CAPITAL MARKETS AUTHORITY

*Promoting the Integrity and Growth of the Capital Markets*

# THE CAPITAL MARKETS SOUNDNESS REPORT (CMSR)

## Volume XVII, Quarter 4 2020

*"2021: Anticipated Capital Markets Regulatory Reforms amidst Forecasted Optimism in Global Economic Recovery "*

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# Special Message from the Chief Executive

**Mr. Wycliffe Shamiah, FCPA**
**Chief Executive**
**Capital Markets Authority, Kenya**

Dear Valued Reader, Happy New Year 2021.

Welcome to the 17th Edition of the Capital Markets Soundness Report covering events in the fourth quarter of the year 2020. Like previous editions, the report provides an assessment of positive and adverse economic and financial developments cross cutting global, regional and domestic markets with a focus on the risks and opportunities presented for capital markets practitioners.

This Edition comes against the backdrop of unprecedented challenges primarily engineered by the devastating Covid-19 Pandemic, translating into a general slump in global economic performance. The International Monetary Fund (IMF) has estimated a global growth of -4.4% in 2020, down from the 2.8% growth recorded in 2019, as economies across different parts of the world recorded negative growth. Interestingly, China is reported to have attained an estimated 1.9% growth in 2020.

> ***While several factors are anticipated to contribute to a more favorable 2021, the hope with which the covid 19 vaccine developments have been undertaken thus far remain central.***

The downward trend is replicated within the Sub Saharan African region with the IMF estimating a -3% growth in 2020, down from the 3.2% recorded in 2019. While East African countries, like other economies have recorded slumps in growth, projections by the IMF indicate positive growth statistics for 2020, save for Uganda, with a projected -0.3% growth. Ethiopia, Kenya and Tanzania are projected to return growth rates estimated at 1.9%,1% and 1.9% respectively and to improve in 2021 to 4.7%,3.6% and 4.9% for Kenya, Tanzania and Uganda respectively.

While several factors are anticipated to contribute to a more favourable 2021, hope on the extent to which the COVID-19 vaccine development has been undertaken thus far remain central to its realization. In December 2020, administration of vaccines was observed in the United States, United Kingdom and Israel with Kenya ordering 24 million doses of the Covid-19 vaccine developed by AstraZeneca, expected to be in the country in mid-February 2021.

It is against this positive background that capital markets regulators across the world anticipate an increased role of financial markets in the facilitation of more vibrant economies as Covid-19 is brought under control. Armed with lessons from key developments that have characterized 2020, regulators across the globe are now focusing on reviewing policy, legal and regulatory frameworks to align them with current developments such as: technological innovations, increasing access to market data information, providing improved trading infrastructure, promotion of sustainable finance and adopting flexibility in regulatory operations, amongst others.

In the quarter under review, immense and sustained regulatory interventions have been observed across financial markets sectors, perhaps more than in the previous quarters. The United States, for instance, has instituted rules to facilitate direct listing of firms at the New York Stock Exchange (NYSE), provided new guidelines aimed at driving down the cost and fees associated with access to market data by the public, as well as adopted rules aimed at modernizing key market infrastructure responsible for collecting, consolidating and disseminating such data especially for the equity market.

Further, the United Kingdom (UK) and the larger European Union (EU) have equally engineered regulatory reforms in their respective regions following the former's successful exit from the Euro Area in line with the 31st December 2020 deadline. Aligned with this, the UK has signed a record number of new trade deals in 2020 as it structures a new path for itself as an independent sovereign entity, with Kenya re-negotiating its trade pact with the country in December 2020. The Euro Area is similarly scheduled to make regulatory reforms in areas such as Green finance, Central Securities Depository Regulation, Solvency II regime for insurers, Anti-money laundering rules amongst others, as articulated in the report.

In the same vein and in line with its responsive regulation culture in the domestic market, CMA Kenya has been on a journey of reviewing several of regulatory provisions to align them with current and the ever-evolving capital markets and by extension , the larger financial markets industry. Through the Financial Year 2020/21 and further into the quarter under review, there have been ongoing reviews of; i. Collective Investment Scheme (CIS) Regulations, ii. Public Offers and Listing Disclosure (POLD) Regulations, iii. Whistle Blower Regulations, iv. Crowdfunding Regulations, v. Credit Rating Guidelines and v. Share Buy Back Guidelines. This review process will contribute greatly towards the advancement of market deepening, investor protection and general oversight of the Kenyan market, while aligning regulatory provisions to global standards.

As market stakeholders, we all have a key role to play in actualizing the success of our capital markets as we continue to support Government efforts to make Kenya the premier investment destination in Africa. I am confident that this report will equip readers with much-needed information as you play your part in realizing this aspiration.

As we start the new year with great hope and optimism, remember the words of Nicholas Murray Butler who said, *"optimism is essential to achievement and is also the foundation of courage and true progress"*.

Enjoy your read and have a prosperous year – 2021.

***FCPA Wickliffe Shamiah***
***CHIEF EXCECUTIVE***

# Editorial

**Mr. Luke Ombara**
**Director, Policy and Market Development**
**Capital Markets Authority, Kenya**

Greetings for the New Year 2021.

We present the 17th edition of the soundness report at the heart of a tumultuous year, 2020, that catapulted new norms in socioeconomic circles, business operations as well as regulation in the capital markets industry globally.

The general slump in economic growth worldwide has resulted in significant loss in global working hours with the International Labor Organization (ILO) estimating the loss to an equivalent of about 1,245 Million full time jobs globally in 2020 with Q4.2020 alone estimated at 245 Million full time job losses, primarily driven by lockdown measures instituted by various Governments across the globe.

Despite the challenging year, the quarter under review presents a glimmer of hope in economic recovery, with improvements in strategies aimed at preventing and eradicating the Covid-19 Virus. Leveraging the positive momentum that this has brought along across markets, primarily the financial markets, Governments across the world, Kenya included, have developed economic recovery strategies aimed at bolstering increased activity.

In the same vein, regulators are reviewing policy, legal and regulatory frameworks regulations across jurisdictions. It is upon this backdrop that our focus theme for this quarter is ***"2021: Anticipated Capital Markets Regulatory Reforms amidst Forecasted Optimism in Global Economic Recovery"***; as we take you through an overview of major regulatory reforms undertaken and ongoing amongst regulatory agencies globally and domestically. The key message is that despite capital markets having a long-term outlook, regulators in the financial sub-sector have had to introduce short-term interventions to keep the industry afloat, akin to policies by Governments and Central Banks, as extra-ordinary times called for extra-ordinary measures.

In addition to what has been espoused by the Chief Executive above, we delve into regulatory reforms in major developed economies, during the quarter, as well as developments at International Organization of Securities Commissions (IOSCO), which has issued a consultation paper on market data access and review of approach to stabilizing money market funds that have been highly exposed in the face of the Pandemic.

Further, in an interesting step aimed at promoting its local market across China, Johannesburg Stock Exchange has entered into a cooperation agreement with China Investment Information Services Limited (CIIS) to provide select JSE market data access to local distributors in mainland China, primarily real time data on JSE-listed equities and FTSE/JSE indices with a plan to consider additional asset classes and data feeds over time.

Additionally, as the implementation of the Africa Continental Free Trade Area (AfCFTA) Agreement is set to commence, following ratification by 33 Nations so far, the ASEAN countries have moved swiftly and signed a new trade partnership dubbed the Regional Comprehensive Economic Partnership (RCEP) aimed at increasing trade and investment opportunities by its member states with other countries.
This, coupled with United Kingdom's successful exit from the European Union, has raised initiatives around creating and aligning reforms that will help jurisdictions leverage on maximizing investment value across different sectors, with the financial sector playing a central role.

In the face of these developments, the Kenyan capital markets was also characterized with milestones, notably CMA Kenya's involvement in the Global Financial Innovation Network (GFIN) FinTech cross-border testing initiatives, demonstrating our commitment towards supporting financial innovation aligned with the mandate of its regulatory sandbox initiative.

Further, in October 2020, Pezesha Africa Limited, one of the firms admitted in the Authority's sandbox successfully exited the testing environment with a no objection to operate its debt-based crowd funding platform in the Kenyan Capital Markets.

In addition, the quarter under review ended positively with renewed activity in the local corporate bond and equity market, following the approval of Centum Plc's Kshs 4 Billion Medium Term Note and the listing by introduction of Homeboyz Entertainment Plc on the Growth Enterprise Market Segment (GEMS) of the Nairobi Securities Exchange, respectively.

The report concludes with the final quarter capital markets stability trend analysis of market volatility, liquidity, concentration and foreign portfolios flow, the key highlights being increased activity in the derivatives market following the introduction of market making in this market segment at the NSE and the declining foreign equity outflow.

Despite the depressed performance witnessed in 2020, the rally observed in the quarter under review portends a better year ahead, as we forge in resilience.

Enjoy your read.

***Mr. Luke E. Ombara***
***DIRECTOR, POLICY AND MARKET DEEPENING***

***Despite the challenging year, the quarter under review presents a glimmer of hope in economic recovery as well as improvements in strategies aimed at preventing and eradicating the covid 19 virus.***

# 1.0 Special Feature: *Intensified Regulatory Reforms in the Capital Markets in 2021*

The onset of the pandemic in early 2020 called for policy makers to make both fiscal and monetary policy interventions to minimize the negative impacts of the pandemic on economies, corporations, households, and Governments alike. Key interventions observed globally that were primarily short term in nature included, reduction in interest rates, reduction in VAT, flexibility in meeting obligatory regulatory reporting requirements, provision of moratorium for debt payments for both corporates and individuals alike, reduction of mobile transaction costs, increase in limits of funds transferred through mobile platforms amongst others. Overall, these were primarily Government and Central Bank engineered interventions.

Despite the long-term outlook of capital markets in general, securities regulators across jurisdictions equally made regulatory interventions to facilitate licensed entities in keeping their businesses afloat in the course of the year. Some of the interventions undertaken are herein summarized in table 1 below.

***Table 1: Summary of Interventions by Securities Regulators in 2020***

| Country | Intervention |
|---|---|
| China | China's State Council has authorized new bonds to fund infrastructure. |
| Australia | ASIC helped companies raise capital quickly by giving temporary relief to enable certain 'low doc' offers (including rights offers, placements and share purchase plans) to be made to investors, even if they do not meet all the normal requirements. |
| USA | The SEC adopts rule allowing more investors access to private companies. |
| | SEC issued an order in pending Administrative Proceedings to encourage parties to file and serve documents electronically. |
| | Office of Compliance Inspections and Examinations (OCIE) moved to conducting examinations off-site through correspondence, unless it is absolutely necessary to be on-site. |
| | FCA temporarily modified the Listing Rules in regard to Class 1 transactions and related party transactions |
| | Temporary, Conditional Relief to Allow Small Businesses to Pursue Expedited Crowdfunding Offerings |
| | Secondary Market Corporate Credit Facility (SMCCF), which will begin buying a broad and diversified portfolio of corporate bonds to support market liquidity. |
| United Kingdom | Financial Conduct Authority (FCA) announced temporary relief for issuers who choose to use the amended International Financial Reporting Standard (IFRS) 16 during the Covid-19 pandemic and its aftermath. |
| EU | Launched a new type of a short-term prospectus to fast-track listings and access to capital |
| India | Securities and Exchange Board of India (SEBI) provided relaxations to listed entities, from compliance with certain provisions of the Listing Obligations and Disclosure Requirements.<br>Approval of Extraordinary General Meeting (EGM) through Video Conferencing.<br>Relaxation from publication of advertisements in the newspapers and relaxation from publishing quarterly consolidated financial results. |
| Kenya | CMA provided relaxations to listed entities including: giving temporary reprieve from compliance with certain provisions of the Listing Obligations and Disclosure Requirements, approval of Extraordinary General Meeting (EGM) through Video Conferencing, relaxation from publication of advertisements in the newspapers, and relaxation from publishing quarterly consolidated financial results.<br><br>To encourage investments within the Capital Market industry, the CMA, NSE and CDSC provided a joint communique to the public on the need to leverage on undervalued listed equities as well as bonds and invest given the favorable returns of the instruments despite the pandemic. |

*Source: Capital Markets Soundness Report Volume XIV, XV and XVI*

[1] *Australian Securities and Investment Commission*
[2] *Financial Conduct Authority – United Kingdom*

Overtime, and cognizant of ongoing developments within the financial markets ecosystem, some securities regulators have pursued a review of their regulatory provisions to accommodate a myriad of developments including new innovations, increased consideration and use of technology in regulatory activities, increasing access to market data for investors, accommodation of capital raising measures promoting environmental sustainability, more vigilance against antimony laundering enabled by tech solutions amongst others.

In line with these developments, and in the quarter under review, regulatory reforms have been observed in the United States through the Securities Exchange Commission, in the United Kingdom through the Financial Conduct Authority and in the European Union with the latter two seeking to position themselves as strategic investment destinations post Brexit. These reforms are presented as our key focus areas in this special feature.

## 1.1 US SEC[3] Approves New York Stock Exchange Direct Listing Proposal

On December 22, 2020, the U.S. Securities and Exchange Commission (SEC) approved the New York Stock Exchange's proposal to allow companies to raise capital in a direct listing, opening the door to a new alternative to the traditional initial public offering.


*Image Source: wsj.com*

In a direct listing, a company floats its shares on a stock exchange, but without hiring banks to underwrite the transaction like in an IPO. A company will be able to issue new shares and sell them to public investors in a single, large transaction on the first day of trading, much like the first trade in an IPO.

Compared with a traditional IPO, a company doing a direct listing with a capital raise would save on underwriting fees typically paid to banks. The company could also potentially benefit more from a first-day pop in its share price. In a standard IPO, the main beneficiaries are the professional investors, often mutual funds or hedge funds that buy shares from the company before they start trading publicly.

[3] *Securities Exchange Commission*

[4] *https://www.wsj.com/articles/sec-approves-nyses-plan-for-new-ipo-alternative-11608665152*

In contrast, the NYSE's new type of direct listing would let companies sell shares directly to the public. That means the companies would raise more money if there is strong public demand for their stock, but they would also face more risk if demand falters .

### Lessons Learnt:

The primary objective of initial public offerings overtime has always been to provide a platform through which companies can raise capital in a transparent manner where price discovery mechanisms are determined by the forces of demand and supply. A key regulatory element that has caused continuous concern from market participants has been the cost of listing that includes transaction advisory costs, marketing and listing costs, particularly so for small and medium enterprises.

Research shows that underwriting fees, charged by investment banks are the single largest direct cost associated with initial public offerings. While this may be so, underwriting remains a significant process particularly for large IPO offerings targeting to raise significant capital.
With increased interest by SMEs to list and raise capital through IPOs, consideration for a direct listing may be viable given their relative size that could be manageable especially where a firm has an internal financial expert able to map out the IPO requirements for targeted investors.

As the Authority undertakes the review of its Public Offers and Listing regulations in this financial year, the market and the public in general is encouraged to share their progressive ideas aimed at making the capital markets more attractive specifically on managing costs of issuance. We appreciate the proposals that have been received so far including review of the continuous role of Nominated Advisors (NOMADS) in companies listed on the GEMS of the NSE, and we encourage you to continue sharing your thoughts around direct listings – assessing both its benefits and risks to ensure firms are enabled to access capital in addition to enjoying the other benefits of listing at minimum cost, while the public remains protected from possible exploitation.

## 1.2 Securities Exchange Commission's (SEC) Push for US Exchanges to reduce fees on Public Equity Markets Data

US Exchanges have tussled for two years with the SEC overrule changes designed to curb their market power. In June 2020, NYSE, Nasdaq and the Chicago Board Options Exchange (CBOE) Global Markets won two court challenges against earlier commission proposals designed to drive down data and trading fees, on the premises that today's stock market was controlled by for-profit exchanges selling their own competing proprietary data products in a pay-to-play model that has hurt small investors, as forwarded by SEC.

While interest groups, the exchanges and the Commission are yet to come to an agreement on the implementation of the same, the SEC seems determined to implement the proposal to have public equity market data stream less costly, more useful and more accessible specially to retail investors. Concerns over other possible emerging complexities for market participants and risks to investors have however been raised by different industry players.

US exchanges have overtime earned revenues from selling stock market data. The new rules adopted unanimously by the commission would require more public access to information about stock prices.
Exchanges will be forced to speed up and expand the highly-regulated data feeds containing essential market information that they provide to the public — potentially denting the value of their proprietary data businesses, which offer more content, more quickly, for higher fees.


*Image Source: Business Today Kenya*

***Lessons Learnt:***

Sale of market data remains a key revenue source for exchanges globally. In Kenya, the Nairobi Securities Exchange charges an annual fee of Kshs. 117,000 for the daily equity data sets and the same figure for data on traded bonds as well.
On a daily basis, the cost translates to Kshs. 350 per day for each data (traded equities and bonds.) set. These costs are targeted at corporates and professional investors in the market.

The Nairobi Securities Exchange recorded an annual revenue of approximately Kshs.27 Million in 2019 and Kshs.36 Million in 2020 from its data information services revenue line.
The exchange, however, provides a 90 percent discount on the data costs to students and academic research related requests in promoting research around capital markets related statistics .

Over the years, the Authority has not received requests from the market on the costs referenced being prohibitive.

We however remain open to receiving any complaints or concerns on market data access within the Kenyan industry for review if required by market participants

## 1.3 SEC Adopts Rules to Modernize Key Market Infrastructure Responsible for Collecting, Consolidating, and Disseminating Equity Market Data[5]

Further in December 2020 and anchored on the decision to publicize equity market data by SEC, the Commission adopted rules to modernize the infrastructure for the collection, consolidation, and dissemination of market data for exchange-listed National Market System Stocks ("NMS market data"). The infrastructure is reported to not have has been significantly updated since its initial implementation in the late 1970s. The adopted rules update and significantly expand the content of NMS market data to better meet the diverse needs of investors in today's equity markets.

The adopted rules also update the method by which NMS market data is consolidated and disseminated, by fostering a competitive environment and providing for a new decentralized model that promises reduced latency and other new efficiencies.

The new SEC rules are designed to increase competition and transparency, which will improve data quality and data access for all market participants.

Prior to the new rules, the National Securities Exchanges and the Financial Industry Regulatory Authority ("FINRA" and collectively, the "SROs") acted jointly to collect, consolidate, and disseminate information for National Market System stocks. For each NMS stock, the SROs were required to provide specified NMS market data to exclusive Securities Information Processors ("SIPs").

### *Table 2: US Comparative Review of Previous Vs New Proposed Market Data Rules*

| | Content | Previous Position | New Position |
|---|---|---|---|
| 1 | Last sale data/ transaction reports | The price, size and exchange of the last sale of the NMS stock, including odd-lot transactions. | No change. |
| 2 | Best bid and best offer ("BBO") | BBOs for each SRO in round lot sizes (e.g., 100 shares). | BBOs for each SRO in revised round lot sizes based on the new "round lot" definition:<br><br>$250.00 or less per share: round lot = 100 shares;<br>$250.01 to $1,000.00 per share: round lot = 40 shares;<br>$1,000.01 to $10,000.00 per share: round lot = 10 shares; and<br>$10,000.01 or more per share: round lot = 1 share. |
| 3 | National best bid and national best offer (NBBO ) | NBBO is based on the round lot size quotations. | NBBO will be based on the new round lot size quotations. |
| 4 | Odd-lot quotations | Not included. | Odd-lot quotations at a price greater than or equal to the national best bid (NBB) and less than or equal to the national best offer (NBO), aggregated at each price level at each SRO. |

[5] https://www.sec.gov/news/press-release/2020-311

| | Content | Previous Position | New Position |
|---|---|---|---|
| 5 | Protected quotations | Protected quotations are in round lots. | Protected quotations will be in new round lots. |
| 6 | Depth of book data | Not included. | New "depth of book data" will include quotation sizes at each national securities exchange and on a facility of a national securities association at each of the next five prices at which there is a bid that is lower than the NBB and offer that is higher than the NBO. |
| 7 | Auction information | A limited range of auction information was provided by the Equity Data Plans, such as reopening auction information following Limit-Up Limit-Down ("LULD") pauses and certain NYSE auction information. | New "auction information" will include any information specified by SRO rules or effective NMS Plans that is generated by an SRO leading up to and during an auction—including opening, reopening, and closing auctions—and publicly disseminated during the time periods and at the time intervals provided in such rules and plans. |
| 8 | SRO-specific program data | Information regarding SRO-specific programs, such as retail liquidity programs. | All current SRO-specific program data plus any additional data elements defined as such pursuant to the effective national market system plan(s) required under Rule 603(b). |
| 9 | Over-the -counter bulletin board ("OTCBB") and concurrent use data | OTCBB quotation and transaction data and certain "concurrent use" data (i.e., corporate bond and index data) is offered in connection with current NMS market data. | This information will not be included in NMS market data under the rules adopted in the reforms. |
| 10 | Regulatory data | Includes information regarding short sale circuit breakers, trading pauses, regulatory halts and official opening and closing prices of the primary listing exchanges. | All current regulatory data plus a new indicator for applicable round lot sizes and any additional regulatory data elements defined as such pursuant to the effective national market system plan(s) required under Rule 603(b). |
| 11 | Administrative data | Includes messages specifying identifiers for market centers and issue symbols and messages regarding the beginning and end of trading sessions. | All current administrative data plus any additional data elements defined as such pursuant to the effective national market system plan(s) required under Rule 603(b). |

*Source: U.S. Securities and Exchange Commission*

The SIPs then consolidated that information and made it available to the public. The new rules adopted by SEC have since been designed to modernize and improve upon that historical infrastructure, by expanding the content of NMS market data and replacing the historical "exclusive SIP" model with a decentralized model of "competing consolidators."

