to 1.18%, while market volatility rose slightly, mainly due to the unpredictability of the global economy. Overall, the Kenyan market has remained resilient despite the adverse effects of the Covid-Pandemic since 2020 coupled with a myriad of emerging risks. However, with the oncoming elections, market activity is expected to remain stagnant in the short term as investors adopt a wait and see approach to investing. I urge us all to remain optimistic as we chart a prosperous future for the Kenyan capital markets industry, leveraging on the new and more facilitative regulations that the Authority has crafted over the last couple of months.

Lastly, allow me to extend my sincere gratitude to the team of professionals from the National Clearing Company of Pakistan Limited (NCCPL), the Nairobi Securities Exchange and Sterling Capital Limited for sharing more insights on margin trading practices in Pakistan and Kenya respectively during the stakeholder consultations preceding the publication of this document.

Enjoy your read.

Mr. Luke E. Ombara

DIRECTOR, POLICY AND MARKET DEVELOPMENT

1. SPECIAL FEATURE: MARGIN TRADING

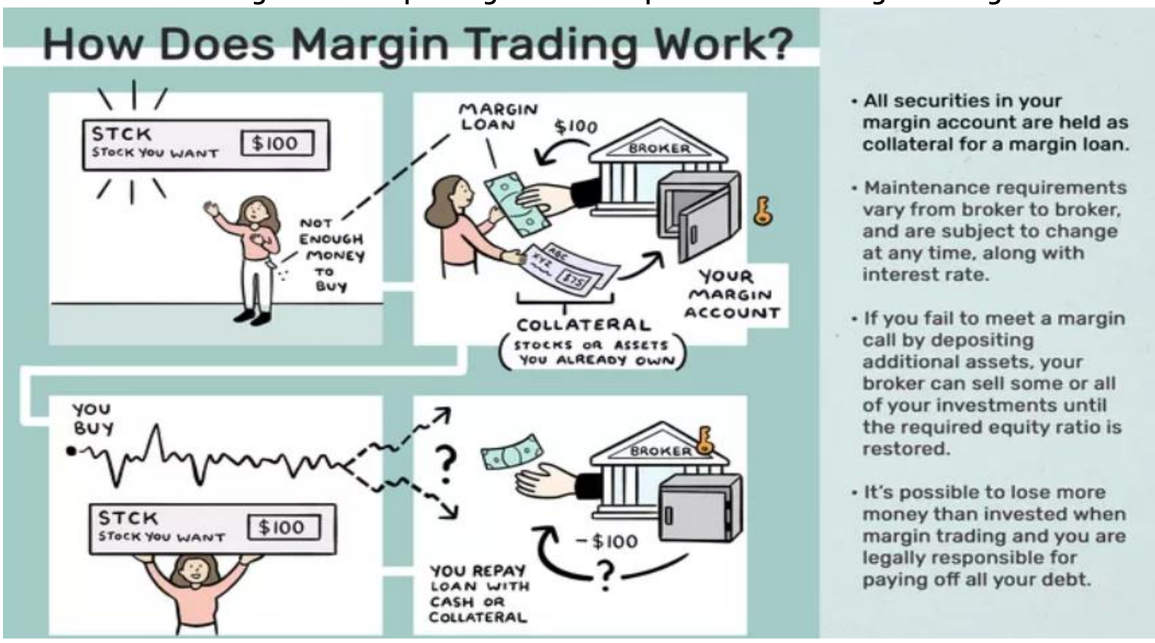
1.1 Overview on Margin Trading

A margin may be defined as borrowing money from a broker to buy a stock and using own investment as collateral. Thus, margin trading is a form of securities trading that involves buying securities by borrowing monies (margin loan) from a broker at an interest rate (margin rate). In margin trading, the securities trader only pays a fraction of the actual cost of the trade up-front and pledges the securities bought on margin as collateral for the remaining fraction of the cost.

Margin trading is typically offered to investors with previous trading experience; these are brokerage clients who have been with a broker for over a year. They are clients with some sophistication and a better appreciation of trading and market dynamics. Brokers would have a client suitability assessment in view of investor protection looking at the net-worth of a client and past trading experience to open a margin account for a retail client.

Margin trading allows investors to buy more stock than they would be able to buy using their available funds. To trade on margin, an investor usually needs a margin account. A margin account is different from a regular cash account, in which an investor trades using the money in his/her account. Conventionally, the investor's broker is required to obtain client consent to open a margin account.

Figure 1: A Simple Diagrammatic Representation of Margin Trading



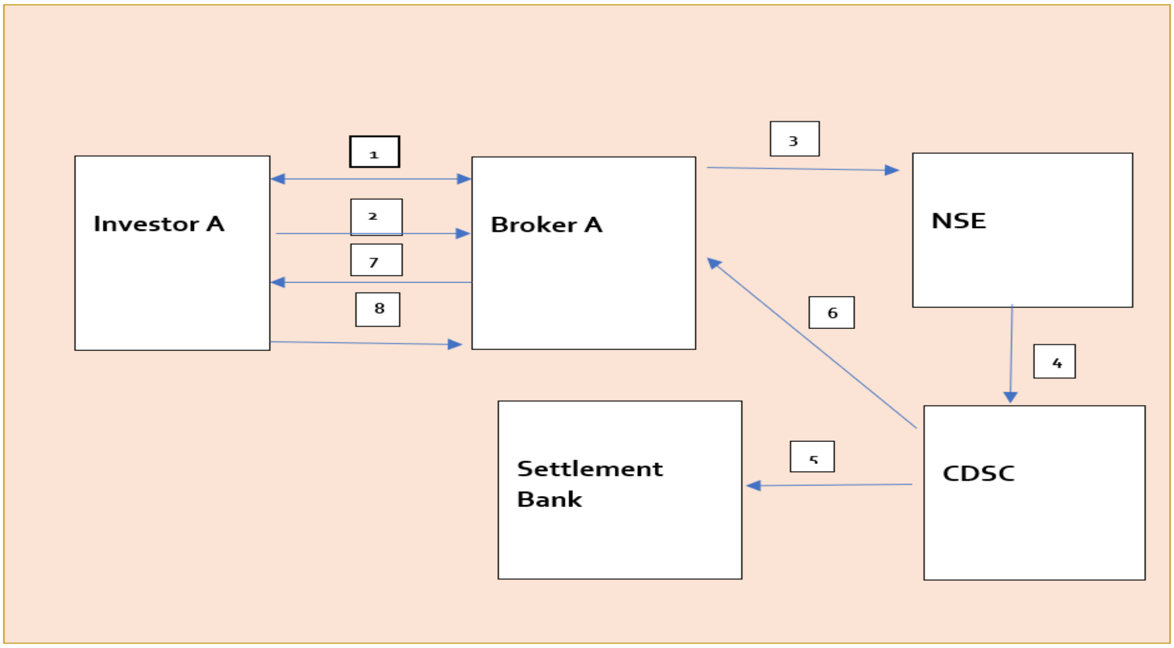
Source: The Balance

The margin account may be part of the investor's standard account opening agreement or may be a separate agreement. An initial investment of a stated amount is required for a margin account, known as the minimum margin.

The broker charges interest on this loan (in addition to the commission on each buy/sell trade) and the investor must keep the entire stockholding with the broker as collateral. Also, the investor has to put up additional cash in case the value of the stockholding falls below a certain amount, this is referred to as margin call.

A broker makes this demand on an investor to deposit additional money or securities so that the margin account is brought up to the minimum maintenance margin.

Figure 2: Description of Processes between Margin Investor and Related Parties



The processes marked from 1 through 8 above are described herein below;

Step 1: Deposit of initial margin -Investor enters into an agreement with broker to open a margin account. Investor deposits margin.

Step 2: Margin trade initiation: Investor A instructs the broker to buy securities on margin.

Step 3: Buying of shares: Broker A puts in an order which is matched at an exchange's Automated Trading System (ATS).

Step 4: Instructions to clear and settle the trade: The exchange then instructs the clearing and settling system through the Central Depository Securities Corporation (CDSC) to clear and settle the trade.

Step 5: Settlement instructions: CDSC then instructs the Settlement Bank to settle the trade from Broker A's settlement account.

Step 5: Successful trade advice: CDSC formally communicates to Broker A of the successful trade.

Step 6: Successful trade advice: Broker A communicates to Investor A of the successful trade.

Step 7: Repayment of interest: Investor A settles the leveraged amount with the interest at the agreed time.

1.2 Benefits of Margin Trading

a. Margin borrowing is generally more **cost-effective** than other lending options, such as credit cards or a bank loan or a Sacco facility enabling investors make attractive returns compared to if they had borrowed from other sources.

b. Margin investing **allows you to increase your "buying power"** (the amount of money available in your account to purchase marginable securities). Buying power consists of your money available to trade, plus the amount that can be borrowed against securities held in your margin account. For example, when a broker imposes an initial margin requirement of 50% and an investor has Kshs 50,000 in their investment account, their buying power is actually Kshs 100,000 because you're required to deposit just 50% when buying or selling short most marginable securities.

c. To meet short-term cash flow needs, taking a margin loan and paying interest is **a convenient alternative to liquidating a portion of an investor's portfolio**, locking in capital gains, and being subject to taxes on those gains.

d. Margin loans **are a ready source of credit and don't require the approval or credit checks that a bank may require.** There's no set repayment schedule as long as an investor maintains the required level of equity in the account.

1.3 Risks associated with Margin Trading

a. **Investor related risks-** Margin trading can amplify an investor's gains significantly. However, it can also increase his losses. In fact, investors can end up losing more than what they initially invested. If the securities in an account decline in value, one may be required to deposit additional money or marginable securities to prevent the broker from selling those or other securities in their margin account. Depending on the terms stipulated in the margin loan agreement, a broker has the right to take action if the investor fails to live up to his promise. For example, if the investor is incapable of meeting a margin call, the brokerage firm can liquidate any remaining assets in the margin account.

b. **Lender related risks**-Generally brokers lend/arrange funds and securities for clients doing margin trading. Some markets have special purpose vehicles which lend funds / securities. The requirement of initial margin, maintenance of margin, right to sell the collateral etc. protect the lender. The lender, however, needs to follow prudent risk management practices so as to ensure recovery of principal and interest and act swiftly to make margin calls or sell the securities in time. In the event of loss to a client, the loss to lender is limited to transaction cost that he would incur on selling the collateral, liquidity risk that he may not be able to sell the collateral and loss of interest on the margin debt.

c. **The Amplification Benefit of Margin Trading:** Margin trading enables a client to purchase more shares beyond one's financial ability and hence increase his profits if the prices move as expected on the upside. Conversely if the price moves in the opposite direction the loss is also amplified. The profit amplification advantage is the primary motivation to undertake margin trading for investors. For example, an investor purchases Kshs . 1,000 worth of securities, with his own money of Kshs. 500 (margin of 50%) and borrowed money of Kshs. 500. If the price of the security goes up by 10%, he will earn a return of 20%. Conversely, if the price falls by 10%, he will lose 20%. Thus, margin trading exposes a client to the potential of higher gains / losses.

1.4 Summary of Margin Trading Practices across Different Jurisdictions

Table 1: Jurisdictional Review Assessment on Margin Trading

	Regulatory Component	United States	Thailand	China	Nigeria	India
1	**Initial margin**	The client must maintain a balance of 50% as initial margin and may borrow up to 50% of the purchase price of securities	The initial margin rate for each security allowed to buy on margin by the member must not be lower than the rate determined by the Exchange	The value in the margin account must not be less than 50% of the initial funds and/or securities borrowed by the investors	Customers must maintain a minimum equity of 25% of the Long Market Value (LMV) of the margin account.	Initial margin has been prescribed as 50%
2	**Maintenance margin**	Maintenance margin is 25% of the total market value of the securities, which must be always in the margin account.	The minimum value of collateral must equal to the value of securities and securities under the customer's short sale multiplied by the rate the member must enforce for debt repayment	This is set at 30%	Operators are required to open dedicated margin trading accounts and are to always observe a maintenance margin limit of 120%.	The maintenance margin has been prescribed as 40%.
3	**Margin trading policy and procedures**	Brokerage firms can establish their own requirements if they are at least as restrictive as the Federal Reserve Board (FRB) and SRO rules	Brokerage firms to have margin trading policy and procedures	Brokerage firms to have margin trading policy and procedures	Brokerage firms to have margin trading policy and procedures	Brokerage firms to have margin trading policy and procedures
4	**Proprietary capital /Net-worth requirement**	None	None	Have net assets of at least RMB 5 billion (approx. US$720 million) over the previous six months being rated as A-class	None	Total exposure to margin finance is 50 per cent of "net worth".

Source: Various across different jurisdictions

1.5 Lessons on Margin Trading from Pakistan's National Clearing Company of Pakistan Limited (NCCPL)

Following insights shared by Pakistan's NCCPL on margin trading at the stakeholder engagement held , prior to publication of this report, we present a summary of some of the key features of the country's margin trading practices and regulation.

The NCCPL is a significant element of Pakistan's Capital Market that provides centralized Clearing and Settlement Services for all trades/transactions executed at the Pakistan Stock Exchange Limited in the Equities, Derivatives and Debt Market. It is Pakistan's official Central Counter Party for capital markets trading operations, working within the regulatory oversight of the Securities Exchange Commission of Pakistan.

It carries a range of products and services which help current and potential investors in effective, efficient, and transparent trading in the Capital Markets.

With respect to margin trading, the NCCPL offers three leverage solutions within the capital markets industry securities trading ecosystem namely i. Margin Trading System (MTS) ii. Margin Financing System (MFS) and iii. Murabaha Shariah Financing, with the latter anchored on shariah compliance principles. The MTS and MFS each have their own regulations anchored on consultations between the NCCPL, the Securities Exchange Commission of Pakistan, in conjunction with capital markets industry stakeholders.

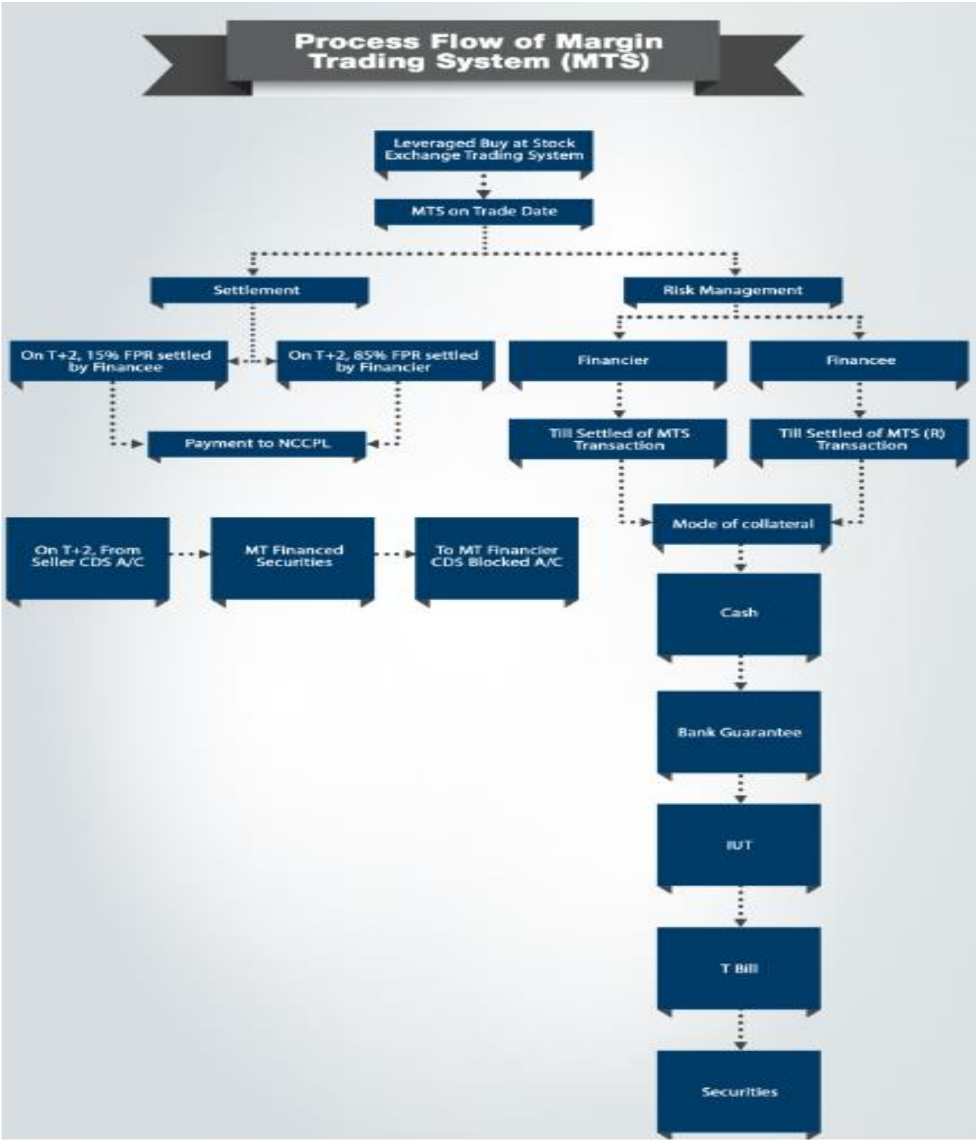
1.5.1 Margin Trading System (MTS)

Key Features of the MTS Include;

- That all MTS Transactions are executed through an Online Trading System provided by NCCPL to market participants;
- MTS is an undisclosed market for Financees and Financiers with the financiers including brokers and financial management companies. It is only the trading platform provider NCCPL, that knows about the parties involved in a transaction;
- Financing in MTS is only made available on a pre-identified ready market purchases termed as 'Leveraged Buy';
- Margin trading facility has been made available in Eligible Securities only. Eligible securities are classified into two; Category A and Category B with each of the categories having their own risk management framework;
- The maximum mark-up rate in MTS Market is capped at Karachi Interbank Offered Rate (KIBOR) +8%;
- All transactions executed in MTS Market are based on Financing Participation Ratio ("FPR") of 15% for category A securities and 20% for category B securities in the form of cash;
- Financees are required to pay Marked-to-Market (MtM) losses to the NCCPL daily in Cash only till the settlement of the entire margin trading Contract;
- Such MtM losses are paid to the respective Financiers on a daily basis;
- Financiers are required to open a separate margin trading Blocked Account at the Central Depository System (CDS) for movement of margin trading financed securities;

- Each Margin Trading Contract shall not exceed from sixty (60) calendar days. However, on every fifteenth (15th) calendar day, the Margin Trading System will automatically release one fourth quantity of the MT Contract Value;
- Corporate Entitlements, if any, in MT Eligible Securities (having open position in MTS i.e. MT Financed Securities), will be credited automatically in the respective Financee's accounts in CDS; and
- Additionally, the rollover of a Margin Trading Contract is allowed in an MTS.

