



SECURITIES AND EXCHANGE COMMISSION

A Roadmap for Transforming the Nigerian Capital Markets

Ms Arunma Oteh
Director-General
Securities and Exchange Commission

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A Roadmap for Transforming the Nigerian Capital Market

Good morning, ladies and gentlemen of the Press,

I am delighted to meet with you today and soon after assuming duty as the Director General of the Securities & Exchange Commission (SEC). My appointment is a great honour and privilege and I would like to thank His Excellency, President Umaru Musa Yar'adua for my appointment. Similarly, I would like to thank the Honourable Minister of Finance, Dr. Mansur Muhtar and the Honourable Minister of State for Finance, Mr. Remi Babalola for nominating me to this position.

The media is a significant stakeholder in the development of capital markets and each and every one of you here today has played an important role in nurturing transparent capital markets through timely and effective reporting of key issues affecting the markets. In addition, the media including print media, radio, television and new media are together, the most important and independent source of information, if not the only source of information for many everyday investors. It is therefore important for me to interact with you, early in my tenure, given the SEC's role as the apex regulator and the urgent need to embark on transforming the Nigerian capital markets into a world class capital market.

Well functioning Capital Markets are essential to Nigeria's economic development

To realize its full potential, our country must have a world class capital market that is strong, sustainable, well-functioning, plays a central role in the economic development of our nation, the well being of our people and serves as the benchmark for the continent and the world. The Nigerian capital market must become an enabler for the transformation of the Nigerian economy, by becoming the first port of call for domestic savings and for international investors. It must be able to finance our nation's huge development needs as outlined by his Excellency, President Umaru Musa Yar'Adua in the seven-point

agenda, and enable us realize our aspiration to be amongst the 20 most important economies in the world.

The development of the capital market is also essential because it will facilitate the diversification of the economy from its dependence on oil. Economic growth in Nigeria has mostly been fuelled by the oil sector contributing 80% of the nation's revenue and 90% of its exports. However, oil is a finite resource and it exposes the country to global oil crisis that could significantly impact government finances and the economy as a whole. Capital markets also foster entrepreneurship and innovation which in turn creates job opportunities in the country.

The Nigerian capital market suffered a serious decline last year, following a period of unprecedented growth and development. From being one of the fastest growing among the world's developing and emerging economies, it had become one of the worst performing, having declined by about 70% from its peak in March 2008. In addition, when measured against comparable markets, it still consistently fell short of the benchmark in several key market performance indicators such as market depth/breadth, market liquidity, sector concentration and transaction costs. It was unfortunately also recently characterized by sharp practices which have led to the erosion of investor confidence. In the aftermath of the global and local crises, we have a dual opportunity to learn from our mistakes, and those of other markets, and to emulate the best regulatory and operational practices. We must also build a solid foundation and restore investor confidence by eliminating the sharp practices that have characterized the last two years. This is the essence of the reform agenda that SEC is leading.

Restoring Investor Confidence is my immediate priority

The immediate priority of my capital markets reform agenda is to restore investor confidence, as well-functioning capital markets cannot exist or flourish without investors. This is because capital markets thrive on investor interest in the investment opportunities that the markets have to offer. We will achieve

this by significantly enhancing our dual role of effective regulatory oversight and capital market development. These two roles reinforce each other as adequate regulatory oversight fosters a well-functioning capital market. To restore investor confidence we must tackle the recent challenges that investors faced resolutely, and painstakingly lay a solid foundation so that what happened in the last two years never happens again. It will take some time and patience but there is no other way. These challenges can be summarized into two categories, weak governance and insufficient capacity.

Zero tolerance policy to urgently address governance weaknesses

While effective governance is key to a well-functioning capital market, the Nigerian capital market has in the last two years been characterized by governance weaknesses that have led to improper behaviours and sharp practices such as insider trading and share price manipulation. We must therefore implement the SEC zero tolerance policy in a decisive and far reaching manner. I am therefore determined to eliminate sharp practices, deter malpractice and change behaviours by ensuring that both the institutional and personal costs of any wrongdoing are extremely high. We will ensure high standards in regulatory oversight and enforcement and will name and shame where necessary.

