



# **THE CASE FOR MANDATORY LISTING OF TIER 1 BANKS**

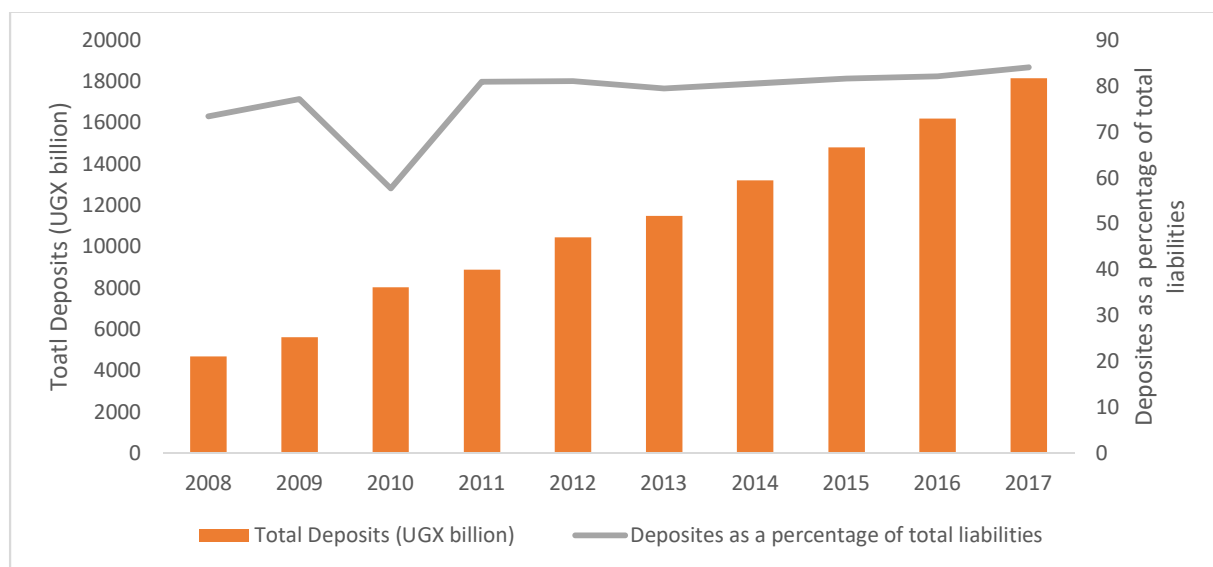
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## 1. Introduction

Uganda's banking sector has grown significantly over the last decade. The number of licensed commercial banks currently stands at 24 from 21 in 2008, while total banking sector assets have increased from UGX 7,496.4 billion in 2008 to UGX 26,528.1 billion as at the end of 2017.

**Figure 1: Ten Year Trend of Bank Deposits**



Source: Bank of Uganda Market Supervision Reports

Figure 1 shows a steady increase in the size of bank deposits in Uganda, both in terms of the total amount and as a percentage of total liabilities. Bank deposits also make up the largest funding source for banks. Given that bank deposits from the public are the biggest source of funding for commercial banks, the enhanced protection of the public's money is highly important.

Banks are important to the development of the private sector and for economic growth, because banks lend funds to companies to allow them grow and realize market opportunities. On average banks have lent UGX 1 trillion to the private sector over the last ten years.

Banks have also contributed to the budgetary support by holding a portfolio of government securities. Over the last 10 years, commercial banks have invested an average of 20.5% of totals assets in government securities, which comes to UGX 3.39 trillion. This is money used by the government of Uganda to meet its budgetary deficits.

**Table 1: Credit to the Private Sector**

Year	Total assets (UGX Trillion)	Credit to the private sector (UGX Trillion)	Private sector credit as a percentage of total assets	Government securities as a percentage of total assets
2008	7.5	3.3	44.6	20.4
2009	8.6	3.9	45.7	21.2
2010	11.3	5.4	47.5	22.4
2011	13.0	6.9	60.9	16.0
2012	15.5	7.6	49.1	19.7
2013	17.3	8.0	46.2	20.8
2014	19.6	8.0	40.8	23.0
2015	21.7	9.2	42.4	18.9
2016	23.7	10.7	45.1	21.5
2017	26.5	11.2	42.6	21.1

Source: Bank of Uganda Market Supervision Reports

As banks are highly important for the economic development of Uganda, banks should be seen as public-interest companies, meaning that it is paramount for banks to work in the interest of the public as well as their shareholders. Therefore, there is a strong argument for the public to hold a stake in the banks to ensure they are effectively run, do not put the public's deposits at risk and contribute towards economic development by lending to the private sector. The listing of banks on a Ugandan securities exchange would allow the public to take such a stake in banks.

