“Overview of the Nigerian Capital Market

OKOKON W. AKPAN

Head, Port Harcourt Zonal Office,

Securities & Exchange Commission

July 27-29, 2011

MY KEY MESSAGES

WHAT ARE CAPITAL MARKETS

WHY CAPITAL MARKETS EXIST

COMPONENTS OF THE NIGERIAN CAPITAL MARKET

KEY OBJECTIVES FOR CAPITAL MARKET REGULATORY FRAMEWORK

KEY MARKET INSTITUTIONS

THE INDUSTRY COMPONENTS

IMPACT ASSESSMENT

THE CHALLENGES

CONCLUSION

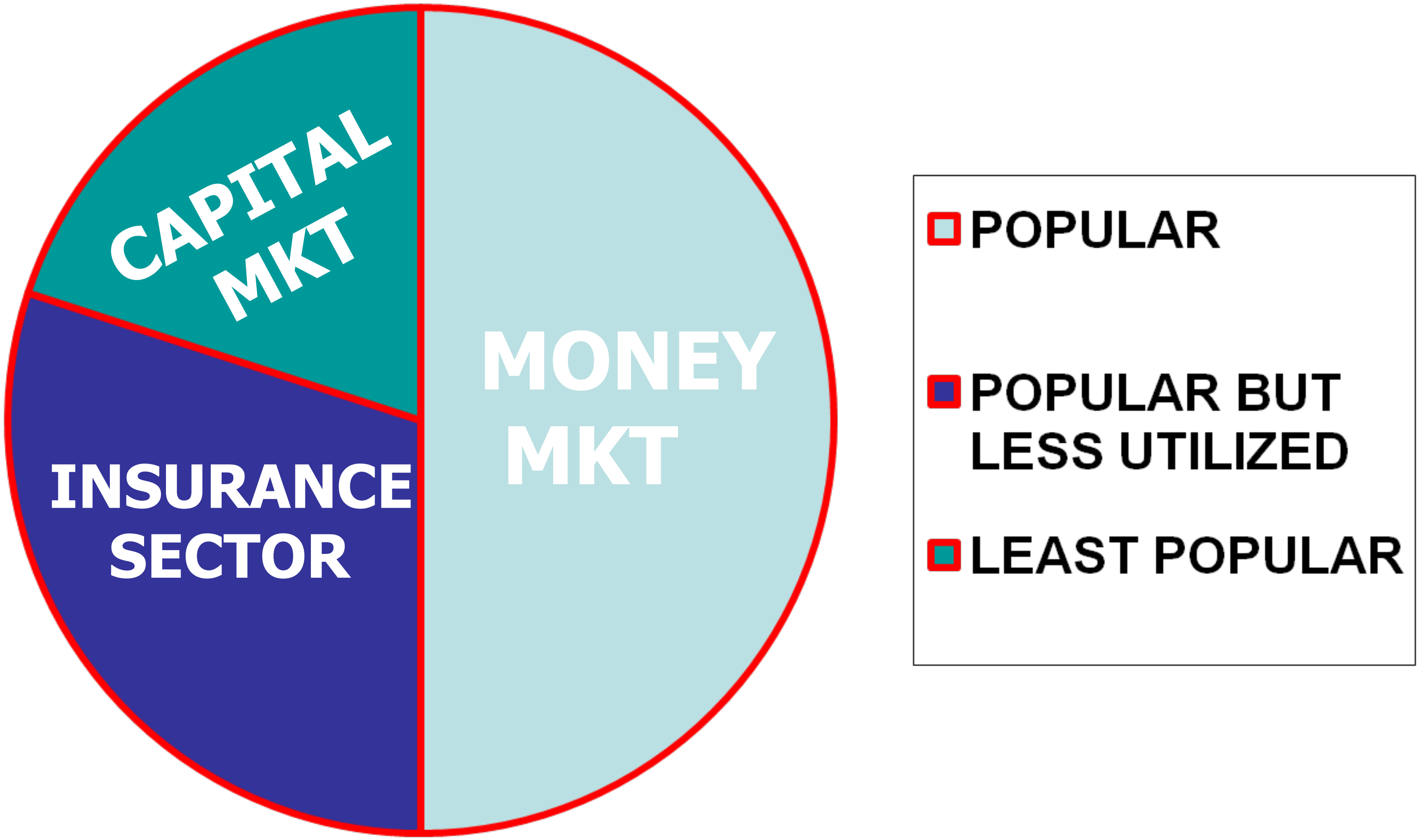
THANK YOU!

FINANCIAL MARKETS

These are not physical places as we know Mile 1 market or Ariaria markets but mechanisms that facilitate mobilisation and the channeling of savings to the ultimate investors.

