

# Chengetedzai Depository Company Limited

CSD PROJECT STATUS

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## Zimbabwe – Country Overview

- Population of Zimbabwe – 13 Million
- Estimated that 4 million people leaving in the Diaspora
- Achieved Independence in 1980
- Gross Domestic Product USD13.5 Billion (2013)



# Zimbabwe – Country Overview

- Hyper Inflation 2007 to 2008
- 2009 Dollarized (USD)
- Y-o-Y Inflation 0.9% p.a. (Sept 2014)
- Most favourable weather conditions
- Rich in Minerals
- Once a striving agricultural hub



# Overview of the Regulator of the Capital Markets - SECZ



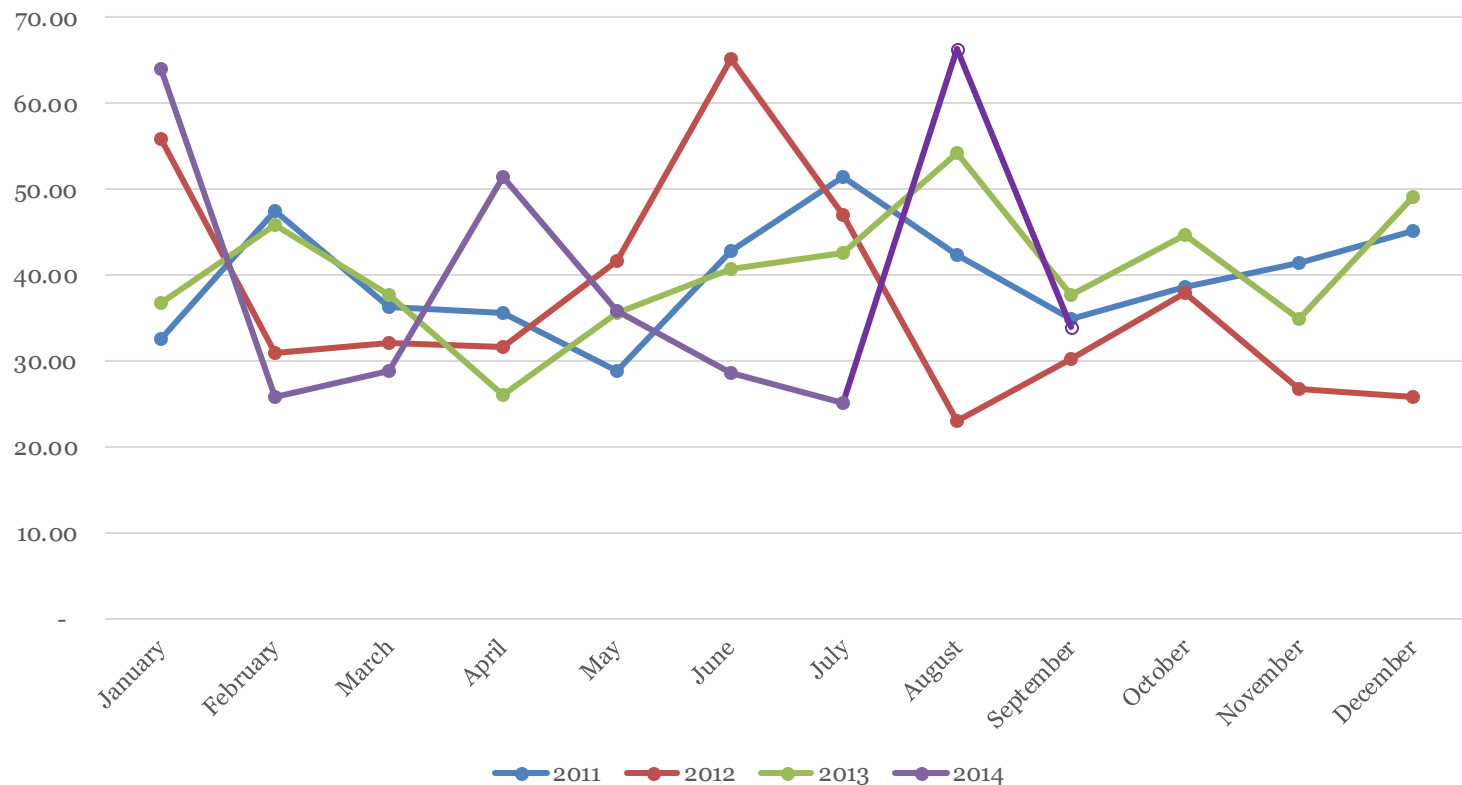
- Securities & Exchange Commission formed in 2008
- Under the auspices of the Ministry of Finance
- Five Commissioners
- Regulates and licenses the capital markets players
  - The Stock Exchange
  - Brokers
  - Central Securities Depository
  - Registrars/Transfer secretaries
  - Custodians
  - Asset Managers

