



CENTRAL DEPOSITORY &
SETTLEMENT CORPORATION
Invested in Progress

SHORT SELLING OF STOCKS

THROUGH SECURITIES LENDING AND BORROWING

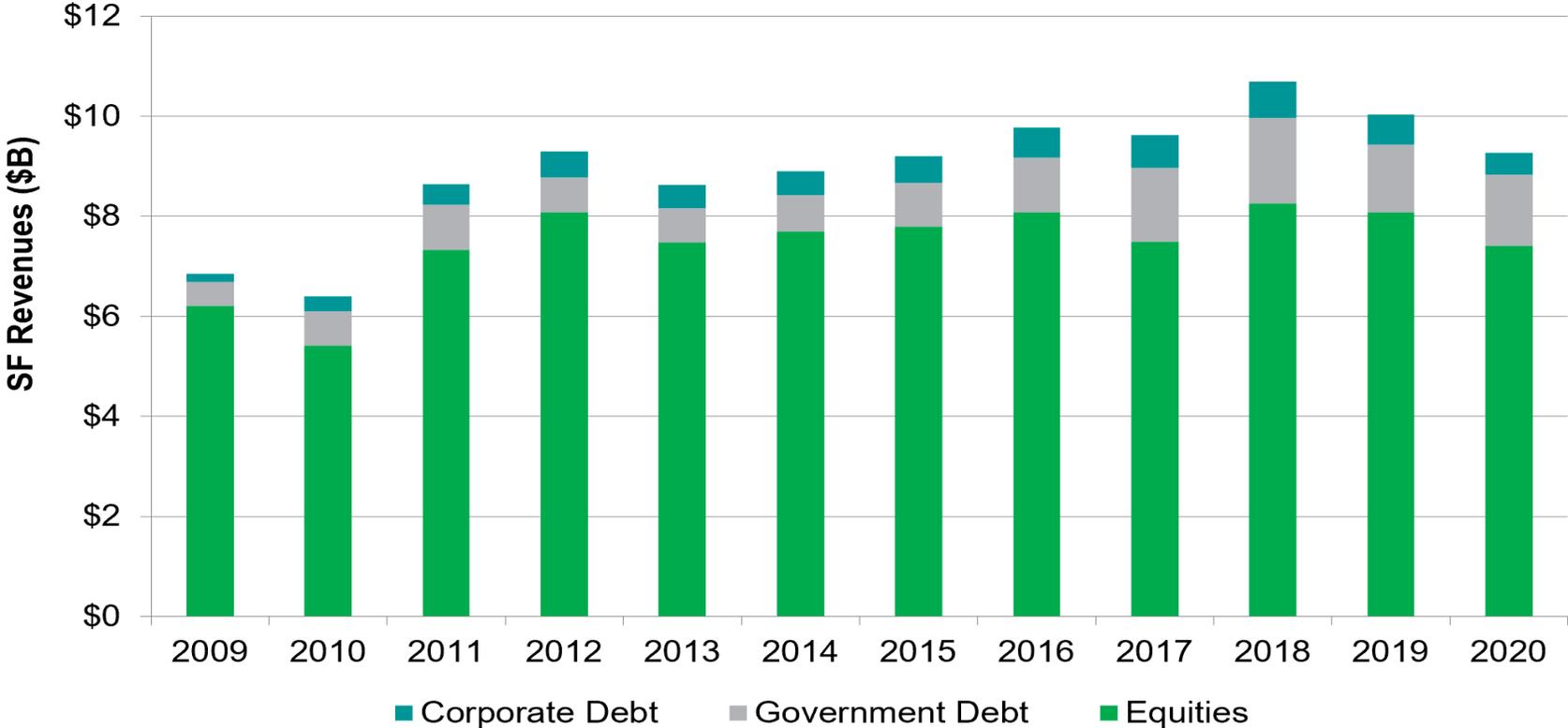
Marion Kioi

**General Manager, Client &
Intermediary Services - CDSC**

INDUSTRY OUTLOOK

Global Securities Lending Revenues

Global Securities Finance Revenue