The new rules introduce a decentralized consolidation model under which competing consolidators, rather than the existing exclusive SIPs, will collect, consolidate, and disseminate certain NMS information. To support this decentralized model, the rules require each SRO to make available the data that is necessary to generate consolidated market data to two new categories of entities: (1) competing consolidators, which will be responsible for collecting, consolidating, and disseminating consolidated market data products to the public; and (2) self-aggregators, which will be brokers, dealers, SROs, and investment advisers registered with the Commission that elect to collect and consolidate market data solely for their internal use.

Competing consolidators will be required to register with the Commission under new Rule 614 of Regulation NMS. All competing consolidators will be subject to certain standards with respect to the promptness, accuracy, reliability, and fairness of their operations, and competing consolidators meeting a market share threshold that are "SCI competing consolidators" will be subject to Regulation SCI. Self-aggregators will not be required to register with the Commission in a separate capacity.

Going forward, the adopted rules are set to be effective 60 days after publication in the Federal Register but in order to facilitate an orderly transition, the Commission has developed a phased transition plan that will begin in 2021.

***Lessons Learnt:***

In October 2019, the Nairobi Securities Exchange (NSE) completed upgrading its Automated Trading System (ATS) in a move that has since improved uninterrupted trading at the bourse. The upgraded platform, used by all investment banks and stockbrokers, went live after the Central Depository and Settlement Corporation (CDSC) migrated all data belonging to investment banks, into the new system.
The new system allows linkage between the back-office operations of stockbrokers with the registry and automated trading system run by the Central Depository and Settlement Corporation (CDSC) and the Nairobi Stock Exchange (NSE) respectively, minimizing stockbrokers' behind-the-scenes malpractices, including unauthorized selling of clients' shares. Prior to this, the NSE and the CDSC were coupled meaning that any problem on either affects trading. Further, the new system provides more functionality in the trading of new products.

With increased functionality in the market infrastructure, perhaps focus should now be made in ensuring quality and complete data sets are captured by the system for better regulation and allow more analysis of trading statistics in line with big data analytics solutions, that the Authority has prioritized for implementation in its current strategic plan.

## 1.4 Prioritized Areas of Regulatory Intervention by the United Kingdom following successful departure from EU after UK – EU Trade Deal Signing on 30th December 2020

The UK left the EU on January 31 2020 but remained subject to the bloc's business regulations and within its customs union during a transition period that ends on December 31. Fast forward to 24th December 2020 and the trade deal was announced, setting out the terms of Britain's new relationship with the EU following the departure of the UK from EU early in the year 2020.

On 30th December 2020, the British Prime Minister, Boris Johnson appended his signature to the deal adding to that of EU chiefs. The deal will come into effect from 1st January 2021, replacing a transitional arrangement during which the EU rules continued to apply to the UK.


On the back of the departure from the EU, the UK announced the limited areas where it will immediately diverge from EU requirements under "onshored" EU law in a ministerial statement in mid-2020. Priority focus areas seem to be the UK financial services, with the development of a UK green taxonomy and mandatory Task Force on Climate related Financial Disclosures (TFCD)-aligned disclosures, making the UK the first country in the world to mandate economy wide disclosures in line with the UK anticipated to will issue its first ever sovereign green bond in 2021 and will implement a green taxonomy.

The new commitments were outlined as part of the UK's plans to "bolster the dynamism, openness and competitiveness" of the financial services sector, following the country's departure from the EU[7].In addition, the UK Government is establishing a taskforce that will propose reforms to the UK listings regime, and is undertaking a series of reviews of the UK overseas and funds regimes.

The United Kingdom has now negotiated terms with dozens of countries around the world. The UK is reported to have ambitions to join the Trans-Pacific Partnership (CPTPP), seeing it as a dynamic alternative to the EU in terms of fostering trade. The CPTPP currently involves 11 Pacific nations, including Singapore . In anticipation of the official exit from the EU, the UK has signed trade deals with many countries in 2020 with the trade deals expected to take effect from 1st January 2021 or early 2021 for the countries listed.

[6]https://www.esgtoday.com/uk-becomes-first-country-in-the-world-to-make-tcfd-aligned-disclosure-mandatory/

### Table 3:List of Countries the UK has signed Trade deals with in 2020

| | Country | Signed |
|---|---|---|
| 1 | Cameroon | 30th Dec 2020 |
| 2 | Canada | 9th Dec 2020 |
| 3 | Cote d 'Ivore | 15th Oct 2020 |
| 4 | Egypt | 5th Dec 2020 |
| 5 | Japan | 23rd Oct 2020 |
| 6 | Kenya | 3rd Nov 2020 |
| 7 | Mexico | 15th Dec 2020 |
| 8 | Moldova | 24th Dec 2020 |
| 9 | Singapore | 10th Dec 2020 |
| 10 | Turkey | 29th Dec 2020 |
| 11 | Ukraine | 8th Oct 2020 |
| 12 | Vietnam | 10th Dec 2020 |

***Lessons Learnt:***

The United Kingdom's final departure from the European Union is expected to change Britain's position in the global landscape as it takes a firm position as a sovereign independent entity.

The City of London, considered the world's second-largest financial hub after New York, has long enjoyed its profile as an international financial center over the years. Financial services are estimated to generate 7.2% of the UK's economic output and bring in 11% of total Government tax revenue. The sector employs more than 1 million people and has built itself into a world leader in forex trading — with more than 30% of global currency trading estimated to go through the UK capital. As of December 2020, the number of companies trading on the London Stock Exchange stood at 1,989. These companies had a combined market capitalization of approximately 3.64 trillion British pounds .

At Britain's request, services were kept out of trade talks with Brussels to spur negotiators to forge a deal in a few months. But the tactic has left the UK's financial sector with only limited access to the EU market, which is worth around £30 billion (€33.2 billion, $40.1 billion) a year.

From January 1, 2021, UK financial firms are expected to lose blanket access to the EU and will instead have to rely on a patchwork of regulations from individual member states. To maintain similar pre-Brexit links, Britain is reliant on Brussels granting regulatory equivalence to its financial services sector.

So far, Brussels has only given temporary equivalence in two areas, for derivatives clearing houses and to settle Irish securities transactions. Permanent equivalence will only be given if the UK can show that its regulatory regime for financial services will remain as robust as the EU's.

The only mention of financial services in the post-Brexit trade deal is that both sides plan to negotiate an agreement, with a preliminary deadline set for March. But some trade experts think it will take Brussels several more months to grant fuller access to UK-based firms. Even if and when they are granted, the EU's system of equivalence can be withdrawn at a month's notice, which would leave London vulnerable.

Britain's financial sector had wanted to retain so-called passporting rights, which would allow banks to trade with the EU with ease. But Brussels insists the policy is reserved for members of its single market — a perk that Britain has now lost.Thus, Brexit is viewed to make it "even more urgent" for the EU to develop its own capital market to cut reliance on the City of London , a prioritized reform by the European Union in the new year 2021.

On a positive front, London is also viewed to become the next Silicon Valley given its increasing role as a technical hub. According to UKTN, in 2020 alone, the London-based impact tech companies received $1.2B (approximately £910M) in VC investment from January to October. So far, London's impact firms have secured 429 deals between 2015 and 2020, more than any other city globally .

With the Authority's recent admission into the London based, Global Financial Innovation Network, the cross listing of o Acorn's first green bond issuance in Kenya and the potential to have some Kenyan equity companies cross-listed on the London Stock Exchange, the Authority will continuously monitor the progress and ongoing developments on the evolving role of London as a financial hub and align itself strategically for the benefit of the Kenyan Capital Markets industry.

[7]https://www.globalriskregulator.com/Subjects/Regulatory-Relations/UK-strikes-deal-with-Singapore-and-aims-for-ambitious-digital-agreement

## 1.5 The European Union Focused on Regulatory Reforms Post Successful Brexit

A decade on from the sweeping regulatory reforms, which were launched in response to the financial crisis, the next waves of reform are appearing on the horizon. In Europe, regulators are also faced with the need to find a working arrangement upon "life after Brexit".

To this end, various areas have been prioritized by the European regulators in the coming new year summarized in figure 1 below.

***Figure 1: Summary of EU Regulation Areas Planned for 2021***

| | |
|---|---|
| **Green Finance** | On November 13, 2020, the European Parliament adopted the resolution that welcomes the Sustainable Europe Investment plan as central to the success of the green transition.<br><br>On 9 December 2020, the European Commission adopted Communication on the European Climate Pact, a non-legislative initiative under European Green Deal. |
| **Creation of a Capital Markets Union** | The CMU action plan proposes **16 Legislative and nonlegislative actions** with **3 Key objectives**<br><br>Implementation of the 16 legislative and non-legislative actions which will be taken forward in 2021 |
| **Markets in financial Markets Union** | A more fundamental overhaul of MiFID II, currently scheduled for Q4 of 2021 |
| **Anti-money laundering rules** | EU is scheduled to make changes to Anti Money Laundering Rules in Q1 of 2021 |
| **Central Depository Regulation** | EU set to review its Central Depository Regulation in Q2 of 2021 |
| **Solvency II regime for insurers** | Update of the Solvency II regime for insurers expected in Q3 2021 |
| **Alternative Investment Fund Managers Directive** | A review of hedge funds directive (The Alternate Investment Fund Managers Directives/AIFMD) is underway with a proposal expected later in the year 2021 |
| **Digital Finance Package** | EU policy-makers will aim to finalise draft legislation on crypto assets (Markets in Crypto-assets/MiCA) & operational resilience (Digital Opreational Resilience or DORA) in 2021 |
| **Fundamental Review of the Trading Book** | The EU's regulatory proposals to fully implement the Fundamental Review of the Trading Book (FRTB) among others (capital requirements directive & regulation or CRD6/CRR3), were not published in June 2020, presumably they will be out in 2021 |

*Source: European Union*

[7]https://www.globalriskregulator.com/Subjects/Regulatory-Relations/UK-strikes-deal-with-Singapore-and-aims-for-ambitious-digital-agreement

*Image Source: giz.de*

## *Lessons Learnt:*

Overall, despite the pandemic, multiple jurisdictions have prioritized the review of regulatory provisions to make capital markets more attractive for investors as observed in the EU and the United states. The Authority, cognizant of the legal requirements that Kenyan laws need to be reviewed every ten years, prioritized regulatory reviews in the financial year 2020/21. Current ongoing work in this regard include the review of;

i. Public Offers and Listing Disclosures regulations
ii. Collective Investment Schemes Regulations
iii. Whistle Blower Regulations
iv. Crowdfunding Regulations
v. Credit Rating Guidelines; and
vi. Share Buy Back Guidelines.

In undertaking these reviews, the Authority will be sure to actor in some of the highlighted regulatory reforms in the Capital Markets in 2021, across the world. At the same time and in line with the constitutional requirements to subject such reviews to public participation, the Authority will subject the draft regulations to public participation as we take input from the industry. Watch out for communication on the same on the Authority's website in the coming months.

[7]https://www.globalriskregulator.com/Subjects/Regulatory-Relations/UK-strikes-deal-with-Singapore-and-aims-for-ambitious-digital-agreement

# 2.0 International and Global Capital Markets

## 2.1 2020 Global Economy in Perspective and Projected Performance in 2021

The year 2020 was characterized with a myriad of unprecedented events and risks, all of whom have contributed to a contracted global economy, primarily by the novel corona virus pandemic that span throughout the year 2020.

### *Figure 2: Key Global Risks and Envisioned Opportunities in 2021*

| RISKS | OPPORTUNITIES |
|---|---|
| Covid-19 (New strains, re-infections, effectiveness, access and cost of Vaccine) | Covid-19 Vaccine to Boost Pharmaceutical Stocks |
| Public Debt | Opportunity to implement fiscal consolidation policies |
| Recovery of Oil Prices (inflationary effect) | |
| Previous Risks (Trade wars) | The anticipated Biden Impact |
| Current Account Deficit Widening and as a result increase in saving, investment gap for net oil exporting countries | Adoption of green finance solutions |
| Environmental & Climate Change Effects on Globe | Adoption of Climate Change Pacts |
| Increasing cybersecurity threats | Increased use of digitalization |
| Interruption in global trade and supply chains | Leverage on newly formed trading blocs eg RCEP, AFCTA |

*Source: Various*

These risks resulted in massive decrease in global activity as economies lockdown measures as a way of reducing the spread of the virus affecting the aviation, agriculture, transport, service, hotel and hospitality amongst many other sectors considered key contributors in the growth and performance of economies across the divide.

With analysts referencing the economic damage extended by the covid 19 pandemic as much worse than the contraction witnessed during the global financial crisis in 2010, projections on GDP performance across global economies seem to confirm the same. Statistics by the International Monetary Fund's World Economic Outlook, October 2020 issue projects a global contraction in real GDP of -4.4%. The negative growth is replicated across all other regions including the Sub Saharan Africa, projected to grow at -3%, with countries such as South Africa, Nigeria and Zambia being major contributors to the negative growth, following individual country growths of -8%, -4.3% and -4.8% respectively.

However, relatively favorable performance is anticipated within the East African region with Ethiopia, Kenya and Tanzania projected to grow at 1.9%, 1% and 1.9% respectively.

Despite a difficult 2020, projections for 2021 remain relatively optimistic. This has been primarily driven by the positive developments in the scientific world in the development of covid-19 vaccines.

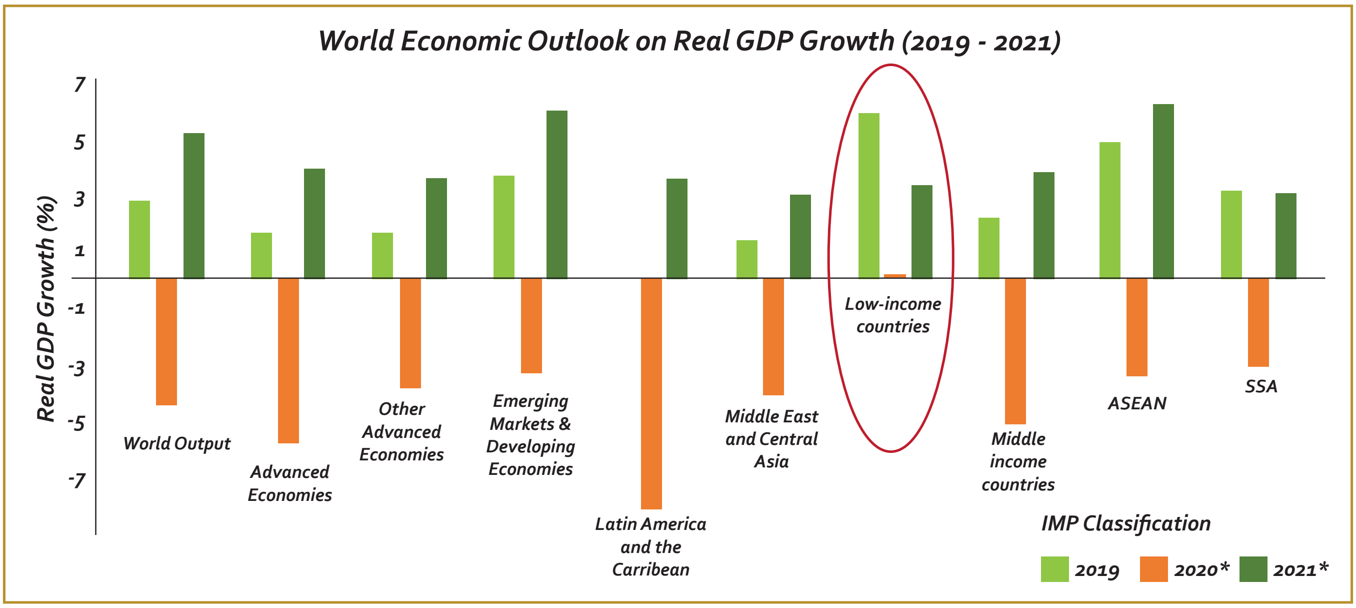
Global real GDP growth is estimated at 5.2% as forwarded by the International Monetary Fund (IMF). Sub Saharan Africa is equally projected to perform favorably in 2021 with an estimated growth rate of 1.7%. Kenya's estimated recovery growth in 2021 also remains positive at 4.7%.

The World Bank has further estimated that African nations will require about $ 890 Billion between now and 2023 to recover from the effects of the pandemic. Further, it is estimated that 50% of this amount would be funded through private finance as Governments increasingly budget deficits in the face of the pandemic, with 25% from the donor community.

As Governments develop domestic economic recovery strategies, the question on the need to re-evaluate resource envelope available to fund the recoveries remains a critical question.
This is further exasperated in countries that are net exporters like Kenya given the global recovery in oil prices, the impact of which is expected to translate to inflationary pressures as well as widen the current account deficit. With a widened, current account deficit, concerns equally arise on a growing savings and investment gap. These would prove retrogressive in ensuring instituted recovery policies achieve the desired impact across economies of these countries.

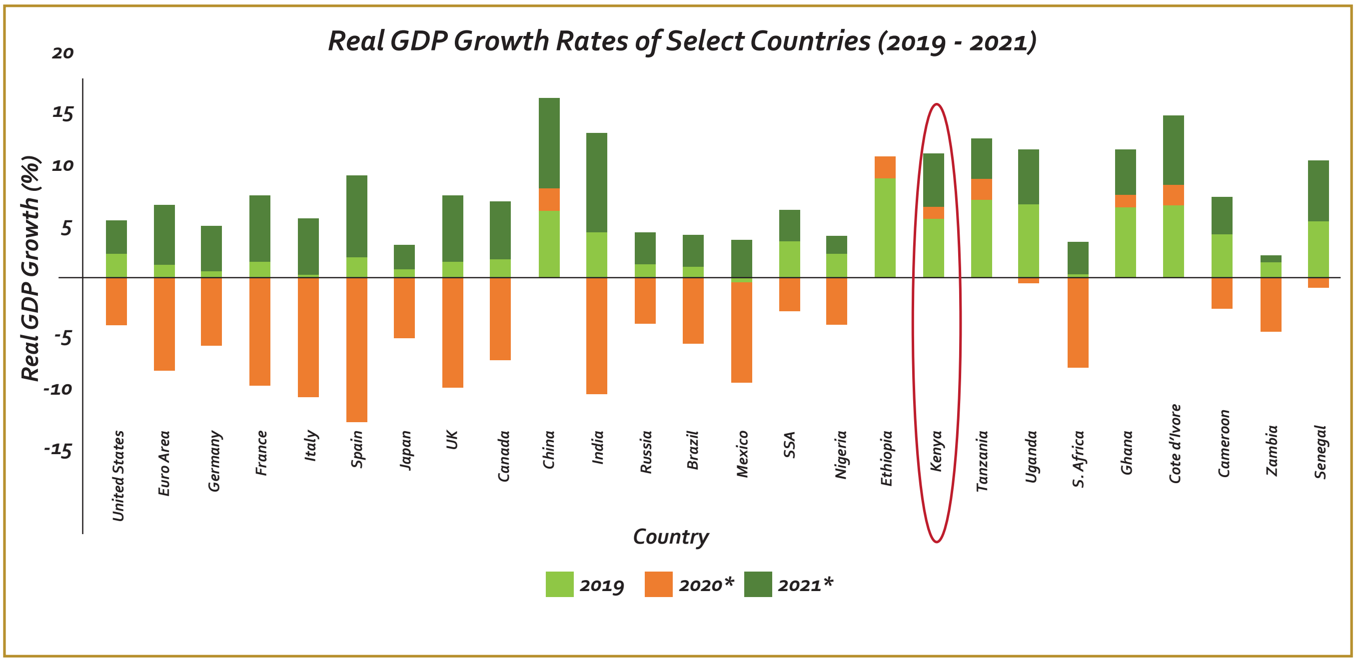
It is therefore imperative that the space and role of private financing and capital markets in facilitating the long-term recovery of economies cannot be understated with climate friendly solutions such as sovereign bond issuances prioritized in countries such as the United Kingdom.

