



## Capital Markets Authority Protecting Your Investments

Capital Markets Authority, 14 Parliament Avenue, Jubilee Insurance Centre 8th Floor, P.O. Box 24565, Kampala.  
Tel: (+256) 414 342788/791, (+256) 312 264950/1 Fax: (+256) 414 342803.  
Email: [info@cmauganda.co.ug](mailto:info@cmauganda.co.ug)  
Please visit our website at [www.cmauganda.co.ug](http://www.cmauganda.co.ug) for more information

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### INTRODUCTION

This Electronic Quarterly Review covers the period April-June 2013

### 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 April to June 2013;

#### 1.1 Annual Renewal of Licences

The Board of the Capital Markets Authority (CMA) reviewed license renewal applications and issued licenses for the licensing year 2013/14 following the annual inspections. A list of all entities licensed to provide services in the capital markets industry was published in two local daily newspapers.

New entrants to the list include KCB Bank Uganda Limited and Standard chartered Bank Uganda Limited which were licensed as Collective Investment Scheme Trustees. Also notably, CFC Financial Services Ltd indicated a change of name to **SBG Securities Limited**.

#### 1.2 Regional Study on Risk Based Supervision

The East African Community (EAC) Secretariat in the period under review through the Financial Sector Deepening Regionalization Project (FSDRP-1) commissioned a regional study on Risk Based Supervision (RBS). Codogan Financials Limited was appointed to undertake the study whose objectives include guiding regional securities regulators on: a suitable risk based model for EAC market intermediaries; identification of optimal Risk Based Capital Adequacy (RBCA) requirements for the region; a suitable automated system for implementation of the recommended model; and the formulation of a road map for the implementation of the proposed risk based model.

As part of the study, Ms. Sally Buxton from Cadogan Financials Limited held a series of meetings with key stakeholders in the Ugandan capital markets in the month of May. CMA also extended support to the consultant in the organization of a workshop for market intermediaries' where preliminary findings of the study were presented on 6th June 2013. A regional workshop to disseminate the findings will be held in July 2013.

RBS aims at recognizing activities, procedures and practices of greater risk to the soundness of the capital markets and accordingly deploying supervisory resources towards the assessment of how those risks are being managed by market intermediaries. Key benefits of RBS include: cost effectiveness of the approach; early identification of emerging risks; and provision of a consistent framework for risk evaluation.

## 2.0 MARKET DEVELOPMENT

### 2.1 Africa Development Bank (AfDB) Issues Second Tranche of Medium Term Note

The Africa Development Bank (AfDB) issued the second tranche of a Ush 125 Billion (US \$ 48.21 Million) Medium Term Note (MTN). The tranche of Ush 12.5 Billion (US \$ 4.82 Million) was over-subscribed by 55% with a total of Ush 19.38 Billion (US \$ 7.47 Million) being received. The note was listed at the USE on 25th June 2012. The 10 year note is trading at a yield rate of 85% of the rate on a two year government bond. The issue is part of a program which will allow the AfDB to issue bonds in multiple tranches to fund infrastructure and other projects in Uganda. The MTN approach was adopted to allow AfDB to regularly tap into the Ugandan capital markets by issuing various tranches, rather than standalone transactions thereby minimizing costs for its clients and reducing the lead time necessary to access the market.

The AfDB is a multi-lateral lender established in 1963 to spur sustainable economic development and social progress in its member countries by mobilizing and allocating resources for investment in member states; and providing policy advice and technical assistance to support development efforts. Its members include 53 African countries and 24 non-African countries.

### 2.2 Uganda Capital and Financial Markets Summit 2013

The inaugural Uganda Local Capital and Financial Markets Summit 2013 was held from 21st to 22nd May 2013 at Kampala Serena Hotel. The theme of the summit was 'Unlocking Uganda's Local Capital and Financial Markets to Drive Development at Scale'. The summit was hosted by Focus on East Africa and CMA was among the strategic partners during the event. The event brought together local capital markets players, industry experts, insurance firms, pension funds, investors, SACCOs, investment groups and government decision makers.

