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Protecting Your Investments

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## INTRODUCTION

This Electronic Quarterly Review covers the period January–March 2011

## HIGHLIGHTS

- ▶ Regulatory Issues
- ▶ Market Development
- ▶ Public Education
- ▶ Regional and International Cooperation
- ▶ International News
- ▶ Human Capital Management
- ▶ Outlook
- ▶ Capital Markets in the Press

### 1.0 REGULATORY ISSUES

The following were the key regulatory issues during the period January to March 2011;

#### 1.1 The Capital Markets Authority (Amendment) Bill 2010

The Capital Markets Authority Amendment Bill 2010 that was tabled before parliament on 28th September 2010 was passed on 29th March 2011. The main objective of the Bill was to amend The CMA Act, Cap.84 to insert a new part dealing with offering of securities to the public. The new part sought to replace the provisions of the Companies Act relating to the issue of prospectuses. CMA had also requested the Minister of Finance to table additional amendments to the bill related to the IOSCO MMOU to enable CMA Uganda move to Appendix A of the MMOU,

however this was not possible. Nevertheless CMA intends to continue working with the Ministry of Finance to see to it that these amendments are made to the CMA Act so that it can move to Appendix A of the IOSCO MMOU.

#### 1.2 African Alliance (U) Ltd Notifies CMA of Intention to Close the Uganda High Yield Fund

The management of African Alliance (U) Ltd notified CMA of intention to wind up the African Alliance Uganda High Yield Fund (HYF) for reasons of non-viability. African Alliance (U) Ltd requested CMA for the winding up of the HYF in accordance with the provisions of the Trust deed and the Collective Investments Schemes Act. CMA is yet to make a decision on the request.

African Alliance (U) Ltd is the only company that provides a Collective Investment Scheme to investors in Uganda. The Collective Investment Scheme comprises of three funds, namely: The Money Fund (MF), The Balanced Investment Fund (BIF) and The High Yield Fund (HYF). The MF invests in money market instruments with a maturity of less than thirteen (13) months; the BIF invests in securities (equities & corporate bonds) listed on the USE as well as government bonds; while the HYF invests in government bonds and local corporate bonds.

#### 1.3 Compliance Officers Training Workshop

On 11<sup>th</sup> March 2011, CMA held a training workshop for Compliance Officers of Market Players licensed to operate in Uganda's capital markets. The main objective of the training was to not only build compliance capacity among licensees but also to sensitize them on



the role of the compliance function. The training was a build up to the East African Securities Certification program which will be examinable. The workshop covered the following areas:

- i. The evolution of compliance;
- ii. International standard setting;
- iii. Licensing and regulatory expectations;
- iv. Establishing a robust compliance framework;
- v. The role of compliance officers; and
- vi. Regulatory values and ethics.

## 2.0 MARKET DEVELOPMENT

### 2.1 Centum Investment Company Limited Cross-lists at the Uganda Securities Exchange (USE).

Centum Investment Company Limited cross-listed shares on the Uganda Securities Exchange (USE) on February 10<sup>th</sup> 2011. The cross-listing saw the company introduce 4 million shares on the USE. The cross-listing of Centum brought the number of counters at the USE to fourteen (14).

Centum is a Kenyan based investment company listed on the Nairobi Stock Exchange (NSE) with over 38,000 shareholders. The company has an investment portfolio valued in excess of US \$ 140 million consisting of investments in private equity, listed equity and real estate.

## 3.0 PUBLIC EDUCATION

### 3.1 Financial Literacy Clinic in Arua

The FinLit Foundation held a financial clinic where members of the public were educated on various aspects of the financial sector. The public education unit part-

nered with Fin-Lit foundation to distribute simple and easy-to-read publications to members of the public in Arua. Through the partnership, CMA was able to reach members of the public in Arua and its surroundings with information on capital markets. The partnership provided a precedent for future partnerships where CMA can use other organizations to disseminate information on the capital markets.

### 3.2 Kampala Modern School Seminars

The public education unit hosted a group of 60 students from Kampala Modern School on 11<sup>th</sup> February 2010. The students were all members of the investors club. During the seminar, the students were educated on the nature, operations and regulation of the capital markets in Uganda. The students were also taken through savings and investment opportunities in the capital markets industry and the importance of capital markets to the economy.

