



Capital Markets Authority

Protecting Your Investments



*The hen sits on its chicks not to kill them but
to protect them... African proverb*

PHOTO THEME

Capital Markets Authority was set up in 1996 to promote, develop, and regulate the capital markets industry in Uganda to achieve market efficiency while ensuring investor protection. Achieving these two-fold objectives primarily requires a robust regulatory regime to deter market fraud and various initiatives to

promote market development. This is akin to the character of a hen that lays eggs, hatches chicks and protects them from the external environment. Various proverbs regarding a hen are used throughout this report to emphasise the regulatory and market development aspects of CMA's work highlighted as below;

The hen sits on its chicks not to kill them but to protect them... African proverb

Through its Legal and Compliance Unit, CMA has developed a robust regulatory framework that guides all market operations. In enforcing its regulations, CMA like the chicken, seeks not to stifle market players, but to protect the market.

The hen scratches and the chicken learns... Asian proverb

CMA practices good corporate governance not only to manage its affairs well but to also serve as an example to all market players.

A chicken with beautiful plumage does not sit in a corner... African proverb

Capital markets bear tremendous opportunity for raising capital and growing investments. The public education unit ensures that as many people as possible get to learn of these opportunities and take advantage of them.

A chicken gets a gem... Asian Proverb

Just like a chicken, through persistent scratching discovers a gem, the Human Resource unit at CMA, through a deliberate recruitment policy focuses on recruiting highly qualified, innovative personnel and training them to become experts in their various fields, as well as maintaining a suitable environment for employee development and retention at CMA.

The Hen's eyes are with her chicken... European Proverb

Market Development is one of the Authority's key areas of focus, as CMA looks out for new products for the market, seeks partnerships to enhance growth and development, through interventions such as the integration of the East African securities markets. The Market Development Unit is always on the lookout for opportunities which can be exploited to CMA's advantage.

The chicken that digs for food will not sleep hungry... African proverb

During the year under review, CMA pursued new sources of funding and continued to lobby for more funding from the Government. The efforts yielded a 65% increment in income and a change from a net deficit to a net surplus for the year 2009/2010 compared to 2008/09.

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Vision

“To Make Uganda’s capital market a centre for capital raising and investment”.

Mission

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

Functions

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

- Protection of investor interests;
- Operation of an investor compensation fund as provided for in section 81 of CMA Act;
- Creation, maintenance and regulation, through implementation of a system in which the market participants are self regulatory to the maximum practicable extent, of market in which securities can be issued and traded in an orderly, fair and efficient manner;
- Development of all aspects of the capital markets with particular emphasis on removal of impediments to, and creation of incentives for longer term investments in productive enterprises.

Values

Our values are:

- Integrity;
- Efficiency;
- Fairness;
- Firmness.

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LETTER OF TRANSMISSION

30th June 2010

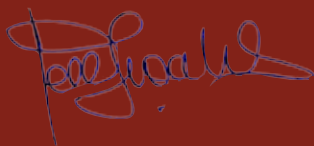
The Honorable Minister of Finance, Planning and Economic Development
Ministry of Finance, Planning and Economic Development
Apollo Kaggwa Road
P. O. Box 8147 Kampala

Dear Honorable Minister,

Pursuant to S.8 (6) of the Capital Markets Authority Act (CAP 84), I have the honor to submit to you the annual report and accounts of the Capital Markets Authority (CMA) in respect of the accounting period ended 30th June 2010.

The report covers the activities, challenges, future plans and financial statements of Capital Markets Authority.

Respectfully yours,



Twaha Kaawaase
Board Chairman

CHAIRMAN'S STATEMENT



Once again, I am pleased to present the Authority's annual report for the year ended 30th June 2010. The fiscal year 2009/2010 marked the end of the strategic planning period July 2007 – June 2010 paving way for a new three-year strategic plan running from July 2010 – June 2013. The plan outlines the priority areas that CMA intends to pursue in line with our new vision;

“To make Uganda’s capital market a centre for capital raising and investment”.

The plan also highlights a new mission;

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

Six strategic objectives will enable CMA achieve the mission and vision. The order in which they are outlined is also an indication of the Authority's prioritization in terms of the commitment of financial resources and dedication of staff time.

These objectives are:

- Enhance the effectiveness of capital markets regulation;
- Sensitise and empower the public to invest in capital markets;
- Develop and facilitate the capital markets to contribute to economic development in Uganda;
- Facilitate the integration of the East African Capital Markets;
- Enhance CMA's institutional capacity to fulfill its mandate;
- Promote international cooperation to enhance partnerships with similar institutions.

The new strategic plan comes at a time when the East African Community (EAC) is moving into a new dispensation with the signing of the EAC Common Market Protocol in November 2009. The East African Securities Regulatory Authorities (EASRA) has developed a roadmap for the integration of the capital markets in East Africa and aligned this to various provisions of the Common Market Protocol.

Of particular interest to CMA in the regional capital markets development are harmonization and mutual recognition of academic and professional qualifications, right of establishment, domestic regulation, free movement of capital, protection of cross-border investments, financial sector policy co-ordination, prohibited business practices, consumer protection, cooperation in statistics, approximation and harmonization of policies, laws and systems, safeguard measures and settlement of disputes. A fully integrated capital markets in 2015 is envisaged even as the Authority participates with the rest of the financial sector in establishing the framework for the East African Monetary Union.

This will be the next phase of EAC integration agenda.

In the wake of the global financial crisis, there is more attention being paid to how well Boards execute their oversight duties over licensed persons and their own abilities to oversee the industry. The laxity and limited capacity of Boards played a big role in recklessness in the financial markets that culminated in the crisis that threatened to bring down the global financial markets. It is in this regard that this financial year, CMA decided to upgrade its performance evaluation tool for the Board to comprehensively assess the performance of the Board in the discharge of its oversight duties. The key tenets of board evaluation were;

- I. Board effectiveness, to maximize strengths and tackle its weaknesses
- II. Good corporate governance
- III. Compliance with the International Organization of Securities Commissions (IOSCO) principles.

The evaluation is divided into five categories. These are the evaluation of Board as whole, Board committee function, self/individual evaluation, evaluation of board and committee chairs by the Members and general comments/evaluation. This evaluation will be continually as a guide in enabling the Authority build its own capacity for oversight of the securities industry in Uganda.

Conclusively, I thank the Ministry of Finance, Planning and Economic Development and Bank of Uganda for their continued support and guidance. I also thank our development partners, especially the World Bank, through the Financial Markets Development Plan for enabling us to conduct various activities to meet our strategic objectives

I thank the Chief Executive Officer, Management and Staff of the Authority for their hard work and dedication towards developing the capital markets in Uganda.

For God and My Country

Twaha Kaawaase
Board Chairman

CHIEF EXECUTIVE OFFICER'S REPORT



Introduction

This financial year 2009/10 started off against a decline of over 40% in market activity at Uganda Securities Exchange(USE) as a result of the secondary effects of the global financial crisis the previous year. This decline in market activity also greatly affected the income that Capital Markets Authority derives from the market in form of fees and trading commission.

The effects of the global financial crisis on the market were further worsened when National Social Security Fund (NSSF) suspended its trading activities on the Uganda Securities Exchange due to governance issues at the Fund. This dealt a blow to the efforts to revive liquidity at the Exchange as NSSF is a major liquidity provider in both the primary and secondary markets. Nevertheless the market exhibited resilience in the face of all these challenges by registering three successful primary issues; the National Insurance Corporation (NIC) Ltd Initial Public Offer (IPO), which raised Ugx. 9.6 billion in a

31.97% over subscription; the Ugx. 30 billion Stanbic Bank (U) Ltd bond and the first tranche of the PTA Bank bond issue which amounted to Ugx. 8.5 billion. This is an indicator of the progressive maturity of Uganda's capital markets and of increased investor confidence.

Legal and Regulatory Developments

The Capital Markets Authority (CMA) is a member of the International Organization of Securities Commissions (IOSCO) which sets the global standards for the capital markets industry. In 2005, the IOSCO Multilateral Memorandum of Understanding, (MMoU), which is an international benchmark for enforcement, cooperation and exchange of information among regulators, resolved that all member jurisdictions should apply to become signatories to the MMoU by 1st January 2010. In 2009, the capital markets regulators in East Africa submitted their applications to become signatories of the IOSCO MMoU. Kenya was admitted as a full signatory (Appendix A), while Uganda and Tanzania were admitted to (Appendix B) because their laws required amendments to allow full exchange of information with other capital markets regulators. The regulators from the two countries committed themselves to get their laws amended so as to become full signatories by the new deadline of January 2013.

In this regard, this financial year the Authority embarked on the process of amending its laws so as to be admitted to appendix A of the IOSCO MMoU as well as comply with all IOSCO principles of best practice in securities regulation.

Admission to Appendix A will not only enhance its visibility on the international scene but also give an opportunity to augment its legal and regulatory framework through information sharing and technical assistance. This will in turn attract more foreign portfolio investment. CMA is grateful to FIRST Initiative and the IOSCO General Secretariat for the assistance they have and continue to provide to the Authority to enable it align its laws to the IOSCO principles.

In line with CMA's mandate to protect investors and ensure the soundness of the market, the Authority

did not renew licenses for the year starting 1st May 2010, for two brokerage firms;

MBEA Brokerage Services limited for failure to meet the minimum capital adequacy requirement and Fidelity Capital Limited for failure to conduct the business for which they were licensed.

Research and Market Development

The Authority continued to facilitate the development of capital markets in Uganda through its research and market development initiatives. In continuation of work already commenced the previous year to develop content for the Ordinary (O) level secondary schools entrepreneurship subject curriculum, various training of trainers programmes were conducted. This initiative is a product of partnership between CMA and the National Curriculum Development Center (NCDC).

The training of trainers programme focused on building capacity among secondary schools teachers who teach the Entrepreneurship subject at “O” level. In addition to the knowledge acquired, the teachers and the schools are provided with manuals, students’ text books and teaching guides. This is part of the Authority’s wider strategy to empower the youth with knowledge and skills to participate in Uganda’s capital markets. A total of 240 teachers from North, East, Central and Western regions of Uganda benefited from this programme. Going forward, the Authority plans to include capital markets in the Entrepreneurship subject curriculum at Advanced secondary school level and in university courses.

In pursuit of CMA’s strategic objective of promoting product development so as to widen the investment and capital raising opportunities in Uganda’s capital markets, CMA focused on the introduction of Asset Backed Securities (ABS) in the Ugandan market. Two ABS stakeholder consultative workshops were organized, at which various policy, legal and regulatory aspects were discussed. With the stakeholder consultations complete, the Authority plans to approve the draft ABS regulations which will pave way for the issuance of and investment in Asset Backed Securities in Uganda’s capital markets.

