Nigeria's capital market:
Making world-class potential a reality

The Report of the SEC Committee on the Nigerian Capital Market - February 2009

Table of Contents

List of Figures

List of Tables

List of Definitions

1. AIHN – Association of Issuing Houses of Nigeria
2. ANAN - Association of National Accountants of Nigeria
3. APC – Administrative Proceedings Committee
4. ASCE – Abuja Securities and Commodity Exchange
5. ASI – All Share Index
6. BOVESPA – Bolsa de Valores de São Paulo (São Paulo (Brazil) Stock Exchange)
7. BSE – Bombay Stock Exchange
8. CAGR – Compounded Annual Growth Rate
9. CBN – Central Bank of Nigeria
10. CIC – Capital Issues Commission
11. CIS - Chartered Institute of Stockbrokers
12. CSCS – Central Securities Clearing System
13. DIFX – Dubai Stock Exchange
14. DMO – Debt Management Office
15. FDI – Foreign Direct Investment
16. FGN – Federal Government of Nigeria
17. FIRS - Federal Inland Revenue Service
18. GDP – Gross Domestic Product
19. GDR – Global Depository Receipt
20. ICAN - Institute of Chartered Accountants of Nigeria
21. ICSAN - Institute of Chartered Secretaries and Administrators
22. IOD - Institute of Directors
23. IPO – Initial Public Offering
24. ISA – Investments and Securities Act
25. IST - Investments and Securities Tribunal
26. JSE – Johannesburg Stock Exchange

27. LSE – London Stock Exchange
28. M & A – Mergers & Acquisitions
29. MOU – Memorandum of Understanding
30. NAICOM – National Insurance Commission
31. NBA – Nigerian Bar Association
32. NGN – Nigerian Naira
33. NIA - Nigerian Insurers Association
34. NSE – Nigerian Stock Exchange
35. NYSE – New York Stock Exchange
36. OTC – Over the Counter
37. PenCom – National Pension Commission
38. PFA – Pension Fund Administrators
39. PwC - PricewaterhouseCoopers
40. REIT – Real Estate Investment Trust
41. S & P – Standard and Poor's
42. SEC – Securities and Exchange Commission
43. SME – Small and Medium Scale Enterprises
44. SRO – Self Regulatory Organisation
45. UK – United Kingdom
46. UNCTAD – United Nations Conference on Trade and Development
47. USA – United States of America
48. USD – United States Dollar
49. VAT – Value Added Tax

Executive summary

Nigeria's capital market has enjoyed a decade of unprecedented growth. In the last five years the total market capitalisation has increased by over 90.0%. However, from a peak in March 2008, capitalisation went into a spiralling decline, dropping 45.8% by the end of the year.

Clearly, Nigeria's capital market is at a crossroads.

Although the recent fall in capitalisation coincided with the global financial crisis, external factors were not the sole cause. Other contributors to the general decline in the investor confidence were included:

- Ineffective market regulation and supervision
- Weak institutions and corporate governance
- Lack of regulatory pro-activity and cohesion
- Unregulated margin financing
- Concerns about transparency
- Uncompetitive cost structures
- Inefficient, cumbersome processes

Despite these weaknesses, the inherent potential for growth in Nigeria's capital market is unprecedented. The country has a rapidly diversifying economy, strong entrepreneurial spirit and speaks the global language of commerce: English. Building on these strengths, Nigeria could become:

> **A world class capital market that is efficient, transparent, innovative and attractive to investors both local and foreign while contributing to and facilitating the growth and development of Nigerian and African economies.**

To determine the best ways to make that vision a reality, on 15 September, 2008, the Securities and Exchange Commission's (SEC) Board, under the Chairmanship of Senator Udo Udoma, established a 15-man Committee to review the Nigerian Capital Market. Its aim: to assess the market's current state and make recommendations for its direction in the course of the next three to five years.

Based on extensive research, through consultation and experience 32 recommendations across selected functional areas, have been made – they form the core of this report as part of Chapter 4.

These recommendations are strategic in nature and do not directly focus on the more immediate issues related to the capital market's decline over the last 1 year. A separate report focusing on these issues is available and included in Appendix 6.8.

The Committee's recommendations should become a springboard for renewed market growth as well as enhanced global prestige. Each recommendation links to a specific strategic initiative in one of six key aspects of Nigeria's capital market:

1. **Market depth, breadth and sophistication**

   Prime recommendations:

- *Expand market offerings to increase the depth, breadth and sophistication of market products and offerings. Improve market liquidity.(no 1)*
- *Enhance the debt/fixed income capital market (no 2)*

2. **Efficiency and Cost Competitiveness**

   Prime recommendations:

- *Streamline the offer process (no 7)*
- *Reduce primary and secondary market issuance costs (no's 11 and 12)*
- *Leverage technology to streamline and improve the efficiency of market processes (no 13)*

3. **Strong Regulatory Oversight**

   Prime recommendations:

- *Improve effectiveness of market regulation, oversight and supervision (no 14)*
- *Strengthen the SEC through internal re-organisation (no 15)*

4. **Disclosure, Transparency and Accountability**

   Prime recommendation:

- *Develop an enforcement framework to prevent market manipulation (no 25)*

5. **Strong Participating Institutions**

   Prime recommendation:

- *Establish principles for risk management for capital market operators (no 28)*

6. **Co-ordination between fiscal and monetary authorities**

   Prime recommendation:

- *Enhance clear structures for policy co-ordination across financial service industry regulators* (no 32)

The rest of this report is structured as follows:

- Chapter 1 describes the background to the masterplan's development
- Chapter 2 reviews the development of Nigeria's capital market and highlights key challenges ahead
- Chapter 3 enlarges on the vision of what Nigeria's capital market can become
- Chapter 4 in addition to the recommendations outlined above, also puts them in context
- Chapter 5 provides implementation details and timing for change

'Change' is a concept that appears frequently in this report. And the need for change in capital market operations, processes and regulations is not by any means confined to Nigeria.

As competing markets reorganise themselves in the aftermath of the global economic crisis that came to a head in 2008, Nigeria has a two-fold opportunity: to learn from others' mistakes and to emulate the best regulatory and operational practices that they are now putting in place.

By embracing such change for the better, Nigeria can become part of and benefit from the global drive to restore investor confidence in capital markets. In doing so, Nigeria will be ideally placed to become Africa's foremost capital market.

1 Introduction

1.1 Background and Context

Landmark reforms across banking, insurance and pension sectors between 2004 and 2007 transformed the Nigerian capital market. The result was unprecedented growth. 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 an all time high of N12.6 trillion, even though it ended the year at N7.0 trillion (***see Figure 1***)

In 2005/2007, recapitalising banks and insurance companies raised over $10 billion. This achievement encouraged companies in other sectors to also approach the capital market to raise equity to fund the growth and expansion of their businesses.

The enactment of the Pension Reform Act of 2004 triggered strong growth in annual contributions to pension funds, currently estimated to be about N125 billion (with a projected growth rate of about 15% per annum).

The implementation of national economic and financial reforms, as well as the elimination of sovereign debt owed to the Paris Club and growth in foreign reserves position improved the nation's sovereign/ credit profile, increased awareness and confidence in the capital market and encouraged availability of credit to local banks by responding international banks and investors.

In 2007, Standard & Poor's (S&P) described the Nigerian equity market as the fastest growing in the emerging markets universe. Capitalization of the Stock Exchange increased by 141% in 2007 and crossed $85 billion (N8.262 trillion) in July of that year. In 2008, Daily Average Trades (gross) averaged over N10 billion, compared to just over N200 million five years before (***Figure 2***). In 2007 trades topped N2 trillion- 50% more than in 1999. Over the last 5 years, the value of new equity issues increased at a compound annual growth rate (CAGR) of 87%.

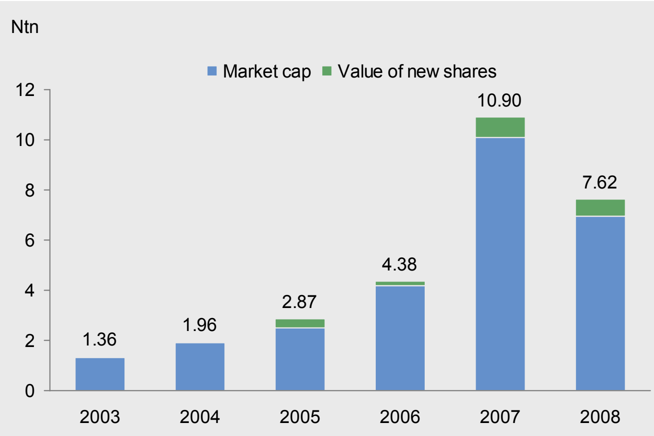


Figure 1: Market capitalization and value of new shares

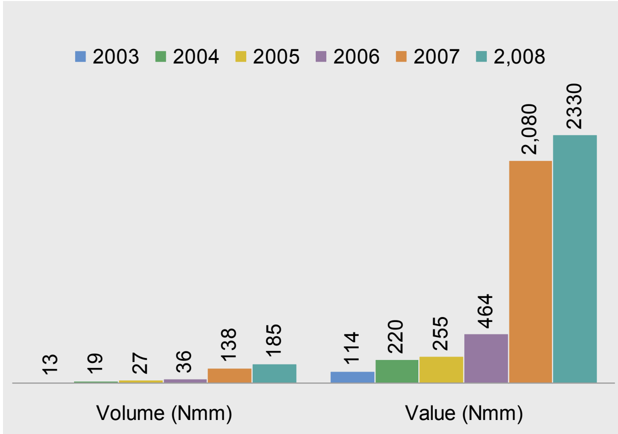


Figure 2: 5-Year Trend of Transaction Volume and Value

The trend in market performance reflected factors such as:

- Improved outlook in the overall Nigerian macroeconomic environment and socio-political stability
- Enhanced corporate governance performance
- Market liquidity arising from increased portfolio and foreign direct investment
- Increased attractiveness of investment opportunities in Nigeria that made the presence of international market participants more prominent due to:
  a. Strengthened fiscal policy leading to a stable Naira and benign inflationary environment
  b. Tougher anti-corruption measures leading to the removal of Nigeria from the list of non-compliant nations by the Financial Action Task Force.

Such growth, stimulated by the successful consolidation of the banking and insurance sectors, built domestic and foreign investor confidence and generated unprecedented interest and participation in the stock market.

However, the Nigerian capital market is undergoing a downturn – which may have been exacerbated by slowdown in government expenditure, tightening of the monetary regime, and potential regulatory changes especially mixed and often conflicting messages from the authorities regarding margin lending by banks to market operators. All seem to have undermined investor confidence in the capital market, with potential wider implications for Nigerian financial markets.

The increasing unease about valuation in the market precipitated a noticeable exit of domestic and foreign investors from the market. Regulatory pronouncements and actions seemed to only exacerbate the situation, the resultant uncertainty further undermined investors' confidence in the market.

Since March 2008, after three years of spiralling growth and returns, the Nigerian capital market has been experiencing a spiralling decline in market capitalization. The All-Share Index (ASI) dropped by 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 capital market between March 5 and December 31 lost about N5.7 trillion, or 45.1% in value.

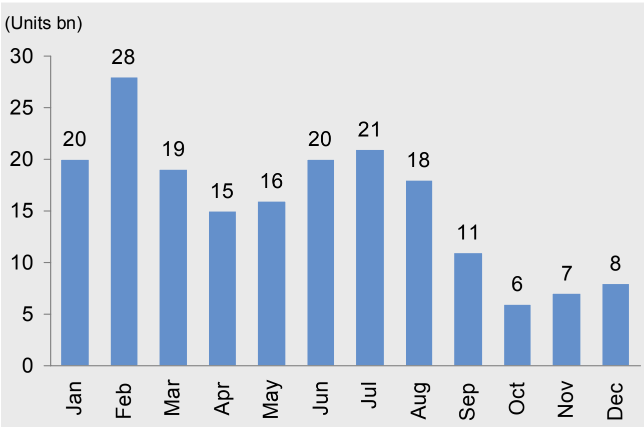


Figure 3: NSE Volume traded (Jan—Dec 2008)

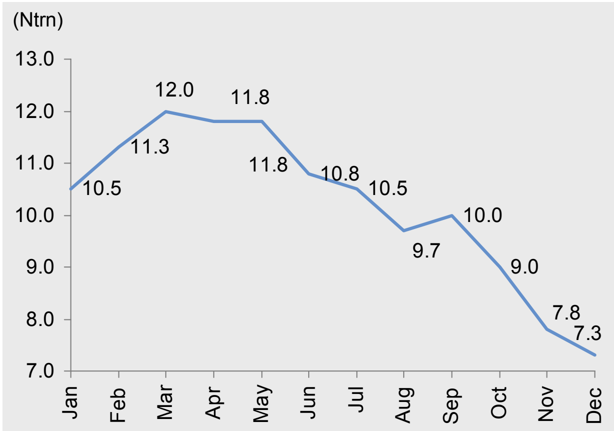


Figure 4: NSE Market Cap. Trend (Jan—Dec 2008)

Concerned about the fast decline in share prices, the Federal Government took action in August 2008 and set up a committee to stabilize the Nigerian capital market and address the persistent fall of equity prices

The committee, after a series of consultation, proposed recommendations to address the immediate concern about the decline in share prices which included:

- Establishment of a capital market stabilization fund
- Review of liquidity situation in the economy by the CBN
- Review and improvement of trading rules and regulations of the Nigerian Stock Exchange
- Injection of funds into the stock market by banks in partnership with the market markers

In spite of significant progress experienced in the capital markets over the last few years, specific challenges remain, which, if properly addressed, can reposition the country's capital markets for the long run, including:

- **Market depth/breadth:** the market offers limited securities and products. Compared with other developing economies, equity investments dominate other asset classes such as sovereign and municipal bonds, corporate bonds, and other convertible investments
  The NSE, the only active exchange in Nigeria, has 3 tiers with active trading only in the first tier.

25 companies (out of a total of 213 listed companies) make up 70% of the total market capitalisation.

- **Sector concentration:** 15 of the 20 highest capitalized companies are banks. The Banking sector stocks made up about 56% of total market capitalization by the end of 2008; hence the capital market impact on the real sector of the economy is limited.
- **Transaction costs:** transaction costs are high and not competitive vis-à-vis other emerging markets
- **Market processes:** market processes are cumbersome and lengthy
- **Market liquidity:** Relative to comparable developing economies, market liquidity and levels of market activity are low.
- **Transparency:** existing market infrastructure does not appear to support the provision of live trading prices to international investors. There is limited research on listed securities, industries and market, as well as frequent delays in the release of financial information
- **Savings Culture:** It seems that a weak retail and institutional savings environment, as well as low income per capita level, inhibit effective savings mobilisation in Nigeria
- **Macroeconomic factors:** The relative maturity of the Nigerian capital markets appears to make it extremely sensitive to macroeconomic changes, and undermines financial sector stability. Nigeria's economy is highly dependent on oil, further exposing it to global economic shocks.

1.2 The Case for Change

The SEC Board, under the chairmanship of Senator Udo Udoma, is seeking a strategic transformation of the structure and fundamentals of Nigeria's capital market to:

- Make Nigeria's capital market more competitive internationally, particularly in Africa,
- Improve relevance to domestic needs and contribution to national and regional economic growth and development,
- Enhance the operational efficiency and transparency of market activities and operations

In September 2008, the Board established a technical committee to assess the market's current state and make recommendations for the desired improvement in strategic positioning and performance of Nigeria's capital market.

Committee solution

The scope of work for the Committee includes the articulation of a comprehensive plan for the strategic repositioning of the Nigerian Capital Market including a clear roadmap of how the SEC and all market participants can help achieve the articulated objective for creating **"A world class capital market that is efficient, transparent, innovative and attractive to investors both local and foreign while contributing to and facilitating the growth and development of Nigerian and African economies".**

The Committee

The Technical Committee for the Review of Capital Market Structure and Processes is chaired by Adedotun Sulaiman (MFR), Chairman of Accenture and Cornerstone Insurance Company Plc.

(See Appendix 1 for a list of members of the SEC Committee on Nigerian Capital Market Review.)

A mandate for change

The Committee's terms of reference were specified as:

- Reviewing the current market structure and processes as well as the regulatory institutional framework and make recommendations for ways to improve the operational efficiency and transparency of the market, including any suggested amendments to existing laws

- Examining the international competitiveness – or otherwise – of the market and recommend measures required to fully align it with international best practices and so attract significant foreign capital and institutional presence
- Identifying the strength, weaknesses, opportunities and challenges of the Nigerian capital market with a view to positioning it to meet the immediate and future developmental aspirations of Nigeria
- Developing a timed master-plan for the Nigerian capital market complete with a roadmap for development
- Identifying any other factors considered important to the progress of the market

This document is the Committee's final report to the SEC

1.3 Consultation Process

The Committee organized into four sub- committees along the following areas:

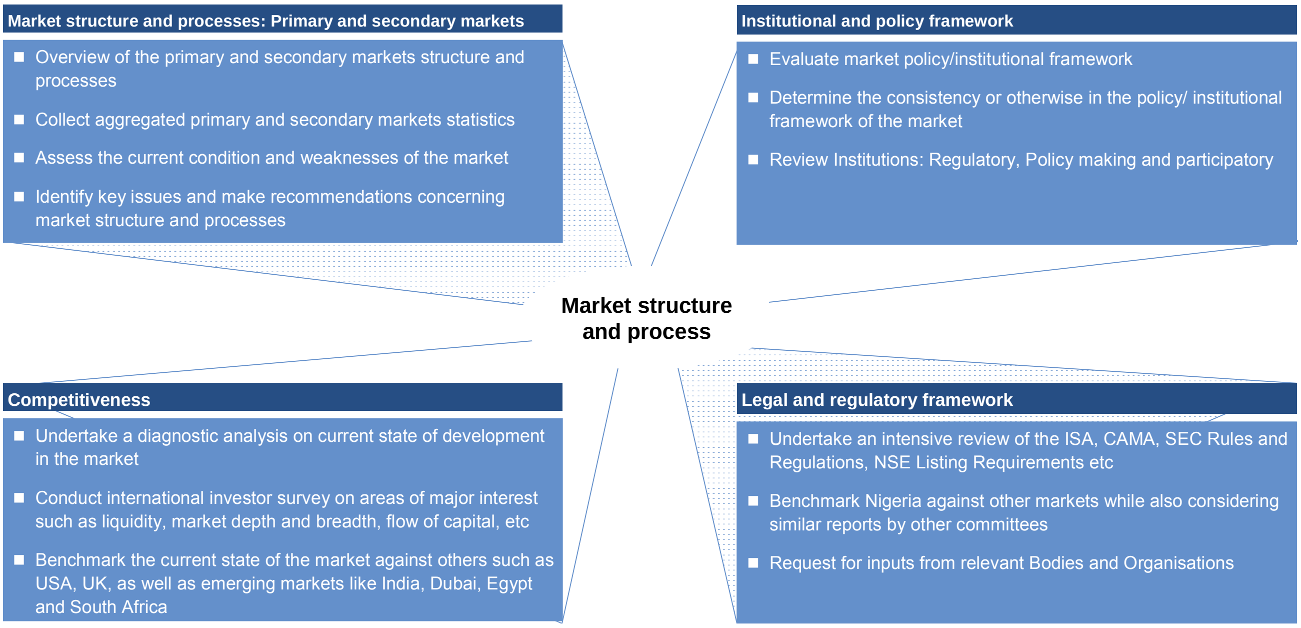


Figure 5: Committee's Work Structure

1.3.1 An inclusive approach

The Committee's consultative process included:

- Workshops/interactive sessions with a wide range of individual and organizational stakeholders
- Requests for position papers and the input of operators, market participants and other stakeholders

- Assessments of the international competitiveness of Nigeria's capital market, including a survey of active international participants

1.3.2 Benefiting from external perspectives

As part of the process of assessing international competitiveness, the Committee captured the views of more than 20 active international investors on the Nigerian stock market. This survey asked participants to rank various areas on a scale of 1-10. The results provide explanations and recommendations for improving lower ranking areas.

The survey found that the three highest areas of concern were the Nigerian market's:

- IPO process
- Narrow range of investment products
- Lack of transparency

In a study benchmarking the Nigerian Stock Exchange (NSE) against peers in global and emerging markets, the NSE ranked next-to-last in market size, trading volumes, liquidity, and market value. The NSE appeared to have the most expensive trading fees and commissions.

(See Appendices 2 & 3 for more complete research report findings.)

2 Nigerian Capital Market: Factors and Challenges

2.1 Development /Evolution of the Nigerian Capital Market

Before 1959, almost all formal savings and deposits in Nigeria were in the banking system. The country's major capital balances were invested on the London Stock Exchange usually via London-based stockbrokers. The Nigerian capital market effectively came into being with the establishment of the Lagos Stock Exchange in 1960, which began actual trading in 1961.

The NSE was incorporated under the Companies' Ordinance as an association, limited by shares initially, but became a company limited by guarantee in 1990. It received initial financial support from the CBN through an annual subvention. The Lagos Stock Exchange's name was changed to The NSE in 1977 following recommendations by the Government Financial System Review Committee of 1976. In addition to the Lagos bourse (by far the preponderant stage for trading activity) the NSE opened trading floors in Port Harcourt and Kaduna in 1980 and has since added Kano, Yola, Calabar, Ilorin, the latest being the Abeokuta branch commissioned in November 2008.

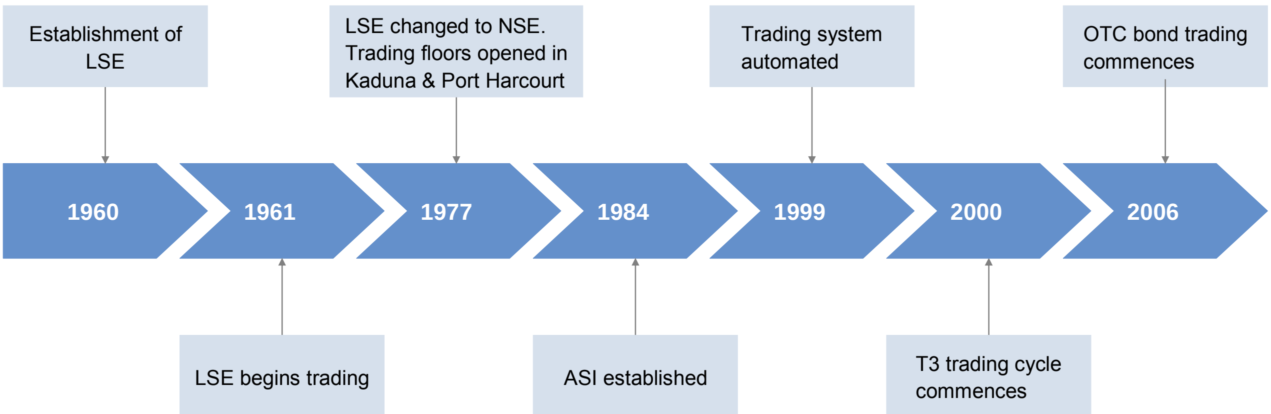


Figure 6: Development of the Nigerian Stock Exchange

The NSE comprises 3 tiers. The first tier is the official list comprising of 198 securities. Most of the activity on the NSE is on the first tier. The second tier list comprises 15 securities and the third-tier securities market is designed for Small and Medium Scale Enterprises (SMEs). The rules and regulations differ between the tiers. See the listing requirements in Appendix 6.3.

