



PRESS COMMUNIQUE

ELECTRONIC SETTLEMENT OF DEBT SECURITIES THROUGH CDSC

Following the successful and ongoing immobilization and settlement of equity transactions through CDSC, we have over the past several months focused our attention on bringing the same efficiency to the debt securities secondary market. The CDS system was procured with the capability of electronic settlement of both equities and debt securities. Below is an update on the progress thus far in automating the settlement of debt securities through CDSC.

1. Legal and Regulatory Framework for Debt Securities

The primary applicable law relating to the CDSC is the Central Depositories Act, 2000 (“the Act”). In the Act, securities are defined to include: “debentures or bonds issued or proposed to be issued by a government” and “debentures, shares, bonds... issued by a corporate body” [Section 2 of the Act]. Since the relevant law is in place, CDSC has been working with the Capital Markets Authority to finalize the operational rules governing the immobilization and electronic settlement of transactions in debt securities. This is at an advanced stage and we are expecting approval of the rules soon.

2. Technical Capability

In the last couple of months, CDSC has been working on customizing the full debt functionality which includes depository functions, electronic clearing & settlement functions and all reporting and administrative functions. Tests have been conducted with market players as well as connectivity with NSE in order to facilitate automated trading of debt securities. The results of these tests have been communicated to the system vendors to ensure full customization of this functionality. The system is now ready for use by any issuer of debt securities. We recognize the ongoing initiatives to establish an OTC platform for debt securities and as such, our system has the capacity settle transactions carried out on the Nairobi Stock Exchange as well as transactions that shall be concluded through the OTC arrangements.

3. Risk Management

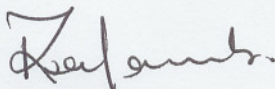
The ongoing initiative by CDSC to address risk in the market through the implementation of settlement caps shall also address the settlement risk of settling debt securities. In this regard, CDSC shall be looking to increase the CDAs contributions to the Guarantee Fund which is

currently extremely low, having been set in the 1990s, and does not take into account the exponential growth of the market over the last 5 to 7 years. Other risk management measures that operate in tandem with the settlement caps will serve to mitigate settlement risk in transactions in debt securities and enhance investor confidence in participating in the secondary market for debt instruments.

4. Operational Issues

- a. The structure of the CDS account allows holding of all types of securities in a single CDS account. Therefore, existing CDS account holders intending to participate in the debt market will not be required to open new CDS accounts. However, the segregation of the securities between equities and debt allows the investors to keep track of their holdings separately including receiving separate CDS statements.
- b. The current initiatives by CDSC to ensure that investors are kept informed and aware of all dealings in their accounts will be available to debt securities. Investors will receive SMS alerts and electronic email statements each time there is activity in their accounts. This functionality enhances safety of the securities as well as ensuring fast and efficient settlement at the time of trading.

CDSC will hold a workshop for stakeholders to clarify any issues relating to the electronic settlement of debt securities. We expect that all the outstanding issues will be finalized by mid to end of October 2009.



Rose Mambo
Chief Executive
Central Depository & Settlement Corporation

September 25, 2009