

CAPITAL MARKETS AUTHORITY



annual report
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VISION

“To make Uganda’s capital market the centre for choice for capital raising and investment in the region”

MISSION

“To regulate and promote a robust, transparent, fair and efficient capital market in Uganda”

FUNCTIONS

Under the Capital Markets Authority (CMA) Act, the functions of CMA include the following:

The development of all aspects of the capital markets with particular emphasis on the removal of impediments to, and the creation of, incentives for long-term investments in productive enterprises;

The creation, maintenance and regulation, through implementation of a system in which the markets participants are self regulatory to the maximum practicable extent, and of a market in which securities can be issued and traded in an orderly, fair and efficient manner;

The protection of investor interests;

The operation of a compensation fund.

VALUES

INTEGRITY

EFFICIENCY

FAIRNESS

FIRMNESS

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LETTER OF TRANSMISSION

30th June 2006

The Honorable Minister of Finance,
Planning and Economic Development
Ministry of Finance,
P. O. Box 8147
Kampala, UGANDA.

Dear Honorable Minister,

Pursuant to S.8 (6) of the Capital Markets Authority Act (Cap. 84), I have the honor and pleasure to submit to you the Annual Report and Accounts of the Capital Markets Authority (CMA) in respect of the accounting period ending 30 June 2006.

This report covers the activities, challenges and future plans as well as the statements of accounts of the Capital Markets Authority.

Respectively yours,



Mr. Twaha Kaawaase
CMA Board Chairman



Introduction

2005/2006 Financial Year was a unique year for Uganda as a whole. Fears that the political climate would affect the growth in the economy and cause instability in the financial sector were dispelled by the steady economic growth and the continued integrity of the financial sector. Much as the 2005/2006 fiscal year was an election year, it did not have any visible impact on the economy. In the months of November, December 2005 and January 2006 preceding the elections the monthly average headline and underlying inflation rates all stood at 0.4%. However in the election month and the two months that followed the monthly average headline inflation rate increased to 1.5% while the underlying rate remained stable at 0.4%. During the period of October – December 2005, the number of projects licensed by Uganda Investment Authority (UIA) rose by 46 percent to 98 percent from 67 percent recorded in the period July – September 2005 a clear indication that the forthcoming elections did not deter investor confidence in the Ugandan economy. Total estimated investment, as well, rose by 40 percent to US\$ 176.5 million, from US\$ 126.2 million over the same observation period.

In the same vein, the capital markets industry continued its steady growth. During the year under review, the total turnover at the Uganda Securities Exchange stood at US\$ 7.7 Billion up from US\$ 3.3 Billion recorded

in the previous fiscal year. At the same time Standard Chartered Bank and East African Development Bank were able to issue corporate bonds of US\$ 20 Billion and US\$ 23 Billion respectively. In addition Jubilee Holdings Ltd became the third company to cross list on the Uganda Securities Exchange (USE) from the Nairobi Stock Exchange.

For the Authority, public education continued to not only be employed as a tool to enhance financial literacy but a regulatory tool to protect investors. On regional integration and international co-operation, as the East African region continues to forge all efforts to become one, issues especially as seen from foreign portfolio investors in our markets, for instance cross border trade, systems and movement of resources will continue to take centre stage. In this regard, the Authority dedicated its limited financial, human and capital resources to the achievements of these functions.

Challenges

The year under review did not go without challenges. As alluded to above, CMA has been continuously challenged.

Insufficient Funding: The need to become self sustaining, which is a question that has been put to us, is one to be met with the industry's growth. The small size of the industry has not made possible the generation of enough funds to support the Authority, as is the case in countries with developed capital markets. The limited funding has meant that the Authority has not been able to fully carry out its mandate and has limited its activities to fit within the available funds.

Lack of new products coming to the market: A market that is not vibrant with several products as is the case in Uganda cannot generate the revenue required to sustain the Authority. This can only be achieved if the private sector starts to actively use the capital markets as a means of raising long term finance. Currently the market is dominated by privatizations in which is not a sustainable option.

Lack of a Central Depository System (CDS): This has continued to slow the pace of regional integration of securities markets. Unlike our counter parts in Kenya and Tanzania who have CDSs in place Uganda will have to continue to bear the risks associated with manual settlement of securities and the holding of paper share certificates. A CDS will reduce the risk of a manual T + 5¹ settlement cycle and reduce it to possibly T+1. A CDS is pertinent as more companies cross-list within

¹This means the trading day plus five days clear

the region. The CDS law will also recognize paperless securities as share certificate are demobilized and pave way for automated trading.

The issue of pension reform has continued to inhibit the growth and development not only of the pensions sector but also of the capital markets industry in Uganda. On the one hand the liberalization of the pension sector would encourage many more players into the market such as fund managers and related disciplines but more importantly would enable further absorption capacity of the capital markets industry. Fears of an inability to absorb public offers continue to dog the private sector. The liberalization of the pension sector will give both breadth and depth to the financial sector. It will also enhance a long term savings culture. The liberalization of the pensions sector will need to be progressed in tandem with the establishment of a suitable regulator of pensions. Jeff Carmichael, Former New Zealand Central Bank Governor and consultant with FIRST Initiative recommends the establishment of a consolidated regulator for all Non Bank Financial Institutions (NBFI) to avoid the duplication of resources and development of synergies between NBFI sub sectors.

Looking Forward


In 2006/07 CMA will further encourage both the demand for and the supply of securities; we will also continue to seek incentives from Government through the Capital Markets Development Committee of the East African Community.

CMA is also looking at strengthening the Authority as an institution. In this regard the Authority will strengthen the structure and internal processes through the revision of the Authority's corporate strategy and 3 year business plan. CMA is developing a new organizational structure which includes a job analysis to provide room for career advancement for staff members.

In 2006/2007 CMA will be celebrating 10 years of the Authority's existence. As we celebrate our achievements we will let our challenges provide the thrust to push us forward.

CMA is grateful for the support we have received from the Ministry of Finance through the Bank of Uganda and the GTZ/Sida Financial Systems Development Programme in enabling us accomplish many of our objectives and place CMA clearly on the radar screen. Our gratitude also goes to the British Council and Hima Cement for their efforts in helping us attain greater financial literacy.

Lastly I thank my fellow board members for their support in steering the authority in their first year. I am sure we will map out a strategy to advance the Authority to another 10 years and more. I also thank the Chief Executive officer and the management and staff of the Authority for their tireless efforts in advancing the industry.



Twaha Kaawaase
Board Chairman



Introduction

The financial year 2005/2006 was another landmark year in the development of capital markets in Uganda. 2006 was the year when Capital Markets Authority (CMA) made its 10th birthday, and just like any other 10 year old 'child' was punctuated with achievements and challenges. The following paragraphs highlight the key issues/activities that advanced the year under review.

Legal and Regulatory Framework

During the period under review, the Minister of Finance Planning and Economic Development, Dr. Ezra Suruma, appointed and inaugurated the new Board of the Capital Markets Authority. With the new board comes a wealth of experience and expertise in the legal, financial and market development fields. The new board members will serve on various committees in line with their qualifications and work experience. Details of this will be highlighted in subsequent sections of this report. The Board is chaired by Mr. Twaha Kaawaase, a partner with Sejjaaka, Kaawaase and Co. Certified Public Accountants. The Minister also thanked the inaugural board that was chaired by Mr. Leo Kibirango for their efforts in advancing capital markets in Uganda.

In carrying out CMA's major function of regulating the securities market, the Board approved and licensed

three licensees. The Board also approved the revocation of three investment advisor licenses. As at 30th June 2006, the number of licenses stood at 19, with 4 fund managers, 1 unit trust operator, 1 trustee, 9 broker/dealers and 18 investment advisors.

To ensure continual market integrity the Board of the CMA approved amendments to the USE rules, which had the effect of designating Monday as the third trading day, requiring verification of sale transfer forms by brokers before delivery to the Exchange and introduction of additional penalties for bad deliveries. The amendments took effect on 1 July 2006.

Market surveillance also meant the annual inspection of licensed firms to ensure their continuous compliance with the Authority's requirements. Some of the common issues that arose out of inspections include;

- Procedures manuals not present or lacking in certain aspects for instance set up of adequate compliance procedures and complaints procedures
- Some licensees couldn't demonstrate knowledge of CMA's laws and regulations
- Inadequate signage to company premises to guide prospective clients
- Non-compliance with CMA's disaster recovery guidelines issued in November 2005
- Inadequate staff training and development
- Lack of regular board meetings and evidence of the same
- Lack of sufficient capital to run the business for which they were licensed
- Late submission of periodical financial returns to the CMA

The Authority has continued to work with the licensed firms to ensure compliance and enable investor protection.

The Commonwealth Secretariat continued to assist CMA to review the CMA Act, to bring CMA regulation in line with new developments in the securities industry worldwide. The Commonwealth Secretariat has given technical support for the revision of CMA's laws and regulations on numerous occasions.

Public Education and Awareness

Apart from the development of a sound legal and regulatory framework, CMA employs public education and awareness campaigns as one of the key tools to

develop the market and ensure investor protection. In line with this CMA continued to conduct seminars, visit institutions of learning, participate in exhibitions, carry out the "office to office" initiative and even introduced some new public education activities in response to the increased interest in capital markets.

In March 2006 CMA, with sponsorship from GTZ/Sida FSD programme and Hima Cement, successfully held the first ever Capital Markets University Challenge. The Challenge targeted University students and focused on testing the students' knowledge and understanding of capital markets and financial issues as well as the analytical, presentation, organizational and communication skills of the students. The choice of this category of society was based on the success CMA has had with the Annual Schools Challenge. Through both these educative competitions, CMA was able to reach a wide adult audience of parents, lecturers as well as the interested general public. It is hoped that this ripple effect will translate into effective participation in the stock exchange.

As has been the custom, CMA held an annual end of year seminar. The 2005 seminar whose theme was 'Pension Reform: It's Impact on Capital Markets Development', attracted various people from both the public and private sectors.

The objective of the seminar was to provide a forum for discussion on the ongoing pension sector reform process in Uganda and the impact of pension funds on capital market development. Resource persons from the Retirement Benefits Authority, Kenya and the Ministry of Public Service talked about Kenya's experience in pension reform and regulation and challenges faced by the public service pension scheme in Uganda respectively. CMA has been at the forefront of the campaign to reform the pension sector in Uganda.

It is anticipated that this reform will produce a vibrant, efficient and well-regulated pension sector. This in turn will enhance the mobilization of domestic savings, which can be channeled into the capital markets industry.

Market Development

The Minister of Finance, Planning and Economic Development, in February 2006 appointed a new board for the National Social Security Fund (NSSF). The New Board is chaired by Mr. Edward Gaamuwa, a senior management consultant in economic resources and organizational development. This is a fundamental development in the industry because NSSF is a major institutional investor in the Ugandan capital market.

During the year the Fixed Income Securities Market Segment of the USE had two new corporate bonds issued by the East African Development Bank (EADB) and Standard Chartered Bank.

In February 2006 the USE realized an additional product through the cross listing of Jubilee Holdings Limited from the Nairobi Stock Exchange. This brings the number of cross listings to three and the total number of listed companies to eight².

Regional and International Cooperation

CMA values cooperation with other regulators both in the region and internationally. This co-operation has continued to go a long way in combating fraud in financial markets, which transcends national and regional borders.

To this end, CMA signed Memoranda of Understanding (MOUs) with the Securities and Exchange Commissions of Nigeria and Zambia, bringing to five the MOUs that have been signed with other securities regulators. Some of our licensed market intermediaries are subsidiaries of companies domiciled in the jurisdictions with whom CMA has signed MOUs. The signing of the MOUs comes in the wake of increased fraud on the global market arena, making it important for financial market regulators to share information and co-operate to combat crime and ensure integrity in the markets. It is hoped that this co-operation among regulators will promote investor protection, integrity of the securities market and increase mutual understanding and exchange of regulatory and technical information.

