



PRESS RELEASE

SETTLEMENT OF SECURITIES MOVES TO CENTRAL BANK OF KENYA

Nairobi January 16, 2015: ...In a move that will improve the efficiency of settlement of equities and corporate bonds and align the process to international best practice, Central Depository and Settlement Corporation (CDSC) has worked together with the Capital Markets Authority (CMA) and the Central Bank of Kenya (CBK) to develop a more robust cash settlement model for equities and corporate bonds.

The cash side of the settlement process for transactions concluded on the Nairobi Securities Exchange (NSE) is now being coordinated through the Central Bank of Kenya's (CBK) Real Time Gross Settlement (RTGS) system, with effect from January 15, 2015. Previously, the cash settlement for securities transactions was effected through four commercial banks appointed as settlement banks by the CDSC. The securities leg of the settlement process, which entails the transfer of securities between the buyers and sellers, will continue to be carried out at CDSC.

While making the announcement, the CDSC Chief Executive, Mrs. Rose Mambo, said that this milestone moves the capital market a step closer towards providing full delivery versus payment (DVP) while deepening the capital markets. Mrs. Mambo emphasized that settlement of cash for securities transactions through CBK enhances efficiency and makes substantial strides towards full implementation of the CPMI - IOSCO Standards for Financial Markets Infrastructures. Mrs. Mambo added "CDSC is a key institution in the capital market that provides a secure central record of ownership and provides the means for the secure transfer of ownership of securities and settlement of cash following transactions at NSE".

The CBK Governor, Prof. Njuguna Ndung'u, said "the settlement of equities and corporate bonds at CBK is part of the Bank's legal mandate in formulating and implementing policies that best promote the establishment, regulation and supervision of efficient, effective payment, clearing and settlement systems".

Prof Ndung'u explained that settlement using the RTGS system is aligned to the broader East African Community (EAC) objective of enhancing the efficiency of the settlement system as the region prepares for integration of the financial system.

The Capital Markets Authority (CMA) Acting Chief Executive, Mr. Paul Muthaura, noted the use of the RTGS system for securities settlement is a substantial step in strengthening the measures to address settlement risk, in line with the overall mitigation arrangements to combat systemic risk.

This constitutes the first phase of the Kenyan markets full transition to settlement of securities transactions in Central Bank money in line with global best practice standards. This arrangement is expected to boost foreign and domestic investor confidence in the Kenyan market and promote greater liquidity at the Nairobi Securities Exchange (NSE).

Mr. Muthaura observed: "This moves Kenya a step closer to attaining the status of a Regional and International Financial Center as envisaged in the Vision 2030 Economic Blueprint and the Capital Markets Master Plan."

The settlement cycle remains unchanged at T+3.

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EDITOR'S NOTE

The Committee on Payments and Market Infrastructures (CPMI) promotes the safety and efficiency of payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy. The CPMI monitors and analyzes developments in these arrangements, both within and across jurisdictions. It also serves as a forum for central bank cooperation in related oversight, policy and operational matters, including the provision of central bank services. The CPMI is a member of the Financial Stability Board (FSB) and participates in the FSB's work to coordinate and promote the implementation of effective regulatory, supervisory and other financial sector policies. Like IOSCO, the CPMI is recognized by the FSB as a standard-setting body. CPMI and IOSCO work together to enhance coordination of standard and policy development and implementation, regarding clearing, settlement and reporting arrangements including financial market infrastructures (FMIs) worldwide.

BACKGROUND INFORMATION

Central Depository and Settlement Corporation (CDSC)

The Central Depository & Settlement Corporation Limited (CDSC) was incorporated on 23rd March 1999. The Central Depository & Settlement Corporation Limited (CDSC) is a limited liability Company approved by the Capital Markets Authority under Section 5 of the Central Depositories Act, 2000 to establish and operate a system for the central handling deliveries and settlement of securities in the Capital Markets in Kenya. It commenced its operations as a central depository 10th November 2004.

The business of the Company is to establish and operate a central depository system and a central depository initially in Kenya in respect of securities listed on the Nairobi Securities Exchange. CDSC is also charged with the management of the daily delivery and settlement of transactions carried out at the NSE.

Central Bank of Kenya (CBK)

The Central Bank of Kenya was established in 1966 through an Act of Parliament - the **Central Bank of Kenya Act of 1966**. Following the promulgation of the new constitution on 27th August, 2010, the Central Bank of Kenya (CBK) is now established under Article 231 of the Constitution, 2010. Under this Article the Central Bank has the responsibility of formulating monetary policy, promoting price stability, issuing currency and performing any other functions conferred on it by an Act of Parliament.

Other objectives are to ; **foster the liquidity, solvency and proper functioning of a stable market-based financial system; formulate and implement such policies as best promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems;** act as banker and adviser to, and as fiscal agent of the Government; formulate and implement foreign exchange policy; hold and manage its foreign exchange reserves; license and supervise authorized dealers.

Capital Markets Authority (CMA)

The Capital Markets Authority was set up in 1989 as a statutory agency under the Capital Markets Act Cap 485A. It is charged with the prime responsibility of both regulating and developing an orderly, fair and efficient capital markets in Kenya with the view to promoting market integrity and investor confidence. The regulatory functions of the Authority as provided by the Act and the regulations include; Licensing and supervising all the capital market intermediaries; Ensuring compliance with the legal and regulatory framework by all market participants; Regulating public offers of securities, such as equities and bonds & the issuance of other capital market products such as collective investment schemes; Promoting market development through research on new products and services; Reviewing the legal framework to respond to market dynamics; Promoting investor education and public awareness; and Protecting investors' interest.

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