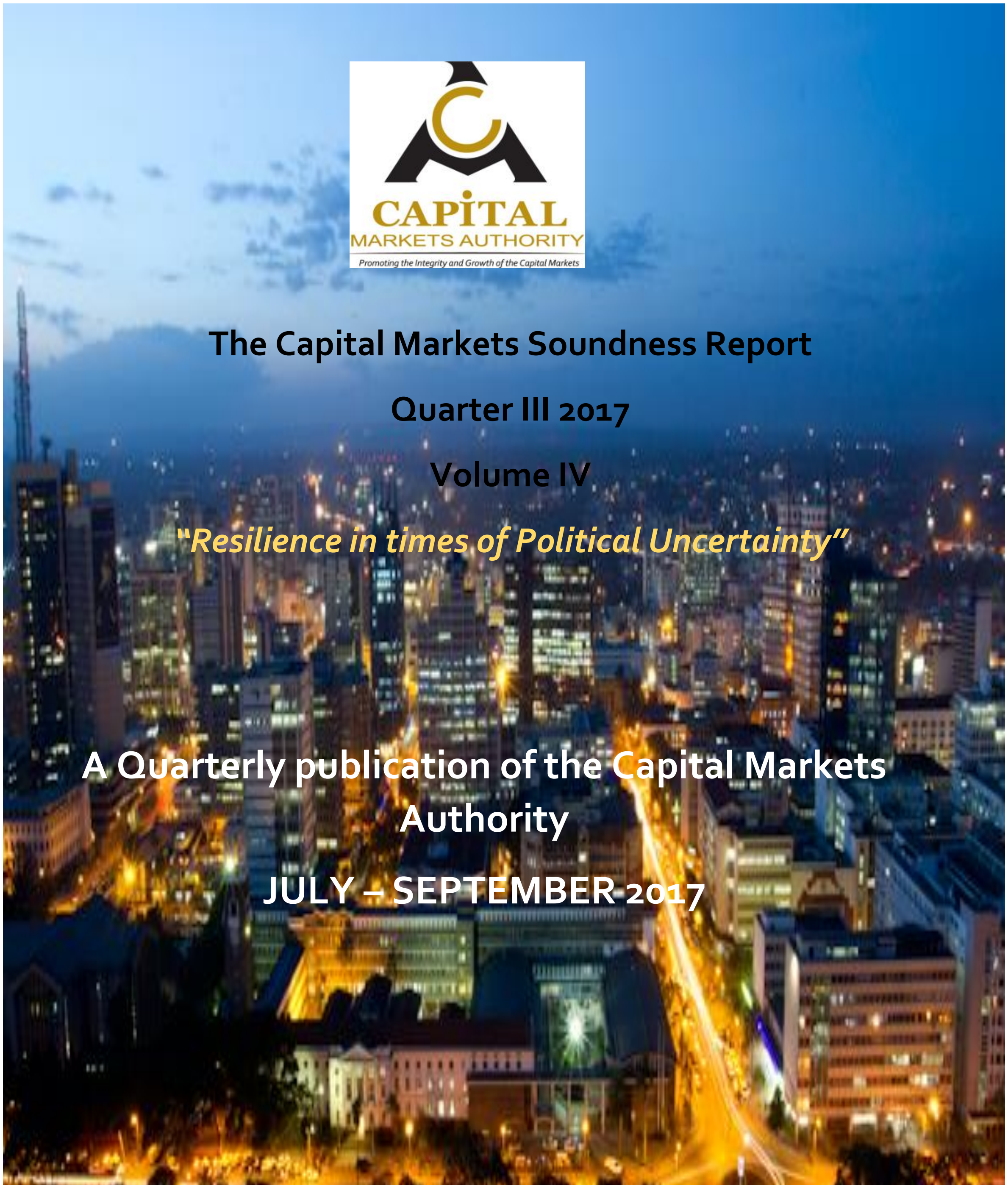

The Capital Markets Soundness Report

Quarter III 2017

Volume IV

"Resilience in times of Political Uncertainty"

A Quarterly publication of the Capital Markets Authority

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Capital Market Soundness Report- Q3. 2017

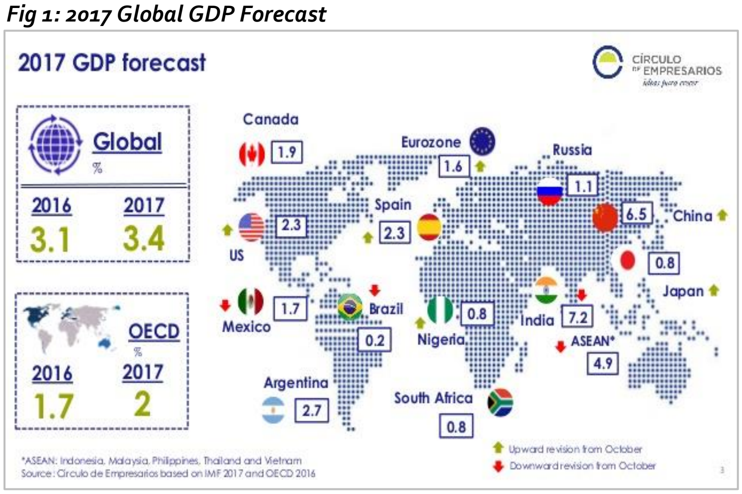
In this issue...

Stability Overview – International Markets

Indicators point to a healthy Global Economy albeit, with risks…

In Q3/2017, the growth momentum of the global economy continued to pick up, with major world economies including the US, Canada, Eurozone and Japan registering accelerated growth. In the developing economies, India remained vibrant, with China displaying resilience, while Brazil and Russia seemed to be emerging from recession. It is therefore anticipated that the global economy will generally register improved performance.

Fig 1: 2017 Global GDP Forecast



During the quarter, in the US, job vacancies hit the highest level since 2000[1]. In Japan, there were more jobs available per applicant than at any point since 1974. In the UK, the unemployment rate was the lowest since 1975 and Eurozone consumer confidence was at its highest since 2001.

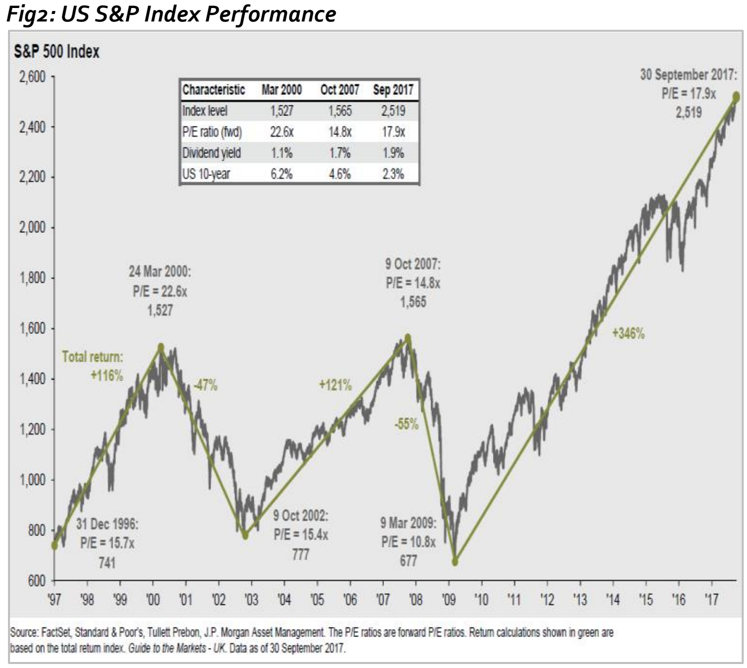
U.S Economy

On 20th September 2017, the Federal Reserve maintained its funds target rate at 1.0-1.25%, thus retaining its 2017 target range of 1.4 percent, unchanged from its June 2017 outlook. These actions point to the intention of major economies specifically U.S. to increasingly focus on reducing the level of monetary policy stimulus hitherto in place through Quantitative Tightening (QT) or 'balance sheet normalization[2]'

Further, in its September 2017 meeting, while acknowledging the damage inflicted by recent hurricanes Harvey and Irma, the Fed indicated that it is unlikely that the damage will be long-lasting, actually raising its projection for economic growth and lowering its outlook for the U.S. unemployment rate.

In the securities markets, US equity markets have had a relative better performance so far this year, with Q3/2017 continuing the trend.

Fig2: US S&P Index Performance



In their uptick, the biggest challenge that equities have faced so far in 2017 has been a less than 3% fluctuation, with a general positive sentiment and better performance expectations ruling the market, against a backdrop of decent earnings growth for corporates.

U.S Economy risks

i. There is a risk that if the Fed tightens credit too sharply, as it seeks to 'normalize the balance sheet', it might curtail credit growth in the private sector, even if interest rates remain low.

[1] https://am.jpmorgan.com/uk/institutional/library/market-insights-monthly-market-review-september-2017

[2] Reduction in the size of balance sheet to reverse some of the Quantitative Easing (QE) policies that have been in place and so supportive of bond prices since the Global Financial Crisis.

ii. There is a risk around the top leadership transition in the Fed as markets do not know who will be in charge of the Fed as the current Chair - Janet Yellen's term ends on February 3, 2018. Potentially leaving the Fed too is vice-chair Stanley Fischer who has already signaled his intent to resign in October 2017[3].

Markets are therefore grappling with the end of one of the world's biggest monetary experiments (Quantitative Easing[4]) at the same time as the stewards of that experiment walk away.

Implications for Kenya

i. While it would be necessary for central banks to minimize market disruption in unwinding QE and normalizing rates, the transition may not be necessarily smooth. This would especially be the case for fixed income investors whose reliance on high long-term yields, economic growth and predictable inflation levels would be challenged. As the unwinding takes shape, Kenya could benefit from capital inflows as global investors seek better returns in countries not implementing quantitative tightening to ease inflationary pressure and reduce their debt obligation by normalizing their balance sheets.
ii. It is vital to provide a clear policy on transition in key financial sector institutions to instill confidence and certainty for the economy.

Euro Area

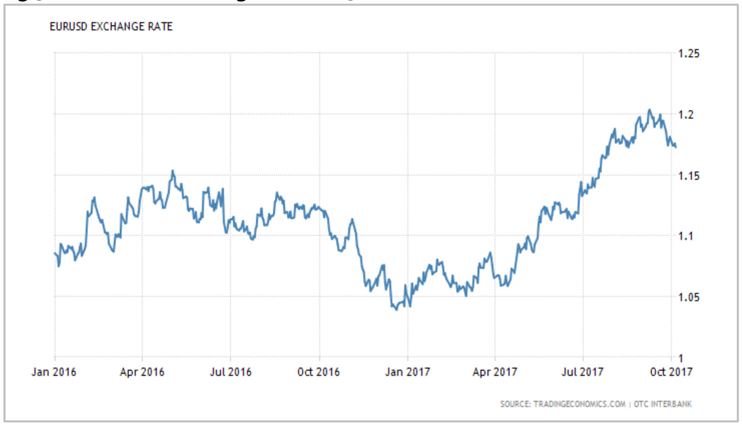
The European Central Bank (ECB) projects that annual real GDP will increase by 2.2% in 2017, by 1.8% in 2018 and by 1.7% in 2019. Compared with the June 2017 Euro system ECB projections, the outlook for real GDP growth was revised up for 2017, reflecting the recent stronger growth momentum[5].

