



THE NIGERIAN CAPITAL MARKET MASTER PLAN: 2015 – 2025

The **Challenges of the Investments and
Securities Act (2007) and other Laws guiding
Capital Market Activities**

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Securities & Exchange Commission**

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Why and How the Master Plan was Developed

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What the Master Plan aims to Achieve

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Setting the Legislative Agenda for a Capital Market that Supports Government's Economic Priorities



History of the Nigerian capital market



Brief history of the Nigerian capital market

- Colonial Government issued Nigeria's first loan stock in **1946**.

- The Government and other Securities Acts was enacted in **1957**.

- Central Bank of Nigeria (CBN) was established in **1958**.

- First Treasury bill issued by CBN in **1960**.

- The Lagos Stock Exchange was incorporated as a private limited liability company in **1960**.

- The National Provident Fund was established as a compulsory contributory savings scheme in **1961**

- The Trustees Investment Act was enacted in **1961**

- The Lagos Stock Exchange was renamed The Nigerian Stock Exchange in **1977**

- The Capital Issues Committee was set up in **1962**; transited into Capital Issues Commission in **1978**

- The Adeosun Panel (**1975**) recommended the establishment of stock exchange branches

- **SEC** was established in **1978** as apex regulator

- SEC joins the IOSCO in **1985**

The Second-tier Securities Market (SSM) of the Nigerian Stock Exchange was established in **1985**.

- The function of the Securities and Exchange Commission were further expanded by Decree 29 in **1988**.

- The Companies and Allied Matters Act (CAMA) was re-enacted to regulate the incorporation of all bodies in Nigeria in **1990**.

- The Central Bank of Nigeria Decree **1991** was promulgated to expand the functions of CBN.

- In **1992**, The first Municipal bond in the Nigerian Capital market was floated by the Lagos Island Local Government

- The Odife Panel on the review of the Nigerian Capital Market was set up in **1996**

- The Automated Trading System was introduced in the Nigerian Stock Market to replace Call-Over system in **1999**.

- DMO was established in **2000** to centrally coordinate the management of Nigeria's sovereign debt.

- In **2000**, the Mobolurin Committee on the reform of the Nigerian bond market was set up.

- Banking and Insurance sectors recapitalization from **2005** to **2007**

- Current ISA amended in 2008

Record levels of participation in the capital market and boom between 2003 and 2008

- In March 2008, the Stock market witnessed significant correction

- Dotun Suleiman Committee was set up to review the structure and processes of the Nigerian capital market

- In **2013** SEC registered the FMDQ and NASD as alternative trading platforms

- In **2014** SEC under Ms. Arunma Oteh set up the 3 Committees that produced Nigeria's first capital market master plan

1940-1960

1960-1980

1981-1990

1991-2000

Post 2000

The Journey ... 2003 - 2008



Where we are coming from... 2003 to Crisis in 2008

Unprecedented stock market boom and crash



Closer look at crash during the months of 2008



What Happened?...

- ✓ Growth was rapid and regulator-induced
- ✓ Between 2003 and 2007, market capitalization increased by over 66% CAGR from N1.4 trillion to N10.2 trillion
- ✓ In March 2008, market capitalization reached a then all time high of N12.6 trillion
- ✓ 2005/2007, recapitalizing banks and insurance companies raised over \$10 billion from the capital market
- ✓ The All-Share Index (ASI) dropped 52.6% by December 31, 2008 from the high in early 2008
- ✓ Average daily trading volume also dropped to about 77% of high levels
- ✓ The Nigerian stock market between March 5 and December 31 2008 lost about N5.7 trillion, or 45.1% in value.

Why it Happened

- ✓ Market was highly concentrated, dominated by the banking sector which made up 60% of the market as at then. 15 of the 20 most capitalized companies were banks
- ✓ Risk management and corporate governance did not evolve commensurately to support the fast growth leading to inappropriate market behavior and abuse of margin lending

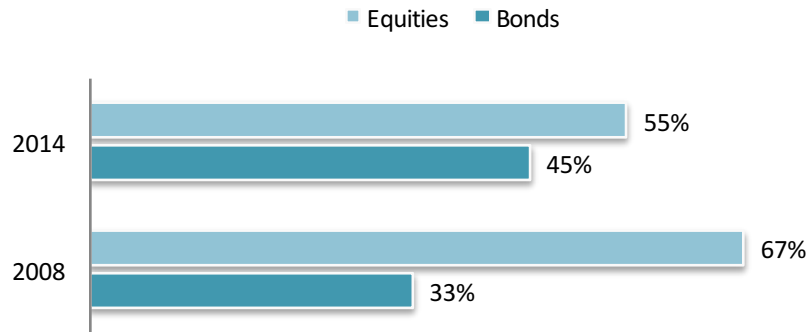
“Naturally, confidence was lost and domestic investors have since then not fully returned to the market”

Sources: SEC, NSE



What we did from 2008 to 2014

Growing bond market reduces equities dominance...



Bond market is now attractive...

