

# Capital Markets Authority

Protecting Your Investments

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#### INTRODUCTION

This Electronic Quarterly Review covers the period January-March 2013

#### **HIGHLIGHTS**

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

### 1.0 REGULATORY ISSUES

The following were the key regulatory issues during the period January to March 2013;

#### 1.1 Annual Inspection

The Legal and Compliance Department of the Capital Markets Authority (CMA) commenced the annual inspection of various market intermediaries licensed by CMA on 19<sup>th</sup> March 2013. During the inspections, key aspects reviewed included: regulatory, strategic, corporate governance, internal controls, operational; technological; and market conduct.

Annual inspections play a keystone role in fulfilling CMA's mandate of investor protection and ensuring an orderly market. Through this exercise and other inspections, the Authority works with market intermediaries in identifying and controlling areas of risk and ensuring compliance with the various regulations governing the capital markets.

#### 2.0 MARKET DEVELOPMENT

# 2.1 Asset Backed Securities and Credit Rating Workshop

CMA in partnership with the East African Development Bank and Metropole Corporation (a Kenyan-based provider of business information and debt management services) held a workshop on Asset Backed Securities (ABS) and credit rating at the Kampala Sheraton Hotel on 26th February 2013. The workshop was attended by participants drawn from the insurance and banking sectors; government ministries and regulatory agencies; licensees of CMA; and journalists from various media houses. CMA was represented at the workshop by Ms. Angela Kiryabwire (Director Legal and Compliance); Mr. Joseph Lutwama (Manager Research and Policy); Ms. Miriam Musaali (Manager Legal Affairs); Dickson Ssembuya (Research Officer); and Nusula Nassuna (Compliance Officer).

During the meeting, participants were taken through the regulatory framework for ABS in Uganda; practical structuring and issuance of ABS; and the role of credit rating agencies in the issuance of ABS. Key speakers included Mr. Sam Omukoko and James Murigu (both from Metropole Corporation); Eyal Shevel (from Global the Credit Rating Company); and Ms. Miriam Musaali (Manager-Legal Affairs).

Going forward, the exposure of the ABS regulations to various interest groups as well as dissemination of information on practical





structuring and issuance of ABS is expected to generate interest in these financial securities which can be a source of capital for the issuers. In addition to that, ABS are expected to afford investors an additional product for diversification of their portfolios. CMA will continue engaging various stakeholders to facilitate the issue of ABS in the Ugandan capital markets.

# 2.2 Stakeholders Workshop on Draft Capital Markets (Principles and Conduct of Business) Regulations 2012

CMA held a stakeholders workshop on the proposed CMA Principles and Conduct of Business Regulations on 28<sup>th</sup> March 2013 at the Imperial Royale Hotel in Kampala. The workshop attracted 20 participants drawn from intermediaries licensed by CMA.

The statement of principles provides guidelines with respect to the conduct and financial standing of persons licensed by the Authority. The Conduct of Business regulations describe the expected conduct of persons licensed by CMA and also provide for a fit and proper criterion that must be met by all Directors and employees of persons licensed by CMA. The proposed regulations are expected to replace the Conduct of Business Regulations (1996) which are due for repeal.

## 2.3 2<sup>nd</sup> Annual Directors and Company Secretaries Conference

CMA in partnership with the Ugandan chapter of the Institute of Chartered Secretaries and Administrators (ICSA) organised the 2<sup>nd</sup> Annual Directors and Company Secretaries conference. The event was held on 13<sup>th</sup> February, 2013 at the Protea Hotel, Kampala. The conference attracted over 100 participants mainly directors, company secretaries, and other professionals such as accountants and lawyers. The theme for the conference was "Organizational Governance for Success".

ICSA is the international qualifying and membership body for the Chartered Secretary profession. ICSA offers professional qualification covering aspects such as corporate administration, financial management, company law and corporate governance.

#### 3.0 PUBLIC EDUCATION

#### 3.1 Public Education Seminars

The Public Education Unit (PEU) hosted several seminars targeting students in University and Secondary School during the period under review. During the seminars, participants were trained in personal finance and investment opportunities available in the capital markets. Through these outreach activities, sixty five (65) students were reached. At the same time, the Office to Office initiative that aims at reaching professionals at their work places to sensitize them on saving and investing in the capital markets was able to reach thirty five (35) individuals during the quarter under review.

#### 3.2 Exhibitions

The PEU participated in two exhibitions; the Banking, Finance and Insurance (BFI) expo from 14<sup>th</sup> -16<sup>th</sup> March and the Private Sector Foundation of Uganda SME Event from 21<sup>st</sup> -23<sup>rd</sup> March 2013. The two exhibitions enabled CMA to interact with a total of about 4,500 people from all walks of life including teachers, business owners, and farmers.

