

ANNUAL REPORT

30 JUNE
2008



Capital Markets Authority
Protecting Your Investments



Vision

“To make Uganda’s capital market the centre of choice for capital raising and investment in the region”

Mission

“To regulate and promote a robust, transparent, fair and efficient capital market in Uganda”

Functions

Under the Capital Markets Authority (CMA) Act, the functions of CMA include the following:

- The development of all aspects of the capital markets with particular emphasis on the removal of impediments to, and the creation of incentives for longer –term investments in productive enterprises.
- The creation, maintenance and regulation, through implementation of a system in which the markets participants are self regulatory to the maximum practicable extent, and of a market in which securities can be issued and traded in an orderly, fair and efficient manner.
- The protection of investor interests.
- The operation of an investor compensation fund

Values

Integrity, Efficiency, Fairness, Firmness

Contents

Mission, Vision, Values	ii
Letter of Transmission	iv
Chairman's Statement	v
Chief Executive Officer's Report	vii
Effectively Manage and Regulate Capital Markets in Uganda	I
Developing the Capital Markets Industry in Uganda and the East African Region	5
Broaden the Understanding of Capital Markets and Leading to Increased Participation by Ugandans	9
Support Ugandan Companies List Successfully on the Uganda Securities Exchange	11
Develop the Authority to Enable it Fulfill and Deliver on its Mandate and Project a Positive Image as an International Standard Organization	12
Finance Report	21
Board Report And Financial Statements	
Directors and Professional Advisors	2
Report of the Directors	3
Statement of Directors' Responsibilities	4
Auditor General's Report	5
Income Statement	6
Balance Sheet	7
Statement of Fund Balance	8
Cash Flow Statement	9
Notes to the Financial Statements	10

Letter of Transmission

30th June 2008

The Honorable Minister of Finance, Planning and Economic Development
Ministry of Finance, Planning and Economic Development
Apollo Kaggwa Road
P. O. Box 8147
Kampala

Dear Honorable Minister,

Pursuant to S.8 (6) of the Capital Markets Authority Act (Cap. 84), I have the honor and pleasure to submit to you the Annual Report and Accounts of the Capital Markets Authority (CMA) in respect of the accounting period ending 30 June 2008.

This report covers the activities, challenges and future plans as well as the statements of accounts of the Capital Markets Authority.

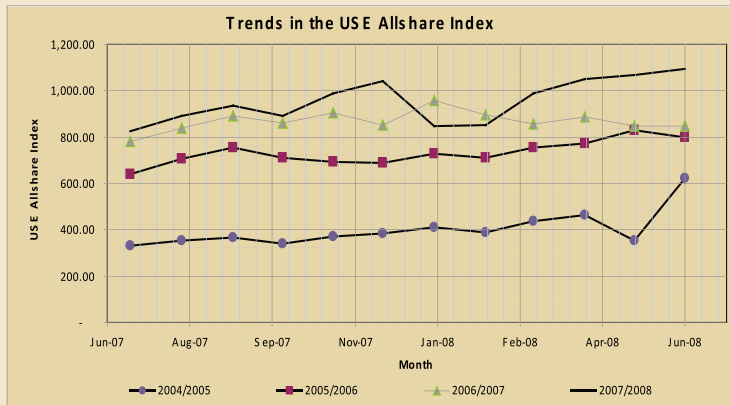
Respectively yours,

Mr. Twaha Kaawaase
CMA Board Chairman

Chairman's Statement

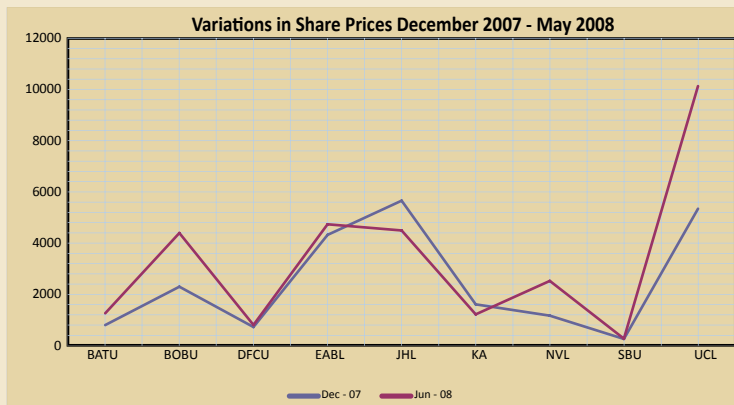
A variety of factors came into play throughout the 2007/2008 Financial Year. Although the record high crude oil prices translated into higher pump prices, the negative impact on commodity and transport prices in Uganda did not reflect in our domestic capital market. The solid macroeconomic fundamentals were reflected in a Gross Domestic Product growth of 9.8% compared to 7.9% in the previous financial year and inflation which rose by 5.3% to reach 11% in the year under review. The aftermath of neighboring Kenya's post election violence in January 2007 which exacerbated the fuel and commodity prices negatively impacted on the economy. This was majorly on account of Uganda being a landlocked country with great dependence on the northern corridor as the main gateway to the Mombasa seaport. However, neither the troubles of the sub prime crisis nor the unrest in Kenya reflected in our securities market performance. It is only towards the end of the financial year that Uganda began to experience the second round effects of the global financial crisis, mainly mirroring the effect the crisis was having on the Kenyan bourse. The tables below depict the influence of the Kenyan cross listed securities on the USE All Share Index which is a composite index including all listed equities.

Table 1:



Source: Uganda Securities Exchange Market Reports

Table 2:



Source: Uganda Securities Exchange Market Reports

In the period under review the market capitalization of the Uganda Securities Exchange rose to US\$6,654.8 Billion a 49% increase from the previous financial year. The Government Bond programme delivered 10 additional government bonds (8 new ones and 2 reopenings) bringing the outstanding government debt to

Ushs 1,242 billion. Similarly the corporate bond market grew with the addition of the Housing Finance Bank Bond. Local, regional and foreign individuals and institutional investors continued to seek higher returns and diversify their portfolio by participating in the various securities in our market. The confidence exuded in the market was against the backdrop of a B+ Sovereign Rating received from Fitch Rating Company and a B rating from Standard and Poor's. Uganda's 'B' rating is supported by a long track record of macroeconomic stability, characterized by strong growth and single digit inflation, coupled with external debt relief, which has significantly improved the dynamics of debt sustainability.

The overwhelming participation in the largest Initial Public Offer (IPO) in the history of the East Africa's capital markets was both evidence of this growing interest in the region, even though several challenges beleaguered the post IPO process. These issues provided the basis for the promulgation of regulations and guidelines to inform the handling of future regional IPO's. The Safaricom IPO increased portfolio investment in the market and brought to the forefront the increasing need for cooperation amongst the financial sector regulators. In this regard, CMA signed a Memorandum of Understanding with the Uganda Insurance Commission and the Bank of Uganda to foster cooperation and information sharing amongst the financial sector regulators. In the absence of a consolidated regulator, the need for this co-operation was also made clear by the emergence of super financial sector players offering multiple services in banking, fund management, insurance, investment advice and brokerage services. The soundness of the entire establishment as opposed to the subsidiaries or specific activities within the same financial institution cooperation amongst the financial sector regulators would aim to ensure.

In the same vein CMA lodged its application to the International Organization of Securities Commissions (IOSCO) to become signatories to the IOSCO Multilateral Memorandum of Understanding (MMoU). Tanzania and Kenya also submitted their applications. Becoming a signatory to the IOSCO MMoU will enable the information sharing with the other signatories from across the world as the global financial architecture continues to integrate.

Going forward, all international, regional and national efforts will be engaged to taper the effects of the global financial sector crisis in Uganda, and particularly on our capital market. The Authority will exercise and expect the highest form of assiduousness on all licensed market players as well as all products that are brought to the market. Correspondingly will employ and apply greater creativity in our efforts to deal with the various faces of the crisis.

On behalf of the members of the Board of Directors, I wish to express my appreciation for the continued support and guidance of the Ministry of Finance Planning and Economic Development and that of the Bank of Uganda. I thank our development partners, especially GTZ/Sida Financial Systems Development Program and the International Finance Corporation for their support during the year. I also thank my fellow Board members for steering the development of the market in the preceding three years. I especially thank the outgoing Board for their commitment and dedication to capital markets development during their time of service. Lastly, but by no means least, I thank management for their continued hard work and innovation for market development and investor protection.

Chief Executive Officer's Report

The growing interest in the Uganda's capital in the 2007/2008 financial year evidenced the deepening saturation of the developed and emerging markets and the quest for higher returns from less mature economies with growing capital markets. This trend was not unique to Uganda alone as or, many sub Saharan economies registered similar interests. In natural reaction to the growth in the industry, by way of increased trading volumes and funds under management, CMA received 10 applications for various licenses for investment advisory, broker/dealer and fund management licences. Four of these applications were from neighboring Kenya, while the rest were from Ugandan firms.

It is on the premise of increased participation in the markets by both investors and intermediaries as well as the sprit of regional integration and international co-operation that CMA has in the past signed Memoranda of Understanding (MOU) with different regulators from various jurisdictions. The guiding principle has been the regulators of foreign intermediary firms seeking to do securities business in Uganda. This is with the exception of the East Africa Community member states, which collectively fall under the ambit of the East African Community Treats. In the period under review, CMA signed an MOU with the Reserve Bank of Zimbabwe, which is the primary regulator of Renaissance Holdings Company in Zimbabwe. Renaissance Capital Ltd is licensed in Uganda as broker/dealer, investment advisor and fund manager. During the 3rd quarter of the year, the East African Securities Regulatory Authorities (EASRA) welcomed officials from the Capital Markets Advisory Council (CMAC) Rwanda who signed the EASRA MOU thereby becoming the fourth member. The MOU, provides a mechanism for fostering market integration of the East African Capital Markets and, like all others, establishes a basis for co-operation and mutual assistance amongst the signatories.

As the market continued to grow, CMA developed the legal and regulatory framework for a robust, fair and transparent market. CMA developed Anti Money Laundering Guidelines, which are intended to guide licenced persons in establishing and mantaining specific policies and procedures to guard against the use of capital markets for the purpose of money laundering. It is also meant to enhance staff training and awareness in Anti Money Laundering and Counter Financing of Terrorism. This was made possible through our participation in the East and Southern Africa Anti Money Laundering Group (ESAAMLG). The period under review also saw the approval of the Securities Central Depositories (SCD) Bill by Cabinet and progression to Parliament for enactment. Notwithstanding the above achievements the Authority was not without challenges. The cross border setbacks arising from the Safaricom Initial Public Offer are expounded later in the legal report.

Additionally on the investor protection front, CMA in partnership with the National Curriculum Development Centre completed the development of both students and teacher's material for the inclusion of capital markets studies in the Entrepreneurship subject. The subject will be taught to both Ordinary level and Advanced level students across the country and will inform the students in various aspects of finance and entrepreneurship. The GTZ/Sida Financial Systems Development Program also contracted Vantage Communications to develop a new 3 year public education strategy for CMA. The new strategy will expound the Authority's investor protection objective spelt out in the strategic plan. It will also emphasize market efficiency while at the same time respond to those communication issues and gaps identified in a survey. The Public Education strategy will also provide media plan as well as guidelines for monitoring and evaluation.

CMA spearheaded the establishment of a financial literacy foundation in Uganda (FinLit Foundation) as a concerted effort for all financial sector players. This was guided by the fact that the need for financial literacy has not been accorded particular attention in public, private, academic and community institutions. This has come from the recognition that well informed households contribute to soundness of the financial system and that an effective population is an informed population. More discerning households can drive greater innovation and determine greater efficiency in terms of lower fees and better quality services. This is so because greater financial literacy contributes to the mitigation of financial risks as individuals are able to seek information and do comparative shopping in the face of today's aggressive marketing by financial institutions.

Efforts were given to the drawing up of a Financial Markets Development Plan (FMDP). The mandate to develop the FMDP was derived from a decision of the Monetary Affairs Committee (MAC), which is comprised of East African Community central bank governors to develop a common framework that will enable consolidation of the country financial market development plans into an East African Community (EAC) plan. This will be detailed later in this report.

