The Draft Capital Markets Soundness Report (CMSR)

Volume XXIII Quarter 3 2024 (1st July – 30th September) 2024

"COMBATING ONLINE HARM IN THE AGE OF DIGITAL FINANCE FOR INVESTOR PROTECTION AND CAPITAL MARKETS STABILITY"

Quarterly Publication of the Capital Markets Authority (Kenya)

Contents

SPECIAL MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Mr. Wyckliffe Shamiah, FCPA

Chief Executive Officer

Capital Markets Authority, Kenya

Dear Esteemed Reader,

The Capital Markets Authority (CMA) is delighted to publish the 32nd Edition of the Capital Markets Soundness Report, that covers capital markets development and emerging trends in the third quarter of 2024. The report also provides a comprehensive analysis of the health and soundness of the Kenyan Capital Markets as influenced by domestic, regional and global political and socio-economic developments.

The global economy registered slow but steady growth in the face of the persistent political risks especially the escalating geo-political tension in the Middle East. The Kenyan economy is now unwinding from layers of negative and persistent shocks that had a structural effect on economic activities supported by the focused interventions and structural reformed the National Treasury and Economic Planning. This growth momentum is expected to continue with a projection of 5.2% in 2024 and 5.4% in 2025.With inflation now under control we welcome the interest cut by the Central Bank which will foster the recovery of the domestic equity market.

I want to underscore that CMA-Kenya has consistently fulfilled its licensing mandate with dedication. I also wish to commend the newly licensed market intermediaries mentioned in the report. We remain committed to offering vital support to new market entrants, aimed at enhancing the depth of the Kenyan Capital and Commodities Markets.

Additionally, I wish to laud all capital markets stakeholders for the historical cumulative bond market turnover hitting the Kshs 1 trillion historic mark. This has emboldened the ongoing bond market reforms spearheaded by the National Treasury and Economic Planning.

Lastly, I extend my gratitude to you, our esteemed reader, for your continued support to the CMA year-on-year, towards the attainment of our mandate through you continued readership of this publication. As you peruse through the report, feel free to forward your thoughts on the key findings, lessons learnt, opportunities, risk and mitigation measures.

Your feedback will go a long way in improving this quarterly publication.

Happy Reading!

FCPA Wyckliffe Shamiah

CHIEF EXECUTIVE OFFICER

EDITORIAL

Greetings!

I am pleased to present this quarter's edition of Kenya's capital markets soundness, themed **" Combating online harm in the age of digital finance for investor protection and capital markets stability ".**

The special feature highlights the rising case of online harm as the internet has made it easier for fraudulent schemes, misleading information, and scams to proliferate, posing significant risks to investors. Regulators play a crucial role in safeguarding individuals from these threats to ensure trust in the financial markets. We are happy to announce that we shall be enhancing our response to online harm in the interest of investor protection.

This Edition further highlights important insights from both Singapore and the United Kingdom who have undertaken a raft of measures to re-invigorate listings within their jurisdictions. We are keen to learn from Nigeria's Kshs 116 billion (**$900 mln) inaugural domestic dollar bond** issuance will provide a good reference point for Kenya. Finally, Egypt's regulatory strides in the area of Carbon Markets would be beneficial to inform the development of Kenya's carbon credits trading regulations.

During the period under review, the MSCI World Index and Emerging Market Index posted positive returns of 19.28 % and 17.24%, respectively. Interest rate cuts and market friendly reforms continue to support capital markets recovery across Africa with countries such as Cote de voire, Morocco ,Tunisia and Zimbabwe listed on the MSCI Frontier economies index registering double digit returns on a year-to-date basis as at 30th September 2024.

The domestic capital markets were resilient during the quarter with Kenya registering robust returns surpassing many of its frontier economies peers at 45.02% on a year-to-date basis. The foreign exits noted in July 2024 attributable to the anti-government protests seemed to have waned off with foreign investors slowly returning to the bourse as evidenced by the positive net foreign equity portfolio inflow registered in September 2024.Foreign investors are steadily returning to the Nairobi bourse. The four market indices, NSE20, NSE25, NASI, and NSE10, closed at 1775.67, 2899.2,107.08 and 1124.72 points compared to 1656.50,2861.04,109.49 and 1117.39 points, recorded as at the end of the second quarter of 2024.This improved performance was supported by positive investor sentiments during the quarter.

Assets under management have grown steadily from Kshs. 56.6 billion on March 31, 2018, to Kshs. 253.95 billion on June 30, 2024 underscoring the improved retail investor participation in the capital markets via pooled investment vehicles.

CMA continues to undertake a raft of interventions supported by regulatory reforms to support capital markets resilience post covid -19 and appropriately position the market as a source of market-based financing whilst providing investment opportunities.

We conclude with a detailed analysis of capital market stability, examining trends in market volatility, liquidity, concentration, and foreign portfolio flows.

We look forward to your continued support in helping the Authority fulfil its Mandate of regulation and market development.

Enjoy your read!

Mr. Luke E. Ombara

DIRECTOR, POLICY AND MARKET DEVELOPMENT

I. SPECIAL FEATURE: COMBATING ONLINE HARM IN THE AGE OF DIGITAL FINANCE FOR INVESTOR PROTECTION AND CAPITAL MARKETS STABILITY

Digital technologies have introduced a new era by transforming how we interact with the various channels in the global consumer and business value chain. They have dramatically changed the way we communicate with each other, how we conduct business and our interaction with the environment. Embracing digitalization is not an option but rather the norm today and has created opportunities and challenged in various sectors such as the capital markets.

The digital environment has also facilitated the rise of fraud and scams targeting unsuspecting investors. With the proliferation of social media and online forums, misleading information can spread rapidly, luring individuals into fraudulent schemes. These scams can take various forms, from Ponzi schemes to phishing attacks, and they often exploit the trust that investors place in digital platforms. Strengthening investor awareness and education about potential scams is critical in combatting this issue.

We are witnessing the use of predictive data analytics, built upon artificial intelligence and machine learning, tapping into the veritable explosion of data on current and potential investors. Coupled with differential marketing, differential pricing, and individually tailored behavioural prompts, these technologies, what are sometime called digital engagement practices (DEPs) are increasingly shaping many parts of our economy. The capital markets are no exception. Predictive data analytics and other DEPs are evolving the way that brokers and advisers engage with investors, including through robo-advisers, brokerage apps, and wealth management apps.

IOSCO Warnings on Online Harm

The International Organization of Securities Commissions (IOSCO) issued a statement in December 2023 about the risks of online harm to retail investors due to investment scams and fraud.

In the statement IOSCO defines online harm as financial fraud perpetrated on the Internet, primarily targeting retail investors in the securities and derivatives markets, orchestrated using deceptive acts and / or misleading or fraudulent content, including user-generated content, where the author is unauthorised, or makes false or misleading claims or impressions, to induce the purchase of financial products and / or services. This may take the form of advertisements, videos, impersonator websites, social media posts, as well as comments or reviews.

Online harm can take various forms, such as inappropriate promotion of high-risk investments, misleading advertisements, and fraudulent activities, particularly involving digital assets. While these misconduct patterns may be recognizable, the ease with which such actions can occur in the online space, along with its borderless nature, introduces significant new challenges. The rise of novel fraud schemes related to crypto-assets and technology adds to this complexity.

Moreover, the increasing sophistication of artificial intelligence (AI) across society presents a dual challenge. It has the potential to both amplify the scale and impact of harmful online activities and provide regulators with innovative tools to detect, deter, and disrupt such misconduct. This evolving landscape necessitates ongoing vigilance and adaptation from both investors and regulatory authorities.

Figure 1 IOSCO Statement on Online Harm


IOSCO STATEMENT

OICU-IOSCO

International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

THE BOARD OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

IOSCO statement on online harm

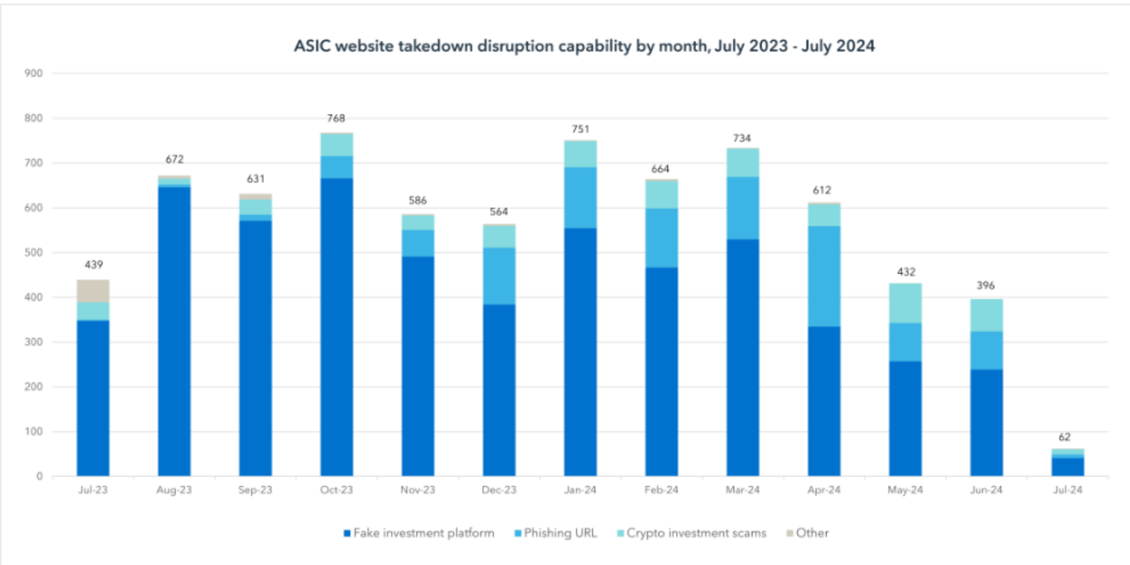
Source: IOSCO

Lessons from the Australian Securities and Investment Commission's

More than 7,300 websites have been taken down in the first year of operation of the Australian Securities and Investment Commission's service targeting investment scams, the regulator revealed on 19th August 2024. Since the beginning of the program in July 2023, ASIC said it had shut down thousands of scam websites that offer fake investment trading platforms and cryptocurrency investments that are often spread online through social media containing false celebrity endorsements.

Since July 2023, ASIC has coordinated the removal of over 5,530 fake investment platform scams, 1,065 phishing scam hyperlinks and 615 cryptocurrency investment scams. Investment scams remain the leading type of scam impacting Australians, resulting in $1.3 billion in losses in 2023. ASIC reminded all consumers to remain vigilant to social media hyperlinks that promote online trading and cryptocurrency investments.

Figure 2ASIC's Takedown of Websites



Source: ASIC

CMA Kenya's initiatives on Investor Education and Protection in the Digital Finance

As a strategy to deepen its support for innovative solutions in the capital markets industry, the Authority joined 23 regulators on five continents to develop innovative financial products, services, business models and regulatory technologies. The cross-border testing is conducted as part of the Global Financial Innovation Network (GFIN). It aims to provide innovative companies with a more efficient way to interact with regulators and to navigate between countries when trying to scale new ideas.

This includes pilot projects for companies wishing to test innovative products, services or business models in multiple authorities. It also aims to create a new framework for cooperation among financial services regulators to share updates on matters investor protection.

Majority of capital markets intermediaries have embraced Apps and continuously monitor as well as inculcating a thorough KYC to safeguard against fraud. The Authority is also exploring avenues of leveraging on AI and big data through our research department to enhance our intelligence gathering on potential online harm cases.

The Authority continues to implement a robust county program on investor awareness and protection. Key to this is the outsourcing strategy that leverages on Resource Persons at the County level contracted by CMA to conduct forums.

Publication of investor warnings and sharing the same via CMA Kenya's social media pages has increasingly served to sensitize the Kenyan public on online harm. We have also been keen on active monitoring of social media platforms for fraudulent or misleading content to identify harmful practices. This includes tracking trends in frauds and rapidly responding to emerging threats.

