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

Investor **Awareness** FORUM

ISSUE #2

EDUCATION, AWARENESS AND CERTIFICATION DEPARTMENT

IN THIS ISSUE

Chief Executive Officer's Message

Mr. Wyckliffe M. Shamiah
Chief Executive Officer

Welcome to the second edition of the Investor Awareness Forum, aimed at providing information and updates from an education awareness perspective on capital markets targeting Local, Diaspora, International investors as well as CMA staff. Like the previous edition, this issue focuses on providing updates on developments over the last few months as well as investor protection, a key area of focus for the industry, given that "an informed investor is a protected investor."

Despite the global economic slowdown and the just concluded peaceful general elections, several milestones were achieved since the last reporting with respect to products and capital markets development. An analysis of the growth outlook on Kenya from 18 leading banks, consultancies and think-tanks, including the World Bank Group and the Central Bank of Kenya (CBK), projects that the economy will on average expand 5.39 percent this year. If the forecasts come to pass, it will be the first time the economy will have overcome the historical election angst to expand more than 5.0 percent following the reintroduction of multi-party democracy in 1991. This is a clear testament to the resilience of our capital markets.

The stock market remained relatively resilient, gaining Sh10 billion the week prior to the presidential election ruling.

The Authority remains committed and ready to support the new administration and is already aligning several upcoming programs with the Kenya Kwanza Manifesto. For instance, we have already embarked on initiatives to increase and retain listings at the Nairobi Securities Exchange (NSE), support capital raising by Small and Medium Enterprises (SMES) and enhance investor protection by finalizing the Public Offers Listing and Disclosure (POLD) Regulations . The review of these Regulations is in line with the 3rd Medium Term Plan (2018-2023) of the Vision 2030 Economic Blueprint, by creating a facilitative legal framework to support financing of flagship projects through the capi-tal market. The Capital Market Master Plan (2014-2023) also recommended the need for review of the regulations to streamline the listing requirements and encourage capital raising and listings on the NSE.

Happy Reading

Welcome Message

Mr. Luke Ombara Director,
Policy and Market Development

Investor awareness, targeted towards increasing savings to support the new Government's Economic Blue Print, underscores the critical role the capital markets will play in support of the aspirations of the Bottom-up approach.

More specifically, digitalization and digital platforms are becoming the preferred forms for information dissemination; particularly with the prevalence of smart phone users and access to the internet. In this regard, we are allocating significant resources towards playing our role in leveraging technology by increasing capital markets visibility by way of the E-Newsletter.

We recently developed a Capital Markets Mobile App that is accessible on Google Play Store and the IOS App Store which is currently being enhanced for a more robust customer experience.

I encourage our readers to download the app to access various capital markets products and services. In addition, we welcome any feedback to further make it more robust.

The Authority is additionally revamping its awareness programs to be more robust with a bigger focus at the grass root, County level, leveraging technology for more accessibility to products and services: increasing its focus on the Diaspora, and implementing more effective channels of strategic partnerships.

Enjoy your reading!

MAIN FEATURE

HOW REGULATORS ARE HANDLING RECENT INVESTOR PROTECTION

Investor protection continues to be a key initiative globally given the importance of increasing investor confidence which results in increased uptake. Below is a snapshot of some of the key highlights on awareness since the previous newsletter issue.

Kenya

In line with our investor protection mandate, CMA took enforcement action against former board members, Senior management of Chase Bank Kenya Limited (CBKL) (the MTN Issuer) and CBKL reporting Accountant for their role in the issuance and use of MTN in 2015. This action is expected to further boost investor confidence with respect to accountability of leadership towards stewardship of investment products.

The Authority conducted mass messaging leveraging bulk SMSs on investor protection. This campaign reached approximately 10,000 potential and current investors. Additionally, the Authority held another mass messaging campaign aimed at inviting the public to the inaugural capital markets virtual open day. The campaigns were impactful given the good turnout by participants during the virtual open day.

