

January – March 2008 Volume 9, Number 1

INTRODUCTION

This Electronic Quarterly Review Covers the period January – March 2008

Regulatory Issues

During the period January to March 2008, CMA was engaged in the following key legal matters;

The Securities Central Depositories Bill, 2008 (CDS Bill)

The Securities Central Depositories Bill, 2008 (CDS Bill) was approved by cabinet on 27th February 2008. The bill will now be forwarded to parliament for discussion and approval.

Conducting the annual onsite inspection of all licensed broker dealers, investment advisers, fund managers and unit trust manager

Annual onsite inspections that are normally conducted prior to license renewals, checks were done by the Legal and Compliance team to ensure that licensees were in compliance with the various CMA laws and regulations. Firms that are compliant and satisfy the CMA license renewal requirements will have their licenses renewed for the license year May 2008- April 2009.

Anti money laundering guidelines

The draft CMA Anti Money Laundering Guidelines were discussed and approved by the Legal Committee of the Board for stake holder comments. The Guidelines are intended to strengthen the client identification requirements of licensees, monitor and report to CMA and other law enforcement agencies suspicious activities

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and enhance staff training and awareness in Anti Money Laundering and Counter Financing of terrorism.

CMA Licensees seminar

With the facilitation of the United States Securities and Exchange Commission (SEC) and International Monetary Fund, a licensees training seminar on Anti Money Laundering and Counter Financing of terrorism was conducted on 13th March 2008. In line with the approved Anti Money Laundering Guidelines for stake holder comments, key areas for discussion during the seminar were the client identification requirements of licensees, monitoring and reporting of suspicious activities to CMA and other law enforcement agencies, as well as enhanced staff training and awareness in Anti Money Laundering and Counter Financing of terrorism.

License applications

CMA received eight applications for various licenses. Currently the Authority is undertaking due diligence and vetting the eight applications for broker dealer, investment adviser/ fund manager and unit trust licenses.

Approval of Bond issue by Housing Finance Bank (HFB)

Capital Markets Authority (CMA) approved the issue of a UGX 30 Billion Bond by Housing Finance Bank Limited

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which will be issued in 5 tranches of Ushs 6 billion over a period of 12 months. The proceeds of the issue will be used to fund the development of HFB's mortgage business. The first tranche was issued in January 2008 and subsequently listed on the Uganda Securities Exchange in February 2008.

Approval of Uganda Clays Rights Issue to raise UGX.10.4 Billion

The CMA board approved the Uganda Clays Limited application to raise US\$ 10.6 Billion by way of a rights issue to their shareholders. The Issue was oversubscribed to the tune of US\$ 11.6 Billion. Trading of the additional shares will commence on the 24th April 2008 on the Uganda Securities Exchange.

Market Development

Safaricom IPO

Safaricom which is owned by the government's Telkom Kenya and Vodafone UK opened its doors to the public on 28th March 2008. The Safaricom Initial Public Offer (IPO) will close on 23rd April 2008. The size of the offer is Kshs. 10 billion. 65% of which will be allocated to domestic investors. Domestic investors not only include Kenyan investors but also citizens of the East African Community partner states. Ugandans have already taken hold of this opportunity to participate in what is projected to be the largest IPO in the East African region.

Seminar on Mobilising Resources for Municipal Projects

The Uganda Economic Policy Research Centre (EPRC) held a one day seminar on "*Mobilising Resources for Municipal Projects*" on 7th February 2008 facilitated by David Painter. David Painter is the vice president of TCG International LLC which provides advisory services to clients in the U.S. and overseas for urban planning, project development, financial structuring, institutional development, and policy reform. In his presentation Painter

looked at the different financing options available to local governments/Sub-national governments to address their development needs.

He also discussed at length the changing paradigm in municipal financing from over reliance on government and donor funding to municipal funding from capital markets. In partnership with the EPRC, CMA is in the process of undertaking a study on the viability of issuing municipal bonds to meeting the developmental needs of local governments in Uganda.

Discussion Forum

Capital Markets Authority has set up a discussion forum 'the Capital Markets Think Tank' as an avenue for public interaction and discussion on matters pertaining to capital markets and the financial sector. The think tank runs on our website; www.cmauganda.co.ug and is accessible by all registered members. Registration to the forum is free. The forum also keeps members updated on the various activities in the industry at any one time. Feel free to post your comments regarding capital markets, on the forum. The current topic of discussion at the forum is "*Are the Ugandan capital markets ready to move from paper share certificates to a paperless clearance and settlement system as is the case in Kenya and Tanzania?*"

Public Education

Exhibitions and Seminars

During the quarter under review, CMA participated in two exhibitions, the Private Sector Foundation Uganda member's day exhibition on 4th and 5th March and the Investor's Club Women's business exhibition from 5th-7th March 2008. At the exhibitions, CMA staff educated

over 1,700 people including women entrepreneurs, Small and Medium Enterprises (SME) owners, farmers, students and office workers. This was done through one on one discussions at the CMA stall as well as information brochures distributed for further reading. Many of the participants were interested in the available means of raising capital for SMEs through capital markets.

