

DG's Remarks at 1st Quarter, 2016 CMC Meeting

- 1) It gives me great pleasure to welcome you all to the 2016 1st quarter Capital Market Committee (CMC) meeting. While we appreciate your presence here today, I would like to acknowledge and express my sincere gratitude to the capital market community, whose undying commitment has contributed significantly to the Commission's cause of building a vibrant capital market, which would emerge as one of the world's deepest, most liquid and largest capital markets across the globe.
- 2) The gloomy tone accustomed to the Nigerian economy of late following shocks in global oil demand, eventually translating into a continuous free fall in the commodity's price pretty much saw such an undertone cemented over much of the first quarter of 2016. This coupled with other triggers of the current macroeconomic conditions be-facing the country such as an artificially-strong naira, insurgency, and delays in passing the Federal Government budget etc., have gyrated a flurry of adverse reactions. Most notably were the broad-based declines in business conditions, as well as extreme exchange rate volatility on the parallel market, depleted foreign reserves etc., which although fared on a softer note so far when compared to the tail end of 2015, remained on a decelerated path, indicated by a 3.3% Real GDP growth figure estimated for the just concluded quarter, a 17.86% increase in the nation's growth potential.
- 3) Consequently, within the context of the current economic environment, both the fixed income and equities segments of the Capital Market have witnessed dips in activity. In the last three (3) months of 2015 alone, transaction volumes on the FMDQ OTC platform declined by about 50% from N14.54tn to N7.43tn by the end of 2015, which has carried on into the presiding year. In addition, a 17% loss in major NSE indices was recorded in 2015, while transaction volumes fell by over 40% in the same year. However, 2016 YTD currently stands at 11%, which is an improvement from the steep declines earlier in the year.
- 4) Over the last decade, the Nigerian capital market has increasingly been viewed as a veritable alternative to traditional capital raising channels necessary for the achievement of economic prosperity. Its ability to sustain macroeconomic stability, hasten the rate of capital formation, foster a meritocracy, all while promoting good corporate governance, innovation and entrepreneurship etc., are all integral factors one must engender in order to ensure socioeconomic development.
- 5) The role of the Capital Market Committee (CMC) in realizing this vision has never been in question, as over the years it has created a conducive environment serving as a medium for information exchange amongst market stakeholders, who with this opportunity have deliberated on pressing capital market related issues all in an aim of arriving at appropriate solutions that would among other things engender tightened regulatory purviews, versatility, while also promoting market participation. It is in this vein that I am here today to get you up to date on the current exploits of the Commission over the just concluded quarter, which would entail a review of the period while highlighting some of our recorded achievements and their impacts on the market.

6) With the support of Capital Market Committee, it is indeed worth mentioning that we have achieved tremendous heights towards the tail end of 2015. Some of these achievements include the following:

- **Corporate Governance Scorecard**

The Corporate Governance Scorecard which embodies a new era for disclosure and compliance was one of such initiatives for which the commission showed a deep commitment to realizing, as it was believed to trigger the restoration of eroded market interest upon its launch. Such an ambition born out of a vision to improve corporate governance culture within public companies, has translated into the introduction of this fine-tuned mechanism adopting a blend of systematic and quantitative evaluation approaches, which it employs in assessing a company's level of compliance. This is aimed at identifying strong market performers, particularly in areas of transparency and disclosure, in a bid to instill added confidence amongst not only domestic investors, but foreign investors as well.

- **Direct Cash Settlement**

The introduction of the Direct Cash Settlement (DCS) marked another landmark achievement for the market, as it brought to an end the era of a settlement framework severely plagued by market infractions. This operational shortfall has now been effectively remedied by the DCS which ensures improved efficiency by leveraging the resources of the Central Securities Clearing System (CSCS) as a channel for the direct remittance of net proceeds into the respective Bank accounts of investors.

- **E-Dividends**

The launch of the E-dividend payment portal stands out as a milestone achievement for the market. The launch of this portal was achieved through the Collective effort of The SEC, the Central Bank of Nigeria (CBN) and the Nigeria Inter-Bank Settlement System Plc. (NIBSS). The essence of the portal is to create an automated platform capable of improving the process of dividend payments, thus stemming the adverse drivers (such as excessive costs, delays etc.) that flourished under the previous framework.