IOSCO

IOSCO receives several alerts which can be accessed on their portal on https://www.iosco.org/investor_protection/?subsection=investor_alerts_portal with respect to warnings from its members about firms which are not authorized to provide investment services in the jurisdiction which issued the alert or warning. Some of the alerts or warnings are about unauthorized firms using names similar to those of authorized firms or about unauthorized firms falsely claiming to be associated with authorized firms.

India

The Securities and Exchange Board of India (SEBI) cautions investors against fraudulent companies acting as portfolio managers given the increase in the number of investors who have fallen pray to ponzi schemes.

SEBI issues a public caution against fraudulent calls/ emails and messages from person presenting to be officials of the Recovery and Refund Department of SEBI.

Nigeria

The Securities and Exchange Commission (the Commission) issued a public circular warning the public against the fraudulent activities of some unregistered investment crowdfunding platforms and strongly advised the investing public against making investment(s) with or through any crowdfunding platform not registered with the Commission.

USA

The Securities and Exchange Commission announced an award of more than $10 million to a whistleblower who provided information and assistance that significantly contributed to a successful SEC enforcement action. The whistleblower provided important documents and met twice with Enforcement staff. The charges in the covered action had a close nexus with the whistleblower's allegations, which were critical to the underlying investigation.

FINRA announced today that it has fined Barclays Capital Inc. (Barclays Capital) $2 million for failing to comply with its best execution obligations in connection with its customers' electronic equity orders.

FINRA fines BofA Securities Inc. (BofAS) $5 million for failing to report over-the-counter (OTC) options positions to the Large Options Positions Reporting system (LOPR) in more than 7.4 million instances, including 26 positions that were over the applicable OTC position limit, and related supervisory failures.

FEATURE

THE MEDIATION AVENUE

Ninah Sitti, CPM-MTI
Senior Officer Complaints & Alternative Dispute resolution

With the advent of technology, global integration and ecommerce, the modalities of doing business continue to evolve. As a result of this evolution, civil and commercial disputes and their effective resolution requires corresponding redress mechanisms. Alternative dispute resolution (ADR) is an amicable way of resolving disputes in the world today. The Kenyan judiciary has been needlessly clogged with too many cases. Most of these matters are taking a longer time to be resolved due to various technicalities and workloads assigned to the judicial officers daily.

Government and private institutions have continued to realize the opportunities arising from ADR.

The Capital Markets Authority (CMA) has embraced the provisions of Article 159 (2) (c) of the Constitution of Kenya which provides for alternative dispute resolution as a way of resolving disputes in the country. Being a regulatory body in the capital markets sector, CMA has adopted arbitration and mediation as ways of resolving disputes in its ambit.
Mediation is a word many hear in connection with dispute resolution. It is one of the avenues of resolving disputes between parties which are pending before a court of law or before a case is filed in court. In simpler terms, is a process where parties voluntarily agree to be guided by a mediator in a friendly session with an opportunity to be heard and understood. They are given the opportunity to resolve their issues wilfully and maintain their relationship.

The mediator walks with the parties without taking sides to understand how each party views the issue and look at interests and concerns. The main intention is to see a great relationship beyond winning.

The process is purely voluntary and confidential where parties sign a confidentiality form before the process commences. This beats the lawsuit which is a public forum that opens all matters to the public and the media. Mediation is aimed at having both parties maintain a positive correlation with a win win outcome as opposed to the courts where one-party wins. The exploration of beyond winning promotes building of the economy and coexistence when we believe that everyone is right in their own perspective. The ADR process is faster and more economical in exploring the options to gaining positive relationships. It is an avenue that should be explored in any dispute under the sun.

The Mediator walks with the parties to disagree to agree or agree to disagree. The parties must be willing to walk the journey as the process is voluntary. However, there are cases where the court may demand that parties must attend the mediation session. Mediators refocuses parties from emotion so that they can consider their dispute in a logical manner. The Mediator holds private sessions with each party to understand and guide them while aiming at beyond winning. The separate session is called a caucus.

