



CAPITAL MARKETS PLAYERS SURVEY 2014



Table of Contents

Table of Contents.....	2
List of Figures	4
List of Tables	5
US \$ CONVERSION RATES	6
ACRONYMS	7
EXECUTIVE SUMMARY	8
CHAPTER ONE: INTRODUCTION.....	10
1.1 Brief Background on the Capital Markets Industry in Uganda	10
1.2 Capital Markets Industry Performance 2014.....	11
1.2.1 Debt Markets	11
1.2.2 Equity	11
1.3 Objectives of the Survey	12
1.4 Survey Methodology.....	13
CHAPTER TWO: MAIN FINDINGS OF THE SURVEY	14
2.1 Introduction	14
2.2 Response Rate.....	14
2.3 Market Players Characteristics.....	14
2.4 Size of Uganda’s Capital Markets Industry	16
2.4.1 Asset Base of the Industry	16
2.4.2 Distribution Network	17
2.4.3 Employment Trends in the Capital Markets Industry	18
2.4.4 Client Base.....	21
2.5 Performance Indicators.....	22
2.5.1 Stock Brokers	22
2.5.2 Fund Managers	23
2.7 Consolidated Industry Performance	24
2.7.1 Turnover.....	24
2.7.2 Industry Total Costs	26
2.7.3 Profit after Tax for the Industry	27
2.7.4 Cash-flow Position.....	27
2.7.5 Corporate Finance.....	28

2.8 The Cost of doing Business in Uganda’s Capital Markets	29
2.9 Participation of Citizens of EAC Member States in Uganda’s Capital Markets.....	34
2.10 Other Capital Markets Indicators.....	34
2.10.1 Corporate Governance.....	34
2.10.2 Research and Market Analysis	38

List of Figures

Figure 1: Trends in Annual Turnover & Share Volume at the USE	11
Figure 2: Trends in Market Capitalization and USE LCI Index	12
Figure 3: Nature of Parent Company	15
Figure 4: Reasons Cited by Market Players for not Having Branches	17
Figure 5: Four Year Trend in Total Employees in the Capital Markets	18
Figure 6: Qualifications of Professional Staff	19
Figure 7: Trends in Professional Staff Training (2011-2014)	20
Figure 8: Areas of Training for Professional staff in 2014	20
Figure 9: Trends in Funds Under Management (2006-2014, Ush Billion)	23
Figure 10: Licence Renewal Process	30
Figure 11: Ratings of CMA's Interactions with Market Players	31
Figure 12: Ratings on Whether CMA Processes are Cumbersome	32
Figure 13: Rating of the USE as a Self-Regulatory Organization	33
Figure 14: SCD Ratings	34
Figure 15: Directorship by Licence Category	35
Figure 16: Board Composition	36
Figure 17: Board Development Programs	37
Figure 18: Frequency of Board Evaluation	38
Figure 19: Frequency of Publications	39
Figure 20: Distribution Channel for Research Publications	39

List of Tables

Table 1: Response Rate by License Category	14
Table 2: Shareholding of Market Players Surveyed.....	15
Table 3: Location of Parent Company.....	15
Table 4: Total Balance Sheet Assets of Market Players in Kenya and Uganda (US \$).....	16
Table 5: Total Balance Sheet Assets by Licence Category in Kenya and Uganda	17
Table 6: Licence Category of Market Players with Agents.....	18
Table 7: Employees by Licence Category.....	19
Table 8: Trends in Total SCD Accounts by Investor Category (2010-2014)	21
Table 9: Number of Active SCD Accounts by Investor Category (2010-2014).....	21
Table 10: Value of Secondary Trades by Investor Category (Ush, Billion)	22
Table 11: Volume of Shares Traded by Investor Category (In Million)	22
Table 12: Concentration of Assets under Management	24
Table 13: Concentration of Turnover	24
Table 14: Turnover by Licence Category for Uganda and Kenyan Market Players.....	25
Table 15: Distribution of Turnover by Income Category (Percentages).....	26
Table 16: Total Costs, Cost to Income Ratio	27
Table 17: Profit after Tax and Return on Assets.....	27
Table 18: Cash Flow Position of Market Players	28
Table 19: Corporate Finance Transactions (2014)	29
Table 20: Time Spent on Licence Renewal (Number of Working Days)	30
Table 21: Time Spent by CMA Inspection Teams at Respondents Premises	30
Table 22: Size of the Board of Directors	35
Table 23: Non-Executive Directors.....	35
Table 24: Frequency of Board Meeting.....	36
Table 25: Board Evaluation	37

US \$ CONVERSION RATES

	2014	2013
Ush	2936.90	2,586.88
Ksh	87.92	86.13

ACRONYMS

CMA	Capital Markets Authority
EAC	East African Community
SCD	Securities Central Depository
USE	Uganda Securities Exchange

EXECUTIVE SUMMARY

Capital markets play an important role in mobilizing, allocating and intermediating long-term capital in a country. They also contribute to effective risk management and mitigation in the financial sector and play an enabling role in the implementation of fiscal, monetary and exchange rate policy.

The capital markets industry in Uganda came into being in the year 1996 with the enactment of the Capital Markets Authority (CMA) Act Cap 84. The CMA Act established the Capital Markets Authority which paved the way for the licensing of the Uganda Securities Exchange (USE) in 1997. At the end of December 2014, the capital markets industry comprised of **nine (9)** market players with broker/dealer/investment advisor licences; **seven (7)** licensees with fund manager licences¹; **seven (7)** investment advisory licences; **three (3)** trustees; and **four (4)**² Collective Investment Scheme Managers

Main Findings

Industry Size

An analysis of the balance sheets of the market players in Uganda revealed that the assets of the industry grew by forty four percent (44%) to **Ush 15.38 billion (US \$5.24 million)** from **Ush 10.71 billion (US \$ 4.11 million)** at the end of 2013. In comparison, Kenyan market players reported a balance sheet asset value of **US \$ 192.54 million from US \$ 234.94 million** at the end of 2013. The market players surveyed reported having a total of sixty nine employees (**69**), a decline of 12%, from seventy eight (**78**) employees reported in 2013 (*see figure 5*). By the end of 2014, a total of **25,301** SCD accounts had been opened by investors at the USE, an increment of 11% from **22,799** SCD accounts that had been opened by the end of 2013.

All the fourteen (14) market players that responded were privately owned entities. Domestic and East African shareholders fully owned two market players each. All the market players that responded to the survey were subsidiary companies. A significant number of subsidiary companies (43%) had parent companies based in Kenya.

Industry Performance

The market players reported a fifty two percent (52%) increase in total turnover to **Ush 12.12 billion (US \$ 4.15 million)** from **Ush 7.98 billion (US \$ 3.08 million)** posted in 2013. Broker/Dealers accounted for sixty five percent (65%) of the industry turnover. In Kenya, market players reported a

¹ Two Brokers/Dealers are also licensed as fund managers.

²All the CIS Managers surveyed were also licensed as fund managers and at the time of the survey.

turnover of **US \$ 92.76 million** from **US \$ 89.04 million** in 2013. Fund managers accounted for thirty nine percent (39%) of the total turnover.

Industry total costs rose by over forty percent (43%) to **Ush 10.16 billion (US \$ 3.46 million)** from **Ush 7.13 billion (US \$ 2.68 million)** in 2013. A similar trend was noted in the Kenyan capital markets industry where total costs inched up marginally by 3.42% to **US \$ 65 million** from **US \$ 62.85 million** in 2013. The industry continued on an upward trajectory almost doubling profit after tax to **US \$ 0.36 million** from **US 0.19 million** posted in 2013. In Kenya, market players posted a profit after tax of **US \$ 14.03 million** compared to **US \$ 28.27 million** in 2013.

The Cost of Doing Business in the Capital Markets Industry

In surveying the cost of doing business, the focus was on aspects such as: licence renewal; inspections; approval of public offerings; licence fees; and the preparation process for inspections. Market players surveyed reported that it took an average of fifty five (55) working days for their licenses to be renewed from the time they submitted their application to the time they received the licences. Market Players reported that the CMA inspection teams spent an average of one (1) working day at their premises during inspections.

Participation of Citizens of the East African Community (EAC) in Uganda's Capital Markets

All the market players surveyed were subsidiaries of other companies with forty three percent (43%) being subsidiaries of Kenyan based companies. Of the 25,301 SCD accounts that had been opened by the end of 2014, 5,644 SCD accounts were held by East African Individuals and Companies, representing 22% of the total. A total of 680 SCD accounts held by East African Individuals and Companies were active, representing 22% of all the active SCD accounts that stood at 3,072.

Other Market Indicators

All the market players indicated that they had a Board of Directors. The average number of Directors per board was five (5), with the least number of Directors being two (2).

A large number of the market players (86%) undertook market research and analysis with seven (7) of them distributing their publications.

CHAPTER ONE: INTRODUCTION

1.1 Brief Background on the Capital Markets Industry in Uganda

Capital markets play an important role in mobilizing, allocating and intermediating long-term capital in a country. They also contribute to effective risk management and mitigation in the financial sector and play an enabling role in the implementation of fiscal, monetary and exchange rate policy. Capital markets are also an important source of employment in the tertiary sector. These benefits arise through a number of complementary channels:

- i. The development of capital markets allows governments to finance large fiscal deficits minimizing foreign borrowing;
- ii. The development of money and bond markets provides the instruments needed for the implementation and transmission of monetary policy;
- iii. The development of capital markets improves availability of long term financing allowing households and firms to manage interest rates and maturity risk associated with long term investment through a better match between assets and liabilities;
- iv. Broad, liquid capital markets increase opportunities for savers to diversify investments and match them to future needs, individually through investing; and
- v. The development of capital markets bolsters financial stability by enhancing the ability of financial institutions to manage risk through appropriate derivatives instruments.

The capital markets industry in Uganda came into being in the year 1996 with the enactment of the Capital Markets Authority (CMA) Act Cap 84. The CMA Act established the Capital Markets Authority which paved the way for the licensing of the Uganda Securities Exchange (USE) in 1997. At the end of December 2014, the capital markets industry comprised of **nine (9)** market players with broker/dealer/investment advisor licences; **seven (7)** licensees with fund manager licences³; **seven (7)** investment advisory licences; **three (3)** trustees; and **four (4)**⁴ Collective Investment Scheme Managers.

Since inception, the capital markets in Uganda have witnessed the listing of sixteen (**16**) companies, eight (**8**) of which are cross listings from the Nairobi Securities Exchange (NSE). To date twelve (**12**) corporate bonds valued at **Ush 293.76 billion (US \$ 100 million)** have been issued. Six (**6**) of these bonds have been redeemed. The government of Uganda also launched a government bond program in 2004 and at the end of 2014, there were forty (**40**) Government Bonds listed at the USE.

³ Two Brokers/Dealers are also licensed as fund managers.