Figure 3: Process Flow of Margin Trading System in Pakistan



Source: National Clearing Company of Pakistan Limited

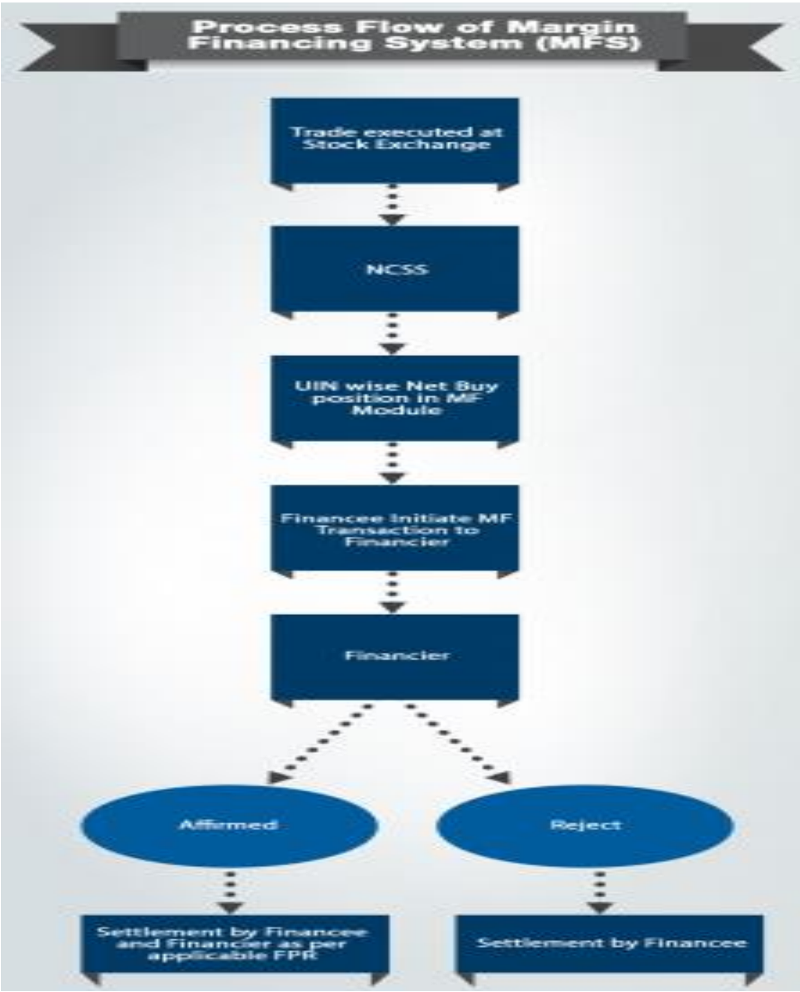
1.5.2 Margin Financing System (MFS)

A Margin Financing System (MFS) involves a counterparty transaction agreement between a financier and a financee (the counterparties involved). Thus, a key difference between the MTS and the MFS is the fact that in an MTS, transaction participants remain anonymous to each other as the matching is entirely system based.

However, in an MFS the counterparties involved engage in establishing acceptable terms of trade to facilitate margin trading. Key features in Pakistan's Margin Financing System include;

- The Margin Financing (MF) facility is made available to all Members against net ready market purchases of their clients and proprietary positions;
- Margin Financing can be obtained as per agreed Financier Participation Ratio (FPR). However, a minimum of 25% or VaR whichever is higher should be contributed by Financee;
- Financing terms and conditions are pre-determined by Margin Financee and Margin Financier;
- NCCPL provides a system to MF Participants for recording and settlement of MF Transactions;
- Margin Financing facility is made available only in Eligible Securities;
- All MF Transactions are based on counterparty risk in a disclosed manner;
- NCCPL manages risk management of Financier until settlement of MF transaction;
- The financier will manage RMS of Financee directly;and
- Securities are delivered in the MF Blocked CDS A/C of Financier.

Figure 4: Process Flow of Margin Financing System in Pakistan



Note: NCSS means National Clearing and Settlement System ; Source: NCCPL

Stability Implication:

The Authority has developed a policy framework on margin trading with the aim of guiding the development of fit for purpose regulations to guide the conduct of margin trading in Kenya. This is expected to not only complement but catalyze the use of other liquidity enhancement mechanisms already rolled out such as day trading, market making and securities lending and borrowing. The combination of these tools is expected to address the persistent high liquidity risk in the Kenyan capital markets.

Additionally, the Nairobi Securities Exchange is in the process of developing a concept note to guide market trading operations in the Kenyan capital markets industry. Cognizant of the need to align the regulator's actions to those of the market, the CMA Kenya will be engaging with the Exchange further to establish a common policy framework to guide subsequent development of the requisite regulatory framework to guide margin trading operations in Kenya.

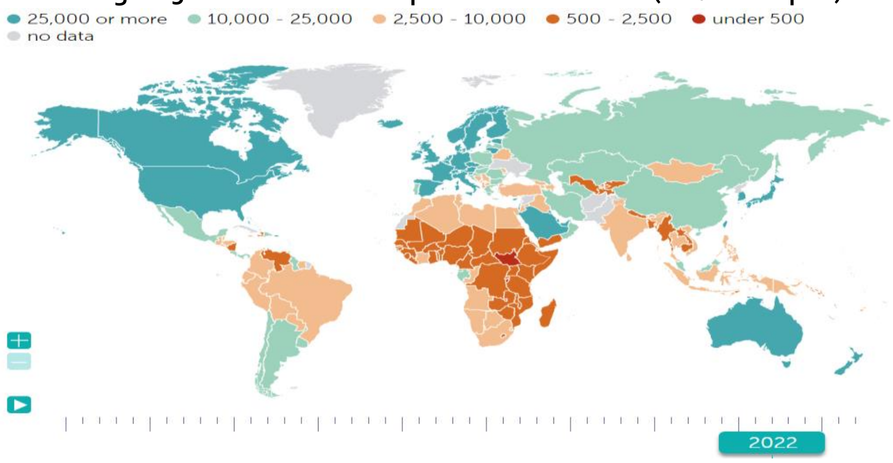
2.0 INTERNATIONAL DEVELOPMENTS

2.1 An Overview on the Trend of Global Economic Growth Performance

As countries work towards economic recovery following the global slowdown of the covid 19 pandemic, the Russian invasion of Ukraine has magnified the slowdown in the global economy, which is entering what could become a protracted period of feeble growth and elevated inflation, as projected by the World Bank's latest *Global Economic Prospects* report.

Global growth is expected to slump from 5.7 percent in 2021 to 2.9 percent in 2022— significantly lower than 4.1 percent that was anticipated in January 2022. It is expected to hover around that pace over 2023-24, as the war in Ukraine disrupts activity, investment, and trade in the near term, pent-up demand fades, and fiscal and monetary policy accommodation is withdrawn. As a result of the damage from the pandemic and the war, the per capita income in developing economies this year is estimated to be nearly 5 percent below its pre-pandemic levels.

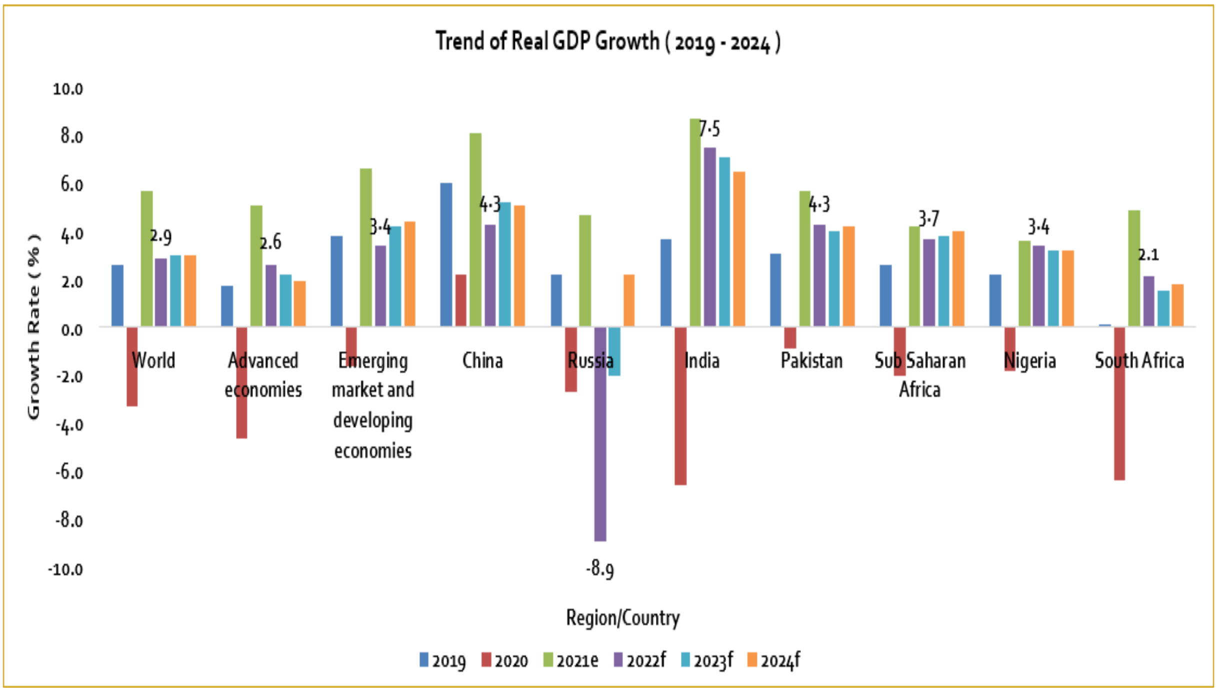
Figure 5: Global GDP Per Capita Estimates – 2022(US$ Per Capita)



Source: IMF Dataset, 2022

The current global economic conditions compare with the stagflation of the 1970s—with a particular emphasis on how stagflation could affect emerging market and developing economies. The recovery from the stagflation of the 1970s required steep increases in interest rates in major advanced economies, which played a prominent role in triggering a string of financial crises in emerging market and developing economies.

Figure 6: Trend of Global GDP Growth across Select Regions and Countries



Note: e- estimated; f-forecast; Source: Global Economic Prospects, June 2022

Growth in advanced economies is projected to sharply decelerate from 5.1 percent in 2021 to 2.6 percent in 2022—1.2 percentage point below projections in January. Growth is expected to further moderate to 2.2 percent in 2023, largely reflecting the further unwinding of the fiscal and monetary policy support provided during the pandemic.

Among emerging market and developing economies, growth is also projected to fall from 6.6 percent in 2021 to 3.4 percent in 2022—well below the annual average of 4.8 percent over 2011-2019. The negative spillovers from the war will more than offset any near-term boost to some commodity exporters from higher energy prices. Forecasts for 2022 growth have been revised down in nearly 70 percent of Emerging Markets and Developing Economies (EMDEs), including most commodity importing countries as well as four-fifths of low-income countries.

2.1.1 Persistent Inflation beyond Targeted Inflation

Global consumer price inflation has climbed higher around the world and is above central bank targets in almost all countries which have them.

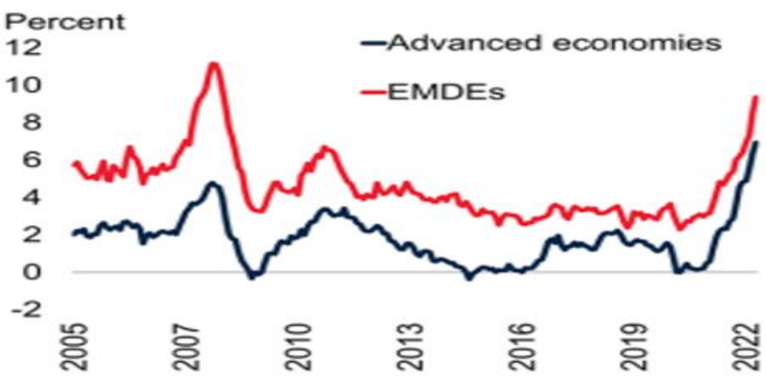
Inflation is envisioned to remain elevated for longer and at higher levels than previously assumed. It is expected to peak around mid-2022 and then decline only gradually as global growth moderates, demand shifts further from goods toward services, supply chain bottlenecks abate, and commodity prices edge down, including for energy.

Whereas wage pressures remain generally contained in EMDEs, they are likely to persist in several advanced economies in the near term.

Despite new headwinds to growth, monetary policy across the world is expected to be further tightened as central banks seek to contain inflationary pressures. Pandemic-related fiscal support will also continue to be withdrawn in advanced economies and EMDEs. Higher food prices are likely to lower real per capita incomes in many EMDEs reliant on food imports and substantially worsen global food insecurity and poverty.

The lingering effects of the pandemic, the war, and the surge in food prices are combining to make the external environment far more challenging for many countries and are expected to lead to a net increase of 75 million people in extreme poverty by the end of this year relative to pre-pandemic projections.

