



Capital Markets Authority
Protecting Your Investments

ADDRESS

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The Quarterly Review

October – December 2009 Volume 11, Number 4

>> INTRODUCTION

This Electronic Quarterly Review covers the period October – December 2009

>> HIGHLIGHTS

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31st of October 2009. The Director Legal & Compliance and the Senior Legal Officer attended the meeting. This was the first in a series of meetings that will be held under this project.

2.0 Market Development

2.1 Asset-Backed Securities Seminar

Capital Markets Authority (CMA) with support from the Financial Markets Development Plan Secretariat and PSFU organised a seminar on asset backed securities from **18th-19th November 2009 at Protea Hotel**. This seminar brought together market practitioners in the capital markets industry, policy makers, academicians, potential issuers and investors to discuss a wide range of issues on the opportunities and the potential of asset-backed financing in Uganda. It primarily focused on how asset backed securities could be used to finance long-term projects in Uganda like housing, roads, power plants e.t.c. and how public and private institutions could effectively and efficiently issue asset backed securities.

Ms. Kerry Adby a securitization expert with over 15 years of experience in securitization was the main facilitator at the seminar. Ms. Kerry has been involved in the Efficient Securities Markets Institutional Development (ESMID) project that was looking at the optimum mechanism for creating securitized debt instruments including the laws, regulations and structure of the products in the East African region. Mr. Eric L'okolong; the Senior Compliance Officer (Legal) also made a presentation on the on-going efforts by the Capital Markets Authority (CMA) to develop regulations for Asset Backed Securities in Uganda

1.0 Regulatory Issue

The following were the key regulatory issues during the period January to March 2009;

1.1 IOSCO Self Assessment

The East African Securities Regulatory Authorities (EASRA) requested the International Organisation of Securities Commissions (IOSCO) for technical assistance for implementation of the IOSCO Principles of international best practices in securities markets regulation and supervision. IOSCO responded positively to this request and will be providing and coordinating the technical assistance for the assessment program in respect of all the 30 Principles for EASRA member states. Richard Pratt a consultant from FIRST Initiative will be conducting the self assessment with the Legal and Compliance Committee of EASRA. The first meeting was held in Arusha from the 29th to the

3.0 Public Education

3.1 Teachers Seminar

To further develop the market, Capital Markets Authority has continued to organise seminars for Secondary School teachers of the entrepreneurship subject. The seminars are aimed at equipping the teachers with knowledge on capital

markets which they can then pass on to their students. Two such seminars have already been carried out in the Western and Central Regions. A similar seminar was carried out for secondary school teachers in the Eastern region from 19-22 October 2009 at Wash and Wills Country Home, Mbale. The teachers were also provided with text books, Teachers' Guide, Students' Guide and the Syllabus (S1-S4) to facilitate their teaching. The activity was sponsored by the Financial Markets Development Plan Secretariat under the Private Sector Foundation Uganda (PSFU)/Private Sector Competitiveness Project (PSCP) II, World Bank and Government of Uganda Project.

3.2 Uganda International Trade Fair

CMA participated in the 2009 Annual Uganda International Trade Fair (UGITF) from 6th to 12th October 2009 at the Lugogo Show Grounds. During the fair CMA staff made a presentation to show goers at the Uganda Manufacturers Association (UMA) conference centre and held one-on-one discussions with visitors at the CMA stall. The areas of need raised by the close to 600 people that CMA interacted with include:

- Raising finance for Small & Medium Enterprises (SME's) through capital markets
- Further training for entrepreneurship teachers for both O and A Level
- Extending of market services e.g. brokerage to up country districts
- Continued capital markets education
- More seminars in secondary schools

Though the turn up was lower than last years, the education was more detailed with each one-on-one discussion lasting an average of ten minutes. Following the UGITF, CMA received requests to visit two secondary schools for education seminars on capital markets. We also obtained contacts of various institutions which we plan to include in our education program.

3.3 Public Education Study Tour

The Capital Markets Authority (CMA) hosted a team of officials from the Rwanda Capital Markets Advisory Council (CMAC), Capital Markets and Securities Authority (CMSA) Tanzania and the Central Bank of Lesotho for a study tour from 9th-10th November 2009.

The visiting team were:

1. Dr. F. M. Mboya - Chief Executive Officer, CMSA
2. Dr. A. G. Abayo - Director, Market Supervision and Market Development, CMSA
3. Mrs. N. Massinda - Director, Legal Affairs and Enforcement, CMSA
4. Mr. M. Nyasama - Manager, Market Development, CMSA
5. Olivier Kamanzi, Deputy Executive Director, CMAC, Rwanda
6. Bohlale Phakoe, Head, Investments & Market Operations Division, Financial Markets Department, Central Bank of Lesotho

The team was in Uganda to share and learn about Uganda's public education initiatives and discuss modalities of implementing them in their individual countries.