✓ We streamlined the bond issuance process, introduced shelf registration and bookbuilding, and reduced issuance costs

✓ The bond market is now attractive for all categories of issuers including corporates, state governments and multilateral institutions

✓ FMDQ was registered to revolutionize fixed income securities trading

Collective investment schemes initiatives and New Products

✓ Number of registered funds grew from 38 to 54 and their NAV tripled

✓ Reviewed the regulatory framework to support product innovation, so far ETFs, REITs and sukuk have been introduced

General Initiatives by SEC

✓ Intervened to replace management of the NSE

✓ Reviewed market structure and reduced transaction costs

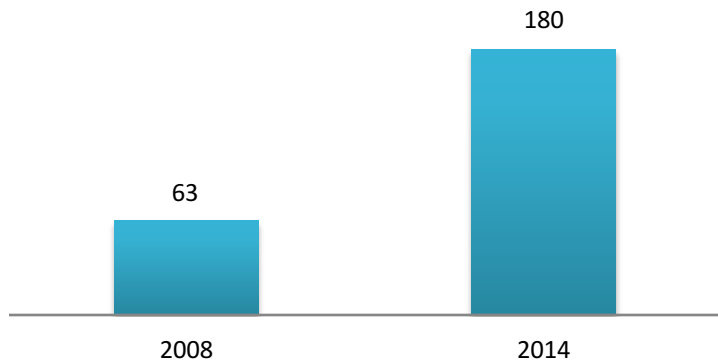
✓ Registered new platforms like NASD and FMDQ

✓ Introduced new rules and amended existing ones to strengthen regulatory framework

“Between 2008 and 2014, SEC had focused on leading the market to recovery while working on the strategy document that would guide market development for the next 10 years”.

...Collective investment schemes are growing...

NAV of Collective Investment Schemes in ₹ billion



...New products introduced



THE MASTER PLAN...



What is a Master Plan?

master plan

noun

Simple Definition of MASTER PLAN

Popularity: Bottom 40% of words

: a detailed plan for doing something that will require a lot of time and effort

British Dictionary definitions for master-plan

master plan

noun

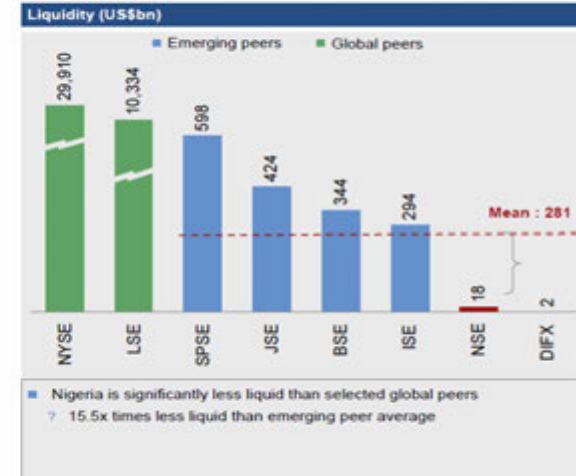
1. a comprehensive long-term strategy

synonyms and related words:

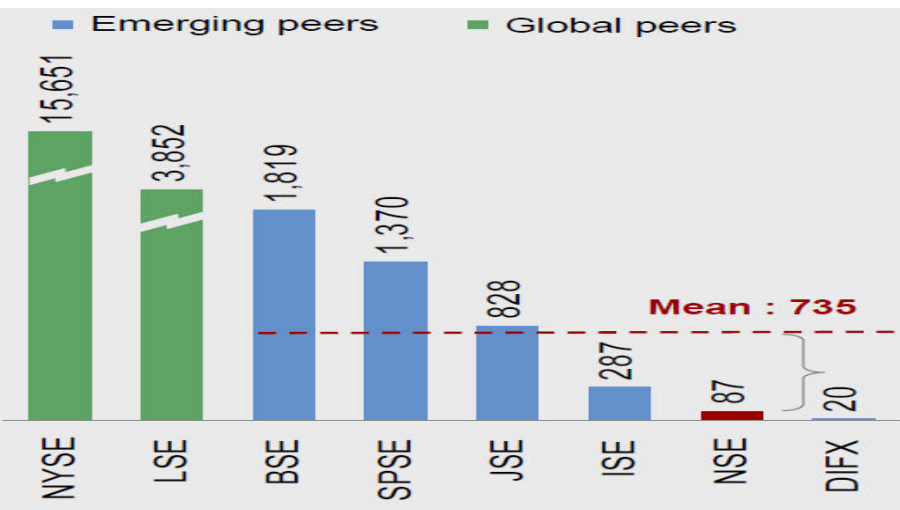
appointed arrangement blueprint bottom-up campaign card
formulate game plan have a card up your sleeve intention
itinerary lock **planning** policy-making preparation
programme project road map **specification**
strategy

How we fare compared to peer markets... The Need for a Master Plan...

	Market Cap-to-GDP (%)	Debt-to-GDP (%)	Mutual fund assets-to-GDP (%)
Nigeria	16	13	0.2
South Africa	207	46.1	30.61
Brazil	112	56.58	46.47
Malaysia	247	54.8	28.31
United States	107	101.58	77.59
United Kingdom	191	90.6	33.61
Russia	40	13.41	0.16
India	47	67.72	4.61



Size: Total Market Capitalization (\$billions)



Review of our market in 2014 revealed that, compared to our peers, we were significantly lagging behind in terms of size, liquidity, depth, breadth and sophistication

The Malaysian Example

*We discovered that many emerging and developed markets had implemented master plans for their respective markets at different times leading to appreciable progress. A good example is **Malaysia***

Malaysia developed and launched its first 10-year capital market master plan in 2001 for implementation. By then their market was shallow, concentrated and lacking in product offering

The Malaysian capital market master plan was adopted as a National project with support from the highest levels of government. The Prime Minister championed its implementation

