



# **CAPITAL MARKET STATUS REPORT (January 2010 – September 2014)**

**Arunma Oteh  
Director-General  
Securities & Exchange Commission**

**January, 2015**



**Introduction – The Securities & Exchange Commission**

**Major Milestones and Achievements**

**Key Next Steps**



# 1

## **Introduction – The Securities & Exchange Commission**



## THE SECURITIES AND EXCHANGE COMMISSION

- The Securities and Exchange Commission (SEC) is an agency of the Federal Government of Nigeria, empowered by the Investment and Securities Act (ISA), 2007 to regulate and develop the Nigerian Capital Market
- In the discharge of its regulatory function, the Commission has specific responsibilities for the following:



**Registration** of securities and capital market intermediaries

Regular **inspection** of capital market operators, as well as inquiries and audit of participants in the market, as may be necessary

**Surveillance** of exchanges and trading systems to forestall breach of market rules and possible manipulations

**Investigation** of alleged market breaches

Taking **enforcement** actions against operators found wanting after investigations have been carried out

**Making rules** to govern market activities



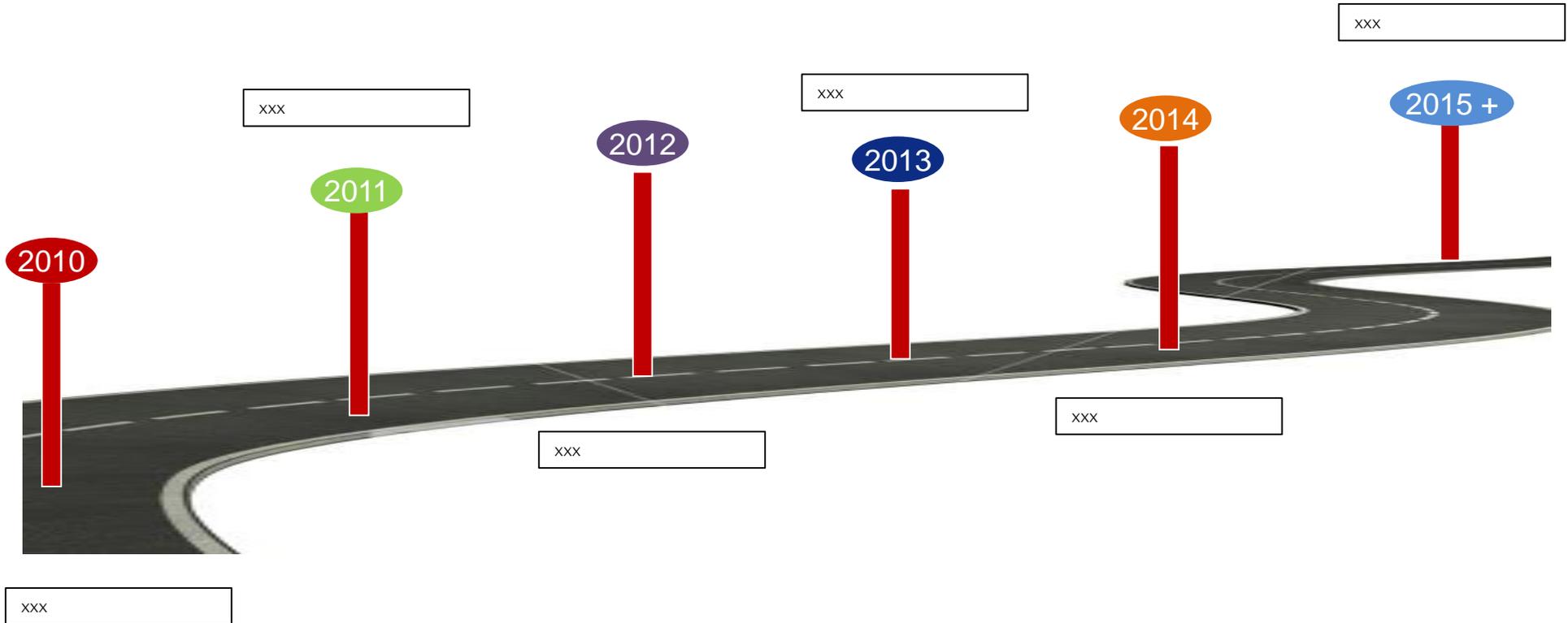
# 2

## **Major Milestones and Achievements**

# Timeline of Major Achievements (January 2010 – September 2014)



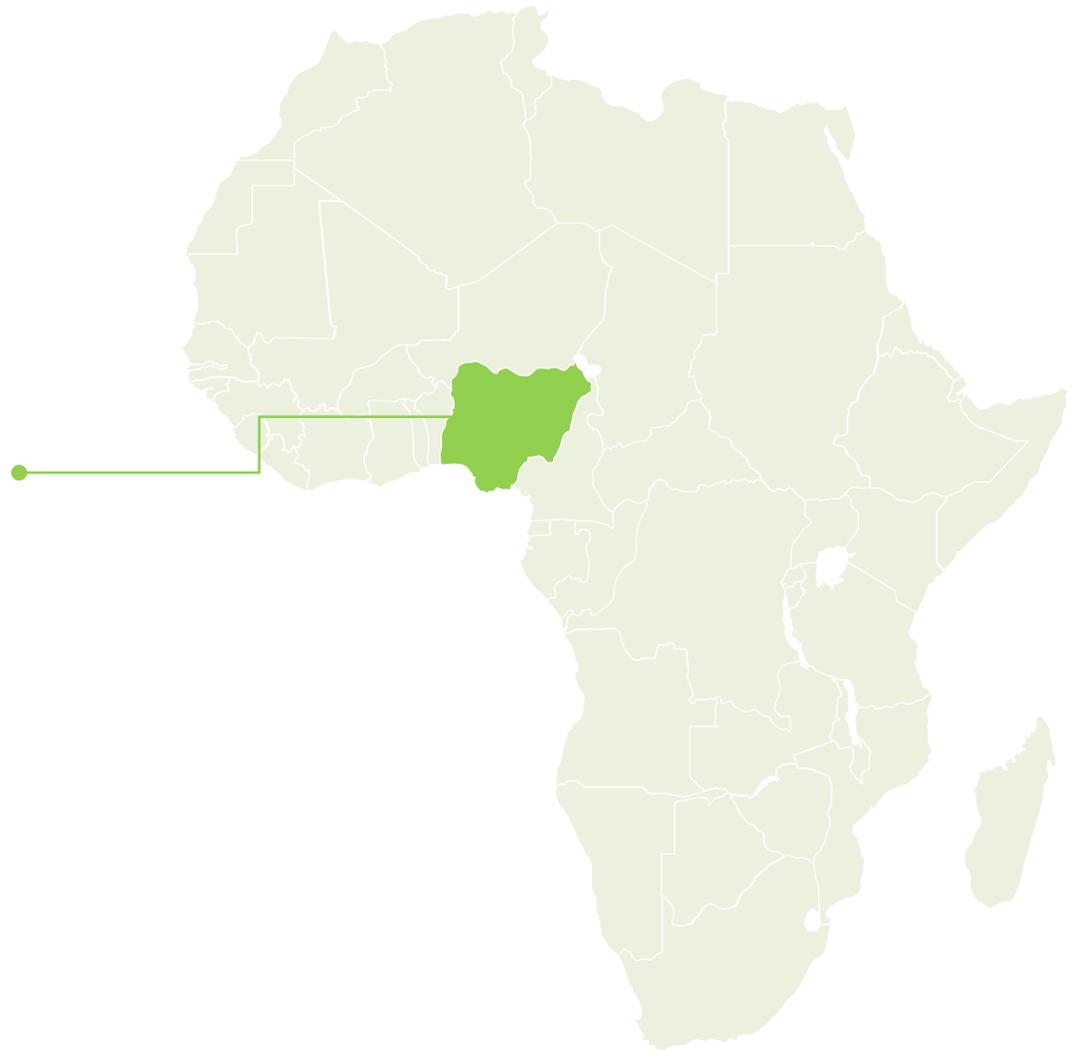
**\* To be filled**





## Pre-2010 Market Status

- The market was dominated by banking stocks resulting from the CBN-induced recapitalization of 2004 – 2005. Consequently, performance of these stocks determined the fortune of the market
- The wave of bank-driven public offers therefore led to an unprecedented spike in market activities, with market indicators reaching record levels. Aggregate new issues by corporate organisations, which stood at N412.7 billion in 2005 increased to N1.34 trillion in 2007; a growth of 224.6%
- Between 2002 and 2007, the Nigerian Stock Exchange All-Share Index (NSE ASI) gained 161.64% while equity market capitalization increased by 384% from N2.5 trillion (\$22.73 billion) in 2005 to N12.1 trillion (\$110bn) in March 2008
- Unfortunately, sharp practices thrived in the market due to the absence of robust risk management frameworks. The SEC and other financial market regulators were also neither sufficiently prepared nor well-positioned to monitor and sustain the explosive growth in the capital market
- With the massive portfolio outflows triggered by the global financial crisis, stock prices began to decline, prompting margin calls. Local investors who were unaccustomed to huge and persistent declines began to panic, fueling more sell orders and price crash
- Between 2007 and 2009, the market lost over 70% of its value. By 2009, new issues had dropped by 93.5% to only N85.9 billion from the peak of N1.3 trillion in 2007





Everyone had a story to tell...

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## Capital Market crisis: Why a slump became a crash

on January 18, 2011 / in **Business** 12:05 am / [Comments](#)

### Stock Market Crash 2008: To Hold or Sell!

### Probe into \$50bn Nigerian equities crash of 2008

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The Crash of Nigerian Capital Market: Explanations Beyond the Global Meltdown

THE CRASH OF THE NIGERIAN STOCK MARKET: WHAT WENT WRONG, THE CONSEQUENCES AND THE PANACEA

# Against this background, the new leadership of SEC assumed office in 2010 with clear objectives...



1



**Restore Investor Confidence**

2



**Deepen and Broaden the Market**

3



**Restore Market Integrity**

4



**Strengthen Disclosure and Transparency**

5



**Promote Good Corporate Governance**

6



**Improve Governance and Infrastructure of the SEC**

7



**Demutualise the Nigerian Stock Exchange**



# Reforming the capital market required bold, decisive steps...



- ❖ **Strengthened Corporate Governance at the NSE**



- ❖ **Instituted legal proceedings against over 260 individuals and institutions**



- ❖ **Revamped the Administrative Proceedings Committee (APC)**



- ❖ **Issued new Code of Corporate Governance**



- ❖ **Addressed Corporate Governance lapses at Ecobank Transnational Incorporated (ETI)**