The Mediator being a neutral party may allocate time for each party in private to understand more about the issues spoken or unspoken in the session. The sessions help the mediator reframe the issues to the other party in a softer way aiming at finding a solution. The mediator does not decide on the matter but help parties to separately appreciate the other person's point of view and bridge the gap in the dispute.

What is CMA Doing?

The Capital Market is dynamic with new products calling for new laws and regulations. In the hope of uplifting positive coexistence in the field and economy at large, the adoption of ADR has paved way in building and maintaining relationships. In the promotion of the Article 159 (2)(c) of the Constitution of Kenya, CMA is in the forefront in resolving conflicts and disputes relating to the Capital Markets sector and those that are referred to it as a regulatory body.

In the Civil Procedure Act, the courts may, either on the application of the parties or on its own motion, refer a commercial dispute to ADR. The use of ADR methods of mediation and arbitration has been embraced by CMA to fast-track disputes that are brought before it under the capital market sphere for possible and quick resolution. CMA has had successful Arbitration and Mediation sessions where parties continue to relate or grow their civil and commercial relationships.

FEATURE

CLIMATE CHANGE AND SUSTAINABLE FINANCING: ROLE OF KENYA'S CAPITAL MARKETS

Margaret Awino
Capital Markets Authority

One of the most pressing developmental challenges threatening economic growth, livelihoods and financial systems is climate change. It is fast becoming an emerging priority for standard setters, regulators, policymakers and market practitioners. With the scientific community detailing the numerous climate risks, research suggests that transitioning to a low carbon economy could deliver significant economic gains in addition to promoting use of clean technologies and renewable energy. If the devastation witnessed during the Covid-19 pandemic is anything to go by, efforts should indeed be channelled towards averting a climate event.

In order to foster sustainability, the capital markets have a significant role to play in: incorporating disclosure of Environmental, Social and Governance (ESG) risks in investment analysis and portfolio construction, aligning to global frameworks such as the Paris Agreement on Climate change, providing green centric investment options and reinforcing effective climate risk management and adaptation. The implementation of these among other strategies will fundamentally improve the climate-resiliency levels in many ways including:

First, the growing focus on sustainability themed issues as companies implement their strategic blueprints, has been prompted by the recognition of the far-reaching effects of climate risk to businesses as well as the planet. This has further been fuelled by the increased desire by investors to align with ESG standards acknowledging that sustainable investments and business models are now both a commercial and environmental imperative.

Therefore, consideration for upfront climate risk mitigation strategies during the pricing and valuation stage at the point of entry to the market, will be crucial in ensuring that the valuation is reflective of the long-term value proposition of sustainable market counters.Proper valuation is imperative as it will help in avoiding possible mispricing and will enable investors make informed decisions as to whether to stay invested in carbon-intensive securities or shift to carbon-mitigating stocks.

Second, the capital markets can initiate the development of climate actions that curb further emissions of greenhouse gases while promoting increased investment in companies that invest in climate adaptation. In collaboration with the Government, policy considerations aimed at creating new models for investment in companies that contribute to sustainable solutions should be drawn.

This can be achieved through: mobilization of private equity firms to achieve climate goals, advocating the use of transformative technology in manufacturing to ensure that carbon emissions are reduced to a minimal level and supporting eco-tourism among others.

Third, there is need to build a common taxonomy around green and sustainable finance initiatives and determine a list of eligible project categories that are consistent with international developments to: enhance credibility and enable effective and efficient monitoring and disclosure of performance. The conceptual definition of aspects considered green is pertinent in increasing literacy and awareness of all green elements essentially fostering green investments. This can be achieved in close collaboration with the Climate Bonds Initiative (CBI), an international organization tasked with mobilizing bond markets for climate change solutions.

Fourth, with the continued discovery of natural wealth sources in Kenya, there is urgent need to ensure that their exploitation is done in an environmentally responsible manner. Globally, countries are shifting to sustainable methods of energy extraction thus the push for utilization of greener models across jurisdictions even as business entities remain highly conscious of their respective environmental footprints. Therefore, the capital markets are significant in providing requisite long-term financing to support the use of clean technologies whilst encouraging divestment from fossil intensive sectors.