Results of Malaysia's first Master plan implementation

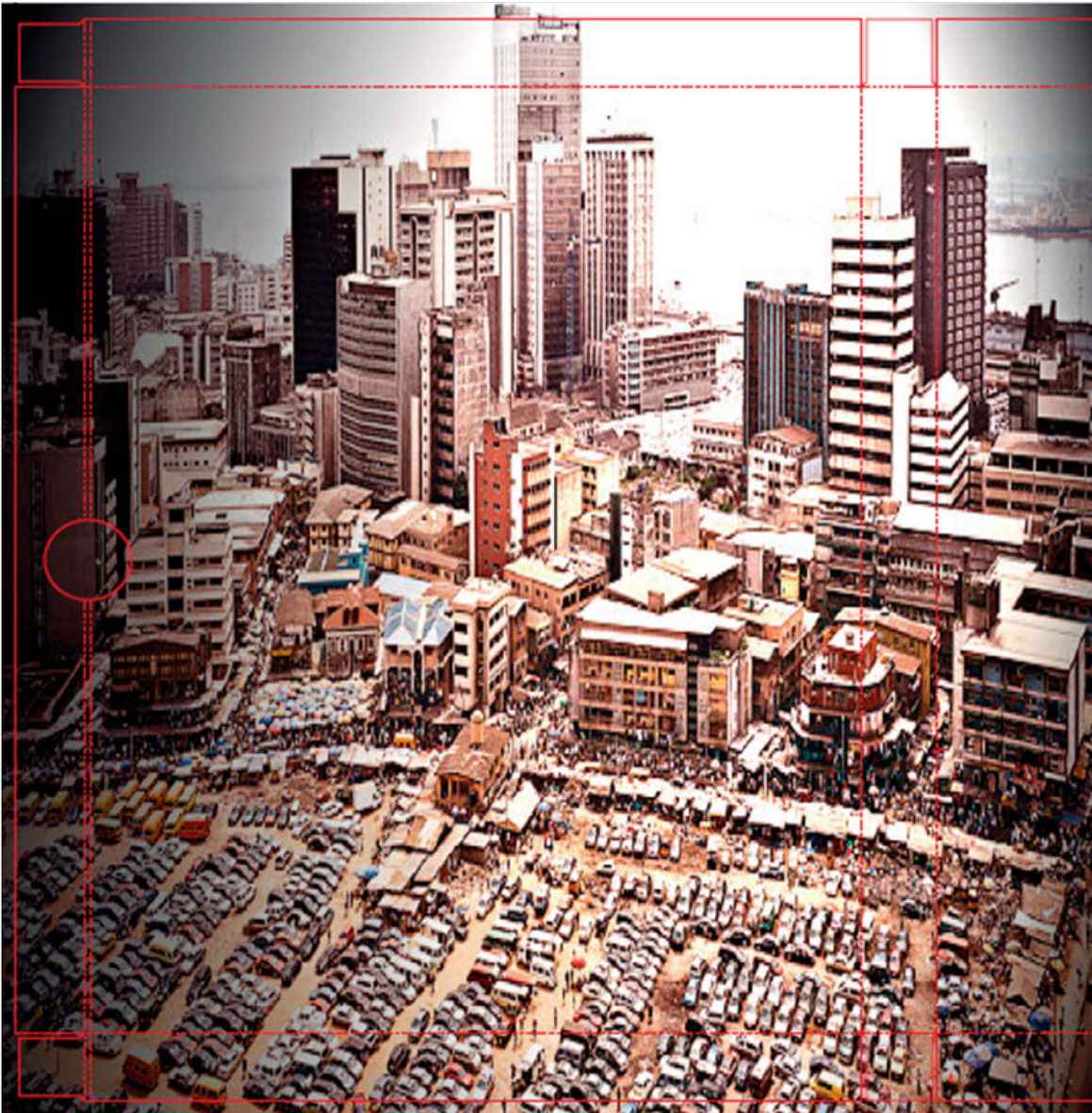
- ✓ Market size almost tripled from \$186 billion in 2000 to \$517 billion by 2010
- ✓ Deepened Islamic finance making Malaysia one of the major Islamic finance centers in the world
- ✓ Became the largest sukuk market and the 3rd largest local currency bond market in Asia

***Plan was so successful a second master plan was launched currently being implemented till 2020

Malaysian Capital Market: Before and After Implementation of Master Plan

Market Segments	2000 (\$Bil)	2010 (\$Bil)	CAGR %
Equities market capitalisation	114.86	329.62	11.1
Debt securities outstanding	70.59	196.20	10.8
Derivatives (notional value traded)	21.71	132.45	19.8
Assets under management	14.27	97.61	21.2
Islamic capital market	75.91	271.65	13.6

Source: Malaysian Capital Market Master Plan (2010 – 2020)



NIGERIAN CAPITAL MARKET MASTERPLAN

10 Year Plan
2015-2025



SEC NIGERIA
SECURITIES AND EXCHANGE COMMISSION, NIGERIA

Introducing the Nigerian Capital Market Master Plan (2015 – 2025)...

OUR VISION:

