

FREQUENTLY ASKED QUESTIONS (FAQs)

Q: What are Government Securities?

Government securities are financial instruments issued by a government to raise funds for financing its budgetary and development needs. They are considered low-risk investments because they are backed by the government's commitment to repay investors. Government securities are broadly classified into two main categories i.e. Treasury Bills and Treasury Bonds

Q: What is a Treasury bill?

Treasury bills are secure, short-term securities with maturities of up to one year. Currently T-Bills are issued with maturities of 91-days, 182-days, and 364-days. These securities are issued at a discount and redeemed at face value on maturity.

Q: What is a Treasury Bond?

Treasury bonds are medium to long-term securities with maturities exceeding one year. The bonds pay interest semiannually and may be issued/sold at a discount, Par or premium

Q: What is an Infrastructure Bond?

Infrastructure Bonds (IFBs) are fixed coupon bonds whose proceeds are intended to fund infrastructure projects. IFBs are currently exempted from withholding tax.

Q: What is bond reopening?

A reopened bond is an additional issuance of a bond that has already been issued and is outstanding in the market. The reopened bond retains the same key features as the original bond, including the ISIN (International Securities Identification Number), coupon (interest) rate, maturity date, and interest payment dates. The only differences are typically the issue price and the value date, which are determined at the time of the reopening.

A bond reopening increases the total amount of the existing bond in circulation, enhancing its liquidity and making it more actively traded in the market, while maintaining the original bond's terms and conditions.

Q: What is a switch/buyback

A **switch/buyback** is a debt management operation conducted by the government to enhance the efficiency of its public debt portfolio.

- A **switch** allows investors to exchange an existing government security that is nearing maturity for a new government security with a longer tenor. This helps investors maintain their investment while assisting the government in managing its debt maturity profile.
- A **buyback** involves the government repurchasing its outstanding securities before their maturity date. This helps reduce refinancing risk, smoothen debt repayments, and improve liquidity in the government securities market.

These operations are used by governments to strengthen debt management, support market liquidity, and promote the orderly functioning of the government securities market.

Q: What is a Tap sale?

A tap sale/tap issue is the sale of an existing bond after the main auction has already taken place. It's sold at a predetermined price or yield, which is usually the weighted average yield of accepted bids, adjusted for any accrued interest. The terms of a tap sale are provided in the prospectus available on the CBK website.

Q: What is a prospectus?

A prospectus is a comprehensive fact sheet that highlights all the features of the treasury bonds on offer. It can be found on the CBK website and all official CBK social media channels.

Q: What is a coupon payment?

A coupon payment is the periodic interest paid to Treasury Bond investors for holding a bond. It is calculated using the bond's coupon rate, which is the fixed annual interest rate stated as a percentage of the bond's face value. In Kenya, Treasury Bond coupon payments are typically paid semi-annually, meaning investors receive interest twice a year until the bond matures.

For example, if a bond has a face value of KES 100,000 and a coupon rate of 12% per annum, the investor earns KES 12,000 interest per year, usually paid as KES 6,000 every six months, subject to applicable withholding tax.

Q: What does face value or principal amount mean?

The face value, also known as the principal amount, is the amount an investor invests in a Treasury Bond or Treasury Bill and the amount on which interest or discount is calculated. For Treasury Bonds, the face value is repaid to the investor at maturity, while coupon interest is paid periodically during the life of the bond. For Treasury Bills, the investor normally pays a discounted amount at purchase and receives the full face value at maturity.

Q: What is accrued interest?

Accrued Interest is the interest earned on a Treasury bond from the last coupon payment date up to the date when the settlement is happening for either an auction or a secondary market trade.

Accrued Interest = $(\text{Coupon Rate}/2 \times 100) \times (\text{Days since last coupon}/182)$

Q: What is the Clean Price of a bond?

The Clean Price is the market price of a bond based on the quoted yield (interest) excluding any interest accrued since the last coupon payment date.

Q: What is the Dirty Price of a bond?

The Dirty Price of a bond is the total amount an investor pays when purchasing a bond, either through a primary auction after a successful bid or in the secondary market. It represents the bond's Clean Price plus Accrued Interest that has accumulated since the last coupon payment date.

