



SLB RISK MANAGEMENT



Credit and Liquidity Risk Exposures

- Credit (default) Risk

- Borrower fails to provide collateral or the lender fails to avail security at the beginning of the contract
- The borrower fail to deposit the additional margin call.
- The borrower fails to deliver securities at the end of borrowing term.
- The lender fails to return the collateral to the borrower.
- The borrower fails to settle the outstanding lending fees at end of the contract

- Liquidity Risk

- Borrower unable to get securities in the open market to return to lender
- Inability to liquidate the collateral on default by the borrower



Credit (Default) Risk Management

Collateral to be maintained at **110% of the value** of the securities borrowed.

Daily **mark-to-market** of the lent securities and collateral (non-cash) with daily **margin calls**.

DVP-3 settlement of the matched SLB orders with simultaneous blocking of collateral and transfer of borrowed securities from the lender to Borrower.

Borrower to provide collateral before placing a borrowing request and this collateral is reserved immediately an SLB transaction is executed/matched.

Borrower may **request for return of excess collateral**

Settlement Guarantee Fund in place.

Buy-in and Cash equivalent compensation for failed return of securities paid by the collateral provided



Liquidity Risk Management

Liquidity Risk

- The Authority has proposed to prescribe that **only liquid securities (constituents NSE20 index)** may be lent/borrowed.
- The quality of the collateral required in a securities lending or borrowing transaction restricted to **cash in Kenya shillings; and Government securities**. These are liquid collateral.
- **SLB regulation restricts reuse of collateral** to:
 - in the case of cash, it may be deposited in an interest bearing account;
 - in the case of Government securities, it may be used in overnight repo transactions; or
 - in any other case, it may be used as the Authority may prescribe.
- A **notice of up to 14 days** by the lender to give the borrower adequate time to source for the securities.
- SLB Rules/procedures allows for **cash settlement** (compensation to the lender) incase of failure to get securities.



Operational Risk Management

Adequacy of systems and personnel capacity to support the SLB framework

Operational Risk

- **SLB Rules and Procedures are in place** and approved by CMA.
- **The new system ability to support the SLB framework have been tested and noted to be adequate.**
- **Training and capacity development for staff and participants** conducted and continuing.
- **Indemnification mechanisms** by the agents and CDSC provided for in the SLB Rules and contracts.
- **Periodic communication** with the SLB parties, their agents and the regulator on SLB transactions including daily reporting on executed SLB transactions.
- **Timelines** within which borrower is to provide collateral (+additional margin calls) and return securities at the end of the SLB contract to the lender and for the lender to avail securities for borrowing and return of collateral to the borrower are provided for in the SLB procedures.



Market Risk Management

Adverse movement in level or volatility of security prices.

Market Risk

- **Daily Mark-to-Market.**
- **Initial Margin** requirement which shall be reviewed periodically *based on actual performance.*
- **Limitation on the reinvestment of collateral** posted by the borrower.
- Counterparties can **terminate SLB contracts before end of term.**



Legal and Compliance Risk Management

legal basis for SLB.

Legal & Compliance Risk

- CMA has admitted CDSC to **deploy SLB in the regulatory sandbox.**
- **The Master Agreements are in place** (between lender and borrower, Lender/Borrower and the SLB Agent and CDSC and SLB Agents).
- Operational and Compliance requirements in the SLB regulations and rules have been **incorporated into the SLB Procedures, and master agreements.**
- Continuous compliance assessment monitoring by CDSC and the Authority.



Collateral Reinvestment Risk Management

Loss of invested collateral or failure to achieve investment target.

Reinvestment Risk

- Capital Markets (Securities Lending, Borrowing and Short selling)
Regulations, 2017 limit reinvestment of collateral to: in the case of cash, it may be deposited in an interest bearing account;
 - in the case of Government securities, it may be used in overnight repo transactions; or
 - in any other case, it may be used as the Authority may prescribe.