During the summit, participants reviewed the state of the Ugandan capital markets and identified business development, investment, capital raising and strategic collaboration opportunities among other issues. A total of 43 high profile speakers were involved in the summit as members of discussion panels or key note presenters.

CMA was represented at the meeting by the Chief Executive Officer, Public Education Manager, Research and Policy Manager and the Senior Public Education Officer.

## 3.0 PUBLIC EDUCATION

### 3.1 Public Education Seminars

During the quarter ending 30th June 2013, the Public Education Unit (PEU) conducted three seminars. The first seminar was held on 10th April 2013 targeting Rotarians of the Rotary Club of Naalya. The second seminar was at the CMA offices on 7th May 2013 with students from Mbarara University of Science and Technology being hosted. The third seminar was at a training organized by Stanlib Uganda for its trustees, where the PEU made a presentation on the state of capital markets in Uganda.

Through these outreach activities, a total of 131 individuals were educated on personal finance, saving and investing in the capital markets.

### 3.2 Exhibitions

The PEU interacted with the public disseminating information on capital markets at three exhibitions during the period under review. The PEU participated in an exhibition during the launch of the Vision 2040 held at Kololo airstrip on 18th April, 2013. Additionally, the PEU exhibited during the Investment Clubs Challenge award ceremony at Lugogo on 27th April, 2013. In an effort to further reach out to the investing public, the PEU exhibited at the Local Capital and Financial Markets Summit held from 21st -22nd May, 2013, and at the National Social Security Fund week-long customer connect platform.

During the exhibitions, a total of 532 inves-

tors were reached and educated on personal finance as well as saving and investing in the capital markets.

### 3.3 National Financial Literacy Strategy

The PEU participated in an implementation planning meeting for the National Financial Literacy Strategy on 20th June and 21st June, 2013. The meeting was held at the Bank of Uganda offices.

The PEU is part of the planning team for the National Financial Literacy Strategy led by Bank of Uganda. The National Financial Literacy Strategy is expected to inform efforts aimed at enabling investors improve their understanding of financial products and concepts through information, instruction and objective advice. The strategy also targets development of the skills and confidence of investors to be more aware of financial risks and opportunities in order to make informed choices.

### 3.4 Investment Clubs Challenge Award Ceremony

The 2013 Investment Clubs Challenge award ceremony was held on 27th April 2013 at a colourful event at Forest Mall, Lugogo. The award ceremony was preceded by a car wash activity and an exhibition. During the award ceremony, Africa Youth Fund from Makerere University was awarded the Model Club of the year, while the award for Model Personality of the year went to Fina Naigaga (a female investor from Islamic University in Uganda - Female Campus). All other participating clubs were also recognised and rewarded. The event was presided over by the Honourable State Minister in Charge of Investments Dr. Gabriel Ajedra and co-sponsored by Daily Monitor and Orient Bank.

The Investment Club Challenge aims at enhancing awareness and understanding of various pertinent capital markets and financial sector issues, among university students. The specific objectives of the Investment Club challenge are: to positively influence attitudes and perceptions towards the financial

sector; enhance student participation in the capital markets; enhance establishment of investment clubs within universities in Uganda; and create awareness of the need for accounting and financial management skills.

## 4.0 REGIONAL AND INTERNATIONAL CO-OPERATION

### 4.1 The EAC Capital Markets Insurance and Pensions Committee (CMIPC) Meeting, Kampala, Uganda, 8th - 10th April 2013

The EAC Capital Market, Insurance and Pensions Committee (CMIPC) met in Kampala from 8th -10th of April 2013. CMA was represented by the Director Legal and Market Supervision and the Research and Policy Manager

During the meeting, issues relevant to the capital markets, insurance and pensions were discussed. The discussion on capital markets focused on the status of the EAC Securities Directives that would form the legal and regulatory framework for cross border activities within the EAC. Work on the drafting of these Directives had commenced in 2012 but had stalled. The EAC Secretariat was requested to reconvene the Working Group on the EAC Securities Directives to complete the work it had commenced on.

