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

The Capital Markets Soundness Report (CMSR)

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Theme: Public Debt: Opportunities Engineered by Covid-19 Pandemic and Risks

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About this Report

The Capital Markets Soundness Report examines global, regional and domestic political and socio-economic events that pose risks to the performance of the capital markets and facilitate informed debate amongst industry players, policy makers and investors on market soundness.

It further links the impact of such events to Kenya's Capital Markets industry to help devise risk mitigation measures, interrogate key market risks to reduce the exposure of capital markets to identified risks as well as utilize the report as a key reference document for collaborative evidence based policy formulation and analysis.

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SPECIAL MESSAGE FROM THE AG. CHIEF EXECUTIVE

Mr. Wycliffe Shamiah, FCPA
Ag. CE, Capital Markets Authority, Kenya

Welcome to the 15th edition of the Capital Markets Soundness Report that covers events in the second quarter of the year 2020. The Authority endeavors to be at the forefront in the dissemination of relevant information about the capital markets sector; and more so during such delicate and evolving times. As the world continues to grapple with the Covid-19 Pandemic, an economic downturn has been triggered in most economies with the occurrences of recessions being probable, with the International Monetary Funds (IMF) projecting advanced economies to decline by up to 7 per cent in 2020.

Labour markets in emerging economies have not been spared either as millions of people have lost jobs while others are experiencing significant reductions in their incomes. This period has also been characterized by a shift in the demand and supply of commodities globally such as the case of oil. However, with gradual easing of restrictions, oil demand has begun to rise from the low prices experienced early this year.

The Authority continues to actively take stock of the ramifications of Covid-19 on our economy and specifically in the capital markets industry, and is up to the task in taking appropriate measures and providing direction and guidance to ensure that the capital markets sector remains functional and robust during this time and beyond and is regularly monitoring the effectiveness of such interventions in consultation with its stakeholders.

Bearing in mind that the current economic effects of the spread of the coronavirus are not unique to our country only, we have taken a keen interest in learning from other economies on best ways to cushion our capital market landscape and at the same time we recognize that, some of the best solutions to our problems have been sourced locally. Consequently, we believe a collaborative approach with our stakeholders in providing specific and effective solutions remains one of the best approaches to combat the emerging challenges brought about by the pandemic.

Lastly, in the second quarter of 2020, whereas investors have generally taken up risk averse approach, it is commendable that many opportunities to create wealth despite the difficult situation in the financial markets are still being exploited. This reiterates the confidence of our investors in our market and hence need for continued synergies among financial sector players in promoting Kenyan market. The Authority remains steadfast in ensuring continuous product development and market deepening to further push this trajectory and to make our market even more attractive.

Stay safe and enjoy the read!

FCPA Wycliffe Shamiah

AG. CHIEF EXECUTIVE

EDITORIAL

Mr. Luke Ombara
Director, Regulatory Policy and Strategy, CMA

This Edition comes at a point where the Covid-19 pandemic is escalating and its impacts are being felt in every aspect of financial markets, as well as our daily lives. We continue to learn important lessons during this period on how to sustain the capital markets and fully leverage opportunities despite the circumstances. Globally, the increasing use of social policy bonds by frontier, emerging and developed markets alike, shows the potential for countries to adopt products specifically to fight against the adverse impact of Covid-19.

Further, we note the direct support by Governments and central banks for capital markets at such times through purchases of a broad and diversified portfolio of corporate bonds and Exchange Traded Funds, primary dealership and other measures to support secondary market liquidity programmes. The Authority continues to advocate for similar interventions in Kenya.

At a local level, the current situation presents a chance for a raft of opportunities to be explored to boost our economy. For instance, the Government's renewed commitment towards the 'Buy Kenya Build Kenya' and most recently an economic recovery strategy, could go a long way in promoting market-based funding for: Micro, Small and Medium Enterprises (MSMEs); State Owned Enterprises; large-cap private companies and Counties, to expansion once the Pandemic is sufficiently managed. The Authority is preparing for this anticipated demand by existing and potential issuers and investors by revising its Public Offers and Collective Investment Schemes Regulations to be more responsive. To support start-ups and innovators in general, CMA Kenya is fast-tracking the development of crowdfunding guidelines.

Even as the policy and regulatory framework is being reviewed, the Authority is proposing that a Guarantee Fund similar to the SME Credit Guarantee Scheme established by the National Treasury and Planning should be set up to support market-based funding (equity / debt).

In the capital market space, innovative products and ideas leveraging on technology could not have come at a much better time and the CMA regulatory sandbox continues to be active with FinTechs testing new solutions that could be transformative to the Kenyan economy.

To fight the economic effects of the spread of coronavirus, we appreciate the current policy interventions implemented to stabilize the capital markets and continue to monitor their effectiveness. Other policy interventions include the emphasis of firms within the sector having business continuity plans during this uncertain period and beyond. In this issue we further propose the establishment of a Covid-19 Capital Markets Monitoring Group/Team to assist in the Authority's efforts towards coordinating with and supporting the COVID-19-related efforts of other financial sectors agencies, as well as County and National committees such as the National Economic Recovery Council.

The capital markets remains poised to be a source of funding for businesses seeking to get back into profitability, and as such industry-wide collaboration to facilitate expected capital-raising initiatives is important.

Happy reading!

Mr. Luke E. Ombara
DIRECTOR, REGULATORY POLICY & STRATEGY

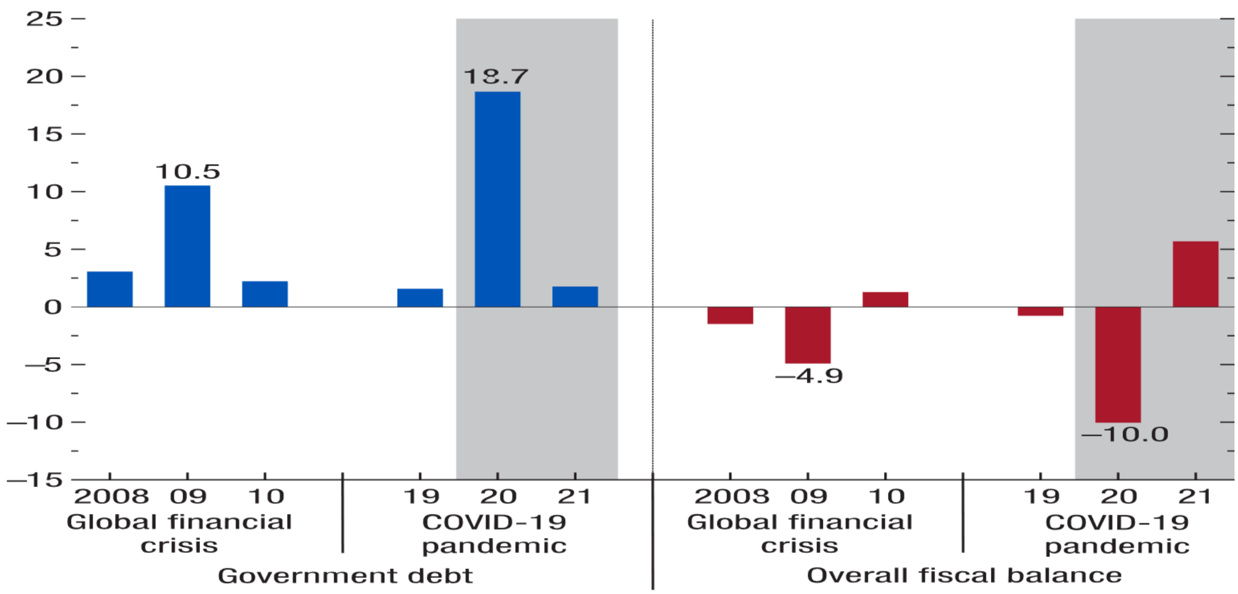
Special feature: ***Public Debt: Opportunities Engineered by Covid-19 Pandemic and Risks***

1.0 Global and regional developments

1.1. Looming Debt Crises and Debt Relief Efforts

The COVID-19 pandemic could potentially trigger a wave of defaults around the world. Before the outbreak of COVID-19, global debt levels reached an all-time high of nearly $253 trillion, about 320% of global GDP. About 70% of global debt is held by advanced economies and about 30% is held by emerging markets. Globally, most debt is held by nonfinancial corporations (29%), governments (27%) and financial corporations (24%), followed by households (19%). Debt in emerging markets has nearly doubled since 2010, primarily driven by borrowing from state-owned enterprises.

Figure 1:Change in Global Government Debt and overall Fiscal Balance (Percent of GDP)



Source: IMF staff estimates.

High debt levels make borrowers vulnerable to shocks that disrupt revenue and inflows of new financing. The disruption in economic activity associated with COVID-19 is a wide-scale exogenous shock that will make it significantly more difficult for many private borrowers (corporations and households) and public borrowers (governments) around the world to repay their debts. COVID-19 has hit the revenue of corporations in a range of industries: factories are ceasing production, brick-and-mortar retail stores and restaurants are closing, commodity prices have plunged (Bloomberg commodity price index—a basket of oil, metals, and food prices—has dropped 27% since the start of the year and is now at its lowest level since 1986), and in some cases domestic travel is being curtailed. Some governments, including Argentina and Lebanon, were already experiencing debt pressures, which have been exacerbated by the pandemic. Other countries are facing new debt pressures created by the pandemic, while some countries, such as Abu Dhabi and Egypt, have completed successful sovereign bond sales since the outbreak of the pandemic.

Households are facing a rapid increase in unemployment and, in many developing countries, a decline in remittances. With fewer resources, corporations and households may default on their debts, absence of government intervention. These defaults will result in a decline in bank assets, making it difficult for banks to extend new loans during the crisis or, more severely, creating solvency problems for banks. Meanwhile, many governments are dramatically increasing spending to combat the pandemic, and are likely to face sharp reductions in revenue, putting pressure on public finances and raising the likelihood of sovereign (government) defaults. Debt dynamics are particularly problematic in emerging economies, where debt obligations are denominated in foreign currencies (usually U.S. dollars). Many emerging market currencies have depreciated since the outbreak of the pandemic, raising the value of their debts in terms of local currency.

