



CENTRAL DEPOSITORY &
SETTLEMENT CORPORATION
Invested in Progress

SECURITIES LENDING AND BORROWING

EARNING POSITIVE RETURNS FROM THE STOCK
MARKET WITHOUT SELLING YOUR SHARES

Stephen Atema – Senior Associate,
Marketing and Brand Management, CDSC



WHO WE ARE

The Central Depository & Settlement Corporation Limited (CDSC) is a limited liability Company approved by the Capital Markets Authority to provide automated clearing, delivery and settlement services for transactions carried out at the Nairobi Securities Exchange as well as holding of listed and non-listed securities including other documents of title on behalf of investors.



OUTLINE



What is SLB



Product Framework



Opportunities For Lenders and Borrowers



Applicable Fees



Risk Management



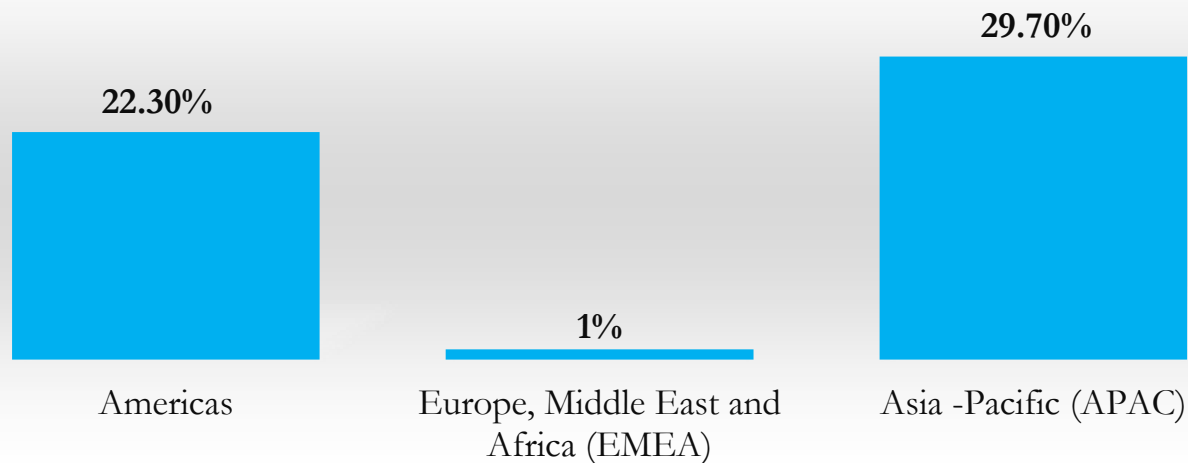
Global SLB Revenues

In 2021, Global securities lending industry generated **USD 9.28 billion** in revenue for lenders. – **DataLend**

A notable increment was recorded on both equities and debt relative to 2020. The lending revenue from corporate debt rose by 36.4% while for government debt went up by 27.9% in 2021.

INDUSTRY OVERVIEW

SLB Equities Global Performance in 2021



SECURITIES LENDING AND BORROWING (SLB)

- **CDSC's Securities Lending and Borrowing (SLB)** is the temporary transfer of securities from one party – the lender, to another – the borrower, at a fee (lending fee), with a simultaneous agreement to return the securities either on demand or at a future date. Although the legal ownership is transferred from the lender to the borrower, the lender still retains the economic benefits of the securities and gets paid a fee.
- The main type of lenders are pension funds, insurance companies, banks, asset managers and investment companies because of their often stable investment of assets. Lenders can also be individuals.
- The borrowers can be clearing organizations, banks, stockbrokers/dealers, market makers, investment/asset managers and hedge funds.
- Securities Lending and Borrowing Agents (SLB Agents) are the authorized agents, appointed by CDSC, who can initiate and carry out SLB transactions for and on behalf of investors. The Agents are appointed by CDSC from the Central Depository Agents



HOW SLB WORKS

How to Lend

- 1 Contact an SLB Agent.
- 2 Submit your lending instructions (The shares you are willing to lend, the lending fees and the period you wish to lend)
- 3 The SLB Agent upon confirmation of the availability of shares in your account, shall capture the lending request in the CDS
- 4 The securities shall then be reserved and your lending request added to the lending pool or matched with an existing borrowing request