## 2. Benefits of Mandatory Listing to Ugandans and the Ugandan Economy

The following section focuses on the benefits of the mandatory listing of commercial banks to the Ugandan economy, especially with regard to disclosure, transparency and governance of commercial banks, Uganda's current account deficit through profit repatriation and the democratization of ownership and to give the public more investment opportunities.

### 2.1 Disclosure, Transparency and Corporate Governance

In spite of the growth experienced in Uganda's banking sector over the last three decades, the sector has also had its share of challenges, among them being the collapse of 10 banks between 1993 and 2016.

**Table 2: Banks closed by Bank of Uganda Between 1993 and 2016**

Bank	Year of Closure	Reason for Closure
1. Teefe Bank	1993	Insolvency due to imprudent banking practices and poor internal governance
2. Sembule Bank	1995	Insider lending to businesses owned by shareholders
3. International Credit Bank Limited	1998	Poor liquidity and insolvency
4. Trust Bank	1999	Insolvency and failure to meet capital adequacy requirements
5. Greenland Bank	1999	Insolvency and violation of certain provisions of Financial Institutions Statute (FIS)
6. The Cooperative Bank	1999	Continued poor performance and non-compliance with regulatory capital adequacy requirements
7. Gold Trust Bank	2005	Losses for five years
8. National Bank of Commerce (NBC)	2012	Undercapitalization and dispute between shareholders
9. Global Trust Bank	2014	Undercapitalization and corporate governance weaknesses
10. Crane Bank Limited	2016	Undercapitalization

Source: BoU Supervision Reports

The Governor of BoU, Tumusiime Mutebile, cited poor corporate governance as the primary cause of most of the bank failures in the 1990s and early 2000s (*see Table 2*).<sup>1</sup> In many of the failed banks, a dominant shareholder or group of shareholders was able to exert undue influence over the management of the bank, which resulted in abuses such as pervasive insider lending. The losses incurred on insider loans were the single most important contributor to the collapse of these banks. These losses could have been avoided with appropriate corporate governance structures in place. The closure of the commercial banks can also be blamed on poor transparency and disclosure, especially concerning insider lending and imprudent banking practices.

A dominant shareholder in a bank without the appropriate checks and balances from minority shareholders may impose undue influence over the top management of the bank and get the bank to lend to relatives, business associates or close friends whose credit risk is high, who might not be expected to pay back the loan or who receive favorable interest rates. This kind of lending can increase the bank's non-performing loans and decreases the overall performance and profitability of the bank and has been cited as one the most important reasons for bank failures across Africa.

The Governor of BoU is cognizant that statutory bank regulation and supervision by a public agency cannot be expected, on its own, to guarantee the sound management of banks.<sup>2</sup> Bank regulators cannot be a substitute for good bank managers. As such, the scrutiny from investors in a listed bank can be an important complement to good bank regulation and supervision.

A listed bank may still have a dominant shareholder. However, due to the transparency, disclosure and governance requirements imposed by the listing process, there are better checks and balances imposed on the board to act in the interest of all investors, including the right of minority investors to attend annual general meetings and vote on the board members. Furthermore, the banks would have to comply with reporting and governance requirements which would protect minority shareholders from the majority shareholder exerting undue influence over top management. Therefore, minority shareholders would be significantly more protected in a listed company than in a private company. This would also address challenges like insider lending to majority shareholders in commercial banks.