⁴All the CIS Managers surveyed were also licensed as fund managers and at the time of the survey.

1.2 Capital Markets Industry Performance 2014

1.2.1 Debt Markets

Primary Market

There was no activity in the primary market for corporate bonds in the year 2014.

Secondary Market

The secondary market for corporate bonds remained quiet with no trades in the year 2014, in contrast with trades worth **Ush 10.10 billion (US \$ 3.90 million)** that were recorded in the year 2013.

1.2.2 Equity

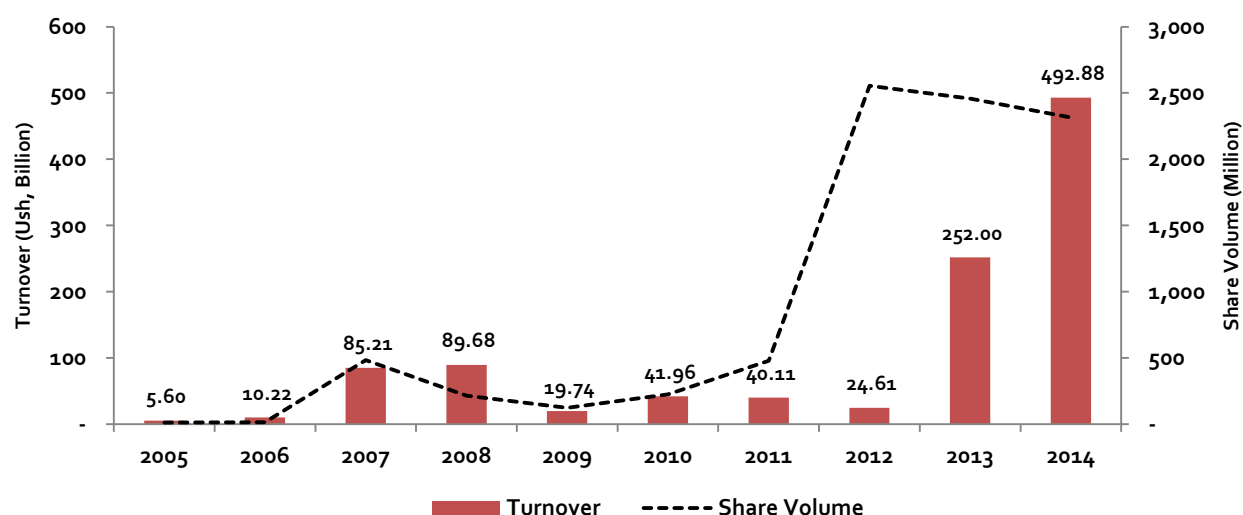
Primary Market

No activity was registered in the primary market for equity.

Secondary Market

Most capital markets indicators were in positive territory in the calendar year 2014. Turnover at the USE for the year 2014 rose by ninety six percent (96%) from **Ush 252.92 billion (US \$ 97.77 million)** in 2013 to **Ush 492.88 billion (US \$ 168 million)⁵**. Share volume dropped by 6% to 2.32 billion shares from 2.86 billion shares in 2013. A total of 5,406 trades were recorded at the USE compared to 4,538 trades in 2013, an increment of 19%. The average value per trade in 2014 soared to **Ush 91 million (US \$ 0.03 million)** from **Ush 60 million (US \$ 0.02 million)** per trade in 2013.

Figure 1: Trends in Annual Turnover & Share Volume at the USE

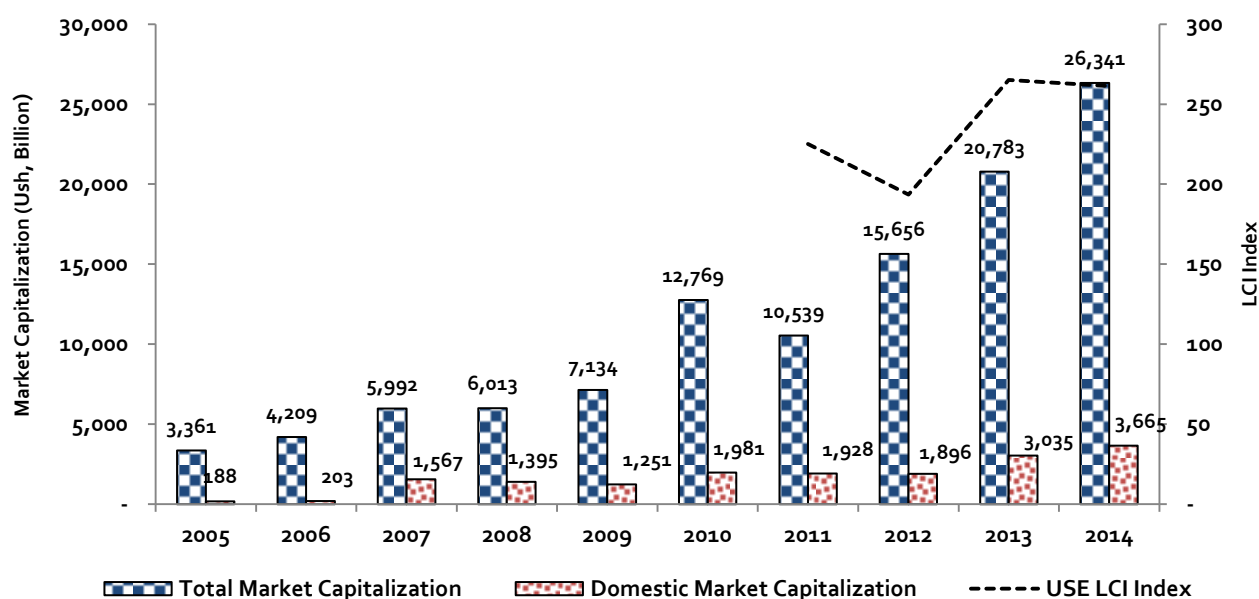


Source of Data: USE Market Reports

⁵ The USE had two major transactions in 2014 that saw private equity firm Actis exit from Umeme in a transaction valued at Ush 256 billion and private equity fund Norwegian Norfund transferring 137 million shares to Norfinance AS, its subsidiary investment company, in a transaction valued at Ush 43 billion.

Total market capitalization at the USE rose by 27% to close at **Ush 26.74 trillion (US \$ 9.10 billion)** from **Ush 20.78 trillion (US \$ 8.03 billion)** in the previous year. The domestic market capitalization was also up, rising by 21% to close the year at **Ush 3.67 trillion (US \$ 1.24 billion)** from **Ush 3.04 trillion (US \$ 1.18 billion)**. The USE LCI closed at 261.31 points from 265.11 points, a decline of 1% (see figure 2).

Figure 2: Trends in Market Capitalization and USE LCI Index



Source of Data: USE Market Reports

Total market capitalization rose due to an increase in the market capitalization of all counters (domestic and cross-listed) with the exception of Bank of Baroda, Kenya Airways, Nation Media Group, New Vision Limited, Uchumi and Uganda clays that dropped. Market activity in the year 2014 was driven by the prevailing low inflation, momentum generated by trades on the Umeme counter, low yields on treasury securities and a general positive market sentiment.

1.3 Objectives of the Survey

The Capital market players' survey sought to generate information on:

- i. The growth and development of intermediaries in Uganda's capital markets industry;
- ii. The cost of doing business in Uganda's capital markets industry; and
- iii. The participation of citizens of the East African community (EAC) member states in Uganda's capital markets.

1.4 Survey Methodology

The Market Players survey was conducted by the CMA Research and Market Development Department. Structured questionnaires were circulated to twenty three (23) market players in the Ugandan capital markets through e-mail between January 2015 and March 2015. A total of fourteen (14) Market Players responded to the questionnaires.

Financial data for the survey was obtained from financial statements of market players submitted to the Market Supervision Department as part of the licence renewal process. The financial statements of fourteen (14) market players were aggregated to represent the industry in Uganda. A total of **eighty (80)** financial statements from intermediaries in the Kenyan capital markets were obtained from CMA-Kenya, aggregated, converted into US\$ and analyzed for comparison with Ugandan intermediaries⁶.

The Statistical Package for Social Scientists (SPSS) was used for both data entry and analysis.

⁶ The 2014 financial statements of some entities in the Kenyan capital markets that have been previously captured were not provided hence affecting the comparison with Ugandan intermediaries. The intermediaries whose financial statements had not been provided at the drafting of this report include: *African Alliance Kenya, Ghenghis Capital, SBG Securities Ltd, AIB Capital, Apex Africa Capital, FCB Capital, Dry Associates and Zimele Asset Managers.*

CHAPTER TWO: MAIN FINDINGS OF THE SURVEY

2.1 Introduction

At the end of December 2014, the capital markets industry comprised of **nine (9)** market players with broker/dealer/investment advisor licences; **seven (7)** licensees with fund manager licences⁷; **seven (7)** investment advisors; **three (3)** trustees; and **four (4)**⁸ Collective Investment Scheme Managers. There were **twenty four (24)** market players in the industry under the different licence categories at the end of the year. The survey covered the following aspects of Uganda's capital markets industry: growth and development of market intermediaries in Uganda's capital markets; the cost of doing business in the Ugandan capital markets; and the participation of citizens of EAC member states in Uganda's capital markets.

2.2 Response Rate

A total of **twenty three (23)**⁹ questionnaires were distributed to the Market Players out of which **fourteen (14)** responded giving the survey a response rate of sixty one percent (61%). Over half (57%) of the market players who responded were Broker/Dealers (*see table 1*).

Table 1: Response Rate by License Category

Licence Category	No. of Licensed Persons	No. of Respondents	Response Rate by Licence Category (%)
Broker/Dealer/Investment Advisor	9	8	57
Investment Advisor	7	2	14
Fund Manager	5 ¹⁰	4	29
Trustee ¹¹	2	0	0
Total	23	14	100

Source: Survey Findings

2.3 Market Players Characteristics

All the fourteen (14) market players that responded were privately owned entities. Domestic and East African shareholders fully owned two market players each¹². Quite notably, East Africans held a majority stake in a third of the market players that provided a breakdown of their shareholding (*see table 2*).

⁷ Two Brokers/Dealers are also licensed as fund managers.

⁸ All the CIS Managers surveyed were also licensed as fund managers and at the time of the survey.

⁹ The Uganda Securities Exchange was excluded from the survey.

¹⁰ The count for Fund Managers excludes UAP Financials Ltd and African Alliance Limited which held both brokerage and broker/dealer licences.

¹¹ The count for trustees excludes Standard Chartered Bank Limited that also held an investment advisory licence.

¹² Nine market players provided a breakdown of their shareholding structures

Table 2: Shareholding of Market Players Surveyed

	Domestic Shareholders	East African Shareholders	Shareholders outside East Africa
Fully owned entities	2	2	1
Majority holdings (Over 51% shareholding)		3	
Minority holdings (Less than 51% shareholding)	3	1	1

Source: Survey Findings

All the market players that responded to the survey were subsidiary companies. A significant number of subsidiary companies (43%) had parent companies based in Kenya (see table 3).