How to Borrow

- 1 Contact an SLB Agent.
- 2 Submit your borrowing request (The shares you are want to borrow and the borrowing period)
- 3 The SLB Agent upon receiving your collateral and 10% initial margin, shall capture the borrowing request in the CDS
- 4 The request is added to the pool or matched with an existing lending request

Approved SLB Agents



PRODUCT FRAMEWORK

1. **Model:** CDSC is implementing the Screen-based model of SLB
2. **Duration:** 1 day to 365 days.
3. **Eligible Securities:** The NSE 20-Share-Index.
4. **Number of shares:** Minimum 100 and NO Maximum.
5. **Income:** Lender earns interest income in form of lending fee. Borrower earns by engaging in short selling.
6. Lender has the **right to recall** the lent securities and consequently, securities lending does not hinder asset managers from actively managing their portfolios.
7. **Collateral** of 100% of the value of shares is provided by the borrower and an initial margin of 10% before borrowing is allowed. Accepted collateral is cash.
8. **Corporate Actions:** Lender as the beneficial owner still enjoys dividends, bonus shares, stock splits and can participate in rights issues.
9. **Regulation:** The overarching legal and regulatory framework for SLB is the Capital Markets Act and the Capital Markets (Securities Lending, Borrowing and Short selling) Regulations 2017.
10. **CDSC guarantees SLB transactions** and ensures robust risk management measures are put in place.

To Lenders

- **Additional income** from their share investment in all market environments (bull and bear runs)
- Lender does not need to look for a borrower as CDSC provides a marketplace.
- **Automated transfer of securities** after lending and borrowing transactions have been matched.
- Lenders **receive all corporate actions** that take place during an SLB transaction.
- **No counterparty risk** as transactions are guaranteed by CDSC.