# Overview of the Stock Exchange

- Stock Exchange and CSD not vertically integrated
- Stock Exchange commenced operation in 1896
- Stock Exchange stopped operating in 1924
- Re-commenced in 1946
- Open Cry system with a target of implementing an ATS by 2015.
- 67 Listed Counters and mulling the implementation of a SME Exchange and a Bond Market



## ZSE TRADES TURNOVER VALUE USD (million)



Turnover Value in USD (million)

|      | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sep   | Oct   | Nov   | Dec   | Total  |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| 2011 | 32.55 | 47.48 | 36.37 | 35.50 | 28.90 | 42.91 | 51.34 | 42.39 | 34.94 | 38.62 | 41.32 | 45.21 | 477.52 |
| 2012 | 55.79 | 30.99 | 32.19 | 31.75 | 41.56 | 65.20 | 47.09 | 23.00 | 30.23 | 37.86 | 26.72 | 25.79 | 448.18 |
| 2013 | 36.75 | 45.92 | 37.71 | 26.02 | 35.51 | 40.64 | 42.57 | 54.17 | 37.67 | 44.58 | 34.97 | 49.20 | 485.72 |
| 2014 | 63.97 | 25.81 | 28.88 | 51.35 | 35.90 | 28.54 | 25.22 | 66.40 | 34.07 | -     | -     | -     | 259.69 |

# Overview of the Central Securities Depository

- Chengetedzai “We will keep it Safe”
- Incorporated in 2010 in response to a Public tender by the Securities & Exchange Commission to implement a CSD
- Awarded the tender to Chengetedzai in December 2010
- Quasi Government owns 58 % of the CSD
  - Three Banks
  - Zimbabwe Stock Exchange
  - One leading Registrar



**CHENGETEDZAI**  
DEPOSITORY COMPANY LIMITED

## Central Securities Depository – Shareholding Structure

| # | Account Name                                 | Shares         | % Total       |
|---|--|----------------|---------------|
| 1 | INFRASTRUCTURAL DEVELOPMENT BANK OF ZIMBABWE | 111,949        | 15.00         |
| 2 | FIRST TRANSFER SECRETARIES (PRIVATE) LIMITED | 111,945        | 15.00         |
| 3 | ZB FINANCIAL HOLDINGS LIMITED                | 111,945        | 15.00         |
| 4 | ZIMBABWE STOCK EXCHANGE                      | 111,945        | 15.00         |
| 5 | NATIONAL SOCIAL SECURITY AUTHORITY - NPS     | 97,020         | 13.00         |
| 6 | CBZ HOLDINGS LIMITED                         | 89,572         | 12.00         |
| 7 | PROMOTERS                                    | 111,923        | 15.00         |
|   |  | <b>746,299</b> | <b>100.00</b> |