### 4.2 Meeting of the Technical Working Group on the EAC Securities Legal and Regulatory Framework, 10th -14th June 2013, Mwanza, Tanzania.

The meeting of the Technical Working Group (TWG) on the development of the securities legal and regulatory framework was convened in accordance with the recommendations of the CMIPC meeting held from 8th-10th April 2013 in Kampala. CMA is represented by the Legal Affairs Manager on this Working Group.

During the meeting, the following Directives were developed for submission to the CMIPC during its next meeting:

- i. Directives on public offers (Equity,

- Fixed Income and Asset Backed Securities)
- ii. Directive on Collective Investment Schemes and Real Estate Investment Trusts;
  - iii. Directives on listing; and
  - iv. Directives on corporate governance for EAC market intermediaries.

As part of the harmonization of the EAC legal and regulatory framework, the Sectoral Council on Finance and Economic Affairs in 2012 resolved that harmonization would proceed by way of EAC council directives. The EAC council directives were considered as the most feasible owing to the different level of development in the EAC capital markets.

#### **4.3 High Level Task Force Meeting on the East African Monetary Union, 22nd -28th March 2013, Entebbe, Uganda**

CMA continued participating in the on-going negotiations on the Draft Protocol for the East African Monetary Union (EAMU). During the Sectoral Council on EAC Monetary Union meeting held between 21st -25th June, members of the High Level taskforce discussing the EAMU convened. CMA was represented by Mr. Joseph Lutwama (Manager-Research and Policy). The HLTF finalized the outstanding issues relating to the macro-economic convergence criteria in the draft EAMU draft protocol. The draft protocol was **passed on to the** Council of Ministers for adoption at a later date when it convened.

## **5.0 INTERNATIONAL NEWS**

### **5.1 World Markets Plunge after Federal Reserve Bank Chairman Signals End to Quantitative Easing (QE)**

Stock markets worldwide plummeted after the Federal Reserve Bank (FRB) chairman, Mr. Ben Bernanke signaled an end to America's policy of Quantitative Easing (QE). Share prices globally have surged over the past year, owing to an injection of cheap money,

with the FRB buying US \$85 Billion worth of bonds monthly. The announcement by Mr. Bernanke of the end to the FRB's bond purchases by mid-2014 precipitated a sell-off of shares globally by panicky investors. The panicky sell-offs began in New York before spreading to other major global financial centers such as Tokyo, Istanbul, Oslo and Jakarta. In London, the FTSE 100 Index declined by 2.98%, its steepest fall since September 2011. Elsewhere in Europe, shares suffered their biggest one-day fall in 19 months, with Spain's Ibex losing 2.9%, and the German, French and Italian markets all down by more than 3%.

Bond prices worldwide declined, a trend that is likely to push up borrowing costs for governments and consumers if sustained. Growing fears of problems in China's banking sector, also stoked up investors' alarm. These fears sent the price of many commodities such as gold, silver and crude oil downwards as China is a major consumer of commodities.

Mr. Bernanke stressed that that bond purchases would be halted only if the economy continued to improve. However, investors nevertheless took his statement as a strong signal that the days of cheap money are coming to an end. With bond yields rising and currencies falling across scores of emerging markets, there is also a risk that vulnerable countries, heavily dependent on flows of "hot money" from foreign investors, will be plunged into a crisis.

(Source: The Guardian, Thursday, 20th June, 2013.)

## **6.0 OUTLOOK**

CMA will be hosting the annual Kikonyogo Capital Markets Awards (KCMA) tentatively in September 2013. The 2013 KCMA will be the eleventh edition of the Awards and CMA intends to make the edition better by introducing more award categories to recognize the efforts of more journalists.