Governments have undertaken extraordinary fiscal and monetary measures to combat the crisis. However, developing countries that are constrained by limited financial resources and where health systems could quickly become overloaded are particularly vulnerable.

International efforts are underway to help the most vulnerable developing countries grapple with debt pressures. In mid-April 2020, the IMF tapped its Catastrophe Containment and Relief Trust (CRRT), funded by donor countries, to provide grants to cover the debt payments of 25 poor and vulnerable countries to the IMF for six months. The IMF hopes that additional donor contributions will allow this debt service relief to be extended for two years. Additionally, the G-20 finance ministers agreed to suspend debt service payments for the world's poorest countries through the end of 2020. However, the affected countries are required to formally request for debt relief. The Institute for International Finance (IIF), which represents 450 banks, hedge funds, and other global financial funds, also announced that private creditors will join the debt relief effort on a voluntary basis, nonetheless, some African countries are opting to negotiate debt relief individually with China and other creditor nations because of concerns they will be blocked from financial markets if they participate in the G-20 debt standstill.

1.2. Slump in global oil prices

Global oil prices have been low since emergence of Covid-19 pandemic as companies continue to produce oil even with decreased global demand. Oil prices have fallen so far; selling for a lower price than the cost price for producers in US and Russia. Saudi Arabia has pushed the price below $30.[1]

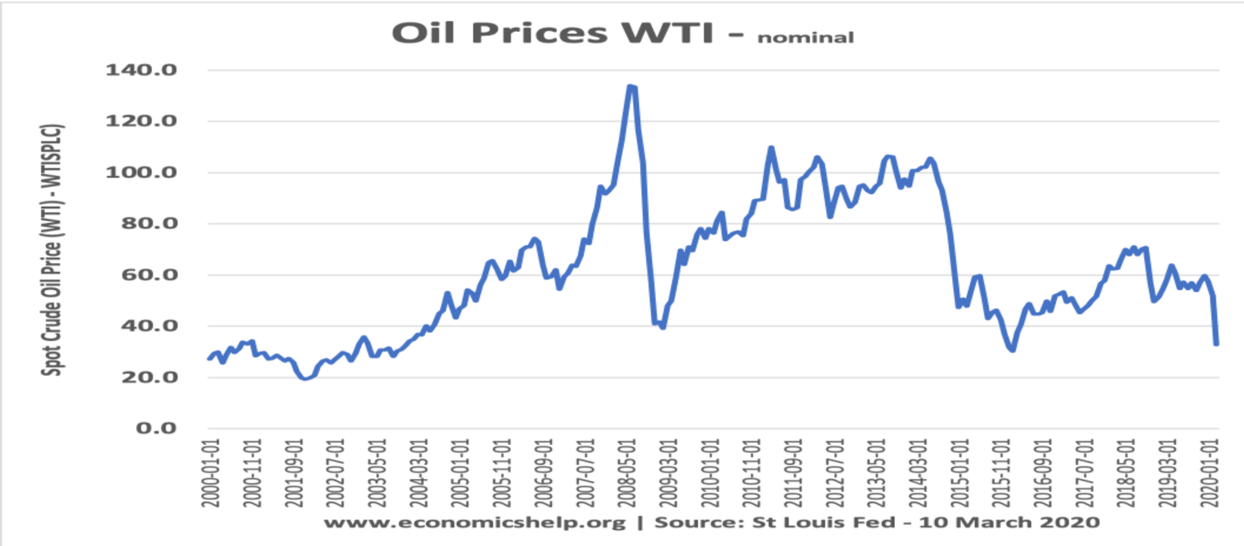
Falling oil prices have had differing effects depending on the country with oil importing countries benefitting from lower oil prices. This has reduced the current account deficit of oil importers; which is important for countries with large current account deficit. However, for oil exporters, a falling oil price has lowered the value of their exports and leading to a lower trade surplus.

Further, the drop in oil prices has led to reduced profitability for alternative energy sources. In recent years, most countries have offered incentives for companies investing in renewable energy and electric cars. A prolonged fall in oil prices will reduce this incentive and encourage firms and consumers to stick with oil. Long - term falling oil prices could also reverse the recent decline in-car use, leading to a steady increase in traffic congestion and environmental costs of petrol use.

The gradual relaxation of restrictions on movement is however gradually raising the demand. Also, several businesses are starting to reopen gradually, and people are returning to work, which will provide a boost to oil demand, albeit a modest one at first.[2]

[1] https://www.cpvmfg.com/news/low-oil-prices-impact-on-international-economy-world-business/
[2] https://www.iea.org/reports/oil-market-report-may-2020?utm_content=buffer44756&utm_medium=social&utm_source=twitter-ieabirol&utm_campaign=buffer

Figure 2:Crude Oil prices from year 2000-2020



1.3. Depreciation of global currencies

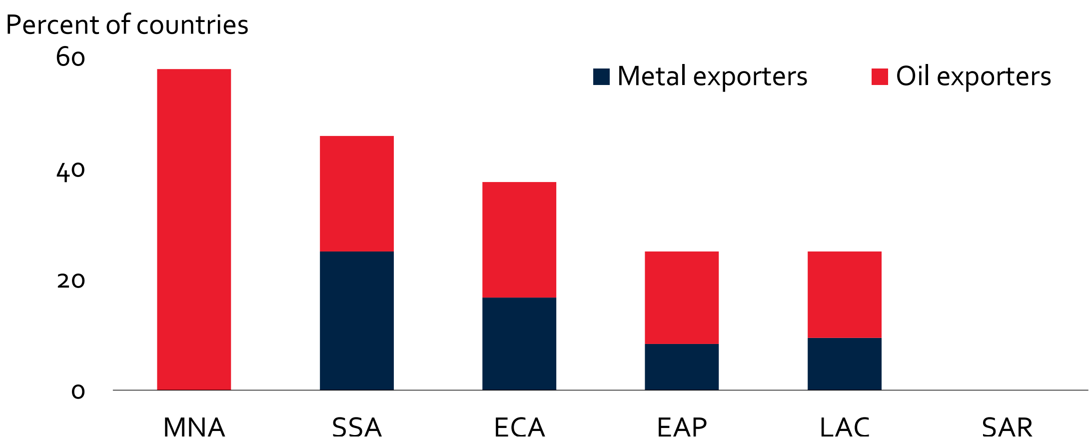
Most of developing and emerging economies are potentially facing health crisis due to funding challenges hence inability to contain the virus. Many of these countries have export driven growth and are therefore particularly vulnerable to the slowdown in global growth. This is particularly so for commodity dependent economies that are seeing a collapse in their terms of trade as export prices sink[3].

According to the World Bank Group's (WBG) June 2020 Global Economic Prospects Report, Commodity prices are projected to remain low in the near term. The decline in commodity prices has destabilized governments and export revenues for industrial commodity exporting emerging market and developing economies (EMDE), where commodities accounted for more than 75 percent of exports in 2019, on average. Middle East and North Africa (MENA) and Sub-Saharan Africa (SSA) have the largest proportion of such countries (almost 60 percent and almost half, respectively). More than a third of countries in Europe and Central Asia (ECA) are industrial commodity exporters, as are a quarter of those in East Asia and Pacific (EAP) and Latin America and the Caribbean (LAC) as shown in the figure below[4].

3 https://www.refinitiv.com/perspectives/market-insights/how-hard-has-covid-19-hit-em-currencies/

4 https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world

Figure 3:Share of industrial commodity exporters by region

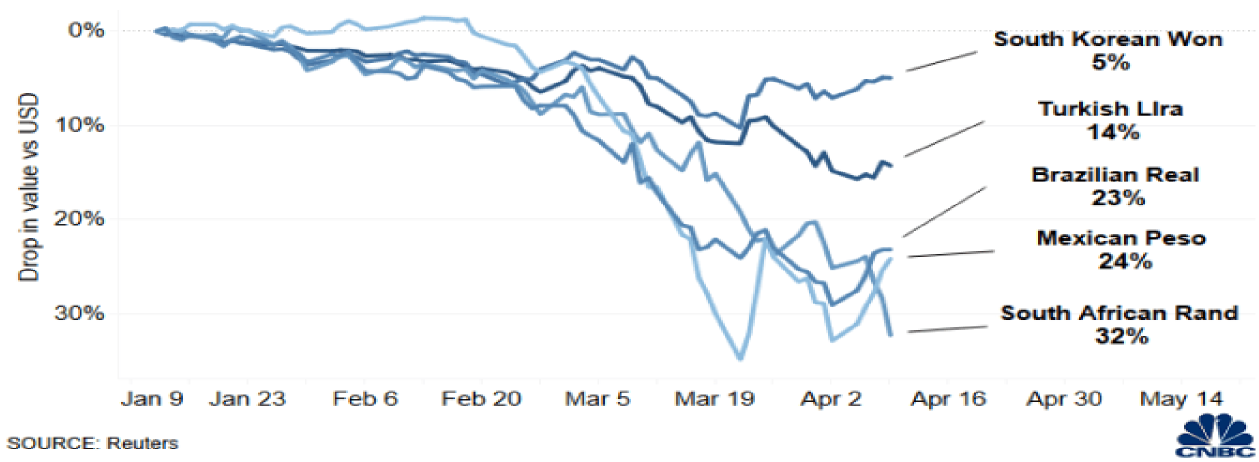


Source: Haver Analytics; World Bank.

Note: EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MNA = Middle East and North Africa, SAR = South Asia, SSA = Sub-Saharan Africa.

Emerging and developing countries in the world are currently facing substantial capital outflows and this could constrain the scope for further conventional monetary policy easing to support growth in respective economies, particularly those with large external financing needs and limited foreign reserve buffers. Also, a significant number of EMDE are dependent on both sovereign and commercial debts which creates risk of defaults and insolvencies as weaker currencies inflate the local servicing cost of this debt.

