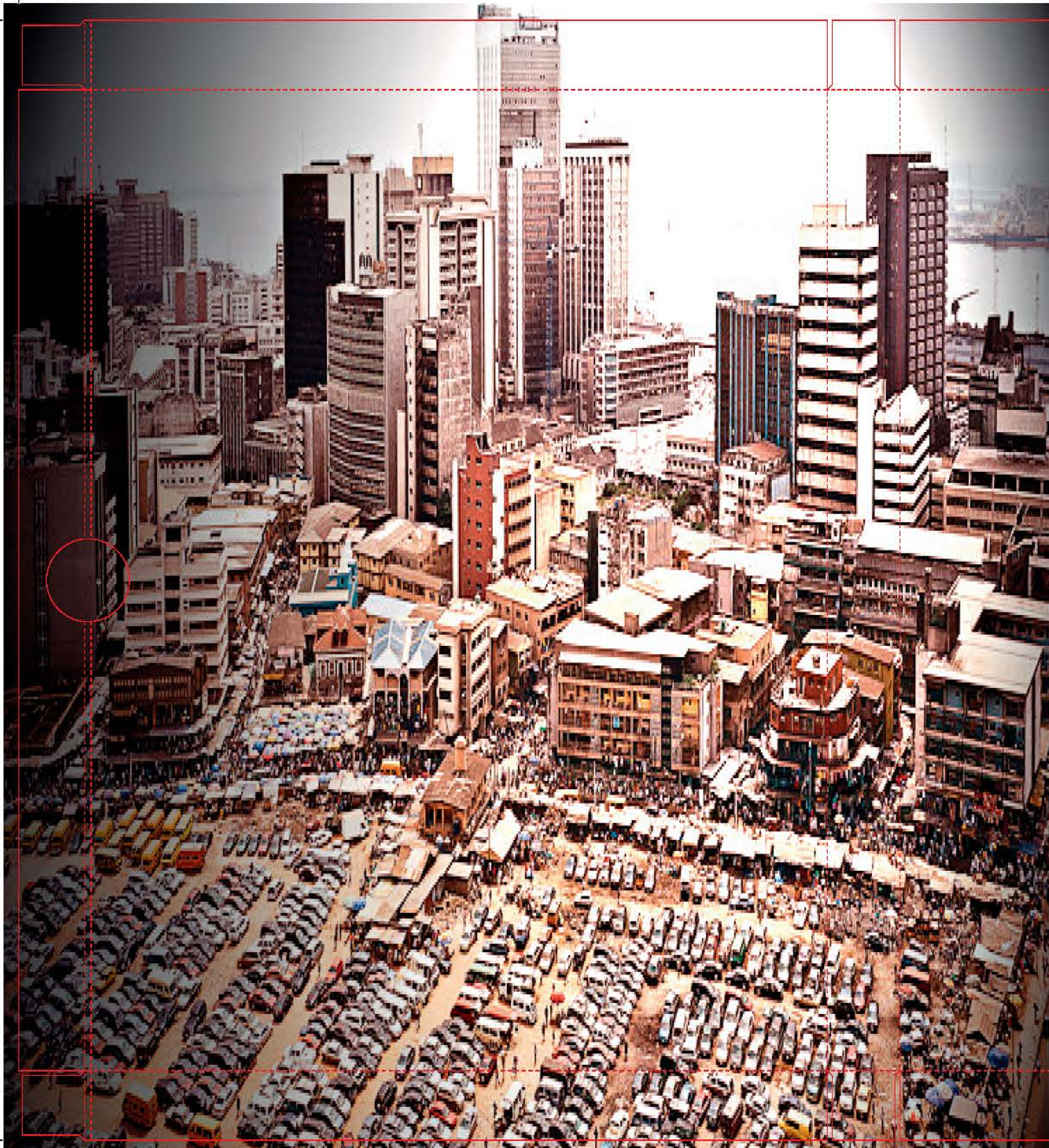

NIGERIAN CAPITAL MARKET MASTERPLAN

10 Year Plan
2015-2025

SEC NIGERIA
SECURITIES AND EXCHANGE COMMISSION, NIGERIA

THE NIGERIAN

CAPITAL MARKET MASTER PLAN

2015-2025

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FOREWORD BY THE DIRECTOR GENERAL, SEC NIGERIA

Nigeria, Africa's largest economy and most populous nation, has been undergoing a structural transformation characterized by robust growth and an increasingly diversified economic base. Our country is well on course to becoming one of the world's largest and most important economies provided challenges of infrastructure deficit and inclusion continue to be addressed effectively. The development of world class capital markets will be a critical success factor in the quest to actualize the dream of a peaceful and prosperous Nigeria for all citizens.