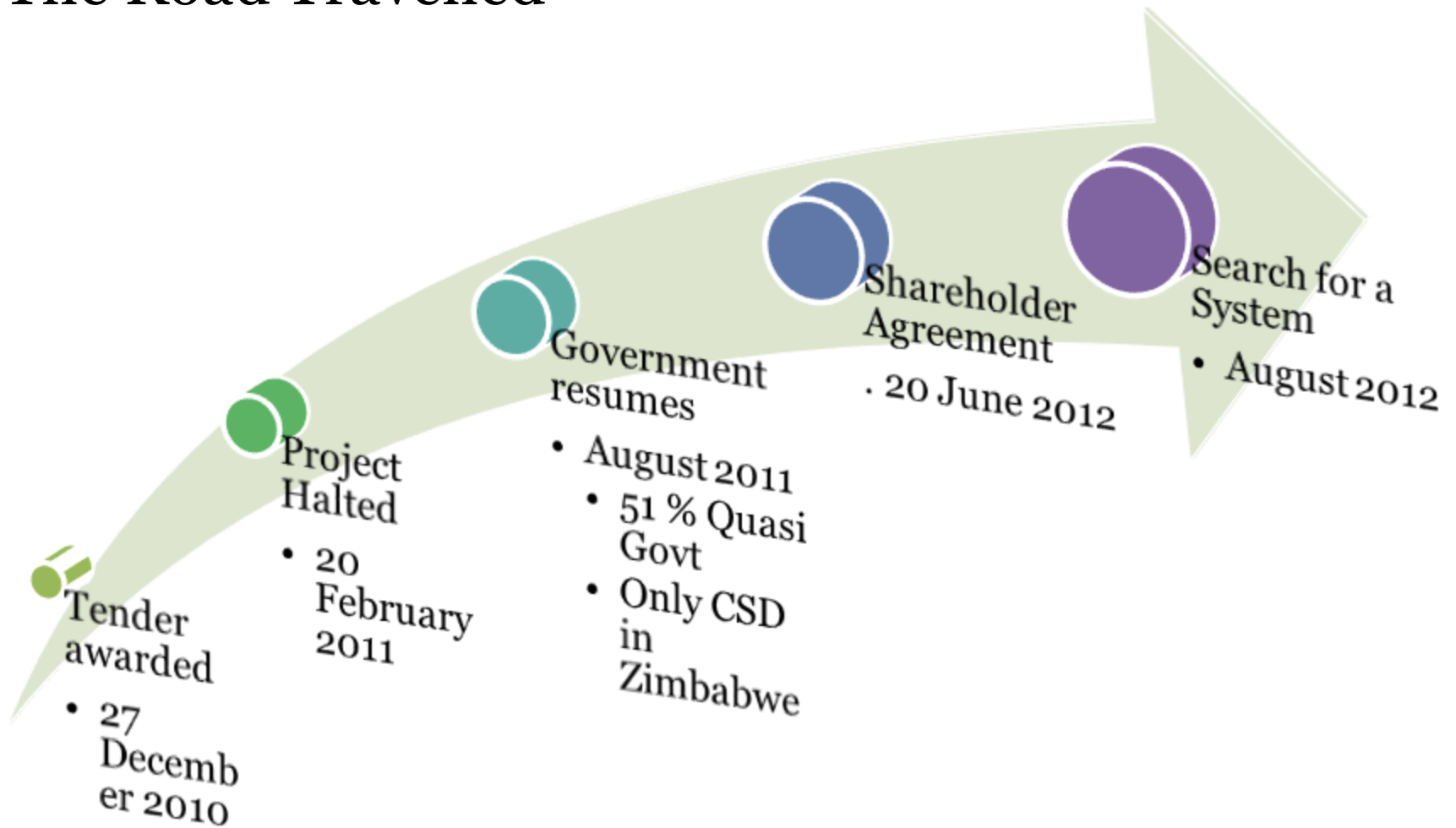
# Overview of the Central Securities Depository – Fee Structure