The Regulatory Bodies of the Nigerian Capital Market are:

1. The Federal Ministry of Finance:

The Federal Ministry of Finance owes its origin in part to the Finance (Control & Management) Act, Cap.144 of 1958. The enactment of this Act created the ministry as a replacement for the then Finance Department and conferred on it the responsibility for the control and management of Public Finances of the Federation. The Act became operational from July 31, 1958. The broad functions and responsibilities of the Ministry as provided by the Act fall into the following categories:

a. General supervision and control of public funds of the Federation, including Development and Contingencies Funds;

b. Management and control of Consolidated Revenue Fund;

c. Securing and managing the investments of the Federation;

d. Preparation of Annual (budgetary) estimates in Appropriation Bill including Supplementary and Unexpected votes;

e. Control and management of public expenditures;

f. Control and management of external finances of the federation.

2. The Central Bank of Nigeria (CBN)

The Central Bank of Nigeria began operations on July 1, 1959. The role of the CBN, similar to that of central banks in North America and Western Europe includes:

a. Establish the Nigerian currency
b. Control and regulate the banking system
c. Serve as banker to other banks in Nigeria
d. Carry out the government's economic policy in the monetary field.

The government economic policies included control of bank credit growth, credit distribution by sector, cash reserve requirements for commercial banks, discount rates--interest rates the Central Bank charges commercial and merchant banks--and the ratio of banks' long-term assets to deposits. Consequently, the government, through the central bank, has been actively involved in building the nation's money and equity centers, forming securities regulatory board and introducing treasury instruments into the capital market.

3. The Securities & Exchange Commission (SEC)

The SEC is the apex regulatory body in the Nigerian capital market and is supervised by the Federal Ministry of Finance. In 1962, the CBN established a Capital Issues Committee in order to regulate public issues of securities. Its mandate was to examine applications from companies seeking to raise capital from the market and to recommend the timing of such issues. The Committee, however, had no legal backing, but operated unofficially as a capital market consultative and advisory body within the CBN. An increase in the level of economic activities, after cessation of the civil war hostilities, coupled with the promulgation of the Nigerian Enterprises Promotion (Indigenisation) Decree in 1972 which mandated minimum Nigerian equity participation in some classes of enterprises broadened public participation in the stock market and significantly increased capital market activities. To provide stronger institutional support to the securities issuance process, primarily to regulate the pricing and timing of securities to be offered to the public, necessitated the creation of another body, the Capital Issues Commission in March 1973 to take over the activities of the Capital Issues Committee. The growth in market activities received a further boost from the promulgation of the Nigerian Enterprises Promotion Decree 1977, the second indigenisation exercise, which expanded mandatory local equity participation in Nigerian enterprises. It is historically significant that like the Committee, the Commission had on its Board representation from The Lagos Stock Exchange. Neither the Committee nor the Commission was conceived as the apex regulatory agency for the market. These were the precursors to the Securities & Exchange Commission ("SEC"). As a result of this historical antecedents, The Lagos Stock Exchange (now the NSE) has been perceived as the premier capital market institution.

Following the acceptance of the recommendations of the Financial System Review Committee led by Dr. Pius Okigbo in 1976, the Federal Government endorsed the establishment of the SEC to supersede the Capital Issues Commission. The SEC was established in 1979 by the Securities and Exchange Commission Act 1979 (re-enacted as Decree No. 29 1988) and became the apex regulator for the market with a mandate to:

- Regulate and develop the Nigerian Capital Market
- Determine the prices of securities, and
- Set the basis of allotment of securities

Its purpose was also to protect investors as well as make advancements towards the socio-economic improvement and development of the capital market. The SEC Decree No. 29 of 1988 made additional provisions for the Commission to address observed lapses in the previous arrangement and enable it to pursue its functions more effectively.

In 1996 a 7-man panel headed by Chief Dennis Odife conducted a review of the capital market and the SEC's role and effectiveness. Based on the panel's recommendations, the Investment and Securities Act No. 45 of 1999 ("the ISA") was promulgated in May 26, 1999. The Act repealed the SEC Act of 1988. This act was repealed and re-enacted in 2007.

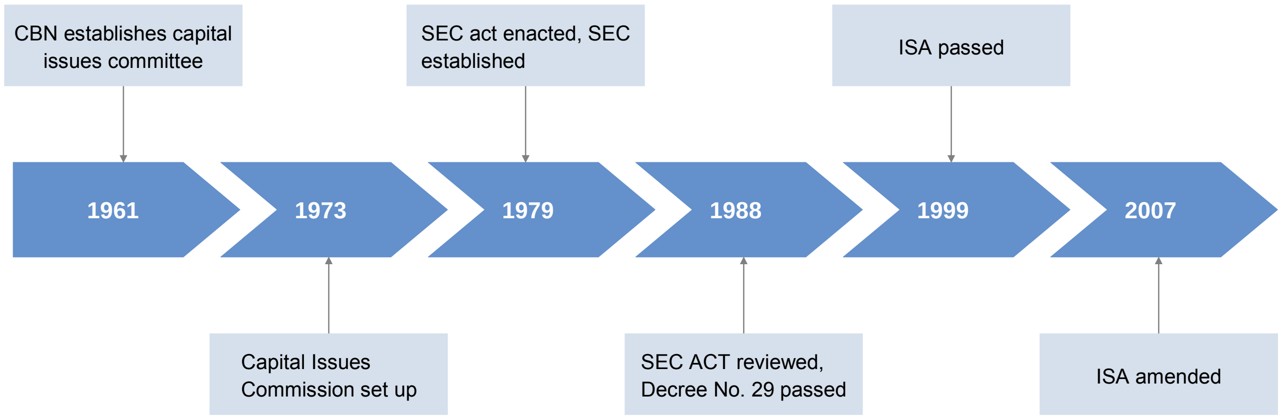


Figure 7**: Evolution of the Nigerian Capital Market**

Other Market Participants:

4. The Central Securities Clearing System

On July 2nd 1992, the Central Securities Clearing System Limited ("CSCS") was incorporated as a subsidiary of the NSE was incorporated with a mandate to provide automated clearing and settlement as well as act as the market's central depository. Apart from clearing, settlement and delivery, the CSCS also provides custodian services. On commencement of operations in 1997, the CSCS settled and cleared trades on a T+5 settlement cycle. The settlement period was reduced to T+3 in March 2000.

5. The Investments & Securities Tribunal

The Tribunal ("IST") was established in 1999 under Section 224 of the ISA. It is a dedicated and fast track civil court for the resolution of disputes arising from investments and securities transactions in an accessible, flexible, transparent and cost effective manner. The Tribunal's awards or judgments are enforced as judgments of the Federal High Court and appeals go to the Court of Appeal.

6. The Abuja Securities & Commodity Exchange (“ASCE”)

“ASCE” was originally incorporated as Abuja Stock Exchange on June 17, 1998 to provide a competing trading platform to break the monopoly of The Nigerian Stock Exchange which under the White Paper issued by the Federal Government was to be renamed Lagos Stock Exchange. It commenced electronic trading in securities in May 2001 but was converted to a Commodity Exchange on August 8, 2001 by the Federal Government following protests by NSE against SEC’s attempt to enforce the provisions of the White Paper on the Odife Committee Report. It is now under the supervision of the Federal Ministry of Commerce though still under the regulatory ambit of SEC. The conversion was ostensibly premised on the need for an alternative institutional arrangement that would manage the effect of price fluctuations in the marketing of agricultural produce which has adversely affected the earnings of farmers since the abolishment of commodity Boards in 1986. In 1989, an Inter-Ministerial Technical Committee was set up at the behest of the CBN to look into how a Futures Exchange for agricultural commodities could be established to address the agro-commodity marketing problems.

2.2 Market composition and evolution

In 2008, equities made up 68% of the listed securities on the NSE, covering a cross-section of sectors with the notable exceptions of the upstream oil, telecommunications (only one of the five majors is quoted) and other utilities industries. Corporate debt accounted for 15% of NSE listings, and Government bonds made up the balance.

Until the correction of 2008, the stock market had enjoyed a decade of high activity, growing both in absolute terms and relative to GDP - particularly in the period since 2002. Value and volumes traded grew at average annual compounded rates of 176% and 153%, respectively. Strong growth in trading activity seems to have been prompted by:

- Market deregulation which moved to market- determined pricing ;
- Socio-political stability since from 1999
- Financial sector reform, leading to consolidation of the banking sector (2004-2007), and to a lesser extent, the insurance sector in (2006–2007)

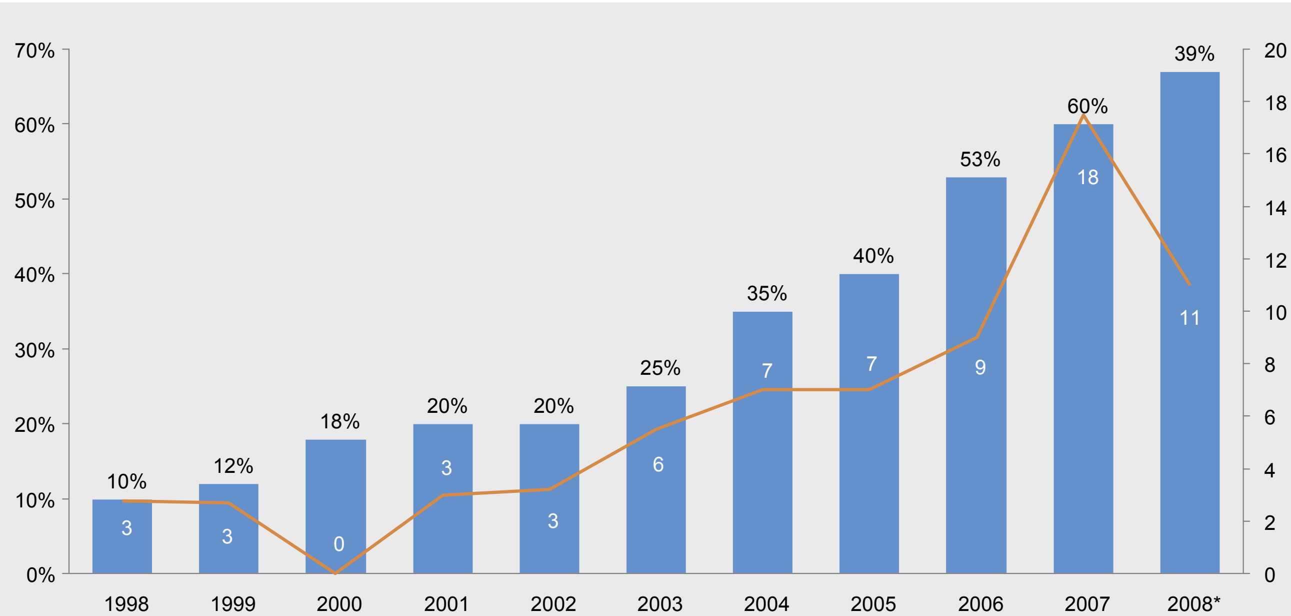


Figure 8: Market Capitalisation as a Percentage of GDP

Note: 2008 GDP figure is an EIU 11 month adjusted estimate
Source: CBN, Economist Intelligence Unit

Until early 2000, total market capitalization was approximately N280 billion. However following that, the stock market recorded unparalleled growth. Trading on the NSE recorded remarkable growth especially during regulation-mandated increases in capital and the subsequent voluntary capital raising exercises by the banks and insurance companies. This market performance underscores the role an effective capital market can play in providing long term financing for the growth and development of the economy. This performance was attributed to the growing efficiency of market operators, a growing investment culture in the country, as well as the conducive economic environment being nurtured by the democratic government.

By 2008, the market capitalisation of the NSE was dominated by the banking sector, which made up approximately 56% of the total market capitalisation.

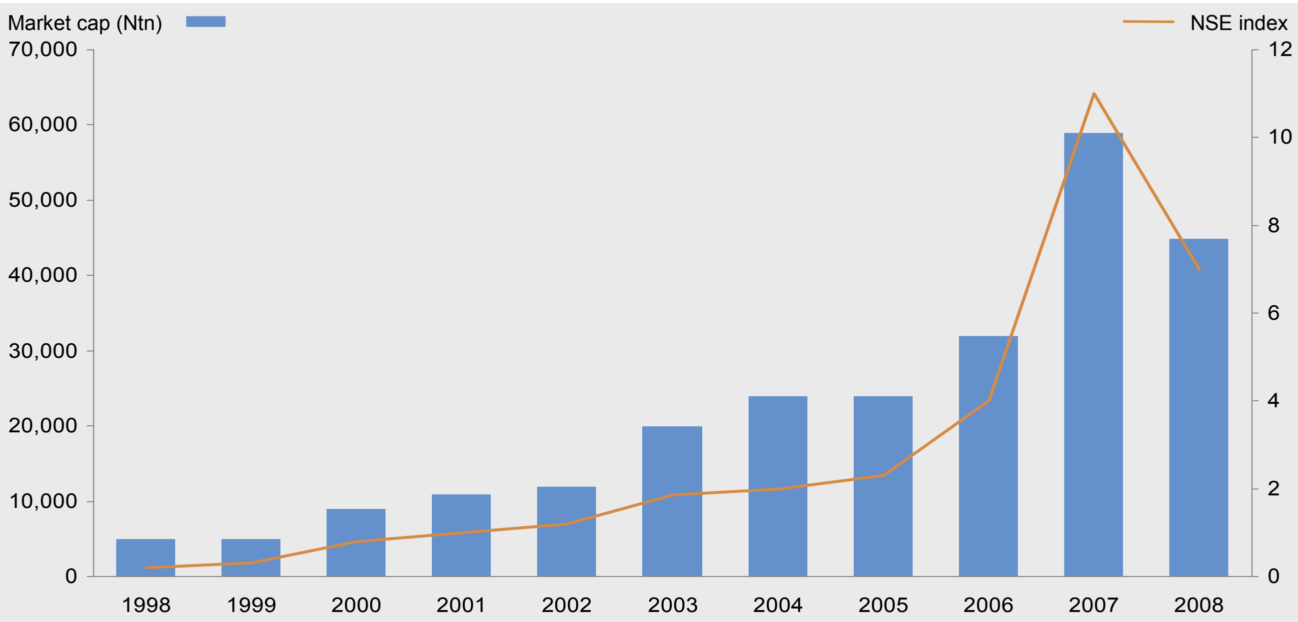


Figure 9: NSE Index vs. Market Capitalisation (Ntn)
Source: NSE, BGL Research

	2003	2004	2005	2006	2007	2008
Market cap (Ntn)	1.35	2.11	2.90	5.12	13.30	6.96
Value traded (Ntn)	120.0	225.8	262.0	470.0	2,100	1,992.73
Volume traded (bn)	13.3	19.2	26.7	36.7	138.1	323.7
All Share Index	19,943	23,845	24,086	33,189	57,990	31,450
Number of listed securities	265	277	280	287	310	304

Table 1: Overview of the Nigerian Capital Market Growth

Source: NSE, BGL Research

Market instruments

	Equities			Corporate debt	Govt. debt		
Year	**Main List**	**SSM**	**Sub-Total**	**No. of Listings**	**Federal**	**State**	**Total**
1998	170	16	**186**	55	19	4	**264**
1999	179	16	**195**	54	15	4	**268**
2000	179	16	**195**	49	12	4	**260**
2001	178	16	**194**	50	11	6	**261**
2002	179	16	**195**	49	10	4	**258**
2003	184	16	**200**	51	9	5	**265**
2004	191	16	**207**	52	12	6	**277**
2005	198	16	**214**	51	17	6	**288**
2006	186	16	**202**	47	34	5	**288**
2007	196	16	**212**	47	46	5	**310**
2008	198	15	**213**	47	42	5	**307**

Table 2: List of the Nigerian Capital Market Instruments

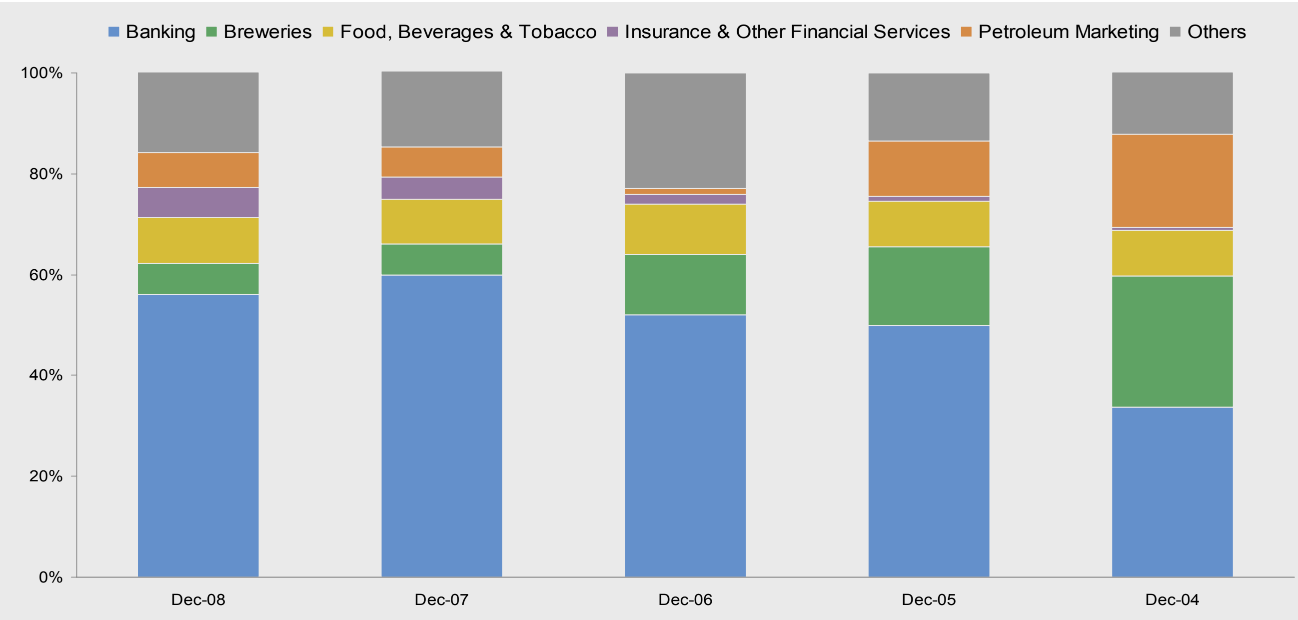


Figure 10: Market Capitalisation of the NSE by Sector (2004–2008)

SECONDARY MARKET LIQUIDITY

The liquidity of the market has been on the increase for the past five years. With consistent rise in the Nigerian Stock Market return for the period under review, the volume of shares traded as well as market capitalization has been on the increase. Trading hours were also increased from 2 hours to 3 hours and this has given more time to dealing members to execute orders on behalf of their clients and has led to increased activities on the Stock Exchange.

NSE Liquidity Profile

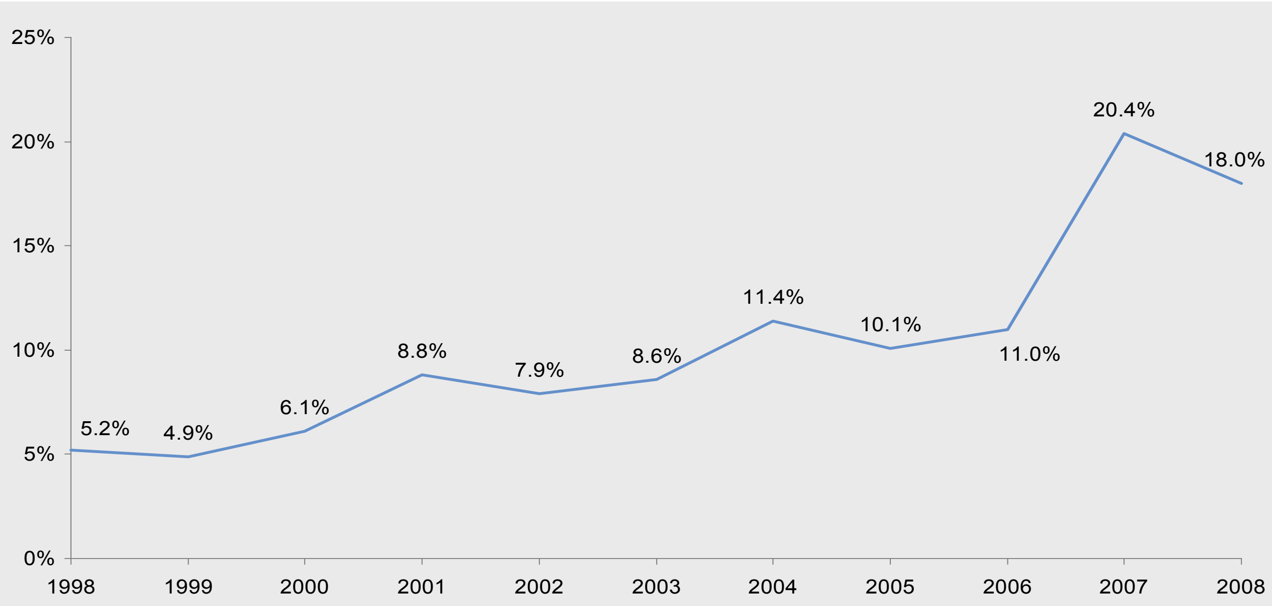
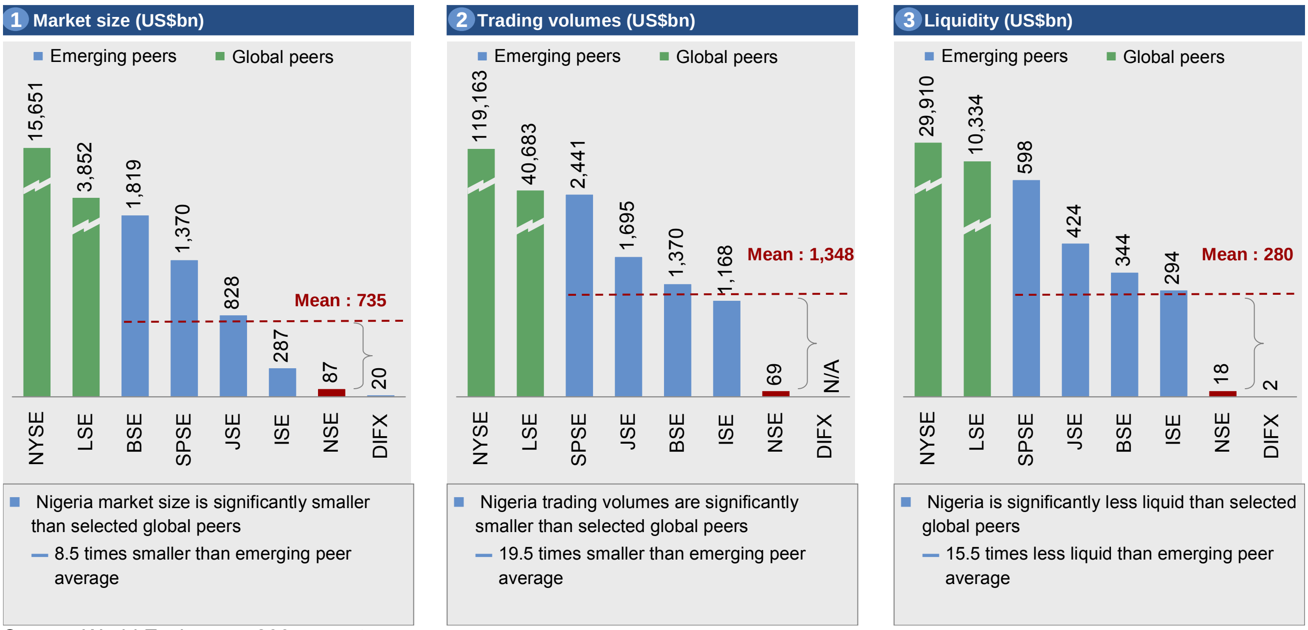


Figure 11: NSE Liquidity Profile



Source: World Exchanges 2007 report

Figure 12: Comparison of NSE Liquidity with Selected Int'l Markets

Circuit breakers

The NSE has a 5% up/down single stock trading limit as a circuit breaker. This was temporarily changed to a 5% up/ 1% down limit for a period of 2 months in 2008 in a bid to curb the market downturn. The NSE reverted to the 5% up/down limit by October, 2008. Several stock exchanges throughout the world use circuit breakers for management of systemic risk.