Section 14 (1) of the Companies Act, 2012 states that a public company shall, at the time of registration of its articles, adopt and incorporate into its articles the provisions of the code of corporate governance contained in Table F. Table F is a table in the Companies Act, 2012 that lists the minimum corporate governance requirements that a public company must adhere to. Table F supplements the substantive provisions of the Act on the composition and responsibility of the board of directors. The code also requires a division of responsibility between the

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<sup>1</sup> Corporate Governance and Banking Regulation in Uganda. Address by Mr. Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, to the KCB Bank Board of Directors Retreat, Kampala, 2 November 2012.

<sup>2</sup> Corporate Governance and Banking Regulation in Uganda. Address by Mr. Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, to the KCB Bank Board of Directors Retreat, Kampala, 2 November 2012.

chairperson of the board and Chief Executive Officer (CEO) who heads the company's management arm. The Table also has specific provisions on:

- ✚ The qualifications of directors to enable them to handle strategy, performance, standards of conduct and resources management of the company,
- ✚ Provisions to regulate the remuneration of directors, board meetings, committees and evaluation of the board,
- ✚ Provisions on securities transactions, which may involve directors,
- ✚ Provisions on the company secretary's role in relation to the board, risk management, internal audit and the audit committee, sustainable reporting on company performance, the relationship with the shareholder(s) and communication.

Section 14 (4) of the Act further states that a company that has adopted the code of corporate governance shall annually file a statement of compliance with the registrar and the Capital Markets Authority. This means that if commercial banks were to list on the exchange, they would have to file a statement of compliance with the registrar of companies and CMA, which investors and the public can obtain and verify.

Compliance with Table F coupled with the continuous listing obligations such as releasing annual audited financial reports and the holding of annual general meetings with shareholders would significantly improve corporate governance, transparency and disclosures in commercial banks.

Transparency is an integral component of corporate governance. Since higher transparency reduces the information asymmetry between a firm's management and commercial bank's stakeholders, there is mitigation of the agency problem in corporate governance.<sup>3</sup> In making crucial decisions, shareholders need to be armed with the timely and relevant information on the price and the value of financial market securities. For listed commercial banks, the continuous listing obligations ensure that quality information is delivered in an accessible, timely and relevant manner.

The top 10 banks in the world, which hold combined assets of around USD 28 trillion, are all listed on exchanges in their respective countries.<sup>4</sup> The majority of bank failures in Sub-Saharan Africa over the last twenty years were banks that were not listed on a securities exchange. This was the same in Uganda where all the 10 banks that failed from 1993 were not listed on the exchange. Dzomira (2014)<sup>5</sup> who investigated bank failures in Africa concluded that the failing of banks was attributed to liquidity and solvency problems, because of flawed corporate governance standards.

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<sup>3</sup> Sandeep. (2012). *Financial Management in Developing Countries*

<sup>4</sup><https://www.relbanks.com/worlds-top-banks/assets>

<sup>5</sup> Dzomira, S. (2014). Analysis of Bank Failures during Financial Tumult in Africa - Zimbabwe: A Historical Review. *Journal of Governance and Regulation*, Volume 3, Issue 3, 2014

The above analysis shows that listing of commercial banks would significantly improve corporate governance and transparency which are the main causes of bank failures across Uganda and Africa as a whole. Therefore, the listing of commercial banks would reduce the risk of bank failures and banking crisis in Uganda, leading to better protection of depositor funds and ensuring financial stability which is necessary for economic growth.

### **2.1.1 Listing of Banks in other Jurisdictions**

In the following section, the paper reviews the listing of commercial banks in Nepal, Kenya and Nigeria and the role that public listing has played in improving corporate governance of commercial banks in some of the aforementioned jurisdictions, giving additional evidence on the importance of encouraging commercial banks to list.

#### **2.1.1.1 Nepal**

In Nepal, it is mandatory for all banks and financial institutions to list on the Nepal Stock Exchange (NEPSE) as per the Banking and Financial Institutions Act, 2006. All banks or financial institutions are mandated by the Act to set aside at least 30 per cent of total issued capital for subscription by the public. There are currently 23 commercial banks listed on the NEPSE. Given that commercial banks in Uganda are not willing to voluntarily list on the exchange, only three out of 24 commercial banks are listed (DFCU, Bank of Baroda, and Stanbic Bank), putting in place a mandatory listing requirement for all commercial banks should be considered.

