

INAUGURAL EXTERNAL AUDIT PRACTITIONERS CONFERENCE

'Recent developments and Innovations in the Financial Services Sector'

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Presentation Outline

TOP GLOBAL POLICY ISSUES IMPACTING CAPITAL MARKETS

LATEST DOMESTIC CAPITAL MARKET DEEPENING INITIATIVES

DEVELOPMENTS AND POLICY IMPLICATIONS

JOINT FINANCIAL SECTOR REGULATORS INITIATIVES

CAPITAL MARKETS POLICY PROPOSALS 2021/2022

COVID 19 CAPITAL MARKETS RECOVERY STRATEGY 2020/2022

LESSONS LEARNT AND OPPORTUNITIES



TOP GLOBAL POLICY ISSUES IMPACTING FINANCIAL MARKETS

| | Policy issues | Key features |
|---|--|--|
| 1 | Covid-19 Interventions | Liquidity and Credit Risk Mitigation Measures; Prudential Easing; Bans on short selling; Leveraging Technology in operations, Enhanced Business Continuity Plans; |
| 2 | Trade Disputes and new partnerships (China-US; Brexit; EAC, NAFTA) | Brexit Done; Renegotiations between Britain and EU ongoing; new bilateral partnerships |
| 3 | Huge ambitious National infrastructure development and financing policies by Super-economies | Trump, Xi Ping, Junker Plan |
| 4 | Credit Rating vs Primacy of the search for yield | Successful Sovereign issuances despite low credit ratings e.g. Argentina (100 yr) & Iraq |
| 5 | Oil Crisis | Collapse in global oil prices (adverse impact on oil exporting countries) |
| 6 | The Global Debt Trap | Shift from concessionary loans to commercial loans and attendant default risks: China infrastructure seizure; Default by Lebanon and Zambia on Eurobond settlement; search for safe haven currencies, application of bilateral SWAPs |
| 7 | Emergence of Financial Technology (FinTech); RegTech and SupTech | Caveats by Financial Sector Regulatory Authorities globally on issues of Initial Coin Offerings (ICOs) and trading in crypto-currency while seeking to promote sandboxes and incubator hubs; Crowdfunding regulations |
| 8 | Revisiting of global asset pricing benchmarks | Loss of confidence in the LIBOR as a global pricing benchmark and new preference for risk-free rates |

Others: Shadow banking; Dedollarization; AfCFTA; Natural Disasters (Japan, Indonesia)

LATEST DOMESTIC CAPITAL MARKET DEEPENING INITIATIVES

| DEVELOPMENT | INITIATIVE | IMPLICATION |
|---|--|--|
| Fintech and Regulatory Sandbox | <ul style="list-style-type: none"> • Admission of 7 companies to the Regulatory Sandbox test environment to test various innovations • Exit of 2 companies to the mass market | <ul style="list-style-type: none"> • Increased innovation and product development in the capital markets • Leveraging technology to drive the capital markets value chain • Oversight of fintech and related innovations (crowdfunding) |
| Green bonds | <ul style="list-style-type: none"> • Acorn issued the first Green Bond in October 2019, listed on both the Nairobi Securities Exchange and the London Stock Exchange in January 2020. | <ul style="list-style-type: none"> • Sustainable finance and green investment opportunities in the capital markets |
| National Financial Literacy | <ul style="list-style-type: none"> • Development of a basis for informing investor education policy and strategies for the capital markets in Kenya | <ul style="list-style-type: none"> • Enhanced financial literacy and consumer protection |
| Islamic Finance | <ul style="list-style-type: none"> • Development of a policy and legislative frameworks for Islamic Finance and Islamic Capital markets (Participatory finance) | <ul style="list-style-type: none"> • Financial inclusion • Product diversification |
| REITs | <ul style="list-style-type: none"> • Approval of the Acorn Student Accommodation Development Real Estate Investment Trust (ASA D-REIT) and Income Real Estate Investment Trust (ASA I-REIT) sponsored by Acorn Investment Management Limited (Acorn). | <ul style="list-style-type: none"> • Market based financing to support “Big 4” Agenda on housing |
| Small and Medium Sized enterprises | <ul style="list-style-type: none"> • CMA Board approved the Policy Framework for Corporate Governance in the context of Small and Medium Enterprises (SMEs). | <ul style="list-style-type: none"> • Market based financing to support long term business expansion Post-Covid |