[3] http://www.afr.com/markets/federal-reserve-reshuffle-poses-risk-to-yellens-stable-quantitative-tightening-20170921-gylu2q

[4] Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply.

[5] https://www.ecb.europa.eu/press/pressconf/2017/html/ecb.is170907.en.html

Fig 3: Euro/USD Exchange rate – Q3/2017



In Q3/2017 the Euro area registered strong growth and falling unemployment, even as the ECB continued with its monthly purchases of government and corporate bonds – otherwise known as Quantitative Easing.

Through its President – Mr. Mario Draghi, the Bank announced that interest rates in the region will be left unchanged at 0.0 percent, contending that "inflation was not sufficiently robust and self-sustaining to start increasing rates again". The ECB has slightly marked down its inflation expectation for the end of this year due to the strength of the euro and weaker than expected oil prices. The Bank expects inflation of 1.5% in 2017, 1.2% in 2018 and 1.5% in 2019 - the latter two were down 0.1% on June's forecast. The ECB's inflation target is "close to but less than 2%".

Quantitative Easing from ECB and a shrinking Fed balance sheet could put further upward pressure on bond yields, a development that could be supportive of financial stocks.

EU Economy risks

Save for the Catalonia Referendum in Spain, political risks in the EU region are generally subsiding. The other major risks include;

i. External risks emanating from future U.S. economic and trade policy and broader geopolitical uncertainties;
ii. China's economic adjustment, given its rapidly growing trade relations with the EU (China is now the EU's second-biggest trading partner behind the United States and the EU is China's biggest trading partner);
iii. The health of the banking sector in Europe in the post QE era and
iv. The upcoming negotiations with the U.K. on the country's exit from the EU region.

Implications for Kenya

i. As part of the global trading system, Kenya could suffer knock-on effects of external risks (in form of reduced exports) emanating from future U.S. economic and trade policy and broader geopolitical uncertainties around the nationalistic ideologies.

ii. A significant risk impact on Kenya is posed by the EAC/EU Economic Partnership Agreement (EPA). Tanzania has already requested for a study to determine the full impact on the EAC economies of the signing of the EPA. A study by the European Commission released in February 2017 indicated that the removal of duties and taxes on goods traded with East African countries under the Economic Partnership Agreement would lead to loss of revenue for the EAC block, though the study indicated that these would be recovered through increased East African exports to Europe.

United Kingdom Economy

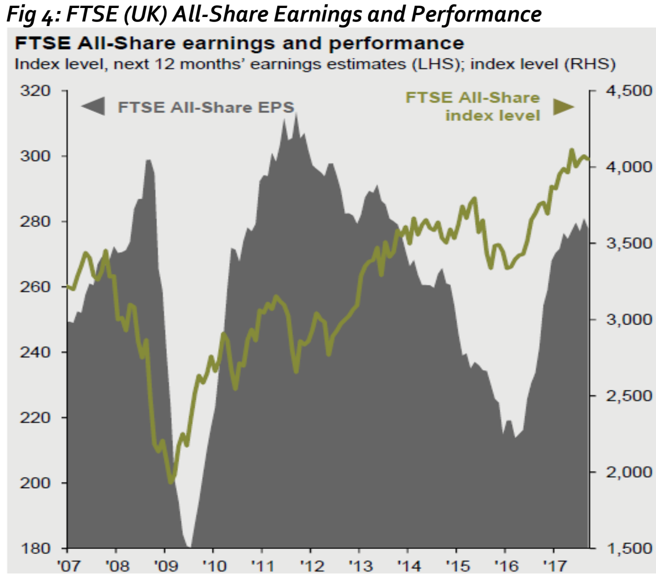
Latest indicative economic data for Q3/2017 for UK shows a mixed performance[6]. On the positive side, released data showed manufacturing sector to be on the rebound, with a rise in the manufacturing Purchasing Managers' Index (PMI)[7] in August signaling an acceleration in the expansion of output. Unemployment rate is now on a multi-decade low, with signs of a mild recovery in real wage growth in the quarter. Consumer sentiment edged up in August 2017, indicating brighter prospects for private consumption. On the downside, growth in total industrial production fell in July. In August, the housing market cooled further with the services PMI dropping too.

Brexit Negotiations

Brexit discussions seem to be making some progress in the latest round of talks but only in small steps[8]. In the quarter, and during the fourth round of talks, Brexit negotiators indicated that they had achieved "decisive steps forward", including on citizens' rights. The negotiations are however not in a state that allows discussions on future trade arrangements – set to happen after October 2017.

In general, Brexit uncertainty continues to deter investment with Prime Minister May's speech on 22 September 2017 failing to offer sufficient clarity on the UK's desired trading relationship with the EU. After the speech, Moody's downgraded the country's credit rating by a notch to Aa2 from Aa1 and changed the outlook from stable to negative, citing mounting policy challenges around the complexity of Brexit negotiation

Fig 4: FTSE (UK) All-Share Earnings and Performance



Source: FactSet, Thomson Reuters, J.P Morgan Asset Management

In the Equity markets, UK equities rose over the period amid a stable global growth outlook. The Sterling strengthened against a weak dollar, and noticeably so in September after the Bank of

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[6] https://www.focus-economics.com/countries/united-kingdom

[7] PMI is an indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

[8] http://markets.financialcontent.com/stocks/news/read/35014058/brexit_negotiations_move_forward_%E2%80%93_but_only_slightly

England (BoE) indicated it would normalize base rates relatively soon[9]. The appreciation in the currency negatively weighed on the market and the FTSE All-Share rose 2.1% on a total return basis.

UK Economy risks

i. Uncertainties surrounding Brexit negotiations continues to present real downside risks to the UK. EU accounts for about 44 % of the total exports of the country, with U.S., Asia and Middle East accounting for 20%, 13% and 5% respectively. Sovereign risk – the recent downgrade has set off a public spat between the UK Government and Moody's Credit Rating Agency, with the UK Government claiming that the verdict was "outdated" while Moody's rejected this view.

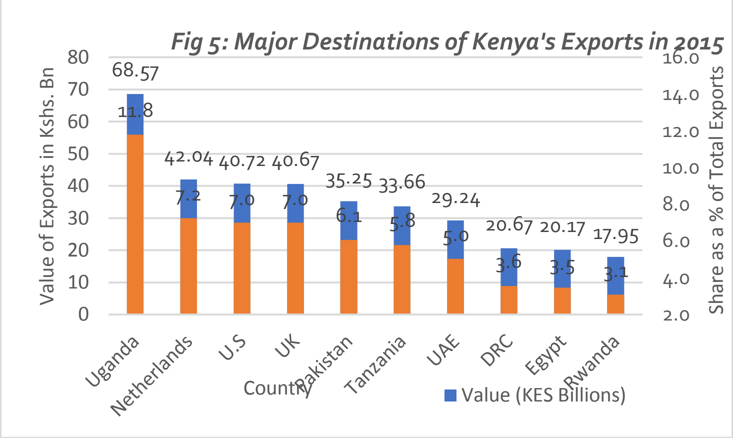
ii. The UK has 2.2million EU migrants – 7% of the overall UK workforce. This workforce has had a significant impact on the growth of the UK economy in the last decade. For instance, 14 per cent of directors at the FTSE 100 are from the EU[10]. Travel restrictions on this workforce could have a devastating adverse impact on the country's national income.

Implications for Kenya

Kenya has strong economic and historical links with the UK and is a favourite destination for UK investors. The UK is arguably the largest foreign investor in Kenya with more than 100 investment companies based in the country, valued at more than GBP£2 billion.

British firms account for a significant number of listings at the Nairobi Securities Exchange and more than 10 FTSE 100 companies have a presence in Kenya. They are also some of the top taxpayers in the country.

Fig 5: Major Destinations of Kenya's Exports in 2015



Source: Export Promotion Council, 2015

The UK is in the top five largest exports destination for Kenyan goods consuming almost 8.5 per cent of the total exports.

It is also one of the largest source markets for Kenya's tourism revenue, with more than 200,000 Britons visiting Kenya annually.

A rating downgrade should therefore be a cause for concern for Kenya, especially when viewed against ongoing Brexit negotiations.

China – Economy robust, risks abound

China's economy is likely to grow by 6.8 percent year on year in Q3of 2017, thanks to steady consumption and investment, according to the Chinese Academy of Social Sciences (CASS), citing steady consumption and robust infrastructure investment. The report forecasts that consumption growth will rise around 10 percent and infrastructure investment will grow around 20 percent in the second half of the year. CASS estimated that China's economy would expand by 6.7 percent and 6.8 percent in the fourth quarter and for the whole year, respectively. The Chinese government trimmed its 2017 growth target to around 6.5 percent, the lowest in a quarter of a century.

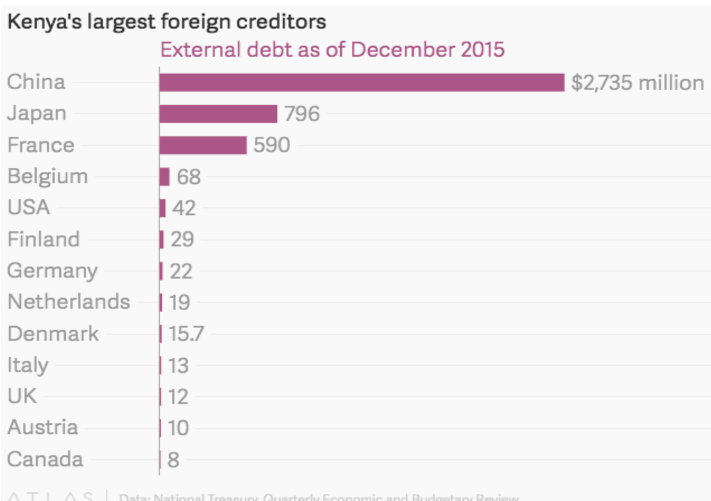
According to China's National Bureau of Statistics (NBS), the country's economy continued steady expansion in the first half of 2017 with GDP up 6.9 percent year on year to about 38.15 Trillion yuan ($5.6 trillion). In the second quarter, GDP held steady at 6.9

[9] http://www.schroders.com/en/sysglobalassets/digital/insights/2017/pdf/market-reviews/quarterly/quarterly-markets-review-q3-2017.pdf

[10] http://www.cityam.com/271812/exiling-eu-citizens-uk-risks-losing-lifeblood-its-economy

percent year on year, flat from the first quarter[11]. The report indicated that the Chinese Government should guard against risks in the property and financial sectors and the growth of China's fiscal revenue will slow in the second half of the year due to continued tax breaks.

Fig 6: Kenya's largest Foreign Creditors (2015)



Implications for Kenya

China is a key investor and trading partner in the Kenyan economy. Any major growth slack could have a significant impact on the Kenyan economy. China is now Kenya's largest creditor, accounting for over 57% the country's total external debt of US$4.51 billion, according to the World Bank. Chinese loans to Kenya grew an annual rate of 54% between 2010 and 2014 while loans from other lenders like Japan and France fell. Although the impact of the risks faced by the Chinese domestic economy may be remote, developments in the far-flung economy could have far-reaching implications for the Kenyan economy especially as it continues to implement its 'Belt and Road' project that will be it increasing its infrastructure spending in a wider spectrum of countries.

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Stability Overview – Sub Saharan Africa

According to *Focus Economics*[12], Sub-Saharan Africa is expected to grow moderately in 2017, as volatile commodity prices and turbulent political undercurrents limit the recovery, with GDP expected to expand 2.5%.