In the area of investor education CMA, in addition to its schools, universities and several public education programs, supported the work of the Financial Literacy Foundation (FinLit). The establishment of FinLit is an initiative of financial sector regulators and associations aimed at enhancing financial literacy so as to empower the public participate in and contribute to Uganda’s economic development.

Finance and Planning

The Authority continued to receive financial support from the Ministry of Finance, Planning and Economic Development, Bank of Uganda and the World Bank through the Financial Markets Development Plan Secretariat. This Financial year, the Authority received a grant of 7 percent of the NIC IPO proceeds from the privatization Unit in addition to the regulatory fees from the approvals for issuance of both debt and security issues. This coupled with tight budget discipline, enabled CMA to record a surplus of **Ugx. 20 million** up from a deficit of **Ugx. 738 million** recorded the previous financial year.

With regard to the financial sustainability of the Authority, inadequate funding continued to be a challenge and as such some of the planned activities could not be implemented. Nevertheless most of the set out objectives were attained with additional support from the Belgian Technical Corporation, FIRST Initiative, the Financial Markets Development Plan (FMDP) which is funded under the Private Sector Competitiveness Project II (PSCPII), a World Bank/Government of Uganda Funded Project managed by the Private Sector Foundation of Uganda (PSFU).

Human Resource Administration

The Authority has also continued to build and enhance its human resource and administration structures through the introduction of various policies and procedures. Notable among the new human resource and administration developments in the 2009/10 financial year was the enhancement of the staff appraisal system to include the upward feedback which would allow the CMA staff to evaluate the performance of their superiors. This is expected to greatly improve the performance evaluation of CMA employees thereby contributing to greater productivity and efficiency at the Authority.

Looking Forward

Looking forward to the 2010/11 financial year and the next three year strategic period, funding will continue to be a major challenge for the Authority given that the market cannot sustain the budget of the Authority . This is not unique to Uganda but other markets at the same level of development for instance Tanzania, Ghana, Malawi still depend on Government and donor support. However as the market grows it becomes dependent on income from the market as is the case in Kenya. Therefore in the coming years the Authority will still need substantial funding from Government of Uganda. Eeventually with the full implementation of the EAC common market and the integration of the capital markets, the Authority may then begin to gradually wean itself from Government support.

On behalf of Management and Staff of CMA, I would like to thank the Board of Directors for their insightful guidance and support throughout the 2009/10 financial year. I thank all staff members at the Authority for their relentless dedication, resilience and innovation in developing the capital markets industry and protecting investors in Uganda. I thank the Minister of Finance, Planning and Economic Development, Ministers of State responsible for various aspects in the Finance Ministry, the Permanent Secretary/Secretary to the Treasury and his team at the Ministry, the Governor of the Bank of Uganda and his senior staff for the support extended to CMA in various ways. I thank our development partners particularly the World Bank through the FMDP/PSCP II/PSFU project, First Initiative and Belgian Technical Co-operation for supporting our initiatives. Without this support, we would not have registered the achievements outlined in this report and overcome the many challenges faced during the year.

May I now invite you to read this annual report which provides in greater detail, the achievements, developments and challenges of the Authority in 2009/10 financial year as we plan and aspire for greater development in the coming financial year.

Japheth Katto
Chief Executive Officer.

CORPORATE GOVERNANCE REPORT

The Capital Markets Authority (CMA) is committed to the highest level of corporate governance and conducts its affairs in line with the principles set out in the Capital Markets Corporate Governance Guidelines, 2003 and international best practice in corporate governance.

Board of Directors

The 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. The roles of Chairman and Chief Executive are separate and distinct. With the exception of the Chief Executive Officer, all members of the Board are Non Executive Directors.

This ensures that there is sufficient independence in decision making.

The Board is appointed by the Minister of Finance, Planning and Economic Development and is accountable to the Minister for ensuring compliance with the Capital Markets Authority Act (Cap 84). In 2008 some members of the Board were reappointed for a further term of three years while others were newly appointed by the Minister of Finance, Planning and Economic Development, in accordance with the provisions of section 4(6) of the Capital Markets Authority 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.

The Board meets every month. Details of the Board and Committee meetings held in the year under review and attendance of those meetings are set out in Tables A-F below. The Senior Management Team attends all Board meetings and there is regular interaction between the Board and the Senior Management Team.

The Board fulfills key functions, including reviewing, guiding and approving corporate strategy, operational plans, risk policy, annual budgets and business plans; setting performance objectives; monitoring corporate performance; and overseeing major capital expenditures.

The Board Secretary, (Director Legal & Compliance of CMA) is responsible for proper administration of the Board proceedings, the provision of administrative and secretarial services and providing legal advice to the Board. The Chairman and the Board Secretary ensure that the agenda of the Board is in tandem with CMA's priorities. The Board Secretary also reviews papers in advance of circulation to Board members to ensure that the information is accurate and clear.

The members of the Board have all the resources required to carry out their roles and responsibilities.

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.

Board Training

Board training and exposure is essential in keeping Board members abreast with developments in the capital markets globally. During the year, the Board received ongoing professional development on issues that are pertinent to capital markets development.

The Board also received papers for information on various issues affecting global securities markets, presentations on the Global Financial Crisis and its regulatory implications for the capital markets.

Some members of the Board attended the 24th meeting of the International Organization of Securities Commissions (IOSCO) Africa / Middle East Regional Committee in Accra Ghana. This was followed by a two day study attachment at the Securities and Exchange Commission of Ghana, Ghana Securities Exchange and the Ghana Securities Depository Co. Ltd. The study attachment also included a visit to the Housing Finance Company (Unit Trust) and Merban (Trustee/Custodian).

Members of the Audit and Risk Management Committee of the Board attended training on Internal Audit in Kampala.

Review of Board Effectiveness

The Board evaluation process is designed to provide Directors with an opportunity to examine Board effectiveness and make suggestions for improvement. During the period under review, the Board carried out an evaluation of the performance of its members in compliance with the Board manual. Each of the Board members received a detailed questionnaire which was designed to draw out responses on the performance of the individual members and the Board as a whole. The questionnaire was intended to engage Directors in an open and constructive dialogue about their performance and to identify areas for improvement. The results of the evaluation will be analyzed by an independent firm and discussed with the Board. The evaluation process will be used as a mechanism to improve Board effectiveness, maximize strengths, tackle weaknesses and promote good corporate governance.

Remuneration of the Board

The members of the Board are entitled to sitting allowances and a monthly retainer out of the general fund of the Authority, as determined by the Minister of Finance, Planning and Economic Development. Below is a table summarizing the entitlements .

A: Allowances relating to meetings

	Monthly Retainer (Ugx.)	Sitting allowance (Ugx.)
Chairman	300,000	300,000
Members	200,000	250,000

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 a special Board meeting held on the 9th of July 2009 to consider enforcement action against Renaissance Capital Ltd following compliance breaches by the firm.

An extra ordinary Board meeting was held on 31st of August 2009 to consider an application by Renaissance Capital Ltd for reinstatement of license. An extra ordinary meeting was also held on the 31st of March 2010 to consider the report by Management on the request by MBEA Brokerage Services (U) Ltd for renewal of license. Table A contains the names of members and a record of attendance of meetings during the year.

The Board of Directors

The CMA Board is composed of 12 members including the Chief Executive Officer in line with the CMA Act. During the year ended 30th June 2010, one Board member Dr. Olli Pekka Ruuskanen, a representative of the Insurance Institute of Uganda, ceased membership following resignation from service at the Insurers Association of Uganda.

Below is the photo of the Board:



(Seated left to right) Ms. Harriet Lwabi, Ms. Miriam Magala, Mr. Twaha Kaawaase, Ms. Maris Wanyera, (Standing left to right) Mr. Grace J.Kavuma, Mr. Japheth Katto, Mr. Stephen Kaboyo, Mr. Timothy Maseembe Kanyerezi, Mr. Bisereko Kyomuhendo, Mr. Robert Kabonero, Mr. Steven M.Turyahikayo & Mr. John Wafula

1

Ms. Harriet Lwabi:- Ms. Harriet Lwabi is the Ag. Solicitor General and Director Legislative Drafting/First Parliamentary Counsel at the Ministry of Justice and Constitutional Affairs. She holds a Bachelor of Laws degree (LLB) from Makerere University and a Diploma in Legal Practice from the Law Development Centre. She also holds a Masters of Law Degree in Legislative Drafting from the University of the West Indies.

2

Ms. Miriam Magala:- Ms. Miriam Magala is an advocate and Company Secretary of Uganda Insurers Association (UIA). She is the Secretary of the Insurance Institute of Uganda. Ms. Magala holds an LLB. Hons (Makerere University) and LLM in International Law (University of Nottingham). She represents the Insurance Institute of Uganda on the Board.

3

Mr. Twaha Kaawaase:- Mr. Twaha Kawaase is the Chairman of CMA Board. He is a partner in one of the leading local accountancy firms, Ssejjaaka, Kaawaase & Co. Certified 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 at Makerere University Business School.

4

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, Ministry of Finance, Planning and Economic Development on the Board.

5

Mr. Grace J. Kavuma :- Mr. Kavuma is a qualified accountant (CPA Kenya), he is a member of the Institute of Certified Public Accountants (CPA Kenya & Uganda) and is the Chief Finance Officer of Barclays Bank of Uganda Ltd. He holds a B. Com (Accounting) Degree and an MBA (Finance) from Washington International University. He represents the Uganda Bankers Association on the Board.

6

Mr. Japheth Katto:- Mr. Katto is an accountant by Profession. He is a Fellow of the Association of Chartered Certified Accountants (FCCA) and a member of the Institute of Certified Public Accountants of Uganda. He is also a Board Member of the International Federation of Accountants (IFAC). He is the Chief Executive Officer of CMA and an ex-officio member of the Board.

7

Mr. Stephen Kaboyo:- Mr. Kaboyo is a Banker by profession, and Director of the Financial Markets Department, Bank of Uganda. He represents the Governor of the Bank of Uganda on the Board.

8

Mr. Timothy Masembe Kanyerezi:- Mr. Masembe is an advocate and Partner of M/S Masembe, Makubuya, Adriko, Karugaba & Sekatawa Advocates (MMAKS) . He is a Barrister at Law & a member of the Inner Temple UK, he holds an LLB (Hons) (London) degree and was called to the bar of England & Wales in 1992. He represents the Uganda Law Society on the Board.

9

Mr. Bisereko Kyomuhendo:- Mr. Bisereko Kyomuhendo is an advocate and Acting Registrar General and Registrar of Companies in the Ministry of Justice & Constitutional Affairs. He holds a Bachelors of Laws Degree (LLB) from Makerere University and a Diploma in Legal Practice from the Law Development Centre.