- ❖ **Instituted enforcement notices that name and shame**



- ❖ **Revised capital requirements for market operators**



- ❖ **Speedy resolution of complaints**

**Our concerted efforts at achieving these objectives have yielded positive dividends...**



**47.19%**

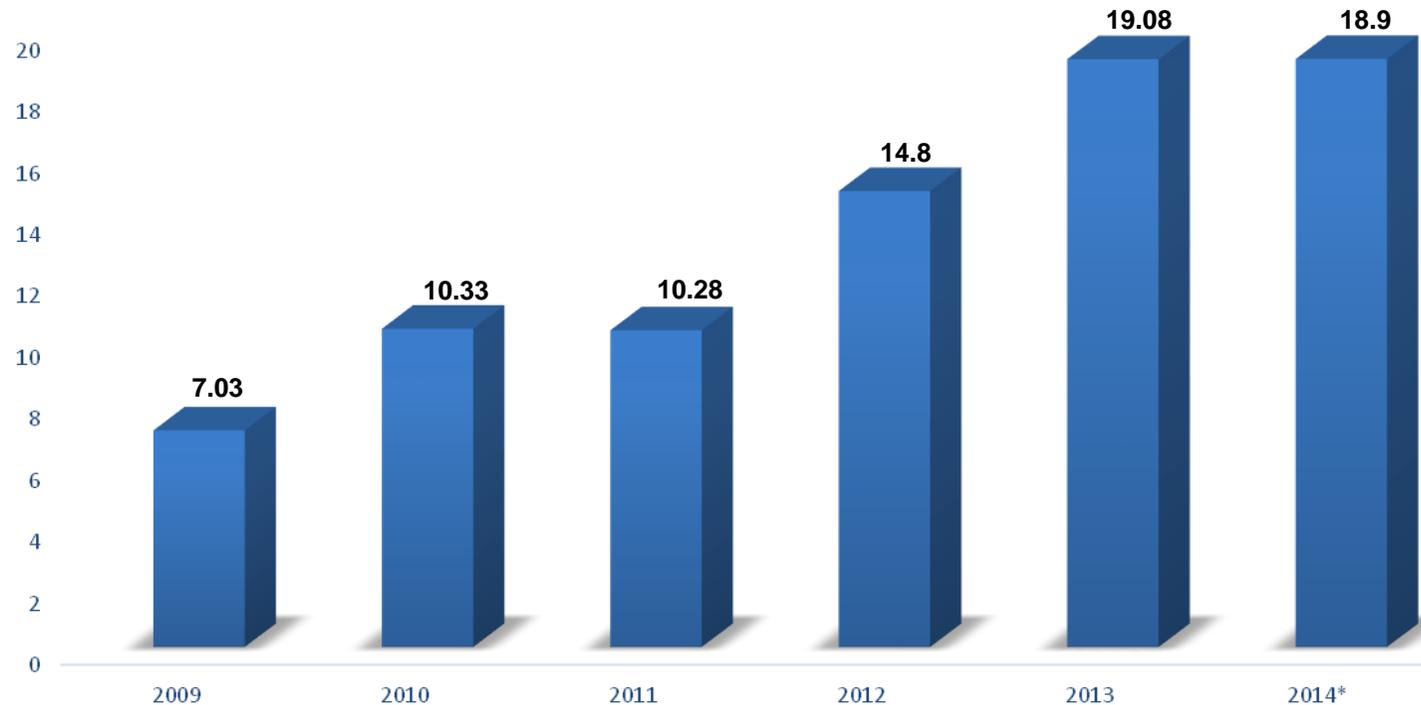
**As at the end of 2013, Nigeria's stock market ranked among the top 10 performing markets in the world, appreciating by 47.19%, the highest recorded in any African market**



# Market Capitalisation...

- Between 2009 and the end of 3<sup>rd</sup> quarter, 2014, total market capitalization (equities and bonds/ ETPs) has more than doubled from N7.03 trillion to N18.9 trillion. This represents a compound annual growth rate (CAGR) of 23.15%

**Total Market Capitalisation, 2009 – September 2014 (N' trillion)**

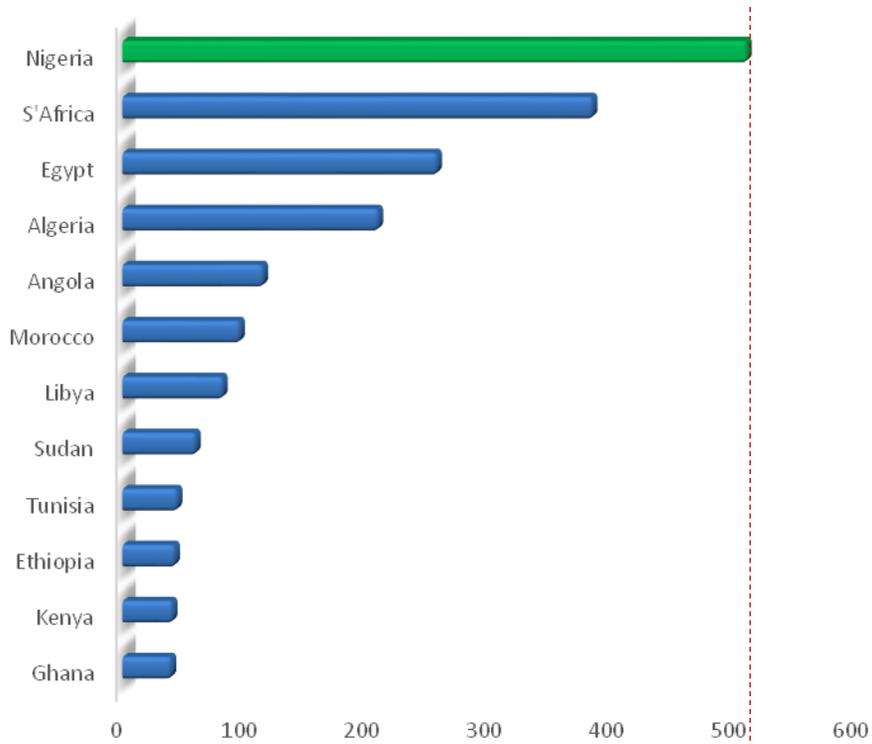




# Market Capitalisation to GDP

## Rebased GDP

Nigeria's rebased GDP was released on April 6, 2014. The country's new GDP size of US\$510 billion makes the country Africa's largest economy ahead of South Africa, which had hitherto been the continent's biggest economy



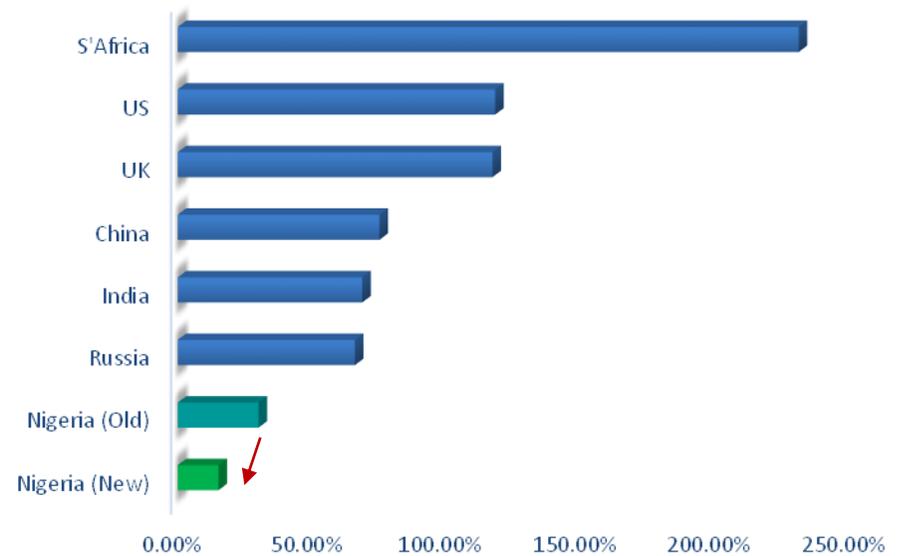
## Impact of the Rebased GDP on the Capital Market

The quantum leap in the country's GDP has consequently reduced Nigeria's market capitalization to GDP ratio and further reinforces the need for greater inclusion to drive growth in the capital market

### Market Capitalisation to GDP

Pre-Rebasing 30.1%

Post-Rebasing\* 16.15%

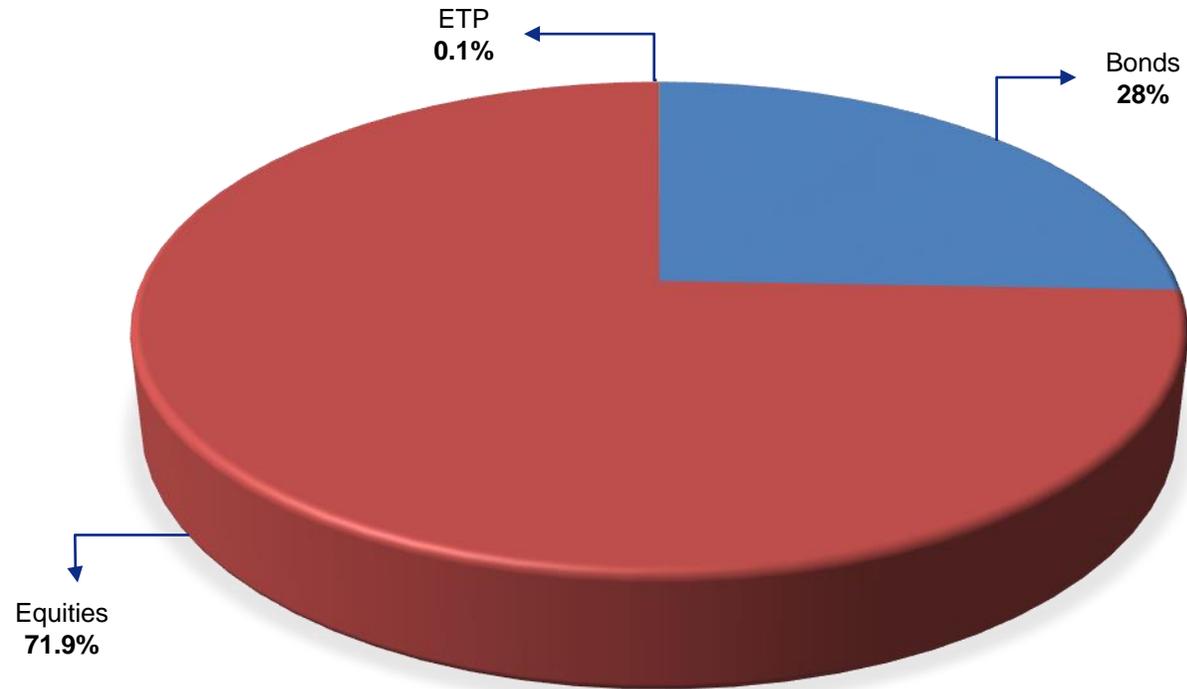


\*As at September 30, 2014



# Equities currently account for as much as 72% of total market capitalisation...

Composition of Market Capitalisation as at September, 2014



Instrument	Capitalisation (N)	% of Total
Bonds	5.33 trillion	28.0%
ETPs	0.003 trillion	0.1%
Equities	13.6 trillion	71.9%
<b>Total</b>	<b>18.93 trillion</b>	<b>100%</b>

