

### Capital Markets Authority

Protecting Your Investments

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October-December 2013, Volume 15, Number 4

#### INTRODUCTION

This Electronic Quarterly Review covers the period October-December 2013.

#### **HIGHLIGHTS**

- Legal and Regulatory Issues
- Developments in the Market
- Public Education
- Regional and International Cooperation
- International News
- > Staff Matters
- Outlook
- Capital Markets in the Press

## 1.0 LEGAL AND REGULATORY ISSUES

The following were the key legal and regulatory issues during the period October to December 2013;

#### 1.1 International Organization of Securities Commissions (IOSCO) Multi-lateral Memorandum of Understanding (MMOU)

The Cabinet of Uganda on 27th November 2013 approved principles for the proposed amendments to the CMA Act. The Cabinet is now expected to submit the CMA Amendment Bill to the parliament for debate and enactment. The proposed amendments to the CMA Act are expected to enable CMA ascend to Appendix A of the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMOU).

The IOSCO MMMOU is the benchmark for securities regulators globally with regard to mutual assistance and the exchange of information for the purpose of enforcing and securing compliance with the respective Laws and Regulations of the various jurisdictions.

## 2.0 DEVELOPMENTS IN THE MARKET

## 2.1 Kakira Sugar Limited to Issues Medium Term Note

CMA approved a Ush 75 billion (US \$ 30 million) Medium Term Note (MTN) program by Kakira Sugar Limited (KSL). The 10 year note program will allow KSL to continuously issue notes tailored to meet its funding needs, subject to terms set out in the information memorandum. Ugandan investors will gain access to a variety of debt securities based on the type of notes purchased, maturity dates and shilling amounts.

KSL is part of the Madhvani Group of companies and is the largest manufacturer of sugar in Uganda. The company produces 150,000 tonnes of sugar annually, employs 7,500 members of staff and has over 10,000 hectares under cane cultivation.

#### 2.2 Cross-Listing of Uchumi Supermarkets Limited Shares

Uchumi Supermarkets Limited (USL) cross-listed 265 million shares at the Uganda Securities Exchange (USE) on 13th November 2013. The USL cross-listing brought the number of cross-listed counters at the USE to eight with all being primarily listed at the Nairobi Securities Exchange. The cross-listing at the USE was the second for USL in the region having earlier cross-listed at the Rwanda Securities Exchange. USL intends to have a regional rights issue to finance its growth plan.

USL is a Kenyan based supermarket chain estab-



lished 37 years ago with a total of 28 stores spread out in Kenya, Uganda and Tanzania. In the financial year ending June 2013, the company posted a net income of US \$ 4.1 million against a turnover of US \$ 167 million.

## 2.3 National Insurance Corporation Rights Issue

The rights issue for National Insurance Corporation (NIC) opened on 22nd November 2013 with the closure date being 13th December 2013. NIC was offering 323 million shares at a discounted price of Ush 26 (US \$ 0.01) with a target of raising Ush 8.4 billion (US \$ 3.33 million). The proceeds of the rights issue will be utilized in enhancing the capital base of the organization and increase its capacity to underwrite bigger risks.

NIC was listed at the USE in March 2010 as part of the government divestiture program. The company is a provider of insurance and risk management services. The company has over 2,000 shareholders and had a market capitalization of Ush 12.12 billion (US \$ 4.82 million) at the end of the year 2013.

#### 3.0 PUBLIC EDUCATION

# 3.1 Eleventh (11th) Kikonyogo Capital Markets Awards (KCMA)

CMA hosted the 11th Kikonyogo Capital Markets Award (KCMA) on 31st October 2013 under the theme: "Driving Growth in the Capital Markets". The Keynote Speaker was Mr. James Mworia, CEO of Centum Investment Company Limited. He gave a keynote address on "The Role of Capital Markets in Financing East Africa's Growth through Infrastructure". The Minister of Finance, Planning and Economic Development, Hon. Maria Kiwanuka was the Chief Guest during the colourful event.

