

Accra, Ghana

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## 10 years of Central Securities Depository activities in Ghana

Mr Governor and Chairman, Honourable Minister, Chief Executive Officer, Board members, distinguished ladies and gentlemen.

It is a great joy for me to be here this morning to participate in the activities marking ten years of the operations of the Central Securities Depository. Indeed it is nostalgic, because my mind has gone back to some of the most productive and rewarding times I had at the Bank of Ghana.

This is a time for celebration. Congratulations. The Akuapem/Presbyterian in me will say, Nea tetefo hwehwee, nea won nyinaa ara pee, nea won ani gyinae, ena anya aba yi. What the men of ancient days, waited for and longed to see is what we are seeing today.

Mr. Chairman, the financial services landscape has undergone a lot of transformation over the past 15 years in particular. There have been massive reforms in infrastructure, legal regime, and a steady expansion of financial services all aimed at improving the dynamics of the sector.

Aggrey of Africa, is reported to have told his students to note everything happening around them carefully because according to him, history was being written.

Incidentally, Saturday October 18, marked the 139th birthday of the legendary Dr James Emman Kwegyir Aggrey, the 20th century intellectual giant of Africa. Dr Aggrey became known as "Aggrey of Africa" and "Father of African Education" due to the impact he made on education and the black race. Descendants and relatives of Dr Aggrey from Ghana and United States converged in his one hundred and two-year old house in Salisbury, North Carolina, to celebrate the occasion. Invited guests had the opportunity to view Dr Aggrey's personal belongings including his kente cloth, piano and typewriter which were put on display.

In our case too at the Central Securities Depository (CSD), a lot of history has been enacted and I am going to take you on a walk down memory lane and in so doing, make some observations for our consideration as the CSD moves into its second decade.

In this particular case our history is a journey whose origins really go back to 1987. That is when the Bank of Ghana introduced the weekly treasury bills tender. The tender was open to banks, discount houses and the public at large, although the public had to submit their applications through the banks. The tender was operated side by side with the tap sales where customers could purchase bills directly from the Bank of Ghana.

In 1996 the Bank of Ghana introduced the Primary Dealer concept in the Government Securities market. The intention was to achieve efficient funding of Government's Public Sector Borrowing Requirement through the development of a strong primary and secondary market. An additional objective was to facilitate the development of the overall financial market as a source of longer term financing for Government and private sector investments.

Not much happened after that till January 2002, when the National Bond Committee was established. Arising out of its work, the Bond Committee (Dr Sam Mensah and his team) recommended that Government support the Bank of Ghana and the Ghana Stock Exchange to set up a securities depository and clearing and settlement system in Ghana. In other words, a Central Securities Depository with the broad stated objective of facilitating investment activities in Ghana.

In September 2003, the Bank of Ghana, under the leadership of Governor Paul A. Acquah, constituted a Central Securities

Depository Implementation team to work on the processes to make the objective of having a CSD for Ghana a reality. I owe it a duty to acknowledge the vision and great inspiration Governor Paul Acquah provided, which contributed in no small way towards the success story we are living witnesses to.

Members of the Committee were

K.O. Adu Labi	Bank of Ghana – Chairman
E. Safo Kwakye	Co-ordinator of Financial Sector, Ministry of Finance and Economic Planning
Francis Andoh	Bank of Ghana
Ekow Afedzie	Ghana Stock Exchange
Sam Peprah	Ghana Stock Exchange
Daniel Hagan	Bank of Ghana
Kwasi Debrah	Bank of Ghana (Project Manager)
Catherine Ashiley	Bank of Ghana
Caroline Otoo (Mrs)	Bank of Ghana
S. P. Kyei	Bank of Ghana
Stephen Tetteh	Bank of Ghana
George Nkrumah	Member/Secretary

The team was later joined by Joseph Lartey and Emmanuel Lawson.