10

Mr. Robert Kabonero :- Mr. Kabonero is a business entrepreneur and Board chairman of Whiteshows Ltd. He is the Managing Director of Audley Ltd. He holds a B.A (Hons) in Business Administration and Retail Management from Oxford Brookes University. He represents the Uganda National Chamber of Commerce and Industry on the Board

11

Mr. Steven M. Turyahikayo:- Mr. Turyahikayo is a Chartered Certified Accountant (ACCA), Certified Information Systems Auditor (CISA) and a Partner in M/S Kazibwe, Kenneth & Steven Certified Public Accountants. He represents the Institute of Certified Public Accountants of Uganda on the Board.

12

Mr. John Wafula:- Ms. Wafula is the Chief Executive Officer of Uganda Clays Ltd. He holds a degree in Commerce from the University of Nairobi. He has held several management positions and directorships including, General Manager Ugationers Ltd, Uganda Bookshop, Director, National Housing & Construction Corporation as well as Director, Uganda Manufacturers Association. He represents the Uganda Manufacturers Association on the Board.

TABLE A – CMA BOARD MEMBERS MEETING ATTENDANCE (JULY 2009- JUNE 2010)

Board Member	Board Meetings	Legal & Compliance Committee	Finance & Planning Committee	Human Resource & Administration Committee	Audit & Risk management Committee	Research & Market Development Committee
Twaha Kaawaase	15/15					
Billy Kainamura	13/15	5/6		1/3		
Maris Wanyera	9/15		2/3			1/3
Bisereko Kyomuhendo	7/15	3/6		3/3		
Steven M. Turyahikayo	11/15				3/3	2/3
Grace J. Kavuma	14/15	2/6	3/3			
Stephen Kaboyo	11/15	4/6				3/3
Robert Kabonero	9/15		2/3	0/3		
Timothy Masembe Kanyerezi	5/15	4/6			2/3	
Olli-Pekka Ruuskanen	10/14'		3/3			2/3
John Wafula	13/15			3/3	2/3	
Japheth Katto	14/15	6/6	2/3	3/3		2/3

(Footnotes)

1 Cessation of Membership to Board in May 2010

Board Committees

The CMA Board exercises its oversight role through a governance structure comprising various committees namely;

- Finance & Planning Committee;
- Legal & Compliance Committee;
- Research & Market Development Committee;
- Human Resource & Administration Committee;
- Audit & Risk Management Committee.

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. The function and structure of the committees for the year under review are described below. 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 committees meet at least quarterly. The quorum for each committee is at least half of the appointed members. Each committee determines its own procedures.

Legal & Compliance Committee

The purpose of the Legal & Compliance committee is to oversee the development of an appropriate legal and regulatory framework for the capital markets industry. The committee oversees the implementation and enforcement of compliance matters by the Authority. During the period July 2009 - June 2010 the Legal committee convened six meetings to consider applications for licenses, approval of an application by National Insurance Corporation (NIC) to offer shares to the public, enforcement action against Renaissance Capital Ltd and MBEA Brokerage Services, the CMA Anti Money Laundering Guidelines, the CMA Statement of Principles and Code of Conduct, the amendments to the Uganda Securities Exchange Listing Rules, the amendments to the Capital Markets Authority (Cross Border Introduction) Regulations and the proposed legal framework for Asset Backed Securities in Uganda.

The Finance & Planning Committee

The committee is responsible for guiding the Board on policy matters relating to Finance & Planning. 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 published and made available to the public. The committee convened three meetings during the period under review to consider the revised budget and procurement plan for 2009/2010, quarterly reports, the revised Finance and Accounting Manual, the budget for financial year 2010-11 and the CMA Strategic Plan for 2010-2013.

The Human Resource & Administration Committee

The Human Resource committee assists the Board in the formulation of policies geared towards recruitment, retention and development of personnel to discharge the functions of the Authority. The committee is also responsible for monitoring, appraising performance of Management, handling disciplinary matters and determining remuneration. The Committee held four meetings during the period under review to consider various human resource matters.

The Audit & Risk Management Committee

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, reporting structures and risk management. In performing its functions, the committee maintains effective working relationships with the Board of Directors, Management and external auditors. The Audit Committee held five meetings during the period under review to consider and approve the audited financial statements for the year ended 30th June 2009, the Internal Audit work plan for the financial year 2009/10, the internal audit quarterly reports, among other business.

Research & Market Development Committee

The role of the Research and Market Development committee is to assist the Board in the formulation of policies that are geared towards research and market development. The committee held three meetings during the period under review to consider reports on; East African Community Regionalization, the Regional Certification program and the consultancies provided under IFC/ESMID projects. The committee also met to consider the Management paper on the strategies for enhancing the vibrancy of Uganda's capital markets.

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 Act. Under this Act, all Government and statutory bodies have to establish contract committees. The role of these committees is to approve the procurement and disposal of works, goods and services. The PPDA Act provides for a three - year tenure of the committee.

The term of the committee members expired on 20th of March 2009 and the members were re-appointed by the Board for an additional three year - term. This re-appointment was confirmed by the Permanent Secretary/ Secretary to the Treasury, Ministry of Finance, and Planning & Economic Development in March 2009. The committee comprised; Ms. Anne Mpendo, Chairperson, Mr. Eric Lokolong , Ms. Phoebe Kiconco Mugisa, Mrs. Ann Kyohairwe Muhangi all of whom are staff members and Mr. John Suuza - representative of the Solicitor General

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 Authority's 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.

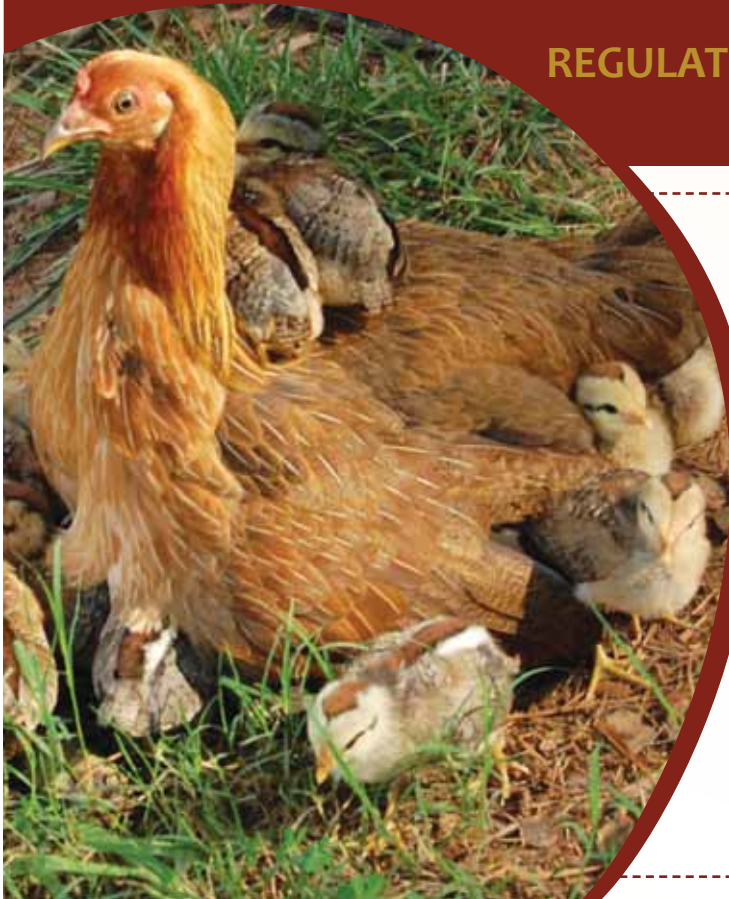
External Audit

CMA publishes 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 CMA Act. Deloitte & Touché Certified Public Accountants were re-appointed auditors for the year ended June 2010.

Ethics

The CMA Board & Staff manuals provide a guide on acceptable behavior at the work place. 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 required to declare their assets and liabilities to the Inspector General of Government as spelled out 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 market intermediary. The Authority keeps a register with details on the securities transactions carried out by members of staff.

REGULATION OF THE INDUSTRY AND INVESTOR PROTECTION



The hen sits on its chicks not to kill them but to protect them African proverb

Through its Legal and Compliance Unit, CMA has developed a robust regulatory framework that guides all market operations. In enforcing its regulations, CMA like the chicken, seeks not to stifle market players, but to protect the market.

The CMA is an autonomous body responsible for promoting, developing and regulating the capital markets industry in Uganda. The functions of CMA are to regulate and promote a fair transparent and efficient capital markets industry in Uganda. This can be achieved through effective regulation of the industry.

The Legal and Compliance department supports the Authority in achieving its functions as required by section 5 of the CMA Act Cap 84. Specifically, the department focuses on approval of all public offers of securities, licensing and supervision of market players. The department also focuses on investor protection by ensuring that the right securities and market players come to the Uganda securities market. The department is also charged with the responsibility of carrying out investigations and recommending enforcement action in circumstances of breach.

Development of Legal framework

In the year under review, CMA approved several amendments to the Uganda Securities Exchange (USE) Rules and the Uganda Securities Exchange Listing Rules (2003). The amendments were submitted to the CMA by the USE Governing Council and are intended to foster the East African Community integration, and accord preferential treatment to companies listed on East African stock exchanges.

The amendments to Schedule 8 of the USE Listing Rules 2003 were as follows

- 1) All securities that are listed on the USE as a secondary listing from companies domiciled in the East African region shall pay an initial listing fee of 0.1% of the market capitalization of the securities to be listed subject to a maximum of 500 currency points and a minimum of 200 currency points.
- 2) Securities mentioned in (1) above shall pay an annual listing fee of 0.025% of the market capitalization of the securities listed subject to a maximum of 1000 currency points and a minimum of 150 currency points.
- 3) All securities listed on the USE as a secondary listing from companies domiciled outside the East African region shall pay an initial listing fee of 0.1% of the market capitalization of the securities to be listed, subject to a maximum of 7500 currency points and a minimum of 5,000 currency points.
- 4) Securities mentioned in (3) above shall pay annual listing fees of 0.025% of the market capitalization of the securities listed, subject to a maximum of 2000 currency points and a minimum of 1,000 currency points.

During the period under review, the USE also applied to the CMA and was granted a license to operate a Securities Central Depository (SCD). The CMA Board considered and approved the SCD Regulations made under the SCD Act and the SCD Rules by the USE. The SCD was officially launched on 18th February 2010. In line with making the SCD operations smooth, the CMA granted permission for USE to amend chapter 3 Rule 11 and Appendix 4 of the USE Rules 2003 to provide for a cash guarantee instead of a bank guarantee, which members of the Exchange provide to the USE for their operations.

The CMA Board also approved the amendments to the Third Schedule of the Capital Markets (Cross Border) Introductions Regulations, 2004 as follows;

- a) For the lodgement of an information memorandum from within East Africa for an introduction Ugx. 10,000,000.
- b) For the lodgement of an information memorandum from outside East Africa for an introduction Ugx. 50,000,000.