Challenges in Investor Education and Protection in the Digital Finance

Digital investor protection has become increasingly crucial as technology transforms the landscape of financial markets. While the rise of online trading platforms, robot-advisors, and cryptocurrency exchanges has opened new opportunities for investors, it has also introduced a range of challenges that regulators and stakeholders must address to ensure that investors are adequately protected.

Evolving Cybersecurity Threats

One of the most pressing challenges in digital investor protection is the growing threat of cyberattacks. As financial transactions move online, the risk of data breaches, identity theft, and hacking increases. Cybercriminals often target financial institutions and trading platforms, seeking to exploit vulnerabilities for financial gain. Ensuring robust cybersecurity measures is essential, but it requires constant vigilance and adaptation to stay ahead of increasingly sophisticated attacks.

Lack of Transparency

Digital investment platforms often present challenges related to transparency. Investors may find it difficult to access clear and understandable information about fees, risks, and the performance of their investments. Many online platforms use complex algorithms to manage investments, yet the details of these processes are not always disclosed. This lack of transparency can lead to misunderstandings and misplaced trust, undermining investor confidence.

Limited Access to Support and Resources

While technology has democratized access to financial markets, it has also led to a situation where many investors navigate these complex environments without adequate support. Unlike traditional brokerage firms, which often offer personalized advice and customer service, digital platforms may provide limited assistance. Investors, especially those new to the market, may struggle to find the guidance they need to make informed decisions, increasing the risk of poor investment outcomes.

Challenges of Financial Literacy

The increasing complexity of financial products available online necessitates a higher level of financial literacy among investors. However, many individuals lack the necessary knowledge and skills to effectively navigate these digital platforms. The gap in financial literacy can lead to poor investment decisions, particularly in volatile markets or with high-risk products like cryptocurrencies. As digital investing becomes more prevalent, the need for comprehensive educational initiatives is paramount to empower investors.

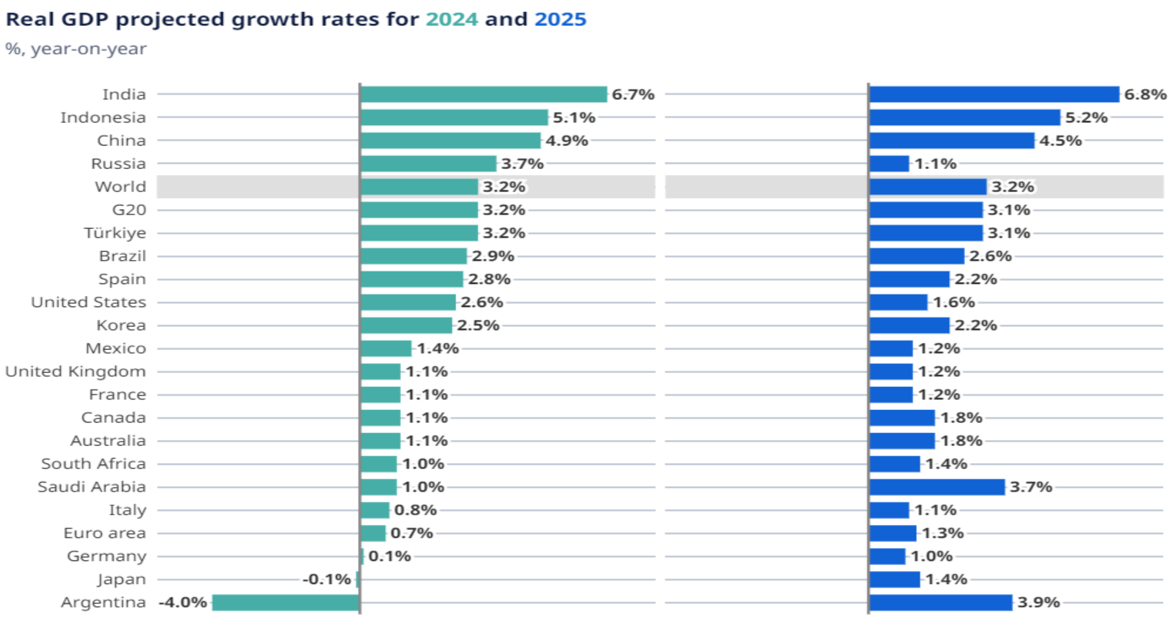
Way Forward

There is a need to collaborate with all capital markets industry players to launch a market wide investor fraud and fraud prevention action plan. CMA Kenya will step up its efforts in using emerging tech and collaborating with the Communications Authority of Kenya, Twitter and Facebook to clamp down on fraudulent websites and social media posts.

II. THE GLOBAL ECONOMIC AND CAPITAL MARKET PERFORMANCE OUTLOOK

Global economic growth is expected to stabilize around moderate levels, with advanced economies showing signs of resilience while emerging markets face varied challenges. The Organisation for Economic Co-operation and Development (OECD) Economic Outlook, Interim Report issued in September 2024 notes that Global output growth has remained resilient, and inflation has continued to moderate across the globe.

Figure 3Real GDP Growth Rates for 2024 and 2025



Source: OECD

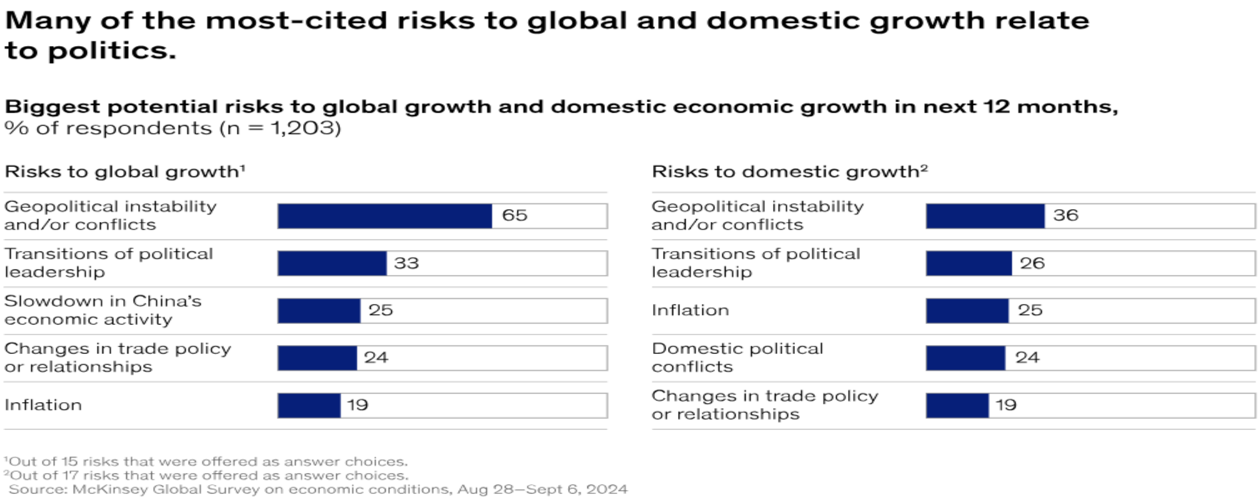
The OECD [1]projects that global growth is anticipated to stabilize at 3.2% for both 2024 and 2025, which aligns closely with the average rate seen during the first half of this year. This will

[1] file:///C:/Users/Bnyantika/Desktop/1517c196-en.pdf

be supported by an improvement in real incomes due to disinflation and less restrictive monetary policy in many economies.

Political[2] related risks are expected to weigh down on economic growth prospects as we head into the last quarter of the year.

Figure 4Mckinsey Economic Outlook September 2024



Source: McKinsey

The latest[3] McKinsey Global Survey on economic conditions reveals more cautious sentiments from respondents on the increasing risks from geo-political developments.

I. Global Capital Markets

As we headed into the last quarter of the year ,with inflation cooling ,central banks cutting rates; complemented by significant improvement in global financing conditions, it seemed to have infused recovery in select capital markets worldwide. Through the quarter under review the capital markets remained resilient amidst market volatility bouts including but not limited to the "Japanese Yen Carry Trade" of August 2024.

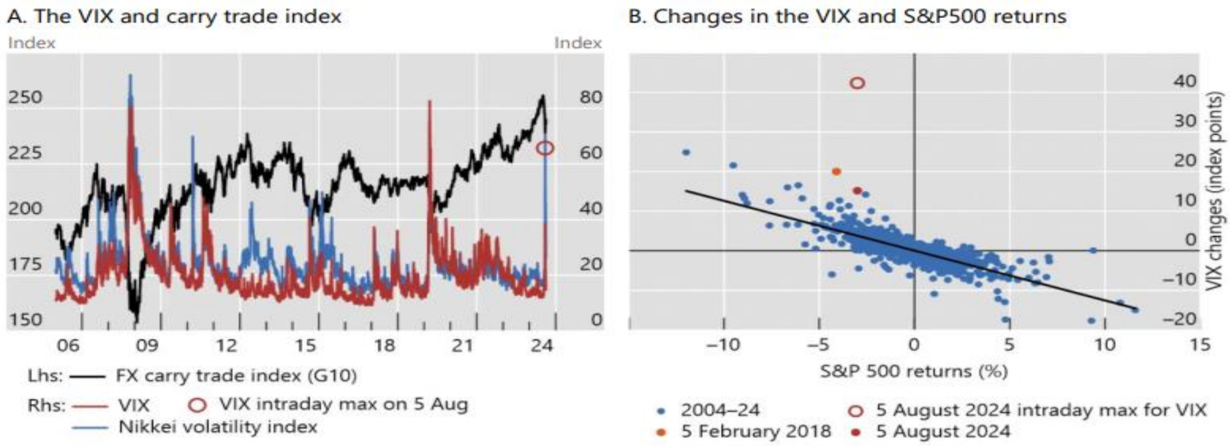
Financial market volatility reemerged in early August due to the unwinding of leveraged trades in equity and currency markets, which intensified the initial response to a

[2] https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/economic-conditions-outlook-2024#section-header-September2024

[3]

disappointing macroeconomic report in the United States. On Monday [4]5 August the TOPIX lost 12% and the Nikkei volatility index spiked to a level typically seen only during crises.

Figure 5Volatility due to the Yen Carry Trade



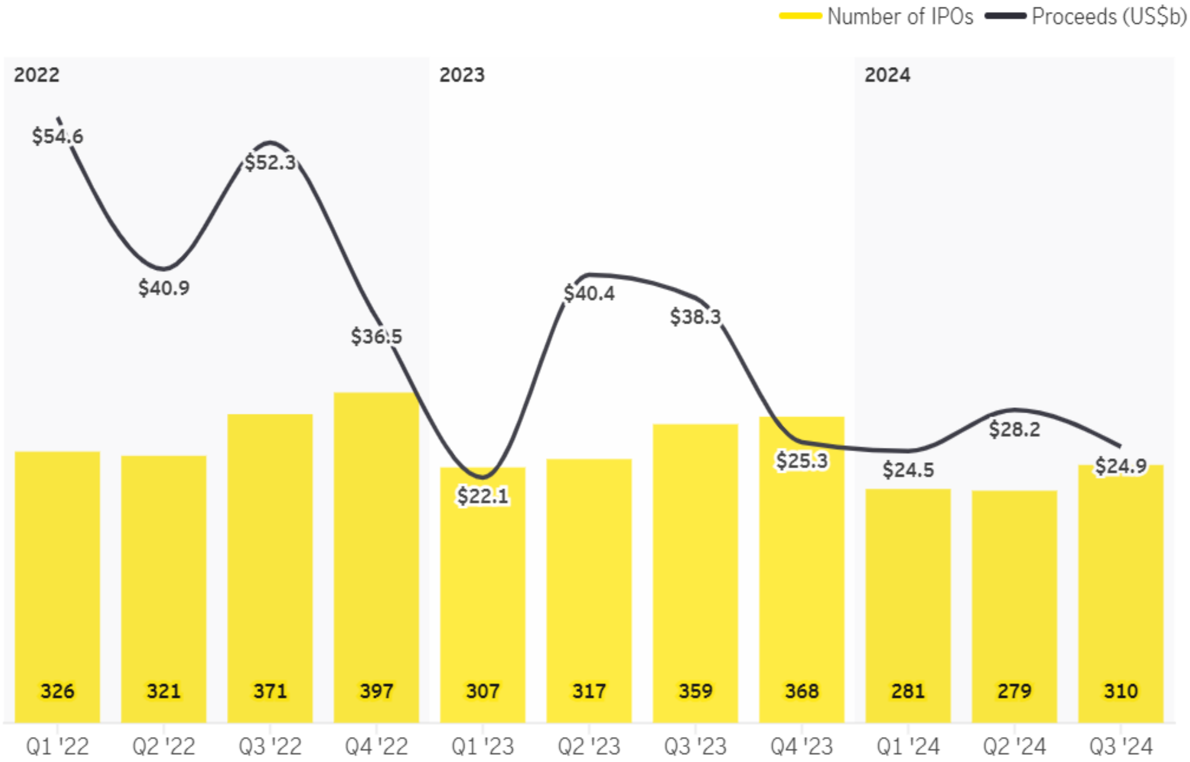
Source: Bloomberg and BIS Bulletin No 90

There is renewed interest in IPO's globally supported by positive global macro-economic developments. As inflationary pressures ease and the focus shifts to boosting economic growth, a global cycle of interest rate cuts has begun, led by advanced economies. Lower interest rates and reduced inflation could provide relief for companies planning to go public by lowering capital costs and encouraging investment in new projects.