## *Figure 3: Real GDP Growth Projections (2019 – 2021)*




*Source: IMF World Economic Outlook, October 2020 Issue; SSA – Sub Saharan Africa | * Means projections or estimations.*

## *Figure 4: Trend of GDP Performance in Select Global Economies*




*Source: IMF World Economic Outlook, October 2020 Issue*

Data by the World Health Organization indicate that there are 60 vaccines under clinical development as at 29th December 2020 with 9 out of the 60 classified to be undertaking testing under phase 3, with the remaining 51 in either phase 1 or 2. According to the science of vaccines, it is only the Phase 3[8] trials that can provide a pivotal demonstration that a vaccine both works and is safe.

***Figure 5: List of Vaccines under Phase 3 Development Phase***

| | Developer | Country of origin |
|---|---|---|
| 1 | Sinovach Research and Development Company | China |
| 2 | Sinopharm + Wuhan Institute of Biological Products | China |
| 3 | Sinopharm + Beijing Institute of Biological Products | China |
| 4 | AstraZeneca + University of Oxford | United Kingdom |
| 5 | Cansino Biological Inc/ Beijing Institute of Biotechnology | China |
| 6 | Gamaleya Research Institute; Health Ministry of the Russian Federation | Russia |
| 7 | Janseen Pharmaceutical | United States |
| 8 | Novavax | United States |
| 9 | Moderna + National Institute of Allergy and Infectious Diseases (NIAID ) | United States |

*Source: WHO's Covid-19 landscape of novel coronavirus candidate vaccine development worldwide data as at Tuesday, 29th December 2020*

Baseline economic scenario assumes a gradual normalization in economic activity in the initial months of the year 2021, projected to accelerate in the second half of 2021 on the back of meaningful progress towards herd immunity [9]under the assumption of successful vaccination implementation.

The OECD has since projected recovery in 2021 with a projected growth forecast of 4.2% under the expectation that vaccination campaigns, concerted health policies and Government financial support will lift the global GDP. The recovery is however expected to be stronger if vaccines are rolled out fast, boosting confidence and lowering uncertainty.

Morgan Stanley on the other hand has a more optimistic forecasted growth rate of 6.4% in 2021 with the latter expecting that the growth would first be led by emerging markets, followed by reopening economies in the U.S. and Europe.

However, according to analysis by **KBC Economics,** two vaccine specific risks still hang in the balance despite the positive sentiments. The first is related to the virus evolution, namely new local outbreaks or the possibility of a third wave of the pandemic. The second relates to developments on the vaccine front that could affect the timing of reaching herd immunity across jurisdictions particularly the African continent.
Faster vaccine deployment and better cooperation for its distribution would therefore boost confidence and strengthen the pickup but continued uncertainty risks further weakness.

*[8]Phase 3 vaccine trials are large randomized controlled trials conducted in the community. In these trials people either receive the vaccine or a placebo. If fewer people who received the vaccine become sick compared to those who received placebo, we have direct evidence that the vaccine prevents disease.*

*[9]Herd immunity is defined as the resistance to the spread of an infectious disease within a population that is b ased on pre-existing immunity of a high proportion of individuals as a result of previous infection or vaccination.*

Further, delays to vaccination deployment, difficulties controlling new virus outbreaks and failure to learn lessons from the first and second waves would weaken the outlook. The bounce-back is projected to be strongest in the Asian countries that have brought the virus under control but even by the end of 2021, many economies will have shrunk from 2019 levels before the pandemic. The decline in 2020 is still nearly twice as deep as that in 2009, when world GDP fell by 2.1%[10]

While the world remains optimistic of a more favorable 2021, new research by the Eurasia group found that the economic benefits of a global equitable vaccine solution alone for just 10 high-income countries would be at least US $153 billion in 2020-21, rising to US $466 billion US dollars by 2025. This calls for a global intervention to subsidize the costs of the vaccine to favor access particularly to low-income countries. Kenya, like other economies has suffered the economic impact of the pandemic and is projected to record a growth rate of 1 % in 2020. This is a relatively significant slump compared to 5.4% growth recorded in 2019. However, 2021 is projected to be more optimistic for the country, estimated at 4.7% based on IMF's projections.

***Lesson Learnt***

The road to full recovery from the adverse effects of the pandemic may be long and steep, but prioritizing policy actions and investments that address the challenge of creating more, better and inclusive jobs will pave the way for a faster, stronger and inclusive recovery for African countries.

The role of the financial sector and capital markets remain a critical component in the attainment of positive growth in the Kenyan economy going forward.

Cognizant of its critical role, the Authority, in conjunction with stakeholders, will continue to put in efforts towards ensuring a successful implementation of its short-term recovery strategy in the face of COVID-19 as well as the Capital Markets Master Plan and Authority's strategic plan to attain its envisioned role within the Vision 2030 as a capital mobilizer.

## 2.2 ASEAN Countries Launch a New Trade Deal – The Regional Comprehensive Economic Partnership (RCEP)

The RCEP trade deal puts together members of the Association of Southeast Asian Nations (ASEAN) and China, Japan, South Korea, and New Zealand aimed at reducing and eliminating a raft of tariffs between the members states within a 20-year period[11]. Signed in November 2020, RCEP is currently the world's largest trading bloc.

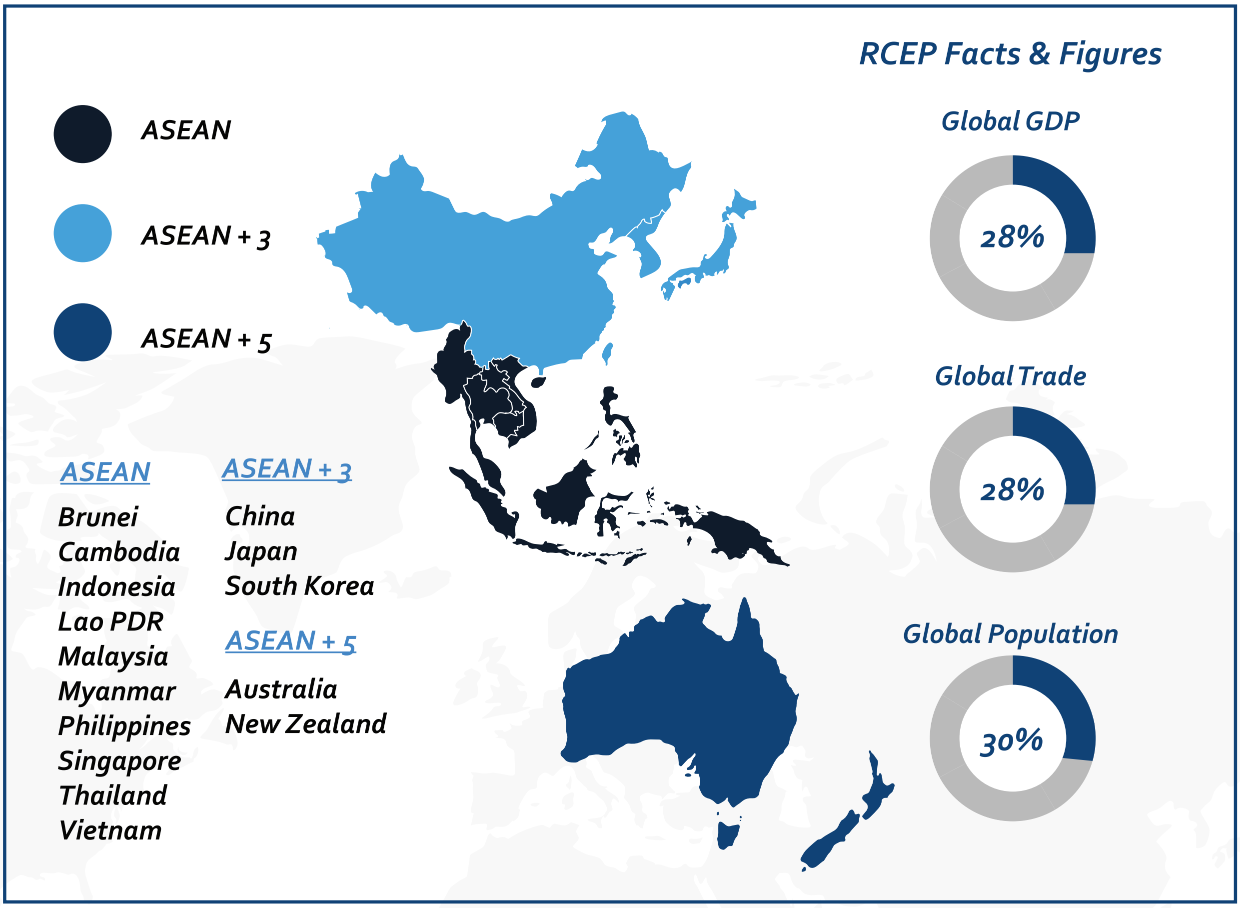
The Regional Comprehensive Economic Partnership (RCEP) Agreement is an agreement to broaden and deepen ASEAN's engagement with Australia, China, Japan, Korea and New Zealand. Together, these RCEP participating countries account for about 30% of the global GDP and 30% of the world population. The objective of the RCEP Agreement is to establish a modern, comprehensive, high-quality, and mutually beneficial economic partnership that will facilitate the expansion of regional trade and investment and contribute to global economic growth and development. Accordingly, it will bring about market and employment opportunities to businesses and people in the region. The RCEP Agreement will work alongside and support an open, inclusive, and rules-based multilateral trading system[12].

[10] *https://www.oecd.org/economic-outlook/*
[11] *https://www.bbc.com/news/business-54899254*
[12] *https://asean.org/storage/2020/11/Summary-of-the-RCEP-Agreement.pdf*

The Partnerships aims to further ease the Free Trade Agreements currently in place between the member states. Some of the benefits expected to be enjoyed by the member states include improved balance of trade, increased foreign direct investment levels for individual states and a robust geopolitical influence in the world trade stage[13].

Member states also agree that the Partnership is timely in the post-epidemic phase of their economies with belief that it would complement recovery strategies implemented in the region as well as reduce regional tension arising from matters such as border conflicts among the members.

***Figure 5: The Regional Comprehensive Economic Partnership at a Glance***




*Source: www.mahanakornpartners.com[8]*

As in other established trade blocs , there are some concerns on how RCEP will negatively affect some sectors of the member states' economies and other trading partners. For example small dairy and livestock farmers currently serving the region are bound to be exposed to the stiff competition as a result of subsidized animal products from Japan and Australia.

Giant producers such as Fonterra, based in New Zealand, are set to leverage the RCEP agreement in market entry initiatives to be rolled out in India[14]. In terms of adverse environmental impact, farm chemicals are likely to be in the pool of products whose tariffs are expected to be eliminated. With China currently controlling more than a fifth of the global pesticide market, the Asian country would benefit further by using the RCEP to increase its global market share[18]

[17] *Opportunities for Investment and Trade under the RCEP https://www.mahanakornpartners.com/opportunities-for-investment-and-trade-under-the-rcep/*

*ASEAN Flags. Picture Source: bangkokpost.com*

## *Lesson Learnt*

The formation of RCEP and re-alignment/emergence of other global trading blocs is likely to affect the multilateral trading systems of African nations and their partners and the likely changes in global standards of goods or services that puts developing countries at a disadvantage due to the cost of compliance .

To avoid this, it is imperative for African standard-setting bodies and policy makers to act swiftly to begin alignment with the forthcoming changes. Furthermore, the implementation of the Africa Continental Free Trade Area (AfCFTA) agreement. targeting to create a single continental market for goods and services for African Union member states, should be fast-tracked to enable the unlocking of over 1 billion consumers and $3.4 trillion combined GDP for countries to trade with .

It is expected that the foods and agricultural sector will be the driver of this trade bloc and bring up to 30 million people out of extreme poverty. With the current effects of coronavirus pandemic, full implementation of the AfCFTA market will provide an opportunity for African nations to diversify their exports, attract more foreign direct investment and spur post-epidemic economic growth 20.

One major challenge in analyzing and measuring the benefits of regional trade pacts is poor quality of official trade statistics especially on cross-border trade between African countries. Hence policy makers would have challenges in ascertaining the actual challenges affecting interregional trade and develop appropriate policies to address the same. In most African borders, small scale individuals and businesses are the drivers of trade and lack of data on their activity would also negatively affect tax collection at border points . Within the Kenyan capital markets space, the ongoing regulatory development in the Commodities Exchange market need to be fast tracked so that the country positions itself as one of the most efficient commodities markets in the region.

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[19] *Mega-Trading Blocs and the Future of African Trade https://thecommonwealth.org/media/event/mega-trading-blocs-and-future-african-trade*
[20] *The African Continental Free Trade Area https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area*
[21] *The African Continental Free Trade Area - Economic and Distributional Effects https://openknowledge.worldbank.org/bitstream/handle/10986/34139/9781464815591.pdf*

## 2.3 Spain's decision to introduce Financial Transaction Taxes to bridge budget deficit in the face of Covid-19 and unintended Impact on Capital Markets Industry

On October 7 2020, the upper house of the Spanish parliament passed a bill authorizing a financial transaction tax (FTT) that will take effect in January 2021, and is designed to raise funds to support the Covid-19 hit economy.

The FTT will be levied at 0.2% on the purchase of shares in Spanish-listed companies with a market capitalization of more than €1bn. The Spanish government estimates that this tax will generate €850m annually, compared with an estimate of €420m from the Independent Authority for Fiscal Responsibility[18]

Financial Transaction Taxes are taxes levied on the trading (buy or sale ) of stocks, bonds or derivatives . The concept of Financial Transaction Taxes has been implemented by various countries in varying measure and covering different products. The United States of America for example has a Financial Transaction Tax of 2 cents for every transaction amounting to USD $1,000. Supporters of this policy argue that it serves to minimize the frequency of trading in the market and the fact that it is a form of voluntary tax whereby those who do not want to pay the tax can refrain from trading.

On the flip side this concept is criticized for its impact on the investors and savers as this increases the cost of trading, inability to raise targeted revenue and reduction of the economic growth. Some of the countries which have implemented this concept and the results obtained are summarized below:

***Table 4: Outcome of Introducing Financial Transaction Tax by Select Countries***

| Indicator | Sweden | Italy | France |
|---|---|---|---|
| Targeted Revenue | SEK 1.5 billion Annually | - €1 billion Annually | - €500 million Annually |
| Raised Revenue | SEK 50 million Annually | - €200 million Annually | - €250 million-first year |
| Impact | -Reduced investor numbers in the capital markets industry.<br><br>-Increased Volatility<br><br>-Drop in the Equity index returns | -Change in investor trends such as purchasing shares offered on other trading platforms as opposed to the domestic market.<br><br>-Increased volatility in the capital markets industry.<br><br>-Increased bid-ask spreads. | -Reduction of the volume of trades in the capital markets<br><br>-Exit of market makers and liquidity providers<br><br>-1/3 of investors moved from France to London.<br><br>-Decreased demand |

*Source: Securities Industry and Financial Markets Association*

[18]https://www.globalriskregulator.com/Subjects/Financial-Markets/Spanish-parliament-passes-FTT-on-share-trading
[19]https://www.brookings.edu/policy2020/votervital/what-is-a-financial-transaction-tax-2/

In countries where these taxes have been applied the revenue collected have contributed to different percentages of the GDP. Hong Kong has the highest average rate at 1.71 %.

However, when setting the tax rates caution should be taken in order to avoid investors' movement as seen in the above three countries.

***Figure 7: Financial Transaction Tax Revenues as a percentage of GDP from Select Jurisdictions***

| Country | 1990 | 1995 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Avg. | Max | Min |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| France | 0.05 | 0.01 | 0.03 | 0.02 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | | | 0.02 | 0.05 | 0.01 |
| Germany | 0.06 | | | | | | | | | | | | 0.06 | 0.06 | 0.06 |
| Hong Kong | na | na | na | na | na | na | na | na | na | na | 2.10 | 1.32 | 1.71 | 2.10 | 1.32 |
| India | | | | | | | 0.02 | 0.07 | 0.12 | 0.19 | 0.10 | na | 0.10 | 0.19 | 0.02 |
| Italy | 0.08 | 0.12 | | | | | | | | | | | 0.10 | 0.12 | 0.08 |
| Japan | 0.18 | 0.11 | | | | | | | | | | | 0.15 | 0.18 | 0.11 |
| South Korea | 0.12 | 0.18 | 0.62 | 0.37 | 0.45 | 0.32 | 0.26 | 0.41 | 0.43 | 0.58 | na | na | 0.37 | 0.62 | 0.12 |
| South Africa | na | na | na | 0.34 | 0.36 | 0.36 | 0.46 | 0.54 | 0.58 | 0.49 | 0.51 | na | 0.46 | 0.58 | 0.34 |
| Switzerland | 0.56 | 0.38 | 0.85 | 0.67 | 0.50 | 0.46 | 0.47 | 0.44 | 0.46 | 0.46 | na | na | 0.53 | 0.85 | 0.38 |
| Taiwan | na | na | na | 0.65 | 0.77 | 0.72 | 0.85 | 0.65 | 0.79 | 1.07 | 0.77 | na | 0.78 | 1.07 | 0.65 |
| UK | 0.12 | 0.17 | 0.45 | 0.27 | 0.23 | 0.22 | 0.22 | 0.27 | 0.28 | 0.29 | 0.22 | na | 0.25 | 0.45 | 0.12 |

*Source: IMF (Citing OECD, EU Parliament, UK Treasury, Indian Treasury,World Economic Outlook)*
*Note: STT=Securities Transaction Tax*

[20]*https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19*

According to the Urban Brookings Tax Policy Center, high earners would bear the biggest chunk of the cost of the taxes and the low-income earners would bear the lowest cost as shown in the table below:

***Table 5: Classification on who bears the burden of a Financial Transaction Tax***

| | Expanded Cash Income Percentile | Share of Total Federal Tax Change |
|---|---|---|
| 1 | Lowest Quintile | 1.3 |
| 2 | Second Quintile | 3.2 |
| 3 | Middle Quintile | 6.8 |
| 4 | Fourth Quintile | 13.0 |
| 5 | Top Quintile | 74.7 |
| 6 | All | 100.0 |

*Source: Urban Brookings Tax Policy Center*

In the wake of Covid-19 pandemic, economies of most countries have been affected differently hence causing the Governments and Central banks to come up with measures to cushion the economy from the effects of the pandemic. According to the International Monetary Fund most of the recovery measures put in place by different countries include but not limited to the following: allocation of contingency funds, quantitative easing, lowering the reserve requirement ratio, allowing the exchange rate to adjust flexibly, tax reductions, among others.

Albeit, the measures have not managed to tackle every issue and some have resulted to Governments operating in deficits, a trend that is forecasted to go on for a longer while until a vaccine for the virus is found. It is against this background that economists such Richard Murpy argue that Financial Transaction Taxes are the only way of saving the economy at the moment[21].