Become one of the largest, most liquid and diversified emerging markets

Capital Market
Master Plan

Capital Market
Literacy Master Plan

Non-Interest Capital
Market Master Plan

Contribution to
National
Economy

Competitiveness

Market
Structure

Regulation and
Oversight

Lessons from other jurisdictions

In-depth review of our market

SEC inaugurates 3 Committees to develop 10-year blueprints

Market Depth

Liquidity

Breadth

Market Robustness

Sound Legal
Framework

Product Offering

Corporate
Governance

Economic
Growth

Listings

Size

Sophistication

Non-Interest
Products

Financial Inclusion

The Master Plan is an output of the entire market community

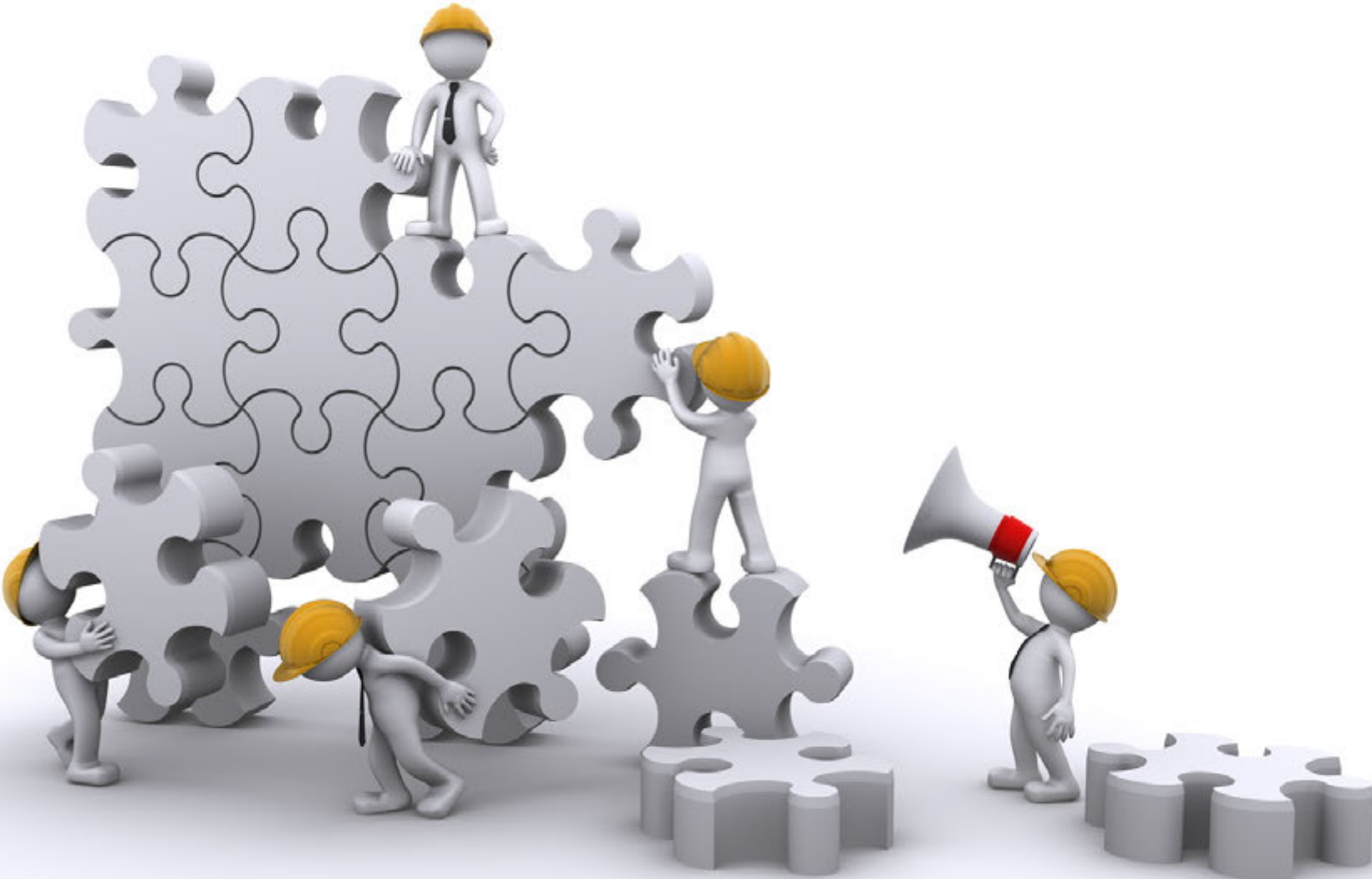
✓ Having identified the challenges and opportunities in the Nigerian capital market, the SEC Management under Ms. Arunma Oteh inaugurated 3 market-wide Committees to develop 10-year blueprints for market growth covering:

- ✓ The Entire Market***
- ✓ Market Literacy; and***
- ✓ Non-Interest Products***

✓ Lessons from other jurisdictions and our domestic environment were taken into account in developing the master plan which has 4 strategic themes:

- ✓ Contribution to National Economy***
- ✓ Competitiveness***
- ✓ Market Structure***
- ✓ Regulation and Oversight***

Master Plan Implementation Architecture



Master Plan Implementation Architecture

Ownership

- Ownership at the highest levels required
 - Presidency, Federal Executive Council
 - National Assembly
 - Judiciary

Leadership Advocacy

- CAMMIC: high-powered Council chaired by the Distinguished Olutola Mobolurin leads advocacy
- CAMMIC also meets to provide strategic guidance in the implementation process

Implementation

- SEC champions the implementation process, working with other stakeholders
- A dedicated project management team within SEC coordinates all implementation efforts while serving as CAMMIC's secretariat

Some Major Initiatives in the Master Plan



Some Major Initiatives in the Master Plan

Contribution to National Economy

- Improve Capital Market Awareness
- Proactive and Consistent Executive and Legislative Engagement
- Include Master Plan on National Agenda
- Establish National Savings Strategy
- Grant incentives for companies in priority sectors to get listed
- Remove barriers for takeoff of Securitization
- Establish specialized funds to support critical economic sectors
- Widen access to alternative investments
- Attract SMEs to get listed
- Establish National Development Bank
- Promote greater investment by PFAs
- Establish specialized economic zones
- Incentivize venture capital and private equity