Importantly, given the strong nexus between sustainability and Islamic finance, the establishment of a green-sukuk framework would facilitate financing of Shariah-compliant certified green projects while enabling alignment to Islamic law principles effectively promoting adoption of green sukuk financial instruments, consistent with issuers' and the investors' sustainable values.

Cognizant of the African Union Agenda 2063 that envisions the attainment of environmentally sustainable, adaptive and climate-resilient communities and economies, the Capital Markets Authority of Kenya, developed a legal framework in 2019 to support green financing, providing an opportunity for companies to raise sustainable capital effectively driving long-term value creation and sustainable growth while attracting a new class of investors.

With all the above and in order to further boost climate resiliency, accurate and consistent disclosure of climate change risk practices by industry participants will be vital as the market could use this as a tool to price a company's carbon footprint. This would subsequently create incentives to reduce carbon emissions fundamentally ameliorating the climate change crisis.

FEATURE

THE DEVELOPMENT OF STRUCTURED COMMODITIES TRADING IN KENYA

Joseph Mwenda
Capital Markets Authority

In view of the challenges faced by smallholder farmers, especially due to existing value chain inefficiencies, the development of a structured commodities trading system is a critical step toward unlocking the value in the agricultural sector in Kenya.

The structured model is expected to address market challenges such as supply chain inadequacies, limited access to credit, information asymmetry, inefficient price discovery, volatility, and poor market access. These factors lead to high production and marketing costs as well as low competitiveness. It is widely recognized that strategies to increase production and food security will be futile unless they are accompanied by efficient and robust warehousing and commodities trading systems.

The Government embarked on a collaborative, multi-sectoral initiative to develop a policy, institutional and regulatory framework to support the development of structured commodities trading in Kenya. The Regulatory Framework for setting up a Warehousing Receipt System (WRS) and Commodities Exchanges (CEs) was developed and has since been gazetted.

The legislation developed is the Warehouse Receipting Act 2019 and the Capital Markets (Commodities Markets) Regulations 2020 which are being implemented. The framework was developed after undertaking a feasibility study, developing a robust policy framework, and benchmarking with regional and international jurisdictions. Other critical steps included expert review by international consultants and extensive stakeholder engagement at the National, County, and Parliamentary levels to ensure the pieces of legislation are fit for purpose.

This initiative is critical due to its potential impact on Enhancing Food Security and Nutrition. It initially targets agricultural commodities thereafter broadening the product scope to non – agricultural commodities including minerals, metals, and energy. In addition, it is anticipated that well-structured spot commodities markets will lead to the development of commodity derivatives, further deepening the commodities and financial markets in Kenya.

The development of WRS and CEs was informed by the need to facilitate better access for the farmers to markets and financial opportunities, which helps them maximize returns in a transparent and open market structure. In view of this, farmers are likely to be encouraged to increase production, which further supports the realization of the national priority of food security.

Secondly, as an Electronic Market Place, Commodities Exchanges deploy modern and electronic trading platforms where participants can buy and sell commodities from the convenience of their offices (locally or internationally) or trade from terminals provided at the Exchange. These platforms can facilitate auctions, reverse auctions, spot trading, forwards trading, and futures trading thereby Increasing liquidity in commodity markets. goods to the new owner/buyer.

This is expected to enhance price discovery whilst ensuring the integrity of trades by reducing default risk through collateral management entrenched within the WRS. CEs are a Settlements and Payments Integrators and appoint commercial banks to receive funds and efficiently pay all claims accruing to farmers/sellers, service providers, regulators, debtors, and suppliers among others thus eliminating concern over delayed payments. The CEs can also be linked to the WRS Central Registry to facilitate the transfer of ownership of the purchased

The benefits of the WRS include a flexible sale process so farmers are not forced to sell in distress and can wait for more favorable prices; potentially increased lending through alternative collateral (deposited commodity) and mitigating risk to the lenders, and standardized commodities with improved quality and grading thus minimizing post-harvest losses. The WRS also promotes the aggregation of produce by small-scale farmers by facilitating access to large traders and processors at competitive prices.
This is supported by confidence in the system giving consistency and assurance to the buyer that the commodity is warehoused safely and is of known tradable quantity and quality.