SLB VALUE PROPOSITION



SLB VALUE PROPOSITION

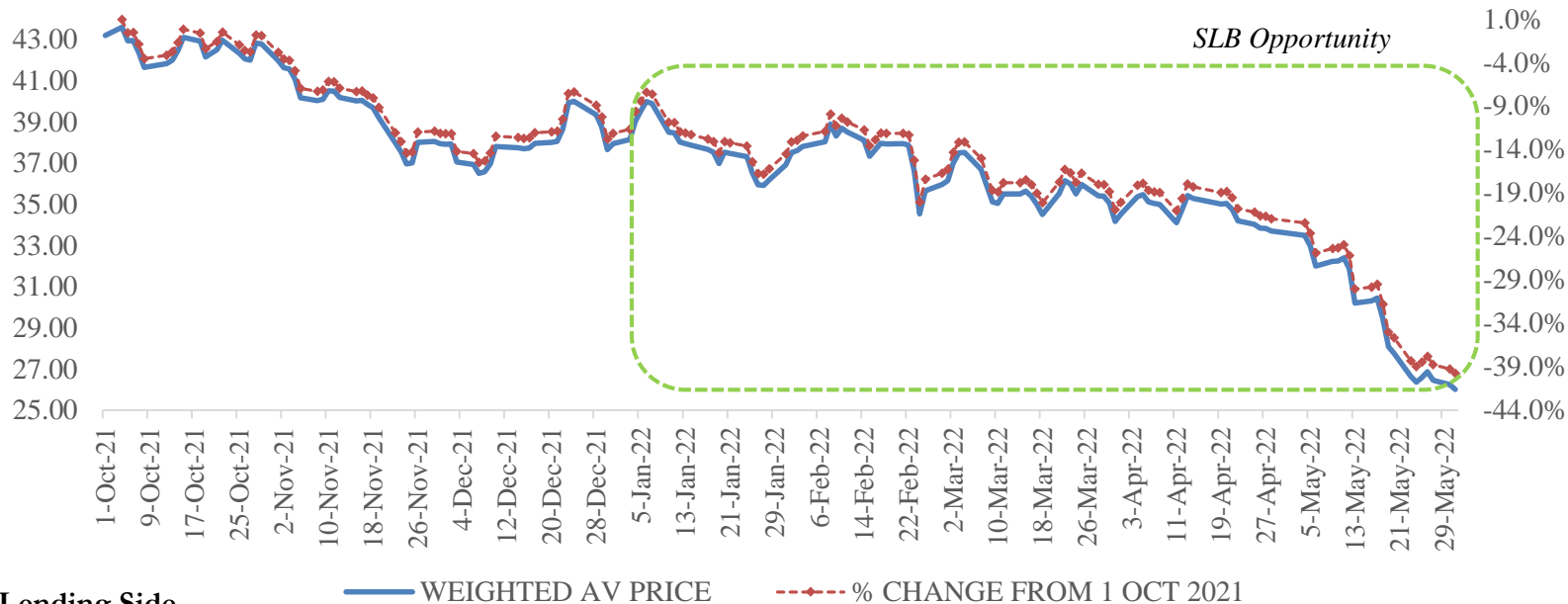
To Borrowers

- **Additional income** especially in bear market conditions.
- Ability to engage in multiple investment strategies like short selling.
- Through Screen-based model, borrowers have full view of all securities available and can take advantage of opportunities that arise.
- No counterparty risk as transactions are guaranteed by CDSC.
- Immediate automated transfer of securities ensures borrowers receive securities in a timely manner.

INVESTMENT OPPORTUNITIES

Opportunities in SAFARICOM

SAFARICOM PRICE MOVEMENT (1 OCT 2021 - 31 MAY 2022)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period (Days)	Corporate Action	Net Returns (KES)
1,000,000	8	07/01/2022	39.9	39,900,000	31/05/2022	144	640,000	1,697,820

Borrowing Side

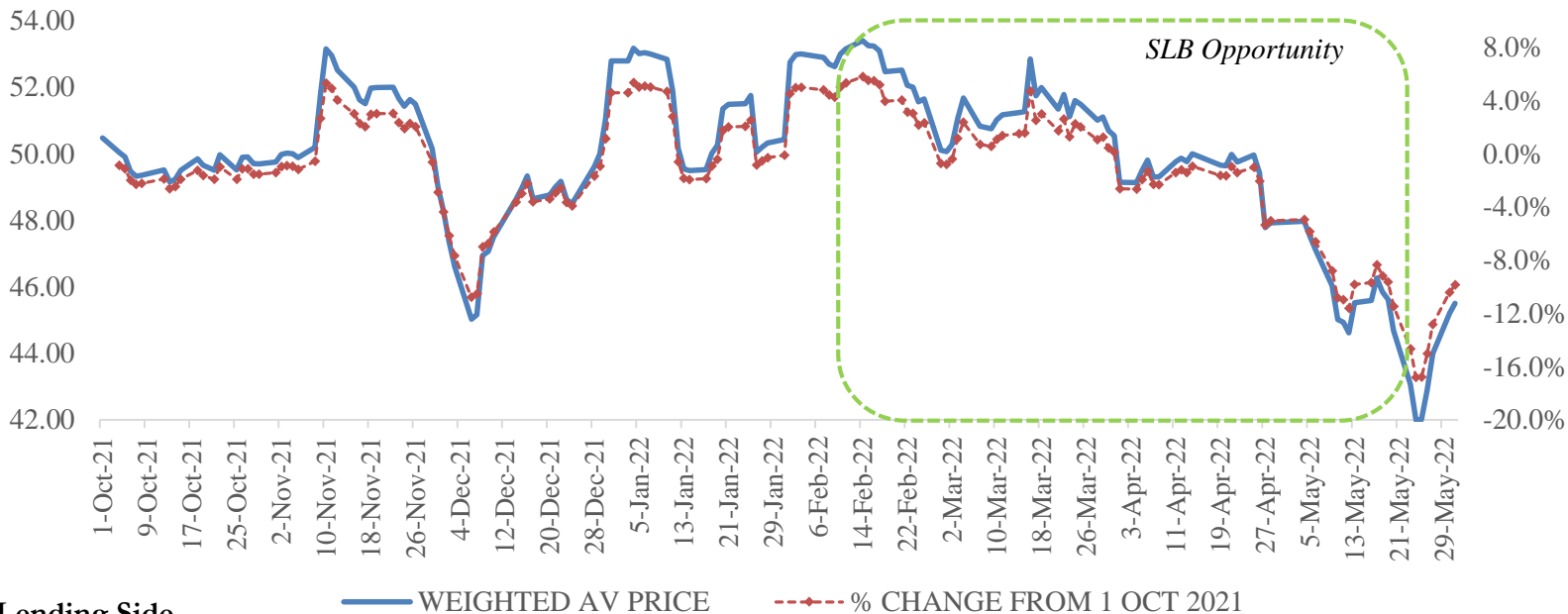
Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	07/01/2022
Return Date	31/05/2022
Borrowing Period (Days)	144
Borrowing Price	39.9
Return Price	26.0
Price Change	(13.9)
SLB Net Gain (KES)	10,727,913
Earnings From Collateral	709,936
Total Borrower Earnings (KES)	11,437,849