Market Structure

- Establish a Unified Licensing Model across Money/Capital markets
- Harmonize framework for securities lending
- Encourage active securities lending by PFAs and PFCs
- Create a National Monoline Financial Guarantor
- Incentivize use of Collective Investment Schemes
- Build domestic investor base
- Define minimum operating standards
- Strengthen capital market institutions
- Put in place training programmes and mandatory continuous assessment
- Invest in building industry capacity/specialized skills
- Establish minimum threshold for participation in primary issues

Competitiveness

- Reduce transaction cost
- Fully dematerialize certificates
- Develop efficient commodities exchanges and trading platforms
- Sponsor legislation to ensure Nigeria's crude oil sales are traded on local exchanges
- Become African hub for Islamic capital market products
- Enhance transparency, full disclosure and corporate governance
- Utilize social media for financial literacy
- Develop shared services
- Encourage further market consolidation
- Define minimum technology standards
- Promote listing of government-owned companies

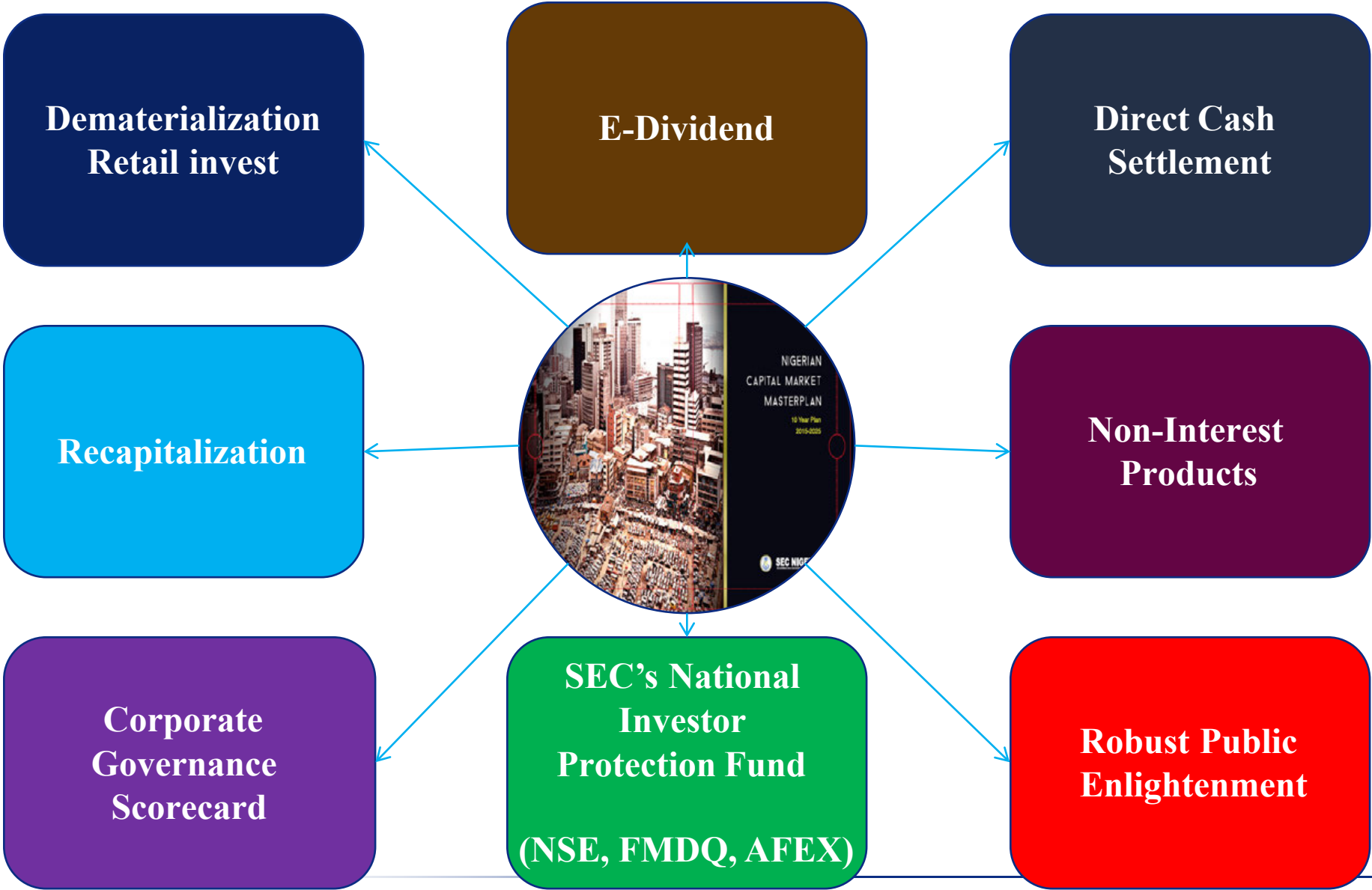
Regulation and Oversight

- Encourage product innovation by reviewing rules and regulations
- Establish risk management principles for capital market operators
- Strengthen autonomy of SEC as apex regulator
- Build capacity of the SEC
- Clear-cut jurisdiction for the Investments and Securities Tribunal (IST)
- Align reporting standards between SEC, NSE and other platforms
- Establish a robust complaints management framework

