

Njuguna Ndung'u: Developments in the Kenyan domestic bond market

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, during the Launch of the Automated Trading System (ATS) for Treasury bonds, Nairobi Stock Exchange, Nairobi, 7 December 2009.

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The Chairman of the Nairobi Stock Exchange, **Mr. Eddy Njoroge**,
The Chief Executive Officer, Capital Markets Authority, **Mrs. Stella Kilonzo**,
The Chief Executive Officer, Nairobi Stock Exchange, **Mr. Peter Mwangi**,
The Chief Executive Officer, Central Depository and Settlement Corporation, **Mrs. Rose Mambo**,
Distinguished Guests,
Ladies and Gentlemen.

Good Morning.

It gives me great pleasure to be with you this morning at the official launch of the Automated Trading System (ATS) for Treasury bonds. This indeed is a major milestone in the development of domestic bond market.

1. Market reforms

The Central Bank of Kenya and other stakeholders have so far undertaken significant reforms in the domestic bond market. These initiatives, which include the introduction of the ATS, are aimed at enhancing the safety and efficiency in the processing of secondary trading of Government securities as well as other securities among other market activities.

2. The ATS project

The ATS project was initiated by the Central Bank of Kenya, the Nairobi Stock Exchange and the Capital Markets Authority. The two institutions constituted Technical Committee to oversee the automation of trading of Treasury bonds through the NSE. The main objective of this initiative was to make bonds trading secure, efficient and a vibrant market. The expected improvement in market activity will also improve market liquidity and encourage more investors to participate in the bond market.

The Technical Committee, in consultation with key stakeholders, has developed operating rules and guidelines for the proposed automated trading of bonds through the NSE; an integrated operating system; an interface that links the Central Bank's CDS Registry and KEPSS (RTGS) payments system with the NSE's ATS trading platform to facilitate automated trading, settlement and delivery of bonds on a Delivery versus Payment (DvP) basis.

3. Main highlights of the ATS

The following are the main highlights of the system:

- i. CBK remains the Registry for Government of Kenya securities.
- ii. Trading of Treasury bonds continues to take place at the NSE, and hence does not cater for Over the Counter (OTC) trading.

- iii. Stock brokers will continue to exercise their role as agents of the investors in placing sale and buy trade orders.
- iv. Cash settlement of all trades through this system will take place through the Kenya Electronic Payment and Settlement System (KEPSS) also known as Real Time Gross Settlement (RTGS) domiciled at the Central Bank of Kenya.
- v. The trading process will be premised on a Delivery versus Payment (DvP) arrangement.
- vi. Transactions Settlement Cycle will be at T+3, but parties can opt to shorten this period.

It is our sincere hope and expectation that the roll out of automated trading for Treasury bonds, together with the recent automation of corporate bond trading, will mark the turning point for trading of Fixed Income Securities at the Bourse. This also comes at a time when re-opening of benchmark bonds has been very successful, creating adequate liquidity around each bond. This fits in very well with the roadmap for capital markets development as envisaged in Vision 2030.

4. Recent trading developments

I am pleased to note that since the roll out of this new system on 27th November, 2009, the market has witnessed renewed interest and enthusiasm from bond traders. As of today, we have recorded 11 completed trades totaling Kes.1.72 billion and 16 trades totaling to Kes.2.235 billion are at various stages of processing.

As we successfully move away from the manual/open outcry method of trading in Treasury bonds to the new system, we expect to see more activity in this segment of the market. We trust that market players will carry out their functions professionally, observing the highest standards of integrity and transparency so that the investing public can reap full benefits arising from the same.

We at the Central Bank will continue to review the operations of the system and related processes to ensure that it meets the expectations of investors and conforms to best practice in the market.

5. Appreciation

Finally, may I take this opportunity to thank all stakeholders and members of the ATS Technical Committee for working tirelessly to ensure that the project succeeds.

Thank you all for your attention.