

Overview of Kenyan Capital Markets Products & Services

May 2023



Who Are We?



Who We Are

Independent public agency set up
in 1989 through an Act of
Parliament Cap 485A Laws of
Kenya



Vision

"To be an innovative regulator of
a robust and globally competitive
capital market"



Mission

"To make Kenya's capital market the
premier choice for investors and
issuers through robust regulation,
supporting innovation and enhanced
Investor protection"

CMA's Mandate



Licensing and supervising all the capital market intermediaries

1

2

Promoting market development



Ensuring proper conduct of all licensed persons and market institutions

3

4

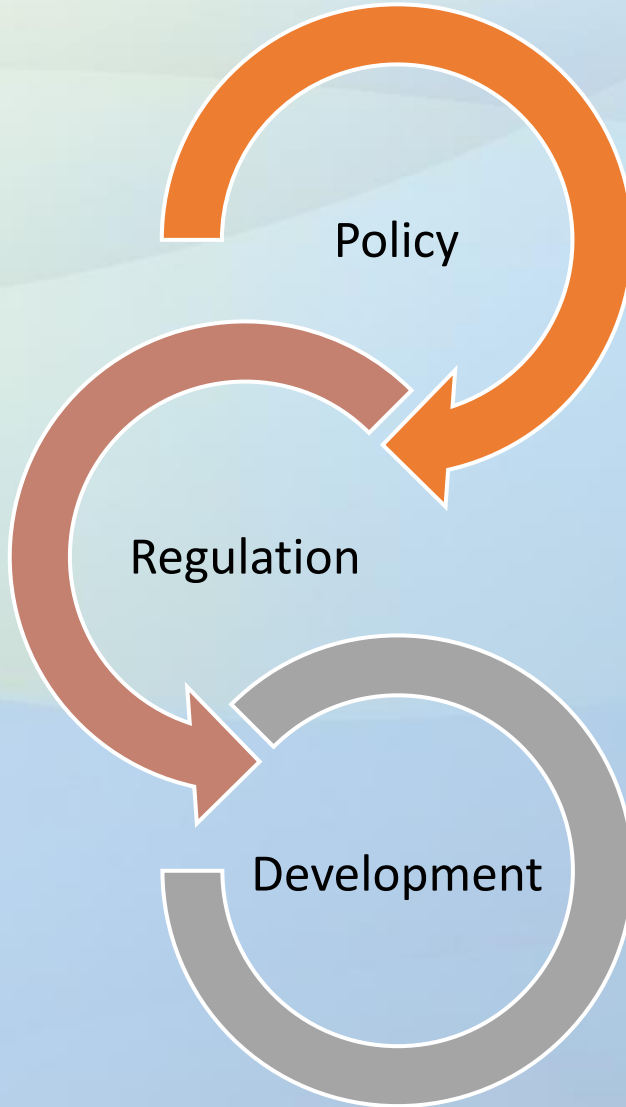
Promoting investor education and public awareness



Regulating the issuance of the capital market products/ instruments.

5

Strategic Focus of CMA



Market Development initiatives



Promote product uptake, liquidity and new listings



Promote product development (SME access to finance, new products)