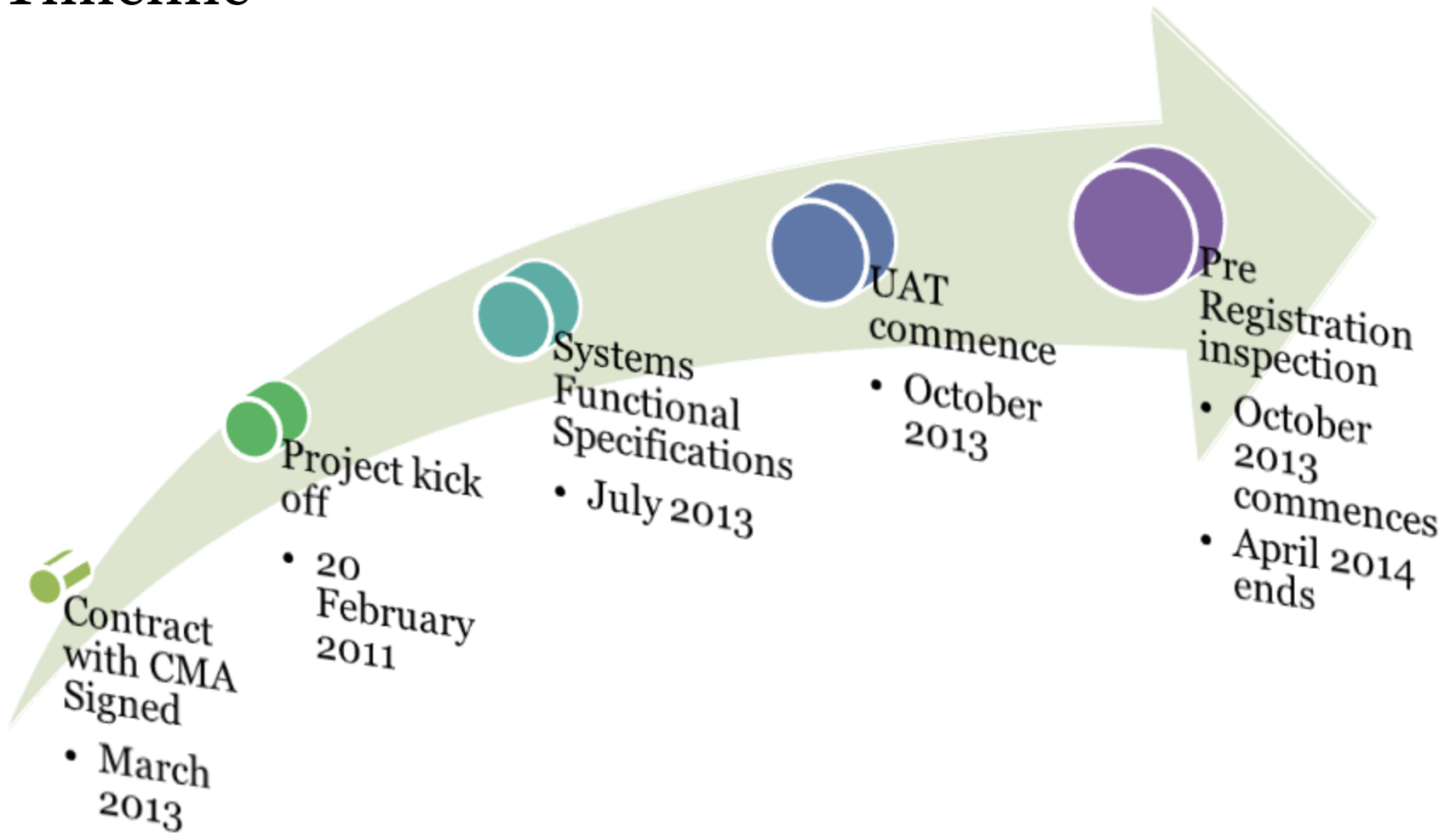
Fees as gazette in Statutory Instrument 108 of 2014

| Type of Charge                            | Buying (%)    | Selling (%)  |
|---|---------------|--------------|
| Brokerage Fees                            | 0.92          | 0.92         |
| Securities and Exchange Commission Levy   | 0.171         | 0.171        |
| Zimbabwe Stock Exchange Levy              | 0.12          | 0.12         |
| Central Securities Depository Levy        | 0.12          | 0.12         |
| Stamp Duty                                | 0.25          | -            |
| Capital Gains Withholding Tax             | -             | 1.00         |
| VAT @ 15% Brokerage Fees                  | 0.138         | 0.138        |
| <b>Total Transaction Costs</b>            | <b>1.719</b>  | <b>2.469</b> |
| <b>Total Costs for Buying and Selling</b> | <b>4.188%</b> |              |

