



2011

CAPITAL MARKETS PLAYERS SURVEY

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EXECUTIVE SUMMARY

Capital markets play a critical role in the mobilization of long term funds for businesses and provision of a channel for investing among members of the public and to this effect the government of Uganda undertook to develop capital markets in Uganda in 1996. Sixteen years later fourteen companies are listed on the Uganda Securities Exchange and eight corporate bonds have been issued over the same period. Three of these corporate bonds have been redeemed. Government has also listed government bonds which currently total to 36 listed bonds. Critical to the development of the capital markets in Uganda are vibrant capital market intermediaries.

It's against this background that the Capital Markets Authority (CMA) carried out the capital markets players survey to monitor the performance of capital market intermediaries to guide both the formulation of appropriate capital markets development policies and initiatives. A total of twenty two questionnaires were distributed to the Market Players out of which twelve (12)¹ responded giving the survey a response rate of fifty five percent (55%). A significant number of market players who responded (42%) were investment advisors.

The survey covered the following areas:

- I. **Industry Size** which looked at the aspects of asset size, level of employment, the distribution network and the client base of the market intermediaries. The capital markets industry registered a 27% growth in the asset base from Ushs 4.5 billion recorded in 2010 to Ushs 5.8 billion recorded in 2011². All the market players surveyed did not have branches outside Kampala and had a total client base of 4,284 registered institutional and retail investors. With an estimated 12,000 Security Central Depository (SCD) accounts, this represents 36% of the capital markets investors.
- II. **Industry Performance** which looked at the aspects of the level of turnover and the profitability of the market intermediaries. The capital markets industry registered a 33% growth in turnover from Ushs 3 billion recorded in 2010 to Ushs 4 billion recorded in 2011³. When total costs are considered against total turnover the brokerage sector registered a net loss of Ushs 724 million in 2011 compared to the Ushs 500 million in the Fund Management sector.

¹ Two market players could not respond to the questionnaire as they had not commenced operations.

² The analysis of the asset base of the capital markets industry covered only the Brokerage and the Fund Management sectors

³ *ibid*

III. Cost of Doing Business which looked at the legal and regulatory environment and its impact on the cost of business in the capital markets industry. The analysis of the legal and regulatory environment covered the following areas:

- i) license renewal,
- ii) inspections,
- iii) customer care relations,
- iv) legal guidance from CMA and
- v) interactions during approval for primary and secondary market issues e.t.c

Over 50% of the capital markets players surveyed gave a good rating to the legal and regulatory environment with the regular CMA inspections receiving high approval ratings.

IV. Impact of the East African Community Common Market which assessed the degree to which Ugandan market players and other players in the EAC Partner States were taking advantage of the opportunities within the regional capital market. Ugandan market players are yet to fully take advantages of the opportunities that come with the integration of the EAC capital markets. It is only Kenyan market players that are playing a leading role in other EAC capital markets.

Seventy five percent (75%) of all the Market Players surveyed were subsidiaries of other companies. Forty-Five percent (45%) of all the subsidiaries had their parent companies being incorporated in Kenya with none of the subsidiaries having parent companies in the other member states of the EAC.

Furthermore Kenyans accounted for 23 % of the total employees in the industry with no citizens of the other member states of the East African Community being employed in the Ugandan capital markets industry.

A total of one thousand and five (**1005**) clients representing 24% of the total registered client base were from the East African region. Majority of the clients from East Africa (99%) were Kenyans. One hundred and fifty (**150**) East African clients were active with all being Kenyans

V. Corporate Governance Practices: A majority of the market players surveyed complied with the basic tenet of good corporate governance practices though most (83%) of them did not have board committees.

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ACRONYMS

CMA Capital Markets Authority

EAC East African Community

GDP Gross Domestic Product

SCD Securities Central Depository

SITI Securities Industry Training Institute

USE Uganda Securities Exchange

SECTION I: INTRODUCTION

1.0 The Capital Markets Industry in Uganda

Capital markets play a critical role in the mobilization of long term funds for businesses and provision of a channel for investing among members of the public. Globally, capital markets have been a source of wealth creation for investors who have saved through this channel. In a country like Uganda, capital markets can be an alternative source of long-term funding for businesses hence easing pressure on the banking industry and stimulating a decline in overall borrowing rates.

The capital markets industry in Uganda came into being in 1996 with the enactment of the Capital Markets Authority (CMA) Act Cap 84. The CMA Act established the Capital Markets Authority which paved the way for the formation of the Uganda Securities Exchange (USE) in 1997. At the end of December 2011, CMA had licensed 22 market players; eight Broker/Dealers, six Fund managers, and eight Investment Advisors.

Since inception, the capital markets in Uganda have witnessed the listing of fourteen companies; seven cross listings from the Nairobi Securities Exchange and an equivalent domestic listings. To date nine corporate bonds valued at Ushs 149 billion (US \$ 64.04 million) have been issued and listed on the USE. Four of these bonds have been redeemed. The government of Uganda also launched a government bond program in 2004 and currently thirty six Government Bonds are listed at the USE.

2.0 Capital Markets Industry Performance: A Macro-economic Perspective

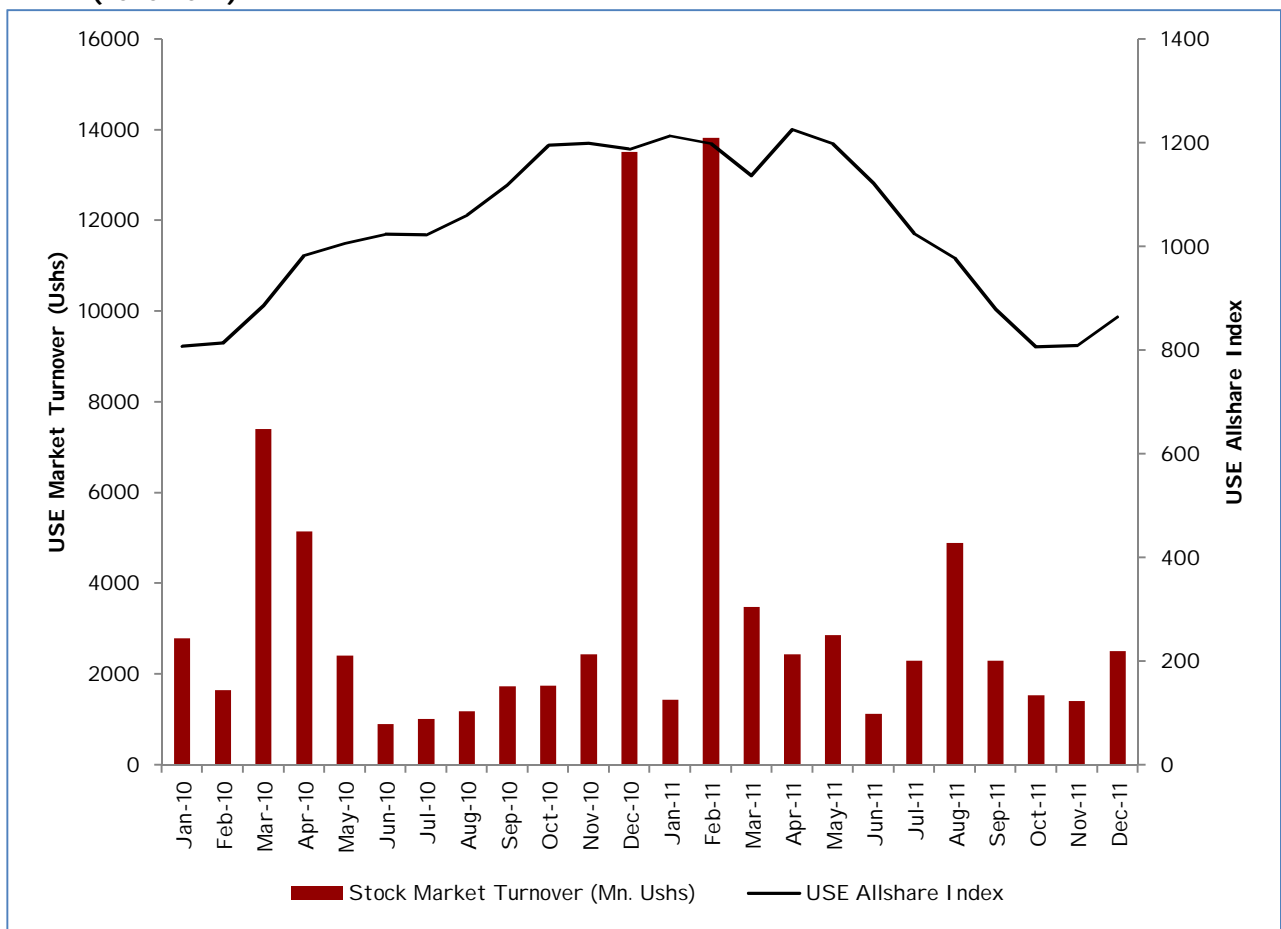
The capital markets industry experienced a decline in performance in 2011 compared to 2010 due to micro-economic factors emanating from within the market participants in the industry and external factors within the broader macro-economy.

The main macro-economic factors that affected the performance of the Ugandan capital markets industry were the high levels of inflation and high yields on government securities which had a strong influence on the share prices and turnover at the USE. For the most part of 2011 the stock market in Uganda witnessed a decline in performance with a fall in both the USE All-Share Index and market turnover (see figure 1). At an average monthly market turnover of **Ushs 2.6 billion (Us \$ 1.19 million)**, 2010 fared better than 2011 which registered an average monthly

market turnover of **Ushs 2.4 billion⁴ (US \$ 0.95 million)**. These figures are less than half of the average monthly market turnover of **Ushs 7.4 billion (US \$ 4.3 million)** recorded in the peak period of 2008.