New Initial Public Offers

The National Insurance Corporation (NIC) applied to the CMA and the Board approved the NIC offer for sale of 161,552,000 ordinary shares to the public constituting the Government of Uganda's 40% stake in the company. The Initial Public Offer to the Public (IPO) commenced on 31st December 2009 and NIC shares were listed on the USE on the 25th March 2010.

New Licenses

During the period under review, the Board approved the license application of UAP Financial Services Ltd for an Investment Adviser License part "C" Fund Management and a Broker/Dealer license.

Supervision

CMA conducted the annual inspections of all its licensees and the exercise was concluded in April 2010. This was done before the licenses for the next year 2010/2011 were issued to ensure that all licensees were in compliance with the CMA laws and regulations.

Renewed Licenses

In total, the Board renewed eight broker /dealer licenses, six licenses were renewed for fund management and 18 Licenses for investment advisory.

The Board at its meeting of 31st August 2009 reinstated the license of ReNaissance Capital (U) Ltd as a Fund Manager, Investment Advisor and Broker/Dealer having satisfied the Board that they were in compliance with CMA's statutory and regulatory obligations. Fidelity Capital Management Ltd license was not renewed as they did not apply for license renewal.

Enforcement

The Board at its meeting of 25th June 2009 considered the application of MBEA Brokerage Services Ltd for renewal of their Broker/Dealer license. The application for renewal of license was rejected on the grounds that MBEA Brokerage Services Ltd did not meet the statutory requirements of capital adequacy.

DEVELOPING THE CAPITAL MARKETS INDUSTRY IN UGANDA AND THE EAST AFRICAN REGION



The Hen's eyes are with her chicken... European Proverb

Market Development is one of the Authority's key areas of focus, as CMA looks out for new products for the market, seeks partnerships to enhance growth and development, through interventions such as the integration of the East African securities markets. The Market Development Unit is always on the lookout for opportunities which can be exploited to CMA's advantage.

The 2009/10 fiscal year was characterized by low secondary trading volumes at the Uganda Securities Exchange (USE) as a result of the continued secondary effects of the global financial crisis and the absence of the National Social Security Fund (NSSF) from the secondary market for equities at the USE. With respect to the investor profile, the market witnessed more domestic investors than foreign investors with the former increasing by an average of 6% and the latter an average of 2%. However despite their few numbers, the foreign investors made more investments in the market registering an average increase in shareholding of 4.4% in 2009/10 compared to 0.8% for domestic investors.

DOMESTIC INITIATIVES

In the 2009/10 fiscal year, CMA also commenced the process of introducing Asset Backed Securities (ABSs) in the market, which is part of the wider market development objective of diversifying saving and investment opportunities by increasing the number of products available in the market. First a study was conducted on the feasibility of ABSs in Uganda under the Efficient Securities Market Institutional Development Initiative (ESMID) project and was then followed by a stakeholders' workshop in the second quarter of 2009/10. ABSs are fairly new in Africa; however they have existed in developed economies for more than 50 years where they have played a major role in housing and infrastructure financing. ABSs once introduced in Uganda will play a critical role in meeting challenges of housing, infrastructure and long-term finance that Uganda currently faces.

Based on the recommendations of the feasibility study and the input from the stakeholders' workshop, CMA commenced on the drafting of regulations which would layout the legal framework for ABSs in Uganda. CMA further received technical assistance from the Uganda Primary Mortgage Market Initiative to guide the process of drafting the ABS regulations. This culminated into the drafting of the regulations and a stakeholders' workshop to discuss the same. The draft regulations are due to be submitted to the Legal Board committee before final approval by the CMA Board.

Developments in the Market

Equities

During the period under review, there was one Initial Public Offer (IPO), a divestiture of 40% government shareholding in the National Insurance Corporation (NIC) Ltd. The Government shareholding was equivalent to 161,552,000 shares valued at Ugx. 7,269,840,000 (i.e. each share was valued at Ugx. 45). A total of 2,415 applications were received during the IPO; 2,289 from individuals and 57 from corporations/institutions.

The entire IPO was oversubscribed by 31.97% raising Ugx.. 9,594,228,600; Ugx.. 2,324,388,600 above the IPO's targeted Ugx.. 7,269,840,000.

NIC shares were listed on the Uganda Securities Exchange (USE) on 25th March 2010. On the first day of trading, the counter closed at Ugx. 60 per share reflecting a gain of 33% over the IPO price of Ugx. 45.

Bonds

Two corporate bonds were issued in the 2009/10 fiscal year; the Stanbic Bank Uganda (SBU) and the Preferential Trade Area (PTA) Bank Bonds. The Stanbic Bank Bond which matures in 2016 is worth Ugx. 30 billion with both floating rate and fixed rate notes. The rate of the floating rate notes is 1.5% points above the 182-Day Treasury bill rate and the rate of the fixed rate notes is 14.5%.

The PTA Bank bond matures in 2015 and is worth Ugx.. 20 Billion with both floating rate and fixed rate notes. The rate of the floating rate notes is 1.25% points above the 182-Day Treasury bill rate and the rate of the fixed rate notes is 14%.

A total of Ugx. 8.5 billion was raised in the first tranche of this bond issue.

The SBU and PTA bonds bring the total number of outstanding corporate bonds to five. The other three outstanding ones are the East African Development Bank, Standard Chartered Bank and Housing Finance Bank bonds.

Housing Finance Bank (HFB) issued its final bond note initially valued at Ugx. 9.9 billion (US\$ 4.4 Million) out of the total corporate bond amount of Ugx. 30 billion (US\$ 13.3 Million) primarily issued in December 2007. However due to overwhelming appetite from mainly local commercial banks and fund managers, HFB applied to CMA for an increase in the issue amount by Ugx. 5.1 billion (US\$ 2.3 Million) to mop up the over-subscription and the approval was granted.

Secondary Markets

USE recorded a growth of 8.7% in the volume of shares traded and a decline of 34% in turnover in the 2009/10 fiscal year compared to the secondary market activity in the 2008/09 fiscal year. On the other hand the market capitalization grew by 11% on account of two new listings Equity Bank which was cross listed from the Nairobi Stock Exchange and NIC. The USE All –Share Index also gained 29.5% points due to the posting of good financial results from various listed companies which pushed up the demand for the shares of these companies. The improvement in the All–Share Index was also as a result of the renewed investor confidence in the Nairobi Stock Exchange and Uganda Securities Exchange both of which have a bearing on the performance of the USE All –Share Index. Table 1 shows the trends in market activity at USE from 2006/07 to 2009/10.

Table 1. Trends in Market Activity at the Uganda Securities Exchange (2006/07-2009/10)

	2006/07	2007/08	2008/09	2009/10	Growth ⁴
Volume of Shares Traded (Million)	273.9	326.7	169.9	184.6	8.7%
Turnover (Million)-Ugx.	48,425	91,714	47,906	31,436	-34.4%
Market Capitalization (Billion Ugx.)	4,569.4	6,206.6	7,702.0	9,991.9	29.7%
All Share Index	846.76	1,049.0	790.81	1,023.82	29.5%

Source: Uganda Securities Exchange Market Reports

Fund Management

The fund management industry which comprises of five licensed fund managers and a Collective Investment Schemes (CIS) manager also continued to grow registering a growth of 163% from Ugx. 126.7 billion under management at the end of the 2008/09 fiscal year to Ugx. 333 billion at the end of 2009/10.

This is largely on account of increased outsourcing by corporate entities of the management of occupational pension or provident funds to the CMA licensed fund managers and CIS manager.

East African Capital Markets Integration Roadmap

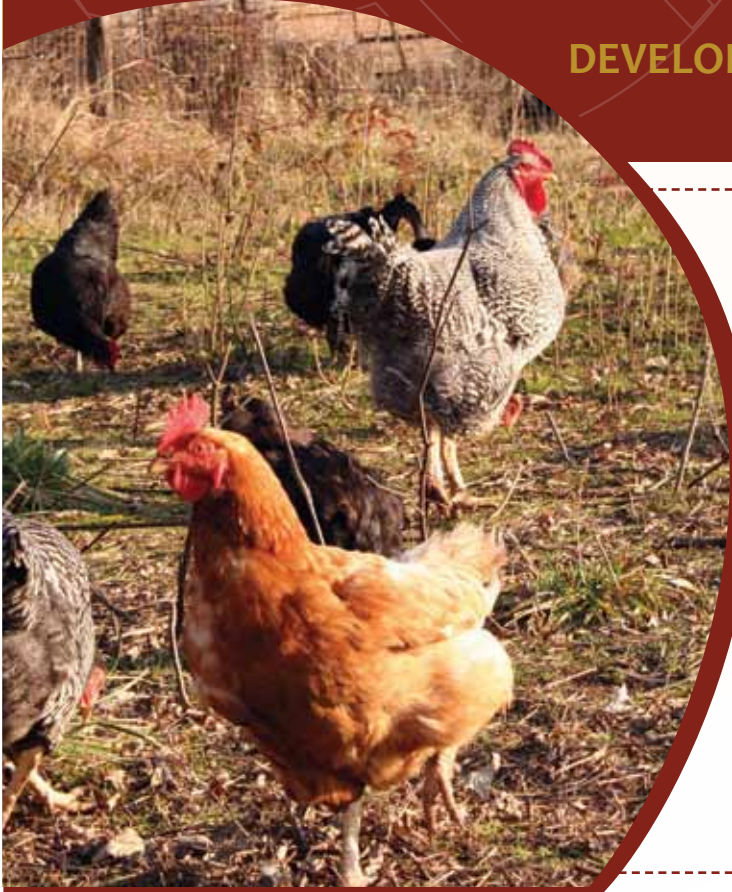
Under the regional body that brings together capital markets regulators in the East African region, the East African Securities Regulatory Authorities (EASRA), CMA with other capital markets regulators in the East African Community (EAC) developed an implementation framework for the integration of capital markets in the EAC in the second quarter of 2009/10. This framework was derived from the East African capital markets integration roadmap developed under the ESMID project funded by the International Finance Corporation (IFC), Swedish International Development Agency (Sida) and the World Bank among others. This plan will guide the capital markets integration efforts in the EAC in the next five years.

As part of the capital markets regional integration implementation plan, work has already commenced on the integration of the Securities Central Depositories (SCDs) in the EAC and a committee has been nominated to work out the modalities as well as lay out strategies of integrating the SCDs in the EAC capital markets. CMA is represented on this committee.

Future Outlook

The next financial year will be very critical for the development of the capital markets in Uganda in light of the EAC common market and the ever evolving capital markets regulatory landscape on the international scene. In this regard, CMA will continue facilitating and promoting product development so as to diversify the investment and capital raising opportunities in the Ugandan market as well as strengthen the legal and regulatory framework.

