

# INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

## COMMENTS ON THE CMA (LICENSING AND APPROVALS) REGULATIONS 2018

7 AUGUST 2018

Comments by ICPAU

	ISSUE	OBSERVATION	COMMENT
<b>THE CMA (LICENSING AND APPROVALS) REGULATIONS 2018</b>			
27-32.	<b>PART III - Stockbrokers and Dealers</b>	The proposed regulation seems to lack a provision on a harmonized financial reporting period for all brokers.	<p>We propose to insert immediately after regulation 32, the following and re-number the rest.</p> <p><b><u>Proposed Amendment</u></b></p> <p>“Regulation 33 Financial Year The financial year of stockbrokers and dealers shall end on the 31<sup>st</sup> of December in each year.”</p> <p><b><u>Justification:</u></b> This will ensure a harmonized reporting period for all players to ease of analysis of returns and comparison of performance.</p>
27 - 32	<b>PART III - Stockbrokers and Dealers</b>	The proposed regulation does not explicitly provide for records to be kept by the stockbrokers and dealers	<p>We propose to insert immediately after proposed regulation 33, the following and re-number the rest.</p> <p><b><u>Proposed Amendment</u></b></p> <p>“Regulation 34 Records to be maintained.</p> <p>34. (1) A stockbroker and dealer shall maintain and preserve for a period of seven years, the following accounting documents -</p> <p style="padding-left: 40px;">(a) journals or other records of original entry containing an</p>

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			<p>itemized daily record of all purchases and sales of securities, all receipts and deliveries of securities (including certificate numbers), all receipts and disbursements of cash and all debits and credits; the records shall show the account for which each transaction was effected, the name and amount of securities, the unit and aggregate purchase or sale price (if any), the trade date and the name or other designation of the person from whom the securities were purchased or received or to whom they were sold or delivered;</p> <p>(b) ledgers, (or other records) reflecting all assets and liabilities, income, expense and capital accounts;</p> <p>(c) detailed records of nominee accounts;</p> <p>(d) all cheque books, bank statements, cancelled cheques and bank reconciliation accounts;</p> <p>(e) clients' accounts (or other records) itemizing separately each account of a client, all purchases, sales, receipts and deliveries of securities and all other debits and credits;</p> <p>(f) a memorandum of each client's order received for the purchase or sale of securities; the memorandum shall show orders in chronological sequence, the time of receipt, the terms and conditions of the order or instructions and of any modification or cancellation thereof, the account for which the order was entered, the time of entry into the market for execution, the price at which the order was executed and, to the extent feasible, the time of execution or cancellation;</p> <p>(g) copies of confirmation of all purchases and sales, notices of all other debits and credits for securities and other items for the account of client;</p> <p>(h) records on all commissions earned on account of equities, bonds and others;</p>

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			<p>(i) contract books or records, showing details of all contracts entered into with full members or associate members of a securities exchange and duplicates of memoranda of confirmation issued to such other members; and</p> <p>(j) any other accounting documents as may be determined by the Authority.”</p> <p><b>Justification:</b> A clear provision of the expected financial records of the players is not only vital to the success of any business but also key evidence for reference by the Authority at any one moment. The provision on the retention period ensures safety of the relevant records for a given period of time.</p>
27 - 32	<b>PART III - Stockbrokers and Dealers</b>	The proposed regulation does not explicitly provide for management of client accounts by the stockbrokers and dealers	<p>We propose to insert immediately after proposed regulation 34, the following and re-number the rest.</p> <p><b><u>Proposed Amendment</u></b></p> <p>“Regulation 35 Client Accounts A stockbroker shall -</p> <p>(a) deposit clients’ funds in one or more bank account(s), which account(s) shall contain only clients’ funds and be clearly marked “clients’ accounts”. Such client accounts shall not be overdrawn for any reason.</p> <p>(b) maintain a separate record for each account showing the name and address of the bank where the account is maintained, the dates, amounts of deposits and withdrawals and also the exact amount of each client’s beneficial interest in the account; and</p> <p>(c) reconcile such accounts on a regular basis to ensure the amount indicated corresponds with the balances in the client account at any given time.”</p>