The decline in performance is partly attributed to the high inflation rates and competitive yields on treasury securities in 2011 (see figure 2) which dampened the stock market prices and also moved investment funds away from the exchange to the government bond market. Likewise the revenues of most broker/dealers were also negatively affected due to their over reliance on brokerage fees from trading activity at the USE.

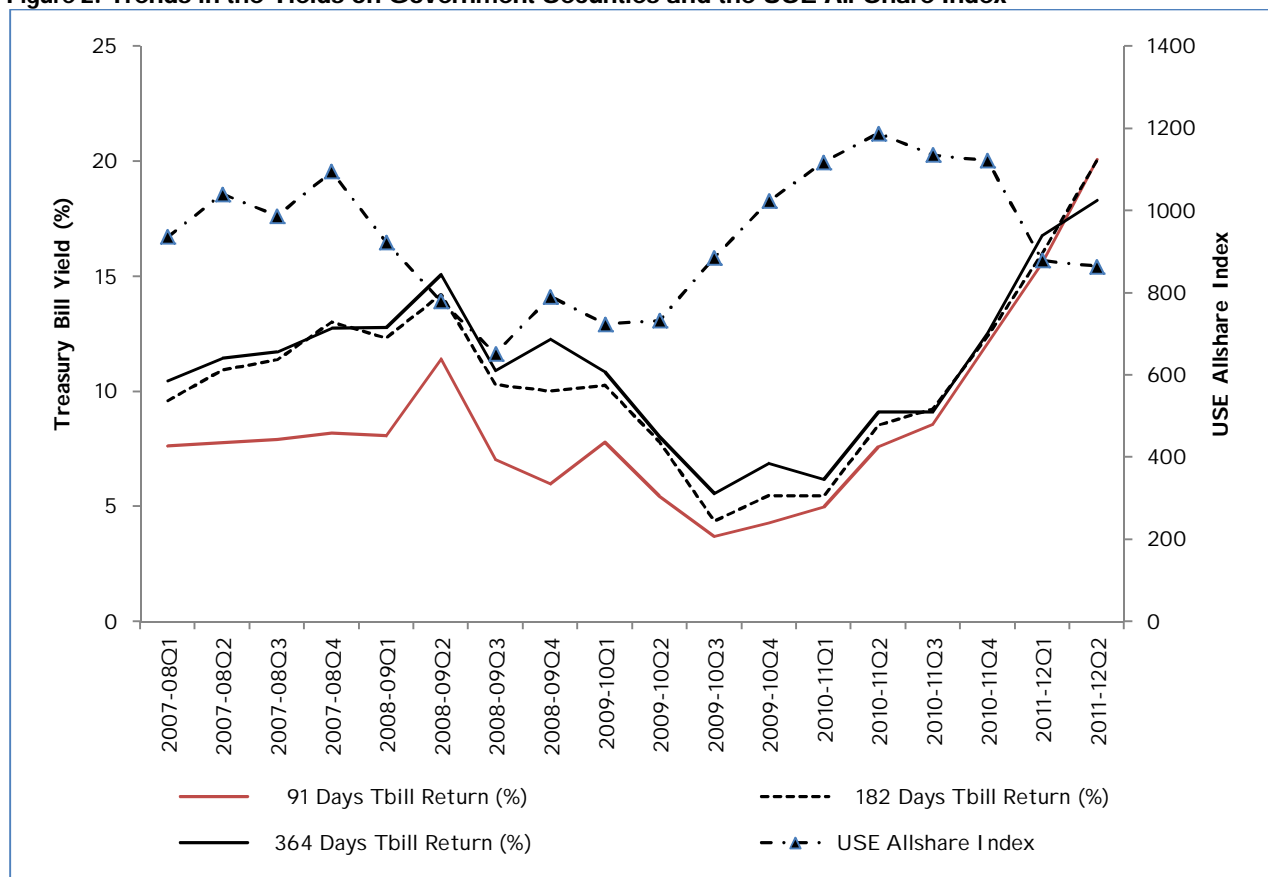
Figure 1: Trends in Monthly Turnover & Market Performance at the Uganda Securities Exchange (2010-2011)



Source of Data: USE Market Reports

⁴ This excludes the outlier months of December 2010 and February 2011.

Figure 2: Trends in the Yields on Government Securities and the USE All-Share Index



Source of Data: www.bou.or.ug; www.use.or.ug

3.0 Objectives of the Survey

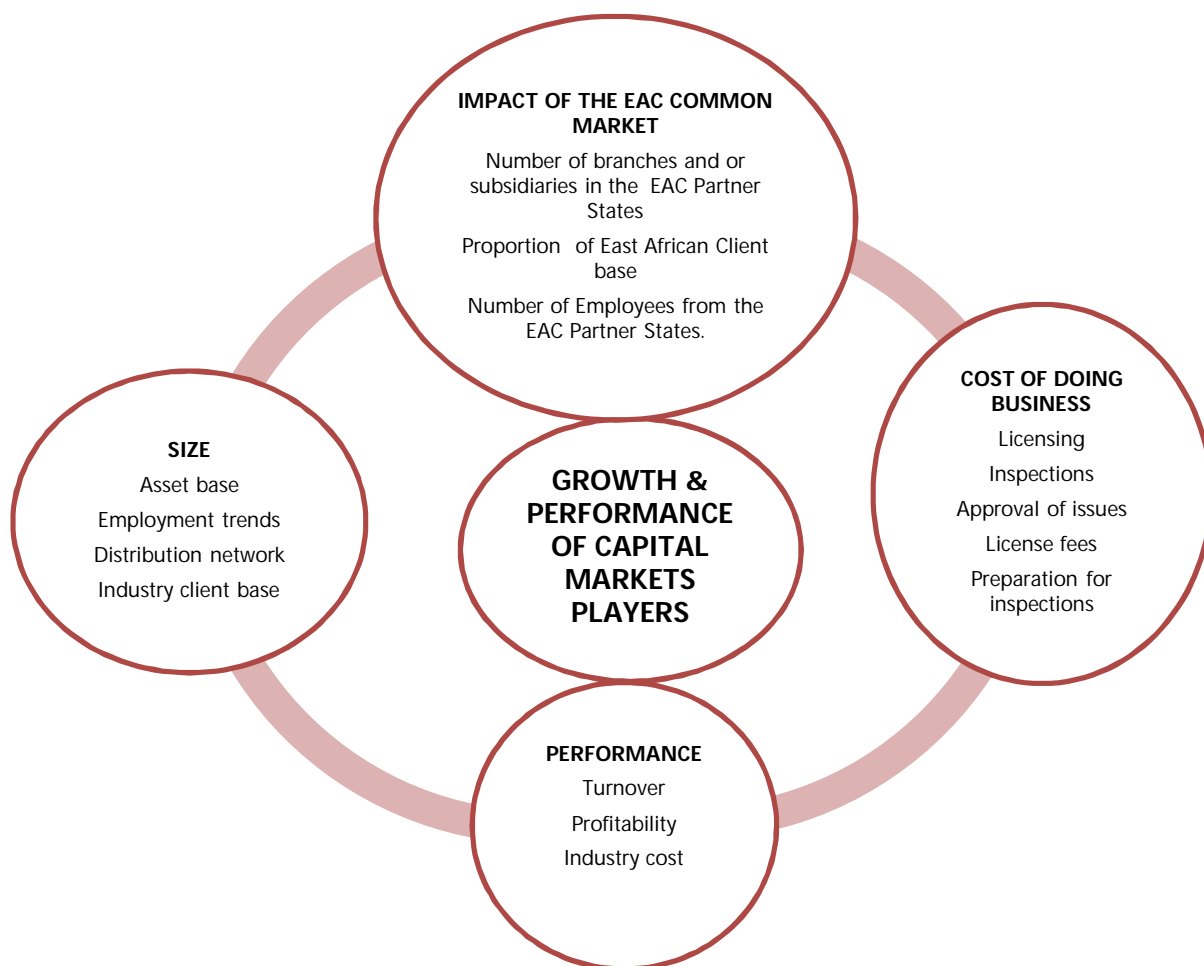
The Capital market players' survey sought to generate comprehensive and representative information on:

- i) The growth and development of intermediaries in Uganda's capital markets industry;
- ii) The cost of doing business in Uganda's capital markets industry; and
- iii) The impact of the East African Community (EAC) common market on the performance of Capital Markets intermediaries in Uganda.

4.0 Analytical Framework

In assessing the growth and performance of the capital markets players in Uganda's capital markets, the survey looked at four major indicators; market size, market performance, the cost of doing business and the impact of the EAC common market (see figure 3).

Figure 3: Analytical Framework



5.0 Survey Methodology

The Capital Market Players survey was conducted by the CMA Research and Market Development Department in conjunction with the Legal and Compliance Department. Structured questionnaires were circulated to the 22 market players licensed to operate in the Ugandan capital markets industry between 9th November 2011 and 15th December 2011. A total of twelve market players responded to the questionnaires a response rate of 55%.

Financial data for the survey was obtained from financial statements of market players submitted to the Legal and Compliance Department as part of the license renewal process. The research team was only able to access financial statements for a total of 9 market players; 6 broker/dealers and 3 fund managers. Nevertheless the brokerage and fund management

companies analyzed account for a big proportion of the market size in their respective sectors. The financial statements for the investment advisory firms were not analyzed because they were skewed by audit and accounting firms that do not make a clear distinction between income and assets attributed to their investment advisory business. Therefore in the following chapters the financial analysis is going to focus on the brokerage and fund management sectors.