To enable the Authority fulfill and deliver on its mandate and project a positive image as an international standard setter CMA reviewed and updated the Human Resource Manual, and developed its Risk Management and Policy Manual. The Human Resource Manual that was drafted in July 2007 provides guidance on the terms and conditions of employment at CMA. The new manual takes into consideration the new labour laws and the changing factors that influence attraction, development and retention of manpower. In this regard CMA appointed a Human Resource and Administration Manager to oversee the human resource and capacity at the Authority. The Risk Management and Policy Manual sets out the ways in which CMA will modernize management practices to enable it be proactive and focused on regulating and developing the capital markets industry in Uganda. This will enable CMA to be better prepared to meet organizational and industry changing needs and priorities. The risk management policy will enable the Authority achieve balance between an increasingly complex public policy environment and a creative and innovative approach to work.

As the market continues to grow and integrate itself further into the regional and global financial architecture, CMA will dedicate its time and resources to build capacity at all levels. Building and strengthening the capacity for the staff and board members will be in tandem with the developments in the regional market. CMA with support from the International Finance Corporation will also institute a certification program to train market intermediaries, as well as officers and directors of listed companies and licensed firms. This is pertinent as the market realizes more cross border issues and in the wake of the financial sector crisis, that has identified the lack of understanding as one of its causes. On account of Uganda's fully liberalized capital account and open economy, the Authority will adjust its surveillance and supervision to pay particular attention to the transfer of risk from one party to another through creative securities instruments. Although the development and introduction of new products is encouraged, the global financial crisis has pointed to the need for capacity (human, financial, technical) and regulation to ensure that the financial institutions will have quality oversight on their clients. All financial sector regulators will need to cooperate to ensure the soundness of financial institutions through risk based supervision especially of those institutions whose subsidiaries could provide a conduit for risk. Due attention will also be paid to the media fraternity as they have emerged as a very important player in financial sector development.

On behalf of management and staff of the CMA, I thank the outgoing Board for their guidance and leadership for the last three years and welcome the new Board. I also thank all staff members at the Authority for their relentless dedication and exemplary effort in developing capital markets industry in Uganda and the region.

The rest of this Annual Report will describe the Authority's achievements against each of the strategic objectives identified in the current strategic plan.

Effectively Manage and Regulate Capital Markets in Uganda

The Capital Markets Authority Act, Cap. 84 (CMA Act), gives Capital Markets Authority (CMA) the mandate to create, maintain and regulate, Uganda's capital markets and ensure that securities are issued and traded in an orderly, fair and efficient manner. CMA's primary function is the protection of investors and this is expected to result in increased investor confidence in Uganda's capital markets.

During the 2007/2008 Financial Year, CMA exercised its statutory mandate and undertook a number of initiatives to enhance the legal and regulatory framework, supervise the market intermediaries to ensure that they conduct their business in accordance with the CMA and CIS Acts, and take enforcement action against intermediaries who breach the CMA and CIS Acts.

Legal Policy Development

Amendment of the CMA Act

CMA reviewed its legal and regulatory framework to improve it taking into account developments in the capital market in the ten years since the Capital Markets Authority Act (Cap. 84) was promulgated. This was also done to bring the legislation in line with international best practice. To this end, CMA developed the draft Capital Markets Authority (Amendment) Bill. The Amendment Bill seeks to repeal part IV of the Companies Act which deals with companies raising capital, and transfer the provisions to the CMA Act.

Amendment to the CMA (Prospectus Requirements) (Amendment) Regulations, No. 30 of 1999

During the period under review, CMA amended the CMA (Prospectus requirements) (Amendments) Regulations No. 30 of 1999 to provide for a fees structure to issuers of additional securities that have already been listed on the USE. The amendment prescribes the following application fees for additional issues:

Main Investment Market Segment:

0.1% of the market value of additional securities to be listed subject to a minimum of US\$ 2,000,000 and a maximum of US\$ 20,000,000.

Alternative Investment Market Segment:

0.1% of the market value of additional securities to be listed subject to a minimum of US\$ 1,000,000 and a maximum of US\$ 10,000,000.

Securities Central Depositories Act

The Securities Central Depositories (SCD) Bill was tabled on the floor of Parliament by the Minister of Finance, Planning and Economic Development on 8 May 2008. The Bill was then considered by the Finance, Planning and Economic Development Committee of Parliament, which discussed several key issues in the Bill and proposed a number of amendments to improve it. It is expected that the Securities Central Depositories Act will be enacted before the end of 2008.

The main aim of the SCD Act is to facilitate the establishment, operation and regulation of securities central depositories in the capital market and provide a framework for electronic trading. It is expected that the enactment of this legislation will result in quicker, more efficient transactions, and enhance cross-border

trade with the other East African countries, which have already established electronic trading platforms. In order to effectively regulate the market, CMA, with funding from the Government of Uganda, will procure a Surveillance System for the SCD. The Surveillance System will aid the regulator in providing oversight to back office operations and electronic trading when it commences at the Exchange.

IOSCO MMoU Application

The International Organization of Securities Commissions Multilateral Memorandum of Understanding (IOSCO MMOU) concerning consultation, cooperation and the exchange of information was formulated to facilitate the exchange of information and foster mutual assistance in investigating possible securities violation among members of IOSCO. CMA, as a member of IOSCO recognises the fact that becoming a signatory of the IOSCO MMoU will greatly enhance its ability to supervise the cross-border activities of market intermediaries and give and receive assistance in investigation and enforcement.

Management completed an application to become signatories to the IOSCO MMoU and conducted a peer-review of the application with the other regulators from the East African Securities Regulatory Authorities (EASRA). The IOSCO MMoU Application was approved by the Board on 27 August 2007 and thereafter submitted to IOSCO.

Pension Sector Reform

The Government of Uganda commenced the process of reforming Uganda's pension sector. CMA has actively participated in the process which is underway. It is expected that the reform process will result in the establishment of a pension sector regulator, and the development of the legal and regulatory framework for the pension sector.

Licensing and Approvals

Market Intermediary Licences Granted

During the year under review, CMA granted the following licences

1. Fidelity Capital Management Limited was granted a Broker/Dealer and Investment Adviser License, which, subject to it becoming a member of the USE, authorizes it to purchase and sell securities on its own behalf or on behalf of its clients.
2. Deloitte Uganda Limited was granted an Investment Adviser licence parts (a) and (b), which authorises it to give investment advice, issue or promulgate analyses or reports concerning securities.
3. Insurance Company of East Africa (ICEA) Investment Services Uganda Limited was granted an Investment Adviser licence parts (a), (b) and (c) which authorises it to conduct the business of a Fund Manager in addition to providing investment advice, issue or promulgate analyses or reports concerning securities.

Approval of Securities Issues

During the period in issue, CMA approved the following issues;

Bond issue by Housing Finance Bank Limited (HFB)

CMA approved the issue of a US\$ 30 Billion Corporate Bond by HFB. The bond would be issued in tranches of varying amounts over a period of 12 months. The first tranche of US\$ 6 Billion was listed on the USE on 17 January 2008. The proceeds of each issue will be used to fund the development of HFB's mortgage business.

HFB is a public limited liability company which was incorporated in 1967 as Housing Finance Company

Limited. The company then changed its name to Housing Finance Bank Limited and on November 26, 2007 was granted a licence by Bank of Uganda to operate a commercial bank.

Uganda Clays Limited (UCL) Rights Issue

CMA approved a rights issue by UCL, which sought to raise US\$ 10.6 Billion. The rights issue which was concluded on 24 May 2008 was oversubscribed by 10% and was an indication of investor confidence in the market. Uganda Clays Ltd used the proceeds for the construction of a new kiln in Kamonkoli, Eastern Uganda, to meet its growing demand for building material in Uganda, the East Africa region and Southern Sudan.

New Vision Printing and Publishing Company Limited (NVPPCL) Rights Issue

CMA approved the application by NVPPCL to raise US\$ 28.05 Billion through a rights issue. NVPPCL would use the proceeds of the rights issue for expansion of its operations. The rights issue was oversubscribed by US\$ 1 billion.

Supervision

Licencee Inspections

CMA conducted its annual inspection of licensed persons in March 2008 prior to the process of renewal of the intermediaries' licenses. Pursuant to sections 31 and 33 of the CMA Act, licencees were required to apply for representative licences for staff members who conducted the business for which the intermediary was licensed. This has now been effected.

Licencee Workshop

CMA organized a licencee workshop on 3rd August 2007 to discuss compliance issues that had arisen during the year. CMA also provided training to participants on anti money laundering and financing of terrorism in capital markets. The workshop was intended to improve communication between CMA and the licencees and provide a forum for both parties to discuss matters relating to the capital markets in Uganda. The participants had an opportunity to discuss the developments in the legal and regulatory framework of Uganda's capital market and the parties' expectations under that framework. Emphasis was placed on training and skills development for intermediaries, development of a compliance culture, and the development of licencee associations to pursue the licencee interests. It was noted that the Broker Dealers had established the Association of Uganda Securities Broker Dealers for this purpose.

Enforcement

Safaricom Initial Public Offer (IPO) Refund Delays

The Safaricom IPO, which was conducted in Kenya closed on 23 April 2008 and attracted a lot of participation from investors in the region. At a value of US\$ 300 million, this was largest offer in the history of East Africa.

The Safaricom IPO was concluded on 4 June 2008 and was four times oversubscribed at 363% with applications for shares valued at US\$ 120 Billion from 5,981 Ugandan investors. As a result of the oversubscription, applicants were only allotted 21% of the shares they applied for. This led to unprecedented administrative challenges. To compound this, exchange rate fluctuations caused many Ugandan investors to suffer foreign exchange losses from their refunds. Furthermore delays in processing refunds by brokers and a Central Bank of Kenya decision not to honour any third party cheques caused more losses. CMA Uganda, together with CMA Kenya, which was the parent regulator of the Safaricom issue, conducted an investigation and required the brokers to expedite the refund process and make weekly progress reports to CMA. The brokers were also required to issue press statements informing their clients of the steps they were taking to expedite the

refund process. This enabled CMA track the progress with the refund process.

It should be noted that during the IPO period CMA issued a regulatory notice to its licencees requiring that they advise their clients of the risks involved in investing in Safaricom to ensure that their investment could be suitable in accordance with the Capital Markets Conduct of Business Regulation.

Going forward management is proposing a review of the legal and regulatory framework to provide for greater oversight of the refund process for the protection of investors. This will include enhanced disclosure of allotment policies and formulae by issuers. Mechanisms will also be established to allow retail investors pay for shares only after the allotment has been done. This will curb exchange rate losses as only funds for allotted shares will be remitted to the issuers receiving bank. Further proposals for legislative reform include making provisions for the deposit of interest income accrued during the IPO period by receiving banks into the Investor Compensation Fund.

Lawsuit filed against CMA by Kampala City Council Football Club Ltd

Following the dismissal of an application for leave to apply for judicial review, Kampala City Council Football Club Limited filed a lawsuit against CMA in the Commercial Court seeking a declaration that CMA did not have the jurisdiction to intervene in an offer of securities which it sought to conduct in April 2007 without CMA approval.

The matter was referred for mediation on August 1, 2007, but the parties were unable to resolve the disputed and elected to proceed with the suit. Both parties then called witnesses and adduced evidence to support their respective claims. The parties closed their cases on 10 June 2008 and prepared written submissions which were delivered to the court. The parties are awaiting judgement, which will be on notice.

Uganda Securities Exchange (USE) Suspension of Crane Financial Services Limited (CFS)

In April 2008 USE took disciplinary action against CFS (who are licensed as broker/dealer and investment advisor) for wrongfully charging commissions, and misreporting the prices of securities traded on behalf of its client, National Social Security Fund (NSSF). USE required CFS to refund the wrongfully charged commissions and proceeds from wrongfully declared prices. USE also required CFS to forfeit to the USE all commissions earned on the transaction, and was suspended from the trading floor for six weeks with effect from 17 April 2008.

