



# Central Depository & Settlement Corporation Limited (CDSC)

'Safeguarding Your Investments'



CDSC Chairman (left), NSE Chief Executive (right) and CMA Chairman (centre) confer with each other during the Capital Markets Joint Board meeting in Mombasa recently

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 of deliveries and settlement of securities in the Capital Markets in Kenya. It commenced its operations as a central depository on 10th November 2004 and was incorporated on 23rd March 1999 under the Companies Act, 2000.

The central depository system provides a centralized system for the transfer and registration of securities in electronic format without the necessity of physical certificates.

CDSC has registered impressive milestones since its establishment, as part of its larger mission to enhance efficiency in the capital markets.

#### Digitisation

After a long history of using paper certificates which faced several challenges including duplication of shares, signature mismatches and transfer problems – which were a major contributor to rising arbitration cases

and investor disputes, CDSC undertook a digitisation of its processes. Its noble intention of introducing the book entry or electronic securities in the market, has eliminated the inefficiencies and risks associated with a paper based trading environment, enhanced the safety and security of dealing with shares, and boosted market confidence, leading to increased trading in shares and ensured that Kenya's stock market upgrades the delivery, clearing and settlement functions in line with international standards.

#### Immobilisation

In November 2004, the immobilization of securities which involved setting up an automated clearing, depository and settlement (CDS) system began operations, wherein all trading certificates were surrendered and replaced with an electronic record of holdings referred to as Book Entry Security. No eligible security could henceforth be traded on at the Securities Exchange without being immobilized.

Prior to November 2004, the NSE used a manual delivery and settlement system which

involved the exchange of share certificates between stockbrokers, NSE and the relevant shares registrars of listed companies before a trading transaction could be completed and the buyer issued with a share certificate in his/her name.

In January 2005, CDSC launched an undertaking with investment banks in Kenya in which the investment banks agreed to serve as custodians for the financial settlement of stock transactions and act on behalf of clients such as fund managers to ease settlement of transactions at NSE. The investment banks are authorised Central Depository Agents (CDAs) and have online access to the CDS from their offices just like other stockbrokers and can therefore, open an account, deposit shares and pay or be paid for every transaction.

The CDS is an automated clearing, settlement, depository and registry system that is for shares as a bank is for cash.

By February 2005, all securities listed on the Nairobi Securities Exchange were eligible for immobilization, and all trading conducted on book entry securities. The number of investor's CDS accounts has grown exponentially since that time, from 30,000 accounts in 2004, to the current 2.4 million plus accounts.

CDSC commissioned its systems and commenced operations on 3rd November 2004 with a T+5 settlement cycle, meaning that following a trade on the securities exchange, the settlement process took five days to complete. The settlement process is the transfer of funds from buyers to sellers and the transfer of the related securities from sellers to buyers.

In January 2008 the settlement cycle was improved to T+4, taking Kenya a step closer to compliance with the global standards for settlement of transactions in securities markets.

With the launch of a T+3 settlement cycle on 7th July 2011, Kenya achieved the global best practice standard.

#### Dematerialisation

The process of Dematerialization commenced in 2012 and reached its conclusion on 1st November, 2013, when shares of all firms listed at the Nairobi Securities Exchange (NSE) were irreversibly converted into electronic form. Share certificates are therefore, no longer recognized as prima facie evidence of



Rose Mambo, CEO CDSC

ownership of shares; since evidence of ownership is now in the electronic holdings maintained in the Central Depository System (CDS) operated by CDSC.

With the implementation of Dematerialization, risks involved with physical certificates have been eliminated and the time required to clear each transaction reduced tremendously.

This process has significantly raised the profile of Kenya's Capital Market in adherence to international best practice. Consequently, the enhanced efficiency arising from dematerialization is expected to encourage more investors to flock to the Securities Exchange.

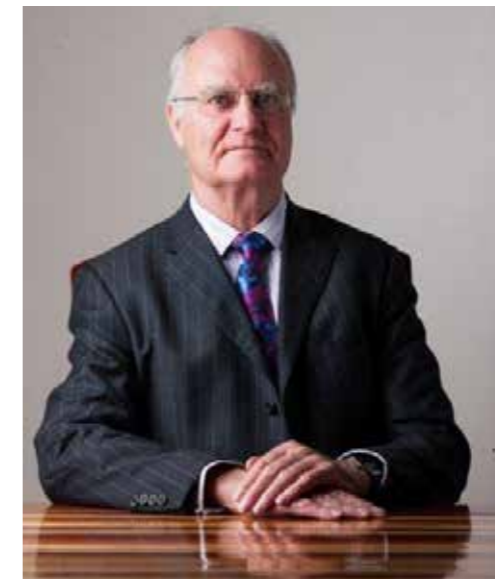
The Dematerialization process has brought several benefits including:-

- No loss of certificates since these are now stored in an electronic form;
- Easier and faster transfer or sale of shares;
- Non-mutilated share certificates since these are now kept in electronic form in respective investor CDS accounts; and
- Minimized cost of issuing new shares.

#### SMS Service

In 2008, CDSC embarked on a series of joint investor campaigns with the Capital Markets Authority and the Nairobi Securities Exchange in a bid to ensure that the population seized the multiple investment opportunities.

With the growth in investor numbers, CDSC introduced an SMS service which gives investors 24 hour access to their CDS accounts enabling them to keep track of their shares on their mobile phone anywhere and at any time which can be accessed by sending an sms to 22273 and following the instructions thereof to complete the registration. In this regard, CDSC has ensured that once subscribed, investors are always aware of their current shares portfolio and of any transactions in their accounts.



Mike Bristow, Chairman CDSC

CDSC is in the process of upgrading its system to a three-tier network centric architecture which 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 the speed with

which shares can be turned around while increasing the spectrum of business array that CDSC can engage into.

The incorporation and establishment of CDSC Registrars Ltd in 2009 and 2010, a subsidiary fully owned and operated by CDSC, respectively brought about a new sphere to CDSC's successes. The CDSC Registrar Limited Company was appointed as Registrars for the Deacon Public Offer in 2011 in Kenya, while CDSC Registrars Rwanda was appointed for the Bank of Kigali and Bralirwa IPO's in 2011.

The Nairobi Securities Exchange also appointed CDSC registrar to manage its registry business. I & M and UAP insurance company are also amongst companies that have contracted the CDSC Registry Arm to handle their respective registry businesses.

As Kenya celebrates 50 years since it achieved its independence, CDSC looks back at the journey it has made, as part of its larger vision to make key contributions to Kenya's economic growth with pride.

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