6.0 Data Analysis

The Statistical Package for Social Scientists (SPSS) was used for both data entry and analysis.

SECTION II: MAIN FINDINGS OF THE SURVEY

1.0 Introduction

As at end of December 2011, the capital markets industry comprised of 22 market players; eight Broker/Dealers, six Fund managers, and eight Investment Advisors. The survey covered the following aspects; the industry size; industry performance; the cost of doing business in the Ugandan capital markets and the impact of the EAC Common Market on the Capital Market Players.

1.1 Response Rate

A total of twenty two questionnaires were distributed to the Market Players out of which twelve (12)⁵ responded giving the survey a response rate of fifty five percent (55%). A significant number of market players who responded (42%) were investment advisors (See table 1).

Table 1: Response Rate by License Category

License Category	No. of Licensed Persons	No. of Respondents	Response Rate (%)
Broker/Dealer/Investment Advisor	8	4	33
Investment Advisor	8	5	42
Fund Manager ⁶	6	3	25
Total	22	12	55

Source: Survey Findings

2.0 Market Players Characteristics

All the market players that responded were privately owned entities. A quarter of market players (25%) were fully owned by domestic shareholders a clear indication of the limited role Ugandans are playing in Uganda's capital markets industry. 17% of the market players had majority of their shareholding in the hands of shareholders outside East Africa (see table 2).

⁵ Two market players could not respond to the questionnaire as they had not commenced operations.

⁶ Two Brokers/Dealers are also licensed as fund managers

Table 2: Shareholding by Nationality

	Domestic Shareholders	East African Shareholders	Shareholders outside East Africa
Fully owned entities	3	2	1
Majority owned (Over 51% shareholding)	0	1	2
Equal Shareholding (50% to 50% shareholding)	1	1	1
Total	4	4	4

Source: Survey Findings

Seventy five percent (75%) the market players were subsidiary companies (see table 3). Forty five percent (45%) of the subsidiary companies had parent companies based in Kenya (see table 4), a clear dominance of the Kenyan companies in Uganda's capital markets industry.

Table 3: Company Status

	Frequency	Percent
Parent Company	3	25%
Subsidiary Company	9	75%
Total	12	100%

Source: Survey Findings

Table 4: Location of Parent Company

Country	Frequency	Percent
Uganda	2	22%
Kenya	4	45%
South Africa	1	11%
Switzerland	1	11%
Mauritius	1	11%
Total	9	100%

Source: Survey Findings

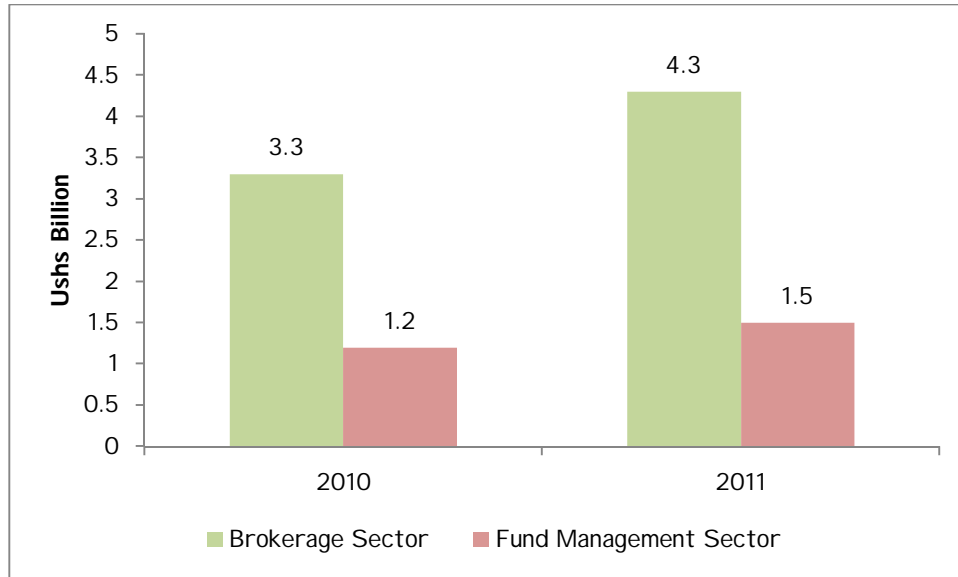
3.0 Industry Size

3.1 Asset Base

The analysis of the asset base of the capital markets industry covered only the Brokerage and the Fund Management sectors. Six out of Seven Brokerage Firms were covered and three out of

six Fund Managers⁷. The Brokerage and Fund Management sectors had a combined asset base of Ushs 5.8 billion up from Ushs 4.5 billion a growth of 27% (See figure 4).

Figure 4: Trends in the Asset Base for the Brokerage and Fund Management Sectors (Ushs Billion)



Source: Capital Markets Authority

3.1.1 Brokerage Sector

There was a high level of concentration in the Brokerage industry with the top three brokerage houses accounting for 79% of the total assets in the brokerage sector. Furthermore the Brokerage sector was dominated by foreign owned companies with the top two brokerage houses which account for 64% of the total asset base being fully foreign owned.

3.1.2 Fund Management Sector

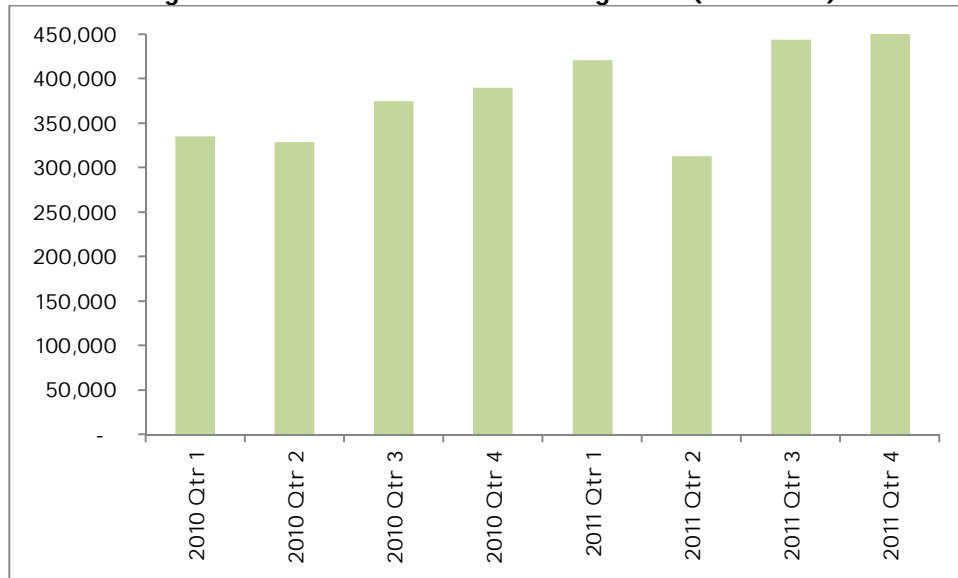
At the end of December 2011, the total funds under management amounted to Ushs 452 billion up from Ushs 390 billion recorded at the end of December 2010, a growth of 16% (See figure 5). At the end of December 2011 only four out of six licensed fund managers were actually managing funds to invest in the stock market.

Just like the Brokerage sector the fund management sector is equally highly concentrated with the top three fund management companies accounting for 99% of the funds under management. The 99% market share is more or less equally shared with the each of the top three fund

⁷ African Alliance which has both a Brokerage and Fund management Licenses was classified as a brokerage house to avoid double counting. PCP which also has a license for fund management services was not considered because in 2011 it had not yet started to mobilize funds to invest in the stock market.

managers taking out a third of the market share. Equally these top three fund management companies account for 90% of the total asset base of the Fund Management Sector.

Figure 5: Trends in Funds under Management (2010-2011)

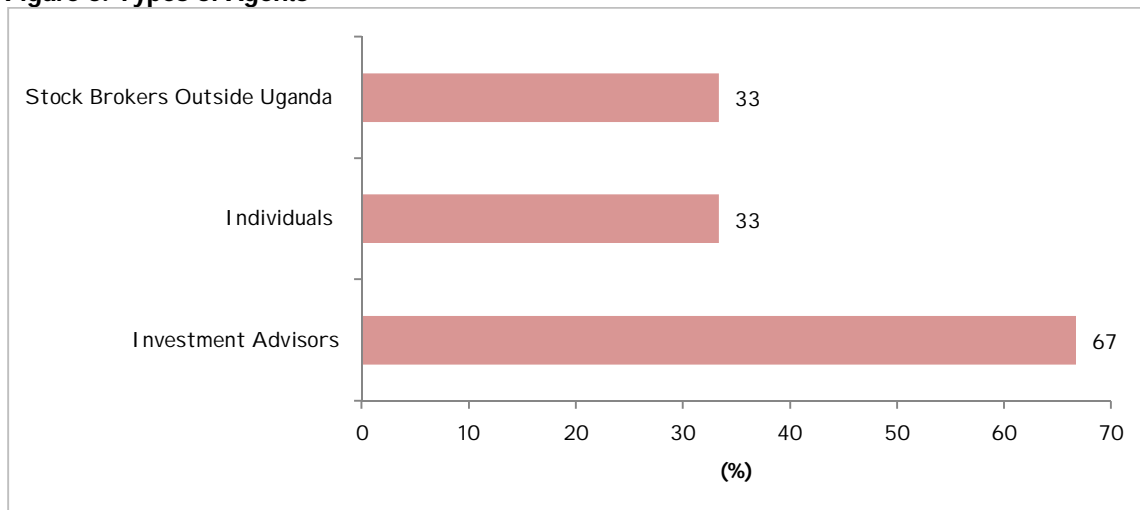


Source: Capital Markets Authority

3.2 Distribution Network

All the market players surveyed were based in Kampala without a branch network. However three market players surveyed reported having agents. These three market players had in between them a total of 61 agents. Close to two-thirds of these agents were investment advisors (See figure 6).