In 2018, regional GDP growth is expected to gain steam as the recovery strengthens. However, the evolution of commodities prices will be key to the economies' growth trajectory for 2018 expected to hit 3.4%. Behind the stable forecast are unchanged projections for four of the region's thirteen economies. However, forecast has been lowered for six economies, including Kenya, Nigeria and South Africa, but raised for Ethiopia and Ghana.

Further, Cote d'Ivoire and Ethiopia are expected to be the fastest-growing economies next year, expanding 7.0% or higher largely driven by large infrastructure investment programs and stabilizing commodity prices.

On the other hand side, the region's biggest economies are likely to be the poorest performers: South Africa is expected to grow 1.3%, followed by Angola with a 2.6% growth and Nigeria with a 2.7% expansion.

Implications for Kenya

Given the revised growth projections for Kenya, there is need to urgently and conclusively address domestic political risks in the short term by strengthening governance while working towards putting in place measures to reduce geopolitical risks, in order to put the country back on a growth trajectory.

Stability Overview - Domestic Environment

Update on Macroeconomic risks

i. GDP Growth and Vision 2030

In September 2017, the country lowered its 2017 economic growth forecast to 5.5 percent mainly due to drought and political uncertainty as the country prepared for a fresh presidential election. The Government had initially projected a 5.9 percent growth for 2017 but the economy expanded lower than projected to 4.7 percent in the first quarter, mainly due to poor agricultural performance. The recent GDP statistics by the Kenya National Bureau of Statistics (KNBS) indicate that Kenya's economy expanded by 5.0 per cent in the second quarter of 2017 compared to 6.3 per cent in the corresponding quarter of 2016. Barring any unforeseeable developments, the growth in GDP is however expected to rise to 6.5 percent per year in the medium term. The country's annual GDP growth rate however continue to fall nearly 50 percent short of the 10 percent year-on-year target envisioned in the Vision 2030 for the attainment of middle income economy.

[11] http://www.chinadaily.com.cn/business/2017-07/24/content_30228183.htm

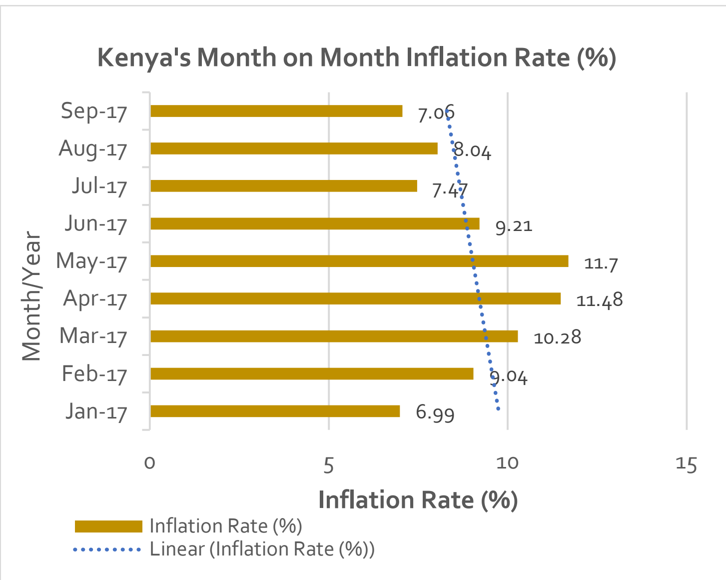
[12] https://www.focus-economics.com/regions/sub-saharan-africa

Some of the factors that have contributed to this stable but suboptimal growth include slowdown in credit growth to the private sector following interest rate caps effective September 2016, vulnerability to market risks, fiscal slippage and business activity disruption exacerbated by political stand-offs.

ii. *Inflation risk*

In September 2017, the country's inflation rate decreased to 7.06 percent year-on-year, from 8.04 percent in August 2017, partially due to decreases in the Food and Non-Alcoholic Drinks index. Inflation rates generally fell in the quarter, compared to Q2. 2017.

Fig 7: Kenya's M-o-M inflation rates[13]



Source: KNBS

iii. *Budget Deficit and Public Debt risk*

Between July 1 2016 and June 30, 2017, Kenya's cumulative overall fiscal deficit (on a commitment basis and excluding grants), amounted to Ksh708.4billion (equivalent to 9.2per cent of GDP) against a targeted deficit of Ksh871.6billion (equivalent to 11.3per cent of GDP).

Over the same period in 2016, the fiscal deficit was Ksh546.4billion (equivalent to 8.4per cent of GDP). Between June 2016 and June 2017, the gross public debt increased by KSh 795.7 billion, from KSh 3,611.3 billion as at end of June 2016 to KSh 4,407.0 billion by 30th June 2017, comprising of 52.1 per cent of External debt and 47.9 percent of Domestic debt.

The overall increase was attributed to increased external debt due to exchange rate fluctuations and disbursements from external loans debt during the period. Net public debt increased by KSh 761.8billion, from Ksh3, 210.8billion as at end of June 2016 to Ksh3, 972.5[14] by end June 2017.

While Kenya has maintained a fair level of comfort over its rising Public Debt /GDP ratio due to a combination of a robust Debt Sustainability Framework and application of borrowed funds towards big ticket development projects that are expected to crowd-in the private sector, there appears to be a growing concern locally and internationally over the rapid growth of debt, calling for potential review of the country's public debt policy.

Stakeholder engagements spearheaded by the National Treasury to prioritize discussions on the possible impact of the growing debt obligation on Kenya's macro-economic and financial stability in the medium to long term are therefore recommended.

iv. *Balance of Payments (BOP) position*

In the year to June 2017, the overall balance of payments position recorded a deficit of US$ 413.2 million (0.6 percent of GDP) in the year to June 2017 from a deficit of US$ 1,109.0 million (1.7 percent of GDP) in the year to June 2016. The current account balance reflected a deficit of US$ 4,638.5 million in the year to June 2017 from a deficit of US$ 3,122.1 million in the year to June 2016.

The widening of the current account deficit reflects a 5.7 percent drop in receipts from export of goods, 11.0 percent increase in imports of goods, and a 1.4 percent decrease in the service account despite an improvement in net payments primary and secondary income. As a share to GDP, the current account deficit was at 6.4 percent of GDP in June 2017 compared to 4.9 percent of GDP in June 2016[15].

v. *Interest rate risk*

The CBK's MPC retained the Central Bank Rate (CBR) at 10 per cent in September 2017 in its meeting held on 18th September 2017 against a backdrop of general macroeconomic stability, a prolonged election period and continued uncertainties in the

[13] KNBS Overall CPI and Inflation Rates

[14] The National Treasury Quarterly and Economic Budget Review, August 2017 Edition

[15] The National Treasury Quarterly and Economic Budget Review August Edition

global economy. The rate has been retained at 10 percent since August 2016.

In the quarter, the Central Bank of Kenya indicated that the interest rate cap on loans which was effected in September 2016 will soon be reversed to allow the market to determine the pricing of credit.

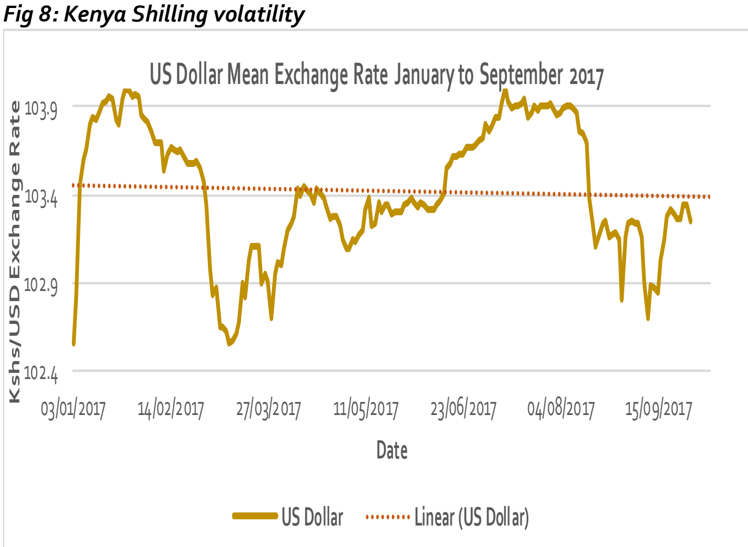
The Bank indicated that it will now be a matter of "when" and not "if", but this will be reliant on a disciplined environment.

The preliminary results of a study that CBK has been conducting to determine the impact of the rate cap are expected to be made public soon. Once CBK concludes the process, any proposal on the cap review will still have to be passed through Parliament.

vi. Exchange rate risk

Compared to the rest of the year, the Quarter to September 2017 registered some of the lowest mean rates to the US Dollar. The mean rate was at Kshs.103.24 to the USD as at end of Q3/ 2017. Fluctuations in the Kenya Shilling have largely been reflecting seasonal trends and are expected to depreciate in line with the current political and economic conditions

Fig 8: Kenya Shilling volatility



Source: CBK

Update on Kenya's Sovereign Risk

Standard & Poors

In April 2017, Global credit rating agency Standard & Poor's affirmed Kenya's short and long term foreign and local currency sovereign credit ratings at "B+/B" with a stable outlook on strong external position and monetary policy flexibility. At the time, the rating agency indicated that despite the positive view of growth, the country's economy remains at threat from risks including elections, drought, and decelerating credit growth.

In August 2017, the rating agency through its sovereign analyst for Kenya - Mr. Gardner Rusike indicated that Kenya's B+ credit rating and stable outlook will not be affected by its election as long as 'there is no repeat of the deadly violence that broke out after the country's 2007 vote'. The analyst further indicated that there the rating agency does not expect a repeat of 2007, and "if there are contestations they will be less and more managed than 2007."

Moody's Investors Service

The latest feedback on the country's rating has been done by Moody's Investors Service which had rated Kenya on a B1 long-term issuer rating. This rating has now been placed on review for a downgrade. The decision to place the rating on review for downgrade was prompted by the following key drivers:

1) Persistent, large, primary deficits and high borrowing costs continue to drive government indebtedness higher;
2) Government liquidity pressures risk rising in the face of increasingly large financing needs;
3) Uncertainties weighing over the future direction of economic and fiscal policy, in part due to evolving political dynamics

Moody's review will focus on assessing:

1) The country's medium-term fiscal trends, and the likely policy response to ongoing budgetary pressures
2) The effectiveness of the government's medium-term financing plan in managing liquidity risks
3) The government's overall credit profile relative to similar-rated peers[16]

If effected, the move by Moody's to place Kenya's B1 rating on review for downgrade may pose a knock-on risk of increasing the overseas financing costs of companies and impact on market sentiment in the short term. Management proposes that the flagged factors that would result in a rating downgrade be included in discussions around the rising debt to be discussed by

[16] http://kenyanwallstreet.com/moodys-places-kenyas-b1-rating-review-downgrade

relevant stakeholders candidly and holistically, under the guidance of the National Treasury.

The Authority is cognizant of the fact that a possible downgrade of Kenya's credit rating levels is not favorable for the growth and development of the capital markets as credit rating is a key consideration for any investor wishing to put their money in any investment vehicle in Kenya.

To this end, the Authority remains vibrant in pursuing its mandate of strengthening the Kenyan capital markets through various initiatives such as offering a wider array of capital markets products for investors by developing supporting regulation, identifying possible tax considerations that require the Authority's intervention to make the capital markets attractive amongst others.