- **National Investor Protection Fund (NIPF)**

The establishment of the National Investors Protection Fund (**NIPF**) was for the sole aim of restoring investors' confidence within the market. In achieving this feat, a compensation framework was structured to serve as a medium tasked with remedying the adverse impacts of market infractions on market participants, and with as much as 580 compensation claims currently in the pipelines following approval by the recently inaugurated board, the market is set to record the first successful wave of compensations via this initiative.

- **Dematerialization**

Dematerialization has been an issue that has lingered for too long in our market probably since the existence of the capital market. We identified it within the Master Plan as one of the low-hanging fruits and committed ourselves to achieving substantial dematerialization of share certificates within 2015. As at the tail end of 2015, less than 40% of share certificates were dematerialized and I am glad to inform you that over

97.4% dematerialization of share certificates within the market has been achieved, with continuous commitment amongst the respective stakeholders to achieving optimal dematerialization levels within the market.

- **Recapitalization**

Leaning on the guidance of the Capital Market Master plan, which recommended for the presence of strong and well capitalized institutions within the market, the Commission carried out a re-capitalization exercise, which was conducted last year, concluding with no major hitches recorded despite calls for its extension. As a result of the exercise, twenty-four (24) CMOs were disqualified for non-compliance and/or for their inability to substantiate claims of compliance when queried by our outsourced audit firms. In addition, 16 new CMO's were included on the list, ten (10) of which were newly registered companies reflected in the provisional list, with the remainder having later filed evidences of compliance, which were duly verified and accepted. At the same time the Commission exercised its powers under section **30 (1)** and **(2)** of the Investment and Securities Act (ISA) **2007** by revoking the operational licenses of **84** inactive CMO's who were unable to justify the extension of their licenses out of **94** who were initially served pre-notice of cancellation of registration, and on expiration of deadline.

7) Likewise, the undeterred result driven approach exuded by the Commission in the previous year will continue in 2016 in respect to her desire of attaining as many possible strides within the market.

- **Judges Workshop**

The 2016 Edition of the SEC Judges workshop represented yet another highlight for the capital market. The two day event, with the theme “**effective dispute resolution- A Panacea for the Transformation of the Nigerian Capital Market**” boasted a diverse mix of luminaries spanning mainly from Legal and capital market backgrounds, in addition to a number of Government functionaries through which the exhaustive deliberation of issues eventually translated into a unanimous adoption of a communiqué by participants. A technical committee has been set up to assess the feasibility of this.

- **Non-Interest Finance**

- a) **Collaboration with DMO on Issuance of Nigeria's First Sovereign Sukuk**

The aspiration for issuing Nigeria's first Sovereign Sukuk received a huge boost following a second meeting within three months between the SEC and the Debt Management Office (DMO) at the tail end of 2015. Through which both parties reaffirmed their commitment to strengthening collaborative ties towards the realization of what would be viewed as a monumental achievement. Such actions signaled the clear intentions by both agencies to reinforce an already existing partnership in a bid to instill some versatility into the market through the domestic bond market, as the need for alternative sources of capital such as Sukuk has become a compelling ingredient for the facilitation of infrastructure development in the midst of the current economic woes be-facing the nation.

b) Round Table Discussion on Sukuk

At the start of the year, the Commission saw it fit to host another Non-interest Finance Roundtable meeting, which was held in Sokoto State, with the theme: **“Financing Development through Islamic Capital Market – a viable Alternative”**. The sophomore event afforded the delegation an opportunity to understand the benefits around non-interest finance in Nigeria, and all efforts made to develop it so far. Upon its conclusion, the event secured the backing of all dignitaries in attendance; who voiced the critical need for ethically sound investment opportunities that would inject the much needed business capital within the state.

• Zonal Offices

Last year the Commission realized its desire to empower zonal offices in an attempt to enhancing the core responsibilities of the apex regulator in terms of monitoring, investigation, registration, market development etc., in line with the capital market master plan. In furtherance of this, we believed that by creating a uniform structure consisting of three (3) supervising zonal offices as opposed to the six (6) which previously existed, it would put the available manpower in a position to perform their duties efficiently particularly with the added responsibilities and wider area of coverage.