In June 2008, Crane Financial Services appealed to CMA against the decision stating that it was ultra vires the USE Rules and was made with prejudice. However, on 25 June 2008, before CMA could finalize its consideration of the appeal, CFS gave notice of its acceptance of the USE's decision and withdrew its appeal.

Outlook

In the next financial year the legal and compliance department will focus on improving the legal and regulatory regime to ensure that the market is orderly, fair and efficient and investors are protected. This will include the following;

- i. Developing and enacting regulations for the implementation of the SCD Act.
- ii. Conducting an assessment of all capital markets related laws taking into account developments in the market and international best practice
- iii. Devising a mechanism for greater surveillance of licencees and enforcement for breach of the law.

Developing the Capital Markets Industry in Uganda and the East African Region

In the 2007/08 financial year the Capital Markets Authority (CMA) embarked on a number of initiatives geared towards the development of capital markets on both the domestic and regional fronts.

Domestic Initiatives

Financial Markets Development Plan

CMA actively participated in developing the 5-Year Financial Markets Development Plan, an initiative led by Bank of Uganda. A multi-sectoral Financial Markets Development Committee (FMDC) comprising of five sub-committees with various players from the financial sector spearheaded the process of developing the plan. The plan identifies five strategic goals against which the Terms of Reference of 5 sub committee were developed. These are outlined below;

- i. Promoting market depth, breadth and competitive liquid markets
- ii. Capacity building and infrastructure development
- iii. Regionally integrated capital markets that support economic growth
- iv. A growing investor base
- v. A well informed and vibrant financial market

Similar plans are to be developed across the region. The consolidated East African plan will then further be discussed by the Monetary Affairs Committee (MAC) to agree on various issues and to map a way forward for EAC financial markets integration. The implementation of the regional FMDP will be a major milestone towards attaining a monetary union and a single currency in the East African region.

Regional Initiatives

Great inroads were made on the regional integration front through the East African Securities Regulatory Authorities (EASRA) and the East African Capital Markets Development Committee (CMDC).

I. East African Securities Regulatory Authorities (EASRA)

In the period under review two EASRA meetings were held in September 2007 in Nairobi, Kenya and in March 2008 in Kampala, Uganda. At these meetings the securities regulators continued to work towards a harmonized securities regulatory framework in East Africa that would foster capital markets integration. As already mentioned earlier, the Capital Markets Advisory Council (CMAC) Rwanda signed the EASRA Memorandum of Understanding thereby becoming the fourth member of EASRA at the Kampala meeting. The entry of Rwanda into EASRA increases the size of East African capital markets thereby enhancing East Africa's profile as a securities investment destination.

At the same meetings the securities regulators also agreed to work together to review their laws and regulations so as to comply with the International Organization of Securities Commissions (IOSCO) thirty (30) objectives and principles of securities regulation. Funding and technical assistance were sought from FIRST Initiative as well as the Commonwealth Secretariat.

The process of submitting the application to become signatories to the IOSCO MMoU helped identify various gaps and weaknesses in the respective laws and regulatory frameworks of the member states. This would therefore necessitate amendments being made to the respective legal and regulatory frameworks. In order to avoid piece-meal amendments to the legal and regulatory frameworks and ensure a comprehensive review of the regulatory framework, EASRA decided that the assessment for all 30 IOSCO Principles be undertaken before Amendments to the legal framework could be sought in the different jurisdictions.

During the period under review, the EASRA sub-committee on disclosure, financial and accounting standards also looked at a wide range of issues regarding the disclosure and eligibility requirements for the East African Fixed Income Securities Market Segment (FISMS) as well as the reporting requirements of Collective Investment Schemes (CIS) in the East African region. This was aimed at enhancing the regulatory environment of the Collective Investment Schemes and FISMS in the East African region with the overall objective of investor protection. On the disclosure and eligibility requirements for the FISMS for bank and insurance companies EASRA agreed as follows;

- i. The member countries introducing a credit rating requirement for corporate and municipal bonds and issuers of securities that are issued to the public
- ii. Subject to the recommendation above, amendments to the corporate bond guidelines should exclude financial ratios
- iii. Other financial requirements such as net assets and capital requirements should be maintained
- iv. Uniform bond issuance and listing requirements applicable to all sectors including banking and insurance

Regarding reporting requirements of CIS – Fund Manager, Trustee and Custodian EASRA agreed that

- i. Publication of abridged financial statements in a national daily not later than three calendar months from the accounting year end.
- ii. Information to accompany annual accounts should include a statements showing
 - a. Total interests of all directors, executive officers, managers, or investment advisors of the CIS in the CIS or any subsidiary security. This is to curb unfair advantage by any of the persons in terms of entitlement to distributions to voting rights
 - b. Details of any interest, that any director or associate of a director has in any entity which receives fees or other compensation from the CIS
 - c. Details of any right, either contingent or otherwise, to subscribe for securities of the CIS granted to any directors, executive officers, managers or investment advisors, and of the exercise of any such right, or if there is no such interest, or no such right, that has been exercised or granted, a statement of that fact.
- iii. That the auditor, in addition to normal reporting, should report any irregularities or undesirable practice in the conduct of business of the company or any scheme managed by it, to the manager. This should be rectified within one month after which the auditor is to report to the regulatory authority
- iv. That annual or semi annual reports in respect of CIS activities filed with the regulator should be made freely available to investors and include a statement concerning any units that have been redeemed or repurchased in the relevant period
- v. Require reporting of funds under management by fund managers

EASRA's Market Development Sub Committee discussed the establishment of an EASRA website and agreed that each jurisdiction would dedicate a webpage in their website that contains standardized EASRA information, instead of having a fully fledged EASRA website. The committee also discussed various market development proposals made to the annual pre budget meetings as well as the various consultancies under the Efficient Securities Markets Institutional Development (ESMID) initiative. This is also detailed below.

2. Capital Markets Development Committee and the Pre-budget meetings

At the Capital Markets Development Committee meetings in Arusha, Tanzania, and the Pre-budget meeting in the third and fourth quarters of the Financial Year, the three East African Securities Regulators, stock exchanges, and representatives from the insurance and pension sectors continued to jointly lobby for incentives and better policies towards the development of the capital markets and the non-banking financial sector in the East African region.

One of the outstanding achievements from their lobbying efforts has been the according of East African investors the domestic investor status for all Initial Public Offers. The status enables all citizens of the EAC partner states to be treated as local investors and pay a withholding tax at a rate of 5% in Kenya, and 10% in Uganda. Additionally in Kenya, all participating East Africans enjoy a 40% proportion that is reserved for allocation of all positions. The other achievement from these lobbying efforts has been the granting of a tax exemption on stamp duty for Asset-Backed Securities by the Ugandan government. Asset-Backed securities will play a very fundamental role in infrastructure financing especially in providing long-term funding for housing mortgages through the issuance of Mortgage Backed Securities.

3. Efficient Securities Markets Institutional Development (ESMID)

CMA working with her counterparts in the East African region signed a Memorandum of Understanding (MOU) with the Efficient Securities Markets Institutional Development (ESMID) Initiative to further the development of capital markets in the East African region.

The ESMID initiative brings together the Swedish International Development Cooperation Agency (Sida), International Finance Corporation (IFC) and the World Bank to develop well functioning securities markets in Africa. In East Africa ESMID is working with central banks, securities regulators, stock exchanges and other stakeholders to:

- i. Simplify regulations and procedures for issuing and trading bonds,
- ii. Establish an appropriate market structure,
- iii. Strengthen secondary markets for bonds
- iv. Build capacity of market participants
- v. Facilitate the regionalization of the markets

The ESMID initiative has a four pronged approach to assisting the East African markets encapsulated in four consultancies that were conducted simultaneously;

The Legal & Regulatory Assistance Project which seeks to address the main obstacles of bond issuance in the laws and regulations, market structure and also rationalize the high issuance costs. The project will assist in the establishment of a framework to support the issuance of new products such as Asset Backed Securities in East Africa. The consultants working on this project held a number of meetings and consultations with various stakeholders in the region. A half-day high level stakeholders' workshop on Asset Backed Securities was held in June 2008 in Kampala, Uganda. The workshop primarily focused on how Asset Backed Securities can be used to finance long-term projects in Uganda like housing, roads, and power plants and how public and private institutions can effectively and efficiently issue Asset Backed Securities. It also tackled cross-cutting issues pertinent to asset backed securities like taxation and regulatory requirements. The consultants working on this project will release the final report on the recommended legal and regulatory framework for the bond markets by the end of 2008.

The Strengthening of the Secondary Markets Project which aims at assisting the market participants to introduce measures to improve liquidity in the bond secondary markets through the establishment of an appropriate market structure. The Advisory Team of NASDAQ OMX was contracted to execute this

project. The team held meetings with various market players in the region and also conducted a half-day seminar of market participants and operators in the market, to better understand the function and current bond-trading model. The seminar and meetings discussed corporate alternatives for bond trading, clearing and settlement. The teams discussed Over-the-Counter Trading Vs exchange trading, pre and post trade transparency, and the role of the different stakeholders in the bond market. They also presented a clearing and settlement model.

The Training & Certification Project aims at improving the skills and level of professionalism among the market participants in the East African region. This project has two components; one aimed at introducing formal certification procedures for market players and the second aimed at providing specific and directed training on bonds and other securities to issuers, investors and intermediaries. The training modules of the different courses have already been developed and the consultant will hold training for trainers' sessions to transfer their skills to the local trainers who will be conducting the training. The consultant will also conduct some training sessions using the developed course materials to test their effectiveness and obtain feedback from the stakeholders in the capital markets industry.

The Regionalization Project aims at assisting the stakeholders in the East African capital markets develop an appropriate road-map for the implementation of a regional capital market. This project is being executed by Cadogan Consultants and Partners who also held a number of meetings with various market players in the region on various aspects of the regional integration of capital markets. They presented their preliminary findings and recommendations at a workshop in Kampala, Uganda which was attended by officials from the region's stock exchanges, securities regulators, as well as the East African Community Secretariat and the World Bank.

Amongst other things, the consultants recommended that the markets have common standards by activity and not by function in the licensing of market players. With regard to cross-border licensees, they proposed that the 'home' regulator focuses on prudential regulation of the entity while the 'host' regulator focuses on conduct of business. They also proposed a single point of access on trading platforms for both corporate bonds as well as equities in the region and a multi-currency settlement and payment system that supports cross-border trade. They were also of the view that an EAC investor compensation scheme should be established.

International Relations

In the period under review CMA also attended the meetings of the Committee on Insurance Securities and Non-Bank Financial Institutions (CISNA) of the South African Development Cooperation (SADC) as observers. Attending these meetings has enabled CMA to establish links and cooperation with the securities regulators in the South African region. In November 2007 CMA signed an MOU with the Reserve Bank of Zimbabwe (RBZ) at a CISNA meeting. The MOU with RBZ brings to 6 the MOUs CMA has so far signed with regulators in other jurisdictions. These are Nigeria, South Africa, Zambia, Swaziland and Mauritius. Affiliation to CISNA has also garnered training for financial sector supervisors in Uganda and Kenya through FIRST Initiative which will provide this training to SADC non-bank regulators.

Future Outlook

CMA as a matter of policy will continue to forge relationships with securities regulators in other jurisdictions through EASRA, IOSCO and other fora s so as to tap into the synergies that exist between the different securities markets. Regional and International cooperation also enhances the capacity of CMA to address regulatory challenges that come with a globalised market.

Broaden the Understanding of Capital Markets and Lead to Increased Participation By Ugandans

Making effective financial decisions and knowing how to manage investments are skills critical to enjoying a secure financial future. Yet many individuals lack the knowledge necessary to make sound financial choices, as evidenced by falling savings rates, mounting consumer debt, and a growing dependence on banking institutions. These indicators suggest that access to financial literacy programmes is a pressing need in our society, especially for groups such as youth and families transitioning from welfare to self sufficiency.