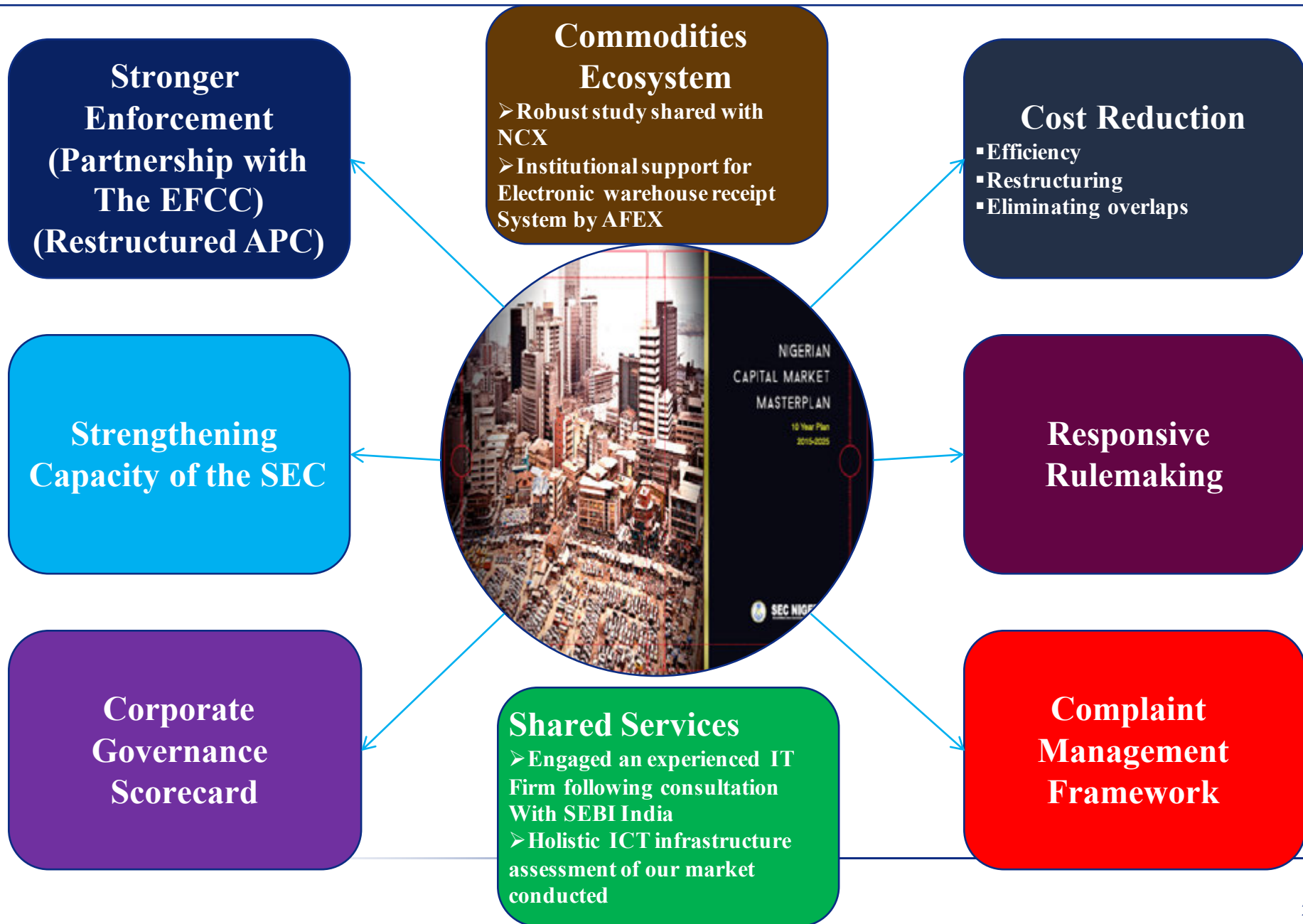
Master Plan Initiatives Implemented in 2015



Master Plan Initiatives Implemented in 2015



Master Plan Initiatives Implemented in 2015...



Master Plan Initiatives for 2016



Master Plan Initiatives for 2016 ...



1. Promote Ownership of Master Plan at National Level:

- ✓ Major objective of the CAMMIC
- ✓ Detailed position paper has been prepared on how the capital market can support government's economic priorities

2. Promote New Listings:

- ✓ We are proposing new incentive structure to attract more listings
- ✓ Renewed focus on engagement with companies to patronize any SEC-registered platform

3. National Savings Strategy:

- ✓ Critical for building a virile domestic investor base. We will work with both insurance, banking and pension industry to develop the savings strategy

4. Non-Interest Products:

- ✓ We will continue to build SEC and industry capacity in the area of non-interest products.
- ✓ Full liquidity status to be granted for non-interest capital market products

5. Capital Market Literacy Week:

- ✓ Part of our investor education mandate. This will be a series of week-long activities focused on the capital market. Funding required

6. Strengthen Institutional Capacity:

- ✓ Strengthening SEC as apex regulator; Strengthening SROs and market operators

7. Unified Licensing Model:

- ✓ Enables effective market making and boosts liquidity by providing qualified market institutions access to CBN windows

Master Plan Initiatives for 2016 cont'd...