Source: The Nigerian Stock Exchange

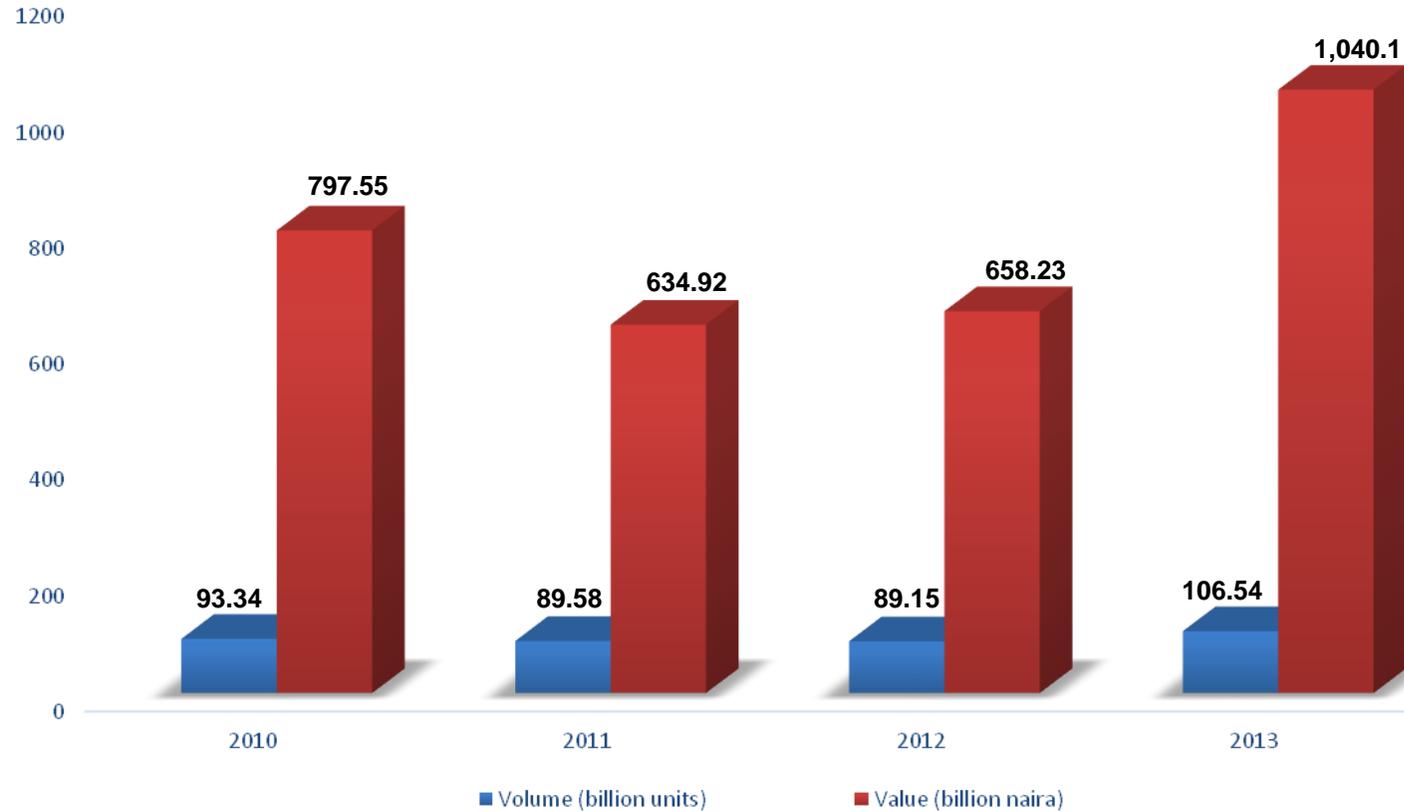


## Market Liquidity and Transaction Volumes<sup>1/2</sup>

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- The Commission has worked with various stakeholders to improve liquidity in the market. The NSE's rules on market-making, short selling and securities lending were approved between 2011 and 2012. Apart from new listings, the formal take-off of market-making, securities lending and short-selling have improved market liquidity
- Other measures taken by the SEC to improve liquidity include:
  - ✓ Encouraging more institutional investors such as PFAs and insurance companies to participate in the capital market
  - ✓ Lowering transaction costs
  - ✓ Supporting the NSE's efforts at improving trading infrastructure
  - ✓ Encouraging the introduction of more products in the market
  - ✓ Continued improvement in corporate governance practices
  - ✓ Planned dematerialization of certificates
  - ✓ Introduction of e-offers
  - ✓ Promoting the take-off of an "over the counter" (OTC) market
- Consequently, transactions on the Nigerian Stock Exchange have improved significantly over the review period. As at the end of 2010, a total of N93.34 billion units of securities, worth N797.55 billion were traded. By close of trading in 2013, transaction value stood at N1.04 trillion, from the sale of 106.54 billion units of securities. This represents an appreciation of 14% and 33% respectively in volume and value between 2010 and 2013.

# Market Liquidity and Transaction Volumes<sup>2/2</sup>



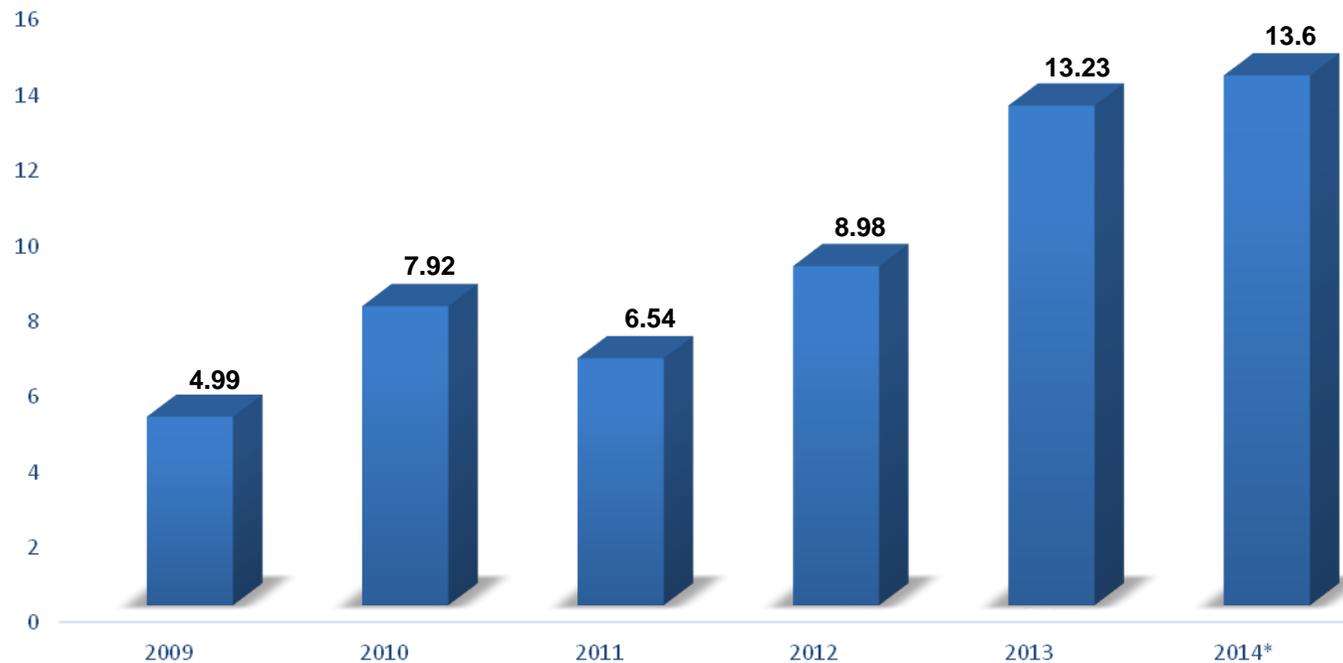
**\*Note: update with 2009 and 2014 figures**



## Equities Market...

- Equities market capitalization has grown from N4.99 trillion in 2009 to N13.6 trillion as at the end of 3<sup>rd</sup> quarter, 2014. This represents a 172.5% growth and a CAGR of 23.5%
- The historic Initial Public Offering of Seplat Petroleum shares happened simultaneously on the Nigerian Stock Exchange (NSE) and the London Stock Exchange (LSE) on April 9th, 2014. The company was valued at £1.14 billion, and raised about \$500 million in the exercise

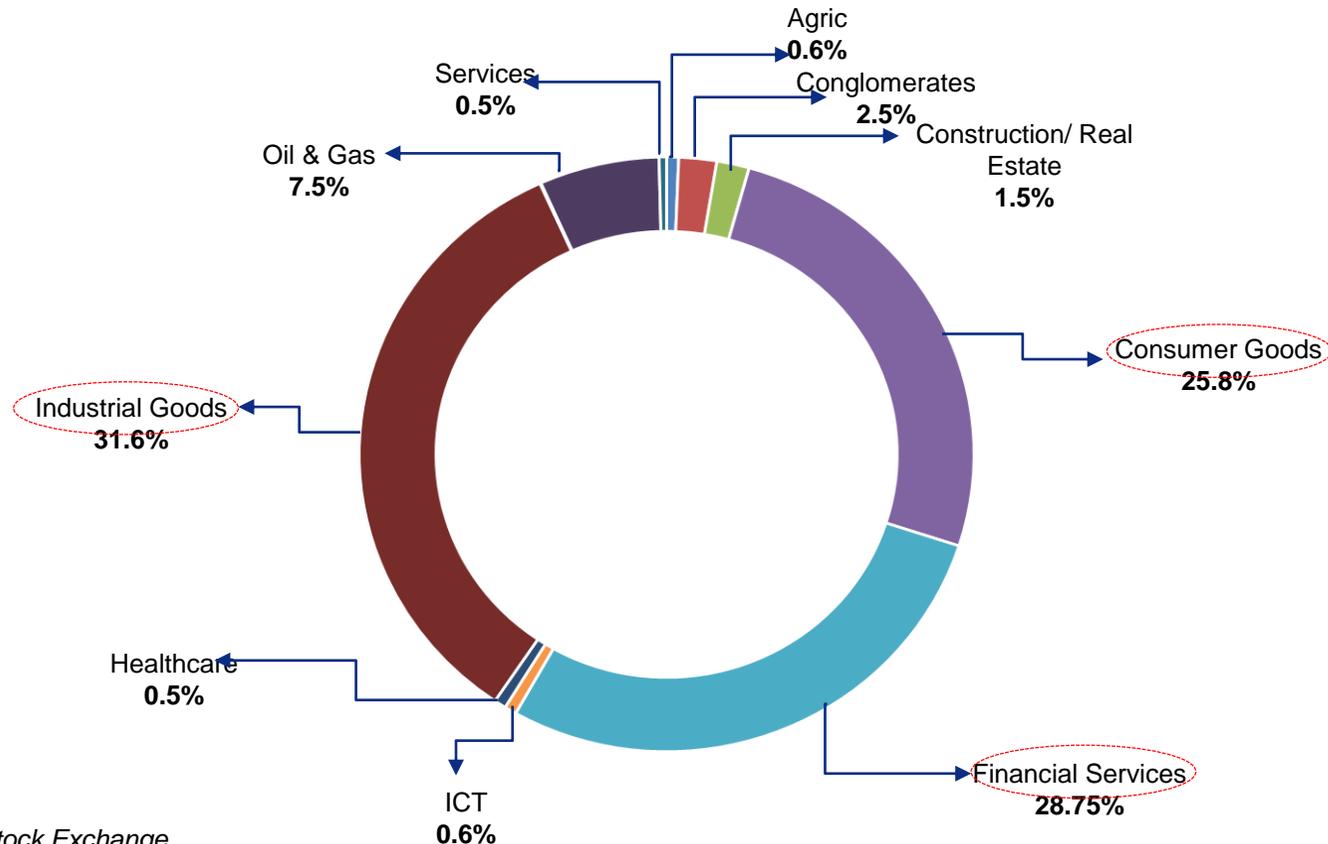
### Equities Market Capitalisation, 2010 – September 2014 (N' trillion)





## Equities Market – Composition by Sector

- The dominance of the banking sector in the market has reduced over the past five years, with increased participation from other sectors. Banking stocks however still account for over 70% of capitalization within the financial services segment of the market
- The listing of Dangote Cement in 2010 accounted for about 25% of market capitalization. As at 3<sup>rd</sup> quarter, 2014, the industrial goods sector was the most dominant, accounting for about 32% of total equities capitalization.
- Cumulatively, the industrial goods, consumer goods and financial services sectors account for almost 90% of market capitalization