PRIMARY MARKET GROWTH

Along with a rapid increase in secondary trading, the Nigerian capital market has also experienced significant growth in new issues since the advent of civilian rule in 1999 – underpinned by attendant market reforms. This has been brought on both by windows of opportunity thrown up by increased banking liquidity and buoyed investor confidence. It has also been recognised by issuers principally, with some of the major domestic entrepreneurs opening up their companies to public ownership for the first time.

Year	New Equity Issues (N bn)	Growth in New Issues
2000	35.5	(59.30%)
2001	42.2	18.9%
2002	67.3	59.5%
2003	185.0	174.9%
2004	235.5	27.3%
2005	897.0	280.8%
2006	1,174.4	30.9%
2007	1,506.5	28.3%
2008	637.0	(55.3%)

Table 3: Primary Market Growth (2000-2008)

The market was on a (relatively) consistent growth curve until 2005 when the regulatory driven recapitalisation of banks triggered significant growth. The non-banking stocks have also followed (albeit at a slower growth pace). In this regard, the growth of 2005 was surpassed in both 2006 and 2007, sustained via a second level of capital raising by banks, regulation-driven insurance sector consolidation and real sector expansion involving sectors as wide-ranging as pharmaceuticals, aviation and food. This growth does not include the monies raised via private placements as such transactions typically do not have a wide distribution. However, it is estimated that up to N650 billion may have been raised via private placements in as many as 300 transactions in the period 2004 to 2008.

Despite the impressive growth in the equities market, there are still only 213 equities listed on The NSE, as compared with an estimated 6,000 Public Limited Companies registered with the Corporate Affairs Commission. We believe therefore that there is significant room for growth both in the debt and equity capital markets.

DEBT CAPITAL MARKETS

The Nigerian capital market is currently dominated by equities. In 2000, the Federal Government rejuvenated the structure for the issuance of FGN bonds, and in 2003, issued a N150 billion bond. This was the first FGN issuance in over 14 years. Between 2003 and March 2007, the FGN raised over N750 billion from the issuance of bonds with tenors ranging from 3 to 10 years. Several State Governments have also issued municipal bonds. There has however been a dearth of corporate bond issuances, with only 7 corporate bond issues between 2000 and 2008.

FACTORS

Developments in the market have been driven by several factors, including;

1. Economic & political stability
2. Government reform activities
3. Level of awareness
4. Foreign direct and portfolio investment
5. Globalisation and a move towards adopting international standards

1. **Economic and Political Stability:** The Nigerian economy is currently one of the strongest economies in Sub Saharan Africa. The economy has been growing at a steady pace of over 6% per annum for the past six years and this represents the longest and strongest period of sustained growth in over three decades. Growth has been broadly based across all the major sectors of the economy: agriculture, oil & gas, retail/wholesale, real estate, construction and financial services.

   The key drivers of growth over the past 8 years have been:

   - Strong oil prices
   - Economic reform
   - Increased foreign investment
   - Stable political climate

   The economic reforms introduced since the advent of democracy in 1999 have increased investor confidence and optimism whilst opening up the economy to local and foreign investors. However, despite improvement in economic indices, there are still significant socio economic challenges.

2. **Government reform initiatives:** Two particular acts of government significantly affected the growth of the market, specifically:

a. **Pension Fund Reforms:** The Pension Reform Act of 2004 has boosted asset management with annual contributions to pension funds estimated to be about N125bn per annum creating a new pool of long term-investible funds. Total pension funds by the beginning of 2007 stood at N110.7 billion ($917 million). These reforms have created several opportunities for growth in the capital markets including mergers and acquisitions, project and infrastructure financing and asset securitisation.

b. **Banking and Insurance Sector Reforms**: In 2004, the CBN increased the minimum capital requirements for commercial banks by 1150%, from N2bn to N25bn. This recapitalisation increased the capital base of banks from N400bn to approximately N1,120bn, and reduced the number of banks from 89 to 25 by the end of 2005. This was achieved via a wave of capital raising exercises, mergers and acquisitions and listing of companies on the NSE. It also increased the number of capital market operators as more stockbrokers, asset managers, issuing houses etc were incorporated to participate in the market. The new capital structure of these banks has also led to the availability of credit (corporate and –increasingly- individual) providing margin finance to (corporate and individual) investors. In 2006, the Insurance sector also went through a process of reforms somewhat similar to the recapitalisation of the banking sector. The recapitalisation and consolidation exercise in the insurance sector led to the emergence of 49 recapitalised insurance companies out of the 104 that existed before the consolidation. This reform program was however fraught with challenges, and was not as successful as the banking recapitalization

3. **Level of awareness:** Associated with the increasing prominence of the stock market there has been a gradual shift in the funding sources for the economy. In 2002 bank claims on the private sector accounted for almost 1/3 funding whilst the equity market contributed slightly more than 25% (see Figure 13) with the remainder being funded by domestic debt. By 2006 the equity market was financing more than 50% whilst bank claims had decreased marginally to less than 30%, the increase in the equity market's contribution being accounted for by a decrease in domestic debt. In addition, more people are becoming educated about the capital market, its operations and wealth creating/destroying capacity. This increasing interest should, and has actually increased the size of the market. Conversely, many firms issue shares because they perceive the short term cost of equity as being lower than the cost of funds in the money market. The increase in market operators has created healthy competition as the operators seek to enlarge the market by bringing in previously investment-shy individuals by creating awareness of the benefits of participating in the capital market.

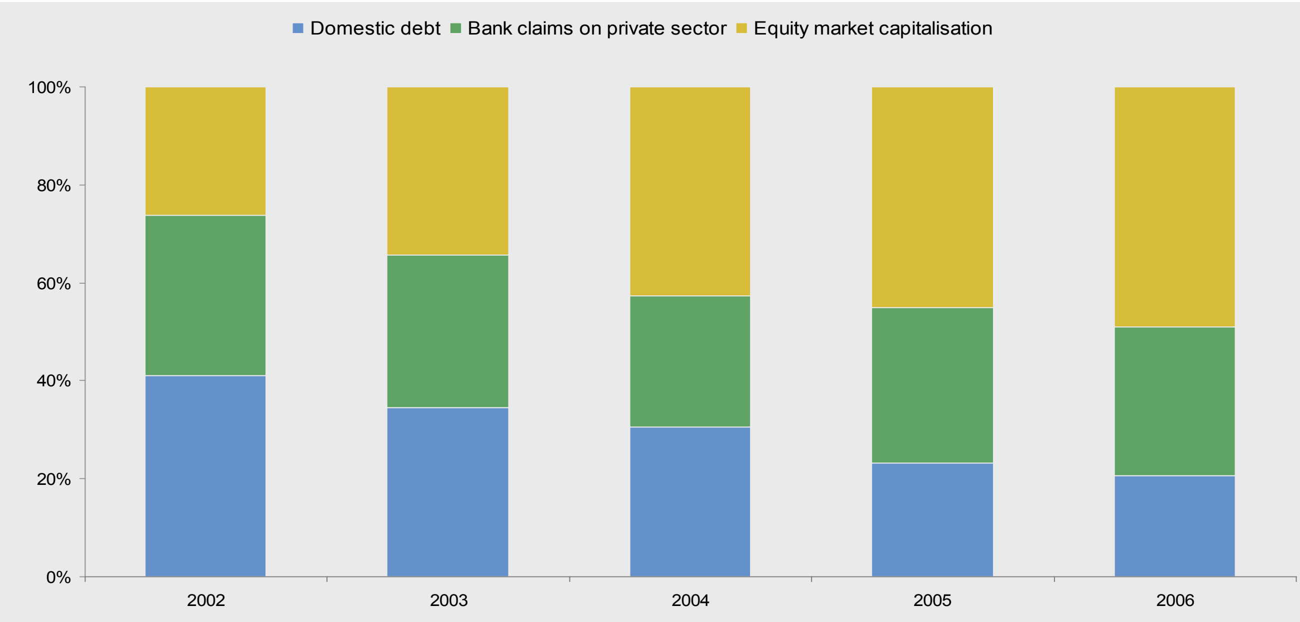


Figure 13: Sources of Funding for the Economy
Source: SEC, CBN, DMO, IFC

4. **Foreign direct and portfolio investment**: in 1995, Nigerian Investment Promotion Commission Decree was enacted. The decree eased the restrictions on non-Nigerians in investing directly in any sector of the Nigerian economy. Also, between 2004 and 2007, the country's BB-rating by two leading international global rating agencies: Fitch and Standard & Poors, the successful liquidation of the nation's external debt, and other economic reform measures, helped to rebuild confidence in the country's economy and this has resulted in a significant influx of foreign investment. Consequently, the country's foreign direct investment was $5 billion in 2005, $14 billion in 2006, and $12 billion in 2007 respectively.

5. **Globalisation and a move towards adopting International Standards:** Increasingly, the Nigerian Accounting Standards Board (NASB) and the Nigerian capital market continue to look to close the gap between local practices and the practices in the more developed markets of the USA, UK and South Africa. A few of these practices have been copied and/or modified to suit local requirements. This motive underlies such developments as the implementation of the All Share Index ("ASI"), the CSCS and the link to the Reuters Electronic Contributor System for online dissemination of stock market information.

CHALLENGES

While the growth story of the Nigerian capital market has been mostly positive, the market still faces several challenges that may hinder it from competing effectively in the global capital market:

1. PRIMARY MARKET PROCESSES

Transaction costs: transaction costs in the market are high. This may limit (and indeed may have limited) the number of companies willing to raise equity/debt capital through the market.

	Regulatory Costs	
	Bond Issue	**Equity Issue**
Chile	0.44%	0.12%
Mexico	0.08%	0.2%
Brazil	0.24%	0.25%
Nigeria	1.20%	1.21%

Table 4: Primary Market Regulatory Costs for Selected Exchanges

Recognition of electronic documents: official and judicial recognition of electronic documents would ease the primary market process.

Execution process: the primary issue execution process is considered extremely long, with an estimated timeframe for issuing equity of 27 weeks (see figure 15).

Pre-funding: Currently, the predominant securities issuance process is through public offers requiring subscribers to pre-fund their applications. With the long completion period, considerable capital is tied up without any assurance of full allotment. The opportunity cost for major investors and those financing such investments can be prohibitive and constitute a major disincentive to participation in the market. For foreign institutional investors, the violation of payment vs. delivery principle inherent in our public issue process is a risk many cannot bear.

The listing process is itself a four-step process as outlined below:

1. Stockbrokers and Issuer file listing documents with the NSE. The listing documents are stated in The NSE’s Green Book.

2. The NSE reviews the documents, and if in order, invites the company to a Quotations Committee Meeting of the Council of the NSE.

3. The NSE grants its approval if the company meets its requirements.

4. The company selects a listing date on the conclusion of the public issue process, the shares are listed and trading commences.

2. SECONDARY MARKET PROCESSES

Limited number of Trading Platforms: The NSE remains the only active trading platform available to the market participants. Although the ASCE has been set up, it is not yet trading securities (it currently trades commodities with little or no trading actually taking place). Having a single trading platform has limited the options for operators and issuers. Of more significance is the absolute lack of protection for investors in the many public companies that are not listed. In the absence of transparent trading platforms for securities of unquoted public companies, investors in such companies are prone to exploitation by insiders.

Transparency: Arbitrary amendments of rules undermine confidence in the market. The same applies to selective enforcement of rules, regulations and penalties. A competitive market must be fair and impartial.

Public awareness: the growth and development of the market is dependent on increasing public knowledge and awareness and ensuring the public remains interested in the market. While a lot of work has been and is being done to create this awareness, a lot more still needs to be done.

Availability of information: annual accounts and other company information are not readily and easily available. This makes analysis difficult. The Rules need to be strengthened and enforced to protect investors. The market can only thrive and be fair in a regime that ensures access for all investors to timely and adequate information on tradable securities.

Transaction costs: secondary market transaction costs in the market are also very high. High transaction costs impact negatively on yields and reduce the frequency of trades with the attendant effect on liquidity as investors will have to wait for gains to cover all purchase and transaction costs before disposing of their investments.

Exchange	Total Trading Costs	
LSE	0.052%	
Deutsche Borse	0.027%	
Euronext Paris	0.027%	
Nasdaq	0.038%	
NYSE	0.024%	
	Buy side	Sell Side
NSE	**1.1226-1.856%**	**1.556-2.186%**

Table 5: Secondary Market Transaction Costs for Selected Exchanges
The NSE figures are based on the revised fee structure published by the SEC in November, 2008.

3. GOVERNING LAWS

Regulatory oversight: Laws, regulations and rules need to be reviewed to achieve international competitiveness, strengthen oversight, enhance transparency and promote a vibrant and deeper market

4. MARKET REGULATOR AND OTHER OPERATORS

Capacity building: market participants require specialized knowledge and skills for the performance of their functions. The availability of people with the knowledge and skill will improve the smooth functioning of the market. The Nigerian educational system is currently not producing enough people of the calibre required by operators. There is thus a need to find means of recruiting and training staff of the desired quality and also ways of retaining those staff.

Corporate Governance of all Self Regulatory Organisations (SROs): The ISA gives the SEC oversight functions on all market participants, including Self Regulatory Organisations. There are issues with representativeness and inclusiveness in the governance of some SROs, especially, and most significantly, the NSE. The SEC needs to monitor all SROs to ensure that these rules are being enforced.

Regulation of the Bond Market: While SEC must be commended for its efforts in reviving the bond market, it would appear it has been intimidated to cede to DMO (essentially an agency of Ministry of Finance, its supervising Ministry) its responsibility for oversight over the secondary market for Federal Government Bonds. The so-called Over-the-Counter-Market is neither transparent nor accessible to the average investor.

2.3 Recent Market Issues/Concerns

2.3.1 SEC's challenges

i. <u>SEC Enforcement and Surveillance Capacity</u>

The ISA provides SEC with extensive powers that are considered sufficient to allow it to effectively regulate and enforce rules for an orderly, fair and transparent market in Nigeria. However, SEC does not appear to have adequate capacity (quality and quantity: people, technology and systems) to implement the provisions of the ISA and effectively exercise its authority over market operators, exchanges, SROs and other market participants, especially as the market has grown rapidly in size and complexity.

ii. <u>SEC Governance</u>

The dependence of SEC, which currently reports to the Ministry of Finance, may limit SEC's ability to operate autonomously, without influence from government and to act independently in the best interest of the capital market.

iii. <u>SEC Funding</u>

SEC is currently funded by the capital market, and this is consistent with the funding structure of several other securities commissions. The requirement for SEC to repatriate any excess funds to the Treasury was raised as an issue, especially as it appears to be without regard for SEC's need to build reserves to fund the necessary expansion of its regulatory capacity.

2.3.2 General

iv. <u>Coordination of Financial Market Regulators</u>

Current levels of co-operation, interaction, information exchange, collaboration, and policy initiation and implementation between the various financial markets regulators and government agencies/regulators: (SEC, CBN, PenCom, DMO and NAICOM) are considered inadequate to encourage the coherent formulation of policies. Frequent inconsistent policy initiatives from these regulators/agencies create significant uncertainty and market confusion. It would appear that the Financial Services Regulatory Coordination Committee has slipped into inactivity. It seems that even the ongoing global financial crisis has not provided a strong enough stimulus to revive it.

v. **Efficiency of Interface Between Regulators and Operators**

There is an issue with the requirement for public companies to repeatedly submit copies of corporate documents (Certificate of incorporation, Memorandum and Articles of Association), even when there have been no changes. Hard copies of draft offer documents are also required to be filed only at SEC's Abuja office, although SEC has several zonal offices. SEC's location in Abuja, away from the vast majority of the operators is also an impediment to efficiency of the market and interface with the market it regulates.

2.3.3 Self Regulatory Organisations (SROs)

vi. **Appropriate Capitalisation of Market Operators**

Several operators are inadequately capitalised for their businesses and associated risks. While current capitalization levels are observed to be insufficient for the level of risk taking in the market, capital requirements tend to be unilaterally set at a uniform minimum for all operators and not based on any risk-adjusted weighting

vii. **Authority of The NSE and other SROs**

There is widespread market perception that The NSE as an SRO is an entity independent of SEC and not subject to SEC rules and regulation, despite unambiguous provisions of the ISA to the contrary. The market's perception is that The NSE is at par with SEC, is not subject to SEC and does not require SEC approvals for its operations. This is possibly because The NSE was established before SEC, operates an effective monopoly market, its proximity to market, and the prominence given to its daily activities.

viii. **Governance of The NSE**

The lack of clarity of the ownership and governance structure (rule making, nomination and selection of Council members, management authority, etc) of The NSE, even to market operators, is quite apparent and raises questions about transparency and accountability. It would appear that the principal stakeholders cannot properly exercise their rights of participation in the governance of The NSE

ix. **Independence and Autonomy of the CSCS**

The CSCS appears considerably dependent on The NSE (a dominant minority shareholder) for its leadership and direction, creating potential conflicts between a monopoly marketplace (NSE) and a monopoly clearing house (CSCS).

x. **The Function of Registrars**

The verification of transfer certificates by Registrars sometimes frustrates the process of transferring securities, especially in view of the wide availability of certificated shareholdings. Several abuses also abound in relation to delays in the issuance and despatch of share certificates for primary issues and verification of shares bound for the secondary market. It is believed that some companies use the Registrar office, especially for in-house Registrars, to regulate the supply of their securities to the market.

xi. **Poor Risk Management Framework for Market Operators**

Current operator standards, internal practices and regulatory oversight do not allow for uniform industry best practice in managing trading risks and exposures. There are no industry-wide minimum risk management standards that are adhered to by all market operators to reduce systemic risk, expand investor/counter-party confidence and reduce the impact of any operator failures. Current safeguards against fraudulent treatment of investors/clients by market operators and potential failure of operators are inadequate.

2.3.4 The NSE

xii. **Market Transparency**

The trading rules, processes and practices of The NSE appear to give management of The NSE considerable powers to change rules at will; powers and practices considered inappropriate to allow for the evolution of a fair, transparent and efficient marketplace. Many operators are unaware of The NSE’s current rules. Investors are also concerned about the availability of live trading prices, the timing and timeliness of the disclosure of material information, etc.

xiii. **Poor Information Disclosure by Issuers**

Current standards of information disclosure by public and listed companies are insufficient in terms of completeness of information, frequency of release, and level of detail. The frequent non-compliance by many listed companies with The NSE's rules, especially in relation to the completeness and frequency of interim and full-year financial reports, appears to go unpunished by either SEC or The NSE. Several companies, including Transcorp which is chaired by the Chief Executive of The NSE, are culpable in this regard.

xiv. <u>Market Research</u>

Deep reliable market research and information about securities and corporate performance are still not widely available, with limited equity and research on listed securities, industries and the market.

xv. <u>Regulatory Framework for Market Operators</u>

The requirement for periodic, sometimes annual, renewal of (corporate and individual) operators' registration is cumbersome and should be replaced with regular inspection of operators, a once-and-for-all registration practice and possible devolution of registration of individuals employed by registered corporate operators to the respective SROs and/or professional bodies.

xvi. <u>Transparent Trading Platform</u>

The NSE should start operating a comprehensive trading platform common in many international markets, which allows access to the four major securities markets: equities, bonds, currencies and money markets.

xvii. <u>High Capacity for Insider Dealing and Market Manipulation by Market Operators</u>

Current standards for identifying, terminating and correcting market manipulation in trades are inadequate. Some market operators, regulators, SROs and company officials have access to privileged and price sensitive information before the information is disclosed to the public, giving room for imperfect information availability and insider trading. Indeed, the NSE requires that listed companies must file with it all reports and planned corporate actions before release to the public. Stock market operators, especially stockbrokers, are also able to utilize privileged and confidential client information to "front run" and execute proprietary deals in advance of client trades.

xviii. <u>No Framework for Securities Lending</u>

There is no framework for securities lending in Nigeria, considered a major constraint to market depth, trading liquidity and market making.

xix. <u>Inadequate Trading Hours/Process</u>

The short trading day (the 3 hours from 9.30a.m to 12.30p.m) is considered too short, especially with poor trading infrastructure, ineffective remote trading (via dial-up), frequent power outages and system downtimes, and the non-existence of formalised market making.

xx. <u>Inefficient Use of Trading System</u>

A considerable part of the short trading period is used keying in orders daily, as the system is purged of outstanding orders at the end of each trading day.

xxi. <u>Inadequate Market Depth and Breath: Equity Dominance</u>

Listed and traded securities on The NSE are dominated by equities while other investment instruments are relatively inactive.