DEVELOPING THE MARKET THROUGH PUBLIC EDUCATION



A chicken with beautiful plumage does not sit in a corner... African proverb

Capital markets bear tremendous opportunity for raising capital and growing investments. The public education unit ensures that as many people as possible get to learn of these opportunities and take advantage of them.

Public education is a key channel through which the Authority fulfils its primary mandate of market development and regulation. The Authority's public education is guided by a public education and communications strategy, developed/ reviewed every three years, to meet the changing market needs. This section thus provides an analysis of public education activities carried out this financial year and summarizes the successes and challenges in implementing the Authority's three year public education and communication strategy.

FROM AWARENESS TO CAPABILITY

The Authority has changed its strategy from educating investors to equipping them with financial capability. This change in strategy is designed to cover a wide range of investor needs in a bid to sensitise and empower the public to invest in capital markets and will enable investors to: choose appropriate products that meet their needs; differentiate between various products; beware of the different risks associated with investing in securities.

During the period under review, the public education approach focused on two main pillars that made it possible to implement successful public education programmes as follows:

PILLAR ONE - INCLUSIVENESS; Reach all segments of the population and progressively cover education on all financial products and services.

This was achieved through secondary school educational programmes held in partnership with the Ministry of Education and Sports, the National Curriculum Development Centre, secondary school teachers and students directly impacting 321 schools. One such programme was a competition known as the Capital Markets Secondary Schools Challenge (CMSSC) targets Advanced level students, with education on various financial sector issues, particularly capital markets. This financial year, 396 students and their patron teachers directly participated in the Challenge, and wider participation was achieved through establishment of investment clubs in 60 schools from all over the country. The Challenge also was screened on national television for the benefit of the entire population through national television. To compliment the school programmes, CMA carries out school and university seminars all year round. The seminars are in form of presentations that detail issues of saving and investment in capital markets. A total of 21 university and 26 school seminars have been implemented.

The workplace has also developed into a place where knowledge can be shared. The Authority has taken advantage of this to implement the Office to Office initiative that sensitizes office workers on personal finance,

saving and investing in capital markets. This year, 5 offices were visited seminars were conducted during the period.

One-on-One Education: Direct provision of investor awareness programmes, in particular face-to-face training, provides immediate results. This has been achieved particularly through public exhibitions and workshops. Only one road show – the National Incorporation Corporation was held. This involved visiting several upcountry districts including Mbale, Mbarara, Gulu, Lira, Jinja, Wakiso, Kabale, Soroti and Hoima, to inform and educate the public about the offer of shares.

The dissemination of information brochures has also been widely utilised with production of over 30,000 additional new brochures in the following categories; Know your rights as a shareholder, Raising Long Term Finance”, Corporate Actions in the capital markets.

Website: Currently one of the most popular channels for providing financial education services is through dedicated websites. The CMA website provides investors with detailed financial education.

Apart from regular textual information, various practical tools have been introduced to avail online knowledge on capital markets.

PILLAR TWO - COOPERATION: CMA has created strategic alliances with other financial supervisors, public authorities, social institutions and donors. Key among the established alliances is with the Financial Development Plan (FMDP) that was established to map out strategies to drive the development of financial markets in Uganda for the next five years (2008 - 2013). It includes representatives of the central bank, financial institutions, government, supervisory institutions, capital markets, the stock exchange, pensions and insurance companies. Since the inception of FMDP, CMA has received funding for various public education programmes

CMA also works closely with Association of Chartered Certified Accountants (ACCA) under an MOU that has enabled capacity building of business and financial journalists. The partnership has blossomed to enable establishment of:

a. An Advisory Committee: This is a panel of high profile individuals established to advise journalists on pertinent issues in the financial sector. Information is provided through a number of channels including face-to-face meetings, telephone discussions and internet through a press room.

b. A Press Room: This is a discussion forum set up on face book to enable journalists exchange information on pertinent issues in the financial sector. It is a chat room created to enable financial journalists interact with various players in the financial sector and also as a channel through which the media can direct inquiries, seek clarification and even obtain information on the financial sector.

c. The Kikonyogo Capital Markets Award for Financial Journalism: For the past seven years, CMA has organised the Kikonyogo Capital Markets Award to recognize players in the financial sector who have contributed to the development of the sector. Among these players, CMA has included financial journalists whose work is outstanding. Following the CMA – ACCA partnership, the Award has been supported by ACCA. This year, the best journalist was sponsored for a fully paid study tour of the South African capital markets industry and the ACCA office in South Africa. The rest of the journalists received funds to invest in capital markets.

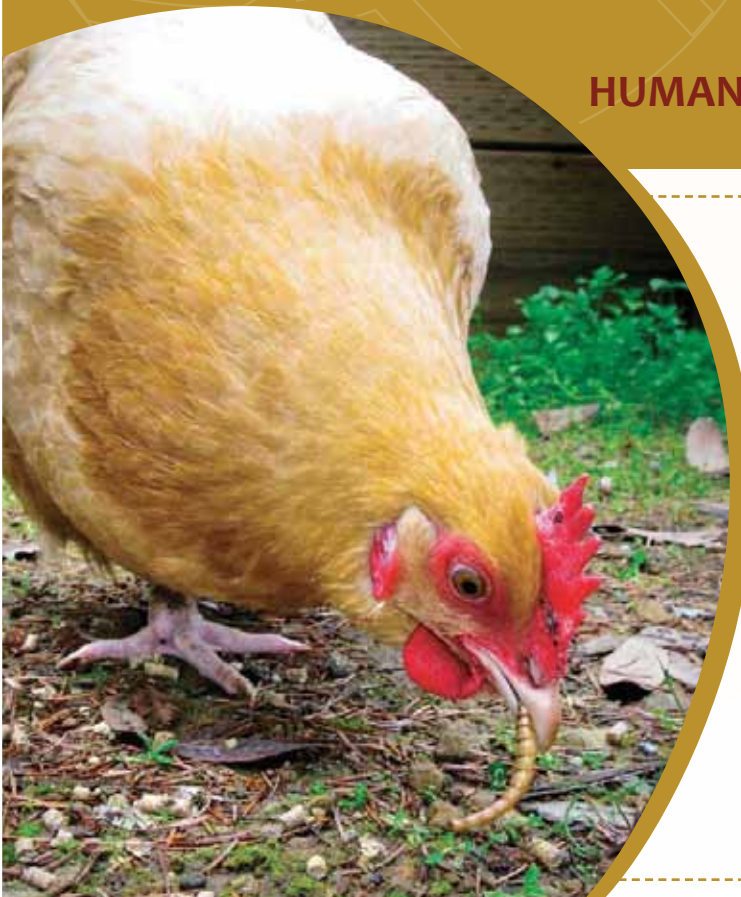
Through the above initiatives, CMA this year reached over 4,860 people.

MONITORING AND EVALUATION; A CONTINUING CHALLENGE

Evaluation and monitoring of financial education continues to be a challenge, with regard to obtaining required evidence on the impact of implemented programmes.

Appropriate funding must be ensured to guarantee the effectiveness of programmes, a challenge the Authority has faced over the years. However donor funding has enabled the execution of many programmes making CMA a leader in the area of financial education.

HUMAN RESOURCE AND ADMINISTRATION



A chicken gets a gem... Asian Proverb

Human Just like a chicken, through persistent scratching discovers a gem, the Human Resource unit at CMA, through a deliberate recruitment policy focuses on recruiting highly qualified, innovative personnel and training them to become experts in their various fields, as well as maintaining a suitable environment for employee development and retention at CMA.

The Human Resource and Administration department is tasked with the responsibility of providing effective and efficient human resources management, administrative and logistical support for the Authority. The department comprises four distinct functions; Human Resource Management, Administration, Information Technology and Procurement services.

Talent acquisition

In the year ended June 2010, two new staff were recruited; Mr. Ronald Timothy Kasolo and Mr. Dickson Ssembuya Magulu for the positions of Compliance Officer and Research Officer respectively.

The two are expected to contribute towards the achievement of organisational goals in two critical areas; compliance and market development.

Staff training & development

Various training interventions and initiatives were implemented to consolidate the capacity of CMA to develop the market. All identified skill and knowledge gaps were addressed. Key among the trainings was a three-day Securities Central Depository (SCD) training which was most critical for building the capacity of CMA in preparation for automated trade and settlement in Uganda's securities market. The training was conducted by the Central Depository and Settlement Company of Mauritius and covered critical areas including infrastructure set up and management, the role of the registrar in facilitating an electronic trading platform, account opening, confidentiality, and insights on preparing for regional integration, audit of licensees, and ensuring accountability to the investors through provision of periodic statements. The need for continuous capacity building was emphasized to keep abreast with advancements in technology.

Information Technology

To prepare and meet the demands of the changing face of trading in the market from manual to electronic, CMA strengthened its information and communication technology infrastructure as a precursor to the anticipated needs in the industry. Initiatives to enhance information technology capacity included changing internet connectivity from a leased line to fibre optic, increasing band width, network expansion and website upgrade.

Procurement

The Authority continued to ensure compliance with the Public Procurement & Disposal Act in all its procurement activities. The Procurement Unit continuously provided technical support in regulatory matters and built a commendable relationship with suppliers to ensure timely and quality service delivery. This was critical for timely implementation of activities geared towards developing the market. Compliance with the PPDA regulations has earned CMA top ranking among the compliant institutions in Uganda.

Planned activities for 2010/11

The Authority plans to further strengthen talent management and development through continuous training and development of appropriate policies geared towards creating a performance based culture while driving employee productivity and focus. With the steady growth of the market, we forecast that there will be need for additional talent to enhance the capacity of CMA in meeting the ever changing and challenging market conditions that arise from time to time.

FINANCE AND PLANNING REPORT



The chicken that digs for food will not sleep hungry... African proverb

During the year under review, CMA pursued new sources of funding and continued to lobby for more funding from the Government. The efforts yielded a 65% increment in income and a change from a net deficit to a net surplus for the year 2009/2010 compared to 2008/09.

The Finance and Planning department is responsible for the Authority's planning, risk and financial management and reporting. The functions of the department include the following;

- Develop, monitor and review the implementation of financial control systems, policies and procedures in line with international best practice;
- Manage CMA's financial performance against approved revenue and expenditure estimates;
- Prepare regular reports to advise the Board and Management and on budgetary control measures within the agreed reporting guidelines;
- Liaise with the internal and external auditors for the conduct of internal and external audits respectively;
- Prepare monthly, quarterly and annual final accounts, statements and reports for submission to the CMA Board and the Ministry of Finance, Planning and Economic Development, in compliance with the International Financial Reporting Standards (IFRS) and CMA/Government policies and procedures;
- Review CMA's consolidated budget, prepare budget papers and present them to the Board and Management for approval;
- Develop and monitor CMA's planning and risk management against approved annual budgets and risk management plans respectively;
- Source and manage financial resources from various stakeholders.