INVESTMENT OPPORTUNITIES

Opportunities in Equity Bank

EQUITY BANK PRICE MOVEMENT (1 OCT 2021 - 31 MAY 2022)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period (Days)	Corporate Action	Net Returns (KES)
1,000,000	8	10/02/2022	53.0	53,000,000	20/05/2022	99	-	966,023

Borrowing Side

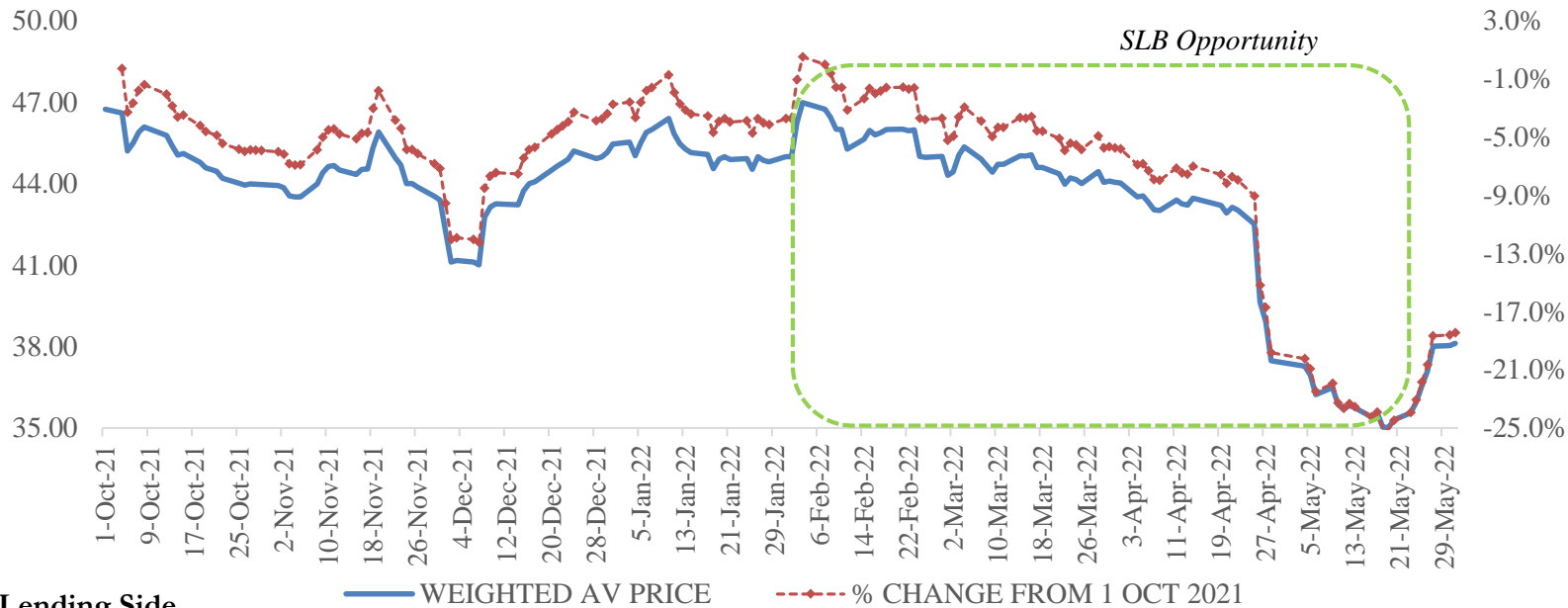
Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	10/02/2022
Return Date	20/05/2022
Borrowing Period (Days)	99
Borrowing Price	53.0
Return Price	44.68
Price Change	(8.3)
SLB Net Gain (KES)	5,332,668
Earnings From Collateral	648,328
Total Borrower Earnings (KES)	5,980,996



INVESTMENT OPPORTUNITIES

Opportunities in KCB Bank

KCB BANK PRICE MOVEMENT (1 OCT 2021 - 31 MAY 2022)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period (Days)	Corporate Action	Net Returns (KES)
1,000,000	8	03/02/2022	46.99	46,990,000	20/05/2022	106	2,000,000	2,917,039

