Summary Overview for Individual Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions. As a robust legal basis for an FMI’s activities in all relevant jurisdictions is critical to an FMI’s overall soundness, this principle should be reviewed holistically with the other principles.

Summary Overview

CSD has a reliable/sound legal basis for each material aspect of its activities in all relevant jurisdictions.

The legal basis draws from generally binding laws and CSD’s rules assessed by the **Bank of Uganda**. The CSD material aspects are defined in <TBD Act, pursuant to which the central depository is a legal entity which: \

a) keeps a central register of book-entry securities in Uganda;

b) assigns identification numbers to investment instruments according to the international securities identification (ISIN);

c) operates a settlement system The central depository may also keep a separate register of investment instruments or pursue another entrepreneurial activity registered with the **Bank of Uganda**.

Key consideration 1:

The legal basis should provide a high degree of certainty for each material aspect of an FMI’s activities in all relevant jurisdictions. Material aspects and relevant jurisdictions Q.1.1.1: What are the material aspects of the FMI’s activities that require a high degree of legal certainty (for example, rights and interests in financial instruments; settlement finality; netting; interoperability; immobilisation and dematerialisation of securities; arrangements for DvP, PvP or DvD; collateral arrangements (including margin arrangements); and default procedures)?

A high level of legal certainty is necessary, in particular, in the matters which the <TBD> Act expressly requires to be regulated in the central depository’s regulations required pursuant to the TBD Act, i.e. in the settlement system rules (Section TBD of the CMBA) and the operations rules..

When it comes to the operation of a settlement system, these matters include, in particular: - conditions of participation in the settlement system and participants’ rights and obligations; - method and conditions of securing debts ensuing from the participation in the settlement system; - elements of a settlement order and method and conditions of its entry; - measures CSD may impose on participants and procedure in their imposition; - settlement time schedule and definition of an operation day; - settlement finality moment, and finality moment; - risk approach rules When it comes to the keeping of a register of book-entry securities, these matters include, in particular: - method of recording the establishment and expiration of a lien right to securities and to a securities account; - method of forwarding orders to make changes in property accounts; - elements necessary to keep a register of issues in a central depository; - method of registration in customer accounts and procedure in the commencement and termination of such registration; - determination of daily final accounts; - types of register statements and their elements and method of their handover

Q.1.1.2: What are the relevant jurisdictions for each material aspect of the FMI’s activities?

All material aspects of CSD’s activity shall be governed by the Uganda laws. Only in the event of interconnected central depositories, when CSD acts as an investor central depository, the rights and the obligations ensuing from the participation in the issuer central depository and from opening an account administered by the issuer central depository shall be governed by the laws of such depository.

Q.1.1.3: How does the FMI ensure that its legal basis (that is, the legal framework and the FMI’s rules, procedures and contracts) provides a high degree of legal certainty for each material aspect of the FMI’s activities in all relevant jurisdictions?

a) For an FMI that is a CSD, how does the CSD ensure that its legal basis supports the immobilisation or dematerialisation of securities and the transfer of securities by book entry?

The legal basis of dematerialization and immobilization draws from the laws, including the procedure in transforming book-entry securities. The processes applied by the central depository in the registration do not impose any redundant legal obligations on issuers.

b) For an FMI that is a CCP, how does the CCP ensure that its legal basis enables it to act as a CCP, including the legal basis for novation, open offer or other similar legal device? Does the CCP state whether novation, open offer or other similar legal device can be revoked or modified? If yes, in which circumstances?

Non-applicable

c) For an FMI that is a TR, how does the TR ensure that its legal basis protects the records it maintains? How does the legal basis define the rights of relevant stakeholders with respect to access, confidentiality and disclosure of data?

Non-applicable CSD Prague

d) For an FMI that has a netting arrangement, how does the FMI ensure that its legal basis supports the enforceability of that arrangement?