\$4.5B

Global Securities Lending Revenue in H1, 2021

\$9.3B

Global Securities Lending Revenue in 2020

Source: IHS Markit Securities Finance

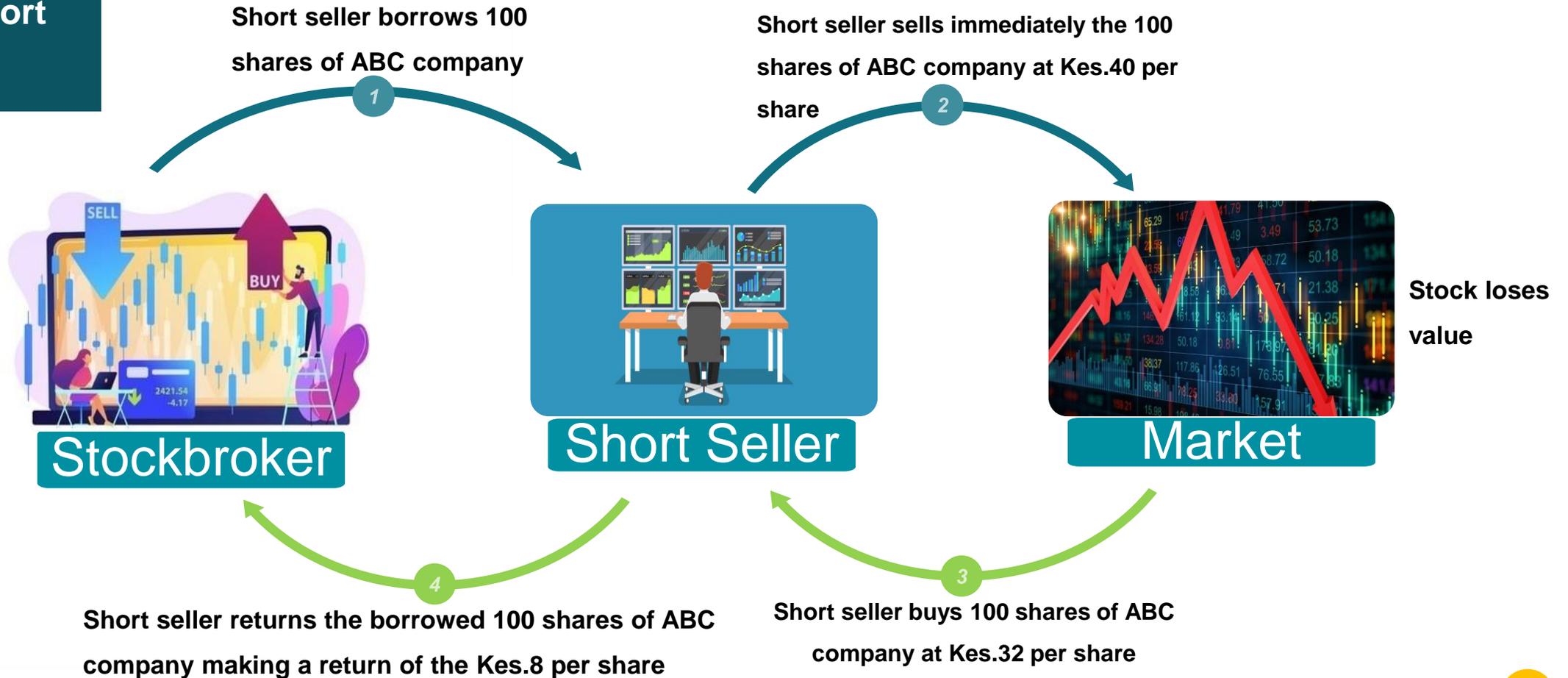
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Source: IHS Markit Securities Finance 2020 Review; Securities Finance Update: H1, 2021.