Dirty Price = Clean Price + Accrued Interest

The accrued interest compensates the seller for the interest earned during the period they held the bond before it was sold. Therefore, while bond prices are typically quoted as a Clean Price, the actual amount paid by the buyer is the Dirty Price.

Example: If a bond has a Clean Price of KES 98.50 and Accrued Interest of KES 1.20, the Dirty Price will be KES 99.70.

Q: What is a yield?

A yield, or Yield to Maturity (YTM), is the total rate of return an investor can expect to earn if a bond is purchased at its current price and held until its maturity date. Yield considers the bond's coupon (interest) payments, purchase price, face value, and the

time remaining to maturity. In a bond auction, the yield submitted by an investor determines the price they will pay for the bond. Generally, a higher yield corresponds to a lower price, while a lower yield corresponds to a higher price.

Q: What is a yield curve?

A yield curve is a graphical representation plotting the interest rates or yields of government securities across different maturity periods, ranging from short-term Treasury Bills (91-day, 182-day, and 364-day) to long-term Treasury Bonds (spanning 2 to 30 years). It reflects the relationship between investment tenure and annual return for government securities, and serve as the foundational baseline for market valuation across financial system

Q: What is cut-off rate/yield?

The cut-off yield is the highest accepted yield in a competitive auction.

Q: What is the settlement date?

The deadline for payment for successful bids and corporate actions. If the settlement date falls on a public holiday, settlement will be effected on the next business day.

Q: What is maturity date?

A maturity date is the date when an investment reaches the end of its agreed investment period. On this date, the invested amount is repaid to the investor, together with the final interest due. If the maturity date falls on a public holiday, settlement will be effected on the next business day.

Q: What is value date?

The date when the securities start to earn interest

Q: What tax rate is charged on investment?

Treasury Bills attract withholding tax at 15% on the discount earned at maturity. Treasury Bonds with maturities of up to 10 years attract withholding tax at 15% on both the interest (coupon) and any discount earned. Treasury Bonds with maturities of more than 10 years attract withholding tax at 10% on both the interest (coupon) and any discount earned.

The applicable tax is deducted at source before payments are made to investors, in accordance with prevailing tax laws and regulations.

Q: What is Amortization?

Amortization means the Issuer repays the bond principal in scheduled installments over the bond's lifespan rather than a single lump sum at maturity. The amortization structure is specified in the bond prospectus. It allows the issuer to spread principal repayment over different periods thereby minimizing maturity pressure

Q: What is netting/rollover?

Netting (or rollover) allows proceeds from your maturing securities, coupon payments, or amortization payments to be used to pay for new securities you have successfully bid for.

If you activate the **Netting/Rollover** option in CBK DhowCSD:

- Funds from your maturing securities and payments due to you will automatically be applied to your new investment.
- If the amount due to you is **more than** the cost of the new security, the remaining balance will be refunded to your commercial bank account.
- If the cost of the new security is **more than** the amount due to you, you will need to pay the outstanding balance to complete the transaction.

Q: What is a rollover refund?

A rollover refund is any balance due to an investor after proceeds from a maturing security/coupon payment have been used to purchase a new security.

Q: Where are CBK offices located?

Currently, CBK has offices in Nairobi, Mombasa, Eldoret, Kisumu, Nakuru, Nyeri, Meru and Kisii.

Q: What are the CBK opening hours?

The Central Bank of Kenya (CBK) is open to members of the public from Monday to Friday, 8:45 a.m. to 2:00 p.m., excluding public holidays.

Q: How do I get help/give feedback about my experience with the DhowCSD application/account opening?

Investors can visit the nearest Branch/Centre or alternatively contact us via Telephone on 0709 081 222 or Toll-Free 0800 720 222. US Based Investors can contact us Toll-free on +1 (833) 201 0220. Emails can be sent to: dhowcsd@centralbank.go.ke

Q: My account is blocked what do I do to unblock

An account is blocked following a default on payment for successful auction bids. To request the unblocking of your account, you are required to write a formal letter addressed to the **Director, Financial Markets** explaining:

- The reason for the payment default;
- The circumstances that led to the default; and
- The measures you have put in place to prevent a recurrence.