Analysis of 2009/10 financial performance

Overall, the 2009/10 financial year posted a surplus of Ugx. 20 million, an upward move from a deficit of Ugx. 738 million that was reported in the previous financial year.

Income

The Authority's sources of income have not changed. A total of Ugx. 2.76 billion was received from Government grants, donations and from the internal generation sources namely prospectus and floatation fees, licensing fees and interest income. The income received in 2009/10 represents an increase of 66% from the previous financial year.

Government Grants

Ugx. 2.1 billion was received in Government grants as below; Ugx. 1.1 billion from Bank of Uganda, Ugx. 494 million from Privatization Unit and Ugx. 497.5 million from Ministry of Finance.

This represented 75% of the total revenue and an increment of 125% from the last financial year. The increase is attributed to receipt of the subvention from Ministry of Finance, and funds received from the privatization Unit relating to the memorandum of understanding which provides that 7% of the proceeds from the Government sale of shares in an Initial Public Offer be contributed to the Authority to facilitate market development activities. During the year ended 30th June 2010, funds were received from the Privatization Unit relating to listing of National Insurance Corporation Ltd.

Donations

A total of Ugx. 363 million was received from donations in the year ended 30 June 2010 representing 13% of the total income. The donations were given in support of capacity building, regional integration and various public education activities.

Prospectus and floatation fees

Ugx. 54.5 million was realized in prospectus and floatation fees. This income line comprises application fees to issue or list a security on the Uganda Securities Exchange. During the period under review, fees were received from National Insurance Corporation, Housing Finance Bank Uganda Ltd and PTA Bank.

Licensing fees

There was no significant change in licensing fees during the year ended 30th June 2010.

Interest income

There was decline in interest income of 54% from Ugx. 205 million in 2008/9 to Ugx. 94 million in the year under review.

This is due to the low rates of return on treasury bills in which the Authority invested, following the global economic crisis and a decrease in the Authority's reserves available for investment.

EXPENDITURE

The total expenditure incurred by the Authority in 2009/10 financial year amounted to Ugx. 2.74 billion, a 10% increase from 2008/9. Overall there was a decrease in administrative expenses and significant increases were registered in staff costs (25%) due to increase in staff numbers, implementation of a revised pay structure and in other expenses due to increased participation in regional integration activities and the various public education activities undertaken.

The general fund posted an increase of 20 million in line with the surplus posted.

HIGHLIGHTS OF KEY ACHIEVEMENTS

Strategic and operational plan

Following the expiry of the strategic plan for the period 2009-2010 and the need to consolidate the Authority's mandate, a new strategic plan covering the period 2010- 2013 was developed and approved by the Board. To track progress in achieving the set goals and objectives, an operational plan for the financial year 2010/11 was also developed.

Acquisition of software

The department acquired various software to enhance its efficiency in operations, financial and management reporting. These include the paymaster software to manage the payroll and other staff costs, the tally accounting software for financial accounting and asset manager software to ease management the Authority's non-current assets.

CAPITAL MARKETS AUTHORITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

DIRECTORS AND PROFESSIONAL ADVISORS

DIRECTORS	<p>Mr. Twaha Kaawaase - Chairman</p> <p>Mr. Bisereko Kyomuhendo - Member</p> <p>Ms. Harriet Lwabi - Member</p> <p>Mr. Grace Jethro Kavuma - Member</p> <p>Mr. John Wafula - Member</p> <p>Mr. Timothy Masembe Kanyerezi - Member</p> <p>Ms. Maris Wanyera - Member</p> <p>Mr. Stephen Kaboyo - Member</p> <p>Mr. Steven Turyahikayo - Member</p> <p>Mr. Robert Kabonero - Member</p> <p>Ms. Miriam Magala - Member</p> <p>Mr. Japheth Katto - CEO</p>
BOARD AUDIT COMMITTEE	<p>Mr. Steven Turyahikayo - Chairman</p> <p>Mr. John Wafula - Member</p> <p>Mr. Timothy Kanyerezi Masembe - Member</p>
BOARD SECRETARY	<p>Ms. Angela Kiryabwire Kanyima Capital Markets Authority 8th Floor, Jubilee Insurance Centre 14 Parliament Avenue P. O Box 24565 Kampala</p>
AUDITORS	<p>Deloitte & Touché Certified Public Accountants (Uganda) 3rd Floor, Rwenzori House 1 Lumumba Avenue P. O. Box 10314 Kampala</p>
BANKERS	<p>Standard Chartered Bank Uganda Limited 5 Speke Road P. O. Box 7111 Kampala</p> <p>Stanbic Bank Uganda Limited Crested Towers, Hannington Road P. O Box 7131 Kampala</p>
LAWYERS	<p>The Legal & Compliance Department Capital Markets Authority 8th Floor, Jubilee Insurance Centre 14 Parliament Avenue P. O Box 24565 Kampala</p>

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2010

The Directors present their report together with the audited financial statements of the Authority for the year ended 30 June 2010.

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 regulating stock exchanges, brokers/dealers, investment advisors and all other persons dealing in securities business.

RESULTS

	2010
	Ushs '000
year	<u>20,849</u>

DIRECTORS

The current members of the board are shown on page 2. Members of the board serve for a three year term period. Dr. Olli-Pekka Ruuskanen retired in May 2010 and was replaced by Ms. Miriam Magala who was appointed effective September 2010. Mr. Billy Kainamura retired in September 2010 following his appointment to serve in the Judiciary of Uganda and was replaced by Ms. Harriet Lwabi.

AUDITORS

Deloitte & Touche who were re-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) in accordance with the provisions of section 159 (2) of the Companies' Act.

BY ORDER OF THE BOARD



Secretary

Kampala

26th October 2010

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

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



Director
26th October 2010



Director
26th October 2010

REPORT OF THE AUDITOR GENERAL TO PARLIAMENT IN RESPECT OF CAPITAL MARKETS AUTHORITY FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2010

Under section 8 (11) of the Capital Markets Authority Act (Cap 84) and section 17 of the National Audit Act 2008, I am required to audit the accounts of Capital Markets Authority. In accordance with the provisions of Section 23 of the National Audit Act, I appointed Messrs Deloitte and Touché Certified Public Accountants, to audit the accounts of the Authority on my behalf and report to me so as to enable me report to the Speaker of Parliament.

Report

The financial statements of Capital Markets Authority set out on pages 39 to 56 which comprise the statement of financial position as at 30th June 2010 and the statement of comprehensive income, statement of changes in the fund balance and statement of Cash flows 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 Authority 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 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 statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of 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 on the entity's internal controls. An audit also includes evaluating the appropriateness of 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 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 statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of 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 on 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.

I believe that the audit evidence obtained was sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion the financial statements, give a true and fair view of the state of affairs of the financial position of the Authority as at 30th June 2010 and of its surplus 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's Act I report to you based on the audit that;

- i) All the information and explanations which were necessary for the purposes of the audit were obtained;
- ii) Proper books of accounts 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

3rd December 2010

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 Ushs '000	2009 Ushs '000
Income			
Government revenue grants	4	2,066,300	916,397
Donations	5	363,792	173,620
Prospectus and floatation fees		54,540	80,000
Licensing fees		46,150	57,675
Interest income		94,929	205,498
Release of capital grants		65,573	54,434
Other income	6	70,792	178,908
Staff costs	7	(1,437,633)	(1,152,476)
Withholding tax on investment income		(16,079)	(30,625)
Administrative expenses	8	(591,660)	(648,218)
Other operating expenses	9	(695,855)	(573,931)
Surplus/(Deficit) for the year		<u>20,849</u>	<u>(738,718)</u>
Other Comprehensive Income		<u>-</u>	<u>-</u>
Total Comprehensive Income for the year		<u><u>20,849</u></u>	<u><u>(738,718)</u></u>

STATEMENT OF FINANCIAL POSITION
30 JUNE 2010

	Note	General fund Ushs '000	Investor Compensation fund Ushs '000	2010 Ushs '000	2009 Ushs '000
ASSETS					
Non-current assets					
Equipment	12	127,046	-	127,046	167,069
Intangible assets	13	17,414	-	17,414	191
		<u>144,460</u>	<u>-</u>	<u>144,460</u>	<u>167,260</u>
Current assets					
Held-to-maturity investments	14	134,655	412,740	547,395	667,612
Receivables	15	730,907	-	730,907	190,663
Broker/dealer account		5,270	-	5,270	16,149
Investor Compensation Fund Account		-	38,358	38,358	343,186
Cash at bank and in hand		547,457	-	547,457	544,748
		<u>1,418,289</u>	<u>451,098</u>	<u>1,869,387</u>	<u>1,762,358</u>
Total assets		<u><u>1,562,749</u></u>	<u><u>451,098</u></u>	<u><u>2,013,847</u></u>	<u><u>1,929,618</u></u>
CAPITAL EMPLOYED AND LIABILITIES					
Capital employed					
General fund		<u>1,108,779</u>	<u>-</u>	<u>1,108,779</u>	<u>1,087,930</u>
Non-current liabilities					
Investor Compensation fund	10	-	451,098	451,098	397,166
Capital grant	11	133,843	-	133,843	173,867
		<u>133,843</u>	<u>451,098</u>	<u>584,941</u>	<u>571,033</u>
Current liabilities					
Broker/dealer deposits		105,000	-	105,000	90,000
Payables and accrued expenses	17	215,127	-	215,127	180,655
		<u>320,127</u>	<u>-</u>	<u>320,127</u>	<u>270,655</u>
Total equity and liabilities		<u><u>1,562,749</u></u>	<u><u>451,098</u></u>	<u><u>2,013,847</u></u>	<u><u>1,929,618</u></u>

The financial statements on pages 39 to 56 were approved by the Board of Directors on 26th October 2010 and were signed on its behalf by;



Director



Director

**STATEMENT OF FUND BALANCE
FOR THE YEAR ENDED 30 JUNE 2010**

	General fund Ushs '000
2009	
At 1 July	1,826,648
Deficit for the year	(738,718)
	<hr/>
At 30 June	<u>1,087,930</u>
2010	
At 1 July	1,087,930
Surplus for the year	20,849
	<hr/>
At 30 June	<u>1,108,779</u>

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010**

	Note	2010 Ushs '000	2009 Ushs '000
Cash flows from operating activities			
Operating surplus/(deficit) for the year		20,849	(738,718)
Adjustments for:			
Interest income		(29,595)	(26,140)
Depreciation of equipment		65,573	54,434
Amortisation of software		1,418	1,635
Release of capital grants		(65,573)	(54,434)
Gain on disposal of equipment		(5,736)	-
		<hr/>	<hr/>
Operating deficit before working capital changes		(13,064)	(763,223)
Increase in receivables		(540,244)	(126,728)
Increase/(decrease) in broker/dealer deposits		15,000	(10,000)
Increase in Investor compensation fund		53,932	59,363
Increase/(decrease) in payables and accrued expenses		34,472	(24,374)
		<hr/>	<hr/>
Net cash used in operating activities		<u>(449,904)</u>	<u>(864,962)</u>
Cash flows from investing activities			
Purchase of equipment		(25,549)	(183,603)
Purchase of treasury bills		(2,395,522)	(2,332,297)
Interest income received on investments		48,532	179,358
Redemption of treasury bills		2,346,109	2,823,452
Proceeds on disposal of equipment		5,736	-
Purchase of software		(18,641)	-
		<hr/>	<hr/>
Net cash (used in)/generated from investing activities		<u>(39,335)</u>	<u>486,910</u>
Cash flows from financing activities			
Capital grant received		25,549	183,603
		<hr/>	<hr/>
Net cash generated from financing activities		<u>25,549</u>	<u>183,603</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(463,690)	(194,449)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD		1,476,988	1,671,437
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 30 JUNE		<u><u>1,013,298</u></u>	<u><u>1,476,988</u></u>
Represented by:			
Cash and cash equivalents (Note 16)		<u><u>1,013,298</u></u>	<u><u>1,476,988</u></u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1 REPORTING ENTITY

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 BASIS OF PREPARATION

a) Statement of compliance

i) Statement of Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS).

ii) Adoption of New and Revised International Financial Reporting Standards

a) Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no impact on the amounts reported are set out in section (b).