Short Selling Explained

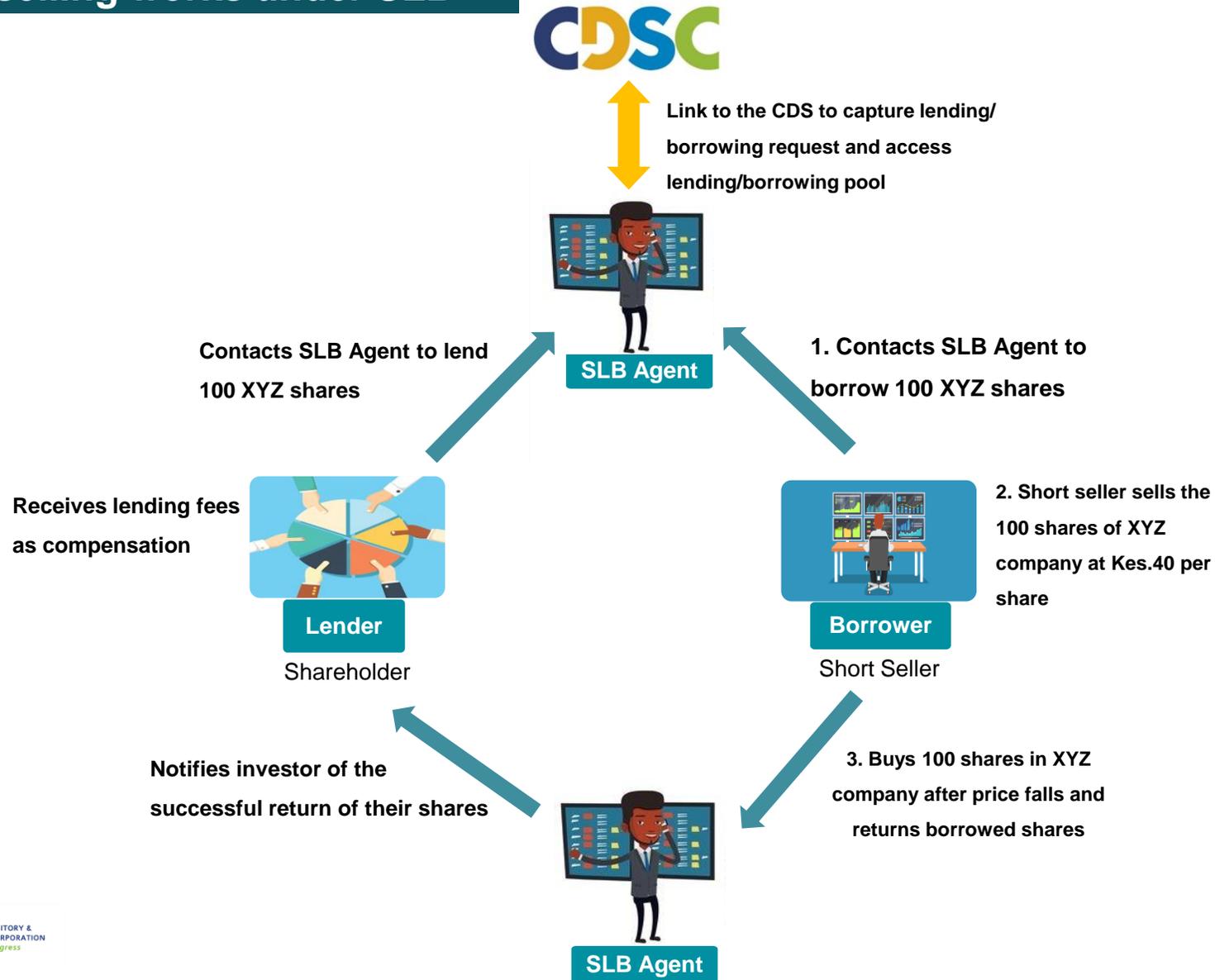
- **Short Selling** is a trading or investment strategy where an investor(s) makes money from the stock market by correctly anticipating a decline in share prices. “Short sale” means any sale of a security which the seller does not own at the time of the sale.