Instrument type	Number listed
Equities	213 (First Tier 198, 2nd Tier 15)
Debentures	2
Federal Government Stocks	40
State Bonds	1
Funds	21 (1 REIT)
Derivatives	NA

Source: NSE, Dec 2008

Table 6: Listed and Traded Securities on the NSE

xxii. <u>Inactive Debt Market</u>

FGN bonds, and a few state and corporate bonds are listed on The NSE but are rarely traded owing to high transaction costs and inefficient pricing. Current transaction charges need to be widely disseminated. Expensive corporate bond issuance costs and processes also make the bond market relative to bank finance unattractive for many corporates.

xxiii. <u>Low Trading Liquidity</u>

Although the liquidity of traded securities has increased from about 5% in 1998 to over 20% in 2007, liquidity is still considerably low in relation to global and emerging market peers. The low liquidity is attributable to the short (3 hour) trading day, high cost of trading securities and the absence of market makers

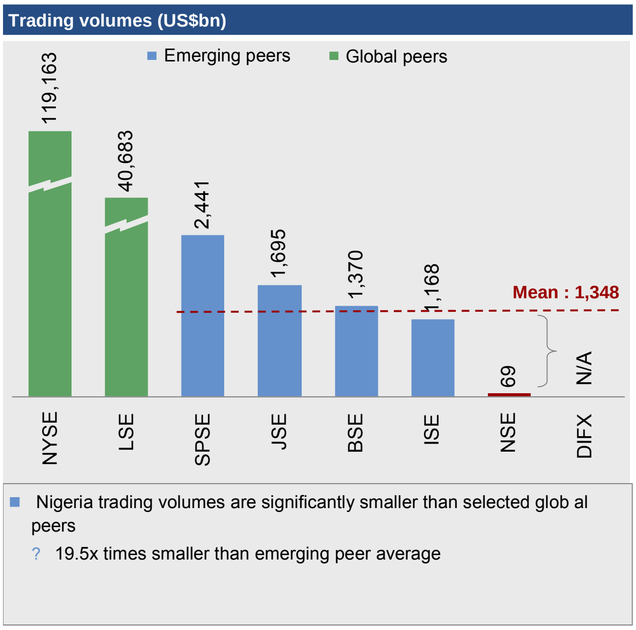


Figure 14: Comparison of NSE Trading Volume & Liquidity with Selected Int'l Markets

2.3.5 Processes

xxiv. Long Primary Market Issuance Process

The regulatory approval process involved in completing an IPO or public offering in Nigeria has remained largely unchanged for many years and is considered dated, cumbersome and overly lengthy. At an estimated 27 weeks, it is considerably longer than the issuance process in other emerging markets (see figure 15).

Other challenges include:

- A Quotations Committee Meeting that is considered cumbersome and unnecessary, especially for listed companies
- Requirement for physical distribution of offer documents, especially given the challenges of
- Nigeria’s postal system
- Registrars are faced with technical and logistical challenges in handling the increasing volume of applications and dispatching physical share certificates to subscribers.

A review of the primary market issuance process should be the first step in the objective of shortening the time taken to complete a public offering -- currently estimated as 27 weeks.

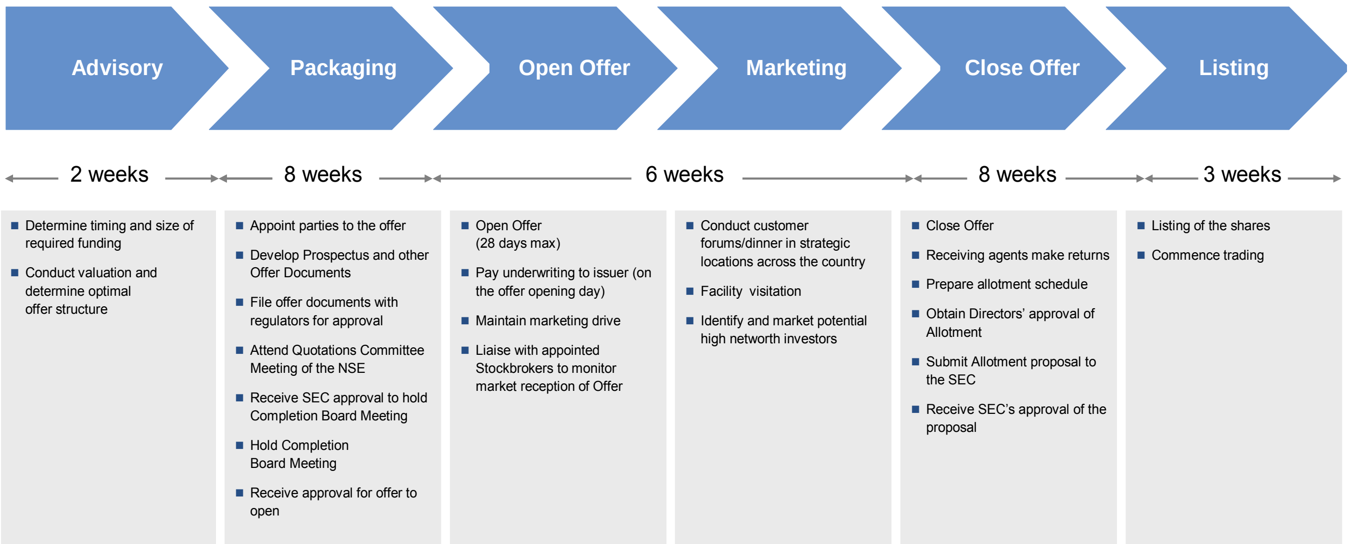


Figure 15: Estimated Timeline for Primary Market Offers

The critical part of this process is the length of time taken between the opening of the offer and the allotment of shares to investors, as this period is considerably shorter in other markets.

xxv. **Fixed-Price Primary Market Pricing Mechanism**

Public issues are undertaken on a fixed price, which is determined by Issuers and Issuing Houses, sometimes without reference to market appetite. The imminent release of book building rules should allow market-led pricing of public issues.

xxvi. **Mandatory Underwriting of Public Issues**

At least 80% of all public issues is required to be underwritten on a firm basis, although the market appears to favour discretionary underwriting.

xxvii. **High Transaction Costs**

Although SEC and NSE recently announced a significant reduction of transaction costs, these costs are still considered too high, especially in relation to other emerging markets peers. These high costs do not encourage access to the capital market for developmental purposes

Primary Market Costs

Parties to issues/other costs	Equities (%)	Bonds (%)
SEC	0.15% to 0.30%	0.15%
NSE	0.30%	0.30%
CSCS	0.0125%	NIL
Receiving Agent Commission	0.75%	0.75%
Issuing House Fees**	1.35%	1.35%
Stockbroker to the Issue*	0.125%	0.125%
Registrar Application Fee*	N30 per old application; N40 new application	N30 per old application; N40 new application
Registrar Take-on Fee*	N1 million	N1 million
Solicitor to the Issue*	0.10% subject to a min of N1mm	0.10% subject to a min. of N1mm
Solicitor to the Company*	0.05% subject to a min. of N500,000	0.05% subject to a min. of N500,000
Reporting Accountants*	0.10%	0.10%
Auditors*	0.05%	0.05%
Underwriting Fee	NEGOTIABLE	NEGOTIABLE
Trustees*	NA	0.035%-0.10%
Solicitors to the Trustees*	NA	0.10% subject to a min. of N1mm
Printing*	0.13% per SEC Study	0.13%
Advertisement*	For statutory advertisement	For statutory advertisement
VAT*	-	-

Table 7: Summary of Primary Market Transaction Costs for Market Participants
Source: SEC
** These fees are negotiable*
***This fee is negotiable, subject to a maximum included in the table*

Secondary Market Costs

Fees	Buyer	Seller
Brokerage Fee	0.75% – 1.35%	0.75% – 1.35%
Sec Fee	0.30%	0.00%
NSE Fee	0.00%	0.30%
CSCS Fee	0.06%	0.36%
Contract Stamp	0.075%	0.075%
VAT on Brokerage Fee	5.0%	5.0%
VAT on CSCS Fee	5.0%	5.0%
VAT on NSE Fee	0%	5.0%
Total Cost	**1.1226-1.856%**	**1.556-2.186%**

Source: SEC, NSE, CSCS
Table 8: Summary of Secondary Market Transaction Costs for the NSE

	Equities			Bonds		
		Secondary Market			Secondary Market	
Estimated Transaction	Primary* Market	Buyer	Seller	Primary Market	Buyer	Seller
Nigeria	**1.20%**	**1.1226-1.1856%**	**1.556-2.186**	**1.21%**		
Brazil	0.25%			0.24%		
Chile	0.12%			0.44%		
Mexico	0.2%			0.08%		

Table 9: Estimated Primary Market Transaction Costs (Equities & Bonds) for Nigeria and Selected Int'l Markets
**Primary market figures cover regulatory costs only*

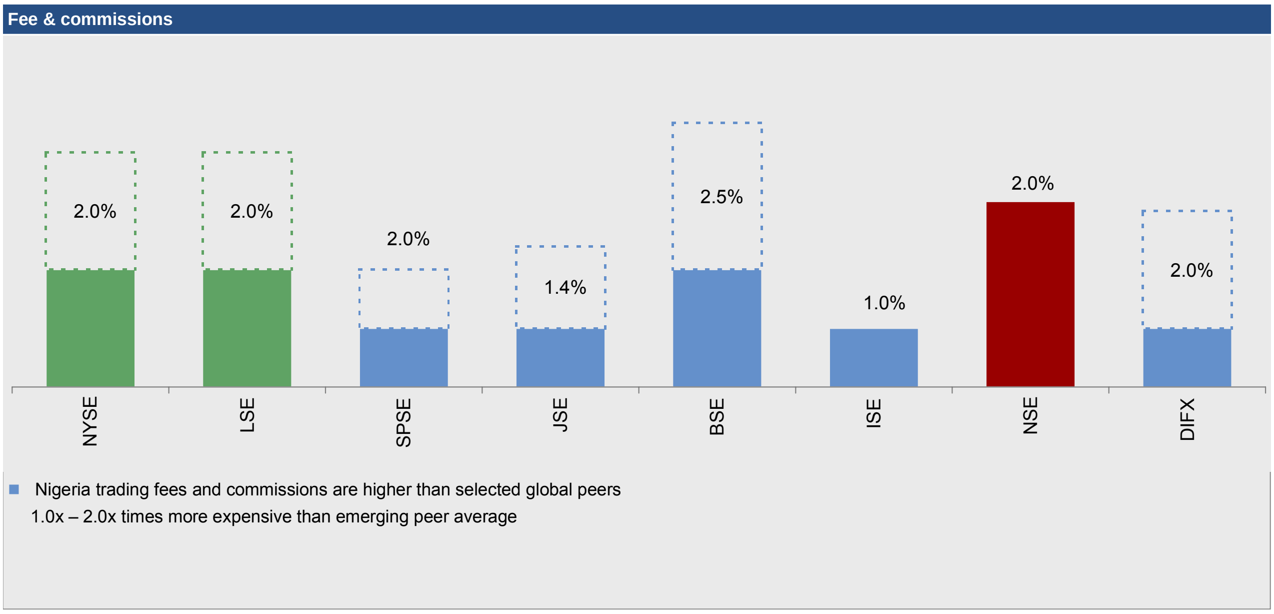


Figure 16: Comparison of NSE Fees & Commissions with Selected Int'l Markets

2.3.6 Others

xxviii. **<u>Tax Pass-Through Benefit for Collective Investment Schemes</u>**

The potential for Collective Investment Schemes (such as Real Estate Investment Trusts) to drive retail participation in the capital market and the development of alternative investments is limited because of the absence of tax incentives available in such jurisdictions as US and UK.

xxix. **<u>Limit on Borrowing Powers of Government/Government Agencies</u>**

The ISA currently restricts government agencies from issuing revenue bonds, making it difficult for such institutions to fund development plans through the capital market.

xxx. **<u>ISA Provisions for Mergers & Acquisitions</u>**

The M&A rules and processes, especially in relation to applications by private companies, are cumbersome. The Takeover provisions are unworkable.

xxxi. **<u>Tax on Capital Market Transactions</u>**

Stamp duties on corporate bonds and secondary market transactions should be eliminated or reduced to nominal sums.

xxxii. Unregulated Margin Lending

A large part of the current market crisis in Nigeria is traceable to total absence of regulation on margin lending.

xxxiii. Access to Dispute Resolution

SEC's APC sits only in Abuja making access to dispute resolution difficult and expensive for many investors across the country.

xxxiv. Jurisdiction of the IST

Until the 2008 amendment to the ISA, the IST had original jurisdiction for all cases. The new amendment has placed original jurisdiction on SEC and appellate jurisdiction on IST except in cases directly against SEC. There is need to ensure that delay by SEC in adjudicating matters before it does not lead to denial of justice

xxxv. Corporate Governance

It is obvious that corporate governance standards need to be improved to enhance transparency and accountability in many public companies.

3 Vision and objectives

After a decade of significant expansion and development, by 2007 the Nigerian capital market had become one of the fastest growing among the world's developing and emerging economies. Nevertheless, when measured against comparable markets, it still consistently falls short of the benchmark in several key aspects.

Now, as markets are reorganising themselves in the aftermath of the global crises that came to a head in 2008, Nigeria has a two-fold opportunity: to learn from the mistakes of other markets and to emulate the best regulatory and operational practices that are now being put in place.

In doing so, Nigeria has the potential to fulfil a vision of becoming:

> **A world class capital market that is efficient, transparent, innovative and attractive to investors both local and foreign while contributing to and facilitating the growth and development of Nigerian and African economies.**

3.1 Characteristics of the Vision

Retaining the status quo is not a viable option. With globalisation, and the rapid adoption of technology, investors and corporations can and will pick and choose among rival global capital markets. That means Nigeria needs to become fully competitive across every criteria. To do so, it must offer:

- Open and fair market
- Free flow of capital and convertible currency
- Skilled workforce/flexible labour laws
- Prevalent use of a globally familiar language
- Fair, transparent, efficient legal and regulatory regime
- Sound and fair tax regime
- Implementation of international standards and best practices (IOSCO, BIS, etc.)
- Low cost of doing business with minimal red tape and bureaucratic inertia
- High-quality, reliable and appropriate physical infrastructure
- Stable political and economic environment

It is worth examining each of these individually.

3.1.1 An open and fair market

One of the most fundamental characteristics of a world-class financial centre is an **open and fair market** in which domestic and foreign investors and financial services providers can compete on equal footing. Rules that discriminate against, or otherwise limit the ability of, foreign participants to operate or compete in a market substantially reduce that market's desirability. Faced with an increasing number of viable alternatives, financial intermediaries and investors will opt to establish a presence and build long-term commitments in markets that treat them equitably in terms of rules and access.

3.1.2 Free flow of capital and a convertible currency

The ability of investors of every kind, whether international or domestic, to benefit from a **free flow of capital and a convertible currency** is an essential characteristic of leading financial centres. . By contrast, capital controls typically impose high administrative costs, distort investment decisions, and lead to the misallocation of capital. World-class financial centres are also characterised by policies that seek to attract direct investment. Such investment increases productivity, boosts economic growth and job creation, and has other spillover effects that help set the platform for a vibrant and innovative economy.

3.1.3 Skilled workforce; flexible labour laws

The decision by financial services firms to locate in a particular place is directly linked to the ready availability of a **skilled workforce that operates under flexible labour laws** that offer a reasonable degree of freedom in hiring and dismissing employees.

A survey undertaken by the Corporation of London found that the availability of skilled personnel was the most important competitive factor for a financial center. World-class financial centers possess secondary and university education systems that produce graduates of the highest quality in fields essential to financial innovation such as mathematics, economics and information technology. Similarly, a large and continually growing pool of qualified graduates is necessary to develop and maintain the critical mass of accountants, auditors, lawyers, and other personnel who support sophisticated and innovative financial firms.

3.1.4 Prevalence of a globally familiar language

One of Nigeria's greatest strengths internationally is the **prevalence of a globally familiar language** –English. This is a strength shared with all of the most successful world-class financial centres.

3.1.5 A fair, transparent, flexible and efficient legal & regulatory regime

Another widely acknowledged attribute of successful markets is **a fair, transparent, flexible and efficient legal and regulatory regime.** Generally this provides:

- A wide latitude for private parties to contract
- A non-approval based regulatory system of international calibre
- Qualified regulators
- Strong, consistent, and predictable legal standards and remedies
- Expeditious and transparent enforcement
- A well-trained, ethical judiciary and local bar with enough local lawyers
- A legal system open to foreign legal practitioners

In contrast, ill-conceived, unreasonable and burdensome laws and regulations will clearly result in a hostile business climate and low rates of investment and productivity. But even a regime comprising good substantive laws and rules, if non-transparent and applied unfairly, unevenly or inefficiently, will drive investors and financial services providers away.

3.1.6 A sound & efficient tax regime

Equally important is the implementation of a **sound and fair tax regime**. Such a system should generate funds that support public services, attract capital investment and otherwise work to achieve important public goals. By contrast, confused tax rules and/or poor and burdensome tax administration and enforcement can be a significant source of uncertainty to business. This can lead to difficulties in compliance or withdrawal from the market.

3.1.7 International standards & best practices

The sort of financial centre that Nigeria aims to be should have regulatory and legal regimes that demonstrate strong government commitment to promoting international financial cooperation and stability, to improving the functioning of markets, and to reducing systemic risk. To this end, they should strive, at a minimum, to **meet international standards and implement best practices**. Foreign and domestic companies and investors expect no less, and will judge financial centres accordingly.

3.1.8 Low cost of doing business

In today's marketplace, financial services firms and their customers must be able to make and implement investment decisions quickly. However, factors ranging from bureaucratic procedures and non-transparent rules can raise the cost of doing business and create an unattractive business environment. These factors raise establishment costs, curtail entrepreneurship, discourage market entry and business expansion, and weaken competitive forces. Consequently, those countries where the legislative and regulatory process is transparent, the bureaucracy streamlined, and the regulatory regime not characterised by arbitrary decision-making have a competitive advantage, and are more attractive to financial services firms and investors.

3.1.9 High quality, reliable & appropriate physical infrastructure

Efficient, reliable, and modern infrastructure services are crucial for attracting investment and increasing international competitiveness. They also boost economic growth and job creation. In addition to necessities such as affordable and modern office space, stable and reliable power, the widespread availability of robust telecommunications, an efficient transportation system, a clean and adequate water supply, and sanitation services are essential components of an attractive infrastructure. By contrast, insufficient access to roads, ports and inadequate power can serve as chokepoints that diminish appeal and economic potential of an economy – to the extent that they can even negate a country's lower production cost advantage.

3.2 Key vision objectives

Achieving the vision for a Nigerian capital market that can rival New York, London, Johannesburg and Cairo is coincidental with meeting three strategic objectives.

- To create a broad and deep source of capital for the development of the Nigerian and African economies
- To enhance the investment experience of all market participants in line with global best practices
- To establish the Nigerian Capital market as a financial hub in Africa

These strategic objectives form the basis for the strategic initiatives and specific recommendations to improve the structure and processes of the Nigerian Capital market.

3.2.1 To create a broad and deep source of capital for the development of the Nigerian economy

The capital market's role in capital formation has been integral to the rapid expansion and development of the Nigerian corporate sector and its activities. In future, fund-raising activity through the capital market will become even more significant as a way to finance Nigeria's economic growth and diversify the sources of funds within the financial system.

However, this role will have its challenges. As Nigerian companies seek cross-border listings in more efficient and cost-effective markets, the relevance of the national capital market in Nigeria's growth story could come into question. Several companies have already explored alternative foreign markets. Six banks have initiated global depository receipt (GDR) programmes, and three companies already have dual listings. Issuers and their investors will naturally choose to converge in markets that offer them the best value in terms of cost, liquidity, skilled professional services and the diversity of fund-raising instruments. To be internationally competitive, the Nigerian capital market must offer issuers a **variety of instruments** commensurate with their needs, while investors will want to match their maturity and risk profiles. Companies must be able to raise money efficiently through the equity as well as the bond market, especially corporate bonds.

What is needed are initiatives that will ensure that:

- The overall process of raising funds is efficient cost-competitive for issuers
- Innovative measures result in sufficient breadth in the products and instruments available in the markets to effectively satisfy the maturity and risk profiles of issuers.
- A comprehensive programme develops the corporate bond market as a competitive source of financing
- Market depth increases to attract a broader range of investors and to improve the liquidity and efficiency in the secondary market for issued securities
- Tax incentives on savings/investments are put in place to create/encourage a savings culture that will help broaden and deepen the domestic capital market

3.2.2 To enhance the investment experience of all market participants

The capital markets offer diversified investment channels for investors. With the emergence and growth of Nigerian capital markets, the range of investment products has expanded from bank deposits to stocks, government bonds and investment funds. The introduction of new financial concepts and products will further deepen the markets. However, the success of these initiatives depends on the way and manner in which they are introduced to and received by domestic and international investors.

