

SECURITIES AND EXCHANGE COMMISSION



Non-Interest Capital Market – A Viable Alternative Funding Source

**Regional High-Level Roundtable on Non-Interest Capital Market
Organized by the Securities and Exchange Commission**

Mounir Gwarzo

Director General, SEC Nigeria

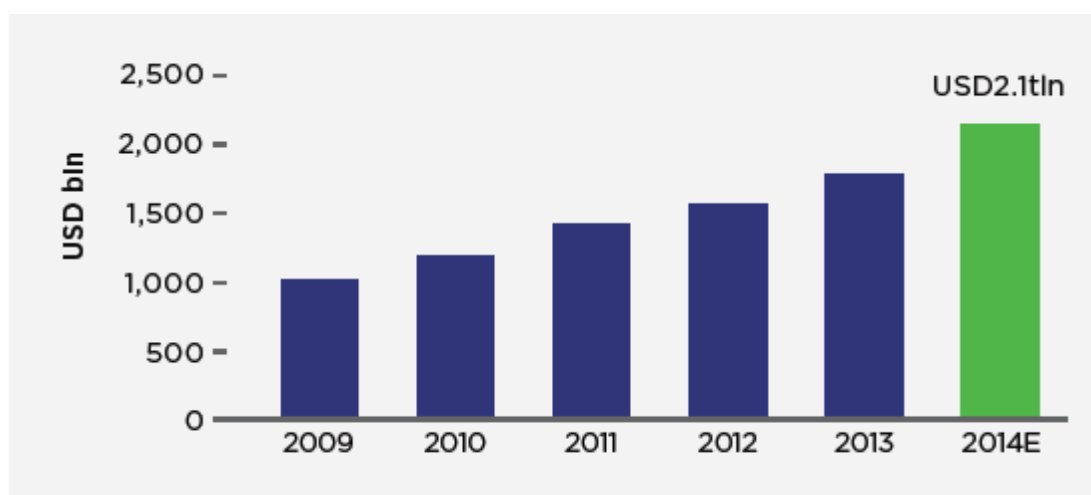
Monday, 19th October, 2015

Kano

1. It is my sincere honour and privilege to welcome you all to the Great Ancient City of Kano. We are delighted by your presence at this maiden High-level Roundtable on Non-Interest Capital Market. For such an event, Kano is the natural choice as venue not only because of the city's legendary status as an important point in the trans-Sahara trade routes but also because the long held religious beliefs of its inhabitants would be most receptive to our message today. And our message is clear: that non-interest capital market is a gold mine that remains largely untapped. My hope is that immediately after this roundtable, the State governments of Nigeria's Northwest Geopolitical zone will begin to take the lead in issuing long term non-interest products in order to raise capital for socioeconomic development.
2. We are particularly honoured to have His Royal Highness, the Emir of Kano in our midst. The fact that he is here is testament that this is an issue that is very close to his heart. Over a long, colorful and highly exceptional career, His Royal Highness was very instrumental to deepening the non-interest finance space in Nigeria. It is heartwarming to note that under your leadership the Central Bank of Nigeria was able to fashion out a robust regulatory framework for institutions offering non-interest banking products in Nigeria. You were the one who licensed the first non interest Bank in Nigeria (Jaiz Bank Plc) and facilitated the establishment of the Financial Regulation

Advisory Council of Experts (FRACE) an advisory Board to address all Shariah issues for non-interest financial institutions and products. We are very proud of what you have achieved Your Royal Highness.

3. While most people identify capital markets as an important source of medium-to-long term capital, few realize the amazing potential of capital markets to serve as catalyst for financial inclusion. The Securities and Exchange Commission (SEC) is determined to unlock this potential of the Nigerian capital market. In particular, we are aware of the need to deepen the non-interest capital market space so as to enable millions of Nigerians and people of faith to invest their savings ethically. Investors worldwide are increasingly allocating their resources into Islamic finance products. By the end of 2014, total assets under management in the global Islamic finance industry surpassed \$2 trillion.



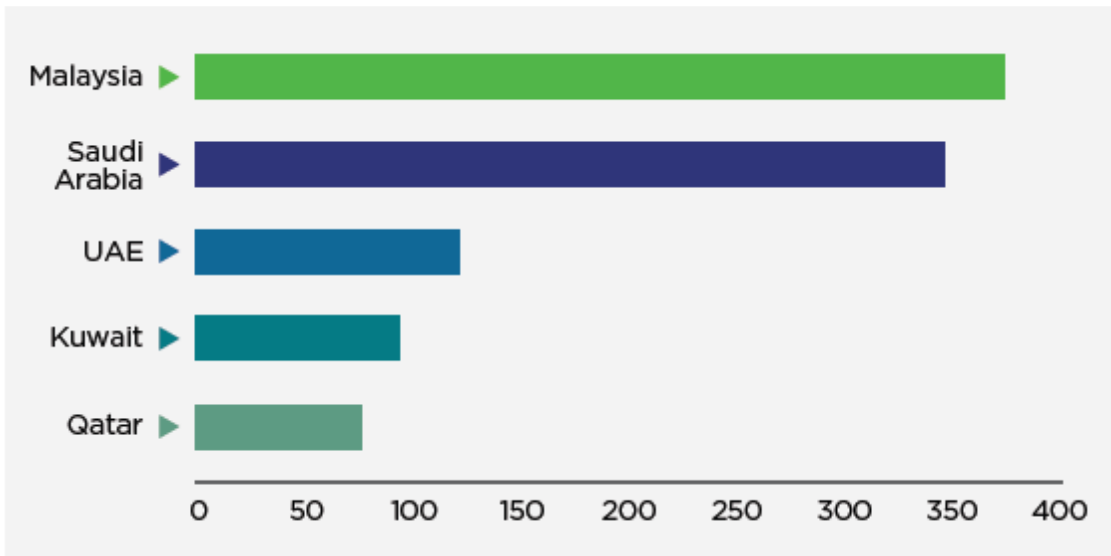
Source: Malaysia International Islamic Finance Centre (MIFC)