KCMA is an annual dinner event in Uganda's financial market, where nominees compete for the Awards that recognizes their contribution towards the development of capital

markets in the preceding year.

## 8.0 CAPITAL MARKETS IN THE PRESS

### AfDB Bond Oversubscribed by 55%

By Martin Luther Oketch

The Daily Monitor, 26th, June 2013

The second tranche of an African Development Bank (AfDB) Bond, which was listed on the Uganda Securities Exchange (USE) on 25th June 2013, was oversubscribed by 55%. This was an indication of high demand for debt securities among the investing public while also reflecting the capacity of the Ugandan capital markets to provide long term financing for huge capital intensive projects.

In 2012, AfDB issued the first tranche of Ush 12.5 Billion of a Ush 125 Billion Medium-Term Note (MTN). The MTN program aims at raising funds locally to finance infrastructure and other development projects in the country. The first tranche was oversubscribed by over 50%.

According to the Executive Director of African Alliance Uganda, Mr Kenneth Kitariko, the AfDB bond was taken up by four local pension fund managers and one foreign individual. Mr Kitariko attributed the increased attractiveness of the AfDB bond to the bank's high credit rating of triple A. International credit rating agencies, Standard & Poor's, Moody's, Fitch and Japan Credit Rating Agency reaffirmed their AAA/Aaa and AA+/Aa1 rating of the bank's senior and subordinated debt respectively, with a stable outlook.

### QUOTES

"Emotions are your worst enemy in the stock market."

**Don Hays (American Investment Consultant).**

### DISCLAIMER

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## LIST OF LICENCEES

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 June 2013.

	LICENCEE	ADDRESS
1.	Uganda Securities Exchange (USE) Stock Exchange, Securities Central Depository	Prism Building, Plot 71/73 Kampala Road (opposite Bi-plous) P.O. Box 23552, Kampala, Uganda Tel: 0414 343 297/ 342818 Fax: 0414 340841 E-mail: <a href="mailto:info@use.or.ug">info@use.or.ug</a> Contact: Mr. Joseph Kitamirike <i>Chief Executive Officer</i>
2.	<b>African Alliance U Ltd</b>  Fund Manager, Unit Trust Manager, Investment Advisor, Broker/Dealer and member of USE	6th Floor Workers House, Pilkington Road Kampala Tel: +256-414-235577 Fax: +256-414-235575 E-mail: <a href="mailto:info@africanalliance.co.ug">info@africanalliance.co.ug</a> Contact: Mr. Kenneth Kitariko
3.	<b>Pine Bridge Investment Co Ltd</b>  Fund Manager, Investment Advisor	1 Pilkington Road, Workers House, 7th Floor P O Box 9831, Kampala, Uganda Tel: +256-414-340707/8 Fax: +256-414-340750 E-mail: <a href="mailto:nicholas.malaki@pinebridge.com">nicholas.malaki@pinebridge.com</a>  Contact: Mr. Nicholas Malaki
4.	<b>Baroda Capital Markets Ltd</b>  Broker/Dealer Investment Advisor and member of USE	Plot 18 Kampala Road P.O. Box 7197 Kampala, Uganda Tel: +256-414-233680/3 Fax: +256-414-258263 E-mail: <a href="mailto:bcm.ug@bankofbaroda.com">bcm.ug@bankofbaroda.com</a> Contact: Mr. Suraj Kumar Srivastavar
5.	<b>ICEA Investment Services Ltd</b>  Fund Management	Rwenzori Courts, P. O. Box 33953, Kampala Tel: +256-412-347535/+256-414-232337 E-mail: <a href="mailto:dennis.mugalya@africaonline.co.ug">dennis.mugalya@africaonline.co.ug</a> Contact: Mr. Dennis Mugalya
6.	<b>Genesis Kenya Investment Management Limited</b>  Fund Manager/ Investment Advisor	Regus Kampala, Course View Towers 21 Yusuf Lule Road (Old Kitante Road) Nakasero, Kam- pala P.O. Box 3502, Kampala, Uganda Tel: 0392 312 314 324/ 342818 E-mail: <a href="mailto:genesis@swiftkenya.com">genesis@swiftkenya.com</a> Contact: Mr. Ronald Kasolo
7.	<b>Crane Financial Services Ltd</b>  Broker/Dealer Investment Advisor and member of USE	Crane Chambers, Plot 38 Kampala Road P.O. Box 22572 Kampala, Uganda Tel: +256-414-341414/+256-414-345345 Fax: +256-414-341414 E-mail: <a href="mailto:cfs@cranefinancialservices.com">cfs@cranefinancialservices.com</a> Contact: Mr. Ajay Kumar
8.	<b>Crested Stocks and Securities Ltd</b>  Broker/Dealer Investment Advisor and member of USE	6th Floor Impala House, Plot 13/15 Kimathi Avenue P. O. Box 31736, Kampala, Uganda Tel: +256-414-230900 Fax: +256-414-230612 E-mail: <a href="mailto:info@crestedsecurities.com">info@crestedsecurities.com</a> Contact: Mr. Robert Baldwin