Therefore, enhancing investors' investment experience is crucial. The past 5 years have witnessed an increase in registered brokerage accounts with the Central Securities Clearing System (CSCS) from 668,000 in 2004 to 4 million at the end of 2008, an increase of over 490%.. As a result, investors are increasingly interested in the performance of listed companies and macroeconomic development when investing in the capital markets and sharing in the growth of the Nigerian economy. Though these numbers are not entirely representative (since a large percentage of investors still do not have CSCS accounts) they do indicate considerable room for growth. This growth will be hastened by factors that make it easier for would-be investors to actualise their goals and objectives in the capital markets. Among these are:

- Enhanced IT platforms for market participants.
- Lower transaction fees
- Seamless execution of transactions

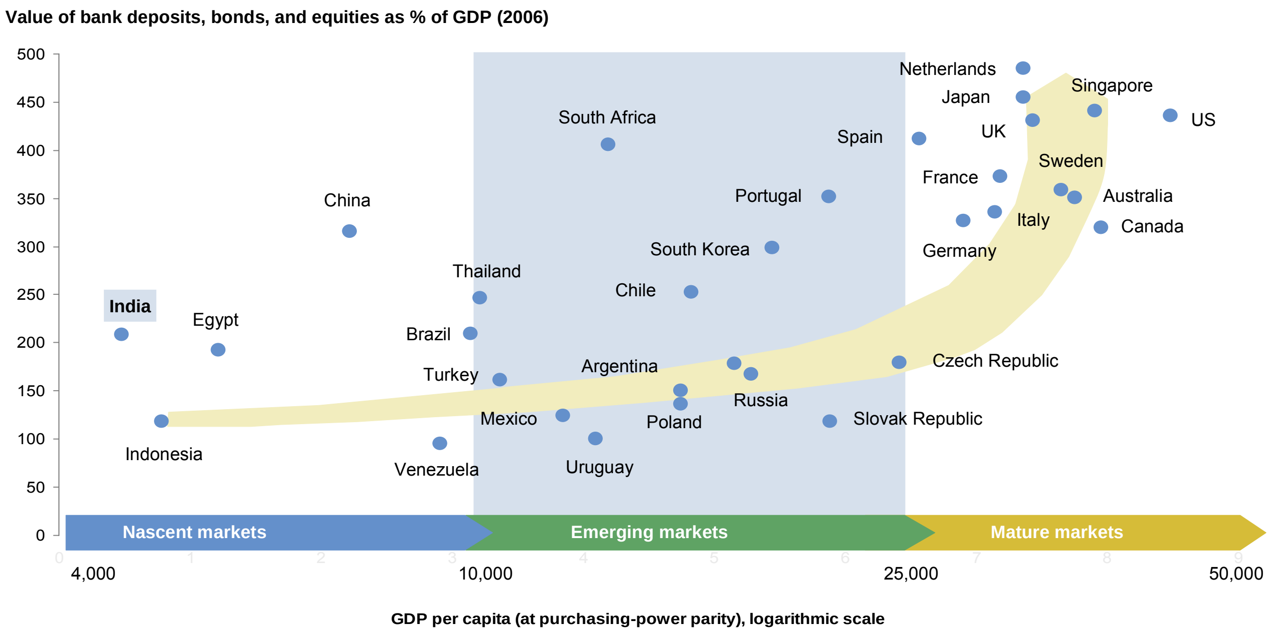
- Access to a broader range of trading platforms/ exchanges that match the needs of the various segments of participants in the market
- Consistent, harmonised and synchronised communication from regulators
- Seamless communication between all stakeholders in the capital markets
- Enhanced efficiency of the fund raising process
- More liquid, efficient and transparent markets for the secondary trading of securities
- An enhanced role of institutional investors in the provision and management of funds

3.2.3 To establish the Nigerian capital market as a financial hub for Africa

This final strategic objective is consistent with Nigeria's Financial Systems Strategy (FSS) 2020 Vision[1]. Nigeria, with its large population and consistent GDP growth of above 5% over the last 5 years (average annual GDP growth rate of 6.6%), is expected to take a stronger leadership role in Africa. Aside from Egypt, Nigeria is the only other African country included in the N11, a group of 11 countries identified by Goldman Sachs in 2005 as having the potential to become the world's largest economies in the 21st century alongside Brazil, Russia, India and China (the BRICs). Such high expectations can only be fulfilled if Nigeria can sustain and even exceed (in the next 5-10 years) its GDP growth rate over the last five years. To accomplish this, all the sectors of the economy must work at their full potential. This includes the financial services sector.

The link between the depth of financial markets and the development of countries cannot be over-emphasised. In 2006, McKinsey conducted a study which showed that global financial depth was at an all time high of 3.5 times GDP, and had increased mainly due to a growth in equities. The study also illustrated that the more developed countries had more financial depth than those less developed (**see Figure 17**).

[1] FSS 2020 is a strategic initiative of the Central Bank of Nigeria with a goal of "developing and transforming Nigeria's financial sector into a growth catalyst and engineering Nigeria's evolution into an international financial centre"



Source: McKinsey

Figure 17: Financial Depth of Selected Countries

The correlation is clear. For example, to finance our huge infrastructure deficits, there must be a well-functioning capital market that helps provide the long term capital to finance much-needed developments. As a result of its relative size and huge local needs, Nigeria has the capacity to position itself to lead Africa in a variety of sectors, including financial services in general and the capital markets in particular. To achieve this, Nigeria will need to:

- Consistently benchmark market depth against a range of countries that include emerging markets and developed countries
- Create incentives, including tax breaks, that will attract new establishments and domestic and foreign investments
- Develop a base of knowledgeable and skilled capital markets personnel
- Strengthen the appropriate institutional framework for a competitive, efficient and transparent capital market
- Provide world-class communication and technology infrastructure
- Institutionalise world-class legal and regulatory framework and practices

3.3 Vision-based directional recommendations

There are seven areas that Nigeria needs to focus on to create a capital market consistent with the above-stated vision.

3.3.1 International competitiveness

The key alternatives to Nigeria's capital market – those in London, New York, Dubai and Johannesburg – owe their success to a variety of factors, including access to investors, language and proximity. Nigeria benefits from all of those, but lacks a fourth key ingredient: investors and sponsors who will invariably put their business in the markets that are the easiest and most pleasant to do deal with. Nigeria must increasingly compete in this area.

3.3.2 Market depth, breadth and sophistication

Nigeria can attract more market participants by broadening the products on offer. Aside from the ongoing initiatives by market players to ensure listing by more companies, the Minister of Finance (and state Commissioners of Finance) should initiate programmes to ensure that the Federal Government and state governments encourage the listing of entities in which they have a stake – particularly in the upstream oil and gas and power sectors, as well as other strategic sectors including telecoms. Also needed is a promotional initiative on the debt capital markets so companies understand better the benefits of issuing debt versus sole reliance on bank borrowings. Other instruments, such as listed equity funds and real estate investment trusts, also need active encouragement.

Another way to increase market depth and liquidity is to attract greater market maker participation. This will work well alongside a drive for an increased savings culture in the country stimulated by the availability of more funds for the retail investors. There is also a need for new training courses and mass education on the capital markets to develop the understanding of the participants.

3.3.3 Efficiency & cost competitiveness

There needs to be a further drastic downward review of prices charged by SEC and the NSE. This review will be subject to changes that will allow the SEC to build reserves of its own while the NSE improves transparency on its finances.

3.3.4 Strong regulatory oversight

A successful capital market will rely on more active and effective participation by the SEC in both its regulatory and developmental capacities. In particular, there should be greater clarity about the role that the SEC will play in relation to the SROs. The SEC will need to ensure that all SROs are registered and properly monitored. The SEC should also facilitate coordinating meetings with other regulators for the other participants in the markets e.g. CBN, PenCom, NAICOM, NBA etc

3.3.5 Disclosure, transparency & accountability

Standard procedures should be developed to ensure speedy penalties on participants who flout the rules in the capital markets.

Specifically, the SEC should also mandate that all listed entities convert to using IFRS as the accounting standard. This will ensure that more company financial details are available to investors. There should also be an increased focus on governance with immediate implementation of previously developed principles such as the 'Peterside Code' and the outcomes of the ongoing review of public companies' corporate governance practices.

3.3.6 Strong participating institutions

The SEC should continue to encourage the consolidation of participants in the industry. The requirements for the increase in capital proposed in 2008 will have to be carried out, albeit in a better thought-through and more 'scientific' manner. Stronger institutions will ensure that there is the ability for the participants to build more specialised departments such as compliance and risk management.

3.3.7 Coordination between fiscal and monetary regulatory authorities

There is need to improve cooperation among the fiscal and monetary regulatory authorities to promote easier access to financial services for all Nigerians. This will foster support for the range of important decisions issued by the authorities and help in identifying and addressing instances and practices of unfair treatment of consumers in the financial services sector. Strong coordination will also contribute to establishing benchmarks for the financial services industry regarding consumer protection. Another benefit will be greater certainty about the responsibilities of financial services providers toward consumers.

Consistent compliance with the regulatory framework will encourage capital market participation by less well-off Nigerians and investment novices who are understandably cautious about their savings. Greater participation from every part of society will strengthen the overall integrity and stability of the Nigerian financial system.

The following table outlines the strategic initiatives related to each objective stated in section 3.2:

S/No.	Objective	Strategic Initiatives
1	***To Create a Broad and Deep Capital Market for Nigerian and African Economies***	i. Promote sufficient breadth in the product markets and instruments to more effectively satisfy the maturity and risk profiles of issuers. ii. Enhance the efficiency and cost competitiveness of the capital raising process iii. Develop the corporate bond market as a competitive source of financing iv. Attract a broader range of investors v. Facilitate an enhanced role of institutional investors in the provision and management of funds vi. Improve the liquidity and efficiency in the secondary market for issued securities.
2	***To enhance the investment experience of all market participants***	i. Enhance IT Platforms for market participants. ii. Ensure seamless executions of transactions iii. Provide access to a broader range of trading platforms/ exchanges that match the needs of the various segments of participants in the market iv. Ensure consistent communication from regulators v. Ensure seamless communications between all stake holders in the capital markets vi. Create a more liquid and efficient market for the secondary trading of securities
3	***To establish the Nigerian Capital market as a financial hub for Africa***	i. Consistently benchmark our market depth to a select range of countries that include emerging markets and developed countries ii. Create incentives that will attract new establishments and foreign investments (e.g. tax breaks) iii. Create a pool base of knowledgeable and skilled capital markets personnel iv. Provide world-class communication and technology infrastructure v. Create world-class legal and regulatory framework and practices linked to international jurisdiction vi. Removal of bottlenecks for legal international funds transfers

Table 10: Strategic Initiatives

4 Detailed recommendations: steps to a world-class capital market

The review of the structure and processes of the Nigerian capital market presents a unique opportunity to define a coordinated programme to address the issues that are holding back progress and the challenges to be faced in an increasingly competitive global environment. As markets worldwide re-assess their own regulations and procedures, the timing is perfect for Nigeria to do the same; identifying and implementing improvements that will add value immediately and for years to come.

The recommendations in this report reflect the Committee's consideration of trends, challenges and peculiarities of Nigeria's capital market. The proposals are premised on the vision, underlying principles and strategic objectives outlined in the previous chapter and include responses to achieve the objectives of overall improvement in competitiveness and attractiveness to investors.

The 32 recommendations are grouped according to six topics linked to the vision-based directional recommendations in the previous chapter:

1. Market depth, breadth and sophistication
2. Efficiency and Cost competitiveness
    - Primary market processes
    - Cost competitiveness
    - Market infrastructure and technology
3. Strong regulatory oversight
4. Disclosure, transparency and accountability
5. Strong participating institutions
6. Co-ordination between fiscal and monetary authorities

4.1 Specific recommendations

4.1.1 Market depth, breadth and sophistication

In comparison to benchmark markets, the Nigerian capital market is still relatively shallow and has limited depth and breadth.

Equities activities dominate the NSE, with very little fixed income instruments/transactions. There are currently 213 quoted companies on the NSE. Short selling is not allowed or approved and derivative offerings are limited to share options.

Recommendation 1: Expand market offerings to increase the depth, breadth and sophistication of market products and offerings.

This will require the establishment of an enabling framework and structures for more sophisticated market products and offerings. The breadth of the products should increase to include fixed income, the OTC market, mutual funds and REITS.

Derivatives/ securitization laws should be enacted, and should include comprehensive provisions on derivatives/ securitisation covering futures, options (on all financial products and commodities), repos/ securities lending and foreclosures.

Efforts to educate and encourage non-financial services companies to list on the Exchange should be intensified. A strategy that focuses on this goal should be developed and monitored.

Recommendation 2: Enhance the debt/ fixed income capital market

Strengthening the enabling environment by enlarging institutional capacity and attracting market participants will accelerate development of debt /fixed income capital market

- The SEC should create a specific programme to develop the corporate bond market. Also, there should be a reduction on withholding tax on interest earned on corporate bonds to 2.5% or lower.
- SEC should seek FIRS support to reduce stamp duty and registration fees for Trust Deeds related to bonds to bring down the cost of issuance.

- In bond trading, the current inverse yield curve is discouraging to trading activity. The CBN should review the interest rate structure to address the current inverse yield curve to encourage trading in longer term bonds.
- The introduction of alternative asset classes and the issue of NGN-denominated securities (bonds) which are euroclearable and USD-settled will broaden the product range in the domestic market.
- There should be new documentation guidelines that emphasise the key features and information requirements for debt securities. These guidelines should include features such as the structure of the instrument, the embedded options and their structure and features, interest rate expectations, current yield curve and credit spreads, and risk factors. Considering the predominance of equity transactions in the primary market, it would seem that the expectations for the contents of the prospectuses for debt securities is currently skewed towards information required for equity prospectuses.
- The ISA provisions should be amended to enable government issued revenue bonds.

Recommendation 3: Enhance the liquidity of the system

One of the key drivers of capital markets growth is the pension fund industry. To enhance the growth in this industry, companies and the Government should fund their unfunded pension liabilities.

To increase the volume of long-term domestic savings through the pension funds, companies should be required to disclose their unfunded pension liabilities and their level of compliance with the Pension Reform Act 2004 in their published audited company accounts. The NASB should define and mandate standards that require such disclosures. Auditors should only sign off on accounts after having verified legitimate compliance with the Pension Reform Act. Companies should be issued with pension compliance certificates (similar to tax clearance certificates) and these should be part of the requirement for their annual returns and filings.

The SEC should collaborate with Government to create savings instruments using tax incentives. To that end, the SEC should work with the FIRS and PenCom to create awareness on and communicate the tax incentives for some of the voluntary schemes. PenCom should institute guidelines for employees who desire to open voluntary contributions accounts. The SEC should work closely with NAICOM and PenCom on a major national strategy for mobilising savings. The SEC should also actively encourage the growth of mutual funds.

Develop and enforce standardised regulations and guidelines for margin facilities and share purchase loans with a view to maintaining the availability of credit to the capital market at risk informed levels.

Structures for securities lending are critical to meaningful market-making, since they increase both the liquidity and the professionalism of the market. To establish such structures, there should be:

- Immediate appointment of a committee consisting of representatives of CSCS and independent consultants to formulate guidelines for the establishment of securities lending
- On the basis of the guidelines developed, the SEC should develop rules for securities lending.

It is important that securities lending should be introduced with systems and processes that can manage risks and margin lending properly.

The CBN should resume its role as the clearing house for the interbank market and the bond repo market as a short term measure until the market builds its own infrastructure. Encourage market participants to execute International Swaps and Derivatives Association agreements which will facilitate the creation of a bond repo market.

Recommendation 4: Create an enabling environment for collective investment schemes

There needs to be an enabling environment to improve the appeal of collective investment schemes such as unit trusts, mutual funds and REITS. This will require new structures and a review of tax provisions including:

- Amendment of ISA or the tax code, whichever comes first, to formally define investment trusts and make their profits tax exempt as in other jurisdictions. The legislation conferring tax exemption on investment trusts should be given priority.
- Collective investment schemes should be tax exempt. Tax exemption for collective investments should be effective, and where withholding tax is suffered, it should be refunded. Tax exemption for collective investment schemes across the globe underscores their importance as vehicles for mobilising retail participation in the capital market and the development of alternative investments.

Recommendation 5: Establish structures for market making

Appropriate structures, governance and processes for market making should be established to create a wholesale investment market around institutional investors that will provide market depth and liquidity. To do this, the SEC and NSE should fast-track and immediately finalise and publish the rules and guidelines, structures and processes for market-making.

The market also needs to adopt a quote-driven system. The current system of trading transactions is based on offers. A shift to a quote-based system where dealers announce bid–and-ask prices and meet orders out of holdings will improve transparency.

In a pure quote-driven market, it is expected that dealers provide liquidity, and improved pricing based on numbers of shares obtained through negotiation.

Achieving this will require an upgrade of the NSE trading platform (through an overhaul of the current system). The NSE should also hasten the broadband initiative for seamless remote accessibility to the trading engine.

SEC should explore the framework for the operation of inter-dealer brokers to facilitate price discovery by market participants and investors as a means of increasing market depth and liquidity.

Recommendation 6: Increase length of trading hours

The SEC should work with the NSE to increase the trading hours on the floors of The Exchange. This will significantly increase daily trading volumes and value, thereby improving market liquidity.

Specifically the NSE should move to a six-hour trading day (from 9:00 am – 3:00 pm) on the date it switches on the new quote-driven system. This will provide sufficient time for trading and concurs with other trading hours around the world.

4.1.2 Efficiency and Cost Competitiveness

4.1.2.1 Primary market processes

Recommendation 7: Streamline the offer process

Public Offers and Allotment: There is also a need to review of the process of public offers. Applications should be collected only through the issuing houses, stockbrokers and placement agents ("receiving agents") appointed by the issuer. The SEC should issue allotment guidelines, and should inspect compliance to these guidelines during their periodic inspections of issuing houses. Allotment should be done by the issuing house and issuer upon completion of the offer, and filed with the SEC for notification purposes only. The SEC will be allowed a maximum of 3-days to identify any infractions of its allotment guidelines, after which the issuing houses/ issuer will publish the allotment results (without further recourse to SEC for comments or approval).

Payment for the shares should be required from the receiving agent on confirmation of share allotments – and not before. In addition, there should be a defined and mandatory turnaround period for payment.

The current allotment process should be reviewed, so that the allotment of shares is prorated across all subscription size ranges with a pre-announced minimum allotment size (as opposed to allotting higher percentages to smaller subscription), as this is expected to improve the efficiency and transparency of the allotment process.

The Settlement Period: There should be a reduced settlement period for domestic primary market offerings which allows for no more than T+5 (or a maximum of T+10 days)

SEC and NSE's review process: There should be a clearly defined and formally communicated standard service level and turnaround period for both The NSE and SEC on receipt of applications for approval of offers (for example 5 days for the first response, 3 days for subsequent responses, etc).

There should be a checklist for all filings on the SEC and The NSE websites to assist operators to file all complete documents. This will help the SEC and The NSE to meet their service level agreement obligations. Filings and reviews of documents filed should be made possible at most of the SEC offices.

Book building: New structures are needed to streamline and encourage book-building (refer to the AIHN processes in Appendix 6.6 for details). However, in order to truly benefit from the book-building process, the transaction should be 100% book-built as opposed to the current proposal for a combined process. In any case, book-building should be optional.

The Quotations Committee Meeting: Appearance of prospective issuers and parties to the issue before The NSE's Quotations Committee Meeting should be discontinued. Any deficiencies in applications should be communicated to the transaction's broker for further action until approved. Approvals should then be communicated to the issuing house in writing. Applications to the NSE should be reviewed and approved internally by the NSE in the same way the SEC currently processes applications.

The Completion Board Meeting: There is a need to review the roles of the SEC and NSE in the Issuer's Completion Board Meeting to finalise primary market offers. It is technically an internal affair for the issuer and the parties to the Issue. Consent letters should suffice as proof of the parties' assent to the transactions. SEC should restrict mandated documents to be signed by parties to the documents relating strictly to each party's area of legal responsibility and liability.

Recommendation 8: Streamline the process for registering market operators

Registration requirements of capital market operators should specify minimum requirements for internal systems, processes, technology, compliance and corporate governance.

Operators should be registered once instead of periodically. Though registration and approval as a capital market operator should not be deemed to expire over time, there should be a mechanism that allows suspension or termination in instances of malfeasance or non-compliance with standard terms and operating requirements monitored through regular inspections.

Such processes will need the support of electronic operating and maintenance systems, with access via the SEC website for registered and approved capital market operators.

A process for deregistration should also be defined and implemented.

Recommendation 9: Improve the process and terms of listing shares by introduction on the stock exchange

There should be a reduction in the mandatory requirement of the percentage of a company's issued capital made available on the floor of the exchange at the time of a listing by introduction from 10%

to not more than 5%, provided a company had met the minimum requirement on shareholder numbers. A well-functioning market ensures liquidity no matter what the issued capital percentage is made available for the 1st day of trading.

The price at which recently concluded private placement instruments are listed in the market should be determined by market forces, with the understanding that the market will re-price the securities appropriately once listed. The rule that requires that companies that recently concluded private placements should be listed at the private placement price is not consistent with market best practices.

Listing by Introduction should always be preceded by at least two weeks' notice to the public and publication of at least three years' and the latest unaudited quarterly financial information prior to the planned date of listing.

Recommendation 10: Review the requirement for mandatory underwriting of primary market offers and establish global underwriting limits for market operators

Primary market offers should no longer require mandatory underwriting. However, issuing houses should continue to underwrite primary market offers at the discretion of the parties to the offer.

There should be a modification to the minimum threshold for a successful offer from 25% to 40% and allowance for an 18-month period before the securities offered are mandatorily cancelled.

SEC should thereafter publish an annual list of transactions that includes the issuing houses that managed them.

There should be a maximum limit set (global underwriting capacity) for an entity to underwrite that is three times approved shareholders funds in respect of equity offerings and seven times for fixed income transactions.

4.1.2.2 Cost competitiveness

Recommendation 11: Reduce primary market issuance costs

a) Equities

There should be a reduction in statutory fees charged by SEC on primary market offers. This should be determined as a flat percentage of the offer (as opposed to the current sliding scale).

While this may be punitive on smaller transactions, the result will be a significantly improvement to the competitive standing of the Nigerian capital market.

Recommended fees for equity transactions are:

- N 0-500 million: 0.15%
- N 500 million – 1 billion: 0.075%
- N 1 billion and above: 0.025%

Fees charged by the NSE and CSCS should be aligned with the recommendations above, and approved by SEC.

b) Bonds

Globally, the cost of issuing bonds is usually lower than the cost of issuing equity. In order to achieve competitive pricing, costs should be slightly lower than the proposed cost of issuing equities, with the exception that the largest tranche should be significantly lower. This will stimulate the bond market and provide necessary incentives for large bond programmes.

Recommended fees for bonds:

- N 0-500 million: 0.005%
- N 500 million – 1 billion: 0.030%
- N 1 billion and above: 0.001%

The SEC should determine what fees the NSE and CSCS should charge, but should align these fees with the recommendations above.

Recommendation 12: Reduce secondary market trading costs

It appears that cost competitiveness is imperative to attracting investors and increasing trading activity on Nigeria's capital market. Improving competitiveness would involve:

- Reducing SEC and NSE fees by at least 50% on equities and on bonds adopt the same scale of fees as in Federal Government bonds. The same should apply to CSCS.
- Reducing contract stamp charges to a nominal sum of say N15 as in simple contracts
- Exempting investment related transactions from VAT

This cost reduction should be applied to both the cost of trading equity and debt.

4.1.2.3 Market infrastructure and technology

Recommendation 13: Leverage technology to streamline and improve the efficiency of market processes

There is a need to redesign the processes for submitting (draft offer) documents and filings to the SEC so that they can be done in electronic format via the Commission's website.