Other Risks

- **Custody Risk**

- We shall limit the custodian of borrower collateral to Tier I banks only

- **Settlement Risk**

- Transfer of security to the borrower shall be simultaneous with the blocking of collateral

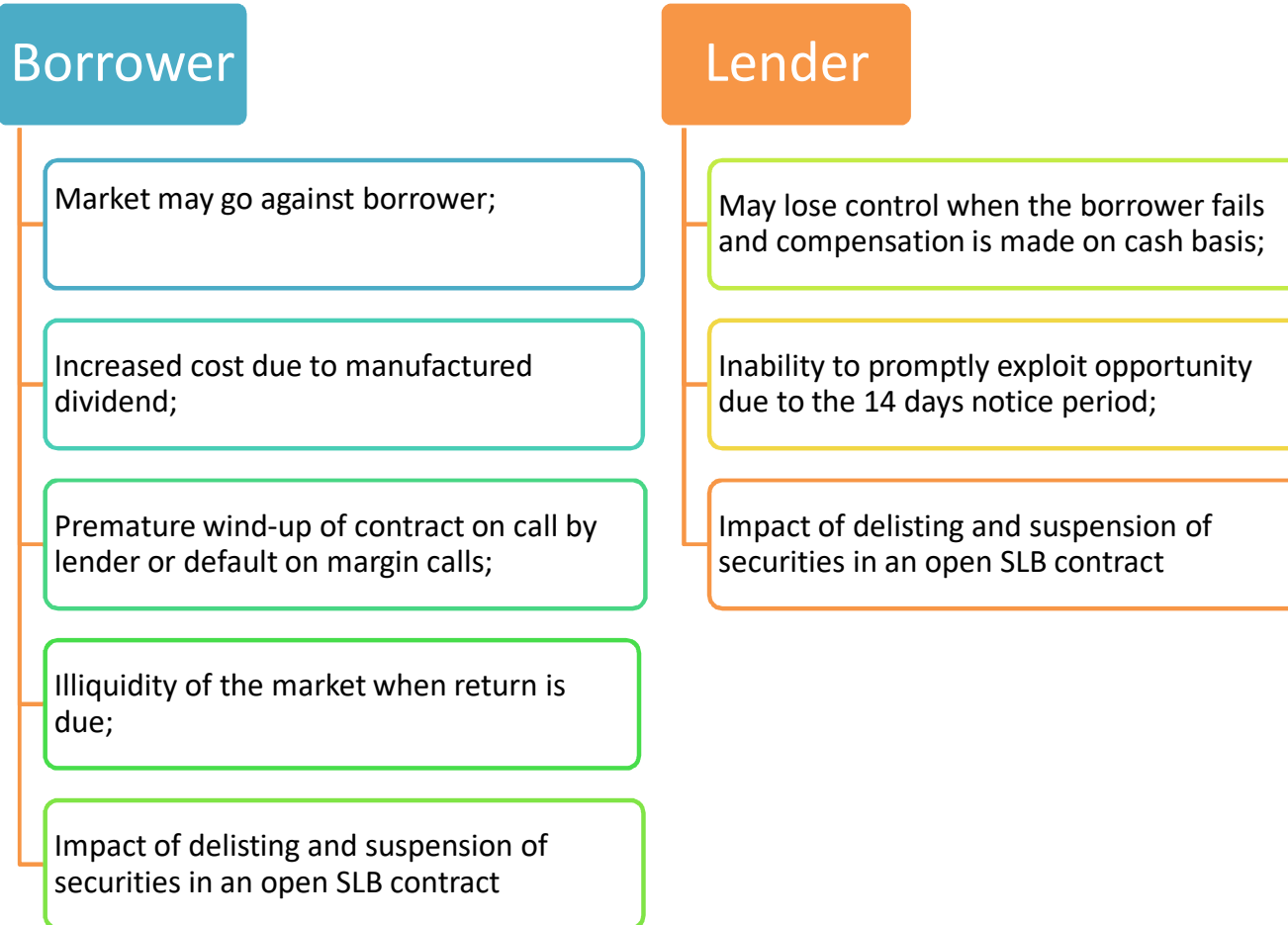
- SLB Guarantee Fund in place

- **Agency Risk**

- Agency agreements have been put in place



SLB Risk Management – Residual Risks



Thank You!