Even without MOUs regulators have embraced the need to help each other build capacity amongst staff members. Some of the CMA members have been exposed to best practices in other important training programmes the CMA participated in which include the Emerging Markets Programme on the theme 'Capital Markets Regulation: Striking a New Balance' and the Financial Literacy Summit organised by the Malaysian Central Bank and SEC Malaysia, and the Financial Services Authority UK annual international seminar.

Co-operation within the East African region has continued to be at the centre stage of capital market development. The 19th East African Securities Regulatory Authorities (EASRA) meeting which took place at Mweya Safari Lodge in August 2005, gave priority to the promotion of cross listings within the region. The 20th EASRA meeting held in Arusha, Tanzania in April 2006 came up with proposals to be included in the East African Community Capital Markets

Development Committee report. These included reservation of 40% shares at Initial Public Offer allocation for East Africans, use of the East African Capital Markets Development Committee (CMDC) forum to urge Uganda and Tanzania to expedite the passage of the Central Depository Systems Laws, and granting tax relief for pension contributions, mortgage payments and life insurance premiums to facilitate mobilisation of long term savings.

These and other proposals that have been made over the years were considered during the budget process and culminated in several incentives for capital markets development in each of the three jurisdictions. In Uganda the Minister of Finance announced the reduction of withholding tax on dividend income distributed by companies listed on the stock exchange from 15% to 10%, and tax exemption of income accruing to all Investor Compensation Funds established for the purpose of protecting investors in the capital markets industry. These measures will encourage the growth of the stock market as a means of mobilizing domestic savings and investment. In Tanzania corporate tax for newly listed companies was revised downwards from 30% to 25% and withholding tax on incomes accruing to Collective Investment Schemes was reduced to 10% from 30%.

Kenya received a comprehensive incentives package for the capital markets industry listed below.

- Exemption of interest on listed asset backed securities/bonds from income tax
- Interest on listed bonds for raising funds for use in infrastructure is tax exempt
- Employee share option plans legislation introduced effective 16th June 2006
- Policy holder's compensation fund is tax exempt
- Unclaimed dividends for more than 7 years to be paid to capital markets investors compensation fund

A major milestone in international co-operation was the work done under the auspices of East African Regulatory Securities Authorities (EASRA), in which the securities regulators resolved to work together to become signatories under Appendix A of the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMOU) or to express commitment to seek legal authority to enable them to become signatories of the MMOU by January 2010. With assistance from FIRST

Initiative each country was able to make an assessment of the barriers to the signing of the MMOU and work towards removing these barriers in time to meet the IOSCO deadline of 2010.

Further to this, CMA continued to actively participate in IOSCO activities and even hosted the IOSCO Africa and Middle East Regional Committee (AMERC) Seminar Training Program on the implementation of IOSCO principles and combating financial fraud through enforcement related cooperation & information sharing. The seminar was attended by 40 delegates from 35 countries who shared pre and post signing experiences of signing the IOSCO Multilateral MOU.

A representative from FIRST Initiative addressed issues of technical and financial support for those countries still trying to comply with IOSCO principles. Practical issues on information sharing on various aspects of financial fraud were also discussed.

Other IOSCO meetings that the CMA participated in during the period include the Emerging Markets Committee (EMC) Meeting in Barbados which discussed securities market development in emerging markets, the 16th IOSCO-AMERC Meeting in Rabat, Morocco, at which I made a presentation "Strengthening Regional Markets and Regional Cooperation: Sharing East Africa's Experience" and the Annual IOSCO conference which took place in Hong-Kong from 5-8 June 2006.

Conclusion and Way Forward

In spite of the challenges still faced by the young capital market in Uganda, I am optimistic that interest and awareness of capital markets will continue to grow as investors gain confidence in the market. Efforts towards regional integration will continue to enable companies have a regional presence and recognition of brands, have access to cheaper additional sources of funding and a wider capital base.

CMA will continue to strive to create a well developed and well regulated industry with the aim of making Uganda's capital market the centre of choice for capital raising and development in the region.

CMA is looking forward to the addition of Kinyara Sugar Works Ltd, National Insurance Corporation and Stanbic Bank³ in the coming year. CMA will also look forward to the delivery of these companies from the divestiture process, as well and continue to seek private sector companies and encourage them to consider raising their long term finance through capital markets.

² By the end of period under review. 30th June 2006

CORPORATE GOVERNANCE REPORT

Different people have come up with different definitions of corporate governance. Sir Adrian Cadbury defined corporate governance as the system by which business corporations are directed and controlled⁴. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

The Capital Markets Authority is headed by an effective Board that offers strategic guidance, leadership and control of the Authority. The Board is accountable to the Minister of Finance, Planning and Economic Development for ensuring compliance with the Capital Markets Authority Act Cap 84. The Board has delegated the day to day operations of the Authority to the Chief Executive Officer who works hand in hand with the management team. The roles of Chairman and Chief Executive Officer (CEO) are separate. The CEO is responsible for directing the affairs of the Authority, and ensuring that the duties, objectives and functions of the Authority are discharged.

Board Composition

The Board comprises the chairman, appointed by the Minister Finance, Planning and Economic Development and 11 other members who represent the public, private and professional sectors. The Board members have experience and expertise in legal, financial, business and administrative matters. The various sub-sectors recommend names to the Minister of Finance who then appoints each board member. Every member appointed to the Board holds office for a period of three years and is eligible for re-appointment.

The following is the composition of the Board for the period ended 30th June 2006.

Chairman

Mr. Twaha Kaawaase

Public Sector Representation

Mr. Y. Wasswa KAJUBI	Representative of the Governor Bank of Uganda
Mr. Billy KAINAMURA	Representative of the Solicitor General
Ms. Maris WANYERA	Representative of the Permanent Secretary, Ministry of Finance, Planning and Economic Development
Mr. Bisereko KYOMUHENDO	Registrar of Companies

Private Sector Representation

Ms. Sarah WALUSIMBI	Uganda Manufacturer's Association.
Mr. Robert KABONERO	Uganda National Chamber of Commerce and industry

Professional Representation

Mr. John Christopher MPALAMPA	Institute of Certified Public Accountants of Uganda
Mr. Kitili MBATHI	Uganda Bankers Association
Mr. Robert KATUNTU	Uganda Bankers Association
Mr. Ronald ZAAKE	Insurance Institute of Uganda
Mr. Alan SHONUBI	Uganda Law Society
Mr. Japheth KATTO	Chief Executive Officer

The Board convened meetings once every month, with the exception of a few extra-ordinary meetings called by the chairman at notice. An extra –ordinary meeting was called on 5th December 2005 to consider the East African Development Bank (EADB) bond application. An extra ordinary meeting was called on 11th April 2006 to consider the CMA budget for the year 2006/2007.

A detailed Board manual, approved by the Board offers guidance on board procedures, preparation for meetings, the provision of information to facilitate decision-making and the management of conflict of interest situations.

The table below shows the number of meetings that were attended by the board members between October 2005 - June 2006. During the period June - September 2005, the new Board for the Authority had not yet been appointed and no meetings were convened.

³ Stanbic Bank was listed on the Uganda Security Exchange on the 25th January 2007

Board meetings of the Capital Markets Authority Board

Member /Dates	25/ 10/05	15/ 11/05	05/ 12/05	13/ 12/05	17/ 01/06	21/ 02/06	28 03/06	25 04/06	30 05/06	27 06/06	TOTAL
Twaha Kaawaase	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10/10
*Robert Katuntu	✗	✓	✓	✗	✗	N/A	N/A	N/A	N/A	N/A	2/5
*Kitili Mbathi	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✓	✗	✗	1/3
Wasswa Kajubi	✓	✗	✓	✗	✓	✓	✓	✓	✗	✗	6/10
Billy Kainamura	✓	✓	✓	✗	✓	✓	✓	✓	✓	✗	8/10
Maris Wanyera	✗	✗	✓	✓	✓	✗	✓	✗	✓	✓	6/10
Bisereko Kyomuhendo	✓	✗	✓	✗	✓	✓	✗	✓	✓	✗	6/10
Sarah Walusimbi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10/10
Robert Kabonero	✓	✓	✓	✓	✓	✗	✓	✓	✗	✓	8/10
John C. Mpalampa	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	9/10
Alan Shonubi	✓	✓	✗	✓	✓	✓	✓	✓	✗	✓	8/10
Ronald Zake	✓	✓	✗	✓	✓	✗	✓	✓	✗	✓	7/10
Japheth Katto	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓	9/10

Committees of the Board

For purposes of efficiency, the Board is divided into five committees specializing in the main working areas that is,

- Legal and Compliance,
- Research and Market Development,
- Finance & Administration,
- Human Resource and
- Audit Committee

All Board Committees, governed by terms of reference developed by the Board, are mandated to make recommendations to the Board on all matters under their consideration. In terms of composition, the Committees comprise Board members with pertinent expertise in the various areas in order to maximize technical capability at the level where issues are dealt with in depth. The Chairman of the Board, Mr. Twaha Kaawaase and the Chief Executive Officer, Mr. Japheth Katto attend all board committee meetings as ex-officio members with the exception of the Audit committee.

Legal Committee

The Legal Committee comprised:

Mr. Billy Kainamura - Chairman
 Mr. Bisereko Kyomuhendo
 Mr. Alan Shonubi
 Ms. Sarah Walusimbi
 Mr. Twaha Kaawaase
 Mr. Japheth Katto

During the period July 2005- 2006 the Legal Committee considered and approved the amendments to the CMA Act, in order to bring the Act in tandem with the IOSCO (International Organization of Securities Commissions) objectives and principles. The Committee approved the application of East African Development Bank to issue a Bond, and that of Standard Chartered Uganda Bank Bond. It also approved the cross listing of Jubilee Insurance Holdings Limited. The committee approved applications of new Licensees.

The Finance and Administration Committee

The Committee is responsible for the Authority's financial management. The Authority submitted to the Ministry of Finance, Planning and Economic Development, quarterly reports of activities and financial matters. At the end of every financial year, the Authority publishes its annual report and audited accounts which are made available to the public.

*Mr. Robert Katuntu tendered his resignation to DFCU Bank and subsequently to the Minister of Finance Planning and Economic Development and in so doing could no longer serve on the Board as the representative from the Uganda Bankers Association.

*Mr. Kitili Mbathi was appointed to replace him in April 2006.

The Finance Committee comprised

Mr. Y. Wasswa Kajubi – Acting Chairman
Ms. Maris Wanyera
Mr. Bisereko Kyomuhendo
Mr. Twaha Kaawaase
Mr. Japheth Katto
Mr. Robert Katuntu (Chairman from October 2005-February 2006)

The Human Resource Committee

The Human Resource Committee comprised

Ms. Sarah Walusimbi-Chairperson
Robert Katuntu (member from October 2005 - 2006 was replaced by Mr. Kitili Mbathi)
Mr. Robert Kabonero
Mr. Billy Kainamura
Mr. Twaha Kaawaase
Mr. Japheth Katto

As an employer, the CMA is committed to providing a working environment that enables staff to develop their potential capabilities and make constructive contributions to achieving CMA's performance objectives. The Human Resource Committee is responsible for monitoring, appraising performance of management, reviewing all human resource policies, handling disciplinary matters and determining remuneration. The Committee makes recommendations to the board on all human resource matters. The Committee successfully conducted interviews on 23rd of June 2006 to the Legal & Compliance Manager position, following the resignation of the Director, Legal Policy and Compliance.

The Audit Committee

The critical role of internal audit makes it imperative to have an independent Audit Committee. In terms of its functions, the Audit Committee plays a critical role in the corporate governance structure by overseeing internal controls, accountability and reporting structures and risk management. During the period under review, the Audit Committee reviewed issues raised by the internal auditors in the Internal Audit Report (for the period July – December 2005) and ensured that the issues were adequately handled. The Committee also reviewed the draft audited accounts for 2005/2006 and found them satisfactory.