### 3.3 Office to Office Initiative

CMA reaches out to different organizations in Uganda through site visits to educate their staff on capital markets under the office to office initiative. During the period under review, CMA visited the following companies and held office seminars: Uganda Revenue Authority; Standard Chartered Bank; Bank of Uganda; and ACCA. A total of 201 people were reached through the office seminars. The staffers of the visited companies were taught personal finance, investing wisely and various issues pertaining to saving and investing in the capital markets.

## 4.0 REGIONAL AND INTERNATIONAL CO-OPERATION

### 4.1 26<sup>th</sup> IOSCO-AMERC Meeting and Conference 9<sup>th</sup> -11<sup>th</sup> February 2011- Mauritius

The CEO and the Compliance Officer

(Finance) represented CMA at the 26<sup>th</sup> IOSCO-Africa Middle East Regional Committee (AMERC) Meeting and Conference which was held from 9<sup>th</sup> to 11<sup>th</sup> February 2011. The conference was hosted by the Financial Services Commission of Mauritius (FSC). The theme of the Conference was 'Regulatory Cooperation and New Challenges'. The Meeting provided an opportunity for members to reflect on the 18 years of cooperation within AMERC and the challenges faced.

Key issues discussed during the meeting included:

- i. The proposed new funding structure for IOSCO activities that will see new fees being differential and based on the ability of members to pay. The key criteria to apply will be the income and GDP of the member countries. The proposed funding structure was passed by members and will be submitted for approval to the President's Committee in April.
- ii. The proposed committee structures that follow function; simplify governance to reflect member affiliations to other international organizations; reflect IOSCO's broad membership; and inject efficiency to reduce repetition in meetings.
- iii. The implementation process for the proposed changes with a timetable being drafted to guide the process.

#### **4.2 33<sup>rd</sup> EASRA Consultative Meeting**

The 33<sup>rd</sup> East African Securities Regulatory Authorities (EASRA) consultative meeting was held in Uganda from 30<sup>th</sup> March-1<sup>st</sup> April 2011. During the meeting, proposed procedures for the promotion of the issuance of regional bonds were adopted. The issuance of regional bonds will be an

opportunity for issuers to tap into the regional debt capital market. The next step of the process will be country level consultations that will culminate in the enactment of laws by East African Community (EAC) partner state legislative assemblies.

At the same meeting, a business plan geared towards fast-tracking capital markets integration in the region was also adopted. Some of the highlights of the workplan include: effective protection of cross-border investments and allowance of East African Community investment service providers and market intermediaries to offer their services across borders. A template for a statistical database that would enable members disseminate information on capital markets to the public under the aegis of EASRA was also adopted. The meeting also took steps towards the eventual adoption of Risk Based Supervision (RBS) by members of EASRA.

EASRA was established in 1997 to promote integration of the capital markets in the East African region. It provides a consultative forum where regulatory authorities discuss matters of mutual interest that have a bearing on their operations.

#### **4.3 Participation in the East African Community Monetary Union Negotiations**

Negotiations aimed at establishing the East African Community Monetary Union (EACMU) started in January 2011. In the first quarter of this year, a total of three meetings have been held to work out modalities to operationalize the EACMU. Four working groups have been formed for the negotiations. These are:

- i. Financial Sector Working Group- This will deal with matters of regulation, supervision, enforcement and oversight of the financial sector. It will discuss issues pertaining to prudential oversight and conduct of business, as well as financial stability, crisis prepared-

- ness, co-operation among financial sector regulators in each country and across the region;
- ii. Payment System Working Group- This group will deal with issues relating to financial markets infrastructure including trading systems, surveillance systems, payment systems and all other infrastructure relating to in-country and cross-border operations;
  - iii. Fiscal and Macro-economic Policy Working Group- This group will spell out the various macro-economic and fiscal convergence criteria that the partner states will need to adhere to before they join the monetary union. The group will also guide the discussions on continuous compliance with the convergence criteria and how monitoring and evaluation as well as compliance and enforcement will be adhered to;
  - iv. Statistics Working Group- This Group will ensure that each country collects, analyzes and provides data in the agreed formats. This group will guide countries in determining the manner in which various parameters are measured to ensure that there is uniformity of information across the region.

The negotiations were attended by nominees representing a wide cross-section of the public and private sectors. CMA was represented at the negotiations by The Director Research and Market Development.

