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Policy Alternatives for Economic Recovery: Role of the Capital Market Regulator

Mounir Gwarzo

ABSTRACT

The Securities and Exchange Commission (SEC) is statutorily mandated to regulate and develop the Nigerian capital market. This paper, after reviewing the relevant literature and evidence, explains a number of policy tools the SEC has pursued in order to develop and further deepen the capital market. Ultimately, this enhances the prospects of fiscal actions of taxation and expenditure to be more useful tools of aiding recovery and growth. While making a case for the re-continuation of privatization in view of the fact that private firms expectedly perform better than state owned enterprises, the paper cautions the need for closer regulation and concludes that the current wave of regulatory innovations is in tandem with capital market development and economic recovery and growth.

Key words: Economic recovery, fiscal policy, capital market regulation, capital market master plan

1 . INTRODUCTION



In August 2016, Nigeria was declared to have gone into a period of economic recession, after at least two successive quarters of negative growth. There is no doubt that all countries at one state or another do experience bouts of economic recessions. For Nigeria, this is certainly not the first economic recession neither will it be the last. What makes the current recession more worrisome is that it is coming against the backdrop of high inflation. As the experiences of some countries have shown, economic recession could unleash social upheavals and engender political unrests. It is therefore important for all stakeholders to join hands to bring the economy back to the path of growth.

As the apex regulator of the capital market, the SEC has a mandate to develop the capital market thereby contributing to economic growth. This paper sets out to explain what the SEC has been doing to deepen the capital market and how that could support government policy for getting out of recession. In order to undertake this, the rest of the paper is divided into five sections.

Section two is the background, tracing the causes of the recession such as sluggish global growth rates, increased supply of crude oil on the world market and domestic security concerns in parts of the oil producing regions of the country. Section three is an overview of the theory and evidence on whether or not fiscal policy does influence growth. Starting with the Ricardian equivalence upon which Solow (1956) and others have argued that fiscal policy cannot influence growth, the section presents a contrasting view proffered by Barro (1990) and others that a careful selection of tax and expenditure policies could actually spur growth.

Section four draws on theory and evidence that argue in support of fiscal policy as a credible weapon for influencing economic growth. The section goes further to explain a number of policy actions that SEC has pursued in order to deepen the capital market and promote its efficacy. Section five extends the discussion by examining the literature on privatization that argues that in terms of efficiency, private firms perform better than state-owned enterprises. State owned enterprises face soft budget constraints through government largesse and therefore often

pursue non-profit objectives such as size. In contrast, managers in private firms face hard budget constraint and can be disciplined by the market in the event of poor performance. In view of this the paper recommends the pursuit of privatization and concerted actions by the regulators to ensure that the operators conduct their affairs within the ambit of the law.

Section six offers conclusions, supporting the need for all stakeholders to collaborate in the implementation of the capital market master plan, a framework seeking to further develop the capital market as a tool for strengthening the ability of fiscal policies to aid economic growth and recovery.

2 . ORIGIN OF THE RECESSION

Nigeria's economy has suffered from structural weaknesses occasioned by an overdependence on oil. Crude oil exports have remained the single most important factor both as a source of government revenue and foreign exchange earnings. Consequently, events in the global oil market have tended to shape the fortunes of Nigeria's economy, leading to buoyancy in times of favourable prices and recessions in times of declines. For instance, Table 1 shows that crude oil price declined from US\$105.87 in 2013 to US\$49.49 in 2015 while GDP growth rate decreased from 5.4% to 2.7% during the same period.

Year	2013	2014	2015	2016
Crude Oil Price	105.87	96.29	49.49	39.35
GDP Growth rate	5.4	6.3	2.7	-1.7*

Source: OPEC, CBN Statistical Bulletin and * IMF World Economic Outlook

The current economic recession has been caused largely by the events in the global oil market which have combined to cause a steady fall in crude oil prices. On the demand side, sluggish growth in Organization for Economic Cooperation and Development (OECD) countries, Latin America and to a lesser extent, China, has been a factor and the outlook for growth has been rather bleak. Specifically, the IMF World Economic Outlook released in July 2016 lowered the growth forecasts for the world economies. For instance, the U.S. growth has been reviewed downward from 2.4% in 2015 to 2.2% in 2016; U.K from 2.2% to 1.7%; and China from 6.9% to 6.6%.

Most countries in the west have been faced with very low interest rate regimes, offering little scope for further reductions in interest rates as a means for restoring growth. On the supply side, non-traditional sources of supply have increased. Shale oil extraction has been advanced by technological breakthroughs which have turned countries such as the United States from a net importer to a major supplier of oil on the world market. Moreover, Iran, the second largest OPEC producer, has resumed exports following the lifting of international sanctions on it. Figure 1 depicts that global oil supply has been increasing, rising from 89.6mbpd in 2012 to 95.2mbpd in 2016.



Figure 1: Global Oil Supply (mbpd)
Source: OPEC Monthly Oil Market Report

These supply and demand factors have combined to push crude oil prices to historical lows, falling from well over US\$140/barrel in their peak in July of 2008, to well below US\$35/barrel in recent past. As a result, oil revenues for Nigeria have declined significantly. Yet, the structure of the economy has not changed. To make matters worse, crude oil export volumes have declined beyond reasons that can be explained by the supply and demand factors mentioned above. Domestic security challenges in the oil producing regions of the Niger Delta have contributed, causing daily crude oil production to ebb.

With both price and production falling, the effects on the country's export earnings have been considerable. The country's trade balance has shifted to negative territory and government revenues have fallen well below target. Consequently, the country's currency has depreciated, falling from about N190 to the dollar to more than N400 on the parallel market. With the naira losing ground against major currencies on a scale of this kind, the concomitant effects on prices have been significant. Inflation, estimated at 17.9% as at September 2016, is set to add significant strains on living standards in a country with massive unemployment problems. Unlike recessions of recent memory, the prevailing one has a unique feature of being associated with crude elements of stagflation (inflation coexisting with unemployment).

The authorities in Nigeria are committed to overcoming the challenge, taking into account that the causes of the steady fall in crude oil prices are largely external. One approach is to lay a solid foundation for infrastructure development, agricultural transformation and combating insurgencies in the north-east as well as in the Niger Delta. Although these efforts have begun to yield fruits, they have to be sustained and improved upon to reach the desired destination. Crude oil prices have begun to recover, but such recovery has yet to return prices to even half of their previous peaks. Overcoming security challenges has produced impressive (though incomplete) results in the north-east; and the Niger-Delta region has become more stable. The outlook for recovery is therefore bright, although crude oil prices are unlikely to attain previous heights due to the above demand and supply factors explaining their downward spiral.

3. ROLE OF FISCAL POLICY

As apex regulator, the SEC is committed to developing the capital market. The main thesis of this paper, therefore, is that a more developed capital market is a necessary enabler for government's fiscal and monetary policies needed to lift the country out of recession. The focus here is that financial markets are critical in making fiscal policies of government more effective. Both economic theory and evidence have tended to underscore the role of fiscal and monetary policies in influencing the course of economic activity and therefore in providing the necessary policy tools for recovery.

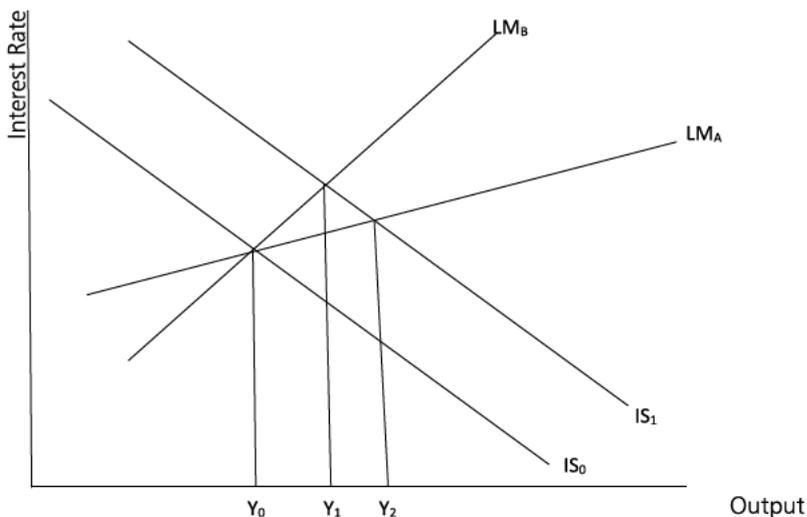


Figure 2: Similar Fiscal Responses Producing Varying Growth Outcomes

Figure 2 can be used to explain an important point about the tendency for similar fiscal actions to result in widely different growth outcomes. Imagine two countries both of which are at initial income levels of Y_0 during a recession. In both countries, fiscal policy is assumed to shift the IS curves from IS_0 to IS_1 . Because of a more developed financial market, the LM curve for country A is more elastic, with its LM curve intersecting the common IS curve at higher level of output (Y_1) compared to that of country B, for which the new equilibrium level of output is at Y_2 . According to Solow (1956) fiscal policies are ineffective means of promoting growth. Solow's idea is a variant of the Ricardian equivalence, which argues that government fiscal policies cannot promote growth. The Ricardian equivalence postulates that agents are rational and could correctly anticipate the effects of fiscal policy on their future earnings and therefore take actions to counter it. Suppose a country was in recession and the fiscal authorities borrowed in order to meet additional spending obligation, rational agents, according to the Ricardian equivalence, would correctly anticipate the implication as the debt would have to be paid in the future with interest.

Viewed in this light, additional borrowing by government to counter a recession would be just offset by reduced consumer spending since rational agents would save more to meet additional future tax obligations to pay the debt. Solow's position has its supporters, with the neoclassical economists such as Judd (1985) and Chamley (1986) advocating a lack of any significant relationship between fiscal policy and growth.

In contrast, the endogenous growth models popularized in the works of Barro (1990), hold the opposite view that fiscal policy, if employed wisely, could actually provide the necessary stimulus for growth. It should be recalled that with the advent of the housing bubble in the United States and the ensuing global financial crisis, many OECD countries including the United States (arguably the bastion of free markets) had employed a variety of fiscal measures to boost their economies and restore growth. Their actions were based on political realities as well as supported by economic theory and evidence. For example, Kneller, Bleaney and Gemmill (1998) came to a conclusion that supported the role of fiscal policy in rejuvenating growth. Kneller et al. (1998) classify fiscal actions into four categories: taxation can be distortionary or non-distortionary; and expenditure can also be distortionary or non-distortionary. Their study produced interesting findings that offer some important lessons for Nigeria. Among their results, Kneller et al. (1998) find that distortionary taxation is inimical to growth while non-distortionary taxation does not harm growth; and that productive government expenditure is good for growth and non-productive expenditure is not.

For the EU countries, a more recent study by Benos (2009) has lent credence to the prevailing argument that fiscal policy has the potency to support growth. Studying a sample of EU countries, Benos reports that public expenditure on infrastructure contributes to economic growth. Further, the author finds that government expenditure on defense and social protection does not contribute to growth. These findings imply that spending on infrastructure is an important form of non-distortionary expenditure; while social protection expenditure is distortionary. Although raising interesting fiscal policy issues relevant for a country such as Nigeria, Benos offers a number of caveats. One is that there is a clear absence of a generally acceptable theoretical framework for estimating the relationship between fiscal policy and economic growth. He also notes that empirical studies on fiscal policy and growth have tended to vary in the basket of countries used in the sample, a factor contributing to the absence of a clear consensus. Different countries have tended to vary markedly in the quality of data on fiscal policies.

4. CAPITAL MARKET DEVELOPMENT, FISCAL POLICY AND GROWTH

Extending the analysis further, King and Levine (1993) provide a new twist to the debate on the relationship between fiscal policy and economic growth. The authors argue rather persuasively that for fiscal policy to achieve the desired objective of stimulating growth, it must also include tax and expenditure measures to strengthen the financial systems. They provide four reasons for this claim. First, financial systems are useful means of evaluating prospective entrepreneurs and choice of projects. Second, financial systems mobilize resources to finance the evaluated and chosen projects. Third, they help greatly in diversifying risk and reducing uncertainties. Finally, they encourage research and innovation by rewarding new and better ways of doing things.

To enable the financial markets perform this role, efforts to strengthen and deepen the capital market are necessary. As the regulatory body concerned with capital market development and by implication the development of the Nigerian economy, the SEC has embarked upon a series of efforts to achieve long term development objectives. As discussed below, the SEC is also well positioned to restore investor confidence and thus to support the efforts of government at mitigating the impact of the recession and launching the economy back onto the path of economic recovery and growth.

Since its establishment in 1978, the SEC has pursued initiatives that will develop the capital market to provide long term finance, thereby promoting economic growth. Amongst the more recent initiatives, the Nigerian Capital Market Master Plan, 2015 – 2025, aims to contribute to the development of the capital market. The master plan was initiated by the SEC, which set up three committees, the membership of which was drawn from all the major stakeholders in the capital market. The Master plan therefore was a product of stakeholder consensus on how to make the Nigerian capital market achieve its dream of becoming one of the deepest, largest, most modern and liquid in the world.

The Nigerian capital market experienced a period of unprecedented growth from 2003 to 2007 during which the capitalization of listed equities on the Nigerian Stock Exchange (NSE) grew by over 66% per annum as shown in Figure 3. The fixed income market was concurrently enjoying a period of growth with a revival of FGN bond issuances as well as state government and corporate bonds. The rapid market development played a crucial role in supporting the recapitalization exercises that both the banking and insurance sectors underwent between 2005 and 2007. After attaining a then peak of N12.6 trillion in March of 2008, the stock market capitalization endured a steep decline, losing about 70% of its value within the year as illustrated by Figure 4.



Figure 3: Rapid growth of the Nigerian Stock Market
 Source: Author's compilation from SEC and NSE data

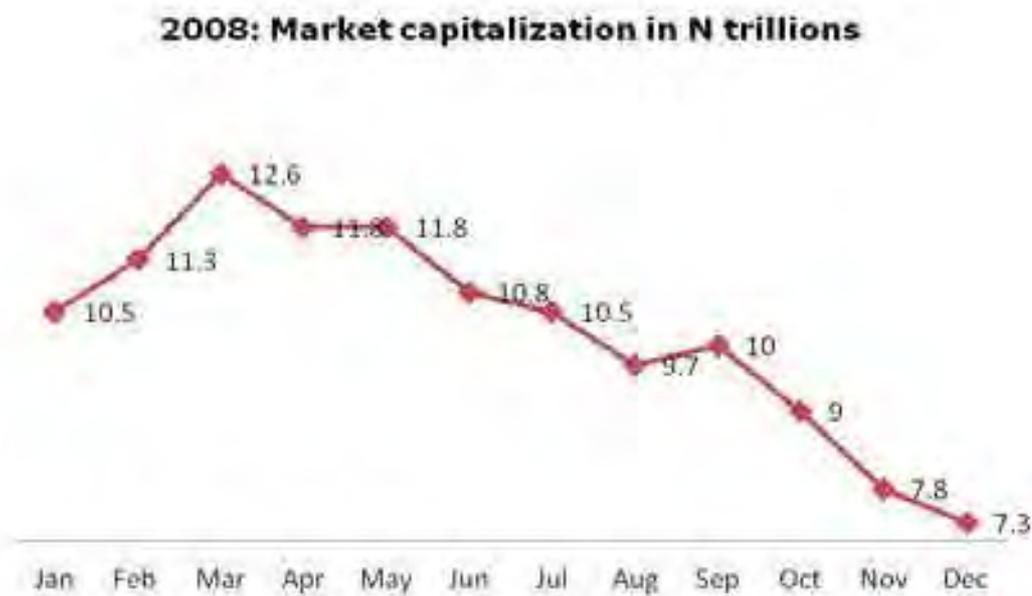


Figure 4: NSE Market Capitalization Crash in 2008
 Source: Author's compilation from SEC and NSE data

The stock market crash of 2008 dealt a huge blow to investor confidence in the Nigerian capital market, particularly retail investors. Since then, the SEC's focus had been on implementing initiatives that restore investor confidence in order to attract them back to the market. Restoring investor confidence is expected to contribute to early return of growth. The capital market master plan contains over one hundred initiatives that can improve the competitiveness and attractiveness of the market.

While the master plan has a ten-year implementation timeframe, the SEC has chosen to prioritize those initiatives capable of restoring confidence, reducing cost, improving efficiency and reforming the regulatory framework for early implementation. A brief description of some of these initiatives follows.

