



## FOR IMMEDIATE RELEASE

### **July 16<sup>th</sup> 2012: DEMATERIALIZATION OF SECURITIES QUOTED AT THE NAIROBI SECURITIES EXCHANGE**

The Central Depository & Settlement Corporation (CDSC) in conjunction with the Nairobi Securities Exchange is moving towards the Dematerialization of all shares quoted at the Securities Exchange. The proposed date for the Dematerialization is 30<sup>th</sup> November 2012.

This follows the success hitherto achieved in the immobilization of securities where 80.95% of the free float of shares has been immobilized.

At a consultative stakeholders forum held at a Nairobi Hotel on 12<sup>th</sup> July 2012, the Capital Markets Authority Director, Corporation Secretary & Communications, Mrs. Rose Lumumba noted that; *"The capital markets in Kenya had a long history of paper certificates until the establishment of the Central Depository and Settlement Corporation (CDSC). The setting up of the CDSC revolutionized the industry by substantially reducing the inefficiencies and risks associated with the paper certificates through immobilization of securities"*.

In November 2004, the immobilization of securities started in a phased approach, where the listed companies were divided into four tranches, and CDSC progressively declared each tranche of securities eligible for immobilization, meaning that from that date, the certificates could be surrendered and replaced with an electronic record of

holdings referred to as a book entry security. It also meant that no eligible security could be traded on the securities exchange without being immobilized. By February 2005, all securities listed on the Nairobi Securities Exchange were eligible for immobilization, and all trades in the market were conducted on book entry securities..

On briefing the stakeholders at the consultative stakeholders forum, the Chief Executive of the Central Depository & Settlement Corporation Limited remarked; *"The modernization of our securities market commenced in 1999, when CDSC was incorporated as a company with the intention of introducing book entry or electronic securities in the market, to do away with the inefficiencies of a paper based trading environment, and enhance the safety and security of dealing with shares by doing away with physical share certificates"*.

The paper based system has had a variety of challenges like mutilation and loss of share certificates, duplication of shares, signature mismatches and transfer problems. With the implementation of Dematerialization, risks involved with physical certificates will be eliminated and the time required to clear each transaction will be reduced.

The impact of Dematerialization will be that with effect from the Dematerialization date, share certificates shall no longer be recognized as prima facie evidence of ownership of shares, and this will be replaced with the electronic record at the central depository. An issuer of Dematerialized securities can no longer issue a certificate to its shareholders, and any bonus shares must be issued in electronic form. This is different from the current situation where an investor can hold a physical certificate as long as they do not intend to trade in those shares at the Nairobi Securities Exchange.

On reiterating the benefits of dematerialization, the Chief Executive of the NSE Mr. Mwangi stated, *" Our decision to dematerialize all Securities quoted at the NSE is a major step in this market and I would like to encourage all existing listed companies and other potential issuers to join hands with us to achieve greater efficiency in our market"*

-ENDS-

## NOTES TO THE EDITOR

### Definitions:

**Immobilized security**: a security where the underlying physical certificates have been deposited, and are held in a CDS account. In this case, the physical certificate is still recognized as evidence of ownership.

**Dematerialized security**: a book entry security which has been prescribed by CDSC under section 24 of the Central Depositories Act, whereby the underlying physical certificate is no longer *prima facie* evidence of ownership under the Companies Act Cap 486 on or after the dematerialization date.

**Dematerialization date**: the date prescribed by CDSC under section 24 as being the last day on which certificates representing such a security shall be recognized as *prima facie* evidence of ownership under the Companies Act Cap 486

### About CDSC:

The Central Depository & Settlement Corporation Limited (CDSC) is a limited liability Company approved by the Capital Markets Authority under Section 5 of the Central Depositories Act, 2000 to establish and operate a system for the central handling deliveries and settlement of securities in the Capital Markets in Kenya. It commenced its operations as a central depository 10<sup>th</sup> November 2004.

The Central Depository & Settlement Corporation Limited (CDSC) was incorporated on 23<sup>rd</sup> March 1999.

The business of the Company is to establish and operate a central depository system and a central depository initially in Kenya in respect of securities listed on the Nairobi Securities Exchange. CDSC is also charged with the management of the daily delivery and settlement of transactions carried out at the NSE.

**The key objectives of the CDSC are:-**

1. To establish a Central Depository System (“CDS”) with a view to automating the delivery, clearing and settlement functions thereby increasing efficiency in the market;
2. To reduce and if possible eliminate systemic and other risks inherent in a manually operated Capital Market;
3. To upgrade the delivery, clearing and settlement functions in line with international standards.
4. To achieve electronic straight through processing of transactions so as to eliminate physical certificated processes, thereby resulting in lower transaction, settlement and market risk;
5. To immobilize all listed securities in order to improve liquidity and turnover; achieve cost efficiencies for issuers of securities and investors; as well as simplify the settlement process in the market;
6. To improve and enhance the trading, delivery, registration and settlement system of the capital market;
7. To improve the transparency of transactions in the market thereby minimizing instances of fraud as well as reduce systemic risk;
8. To improve the timeliness of the communication between issuers and investors in order to reduce delays in receiving dividends and rights; and
9. To enhance regional financial markets integration.

The Nairobi Securities Exchange (*NSE*) is the principal securities exchange of Kenya. Besides equity securities, the NSE offers a platform for the issuance and trading of debt securities. The NSE is a member of the African Securities Exchanges Association (ASEA)

and the East African Securities Exchanges Association (EASEA). It is an affiliate member of the World Federation of Exchanges (WFE).

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