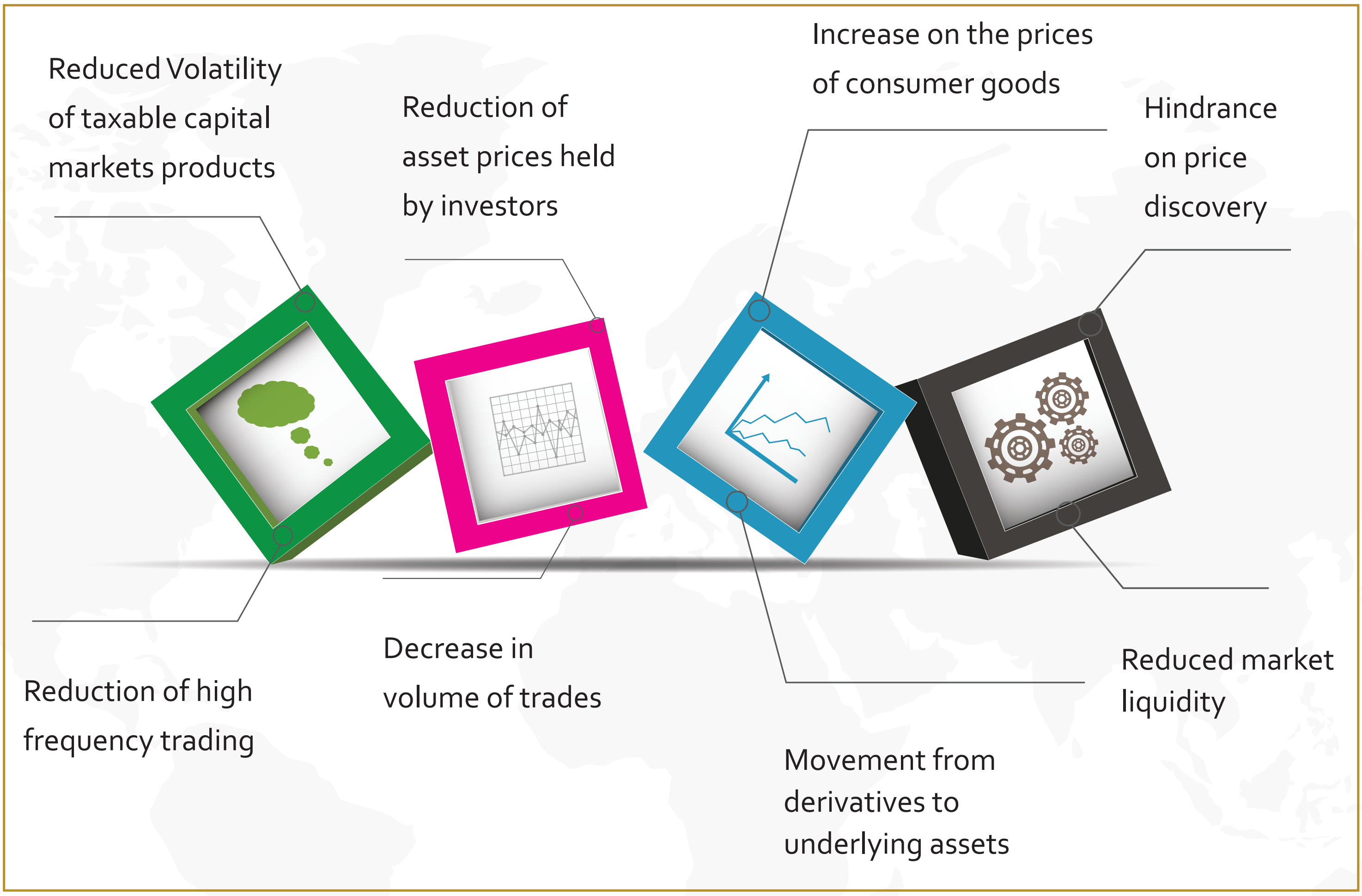
The proponents of these measures have indicated that Financial Transaction Taxes can be used in three major ways in ensuring the recovery of the economies namely; Revenue generation, Financial flows and Fiscal control. Traditionally, the Financial Transaction taxes have been viewed as sources of revenue, however their main aim is not to generate income but to change behavior in a market. These taxes will therefore be necessary in the recovery from the Covid-19 pandemic in controlling the demand, employment and inflation factors that the monetary policies have not been able to tackle.

Under financial flows, financial transaction taxes will be used to replace payroll and social security charges which have affected the employment rates. In implementing this, the taxes will be levied on financial flows of all the bank accounts and the charges will apply to both the debit and credit transactions. Additionally, this form of tax will vary depending on the amount of income the account holders get hence those with low incomes will be charged lower rates than those with higher level of income.

[21] https://www.socialeurope.eu/the-financial-transactions-tax-we-need-in-the-age-of-coronavirus
[22] https://files.taxfoundation.org/20200122152248/The-Impact-of-a-Financial-Transactions-Tax.pdf

To avoid being overcharged, individuals will be required to connect all their accounts in order to get fair charge rates. Finally, this tax will be used to control the demand of financial markets' products by reducing or increasing the rate. Additionally, this will come in handy in meeting a targeted inflation figure whereby the increase or drop of the rate will help in achieving this.

***Figure 8: Unintended Consequences of Introducing Financial Transaction Taxes on the Capital Markets Industry***




## *Lessons Learnt:*

The Covid 19 Pandemic, like any global disaster caught most Governments unaware, depleting resources previously budgeted for under different programs.

Further, with the impact of the health crisis negatively affecting economic activities within economies, under performance in revenue collections by Government agencies has become a common phenomenon, at least for this financial year, Kenya included.

With other jurisdictions adopting this measure to meet budget revenue shortfalls, increased interest on the tax could rise for other economies, that are faced with the same predicament.
The Authority will continue to engage with industry players and policy makers, in ensuring new taxes have neutral effects to ensure tax measure take into consideration the growth of the need for a vibrant capital markets as a key pillar of the financial sector in the economy.

With the implementation of the Regulatory Sandbox where some of the innovations will have digital platforms, the Authority will proactively engage the Government so that these services fall under the exempt services.it is noted that the newly instituted Digital Services Tax (DST) came into effect on 2nd January 2021.

The Digital Service Tax was instituted in 2019 through the Income Tax Act introducing a 1.5% tax on income earned or accrued through a digital marketplace . The tax applies to the income of a resident or non-resident person derived from or accrued in Kenya from the provision of services through a digital marketplace.
To effect this, the Income Tax (Digital Service Tax (Regulations 2020 were gazetted on 11th December 2020.

The regulations list 10 digital services for which digital service tax shall apply. These include;

(a) Downloadable digital content including downloadable mobile applications, e-books and films.
(b) Over-the-top services including streaming television shows, films, music, podcasts and any form of digital content;
(c) Sale of, licensing of, or any other form of monetising data collected about Kenyan users which has been generated from the users' activities on a digital marketplace.
(d) Provision of a digital marketplace.
(e) Subscription-based media including news, magazines, and journals.
(f) Electronic data management including website hosting, online data warehousing, file-sharing, and cloud storage services.
(g) Electronic booking or electronic ticketing services including the online sale of tickets.
(h) Provision of search engine and automated held desk services including supply of customized search engine services.
(i) Online distance training through pre-recorded media or e-learning including online courses and training; and (j) any other service provided through a digital marketplace.

Further, the implementation of the tax has certain exemption provisions. These include;

i. Income taxed under the provisions of section 9(2) and section 35 of the Income Tax Act.
ii. Online services provided by Government institutions.
iii. Income exempt under the First Schedule of the Income Tax Act.
iv. Online services which facilitate payments, lending or trading of financial instruments, commodities or foreign exchange carried out by:
    a. A financial institution specified under the Fourth Schedule to the Act;
    b. A financial service provider licensed or approved by CBK

The examine the extent to which these exemptions apply to the Capital Markets industry participants , licensees and products, the Authority will conduct an assessment in conjunction with the Kenya Revenue Authority, the outcome of which will inform targeted policy analysis and advocacy efforts aimed at promoting the growth of the Kenyan Capital Markets industry.

[23] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD667.pdf

## 2.4 IOSCO consults on issues and concerns regarding market data[23]

In line with its principle number 35 outlining the requirement for regulators to promote transparency in the market, IOSCO issued a consultation paper on the accessibility of market data by the different categories of participants in the capital markets industry on 03rd December 2020. The consultative paper seeks to evaluate the following aspects:

i. The necessary data in facilitating day to day trading.

ii. Ensure fair, equitable and timely access to market data.

iii. Charges for market data and the determination of the same.

iv. Necessary level of data consolidation and the necessity of the same.

v. Products associated with access of market data.

IOSCO defines market data as both pre and post trade information and identifies the need for market participants to have access to such data in order to allow investors to make informed decisions ,investors and other market participants to make informed decisions on the trading of certain securities and to enable market participants to make informed order decisions which are in line with the regulatory requirements .This consultation has been necessitated by the technological advancements that have been witnessed in the financial markets over the last two decades hence the need for IOSCO to review its regulatory framework to accommodate such. This consultation to facilitate jurisdictions in the process of developing supervisory measures and regulations on market data. This consultation will be finalized on 26th February 2021.

[23] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD667.pdf

The paper seeks to evaluate the following aspects about Market data Access:

## i. Definition of Core Market Data

IOSCO identifies the core data as the pre-trade and post-trade data. However, it was identified that different jurisdictions have different ways of defining the two. Pre-trade data should include the following: Identification of the security, offer prices and amount available. In some jurisdictions however, it was identified that Pre-trade data is dependent on the trading system or the trading venue hence some information may not be revealed in some countries.

Post trade data encompasses the following aspects; Identity of the security, volume traded, price of the trading and the time that the trading was executed. It was noted that in some jurisdictions especially where trading happened through the Over-The -Counter platforms some of this information was not available. In order to synchronize this IOSCO is requesting for input on what forms Core market data and its components.

## ii. Uses of Market Data

IOSCO identified that the different categories of investors use market data for different purposes. Investors for example will use this data in making an investment decision where market makers will need the data in order to make transactions hence the depth of data required by the two participants will vary. In this section therefore, IOSCO is seeking to find out the different data needs among the market participants.

## iii. Access to Market Data

IOSCO advocates for fair, equitable and timely access to Market Data as it promotes fair competition in the market and facilitates the market participants in making informed decisions. A few factors were noted which could be a hindrance to the achievement of this goal which include; decisions, services and offerings made by trading venues, delayed publication of data, vague contractual agreements offered by trading venues, among others. In this section IOSCO is seeking to find out the factors that should be used in evaluating how fair, equitable and timely data access is, types of access necessary for different market participants, the point of concerns that related to the fairness, equitability and timeliness of market data access, among others.

## iv. Data Consolidation

In some jurisdictions fragmentation exists due to the existence of different trading venues hence consolidated data becomes a key aspect in helping the market participants make informed decisions. Some of the queries raised with regards to this aspect are:

a. Accuracy of the consolidated data
b. Reliability of the systems used by the consolidating party.
c. Consolidation cost
d. Delays in the consolidation and transmission of the data.

## 2.5 IOSCO Reviews Money Market Funds Recommendations and Events Arising from the March 2020 Market Turmoil[24]

This review was conducted by the IOSCO following a request by G20 leaders in November 2015 whereby IOSCO was urged to continually conduct thematic reviews on the impact and consistency of implementation of the Money Market Funds policies developed in October 2012.

The review targeted population was nine countries with the largest Money Market Fund domiciles namely ; Brazil which accounted for 1.51% of the global market funds as at Q4 2019, China which accounted for 13.34% of the global market funds as at Q4 2019, France which accounted for 5.63% of the global market funds as at Q4 2019, India which accounted for 1.14% of the global market funds as at Q4 2019, Ireland which accounted for 9.35% of the global market funds as at Q4 2019, Japan which accounted for 1.81% of the global market funds as at Q4 2019, Luxembourg which accounted for 0.42% of the global market funds as at Q4 2019, UK which accounted for 6.13% of the global market funds as at Q4 2019 and USA which accounted for 55.12% of the global market funds as at Q4 2019.

The objectives of the review were highlighted as reviewing the consistency of implementation of seven out of 15 principles set out in 2015 with a focus on the following factors; Recommendation 4 and 5 focusing on valuation, Management of liquidity as outlined by recommendation 6,7 and 8 and Money Market Funds that offer a stable Net Asset Value as outlined in recommendation 10.

From the review, below were the major findings highlighted by IOSCO:

a. Policy measures put in place by the reviewed jurisdictions were in line with the recommendations put in place by IOSCO in 2015.

b. The review team noted that the definition of a Money market fund was not uniform across the reviewed jurisdictions. Additionally, it was noted that the types of money market funds varied from one jurisdiction to another depending on the currency used, nature of product, the role of the money market fund in the financial ecosystem and the clientele.

c. Varying growth rates of the Money market funds was noted across the reviewed jurisdictions with high growth rates being recorded in China and USA whereas low growth rates were recorded in European Union member countries. China recorded a drastic growth to becoming the second largest money market fund after US.

d. Since the 2012 when IOSCO published the recommendations, significant changes were noted in the market such as the introduction of three types of money market Funds constant asset value, among others.

e. Recommendation 7 highlights the need for Money Market Funds to have a minimum amount of liquid assets as a strategy to prevent abrupt sales to meet redemption requests from clients. However, the reviewing team discovered that liquidity definition was not uniform across the jurisdictions.

[24] https://www.iosco.org/news/pdf/IOSCONEWS582.pdf

f. In line with recommendation 10,it was discovered that most jurisdictions had opted to put in place control measures aimed at tackling risks that stem from CNAV in place of requiring the conversion to floating NAV.

***Table 6: Findings and Evaluation by Recommendations***

| Recommendation | Overview of the Recommendation | Finding |
| --- | --- | --- |
| Recommendation 4 | Use of fair value and amortized cost method | 3 out of the 9 selected countries were fully compliant EU jurisdictions & Japan-Broadly Consistent. China-Partially Consistent. |
| Recommendation 5 | Third Parties to review MMF's valuation practices | 8 out the 9 selected countries were fully consistent. EU jurisdictions & Japan-Broadly Consistent. China-Partially Consistent. |
| Recommendation 6 | Money Market Funds' policies and procedures to know their investors | 8 out of the 9 selected countries were found to be fully consistent China-Broadly consistent. |
| Recommendation 7 | Minimum level of liquid assets | 8 out of the 9 selected countries were found to be fully consistent India-Broadly consistent |
| Recommendation 8 | Stress Testing | All 9 countries-Fully Consistent |
| Recommendation 9 | Tools of dealing with exceptional market conditions & substantial redemption pressure | All 9 countries-Fully Consistent |
| Recommendation 10 | Safeguards towards stable NAV MMF or conversion to variable NAV | Brazil & India-Fully Consistent as their regimes do not allow a constant NAV. Remaining 7countries-Fully Consistent, as their NAV Money Market Funds are well aligned with the recommendation published by IOSCO in 2012. |

*Source: IOSCO*

In conclusion, IOSCO identified that most countries had put efforts to comply with the recommendations set out in October 2015 which was commendable. However, the team identified the structure for Money Market Funds across the different jurisdictions were too specific to that jurisdiction hence it was hard to make comparisons on the same across the selected jurisdictions.

## *Lessons Learnt:*

The Authority, as a member of IOSCO continuously monitors development within the international standard setting body, assessing its practices against global practices. Like other jurisdictions, the Kenyan Capital Markets industry has equally faced challenges with respect to the regulation of money market funds.

In undertaking its supervisory and compliance role, the authority faced the challenge of inconsistent presentation and reporting of performance by licensed collective investment schemes, a concern that was forwarded by investors and participants in the industry.

To resolve this, the Authority published new Guidance to Fund Managers of Collective Investment Schemes (CISs) on Valuation, Performance Measurement and Reporting (Guidance). The Guidance takes effect on 1 January 2021 and is expected to entrench international best practice in the capital markets by standardizing investment performance measurement and presentation by collective investment schemes.

# 3.0 Regional Capital Markets Development

## 3.1 Johannesburg Stock Exchange offers market data to mainland China

The Johannesburg Stock Exchange (JSE) has entered into an agreement with China Investment Information Services Limited (CIIS) to provide select JSE market data access to local distributors in mainland China. This forms part of the JSE's long-term focus to grow and deepen the local market by attracting new clients to trade and invest in South Africa[25].

CIIS is the wholly owned subsidiary of the Shanghai Stock Exchange and is appointed to distribute and market securities related information. CIIS provides the licensing of market data and technical connection to Mainland China for overseas exchanges. The China Investment Information Platform includes coverage for third party content from several global exchanges such as Deutsche Börse Group, Moscow Exchange Group, and B3.

The JSE will through CIIS, initially offer real-time data for JSE-listed equities and FTSE/JSE indices, with a plan to consider additional asset classes and data feeds over time. The JSE market data will be distributed to Mainland China-headquartered data distributors.

These distributors will enter into a standard data agreement with the JSE and CIIS, entitling them to distribute the market data onward to subscribers. CIIS and the JSE are currently finalizing connectivity and enablement arrangements, with the aim to make the data available in the first half of 2021[26].

### *Lessons Learnt*

In a bid to attract foreign investors and profile domestic listed companies in the global scene, markets and exchanges alike are increasingly collaborating with exchanges and companies from foreign jurisdictions to help increase visibility of listed firms.

While collaborations have been observed in various areas such as capacity building, sharing of market specific data for local distribution in foreign markets is a new strategy observed in the quarter under review.

While the Authority has equally entered into several memorandum of understanding with jurisdictions such as Australia, Malaysia, the United Kingdom, Abu Dhabi amongst others on matters regulatory sandbox, sharing of equity trading statistics has not been on the offing.

The Authority will monitor developments on this front with the Johannesburg Stock Exchange, with a key objective of determining the policy and regulatory landscape upon which such arrangements and collaborations on data sharing are based, without breaching data security protocols – both global and domesticated with respect to capital markets data.

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[25] *https://www.jse.co.za/news/news/jse-offer-market-data-mainland-china*
[26] *https://www.ebnet.co.za/single-post/jse-to-offer-market-data-to-mainland-china*

# 4.0 Domestic Capital Markets Developments

## 4.1 The GFIN Cross-Border Testing Initiative

In line with its commitment towards deepening the capital markets, CMA joined other regulators in the Global Financial Innovation Network (GFIN) who are committed to support financial innovation through the testing of innovative financial products, services, business models and regulatory technology (RegTech).

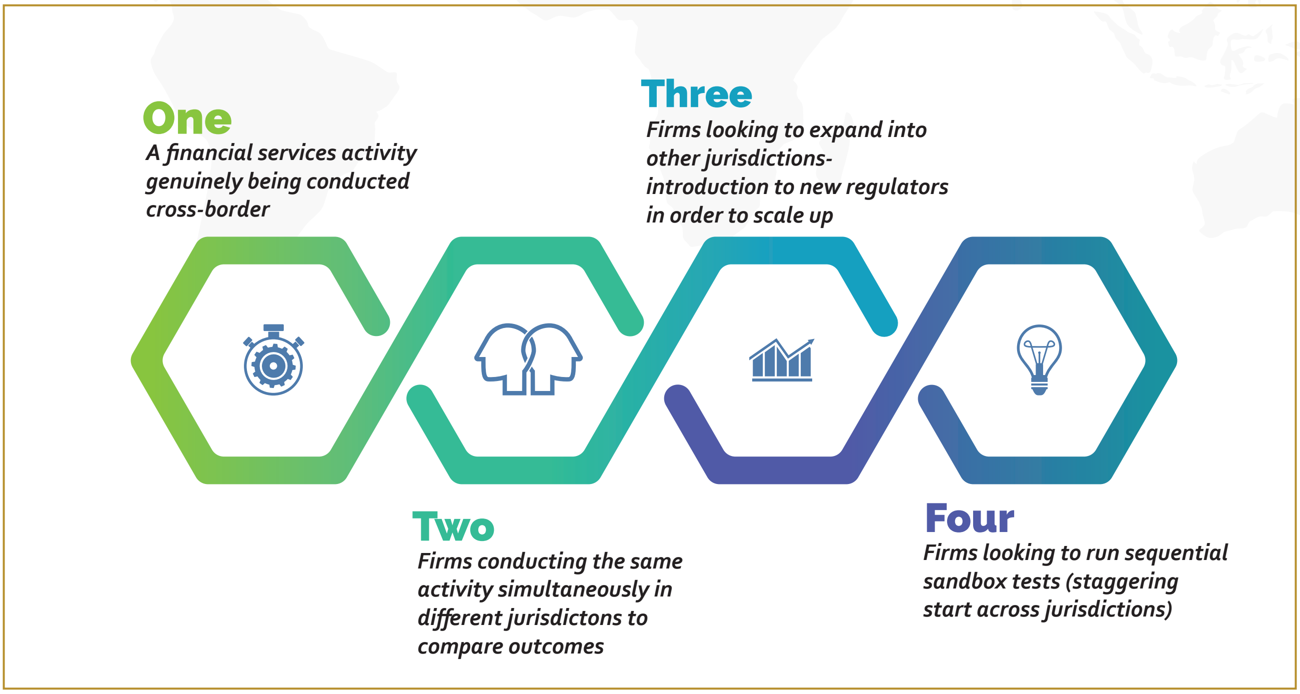
The Global Financial Innovation Network (GFIN), launched in January 2019, is a network global regulator and related organizations committed to supporting financial innovation in the interests of consumers. The GFIN cross-border testing 1.0 initiative aims for the member regulators to work together based on experiences gained in the pilot phase seeking to improve testing frameworks to better support the roles and responsibilities of testers and corresponding regulators[27]. As at December 2020, GFIN was taking applications for cross-border testing. To make the process seamless improvements to the application process formulated based on findings in the pilot include:

A single-entry application form to simply the process for firms.

i. Cross-border testing FAQs to help firms understand the process.
ii. An evolved 'Regulatory Compendium' clarifying the remit and interests of participating regulators and the types of innovation services available.
iii. An extension of the application window to 9 weeks to allow firms more time to consider and prepare their applications[5].