- **E-Dividend:** A move to make the payment of dividends to shareholders more efficient. Through partnership with the Central Bank of Nigeria (CBN) and the Nigerian Inter-Bank Settlement System (NIBSS), the SEC developed an electronic platform to enrol all shareholders onto the e-dividend platform which leverages know-your-customer database of the banking system. Once enrolled, dividends are credited directly into investors' bank accounts against the current system that relies on posting dividend warrants. The ease of dividend payment can significantly boost retail investor confidence, curb the unclaimed dividend phenomenon and encourage more Nigerians to save and invest.
- **Direct Cash Settlement:** This scheme was mandated by the regulator to ensure that when investors sell securities in the market, the proceeds are credited directly into their respective accounts. Under the previous system, such proceeds were firstly credited into the broker's account before onward transfer to the investor. Such situation allowed opportunities for abuse by the broker. Indeed, a substantial number of the complaints received by the SEC from investors involved non-remittance of sale proceeds by the broker. Direct cash settlement will therefore improve investor confidence by reducing market infractions.
- **Dematerialization:** Relying again on the bank verification number database, the capital market community has been able to cooperate to convert virtually all existing share certificates into electronic records with the Central Securities Clearing System (CSCS). Records from the CSCS showed that as at June 2015, less than 40% of the share certificates in the Nigerian capital market were fully dematerialized. However, since efforts were made in this regard the level of dematerialization in Nigeria has gone above 97%.
- **National Investor Protection Fund (NIPF):** The market crash of 2008 brought about deep-seated investor apathy. One of the ways to attract investors back to the market was to develop a scheme that compensates investors for some of the losses suffered during the crash. The SEC has therefore incorporated and operationalized a NIPF to compensate investors who suffer pecuniary losses in the market due to defalcation of capital market operators other than broker/dealers. So far the NIPF has compensated hundreds of investors within only a few months of its existence. The NIPF complements other investor protection funds operated by registered exchanges as required by the Investments and Securities Act (ISA) 2007.
- **Recapitalization of Capital Market Operators:** The need for strong institutions operating in the capital market necessitated the review of minimum capital requirements for all operators in the capital market. This exercise has been completed, ushering in stronger operators capable of making the needed investment in market infrastructure and institutional governance.

- **Corporate Governance Scorecard:** The SEC's code of corporate governance is the most far-reaching in Nigeria covering public companies across all economic sectors. Based on the code, the SEC worked with the International Finance Corporation (IFC) to develop the first corporate governance scorecard of its kind in Africa. The scorecard will impact the quality of corporate governance compliance in Nigeria with the attendant benefits on growth and efficiency.
- **Financial Literacy:** Poor financial literacy has been identified as one of the major reasons for the low level of financial inclusion in Nigeria (Kama et al., 2013). To help tackle this challenge, the SEC has focused on several financial literacy initiatives as part of its market development drive. In particular, robust public enlightenment campaigns are continuously conducted across all media including radio, television, print and social media. Similarly, efforts are being made to boost financial literacy among young people with school programmes, literacy week and capital market curriculum.
- **New Rules for Product Innovation:** A major part of the SEC's intervention for developing the financial system involves improvements to the legal and regulatory framework. This is usually done through rulemaking or amendments of the law through legislative advocacy. So far SEC has released rules to encourage innovation of new products like securitization, market making, securities lending, real estate investment trusts (REITs) and infrastructure funds amongst others. These revolutionize the economy when properly applied by market participants. For example, REITs can play a major role in reducing Nigeria's lamented housing deficit. Similarly, the rules on securitization and infrastructure funds can attract financing for major infrastructure projects across the country whenever structured. Some of these new rules have enabled the pension system regulator, National Pensions Commission (PenCom) to develop new guidelines that will attract more investments by pension funds in the market when released.
- **Non-Interest Products:** Nigeria is a very fertile market for non-interest products considering its demographics. The SEC has issued rules on sukuk issuances in Nigeria which enabled the government of Osun state to raise N11 billion from Nigeria's first sukuk. SEC is similarly working with the Debt Management Office for the issuance of sovereign sukuk by the Federal Government. This can attract substantial capital from other more developed Islamic finance markets around the world. Developing a vibrant secondary for non-interest products will go a long way in catalyzing more issuances. As such, SEC has advocated and supported the CBN to issue guidelines that granted liquidity status to sukuk.
- **Advocacy for Fiscal Incentives:** As part of the master plan implementation, SEC set up a high-level advocacy body called the Capital Market Master Plan Implementation Council (CAMMIC). The CAMMIC is expected to lead advocacy and provide strategic guidance in the master plan implementation process. So far, such advocacy efforts have led to important fiscal incentives being introduced by both the Minister of Finance and the Federal Inland Revenue Service (FIRS). These incentives when fully applied will improve the attractiveness of our market to both foreign and domestic investors.

- **Improved Issuance Process:** As a result of reduced revenues, the finances of state governments are significantly constrained. Capital markets provide state governments a number of avenues to raise affordable long term capital for infrastructure investment and social interventions. The SEC has therefore reviewed the bond issuance process to allow for speedier approval of such issuances. A separate framework has also been developed for corporate and other types of bonds. This is in addition to a more streamlined and clearer process for supranational issuers.
- **Development of Commodities Exchanges:** Another aspect of the master plan draws attention to SEC's determination to promote the development of commodities market especially in areas of Nigeria's comparative advantage such as oil and gas as well as cocoa and grains. This will support the drive for economic diversification which is a key national priority.

Implementing all of these initiatives and many more over the next decade will significantly develop the Nigerian capital market, advance the financial system and catalyze economic growth. There are precedents from other climes where dedicated efforts to implement a master plan for the market have had positive multiplier effects on entire economies. An important example is Malaysia, one of the Asian tigers. Following the devastating Asian financial crisis of the late 1990s, Malaysia developed a ten-year master plan for its capital market for implementation between 2000 and 2009.

Consequently, their market doubled in size from US\$317 billion in 2001 to US\$606 billion by 2010 (Malaysian Capital Market Master Plan II (2010)). Following the success of the first master plan, Malaysia went on to develop a second one which is currently being implemented from 2010 to 2019. The more developed capital market in Malaysia has been credited with enabling its economy to outpace the growth of the ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore, and Thailand – members of the Association of Southeast Asian Nations) since 2003 (Capital Markets Malaysia, 2015).

5 . IMPLICATIONS FOR PRIVATIZATION POLICIES

More developed financial markets are clearly better able to support long-term investment and growth. There are several ways that a more developed capital market might contribute to growth but one area this paper attempts to address is the question of privatization, an issue that has attracted attention. In the face of dwindling revenues associated with recession, government needs to curb certain expenses, what Kneler, et al. (1998) would refer to as distortionary expenditure. This could be facilitated through the removal of controls on economic activities. The wave of privatization in the past in Nigeria has achieved results, but there is scope for further improvements as the capital market becomes more developed and takes a more active role in the process of privatization.

An important question raging in policy circles is whether the fiscal authorities in Nigeria should pursue privatization. Fiscal policy involving tax and expenditure policies must not be directed in ways to create the impression that state ownership is preferred to private one. Both literature and evidence suggest that privately owned firms have better performance than state-owned

enterprises (SOEs) (World Bank, 1992; Bishop & Thompson, 1993). Managers face different objective functions in private and state ownership regimes. State owned enterprises tend to pursue objectives such as employment rather than profit and efficiency. In that scenario, there is the tendency for managers to boost the size of the firm and therefore to make the political cost of bankruptcy too high to bear. As Kornai (1986) has argued, managers of SOEs are able to pursue employment rather than profit objectives because they face soft budget constraints. In contrast, where the capital market is more developed and the regulatory authorities very vigilant, managers of privately owned firms would more likely pursue profit and efficiency objectives. Managers are prone to the discipline of the market because of the prospects for job losses in the event of bankruptcy.

This theoretical argument that firms under private ownership tend to do better than those under state ownership has been supported by empirical evidence. The World Bank study mentioned above finds for twelve firms drawn from different countries that performance improved with privatization. By the same token, Bishop and Thompson (1991) report large efficiency gains in formerly state-owned British enterprises. Similar results were reported in a more comprehensive study by Megginson, Nash and van Randenborgh (1994) who for a sample of 61 firms drawn from 18 countries and 32 industries, report efficiency gains after privatization. The set of measures explained above and discussed in more detail by Pam et al. (in this issue) will further develop the capital market and lay the foundations for weathering the storms of recessions when they occur.

6. CONCLUDING REMARKS

The current economic recession in Nigeria has its origin in weak demand resulting from low growth internationally. The country is facing an economic recession with few such historical antecedents in which inflation and unemployment have combined to make a solution rather complicated. This poses a special challenge for policymaking. In addition to a host of other steps, government needs to employ fiscal measures of taxes and expenditure in the arsenal of economic policy. On the basis of review of literature, this paper has argued that a number of preconditions are required to make fiscal policy an effective policy tool for getting out of the current recession and fostering growth. First, distortionary taxes such as progressive income taxes could be injurious for growth, as established empirical evidence has shown. Second, distortionary expenditure should be avoided, which means that supporting ailing state enterprises could spell fiscal disaster, despite obvious political appeals. Third, development of the financial markets is necessary in order to make fiscal tools more effective. In the case of the capital market, the current wave of innovations aimed at fostering its development is in tandem with the need to make fiscal tools work better. One commonly suggested reason why fiscal tools are less effective is the apparent insensitivity of investment to fiscal actions. Developing the capital market is one of the ways of making investment responsive to changes in the fiscal environment. Capital market development therefore is a necessary condition for making fiscal measures more potent tools of lifting this country out of recession.

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RECENT DEVELOPMENTS IN THE GLOBAL OTC MARKET WITH LESSONS FOR NIGERIA

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Emomotimi J. Agama

ABSTRACT

The global OTC market is witnessing significant changes in recent times as more attention is paid to issues surrounding Electronic Trading Platforms, Central Counterparties, Exchange-Traded Derivatives, Trade Repositories, among others. These developments are redefining how financial transactions are conducted and also blurring the lines between activities of traditional OTC and organised exchanges. This study therefore assesses these developments and draws policy lessons that are relevant to Nigeria in order to further strengthen the recent development in the regulation and operations of the country's OTC market.

Key words: OTC market, exchange-traded derivatives, central counterparties, trade repositories

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1 . INTRODUCTION



Over the counter (OTC) financial transactions are usually negotiated bilaterally between parties who are often under no obligation to report their deals to any regulatory body. Such transactions are clearly different from those that occur on organised exchanges which are more formal, transparent and regulated (Chovancová and Gregor, 2003). Recently however, especially after the 2007-2009 global financial crisis, the regulatory environment in the OTC market has changed tremendously. Much attention is now paid to issues such as the use of electronic trading platform, the establishment of Central Counterparties (CCP) to clear OTC transactions, promotion of exchange-traded derivative (ETD) and the use of trade repositories to report OTC trades (Chui, 2011; FSB, 2012).

These developments in the global OTC market are gradually making it difficult to differentiate OTC transactions from those on organised exchanges. One major factor that is also concealing the difference is the fact that physical trading floors which have always been the bedrock of exchanges are gradually giving way to electronic trading venues (Dodd, 2008). Thus, the adoption of electronic platforms by OTC and regular exchanges as well as initiatives to make OTC transactions transparent and clear are making these two markets resemble each other.

The Nigerian OTC market has existed for several years. However, until recently it has been largely unregulated, similar to what is found in many jurisdictions. The registration in 2012 of two OTC exchanges, Financial Market Dealer Quotation (FMDQ) and National Association of Securities Dealers (NASD) by the Securities and Exchange Commission (SEC) is a laudable step towards bringing transparency and liquidity to the country's OTC market. These exchanges commenced by serving as platforms for financial instruments that were formerly traded OTC and they possess high growth potentials.

In support of these potentials, the current study attempts to draw lessons from recent developments in the global OTC market that are relevant to Nigeria. It is also an opportunity to characterise the Nigerian OTC market. The study is therefore organised into four major sections. In addition to this introduction, section two presents a background analysis on the global OTC

market; section three is on the analysis of trends and structures of the Nigerian OTC market. Finally, section four presents some policy lessons and implications that can be derived from the study.

2. BACKGROUND ON GLOBAL OTC MARKETS

Over the counter is a decentralised or off-board market for unlisted securities. In the traditional dealer type of the market, it involves bilateral negotiations, usually through telephone between two or more parties (Chovancová and Gregor, 2003). Such negotiations are conventionally unregulated and the dealing parties set their own terms without having to inform any central governing body. Consequently, there are some risks associated with OTC, the most significant of which is counterparty risk. This entails the failure of one party to honour an agreement, a situation exacerbated by the absence of a central body to ensure compliance.

Major financial instruments traded OTC are derivatives which are used to hedge risks coming from exposure to varying financial and macroeconomic conditions. They derive their values from an underlying instrument such as stocks, commodities, credit events, currencies and other derivatives. Examples include futures, options, forwards, contract-for-difference and swaps. Derivatives can be customised for specific risk and entities or be standardised. Customised derivatives are flexible instruments traded on OTC markets while standardised derivatives, known as Exchange Traded Derivatives (ETDs), are traded on exchanges (Chui, 2011). An emerging form of derivatives is Cleared OTC Derivatives. Although privately negotiated, they are booked with a Central Counterparty (CCP) so that dealers are not directly exposed to each other's counterparty risk (Heckinger, 2013).

Other instruments traded OTC include bonds, equities, loans, repurchase agreements, currencies and other structured products (Heckinger, 2014). Some of these are traditional OTC securities and others, such as equities, are traded OTC because the companies are small and cannot meet the traditional listing requirements of an exchange.

Transactions on OTC are clearly different from those on organised exchanges as the latter are more formal, organised, transparent and traceable. Because exchanges serve as counterparty to both parties to a deal, the chances of default are minimised. They centralise trading and clearing of instruments on them, whether in a physical location or electronically, and they have specific listing requirements and regulations that must be attained and maintained by securities listed on them. It has been argued that the level of regulation on exchanges is characteristically more stringent so as to protect retail investors but this is not needed in OTC since it is a wholesale market for professionals (Dayanand and Rathinam, 2010). Further comparisons between OTC and exchanges are summarised in Table 1.

Criteria	Over the Counter	Exchange
Regulatory and Standardised Framework	<ul style="list-style-type: none"> - Decentralised with many agents linking buyers and sellers - Usually unregulated with the claim that OTC transactions occur between sophisticated parties - Products are tailor-made - No guarantor - Trades usually do not go through clearing house - Information on price and volume is private 	<ul style="list-style-type: none"> - A centralised platform with the Exchange connecting buyers and sellers - It is well regulated - There are listing requirements - Products are standardised - Exchange serves as the guarantor - Trades go through clearing house - Information on volume and prices is public
Strengths	<ul style="list-style-type: none"> - Provides liquidity for unlisted securities - Can reduce administrative, intermediary and general transaction costs. - Engenders competition - Availability of custom-made products that can serve as 'perfect' hedge - expiration and settlement periods and terms determined by trading parties - Allows small companies' stocks to be traded; especially those that cannot meet the stringent requirements of exchanges - Suitable for trades with low order flows - Serves as laboratory for the development of new products - Meets the needs of sophisticated participants - Overtaking Exchanges in volume traded due to improved electronic trading and alternative investing 	<ul style="list-style-type: none"> - Better and transparent transactions, enforcement, security, visibility - Low counterparty risk as the Exchange is the counterparty and ensures delivery - Many dealers on particular security assist price discovery and uniformity - High liquidity
Weaknesses	<ul style="list-style-type: none"> - Vulnerable to abuse and fraud - High counterparty risk - Price information difficult to obtain and vulnerable to manipulation - Low liquidity - High volatility - Difficult to establish the size of the market - Can be exploited by high risk companies and those with bad credit records - Largely responsible for the 2007-2009 financial crisis 	<ul style="list-style-type: none"> - Gives a lot of power to the Exchange - Products may not meet specific need and can be rigid - Less competition - May be difficult to trade stocks of small companies

Source: Authors' compilation from various reviews

2.1. Size and Structure of the OTC Market

The notional amount outstanding of the global OTC derivatives market stood at US\$493trn at the end of 2015 while that of ETD stood at US\$63.5trn (BIS, 2016). The OTC derivatives are those based on asset classes like interest rate swaps (IRS), equity basket or index, commodities, credit default swaps (CDS) and foreign exchange, while the ETD are futures and options on interest rates and foreign exchange (BIS, 2016; Heckinger, 2014). There are two ways to measure OTC trades; first is the financial value of the amount the dealing parties agree to swap and the second is the principal or notional value on which the swap is based. (Heckinger, 2014). Information is relatively more available on derivatives than other instruments traded OTC; hence, the focus on derivatives in this sub-section.

