

Frequently Asked Questions and Answers About USE.

Qn: What is a Stock Exchange?

A Stock Exchange is a market where large and small investors can buy and sell securities (shares, bonds etc). It is an organized market where buyers and sellers of securities meet as dealers/brokers represent them and acquire or sell securities. It is a market in which securities are traded by members of the Exchange who may act as both Agents (Brokers) and as Principals (Dealers).

The USE is one such market, which has recently been set up in Uganda. It was established in 1998 as a result of a Government policy of transforming the economy of the country from a public sector to the private sector basis.

The Exchange was incorporated in June 1997 as a company limited by guarantee without a share capital. It became operational in January 1998. The USE is therefore a non-profit making body created to facilitate the Government implementation of the reforms and in the future to encourage wider share ownership of the privatized and all the companies in Uganda.

What is a Primary market

This is where new issues of securities are offered to the public

What is a Secondary market

This is where already existing securities are bought and sold on the exchange through licensed stockbrokers.

“Securities”

These are financial documents in the form of debt (bonds) or equity (shares) by which the claims of holders are secured.

“Bond”

Is a borrowing arrangement in which the borrower issues (sells) an IOU to the investor promising to pay an agreed upon amount at a given time.

“Share”

Is a unit of ownership of a company.

“Treasury bills”

Treasury bills are short-term, highly liquid financial instruments issued regularly by governments. In Uganda there are 91, 182, 271 and 365 treasury bills.

“Price” means the unit price of a security.

“Offer” means an order to sell a security posted on the Trading Board

“Bid” is an order to buy a security posted on the Trading Board.

“Spread” means the step by step increase or decrease in price by which bids and offers may be raised or lowered.

“Public flotation”

This is when a company goes public by issuing its shares to the general public i.e. selling part-ownership to the public

“Listed company” means a company whose securities are listed at the USE

“Listed Security” means a security which has been admitted to the listing at the USE

“Dealer” or “Stock broking Firm” means a listed company constituted for the purpose of undertaking on his behalf as well as on behalf of the clients all transactions for which he is responsible in the course of exercising his functions as a stockbroker.

“All or nothing” means that the bidder or offeror is only interested in buying or selling the total number of shares displayed on the Trading Board and does not wish the order to be reduced in size.

“Books close date” means the day on which the register of a company is closed.

“Buyers’ Market” is a market which in an initial call in a particular security the aggregate nominal amount of bids exceeds the aggregate nominal amount of offers.

“Cum” placed immediately before a distribution or benefit implies inclusion of the distribution or benefit implies inclusion of the distribution or benefit.

“Coupon” means the amount of interest, which a bond pays, on its nominal value.

“Dividend” means the proportion of profits, which is paid out to shareholders in a company, often paid in two installments as interim and final dividend.

“Dividend cover” means the number of times a company could pay its annual dividend from its earnings.

“Ex” similarly means that the bargain was dealt exclusive of distribution or benefit.

“Match” is where two calls, one bid and one offer have been either wholly or partially satisfied or declared as trades in accordance with the Matching Procedures contained in the USE Rules.

“PE ratio” means Price – Earnings ratio, a relative measure of how cheap or dear a company’s shares are.

“Profit and Loss Account” means a statement indicating the results of the operations over a period of time, usually one year.

“Seller’s Market” is a market where in the initial call in a particular security the aggregate nominal amount of offers exceeds the aggregate nominal amount of bids.

“Trading Board” means the facility/computers screen provided for matching offers and bids on the market.

“Annual General Meeting”

An annual general meeting is a meeting which must be held by all public companies, which sell shares on the securities exchange. Here, a report on the company’s performance is made to shareholders and shareholders are given the right to vote on major policy decisions concerning the company.

“Prospectus”

Is a document that gives the financial and management details of a company i.e. the financial history and future plans of the company.

COMMON QUESTIONS:

Why is the Securities Exchange so important For Uganda?

With the growing competition and the quest for company growth and expansion, companies cannot succeed single-handedly. There is need to access alternative sources of investment capital from a wide base of investment sources. USE represents a vital link between companies with capital needs and the public with savings to invest. Investors will become part owners of the companies they invest in. In return, companies will raise capital from selling shares enabling them to expand their services, replace equipment and develop new products. This will create more employment; incomes and the overall economy will be in position to grow.

What are the benefits of investing in shares?

- **Income in form of dividend**

When you buy shares of a company you become a part owner of that company and therefore will be entitled to get a share of the profits of the company which come in form of dividends.

- **Capital Gains**

This refers to the increase in the value of your investment in shares