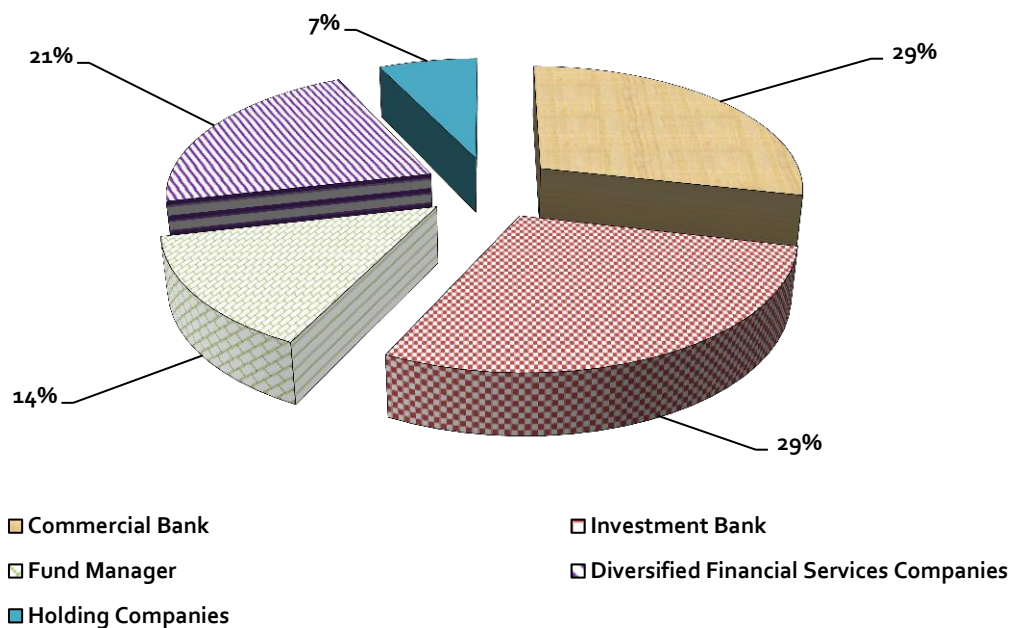
Table 3: Location of Parent Company

Country	Frequency	Percent
Uganda	3	21
Kenya	6	43
British Virgin Island	1	7
South Africa	2	14
United Kingdom	1	7
USA	1	7
Total	14	100

Source: Survey Findings

An examination of the nature of the parent companies for the market players shows that significantly, investment banks (29%) and commercial banks (29%) were dominant (see figure 3).

Figure 3: Nature of Parent Company



Source: Survey Findings

2.4 Size of Uganda's Capital Markets Industry

2.4.1 Asset Base of the Industry

An analysis of the balance sheets of the market players in Uganda revealed that the assets of the industry grew by forty four percent (44%) to **Ush 15.38 billion (US \$5.24 million)** from **Ush 10.71 billion (US \$ 4.11 million)** at the end of 2013. In comparison, Kenyan market players reported a decline in balance sheet assets of eighteen percent (18%) to **US \$ 192.54 million from US \$ 234.94 million** at the end of 2013¹³. In Uganda, current assets accounted for eighty four percent (84%) of the consolidated industry balance sheet value compared to seventy two percent (72%) in Kenya (see table 4).

Table 4: Total Balance Sheet Assets of Market Players in Kenya and Uganda (US \$)

		2014	2013	Annual Percentage Change (%)
Uganda	Fixed Assets (US \$, Million)	0.83	1.03	-19
	Current Assets (US \$, Million)	4.41	3.08	43
	Total (US \$ Million)	5.24	4.11	28
Kenya	Fixed Assets (US \$, Million)	53.91	75.18	-28
	Current Assets (US \$, Million)	138.63	159.75	-13
	Total (US \$ Million)	192.54	234.94	-18

Source: Survey Findings

A further analysis of the consolidated balance sheet revealed that in Uganda, Broker/Dealers accounted for sixty eight percent (68%) of the total value of the consolidated industry balance sheet, while in Kenya, Investment Banks accounted for fifty six percent (56%) of the total value of the consolidated industry balance sheet (see table 5).

¹³ The 2014 financial statements of the following Kenyan capital markets intermediaries had not been availed at the drafting of this report: *African Alliance Kenya, Ghenghis Capital, SBG Securities Ltd, AIB Capital, Apex Africa Capital, FCB Capital, Dry Associates and Zimele Asset Managers*

Table 5: Total Balance Sheet Assets by Licence Category in Kenya and Uganda

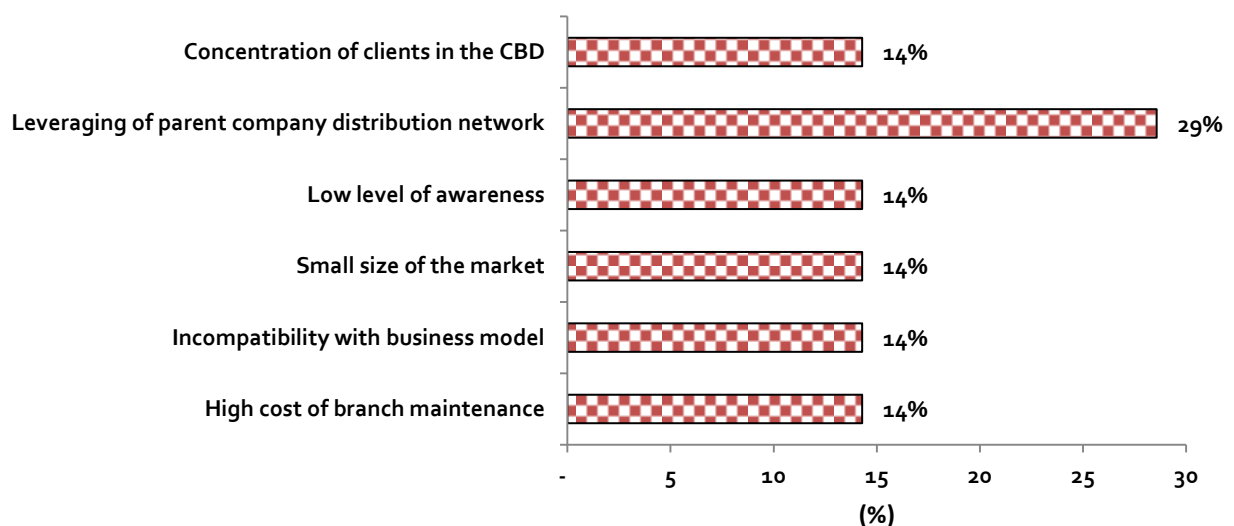
		US \$ (Million)	Percentage (%)
Uganda	Broker/Dealer	3.57	68
	Fund Managers	1.65	31
	Investment Advisors	0.02	1
	Total	5.24	100
Kenya	Brokers	30.61	16
	Investment Banks	108.39	56
	Fund Managers	11.56	6
	Investment Advisors	40.49	21
	Others approved	1.49	1
	Total	192.54	100

Source: Survey Findings

2.4.2 Distribution Network

None of the market players surveyed had any branches in Uganda or in East Africa. The main reasons cited for the absence of branches nationally and regionally was the presence of parent company distribution networks that could be leveraged upon by subsidiaries to distribute their products (*see figure 4*).

Figure 4: Reasons Cited by Market Players for not Having Branches



Source: Survey findings

Nine (9) market players, representing 64% of market players that responded to the survey reported having agents. Two thirds of the market players (67%) with agents were broker/dealers (see table 6).

Table 6: Licence Category of Market Players with Agents

Licence Category	Frequency	Percent (%)
Investment Advisors	1	11
Broker/Dealers	6	67
Fund managers	2	22
Total	9	100

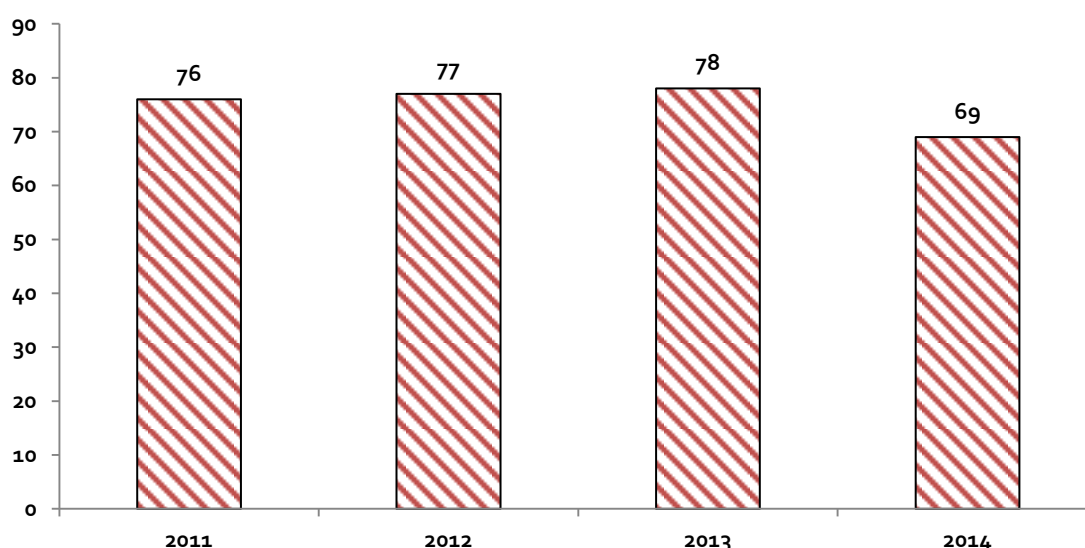
Source: Survey Findings

The five (5) market players who indicated that they did not have agents cited various reasons. Some of the reasons cited include: low business volume; agency arrangements being incompatible with the market players' business models especially for fund managers; the presence of parent company branch network that could be leveraged on to reach clients; and focus on institutional investors who could be reached directly.

2.4.3 Employment Trends in the Capital Markets Industry

The market players surveyed reported having a total of sixty nine employees (69), a decline of 12%, from seventy eight (78) employees reported in 2013 (see figure 5).

Figure 5: Four Year Trend in Total Employees in the Capital Markets



Source: Survey Findings

More than half of the employees in the industry (61%) were employed by broker/dealers (see table 7).

