



SECURITIES AND EXCHANGE COMMISSION

GUIDELINES

ON

NEW MINIMUM CAPITAL BASE

FOR

CAPITAL MARKET OPERATORS

2014

GUIDELINES ON NEW MINIMUM CAPITAL BASE FOR CAPITAL MARKET OPERATORS

The Commission in December 2013 approved the new minimum capital requirements for Capital Market Operators aimed at improving operators baseline infrastructure, market access and service delivery.

The deadline for compliance by existing CMOs is September 30, 2015 while compliance was stated as a prerequisite for the registration of new CMOs.

These guidelines are intended to serve as a guide to all capital market operators in meeting the new requirements.

1. DEFINITION

For the purpose of regulation, Capital Base shall be construed as the Shareholders' Fund comprising paid up share capital, reserves, and accumulated losses.

2. COMPONENTS OF SHAREHOLDERS' FUNDS

- a. Paid-up share capital (i.e. ordinary shares and irredeemable preference shares)
- b. Capital reserve
- c. General reserve
- d. Revaluation reserve (tangible assets)
- e. Retained Earnings

3. RECOGNITION OF RESERVES

Only capital, general, and revaluation reserves contained in audited accounts not older than nine (9) months shall be recognized for determination of capital base.

4. MODE OF CAPITALISATION

(A) MODE OF CAPITAL INJECTION

- a. Cash and Treasury bills
- b. Quoted securities & Collective Investment Schemes at market value
- c. Bonds i.e Federal, State & Local Governments, Supranational and Corporate Bonds (not below investment grade)

- c. Unquoted securities actively traded in an over the counter market (NASD & FMDQ).
- d. Landed property at net book value*
- e. Other tangible non-current assets at net book value *

*provided that the CMO comply with the provision of the Rule on Assets Mix and the property shall be relevant to the operations of the business.

(B) MERGERS AND TAKE OVER

Capital Market Operators are encouraged to consider the option of Mergers and acquisition.

5. DOCUMENTATIONS OF CAPITAL INJECTION

a. Increase In Authorized Share Capital

- i. Adequate provisions in the Memorandum and Articles of Association.
- ii. Board and Shareholders' resolution, authorizing the increase in share capital (certified by the CAC).
- iii. CAC Form – Certificate of increase in share capital.

b. Increase in Paid Up Share Capital

- i. The operator's letter or instrument of offer of shares (or additional shares) for subscription.
- ii. Letters of acceptance of the offer by the subscribers.
- iii. Certified CAC Form CO2 (return on allotment) and evidence of payment or title transfer of assets.
- iv. Audited Accounts (or Management Accounts signed by two directors with an attestation letter by an external auditor showing that the accounts reflects true and fair view of the financial position of the CMO as at the reporting period).

c. Injection of Cash

- i. Copy of cheque/ draft/ evidence of transfer/ Bank teller.
- ii. Bank evidence showing lodgment of the funds into the company's account.
- iii. Bank statement of account showing credit of the funds.
- iv. Receipt issued (evidencing payment) which must contain the name and address of the subscriber, amount, date and purpose of payment.

- v. Audited Accounts (or Management Accounts signed by two directors with an attestation letter by an external auditor)

d. Transfer of Quoted Securities/Collective Investment Scheme

- i. Evidence of ownership of the securities by the subscriber.
- ii. For corporate subscribers: Board resolution authorizing the transfer of shares/units.
- iii. Confirmation that the securities are without any lien or encumbrances.
- iv. Copy of the securities transfer instruction.
- v. CSCS statement in the name of the operator showing perfection of the transfer.
- vi. Schedule of securities showing number of unit, market price and total value at the date of transfer.

e. Transfer of Landed Property

- i. The property shall be located in Abuja or a state capital or in a commercial city considered by the Commission as having a vibrant property market. The property shall be relevant to the operations of the Company.
- ii. The property shall be covered by Certificate of Occupancy issued by State Government or appropriate authority.
- iii. Search report by an independent SEC registered solicitor confirming that the property is without encumbrances.
- iv. SEC registered Estate valuer's report.
- v. Deed of assignment duly executed, stamped and registered with the photocopy of the certificate of occupancy attached.

OR

- Irrevocable Power of Attorney duly executed, stamped and registered with the photocopy of the certificate of occupancy attached.
- vi. Consent by the relevant authority.

f. Transfer of Other Tangible Non-Current Assets

- i. Evidence of ownership of the asset by the subscriber.
- ii. SEC registered valuer's report.
- iii. Letter of confirmation from the subscriber that the asset is free of lien or other encumbrances.
- iv. Transfer Agreement duly executed by parties.
- vii. Perfected change of ownership as applicable.

g. Revaluation Reserve

- i. Revaluation Schedule
- ii. Value's report
- iii. Audited Accounts

6. Computation of Capital Base

Adjusted shareholders fund can be computed as follows to arrive at the capital base.

a.	Paid-up share capital (i.e. ordinary shares and Irredeemable preference shares)	X
b.	Capital reserve	X
c.	General reserve	X
d.	Revaluation reserve (tangible assets)	X
e.	Retained Earnings	X
	Total Shareholders' Fund	X

7. ASSETS MIX RATIO

The assets mix ratio for core operators in the market shall be minimum of 60% liquid assets, while for non-core operators shall be minimum of 30% liquid assets.

The assets mix ratio shall be with reference to the minimum capital base as prescribed by the Commission.

The liquid assets are cash, bank deposits, treasury bills, collective investment schemes, bonds, quoted securities and unquoted securities actively traded in an OTC market (NASD & FMDQ).

8. VERIFICATION

The Commission shall regularly carry out target and general verification of compliance with the prescribed minimum capital base by capital market operators.

9. IMPLEMENTATION OF THE NEW CAPITAL BASE

Please note that the deadline for recapitalization is September 30, 2015.

MANAGEMENT

**SECURITIES AND EXCHANGE COMMISSION, NIGERIA
2015**