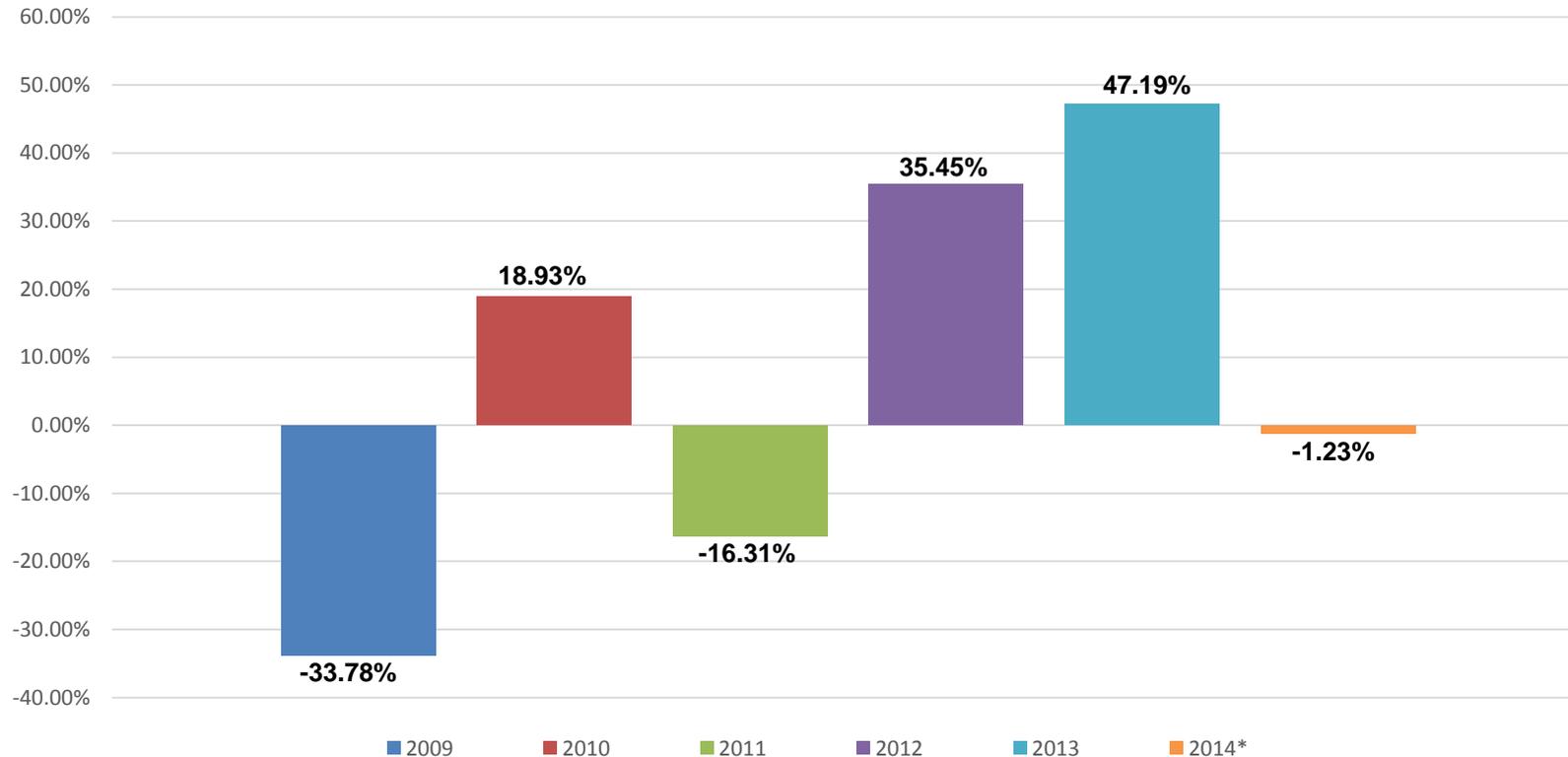


Source: The Nigerian Stock Exchange



## Changes in the Value of All Share Index (2009 – September 2014)

- Confirming a return of investors' confidence in the market, the NSE All-Share Index stood at 41,329.19 points as at December 31, 2013, representing a 47.19% appreciation against the 28,078.80 points recorded at the end of the previous year
- Index movements so far recorded in 2014, have generally hovered within the range of its closing position in 2013



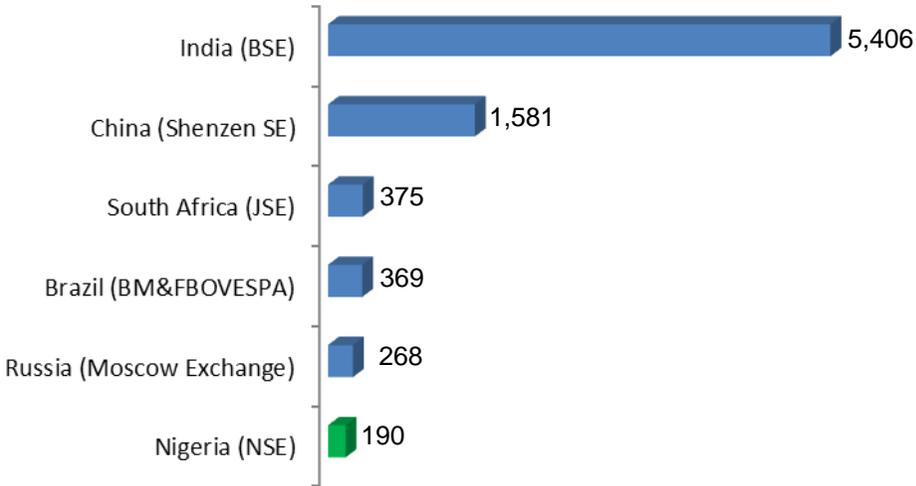
Source: The Nigerian Stock Exchange

\*2014 status as at end of September

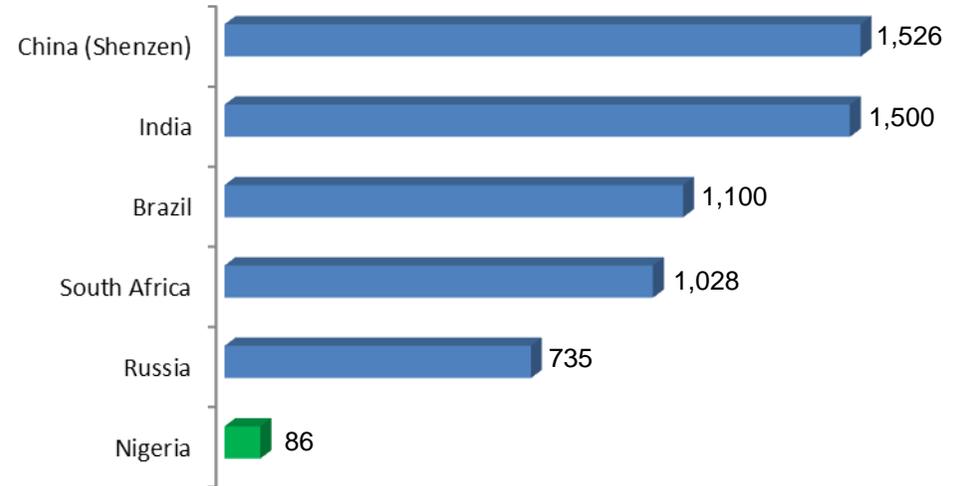


# Equities – Comparative Performance with the BRICS

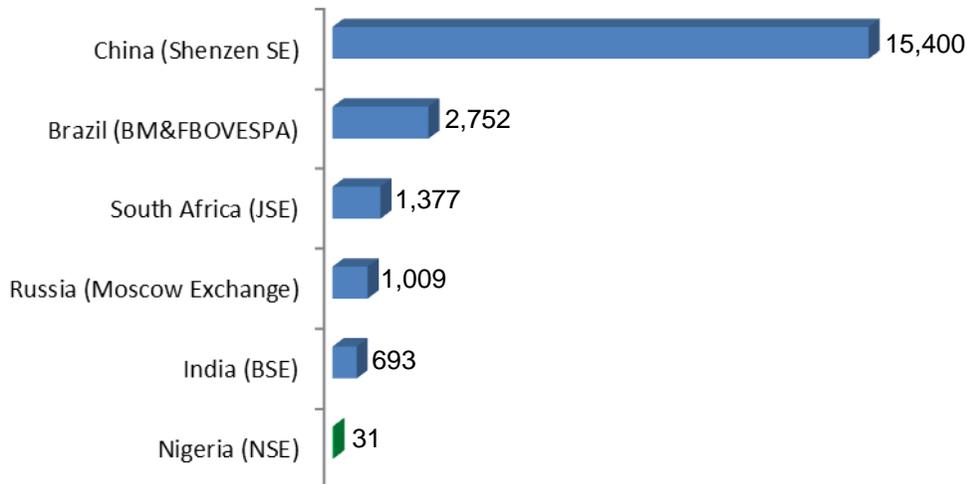
### Number of Listed Companies as @ June, 2014



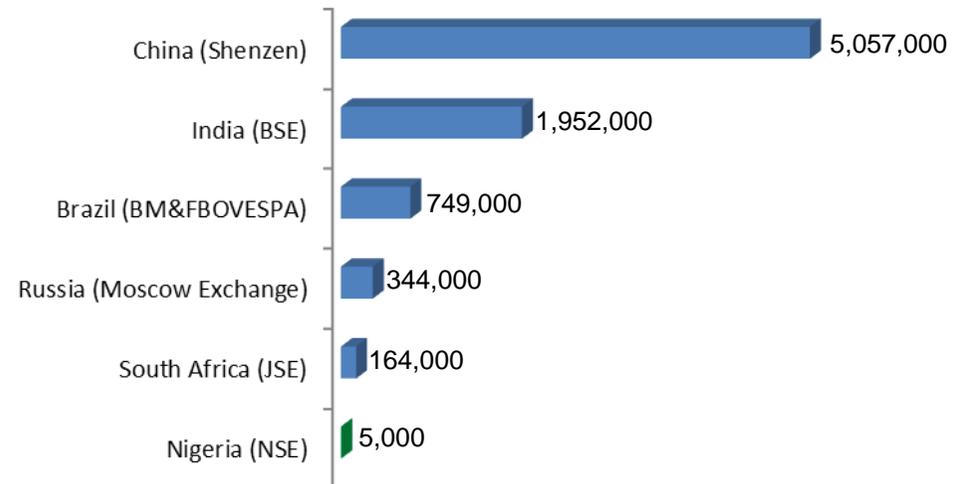
### Market Capitalisation as @ June, 2014 (US\$ billion)



