

Capital Markets Authority

Quarterly Review



January – March 2007, Volume 8, Number 1

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INTRODUCTION

This Electronic Quarterly Review Covers the period January – March 2007.

Regulatory Issues

Appointment of a New Board Member

During the period under review, the Minister of Finance, Planning and Economic Development appointed Mrs. Anne Idro Canowira to the Capital Markets Authority Board. Ms. Canowira replaces Mr. Ronald Zaake as the representative for the Uganda Insurance Institute. Mrs Canowira has vast experience and training in the insurance industry. She has worked in various capacities at the Insurance Institute and in various positions with the COMESA Reinsurance Pool for the Yellow Fever Card Scheme. She currently works with the National Insurance Corporation as senior manager private sector (marketing). Mrs Canowira is a member of the Insurance Institute of Uganda and the Chartered Institute of Insurance in London. She is the current president of the Insurance Institute of Uganda.

Legislation

In fulfilment of its mandate to regulate and promote the development of capital markets in Uganda, CMA has continued to put in place a conducive legal and regulatory framework for various aspects of capital markets. During the Quarter, the following laws and regulations were developed;

The Capital Markets Authority (Accounting and Financial Requirements) (Amendment) Regulations 2007:

These regulations were amended by the Board and published. The amendment prohibits licensees of the Authority from engaging the same auditors for a period exceeding five years or reappointment of auditors within three years after the said five year period.

Statement of Principles and Code of Conduct for Licensed Persons: The CMA is discussing a draft Statement of Principles and Code of Conduct for licensed persons. Sections 22 and 101 of the Capital Markets Authority Act Cap 84 provides the Authority with power to issue a statement of principles with respect to the conduct and financial standing expected of licensed persons.

The purpose of the code is to specify principles and guidance on standards of ethical conduct for licensed persons in the Capital Markets industry. Failure to comply with the code is a ground for the taking of disciplinary action or the exercise of powers of intervention by the Authority. The exercise of disciplinary action may include the exercise of any power under section 39 (suspension, cancellation/restriction on terms of license) or section 44 (revocation/cancellation of a license) of the Capital Markets Authority Act.

HIGHLIGHTS

- Regulatory Issues
- Market Development
- Public Education
- Regional and International Cooperation International News
- Home News
- Capital Markets in the Press

Once approved by the Board, the Statement will be sent out to key stakeholders for their comments.

Takeover and Merger Regulations:

The CMA is finalizing the drafting of the Takeovers and Mergers regulations with the assistance of the Commonwealth Secretariat. These regulations will apply to all offers for takeovers or mergers, concerning or affecting public and listed companies. The objective of the regulations is to provide for fair treatment of shareholders who are affected by takeovers or mergers transactions. The regulations also provide for transparent and efficient systems of takeovers and mergers of public and listed companies as well as timely and adequate disclosure of information to enable shareholders to make an informed decision as to the merit of a takeover or merger offer.

REGULATORY ACTION

Following the advertisement by *Kampala City Council Football Club Limited* (KCC FC Ltd) of its offer of 20,000,000 shares to the public at Ushs.1,000/= each, that appeared in the Monitor Newspaper on Wednesday, March 28, Friday 30th of March, and Monday 2nd of April 2007, the CMA issued a warning to the public in the New Vision and Daily Monitor and Bukedde newspapers. The CMA advised members of the public to refrain from buying the said shares. The attention of the public was drawn to the fact that the issuer is a private company which does not have powers under its Articles of Association to invite members of the public to subscribe for its shares. The action of KCC FC Ltd in inviting members of the public to subscribe for shares is illegal and a contravention of the Law. CMA strongly advised members of the public not to buy shares for the following reasons;

1. The shares being offered do not exist. The company has not increased its share capital to provide for the shares being offered.
2. KCC FC is required to get approval from Capital Markets Authority and the Registrar of Companies before offering shares but this approval had not been given.