Figure 4:Emerging Market Currencies

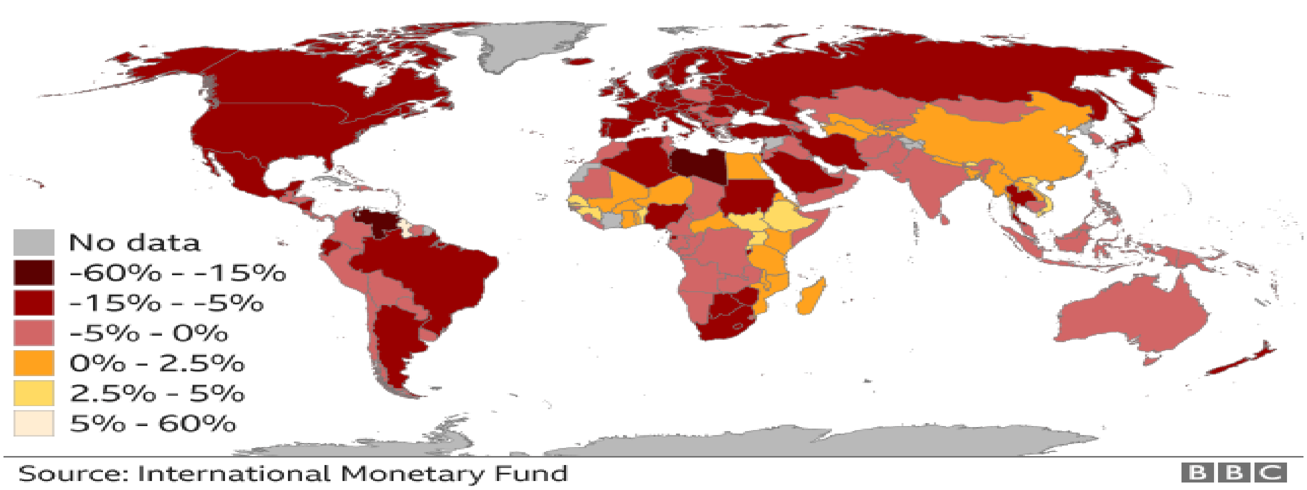


1.4. Global Economy in Crisis as a result of Covid-19 pandemic

The COVID-19 pandemic has spread with astonishing speed to every part of the world and infected millions of people. Some countries have experienced hundreds of thousands of deaths and many more suffering from diminished prospects and disrupted livelihoods. The pandemic represents the largest economic shock the world economy has witnessed in decades, causing a collapse in global activity[5] .

Most countries have imposed measures such as lockdowns, closure of schools and non-essential business, and travel restrictions to limit the spread of COVID-19 and to ease the strain on health care systems. The pandemic and associated mitigation measures have sharply curbed consumption and investment, as well as restricted labor supply and production. The cross-border spillovers have disrupted financial and commodity markets, global trade, supply chains, travel, and tourism. As a result, majority of countries are on the brink of recession as shown in the figure below.

Figure 5:Majority of countries are on the brink of recession (Real GDP growth, Q1 2020)



[5]https://openknowledge.worldbank.org/bitstream/handle/10986/33748/211553-Ch01.pdf?sequence=18&isAllowed=y

Financial markets have been extremely volatile, reflecting exceptionally high uncertainty and the worsening outlook. Flight to safety led to a sharp tightening of global and emerging market and developing economies (EMDE) financial conditions. Equity markets around the world plunged, spreads on riskier categories of debt widened considerably, and EMDEs experienced large capital outflows in much of March and April 2020 that bottomed out only recently. Commodity prices have declined sharply as a result of falling global demand, with oil particularly affected.

Advanced economies are projected to shrink by up to 7 percent in 2020, as widespread social-distancing measures, a sharp tightening of financial conditions, and a collapse in external demand depress activity. Assuming that the outbreak remains under control and activity recovers later this year, China is projected to slow to 1 percent in 2020, the lowest growth it has registered in more than four decades[6].

The recovery is benefitting from exceptional policy support, particularly in advanced economies, and to a lesser extent in emerging market and developing economies that are more constrained by fiscal space. Global fiscal support now stands at over $10 trillion and monetary policies have been implemented through interest rate cuts, liquidity injections, and asset purchases. In many countries, these measures have succeeded in supporting livelihoods and prevented large-scale bankruptcies, thus helping to reduce lasting scars and aiding a potential recovery[7].

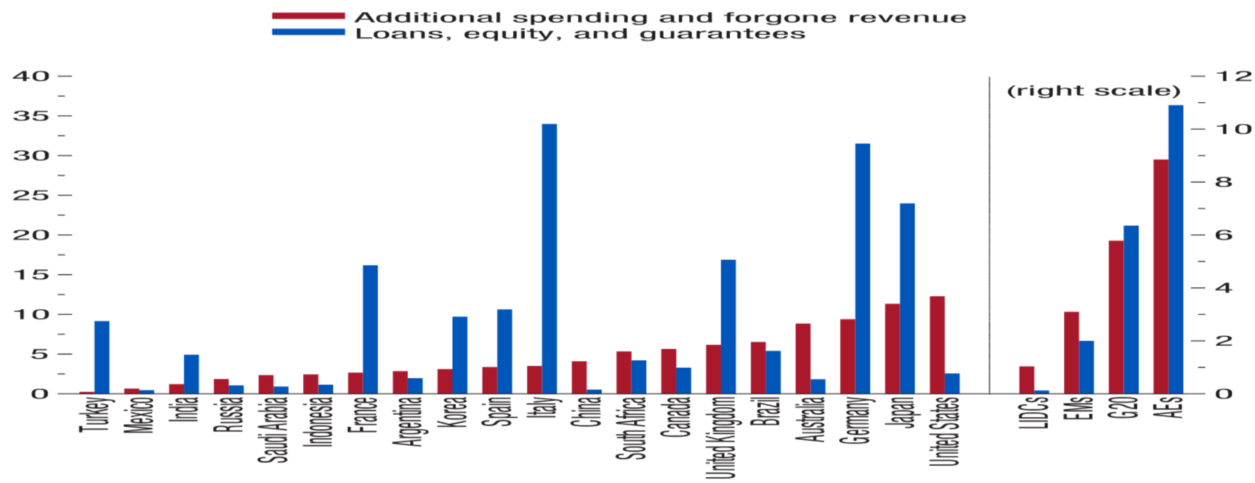
Support from major central banks, has also driven a strong recovery in financial conditions despite grim real outcomes. Equity prices have rebounded, credit spreads have narrowed, portfolio flows to emerging market and developing economies have stabilized, and currencies that sharply depreciated have strengthened. By preventing a financial crisis, policy support has helped avert worse real outcomes. At the same time, the disconnect between real and financial markets raises concerns of excessive risk taking and is a significant vulnerability.

Public debt is projected to reach the highest level in recorded history in relation to GDP in year 2020, in both advanced and emerging market and developing economies. Countries will need sound fiscal frameworks for medium-term consolidation, through cutting back on wasteful spending, widening the tax base, minimizing tax avoidance, and greater progressivity in taxation in some countries.

[6] https://openknowledge.worldbank.org/bitstream/handle/10986/33748/211553-Ch01.pdf?sequence=18&isAllowed=y

[7] https://blogs.imf.org/2020/06/24/reopening-from-the-great-lockdown-uneven-and-uncertain-recovery/

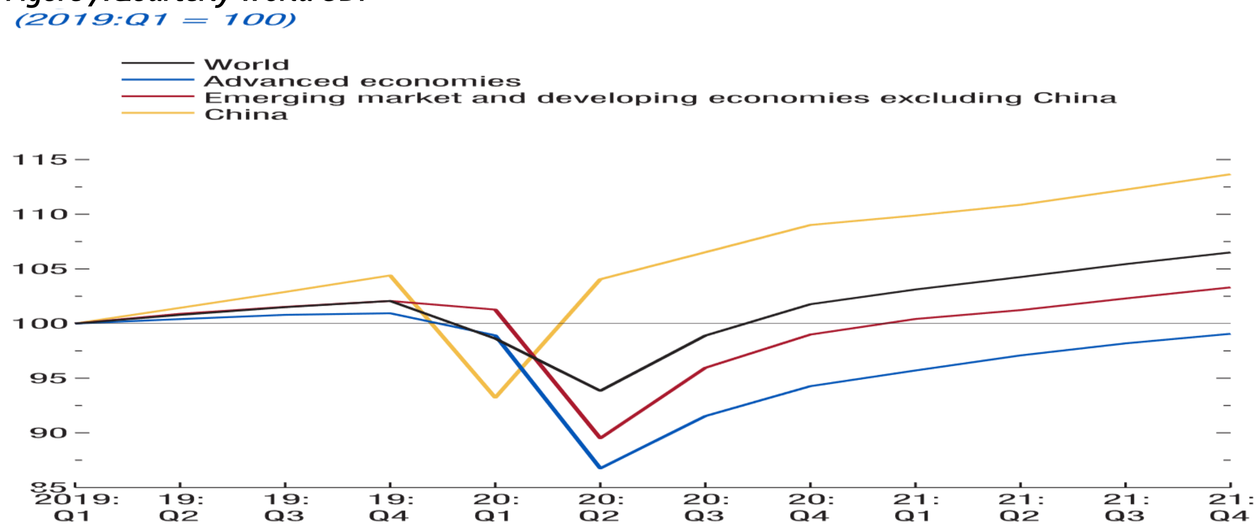
Figure 6:Country Fiscal Measures in response to the Covid-19 Pandemic



***Source**: IMF, June 2020 data*

The International Monetary Fund (IMF) has projected a deeper recession in 2020 and a slower recovery in 2021. Global output is projected to decline by 4.9 percent in 2020, 1.9 percentage points below IMF April 2020 forecast, followed by a partial recovery, with growth at 5.4 percent in 2021. These projections imply a cumulative loss to the global economy over two years (2020–21) of over $12 trillion from this crisis.

Figure 7:Quarterly World GDP



Source: IMF staff estimates.

The COVID-19 crisis is wreaking havoc on labour markets in emerging economies. Millions of people are either losing their jobs or going through significant reductions of their income or working hours, as many labour intensive services sectors are worst affected. Many firms, especially SMEs with little working capital and credit lines, are likely to go bankrupt. A number of countries are rapidly rolling out relief measures, such as cash transfers, wage subsidies, food assistance, tax breaks and credit lines to SMEs, among others as shown in the table below.