Promote innovation and fintech adoption

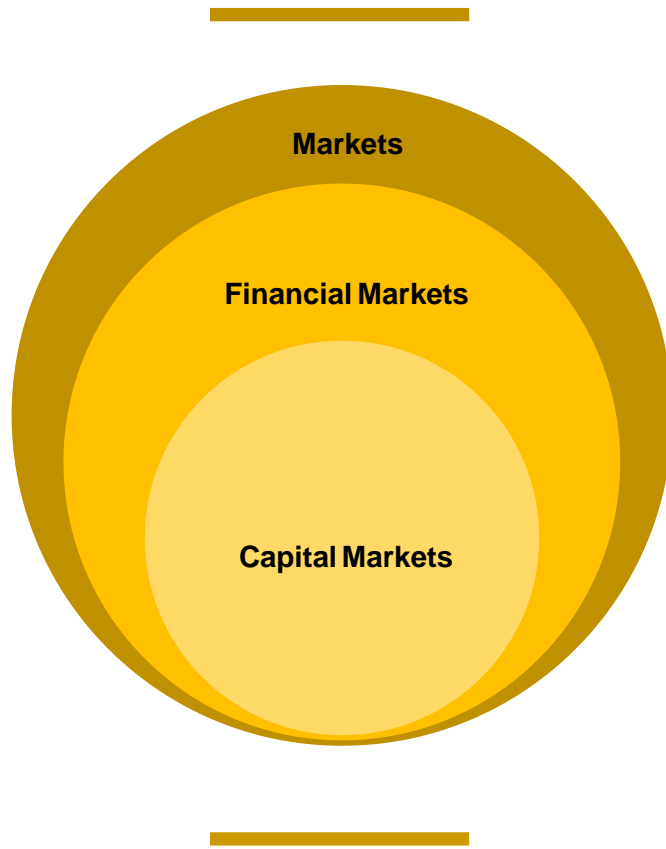


Address issues associated with low uptake of capital markets products and services



Stakeholder engagement, Industry collaboration and strategic alliances

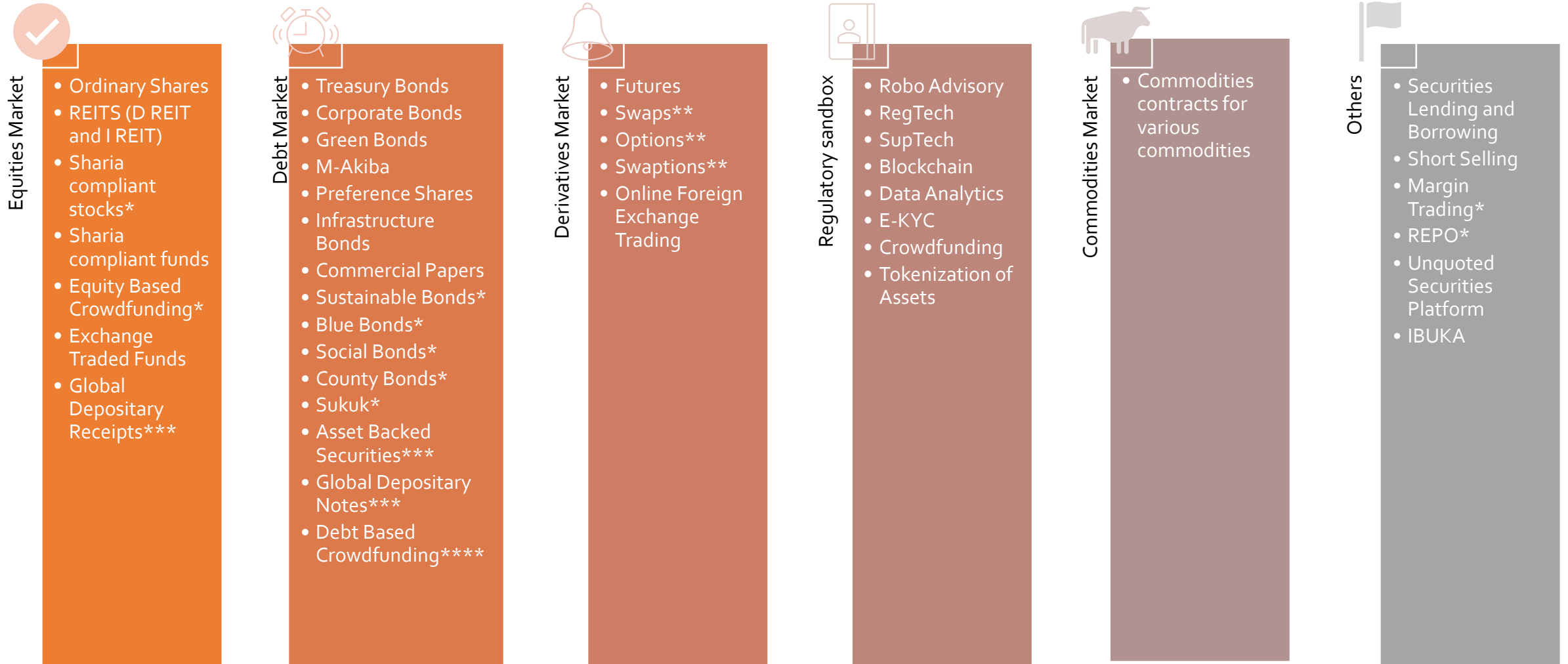
What's the Role of Capital Markets and Issuers?