The Audit Committee comprised

Mr. John C. Mpalampa- Chairman
Mr. Alan Shonubi
Mr. Ronald Zake (member from October 2005-June 2006)

Research & Market Development Committee

Research & Market Development Committee comprised

Mr. Y. Wasswa Kajubi – Chairman
Ms. Maris Wanyera
Mr. Robert Kabonero
Mr. Simon Rutega
Mr. Ronald Zake (member from October 2005-June 2006)
Mr. Japheth Katto
Mr. Twaha Kaawaase

Contracts Committee (Not a Committee of the Board)

This committee is established under sections 27 & 28 of the Public Procurement and Disposal of Public Assets Authority Act 2003 and regulations 46 – 49 of the Act. Under this Committee, all government and statutory bodies have to establish contracts Committees. The role of this Committee is to oversee the procurement and disposal procedures of the Authority.

The Committee comprised

Ms. Anne Mpendo – Chairperson
Mrs. Ann Muhangi – Member
Mr. Eric Lokolong - Secretary
Ms. Phoebe Kiconco- Member
Mr. John Suuza – Representative of the Solicitor General

Internal Audit function

The CMA has established an internal audit function by contracting an independent audit firm to evaluate financial and other internal structures and systems. The Authority's books of accounts, accounting records and management reports are reviewed on a quarterly basis by the internal auditors and reports are presented to the Audit Committee. The internal auditor is selected by the contracts Committee.

⁴ Report of the Committee on the Financial Aspects of Corporate Governance 1992

The accounts for the year ended 30th June 2005 were audited by Kisaka & Company, Certified Public Accountants.

External Audit

Capital Markets Authority prepares annual accounts in accordance with section 8 of the Capital Markets Authority Act Cap 84. The external auditors are appointed by the Auditor General as required under section 8 (7) of the Act. PricewaterhouseCoopers, certified Public Accountants were re-appointed auditors for the year ended June 2006.

Reporting and Accountability

In addition to its annual report and audited accounts, the Authority submits quarterly reports of activities and financial matters to the Ministry of Finance, Planning and Economic Development. Through these reports, the parent Ministry is able to evaluate the industry's

progress and challenges at the close of every three-month period.

Code of ethics

The CMA has earned itself a sound public reputation for honest and ethical business practices over the years. The code of ethics of the Capital Markets Authority is a guide to management, employees and stake holders on acceptable behavior. All employees are expected to avoid activities and financial interests that conflict with their duties and responsibilities at the Authority. All Board Members and senior management are to declare their assets and liabilities to the Inspector General of Government as required under section 5 of the Leadership Code Act cap 168.



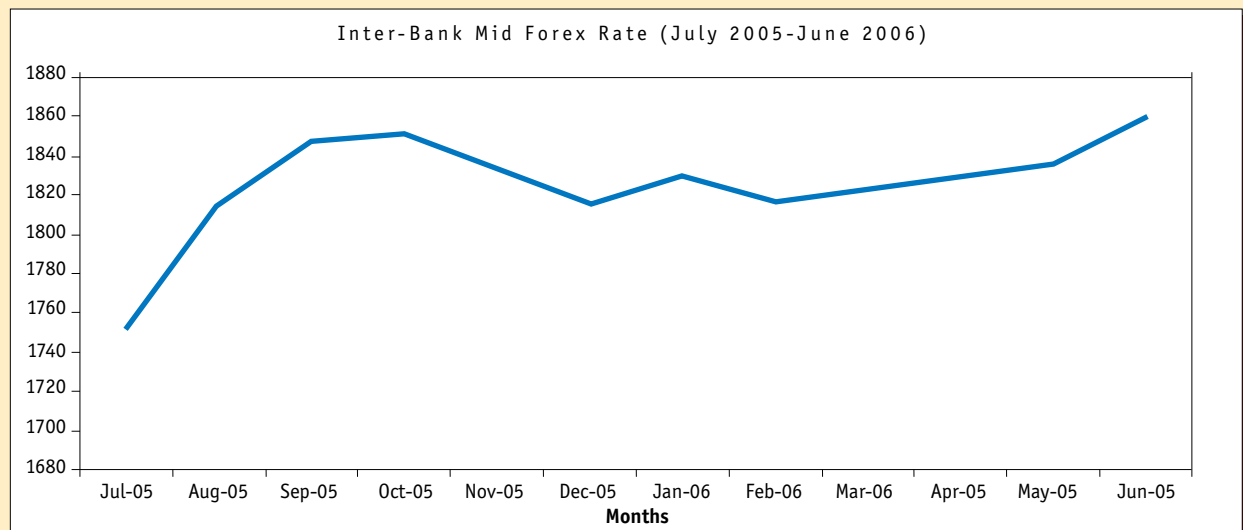
ECONOMIC & FINANCIAL REVIEW

National Economic Outlook

According to provisional estimates from the Uganda Bureau of Statistics (UBoS), the overall growth in the economy during the financial year 2005/06, as measured by real Gross Domestic Product (GDP) at market prices, was 5.3 percent. This was lower than the 6.6 percent increase achieved in 2004/05. The decrease in growth rate can largely be attributed to domestic factors: the prolonged drought conditions in most parts of the country, which affected agricultural output; and the effect of the energy shortages on industrial production. In addition, the high and volatile world oil prices have continued to negatively affect most sectors of the economy, and further exacerbate the pressure on domestic prices.

Usually the performance of the capital markets moves in tandem with the performance of the economy, however in the financial year 2005/06 the stock market registered a growth of 25% in the USE Allshare index. A total of 11,527,947 shares exchanged hands, up from 7,726,579 shares recorded the previous fiscal year, a growth of 49%. This good performance is partly attributed to the increased interest in the Ugandan Market by foreign investors who are seeking out high returns exhibited in emerging markets like Uganda.

Figure 1



Source: Bank of Uganda, Monthly Economic and Financial Indicators Report.

Fiscal Performance

Revenue Mobilization and Central Government Expenditure

The projected net Uganda Revenue Authority (URA) revenue outturn for 2005/06 is Shs.2,212.6 billion representing 13.1 percent of GDP, against the budget estimate of Shs.2,230.2 billion representing 13.2 percent of GDP. This reflects a shortfall of Shs.17.6 billion and a performance rate of 99.2 percent. This shortfall is reflected in underperformance of company tax, withholding tax and tax on bank interest, fees and licenses. Total expenditure and net lending is estimated at Shs.3,708.3 billion or Shs.66.4 billion below the approved budget for 2005/06. However, this still represents a 13.1 percent nominal growth over the preceding year. As a percentage of GDP, Government expenditure increased marginally from 21.6 percent in 2004/05 to 21.7 percent in 2005/06.

The deficit, including grants is estimated at Shs.371.1 billion or 2.2 percent of GDP in 2005/06. This is above the programmed 1.9 percent and higher than 0.7 percent recorded in 2004/05, and is mainly on account of the shortfall in donor grants estimated at Shs.67.4 billion. The fiscal deficit, excluding grants, which is government's fiscal policy target, amounted to Shs.1,467.2 billion, equivalent to 8.6 percent of GDP compared to the programmed 8.8 percent.

Exchange Rate Movements

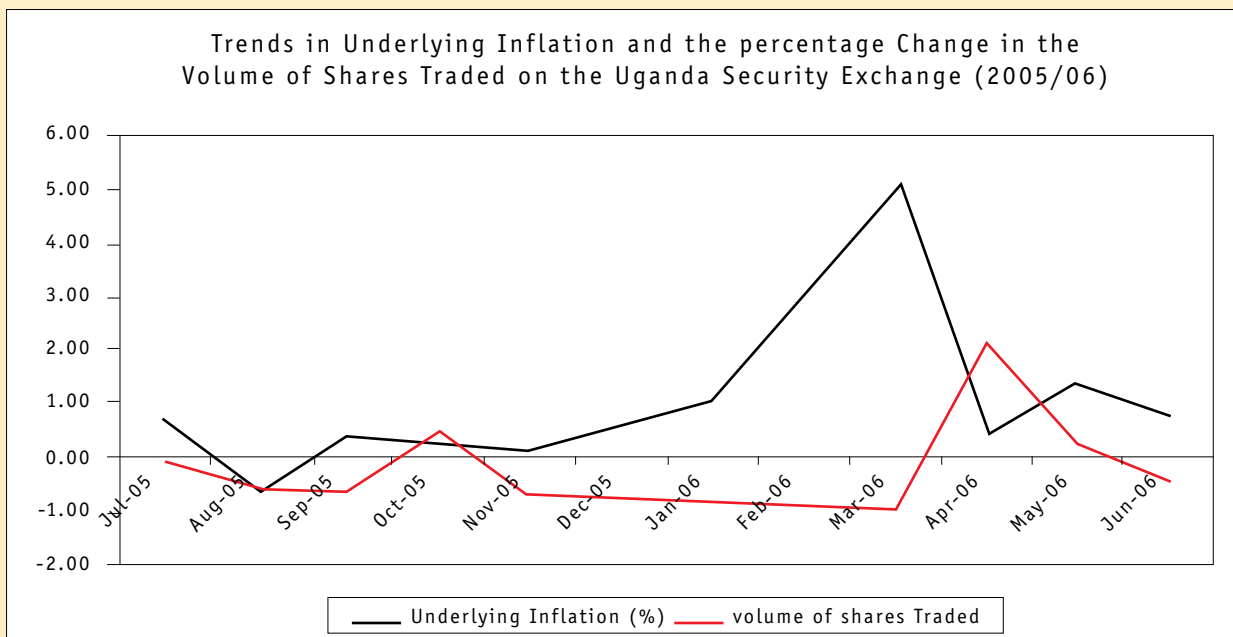
In the period under review the Ugandan shilling remained stable, resulting in an appreciation between July 2005 and February 2006 before commencing a gradual depreciation trend in March 2006. In April 2006 the shilling depreciated by 0.36% from Ugx 1,820.9 to Ugx 1,827.5 and by 0.48% in May to Ugx 1,836.34 per dollar. In June 2006 it further depreciated by 1.2% to 1,859.95. According to analysts the decline was mainly attributed to a general dip in dollar inflows which started in March coupled with heightened demand for the dollar.

A depreciation of the exchange rate is very favorable to foreign investors on the stock market because this makes the shares cheaper. This could be one of the reasons why foreign investors are able to reap high returns on their investments and are thus attracted to a market where the exchange rate is depreciating against the US dollar like Uganda.

The annual underlying inflation moved upwards to 5.3 percent in June 2006 from 4.4 percent in the year ended May 2006, caused by increases in both goods and services inflation. Goods inflation rose to 5.8 percent in June 2006 from 5.3 percent in May 2006, following increases in prices of second hand clothes, some manufactured items, and petroleum products. On the same note, services inflation increased to 4.2 percent from 2.8 percent for the year ended May 2006, driven mainly by the rise in utilities prices.

The annual food crop inflation declined to 14.1 percent in June 2006 from 15.2 percent in the year ended May 2006 following substantial harvests of most fresh food items. Similarly, the monthly food crop inflation declined to -9.6 percent, down from 2.0 percent recorded in the previous month. Despite the rise in inflation, cautious monetary and fiscal policies have helped contain upward inflationary pressures arising from exogenous factors. The increase in food supply is expected to ease inflationary pressures in the coming

Figure 2



Source: Bank of Uganda Monthly Economic and Financial Indicators Reports, Uganda Security Exchange

Inflation

In June 2006, the annual headline inflation rate firmed up to 7.2 percent from 7.0 percent recorded in May 2006. This is the third consecutive increase in overall inflation registered since April 2006 although, still lower than the rate of 10.7 percent registered over the same period a year ago. The acceleration was particularly underpinned to increases in inflation in the clothing and footwear; and rent, fuel and utilities categories.

months. However, the likely impact of hiked electricity tariffs and the continued rise in oil prices still pose the greatest challenges in maintaining stable prices in the coming period.

In a country like Uganda the level of inflation has little bearing on the activity at the stock market because most of the investors are institutional investors who are not severely affected by inflation because they can spread out the costs of inflation given their large size.