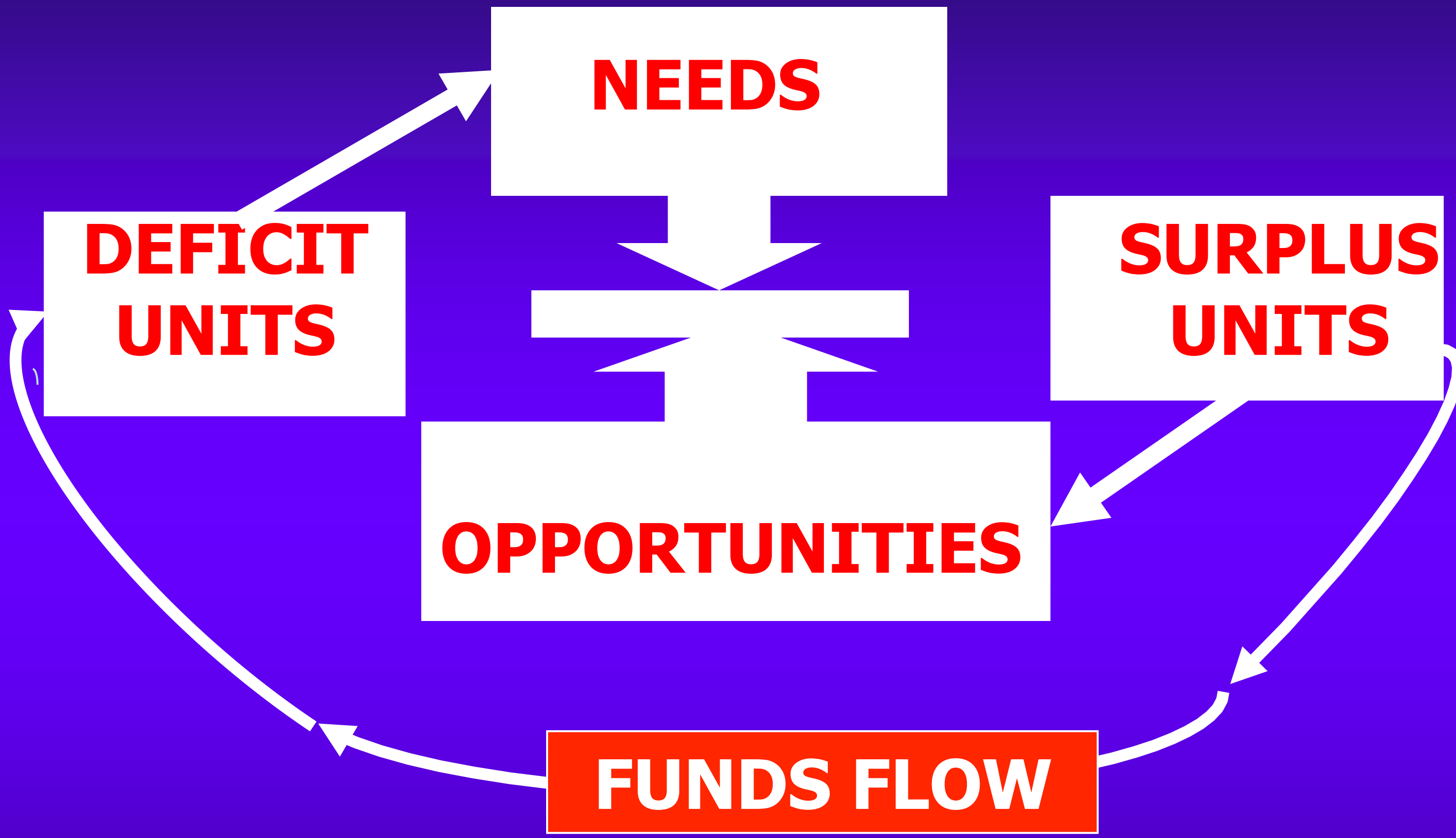
The capital market is a segment of the financial market.

THE FINANCIAL MARKETS



WHY DO THEY EXIST?

Capital markets exists because of two fundamental issues – needs & opportunities



Needs are expressed by issuers thus opening up investment opportunities for surplus, unutilized funds by individuals, institutions and even governments.

The investors are units with appetite for risks and returns.

WHAT ROLE DOES THE CAPITAL MARKET FULFILL?

Individuals:

- Wealth creation
- Risk taking

Corporates:

- Investment opportunities
- Provides medium to long term funds

Sovereigns:

- Investment opportunities
- Provides medium to long term funds

WHAT IT DOES NOT DO!

- It is not a casino or gambling portal.
- Does not enable individuals borrow funds.
- Provide short term funds of one year duration or less.