The signed letter should be submitted to any Central Bank of Kenya (CBK) office for review and consideration. Once the request has been assessed and approved, your account may be unblocked in accordance with CBK's policies and procedures.

Q: Can I open a savings account in CBK?

No, the Central Bank does not operate individual or savings accounts, however, one can open a DhowCSD account for purposes of investing in Treasury bills and bonds.

Q: Is there a minimum deposit, minimum balance, or annual fee required to open a CSD account?

No. There is no minimum deposit required to open a CSD account, no minimum balance that must be maintained, and no annual account maintenance fees. You can open and operate your CSD account at no cost

Q: How do I reset my security questions for my CSD account?

Currently, there are no security questions feature when opening a CSD account

Q: Are there any charges for late submission of CSD documents?

No. There are no charges incurred for late submission of CSD application documents. However, the application may remain pending or may not be processed until all required documents are submitted.

Q: Can I receive alerts about changes to my CSD account?

Yes. You can receive notifications on account activities, bids, auctions, and transactions through SMS and/or email. Ensure that notifications are enabled under My Account Information > Notifications

Q: Is next of kin the same as beneficiaries?

No. In DhowCSD, a next of kin is provided solely as an emergency or contact person and does not have beneficiary rights.

Q: Can I withdraw money from my CSD account directly?

No. A CSD account is used to hold government securities electronically. Proceeds from coupon payments, maturities, redemptions, and refunds are credited to your registered commercial bank account

Q: How do I log in to my CSD account with two-factor authentication?

Enter your username/email address and password on the DhowCSD Investor Portal or mobile app. Where two-factor authentication is enabled, enter the One-Time Password (OTP) sent to your registered email address or mobile phone to complete the login process

Q: What are the maintenance fees for a CSD account?

There are no maintenance fees charged for a CSD account held directly with the Central Bank of Kenya through the DhowCSD platform.

Q: Which documents are accepted as proof of address for CSD applications?

No proof of address documentation is required when opening a CSD account through DhowCSD. Applicants are only required to provide their address details, including the postal address information requested during the registration process.

Q: What should I do when i suspect someone has gained unauthorized access to my account

Notify CBK immediately on Phone number: 0709081222, Toll free USA: +1 (833) 201 0220, or Toll free (Kenya): 0800720222

Q: Why was my CSD account application declined?

A CSD application may be declined if the information provided is incomplete, incorrect or inconsistent, if mandatory KYC documents are missing or invalid, or if the details submitted do not meet the requirements for the selected investor type. Review the reason provided, correct the issue and resubmit where applicable.

Q: How do I change the language used for CSD account notifications?

Currently, the DhowCSD platform is available only in English. Therefore, CSD account notifications and system communications are provided in English, and there is no option to change the notification language currently

Q: How do I recover my CSD account if I forgot my username?

If you have forgotten your username, you can still access your CSD account using your registered email address. Your username was also sent to the email address you provided during account registration. Simply search your inbox for the account opening confirmation email to retrieve your username.

Q: Can I add someone to an existing Joint CSD Account

No, you cannot add another person to an existing joint CSD account. However, you may open a new joint account with all the required parties by following the joint account opening process in DhowCSD.

Q: How do I remove/close my CSD account?

A CSD account can only be closed if it does not hold any securities. The closure process is handled by the Central Bank of Kenya (CBK). To request the closure of your CSD account, you must write a letter addressed to:

**The Director
Financial Markets Department
Central Bank of Kenya (CBK)**

In your letter, clearly indicate the CSD account number you wish to close and attach the following documents: **A copy of your National ID, Passport, or other valid identification document, a copy of your KRA PIN Certificate and one recent passport-size photograph**

Submit the signed letter together with the required attachments to any CBK office. Once your request has been reviewed and verified, CBK will process the closure of your CSD account.

Q: How do I retrieve my 2 Factor Authentication (2FA) code/Token

The 2FA code/token is sent to your DhowCSD registered email address.