Borrowing Side

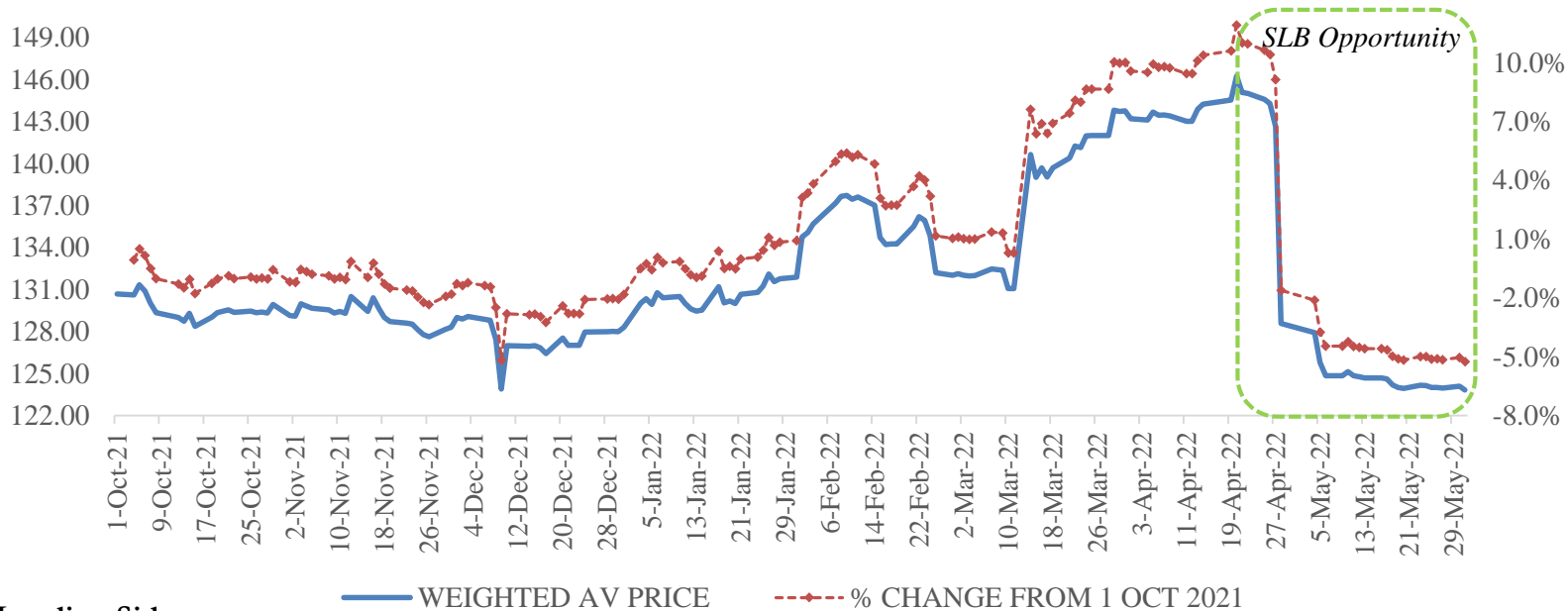
Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	03/02/2022
Return Date	05/31/2022
Borrowing Period (Days)	106
Borrowing Price	46.99
Return Price	35.30
Price Change	(11.7)
SLB Net Gain (KES)	7,042,012
Earnings From Collateral	615,453
Total Borrower Earnings (KES)	7,657,465



INVESTMENT OPPORTUNITIES

Opportunities in Standard Chartered Bank

STANCHART BANK (KE) PRICE MOVEMENT (1 OCT 2021 - 31 MAY 2022)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period (Days)	Corporate Action	Net Returns (KES)
1,000,000	8	20/04/2022	146.26	146,260,000	31/05/2022	41	14,000,000	15,104,043