This report presents key principles and operations of financial literacy programs conducted by the Authority in the period under review. It covers the approaches to providing public education for purposes of broadening the understanding of capital markets amongst targeted groups in a bid to increase participation on the market.

Broaden The Understanding of Capital Markets

Over the last two decades, changes in our public education have been enhanced by new strategies that have brought the issue of investor education to the forefront. Further, changes/needs in investor information have shifted greater responsibility to CMA and demanded for aggressive promotion of investor protection messages.

This has seen a wide variety of programs and information offered to the public to address issues of procedures of investing in capital markets, role of market players and listed companies and how the to protect one's investments. The programmes are focused to two main categories of people namely the youth (17 – 25) who are the future investors and professionals (27 – 40). The key ingredient to increasing participation in the capital markets industry. Some of the programmes that were implemented in this financial year include:

- Secondary Schools Challenge
- University Challenge
- Seminars for schools and universities
- Office to Office campaigns
- Exhibitions
- Production of educational material

In addition to these activities CMA hosted 3 officials from the corporate communications department of CMA Kenya. The three officials were on a one week attachment to have a hands on experience of CMA (U) public education activities particularly those targeting the youth i.e. the University and Schools Challenge. During their stay, they visited the Capital Markets Investment Club in Makerere University Business School, which was formed during the 2007 University Challenge. CMA Uganda staff also engaged them in discussions on the nature, costs, strengths and challenges of the various education programmes, and how they can be applied to Kenya and to East Africa as a whole. Following their visit, the Rwanda and Tanzanian securities regulatory Authorities also have expressed interest in holding East African regional school and university challenges. The success of CMA's education programmes, particularly among the youth, has generated a lot of interest among the regional and international financial sector regulators, who have sought to learn from Uganda's experience.

The programmes are guided by four strategic areas of focus:

- 1) Educate to promote public awareness of the investment opportunities in the capital market's industry including education on decision making processes and operating mechanisms involved.
- 2) Advocate for market growth through policy reforms to provide for efficient market's operation.
- 3) Communicate to build confidence in the market by disseminating messages on risks, investor rights, roles and responsibilities in the market.
- 4) Promoting capital markets to increase the numbers of products on the market and increase participation on the market through educating private sector companies to look at the market options for raising capital and project financing and encouraging the public to invest in the available products.

In consideration of the nature of activities, the print and electronic media has been an ally and has been leveraged in order to get messages across to the target groups and achieve the desired behavior.

The ultimate goal of the programmes is to provide participants with the skills needed to effectively tackle investment matters and make positive financial choices as regards to capital markets. In this regard, the Authority's Public Education and Communication Strategy will guide exchange and dissemination of information in order to achieve the following key objectives;

- Establish strategic ways of promoting capital markets,
- Develop effective means of sensitizing and educating the public,
- Establish a two-way information management system between CMA and its stakeholders
- Set up avenues that CMA will use to enhance its public relations and corporate image,
- Create means of interacting with the media and how to relay educational messages through the media

Challenges

Monitoring and evaluation has been difficult in terms of benchmarking and tracking the communication programs, collecting feedback, and consultation reports and post-campaign evaluation of the outcomes. The next financial year, CMA will focus on getting quantitative measurement based on targets set in the programmes objectives; process monitoring to cover mainly deliverables in terms of output as per the agreed schedule of activities. The second area of evaluation will cover qualitative measurement looking at the quality of the activities covering the level of participation in the approved activities, the level of awareness and the change in behavior desired. The evaluation will be carried out periodically to ensure that timely adjustments are made to the programmes.

Conclusion

In the next financial year, the Authority will focus its programmes to improve investors understanding of financial products and concepts through the dissemination of information using appropriate modes and channels. There will be more spotlight on developing the skills and confidence of investors to become more aware of financial risks and opportunities to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.

Support Ugandan Companies List Successfully on the Uganda Securities Exchange

CMA commissioned a study in May 2008 geared towards understanding the bottlenecks to private sector access to long-term financing in Uganda's capital markets. This study is a follow-up of two studies commissioned by the GTZ/Sida Financial Systems Development Programme on "Private Sector Opinions on Listing" and the "Statistical Profile of the Securities' Markets" in 1999 and 2002 respectively. The raw data was collected and analyzed by UMACIS consulting and the report was written by CMA staff.

The major objectives of the study were:

- i. To establish the level of awareness and perceptions about capital markets in the private sector and among key stakeholders in both the private and public sectors.
- ii. To establish the appropriateness of the capital markets legal and regulatory framework to Uganda's private sector.
- iii. To identify the impediments to private sector access to capital markets in Uganda and the possible solutions to address them.

The final report of the study findings will be published and disseminated to the various stakeholders in the capital markets industry and the general public at the annual CMA end of year seminar in November 2008. The recommendations of this report will guide the Authority in developing policies to improve the current framework for raising either debt or equity through Uganda's capital market.

Future Outlook

In the next financial year CMA will step up its efforts of reaching out to private sector companies encouraging them to explore the vast financing opportunities available in Uganda's capital markets. CMA's 5-Year corporate strategy and 3-Year Public Education Strategy will provide strategic direction. Much as the Government's privatization programme has tremendously contributed to the development of Uganda's capital markets, private companies raising capital through the capital markets is the only sure way of sustainable development of the securities market and the growth of the industry.

Develop The Authority To Enable It Fulfill And Deliver On Its Mandate And Project A Positive Image As An International Standard Organization

The Authority is composed of a Board of Directors as the policy making organ and 24 members of staff. These include support and professional staff, who effect implementation of policy at various levels. For effective and efficient realization of the Authority's mandate, the Authority is divided into five (5) departments through which members of staff make their contribution towards achievement of the Authority's overall mandate. The current staff structure is included at the end of this report. This mandate constitutes regulating and promoting a robust, transparent, fair and efficient capital market in Uganda. Consequently, the Authority attaches high importance to the quality and development of its human resource which is the most important factor of production in the achievement of its strategic plans. These have been established to guide the Authority in attaining its objectives and enable the Authority continuously improve its capacity to further capital markets development in Uganda. Each of the initiatives that have enabled us achieve this objectives are expounded below;

Strategic Initiatives

- (a) *Continuous improvement of human resource to exhibit high caliber, versatile skills, resilience and knowledge of capital markets trends, developments and practices both nationally and internationally through capacity building training, exposure and staff development;*

The Authority recognizes the need for staff development and the need to keep in sync with the dynamic market practices and trends. Accordingly, the Authority sponsored staff for exposure study tours to developed capital markets across the world. Some of the significant study tours/exposure/attachment programs include the United States of America Securities & Exchange Commission International Institute for Securities Market Development, Toronto Leadership Center Supervisor's Training, Annual Financial Services Authority (UK) Financial Sector Regulators Seminar, Emerging Markets Programme in Malaysia and Board exposure to the Malaysia Securities Market. It is on the basis of the learning from such study tours, trainings & staff attachments that the Authority is able to bench mark itself against best practice and take better informed steps towards capital markets development in Uganda. This has positively impacted on the performance of staff as individuals and enhanced capital markets development as a whole, in the financial year 2007/8.

- (b) *Develop and integrate a modern Management Information System (MIS) that enables the Authority to deliver timely and accurate information;*

The Authority has continued to utilize the Pastel Accounting Software for effective financial management and delivery of timely and accurate financial analysis. For better management of its Resource Center, the Authority acquired CDS/ISIS (for Windows) which enables the management of its library database. The Resource Center is open to the public and has enabled the furtherance of financial literacy to all who use it. The Authority will continue to work towards development and integration of modern MIS with a view to improving our efficiency and effectiveness.

- (c) *Build institutional capacity to take up other mandates*

At the time the strategic plan was being developed, a study on the possibility of having a non bank financial institutions regulator proposed that Capital Markets Authority's mandate be expanded to oversee the pension funds reform and regulation. However, it appears that the Ministry of Finance, Planning & Economic Development prefers a separate regulator to be formed to regulate the pensions industry in Uganda. Nevertheless CMA has continued to be actively involved in the consultations on pension reform and regulation.

- (d) *Ensure corporate governance is emphasized throughout the management structures of the Authority (board evaluation committee, risk management strategy, internal audit, code of conduct)*

CMA is committed to the highest level of corporate governance and voluntarily obliges with the Capital Markets corporate governance guidelines 2003 and best practice where applicable.

CMA is governed by a unitary board comprising a chairperson and representatives from the private and public sectors. Six members are ex-officio, by virtue of their public offices while the other six members represent private sector interests such as lawyers and accountants. The Board is appointed by the Minister of Finance, Planning and Economic Development and is accountable to the Minister of Finance Planning and Economic Development for ensuring compliance with the CMA Act (Cap 84). The Board members have experience and expertise in legal, financial, business and administrative matters. Upon joining the Board, new members receive an induction and industry study tour organized by the Authority. With the exception of the Chief Executive Officer, all members of the Board are Non Executive Directors. Day to day operations of the Authority are performed by the management team led by the Chief Executive Officer. In order to ensure that balance of power is maintained and that there are adequate checks and balances, there is a clear separation of the roles and responsibilities of the Chairperson and the Chief Executive Officer. During the year, there was one main change to the composition of the Board. Mr. Christopher Kigenyi, Executive Director, Bank of Africa was appointed as the representative of the Uganda Bankers Association by the Minister of Finance, Planning and Economic Development in March 2008, replacing Mr. Kitili Mbathi, then Managing Director, Stanbic Bank (U) Ltd, who resigned from the Board.

The Board's functions, include reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring corporate performance; and overseeing major capital expenditures. The Legal & Compliance Department of CMA performs the duties of Secretary to the Board and is responsible for proper administration of the Board proceedings, and for the provision of administrative / secretarial services and legal advice to the Board. The Board members adhere to the standard of conduct expected of them and prescribed in the Board Manual. Instances of conflict of interest are addressed through disclosure. A declaration of the interest is required under the Conflict of Interest Guidelines which apply to both Board and Staff.

Remuneration of the Board

The members of the Board are entitled to remuneration and allowances out of the General Fund of the Authority, as determined by the Minister of Finance Planning and Economic Development. In practice, these allowances and remuneration have comprised a retainer fee and a sitting allowance, payable by at the end of each month net of income tax. Board members are also entitled to subsistence allowances for official travels. Table A and B below details the allowances.

A: Allowances relating to meetings

	Monthly Retainer	Sitting allowance
Chairman	UShs 150,000	UShs 150,000
Members	UShs 100,000	UShs 125,000

B: Allowances relating to travel

	Day allowance for travel within Uganda (Day only)	Subsistence allowance for travel within Uganda (Overnight Stay)	Subsistence allowance for travel outside Uganda
Chairman	UShs 100,000 per day	UShs 150,000 per night	\$330 per day
Members	UShs 75,000 per day	UShs 125,000 per night	\$270 per day

The Board of Directors (as at 30th June 2008)

During the period under review, the Board was composed as follows;



Mr. Twaha Kaawaase

Mr. Kaawaase is a partner in one of the leading local accountancy firms, Sejjaaka, Kaawaase & Co, Certified Public Accountants. He is a Fellow of the Association of Chartered Certified Accountants (FCCA) and a member of the Institute of Certified Public Accountants of Uganda (ICPAU). He is a senior lecturer to post graduate students at Makerere University Business School. Before he joined the accountancy practice, he held senior positions in the insurance industry. He also sits on various Boards including Civil Aviation Authority and National Planning Authority



Mr. Billy Kainamura

Mr. Kainamura is an advocate and Acting Solicitor General.



Mr. Bisereko Kyomuhendo

Mr. Kyomuhendo is an advocate and Acting Registrar General and Registrar of Companies in the Ministry of Justice & Constitutional Affairs.



Ms. Anne Margaret Idro Canowira

Ms. Canowira is the Senior Manager Private Sector (Marketing) with the National Insurance Corporation. Ms. Canowira is a member of the Chartered Institute of Insurance in London. She represented the Insurance Institute on the Board.



