



PRESS COMMUNIQUE OF THE 20th EAST AFRICAN SECURITIES EXCHANGES ASSOCIATION (EASEA) MEETING HELD AT MT. KENYA SAFARI CLUB, NANYUKI KENYA FROM THE 19th JULY 2012 – 21st JULY 2012

The East African Securities Exchanges Association held its 20th consultative meeting at Mt. Kenya Safari Club, Nanyuki, Kenya from the 19th – 20th July 2012. The meeting was chaired by Mr. Joseph S. Kitamirike; Chief Executive Ugandan Securities Exchange (USE). In attendance were Mr. Peter Mwangi, Chief Executive, Nairobi Securities Exchange (NSE); Mr. Gabriel Kitua, Chief Executive Officer of the Dar- es- Salaam Stock Exchange (DSE); Mrs. Rose Mambo, Chief Executive, Central Depository and Settlement Corporation (CDSC) and Mr. Pierre Celestin Rwabukumba, Coordinator, Rwanda Stock Exchange, (RSE).

The Chairman, Mr. Joseph Kitamirike welcomed the members to the meeting and noted that the East African Community (EAC) Common Market integration process had made laudable progress. Mr. Kitamirike urged the EASEA members to continue focusing on regional integration. He noted that this interconnectedness and collaboration of the regional securities exchanges had already started bearing fruit and would continually increase efficiency and liquidity within the region.

Mr. Kitamirike also emphasized the need for the region to increase its efforts in improving literacy on the capital markets so as to increase investor participation in the region. He commended the Technical committee on the creation of a regional publicity plan. Mr. Kitamirike noted that the vibrancy of the capital markets was dependent on an active and informed investor base.

REGIONAL INITIATIVES

The following issues were discussed and agreed upon by EASEA for follow up and implementation;

1. PROPOSED REGIONAL STANDARDS FOR BROKER BACK OFFICE SYSTEMS (BBO)

Following resolutions during the 19th EASEA meeting held in Kigali, it was agreed that the BBO system implemented in Kenya be adopted as the Regional standard.

Adoption of a standard BBO system by all East African markets will automate the entire process of transacting in securities with minimal manual intervention and be interfaced with the trading platform and settlement platforms regionally. This system will reduce the risk of trading in securities listed on the regional Exchanges, boost investor confidence and facilitate greater access by enabling internet trading. It was proposed that the EASEA technical committee offers guidance on the cost of the proposed solution dependant on the levels of development and the number of intermediaries in each of the regional Exchanges. The Regional Broker Back Office will improve the integrity of the Exchanges trading systems and facilitate greater access to the securities markets.

2. REGIONAL INTER-DEPOSITORY TRANSFER MECHANISM

In recognition of the challenges faced by the investors when transacting in cross listed securities in a market other than that in which their securities are listed, EASEA discussed the proposal to have a Regional Inter-depository Transfer Mechanism. An efficient Regional Inter- Depository Transfer Mechanism would offer a platform which supports secure and efficient delivery and settlement of securities across the regional markets.

The proposed Inter- depository transfer mechanisms is expected to present a range of benefits to investors and issuers in the East African Region including; enhanced liquidity of cross listed securities, enhance efficient movement of securities across the region and substantially reduce the exchange rate risk.

3. REGIONAL PUBLICITY CAMPAIGN

The EASEA members reiterated their commitment to promoting financial literacy within the region. A comprehensive plan comprising of a detailed work plan was discussed. The members agreed to use a regional media campaign, targeted conferences and Open Days as the key regional communication vehicles. The proposed campaign is scheduled to start in the fourth quarter of 2012.