Table 1: Fiscal relief packages and key employment measures in emerging economies

Country	Fiscal package (% GDP)	Key employment measures
Brazil	8.0	• Partial compensation to workers that were suspended or had a cut in working hours. • Temporary tax breaks and credit lines for firms that preserve employment.
India	10.0	• Cash transfers for vulnerable groups. • Increase of the wage under employment guarantee scheme. • Permission to 60 million subscribers to withdraw a limited amount of money from pension funds.
Indonesia	2.8	• Income tax exemptions for most affected sectors. • Expansion of existing social assistance schemes, including food aid, cash transfers and electricity subsidies. • Introduction of pre-employment card, which provides aid and training subsidies to unemployed workers.
Mexico	< 1%	• Lending to SMEs who have not laid off workers or reduced salaries. • Loans to workers against their social security accounts.
Nigeria	0.3	• Provision of incentives to employers to retain and recruit staff. • Cash transfers.
Russian Federation	2.8	• Deferrals on taxes and social security contributions to SMEs. • Wage and loan subsidies to SMEs. • Budget grants for SMEs.
Saudi Arabia	2.8	• Authorization to use unemployment insurance fund to subsidize wages.

Country	Fiscal package (% GDP)	Key employment measures
South Africa	10	• Cash payments for workers in the informal sector. • Employment subsidies and income support payments.
Turkey	2.0	• Wage subsidies. • Relaxation of short-term work allowance rules.

Source: UN DESA

1.5. Despite Recession, Stock Markets Turn Positive for the Year

The S&P 500, a leading stock market index, on June 8, 2020 climbed back above where it began the year i.e. before the pandemic affected the United States economy[8].

Figure 8:Percentage change in the S&P 500-year 2020

Source: *Refinitiv*

Reflecting investors' uncertainties, the Dow Jones Industrial Average (DJIA) lost about one-third of its value between February 14, 2020, and March 23, 2020, as indicated in the figure below.

8 https://www.nytimes.com/2020/06/08/business/recession-stock-market-coronavirus.html

Expectations that the U.S. Congress would adopt a $2.0 trillion spending package moved the DJIA up by more than 11% on March 24, 2020. From March 23 to April 15, the DJIA moved higher by 18%, paring its initial losses by half. Since then, the DJIA has trended upward, but moved erratically at times as investors have weighed news about the human cost and economic impact of the pandemic and the prospects of various medical treatments. Between March 23 and 30th June 2020, the DJIA regained 70% of the index valued lost during the February to March decline[9].

Figure 9:Dow Jones Industrial Average Index

Source: *Financial Times. Created by CRS.*

1.6. Measures taken by Governments, Central Banks and Financial Sector Regulators to boost mitigate against the impact of COVID-19

In mitigation, Governments and Central Banks have applied a mix of fiscal and monetary stimulus tools to counteract the disruption. These range from economic stimulus measures like, Corporate Credit Facility (SMCCF) by US Federal Reserve Board which will begin buying a broad and diversified portfolio of corporate bonds to support market liquidity and the availability of credit for large employers,

[9] https://fas.org/sgp/crs/row/R46270.pdf

liquidity injection of RMB 5.8 trillion (gross) by Chinese government into the banking system via open market operations and expansion of re-lending and re-discounting facilities by RMB 1.8 trillion to support various industries and reduction of their interest rates.

Table 2:Measures taken by Governments, Central Banks and Financial Sector Regulators to boost mitigation against the impact of COVID-19

Jurisdiction	Fiscal interventions	Monetary Interventions	Capital Markets Interventions
USA	• US$483 billion Paycheck Protection Program and Health Care Enhancement Act. • US$8.3 billion Coronavirus Preparedness and Response Supplemental Appropriations Act and US$192 billion Families First Coronavirus Response Act.	• Purchase of Treasury and agency securities. • Federal Reserve introduced facilities to support the flow of credit, in some cases backed by the Treasury using funds appropriated under the CARES Act. • Lowered the community bank leverage ratio to 8 percent. • Federal funds rate was lowered by 150bp to 0-0.25bp.	• Secondary Market Corporate Credit Facility (SMCCF), which will begin buying a broad and diversified portfolio of corporate bonds to support market liquidity. • Temporary, Conditional Relief to Allow Small Businesses to Pursue Expedited Crowdfunding Offerings • The Securities and Exchange Commission has formed an internal, cross-divisional COVID-19 Market Monitoring Group.
United Kingdom	• Measures to support businesses (£29 billion), including property tax holidays, direct grants for small firms . • Compensation for sick pay leave. • Strengthening the social safety net to support vulnerable people. • Temporary reductions of the VAT rate for hospitality, accommodation and attractions and the real estate transactions tax. • Increased public spending on infrastructure (including on green projects such as retrofitting houses to improve energy efficiency).	• Reducing Bank Rate by 65 basis points to 0.1 percent. • Launching the joint Treasury—Bank of England Covid Corporate Financing Facility which, together with the Coronavirus Business Interruption Schemes, makes £330bn of loans and guarantees available to businesses. • The Prudential Regulatory Authority (PRA) set out supervisory expectation that banks should suspend dividends and buybacks until end-2020.	• Expanding the central bank's holding of UK government bonds and non-financial corporate bonds by £300 billion. • The key modelling assumptions underpinning the reasonable worst-case scenario will be permitted to be disclosed in an otherwise clean working capital statement. These assumptions may only be coronavirus related. They must be clear, concise and comprehensible. • The FCA has temporarily modified the Listing Rules in regard to Class 1 transactions and related party transactions. • The FCA has encouraged listed companies that are seeking to issue 20% or more of

			their existing share capital to use the simplified prospectus regime introduced in July 2019 which is tailored to secondary issuances.
China	• An estimated RMB 4.2 trillion (or 4.1 percent of GDP) of discretionary fiscal measures have been announced.	• Liquidity injection of RMB 5.8 trillion (gross) into the banking system via open market operations. • RMB 1.8 trillion to support manufacturers of medical supplies and daily necessities, micro-, small- and medium-sized firms and the agricultural sector. • Reduction of interest rates by 50 bps (re-lending facilities) and 25 bps (re-discounting facility). • Targeted RRR cuts by 50-100 bps for large- and medium-sized banks.	• Offering financing incentives to companies from worse-hit regions and to those contributing to epidemic control. • Guiding more social funds to manufacturers of important medical supplies and related R&D companies.
India	• Provision of stimulus packages. • 150 billion rupees devoted to health infrastructure. • Postponing some tax-filing and other compliance deadlines. • Provision of concessional credit to farmers.	• Reduction of the repo and reverse repo rates. • The RBI has provided relief to both borrowers and lenders, allowing companies a three-month. moratorium on loan repayments. • Credit guarantee scheme for public sector banks on borrowings of non-bank financial companies, housing finance companies (HFCs), and micro finance institutions. • On May 22, the RBI eased policy rates by 40 basis points (repo to 4.0 percent and reverse repo to 3.35 percent.	• Securities and Exchange Board of India (SEBI) has provided relaxations to listed entities, 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.

1.7. IPO reforms progressing on ChiNext

The China Securities Regulatory Commission and Shenzhen Stock Exchange finalised soliciting public opinion on the draft rules for the registration-based IPO system on the ChiNext board in May 2020[10].

The China Securities Regulatory Commission expects the new IPO system to be launched on the ChiNext board by end of year 2020. The IPO reform is an expansion of the practice of the STAR Market in Shanghai where China first experimented with the registration-based system in July 2019.

The IPO reform, which has been backed by China's top leadership, marked a major step in allowing market forces to play a bigger role and have a greater say in the pricing and timing of the new share sales. It will also help accelerate the development of the country's emerging and strategic industries by channeling more funds into the country's innovative startups.

Under the registration-based IPO system, companies seeking to list shares on the ChiNext board will no longer need approval from the regulator. The new share sale system emphasizes information disclosure and the stock exchange will review companies' IPO applications based on disclosure rules.

1.8. Issuers Required to report on the Impact of Covid-19 on their operations by Regulators

According to a public statement issued by IOSCO on May 29, 2020, the issuers of securities are now required to report on the impact of Covid-19 pandemic on their operations[11]. This is in a bid to promote investor protection and confidence as they will get insights on the aspects of the company that are not included in the financial statements and annual reports. The Covid-19 pandemic has disrupted the reporting on non-financial issues thus the need to raise the bar higher in terms of reporting on its impact so as to keep investors and the general public abreast with the occurrences in the market.

Additionally, given by the fact that regulators in many countries have flexed the financial reporting and publication deadlines there is need to have reports that will complement the financial statements. Some of the aspects to be captured in these reports include; operation performance, liquidity of the company, future prospects and financial position.

10 https://www.chinadaily.com.cn/a/202005/14/WS5ebc9f3ca310a8b2411558fd.html

11 https://www.iosco.org/library/pubdocs/pdf/IOSCOPD655.pdf

1.9. Investors' appetite for Coronavirus Social bonds

The global Covid-19 crisis is a social issue that threatens the well-being of the world. In addition, many people around the globe are suffering from the downturn brought about by the impact of this crisis on economies. Therefore, this has led to the genesis of a new class of bonds, which are seen as the most prominent bonds in 2020 paving the way for social credit managers to springboard from socially responsible investing to putting money towards addressing or rather mitigating social issues, specifically helping the public and private sectors access the critical capital required to meet health needs, restore economic stability, and preserve jobs. So far, the Governments, institutions and corporates have raised over $151.5 billion by selling Covid-19 response bonds.[12]

This is a clear demonstration that there is potential for countries to leverage on the capital markets to raise funds that can help them fight against the Covid-19. Therefore, countries should consider issuance of social policy bonds to fund health sector and revamp the economy which needs heavy funding at this time as well as tapping into the global appetite for such bonds.

Table 3:Summary of Coronavirus/Social bonds in Select Jurisdictions/Institutions

Jurisdiction/Institution	Period	Description
Members of West African Monetary Union (UEMOA)[13]	April 2020	UEMOA members announced plan to issue $1.4 billion bond on the regional market in response to the Covid-19 crisis. UEMOA's members includes Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal, and Togo.
Togo[14]	May 2020	Togo announced plans to issue Covid-19 social bond on the UEMOA (West African Economic and Monetary Union) stock market, seeking a total of XOF108 billion. The bond was to be issued at multiple rates, have a nominal value of XOF1 million per unit, and mature over three months.