In the 2013 edition of KCMA, awards were handed out for three categories, namely: Financial Journalism; Fund Management; and Outstanding Contribution to the capital markets industry. In the financial journalism category, Ms. Faridah Kulabako of the Daily

Monitor Newspaper and Mr. Samuel Sanya of New Vision newspaper were crowned the winners. In the fund management category, Pine Bridge Investment Company Limited was awarded for mobilizing the highest amount of funds for investment, while African Alliance received an award for registering the fastest growth in funds under management. Stanbic Bank Uganda was also recognized for outstanding contribution to the capital markets sector.

The Kikonyogo Capital Markets Award (KCMA) is a celebrated annual dinner event in Uganda's financial market, where nominees compete for Awards that recognize their contribution towards the development of capital markets in the preceding year. The award is held in honour of Mr. Charles. N. Kikonyogo (RIP), Governor of Bank of Uganda (May 1990 to May 2000). Governor Kikonyogo spearheaded the financial sector reforms in the 1990s and also played a critical role in the establishment of the capital markets in Uganda. KCMA 2013 focused on journalists who have contributed to financial sector development through their writing and institutions that have contributed to capital markets sector development through various market activities.

## 3.2 Public Education Seminar and Exhibition

During the quarter ending 30th September 2013, the Communication and Investor Education Department (CIED) held a seminar for students of Kampala University and participated in the annual financial literacy week. Through these outreach activities, a total of 370 individuals were educated on personal finance, saving and investing in the capital markets. Additionally, various publications on saving and investing in the capital markets were issued to the individuals reached through these events.

#### 3.3 Investment Clubs Program

The CIED continued with efforts aimed at establishing additional investment clubs at Universities within Uganda. During the review period, the CIED worked with students of Kampala University, Bugema University and



Uganda Christian University providing them guidance on the process of setting up and managing investment clubs. The existing six (6) Investment Clubs together with the ones to be formed are expected to participate in the next *Investment Club Challenge* scheduled for the second quarter of 2014.

The Investment Club program assists university students set up Investment Clubs with the objective of enhancing awareness and understanding of various pertinent capital markets and financial sector issues.

#### 3.4 The Corporate Bond Campaign

In line with the theme of "Driving Growth" as espoused in CMA's strategic plan for the financial years 2013/14-2015/16, the authority launched a Corporate Bond campaign aimed at spurring growth in Uganda's capital markets by focusing on the Corporate Bond market in the financial years 2013/14 and 2014/15. The campaign will target potential issuers, investors and market intermediaries. The campaign targets having at least 20 potential issuers raise an average of Ush 40 billion (US \$ 15.84 million) each. The lead department for the campaign will be the CIED supported by the Research, Policy and Planning Department as well as the Legal and Market Supervision Department.

The campaign will entail: review of CMA processes to facilitate corporate bond issuance; presentations and one-on-one interactions with potential issuers and investors; media promotions and public relations exercises; production and distribution of publications; interactions on social media; working with corporate bond champions; and monitoring and evaluation. Engagements with several stakeholders in the corporate bond market have already commenced.

The campaign is expected to increase access to long term finance; increase the visibility of the authority; enhance partnerships through interactions with potential issuers and investors; enhance the level of service delivery; and increase income for CMA.

#### 4.0 REGIONAL AND INTERNA-TIONAL CO-OPERATION

#### 4.1 Meeting of the Capital Markets Insurance and Pensions Committee of the East African Community

CMA participated in the Capital Markets, Insurance and Pensions Committee (CMIPC) meeting of the East African Community (EAC) in Kampala from 21st -23rd November 2013. The CMIPC meeting was preceded by a meeting of the Technical Working Group (TWG) on the development of the securities legal and regulatory framework that was convened between 11th -20th November, 2013. The TWG finalized 8 Council Directives and developed 5 Council Directives for exposure. CMA was represented on the TWG by the Legal Officer.

During the CMIPC meeting, the Chief Executives Officers (C.E.Os') recommended to the Sectoral Council on Finance and Economic Affairs (SCFEA) to approve 8 Council Directives finalized by the TWG for transposition into domestic laws. The 8 Directives recommended for transposition include:

- i. Directives on public offers (Equity);
- ii. Directives on public offers (Fixed Income)
- iii. Directives on public offers (Asset Backed Securities)
- iv. Directive on Collective Investment Schemes;
- Directives on corporate governance for EAC market intermediaries;
- vi. Directive on licensing in the securities market;
- vii. Directive on regional listings in the securities market; and
- viii. Directive on admission to a secondary market.