Amid a global economic slowdown, market volatility, geopolitical changes, and monetary easing, the global IPO market in Q3 2024 has displayed signs of cautious optimism. Although year-over-year volumes decreased by 14% to 310 IPOs and proceeds fell by 35% to $24.9 billion, Q3 slightly surpassed the first two quarters of 2024 in terms of IPO launches.

[4] https://www.bis.org/publ/bisbull90.pdf

Figure 62022–Q3 2024 Global IPO Activity by Quarter



Sources: EY analysis, Dealogic

II. Global Bond Markets

The US Federal Reserve (Fed) reduced its target rate range by a larger-than-anticipated 0.5 percentage points (%pts), to 4.75-5.00%, and signalled further easing ahead. Fixed income[5] markets thrived on expectations of lower rates, with the Barclays Global Aggregate index achieving a 7.0% return in the third quarter. Government bonds and credit also posted strong returns, while emerging market debt rose by 6.1% over the quarter, placing it near the top of the performance rankings for fixed income sectors year to date.

[5] https://am.jpmorgan.com/gb/en/asset-management/liq/insights/market-insights/market-updates/monthly-market-review/

Figure 7Fixed income government bond returns.

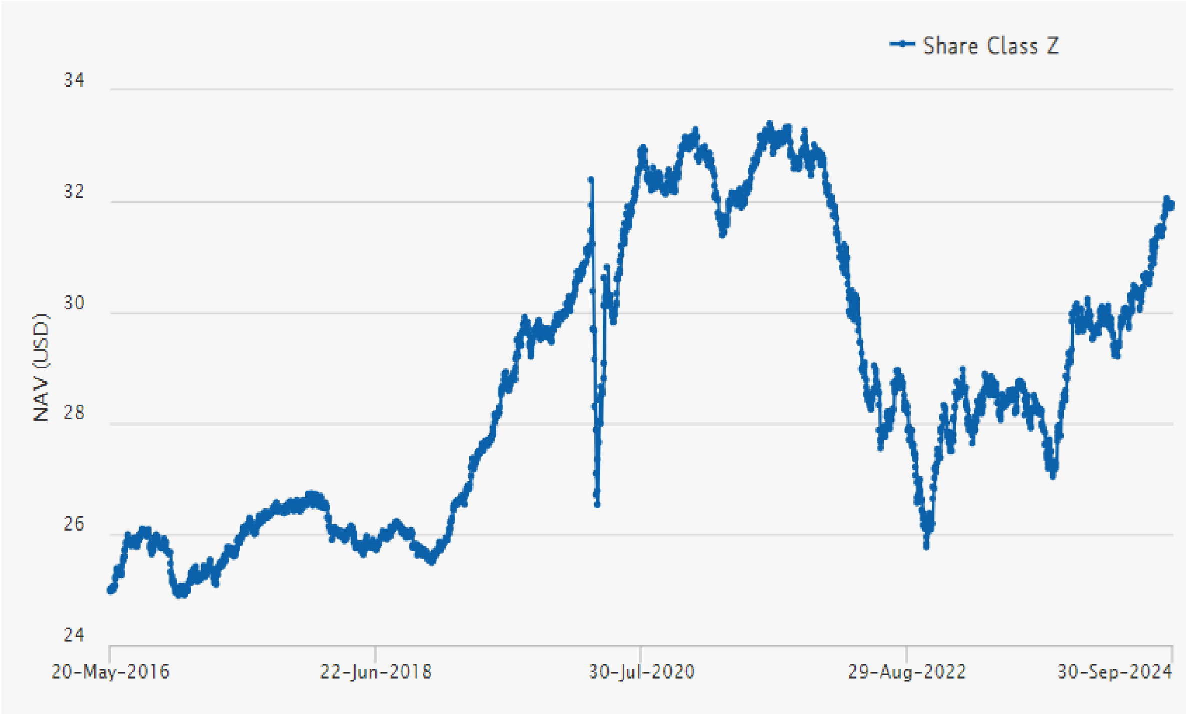
2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	Q3 '24
Italy 4.8%	UK 10.7%	Global 7.5%	Spain 2.5%	Italy 10.6%	Global 9.7%	Japan -0.2%	Japan -5.4%	Italy 9.3%	Italy 4.7%	Global 7.5%
Spain 1.7%	Spain 4.1%	US 2.3%	Germany 1.9%	Spain 8.3%	UK 8.9%	US -2.3%	US -12.5%	Spain 6.9%	US 3.8%	Italy 5.2%
Japan 1.2%	Germany 3.4%	UK 2.0%	Japan 1.0%	UK 7.1%	US 8.0%	Germany -2.9%	Global -16.8%	Germany 5.7%	Spain 3.1%	US 4.7%
US 0.8%	Japan 3.2%	Spain 1.1%	US 0.9%	US 6.9%	Italy 7.9%	Italy -3.0%	Italy -17.2%	Global 4.3%	Global 2.8%	Spain 4.1%
UK 0.5%	Global 1.7%	Italy 0.8%	UK 0.5%	Global 5.6%	Spain 4.3%	Spain -3.0%	Germany -17.4%	US 4.1%	Germany 1.6%	Germany 3.4%
Germany 0.4%	US 1.0%	Japan 0.2%	Global -0.7%	Germany 3.1%	Germany 3.0%	UK -5.3%	Spain -17.5%	UK 3.6%	UK -0.5%	UK 2.4%
Global -3.7%	Italy 0.8%	Germany -1.0%	Italy -1.3%	Japan 1.7%	Japan -0.8%	Global -5.8%	UK -25.1%	Japan 0.5%	Japan -1.8%	Japan 1.5%

Source: Bloomberg, LSEG Datastream, J.P. Morgan Asset Management. All indices are Bloomberg benchmark government indices.

The global corporate bond markets will continue to be marked by high-quality issues of fixed income securities issued by corporations and other non-government issuers ('corporate bonds') organised or operating in both developed and emerging markets and denominated in global currencies.

During the quarter under review the Morgan Stanley US Dollar Corporate Bond Fund was a testament of the resilience of the corporate fixed income market as measured by the net asset value growth as evidenced below.

Figure 8Investment Grade Credit



Source: Morgan Stanley

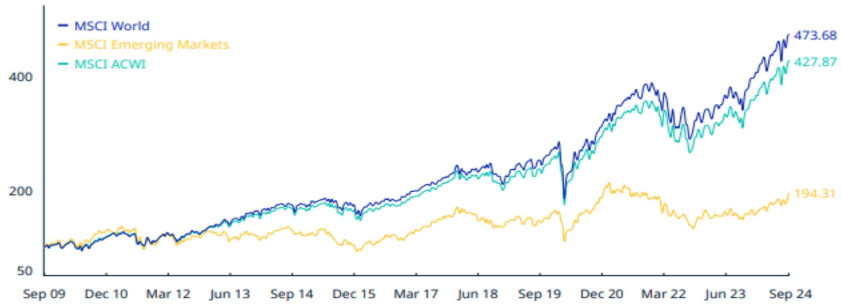
III. Global Equity Markets

Global equity markets registered positive returns, with the MSCI World Index recording a positive return of 19.28 % and the Emerging Market Index recording a return of 17.24 %, in United States Dollar terms, on a year-to-date basis. Following the U.S. Federal Reserve's rate cut in September 2024, global equity markets registered a positive response. The decision to lower interest rates was perceived as a proactive measure to support economic growth, which boosted investor sentiment across various regions.

Major indices, particularly in the U.S. and Europe, experienced upward momentum as lower borrowing costs encouraged increased consumer spending and business investment. Emerging markets also experienced gains, driven by capital inflows as investors sought higher returns in riskier assets. However, volatility remained a factor, with geopolitical tensions and economic uncertainties prompting caution among some investors.

Figure 9 MSCI World Index

CUMULATIVE INDEX PERFORMANCE — GROSS RETURNS (USD) (SEP 2009 – SEP 2024)



ANNUAL PERFORMANCE (%)

Year	MSCI World	MSCI Emerging Markets	MSCI ACWI
2023	24.42	10.27	22.81
2022	-17.73	-19.74	-17.96
2021	22.35	-2.22	19.04
2020	16.50	18.69	16.82
2019	28.40	18.88	27.30
2018	-8.20	-14.24	-8.93
2017	23.07	37.75	24.62
2016	8.15	11.60	8.48
2015	-0.32	-14.60	-1.84
2014	5.50	-1.82	4.71
2013	27.37	-2.27	23.44
2012	16.54	18.63	16.80
2011	-5.02	-18.17	-6.86
2010	12.34	19.20	13.21

INDEX PERFORMANCE — GROSS RETURNS (%) (SEP 30, 2024) / **FUNDAMENTALS (SEP 30, 2024)**

					ANNUALIZED							
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI World	1.87	6.46	33.03	19.28	9.61	13.59	10.65	8.62	1.77	22.66	18.92	3.47
MSCI Emerging Markets	6.72	8.88	26.54	17.24	0.82	6.15	4.41	9.78	2.52	16.27	12.42	1.87
MSCI ACWI	2.36	6.72	32.35	19.08	8.60	12.72	9.94	8.44	1.85	21.76	17.94	3.18

INDEX RISK AND RETURN CHARACTERISTICS (SEP 30, 2024)

		ANNUALIZED STD DEV (%) [2]			SHARPE RATIO [2, 3]				MAXIMUM DRAWDOWN	
	Turnover (%) [1]	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987	(%)	Period YYYY-MM-DD
MSCI World	2.31	17.01	17.76	14.97	0.42	0.68	0.64	0.41	57.46	2007-10-31—2009-03-09
MSCI Emerging Markets	5.58	17.63	18.64	17.10	-0.07	0.29	0.24	0.39	65.14	2007-10-29—2008-10-27
MSCI ACWI	2.48	16.57	17.37	14.78	0.37	0.65	0.60	0.40	58.06	2007-10-31—2009-03-09

[1] Last 12 months [2] Based on monthly gross returns data [3] Based on NY FED Overnight SOFR from Sep 1 2021 & on ICE LIBOR 1M prior that date

Source: MSCI

IV. Performance of Select African Markets

Capital markets remained resilient across Sub-Saharan Africa with risks of debt distress, negative political developments and elevated sticky inflation across select still pose a risk to economic recovery. Interest rate cuts and market friendly reforms will continue to support capital markets across Africa. Revenue mobilization and debt restructuring reforms are being undertaken across Africa to support economic recovery, which if carefully implemented will support capital markets resilience in high debt profile countries such as Ghana.