Market infrastructure should be improved by identifying opportunities to implement shared technology architecture and exploring other avenues for shared services and capabilities. The aim should be to provide world-class technology capabilities for market operators and the regulator on a cost-effective basis. For example, The NSE's trading platform has the capability to allow stockbrokers to perform some of their back-office functions. This should be activated and made available at reasonable cost.

The NSE should improve the efficiency of its trading platform to ensure that unexecuted orders are not purged from the system on a daily basis. This will eliminate the requirement for brokers to spend hours keying in unfilled orders from the previous trading day.

There is also a need for newly-designed processes to ensure that market operators conform to minimum technology standards as part of their registration. Existing operators must comply within a specified time period.

Equally important is access to timely pricing information and analytics. To that end, the NSE should improve or even replace its current software to ensure that its analytics/systems provide timely and transparent pricing information to all stakeholders. For example, the infrastructure should be able to support the consistent provision of live trading prices to investors.

4.1.3 Strong regulatory oversight

Recommendation 14: Improve effectiveness of market regulation, supervision and oversight

SEC should effectively play its role as Nigeria's primary regulator of the capital market. It can only do this by refocusing on its core mandate and reflecting international best practices (as defined by IOSCO and Basel II) in market supervision and oversight.

This will involve:

- Reviewing and strengthening all processes relating to key elements of supervision and oversight such as investigation, enforcement, prosecution, and publicity of outcomes in line with international best practices and then communicating clearly to the market. In particular, the enforcement must be strengthened to ensure prompt attention to issues and infractions
- Developing processes to aid electronic submission of registration of products, SROs and operators
- Abolishing periodic renewal of registration
- Developing comprehensive manuals and standard operating procedures that state/clarify the expected roles for all classes of operators in line with best practices
- Updating the format of the quarterly returns form and establishing mechanism for electronic filing of quarterly financial information
- Deploying software to detect suspicious/unusual transactions
- Improving accessibility of administrative hearings for complainants outside Lagos and Abuja
- Setting up a SEC system to enforce existing rules on the separation of client accounts and dealer proprietary accounts. This enforcement could be based on regular inspections complemented with impromptu checks on accounts of randomly selected operators. Inspections should be guided by a comprehensive and standardised checklist that forms the basis of audits. Pure-play brokers should not have access to client accounts. Client account access should come with fiduciary responsibilities and commensurate capital requirements.
- Reviewing the adequacy of current fidelity bonds requirements relative to risk levels and enforcing action against deviation

- Any individual responsible for any controlled function (e.g. CEO, partner, finance, risk management, compliance, trading Investment adviser, investment management) must be registered with the SEC. Every firm regulated by the SEC must at least have a CEO, finance, compliance and risk officers.
- To improve the monitoring process, regulated entities must maintain adequate records, comply with the regulatory financial resources requirements daily, have a compliance manual and have compliance monitoring programs. Records to be maintained must include: breaches register, complaints register, training program to ensure that all registered individuals remain competent and up-to-date. All breaches of applicable regulation must be recorded together with the cause of the breach, action taken to rectify the breach and when the breach occurred. All reportable breaches must be reported to the SEC immediately. Complaints, date of complaints, action taken and the date of the action must similarly be recorded in the register.
- Firms must also maintain adequate controls, risk management processes and records of all customers' assets held.
- As part of the audit of the annual financial returns, the entities' auditors must report to the SEC whether records have been maintained and controls are in place in accordance with SEC rules and regulations.
- Periodic evaluation of risk management processes within a regulated entity is appropriate. SROs and third parties, such as external auditors, may be used to assist in this process.
- Every year, employees of the SEC and all SROs should be required to make a declaration confirming their awareness of and compliance with the established code of ethics.
- The SEC should adopt a clear and consistent rule-making process. While the SEC currently follows these processes for some of its rule making, it is necessary for the SEC to apply these processes consistently.

Regarding governance of the SEC:

- The SEC by legislation should be given powers to be an independent and autonomous regulator of the capital market.
- The SEC should model its organisation structure along US SEC/CBN lines to have an executive chairman and a largely professional board insulated from political pressure by security of tenure once appointed by the President and confirmed by the Senate

Recommendation 15: Strengthen the SEC through an internal re-organisation

An internal re-organisation and restructuring of the SEC should aim at streamlining its operations to strengthen surveillance, compliance and enforcement capacity. The reorganisation should cover all aspects of the SEC's operations including people, technology and systems. It should also provide the capacity for inspections of all registered capital market operators to ensure full implementation of all rules and regulations as set out in the SEC's enabling Act and rules that stem from it.

Recommendation 16: The role of the SEC Chairman should be re-defined

The SEC Board should be led by an Executive Chairman, with a university degree qualification and at least 15 years' relevant experience in capital market operations, finance and investment, law, economics, accounting, business administration or any other related field. Policies should also include a provision that calls for the Board members to retire by rotation to ensure continuity.

Recommendation 17: The roles of full-time commissioners should require relevant experience

Appropriate laws should be put in place that require full-time Commissioners to have a university degrees and at least 12 years relevant experience in capital market operations, finance and investment, law, economics, accounting, business administration or any other related field. SEC non-executive board members should also have relevant experience and qualifications.

Recommendation 18: Define a clear programme for role-based skills and capacity building for the SEC to improve the mandate-critical roles of the regulator

In terms of organisation and skills, this is a multi-stepped process that should involve:

- Conducting a staff audit to ascertain current skill sets and define future requirements.
- Establishing a transparent, merit-driven recruitment and human resource management processes and practices to guarantee attraction and retention of skilled staff
- The Board of SEC exercising its powers already vested by the ISA, to set a competitive compensation structure benchmarked to capital market operators, that is appropriate to attract and retain the calibre of personnel required for effective and efficient operation.
- Developing continuous education and self development programmes that ensure skills remain relevant and comparable to those of market operators
- Establishing a framework for exchange programmes with other regulators

- Improving SEC skills and capabilities in the core mandate-critical areas by attracting and recruiting talent with strong market knowledge and experience as well as relevant skills in the areas of economics, research and financial analysis, legal, accounting, finance and, information technology

Recommendation 19: Ensure adequate SEC funding

SEC independence and regulatory effectiveness rely on adequate funding. To that end, current funding provisions, with support coming primarily from the market itself and supplemented as necessary by the Federal Government, should continue. The SEC's annual reports should be audited by a reputable, independent firm of auditors, published and made publicly available within six months of the end of the financial year.

Recommendation 20: Create a programme for the oversight and supervision of SROs (including NSE and all established exchanges)

The SEC should exercise its regulatory powers over SROs with maximum effectiveness; ensuring that SROs observe high standards of fairness and confidentiality in performing their duties.
An SRO programme of oversight and supervision needs to include:

- A defined link between the number of operators that can be licensed by SEC and the current capacity of SEC or the SROs to monitor them
- Agreed timelines and service level agreements for all interactions between SEC/NSE and market operators (particularly in relation to response time for approvals)
- Incentives for the consolidation and specialisation (regional/by asset class/client type) within the industry
- Continually create awareness and enlighten market participants on its various roles and powers in relation to the NSE as well as other exchanges/markets and SROs; highlighting its mandate under law to act as an arbiter between any market participants and SROs/exchanges
- A specially-designed and rigorously enforced rule that all operators including SROs registered by the SEC should feature, as part of their company letterhead, an unambiguous statement of their 'registration and regulatory status' with respect to SEC. e.g. 'Registered (and/or regulated) by the Securities and Exchange Commission'

Recommendation 21: Demutualisation of the NSE

The planned demutualisation of the NSE should be supervised by SEC to ensure fairness and openness. The process should reflect the best global governance standards as well as principles that guided the transition of other exchanges from mutual associations to demutualised entities with regard to treatment of surpluses, rights of existing stakeholders, SRO status and responsibility for regulatory powers. The SEC should advise on a 12-month timeframe within which demutualisation of the NSE should be completed.

Recommendation 22: De-link settlement and clearing organisations from exchanges

All settlement and clearing organisations should be separate from exchanges. For example the CSCS should be operationally independent from the NSE. The technical services agreement (TSA) between the NSE and the CSCS should be reviewed, and a revised agreement should be approved by the SEC.

SEC must ensure close monitoring of Registrar activities especially institutions that maintain their own registers

Recommendation 23: Review and simplify take overs, mergers and acquisitions processes

The take-over bid provisions of ISA should be reviewed and improved for greater clarity of language and simplicity (see recommendations in Appendix 6.7).

The SEC should not regulate mergers, acquisitions or other business combinations between private companies, unless they are above a pre-defined size (to be defined in the Rules). In the absence of a competition/monopoly regulatory body, the SEC's initial review of such transactions should be restricted to determining the impact of the transaction on competition. Where there is no impact, the private companies should be allowed to execute their transactions and notify SEC on completion, solely for the record. The SEC should set up an anti-competition desk to handle consideration of competition issues until a competition/monopoly regulatory body is set up by law.

4.1.4 Disclosure, transparency and accountability

Recommendation 24: Establish structures for timely access to reliable information

In the interests of improving enforcement and compliance with defined processes for market transparency, companies should be mandated to release detailed quarterly results and profit forecasts directly to the public on the same day this information receives board approval. The SEC should create clear, detailed formats for these results and forecasts to ensure consistency. The timely market information provided in this way will increase transparency, ensure availability of information to the all participants contemporaneously and enhance investor confidence. It will also improve the amount of research information available to investors. The SEC should encourage the adoption of IFRS by the NASB. A plan should be developed to move all companies listed on the 1st tier of the Exchange to convert to IFRS as a benchmark standard for disclosure over the next 3 years.

Recommendation 25: Develop an enforcement framework to prevent market manipulation

There should be vigorous policing and enforcement of punitive actions against insider abuse and other forms of market manipulation. To do that, there is a need for clearly defined, enforceable standards as well as an effective enforcement framework. Fines and disciplinary records should be announced and made publicly available to serve as a deterrent to operators.

The SEC should examine all unusual price movements to determine if they could have been caused by the misuse of privileged information or market manipulation.

There should be an embargo period that begins from 30 days before the end of a company's financial year-end and finishes with the public release of the company's financials. During this time, directors (and their associates) and managers (and their families) should be barred from trading in the company's shares. The company secretary should be notified of trades by other insiders during the embargo period. The company secretary should mandatorily be required to file this information periodically with the SEC.

Recommendation 26: Ensure the disclosure of trades by company officials and major shareholders

Implement and enforce the continuous disclosure of trading in a company's shares by directors, management and significant shareholders. This information should be provided to the company secretary and made publicly available on the SEC website. Where a company director objects to the issuance of a prospectus, that director's consent should not be required for the validity of the offer. Instead, the director explaining the reasons for the objection within the prospectus should suffice.

Recommendation 27: All SEC registered operators should have their accounts audited annually

SEC-registered operators who hold, control or manage investors assets should be compelled to have their accounts audited annually by independent auditors. They should submit their audited accounts to the SEC not later than six months after the end of their accounting year

4.1.5 Strong participating institutions

Recommendation 28: Establish principles for risk management for capital market operators

The SEC and NSE should collaborate to update, implement, monitor and enforce a comprehensive risk management framework that reliably keeps systemic risk in check. The SEC should ensure that individual operators deploy appropriate risk management systems. These should include limits on trading capacity based on capital adequacy and internal systems that operators must deploy to attain and maintain licensing status.

Risk management principles for market operators should feature clearly-defined processes and systems for identifying, managing, controlling and reporting risks. These should include:

- Market risks
- Liquidity risks
- Credit risks
- Operational risks

There should be clear definition of standards, including those on internal systems, processes, technology, compliance and corporate governance. These should be different, depending on each category of operator (investment bank, broker/dealer, stockbroker, asset manager, etc). The minimum standards should be set by the SEC. These should include standards on a competent front-, middle- and back-office for managing daily operations.

The SEC should establish a minimum checklist that must be satisfied for internal operational standards. One of the provisions of this checklist should be a demand for the submission of a standard operational manual and business plan by each market operator prior to licensing. This will be the basis for subsequent checks and inspections by the SEC.

Capital requirements for different market operators should not be unilaterally set at a uniform amount for all operators within a category. Instead, start-up capital requirements for new operators should be based on minimum required start-up costs plus risk-adjusted weightings (to be reviewed periodically). On-going capital requirements should be based on risk-adjusted weightings (higher levels of capital required for greater levels of proprietary risk and different risk profile of instruments traded and assets held).

For pure-play brokers, the minimum capital base should be driven by the costs of setting up and maintaining the basic trading platform (based on pre-determined minimum platform requirements). These may be adjusted from time to time.

For dealers, capital requirements should be determined on a risk-adjusted basis, increasing as levels of risk taking grows for each individual dealer, and weighted in line with the risk profile of instruments traded and assets held.

During inspection, SEC should require sufficient stress testing of risk management and back-up systems.

Recommendation 29: International operators must be registered

International operators carrying out SEC registerable functions should be registered by the SEC. There should be greater clarity on what these registerable functions are.

Recommendation 30: Strengthen regulation of ailing capital market operators

The SEC should have the power to appoint managers to restructure ailing capital market operators and, once restructuring has been accomplished, to sell those stabilised companies at a commercial price. This is in contrast to the current situation which allows the sale of an ailing capital market operator for a nominal fee for the 'purpose of its restructuring and subsequent sale'. Current provisions are susceptible to abuse and lack requisite safeguards.
The SEC should also be empowered to appoint liquidators for failing capital market operators.

Recommendation 31: Define a training programme and certification requirements for licensing and continuous education of market participants

The SEC should work with market operators to devise a certification process that allows functional specialisation in addition to its existing full associate certification such as certification programmes for traders and investment advisors.

The SEC and all SROs should commit a defined minimum of their budget for investor education. Investor education programmes should make liberal use of the internet. Investor education programmes should be further promoted through awareness programmes

4.1.6 Coordination between fiscal and monetary regulatory authorities

Recommendation 32: Enhance clear structures for policy co-ordination across financial service industry regulators

The Financial Services Regulation Coordinating Committee or any other standing committee of the executive leadership (at least Executive Director – i.e. Board level) of the regulators should meet monthly. Such committees should ensure that the policy-making process of each regulator involved takes into account the impact of draft policies on other market segments. When called for, draft policies should be shared.

5 Making it all work: implementation framework & roadmap

The masterplan for transforming the Nigerian capital market involves meeting three key strategic objectives through the implementation of strategic initiatives spread among 32 detailed recommendations.

It is a formidable but essential task, made simpler by an implementation framework that:

- Describes the structure for organising masterplan implementation, covering issues relating to implementation process, roadmap /timing of initiatives, and also outlines the roles and responsibilities of parties involved
- Outlines the sequencing/phasing of the recommendations, and their dependencies
- Includes detailed guidelines on managing and monitoring the masterplan implementation process
- Highlights the communication process to ensure adequate and accurate dissemination of information and obtain feedback on the masterplan
- Explains the institutional and policy framework for the capital market

5.1 The implementation process

The figure below depicts the approach to implementing initiatives that will put the capital market masterplan into operation.

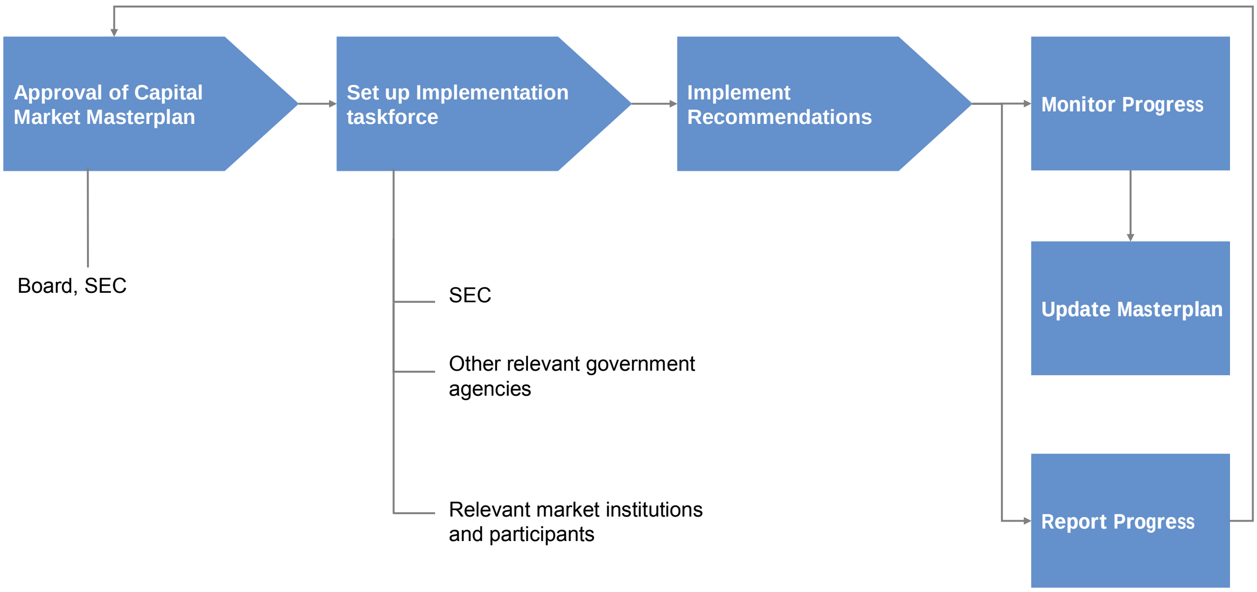


Figure 18: Implementation Process

The SEC will manage and monitor the implementation process, ensuring that all approved initiatives and recommendations are implemented as contained in the masterplan and within the stipulated timeframe. Where timelines need to be adjusted, the SEC will review the initiatives involved and reschedule accordingly.

The SEC will also put in place performance measures against which to benchmark progress. Variances in performances will be tracked, analysed and highlighted to the relevant authorities and affected parties for necessary actions. The SEC will prepare and circulate regular progress reports to ensure that industry participants and the general public are kept reliably informed.

Recognising that things could change during the implementation period, the SEC will regularly review and update the masterplan's objectives, strategic initiatives, and in particular, the recommendations to ensure continued relevance and applicability. The SEC will then make appropriate revisions and additions as necessary.

5.2 Road map/timing of Initiatives

The implementation of the recommendations will take into account the readiness of domestic financial services intermediaries and market institutions to respond to the changes. The process will also recognise the impact of these changes on enhancing the quality, breadth and efficiency of the offered. Indicators of readiness include opportunities to develop a diversified services and income base; the financial strength and soundness of local market institutions and intermediaries; and the depth and breadth of technical skills and knowledge available

The overall sequencing framework also balances the urgency for change with the need to consider potential implications for market stability and integrity. At the same time, the programme of change must be consistent with broad financial system policy objectives. The implementation process also takes into account both capacity and capabilities, from the standpoint of the regulatory authorities as well as market participants. Finally, in establishing the pace and sequence of change, priority will be given to the implementation of those recommendations that carry broad-based implications.

Accordingly, masterplan implementation will consist of three distinct phases:

Phase 1: Implementation of quick- wins (3 – 12 months)

The scope of this phase will include implementation of immediate action plans that would aid the development of the capital market. These include quick-wins that can be approved and implemented by the Board of SEC with little or no dependency on government or other regulatory agencies.

Phase 2: Strengthening of market infrastructure and institutions (12 - 24 months)

Over the medium term, efforts will be made to further develop the quality and breadth of services and facilities in selected strategic niches, such as the development of the corporate bond and repo markets, and introduction of securities lending. The aim is for these to be on a par with international standards. Simultaneous efforts will strengthen core segments of the capital market, with greater regulatory supervision where necessary. This will also be the time to seek mutually beneficial strategic alliances with other jurisdictions. Another priority in this phase includes the further strengthening of market infrastructure through, for example, upgrading of the NSE trading platform (overhaul the current system) and hastening of the broadband initiative for seamless accessibility to the trading engine.

Phase 3: Continuous development and strengthening of market processes and infrastructure to improve the international competitiveness of the Nigerian capital market (>24 months)

Steps taken over the first two phases should have established the foundation and initial momentum for an efficient and competitive capital market. Third phase initiatives will focus on promoting and enhancing the regional and international profile of the Nigerian capital market, whilst identifying and developing new areas of comparative and competitive advantage. All of this will be contingent on periodic assessments of prevailing conditions and market readiness. Efforts will also concentrate on further improving market efficiency and integrity.