DEVELOPMENTS AND POLICY IMPLICATIONS

| DEVELOPMENT | INITIATIVE | IMPLICATION |
|---|---|---|
| Overhaul and review of legislative frameworks | <ul style="list-style-type: none"> Review of Public Offers, Listings and Disclosure Regulations for capital raising and listings for all Market Segments at the Nairobi Securities Exchange | Increased number of equity and debt capital raising and listings on the Nairobi Securities Exchange |
| Virtual GMs | <ul style="list-style-type: none"> Capital Markets Authority (CMA) has issued guidelines to issuers of securities to the public for hosting virtual general meetings. | Transitional arrangements amidst Covid-19 |
| COVID 19 pandemic and recovery strategy | <ul style="list-style-type: none"> Implement a capital markets COVID 19 Recovery strategy | Ensure economic recovery by restoring financial markets growth through innovative and responsive regulation. |
| Commodity markets and Coffee exchange | <ul style="list-style-type: none"> The Capital Markets (Commodities Markets) Regulations 2020 and Capital Markets (Coffee Exchange), Regulations 2020 were gazetted by the Cabinet Secretary for the National Treasury and Planning on 3 April 2020. | <ul style="list-style-type: none"> Governance, trading, and conduct of business of commodity exchanges and commodity brokers, including the disclosure, compliance and reporting requirements. |
| Collective Investment Schemes | <ul style="list-style-type: none"> Implement Performance measurement standards Retool Public awareness strategy to encourage technology and platformification by CIS Review and overhaul of CIS frameworks | <ul style="list-style-type: none"> Responsive Legislations aligned to market developments and dynamics Assets Under management by Collective Investment Schemes to double to Kshs 150 Billion Entrench international best practice in the capital markets by standardizing investment performance measurement and presentation by collective investment schemes. |

JOINT INITIATIVES WITH OTHER FINANCIAL SECTOR REGULATORS

Annual Financial
Stability Reports

Joint Financial
Technology
(FinTech)
stakeholder
engagement
Platform

*National Crisis
Management and
Resolution
Framework*

*National Financial
Education Strategy*

Joint market
supervision and
supervisory
colleges (SIFIs),
AML-CFT

National Islamic
/Participatory
Finance Policy



CAPITAL MARKETS POLICY PROPOSALS 2021/2022

The 2020-21 Policy cycle submissions were themed around:

- ❑ Policies to strengthen Kenya's capital market to provide attractive and diverse avenues to deploy short- and long-term domestic savings.
- ❑ Policies to strengthen the institutional capacity of institutions in the Capital Market.
- ❑ Submitted following a call for proposals to industry stakeholders and Policy Roundtable in October 2020



Enhance Kenya's competitiveness through operationalization of omnibus accounts

Facilitate Sovereign Diaspora bond issuance

Promote Tax Neutrality for Real Estate Investment Trusts products to attract more REIT listings

Achieve tax neutrality in raising capital in country through deductibility of Capital expenditure incurred on listing of securities

COVID 19 CAPITAL MARKETS RECOVERY STRATEGY

2020/2022

- CMA aims to centrally position the Kenyan capital market to support rapid post Covid-19 economic recovery through smart policy and regulation that enhances access to long term capital and investments by diverse stakeholders and sustains existing stakeholder's businesses.
- To achieve this, CMA has developed a recovery strategy with an overarching objective to ensure economic recovery by restoring financial markets growth through innovative and responsive regulation.

01

Support market based long-term funding for all sizes of business to jump-start economic recovery and growth

02

Support alternative approaches to increase retail and institutional investor and participation in the capital markets (Demand side)

03

Support business continuity by embracing digital technology and application of ICT in all aspects of capital markets business (except where impractical)

04

Support capital markets stakeholders to weather the Covid-19 impact and sustain businesses

Lessons Learnt

Governments are supporting capital markets through Central Banks: The United States (US) Federal Reserve established Secondary Market Corporate Credit Facility (SMCCF); USD 1.3 billion facility provided by the Egyptian Central Bank to the Securities Exchange

Regulators are supporting start-ups and SMEs to raise money through FinTechs: US has provided temporary, conditional relief for established smaller companies affected by COVID-19 that may look to meet their urgent funding needs through regulated Crowdfunding,

Countries establishing dedicated capital markets Covid-19 monitoring teams
Shift in Covid-19 Funding and Administration Approach

Regulators are exempting or relaxing requirements by licensees on areas such as publication of financial statements to reduce regulatory expenses and in response to the challenges created by Covid-19 Pandemic

Regulators are revising their regulatory frameworks to support businesses that stand to benefit from Covid-19 such as health and digital entertainment industries to raise funds through capital markets



Opportunities Presented in the face of the Pandemic



The pandemic has necessitated adoption of new capital raising and listing technology platforms (STAR, ChiNext)



The renewed 'Buy Kenya Build Kenya' initiative positions the capital markets as avenue for businesses' long-term financing for "Big 4" Projects



Rise of Financial Technology (Fintech) innovation market access platforms (Crowdfunding)



Growth of Credit Rating Agencies and adoption of Credit rating (opportunity for KMRC, Counties, SMEs, SOEs)



Adoption of more flexible, responsive policy, legal and regulatory environment



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