Figure 1 shows three distinct phases: periods of growth, relative stability and decline. OTC transactions recorded remarkable growth in the ten years to December 2008. In comparison, relative stability was recorded in the subsequent five years. Finally, it underwent a steady decline from a peak of US\$710.63 in December 2013 to less than US\$500 trillion in December 2015.

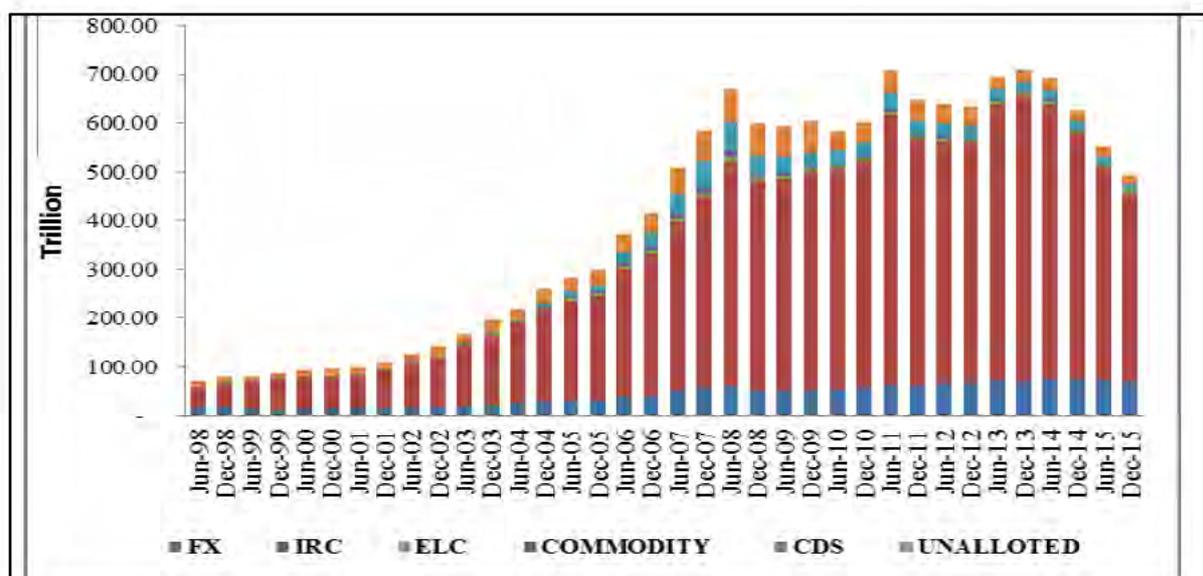


Figure 1: OTC Derivatives Market (US\$ Million) – Notional Amounts Outstanding (by type)

Note: FX - Foreign exchange contracts; IRC - Interest rate contracts; ELC - Equity-linked contracts; COMMODITY - Commodity contracts; CDS - Credit default swaps; UNALLOTTED: Unallocated contracts.

2.2. Recent Regulatory Environment

The global financial crisis of 2007-2009 represented a major event that shaped the regulatory environment of the OTC market. Large US companies like Enron Corporation and American Insurance Group (AIG) were victims of various OTC derivatives transactions that were literally not secured. These consisted of varying degrees of layers without the requisite risk management safeguards. Efforts to forestall such occurrences have focused on improved counterparty risk management and in favour of promoting exchange-traded derivative markets (Chui, 2011).

In 2009, G-20 leaders approved three measures to regulate OTC derivatives. One was the setting of the 2012 deadline that standardized OTC derivatives be traded either on an exchange or cleared through CCP. Second, non-centrally cleared contracts should be subject to higher capital requirements. Third, all OTC derivative contracts should be reported to trade repositories' (FSB, 2012; Dayanand and Rathinam, 2010). Globally, the OTC derivatives regulation is being strengthened with institutions such as the Committee on Payment and Settlement Systems (CPSS) and International Organization of Securities Commissions (IOSCO) which now focus on designing and raising the frameworks for Central Counterparties (CCPs), Central Security Depository (CSD), payment systems, trade repositories and the introduction of the Legal Entity identifier (LEI) codes (BIS, 2012).

Similar regulations and functions are contained in the Dodd-Frank Act (2010) for the US and in the operations of the European Securities and Market Authority (ESMA) and European Markets Infrastructure Regulation (EMIR) for Europe. There are also various other initiatives in Canada and Asia towards improving the reporting, transparency and clearing of OTC transactions.

2.3. Central Counterparty (CCP) Clearing House

Counterparty risk which is typical of OTC can be reduced by clearing done on the platform of a CCP (Duffie et al., 2010), which is a clearing house for derivatives trading (BIS, 2012a). CCP can also be used to clear other financial transactions like equities and bonds. A CCP serves as the buyer to every seller and the seller to every buyer thereby ensuring the performance of open contracts. It also provides a foundation for centralized risk management (such as multilateral netting, collateralization, and loss mutualisation) and data processing operations (such as trade registration and reporting) that benefit clearing members of the CCP (Heckinger, 2013).

The establishment of CCP moves OTC derivatives closer to ETDs as the latter also uses clearing houses. When transactions are not centrally cleared, as shown in figure 2a, the relationship can be opaque and overlapping as no single market participant has a total view of the credit and liquidity relationships upon which it is dependent. However, with CCP (figure 2b), the numerous bilateral exposures are substituted for a single net exposure to a financially and operationally robust counterparty (Steigerwald, 2013).

Because CCP are important financial infrastructure, it is necessary to mitigate the risk of their collapse. This can be done through controls such as stringent membership access, a robust margining regime, clear default management procedures and significant financial resources like a guarantee fund. A CCP must also have methods in place for quickly recapitalizing, or for quickly unwinding its derivatives positions with minimal impact on counterparty risks and on the underlying markets. Regulators should ensure that a CCP's risk management design and financial resources are robust enough to allow the CCP withstand extreme loss scenarios (Duffie, 2010; Steigerwald, 2013).

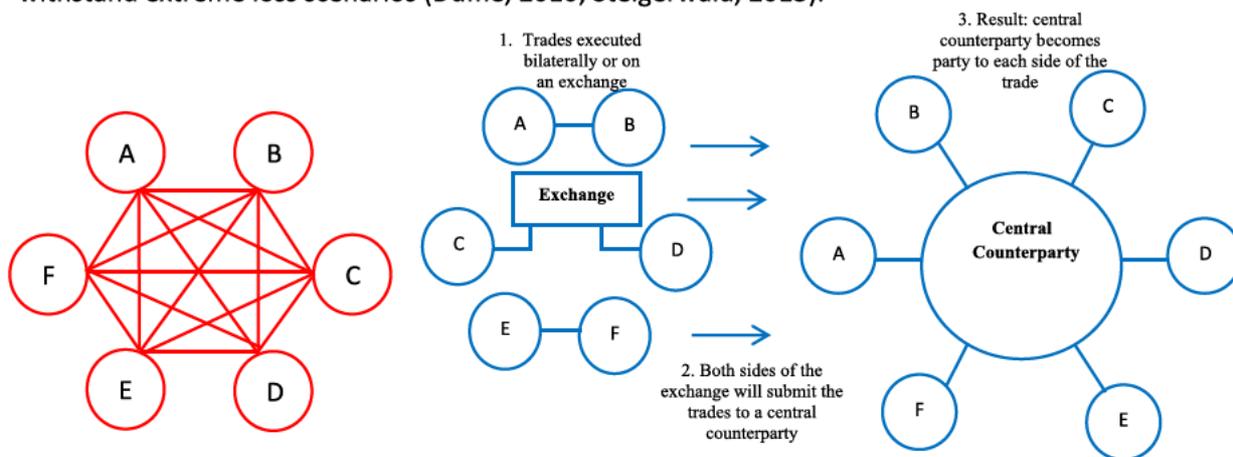


Figure 2a: OTC without CCP

Figure 2a: OTC with CCP

Source: Duffie, et al, (2010)

The operation of OTC market in India is instructive. The Reserve Bank of India (RBI) regulates OTC derivatives while the Securities and Exchange Board of India (SEBI) and respective exchanges regulate ETDs. Historically, the OTC contracts were earlier banned in India to prevent undesirable speculation in securities (Dayanand and Rathinam, 2010). However, according to the authors, two committees were set up by SEBI between 1996 and 1998 to consider the appropriate regulatory framework for trading derivatives and recommend risk mitigating measures. The committees resolved that only ETDs could be allowed in India, while OTC derivatives should remain banned. Meanwhile, the authors continue, RBI later initiated the trading of two types of OTC derivatives, Interest Rate Swaps (IRS) and Forward Rate Agreements (FRA). The aim of this

was to deepen India's money market and enable financial institutions hedge interest rate risks. Thus, one of the counterparties to such trades must be regulated by RBI, providing a surveillance avenue for the authority (Dayanand and Rathinam, 2010). This scenario also applies in England where the Bank of England is saddled with the responsibility of regulating the operation of the CCP.

In 2002, India established what can be called a CCP, Clearing Corporation of India Limited (CCIL). It was originally created to aid an efficient and safe debt and foreign exchange market in the country; but now act as a trade repository for trades in OTC derivatives. Banks and other primary dealers are expected to report their IRS and FRA trades within 30 minutes of such trades. CCIL is regulated by the RBI and it is mandated to maintain a guarantee fund alongside adequate lines of credit with different commercial banks for effective settlement and confidence. It collects different margins, such as initial margin, spread margin, mark to market margin and volatility margin; it also takes contributions from members into the default fund. Recently, the report of a Committee on Financial Sector Assessment (CFSA) recommended that India needs to encourage the entry of more CCPs as CCIL suffers from concentration of risk in one entity such that its failure may have a market-wide effect on the financial sector (Dayanand and Rathinam, 2010).

2.4. Role of Technology in OTC Development

OTC trades have historically been done over the phone (phone brokering); but the development in technology since early 1990s has significantly affected how most of these trades are currently conducted. For instance, the electronically brokered OTC market provides a multilateral trading environment similar to organised exchanges, which may be used to match bids and offers to execute trades (Dodd, 2002). Moreover, the recent regulatory environment and the application of CCP have been facilitated through the use of technology. Many global OTC transactions are now expected to be done via electronic trading platforms that qualify as Swap Execution Facilities (SEFs) which operate like exchanges (Heckinger, 2014).

In recent times, the need for a physical trading floor that had been the bedrock of exchanges is gradually becoming less important as transactions can be done electronically from various locations that are connected to an exchange's platform (Dodd, 2008). Beyond the traditional auction exchanges therefore, development in technology has led to the introduction of electronic exchanges and electronic communication networks (ECNs). Consequently, the difference between exchanges and OTC has become blurred by the introduction of technology which has led to higher liquidity and lower information asymmetry.

3. NIGERIA'S OTC MARKET

Nigeria's OTC market was until recently largely unregulated, as in most other jurisdictions. Although many of the transactions were carried out by regulated financial institutions, the size and structure of the market was unrecorded. It was estimated that several private placements conducted in Nigeria generated up to 1,000 unlisted bonds and stocks which were hidden in investor's portfolio and traded on OTC market (Chilkoti, 2012). Meanwhile, significant efforts have been made since 2010 to make Nigeria's OTC market transparent through the creation of a formal market for the instruments that were formerly traded OTC.

3.1. Regulatory and Institutional Framework

The Securities and Exchange Commission (SEC) has the mandate to register Securities

Exchanges as contained in section 28 of Investment and Securities Act-ISA (2007). Relating to OTC/Exchanges registration, section 315 of ISA defines securities exchange as an exchange or approved trading facility such as a commodity exchange, metal exchange, petroleum exchange, options, futures exchanges, over the counter market, and other derivatives exchanges. Further, rule 274 of the SEC Rules and Regulation (2011) specifies the registration requirements for OTC to include the form to be obtained (SEC 5A) and the documents to be supplied with the minimum paid-up capital of N500m. So far, SEC has registered two OTC exchanges in Nigeria, namely; Financial Market Dealer Quotation (FMDQ) in November, 2012 and National Association of Securities Dealers (NASD) in December, 2012.

3.2. Financial Market Dealer Quotation (FMDQ) OTC

FMDQ is a registered OTC securities exchange in Nigeria. It evolved from the operations of the Financial Markets Dealers Association (FMDA). In July, 2010, the association decided to conduct all its OTC operations under a SEC-registered organisation. Consequently, FMDQ OTC was incorporated in January, 2011 and registered by SEC in November, 2012 to perform OTC functions (Onadele, 2015).

3.2.1. Bonds Market

FMDQ launched the Bloomberg E-Bond trading and surveillance system in March, 2014 and obtained SEC's approval for its bond listing and quotation rules in December of the same year. Prior to this period, most of the bonds issued in Nigeria were on the Nigerian Stock Exchange (NSE) but there was a minimal trading activity at the secondary market level. Currently, the FMDQ platform presents opportunity to trade these bonds in a liquid market. The first corporate bond was listed on FMDQ by United Bank for Africa PLC in April, 2015 and the platform has since attracted other corporate bonds such as Stanbic IBTC, FCMB, Nigeria Mortgage Refinance Company, Fidelity Bank, Transcorp Hotels and C&I Leasing).

In addition to providing a platform for trading Federal Government bonds, FMDQ also witnessed the listing of its first FGN bond valued at N4.8tr in July, 2015. The platform is equally working towards providing market structure that will facilitate the trading of private companies' bonds which have always been available at the private placements level. However the challenge in the CAMA on the trading of securities of private companies needs to be resolved before this initiative can see the light of day.

Figures 3a and 3b show respectively the monthly transactions and turnover of FGN Bond and other bonds. The figures show that the FMDQ-OTC market is dominated by FGN bond trades, which accounted for 95 percent of transactions and 90 percent of turnover for the period January, 2015 to June 2016. Total transactions recorded on FGN bond dropped from 4,108 in January, 2015 to 1,099 in June, 2016, while that of other bonds grew substantially from 6 in January, 2015 to 24 in June, 2016. Similarly, total turnover on FGN bond fell from N0.72 trillion in January, 2015 to N0.19 trillion in June, 2016. In contrast, total turnover on the other types bonds rose marginally from zero in January, 2015 to N0.01 trillion in June, 2016.