			
Mobilization of long-term savings	Facilitates financing of priority sectors (real and social sectors, public and private)	Improves risk management – by reducing foreign currency and refinancing risks	Encourages efficient allocation of capital in the economy – are productivity enhancing
			
Improves corporate governance	Democratises ownership of assets in an economy	Reduces transaction costs	Provides a signalling effect on the economy

Source: CMA, WB, FSDA

Capital Markets products structure



Notes:

* In the pipeline

** OTC Market active but exchange traded products due to be introduced in the near term.

*** Regulations and/or guidelines in place awaiting issue of the products.

**** Products in the mass market (through the sandbox) awaiting development of regulations and/or guidelines.

Listing options on NSE Segments

IPO

- A company issuing new shares which are listed at the Exchange e.g., Safaricom, KenGen.

INTRODUCTION

- A company taking its existing issued shares and listing them on the Exchange e.g., Equity Bank.

CROSS LISTING

- An already listed company on one stock exchange deciding to list on another stock exchange e.g., Bank of Kigali.

REVERSE LISTING

A company that is not listed on any exchange purchasing a listed company and becoming automatically listed by virtue of this transaction e.g., NCBA, NBV.

Fixed Income Market

01

Corporate Bonds

- These are bonds that are issued by corporations to investors in order to raise capital.
- **Current status:**
 - 4 Corporate Bonds (Family Bank, Centum Real Estate Limited & EABL)

02

Green Bonds

- Bonds whose proceeds are used to finance projects that generate environmental benefits that conform to green guidelines and standards
- **Current status:**
 - 1 Green Bond- 1st in East and Central Africa (Acorn Holdings)

03

Treasury Bonds

- These are bonds that are issued by the Kenyan Government through the Central Bank .
- **Current status:**
 - 48 Treasury Bonds
 - 24 Infrastructure Bonds

04

M-Akiba Bond

- Retail bond issued by the Government of Kenya via the mobile phone platform.
- **Current status:**
 - 2 issuances
 - 2 Re-opens



CEC Finance

Develop & submit the cash plan, indicating the borrowing requirements to CEC for approval of the bond.

County Integrated Development Plan
Report on Public Participation
Approvals Report from ExComm

County Assembly

CE member to submit the cash plan to the County Assembly for approval of the borrowing including its terms and conditions.

Debt Management Strategy
County Fiscal Strategy
Program Based Budget
Financial Capability Report
Compliance Report

CS Treasury

CEC Member submits approved cash plan to CS Treasury requesting for the guarantee of the Treasury Bond and their inclusion in the issuance calendar

CS Treasury/Intergovernmental Budget and Economic Council
approve/reject application

Parliament

CS Treasury submits loan guarantee application to Parliament for approval

Upon approval CS Treasury shall included County Bond in bond calendar issuance and raise funds

...



STEP 5

Issue your Green Bond

The usual steps apply as for any other conventional bond:

1. Seek required issuance approval from regulators
2. Structure the bond working with an investment bank or advisor; get credit rating.
3. Market and price the Green Bond.



STEP 6

Monitor the projects.

Confirm at least each year, through a public report, that the funds are still properly allocated to green projects. The report needs to be signed off by an Independent Verifier.