4. PROPOSED FTSE-EASEA PARTNERSHIP

The EASEA also discussed a proposal to partner with FTSE in the creation of a FTSE – EASEA index. FTSE is a world-leader in the creation and management of over 120,000 equity, bond and alternative asset class indices with offices across the world. The FTSE-EASEA index will be developed in partnership with FTSE International and in consultation with the various regional Exchanges, asset owners and fund managers. This index will be built to FTSE's renowned standards of index design, which emphasize transparency, tradability and strong governance, with index data available across a range of global vendor platforms. This reflects the growing interest in new regional investment and diversification of opportunities within the East African region. The new index will run concurrently with the other market specific indices. The FTSE – EASEA index will act as a gauge by which investors can measure the performance of their portfolios. It will also act as a foundation for the development of index related products such as Exchange Traded Funds (ETFs).

5. REGIONAL STOCK BROKER GUIDELINES

EASEA discussed the proposed draft regional stock broker guidelines which will facilitate recognition of an East African Stock Broker (EASB). The draft proposal includes proposals on the minimum benchmark standards on the definition and scope of an EASB. Currently, the stock brokers have had to register and incorporate companies in various countries of operations. The Consultative Committee was informed that the East African Community (EAC) under the Financial Sector Development and Regionalization Project (FSDRP) project had created a Technical Working Group (TWG) to harmonize the legal and regulatory frameworks of the EAC

securities market. The mandate of this TWG is to formulate directives for inclusion into national laws in the various markets. The proposed draft regional stock broker guidelines will be tabled to EAC through the newly constituted Technical Working Group (TWG). Full adoption and implementation of the regional Stock Broker Guidelines will form the basis of creation of a single licence which will enable an East African Stock Broker to operate in any EAC market fairly. Further, a harmonized continuous professional development programme will ensure uniform standards of market participants from markets across the region. Additionally, the members of EASEA undertook to discuss the draft regional stock broker guidelines with the trading participants in their respective countries before finalization.

6. REGIONAL IPOs

In the previous EASEA meeting it was noted that payment for shares during regional IPOs remained a challenge, with reference to exchange rate risk and transfer charges levied by the banks, as well as delay in refunds to investors. EASEA members proposed the establishment of a policy requiring IPOs available to investors in the region to be denominated in the local currency of the applicant.

Furthermore, restrictions on the flow of funds across the region was highlighted. It was proposed that standardization of the treatment of East African citizens needs to be implemented in full. In this regard, EASEA proposed to table the draft policy to EAC through the Technical Working Group (TWG).

COUNTRY MARKET REPORTS

KENYA

NAIROBI SECURITIES EXCHANGE

MACROECONOMIC OUTLOOK

Overall 12 Month Inflation dipped in March to 15.6% and is expected to continue to subside gradually during 2012, driven by easing food and fuel prices and a rebound in the exchange rate in response to tighter monetary policy. The real GDP is projected at

5.4% up from 4.2% in 2011. Expected satisfactory rains will underpin recovery in the agricultural sector and enhance supplies of hydro electricity. Inflation and interest rates are expected to decline facilitating consumer banking and credit allocation. The prevailing boom in telecommunications, expansion of the middle class, investment in infrastructure, increased regional trade and structural reforms are expected to fuel growth.

Secondary market activity will be driven by the direction of short term interest rates, inflation, political transition under Kenya's new Constitution and the direction of the Eurozone economies.

MARKET PERFORMANCE

Equity turnover as at June 30, 2012 stood at Ksh. 36.1 Billion which is a 23% decline from last year. The total bond turnover stood at Ksh. 210.5 Billion representing a 14% decline from the turnover reported the same period last year. Year to date the average foreign participation stands at 47.1%.

NSE INITIATIVES

NEW LISTINGS

On May 30, 2012, Longhorn Kenya made history by becoming the first publishing company in East Africa to list on a securities exchange and the first company in 2012 to list on the NSE. On June 21, 2012, the NSE celebrated the listing and commencement in the trading of the new 1.03 billion shares of Kenya Airways (KQ). The listing is the largest rights issue in East Africa, to date. On July 18, 2012, the CIC Insurance Group listed on the Main Investment Market Segment (MIMS). Two of the listed banks, Diamond Trust Bank and NIC Bank have confirmed their intention to raise capital through rights issues. Consolidated Bank which is currently not listed has received approval to list a Medium Term Note (MTN).