	LICENCEE	ADDRESS
9.	<b>Dero Capital Ltd</b> Investment Advisor	Ground Floor Course View Towers Plot 21 Yusuf Lule Road P. O. Box 5970 Kampala, Uganda Tel: +256-712-638644, +256-702-638644, Fax: +256-414-220727 Email: <a href="mailto:info@derocapital.com">info@derocapital.com</a> Contact: Mr. David Ofungi
10	<b>Dyer and Blair U Ltd</b> Broker/ Dealer Investment Advisor and member of USE	Ground Floor Rwenzori House P.O. Box 36620 Kampala, Uganda Tel.+256-414-233050/+256-312-265469 E-mail: <a href="mailto:pbwiso@dyerandblair.com">pbwiso@dyerandblair.com</a> Contact: Mr. Paul Bwiso
11.	<b>Equity Stock Brokers Ltd</b> Broker/Dealer Investment Advisor and member of USE	Plot 6/6A Orient Plaza P.O. Box 3972, Kampala, Uganda Tel: +256-414-236012/3/4/5, Fax: +256- 414-348039 E-mail: <a href="mailto:ruyonga.edward@orient-bank.com">ruyonga.edward@orient-bank.com</a> Contact: Mr. Edward Ruyonga
12.	<b>Devere and Partners Ltd</b> Investment Advisor	B4 Adam House, Plot 11, Portal Avenue P. O. Box 21409 Kampala, Uganda Tel: +256-414-342411/+256-414- 340846/+256-782-807079, Fax: +256-414- 342411  Email: <a href="mailto:helpdesk@devere-group.com">helpdesk@devere-group.com</a> Contact: Mr. Gavin Cooper
13.	<b>Deloitte Uganda limited</b> Investment Advisor	3 Floor Rwenzori House, 1 Lumumba Avenue P.O. Box 10314, Kampala, Uganda Tel: +256-414-343850, +256-752-740300 Email: <a href="mailto:gopiyo@deloitte.co.ug">gopiyo@deloitte.co.ug</a> Contact: Mr. George Opiyo
14.	<b>UAP Financial Services Ltd</b> Broker/Dealer, Fund Manager	Floor 1 Communications House P.O. Box 1610 Kampala, Uganda Tel: +256-312-370290 Fax: +256-414-346449 Email: <a href="mailto:financialservices@uap.co.ug">financialservices@uap.co.ug</a> , <a href="mailto:info@uap.co.ug">info@uap.co.ug</a> Contact: Mr. Patrick Ndonye
15.	<b>PKF Consulting Ltd</b> Investment Advisor	Plot 37 Yusuf Lule Road P. O. Box 24544, Kampala, Uganda Tel: +256-414-341523/5 Fax: +256-414-251370, +256-414-341371 E-mail: <a href="mailto:mdalal@ug.pkfea.com">mdalal@ug.pkfea.com</a>  Contact: Mr. Murtuza Dalal
16.	<b>PricewaterhouseCoopers Ltd</b> Investment Advisor	10 Floor Communications House 1 Colville Street, Kampala, Uganda Tel: +256-414-236018, +256-414-233743 Fax: +256-414-239153 E-mail: <a href="mailto:general@ug.pwc.com">general@ug.pwc.com</a>  <b>Contact:</b> Mr. Francis Kamulegeya
17.	<b>First Renaissance Securities Ltd</b> Investment Advisor	Unit 3, Plot 15 Kitante Close P. O. Box 893 Kampala, Uganda Tel: +256-414-340018/9 , +256-312- 264775/6 Fax :+256-414-340016 E-mail: <a href="mailto:enquiries@renaissance.co.ug">enquiries@renaissance.co.ug</a> Contact: Mr. Keith Kalyegira