### Average Daily Value of Shares Traded as of June 30, 2014 (US\$ million)



### Average Daily Number of Deals (Equities) as of June 30, 2014

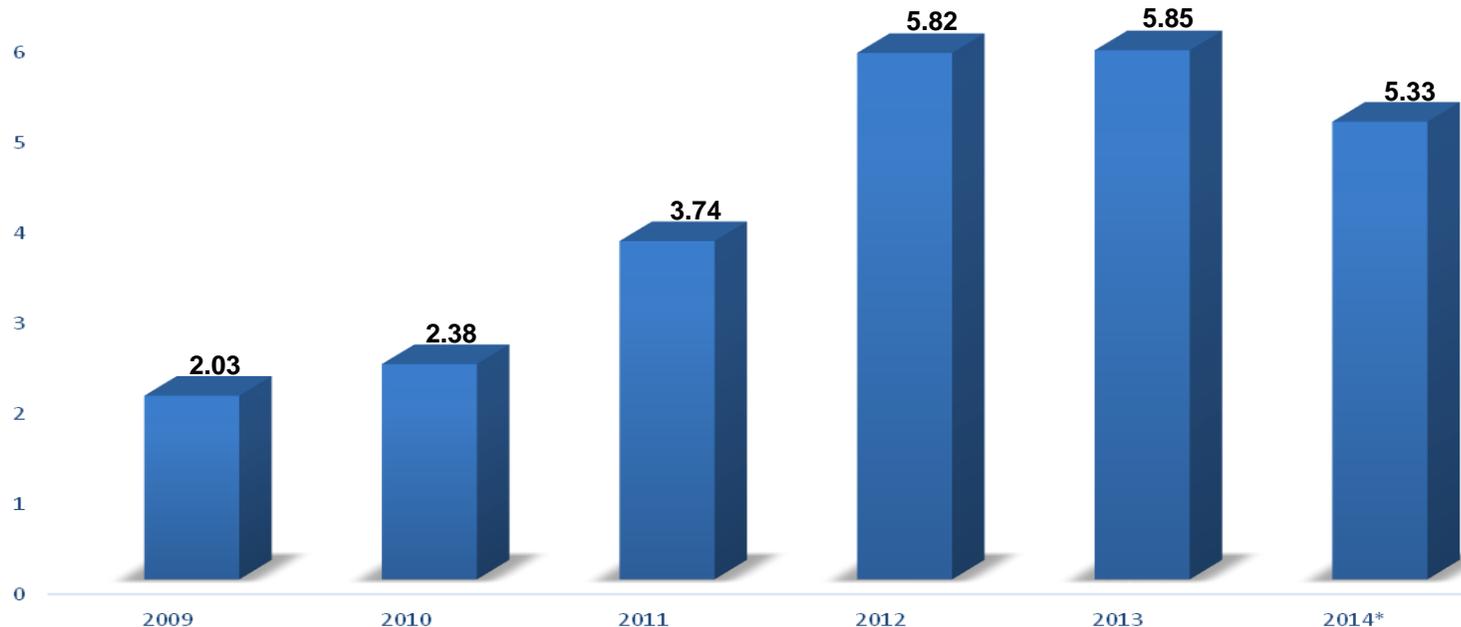




# Bond Market

- Interest in the issuance of bonds has grown commendably over the last five years, as market data attest to. The bond market has also deepened over these years with the introduction of organised trading platforms, listing of Nigeria's sovereign bonds in the Barclay's bond index, introduction of "Sukuk" (Islamic bond) and the issuance of Nigeria's first supranational bonds by the IFC amongst other significant developments.
- The Commission has made deliberate attempts at developing the fixed income market through the introduction of rules such as those on book building and shelf registration amongst others. A direct result of these initiatives has been the reduction in average issuance period and improved price discovery process for bond issues and other issuance.
- Bond market capitalization has more than doubled between 2009 and 3<sup>rd</sup> quarter, 2014. FGN Bonds account for more than 80% of the total bond market capitalization

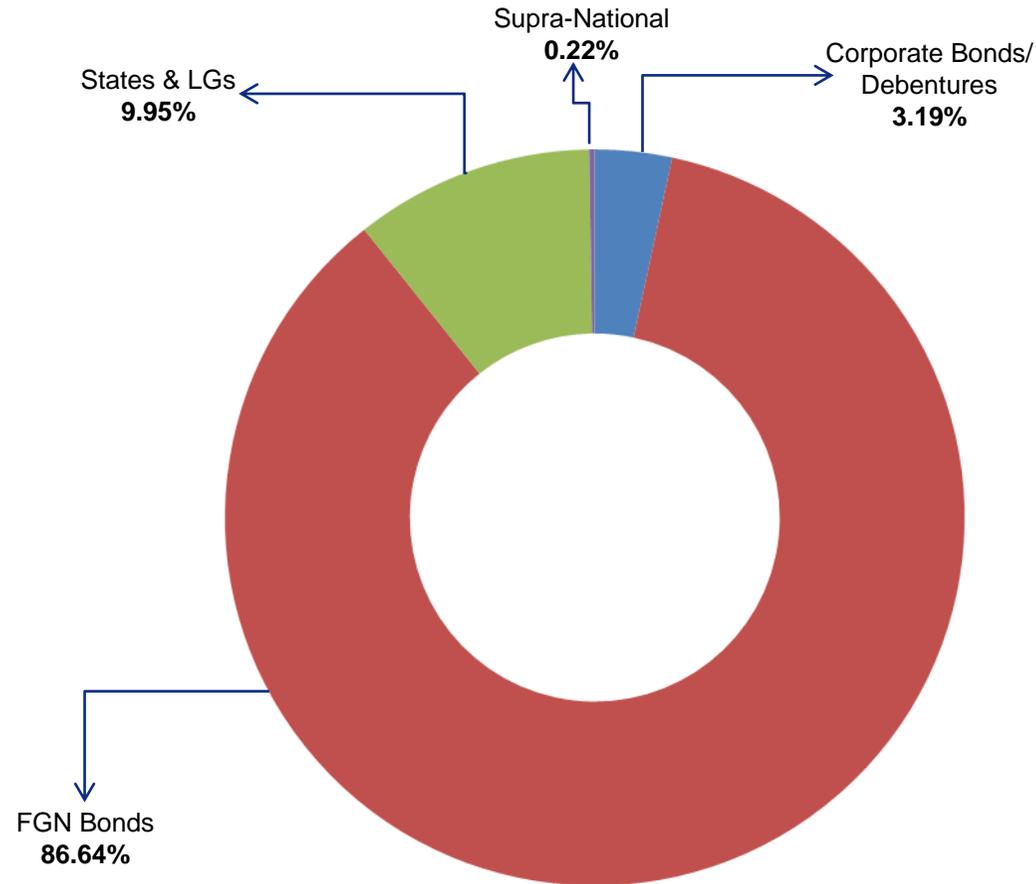
## **Bond Market Capitalisation, 2010 – September, 2014 (N' trillion)**





# Bond Market – Composition by Bond Types

Bond Market Composition by Bond Type as at September, 2014)



Source: The Nigerian Stock Exchange

## Bond Market – cont'd

The specific performance of each bond class are outlined below:



### FGN Bonds

- The Federal Government's monthly domestic bond issuance has been consistent over the last five years.
- In 2010, N1.24 trillion worth of bonds were floated. As at the end of 2013, bonds worth 898 billion were floated



### Sub-National Bonds

- Between 2010 and September, 2014, fourteen (14) states have raised a combined sum of N532.4 billion in bonds.
- The first "Sukuk" of N11.4 billion was also raised in 2013 by the Osun State Government.
- Bond applications from six states are currently being processed by the Commission



### Supra-National Bonds

- The Nigerian bond market witnessed its first supra-national bond floated by the International Finance Corporation (IFC) in February, 2013. The bond was worth N12 billion (\$75 million) at the time it was floated.
- The African Development Bank (AfDB) also applied to the Commission for a \$1 billion medium term note programme. This was approved in June, 2014 and the Bank has subsequently issued the first tranche of the bonds, worth N12.9 billion



### Corporate Bonds

- Between 2010 and 2014, a total of sixteen (16) companies raised corporate bonds worth N179.45 billion.
- Applications for at least, three corporate bonds are currently being processed by the Commission.



## Bond Market – cont'd

### Comparative Value of Issues (N' billion)

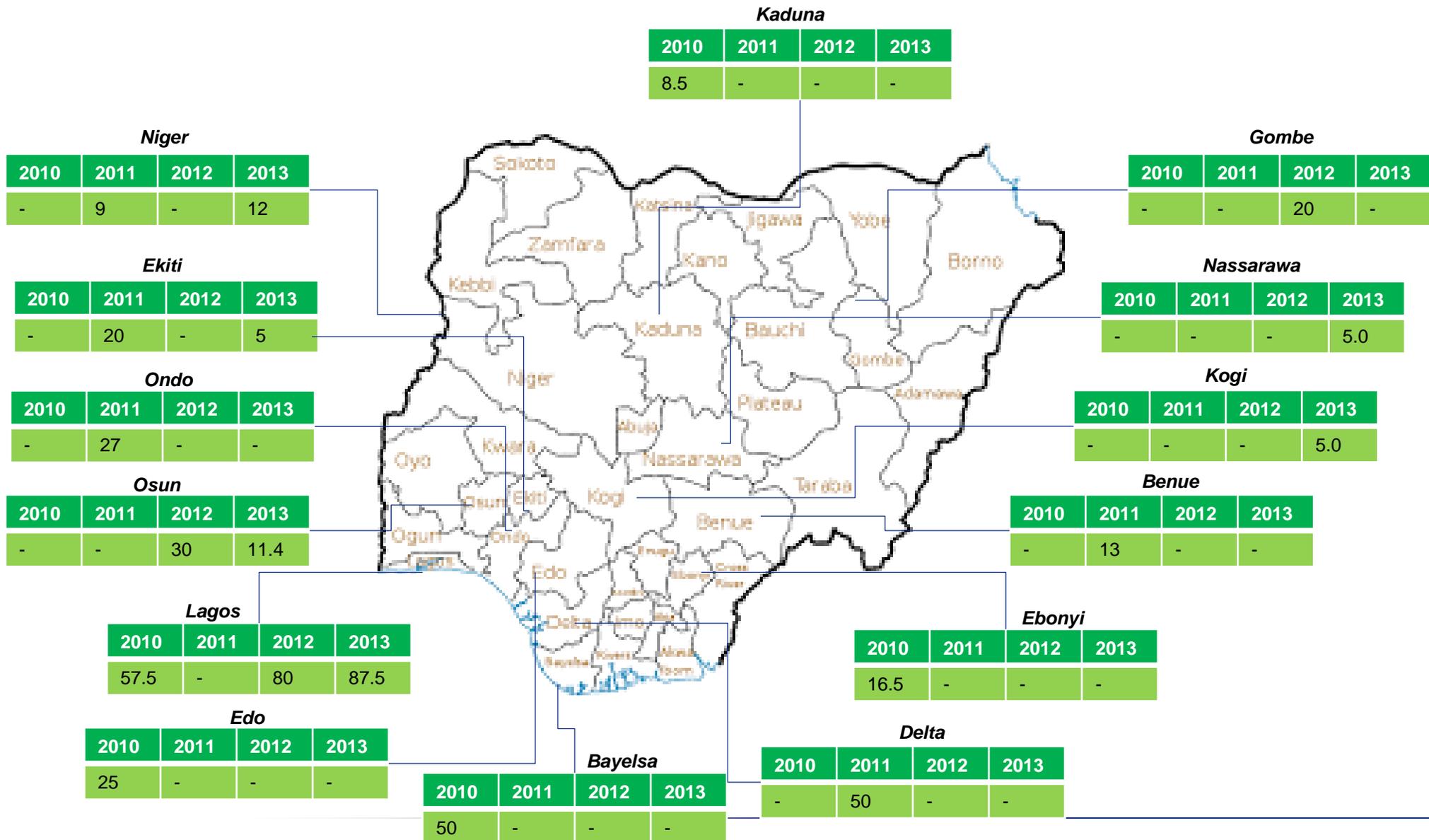
	2010	2011	2012	2013	2014*
Corporate Bonds	77.29	87.88	3.2	11.08	4.5
Sub-National Bonds	157.5	119.0	130.0	125.9	0
Supra-National Bonds	0	0	0	12.0	12.9
FGN Bonds	1,244.0	863.27	994.85	898.0	465.0