Mr. Robert Kabonero

Mr. Kabonero is a business entrepreneur and Managing Director of Audley Limited. He pioneered a number of business ventures in telecommunications and Information Technology sectors. He represents the Uganda National Chamber of Commerce and Industry on the Board



Ms. Sarah Walusimbi

Ms. Sarah Walusimbi is an advocate and Director with Nice House of Plastics Limited and Company Secretary for Uganda Batteries and Jesa Dairy Farm Limited. She represented the Uganda Manufacturer's Association on the Board.



Dr. Alan Senkatuka Shonubi

Dr. Shonubi is an advocate and Partner of M/S Shonubi, Musoke & Co. Advocates. He represents the Uganda Law Society on the Board.



Mr. Wasswa Kajubi

Mr. Kajubi is a banker by profession, and is Director, Trade and External Debt Department, Bank of Uganda. He represented the Central Bank Governor on the Board.



Ms. Maris Wanyera

Ms. Wanyera is the Acting Commissioner, Macro Economic Policy Department, Ministry of Finance, Planning and Economic Development. She represents the Permanent Secretary/Secretary to the Treasury at the Ministry of Finance.



Mr. Christopher Kigenyi

Mr. Kigenyi is a Banker by Profession and the Executive Director, Bank of Africa. He represented the Uganda Banker's Association on the Board.



Mr. John C. Mpalampa

Mr. Mpalampa is an accountant by Profession and a Partner of M/S Carr Stanyer Sims & Co. Certified Public Accountants. He represents the Institute of Certified Public Accountants of Uganda on the Board



Mr. Japheth Katto

Mr. Katto is an Accountant by Profession. He is a Fellow of the Association of Chartered Accountants (FCCA) and a member of the Institute of Certified Public Accountants of Uganda. He also is a Board member of the International Federation of Accountants (IFAC). Mr. Katto is the CMA's Chief Executive Officer.

Board Meetings

The Capital Markets Authority Act (Cap 84) requires the Board to hold meetings at least once every month. In keeping with this provision, the Board convened meetings once every month, with the exception of an extra ordinary meeting that was held on 18th June 2008 to discuss the corporate strategy and the three year business plan of the Authority.

In this regard, there were thirteen meetings of the Board held during the period July 2007- June 2008. A record of attendance of each member during the period under review is reflected in table C below.

Table C – CMA Board Members’ Meeting Attendance (July 2007- June 2008)

Board Member	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May	June	*June	Total
Twaha Kaawaase	√	√	√	√	√	√	√	√	√	√	√	√	√	13/13
Christopher Kigenyi	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	√	X	X	X	1/4
Yoweri Wasswa Kajubi	X	X	√	√	√	√	√	X	√	X	√	√	X	8/13
Billy Kainamura	√	√	√	√	X	√	X	X	√	X	√	X	X	7/13
Maris Wanyera	√	X	X	X	√	√	X	√	X	√	√	X	√	7/13
Bisereko Kyomuhendo	X	X	X	√	√	X	X	X	X	√	√	X	X	4/13
Sarah Walusimbi	X	√	√	√	√	√	√	√	√	√	√	√	√	12/13
Robert Kabonero	√	√	X	√	√	√	√	X	√	X	√	√	X	9/13
John Christopher Mpalampa	√	X	√	√	√	√	√	√	√	√	√	√	√	12/13
Anne Idro Canowira	√	√	√	√	√	√	√	√	X	√	√	X	X	10/13
Alan Senkatuka Shonubi	√	√	X	X	X	√	X	√	X	√	√	X	√	7/13
Japheth Katto	√	√	X	√	√	√	√	√	√	√	√	√	√	12/13

□ Mr. Christopher Kigenyi was appointed to the Board in March 2008.

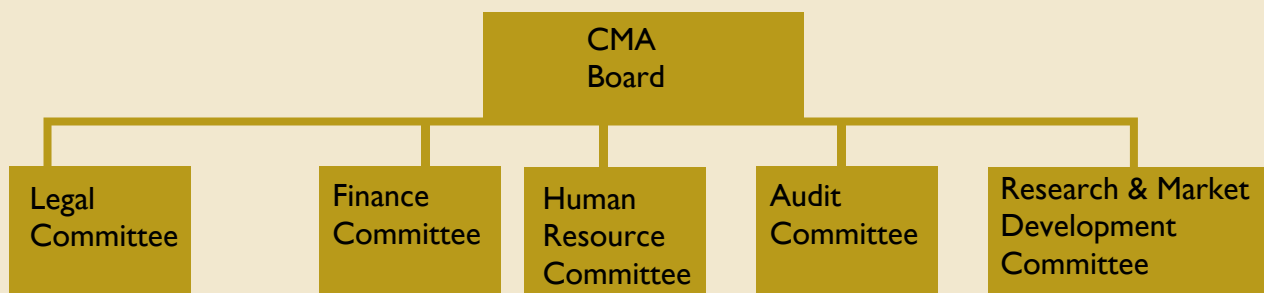
* Extra ordinary meeting held on 18th June 2008

Board Training

During the year under review the Board members undertook training and exposure programs to better equip them for their oversight and strategic roles at CMA. The Board training and exposure is essential in keeping board members abreast with developments in the global securities market. During the period under review members of the Board participated in a study tour to the Malaysian Securities Commission, and attended the African Stock Exchanges Association (ASEA) Conference in Ghana.

Board Committees

For purposes of efficiency, the Board is divided into five committees.



All Board Committees are governed by Terms of Reference developed by the Board and are mandated to make recommendations to the Board on all matters under their consideration. In terms of composition, the Committees comprise Board members with pertinent expertise in the various areas in order to maximize technical capability at the Committee level, where issues are dealt with in depth. The function and structure of the Committees for the year under review are described below.

The Legal Committee

The Legal Committee comprised:

Mr. Billy Kainamura- Chairman	Mr. Bisereko Kyomuhendo
Dr. Alan Senkatuka Shonubi	Ms. Sarah Walusimbi
Mr. Twaha Kaawaase	Mr. Japheth Katto - Chief Executive Officer

During the period July 2007- June 2008 the Legal Committee convened six meetings to consider applications for licenses, application for approval of a rights issue by Uganda Clays Ltd , application by the CMA to become signatories to the International Organization of Securities Commission Multilateral Memorandum of Understanding (IOSCO MMoU), and approval of the CMA (Anti-Money Laundering Guidelines) .

The Finance Committee

The Finance Committee comprised:

Mr. Y. Wasswa Kajubi – Acting Chairman	Ms. Maris Wanyera
Mr. Bisereko Kyomuhendo	Mr. Japheth Katto - Chief Executive Officer
Mr. Twaha Kaawaase	

The Committee is responsible for the Authority’s financial management. The Authority submitted to the Ministry of Finance, Planning and Economic Development, quarterly reports of activities and financial matters. At the end of every financial year, the Authority submits its annual report and audited accounts which are also published and made available to the public. The Committee convened five meetings during the period under review to consider the financial and activity reports of the Authority and the budget for the financial year 2008/2009.

The Human Resource Committee

The Human Resource Committee comprised:

Ms. Sarah Walusimbi-Chairperson	Mr. Billy Kainamura
Mr. Robert Kabonero	Mr. Japheth Katto - Chief Executive Officer
Mr. Twaha Kaawaase	

The Human Resource Committee is responsible for monitoring, appraising performance of management, reviewing all human resource policies, handling disciplinary matters and determining remuneration. The Committee makes recommendations to the Board on all human resource matters. The Committee held four meetings during the period under review to consider issues of remuneration, general administration issues, loan schemes, retirement /provident fund administration and the implementation of a new organizational structure.

The Audit Committee

The Audit Committee comprised:

Mr. John Christopher Mpalampa – Chairman	Dr Alan Senkatuka Shonubi
---	---------------------------

The critical role of internal audit makes it imperative to have an independent Audit Committee. In terms of its functions, the Audit Committee plays a critical role in the corporate governance structure by overseeing internal controls, accountability and reporting structures and risk management. The Audit Committee met once during the period under review to consider the Board report and financial statements for the year ended June 30th 2007, the CMA business issues and internal controls report and, the internal Audit report for the following Quarters (July-September 2007, October –December 2007, January- March 2008).

The Research & Market Development Committee

The Research & Market Development Committee comprised:

Mr. Y. Wasswa Kajubi – Chairman	Ms. Maris Wanyera
Mr. Robert Kabonero	Mr. Japheth Katto - Chief Executive Officer
Mr. Twaha Kaawaase	

The role of the research and market development committee spans out of the Authority’s mandate for market development. The committee guides the Authority in the undertaking of research on various topical themes and guides the Minister of Finance Planning and Economic Development on appropriate economic policies to increase both the demand for and the supply of securities to the market. This committee is also responsible for all publications by the Authority and the establishment of all strategic alliances that would enable the Authority fulfill its research, market development and investor protection mandates.

Contracts Committee (Not a Committee of the Board)

This committee is established under sections 27 & 28 of the Public Procurement and Disposal of Public Assets Authority (PPDA) Act 2003 and regulations 46 – 49 of the PPDA Act. Under this Act, all government and statutory bodies are required to establish a Contracts Committee. An evaluation committee is also constituted as and when they are required as stipulated in the PPDA Act. The role of the Contracts Committee is to approve the procurement and disposal of all goods, works and services of the Authority.

The Committee comprised:

Ms. Anne Mpendo – Chairperson	Mrs. Ann Muhangi – Member
Mr. Eric Lokolong - Secretary	Ms. Phoebe Kiconco - Member
Mr. John Suuza – Representative of the Solicitor General	

PPDA conducts inspections of the various procuring entities every two years. In June 2008, PPDA conducted an inspection of CMA's procurement procedures and our adherence to the laws, guidelines and regulations provided under the PPDA Act. PPDA published compliance rankings of public institutions and CMA was not only found compliant but was ranked second (2nd) amongst several entities that had been inspected.

Corporate Social responsibility

In parallel with its continuing effort to regulate and promote capital markets in Uganda, CMA carries out some activities to help disadvantaged persons. The CMA contributed towards the MTN Marathon the proceeds of which were used to help expectant mothers in Internally Displaced Peoples' Camps in Northern Uganda which has had a long period of civil unrest. CMA also funded the purchase of T-shirts for the Uganda team that participated in the Special Olympics. The staff members also contributed towards surgical expenses of three children.

Internal Audit Function

The CMA has established an internal audit function by contracting an independent audit firm to evaluate financial and other internal structures and systems. The Authorities books of accounts, accounting records and management reports are reviewed on a quarterly basis by the internal auditors and reports are presented to the Audit Committee.