South Africa equities market for example during the quarter under review registered robust returns as a result of a mix of positive market friendly reforms undertaken during the period.

Figure 10KEY JSE INDICES

Indices (total return in ZAR)	
FTSE JSE All Share Index	9.6%
FTSE/JSE Financials Index	8.8%
FTSE/JSE Industrials Index	3.4%
FTSE/JSE Resources Index	-2.5%
FTSE/JSE ALBI	10.6%
STEFI	2.1%

Source: Bloomberg

Select equity markets in Africa registered positive returns during the quarter under review, with Kenya, Nigeria and Zimbabwe registering negative returns.

Table 1: Performance Across Select African Markets -MSCI (Markets Standard (Price) as of 30 September 2024)

MSCI Index	Index Code	Last	Day	MTD	3MTD	YTD
Côte d'Ivoire	712199	1,671.90	0.70%	11.63%	29.60%	36.12%
Kenya	136643	802.009	-0.01%	4.84%	-3.61%	45.02%
Morocco	105765	314.464	-0.87%	3.88%	11.91%	19.49%
Nigeria	136645	31.635	0.57%	3.57%	-5.04%	-73.89%
Senegal	712202	1,017.01	-3.47%	3.96%	24.66%	30.36%
Tunisia	136646	825.171	-0.22%	3.03%	4.65%	10.87%
Zimbabwe	700873	948.72	-1.70%	-31.19%	-7.27%	23.57%

Source: MSCI

Top Global Risks and Opportunities During the Quarter

Key Risks Identified

1. ***Geopolitical instability continues to loom as the top perceived risk to global and domestic growth in a year when almost half of the world's population will vote in national elections. The escalating geopolitical tensions especially in the Middle East is increasingly an area of concern.***
2. ***Weak revenue mobilization and the slow pace to undertaking debt restructuring reforms across Africa could have knock-on effects on Kenya's risk perception in the international capital markets impacting on the Government of Kenya's fundraising efforts.***
3. ***Climate change remains a persistent risk, the frequency and intensity of floods and drought has often posed adverse knock-on effects on Kenya's economic recovery post covid.***

Key Opportunities

1. ***Climate finance programmes need to be actively supported by the capital markets industry. Key among this is to support the issuance of green finance capital markets instruments and enhance reporting on climate related investments and risks.***
2. ***The National Treasury and Economic Planning support to the ongoing bond market reforms will be crucial to enhancing liquidity in the government fixed income market trading and support the governments fundraising efforts via the bond markets.***

III. INTERNATIONAL DEVELOPMENTS

a. FCA overhauls listing rules to boost growth and innovation on UK stock markets.

The new rules are the biggest changes to the listing regime in over 3 decades. They aim to support a wider range of companies to issue their shares on a UK exchange, increasing opportunities for investors.

The new framework minimizes the need for shareholder approval on this front (significant or related party transaction) and provides more freedom to companies, like dual class share structures with superior voting rights which may last up to ten years. While some approvals, such as reverse takeovers and de-listing remain necessary, the proposed changes are intended to make UK-listed companies more competitive.

Figure 11Financial Conduct Authority

Source: Shutterstock

The FCA has also temporarily loosened certain transparency rules, allowing companies to disclose transactions gradually where it is not possible for them to provide the details in a single announcement.

The new rules aim to encourage prospective issuers to choose a UK listing by streamlining our rules and removing our 'premium' and 'standard' listing segments in favor of a new commercial companies' category for equity shares.

Lesson learnt

A continuous review of our listing regime is key to make it more facilitative to potential issuers. Kenya aim to be a regional capital markets hub can only be achieved by regularly streamlining listing requirements by reducing complexities and unnecessary barriers to prompt listings to encourage entities to list.

b. Strengthening Singapore's Equities Market

On 2 August 2024, the Monetary Authority of Singapore (MAS) made a significant announcement regarding the formation of a Review Group tasked with recommending measures to enhance the development of Singapore's equities market. The Review Group, chaired by Mr. Chee Hong Tat, Minister for Transport, Second Minister for Finance, and MAS Board Member, comprises a blend of key private sector stakeholders and public sector representatives. This collaborative initiative seeks to position Singapore's equities market for future growth, ensuring it remains competitive and attractive in an ever-evolving global financial landscape.

Figure 12Singapore's Stock Market

Source: Bloomberg

What the Singaporean Government is Doing

The Singaporean government has already introduced several steps to boost its stock market:

- **Cornerstone funds**: These are funds set up to invest in companies that are about to go public (IPO). It helps ensure that high-growth companies can access funding.
- **Corporate structures:** They have made it easier for companies to list by introducing flexible share classes.
- **Better research:** They are improving the availability of information about listed companies to help investors make informed decisions**.**

Lessons Learnt

Kenya's capital markets industry should formalize the establishment of a Capital Markets Policy Committee. The formation of Singapore's Review Group and its objectives to strengthen the equities market development offer valuable lessons and insights for Kenya's capital markets. There are learnings from Singapore's multi-faceted approach that Kenya can adopt to improve its capital markets ecosystem.

c. **eToro Reaches Settlement with SEC and Will Cease Trading Activity in Nearly All Crypto Assets**

Figure 13US SEC on eToro.

Source: US SEC Twitter

The Securities and Exchange Commission announced that eToro USA LLC agreed to pay $1.5 million to settle charges, cease and desist from violating the applicable federal securities laws and make only a limited set of crypto assets available for trading. This is after it operated an unregistered broker and clearing agency in connection with its trading platform that facilitated buying and selling certain crypto assets as securities. Regarding the SEC's order, U.S. customers can only trade on Bitcoin, Bitcoin Cash, and Ether on the company's platform.

To enhance investor protection and offer a pathway for other crypto intermediaries, eToro agreed to comply and operate within the established regulatory framework in U.S. to continue operating. Additionally, the company will liquidate any other crypto assets being offered and sold as securities, which it is unable transfer to customers within 187 days and return the proceeds to the respective customers.

Key Take Away

CMA remains cognizant of the notable shift in regulatory stance towards crypto assets, particularly requiring all service providers to obtain the requisite license.

By closely monitoring and learning from the US SEC's regulatory approach to crypto, CMA-Kenya is keen to enhance its regulatory capabilities to support the development of a robust oversight framework for crypto assets in Kenya.

IV. REGIONAL DEVELOPMENTS

a. South Africa Considers Revamped Financial Rules

South Africa's Financial Sector Conduct Authority (FSCA) has outlined a strategy to strengthen the integrity of its financial markets following concerns that its current regulations do not meet international benchmarks.

In its three-year regulatory plan, covering the period from April 1, 2024, to March 31, 2027, the FSCA announced key priorities. These include advancing the Conduct of Financial Institutions (COFI) Bill, creating adaptive policies to address emerging risks like artificial intelligence (AI), and implementing legislation that focuses more on outcomes and principles.

Although the regulator expressed satisfaction with progress made over the past year, it acknowledged that its regulatory framework has "fallen behind certain international standards."

Notably, the 2022 Financial Sector Assessment Program conducted by the World Bank Group and International Monetary Fund highlighted weaknesses in South Africa's risk management regulations for over-the-counter derivative providers (ODPs).

In response, the FSCA and the Prudential Authority are planning to tighten the capital and risk management rules for ODPs, considering various risks including market, counterparty credit, and credit valuation.

A significant portion of the FSCA' s efforts will focus on further developing the COFI Bill, which aims to introduce a new regulatory framework to prevent unfair market practices. The Bill will require financial institutions to treat consumers fairly, offer transparency about fees, and disclose the risks associated with their products and services.

The transition to the COFI Bill will continue throughout 2024, with consultations with the COFI Bill Transition Working Group planned for 2025.

The FSCA is also considering legislative interventions to tackle emerging risks in areas such as AI, machine learning, fintech, crypto assets, sustainable finance, governance, open finance, and cybersecurity.

While AI and machine learning are still in the early stages of exploration by the FSCA, the regulator recognizes their potential impact on the financial sector. It plans to conduct exploratory work over the next couple of years, which could lead to specific policy recommendations. The FSCA is also considering high-level AI governance requirements for financial institutions using these technologies.

Additionally, the FSCA intends to clamp down on anti-ESG practices to ensure alignment with the country's sustainability goals, with a focus on sustainable finance disclosures. The regulator is also recommending stricter rules around outsourcing and third-party service provision.

This stricter stance comes as South Africa faces ongoing challenges in its efforts to be removed from the Financial Action Task Force (FATF) grey list. The country has been on the list for over a year due to deficiencies in its anti-money laundering and counter-terrorist financing frameworks. The FATF has given South Africa until the end of January 2025 to address these legal gaps related to financial crime.

According to the FSCA' s most recent regulatory actions report, released last month, the authority took significant enforcement measures between April 1, 2023, and March 31, 2024. During this period, it issued 156 debarments, 104 public warnings, 41 enforceable undertakings, suspended 1,061 licenses, and revoked 75 licenses. In addition, it imposed fines totalling over ZAR 943 million (USD 52.4 million) on 33 individuals.

Figure 14FSCA.

Source: FSCA

Key Takeaways

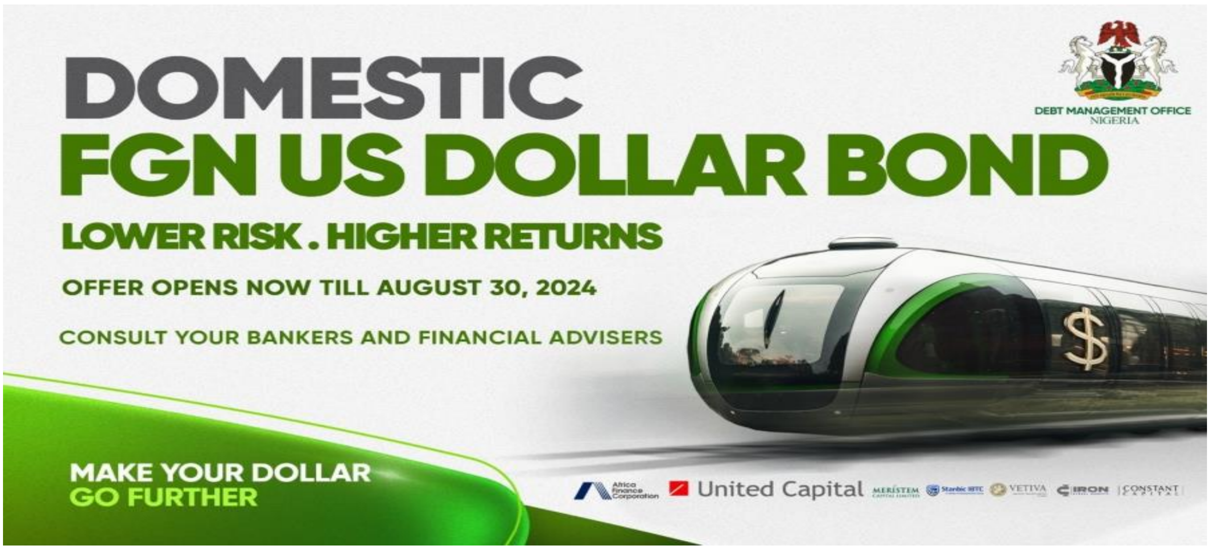
Across Africa financial markets are revamping their capital markets legislative framework to enhance their jurisdictional competitiveness. MA Kenya remains keen on continuously reviewing its regulatory architecture to position Kenya as a regional financial hub in Africa.

b. Nigeria raises $900 mln in inaugural domestic dollar bond

This innovative move sought to broaden the sources of financing available to the country, as well as reduce exposure to high rates required in foreign capital markets. The five-year bond had a 9.75 % coupon rate and was oversubscribed, showing strong investor demand after dollar shortages forced the central bank to devalue the naira twice in less than a year in Nigeria, Africa's largest economy.