How short selling works



Short Selling Through SLB

How short selling works under SLB



Securities Lending and Borrowing Product Overview

Securities Lending and Borrowing (SLB) is the temporary transfer of shares from one party (*lender*) to another (*borrower*), with an agreement to return the shares either on demand, or at a future date.

Key Features

1. Duration of contracts: 1 day to 365 days
2. Number of shares: Minimum 100 and NO Maximum
3. Lender always has the right to recall lent securities and consequently, securities lending does not hinder asset managers from actively managing their portfolios.
4. Collateral of 100% of the value of shares is provided by the borrower and an initial margin of 10% before borrowing is allowed.
5. CDSC guarantees the transactions and ensures robust risk management measures are put in place.
6. RBA has provided the no Objection for Pension schemes to participate in SLB.

Securities eligible for SLB transactions are shares that make up the NSE 20 Share Index

Generating Revenue through short selling

CASE STUDY: If an investor was to borrow 1 million shares trading at KES 50 at the NSE for a period of 90 days at a Lending Fee of 8% p.a.

- ❑ Borrowing Cost $[(1,000,000 \times 50) \times (8\% \times 90/365)] + [(0.55\% \times 90/365) \times 50,000,000]$
- ❑ Total Borrowing Cost: $(986,301 + 67,808.22) = \text{KES } 1,054,109.22$

BELOW IS AN ILLUSTRATION OF HOW THE BORROWER WOULD MAKE MONEY:

Should share price fall by KES 4 to KES 46 during the contract period

- ❑ [Share Amount X Price] $(1,000,000 \times 46) = 46,000,000$
- ❑ Transaction Gross Profit $(50,000,000 - 46,000,000) = 4,000,000$
- ❑ Net Profit = $4,000,000 - [1,054,109.22 + (\text{Transaction levies at NSE } (50,000,000 \times 1.8\% + 46,000,000 \times 1.8\%))]$
- ❑ Therefore Profit will be $4,000,000 - [1,054,109.22 + (900,000 + 828,000)]$
- ❑ Profit = $\text{KES } 1,217,891.78 + \text{interest earned from 110\% cash collateral } (6\% \times 55\text{M} \times 90/365)$
- ❑ **TOTAL RECEIVED** $1,217,891.78 + 813,698.63 = \underline{\text{KES } 2,031,590.41}$

Key Figures

KES 50M

Share Value

8% p.a.

Lending Rate

**KES
1.218M**

Potential
Return – Net
interest on
collateral
(90 Days)

Why SLB is important in short selling

PERIOD	SECURITY	QUANTITY SOLD SHORT
Jan-21	EQUITY	-2,287,000.00
	SAFARICOM	-551,900.00
Feb-21	KCB	-1,000,000.00
	EQUITY	-234,000.00
Mar-21	SAFARICOM	-2,707,220.00
	SAFARICOM	-1,072,070.00
Apr-21	NCBA	-1,400,000.00
May-21	KCB	-2,023,200.00
	KCB	-2,543,500.00
Jun-21	NMG	-100,000.00
Jul-21	EQUITY	-350,000.00
Aug-21	CO-OP	-1,398,773.00
	EQUITY	-1,985,464.00
Sep-21	EQUITY	-1,002,900.00
	EQUITY	-675,742.00