Based on the experience of previous applications made, 'cross-border' may be perceived to mean various things based on the nature of the applicant's product and services. For example, some firms may seek market entry introduction in more than one jurisdiction either simultaneously or in a phased approach[6].

***Figure 8: Types of Applications Received***




*Source: www.thegfin.com*

[27] https://www.thegfin.com/crossborder-testing

In joining the network, the Capital Markets Authority would be able to better serve its applicants by providing information concurrent to what is provided by other regulators regarding the value-add that the applicant will receive through cross-border testing within the GFIN framework. To achieve this, efforts such as having individual regulators host information about GFIN and cross-border testing in their websites and providing a channel for future potential applicants to learn more[28]. Furthermore, work is being done to develop a single application form enough to capture information required by all regulators in the testing markets thereby reducing the cost and time wastage due to duplication of approval processes

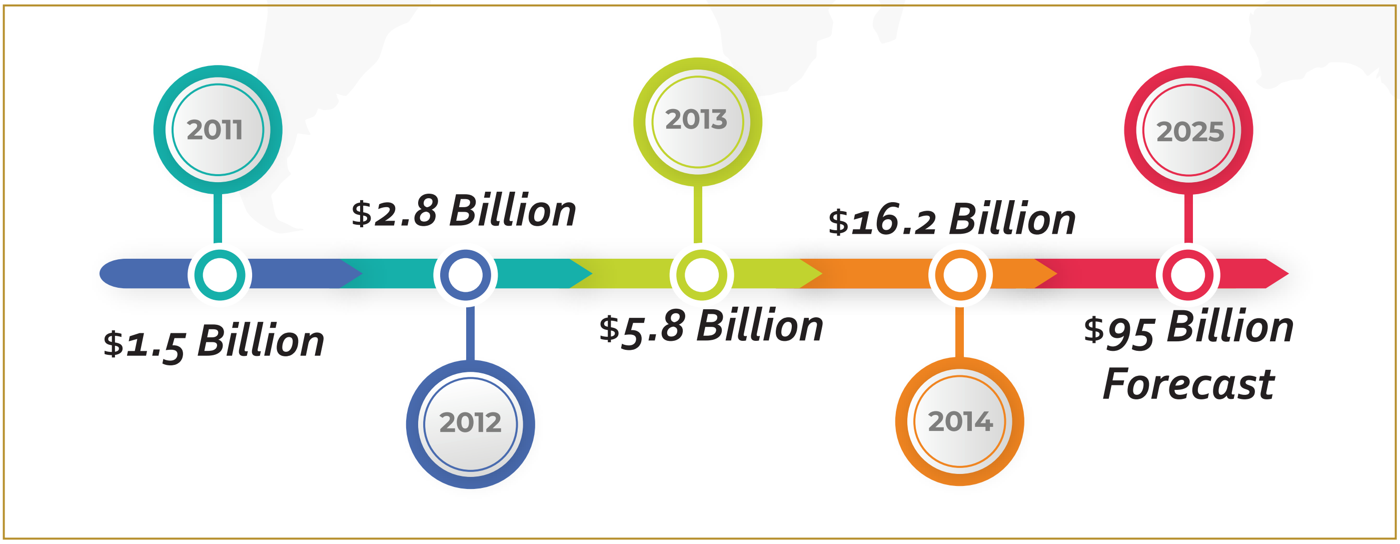
## 4.2 Use of Crowdfunding as an Alternative Capital Raising tool

In early October 2020, Capital Markets Authority granted Pezesha Africa Limited (Pezesha) a 'No Objection' to operate its debt-based crowdfunding platform in the Kenyan capital markets, after a successful one-year testing period in the Regulatory Sandbox, which was launched in March 2019.

The successful graduation of Pezesha hallmarks as a signal towards more adoption of alternative capital raising initiatives within the capital markets. The timing is also appropriate given the coronavirus pandemic that has had a negative effect on businesses. In this new year as more recovery plans are being implemented more capital raising options would be beneficial especially to the small to medium enterprises (SMEs)

The global crowdfunding market is expected to record a compounded annual growth rate of up to 16% between 2020 and 2025 with total amounts raised in 2019 being over $30 billion dollars after having hosted over 6.4 Million crowdfunding campaigns in the same year.[29]The crowdfunding market has been aided by the growth of mobile and internet connectivity in various part of the world. Having access to social media platforms, for example, provides a free cost of promotion for crowdfunding campaigns able to reach a vast audience size.

***Figure 9: Estimated Growth in Volume of Funds Raised by Crowdfunding Platforms Worldwide***




*Source: Crowdfunding.or/ Massolution, WB*

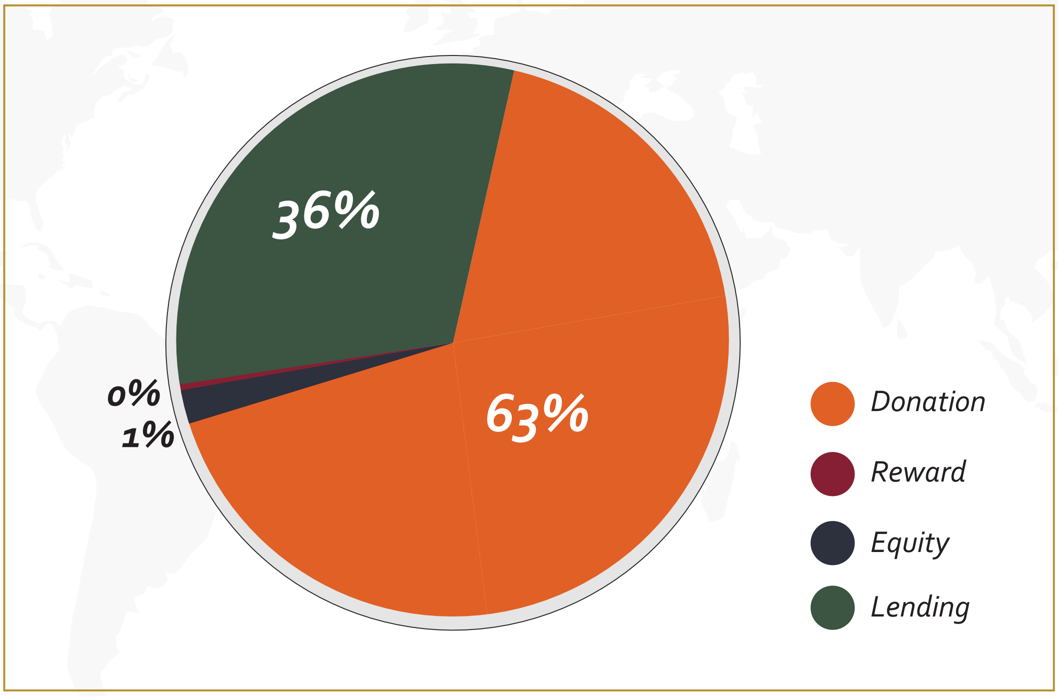
[29]https://www.mordorintelligence.com/industry-reports/crowdfunding-market

Since the outbreak of Covid-19, crowdfunding has been pivotal in pooling donations meant to support communities and individuals in the fight against the effects of the pandemic to their livelihoods. In the capital markets space, equity crowdfunding and peer-to-peer lending platforms have provided the necessary capital for firms to run but also provided an alternative investment opportunity for investors seeking diversification from the plain vanilla capital markets products such as listed equity shares and bonds.

In advanced markets such US and UK where consumer behaviour and favourable macro-economic factors have favoured crowdfunding ventures, it is also evident that regulatory changes have led to the growth of the crowdfinancing (P2P lending and equity crowdfunding) market. [30]

In East Africa, Kenya is the most active crowdfunding market having raised $22 Million when crowdfunding initiatives were starting to gain traction as a capital raising tool. This success was also buoyed by the internet connectivity and mobile money usage compared to other countries in the region. The leading categories in funding include food and agriculture, education, and health3. There is potential to expand crowdfunding usage into funding renewable energy projects in Kenya which would be a positive stride towards global efforts of combating climate change while at the same time provide green investors an opportunity to channel their funds towards worthy courses and get returns.

***Figure 10: Kenya's Crowdfunding Model Breakdown***




*Source: FSD Africa (2016)*

The 2016 East Africa Crowdfunding landscape report by FSD Africa had highlighted regulatory uncertainty as one of the main barriers of the growth of crowdfinancing. However, with strides such as having the regulatory sandbox such huddles are currently being addressed. African crowdfunding for Africans and by extension Kenyan crowdfunding for Kenyans, is currently at an early stage. To propel it to the potential currently enjoyed in developed financial markets other factors such as poor social trust in African countries must be addressed[31]. As such addressing issues such as disclosures, transparency and investor protection would go a long way in spurring the growth of crowdfunding as an alternative capital raising mechanism within the Kenyan capital markets space.

[30] *https://blogs.thomsonreuters.com/answerson/crowdfinancing/*

### *Lessons Learnt:*

Through the regulatory sandbox, the Authority has determined the increasing role of crowdfunding as a capital raising solution, particularly for small and medium enterprises.

Aligning itself with market trends and ensuring proper regulation exists to facilitate the growth of crowdfunding within the domestic market, the Authority has developed guidelines on crowdfunding that will inform operations of the same in the Kenyan industry.

## *4.3 Afro-Asia Fintech Festival Hosted in December 2020*

During the quarter under review the Central Bank of Kenya[32] in collaboration with the Monetary Authority of Singapore hosted the Afro-Asian Fintech Nairobi online event between 07th to 09th December 2020.This event was part of the Singapore Fin Tech Festival (SFF) a global evented hosted by the Monetary Authority of Singapore which ran from 07th to 11th December 2020.This event attracted an attendance of more than 14,000 people compared to 2,000 people who attended the same event in 2019.The event was hosted through a blend of virtual meetings leveraging satellites and physical meeting in other locations due to the Covid-19 situation.

The theme of this event was ***People and Talent: Harnessing Collaboration in pursuit of Resilience and Growth post Covid-19***[33].The key take aways from the event were; Digitization of Small and Medium Enterprises(SMEs) operations should be prioritized market given that SMEs are the main contributors to the GDP in various countries and will be very instrumental in the recovery of economies from the Covid-19 pandemic impact. Digitization of the operations of SMEs would promote the following aspects; financial services access, development of businesses and access to the market.

Secondly it was agreed that more partnerships between the private and the public would come in handy in building digital ecosystems and finally, financial institutions should embark on sustainable finance which enhances links between corporations and the community and comprises of people, purpose and Planet. This event was the second one of its kind to be hosted in Kenya, after the first one which was hosted on 07th May 2019 as a result of collaboration between Monetary Authority of Singapore and Central Bank of Kenya.

The main objective[34] of this collaboration was for Kenya to get support from Singapore's central bank in developing basic digital infrastructure services for Kenya such as data, identity and Know-Your-Customer infrastructure which will come in handy in breaching identified gaps in the financial ecosystem and leveraging on technology in improving people's lives. The Monetary Authority of Singapore remains a great benchmarking point for Kenya as it has promoted the use of fintech and incorporated this in their operations.

Some of the technologies utilized by MAS in its FinTech Ecosystem include Artificial Intelligence, APIs, Blockchain/Distributed Ledger Technology, Cloud, Cybersecurity, Digital ID and e-Know Your Customer, IP protection and Regtech. In achieving its objectives and its FinTech roadmap, MAS relies on collaborations with other institutions such as the Global Financial Innovation Network, ASEAN Financial Innovation Network, International Technology Advisory Panel, among others. During the Covid-19 pandemic, MAS announced a $125 million support package on 08th April 2020 for the financial and FinTech sectors in order to promote recovery and growth in these sectors.

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*[30] https://blogs.thomsonreuters.com/answerson/crowdfinancing/*
*[31] Crowdfunding in Africa: Opportunities and Challenges https://link.springer.com/chapter/10.1007/978-3-030-46309-0_14*
*[33] https://www.centralbank.go.ke/uploads/press_releases/866115559_Press%20Release%20-%20CBK%20at%20the%20Singapore%20Fintech%20Festival-December%202020.pdf*
*[34] https://www.mas.gov.sg/news/media-releases/2019/singapore-and-kenya-establish-fintech-cooperation-at-inaugural-afro-asia-fintech-festival*

Additionally, the Central Bank launched a $6 million Fintech grant to support operations, retention of employees and in offsetting POC costs in Fintech firms within Singapore.

## Lessons Learnt:

Singapore is considered one of the global leaders in the promotion of fintech solutions within the financial sector. Cognizant of the potential that technology and fintech related innovations provide to developments in the financial and capital markets industry, the Authority launched its regulatory sandbox in April 2019 to facilitate such innovations.

The Central Bank of Kenya recently launched Kenya's National Payments System Vision and Strategy covering the period 2021-2025. Anchored on different national policies, key amongst them the Government's digital economy blueprint, the strategy's vision is "to enhance Kenya's global leadership in digital payments by building a world-class, secure, resilient and collaborative payments system that powers Kenya's economy and its journey towards cash-lite."

Capital markets transactions are highly centered around efficient payment systems. The Authority will forge strategic collaborations and partnership with the Central Bank of Kenya in ensuring that payment solutions and other integrated technological solutions within the financial sector are supported and well-regulated for maximum benefit to the innovators, business operators and policy makers alike.

### *Table 8: Measures Undertaken by Monetary Authority of Singapore in Promoting Fintech*

| | Initiative | Major Characteristics |
|---|---|---|
| 1 | Grants for Innovation | MAS gives grants for innovations. |
| 2 | Trade Finance | Digitization of trade finance through a cross-border Distributed Ledger Technology (DLT). |
| 3 | Regulatory Sandbox | A platform that allows for flexed regulatory requirements and allows various technologies and innovations to be tested live. |
| 4 | API Exchange | Open platform which can be used by financial institution s in designing,discovering and implementation of FinTech solutions. |
| 5 | Project Ubin | A project that aims at exploring the use of Blockchain and Distributed Ledger Technology (DLT) in the clearing and settlement of payments and securities by Central Banks. |
| 6 | Business sans Borders | A global hub that focuses on the digitization of Small and Medium Enterprises. |
| 7 | SGFinDex(Singapore Financial Data Exchange) | This is the first world's first public digital system which allows individuals to access their financial information and their portfolios in all Government agencies and financial institutions through digital applications. This comes in handy in helping the general public to evaluate their financial position at any particular time. |
| 8 | Singapore FinTech Festival | MAS hosts the world's largest FinTech festival annually which brings together different players and FinTech supporters in order to collaborate, connect and come up with ideas that will in turn solve matters relating to financial ecosystems. |
| 9 | E-Payments | MAS has developed different platforms to ensure quick access of payments and outlining the roadmap of the electronic payments which is a key pillar in promoting financial inclusivity and innovation. |

*Source: FSD Africa (2016)*

[35]https://www.mas.gov.sg/development/fintech/covid-19-support-package-for-fintechs

## 4.4 Kenya Signs an Economic Partnership Agreement with the United Kingdom

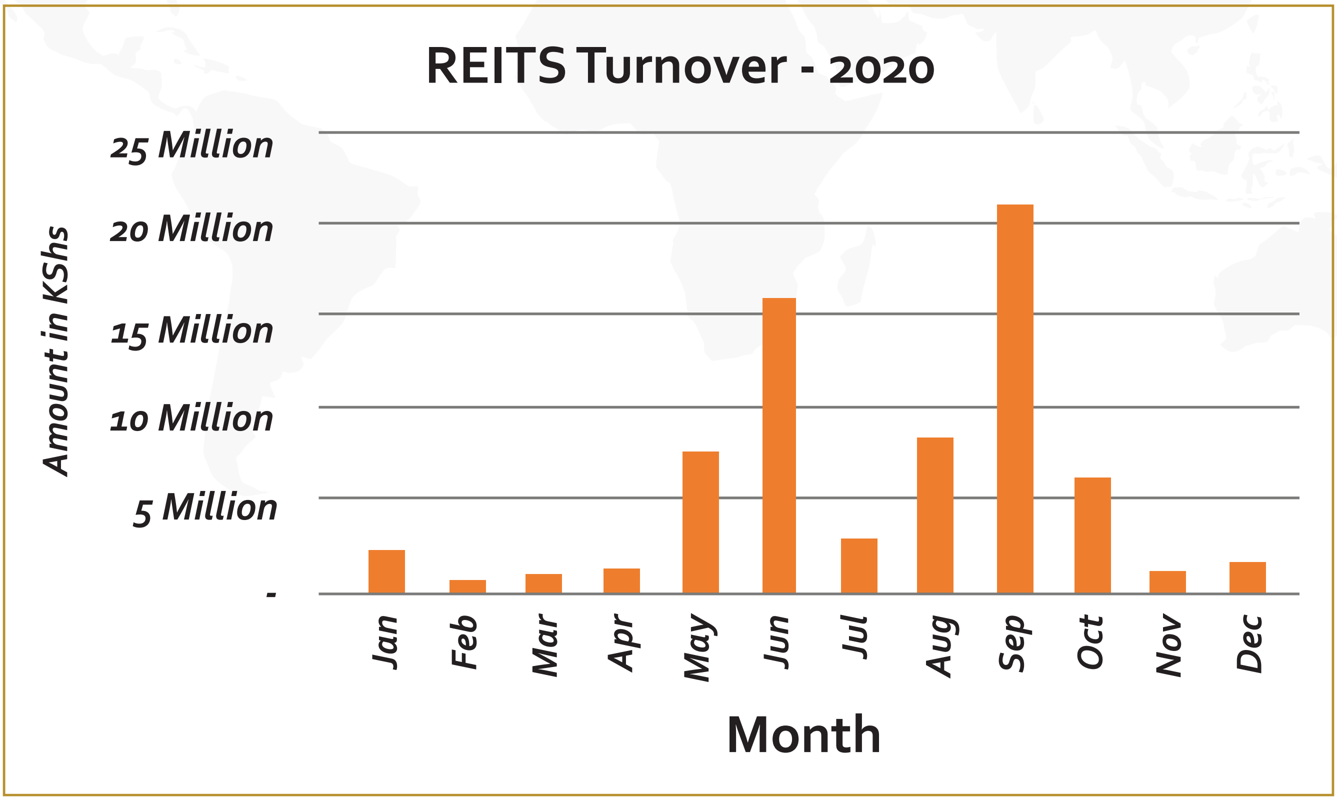
Locally, the recent Kenya – UK trade pact signed on December 8, 2020 is timely enough to ensure the flow of goods and services between the trade partners once Britain formally leaves the European Union. Kenya's main exports to Britain include tea, flowers, and vegetables with the total annual trade between the two countries valued at up to Kshs 200 billion.[36]

The Economic Partnership Agreement would allow all British and Kenyan companies domiciled in Kenya to enjoy duty free access to the UK markets and would also benefit the over 2000 UK businesses that export to Kenya. The importance of the free trade agreement can also be highlighted by the fact that over 40% of export vegetables from Kenya are destined to UK as well us 9% of all cut flowers. As such, the companies in Kenya providing the goods have some relief especially in the face of economic hurdles brought about by Covid-19. Provisions stipulated in the trade agreement take effect on January 1, 2021 and has clauses that allow other East African countries to join later[37].