Within the last ten years, the Nigerian capital market has grown seven fold, the bond market has emerged as another veritable source of medium to long term finance and collective investment schemes increased by over 400 percent. The Securities and Exchange Commission (SEC) has been leading the market's transformation by building investor confidence through world class regulation and enforcement, strengthening market institutions, promoting corporate governance, supporting innovative technology and prioritizing cooperation both domestically and internationally. In addition, the reforms have improved market liquidity, introduced alternative trading platforms and created an enabling environment supportive of new products like Securities Lending, Market Making, Exchange Traded Funds (ETFs), Real Estate Investment Trusts (REITs) and Sukuk.

Notwithstanding the remarkable progress the Nigerian capital market has achieved so far, we are not where we should be and to get there a lot remains to be done. This informed our decision to leverage the cooperation and alignment we have achieved within the capital market to develop strategy documents that will guide the development of our capital market to where we want it to be. This approach is in line with global best practice as remarkable successes of long term planning from peer countries like Malaysia, Brazil and India have shown. The reports contained in this publication articulate the journey our capital market will embark upon for the next 10 years (from 2015 to 2025) covering three areas: the overall capital market, non-interest financial products and capital market literacy.

Without any master plan in place, we have been able to grow our stock market by a cumulative annual growth rate (CAGR) of 21.52 percent over the last 10 years. I have no doubt, that with faithful implementation of these Master plans our market will eventually emerge as one of the world's deepest, most liquid and largest capital market that will not only contribute to the socioeconomic development of Nigeria but will serve as a global financial hub offering opportunities into other parts of Africa. There is a lot of room for growth and Nigeria certainly has all the potential to achieve this great feat.

As we formally present this painstaking work to the public, my most profound appreciation goes to the capital market community for aligning with our vision, especially to the Sponsors, Chairpersons and members of the committees for their commendable efforts in putting the plans together. I enjoin every Nigerian to get involved in the historic movement to build the world class capital market that will enable our country actualize her fullest potential and attain the socioeconomic upliftment we all desire.

Thank you.

Arunma Oteh,
Director General, Securities and Exchange Commission (SEC)

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PART A

NIGERIAN CAPITAL MARKET MASTER PLAN 2015-2025

"Movement to build the world class capital market that will enable our country actualize her fullest potential and attain the socioeconomic upliftment we all desire."

Arunma Oteh,
Director General, Securities and Exchange Commission (SEC).

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THE CAPITAL MARKET MASTER PLAN

2015-2025

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THE CAPITAL MARKET MASTER PLAN

EXECUTIVE SUMMARY

In recognizing the strategic role the nation's capital market must play to align with the nation's economic vision, the Capital Market Master Plan Committee was inaugurated by the Director General of the SEC on the 9th of September 2013.

A 25-man Committee chaired by Mr. Adedotun Sulemian (MFR) was charged with the responsibility of formulating the 10-year Capital Market Master Plan (2015-2025) under the following terms of reference:

- Review the implementation progress of "Nigeria's Capital Market: Making World Class Potential a Reality" and outline milestones yet unachieved.
- Conduct a holistic review of peer emerging markets with a view to articulating the requisite element, size and structure of a capital market that will enhance the global competitiveness of the Nigerian capital market and catalyze Nigeria's potential to become the largest economy in Africa within the focused period.
- Examine successful growth strategies in other jurisdictions and articulate a development strategy for the Nigerian capital market covering key areas such as investor protection and education, professionalism, product innovation and expansion of the role of the capital market in economic development.
- Consider relevant factors that impact market growth and develop a strategy for robust governance for improved efficiency, transparency and enhancement of market stability.
- Make necessary recommendations with clear and actionable quarterly and annual milestones that will lead to a world-class capital market, which supports an inclusive economy and improves the living standard of Nigerians.

With these terms of reference in mind, the committee undertook a comprehensive review of the critical elements of the Nigerian Capital Market, through an extensive research process, industry-wide consultation, and a comparative assessment of benchmark economies (Brazil, South Africa, Malaysia and India).