8. Venture Capital/Private Equity:

- ✓ Ongoing implementation of FMAN roadmap
- ✓ Supporting FMAN for adoption of GIPS

9. Transaction Cost:

- ✓ Lower both implicit and explicit transaction costs

10. E-processes:

- ✓ Upgrade the entire Market's ICT infrastructure to boost efficiency through E-filing, E-registration, surveillance, etc

11. Define Minimum ICT Standard :

- ✓ NSE already specified minimum standards for broker/dealers; we are harmonizing for entire market

12. Training and Mandatory Continuous Assessment: We have strengthened the NCFI and it has already begun work training programmes

13. Derivatives:

- ✓ Develop regulatory regime for structuring and trading futures, options, swaps, etc

14. Integrated Financial system:

- ✓ Make financial intermediation seamless across the entire financial system

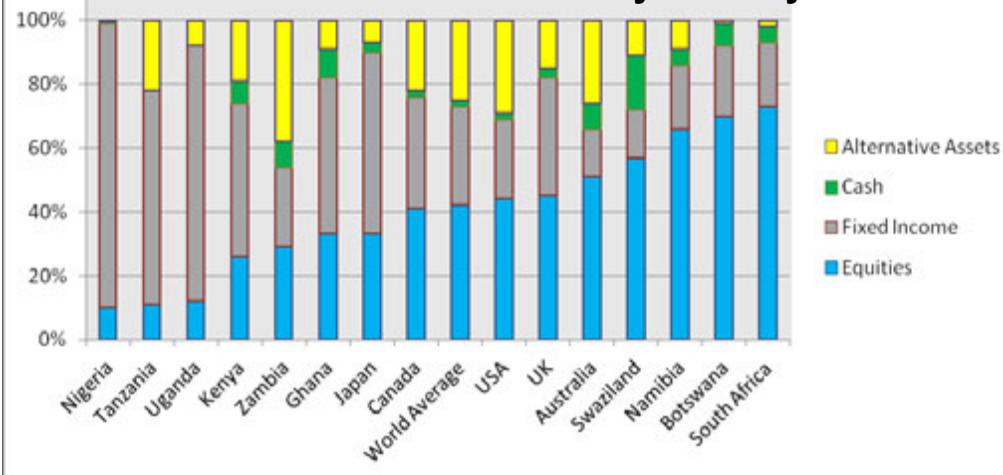
15. Align Reporting Standards between SEC, NSE and other platforms:

- ✓ Harmonizing reporting and filing systems with the NSE and other platforms to reduce burden on operators
- ✓ Advanced discussion already at Executive level. Awaiting final report from Committee



Product Development and Market Liquidity

Pension Funds' Asset Allocation by Country



Sources: PenCom, OECD and mercer.com

- ✓ March 2016 data from PenCom show that Nigerian PFAs invest only 8.16% of their assets in the domestic listed equities
- ✓ Nigerian PFAs allocate the lowest assets to equities by among peer markets
- ✓ South African pension funds invest 73% of total assets in equities; Botswana (70%), Namibia (66%) and Swaziland (57%), even with much smaller and shallower stock markets than Nigeria
- ✓ The world average for allocation by PFAs to equities is 42% which is more than four (4) folds the level in Nigeria

Securities Lending: Even with more room for further allocation to equities, Nigerian PFAs (as the largest pool of domestic savings) hold significant volumes of shares that could be the key to activating securities lending in our market, deepening the capital market and boosting its liquidity.

Central Counterparty Clearing House (CCP) is a key component of securities lending transactions. On that front the CSCS have reached advanced stages with foreign partners to become a CCP. The SEC will be meeting the foreign partner to explore more on getting the right CCP framework for Nigeria

PenCom is a member of the CAMMIC. Through closer engagement, we hope to address these issues together



PFAs have often lamented the lack of products to invest in within our market. The SEC has done its part by developing robust regulatory framework for products like sukuk, securitization, securities lending, REITs, infrastructure funds, etc. It behoves operators to get serious about producing these products in order to attract more investible funds from PFAs

Legal Impediments to the Master Plan Implementation Process...



Legal Impediments to the Master Plan Implementation Process...



Jurisdictional conflict between the Investments and Securities Tribunal and the Federal High Courts

➤ Section 274 of ISA which grants IST EXCLUSIVE jurisdiction over capital market disputes vs Section 251 (1p,q,r) of the 1999 Constitution of Nigeria which gives High Courts jurisdiction over executive or administrative actions of SEC

Possible Solutions

- Include the IST under Section 6(5) of the Constitution
- Craft legislation to prescribe the adoption of “Reasonableness test” in conducting judicial review in contrast to the “Correctness Test”
- Make the IST a special Division of the Federal High Court



Demutualization: Lack of express provision under Chapter 2 of CAMA permitting the conversion from a Company limited by guarantee to a Plc

Section 26 of CAMA which prohibits companies limited by guarantee from having share capital or running with profit motive

Possible Solutions:

- Amend Chapter 2 of CAMA to allow conversion of companies limited by guarantee to Plc
- Enact a special Act of the National Assembly enabling the NSE to demutualize



Unclaimed Dividend: Section 382 of CAMA allows companies to invest returned dividends for its own benefits without incurring any interest liabilities. Also Section 385 of CAMA makes dividends statute barred after being unclaimed beyond 12 years. This contributes to the growth of unclaimed dividend

Possible Solutions:

- Amend afore-mentioned sections of CAMA to extend dividends to exist in perpetuity
- Enact an Act of the National Assembly establishing an Unclaimed Dividends Trust Fund to be beneficially invested until claimed by affected shareholders



Land Use Act: Various Sections of the Land Use Act inhibit the development of the capital market. Particularly, Sections 21 & 22 negatively impact transfer of possession and foreclosures which by implication inhibit the takeoff of mortgage-backed securities

Possible Solutions:

- Amend the relevant sections of the Land Use Act to resolve property/land title allocation and transfer issues to facilitate securitization



Crowdfunding: Section 22 of CAMA limits members of a private company to 50 while also restricting its transfer of shares

Possible Solutions:

- An amendment of Section 22 of CAMA is required to innovatively allow crowdfunding of private companies

Legal Impediments to the Master Plan Implementation Process...