[12] https://www.wsj.com/articles/investors-channel-over-150-billion-into-coronavirus-bonds-11591178004

[13] https://kenyanwallstreet.com/west-african-countries-to-raise-1-4-billion-in-covid-19-bonds/

[14] https://www.togofirst.com/en/public-finance/1205-5516-togo-to-issue-covid-19-bonds-this-week

Jurisdiction/Institution	Period	Description
Ford Foundation, USA[15]	June 2020	The Ford Foundation, non-profit organization in the US launched a plan to issue a 'historic' $1 billion social bond in response to the existential threat caused by Covid-19 to non-profit organizations. In doing so, Ford Foundation said it would be the first non-profit foundation in history to offer a labelled social bond in the US taxable corporate bond market.
Cote d'Ivoire [16]	May 2020	In its Covid-19 social bond issue on the WAEMU securities market on May, Cote d'Ivoire successfully raised a total of CFA180 billion (about $297 million) to support the Ivorian government in the fight against the Covid-19 pandemic.
Spain's Banco Bilbao Vizcaya Argentaria (BBVA)[17]	May 2020	BBVA launched on May, the first social bond to help mitigate the severe social and economic impacts caused as a result of the Covid-19 pandemic. The Spanish entity successfully issued a 1bn Euro 5-year Senior Preferred bond whose proceeds will be used to finance social projects in different areas like healthcare, education, affordable housing or financing for small and medium enterprises.
Council of Europe Development Bank (CEB)[18]	April 2020	CEB issued a €1 billion seven-year maturity COVID-19 Response Social Inclusion Bond whose proceeds will be used to support CEB member countries in mitigating the social and economic impact of the ongoing COVID-19 crisis.

[15] https://www.fordfoundation.org/ideas/equals-change-blog/posts/extraordinary-times-extraordinary-measures/

[16] https://www.ecofinagency.com/public-management/0505-41325-cote-d-ivore-raised-297mln-in-the-second-covid-19-social-bond-issue

[17] https://www.bbva.com/en/bbva-is-the-first-private-financial-institution-in-europe-to-issue-a-covid-19-social-bond/

[18] https://www.coe.int/en/web/portal/-/ceb-issues-social-inclusion-bond-in-response-to-covid-19-pandemic

Jurisdiction/Institution	Period	Description
African Development Bank (AfDB)[19]	March 2020	AfDB sold a three-year $3 billion bond as part of its efforts to offer financial supports to countries and businesses fighting against the global Covid-19 pandemic. The bond with coupon rate of 0.75 per cent was oversubscribed attracting orders in excess of $4.6 billion. The bond was later listed on the London Stock Exchange (LSE).
International Finance Corporation (IFC)	March 2020	IFC sold a $1 billion dollar-denominated social bond.
Inter-American Development Bank (IADB)	March 2020	IADB launched a five-year dollar denominated social bond.

Source: IMF

[19] https://kenyanwallstreet.com/afdb-sells-3-billion-fight-covid-19-bond/

1.10. Rwanda International Financial Centre inks deal with UK's Finance Institute

In the review period, the Kigali International Financial Center signed a partnership agreement on 16th June 2020 with CDC Group, the UK's development finance institution and impact investor. The agreement signed virtually among other things provides for KIFC to gain and benefit from CDC Group's expertise to support the ongoing development of the new international financial centre.

Among the provisions of the agreement is that CDC will provide expertise that will help shape a strong legal and regulatory framework at Kigali International Finance Centre designed to attract institutional investors seeking to finance African businesses. The deal is part of the implementation and actualize the Kigali International Financial Centre, a project working to reform the financial services sector overseen by Rwanda Finance Limited. The reforms are under three key pillars; laws and regulations within the financial service sector, the tax policy as relates to the financial sector, and skills and capacity development as relates to the financial service sector.

1.11. Ethiopia to Set Up Regulator for its first Stock Exchange

Ethiopia has drafted a bill to create a stock market authority that will come into effect before the end of the year, according to its Ministry of Finance. Ethiopia is among the biggest five economies in sub-Saharan Africa and the second largest by population but does not have a stock market. Since Prime Minister Abiy Ahmed came to power in 2018, the country has pursued economic reforms, including opening formerly closed-off sectors such as telecommunications.

Table 4:Measures taken by Kenyan financial sector players to mitigate the adverse effects of the coronavirus pandemic

Institution	Interventions
Capital Markets Authority	• Approval for payment of dividends to shareholders before the AGM; • Flexed reporting requirements-lifting of the publishing of financial statements on two newspapers. Listed companies are now require doing this through their websites, but those who can do the former are encouraged to follow through with it; and • Listed companies' Boards allowed to appoint and decide on the remuneration of auditors.
Central Bank of Kenya	• CBK on June 24 extended the waiver on mobile money transaction fees under Sh1,000 for another six months after the initial 90-day period lapsed • At its last meeting in June, the Monetary Policy Committee left its benchmark lending rate unchanged for the second time in two months at 7.0%. The next sitting of the Committee is scheduled for July 29, 2020.
Retirement Benefits Authority	• On request of RBA, National Treasury gazetted a waiver of penalties accruing from late submissions of audited financial statements that were due on March 31, 2020 for a period of sixty days.
The Insurance Regulatory Authority	• The Insurance Regulatory Authority (IRA) has approved a special Covid-19 Insurance product for front line health workers. • The products by UAP Old Mutual and Prudential Life Assurance include a free Life Cover of Sh50,000 on death of a frontline staff and hospitalization. It also includes cash benefit of Sh1,000 per day for seven days for healthcare workers diagnosed with COVID-19 and hospitalized at designated government facilities.
Central Depository and Settlement Corporation	• Remote settlements through secure links • Investors are able to access and track their portfolios through the CDSC mobile application. • Queries from investors and other participants being tackled using the social media platforms
Nairobi Security Exchange	• Allowed investors to trade remotely through mobile application and URL. • Market participants allowed to work from home with full access to the market through the Virtual Private Networks (VPNs) • Companies that produce the Personal Protective Equipment (PPE) ,masks and alcohol-based sanitizers allowed to access funding through the Ibuka programme.

Source: CMA

1.12. Opportunities

Introduction of innovative capital market platforms: Companies in the Kenyan market can make use of crowdfunding platforms to raise funds for financing various projects. Through these platforms, investors can channel funds in approved initiatives. The pandemic has necessitated adoption of technology due to urgent financing needs in various industries.

Long-term investment opportunities: The government has encouraged Kenyans to adopt ' Buy Kenya Build Kenya' initiative since emergence of Covid-19 pandemic. This initiative has encouraged Kenyan business to manufacture health related products. The management anticipates a situation where manufactures in the health sector will require huge funds for production and expansion. The capital markets industry offers a perfect opportunity where these firms can raise long-term funds through issuance of corporate bonds.

Rise of Financial Technology (Fintech) innovation and social engagement platforms : The Covid-19 pandemic has led to the emergence of various forms of fintech business aiming to provide online services such as virtual meetings and chat platforms. This has led to creation of innovative less stringent listing segment in some countries such as China. ChiNext board allows companies that have yet to turn a profit to list on the Chinext startup board on the Shenzhen Stock Exchange. Companies seeking to list shares on the ChiNext board will no longer need approval from the regulator. The new share sale system emphasizes information disclosure and the stock exchange will review companies' IPO applications based on disclosure rules.

Kenya being the technology hub in Sub-Saharan Africa which championed mobile money innovative products such as MPesa will be part of the world in development of innovative mobile money products. Capital markets innovative systems can be admitted at the CMA's sandbox for testing before they are launched for general consumption. The Authority can consider establishing a less stringent listing platform specifically for fintech capital raising.

1.13. Policy Considerations for the Kenya Capital Markets

Management appreciates the raft of policy interventions already implemented to stabilize the capital markets. In line with other measures taken by other jurisdictions and taking due care not to blindly replicate what others have done and to also consider home grown solutions, we propose the following additional measures:

- CMA to continuously monitor the market to ensure operational stability by requiring all licensees to have in place and continually review Covid-19 Business Continuity and Recovery plans; and to include effects of Covid-19 on their business's projections strategy or plans, including effects on financials and returns;

- A Covid-19 Market Monitoring Group/Team should be established. A similar Team was established in US and whose aim is to assist in the SEC's efforts to coordinate with and support the COVID-19-related efforts of other federal financial agencies and other bodies, including the President's Working Group on Financial Markets (PWG), Financial Stability Oversight Council (FSOC) and the Financial Stability Board (FSB), among others;
- The Authority, Central Bank of Kenya and the National Treasury and Planning to engage on modalities for supporting the capital markets directly through quantitative easing, primary dealership and other liquidity support programmes;
- A Guarantee Fund similar to the SME Credit Guarantee Scheme established by the National Treasury and Planning should be set up to support market-based funding (equity and/or debt) MSMEs through the capital markets as they seek expansion after weathering the Covid-19 storm;
- Policy reversals should be pursued to reinstate important capital markets tax incentives such as VAT on Real estate Investment Trusts, tax deductibility on legal fees for some capital markets transactions brokerage fees for stockbrokers and investment banks, preferential corporate tax treatment of listed companies, which were removed through the Tax Laws Amendment Act 2020 and Finance Act 2020;
- The establishment of the Nairobi International Financial Centre (NIFC) to be expedited following the pronouncement of the Cabinet Secretary for the National Treasury in the June 2020 Budget statement to compete with the proposed Kigali International Financial Center with the aim of enhancing financial services in the East African Community (EAC) Regional Economic Block;
- The policy and regulatory framework to support Crowdfunding should be expedited, to support MSMEs and start-ups in fund-raising initiatives; and
- The Authority should work with the NSE on sensitizing and encouraging SMEs in

the manufacturing sector and other sectors likely to benefit from Covid-19 to explore capital markets as one of capital raising avenues in business expansion and in enhancing production.

