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Protecting Your Investments

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The Quarterly Review

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>> INTRODUCTION

This Electronic Quarterly Review covers the period January – March 2010

>> HIGHLIGHTS

Regulatory Issues

Public Education

Regional and International Cooperation

International News

Outlook

Capital Markets in the Press

2.0 Market Development

2.1 National Insurance Corporation (NIC) Initial Public Offer

The National Insurance Corporation Ltd (NIC) issued ordinary shares for the first time in an Initial Public Offer (IPO) that opened on 31st December 2009 and closed on 5th February 2010. The NIC IPO was a divestiture of 40% government holding in National Insurance Corporation Ltd. The government holding was equivalent to 161,552,000 shares valued at Ushs 7,269,840,000 (i.e. each share was valued at Ushs 45). A total of 2,415 applications were received during the IPO; 2,289 from individuals and 57 from corporations /institutions. The entire IPO was oversubscribed by 31.97% raising Ushs 9,594,228,600; Ushs 2,324,388,600 above the IPO's targeted Ushs 7,269,840,000. The NIC shares were listed on the Uganda Securities Exchange (USE) on 25th March 2010 where the market closed at Ushs 60 per share a gain of 33% over the IPO price.

1.0 Regulatory Issues

The following were the key regulatory issues during the period January to March 2010;

1.1 Launch of the Securities Central Depository (SCD)

With the passing of the SCD Act in December 2008 CMA went further to develop the regulations to operationalise the Act. The Uganda Securities Exchange applied to CMA and was granted the license to operate the SCD in November 2009. The SCD which was launched on 18th February 2010 will enable electronic clearing and settlement of securities and will also pave way for electronic trading in securities like bonds and shares. This should make trading in securities easier and faster and improve liquidity in our market.

3.0 Public Education

3.1 Entrepreneurship Teachers training Seminar-northern Uganda

In 2009 CMA embarked on a program of training teachers of entrepreneurship at O'Level secondary school in various aspects of capital markets covered in the entrepreneurship subject. CMA recognises that a majority of the secondary school entrepreneurship teachers do not have a background in capital markets and yet they are supposed to deliver capital markets modules to their students. Thus this training program is expected to enhance these teachers' knowledge on

capital markets to enable them effectively deliver the capital markets subject.

In 2009 this program was rolled out to two regions; Eastern and Western Uganda bringing together a total of 109 teachers. In the January-March quarter the program was delivered in Northern Uganda with a two-day training running from 19th-20th January 2010 in Lira town. The training in the Northern region brought together a total of 60 teachers from the districts of Gulu, Nebbi, Arua, Koboko, Kitgum, Pader, Adjumani, Apac, Lira and Moyo. This brings the total of regions covered by this program to four (4) and the teachers who have gone through this program to 240. In each of the regions training materials such as student textbooks and teachers guides were distributed to the various teachers in attendance.

This program 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 Financial Literacy Public Education Clinics

In the month of March the Finlit Foundation (U) Ltd organised Financial Literacy “Clinics” in Mbarara. Financial literacy clinics are a series of workshops in which the public is educated about various aspects of financial planning. As a member of Finlit Foundation (U) Ltd, CMA was invited to participate in the clinics by making presentations to various groups including teachers, nurses, the army, police, business people and corporate workers.

CMA also exhibited and shared information with the public. It is estimated that CMA reached about 612 people during the public education clinic. Finlit Foundation (U) Ltd will roll out the clinics to reach other regions namely North, East and down town Kampala and CMA will participate in all the clinics.

3.3 Exhibitions

CMA participated in two exhibitions in the period under review; the Private Sector Foundation of Uganda (PSFU) Small and Medium Enterprises (SME) Day Exhibition and the Banking, Finance and Insurance Expo. A total of 300 and 450 people visited the CMA exhibition stall at the PSFU and the Banking, Finance and Insurance Expo respectively. CMA also made presentations about saving and investment opportunities in the capital markets industry at the two exhibitions.

3.4 University Course Development

In the period under review discussions on including capital markets content in the banking and finance course unit of the Mountains of the Moon University commenced. The Public Education unit and the Chief Executive Officer met with a consultant developing the course and discussed the possible options of incorporating capital markets in the Mountains of the Moon University banking and Finance course. A draft course outline is being developed for consideration by the Ministry of Education National Council for Higher Education. Similar endeavours are being pursued with other universities.