Borrowing Side

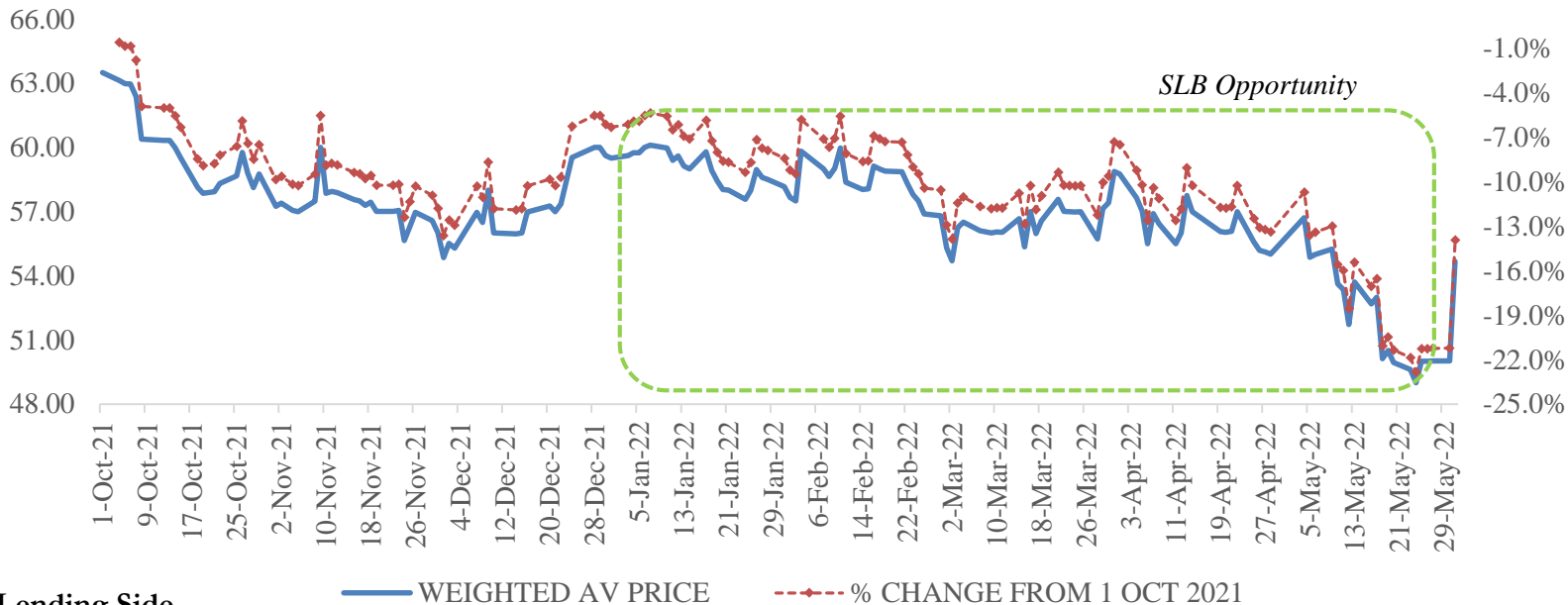
Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	20/04/2022
Return Date	31/05/2022
Borrowing Period (Days)	41
Borrowing Price	146.26
Return Price	123.81
Price Change	(22.5)
SLB Net Gain (KES)	2,184,043
Earnings From Collateral	740,957
Total Borrower Earnings (KES)	2,925,000



INVESTMENT OPPORTUNITIES

Opportunities in DTB Kenya

DTB KENYA PRICE MOVEMENT (1 OCT 2021 - 31 MAY 2022)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period (Days)	Corporate Action	Net Returns (KES)
1,000,000	8	6/01/2022	60.0	60,000,000	24/05/2022	138	-	1,524,427