CMA provided insight in the following areas:

1. Investor Financial Education
2. Promotion of basic financial literacy
3. Establishment and monitoring of investment clubs
4. Research based initiatives and their contribution to public education
5. Developing communication strategies

The participants visited the Financial Literacy Foundation and presentations were made by the FINLIT Coordinator, Ali Taha and Mr. Olli Pekka Ruuskanen who is the Chief Executive of the Uganda Insurers Association (UIA) and a Finlit Board member. UIA hosts and oversees the Foundation. The team also visited the St. Mary's College Kisubi Investment Cooperation, an investment club of the school's students where they heard testimonies on how these students are saving and investing in the capital markets.

CMA shared with the participants various public education materials including brochures, the CMA public education and communication strategy, university challenge and Schools challenge proposals and DVDs. They expressed interest in using the materials to further enhance their investor education programmes.

3.4 With your Paycheque' Workshop

CMA was invited to make a presentation at a personal finance workshop 'With your Paycheque' organised by Dave and Dave, a Business Consultancy group, for office workers. The workshop which was held on 30th November 2009 at Serena International Conference Centre was facilitated by the Senior Public Education Officer who educated the over 30 office workers present on various aspects of investor protection and investing wisely in capital markets. The participants were particularly interested in cross border trade and East African capital markets integration, among other issues.

4.0 Regional & International Co-operation

4.1 East African Community (EAC) Financial Markets Infrastructure Workshop

The EAC Financial Markets Infrastructure Workshop organised by the Efficient Securities Markets Institutional Development (ESMID) project was held in Gisenyi, Rwanda from 8th-9th October 2009. The workshop attracted participants from the Central Depository & Settlement Corporation Kenya, EAC Secretariat, as well as representatives of central banks, securities regulators and stock exchanges from Kenya, Rwanda, Tanzania and Uganda. CMA was represented by the Director Research & Market Development, the Information Technology (IT) officer and the Senior Compliance Officer (Finance).

The workshop encompassed the following key topics:

- (i) The EAC Vision and Status
- (ii) Models and Key Components of the proposed regional central securities depository
- (iii) Challenges and Obstacles
- (iv) The way forward

Specific areas of interest to CMA were issues of regulation of the regional central securities depository. Concerns were raised about how far the regulatory ambit and powers of a national regulator, can be stretched in ensuring that a fair, efficient and orderly market is maintained. There will be need for reform of relevant legislation, mutual recognition of capital markets players as well as more collaboration between the East African securities regulatory authorities on matters of supervision of regional infrastructure.

4.2 Highlights of the Post Budget EAC Meeting for Minister's of Finance

A post budget meeting of EAC Ministers of Finance was held from 2nd-5th November 2009 in Arusha, Tanzania. At this meeting the Finance Ministers resolved to finance all regional infrastructure projects as a region. This will require massive mobilisation of capital through the EAC capital markets. This would also require the capital markets regulators in the region to fast track the development of a regional legal and regulatory framework that would make this possible.

The Ministers also noted the progress that had been made in integrating the capital markets in the region. The EAC Secretariat informed the meeting that a capital markets implementation framework had been developed and this would be discussed and adopted by the various stakeholders at two regional meetings and national workshops slated for the 1st quarter of 2010.

4.3 East African Securities Regulatory Authorities (EASRA) Meeting

CMA Uganda hosted the 29th East African securities Regulatory Authorities (EASRA) Meeting from 11th-12th November 2009. The meeting was attended by the EAC Deputy Secretary General (Planning and Infrastructure), the Permanent Secretary in the Ministry of EAC Affairs in Kenya and representatives from Central Bank Kenya, Bank of Uganda and the Ministry of Finance Planning and Economic Development - Uganda.

The meeting deliberated on regional integration matters that would require the support of the EAC as well as the co-operation of the central banks and the ministries of finance in the EAC Partner States. An EASRA sub-committee comprising of 8 officials from Rwanda, Kenya, Tanzania and Uganda was selected at this meeting to draw up a detailed implementation work plan with a budget on the integration of capital markets in the EAC based on the recommendations of the ESMID reports on capital markets regionalization. This sub-committee was also requested to analyse the implications of the EAC common market protocol on the integration of the EAC capital markets. The focus of this task force was those recommendations which required the action of

capital markets regulators. This sub-committee met from 7th-9th December 2009 and developed the work plan which is now being reviewed by the CEOs of the capital markets regulators in the EAC. This work plan is expected to be deliberated upon in the next EASRA meeting which will be hosted by Rwanda.

The meeting also discussed committee reports on

- guidelines for portfolio valuation for fund managers,
- external auditor reporting obligations to regulators,
- the implications of the common market protocol for capital markets development and integration,
- progress made on the demutualization of stock exchanges,
- the progress made on the IOSCO MMOU self assessment of the 27 principles by each of the partner states and
- the modalities of formalizing the relationship between EASRA and EASEA including entering into an MOU

The meeting also reviewed the MOU establishing EASRA with a view to ensuring that all recent developments within EASRA are adequately covered.

5.0 International News

5.1 Kenya Launches Automated Trading in Bonds

Kenya has launched the first ever automated bond trading market in East and Central Africa on 9th November 2009b with the listing of the Ken Gen Bond. According to the Nairobi Stock Exchange Chief Executive Officer, Mr. Peter Mwangi, all immobilized listed bonds, such as the KenGen bond will trade in an end to end automated capital acquisition platform, right from the placement of orders, to matching and finally settlement.

