



Capital Markets Authority Protecting Your Investments

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INTRODUCTION

This Electronic Quarterly Review covers the period July- September 2010

HIGHLIGHTS

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

1.0 REGULATORY ISSUES

The following were the key regulatory issues during the period July to September 2010;

1.1 Revocation of the Licence of Fidelity Capital Management

CMA revoked the broker/ dealer licence of Fidelity Capital Management on 13th September 2010. In a media notice, CMA warned members of the public against transacting any business with the company. As a result of this enforcement action, Fidelity Capital Management is not permitted to carry on securities business in Uganda.

1.2 Uganda Retirement & Benefits Authority (URBA) Bill Tabled In Parliament.

On the 7th of July, 2010, the Hon. Minister of State for Finance, Planning and Economic Development (General Duties) presented

the Uganda Retirement Benefits Authority Bill 2010 to the Parliament Sessional Committee on Finance. The Bill seeks to establish an independent regulatory Authority which shall be responsible for: regulating the establishment, management and operation of retirement benefits schemes in Uganda; protection of funds of retirement benefits schemes; supervision of institutions providing retirement benefits products; and ensuring stability of the financial sector through promoting the stability of the retirement benefits sector as a whole with a view of promoting long term capital developments.

1.3 The Capital Markets Authority Amendment Bill 2010 Tabled In Parliament

The Capital Markets Authority Amendment Bill 2010 was tabled before parliament on 28th September 2010. The Bill went through the first reading. The main objective of the Bill is to amend The CMA Act, Cap.84 to insert a new part dealing with offering of securities to the public. The new part seeks to replace the provisions of the Companies Act relating to the issue of prospectuses.

1.4 Corporate Governance Seminar for CMA Licensees

The Institute of Corporate Governance of Uganda (ICGU) and the Capital Markets Authority (CMA) held a two day seminar for the Licensees of the CMA. The seminar was held on the 14th and 15th of July 2010. It was well attended by the stock brokers and Managers of Licensed firms. The topics discussed included: Corporate Governance and the Law, Corporate Governance and Compliance, Risk management and the Code of Conduct for Licensed persons.

2.0 MARKET DEVELOPMENT

2.1 Kenya Commercial Bank Rights Issue

The Kenya Commercial Bank (KCB) which is listed on the Nairobi Stock Exchange and cross listed on the Uganda Securities Exchange (USE) made a rights issue offer to its shareholders of 887,111,110 new ordinary shares at a price of KSH. 17/= (Ush 479). The offer opened on the 1st of July and closed on the 23rd of July 2010. CMA issued guidance to the lead transaction Advisers to inform the Ugandan public about the foreign exchange risks associated with the offer and the movement in share price.

KCB managed to raise 82.5% of the KES 15.0bn (Ush 420bn) additional capital sought. The rights issue was KCB's third such exercise in six years and by far its largest.

2.2 Nation Media Group Cross-Listing Approved

The CMA approved the cross-listing of shares of the Nation Media group (NMG) which is also listed on the Nairobi stock exchange. The Nation Media Group (NMG) founded by His Highness the Aga Khan in 1959 has become one of the largest independent media house in East and Central Africa. The NMG is involved in print, electronic and broadcast media in Kenya, Uganda, Tanzania and Rwanda. The cross listing is expected to make it easier for citizens of Uganda to buy shares and enhance the company's presence through ownership.

2.3 Tullow Oil Plc and Centum Investments Express Interest in Cross-Listing at the USE

British based Tullow Oil Plc and Kenyan investment company Centum Investments have expressed interest in listing on the USE.

Tullow Oil plc is an international oil and gas exploration company headquartered

in London, United Kingdom. It has interests in over 85 licences across 22 countries. It is currently engaged in exploration activities in Uganda where it has discovered oil in the Lake Albert Basin region. It has a primary listing on the London Stock Exchange and a secondary listing on the Irish Stock Exchange.

Centum Investment Limited is a Kenyan based investment company listed on the Nairobi Stock Exchange. The company provides a channel through which investors are able to access diversified investments through its portfolio and management expertise. The company portfolio is valued at US \$ 140 million and consists of investments in private equity, listed equity and real estate.

3.0 PUBLIC EDUCATION

3.1 Private Education Development Network Youth Entrepreneurship (PEDN) Conference 2010

The Private Education Development Network (PEDN) organised a youth entrepreneurship conference to which CMA was invited to make a presentation on saving and investing in capital markets. Mrs. Ann Kyohairwe Muhangi, the Public Education Manager made a presentation to over 70 youth highlighting aspects of saving and investing such as buying and selling shares, investing wisely in capital markets and forming investment clubs for purposes of saving and investing. As a result of this interaction with PEDN, the Research and Market Development Department is planning to sign a Memorandum of Understanding (MOU) with PEDN to further enhance public education amongst the youth and empower them to participate in the industry individually or through investment clubs.