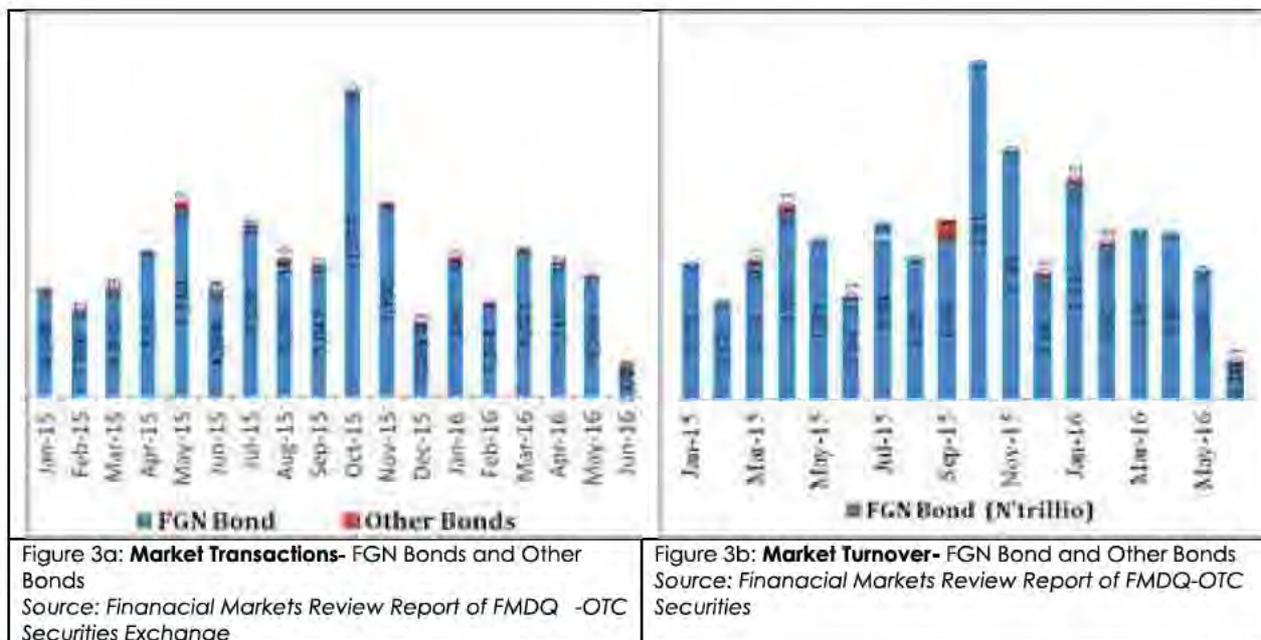


Figure 3a: **Market Transactions**- FGN Bonds and Other Bonds
 Source: Financial Markets Review Report of FMDQ -OTC Securities Exchange

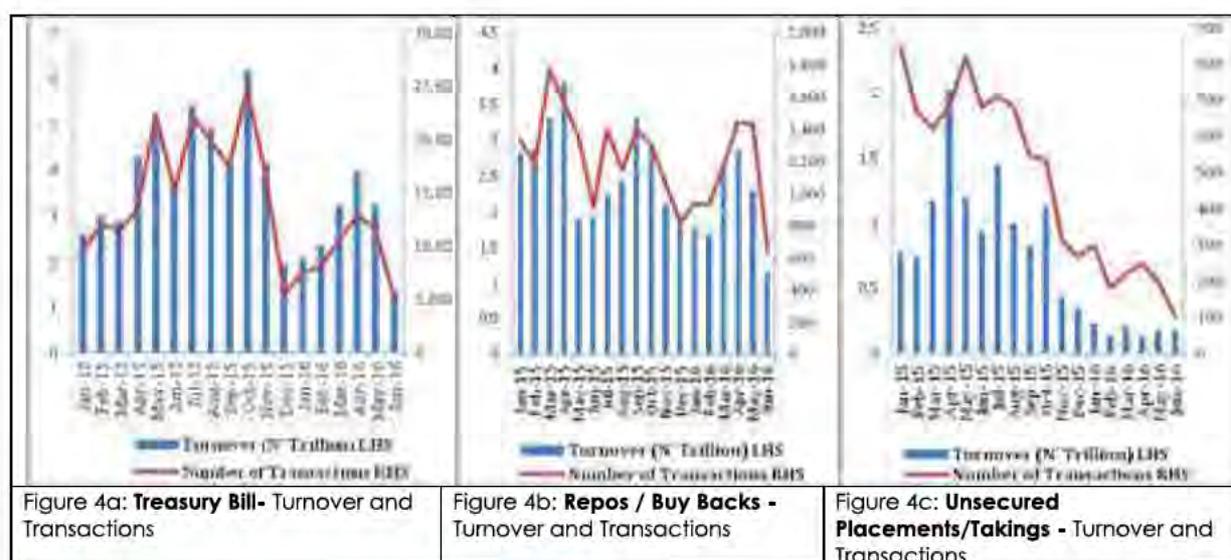
Figure 3b: **Market Turnover**- FGN Bond and Other Bonds
 Source: Financial Markets Review Report of FMDQ-OTC Securities Exchange

Source: Authors' computations from FMDQ data

Commercial Papers (CP) are also admitted into FMDQ; example of which are those of Stanbic IBTC, Wema Bank, Nigerian Breweries, Guinness Nigerian PLC. It is expected that the market for CP will develop significantly in the future given a Central Bank of Nigeria's directive in July, 2016 that commercial banks should deal only in CP that are registered and quoted on an authorised securities exchange.

3.2.2. Money Market Instruments

Several money market instruments are listed and traded on the FMDQ. The company commenced in April 2014, the calculation of Nigerian Inter-bank Offered Rate (NIBOR) in compliance with IOSCO principles for financial benchmark. There was also the quotation of N2.85tr Nigerian Treasury Bills on the platform in July, 2015. The total turnover and transactions of Treasury Bills, Repos/Buy Backs and Unsecured Placements/Takings from January 2015 to June 2016 is presented in Figure 4a, 4b and 4c. Figure 6a depicts significant evidence of volatility. Turnover in Treasury Bills rose from N2.59 trillion in January, 2015, to reach a peak of N6.15 trillion in October, 2015 before declining to N1.36 trillion in June, 2016. A similar pattern of Treasury bills transactions rose from 9,403 in January, 2015 to peak at 24,923 in October, 2015 and later fell to 5,214 in June, 2016.



Source: Authors' computations from FMDQ data

Figure 4b shows that the total turnover and transaction in Repos/Buy Backs declined over time and comparatively mild fluctuations are observable. The value rose from N2.83 trillion in January, 2015 to peak at N3.82 trillion in April, 2015 before falling to N1.16 trillion in June, 2016. Figure 4c depicts that both turnover and total transactions of Unsecured Placements/Takings fell dramatically during the period, rising from N0.78 trillion in January, 2015 to N2.02 trillion in April, 2015 and eventually falling to N0.18 trillion in July, 2016.

3.2.3. Foreign Exchange Market

The exchange rate regime operated in Nigeria has implications for the operations of the interbank foreign exchange market (IFEM). In April, 2015, FMDQ, along with the CBN, launched the Thomson Reuters Foreign Exchange Market Tracker Solutions. When the country moved from IFEM with pegged exchange rate to a more market-determined system in June, 2015, the level of foreign exchange transactions on the FMDQ improved significantly. Specifically, the Nigerian spot foreign exchange two-way quote market started operating on the FMDQ platform. In July, 2016, the CBN also mandated all authorised dealers to execute all foreign exchange trades with their corporate clients only through the FMDQ-advised trading and surveillance system. Another development in the foreign exchange market with the potential for deepening the market, reducing uncertainty and managing risk was the introduction of the OTC Foreign Exchange Futures Market by the CBN.

Figure 5 depicts the monthly activities in the foreign exchange market based on their turnover and transactions for the period January 2015 to June 2016. It is shown that the foreign exchange turnover and transactions for the period January 2015 to June 2016. It is shown that the foreign exchange turnover and transactions declined during this period. Specifically, the total foreign exchange turnover dropped from N4.14 trillion in January, 2015 to N0.44 trillion in June, 2016 with an average turnover of N2.38 trillion. Also, foreign exchange transactions fell significantly from 44,458 in January, 2015 to 12,485 in June, 2016. On the average, foreign exchange transactions stood at 25,511. The declining trend is an evidence of the foreign exchange challenges that the country is currently witnessing.

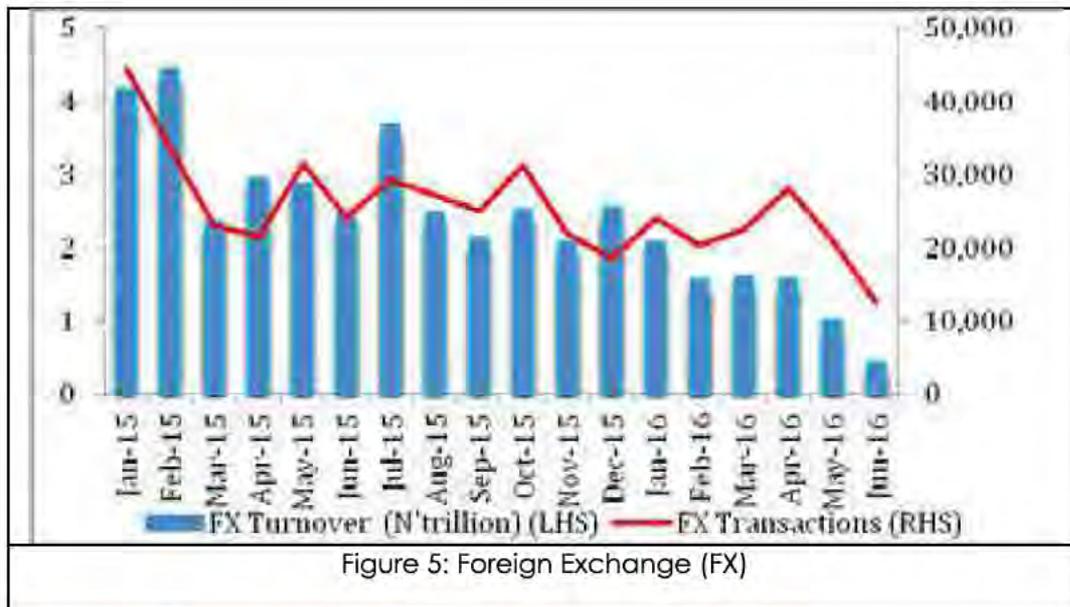


Figure 5: Foreign Exchange (FX)

Source: Authors' computations from FMDQ data

3.3. National Association of Securities Dealers (NASD) OTC

NASD was founded in June, 1998 to promote and operate an OTC market that is open to all interested registered securities dealers in Nigeria. Having been registered by SEC to operate OTC market in Nigeria, the company launched its trading platform in July, 2013. It is a platform for trading financial securities that are not listed on an exchange, particularly, the NSE. It therefore presents a great opportunity for investors operating in private placements segment to trade and discover the prices of instruments in their portfolios.

In addition to providing liquidity and trading platform to unlisted securities in Nigeria, NASD also has the plan of offering its services to other securities in the West African sub-region. Although unlisted equities are its starting point, the NASD is also a potential channel for trading unlisted bonds and commercial papers. Other considerations include, private equity and Small and Medium Enterprises (SMEs).

Figure 6 shows the trend analysis of the volume and value traded on NASD from July, 2015 to June, 2016. Market volume fluctuated over the period considered as it declined from 486.07million in July, 2015 to as low as 7.10 million on November 2015 and later rose to 128.47million in June, 2016. The average market volume stood at 136.3 million. Also, market value fell during the sampled period as it stood at N1, 386.57 million in July 2015 and later declined to the least value reported at N126.11 million in November 2015. It later rose to N472.29 million in June, 2016 with an average market value traded for the period at N726.62 million.

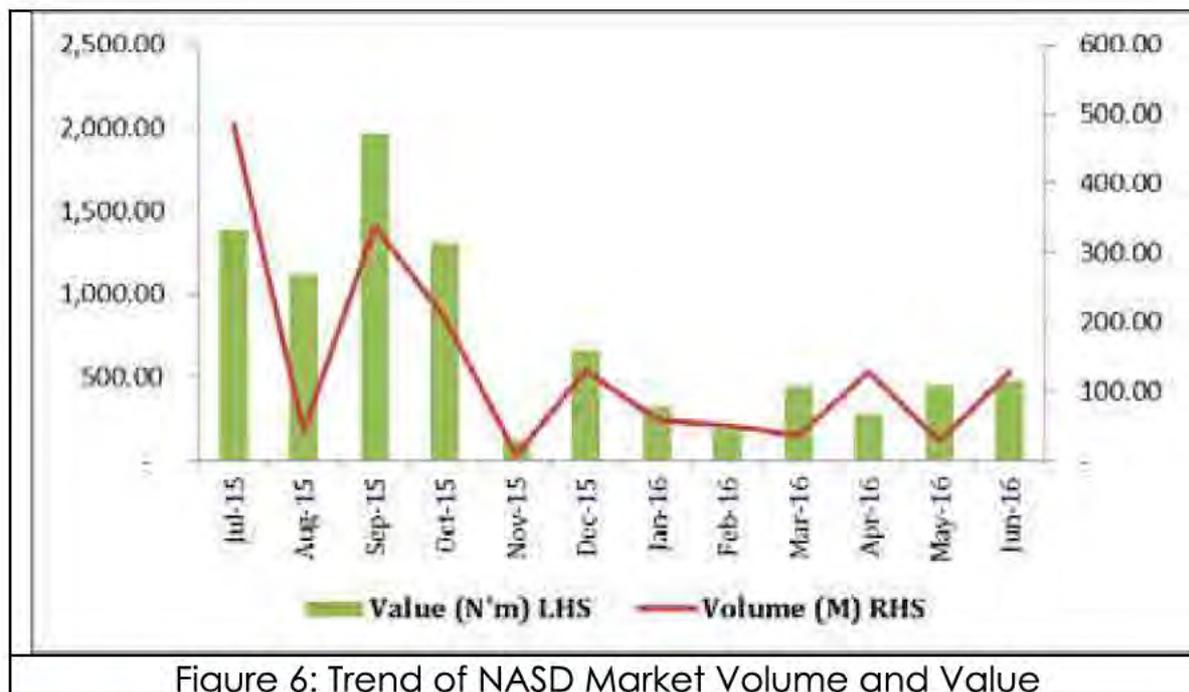


Figure 6: Trend of NASD Market Volume and Value

Source: Authors' computations from NASD data

4. POLICY LESSONS AND IMPLICATIONS

It has been shown in this study that the global OTC landscape is witnessing significant changes resulting from improved regulatory framework and application of technology. The Nigerian OTC market is equally experiencing this development as the country makes efforts at formalising domestic OTC transactions. Some lessons can be drawn in order to consolidate on the achievements recorded so far.

Nigeria has made remarkable efforts at regulating and bringing transparency to the operations of the OTC market. It is important the country continue in this area by ensuring that more financial instruments that are still traded in the traditional OTC way are attracted to the platform of the OTC Exchanges. While making efforts at bringing in instruments of public companies, simultaneous attempt may need to be made to revise laws that currently prevent trading in securities of private companies.

In addition to developing and attracting the existing instruments into the formal market, there is also the need to create new products with the potential for deepening the Nigeria's financial market. The crucial ones are derivatives which can be used to manage risks. This will require investments in designing appropriate regulations, legal framework and enabling environment. There is the need to develop the capacity of the regulators, financial market operators and companies in the areas of regulating, pricing and utilisation of such instruments (Olowookere, 2012a).

Since the country already has functioning OTC Exchanges, preference should be for Exchange Traded Derivatives (ETDs) over the traditional OTC derivatives. This is important because the global practice is currently in favour of ETDs as they are more transparent and less susceptible to counterparty risk that is typical of OTC transactions. In other words, when Nigeria finally develops its derivative market, it should be on the platforms of its Stock Exchange and OTC Exchanges rather than on the traditional unorganised OTC. Therefore, the current clearing infrastructure adopted will be relevant.

In addition to this existing clearing infrastructure however, it will be necessary to set up dedicated CCPs that will be used to clear derivatives transactions. For the sake of efficiency and minimisation of default risk, it is important that the country operates more than one of such clearing institutions. Although the exchanges will have a preference for their existing clearing infrastructure, dedicated CCPs will still be relevant because derivatives have market-wide risks that go beyond a particular exchange.

There is also the need for enhanced collaboration between the SEC and CBN in the areas of regulating and originating the evolving financial market in Nigeria. This is necessary both for policy consistency and overall growth of the market (Olowookere, 2012b).

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Testing for Long Memory in the Nigerian Stock Market

Hassan Hassan Suleiman

Abstract

This paper examines the issue of long memory dependence in the Nigerian stock market in order to provide fresh evidence on its efficiency. Using monthly returns from the Nigerian Stock Exchange for the period January 2000 to July 2016 and applying the GARCH-class models, the results show a significant evidence of long memory in the data. The findings reject the weak form efficiency hypothesis as past information can be used in forecasting returns in the stock market. It is recommended that further research to identify the causes of the inefficiency should be undertaken. On its part, the SEC should strengthen measures that boost liquidity and encourage investor education as well as other initiatives that could drive the market closer to efficiency.

Key words: long memory, Nigerian Stock Market, weak form efficiency, stock returns.

1. INTRODUCTION



A major issue in financial economics is the behaviour of stock returns over both the long and short horizons. Stock returns are said to demonstrate positive serial correlation over short horizons but negative serial correlation over longer horizons (Cheung, 1995). According to the weak form efficient market hypothesis (EMH), the current share price should fully reflect the information contained in previous price history. This implies that the share price does not exhibit serial correlation, or 'memory' (Bond & Dyson, 2008).

Understanding the nature of the long memory dynamics of a stock market has important implications. First, long memory in stock returns will render invalid any statistical inference concerning asset pricing models (Cheung, 1995). Second, in the presence of long memory, the arrival of new market information will not be automatically reflected in prices. This implies that asset prices will not be fully arbitrated away (Kiliç, 2004). Third, the presence of long memory in asset prices invalidates the weak-form efficiency of stock markets because past price information can be useful in predicting future returns. The weak-form EMH requires that asset prices should reflect all previous price information.