Additionally, it was deemed fit to further leverage the capacity of our Lagos Zonal Office (LZO), further strengthening its operational departments through the addition of some new divisions, geared towards complementing services already rendered by the same department within the Head Office. Specifically, processing of CMO applications for registration, attendance of AGM's held in the South-West zone, on-site inspections of operators etc.

• Public Enlightenment Campaigns

The bolstered dissemination of grass rooted enlightenment programs was a cardinal objective of the Commission as it remains a cost efficient tool for boosting market development. These initiatives have been conducted on an ongoing basis in which investors have been reached via all available media outlets in an attempt to sensitize them on various market happenings. 2015 showcased a landmark for public enlightenment in the history of Nigeria's capital market during which investors were sensitized on issues such as E-dividend, Dematerialization, Direct Cash Settlement, Ponzi Schemes, etc., spanning across all states of the Federation, and delivered through major languages spoken in our Nation. Looking forward, the Commission intends to reinforce its investor education agenda by leveraging innovative platforms such as Nigeria's Nollywood industry, cable television, social media etc. Additionally, we intend to touch the masses directly by leveraging our partnerships to organize cost efficient interactive initiatives such as catch-them-young programs, secondary school quiz competitions, and other such programs.

• Re-election of DG as Chair of IOSCO's AMERC

The recent announcement during the 35th IOSCO annual meeting of my re-election as chair of the AMERC reaffirmed my commitment to remedying a number of challenges namely dearth of capacity, inadequate visibility, poor levels of integration etc., which posed as major deterrents to the optimal functionality of Securities Commissions of the African/Middle Eastern chapter. These were all causes championed in my maiden

tenure in which I pledged to focus on advancing issues that improved stakeholder voice, visibility and inclusiveness across the respective markets while attempting to cultivate increased cooperation with an aim of boosting capacity building and valuable partnerships. I sincerely believe this strategy to be the needed catalyst to kick-start the growing influence of member regulators amongst counterparts across the international community.

8) In keeping to our committed objective, the Commission has put together a number of initiatives targeted to propel key areas within the Capital Market which are to be kick started over the course of this year in an aim of engendering build a well-rounded market system. Some of which are:

- **Unified Licensing Model**

The Commission intends to introduce a unified licensing of operators across the money and capital markets in an attempt to foster a balanced, integrated platform, which we believe would harmonize the required framework for the efficient execution of services such as securities lending and borrowing, matching and repo settlements. A very positive response has been received from the CBN on this initiative, and we are push on by setting up a work group comprising SEC, CBN, and other market operators so as to finalize this framework in a bid to ensure the take off of this important initiative in 2016.

- **Strengthening Commodities Exchanges**

The Commission is determined to developing a functioning commodities ecosystem of infrastructure with a particular focus placed on areas of comparative advantage namely the oil and gas, cocoa, and grains sectors. In doing so, we have identified specific initiatives to be pursued in achieving this objective, resultantly augmenting the progress of both the NCX and AFEX in achieving a vibrant commodities trading platform.

- **Focus on Collective Investment Schemes (CIS)**

The Commission sights the integral part CIS's can play in realizing a modern capital market, and in that vein is committed to consistently communicate to the public, the full spectrum of the capital market beyond just the traditional investment channels. We view financial inclusion to be a critical factor to achieving this and are ready this year to double efforts to ensure improved participation in the market as we push for more progress on the adoption of the Global Investment Performance Standards (GIPS) in the country.

- **SME Encouragement**

This year we are also looking at devising new ways to offer additional support so as to foster SME growth, as they represent a vital cog in determining economic growth, which in turn determines the available surplus capital employable by capital markets. Possible areas chosen to aid this cause are easing listing requirements, introduction of fiscal incentives for accessing the market etc.

9) **Conclusion**

Although a lot has been said, we must be mindful of the fact that these achievements reflect only the first stage of reforms in the capital market. The next stage which is also the most crucial stage entails the strict implementation of the framework inherent in the laid down policies. It is important for us to be conscious of the fact that the success of this stage can only be achieved with the collective contribution of the entire capital market community.