2.0 Domestic developments

2.1 Macro-environment

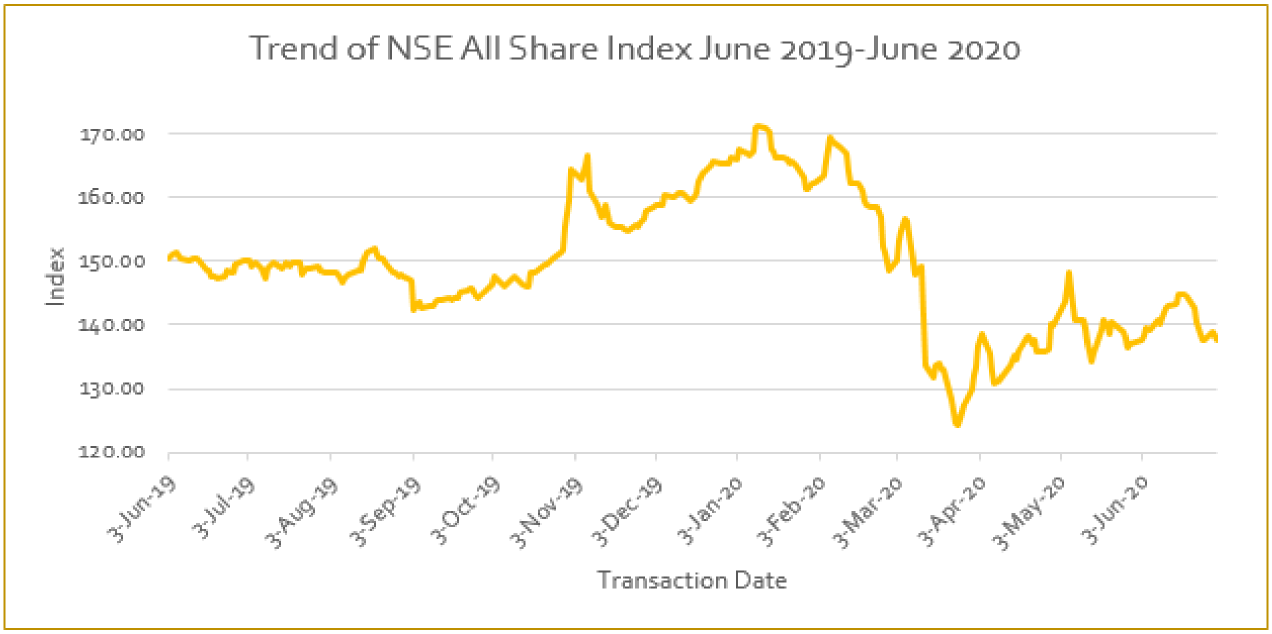
The Food and Non-Alcoholic Drinks' Index decreased by 1.27 per cent in June 2020, compared to a decrease of 0.24 per cent in May 2020 while the year on year food inflation increased by 8.15 per cent. During the same period, Housing, Water, Electricity, Gas and Other Fuels' Index, decreased by 0.81 per cent. The Transport Index increased by 2.08 per cent on account of a 6.81 per cent increase in prices of petrol, which outweighed the 4.76 per cent decrease in the cost of diesel, recorded over the same period.

As a result, the CPI decreased by 0.31 per cent from 108.60 in May 2020 to 108.27 in June 2020. The overall year on year inflation in June 2020 stood at 4.59 per cent compared to a revised inflation rate of 5.33 per cent recorded in May 2020.[20]

Economic performance in most sectors slowed in the first quarter of 2020 compared to the corresponding quarter of 2019. Real GDP grew by 4.9 per cent during the review period compared to 5.5 per cent growth in the first quarter of 2019. Though Kenya was somewhat spared the brunt of the COVID-19 pandemic in the first quarter of 2020, the economy was affected by the resultant uncertainty that was already slowing economic activity in some of the country's major trading partners. During the first quarter, there was heightened agricultural activities that significantly anchored the overall economic performance. Agriculture, Forestry and Fishing sector grew by 4.9 per cent compared to 4.7 per cent in the corresponding quarter of 2019. The growth was also supported by robust growths in Transportation and Storage (6.2%), Financial and Insurance Activities (6.0%), Construction (5.3%), Information and Communication (9.8%) and Wholesale and Retail trade (6.4%). The decelerated growth recorded in the quarter under review was aggravated by 9.3 per cent contraction in Accommodation and Food Service activities that were heavily weighed on by corona virus containment measures instituted in major sources of tourists. This resulted in a steep decline in the volume of international visitor arrivals in March 2020.

[20] file:///C:/Users/sgachanja/Downloads/CONSUMER%20PRICE%20INDICES%20AND%20INFLATION%20RATES%20FOR%20JUNE%202020.pdf

Figure 10: NSE All Share Index (1st June 2019-30th June 2020)



Source: *CMA*

2.2 Key developments in the Capital Market

i. The Authority holds a Capital Markets Industry Webinar on Industry Challenges and solutions

The Authority in its bid to achieve its market development mandate , discovered that there was a continuous trend of low uptake of new products both on the supply and demand side. Over the years the authority has taken different initiatives to try and address this challenge which include; doing research, benchmarking with other jurisdictions and holding various forums with the market stakeholders however, this trend has persisted most especially during the Covid-19 pandemic season. There was therefore a need to hold a meeting and engage the stakeholders on the challenges they are facing and the solutions they would like to get. A webinar was therefore held on 25th June 2020 whereby various market stakeholders had an opportunity to present their challenges and have the Authority respond to them. The stakeholders represented in the meeting were; KASIB (Kenya Association of Stockbrokers and Investment Banks), FMA (Fund Managers Association), CDSC (Central Depository and Settlement Corporation), NSE (Nairobi Securities Exchange) and legal firms.

Most of the issues raised by these market players revolved around lack of a facilitative regulatory framework and the government goodwill which play a very vital role in the development of the market. CMA is in the process of reviewing most of its regulations especially those relating to the Collective Investment Schemes and Public Offers thus this will address most of the issues raised by the stakeholders.

ii. **The Authority holds a webinar on activating the use of Islamic Finance Products & Services**

The Authority noted that since the introduction of the Islamic finance products a decade ago, these products have not been taken by the market. The Capital Markets Authority together with the National Treasury has taken measures to help avert this such as conducting research and establishing different committees to spearhead this process. There was therefore need to bring on board all stakeholders and brainstorm on the way forward. The following are the suggested actions from the meeting held on 3rd June 2020:

a. Fast tracking preparation of the National Policy on Islamic Finance

b. Financial sector regulators to develop Stand-alone Policy documents for input in drafting the National policy.

c. Government goodwill through issuance of a Sukuk which will set the pace in the market.

d. Use Islamic finance products to mitigate the effects of Covid-19

e. Embark on educating investors on the Islamic finance products.

f. Development of a dispute resolution process

g. Periodic reviews of the progress of the Kenya Islamic Finance uptake and progress.

iii. Gazettement and Implementation of the Capital Markets (Commodities markets) regulations 2020 and Capital Markets (Coffee Exchange) Regulations 2020

On 3rd April ,the Cabinet Secretary of the National Treasury gazetted the Capital Markets (Commodities Markets) regulations 2020 LN No 41 and Capital Markets (Coffee Exchange),Regulations 2020 L.N No.40.This will play a major role in promoting food security and nutrition as outlined by the big four agenda blueprint.

Entities that deal with the above business are expected to comply with these regulations. The

Authority is aiming at engaging the stakeholders to ensure a smooth transition.

iv. The Authority admits additional firms in the regulatory Sandbox

CMA has admitted two companies in its regulatory sandbox in quarter two namely ; Belrium Kenya and Pyypl Group Limited. Belrium will use this opportunity to test its block chain technology which aims at improving the Know Your Customer dynamics. Pyypl on the other hand seeks to use blockchain technology to facilitate issuance of unsecured bonds.

In April 2020, the CDSC was also admitted to the CMA's Regulatory Sandbox for a period of 5 months. During this time CDSC aims at testing Securities Lending and Borrowing (SLB) which is screen-based. This will increase the number of transactions hence improving the liquidity of the market.

v. Listed Companies allowed to Convene Virtual General Meetings

Through a Miscellaneous Application Number E680 of 2020,the High Court has allowed listed companies to convene General Meetings outside the requirements of their Articles of Association subject to getting a no objection from Capital Markets Authority.

The following are the requirements for such companies:

- Application for a no objection letter from CMA 14 days before issuing the General Meeting notice.
- Issue a General Meeting notice as stipulated in the Companies Act 2015.
- Provision of sufficient information to investors to help them make informed decisions.
- Give the stakeholders an opportunity to ask questions and seek clarifications.
- Provide the Shareholders with an opportunity to vote.

vi. Investor Education

The Authority has utilized its social media platforms to conduct investor education programs most especially in Facebook Live sessions. Some of this forum have touched on the youths and the people living in other countries focusing on how they can invest in the market and addressing their questions. Additionally ,the Authority has continued to share information with the public so as to keep them abreast with the market dynamics. This has been implanted through press releases and social media platforms.

vii. Launch of the NSE Digital Application

The Nairobi Stock Exchange launched a digital mobile application on the 9th June 2020[21].This is a major milestone in the Kenyan capital markets as it will increase investor (local and foreign) participation in the market. Additionally, this application will pave way for other institutions to utilize such digital platforms such as the brokers and investment banks.

The launch of this application couldn't have come at a better time, with the travel restrictions and social distance guidelines put in place to curb the spread of the Covid-19 remote trading is slowly becoming the new norm. With this application investors will be able to monitor their portfolios and market trends from the comfort of their homes.

viii. Regulation of private Equity by Capital Markets Authority-Finance Act 2020

Traditionally, private equities were not regulated by government entities since most of the investors were sophisticated and able to access their risks before venturing into any investment. In recent years, however, pension funds and institutional investors have been investing in PE funds hence the need to regulate such firms to protect such investors. In Kenya, according to the proposed Finance Bill 2020 which was assented to by H.E the President on 30th June 2020, it expanded the mandate of the Capital Markets Authority to regulate private and venture capital firms that have access to public funds. This will in turn open opportunities for pension funds to invest in such firms.

3.0 Conclusion

The Authority management continues to work closely with market players in ensuring that the capital market industry is not adversely affected during Covid-19 pandemic. The Authority will continue playing its role in ensuring that the risks in the global regional and domestic economy are continuously tracked and mitigated while the opportunities are fully leveraged.