Standards affecting presentation and disclosure

IAS 1 Presentation of Financial Statements (as revised in 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures); expands the disclosures required in respect of fair value measurements and liquidity risk. The directors have elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments

Amendments to IAS 7 Statement of Cash Flows (adopted in advance of effective date of 1 January 2010); specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

Standards and Interpretations affecting the reported results or financial position

- *IAS 1, Presentation of Financial Statements* (effective for accounting periods beginning on or after 1 January 2009)
- *Amendments to IAS 38 Intangible Assets*; As part of Improvements to IFRSs (2008), IAS 38 has been amended to state that an entity is permitted to recognise a prepayment asset for advertising or promotional expenditure only up to the point at which the entity has the right to access the goods purchased or up to the point of receipt of services.
- *Amendments to IAS 39 Financial Instruments: Recognition & Measurement and IFRS 7 Financial Instruments: Disclosures* regarding reclassifications of financial assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)

2 BASIS OF PREPARATION (Continued)

a) Statement of compliance (continued)

ii) Adoption of new and Revised International Financial Reporting Standards (Continued)

b) Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions or arrangements.

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*; The amendments deal with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRSs for the first time and with the recognition of dividend income from subsidiaries in a parent's separate financial statements.
- Amendments to IFRS 2 *Share-based Payment - Vesting Conditions and Cancellations*; The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.
- IAS 23 (as revised in 2007) *Borrowing Costs*; the principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred. This change has had no impact on these financial statements because the entity has no borrowings.
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*; The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*; the amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
- Embedded Derivatives (Amendments to IFRIC 9 and IAS 39); The amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the 'fair value through profit or loss' category as permitted by the October 2008 amendments to IAS 39 *Financial Instruments: Recognition and Measurement* (see above).
- Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (adopted in advance of effective date of 1 January 2010); Disclosures in these financial statements have been modified to reflect the IASB's clarification (as part of *Improvements to IFRSs (2009)*) that the disclosure requirements in Standards other than IFRS 5 do not generally apply to non-current assets classified as held for sale and discontinued operations.
- IFRS 3 (as revised in 2008) *Business Combinations* (business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009). Its adoption has affected the accounting for business combinations in the current period.
- IAS 23 (Revised), *Borrowing Costs* (effective for accounting periods beginning on or after 1-Jan-2009)
- IAS 27 (as revised in 2008) *Consolidated and Separate Financial Statements* (annual periods beginning on or after 1 July 2009). The revisions to IAS 27 principally affect the accounting for transactions or events that result in a change in the Company's interests in its subsidiaries.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010 (Continued)**

2 BASIS OF PREPARATION (Continued)

b) Basis of measurement

The financial statements have been prepared on the historical cost basis of accounting.

c) Functional and presentation currency

The financial statements are presented in Uganda Shillings (Ugx.), which is also the company's functional currency. Except as indicated, financial information presented in Uganda Shillings has been rounded to the nearest thousand.

d) Use of estimates and judgements

The preparation of financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

3 SIGNIFICANT ACCOUNTING POLICIES

a) 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.

b) 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 statement of comprehensive income.

c) 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.

d) 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010 (Continued)**

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Investments 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.

f) 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.

g) 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	3 years
Furniture	4 years
Motor	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 statement of comprehensive income.

h) *Intangible*

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.

i) *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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) *Taxation*

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

k) *Comparatives*

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

l) *Components of cash and cash equivalents*

For the purpose of the cash flow statement, cash is considered to be cash on hand and in operating bank accounts.

m) *Financial instruments*

i) Financial assets

Financial assets are recognised initially at cost using settlements date accounting. Held to maturity investments are subsequently measured at amortised cost while financial assets held for trading and available for sale are measured at fair value.

ii) Loans, advances and receivables

Loans advances and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Loans and advances are recognised when cash is advanced to borrowers.

iii) Financial liabilities

Borrowings are classified as financial liabilities.

De-recognition

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised when its contractual obligations are discharged or extinguished.

Measurement

Financial instruments are initially recognised at fair value plus transaction costs.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Financial instruments (continued)

Financial assets at 'fair value through profit or loss' are subsequently carried at fair value. Gains and losses arising from changes in the fair value in those assets are recognised in the statement of comprehensive income in the period in which they arise.

Loans and advances and held to maturity investments are carried at amortised cost using the effective interest rate method.

Financial liabilities are subsequently measured at amortised cost.

n) Critical judgements in applying the entity's accounting policies.

In the process of applying the entity's accounting policies, Management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of judgement in applying the group's accounting policy are dealt with below:

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets and development costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2010 (Continued)**

	2010 Ushs '000	2009 Ushs '000
4 GOVERNMENT GRANTS		
Bank of Uganda	1,074,451	916,397
Privatisation Unit	494,349	-
Ministry of Finance	497,500	-
	<u>2,066,300</u>	<u>916,397</u>
Analysis of Bank of Uganda Grant		
Total funds received	1,100,000	1,100,000
Transfer to capital grant	(25,549)	(183,603)
	<u>1,074,451</u>	<u>916,397</u>
5 DONATIONS		
GTZ/Sida	-	47,829
Private Sector Foundation Uganda	363,792	125,791
	<u>363,792</u>	<u>173,620</u>
6 OTHER INCOME		
Share trading commission	58,056	162,508
Sale of tender documents & sponsorships	7,000	16,400
Gain on disposal of equipment	5,736	-
	<u>70,792</u>	<u>178,908</u>
7 STAFF COSTS		
Salaries and wages	1,055,030	834,379
Staff Provident Fund	144,185	94,536
NSSF contribution	89,462	86,427
Staff gratuity	48,734	45,960
Staff medical scheme	48,490	31,004
Staff welfare	45,542	52,970
Overtime	6,190	7,200
	<u>1,437,633</u>	<u>1,152,476</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010 (Continued)**

	2010 Ushs '000	2009 Ushs '000
8 ADMINISTRATIVE EXPENDITURE		
Office general expenses	157,612	200,168
Office rent	136,444	130,862
Depreciation	65,573	54,434
Motor vehicle maintenance and fuel	57,685	43,603
Telephone, fax, postage and e-mail	49,735	40,402
Subscriptions	36,596	52,317
Publication, printing and stationery expenses	19,213	45,214
Statutory audit fees	18,411	19,017
Consultancy fees	16,649	18,002
Internal audit fees	15,460	11,776
Office repairs and maintenance	7,142	11,519
Bank charges	5,718	4,957
Advertisement and media coverage	4,004	14,312
Amortisation of software	1,418	1,635
	<u>591,660</u>	<u>648,218</u>
9 OTHER OPERATING EXPENSES		
Mass education	245,875	257,383
Capacity building	190,061	135,049
Regional Co-operation	157,176	99,392
Directors' fees and allowance	66,952	33,500
Other Board expenses	35,791	44,857
Research	-	3,750
	<u>695,855</u>	<u>573,931</u>
10 INVESTOR COMPENSATION FUND		
Designated bank balance	38,358	343,187
Investments	412,740	53,979
	<u>451,098</u>	<u>397,166</u>
11 CAPITAL GRANT		
At 1 July	173,867	44,698
Capital grant received during the year	25,549	183,603
Release of capital grant to income and expenditure account	(65,573)	(54,434)
	<u>133,843</u>	<u>173,867</u>
At 30 June	<u>133,843</u>	<u>173,867</u>

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2010 (Continued)**
12 EQUIPMENT

	Office equipment Ushs '000	Furniture & fittings Ushs '000	Motor Vehicles Ushs '000	Total Ushs '000
COST				
At 1 July 2008	176,468	277,683	184,340	638,491
Additions	34,720	5,300	143,583	183,603
At 30 June 2009	<u>211,188</u>	<u>282,983</u>	<u>327,923</u>	<u>822,094</u>
At 1 July 2009	211,188	282,983	327,923	822,094
Additions	17,710	7,839	-	25,549
Disposals	(31,485)	(1,380)	(29,098)	(61,963)
At 30 June 2010	<u>197,413</u>	<u>289,442</u>	<u>298,825</u>	<u>785,680</u>
DEPRECIATION				
At 1 July 2008	151,031	265,220	184,340	600,591
Charge for the year	19,792	9,227	25,415	54,434
At 30 June 2009	<u>170,823</u>	<u>274,447</u>	<u>209,755</u>	<u>655,025</u>
At 1 July 2009	170,823	274,447	209,755	655,025
Charge for the year	25,559	4,118	35,895	65,572
Eliminated on disposal	(31,485)	(1,380)	(29,098)	(61,963)
At 30 June 2010	<u>164,897</u>	<u>277,185</u>	<u>216,552</u>	<u>658,634</u>
NET BOOK VALUE				
At 30 June 2010	<u>32,516</u>	<u>12,257</u>	<u>82,273</u>	<u>127,046</u>
At 30 June 2009	<u>40,365</u>	<u>8,536</u>	<u>118,168</u>	<u>167,069</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010 (Continued)**

