



Capital Markets Authority
Protecting Your Investments

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The Quarterly Review

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INTRODUCTION

This Electronic Quarterly Review covers the period April – June 2010

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1.0 REGULATORY ISSUES

The following were the key regulatory issues during the period April to June 2010;

1.1 Uganda Securities Exchange Chief Executive Departs

The Chief Executive of the Uganda Securities Exchange left the bourse on June 30th 2010 after being at the helm since inception in 1998. He leaves the USE as one of the most vibrant and best performing stock markets in Africa with 7 domestic listed stocks and five cross-listed stocks as well as several government and corporate bonds. Mr. Calvin Waibale has been appointed as the acting Chief Executive until the board recruits a replacement.

1.2 Annual Renewal of Licences

Following the annual inspection and review of all the applications for renewal of licences, CMA issued a notice to the public listing all the industry players. The Broker/Dealer license for Fidelity Capital Management Limited was not renewed because an application for license renewal had not been made to the Authority. The Investment Advisor, Broker /Dealer license for MBEA Brokerage Services Limited was also not renewed due to the inability of the company to meet its minimum net capital requirements under Regulation 16 of the Capital Markets Authority (Licensing) Regulations 1996. As a result, MBEA and Fidelity Capital Management are not permitted to carry on securities business in Uganda until their licenses are renewed. All existing client accounts of MBEA have been transferred to Crested Stocks and Securities Ltd.

2.0 PUBLIC EDUCATION

2.1 Capital Markets Secondary Schools Challenge

The finals of the seventh Secondary Schools Challenge were held on the 28th of June 2010 at Hotel Africana. Greenhill Academy emerged victorious winning the grand prize of a two day study tour in South Africa of Capital Markets. The first, second and third runners up - Bweranyangi Girls School, Sacred Heart Girls School and Bukedi

College Kachonga-won a two day study tour to the Kenyan Capital Markets.

The Capital Markets Secondary Schools Challenge is a competition initiated by CMA in 2003, as an education initiative for Advanced Level (A-Level) students on financial matters. The competition as part of its objectives is expected to capture a wider adult audience such as parents, teachers as well as members of the public.

This year's secondary schools challenge involved three stages:

- The Essay Competition which was open to all secondary schools in Uganda that participated by submitting an essay on a selected topic. One hundred and twenty four schools submitted entries;
- Regional quiz competitions that brought together the top 15 schools in the essay competition from each region at a central location in the different regions where they were tested on knowledge of capital markets and financial issues as well as general knowledge of economic matters;
- The national finals that had the winners from each region tussling it out in a debating session and presenting their practical projects on savings and investments.

2.2 Kikonyogo Capital Markets Award (KCMA 2010)

The Kikonyogo capital markets Award 2010 was held on the 6th of May 2010 at the Sheraton Hotel. The Guest Speaker was Ms. Arumnah Oteh, the Director General of Securities and Exchange Commission, Nigeria. Ms.Oteh is a scholar of banking, finance and research. She has served in various capacities at the Africa Development Bank Group, including as Vice President and Group Treasurer. She has several years of experience in corporate finance, consulting, teaching and research from a number of institutions including Harvard Institute for international development, U.S.A and Centre Point Investments Limited, Nigeria. She

holds a Masters Degree in Business Administration from Harvard Business School, Harvard University, Boston, U.S.A and a first class honours degree from University of Nigeria, Nsukka.

KCMA 2010 focused on financial journalism and media houses. The winners were: Walter Wafula of Monitor Publication (print journalist), Prossy Nandudu of Vision Voice (radio journalist) and Samuel Setumba of NTV (Television journalist). Monitor Publications won the overall award for the media house category while Walter Wafula won the overall award for journalism. The overall winner for journalism was awarded a two day study tour to the South African capital markets. The winners in each category walked away with Ush 1 million in promissory notes to buy shares in companies listed on the Uganda Securities Exchange or units in the Collective Investment Schemes (CIS).

