



STERLING CAPITAL LIMITED

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Kenya pilots securities lending and borrowing platform

- The Central Depository and Settlement Corporation (CDSC) has launched a pilot phase for securities lending and borrowing ahead of a full roll out planned for the fourth quarter of the year.
- During the pilot phase, only liquid securities, those under the benchmark NSE 20 Share index will be lent or borrowed.
- Securities Lending and Borrowing (SLB) is the temporary transfer of securities from a lender, to a borrower, with a simultaneous agreement to return the securities either on-demand or at a future date.
- The regulations will allow investors to borrow shares from fellow traders and sell them on a bet that a future price drop will enable them to buy back the same stock cheaply and return them at a profit.
- The CDSC said it will implement SLB pilot phase transactions under a model where the lender and borrower do not know each other, with their activities captured on an automated platform by SLB agents.
- CDSC is the central counterparty that will guarantee settlement of all transactions.
- The trading is expected to benefit institutional investors like pension funds that hold a significant part of their portfolio in equities and individual investors with long-term investment strategies.

Our View

- **The security lending scheme is a welcome development by market players as it is expected to boost liquidity and diversify the exchange's services in a bid to attract more investors. This will also bolster trading volumes and the size of market makers.**
- The lending and borrowing market works for long or medium term investors, who lend their stocks at a fee while retaining ownership including voting rights on the equity.
- The scheme will enable these investors diversify their incomes beyond company dividends by getting additional income from lending their shares to brokers at a fee.
- For institutional investors, securities lending is an ideal instrument, with a low-risk profile, that can generate extra income on securities that remain idle in a portfolio for an extended period.
- Stockbrokers can also use this new form of trading to turn around their financial fortunes and boost activity on the bourse.