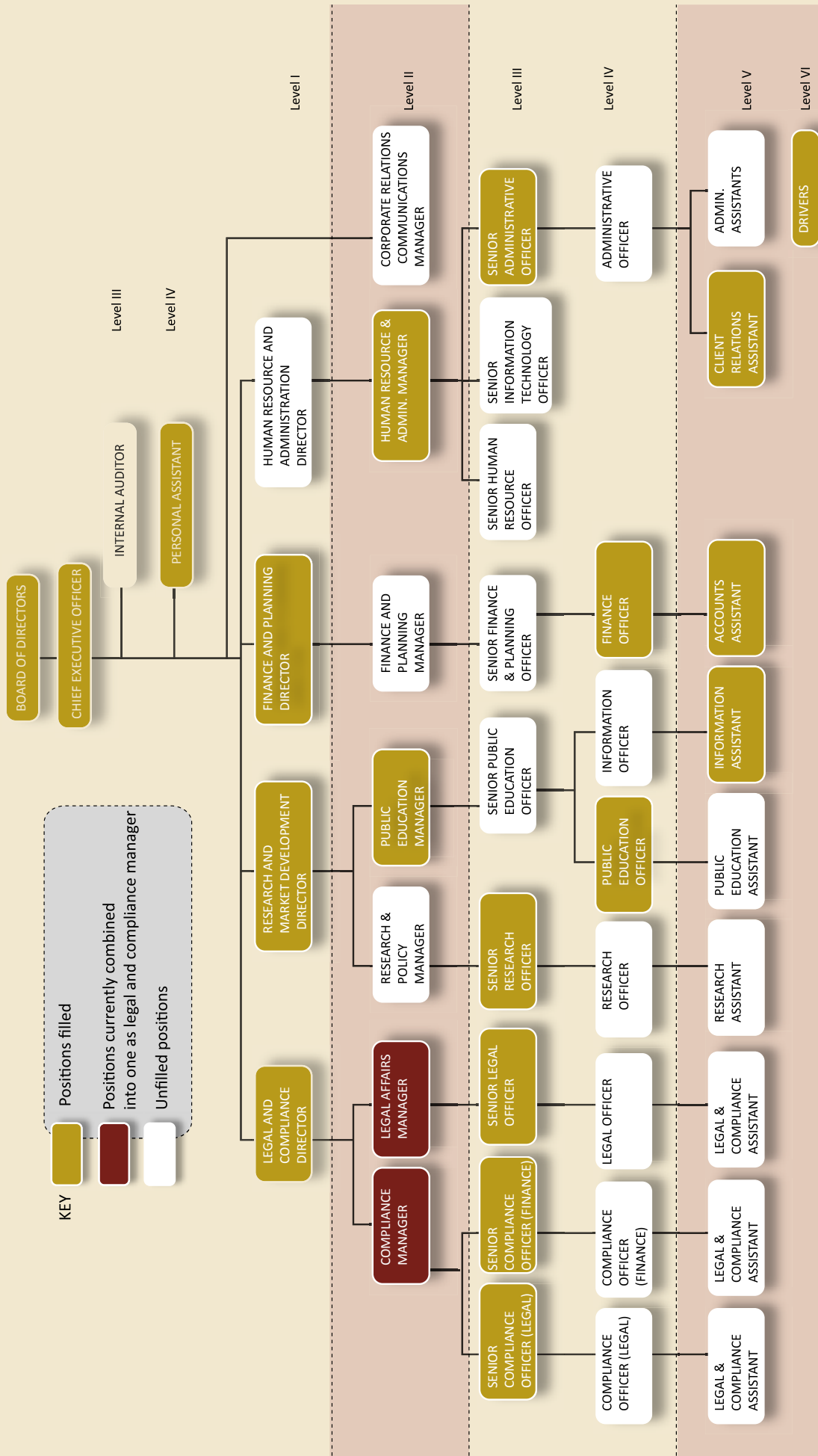
External Audit

CMA produces annual accounts in accordance with section 8 of the Capital Markets Authority Act Cap 84. The external auditors are appointed by the Auditor General as required under section 8 (7) of the Act. PricewaterhouseCoopers, Certified Public Accountants were re-appointed auditors for the year ended June 2008.

Ethics

The CMA Board & Staff manuals provide a guide on acceptable behavior. All employees are expected to avoid activities and financial interests that conflict with their duties and responsibilities at the Authority. All Board members and senior management are to declare their assets and liabilities to the Inspector General of Government as required under section 5 of the Leadership Code Act cap 168. The CMA has promulgated Conflict of Interest Guidelines which provide a framework within which employees can deal with conflicts of interest. The Guidelines prohibit dealings in securities by an insider. However if one is not an insider then one can deal freely provided that he/she gives notice of the order of the transaction to the Authority within 7 days of giving such order to the broker. Whenever an employee/Board member of the Authority opens an account with a broker, the guidelines require that the Authority be informed of it and that an irrevocable order is sent to the broker by the Authority requiring a report on the dealings of the staff member. The Authority maintains a register detailing the securities transactions carried out by members of staff.

Organisational structure



Finance Report

Income

The Income of the Authority decreased by 52.2% from UShs. 4.02 Billion in the year 2006/07 to UShs. 1.92billion in the year 2007/08. This decrease was attributed mainly to the fact that the planned Initial Public Offering (IPO) of companies from the Government divestiture program were not realized. This had been the case with the Stanbic Bank IPO during the year 2006/2007 where Government sold 10% of its holding in the bank and Stanbic Investments Holding Company also sold another 10% to the public. Government IPO's boost income because 7% of the total proceeds expected from each government IPO is paid to the Authority as regulatory fees and contributions towards capital markets development. These funds are provided under a Memorandum of Understanding (MOU) that was signed on the 16th day of April 2002 between The Ministry of Finance, Planning and Economic Development,(represented by the Privatization Unit on one hand) and the Capital Markets Authority on the other hand. The IPO contributed UShs. 2.44 Billion in 2006/2007 (60.5%) to the overall revenue of the Authority.

The Authority's other income is from the following sources:

Government grant

This is in the form of grants from government and government agencies. The Authority received UShs. 1.078 billion from this source representing about 55.9% of the total income in 2007/08. This represents an increase from UShs. 1.076 Billion in 2006/07.

Internal

Internal sources of income include approval fees, investments, license fees, trading commissions and any other income. The Authority realized UShs776.19 Million from internal sources. This represents about 40.2% of the total income in 2007/08 up from UShs398.86 Million which was 9% of total income in 2006/07. The highest increment in internal income was from interest on investments which increased by 370% from UShs 44.3 million in 2006/07 to UShs 208.3 Million in 2007/8. The investments increased mainly due to the surplus realized in the year 2006/07. Internal revenue from transaction fees is expected to increase in future due to increased secondary market activity that will be made possible by electronic trading, having more companies seek long term finance through capital markets and the operation of Collective Investment Schemes.

Donations

Donations and contributions from development agencies and private sponsors of activities amounted to UShs 74 million which was 3.8% of total income in 2007/8 down from UShs 111.5 Million which was 3% of total income in 2006/7. Although as a percentage of the income donation increased, the donation amount went down and is likely to continue to decrease. These donations exclude direct payments and funding by donors especially GTZ/Sida Financial Systems Development Programme to providers of goods and services to CMA. Those payments form a significant amount of donor support towards capital markets development and public education.

Expenditure

The overall expenditure of the Authority increased by 25% from US\$1.67 billion in the year 2006/07 to Shs. 2.09 billion in the year 2007/08. This was attributed mainly to a 25% increase in staff costs from US\$698million in the year 2006/07 to US\$873million in the year 2007/08. This followed a review in the Authority’s salary structure in September 2007 and an increase in staff numbers. There was a 473% increment in net finance costs from 5.4% to 31.2%. There was also a 42% increment in other operating costs mainly due to increased capacity building and public education expenses to implement market development and public awareness programs.

Overall, expenses of the Authority exceeded the income by US\$311.4 million This was because of decreased income highlighted above.

The Authority’s general fund balance decreased from a surplus of US\$2.23 billion in the year 2006/07 to a surplus of US\$2.019 billion during the year under review.

Capital Expenditure

Capital expenditure during the financial year under review was at US\$21.9 million. The major items were:

Item	US\$ (000)
Office Equipment	17.9
Furniture & Fittings	4.0
Total	21.9

Capital Markets Authority

Board Report and Financial Statements

For the year ended 30 June 2008

Content	Page
Directors and Professional Advisors	2
Report of the Directors	3
Statement of Directors' Responsibilities	4
Auditor General's Report	5
Income Statement	6
Balance Sheet	7
Statement of Fund Balance	8
Cash Flow Statement	9
Notes to the Financial Statements	10

Directors And Professional Advisors

Directors	Mr. Twaha Kaawaase	–	Chairman
	Mr. Bisereko Kyomuhendo	–	Member
	Mr. Billy Kainamura	–	Member
	Mr. Grace Jethro Kavuma	–	Member
	Mr. John Wafula	–	Member
	Mr. Robert Kabonero	–	Member
	Dr. Olli-Pekka Ruuskanen	–	Member
	Dr. Allan Shonubi	–	Member
	Ms. Maris Wanyera	–	Member
	Mr. Stephen Kaboyo	–	Member
	Mr. Steven Turyahikayo	–	Member
	Mr. Japheth Katto	–	Chief Executive Officer

Company Secretary Ms. Angela Kiryabwire Kanyima
Capital Markets Authority
8th Floor, Jubilee Insurance Center
14 Parliament Avenue
P.O. Box 24565
Kampala

Registered Office 8th Floor, Jubilee Insurance Center
14 Parliament Avenue
P.O. Box 24565
Kampala

Auditors Deloitte & Touche
Certified Public Accountants (Uganda)
3rd Floor, Rwenzori House
P.O. Box 10314
Kampala

Bankers Standard Chartered Bank Uganda Limited
5 Speke Road
P.O. Box 7111
Kampala

Stanbic Bank Uganda Limited
Crested Towers, Hannington Road
P.O. Box 7131
Kampala

Lawyers Legal and Compliance Manager
Capital Markets Authority
8th Floor, Jubilee Insurance Center
14 Parliament Avenue
P.O. Box 24565
Kampala

Board Members	Appointment Date
New Appointments	
Steven Turyahikayo	23.09.2008
Stephen Kaboyo	23.09.2008
Grace Jethro Kavuma	23.09.2008
John Wafula	22.09.2008
Olli-Pekka Ruuskanen	22.09.2008

Re-Appointments	
Bisereko Kyomuhendo	22.09.2008
Twaha Kaawaase	22.09.2008
Billy Kainamura	22.09.2008
Robert Kabonero	27.09.2008
Allan Shonubi	22.09.2008
Maris Wanyera	22.09.2008

Report of The Directors For The Year Ended 30 June 2008

The directors present their report together with the audited financial statements of the Authority for the year ended 30 June 2008.

Activities

The Authority was established under the Capital Markets Authority Act (CAP 84) for the purpose of promoting and facilitating the development of an orderly, fair and efficient capital markets industry in Uganda and regulate stock exchanges, brokers/dealers, investment advisors and all other persons dealing in securities business.

Results

Ushs '000

Deficit for the year (168,541)

Directors

The current Members of the Board are shown on page 2. Members of the Board serve for a three term period. The last Board term ended on 22 August 2008. The following members retired Ms. Sarah Walusimbi, Mr. Wasswa Kajubi, Mr. John C. Mpalampa, Ms. Anne Idro Canowira and Mr. Christopher Kigenyi. The new members appointed include; Mr. Grace Jethro Kavuma, Mr. John Wafula, Dr. Olli-Pekka Ruuskanen, Mr. Stephen Kaboyo and Mr. Steven Turyahikayo.

Auditors

Deloitte & Touche who were appointed during the year by the Auditor General have expressed their willingness to continue in office under section 9 (10) of the Capital Markets Authority Act (CAP 84).

Statement of Directors Responsibilities


The Capital Markets Authority Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Authority. They are also responsible for safeguarding the assets of the Authority.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with applicable International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

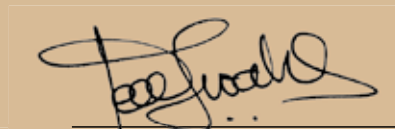
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with applicable International Financial Reporting Standards and in the manner required by the Capital Markets Authority Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Signed on behalf of the Board of Directors by;



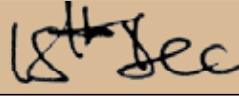
Chief Executive Officer



Chairman Board of Directors



2008



2008

Auditor General's Report

Under section 8 (11) of the Capital Markets Authority Act (Cap 84), I am required to audit the accounts of the Capital Markets Authority. In accordance with the provisions of the same section, I appointed Messrs Deloitte and Touche, Certified Public Accountants, to audit the accounts of the authority on my behalf and report to me so as to enable me report to Parliament.

Report

The financial statements of Capital Markets Authority set out on page 6 to 19 which comprise of the balance sheet as at 30th June 2008, the income and expenditure statement, statement of changes in equity and cash flow statement for the year the ended, and a summary of significant accounting policies and other explanatory notes have been audited.

Directors' responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Capital Markets Act. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

The responsibility of the auditor is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with International Standards on Auditing. Those standards require that the audit is planned and performed to obtain reasonable assurance to whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the Auditor's judgement, including the assessment of the risks of the material misstatement of the financial statements, whether due to fraud or error.

In making those risks assessments, the Auditor considers the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

Opinion

In my opinion the financial statements give a true and fair view of the state of Affairs of the Authority as at 30th June 2008 and of its deficit and cash flows for the year ended in accordance with International Financial Reporting Standards and the requirements of the Capital Markets Authority Act (Cap 84).