[21] https://www.capitalfm.co.ke/business/2020/06/nse-launches-mobile-app-to-boost-investors-participation/

Performance of Capital Markets Stability Indicators (CMSIs)

Table 5:Capital Markets Stability Indicators

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level (High – Medium – Low)	Performance Brief for the Quarter	Ongoing Intervention Measures
1.0 Equity Market Depth								
NSE 20 Index Volatility **Base Year = 2010**	**Q2.2020**	**April**	**May**	**June**	**Q.Avg**	**Medium** **(indicative – Low < 1% Medium : >1% high; >10%)**	The NSE 20 Share and NASI Index volatility for the quarter ended June 2020 averaged at **0.59%** and **0.89%** respectively compared to **0.65%** and **0.83%** respectively recorded in Q1.2020. Relative to the previous quarter, the NSE 20 Share index volatility reduced with that of the All Share Index increasing as	While the volatility in the market remains relatively high in comparison to pre-Covid era, there was a considerable reduction of the same for the NSE 20 Share index as investor positions become more predictable in the face As new material information likely to change investor positions for speculative purposes comes to market, the Authority in conjunction with the NSE remains vigilant in ensuring trading is not primarily driven by speculation. This was evidenced during the quarter when the NSE suspended trading on the KQ counter (upon approval by the Authority) following the publication of the
		0.59%	0.77%	0.41%	0.59%			
	Q1.2020	**Jan**	**Feb**	**March**	**Q.Avg**			
		0.44%	0.45%	1.06%	0.65%			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		0.44%	0.54%	0.42%	0.47%			
	Q3. 2019	**July**	**Aug**	**Sep**	**Q.Avg**			
		0.49%	0.31%	0.52%	0.44%			
	Q2.2020	**April**	**May**	**June**	**Q.Avg**	**indicative – Low <**		

NASI Volatility **Base Year = 2010**		1.01%	1.14%	0.51%	**0.89%**	**1% Medium : >1% high; >10%)**	activity across some sensitive counters such as KQ,ABSA,Kenya-Re and the ETF Gold were observed based on new market information and resultant investor reaction.	National Management Aviation Bill 2020 that is expected to cause imminent corporate restructure and a government buy-out.
	Q1.2020	**Jan**	**Feb**	**March**	**Q.Avg**			
		0.50%	0.64%	1.35%	**0.83%**			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.50%	0.76%	0.32%	**0.53%**			
	Q3.2019	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.41%	0.36%	0.57%	**0.45%**			
Turnover Ratio	**Q2.2020**	**April**	**May**	**June**	**Q.Sum**	**Low** **(indicative – annual: <8%-Low; >15% High)**	A turnover ratio of **1.86%** was recorded in the quarter, compared to **1.98%** **and 1.84%** in Q1.2020 and Q4.2019 indicating a slight decrease in activity during the quarter in comparison to Q1.2020	Turnover levels in the Covid-19 era has relatively risen with more trading activity witnessed on the New Gold ETF Counter as investors seek to take positions in relatively asset classes to retain the value of their investments. While foreign investor activity could highly be attributed to the rising turnover levels, more domestic participation has been witnessed within the market as local investors are urged to buy now, while share prices remain relatively low and competitive.
		0.59%	0.69%	0.58%	**1.86%**			
	Q1.2020	**Jan**	**Feb**	**March**	**Q.Sum**			
		0.50%	0.54%	0.94%	**1.98%**			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Sum**			
		0.66%	0.71%	0.47%	**1.84%**			
	Q3.2019	**July**	**Aug**	**Sep**	**Q.Sum**			

		0.50%	0.39%	0.48%	**1.37%**			
2.0	**Foreign Exposure Risk**							
Foreign Investor turnover as a % of total turnover	**Q2.2020**	**April**	**May**	**June**	**Q.Avg**	**Medium (indicative – annual: <40%- Low; >90% High)**	Foreign investor participation in the quarter ended June 2020 averaged at **64.59%** compared to **61.14%** recorded in Q1.2020	To avoid reliance on foreign investors for the long term stability of the market, the Authority in conjunction with key stakeholders – NSE, CDSC, KASIB amongst other market players conducted several webinars targeting Kenyans living both within its boundaries and those in the diaspora community with the aim of increasing their participation in the market as a measure of maintaining resilience of performance of the Kenyan securities markets. Further, the launch of the NSE App that has seen registration and trading simplified for traders is expected to bring a positive shift on local investor activity at the bourse in the long run. While this was expected with the pandemic spreading into Kenya and other sub-Saharan African countries, the Authority in conjunction with NSE and industry players continue to market the Kenyan market as a safe haven for investments for foreigners in the long term.
		64.96 %	65.38 %	63.43 %	**64.59 %**			
	Q1.2020	**Jan**	**Feb**	**Mar**	**Q.Avg**			
		60.60 %	62.81 %	60.01 %	**61.14 %**			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		64.29 %	55.97 %	68.63 %	**62.96 %**			
	Q3.2019	**July**	**Aug**	**Sep**	**Q.Avg**			
		66.89 %	62.31 %	65.65 %	**64.95 %**			
Net Foreign Portfolio Flow (In KES Millions)	**Q2.2020**	**April**	**May**	**June**	**Q.Sum**		Net Foreign Portfolio for the quarter amounted to an outflow of **Kshs 10,250 Mn,** compared to a total outflow of **Kshs**	
		(4,098)	(4,462)	(1,690)	**(10,250)**			
	Q1.2020	**Jan**	**Feb**	**Mar**	**Q.Sum**			

		530	(2,656)	(9,058)	**(11,184)**	**High (indicative – annual: <Kshs (50million) -High (outflow; >KShs. 50 million High inflow)**	**11,184 Mn** in recorded in Q1.2020.	
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Sum**			
		(1,361)	(730)	1,247	**262**			
	Q3.2019	**July**	**Aug**	**Sep**	**Q.Sum**			
		(2,073)	1,509	827	**1,359**			
3.0	**Market Concentration Risk**							
Market Concentration (Top 5 companies by market cap)	**Q2.2020**	**April**	**May**	**June**	**Q.Avg**	**High (indicative – annual: >50% High concentration)**	During the quarter, the top five companies by market capitalization accounted for an average of **75.43%,** the highest in the last four quarters, further increasing the exposure risk that the Kenyan market faces, with Safaricom share alone ranging	In its bid to reduce the exposure risk leveled by the high market concentration by the top 5 companies at the bourse, the Authority has developed a short-term strategy aimed at reviving the market from Covid-19 effects. A key initiative to be undertaken includes partnering with the Privatization Commission and policy holders in promoting privatization and divestitures of government stake in some companies as a measure aimed at diversifying the pool and sector of
		74.36%	75.53%	76.39%	**75.43%**			
	Q1.2020	**Jan**	**Feb**	**Mar**[22]	**Q.Avg**			
		74.36%	74.43%	73.62%	**74.14%**			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Avg**			
		73.25%	73.34%	73.46%	**73.35%**			

[22] Data as at 20th March 2020

	Q3.2019	**July**	**Aug**	**Sep**	**Q.Avg**		between 50% and 56% week on week over the review period.		securities listed with the overall goal of diluting the concentration risk to sustainable levels that can be cushioned by the market.
		70.85 %	72.02 %	72.61 %	**71.83 %**				
4.0	**Derivatives Trading Statistics**								

Total Volume **(No. of contracts)**		**Apr**	**May**	**Jun**	**Q. Sum**	**Low**	During the quarter, a total of **219** contracts were traded, compared to **255** in the previous quarter, with SAFARICOM and KCB Single Stock Futures(SSF) accounting for **37.4%** and **35.6%** of contracts traded respectively.	The derivatives market has remained active during the quarter ended June 2020 with activity recorded across all the listed
	25-Share Index	-	-	-	-			
	SCOM SSF	19	14	49	82			
	EQTY SSF	2	10	11	23			
	KCBG SSF	7	32	39	78			

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<tr><td>EABL SSF</td><td>3</td><td>-</td><td>9</td><td>12</td></tr>
<tr><td>BATK SSF</td><td>-</td><td>1</td><td>2</td><td>3</td></tr>
<tr><td>ABSA SSF</td><td>-</td><td>6</td><td>15</td><td>21</td></tr>
<tr><td>Total</td><td>31</td><td>63</td><td>125</td><td>219</td></tr>
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<td rowspan="2">SSFs except for the NSE 25 Share Index mainly attributable to the Covid-ag pandemic. To reverse this, market participant should consider market making as a way of enhancing liquidity in the sector.</td>
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<td>Gross Notional Exposure (GNE)[23]

(Amount in Kshs Mn)</td>
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<tr><th></th><th>Apr</th><th>May</th><th>Jun</th><th>Q.Sum</th></tr>
<tr><td>25-Share Index</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>SCOM SSF</td><td>510,700</td><td>399,600</td><td>1,468,530</td><td>2,378,830</td></tr>
<tr><td>EQTY SSF</td><td>67,860</td><td>358,370</td><td>388,950</td><td>815,180</td></tr>
<tr><td>KCBG SSF</td><td>240,340</td><td>1,196,400</td><td>1,375,680</td><td>2,812,420</td></tr>
<tr><td>EABL SSF</td><td>42,650</td><td>-</td><td>152,325</td><td>194,975</td></tr>
<tr><td>BATK SSF</td><td>-</td><td>31,500</td><td>63,975</td><td>95,475</td></tr>
<tr><td>ABSA SSF</td><td>-</td><td>60,320</td><td>149,450</td><td>209,770</td></tr>
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<td>Low</td>
<td>The total value (Gross Notional Exposure) of contracts traded during the quarter amounted to Kshs. 6.51 Mn compared to Kshs 12.85 Mn recorded in Q1.2020.</td>
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[23] 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.