Banks and financial institutions in Nepal are subjected to a two- pronged regulatory and monitoring regime requiring them to make disclosures: one as a bank and another as a public company. All banks and financial institutions are required to be registered as public companies and seek a license from Nepal Rastra Bank to conduct their banking business.

The disclosure regime applicable to banks and financial institutions in Nepal comprises of the accounting standards issued by Accounting Standards Board of Nepal, requirements of Securities Board of Nepal based on Securities Act 2006, provisions of Companies Act 2006, Banks and Financial Institutions Act 2006, and listing requirements of the Nepal Stock Exchange (NEPSE).

However, there is a duplication in some of the disclosure requirements. For example, the Accounting Standards Board requires a Statement of Changes in Equity and Nepal Rastra Bank requires a Profit and Loss Appropriation account, both of which contain several duplicate items. Designing a unified mandatory disclosure requirement may be more cost effective for the banks and financial institutions. As the mandatory listing of commercial banks in Uganda is considered, care should be taken to minimize the duplication of disclosure requirements from Bank of Uganda, Capital Markets Authority and the exchanges.

### 2.1.1.2 Kenya

The Kenyan banking industry was afflicted by multiple bank failures in the 1990s, with poor corporate governance playing a major role in these failures as it did in Uganda. Poor and abusive management was allowed to flourish in banks, because their boards of directors were usually weak, lacking the professional expertise and often the independence and incentives to provide an effective oversight of the bank's management.

Seven out of the eight Tier 1 banks in Kenya are listed on the Nairobi Securities Exchange (NSE) i.e. KCB Bank Kenya Ltd, Equity Bank Kenya Ltd, Co-operative Bank of Kenya, Standard Chartered Bank Ltd, Diamond Trust Ltd, Barclays Bank of Kenya and Stanbic Bank Kenya Ltd. Commercial Bank of Africa is the only Tier 1 bank that is not listed on the NSE. Unlike Kenya that has seen the voluntary listing of Tier 1 banks on the NSE, Tier 1 banks in Uganda have been reluctant to list on the exchange, with only three listings to date. Given this reluctance, there could be a need for a mandatory listing requirement for commercial banks in Uganda.

The listed banks in Kenya have experienced growth and expansion with banks like KCB and Equity Bank expanding to Uganda and other countries within the East African region. The only Tier 1 bank in Kenya not listed on a stock exchange that has expanded its operations to other countries in East Africa is Commercial Bank of Africa. Just like the Kenyan banks, commercial banks in Uganda can list on the capital markets to raise capital to expand to different markets.

All the bank failures in Kenya have been non-listed banks. This was experienced in Uganda as well, where none of the failed banks were listed on the exchange, which demonstrates that listing provides an additional layer of protection in addition to banking regulation.

A review of the bank failures in Kenya reveals that one of the main factors that contributed to the bank failures in Kenya was inadequate corporate governance structures and that none of the banks closed by the central bank were listed on a stock exchange (*See Table 3*). Other causes of the bank failures included transparency and disclosure, inappropriate banking practices, inadequate liquidity and capital reserves

**Table 3: Reasons for the Banks' Failures in Kenya**

Bank	Year	Reason for Failure	Listed on Exchange
Pan African Bank	1992	Large insider lending to the Chairman's company	No
City Finance Bank	1998	Fraud initiated by the Directors	No
Trust Bank	1998	Fraud initiated by the Directors	No
International Finance Company	1997	90% of the loan portfolio was lent to the owner, then a government minister	No

Charterhouse	2003	Money laundering and tax evasion	No
Dubai Bank	2015	Deteriorating cash reserve position and failure to honor financial obligations	No
Imperial Bank	2015	Inappropriate banking practices	No
Chase Bank	2016	Liquidity difficulties as the directors had borrowed from the bank more than they invested in it	No

Source: Central Bank of Kenya

**2.1.1.3 Nigeria**

Fourteen out of the 21 commercial banks in Nigeria are listed on the Nigeria Stock Exchange. The 10 biggest commercial banks in Nigeria as measured by net assets are all listed, similar to Kenya. Another similarity between Kenya and Nigeria is that there is no regulation in place that requires the mandatory listing of all the commercial banks. However, the listing of the commercial banks has played a key role in improving the corporate governance of commercial banks in Nigeria.