GROWTH ENTERPRISE MARKET SEGMENT (GEMS)

The Growth Enterprise Market Segment (GEMS) will facilitate the listing of Small and Medium Sized Enterprises (SMEs). On June 14, 2012, the establishment of GEMS

received a major boost with the gazettment of the Capital Markets (Securities) (Public Offers, Listings and Disclosures) (Amendment) Regulations, 2012, to pave way for GEMS at the Exchange. The NSE is working with the Capital Markets Authority (CMA) to approve the rules for the Nominated Advisors (NOMADS). The NOMAD will assist companies to list on GEMS and to comply with continuous listing obligations and good corporate governance practices.

NSE BROKER BACKOFFICE

The majority of the Trading Participants of the NSE have now migrated to the NSE Broker Backoffice. The system is tightly coupled and interfaced with the Automated Trading System (ATS) and Central Depository System (CDS). The BBO system enables senior management to monitor and audit activities through suitable alerts and exception reports; permits internet access to the system, helping Trading Participants expand their services across all forty seven counties of the Country. Additionally the BBO supports Initial Public Offers (IPOs), portfolio management, complaints processing and supports internet and mobile phone trading. Overall, the system will bolster existing security measures and reduce the risk of trading in securities listed on the Nairobi Securities Exchange. Facilitating internet trading, will allow Kenyan investors in the diaspora to easily gain access to the local stock market.

CENTRAL DEPOSITORY & SETTLEMENT CORPORATION – KENYA

The total number of central depository accounts currently stands at 1.95 million. There are 31 million free float shares of which 80.95 % are immobilized.

INITIATIVES

DEMATERIALIZATION OF ALL LISTED SECURITIES.

CDSC has proposed to dematerialise all listed securities as provided for under section 24 of the CDS Act. The impact of dematerialization will be that with effect from the Dematerialization date, share certificates shall no longer be recognized as *prima facie*

evidence of ownership of shares, and this will be replaced with the electronic record at the central depository. With the implementation of dematerialization, risks and costs involved with physical certificates will be eliminated and the time required to clear each transaction will be reduced.

CDSC reported that industry consultations begun on July 12, 2012 with a sensitization workshop for issuers & their shares registrars. The dematerialization rules are now waiting for CMA approval. The proposed date on which dematerialization will take effect is November 30, 2012.

MORE EFFICIENT CLEARING AND SETTLEMENT INFRASTRUCTURE

The Minister for Finance Hon. Njeru Githae has made recommendations to amend the CDS Act to include holding of government securities at CDSC. Additionally, in the recent budget reading the Honorable Minister further proposed to amend the Central Depositories Act to facilitate a single Central Depository in Kenya. The current situation of two different securities settlement infrastructures, one for equities and corporate bonds at the CDSC and the other for Treasury bonds at the Central Bank of Kenya (CBK) is inefficient. A more efficient securities settlement infrastructure will also support Treasury Mobile Direct –a project started by the Government, through the CBK in partnership with the World Bank, that will enable Kenyans buy government debt securities including treasury bills and bonds using their mobile phones. Mobile and internet solutions are already available for equity securities.

UGANDA

UGANDA SECURITIES EXCHANGE

MACROECONOMIC REVIEW

The projected GDP growth for 2012/2013 was 3.2%. The Overall headline inflation rate as at June 30, 2012 was 80%. Treasury bill interest rates for the 91, 182 and 364 day T-Bills rates were reported at 16.7%, 17.10% and 16.10% respectively.

MARKET PERFORMANCE

The USE All Share Index (ALSI) stood at 1046.5 on June 30, 2012 in comparison to 1122.31 at the same time last year reflecting a 6.7% decline.

Equity turnover January- June, 2012 was Ush.5.6. Billion compared to Ush. 25.8 Billion registered in the same period last year reflecting a 78% decline.