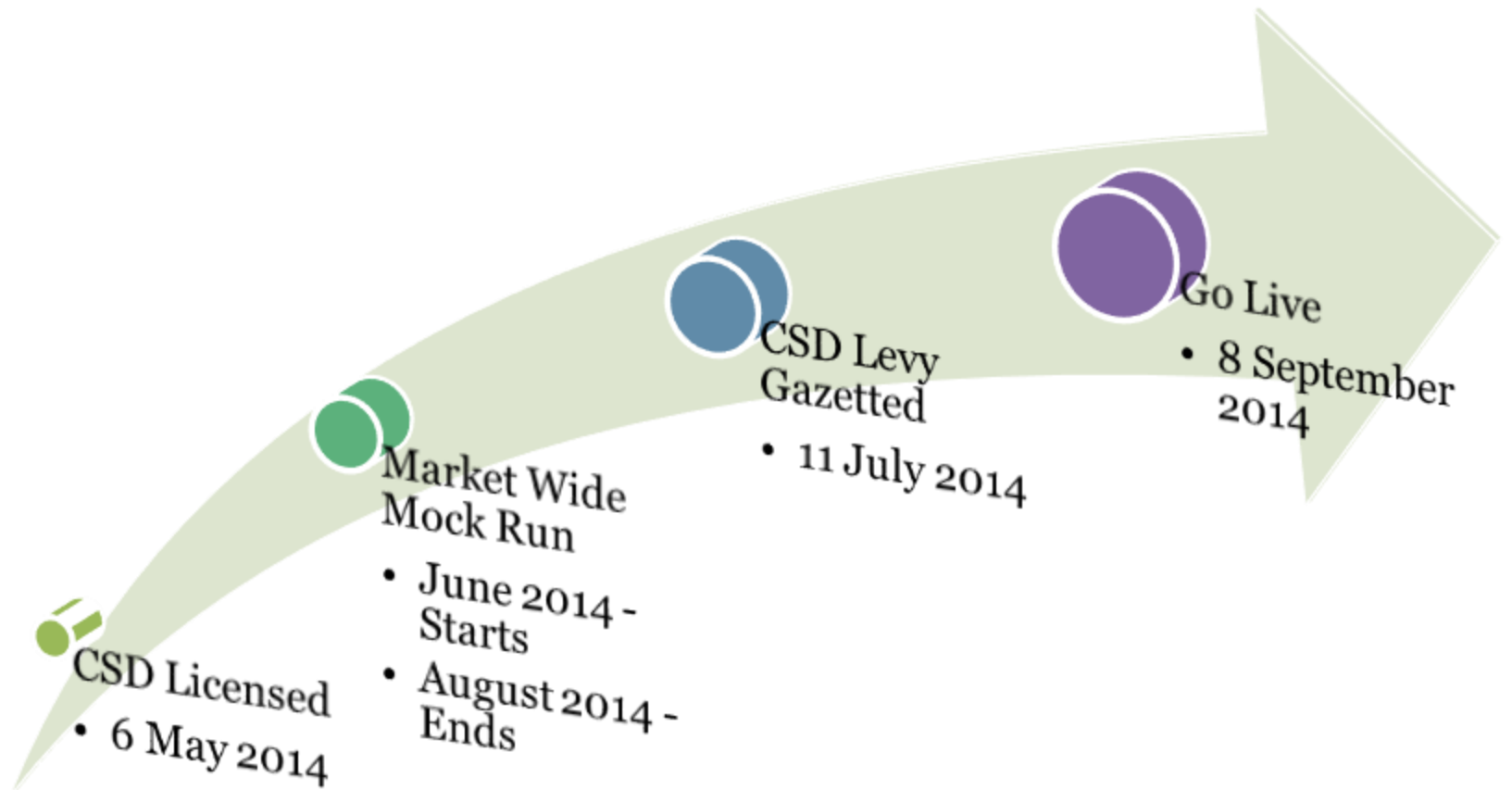
# The Road Travelled



# Timeline






# Timeline



# System Vendor – CMA Small Systems AB

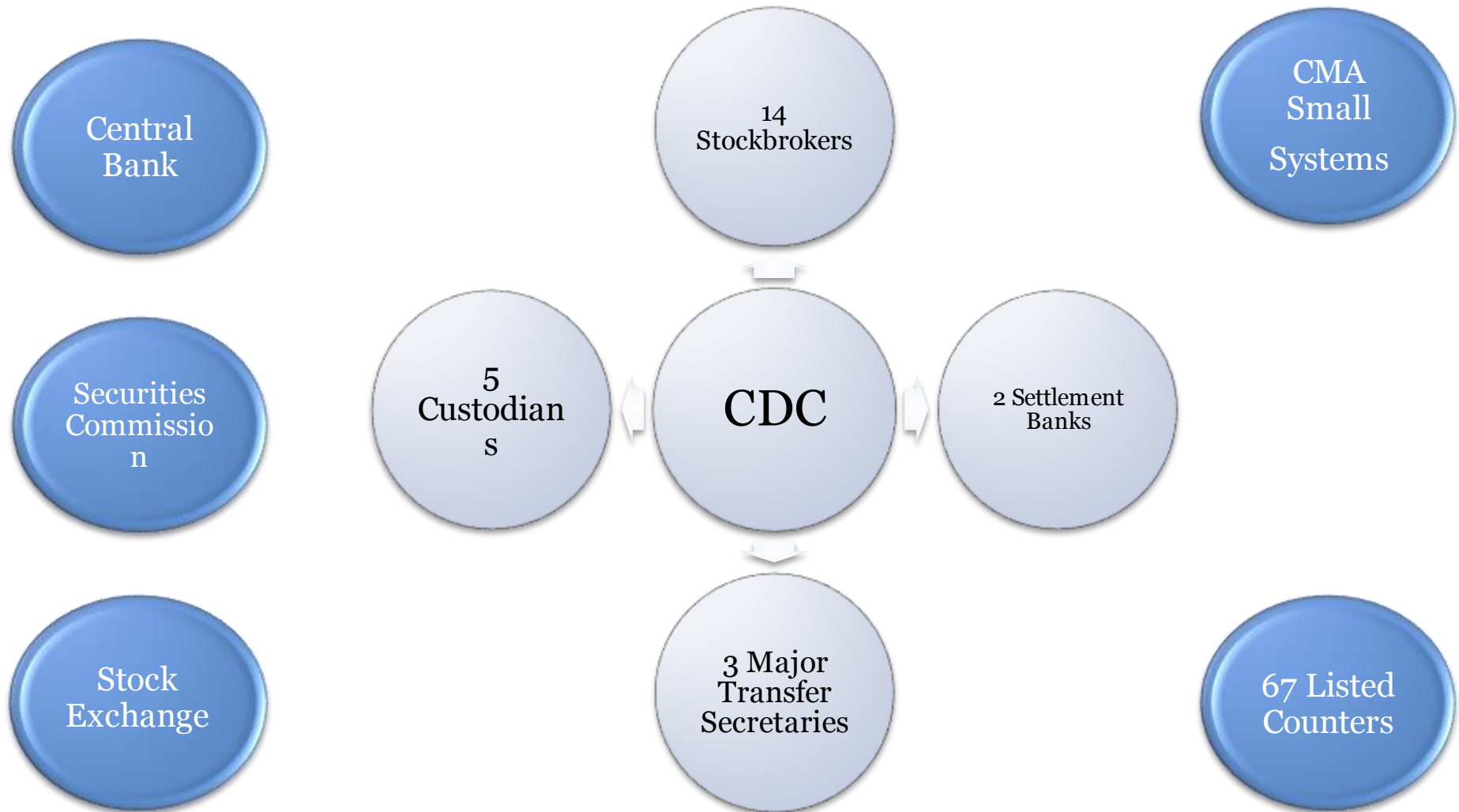
- Representative offices in Sweden, Russia and France. Market activities focus on Europe, Asia, Africa, South America and Middle East. At present,
- The head office is located in Stockholm, Sweden.
- A market leading provider of systems solutions to companies operating in financial markets.
- Chengetedzai selected the DEPO/X system from CMA for its Central Securities Depository (CSD) system due to its efficient and robust design to support registry, clearing and settlement operations.
- DEPO/X supports all models of DvP via an interface with any payment systems (e.g. via S.W.I.F.T).