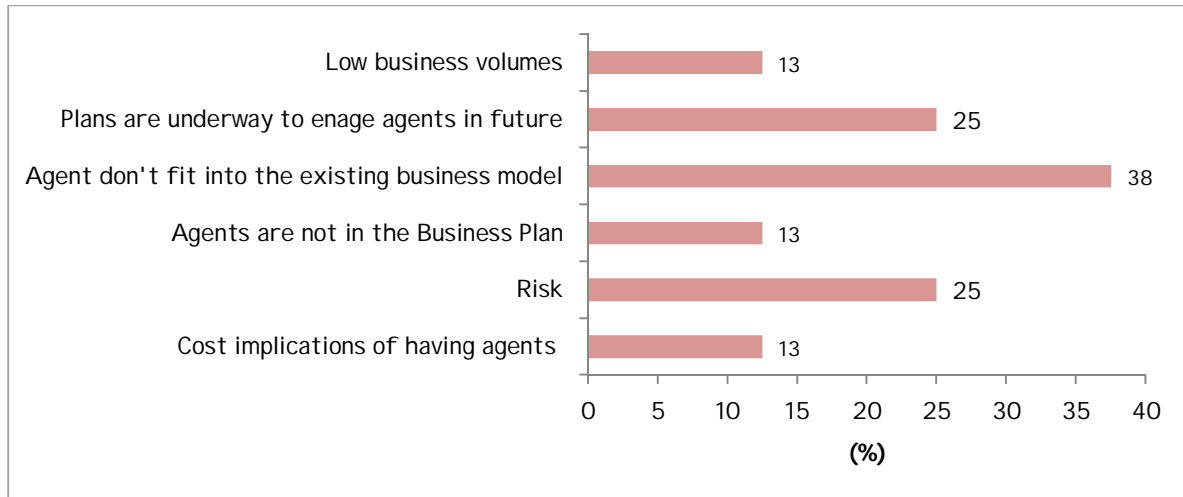
Figure 6: Types of Agents



Source: Survey Findings

A significant number of market players who had no agents said that agents did not fit into their existing business models (See figure 7). The market players who said that agents did not fit into their existing business models were mainly Fund Managers.

Figure 7: Reasons Cited for not having Agents

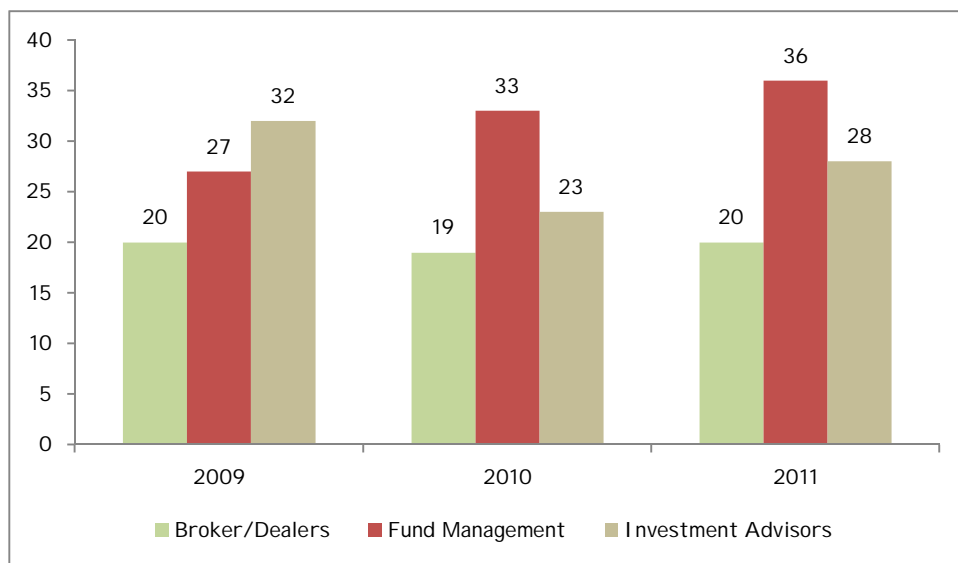


Source: Survey Findings

3.3 Employment

The market players surveyed had a total staff count of 84, a thirteen percent growth from the total staff count in 2010 (see figure 8). The Fund Management sector employed the most staff (see figure 8).

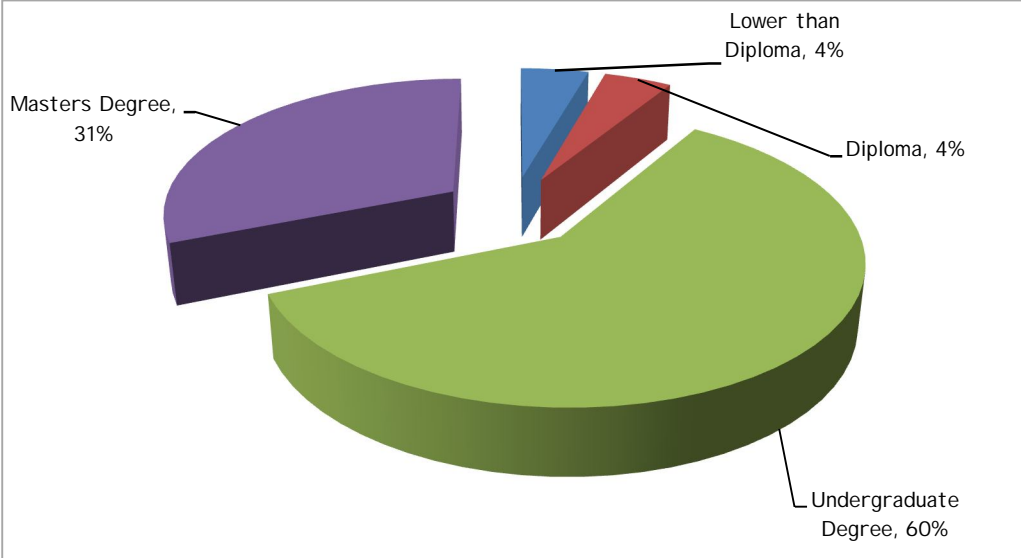
Figure 8: Three Year Trend in Total Employees in the Capital Markets Industry in Uganda



Source: Survey Findings

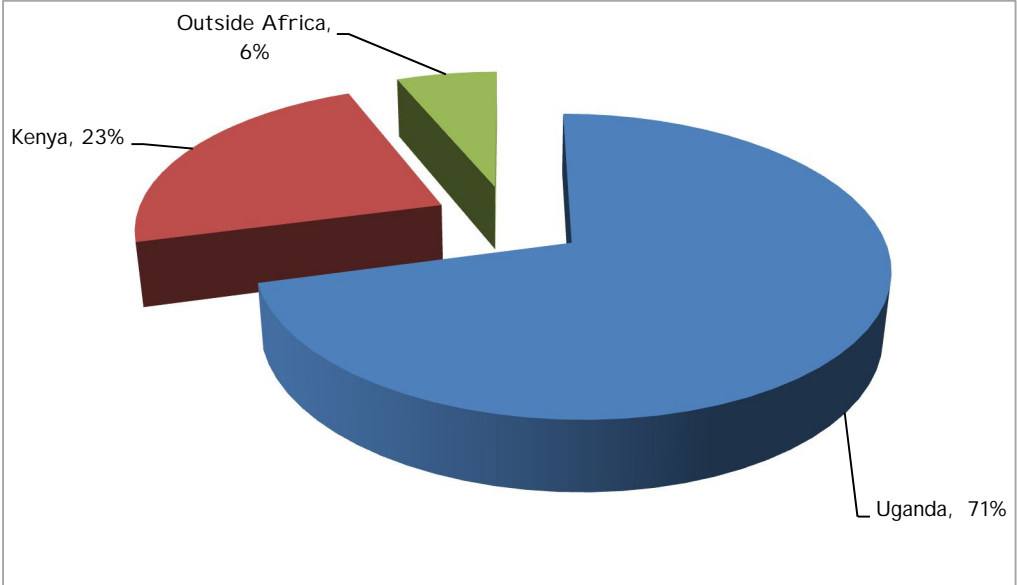
60% of the professional staff employed by the capital markets players surveyed held an undergraduate degree (see figure 9). In regard to the nationality of the professional staff a majority of the professional staff were Ugandan (See figure 10).