The proceeds of the bond issuance will be used to invest in key sectors of the Nigeria economy. The initiative sought to attract local investors, pension funds and Nigerians in the diaspora towards using their resources within the African countries to aid development which will reduce reliance on external financing. The successful bond issuance also affirms the increasing confidence in Nigeria's economy and its capacity to attract investments from both local and diaspora.

Figure 15Nigeria Dollar Bond



Source: https://sweetcrudereports.com/afc-leads-nigerias-inaugural-domestic-dollar-bond-raises-us900m/

Key Take Away

Nigeria's issuance will provide a good reference point by giving assurance to key policymakers especially given Kenya's need to mobilize more diaspora remittances. Diaspora investors would prefer such bonds as they are good in mitigating against exchange rate risk.

c. Egypt Launches First Regulated Voluntary Carbon Market: Key Lessons for Kenya's Capital Markets

On 13 August 2024, the FRA officially launched the first regulated voluntary carbon market. These steps underscore Egypt's dedication to sustainable development and its ambition to lead the carbon trading market in the Middle East and Africa.

Key Highlights of Egypt's Carbon Market:

1. **Listing of CERs**

   FRA Decree No. 31 of 2024 governs the listing, delisting, and trading of CERs on the EGX, ensuring transparency by requiring CERs from accredited projects, verified by accredited bodies.

2. **Trading Rules**

   Market operations and clearing are handled by licensed entities, aligning with international standards to boost investor confidence and ensure legitimacy.

3. **Delisting Procedures**

   Issuers can voluntarily delist CERs, but the EGX can enforce mandatory delisting for breaches. In such cases, issuers must repurchase CERs from affected investors.

4. **Forward Contracts**

   The decree introduces forward contracts for future CER issuances, covering project terms and delivery obligations to enhance market liquidity.

Lessons for Kenya's Capital Markets Authority

As Kenya works toward building a sustainable financial market, Egypt's approach to establishing a voluntary carbon market offers valuable lessons. The Capital Markets Authority of Kenya can draw insights from Egypt's experience in designing a structured, transparent, and regulated carbon trading system.

V. LOCAL DEVELOPMENTS

a. CMA Licensing Updates

During the review period, several licenses and approvals were granted to various entities. CPF Asset Managers Limited received approval to establish the CPF Unit Trust Funds, which include the CPF Money Market Fund, CPF Bond Fund, CPF USD Money Market Fund, and CPF Balanced Fund.

Renaissance Capital was authorized to register the Rencap Unit Trust Scheme, which features the Rencap Money Market Fund (KES), Rencap Money Market Fund (USD), Rencap Balanced Fund (KES), Rencap Fixed Income Fund (KES), and Rencap Fixed Income Fund (USD).

Figure 16CMA Licenses Three Additional Coffee Brokers

> **Nairobi, 01 August 2024...**The Capital Markets Authority (CMA) has announced the issuance of full coffee brokerage license to three companies allowing them to trade at the Nairobi Coffee Exchange. The expansion of the pool of licensed coffee brokers is anticipated to spur the uptake of new commodities products and services and grow market turnover.

Source: CMA Website

Investcent Investment Bank obtained approval for its Trust Funds, as well as for the Invescent Alternative Investment Fund. GCIB was granted authorization to add new sub-funds to its GCIB Unit Trust Scheme, which now includes the GCIB Multi-Asset Special Fund, GCIB Shariah Multi-Asset Special Fund, and GCIB Shariah Fixed Income Fund.

Additionally, Spearhead Fund Managers received approval to launch the Spearhead Africa Infrastructure Special Fund. Lastly, SIB was granted the go-ahead to create both the Mansa X Special Fund (KES & USD) and the Mansa X Shariah Special Fund (KES & USD).

Stability Implication

This development signifies CMA's commitment to support the national development agenda in line with its market deepening objectives. It underscores the Board's commitment to support faster licensing of market players in the interest of market development.

a. **CMA and NSE issue joint circular on submission of forward-looking event calendars by listed entities.**

Companies listed at the Nairobi Securities Exchange (NSE) will now be required to develop and submit a forward-looking and tentative calendar of corporate announcements. "The aim is to provide investors with a clearer view of forthcoming corporate actions, enabling them to make more informed decisions and contributing to greater market predictability and stability," CMA and NSE noted in a joint statement.

Forward-looking event calendars issued by listed entities play a crucial role in the financial ecosystem by serving multiple important purposes. First and foremost, they promote transparency by providing stakeholders—such as investors and analysts—with clear information about upcoming events that could impact the company's performance or stock price. This transparency fosters trust and confidence among investors.

These calendars also facilitate informed decision-making. By outlining key events, including earnings releases, shareholder meetings, product launches, and significant announcements, they enable investors to make educated choices about their investments. Additionally, such calendars help set market expectations regarding a company's future performance, influencing trading strategies and overall market sentiment as investors may adjust their positions based on anticipated news.

Figure 17JOINT NSE AND CMA CIRCULAR

nairobi securities exchange
Discover Opportunity

CAPITAL MARKETS AUTHORITY
Promoting Capital Markets Integrity

JOINT CIRCULAR ON SUBMISSION OF FORWARD-LOOKING EVENT CALENDARS FOR LISTED COMPANIES

As part of our ongoing commitment to enhancing transparency and improving communication between issuers and investors, the NSE and the CMA are jointly introducing this initiative designed to support market efficiency and bolster investor confidence.

All issuers are now required to develop and submit a forward-looking calendar of corporate announcements. This calendar should detail all upcoming corporate events, along with their tentative dates. The aim is to provide investors with a clearer view of forthcoming corporate actions, enabling them to make more informed decisions and contributing to greater market predictability and stability.

We recognize that circumstances may necessitate changes to these dates or event details. In such cases, companies are expected to promptly update the NSE and CMA with the revised information. This approach ensures that the market remains informed with the most current and up-to-date information.

Additionally, we strongly encourage companies to make this calendar publicly available through their websites and other communication channels as well.

As we move forward, all issuers should submit their calendars for the remainder of this year by September 16th, 2024, and the calendar for the year 2025 by January 10th, 2025.

Should you require any further information or clarification, please do not hesitate to contact us.

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CHIEF EXECUTIVE OFFICER

FRANK LLOYD MWITI
CHIEF EXECUTIVE OFFICER

Source: CMA Website

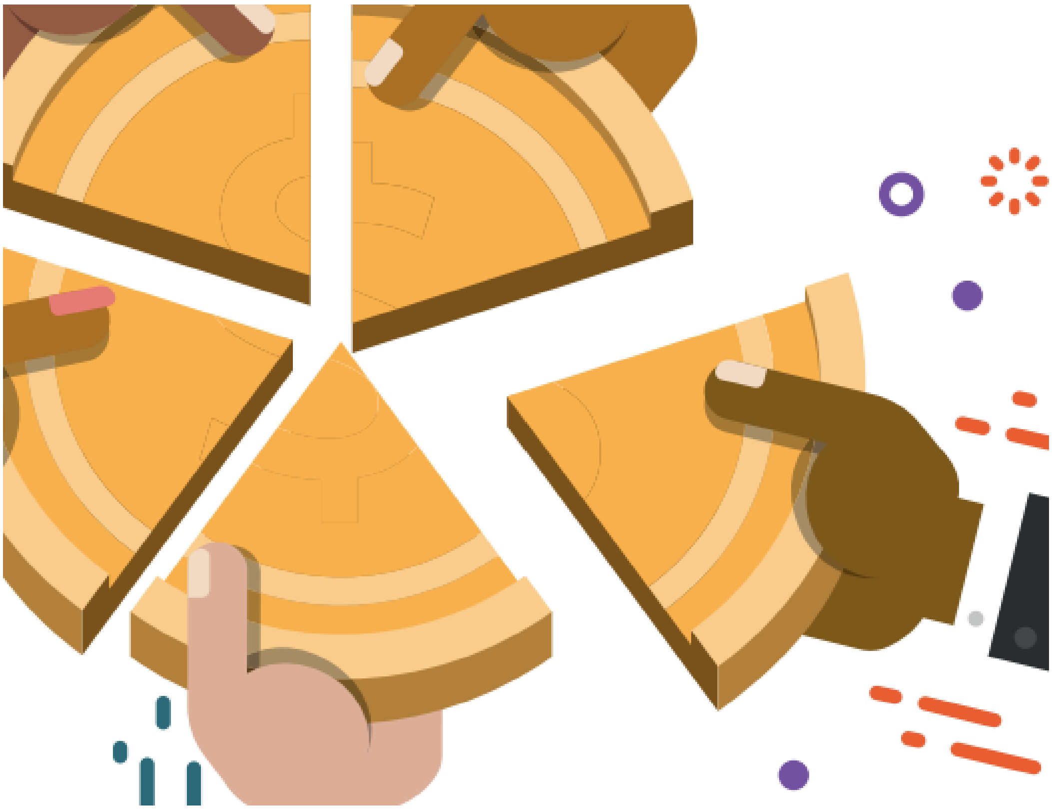
Way forward

The Authority appreciates the compliance to the circular as per the timelines indicated for compliance as per the deadline of 16 September 2024. From a regulatory perspective, issuing an event calendar can assist companies in meeting their obligations related to timely disclosure of material information. This practice reflects a commitment to good corporate governance. Furthermore, forward-looking calendars encourage engagement between the company and its stakeholders, allowing investors to plan their participation in important events like earnings calls or investor days, thereby fostering better communication.

b. **Nairobi bourse to roll out fractional stock investment**

By December 31, 2024, the Nairobi Securities Exchange (NSE) will roll out fractional investing that enables investors to buy shares in amounts for a fraction of say Ksh.1000 instead of full shares thus lowering cost of entry hence making stock market accessible to retail investors. This step is intended to tackle the issues of a weak market in 2022 from the NSE and significant costs that have excluded numerous financial backers out of the business sectors.

Figure 18Fractional Ownership Illustration



Source: Vellum Kenya

The NSE's fractional investment system will allow investors to buy shock bits while the shares are still maintained by stockbrokers or fund managers, a model made popular in South Africa with Easy Equities solutions. While fractional investors will not be entitled to vote on decisions, they can share the price developments and dividends by investment size.

Lesson learnt

The introduction of fractional investment system is a very welcomed development as it sets the ball rolling on the vision to have an inclusive capital market. Moreover, it is a big step towards democratizing access to the Kenyan stock market. By decreasing the cost

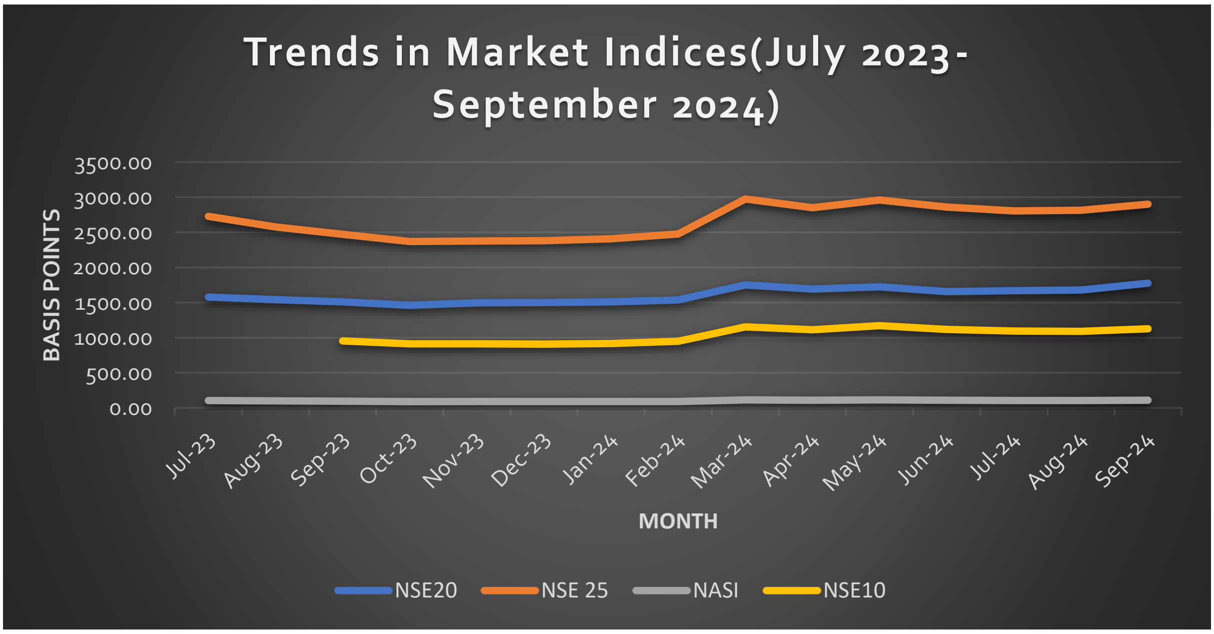
barrier, it will allow more individual investors, particularly those who previously considered high-priced equities expensive, to participate. This might lead to a larger pool of individual investors, boosting market liquidity and activity.