Source: SEC and DMO

\*2014 figures are as at June



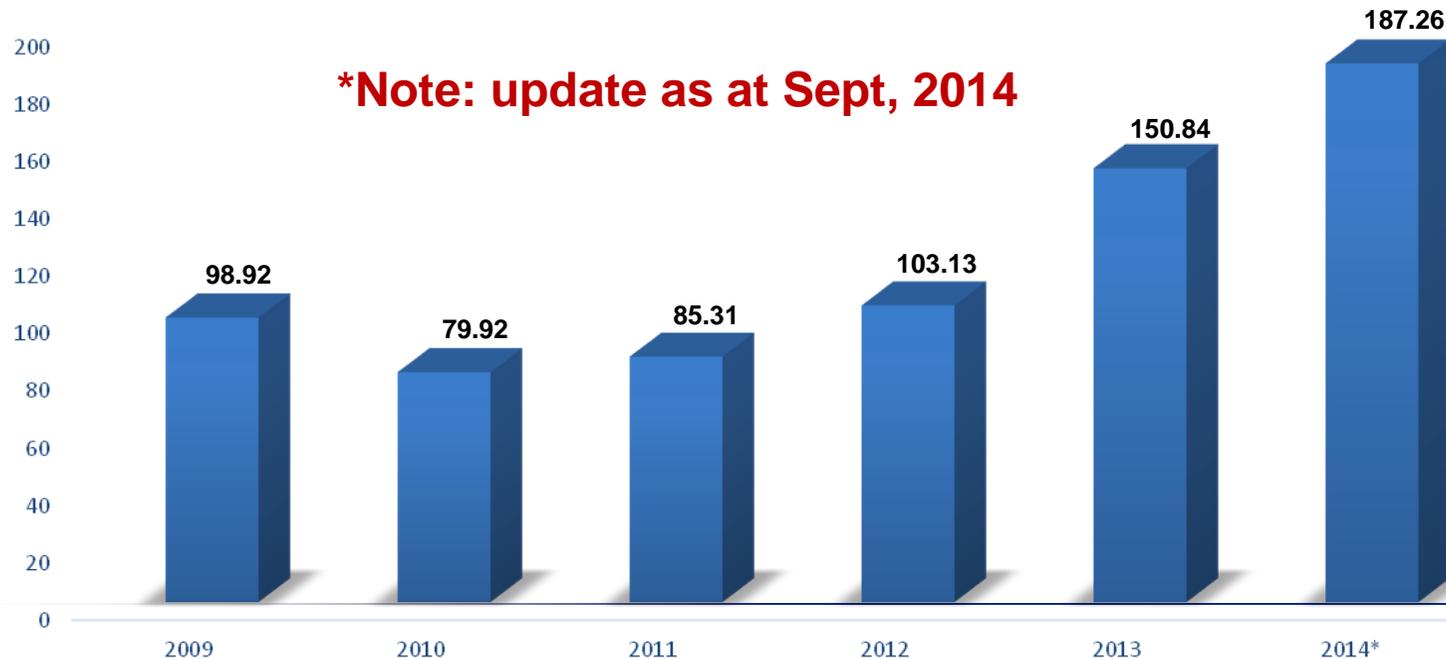
# Value of Bonds Issued by State Governments (N' billion)





# Collective Investment Schemes

- In strengthening safety and governance mechanisms for these schemes, the Commission in 2012 directed fund managers to transfer assets in their custody to trustees, which must be separate entities from the fund managers. This mirrors the pension fund administration model.
- An additional measure taken by the Commission to strengthen the Collective Investment Schemes is the increased on-site and off-site inspections. Trustees' oversight of the schemes has also been strengthened, and an Association of Fund Managers has been formed as a trade group. Rules on CIS have been overhauled extensively.
- In 2012, the market also witnessed the introduction of the "Umbrella Fund" designed with the capacity to have other sub-funds registered under it. Furthermore, the Commission has continued to take actions against erring fund managers and trustees.
- These results of these efforts have improved investor confidence in CIS schemes, which is evident in the growth of assets under management and the number of registered funds within the market.
- As at mid-year 2014, there were a total of 53 registered Collective Investment Schemes operating 9 different types of funds, with Net Asset Value in excess of N180 billion. Between 2009 and mid-year 2014, the net asset value of the Collective Investment Schemes had grown by almost 100% from N98.92 billion

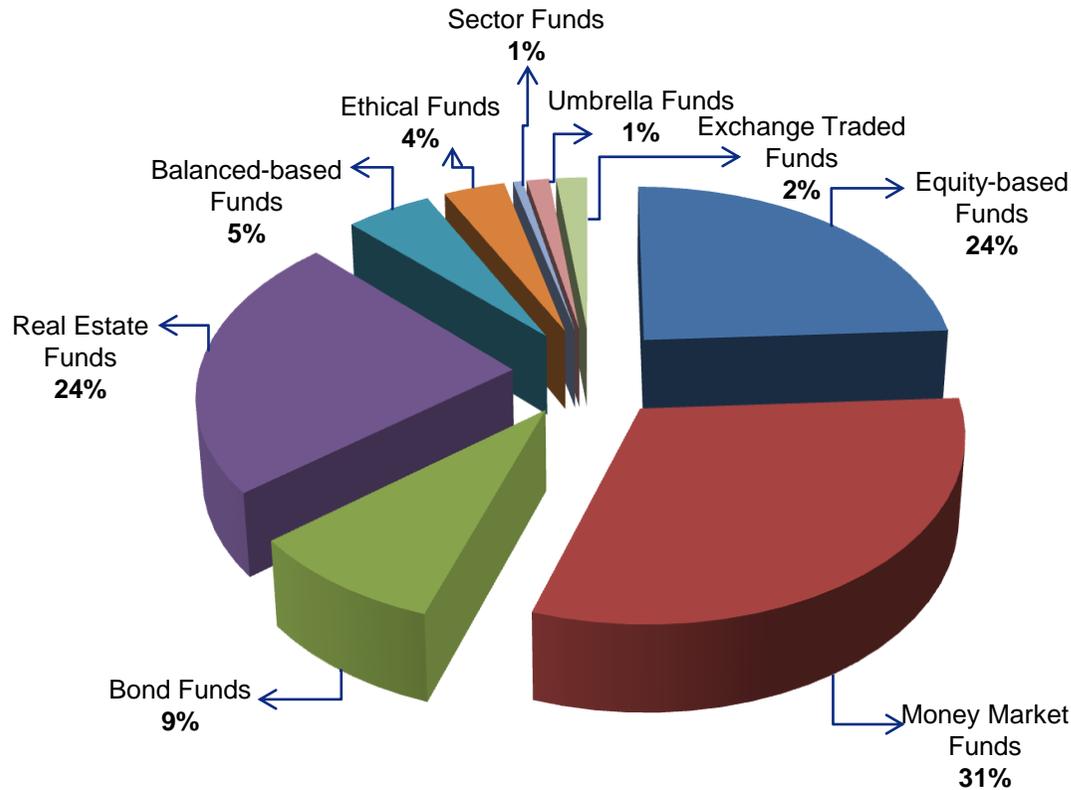


**Net Asset Value of  
Collective Investment  
Schemes, 2009 – June,  
2014 (N' billion)**



# Corporate Investment Schemes – Composition by Fund Type

- Money Market Funds, Real Estate Funds and Equity-based Funds account for almost 80% of the total assets in the CIS industry



Fund	NAV (N'billion)
Equity-based Funds	45.14
Money Market Funds	58.01
Bond Funds	16.76
Real Estate Funds	44.09
Balanced-based Funds	9.49
Ethical Funds	6.78
Sector Funds	1.06
Umbrella Funds	2.51
Exchange Traded Funds	3.42
<b>Total</b>	<b>187.26</b>

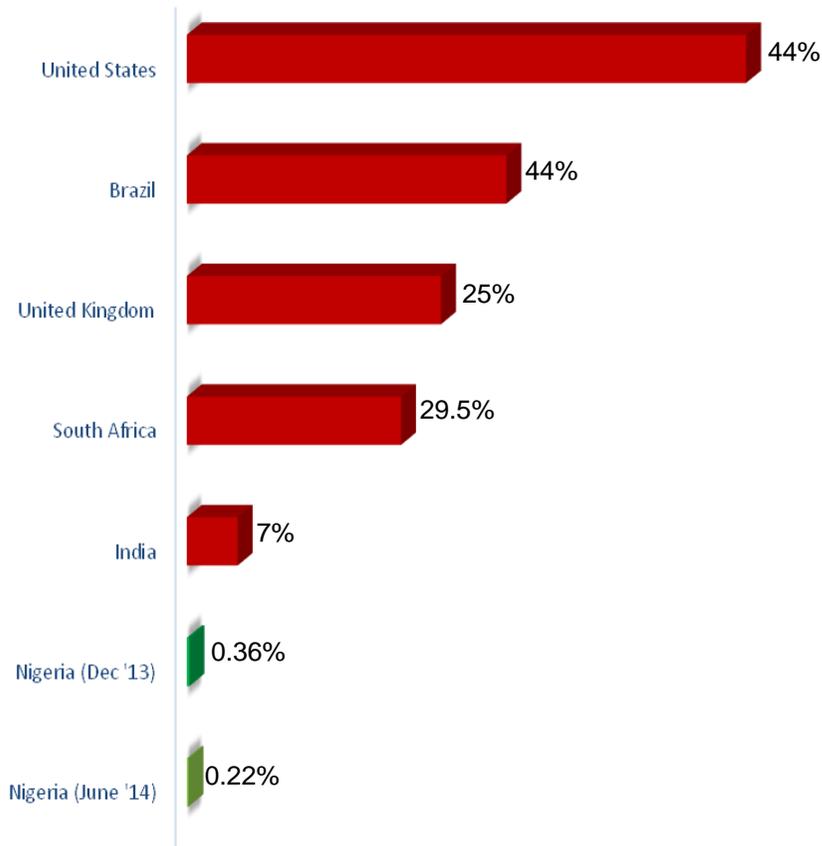
\* Net Asset Values are as at end of June, 2014



# Corporative Investment Schemes – Comparative Status

- In spite of the commendable growth we have witnessed in the CIS, these figures pale into insignificance when compared to the country's GDP. This therefore further reinforces the opportunities available for growth in the industry.

## Net Asset Value of Collective Investment Schemes to GDP Ratio



Country	Asset Under Management	Number of Mutual Funds	NAV to GDP
United States	\$13 trillion	7,500	77%
United Kingdom	\$1.8 trillion	2,500	35%
Brazil	\$1.1 trillion	12,200	44%
India	\$130 billion	1,500	7%
South Africa	\$115 billion	988	29.5%
Nigeria	\$1 billion	52	0.36%
Nigeria (Post-Rebasing)	\$1.1 billion	53	0.22%

\* Post-rebasing figures as at June, 2014

\* Figures for other countries are as at December 2013

# Institutional Reforms

## Strengthening the SEC



- In 2011, a diagnostic review of the Commission and a peer review by the US SEC were done as part of measures aimed at repositioning the Commission to effectively discharge its supervisory oversight on a market that had just experienced significant down-turn.
- The following areas have been addressed subsequent to the reviews:

### Technology



- **Networks and Communications:** the Commission succeeded in building a shared technology system for common services and capacities. Consequently, all Zonal Offices and the Head Office have been connected over a secure Wide Area Network (WAN). As part of measures to ensure effective surveillance of the market, the SEC Head Office and Lagos Office have been inter-connected with the trading floor of the NSE for on-line real time trade monitoring
- **Productivity Tools:** to complement the network interface, the Commission procured work tools such as workstations, laptops and operating software for staff across all zonal offices.
- **Data Centre:** the Commission now has a fully equipped Network Operations Centre, from where all its networks are monitored.
- **Data Storage:** the hitherto grossly inadequate storage and memory capacity for corporate mail services was upgraded with the acquisition of a network file server.
- **Bespoke Application Software:** the Commission has also embarked on the development of application software for electronic registration and returns analysis. As an interim measure, electronic filing processes have been handled through dedicated e-mail accounts.
- **Enterprise Resource Planning System:** the Commission invested in an Enterprise Resource Planning System (Oracle) to automate its administrative and financial management systems. This has improved internal controls, reduced overheads and improved efficiency



### Human Capital



- The diagnostic review of 2011 also concluded that the Commission's existing staffing in terms of skills, competence and abilities, deployment and utilization was very much unlikely to deliver a world class market regulator.
- To address the gap, a rigorous recruitment exercise tagged "Young Professionals' Programme" was embarked upon. In December 2011, the Commission engaged a total of 52 young professionals comprising of lawyers, economists and accountants. This was intended not only to bridge gaps in terms of numbers, but to also rejuvenate the Commission's workforce.
- The recruitment exercise was the result of a transparent process which ensured the engagement of the best 52 out of 34,292 applicants. The new hires went through boot camps similar to those of Fortune 500 companies, and further underwent internships with capital market operators and law firms.
- The Commission's relationships within IOSCO and with the US SEC have been leveraged significantly to deliver relevant trainings in the critical mandate areas, while also growing the capability of staff to enhance market efficiency and oversight.

