



**OPENING REMARKS BY THE CEO, CDSC MRS. ROSE MAMBO AT THE
CENTRAL DEPOSITORY AGENTS (CDAs') DEMATERIALIZATION WORKSHOP
HELD ON JULY 19TH 2013 AT THE SAROVA STANLEY HOTEL**

Salutations.....

NSE CEO- Mr. Peter Mwangi, Chief Executive KASIB, Mr. Willie Njoroge, CMA Representative - Mr. Oletetia Manager, Market Supervision, Chief Executives of the CDA's present here today, CDSC Staff, invited guests, Ladies and Gentlemen.

Good morning and welcome to this workshop on dematerialization, where we would like to share with you our journey on Dematerialization which was started in 2012.

It looks like just the other day when CDSC opened its doors the public and started the immobilization process in November of 2004, but believe it or not, it is now nine years since! By February 2005, all securities listed at the securities exchange had been declared immobilized. As of close of business, 18th July 2013, a total of 87.95 per cent of the free float of shares has been immobilized and 54.34 per cent of the total market capitalization has been immobilized, representing a value 938.6 billion as at that date.

Preparation for Dematerialization actually began in 2000, when the Central Depositories Act was passed. The Act recognizes that process of immobilization,

leading right up to dematerialization. The law was drafted in a very forward thinking manner, such that that no additional legislative action would need to be taken to bring dematerialization into effect and for that we thank the drafters of that law.

Kenya is not the only market to have taken this dematerialization journey. There are several countries in Europe, Asia, Africa and the Americas where securities are dematerialized, including Denmark, Finland, France, Greece, Hungary, Iceland, Norway, Poland, Slovenia, Sweden, Switzerland, Ukraine , Australia, China, India, Jordan, Malaysia, New Zealand, Pakistan, Singapore, Sri Lanka, Canada, Argentina, Brazil, Mexico. Closer to home we have South Africa Rwanda and Uganda, though in the latter two the problem of how to deal with cross listed securities from Kenya which are certificated still persists.

History tells us that the move towards Dematerialization started partially in the United States in the late sixties, and was generalized in France during the eighties, followed by the rest of Europe during the years 2000. Asia as well as Africa have followed suit, and there are now even international conventions that give recognition to dematerialized securities. The Geneva Securities Convention and the Hague Securities Convention both recognize the challenges posed by the application of local laws to cross border transactions, yet the dematerialization of securities has increased several fold, cross border and cross jurisdictional transactions in securities.

The preamble to the Geneva Securities Convention reads as follows:

“Over the past fifty years, the practice of holding and disposition of investment securities has changed considerably. Departing from the traditional concept of custody or deposit of physical certificates, a system of holding through intermediaries has been developed for reasons of efficiency, operational certainty and speed. In this system, the greater part of securities is immobilized with a central securities depository. The investor holds securities through a chain of intermediaries that are ultimately connected to the central securities depository. The transfer of securities and the creation of security and other limited interests therein are in practice commonly effected by way of book entries to the accounts concerned. The securities themselves are no longer physically moved. However, the legal framework which underlies this modern system of holding through intermediaries in many countries still relies on traditional legal concepts first developed for the traditional method of holding and disposition relating to tangible assets held in physical custody.”

Dematerialization refers to the process of converting paper certificates into electronic form, the main difference from immobilization being that on the dematerialization date, all securities will be held in electronic form and the underlying physical certificate will cease to be evidence of ownership of securities of any company quoted at the NSE, instead, ownership of securities will be in the electronic holdings maintained in the Central Depository System (CDS) operated by CDSC. In the immobilized environment, shareholders have been holding share certificates as proof of ownership. All shares that will not be immobilized by the dematerialization date will be reflected as a record in

the depository in the shareholders' name pending the opening of a CDS account. However, if the shareholder had immobilized their shares, they will not be required to take any further action as a result of dematerialization.

One might ask, what informs the decision to dematerialize securities? We all appreciate the limitations we faced with the paper-based trading system that was used up to 2004. Challenges like duplication of shares, loss and mutilation of certificates, signature mismatches and a time consuming transfer process are now a thing of the past or like many would say... it's history.

The decision to dematerialize all Securities quoted at the securities exchange is therefore a game changer and a major step in our capital market. Dematerialization will significantly raise the profile of Kenya's capital market in adherence to international best practice.

Following consultations with key stakeholders (Issuers, Registrars), the Central Depositories & Settlement Corporation Limited (CDSC), in conjunction with the Nairobi Securities Exchange (NSE) started the process of Dematerialization in 2012. To us, Dematerialization is the next logical step after immobilization, and will be the culmination of a journey that started in 2004 when CDSC commenced operations.

Our Regulator, the Capital Markets Authority, has accorded us tremendous support on this process. Several meeting and discussions have been held with the Authority, enabling us to delve deep into the implications and impact of

dematerialization, and ensuring that we identify and mitigate any risks that may arise from the process.

To facilitate dematerialization in a phased approach, all quoted companies at the NSE have been grouped into three tranches. Tranche one will be declared dematerialized on 1st September 2013, Tranche two on 1st October 2013 and the final tranche dematerialization date will be 1st November 2013.

The Month of November seems to be synonymous with Good tidings at CDSC, sine it is in fact in November 2004 that we commenced Operations.

According to the provisions of Section 7 of the Central Depositories Act 2000, all Issuers of securities listed at the securities exchange are required to issue notices to their shareholders once a week for a period of three consecutive weeks leading up to the dematerialization date. Tranche one companies who have been earmarked for dematerialization by 1st September 2013 have already adhered to the provisions of the law. The first notices were published in yesterday's three dailies, the Daily Nation, The Standard and Taifa Leo and will feature again on 24th and 31st July respectively.

For those of you who are unable to conceptualize dematerialization in Kiswahili, we say tunahamisha hisa zilizoordheshwa katika soko la hisa la Nairobi. Hizo hisa zinabadilishwa katika mfumo wa elektroniki.

Throughout the nine years of share certificate immobilization, culminating with dematerialization, CDSC has taken measures to ensure the security of shareholders' shares. CDSC has back up facilities and procedures that would

ensure business continuity in the event of anything happening either to the computer system or its usual premises. CDSC has also taken precautions to ensure its system is not interfered with. The system is already robust enough to guarantee 99.9 per cent uptime and is backed by a strong IT team.

On the growth path, CDSC is in the process of upgrading its system to a three-tier network centric architecture. The upgrade is intended to achieve enhanced security features, through the use of technology that is more user-friendly and will increase the array of business products that CDSC can support within the capital markets in line with its strategic initiatives. This will not only increase the efficiency in the capital markets but also speed with which shares can be turned around while increasing the spectrum of business array that CDSC can engage into.

Given the heightened focus on risk management in financial markets globally, the need to eliminate the risks associated with the movement and manual processing of paper certificates is now greater than ever. The enhanced efficiency arising from dematerialization is expected to encourage more investors to flock to the securities exchange.

I take this opportunity to thank all the Listed Companies and their Share Registrars, CDA's, KASIB, NSE and the Capital Markets Authority, for their support thus far in this journey towards the dematerialization of the market. In particular I would like to recognize the Dematerialization committee comprising

representatives of all the stakeholders, which has worked diligently to bring dematerialization to fruition.

We look forward to fruitful deliberations in this workshop, where we hope to engage our Central Depository Agents on the issues, processes and procedures surrounding dematerialization, so that we can work together to achieve the final dematerialization date of 1st November 2013.

THANK YOU

Rose Mambo
Chief Executive
Central Depository & Settlement Corporation Ltd.
19th July 2013