Figure 7: Monthly CPI Inflation, Year on Year



Source: World Bank, Global Economic Prospects

Figure 8: Countries whose inflation has hit above target

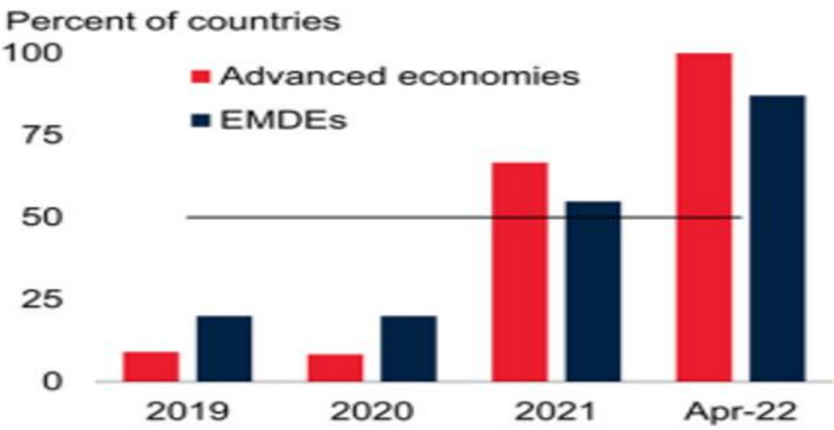
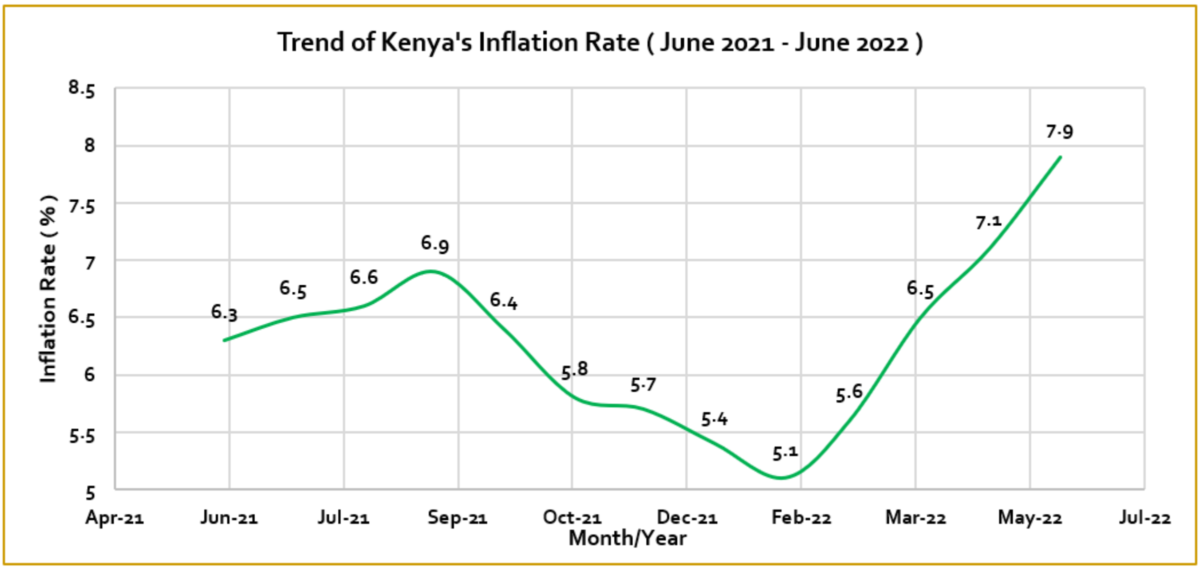


Figure 9: Trend of Kenya's Inflation Rate



Source: Kenya National Bureau of Statistics

2.1.2 A Trend in Stagflation

The current multidecade high levels of inflation, combined with sharply slowing growth, have raised concerns that the global economy is entering a period of stagflation reminiscent of the 1970s. In the 1970s, large supply shocks amid accommodative monetary and fiscal policies resulted in prolonged stagflation. The policy tightening in the early 1980s to contain high inflation played a major role in triggering a global recession in 1982 and set off a string of EMDE debt crises.

The current juncture resembles the 1970s in several key aspects. First, supply disruptions driven by the pandemic and the recent supply shock dealt to global energy prices by the war in Ukraine resemble the oil shocks in 1973 and 1979-80. In fact, the increase in energy prices over the past two years has been the largest since the 1973 oil crisis Second, global growth is decelerating sharply, with the current slowdown even more pronounced than the one following the 1975 recession.

Third, then and now, monetary policy was highly accommodative in the run-up to these shocks, with interest rates negative in real (inflation adjusted) terms for an extended period. Fourth, with EMDE debt at multidecade highs now, a rise in global borrowing costs may trigger financial crises, as it did in the early 1980s.3

2.2 Overview of Performance in Global Capital Markets

2.2.1 Global IPO Market Performance in Q2.2022

IPO momentum continued to slow from Q1 into Q2, resulting in a considerable decline in both deal numbers and proceeds. Heightened volatility caused by geopolitical tensions and macroeconomic factors, declining valuation and poor post-IPO share price performance led to the postponement of many IPOs during the quarter. The dramatic slowdown in IPO activity in YTD 2022 after a record year in 2021 was experienced across most major markets.

For Q2 2022, the global IPO market saw 305 deals raising US$40.6b in proceeds, a decrease of 54% and 65%, respectively, year-over-year (YOY). YTD 2022, there were a total of 630 IPOs raising US$95.4b in proceeds, reflecting decreases of 46% and 58%, respectively, year on year.

The 10 largest IPOs by proceeds raised US$40b, with energy dominating three of the top four deals, replacing the technology sector as the top IPO fund raiser. The technology sector continued to lead by number, but the average IPO deal size came down from US$293m to US$137m, whereas energy has overtaken to lead by proceeds with average deal size increasing from US$191m to US$680m YOY.

Figure 10: Global IPO Numbers in Q2.200

Global	Q2 2022	Q2 2021	% change
Number of IPOs	305	659	-54%
Proceeds (US$b)	40.6	115.7	-65%

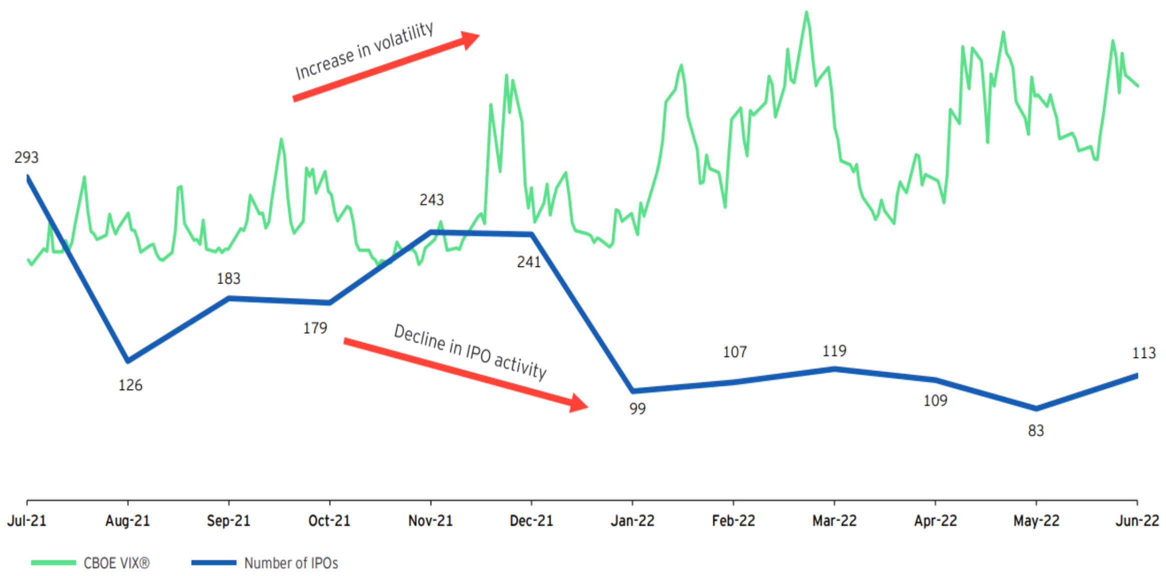
Americas	Q2 2022	Q2 2021	% change
Number of IPOs	41	154	-73%
Proceeds (US$b)	2.5	48.8	-95%

Asia-Pacific	Q2 2022	Q2 2021	% change
Number of IPOs	181	288	-37%
Proceeds (US$b)	23.3	40.3	-42%

EMEIA	Q2 2022	Q2 2021	% change
Number of IPOs	83	217	-62%
Proceeds (US$b)	14.8	26.6	-44%

Source: EY Global IPO Trends Q2.2022

Figure 11: Trend of IPOs to the CBOE VIX Index[1]



Source: EY

Special purpose acquisition company (SPAC) IPOs are significantly down in line with traditional IPO activity despite new markets joining. The SPAC market has been challenged this year as a result of broader market conditions, regulatory uncertainty and increased redemptions. A record number of existing SPACs are actively seeking targets with the majority of them facing potential expiration in the next year. However, market performance and regulatory clarity will likely drive future deal flow.

Figure 12:Top 10 IPO Destinations

Top IPO destinations

By number of IPOs

	YTD 2022	YTD 2021
United States	22	69
Sweden	4	5
Norway	3	5
United Kingdom	3	6
Australia	2	2
Hong Kong	1	2
Finland	1	1
Singapore	1	0
Other	0	9
Total	37	99

[1] 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

In line with the sharp decline in global IPO activity, there was a sizable fall in cross-border activity affected by geopolitical pressures and government policies on overseas listings[2].

2.2.2 Equity Trading Markets

As feared, the S&P 500 has posted its worst first half to a year in more than half a century. All three major U.S. stock indexes finished the month and the second quarter in negative territory, with the S&P 500 notching its steepest first-half percentage drop since 1970, down 20.6%. The Nasdaq had its largest-ever January-June percentage drop, down 29.5%, while the Dow Jones Industrial Average suffered its biggest first-half percentage plunge since 1962, losing over 15%[3].

By the end of May, the Capital markets around the world were characterized by flat global equities as inflation continues to affect developing and developed economies alike and an increased risk of stagflation. The MSCI Value index outperformed its growth counterpart. In fixed income, US Treasury yields fell (meaning prices rose). The US equities remained relatively flat. Industrial activities were recorded to fall by 53.8 percent from 56 percent.[4] The S&P 500 was flat over by the end of May. On the other hand, Eurozone and Japan shares recorded a positive return a factor attributed to the positive performance of the energy sector amid ongoing robust demand for oil. The financial sector in the Eurozone also recorded a positive performance.

Similar to the Eurozone, in the United Kingdom, large cap equities outperformed over the month led by the energy, financials, and basic materials sectors, in line with the trend seen since the beginning of 2022. However, small and mid-cap equities continued to underperform. In addition to the commendable performance of the equity market in the UK, the Bank of England increased the Bank Rate from 0.75% to 1% at the start of May. At the same time, the bank published its latest forecast for the Bank Rate, which is expected at the beginning of May to be around one percentage point higher over the next three years.

The Asian equity market remained unchanged. Gains from China and Taiwan helped to offset declines in India and Indonesia with India being the worst performing index due to capital outflows. Share prices were also weaker in Indonesia, Malaysia, and Singapore in May. Despite Taiwan experiencing periods of volatility, it was the strongest-performing market in the MSCI Asia ex Japan index 5in May 2022.

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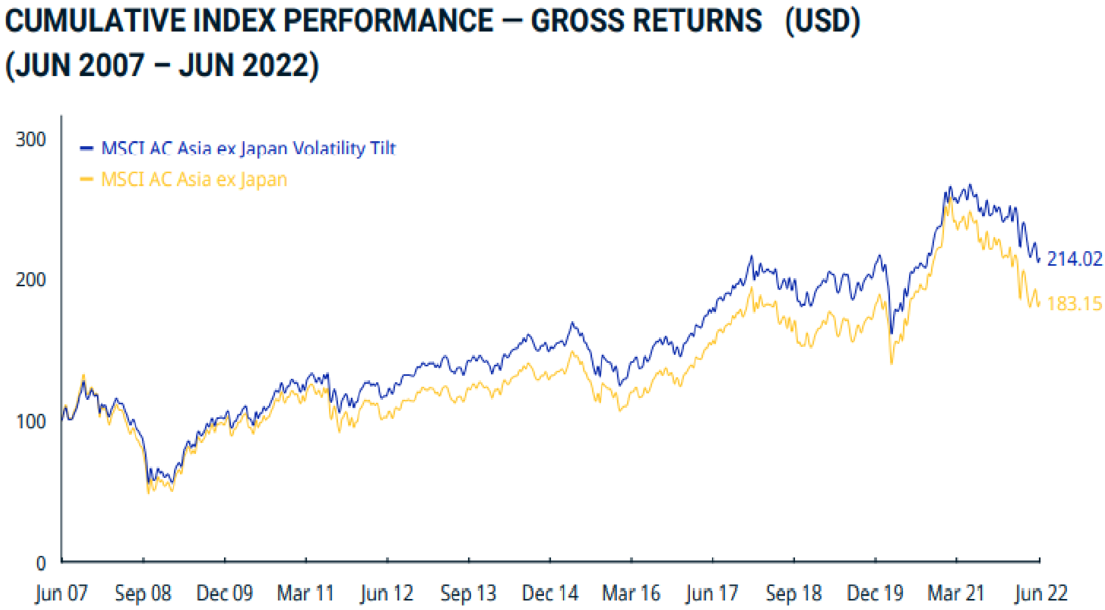
[2] https://www.ey.com/en_gl/news/2022/06/ytd-2022-saw-dramatic-slowdown-in-global-ipo-activity-from-a-record-year-in-2021

[3] https://www.theguardian.com/business/live/2022/jun/30/uk-house-price-growth-inflation-crypto-gdp-opec-oil-business-live

[4] https://www.schroders.com/en/middle-east/professional-investor/insights/markets/monthly-markets-review---may-2022/

[5] The MSCI AC Asia ex Japan Volatility Tilt Index is based on MSCI AC Asia ex Japan, its parent index, which includes large and mid-cap stocks across 2 of 3 Developed Markets countries* (excluding Japan) and 8 Emerging Markets countries* in Asia. It aims to reflect the performance of a low volatility strategy with relatively high investment capacity. The indexes are created by tilting the market capitalization weights of all the constituents in the parent index based on the inverse of security price variance and then re-weighting them

Figure 13: MSCI Asia ex Japan Index (June 2007 - June 2022)



Source: MSCI

2.2.3 Performance in the Bond Markets

In the first half of 2022, the bull market in bond prices that had been running hard since 1982 fell to its knees. Since January, the Bloomberg Barclay's US Aggregate Bond Index dropped 8.8%, its biggest decline in 4 decades. The major driver: investor anxiety that the Federal Reserve's plan to fight inflation by raising interest rates would hurt bond prices. Higher interest rates typically mean lower bond prices and higher bond yields.

But investor angst may obscure the fact that the Fed's plan to return rates to more historically normal levels may present an opportunity in bonds for many people seeking income, principal protection, and diversification in the second half of 2022 and beyond.

Lessons Learnt:

As interest rates hike, the prices of bonds lower and this results in rising yields. Higher yields mean bonds can now play a more significant role in retirement income strategies than they have since the global financial crisis. Historically low rates experienced in the US and most of Europe has been financially repressing savers, especially retirees. Now, though, rising rates mean that retirees and savers may once again be able to earn attractive returns without taking much risk. This, however, is expected to result in a decline on foreign investor capital inflows in emerging markets that have over the years predominantly offered higher yield returns to global capital. Thus, emerging and developing capital markets that have historically been dependent on foreign capital flows to grow their investment profiles need to focus more on increasing the pool of domestic investors to invest in their respective domestic capital markets for long term sustainability and stability. This further underscore the need to build our domestic capital markets to withstand the adverse effects of such portfolio outflows.

2.3 Sri Lanka Debt Default

On April 12, 2022, Sri Lanka declared that it would suspend all external debt payments with immediate effect. Incidentally, Sri Lanka joined the dubious club of global defaulters. This event is similar to a declaration of bankruptcy. It signals the start of a debt restructuring and economic reform phase, with the likely backing of the International Monetary Fund (IMF) (as per April 23, 2022, IMF statement)[6].

The country has now joined a list of historical debt defaulters that have suffered greatly in restoring their respective economic trajectory to date namely recent defaulters Argentina, Lebanon, Greece and Mexico. With more than $50 billion (€46 billion) in external debt and a shortage of foreign exchange reserves, the country is currently struggling to pay for essential imports. This has led to sharp increases in the price of essential commodities like rice, fuel, and milk. Sri Lanka's foreign debt obligations for this year exceed $7 billion. But the country's forex reserves as of March 2022 were just $1.6 billion[7].

2.3.1 What has been the cause of the debt default?

It's well documented that Sri Lanka has been running a perineal current account deficit (with a minor exception) where imports exceed the total of exports and inward remittances. Additionally, the Government of Sri Lanka (GOSL) has been running a budget (fiscal) deficit, where the government expenses exceed its income.
But are these twin deficits always problematic? The answer is, 'it depends on the level and sustainability of the debt'. The said deficits have to be funded by the government drawing down on reserves or else having to continuously borrow both locally and internationally.
However, we know many countries, including some developed nations, run either a single deficit or both deficits. Also, rather than paying-back, they roll-over or refinance most of that debt. Global debt levels have further increased with the COVID outbreak that forced governments to stimulate their economies. The art is to use the ever-increasing debt obligations to achieve more than proportionate growth in sustainable income (sustainable GDP).