### The Nigerian Stock Exchange



- To strengthen and improve governance in the NSE, the SEC intervened in the Exchange in 2010. This intervention culminated in the appointment of a new CEO and Executive Director for the NSE.
- Recognising the potentials of the market, the management of the NSE set a target market capitalization of \$1 trillion by 2016, along with the introduction of five new products in 5 years.
- The NSE has since introduced the Newgold Exchange Traded Fund in December 2011 and the Vetiva Griffin 30 in 2013.
- The NSE has also upgraded its trading platform with the launching of the X-GEN. Trading on this platform commenced in October 2013

### Central Securities Clearing System



- The CSCS has also embarked on an ICT transformation with the deployment of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) messaging system to enhance transactions in the market and reduce settlement periods.

### National Association of Securities Dealers (NASD) Trading Platform



- In 2013, a new trading platform for unlisted securities, sponsored by the National Association of Securities Dealers was approved.
- The launching of this platform in July 2013 has brought “Over the Counter” (OTC) deals under the SEC’s regulatory oversight, while also boosting liquidity of unlisted shares.
- Prior to the launching of the NASD, there had been no credible and transparent platform for trading in the securities of well-run companies not listed on the NSE.



### Financial Markets Dealers Quotation (FMDQ)



- Similar to the NASD platform, the FMDQ is also an OTC platform established by the Financial Markets Dealers Association.
- Launched in November 2013, the FMDQ is Nigeria's first organized trading platform for bonds. The absence of an organized trading platform for bonds had limited the growth of the bond market.
- The FMDQ was therefore a defining moment for the bond market, as it has enhanced transparency, boosted liquidity, and also aids the development of the domestic bond market.

### GTI Private Trading Floor



- In the last quarter of 2013, Nigeria's first private trading floor, a 150-seat multi-purpose trading floor, was set up by the GTI Capital Group.

### Alternative Securities Market (ASeM)



- The Alternative Securities Market was established to facilitate listing by Small and Medium Scale Enterprises (SMEs). The launching of ASeM is a commendable initiative which has created an avenue to leverage the capital market to support SMEs in Nigeria.
- The ASeM, along with revised listing rules, enables high growth and promising SMEs to be listed without a long track-record on the basis of a comprehensive 2-year business plan.
- ASeM also allows owners of the businesses to keep up to 85% stake, while providing the businesses with critical support from designated advisers.



### Abuja Securities and Commodities Exchange (ASCE)



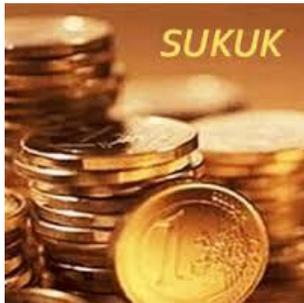
- The Commission, in conjunction with The Ministries of Finance, Trade & Investment and Agriculture, as well as the Central Bank of Nigeria (CBN) and the World Bank has made concerted efforts at revamping the Abuja Securities and Commodities Exchange, which has been inactive for some years.
- Strong expressions of interest have been received from investors seeking to make the platform fully operational.
- As part of measures aimed at reviving the ASCE, the pilot programme of the Warehouse Receipt Scheme was launched in June 2014. It is expected that the success of this scheme will make the ASCE more attractive for private investors.



- The Capital Market Committee (CMC) is an industry-wide committee with membership drawn from the SEC, capital market operators, trade groups and other stakeholders.
- It was established to serve as a medium for exchange of ideas among stakeholders in the market. It also serves as medium for the SEC to elicit feedback from operators on how to improve market activities and regulation.
- The CMC meets every quarter to deliberate on various issues affecting the market and other policy matters.
- A major output of the CMC is the 10-year (2014 – 2024) Strategic Masterplan for the Nigerian Capital Market. The masterplan document defines goals, initiatives and the implementation plan for achieving the vision of building an efficient and internationally competitive capital market by 2024
- One of the key aspirations outlined in the masterplan include the achievement of 100% market capitalization to GDP. Nigeria's total market capitalization currently hovers around 16% of the rebased GDP.



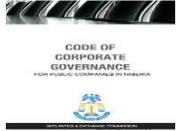
- In the discharge of its statutory functions as the apex regulator of the Nigerian Capital Market, the SEC is empowered by the ISA to make rules governing market activities.
- Rule making is one of the key mechanisms through which the Commission preserves the integrity of the market, while also creating conducive atmosphere for market growth.
- Between 2010 and 2014, over seventy (70) new rules and sundry amendments have been released to further strengthen the market.
- As at 2012, the Commission had consolidated all the amended and new rules introduced since 2008 into a single document. This was done to address the differences and confusions that hitherto arose from the use of segregated versions.
- Rules introduced cover areas such as Terrorism Finance (AML/ CFT), Private Equity Funds, Sukuk Issuance, Real Estate Investment Trust Schemes (REITS) etc.



- As part of efforts aimed at deepening the market, the SEC has actively encouraged the introduction of new products in the market.
- The NSE articulated a product introduction strategy which was approved by the Commission. Under a 5-year plan, the NSE introduced Exchange Traded Funds (ETFs) in 2011, following SEC's approval.
- ETFs are very attractive to retail investors because they are cost effective, properly regulated and liquid. In 2013, the Commission approved the "Vetiva Griffin 30", an ETF designed to mirror the NSE-30.
- The Commission also designed a framework for the introduction of "Sukuk" (Islamic bonds) in the Nigerian capital market to provide issuance variety. The Sukuk is an important product capable of hastening the development of Nigeria's non-interest finance industry. It is also envisaged that the Sukuk can attract capital from the Gulf and other advanced Islamic markets across the world.
- Early in the year 2013, the Commission issued rules guiding the issuance of Sukuk in Nigeria. The government of Osun State floated the first of such bonds, worth about N12 billion in 2013.



### Code of Corporate Governance



- In ensuring that corporate governance practices in Nigerian public companies align with international best practices, a new code of corporate governance was issued by the SEC, effective April 2011. The code is extensive and covers all aspects of corporate governance.
- Upon introduction of the code, all publicly listed companies have been required to file their levels of compliance with the code to the SEC on a periodic basis.
- The code has largely helped to promote transparency and accountability in public companies.

### Improved Disclosures



- Periodic disclosure of financial information and the quality of such information have improved in recent years as a result of the requirements for higher quality information disclosure from publicly listed companies by the SEC and NSE.

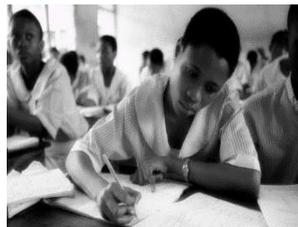
### Ecobank Transnational Incorporated (ETI) Corporate Governance Issues



- The Group's Executive Director of Finance and Risk had blown the whistle on allegations of improper corporate governance practices by some members of the ETI board.
- The SEC therefore stepped in, pursuant to its duty to protect the integrity of the capital market against abuses and to act in the interest of investors.
- The Commission worked with KPMG to conduct a detailed corporate governance audit of ETI.
- This intervention produced a world class report, which currently serves as the basis for corporate governance reforms within ETI following resolutions taken by shareholders during the company's extra-ordinary Annual General Meeting in 2013



- The Federal Government had mandated all public companies in the country to migrate to IFRS reporting effective, January 1, 2012. In preparation for the IFRS adoption, the SEC in 2011 invested enormous resources to ensure seamless transition by public companies.
- The Commission partnered with the Financial Reporting Council of Nigeria (FRCN) to hold IFRS trainings, using the facilities of the Nigerian Capital Market Institute (NCMI).
- The Commission also worked with the World Bank to organize IFRS Clinics for the purpose of providing technical support to public companies. Series of workshops and seminars were held to acquaint Chief Executive Officers, Finance Directors and Compliance Officers of targeted companies with the new regime in financial reporting.
- The Institute of Chartered Accountants of England and Wales (ICAEW) was also engaged to provide professional services for the completion of the Commission's transition to IFRS.
- Upon adoption of IFRS, listed companies now submit IFRS-compliant financial statements to the Commission. About sixty (60) staff of the Commission were trained by the ICAEW between 2012 and 2013 to effectively analyse these returns, while they also earned the ICAEW certifications.



- SEC has leveraged on the reach of the Nigerian movie industry – Nollywood to educate Nigerians on the benefits of investing in the capital market.
- In 2011 as part of activities held to commemorate 50 years of capital market regulation in Nigeria, the Commission unveiled a Nollywood movie titled “Breeze”. Sequel to this, two other short plays titled “Mutual Benefits” and “Easy Money”, both centred on the benefits of investing in the capital market have also been produced in collaboration with Nollywood.
- In addition to these, the Commission also sponsors a 30-minute TV series titled “Eye on Nigeria’s Capital Market”. Several episodes have been aired on CNBC Africa, thereby reaching millions of viewers and potential investors across Africa.
- Other investor education and outreach programmes that have been championed by the Commission include:
  - ✓ Establishment of capital market clubs in secondary schools;
  - ✓ Nationwide Quiz competitions. In 2013 alone, a total of 276 schools participated in these quiz competitions;
  - ✓ NYSC Orientation Camp outreaches;
  - ✓ Student excursions to the SEC Office;
  - ✓ SEC Health and Wealth Campaigns targeted at market women within the FCT;
  - ✓ SEC Annual Integrity Awards, which rewards citizens reported to have performed verifiable acts of integrity with cash and investments in collective investment schemes;
  - ✓ Journalist and Shareholder Academy, where financial journalists and executives of shareholder associations are trained on topics aimed at improving their knowledge of the capital market



**[www.sec.gov.ng](http://www.sec.gov.ng)**

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### **SEC Website:**

***We have revamped the website from a “static placeholder” to make it more content-driven and user-friendly. The general public can now easily check registered Capital Market Operators using the Market Operator Search (MOS) application. Investment scams can also be reported online. Weekly data on Collective Investment Schemes and other notices can now be accessed through the website***



### **Social Media (Twitter and Facebook)**

***Since 2011, we have been adopting popular social media platforms to engage the public. The Commission is currently able to engage over 4,000 stakeholders through its twitter handle and Facebook page***





### Nigeria Investor Protection Fund (NIPF)

- The protection of investors is one of the Commission's cardinal responsibilities as a regulator.
- In 2012, the Commission aggressively pursued a multi-pronged approach to restore investor confidence. One of these was the incorporation of the National Investor Protection Fund as a company limited by guarantee in March 2012. The SEC Board approved N5 billion for the fund.
- The NIPF is intended to complement the Investor Protection Fund (IPF) set up by the NSE. While the IPF is set up to compensate investors of losses due to the activities of its dealing members, the NIPF will cover exceptional losses not covered by the IPF, but not for losses arising from poor investment decisions.