A few studies have examined long memory dynamics in the Nigerian stock market (see e.g., Gyamfi et al. (2016); Ngene et al. (2015); Thupayagale (2010); Anoruo and Gil-Alana(2010)). However, empirical findings have been mixed, prompting the need for further investigation. The absence of a clear consensus on this issue coupled with policy implications of market inefficiency has provided the appropriate background for this paper. In order to contribute to this debate this paper examines the issue of long memory dynamics (long term dependence) in the Nigerian stock market using monthly returns data obtained from the Nigerian Stock Exchange (NSE) All Share Index (ASI).

The rest of this paper is organized as follows. Section 2 reviews related literature while section 3 presents the data and its dynamic characteristics. Section 4 presents the empirical results while section 5 provides conclusions and recommendations.

2. LITERATURE REVIEW

Long memory issues arise in various different fields, such as hydrology, internet traffic, economics and finance—(Ohanissian, Russell, & Tsay, 2007; Yalama & Celik, 2013). In economics and finance, the issue has been investigated in stock markets, exchange rates and bond returns. A large body of literature exists that examines stock prices in the context of long memory processes. However, despite over six decades of research, there has been no consensus in the literature with respect to the presence or absence of long memory.

A variety of long memory tests has been employed in the literature like the classical rescaled range (R/S) analysis suggested by Hurst (1951); the modified R/S analysis proposed by Lo —(1991); the spectral regression method developed by Geweke and Porter-Hudak (1983)(the GPH method) and the long memory processes in the context of conditional variance by extending the GARCH models of Bollerslev (1986) and the exponential ARCH models of Nelson (1991) introduced by Baillie et al. (1996) and Bollerslev and Mikkelsen (1996). In addition, Breidt et al. —(1998) proposed a long memory stochastic volatility model by incorporating a fractionally integrated process in a standard volatility scheme (Pong, Shackleton, & Taylor, 2008).

The existence of long memory characteristics has mostly been supported in previous studies of stock markets (Al-Shboul and Anwar (2016); Li et al. (2016); Gil-Alana et al. (2015); Huang et al. (2015); Yalama and Celik (2013) and Lin and Fei (2013)). However, there is a body of literature contradicting their findings (Thupayagale (2010); Lux (1996); and McMillan and Thupayagale (2009)).

In the African context, Gyamfi, Kyei, & Gill, (2016) examine the degree of long memory dependence in asset returns and volatility of the Nigerian and Ghanaian Stock index. Employing the Hurst exponent to measure the degree of long-memory, the authors found a strong evidence of the presence of long-memory in both returns and volatility of the indices studied, suggesting that neither of the two markets is weak-form efficient, implying opportunities for abnormal returns.

In a related study using a larger number of countries, Thupayagale (2010) investigate various aspects of long memory behaviour in several African stock markets. His empirical estimates demonstrate that African Stock markets mainly display a predictable component and generally have a long memory component associated with their stock returns, while evidence of long memory in stock return volatility is mixed. Specifically, employing a HYGARCH model, he finds no evidence of long memory in volatility for Botswana, Mauritius, Morocco and Tunisia. While for South Africa, Namibia, Ghana, Kenya, Tunisia and Zimbabwe markets, volatility was characterised by long memory. The results for Nigeria appeared conflicting. One aspect of the results shows explosive volatility persistence, suggesting the absence of long memory in equity return volatility in the market. A second aspect of the result is that Nigeria displayed evidence of long memory in stock returns when the ARFIMA-FIGARCH model was applied. Finally, the results obtained indicated that volatility lacks a predictable component.

In a more recent study using several African countries, Ngene, Tahb, & Darrat (2015) explore the question of whether weekly stock returns and variance in those markets exhibit long memory behaviour. Using a semi-parametric Robinson test and the ARFIMA-FIEGARCH parametric methods and without accounting for structural breaks, the study presented evidence of long memory in mean returns for Morocco, Mauritius and Tunisia. The results also document evidence of long memory in variance in Egypt, Kenya, Mauritius, Morocco, South Africa and Tunisia. These findings contradict market efficiency as they imply the predictability of stock returns and their variances. However, when structural breaks are introduced in the models, the authors find consistent evidence for short memory both in mean and variance across the markets. Furthermore, the evidence suggests significant structural shifts in both returns and variance in the Nigerian market. When structural breaks were ignored, their results indicate the existence of long memory components in stock returns and variance. However, once structural breaks were introduced in the testing models, the long memory evidence significantly dissipated and the results support short memory behaviour instead. These findings suggest that long memory inferences can be affected by episodes of structural breaks which in turn could disguise short memory behaviour. Consequently, they conclude that caution is warranted when interpreting long memory inferences in the presence of structural breaks. In the same vein, Anoruo and Gil-Alana(2010) earlier examined the behaviour of stock prices in several African countries by means of fractionally integrated techniques. The authors could not find evidence of long memory in returns.

3. DATA AND METHODOLOGY

In order to estimate the long memory property of Nigerian stock market, monthly observations of the Nigerian All Share Index from January 2000 to July, 2016 was used. The data was obtained from the website of the Central Bank of Nigeria. To calculate returns, the series was converted into log using the formula $r_t = \log(p_t / p_{t-1}) \times 100$, where r_t is the return, p_t is the current share index and p_{t-1} is the index for the previous period.

Figures 1 and 2 plot the monthly price index and monthly return series respectively. The levels of the series exhibit a pronounced upward trend up to 2008 before a huge drop thereafter. Of recent, we can observe a downward trend reflecting current bearish declines. The returns in figure exhibit volatility clustering as periods of low volatility intermingle with periods of high volatility.

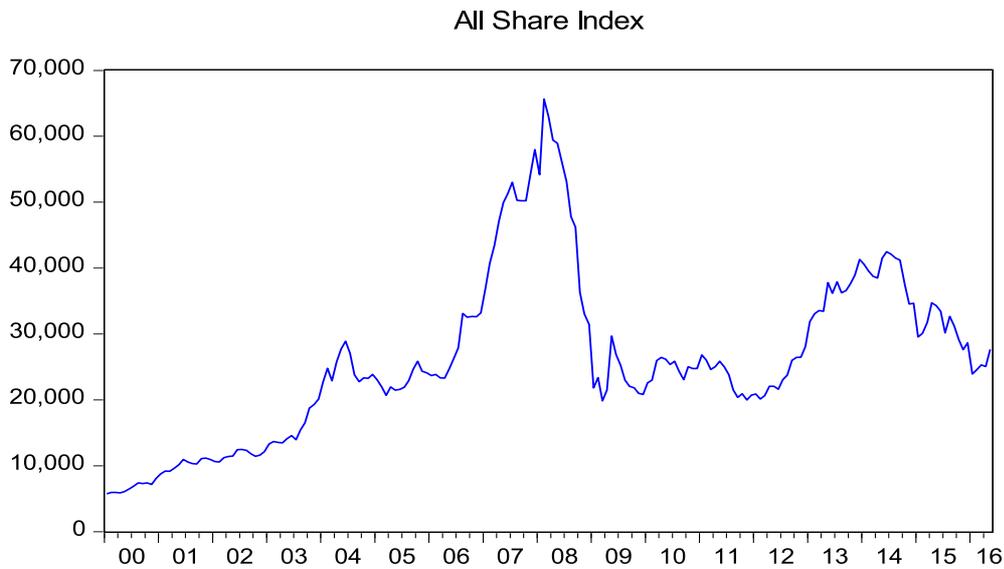


Figure 1: Levels of the monthly price index

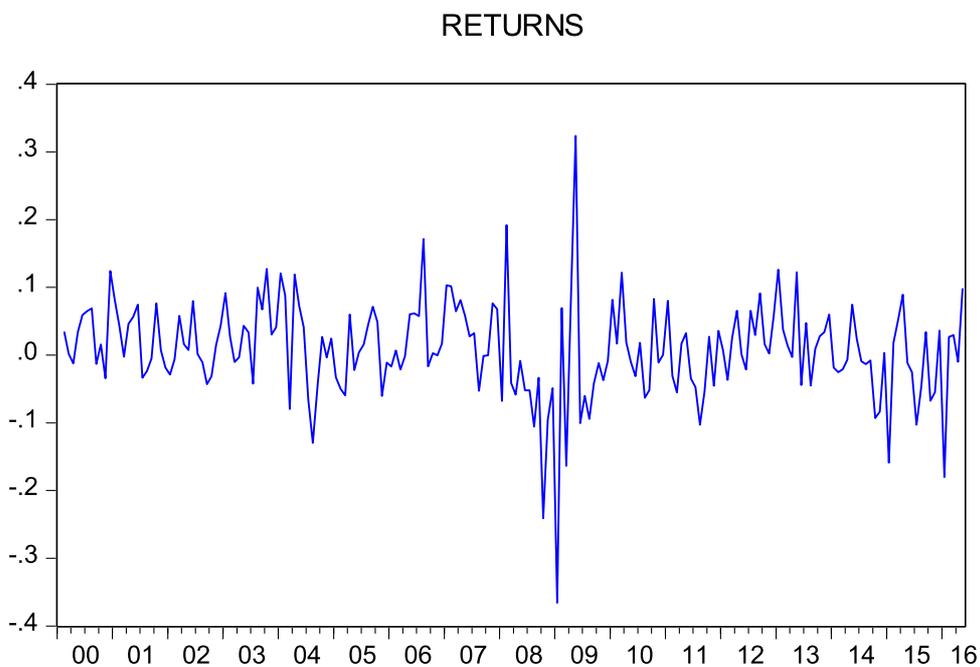


Figure 2: monthly return series

The Generalized Autoregressive Conditional Heteroskedasticity (GARCH) model was used to investigate long memory in returns of the Nigerian stock market. The GARCH model was introduced by Bollerslev (1986) where the current conditional variance depends on its own lagged values and the variance includes both autoregressive and moving average elements. The model can be described as follows:

$$r_t = \mu_t + \varepsilon_t \quad (1)$$

Where $\varepsilon_t / \psi_t \sim iid N(0, \sigma_t)$

$$\sigma_t^2 = \omega + \beta\sigma_{t-1}^2 + \alpha\varepsilon_{t-1}^2 \quad (2)$$

where,

r_t = dependent variable return

μ_t = the conditional mean

σ_t^2 = the conditional variance

ω = the unconditional mean value which is constant

σ_{t-1}^2 = is the GARCH term which capture information on the past forecast error variance

ε_{t-1}^2 = the ARCH term which capture information on volatility from the past period

The coefficients α and β are expected to be positive to ensure positive conditional variance. The sum of the parameters $\alpha + \beta$ measures the persistence of shock on volatility. The shock to volatility would be unstable if $\alpha + \beta > 1$, $\alpha + \beta < 1$ is needed in order to make the unconditional variance finite (Bollerslev 1986, Nelson 1991; Abdullahi, Muhammad, & Kouhy, 2014).

Baillie, Bollerslev and Mikkelsen (1996) introduced the fractionally integrated GARCH (FIGARCH) model which captures the long memory in conditional variance and allows the autocorrelation in volatility to die at slow hyperbolic rate. The FIGARCH (1, d , 1) can be written as:

$$\sigma_t^2 = \omega + [1 - \beta(L)]^{-1} + \{1 - [1 - \beta(L)]^{-1}\} \phi(L)(1-L)^d \varepsilon_t^2 \quad (3)$$

As reported by Davidson (2004), d is the fractional integrated parameter that captures long memory and L the lag operator. The memory parameter increases as d approaches zero. To ensure that the conditional variance of the FIGARCH (1, d , 1) is positive for all t , the parameters must take the form $0 \leq d \leq 1$. The superiority of the FIGARCH model is that it permits three different conditions: the intermediate range of persistence (long memory) when $0 < d < 1$, infinite persistence when $d = 1$ and geometric decay when $d > 1$ (Abdullahi, Muhammad, & Kouhy, 2014).

4. EMPIRICAL RESULTS

Table 1 reports the parameter estimates for the GARCH (1,1) and FIGARCH models. The second column of the table reports the results for the GARCH (1,1) model. As can be seen from the results, the estimated coefficients for the conditional variance equation α and β are positive and significant for the share index returns. The results further demonstrate that the model observes positive constraint restrictions. In addition, the estimates for the measure of persistence, $\alpha + \beta$, is 0.919, indicating high persistence in the conditional volatility. The finding therefore shows that the stock market exhibits high persistence in its index returns which also implies long memory over the period of study.

The estimated results of the FIGARCH model (presented in third column of the table) indicate that the long memory parameter, d , is found to be 1.052 which is positive and significantly different from zero. Moreover, the results show that the coefficient estimate for β is positive and significant with value higher than that of the GARCH (1,1) model. Furthermore, there is evidence that the returns of share index for Nigeria can be predicted using their past values, as the results from the FIGARCH model demonstrate. This suggests that the stock prices do not incorporate all the necessary price information in the market. At the 5% level of significance, the diagnostic tests reveal no evidence of serial correlation or ARCH effects in both the GARCH and FIGARCH models which confirm the fitness of the models (see the Q-Statistics and the ARCH LM tests). Looking at the Box-Pierce Q statistics under the null hypothesis of no autocorrelation and Engle's LM ARCH test under the null hypothesis of no ARCH effects, one concludes that the GARCH (1,1) does a good job in modelling the dynamics of the return series. The higher value of the log likelihood for FIGARCH model supports its superiority over the standard GARCH model.

Table 1: Estimation Results and Diagnostic Tests

	GARCH	FIGARCH
μ	0.016*(3.741)	0.015*(3.414)
ω	0.000(2.647)	0.000 (2.026)
α	0.213*(2.647)	-0.340(-0.783)
β	0.706*(12.86)	0.633*(5.395)
d		1.052(2.489)
$\alpha + \beta$	0.919	0.800
Q(20)	16.44[0.562]	16.67[0.545]
ARCH(10)	0.767[0.661]	0.548 [0.853]
Log(L)	256.7	257.18

Note: Figures in bracket are the t statistic beside the parameters. $Q(20)$ is the Box-piers test Q-statistics of order 20 for the standardised residuals. $ARCH(10)$ is the t-statistics of the homoscedasticity test with 10 lags. P-values are reported in the square bracket. Significant at 1% and 5% level are represented by * and **, respectively. Log(L) represents the logarithm maximum likelihood function.

5. CONCLUSION AND RECOMMENDATION

A key finding emanating from this study is the presence of long memory which implies that the market is weak form inefficient. It means that previous prices can be good predictor of future prices. A number of implications follow from the above results. For research there is the need for further investigation into the reasons of the observed inefficiency of the market. There is also the implication that the regulatory authorities, especially the SEC, need to strengthen measures to boost liquidity and encourage investor education as these are required to drive the market closer to efficiency.

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Imperative of Mainstreaming the Nigerian Capital Market Master Plan into National Economic Development Policy

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Abstract

The Nigerian economy is facing significant challenges inhibiting the attainment of its full potential. On its part, government has been implementing policies aimed at addressing the challenges by running expansionary budgets, investing in infrastructure and further diversification of the economy. The capital market has proven to be one of the key sources for mobilizing the funds needed to finance these lofty objectives. In order to reposition the market to serve its numerous purposes, the Securities and Exchange Commission has developed a ten-year capital market master plan. The plan outlines ambitious initiatives whose implementation will engender the emergence of a more robust capital market capable of financing socioeconomic development priorities of government. To enhance chances of its implementation success, there is the need to mainstream the master plan into national economic policy.

Key words: capital market master plan, socioeconomic development, mainstream

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1. INTRODUCTION



The structure of the Nigerian economy has remained overly dependent on crude oil, with the attendant risks associated with swings in crude oil prices, export earnings and government revenues. The authorities in Nigeria are committed to diversifying the economy and achieving sustainable development. As the regulator of the capital market in Nigeria, the Securities and Exchange Commission (SEC) has in various ways supported the drive of government aimed at achieving growth and diversifying the economy. Through its regulations of the capital market, the SEC has provided the necessary enabling and regulatory environment for the Nigerian capital market to raise long-term funds for investment and growth. In the last decade (2006-2015) the capital market raised over 10.3 trillion naira for corporations and state governments. Yet, as a regulator of the capital market the SEC believes that much more needs to be done, and has indeed taken steps (often in partnership with other stakeholders in the capital market) to raise the ability of the market to perform its function of raising funds for long-term investment and growth.

