

SECURITIES AND EXCHANGE COMMISSION



NIGERIAN CAPITAL MARKET: THE JOURNEY TO WORLD CLASS

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1. It is my sincere honour and privilege to present a review of our journey to world class as a capital market community covering where we were in 2010 when the Securities and Exchange Commission (SEC) started the reform program, where we are today and where we should be in 2025. As we all know, the Nigerian economy will require massive amounts of medium to long term capital to address its infrastructure deficit and to support the entrepreneurial zeal of Nigerians so that businesses can grow and create jobs. The capital markets is the most important source of these long term funds making the development of world class capital markets in Nigeria a matter of urgent national priority.

2. Beyond serving as a source of long term finance, I believe capital markets play more profound roles in our society. They are enablers of socioeconomic development because they hasten the rate of capital formation, foster a meritocracy and promote good corporate governance, innovation and entrepreneurship. In addition, capital markets broaden access to economic prosperity by allowing ordinary citizens participate in the successes of businesses, they help accelerate wealth creation and wealth distribution by facilitating access to capital for small and medium scale enterprises (SMEs). Capital markets can equally catalyze housing finance which does not only provide shelter but also creates jobs and collateral for businesses.

Where we were prior to 2010 when the SEC Led Reform Agenda Started

3. Let me start from the very beginning as Nigeria had a promising capital market even well before independence. The colonial government issued its first bond of about 300,000 pounds in 1946 as part of a 10 year local loan plan. As our then young nation was gearing up for independence, the Broadcasting Corporation of Nigeria became the first Nigerian company to raise long term money from the domestic bond market in 1960. A year later, an organized stock

exchange was set up as the Lagos Stock Exchange, which later became the Nigerian Stock Exchange (NSE) in 1977. While the bond market stagnated, the Stock Exchange witnessed three major waves of growth fueled by policy and regulatory initiatives. They are the indigenization policy of the 1970s, the privatization policy of the early 1990s and the banking and insurance sector recapitalization exercises of 2005.

4. The stock market in 2003 had total capitalization of only N1.4 trillion which grew 7 fold to N10.2 trillion by 2007 and peaked at N12.65 trillion by March 2008. This was a highly concentrated market where 15 of the 20 most capitalized companies were banks, together accounting for almost 60 percent of market capitalization. There was subsequently a painful unprecedented market correction in which the market lost about 70 percent of its value. This experience decimated investor confidence and contributed to systemic banking crisis on the heels of the global financial crisis.

Where we are today

5. When I joined the SEC in January of 2010 we felt that we had no choice but to commence a far reaching reform program that would address these challenges. It was a period of general malaise, investor apathy and high uncertainty. There were regulatory lapses, many cases of wrongdoing leading up to the crisis and most worrisome; a market that was way below its potential in terms of breadth, depth, liquidity, sophistication and governance. Where others saw gloom, we saw an opportunity to build a world class capital market made up of world class institutions operating in a conducive environment. Our reform agenda was largely based on the report of an Industry Committee established by the SEC in 2008 titled "Making World Class Potential a Reality".

6. Let me use this opportunity to appreciate President Goodluck Ebele Jonathan whose administration has been very supportive of the capital market.

The Honourable Minister of Finance and Coordinating Minister for the Economy has been our key advocate in this administration giving capital market issues priority. The administration has therefore implemented policies that will facilitated the growth and development of the capital market among which are the much needed forbearance for stockbrokers of up to N22.6 billion on the margin loans of 84 stockbrokers; the elimination of value added tax (VAT) on market transactions which is currently being implemented; and the elimination of stamp duties, already approved by the Federal Executive Council but requiring some legal changes before implementation. These important initiatives by Mr. President's administration have enabled our own reforms in the market which I will now summarize.