The Authority is proud to have engaged the National Treasury on several occasions resulting in tax incentives for the industry such as in Real Estate Investment Trusts and Islamic Finance.

Further, CMA is aware of the funding gap that Vision 2030 projects are subjected to hence the need to borrow and is working towards developing appropriate products and services that can offer a platform for Vision 2030 implementing agencies to raise funds through the capital markets. This will play a significant role in easing pressure from the National Treasury to fund all these ambitious projects from either its balance sheet or through expensive public debt.

The private sector equally plays a significant role in promoting Kenya's development agenda and is encouraged to rethink possible areas of collaboration with Government through successful Public Private Partnerships.

Update on Political risk

The Quarter was marked by key political events in Kenya's history, culminating in elections on 8th August 2017.This was followed by petitions to the Supreme Court of Kenya by the opposition following the results of the presidential elections.

The subsequent Supreme Court of Kenya ruling to annul the Presidential results adversely affected market performance. Negative sentiment around political risk in Kenya during General Elections has been a key factor influencing performance of securities markets. Given this political risk, Kenya continues to be on the spotlight both regionally and internationally as efforts are made towards ensuring the fresh presidential polls scheduled for 26th October 2017 proceed smoothly.

Table 1: Top price changes during the pre and post-election period

COMPANY	1st Aug	31st Aug	% Δ 1/08; 31/08	1st Sep	29th Sep	% Δ 1/09; 29/09	Aug/Sep Average Price Δ%
NBV	4.5	3.65	18.89%	3.6	2.5	30.56%	24.72%
ARM CEMENT	20.5	19.45	5.12%	18.35	14	23.71%	14.41%
EAPC	32	26.25	17.97%	26.25	26	0.95%	9.46%
EA CABLES	5.9	5.95	0.85%	5.85	4.8	17.95%	8.55%
WPP SCAN	22.5	23.25	3.33%	22.5	18.7	16.89%	6.78%
EXPRESS	3.95	4.2	6.33%	4.05	3.3	18.52%	6.09%
LIMTEA	600	540	10.00%	540	540	0.00%	5.00%
STANLIB FAHARI	12	12.2	1.67%	12.25	10.95	10.61%	4.47%
TRANS-CENTURY	7.3	7.1	2.74%	7.1	6.7	5.63%	4.19%
UNGA GROUP	31.75	33	3.94%	32.5	29.25	10.00%	3.03%

Source: NSE

Despite market activity having resumed, most listed companies at the NSE have not experienced major gains in price and trades during the period, especially after the 8th August election and subsequent September 1st Supreme court decision. A speedy resolution of the current political stalemate is crucial towards resolving GDP growth challenges.

Kenya Capital Markets Soundness

Primary Market

Kenya's primary equities market has displayed minimal activity over the past 10 years and this persisted in Q3/2017. The Authority is implementing measures such as: the Business Incubator and Accelerator on the Listing Experience[17] and the transformation of the Growth Enterprise Market Segment (GEMS) market to enhance the capacity of capital markets to enable small and medium size companies to raise capital.

[17] The incubator and accelerator is an event organized by the Authority and intended to give interested companies a realistic and practical feel of the listing process. Interested firms participate in a stage by stage, one on one, structured engagement with the CMA, NSE, Nominated Advisors (NOMADS), Transaction advisors, Lawyers, Auditors, Stockbrokers and Investment Banks, among other service providers, to allow for B2B discussions on their readiness for listing.

In the unlisted securities and off-shore investments some market activity was registered thus providing alternatives to the private sector to access finance. Overall, according to the June 2017 CIS Report[18], in terms of risk exposure, unlisted securities and offshore investments account for 5.58 percent of the total Unit Trust portfolio in Kenya.

Private Equity

The Private Equity space has remained active in the quarter under review as evidenced by a number of transactions across different sectors; financial services, technology, Fast Moving Consumer Goods (FMCG) amongst others. Some of the deals include;

i. Financial Sector: Britam Holdings Ltd share sale of 14.3% equity stake to AfricInvest at a cost of $57 Million.

ii. Technology Sector:
- BSP Fund LLC, a Canadian venture capital firm acquired 100.0% stake in iHub Limited, a Kenyan company that runs an innovation incubation laboratory for tech entrepreneurs for an undisclosed amount.
- International Finance Corporation (IFC), the private sector arm of World Bank Group is set to acquire an undisclosed stake in a Kenyan based mobile technology firm, Africa's Talking, for USD 6 mn (Kshs 620.4 mn).

iii. Fast Moving Consumer Goods :
- The Abraaj Group, a Dubai-based private equity firm is set to acquire a 100% stake in Kenya's Java House Group (Java) after it emerged the top bidder among a group of institutional investors.
- South African based firm, Coca-Cola Beverages Africa Proprietary Limited (CCBA), which is Africa's largest Coca-Cola bottler, acquired Kisumu based Equator Bottlers, an authorized Coca-Cola Bottler, for an undisclosed amount.
- Kansai Plascon Africa Limited, a subsidiary of Japanese paint maker Kansai Paint Co. Ltd, completed the acquisition of a 90.0% stake in Kenyan paint and coating manufacturer, Sadolin Group. The transaction was valued at USD 100.0 mn hence valuing the company at USD 111.1 mn (Kshs 14.5 bn).

The Authority remains engaged on developments within the private equity space in the country in order to build a clearer picture of the quantum of both the private and public markets.

During the quarter, the Authority engaged with the East Africa Venture Capital Association (EAVC) to determine the best approach to oversighting the venture capital and private equity market, to leverage on its strong potential.

Additionally, public funds have equally shown interest in investing in private equity funds as was witnessed in quarter 2 of 2017 where Fanisi Capital in its fund raising of Kshs 3 Billion had 45 percent of the proceeds come from at least eight Kenyan pension funds and SACCOs in the country.

This remains a commendable move and calls for more collaboration between CMA, EAVCA and fund managers so to ensure sufficient disclosures as this will enable the Authority to be able to monitor public funds that are under the management of private equity firms.

Additionally, capacity building initiatives for trustees would be a significant initative that can jointly be pursued to ensure that trustees are more informed on the possible asset classes they can invest in.

This will be progressed in Q4 through structured forums with all relevant market stakeholders

International Financial Reporting Standard (IFRS) 9 and its implementation

IFRS 9 – a new standard which addresses the accounting for Financial Instruments will be effective for annual periods beginning on or after 1 January 2018 replacing IAS 39 Financial Instruments Recognition and Measurement. It introduces changes to the accounting for credit losses as well as changes to how financial assets are measured on an ongoing basis to align with asset's cash flow characteristics and the business model in which the asset is held. It is likely to be most significant for financial institutions, for banks in particular, as the new standard will have an impact on how they account for credit losses on their loan portfolios. Other entities other than financial institutions that could be affected by this standard include those with:

1. Long-term loans,
2. Equity investments or any non-vanilla financial assets, and
3. Those only holding short-term receivables

The standard requires institutions to determine Expected Credit Loss on Financial Instruments

[18] CMA CIS Report

IFRS 9 has the advantage of being simpler than IAS 39, further it replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognized. The standard aims to address concerns on late provisioning for loan losses, and will accelerate recognition of losses; however, it comes with the threat of volatility in profit and loss as more assets will have to be measured at fair value with changes in fair value recognized in profit and loss as they arise.

Impact and challenges of IFRS 9 Implementation

1. Capacity

The Capacity of market participants to comply with the standard within the effective timeline of January 1, 2018 in terms of review of their systems, building capacity internally and associated costs of compliance with the standard is still in question. It is expected that there will be significant increase in disclosures in the financial statements – quantitative and qualitative information and clarity of accounting policies

The market participants will be expected to enhance their capacity especially around credit and finance functions. For instance, banks will be required to adopt a way of estimating the Expected Credit Loss on the loans issued and given the complexity of their operations and diversity of their loan portfolio, they may need enhanced technical capacity for estimating the cash flow the bank expects to receive in comparison with what is due to it.

In this regard, ICPAK should expedite the process of issuing guidelines to the market so that there is certainty in terms of how the firms should be expected to compute the Expected Credit Losses and the amounts to be provisioned in the financial statements.

2. Significant increase in credit loss provisions

It is expected that there will be significant increase in credit loss provisions on loans and advances due to expected loss models

The banks will be expected to estimate Expected Credit Loss on the loans to clients at the onset. The standard gives a clear guidance on estimation of credit loses ensuring that the amount a company reports are comparable , timely and understandable. Banks are expected to report higher provisions in their financial statements because of the requirement of early provisioning of loans. The upside is that it may lead to adequate provisioning to cover the Banks against shocks especially in times of defaults caused by general economic conditions, however, increased provisioning is expected to lead to lower profits by banks in the initial years. Some investors may interpret this as poor performance by the banks and this may have a negative impact on their share price. Some banks are also expected reduce lending to certain market segment, especially where the risk of the segment is perceived to be high. The intention is to reduce the level of required provisioning and therefore shore up profitability. This is especially so because of the capping of interest rates.

3. Restatement of comparative figures in the financial statements

The market participants usually publish their interim and audited financial statements, with IFRS 9 becoming effective on January 1, 2018 all comparative figures previously published will need to be restated. This is also likely to cause a stir in the market especially among investors who do not understand the implications of the adoption of the new standard.To avoid this scenario, it is imperative that the regulators concerned, including ICPAK, the CBK and CMA come together to conduct awareness campaigns targeting the financial media and investors.

4. Compliance with IFRS in quarterly reporting

Listed companies submit and publish their financial statements quarterly. The quarterly accounts are not usually audited; nevertheless they are relied upon by investors in making their investment decisions. The foreign investors that contribute the bulk of the daily trades at NSE rely on financial statements of companies from different jurisdictions to make projections of income and market outlook. In this regard, it will be important for listed entities and other issuers to comply with the standard as they prepare their interim financial statements. This would ensure that the quarterly accounts do not differ materially from the audited accounts.

5. Profit warning announcement

Paragraph G.05 (1) (f) of the Fifth Schedule to the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 requires issuers to issue profit warnings if their earnings are expected to be at least 25% lower than the level of earning in the previous financial year. With the coming into effect of IFRS 9, it is anticipated that some Banks will issue profit warning announcement because of increased provisioning of loans leading to lower profit.

6. Comparability of the financial statements

There may be variances especially in provisioning by the banks that may make it difficult for the figures in the financial statements to be comparable to historical figures as well as among companies. For example companies may have varying results in cases where one institution may use its specific data and another institution may use macro-economic data

7. **The Impact of the new Standard on Asset Backed Securities and other securitized instruments**

Asset Backed Securities draw their value from the value of underlying assets, in most cases, credit instruments. The requirement to make early provisions for Expected Credit Loss for such instruments is likely to have a negative impact on the value of the assets in securitized instruments like ABSs. Therefore, this is likely to reduce the attractiveness of these instruments, which the CMA is in the process of reviewing for issue in the Kenyan Market.

8. **The Impact of reclassification of financial assets to align them to the business models**

There is a concern on the impact on the profits or losses that may result from the reclassification by market intermediaries of an asset from one class, e.g. from FVTPL to FVTOCI and vice versa to align it to the business model of the firm. This is likely to impact historical comparability.