## 5.0 INTERNATIONAL NEWS

### 5.1 Deutsche Borse and NYSE Euronext Sign Merger Agreement

The Deutsche Borse and NYSE Euronext signed a deal to create the world's largest

trading powerhouse. The agreement came days after the announcement of merger talks between the two exchanges and the disclosure by the London Stock Exchange that it had agreed to buy Canadian stock market operator TMX Group.

Speculation about a merger between the Deutsche Borse and NYSE Euronext had been rampant for over two years. Both operate stock and options markets and sell market data. Each also owns a major European futures market hence the merged entity will play a role in the listed derivatives market and be well-positioned in the over-the counter derivatives market. The Deutsche Borse owns Eurex while the NYSE Euronext owns the London-based Liffe.

Under the terms of the deal, Deutsche Borse's shareholders would hold about 60 percent of the combined company while NYSE shareholders would own the rest. Each of the new group's national exchanges, including those in Amsterdam, Brussels, and Lisbon, would keep their name in the local market. The combined Deutsche Borse and NYSE Euronext would have annual trading volume of over \$20 trillion and operations in Germany, France, the U.K., Amsterdam, Lisbon, Brussels and the U.S. The new group would be headquartered in New York and Frankfurt.

**(Source:** Securities Technology Monitor, 9<sup>th</sup> February, 2011).

## 6.0 HUMAN CAPITAL MANAGEMENT

### 6.1 Staff Resignation

Ms. Phoebe Mugisa (Senior Compliance Officer, Finance) left CMA on 31<sup>st</sup> January 2011. She had diligently served CMA for a period of 6 years in the legal and compliance department. CMA will recruit a replacement to consolidate the human resource capacity of the department.

## 6.2 Temporary Staff

CMA appointed a temporary Public Education Officer – Ms. Charlotte Kukunda in February 2011. The officer was recruited to implement CMA's public education programmes while both the Public Education Manager and Senior Public Education Officer are away on maternity and annual leave. The temporary officer will serve for a period of 6 months.

## 7.0 OUTLOOK

CMA will be sponsoring the forthcoming Top 100 SME Breakfast forum that is

scheduled for May 2011. The Top 100 SME Breakfast forum provides a channel for members to obtain knowledge and networking opportunities that enable them to be more competitive.

The Top 100 SME breakfast has its origins in the Uganda Top 100 Mid-sized Companies Survey (Top 100 Survey) which is an initiative of KPMG (a global auditing and business consultancy firm) and Daily Monitor (a leading newspaper in Uganda). The survey seeks to identify the fastest growing medium sized companies in Uganda to showcase business excellence and highlight some of the most successful entrepreneurship stories.

## 8.0 CAPITAL MARKETS IN THE PRESS

### Exchange Increases Trading Days

By Walter Wafula

Daily monitor, March 7th, 2011

The Uganda Securities Exchange (USE) commenced a five-day trading week from three days on 7<sup>th</sup> March 2011. With this new development, the USE trading floor will be open for the selling and buying of shares from Monday to Friday, apart from public holidays. According to the USE C.E.O, Mr. Joseph Kitamirike, the development will offer investors maximum opportunity to execute investment decisions and respond promptly to market changes. In an earlier interview in 2010, Mr Kitamirike had indicated that the push factors for the move were; increased demand for shares at the USE, regional integration and the need to ease trading for investors.

The extension in trading days is also meant to upgrade the USE to the level of the Nairobi Stock Exchange (NSE) and the Dar es Salaam Stock Exchange (DSE) which are more active as a result of the daily trading that they conduct. "We cannot keep our market closed on days when we can be trading across the border. If your market is closed and the other markets are open then investors who come through your market don't have access to others," said Mr. Kitamirike.

With the coming into effect of the Common Market Protocol on July 1, 2010, giving way to the free movement of capital, labour, goods and services, the regional stock exchanges are set to integrate. Under the regionalization of capital markets, the four East African bourses (NSE, DSE, RSE and USE) will have similar regulations and operational procedures. "Through the collaboration and integration of the four markets, the USE is trying to enable local investors to trade across the border," Mr Kitamirike said.

## QUOTES

“Before you can really start setting financial goals, you need to determine where you stand financially”

*David Bach (Financial Author and Motivational speaker)*

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*\*Please note that only members of USE are allowed to transact business on the Stock Exchange*