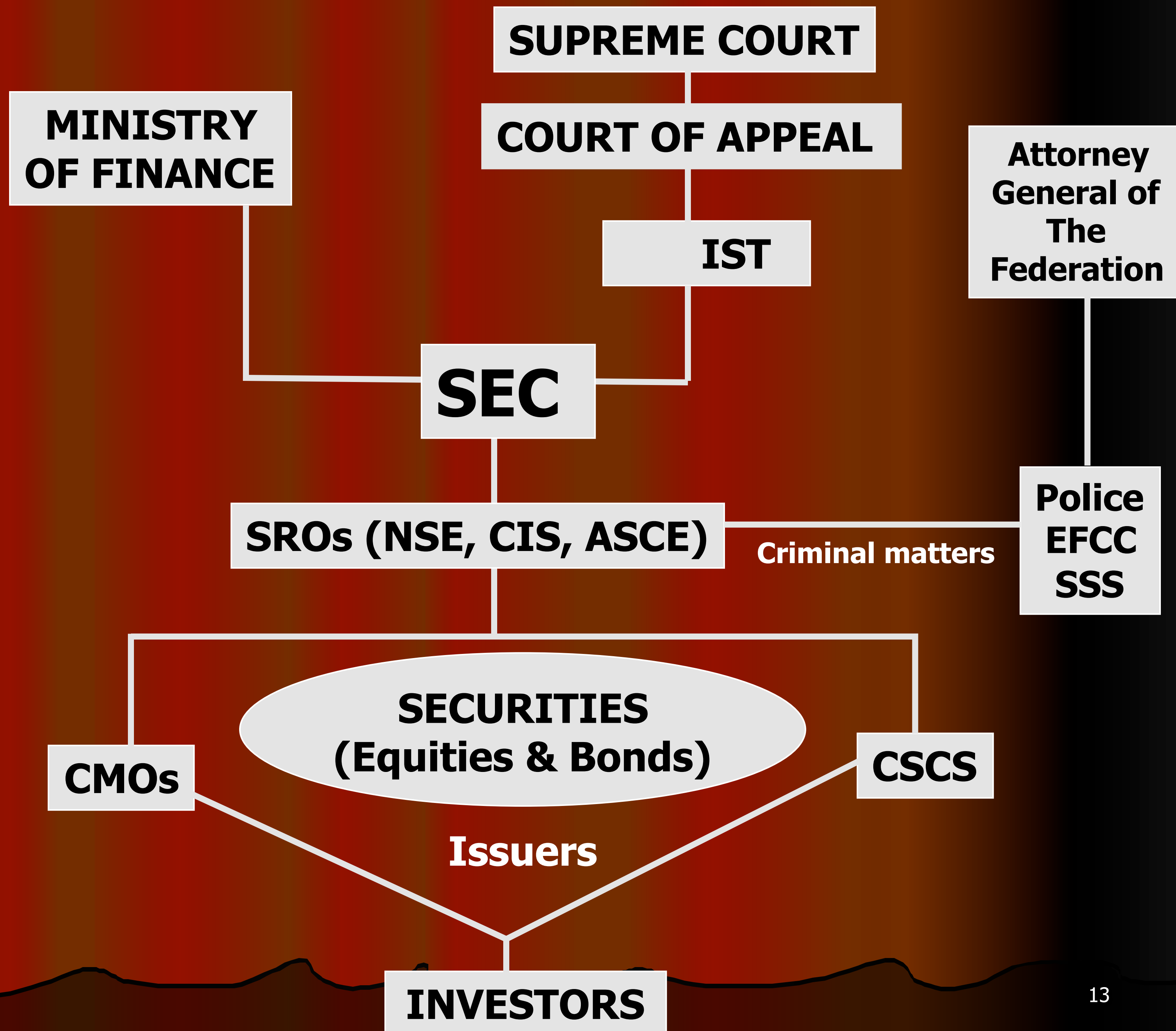
WHY CAPITAL MARKET EXISTS

- Mobilization of savings from surplus economic units for on-lending to deficit units.
- Ensure effective and efficient allocation of scarce financial resources.
- Create an avenue for the populace to participate in the economy.
- Reduce over-reliance on the money market for industrial financing.
- Provides seed money for venture capital development.

WHY CAPITAL MARKET EXISTS

- Promotes solvency, efficiency and a competitive financial sector.
- Encourages corporate financial discipline and accountability.
- Provides long term financial sector requirements without increasing the tax burden of citizens.
- Promotes a stock market culture.