### Monitoring and Enforcement

- A key component of the Commission's investor protection drive is the proactive monitoring and inspection of CMO activities, and enforcement of sanctions against operators found guilty of infractions.
- Significant success has been achieved in the fight against illegal market operators, especially those operating "Ponzi" schemes, the so-called wonder banks. No fewer than 60 wonder banks have had their premises sealed off by the SEC over the last 5 years.
- Apart from the wonder banks, other erring market operators have routinely been suspended for various forms of infractions.
- Over the last five years, the Commission has further strengthened its working relationships with the Nigeria Police Force (NPF) and the Office of the Attorney-General of the Federation (AGF).
- Teams from both the NPF and the AGF are now resident in the Commission's Head Office. These relationships have made enforcement actions swifter and more thorough. The police desk has been very instrumental to the sealing-off the offices of illegal market operators.
- The resuscitation of the Administrative Proceedings Committee (APC) has also provided a platform speedy resolution of market-related disputes. The APC sittings afford all parties the opportunity to present their cases.



### Complaints Management

Cumulative records of complaints handled by the Commission as at December 2013 are outlined in the table below:

Description	Volume as at December 31, 2013
Complaints brought forward from 2012	519
New Complaints	604
Resolved Complaints	415
Cases earmarked for Enforcement	30
Outstanding Complaints	678
Total Sum recovered for Investors	N597,033,448.98
Total volume of shares recovered for Investors	22,043,144

- Most of the complaints received relate to stockbrokers and registrars. Reported issues include non-remittance of share sales proceeds, non-purchase of shares, non-receipt of share certificates and non-receipt of dividend warrants.
- To ease the process of lodging complaints by the public, the Commission has set up a Call Centre as part of its restructuring efforts in 2013.

**\*Note: update with 2014 status**



### Anti-Money Laundering and Counter Financing of Terrorism (AML/ CFT)

- As a result of enhanced monitoring and surveillance, there has been a marked improvement in the rate of compliance of operators with Know-Your-Customer (KYC) and Know-Your-Employee (KYE) requirements set by the Commission.
- In 2012, the SEC in collaboration with the International Monetary Fund (IMF) successfully developed the AML/ CFT Risk-Based Supervisory Assessment Framework and Matrix. The matrix was test-run on the inspection of sixty-eight (68) broker-dealers who control about 80% of capital market transactions.
- Full application commenced in 2013, following the successful training of market operators on how to complete the required data on AML/ CFT amended returns in 2013. Consequently, the compliance status of CMOs has improved.



# 3

## Key Next Steps



- As earlier stated, a major output of the CMC is the 10-year (2014 – 2024) Strategic Masterplan for the Nigerian Capital Market. A first draft of the masterplan has been reviewed extensively by stakeholders within the Commission.
- The draft masterplan defines strategic objectives, specific initiatives and performance metrics across the following themes:
  1. Increase capital market scale, economic relevance and sophistication;
  2. Improve market competitiveness and attractiveness;
  3. Establish market-enabling regulatory framework;
  4. Improve market liquidity, depth and sophistication;
  5. Enhance the capability, competence and scale of operators;
  6. Modernise market infrastructure and channels;
  7. Improve processes and efficiency; and
  8. Growing long term savings investments
- Full implementation of the masterplan is expected to commence by 2015.



- Driven by the importance of demutualisation to the global competitiveness of the Nigeria Stock Exchange, the Commission took steps to prepare the necessary framework and guidelines. In September 2011, the Board of the SEC inaugurated an industry-wide technical committee to consider issues around demutualisation of the NSE, and make appropriate recommendations to the Commission. The Committee's report was submitted on February 29, 2012.
- Demutualisation is expected to reposition the NSE to provide a fairer, more efficient and more transparent system of operation, which will enhance liquidity, improve price discovery and institute good corporate governance which are essential features of an effective Self-Regulatory Organisation (SRO). Furthermore, it will boost investor confidence and enhance international competitiveness of the exchange and invariably, the market.
- The Committee recommended an amendment to CAMA to enable the NSE re-register as a company limited by shares. In the event that the amendment legislation is not feasible, the Committee recommends the option of transferring the NSE's assets to a NewCo.
- The Committee also made far-reaching recommendations on key aspects of the demutualisation process such as ownership of the demutualised NSE, conflicts of interest and corporate governance.
- Further discussions have been held with the Honourable Minister for Finance and Coordinating Minister of the Economy, with a decision still being expected on issues such as the ownership structure and the final approach to be adopted.



- The Nigerian Capital Market Institute (NCMI) is the educational and training arm of the Nigerian capital market. In 2004, a decision was made to establish the institute as a separate legal entity affiliated to the Commission. The NCMI was therefore registered with the Corporate Affairs Commission on March 26, 2004 as a company limited by guarantee.
- The institute's core mandate was essentially to provide training programmes, including courses, seminars and workshops for staff of the SEC as well as capital market operators, intermediaries, students and members of the public interested in the capital market and other allied matters.
- NCMI started off on a promising note by offering trainings which were well accepted by the Commission and capital market operators. The institute was however unable to sustain the momentum, and gradually lost its appeal and relevance in the market for training of capital market operators. The NCMI has consequently become dormant over the years.
- As part of efforts aimed at revamping the institute, the management of SEC commissioned Nextzon Business Consult to carry out a study aimed at articulating strategies for revamping the NCMI, and operating it as a profitable entity. The proposed strategies for revamping the NCMI include:
  - ✓ Phased take-off; and
  - ✓ Strategic partnerships with credible institutions who have the pedigree to support learning and capacity development in the capital markets

# Key Next Steps

## Unclaimed Dividends

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- The issue of unclaimed dividends has been a long-standing challenge for the Commission, investors and other stakeholders in the capital market for years. The Commission has identified the need to verify the actual quantum of unclaimed dividends as a first step in addressing the challenge. The value of unclaimed dividends in the country are believed to be in excess of N70 billion.
- Meetings have been held with the NSE, CSCS and the “Big 4” accounting firms (KPMG, PwC, Ernst & Young and Deloitte), who have been approached to assist with the verification exercise. Companies and Registrars have also been assigned to each of the four firms. The commencement of the verification exercise has however been delayed as consensus is yet to be reached with the selected firms on professional fees. Initial fees quoted by the firms are well beyond the Commission’s budget for the exercise. Negotiations are therefore still ongoing.
- The verification exercise is expected to be carried out alongside the reconciliation of materialised and dematerialised share certificates. The SEC had given a deadline of December 31, 2012 for all share certificates to be dematerialised, failing which investors would be charged a fee from 2013 for the process.
- The process has however faced challenges which have delayed full implementation. Current level of dematerialisation as captured by the Capital Market Masterplan Committee stands at 75%. The Commission is therefore providing support for the required technological upgrade that will help achieve 100% demutualisation within the shortest possible time.

# Key Next Steps

## Minimum Capital Requirements for Market Operators



- In September 2013, the SEC Board approved an upward review of the minimum capital requirements for registered CMOs. This decision was the outcome of an extensive consultative process which commenced in 2010 with the setting up of a technical committee chaired by a former Executive Commissioner, Operations of the Commission. The committee drew membership from the various trade groups within the capital market.

S/No	Operators	Minimum Capital Requirements	
		Existing	New
1.	Broker/ Dealer	N70 million	N300 million
2.	Broker	N40 million	N200 million
3.	Dealer	N30 million	N100 million
4.	Issuing House	N150 million	N200 million
5.	Underwriter	N100 million	N200 million
6.	Registrar	N50 million	N150 million
7.	Trustees	N40 million	N300 million
8.	Rating Agency	N20 million	N150 million
9.	Corporate Investment Adviser	N5 million	N5 million
10.	Individual Investment Adviser	N500,000	N2 million
11.	Fund/ Portfolio Manager	N20 million	N150 million

- A revision of the minimum capital requirements for CMOs was considered necessary in order to improve the baseline infrastructure of capital market operators. The new minimum capital regime has also been inspired by global leading practices which require operators to hold capital commensurate to the size of risk they bear in the market
- Compliance deadline is set at December 31, 2014 for existing operators, while prospective operators have been required to meet these requirements prior to registration.
- Submissions received as at mid-year 2014 reveal that most CMOs are considering capital injection (rights and private placements); and assets revaluation. 22 CMOs had indicated interest in mergers and acquisitions.



- To get a clearer picture of Nigeria's attractiveness and competitiveness as a trading venue, the SEC along with the CSCS and NSE sponsored a comparative analysis of transaction costs in Nigeria and fifteen (15) other peer countries including the United States, United Kingdom, South Africa and Malaysia.
- Two consultants – Intelligent Financial Systems Ltd and BTA Consulting Ltd were engaged to work on the study. A joint presentation on their preliminary findings was made to both the SEC and NSE on Friday, August 1, 2014.
- In summary, the findings indicate that both explicit and implicit costs in Nigeria are higher than in peer countries. Total costs for secondary market equity transactions in Nigeria are 166.43 basis points (bps), which is over twelve times the corresponding level in South Africa at 13.37 bps

Venue	Explicit Cost (BPS)						Implicit Costs (BPS)		Total Costs (BPS)	
	Trading (Exchange)		Trading (Regulator)		Clearing & Settlement		Total Explicit			
	Equity	Debt	Equity	Debt	Equity	Debt	Equity	Debt	Equity	Equity
Nigeria	15.02	0.01	15.02		15.00	15.00	45.04	15.01	121.39	<b>166.43</b>
Brazil	0.70	3.60	-		2.75	2.75	3.45	6.35	10.27	<b>13.72</b>
Ghana GSE	35.00	35.00	15.00	15.00	15.00	0.50	65.00	50.50	172.68	<b>237.68</b>
Kenya	12.00	0.35	12.00	0.15	6.00	0.20	30.00	0.70	96.68	<b>126.68</b>
Malaysia MYX	0.75	0.75	-				3.00	2.79	159.70	<b>162.70</b>
S'Africa JSE	1.66	1.66	0.02	0.02	0.39	0.39	2.08	2.08	11.29	<b>13.37</b>
UK LSE Main	0.45	2.44	-	-	1.46	1.46	1.91	3.90	6.28	<b>8.19</b>
UK LSE AIM	0.45	N/A	-	N/A	1.46	1.46	1.91	N/A	287.29	<b>289.20</b>
US NYSE	0.11	10.00	0.22	0.22	0.76	0.76	1.09	10.98	2.56	<b>3.65</b>
US NASDAQ	0.60	N/A	-	N/A	0.76	0.76	1.36	N/A	5.16	<b>6.52</b>

# Key Next Steps

## Transaction Cost Analysis – cont'd

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- The consultants are recommending that initial listing costs and explicit trading costs (fees charged by SEC, NSE and the CSCS) should be significantly lowered. These reductions in explicit costs must be followed by measures that will accordingly lower implicit cost (tighten spreads) such as reviewing the tick size, revamping the market making scheme and possibly reconsidering trading hours.
- The Commission intends to expand the project scope to include primary market costs while directing the consultants to proffer more specific recommendations on ways by which costs could be lowered without adversely affecting regulatory capacity or the Exchange's ability to meet its funding needs.