The Kikonyogo Capital Markets Award (KCMA) was instituted in 2003 to recognise commendable efforts of individuals or organisations towards the development of capital markets in Uganda. The Award is held in honour of Mr. Charles N. Kikonyogo (R.I.P), Governor of Bank of Uganda (May 1990 to May 2000), who was instrumental in negotiating and harnessing technical as well as financial support for the establishment of the Capital Markets Authority. The KCMA ceremony comprises a cocktail, a dinner, a keynote speech and presentation of awards.

3.0 REGIONAL AND INTERNATIONAL CO-OPERATION

3.1 The East African Securities and Regulatory Authorities (EASRA) Legal and Surveillance Committee meeting.

In preparation for the implementation of the East African Common Market Protocol, the Director Legal and Compliance attended a meeting in Dar-es-Salaam, Tanzania of the EASRA legal and surveillance committee to review the legal framework for the East African Countries and identify areas that need to be addressed. Key areas identified include:

- The harmonization of the licensing requirements for the East African capital markets;
- Review of the legislation that restricts eligibility of market operations to only nationals or companies owned by nationals;
- Provision of East African market intermediaries direct access to all the East African capital markets;
- Amendment of legislation to remove ambiguity in defining the term “Investment Advisor”;
- Harmonization of the roles of CIS;and
- Formulation of legislation for cross border listings.

3.2 Report on the EAC Pre-Budget Meeting in Kampala - Uganda

The annual EAC Pre-Budget meetings were held in Kampala, Uganda not in Arusha, Tanzania as had earlier been planned. The meetings run from 09-12 May 2010 with the technical officials meeting from 09-10 May, the Ministries of Finance Permanent Secretaries on 11 May and the Ministers of Finance on 12 May. CMA was represented by the Senior Research Officer in the technical officials’ meetings and by the Director Legal and Compliance in the Permanent Secretaries and Ministers’ meetings.

Normally, issues pertaining to capital markets are discussed extensively in these meetings, but this time round they were not as majority of the members of the EAC Capital Markets Insurance and Pensions Committee to which CMA belongs were attending meetings in Arusha. Nevertheless during the country consultations, CMA continued to lobby for corporate tax incentives for companies intending to list on the Uganda Securities Exchange. There was consensus that in principle this would be a welcome policy action to promote the development of capital markets in Uganda.

3.3 Thirty Fifth (35th) Annual International Organization of Securities Commissions (IOSCO) Conference.

IOSCO held its 35th annual conference from 10th to 14th June 2010 in Montreal, Canada. The CEO represented CMA at the conference. Major issues discussed included:

- The addition of eight new principles to the current 30 principles that were approved in 1998. The new IOSCO principles address concerns arising from the global financial crisis. They cover systemic risk; regulation of credit rating agencies; and hedge fund; auditor oversight and independence; and conflict of interest throughout the capital market including securitization;
- A revision of the deadline for all members who have not advanced to Appendix A of the IOSCO Multilateral Memorandum of Understanding to 01 January 2013 ;
- The re-election of Ms. Arunma Oteh, Director General of the Securities & Exchange Commission of Nigeria as Chairman of the Africa and Middle East Regional Committee (AMERC). She will be deputised by Morocco;
- The revision of IOSCO annual Fees which have been at Euro-10,000- since 2005 to Euro-15,000. However, IOSCO agreed to review the fees formula which is currently “One Member, One Fee”.

3.4 East African Financial Markets Infrastructure Project Team meeting

As the East African Community member states move towards integrating their capital markets, not only is the legal framework a prerequisite but also the market infrastructure for efficient integration. In the period under review, The East African Financial Markets Infrastructure Project Team held its third meeting in Bujumbura on 8th and 9th April 2010. The meeting among others deliberated on the business case for a pan-EAC Central Securities Depository (CSD) that would accommodate the clearance and settlement

of all securities in the region (i.e. equities government bonds and corporate bonds and any other securities that may come up in the future) and commenced work on the project proposal on the establishment of the regional CSD.