2.3.2 So, why did it become a problem for Sri Lanka?

A financial crisis had been brewing for more than a decade in Sri Lanka, where International Sovereign Bonds (ISB) — or market borrowing — constitute a major portion of the country's foreign debt. Since graduating into a lower middle-income country in the early 2000s, successive Sri Lankan governments have been increasingly borrowing from private international capital markets through the issuance of sovereign bonds, seriously contributing to the precarity of the balance-of-payments of the country. However, capital-market borrowing is unconditional, with relatively high interest rates and much shorter durations of repayments account for nearly half of the country's total outstanding external debt.

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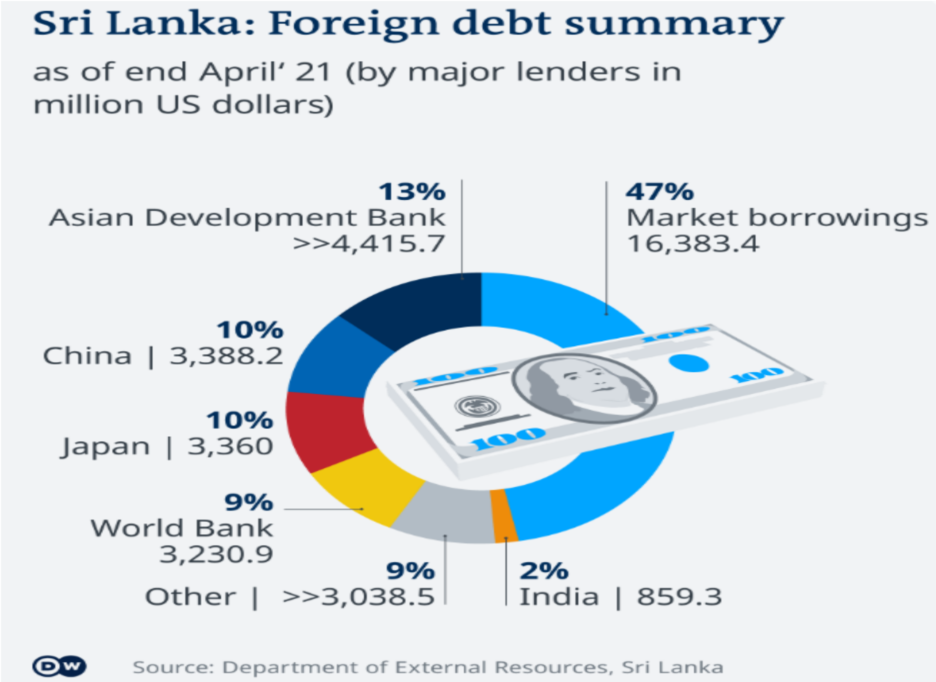
[6] Sri Lanka's debt default: What accelerated it and what lies ahead? - Editorial | Daily Mirror
[7] Sri Lanka's foreign debt default: Why the island nation went under | Business | Economy and finance news from a German perspective | DW | 14.04.2022

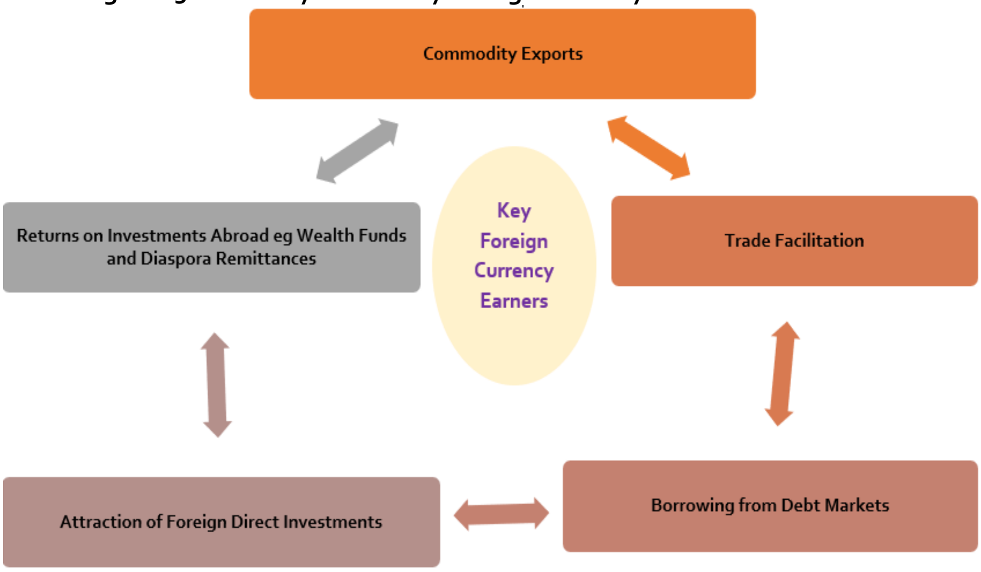
Thus, a sharp decline in the market prices of these bonds followed Sri Lanka's announcement of a pre-emptive default on its foreign debt. This is further exasperated by Sri Lanka's government recently offered unsolicited value-added and income tax cuts to taxpayers. This led to an extreme loss of government revenue. China also holds a significant portion of Sri Lanka's total foreign debt, nearly 10%, with more held by Japan, the World Bank and the Asian Development Bank. India holds nearly 3%.

Figure 14: Profile and Segmentation of Sri Lanka's Debt Holdings



Regional powers India and China have been competing with each other to gain a foothold in the strategic island nation. Sri Lanka is a critical link for China in their Belt and Road global infrastructure projects. For India, Sri Lanka is a geo-politically significant country. Consequently, the Sri Lankan Rupee started to slip.

Figure 15: Summary of Five Key Foreign Currency Earners for Economies



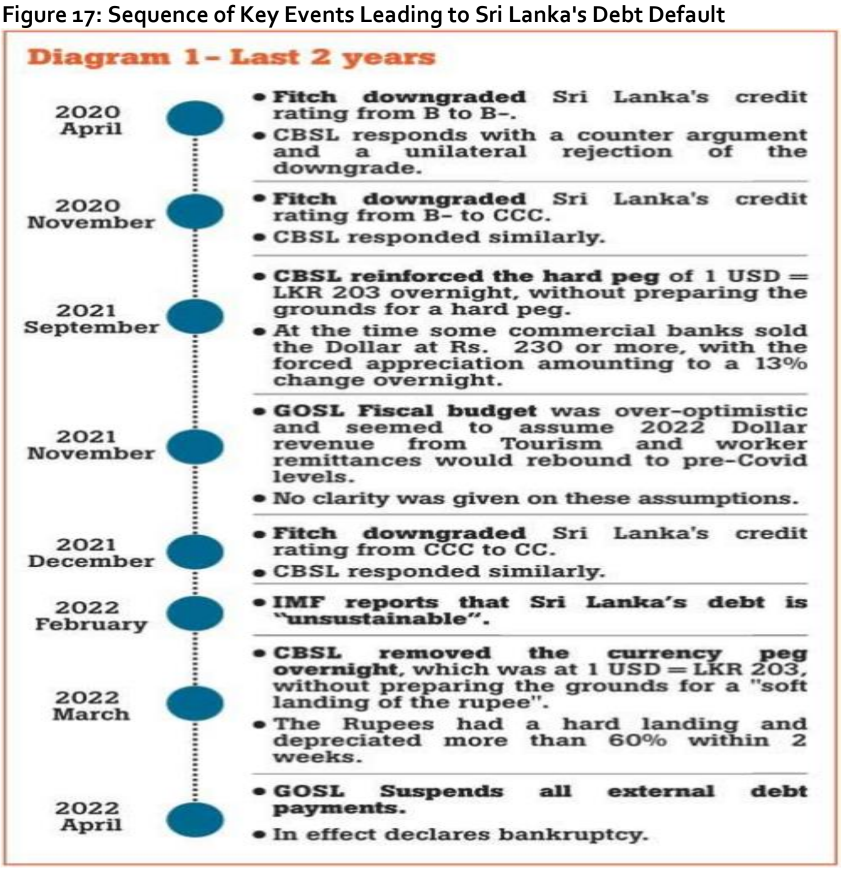
Source: Various

Without the necessary cash reserves in place, in early March 2022, Sri Lanka had to allow the rupee to free fall. Foreign currencies are acquired through revenues garnered through five key methods summarized herein in figure 13 above.

In such a case, interest rates should also be increased. This serves to stop the huge rise in overall inflation, which reached nearly 20% in April, and 30% for food.

Figure 16: Trajectory of Sri Lanka's Inflation Rate (July 2021 - April 2022)

Figure 17: Sequence of Key Events Leading to Sri Lanka's Debt Default



Note: CBSL refers to the Central Bank of Sri Lanka and GOSL refers to the Government of Sri Lanka

2.3.3 Other Countries Facing the Risk of an Economic Crisis;

i. Pakistan

The minister revealed that at present the government is not able to raise fresh foreign debt from the global capital market and stressed controlling inflation as the top priority[8].

Pakistan is on the verge of bankruptcy as the country's economic situation is facing a dire future with no immediate positive outlook despite ongoing negotiations between Islamabad and the International Monetary Fund (IMF) to resume the USD 6 billion bailout package from IMF[9].

Pakistani Rupee (PKR) is on a 'free fall' as it crossed 212 per USD on June 21. During the quarter, the country's foreign exchange reserves depleted to a critical level and the country has less than six weeks of import cover remaining, with the reserves below USD 9 billion.

Lessons Learnt:

Lessons from Sri Lanka's debt default show the systemic importance of coordinating capital markets related borrowings to the larger financial and borrowing framework of a country. Like Sri Lanka, the Kenyan Government has also become an active participant in the international Eurobond markets attracting private capital, albeit pegged on forex risks exposure. Considering that e Eurobonds are a capital markets instrument, CMA Kenya as the advisor of Government on all aspects of this subsector, needs to play a more pivotal role in the approval, structuring or marketing aspects of such instruments.

Further, to complement public management strategies, other non-fiscal debt mitigation measures such as capital raising by the Government through sell downs and new divestitures need to be given more prominence. This requires significant co-ordination and sharing of information between various arms of Government, and this should be encouraged to avoid any potential debt default risks that could accrue from continuous use of Euro bonds as capital raising instruments.

2.4 FCA's Relentless Quest towards becoming A Digital Regulator: How the FCA Is Riding the Innovation Wave

The UK's Financial Conduct Authority (FCA[10])is keen on keeping pace with emerging technologies and carving out a path for beneficial innovation that unlocks the opportunities that technology brings, while ensuring that consumers remain protected.

UK has a fully-fledged function on innovation services that is designed to support firms at any stage of maturity, from collaboration, initial idea and proof of concept, to obtaining authorization and scaling up in the market with

[8] https://economictimes.indiatimes.com/news/international/world-news/pakistan-in-dire-need-of-36-billion-to-avert-economic-collapse/articleshow/91872616.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

[9] https://economictimes.indiatimes.com/news/international/world-news/pakistan-stares-at-bankruptcy-as-economic-crisis-worsens/articleshow/92512596.cms

[10] The FCA is the conduct regulator for around 51,000 financial services firms and financial markets in the United Kingdom.

the services offered including regulatory sandbox[11], innovation pathways [12](previously direct support and advice unit), digital sandbox[13], tech challenges, techsprints and industry events.

The innovation services aim at achieving four critical goals namely;

a. To create room for the brightest and most innovative companies to enter the sector
b. To support positive innovation to come to market in a controlled and sustainable way
c. To support innovation that has genuine potential to improve the lives of consumers across all areas of financial services and
d. To support innovation delivered by a diverse range of participants, both in terms of the type of firm, and the people behind the developments.

Table 2: Details of the 6 Component Features of UK's FCA Innovation Services Offered

	Service	Description
1	Regulatory Sandbox	The Regulatory Sandbox allows firms to test their business models in the live market with real consumers.
2	Innovation Pathways (Direct Support and Advice Unit)	This helps innovative firms to understand UK's regulation and navigate their regulatory regime by helping both new and established businesses and can support firms doing regulated or unregulated business. It is expected to play a key role in informing and ensuring the regulatory environment is fit for future innovation.
3	Digital Sandbox	This provides successful applicants with access to a range of online tools and high-quality synthetic data assets to test and develop their propositions. It was launched to support products and services at earlier stages of development, namely 'proofs of concept' (POC). The Digital Sandbox currently operates as a cohort model.
4	Tech Challenges	This allows the regulator to play a more active role in driving innovation in an area where we see clear benefit to UK consumers by identifying areas where financial services markets could benefit most from innovation and actively encourage the development of creative, market-led solutions in that space.
5	Tech Sprints	TechSprints, also known as 'hackathons', are events aimed at gathering participants from across the financial services industry and beyond to develop technology-based ideas and discuss specific industry challenges. Participants include large financial services institutions, RegTechs, FinTechs, academics, cross-sector regulators, technologists and innovators.
6	Industry Events	The FCA organises industry engagement events, such as roundtables and workshops, to help develop thinking on priority fintech areas and the ways in which practical and productive collaboration can take place at scale.

Source: FCA, UK

FCA data shows that a high proportion of firms that use the Innovation services successfully become authorized – with 92% of firms who have used the Regulatory Sandbox and 98% of those that have used the Direct Support and Advice Unit.

These services also support firms outside the regulatory perimeter, providing FCA with additional insights into the technologies being used and their potential implications, to inform future policy development. FCA is committed to establishing a regulatory 'scalebox' that supports firms focusing on scaling innovative technology. Last year FCA piloted 'Early Oversight' and 'High Growth Oversight' initiatives. This extends supervision support to firms that are scaling at speed as well as those that are new to regulation, thus taking the recommendations further and covering both the start-up and scale-up stages. FCA are currently reviewing the findings of the pilots and are expected to announce the next steps in the coming months.

Beyond the Regulatory Sandbox, FCA also offers a Digital Sandbox which supports start-ups and innovators in developing and validating new proofs of concept to genuine challenges facing the financial services industry.

Additionally, FCA's Data Strategy is enabling the regulator to become more effective in harnessing data; converting it into actionable intelligence; and enhancing our understanding of what's happening in real time, and crucially, of emerging risks. FCA has implemented a variety of techniques to swiftly identify and react to firm and market issues. The FCA has built analytical tools that provide key indicators about firms to help identify risks – such as phoenixing[14] – right at the gateway, which can then be addressed by frontline teams or through automated interventions. Furthermore, the regulators new cloud-based technology infrastructure allows it to work with data at scale and speed by engineering, connecting, and blending data to create new insights. This supports regulatory activity with respect to monitoring how markets and firms are functioning in line with the market integrity objective.

Lessons Learnt:

We note the expansion of innovation services offered by UK's FCA in addition to the regulatory sandbox that is currently under implementation by the Authority for capital markets related innovations. On a global and strategic level, regulatory support for fintech innovations is expected to translate into economic benefits for real sectors of the economy. Thus, services such as tech challenges play a significant role for policy makers to redirect innovation efforts towards providing solutions to key challenges facing the globe today. CMA Kenya takes note of the depth and scope of support regulators can offer to their markets and will continue to leverage the huge success of its regulatory sandbox to provide other value addition services to firms testing on the platform including technical, professional service and possible funding for solutions that are likely to have a transformative impact. Additionally, we will continue to pursue

[14] This means carrying on a business ('B') trading successively in the same or similar manner as a business which is insolvent ('A') and where business A's assets and customers, but not its debts, are transferred to business B.

establishment of a financial sector regulatory sandbox to enable development of integrated tech-based solutions able to address real problems within the Kenyan economy.

2.5 The US SEC Publishes Ten Red flags that investors can use to identify potential pre-IPO fraud schemes

The emergence of a promising company into the market usually attracts the interest of large numbers of investors. If the company is privately held, limiting investors' ability to buy shares because the company has not conducted an Initial Public Offer, investors tend to demand shares of the private stock of high-profile social media companies for instance Facebook, Groupon, and Twitter. With cybersecurity becoming a major security threat in the capital markets across the globe, social media has become the common hook that artists use to hang unsuspecting investors.[15]

The US Securities and Exchange Commission has been on the frontline of cubbing pre-IPO fraud schemes through the prosecution of offenders. For instance, in 2010, a securities trader who had allegedly bilked more than 50 U.S. and foreign investors out of more than $9.6 million in a series of pre-IPO scams in eight years was prosecuted. The Financial Industry Regulatory Authority (FINRA) also issued an alert to warn investors of potential pre-IPO scams. In the most recent case, SEC obtained asset freezes and other emergency relief to halt ongoing securities violations by three limited liability companies and four individuals, including allegedly selling pre-initial public offering (IPO) shares they did not own, pocketing undisclosed fees, and commingling investor funds, resulting in Ponzi scheme-like payments. Additionally, SEC also sued a Florida-based firm for raising $410 million for IPO-linked fraud.