The Private Education Development Network is a non-profit organization formed

to promote youth empowerment through establishment of entrepreneurial and business skills programs in primary, secondary and tertiary institutions in Uganda. The main objective of the organization is to integrate entrepreneurial learning and teaching in the formal and informal educational system.

3.2 Breakfast Meeting With Uganda Super League

Football is one of the most popular sports in Uganda with a huge following among fans. Local football teams have been run in an unstructured way but are currently in the process of transforming into professional outfits. Some have converted into limited liability companies as they form structures that will ensure sustainability for the clubs. The transformation process has led to a need for raising capital to support proposed professionalization programs.

CMA legal and Public Education officials attended the launch of the Uganda Super League (USL) at the Sheraton Kampala Hotel on 22nd September 2010. Miriam Eki-rapa MUSAALI, Legal and Compliance Manager, and Ann Kyohairwe Muhangi, The Public Education Manager, represented CMA and sensitized the members present about raising finance through the capital markets. CMA also distributed various educational brochures to the audience. CMA will continue to work with the USL to further educate football clubs and fans about capital markets as they move towards restructuring their teams into professional outfits.

3.3 Kimaka Senior Army Quarters Seminar

Following an invitation from The Investors' Club—a private company that promotes financial literacy in Uganda—CMA represented by Mr. Joseph Lutwama, the Senior Research Officer made a presentation to over 40 senior army officers at Kimaka Senior Army Quarters in Jinja on 3rd September 2010. The army officers who

included officers from Rwanda, Burundi and Southern Sudan were sensitized about capital markets and how they can benefit as individuals through saving and investing.

3.4 Seeta High School Seminar

The CMA Public Education unit visited Seeta High School Mukono on 22nd September 2010 and educated 60 Advanced Level students on capital markets issues. The presentation made by Mrs. Hope Ejang Muzungu, The Senior Public Education Officer, who highlighted the basics of capital markets in Uganda, capital markets regulation, investment options in the industry, procedures for investing and aspects of investor protection.

3.5 Mbale SS Seminar

Mbale SS students visited CMA offices for a seminar on the capital markets on 28th September 2010. The group of 60 students, comprising of Advanced Level students were hosted by the Public Education Unit in the CMA resource centre. Mrs. Hope Ejang Muzungu, The Senior Public Education Officer, made a presentation on capital markets. The presentation sensitized the students on aspects of the capital markets such as regulation, market players, investment options, investment procedures and saving in order to invest.

4.0 REGIONAL AND INTERNATIONAL CO-OPERATION

4.1 Regional Workshop on the EAC Financial Sector Development and Regionalisation Project (EAC - FSDRP) - 13th-15th July 2010 - Arusha, Tanzania

The CEO represented CMA at the Regional Workshop on the EAC Financial Sector Development and Regionalisation Project (EAC - FSDRP) that took place on 13th-15th July 2010 at the Snow Crest Hotel, Arusha, Tanzania. The objective of the project is to support the development of

the financial sector through the establishment of a single market in financial services among the EAC Partner States.

Under the eight year project, development partners led by the World Bank hope to finance technical assistance, regional studies, training, market infrastructure, feasibility studies and capacity building at the EAC Secretariat. According to the draft timetable, the Project will be presented to the World Bank for approval on 16th December 2010. Full implementation is expected to begin in January 2011 if the project is approved.

The project has five pillars namely:

- Pillar 1: Financial Inclusion and Strengthening Market Participants.
- Pillar 2: Harmonisation of Financial Laws and Regulations against Common Standards.
- Pillar 3: Mutual Recognition of Supervisory Agencies.
- Pillar 4: Integration of Market Infrastructure.
- Pillar 5: Development of the Regional Bond Market.
- Pillar 6: Capacity Building at the EAC Secretariat.

4.2 The 31st East African Securities Regulatory Authorities (EASRA) Meeting

The 31st EASRA meeting was held in Moshi, Tanzania from 9th to 11th August 2010. The meeting was attended by the technical officials and chief executives from the regions securities regulators as well as representatives of the EAC secretariat, the Central bank of Burundi and the regions insurance regulators. The insurance regulators attended the meeting to observe and learn from EASRA and also signed their Memorandum of Understanding forming their association, the East African Insur-

ance Regulators Association. A presentation on a proposed regional housing bond by Shelter Afrique was also presented by the IFC/ESMID team.