Borrowing Side

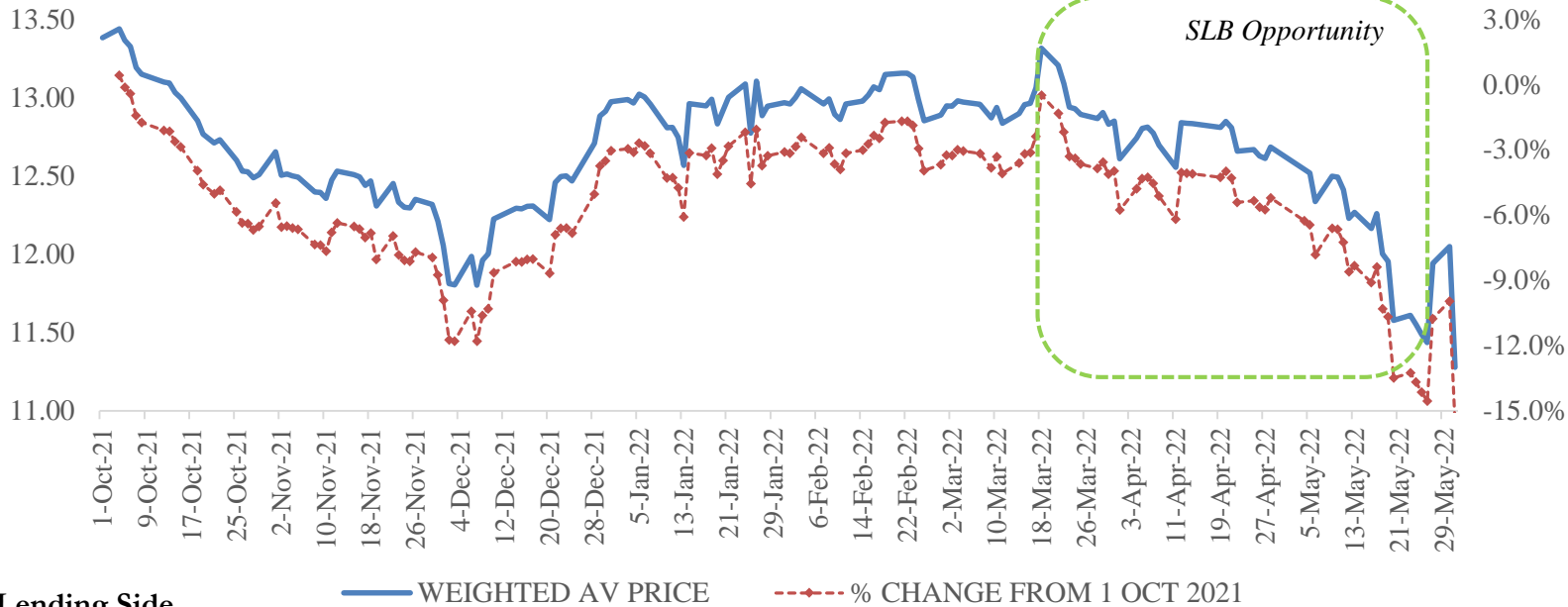
Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	06/01/2022
Return Date	24/05/2022
Borrowing Period (Days)	138
Borrowing Price	60.0
Return Price	49.00
Price Change	(11.0)
SLB Net Gain (KES)	9,098,438
Earnings From Collateral	1,023,090
Total Borrower Earnings (KES)	8,121,529



INVESTMENT OPPORTUNITIES

Opportunities in CO-OP Bank

CO-OP BANK PRICE MOVEMENT (1 OCT 2021 - 31 MAY 2022)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period (Days)	Corporate Action	Net Returns (KES)
1,000,000	8	18/03/2022	13.31	13,310,000	26/05/2022	69	-	169,084

Borrowing Side

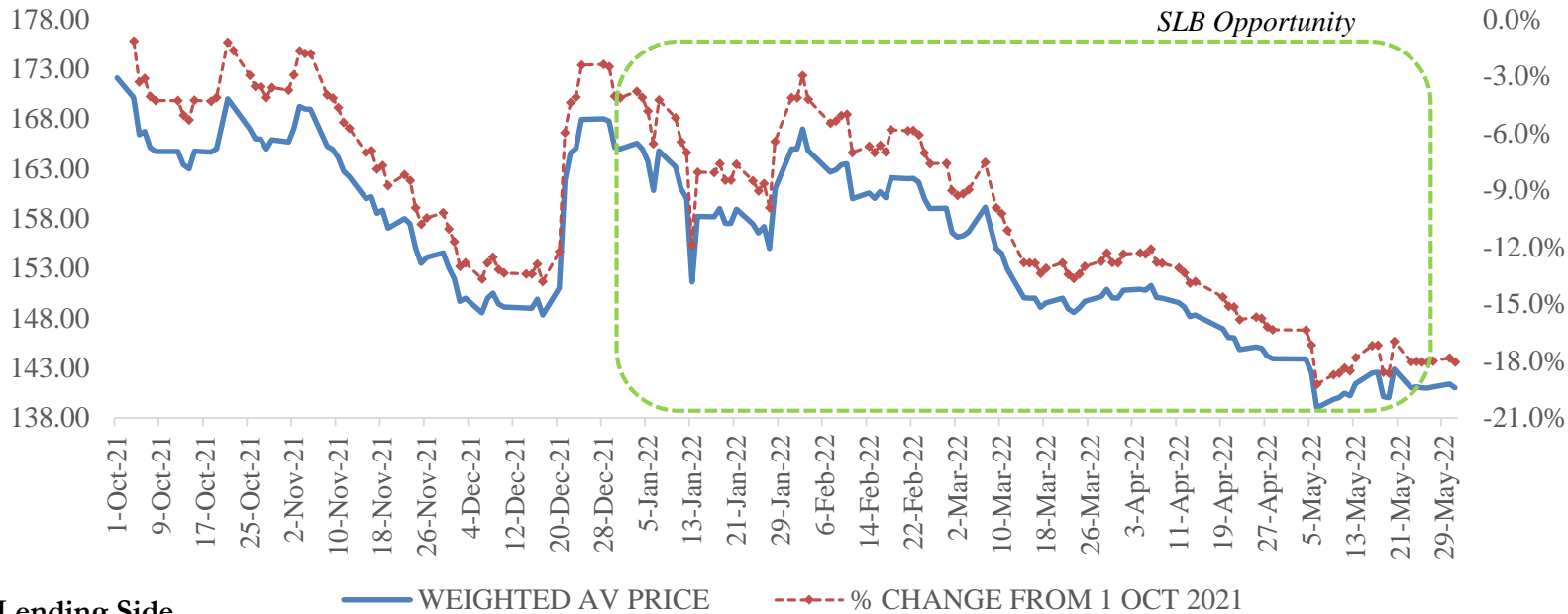
Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	18/03/2022
Return Date	26/05/2022
Borrowing Period (Days)	69
Borrowing Price	13.31
Return Price	11.43
Price Change	(1.9)
SLB Net Gain (KES)	1,219,550
Earnings From Collateral	113,478
Total Borrower Earnings (KES)	1,333,028