According to the US SEC regulations, a security offering must either be registered with the SEC or meet an exemption under the federal securities laws. Otherwise, the offering is considered illegal. Pre-IPO speculation involves buying unregistered shares in a private company before the initial public offering of securities. Such transactions usually result in a range of risky deals or the worst-case scenario outright fraud. Investors are advised to steer clear of potential scams by;

i. Considering the source of the IPO opportunity
ii. Being alert to persuasion
iii. Verify whether the person touting the stock or investment is licensed,
iv. Determining if you're being conned by a convicted criminal
v. Never send money to an individual or firm that you are hearing from based on an unsolicited communication.

[15] https://www.finra.org/investors/alerts/pre-ipo-offerings-these-scammers-are-not-your-friends

vi. Get an unbiased second opinion and

vii. Asking why the offer is being made to you and not anyone else[16].

The US SEC further published a list of red flags that investors can use to identify potential pre-IPO fraud schemes[17].

a. **Claims of High Returns with Little or No Risk-** Promises of high returns, with little or no risk are one of the most common tactics used by scammers. Every investment attracts some degree of risk. The higher the returns the higher the risk and the opposite is true.

b. **Aggressive sale tactics and unsolicited investment offers**- Scam artists build trust with an investor first by claiming to be with a reputable firm. Once trust is established, scammers pose the investment as a "once in a lifetime" offer to create a false sense of urgency. Any legitimate investment professional gives the investor time to do research and make a decision. In case you are offered an unsolicited offer either from a person known to you or a stranger, always consider the motivation of the person offering the investment.

c. **Unregistered Investment Professionals and Unverifiable Biographies of Managers or Promoters**- It is always wise to check whether the person making an offering is registered and properly licensed. This is irrespective of whether you know them personally or not. In the United States investors can check an investment professional's registration, background, and qualifications at the Investment Adviser Public Disclosure website and FINRA's Broker Check. It is also wise to independently verify any claims, including by asking for references or conducting a simple Internet search on the biographies of the managers or the promoters. Additionally, if the promoter lacks the relevant experience this should be considered a red flag.

d. **No Net Worth or Income Requirements**- The federal securities laws limit many private securities offerings to accredited investors. Investors are therefore supposed to be highly suspicious of anyone who offers them private investment opportunities without asking about their net worth or income.

e. **Unavailability of sales documents**- Any legitimate salesperson will offer a written document to the investor, for instance, a private offering will usually be described in a private placement memorandum. Other factors that might be under looked yet might be a sign of a scam is whether the written document contains any typographical, spelling, or other errors.

f. **Sham and Virtual Offices**- In an event where an investor is unable to establish the physical address or any actual operation presence, they should be wary.

g. **The only parties involved are the salesperson and the investor**- Usually, in an IPO offering, brokerage firms, accountants, law firms, or other third parties are involved. The absence of these parties should be a clear indicator you are being scammed.

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[16] https://www.finra.org/investors/alerts/pre-ipo-offerings-these-scammers-are-not-your-friends

[17] https://www.sec.gov/oiea/investor-alerts-bulletins/ia_unregistered.html

h. **Not in Good Standing**- As an investor, you should be wary of the company you are being asked to invest in can't be found in the records of the state it claims to have been formed in or if it's not listed as active or in good standing.

Lessons Learnt:

Investment scams have become a common phenomenon in the digital era with social media channels spreading false information fast. Like the US, the Kenyan capital markets industry has also witnessed several fraud schemes aimed at scamming potential investors, especially retail investors scouting for return earning investments in the industry. In Kenya, cybersecurity has been declared a national security threat. Capital markets are at a high risk of cybersecurity threats with investors running the risk of losing their funds through such schemes. The ten red flags published by the US SEC on the sale of pre-initial public offering shares are admissible across other investment asset classes globally and are welcome enforcement actions especially those enacted so far such as investor access to the profile of investment professional's registration, background, and qualifications through the Investment Adviser Public Disclosure website and Financial Industry Regulatory Authority (FINRA's[18]) Broker Check.

2.6 SEC Proposes Rule Changes to Prevent Misleading or Deceptive Fund Names

The US Securities and Exchange Commission has proposed amendments to enhance and modernize the Investment Company Act "Names Rule" to address changes in the fund industry and compliance practices that have developed in the approximately 20 years since the rule was adopted. A fund's name is an important marketing tool and can have a significant impact on investors' decisions when selecting investments, and the Names Rule addresses fund names that are likely to mislead investors about a fund's investments and risks. The proposal follows a request for comments the SEC issued to gather public feedback on potential reforms to the rule in March 2020.

This was informed by the activities that the US market has witnessed in the past two decades as the funds industry has developed, raising concerns that gaps in the current Names Rule may undermine investor protection as some funds have claimed that the rule does not apply to them — even though their name suggests that investments are selected based on specific criteria or characteristics.

The proposals, which are subject to public feedback, come amid mounting concerns that some funds seeking to profit from the rise in ESG investing practices have misled shareholders over what's in their holdings, a practice known as greenwashing. The proposals to tackle greenwashing come after the SEC in March debuted broad rules that would require publicly traded companies to disclose how climate change risks affect their business. The measures would provide guidance

[18] FINRA is is a government-authorized not-for-profit organization that oversees U.S. broker-dealers. FINRA is authorized by Congress to protect America's investors by making sure the broker-dealer industry operates fairly and honestly. We oversee more than 624,000 brokers across the country—and analyze billions of daily market events.

on how ESG funds must market their names and investment practices. One proposal would update the so-called Names Rule to encompass characteristics related to ESG[19].

The Names Rule currently requires registered investment companies whose names suggest a focus in a particular type of investment (among other areas) to adopt a policy to invest at least 80 percent of the value of their assets in those investments (an "80 percent investment policy"). The proposed amendments would enhance the rule's protections by requiring more funds to adopt an 80 percent investment policy. Specifically, the proposed amendments would extend the requirement to any fund name with terms suggesting that the fund focuses on investments that have (or whose issuers have) particular characteristics.

Therefore, funds with "ESG" in their name would have to clearly define the term and then ensure that 80% of the assets in the fund adhered to that definition. The amendments also would limit temporary departures from the 80 percent investment requirement and clarify the rule's treatment of derivative investments.

The proposal is currently under a 60-day public comment period after publication in the Federal Register, during which time companies, investors and other market participants can comment on and suggest changes to the rules.

Lessons Learnt:

Like the US, the Authority has also faced similar malpractices especially in the Collective Investment Scheme as an asset class. To address this, CMA Kenya through its new Draft Collective Investment Schemes regulations offers a provision that the scheme naming should not be misleading and that the scheme shall ensure that, the name includes the specific generic name relevant to the fund. Once the CIS regulations are enacted, we will keenly police the market for any contraventions in the interest of investor protection and ensure appropriate enforcement actions and penalties are administered where this provision is breached by any market participant.

2.7 Importance of Circuit Breakers in Managing Price Volatility of Trading Securities -Findings Based on World Federation of Exchanges (WFE) Research

With the current economic disruptions, volatility continues to be a global issue in the capital market. For instance, in the recently placed international bond, South Africa had been planning to issue but postponed due to high volatility in the market. On the global scene, the United States, the security market experienced heightened volatility induced by the COVID-19 pandemic. Similarly, market-wide circuit breakers[20] were triggered on four occasions. The purpose of circuit

[19] SEC unveils rules to prevent misleading claims by ESG funds (cnbc.com)

[20] Circuit breakers are safeguarding mechanisms that temporarily halt continuous trading when an indicator crosses a pre-specified threshold during volatile market conditions.

breakers is to provide investors and other market participants with a cool-down period where they can assess their trading strategies, and information, adjust their positions or modify submitted orders.

Although not a normal occurrence there are instances in which the effectiveness of the circuit breakers has been impacted. For instance, during the pandemic in March 2020, induced volatility led to multiple occurrences of market-wide trading halts, therefore, impacting the effectiveness of the circuit breakers. This necessitated discussions among exchanges, regulators, and market participants.

The World Federation of Exchanges (WFE) conducted an empirical study to establish the effectiveness of the U.S market-wide circuit breakers. The study involved examining the market conditions around the trading halts experienced by that market in March 2020. The study focused particularly on the impact on market quality (liquidity conditions, price informativeness), trading behaviors for instance the magnet effect, and the differential between market-wide and single-instrument circuit breakers.

The study was conducted in three phases. In the first phase, a before and after analysis of the four market-wide circuit breaker triggering events was conducted to establish the impact on the market quality. In the second phase, the holding back hypothesis and the magnet effect hypothesis were investigated. According to the holding back hypothesis, the circuit breakers cause traders to trade less aggressively as the probability of a circuit breaker being triggered increases, and therefore fewer extreme price movements are observed.

On the other hand, according to the magnet effect, the circuit breakers cause traders to trade more aggressively, leading to more extreme price movements as prices approach a triggering point. The study was concluded by completing the Market Wide Circuit Breakers (MWCB)[21] analysis by studying the differential effects of MWCB on S&P500 stocks and non-S&P500 stocks and the differential effects between market-wide trading halts and single stock trading halts by adding the corresponding interaction terms in the before and after analysis.

According to the research findings, circuit breakers triggered during March 2020 contributed to alleviating the pressure in the financial market. Circuit breakers in the U.S. are designed adequately and serve as an effective safeguarding mechanism employed by the exchanges. Circuit Breakers are therefore effective as tools that can be used to manage volatility and market stress. In addition, comparing the effects of MWCBs with single stock circuit breakers, WFE Research found that liquidity suppliers tend to become more reluctant to provide liquidity after MWCBs than after the single stock halts[22].

[21] Market Wide Circuit Breaker

[22] The World Federation of Exchanges New Research Finds Circuit Breakers Effective as Tools to Manage Volatility | The World Federation of Exchanges (world-exchanges.org)

Lessons Learnt:

Efficiency in market and trading operations is a critical ingredient for the success of securities trading. The NSE Rules give provisions on scenarios under which circuit breakers should be used in ensuring price stability for traded securities. The research findings by the Word Federation of Exchanges (WFE) will no doubt be useful in continuously reviewing and improving the trading experience in the Kenyan capital markets.

2.8 IOSCO Releases Report on Issues and Considerations of Market Data in Secondary Equity Markets

On 28th April 2022, the board of the International Organization of Securities Commission (IOSCO) published a report that sets out some issues and considerations for regulators when reviewing the regulation of market data. The report highlights that market data is an essential element of efficient price discovery and for maintaining fair and efficient markets. Specifically, market data enables market participants to identify liquidity, make informed order routing and investment decisions and comply with regulatory requirements, such as best execution. As secondary markets have evolved, market data needs have changed and market participants in many jurisdictions have raised concerns about the costs, accessibility, fairness, and consolidation of market data.

The Final Report provides a summary of the comments received on the Consultation Report and offers three considerations based on the information gathered that may be helpful for regulators involved in the regulation of market data provided by trading venues or over the counter (OTC):

a. Pre-trade data (i.e., information about orders or quotations) and post-trade data (i.e., information about executions) are important in promoting transparency of trading. As appropriate, it is important to consider the elements of market data that are necessary to facilitate the ability of all market participants to effectively and fairly participate in secondary markets and to make informed investment, order routing and trading decisions. The needs of market participants may differ depending on factors such as, participants' business model, market structure in the particular jurisdiction, or the type of participants in the market (retail, institutional, proprietary).

b. Fair access to market data is an important consideration in the provision of market data to market participants. Fair access may cover issues including market data pricing, connectivity terms and pricing, and contractual arrangements. Market data is not interchangeable in all cases, and where appropriate, helping to ensure fair access across different execution venues is an important consideration. In addition, the extent to which access to free or delayed data can meet the needs of some participants may be a useful consideration.

c. Where appropriate, consolidation of data may improve access to market data and may, in some circumstances, be useful in helping to reduce costs of market data, identify liquidity and compare execution quality in jurisdictions where there may be fragmented liquidity.

Some respondents noted the absence of a level playing field for market data provision. Some sell-side respondents noted that most data vendors are not covered by a regulatory framework governing the provision of market data. Others expressed concern that exchanges may benefit from a monopoly situation and use this position to limit some participants' ability to receive and use data on reasonable commercial basis.

A number of regulated exchanges that provide market data argued that other competing execution venues, such as Systematic Internalizes in the EU and dark pools in the U.S., are "free-riding" in their use of exchange market data to run commercial businesses. These regulated exchanges stated that this practice could threaten the quality of the price formation process and argued that the competing trading or execution venues do not bear the costs of price formation and that regulated exchanges should be remunerated for their investments in maintaining high quality pricing.

Finally, some commenters identified the need for market data providers to have sufficient backups and redundancies to continue functioning during technological disturbances.

Lessons Learnt:

Access to data as forwarded in the findings of IOSCO's report is a critical element towards establishing transparent pricing mechanism favorable enough to promote liquidity. Data on securities trading in Kenya is currently primarily driven by the existing exchange, the Nairobi Securities Exchange for listed trading activities, with limited access to OTC driven trades. The NSE has a fee schedule attached to access of market data for market players and other commercial players in the industry. However, special rates are forwarded for students in need of accessing data for academic purposes. The Authority, through its quarterly publications; the statistical bulletin and the capital markets soundness report also shares market data with the industry. However, going forward, the new draft regulations on Public Offers envisions the establishment and operation of more exchanges in the country, increasing competition amongst exchanges. With increased competition, it is expected that exchanges will have to reduce costs related to data access. In the last two years, there has been growing interest in the establishment and operation of OTC based trading platforms, resulting in the approval of NSE's Unquoted Securities Platform. Going forward, management, through its policy function will undertake research on how best such OTC trading platforms can be overseen to ensure access to data by investors for increased price discovery and liquidity with a view to ensure that such market infrastructure is fit for purpose.

2.9 Singapore's Green Finance Industry Taskforce (GFIT) Hosts Consultations on the second version of its Green and Transition taxonomy

In the face of increased climate change, sustainable financing through green finance continues to be an important aspect of the capital markets in driving the globe towards achieving net zero goals. The world economic forum defines green finance as any structured financial activity created to ensure environmental sustainability in the long run.[23] Currently, the top three green bond issuers in the world are the United States (US), China, and Europe. It is estimated that by the year 2023, the green bond market could be worth $2.36 trillion.

Despite the estimated promising growth of the green bond market, there are still unidentified gaps in the promotion of sustainability that need to be filled and more so in the developing countries which make little contribution to the pollution. The war in Ukraine coupled with other crises in the developing nations has continued to limit the level of development. Additionally, the rise in the level of energy and food prices has further intensified volatility in global financial markets.

During the quarter, the International Capital Market Association (ICMA), underlined that existing guidance for social and sustainability bonds is appropriate for use in the support of fragile and conflict states.[24] Amongst the eligible social projects that would greatly benefit fragile and conflict states support include direct emergency relief such as food, shelter, and healthcare, as well as specific projects designed to alleviate unemployment generated by the circumstances. These projects specifically target refugees and displaced persons fleeing the conflict. However, the same projects can target a wider scope if they have the capacity to.

On the other hand, in Singapore, the Green Finance Industry Taskforce (GFIT) made consultation on the second version of its Green and Transition taxonomy.[25] GFIT is an industry-led initiative comprising representatives from financial institutions, corporates, non-governmental organizations, and financial industry associations. Its mandate is to help accelerate the development of green finance through four key initiatives: develop a taxonomy, enhance environmental risk management practices of financial institutions, improve disclosures, and foster green finance solutions. The consultation will act as a build-up of the earlier proposed taxonomy where GFIT launched an environmental risk management handbook to support green finance.

The proposed thresholds and criteria can be used to classify an economic activity as green, amber, or red, using a traffic light system, to differentiate its contribution to climate change mitigation. The following are the colors and what they represent concerning contribution to sustainability.

Green- activities that contribute substantially to climate change mitigation by operating at net zero, or are on a pathway to net zero by 2050

[23] https://www.weforum.org/agenda/2020/11/what-is-green-finance/
[24] https://www.icmagroup.org/
[25] https://www.mas.gov.sg/news/media-releases/2022/industry-taskforce-consults-on-second-version-of-green-and-transition-taxonomy

Amber- represents transition and includes activities that are either transitioning towards green within a certain time frame or facilitating significant emissions reductions in the short term.

