

DRAFT DIRECTIVE FOR DEMATERIALIZATION OF SECURITIES





What is Dematerialization?

Dematerialization refers to converting physical paper-based securities certificates into electronic records.

Purpose of the Directive

To streamline, secure, and modernize the securities market by moving to an electronic system that is more efficient and transparent.

Issued by

The Ethiopian Capital Market Authority, under the Capital Market Proclamation No. 1248/2021, to improve the Ethiopian securities market and investor confidence.



Who is Affected?

All publicly offered securities, including securities of government-owned enterprises, whether traded on a licensed securities exchange or over-the-counter (OTC).

Main Requirement

Issuers must register securities with a Central Securities Depository and Clearing Services Provider (CSDCSP) before they can be traded.

Impact on Trading

Only securities registered electronically can be legally traded, enhancing the traceability and security of all transactions.



Registration of Securities

Issuers must ensure their securities are registered with a CSDCSP for electronic tracking.

Migration of Shareholder Data

Shareholder records are transferred to electronic accounts at the CSD, with the issuer responsible for verifying and reconciling data accuracy.

Opening Securities Accounts

Securities holders must open an account with a CSDCSP to conduct transactions electronically, replacing physical certificates with digital records.



The Dematerialization Process: Step-by-Step

1. **Submission of Physical Certificates:** Securities holders submit their physical certificates to a CSDCSP member to initiate the conversion process.
2. **Verification and Approval:** CSDCSP verifies the authenticity of each certificate and credits the securities into the holder's electronic account.
3. **Retention and Record:** Verified certificates are marked as dematerialized and securely stored for at least 10 years to ensure record integrity.



Maintaining Accurate Records and Statements

- **Official Records:** CSDCSP keeps the official, legally binding record of ownership for all dematerialized securities.
- **Shadow Registers by Issuers:** Issuers may also keep an internal electronic record that reflects the CSD data, allowing for continuous alignment of records.
- **Account Statements:** CSDCSP issues periodic statements to account holders, detailing their holdings and confirming ownership.



Declaration of Dematerialization and Special Accounts

- **Dematerialization Declaration:** The Authority will officially declare all publicly offered securities as dematerialized by a specified date. Issuers may also request the dematerialization of private securities.
- **Special Account for Unclaimed Securities:** Securities not claimed or converted within 10 years will be moved to a Special Account managed by the Authority, suspending associated rights like voting until the securities are claimed.



Authority's Role in Enforcement and Compliance

- **Inspection and Oversight:** The Authority has the right to inspect issuers, CSDCSPs, and CSDCSP members to ensure compliance with the directive.
- **Issuance of Directions:** If irregularities are detected, the Authority can issue instructions or halt activities that could harm the securities market or investors.
- **Penalties for Non-compliance:** Violations may lead to fines, suspension of trading rights, or other administrative sanctions depending on the severity and impact.



Prohibited Practices and Penalties

- **Examples of Violations**
 - Refusing to convert physical certificates.
 - Submitting false or misleading information.
 - Unauthorized issuance of new physical certificates post-directive.
- **Consequences**
 - Fines, public or private warnings, and in severe cases, suspension of securities rights to protect the integrity of the dematerialized system.



Key Benefits

- **Enhanced Market Transparency:** Electronic records make it easier to track and verify ownership.
- **Increased Investor Confidence:** The secure and efficient system builds trust in the market.
- **Operational Efficiency:** Reduces paperwork and speeds up transactions.

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