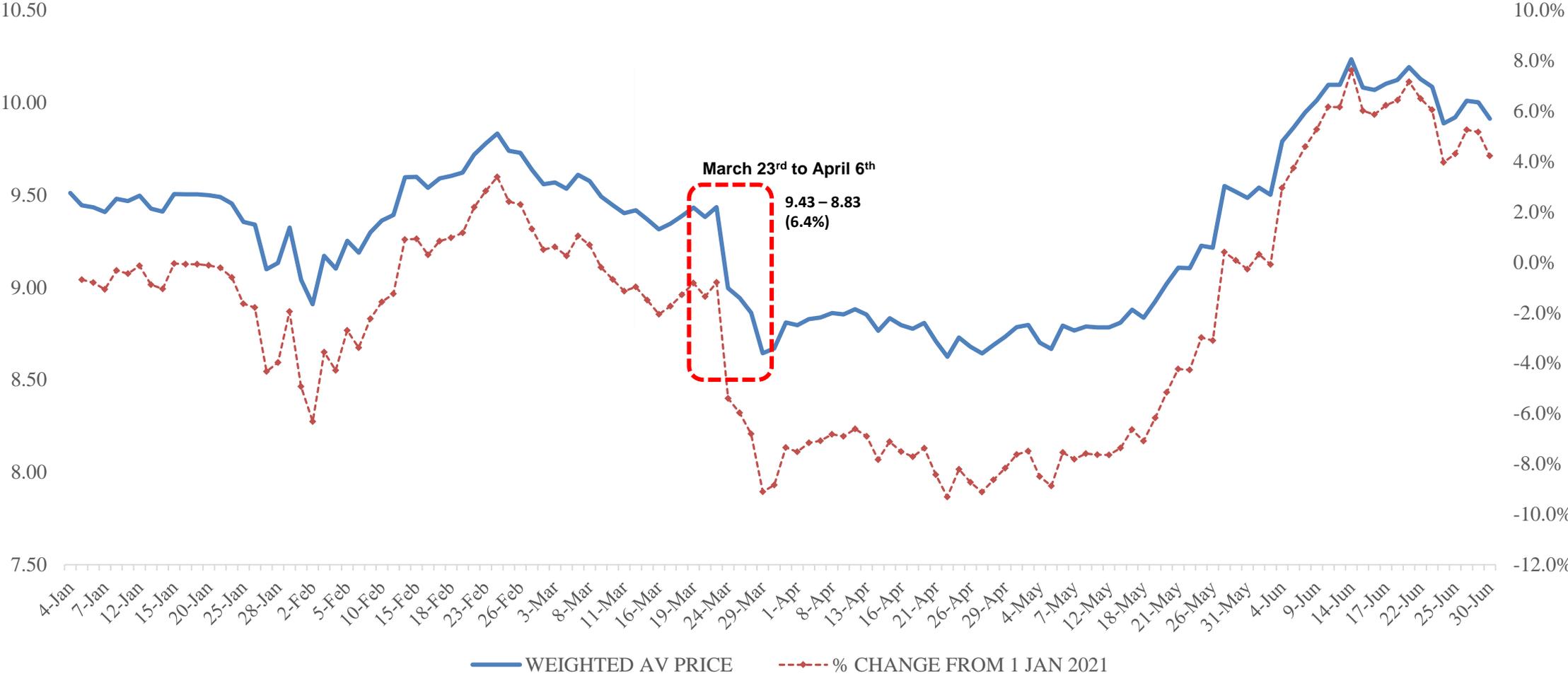
- ✓ The examples above are instances where securities were sold short. Without securities to borrow the CDA has to buy the shares within 2 days to meet the short position regardless of the market price.
- ✓ SLB allows the short seller enough time to wait for the security price to fall.