Red -refers to harmful activities that are not currently compatible with a net zero trajectory.

In addition to the taxonomy, the user guide is accompanied by detailed guidance on the reporting of a company's revenue, capital expenditures, and operating expenditures that are aligned with the taxonomy criteria. GIFT aims to release the criteria and thresholds for the remaining five sectors i.e., agriculture and Forestry/Land Use, Industrial, Information and Communications Technology, Waste/Circular Economy, Carbon Capture, and Sequestration, for public consultation in late 2022 and finalize the full taxonomy in 2023.

Such development as seen in Singapore will propel the globe towards a more sustainable environment that supports not only the growth of the capital markets but the global economic growth as a whole.

Lessons Learnt:

Through its Issuer Governance Function, CMA Kenya is in the process of developing a capital markets industry strategy on a broader sustainable finance framework for the industry taking into consideration ESG factors as a critical measure for issuers. As it develops the strategy, this will be a great opportunity to learn from jurisdictions that have made significant strides on this front such as Singapore. Additionally, ICMA's revised guidelines on sustainable finance will form a critical reference point in ensuring that ongoing initiatives in this area are aligned with international best practices.

3.0 REGIONAL DEVELOPMENTS

3.1 African Union [26] Pursues a Pan African Credit Rating Agency To facilitate rating of Sub-Saharan Countries

The African Union (AU) is calling for the creation of a Pan-African credit agency. This was forwarded through the current chair of the African Union, Senegalese President Macky Sall, under the justification that the current international credit ratings are proving unjust to African countries.

This is anchored on statistics accumulated over the years on the rating services from international rating agencies. For example, in 2020, when all economies were suffering fallout from the COVID-19 pandemic, 18 of the 32 African economies rated by at least one of the big agencies saw their ratings downgraded. This translates into 56% of African countries whose credit ratings were downgraded, compared with 31% of countries globally over the same period, including Kenya.

[26] Senegal President Macky Sall is the current President of the African Union

According to the African Union, studies show that at least 20% of the ratings criteria for African countries are based on more subjective factors, cultural or linguistic ones for example, which bear no relation to the parameters used for measuring economic stability. As a result, the perception of investment risk in Africa is always much higher than the real risk. This has translated into higher insurance premiums in African countries, making access to credit more expensive. Thus, African countries continue to pay much higher interest rates as a result of this perceived unfair system. Across the globe, countries are seeking new and urgent sources of financing as the impacts of the Ukraine conflict threaten to worsen an already dire economic situation caused by COVID -19. The AU Chair forwarded concerns over the fact that some African countries are failing to recover economically because low credit ratings are discouraging international trade and investment, undermining the continent's competitiveness. This has also affected negotiations on loan restructuring between African nations and institutions such as the IMF, hence the call for a Pan African credit rating agency to be responsible for rating African nations.

This also comes at a time when the Kenyan Government, through the National Treasury also hosted a delegation of personnel from the African Peer Review Mechanism (APRM) Technical Support Mission in Q1.2022 who since published a report that highlights key gaps identified in credit rating in Kenya. Initially, the Kenyan government had contracts with two rating agencies namely Fitch Ratings and S&P Global. However, these contracts ended and therefore the rating agencies are currently issuing unsolicited ratings.

The risk associated with unsolicited ratings include:

a. Failure to consult with the government representatives in the review process results in an inadequate understanding of the sovereign risk exposure and the government strategy in addressing the downside risk factor.

b. Lack of contract with the government or regulation provides an open door for the rating agencies to use unfavorable ratings.

c. Unavailability of written guidelines on how unsolicited ratings (Done voluntarily) should be conducted is likely to result in low ratings.

Following APRM's identified gaps on Kenya's credit rating landscape, the Authority has initiated the drafting of new regulations to allow oversight of credit rating agencies in Kenya.

Lessons Learnt:

Credibility and costs related to credit rating agencies has been a key discussion point in the financial services industry in the continent and Kenya. CMA Kenya has currently licensed 5 credit rating agencies to operate in Kenya – 4 foreign and one domestic one. However, the current existing credit rating regulations have gaps that are being addressed through the development of new Credit Rating Agency (CRA) regulations, 2022. The draft regulations aim to meet the following policy objectives, *a. To provide clarify and emphasize the scope of applicability of requirements for approval for an entity operating credit rating agency irrespective of its size or international profile.*

b. Enhance disclosure requirements for the rating agencies following gaps witnessed during the 2008 global financial crisis, while making them more facilitative, taking into consideration IOSCO Principles on CRAs.

c. Provide clear requirements for both locally incorporated as well as foreign incorporated rating agents; and iv. Inform refinement of Credit Rating Agencies guidelines.

3.2 Nigeria SEC publishes proposed guidelines on Minimum Operating Standards for Information Technology for Capital Market Operators (CMOS)

In a bid to fully digitalize operations of the Nigerian capital market, the Securities and Exchange Commission (SEC) is proposing some guidelines that will enable investors in the capital market to be able to do virtually everything they need to do on their internet-enabled appliances.

These are contained in a guideline on Minimum Operating Standards for Information Technology for Capital Market Operators (CMOs) just exposed to the public. According to the SEC, the new regulatory framework undergoing review seeks to mandate compulsory adoption of information and communication technology (ICT), particularly web-based applications and devices, for virtual capital market transactions[27].

The SEC notes that it applies to all categories of Capital Market Operators (CMOs) unless in sections where reference was otherwise made to specific CMO categories. The purpose of the guidelines was to establish a threshold of operational efficiency in the Nigerian capital market through the effective adoption of the information technology in driving business operations and ensuring the security, confidentiality, integrity and reliability of information systems.

The new rules mandate all capital market operators to have well-secured and functional website as well as functional electronic mailing system, either hosted privately or using a cloud service provider, with domain name owned and registered by the capital market operator. Once the rules come into effect, the use of free email providers and private emails like Yahoomail, Gmail and Hotmail, among others, shall become unacceptable for official transactions.

Under the proposed framework, stockbrokers will be required to have websites and web applications that allow investors to securely create and manage their equities accounts online, make enquiries and receive customer support using chat-bots or other interactive programmes from web browsers. As the largest and main trade group, digitization of stockbroking operations is expected to improve accessibility to the market for retail investors and to drive market penetration and inclusion.

[27] SEC moves to fully digitise nation's capital market operations - Business247News

Also, fund and asset managers, who run the country's burgeoning collective investment schemes, will also be mandated to have websites and web applications that allow investors to securely create and manage investment accounts online, make enquiries using chat-bots or other interactive programs from web browsers.

Fund and asset managers are also required to have mobile applications that provide free access to the full stack of their service offering and allow retail investors to securely create and manage investment accounts online, make enquiries and receive in-app customer support.In a major move that may finally bridge the gap fuelling unclaimed dividends, all registrars, central securities depositories and clearing houses will now be required to digitise their operations, as a regulatory requirement rather than optional service provision.

The Guideline also stipulates that all central securities depositories and clearing houses shall have databases integrated with APIs that registrars and brokers can feed from as approved by the SEC while all registrars, central securities depositories and clearing houses are required to have websites and web applications that allow investors to securely create and manage their profiles online, make enquiries and receive customer support using chat-bots or other interactive programmes from web browsers.

Also, custodians and trustees are required to have websites and web applications that allow their clients to securely create and manage their accounts online, make enquiries and receive customer support using chat-bots or other interactive programs from their web browsers.

While securities exchanges had made self-driven efforts to automate their systems, the new rules make it mandatory for all exchanges-including equities, debt, derivatives, and commodities exchanges among others, to have secure trading platforms with robust features that include real-time quotes, charting tools, news feeds, trade monitoring and premium research. All exchanges are also required to have a surveillance system that provides real-time monitoring of all trading activities[28].

A draft copy of the framework indicates that the new framework, upon final approval, will apply to all capital market operations, with particular emphasis on investor-facing functions such as securities trading, fund management, share registration and clearing and custodial services, among others.

[28] Nigeria's SEC proposes full digital capital market - Businessday NG

Lessons Learnt:

The Capital Markets industry stakeholders are keen on having in place a framework for technology applications which is well aligned to the minimum requirements imposed on key market infrastructure in relation to cyber security, data protection and privacy among other key technology risks. CMA Kenya will seek to engage with the Nigeria Securities Commission and learn lessons on how to implement some of the provisions forwarded in the draft regulations.

3.3 Ethiopia set to establish its own stock Exchange

On 18th May 2022 the Ethiopian Investment Holdings /EIH/, Ministry of Finance and Financial Sector Deepening Africa /FSD Africa/ signed an agreement to establish the Ethiopian Security Exchange (ESX), the first in the horn region. Through the corporation FSD Africa will fund technical support legal advice, and the costs associated with getting the exchange operational will democratize corporate ownership of the nation's largest and most influential companies, empowering Ethiopians with a direct stake in their country's economic infrastructure. As the owner and manager of state-owned companies, EIH is said to serve as the wind underneath ESX's wings by floating minority shares of selected companies under its management[29].

At least fifty companies, including banks and insurance companies, are expected to list at the launch of the exchange. The regulatory body introduced a proclamation to govern the stock market in 2020 and it was later legislated by Parliament. It is indicated that ESX will serve as a key market institution that will provide Ethiopian entrepreneurs and businesses with access to long term finance.

Ethiopia is among the biggest five economies in sub-Saharan Africa and is the second largest in terms of population; yet, it does not have a stock exchange[30]. Ethiopia becomes the 30th of Africa's 51 countries to establish a stock trading institute under the auspices of the government. For one of the continent's largest and fastest growing economies, many say the Ethiopian authorities have waited way too long to join the capital markets.

Lessons Learnt:

The entrance of Ethiopia in the securities markets through establishment of a securities exchange creates another avenue for investment and wealth creation within the African continent. Despite its current political challenges, its estimated at 120 million population is likely to spur demand for capital markets products and services. It is likely that the 50 institutions scheduled to list on the ESX could include some Kenyan companies, such as Safaricom that has already launched its commercial operations in the country. However, opportunities for increased partnerships, cross

[29] Ethiopia edges closer to the stock exchange - Capital Newspaper (capitalethiopia.com)

[30] Ethiopia is finally launching a stock exchange with the first 50 firms already on the list - BitcoinEthereumNews.com

listings and exchange of information and experience between Kenya and Ethiopia equally exists and should be exploited. In its next cycle of strategic plan, the Authority will ensure that it captures strategic initiatives that will seek to profile the Kenyan securities markets on a pedestal from Ethiopia's upcoming exchange and other exchanges in the region to maintain its competitiveness in the region and attract more capital, listings, more exchanges and expand scope of business for both large and small companies as envisioned in the progressive draft public offers regulations, 2022.

3.4 Angola Celebrates its first Initial Public Offering, 8 Years after establishment of the Exchange

Initial Public Offers (IPOs) continue to be one of the most efficient methods of raising capital. However, with the rise of Special Purpose Acquisition Companies (SPACs) there seem to be a continued drought of IPO not only in Africa but also in the rest of the world. For instance, in Africa, countries such as Kenya, Zimbabwe, Central Africa Republic, and Cameroon have not recorded any IPO listing in the last five years.[31] On the other hand countries such as Nigeria and Uganda listed two IPOs in the last 5 years while Rwanda listed one. The reduction of IPOs and capital raising in the recent past indicates that Africa may be falling behind the international market's ability to leverage the private sector to create investment and wealth, an issue that needs to be looked into given the principal role played by foreign investors in our markets.

Angola Stock Exchange, BOVIDA (Bolsa de Davida e Valores de Angola), has been in existence for the last 8years. The process of listing the IPO started in 2015 but it was not until recently the plan was actualized. Some of the factors that limited the bourse from the IPO listing was the recession witnessed in Angola in 2016 resulting in an increase in its debt-to-GDP ratio from 57.1% in 2015 to an estimated 120.3% in 2020.[32] As of 2021, the Angolan economy exited recession and the country projected a 3% growth in 2022 (International Monetary Fund). Additionally, credit rating agencies recorded an improvement in S with Fitch postulating that it was planning to upgrade Banco Bai's ratings from CCC to B-.

Angola's largest bank Banco BAI launched the IPO at the bourse on 9th June 2022. Banco BAI, Angola's biggest lender, raised 40.1 billion kwanzas ($94 million) from the sale of 10% of its shares in the oil producing African nation's first-ever initial public offering. The Luanda-based bank's shares were priced at 20,640 kwanzas, the top of the 17,200-20,640-kwanza IPO range, it said in a statement on its website. The offer was oversubscribed 1.58 times with shares coming from two of its biggest investors -- state-owned oil company Sonangol and diamond producer Endiama[33]. The national

[31] https://360mozambique.com/world/angola/angola-to-test-its-stock-market-with-bai-bank/

[32] https://www.afdb.org/en/countries/southern-africa/angola/angola-economic-outlook#:~:text=Angola's%20oil%2Ddriven%20economy%20has,an%20estimated%20120.3%25%20in%202020.

[33] Angola's Biggest Bank Raises $94 Million in Nation's First IPO - Bloomberg

diamond company Endiama contributed 1.5 percent whereas the national oil company Sonangol contributed 8.5 percent to the IPO totaling 10 percent in subscription of IPO shares.

Foreign investors play a principal role in African Markets. It is expected that the issuance of the IPO will attract foreign investors to Angola. The successes of the IPO will pave way for other IPOs and other operations that are likely to encourage capital raising. With Angola recovering from the recession, the success of the IPO will be a turning point for the country's economy.

From the IPO Banco Bai, Angolas' largest bank, was able to raise $94million (40.1 billion Kwanzas) with an oversubscription by 1.58 times.[34] With the success of the IPO Banco Bai listed its shares in the Luanda Stock Exchange on June 9, marking the start of equity trading in Angola. The move has been largely motivated by political interest ahead of Angola's general election on 24th August 2022. However, it is expected that the initiative will attract foreign investment and diversity and economy away from oil even as surging global inflation combined with higher interest rates is weighing on investors demand for IPOs.

Lessons Learnt:

The Kenya bourse's last IPO was in 2014 through the demutualization of the Nairobi Securities Exchange. Like Angola, Kenya has suffered an IPO drought since then, except for listings by introduction This remains a key concern for the Authority in conjunction with industry market players. This necessitated a review of the Authority's Public Offers Listing and Disclosure Regulations; a process that is expected to deliver draft regulations for consideration by the National Treasury by end of June 2022. The new regulations are expected to inject fresh optimism into the IPO market and result in potential listings in the near future.

3.5 Ghana Issues Public Notice Following Ghana Revenue Authority's Decision to Implement e-Levy Taxation

Following the commencement of implementation of the Electronic Transfer Levy (E-Levy) Act 2022 (Act 1075) on May 1, 2022, by the Ghana Revenue Authority (GRA), the SEC Ghana informed capital markets operators of its ongoing engagements with the Ministry of Finance (MoF) regarding the potential exemption of investment transactions from the E-Levy. The SEC notes that until such exemptions are granted, capital market operators shall strictly adhere to guidelines issued by the GRA regarding implementation of the E-Levy.

It is estimated that by the start of the second phase (July 1, 2022) of the modified phased approach adopted by the GRA, Charging Entities would have completed their integration with the GRA ELevy Management System (Common

[34] https://kenyanwallstreet.com/angola-bank-raises-94-million-in-first-ipo/

Platform), thereby facilitating the complete identification of individuals, verification of daily threshold and exemptions across the various platforms of the Charging Entities.

All capital market operators are therefore advised to update their customers' investment records using their individual National Identification Card (Ghana Card) and ensure full compliance with the directive issued by the SEC in July 2020 on Trust Accounts' opening, maintenance and operation SEC/DIR/003/07/2022 which shall become a key ingredient in seeking potential exemptions for the market.

Lessons Learnt:

Ghana's e-levy taxation policy being implemented by the Ghana Revenue Authority is similar to Kenya Revenues Authority's Digital Service Tax proposal that was temporarily put on hold following concerns from fintech business owners in the country citing the need for policies to promote growth of online businesses rather than imposing heavy taxation burdens on them.

3.6 South Africa: SA Places U.S.$3 billion in Bonds International Capital Markets

The international bond market established in the 1980s has played an important role in the internationalization of the capital markets. The different types of international bonds include the foreign bond, Eurobond, global bond, Euro currency Markets, and Offshore Centers which are utilized to attain operations in more countries or to attain funding for a new production facility. In the African continent, the most common instrument is the Eurobond.