Among a series of measures so far undertaken by the SEC since it came into being in 1978, the Nigerian Capital Market Master Plan (CMMP) is the latest and most ambitious project, coming as it does in the wake of renewed determination by the Nigerian government to achieve poverty reduction and diversification of the economy while promoting sustainable development and inclusive growth. The main objective of this paper is to demonstrate how this project (CMMP) contributes to the achievement of these lofty objectives and in that way to make a case for mainstreaming it into the national economic policy. The rest of the paper is divided into four sections. Section two provides the background, emphasizing the macroeconomic and policy events that have necessitated the SEC's concern for the need to develop and implement the capital market master plan. Section three is devoted to the importance of the capital market in an economy. In section four, key provisions of the master plan are discussed with a synopsis of the attendant benefits of its implementation. Section five presents the conclusion.

2. MACROECONOMIC AND POLICY BACKGROUND

The Nigerian economy is the largest in Africa but has faced daunting macroeconomic challenges which current policies are poised to overcome. In the second quarter of 2016, the economy went into recession. Inflation, in double digit, is high. Crude oil prices have tumbled on the world market, causing both import earnings and government revenues to fall. Revenue allocation to various tiers of government has nosedived, falling from N568 billion in March 2015 to N300 billion in March 2016 according to figures from the Federal Ministry of Finance. It is therefore unsurprising that some state governments are unable to meet their financial obligations as they become due. Unemployment is equally high, and has been a source of concern for the authorities. Although Nigeria is the largest economy in the continent, on some measures it still remains behind other countries in the region. In 2015 for example, while South Africa was ranked 49th in terms of global competitiveness index of the World Economic Forum, Nigeria came a distant 124th out of a total of 189 countries in the ranking. Average incomes in Nigeria are equally low in comparison to those of many African countries. With per capita income of US\$2,758 in 2015, Nigeria ranked 128th in the world, according to the World Bank. This compares with an average of US\$5,784 for South Africa which ranked 87th.

Significant success has been recorded on several fronts such as security improvement in the north-east. A budget of N6.06 trillion was passed by the Senate in March 2016. The deficit of N2.65 trillion was planned to be funded through local and external sources. A fiscal stimulus package is being conceived and Senate is working on a proposal for external loans to reflate the economy. Government policy aimed at diversifying the economy has given priority in infrastructure development. World Bank estimates put the core stock of infrastructure at between 35% and 40% of the country's GDP, far less than the average of about 70% for other middle income countries of comparable size.

Despite the examples given above on some of the teething macroeconomic and related challenges, confidence is high that Nigeria will achieve the set objectives of economic recovery, inclusive growth and diversification of the economy. For the first time in the last decade, the country did not appear in the list of ten most corrupt countries in the world. This is a good omen, but equally unsurprising. Government has made the fight against corruption an important pillar of policy. Fiscal environment has improved transparency and accountability. Measures have been pursued to improve tax collection and coverage, and the treasury single account (TSA) has been implemented.

The SEC is mindful of the concerted actions the authorities in Nigeria are pursuing to restore confidence, achieve economic recovery and growth; and has accordingly played a complementary role in the discharge of its mandates to ensure that the capital market in Nigeria is contributing more and helping to achieve the lofty objectives.

3. IMPORTANCE OF THE CAPITAL MARKET

In order to set the stage for the discussions in the subsequent sections of this paper, it is pertinent to explain albeit briefly the role of the capital market in an economy. Economic and finance literature attributes to the capital market a number of functions including fostering economic growth and development; promoting financial stability; enabling corporations and government to manage risk; diversifying sources of investment and lowering funding costs; attracting foreign portfolio investments and PPP funding; reducing illicit financial flows; creating wealth and enhancing investor wellbeing; serving as a barometer for measuring individual and corporate wealth; providing liquidity to listed securities; promoting good corporate governance; facilitating the development of agriculture and mineral sectors, thereby promoting diversification of the economy; promoting the development of contractual savings institutions; and supporting the success of privatization. These points are discussed in turn.

a. Promoting Economic Growth and Development

The current administration has a clear focus on the pursuit of economic growth through which employment creation on a sustainable basis could be achieved. For this reason, it is important to demonstrate the role of the capital market as a catalyst for economic growth. Supriya (2013) argues that a well-functioning capital market increases confidence and encourages savings which in turn contribute to investment and growth. The capital market is therefore an avenue for raising funds for infrastructure development, which as mentioned above is in dire straits. The Nigerian capital market can also provide such opportunity for significant infrastructure funding. It has indeed financed some state governments' infrastructure projects and has enabled financial institutions such as banks and insurance companies recapitalize and undertake key expansion projects; all of which have had positive development impacts. The Federal Government has continued to access financing through the capital market to meet its funding gap. The DMO has raised a total of N4.2 trillion in the last five years on behalf of the Federal Government. Tapping the domestic market for such funds would have been difficult had the capital market not existed.

b. Capital market and financial stability

Financial stability is an important requirement for economic development and growth. In the face of double-digit inflation amid exchange rate depreciation and trade and fiscal imbalances, the country's pursuit of fiscal and financial stability has not wavered. The capital market regulation in Nigeria has pursued the development of a wide variety of instruments such as equities, bonds, mortgage backed securities, sukuk, derivatives and collective investment schemes that enable economic agents to mobilize funds and ensure their more efficient utilization. The instruments either developed or strengthened by the CMMP, have the potential to ensure financial market stability in the country by reducing the excessive dependence on money market products.

c. Enabling corporations and government to manage risk

Economic and finance literature posits that risk management is an important objective well-informed investors pursue. Using simple statistical formula for the computation of mean and variances, Markowitz (1952) has demonstrated that the risk of a portfolio is less than the sum of the risk of individual constituent assets in the portfolio. In other words, risk reduction is an inevitable concomitance of diversification. By offering a wide array of investment instruments the capital market therefore is a sure guarantee for risk reduction. Corporations therefore taking advantage of the instruments available in the CMMP are more likely to manage risk. As both theory and evidence have shown risk management is related to reduction in cost of borrowing since funds can be raised at lower costs by corporations able to manage and reduce risks compared to others less able to do so.

d. Attracting foreign portfolio investments and PPP funding

As finance literature is clear about the role of the capital market in attracting portfolio investments and public-private partnership (PPP), Nigeria's capital market plan has incorporated elements that seek to recognize and promote this role. A number of features come to mind in relation to this. One, the CMMP is pursuing the strategic objective of expanding existing and developing new attractive savings products (some of which are mentioned in the preceding paragraphs). A second example is the strategic objective seeking to monitor capital market policy on institutional investment strategies. Third, the plan seeks to engage insurance sector in savings mobilization. These strategic objectives exemplify just how the CMMP seeks to contribute in resource mobilization from both domestic and international sources.

e. Reducing illicit financial flows;

The enforcement of disclosure requirements, transparency and corporate governance ensures that funds flowing through the market are compliant with anti-money laundering/counter financing of terrorism (AML/CFT) laws and regulations. All entities within the market have specific responsibilities regarding AML/CFT to the regulators with strict penalties for non-compliance. This makes it difficult for illicit funds to be laundered through the market.

f. Serving as a barometer for measuring individual and corporate wealth; providing liquidity to listed securities;

Investors are motivated by benefits such as dividends, interest income and capital gains. These benefits improve the financial worth of investors. The capital market thus, through these benefits, creates wealth in society (although wealth can also erode from losses) and enhances wellbeing of investors. The capital market lays the platform for the populace to own interest in companies and by extension, the industrial sector.

g. Barometer for measuring individual wealth;

The capital market is a veritable source of wealth valuation for companies and individuals. It provides a picture of the financial worth of individuals through the efficient price discovery mechanism of the market and enables the public and officials to estimate the measure of wealth which may help in tracking tax returns, etc. Financial media institutions such as Forbes use the capital market amongst other sources to estimate and rank companies' and individuals' financial worth. This enhances transparency and helps to reduce evasion of tax responsibilities by high net worth individuals.

h. Facilitating the development of agriculture and mineral sectors, thereby promoting diversification of the economy;

The development of commodities exchanges is very vital to the development of the agriculture and solid mineral sectors which are important to the economic diversification objectives of the government.

i. Supporting the success of privatization.

The capital market has been used to implement credible and inclusive privatization programmes and can provide capital post-privatization to improve the operations of such companies.

4. KEY PROVISIONS OF THE MASTER PLAN

As earlier stated, in realization of the strategic role the capital market must play to align with the nation's economic vision, the Capital Market Master Plan was developed. The Master Plan maps out strategies which would spring-board the Nigerian capital market as one of the world's deepest and most liquid capital markets as well as the largest on the continent of Africa by 2025. It is also aimed at ensuring that the market contributes much more to the socio-economic development of the nation particularly in facilitating capital raising for sustainable development and transformation of key sectors like agriculture, power, transportation, oil and gas and telecommunication. Implementation of the CMMP has commenced in earnest and the Capital Market Master plan Implementation Council (CAMMIC) has been inaugurated.

Implementation of the CMMP is even more urgent at this challenging time given its potential to bolster the economy. This paper argues that the CMMP document, whose key elements are highlighted below, should be mainstreamed into the nation's current economic development policy. This has been the case with capital market master plans in some jurisdictions such as Brazil, Kenya, Malaysia and South Africa. Its adoption by government should strengthen stakeholders buy-in and facilitate the faithful implementation of the Plan.

Table 1 outlines some of the strategic objectives and initiatives which are expected to serve as catalysts to the growth of the real sector and facilitate capital raising for critical economic sectors.

Imperative of Mainstreaming the Nigerian Capital Market Master Plan into National Economic Development Policy

Table 1: Some Strategic Objectives and Initiatives of CMMP

Objectives	Strategic Initiatives	Resultant Effect
Establish policies to drive personal, corporate, institutional and national savings and for channelling them to the capital market	<ul style="list-style-type: none"> • Establish a National Savings Strategy • Expand existing and develop new attractive savings products • Monitor capital market policy on institutional investment strategies • Engage insurance sector in savings mobilization 	<p>Infrastructure Development</p> <p>Financial Inclusion</p> <p>Inclusive Growth</p>
Drive the mobilization and allocation of capital to the critical and significant sectors of the economy	<ul style="list-style-type: none"> • Grant tax relief and incentives for priority economic sector investments • Establishment of Government sponsored SME Investment company program • Establish specialized funds to support players and boost critical sectors • Increase private sector participation in venture capital and private equity funding • Reposition the National Development Bank to be strong and well capitalized 	<p>Infrastructure Development</p> <p>Financial Inclusion</p> <p>Economic Growth</p>
Contribute to increased formalization of the economy and promote financial inclusion	<ul style="list-style-type: none"> • Resolve property/land title allocation and transfer issues to facilitate securitization • Simplify processes for capital market participation 	<p>Financial Inclusion</p> <p>Economic Growth</p> <p>Expanded Tax net</p>
Increase participation of critical economic sectors	Create a National monoline financial guarantor	<p>Diversification of the economy</p> <p>Infrastructure Development</p>

<p>Develop a thriving commodities trading ecosystem</p>	<ul style="list-style-type: none"> • Build supporting and functional ecosystem for commodities trading • Provide the Legal framework and appropriate legislation for commodities trading • Build centres of excellence in areas of comparative advantage (Oil, Gas, Cocoa) • Develop efficient Commodities Exchange(s) and Trading Platforms • Sponsor legislation to ensure Nigeria's crude oil sales are traded on local exchanges 	<p>Diversification of the economy - expansion of agriculture and its value chain</p> <p>Ensure macro - economic stability (real GDP growth)</p>
<p>Grow the Nigerian non - interest capital market to contribute to total market capitalization</p>	<ul style="list-style-type: none"> • Commence issuance of Sovereign Sukuk • Develop other non - interest capital market products 	<p>Infrastructure Development</p> <p>Delivering Inclusive Growth</p> <p>Financial Inclusion</p>

BENEFITS OF MAINSTREAMING THE CAPITAL MARKET MASTER PLAN INTO THE NATIONAL ECONOMIC DEVELOPMENT AGENDA

The Nigerian economy stands to benefit from implementation of the master plan in a number of ways exemplified below.

I. DIVERSIFICATION OF THE ECONOMY

The Master Plan anticipates significant growth in the capital market that will translate into and drive the development of the real sector and in fact all sectors of the economy. A key strategic theme of the Master Plan is to drive and facilitate capital raising across industries and by all tiers of government. This will facilitate sustainable national development and transformation of critical sectors such as infrastructure, agriculture, solid minerals, ICT and education. The market is being reformed to considerably expand its capacity for domestic funds mobilization and become, at all times, the preferred choice for capital raising by both businesses and governments. Developing a strong local capacity complemented by foreign capital is a priority of the Master Plan.

With the current focus on the development of agriculture, experience has shown that an effective off-take system for producers and farmers goes a long way in stimulating production and growth of the agricultural sector. Companies presently engaged in the processing of agricultural produce for export are beleaguered by high cost of production, absence of reliable off-take contracts, inadequate technical, operational and quality expertise as well as lack of access to adequate working capital.

Part of addressing the challenges facing agriculture in Nigeria will require the existence of a well-functioning commodities exchange and well funded processing factories. The Master Plan therefore advocates the development of a thriving commodities trading ecosystem. This will not only aid the diversification of the economy and foster real GDP growth, but will create jobs within the value chain of the ecosystem thereby engendering inclusive growth.

II. INFRASTRUCTURE DEVELOPMENT

The 2016 Budget seeks to stimulate the economy by, inter alia, focusing on infrastructure development which is critical for job creation, poverty reduction and overall development of the economy. Infrastructure is a key growth driver with significant multiplier effect on the economy of a country. Investment in infrastructure is acknowledged as one of the quickest means of stimulating an economy particularly in times of recession. In what can be seen as a first step, the budget, as stated earlier, provided a capital expenditure of N1.6trillion. The Master Plan envisages that the capital market will be an important source of funding infrastructure projects through a variety of instruments by which the Federal Government, its agencies, state governments and other entities can raise funds. Such instruments like infrastructure funds and infrastructure bonds can be structured specifically to attract capital for identified infrastructure projects. These instruments, if well-structured with necessary safeguards should be attractive to Pension Fund Administrators (PFAs) with about N6 trillion assets under management. There are also collective investment schemes focused on bonds and infrastructure asset classes which would be attracted to government's infrastructure instruments.

In 2015, Federal and State governments as well as corporates raised about N1 trillion in debt capital from the capital market. Over the years, many states of the federation have accessed the market to mobilize funds to finance various development projects as indicated in a few examples listed in Table 3.

Table 3: Selected State Government Bonds and Purposes

S/N	STATE	PROJECTS	AMOUNT RAISED
1.	Akwa Ibom	<ul style="list-style-type: none"> • Financing infrastructure development 	N6B
2.	Bauchi	<ul style="list-style-type: none"> • Part-financing of Bauchi Specialist Hospital • Completion of Sir Abubakar Tafawa Balewa International Airport • Refinancing of Bank Loan 	N15B
3.	Benue	<ul style="list-style-type: none"> • Financing of new road and water projects, etc. 	N3.95B
4.	Cross River	<ul style="list-style-type: none"> • Upgrading and Expansion of Obudu Cattle Ranch 	N4B
5.	Delta	<ul style="list-style-type: none"> • Health, Water and Education 	N5B
6.	Gombe	<ul style="list-style-type: none"> • Building of township and regional roads • College of Education Billiri, School of Basic and Remedial Studies Kumo • Development of Secondary Schools, • Purchase of Earth Moving Equipment • Construction of Mega Park, School of Nursing and refinancing of existing Loan 	N25B
7.	Kaduna	<ul style="list-style-type: none"> • Financing of Zaria regional water supply (150 MLD treatment plant) • Construction of 200 bed specialist hospital • Kaduna Millennium City, Kaduna • Construction of new government house office complex • Tum Madakiya road and 4th bridge across River Kaduna • Kafanchan Campus of Kaduna State University, Kaduna. • Ginger Factory 	N8.65B
8.	Kogi	<ul style="list-style-type: none"> • Housing Units • Water Schemes • University Teaching Hospital • Modern Motor Park 	N3B

Selected State Government Bonds and Purposes

9.	Kwara	<ul style="list-style-type: none"> • Stadium complex • International Aviation College • Asa Dam mixed use Development • Urban Roads, Ilorin metropolitan street lights • Kwara shopping complex • International vocational centre, Rural electrification, Rural Roads • Kwara State University, Ilorin water distribution project • Agricultural irrigation support project, Kwara advanced diagnostic centre • Loan re-financing 	N17B
10.	Lagos	<ul style="list-style-type: none"> • Multiple Capital Projects 	N225B
11.	Niger	<ul style="list-style-type: none"> • Construction and rehabilitation of Roads and industrial layout • Completion of Shiroro Bridge • Development of the Garam site and services scheme • Construction of an international market • Completion of Three Arms Zone 	N27B
12.	Osun	<ul style="list-style-type: none"> • Road Infrastructure, • Commercial infrastructure (O -Hub, Dagbolu, Osun), • Urban renewal (Ilesa, Ikire, Osogbo, Ede and Iwo), Ede waterworks and • Refinancing of loan. • Construction of Millennium Model Schools (Elementary, Middle and High Schools) 	N41.4B
13.	Oyo	<ul style="list-style-type: none"> • Mini-water works scheme • Road Transportation • Health care 	N4.8B
14.	Plateau	<ul style="list-style-type: none"> • Refinancing of Capital Projects 	N26B
15.	Yobe	<ul style="list-style-type: none"> • Construction of Urban Roads, Houses and Drainage Improvement 	N2.5B

III. DELIVERING INCLUSIVE GROWTH AND ENSURING MACROECONOMIC STABILITY

More entities in the real sector would be encouraged to seek listing and funding from the capital market. Sectors such as telecommunications, power, agriculture, solid mineral, oil and gas and SMEs would be among the targets. Listing will give Nigerians the opportunity to part own companies in these sectors, share in their successes while deepening the capital market and improving its visibility.