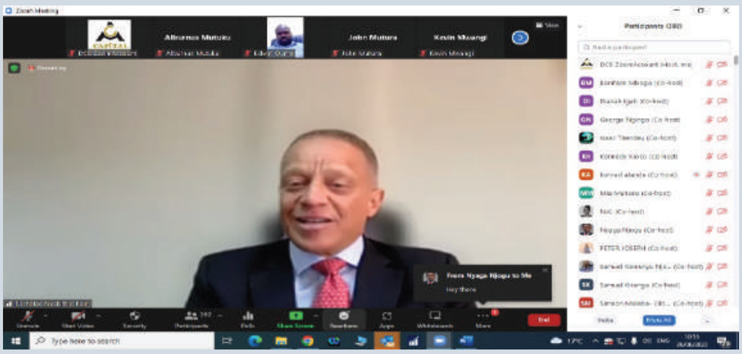
The country's vision is to take the next significant step towards enhancing the development of current trading platforms to fully-fledged commoditymarkets.
These markets can offer a wide range of product options to diverse participants further contributing to the socio-economic progression of commodity sector players within the value chain in Kenya.

The development of a WRS, combined with a structured commodities market, is expected to provide a transparent, efficient, and secure trading system, quality assurance, and efficient price discovery. In the long-term, structured commodities trading is expected to facilitate improved export competitiveness for Kenyan commodities by stimulating domestic value addition and processing, while at the same time improving the country's food security status and developing non-agricultural commodity value chains such as minerals and metals.

SNAPSHOT OF RECENT KEY EVENTS

The department facilitated a Diaspora Webinar attended by 272 participants from 30 Countries.

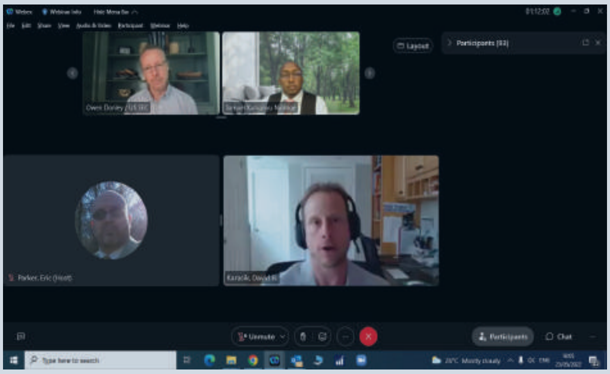
Following conclusion of shooting and editing of the testimonial clips from various capital markets stakeholders as highlighted in the previous report, CMA aired the five (5) success story clips targeting retail investors, retirees, issuers, the youth, and the public at large, were aired on a national television station for a month until August 2nd, 2022 with the wide viewership locally. These were also uploaded and boosted on social media.



CMA held the first ever Capital Markets Virtual Open Day. The event which was graced by the CMA Chairman, CEO and staff was open to all members of the public and industry stakeholders. The market intermediaries were invited to participate by showcasing their products and services through breakout rooms that were allocate to them. The full day event attracted over 2,500 registrants from which over 700 participants were in attendance.

An Open Day in collaboration with the Retirement Benefits Authority was held in Nakuru County

A group photo of the visiting Malawi delegation with representatives from the Authority.



Senior Manager Education, Awareness and Certification, Mr, Kamunyu Njoroge participating at the SEC Institute for Securities Regu-

CMA Staff with the Board of Directors of Association of Investment Bankers of India. From Right: Shankar V Narayanan, CEO, AIBI; Lucy Njaramba, CMA; Alok Harlalka Director, AIBI; Vikas Khattar Director, AIBI; Arjun Mehra Vice Chairman, AIBI; Anay P.Khare Chairman, AIBI; Kamunyu Njoroge, CMA; James Mwangi, CMA and Christine Nyaloti, CMA.