|  |  |
|--|--|
|  Russia         |  Benin                    |
|  Azerbaijan     |  Burkina Faso             |
|  Kyrgyzstan     |  Ivory Coast              |
|  Serbia         |  Guinea Bissau            |
|  Macedonia      |  Mali                     |
|  Moldova        |  Niger                    |
|  Mongolia       |  Senegal                  |
|  Kosovo         |  Togo                     |
|  Hungary        |  Central African Republic |
|  Cameroon       |  Chad                     |
|  Pakistan       |  Equatorial Guinea        |
|  Montenegro     |  Gabon                    |
|  Oman           |  Congo                    |
|  Algeria        |  Morocco                  |
|  Libya          |  Madagascar               |
|  Mauritius     |  Uganda                  |
|  Uruguay      |  Rwanda                 |
|  Gambia       |  Guinea                 |
|  Sierra Leone |  Dominican Republic     |
|  Paraguay     |  Laos                   |
|  Cambodia     |  Indonesia              |
|  Nigeria      |  Chile                  |
|  Burundi      |  Zimbabwe               |
|  Jordan       |  Brunei                 |

## DepoX System - Modules

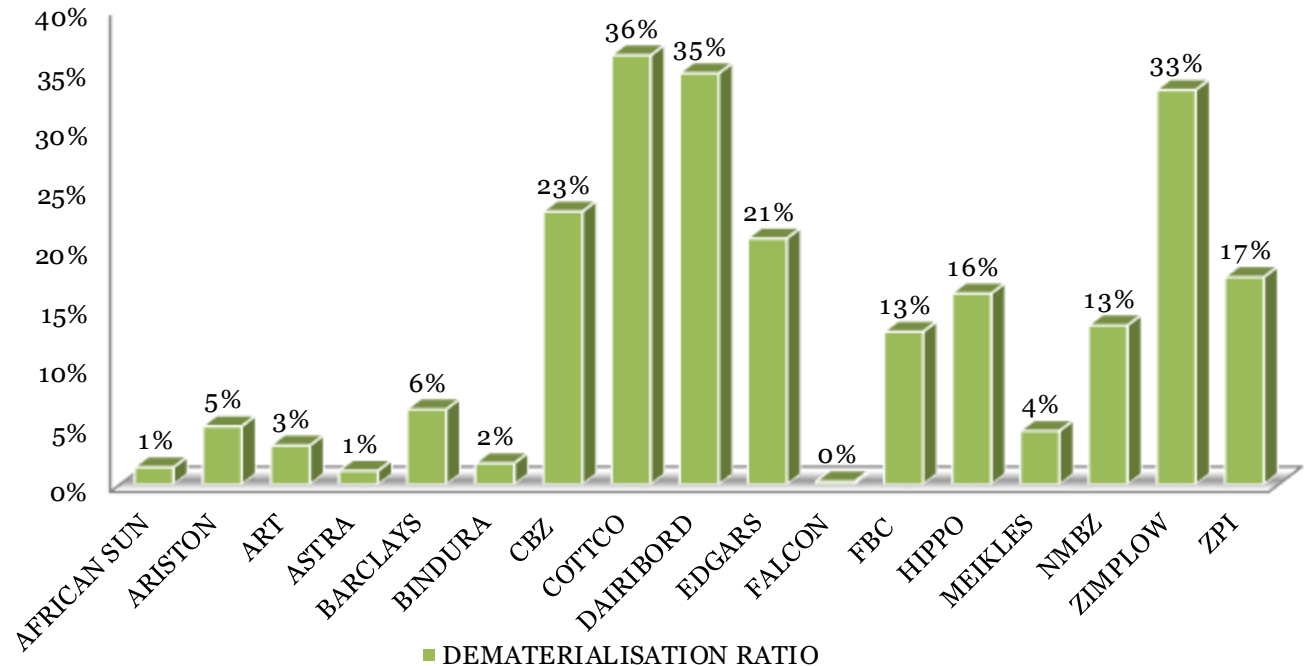
| Module   |  |
|--|--|
| DepoX Standard Edition   | Installed                              |
| Risk Management Module   | Installed                              |
| Fix Protol Adapter – <i>(to cater for integration with 3<sup>rd</sup> party systems)</i> | Installed                              |
| Corporate Actions Module   | To be installed, 2 <sup>nd</sup> Phase |
| Money Market Operations Module   | To be installed, 2 <sup>nd</sup> Phase |

# Relations with Market participants and other key stakeholders



# CSD Update - Dematerialisation Progress

- 17 counters on CSD and 2,640 demat transactions processed to date
- Demat ratio of up to 36% with an average of 13.57% achieved in 2 months
- Dominated by institutional & foreign investors
- 10 additional counters were added on 3 Nov 2014.