A simple correlation between underlying inflation and the percentage change in the volume of shares traded at the Uganda Securities Exchange returns a correlation coefficient of -0.21. As indicated in Figures 2 underlying inflation and the volume of shares traded moved in different direction for the most part of the fiscal year.

Treasury Securities, Domestic Money Market and Interest Rate Developments

During the period July 2005-March 2006, Government Treasury bonds of various maturities were issued to support monetary policy implementation. The annualized yields on the 2-year, 3-year, 5-year, and 10-year bonds were 13.0 percent, 13.5 percent, 15.1 percent, and 13.5 percent, respectively as at end of March 2006. These rates were lower than at March 2005 on account of higher demand. The outstanding stock of Treasury bonds by end-March 2006 stood at Shs. 685.7 billion.

In the secondary market, there was increased activity on account of Treasury bill trading, with the volumes traded increasing by 99.4 percent to Shs. 281.8 billion as at March 2006. The increase was largely on account of the active use of signed Horizontal REPO Agreements (HRA) to facilitate inter-bank lending transactions. Other reasons include the ease of transferability of securities on the Central Depository System (CDS) and Bank of Uganda's Guide on Market Performance Ranking System for primary dealers, which cover the key areas of primary and secondary markets, and market intelligence.

By March 2006, the effective yields on the 91-day, 182-day, and 364-day Treasury bills averaged 7.6 percent, 8.8 percent, and 10.2 percent, respectively as compared to the same period last year where rates averaged 8.3, 10.8, and 12.1 percent.

2006/2007 Budget Capital Markets Highlights

In this year's budget the government provided some tax incentives as a way of encouraging the public to participate in the capital markets industry. The withholding tax on dividends paid out by listed companies listed on the Uganda Securities Exchange to individuals was reduced from 15% to 10%. However there is still need to reduce it further to 5% so as to bring it in line with rates in Kenya and Tanzania. The Investor Compensation Fund of the capital markets was also exempted from tax, a move that will greatly boost the growth of the fund.

Capital Markets Development

The fiscal year 2005/06 delivered two more corporate bonds to the market, the East African Development Bank (EADB) 10 year unsecured Bond with a face value of Ushs 20 billion and the Standard Chartered Bank (U) Ltd (SCB) 7 year unsecured subordinated Bond with a face value of Ushs 23 billion. Interest on the EADB bond is pegged to the 182 Treasury Bill yield plus a margin of 1%, payable semi-annually whereas the SCB Bond will offer both fixed and floating interest rates priced at the 182-day Treasury bill rate. In February 2006 Jubilee Holdings Limited was cross listed from the Nairobi Stock Exchange. This brings the number of cross listings to three and the total number of listings to eight. In the 2006/07 fiscal year 3 new equity issues are expected on the market; two Government divestures (Stanbic Bank Ltd and National Insurance Corporation) and Nile Bank Ltd which if successful will be the first company to issue shares to the public solely for the purpose of raising finance. In the secondary market, the Ugandan capital market has continued to grow despite low levels of liquidity evidenced by a turnover ratio of less than 5%. Since 2004 foreign investors have shown increased interest in the Ugandan market by buying a substantial amount of shares in the locally listed companies. This trend has continued and partly accounts for the increased share turnover in 2005/2006. The volume of shares traded and turnover grew by 20% and 63% respectively. The total turnover for the 2005/06 fiscal year stood at Ugx 7.7 Billion up from Ugx 3.3 Billion recorded in the previous fiscal year. At the end of the fiscal year the size of the market stood at Ugx 3,996 Billion up from Ugx 3,673 Billion at the end of July 2005.

In the fixed income securities market segment, the government bond market recorded a total turnover of Ushs 17Bn in secondary Trading up from Ushs 9.1Bn traded in 2004/05. The corporate bond market only realized Ushs 700Mn in the period under review and this was registered on the East African Development Bank counter. There was no activity on all the other counters.

Conclusion

The next fiscal year promises to be another good year for the capital markets industry especially with the listing of Stanbic Bank on Uganda Securities Exchange. This is going to be the biggest ever in the history of Uganda's Capital markets industry. It is likely to increase the number of investors and trading activity on the market. However if the energy crisis is not adequately addressed it may dampen the stock market performance as it continues to erode Uganda's economic growth.

LEGAL AND COMPLIANCE REPORT

1. Licensing

During the Financial Year 2005/2006, the Authority granted the following licenses

CDH Securities Limited was granted a license to operate as a fund manager, broker/dealer and investment advisor. CDH Securities is a subsidiary of Transafrika holdings, which was incorporated ten years ago and has been in the business of securities and discount houses in Ghana, Malawi and South Africa. Their proposed clientele includes banks, financial institutions, corporate entities and individuals.

Crested Stocks and Securities was approved and licensed as a broker/dealer and investment advisor. The licensee is a newly incorporated company in Uganda and its proposed clientele includes individuals, privately owned companies, public sector entities and foreign investors.

PricewaterhouseCoopers (PWC) Limited was approved as an investment adviser [Parts (a) and (b) only]. Part (a) relates to advising others concerning securities and Part (b) relates to issuing or promulgating analyses or reports concerning securities. Part (c) relates to management of a portfolio of securities for the purpose of investment.

PWC is a locally incorporated limited liability company and a wholly owned subsidiary of PricewaterhouseCoopers Africa Central Limited incorporated in Bermuda. The licensee intends to offer investment advisory services to both private and public sector entities.



On November 16th 2005 CMA notified the public of the Board decision to **REFUSE** the application of **Mr. Allen Hope** of Plot 47/48 Kisugu Close, Muyenga, P. O. Box 21201, Kampala on the grounds that the applicant was not a fit and proper person to conduct the business of an investment advisor in Uganda. The public was advised that under the sections 32 and 39 of the Capital Markets Authority Act (Cap 84. Laws of Uganda), any person who acts as an investment advisor or holds himself out to be an investment advisor without a license from the Capital Markets Authority, commits an offence and is liable to a fine and/or a term of imprisonment.

Cessation of Business by John Richard Downer, EADB and GICL

During the period under review, Mr. John Richard Downer, an investment advisor, requested that his license be revoked. Mr. Downer cited the growth in the market being held back by the lack of deregulation in the pensions and saving sector.

The East Africa Development Bank (EADB) requested the Authority to cancel their investment advisory license. This was based on their decision to refocus their resources to project advisory work. Similarly, the directors of Global Investment Consultancy Limited (GICL) requested a revocation of their license for business reasons.

The above-mentioned licenses were revoked under section 45(2) (b)(v) of the Capital Markets Authority Act (Cap 84. Laws of Uganda).

2. Development of the Legal Framework

Review of the CMA Act

The CMA, with the assistance of the Commonwealth Secretariat, has been reviewing the Capital Markets Authority Act to bring it in line with new developments in the securities industry and take into account the experience gained in implementing the Act. In September 2005, CMA and the Commonwealth Secretariat conducted the first stakeholders' meeting for the first draft.

The comments received will be used to draft the final bill, which will be presented to the First Parliamentary Counsel for review. The Commonwealth Secretariat has continued to offer CMA valuable technical support for revision of laws and regulations.

Review of CIS Legislation

CMA and Cadogan Consultants, under FIRST Initiative assistance program, have been working on a review of legislation for the development of the legal framework for the Collective Investment Schemes in Uganda, taking into consideration the developments in the securities industry and international requirements and the recommendations from the assisted self-assessment for compliance with the principles of the International Organization of Securities Commissions.

Amendments to the Uganda Securities Exchange (USE) Rules; In view of the growth in the securities industry and the need to continue ensuring market integrity, the Uganda Securities Exchange (USE) presented the following proposed amendments to the USE Rules to the CMA Board;

Amendment to Rule 18 regarding trading sessions;

The increased turnover and trading volumes at the stock exchange over the past year have been an indication of an increase in the trading appetite of the market. This called for more trading opportunities. The USE proposed that Monday be designated as a trading day, in addition to Tuesday and Thursday.

Amendment to Rule 55 regarding transfer forms; The exchange proposed that the selling broker ensure that

the sale transfer form is duly verified before delivery to the Exchange for the avoidance of doubt and in line with best practice.

Amendment to Rule 60 regarding bad deliveries; The stock exchange proposed the following penalties;

1. 0.14% of the transaction consideration subject to a minimum of 10 currency points or a total of the brokerage commission payable on the transaction (whichever is higher) for a delivery between 2.00 pm on T+3 and 11.00 am on T+5
2. A censure letter from the Exchange, copied to the Authority upon default
Interest based on the 182 day T – Bill rate on default.

The current penalties for bad deliveries are premised on the buy-in procedure. If a defaulting broker makes delivery before 11.00a.m on T+5, the buy-in penalties would not apply. The purpose of this proposed rule on penalties is to compel the brokers to observe the Rules and the severity of the penalty is to ensure the integrity of the market.

The CMA Board considered and approved the proposed amendments to the USE Rules which amendment took effect on 1st July 2006.

Future Focus

The focus of the Legal and Compliance Department in the coming year will be the assessment of the legal framework for compliance with the remaining 27 IOSCO Principles in what is termed as the IOSCO Principles Assessment Project (IOSCO PAP). The IOSCO PAP is an East African Securities Regulatory Authorities (EASRA) regional project. Even though the assessment is a regional project, the amendment of legislation and application to become signatories to the IOSCO MMOU will be undertaken by the individual regulators in their respective jurisdictions.

The Department will also prioritize the review of the legal and regulatory framework relating to Collective Investment Schemes, corporate governance, and finance and accounting requirements, to bring them in line with best market practices and international standards.

REGIONAL INTEGRATION AND INTERNATIONAL CO-OPERATION

1. Introduction

The various changes affecting the worldwide financial architecture during the year under review brought about a global structural evolution. The nature of investments and actors, the rules and the financial apparatus, evolved considerably. However, advancement was not in any way uniform in the sense of a globally integrated and balanced economy. On the contrary, dominant trends seem to reveal an immense deficit in the sense that real profits generated by globalization are always inaccessible to the vast majority, especially those in Sub Saharan Africa. This further etched the ever-growing impression that opportunities are poorly distributed. In this context, regionalization and reinforcement of economic groups of adapted size seemed to represent the most relevant way to benefit from globalization opportunities and minimize the risks resulting from this process⁷.



Capital Markets Authority (CMA) remained conscious of the role it plays, and what it stands to gain from the process of regional integration and the continuing international co-operation. In the face of the disparities mentioned above, the institutional expression of regionalization has become the most viable way to respond to the challenges and opportunities resulting from globalization and liberalization of economies and financial markets.

To this end, CMA participated in various regional and international fora to garner as much as possible to enable the Authority contribute effectively to economic development and to the soundness of the financial sector. The pertinent issues are highlighted later in this report

2. Memoranda of Understanding

The signing of the Memoranda of Understanding (MOU) with the Securities and Exchange Commission (SEC) of Nigeria in July 2005 and Zambia in October 2005 have enabled the building of capacity through training programmes and provisions of resource persons. To this extent CMA was invited to participate in the African Regional Capital Markets Training Programme in Abuja, Nigeria. The training addressed dispute resolution and adjudication in capital markets as well as various surveillance techniques and parallel civil and criminal enforcement of securities laws. In the same vein the Chief Executive Officer, Mr. Japheth Katto was invited as a resource person at SEC Nigeria’s National Capital Markets Conference. CMA (U) is learning from Zambia’s

⁷ Sub Regional Workshop Conclusions on “Regional Integration and International Cooperation in the ECOWAS: The role of Employers’ Organizations” 25 – 26 February 2003

experience with incorporating capital markets studies in the secondary school curriculum. All regulatory bodies agree that international cooperation will usher in the repositioning of African capital markets as one of the effective channels for achieving NEPAD goals.

