

Regulatory Responsibilities in Sustaining Investor Resilience in the Nigerian Capital Market

Toyin F. Sanni

Executive Vice Chair
Emerging Africa Group



EMERGING
AFRICA

October, 2022

...Your Goals Should Be Achieved

The need for capital market regulation

The need for capital market regulation is motivated by the desire to protect the investing public from malpractices, instill confidence in the system and ensure financial market and economic stability which are pivotal to economic growth and development.

History has shown that inadequate or absence of regulation is detrimental to the capital market as it encourages sharp practices by participants (e.g. investors, operators and issuers).

To ensure conformity therefore, sanctions must be incorporated in the regulations. Capital market regulations must not be excessive or absent as both situations would be detrimental to its growth and development.

What is required is adequate and effective regulations capable of promoting confidence and stability, and stimulating participation

The continuous participation of investors in any capital market is largely predicated upon the reposal of confidence

Nigerian Capital Market Regulators



SEC NIGERIA
SECURITIES AND EXCHANGE COMMISSION, NIGERIA

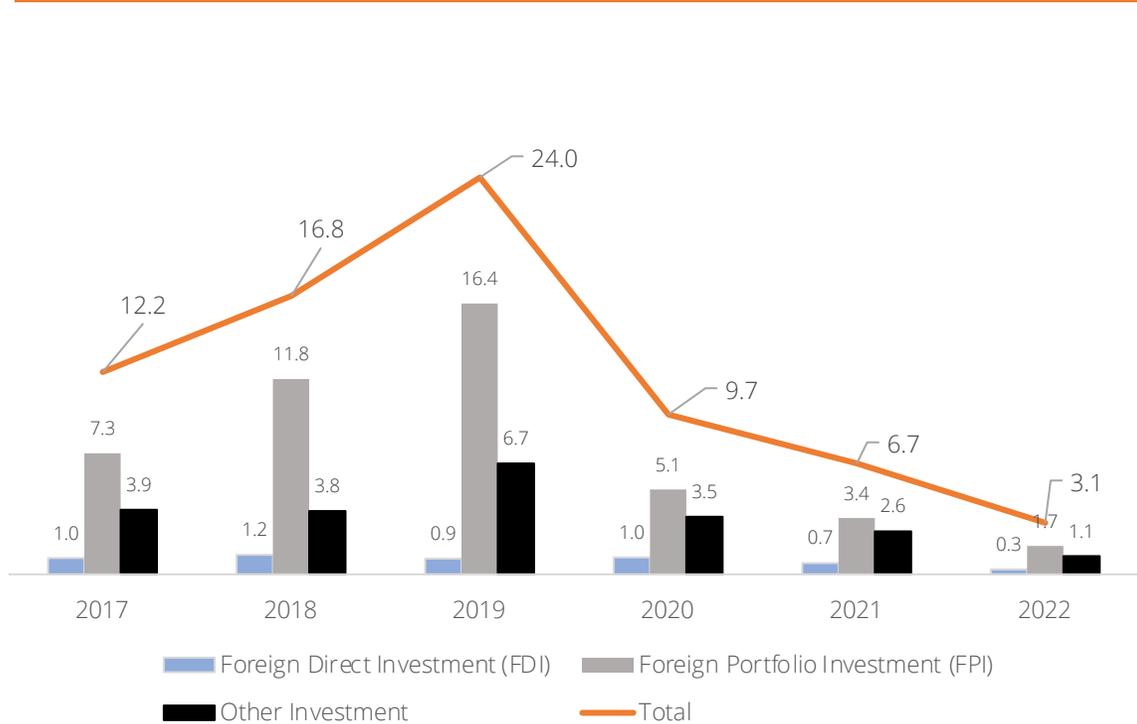
- The SEC is the apex regulatory body in the Nigerian Capital market, empowered under the ISA No. 45, 1999, to regulate and develop the market under the supervision of the Federal Ministry of Finance.
- The regulatory oversight of the Commission covers all corporate bodies and individuals authorized to perform designated functions in the market.