The work of the team was in four main parts. The first task was to

have an auction module to take over the weekly auction activities of the Bank of Ghana. The second was to extend the capabilities of the system to be installed to cover all securities, especially equities. The third was to prepare legislation to give legal backing to the new requirements on dematerialization envisaged for equities. Fourthly, the team was to pursue effective stakeholder involvement and consultation to ensure market acceptance.

The team approached each component of the assignment with all seriousness. The initial work involved agreeing Requirement Specifications for the Auction module. This was followed by a similar exercise on the Securities module. Regular business meetings were scheduled every week at which a lot of brainstorming took place, enabling us to have a blueprint to form the basis of a Request for Proposals (RFP). The seriousness with which the management of the Bank of Ghana took the exercise was demonstrated by the fact that an

international competitive tender process was, on the basis of the preliminary work done, advertised in The Economist.

The responses which came, about 15 in all, were most interesting. They came from the UK, Denmark, India, Sri Lanka and Bulgaria and also Ghana. In the event Millennium Information Technologies (MIT) of Sri Lanka won the bid to work with us on a turnkey solution. A lot of studies and discussions took place between the team and the MIT counterparts. Work was completed on the Auction module first and this was immediately followed by a Gap study on the securities module. The system that was eventually accepted and delivered covered both the Auction and Securities modules.

It is not my intention to bore you with minute details of the processes that went into getting the CSD off the ground to become operational.

Let me point however, that right from the onset, the Bank of Ghana and the Implementation team were determined that the CSD should meet international standards. We wanted to ensure that efficiency and risk reduction were paramount to the operations of the CSD and that it would have the standing to be recognized by foreign investors as a depository eligible to hold their assets. Note was also taken of the fact that investors, both local and foreign, needed assurance of the existence of mechanisms and structures guaranteeing entry and exit and safety for their investments. A depository with clear cut settlement and payment guidelines and practices was therefore one of the factors that could influence investment decisions.

We were therefore guided by international standards as contained in the G30 Recommendations and the Recommendations of the Committee on Payment and Settlement Systems of the Bank for International Settlements and the Technical Committee of IOSCO.

Specifically, Recommendation 111 of the 1990 G30 Recommendations stated that each country should have in place an effective and fully developed central securities depository, organized and managed to encourage the broadest possible direct and indirect industry participation. The range of depository-eligible instruments was also to be as wide as possible.

As a result of all the work and the stakeholder consultations, the Auction module went live in November 2004. This brought a quantum leap in the way auctions of government debt instruments were conducted. The Depository Participants could now sit behind their computer screens in the comfort of their offices and by a click on the screen submit their bids each week. This was revolutionary at the time. The rest, as they say, is history.

At this juncture let me acknowledge the immense support we received from MIT of Sri Lanka and from the Central Depository and Settlement Company of Mauritius, whose Managing Director, Vipin Mahabirsingh was ever ready to answer all our questions and share the Mauritius experience with us. From Sri Lanka we had Jit Seneviratne, Nilan Hettipathirana and Dishana Uragoda. Last but not the least was the ever amiable Chief Executive Officer of MIT, Tony Weeresinghe.

The need for a law to regulate the new regime had always been on the horizon. One of the key objectives of the CSD system, as it related to securities, was to move away from paper certificates. The intention was to allow the CSD to maintain all records of beneficial ownership of securities and dealings in them in electronic form to allow for timely and seamless transactions and also to guarantee safety.

The need to create an enabling environment for such a sea change was paramount.

This was especially the case with certificates for shares in companies. Part of the remit of the Implementation Committee was therefore to learn from best practice elsewhere and make similar proposals for Ghana. We were fortunate to have engaged the services of Elsie Addo, a brilliant commercial lawyer who assisted us with a lot of research work and provided the initial draft for a Central Securities Depository Bill which was refined by the Office of the

Attorney General and eventually passed into law as the Central Securities Depository Act, 2007 Act 733. The processes towards the promulgation into law were quite interesting. I remember our appearance before a Cabinet Committee to debate the merits of the Bill, especially the portions on dematerialization of securities under section 22. It is gratifying to note that Initial Public Offers (IPOs) held since the enactment of Act 733 have resulted in records of beneficial ownership of securities being held in electronic form and paper certificates done away with. A number of holders of shares have also got the message and taken the necessary steps to have their shares dematerialized. I am keenly aware though, that a lot more needs to be done in this direction as some, indeed many investors in companies are holding on to their paper certificates and treating them as family silver. I call on all such to repent! Repent and submit your certificates for dematerialization through your brokers. They should know that paper certificates can easily be stolen, lost or destroyed.