Role of CMA in preparation for the implementation

A working group of the stakeholders (regulators, preparers and auditors) has been put in place by Institute of Certified Public Accountant of Kenya (ICPAK) to develop guidance that will ensure consistent implementation in the market

The working committee on the implementation of IFRS 9, where the Authority has able representation, has been working on this and is expected to provide this guidance to the market soon. The guideline will make it simpler and more uniform for preparers of financial statements as well as auditors to prepare and audit financial statements in compliance with IFRS 9.

In addition, the committee has plans to conduct sensitization workshops targeting the affected players.

Nairobi as an International Financial Centre – Vision 2030

In December 2016, Cabinet approved the Nairobi International Financial Centre Bill, which sought to provide a framework to facilitate and support the development of an efficient and globally competitive financial services sector in Kenya through the establishment of the Nairobi International Financial Centre and the

Nairobi International Financial Centre Authority. This was informed by Vision 2030's hopes to secure the country's middle income status by developing a vibrant and globally competitive financial sector with the aim of transforming Nairobi into a finance hub through the establishment of the Nairobi International Financial Centre Authority (NIFCA).

Progress made so far by the Authority include the development and gazettement of the Nairobi International Financial Act, which was gazetted on 3rd August 2017.

Section 6 of the Act identifies three key objectives of the Authority namely;

i. To establish and maintain an efficient operating framework in order to attract and retain firms.
ii. Develop and recommend strategies and incentive structures in collaboration with relevant agencies in order to attract firms to be Nairobi International Financial Center firms.
iii. Review and recommend, in collaboration with relevant regulatory authorities developments to the legal and regulatory framework in order to develop Kenya as an internationally competitive financial centre.

Additionally, the Authority has on boarded a resident consultant whose mandate is to assist the Authority in developing procedures and incentives for making Kenya a financial hub.

What is an International Financial Centre (IFC)?

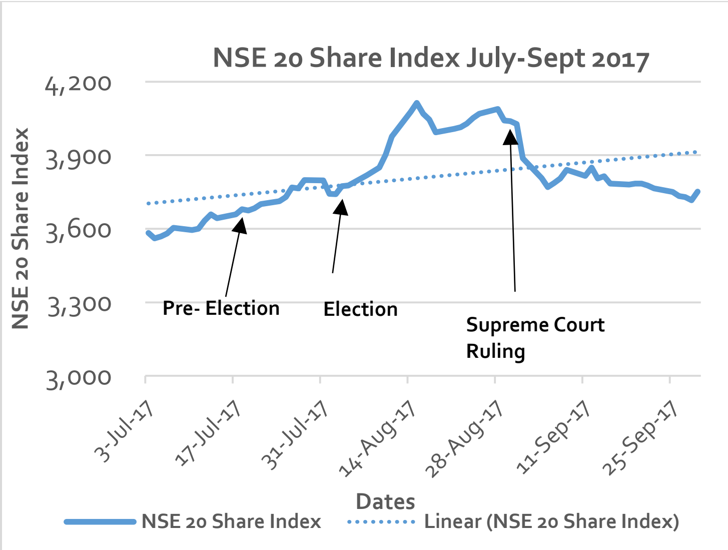
It is a concentration of a wide variety of international financial businesses and transactions in one location; typically, a city. IFCs are jurisdictions whose laws and institutions provide optimal conditions for the financial services industry. IFCs share several features such as the presence of investment opportunities for foreign capital, low corporate taxes as well as other tax incentives, appropriate infrastructure to facilitate the timely movement of capital in its various forms, all operationalized by a sophisticated regulatory and legislative framework. IFCs have worked in various places with the main ones including, but not limited to, New York, London, Zurich, Hong Kong, Frankfurt, Johannesburg and Dubai.

Secondary Market

In September 2017, Nairobi Securities Exchange (NSE) was Africa's worst performing major stock exchange, according to data compiled by London based economic research consultancy *Capital Economics*. This followed the fall in the month, of the country's benchmark NSE 20 Share index, which is one of Africa's most widely-traded. The index had dropped by 8.7% in local currency terms. The lower performance was mainly attributed to political risk after the Supreme Court annulled the August 2017 Presidential Election.

Despite the uncertainties relating to elections, the Securities Market is expected to remain resilient as the country charts the way forward on conclusive elections.

Fig 9: NSE 20 Share index and USD Trends during the Electioneering Period



Source: CMA, CBK, NSE

Update on Capital Market Risks

Equity Markets

i. Market Concentration risk

As at September 2017, the top 10 listed companies in by market capitalization accounted for 79.88 percent of the total market capitalization.

Table 2: Equity Market Concentration for listed Co.'s in Kenya

Listed Company	Jul.2017	Aug.2017	Sep.2017
Top 10 Co.'s Total Mkt Cap	1,897.02	2,013.11	1,898.61
End Month Market Cap	2,358.73	2,478.62	2,376.69
Mkt. Concentration	80.43%	81.22%	79.88%

Source: CMA, NSE

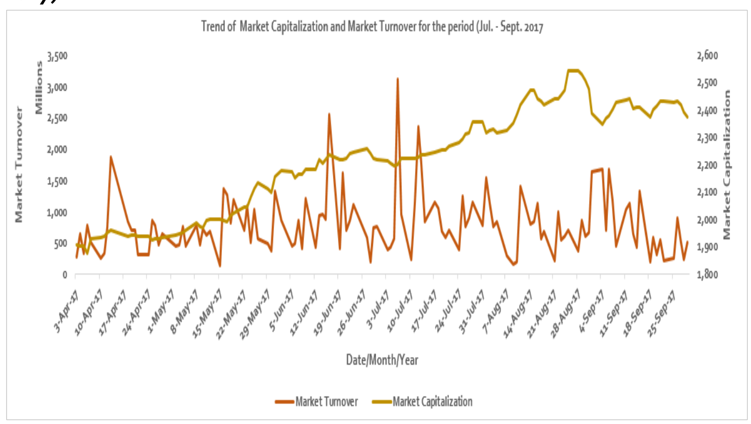
This presents a market concentration risk such that if any adverse changes happen to those counters, the market would be significantly affected.

Market concentration risk will continue to be countered through the inducement of more listings of large cap entities or significant numbers of smaller and medium cap companies. The Authority through its 10Year Capital Markets Master Plan has been proactive in collaborating with market stakeholders to implement initiatives towards broadening the market to reduce this risk.

ii. Market performance risk

During the Quarter, capital market performance was a function of external factors (mainly the political climate) and internal factors (listed companies' performance, sectoral factors, market infrastructure and frequency of adverse news among others).

Fig 10: Equity Market Turnover and Market Cap (Jul. – September 2017)



Source: CMA, NSE

iii. Listed Company performance

In the quarter to September 2017, in terms of market cap, Safaricom (41.68%), EABL (8.31%), EQUITY (6.15%), KCB (5.28%) and CO-OP Bank (4.20%) were the top five companies, cumulatively accounting for 65.60% of the total Market Cap, confirming the dominance of these companies on the bourse. The remaining 34.38% was shared across the remaining 61 listed entities. Of the 61, twelve (12) companies had their market cap share ranging between 1.04% and 3.38% with the remaining companies' market cap remaining below 1%.

Price Gainers

Table 3: Top 10 Price gainers as at 29th September 2017

Counter	VWAP 30th June 2017	VWAP 29th Sep 2017	% Change
UCHUMI	2.15	3.15	**46.51%**
CIC	4.10	5.35	**30.49%**
I & M	103.00	130.00	**26.21%**
KPLC	7.95	9.95	**25.16%**
TPSEA	22.25	26.75	**20.22%**
OLYMPIA	2.50	3.00	**20.00%**
BRITAM	12.65	15.00	**18.58%**

DTB-K	160.00	185.00	15.63%
NIC	33.50	38.50	14.93%
KENOLKOBIL	14.00	16.00	14.29%

Source: CMA, NSE

Uchumi: During the quarter, the listed supermarket retailer announced that it anticipates to raise Sh3.5 billion through equity capital in the next few months as part of its financial recovery strategy. The retailer revealed to its investors that negotiations are on for the potential investor to pump in Sh3.5 billion by buying part of its Sh5 billion shares.

BRITAM- During the quarter, Britam holdings was granted a license to conduct Real Estate Investments Business. The venture into Real estate is part of the group's strategy to diversify and reduce portfolio risk by reducing exposure to the Equities market and target Real estate exposure of between 20.0% and 30.0%. Additionally, Britam Holdings Plc broke ground on its proposed Kshs 3.3 Bn serviced apartment project in Kilimani. On the regional front, Britam Holdings Plc launched an asset management company in Uganda as it extends its asset management expertise in the region, which will offer investment management and advisory services to pension funds, insurance companies, corporates, government entities and retail investors in Uganda,

Price losers

Table 4: Top ten price losers as at 29th September 2017

Counter	VWAP 30th June 2017	VWAP 29th Sep 2017	% Change
NBV	6.20	2.50	59.68%
ARM	20.50	14.00	31.71%
E.A.P.C	30.75	26.00	15.45%
E.A CABLES	5.60	4.80	14.29%
STANLIB	12.55	10.95	12.75%
LIMTEA	600.00	540.00	10.00%
WPP SCAN	20.25	18.70	7.65%
EXPRESS	3.55	3.30	7.04%
CARBACID	13.60	12.70	6.62%
EAAGADS	26.50	25.00	5.66%

Source: CMA, NSE

EA CABLES-The construction and allied company has experienced a contraction in its share price since the resignation of its Chief Executive Officer. The resignation coincided with the deterioration in the firm's performance in the H1-17 ended June when sales, earnings and shareholder funds all dropped.

Listed Banks' performance

Table 5: Banking Sector performance Q3. 2017 as at September 2017

Variable	Q2. 2017 Kshs. Millions	Q3. 2017 Kshs. Millions
Total Turnover	27,758	37.33
Sector – Value Traded	9,507	15,203
Sector – Volume Traded	293.97	559.61
Sector - % Total of Volume Traded	25.70%	28.56%
Sector - % of Total Value Traded	34.25%	48.68%
Sector Cap (Millions)	593,014	674,540
Sector - %Total Market Cap	27.57%	28.38%

Source: NSE

The capital market performance of listed banks increased between Q2 and Q3 of 2017, with the proportion of the sector's market cap as a percentage of total market cap increasing from 27.57 percent to 28.38 percent.

iii. Market Liquidity risk

Calculated by taking the quarterly turnover figures as a percentage of total market cap, in the quarter to September 2017, average equity market liquidity stood at 2.25 percent, compared to 2.02 percent registered in the quarter to June 2017 indicating an 11.41% increase in Turnover Ratio in the equities market despite being an electioneering quarter.

Although the equity market liquidity figure compares well with the rest of the EAC members with Tanzania at 0.6 percent and Uganda at 0.14 percent, because liquidity levels measure the depth of the market, this ratio is relatively low (approximately 9 percent), when compared to the 15 percent MSCI target for an emerging market.

To address this risk, the Authority continues to facilitate implementation of the CMMP that would in the long-term, lead to improvement in market liquidity. Such initiatives as Securities Lending and Borrowing (SLB) - whose regulations have been submitted to the Attorney General's Office for gazettement and once in force will play a significant role; OTC trade reporting for Bonds; Direct Market Access and leveraging on Technology among others, are anticipated to boost market liquidity.