Table 7: Employees by Licence Category

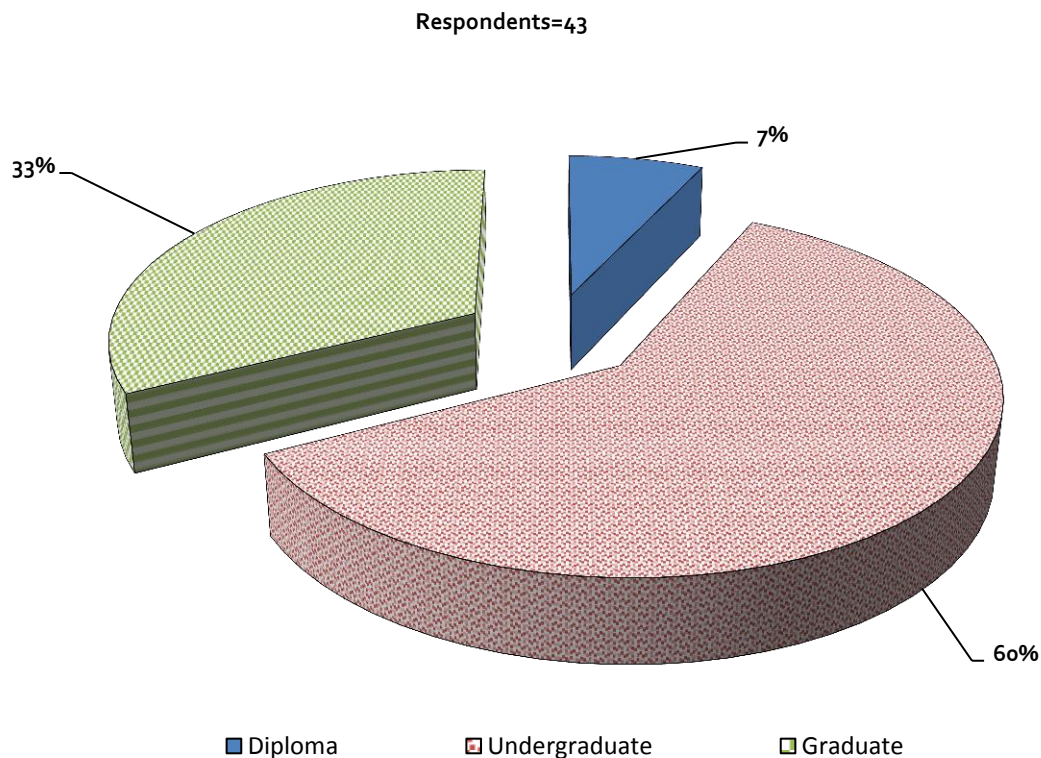
Licence Category	Number	Percent (%)
Broker/Dealers	42	61
Fund Managers	17	25
Investment Advisors	10	14
Total	69	100

Source: Survey Findings

The broker/dealers had an average of 5 staff members. The thin and narrow human capital base could be a hindrance to market development initiatives such as public sensitization as well as product innovation.

Forty five (45) employees were professional staff representing 65% of the total employees in the industry. A significant number of the professional staff (60%) had a bachelor’s degree as their highest level of education (see figure 6).

Figure 6: Qualifications of Professional Staff

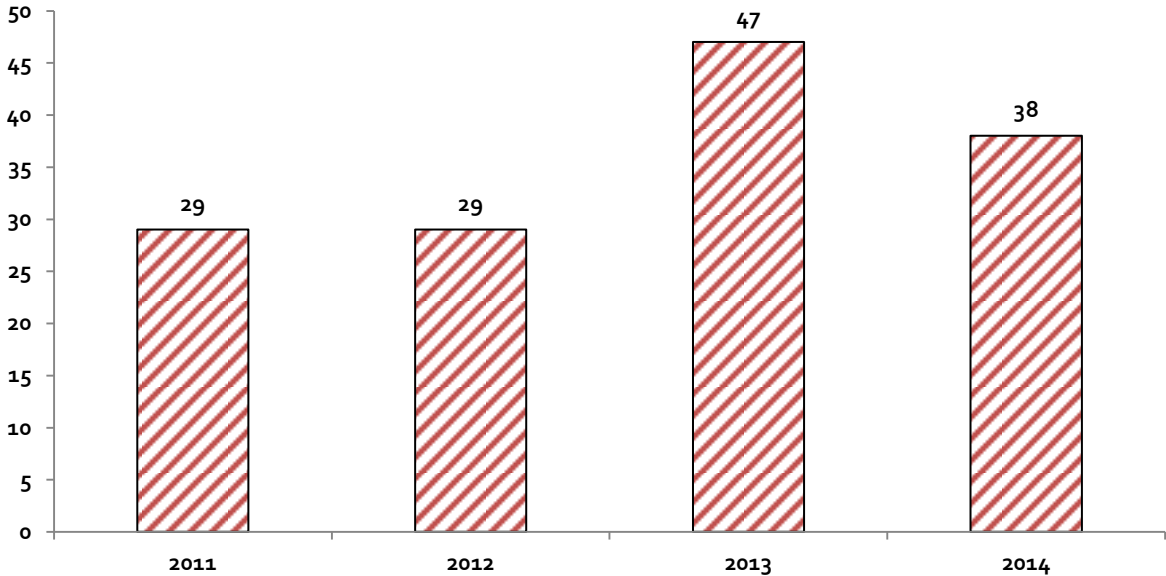


Source: Survey Findings

Almost all the market players surveyed (13) had a training program for professional staff. In the year 2014, thirty eight (38) professional staff members attended some form of training, from forty seven (47) in 2013. This was a decline of nineteen percent (19%) (See figure 7). Thirteen (13) market players

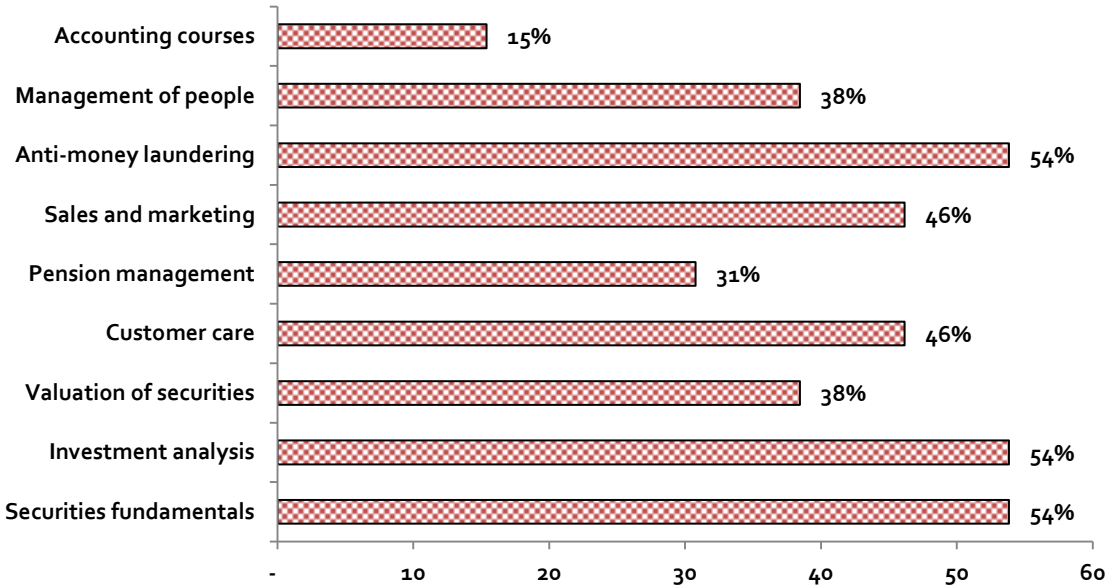
gave a breakdown of the areas of training for their professional staff with the most preferred training areas being: securities fundamentals, investment analysis and anti-money laundering (see figure 8).

Figure 7: Trends in Professional Staff Training (2011-2014)



Source: Survey Findings

Figure 8: Areas of Training for Professional staff in 2014



Source: Survey Findings

2.4.4 Client Base

Uganda has an estimated **42,081** registered institutional and retail investors in the capital markets. By the end of 2014, a total of **25,301** SCD accounts had been opened by investors at the USE, an increment of 11% from **22,799** SCD accounts that had been opened by the end of 2013. The low level of SCD account uptake can be attributed to low level of awareness among investors on the requirement for one to hold an SCD account to trade at the USE and suspicions over security of investment in the absence of a share certificate indicating title (*see table 8*).

Table 8: Trends in Total SCD Accounts by Investor Category (2010-2014)

	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14
Local Individual	3,334	6,421	13,013	15,434	16,895
Local Company	118	178	273	302	441
Custodian Bank	3	3	4	4	6
Foreign Individual	273	681	1,075	1,220	1,331
Foreign Company	367	421	500	610	832
East African Individual	883	2,558	3,618	4,195	4,640
East African Company	487	674	829	911	1,004
Issuer	3	9	14	15	15
Minor			65	104	133
Registry				2	2
Broker	1	1	1	2	2
Total	5,469	10,946	19,392	22,799	25,301

Source: SCD

Out of the 25,301 investors with SCD accounts, a total of 3,072 investors were active in the year 2014. This was an increase of 19% from 2,588 active investors in 2013. Local individuals represented 66% of the total active investors with 2,019 of them being active (*see table 9*).

Table 9: Number of Active SCD Accounts by Investor Category (2010-2014)

	2010	2011	2013	2013	2014
East African Company	14	116	150	113	178
East African Individual	273	496	294	316	502
Foreign Company	5	14	16	51	102
Foreign Individual	80	139	108	171	151
Local Company	43	66	52	79	96
Local Individual	1,067	1,527	1,170	1,844	2,019
Minor	-	-	6	14	24
Total	1,482	2,358	1,796	2,588	3,072

Source: SCD

A look at the value of secondary trades by investor category indicates that foreign companies accounted for 84% of the total equity turnover at the USE in the year 2014. Interestingly, foreign companies represented 3.32% of the total number of active SCD accounts (see table 10).

Table 10: Value of Secondary Trades by Investor Category (Ush, Billion)

	2010	2011	2013	2013	2014
East African Company	2.55	16.96	6.32	32.71	23.10
East African Individual	2.59	4.51	1.79	2.28	8.52
Foreign Company	12.54	2.71	10.88	273.35	783.68
Foreign Individual	1.46	2.20	3.54	4.15	13.87
Local Company	17.01	32.04	18.43	151.21	55.37
Local Individual	8.05	21.97	9.15	26.49	49.54
Minor	-	-	0.11	0.05	0.36
Total	44.20	80.38	50.22	490.23	934.44

Source: SCD

A scrutiny of the volume of shares traded in the year 2014 indicates, foreign companies traded a total of shares 3.18 billion shares, representing 74% of the total volume of shares that changed hands in the year 2014 (see table 11).