The scope of the memoranda was to promote mutual assistance and exchange of information among the two regulators with specific focus on;

1. Full and fair disclosure by issuers and offerors
2. Enforcement of laws and rules relating to issues
3. Supervising and monitoring securities activities
4. Detection of market manipulation, insider dealing and curbing of deceptive practices
5. Technical cooperation and assistance

Similar Bilateral MOUs have been signed in the past with the East African Securities Regulatory Authorities (EASRA), the Financial Services Board of South Africa and the Financial Services Commission of Mauritius.

3. East African Securities Regulatory Authorities (EASRA)

At EASRA's 19th Consultative Meeting, Dr. Fratern Mboya, Chief Executive of the Capital Markets and Securities Authority (CMSA) Tanzania was elected new EASRA Chairman taking over from Mr. Japheth Katto, CEO (U), CMA who had been chairman for two and a half years. The secretariat will be in Tanzania where Mrs. Nasama Massinda (Director Legal and Enforcement) will be the new coordinator taking over from Uganda.

First Initiative IOSCO – MMOU Project

CMA Kenya, CMA Uganda and Capital Markets and Securities Authority of Tanzania (CMSA) – are required by the terms of their membership of the International Organization of Securities Commissions (IOSCO) to apply to become and be accepted as signatories under Appendix A of the IOSCO Multilateral Memorandum of Understanding (MMOU) or to express commitment to seek legal authority to enable them to become signatories of the MMOU by January 2010. Under the auspices of the regulators umbrella body, EASRA (the East African Securities Regulatory Authorities) the three authorities resolved to work together to meet this obligation, sought and received assistance from FIRST⁸ Initiative to mount a project designed to assess the barriers to their being able to sign the MMOU and to

develop an action plan to remove those barriers in time to meet the IOSCO deadline. The goal of the project is to strengthen cross-boarder co-operation in the enforcement of regulation by EASRA member countries. The purpose of the project is to mitigate the obstacles to and further the capacity of each of the EASRA member's ability to become signatories of the IOSCO MMOU.

EASRA has now completed Phase 1 of the assessment exercise which was an assessment against 3 core IOSCO principles, which relate to international cooperation and exchange of information. The areas that need to be addressed in order to achieve compliance were identified, resulting in a review of the legislative framework in line with international standards. EASRA will continue to seek funding for the assessment of the remaining 27 principles in a project termed the IOSCO Principles Assessment Project (IOSCO PAP).

With this exercise complete, EASRA members will individually pursue the amendment of securities legislation and apply to IOSCO to become signatories of the MMOU.

Credit Rating Agencies

Comparative research and analysis was carried out on the practice of Credit Rating Agencies in Malaysia, South Africa, United Kingdom, India and Nigeria. The EASRA Consultative meeting agreed that credit rating agencies be approved as opposed to licensed regardless of whether they are recognized in another jurisdiction. The approval will be a one-off authorization though continuous obligation will apply. The regulators will exercise regular monitoring and supervision of both on-site and off site inspections to ensure continuous compliance on the part of the agency. It was agreed that the approval by one EASRA member will amount to a recommendation in support of an application for an approval in another EASRA jurisdiction. It was also agreed that the eligibility criteria and minimum continuous obligations of India will form the basis of the eligibility criteria and continuous disclosure requirements in the EASRA member states.

Private Placement:

A proposal was made to amend the enabling laws to take care of the prospectus requirements and public offer of securities. To this end, private placements that will result into public offers will have to be sanctioned by the regulators once the amendments are passed.

⁸FIRST (The Financial Sector Reform and Strengthening) Initiative is a multi donor project aimed at promoting robust and diverse financial sectors in developing countries. The founders are, the World Bank, UK's Department for International Development (DFID), Canadian International Development Agency (CIDA), the International Monetary Fund (IMF), State Secretariat for Economic Affairs of Switzerland and the Ministry of Foreign Affairs of the Netherlands (MFA)

This will be achieved by;

1. Issuers notifying regulators of the intended issue to afford the regulator an opportunity to evaluate the nature of the offer.
2. Broadening the definition of the term 'public offers'
3. Limiting the number of persons to whom the placement is made
4. Placing the burden of proof that an issue is not a public offer on the offeror

In this way, the role of the Authorities as regulators and investor protectors in the securities market will be enhanced.

4. East and Southern Africa Anti Money Laundering Group (ESAAMLG)

CMA was represented at the August 2005 East and Southern Africa Anti Money Laundering Group (ESAAMLG) and council of ministers meeting in Livingstone, Zambia. The 10th task force meeting, among other things passed and adopted the Multilateral MOU between the 14 member states, and discussed the need to determine whether member countries financial systems have the capacity to detect and track money laundering and terrorist financing. This would be by way of mutual evaluations. It was argued that member states that had already undergone the IMF/World Bank Financial Sector Assessment Programme (FSAP) should be exempted from the mutual evaluations. The council of ministers also agreed to adopt the 3 year strategic plan and the September 2004 - August 2005 annual report.

Other issues brought to the participants attention included;

- **Trade based money laundering:** This is being done through tax avoidance and evasion, false declarations on value and amounts of exports and imports and over and invoicing of goods and services
- **Financial sector related money laundering:** This happens in banks, insurance companies as well as capital markets. Key issues regarding these were addressing know your customer policies, monitoring size and incidences of transactions, tracing of origin of funds and recipients.
- **Money laundering by professionals:** It has become common for professionals such as lawyers and accountants to be engaged in holding of nominee and trustee accounts. These are increasingly being used as conduits for money

laundering and financial fraud.

- **Money laundering through cash economies:** The greatest facilitator to financial fraud in the African region is the predominance of cash economies. This is because money does not necessarily flow through the banking and other investment sectors. As a result money from legitimate and illegitimate sources mixes without detection. Economies were urged to move from a cash economy and encourage the use of banks or other formalized financial sector apparatus to enable the tracing of financial related fraud.

5. Committee for Insurance, Securities and Non-Bank Financial Authorities (CISNA) of Southern Africa Development Community (SADC)

CMA has benefited from its relationship with CISNA. Whereas the Authority has an observer status, CMA will benefit from the Technical Assistance grant from FIRST Initiative that has been approved for the strengthening of both SADC and East Africa Non Bank Financial Institutions (NBFI) regulators. The US\$ 410,000 project will identify residual training gaps and develop a training roadmap. This will involve developing training material and offer various forms of training in partnership with local institutions in both SADC and the EAC.

The Authority's participation in CISNA has also enabled it have a better understanding of the operation of non bank consolidated financial regulators in the other parts of Southern Africa. A proposal for a non bank financial institutions regulator in Uganda arising from a study funded by FIRST Initiative and has been submitted to the Ministry of Finance Planning and Economic Development for guidance and further discussion.

6. International Organization of Securities Commissions (IOSCO)

In November 2005, the Authority hosted the IOSCO Africa and Middle East Regional Committee (AMERC) Seminar Training Program on the implementation of IOSCO principles and combating financial fraud through enforcement related cooperation & information sharing. The seminar was attended by 40 delegates from 35 countries who shared pre and post experiences of signing the IOSCO MMOU. A representative from FIRST Initiative addressed issues of technical and financial support for those countries still trying to comply with IOSCO principles. Practical issues on information sharing on various aspects of financial fraud were also discussed.

Specific areas of the training were;

1. The regulator being able to conduct comprehensive inspection, investigation and surveillance powers. This will involve a regulator having an adequate legal framework to vet applications for licenses and issue of securities, the capacity to monitor on an ongoing basis market activities with specific focus to suspected breaches with the view to eliminate systemic market risks.
2. The regulator should have comprehensive enforcement powers, the objective being, to enable them take action against persons breaching capital markets laws and regulation. This in turn results into market confidence and respect for the regulator
3. The regulatory system should ensure effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.
4. An effective compliance program would involve identifying records and materials that describe enforcement activities, press releases covering necessary enforcement cases, complaints and action taken. In undertaking inspections, the adoption of a risk based approach is significant in detection of latent defects.
5. The regulator should have the authority to share both public and non-public information with domestic and foreign counterparts. This is important for both local and international cooperation in ensuring investor protection and building of market confidence.
6. Formalities of becoming a signatory to the IOSCO MMOU. The members countries should be able to gather information, protect confidentiality and enforce the law. The ability to cooperate predicates on the ability to enforce. All these abilities must be statutorily entrenched and must be free from interference by the judiciary the legislature and the executive, except on bona fide grounds.

7. Other FORA

7.1 African Stock Exchanges Association Meeting

The 9th African Stock Exchange Association (ASEA)

conference took place in Cairo Egypt in September 2005. The conference was organized by the Cairo and Alexander Stock Exchanges under the theme “**Accelerating Development in African Securities Markets**”.

The conference gave ASEA members an opportunity to meet, interact and discuss the impact of three main issues namely:

- Capital market development and economic growth
- Technology advancements and product innovation
- Corporate governance of the African stock exchanges

The conference explored avenues of developing the African capital markets through the use of technology.

7.2 2005 Emerging Market Programme, 24th – 30th September 2005

The Malaysian Technical Cooperation programme (MTCP) selected and sponsored one of CMA’s officials to an emerging markets programme under the theme ‘Capital Market Regulation: Striking a New Balance’. The training programme took cognizance of the fact that regulators of emerging markets are faced with the unique challenge of growing their nascent markets, while at the same time, preparing them to meet the challenges of increasing global competition. The policy mix recommended could comprise an interventionist approach or a carefully planned, long term strategy that is rolled out in orderly phases, or it could be market based and highly market sensitive and reactive. Regulators are mindful of the need to strike a new balance between regulatory and market discipline, taking into account the competing needs of sound regulation, investor protection, and ensuring fair and competitive markets.

Conclusion

In the quest to develop and continue regulating an efficient and fair market, continued regional integration and international cooperation will be at the center stage of our activities. CMA will continue to participate in regional and international fora to seek greater co-operation with other regulators in the field of market development, legal and regulatory development as well as enhance public / investor education.

PUBLIC EDUCATION REPORT

Introduction

2006 witnessed a new awakening on the need and benefits of financial literacy in the Asia Pacific Region, the America's, Southern and Sub Saharan Africa, Australia as well as in the East Africa region. Indeed substantial resources were dedicated to the addressing of several aspects of financial literacy, including:

1. Research done on investor psychology with regard to financial literacy by INSEAD⁹,
2. The developing of group specific financial literacy programs
3. The convergence of academics, educationalists, policy makers, financial sector practitioners and development partners at consumer protection and financial literacy symposia.

These meetings in many ways broadened the scope of understanding of the problem posed by financial illiteracy and pointed to the need to have a holistic approach to consumer education and investor protection. Emphasis was also placed on the need to evaluate the various programs and asses their impact on communities.

In 2005/06, globalization, the advancement of technology, product innovation, deregulation and greater competition are all factors that shaped and transformed the world's financial and economic architecture. Increased education levels, growth in wealth and greater affluence amongst communities also contributed to the need for greater financial literacy. Many economies worldwide embraced the fact that it is their households (household consumption) that will continue to be responsible for the growth and development of their economies. Indeed more discerning households can drive greater innovation and determine greater efficiency in terms of lower fees and better quality services. This is so because greater financial literacy contributes to the mitigation of financial risks as individuals are able to seek information and do comparative shopping in the face of today's aggressive marketing by financial institutions. For this reason information providers are reminded of the need to avail the information in a manner that is simple, brief, contextualized to the needs of the consumer and delivered at the right time.

The case of Uganda

In the case of Uganda, much as CMA has conducted substantial public education campaigns on capital

markets, statistics show that individual and institutional shareholding status for every locally listed company during and after the Initial Public Offer (IPO) were on the decline. Table 1 below clearly shows that during the primary market, there are quite a number of individuals who participate in buying shares however the number reduces in the secondary market. It is assumed that either some individuals sell their shares and exit the stock market completely or shares are rotating around the same investors. In addition to this research, questionnaires distributed at several exhibitions in the course of the year indicated that there is a general lack of knowledge about personal finances amongst individuals. This lack of financial literacy and the statistics above have indicated that CMA needs to change its approach to public education. The general lack of knowledge about the financial sector has caused CMA to rethink its public education strategy in line with the rest of its counterparts in other jurisdictions.