Table 6: Liquidity concentration as at September 2017

Period	Turnover (Kshs. Bn)	Market Cap (Kshs. Bn)	Turnover Ratio
Q3 2017	53.57	2,376.69	2.25%
Q2 2017	44.90	2,224.06	2.02%

Q1 2017	37.11	1,793.36	2.07%
Q4 2016	25.39	1,961.92	1.29%
Q3 2016	48.14	1,971.83	2.44%

Source: CMA

iv. Foreign Investor Exposure risk

As at September 2017, foreign investors accounted for 48.75 percent of the total market turnover, compared to 57.94 percent at end June 2017. In the year to September 2017, in respect of daily participation, this is an indication of a considerable drop in foreign investor exposure.

Table 7: Equity Market Foreign Investor Exposure by Turnover as at September 2017

	Month/ Year	Foreign Investor Purchases	Foreign Investor Sales	Equity Turnover	Participation of Foreign Investors
		Kshs Millions	Kshs Million	Kshs Millions	%
Q2 2017	Apr.	8,478	8,045	11,409	72.41%
	May.	9,420	11,308	16,347	63.40%
	Jun.	9,526	10,339	17,144	57.94%
Q3 2017	Jul.	9,442	11,496	21,304	49.14%
	Aug.	7,508	10,776	16,024	57.05%
	Sep.	5,483	10,352	16,242	48.75%

Source: NSE

This is a manifestation of the short-term capital movement occasioned by the political environment during the quarter culminating into a pro-longed electioneering period. It is however anticipated that foreign participation shall be resilient going forward.

Table 8: Equity Market Foreign Investor Exposure by Holdings as at Aug 2017

Type of Investor	2014	2015	2016	2017*
E.A. Institutions (%)	64.16	65.68	66.38	66.60%
E.A. Individuals (%)	14.58	12.84	12.49	12.38%
Foreign Investors (%)	21.26	21.48	21.13	21.02%

****Data as at August 2017****
Source: CMA

As at August 2017, foreign investors held 21.02 percent of the total holdings at the exchange, compared to 21.13 percent in 2016. A comparison of the East African individual's holdings indicates a marginal decline from 12.49% in December 2017 to 12.38% In August 2017.

Table 9: Quarterly changes in Equity holdings at the NSE

	Jun 2017	July 2017	Aug 2017
E.A. Institutions (%)	65.87	66.75	66.60%
E.A. Individuals (%)	12.43	12.40	12.38%
Foreign Investors%	21.70	20.85	21.02%

Source: CMA *Data as at July 2017*

Bond Markets

i. Performance risk

Despite the political uncertainty that surrounded the investor sentiment during the quarter, Kenya's bond markets displayed an adverse reaction to the Supreme Court ruling, with market recovery being registered at the start of September.

ii. Issuance risk

The Bond Market in Kenya is distinguished by the dominance of the Treasury bond market. The corporate bonds market activity has been depressed with only one corporate bond issuance (EABL) in 2017 and none in the preceding year following the closure of Chase Bank in April 2016 and Imperial Bank in October 2015, which were both corporate debt issuers. Corporate bonds would be an ideal best alternative option for investors who would want to participate in a lower-volatility product, with more stable income than equities.

iii. Corporate Bond Holdings Concentration

Issued corporate bonds are held by the following five major investment groups: fund managers, commercial banks, investment companies and institutions, insurance companies and individuals. The total outstanding amount for the corporate bonds was Kshs 84.7 Billion as at June 30, 2017 compared to Kshs 80.2 Billion as at March 31, 2017, a 5.6% increase. The fund managers' category took the largest portion of the bond holding at 69.25%, followed by the commercial banks category at 14.55%, in the third position the insurance category with 9.13% of the bond holding. The fourth and fifth position was the individuals' category at 5.08% and the investment companies' category at 1.99% respectively. The introduction of a securities lending and borrowing framework is expected to spur liquidity of corporate debt holdings and increase institutional demand for issuances, for collateral and speculative activity.

iv. Market Liquidity challenges

In the 8-month period to August 2017, bond market liquidity was at 21.68 percent, compared to 32.55 percent annual liquidity for

2016. It is instructive that bond market liquidity is by far higher than the equity market liquidity in Kenya.

Table 10: Bond Market Liquidity as at Aug. 2017

	2015	2016	2017*
Total Turnover	305.10	433.12	308.66
Total Amount Outstanding	1159.08	1,330.46	1,423.76
Turnover Ratio	26.32%	32.55%	21.68%

****as at Aug. 2017***
Source: CMA

Measures towards expanding and increasing market activity

The Authority is working with other market players such as the NSE and CDSC to improve operations in both the primary and secondary market through working on new product guidelines and regulations. To increase investor awareness on investment opportunities that these new products bring, the three institutions are working towards embracing a coordinated approach towards conducting investor education and public awareness campaigns.

Going forward, the Authority will take into consideration proper timing of the launch of new products, in a favorable environment, away from market "noise," and under the assumption of favorable performance of key macroeconomic variables.

Capital markets products are perceived to be complicated by a number of investors. To address this challenge, the Authority will be pursuing collaborated and sustained marketing activities with its key stakeholders, particularly the NSE and CDSC.

To further increase market activity, the Nairobi Securities is working towards reviving privatization transactions in the country. In the past, a number of state entities listed on the NSE through privatization, namely KPLC, Kengen, Consolidated Bank with the most successful being Safaricom in the year 2008. Safaricom opened its doors to the public when the Government of Kenya offered 20% of its shares in the company to the public. It has since remained a global success story as evidenced by its continuous innovation and dominance at the NSE as it contributes to about forty percent of daily trading activity.

The NSE is working towards identifying other state corporations with favorable character and balance sheet balances for possible listing on the exchange. Unlike the GEMS market segment that targets listing of Small and Medium Enterprises, efforts towards privatization are hoping to target large companies of sound quality that will be able to attract investor participation while promising sustainable returns to investors in the long run.

To this end, more engagements are expected with the Privatization Commission to actualize the same.

Moreover, the Authority, through its regulatory sandbox initiative hopes to encourage innovations within the capital markets space but providing a relaxed regulatory environment for innovative companies to test their products which are expected to offer solutions to capital market problems. For more details on the framework for the regulatory sandbox, kindly reach out to our research team through research@cma.or.ke.

Banking Industry Performance -Commercial Banks

According to the Central Bank of Kenya Banking sector annual report as at as at 31st December 2016, the total net assets in the banking sector stood at Kshs. 3.7 trillion. During this period, there were 8 large banks with a market share of 65.32 percent, 11 medium banks with a market share of 25.90 percent and 20 small banks with a market share of 8.77 percent. This is a pointer to concentration risks, or grounds for consolidation initiatives.

EAC Market Performance Recap Q3/2017

Similar to Kenya, the regional front was characterized by political risks, regulatory changes and macroeconomic environment challenges.

The Tanzanian government enforced laws in the first half of 2017 compelling telecommunications and mining firms to offload 25 per cent and 30 per cent of their shareholding, respectively, to local investors.

The risk exposure with this enforcement is that it could affect foreign investor portfolio flows due to concerns on ultimate ownership. There would also be a need to establish the capacity of local investors to absorb the offloaded shareholding in the affected companies.

Table 11: Capital Market activity in East Africa

Indicator	Uganda	Tanzania*	Kenya
	Q3.2017	Q2.2017	Q3.2017
Number of Shares Traded (million)	454.98	23.15	2,019.92
Turnover (USD Billion)	0.004	0.052	0.52
Number of Deals	1,693	35,032	83,787
Average Market Cap (USD Billion)	6.69	8.65	23.25
Turnover Ratio	0.0006	0.006	0.022
All Share Index (Closing)	1,718.28	2,482	162.21
Exchange rate to the USD	3,603.08	2,230.14	103.43

***Tanzania statistics are as at Q2. 2017**

Market Infrastructure, New Products and Systems Stability – Recent Developments

CMA Launches the World Investor Week

The Authority launched the World Investor Week (WIW) 2017 on Friday 29th August 2017 in an event graced by key market stakeholders. The World Investor Week (WIW) 2017 took place from 2-8 October 2017. The week-long event was a global outreach by securities regulators aimed at raising awareness about the importance of investor education and protection. The WIW 2017, an initiative of the International Organization of Securities Commissions (IOSCO), saw 78 countries in six continents executing investor focused activities.

During WIW 2017, the Authority conducted engagements targeting university students, investor education outreach through Huduma Centres in Meru and Eldoret, radio campaigns, a social media campaign and a competition on the online Resource Centre Portal that was recently launched. The event added impetus to the Authority's Investor Education and Public Awareness Strategy, which has seen CMA reach over 60,000 people in 30 counties so far. CMA's initiatives target investors, potential issuers and market intermediaries.

Licensing and Approvals

During the quarter, the Authority granted licenses to the following institutions;

a. BRITAM Employee Share Ownership Plan;
b. BRITAM Real Estate Investment Trust;
c. Seriani Collective Investment Scheme Money Market Fund;
d. EFG Hermes Stock Broker; and
e. Aylesfield (Kenya) Limited-investment Adviser

CMA Derivatives Unit conducts a Round-Table Session for Asset Managers

During the quarter, the Authority with the assistance of Mr. David White, CMA's resident Derivatives consultant conducted a half day Asset Managers workshop noting the fact that derivatives contracts are pivotal in ensuring risk management especially for asset managers. The forum was aimed to inform the asset managers that the derivatives products present a window for diversification and provide an opportunity for asset managers to gain exposure in multiple asset classes. Further, key to note from the forum was the discussion around amendments to the relevant Investment Policies/Guidelines documents within the domain of asset managers to take advantage of equity futures and several other products that the exchange plans to roll out within the derivatives market.

Online Forex Regulations Gazetted

During the quarter, The Capital Markets (Online Foreign Exchange Trading) Regulations, 2017 were gazette on 25th August 2017.
The regulations provide for among other things;

a. The Requirements for licensing of online foreign exchange brokers and money managers;
b. The conduct of online foreign exchange business;
c. Inspection of online foreign exchange brokers and money managers;
d. Offences and penalties for online foreign exchange brokers and money managers;
e. Application for a license to conduct the business of an online foreign exchange broker/money manager; and
f. The online foreign exchange broker/money manager license fees.

With effect from the enactment of the online forex trading regulations on 25th August 2017, Kenya's online currency traders, dealers and money managers are now compelled to obtain a license from the Authority to continue in the business. The Authority envisions that approximately 50,000 persons, including brokers, dealers and money managers, are in the business and are mainly using offshore platforms that are not overseen by Kenyan regulators to offer the service. The requirement for online traders, dealers and money managers to register with the Authority to conduct business are part of efforts to exercise a measure of regulatory oversight over online forex business to ensure adequate arrangements for investor protection.

The IFC-World Bank and the Authority Conducts an Asset Backed Securities Mission

During the quarter, the Authority in liaison with the IFC-World Bank conducted a stakeholder's forum on the issuance of asset backed securities from August 28th 2017 to September 4th 2017. This was in conjunction with the approval of the Policy Guidance Note on Asset Backed Securities in April 2017 in order to support industry awareness and to accelerate operationalization of securitization transactions. The forums covered the following aspects targeted to respective stakeholders;

a. **Fund Managers** – These licensees are likely to make a significant contribution to the success of ABS issuances as they represent institutional and investors who would be targeted in ABS issuances;
b. **Central Bank of Kenya** – It is expected that banks will be some of the target issuers of ABS in Kenya thus CBK will play a critical role and their buy in is important;
c. **Kenya Revenue Authority** – Tax is a key factor for the success of ABS issuances and the implementation of ABS PGN ;
d. **Insurance Regulatory Authority**- Treatment of ABS under insurance sector investment guidelines;
e. **Retirement Benefits Authority-** Treatment of ABS under pensions sector investment guidelines; and
f. **CMA staff**- Sensitization on the approval process of ABS Issuances, CMA's key role in ABS issuances and demystification of the legal regime of ABS in Kenya.