Sampled Short Selling Opportunities

ABSA Bank Kenya

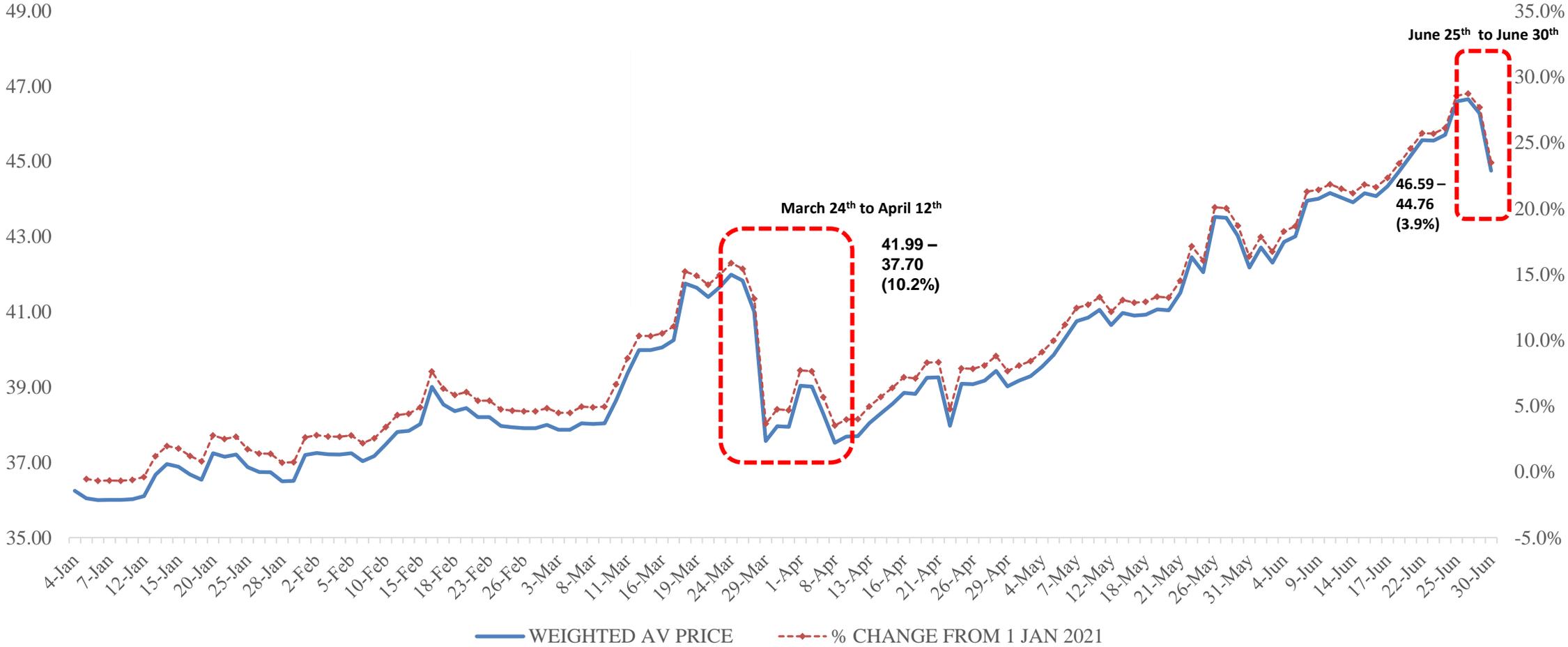
ABSA PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Sampled Short Selling Opportunities