Table 11: Volume of Shares Traded by Investor Category (In Million)

	2010	2011	2013	2013	2014
East African Company	9.77	46.90	208.01	410.11	296.00
East African Individual	9.43	16.85	40.09	72.20	159.65
Foreign Company	46.25	17.96	135.51	3,285.95	3,184.40
Foreign Individual	9.32	12.50	33.59	70.66	71.35
Local Company	78.26	126.07	128.58	514.91	303.63
Local Individual	56.96	117.32	145.43	366.77	292.85
Minor	-	-	0.40	0.43	1.19
Total	209.98	337.60	691.60	4,721.02	4,309.06

Source: SCD

2.5 Performance Indicators

2.5.1 Stock Brokers

The USE had a total of 25,301 SCD accounts at the end of 2014, of which 3,315 were reported as being active. The top broker with the highest number of active SCD accounts reported 1,283 active SCD accounts, which represents 39% of the total market share. *The top three brokers with the highest number of active investors accounted for 78% of the total number of active investors an indication of high concentration.*

In 2014, the top broker in terms of equity turnover, accounted for half of the equity turnover at the bourse. The top three brokers in terms of the value of secondary trades accounted for 91% of the total value of secondary trades in 2014.

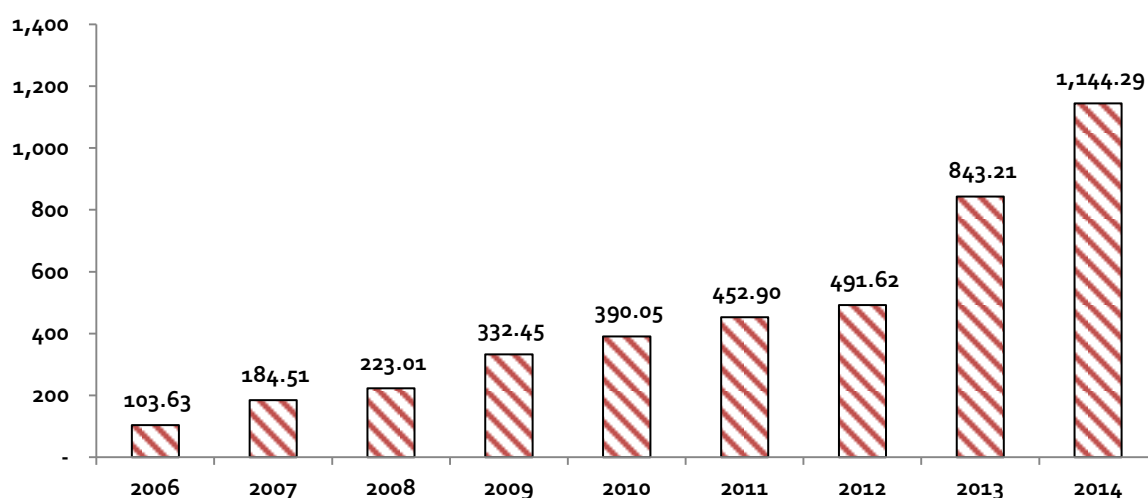
The volume of shares traded at the USE declined by 9% to 4.31 billion shares in 2014 from 4.72 billion shares. The top broker in terms of share volume transacted 1.59 billion shares, representing 36.88% of the total number of shares that changed hands in the year 2014. The top three stock brokers in terms of the volume of shares traded accounted for 87% of the total share volume.

The stock broker posted a profit after tax of **Ush 326.44 million (US \$ 0.11 million)** compared to **Ush 286.40 million (US \$ 0.11 million)** in 2013. This was an increment of 14% year-on-year.

2.5.2 Fund Managers

Fund Managers in Uganda had a total of **Ush 1,144.29 billion (US \$ 381 million)** in funds under management at the end of December 2014, from **Ush 843.21 billion (US \$ 325.96 million)** at the end of December 2013. This was a thirty six percent (36%) increment. The sub-sector posted a compounded average growth rate of 31% between 2006-2014 (see figure 9) attributed to growth in the value of underlying assets and an increase in the number of pension schemes contracting fund managers.

Figure 9: Trends in Funds Under Management (2006-2014, Ush Billion)



Source: CMA-Uganda

An analysis of the concentration in terms of assets under management reveals that the top two fund managers accounted for 68% of the total assets under management in the industry while the top three fund managers accounted for 82% of the total assets under management (see table 12).

Table 12: Concentration of Assets under Management

Concentration of Assets Under Management	Percentage (%)
Fund under management by the top 2 fund managers	68
Funds under management by the top 3 fund managers	82

Source: CMA-Uganda

The fund managers posted a total turnover of **Ush 4.12 billion (US \$ 1.40 million)**. A look at the concentration of turnover shows that the top three fund managers accounted for 97% of the industry turnover (see table 13).

Table 13: Concentration of Turnover

Concentration of Turnover	Percentage (%)
Turnover of the top 2 fund managers	88
Turnover of the top 3 fund managers	97

Source: CMA-Uganda

All fund managers posted a total profitability of **Ush 420.76 million (US \$ 0.14 million)**, which was a growth of 58% from **Ush 266.80 million (US \$ 0.10 million)** in the previous year.

2.7 Consolidated Industry Performance

In assessing industry performance, the survey focused on industry turnover, costs, profitability and cash flow position. To benchmark performance, the survey compared the financial statements of Ugandan market players against their Kenyan counterparts.

2.7.1 Turnover

The market players reported a fifty two percent (52%) increase in total turnover to **Ush 12.12 billion (US \$ 4.15 million)** from **Ush 7.98 billion (US \$ 3.08 million)** posted in 2013. Broker/Dealers accounted for sixty five percent (65%) of the industry turnover. In Kenya, market players reported a turnover of **US \$ 92.76 million** from **US \$ 89.04 million** in 2013¹⁴. Fund managers accounted for thirty nine percent (39%) of the total turnover (see table 14).

¹⁴ The 2014 financial statements of the following Kenyan capital markets intermediaries had not been availed at the drafting of this report: African Alliance Kenya, Ghenqhis Capital, SBG Securities Ltd, AIB Capital, Apex Africa Capital, FCB Capital, Dry Associates and Zimele Asset Managers

Table 14: Turnover by Licence Category for Uganda and Kenyan Market Players

		2014		2013	
		Us \$ (Million)	Percent (%)	US \$ (Million)	Percent (%)
Uganda	Broker /Dealer	2.70	65	1.83	59
	Fund Managers	1.40	34	1.19	39
	Investment Advisors	0.05	1	0.06	2
	Total	4.15	100	3.08	100
Kenya	Investment Banks	34.12	37	34.83	39
	Broker	8.41	9	11.99	13
	Fund Managers	35.77	39	33.81	38
	Investment Advisors	13.68	15	8.25	9
	Approved entities	0.16	0	0.16	0
	Total	92.13	100	89.04	100

Source: Survey Findings and CMA-Kenya

The largest source of income for Ugandan market players in 2014 was brokerage fees at more than half (51%) of the total industry income. This was similar to 2013 when brokerage fees accounted for forty two percent (42%) of the total industry income. Stock brokerage fees are highly correlated with market cycles which makes stock brokers highly susceptible to market risk. Additionally, the development of services and products offered by stock brokers has not grown significantly due to factors such as fixed brokerage commission rates and barriers to entry (mutual exchange).

In the Kenya, market players recorded fund management income as the main source of income, accounting for thirty six percent (36%) of the total income generated in the year 2014, similar to the previous year when fund management fees were the largest source of income at thirty three percent (33%) (See table 15).

Table 15: Distribution of Turnover by Income Category (Percentages)

		2014 (%)	2013 (%)
Uganda	Brokerage fees	51	42
	Advisory fees	9	5
	Investment income	2	0
	Commissions	4	5
	Other income	10	13
	Fund management fees	23	35
	Total	100	100
Kenya	Brokerage fees	29	32
	Advisory fees	16	13
	Investment income	4	8
	Other income	14	14
	Dividend income	0	0
	Fund management income	36	33
	Bond trading income	0	0
	Total	100	100

Source: Survey Findings & CMA-Kenya

2.7.2 Industry Total Costs

Industry total costs rose by over forty percent (43%) to **Ush 10.16 billion (US \$ 3.46 million)** from **Ush 7.13 billion (US \$ 2.68 million)** in 2013. A similar trend was noted in the Kenyan capital markets industry where total costs inched up marginally by 3.42% to **US \$ 65 million** from **US \$ 62.85 million** in 2013.

Operational costs among brokers in Uganda were a major cost item, accounting for 67% of their total expenditure compared to 69% of the total expenditure incurred by their Kenyan counterparts.

The Uganda capital markets had a total cost to income ratio of **0.83** implying that for every **US \$100** generated as income, market players were spending **US \$ 83** in meeting costs. On the other hand, Kenyan market players had a cost to income ratio of **0.70**, implying that for every **US \$ 100** generated as income, **US \$ 70** was spent on meeting costs (see table 16).

Table 16: Total Costs, Cost to Income Ratio

	Uganda			Kenya		
	2014	2013	2012	2014	2013	2012
Total Costs (US \$, Million)	3.46	2.68	1.88	64.49	62.85	51.03
Cost-Income Ratio	0.83	0.87	1.43	0.70	0.66	0.74

Source: CMA-Uganda & CMA-Kenya

2.7.3 Profit after Tax for the Industry

The industry continued on an upward trajectory almost doubling profit after tax to **US \$ 0.36 million** from **US 0.19 million** posted in 2013. The Market Players recorded a return on assets that was slightly above six percent (**6.82%**) from **4.64%** in 2013, indicating that market players are using resources more efficiently than previously. In Kenya, market players posted a profit after tax of **US \$ 14.03 million** compared to **US \$ 28.27 million** in 2013. Kenyan market players had a return on assets in 2014 of **7.28%** compared to **12.27%** in the previous year (see table 17).

Table 17: Profit after Tax and Return on Assets

	Uganda			Kenya		
	2014	2013	2012	2014	2013	2014
Profit/Loss (US \$ Million)	0.36	0.19	-0.08	14.03	28.27	13.56
Return on Assets (Percent)	6.82	4.64	-2.7	7.28	12.27	6.88

Source: CMA-Uganda & CMA-Kenya

2.7.4 Cash-flow Position

Ugandan market players posted a ten percent (10%) growth to record a net cash flow position of **US \$ 1.18 million** from **US \$ 1.07 million** in 2013. Kenyan market players closed the year 2014 with net cash flow position of **US \$ 93.66 million** compared to **US \$ 73.65 million** in 2013. This was an improvement of twenty seven percent (27%).

Ugandan market player had positive cash flows from operations and financing of **US \$ 0.06 million** and **US \$ 0.48 million** respectively in 2014, while their Kenyan counterparts reported positive cash flows from operations of **US \$ 31.66 million** and **US \$ 1.19 million** from investing activities in 2014 (see table 18).

