

SECURITIES CENTRAL DEPOSITORY SYSTEM IN UGANDA

Ownership of shares in a listed company is evidenced by a certificate of ownership.

USE, as the market, plays a role in facilitating transfer of share certificates between investors through its trading, delivery and settlement rules. In this respect, USE in conjunction with the listed companies and their registrars, is obliged to provide a conducive, efficient and risk free shares transfer process, and hence USE seeks to implement a Securities Central Depository (SCD) system for Uganda in the first half of 2009.

What is a Securities Central Depository (SCD) system?

A Central Depository System is one in which stocks belonging to a particular entity are deposited in the custody of a central depository such that transactions or transfers concerning such stocks are executed in book entry form.

The Capital Markets Authority will oversee and regulate the SCD operations.

How does the SCD work?

The SCD acts like a bank of shares, and hence holds shares of investors (shareholders) in a central and integrated manner.

By depositing share certificates into a central depository, the delivery of shares in settlement of a transfer of shares executed between a seller and a buyer can easily be achieved with change of records in the central depository instead of physical exchange of certificates.

The SCD will accept deposit of securities certificates through the participants (brokers/dealers). Each investor owns a securities account through which shares are registered. Settlement will be done on behalf of the investor by the participants.

All Shares to be traded at the USE will have to be deposited into the Depository.

What services are provided by the SCD?

The SCD will provide among other things, the following facilities:

- immobilization of physical certificates where certificates deposited are held in a single depository and not by the individual shareholders;
- withdrawal of deposited share certificates by the owners whenever they so wish, possibly at a cost;
- transfer of shares through entries in the SCD account;
- settlement of trades executed at the Exchange;
- procedures for mortgaging of shares as security for loans;
- receipt for onward transmission to the shareholders of entitlements such as

dividends, bonus, rights, etc from the listed companies;

- periodic statement of accounts to holders of active securities accounts or on request.

Who will use the SCD services?

- Central Depository Agents (CDAs) who will act as an interface between investors (the public) and the SCD. These include the Brokers/Dealers and Custodians.
- The shareholders, listed companies and their registrars may decide to keep the share certificates in one of the following ways:
 - I. The certificates may be issued to the investor in physical form and kept by the investor. Change of ownership requires registrar verification followed by issuance of new certificate(s);
 - II. The certificates may be dematerialized by which companies do not issue physical certificates to the shareholders, and change of ownership is by record entries in the central depository;
 - III. The certificates may be immobilized by which companies issue physical certificates but the certificates are held under the custody of the depository and not by the shareholders. Change of ownership is by the record entry.

A CENTRAL DEPOSITORY SYSTEM IS ONE IN WHICH STOCKS BELONGING TO A PARTICULAR ENTITY ARE DEPOSITED IN THE CUSTODY OF A CENTRAL DEPOSITORY SUCH THAT TRANSACTIONS OR TRANSFERS CONCERNING SUCH STOCKS ARE EXECUTED IN BOOK ENTRY FORM.

How will the shareholder get access to a SCD account?

With the help of the preferred broker/dealer, the shareholders will be guided through the requirements and procedures of opening a securities account with the central depository at an appropriate timing. Visit your broker/dealer for details.

Who is eligible to open a SCD account?

Any potential and existing shareholder.

What are the benefits of the SCD?

Use of computer technology so as to reap from the benefits of an electronic SCD will be exploited to reap the following benefits:

- Ease and speed of transfer of shares leading to improved/enhanced efficiency;
- Since shares are in the custody of the depository, there is reduced risk of loss, theft, mutilation of certificates;
- Reduced paper work hence low administrative costs;
- Building of investor confidence in the market since the shareholders know

that their shares are in a safe place;

- It is easy and plausible to use computers to enforce the regulated share transfer rules;
- Minimal bad/ wrong deliveries. This is a result of good risk management practices.

How secure is the computerized SCD?

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

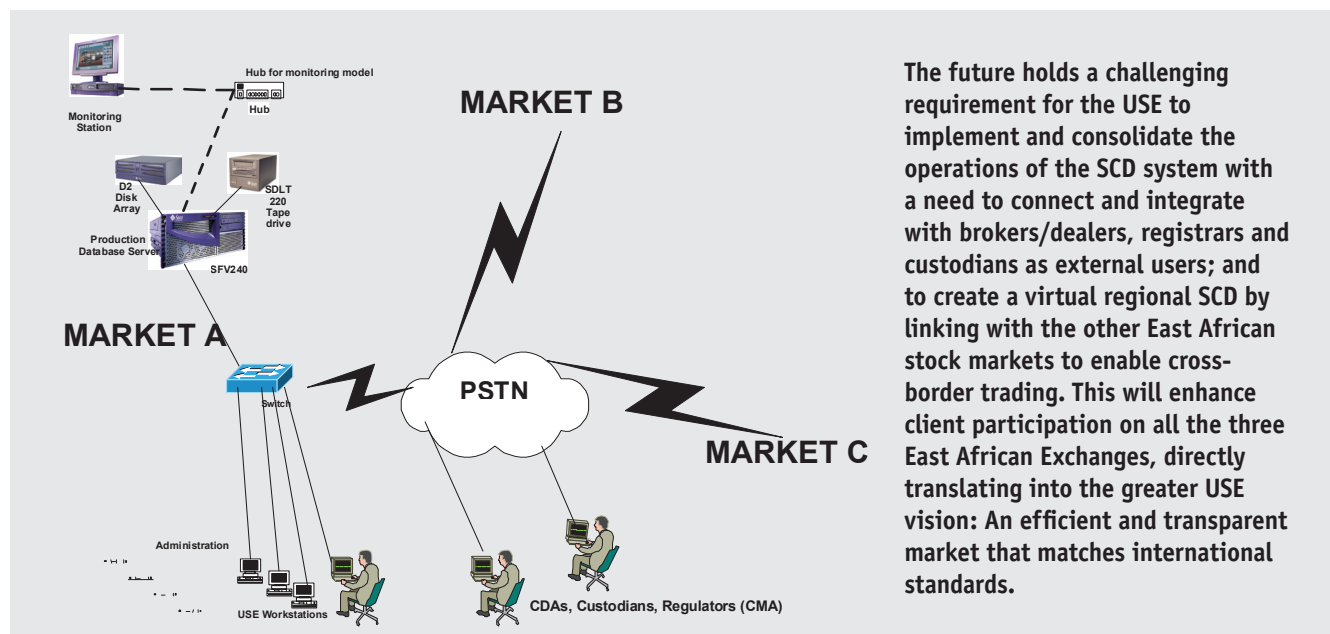
What are some of the challenges of the SCD?

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;

EACH INVESTOR OWNS A SECURITIES ACCOUNT THROUGH WHICH SHARES ARE REGISTERED. SETTLEMENT WILL BE DONE ON BEHALF OF THE INVESTOR BY THE PARTICIPANTS

THE FUTURE PLANS



The future holds a challenging requirement for the USE to implement and consolidate the operations of the SCD system with a need to connect and integrate with brokers/dealers, registrars and custodians as external users; and to create a virtual regional SCD by linking with the other East African stock markets to enable cross-border trading. This will enhance client participation on all the three East African Exchanges, directly translating into the greater USE vision: An efficient and transparent market that matches international standards.

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