The CMA informed the public that the actions of KCC FC Ltd, in advertising for subscription of shares, were illegal and in contravention of the following laws:

- Companies Act, Cap 110
- Capital Markets Authority Act, Cap 84
- Capital Markets (Advertisements) Regulations, 1996

It warned that anyone buying the shares did so at his or her own risk.

Market Development

Stanbic Bank Listing

The Stanbic offer was oversubscribed to the tune of 200%, a phenomenal response with more investors applying for shares than had ever applied for before. There were 37,449 applications for 3 billion shares totaling US\$ 211 Billion. There was a good mix of applicants from both within and outside the country.

	CORPORATE		INDIVIDUALS	
	No. of applicants	No. of Shares applied for	No. of applicants	No. of Shares applied for
UGANDAN	407	446,663,000	15,490	595,873,500
FOREIGN	1,463	1,171,651,200	20,097	800,675,500

Stanbic Bank Uganda (SBU) shares were listed on the Uganda Securities Exchange (USE) on 25th January 2007. On that day the SBU counter commenced trading at US\$ 150, reached a peak of US\$ 240 and closed at US\$ 205 SBU shares exchanged hands in 33 deals, registering a turnover US\$ 4,718,169,900.

Uganda Telecom Ltd

The Privatisation Unit has completed the assessment of bids to determine the advisors for the listing of Uganda Telecom Ltd. MBEA Brokerage Services in partnership with Data Bank Financial Services Ltd (from Ghana) emerged as the successful bidders.

Kinyara Sugar Works Ltd

The Privatization Unit has entered into a contractual agreement with the core investor of Kinyara Sugar Works Ltd, Rai Group to list the company within 24 months of the company's divestiture. The Rai Group consortium is comprised of entities from Kenya and Mauritius (as its major players), who bring with them management experience in the sugar industry from their jurisdictions.

National Insurance Corporation Ltd

The Privatisation Unit and the Ministry of Finance Planning and Economic Development in implementing the programme of Reform and Divestiture of the Public Enterprise Sector issued an invitation for Expressions of Interest for the Initial Public Offer of National Insurance

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Corporation Ltd (NICL). NICL is one of the enterprises listed under class III of the Public Enterprises Reform and Divestiture (PERD) Act, that the government will need to fully divest from. The Government divested 60% of its shareholding through the sale to a core investor, Industrial General Insurance Company of Nigeria in June 2005. NICL has been in existence since 1964 and has total assets in excess of US\$ 26 Billion and a life fund of US\$ 21 Billion (as at December 2004). The expressions of interest for transaction advisers include a broker, reporting accountant, legal counsel, share registrars and communication advisers. Applications were received from MBEA Brokerage Services in partnership with Databank Financial Services Ltd, African Alliance and Deloitte and Touché.

New National Social Security Fund (NSSF) Managing Director

Mr David Chandi Jamwa a former Partner of PricewaterhouseCoopers partner was appointed as Managing Director of NSSF by Dr Ezra Suruma, the Minister of Finance Planning and Economic Development. Mr. Jamwa took office as the new Managing Director on February 2nd 2007. He holds a Bachelor's Degree from Makerere University and is a Certified Public Accountant of the Institute of Certified Public Accountants of Kenya (ICPAK) and Uganda (ICPAU). Prior to joining NSSF, he worked in PricewaterhouseCoopers for 13 years and as Managing Director of D. Craven Consulting just before his NSSF appointment.

Mr. Jamwa will be deputized by Professor Mondo Kagonyera. Professor Kagonyera, was previously Minister, General Duties, in the Office of the Prime Minister. He was MP for Rubabo County in Rukungiri District. He brings with him a wealth of experience in Public Administration.

QUOTE

"The reason to build a financial services company from an insurance base are simple. Even a small insurance company controls a lot of assets that you normally wouldn't be able to control. The securities gains that you make out of the portfolio go into the book value of the company, and insurance companies are sold at two times book. So if I make a dollar buying and selling IBM, that's all its worth. But once it's in the insurance company portfolio and you sell the company, you sell it for two bucks"

Gerald Tsai, Primerica Corp.

