

CSDs: CBK (Kenya)

Date: 15 Jan 2013

SMI Markets: Kenya

CMIRR Markets: Kenya

Confirmation of Purchase Transactions of Government Bonds by Commercial Banks

The Central Bank of Kenya (CBK) has advised participants of the improper market conduct where stockbrokers have been executing purchase orders for government bonds on the secondary market through email with commercial banks. Accordingly, the CBK is now requesting commercial banks to confirm their own CDS (Central Depository System) accounts, custodial accounts, and purchase transactions using SWIFT message MT599 as a confirmation of transactions between the two parties.

In addition, in order to comply with the minimum standards stipulated by the Capital Markets Authority (CMA), the MT599 message should contain:

- security name
- quantity
- price or price limits
- duration or validity of instructions
- names of two authorised signatories of the CDS account

The Nairobi Securities Exchange (NSE) is required to inform the stockbrokers to ensure that they obtain a copy of the MT599 message before committing a purchase on the Automated Trading System (ATS) for commercial banks own accounts and custodial accounts. Furthermore, in the event that a trade is unsettled by T+3, the CBK will use the copy of the SWIFT message as the instruction to debit the commercial bank that confirmed the purchase.

CSD Risk Impact

CBK (Kenya)

CSD Rating: A-

CSD Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = A

Flash Impact = Positive

Impacted Risk Type: Operational Risk

Current Rating = BB

Flash Impact = Positive

The requirement that commercial banks use the MT599 message as a confirmation of purchase transactions will streamline the operations of the secondary trades in Government bonds on the ATS. Besides, the fact that stockbrokers are to ensure that they obtain a copy of the MT599 message before committing a purchase for commercial banks is also expected to limit the number of failed trades in the market. The use of the SWIFT message copy as an instruction to debit the commercial banks in the event that a trade is unsettled by T+3 will also help expedite settlement in the market. The overall impact is positive for Liquidity Risk and Operational Risk.

Market Information Impact

Kenya

This information affects the data contained in the Settlement and Stock Market sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

Kenya

Market Rating: BBB

Market Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = BBB

Flash Impact = Positive

Impacted Risk Type: Operational Risk

Current Rating = BBB

Flash Impact = Positive

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