During the quarter, South Africa issued two bonds worth US$3 billion. South Africa had intended to place the bonds earlier but postponed due to high volatility in the market. The first bond is worth US$1.4 billion maturing in 2032 (10-year) while the second bond is worth US$1.6 billion and is expected to mature in 2052 (30-year). The 30-year was bond priced at a coupon and re-offer yield of 7.300 percent which represents a spread of 447 basis points above the 30-year US Treasury benchmark bond. On the other hand, the 10-year bond was priced at a coupon and re-offer yield of 5.875 percent, which represents a spread of 309 basis points above the 10-year US Treasury benchmark bond.[35]

The bond attracted investors from all over the world with subscribers mainly coming from Africa, North America, Asia, and United Kingdom. This saw a 2.4 oversubscription rate, US$ 7.1 billion. Concerning investor profile, demand came from a combination of Fund Managers, Insurance and Pension Funds, Hedge Funds, Banks, and other Financial Institutions. Proceeds from the bond are expected to be used to fund the government's foreign currency commitments.

[35] https://www.gov.za/speeches/treasury-new-bonds-international-capital-markets-12-apr-2022-0000

Lessons Learnt:

Kenya's planned Eurobond issues in the financial year 2022/2023 are projected to be successful following South Africa's recent issue. The cost of finance in the global markets continues to rise amidst a myriad of global challenges and risks, making access to capital more expensive. This is a call for policymakers to strategically prioritize domestic capital markets as an avenue for capital raising. CMA Kenya will continue to forward domestic capital raising solutions to both Government and private sector in the country to ensure access to cheaper capital through the domestic capital markets.

4.0 LOCAL DEVELOPMENTS

4.1 The Nairobi Securities Exchange (NSE) calls for a speed up in listing state companies.

The Privatization Commission is a corporate body established under Section 3 of the Privatization Act (2005). The core mandate of the commission is to formulate, manage and implement the Privatization Programme as well as make and implement specific proposals for privatization in accordance with the Privatization Programme. For the benefit of the capital markets, the government saw it appropriate to divest from its investments in commercial and industrial enterprises and to transfer active participation to local and foreign investors through participation in shareholding.

The first phase of privatization began in 1992 and ended in 2002 leading to full or partial privatization of the 207 non-strategic commercials and 33 strategic commercial public enterprises. Despite the high number of institutions that were privatized, the intended economic impact was not achieved. The failure was attributed to the size of the privatized enterprises which was relatively small. The large institutions that were not privatized were attributed to the notion that they were strategic. Under the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) 2003-2007, the government implemented several key privatization transactions. These included the Kenya Electricity Generating Company (KenGen) Initial Public Offer (IPO), the concession of the Kenya Railways operations, Mumias Sugar Company Second Offer, Kenya Reinsurance Corporation IPO, and the Sale of 51% Telkom Kenya shareholding to a strategic partner and the Safaricom IPO. The expiry of the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) 2003-2007, saw the implementation of a long-term strategic vision of 2030, and the Privatization Commission was birthed.[36]

The operations of the Privatisation Commission began in January 2008, and the capital markets were expected to greatly benefit from the commission. Since its inception, the commission has only managed to close one deal with Kenya Wine Agencies Limited. Before the establishment of the commission, Kenya had one successful privatization with the Safaricom initial public offering in 2008. Despite the government announcing its plan to sell shares in millers Nzoia, South Nyanza, Chemelil, Muhoroni, and Miwani the process of privatization is yet to materialize.

[36] https://www.pc.go.ke/

It is against this background that the Nairobi Securities Exchange (NSE) one of the institutions that have been at the forefront of pushing for a scale-down of government ownership in listed companies and an increase in additional shareholding, called for the commission to speed up the listing of public companies. In the last six years, NSE has seen a major lack of listing and therefore, the privatization program would play a principal role in bringing new investors into the market[37]. Some of the benefits of the privatization will include**;**

i. The development of a robust pipeline of state enterprises that could be privatized or improved through private sector participation. This will in return promote the growth of our capital markets but also the economy as a whole.
ii. Enhanced quality listings on the Nairobi Securities Exchange and support the bourse to enhance opportunities for investors.

Lessons Learnt:

The Authority and NSE continue to encourage more listings to promote the growth of the capital markets and increased privatizations will play a significant role in promoting more listings at the bourse. The goal of having more listing in the capital capitals through privatization will only materialize if the Privatization Commission fully performs its designated mandate.

4.2 An Overview of CMA Related Issues Captured in the Finance Bill 2022

On 21 June 2022, Kenya's President assented into law the Finance Act, 2022 (the Act). The Act has amended various tax laws including: the Income Tax Act (ITA), The Value Added Tax Act, 2013 (VAT Act), Excise Duty Act, Tax Procedures Act, 2015 (TPA), and the Miscellaneous Fees and Levies Act. The Act also provides for other miscellaneous amendments to the Insurance Act, Retirement Benefits Act, Capital Markets Authority Act, Public Roads Toll Act among others.

In its submitted policy proposals for the year, two of the proposed amendments to Income Tax and Capital Markets Act were adopted in the finance act. These include.

[37] https://www.businessdailyafrica.com/bd/markets/capital-markets/nse-wants-agency-to-speed-up-listing-of-state-companies-3819914

Table 3: Capital Markets Related Adopted Proposals in the Finance Act, 2022

POLICY ISSUE	PROPOSED AMENDMENTS	IMPLICATION
Financial Derivative	The Act introduces a provision to subject gains from financial derivatives earned by nonresident persons to withholding tax at a rate of 15%. Under the Act, a financial derivative has been defined as a financial instrument the value of which is linked to the value of another instrument underlying the transaction which is to be settled at a future date. Gains arising from financial derivatives that are traded at the Nairobi Securities Exchange will however be exempted. The Cabinet Secretary is expected to issue regulations to guide the taxation of such income. **Effective Date: 1 January 2023**	This will play a significant role in promoting the uptake of financial derivatives as an investment class in the industry.
Investment Advisers	Section 2 of the Capital Markets Act is amended in the definition of investment adviser by deleting paragraph 3. Section 29 is also amended 1.by deleting the words a company incorporated under the companies act with such minimum share capital" appearing in paragraph (a)and substituting the words therefore the words "such legal entity as may be prescribed in the regulations".2.By deleting the words director and at least one employee who is the chief executive officer of the applicant company, appearing in paragraph(c)and substituting therefor the words "the director, chief executive officer or such other person who directs, conducts, manages or supervises the business the applicant has".	Expanding the spectrum of persons who can serve as investment advisers will serve to deepen retail investor participation by increasing the number of investment advisor's vis a vi the population.

Source: CMA

Other proposals in the Finance Act that have an impact on Capital Markets related activities are also summarized herein below;

Table 4: Summary of other Provisions affecting Capital Markets Operations and Activities

Instrument /Issue	Proposal
Corporate income tax	• The Act introduces a definition for the term "fair market value" to mean *the comparable market price available in an open and unrestricted market between independent parties acting at arm's length and under no compulsion to transact, which is expressed in terms of money or money's worth*. Despite being referred to in different tax provisions, the term fair market value was previously not defined and has been subject to varying interpretations. This should therefore provide a synchronized interpretation.
Capital Gains Tax	• The Act has increased the capital gains tax (CGT) rate from 5% to 15%. This is a culmination of previous attempts to increase the CGT rate, which stalled in the past due to intense lobbying by affected parties. The Act however affords some reprieve to firms that are certified by the Nairobi Financial Center Authority. It provides that: A firm that is certified by the Nairobi International Financial Center Authority, the applicable rate on the transfer of an investment shall be the prevailing rate at the time the investment was made if: ○ The firm invests KES5 billion in Kenya. ○ The transfer of such investment is made after five years. *Effective date: 1 January 2023*
Expansion of Interest Restriction Exemptions	The Act has excluded the following organizations from the interest expense deductibility restriction, which is currently capped at 30% of earnings before interest, taxes, depreciation and amortization (EBITDA). This is in addition to banks and financial institutions licensed under the Banking Act and Micro and Small enterprises registered under the Micro and Small enterprises Act, 2012 that were already exempt. ▪ Microfinance institutions licensed and non-deposit taking microfinance businesses under the Microfinance Act, 2006 ▪ Entities licensed under the Hire Purchase Act ▪ Non-deposit taking institutions involved in lending and leasing business ▪ Companies undertaking the manufacture of human vaccines

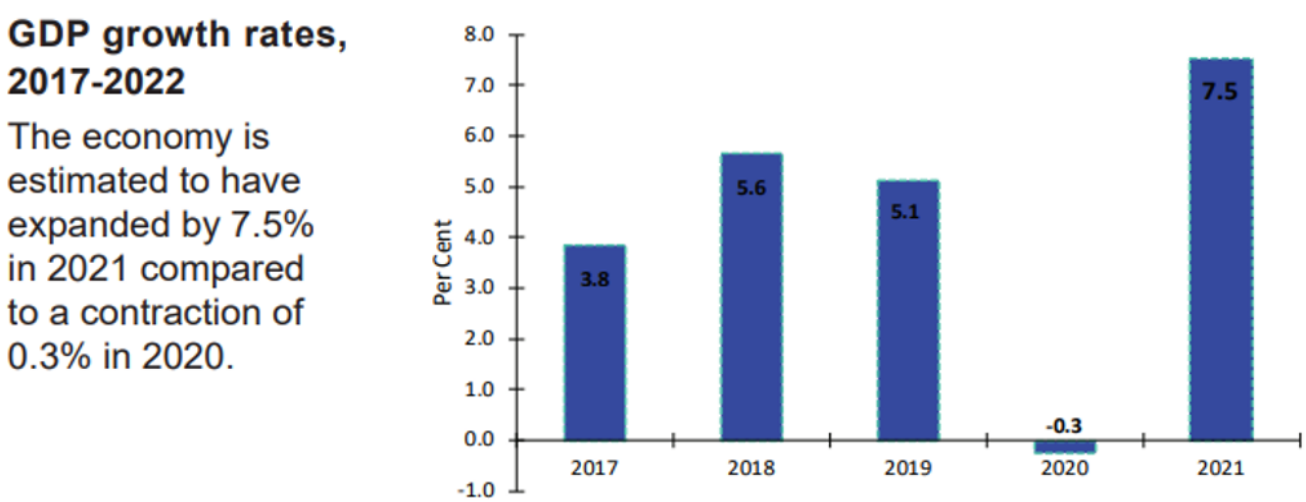
Instrument /Issue	Proposal
	▪ Companies engaged in manufacturing whose cumulative investment in the preceding five years from enactment is at least KES5b ▪ Companies engaged in manufacturing whose cumulative investment is at least KES5b for investments made outside Nairobi City County and Mombasa County ▪ **Holding companies that are regulated under the Capital Markets Act.**
Deductibility of Foreign Exchange Loss	The Act has amended the current provisions around deductibility of foreign exchange losses on related party loans where a company is thinly capitalized. This follows the amendment of thin capitalization provisions by the Finance Act, 2021. In its place, the Act has restricted deduction of foreign exchange losses on all loans realized by a company whose gross interest paid or payable to related persons and third parties exceeds 30% of the company's EBITDA. The realized foreign exchange loss will only be deductible in the year when the interest payable or paid by the company is 30% or less than its EBITDA. In addition, the list of entities exempted from foreign exchange loss restriction has been expanded to cover: • Non-deposit taking microfinance businesses under the *Microfinance Act, 2006* • Entities licensed under the *Hire Purchase Act* • Micro and small enterprises registered under the *Micro and Small Enterprises Act, 2012* • Microfinance institutions licensed under the *Microfinance Act, 2006* • Non-deposit taking institutions involved in lending and leasing business • Companies undertaking the manufacture of human vaccines • Companies engaged in manufacturing whose cumulative investment in the preceding five years from the commencement of this provision is at least KES5b • Companies engaged in manufacturing whose cumulative investment is at least KES5b, provided that the investment shall have been made outside Nairobi City County and Mombasa County

Instrument /Issue	Proposal
	• **Holding companies that are regulated under the *Capital Markets Act*.**
Green Energy and Shipping Industry Incentives	The Act introduces a reduced corporate income tax rate of 15%, for the first 10 years upon commencement of operations, for a company operating: • A carbon market exchange or emission trading system that is certified by the Nairobi International Financial Center Authority • A shipping business in Kenya
Reduction in tax rates for certain bonds	The withholding tax rate in respect of interest and deemed interest arising from bearer bonds issued outside Kenya of at least two years duration has been reduced from 15% to 7.5%.
Digital Services Tax	The Finance Bill, 2022 had proposed to increase the tax rate of the digital services tax from 1.5%. to 3% of the gross turnover. This proposal has now been dropped and the tax rate for digital services will remain at 1.5%. The Act has excluded from the ambit of the digital services tax, income earned by a nonresident person with a permanent establishment in Kenya.

Source: EY Kenya

4.2 Performance of the Domestic Capital Markets

Figure 18: Trend of GDP Growth in Kenya (2017 - 2021)



Source: KNBS Economic Survey, 2022

Table 5: Summary of Equity Performance

Year	Month	Share Volume (Kshs Mn)	Equity Turnover (Kshs Bn)	NSE 20 Share Index	NASI Index	NSE 25 Share	Market Cap (Kshs Bn)
Q2.2021	April	291	9.87	1871.63	163.61	3600.56	2599.05
	May	385	14.1	1859.10	168.70	3649.07	2646.71
	Jun	420	13.9	1908.43	172.15	3742.92	2702.22
	Total	**1096**	**37.87**				
Q2.2022	April	192	5.8	1848.32	155.97	3539.44	2340.77
	May	319	10.7	1718.60	137.40	3164.77	2006.14
	June	357	9.3	1636.37	124.52	2933.61	1939.21
	Total	**868**	**25.8**				

Source: CMA/NSE

Treasury Bond Markets

During the second quarter of the year, seven (7) Treasury bonds were issued (4 reopening, 2 tap sales and 1 new issue). From the issuances the government targeted to raise 222.71Billion. However, this target was not met, and the amount raised was only 202.86 Billion and therefore falling short of 19.85Billion. Similarly, in Q2. 2021, the government fell short by 45.47 Billion where it raised 180.03 from a target of 255.50 Billion.