4.0 Regional and International Co-operation

4.1 International Organisation of Securities Commissions (IOSCO) - Africa Middle East (AMERC) Meeting and Study Tour Of The Ghana Capital Market

A four man delegation from CMA comprising of the Board Chairman, the CEO; a Board Member and the Director Finance and Planning travelled to Accra, Ghana to attend the 21st IOSCO-AMERC meeting on 15th February 2010. This meeting discussed the state of play of the review of the IOSCO principles and methodology as well as the modifications to the IOSCO objectives and principles of securities regulations. The AMERC meeting was followed by a Conference on 16th February 2010 on ‘**Information and Capital Markets Development in Emerging Countries**’.

In line with the Memorandum of Understanding (MOU) signed between CMA and SEC Ghana in 2008, after the IOSCO-AMERC meeting and conference the same delegation paid a return visit to the Securities Exchange Commission (SEC) Ghana. The delegation was taken on a study tour of the Ghanaian capital markets from 17th and 18th February 2010 visiting the Ghana Stock Exchange, a fund manager and investment bank as well as a unit trust manager. The delegation observed many similarities between the Ghanaian and the Ugandan capital markets and found that there were many things that CMA could learn from Ghana that would further enhance the development of capital markets in Uganda like the promotion of unit trusts among the general public especially the low income earners.

4.3 Report on the EAC Joint Meeting of Monetary Affairs Committee (MAC), Fiscal Affairs Committee (FAC) and Capital Markets, Insurance and Pensions Committee (CMIPC)

The East African Community (EAC) convened a joint meeting of the EAC Monetary Affairs (MAC), Fiscal Affairs (FAC) and the Capital Markets, Insurance and Pensions (CMIPC) Committees from 26th February 2010 to 2nd March 2010. The purpose of this meeting was to discuss the various cross-cutting issues which involve these committees but are also critical to the eventual success of the proposed EAC Monetary Union. CMA was represented by the Chief Executive Officer, Director Research and Market Development and the Director Legal and Compliance. The meeting noted that the EAC Heads of State Summit had agreed to have the EAMU by 2012 and recommended that:

- (i) A comprehensive Protocol on the East African Monetary Union (EAMU) be negotiated;
- (ii) A High Level Task Force (HLTF) be established urgently to negotiate the Protocol and review the draft roadmap for the EAMU;
- (iii) The HLTF reviews and refines the draft roadmap and submit the same to the sectoral council of Ministers responsible for Finance to be convened in May 2010.

4.4 East African Securities Regulatory Authorities (EASRA) Meeting

The Capital Markets Advisory Council of Rwanda hosted the 30th East African securities Regulatory Authorities (EASRA) Meeting from 21st-23rd March 2010 in Gisenyi, Rwanda. The meeting was attended by technical officials and CEOs of the capital markets regulators in the East African region as well as a representative from the World Bank.

The meeting adopted a report of the ad-hoc EASRA regional integration committee which had been tasked to; develop a detailed work plan for the implementation of various recommendations pertaining to EASRA in the Efficient Securities Markets Institutional Development (ESMID) report on the East African Community (EAC) capital markets regionalization. This work plan was to be drawn up with a budget and timelines. The ad-hoc committee also reviewed the impact of the EAC Common

Market Protocol on the implementation of the EAC capital markets regionalization program. This report will now be used as the regional integration roadmap.

Various issues regarding the East African regional certification program, the demutualisation of the East African stock exchanges, the developments in the discussions on the integration of the East African Securities Depositories as well as providing technical assistance to the EAC secretariat in the form of attachments of technical staff were also discussed at the meeting.

In accordance with the EASRA MOU, which stipulates that the Chairperson shall serve for a period of two years, the Consultative Committee elected Mr. Robert Mathu, the Executive Director of Capital Markets Advisory Council (CMAC) Rwanda to take on the position of EASRA chairman. Mr. Robert Mathu takes over from Mrs. Stella Kilonzo, the Chief Executive of the Capital Markets Authority Kenya, who had held the position for the past two years (2008 to 2010)

5.0 International News

Nigeria, Ghana, Côte d'Ivoire move to integrate capital markets

According to an article published on 15th March 2010 in the Business Day Online, one of the leading business dailies in Nigeria; the Ghana Stock Exchange (GSE), Nigerian Stock Exchange (NSE), and Bourse Régionale des Valeurs Mobilières (BRVM) of Côte d'Ivoire have agreed to integrate their capital markets into West African Securities Markets. This was a decision that was initiated by capital markets regulators in these markets.