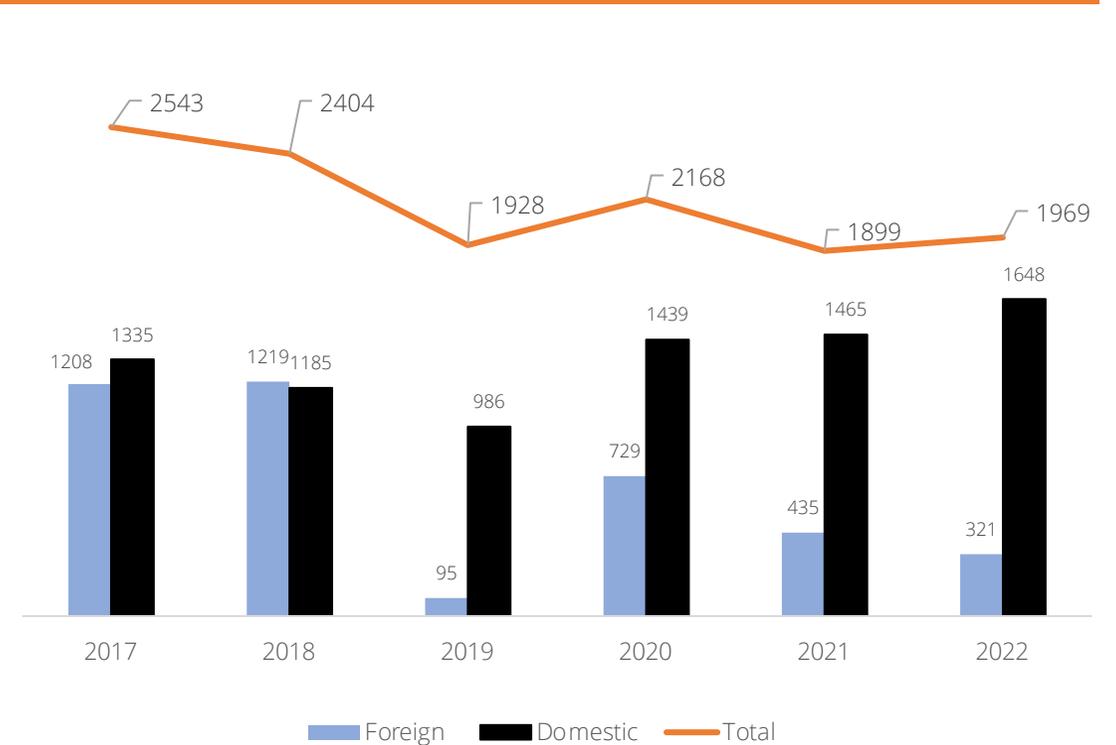
- NGX Regulation Limited (NGX REGCO) is a wholly owned subsidiary of Nigerian Exchange Group (NGX Group)
 - Self regulating arm of the Nigeria Exchange Group (NGX Group)

The Nigerian Capital Market

Capital Importation (\$' Mn)



NGX Investor Participation (N' Bn)