The Project Team later met alongside the Monetary Affairs Committee (MAC) and the Capital markets Insurance and Pensions Committee (CMIPC) from 9th to 11th May 2010 in Arusha Tanzania. The technical officials meeting considered the project team proposal on the establishment of a Pan EAC Central Securities Depository (CSD). The C.E.Os' and Governors meeting requested the team to include more details on the pros and cons of the proposal of the Pan EAC CSD in comparison to the option to link up the Central Depository Systems in the region. The report was presented and discussed at the Council of Ministers meeting that was held in June 2011.

The Financial Markets Post-Trade Infrastructure Committee also had a parallel meeting to the Monetary Affairs Committee (MAC) that run from 18th to 21st June 2010. The select team presented the proposal for the regional central securities depository to the Payment Systems and Financial Markets Committee of MAC who noted the select team report. MAC and the Capital Markets Insurance and Pensions Committee will review the proposal together in September 2010 before a final decision is made on the way forward.

4.0 INTERNATIONAL NEWS

4.1 Chancellor For The Exchequer Announces Break-up of FSA (Financial Services Authority).

In an article appearing in the Financial Times on 17th June 2010, the new Chancellor of the Exchequer, George Osborne, announced an overhaul of Britain's regulatory system that would see the dissolution of the finance watchdog FSA and hand broad new powers to the Bank of England. He said that the bank would be responsible for keeping an eye on lenders, insurance companies and investment banks, in addition to supervising the health of the economy overall to avoid a repeat of the credit crisis that nearly brought the British economy to its knees.

Mr. Osborne stated that his reforms would dismantle the three-pronged regulation system - comprising the central bank, the Financial Services Authority, and the Treasury. The FSA would be broken into three smaller units - consumer protection, fighting economic crime, and a third that would be folded into the Bank of England. The changes will have to be ratified by parliament, and could take until 2012 to come into effect.

(Source: Financial Times, 17th June, 2010)

5.0 OUT LOOK

5.1 Staff recruitment

CMA recruited a Research Officer and a Compliance Officer during the period under review. The two officers are expected to work with the rest of the team in meeting the objectives of CMA of promoting, developing and regulating the capital markets in Uganda for investor protection and market efficiency.

Monitor scoops top Capital Markets Awards

By Justus Lyatuu

Daily Monitor, May 10, 2010

The Monitor Publications Limited was named the best media house at the 2010 Kikonyogo Capital Markets Awards for promoting capital markets and excelling in business and financial news reporting.

Commenting on the best media house Award, Daily Monitor Business Editor, Mr Dennis Kawuma said: "This underscores the fact that we are the prime newspaper when it comes to business and financial news coverage in Uganda. We will seek to get even better. "

Mr Walter Wafula a business writer at the Daily Monitor won the overall award beating fellow journalists from the New Vision, Observer and other newspapers. He also scooped the award for best financial journalist in the country in the print category.

"Winning has made me realise that readers out there appreciate the quality of my work and that I have become a better journalist than I was last year. But I cannot rest on my success because the stakes are high," Mr Wafula said.

The awards honour individuals and media houses that have excelled in promoting financial markets in Uganda through outstanding stories and writing. Mr Japheth Katto, the chief executive officer of the Capital Markets Authority said: "We do this to emphasise the key role the media plays in creating awareness about capital markets in Uganda."

He added that this year's Awards come at a time when financial markets are emerging from an economic slowdown as a result of the global financial crisis. "We are beginning to see a surge in share prices and trading volumes at the USE, which is a sign that investor confidence is returning. Notwithstanding the challenges, capital markets are progressing," Mr Katto said.

QUOTES

"Be fearful when others are greedy, and be greedy when others are fearful."

Warren Buffet

Disclaimer

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