Apart from the being among the 10 biggest commercial banks in Nigeria, the listed banks have experienced growth and expansion across the African region with some even expanding to Europe and Asia. As an example, Zenith bank currently operates through a network of over 500 branches, as well as subsidiaries and representative offices in Ghana, Gambia, South Africa, Sierra Leone, the United Kingdom, China, and United Arab Emirates (UAE). Access Bank, another listed company has managed to expand to the United Kingdom and has a representative office in the Republic of China, UAE, India, and Lebanon.

Just like Kenya, Nigeria fairs much better than Uganda in terms of the number of voluntarily listed commercial banks. Out of the 24 commercial banks, only three are listed on the Uganda Securities Exchange. The government of Uganda should therefore consider putting in place mandatory listing requirements for all commercial banks given the reluctance shown by the commercial banks to list on the exchange.

**2.2 Lower Current Account Deficit and Profit Repatriation**

Increasing the local ownership of banks would reduce the current account deficit which would reduce some of the pressures on the exchange rate. Uganda’s current account deficit in 2017 was USD 1.5 billion, out of which USD 695.42 million was the investment income deficit.<sup>6</sup> In 2017, commercial banks made USD 80.53 million in profits.<sup>7</sup> Given that, most of the commercial banks

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<sup>6</sup> Bank of Uganda. *Balance of Payment Statistics*  
<sup>7</sup> Bank of Uganda. (2016/17). Annual Report

have foreign ownership, a large percentage of bank profit was taken out of Uganda. This profit repatriation has a negative impact on Uganda's current account balance.

Currently, only three (Stanbic Bank, Bank of Baroda and DFCU) out of the 24 commercial banks are listed on the Uganda Securities Exchange. As Ugandans are investors in these listed banks, part of their profits is distributed to Ugandan shareholders in form of dividends. The banks therefore do not repatriate all their profits, creating a larger pool of funds that can be re-invested in Uganda.

However, most of the 24 commercial banks in Uganda are mainly foreign owned while the Ugandan shareholding tends to be small. Therefore, most of the profits in the banking sector are repatriated, worsening Uganda's current account. This has a negative impact on the Ugandan economy, as the profits are not reinvested in Uganda; instead, they leave the country, putting pressure on the Ugandan shilling. This makes a strong argument to encourage banks to increase their local shareholding to ensure their profits are re-invested locally.

Assuming that only 50 percent of the profits made (USD 40 billion) by the commercial banks stayed in Uganda, in form of dividend payments to shareholders, the investment income deficit would be lowered to USD 655.15 million.

### **2.3 Increased Investable Assets for Ugandans**

Uganda currently has only nine locally listed companies on the Uganda Securities Exchange, which is small compared to a country like Kenya that has 61 locally listed companies. This means that Ugandan investors have only limited investment options, resulting in a poor savings culture. A mandatory listing requirement for commercial banks would increase the number of locally listed companies on the exchange. This would offer both retail and institutional Ugandan investors more investable assets, hence improving asset diversification and return in the market and encouraging more Ugandans to invest and save, which in turn would attract more companies to list.

Increase in investable assets offers institutional investors better diversification opportunities, allowing them to invest more in riskier assets that offer higher returns. Through diversification, institutional investors are able to reduce unsystematic risk<sup>8</sup> in a portfolio despite systematic risk<sup>9</sup> staying the same. Through diversification, investors are able to minimize the risk of losses. If one investment performs poorly, other investments may perform better over that same period, reducing the potential losses of an investment portfolio compared to concentrating all capital in one or a few investments. Therefore, the risk is lower for a given level of expected return.

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<sup>8</sup> Unsystematic risk is risk that is unique to a specific company or industry and can be lowered through diversification.

<sup>9</sup> Systematic risk is risk that is inherent to the entire market. It cannot be mitigated through diversification, only through hedging or by using the correct asset allocation strategy.