Q: Can I transfer ownership of my CSD account to another person?

Please note that ownership of an account cannot be transferred from one person to another. The only transfer that can be facilitated is the transfer of securities held within the account, subject to the applicable requirements and procedures.

Q: Which documents are accepted as proof of address for CSD applications?

No proof of address documentation is required when opening a CSD account through DhowCSD. Applicants are only required to provide their address details, including the postal address information requested during the registration process.

Q: Can I have multiple CSD accounts?

Yes. A client can have multiple Individual/joint CSD accounts under one client profile

Q: Can I pause or temporarily deactivate my CSD account?

For suspension/closure/deactivation of your CSD account contact CBK support

Q: When will I receive my Treasury Bond certificate?

Government securities are held electronically, and no physical certificate is issued. However, you can obtain your portfolio statements from DhowCSD

Q: When is the next Infrastructure Bonds (IFB) issuance

A: Infrastructure Bonds (IFBs) are issued periodically throughout the year based on the Government's infrastructure financing needs and, unlike regular Treasury Bond auctions, do not follow a fixed issuance schedule. The details on issuance on IFBs is usually published on the CBK website on treasury bonds on offer tab

Q: When can I buy a bond/bill?

A: The Central bank sells/issues Treasury bills on a weekly basis while Treasury bonds are issued at least once a month. For more details on Treasury bills and bonds on offer, please visit the CBK website

Q: What is the Risk of Submitting a Competitive Bid?

A: When submitting a competitive bid, you specify the yield (return) you are willing to accept on the bond. While this gives you greater control over the investment terms, it also carries the risk that your bid may not be accepted if the yield you request is higher than the yield accepted at the auction.

Key risks include:

- **Non-allocation Risk:** If the yield you bid is considered too high relative to market conditions and auction outcomes, your bid may be rejected, and you may not receive any allocation.
- **Partial Allocation Risk:** In some cases, only a portion of the amount you applied for may be allocated.
- **Pricing Risk:** If you bid a lower yield to improve your chances of allocation, you may end up paying a higher price for the bond.

Q: When does an investor end up paying at par, discount or at a premium

In Kenya's government bond market, an investor may purchase a bond at par, at a discount, or at a premium depending on the relationship between the bond's fixed coupon rate and the prevailing market yield.

At Par (100% of Face Value): A bond trades at par when its coupon rate is equal to the prevailing market yield. In this case, investors pay exactly the bond's face value because the bond's return is aligned with current market rates.

At a Discount (Below 100% of Face Value): A bond trades at a discount when its coupon rate is lower than the prevailing market yield. This typically occurs when market interest rates have increased since the bond was issued. As a result, investors pay less than the face value of the bond to achieve a return comparable to current market rates.

At a Premium (Above 100% of Face Value): A bond trades at a premium when its coupon rate is higher than the prevailing market yield. This usually happens when market interest rates have declined since the bond was issued. Because the bond offers higher interest payments than newly issued bonds, investors are willing to pay more than its face value.

Q: Is the Interest rate paid on bonds compounded?

A: No. Interest paid on Treasury bonds is not compounded. Bond interest is paid as coupon payments on the scheduled coupon payment dates, usually semi-annually, until the bond matures.

Q: What are the current rates for Treasury Bills?

To view the current treasury bills rates, follow this link: <https://www.centralbank.go.ke/bills-bonds/treasury-bills/>

Q: What are the current rates and prospectuses for Treasury Bonds?

To view the current treasury bond rates, follow this link:
'<https://www.centralbank.go.ke/bills-bonds/treasury-bonds/>'

Q: Are there charges associated with making payment for government securities?

Commercial banks or payment service providers may apply transaction charges. Investors are advised to confirm any applicable charges with their respective payment service provider.

Q: Can I make payment in a foreign currency?

No, payments for Government securities must be made in Kenya Shillings (KES).

Q: Can I increase/top up my investment after the auction has closed?

Yes. You can buy additional units through the secondary market or if the bond is reopened in future

Q: Can I reinvest my coupon payments into another security?