Absence of Robust Regulatory Framework for Commodities Trading

- We strongly recommend the speedy passage of the Warehouse Receipt and other Related Matters Bill

Trustees

Trustees Investment Act

- Amendment of the Act to have robust provisions detailing the duties and liabilities of Trustees
- It should also provide for eligibility, appointment and removal of Trustees
- The amendment should contain Statement of Investment Principles



Stronger Autonomy for SEC: The Master Plan recommends the SEC reporting directly to the Presidency (like CBN and PENCOM). And similar to what obtains in more advanced markets like the US, UK, Malaysia and South Africa, the Chief Executive of SEC should chair the SEC Board (this example can be seen even in Nigeria where the CBN Governor chairs the CBN Board which makes decision-making swifter and more responsive)

Amendment of these relevant sections of the ISA will strengthen independence of SEC as apex regulator and enhance its enforcement capacity

- It is important to empower the SEC through amendment of this section of the ISA allowing the Commission to act based on public consideration. This will enhance investor protection

Section 131: Need to rephrase provisions related to takeover bid



Passage of the CISI Bill

- This bill is important to strengthen the institutional capacity of market operators and trade groups

Steps to Address the Legal Barriers



Steps to Address the Legal Barriers

ISA and other relevant Laws

- To be chaired by Chief Anthony Idigbe, SAN
- Committee to undertake holistic review of the following Legislations:
 - The Investments and Securities Act 2007
 - The Nigerian Trade and Competition Commission Bill
 - The Federal Competition and Consumer Protection Bill
 - The Restrictive Trade Practices, Monopolies and Price Control Bill
 - All other Laws/Bills relating to Anti-Trust & Competition in Nigeria

Warehouse Receipt Bill and other Laws

- To be chaired by Dr. Babatunde Ajibade, SAN
- Committee to undertake holistic review of the following Legislations:
 - Ware-House Receipt Bill
 - Financial Reporting Council of Nigeria Act
 - Pension Reform Act

Companies and Allied Matters Act

- To be chaired by Mr. A.B. Mahmoud, SAN
- Committee to undertake holistic review of the following Legislations:
 - The Companies and Allied Matters Act (CAMA) , Cap C 20 Laws of the Federation of Nigeria, 2004
 - The Trustees Investment Act, Cap T22 Laws of the Federation of Nigeria 2004

National Assembly to play a critical role in tackling identified legal impediments
 ✓ ***We are taking a proactive step to compile a comprehensive document detailing all of the amendments needed to make the Master Plan implementation a huge success***

✓ ***We have identified the brightest legal luminaries within Nigeria’s corporate law landscape to become members of these important Committees***

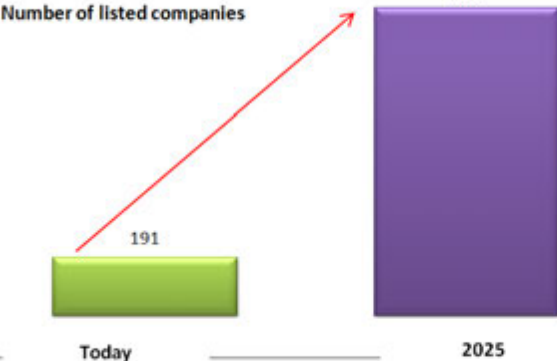
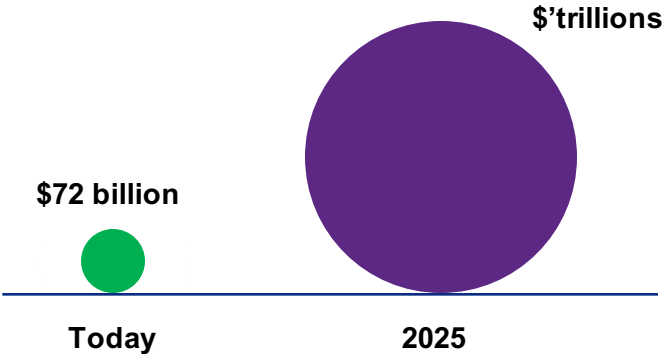
✓ ***A robust legal and regulatory framework is a necessary condition for the actualization of our master plan aspirations***

Benefits of Implementing the Master Plan...



Benefits of Implementing the Master Plan...

Expected Growth in Market Size



We will have one of the largest, most liquid, most diversified and most sophisticated emerging markets by 2025

The capital market will be well positioned to support Nigeria's economic priorities. It will be critical to tackling unemployment and infrastructure deficit while catalyzing economic growth

Value of average daily trading volumes



Product Diversity

A collage of financial product categories: DERIVATIVES, ETFs, Equities, REITS, MUTUAL FUNDS, Bonds, COMMODITIES, PRIVATE EQUITY & CROWDFUNDING, VENTURE CAPITAL.

Product diversity, greater financial literacy and lower costs will attract millions more Nigerians into the market thereby boost wealth creation, wealth distribution and inclusive growth

Expected Market Capitalization to GDP Ratio



The master plan should therefore be a National project embraced by all

CONCLUSION



CONCLUSION

The SEC is putting all energy, resources and time into implementing the Master Plan for the development of our capital market and by implication the economy.

We welcome the excellent support so far received from the National Assembly and look forward to working closely together to tackle the legal challenges and ensure this National project is a huge success. This is the first time the National Assembly is bringing us together for a conference on the capital market. As participants in the market we therefore no longer have any excuse since we have such a valuable partner in the National Assembly. I hope that we would use this opportunity of direct interface with our esteemed Legislators and openly explore all solutions to the legal challenges facing us in the market on this platform.

**Mr. Mounir Gwarzo,
Director General
Securities & Exchange Commission**

6th June 2016



THANK
YOU