Year	Treasury Bond Turnover (KShs. Bn) 1 Kenya Shilling (Ksh) = 0.007 USD)	Corporate Bond Turnover (KShs. Bn)	Total Bond Turnover (KShs. Bn)	Corporate Bond Turnover as a % of Total Bond Turnover	Treasury Bond Turnover as a % of Total Bond Turnover
2008	95.36	-	95.36	0.00%	100.00%
2009	110.65	-	110.65	0.00%	100.00%
2010	466.89	12.47	479.36	2.60%	97.40%
2011	436.74	8.52	445.46	1.91%	98.09%
2012	563.82	1.86	565.68	0.33%	99.67%
2013	451.58	0.88	452.46	0.19%	99.81%
2014	504.30	1.95	506.25	0.39%	99.61%
2015	302.14	2.96	305.10	0.97%	99.03%
2016	431.93	1.56	433.48	0.36%	99.64%
2017	432.83	3.08	435.92	0.71%	99.29%
2018	561.53	1.19	566.72	0.21%	99.79%
2019	651.35	3.70	655.06	0.56%	99.44%
2020	690.67	1.18	691.86	0.17%	99.83%
2021	956.11	0.86	956.97	0.09%	99.91%
2022	741.50	0.34	741.85	0.05%	99.95%
2023*	162.51	0.01	162.51	0.005%	99.995%

Commodities Market

COMMODITY EXCHANGE

Commodity Exchange or Comex is a regulated market allowing the purchase and sale of contracts backed by commodities such as gold, silver, crude oil and so on. Such an exchange serves as the central location for trading the commodities.



Major Commodity Exchanges



- Chicago Mercantile Exchange (CME)
- Chicago Board of Trade (CBOT)
- Carbon Trade Exchange (CTX)
- New York Mercantile Exchange (NYMEX)
- London Metals Exchange (LME)
- Tokyo Commodity Exchange (TOCOM)



Commodity Contract Features

Quantity

Price

Quality

Delivery

QUALIFICATION FOR TRADING

Durability

Homogeneity

Price Fluctuation

Gradability

Open Supply

Option to Transfer Risk

Fair Market For Price Discovery

Leverage

No Physical Delivery

ADVANTAGES

DISADVANTAGES



Legal and regulatory provisions -Spot Commodities market

- Following amendment of the Capital Markets Act through Finance Act 2016, the Spot Commodities Market was brought under regulatory oversight of CMA.
- CMA is therefore mandated to license the Coffee Exchange and the Coffee Brokers.
- The Capital Markets (Coffee Exchange) Regulations, 2020 read together with the Crops (Coffee) General Regulations, 2019 envisage that the Coffee Exchange and the Coffee Brokers will be licensed and supervised by CMA effective 01 July 2020.



REITS

- A REIT is a ***regulated*** investment vehicle that enables persons to ***collectively*** contribute money or money's worth as consideration for the ***acquisition of rights or interests*** in a trust that is divided into ***units*** with the intention of earning profits or income from ***real estate*** as ***beneficiaries of the trust***.



REITS Continued

Special type of a collective investment scheme.

Types of REITs

- **D- Reit** - Real estate trusts that are principally involved in development and construction for sale and/or rent. Return is sales proceeds.
- **I-Reit** - Primarily derives its revenues from property rentals. Return is rental income.

Key Benefits

Diversification
Transparency
Liquidity
Consistent income
Low-cost exposure to real estate
Investment performance

Key risks

Market fluctuation risk vs Income and MPS
Over indebtedness of REIT issuers may lead to low distribution pay-outs
Rental defaults can lead to low income

Types of offers

<i>Restricted offer</i>	<i>Unrestricted offer</i>
Only to professional investors	Any person
Requires an opening memorandum	Requires a prospectus
May be listed on restricted market	Must be listed
Both D-REIT & I-REIT	Only I-REIT
Can be open-ended or closed-ended	Can only be closed-ended
Minimum subscription KES 5 Million / restricted minimum parcel size of KES 5 Million	No minimum subscription requirement

