

Questions and Answers (Q&A)

| | QUESTION | ANSWER PROVIDED |
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| 1 | What role does the CDSC play with regard to repo transactions? Will this roll out affect the repo market? | <i>CDSC currently plays the role of clearing and settlement of securities traded at the NSE. Repo transactions on treasury bonds (where most if not all the Repo transactions are executed) is currently under Central Bank of Kenya.</i> |
| 2 | Since the launch of NEXT what are the volumes like and what can be done to increase liquidity in this market? | <i>YTD, NSE has traded about KES. 137 Million. Open interest is currently at about 314. There's need to enhance investor knowledge and awareness, investment policy statements require amendments to facilitate participation in the derivatives market.</i> |
| 3 | What are the legal risks involved in entering into a lending agreement on securities? | <i>This would be dependent on bilateral contracting between the counterparties, what would typically be in an OTC transaction. On the derivatives market, the trades are based on standard contract specifications and governed by the NSE Rules and CMA Derivatives Regulations.</i> <i>Further: Legal Risk exposures would include lack of adequate regulatory framework which may void the SLB transaction or protracted dispute resolution mechanisms. These risks have been well mitigated through Rules, Operational Procedures, Master Agreements which are adequately benchmarked on the current regulations for SLB in addition to adequate dispute resolution mechanism within the laws and SLB contracts</i> <i>More information on the respective rules and operational procedures that govern the respective</i> |

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| | | <i>products is available on the NSE, CDSC and CMA Websites.</i> |
| 4 | What is the tax treatment on shorting transactions? | <i>When securities are lent out or provided as collateral in an SLB transaction, the transfers are not treated as a buy/sell and therefore no tax obligation arises. Income earned by the lender (or paid by the borrower) from SLB transactions is treated as any other income by the lender (or expense to the borrower) and taxed at the corporate rate for an institution that is taxable. However, for institutions like pensions that are tax exempt, no tax obligation should arise. For manufactured dividends, the borrower will have an obligation to manufacture the dividend net the applicable tax rate of the lender(s).</i> |
| 5 | Under SLB, who gets the dividends paid during the loan period? The lender or the borrower? | <i>Dividend if received by the borrower shall be transferred to the lender. If borrower was not in the register, the borrower will be required to manufacture an equivalent amount and pay to the lender</i> |
| 6 | Please confirm that SLB is NOT on a bilateral basis. How does a lender/borrower know that a match has happened? What's the notification process? | <i>SLB is screen based and the system will confirm successful transactions to both the lender and borrower. The SLB agent will also be able to view on successful transactions.</i> |
| 7 | Is there a minimum lending/borrowing period? | <i>Minimum of 1 day & Maximum of 365 days.</i> |
| 8 | What is the minimum quantity approved for SLB? | <i>Minimum quantity for trade is 100 shares/units.</i> |
| 9 | Please clarify: Derivatives restricted to a number of counters (5 or 6?), but SLB is NSE 20. That does mean the | <i>For now the available single stock contracts are on the 6 counters and then the NSE 25 Index. New contracts will be introduced as uptake increases.</i> |



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| | complementariness might be elusive you may not use borrowing to settle derivatives for counters outside the chosen few. | |
| 10 | Any plan to extend Derivatives to NSE 20? | <i>Yes in due course.</i> |
| 11 | How are dividends and other corporate actions dealt with? | <i>All dividends and other corporate actions will be manufactured and paid by the borrower to the lender. In SLB, Cash dividend/interest, received by the borrower is transmitted to the lender and if the borrower had provided collateral that also earns dividend/interest, the borrower will also get the related payment.</i> |