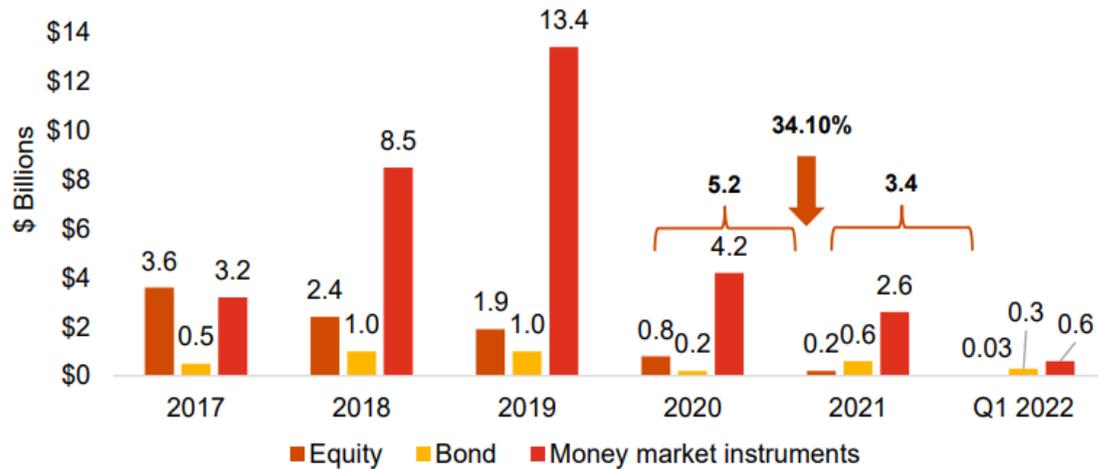
Local Resilience

Reduced Total and Foreign investor Participation in the stock market

Depressed capital importation

The Nigerian Capital Market

Foreign portfolio investment trend, 2017- March 2022



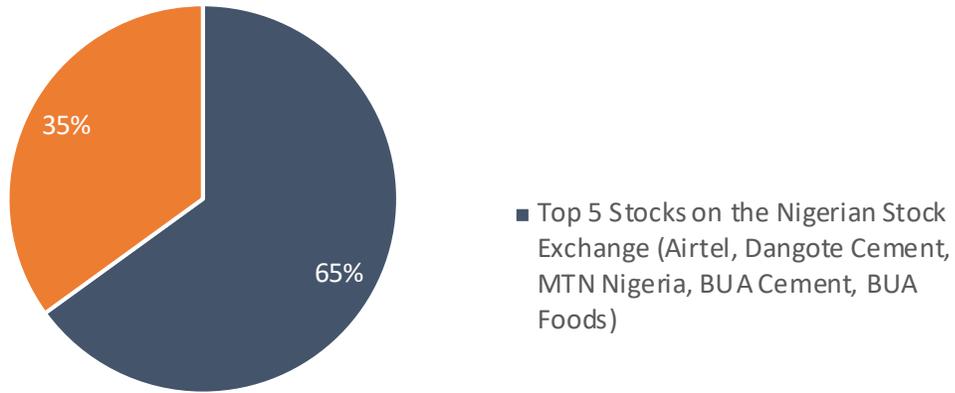
Corporate Bond Activity (2017 – June 2022)



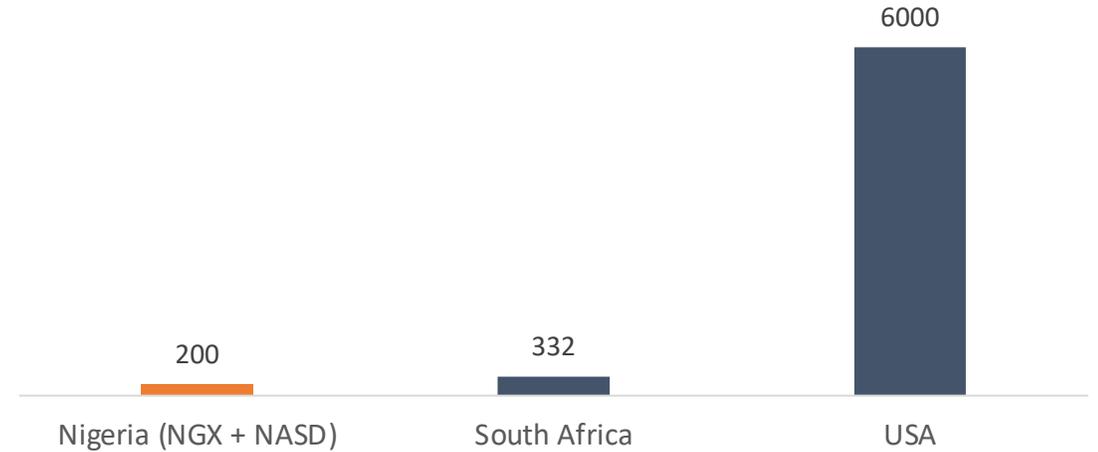
Overall reduction in capital market activity showing erosion of investor confidence