CMA also talked to 40 members of the Rotary Club of Kololo, on the investment opportunities in capital markets and held educational seminars with the Makerere University Economics Society, Accounting Students Association of Makerere University Business School, and Makerere University Students Investment Club. Similar presentations were made to 3rd year law students of Kampala International University. In total over 520 students were reached. The seminars discussed the role of capital markets to an economy, investment opportunities in capital markets as well as challenges facing developing capital markets. The students expressed particular interest in career options in capital markets, returns on capital markets investments and cross border trade

Regional and International Co-operation

EASRA Meeting

The last East African Securities Regulatory Authorities (EASRA) meeting was held from 17th to 20th March 2008 in Kampala. The meeting welcomed officials from the Capital Markets Advisory Council (CMAC) Rwanda who signed the EASRA Memorandum of Understanding thereby becoming the fourth member of EASRA. The MOU provides a mechanism for fostering market integration of the East African Capital Markets and establishes a basis for cooperation and mutual assistance among members.

The meeting reviewed the reporting and disclosure requirements for Collective Investment Schemes for the purpose of harmonisation and adoption of international best practice and approved the amendments in the members' legislation. The meeting also received a progress report on the ongoing International Finance Corporation (IFC) Efficient Securities Markets Institutional Development (ESMID) Consultancies. The first part of the regional certification program has been finalised and training courses will be conducted at the Securities Training

Institute (SITI) in Kampala. The inception report on the appropriate model for East Africa capital market integration has also been finalised.

The Chief Executive of CMA (K) Mrs Stella Kilonzo was elected as the new chairperson of EASRA. The Chairperson will hold office for a term of 2 years after which the chair will move among the members on rotation.

The next EASRA meeting will be hosted by the CMAC Rwanda in June 2008.

CMDC meeting

The East African Community (EAC) Capital Markets Development Committee (CMDC) was held from 2-3rd April 2008 in accordance with the EAC Calendar of Activities for the period January – June 2008. The meeting was attended by senior officials from the Partner States. Policy issues on capital markets development and the pensions industry were discussed at length in this meeting. In particular Uganda and Tanzania were urged to expedite the process of pension sector reforms and implement the decision of the East African Community Council in the 2008/9 budget. Uganda was also urged to reduce withholding tax on dividend income for listed companies from 10 percent to 5 percent in line with Kenya and Tanzania, in the 2007/08 budget.

High-Level Seminar on African Finance for the 21st Century

CMA was represented by the Senior Research Officer at the High-Level Seminar on African Finance for the 21st Century that was held in Tunis, Tunisia from 4-5 March 2008. This seminar brought together officials from governments, including ministries of finance, economy, planning, and development; financial regulation and supervision agencies, and central banks. The seminar provided an opportunity for participants to share their practical experiences in the financial sector as well as debate practical solutions for overcoming key obstacles that hinder financial sector development in Africa.

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19th IOSCO AMERC Meeting

CMA was represented by the Director Research & Market Development at the 19th IOSCO AMERC meeting that was held in Tunis, Tunisia from 4-6 March 2008. The meeting introduced Mr. Greg Tanzer, the new IOSCO Secretary General and called for volunteers to chair the IOSCO AMERC Committee. Mr. Musa Al Faki, Chief Executive of SEC Nigeria will not be seeking another term as AMERC Chairman.

Mr. Tanzer agreed to prompt the verification teams to speed up the process of assessing the IOSCO MMOU applications. He also encouraged the invitation of government officials to IOSCO meetings to enable them have a better understanding of the importance of reviewing legislation to become signatories to the IOSCO MMOU. He also asked the securities regulators to volunteer staff members who have previously worked on IOSCO assessments to work as international assessors. There is an upcoming assessors meeting in Mumbai.

International News

On the Brink of Collapse, Bear Stearns Gets a Lifeline from JPMorgan Chase & Co. and the Federal Reserve Bank

On the verge of a collapse that could have shaken the very foundations of the U.S. financial system, investment bank Bear Stearns Cos. was bailed out 14th March 2008 by JPMorgan Chase & Co. and the federal government. The near-miss raised new alarm about the credit crisis and whether other big firms might be in jeopardy. The rescue came after the financial state of the venerable Wall Street firm deteriorated so much in a 24-hour period that it threatened to fail.

Bear Stearns stock lost nearly half its market value, about \$5.7 billion, in a matter of minutes, and pulled the broader market down with it. The Dow Jones industrial average fell nearly 200 points. If Bear Stearns were to go under, "it has the potential of bringing down the whole market," said Richard Bove, an analyst at Puck, Ziegler & Co. "This is the crescendo of the crisis." JPMorgan and the central bank agreed to extend loans for 28 days to Bear Stearns, the nation's fifth-largest investment bank and the one hit hardest by the subprime mortgage mess. Two hedge funds managed by Bear Stearns failed last summer, setting

off a credit crisis that has swept up banks and brokerages around the globe.