At the same meeting, the C.E.Os' also approved the following Directives for exposure to stakeholders in the region:

- Directive on Central Securities
   Depositories;
- ii. Directive on Securities Exchanges;
- iii. Directive on Self-Regulatory



- Organizations;
- iv. Directive on conduct of business for market intermediaries;
- v. Directive on Corporate Governance for Listed Companies.

As part of the harmonization of the EAC securities legal framework, the SCFEA 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. CMA was represented at the CMIPC meeting by the Director Legal and Market Supervision, the Manager Market Supervision, the Legal Officer and the Research, Policy and Planning Officer.

# 4.2 39th East African Securities Regulatory Authorities (EASRA) Consultative Meeting, 4th -6th December 2013

CMA participated in the 39th EASRA Consultative Meetings in Karongi, Rwanda from 4th-6th December 2013. CMA-Uganda currently hosts the EASRA Secretariat and the CEO is also the current EASRA Chairperson.

During the meeting, EASRA launched a Strategic plan for the years 2014-2018. A key strategic objective in the plan is the enhancement of the harmonization process for securities laws within the region. This strategic objective will be pursued through initiatives that will facilitate: the establishment and operation of capital market intermediaries across the East African Community (EAC) capital markets; development, issuance and investment in capital markets products across the EAC region; the establishment and operation of capital market infrastructure providers across the EAC region; the convergence of market supervision practices; and advocacy for appropriate policies to promote capital markets integration within the region.

Other strategic objectives of the plan include: the development of institutional capacity for EASRA members; enhancement of public education and financial literacy in

the East African capital markets; building the capacity of EASRA members and market intermediaries; and forging of strategic alliances in furtherance of the regional integration agenda. The Regulators also launched a new look logo which reflects the aspiration to bring not only Africa but the rest of the world to East African capital markets. CMA was represented at the meeting by the outgoing C.E.O, the incoming C.E.O, the Director Legal and Market Supervision, the Director Research, Policy and Planning, the Market Supervision Manager and the Research, Policy and Planning Officer.

EASRA is a forum of East African capital markets regulators from Kenya, Tanzania, Rwanda and Uganda. The Bank of Burundi is also a member having joined 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.

## 4.3 Stakeholders Workshop on Capital Markets Infrastructure

The Consultant hired to guide the Technical Working Group (TWG) seeking to address various aspects on integration of the capital markets infrastructure within the EAC region held a workshop with stakeholders in Kampala on 18th November 2013. The objective of the workshop was to obtain views from stakeholders on the consultant's findings pertaining to: the level of awareness and capacity among key stakeholders in Uganda with regard to regional capital markets integration; factors affecting effective cross border trading; and the likely risks from the integration of regional capital markets.

The workshop was attended by participants drawn from among market intermediaries licensed by CMA. The views of the stakeholders were collated and will be incorporated into a final report that will form an integral part of source documents for the TWG in designing of regional capital markets integration infrastructure.



#### 5.0 INTERNATIONAL NEWS

## 5.1 The American Federal Reserve Bank Signals a Wind Down in Quantitative Easing

The American Federal Reserve Bank announced its intention to wind down the Quantitative Easing (QE) program characterized by the government purchasing bonds monthly. The monthly purchase of bonds has seen the US government inject liquidity into the economy to support the recovery process and stabilize unemployment which has remained at historical highs. The QE program has also provided support to financial markets not only in the US but also globally keeping interest rates at low levels. The news of the cut back came in the wake of better than expected economic and labour market data.

For economies such as Uganda's, the QE program has had a stabilizing effect that has kept interest rates down. Most Government securities issued in the second half of the year 2013 were oversubscribed due to the huge participation of off-shore investors while activity at the USE was buoyed by the international liquidity. Regionally, the government of Rwanda took advantage of the global liquidity to issue a Eurobond while, the Kenyan government is the process of issuing one. The tapering of the QE program is likely to trigger an increase in interest rates globally which could spill-over to regional economies.