A Key area of interest for the majority of visitors to the capital markets stall was the process of saving and investing in the stock and bond markets.

# 3.3 National Financial Literacy Strategy

The PEU was invited to form part of the strategic planning team for the National Financial Literacy Strategy that is being



spearheaded by Bank of Uganda. CMA is represented on the media committee by the Senior Public Education Officer, while the Public Education Manager is the representative on the workplace and investment clubs committees.

On 26th February, 2013, the two officials attended the Financial Literacy Information Sharing Group meeting organised by Bank of Uganda and the German Government international co-operation agency GIZ, to review key financial literacy messages in the draft National Financial Literacy Strategy. This was done in preparation for the launch scheduled for April, 2013. CMA was tasked with reviewing the "Investment" section of the strategy, and advise on how it could be improved.

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 CMA Social Media Platforms

The CMA Social media platforms (Facebook and Twitter) continue to attract more followers. The number of followers stood at 146 who have 60,356 friends. A total of 26% of the followers are actively engaged in discussions posted on both social fora.

With the growing prominence of social media as a communication channel, CMA has embraced this tool as an integral part of its public education campaign. Social media is a low cost tool combining technology and social interaction. Through social media, CMA has been able to gives investors a voice and a way to communicate with peers, and other stakeholders in the capital markets industry.

# 4.0 REGIONAL AND INTERNA-TIONAL CO-OPERATION

4.1 The 37<sup>th</sup> East African Securities Regulatory Authorities (EASRA) Technical Officials and Consultative Meetings 3<sup>rd</sup> - 5<sup>th</sup> April 2013

The 37<sup>th</sup> East African Securities Regulatory Authorities (EASRA) Technical Officials and Consultative Meeting was held from 3<sup>rd</sup> - 5<sup>th</sup> April 2013 in Fort Portal, Uganda. CMA-Uganda currently hosts the EASRA Secretariat and the CEO of CMA-Uganda, Mr. Japheth Katto, is also the current EASRA Chairperson. Key issues discussed and agreed upon during the meeting included:

- The approval of draft regulations on book building for stakeholder exposure in the EASRA member states before the next meeting;
- The approval of a proposal for a harmonized licensing requirement framework for stock brokers and dealers;
- The operationalization of supervisory colleges that would facilitate joint inspection programs and investigations among the member states;

EASRA is a forum for East African capital markets regulators established in 1997 by the signing of a memorandum of understanding between Tanzania, Kenya and Uganda. Rwanda joined the forum in March 2008 while Burundi was admitted in August 2011. The main objectives of EASRA are; information sharing among the members; mutual assistance and cooperation between members; and advancing the integration of the East African capital markets. Members of EASRA meet three times a year to discuss, deliberate and make decisions on a number of capital markets regulation and development issues within the region.



# 4.2 High Level Task Force Meeting on the East African Monetary Union, 22<sup>nd</sup>-28<sup>th</sup> March 2013, Entebbe, Uganda

CMA continued participating in the on-going negotiations on the Draft Protocol for the East African Monetary Union (EAMU). CMA was represented by Mr. Joseph Lutwama (Manager-Research and Policy) who participated in a meeting that took place in Entebbe, Uganda, from 22<sup>nd</sup>-28<sup>th</sup> March 2013. This was the eleventh round of the negotiations that commenced in January 2011.

# 4.3 30th IOSCO Africa/Middle East Regional Committee (AMERC) Annual Meeting

The CEO represented CMA at the 30<sup>th</sup> IOSCO Africa and Middle East Regional Committee (AMERC) meeting which was hosted by the Dubai Financial Services Authority from 18<sup>th</sup>-19<sup>th</sup> February 2013 at the Ritz-Carlton Hotel, Dubai International Financial Centre.

The theme of the meeting was: "Risk-Based Supervision as a Global Agenda". The event provided a platform for capital markets regulators from Africa and the Middle East to share insights of regional co-operation strategies for enhancing capital markets stability and other crosscutting capital markets issues.

Africa/Middle East Regional Committee (AMERC) is one of four (4) regional committees of the International Organization of Securities Commissions (IOSCO). AMERC is currently chaired by the Director General of the Securities and Exchange Commission Nigeria, Arunma Oteh. The International Organization of Securities Commissions (IOSCO) is an association of organisations that regulate the world's securities and futures markets. The organisation's role is to assist members to promote high standards of regulation and act as a forum for national regulators to cooperate with each other and other international organisations.