7. We started by ensuring that investor confidence is restored, adopting a posture of zero tolerance to wrongdoing while strengthening our enforcement machinery through partnerships with the Office of the Attorney General of the Federation and the Nigeria Police Force. We instituted legal proceedings against over 260 individuals and entities for various forms of market infractions seeking to disgorge all illegally gotten wealth and retribute investors. We revamped our investor protection and dispute resolution mechanism by strengthening the SEC's quasi-judicial Administrative Proceedings Committee (APC), developing a robust complaint management framework, setting up the National Investor Protection Fund and strengthening Anti-Money Laundering and Counter Terrorism Financing (AML/CFT) framework.

8. We have invigorated our rulemaking, ensured adherence to the principles of securities regulation as espoused by members of the International Organization of Securities Commission (IOSCO) in which we are a leading member. The SEC sits on the Board of IOSCO and heads its Africa Middle East Regional Committee (AMERC). We have also enhanced market transparency through implementation of global best practice in corporate governance and

financial reporting, issuing a new world class Code of Corporate Governance and supporting the adoption of the International Financial Reporting Standards (IFRS).

9. Focusing on building the bond market, we streamlined the bond issuance process, introduced shelf registration and bookbuilding, and reduced issuance costs. In the stock market we introduced rules on securities lending and market making to boost liquidity, we approved new listing rules to attract more listings and allow our market do more for SMEs and businesses in strategic sectors. We created an enabling environment that fosters product innovation leading to the introduction of newer products beyond equities and bonds including exchange traded funds (ETFs), real estate investment trusts (REITs), other varieties of collective investment schemes and broadened non-interest capital market products to include Sukuk bonds.

10. We reinforced our investor education agenda leveraging innovative platforms like Nigeria's Nollywood, cable television and the social media. We also reach people directly through our catch-them-young program, secondary school quiz competitions, partnership with NYSC, SEC Integrity Award, programs for market men and women and academies for shareholders and journalists.

11. As a result of these initiatives today we have a market that has witnessed remarkable progress in all spheres. The domestic bond market is attracting different categories of issuers including State governments, government agencies and companies. Current bond market capitalization is at N9.95 trillion comprising N4.10 trillion of FGN bonds, N4.35 trillion of AMCON bonds and N1.5 trillion state government and corporate bonds. The market is attracting triple-A rated issuers like the African Development Bank (AfDB) and the International Finance Corporation (IFC) both of whom have issued Naira-denominated bonds. The AfDB has subsequently registered a bond issuance program with the

SEC of about N160 billion. With benchmark yield curve of up to 20 years and improved liquidity to come through the over-the-counter (OTC) bond trading platform FMDQ sponsored by the Financial Markets Dealers Association, the domestic bond market is well positioned to serve as an important source of capital to tackle Nigeria's infrastructure deficit.

12. Our market today has tripled in size since the crisis and is also a lot less concentrated as the share of the banking sector has reduced from about 60 percent to about 25 percent of total capitalization. Industrial goods, consumer goods and oil & gas have become important components. The historic dual listing of Seplat Petroleum on the Nigerian Stock Exchange and the London Stock Exchange is a good case in point of the growing importance of other sectors. Our stock market over the last two years was among the 10 best performing in the world returning 35 percent in 2012 and 47 percent in 2013. The management at the NSE is leading a commendable transformation of the exchange actively seeking to boost listings, becoming a full member of the World Federation of Exchanges (WFE) and rolling out Africa's most robust trading engine – the X-GEN – amongst other initiatives. We have equally supported the Central Securities Clearing System (CSCS) in its reform of our settlement and clearing system notably the implementation of SWIFT and straight-through-processing.

13. Overall liquidity in the market has improved significantly since the introduction of market making. An OTC trading platform sponsored by the National Association of Securities Dealers (NASD) has started operations to help increase liquidity in the trading of unlisted companies. Collective investment schemes have increased almost 200 percent since 2010 and Nigeria today boasts of a growing domestic investor base.