Information Repository Consultancy

With support from the World Bank under the patronage of the National Treasury, through the Financial Sector Support Project (FSSP), the Authority on-boarded Consultants from International Securities Consultants responsible for developing specifications for an information repository, Advanced Financial Analysis and Business Intelligence System, E-Learning System and Communication/IT infrastructure for the Authority to be implemented over the period of 10 months.

The objective of the consultancy is to streamline the Authority's use of business intelligence through improved data collection and analysis and to strengthen internal capacity through e-learning.

Capital Markets Feted as the Most Innovative Regulator for the Third Consecutive Year

In September 2017, the Authority was distinguished yet again by Africa Investor (AI) as the 'Most Innovative Capital Markets Regulator in Africa 2017'. The Award hosted by Africa Investor was conferred in New York, on Monday 18 September 2017. The Authority won the Award against eight other capital markets regulators in Africa including South Africa, Mauritius, Nigeria, Namibia, Botswana, Uganda and Tanzania. The Award recognized CMA was for the milestones achieved in the implementation of the Capital Market Master Plan (CMMP), which seeks to position Kenya as the Heart of African Capital Markets and as a gateway for regional and international fund flows.

The Award judges also analyzed evidence of commitments to increasing transparency and efficiency, support for innovative technologies, employment of best regulatory practice, openness to foreign investors and efforts to create an enabling environment for the capital markets industry. This recognition coupled with the initiatives within the Capital Markets Master Plan and robust stakeholder engagements and collaborative efforts are key towards promoting the Kenya's capital markets as a premier investment destination. AI seeks to profile African capital market success stories to the global investment community. The Authority has been previously recognized in by AI in 2015 as the most innovative regulator.

Further, in December 2016, the Authority was feted as the most innovative capital markets regulator in Africa for 2016. The award was conferred by the International Finance Magazine, a quarterly magazine circulated in over 185 countries worldwide. The award, which was launched in 2012, is designed to promote and recognize innovation in the financial services sector with special focus on improving business performance.

Policy Guidance Note on Global Depositary Receipts and Global Depositary Notes approved.

During the quarter, the Capital Markets Authority approved the Policy Guidance Note on Global Depositary Receipts (GDR's) and Global Depositary Notes (GDN's) in July 2017. The Policy is to be used as a guide on the operational environment for GDRs and GDNs and to inform the ultimate design of a comprehensive legal and regulatory framework. This PGN was issued pursuant to section 12A of the Capital Markets Act which provides for the principle-based approval approach in line with the amendments to the Capital Markets Act, effected in December 2013 that enhanced CMA's role in facilitating market development in relation to the introduction of new products.

The Policy Guidance Note on GDR's and GDN's provides for among other things the Responsibility for issuance of depositary receipts and notes and Approvals for out-bound depositary notes and appointment of other parties.

The approval of the PGN is instrumental in the implementation of the Authority's Strategic Plan 2013-2017 and the realization of the objectives of the 10-year Capital Market Master Plan. The approval of the PGN is in line with the capital markets efforts to develop and deepen capital markets products and services in addition to the provision of a facilitative environment for cross border investments.

The Authority envisages that GDRs/GDNs will promote Kenya as an attractive investment destination by providing a means for international investors to acquaint themselves with local companies that may issue GDRs and GDNs in other markets and create opportunities for international entities to raise capital in Kenya

Capital Markets Authority Chief Executive Officer Gets International Recognition

The Capital Market Authority (CMA) Kenya's Chief Executive, Mr. Paul Muthaura, was on 20th September elected the Vice Chairman of the Growth and Emerging Markets Committee (GEM), representing the interests of over 75 percent of the membership of International Organization of Securities Commissions (IOSCO). The GEMC also includes 10 representatives to the G-20, which it works with intensively together with the Financial Stability Board (FSB), towards the global regulatory reform agenda. Kenya has been recognized as a leading voice in articulating policy concerns unique to emerging markets and developing economies and is fast gaining recognition as a reference point in discussions around technology innovations within the financial services sector globally. This recognition cements Kenya's position as a thought leader given the major strides the country has made in transforming the capital market landscape by facilitating a robust legal and regulatory framework and introduction of new products, which serves to enhance issuer and investor confidence, while encouraging innovation.

The Authority kick starts a consultancy on Funding Gap Analysis for County Governments

One of the key mandates of the Capital Markets Authority under the Capital Markets Masterplan (CMMP) is the implementation of initiatives that support the growth of the domestic economy. One of the initiatives to achieving this deliverable would be through identifying and analyzing the funding gap at the national and county level, to inform requisite capital markets products and services development, as a way of using capital markets to raise funds and realize investment value.
To assist in actualizing this expected outcome, the Authority with the support of the World Bank through its Financial Sector Support Project (FSSP), on boarded a consultant in May 2017, to conduct a funding gap analysis for Government. The consultancy has since been structured into two phases with phase I focusing on National Government and State-Owned Enterprises and phase II on county governments.

To kick start phase one of the consultancy, between 26th September and 6th October 2017 the consultant undertook an in-country field mission, targeting state corporations and using a survey questionnaire as the key data collection tool. In the field mission, the consultant sampled twenty state corporations the country, namely : Kenya Rural Roads Authority, Konza Technopolis Development Authority (KoTDA), Kenya Pipeline Company, Agriculture and Food Authority, Kenya National Highways Authority, Tana & Athi Rivers Development Authority, Kenya Meat Commission, Kenya Airports Authority, Lake Basin Development Authority, Kerio Valley Development Authority, Ewaso Ng'iro South Development Authority, Kenya Ports Authority, Kenya Maritime Authority, Kenya Ferry Services, Coast Development Authority, Kenya Petroleum Refineries Ltd, Export Processing Zone Authority, Micro & Small Enterprises Authority, LAPSSET Corridor Development Authority and Numerical Machining Complex.

The consultant is expected to share his findings in the coming months as the project takes shape in an effort to position capital markets as a viable option to filling the funding gap faced by major corporations that are key implementers of Vision 2030 development projects.

The Authority conducts a Small and Medium Enterprises (SMEs) Growth and Opportunity Exhibition

The Nairobi Securities Exchange (NSE) and the Central Depository and Settlement Corporation (CDSC) joined CMA as exhibitors during the SMEs Growth and Opportunity Conference held at the Sarova Whitesands Beach Resort and Spa, Mombasa, on July 6^{th} and 7^{th}, 2017. The event which was organized by the Kenya National Chamber of Commerce- Mombasa, was as a medium for introductory engagement with the potential issuers as a prelude to a substantive incubation event targeting Mombasa County that the Authority proposes to hold in this financial year.

Capital Markets Stability Indicators (CMSIs)

1.0 Stock Market Volatility								
Equity Market Depth	**Quarter/Year**	**Statistics**				**Assessment of Risk Level (High – Medium – Low)**	**Performance Brief for the Quarter**	**Ongoing Intervention Measures**
NSE 20 Index Volatility	**Q3.2017**	July	Aug	Sep	Q. Avg	Low	• As of Quarter ended Sep 2017, the NSE 20 share index reflected an average volatility of 0.58%, while the All share index recorded an average volatility of 0.67% • A review of the preceding quarters indicates an improvement in the index volatility. For instance, in Q2.2017, the average all share index volatility was as at an average of 3.60%.	• To support the market and control the levels of volatility, the Authority is pursuing measures aimed at increasing market liquidity such as the introduction of derivatives, securities lending and borrowing, Direct Market Access and other reforms in the bond markets.
		0.66%	0.15%	0.93%	0.58%			
	Q2. 2017	April	May	June	Q. Avg			
		2.45%	3.08%	1.95%	**2.49%**			
	Q1.2017	Jan	Feb	Mar	Q. Avg			
		2.34%	**2.82%**	**2.50%**	2.55%			
	Q4.2016	Oct	Nov	Dec	Q. Avg			
		2.67%	**1.58%**	**2.63%**	2.30%			
NASI Volatility	**Q3.2017**	July	Aug	Sep	Q. Avg	Low		
		1.17%	0.22%	0.19%	0.53%			
	Q2. 2017	April	May	June	Q. Avg			
		3.39%	4.21%	3.20%	**3.60%**			
	Q1.2017	Jan	Feb	Mar	Q. Avg			
		2.39%	**1.78%**	**4.80%**	2.99%			
	Q4.2016	Oct	Nov	Dec	Q. Avg			
		6.67%	**2.94%**	**2.53%**	4.05%			
	Q3.2016	July	Aug	Sep	Q. Avg			
		2.49%	**6.93%**	**3.80%**	4.41%			
Quarterly Turnover Ratio	**Q3.2017**	July	Aug	Sep	Q. Avg	Medium	• Q2.2017 recorded a quarterly turnover ratio of 2.25%; a marginal increase of 11.58% from the previous quarter. • Comparative to the region, Kenya fared better in terms of quarterly liquidity. Uganda's Turnover ratio was at 0.14 as at the end of quarter to September 2017.	• The Authority is spearheading the introduction of new products such as Global Depositary Receipts and Global Depositary Notes as well as initiatives such as Direct Market Access. Direct Market Access enables market participants to
		0.90%	0.65%	0.68%	2.25%			
	Q2. 2017	April	May	June	QTR			
		0.59%	0.61%	0.77%	**2.02%**			
	Q1.2017	**Jan**	**Feb**	Mar	QTR			
		0.68%	**0.69%**	**0.66%**	2.07%			
	Q4.2016	**Oct**	**Nov**	**Dec**	QTR			
		0.39%	**0.52%**	**0.37%**	1.29%			
	Q3.2016	**July**	**Aug**	**Sep**	**Q. A**			