#### 5.0 INTERNATIONAL NEWS

# 5.1 Cyprus Reaches Bailout Deal With International Lenders

Cyprus struck a deal with global lenders to close down its second-largest bank in return for a US \$ 13 billion bailout. Without the agreement, Cyprus' banking system would have collapsed and the country could have become the first to crash out of the European single currency.

The plan will spare the Mediterranean island a financial meltdown by winding down the largely state-owned Popular Bank of Cyprus (PBC), and shifting deposits below € 100,000 to the Bank of Cyprus (BOC). Deposits above € 100,000 in both banks, which are not guaranteed under European Union (EU) law, will be frozen and used to resolve the debts of PBC and recapitalize BOC through a deposit-equity conversion. The move to freeze the deposits that aren't guaranteed under EU laws is expected to raise € 4.2 billion.

PBC will effectively be closed down with thousands of employees expected to lose their jobs. Senior bondholders in PBC will also lose out completely in the agreement, while those at BOC would make a contribution. As a result of the agreement, no across-the-board levy or tax would be imposed on deposits in Cypriot Banks. An earlier attempt to resolve the crisis had collapsed when the Cypriot parliament rejected a proposed levy on all deposits in Cypriot Banks. The agreement has been hailed for avoiding a destabilizing and disorderly default of PBC and the possibility of Cyprus exiting the European common currency.

Source: Reuters, Tuesday, March 26th, 2013

#### 6.0 OUTLOOK

Following an assessment exercise conducted at the end of 2012 for seven investment clubs in universities in Uganda set up through CMA's public education



outreach program, an awards ceremony has been scheduled for 27<sup>th</sup> April 2013. During the forthcoming award ceremony, a model investment club and personality shall be awarded. The award ceremony will also provide a platform to sensitize members of the public on financial aspects and the opportunities available by saving and investing through investment clubs.

The CMA Investment Clubs initiative aims at: positively influencing attitudes and perceptions towards the financial sector; enhancement of student participation in the capital markets; establishment of investment clubs within universities in Uganda; and creation of awareness of the need for accounting and financial management skills.

#### 7.0 CAPITAL MARKETS IN THE PRESS

#### CMA Optimistic About Equities Performance

By Martin Luther Oketch

The Daily Monitor, 17th, January 2013

The Capital Markets Authority is optimistic that Uganda's equity markets will make full recovery this year due to stability of the country's macroeconomic and global economic dynamics. Uganda's equity markets registered a slowdown in 2012 owing to adverse macroeconomic indicators like: high inflation; a volatile foreign exchange market; and high lending rates factors. The slowdown in global economic growth during 2012 also weakened international capital flows to frontiers markets such as Uganda. The weak economic conditions locally and internationally contributed to a lackluster performance last year.

In an interview, Mr. Japheth Katto, the CMA chief executive officer, indicated that he remained upbeat that the capital markets industry will recover fully in 2013 with more IPOs and secondary offers expected during the year. However, he added that the recovery process would be dependent on a low inflationary regime, a low interest rate environment, a stable shilling, stability in the Euro-zone and deepening of the regional integration process.

Mr Katto also said that CMA intends to promote other investment classes such as asset backed securities, and derivatives as a way of diversifying the investment opportunities in the Ugandan capital markets. However, for this to be fruitful, he talked about the need for formulation of policies that would encourage development of the market and enhancement of the public awareness to stimulate supply and demand in the capital markets. Mr Katto also mentioned regional co-operation as being a critical component in the development of the Ugandan capital markets.

#### **QUOTES**

"Stock market bubbles don't grow out of thin air. They have a solid basis in reality, but reality as distorted by a misconception."

George Soros (American business magnate, investor and philanthropist)

#### **DISCLAIMER**

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





## **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 31st March 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: info@use.or.ug Contact: Mr. Joseph Kitamirike Chief Executive Officer
2.	African Alliance U Ltd 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: info@africanalliance.co.ug Contact: Mr. Kenneth Kitariko
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5.	ICEA Investment Services Ltd Fund Management	Rwenzori Courts, P. O. Box 33953, Kampala Tel: +256-412-347535/+256-414-232337 E-mail: dennis.mugalya@africaonline.co.ug Contact: Mr. Dennis Mugalya
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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: info@crestedsecurities.com Contact: Mr. Robert Baldwin
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: info@derocapital.com 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: pbwiso@dyerandblair.com 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: ruyonga.edward@orient-bank.com Contact: Mr. Edward Ruyonga



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