NIGERIAN CAPITAL MARKET STRUCTURE ALLOWED BY LAW



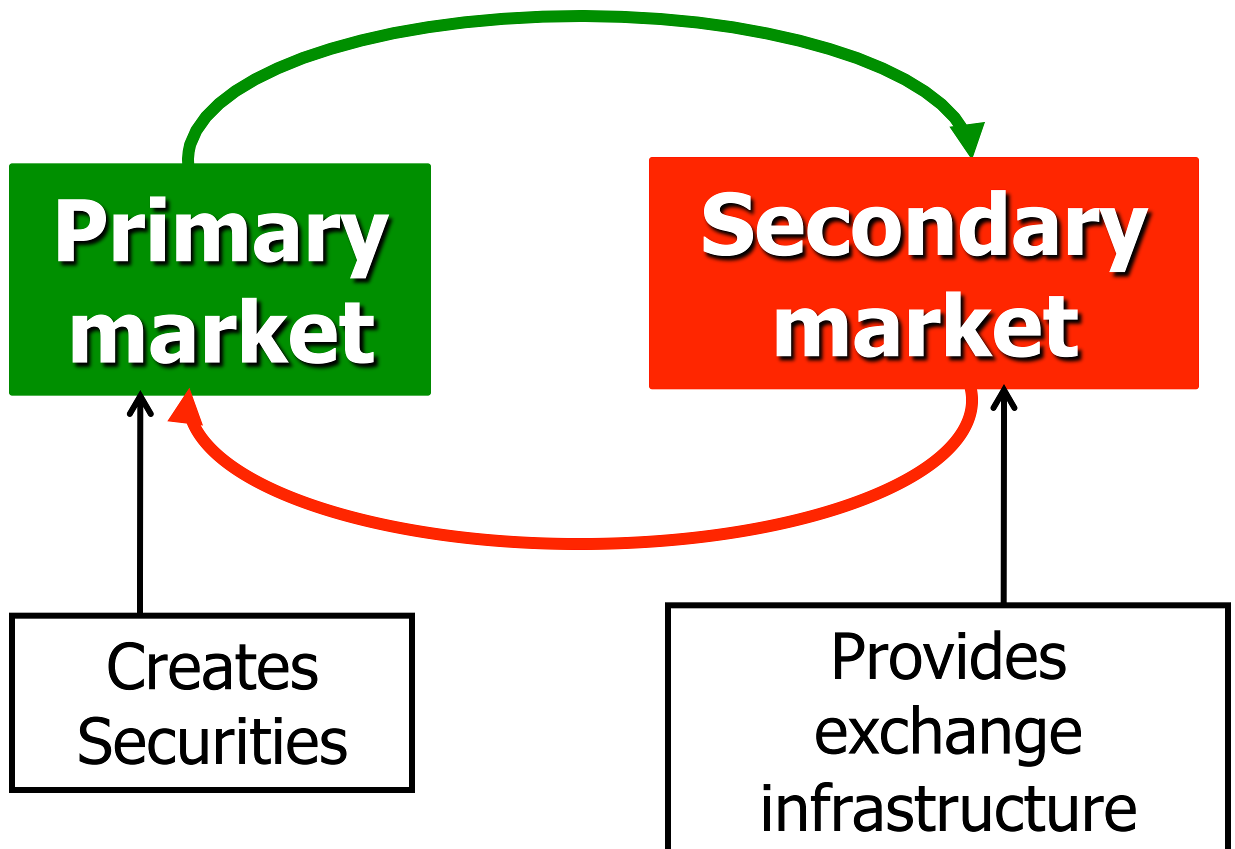
FEDERAL MINISTRY OF FINANCE

- Oversees the SEC
- Recommends SEC DG and Commissioners for approval by the President.
- Represented on the Board of SEC.
- Minister approves new rules within 15 days of submission.
- Ministry neither interferes nor hinder the running of the Commission.

SEGMENTS

PRIMARY

Market for initial mobilization of funds by issuers from investors using equities or bonds



SEGMENTS

SECONDARY

- The segment which provides trade and exchange of already issued securities.
- It provides the trading mechanisms and institutional support to create liquidity in stocks and securities.

SECURITIES

&

EXCHANGE

COMMISSION

- **Plays the dual role of regulation and development of the market.**

- **The apex regulatory agency of the capital market.**

WHAT SEC DOES

REGULATES THE CAPITAL MARKET

- Registration
- Monitoring of activities to forestall manipulative and other illegal practices.
- Routine on-site inspection of market operators.
- Investigation of reports of violation of securities laws, rules and regulations.
- Market rules.

WHAT

SEC

DOES

DEVELOPS THE CAPITAL MARKET

- **Awareness creation**
- **Public enlightenment**
- **Publications**
- **Workshops**
- **International engagements**

THE NIGERIAN STOCK EXCHANGE

- **Supervised by the Securities & Exchange Commission.**
- **A non-profit entity.**
  (Reason is to keep cost of trading as low as possible.)
- **It is owned by licensed broker/ dealers who also form its governing council.**

THE NIGERIAN STOCK EXCHANGE

- It is licensed by government through the Securities & Exchange Commission. The Commission also has rules governing its licensing, minimum capitalization, trading rules and regulatory provisions.

- It is a self-regulatory organisation i.e. it has authority to discipline, suspend, or expel its members for violation of its rules.

- It allows for waivers of listing conditions under its companies categorization models as 1st Tier, 2nd Tier and 3rd Tier (emerging markets).