Figure 9: Qualifications of Professional Staff



Source: Survey Findings

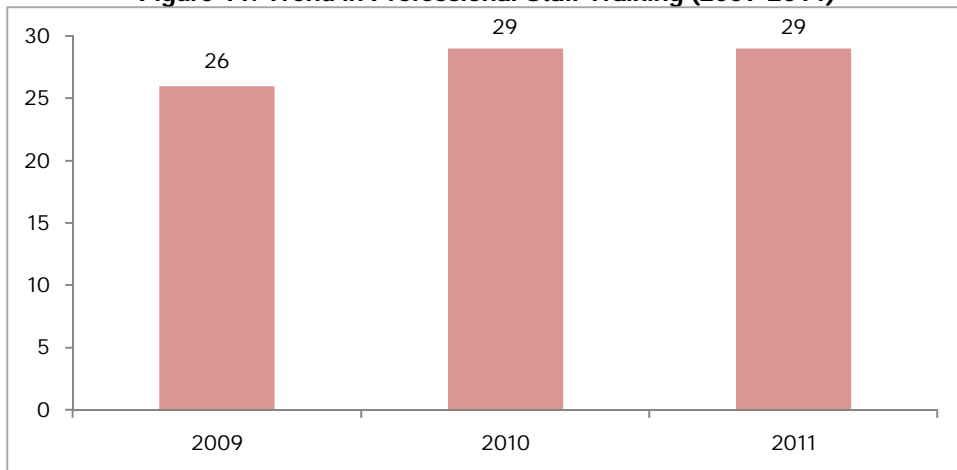
Figure 10: Nationalities of Professional Staff



Source: Survey Findings

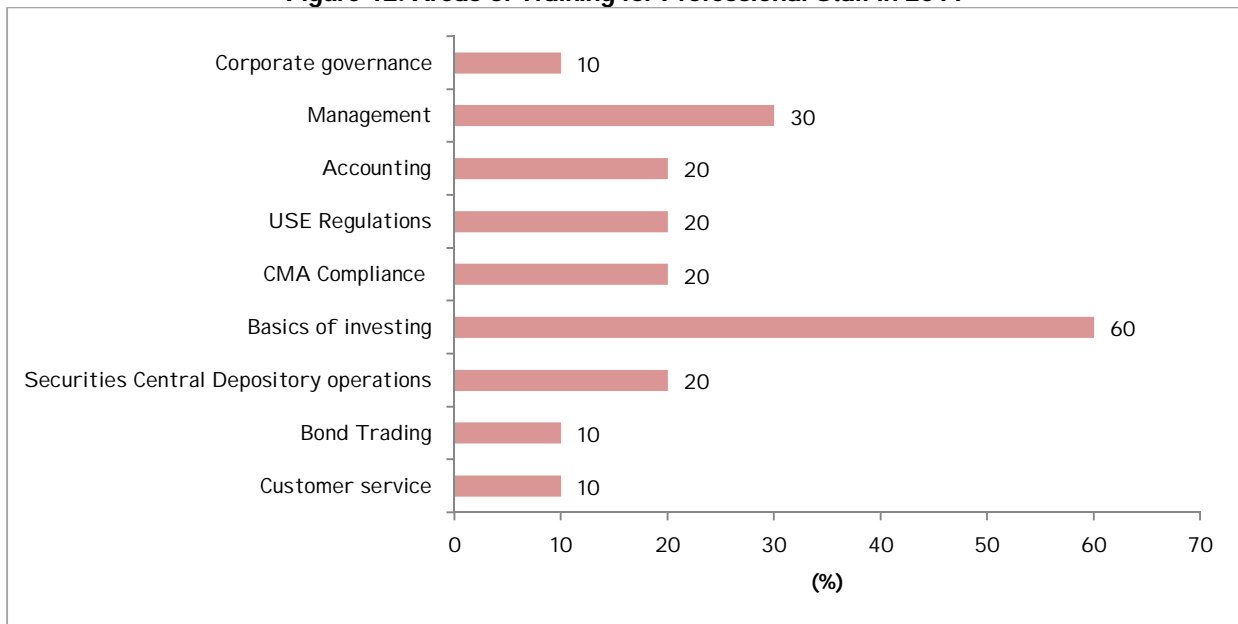
A significant number of market players (83 %) had a training program for professional staff. In 2011, twenty nine (29) professional staff underwent training, a number similar to that of the previous year (see figure 12). Majority of professional staff were trained in investment basics (see figure 13). All the market players who did not have training for professional staff in 2011 cited budgetary constraints as the main reason for failing to.

Figure 11: Trend in Professional Staff Training (2009-2011)



Source: Survey Findings

Figure 12: Areas of Training for Professional Staff in 2011



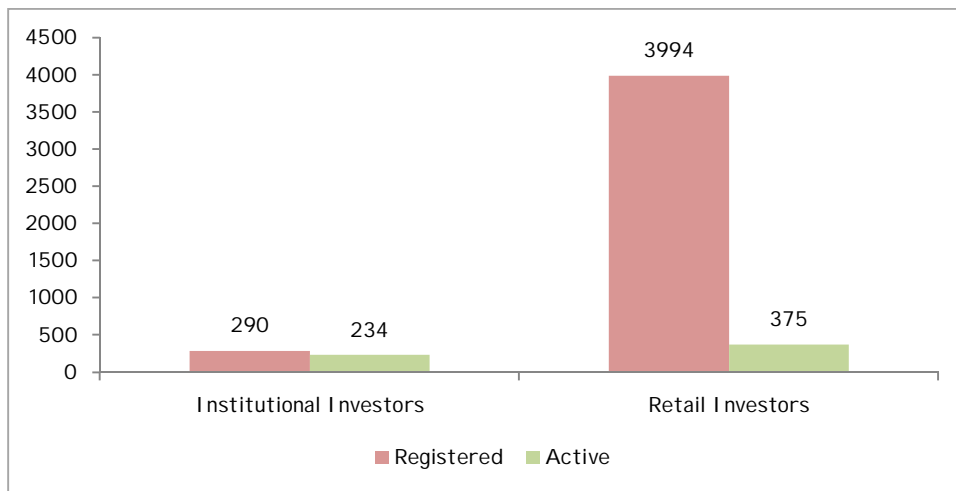
Source: Survey Findings

3.4 Client Base

Uganda has an estimated **40,000** registered institutional and retail investors in the capital markets. Out of these, an estimated **12,000** investors have opened Securities Central Depository (SCD) accounts. The low number of investors with SCD accounts has been an area of concern as this ultimately affects the ability of investors to trade hence impacting the performance and liquidity of the USE.

The market players surveyed reported having a total client base of **4,284** registered institutional and retail investors. A total of **3,994**, representing seventy nine percent (93%) of the registered clients were retail investors with the rest being institutional investors. Among the registered investors, **375** and **234** retail and institutional investors respectively were actively engaged in trading in the capital markets (See figure 13).

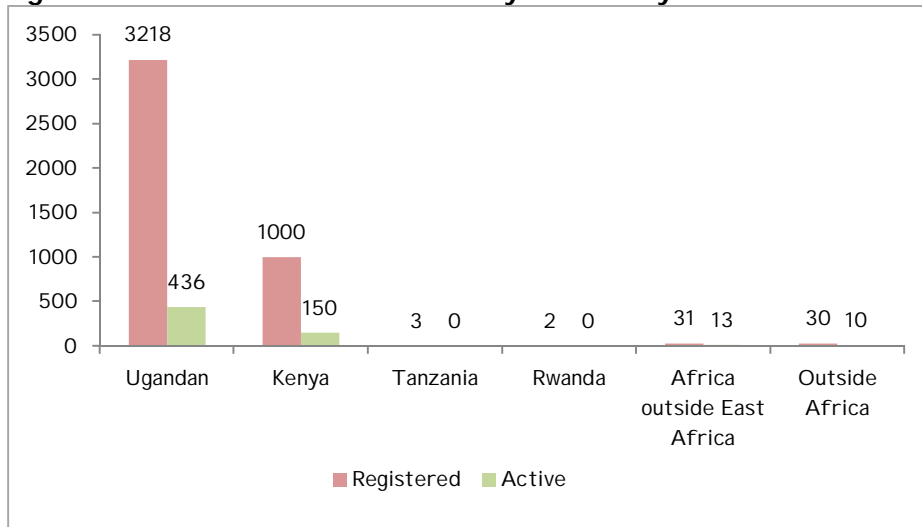
Figure 13: Status of Client Accounts by Category



Source: Survey Findings

A large portion of the investors were Ugandan retail and institutional investors with over four hundred of them being actively engaged in trading at the USE (see figure 14).

Figure 14: Distribution of Investors by Nationality



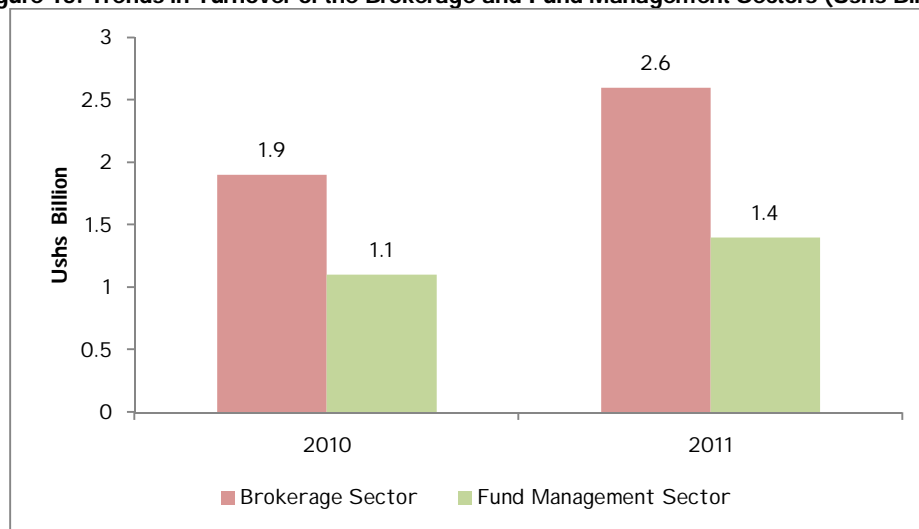
Source: Survey Findings

4.0 Industry Performance

4.1 Turnover & Costs

The analysis of the turnover of the capital markets industry covered only the Brokerage and the Fund Management sectors. Six out of Seven Brokerage Firms were covered and three out of six Fund Managers⁸. The Brokerage and Fund Management sectors had a combined turnover of Ushs 4 billion up from Ushs 3 billion a growth of 33% (See figure 15).