INVESTMENT OPPORTUNITIES

Opportunities in EABL

EABL PRICE MOVEMENT (1 OCT 2021 - 31 MAY 2022)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period (Days)	Corporate Action	Net Returns (KES)
1,000,000	8	03/01/2022	165.55	165,550,000	26/05/2022	143	3,750,000	8,108,546

Borrowing Side

Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	03/01/2022
Return Date	26/05/2022
Borrowing Period (Days)	143
Borrowing Price	165.55
Return Price	140.98
Price Change	(24.6)
SLB Net Gain (KES)	9,756,989
Earnings From Collateral	2,925,155
Total Borrower Earnings (KES)	12,682,144



SLB Fees

<i>Lending Fee Rate (market determined)</i>	<i>8%</i>		Commission	Levy
<i>Lending SLB Commission & Levies</i>	<i>16.00%</i>	<i>of Lending Fees</i>	15.00%	1.00%
<i>Borrowing SLB Commission & Levies</i>	<i>0.55%</i>	<i>of Borrowed Value</i>	0.5%	0.05%
<i>Transaction Levy</i>	<i>1.80%</i>			
<i>Deposits Call rate</i>	<i>6.00%</i>			
<i>Collateral Cover</i>	<i>110.00%</i>			
<i>Collateral Management Fee</i>	<i>1.00%</i>			
<i>CDA share of SLB Lending Commission</i>	<i>8.00%</i>			
<i>CDSC share of SLB Lending Commission</i>	<i>7.00%</i>			
<i>SLB Guarantee Fund Levy</i>	<i>1.00%</i>			
<i>CDA share of SLB Borrowing Commission</i>	<i>0.30%</i>			
<i>CDSC share of SLB Borrowing Commission</i>	<i>0.20%</i>			
<i>SLB Guarantee Fund Levy</i>	<i>0.05%</i>			
Cost of SLB				
<i>Market Determined Lending rate</i>			8.00%	
<i>Borrowing SLB Comission & Levy</i>			0.55%	
			8.55%	

Credit and Liquidity Risk Management

- Fully collateralized SLB transactions of at least 110%.
- Daily marking-to-market and additional margin calls.
- Prompt closing of contracts on default by the borrowers.
- Settlement Guarantee Fund in place.
- Only liquid securities (constituents of the NSE 20-Share Index) can be lent/borrowed.
- Lenders to give at least 10 working days recall notice to borrowers.
- Cash settlement (compensation to the lender) incase of failure to get securities.
- Collateral required in a securities lending or borrowing transaction is restricted to Cash (Kes). – Discussions to include Government securities ongoing.

SLB RISK MANAGEMENT



SLB RISK MANAGEMENT

Other Risk Mitigation Measures

- **SLB Rules and Procedures** approved by CMA
- **a Letter of No Objection from RBA** allowing Retirement Benefit Schemes to participate subject to their Investment Policy Statement (IPS)
- SLB Agents are **regulated entities**
- Standardized **Master Agreements**
- **SLB Collateral (cash)** held with reputable commercial banks



THANK YOU



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You Tube

[@cdskenya](https://www.youtube.com/cdskenya)



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