The Automated Trading System (ATS) of the NSE has been linked to the Central Depositories of the Central Bank of Kenya (CBK) and the Central Depository and Settlement Corporation (CDSC) to facilitate clearance and settlement of both government and corporate bonds. Analysts predicted that the bond market automation was what was required to re-ignite the Kenyan capital markets long battered by bad economic times and an on-off bearish streak.

6.0 Home News

6.1 Recruitment of a Legal & Compliance Manager

With the resignation of the legal and compliance manager in August 2009, this position fell vacant. Thus in the month of November CMA conducted internal interviews of the prospective candidates from which Mrs Miriam Ekirapa Musaali emerged the best candidate. Therefore with effect from 1st December 2009 Mrs Miriam Ekirapa Musaali

became the CMA Legal & Compliance Manager. Mrs. Musaali was previously the Senior Legal Officer, at the Capital Markets Authority - Uganda.

7.0 Outlook

7.1 Teachers' Seminar

In line with CMA's strategy of equipping Secondary School entrepreneurship teachers with knowledge on capital markets which they can then pass on to their students through the teaching of the entrepreneurship subject, CMA will be organising another teachers' seminar in Northern Uganda. This seminar is slated to run from 18th -19th January 2010.

7.2 Strategic Plan Retreat

In the first quarter of 2010 CMA will commence the process of developing its Strategic plan as the current one runs up to the end of June 2010. The next strategic plan will run for three years from July 2010 to June 2013. In developing this strategic plan special attention will be placed on how CMA's plans fit into the overall EAC regional integration agenda especially with the coming into effect of the East African Community common market in July 2010.

7.3 Recruitment of New Staff

CMA also plans to recruit two more staff in the first quarter of 2010; a compliance officer to further enhance the compliance team and a research officer to strengthen the research capacity of the Authority.

8.0 Capital Markets in the Press

41 SMEs Ready for Listing

By Walter Wafula

Daily Monitor 1st December 2009

A total of 41 lucrative small to medium size companies are interested in selling some of their shares to the public via Uganda Securities Exchange, a new study has revealed. The firms which are rated among Uganda's top 1,000 tax payers are motivated by the desire to source cheaper finance from the public for further expansion.

The development signals new investment opportunities for individual and corporate investors with lofty appetite for tradable shares of listed companies. Bosses of 16 of the "high growth" firms earning between Shs600 million and Shs10 billion as annual revenues said they are interested in listing on the Uganda Securities Exchange (USE) – the local stock market between next year (2010) and 2011.

The findings are quoted in the Selection and Needs Assessment for SMEs for Potential listing on the Alternative Investment Market Segment (AIMS) of the USE report which was conducted by local research firm UMACIS Consulting. AIMS is the part of the

stock market which is used by small to medium size high growth companies to raise capital for further investment. The study, however, recommends only seven of the local Small and Medium Enterprises (SMEs) for listing as early as 2010. "These SMEs meet all the conditions necessary for successful listing on AIMS," says the UMACIS study, which was done on behalf of the Exchange, between March and July this year (2009). Currently, there are six local listed and five cross-listed companies on the Main Investment Market Segment.

There's no listed company on the AIMS although it was introduced in 2003, because it had prohibitive eligibility requirements, which have since been relaxed to woo its beneficiaries. The SMEs are now required to have assets valued at Shs400 million or more, must have a two-year profit making track record, with at least 100 shareholders. According to the study, nine of the firms don't meet all the conditions considered necessary for immediate listing on the AIMS while 25 prefer to be listed after 18 months. Mr Simon Rutega, the Chief Executive Officer of USE, said the seven firms have already been considered for listing on the AIMS as a priority. "We are going to train them and ensure that they work with our professional institutional advisors to be listed. Two can be listed next year," he told Business Power during a workshop to sensitize SMEs about the benefits of raising money through the Exchange in Kampala last week.

The identity of the lucky firms has been concealed to avoid jeopardizing their listing but they are members of the Ugandan Manufacturers Association and on the list of the nation's exporters. The USE plans to equip top executives of the SMEs with better corporate governance, financial reporting skills and train them on how to list on the exchange, through the East African Securities Industry Training Institute at Workers House.

Mr Duncan Kayiira whose firm conducted the survey among 70 SMEs out of a total of 125 said, the main reason cited by the firms that are interested in raising funds from the capital markets was that Capital Markets financing is a cheaper option than borrowing from commercial banks. At the stock market, companies borrow money through selling their shares and bonds (debt papers) to individuals, fund managers and other firms. The cost of equity is estimated between 5 and 12 per cent while the cost of loans ranges between 16 and 25 per cent the study reads in part.

Mr Kayiira added that executives of the firms who were interviewed believe that listing on the Exchange would help them acquire professional skills needed to administer the business and also attract professional management. However, families which own some of the companies were worried about losing the 100 per cent controlling power over the firms when listed. Other companies he said argued that they were content with their current sources of funding like private equity.

QUOTES

“Only buy something that you’d be perfectly happy to hold if the market shut down for 10 years”

Warren Buffett

Disclaimer

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