Public Education

During the period under review, the Authority conducted capital markets awareness programmes to about 1,090 members of the public on various aspects of investing in capital markets, in a bid to build and expand an informed investor base. The public education activities took the form of school and university seminars, Office to Office meetings and exhibitions.

School seminars were conducted at London College of St. Lawrence Schools and Colleges, Baptist High School Kitebi and Kazo Hill School. Three university seminars were conducted at the Makerere University Economics Society, Makerere University Business School and Mukono University. Office to Office meetings were held at the World Bank Uganda Office and the Foundation for Human Rights Initiative. The Authority also participated in an exhibition to commemorate the World Commonwealth day, at Makerere University Business School.

The majority of the students talked to at the school seminars were below 18, and expressed a strong desire to save and invest money. As such the primary issue raised was the inability to save and invest in securities on their own while still below 18. In this regard, the CMA officials conducting the public education encouraged the establishment of investment clubs using the guidelines that CMA has developed and posted on the website. These can be found at www.cmauganda.co.ug.

DISCLAIMER

While every care has been taken in the preparations of this publication, please note that opinions and materials in the CMA Quarterly Review do not necessarily reflect the official views of CMA. No representation, warranty or undertaking is given and no responsibility or liability is accepted by CMA as to the accuracy of the information contained herein.

QUOTE

“Behavioral finance is throwing more light on why people buy or sell the stocks they do – and even why they don’t buy stocks at all. People tend to see patterns in random sequences in financial data, for example; and people chase what they see as a trend but remain slow to change their opinions in the face of new evidence that runs counter to their current view of the world. Some believe that the market anomalies – like calendar effects – and investor behavior are uniform around the world; that investors underprice out-of-favor stocks while at the same time being irrationally overconfident about exciting growth companies. Not only do they like to follow the crowd, but they also get pleasure and pride from owning growth stocks”

From the Ultimate Investor

REGIONAL AND INTERNATIONAL CO-OPERATION

World Bank Seminar

CMA participated at the World Bank Round Table Discussion on ‘Making Finance Work for Africa’ that was held in Nairobi from 4th to 6th March 2007.

The round table discussion brought together governors and deputy governors of the central banks in Eastern Africa, leading policymakers, prominent stakeholders in the financial sector, academics, press, experts from multilateral institutions, donor agencies and the African Development Bank. The seminar brought to light several changes in the financial sector landscape and the adoption of new technologies to increase efficiency especially in the face of increased competition. One innovative example given was the use of mobile telephone technology in financial payments especially in areas not easily accessed with the current payment infrastructure. This innovation opens up a host of regulatory issues including the use of a telephone PIN number as a signature in financial transactions. Issues were raised on the occurrence of fraud and whether the telecommunications regulator should be concerned about the financial transactions over the mobile phone. Mr Japheth Katto, the CMA’s Chief Executive Officer made a presentation on the priorities of regional cooperation with emphasis on strengthening capital markets.

The meeting also emphasized the need for financial literacy even as the financial sector tries to forge ways of increasing the access of financial services to the poor and deliberated upon the use of capital markets by the private sector to raise long term finance.

US SEC Training Program

CMA (U) on behalf of the East African

Securities Regulatory Authorities (EASRA) successfully hosted the first capital market development and oversight training program in East Africa. The training program was conducted by the United States Securities and Exchange Commission (US SEC) in a 5 day comprehensive program on securities regulation, market surveillance and enforcement in Sub Saharan Africa. The training centered on methods of conducting investigations of market misconduct, insider trading, financial fraud and market manipulation. Other topics discussed included corporate governance and disclosure, market regulation and broker–dealer inspection and compliance. The programme attracted 49 delegates from securities regulatory bodies, stock exchanges and central banks from 12 African countries and was co-sponsored by US Agency for International Development, Financial Services Volunteer Corps (FSVC) and the US Treasury,- Office of Technical Assistance.