REITs Trends

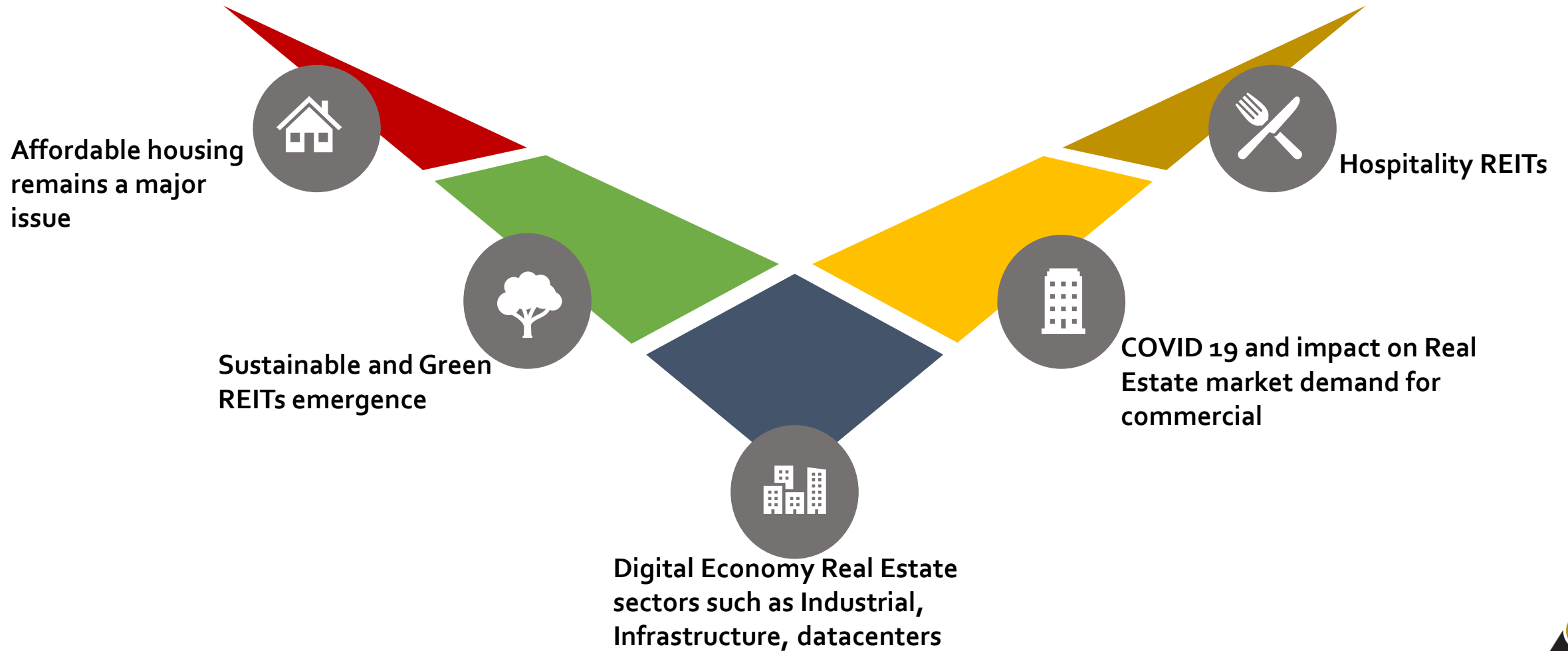