INVESTMENTS

&

SECURITIES

TRIBUNAL

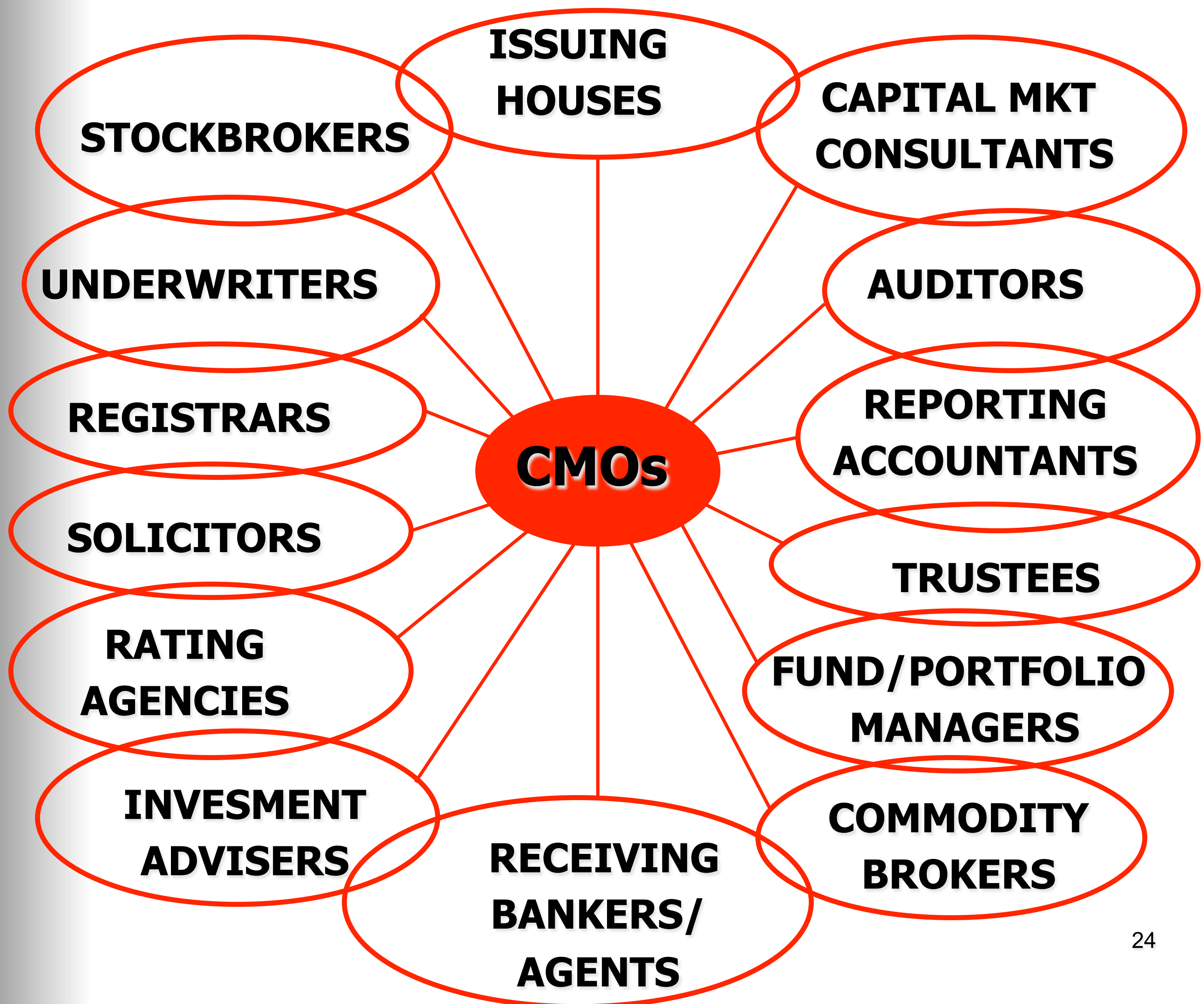
- A redress mechanism.
- Enjoys the status of a Federal High Court.
- Adjudicates on civil cases in the capital market to ensure that such cases are given speedy resolution as it is more conversant with the securities laws practices and operations of the capital market.

ABUJA SECURITIES & COMMODITIES EXCHANGE (ASCE)

- Originally incorporated as a stock exchange in 1998.
- Converted to a securities and commodity exchange on August 8, 2001.
- It is a parastatal of the Federal Ministry of Commerce but supervised by SEC.
- Serves the need for managing the effect of price fluctuations in the marketing of agricultural produce and marketing.

CAPITAL MARKET OPERATORS (CMOs)

- Corporate bodies and individuals who facilitate securities transactions.



CAPITAL MARKET OPERATORS (CMOs)

- Some play dominant role in the primary, others in the secondary market. Yet others play in both markets.

- To play a role they must be registered by SEC.

INVESTORS

- Entities (individuals, institutions, groups) who partake in risks and rewards of investments

CENTRAL SECURITIES CLEARING SYSTEM LIMITED (CSCS)

- A subsidiary of The NSE.
- Commissioned on April 8, 1997.
- Operates a computerized depository clearing settlement and delivery system for transactions in shares listed on the Nigerian Stock Exchange.

WHY CSCS?

- Speed up delivery and settlement system of the capital market.

CRIME INVESTIGATION AND PROSECUTION AGENTS

u15326543 fotosearch.com

- **POLICE**
- **EFCC**
- **SSS**

- ✓ Investigations of reported cases;
- ✓ Arrests and prosecution of offenders in the market.

FINANCIAL

INSTRUMENTS

DEBTS → **(I.O.U.) BONDS**

EQUITIES → **(SHARES OR STOCKS)**

MUTUAL FUNDS

- A professionally managed pool of money from a group of investors.
- Funds are invested in securities, including stocks and bonds, money market, instruments or a combination.
- Diversification reduces investments risks.