14. In spite of the progress, our market is not where it ought to be considering the immense potential of our country. The ratio of market capitalization of listed stocks to GDP in Nigeria is still very low at only 16 percent compared to 247 percent in Malaysia, 207 percent in South Africa and 112 percent in Brazil. The stock market does not give a proper reflection of our economy as important contributors to GDP like Agriculture, Trade, Oil & Gas and Telecommunications are not adequately reflected in the market capitalization. This partly explains the current performance with the market trading like an oil & gas stock down 19 percent year to date.

15. The bond market has a lot of room for growth with debt-to-GDP ratio at only 11 percent compared to over 200 percent in Japan, 110 percent in Singapore, 103 percent in the United Kingdom, 103 percent in the United States (US) and over 60 percent in China. All round, liquidity needs to improve well beyond its current level. The ratio of net asset value (NAV) to GDP in Nigeria is only 0.2 percent compared to 77 percent in the US, 30 percent in South Africa and 5 percent in India. We need to focus on collective investment schemes to enable a lot more Nigerians participate in market growth.

Where will we be in 2025?

16. The capital market can play a far greater role in actualizing Nigeria's aspirations than it currently does. To do this, it must be repositioned to grow in a strategic and organized manner. This informed our decision to leverage cooperation within the Capital Market Committee (CMC) to set up industry-wide committees to examine the state of our market and chart its future path. The result of this exercise is the development of a 10-year master plan for the Nigerian capital markets with specific blue prints for capital market literacy and non-interest capital market products. This is in line with global best practice as we have learnt from successful examples from peer emerging markets.

17. Malaysia developed a 10-year master plan for their capital market in 2001. By the end of 2010 they had implemented 95 percent of the recommendations in the plan which led to a doubling of the market size from USD317 billion to USD606 billion. The plan further established Malaysia as one of the world's most important Islamic finance centers while moving it from a narrow market dominated by equities and bonds to other products like REITs, ETFs, derivatives, and non-interest products. Malaysia's first master plan was so successful, they developed a second one for their market currently being implemented leading to 2020. Closer home, Kenya has also recently launched a 10-year master plan to guide the development of their capital market.

18. Developing and implementing master plans have proven such an effective endeavor; it is not even limited to emerging and developing markets. Recently, the European Union's (EU) financial services commissioner Jonathan Hill announced plans by the EU to unveil a long term master plan in mid-2015 that will lead the growth and integration of European capital markets while reducing companies' reliance on banks.

19. Without any master plan in place, we have been able to grow our stock market by a cumulative annual growth rate (CAGR) of 21.52 percent over the last 10 years. I have no doubt, that with faithful implementation of these master plans our market will eventually emerge as one of the world's deepest, most liquid and largest capital market that will not only contribute to the socioeconomic development of our dear country but will also serve as a global financial hub offering opportunities into other parts of Africa.

20. Where therefore do we want to see our market in 2025? It must be a deep, highly liquid, broad and diversified market that is a multiple of Nigeria's GDP. It must boast of one of the most efficient and favorable operating environments that engenders best practice, innovation and competitiveness.

We want a market that is very inclusive with majority of Nigerians participating in it through a multi-trillion naira collective investment schemes industry. We want a bond market that will enable us meet the infrastructure deficit estimated at USD3.9 trillion over the next 30 years. We want a market that does more for housing finance, enabling Nigeria close down the 17 million housing unit deficit while supporting entrepreneurship by doing more for SMEs and startups. We want a capital market that combines all the elements needed to support Nigeria actualize her aspirations of peace and prosperity for all citizens.

21. As our Distinguished Guest formally launches this painstaking work today, my most profound appreciation goes to the capital market community for aligning with our vision, especially to the Chairpersons and committee members for their commendable efforts in outlining the elements of the capital market that we want to have by 2025. Let us ensure that this historic turning point yields results for Nigeria through diligent and committed implementation of the master plan.

Thank you.