Total	**861,550**	**2,046,190**	**3,598,910**	**6,506,650**

Total Open Interest[24] (No. of Contracts) — **Low**

	Apr	May	Jun	Q. Avg
25-Share Index	-	-	-	-
SCOM SSF	18	28	18	21
EQTY SSF	3	10	8	7
KCBG SSF	5	17	29	17
EABL SSF	1	1	7	3
BATK SSF	-	1	1	1
BBKL	-	4	10	7
Total	**27**	**61**	**73**	**54**

The total open interest during the quarter were 54 compared to 41 in Q1.2020. Safaricom and KCB SSF recorded 21 and 17 open contracts respectively. 41, with KCB being the most attractive counter in the quarter. The NSE 25 Share SSF recorded nil trades during the quarter, largely attributed to the Covid-19 pandemic.

[24] Open interest is the total number of outstanding derivative contracts that have not been settled or closed. It is a measure of market interest.

<table>
<tr>
<td>Settlement Guarantee Fund (SGF) Coverage[25] for Derivatives</td>
<td>
<table>
<tr><th></th><th>April</th><th>May</th><th>June</th></tr>
<tr><td>SGF</td><td>183,750,475</td><td>184,587,093</td><td>85,061,470.00</td></tr>
<tr><td>Average Market Value</td><td>107,693.75</td><td>170,515.83</td><td>257,065.00</td></tr>
<tr><td>SGF Coverage</td><td>1,706 times</td><td>1,083 times</td><td>720 times</td></tr>
</table>
</td>
<td>Low</td>
<td>The SGF coverage ratio for the derivatives market as at end June 2020 was 720 times relative to 546 times recorded in Q1.2020, showing increased sufficiency in coverage, though equally fueled by nil trading in the NSE 25 Share SSF during the quarter.</td>
<td rowspan="2">To maximize value from the SGF fund balances, there is deliberate effort by NSE to encourage increased activity by market intermediaries in this market for increased volumes of trade.</td>
</tr>
<tr>
<td>SGF Coverage of Clearing Member 1 and Clearing Member 2[26]</td>
<td>
<table>
<tr><th></th><th>April</th><th>May</th><th>June</th></tr>
<tr><td>SGF</td><td>183,750,475</td><td>184,587,093</td><td>185,061,470</td></tr>
<tr><td>Avg Value CM1</td><td>90,593.75</td><td>107,611.67</td><td>208,906.61</td></tr>
<tr><td>Avg Value CM2</td><td>17,100</td><td>62,904.17</td><td>48,158.39</td></tr>
<tr><td>SGF Coverage CM1</td><td>2,028 times</td><td>1,715 times</td><td>886 times</td></tr>
</table>
</td>
<td>Low</td>
<td></td>
</tr>
</table>

[25] 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.

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

	SGF Coverage CM2	10,746 times	2,934 times	3,843 times				
5.0	**Government Bond Market Exposure**							
Treasury Bond market turnover Concent ration	**Q2.2020**	**April**	**May**	**June**	**Q.Av g**	**High (indicativ e – annual: >50% High concentra tion)**	During the quarter, Treasury bond turnover averaged at **99.98%** compared to **98.66%** in Q1.2020 with May and June 2020 each recording 100% treasury bond turnover	The Kenyan market continues to be highly exposed to Government bond market exposure with a total of 68 listed Government bonds [27](as at end June 2020) vis a vis 6 corporate bonds translating into the significant turnover levels for treasury bonds. The 6 corporate bonds include CBA fixed medium term note that matures in Dec 2020; EABL Fixed Medium Term Note maturing in March 2022; Chase Bank Fixed Medium-Term Note maturing in June 2022 ; Family Bank Medium Term Note maturing in April 2021 and Acorn Green Bond Medium Term Note maturing in November 2024. To reverse this trend, the Authority, in its short term strategy in the face
		99.95 %	100.0 0%	100.0 0%	**99.98 %**			
	Q1.2020	**Jan**	**Feb**	**Mar**	**Q.Av g**			
		95.99 %	99.99 %	99.99 6%	**98.66 %**			
	Q4.2019	**Oct**	**Nov**	**Dec**	**Q.Av g**			
		99.86 %	98.29 %	99.98 %	**99.38 %**			
	Q3.2019	**July**	**Aug**	**Sep**	**Q.Av g**			
		97.54 %	98.55 %	99.94 %	**98.68 %**			

[27] The 68 Listed bonds include Fixed Rate Treasury Bonds, Infrastructure Bonds and M-Akiba

<table>
<tr>
<td>Corporate Bond Market ownership</td>
<td>
<table>
<tr><th>Category</th><th>No of Investors</th><th>Share Quantity
(In Millions)</th><th>% of total share quantity</th></tr>
<tr><td>Local Investors</td><td>1,669</td><td>23,844.35</td><td>95.91%</td></tr>
<tr><td>East African Investors</td><td>7</td><td>73.80</td><td>0.30%</td></tr>
<tr><td>Foreign Investors</td><td>32</td><td>942.15</td><td>3.79%</td></tr>
<tr><td colspan="4">Source: CDSC Data as at June 2020</td></tr>
</table>
</td>
<td>High
(indicative – annual: >50% High concentration</td>
<td>Local Corporate bond investors were the leading investors in corporate bonds at 95.91% compared to 98.74% in Q1.2020of amounts outstanding, while foreign bond investors held 3.79% during the quarter, up from 1.15% recorded in Q1.2020 as the total corporate bond holdings.</td>
<td>of Covid-19 will be working with the Kenya Private Sector Alliance, Micro and Small Enterprises Authority and other policy makers to create a conducive environment to increase participation of MSMEs in the capital market with the overall goal of having them listed.
To facilitate this, the Authority is currently undertaking a review of its Public Offers Listing and Disclosures Regulations following engagements with stakeholders on the need to create a conducive environment to facilitate increased participation by corporations in the market through bond issuances.
The Authority is also reviewing SME – Specific Corporate Governance requirements based on findings of an independent survey conducted by the KNBS that informed the need for change in strategy on Corporate Governance requirements for MSMEs in Kenya.</td>
</tr>
<tr>
<td>6.0</td>
<td colspan="4">Investor Profiles - Equity Market</td>
</tr>
<tr>
<td>Equity Market</td>
<td></td>
<td>Medium
(indicative –</td>
<td>Local investors, accounted for 80.92% of total shares held in the</td>
<td>Noting that local investors hold the greatest shares in terms of quantity, more targeted market deepening and investor education initiatives will be</td>
</tr>
</table>

<table>
<tr>
<td></td>
<td colspan="5">
<table>
<tr><th>Type of Investor</th><th>No. of Investors</th><th>Share Quantity (In Millions)</th><th>% to Total Share Quantity</th></tr>
<tr><td>Local Investors</td><td>1,983,175</td><td>78,634.48</td><td>80.92 %</td></tr>
<tr><td>EA Investors</td><td>9,061</td><td>1,031.61</td><td>1.06%</td></tr>
<tr><td>Foreign Investors</td><td>14,964</td><td>17,490.40</td><td>18.00 %</td></tr>
<tr><td>BR</td><td>22</td><td>12.80</td><td>0.01%</td></tr>
<tr><td>JR</td><td>271</td><td>0.95</td><td>0.001 %</td></tr>
</table>
Source: CMA- *Data as at June 2020
</td>
<td>annual: >50% High concentration)</td>
<td>equity market with 18.00% being held by foreign investors.</td>
<td>undertaken in the year 2020 to increase participation of local investors with the aim of discouraging dormant accounts. Promotion of regional trading and access to the Kenyan market by other investors within the region also remains a strategy for increasing participation at the Nairobi Securities Exchange through increased partnerships with respective country regulators.</td>
</tr>
<tr>
<td>7.0</td>
<td colspan="8">Settlement Compensation Coverage</td>
</tr>
<tr>
<td rowspan="4">Settlement Guarantee Fund (SGF) Coverage Ratio[28]</td>
<td>Q2.2020</td><td>April</td><td>May</td><td>June</td><td>Q.Avg</td>
<td rowspan="4"></td>
<td rowspan="4">SGF Ratio for the quarter ended June 2020 averaged at 1.55. While this is an indication that the Guarantee Fund balances are sufficient to cover</td>
<td rowspan="4">Through Risk-based supervision, the Authority has been monitoring the SGF figures and the financial position of the firms to ensure that they are in good standing and that investors are protected.</td>
</tr>
<tr><td></td><td>1.59</td><td>1.32</td><td>1.75</td><td>1.55</td></tr>
<tr><td>Q1.2020</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q.Avg</td></tr>
<tr><td></td><td>1.77</td><td>1.55</td><td>1.17</td><td>1.50</td></tr>
</table>

[28] *Source: CDSC*

	Q4.2019	Oct	Nov	Dec	Q.Avg	Medium (indicative – annual: > 1 times, implies full coverage)	liabilities that would arise following default by securities brokers, the figures are relatively low as the ratio is a function of both SGF balances and average turnover values with the latter having risen during the quarter under review.	
		1.27	1.21	1.56	1.35			
	Q3.2019	July	Aug	Sep	Q.Avg			
		2.01	2.33	1.92	2.09			
8.0	**Asset Base of Fund Managers, Stockbrokers, Investment Banks**							
Assets Under Management	**As at 31st May 2020 (Amount in KShs Millions)**					**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 31st May 2020 was **Kshs 5,263.10 Mn, Kshs 971.28 Mn, Kshs.8,879.12 Mn, Kshs 1,971.77Mn** and **Kshs 234.27 Mn** respectively.	The Authority has made regulatory interventions aimed at improving the business environment of its licensees during this period of the pandemic. These include i. Extension of timelines for listed companies and licensed persons including collective investment schemes scheduled to hold their Annual General Meetings (AGMs) and most recently allowed dividend payments and application of Virtual General Meetings for critical decision making ii. Extension of regulatory timelines for its licensees with respect to finalization of audits iii. Holding of AGMs and seeking ratification by shareholders and iv. Made a contribution of Kshs. 30 Million
	CMA Licensee	**Total Assets**	**Total Liability**	**Net Assets**				
	Fund Managers	5,846.99	1,543.06	5,263.10				
	Stockbrokers	1,830.08	860.66	971.28				
	Investment Banks	13,025.61	4,507.91	8,879.12				
	Investment Advisors	2,080.22	198.41	1,971.77				

	Online Forex Broker (Non-Dealing)	1,055.96	821.69	234.27				to the National Covid 19 as a contribution from Capital Markets industry including the NSE and the Kenya Association of Stockbrokers and Investment Banks.