MODES OF EQUITY ISSUANCES

- EQUITIES
  - OFFER FOR SUBSCRIPTION
  - OFFER FOR SALE
  - RIGHTS ISSUE

BONDS CATEGORIES

- Federal Government (Sovereign bonds).
- Government Agencies
- State/Local Government
- Corporate bonds

GOVERNMENT AGENCY BONDS

- Government agencies are issuers.
- Relatively safe with higher yields than sovereign bonds.
- Have higher risks.

CORPORATE BONDS (Debentures if unsecured)

- Issued by companies.
- Most risky of bonds.
- Default or delay in payment of interest or principal most likely.

STATE AND LOCAL GOVERNMENT BONDS

- Issued by States and Local Government.
- Can be general obligation or revenue bond.
- General obligation bonds are issued to finance the various projects of government and backed by the general revenue of government.
- Revenue bonds are secured by the income generated by the specific project for which the bond was issued.

ADVANTAGES OF BONDS

- Bonds bring steady income from interest payment.
- They are low risk investments.

DISADVANTAGES OF BONDS

- Inflation and currency devaluation limits returns on bonds.
- Interest rate risks.
- Default risks (avoidance can be done by rating)
- Marketability risks and
- Call-ability risks.

DISPUTE RESOLUTION MECHANISM

- Resolution of complaints, grievances and disputes should start ordinarily among parties using known traditional ways of dispute resolution methods: arbitration, conciliation, mediation, and litigation.

- Failure takes it to SRO of which the party belongs. This is at the secondary market level.

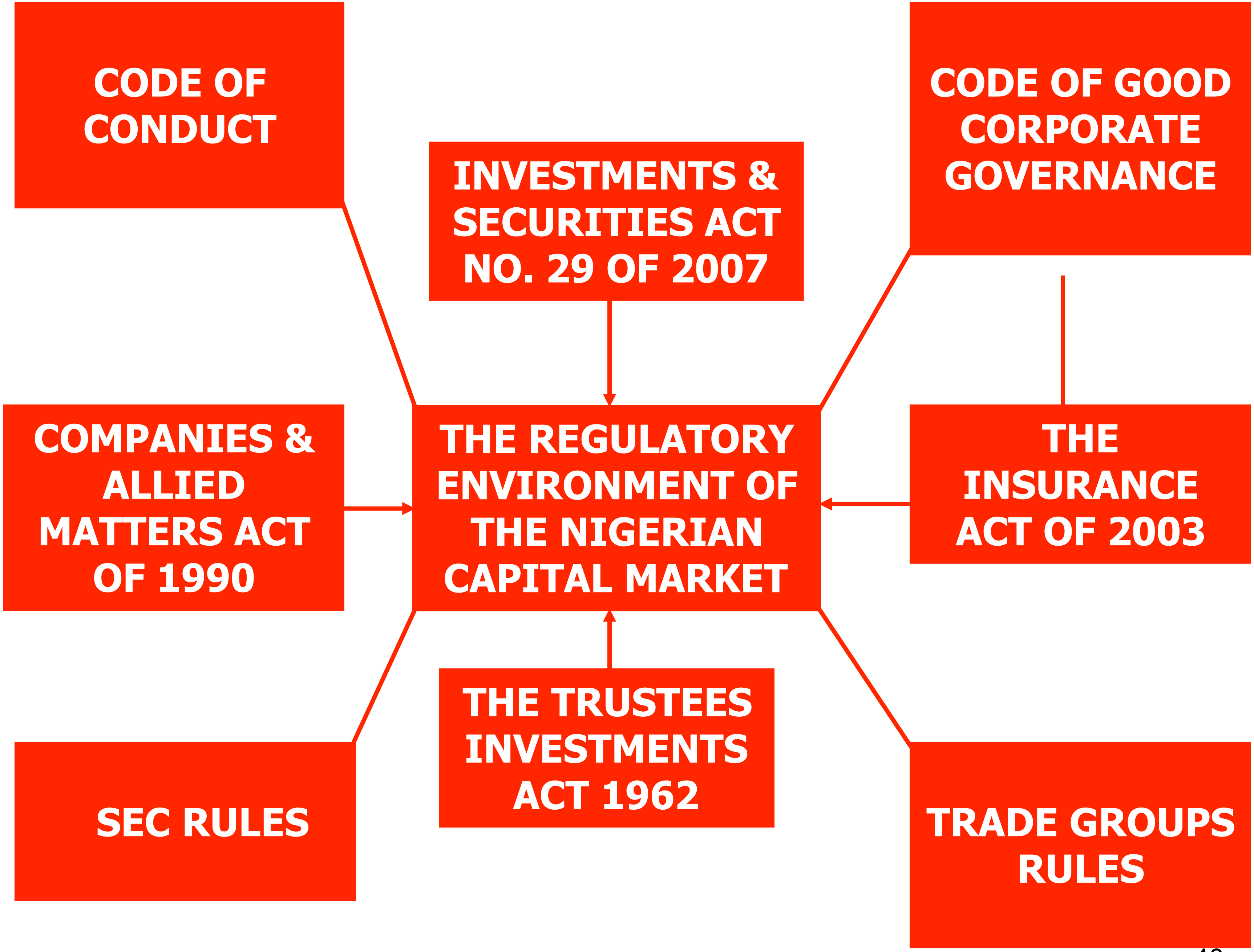
- Other parties registered with the Commission, grievances, disputes and complaints are handled by the Commission i.e. investigation and adjudication.