Report on Other Legal and Regulatory Requirements

As required by the Capital Markets Authority Act we report to you based on our audit that:

- i) All the information and explanations which were necessary for the purposes of the audit were obtained;
- ii) In my opinion, proper books of account have been kept by the Authority, so far as appears from the examination of those books; and
- iii) The Authority's Balance Sheet and Income Statement are in agreement with the books of account.



John. F. S. Muwanga
AUDITOR GENERAL
Kampala
18th December 2008.



Income Statement For the year ended 30 June 2008

	Note	2008 Ushs '000	2007 Ushs '000
Income			
Government revenue grants	4	1,078,146	1,076,343
Privatisation Unit grant	5	-	2,436,483
Donations	6	74,030	111,509
Prospectus and floatation fees		100,600	143,328
Licensing fees		47,923	28,647
Interest income		208,813	44,326
Release of capital grants		89,032	112,646
Other income	7	329,227	69,911
		1,927,771	4,023,193
Expenditure			
Staff costs	8	873,429	698,097
Net finance costs		31,326	5,454
Administrative expenses	9	565,655	529,365
Other operating expenses	10	625,902	441,355
		2,096,312	1,674,271
(Deficit)/surplus for the year		(168,541)	2,348,922

Balance Sheet 30 June 2008

		General fund	Investor Compensation fund	2008	2007
	Note	Ushs '000	Ushs '000	Ushs '000	Ushs '000
ASSETS					
Non-current assets					
Equipment	13	37,900	-	37,900	104,989
Intangible assets	14	1,826	-	1,826	3,748
		39,726	-	39,726	108,737
Current assets					
Held-to-maturity investments	15	432,220	306,860	739,080	62,237
Receivables	16	63,935	-	63,935	17,984
Broker/dealer account		28,723	-	28,723	22,186
Investor Compensation Fund Account		-	30,943	30,943	59,929
Cash at bank and in hand	17	1,611,771	-	1,611,771	2,403,076
		2,136,649	337,803	2,474,452	2,565,412
Total assets		2,176,375	337,803	2,514,178	2,674,149
CAPITAL EMPLOYED AND LIABILITIES					
Capital employed					
General fund		1,826,648	-	1,826,648	2,230,081
Non-current liabilities					
Investor Compensation fund	10	-	337,803	337,803	59,949
Capital grant	11	44,698	-	44,698	111,876
		44,698	337,803	382,501	171,825
Current liabilities					
Brokers and dealers deposits		100,000	-	100,000	80,000
Payables and accrued expenses	18	205,029	-	205,029	192,243
		305,029	-	305,029	272,243
Total equity and liabilities		2,176,375	337,803	2,514,178	2,674,149

The financial statements on pages 11 to 20 were approved by the Board of Directors on 18th Dec 2008 and were signed on its behalf by;

)
)Directors
)

Statement of Fund Balance For the Year ended 30 June 2008

	General fund
	Ushs '000
2007	
At 1 July	(118,841)
Surplus for the year	2,348,922
At 30 June	2,230,081
2008	
At 1 July	2,230,081
Transfer to Compensation Fund	(234,892)
Deficit for the year	(168,541)
At 30 June	1,826,648

Cash Flow Statement For the year ended 30 June 2008

	2008	2007
	Ushs '000	Ushs '000
OPERATING ACTIVITIES		
(Deficit)/surplus of income over expenditure	(168,541)	2,348,922
Adjustments for:		
Interest income	(57,320)	(8,871)
Depreciation	89,032	112,646
Amortisation of software	1,921	1,871
Release of capital grants	(89,032)	(112,646)
Cash (out flows)/inflows before working capital changes	(223,940)	2,341,922
Increase in receivables	(45,951)	(1,262)
Increase in broker/dealer deposits	20,000	15,000
Increase in Investor compensation fund	277,854	11,029
Increase in payables and accrued expenses	12,786	30,083
Net cash inflows from operating activities	40,749	2,396,772
INVESTING ACTIVITIES		
Purchase of property and equipment	(21,943)	(23,657)
Purchase of treasury bills	(5,940,780)	(3,123,140)
Interest income on investments	151,494	35,456
Redemption of treasury bills	4,934,872	990,647
Net cash used in investing activities	(876,357)	(2,120,694)
FINANCING ACTIVITIES		
Capital grant received	21,854	23,657
Net cash generated from financing activities	21,854	23,657
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(813,754)	299,735
Cash and cash equivalents brought forward	2,485,191	2,185,456
CASH AND CASH EQUIVALENTS CARRIED FORWARD	1,671,437	2,485,191
Represented by:		
Cash at bank	1,671,437	2,485,191

Notes to the financial statements

1. General

The Authority is established in Uganda under the Capital Markets Authority Act (Cap 84) 1996, and domiciled in Uganda. The address of the office is:

14 Parliament Avenue
8th Floor, Jubilee Insurance Centre
P. O Box 24565, Kampala - Uganda

2. Adoption of new and revised standards effective in the current period

Standards and Interpretations effective in the current period

In the current year, the company has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the company's financial instruments and management of capital.

Seven interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; IFRIC 10 Interim Financial Reporting and Impairment, IFRIC 11 - IFRS 2 Group and Treasury Share Transactions, IFRIC 12 - Service Concession Arrangement and IFRIC 14 - IAS 19 Employee Benefits: Effect of Minimum Funding Requirements on Asset Ceiling. The adoption of these interpretations has not led to any changes in the entity's accounting policies.

Standards and Interpretations issued in the current period

At the date of approval of these financial statements, the following new or revised Standards and Interpretations were in issue but not yet effective:

- IFRS 8 - Operating Segments
- IAS 23 (Revised) - Borrowing costs
- IFRIC 13 - IAS 18 Revenue: Customer Loyalty Programs

3. Significant accounting policies

The financial statements are prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The financial statements are prepared under the historical basis of accounting modified to include the revaluation of certain financial instruments in Uganda shillings (Ushs'000).

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Revenue recognition

Government grants and donation including non-monetary grants are only recognised when there is reasonable assurance that the grants and donations will be received and the Authority will be able to comply with the conditions attaching to them. The grants are recognised as income on a systematic and rational basis over the useful life of the assets they are used to acquire.

Interest income is recognised in the income and expenditure statements on an accruals basis.

Licensing fees from broker/dealers and investment advisers are recognised when the Authority has received an application for licence or renewal

Trading fees from broker/dealers is recognised when received.

Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Uganda Shillings at rates ruling at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income and expenditure account.

Financial instruments

Financial assets and liabilities are initially recognised in the Authority's statement of net assets at cost using settlement date accounting, when the Authority has become a party to the contractual provisions of the instrument.

Held to maturity investments

Investments with fixed or determinable payments and fixed maturity where the Authority has the positive intent and ability to hold to maturity are measured at amortised cost less accumulated impairment losses.

At fair value through statement of changes in fund balances

Investments acquired principally for the purpose of generating a surplus from short-term fluctuations in price or dealer's margin are measured at their fair value. Gains/losses at their fair value are recognised in the income statement.

Available-for-sale investment

Investments that are not (a) receivable originated by the Authority, (b) held-to-maturity investments, or c) investments held at fair value through the statement of changes in fund balances. Gains or losses on revaluation of available for sale investments are dealt with in the fair value reserve fund, in the statement of changes in fund balances.

Equipment

All categories of equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred. Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. Depreciation is calculated on the straight line basis to write down the cost of each asset to its residual value over its estimated useful life as follows;

Office equipment	3 years
Furniture and fittings	4 years
Motor vehicles	4 years

Equipment is periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Gains and losses on disposal of equipment are determined by reference to their carrying amount and are included in the profit and loss account.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks and with less than 90 days to maturity from the date of acquisition.

Intangible assets

Where software is not an integral part of the related hardware, computer software is treated as an intangible asset. Intangible assets are measured initially at cost and are subsequently shown at historical cost less any accumulated amortization. Intangible assets are amortized on a straight-line basis over their useful lives of 4 years.

Investor Compensation fund

The investor compensation fund consists of contributions by the Authority (10% of any surplus for the year) from the general fund, compensation fund fee charged on brokers' commission and interest accruing from investment of the fund in treasury bills.

Taxation

Capital Markets Authority is an exempt organization in accordance with Section 2 of the Income Tax Act 1997.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Notes to the Financial Statements For the year ended 30 June 2008 (cont.)

		2008	2007
		Ushs '000	Ushs '000
4	Government Grants		
	Bank of Uganda	1,078,146	1,076,343
	Analysis of Bank of Uganda Grant		
	Total funds received	1,100,000	1,100,000
	Transfer to capital grant	21,854)	(23,657)
		1,078,146	1,076,343
5	Privatisation Unit Grant		
	Capital Markets Authority (CMA) entered into a Memorandum of Understanding with the Privatization Unit (PU) which entitles CMA to financial support from the Government of Uganda (GOU) in form of a fee out of every Initial Public Offering. The fee payable is 7% (seven per cent) of the Government proceeds expected from each Initial Public Offering.		
6	Donations		
	GTZ/Sida	74,030	101,509
	Stanbic Bank Uganda Ltd	-	10,000
		74,030	111,509
7	Other Income		
	Share trading commission	315,117	50,143
	Advertising and sale of tender documents	14,110	17,585
	Seminar fees	-	1,429
	Sales of Journals	-	754
		329,227	69,911
8	Staff Costs		
	Salaries and wages	637,814	502,697
	Staff gratuity	35,778	32,013
	NSSF contribution	66,200	54,366
	Staff medical scheme	22,449	19,608
	Staff welfare	35,144	32,013
	Staff Provident Fund	73,639	54,296
	Overtime	2,405	3,104
		873,429	698,097

Notes to the Financial Statements For the year ended 30 June 2008 (cont.)

		2008	2007
		Ushs '000	Ushs '000
9	Administrative Expenditure		
	Office general expenses	132,591	83,028
	Office rent	118,872	126,398
	Depreciation	89,032	112,646
	Publication, printing and stationery expenses	59,022	69,695
	Motor vehicle maintenance and fuel	46,347	40,401
	Subscriptions	32,161	27,388
	Telephone, fax, postage and e-mail	31,431	30,190
	Advertisement and media coverage	17,000	3,217
	Statutory audit fees	14,121	9,600
	Internal audit fees	12,565	10,525
	Office repairs and maintenance	6,444	7,557
	Bank charges	3,772	4,438
	Amortisation of software	1,921	1,871
	Consultancy fees	376	2,411
	Directors' emoluments	-	3,217
		565,655	529,365
10	Other Operating Expenses		
	Mass education	324,312	200,815
	Capacity building	122,615	93,588
	Regional Co-operation	77,571	58,335
	Other Board expenses	57,694	59,767
	Directors' fees and allowance	30,375	28,850
	Research	13,335	-
		625,902	441,355
11	Investor Compensation Fund		
	Designated bank balance	30,943	9,134
	Investments	306,860	50,815
		337,803	59,949
	<i>Movement in Investor Compensation Fund</i>		
	At 1 July	59,949	48,920
	Interest and Contributions received during the year	42,962	11,029
	Transfer to Compensation Fund	234,892	-
	At 30 June	337,803	59,949
12	Capital Grant		
	At 1 July	111,876	200,865
	Capital grant received during the year	21,854	23,657
	Release of capital grant to income and expenditure account	(89,032)	(112,646)
	At 30 June	44,698	111,876

Notes to the Financial Statements for the year ended 30 June 2008 (cont.)