The legal basis draws from the enforcement of system settlement rules for the CSD in Uganda is achieved through a comprehensive regulatory framework established by the Capital Markets Authority Act and the Central Securities Depositories Act, coupled with detailed rules and procedures set by the Uganda Securities Exchange.

**Settlement**

Once net positions are calculated, the settlement process follows:

1. **Delivery Versus Payment (DvP)**: The netted securities and cash are exchanged simultaneously to mitigate the risk of one party fulfilling their obligation while the other does not.
2. **Real-Time Gross Settlement (RTGS)**: The Bank of Uganda’s RTGS system may be used to settle the net cash positions in real-time, ensuring finality and reducing settlement risk.

**Legal and Regulatory Framework**

1. **Central Securities Depositories Act, 2009**: Provides the legal basis for netting and the operation of the CSD.
2. **Capital Markets Authority (CMA)**: Regulates the operations of the CSD and ensures that netting and settlement processes comply with established rules and regulations.
3. **CSD Rules**: Detailed rules and procedures established by the USE and CDSC ensure that netting is conducted efficiently and transparently.

**Risk Management**

1. **Collateral and Margins**: Participants may be required to post collateral or meet margin requirements to cover potential losses arising from netting and settlement.
2. **Default Handling**: Procedures are in place to manage defaults by participants, including the use of collateral to fulfill obligations.

**Technology and Infrastructure**

1. **Clearing Systems**: Advanced clearing systems are used to facilitate the netting process, ensuring accuracy and efficiency.
2. **Automation**: Automated systems help in capturing, matching, and netting trades, reducing manual errors and enhancing speed.

The CMA, along with the Bank of Uganda, provides rigorous oversight and supervision, ensuring compliance and maintaining the integrity and stability of the securities settlement system. netting in Uganda’s CSD is achieved through a structured process of capturing and matching trades, calculating net positions, and settling these positions using mechanisms like DvP and RTGS. This process is governed by a robust legal and regulatory framework and supported by advanced technology and risk management practices to ensure efficiency and reduce settlement risk.

e) Where settlement finality occurs in an FMI, how does the FMI ensure that its legal basis supports the finality of transactions, including those of an insolvent participant? Does the legal basis for the external settlement mechanisms the FMI uses, such as funds transfer or securities transfer systems, also support this finality?

The settlement system operated by CSD is a settlement system with the finality of settlement pursuant to the TBD Act. The TBD Act regulates the finality of settlement in a way that it is not possible to revoke a settlement order from the moment set in the system rules. The consequences of the finality are regulated in case of bankruptcy decisions or a decision or another intervention of a public body, aimed at discontinuing or limiting the settlement, at excluding or limiting the use of investment instruments or funds in the account subject to settlement or at excluding or limiting the assertion of the right to the satisfaction from collateral. Pursuant to the Settlement System Rules, no participant or third party must unilaterally revoke a settlement order after the settlement order is admitted in the settlement system. By commencing the settlement, CSD bears responsibility for safeguarding the settlement system from any attempted unilateral revocation of a settlement order. No order unilaterally revoking any settlement order shall be admitted in the settlement system.

Key consideration 2:

An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.

Q.1.2.1: How has the FMI demonstrated that its rules, procedures and contracts are clear and understandable?

CSD considers its rules, procedures and contracts as clear and understandable. The most important CSD rules are contained in the CSD Rules assessed by the **Bank of Uganda** and serving as business conditions. Participants have known the CSD Rules since TBD. Regularly concluded contracts are form-based, i.e. refer to the rules, and are made available on CSD’s website. CSD’s participants have the opportunity to react to the rules through or even outside CSD’s committee.

Q.1.2.2: How does the FMI ensure that its rules, procedures and contracts are consistent with relevant laws and regulations (for example, through legal opinions or analyses)? Have any inconsistencies been identified and remedied? Are the FMI’s rules, procedures and contracts reviewed or assessed by external authorities or entities?