CMA's approach in 2007 is to employ a holistic approach in its public education programs. The programs will cover basic personal finance concepts namely budgeting, investing and savings as a precursor to the demystification of more sophisticated financial matters such as insurance, pensions and capital markets. This will enable the Authority build a wider and more knowledgeable investor platform that will sustain the future market. CMA is looking forward to exploring this all involving public education strategy with various other financial sector players. This is because financial institutions provide a first line of contact with customers and have extended branch networks. Their vast experience in risk assessment would also add various dimensions to ascertaining financial literacy.

In Uganda, increased financial literacy will translate in increased turnover in the market. The 2005/06 F/Y registered more activity on the stock exchange than the activity in the past five years since the stock exchange commenced trading. Even though a lot of the activity was attributed to foreign portfolio investors, Ugandan investors, with a 'wait and see' attitude are beginning to appreciate the workings of the stock exchange and are taking time to understand how they could gain as individuals through investing on the stock exchange.

It is CMA's hope that a refined financial literacy program will stimulate a chain reaction in terms of savings and investments.

⁹ By Anil Gaba, The ORPAR Chaired Professor of Risk Management, Professor of Decision Sciences, INSEAD

Table 1: Shareholding Status of Listed Companies

Company	INITIAL PUBLIC OFFER			(16TH MAY 2006)		
	Individual Shareholders	Institutional Shareholders	Total	Individual Shareholders	Institutional Shareholders	Total
Bank of Baroda	1,948	47	1,995	1,799	48	1,847
Uganda Clays	1,004	28	1,032	918	30	948
BAT(U) Ltd	1,548	60	1,608	1,406	48	1,454
DFCU	3,834	102	3,936	3,900	104	4,004
New Vision	2,305	33	2,338	2,004	250	2,254
Total	10,639	270	10,909	10,027	480	10,507

Source: USE Quarterly Bulletin January-March 2007, Vol.8 Issue. 1, Livingstone Registrars

CMA's Public Education Initiatives

The Authority has continued to fulfill the above mandate of market development and has registered positive strides.

A schedule of the various public education activities carried this financial year is presented in the Table 2 below.

Table 2: Schedule of public education activities June 2005 – July 2006

ACTIVITY Exhibitions	DATE, THEME, TARGET AUDIENCE AND COMMENTS
Western Region Trade Fair, Mbarara	<p>June 2006 – Targeting the general public During the 7 day exhibition, CMA carried out a survey which sought to establish the level of awareness and participation in capital markets. Out of a total of 120 respondents, 78% had heard of shares however only 7% had invested in them.</p> <p>The conclusions of the survey were that knowledge on capital markets is spreading but the active response in terms of investing in capital markets is still slow.</p> <p>The way forward is to find ways to increase participation in the market, and encourage brokers to facilitate upcountry investors.</p>
Lugogo Trade Fair	<p>October 2005 – Targeting the general public The trade fair is one of the more effective public education events that CMA participates in. The trade fair has always provided excellent and unrivalled opportunities for public education, with CMA officials reaching over 1,000 people over a few days. The exhibition has enabled CMA to interact with people from all walks of life, from Uganda, East Africa and many other parts of the world.</p> <p>During the exhibition, public education was carried out through;</p> <ul style="list-style-type: none"> ● One on one discussions with visitors at the stalls ● Distributing publications to the different exhibitors & visitors at the trade fair

	<ul style="list-style-type: none"> ● Radio adverts on CBS FM, which is the only radio station that broadcasts live at the trade show ● An advert in the Monitor Uganda Manufacturer’s Association Guide Newspaper
Other exhibitions	<p>CMA participated in other exhibitions that further educated the general public. These included:</p> <ul style="list-style-type: none"> ● Exhibition to celebrate the Private Sector Foundation Uganda (PSFU) 10th Anniversary celebration exhibition on 21st –22nd September 2006. This targeted members of PSFU and other entrepreneurs in small and medium enterprises. ● Kampala Pentecostal Church (KPC) Anniversary exhibition (September 2005). This targeted members of KPC a church that brings together very many people, especially professionals from different backgrounds.
Capital Markets Theme Week	<p>Theme – “Investment clubs better than gift circles Your personal savings and investment: are they protected?”</p> <p>March 2006 – Targeting professionals especially users of the British council Information Centre and Members of the Management Forum.</p> <p>The theme week addressed the challenge of personal finance management and the options capital markets provides for savings and investments. In particular the discussions were centered on investments clubs.</p>
Capital Markets University Challenge	<p>Theme – “The growth of savings in developing economies has been boosted by the emergence of Collective Investment Schemes”</p> <p>March 2006 – Targeting university students</p> <p>The University Challenge primarily aimed at creating awareness of and participation in capital markets by university students. Eight universities participated in this year’s Challenge. Following the success of the pioneer university challenge, our East African counterparts have expressed interest in working along with CMA Uganda to organize a regional University Challenge on capital markets.</p>
School and University Seminars	<p>July 2005 - June 2006</p> <p>Targeting students</p> <p>The seminars were very important in creating a basis for participation in the Capital Markets Secondary Schools/University Challenges. The presentations during these visits expounded on the role of capital markets to the individual, organizations, and the economy in general. CMA also encourages the formation of investment/ savings clubs in these schools to help instill the savings culture amongst the youth.</p> <p>Universities visited included:</p> <ul style="list-style-type: none"> ● Kyambogo University Symposium (November 2005) ● Makerere University Economics Society (30th September 2005) ● Uganda Christian University Law Society (5th September 2005)

	<p>Other institutions/associations/office visits on the theme “capital markets, an alternative avenue for the savings and investments.”</p> <ul style="list-style-type: none"> ● Old and Grey Association ● National Housing and Construction Corporation (19th October 2005) ● Wazelendo Savings and Credit Cooperative Society (10th October 2005)
<p>Capital Markets Secondary Schools Challenge (CMSSC)</p>	<p>Theme – Capital Markets and Poverty Alleviation July 2006 – Targeting students, teachers and parents</p> <p>Since its inception in 2002, participation in the CMSSC and the impact of the Schools Challenge has increased by leaps and bounds. This year’s challenge spread out to include more upcountry schools, to enable country wide awareness and participation in capital markets. This year registered a 33% increase in the participating schools as compared to last year. 15% of the essays came from upcountry schools as far as Fort Portal, Lira, Gulu, Mbarara and Tororo.</p> <p>The schools involved in the challenge included:</p> <ul style="list-style-type: none"> ● Kings College Budo ● Nabisunsa Girls School, ● Buddo Secondary School ● Pearl High School ● Makerere High School ● Makerere College School, ● Uganda Martyrs Namugongo ● Kibuli Secondary School ● St. Lawrence Citizens (Cream land Campus) ● Mbogo High School ● Mbarara High School ● Mbarara Modern School ● Hallmark High School, Mbarara ● Sentah College, Mbarara ● Luzira Secondary School ● Green Hill School

Conclusion

The benefits of a financially literate society cannot be overemphasized. CMA is confident that increased financial literacy will strengthen the integrity of the financial sector. As a result money laundering and household financial mismanagement will substantially be reduced. In this regard, CMA applauds the remarks of the Governor of Malaysia's Central Bank in saying that:

"Financial literacy needs to be elevated to a more important level on the national and international agenda for a greater shared economic prosperity"

By Governor, Bank Negara Malaysia, Dr. Zeti Akhtar Aziz

13th December 2005

Hotel Istana, Kuala Lumpur



FINANCE AND ADMINISTRATION REPORT

FINANCE

Income

The Income of the Authority reduced by 16% from Shs. 1, 497 million in the year 2004/05 to Shs 1,264 million in the year 2005/06. This reduction was attributed mainly to lack of Government Initial Public Offering (IPO) during the year. A Government IPO would boost CMA's income for the reason that, under a Memorandum of Understanding (MOU) that was signed on the 16th day of April 2002 between The Ministry of Finance represented by the Privatization Unit on one hand and the Capital Markets Authority on the other hand, the Privatization Unit would pay 7% of the total proceeds expected from each IPO to the Authority as regulatory fees and contributions towards Capital Markets Development.

The Authority's income is from the following sources:

Government grant

This is in the form of grants from government and government agencies. The Authority received Shs 860.3 million from this source representing about 68% of the total income in 2005/06. This represents a reduction by 27% from Shs 1,176 million in 2004/05.

Internal

Internal sources of income include listing fees, investments, license fees and any other income. The Authority realized Shs 301.4 million from internal sources representing about 24% of the total income in 2005/06 up from Shs 201.4 million which is 13% of total income in 2004/05. Overall, internal income increased by 49% from Shs 201.4 million in 2004/05 to Shs 301.0 million in 2005/06. Internal revenue is expected to increase in future with listing of more companies and operation of Collective Investment Schemes as well as increased activity in the market.

Donations

Donations and contributions from development agencies and private sponsors of activities amounted to Shs 102.5 million which was 8% of total income in 2005/6 down from Shs 119.9 million 7% which was 8% of total income in 2004/05. These donations exclude direct payments and funding by donors especially GTZ/ Sida to providers of goods and services to CMA. Those

payments form a significant amount of donor support towards capital markets development and public education.

Expenditure

The expenditure of the Authority increased by 5% from Shs 1, 444 million in the financial year 2004/5 to Shs 1, 518 million in 2005/6. This was attributed mainly to increase in staff numbers required to implement the operations of new regulations. Staff cost increased by 37% from Shs 515.5 million in 2004/05 to Shs 703.0 million in 2005/06.

The expenses of the Authority exceeded income by Shs. 255.2 million. This was because of reduced income and increased expenditure during the period under review. A large amount of this was financed by past reserves, provisions and payables.

Capital Expenditure

Capital expenditure during the financial year under review was at Shs 27.4 million.

The major items were:

	Shs'000
Office Equipment	23.7

ADMINISTRATION

Training and Development

In line with the aims and objectives of Capital Markets Authority, staff development and training are considered crucial for the purpose of enhancing knowledge and work performance. CMA has therefore continued to train staff members in different areas of their work which have helped in performance and understanding capital markets issues and challenges.

The Authority has clear objectives for the training and development of staff. This is met subject to availability of funds. The staff training and development process ensures that the Authority has competent staff to serve the ever-changing needs of the capital markets industry.

Human Resource

During the financial year under review the Authority approved a number of policies towards staff retention,

organizational commitment, retirement benefits and staff welfare for implementation during the following financial year 2006/07:

1. Abolition of contract terms of service for all categories of staff except the office of the Chief Executive Officer and replacement with permanent status of employment.
2. The Authority approved introduction of provident fund where the Authority contributes 15% and staff contributes 5% of employee's salary. CMA's 5% contribution to CAP Growth fund, a staff savings scheme, was also cancelled.
3. CMA reinforced medical benefits scheme by replacing cash payments with a medical insurance scheme. Staff members are at liberty to choose the scheme provider.

Staffing

During the period under review, six staff members that had been appointed in the 2004/05 completed their probation and accepted their permanent employment terms. One staff member took one year of unpaid leave to pursue further studies. The number of staff employed by CMA at 30th June 2006 was eighteen.