A: Yes. Coupon payments can be reinvested to purchase new Government securities, by following the step-by-step guide for “Netting”.

Q: How does amortization affect future coupon payments?

Amortization reduces the outstanding principal amount of a bond over time. As a result, subsequent coupon payments decrease proportionately because interest is calculated only on the remaining unpaid principal balance, rather than on the original face value of the bond. Consequently, each amortization payment lowers the amount on which future coupon payments are based

Q: Can I sell my Treasury Bond before maturity?

Yes. Treasury Bonds can be sold before maturity through the secondary market using the Earmark function available in the investor portal, which avails bonds for sale at the Nairobi Securities Exchange (NSE). Trading is facilitated by licensed brokers or investment bank listed at NSE website. If unable to sell in the secondary market, Treasury Bonds can be rediscounted at the Central Bank of Kenya (CBK) at a 3% penalty rate on either the coupon interest or the prevailing yield, whichever is higher.

Q: Can I sell my Treasury Bill before maturity?

Yes, Treasury Bills can be sold before maturity through the secondary market using the Delivery Versus Payment (DVP) function available in the investor portal. If unable to sell

in the secondary market, Treasury Bonds can be rediscounted at the Central Bank of Kenya (CBK) at a 3% penalty rate on either the coupon interest or the yield, whichever is higher.

Q: Will I lose money if I sell before maturity?

The price you receive will depend on prevailing market conditions and may be higher or lower than your original investment price.

Q: Can I buy a bond in the secondary market?

Yes, facilitated by any licensed broker/investment bank listed at NSE website.

Q: What happens if a secondary market payment is not settled?

If the buyer does not make payment by the end of the settlement day, the NSE trade will be cancelled. If you wish to trade again, contact your broker to facilitate the process.

Q: Are there any fees charged when trading in the secondary market?

Yes, both trading and transfer of Treasury bonds attract fees. Brokers will provide clear details of the applicable charges at the time of the transaction.

Q: What does it mean to pledge a security?

Pledging a security means using it as collateral for a loan or other financial obligation. Once the obligation has been fully repaid, the lender can release the pledge, restoring your full ownership rights over the securities.

Q: Who is a Pledger?

A pledger is a borrower who provides government securities as collateral to secure a loan.

Q: Who is a Pledgee?

A pledgee is a lender who accepts government securities as collateral when providing a loan facility.

Q: Can I pledge/use my government securities as collateral to get a loan?

Yes. Visit your preferred licensed financial institution to inquire about their lending terms.

Q: How much can I borrow against my securities?

This depends on the lending institution's policies. Please contact your preferred licensed financial institution to inquire.

Q: Can I get a SACCO loan using government securities as collateral?

No. At present, government securities held in your account cannot be used as collateral for a SACCO loan.

Q: What happens upon the maturity of pledged securities?

If a pledge is not cancelled at least five days before the securities' amortization or maturity date, the amortized or matured securities will automatically settle into the lender's cash account.

Q: What happens to my coupon payments after I have pledged my securities?

Coupon payments continue to be paid to the borrower, even after the securities have been pledged.

Q: What happens to my pledged securities during maturity/amortizations?

A: If pledged securities mature or are amortized while the pledge is still active, the maturity or amortization proceeds will be settled to the lender's account. To prevent this, the pledge must be cancelled at least five days before the maturity or amortization date

Q: Can I cancel my pledge once I have cleared my obligation with the financial institution?

Once you have fully settled your loan obligation, contact the lending institution and request the release of the pledged (encumbered) securities. Once the lender processes the release, the securitie(s) will be unencumbered and made available for your use.

Q: Can I transfer government securities from one account to another?

Yes. Government securities can be transferred between CSD accounts for approved purposes, including transfer to beneficiaries of a deceased estate, gifting of securities and migration from a custodial account to a self-managed account and vice-versa.

Q: How long does a transfer of Government Securities take?

Processing times vary depending on whether the transfer involves a Treasury Bill or a Treasury Bond. Treasury Bond transfers generally take longer because they require approval from the Capital Markets Authority (CMA), except in cases involving deceased

estates, where CMA approval is not required. As a result, bond transfers typically take longer to process than Treasury Bill transfers.