Due to the lower risk through diversification, equities would become a viable investment option for more Ugandans to invest in. Currently only a small fraction of the public invests in equities, partly because of awareness, but also because of their riskiness. More companies listed on the exchange would mean that investors can diversify their investments and reduce the risk of losses. Therefore, the equities market could be a catalyst to encourage the public to save more and plan for their future, while providing capital for the growth of companies and the economy as a whole.

## **2.4 Democratization of Ownership**

Although deposits are the largest source of financing for banks, the interest rates offered by banks on the deposits for savings are relatively low, with most current accounts not offering any interest at all. The banks profit significantly from the deposits by lending them out to the public at relatively high interest rates, averaging 20%, across the commercial banks in Uganda or making other investments such as in government bonds. As the main funders of the banks, Ugandans should therefore be given a chance to share the profits made by the commercial banks.

A mandatory listing requirement would democratize ownership, giving all Ugandans a chance to own stake of the commercial banks and would encourage banks to act more in the interest of the public. Therefore, listing would encourage the banks to lend more to the private sector as well as better protect the deposits of Ugandans and encourage banks to follow best international banking practices.

### 3. Benefits of Mandatory Listing for the Banking Sector

The benefits of public listing are not only limited to the economy, but would offer significant benefits to the commercial banks themselves, especially through the ability to raise capital quickly, if needed as well as build better customer loyalty.

#### 3.1 Secondary Offerings to Raise Additional Capital

Banks with expansion and growth strategies can benefit significantly from listing on the exchange as it allows them to raise additional capital to finance their growth strategies. As shown in the Kenyan case study, all apart from one bank that have expanded abroad, are listed. Once a bank is listed, the bank can easily do a secondary offering or a rights issue. A secondary offering is the sale of common shares by a company that is already listed on an exchange. A rights issue is a right, but not an obligation, offered to existing shareholders, to purchase additional shares in proportion to their existing holdings. In 2017, DFCU Limited, the holding company of DFCU Bank, raised Shs190.6bn in a rights issue to settle a shareholder loan the bank took to meet short-term capitalization needs after taking over Crane Bank, allowing DFCU to expand.

Listed banks can more easily raise capital through corporate bond issuances as they already comply with the listing requirements and are well known to investors. Stanbic Bank has raised capital through corporate bond issuances on the exchange.

Banks usually struggle to raise capital during economic downturns or when their capital is impaired, making Initial Public Offerings usually not a feasible option during such periods. Therefore, non-listed companies would have to rely on raising private capital during crisis periods. Usually already existing shareholders are the most likely investors in order to preserve their existing investment in the bank. However, they might not be willing or able to provide the needed capital, which would leave the bank in a difficult position and could lead to their closure. A listed bank would be able to do a secondary offering or a right issue in order to attract a broader set of investors which could make the difference between insolvency or not. Furthermore, the bank would likely be able to attract better financing terms than from an individual investor.

A commercial bank can also carry out a bonus issue to meet minimum capital requirements by the BoU. A bonus issue is an offer of free additional shares to existing shareholders. From an accounting perspective, a bonus issue is a simple reclassification of reserves, which causes an increase in the paid-up share capital of the company on the one hand, and an equal decrease in other reserves. The total equity of the company therefore remains the same, although its composition has changed. In 2011, Stanbic bank offered bonus shares to investors to increase its paid-up capital from UGX 5 billion to UGX 25 billion as required by BoU.

### 3.2 Customer Loyalty

One way commercial banks can increase customer loyalty and commitment to the bank is by offering customers an opportunity to own shares in the bank through listing on the exchange. Customers would be significantly less likely to switch banks, if they held a stake in the bank. Furthermore, the bank might be able to attract new customers by encouraging the Ugandans that bought shares in the bank to bank with them instead.

Customer loyalty is increasingly important as comparisons between banks' services become easier. New bank clients tend to cost more to acquire, and are unlikely to spend as much money as loyal, repeat clients as they often shop for the best services depending on their needs. Keeping clients coming back for different bank services and products is critical to a bank's success. Loyal clients are not just better for business, they help the banks grow and keep profits high.

Once listed, the public's perception of commercial banks is also likely to improve as Ugandans are given a chance to share in the profits made by the commercial banks. Furthermore, as highlighted in the previous section, listed banks are more likely to act in the best interest of the public, which would improve the brand image of the bank and customer loyalty.