IV. IMPROVING THE SAVINGS CULTURE TO INCREASE FUNDS FOR INVESTMENT:

Businesses and projects require a constant supply of funds. The Master Plan highlights initiatives to improve long term savings by Nigerians which can be harnessed for investment. This will provide funds that can be channelled through the capital market for infrastructure and project financing.

There are examples of schemes in other jurisdictions such as National Savings and Investments in the United Kingdom and the Postal Savings Scheme in Japan under which depositors' funds provide financing for government.

V. BUDGET DEFICIT-FINANCING THROUGH THE NIGERIAN CAPITAL MARKET

The capital market can be an effective vehicle for part-financing the FGN's proposed budget deficit in 2016 and the implementation of the Medium Term Expenditure Framework (MTEF). The 2016 Budget has a N2.2trillion deficit which is being financed by a combination of domestic and foreign borrowing. The capital market is a veritable avenue for the domestic portion of the borrowing.

5 CONCLUSION

Mainstreaming the CMMP into national economic development policy would boost its successful implementation. This will in turn be beneficial not just to the capital market but also to the entire economy. It will improve Nigeria's competitiveness, promote a savings culture, improve market depth and liquidity and catalyze economic growth. More importantly, since the capital market over time serves as the barometer of any economy, the successful implementation of the Nigerian Capital Market Master Plan will aid the actualization of the nation's economic development aspirations.

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Report of activities of the Securities and Exchange Commission and the Capital Market

THIRD QUARTER 2016

Compiled by a team led by Folasade Akingbelure in the Economic Research and Policy Management Division of the Commission

A. PRIMARY MARKET

i) NEW ISSUES

There was no new issue approved by the Commission in third quarter of 2016. In the second quarter of 2016 however, a total of two (2) new issues valued at N27.89 billion were approved, one (1) of which was a rights issue and the other was an equity conversion.

TABLE 1: SUMMARY OF NEW ISSUES IN THE SECOND AND THIRD QUARTERS OF 2016

Mode of Offer	No. of Issues		Value of Shares(N' m)	
	Q3 2016	Q2 2016	Q3 2016	Q2 2016
Rights	-	1	-	983.56
Placements	-	-	-	-
Public Offering	-	-	-	-
Equity conversion	-	1	-	26,910.00
Total Equities	0	2	0	27,893.56
Corporate Bond	-	-	-	-
Sub-national Bond	-	-	-	-
FGN Bonds	9	9	351,000.00	334,680.00
Total Debt Securities	9	9	351,000.00	334,680.00
Overall	9	11	351,000.00	362,573.56

Source: SEC, DMO

i) FGN BONDS:

The Debt Management Office auctioned a total of nine (9) FGN bonds in the third (3rd) quarter. The bonds allotted were valued at N335bn while additional allotment of N16bn was also done on a non-competitive basis which brings the total value of allotment to N351bn. In the previous quarter, a total amount of N334.68 billion was raised. The bonds auctioned were worth N320bn with the allotted sum being N264.50bn. Additional allotment of N70.18bn was also done on a non-competitive. Comparison of both periods thus indicates an increase of 4.88% in value of bonds allotted while the number of bonds issued for the period remains static.

The total number of FGN bonds allotted by DMO in the third quarter of 2016 was nine (9). In the second quarter, Two (2) new issues by SEC and nine (9) FGN bonds by DMO were recorded; both valued at N362.57 billion. The number and value of new issues approved by SEC and FGN bonds allotted by DMO in the third quarter of 2016 thus depreciated by 18.18% and 3.19% respectively.

TABLE 2: AUCTION SUMMARY OF FGN BONDS FOR THE THIRD QUARTER OF 2016

Issue	Tenor	Amount Auctioned (N'Bn)	Subscriptions (N'Bn)	Level of Subscription	Amount Allotted (N'Bn)	Additional Allotment on Non-competitive Basis (N'Bn)	Marginal Rate (%) Applied	Date Auctioned
July 15, 2021 (1st issue)	5	40.00	63.15	157.88	30.00	0.00	14.5000	13/07/16
January 22, 2026 (7th issue)	10	40.00	63.3	158.25	35.00	0.00	14.9000	13/07/16
March 18, 2036 (24th issue)	20	40.00	105.31	263.28	55.00	0.00	14.9830	13/07/16
July 15, 2021 (2nd issue)	5	40.00	74.37	185.93	40.00	0.00	15.0800	17/08/16
January 22, 2026 (8th issue)	10	30.00	71.06	236.87	30.00	0.00	15.2848	17/08/16
March 18th, 2036 (25th issue)	20	40.00	64.86	162.15	40.00	0.00	15.5300	17/08/16
July 15, 2021 (3rd issue)	5	40.00	30.86	77.15	15.00	16.00	15.1430	14/09/16
January 22, 2026 (9th issue)	10	40.00	50.30	125.85	30.00	0.00	15.5357	14/09/16
March 18, 2036 (26th issue)	20	40.00	80.85	202.13	60.00	0.00	15.5974	14/09/16
Total		350.00			335.00	16.00		

Source: DMO

B. SECONDARY MARKET

i) TRADING ACTIVITIES ON THE NIGERIAN STOCK EXCHANGE (NSE)

A total of 18.51 billion securities valued at N151.49 billion exchanged ownership in 251,043 deals during the third quarter of 2016. In the second quarter, a total of 27.04 billion securities valued at N163.69 billion were traded in 252,152 deals. A comparison of both periods indicated depreciations of 14.72%, 31.54% and 7.45% in number of deals, volume and value of trade respectively.

Equities transaction stood at 18.51 billion units valued at N151.34 billion while 107,597 units of FGN bonds valued at N108.33 million and 5.95 million units of ETF valued at N45.67million were traded in the period under review.

TABLE 3: COMPARATIVE SUMMARY OF TRADING STATISTICS IN THE SECOND AND THIRD QUARTERS OF 2016

SECURITIES	THIRD QUARTER 2016			SECOND QUARTER 2016		
	Deals	Volume (Unit)	Value (Naira)	Deals	Volume (Unit)	Value (Naira)
Federal Government Bond	65	107,597	108,325,224.73	73	103,839	114,896,730.92
Exchange Traded Fund (ETF)	427	5,951,133	45,671,673.60	433	2,018,627.00	206,269,889.26
Equities	214,551	18,506,358,801	151,340,950,089.73	251,646	27,039,109,050	163,364,150,406.99
TOTAL	215,043	18,512,417,531	151,494,946,988.06	252,152	27,041,231,516	163,685,317,027.17

Source: Compiled from NSE Reports

ii) LISTINGS ON THE NIGERIAN STOCK EXCHANGE

a. BONDS LISTING:

Only one (1) Federal Government Bond was admitted in the third quarter. In the preceding quarter, there was no bond admittance on the Exchange.

TABLE 4: NEW BOND ADMISSION IN THE THIRD QUARTER OF 2016

S/N	Issuer	Volume added (Units)	Date added
1.	14.50% FGN JUL 2021	30,000,000	27/07/ 2016
	Total	30,000,000	

Source: Compiled from NSE Reports

b. SUPPLEMENTARY BOND LISTING:

In the quarter under review, 430.59 million units of eight (8) FGN bonds were recorded as supplementary bond listing. In the second quarter, 332.68 million units of three (3) FGN bonds were recorded as supplementary bond listing. Table 4 shows details of these supplementary listings:

TABLE 5: SUPPLEMENTARY BOND LISTING IN THE THIRD QUARTER OF 2016

S/N	Issuer	Volume added (Units)	Date added
1.	12.50% FGN JAN 2026	35,000,000	27/07/ 2016
2.	12.40% FGN MAR 2036	55,000,000	27/07/ 2016
3.	12.50% FGN JAN 2026	30,000,000	29/08/ 2016
4.	12.40% FGN MAR 2036	40,000,000	29/08/2016
5.	14.50% FGN JUL 2021	149,585,000	29/08/2016
6.	12.50% FGN JAN 2026	30,000,000	30/09/2016
7.	12.40% FGN MAR 2036	60,000,000	30/09/2016
8.	14.50% FGN JUL 2021	31,000,000	30/09/2016
	Total	430,585,000	

Source: Compiled from NSE Reports

c. SUPPLEMENTARY EQUITY LISTING:

There were 3.20 billion Units shares of only one (1) company recorded as supplementary equity listing in the third quarter of 2016 while the record indicated 2.65 billion units' shares of three (3) companies as supplementary equity listings in the previous quarter. Table 5 shows details of these supplementary listings in the period under review.

TABLE 6: SUPPLEMENTARY EQUITY LISTINGS IN THE THIRD QUARTER OF 2016

S/N	Issuer	Additional Shares Listed	Outstanding Shares	Resulting From	Date Listed
1.	Staco Insurance Plc	3,200,000,000	9,341,087,609	Special Placement	01/09/ 2016
	Total	3,200,000,000			

Source: Compiled from NSE Reports

iii) PRICE INDICES

In the third quarter of 2016, twenty-two (22) equity gainers, seventy (70) losers and ninety (90) static prices emerged compared to statistics of fifty-eight (58) gainers, forty-three (43) losers and seventy-nine (79) static prices recorded in the preceding quarter.

a. Gainers:

Gainers were led by Total Nigeria Plc with a 55.26% gain and N105 in absolute share price. This is followed by Conoil Plc with 41.85% gain and Unilever Nigeria Plc with 41.44% gain.

TABLE 7: TOP PERCENTAGE PRICE GAINERS IN THE THIRD QUARTER OF 2016

S/N	Equity	Price on	Price on	Absolute	(%)
		01/07/16	30/09/16	Gain	(%)
		(Naira)	(Naira)	(Naira)	Gain
1	TOTAL NIGERIA PLC.	190	295	105	55.26
2	CONOIL PLC	25.45	36.1	10.65	41.85
3	UNILEVER NIGERIA PLC.	33.23	47	13.77	41.44
4	CUTIX PLC.	1.65	2.13	0.48	29.09
5	ETERNA PLC.	2.54	3.09	0.55	21.65
6	OKOMU OIL PALM PLC.	32	38	6	18.75
7	LAW UNION AND ROCK INS. PLC.	0.62	0.73	0.11	17.74
8	MRS OIL NIGERIA PLC.	34.71	39.9	5.19	14.95
9	NIGERIAN BREW. PLC.	131.1	150	18.9	14.42
10	MOBIL OIL NIG PLC.	169	191.72	22.72	13.44
11	PHARMA-DEKO PLC.	1.7	1.87	0.17	10.00
12	AIRLINE SERVICES AND LOGISTICS PLC	1.82	2	0.18	9.89
13	PRESCO PLC	37	40	3	8.11
14	STANBIC IBTC HOLDINGS PLC	15.75	17	1.25	7.94
15	SEPLAT PETROLEUM DEVELOPMENT COMPANY LTD	330	346.5	16.5	5.00
16	GREIF NIGERIA PLC	9.23	9.69	0.46	4.98
17	PREMIER BREWERIES PLC	2.81	2.95	0.14	4.98
18	U A C N PLC.	20	20.8	0.8	4.00
19	GUARANTY TRUST BANK PLC.	23.2	24	0.8	3.45
20	LEARN AFRICA PLC	0.65	0.66	0.01	1.54

Source: Compiled from NSE Reports

b. Losers:

Losers were led by Caverton Offshore Support PLC with a 47.95% loss and N0.70 in absolute share price. This is followed by Diamond Bank Plc with 47.83% loss and Transnational Corporation of Nigeria Plc with 41.81% loss.

TABLE 8: TOP TWENTY (20) PERCENTAGE PRICE LOSERS IN THE THIRD QUARTER OF 2016

S/N	Equity	Price on 01/07/16	Price on 30/09/16	Absolute Loss	(%)
		(Naira)	(Naira)	(Naira)	Loss
1	CAVERTON OFFSHORE SUPPORT GRP PLC	1.46	0.76	-0.70	-47.95
2	DIAMOND BANK PLC	2.30	1.20	-1.10	-47.83
3	TRANSNATIONAL CORPORATION OF NIGERIA PLC	1.77	1.03	-0.74	-41.81
4	CHAMPION BREW. PLC.	4.24	2.51	-1.73	-40.80
5	SKYE BANK PLC	1.05	0.65	-0.40	-38.10
6	FIDELITY BANK PLC	1.30	0.88	-0.42	-32.31
7	FCMB GROUP PLC.	1.57	1.07	-0.50	-31.85
8	VITAFOAM NIG PLC.	4.10	2.87	-1.23	-30.00
9	BETA GLASS CO PLC.	42.83	30.05	-12.78	-29.84
10	FIDSON HEALTHCARE PLC	2.33	1.66	-0.67	-28.76
11	STERLING BANK PLC.	1.44	1.03	-0.41	-28.47
12	NEIMETH INTERNATIONAL PHARMACEUTICALS PLC	1.24	0.90	-0.34	-27.42
13	UNITY BANK PLC	0.99	0.73	-0.26	-26.26
14	ACADEMY PRESS PLC.	0.69	0.51	-0.18	-26.09
15	ECOBANK TRANSNATIONAL INCORPORATED	15.52	11.50	-4.02	-25.90
16	TRANS-NATIONWIDE EXPRESS PLC.	1.34	1.00	-0.34	-25.37
17	LIVESTOCK FEEDS PLC.	1.12	0.86	-0.26	-23.21
18	LAFARGE AFRICA PLC.	70.00	54.80	-15.20	-21.71
19	JULIUS BERGER NIG. PLC.	50.93	40.00	-10.93	-21.46
20	AXAMANSARD INSURANCE PLC	2.50	2.00	-0.50	-20.00

Source: Compiled from NSE Reports

iv) THE ALL-SHARE INDEX

The All-Share index opened the third quarter of 2016 with an appreciation of 3.30% year to date. The index rose from 28,370.32 points in 1st of January 2016 to 29,305.40 points in the beginning of the third quarter. Likewise a marginal appreciation of 0.17% was also recorded when the index attained 28,419.92 basis points on the first trading day in September, 2016. It however, ended the quarter with a decline of 0.12% year to date.

In the previous quarter, the broad index depreciated by 10.11% year to date when it declined from 28,370.32 to 25,507.09 point in the beginning of the second quarter. The index ended the second quarter in a positive note, as it rose to 29,597.79 basis points with an appreciation of 4.33% year to date. Table 9 shows the opening, lowest, peak, and closing points of the index between July and September 2016.