Table 18: Cash Flow Position of Market Players

		2014 Figures (US \$, Million)	2013 Figures (US \$, Million)
Uganda	Cash at the beginning of the year	1.07	1.02
	Cash flow from operation	0.06	0.22
	Cash flow from investing	-0.43	-0.21
	Cash flow from financing	0.48	0.04
	Net Cash-flow position	1.18	1.07
Kenya	Cash at the beginning of the year	73.65	50.54
	Cash flow from operation	31.66	37.53
	Cash flow from investing	1.19	-2.48
	Cash flow from financing	-12.84	-11.94
	Net Cash-flow position	93.66	73.65

Source: CMA-Uganda & CMA-Kenya

2.7.5 Corporate Finance

Majority of the market players (86%) did not record any corporate finance transactions. All the corporate finance transactions were undertaken by broker/dealers. Market players reported a total of three (3) expressions of interest valued at **Ush 15 billion (US \$ 5.77 million)**. The expressions of interest were for advisory services. One (1) deal was completed in the year 2014, which was a secondary offering of shares that was valued at **Ush 256 billion (US \$ 98.46 million)**. A total of six (6) deals were reported to be on-going with an estimated value of **Ush 50 billion (US \$ 19.23 million)** (see table 19).

Corporate financing deals can help market players diversify their income sources from their bread and butter sources of income. However, with only two market players having undertaken corporate finance transactions, this area remains largely untapped which in itself provides an opportunity for market. Corporate financing as a source of income will only materialize if market players invest in market development efforts to encourage securities issuance as well as development of a expertise by investing in human capital.

Table 19: Corporate Finance Transactions (2014)

Type of Deal	Expression of Interest		Completed		On-Going Deals	
	No. of Deals	Value (Ush Bn)	No. of Deals	Value (Ush Bn)	No. of Deals	Value (Ush Bn)
Secondary offer			1	256		
Advisory services	3	15			6	50
Total	3	15	1	256	6	50

Source: Survey findings

2.8 The Cost of doing Business in Uganda's Capital Markets

Market players in Uganda's capital markets renew their licences annually. Market intermediaries usually have up to 31st March of every year to submit their license renewal application forms and relevant documentation. The documentation includes but is not limited to: financial statements for the preceding year, a business plan for the forthcoming year and applications for the renewal of the representative licences for their staff members. The annual licence renewal process ensures that only accredited entities that meet the requirements of the Authority are allowed to operate in Uganda's capital markets hence safeguarding investors interests.

The annual licence renewal process has three stages:

- i. **Submission of Application for Licence Renewal Documents by the Market Players-** All licences are usually due for renewal at the end of 31st March of each year. The market players usually have a one (1) month window period from 1st of March to 31st of March annually to submit their application for renewal together with the supporting documentation to the Market Supervision Department of CMA.
- ii. **Review of Application Documents-**CMA's Market Supervision Department reviews all applications on a case by case basis and makes a recommendation to the Board of Directors for licence renewal if the requirements have been met.
- iii. **Board Approval-**The CMA Board of Directors that meets every quarter of the year during its sittings approves the renewal of licences for the different market players based on the recommendations of the Market Supervision Department.

In an ideal situation, the process should take a minimum of twenty (20) working days from the receipt of the documents for licence renewal (*see figure 10*).

Figure 10: Licence Renewal Process



Source: CMA Legal and Market Supervision Department

Market players surveyed reported that it took an average of fifty five (**55**) working days (see table 20) for their licenses to be renewed from the time they submitted their application to the time they received the licences in 2014. This was an increase from twenty four (24) working days reported in 2013. The longest period it took to renew a licence was one hundred and forty days (**140**) working days in 2014, from forty eight (**48**) working days in 2013. On the other hand, the shortest period reported was seven (**7**) working days in 2014, compared to six (**6**) working days in 2013 (see table 20).

Table 20: Time Spent on Licence Renewal (Number of Working Days)

Indicator	2014	2013	2012	2011
Average	55	24	26	33
Minimum	7	6	10	7
Maximum	140	48	45	45

Source: Survey findings

Market Players reported that the CMA inspection teams spent an average of one (**1**) working day to complete inspections in the period January-December 2014. The shortest period spent on preparations for inspections was one (**1**) working day, while the longest period was 3 working days in 2014 (see table 21).

Table 21: Time Spent by CMA Inspection Teams at Respondents Premises

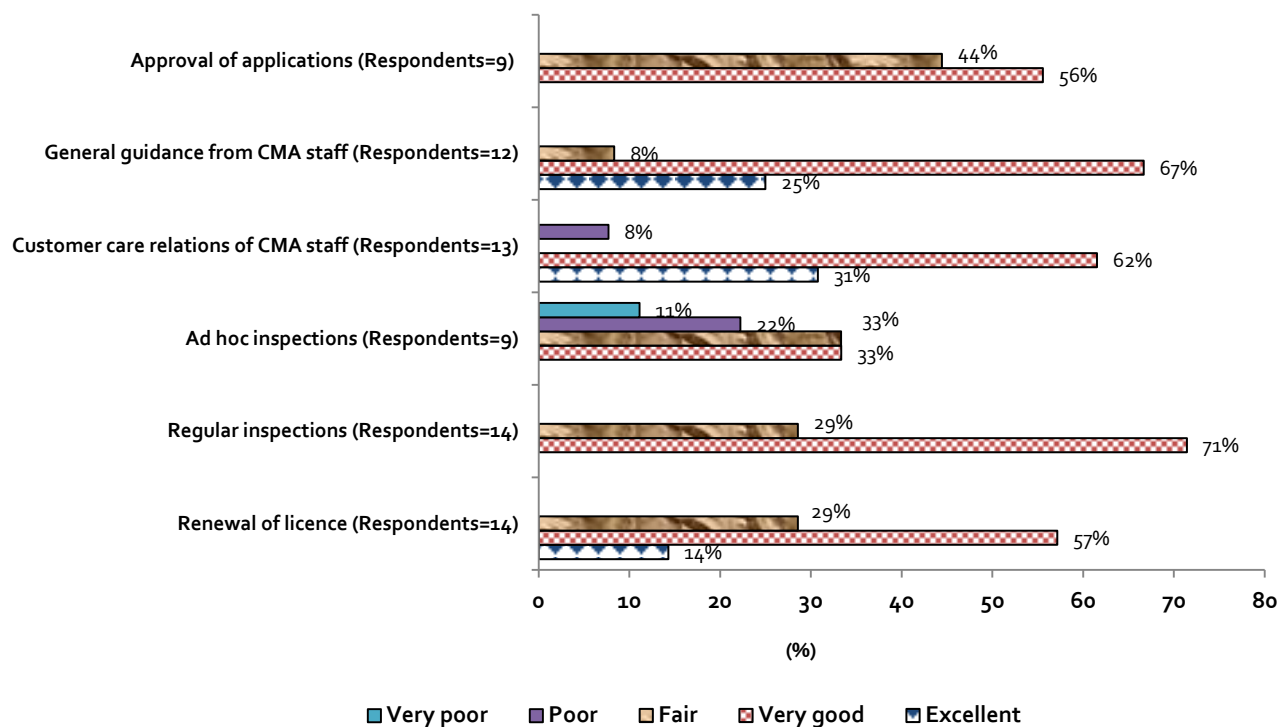
Indicator	2014	2013
Average	1	1
Minimum	1	1
Maximum	3	2

Source: Survey findings

The market players rated CMA’s interaction with them. The areas of interaction included: licence renewal, inspections, customer care aspects, guidance aspects and interactions during approval for

primary and secondary market issues. For a third year running, the good customer care of CMA staff received a high positive rating with ninety three percent (93%) of the market players ranking it as being good (see figure 11).

Figure 11: Ratings of CMA's Interactions with Market Players



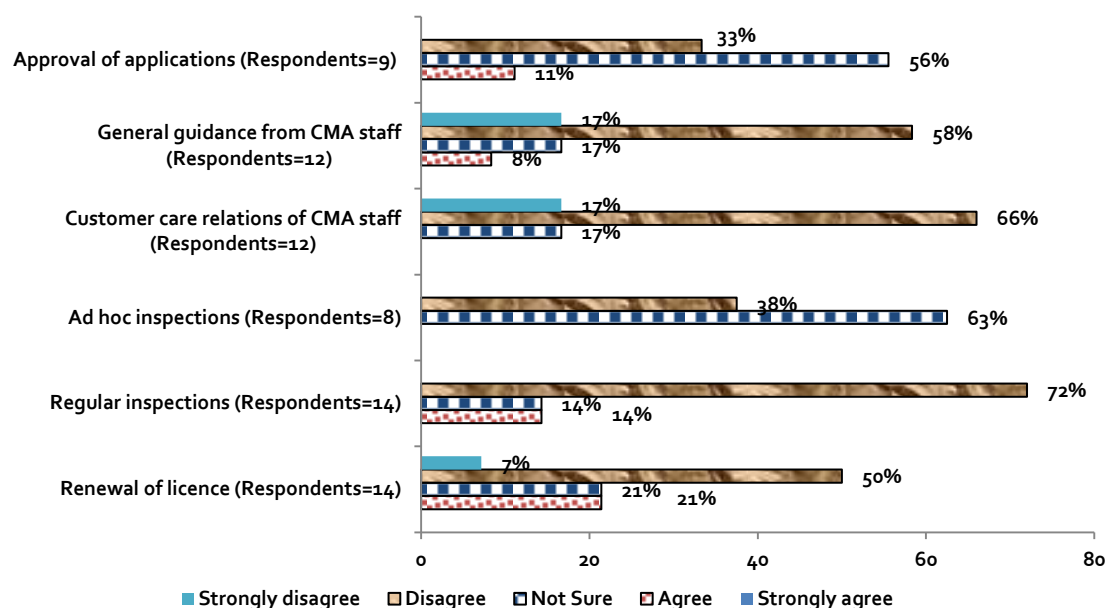
Source: Survey findings

Market players who gave favorable ratings to the authority cited: efficiency of CMA staff, helpfulness of the staff at CMA, provision of the necessary guidance, valuable interactions with CMA, ease of communication, the professionalism exhibited during licence renewal and the introduction of the risk assessment rating.

On the other hand, Market players who gave unfavorable ratings on some of the aspects of their interaction with CMA cited the non-circulation of inspection reports, the lack of clarity on the process of licence renewal for trustees; and the lack of ad hoc inspections.

The Market Players commented on whether various aspects of the CMA processes were cumbersome and time consuming. Most Market Players (83%) disagreed that the process of customer care at CMA was cumbersome (See figure 12).