VI. PERFORMANCE OF THE DOMESTIC CAPITAL MARKETS

During the quarter, investor confidence continued to support the resilience of the domestic capital markets on the back of positive domestic macroeconomic developments notably a strong and stable Kenya shilling and interest rate cut of 0.25% by the Central Bank of Kenya. The Kenyan economy is now unwinding from layers of negative and persistent shocks that had a structural effect on economic activities supported by the focused interventions and structural reformed the National Treasury and Economic Planning.

The four market indices, NSE20, NSE25, NASI, and NSE10, closed at 1775.67, 2899.2,107.08 and 1124.72 points compared to 1656.50,2861.04,109.49 and 1117.39 points, recorded as at the end of the second quarter of 2024.This was a notable improvement buoyed by improved investor sentiments. The volume of shares traded during the quarter decreased by 25% to 1,020,645,757 from 1,369,182,900.

Figure 19Trends of the Performance of the Market Indices

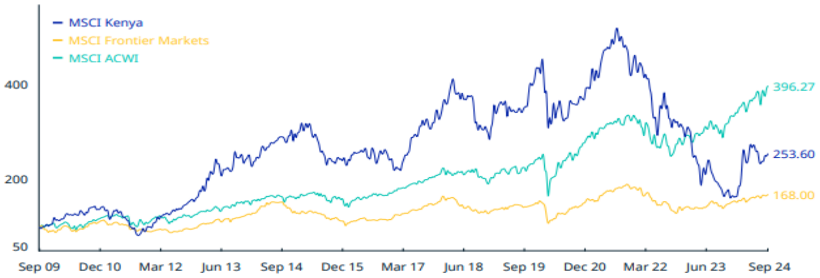


Source: CMA

The MSCI Kenya Index, designed to measure the performance of the large and mid-cap segments of the Kenya market, registered positive returns to close at 54.96 % on a year-to-date basis. This has been supported by positive investor sentiments and macro-economic developments.

Figure 20MSCI Kenya Index

CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD) (SEP 2009 – SEP 2024)



ANNUAL PERFORMANCE (%)

Year	MSCI Kenya	MSCI Frontier Markets	MSCI ACWI
2023	-46.61	11.63	22.20
2022	-30.97	-26.34	-18.36
2021	13.84	19.73	18.54
2020	-9.50	1.43	16.25
2019	48.73	17.99	26.60
2018	-12.51	-16.41	-9.41
2017	35.97	31.86	23.97
2016	1.11	2.66	7.86
2015	-18.34	-14.46	-2.36
2014	23.39	6.84	4.16
2013	47.74	25.89	22.80
2012	61.90	8.85	16.13
2011	-27.22	-18.73	-7.35
2010	30.29	23.75	12.67

INDEX PERFORMANCE — NET RETURNS (%) (SEP 30, 2024)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since May 31, 2002
MSCI Kenya	5.70	-1.16	37.13	54.96	-19.50	-6.37	-1.33	13.78
MSCI Frontier Markets	0.59	4.50	15.09	10.70	-2.86	3.34	1.01	6.58
MSCI ACWI	2.32	6.61	31.76	18.66	8.09	12.19	9.39	8.04

FUNDAMENTALS (SEP 30, 2024)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI Kenya	7.71	4.43	na	0.97
MSCI Frontier Markets	4.21	10.67	na	1.53
MSCI ACWI	1.85	21.76	17.94	3.18

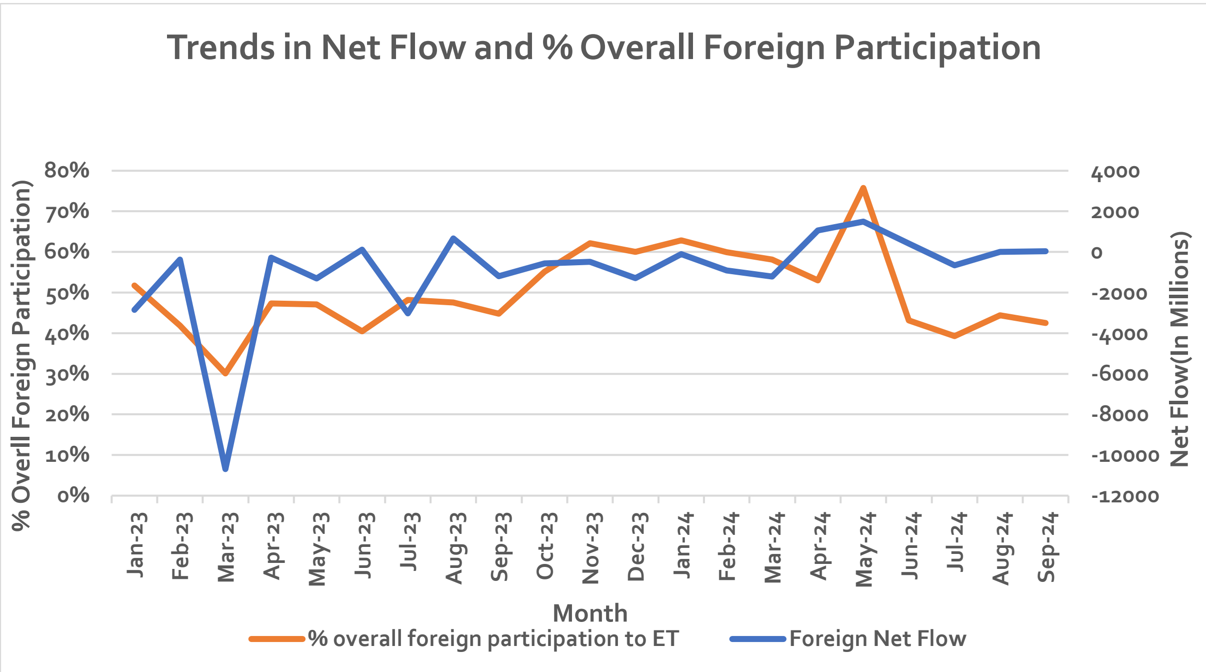
INDEX RISK AND RETURN CHARACTERISTICS (SEP 30, 2024)

		ANNUALIZED STD DEV (%) [2]			SHARPE RATIO [2, 3]				MAXIMUM DRAWDOWN	
	Turnover (%) [1]	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since May 31, 2002	(%)	Period YYYY-MM-DD
MSCI Kenya	24.78	35.15	30.72	25.73	-0.56	-0.15	0.00	0.54	69.99	2021-08-17—2024-01-26
MSCI Frontier Markets	8.84	13.41	16.47	14.22	-0.42	0.15	0.02	0.36	67.47	2008-01-15—2009-03-03
MSCI ACWI	2.48	16.57	17.37	14.78	0.35	0.62	0.57	0.46	58.38	2007-10-31—2009-03-09

[1] Last 12 months [2] Based on monthly net returns data [3] Based on NY FED Overnight SOFR from Sep 1 2021 & on ICE LIBOR 1M prior that date

Source: MSCI

Figure 21Trends in Net Equity Portfolio Flow and Overall Foreign Participation (January 2023- September 2024)

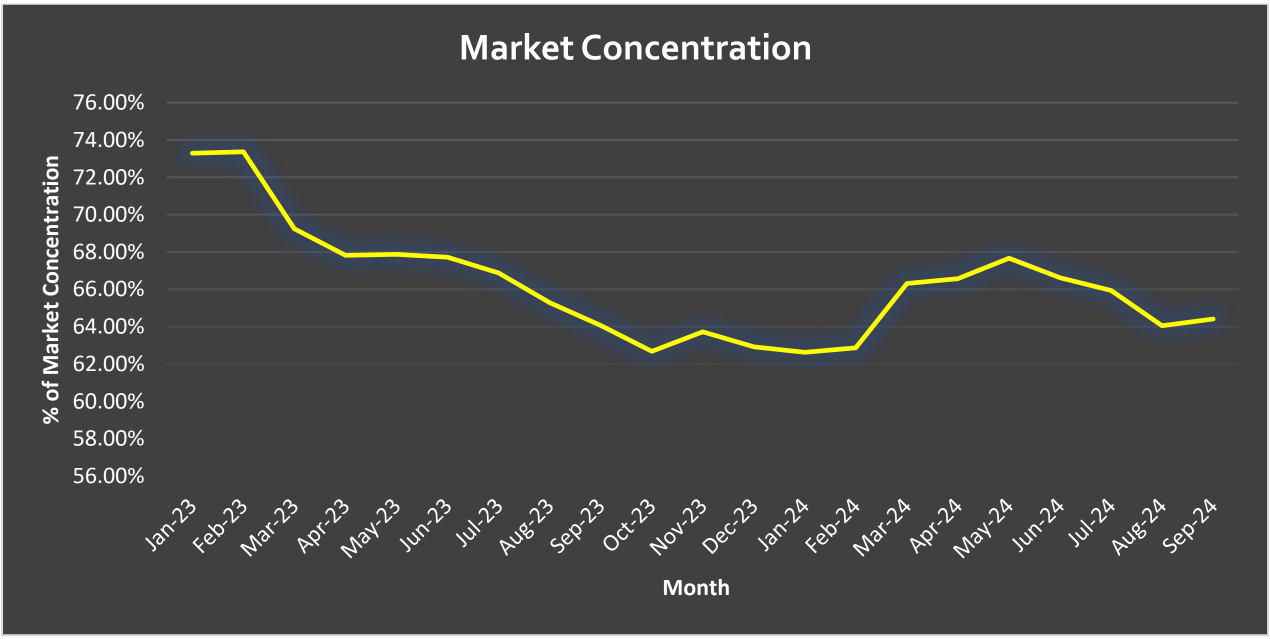


Source: CMA

During the quarter under review a negative net equity portfolio outflow was recorded at Kshs 628 million, a more than 120 percent decrease from Ksh 2.98 billion recorded in the second quarter of 2024. The average foreign participation in the equity market recorded a slight decrease from 57.29 percent in Q3 2024 to 42.07 in the quarter under review. This was on the back of sustained foreign exits on select blue chips as investors priced on what remains to be slight impact from the anticipated acceleration in interest rate cuts. The foreign exits noted in July 2024 attributable to the anti-government protests seemed to have waned off with foreign investors slowly returning to the bourse as evidenced by the positive net foreign equity portfolio inflow registered in September 2024.

The market concentration of the five blue chip companies averaged 64.80 percent, a decrease from 66.93 percent recorded in quarter two of 2024. The market concentration reduction demonstrates investors' willingness to diversify their investment portfolios away from the five blue chip companies.