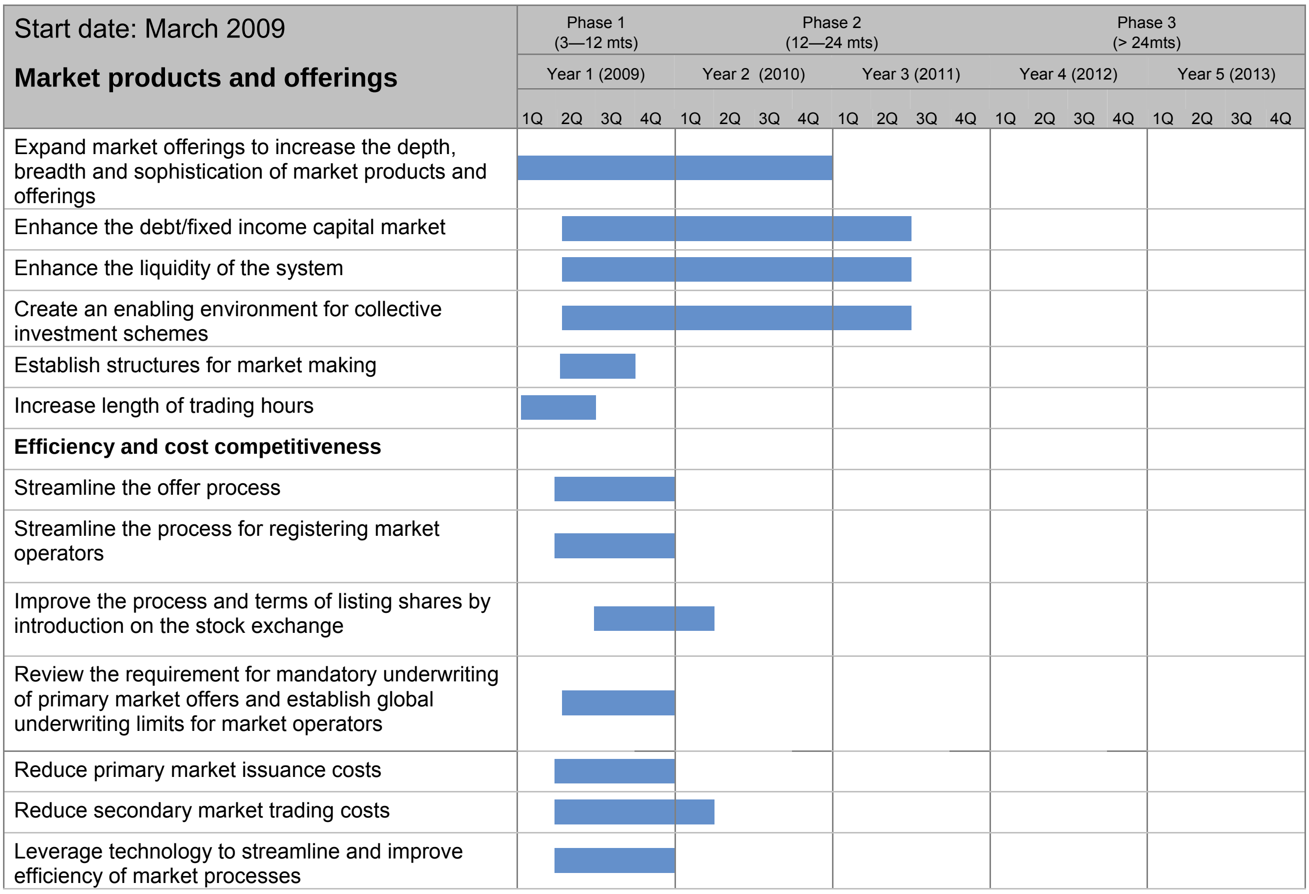


Figure 19: Quick Wins

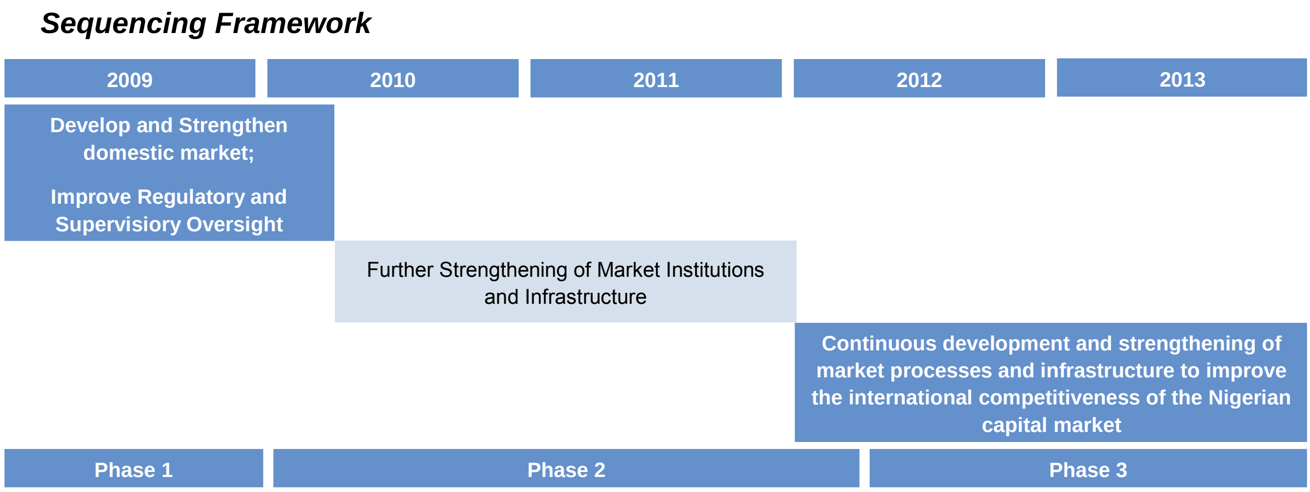


Figure 20: Implementation Plan

5.3 Responsibilities

5.3.1 The SEC

The SEC will lead the implementation process by starting off with recommendations that directly impact its area of responsibility. These cover all the recommendations areas and will include:

- Effective regulation, supervision and oversight function of the Nigerian capital market
- Review of relevant governing laws, rules and regulations, as well as institutional and policy framework
- Overall development of the capital market to fully align it with international best practices and strengthen it in order to attract significant foreign capital and institutional presence

5.3.2 Implementation Steering Committee

The SEC Board will establish an Implementation Steering Committee to effectively manage and coordinate the implementation of the masterplan. This will ensure a consistent approach to implementation, avoid of duplication of efforts and resources; and facilitates the dissemination of accurate and non-conflicting information from a central source.

The key tasks of the Steering Committee will include:

- Acting as the administrative centre for the implementation of the masterplan
- Organising and coordinating the activities of the various implementation teams

- Managing – in a proactive and timely way – the issues that may arise during implementation
- Project managing the programme and monitoring implementation to ensure balanced management of quality, effort, and timelines
- Overseeing the communication plan for the masterplan

5.3.3 Other relevant government agencies

Successful implementation of the recommendations calls for significant interaction among the different government ministries, agencies and parastatals such as the CBN, PenCom, FIRS, CAC, and the FMF. Such cooperation will foster the alignment of the objectives of all operators within the financial service industry and ensure the establishment of clear structures for policy co-ordination and consistency across the FS industry regulators.

Masterplan implementation will also take into account the different policy programmes by other government agents such the *Vision 2020* to foster the achievement of a vibrant capital market and national economy.

5.3.4 Relevant Institutions and participants

Implementation of the masterplan will also call on the efforts of representatives from relevant institutions in the private sector with significant expertise and experience in the domestic and foreign capital markets. Members of this group will include stakeholders drawn from leading domestic and foreign financial market participants and experts, with appropriate representation from the spectrum of capital market activities.

5.4 Sequencing and dependencies

The phases for implementing the recommendations in the masterplan are shown below:

Market product and offerings

S/No.	Phase 1	Phase 2	Phase 3
1.	Expand market offerings to increase the depth, breadth and sophistication of market products and offerings		
2.	Enhance the debt/fixed income capital market		
3.	Enhance the liquidity of the system		
4.	Create an enabling environment for collective investment schemes		
5.	Establish structures for market making		
6.	Increase length of trading hours		

Efficiency and cost competitiveness

S/No.	Phase 1	Phase 2	Phase 3
7.	Streamline the offer process		
8.	Streamline the process for registering market operators		
9.	Improve the process and terms of listing shares by introduction on the stock exchange		
10.	Review the requirement for mandatory underwriting of primary market offers and establish global underwriting limits for market operators		
11.	Reduce primary market issuance costs		
12.	Reduce secondary market trading costs		
13.	Leverage technology to streamline and improve the efficiency of market processes		

Strong regulatory oversight

S/No.	Phase 1	Phase 2	Phase 3
14.	Improve effectiveness of market regulation, supervision and oversight		
15.	Strengthen the SEC through an internal re-organisation		
16.		The role of the SEC Chairman should be re-defined	
17.		The roles of full-time commissioners should require relevant experience	
18.	Define a clear programme for role-based skills and capacity building for the SEC to improve the mandate-critical roles of the regulator		
19.	Ensure adequate SEC funding		
20.	Create a programme for the oversight and supervision of SROs (including NSE and all established exchanges)		
21.	Demutualise the NSE		
22.		De-link settlement and clearing organisation from exchanges	
23.	Review and simplify take-overs. mergers and acquisitions processes		

Disclosure, transparency and accountability

S/No.	Phase 1	Phase 2	Phase 3
24.	Establish structures for timely access to reliable information		
25.	Develop an enforcement framework to prevent market manipulation		
26.	Ensure the disclosure of trades by company officials and major shareholders		
27.	All SEC registered operators should have their accounts audited annually		

Strong participating institutions

S/No.	Phase 1	Phase 2	Phase 3
28.		Establish principles for risk management for capital market operators	
29.	International operators must be registered		
30.	Strengthen regulation of ailing market operators		
31.		Define a training programme and certification requirements for licensing and continuous education of market participants	

Coordination between fiscal and monetary authorities

S/No.	Phase 1	Phase 2	Phase 3
32.	Enhance clear structures for policy co-ordination across financial service industry regulators		

Table 11: Sequencing and dependencies

5.5 Programme Management and Monitoring

Programme management and monitoring will ensure that the expectations and quality requirements of the masterplan implementation are understood and well-managed. It defines the process for understanding and managing stakeholders' expectations. It also provides a way to ensure that masterplan recommendations are implemented within stipulated timeframes, while taking into consideration dependencies or associated recommendations.

In addition, this stage of the process develops measures to verify the effectiveness of implementation in realising the objectives and strategic initiatives of the masterplan.

In view of this, a programme performance/status reporting approach will be adopted to facilitate the tracking, measuring, and managing of the overall implementation process. The main objective is to achieve the clearly defined recommendations and masterplan goals.

To that end, the Implementation Steering Committee will conduct periodic programme review meetings. These will foster cooperation and effective communication of work progress and issues on the masterplan implementation process.

SEC management and key capital stakeholders will be involved in these meetings. Agenda items will include overall implementation status and risks and issues.

Supplementing these review meetings will be regular Implementation Steering Committee progress reports. These will describe:

- Issues/actions
- Work accomplished in the period
- Work planned but not accomplished
- Work planned for the next period Budget/schedule variance
- Timelines tracking

Progress reporting will be based upon the principles of:

- Forward-looking reporting, anticipating problems before they halt progress
- Highlight ('traffic light') reporting, with details only where requested
- Focusing debate on the key issues
- Minimising the time spent reporting progress rather than *making* progress

5.6 Communications: creating awareness and building consensus

Communications management is critical in the masterplan's implementation. It is the way in which market participants will come to be aware of, understand and endorse masterplan objectives and initiatives.

An organised communications programme will allow for the planning of messages and documentation within the Implementation Steering Committee and among all stakeholders. A detailed communications plan/matrix developed and implemented through the Committee's role as an administrative centre, will define how to continue throughout the implementation process to foster buy-in across all sectors of the capital market and financial system.

6 Appendices

6.1 List of the other Committee members:

S/No.	Name	Company
1.	Mr. Segun Aganga	Goldman Sachs
2.	Dr. Babatunde Ajibade SAN	S.P.A Ajibade & Co.
3.	Mr. Lawrence Fubara Anga	Aelex Law firms
4.	Mr. Sonnie Ayere	UBA Global Capital Markets
5.	Mrs. Yvonne Ike-Fasinro	J.P Morgan
6.	Mr. Olutola Mobolurin	Crusader (Nigeria) Plc
7.	Mr. Yusufu Modibbo	Tiddo Securities Ltd
8.	Mr. Godwin Obaseki	Afrinvest West Africa Limited
9.	Mr. Albert Okumagba	BGL Plc
10.	Mr. Bismarck Rewane	Financial Derivatives Company Limited
11.	Ms. Yewande Sadiku	Stanbic IBTC bank Plc
12.	Mr. Edo Ukpong	Consolex Legal Practitioners
13.	Mr. Bala Usman (Secretary)	Securities and Exchange Commission (SEC)
14.	Mr. Hassan Musa Usman	Aso Savings & Loans Plc
15.	Mr. Francis Essem Wood	FCMB Capital Markets

Table 12: List of the other Committee Members

6.2 List of Stakeholders that contributed to the Committee's assignment

A. Institutions(via Position Papers)

S/No.	Organisation
1.	Abuja Securities and Commodity Exchange (ASCE)
2.	Association of Issuing Houses of Nigeria (AIHN)
3.	Debt Management Office (DMO)
4.	Federal Inland Revenue Service (FIRS)
5.	Investments and Securities Tribunal (IST)
6.	National Pension Commission (PenCom)

Table 13: List of Organisations that submitted Position Papers

B. Individuals (via attendance at proceedings)

S/No.	Name	Organisation
1.	Femi Akinsanya	
2.	Toluleke Adenmosun	Accenture
3.	Toyin Osungbesan	Accenture
4.	C.S. Mordi	ANAN
5.	Ndunagu V. C. (Hon)	ANAN
6.	J. Etuk	ANAN
7.	Funso Doherty	ARM Pensions
8.	Toyin Sanni	Ass. Of Corp. Trustees
9.	R.O. Yusuf	Ass. of Stockbrokers
10.	Madubuike E.C.	Ass. of Stockbrokers
11.	Feyi Olusanya	BGL Plc
12.	Bashir Abdulrahman	BGL Plc
13.	Bolaji Balogun	Chapelhill Denham
14.	Toyin Olorunleke	CIS
15.	Asinobi O.C.	CSCS Ltd
16.	Joe Mekiliwa	CSCS Ltd
17.	Egunbiyi Peter	CSCS Ltd
18.	Patience Oniha	DMO
19.	Gboyega Balogun	FCMB Plc
20.	Salami M. A.	FIRS
21.	A. S. Dafur	FIRS
22.	I.D. Agbeyi	Greenwich Trust
23.	Oladosu Kamarudeen	ICAN
24.	George Onekhena	ICAN
25.	Nosike Agokei	ICSAN
26.	I.O. Dada (Chief)	IOD
27.	Ahmad Rabiu	IST
28.	Aruodo Uche	IST
29.	Leo Amanfo	IST
30.	Fola Oyeyinka	J.P Morgan
31.	J.O. Omokehinde	Marinpex
32.	Oladele Solanke	NBA
33.	Wole Oshin	NIA
34.	Kenechukwu Okafor	NSE
35.	Funso Fatoba	NSE
36.	Taba Cookey	NSE
37.	Victor Ogiemwonyi	Partnership Inv. Co. Ltd
38.	Lana Loyinmi	PenCom
39.	Teddy Ngu (Dr)	PWC
40.	Tunde Kamali	SEC
41.	Uche Molokwu	SEC

S/No.	Name	Organisation
42.	Osaze Osifo	Travant Capital Partners
43.	Henry Onyemem	Union Trustees

Table 14: List of Stakeholders that participated via attendance at proceedings

6.3 NSE Listing Requirements

Listing Requirements of the NSE

First-Tier Securities Market

- Company must be registered as a Public Limited Liability Co. under the provisions of the companies & Allied Matters decree 1990
- Must submit to The Exchange financial statements/business record of past 5 years
- Date of last audited accounts must not be more than 9 months
- Amount of money that can be raised is unlimited depending
- Annual quotation fees based on market capitalization
- At least 25% of share capital must be offered to the public
- Number of shareholders must not be less than 300
- After listing, company must submit quarterly, half-yearly and annual accounts
- Securities must be fully paid up at time of allotment
- Un-allotted securities must be sold on NSE Trading floors
- Provision for issue of mergers, acquisitions, unit trust and mutual funds

Second-Tier Securities Market

- Company must be registered as a Public Limited Liability Co. under the provisions of the companies & Allied Matters decree 1990
- Must submit to The Exchange financial statements/business record of past 3 years
- Date of last audited accounts must not be more than 9 months
- Amount of money that can be raised may not exceed N100 million
- Annual quotation fees is a flat rate of N30, 000.00
- At least 15% of share capital must be offered to the public
- Number of shareholders must not be less than 100
- After listing, company must submit half-yearly and annual accounts
- Securities must be fully paid up at time of allotment
- Un-allotted securities must be sold on NSE Trading floors

Third-Tier Securities Market

- Company must be wholly indigenously promoted & registered as a Public Limited Liability Co. under the provisions of the companies & Allied Matters decree 1990
- Must submit to The Exchange financial statements/business record of past 2 years
- Date of last audited accounts must not be more than 9 months
- Amount of money that can be raised may not exceed N100 million
- Annual quotation fees is Nill
- At least 15% of share capital must be offered to the public
- Number of shareholders must not be less than 50
- After listing, company must submit half-yearly and annual accounts
- Securities must be fully paid up at time of allotment
- Un-allotted securities must be sold on NSE Trading floors
- Full listing to Emerging market must be within 6—18months of listing

Table 15: NSE Listing Requirements

6.4 International Competitiveness Assessment

According to the Global Financial Centres Index (GFCI), the following four key areas determine the attractiveness of a financial centre i) Stock market access, ii) Human capital, iii) Business environment, and iv) Infrastructure

In this report we assessed the competitive strength of Nigeria's Stock market on a global scale, and benchmarked against the following economies:

- **Emerging market peers**
  - Dubai International Financial Exchange (DIFX) – United Arab Emirates
  - Johannesburg Stock Exchange (JSE) – South Africa (SA)
  - San Paolo Stock Exchange (SPSE) – Brazil
  - Istanbul Stock Exchange (ISE) – Turkey; and
  - Bombay Stock Exchange (BSE) – India
- **Global peers**
  - New York Stock Exchange (NYSE) – United States; and
  - London Stock Exchange (LSE) – United Kingdom

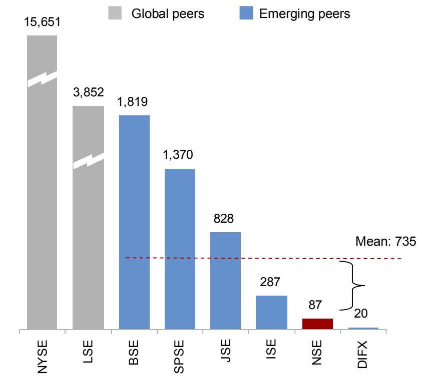
To measure competitive strength, we assessed the Nigerian Stock market and its peers on the following:

- Market size — use overall market capitalisation to measure size
- Value of shares traded — to measure market depth and level of investor activity
- Average daily turnover — to measure market liquidity and depth
- Market cap/listed company — to measure underlying market diversification
- Settlement period — to measure market speed and efficiency
- Fees & commissions – to measure financial cost of doing business on the market

Benchmarking the Nigerian stock market against selected emerging market peers

1

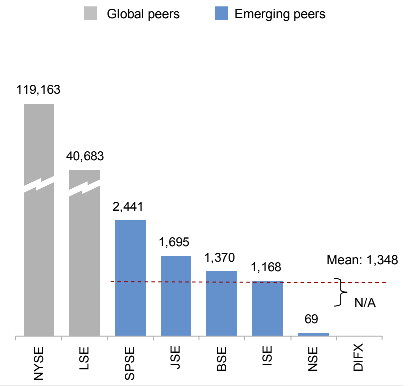
Market size (US$bn)



- Nigeria market size is significantly smaller than selected global peers
  - 8.5 times smaller than emerging peer average

2

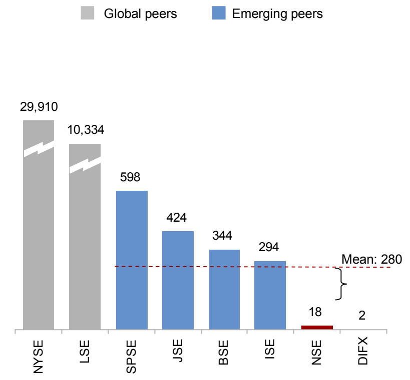
Trading volumes (US$bn)



- Nigeria trading volumes are significantly smaller than selected global peers
  - 19.5 times smaller than emerging peer average

3

Liquidity (US$bn)

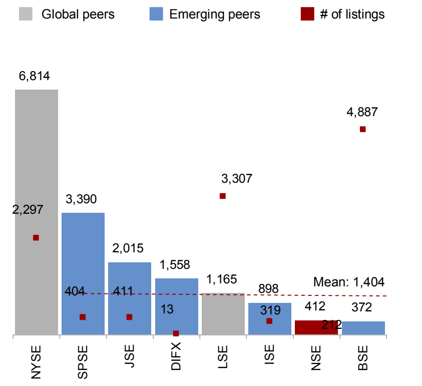


- Nigeria is significantly less liquid than selected global peers
  - 15.5 times less liquid than emerging peer average

Source: World Exchanges 2007 report

4

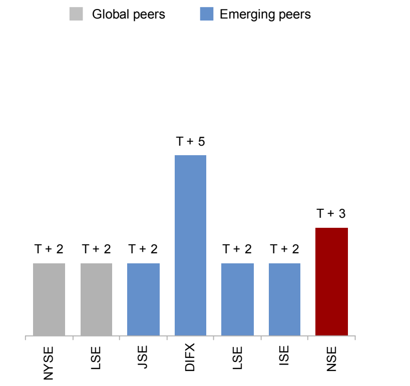
Market value/ listed company (US$mm)



- Nigeria value per listed company is smaller than selected global peers
  - 3.5 times smaller than emerging peer average

5

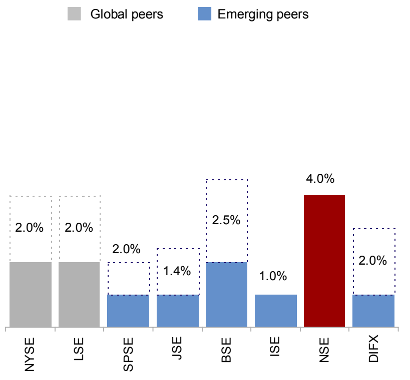
Trade Settlement process (T+days)



- Nigeria trade settlements process period is in line with global peers
  - T+3 days vs. T+2 days for the majority of peers

6

Fees & commissions

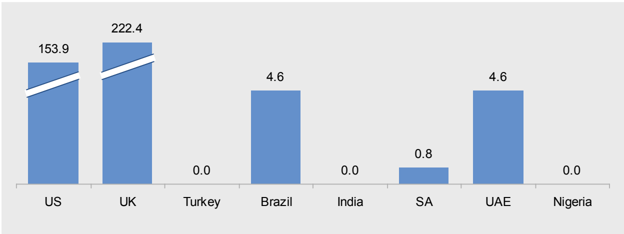


- Nigeria trading fees and commissions are higher than selected global peers
  - 1.0-3.0 times more expensive than emerging peer average

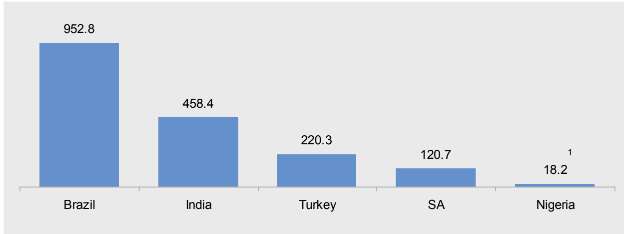
Source: World Exchanges 2007 report

Benchmarking the Nigerian debt market against selected emerging market peers

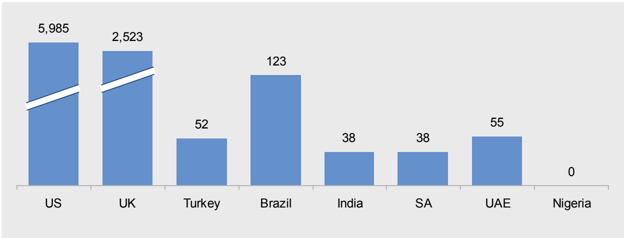
International debt profile – 2008 money market debt (US$bn)