Mr Chairman, Honourable Minister and distinguished Guests, the functions of a central securities depository are set out in section 7 of Act 733. Among other things a CSD shall

- facilitate the admittance of securities...
- facilitate the deposit and withdrawal of certificates ...
- facilitate the dematerialization of securities accounts
- facilitate the efficient process of cash payment in exchange for securities.

It is also worth reminding ourselves of the Mission of the CSD, which is to provide secured and dependable clearing, settlement and depository services to Government securities and money markets in an efficient and cost effective manner.

A key element in the Central Securities Depository Act is the requirement in section 53, for the establishment of a Guarantee Fund. The purpose is to provide an indemnity against any default in respect of payments for or delivery of securities and of obligations of participants towards the CSD. The Guarantee

Fund is intended to act as a shock absorber in the unlikely event of a settlement failure and thus prevent the market from collapsing through systemic effect.

The question to ask, as the CSD celebrates 10 years of existence and looks ahead into the next decade, is whether it has lived up to expectation. From what I have seen and heard, I have every assurance that the CSD has lived up to expectation. It is gratifying to note that delivery versus payment (DVP) in both primary and secondary markets is now a reality. The integration of the RTGS and CSD systems has enhanced the settlement function in the primary market.

It did not come as a surprise therefore, when the CSD was awarded the ISO 27001 Certificate in 2013. My congratulations to the Board, management and staff for their dedication to duty which has made this feat possible.

There has also been a steady growth in settlement activities, in client registration, in primary market activities, in investor holdings. Similarly secondary market activities, corporate actions and repurchase agreements (REPOS) have witnessed consistent growth, judging from the statistics available.

This is not to say however, that we should rest on our oars. Indeed given the stance underpinning the establishment of the CSD, I would say that there is a lot more work to do to get substantial increases in the patronage of the services of the CSD.

We have dedicated staff, tried and tested systems and a supportive regulatory regime. There is the need, therefore, to intensify public education on the role of the CSD for more participants in the capital market to avail themselves of the services provided by it.

The investing public needs to understand that the CSD provides a safe, reliable and efficient system to protect their investments.

The spirit of cooperation which characterized the regular engagements with the market (the end user groups) should be maintained on an ongoing basis so that the CSD can be responsive to emerging trends in good time and continue

to be relevant to the industry. It was a joy to receive the penetrative insights of market specialists like Abena Amoah at user group meetings.

I want to see even more vibrant activities in both the primary and secondary markets as part of a thrust towards total market development. This will be a powerful medium to boost investor confidence and increase resource mobilization for national development.

Mr Chairman, I am afraid that I may have been speaking for a long time. My only plea is that I shall be spared what befell a certain pastor. The story is told of a particularly long sermon delivered by this clergyman. At the end of the service, the congregants filed out of the church quietly, with no one saying a word to him as they shook hands with him. When it got to the turn of one elderly woman however, she told the pastor that his sermon reminded her of the grace and mercy of God. The pastor was intrigued, not having heard such a comment before. He asked what the lady meant by that comment. Her reply was, “because it endureth for ever.”

On this note may I again congratulate the Board, management and staff of the Central Securities Depository for 10 years of qualitative service to the people and the financial services of Ghana. God bless the CSD and may it grow in stature to become the reference point for clearance, settlement and depository systems in Africa.

And thank you very much for recalling me from retirement to be part of this joyous occasion. Indeed history is being written. Long live the Central Securities Depository.

Kofi O. Adu Labi

Retired Advisor, Governor’s Secretariat, Bank of Ghana

Now Chairman, BEIGE Capital