Q: What documents are required for a transfer of Government Securities?

For Treasury Bond transfers, including transfers for reasons other than deceased estates, brokers or investment banks will provide guidance on the required documentation and facilitate the transfer process. For Treasury Bond or Treasury Bill transfers involving deceased estates, the required documents include a KRA PIN certificate, a valid identification document, the original death certificate and a copy, the Certificate of Confirmation of Grant or Grant of Probate, and the Letters of Administration issued by the High Court. For Treasury Bill transfers, no supporting documents are required. Please follow the prescribed FOP (Free of Payment) process.

Q: Who is the Deliverer of a security?

A deliverer is the party transferring or selling a security.

Q: Who is the Receiver of a security?

The receiver is the party receiving or purchasing a security.

Q: Who is the Custodian when processing Delivery Versus Payment (DVP) or FOP (Free of Payment) transaction?

The Account Manager of the counterparty with whom you are transacting when transferring securities or selling a Treasury Bill.

Q: How do I know whether my Earmark, Pledge, Free of Payment (FOP), Delivery Vs Payment (DVP) or rediscount instruction has been completed?

Once the instruction(s) have/ has been successfully processed, the transaction status will be updated to "Settled." The investor will also receive a status notification by email or SMS.

Q: Can an investor process an Earmark, Free of Payment (FOP), Delivery Versus Payment (DVP), or rediscount instruction on a security that has a pledge or earmark restriction?

No. If a Government security has a pledge or earmark restriction, it cannot be traded, transferred, or rediscounted until the restriction/ pledge has been cleared or cancelled and the security is free from encumbrances.

Q: What is rediscounting?

Rediscounting is a facility offered by CBK that allows investors holding eligible Government securities to access their funds before maturity by selling the securities to CBK when they are unable to sell them in the secondary market, subject to the applicable terms and conditions.

Q: How is the rediscount rate determined?

The rediscount rate for Treasury Bond is determined using the higher of the applicable coupon rate or prevailing yield, plus the rediscount penalty of 3%, while Treasury Bill rediscount rate is the prevailing average rate of the specific tenure plus a margin of 3%. This rate is then used to determine the indicative amount payable to the investor.

Q: How much will I receive when I rediscount my security?

The amount payable depends on the type of Government Security, face value, remaining period to maturity, applicable coupon rate, prevailing yield, and rediscount penalty (3%). Investors may use the Treasury Bills Rediscount Calculator or Treasury Bonds Rediscount Calculator available on the Central Bank of Kenya website to determine the indicative amount payable.

Q: Will I receive my money on the day I rediscount my security?

Rediscount requests received on a Trade Date where the Settlement Date is the same day will be processed on the same day, and the proceeds will be credited to the investor's settlement bank account. Requests received after 4:30 p.m. will be processed on the next business day.

Q: Can I cancel a rediscount instruction after submitting it?

Cancellation is subject to the status of the instruction and the applicable CBK processing requirements. Investors should check the status of the instruction on the Investor Portal and contact CBK where necessary.

Q: What should I do if an investor passes away?

A: The administrator(s) of the estate should notify CBK in writing and are required to submit the claimant's KRA PIN certificate, a valid identification document, the original death certificate and a copy thereof, the Certificate of Grant, and the Letters of Administration issued by the High Court. These documents should be submitted to the Central Bank of Kenya (CBK) Head Office, any CBK branch, or a CBK centre.

Q: What happens to an investor's DhowCSD account after demise?

A: Upon notification of an investor's demise, CBK places the DhowCSD account under restriction/embargo and redirects all interest and redemption proceeds to a non-interest bearing suspense account pending submission and verification of the required estate administration documents.

Q: What happens if my interest or redemption payment is returned to CBK?

A: If your interest or redemption payment is returned to CBK, you will be required to update your settlement details by completing the Change of Settlement Details Form available on the CBK website. Submit the form together with copies of your National ID, KRA PIN Certificate and a recent passport photograph.