

# SCD

## SECURITIES CENTRAL DEPOSITORY SYSTEM IN UGANDA

**safer** | **faster** | **reliable**

### What is a Securities Central Depository (SCD) system?

An SCD System is one in which securities belonging to a particular investor are deposited in the custody of an electronic central depository such that transactions or transfers concerning such securities are executed in book entry form. This eliminates the risk associated with holding and transferring securities in certificate form.

### How does the SCD work?

Briefly, the SCD acts like a bank for securities. Investors are required to open electronic accounts (just like banks) on which their securities are deposited and held.

All transactions related to their securities (e.g. buy or sell transfers) will then be done through their accounts. Refer to the SCD Functions below for more detail.

### How will the SCD be operated?

The SCD will be operated by the Uganda Securities Exchange through approved Securities Central Depository Agents (SCDA's). The Capital Markets Authority (CMA) will regulate SCD Operations.

### How will an investor access the SCD system?

Through Securities Central Depository Agents (SCDA's); which are institutions appointed by the Exchange to run SCD functions behalf of their clients. Clients/ Investors will be required to submit their instructions to SCDA's through prescribed SCD Forms, which instructions shall be implemented on the system, on their behalf by SCDA's. SCDA's will be broker/ dealers or Custodians.

### How many securities accounts can one person have?

Each investor is allowed to hold only one Registration code. However, each Registration codes can hold an account with each different SCDA. This means that one client can hold various accounts with various SCDA's but using the same Registration code.

### Does the system support non-trading transfers of securities?

Yes. Eligible clients wishing to effect private transfers will be requested to approach their SCDA's and fill in the relevant forms; Clients wishing to transfer their securities from an account with one SCDA to another account

with another SCDA, shall also be requested to approach their SCDA's and fill out the relevant SCD Forms.

### Will an investor be allowed to hold paper certificates?

Yes. The new SCD structure allows for willing investors to continue holding paper certificates. Furthermore, the system allows for investors to withdraw their securities from the system and return to paper certificates. However, any investor wishing to trade through the USE will be required to deposit their securities with the SCD.

### How will an investor be able to track activity on their accounts

The SCD is required by Law to distribute statements to all investors. However, the system also has the functionality to avail statements to interested parties upon request.

Therefore, investors are encouraged to approach their SCDA's to request for statements as and when they might need them.

### How secure is the computerized SCD?

The SCD computer system is designed and built on the latest technologies with a robust

## BENEFITS OF SCD

1

*Enhanced efficiency due to ease and speed of transfer of securities*

2

*Reduced risk of loss, theft, or mutilation of securities since deposited securities are held in electronic form*

3

*Lower administrative costs*

4

*Enhanced investor confidence*

5

*Enhanced regulation*

6

*Reduced possibility of bad/wrong deliveries, clearing and settlement*

## FUNCTIONS OF SCD

**ACCOUNT OPENING AND MAINTENANCE:** Investors will be required to open electronic accounts with the SCD. It is through such accounts that all transactions related to deposited securities will be implemented. Please note that any potential or existing shareholder will be eligible to hold an account.

**IMMOBILIZATION:** Is the process through which securities held in certificate form are deposited into corresponding clients' accounts in the SCD System. After the immobilisation deadline, all securities that are to be transacted through the USE will have to be immobilised first.

**SECURITIES TRANSFER:** Is the process through which securities are transferred from one account to another to reflect a transfer of ownership. This is similar to the manual process in which securities were deducted from one account and placed on the certificate of the transferee.

**SETTLEMENT:** Settlement of trades effected through the USE.

**STATEMENTS:** Distribution of Periodic statements to shareholders as provided by the Law or on request.

**CORPORATE ACTIONS PROCESSING:** Management of client information during corporate actions eg bonus issues, rights issues, dividends etc.

**WITHDRAWALS:** Is the process through which investors willing to hold securities in certificate form will be allowed to withdraw their securities from the SCD system and create certificates in their names.

**OTHERS:** The Exchange will continue from time to time to develop the system to extend more services for the benefit of investors, intermediaries; listed entities and the capital markets in general.

architecture to ensure high reliability while addressing backup and recovery issues adequately.

### How will the SCD minimize the risks?

The key risk areas identified include the stability and financial health of participants, funds/securities settlement, market integrity and system manipulation.

The ability to identify and monitor risks on an ongoing basis is crucial for a clearing and settlement function (process). The strategy is to avoid situations that can create unacceptable levels of risks for the clearing and settlement process and the participants.

A preventive and corrective risk management approach will be employed.

### What are some of the challenges of the SCD?

The key challenges of the SCD range from:

- The need for collective participation of all stakeholders: investors, brokers/dealers, regulators etc;
- Low appreciation of paper-less trading;
- Low technology levels (penetration) in the East African region hence little appreciation for the required technologies.



For Further Information, please contact:

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## **Message From The Regulator**

The Capital Markets Authority (CMA) was established in 1996 following the enactment of the Capital Markets Authority Act Cap 84. It is a semi autonomous body responsible for promoting, developing and regulating the capital markets industry in Uganda, with the overall objectives of investor protection and market efficiency.

Capital Markets Authority is mandated to:

- Approve stock exchanges
- License Securities Central Depositories
- License broker/dealers, investment advisors, fund managers, collective investment scheme managers and trustees
- Approve all offers of securities to the public
- Approve collective investment schemes (mutual funds)

### Under which law does the Securities Central Depository operate?

The Securities Central Depository (SCD) Act 2009 facilitates the establishment, operation and regulation of the securities central depositories in Uganda. The Act was passed by the Parliament of Uganda on 28th October 2008 and came into force on 20th February 2009.

The SCD Act gives CMA power to licence SCDs and develop regulations that give effect to the Act. The SCD regulations provide for:

- Application procedures for an SCD license
- The SCD organisational structure
- Application procedures to become an SCD agent; that is brokers/dealers and custodians
- Amendment of Memorandum and Articles of Association of listed companies to recognise ownership of shares through an electronic system other than through physical share certificates

### Who ensures that the operations and services of the Securities Central Depository are carried out legally and appropriately?

The USE monitors the operations of the SCD while CMA carries out compliance monitoring of the set rules and regulations aimed at investor protection.

### How sure am I that my shares will not be sold without my permission since a physical certificate will no longer be required?

The SCD and its agents namely brokers/dealers and custodians are professionals licensed by CMA to trade on behalf of the public. CMA therefore ensures that at all times the SCD and its agents comply with set rules and regulations in a manner that adheres to the highest standards. CMA has the powers to penalize any SCD agent who conducts themselves in an unprofessional manner through suspension, revocation or delicensing the offending CDS agent.

### What should I do if I suspect that my shares have been sold without my authorization?

In case of any irregularity in your SCD accounts, the investor is advised to make a formal/written complaint to the SCD at the address below. If the investor is not satisfied with the response from the SCD, the investor then should make a formal complaint to the CMA. The problem will then be investigated and action will be taken accordingly.

*NOTE: Each investor is fully responsible for his/her SCD account and should regularly monitor the account through the periodical statements from the SCD Company. Investors are encouraged to request for such statements from the SCD.*

For further information about CMA, contact:

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