REGULATION OF THE CAPITAL MARKET

- The primary goal of regulating the capital market is for protection of the investors. Issuers of securities are also protected against abuse by intermediaries.

REGULATORY OBJECTIVES

- Upholding integrity of the capital market.
- Fostering professionalism among players.
- Promoting and sustaining operational probity.
- Attracting and sustaining confidence.
- Forestall conspiracies between operators and operators and operators and securities issuers against investors.


CODE OF CONDUCT
INVESTMENTS & SECURITIES ACT NO. 29 OF 2007
CODE OF GOOD CORPORATE GOVERNANCE
COMPANIES & ALLIED MATTERS ACT OF 1990
THE REGULATORY ENVIRONMENT OF THE NIGERIAN CAPITAL MARKET
THE INSURANCE ACT OF 2003
SEC RULES
THE TRUSTEES INVESTMENTS ACT 1962
TRADE GROUPS RULES

THINGS THAT THREATEN INVESTORS CONFIDENCE AND INTEGRITY

S/NO.	PRACTICE	CULPRIT
1.	Unauthorized sales	Operators
2.	Impersonation by investors	Investors
3.	Conversion of proceeds of sales	Operators
4.	Stealing of share certificates, warrants, etc.	Operators/ Investors
5.	Issuance of dud cheques	Operators.

THINGS THAT THREATEN INVESTORS CONFIDENCE AND INTEGRITY

S/NO.	PRACTICE	CULPRIT
6.	Delayed transaction	Operators
7.	Price falsification	Operators
8.	Non-enforcement or weak enforcement of rules	Regulator
9.	Conversion of deposit for purchases	Operators.
10.	Poor corporate governance	Operators/ Regulator
11.	Negligence over portfolio watch	Investors

DISPUTE RESOLUTION MECHANISM

- Reported cases are investigated.
- If investigation proves violation, the Commission reports matter to the IG of Police, the Chairman of EFCC or AG of the Federation for further investigation and prosecution.
- Institute a civil action at the IST or commence administrative proceedings hearing against such an erring party.

ADMINISTRATIVE PROCEEDINGS COMMITTEE (APC)

- The Administrative Proceedings Committee of the Commission was set up pursuant to section 29(7) and section 259 (1) of the ISA requiring enforcement in the capital market to resolve conflicts, disputes, grievances and violations requiring enforcement in the capital market.

PERFORMANCE OF THE MARKET

(STOCK MARKET STATISTICS 2005 – JUNE, 2011)

Year	New Issues					Trading Value			Market Capitalization			All-share Index		Number of Listed Securities		
	Sovereign Bond	Sub-national Bonds	Corporate Bonds	Equities	Total	Equities	Debt	Total	Equities	Debt	Total			Equities	Debt	Total
	=N='M		=N='M	=N='M	=N='M	=N='M	=N='M	=N='M	=N='B	=N='B	=N='B	Points	% Change			
2005	140,000.0	0.0	6,942.5	405,839.5	552,782.0	254,707.80	8,221.8	262,929.6	2,523.49	376.61	2,900.10	24,085.8	1.0	214	74	288
2006	411,753.0	3,500.0	13,500.0	278,641.6	707,394.6	468,588.40	1,665.4	470,253.8	4,228.57	892.33	5,120.90	33,189.3	37.8	202	86	288
2007	596,500.0	0.0	Nil	1,338,575.2	1,935,075.2	2,083,424.60	2,870.0	2,086,294.6	10,301.02	2,993.58	13,294.60	57,990.2	74.7	212	98	310
2008	515,000.0	50,000.0	5,170.0	939,057.2	1,509,227.2	2,375,618.80	3,523.9	2,379,142.7	6,987.49	2,575.51	9,563.00	31,450.8	(45.8)	213	88	301
2009	614,440.0	41,500.0	13,165.0	31,239.8	700,344.8	684,038.4	412.8	684,451.2	4,992.0	2,038.8	7,030.8	20,827.2	(33.8)	216	49	265
2010	1,073,120.0	157,500.0	77,290.0	120,339.0	1,428,249.0	797,537.4	14.1	797,551.5	7,917.9	2,407.5	10,325.4	24,770.5	18.9	217	47	264
As at June 2011	396,500.0	0.0	16,500.0	17,945.3	430,945.3	373,651.4	0.0	373,651.4	7,991.1	3,648.1	11,639.2	24,980.2	0.9	206	47	253

Source: SEC, DMO, The NSE

IMPACT ASSESSMENT

PERFORMANCE OF THE MARKET

Dominant instruments traded in the market are equities and debts.

A once dormant debt market is now resuscitated but still dominated by sovereign debt instruments (FGN Bonds).