The Nigerian Capital Market

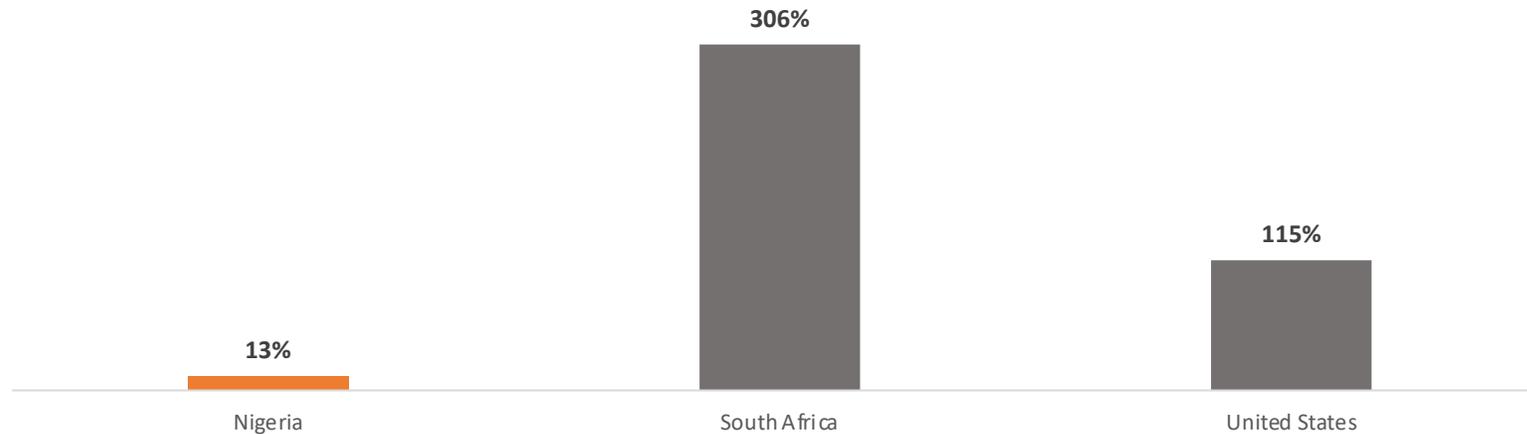
Overconcentration of the Nigerian Stock Market Capitalization



Nigerian Listed Stocks vs South Africa vs USA



Market Cap to GDP (Nigeria vs South Africa vs USA)



Role of the Regulators in Ensuring Investors' Confidence and Resilience in the Nigerian Capital Market

Regulatory Role

Market Development Role

In developed markets regulatory bodies are principally concerned with markets regulation **an emerging market such as Nigeria cannot but give equal prominence to market development.** The peculiar features of emerging markets make this essential. These are enumerated below:

Few Listed Securities

Low Demand for Securities

Low Trading Activities

Poor Infrastructural Facilities

Illiquidity

Small Market Size

Low level of market awareness

Lack of timely and easy
access to information

Few Financial Instruments
and Institutions

Low level of market
automation

Closed Markets

Unfavorable government
policies

Role of the Regulators in Ensuring Investors' Confidence and Resilience in the Nigerian Capital Market

Policy Initiation

- The first and perhaps most important is the initiation of government policies relating to the capital market.
- In this regard, the SEC can take advantage of its position as the chief adviser to the government on matters affecting the capital market.
- Since it was established, the SEC has initiated a number of policies which are today successful government programmes.
- It should continue in this vain to further improve investor confidence and resilience

Investors Protection

- As a capital market advances, it tends to become complex as a result of the various instruments and market players that are being introduced to the market.
- Customers are often much less sophisticated than the professionals that serve them, therefore the potential for losses through various frauds can be unacceptably high.
- New technologies, such as blockchain and cloud technology, combined with new FinTech entrants and new digital distribution models, are also changing the traditional value chain of financial services.
- Therefore, regulators should play a key role in reigning in bad behaviour and improper practices in the capital market to promote resilience.