Figure 22Market Concentration (Top 5 companies by market cap)



Source: CMA

Figure 23Equity Performance (July 2024– September 2024)

Year	Month	Share Volume	Total Equity Turnover (Ksh)	NSE 20 Share Index (Average)	NASI Index (Average)	NSE 25 Share (Average)	NSE10	Market Cap[6] (Kshs Mn)
Q3 2024	July	294,388,175.00	5,016,484,045.10	1669.73	105.73	2806.48	1,093.91	1,651.83
	August	392,179,015	6,511,267,543.67	1678.21	103.67	2812.75	1,088.19	1,619.78
	September	334,078,567	5,019,395,030.00	1775.67	107.08	2899.2	1,124.72	1,676.24
	Total	1,020,645,757	16,547,146,618.77					
Q2. 2024	April	301,351,900	7,333,802,680.66	1,711.14	109.41	2,900.24	1,132.01	1,664.54
	May	509,646,800	16,040,358,807.08	1,688.64	110.02	2,879.93	1,130.92	1,765.15
	June	279,092,100	5,016,484,045.01	1,726.28	112.87	2,935.53	1,152.63	1,710.64
	Total	1,369,182,900	28,390,645,532.75					

a. Treasury Bond Market

Table 4 Treasury bond performance (July 2024– September 2024)

Date	Bond	Amount Issued (Kshs Bn)	Amount Received (Kshs Bn)	Amount Accepted (Kshs Bn)	% AA/AI	% AR/AI
July 24	Tap sale (FXD1/2023/002)	20	0.4875	0.48648	2.43	2.43
	FXD1/2024/010	30	7.07	6.752.15	22.50	23.57
	FXD1/2008/020		7.61	3.014	10.03	25.37
August 24	IFB1/2023/6.5	50	96.86	74.18	148.36	193.72
	IFB1/2023/17		29.46	14.53	29.06	58.92
September 24	TAP sale IFB1-2023-17	15	35.19	32.02	213.47	234.60
	FXD1/2024/010	30	13.40	11.57	38.57	44.67

[6] Market Capitalization for the last trading day of the month.

	FXD1/2016/020		9.25	7.71	25.70	30.83
		145	199.33	150.26		
Apr 24	Tap sale (FXD1/2023/005)		35.59	33.95	135.81	142.34
	Tap sale (FXD1/2024/010)	25.00	12.20	11.90	47.58	48.81
	FXD1/2023/002	40.00	47.19	34.76	86.91	117.98
May 24	FXD1/2024/010	25.00	14.98	11.00	43.98	59.92
	Tap Sale (FXD1/2024/010)	15.00	7.11	7.03	46.83	47.38
June 24	FXD1/2023/02		8.45	7.08	23.58	28.15
	FXD1/2024/03	30.00	24.39	23.81	79.36	81.31
	FXD1/2023/05		31.94	22.59	75.29	106.48
	FXD1/2023/10	30.00	9.62	7.58	25.28	32.06
	FXD1/2023/02		1.80	1.80	8.98	9.00
	FXD1/2024/03		3.27	3.32	16.58	16.33
	FXD1/2023/05	20.00	11.23	10.81	54.06	56.14
	FXD1/2023/10		8.84	7.94	39.68	44.20
SUM		185.00	216.61	183.57		

AA-Amount Accepted; AI-Amount Issued; AR-Amount Received; (AA/A) % - Acceptance Rate; (AR/AI) % - Performance Rate; Source: CBK

The government intended to collect Ksh. 145 billion from the market. Bids valued at Ksh. 199.33 billion were received, with the government only accepting bids worth Ksh. 150.26 billion. Out of the eight (8) bonds issued during the quarter, two (2) were tap sales. Infrastructure bonds remain the most attractive amongst investors, with the September issuance attracting a 234.60 percent performance rate.

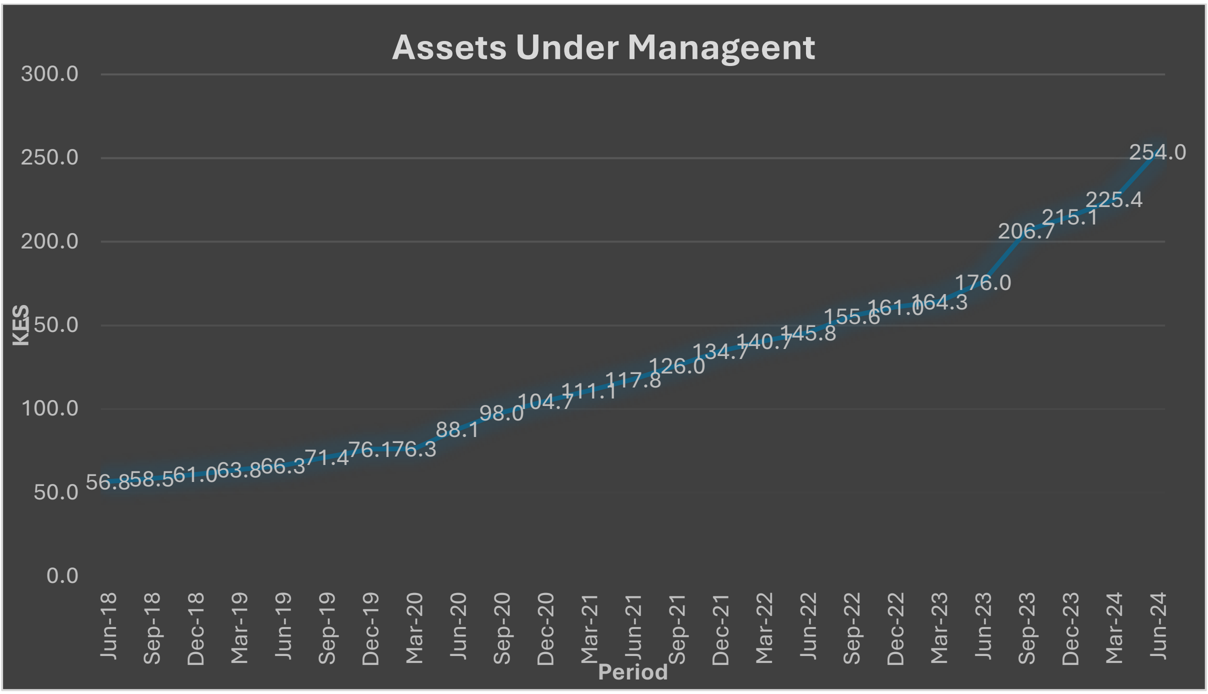
Corporate Bonds Market

The double-digit returns offered on government paper continue to depress corporate bond issues as corporates struggle to offer competing returns in the current difficult global and local macroeconomic context. As a result, no corporate bonds were traded during the quarter.

Collective Investment Schemes

Assets under management have grown steadily from Kshs. 56.6 billion on March 31, 2018, to Kshs. 253.95 billion on June 30, 2024. The graph below represents the growth of the 6 years. The number of investors in the various CIS Funds has continued to grow steadily over time, buoyed by increasing awareness in the market to save and invest especially, post covid era. As of June 30, 2024(Q3 2024 data to be updated once available) there were a total of 1,211,124 investors.

Figure 24Assets under Management



Source: CMA

CAPITAL MARKETS STABILITY SOUNDNESS INDICATORS FOR THE PERIOD 1 JULY – 30 SEPTEMBER 2024

Table 5 Capital Markets Stability Indicators July 01 – September 30, 2024

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Ongoing Intervention Measures
1.0 Equity Market Depth								
NSE 20 Index Volatility Base Year = 2010	**Q3 2024**	**July**	**August**	**September**	**Q.Avg**	**Low** (Indicative – Low < 1%; Medium; 1%; High >10%)	The volatility for the three market indices, NSE 20, NSE 25, and NASI was 0.52%, 0.50%, and 0.48%, respectively	The market volatility for the three market indices, NSE20, NSE25, and NASI remained low, below 1%. All indices declined compared to Q2. 2024.The decrease is attributed to foreign investors' exit as investors priced in the potential impact of interest rate cuts both domestically and globally. In the fiscal year 2024/25, the Authority
		0.52%	**0.57%**	**0.48%**	**0.52%**			
	Q2. 2024	**Apr**	**May**	**Jun**	**Q.Avg**			
		0.36%	**0.69%**	**0.58%**	**0.54%**			
	Q1. 2024	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.38%	**0.33%**	**0.73%**	**0.48%**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.30%	**0.34%**	**0.19%**	**0.28%**			
NSE 25 Index Volatility Base Year = 2015	**Q3 2024**	**July**	**August**	**September**	**Q.Avg**	**Low** (Indicative – Low < 1% Medium: >1% high; >10%)		
		0.40%	**0.57%**	**0.52%**	**0.50%**			
	Q2. 2024	**Apr**	**May**	**June**	**Q. Avg**			
		0.63%	**0.77%**	**0.63%**	**0.68%**			
	Q1. 2024	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.47%	**0.38%**	**0.85%**	**0.56%**			

	Q4. 2023	Oct	Nov	Dec	Q. Avg			shall be progressing to the National Treasury and Economic Planning the margin trading regulations aimed at improving market volatility and supporting the industry wide product uptake initiatives such as day trading.
NASI Volatility Base Year = 2010	Q3 2024	**July**	**August**	**September**	**Q.Avg**	**Low** (Indicative – Low < 1% Medium: >1% high; >10%)		
		0.43%	**0.52%**	**0.49%**	**0.48%**			
	Q2. 2024	**Apr**	**May**	**Jun**	**Q. Avg**			
		0.67%	**0.75%**	**0.54%**	**0.65%**			
	Q1.2024	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.47%	**0.45%**	**1.04%**	**0.65%**			
	Q4. 2023	Oct	Nov	Dec	Q. Avg			
		0.44%	**0.68%**	**0.43%**	**0.52%**			
Equities Turnover Ratio	Q3 2024	**July**	**August**	**September**	**Q.Avg**	**Low** (Indicative – annual: <8%- Low; >15% High)	The recorded turnover for Q3 2024 was 0.35% a decrease from 1.64 % recorded in Q1.2024	Equities' turnover on the Nairobi Securities Exchange (NSE) decreased from 1.64% to 0.35% during the quarter. The decreased turnover ratio is attributed to foreign investors being net sellers post the June 2024 anti-government protests as they spooked investors on the potential deterioration of domestic economic conditions.
		0.35%	**0.40%**	**0.30%**	**0.35%**			
	Q2. 2024	**Apr**	**May**	**June**	**Q. Sum**			
		0.44%	**0.91%**	**0.29%**	**1.64%**			
	Q1. 2024	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.19%	**0.32%**	**0.64%**	**1.15%**			
	Q4. 2023	Oct	Nov	Dec	Q. Avg			
		0.31%	**0.26%**	**0.23%**	**0.80%**			

								Initiatives such as day trading, and margin trading together with necessary trading incentives/concessions will remain critical in enhancing domestic investor activity at the Nairobi bourse hence boosting equities turnover.
2.0 Foreign Exposure Risk								
Percentage (%) overall Foreign participation to Total Equity Turnover	**Q3 2024**	**July**	**August**	**September**	**Q.Avg**	**Low (Indicative – annual: <40%- Low; >90% High)**	Foreign investor participation at end of the Q3,2024, Averaged at 42.07% a decrease from Q2 2024 at 57.29%	In Q2 2024, foreign investor turnover averaged 42.07 %, a decrease from 57.29% registered in Q2.2024. Foreign investors slightly dominate trading at the Nairobi Bourse. The net foreign equity portfolio outflow increased by Kshs 3,606 million, from Kshs 2,978 recorded in Q2 2024 to negative
		39.29%	**44.40%**	**42.51%**	**42.07%**			
	Q2. 2024	**Apr**	**May**	**Jun**	**Q. Avg**			
		52.99%	**75.76%**	**43.12%**	**57.29%**			
	Q1. 2024	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		62.84%	**59.97%**	**58.12%**	**60.31%**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		55.13%	**62.15%**	**59.98%**	**59.09%**			
	Q3 2024	**July**	**August**	**September**	**Q.Avg**	High (Indicative	In the quarter under review,	
		(655.11)	**(1.65)**	**29.00**	**(627.76)**			