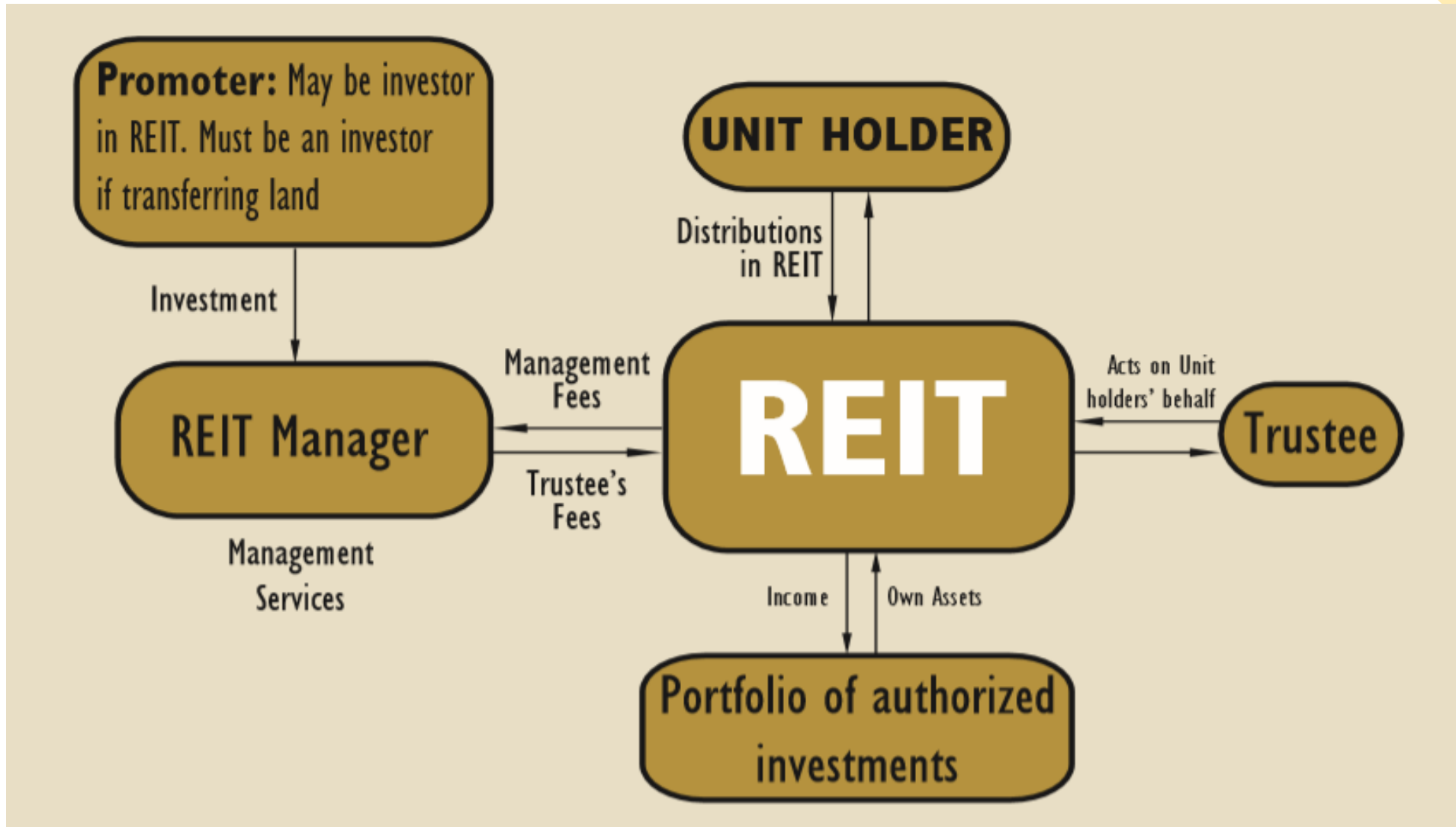