#### 6.0 STAFF MATTERS

The Minister for Finance, Planning and Economic Development appointed Mr. Keith Kalyegira as the new Chief Executive Officer (C.E.O) replacing Mr. Japheth Katto at the helm after sixteen (16) years. Mr. Kalyegira has a wealth of experience spanning over

fifteen (15) years in investment management, financial oversight, and regulatory affairs garnered in the private and public sectors. Mr Kalyegira holds a Bachelor of Commerce Degree (Accounting Option) from Makerere University, a Masters' Degree in Business Administration from the University of Cape Town's Graduate School of Business and is a member of the Institute of Chartered Secretaries and Administrators.

At the same time, CMA bid farewell to Ms. Florence Nviiri (Director Finance) and Ms. Ann Muhangi (Manager-Communication and Investor education). Ms Nviiri had served diligently for 5 years while Ms Muhangi had served for a total of 11 years. CMA wishes them well in their future endeavours.

#### 7.0 OUTLOOK

CMA in partnership with the Institute of Chartered Secretaries and Administrators will be hosting the 3rd Annual Directors and Company Secretaries Conference in February 2014. The conference will focus on highlighting as well as improving corporate governance practices among Ugandan companies.





#### 8.0 CAPITAL MARKETS IN THE PRESS

#### The Government Advised to Tap into Capital Markets Resources

By Faridah Kulabako

The Daily Monitor, 5th, November 2013

The Government should consider capital markets as a channel for mobilizing funds for infrastructure development in the country, an investment expert has said. Speaking at the 11th KCMA dinner in Kampala, Mr. James Mworia, the Centum Investment Company chief executive officer, said that the global capital markets had excess liquidity seeking investment destinations that offered above average returns.

He urged the government to consider issuing infrastructure bonds and support high quality local private infrastructure projects to raise capital. "There is an opportunity for Uganda to raise at least US \$150 million per year in long-term debt capital through the bond market denominated in local currency to finance the construction of a 100MW power project each year," he said. He added that, "If this was done for 10 years, 1,000MW of power would be injected into the power grid, reducing the cost of power by eliminating the foreign currency adjustment component on power tariffs."

The advice came against a backdrop characterized by reduced concessional inflows into Africa from development partners owing to the economic slowdown occasioned by the financial crisis of 2008. The harsh conditions call for innovative alternatives of financing government programs with the capital markets being one such alternative.

In order to attract the private sector to raise funds from capital markets, Mr. Mworia opined that there was need to address challenges of low investor education and streamline regulations to minimize bottlenecks and ease the issuance process for infrastructure bonds.

In Uganda, most companies seek short-term finance from commercial banks to finance long term development projects which is an expensive option, yet businesses can access cheap long-term funds from capital markets. At the same time, applying short term finance for long term projects creates a mismatch between assets and liabilities.

#### **QUOTES**

"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets."

Peter Lynch (American business magnate and stock market investor).

#### **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 30th September 2013.

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	LICENCEE	ADDRESS
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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
3.	Pine Bridge Investment Co Ltd  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: nicholas.malaki@pinebridge.com Contact: Mr. Nicholas Malaki
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5.	ICEA Investment Services Ltd  Fund Management and Unit Trust Manager	Rwenzori Courts, P. O. Box 33953, Kampala Tel: +256-414-347535/+256-414-232337 E-mail: rkatabaire@icea.co.ug Contact: Mr. Robert Katabaire
6.	Genesis Kenya Investment Management Limited Fund Manager/ Investment Advisor	Regus Kampala, Course View Towers 21 Yusuf Lule Road (Old Kitante Road) Nakasero, Kampala P.O. Box 3502, Kampala, Uganda Tel: 0392 312 314 324/ 342818 E-mail: genesis@swiftkenya.com Contact: Mr. Ronald Kasolo
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8.	Crested Stocks and Securities Ltd  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

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9.	Dero Capital Ltd  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
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12.	Devere and Partners Ltd  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: helpdesk@devere-group.com
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