## 4.5 Acorn granted REIT Manager Licence and approval to list new REITs

In the last quarter of 2020, the Capital Markets Authority granted Acorn a REIT Manager licence and approval to list new REITs at the Nairobi bourse. The firm plans on to use d-REITs to finance its students' hostels development with a further goal of converting them to i-REITs once the projects are complete and occupation-ready.

**Figure 11: Summary of Performance of REITs in 2020**




Source: CMA/NSE *December figures are as at December 24, 2020

[36] https://www.reuters.com/article/kenya-britain-trade-idUSKBN28I28o
[37] UK and Kenya sign trade agreement https://www.gov.uk/government/news/uk-and-kenya-sign-trade-agreement

During the year, where foreign participation and local investment in the NSE was mostly cautious, REITs provided an alternative investment class where investors could channel any liquid cash to diversify from their other holdings. The highest turnovers of the listed REITs so far were recorded in the second half of 2020.

## 4.6 CMA Approves Kshs4 billion Centum Medium-Term Note

In the quarter ended December 2020, the Authority also approved a Kshs 4 billion bond for Centum plc to finance its housing projects through its subsidiary Centum Real Estate Limited. The tenure of the bond is 3 years and is a zero-coupon bond issued at a rate on the 3-year treasury bond plus a market margin. The offer to subscribe in the bond expired on December 2, 2020 and provides an opportunity for investors seeking exposure in the real estate sector returns while avoiding the direct risks unique to property developers. Earlier this year, the listed firm retired its Kshs 6.6 billion corporate bond having paid all principal, interest due and a variable return on the equity linked component of the security. This previous performance and repayment of its listed bonds is an assurance to the new bond investors on the management of company in protecting their investments.

In addition to this, such debt instruments issued at a time deemed to be the beginning of the post-Covid 19 recovery period, the capital markets remain a suitable choice for capital raising initiatives by listed firms and issuers of securities. Current construction finance by capital markets stands at 5% with the banking sector taking up the lion's share of 95% according to the Africa Housing Finance Yearbook 2020[38]. Therefore, there is potential for the capital markets to bridge the gap and be a source of cheap capital to spur the real estate and construction sector in 2021 and beyond.

The Kenya Mortgage Refinance Company (KMRC) which began its lending services in September 2020 is also playing a crucial role in helping achieve affordable housing for Kenyans. As part of the roles of a mortgage refinance institution, KMRC would float bonds to private and institutional investors in the market and act as the bridge between mortgage providers and the capital markets. Other benefits include making mortgages in Kenya more affordable and as a result increase home ownership in Kenya.

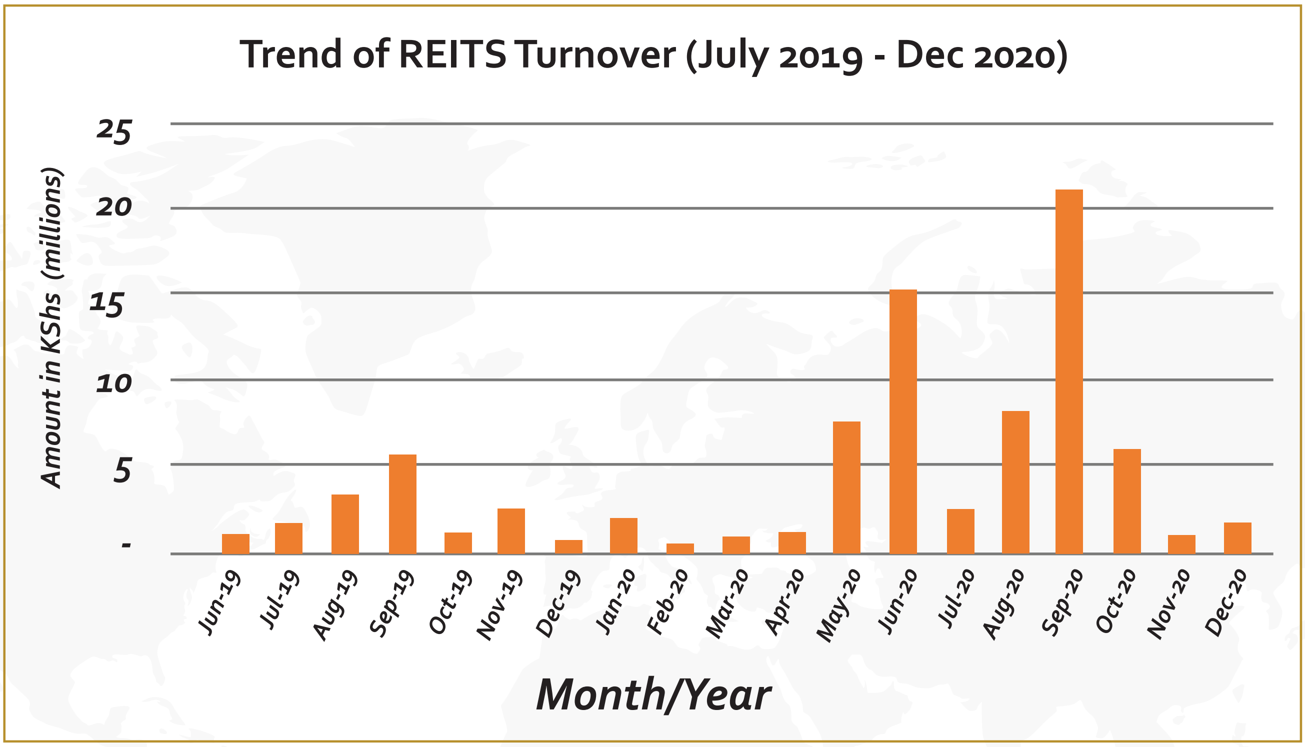
## 4.7 Performance of Alternative Asset Classes Listed at the NSE – REITs and ETFs

For the better part of second half of 2020, REITs markets thrived when there was uncertainty globally as a result of Covid-19 crisis. The REITs market however, saw significant decrease in turnover during the quarter, recording a REIT turnover value of Kshs. 9.76 Million, a 70.70% decrease compared to Kshs. 33.31 Million recorded in Q3 (Oct – Dec) 2020.

Although the REITs market remains lucrative due to the exemption from income tax as stipulate in Section 20 of the Income Tax Act, REITs markets has generally performed below expectations. In this regard, the Authority recently drafted and circulated the draft Income Tax (Real Estate Investment Trusts) Rules, 2020 and exposed the same to the public. The regulations are meant to operationalize section 20(c) and (d) of the Income Tax Act on exemption of REITs. The Authority is further working on policy framework to see how to revive the market which remains at nascent stage.

[38] *Africa Housing Finance Yearbook 2020 http://housingfinanceafrica.org/app/uploads/V13-Kenya.pdf*

### *Fig 14: Trend of Performance of Real Estate Investment Trusts in Kenya (July 2019 - Dec 2020)*




*Source: CMA/NSE*

In the onset of Covid -19 in Kenya in March 2020, Similarly, investors in the gold-backed exchange traded fund at the Nairobi Securities Exchange (NSE) enjoyed increased activity in the value of their holdings as shown in high turnover levels in figure 15 following a sharp rise in the global price of the precious metal as gold is seen as a safe haven investment at times of economic shocks.

However, the listed new gold ETF declined significantly during the quarter as an ETF turnover value of Kshs. 10.88 Million was recorded in Q4(Oct – Dec) 2020, an 88.93% decrease from Kshs. 98.27 Million recorded in the previous quarter.

### *Lessons Learnt:*

The onset of the pandemic increased investor interest in alternative asset classes such as REITs and ETFs as investors sought to protect the value of their investments away from equities, considered sensitive to economic cycles.

While increased activity was witnessed in the second and third quarters of the year 2020, the drop in performance in the listed ETF largely portrays resumption of investor activity on the traditional instruments – bonds and equities. This could be anchored on an anticipated recovery of economies as well as market activity as the impact of the pandemic subsides and increased largescale vaccinations expected in 2021.
To further increase liquidity in the industry, the Authority is in the process of implementing a 2-year COVID-19 induced strategy that aims to introduce products such as securities lending and borrowing, market making and intra day trading. It is our hope that through these initiatives, the turnover ratios within the industry will rise from the observed levels well before 2% quarter on quarter through the year 2020.

[36] *https://www.reuters.com/article/kenya-britain-trade-idUSKBN28I28o*
[37] *UK and Kenya sign trade agreement https://www.gov.uk/government/news/uk-and-kenya-sign-trade-agreement*

In addition, the Authority is working together with the National Treasury and the Privatization Commission in pursuing privatization of some state enterprises in the coming years.
Additionally, the Authority has forwarded an advisory to the Government on the need to consider divestitures as a possible mechanism for use by the Government in raising funds to bridge budgetary shortfalls in the face of the pandemic while equally giving the public a chance to own a stake in some of the state owned agencies in Kenya.

## 4.8 Summary of Performance in the Domestic Economy

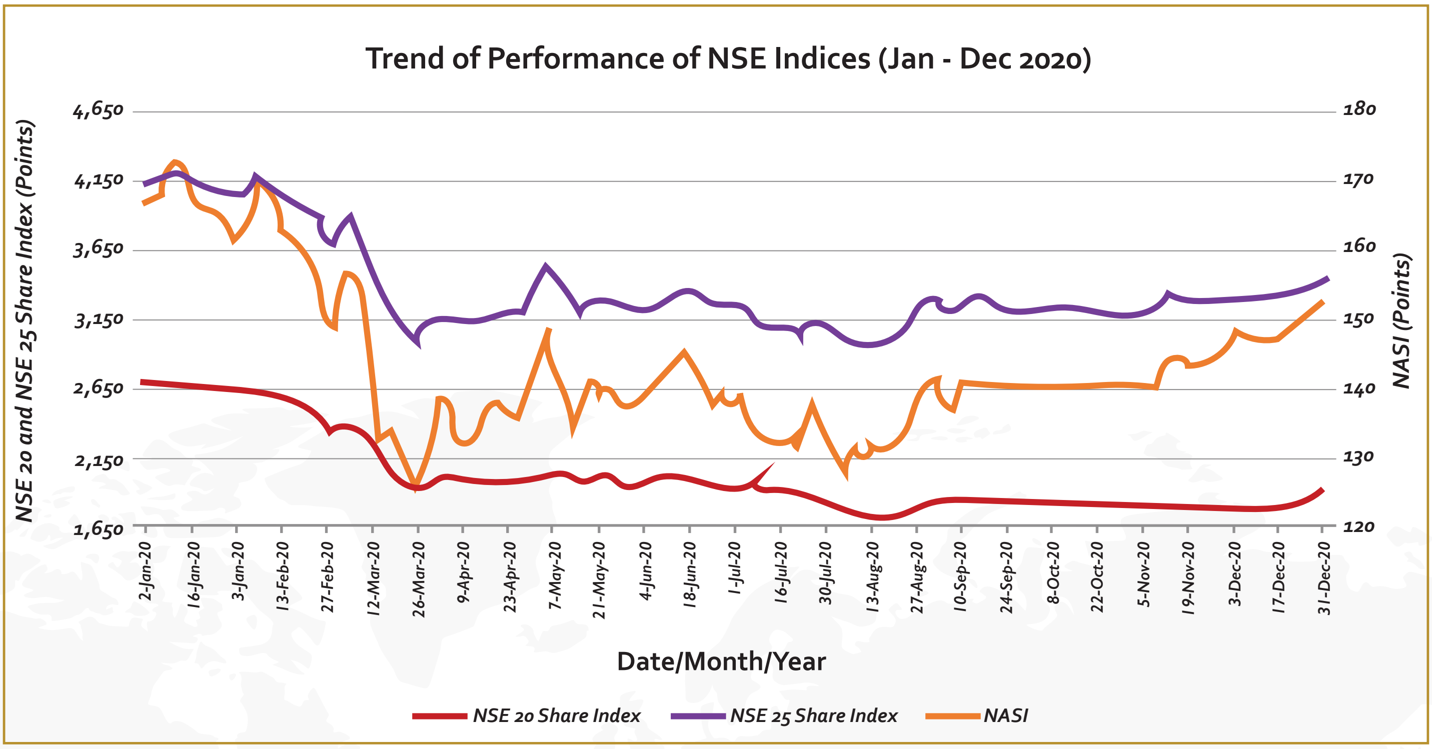
### 4.8.1 Performance of Equity Markets

*Table 9: Summary of Equity Markets Performance*

| Year | Month | Equity Turnover ( Kshs Bn) | Share Volume (Mn) | NASI | NSE 20 Index | NSE 25 Index | Market Cap (Kshs Bn) |
|---|---|---|---|---|---|---|---|
| Q1 2020 | Jan | 12.3 | 336.0 | 162.1 | 2,600.4 | 4,023.4 | 2,473.9 |
| | Feb | 12.3 | 385.6 | 148.6 | 2,337.0 | 3,662.7 | 2,267.6 |
| | Mar | 19.1 | 639.3 | 131.9 | 1,966.1 | 3,109.0 | 2,016.1 |
| | **Total** | **43.7** | **1,360.9** | | | | |
| Q2 2020 | April | 12.7 | 439.0 | 139.7 | 1,958.1 | 3,292.6 | 2,135.0 |
| | May | 14.6 | 430.3 | 137.1 | 1,948.1 | 3,203.9 | 2,095.9 |
| | June | 12.3 | 552.6 | 137.7 | 1,942.1 | 3,217.1 | 2,104.3 |
| | **Total** | **39.6** | **1,421.9** | | | | |
| Q3 2020 | July | 13.5 | 517.1 | 133.2 | 1,804.1 | 3,059.6 | 2,036.0 |
| | Aug | 10.5 | 470.6 | 139.7 | 1,794.9 | 3,223.8 | 2,144.4 |
| | Sep | 13.9 | 524.5 | 139.9 | 1,852.3 | 3,258.8 | 2,147.7 |
| | **Total** | **37.9** | **1,512.2** | | | | |
| Q4 2020 | Oct | 5.88 | 219.42 | 140.04 | 1,783.68 | 3,170.87 | 2,150.06 |
| | Nov | 11.39 | 381.02 | 145.20 | 1,759.93 | 3,264.15 | 2,229.49 |
| | Dec | 10.24 | 369.13 | 152.11 | 1,868.39 | 3,415.24 | 2,336.70 |
| | **Total** | **27.5** | **969.57** | | | | |

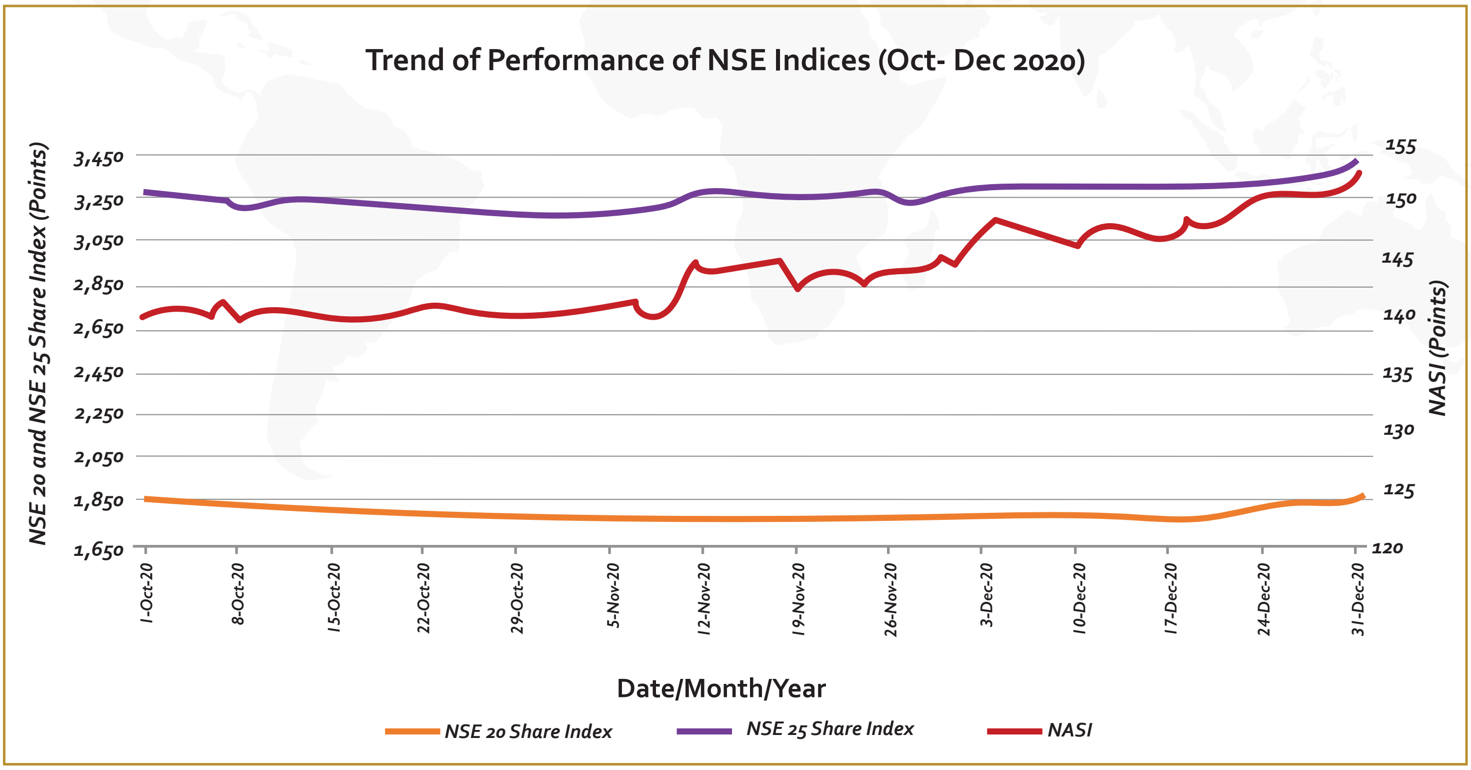
*Source: CMA/NSE*

## Fig 16: Trend of Performance of NSE Indices (Jan 2020 - Dec 2020)




Source: CMA/NSE

## Fig 17: Trend of Performance of NSE Indices During the Quarter (Oct - Dec) 2020




Source: CMA/NSE

[36] https://www.reuters.com/article/kenya-britain-trade-idUSKBN28I28o

[37] UK and Kenya sign trade agreement https://www.gov.uk/government/news/uk-and-kenya-sign-trade-agreement

## 4.8.2 Performance in the Bond Market

### a. Treasury Bond Market

In the primary treasury bonds market, a quarterly analysis indicates that during Q4. 2020, Six (6) Treasury bonds were issued. In issuing these bonds, the Government sought to raise KShs. 130 Billion but received subscriptions worth KShs. 149.46 Billion. In the end, however, the Government accepted bonds worth KShs. 131.99 Billion, indicating an 88.31% acceptance rate.