The Capital Markets Authority Chief Executive Officer, Mr. Wyckliffe Shamiah (second from left), presents a gift to the Nigeria's Securities and Exchange Commission Director General Mr. Lamido Yuguda, during a benchmarking visit to the CMA offices on 22 August, 2022. Mr. Yuguda is flanked by some of the management members of the SEC, Nigeria

The Capital Markets Authority Chief Executive Officer, Mr. Wyckliffe Shamiah, presents a gift to the Ghana's Securities and Exchange Commission Director General Rev. Daniel Ogbarmey Tetteh, during a benchmarking visit to the CMA offices on 22 August, 2022

Lucy Njaramba, Senior Investor Awareness Officer

01 WHAT ARE DERIVATIVES?

A derivative is a financial contract that derives its value from an underlying asset. The buyer agrees to purchase the asset on a specific date at a specific price, while the seller agrees to deliver a certain quantity of the asset on the agreed date. The derivative itself is merely a contract between two or more parties.

02 PLEASE PROVIDE AN EXAMPLE

For instance, a company (Ugali Industries) that processes maize into Ugali flour requires maize as a raw material. As we all know, maize prices and availability are constantly fluctuating. To ensure that Ugali Industries is not affected by these fluctuations, the company can enter a contract with farmers. In such a contract, the farmers will commit to delivering a given amount of maize at a certain date while Ugali Industries will commit to paying a fixed price on delivery of the maize by the farmers. What this means is that the unga producing company is assured of raw material on the agreed date while the farmer is assured of the exact price that they will sell their maize. A win-win situation.

03 HOW ARE DERIVATIVES CONTRACTS TRADED AND SETTLED?

Exchange Traded Derivatives: In this form of derivative market, trading is conducted via specialized derivatives exchanges or other exchanges. In Kenya, all regulated derivatives transactions are exchange traded at Nairobi Securities Exchange under the name NSE NEXT.

Over the Counter (OTC) Derivatives: Parties trade with each other without going through an exchange or intermediary. This form of derivatives trading is not regulated and entails private negotiations between two or more parties.

04

HOW DO I TRADE DERIVATIVES IN KENYA?

In a company for a price agreed today (the futures price). NSE NEXT Single Stock Futures are currently cash settled. By cash settlement, upon expiration or exercise, the seller of the financial instrument does not deliver the actual (physical) underlying asset but instead transfers the associated cash position.

05

WHAT ARE THE ADVANTAGES OF TRADING NSE NEXT SINGLE STOCK FUTURES?

NEXT Single Stock Futures are derivative instruments that give investors exposure to price movement on an underlying stock

- Provides an effective and transparent hedge against unfavorable share price movements;
- They are liquid and easy to trade instruments;
- Positions in single stock futures allow investors to benefit from downwards or upwards movement of share prices; and
- Investors can have exposure on share price movements without owning the underlying share.

06

WHAT ARE THE ADVANTAGES OF TRADING NSE EQUITY INDEX FUTURES?

NEXT Equity Index Futures are derivative instruments that give investors exposure to price movements on an underlying index

- Price transparency and liquidity. These contracts can be sold as easily as they can be bought;
- Lower transaction fees than those incurred when buying or selling the basket of securities making up the index;
- Reduction of counterparty risk a result of trading via the exchange; and
- Centralized clearing.
- Market participants can profit from the price movements of a basket of equities without trading the individual constituents. In Kenya, we have the NSE 25 Index as the underlying asset for this class of derivative products.

Key Upcoming Events

Pooled Funds Industry committee players initiatives

Fintok Award Ceremony

Launch of the revamped Capital Markets Mobile App

Diaspora Webinar

Participation at the Kenya Diaspora Homecoming Convention

Social Media and television awareness campaigns

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