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			<p><b><u>Justification:</u></b></p> <p>This will ensure separation of account information from that of the stocker dealers, a practice widely known in other sectors.</p>
44	PART V- FUND MANAGERS	The proposed regulation seems not to provide for records of fund managers.	<p>We propose to include the following immediately after proposed regulation 44(5) for the regulation to read:</p> <p>“Regulation 45 Records Maintained</p> <p>45 (1) Every fund manager shall maintain and preserve for a period of seven years, the following records -</p> <ul style="list-style-type: none"> <li>(a) journals, including cash receipts and disbursement records and any other records or original entry, forming the basis of entries in any ledger;</li> <li>(b) general and auxiliary ledgers, or other comparable records reflecting assets, liabilities, reserves, capital, income and expense accounts;</li> <li>(c) a record or memorandum of each order given by the fund manager for the purchase or sale of securities, or any instruction received by the fund manager from the client concerning the purchase, sale, receipt or delivery of a particular security and of any modification or cancellation or any such order or instruction;</li> <li>(d) all cheque books, bank statements, cancelled cheques and cash reconciliation of the fund manager;</li> <li>(e) all bills, statements or copies thereof, paid or unpaid relating to the business of the fund manager;</li> <li>(f) originals of all written communication received from clients and copies of all written communication sent by the fund manager relating to-</li> </ul>

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			<ul style="list-style-type: none"> <li>(i) any recommendations made or proposed to be given;</li> <li>(ii) any receipts, disbursement or delivery of funds or securities; and</li> <li>(iii) the placing or execution of any order to purchase or sell any security; provided, that if the fund manager sends any notice, circular or other advertisement offering any report, analysis, publication or other investment advisory services to more than ten</li> </ul> <p>(2) The records specified under paragraph (1) shall be subject to inspection from time to time and without notice, by the Authority.</p> <p>(3) Each fund manager shall preserve and maintain clients' records of securities or funds and if required produce for inspection by the Authority such books, records and ledgers, or other accepted accounting and additional records as may be required by the Authority for a period of seven years”</p> <p><b><u>Justification:</u></b> For uniformity and creation of an audit trail.</p>
45	<b>PART VI - GENERAL PROVISIONS</b>	There seems to be no provision on submission of annual accounts by the dealers to the Authority	<p>We therefore propose to a provision inserted immediately after regulation 45 and re-number the rest for the regulation to read</p> <p>Regulation 46 Financial Statements</p> <ul style="list-style-type: none"> <li>46 (a) All authorised securities dealers shall submit audited financial statements as may be required by the Authority.</li> <li>(b) The audited accounts for each year shall be submitted to the Authority not later than the 31<sup>st</sup> day of March</li> <li>(c) All financial statements prepared by authorized securities dealers shall be prepared in accordance with International Financial Reporting standards as adopted by the Institute of Certified Public Accountants of Uganda.”</li> </ul>

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			<p><b><u>Justification:</u></b> To facilitate the regulation function</p>
Part VI	<b>General Provisions</b>	There is no provision for anti-money laundering and other illicit activities yet this may be a key sector for placement of illicitly obtained funds.	<p>We propose to insert immediately after the proposed regulation 49 the following-</p> <p>“Regulation 50 Prevention of money laundering and other illicit activities.</p> <p>50 (1) Every licensed person shall obtain through a client information questionnaire details from a client or a potential client with respect to the following -</p> <ul style="list-style-type: none"> <li>(a) the identity of the client or a potential supported by documentary evidence;</li> <li>(b) nature of business activities of the client or potential client;</li> <li>(c) origin and sources of funds used or to be used for investment in securities. Where the money or funds originate from outside Uganda a confirmation from the remitting entity of the nature of its business and of the source of the moneys or funds;</li> <li>(d) a written declaration by the client or potential client confirming - <ul style="list-style-type: none"> <li>(i) the accuracy of all information given under paragraphs (a) to (c); and</li> <li>(ii) that the moneys or funds used for the investment in securities is not arising out of the proceeds of any money laundering or other illicit activities.”</li> </ul> </li> </ul> <p><b><u>Justification:</u></b> All stock brokers and dealers are accountable persons.</p>