Illustration of how a typical REIT is structured



REIT Schemes already approved by the Authority



1. ILAM Fahari I-REIT
(Previously known as Fahari I-REIT)
2. Acorn D-REIT
3. Acorn I-REIT
4. LAPTRUST REITs

Green Bonds Policy Guidance Note

This is a guide on the operational regulatory environment on Green Bonds in Kenya.

Issued by CMA
in 2019

Sets out the
taxonomy for
green bonds

Provides a
framework for
**issuance,
listing and
suspension of
green bonds**

Sets out a
framework for
**use and
management
of proceeds**

Provides for
the **disclosure
and reporting
obligations**

Identifies the
parties and
their
responsibilities

Parties involved in a Green Bond



Issuer

Transaction advisor

Independent verifier

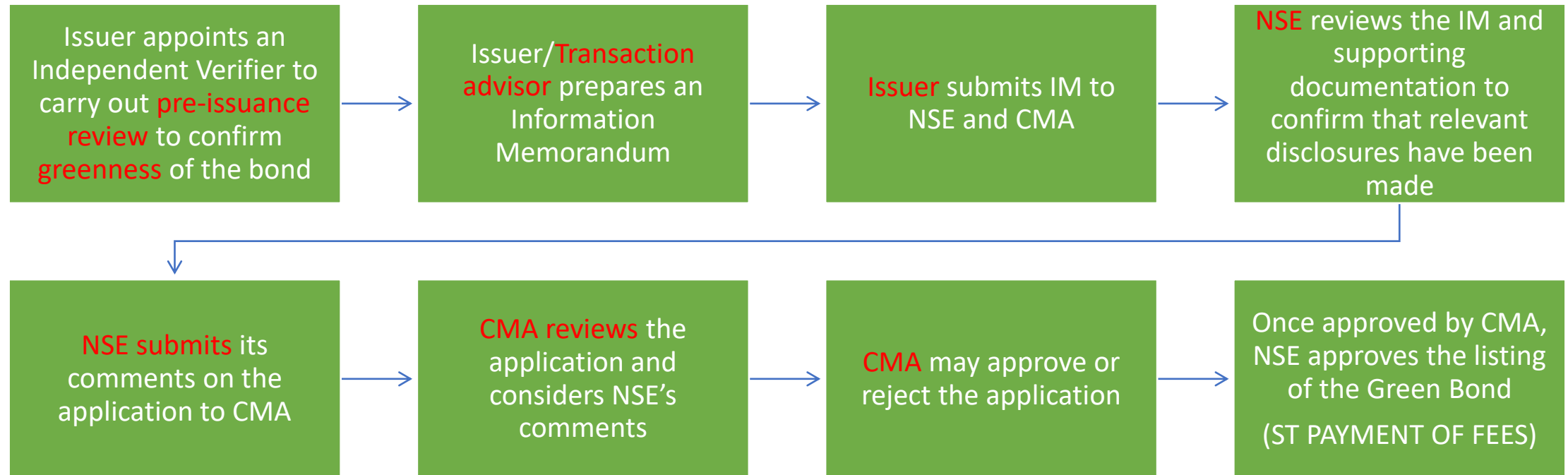
CMA

NSE

Investors

Auditor/third party

Procedure for issuance and listing of a Green Bond



Green Bond annual report



Description of the projects and the amounts disbursed



Expected impact of the project and assets



Qualitative performance indicators



Quantitative performance measurements of the impact



Methodology and underlying assumptions used to prepare performance indicators and metrics



Annual report to be **reviewed and confirmed by the Independent Verifier**

Use and management of proceeds

Proceeds
may only
be used in
the funding
of eligible
green
projects.

Issuer to
disclose
process for
managing
the
proceeds

Proceeds
to be
tracked by
the issuer
periodically

Use of
proceeds to
be
confirmed
by an
auditors or
other 3rd
party

Report
should be
publicly
available

Acorn Corporate Green Bond

Private Placement

- 85% subscribed and raised KES. 4.3 billion at a fixed rate of 12.25%
- A huge success; the bond had targeted to raise a minimum of KES. 2 billion.
- Use of proceeds; sustainable and climate resilient student accommodation
- Investors; Pension Fund Managers, commercial banks, insurance companies and international DFI's
- Certified by CBI

Listing on the NSE (13.01.2020)

- Listed on the NSE FIMS under MTN Programme in tranches for a Max of KES.5B
- A restricted public offer
- Will be listed in tranches; 1st tranche, KES.786M at a fixed rate of 12.25%
- Acorn will provide a pricing supplement for each subsequent tranche
- Maturity; as per the specific pricing supplement for the various tranches
- Arrangers; Stanbic Bank & SBG Securities

Listing on the LSEG

- Anticipated listing date, 20.01.2020
- Cross listing

Infrastructure Bond

Infrastructure Bonds are bonds/loans issued by the Government for the financing of a public infrastructure facility e.g road, hospital, or energy project.