The basic rules are approved by the **Bank of Uganda**. There have been no disputes regarding the interpretation of the rules so far. The responsibility for legal matters is vested in <TBD>.

Q.1.2.3: Do the FMI’s rules, procedures and contracts have to be approved before coming into effect? If so, by whom and how?

The approval process for the Bank of Uganda CSD rules is comprehensive and involves multiple steps:

1. Drafting the rules internally.
2. Consulting with stakeholders and the public.
3. Reviewing and revising based on feedback.
4. Securing internal and board approval.
5. Obtaining regulatory approval from the Capital Markets Authority.
6. Officially publishing the rules.
7. Implementing and monitoring compliance.

This structured approach ensures that the rules are robust, transparent, and effective in managing the settlement and depository functions within Uganda’s financial markets.

No changes in the Settlement System Rules can be made public until consent to the changes is granted by the **Bank of Uganda**. Changes in the Operations Rules must be notified to the **Bank of Uganda**, which is authorized to commence an administrative procedure for their approval.

Key consideration 3:

An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants’ customers, in a clear and understandable way.

Q.1.3.1: How does the FMI articulate the legal basis for its activities to relevant authorities, participants and, where relevant, participants’ customers?

The rules governing the Central Securities Depository at the Bank of Uganda are made available to the public through various channels, including the BoU’s official website, the government gazette, circulars and notices, public consultations, and educational initiatives. This transparency is essential for ensuring market integrity, compliance, and confidence among all market participants.

Key consideration 4: \

An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays. Enforceability of rules, procedures and contracts

Q.1.4.1: How does the FMI achieve a high level of confidence that the rules, procedures and contracts related to its operations are enforceable in all relevant jurisdictions identified in key consideration 1 (for example, through legal opinions and analyses)?

The Bank of Uganda achieves high confidence in the enforceability of its CSD rules, procedures, and contracts through a comprehensive approach that includes a robust legal framework, stringent regulatory oversight, transparent documentation, stakeholder engagement, adherence to international standards, and effective enforcement mechanisms. These elements work together to ensure that the CSD operates effectively and that its rules are respected and enforceable within Uganda's legal system.Degree of certainty for rules and procedures

Q.1.4.2: How does the FMI achieve a high degree of certainty that its rules, procedures and contracts will not be voided, reversed or subject to stays? Are there any circumstances in which an FMI’s actions under its rules, procedures or contracts could be voided, reversed or subject to stays? If so, what are those circumstances?

The Bank of Uganda ensures that its rules, procedures, and contracts are not voided, reversed, or subject to stays by leveraging a strong legal foundation, rigorous regulatory oversight, adherence to international standards, clear contractual terms, effective dispute resolution mechanisms, continuous monitoring, and legal updates. These strategies collectively provide a high degree of legal certainty and enforceability within Uganda’s financial system. Both a CSD participant and an issuer may unilaterally terminate the contract, but only with future effects.

Q.1.4.3: Has a court in any relevant jurisdiction ever held any of the FMI’s relevant activities or arrangements under its rules and procedures to be unenforceable?

No

Key consideration 5:

An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.

Q.1.5.1: If the FMI is conducting business in multiple jurisdictions, how does the FMI identify and analyse any potential conflict-of-laws issues? When uncertainty exists regarding the enforceability of an FMI’s choice of law in relevant jurisdictions, has the FMI obtained an independent legal analysis of potential conflict-of-laws issues? What potential conflict-of-laws issues has the FMI identified and analysed? How has the FMI addressed any potential conflict-of- laws issues?

The Bank of Uganda manages conflict-of-laws issues when conducting business in multiple jurisdictions through a combination of legal research, consultation with local and international legal experts, carefully drafted contractual clauses, regulatory compliance, comprehensive risk management, staff training, ongoing monitoring, cross-jurisdictional coordination, and scenario planning. These strategies collectively ensure that the BoU can navigate the complexities of operating in different legal environments and minimize legal risks.