13	Equipment					
			Office	Furniture	Motor	
			equipment	& fittings	Vehicles	Total
			Ushs '000	Ushs '000	Ushs '000	Ushs '000
	COST					
	At 1 July 2006	138,259	270,292	184,340	592,891	
	Additions	20,297	3,360	-	23,657	
	At 30 June 2007	158,556	273,652	184,340	616,548	
	At 1 July 2007	158,556	273,652	184,340	616,548	
	Additions	17,912	4,031	-	21,943	
	At 30 June 2008	176,468	277,683	184,340	638,491	
	DEPRECIATION					
	At 1 July 2006	102,882	154,727	141,304	398,913	
	Charge for the year	22,294	67,899	22,453	112,646	
	At 30 June 2007	125,176	222,626	163,757	511,559	
	At 1 July 2007	125,176	222,626	163,757	511,559	
	Charge for the year	25,855	42,594	20,583	89,032	
	At 30 June 2008	151,031	265,220	184,340	600,591	
	NET BOOK VALUE					
	At 30 June 2008	25,437	12,463	-	37,900	
	At 30 June 2007	33,380	51,026	20,583	104,989	

Notes to the Financial Statements for the year ended 30 June 2008 (cont.)

		2008	2007
		Ushs '000	Ushs '000
14	Intangible assets		
	Cost		
	At 1 July & 30 June	9,161	9,162
	Amortization		
	At 1 July	5,414	3,543
	Charge for the year	1,921	1,871
	At 30 June	7,335	5,414
	Net Book Value	1,826	3,748
15	Held to maturity investments		
	Treasury bills		
	Maturity within three months	1,295,264	2,104,192
	Maturity after three months	739,080	62,237
		2,034,344	2,166,429

The weighted average effective interest rate earned on investments for the year ended 30 June 2008 was 10.13% (2007: 9.33).

Treasury bills maturing within three months have been disclosed as part of cash and cash equivalents.

		2008	2007
		Ushs '000	Ushs '000
16	Receivables		
	Staff advances	47,025	6,935
	Prepayments	7,850	6,564
	Activity advance	8,820	4,245
	Other receivables	240	240
		63,935	17,984

Notes to the Financial Statements for the year ended 30 June 2008 (cont.)

17 Cash And Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalent comprise cash in hand, deposits held at call with banks and investments in money market instruments maturing within three months net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities. The year-end cash and cash equivalents comprise the following:

	2008	2007
	Ushs '000	Ushs '000
Broker dealer account	28,723	22,186
Investor compensation fund account	30,943	59,929
Cash at bank and in hand	1,611,771	2,403,076
	1,671,437	2,485,191

The above balances include the amortised treasury bills maturing within three months.

18	Payables and accrued expenses		
	Creditors	170,116	165,837
	Other payables	34,913	26,406
		205,029	192,243

19 Contingent Liabilities

There were no contingent liabilities as at 30 June 2008.(2007; Nil)

20	Capital Commitments		
	Capital Commitments	143,582,442	-

The capital commitments relate to orders placed for 2 motor vehicles as at 30 June 2008.

21 Related party transaction

The following transactions were carried out with related parties:

		2008	2007
		Ushs '000	Ushs '000
i)	Key management compensation		
	Salaries and other short term employment benefits	161,370	183,990
	Gratuity	35,778	32,013
ii)	Board Members' remuneration		
	Members' fees and allowances	30,375	28,850

Notes to the Financial Statements for the year ended 30 June 2008 (cont.)

22 Risk management policies

Financial Risk Management

The Authority has exposure to the following risks from its use of financial instruments

- Credit risk
- Liquidity risk
- Interest risk
- Foreign risk

The Authority's business activities include the promotion and facilitating the development of an orderly, fair and efficient capital markets industry in Uganda. Management endeavours at all times to minimise risks. Management has put in place elaborate policies in all its functions as a control against risk exposure.

The Authority generates some of its revenues by investing in various income generating activities which involve trading in government securities. These activities expose the authority to a variety of financial risks, including credit risk and interest rates. The authority's overall risk management programme focuses on unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by management under policies approved by the Board. Management review the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against market risks. Management provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

The financial management objectives and policies are as outlined below:

(a) Credit risk

Credit risk arises from amounts receivables. As part of the credit risk management system, management monitors receivables regularly.

The amount that best represents the Authority's maximum exposure to credit as at 30 June 2008 is made up as follows:

	Fully			
	Total	Performing	Past due	Impaired
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
As at 30 June 2008				
Cash and cash equivalents	1,671,437	1,671,437	-	-
Receivables	63,935	63,935	-	-

Notes to the Financial Statements for the year ended 30 June 2008 (cont.)

		Fully		
	Total	Performing	Past due	Impaired
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
As at 30 June 2007				
Cash and cash equivalents	2,485,191	2,485,191	-	-
Receivables	17,984	17,984	-	-

Cash and cash equivalents are fully performing.

No collateral is held for any of the above assets. All receivables that are neither past due past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

(b) Liquidity risk management

Prudent liquidity risk management includes maintaining sufficient cash and market securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

(c) Interest rate risk

The Authority's interest bearing assets are investments in treasury bonds, treasury bills, and fixed deposits which are at variable and fixed rates. The Authority has intent and ability to hold the investments to maturity. The investments are stated at amortised cost, less impairment losses.

(d) Foreign exchange risk

The Authority holds a significant portion of its investments in local currency and is therefore not exposed to foreign exchange risk.

As at 30th June 2008, the following were the market players licensed and regulated by CMA

<p>Uganda Securities Exchange (USE) Stock Exchange 2nd Floor Northern Wing Worker's House I Pilkington Road, P.O.Box 23552 Kampala Tel: 0414 343 297, 342818 Fax: 041 4340841 E-mail: info@use.or.ug Contact: Mr. Simon Rutega (Chief Executive)</p>	
<p>Baroda Capital Markets Ltd * Broker/Dealer Investment Advisor and member of USE Plot 18 Kampala Road P.O. Box 7197 Kampala Tel: 0414 233 680/3 Fax: 0414 258263 E-mail: bob10@calva.com Contact: Mr. Rajesh Khanna</p>	<p>Crane Financial Services Ltd * Broker/Dealer Investment Advisor and member of USE Crane Chambers Plot 38 Kampala Road P.O. Box 22572 Kampala Tel: 0414 341414/345345 Fax: 0414 341414 E-mail: cfs@cranefinancialservices.com Contact: Mr. Hiren Busch</p>
<p>Dyer and Blair Uganda Ltd * Broker/ Dealer Investment Advisor and member of USE P.O.Box 36620 Ground Floor Rwenzori House E-mail: shares@dyerandblair.com Tel: 0414 233050 Fax: 0414231813 Contact: Mr. Njoroge Ng'ang'a</p>	<p>Equity Stock Brokers Ltd * Broker/Dealer Investment Advisor and member of USE Plot 6/6a Orient Plaza P.O. Box 3072 Kampala Tel: 0414 236012/3/4/5 Fax: 041 4348039 E-mail: equity@orient-bank.com Contact: Mr. Mark Horwood</p>
<p>MBEA Brokerage Services Ltd * Broker/Dealer Investment Advisor and member of USE 44 Lumumba Avenue P. O. Box 24613 Kampala Tel: 0414 231960 Fax: 041 4342045 E-mail: info@mbea.net Contact: Mr. Andrew Owiny</p>	<p>Crested Stocks and Securities Ltd Broker/Dealer Investment Advisor 6th Floor Impala House Plot 13/15 Kimathi Avenue P. O. Box 31736 Kampala, Uganda Tel: 0414 230900 Fax: 0414 230612 E-mail: info@crestedsecurities.com Contact: Mr. Robert Baldwin</p>
<p>Inter Alliance International (Uganda) Ltd Investment Advisor B4 Adam House Plot 11, Portal Avenue P. O. Box 21409, Kampala Tel: 0414 342411, 340846, 078 807079 Fax: 041 4342411 E-mail: jatin.ghughu@ia-int.com Contact: Mr. Jatin Ghughu</p>	<p>Made in Africa IB (EA) Ltd. Investment Advisor Floor 1 Communications House P.O. Box 1610 Kampala Tel: 0414 233843, 343222,343269 Fax: 041 4343277 E-mail: pacego2000@yahoo.com Contact: Mr. Geoffrey Onegi-Obel</p>

<p>Iroko Securities Investment Advisor C/o Mungereza and Kariisa Consultant Ltd 35 Yusuf Lule Road P. O. Box 6565, Kampala Tel: 0414 341474 Fax: +44 2076188086 E-mail: c.ekam-dick@irokosecurities.com Contact: Mr. Francois Ekam-Dick</p>	<p>PKF Consulting Ltd Investment Advisor Plot 37 Yusuf Lule Road P. O. Box 24544 Kampala Tel: 0414 341523/5 Fax: 041 4251370, 341371 E-mail: pkfkam@ug.pkfea.com Contact: Mr. Murtuza Dalal</p>
<p>Mr. Andrew Franklin Investment Advisor C/o Equity Stock Brokers Ltd Plot 6/6a Orient Plaza P.O. Box 3072 Kampala Tel: 0414 236012/3/4/5 254 20 444 1123/2285 Fax: 254 20 444 1832 E-mail: franklin@wananchi.com Contact: Mr. Andrew Franklin</p>	<p>PricewaterhouseCoopers (Ltd) Investment Advisor 10 Floor Communications House 1 Colville Street Kampala Tel: 0414 236018, 041 233 743 Fax: 041 4239153 E-mail: general@ug.pwc.com Contact: Mr. Francis Kamulegeya</p>
<p>Dero Capital Uganda Limited Investment Advisor Plot 1001, Kyadondo Block 243 Ofungi Rise, Mutungo P. O. Box 5970 Kampala Tel: +256-712-638644, +256-751-638644 Fax: +256-414-378918 Contact: David Ofungi</p>	<p>Bullion Capital Limited Investment Advisor Office No. 2, Jocassa House Nakasero Road P. O. Box 34580 Kampala Tel: +256-414-348281/2, +256-414-348282 Email: info@bullioncapital.com Contact: Mr. George Ndirangu</p>
<p>African Alliance (Uganda) Ltd * Fund Manager, Unit Trust Manager, Investment Advisor Broker/Dealer and member of USE 1st & 6th Floor Workers House Pilkington Road Kampala Tel: 0414 235577 Fax: 041 4235575 E-mail: info@africanalliance.co.ug Contact: Mr. Kenneth Kitariko</p>	<p>ReNaiissance Capital (U) Ltd* Fund Manager, Investment Advisor Broker/Dealer and member of USE Plot 13, Kololo Hill Drive P.O.Box 893 Kampala Tel: 0782 800494, 0312 264 775/6 Fax: 041 4340016 E-mail: nyabadza@renaissance.co.ug Contact: Mr. Rumbidzayi Nyabadza</p>
<p>Stanbic Investment Management Services Fund Manager Investment Advisor 11th Floor Crested Towers P. O. Box 7131 Kampala Tel: 031 224322/600 Fax: : 0414 254697 E-mail: owinyim@stanbic.com Contact: Mr. Martin Owiny</p>	<p>AIG Global Investment Company (East Africa) Ltd Fund Manager, Investment Advisor 7th Floor Workers' House, 1 Pilkington Road, P O Box 9831, Kampala, Tel: 0414-340707/8 Fax: 0414-340750 E-mail: patrick.mutimba@aig.com Contact: Patrick Mutimba</p>
<p>DFCU Bank Ltd Trustee Collective Investment Schemes Impala House 13 Kimathi Avenue P.O. Box 70 Kampala Tel: 041 4231784/256891/3, 031 300300 Fax: 041 4 231687/344260 E-mail: official@dfcugroup.com Contact: Mr. Juma Kisaame</p>	<p>Fidelity Capital Management Limited 1 Floor Colline House Pilkington Road , Plot 4 P.O.Box 21091 Kampala Tel: 256 414 340497 256 0312 101774 Contact: Ms. Robina Atim E-mail: robinah@fidelitycapital.co.ug</p>

*Please note that only members of USE are allowed to transact business on the Stock Exchange



Capital Markets Authority
14 Parliament Avenue
Jubilee Insurance Centre, 8th Floor
P.O. Box 24565 KAMPALA - Uganda
Tel:(256) 414-342788, 0312 264950/1
Mob:0772 589997
Fax: (256) 414 342803
E-mail: info@cmauganda.co.ug
Website: www.cmauganda.co.ug