The meetings deliberated on the following issues:

- (i) Capital adequacy requirements for market intermediaries in the region;
- (ii) A peer review mechanism amongst the securities regulators on various aspects of the capital markets in view of the coming into force of the Common Market Protocol;
- (iii) Matters concerning the operationalisation of the regional certification program;
- (iv) The legal preparedness of the EAC member States in light of the coming into force of the EAC common market protocol;
- (v) The meeting also deliberated on the coordination of the work plan for the Common Market Protocol with the World Bank Financial Sector Development and Regionalisation Project;
- (vi) The Status of all EASRA resolutions.

4.3 EAC Meeting of the Capital Markets Development Insurance and Pensions Committee (CMIPC)

The Capital Markets Development Insurance and Pensions Committee (CMIPC) meeting was held in Moshi, Tanzania from 12th to 14th August 2010. The meeting deliberated on the following issues:

- (i) The terms of reference for a study on the regionalisation of the insurance and pensions sectors in Uganda;

- (ii) The terms of reference for the Regional Policy Advisor Position for the upcoming Financial Sector Development and Regionalization Project;
- (iii) Comments on the EAC capital markets regionalisation and bonds market development reports;
- (iv) The establishment of sub committees on capital markets, insurance and pensions;

5.0 INTERNATIONAL NEWS

5.1 The Agricultural Bank of China Confirms World's Largest IPO

The Agricultural Bank of China (Ag Bank) raised a world record US \$22.1 billion in its initial public offering (IPO) in July 2010, after exercising an over allotment option for its Shanghai share sale. The bank-China's main rural lender-sold an additional 3.34 billion shares at the IPO price of 2.68 yuan (US \$0.39) per share as part of the over allotment according to a notice posted on the Web site of the Hong Kong Stock Exchange. The extra 8.94 billion yuan (US \$1.3 billion) pushed the dual Hong Kong-Shanghai IPO to US \$22.1 billion in total.

Despite strong government backing for the IPO, investors had been doubtful of the rural-oriented bank's balance sheet and the market's overall outlook had shown lacklustre interest in the shares. In Hong Kong, whose market is open to foreign investors, the bank's shares rose a mere 2.2 percent on their July 16 debut, compared with double-digit gains in past years for high-profile IPOs. In Shanghai, where yuan-denominated shares are sold only to domestic buyers, the shares rose just 1 percent on their debut.

(Source: The Economic Times, 16th August, 2010).

6.0 HUMAN CAPITAL MANAGEMENT

6.1 Staff Recruitment

CMA finalized the recruitment process for two staff members: A Compliance Officer (Legal) to enhance the capacity of the Legal & Compliance team to regulate the market better and a Driver to strengthen the Transport unit. The two new members of staff are expected to report in the last quarter of the year.

7.0 OUTLOOK

7.1 Capacity Building

As part of the capacity building program at CMA, Joseph Lutwama-The Senior Research Officer-will be attending a seminar training programme on "Understanding New Financial Products and the Regulatory Implications of those products". The seminar is organised by the IOSCO Secretariat in Madrid, Spain from 19th - 22nd October 2010.

8.0 CAPITAL MARKETS IN THE PRESS

Fidelity Licence Withdrawal Will Not Hurt Trading-USE

By Ismail Musa

Daily Monitor, September 17th, 2010.

Mr Joseph Kitamirike, the CEO of Uganda Securities Exchange has said the withdrawal of Fidelity Capital Management licence will not affect trading at the exchange.

In an interview with Daily Monitor, Mr Kitamirike observed that business will not be affected as Fidelity Capital had not been an active dealer at the bourse. The Capital Markets Authority revoked the dealer's licence over failure to conduct business on 13th September 2010.

According to a press notice issued by CMA, the regulator cautioned the public against conducting business with the firm after announcing that they (CMA) had revoked the dealer's licence. "As a result of the revocation, Fidelity Capital is not permitted to conduct any securities trading in Uganda," the statement reads in part. In an earlier press report Mr Katto, the C.E.O of CMA said the action taken was out of public interest.

For at least two years now the firm has failed to transact business at the bourse, forcing the regulator to revoke the licence for fear of dubious exploitation of the public. However, if the dealer re-applies, CMA can reissue a new licence if it commits to keeping active on the bourse.

This will be the second time in a year that CMA takes action against brokerage firms after suspending MBEA for failure to meet the minimum required capitalisation. CMA is a semi autonomous body established to regulate and promote the development of the capital markets industry in Uganda.

QUOTES

"Everyone has the power to follow the stock market. If you made it through fifth grade math, you can do it."

Peter Lynch

DISCLAIMER

While every care has been taken in the preparation of this publication, note that the 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.

This is a list of persons licensed by the Capital Markets Authority to offer various services related to the capital markets industry in Uganda as at 30th September 2010

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<p><i>*Please note that only members of USE are allowed to transact business on the Stock Exchange</i></p>	