## 4. Conclusion

The paper demonstrates that as a result of listing, several benefits accrue to the economy such as a lower current account deficit and profit repatriation, an increase in the number of investable assets for investors, democratization of ownership and improved disclosure, transparency and corporate governance which would result in a lower risk of bank failures. Furthermore, the banks would benefit themselves through easier access to capital in the future and better customer loyalty.

The listing of the commercial banks on the exchange would give Ugandans an ownership stake in commercial banks, which would reduce the amount of bank profits that are repatriated to foreign owners, which would reduce pressures on the Ugandan shilling and leave more funds to be reinvested in Uganda. Increased ownership by the Ugandan public would ensure more buy-in from the banks in developing Uganda's economy and providing long-term credit to the private sector. Listing of the commercial banks would further increase the number of investable assets, which would improve diversification in the markets, enabling investors reduce risks.

The banks would also have to improve corporate governance practices, which would increase disclosure and transparency in the banking sector. The improved corporate governance would significantly reduce the risk of bank failures and supplement the BoU to ensure the stability of the banking sector. The reduced risk of the banking sector would also build confidence in the banking sector and encourage more Ugandans to deposit their money with the banks, improving financial inclusion and formalization of the economy.

However, it would not just be Uganda that would benefit from the listing of commercial banks, but the commercial banks themselves, as it would allow them to benefit from alternative avenues of raising additional capital for growth and expansion as well as allow them to raise additional capital more easily during crisis periods. Listing of the banks would also increase customer loyalty since customers are less likely to switch banks if they held a stake in it.

With the exception of Nepal that has made it mandatory for all commercial banks to list, in other countries, commercial banks have listed voluntarily, taking advantage of the benefits the listing offers to banks. However, only three banks, DFCU, Bank of Baroda and Stanbic Bank Uganda are currently listed on the Uganda Securities Exchange (USE), while some of the parent companies of some of the other commercial banks are listed on exchanges in other jurisdiction.<sup>10</sup> This shows the unwillingness of banks to list, therefore, putting in place a mandatory listing requirement is recommended.

Requiring all commercial banks to list would act as a barrier to entry to Uganda's banking sector and it would be unreasonable to expect newly founded banks to list. Furthermore, some banks

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<sup>10</sup> Abasa Bank Group that acquired Barclays Bank is listed on the Johannesburg Stock Exchange. EcoBank is listed on the Nigeria Stock Exchange. KCB, Equity Bank, Diamond Trust Bank and Standard Chartered are listed on the Nairobi Securities Exchange.

are too small to make it viable to list due to the costs associated with it. Therefore, mandating all commercial banks to list would hamper growth and competition in the banking sector. With this in mind, the mandatory listing requirement should be limited to Tier 1 banks, which are large enough to bear the costs to go public and where the benefits from listing are expected to be the largest.

Nevertheless, the mandatory listing requirements would be ineffective unless properly enforced, in terms of both the initial listing as well as the continuous reporting and governance requirements. Currently, a public company that fails to comply with annual filing requirement with Uganda Registration Services Bureau is liable to pay a fine of UGX 1,000,000 as per the Companies Act. This is not a sufficient penalty given the size and profitability of some of the public companies. Therefore, the mandatory listing requirement should be combined with heavy fines and penalties for non-compliant banks, including the option not to renew their banking license as a last resort. Therefore, the enforcement of the listing requirements would require good coordination and cooperation between CMA, URSB and BoU. To facilitate the enforcement a coordination committee should be created as well as guidelines, which clearly lay out the responsibilities of each institution.

## 5. Recommendations

In order to improve disclosure, transparency and corporate governance in commercial banks, lower current account deficit and profit repatriation, democratize ownership of commercial banks and reduce the risk of future bank failures in Uganda:

- 📌 All Tier 1 banks should locally list in Uganda.
- 📌 The requirement for the mandatory listing should come with strict enforcement and heavy fines and penalties for non-compliant banks.
- 📌 The CMA, BoU and URSB should coordinate their regulatory activities regarding Tier 1 banks to ensure the regulatory requirements due not create an undue and duplicative burden on the Tier 1 banks.