

## GOVERNMENT OF JAMAICA SECURITIES – PAPERLESS INVESTMENT

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### **Objects of the Government Securities Dematerialization Act 2010**

The Parliament of Jamaica is in the process of passing the Government Securities Dematerialization Act 2010. The object of the proposed Act (the Bill) is to make provision for the dematerialization and the immobilization of Government of Jamaica (GOJ) securities.

Dematerialization of securities is a process whereby physical certificates are converted and recorded into a paperless or electronic format. Immobilization has been defined by the Bill as the process whereby physical certificates relating to GOJ securities have been deposited with and are held by a depository and the owner does not receive a physical certificate upon purchase of the security. It therefore means that ownership of GOJ securities will no longer be evidenced by physical certificates but will instead be recorded in a depository and therefore held in an electronic format.

The Bill seeks to make compulsory the conversion of existing GOJ debt stock, issued in paper format, to dematerialized securities. New securities issued by the GOJ, after the date of the passage of the Act, will be issued in an electronic format.

### **The Registrar**

The Bill states that the ownership of any GOJ security shall be acquired, evidenced and transferred electronically and without a written instrument and evidence of such ownership will, on the face of it, be from records maintained in the register by the Registrar. Owners of dematerialized securities will have accounts at the depository which will be credited with the value of the securities. Investors can therefore expect to receive periodic notification as to their balances kept at the depository.

The Bill appoints the Bank of Jamaica as the Registrar of GOJ securities but also provides for the future designation of a licensed central securities agency as the Registrar.

The Bill states that the Registrar may by notice published on at least two occasions in the Gazette and in a daily newspaper direct all owners of GOJ securities to deliver their securities to the Registrar for the purpose of the securities' conversion into dematerialized GOJ securities. The notice will also indicate the time period for the conversion to take place. Upon expiration of the time period contained in the notice, GOJ securities not in a dematerialized form may only be used by their owners for the purpose of exercising their right to conversion to dematerialized securities.

It therefore means that after the expiration of the time period securities owners will be not be able to trade, borrow, pledge or hypothecate such securities.

### **Advantages of Dematerialization**

Under the dematerialization process, securities in a physical form would be destroyed and corresponding balances in an electronic format maintained for respective owners of securities. Dematerialization aims to eliminate the paper work involved in transfer of securities as the transferor would no longer need to complete a transfer form then take the transfer form to the Registrar, the Ministry of Finance, for the issue of a new certificate in the name of the transferee. Transfers will now be instantaneous. Dematerialization will also eliminate the delay involved in receiving new certificates as securities bought in the primary and secondary market can take as long as three to six months before delivery from the Registrar.

One of the advantages of dematerialization of securities is the reduction of printing costs of the GOJ, storage of volumes of paper by the GOJ and lower administrative costs that are associated with a physical certificate delivery. Postal charges incurred when mailing printed securities to investors and the risk associated with loss or fraudulent interception of securities in the post are also eliminated.

Keeping securities in physical form created additional problems. Investors complained of loss, theft and mutilation of securities. The process of replacing securities is elaborate and involves the payment of a fee to have a replacement certificate issued and the issuing an indemnity by the investor to the Registrar.

### **Harmonisation of Legislation**

Currently, legislation on the books do not allow for the dematerialisation of GOJ securities. Harmonisation of the Government Securities Dematerialization Act and other legislation which restrict securities issued by the GOJ to a physical form will have to take place. Legislation requiring amendment include the Local Registered Stock Act, Land Bonds Act and the Debenture (Local) Act as legislation such as these restrict securities issued under the respective Acts to paper securities. To this end, the Bill makes provision for the Minister to make amendment to such legislation to ensure consistency with the Act when passed.

### **Conclusion**

Dematerialization of GOJ securities will be in line with international standards, improve liquidity within the local capital market and remove barriers to entry of investors in the capital market.

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