

CDSC/C.E.OFFICE/CDAs

October 16, 2019

**TO: ALL CDAs**

Dear Sirs,

**RE: AMENDMENTS TO THE CENTRAL DEPOSITORY RULES AND PROCEDURES**

---

The above subject refers.

CDSC has received provisional approval from the Capital Markets Authority for the amended Central Depository (Operational) Rules, the Central Depository (Operational) Procedures, the Guarantee Fund Rules and the Guarantee Fund Procedures. The amendments align the legal framework to processes and procedures under the new CDS system, among other effects.

The amended documents are available on CDSC website under '*Legal Framework, Rules and Procedures*' tab for your future reference and information. Below is a summary of the '*substantive changes to the CDSC Rules and Procedures*' for ease of reference.

Summary of substantive changes to CDS Rules and Procedures and the Guarantee Fund Rules and Procedures

No.	Item	Narration
1.	Changes to CDS (Operational) Rules	<p><b>New Rule 8 (2)</b></p> <p>(2) CDSC may take disciplinary action against a CDA for failure to meet any or all of its obligations, and such action may include levying of pecuniary penalties against such CDA or suspension or revocation of the CDA's appointment. The decision on the disciplinary action shall rest with the Business Conduct Committee.</p>




2.	Changes to CDS Operational procedures	<p><b>Addition of maker checker processes.</b></p> <p>The following processes have been revised to reflect the maker - checker process as well as to ensure all transactions are initiated by the CDAs.</p> <p>Previously, they were solely processed by CDSC.</p> <ul style="list-style-type: none"> <li>a) Account opening procedure (procedure 3)</li> <li>b) Account maintenance procedure (procedure 4)</li> <li>c) Certificate deposit and private transfer of certificated securities (procedure 5.2 and 5.3)</li> <li>d) Transfer of accounts (procedure 8)</li> <li>e) Private transfers (procedure 9)</li> <li>f) Pledges and releases (procedure 10)</li> </ul>
		<p><b>Other Changes to Operational Procedures</b></p> <ul style="list-style-type: none"> <li>a) Procedure 6.1.1 - revised to accommodate removal of pre-validation. The procedure requires the broker to verify availability of securities before executing a sale order.</li> <li>b) Procedure 6.2.3 - revised to capture mode of submission of amendments from sending through email to use of Secure File Transfer Protocol folder.</li> <li>c) Procedure 6.3.1 – custodians will henceforth negatively affirm trades in the system as opposed to sending letters to CDSC.</li> <li>d) Procedure 6.3.3 - negative affirmation timelines reviewed from 12.00 noon to 3.00p.m.</li> <li>e) Procedure 6.4 - reallocation of trades automated. It will now be done through the system by concerned parties.</li> <li>f) Procedure 7.1 and 7.2 - new procedures - outlines the process followed for appointment of settlement banks and how to change a settlement bank.</li> <li>g) Procedure 7.4 – settlement timelines revised to morning. This will ensure that both funds and securities are made available earlier in the day and can therefore be used for subsequent transactions on the same day.</li> <li>h) Procedure 7.5 - provision for a second settlement batch to cater for trades that may have failed to settle in the first batch.</li> <li>i) Procedure 7.9 - Buy-in procedure revised to be in line with NSE trading rules.</li> <li>j) Procedure 17.3 - to capture private transfer fees as outlined in the regulations. These were not included in the procedures when the fees were gazetted.</li> <li>k) Procedure 17.5 -revised to include additional penalties in order to deter any failures that may arise due to removal of pre-validation.</li> <li>l) Procedure 17.6.5 - new procedure on collection of levies on daily basis as opposed to collecting at the end of the month.</li> </ul>




3	<b>Changes to the G.F Rules</b>	These are new rules which were necessitated by the requirement set out in section 60C (iv) of the Central Depositories Act, and as the anchor to the Guarantee Fund Procedures.
	<b>Changes to the G.F Procedures</b>	a) Procedure 3 on the composition of the Guarantee Fund was revised to provide more clarity b) Procedure 4 on management of the Fund is a new insertion. c) Revision of procedure 5 on application of the Guarantee Fund to clearly outline the waterfall.

Yours faithfully,



**Hilda Njeru**

**Ag. Chief Executive**

CC:

Mr. Paul Muthaura, MBS  
Chief Executive  
Capital Markets Authority  
Nairobi

Mr. Geoffrey Odundo  
Chief Executive  
Nairobi Securities Exchange  
Nairobi

Mr. Willie Njoroge  
Chief Executive  
Kenya Association of Stockbrokers  
Nairobi