Sub-national and corporate bonds are still not yet too encouraging.

The market witnessed steady and impressive growth over the years.

IMPACT ASSESSMENT

PERFORMANCE OF THE MARKET

It was helped by robust government policies – the indigenisation, privatisation; the banking sector reform, the recapitalisation programme of the insurance sector.

The sustenance of a stable political environment for economic activities.

The indicators were climbing up and by 2007 it peaked. There was a borrowing binge to invest in the market, rules were violated.

PERFORMANCE OF THE MARKET

IMPACT ASSESSMENT

In the middle of March, 2008 Nigeria's capital market witnessed worst… the bubble busted. The NSE All Share Index crashed, falling by 45.8% by end of 2008.

CHALLENGES

Low level of confidence:
Transactions particularly on the secondary market have not returned to its pre-2008 levels.

Low return on investments:
A market that is driven by fundamentals of listed companies, is therefore disadvantaged as most companies suffer from infrastructural challenges, especially power. This constraints profitability levels.

CHALLENGES

Shallow Market Depth and breath

Limited securities and products.

Active trading is only on the 1st tier.

Several eligible companies particularly in telecommunications, oil & gas sectors remain unlisted.

REFORMS

Strengthened enforcement and regulatory oversight.

February 2011, sixty (60) stockbroking firms were suspended by The NSE for failing to comply with the Commission's directives of 2005 to recapitalise the shareholders funds to a minimum of N70Million.

Continuous amendment of Rules.

Enhanced education of investors.

REFORMS

Emphasis on risk-based supervision – a refocus of its oversight on risk-based supervision model which requires securities firms to maintain at all times, specified minimum level of liquid assets, sufficient to promptly meet all obligations to customers, market participants and other creditors commensurate with their risk exposure.

REFORMS

- **Governance Issue and Regulatory Leadership:** Good corporate governance strengthens confidence in capital markets and so helps the developments.

  Capital markets elicits good corporate governance when there is disclosure, timely reporting and transparency requirements.

  The Commission launched a new code of corporate governance in March, 2011 while full implementation began on April 1, 2011.

REFORMS

- **Automation of market process and surveillance.**

- **Efficient robust market (infrastructure):**
  - extension of trading hours to seven hours as a strategic move to reposition the market for enhanced competitiveness.
  - NSE trading platform was recently replaced with a more efficient one.

- **Enhanced market process that will take cognizance of a new tax regime.**

REFORMS

- **Capacity building:**
  We have stepped up capacity building for our staff.

- **Resident World Bank Adviser on Bond:**
  This is to give boost to bond processes and approvals.

- **Enhanced market process that will take cognizance of a new tax regime.**

REFORMS

AMCON ESTABLISHED:

The Asset Management Company of Nigeria was established by the Federal Government through the AMCON Act of July, 2010 to mop up toxic assets off the bank's balance sheets to enable them better recapitalized and resume lending to the real sector.

REFORMS

NEW RULES:

Forty-three new rules and amendments were introduced including guidelines on granting margin loans developed by SEC in conjunction with CBN to guide credit relationship between banks and stockbroking firms.

REFORMS

- Unbundling of universal banking policy and establishment of new policy on holding companies.

- New products such as Exchange Traded Funds, REITs, Islamic Products, Mortgage-backed Securities (MBS) and other variants of mutual funds are being developed.

REFORMS

- Strengthened enforcement and compliance action by maintaining zero tolerance policy on infractions.

- A number of CMOs particularly Registrars and Stockbrokers were sanctioned for Rules breaches. In 2010 for instance, 260 CMOs were brought before IST for alleged violation of market rules, 34 operators were suspended from trading for non-compliance with periodic reporting of obligation; 92 operators were sanctioned for Money Laundering Act violation as well as imposition of penalties on 14 fund managers.

REFORMS

- A new corporate governance code came into effect.

- A new Anti-Money Laundering (AML)o and Counter Financing of Terrorism (CFT) manual has been introduced.

- SEC's intervention on the board of NSE

PROSPECTS:

NEW

FRONTIERS

- Dematerialisation
- Demutualisation.
- E-business

CONCLUSION

A capital market is a reflection of the state of its national economy. There is a strong bonding between a national economy and its capital market.

CONCLUSION

- ✓ Strong leadership and emergence of stable and strong democratic institutions.

- ✓ Federal Government in partnership with various tiers of government have jointly invested about US$5.5 billion in the National Independent Power Project (IPP).

CONCLUSION

- ✓ US$1.0 billion seed money for the take off of the National Sovereign Wealth Fund (NSWF).
- ✓ Various phases of revamping the railways are being undertaken.
- ✓ The textile industry is being brought back to life with the injection of bail out funds by government .

CONCLUSION

- ✓ In the South-South region, there is increased budgetary allocation for the NDDC.

- ✓ A related development is the re-invigorated amnesty programme in the Niger Delta programme and the necessary peace and quiet.

- ✓ Capital market's growth is extremely important.

CONCLUSION

- ✓ SEC alongside other institutions to move the market to the next level.

- ✓ We need your support.

THANK YOU