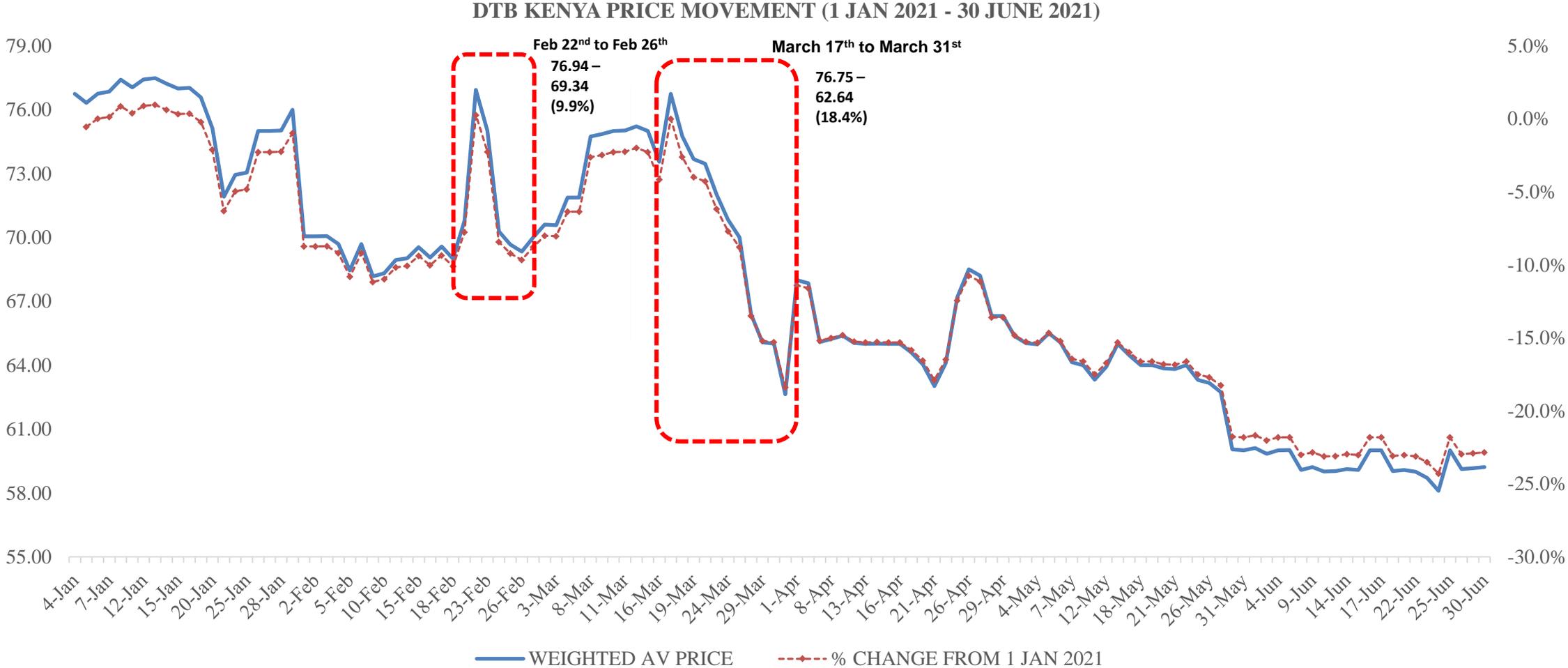
Equity Bank Kenya

EQUITY BANK PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Sampled Short Selling Opportunities