We are continuing to strengthen inspection and investigation and any operator found erring will be suspended, issued a warning, or fined depending on the gravity and nature of the violation. We hope that the various enforcement actions against erring operators, including their suspension from participating in capital market activities, will deter other operators from breaching rules. We will also continue to strengthen all the processes related to investigation, enforcement, prosecution and publicity of outcomes in line with international standards.

We will also revitalize our enforcement programs to ensure a focus on the cases that are of prime importance to the investors, that we pursue our program speedily without compromising on fairness, and that we impress on

violators of the rules of the capital markets that there are high costs associated with flouting the regulations. Given the connection between an efficient capital market and a robust enforcement regime, we will be re-examining the number of SEC staff dedicated to the enforcement program and benchmarking ourselves against other comparable institutions in the world.

In pursuing our enforcement program, we are cognizant of the fact that deterrence is just one tool amongst a wide array of tools for protecting investors and facilitating the efficient formation of capital. Therefore, our enforcement program will also seek to change the behaviour of people operating in the capital markets by making illegal conduct a highly unattractive option. The SEC will endeavour to improve communications with the public and the media in order to ensure that operators are fully aware of all existing rules and regulations so that ignorance will not be an excuse for inappropriate conduct. Therefore we will need your help to report and provide accurate information to the investing public to allow them to make informed investment decisions.

Rebuilding the capital market will mean urgently addressing capacity deficiencies

Another category of challenges is insufficient capacity amongst investors, operators and regulators in terms of human capital and tools. First, a complete realignment of our internal structures at the SEC is needed to strengthen the capacity of the institution to respond effectively. It is of utmost importance that we invest in our human resources, through training, as well as in research capacity and information technology in order to fulfil our mission of investor protection. Leveraging technology in the organization is especially crucial when building institutional capacity as it improves productivity and service delivery. Therefore, the SEC will endeavour to enhance its use of information technology and we encourage all market operators to do the same. It is also important for all regulatory bodies to improve coordination amongst ourselves to create synergies and further improve upon their effectiveness.

We will continue to enhance the capacity of the Nigerian Capital Market Institute (NCMI) to provide the training and skills that capital market operators require. We will work with all trade groups in the capital markets to improve the training of members and sponsor other capacity enhancing initiatives. Given that our primary mandate is to protect the investor, we are broadening our investor education and public enlightenment programmes. This is particularly important as we must strengthen investor understanding of their rights and the risks associated with investing in the markets. There is a need to scale up the education of investors not only on the benefits and risks of owning shares in companies but also on their rights and the protection afforded them by our regulatory framework. To do this, the SEC will further leverage our zonal offices and use radio, television and new media to enlighten the public and target unreached segments of the market. A better understanding of the capital market by people can potentially lead to an increase in awareness on the issues and the elimination of sharp practices.

The Road map for rebuilding the Nigerian capital markets

The report written by the 15-person committee established by SEC in September 2008, to review the capital markets is an excellent roadmap for transforming our capital markets. Their recommendations, which articulate the reforms that are needed to revamp the capital markets, are organised into the categories outlined below:

1. First of all, we have to **increase the depth, breadth and sophistication of the market**. There are a limited number of asset classes as the market is dominated by equity investments. Therefore we need to expand market offerings to include products such as fixed income securities. Hedging instruments such as futures and other derivatives need to be promoted as well as securities lending and collective investment schemes. It is important to increase awareness of the benefits and appeal of collective investment schemes, for example, as many retail investors lack the capacity to assess the risks and rewards of direct capital market investments. While there has been some progress in the development of

new products, there is still a lot of work to be done to achieve the desired growth level.