Figure 12: Ratings on Whether CMA Processes are Cumbersome



Source: Survey findings

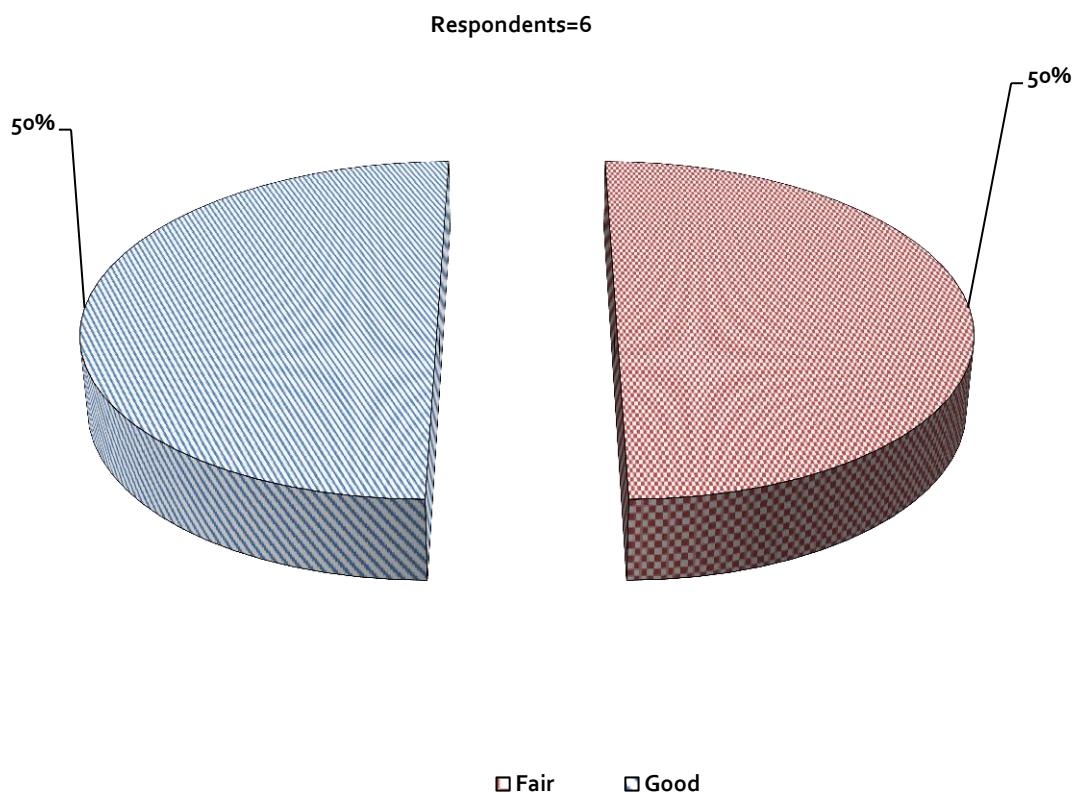
Market players who felt that CMA processes were time consuming and cumbersome mentioned: the lengthy process it took to approve applications for issues such as rights, bonus issues and IPOs'; the lack of clarity on issues of trustee services; absence of ad hoc inspections; requested inspection documents taking a lot of time to gather and being repetitive; inspection dates being changed abruptly; and the lack of an automatic system of licence renewal. To improve the CMA processes, market players suggested: clarity in regulations in regards to what is expected of CMA licensing for trustees; development of industry related training for market players; issuance of perpetual licences that are renewable automatically annually on payment of the pre-requisite fees; the creation of an online portal for uploading of documents for licence renewals and notifications; and vesting the powers to approve applications for issues such as IPOs' and other secondary offers with the CMA management to speed up the process.

When asked to make comments on the regulatory environment, market players felt that the environment was generally positive with the authority providing a stable regulatory environment.

Nine (9) market players (representing 57%) of the total number of market players surveyed) were members of the USE. Six (6) members of the USE rated its performance as a Self-Regulatory Organization (SRO) for the year 2014. The respondents were equally split (50% each) among those who rated the performance of the USE as fair and those who rated it as good (see figure 13). The

market players gave the USE favorable ratings citing the excellent services rendered in the year 2014. However market players expressed concerns over the slow pace of demutualization and instances of the exchange flouting its own rules.

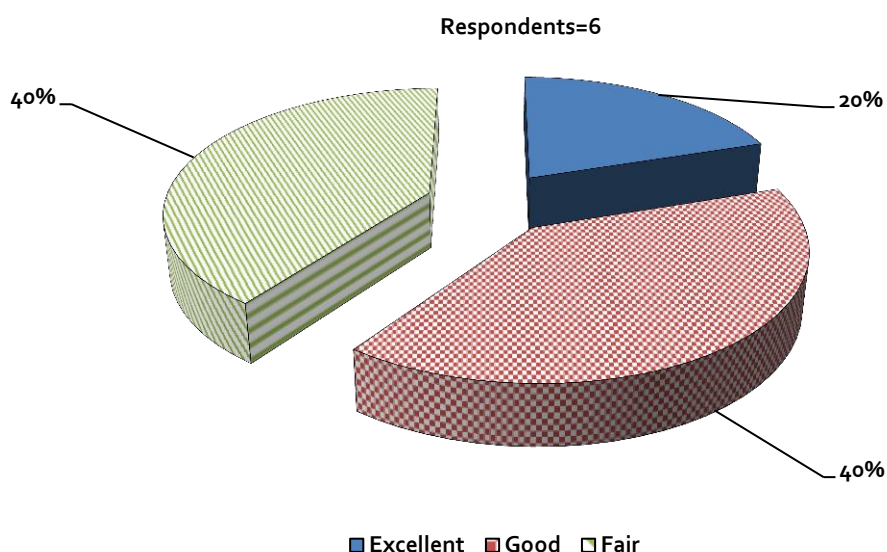
Figure 13: Rating of the USE as a Self-Regulatory Organization



Source: Survey findings

All the eight (8) Broker/Dealers surveyed were Securities Central Depository (SCD) agents. Five (5) SCD agents rated the performance of the SCD. A significant number of respondents (60%) rated the performance positively. The positive ratings of the SCD performance were due to the uninterrupted service provision for the better part of the year. However, concerns were expressed over slow connectivity and the low uptake of SCD accounts. To improve the efficiency of the system, some respondents suggested that the SCD be linked to the Bank of Uganda's payment system (*see figure 14*).

Figure 14: SCD Ratings



Source: Survey findings

2.9 Participation of Citizens of EAC Member States in Uganda's Capital Markets

All the market players surveyed were subsidiaries of other companies with forty three percent (43%) being subsidiaries of Kenyan based companies. Of the 25,301 SCD accounts that had been opened by the end of 2014, 5,644 SCD accounts were held by East African Individuals and Companies, representing 22% of the total. A total of 680 SCD accounts held by East African Individuals and Companies were active, representing 22% of all the active SCD accounts that stood at 3,072.

East African companies and individuals traded shares worth **Ush 31.22 billion (US \$10.40 million)** which represented 3% of the total equity turnover at the USE for the year 2014. Additionally, East African companies and individuals also transacted 455.65 million shares of the 4,309.06 million shares that changed hands in the year 2014 at the USE.

2.10 Other Capital Markets Indicators

2.10.1 Corporate Governance

All the market players surveyed indicated that they had a Board of Directors. The Board of Directors in any organization has several roles to play which include: providing direction to the organization; establishing a policy governance system; fiduciary duty to protect an organization's assets; and monitoring as well as controlling activities in an organization.

The average number of Directors per board was five (5), with the least number of Directors being two (2) in 2014, similar to the 2013 findings. In contrast, the largest Board had eight (8) Directors in 2014, compared to seven (7) reported in 2013 (see table 22).

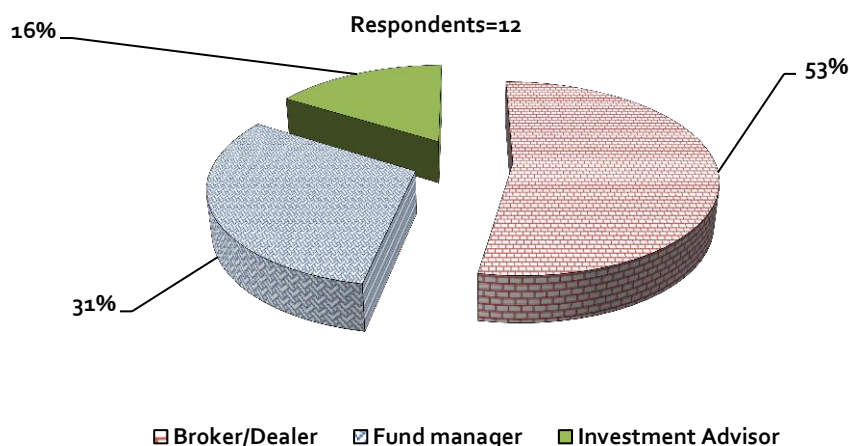
Table 22: Size of the Board of Directors

Indicator	2014	2013	2012	2011
Average	5	5	5	5
Minimum	2	2	2	2
Maximum	8	7	9	7

Source: Survey findings

Market players reported having a total of 68 Directors. Broker/ Dealers accounted for 53% of the Directorships in the industry with fund managers accounting for 31% (see figure 15).

Figure 15: Directorship by Licence Category



Source: Survey findings

A total of twelve (12) market players indicated the number of non-executive Directors on their Boards. The average number of non-executive Directors on a Board was three (3) in 2014 similar to the number reported in 2013. The highest number of non-executive Directors reported was five (5) while the least was one (1) in 2014, compared to a maximum of six (6) and minimum of one (1) non-Executive Directors in 2013 (see table 23).

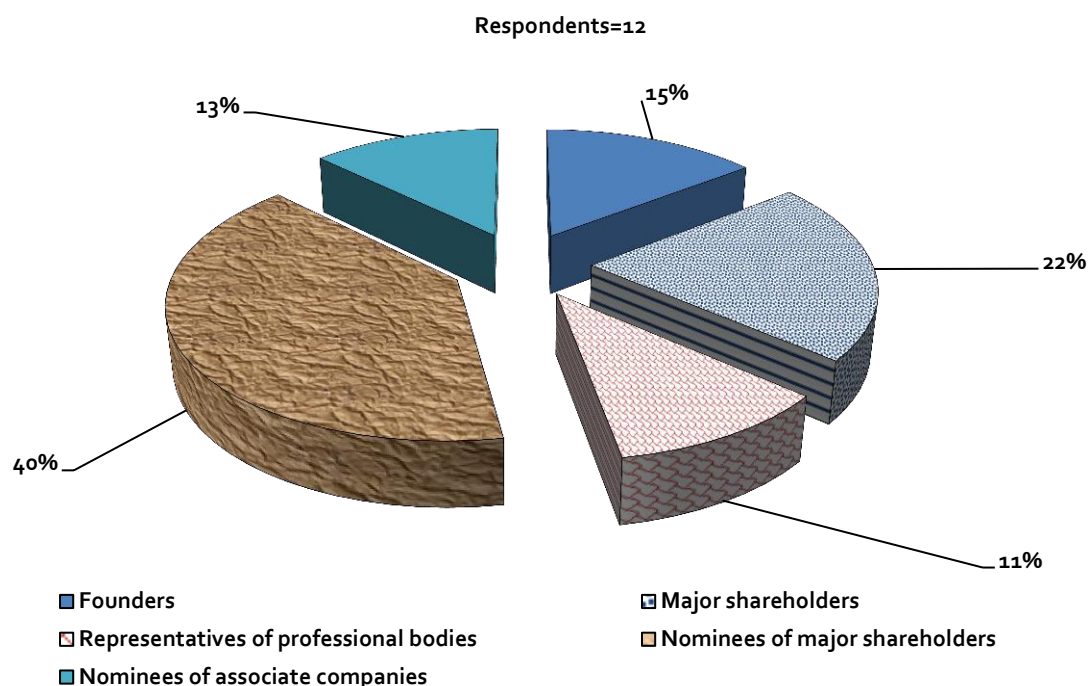
Table 23: Non-Executive Directors

Indicator	2014	2013	2012
Average	3	3	4
Minimum	1	1	2
Maximum	5	6	8

Source: Survey findings

Twelve (12) market players provided a detailed breakdown of the composition of their boards. An analysis of the board composition revealed that a significant number of the board members (40%) were nominees of major shareholders of the market players (see figure 16). Majority of the Directorships (89%) were held by shareholders, their nominees and associated parties.