		0.66%	**0.91%**	**0.86%**	2.44%		Kenya's ratio is still relatively low when considered against global performance.	access the market through alternative channels, thus providing faster and more convenient link to the market hence enabling them to exercise freedom of choice. This increases turnover and subsequent liquidity in the markets.
2.0 Foreign Exposure Risk								
Overall Foreign Investor Participation to Equity Turnover	**Q3.2017**	July	Aug	Sep	Q. Avg	Medium	• Average Foreign investor participation in Q3.2017 reduced by 23.95% to 51.65% compared to the immediate preceding quarter. • This is an indication of reduced foreign participation given the uncertainty occasioned by the elections in Kenya.	• The Authority is very keen to implement initiatives that are geared towards increasing participation in order to trigger a higher demand for capital and enhancing the development of a liquid government debt securities market. This has been pursued through the introduction of a framework for Global Depository Notes that are yet to be launched in the market which may help diversify capital and investments, expose the market to globally accepted practices, and, as a result, accelerate the growth of capital markets. • Renewed recent Domestic institutional interest has resulted in lower aggregate foreign shareholding in listed equity companies thus mitigating risk of overall exposure. The enhanced participation of the Domestic investors following their
		49.14%	57.05%	48.75%	51.65%			
	Q2. 2017	April	May	June	Q. Avg			
		72.41%	63.40%	57.94%	**67.91%**			
	Q1.2017	**Jan**	**Feb**	**Mar**	**Avg**			
		79.81%	73.37%	76.87%	**76.6%**			
		Oct	Nov	Dec	Avg			
		67.07%	63.69%	74.1%	**68.2%**			
	Q3.2016	**July**	**Aug**	**Sep**	**Avg**			
		78.59%	69.85%	83.1%	**77.21%**			
Net Foreign Portfolio Flow **(In KES Millions)**	**Q3.2017**	July	Aug	Sep	Q. Avg	High	• Net Foreign Portfolio levels decreased in the quarter by a 48.47% recording a net outflow of 3,397 in Quarter Three compared to the preceding quarter.	
		(2,054)	(3,268)	(4,868)	(3,397)			
	Q2. 2017	April	May	June	Q. Avg			
		433	(1,888)	(833)	**(2,288)**			
	Q1.2017	**Jan**	**Feb**	**Mar**	**Q. Sum**			
		1,608	435	(55)	**1,988**			
		Oct	Nov	Dec	Q. Sum			
		(125)	459	615	949			
	Q3.2016	**July**	**Aug**	**Sep**	**Q. Sum**			
		974	3,703	1,343	6,020			

								increased shareholding is partly the reason for this decline and is a positive development • In line with the industry Capital Markets Master Plan, the Authority plans to provide multiple gateways for foreign investors to enter the market through new tailored products (Derivatives, ETFs, and GDR/Ns) • As a policy incentive, foreign investors are now able to hold a 100% stake in listed companies at the NSE which has boosted foreign entities and institutions participation at the bourse.
Market Concentration (Top 5 companies by market cap)	**Q3. 2017**	**July**	**Aug**	**Sep**	**Q. Avg**	High	• The top five companies by market capitalization at the bourse accounted for 65.67% of the market, with Safaricom, EQUITY, EABL, KCB, and CO-OP as the predominant companies.	• The Authority through the Capital Markets Master Plan is implementing initiatives such as the reinvigoration of the GEMS market aimed at promoting the development of pipeline for high growth companies to emerge on the market to reduce market concentration. • Additionally, the Authority is pursuing a business incubator and accelerator approach to sensitize SMEs and family businesses to consider listing on the exchange through the GEMS segment. • The incubator & accelerator initiative is aligned with the Capital Markets Master Plan
		66.10%	66.19%	65.62%	65.97%			
	Q2. 2017	April	May	June	Q. Avg			
		66.04%	65.49%	66.04%	**65.86%**			
	Q1. 2017	Jan	Feb	Mar	Q. Avg			
		64.8%	64.9%	63.7%	**64.5%**			
	Q4. 2016	Oct	Nov	Dec	Q. Avg			
		65.4%	**65.37%**	**64.6%**	65.15%			
	Q3.2016	July	Aug	Sep	Q. Avg			
		62.8%	**65.14%**	**65.3%**	64.4%			

								target to increase listings on the Growth Enterprise Market Segment (GEMS) of NSE by 3-4 companies annually. The Authority will further continue to advocate for privatization of State Corporations through the Nairobi Securities Exchange
3.0 Government Bond Market Exposure								
Bond market turnover Concentration	**Q3.2017**	**July**	**Aug**	**Sep**	**Q. Avg**		• The Treasury bond market remains dominant in the Kenyan bond markets, accounting for 99.19% during Q3.2017; a slight increase of 0.45% compared to the preceding quarter.	• The Government also aims to enhance Financial inclusion within the Government bond market through the implementation of initiatives such as the M-Akiba bond that has provided an avenue for Kenyan investors to deploy domestic savings while guaranteeing a return on investment. • The Authority is additionally actively pursuing a raft of reforms to implement a hybrid bond market through the Bond Market Steering Committee that aims at expanding the bond market in the middle to long term while stimulating liquidity in the short term.
		99.97%	97.68%	99.93%	**99.19%**			
	Q2. 2017	**April**	**May**	**June**	**Q. Avg**			
		98.84%	98.40%	99.01%	**98.75%**	High		
	Q1. 2017	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		98.4%	98.99%	99.7%	**99.0%**			
	Q4. 2016	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		99.5%	98.34%	99.1%	**98.7%**			
	Q3.2016	**July**	**Aug**	**Sep**				
		99.73%	97.97%	98.2%	**98.6%**			
4.0 Investor Profiles (Equity & Bond Market)								
Equity Market	**Type of Investor**	**2014**	**2015**	**2016**	**2017***	High	• Local investors accounted for 78.98% of shares held in the equity market with 21.02% being held by foreign	• During the quarter, a policy Guidance Note on Global Depositary Notes and Receipts was approved which is a great measure towards
	E.A. Institutions (%)	64.16	65.68	66.38	66.60			
	E.A. Individuals (%)	14.58	12.84	12.49	12.38			

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<tr><td>Foreign Investors (%)</td><td>21.26</td><td>21.48</td><td>21.13</td><td>21.02</td></tr>
</table>
*as at August 2017
Source: CMA
</td>
<td></td>
<td>investors.</td>
<td>provision of a facilitative environment for cross border investments and creation opportunities for international entities to raise capital in Kenya.
The Authority through the Capital Markets Masterplan continues to implement other initiatives geared towards marketing capital markets products to investors across the region.</td>
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<tr>
<td>Corporate Bond Market</td>
<td>
<table>
<tr><th>Category</th><th>No of Investors</th><th>Amount Outstanding (Mn)</th><th>% of total outstanding</th></tr>
<tr><td>Local Investors</td><td>4,712</td><td>72,064.26</td><td>98.80%</td></tr>
<tr><td>East African Investors</td><td>21</td><td>183.68</td><td>0.25%</td></tr>
<tr><td>Foreign Investors</td><td>115</td><td>692.45</td><td>0.95%</td></tr>
</table>
Source: CDSC
</td>
<td>High</td>
<td>Local Corporate bond investors were the leading investors in corporate bonds at 99.05% of amounts outstanding, while foreign bond investors held 0.95% of total corporate bond holdings. This signals investor confidence in the local corporate bond market; an indicator of willingness by local investors to participate in building locally owned companies.</td>
<td>Despite the challenges facing the issuance of corporate bonds in Kenya (placements under statutory management, compensation challenges and interest rate capping among others) the corporate bond market has remained resilient. Through initiatives being overseen by the Bond Market Steering Committee (BMSC) it is anticipated that this market will be turned around to become more active and highly competitive.
There already is in place a consultancy under the Front Clear Project to reform the market and ultimately improve its performance.</td>
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<td colspan="5">5.0 Investor Compensation Coverage</td>
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<tr>
<td>Investor</td>
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<tr><th>Q3.2017</th><th>July</th><th>Aug</th><th>Sep</th><th>Q. Avg</th></tr>
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</td>
<td>Low</td>
<td>The ICF coverage ratio</td>
<td>The Authority has continuously</td>
</tr>
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<table>
<tr><td rowspan="9">Compensation Fund (ICF) Coverage Ratio</td><td></td><td>1.89</td><td>2.69</td><td>2.54</td><td>2.38</td><td rowspan="9"></td><td rowspan="9">during the quarter averaged at 2.38%; a marginal decrease of 8.46% when compared to the previous quarter.
• However, this confirms that the ICF balances are more than 2 times sufficient to cover any potential losses that result due to failure by market intermediaries to meet investor obligations.</td><td rowspan="9">established transparent rules and enforcement standards to ensure that market intermediaries and licensed entities contribute their shares into the fund as per the required deadlines.</td></tr>
<tr><td>Q2. 2017</td><td>April</td><td>May</td><td>June</td><td>Q. Avg</td></tr>
<tr><td></td><td>2.73</td><td>2.86</td><td>2.20</td><td>2.60</td></tr>
<tr><td>Q1. 2017</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr>
<tr><td></td><td>2.80</td><td>2.58</td><td>3.18</td><td>2.85</td></tr>
<tr><td>Q4.2016</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
<tr><td></td><td>4.02</td><td>3.36</td><td>4.28</td><td>3.88</td></tr>
<tr><td>Q3.2016</td><td>July</td><td>Aug</td><td>Sep</td><td>Q. Avg</td></tr>
<tr><td></td><td>2.24</td><td>2.01</td><td>1.94</td><td>2.06</td></tr>
<tr><td rowspan="10">Settlement Guarantee Fund (SGF) Coverage Ratio</td><td>Q3.2017</td><td>July</td><td>Aug</td><td>Sep</td><td>Q. Avg</td><td rowspan="10">Medium</td><td rowspan="10">• SGF Ratio for the quarter to September 2017 averaged at 0.93 indicating that the fund is almost sufficient with a marginal shortfall of 0.07 to address any liability or loss to investors that is likely to result following default by securities dealers. A trend analysis of the ratio however indicates a decline from December 2016 where it stood at 1.89.</td><td rowspan="10">• The Authority has continuously been monitoring the guarantee fund balances held by the CDSC to ensure that at any given time the fund's value supersedes overall value of market activity.
• In addition, through its inspections of market intermediaries, the Authority has been monitoring 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>0.75</td><td>1.06</td><td>1.00</td><td>0.93</td></tr>
<tr><td>Q2. 2017</td><td>April</td><td>May</td><td>June</td><td>Q. Avg</td></tr>
<tr><td></td><td>1.15</td><td>1.03</td><td>0.87</td><td>1.02</td></tr>
<tr><td>Q1. 2017</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr>
<tr><td></td><td>1.36</td><td>1.25</td><td>1.46</td><td>1.36</td></tr>
<tr><td>Q4.2016</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
<tr><td></td><td>1.95</td><td>1.63</td><td>2.08</td><td>1.89</td></tr>
<tr><td>Q3.2016</td><td>July</td><td>Aug</td><td>Sep</td><td>Q. Avg</td></tr>
<tr><td></td><td>1.10</td><td>0.99</td><td>0.94</td><td>1.01</td></tr>
<tr><td colspan="9">6.0 Asset Base of Fund Managers, Stockbrokers, Investment Banks</td></tr>
<tr><td rowspan="4"></td><td colspan="5">As at 30th Aug 2017 (Amount in KES Millions)</td><td rowspan="4">Medium</td><td rowspan="4">• The total Asset Base of Fund Managers, Investment Banks and Stockbrokers as at 30th August. 2017 was Kshs 7.8 Billion, Kshs.12.3 Billion and Kshs 3.2 Billion respectively.</td><td rowspan="4">• The Authority continues to ensure that its licensees are following statutory net asset requirements to demonstrate their financial soundness.
• The Authority also adopted a reporting template for Collective Investment schemes where they are</td></tr>
<tr><td>CMA Licensee</td><td>Total Assets KShs. bn</td><td colspan="2">Total Liability KShs.bn</td><td>Net Assets KShs.bn</td></tr>
<tr><td>Fund Managers</td><td>7.8</td><td colspan="2">2.8</td><td>5.0</td></tr>
<tr><td>Stockbrokers</td><td>3.2</td><td colspan="2">1.1</td><td>2.1</td></tr>
</table>

	Investment Banks	12.3	4.0	8.3			expected to report their assets under management periodically. This enhances market conduct for asset managers for collective investment schemes. • The Authority has adopted a Risk-based system of supervising its licensees which means inspections are based on the size of the firms, systems in place, number of clients and capital. • The Authority will also continuously pursue efforts to indorse the development of a deep and broad investor base in addition to aiming to strike a balance between supervision and regulation.
	Investment Advisers	0.9	0.1	0.8			

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2. Nairobi Securities Exchange Monthly Bulletins
3. Kenyan Wall Street
4. Focus Economics
5. World Bank Reports
6. IMF Reports
7. Statutory reports/submissions (to CMA)