Advantages:

- ❑ The coupon payments are tax exempt – Not subject to WHT thus attractive to investors.
- ❑ Because of tax exempt status, the issuer does not incur cost like other bonds.
- ❑ CMA is lobbying and has submitted proposal to the national government for the corporates to enjoy tax benefits upon issuance of infrastructure bonds.

Securitization/ Asset Backed Securities (ABS)

Securitization is the process of transforming any assets with a reliable income stream or financial assets (loans, leases, payments and other receivables) with common features into interest bearing securities with marketable investment characteristics that are tradeable.

Advantages:

- ❑ Tax benefits of ABS as SPVs are tax-exempt vehicles.
- ❑ Give lenders a way to acquire more money.
- ❑ Secure investments from a credit standpoint.

Real Estate Investment Trust (REITs): I-REIT & D-REIT

REIT is a CIS that specializes in investing in real estate. REITs are usually structured as a trust where an investor owns interest in real estate assets and earns returns from income and capital gains. The property is held by a trustee and is professionally managed.

Advantages:

- ❑ 2012 Income Tax Act amendment – authorised REITs registered by the Commissioner of Income Tax exempt from income tax.
- ❑ Stamp duty for purposes of transferring real estate into a REIT is tax exempt.
- ❑ REITs investee companies exempted from income tax – which allows REITs to invest more in companies that develop real estate, rather than going through the process of transferring properties to the REIT.

Other Avenues of Access to Finance for Development

Product	Avenue
Mortgage/ Asset Backed Securities	A mortgage-backed security is a type of asset-backed security that is secured by a mortgage or collection of mortgages. This security must also be grouped in one of the top two ratings as determined by an accredited credit rating agency, and usually pays periodic payments that are similar to coupon payments
Islamic Bonds/Sukuk/Finance arrangements	A sukuk is a sharia-compliant bond-like instruments used in Islamic finance. Sukuk involves a direct asset ownership interest, while bonds are indirect interest-bearing debt obligations.

Opportunities

- Strengthen collaborative partnerships between the private and public sector as well as County and National Governments to promote the growth of green financing in Kenya.
- Supporting county governments to **raise awareness**, build capacity and work with financiers to raise capital for green investment.
- Provide **better diversification** especially for investors in the debt market and in respective counties.
- Make **Kenya's status as a member** of the Sustainable Stock Exchange Initiative relevant.
- **Facilitating entities/companies to issue green bonds** and other alternative products

Issuance	Approved Amount	Amount Raised	Bids Received	Subscription rate
KMRC Affordable Housing Bond	1.4 Bn	1.4 Bn	8.1 Bn	579 %
ACORN STUDENT HOUSING (Tranche 1)	5 Bn	4.262 Bn	4.262 Bn	85%
ACORN STUDENT HOUSING (Tranche 2)	1.438 Bn	2.096 Bn	2.096 Bn	146%
EABL BOND	11 Bn	11 Bn	37.9 Bn	345 %
CENTUM	4 Bn	3 Bn	3 Bn	74 %
FAMILY BANK	4 Bn	4 Bn	4.42 Bn	110%

Conclusion

- ❑ The role of capital markets increasingly recognised as **central to economic development** in Kenya, Africa and emerging markets.
- ❑ **Improving liquidity, driving new listings and issuances will also improve global access to Kenyan Capital markets**
- ❑ It is therefore crucial to engage investors and issuers of securities on their capital markets experience thus far and determine on how best to address existing challenges (if any) in order to grow the country's capital markets.



Thank You

Email: marketdeepening@cma.or.ke