**Table 10: Treasury Bond Performance (Jan - Dec 2020)**

| | BOND | Amount Issued (Kshs. Bn) | Amount Received (Kshs. Bn) | Amount Accepted (Kshs. Bn) | % AA/AI | % AR/AI |
|---|---|---|---|---|---|---|
| Jan 2020 | FXD 1/2019/5 | 50.00 | 44.52 | 44.49 | 88.98 | 89.04 |
| | FXD 1/2019/5 | | 25.43 | 19.26 | 38.52 | 50.86 |
| Feb 2020 | FXD 1/2020/15 | 50.00 | 18.44 | 5.19 | 10.38 | 36.88 |
| | FXD 1/2018/25 | | 24.06 | 22.68 | 45.36 | 48.12 |
| Mar 2020 | FXD 1/2018/20 | 50.00 | 19.82 | 8.27 | 16.54 | 39.64 |
| | FXD 1/2018/25 | | 15.34 | 14.64 | 29.28 | 30.68 |
| Apr 2020 | IFB1/2020/9 | 60.00 | 68.41 | 39.01 | 65.02 | 114.02 |
| | Tap Sale | 21.00 | 37.84 | 35.39 | 168.52 | 180.19 |
| May 2020 | FXD1/2020/5 | 50.00 | 34.53 | 20.78 | 41.56 | 69.06 |
| | FXD1/2020/5 | 30.00 | 20.58 | 8.95 | 29.83 | 68.6 |
| Jun 2020 | IFB1/2020/6 | 25.60 | 21.16 | 19.28 | 75.31 | 82.66 |
| | FXD3/2019/5 | 40.00 | 60.89 | 16.53 | 41.33 | 152.22 |
| | FXD4/2019/10 | | 44.25 | 32.80 | 82.00 | 110.62 |
| Jul 2020 | FXD1/2020/05 | 60.00 | 65.34 | 9.34 | 15.57 | 108.90 |
| | FXD2/2018/10 | | 55.49 | 21.27 | 34.45 | 92.48 |
| | FXD1/2019/15 | | 60.95 | 50.24 | 83.73 | 101.58 |
| | Tap Sale | 40.00 | 40.26 | 41.01 | 102.53 | 100.65 |
| Aug 2020 | IFB1/2020/11 | 70.00 | 101.47 | 78.64 | 112.34 | 144.96 |
| Sep 2020 | FXD2/2010/15 | 50.00 | 17.84 | 11.02 | 22.04 | 35.68 |
| | FXD1/2020/15 | | 49.79 | 45.69 | 91.38 | 99.58 |
| | FXD1/2011/20 | | 14.04 | 7.47 | 14.94 | 28.08 |
| Oct 2020 | FXD 1/2011/20 | 50.00 | 23.16 | 16.99 | 33.98 | 46.32 |
| | FXD 1/2018/25 | | 45.98 | 43.03 | 86.06 | 91.96 |
| Nov 2020 | FXD 2/2013/15 | 40.00 | 27.10 | 26.22 | 65.55 | 67.75 |
| | FXD 1/2018/20 | | 28.88 | 27.49 | 68.73 | 72.20 |
| Dec 2020 | FXD 1/2012/15 | 40.00 | 9.26 | 8.55 | 21.38 | 23.15 |
| | FXD 1/2019/15 | | 15.08 | 9.71 | 24.28 | 37.70 |

*Source: CMA/NSE*

### *Table 11: Summary of Annual Treasury and Corporate Bond Turnover*

| | Treasury Bond Turnover (Kshs Bn) | Corporate Bond Turnover (Kshs Bn) | Total Bond Turnover (Kshs Bn) |
|---|---|---|---|
| 2019 | 651.35 | 3.70 | 655.06 |
| 2020 | 690.58 | 1.18 | 691.76 |

The value of bonds traded in the secondary market at the NSE hit an all-time high of Kshs.691.76 billion in 2020, boosted by demand for Government securities that outperformed all other investment classes in returns during the year.

The bond market turnover increased by 5.60 per cent with KShs.691.76 Billion worth of bonds traded compared to Kshs.655.06 Billion traded in the same period for the year 2019. A further comparison of bonds market, treasury bond turnover accounted for 99.83 per cent.

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

### *b. Corporate Bond Market*

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

## *4.8.2 Performance of listed companies*

### *Table 12: Price Gainers*

| Counter | 30th Sep, 2020 | 31st Dec, 2020 | % change |
|---|---|---|---|
| NAIROBI BUSINESS VENTURES LTD | 0.66 | 4.28 | 548.48% |
| BK GROUP PLC | 12.15 | 20.50 | 68.72% |
| BAMBURI CEMENT LTD | 23.55 | 37.85 | 60.72% |
| CARBACID INVESTMENTS LTD | 8.14 | 12.10 | 48.65% |
| DIAMOND TRUST BANK LTD | 60.00 | 75.00 | 25.00% |
| STANDARD GROUP PLC | 18.65 | 22.50 | 20.64% |
| EVEREADY EAST AFRICA LTD | 1.00 | 1.20 | 17.36% |
| JUBILEE HOLDINGS LTD | 242.00 | 284.00 | 16.30% |
| NCBA GROUP PLC | 23.00 | 26.75 | 15.32% |
| SAFARICOM PLC | 29.70 | 34.25 | 14.03% |

*Source: www.thegfin.com*

## *Nairobi Business Ventures (NBV)*

During the quarter, Nairobi Business Ventures (NBV) was suspended at Nairobi Securities Exchange (NSE) from trading on 14th October 2020 and later the suspension was extended to 16th November 2020 to allow for its restructuring which involved share split, allotment, issuance of shares to Delta International FZE, and subscription agreement between NBV and Delta. Delta International pumped Kshs.83 million into the NBV business, shifting the firm from the business of selling shoes and leather accessories to manufacturing, importing, and selling raw materials used by cement and steel processors and other firms in the infrastructure sector. According to the NSE, the listed company successfully listed an additional 415 Million shares at the bourse, thereby finalizing its restructuring process and subsequently onboarding a new investor, Delta International (FZE). The lifting of the suspension in the trading of the securities was approved by the Capital Markets Authority (CMA) on November 30, 2020.

## *Carbacid Investment Ltd*

According to Carbacid Investments Plc 2020 Annual Report[39], revenues for Carbacid Investment was Kshs.683 million which was 8% over the previous year which has highly contributed to increase in shares of Carbacid. The company continued to make progress in pursuit of its strategy and in building customer-oriented company by providing end to end carbon dioxide stock management. Carbacid Investments is also targeting to acquire BOC Kenya which could have contributed to the gain in price as investors react to the move.

### *Table 13: Price Losers*

| Counter | 30th Sep, 2020 | 31st Dec, 2020 | % change |
|---|---|---|---|
| E.A. PORTLAND CEMENT CO.LTD | 14.85 | 11.00 | 25.93% |
| CENTUM INVESTMENT CO. PLC | 20.30 | 16.05 | 20.94% |
| EXPRESS KENYA LTD | 4.32 | 3.61 | 16.44% |
| HF GROUP PLC | 3.97 | 3.32 | 16.37% |
| SAMEER AFRICA PLC | 3.85 | 3.25 | 15.58% |
| NATION MEDIA GROUP LTD | 17.90 | 15.45 | 13.69% |
| LIMURU TEA CO.LTD | 400.00 | 360.00 | 10.00% |
| WPP SCANGROUP PLC | 6.66 | 6.00 | 9.91% |
| STANDARD CHARTERED BANK KENYA LTD | 160.00 | 144.25 | 9.84% |
| CROWN PAINTS KENYA PLC | 42.00 | 38.00 | 9.52% |

*Source: NSE*

During the quarter, and generally year 2020 a number of listed companies shares prices declined due to the difficult business environment as a result of impact of Covid-19. The hard economic environment impacted the performance of several listed companies as a result many issued cautionary profit warning statement.

[39] *https://africanfinancials.com/document/ke-carb-2020-ar-00/*

## 5.0 Capital Markets Stability Soundness Indicators for the Period October – December 2020

| Stability Indicator | Quarter/ Year | Market Statistics | | | | Assessment of Risk Level | Performance Brief for the Quarter | Inference & Ongoing Intervention Measures |
|---|---|---|---|---|---|---|---|---|
| ***1.0 Equity Market Depth*** | | | | | | | | |
| NSE 20 Index Volatility<br><br>Base Year = 2010 | Q4.2020 | Oct | Nov | Dec | Q.Avg | Medium (indicative – Low < 1% Medium: >1% high; >10%) | The average NSE 20 Share Index volatility for the period 1st October to 31st December 2020 was 0.35% which a drop from the 0.59% quarterly volatility recorded in the previous two quarters.<br><br>Similarly, the NASI Index volatility for Q4.2020 averaged is 0.52% compared to the Q3.2020 average of 0.63%. | During the last quarter of 2020, the main indices showed less volatility in the market compared to the other periods in the year. During the quarter, most businesses experienced a slowed return to work with the Government relaxing some of the restrictions including international travel. The participation of the Authority in the World investor week, held in October 2020, cements the pivotal role that financial literacy plays in enhancing understanding and uptake of capital market products and increasing market activity. |
| | | 0.21% | 0.44% | 0.39% | 0.35% | | | |
| | Q3.2020 | July | Aug | Sep | Q.Avg | | | |
| | | 0.66% | 0.70% | 0.41% | 0.59% | | | |
| | Q2.2020 | April | May | June | Q.Avg | | | |
| | | 0.59% | 0.77% | 0.41% | 0.59% | | | |
| | Q1.2020 | Jan | Feb | Mar | Q.Avg | | | |
| | | 0.44% | 0.45% | 1.06% | 0.65% | | | |
| NASI Volatility Base Year = 2010 | Q4.2020 | Oct | Nov | Dec | Q.Avg | Medium (indicative – Low < 1% Medium : >1% high; >10% ) | | |
| | | 0.35% | 0.67% | 0.55% | 0.52% | | | |
| | Q3.2020 | July | Aug | Sep | Q.Avg | | | |
| | | 0.73% | 0.73% | 0.43% | 0.63% | | | |
| | Q2.2020 | April | May | June | Q.Avg | | | |
| | | 1.01% | 1.14% | 0.51% | 0.89% | | | |
| | Q1.2020 | Jan | Feb | March | Q.Avg | | | |
| | | 0.50% | 0.64% | 1.35% | 0.83% | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Turnover Ratio** | **Q4.2020** | **Oct** | **Nov** | **Dec** | **Q.Sum** | **Low (indicative – annual: <8%-Low; >15% High)** | Turnover ratio for the last quarter of 2020 summed at 1.22% with the month of November recording highest turnover value of 0.51%. | Turnover ratios for the 2020 calendar year have been below 2% mostly due to the covid-19 pandemic and its effects on the capital markets<br>The Authority believes that interventions in the capital markets will be crucial in the post-epidemic recovery strategies of the country. During the period, the regulator has been facilitative in bringing more products and licensees into the market such as the recent approval of Acorn Investment Management Limited to be a REIT Manager and the subsequent approval for the firm to issue development and income REITs to the market. |
| | | 0.27% | 0.51% | 0.44% | 1.22% | | | |
| | **Q3.2020** | **July** | **Aug** | **Sep** | **Q.Sum** | | | |
| | | 0.64% | 0.49% | 0.65% | 1.56% | | | |
| | **Q2.2020** | **April** | **May** | **June** | **Q.Sum** | | | |
| | | 0.59% | 0.69% | 0.58% | 1.86% | | | |
| | **Q1.2020** | **Jan** | **Feb** | **March** | **Q.Sum** | | | |
| | | 0.50% | 0.54% | 0.94% | 1.98% | | | |
| ***2.0*** | ***Foreign Exposure Risk*** | | | | | | | |
| **Foreign Investor turnover as a % of total turnover** | **Q4.2020** | **Oct** | **Nov** | **Dec** | **Q.Avg** | **Medium (indicative – annual: <40%-Low; >90% High)** | Foreign investor participation in the quarter ended December 2020 was and 65.97% compared to the Q3.2020 average of 67.10% recorded. | Generally, the bourse has experienced a net foreign outflow for all the four quarters under review. This trend is not unique to the Kenyan capital markets as most investors liquidated their positions so at to prevent any erosion of value from the effects of the coronavirus pandemic.<br><br>With foreign investor participation ranging between 60% and 70% there are opportunities for local investors to take positions in the market at a bargain in time for the expected economic post-recovery |
| | | 68.16% | 67.97% | 61.79% | 65.97% | | | |
| | **Q3.2020** | **July** | **Aug** | **Sep** | **Q.Avg** | | | |
| | | 60.62% | 65.14% | 75.55% | 67.10% | | | |
| | **Q2.2020** | **April** | **May** | **June** | **Q.Avg** | | | |
| | | 64.96% | 65.38% | 63.43% | 64.59% | | | |
| | **Q1.2020** | **Jan** | **Feb** | **Mar** | **Q.Avg** | | | |
| | | 60.60% | 62.81% | 60.01% | 61.14% | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Net Foreign Portfolio Flow (In KES Millions)** | **Q4.2020** | **Oct** | **Nov** | **Dec** | **Q.Sum** | **High (indicative – annual: <Kshs (50million) -High (outflow; >KShs. 50 million High inflow)** | Net Foreign Portfolio for Q4.2020 totaled to an outflow of Kshs 2,668 Million compared to the quarterly outflow sum of Kshs 4528 Million in the previous quarter. This figures are an improvement from the outflows of Kshs 10,250 Million and Kshs 11,184 Million recorded in Q2.2020 and Q1.2020 respectively. | |
| | | (1128) | (1186) | (354) | (2668) | | | |
| | **Q3.2020** | **July** | **Aug** | **Sep** | **Q.Sum** | | | |
| | | (5,339) | 10 | 802 | (4528) | | | |
| | **Q2.2020** | **April** | **May** | **June** | **Q.Sum** | | | |
| | | (4,098) | (4,462) | (1,690) | (10,250) | | | |
| | **Q1.2020** | **Jan** | **Feb** | **Mar** | **Q.Sum** | | | |
| | | 530 | (2,656) | (9,058) | (11,184) | | | |
| ***3.0*** | ***Market Concentration Risk*** | | | | | | | |
| **Market Concentration (Top 5 companies by market cap)** | **Q4.2020** | **Oct** | **Nov** | **Dec** | **Q.Avg** | **High (indicative – annual: >50% High concentration)** | Since the end of Q2.2020, the top five companies by market capitalization has accounted for about three quarters of the total market capitalization recording values of of 75.43%, 76.24% and 77.78% in quarters two, three and four, respectively. | With a market cap of Kshs 1,362.22 Billion recorded in the trading week ended December 24, 2020 The telecommunication sector accounted for 59.02% of the total market concentration partly attributable to the slight share price increase of Safaricom plc.<br><br>Notwithstanding, the market has also seen some counters enter into top 5 weekly equity turnover showing investors' interest outside the common telecommunication and banking counters. |
| | | 77.20% | 77.96% | 78.19% | 77.78% | | | |
| | **Q3.2020** | **July** | **Aug** | **Sep** | **Q.Avg** | | | |
| | | 75.61% | 76.14% | 77.03 | 76.24% | | | |
| | **Q2.2020** | **April** | **May** | **June** | **Q.Avg** | | | |
| | | 74.36% | 75.53% | 76.39% | 75.43% | | | |
| | **Q1.2020** | **Jan** | **Feb** | **Mar** | **Q.Avg** | | | |
| | | 74.36% | 74.43% | 73.66% | 74.15% | | | |

## 4.0 Derivatives Trading Statistics

| Indicator | Instrument | Oct-20 | Nov-20 | Dec-20 | Q4. Sum | Risk | Comment | Outlook |
|---|---|---|---|---|---|---|---|---|
| Total Volume (No. of contracts) | 25-Share Index | - | - | | - | Low | In the month of October the total number of contracts traded were 35 compared to 41 in November. The Safaricom SSF remained dominant accounting for 46 contracts traded in the two months out ofa total of 76 . In the spot market, the Safaricom share increased in value increasing its market cap to about 59% of the total market capitalization. | The derivatives market continued to show activity despite the challenging year that global financial markets faced in the 2020 calendar year. The derivatives market remains an alternative to investors wanting to diversify their portfolios from the usual spot market products as well as being able to protect their downside due to falling share prices. |
| | SCOM SSF | 14 | 32 | | 46 | | | |
| | EQTY SSF | 14 | 2 | | 16 | | | |
| | KCBG SSF | 7 | 7 | | 14 | | | |
| | EABL SSF | - | - | | - | | | |
| | BATK SSF | - | - | | - | | | |
| | ABSA SSF | - | - | | - | | | |
| | **Total** | **35** | **41** | | **76** | | | |
| Gross Notional Exposure (GNE)[40] | 25-Share Index | - | - | | - | Low | The total value (Gross Notional Exposure) of contracts traded in November 2020 totaled Kshs. 1.32 Million whereas that of October 2020 was slightly lower to close the month at Kshs 1.17 Million. | |
| | SCOM SSF | 412,460 | 994,390 | | 1,406,850 | | | |
| | EQTY SSF | 498,000 | 68,070 | | 566,070 | | | |
| | KCBG SSF | 263,940 | 254,020 | | 517,960 | | | |
| | EABL SSF | - | - | | - | | | |
| | BATK SSF | - | - | | - | | | |
| | ABSA SSF | - | - | | - | | | |
| | **Total** | **1,174,400** | **1,316,480** | | **2,490,880** | | | |
| Total Open Interest[41] (No. of Contracts) | 25-Share Index | - | - | | - | Low | Safaricom interests expectedly had the most open interest contrast in October and November averaging to- | |
| | SCOM SSF | 412,460 | 994,390 | | 1,406,850 | | | |

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

| | | | | |
|---|---|---|---|---|
| EQTY SSF | 17 | 18 | | 18 |
| KCBG SSF | 10 | 15 | | 13 |
| EABL SSF | 3 | 3 | | 3 |
| BATK SSF | - | - | | - |
| ABSA SSF | 1 | 1 | | 1 |
| **Total** | 72 | 85 | | 79 |

-44 contracts out of the total average open interest contracts of 79. The 25-Share index and ABSA contracts had the least; each recording an average of 1 open interest contract during the two months under review.

**Settlement Guarantee Fund (SGF) Coverage[42] for Derivatives**

| | Oct-20 | Nov-20 |
|---|---|---|
| SGF | 187,459,485 | 188,520,673 |
| Average Mkt Value | 90,338.46 | 131,648.00 |
| **SGF Coverage** | **2,075 times** | **1,432 times** |

**Low**

The SGF coverage ratio for the derivatives market as at end of October 2020 was 2075 times compared to November 2020 recorded coverage of 1432 times, showing increased sufficiency in coverage from figures recorded in the previous quarter.

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

**SGF Coverage of Clearing Member 1 and Clearing Member 2[43]**

| | Oct-20 | Nov-20 |
|---|---|---|
| SGF | 187,459,485 | 188,520,673 |
| Avg Value CM1 | 58,065.77 | 82,758.50 |
| Avg Value CM2 | 32,272.69 | 48,889.50 |
| SGF Coverage CM1 | **3,228 times** | **2,278 times** |
| SGF Coverage CM2 | **5,809 times** | **3,856 times** |

**Low**

SGF Coverage for both clearing members remains sufficient with CM1 and CM2 recording coverage of 2,278 times and 3,856 times respectively in November 2020.

