



# Dematerialisation

Trading Safer, Faster, Easier.....

## Introduction

The Nigerian Capital Market, has till date, operated a system whereby share certificates are issued to investors as evidence of their investment in companies.

The system of issuing share certificates has posed a myriad of problems such as delays in issuance and dispatch of certificates, delays in verification of share certificates, loss, theft and forgeries of certificates.

With a view to addressing the above problems, the Nigerian Capital Market, in collaboration with the key stakeholders, resolved to implement the dematerialisation of share certificates.

## What is Dematerialisation?

Dematerialisation refers to the conversion of share certificates (physical paper-form/certificates or documents of title representing ownership of securities) to an electronic form which is domiciled directly with the Central Securities Clearing system (CSCS).

With the growth of the Nigerian Capital Market, it is necessary that all share certificates are dematerialized. This is to improve the customers experience within the capital market, improve the velocity of trading, improve security of shareholding (avoid loss of paper based certificates) and better turnaround timelines for settlement between the purchase of a security and the selling of a security

## Common Issues affecting shares verification and dematerialisation to be avoided

- Irregular signature by shareholder
- Incomplete banker's confirmation
- Cost of banker's confirmation
- Incorrect/Incomplete details on certificate
- Incorrect/Incomplete details on covering documents
- Incorrect /Incomplete account and bank details

## Benefits of Dematerialisation

- Eradication of risk of loss of share certificate either by misplacement, mutilation, theft, etc.
- Reduction in the occurrence of cloning and forging of share certificates leading to loss of Investment
- Removal of delays and costs associated with dispatch of share certificates
- Facilitation of increased trading in shares
- It provides more acceptability and liquidity of securities in the capital market thereby building confidence in the capital market and attracting foreign investors
- It provides a safe, convenient and efficient way to hold securities
- Enables faster transfer of stocks from one account to another
- Efficiency in the settlement of trades making the whole process of buying and selling more transparent
- It ensures faster payment on sale of shares and allows for a shorter transaction cycle
- Provides a foundation for the achievement of e-dividend and e-bonus initiatives
- Positioning the Nigerian capital market as internationally competitive and transparent.
- Facilitates e-dividends and e-bonuses



## How does a Shareholder dematerialise their shares?

1. The dematerialisation process necessitates an investor to open an account with CSCS through a Stockbroker. This will be done after the shareholder has fulfilled the KYC requirements of the stockbroking firm
2. Thereafter, the shareholder can submit their share certificates to the Stockbroker for dematerialisation
3. Typically, the shareholder will be required to execute a verification/share transfer form which is then forwarded with the certificates alongside other operational documents to the Registrar for verification
4. Upon certification that the details and signature provided by the shareholder are correct, the share certificates are verified by the Registrar
5. The share certificates verified by the Registrar are then sent to CSCS in an electronic format via the Data Exchange Platform operated by CSCS.
6. CSCS updates the shareholder's account with the corresponding securities and units
7. Shareholders can request for a CSCS statement of account detailing the shareholding position and the corresponding units from the Stockbroker. The account can also be accessed securely online.

## Regulation on dematerialisation

According to the Securities and Exchange Commission, all share certificates dematerialised on or before January 1, 2013 were to be at no cost to the shareholder, but certificates dematerialised after this date may be at a cost.

Accordingly, allotment of shares following public offerings shall henceforth be by electronic processes that will domicile shareholding directly with the Central Securities Clearing system (CSCS).

“However, should a shareholder insist on being issued a share certificate, despite its disadvantages, a certificate

shall be issued, in accordance with sections 146 and 147 (1) of the Companies and Allied Matters Act (CAMA)”.

According to SEC Rule 345 : An entity may offer or transfer its securities electronically, except where investor elects to have the certificate instead.

ISA section 55 provides that securities registered by the commission may be issued or transferred electronically or by any other means or system approved by the commission.

## Transaction Cycle (Clearing and Settlement)

The current transaction cycle is T + 3 days; Transaction day + 3 working days. This development has enhanced efficiency, transparency and improved shareholders confidence in the market and the dematerialisation of shares will further enhance market dynamism.

## Progress of the Dematerialisation exercise

To date, about 73% of share certificates in the Nigerian capital market have been dematerialised. The target is 98%. It is however still necessary that stakeholders continue to educate the public of the need for dematerialisation with the aim of achieving full dematerialisation within the shortest timeframe.