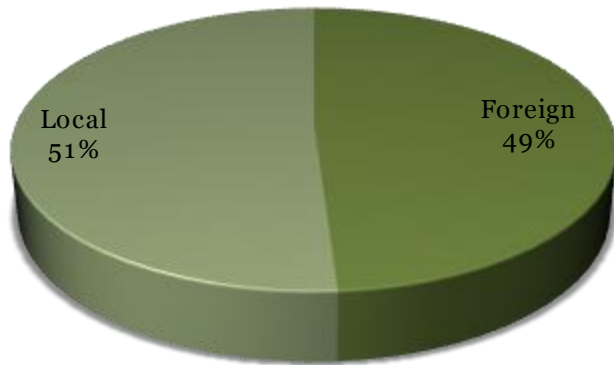




# CSD Update – Accounts Opened

- 1005 Accounts opened
- Dominated by institutional investors
- Evenly split between foreign and local investors

## Split by Residence



| Investor Type                 | No. of Accounts | %age        |
|-------------------------------|-----------------|-------------|
| Pension Funds                 | 244             | 24%         |
| Corporates                    | 57              | 6%          |
| Individuals                   | 157             | 16%         |
| Insurance                     | 24              | 2%          |
| Unit Trust Funds              | 21              | 2%          |
| Other Institutional - Local   | 30              | 3%          |
| Other Institutional - Foreign | 472             | 47%         |
| <b>Total Accounts</b>         | <b>1,005</b>    | <b>100%</b> |



# Delays in the Implementation of a CSD

- Lack of a Legal Framework
  - Securities Act – Promulgated in 2004
  - Archaic Company's Act that does not recognize a paperless share certificate
  - Securities & Exchange Commission established in 2008
- Funding of the Project – Government constrained
  - Finally resolved that the Project Tender be awarded to a private consortium able to provide a turnkey solution
- Government somersaulting
  - Wanted a piece of the pie – intentions made known after tender award
  - Delays emanating from protracted discussions surrounding
    - Sweat equity and
    - Signing of a shareholders Agreement

# Major Paradigm Shift

- Implementation of a beneficiary ownership model?
  - Instigated by the SECZ
  - All unidentified shareholders passed on to one specific custodian
- Implementation of the Custodial Centric Model
  - Moving away from the Broker Centric Model
  - Regulator approved the CCM in Compliance with the requirements of the Securities Act.
  - 5 Custodians and CDC's license allows
- Moving away from a Settlement cycle of T+ 7 to T+5
- Targeting T+ 3 by June 2015
- Introduction of efficiencies and reduction in counter party risks
- Introduction of DvP1 settlement and targeting to migrate to DvP2 by June 2015



# Lessons learnt Prior to the Project Implementation

- Onboarding of counters on a phased based is the ideal
  - Do not bite more than you can chew, implement on a phased basis
- No implementation on a wholesale basis
  - One certificate at a time onto the CSD
  - Garbage in garbage out
- Manage market resistance by ensuring buy-in at every stage
  - Resolution through stakeholders sign offs
  - Project Governance audit came out positive

# CDC Custodial Services

## Broker-Controlled Model

- Offering a Broker-controlled Custodial Model in partnership with CBZ Bank Custodial Services and ZB Bank Custodial Services.
- Product meant for retail investors whereby investors access Custodial Services at affordable rates.
- Model involves investors accessing the Custodian via preferred broker.
- No monthly or annual fees for the investor.
- Transaction costs upon trading (\$2,00 per transaction or up to 0.05% of the market value of the trade, whichever is higher)

# Looking Ahead

- Phase 1 has now been completed to handle equities
- Integration of the CSD with the ATS
- Phase 2 will focus on
  - Warehouse Receipts Securitization
  - Onboarding Fixed Income Instruments
  - Derivatives
- Other Services CDC is allowed to do
  - Transfer Secretarial Services
  - Fully fledged Custodial Services
  - Archival

