

"THESE 'GOVTS'  
SHOULD 'VE  
TESTIFIED...?!!"

COMM.

SHARES DILEMMA  
JAINDI KISERO

# Co-op Bank IPO confusion recipe for conspiracy theories

**I** DON'T UNDERSTAND WHY THE chairman of the Nairobi Stock Exchange, Mr James Wangunyū, has decided to send mixed signals on the planned Cooperative Bank of Kenya Initial Public Offering.

One day he says the prevailing bearish conditions in the market are not conducive for an IPO and that the flotation should be postponed.

A few days later, he changes tune and signs a statement saying that the IPO must go on. He does not explain the reasons for the about-turn.

In the process, and perhaps unwittingly, he creates a perfect environment for conspiracy theories.

The air is rife with rumours and all manner of claims. According to some pundits, it is all part of the perennial battle for control of IPOs by the tiny stockbroking elite that dominates the shares business in Kenya.

Is this really the time for the chairman of the NSE to start sending confusing signals about the timing of the IPO?

The NSE is yet to fully recover from the crisis of confidence it has been suffering since last year, partly due to the collapse of two large stockbrokerage firms — but mainly as a result of the frustration, which investors went through as a consequence of delays in refunding cheques from the Safaricom IPO.

It seems that Mr Wangunyū has found himself in a position where his interests as chair of the NSE are in conflict with his position as one of the transaction advisers for the Cooperative Bank issue.

His company, Standard Investment Bank, was chosen as the lead sponsoring brokers of the Cooperative Bank issue.

My own view about the timing of the Co-op bank IPO is this: If the bank and its advisers are confident that they can structure the issue in a manner that it will still be attractive to investors — despite the prevailing bearish conditions — let us give them a chance to put their show on the road. In any event, this is not an offer for sale.

Unlike the Safaricom issue, it is not a privatisation where the main shareholder has chosen to get out. Cooperative Bank seeks to raise money to invest in growth and expansion. We should not put hurdles on their way.

Under the Banking Act, there are limits to the amount of money a bank can collect from the public in terms of deposits.

Indeed capital-to-deposits ratios restrict the level of deposits, which a bank can collect from the public to its capital base.

THE COOPERATIVE BANK OF KENYA is at a point in its growth trajectory where it cannot engage in any meaningful expansion and growth without a massive capital injection.

Granted, the prevailing environment in the capital markets is not too good. But remember the bearish conditions have not stopped companies from raising money for expansion and acquisitions through private placement.

To force a company to postpone its business plan until the time the Nairobi Stock Exchange starts experiencing a bull run is to be short-sighted.

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Welcome to the world of casino capitalism. Wall Street, the ultimate free market, has come tumbling down.

I like the phrase "toxic loans". Until now, we in the Developing World believed that things like derivatives were a sign of advanced capitalism. We saw

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them as sophisticated financial instruments.

Capitalism is supposed to work in a very straightforward way. You put your savings in a bank, which is then lent to an industrialist, who then invests it in value-adding activity — in expansion and in building a new factory.

The financial markets in the Developed World have changed the logic. Instead of funding activity, the preoccupation here is to use the sophisticated financial instruments to shift risk from one party to another.

Essentially, this is what the derivatives market is all about. When they "repackage" or "securitize" sub-prime mortgages, the intention is to allow the lender to sell on the risk to another party by passing on the pieces of paper mainly to investment banks.

As you pass these "toxic" pieces of paper to third parties, you justify it on the grounds that you are engaged in risk diversification. But the truth of the matter is that risk is simply transferred. It does not disappear.

When problems erupted, banks realised they had accumulated huge volumes of these toxic pieces of paper in their books.

Worse still, they did not know how much of these toxic loans were in the books of fellow banks. They stopped lending to another — hence the crunch.

What are the policy implications for us?

Better regulation of investment banks. Maybe we should start by limiting the use of the term "bank" to institutions regulated by the Central Bank of Kenya.

We have allowed too many of the so-called "investment banks" to mushroom.

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