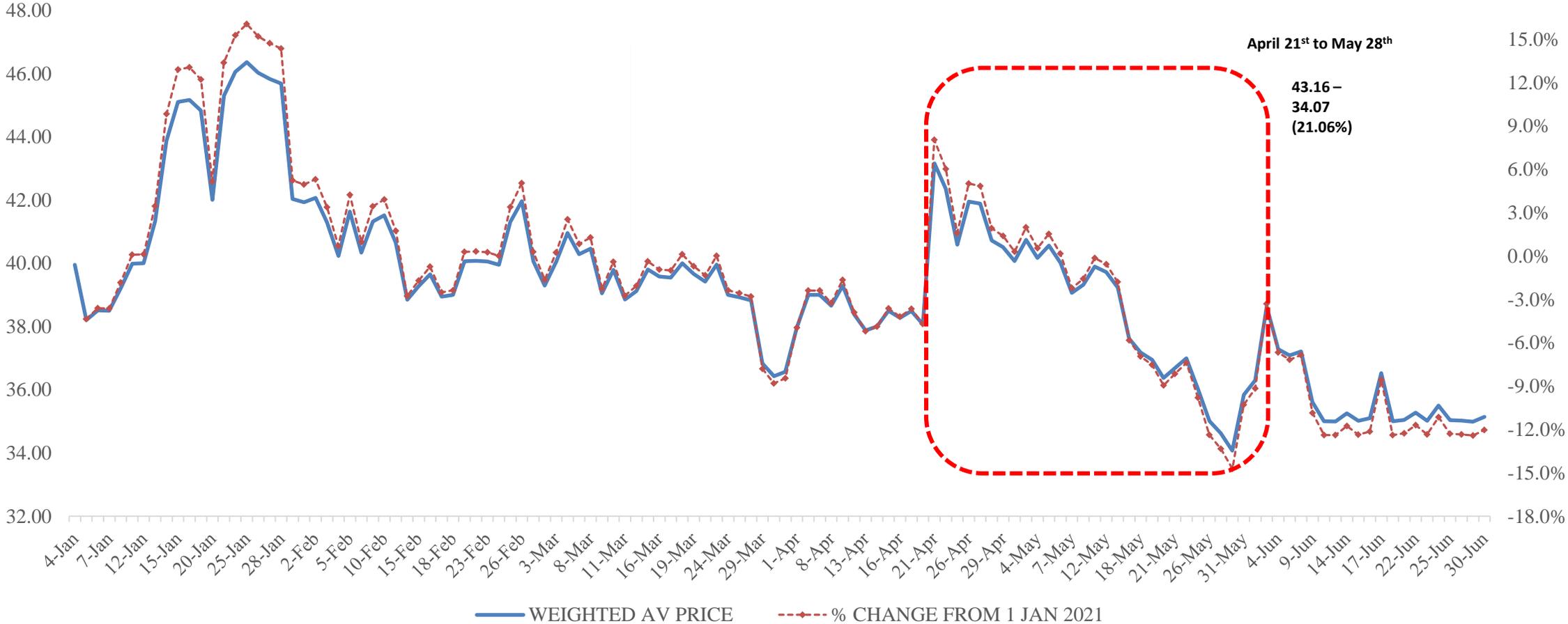
DTB Kenya



Sampled Short Selling Opportunities

Bamburi Cement

BAMBURI PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Opportunities for short selling

NSE investors wealth down Sh146 billion

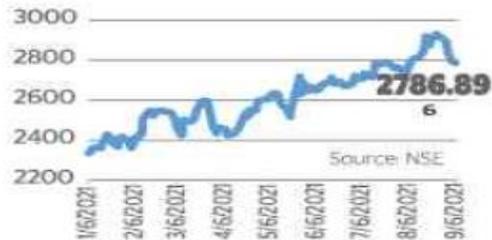
Otiato Guguyu

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Investors on the Nairobi Securities Exchange (NSE) have lost Sh146 billion in paper wealth over the last two weeks as demand for stocks slumped amid shifting preference for the government's tax-free in-

Market cap (Sh Bn)

THE MARKET HAS SHED VALUE FOR 7 CONSECUTIVE DAYS



frastructure bond.

The NSE market capitalisation declined from a high of Sh2.93 trillion mid-August to Sh2.78 trillion at the close of trading yesterday following a seven-day consecutive slump.

The top five blue-chip counters, which control 80 percent of the market, lost a combined

Sh139.8 billion in paper wealth.

The Safaricom counter saw the biggest loss at Sh112.1 billion followed by Equity Bank's Sh14.3 billion.

KCB shareholders lost Sh6.1 billion, East African Breweries Sh5.7 billion and Cooperative Bank Sh1.4 billion.

Market analysts **NSE** | PAGE 4

Source: Story on Business Daily front page news, 7 September, 2021

NSE losses Sh74bn, retreats from highest level in three years

18 May 2021 — **NSE** has shed Sh74.1 billion in one week of trading as investors cash out on the price gains that had lifted the bourse to a 36-month high of ...

NSE suffers biggest daily loss since May

22 Sep 2021 — Investors on the **NSE** Wednesday lost about Sh54 billion in paper wealth, the biggest single-day decline in four months.

Every time we have such headings it means there was an opportunity to earn income through short selling

THANK
YOU



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