4. Our focus for this roundtable is on Sukuk, one of the most important components of the Islamic financial system. The

global sukuk market continues to witness remarkable growth since after the 2008 global financial crisis. Annual issuances have grown from \$15 billion in 2008 to almost \$120 billion in 2014. In fact, last year is widely considered a landmark year for Islamic finance, especially with landmark debut sukuk issuances by countries such as the UK, Hong Kong, Senegal, South Africa, and Luxemburg. Of course the year witnessed continued strong interest from key markets of Malaysia, Saudi Arabia and the United Arab Emirates (UAE) and emerging markets like Turkey and Indonesia. There is no doubt that the sukuk market is emerging on a global scale as a viable alternative source of funding.

5. Malaysia, Saudi Arabia, UAE, Kuwait and Qatar are the top 5 largest Islamic finance markets in the world, in that order. They account for the highest sukuk issuances and contribute more than half of the total assets under management in the industry. However, with over 80 million Muslims, Nigeria is home to far more Muslims than all the 5 countries put together. Additionally, Nigeria has a larger economy than them, with the exception of Saudi Arabia. There is therefore no reason why Nigeria should not be a major global Islamic finance market.

Global Islamic Finance Assets: Top 5 Countries



Source: Malaysia International Islamic Finance Centre (MIFC)

6. To transform Nigeria's potential into reality in this regard, the Securities and Exchange Commission in 2013 set up an industry-wide committee of experts to develop a strategic blueprint for the growth and development of Nigeria's non-interest capital market. Their recommendations have been incorporated in the 10-year Capital Market Master Plan which is currently being implemented by the SEC. The Master plan sets a strategic direction for the non-interest capital market in Nigeria to attain at least 25% of total market capitalization. This roundtable is being organized as part of implementing one of the recommendations on enlightenment and capacity building contained in the Master Plan which is available on our website www.sec.gov.ng.
7. The development of Islamic capital markets has been a key concern of global securities regulators since the turn of the 21st century. In 2002, the International Organizations of Securities

Commissions (IOSCO) set up a Committee on Islamic Capital Market in which Nigeria actively participated. In fact, recently the IOSCO Board, which is the highest decision-making organ of the organization, considered the recognition of Arabic as an official language. This is a strong indication that Islamic capital markets are attracting attention at the highest levels. Hundreds of millions of Arabic speakers worldwide can be effectively included in major securities markets decisions as a result.

8. In Nigeria, the SEC has implemented a number of reforms aimed at deepening the non-interest capital market. For example, we focused on the regulatory framework, reviewing the Rules and introducing new ones. In particular, we issued rules on Islamic Fund Management as well as rules on Sukuk issuance. These two legal frameworks have encouraged Islamic product innovation with the registration of 5 ethical/shariah compliant funds and the issuance of Nigeria's first ever sub-national Ijara Sukuk by the Osun State government in 2013 which was oversubscribed.
9. Going forward, our focus will be on massive public enlightenment and also stronger capacity building initiatives. This is what informs the idea of hosting regional roundtable events such as this. We hope that the State governments represented here will take advantage of this important opportunity to familiarize yourselves with the kinds of products that can be issued and how to leverage this exciting area to better the lives of your citizens. We have brought here a world-

renowned expert in the field who, along with other stakeholders and staff of the Commission, will be available to answer your questions during the course of the event.

10. Thankfully, there is a large pool of funds domestically to subscribe. You may be aware that the Pension Reform Act (PRA) 2015 allows the construction of multi-fund structures that enable pension funds to be invested in ethical instruments like non-interest capital market products. This implies that a substantial part of the N4.7 trillion of pension assets would be available to be invested in your issues upon approval of the guidelines by the Pensions Commission (PenCom). In addition to attracting large pools of savings from domestic investors, your issuances of products such as Sukuk are capable of attracting significant long term investments from the gulf countries and other advanced Islamic finance markets.
11. I urge all of us to actively participate in the discussions as we propose practical ways to help companies and State governments that are interested in leveraging the Sukuk market to raise funds for various infrastructure projects. Let me directly address State government officials present here. You have a unique opportunity to become trail blazers and other States will follow. You should therefore take advantage of these opportunities to raise the capital you need to work for your people.

Thank you for your kind attention.