The USE also reported that as at July 16, 2012 there were 12, 151 SCD accounts, 30.5% of which are local, 59.5% East African and 10% foreign owned.

INITIATIVES

REVIEW OF LAWS

In June 2012, both the GEMs rules and the Fees Charges and Penalties rules were successfully approved. The USE anticipates that the Equity Trading Rules will be considered by the Governing Council in Aug/Sep 2012. The Depository Receipt Rules are awaiting CMA – Uganda approval.

ELECTRONIC MESSAGING SYSTEM

It was further reported that the implementation of the electronic messaging system had been successful. The system receives instant notification on any changes/action on the SCD accounts. This will enable investors to have better access to their accounts. The project is scheduled for completion in December 2012.

UPCOMING LISTINGS

In 2012, the USE anticipates the following listings; African Development Bank Bond, Umeme Ltd listing, SBU Bonus Issue, Bank of Baroda Bonus Issue.

CDS/ATS LINK

It was further noted that the team working on a project linking the CDS/ATS in USE the Bank of Uganda had commenced its work.

RWANDA

RWANDA STOCK EXCHANGE (RSE)

MACRO ECONOMIC ENVIRONMENT

Headline inflation as at June 30, 2012 was at 8.3%. Inflationary pressures are easing mainly due to the fact that global fuel and major commodity prices are declining and regional inflation rates are also reducing. Despite the heavy rains in the second quarter that affected food prices and the increase in fuel pump prices and electricity tariffs, the impact on inflation for the third quarter is expected to remain moderate.

MARKET PERFORMANCE

PRIMARY MARKET ACTIVITY

On July 12, 2012 the Government of Rwanda issued four Treasury Bills worth a total of 7 Billion Rwanda Francs.

INITIATIVES

LEGAL FRAMEWORK

RSE reported that the regulations implementing the Capital Market Laws had been validated and gazetted during the second quarter of 2012. CMA – Rwanda has drafted the Trust Law which has already been tabled for debate in Parliament. It was reported that the separation of functions between the Capital Markets Council of Rwanda (CMA) and Rwanda Stock Exchange (RSE) had been completed.

CENTRAL SECURITIES DEPOSITORY SYSTEM AND TRADING PLATFORM

RSE reported that they were working with the Central Bank of Rwanda and CDSC Kenya on the inter depository transfer mechanism to allow smooth settlement of cross listed securities. Additionally, RSE reported that it was in the final stages of procuring a vendor to automate trading.

TANZANIA

DAR-ES- SALAAM STOCK EXCHANGE LIMITED

MACRO ECONOMIC ENVIRONMENT

During 2011 the Tanzanian economy recorded a growth rate of 6.4 % compared to 7.0 % recorded in 2010. Annual headline inflation declined from 19.8% in December 2011 to 18.7% in April 2012. The high inflation rates are attributed to high electricity tariffs together with high food and fuel prices.

MARKET PERFORMANCE

As at June 30, 2012, market capitalization had grown by 10.33% to stand at TZS 12,772.79 Billion. The All Share Index (DSEI) moved from 1, 303.23 as at December 31, 2011 to 1, 437. 84 at June 30, 2012.

As at June 30, 2012, the percentage of turnover contributed by foreign investors stood at 14.95% compared to 10.77% the quarter ending in March 2012.

NEW LISTINGS IN THE BONDS MARKET

There were six Treasury bonds worth TZS. 170.3 Billion listed in the quarter ending March, 2012.

INITIATIVES

STRATEGIC PLAN

During the quarter ending in March 2012, BTA Consulting Ltd who were engaged to prepare the DSE 5 - year strategic plan submitted a draft report for review. The submitted draft report was tabled to the wide stakeholder's workshop in May 2012.

NEW OFFICE BUILDING

During the quarter ending in June 2012 DSE moved to its new offices in PSPF Golden Jubilee Towers, Ohio Street, Dar-es-Salaam.

CONCLUSION

EASEA members resolved that the next consultative meeting would be held in Uganda in November 2012.



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