NAME	DESIGNATION
Mr. Japheth Katto	Chief Executive Officer
Mrs. Candy W. Okoboi	Director Legal, Compliance and Policy
Mr. Titus Xavier Ambayo	Finance and Administration Manager
Ms. Anne Mpendo	Research and Market Development Manager
Mr. Eric L'okolong	Legal and Compliance Officer
Mrs. Ann Kyohairwe Muhangi	Public Education Officer
Mr. Joseph Lutwama	Research Officer
Mr. Patrick Kadema	Accounts Assistant
Ms. Hope Ejang	Public Education Assistant
Mrs. Miriam Musaali	Legal and Compliance Assistant
Ms. Margaret Kibirango	Personal Secretary to CEO
Mrs. Bernadette N. Kibuule	Administrative Officer
Ms. Alexandra Ndagije	Front Desk Assistant
Mr. Geoffrey Karima	Office Assistant
Mr. Richard Bogere	Senior Transport Assistant
Mr. Muzamiru Mawa	Transport Assistant
Ms. Justine Nakamya	Welfare Assistant
Mr. Rashid Masaba	Welfare Assistant

BOARD MEMBERS



Mr. Twaha KAAWAASE Chairman



Mr. Japheth KATTO Member/ CEO



Mr. Robert KATUNTU Member



Mr. Bisereko KYOMUHENDO Member



Mr. Robert KABONERO Member



Mr. Alan SHONUBI Member



Ms. Sarah WALUSIMBI Member



Mr. John C. MPALAMPA Member



Mr. Wasswa KAJUBI Member



Mr. Kitili MBATHI Member



Ms. Maris WANYERA Member



Mr. Ronald ZAKE Member



Mr. Billy KAINAMURA Member



CAPITAL MARKETS AUTHORITY INFORMATION

REGISTERED OFFICE AND PLACE OF BUSINESS

8th Floor, Jubilee Insurance Centre
14 Parliament Avenue
P. O. Box 24565
Kampala, UGANDA.

BANKERS

Standard Chartered Bank Uganda Limited
5 Speke Road
P. O. Box 7111
Kampala, UGANDA

Stanbic Bank Uganda Limited
Crested Towers, Hannington Road
P. O. Box 7131
Kampala, UGANDA

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
Communications House
1 Colville Street
P. O. Box 882
Kampala, UGANDA

SOLICITORS

Legal and Compliance Manager
Capital Markets Authority
8th Floor, Jubilee Insurance Centre
14 Parliament Avenue
P. O. Box 24565
Kampala, UGANDA

BOARD SECRETARY

Mr. Allan Rwakakooko
Capital Markets Authority
8th Floor Jubilee Insurance Centre
14 Parliament Avenue
P. O. Box 24565
Kampala, UGANDA



CAPITAL MARKETS AUTHORITY

MEMBERS OF THE BOARD REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

The members of the board submit their report together with the audited financial statements for the year ended 30 June 2006 which disclose the state of affairs of Capital Markets Authority (the Authority).

PRINCIPAL ACTIVITIES

The Authority was established under the Capital Markets Authority Act (Cap 84) for the purpose of promoting and facilitating the development of an orderly, fair and efficient capital markets industry in Uganda and to regulate stock exchanges, brokers/dealers, investment advisors and all other persons dealing in securities business.

RESULTS

The deficit for the year of Shs 290m (2005: Surplus of Shs 53m) has reduced the General Fund.

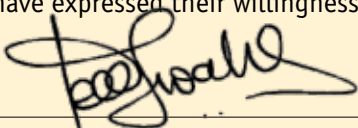
MEMBERS OF THE BOARD

The members of the Board of the Authority who held office during the year and to the date of this report were:

Mr. Twaha Kaawaase	Chairman
Mr. Japheth Katto	Member
Mr. Bisereko Kyomuhendo	Member
Mr. Billy Kainamura	Member
Ms. Sarah Walusimbi	Member
Mr. Wasswa Kajubi	Member
Mr. John C. Mpalampa	Member
Mr. Alan Shonubi	Member
Ms. Maris Wanyera	Member
Mr. Robert Kabonero	Member
Mr. Kitili Mbathi	Member (appointed 7 th February 2006)
Mr. Robert Katuntu	Member (until 31 st January 2006)
Mr. Ronald Zake	Member (until 30 th June 2006)

AUDITORS

PricewaterhouseCoopers were appointed by the Auditor General under Section 9 (10) of the Capital Markets Authority Act (Cap 84) to audit the financial statements of the Authority on his behalf. PricewaterhouseCoopers have expressed their willingness to continue in office.



On behalf of the Board
Chairman, 2006

STATEMENT OF THE MEMBERS' RESPONSIBILITIES

The members are responsible for preparing financial statements for each financial year that give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of its surplus or deficit. It also requires the members to ensure that the Authority keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Authority. They are also responsible for safeguarding the assets of the Authority.

The members accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Capital Markets Authority Act. The members are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority and of its surplus for the year. The members further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the members to indicate that the Authority will not remain a going concern for at least the twelve months from the date of this statement.



Chairman, 2007



Chief Executive Officer, 2007

AUDITOR GENERAL'S REPORT

Under the terms of sections 8 (11) of the Capital Markets Authority Act (cap. 84), I am required to audit the accounts of the Capital Markets Authority. In accordance with the provisions of the same section, I appointed Messrs. Pricewaterhousecoopers, Certified Public Accountants, to audit the accounts of the Authority on my behalf and report to me so as to enable me report to the speaker of parliament.

REPORT

The Financial statements set out on pages 4 to 14, which have been prepared on the basis of accounting policies set out on pages 8 and 9 have been audited. All the information and explanations which were considered necessary for the audit were obtained.

Respective Responsibilities of the Members of the Board and the Auditors

The Board members are responsible for the preparation of financial statements as set out on page 2. The responsibility of the Auditor is to express an independent opinion on the financial statements based on the audit.

Basis of Opinion

The audit was conducted in accordance with International Standards on Auditing. Those standards require that the audit is planned and performed to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the board, as well as an evaluation of the overall presentation on the financial statements.

Opinion

In my opinion, proper books of account have been kept and the financial statements which are in agreement therewith, give a true and fair view of the state of the Authority's financial affairs as at 30th June 2006 and of its surplus and cash flows for the year then ended in accordance with the International Finance Reporting Standards and the Capital Markets Authority Act (Cap.84).



G. SINGH
A.g AUDITOR GENERAL

KAMPALA
12th December 2006

INCOME AND EXPENDITURE ACCOUNT

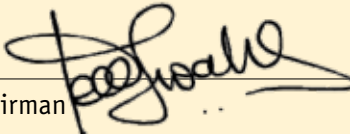
INCOME AND EXPENDITURE ACCOUNT		2006	2005
	Notes	Shs'000	Shs'000
INCOME			
Government revenue grants	1	860,264	1,176,163
Donations	2	102,508	119,916
Prospectus and floatation fees		68,000	19,673
Licensing fees		26,948	24,625
Interest income		29,543	25,506
Release of capital grants	3	132,801	125,530
Other income	4	15,160	6,068
		1,235,226	1,497,481
EXPENDITURE			
Staff costs	5	703,048	515,574
Finance cost		4,432	3,350
Administrative expense	6	506,947	435,326
Other operating expense	7	311,685	488,232
Fair value loss on investments		-	1,803
		1,526,112	1,444,285
TAXATION	8	-	-
(Deficit)/Surplus of income over expenditure		(290,886)	53,196

BALANCE SHEET					
	Notes	General Fund	Investor Compensation Fund	Total 2006	Total 2005
		Shs'000	Shs'000	Shs'000	Shs'000
CAPITAL EMPLOYED					
Capital fund		200,865	-	200,865	307,331
General fund		(118,841)	-	(118,841)	172,045
		82,024	-	82,024	479,376
Non Current liabilities					
Investor compensation fund	9	-	48,920	48,920	46,211
		82,024	48,920	130,944	525,587
REPRESENTED BY:					
Non-current assets					
Property and equipment	10	193,978	-	193,979	304,046
Intangible asset	11	5,620	-	5,619	5,136
		199,598	-	199,598	309,182
Current assets					
Investments	12	56,809	-	56,809	187,341
Receivables	13	20,433	-	20,433	27,917
Broker/dealer account		3,310	-	3,310	20,122
Investor Compensation Fund Account			48,920	48,920	46,211
Bank and cash	14	29,034	-	29,034	60,807
		109,586	48,920	158,506	342,398
Current liabilities					
Brokers and dealers deposits		65,000	-	65,000	65,000
Payables	15	157,039	-	157,039	55,872
Accruals		5,121	-	5,121	5,121
		227,160	-	227,161	125,993
Net current assets					
		(117,574)	48,920	(68,655)	216,405
		82,024	48,920	130,944	525,587

The financial statements on pages 4 to 14 were approved for issue by the members of the board on

12 December

2006 and signed on its behalf by:

Chairman 


Chief Executive Officer

STATEMENT OF CHANGES IN THE FUND BALANCES

STATEMENT OF CHANGES IN THE FUND BALANCES				
	Capital fund	General fund fund	Investor Compensation	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Balance at 1 July 2004	368,663	118,849	44,470	531,982
Capital grant received during the year	64,198	-	-	64,198
Release of capital grants	(125,530)	-	-	(125,530)
Interest received - compensation fund	-	-	1,741	1,741
Surplus of income over expenditure	-	53,196	-	53,196
Balance at 30 June 2004	307,331	172,045	46,211	525,587
Balance at 1 July 2005	307,331	172,045	46,211	525,587
Capital grant received during the year	26,335	-	-	26,335
Release of capital grants	(132,801)	-	-	(132,801)
Interest received - compensation fund	-	-	2,709	2,709
Deficit for the year	-	(290,886)	-	(290,886)
Balance at 30 June 2006	200,865	(118,841)	48,920	130,944

CASH FLOW STATEMENT			
	Notes	2006 Shs'000	2005 Shs'000
Operating activities			
Surplus/(deficit) of income over expenditure		(290,886)	53,196
Interest income		(29,543)	(25,506)
Depreciation	10	132,801	122,401
Amortisation of software	11	2,064	452
Loss on disposal of fixed assets		1,053	-
Amortisation of capital grant		(132,801)	(125,530)
Cash flows from operations before changes in working capital		(317,311)	25,013
Decrease/(Increase) in investment		130,532	5,338
Decrease/(Increase) in receivables		7,484	(12,864)
Increase in broker/dealer deposits	-	10,000	
Increase in compensation fund		2,709	1,741
(Decrease) in payables		101,167	(21,147)
Net cash inflow/ (outflow) from operating activities		(75,419)	8,081
Investing activities			
Purchase of fixed assets	10	(23,787)	(64,198)
Purchase of intangible assets	11	(2,548)	(5,136)
Interest on investment		29,543	25,506
Net cash used in investing activities		3,208	(43,828)
Financing activities			
Capital grant		26,335	64,198
Net cash inflow from financing activities		26,335	64,198
(Decrease)/increase in cash and cash equivalents		(45,876)	28,451
Movement in cash and cash equivalents			
At start of year		127,140	98,689
(Decrease)/ Increase in cash and cash equivalents		(45,876)	28,451
At end of year		81,264	127,140

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated

A Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS).

The financial statements are presented in Uganda Shillings (Shs) and are prepared under the historical cost convention.

B Revenue recognition

Government grants and donations including non-monetary grants are only recognised when there is reasonable assurance that the grants and donations will be received and the Authority will be able to comply with the conditions attaching to them.

Interest income is recognised in the income and expenditure statements on an accruals basis.

Licensing fees from broker /dealers and investment advisers are recognised when the Authority has received an application for licence or renewal.

Trading fees from broker/dealers is recognised when received.

C Accounting for Grants

Revenue grants are credited to income in the year in which they are received. Capital grants are credited to equity and are released to the profit and loss account over the useful lives of assets they were used to purchase.

D Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Uganda Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Uganda Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income and expenditure account in the year in which they arise.

E Investments

Marketable securities comprising treasury bills are initially recognised at 'cost' being the fair value of the consideration given, including transaction costs. Held-to-maturity investments are subsequently carried at amortised cost using the effective yield method, less any provision for impairment.

Held for trading financial assets are subsequently re-measured to a fair value based on quoted bid prices or amounts derived from cash flow models.

All regular way purchases and sales of investments and investment securities are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset.

F Property and equipment

Tangible property and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated on the straight line basis to write down the cost of each asset to their residual values over their estimated useful life as follows:

Office equipment	3 years
Furniture and fittings	4 year
Motor vehicles	4 years

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining surplus/deficit of income over expenditure.

G Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks and with less than 90 days to maturity from the date of acquisition.

