

## SECURITIES LENDING AND BORROWING (SLB) FREQUENTLY ASKED QUESTIONS (FAQs)

### 1. What is Securities Lending and Borrowing (SLB)?

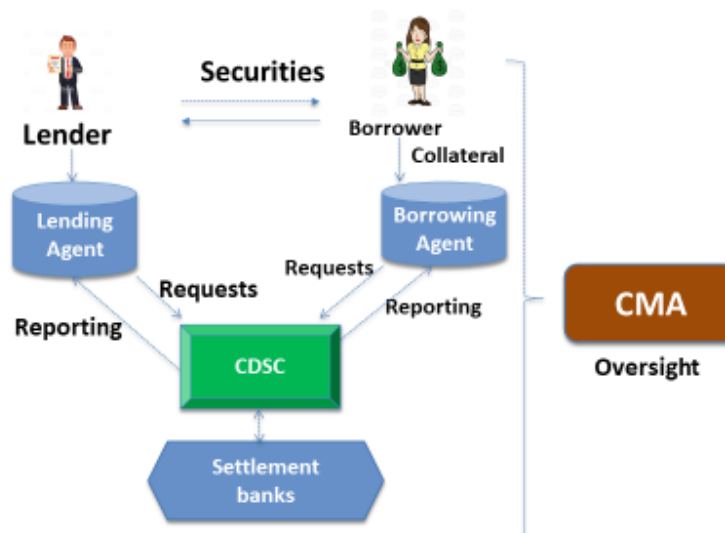
Securities lending and borrowing (SLB) is the temporary transfer of securities (shares) from one party – *the lender* – to another – *the borrower* – at an agreed lending/borrowing fee, with a formal agreement to return the securities either on demand or at a future pre-agreed date.

### 2. How does SLB work?

The SLB operations shall be guided by: The Capital Markets Act; The Capital Markets (Securities Lending, Borrowing and Short Selling) Regulations, 2017; The Central Depository (Securities Lending and Borrowing) Rules, 2019; The Central Depository (Securities Lending and Borrowing) Procedures, 2019; and The Central Depository Operational Rules and Procedures below is the SLB operational framework:

- SLB is operated and managed by CDSC through the Central Depository System (CDS)
- CDSC shall appoint *SLB Agents* as a link between investors and the SLB market
- All investors interested in participating in securities lending and borrowing will go through the appointed SLB agents
- The SLB agents and their clients shall then enter into an agreement specifying the rights, responsibilities and obligations of the parties to the agreement.

### Process flow



### 3. What are the benefits of SLB to participants?

- 1) More efficient markets – Security lending for short selling purposes will increase liquidity in the market.
- 2) Securities lending will allow investors to earn income by lending their securities on to third parties, without necessarily having to sell off the securities from their portfolio
- 3) SLB will help in supporting many trading and investment strategies that would be difficult to execute e.g. short selling.
- 4) Securities lending and borrowing will enable participants to cover temporary shortfalls or overall net debit positions in the CDS at settlement time.
- 5) Market makers need to be able to borrow securities in order to settle buy orders from customers and to make tight, two-way quotes.
- 6) Additional income for the market (transaction levy to all participants from the lending and borrowing transactions).

### 4. How do I lend securities?

- 1) A lender shall place an order specifying the stock, quantity to lend, time period, and their proposed lending fees.
- 2) The SLB agent will then capture the above information in the CDS and create a lending request.
- 3) The lending request will be included in a lending pool (in the CDS).
- 4) The securities in the lender's account shall then be reserved.

### 5. How do I borrow securities?

- 1) The borrower shall place an order mentioning the stock, period, quantity required and the lending fees they are ready to pay.
- 2) The borrower shall be asked to provide the required collateral, which should be at least 100% of the value of the borrowed securities, plus a 5% additional margin. (Additional margin is provided to take care of price fluctuations).
- 3) The agent captures the above information in the CDS and creates a borrowing request.
- 4) The 100% collateral and margin shall be automatically reserved in the CDS.

## **6. How will matching happen?**

- 1) All agents will be able to view all pending lending and borrowing requests
- 2) The CDS system will automatically match the borrowing and lending requests according to set criteria. This criteria will include the security, quantity, lending fee and duration.
- 3) Once the SLB transaction is matched an SLB agreement will be formed and the securities moved from the lender's CSD account to the borrower's account.
- 4) All concerned parties will receive notifications.
- 5) At the end of agreement, the lender gets back their securities and borrower's collateral and margin are released.

## **7. Who can lend or borrow securities?**

Any active CDS account holder can lend or borrow securities through their appointed SLB Agent.

## **8. Who are the appointed SLB agents?**

All appointments of SLB Agents shall be made by CDSC in writing under the hand of the Chief Executive for the time being of the Central Depository.

## **9. Can borrowers lend out the securities borrowed?**

Yes, the borrower can lend out to other borrowers securities borrowed provided they return to the lender all securities owed at the end of the contract period.

## **10. Will I need to open a new CDS account for SLB if I already have one?**

No. Your existing CDS account shall be used for lending and borrowing of securities. In case you want to participate in SLB, you first need to have a CDS account opened at any of the appointed Central Depository Agents' offices.

## **11. What happens when the lending or borrowing request is unmatched?**

In case of unmatched requests, any collateral or securities reserved will be released at the end day. SLB agents can however, upon consultation with their clients, amend or cancel ANY requests before they are matched.

## **12. Can securities be returned before due date?**

The borrower will be able to return the securities before the due date. The lender shall however, not be allowed to request for the securities before the return date.

### 13. What will happen to my bonus/split shares and dividends while my securities are borrowed?

All open contracts shall close on announcement of corporate actions. This is to ensure the lender enjoys all economic benefits associated with the securities they own.