Figure 15: Trends in Turnover of the Brokerage and Fund Management Sectors (Ushs Billion)

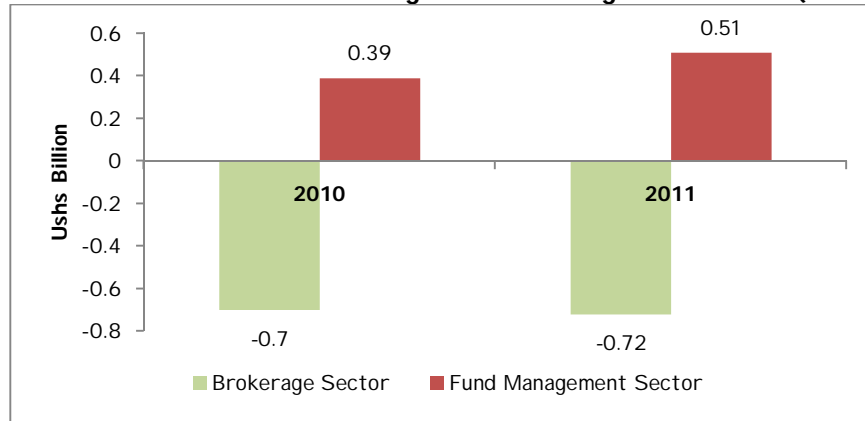


Source: Survey Findings

⁸ African Alliance which operates both a Brokerage and Fund management Licenses was classified as a brokerage house to avoid double counting. PCP which also has a license for fund management services was not considered because in 2011 it had not yet started to mobilize funds to invest in the stock market.

When total costs are considered against total turnover the brokerage sector registered a net loss of Ushs 724 million in 2011 compared to a net profit Ushs 500 million in the Fund Management sector (See figure 16).

Figure 16: Net Profit/Loss in the Brokerage & Fund Management Sectors (Ushs Billion)

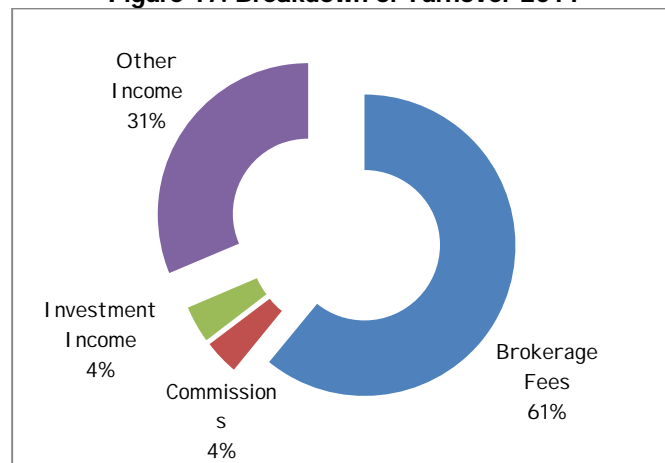


Source: Survey Findings

4.1.1 Brokerage Sector

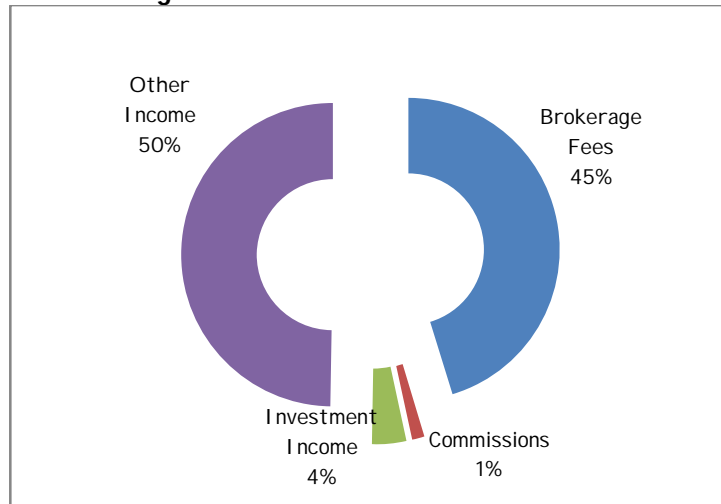
Brokerage fees from secondary trading continued to be the driver of turnover in the brokerage sector accounting for over 60% of total turnover in 2011 (See figures 17). However in 2010 other income was the driver of turnover in the brokerage sector (See figure 18) mainly on account of consultancy fees from corporate transactions. The very small percentage investment income accounts for total turnover is clear evidence of how Broker/Dealers in Uganda do not actively exercise their Dealership license.

Figure 17: Breakdown of Turnover-2011



Source: Survey Findings

Figure 18: Breakdown of Turnover-2010



Source: Survey Findings

4.1.2 Fund Management Sector

As expected asset management fees continued to be the driver of turnover in the fund management sector accounting for over 95% of total turnover in both 2010 and 2011 (See figures 19). However one Fund Management company accounted for over 70% of the total asset management fees in the sector which is a high level of concentration in this sector.

Figure 19: Breakdown of Total Turnover in the Fund Management Sector



Source: Survey Findings

4.2 Corporate Finance

Majority of the market players (67%) did not record any corporate finance transactions. The corporate finance transactions reported were shared equally between Broker/Dealers and Investment Advisors at 50% per license category. Market players reported a total of 5 expressions of interest valued at **Ush 55 billion**. Three of the expressions of interest were for cross-listings for companies listed at the Nairobi Securities Exchange (NSE). None of the market players with corporate finance transactions reported completing a deal. A total of 5 deals were reported to be on-going with an estimated value of **Ush 15 billion**. Four out of five of the on-going deals were private placements for equity originating from Ugandan companies (See table 5).

Table 5: Corporate Finance Transactions-2011

Type of Deal	Expression of Interest			On-Going Deals		
	No. of Deals	(%)	Value (Ush Bn)	No. of Deals	(%)	Value (Ush Bn)
Initial Public Offer (IPO) Bond	1	20%	40			
Private Placements (Equity)				4	80%	15
Rights Issues				1	20%	
Bonus Issues	1	20%				
Cross-listings	3	60%	15			
Total	5	100%	55	5	100%	15

Source: Survey Findings

5.0 The Cost of Doing Business

Every year, market players apply for the renewal of their licenses from CMA. The process aims at ensuring that market players comply with regulatory requirements before they are allowed to continue operating. This contributes to the core objective of CMA of protecting the investing public and creating efficient and orderly capital markets. The annual license renewal process has three stages:

- i. **Submission of Application for Licence Renewal Documents by the Market Players:** All license holders are usually due for renewal at the end of 31st March of each year. The market players usually have a one (1) month window period from 1st - 31st of March annually to submit their application for renewal together with the supporting documentation to the Legal and Compliance Department of CMA.
- ii. **Review of Application Documents:** CMA's Legal and Compliance Department reviews all applications on a case by case basis and makes a recommendation for

license renewal to the CMA Board of Directors for those market players who have met all the license renewal requirements.

- iii. **Board Approval:** The CMA Board of Directors that meets every quarter of the year, during its sittings approves the renewal of licenses for the different market players based on the recommendations of the Legal and Compliance Department.

In an ideal situation, the process is expected to take a minimum of 20 working days from the receipt of the application for license renewal documents. Market players surveyed reported that it took an average of 23 working days (See table 6) for their licenses to be renewed from the time they submitted their application to the time they received their licenses. The longest period it took to renew a license was 40 working days while the shortest period reported was 3 working days.

Table 6: Time Spent on Licence Renewal

Indicator	Duration (Working Days)
Average	23
Minimum	3
Maximum	40

Source: Survey Findings

Market Players reported spending an average of 2 working days to compile the information required for CMA inspections (See table 7). The shortest period spent on preparations for inspections was 1 working days while the longest period was 3 working days.

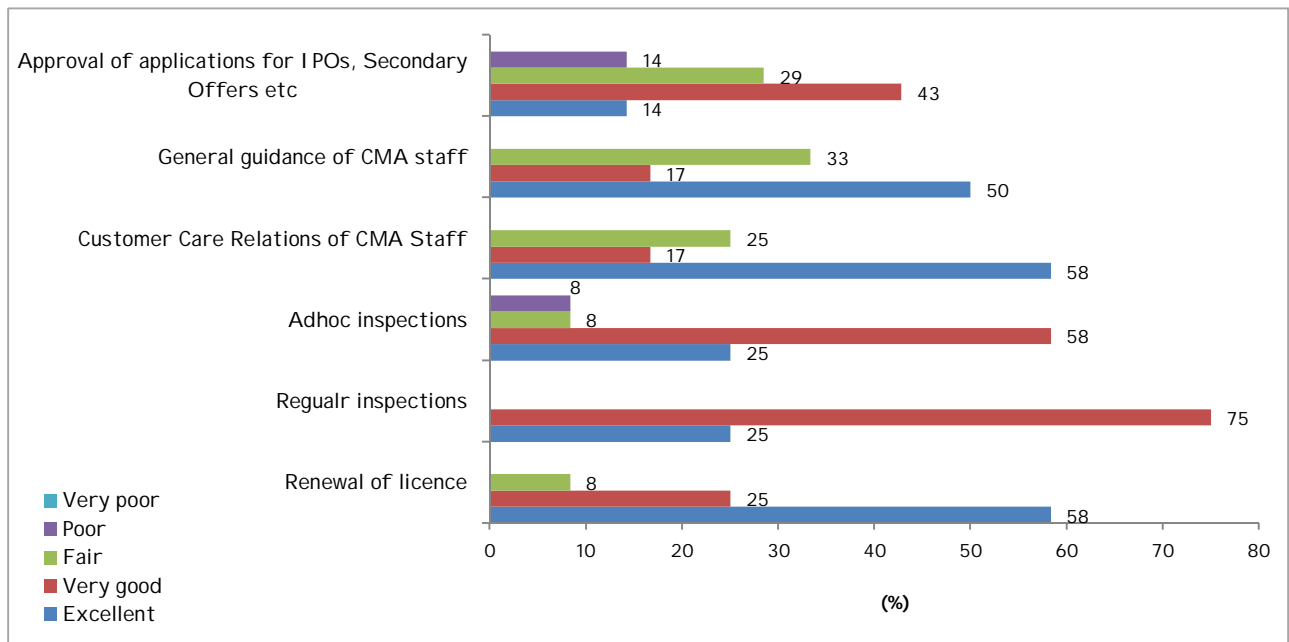
Table 7: Time Spent on Compilation of Information for CMA Inspections

Indicator	Duration (Working Days)
Average	2
Minimum	1
Maximum	3

Source: Survey Findings

The market players rated CMA's interaction with them. The areas of interaction included: license renewal, inspections, customer care aspects, guidance aspects and interactions during approval for primary and secondary market issues. The regular inspections conducted by CMA received a very positive review with 75% of the market players saying that they were very good (See figure 21).