	2010 Ushs '000	2009 Ushs '000
13 INTANGIBLE ASSETS		
Cost		
At 1 July & 30 June	9,161	9,161
Addition	18,641	-
Eliminated on disposal	(9,161)	-
	<hr/>	<hr/>
	18,641	9,161
Amortization		
At 1 July	8,970	7,335
Charge for the year	1,418	1,635
Eliminated on disposal	(9,161)	-
	<hr/>	<hr/>
At 30 June	<u>1,227</u>	<u>8,970</u>
Net Book Value	<u><u>17,414</u></u>	<u><u>191</u></u>
14 HELD TO MATURITY INVESTMENTS		
Treasury bills		
Maturity within three months	422,213	572,905
Maturity after three months	125,182	94,707
	<hr/>	<hr/>
	<u><u>547,395</u></u>	<u><u>667,612</u></u>
The weighted average effective interest rate earned on investments for the year ended 30 June 2010 was 5.5 % (2009: 6%).		
15 RECEIVABLES	2010 Ushs '000	2009 Ushs '000
Staff advances	35,741	52,093
Prepayments	11,207	11,026
Activity advance	10,010	-
Other receivables	240	1,753
Private Sector Foundation Uganda(FMDP)	179,360	125,791
Government of Uganda/Privatisation Unit	494,349	-
	<hr/>	<hr/>
	<u><u>730,907</u></u>	<u><u>190,663</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2010 (Continued)**
16 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. The year-end cash and cash equivalents comprise the following:

	2010 Ushs '000	2009 Ushs '000
Broker/dealer account	5,270	16,149
Investor compensation fund account	38,358	343,186
Cash at bank and in hand	547,457	544,748
Held to maturity investments (due within 3 months)	422,213	572,905
	<u>1,013,298</u>	<u>1,476,988</u>
17 PAYABLES AND ACCRUED EXPENSES		
Creditors	183,120	157,367
Other payables	32,007	23,288
	<u>215,127</u>	<u>180,655</u>
18 CONTINGENT LIABILITIES		
There were no contingent liabilities as at 30 June 2010.(2009; Nil)		
19 CAPITAL COMMITMENTS		
Authorised and contracted for	<u>-</u>	<u>6,996</u>
20 RELATED PARTY TRANSACTION		
The following transactions were carried out with related parties:		
i) Key management compensation		
Salaries and other short term employment benefits	194,936	183,840
Gratuity	<u>48,734</u>	<u>45,960</u>
ii) Board Members' remuneration		
Members' fees and allowances	<u>66,952</u>	<u>33,500</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

21 RISK MANAGEMENT POLICIES

FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market 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, liquidity and market risk. 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 currency risk, interest rate risk, credit risk 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 2010 is made up as follows:

As at 30 June 2010	Total Ushs '000	Fully Performing Ushs '000	Past due Ushs '000	Impaired Ushs '000
Financial assets				
Cash and cash equivalents	1,013,298	1,013,298	-	-
Receivables	<u>730,907</u>	<u>730,907</u>	<u>-</u>	<u>-</u>
As at 30 June 2009				
Financial assets				
Cash and cash equivalents	1,476,988	1,476,988	-	-
Receivables	<u>190,663</u>	<u>190,663</u>	<u>-</u>	<u>-</u>

Cash and cash equivalents are fully performing.

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

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2010**
21 RISK MANAGEMENT POLICIES (Continued)
(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.

At 30 June 2010	Total	Less than 3 months	Between 3-6 months	Between 6-12 months	Over 12 months
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Financial Assets					
Cash and cash equivalents	1,013,298	1,013,298	-	-	-
Held-to-maturity investments	125,182	-	125,182	-	-
Receivables	730,907	683,973	35,741	11,193	-
	<u>1,869,387</u>	<u>1,697,271</u>	<u>160,923</u>	<u>11,193</u>	<u>-</u>
Financial Liabilities					
Trade and other payables	214,207	183,120	-	31,087	-
Broker and dealer deposits	105,000	-	-	-	105,000
	<u>319,207</u>	<u>183,120</u>	<u>-</u>	<u>31,087</u>	<u>105,000</u>
Net liquidity position	<u>1,550,180</u>	<u>1,514,151</u>	<u>160,923</u>	<u>(19,894)</u>	<u>(105,000)</u>
At 30 June 2009	Total	Less than 3 months	Between 3-6 months	Between 6-12 months	Over 12 months
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Financial Assets					
Cash and cash equivalents	1,476,988	1,476,988	-	-	-
Held-to-maturity investments	94,707	-	94,707	-	-
Receivables	190,663	127,904	6,325	56,434	-
	<u>1,762,358</u>	<u>1,604,892</u>	<u>101,032</u>	<u>56,434</u>	<u>-</u>
Financial Liabilities					
Trade and other payables	180,655	157,367	-	23,288	-
Broker and dealer deposits	90,000	-	-	-	90,000
	<u>270,655</u>	<u>157,367</u>	<u>-</u>	<u>23,288</u>	<u>90,000</u>
Net liquidity position	<u>1,491,703</u>	<u>1,447,525</u>	<u>101,032</u>	<u>33,146</u>	<u>(90,000)</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

21 RISK MANAGEMENT POLICIES (Continued)

(c) Market risk

Interest rate risk

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

	Weighted average effective interest rate	Total	3 months to 1 year	1 to 5 years	5+ years
As at 30 June 2010		Ushs'000	Ushs'000	Ushs'000	Ushs'000
Variable interest rate instruments	6%	547,395	547,395	-	-

Foreign currency risk

The Authority undertakes certain transactions denominated in foreign currencies and as such is exposed to exchange rate fluctuations.

LIST OF LICENSED PERSONS AS AT 30TH JUNE 2010

List of persons licensed by the Capital Markets Authority to conduct securities business in Uganda	
<p>Baroda Capital Markets Ltd * Broker/Dealer Investment Advisor and member of USE Plot 18 Kampala Road P.O. Box 7197 Kampala - Uganda. Tel: 0414 233 680/3, Fax: 041 258263 E-mail: bob10@calva.com Contact: Mr. Kaushal Kumar</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: 041 341414 E-mail: cfs@cranefinancialservices.com Contact: Mr. Ajay Kumar</p>
<p>Dyer and Blair Uganda Ltd * Broker/ Dealer Investment Advisor and member of USE Dyer and Blair P.O.Box 36620 Ground Floor Rwenzori House E-mail: shares@dyerandblair.com Contact: Mr. Samuel Njirwa</p>	<p>Equity Stock Brokers Ltd * Broker/Dealer, Investment Advisor and member of USE lot 6/6a Orient Plaza P.O. Box 3072, Kampala Tel: 0414 236012/3/4/5, Fax: 041 348039 E-mail: equity@orient-bank.com Contact: Mr. Edward Ruyonga</p>
<p>Crested Stocks and Securities Ltd Broker/Dealer, Investment Advisor and member of USE 6th Floor Impala House Plot 13/15 Kimathi Avenue, P. O. Box 31736, Kampala Tel: 0414 230900, Fax: 041 230612 E-mail: info@crestedsecurities.com Contact: Mr. Robert Baldwin</p>	<p>DeVere & Partners Uganda Ltd Investment Advisor, B4 Adam House Plot 11, Portal Avenue P. O. Box 21409 Kampala - Uganda Tel: 0414 342411, 340846, 078 807079, Fax: 041 342411 E-mail: jatin.ghughu@ia-int.com Contact: Mr. Jatin Ghughu</p>
<p>PKF Consulting Ltd Investment Advisor Plot 37 Yusuf Lule Road P. O. Box 24544, Kampala Tel: 0414 341523/5, Fax: 041 251370, 341371 E-mail: pkfkam@ug.pkfea.com Contact: Mr. Murtuza Dalal</p>	<p>UAP Financial Services Limited Broker/Dealer, Fund Manager Floor 1 Communications House P.O. Box 1610 Kampala Tel: 0414 233843, 343222,343269, Fax: 041 343277 Contact: Kennedy M. Riungu</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 Person: Mr. David Ofungi</p>	<p>PricewaterhouseCoopers (Ltd) Investment Advisor 10 Floor Communications House 1 Colville Street Kampala Tel: 0414 236018, 041 233 743, Fax: 041 239153 E-mail: general@ug.pwc.com Contact: Mr. Francis Kamulegeya</p>
<p>African Alliance (Uganda) Ltd * Fund Manager, Unit Trust Manager, Investment Advisor, Broker/Dealer and member of USE 6th Floor Workers House, Pilkington Road Kampala Tel: 0414 235577. Fax: 041 235575 E-mail: info@africanalliance.co.ug Contact: Mr. Kenneth Kitariko</p>	<p>Stanbic Investment Management Services (EA) Limited Fund Manager/ Investment Advisor 11th Floor Crested Towers P. O. Box 7131, Kampala Tel: 031 224322/600. Fax: : 041 254697 E-mail: owinym@stanbic.com Contact: Mr. Martin Owiny</p>

<p>Pinebridge Investments Ltd Fund Manager, Investment Advisor 1 Pilkington Road, 7th Floor P O Box 9831, Kampala, Uganda Tel: 0414-340707/8, Fax: 0414-340750 Contact person: Mr. Nicholas Malaki E-mail: nicholas.malaki@aig.com</p>	<p>ICEA Investment Services Limited Fund Management Rwenzori Courts P. O. Box 33953 Kampala Tel: 256 412 347535/256 414 232337 E-mail: icea@africaonline.co.ug Contact: Mr. Gary Corbit</p>
<p>Bullion Capital Limited Investment Advisor Room 401 Diamond Trust Building Tel:041434828/2 Fax :0414348282 Contact : George Ndirangu</p>	<p>DFCU Bank Ltd Trustee, Collective Investment Schemes Impala House 13 Kimathi Avenue, P.O. Box 70, Kampala Tel: 041 231784/256891/3, 031 300300, Fax: 231687/344260 E-mail: official@dfcugroup.com Contact: Ms. Agnes Tibayeita</p>
<p>Deloitte Uganda Limited Investment Advisor 3 Floor Rwenzori House 1 Lumumba Avenue, P.O. Box 10314 Kampala Tel: 256-414-343850, Tel: 256-752-740300 Contact: Mr. George Opiyo</p>	<p>Profin Group (Uganda) Limited Investment Advisor Plot 10 School Lane Naguru, Kampala P O Box 36697, Kampala Tel: +256-414-533261/2, Fax: +256-414-533261 Email: Uganda@theprofinngroup.com Contact: Mr. Eric Du Plessis</p>
<p>Uganda Securities Exchange (USE) Stock Exchange 2nd Floor Northern Wing Worker's House 1 Pilkington Road, P.O.Box 23552 Kampala Tel: 0414 343 297, 342818, Fax: 041 340841 E-mail: info@use.or.ug Contact: Chief Executive Officer</p>	<p>ReNaissance Capital (U) Ltd Fund Manager, Investment Advisor Broker /Dealer and member of USE Unit 3, Plot 15 Kitante Close P. O. Box 893 Kampala Tel:04143400/8/9, 0312264775/6, Fax :0414340016 Contact : Mr. Keith Kalyegira</p>

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



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