H Intangible assets

Where software is not an integral part of the related hardware, computer software is treated as an intangible asset. Intangible assets are measured initially at cost less any accumulated amortisation. Intangible assets are amortised at 33 1/3% annually, on straight-line basis.

I Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES TO THE FINANCIAL STATEMENTS

1. Government grants

	2006	2005
	Shs'000	Shs'000
Bank of Uganda	860,264	741,802
Privatisation Unit	-	434,361
At 30 June	860,264	1,176,163
Analysis of Bank of Uganda Grant		
Total funds received	886,600	806,000
Transfer to capital grant	26,336	(64,198)
	860,264	741,802

2. Donations

Cash donations received during the year were

GTZ/Sida	68,485	99,460
British Council	8,250	10,635
Others	25,773	9,821
	102,508	119,916

3. Release of capital grants

Release of Capital grants	132,801	125,530
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Capital grants received during the year are credited to capital fund and are released over the useful lives of assets that they were used to purchase.

4. Other income

Advertising and sale of tender document	-	3,300
Share trading commission	14,485	461
Pay in lieu of notice (recovered from staff)	-	2,307
Insurance Compensation	650	-
	15,135	6,068

5. Staff costs

Salaries and wages	315,299	233,403
Staff Gratuity	110,995	59,064
NSSF contribution	46,576	33,931
Pay As You Earn (PAYE)	156,091	126,753
Staff medical scheme	18,630	13,631
Staff welfare	30,408	28,572
CAP Growth contribution	23,325	16,674
Overtime	1,723	3,546
	703,048	515,574

6. Administrative expenses

	2006	2005
	Shs'000	Shs'000
Depreciation	132,801	122,401
Amortisation of software	2,064	452
Telephone, fax, postage and E-mail	32,035	35,167
Motor vehicle maintenance and fuel	33,368	33,634
Publication, printing and stationary expenses	53,698	21,722
Subscriptions	26,651	20,405
Audit fees	27,656	13,965
Advertisement and media coverage	8,636	1,595
Office repairs and maintenance	7,508	9,715
Consultancy fees	2,044	8,268
Bank charges	2,947	3,523
Office rent	123,426	118,325
Office general expenses	54,113	47,957
	506,947	437,129

7. Other operating expenses

Mass education		
Capacity building	85,450	45,702
	225,208	80,779
Directors' fees and allowance	22,585	44,184
Other Board expenses	37,246	53,819
Regional co-operation	120,702	83,254
Other expenses	-	988
	311,685	488,232

8. Taxation

Capital Markets Authority is an exempt organisation in accordance with Section 2 (bb) of the Income Tax Act 1997.

9. Investor compensation fund

The Investor compensation fund was established under Section 82 of the Capital Markets Authority Act (Cap 84) for the purpose of granting compensation to investors who suffer pecuniary loss resulting from the failure of a licensed broker or dealer to meet his contractual obligations. The investor compensation fund consists of contributions by the Authority from the general fund and interest accruing from investment of the fund in treasury bills. The investor compensation fund is represented by the following assets:

	2006	2005
	Shs'000	Shs'000
Designated bank balance	48,920	46,211
	48,920	46,211

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Property and equipment

	Office equipment	Furniture and fittings	Motor vehicles	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Cost				
At 1 July 2005	136,317	274,463	184,340	595,120
Additions	23,787	-	-	23,787
Disposals	(21,845)	(4,171)	-	(26,016)
At 30 June 2006	138,259	270,292	184,340	592,016
Depreciation				
At 1 July 2005	97,989	89,228	103,857	291,074
Charge for the year	26,736	68,616	37,447	132,801
Disposals	(21,845)	(3,118)	-	(24,963)
At 30 June 2006	102,882	154,727	141,304	398,913
Net book amount				
At 30 June 2006	35,377	115,565	43,036	193,978
At 30 June 2005	38,328	185,235	80,483	304,046

Included in the cost of property and equipment are assets with initial cost of Shs 174m that have been fully depreciated and still in good working condition. The details are shown below:

	2006 Shs'000	2005 Shs'000
Office equipment	79,612	64,441
Furniture and fittings	-	2,644
Motor vehicle	94,528	29,098
	174,140	96,183

11. Intangible assets

These comprise computer software.

Cost at 1 July	5,136	452
Additions	2,548	5,136
Amortisation	(2,064)	(452)
Net book value at 30 June	5,620	5,136

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Investments

	At cost 2006 Shs'000	2005 Shs'000
Cost	56,809	185,318
Interest receivable		3,826
Amortised cost		189,144
Fair value loss	-	(1,803)
Investments	56,809	187,341

Investments comprise treasury bills which are held for three months and are valued annually at the close of business on 30 June by reference to Bank of Uganda quoted prices. The market value approximates to the fair value.

13. Receivables

	2006 Shs'000	2005 Shs'000
Staff advances	4,897	2,161
Prepayments – Insurance	9,585	13,870
Activity advance	500	9,271
Other receivables	5,451	2,615
	20,433	27,917

14. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities. The year-end cash and cash equivalents comprise the following:

	2006 Shs'000	2005 Shs'000
Broker dealer account	3,310	20,122
Investor compensation fund account	48,920	46,211
Cash and bank	29,034	60,807
	81,264	127,140

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Payables

	2006	2005
	Shs'000	Shs'000
PAYE and NSSF	19,108	5,839
IOSCO	24,230	-
Audit fees	15,100	8,500
Graphic Systems (U) Ltd	9,357	-
Uganda Telecom	1,269	1,462
The New Vision	866	740
Monitor Publications Limited	774	700
QG Saatchi & Saatchi	10,447	-
CAP Growth Fund	7,135	2,693
Salaries Control	31,105	2,222
Licence fees	19,052	16,250
Other payables	18,597	17,466
	157,039	55,872

16. Contingent liabilities

There were no contingent liabilities as at 30 June 2006.

17. Capital commitments

There were no capital commitments as at 30 June 2006.

18. Establishment of the Authority and office

The Authority is established in Uganda under the Capital Markets Authority Act (Cap 84) 1996, and domiciled in Uganda. The address of the office is:

14 Parliamentary Avenue
 Jubilee Insurance Centre
 8th Floor
 P O Box 24565
 Kampala-UGANDA.

The following are the professionals licensed by CMA to provide various services relating to the Capital Markets Industry

Uganda Securities Exchange (USE)

Stock Exchange
2nd Floor Northern Wing, Worker's House
1 Pilkington Road, P.O. Box 23552 Kampala
Tel: 0414 343 297, 342818, Fax: 041 340841
E-mail: info@use.or.ug
Contact: Mr. Simon Rutega

Baroda Capital Markets Ltd*

Broker/Dealer
Investment Advisor and member of USE
Plot 18 Kampala Road, P.O. Box 7197 Kampala
Tel: 0414 233 680/3, Fax: 041 258263
E-mail: bob10@calva.com
Contact: Mr. Rajesh Khanna

Dyer and Blair Uganda Ltd*

Broker/ Dealer
Investment Advisor and member of USE
Ground Floor, Rwenzori House
P.O. Box 36620 Kampala
Tel: 0414 233050, Fax: 041 231813
E-mail: shares@dyaerandblair.com
Contact: Mr. Steven Ogada

Equity Stock Brokers Ltd*

Broker/Dealer
Investment Advisor and member of USE
Plot 6/6a Orient Plaza
P. O. Box 3072, Kampala
Tel: 0414 236012/3/4/5, Fax: 041 348039
E-mail: equity@orient-bank.com
Contact: Mr. Edward Ruyonga

MBEA Brokerage Services Ltd*

Broker/Dealer
Investment Advisor and member of USE
44 Lumumba Avenue
P. O. Box 24613, Kampala
Tel: 0414 231960, Fax: 041 342045
E-mail: info@mbea.net
Contact: Mr. Andrew Owiny

Crested Stocks and Securities Ltd

Broker/Dealer
Investment Advisor
6th Floor Impala House
Plot 13/15 Kimathi Avenue
P. O. Box 31736, Kampala, Uganda
Tel: 0414 230900, Fax: 041 230612
E-mail: info@crestedsecurities.com
Contact: Mr. Robert Baldwin

Inter Alliance International (Uganda) Ltd

Investment Advisor
Room 1 Ground Floor Ruth Towers
Plot 15A Clement Hill Road
P. O. Box 21409, Kampala
Tel: 0414 342411, 340846, 078 807079
Fax: 041 342411
E-mail: jatin.ghughu@ia-int.com
Contact: Mr. Jatin Ghughu

Crane Financial Services Ltd*

Broker/Dealer
Investment Advisor and member of USE
Crane Chambers, Plot 38 Kampala Road
P.O. Box 22572, Kampala
Tel: 0414 341414/345345, Fax: 041 341414
E-mail: cfs@cranefinancialservices.com
Contact: Mr. Hiren Busch

Geoffrey Onegi- Obel & Co. Ltd.

Investment Advisor
P.O. Box 1610 Kampala
Tel: 0414 233843, 343222, 343269
Fax: 041 343277
E-mail: pacego2000@yahoo.com
Contact: Mr. Geoffrey Onegi-Obel

Iroko Securities

Investment Advisor
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35 Yusuf Lule Road
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Tel: 0414 341474, Fax: +44 2076188086
E-mail: c.ekam-dick@irokosecurities.com
Contact: Mr. Francois Ekam-Dick

PKF Consulting Ltd

Investment Advisor
Plot 37 Yusuf Lule Road
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Contact: Mr. Murtuza Dalal

Mr. Andrew Franklin

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Tel: 0414 236012/3/4/5 254 20 444 1123/2285
Fax: 254 20 444 1832
E-mail: franklin@wananchi.com
Contact: Mr. Andrew Franklin

PricewaterhouseCoopers (Ltd)

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10 Floor Communications House
1 Colville Street, Kampala
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E-mail: general@ug.pwc.com
Contact: Mr. Russell Eastaugh

Dero Capital Uganda Limited

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Tel: +256-712-638644, +256-751-638644
Fax: +256-414-378918
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Bullion Capital Limited

Investment Advisor
Office No. 2, Jocassa House, Nakasero Road
P. O. Box 34580, Kampala
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Email: info@bullioncapital.com
Contact person: Mr. George Ndirangu

African Alliance (Uganda) Ltd*

Fund Manager, Unit Trust Manager,
Investment Advisor
Broker/Dealer and member of USE
6th Floor Workers House, Pilkington Road
Kampala
Tel: 0414 235577, Fax: 041 235575
E-mail: info@africanalliance.co.ug
Contact: Mr. Gary Watson

ReNnaissance Capital (U) Ltd*

Fund Manager, Investment Advisor
Broker/Dealer and member of USE
Plot 13, Kololo Hill Drive
P. O. Box 893, Kampala
Tel: 078 800494, 031 264 775/6
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E-mail: rnyabadza@renaissance.co.ug
Contact: Mr. Rumbidzayi Nyabadza

Stanbic Investment Management Services

Fund Manager
Investment Advisor
11th Floor Crested Towers
P. O. Box 7131, Kampala
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E-mail: owiny@mstanbic.com
Contact: Mr. Martin Owiny

AIG Global Investment Company (East Africa) Ltd

Fund Manager, Investment Advisor
C/o Katera & Kagumire Advocates
10th Floor, Crested Towers Building (Tall Tower)
P. O. Box 7062, Hannington Road, Kampala
Tel: 0414 533781/541845, 254 0202733400-8
Fax: 254 020 2733 400
E-mail: bertha.dena@aig.com
Contact: Ms. Bertha Dena

DFCU Bank Ltd

Trustee
Collective Investment Schemes
Impala House
13 Kimathi Avenue
P.O. Box 70, Kampala
Tel: 041 231784/256891/3, 031 300300
Fax: 231687/344260
E-mail: official@dfcugroup.com
Contact: Mr. Joshua Ogwal

*Please note that only members of Uganda Securities Exchange(USE) are allowed to transact business on the Stock Exchange