Public Awareness

- A capital market-literate society is no doubt an asset to its growth and development.
- In Nigeria, the public is still largely uneducated about the essence, working and benefits of the capital market.
- This situation makes it imperative for the SEC, the Nigerian Stock Exchange and market operators to vigorously embark on programmes aimed at improving knowledge about the capital Market
- They have both been carrying out these activities and should continue these efforts.

Role of the Regulators in Ensuring Investors' Confidence and Resilience in the Nigerian Capital Market

Agency Problem

- Most customers in capital markets use various agents to help them solve problems that they do not understand well.
- These agents include securities brokers, financial advisers, and investment managers.
- Because customers generally do not have much information about market conditions, they find it extremely difficult to measure the added value they obtain from their agents and if these agents are acting in their interest.
- Regulators help solve these agency problems by setting minimum standards of competence for agents and by defining and enforcing minimum standards of practice.

Set Mutually Beneficial Standards

- Many regulators are self-regulating organizations (SROs) that regulate their members.
- Exchanges, clearinghouses, and dealer trade organizations are examples of self-regulating organizations.
- In some cases, the members of these organizations voluntarily subject themselves to the SRO's regulations to promote the common good.
- In other cases, governments delegate regulatory and enforcement authorities to SROs, usually subject to the supervision of a government agency, such as a national securities and exchange authority.
- By setting high standards of behavior, SROs help their members obtain the confidence of their customers.

Promote Fairness

- Capital market regulators should promote fairness through transparency.
- Regulators often act to level the playing field for market participants by prohibiting corporate insiders and others with corporate information from trading or benefiting on material information that has not been released to the public.
- Regulators generally require that financial firms maintain minimum levels of capital. These capital requirements serve two purposes.
- First, they ensure that the companies will be able to honor their contractual commitments when unexpected market movements or poor decisions cause them to lose money.
- Second, they ensure that the owners of financial firms have substantial interest in the decisions that they make.

Notable Progress

Center security clearing system (CSCS): CSCS was created as a result of the numerous problems affecting the delivery and settlement of traded securities in the Nigerian capital market. As a result of these problems the risks in the capital market were high and capital gains were not exploited.

E-Dividend: SEC in collaboration with Central Bank of Nigeria and Nigeria Inter-Bank Settlement System launched the eDividend payment platform in July 2015. The objective is to eradicate difficulty encountered by retail investors in claiming their dividends through their savings accounts, while addressing the lingering unclaimed dividend issue in the market.

Full Dematerialization: An initiative by SEC and other market stakeholders to work towards the elimination of physical certificate or documents of title that represent ownership of securities.

Direct Cash Settlement: An initiative to ensure that cash proceeds from trades executed by brokers on the exchange settles directly into the investors bank account

Demutualization of the Nigerian Stock Exchange: in a bid to adopt and promote international best practices and achieve its vision of becoming Africa's premier exchange hub, the Nigerian stock exchange embarked on a demutualization process in order to enhance its Corporate Governance structure, access to capital to fund strategic developments, and a more globally competitive Exchange.

Circuit breaker: A mechanism that triggers in the event the market is experiencing extraordinary market volatility. This was introduced to curb panic selling in the market. Marketwide Circuit Breaker triggered on Thursday, 12 November 2020 for the first time since its introduction in 2016.

Notable Progress

Robust market surveillance: the exchange introduced market surveillance to detect and deter insider trading, market manipulation, customer abuse, Identity theft/fraud and accounting fraud to ensure a fair, efficient, and transparent operation markets.

Guiding rules: The exchange has also introduced several rules that guides the operations and behaviours expected of dealing members in the market to uphold the integrity of the market.

Training and development: Trainings and continuous education of market operators to ensure an ongoing professional development and help operators manage their learning and growth in the capital market

Thank You