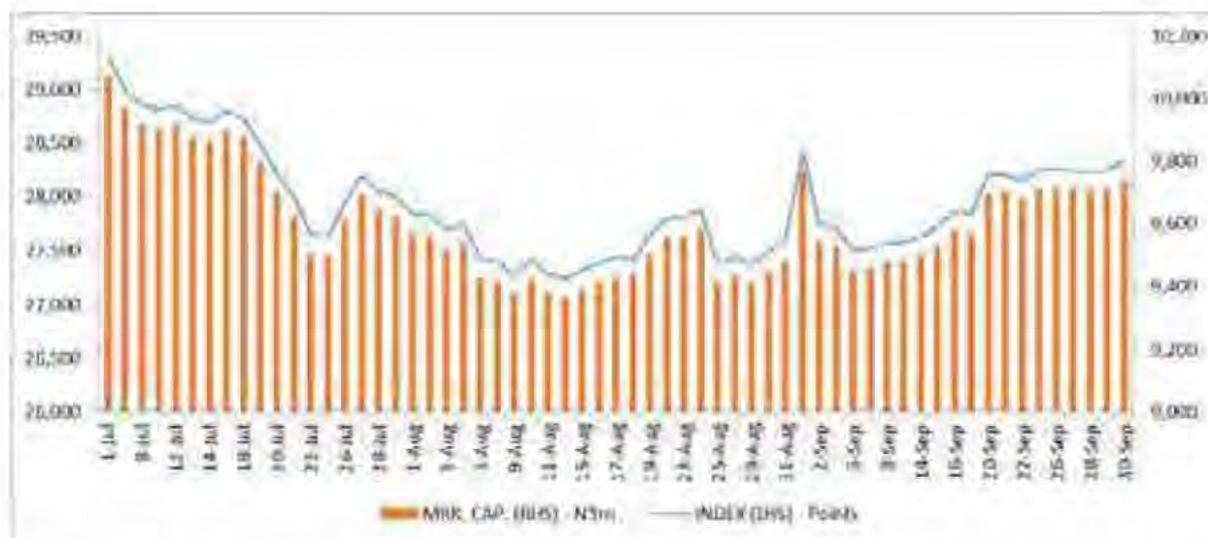
TABLE 9: NSE ALL-SHARE INDEX LEVEL (JULY - SEPTEMBER 2016)

Date	Index (Points)	YTD%	Remarks
01/01/2016	28,370.32	-	Opening point of Q1 2016
01/07/2016	29,305.40	3.30	Opening and Peak point of JULY
25/07/2016	27,629.90	-2.61	Lowest point of July
29/07/2016	28,009.93	-1.27	Closing point of July
01/08/2016	27,843.00	-1.86	Opening point of August
12/08/2016	27,246.88	-3.96	Lowest point of August
24/08/2016	27,880.46	-1.73	Peak point of AUGUST
31/08/2016	27,599.03	-2.72	Closing point of August
01/09/2016	28,419.92	0.17	Opening and Peak point of SEPTEMBER
06/09/2016	27,503.81	-3.05	Lowest point of September
30/09/2016	28,335.40	-0.12	Closing point of September

Source: Compiled from NSE reports

Chart 1 depicts the trend recorded by the index during the period under review. The Index opened the quarter at a peak of 29,305.40 points in July but later experienced a steady decline till end of that month. In August, the bearish trend persisted in the market with the record of 27,246.88 points which was the lowest point in the third quarter. A sharp appreciation to 28,419.92 points was noticed in first day of September followed by declines through to the middle of the month. Marginal up rise of the index later ran through to the end of the quarter and it finally closed at 28,335.40 basis point. This represented a decline of 3.31% when compared to the record at the beginning of the third quarter. Comparison on a month-on-month basis showed that the Index depreciated by 4.42%, 0.88% and 0.30% in July, August and September respectively.

Chart 1: All-Share Index and Equity Market Capitalization (JULY – SEPT. 2016)



Note: Equity Market Capitalization for Main board ASeM and Premium board

v) MARKET CAPITALIZATION

a. Total Market Capitalization of Listed Securities

Total market capitalization of listed securities (equities, fixed income securities, and exchange traded funds) at the end of the third quarter Of 2016 stood at N16.52 trillion. This figure depreciated by 4.40% when compared to record of N17.28 trillion at the end of the second quarter.

Table 10 below shows that in the period under review, the capitalization of Equities, Corporate Bonds, FGN Bonds and Exchange Traded Funds fell by 4.25%, 0.96%, 4.86% and 1.03% respectively while capitalization of supra-national bonds remained static.

TABLE 10: MARKET CAPITALIZATION BY TYPE OF SECURITY

Type	Third Quarter 2016	Second Quarter 2016	% Change
Equities	9,741,812,612,567.26	10,173,785,475,042.20	-4.25
Corporate Bonds	222,758,116,960.00	224,908,116,960.00	-0.96
FGN Bonds	6,013,699,613,349.76	6,320,874,194,918.44	-4.86
Sub-national Bonds	516,579,469,400.00	535,079,469,400.00	-3.46
Supra-national Bonds	24,950,000,000.00	24,950,000,000.00	0.00
Exchange Traded Funds (ETF)	4,301,833,959.79	4,346,518,620.73	-1.03
Total	16,524,101,646,236.80	17,283,943,774,941.40	-4.40

Source: Compiled from NSE Reports

TABLE 11: MARKET CAPITALIZATION BY SECTOR AS AT SEPTEMBER 30, 2016

Sector	Listed Securities	Market Capitalization (Naira)	% Of Total Capitalization
ASeM			
Construction/Real Estate	1	34,200,000.00	0.00%
Consumer Goods	1	421,443,000.00	0.00%
Financial Services	1	4,600,000,000.00	0.03%
Healthcare	1	12,449,425.00	0.00%
Oil & Gas	4	3,025,254,266.50	0.02%
Services	1	349,833,757.00	0.00%
Sub-total	9	8,443,180,448.50	0.05%
MAIN BOARD			
Agriculture	5	79,579,779,499.48	0.48%
Conglomerates	6	89,614,514,667.53	0.54%
Construction/Real Estate	8	100,996,158,467.07	0.61%
Consumer Goods	24	2,663,137,557,259.17	16.12%
Financial Services	53	1,856,164,677,496.13	11.23%
Healthcare	10	33,423,220,063.02	0.20%
ICT	10	46,097,379,202.41	0.28%
Industrial Goods	17	371,157,467,941.11	2.25%
Natural Resources	4	5,938,845,755.20	0.04%
Oil & Gas	49	689,799,828,491.17	4.17%
Services	22	88,077,352,453.69	0.53%
Sub-total	168	6,023,986,781,295.98	36.46%
PREMIUM BOARD			
Financial Services	2	590,969,795,707.78	3.58%
Industrial Goods	1	3,118,412,855,115.00	18.87%
Sub-total	3	3,709,382,650,822.78	22.45%
EQUITY (TOTAL)	180	9,741,812,612,567.26	58.96%

Sector	Listed Securities	Market Capitalization (Naira)	% Of Total Capitalization
ETFs	7	4,301,833,959.79	0.03%
ETF (Total)	7	4,301,833,959.79	0.03%
DEBT SECURITIES			
Federal Government Bonds	17	6,013,699,613,349.76	36.39%
Sub-National Bonds	22	516,579,469,400.00	3.13%
Corporate Bonds/Debentures	21	222,758,116,960.00	1.35%
Supra-national Bond	2	24,950,000,000.00	0.15%
DEBT (TOTAL)	62	6,777,987,199,709.76	41.02%
OVERALL	249	16,524,101,646,236.80	100.00%

Source: Compiled from NSE Reports

b. Top Twenty (20) Companies By Market Capitalization:

At the end of the quarter under review, the top twenty companies recorded capitalization of N8.39 trillion which was 86.13% of the total Equities Market Capitalization while the remaining 160 companies rationed the balance of N1.35 trillion among themselves. Comparison of equities market capitalization of the top twenty companies in this quarter with data of N8.67 trillion in the second quarter indicated a depreciation of 3.23% in the value of equities market controlled by the top twenty equities.

Also, the top four companies on the table controlled 63.03% of the Equity Market Capitalization with the lion share of 32.01% of the Capitalization accorded to Dangote Cement Plc followed by Nigerian Breweries Plc with 12.21%.

TABLE 12: TOP TWENTY (20) COMPANIES BY MARKET CAPITALIZATION AS AT SEPTEMBER 30, 2016

Rank		Equity	Market Capitalization (Naira)	% of Equity Market Capitalization
Q2 2016	Q3 2016			
1	1	DANGOTE CEMENT PLC	3,118,412,855,115.00	32.01
2	2	NIGERIAN BREW. PLC.	1,189,365,133,200.00	12.21
3	3	GUARANTY TRUST BANK PLC.	706,348,301,376.00	7.25
4	4	NESTLE NIGERIA PLC.	653,941,407,900.00	6.71
5	5	ZENITH INTERNATIONAL BANK PLC	477,540,670,485.06	4.90
6	6	LAFARGE AFRICA PLC.	274,569,481,106.80	2.82
8	7	FORTE OIL PLC.	216,081,614,987.70	2.22
7	8	ECOBANK TRANSNATIONAL INCORPORATED	211,019,838,972.50	2.17
9	9	SEPLAT PETROLEUM DEVELOPMENT COMPANY LTD	195,233,540,386.50	2.00
15	10	UNILEVER NIGERIA PLC.	177,814,923,750.00	1.83
13	11	STANBIC IBTC HOLDINGS PLC	170,000,000,000.00	1.75
11	12	ACCESS BANK PLC.	160,550,242,552.05	1.65
10	13	UNITED BANK FOR AFRICA PLC	152,374,010,552.40	1.56
12	14	GUINNESS NIG PLC	147,561,983,542.12	1.51
14	15	FBN HOLDINGS PLC	113,429,125,222.72	1.16
-	16	TOTAL NIGERIA PLC.	100,158,941,915.00	1.03
17	17	7-UP BOTTLING COMP. PLC.	89,042,060,457.00	0.91
16	18	P Z CUSSONS NIGERIA PLC.	82,188,874,831.50	0.84
19	19	DANGOTE SUGAR REFINERY PLC	78,000,000,000.00	0.80
18	20	UNION BANK NIG.PLC.	76,888,561,378.34	0.79
		Market Capitalization of Top 20	8,390,521,567,730.69	86.13
		Other 160 Equities	1,351,291,044,836.57	13.87
		Equity Market Capitalization	9,741,812,612,567.26	100.00

Source: Compiled from NSE Report

C. TRADING ACTIVITIES ON THE FINANCIAL MARKET DEALERS QUOTATION (FMDQ)

During the third quarter of 2016, there were 6,057 deals executed on the FMDQ platform valued at N1.41tn as against 10,035 deals valued at N1.89tn in the second quarter of 2016. When compared to the second quarter, number of deals traded and values have declined by 39.90% and 25.61% respectively.

TABLE 13: SUMMARY OF SECURITIES TRADED

Bond Securities	Number of Deals Traded			Face Value of Traded Securities (N'b)		
	Previous Quarter (Q2 2016)	Current Quarter (Q3 2016)	Change (%)	Previous Quarter (Q2 2016)	Current Quarter (Q3 2016)	Change (%)
a) Federal Government	10,035	6,049	-39.72	1,860.64	1,398.66	-24.83
b) Agency	0	1	0.00	0.00	0.017	0.00
c) State/ Municipal	14	6	-57.14	22.73	9.45	-58.43
d) Corporate	30	1	-96.67	10.21	0.60	-94.12
e) Supranational	0	0	0.00	0.00	0.00	0.00
f) Sukuk	0	0	0.00	0.00	0.00	0.00
TOTAL	10,079	6,057	-39.90	1,893.58	1,408.73	-25.61

Also, the total market size of the FMDQ stood at N7.43tn during the review period with Federal Government Bonds accounting for 86.79% of the market size followed by Corporate Bonds at 7.03% and Sub-national Bonds at 5.71%.

TABLE 14: CURRENT MARKET SIZE

Sector	As at Sep. 30, 2016 (N'bn)	% of Total (%)
a. Federal Government Bonds	6,451.16	86.79
b. Agency Bonds	0.60	0.01
c. Sub-national Bonds-State/Municipal	424.29	5.71
d. Corporate Bonds	522.84	7.03
e. Supranational Bonds	24.95	0.34
f. Sukuk	9.02	0.12
Total Market Size	7,432.86	100.00

D. TRADING ACTIVITIES ON THE NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD)

A total of 84.70 million shares worth N704.87 million were traded in 1,996 deals in the third quarter of 2016 as against 330.02 million units worth N1.35 billion traded in 1,418 deals in the second quarter. The volume and value traded decreased by 74.33% and 47.76% respectively while the number of deals increased by 40.76% as compared to the previous quarter. The NASD OTC market opened up with 31 securities to trade as against 28 securities in the previous quarter which represented a 10.7% increase.

Resourcery Plc and FrieslandCampina WAMCO Nigeria Plc accounted for 57.87% and 59.62% respectively of the volume and value traded during the quarter. Further, the Unlisted Securities Index (USI) closed the third quarter 2016 at 618.93 points as against 658.74 points in the second quarter of 2016. This signifies a negative quarterly return on the index of about 6%. Also at the end of the third quarter 2016, 4.17 million shares worth N3.27 billion were traded in 27 deals. The market capitalization of admitted securities on the NASD OTC Market at the end of the third quarter 2016 stood at N411.28 billion as against 437.17 billion in the second quarter of 2016 representing a decrease of 6.04%.

TABLE 15: SUMMARY OF ACTIVITIES ON THE NASD PLATFORM

	Previous Quarter (Q2 2016)	Current Quarter (Q3 2016)	Change (%)
Number of Securities	28	31	10.7
Deals	1,418	1,996	40.76
Volume	330.02	84.70	-74.33
Value (N'M)	1,350	704.87	-47.76
USI	658.74	618.93	6.00
Market Capitalization (N'B)	437.17	411.28	-6.04

E. TRADING ACTIVITIES ON THE AFEX COMMODITIES EXCHANGE

In the third quarter of 2016, total Market Capitalization of the AFEX Commodities Exchange amounted to N347,53bn and total Volume traded was 3,004.706 metric tonnes executed in 167 deals by farmers, trading clients and processors. The commodities traded during the period were white rice, soyabeans and paddy rice.

TABLE 16: SUMMARY OF ACTIVITIES ON THE AFEX PLATFORM

	Previous Quarter (Q2 2016)	Current Quarter (Q3 2016)	Change (%)
Deals	12,561	167	98.67
Volume (metric tonnes)	4,800.349	3,004.706	37.41
Market Capitalization (N)	516,629,512.17	347,526,408.11	32.73

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NOTES FOR CONTRIBUTORS EDITORIAL POLICY

Aim and Focus

Nigerian Journal of Securities Market (NJSM) is a biannual journal that serves as a platform for disseminating information and scholarly research findings on the Nigerian securities market with a focus on the capital market. The journal publishes original evidence-based papers on capital market activities which are within its broad scope. Authors are encouraged to submit manuscripts which bridge the gaps between research, development and policy.

Target audience

The target audience includes capital market operators, investors, academics, researchers, professionals, regulators, policymakers and students, both within and outside the country.

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The following highlights the sections that will be contained in the journal:

- Editorial section/note from the Editor-in-Chief
- Articles submitted for publication
- Review/Outlook for the economy and capital market

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Articles that pass the initial desk review at the Journal's secretariat will then undergo a double blind peer-review process. Based on the outcome of the review process, the authors may be requested to revise their article and to submit the final version. If the

editors are satisfied with the revision, the authors will be invited to submit a camera-ready version of the paper. Authors will be notified about the status of their work two months after their submission.

Guidelines to Authors

Length and Style

Manuscripts should be between 3,000 and 5,000 words, or approximately 15 to 20 pages in double line spacing. The font should be Century Gothic size 12. Articles exceeding 6,000 words will be edited for length. References should be formatted in accordance with APA style. All material taken from previously published sources—whether quoted directly or paraphrased—should be appropriately cited in the text and be accompanied by a corresponding citation in the reference list. Quotes of more than 40 words are treated as blocks and must be indented on both sides in single line spacing.

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While the content and purpose of the article will ultimately dictate the arrangement of the material, we offer the following structure for guidance.

- Abstract.
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- Literature review.
- Data and Methodology.
- Results and Analysis.
- Conclusions and recommendations.
- References.
- Appendices.

Tables, Figures, Appendices

All tables, figures, and appendices should be numbered and submitted with the manuscript for editorial review. Tables and figures may be embedded in the text and should be sent as separate files in the program in which they were created (e.g., Excel) so that they can be reformatted, if necessary, during the final production process.