	LICENCEE	ADDRESS
18.	<b>Stanlib</b> Fund Manager/ Investment Advisor	4 <sup>th</sup> Floor, Crested Towers (Short), 17 Hannington Road P.O. Box 7131 Kampala, Uganda Tel: +256-312-224322/600 Fax: +256-414-254697 Contact: Ms. Annette Rumanyika
19.	<b>DFCU Bank Ltd</b> Trustee, Collective Investment Schemes Impala House	13 Kimathi Avenue P.O. Box 70, Kampala, Uganda Tel: +256-414-231784/+256-414-256891/3, +256-312-300300, Fax: +256-414-231687/+256-414-344260 E-mail: <a href="mailto:official@dfcugroup.com">official@dfcugroup.com</a> Contact: Mr. Walusimbi Kaweesa
20.	<b>SBG Securities Limited (formerly CFC Financial Services Ltd)</b> Broker/Dealer Investment Advisor	4 <sup>th</sup> Floor, Crested Towers (Short), 17 Hannington Road P. O. Box 7131, Kampala, Uganda Tel: +256-414-715460/ +256-312-224600, +256-312-224985 E-mail: <a href="mailto:mburuc@stanbic.com">mburuc@stanbic.com</a> , Contact: Ms. Consolata Mburu
21.	<b>KCB Bank Uganda Limited</b> Trustee, Collective Investment Schemes	7 <sup>th</sup> Floor, Commercial Plaza, Plot 7, Kampala Road P.O.Box 7399, Kampala, Uganda Tel: 0417-118200 Fax: 0414-345751 E-mail: <a href="mailto:kcbugandaho@kcb.co.ug">kcbugandaho@kcb.co.ug</a> Contact: Anthony Kituuka
22.	<b>Standard Chartered Bank limited</b> Trustee, Collective Investment Schemes and Investment Advisor	Plot 5, Speke Road, P.O Box 7111, Kampala, Uganda Tel; +256-312-294459/ +256-414-340077 Fax: +256-414-231473 Email: <a href="mailto:ug.service@sc.com">ug.service@sc.com</a> Contact: Mr. Isaac Bakuraira
23.	<b>PCP Uganda Limited</b> Fund Manager/ Investment Advisor	Plot 4 Chwa II Road, Mbuya P. O. Box 15373 Kampala, Uganda Tel:+256-312-264 980/3/4, Fax: +256-312-264 985 Email: <a href="mailto:info@pearlcapital.net">info@pearlcapital.net</a> , Contact: Mr. Edward Isingoma Matsiko
24.	<b>Profin Uganda Limited</b> Investment Advisor	Plot 10 School Lane Naguru P.O Box 36697, Kampala, Uganda Tel: +256-414-533261/2, Fax: +256-414-533261 Email: <a href="mailto:Uganda@theprofinugroup.com">Uganda@theprofinugroup.com</a> Contact: Mr. Gareth Burge