Corporate Bond Market

In Q2. 2022, corporate bond turnover drastically reduced from 358.5million in Q2 2021 to 11.87 million. Corporate bonds issued in the last two years which include KMRC bond, Acorn, Centum, Family Bank, East African Breweries Limited (EABL) recorded an oversubscription indicating that they were well received in the market. Additionally, indicates a positive outlook for the private bond market in Kenya

Summary of Treasury Bond Primary Market Performance

Date	Bond	Amount Issued(Ksh Bn)	Amount Receiv (Kshs Bn	Amount Accepted Kshs Bn	% AA/AI	% AR/AI
April 2021	IFB1/2021/18	60.00	88.58	81.94	136.57	147.63
May 2021	FXD2/2019/15	30.00	11.58	6.04	20.13	38.60
	FXD1/2021/25		31.00	14.25	47.50	103.33
	Tap Sale	20.00	20.93	20.69	103.45	104.65
June 2021	FXD1/2019/20	30.00	41.05	13.40	44.67	136.83
	FXD1/2012/20		23.88	6.29	20.97	79.60
	Tap Sale	50.00	38.48	37.42	74.84	76.96
Sum			**255.50**	**180.03**		
April 2022	FXD1/2022/03	40.00	34.05	33.14	82.85	85.13
	FXD1/2022/15	30.00	32.55	27.64	92.13	108.50
May 2022	FXD1/2022/10	60.00	32.89	28.68	47.80	54.82
	FXD1/2021/25		10.23	3.06	5.10	17.05
	Tap Sale	10.00	17.01	16.97	169.71	170.12
June 2022	IFB1/2022/18	75.00	76.37	73.77	98.36	101.83
	Tap Sale	25.00	19.61	19.60	78.40	78.44
Sum		**222.71**	**202.86**			

Source: CMA/NSE

5.0 CAPITAL MARKETS STABILITY SOUNDNESS INDICATORS FOR THE PERIOD 1st April – 30th June 2022

Table 6: Summary of Key Capital Markets Soundness Indicators for Q2.2022 (April - June) 2022

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Ongoing InterventionMeasures
1.0 Equity Market Depth								
NSE 20 Index Base Year 2010 =	**Q2.2022**	**Apr**	**May**	**Jun**	**Q. Avg**	**Medium** (Indicative – Low < 1% Medium: ➢ 1% high; >10%)	During the second quarter of the year the volatility for NSE20, NSE25 and NASI averaged at 0.37%, 0.48 % and 0.65% respectively.	In comparison to Q1.2022, the volatility for the quarter under review was relatively higher. This could be attributed to the oncoming general elections that has seen an increase in foreign investor outflows. However, the volatility levels remained below 1% which is considered relatively low. The Authority anticipates that after the elections the volatility levels for the three indices will stabilize. Currently, there is a running call to continue engaging in promoting capital markets developments investor education initiatives
		0.27%	0.44%	0.41%	0.37%			
	Q1.2022	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.26%	0.43%	0.43%	0.29%			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.33%	0.23 %	0.37 %	0.31%			
	Q3.2021	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.36%	0.28 %	0.37 %	0.34%			
NSE 25 Index Volatility	**Q2.2022**	**Apr**	**May**	**Jun**	**Q. Avg**			
		0.42%	0.65 %	0.42	0.48%			
Base Year =	**Q1.2022**	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.42%	0.54%	0.39%	0.45%			

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Ongoing InterventionMeasures
2015	Q4.2021	Oct	Nov	Dec	Q. Avg			for domestic market players for a more stable market in the long run. This will assist in avoiding the impact of high volatility at the bourse.
		0.44%	0.47 %	0.36 %	0.42%			
	Q3.2021	July	Aug	Sep	Q. Avg			
		0.39%	0.4 7%	0.37%	0.41%			
NASI Volatility Base Year 2010	Q2.2022	Apr	May	Jun	Q. Avg	Medium (Indicative – Low < 1% Medium: >1% high; >10%)		
		0.57%	0.8 2%	0.56 %	0.65%			
	Q1.2022	Jan	Feb	Mar	Q. Avg			
		0.55%	0.74%	0.54 %	0.61%			
	Q4.2021	Oct	Nov	Dec	Q. Avg			
		0.64%	0.5 8%	0.51 %	0.57%			
	Q3.2021	July	Aug	Sep	Q. Avg			
		0.60%	0.51%	0.47 %	0.53%			
Turnover Ratio	Q2. 2022	Apr	May	Jun	Q. Avg	High (Indicative – annual: <8%- Low; >15% High)	Equity turnover ratio in the reporting periods averaged at 0.42% an	Kenya's turnover level continues to suffer from the effects of negative economic shock even as the country approaches the August 2022 elections. Improving the markets turnover levels i n
		0.25%	0.54%	0.48%	0.42%			
	Q1.2022	Jan	Feb	Mar	Q. Avg			
		0.32%	0.40%	0.39%	0.36%			

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Ongoing InterventionMeasures
	Q4.2021	Oct	Nov	Dec	Q. Avg		improvement from last quarter's ratio of 0.36%.	the long run requires a growth in more quality listings at the bourse, roll out of more liquidity enhancement tools, as well as increased quality of 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 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 withwhich investors in the capital markets are able to trade and transact.
		0.37%	0.61%	0.40 %	0.46%			
	Q3.2021	Jul	Aug	Sep	Q. Avg			
		0.34%	0.41%	0.36%	0.37%			
2.0	**Foreign Exposure Risk**							
Foreign Investor turnover as a % of total turnover	**Q2. 2022**	**Apr**	**May**	**Jun**	**Q. Avg**	**Medium** (Indicative – annual: <40%- Low; >90% High)	Foreign investor participation as at end June 2022 averaged at	Within the last three quarters, foreign investor participation fell below 60%. Foreign investor activity increased during the quarter to 61.54%. With increased global economic shocks, the market has
		62.92%	63.96%	57.75%	61.54%			
	Q.1 2022	**Jan**	**Feb**	**Mar**	**Q. Avg**			

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Ongoing InterventionMeasures
		59.73%	57.02%	47.89 %	54.88%		**61.54%** an increase from last quarters value of 54.88%.	suffered loss in its foreign investor participation levels in recent months. However, despites the high recorded capital outflows foreign investor turnover for the quarter has remained relatively high in comparison to the last three quarters which were below 60% .
	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%			
Net Foreign Portfolio Flow (In KES Millions	**Q2.2022**	**Apr**	**May**	**Jun**	**Q. Sum**	**High** (indicative – annual: <Kshs (50million) - High (outflow. >KShs. 50 million High	In the period April - June 2022 the market recorded a net infow of 10.8 million compared to an outflow of 1.6million between January and March	Increased capital outflow poses a risk to our market and therefore the need for the Kenyan industry to be more strategic in 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
		1,653	4,207	5,036	10,896			
	Q1.2022	**Jan**	**Feb**	**Mar**	**Q. Sum**			
		422	(187)	(1451)	(1,687)			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Sum**			
		(1021)	(4294)	(2874)	(5315)			
	Q3.2021	**Jul**	**Aug**	**Sep**	**Q. Sum**			
		155	1721	(924)	934			

3.0	Market Concentration Risk							
Market Concentration (Top 5 companies by market cap)	**Q2.2022**	**Apr**	**May**	**Jun**	**Q. Avg**	**High** (Indicative – annual: >50% High concentration)	Market concentration for the top 5 companies for the quarter ended June 2022 averaged at 77.23% 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 growing other sector 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 sought to provide favorable listing requirements to attract more companies to list.
		77.90%	78.63%	75.17%	77.23%			
	Q1.2022	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		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%			
4.0	Derivatives Trading Statistics							

Total Volume(No. of contracts)

No of Contracts

	Q1.22 Sum	Apr-22	May-22	Jun-22	Q2. Sum	% Change (Q2 Vs Q1)
ABSA	161	82	4	102	188	16.77
BATK	47	-	-	3	3	93.62
EABL	59	9	-	66	75	27.12
EQTY	196	34	50	69	153	21.94
KCBG	178	57	29	103	189	6.18
N25I	0	-	-	-	0	0
SCOM	545	119	91	153	363	33.39
25MN	2	-	1	-	1	50
Total	**1188**	**301**	**180**	**520**	**1,001**	**15.74**

Low

The volume of contracts traded in Q2.2022 were 1,001 indicating a 15.74% decrease from 1,188 recorded in Q1.2022.

EABL and ABSA recorded an increase in activity from the previous quarter by 27.12% and 16.77% respectively whereas the rest recorded a decrease in activity.

Gross Notional Exposure (GNE)[50]

Amount in Ksh

	Q1. 2022	Apr-22	May-22	Jun-22	Q2. Sum	% Change (Q2 Vs Q1)
ABSA	1,957,320	1,005,090	39,150	1,092,110	2,136,350	9.15
BATK	2,128,410	-	-	127,060	127,060	94.03
EABL	927,500	129,800	-	855,560	985,360	6.24
EQTY	10,194,090	1,711,050	2,356,360	2,897,190	6,964,600	31.68
KCBG	8,060,430	2,478,240	1,064,410	4,097,280	7,639,930	5.22
N25I	0	-	-	-	0	0
SCOM	20,262,110	4,222,930	2,664,280	4,100,850	10,988,060	45.77
25MN	72,990	-	30,550	-	30,550	58.14
Total	**43,602,850**	**9,547,110**	**6,221,585**	**13,544,095**	**29,312,790**	**32.77**

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

The total value (Gross Exposure) of contracts traded during the quarter summed up to Kshs 29.31 million; a 32.77% decrease from Q4.2022.

<table>
<tr>
<td>Total Open Interest51(No. of Contracts)</td>
<td>No of Contracts
<table>
<tr><th></th><th>Q1.2022</th><th>Apr-22</th><th>May-22</th><th>Jun-22</th><th>Q2. Average</th><th>% Change (Q2 Vs Q1)</th></tr>
<tr><td>ABSA</td><td>67</td><td>73</td><td>69</td><td>45</td><td>62</td><td>7.46</td></tr>
<tr><td>BATK</td><td>9</td><td>1</td><td>1</td><td>2</td><td>1</td><td>88.89</td></tr>
<tr><td>EABL</td><td>42</td><td>37</td><td>37</td><td>22</td><td>32</td><td>23.81</td></tr>
<tr><td>EQTY</td><td>45</td><td>51</td><td>61</td><td>53</td><td>55</td><td>22.22</td></tr>
<tr><td>KCBG</td><td>84</td><td>41</td><td>42</td><td>22</td><td>35</td><td>58.33</td></tr>
<tr><td>N25I</td><td>0</td><td>-</td><td>-</td><td>-</td><td>0</td><td>0</td></tr>
<tr><td>SCOM</td><td>92</td><td>65</td><td>67</td><td>61</td><td>64</td><td>30.43</td></tr>
<tr><td>25MN</td><td>1</td><td>-</td><td>1</td><td>1</td><td>1</td><td>0</td></tr>
<tr><td>Total</td><td>340</td><td>268</td><td>283</td><td>211</td><td>254</td><td>25.29</td></tr>
</table>
</td>
<td>Medium (indicative – annual: >50% High concentration)</td>
<td>Overall, the total number of open interest contracts recorded in Q2. 2022 were 254 ; a 25.29% decrease fromQ1.2022 Value of 340.</td>
<td>As hedging instruments, the place of derivatives markets in the face of the pandemic remains important in risk management.
With the increasing profile of risks in the global trading economy, the profile of derivative instruments may grow as investors target diversification as a key investment strategy.</td>
</tr>
<tr>
<td>Settlement Guarantee Fund (SGF) Coverage52 for Derivatives</td>
<td>
<table>
<tr><th></th><th>April</th><th>May</th><th>June</th></tr>
<tr><td>SGF</td><td>124,928,651.00</td><td>125,842,034.00</td><td>127,630,719.00</td></tr>
<tr><td>Average Market Value</td><td>7,424,100.00</td><td>7,627,680.00</td><td>5,858,900.00</td></tr>
<tr><td>SGF Coverage</td><td>16.83 times</td><td>16.50 times</td><td>21.78 times</td></tr>
</table>
</td>
<td>High (Indicative – annual: >50% High concentrate ion</td>
<td>The SGF coverage ratio for the derivatives market in Q2.2022 progressively increased month on month recording a 21.78 times coverage in June 2022</td>
<td>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.</td>
</tr>
<tr>
<td>5.0</td>
<td colspan="4">Government Bond Market Exposure</td>
</tr>
<tr>
<td>Treasury Bond market turnoverConcentration</td>
<td>
<table>
<tr><th>Q2. 2022</th><th>Apr</th><th>May</th><th>Jun</th><th>Q. Avg</th></tr>
<tr><td></td><td>99.98%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td>Q1.2022</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr>
</table>
</td>
<td>High (Indicative – annual: >50%High</td>
<td>In Q2.2022, Treasury Bond market turnover was 100%</td>
<td>Government activity in the bonds markets continues dominate as Government targets domestic market savings to fund various</td>
</tr>
</table>

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<tr>
<td></td>
<td>
<table>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</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>99.99%</td><td>99.76%</td><td>99.97%</td><td>99.91%</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>100%</td><td>99.90%</td><td>100%</td><td>99.97%</td></tr>
</table>
</td>
<td>concentration)</td>
<td></td>
<td>Government activities.

With the new public offers regulations that creates two fixed income securities markets segments – for the main market and for the SMEs, the Authority hopes to see more corporate bond issuances in the coming future once the regulations are enacted.</td>
</tr>
<tr>
<td>Corporate Bond Market Ownership</td>
<td>
<table>
<tr><th></th><th>No of Investors</th><th>Shares Outstanding</th><th>% by Share Qnty</th></tr>
<tr><td>EAC</td><td>2</td><td>105,000,000</td><td>0.35%</td></tr>
<tr><td>LI</td><td>1,871</td><td>28,393,670,000</td><td>94.71%</td></tr>
<tr><td>FI</td><td>34</td><td>1,480,800,000</td><td>4.94%</td></tr>
<tr><td>Sum</td><td>1,907</td><td>29,979,470,000</td><td></td></tr>
</table>
Note: For every EAC, LI and FI, the totals calculated is a sum of both corporate and individual investors
</td>
<td>High (Indicative – annual: >50% High concentration</td>
<td>Q2. 2022 data shows that local corporate bond investors were the leading investors in corporate bonds at 94.71% whereas foreign investors accounting for 4.94% as a percentage of share quantity with East African investor holding was a mere 0.35%.</td>
<td>The risks poised by the global economic risks on capital markets activities cross various jurisdictions calls for increased retail investor activity for more stable and resilient capital markets.
Cognizant of this, and backed by the high number of local investors in the bond markets, the Authority, through its investor education and market deepening functions has profiled retail investors to increase activity within the domestic market.</td>
</tr>
<tr>
<td>6.0</td>
<td colspan="4">Investor Profiles - Equity Market</td>
</tr>
</table>

<table>
<tr>
<td>Equity Market</td>
<td>
<table>
<tr><th>Type of Investor</th><th>No. of Investors</th><th>Share Quantity (Millions)</th><th>% to TotalShare Quantity</th></tr>
<tr><td>Local Investors</td><td>2,007,825</td><td>78, 986</td><td>81.21%</td></tr>
<tr><td>EA Investors</td><td>8,956</td><td>1, 236</td><td>1.27%</td></tr>
<tr><td>Foreign Investors</td><td>14,895</td><td>17,025</td><td>17.50%</td></tr>
<tr><td>BR</td><td>13</td><td>12.72</td><td>0.01%</td></tr>
<tr><td>JR</td><td>308</td><td>1.02</td><td>0.00%</td></tr>
</table>
Source: CDSC *Data as of June 2022
</td>
<td>High (Indicative – annual:
>50%
High concentration)</td>
<td>In the quarter under review, share quantity for local investors increased from 78 884 million recorded in the last quarter to 78 986 with foreign Investor share quantity decreasing from 17,166 million in the last quarter to 17 025 in the quarter under review.</td>
<td>In the last two quarters local investment in the equity market has witnessed an increase whereas for the foreign investment has decreased.

While the proportion of local investors is higher than foreign investors, the share quantity held by each investor on a per capital basis remains low.

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="4">Settlement Compensation Coverage</td>
</tr>
<tr>
<td>Settlement Guarantee Fund(SGF) Coverage Ratio[53]</td>
<td>
<table>
<tr><th>Q2.2022</th><th>Apr</th><th>May</th><th>Jun</th><th>Q. Avg</th></tr>
<tr><td></td><td>3.70</td><td>2.24</td><td>2.73</td><td>2.89</td></tr>
</table>
</td>
<td>Low</td>
<td>The average SGF ratio for April and May 2022 was 2.89.</td>
<td>Through Risk-based supervision, the Authority has been monitoring the SGF figures and</td>
</tr>
</table>

	Q1.2022	**Jan**	**Feb**	**Mar[43]**	**Q. Avg**	(Indicative – annual: > 1 times, implies full coverage)		the financial position of the firms to ensure that they are in good standing and that investors are protected.
		3.01	2.39	2.88	2.76			
	Q4.2021	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		2.14	1.64	2.35	2.04			
	Q3.2021	**July**	**Aug**	**Sep**	**Q. Avg**			
		2.58	2.13	2.49	2.40			
8.0	**Asset Base of Fund Managers, Stockbrokers, Investment Banks**							
Working Capital (Amount in Kshs Millions)	(see table below)					**Medium** (Indicative –the higher the figure, the more stableis the market)	The net assets base of Fund Managers, Investment Advisor, Investment Banks, Online Forex, Reit managers and Stockbrokers, as of 30th June 2022 was 6290 Mn, 313 Mn, 7662 Mn, 723 Mn, 67 Mn and 1100 Mn respectively.	Assets Under Management within the industry has reduced between February and June 2022. Only fund Managers and Online forex brokers recorded positive change between February and June. Reits Managers recorded the greatest reduction by 87.64%. Amid the negative records in the amount of assets and liabilities, capital market licenses continue to actively participate in promoting capital markets access for players in the Kenyan industry individually and through the Capital Markets Authority.

		Amount in Kshs Millions				
		Total Assets	**Total Liabilities**	**Net Assets May 22**	**Net Assets Feb 22**	**% Change**
1.	Fund Mangers	8,112	1,822	6,290	5,423	15.99%
2.	Investment Adviser	525	212	313	390	19.74%
3.	Investment Banks	11,632	3,970	7,662	8176	6.29%
4.	Online Forex Brokers	2,000	1,277	723	640	12.97%
5.	Riet Managers	79	12	67	542	87.64%
6.	Stockbrokers	1,917	817	1,100	1159	5.09%

***Q2. 2022 Data as of end May 2022**