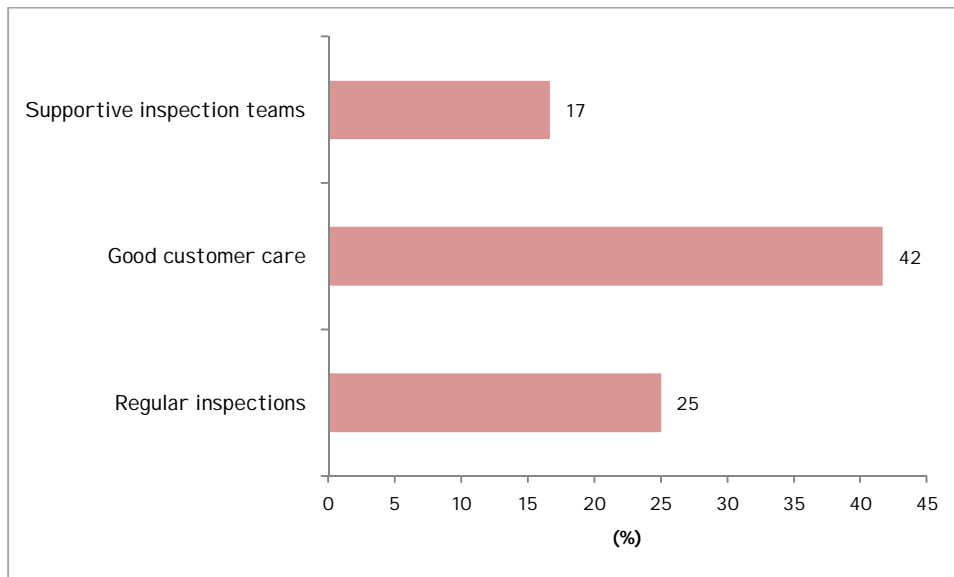
Figure 20: Rating of CMA's Interactions with Market Players



Source: Survey Findings

A significant number of market players (42%) who gave CMA favorable ratings cited the good customer care as the main reason for the ratings given to their interactions with CMA (see figure 21).

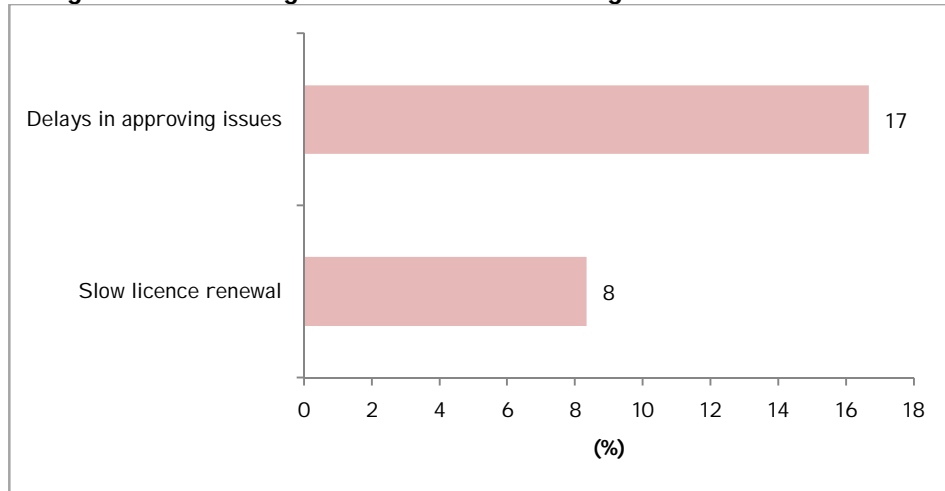
Figure 21: Reasons given for the Favorable Ratings of Interactions with CMA



Source: Survey Findings

Some of the market players (17%) who gave CMA unfavorable ratings on some of the aspects of interaction said that delays in the approval of primary and secondary issues was a major area of concern for them (see figure 22).

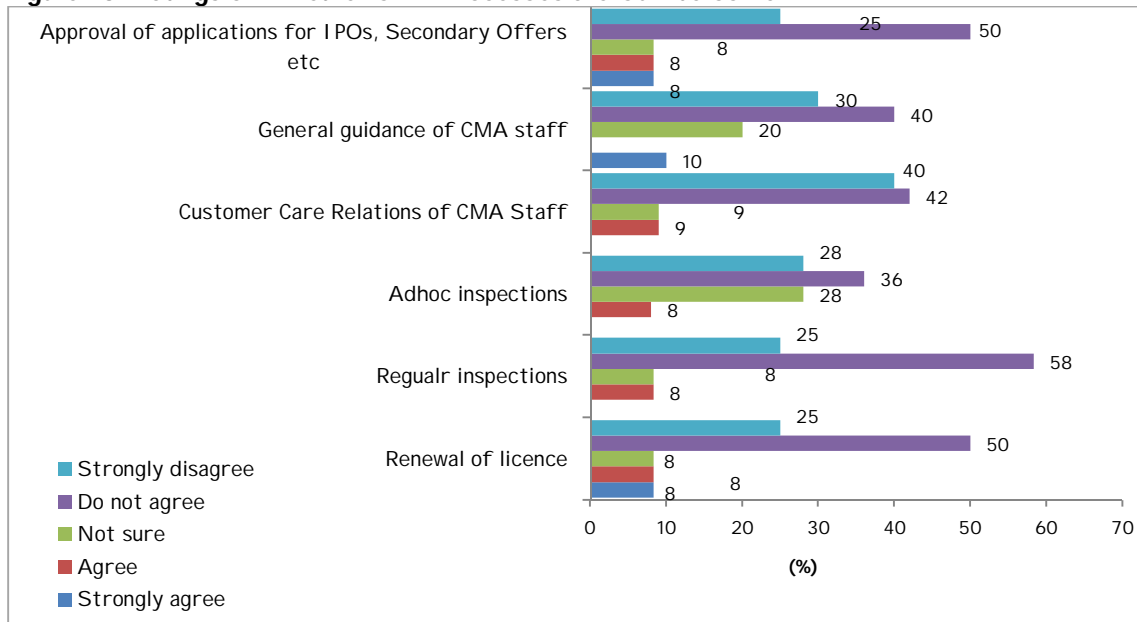
Figure 22: Reasons given for Unfavorable Rating of Interactions with CMA



Source: Survey Findings

The Market Players commented on whether various aspects of the CMA processes were cumbersome and time consuming. Most Market Players (83 %) disagreed with the view that regular inspections were time consuming and cumbersome (See figure 23).

Figure 23: Ratings on Whether CMA Processes are Cumbersome

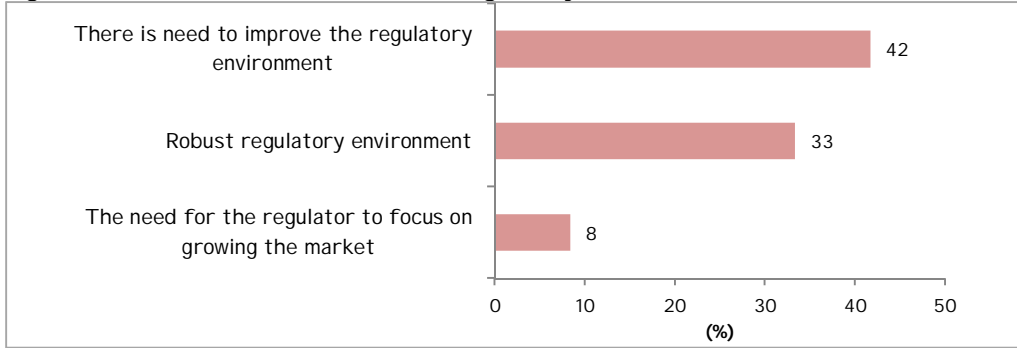


Source: Survey Findings

Market players who felt that CMA processes were time consuming and cumbersome cited the delays in approval of bonus issues; the high costs involved during the inspections; and the re-application for licenses annually instead of renewing them. In order to improve the process, market players suggested: the introduction of questionnaires to replace inspections; early communication by the Authority before inspections on information required and expectations; annual renewal of licenses instead of re-application; and the need for CMA to engage more stakeholders to develop the industry.

When asked to make general comments on the regulatory environment, a significant number of market players (42%) felt that there was need to improve the overall regulatory environment (see figure 24).