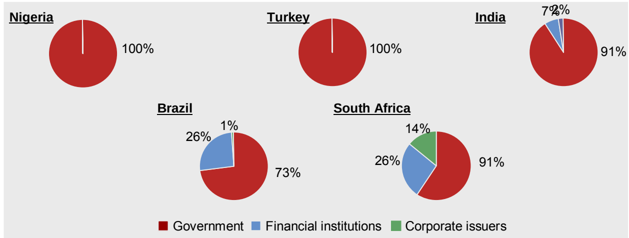
Emerging market 2007 domestic debt profile (US$bn)



International debt profile – 2008 bonds and notes (US$bn)



Emerging market 2007 split of domestic debt by issuer



Source: Public sources and FSDH report
[1] USD/ NGN FX rate of 118.0 used

We asked international investors to rank emerging stock market and obtained the result below

Investor Top 3 rankings of relative emerging market competitiveness vs. Nigeria													
Emerging market peers	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Brazil	1		1	1	2	1		1					
India	2		2		2	3	2						
China	3		3	2	1								
South Africa		1					1	3		2		2	1
Morocco		2											3
Egypt		3							2	1	2	1	2
Russia				3	3								
Turkey						2		2					
Poland							3						
Kenya									1		1		
Mauritius									3		3		
Ghana													

Summary ranks		
1st	**2nd**	**3rd**
38%	8%	0%
0%	31%	8%
8%	8%	15%
23%	15%	8%
0%	8%	8%
15%	23%	8%
0%	0%	15%
0%	15%	0%
0%	0%	8%
15%	0%	0%
0%	0%	15%
0%	0%	0%

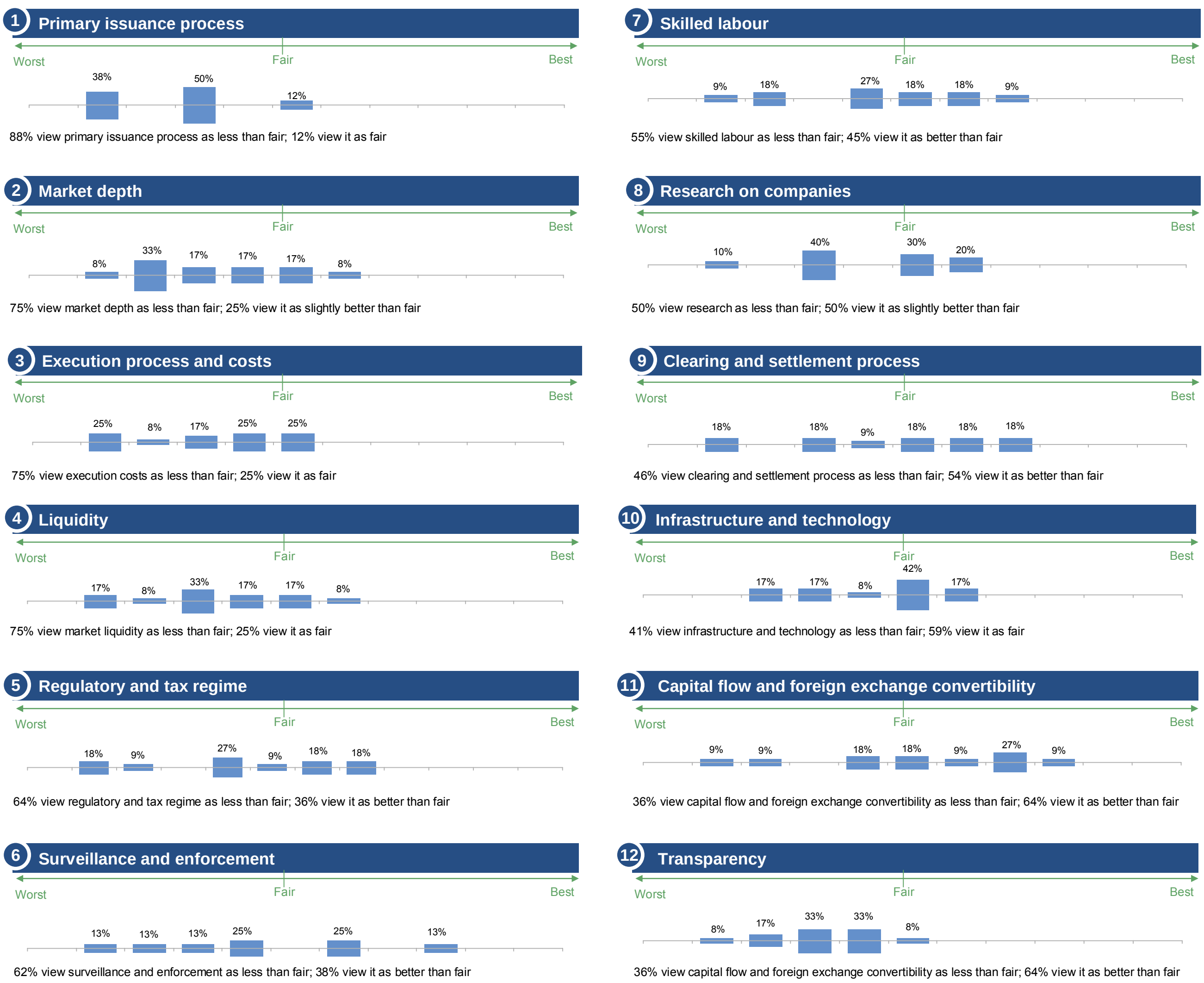
Source: International investors' survey conducted on behalf of the SEC sub-Committee

6.5 *International Investor Survey*

In a survey conducted on behalf of the SEC sub-committee, international investors were asked to rate their perception of the NSE against other global peers on a scale of Worst to Best.

The following results were obtained:

International investor survey response on Nigerian SEC



Source: International investors' survey conducted on behalf of the SEC sub-Committee

Summary feedback on key constraints to global competitiveness

Number of times investors noted the following as key issues

Considerations	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**Times**
Global market stability	1		1									2/11
Political/eco stability	1		1		1	1						**4/11**
Products	1	1										2/11
Execution process/ costs	1	1	1	1	1	1	1	1	1		1	**10/11**
Market making	1			1							1	3/11
Sector concentration		1										1/11
Regulation		1	1	1	1	1		1	1	1	1	**9/11**
More listings		1										1/11
Liquidity		1					1			1	1	**4/11**
Transparency		1		1	1		1	1			1	**6/11**
Market access			1								1	2/11
Valuations			1						1			2/11
Capital Controls				1								1/11
Bank regulation						1						1/11
Accounting standards						1						1/11

Source: International investors' survey conducted on behalf of the SEC sub-Committee

International investors were also asked to comment on key concerns relating to trading on the NSE

Commentary

Key issues	**Investor observations**
Openness & fairness	**Price movement limits** • **Arbitrary amendments of trading rules undermine confidence in the market:** *"The recent decision to move from a 5% up/down limit to 1%/5% up-down limit has prompted our decision to cease investing in Nigeria".* Some investors have seen their own investors redeem as a result of these limits as they are drawing parallels with the closure of Russian markets for two days from September 17, 2008 • **Many respondents were in favour of deregulating the NSE, removing price movement restrictions or at least significantly relaxing them:** *"Companies like First Bank, Zenith, and Guinness have a market value above US$1bn and would sit comfortably in the FTSE 250. Having a limit on their price movement is simply not sustainable as it is not a true market where international investors will feel happy participating consistently…A possible way forward is to have two boards – one for large companies where daily prices are allowed to move freely and a separate board for smaller companies where a 5% daily movement could apply"* **Listing procedures** • **Listing procedures and processes of the NSE have been highlighted as lacking transparency and being too complex:** *"Listing Procedures and processes of the NSE should be reviewed with a view to simplifying and opening up to public scrutiny. Subsidies to Brokers should be eliminated. Commissions de-regulated and opened up to competition"*
Transparency	**Valuations** • **Valuations have been highlighted as lacking credibility** • *"More compelling valuations" would encourage international investors to invest more funds in the market* **Price sensitive information** • *"The process for dissemination of information to market participants is very opaque. Information (e.g.*

	company results) can be submitted to the exchange and it is not released immediately. There should be a formalised system to ensure that any market sensitive information provided to the exchange is disseminated within 10-15 minutes after it is received by the exchange" • *Currently some investors feel there are significant opportunities for abuse of market sensitive information given that there is a lack of transparency (as described in "Transparency") and that a "clamp down on price manipulation is required"* **Recommendation** • *"A regulated information service(s) to which investors can subscribe" could go some way towards reducing this risk of price manipulation - companies could post information to this service and which would then be "automatically disseminated to all registered users"* • *"Price information should be reported live to Reuters and Bloomberg"*
Liquidity	**Liquidity** • Despite the significant growth in the stock market, liquidity has been highlighted as a concern in Nigeria (as is the case in many emerging markets). One investor provided the example of positions that were put on 8months ago – although this has been un-traded thus not testing liquidity, the investor has not seen a revaluation of the position since the trade was put on • Foreign investors can only invest in Gov Bonds and T–Bills that have a minimum maturity of one year. If the bill is discounted to another investor before maturity, funds cannot be repatriated before the end of the 12 month period or must be rolled over into other money market instruments or capital market instruments for the outstanding period. This has been highlighted as a liquidity drain for some investors and thus risks preventing larger scale investment • *"The major custodians do not seem comfortable taking on Nigerian names and that is a huge obstacle".* Necessary to work with them to encourage confidence and thus liquidity **Recommendation** • One investor suggested a futures market and the ability to short would go a long way to increasing both the liquidity and the professionalism of the market. China is an example of an emerging market that has recognised the liquidity inducing benefits of short-selling and has agreed to allow margin lending and short selling in a bid to lift trading volumes • One investor suggested *"…setting up a tradable/visible exchange (perhaps sponsored by local banks and mediated by the Central Bank) to bolster confidence and get greater participation"* • Another investor suggested: *"Reduce trading costs [and] liquidity will grow"*
Market breadth and depth	**Market breadth/depth** • The number (and quality) of the companies listed is far too low for such an economy. Nigeria needs more quality on the exchange. For example, why are major insurance companies not on the exchange? There should be a massive effort to get more quality companies on the exchange • Currently the listings are mostly banks: "listings from other sectors will help" • According to some investors, this will be helped by increasing liquidity (see "Liquidity") and adding market makers **Range of products recommendation** • The *"issue of NGN-denominated securities [bonds] which are euroclearable and USD-settled e.g. Brazil globals (2016, 2022 and 2028 maturities) are R$-denominated but USD settled via Euroclear…gives international investors an easy, straightforward way to take local currency exposure without having to open domestic accounts. This is the first step towards getting them more comfortable with the Nigerian capital market."*

	• Some investors feel there should be a broadening of the product range but that this should be gradual rather than a sudden rush to introduce derivatives and short-selling. According to other investors, a broader range of products including FRNs and IRSs would encourage investment
Free flow of capital & convertibility of currency	**Free flow of capital & convertibility of currency** • All inflow of funds must be declared to the CBN (Central Bank of Nigeria) through the issuance of a Certificate of Capital Importation (CCI). The CCI is issued and retained by the local custodian (IBTC Chartered Bank PLC). Returns from investment and repatriation are recorded on the CCI • Investors have highlighted that there is a lack of clarity on repatriation of funds. Investors have received conflicting information from the Central Bank and local market participants, including custodians. • *"Clarity on capital flow required"* • According to some investors, there is a shortage of CCI paper and custodians are recording them in electronic format which isn't legally recognized in Nigeria.
Clearing and settlement process	**Settlement** • Settlement has been highlighted as an area of required improvement by some investors – some trades have taken a year to settle. Although the cycle for the secondary market is negotiable • Some investors emphasised that there is "no formalised failed trade procedure/practice in place for OTC trading in government securities" however it must be noted that failed trades across the various securities are rare in the market
Sound, fair regulatory and tax regimes	**Regulation** • There was a clear feeling among investors that a true commitment to the improvement of the regulatory framework needs to be demonstrated to make the market more appealing to investors. However, it is recognized that: *"Development needs to happen slowly. Anytime emerging markets attempt to accelerate it without fully appreciating their constraints, they end up in a crisis. Nigeria does not need to go down that road. The changes that are required to generate huge improvements are relatively easy. They just require a fundamental shift of the mind-set and commitment from the leadership"* **Tax regimes** • *Investors highlighted a great deal of ambiguity in this area e.g. whether foreigners can buy 1-year T-Bills or not and how the tax is treated – "greater transparency on the [tax] code" is recommended to increase competitiveness* **Accounting** • *"The accounting standards of Nigerian banks are very poor. The fact that the move towards synchronising year-end accounting for banks…has not occurred is very concerning as banks shift assets between themselves to boost their balance sheets around year-end"* **Dematerialisation** • Some investors have highlighted that the legal framework in Nigeria is not very developed, particularly with respect to the securities industry: *"securities can only be traded when they are dematerialised at the depository, but dematerialised securities are not currently recognised by law. They are accepted in the marketplace and traded, but if it went to litigation they are not recognised within the current legal and regulatory framework"* **Segregation of client assets** • Nigerian law requires custodians to segregate their clients' assets from their own. Client assets are held in an omnibus account with the custodian having bare legal title under a trustee/beneficiary structure with the clients retaining the beneficial interest. Local counsel's view is that a Nigerian court

	would follow English law and therefore the client assets would not be considered part of the estate of the custodian
Enforcement intensity	**Legal enforceability** • There is a backlog of cases in the courts. Due to infrastructure, power and other issues, taking disputes to court could take years. Banks in the market themselves are reluctant to accept collateral that can only be claimed/enforced via resorting to the courts - e.g. property • In this same vein, *"no one's records are considered final in Nigeria - neither the depository's, the custodian's nor the registrar's. In the event of a dispute all positions have to be reconciled and if there's no resolution the matter is taken to litigation. Only physical certificates are proof of ownership – these are usually monitored by the registrar but as the registrars are still manually operated, they are usually responsible for erroneous records"* • Some investors recommended institutionalising regulation that supports the system and enforces the rule of law across the board to prevent *"escape hatches for the well-connected" as they feel that "rules seem arbitrary at times therefore it is not clear if the law is reliable"* **SEC enforcement** • Some investors expressed the feeling that the SEC does not enforce market abuse regulation sufficiently **NSE management** • According to some investors, *"currently NSE management is conflicted"* • Investors claim *"enforcement intensity will likely depend on a complete management overhaul of the NSE itself which would be a confidence-boosting policy signal to investors"*
Execution process and costs	**Execution process** • The market is not completely electronic – trading, clearing and settlement is electronic but market instructions are all physical • Listed government bonds may be traded OTC however, trading in all other listed securities is made only on the Nigerian Stock Exchange ("NSE") and therefore with the exception of government bonds, there is no OTC trading in NSE listed securities • Investors expressed frustration with the time taken to verify stock before trading **Risk management/ default fund** • Some investors have highlighted insufficient risk management as a concern. *"The exchange and depository have no risk management systems in place and no practical working default fund of substantial size"* **Execution costs/tax** • Execution costs have been highlighted by many investors as being too high – one investor even feels they are some of the most expensive in the world. Taxes on investment are also highlighted as being high – apparently these are higher than Brazil which is interpreted as contradictory to Nigeria wanting to attract more investment • There have been changes in this area: *"Charges are a little better but still high"*
Skilled labour	**Professions** • According to one investor, when investing in special situations (e.g. private equity/bridge financing/pre-IPO financing), the lawyers are quite good but the accountants are *"woefully lacking" with even one of the big 4 being cited as having "substandard quality accountants" in Nigeria*
Infrastructure/technology	**Infrastructure** • Infrastructure reliability has been highlighted as a concern with frequent "collapses" experienced.

	• *"If the value proposition from investing in Nigerian capital markets was made compelling enough (lower taxes would help this) then the infrastructure/technology would follow. Focus on making the value proposition as attractive as possible by lowering taxes*
Research on companies	**Annual reports** • According to some international investors, "annual company reports cannot be obtained in a timely manner" • *"All companies should be required to have a website where the annual reports for the last three years must be available and downloadable"*
IPO process	**Requirements** • *"An elimination of the prefunding requirement of IPOs would be welcome"* **Process** • Lodging/verifying new shares from an IPO has been highlighted as very laborious • Some investors feel the primary issuance process is too lengthy and "chaotic" and "should be shortened to maximum 4 weeks" **Cost** • In addition to time, some investors highlighted the cost of issuance as prohibitive e.g. *"If you ask the PFA where they would buy high-quality corporate bonds, they would probably answer NGN t-bills + 200bps area. Call that 12% all-in. However, all the fees/charges amount to about another 6%. This brings the true cost of issuance to 18%. So Nigerian banks will come to London and issue at 15%. A domestic corporate bond market will never develop for as long as this is the case. The point is that there are vested interests in Nigeria that want to keep it this way. The pension system in Nigeria can hold up to 30% in corporate bonds. Right now they hold virtually 0% precisely because of this problem. This needs to change*"
Stable political/economic environment	**Economic environment** • After decades of poor economic management, the local economy has enjoyed a stable macroeconomic environment and higher growth, with GDP averaging +7.3% over the period 2003-2006 compared with a trend of +3% between 1995-2002. The increase in growth has been driven mainly by non-oil GDP, which historically has been nonexistent. Recently, a number of domestic banks have returned to the market and issued Dollar-denominated bonds, a strong indication that pockets of foreign investor appetite have returned to the region. • According to Standard & Poor's, Nigeria benefits from significantly improved fiscal management with greater flexibility thanks to a much-reduced debt burden and high oil prices • Fitch ratings indicate that the non-oil sector is reflecting strong reform momentum, improved macroeconomic stability and increased spending of high oil revenues. However, they note a challenge will be that living standards remain lowest amongst peers with Nigeria unlikely to achieve the UN's Millennium Development Goals on poverty reduction by 2015 • Nigeria is now rated BB- by S&P, which puts it among the strongest of the 13 sub-Saharan African countries that have S&P ratings. Investors have highlighted that this rating reflects primarily the accumulation of reserves by the central government and its position as a net external creditor whilst it does not reflect the institutional problems that impact the overall business environment, and which would weigh on the credit quality of private entities **Business/banking environment** • The Nigerian banking system is strengthening. In 2005 there were 85 banks. With the introduction of stringent capital requirements by the central bank there are now only 25. Leading banks have over a billion USD capital in comparison to lower capital requirements in Russia and Turkey.

	• Fitch Ratings highlight the strong financial ratios which have improved as a result of higher oil prices and prudent management of oil windfalls **Political environment** • For many investors, concerns relating to the political environment were preventing their investment in Nigeria. Investors highlighted the main political risks as corruption, national cohesion and maintaining oil production in the face of high oil prices and illegal oil extraction. A "lasting Niger delta solution" has been deemed to play a fundamental role in making the market more appealing to international investors • *"Whilst the recent election was regarded as an important success for Nigeria, the process was marred by widespread violence and fraud. While it was in one sense a milestone, as it was Nigeria's first transfer of power from one elected ruler to another, the election by itself is not enough of an indication that Nigeria has turned the corner economically or politically. Nigeria's political institutions remain weak, and the country is still characterized by deep economic cleavages and truly endemic corruption — all of which make the future political direction of the country hard to predict"* • Standard & Poor's highlighted the challenges for Nigeria as being the high political risk, weak political institutions and ongoing struggle with poor governance. In addition they highlighted the low level of development and dependency on the oil sector • Fitch Ratings highlighted a challenge to Nigeria being the slower pace of reform and infrastructure spending since the onset of the new administration. Although progress has been made to date, they underline a challenging structural reform agenda remains to be implemented and the huge infrastructure gap needs to be addressed • According to Fitch Ratings, the unresolved situation in the Niger delta is a challenge, resolution of which will support higher oil production and alleviate risk to energy sector strategies • Global market stability will make the market more appealing according to one investor*: "[although] this is clearly out of Nigeria's control, it is having a big impact on investor sentiment towards frontier markets across the board"*

<u>Market Operators:</u>

Participant	Roles	Estimated No.
Issuing Houses	• Primary Market role: ▪ Manage overall transactions manager for primary market issues ▪ Prepare offer timetable and ensures adherence to it ▪ Liaise with the issuer, SEC & other parties to obtain necessary information & documents. ▪ Prepare & files offer documents at the SEC. ▪ Market & distribute of offer documents. ▪ Act as receiving agents. ▪ Prepare & file allotment proposal. ▪ Ensures compliance with rules & regulations	59

Participant	Roles	Estimated No.
Receiving Banks	● Primary Market role: ▪ Receive application monies and pay interest on such monies for the period between returns are made on public issues and allotment approval by the SEC	24
Registrars	● Primary Market role: ▪ Receive all application forms and reconcile the data on the forms with the application monies. ▪ Prepare the allotment schedule and forward it to the Issuing House. ▪ Print and dispatch share certificates & warrants for returned money ● Secondary market role: ▪ Maintain the register of shareholders ▪ Manage the logistics of AGMs ▪ Dispatch bonus share certificates and dividend warrants	30
Stockbrokers	● Primary Market role ▪ Liaise with the issuing house to ensure adherence to NSE requirements. ▪ Prepare & file listing application at the NSE. ▪ Obtain a Quotations Committee Meeting ("QCM") date and a listing date. ▪ Aid in pricing, marketing & distributing the offer. ▪ Act as receiving agents ● Secondary Market ▪ Executing trades on behalf of clients	248 licensed (by the NSE and SEC)

Participant	Roles	Estimated No.
Solicitors	• Primary Market role: ▪ Prepare the vending, underwriting, joint issuing house Agreements and, in a debt issue, a trust deed ▪ Review the issuer's legal & statutory documentation; exercise due diligence. ▪ Review the issuer's litigation files ▪ File offer documents at the CAC after the CBN	N/A
Reporting Accountants	• Primary Market role: ▪ Review issuer's audited accounts and report on projections	N/A
Receiving Agents	• Primary Market role: ▪ Receive application forms and subscription monies during public offers	N/A
Trustees	• Primary Market role: ▪ Engaged for debt issues and investment Trusts. ▪ Ensure adherence to the Trust deeds • Secondary Market role: ▪ Holding assets in trust	N/A
Primary Dealers & Market Makers (PDMM)	• Primary Market role: ▪ CBN-appointed underwriters of government bonds to trade government bonds and treasury bills in the primary and secondary market ▪ Submit bids for primary auctions, distribute securities to investors • Secondary Market role: ▪ Make continuous markets for bonds and treasury bills by quoting two-way prices	20

6.6 AIHN Processes: see attached file

6.7 Recommended Amendments to the ISA: see attached file

6.8 The Market Intervention Position Paper (containing recommendations to specifically address the recent downturn in the capital market): see attached file