Figure 16: Board Composition



Source: Survey findings

Eleven (11) market players (representing 79% of the market players surveyed) indicated that the role of the Chairperson of the Board was separate from that of the Chief Executive Officer which is international best practice for corporate governance. Market players indicated that their Boards of Director on average held three meetings per annum (see table 24).

Table 24: Frequency of Board Meeting

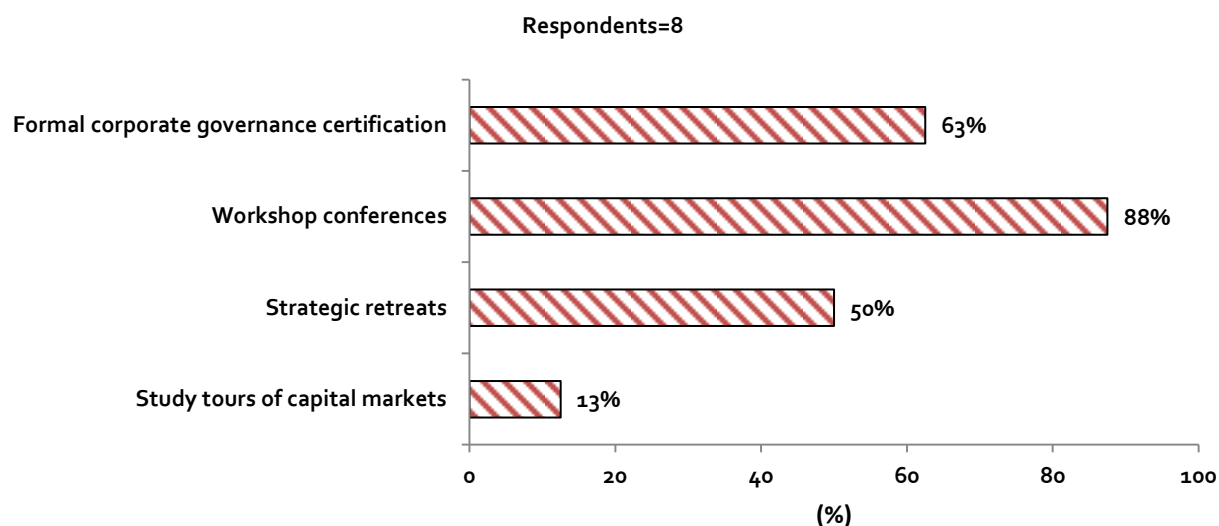
Indicator	2014	2013
Average	3	3
Minimum	2	1
Maximum	4	4

Source: Survey findings

Over half of the Market Players (57%) indicated their Boards of Directors had Board committees. The Board Committees that respondents indicated include: audit, welfare, remuneration, welfare, revenue, finance and human resources committee.

To boost the skills of Board Members in executing their oversight roles, Board development programs were undertaken by Market Players. Majority of the market players (88%) indicated that workshops and conferences were the main channels employed in developing their boards (*see figure 17*).

Figure 17: Board Development Programs



Source: Survey findings

Eleven (11) Market Players provided information on Board evaluation. Majority of the Market Players (73%) indicated that their Boards underwent evaluation (*see table 25*).

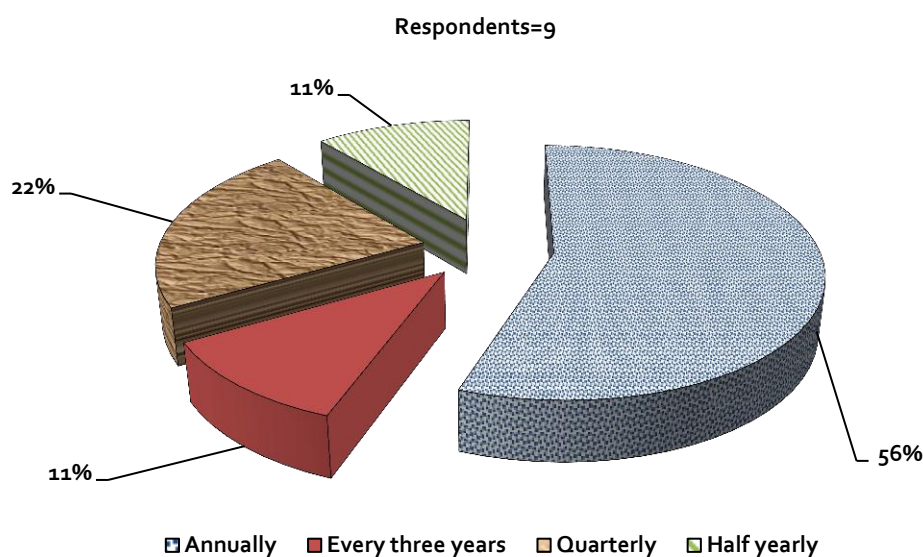
Table 25: Board Evaluation

	Frequency	Percentage (%)
Yes	8	73
No	3	27
Total	11	100

Source: Survey Findings

A large portion of the Market Players (56%) indicated that their Boards of Directors underwent evaluation annually (*see figure 18*).

Figure 18: Frequency of Board Evaluation



Source: Survey findings

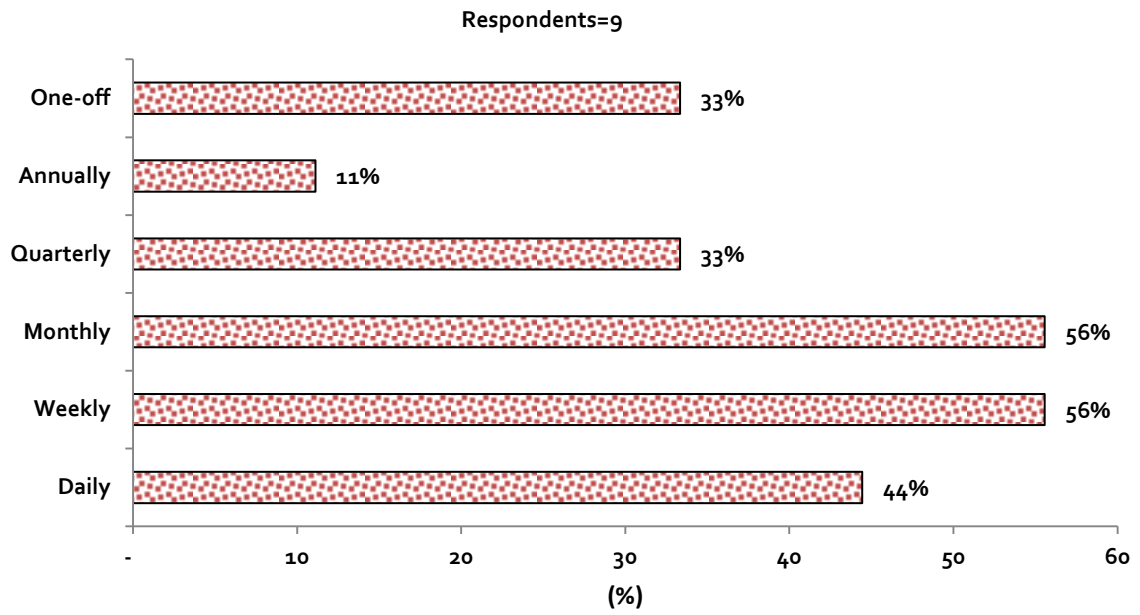
2.10.2 Research and Market Analysis

A large proportion of market players (**12**), representing 86% of the respondents undertook research and market analysis with seven (**7**) of them indicating that they published it. The publication was undertaken by: Genesis Kenya, UAP Financials, Dyer and Blair, Crane Financial Services and Burbidge Capital (U) Ltd.

The market players reported having a variety of research publications such as: Weekly Equity Reports; Equity Research; Monthly Market Report; Quarterly Market Reports; Economic Research; Monthly Economic Reports; Daily Market Reports; and company specific research reports. The most popular frequency for the publications produced by the Market Players was monthly and weekly (*see figure 19*).

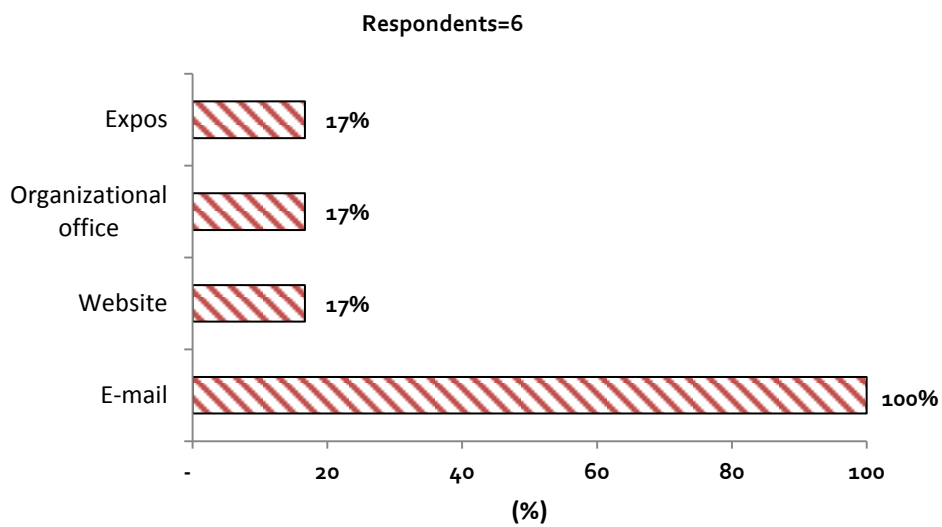
The most popular channel of distribution for research publications was through e-mail with all market players who indicated the channels of distribution for their publications making use of this channel (*see figure 20*).

Figure 19: Frequency of Publications



Source: Survey findings

Figure 20: Distribution Channel for Research Publications



Source: Survey findings