By Stephen Bernard and Joe Bel Bruno, Associated Press Business Writers, 14th March 2008

Home News

During the period under review CMA recruited Ms Peace Piwang as Human Resource and Administration Manager and Ms Carol Epodoi as Accounts Assistant. Ms Piwang and Ms Epodoi bring vast years of experience in their respective disciplines and from the various places they have worked in. Their recruitment is inline with the 3 year corporate strategy that seeks to strengthen the institution so that it can be in position to fulfil and deliver on its mandate.

Outlook

Pre Budget Meeting

The Pre Budget Consultative meeting is scheduled to take place May 2008 in Arusha Tanzania. The meeting will table various proposals from the Capital Markets Development Committee, the Monetary Affairs Committee and the Fiscal Affairs Committee in preparation of the individual country budgets for the next financial year.

CISNA Meeting

CMA will attend the next Committee for Insurance Securities and Non Bank Financial Authorities (CISNA) meeting that will be held from 23rd to 24th April 2008. The meeting will discuss progress on various financial literacy initiatives in South Africa and Mauritius as well as the developments global financial literacy. The various levels of implementation of the International Organisation of Securities Commissions (IOSCO) principles by the member states will also be discussed.

QUOTES

"Take a nice little company that's been making shoelaces for 40 years and sells at a respectable six-times-earnings-ratio. Change the name from Shoelaces, Inc. to Electronics and Silicon Furth Burners. In today's market, the words electronic and silicon are worth 15 times earnings. However, the real play comes from the word furth-burners, which no one understands. This entitles you to double your entire score. Thus, we have six times earnings for the shoelace business and 15 times earnings for electronics and silicon, or a total of 21 times earnings. Multiply this by two for furth-burners, and we now

Capital Markets in the Press

Integration of East African Bourses Gets Donor Boost

Strategy: IFC is sponsoring the establishment of training institute to improve access to services in the capital markets

By Bernard Busuulwa - The East African

International development bodies have come in to boost the integration of East Africa's capital markets, as the target date of December 2009 draws closer.

The International Finance Corporation (IFC), the private sector lending arm of the World Bank, together with the Swedish international Development Agency (SIDA) is sponsoring the formation of the securities Industry Training Institute of East Africa (SITI), full harmonization of regional capital markets listing rules and transformation of the equities and bond markets.

The support is being channelled through the Efficient Securities Markets Institutional Development (ESMID Africa) programme. The major goals of the programme are to ensure the transformation of the regions capital markets and provide for a smooth integration in order to attain increased competitiveness in the global financial arena.

In particular, IFC is sponsoring the establishment of the training institute, a primary component of the ISMID Africa Programme, while SIDA is injecting \$5 million into the activities of the latter.

The programme is being executed through selected consultants that include Devpar Financial Consulting Ltd of Canada, whose mandate covers training. Nasdaq OMX of Sweden is one of consultants charged with restructuring the bond markets.

The establishment of the training institute is expected to improve access to the capital markets, boost employment opportunities and make the region more competitive against emerging economies. "The Institute will serve all members in the region equally by providing the same course content and exam. We also want to ensure that the region competes

with countries such as India and China when marketing its concepts and services," said Jim Chester of Devpar.

The major objectives of SITI, which will be based in Kampala, include designing courses for capital markets professionals and evaluating their effectiveness. It's expected to upgrade its courses every six months.

SITI will be administered under the East African Securities Exchanges Association (ESEA). The East African Securities Regulatory Authorities (EASRA), the umbrella body of the capital markets authorities in the region, has already endorsed the venture.

Through the creation of SITI, the shortage of professionals in the regions capital markets, especially new ones like Rwanda, is expected to end in the near future. For instance, Tanzania currently has only 19 licensed investment advisors for a population of 38 million people. On the other hand, a single locality in Canada usually has about 100 investment advisors.

The institution intends to train stock brokers and investment advisors who will be in a position to traverse the entire region soliciting business.

The ESMID Africa programme is also intended to ensure full harmonization of listing rules in line with regional stock market integration. Though listing rules on the regions stock exchanges are currently similar, a few issues on profitability requirements still pose a problem to the integration process.

A case in point is the requirement of at least two consistent years of profitability for the Alternative Investment Market Segment (AIMS) on the Dar-es-salaam Stock Exchange unlike the Ugandan bourse, whose requirement is three years. It is expected that with the elimination of such divergences in the listing rules, future listings on the regional stock market will be executed smoothly and cheaply.

have a score of 42 times earnings for the new company"

Jack Dreyfus, mutual fund pioneer, in Time magazine

"The Portfolio took off like a rocket ship for about 90 days. And then the wings fell off. I now think that if you take good research people and ask for a stock that will do it right now, you will end up with a

missile whose power has gone, and all that left is momentum and soon it will crash. That was when [Bob Greenebaum, Inland Steel] called up and said: "Only an idiot would try to catch a falling anvil, Kirby. Send your money back"

Robert Kirby, investment manager, Capital Guardian Trust Co

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