### 14. Which securities shall be available for lending or borrowing?

The Securities eligible for lending and borrowing shall be securities in the NSE 20 share index as updated from time to time. The securities must be free and clear of any liens or encumbrances that may restrict their circulation and their holders must have contractually consented to the transaction. Pledged securities will not be available for these transactions.

### 15. What costs are involved in SLB?

The following fees and surcharges shall apply on all SLB transactions

#### I. To be paid by investors

	<b>Fees (%)</b>
Lending Agent Commission	0.25
Borrowing Agent Commission	0.25
CDSC levy	0.25
Guarantee fund Levy	0.05
Collateral (borrower)	100% plus 5% additional margin

#### II. To be paid by SLB Agents

	<b>Fees</b>
Annual Subscription Fee for SLB Agents	20,000
Collateral management fee (for Cash collateral only)	1% of cash collateral value

### 16. What type of collateral is allowed?

Collateral allowed for SLB transactions will be:

- a) Cash, in Kenya shillings or the currency of the loaned security;
- b) Kenyan Government Bonds or;

- c) Any other category of security as may be specified by the Capital Markets Authority.

**17. Why should I provide collateral when borrowing?**

Collateral requirement is to protect the lender from possible risk of loss and to make the lender agreeable to lending out their securities.

**18. Where is the collateral held?**

The collateral will be held in commercial banks in call accounts and will earn interest. All interest earned by the cash collateral will belong to the owner of the collateral less CDSC collateral management fee.

**19. What is the use of the Guarantee Fund (GF) if as the borrower I am providing a collateral of 100%?**

The SLB Guarantee Fund is to meet the lending fees obligations in case of default by the participants.

**20. Is there a limit to how long my securities can stay borrowed?**

The lender and borrower shall define the duration of the transaction which must be a minimum of 1 day and a maximum of 365 days.

**21. Is there a minimum and maximum amount of securities that can be lent/borrowed?**

No. The lender and borrower can lend or borrow as much as is available depending on their ability to meet the resulting obligations.

**22. What assurance do I have that my securities are safe when I lend them?**

Securities Lending and Borrowing (SLB) transactions will be carried out by licensed institutions that are governed by the Capital Markets Act. In addition, The Capital Markets (Securities Lending, Borrowing and Short Selling) Regulations, 2017; The Central Depository (Securities Lending and Borrowing) Rules, 2019; The Central Depository (Securities Lending and Borrowing) Procedures and the agreements between parties are geared towards protecting the interests on the lenders and borrowers. Several risk mitigation measures have been put in place to ensure that the lender gets their securities back. The SLB Regulations, Rules and Procedures, require the borrower to provide collateral to cover at least 100% of the value of the borrowed securities. A margin shall also be collected to cover any adverse price fluctuation and losses to the lender arising from default by the Borrower. The collateral provided and penalties applicable also serve to cushion the lender from any possible financial loss.

**23. What will be the maximum duration of the SLB contract?**

The SLB contract durations shall be within one year (365 days).

**24. What happens if my securities are not returned on the due date?**

The Securities Lending and Borrowing framework ensures that securities are returned by the due date. The system will send notifications in advance to the parties concerned informing them of the approaching due date. In the unlikely event that this is not possible, the collateral paid by the borrower will be used to buy securities that will be returned to the lender.

**25. How can I keep track of the securities I have lent or borrowed?**

The client statement sent by CDSC will have a section to show securities which have either been borrowed or lent, and the outstanding balances. This will ensure investors can keep track of their securities portfolios.

**26. What is the SLB model being applied?**

CDSC is adopting a hybrid approach

- 1) Bilateral arrangement – Where physical contracts are signed between two parties and;
- 2) Screen-based approach – Where the borrowing and lending is through an automated platform provided by CDSC

The screen based approach is however subject to approval of its rules and procedures by the CMA.

**27. Why should I borrow securities and not buy directly from the market?**

SLB works best when securities prices are going down and buying securities at that time would lead to a loss because the buyer would buy at a high price and then their securities would lose value as the price drops. On the other hand, an investor can borrow securities and sell them at a high price and thereafter buy them back after the price has dropped therefore earning some income. SLB will also allow participants to make money from market price volatility through short selling. (Refer to Q3. for detailed benefits of SLB).

**28. How will corporate actions be handled while SLB contracts are is still in play?**

All SLB contracts shall be closed out upon announcement of a corporate action.

**29. What happens to the securities I lent out if they get suspended from trading?**

In case the borrower is unable to buy back securities due to suspension, de-listing or illiquidity of a security, cash compensation equivalent to the value of the securities lent shall be paid out to the lender.

**30. What happens when the borrower is not able to deliver on the contract due to death, insolvency?**

Death or insolvency of a borrower will call for immediate termination of the SLB contract. The borrowing agent shall ensure that the borrower's obligation is met. The collateral provided shall be used to buy back the securities which will then be returned to the lender.

**31. Can the borrower pledge securities with a bank?**

Since the borrower receives legal title to the securities and can use them as appropriate. The borrower will however be required to return the securities by the due date either by ensuring that the pledge period is within the SLB contract period or by purchasing additional securities from the market for delivery on due date.

**32. Where can I get more information regarding Securities Lending and Borrowing?**

Please contact your Securities Lending and Borrowing (SLB) Agent for more information on SLB or visit our website [www.cdsckenya.com](http://www.cdsckenya.com). You may write to us on [helpdesk@cdsckenya.com](mailto:helpdesk@cdsckenya.com). Follow us on Twitter and Facebook through our handle [@cdsckenya](https://twitter.com/cdsckenya) for more updates on the product.