2. Secondly, we need to **improve efficiency and cost competitiveness** in all aspects of the market as the high transaction costs are a huge deterrent to companies wishing to enter the market. It is also essential that we review primary and secondary market issuance costs. We also have to improve the efficiency of market systems such as the Central Securities Clearing System (CSCS) and streamline business processes by leveraging technology.
3. There is also a fundamental need to **strengthen regulatory oversight**. On our part, the SEC has to improve the effectiveness of market regulation, oversight and supervision. We also have to strengthen the SEC- in terms of its capacity and operations and the Diagnostics study that the SEC commissioned will serve as an effective guide as to how to reform the organization.
4. **Disclosure, transparency and accountability** are also key issues that need to be addressed. We must continue to send the right signals about the importance of integrity and transparency as critical ingredients of good corporate governance. The absence of transparency undermines the market and creates perverse incentives for those individuals determined to bend the rules. Therefore, the SEC will request that all public companies disclose meaningful and relevant information to the public. Information technology will play a vital role in modernizing the disclosure system under the new regulatory framework and in promoting transparency, liquidity, and efficiency in our markets. I also strongly believe that an effective disclosure system will only work if good accounting practices are in place and this is why it is crucial that we ensure that all firms adopt the International Financial Reporting Standards (IFRS).

The objective behind the IFRS is to create a common platform for better understanding of accounting, internationally. The SEC is paying attention to make sure listed companies are IFRS compliant because compliance fosters good corporate standards by improving transparency and disclosure. While converting to IFRS can be a complex process, these standards have important and positive implications for organizations and individuals that adopt them. For companies, it allows them to present their financial statements on the same basis as their foreign competitors. Making comparisons will be easier through the use of one consistent reporting standard. For investors, it offers better information for decision making, leading to broader investment opportunities. For regulatory bodies, it provides superior information for market participants in a disclosure-based system. In short, the adoption of IFRS will serve to improve transparency and disclosure standards in the market and we must all work hard to comply with these international standards.

5. There is also a need to establish **strong institutions** across the market and instil principles of risk management into capital market operations. We need the cooperation of all market operators to ensure that the SEC has access to a set of reliable information about operations in the capital markets. The SEC and the NSE will also be collaborating to update, implement, monitor and enforce a comprehensive risk management framework that reliably keeps systemic risk in check. The SEC will also be working to ensure that individual operators set up appropriate risk management systems. These will include limits on trading capacity based on capital adequacy and internal systems that operators must set up to attain and maintain their licensing status. Risk management principles for market operators will feature clearly-defined processes and systems for identifying, managing, controlling and reporting all types of risks. There will be clear definitions of standards, including those on internal systems, processes, technology, compliance and corporate governance. These will be different, depending on each category of

operator and the minimum standards will be set by the SEC. At the end of the day, to ensure the success of an effective regulatory structure, we all need a clear commitment to vigorous regulation and oversight of our financial markets and institutions.

We therefore need to focus on implementing these recommendations and from time to time, we will provide some feedback on the level of progress. Our quarterly Capital Markets Committee (CMC) meeting was held on Thursday 4th February, 2010 and it was an excellent forum for bringing stakeholders together as well as for exchanging views on how we can develop the capital markets. I have also met with the leadership of the trade groups to listen to their perspectives on their role, views of the market as well as their expectations of the SEC. It is important to note that while the SEC is the regulatory body, all market operators have a responsibility to regulate themselves as we are all stakeholders in the capital market. We all have a role to play and we have a real opportunity to change behaviors and transform the capital markets.

Closing Remarks

We have a mandate for change. Therefore, we must build a new foundation for the capital market that is simpler and more effectively enforced, that protects the everyday investor, rewards correct behaviour and is able to adapt and evolve with changes in our growing economy. In short, it is time to prove ourselves. We can help restore the confidence that is so desperately needed for our capital market to flourish and develop. We need the support of all stakeholders, including the media, as we strive to promote and develop our capital market. Ultimately, if we work together, we can increase the scope and impact of our individual and collective successes.

SEC has always worked towards a vision- 'to be Africa's leading capital market operator'. 2010 will be another year in which I expect the SEC to pursue this vision and take action through an ambitious reform agenda. As previously

mentioned, we will work tirelessly towards ensuring good corporate governance and improving capacity in the market.

Actions must be taken towards rebuilding the market, restoring confidence and providing the protection investors fully expect and rightly deserve. 2010 is going to be an extremely active time at the SEC as we are going to try to reenergize the agency, institute significant internal reforms and refocus on our core mission of protecting investors. That was our mission when we were founded and it's still our mission today.

Thank you

ARUNMA OTEH
DIRECTOR GENERAL