SEC issued a press release after the seminar on the success of the program in which they commended the leadership of EASRA for promoting the initiative. Ethiopis Tafara, Director of the SEC’s Office of International Affairs in commending the invitation to conduct the training said that ... “It speaks volumes about the interest that regulators and exchanges in Eastern African have in market development, and in the promotion of market integrity. The exchange of views that is possible through these programs enhances our understanding of market circumstances abroad. And to the extent we can help foreign securities authorities to enhance their ability to regulate and police their markets, we also contribute to the protection of all investors seeking investment opportunities in the region.”

INTERNATIONAL NEWS

Insider Trading in the US

Christopher Cox, the US SEC’s chairman has made fighting insider trading a priority. In an article in the Economist March 10th 2007, the SEC filed a suit against unknown investors who had made profits in the options market before an announcement of a Texan Utility takeover. Over US\$5 million of profits was frozen while the SEC tries to identify who bought them. Insider trading has taken centre stage in the wake of increased mergers and acquisitions as seen in suspicious

price movements ahead of deals. This has brought bank dealings with hedge funds under scrutiny as these are usually benefactors in insider dealing scams. While some hedge funds have gone ahead to hire compliance officers and tightening restrictions of outside contacts to heed to regulation, the Late Milton Friedman a Nobel Laureate argues that insider dealing should be legal as it quickly introduces information into the market. Nevertheless unearthing insider dealing is difficult as some argue that it may be difficult to determine at what stage providing info to legitimate corporate clients is illegal.

Outlook

EASRA: The next East African Securities Regulatory Authorities (EASRA) meeting is scheduled to take place in Arusha between 23rd – 25th April 2007. The consultative meeting will be preceded by technical committee meetings. The Capital Markets Development Committee (CMDC) meeting will be held immediately after the EASRA meeting on 26th and 27th April 2007. Proposals made and agreed at the EASRA meeting will feed into the CMDC meeting in preparation for the Pre Budget Consultative meeting that will take place in May or early June 2007.

CMA Ten Year Celebrations: CMA is planning a series of activities to commemorate 10 years of its existence. The activities will include the annual Kikonyogo Capital Markets Award, an exhibition, and a rugby game.

2007 Capital Markets Secondary Schools Challenge: Work has begun on the 2007 Capital Markets Secondary Schools Challenge. The CMA has registered tremendous success in the past with the schools challenge. It has attracted the attention of parents and teachers who have become keen to learn about capital markets. The competition will run from May 2007 to June 2007.

CAPITAL MARKETS IN THE PRESS

EXPERT WARNS ON FRAUD
Daily Monitor, Saturday 3rd March 2007

By Martin Luther Oketch

A top official of the United States Securities Exchange Commission has urged African countries to embrace international cooperation in the industry to guard against financial fraud.

Speaking in Kampala recently, the Director of the office of International Affairs of the United States Securities and Exchange Commission, Mr. Ethiopis Tafara said the stocks business has ceased to be one country affair because of globalization.

Globalization through the Internet has made the world one village, which has allowed people to buy shares across borders of countries in the world, he said, while speaking to capital markets officials from 13 sub-Saharan African countries at Kampala Serena Conference Centre recently.

Mr. Tafara said recent trends in international financial fraud show more people from both the developed and emerging markets are committing financial crime.

“Investor protection and trust in the market is the most important issue in the capital market industry. Once there is no investor protection laws being administered by the regulators, such a market can collapse anytime because of the bad information that will be spreading to the outside world,” he said.

He said stock markets in emerging markets such as Uganda offer high investment opportunities hence the need for regulators to have clear trading rules that protect the investors and the industry in general.

Capital Markets Authority Chairman Twaha Kawaase said developments on the global scene call for the creation of robust international financial systems to protect the integrity of financial markets.

As at 31st March 2007, the following were the broker/dealers, investment advisors and fund managers licensed and regulated by CMA. This list includes the trustees and custodians in the Uganda market.

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