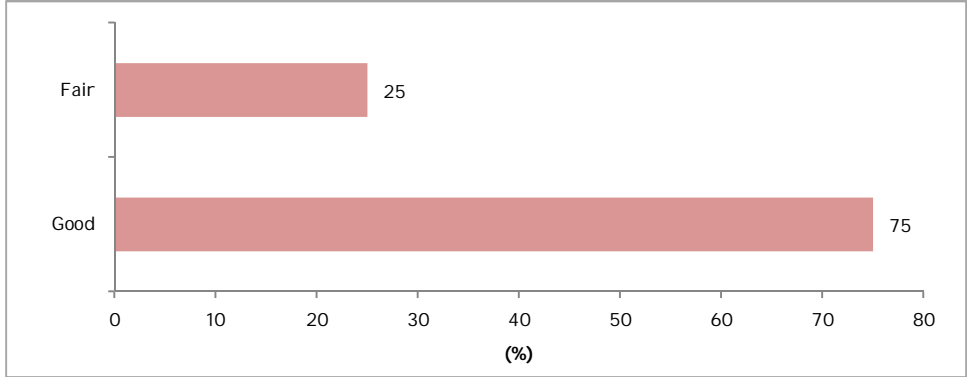
Figure 24: General Comments on the Regulatory Environment



Source: Survey Findings

A majority of market players (75%) who are members of the USE rated its regulatory performance as being good (see figure 25). The market players rated the USE based on its short and precise inspections; promptness in operations; and its strong oversight that has curbed insider dealings.

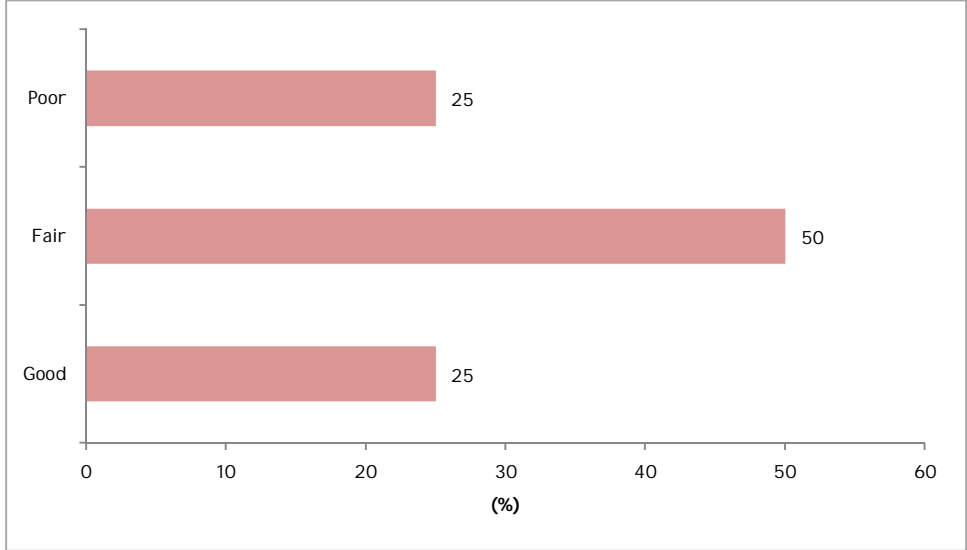
Figure 25: Ratings for the USE as a Self-Regulatory Organization



Source: Survey Findings

Fifty percent of the SCD agents rated the performance of the SCD as being fair (see figure 26) citing the slow process of immobilization of share certificates and the long time it takes for settlement of trades.

Figure 26: Ratings for the Securities Central Depository



Source: Survey Findings

6.0 Impact of the East African Community Common Market

Seventy five percent (75%) of all the Market Players surveyed were subsidiaries of other companies (see table 3). Forty-Five percent (45%) of all the subsidiaries had their parent companies being incorporated in Kenya with none of the subsidiaries having parent companies in the other member states of the EAC (see table 4).

Kenyan's accounted for 23 % of the total employees in the industry with no citizens of the other member states of the East African Community being employed in the Ugandan capital markets industry (see figure 10).

A total of one thousand and five (**1005**) clients representing 24% of the total registered client base were from the East African region. Majority of the clients from East Africa (99%) were Kenyan's. One hundred and fifty (**150**) East African clients were active with all being Kenyan's (see figure 14).

7.0 Other Capital Markets Indicators

7.1 Corporate Governance

All the market players surveyed said that they had a Board of Directors which is an indicator that they recognize the role of corporate governance in company performance, capital formation and maximization of shareholders value as well as protection of investors' rights. The average number of Directors per board was five members. The largest Board of Directors had seven members while the smallest had two members (see table 8).

Table 8: Size of the Board of Directors

Indicator	Number of Directors
Average	5
Minimum	2
Maximum	7

Source: Survey Findings

Fund Managers had the highest average number of Directors on their Boards (See table 9). This can be attributed to the nature of business they are engaged in which entails the handling of client funds that requires strong corporate governance structures and oversight.

Table 9: Size of Board of Directors by License Category

	Maximum	Average	Minimum
Broker/Dealer	6	5	2
Investment Advisors	5	3	2
Fund Managers	7	6	4

Source: Survey Findings

Two thirds of the market players surveyed reported having non-executive Directors on their Boards. The average number of non-executive Directors on a Board was three members. The highest number of non-executive Directors reported was six members while the least was one member (See table 10).

Table 10: Number of Non-Executive Directors

Indicator	Number of Non-Executive Directors
Average	3
Minimum	1
Maximum	6

Source: Survey Findings

Fund Managers reported having an average of six non-Executive Directors which is an indicator of separation of roles between Directors involved in the day to day activities of the market players and those who are not (see table 11).

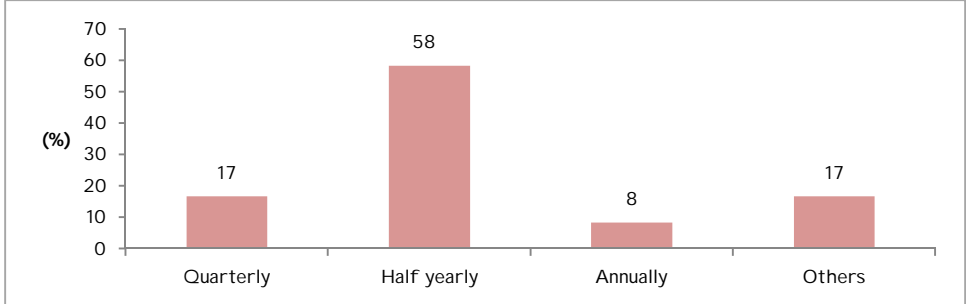
Table 11: Number of Non-Executive Directors by License Category

	Maximum	Average	Minimum
Broker/Dealer	5	3	1
Investment Advisors	3	2	3
Fund Managers	6	6	5

Source: Survey Findings

Ninety two percent of the market players indicated that the role of the Chairperson of the Board was separate from that of the Chief Executive Officer a hallmark of good corporate governance practices. A large number of the market players Boards (58%) met half yearly (see figure 27).

Figure 27: Frequency of Board Meetings



Source: Survey Findings

Majority of the Boards (83%) did not have any Board committees. The market players with Board Committees held investment advisory licenses. The Boards which had Committees reported having: Finance, Human Resources; and Compliance Committees. The absence of Board Committees could be a sign that the market players are unable to shoulder the cost implications in terms of money and other resources that come with the creation of such Board committees or they have internal controls and systems that can play the role of the board committees.

7.2 Research and Market Analysis

A large proportion of market players (83 %) reported that they undertook research and market analysis with only 33 % of their research reports being published.

8.0 Conclusions & Recommendations

There are two major observations from the 2011 capital markets players' survey;

I. The Over Reliance on Brokerage Commissions as a Source of Revenue by the Brokerage Firms

The brokerage firms in Uganda have a dual license which provides them with opportunities to earn both from brokerage commissions and dealing activities where they invest in the market on their own account. However very few of the brokerage firms are actually utilizing their dealership license thereby exposing themselves to the risk of the volatile markets. When there are low trading volumes in the market as was the case for the most part of 2011, the revenues of the brokerage firms are adversely hit. Whereas if there were active dealers in the market playing the role of market makers they would be in position to exploit the opportunities for profit in both the "BEAR"⁹ and "BULL" markets¹⁰.

II. The Limited Number of Registered and Active Clients.

Furthermore the brokerage firms are not keen to expand their client base which is very evident in the level of their outreach and the low number of clients they have in relation to the total number of capital markets investors in Uganda.

8.1 Recommendations

Promotion of the Market Making Function: CMA should explore ways in which it can promote the market making function among the Broker/Dealers through both the law and market incentives. To this end further research will need to be undertaken to recommend the best way possible to enhance the market making function on the stock market.

Increased public education awareness about the Securities Central Depository: CMA working together with the Uganda Securities Exchange (USE) and the SCD agents should develop a communication strategy for increasing the number of registered shareholders with SCD accounts. The low uptake of SCD accounts partly explains the low market turnover as one cannot participate in the market without an SCD account.

Map out Strategies for Encouraging the Market Players to increase outreach: CMA working with the Ministry of Finance, Bank of Uganda and the Insurance Regulatory Authority should map out ways in which they can exploits the synergies that exist between the capital markets, banking

⁹ A bear market is when the economy is bad, recession is looming, and stock prices are falling.

¹⁰ A bull market is when everything in the economy is great, people are finding jobs, GDP is growing, and stocks are rising

and insurance sectors to increase outreach of the capital markets players. To this end further research will need to be undertaken to recommend the best way possible to the synergies between these sectors can be exploited while at the same time minimizing the risk of contagion across different sub-sectors within the entire financial sector.