*[42] An indicator of the level of coverage the SGF provides for the derivatives market. It is the total SGF amount divided by the average value of all positions in the derivatives market*
*[43] Total SGF Amount/Average value of the positions of CM1 and CM2.*

## 5.0 Government Bond Market Exposure

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Treasury Bond market turnover Concentration** | **Q4.2020** | **Oct** | **Nov** | **Dec** | **Q.Avg** | **High (indicative – annual: >50% High concentration)** | During the fourth quarter, Treasury bond turnover averaged at **99.78%** compared to the Q3.2020 average of **99.94%** . during the last quarter of 2020, CMA approved the issue of a Kshs 4 Billion MTN by Centum plc. | The Kenyan bond market continues to be skewed towards Government bond market During the year under review, relative oversubscription of short term T-bills have led to reduced yields offered compared to past years. The 90-day T-bills providing yields of **6.93%**, that of the 182-day T-bills stood at **7.40%**, while yield on the 364-day T-bill stood at **8.34%** in the week ended December 24, 2020. During the same month, , the Central Bank of Kenya published a prospectus for a two-year fixed coupon treasury bond and a (new) sixteen-year amortized infrastructure bond i.e., the **FXD1/2021/002 and IFB1/2021/016** with a total value of **Kshs 25 Billion** and **Kshs 50 Billion**, respectively |
| | | 99.90% | 99.90% | 99.55% | 99.78% | | | |
| | **Q3.2020** | **July** | **Aug** | **Sep** | **Q.Avg** | | | |
| | | 99.99% | 99.84% | 100% | 99.94% | | | |
| | **Q2.2020** | **April** | **May** | **June** | **Q.Avg** | | | |
| | | 99.95% | 100.00% | 100% | 99.98% | | | |
| | **Q1.2020** | **Jan** | **Feb** | **Mar** | **Q.Avg** | | | |
| | | 95.99% | 99.99% | 99.996% | 98.66% | | | |

<table>
<tr>
<td>Corporate Bond Market ownership</td>
<td>
<table>
<tr><th>Category</th><th>No of Trades</th><th>Amount Outstanding (Millions)</th><th>% of total share quantity</th></tr>
<tr><td>Local Investors</td><td>16</td><td>423.80</td><td>80.91%</td></tr>
<tr><td>Foreign Investors</td><td>2</td><td>0.10</td><td>19.09%</td></tr>
<tr><td>E. African Investors</td><td>0</td><td>0</td><td>0.00%</td></tr>
</table>
Source: CDSC Data as at December 2020
</td>
<td>High (indicative – annual: >50% High concentration</td>
<td>Local Corporate bond investors were the leading investors in corporate bonds at 80.91% of the total share quantity and the balance of 19.09% being fully attributed to foreign investors.</td>
<td>In the corporate bond market segment, during the last quarter of 2020, CMA granted approval to Centum Real Estate Limited (Centum Re) to issue secured zero-coupon and secured zero-coupon equity-linked Medium-Term Notes of Kshs4 billion, with a green shoe option of Kshs2 billion. The offer, a restricted issue, targeted sophisticated investors who are sufficiently versed with the risks associated with the notes.</td>
</tr>
<tr>
<td colspan="5">6.0 Investor Profiles - Equity Market</td>
</tr>
<tr>
<td>Equity Market</td>
<td>
<table>
<tr><th>Type of Investor</th><th>No of Trades</th><th>Amount Outstanding (Millions)</th><th>% of total share quantity</th></tr>
<tr><td>Local Investors</td><td>84,343</td><td>767.55</td><td>39.94%</td></tr>
<tr><td>EA Investors</td><td>754</td><td>37.63</td><td>1.96%</td></tr>
<tr><td>Foreign Investors</td><td>18,538</td><td>1,115.78</td><td>58.07%</td></tr>
<tr><td>BR</td><td>99</td><td>0.57</td><td>0.03%</td></tr>
<tr><td>JR</td><td>14</td><td>0.01</td><td>0.0006%</td></tr>
</table>
Source: CDSC Data as at December 2020
</td>
<td>Medium (indicative – annual: >50% High concentration)</td>
<td>Local investors accounted for 39.94% of total shares held in the equity market with 58.07%, being the largest proportion, held by foreign investors at the close of the year 2020.</td>
<td>Foreign corporate entities and investors still hold over 50 per cent of the total equity market share quantity. Nonetheless positive changes has been experienced such as the growth of local investors proportion. With the temporary value erosion experienced in 2020 by most of the listed companies, opportunities to acquire shares at discounted prices has arisen with the hope of appreciation as post-pandemic economic measures are instituted across the global economies and markets</td>
</tr>
</table>

## 7.0 Settlement Compensation Coverage

**Settlement Guarantee Fund (SGF) Coverage Ratio[44]**

| | | | | |
|---|---|---|---|---|
| **Q4.2020** | **Oct** | **Nov** | **Dec** | **Q.Avg** |
| | 3.86 | 2.01 | 2.39 | 2.75 |
| **Q3.2020** | **July** | **Aug** | **Sep** | **Q.Avg** |
| | 1.66 | 2.08 | 1.64 | 1.79 |
| **Q2.2020** | **April** | **May** | **June** | **Q.Avg** |
| | 1.59 | 1.32 | 1.75 | 1.55 |
| **Q1.2020** | **Jan** | **Feb** | **Mar** | **Q.Avg** |
| | 1.77 | 1.55 | 1.17 | 1.50 |

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

The SGF Ratio, computed as the ratio of SGF balances to daily average equity turnover for the month, was highest in the last quarter of 2020 with an average of 2.75 times during the three-month period.
The Guarantee Fund Settlement position closed the year healthily with total balances well over Kshs 1 Billion

Through Risk-based supervision, the Authority has been monitoring the SGF figures and the financial position of the firms to ensure that they are in good standing and that investors are protected.

## 8.0 *Asset Base of Fund Managers, Stockbrokers, Investment Banks*

***Source: CDSC Data as at October2020***

| CMA Licensee | Total Assets | Total Liability | Net Assets |
|---|---|---|---|
| Fund Manager | 6,035,114,672 | 1,412,815,382 | 4,622,299,290 |
| Stockbrokers | 1,744,623,272 | 770,421,118 | 974,202,154 |
| Investmnt Banks | 13,666,687,030 | 4,947,163,339 | 8,719,523,690 |
| Invest Advisors | 2,338,294,951 | 219,184,141 | 2,119,110,810 |
| Online Forex Brokers ( Non-Dealing) | 980,680,180 | 640,262,691 | 340,417,489 |
| **Total** | **24,765,400,104** | **7,989,846,672** | **16,775,553,432** |

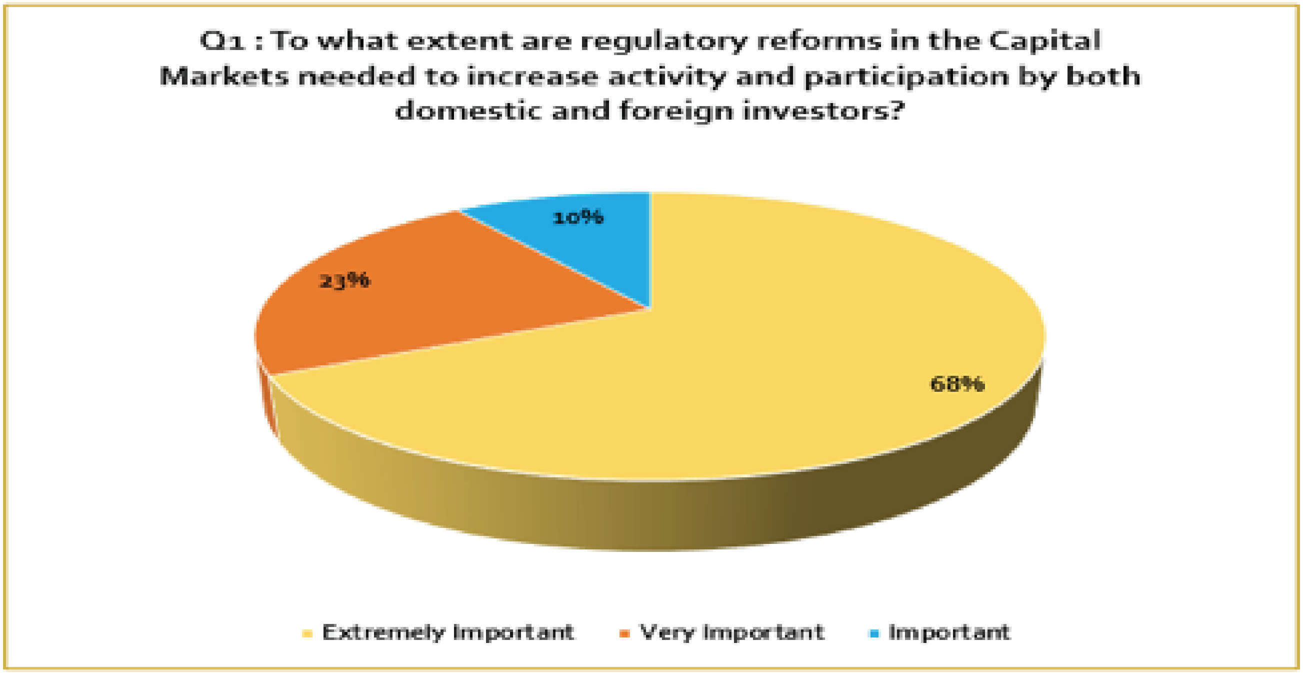
**Medium (Indicative – the higher the figure, the more stable is the market)**

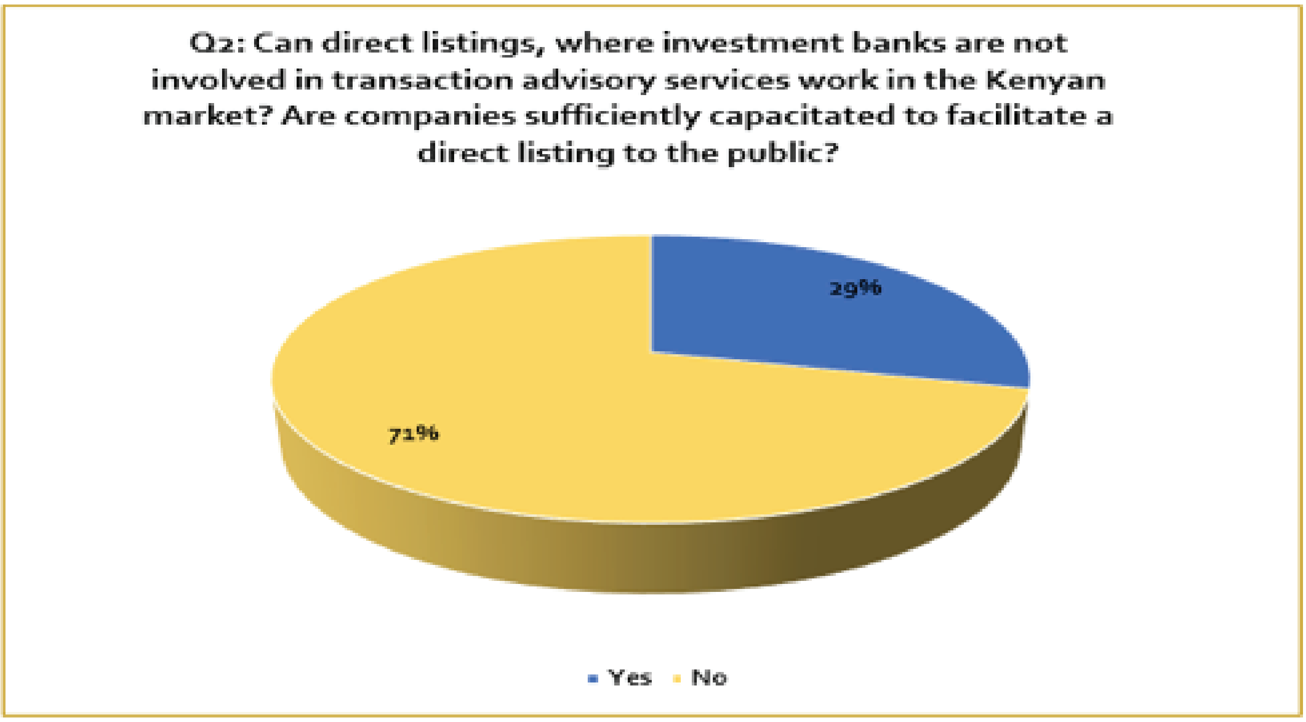
The net assets base of Fund Managers, Stockbrokers, Investment Banks, Investment advisors and online forex brokers as at the end of October 2020 was Kshs 4,622.30 Mn, Kshs 974.20 Mn, Kshs.8,719.52 Mn, Kshs 2,119.11 Mn and Kshs 340.42 Mn respectively.

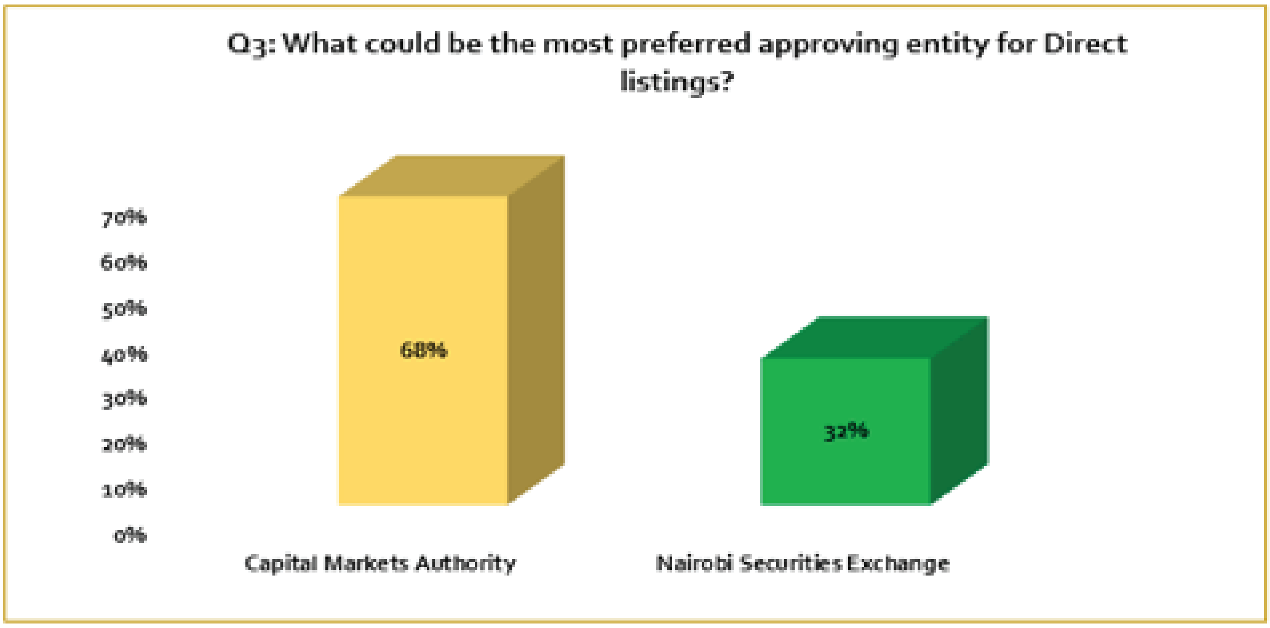
As part of its market deepening strategy, the CMA, with the support of FSD Africa, has onboarded a consultant to review the Capital Markets (Collective Investment Schemes) Regulations, 2001 to make them more robust and facilitative to market dynamics.CMA in Q4.2020 approved the grant of a license to Exinity Capital East Africa Ltdto operate as a Non - Dealing Online Foreign Exchange Broker in line with the Capital Markets Act and the Capital Markets (Online Foreign Exchange Trading) Regulations, 2017.This the fourth Non-Dealing Online Foreign Exchange Broker to be licensed by CMA. The other three are; EGM Securities Ltd (trading as FXPesa), SCFM Ltd (trading as Scope Markets), & Pepperstone Markets Kenya Ltd. In the same quarter, CMA also granted consent to ABSA Asset Management Limited for the registration of Absa Unit Trust Funds which comprise 5 Funds namely; Absa Shilling Fund, Absa Dollar Fund, Absa Bond Fund, Absa Equity Fund and the Absa Balanced Fund. ABSA Asset Management Limited is a fully owned subsidiary of Absa Bank Kenya PLC.

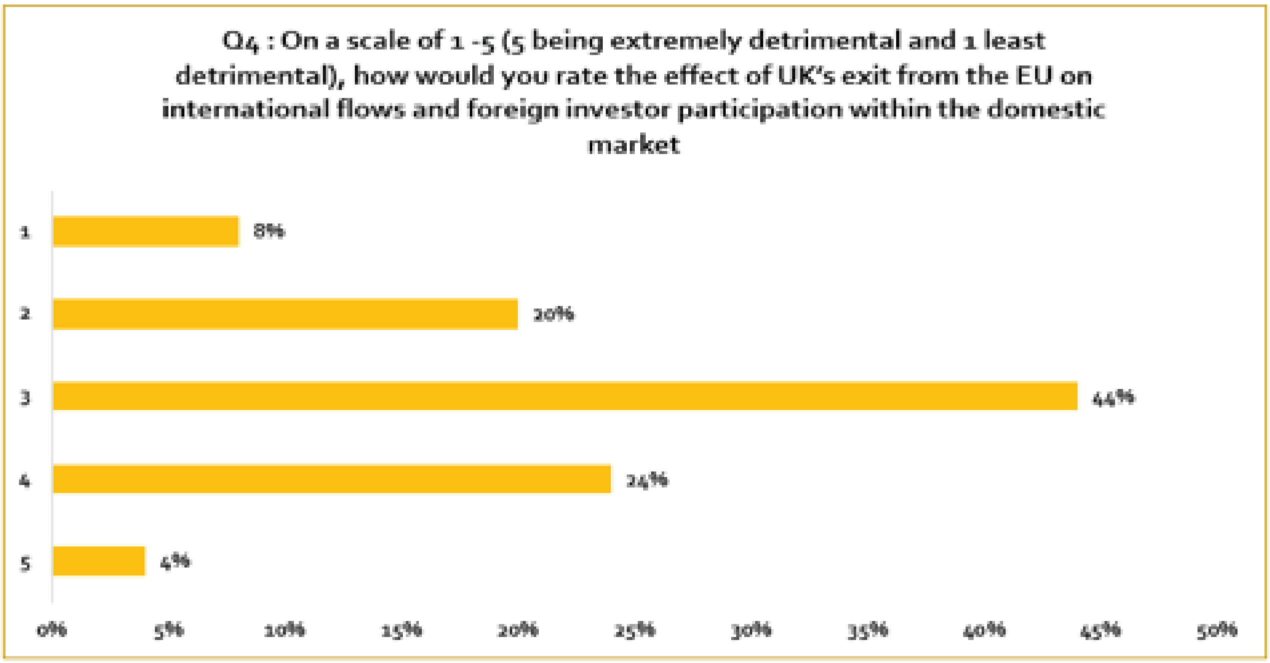
# Annex One

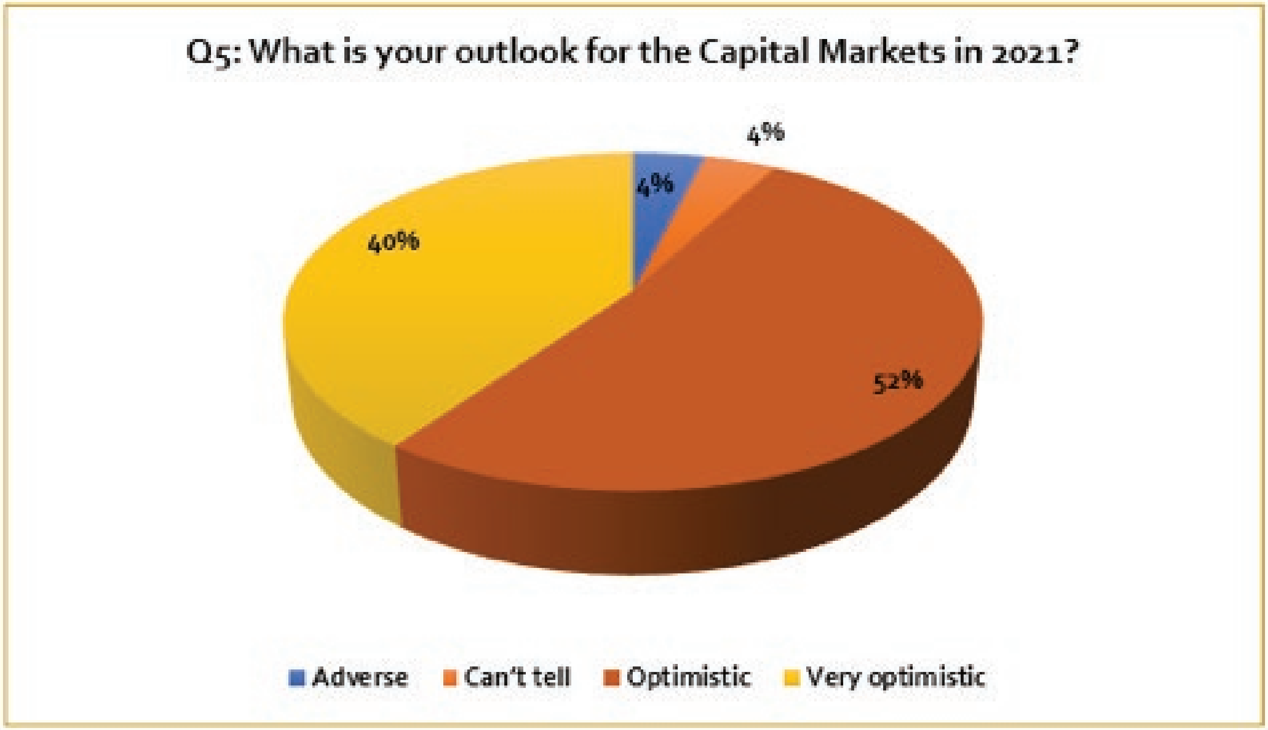
## Outcome of Poll Questions During Soundness Report Volume XVII Stakeholder Engagement held on Monday, 25th January 2021




Q3: What could be the most preferred approving entity for Direct listings?
70%
60%
50%
40%
30%
20%
10%
0%
68%
32%
Capital Markets Authority
Nairobi Securities Exchange


Q4 : On a scale of 1 -5 (5 being extremely detrimental and 1 least detrimental), how would you rate the effect of UK's exit from the EU on international flows and foreign investor participation within the domestic market
1
2
3
4
5
8%
20%
44%
24%
4%
0%
5%
10%
15%
20%
25%
30%
35%
40%
45%
50%


Q5: What is your outlook for the Capital Markets in 2021?
4%
4%
40%
52%
Adverse
Can't tell
Optimistic
Very optimistic