Net Foreign Portfolio Flow (Ksh Million)	**Q2. 2024**	**Apr**	**May**	**Jun**	**Q. Sum**	– annual: <Kshs (50million) - High (outflow. >Kshs. 50 million High	the market recorded a negative net outflow of 628 million compared to an inflow of 2,978 million between April and June 2024.	Kshs 627.76 million registered this quarter. At above Ksh 50 Million, outflows are considered high. Such Outflows poses an ongoing risk to our market, highlighting the necessity for targeted initiatives aimed at bolstering trading activities at the Nairobi Securities Exchange. Such initiatives include the implementation of day trading strategies and the reduction of investment barriers for foreign investors. These measures are intended to stimulate market liquidity and attract foreign investment, thereby fostering a more vibrant and resilient marketplace.
		1,063	**1,495**	**419**	**2,978**			
	Q1. 2024	**Jan**	**Feb**	**Mar**	**Q. Sum**			
		(107)	**(918)**	**(1,203)**	**(2,228)**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Sum**			
		(571)	**(480)**	**(1,286)**	**(2,337)**			
3.0	**Market Concentration Risk**							

Market Concentration (Top 5 companies by market cap)	**Q3 2024**	**July**	**August**	**September**	**Q.Avg**	**High (Indicative – annual: >50%** **High Concentration)**	Market concentration for the top 5 companies for the quarter ended September 2024 averaged at 64.80%.	Over the past year, there has been a continuous reduction in market concentration by five specific companies, indicating a growing openness among investors to explore opportunities beyond these select entities. Despite this positive trend, market concentration remains a significant risk. To mitigate this risk, the Authority reviewed Public Offers Listing and Disclosure Regulation to establish more favorable listing requirements that attract a broader range of companies to list on the market, thereby providing investors with a wider variety of investment choices. Furthermore, the Authority is actively
		65.94%	**64.04%**	**64.41%**	**64.80%**			
	Q2. 2024	**Apr**	**May**	**Jun**	**Q. Avg**			
		65.57%	**67.66%**	**66.62%**	**66.62%**			
	Q1. 2024	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		62.62%	**62.86%**	**66.30%**	**63.93%**			
	Q4, 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		62.67%	**63.73%**	**62.92%**	**63.11%**			

								engaged in investor education efforts, emphasizing the importance of diversification and promoting long-term investing strategies. By empowering investors with knowledge and information to make informed investment decisions, the aim is to reduce the inclination to concentrate investments in a limited number of dominant companies. Through these measures, the Authority seeks to foster a more diverse and dynamic market environment, ensuring investors have access to a broader range of investment opportunities and reducing the risks associated

with excessive market concentration.

4.0 Derivatives Trading Statistics

Total Volume (No. of contracts)

No of Contracts*

	Q2 Sum	Jul-24	Aug-24	Sep-24	Q3. Sum	%Change Q3 Vs Q2 24
ABSA	18	-	-	-	0	-100%
BATK	56	30	-	5	35	-38%
EABL	16	90	90	-	180	1025%
EQTY	131	62	52	201	315	140%
KCBG	290	230	59	193	482	66%
N25I	-	-	-	-	0	0%
SCOM	864	93	173	153	419	-52%
COOP	18	222	18	64	304	1589%
NCBA	24	1	4	15	20	-17%
IHMP	104	-	-	2	2	-98%
SCBK	3	-	-	1	1	-67%
25MN	4	7	1	6	14	250%
Total	**1528**	**735**	**397**	**640**	**1772**	**16%**

Low

The volume of contracts traded in Q3.2024 was 1,772 translating to a 16% increase from 1,528 contracts recorded in Q2. 2024.

Gross Notional Exposure (GNE)

Amount in Kshs*

	Q2 Sum	Jul-24	Aug-24	Sep-24	Q3. Sum	%Change Q3 Vs Q2 24
ABSA	229,620.00	-	-	-	-	-100%
BATK	2,129,755.00	1,063,950.00	-	173,500.00	1,237,450.00	-42%
EABL	243,960.00	1,385,925.00	1,330,575.00	-	2,716,500.00	1014%

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

The total value (Gross Exposure) of contracts traded during the quarter came up to Ksh 45.260 million; a 22% increase from Q2.2024.

EQTY	5,669,680.00	2,646,410.00	2,075,500.00	8,519,100.00	13,241,010.00	134%
KCBG	10,077,150.00	8,131,550.00	1,765,000.00	6,519,000.00	16,415,550.00	63%
N25I	-	-	-	-	-	0%
SCOM	15,177,100.00	1,500,350.00	2,598,850.00	2,325,850.00	6,425,050.00	-58%
COOP	245,250.00	2,832,560.00	230,400.00	842,300.00	3,905,260.00	1492%
NCBA	1,016,700.00	41,400.00	163,600.00	644,400.00	849,400.00	-16%
IHMP	2,222,000.00	-	-	46,500.00	46,500.00	-98%
SCBK	51,600.00	-	-	20,710.00	20,710.00	-60%
25MN	114,800.00	203,190.00	27,700.00	172,100.00	402,990.00	251%
Total	**37,177,615.00**	**17,805,335.00**	**8,191,625.00**	**19,263,460.00**	**45,260,420.00**	**22%**

Total Open Interest (No. of Contracts)

No of Contracts*

	Q2 Sum	Jul-24	Aug-24	Sep-24	Q3. Sum	%Change Q3 Vs Q2 24
ABSA	1	-	-	-	-	-
BATK	15	5	5	-	5	-67%
EABL	3	45	-	-	45	1400%
EQTY	27	47	69	40	52	93%
KCBG	54	213	176	141	177	228%
N25I	-	-	-	-	-	-
SCOM	169	91	142	150	128	-24%

Medium (Indicative – annual: >50% High concentration)

Overall, the total average number of open interest contracts recorded in Q3 2024 were 389 ; a 56% increase from Q2.2024 value of 249.

As for hedging instruments, the place of derivatives markets in the face of economic uncertainty remains important in risk management.

With the increasing profile of risks in the macro- economy, the profile of derivative instruments may grow

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<tr><td>COOP</td><td>4</td><td>20</td><td>4</td><td>-</td><td>12</td><td>200%</td></tr>
<tr><td>SCBK</td><td>0</td><td>-</td><td>1</td><td>-</td><td>1</td><td>-</td></tr>
<tr><td>IMHP</td><td>0</td><td>-</td><td>1</td><td>1</td><td>1</td><td>-</td></tr>
<tr><td>NCBA</td><td>3</td><td>1</td><td>1</td><td>5</td><td>2</td><td>-33%</td></tr>
<tr><td>25MN</td><td>4</td><td>5</td><td>5</td><td>-</td><td>5</td><td>25%</td></tr>
<tr><td>Total</td><td>249</td><td>427</td><td>404</td><td>337</td><td>389</td><td>56%</td></tr>
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<td>as investors target diversification as a key investment strategy. Currency derivatives are needed by market participants and the regulator is working with the CBK to roll-out the same.</td>
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<tr>
<td>Settlement Guarantee Fund (SGF) Coverage for Derivatives</td>
<td>
<table>
<tr><td></td><td>July-24</td><td>Aug-24</td><td>Sep-24</td></tr>
<tr><td>SGF</td><td>130,277,363</td><td>131,984,460</td><td>133,540,253</td></tr>
<tr><td>Average Market Value</td><td>574,366</td><td>264,246</td><td>642,115</td></tr>
<tr><td>SGF Coverage</td><td>227 times</td><td>499 times</td><td>208 times</td></tr>
</table>
</td>
<td>*High (Indicative – annua l: >50% High concentrate ion</td>
<td>The SGF coverage ratio for the derivatives market in Q3 2024 was sufficient during the period.</td>
<td>To maximize value from the SGF fund balances, there is deliberate effort by NSE to encourage increased activity by market intermediaries in this market for increased volumes of trade.</td>
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<tr>
<td colspan="5">5.0 Government Bond Market Exposure</td>
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<tr>
<td>Treasury Bond market turnover Concentration</td>
<td>
<table>
<tr><td>Q3 2024</td><td>July</td><td>August</td><td>September</td><td>Q.Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td>Q2. 2024</td><td>Apr</td><td>May</td><td>Jun</td><td>Q.Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td>Q1. 2024</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td>Q4. 2023</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
</table>
</td>
<td>High (Indicative –annual: >50%High)</td>
<td>In Q3.2024, Treasury Bond market turnover was 100.00 %</td>
<td>Government activity in the bonds markets continues to dominate as the Government targets domestic market savings to fund various Government activities</td>
</tr>
</table>

Corporate Bond Market ownership

Account Type	Number of Investors	Share Quantity	% By Share Quantity
EC	1	122,000,000	0.47%
EI	1	10,000,000	0.04%
FC	5	578,794,223	2.24%
FI	23	210,200,000	0.82%
LC	613	23,340,285,095	90.50%
LI	773	1,529,531,532	5.93%

Data as of 30 September 2024

Note: For every EAC, LI, and FI, the total calculated is a sum of both corporate and individual investors.

High (Indicative – annual: >50% High concentration

In the quarter under review Local investors constituted the greatest share in investment followed by foreign corporates with East Africa Investors constituting the least Number of investors.

Kenya has been facing a period of reduced corporate bond activity in the last one year. The Authority, through its investor education and market deepening functions, has profiled retail investors to increase activity within the domestic corporate bond market.

6.0 Investor Profiles - Equity Market

Equity Market

Account Type	Number of Investors	Share Quantity	% By Share Quantity
BR	6.0	11,759,798.0	0%
EC	256.0	1,263,063,825.0	1%
EI	7,138.0	113,024,154.0	0%
FC	400.0	16,143,030,653.0	16%
FI	8,120.0	677,292,782.0	1%
JR	186.0	1,384,538.0	0%
LC	40,949.0	37,762,342,796.0	37%

High (Indicative – annual: >50% High concentration

In Q3 share quantity for local investors was 45,159 billion which was 45 % of the total share quantity.

While the proportion of local investors is higher than foreign investors, the share quantity held by each investor on a per capita basis remains low. The industry investor awareness and education strategy will be targetedat

	LI	1,245,551.0	45,159,095,402.0	45%			increasing retail investor participation through more roadshows, caravans and county engagements.

7.0 Settlement Compensation Coverage

Settlement Guarantee Fund(*Data to be updated)	Q3.2024	July	August	September	Q. Avg	(Indicative– annual: > 1 times, implies full coverage	The settlement Guarantee Fund (SGF) ratio for the quarter under review was 5.45	Through Risk-based supervision, the Authority has been monitoring the SGF figures. The fund remains adequate to guarantee settlement failure.
		5.52	4.81	6.02	5.45			
	Q2. 2024	Apr	May	Jun	Q. Avg			
		3.75	1.81	5.30	3.62			
	Q1. 2024	Jan	Feb	Mar	Q. Avg			
		11.03	6.20	2.45	6.56			
	Q4, 2023	Oct	Nov	Dec	Q. Avg			
		6.24	7.59	7.35	7.06			

8.0 Asset Base of Fund Managers, Stockbrokers, Investment Banks

	Amount in Kshs Millions								
Working Capital (Amount in Kshs Millions)*		Total Assets	Total Liabilities	Net Assets September 2024	Net Assets June 2024	%	Medium (Indicative –the higher the figure, the more stable is the market	The net assets base of fund Managers, Investment Adviser, Investment Banks, Online Forex, and Stockbrokers, as of	Capital markets licensees' net assets increased between June and September 2024 for Fund Managers, Online Forex Brokers, and investment banks while it decreased for stockbrokers.
	Fund Managers	8,930	2,462	6,468	4,228	53%			
	Investment Advisers	577	139	438	288	52%			

Investment Banks	12,289	4,300	7,989	2,760	**189%**
Online Forex Brokers	3,793	2,110	1,683	1,294	**30%**
Stockbrokers	2,278	1,304	974	1,197	**-19%**

September 2024 was Kshs 6,468M, 438M, 7989M 1683M and 974 M respectively.