In that regard it has been agreed that an executive committee made up of stakeholders of the West African securities markets be constituted comprising of CEOs of all three Exchanges, one representative from securities regulators of each of the three markets, a representative from each Central Securities Depository (CSD), and a broker/dealer representative from each of the Exchanges. This committee will be tasked with overseeing the pre-integration and implementation phases of the capital markets integration initiative.

6.0 Outlook

6.1 Kikonyogo Capital Markets Awards (KCMA) 2010

Preparations for the KCMA 2010 have commenced. The date for the event is set for 06 May 2010 and Ms. Arumnah Oteh, the newly appointed Director General of the Securities Exchange Commission – Nigeria has kindly honoured CMA's invitation and accepted to be the keynote speaker.

Ms. Oteh is a scholar of banking, finance and research. She has served in various capacities at the African Development Bank Group, including as Vice President and Group Treasurer. She also 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.

This year's KCMA Awards will reward business journalists who have excelled at financial journalism in the print, television and radio categories. The overall winner will win an all expenses paid study tour to the South African capital markets and also have an opportunity to visit one of the leading South African media houses in financial journalism. The winners in each category will each walk away with Ushs 1 million in promissory notes to buy shares in companies listed on the Uganda Securities Exchange or units in the Collective Investment Schemes (CIS).

1.2 Capital Markets Secondary Schools Challenge

With funding from the Financial Markets Development Plan, CMA is organising the 7th Capital Markets Secondary Schools Challenge. The three-stage competition comprises an essay competition, a regional quiz competition and a national debate. Whereas participation in previous challenges was on an invitation basis, this year's Challenge is open to all secondary schools around the country with the grand prize as an all expenses paid study tour to the South African capital markets, for the winning team and their patron teacher. The essay competition has already been completed and will be followed by the regional quiz competitions and national debate in May and June.

1.3 Recruitment of New Staff

CMA finalised the recruitment process of two staff; a compliance officer to further enhance the compliance team and a research officer to strengthen the research capacity of the Authority. The two officers are expected to report for duty in the quarter of beginning April 2010.

Uganda: SCD System Promises Rapid Growth of Securities Market

By Patrick Kagenda

The Independent 2nd March 2010

The Uganda Securities Exchange (USE) last week launched the Securities Central Depository System (SCD) that will pave the way for electronic trading. The software to run the system that will link the USE to the Dar es Salaam Stock Exchange and the Nairobi Stock Exchange was provided by the MTI of Sri-Lanka mid last year.

The same company provided a similar system in the other two East African stock exchanges. Like the automation of the banking sector where passbooks have been done away with, the SCD will also phase out paper share certificates and at a click of a button one will access his share certificate electronically from anywhere in the world.

Simon Rutega the Chief Executive at the USE told the media at the launch of the SCD that the equities market is migrating from a manual system to an electronic one.

The launch of the SCD follows last year's passing of the SCD Bill by the Parliament of Uganda. The SCD is a depository warehouse where paper shares will be deposited. It will start with the immobilization phase where paper certificates will still be maintained in the country but deposited with the exchange.

Under the immobilization phase paper certificates will still be considered as evidence of ownership. However after the six months immobilization phase, the exchange will move to the dematerialization where paper certificates will be done away with. The exchange will work in partnership with the Securities Central Depository Agents (SCDA) and two custodian banks Stanbic and Barclays bank. The banks will be involved in the first phase of account opening to the public. The public will interact with the SCDA's to open up accounts. Any investor who plans to participate in the securities exchange will be required to have an account with a SCDA and will be required to immobilize his certificates with the USE.

However trading in the first phase will continue being manual with the open outcry trading methodology but once the USE is through with the SCD system, the exchange intends to complete the formation of the exchange with an automated trading system. The first six months are being used to test the system to ensure that it works effectively.

The new system has an advantage of easing the connectivity with the payment system of the T+5 days as there will be no movement of paper since the certificates will be deposited in the SCD. The account opening of the SCD is free to all provided one is an eligible investor. A fee will be charged at the dematerialization stage for administrative costs.

The exchange has 30 listed government bonds, 5 corporate bonds and over 40,000 shareholders who are expected to grow. The new SCD is expected to increase performance as it is more efficient. The Dar-es-salaam Stock Exchange (DSE), and Nairobi Stock Exchange NSE which have already installed the SCD, have experienced rapid growth. The exchange is also looking at two coming IPO's with the biggest anticipated to be the Tullow Oil Plc cross-listing.

On the security of the SCD, Rutega said they had taken learning experience from the mistakes at the NSE and that client's money will be safe.

Quotes

"A bank is a place that will lend you money if you can prove that you don't need it" Bob Hope

Disclaimer

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