ISSUES AND CHALLENGES

The Committee identified and classified issues under four (4) main transformation themes: **contribution to national economy, market structure, competitiveness and regulation and oversight.**

Among the tools required in the march towards achieving the objective, the committee after several meetings, identified a vision, objectives, goals, initiatives and programs with a road map for the future.

The vision **"To be Africa's most modern, efficient and internationally competitive capital market that**

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catalyzes Nigeria's emergence as a top 20 global economy" has 104 strategic initiatives to be undertaken under the four (4) main transformation themes.

An implementation plan has been recommended, whereby it is proposed that a board or council be established under the chairmanship of the Director General of the SEC. This should be complimented with working technical sub-committees created to drive each defined strategic initiative proposed in the plan within the stipulated timelines.

Key Stakeholder involvement is also considered necessary towards the successful execution of the Master Plan. The buy-in of the Presidency, the Economic Management Team and the drivers/key stakeholders of the FSS2020 plan is considered a critical success factor of the implementation process.

The implementation plan, timelines and governance is provided in appendix 1 to the master plan.

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CHAPTER 1

INTRODUCTION

1.1 Macro-economic Overview

Nigeria has, in the past decade, risen to the challenge of living up to its moniker – the Giant of Africa.

Nigeria is Africa's most populous country with a population estimate of 170 million as of 2013, a 268% increase over the estimated 45.2 million people in 1960 when Nigeria gained independence. Nigeria accounts for about 2.5% of the entire earth's population - 1 in every 43 people in the world is a Nigerian, as is 1 in every 6 Africans.

Chart 1: Nigeria population history and projections

Population History

Year	Population	Change
1950	37,860,000	N/A%
1960	45,212,000	19.42%
1970	56,132,000	24.15%
1980	73,698,000	31.29%
1990	95,617,000	29.74%
2000	122,877,000	28.51%
2010	159,708,000	29.97%

Population Projections

Year	Population	Change
2020	212,101,000	32.81%
2030	286,392,000	35.03%
2040	393,907,000	37.54%
2050	549,756,000	39.56%
2060	776,370,000	41.22%
2070	1,106,845,000	42.57%
2080	1,587,536,000	43.43%
2090	2,284,501,000	43.90%
2100	3,293,503,000	44.17%

Source: United Nations

Population Data via United Nations

More recently however, and following the successful rebasing of the nation's Gross Domestic Product (GDP), Nigeria is also now Africa's largest economy[1] and the world's 26th with a GDP of N80 trillion (US$510)

[1] Nigeria rebased its GDP from 1990 to 2010. (Source: Nigerian Bureau of Statistics) billion), 89% larger than the N42 trillion (US$270 billion) previously reported.

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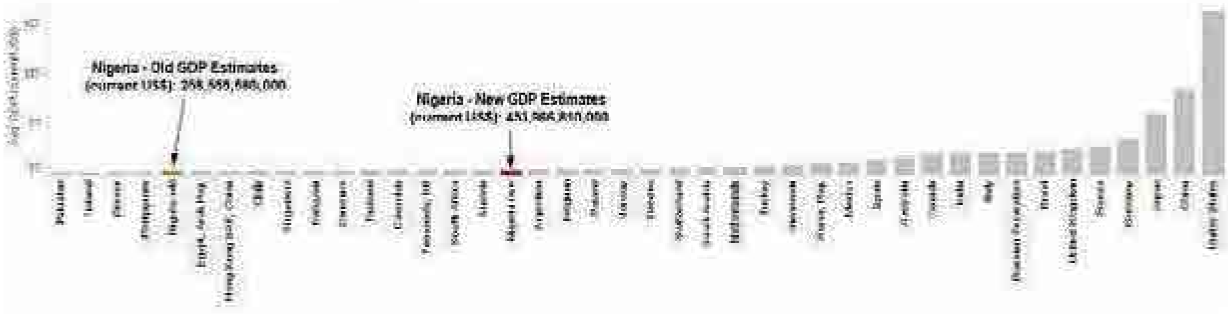
Chart 2:Countries with the highest GDP (2012 GDP in current US$)



Source: Nigerian Bureau of Statistics (NBS)

In addition, there has been a significant shift in the structure of the contribution to GDP, indicating that the country has evolved from a pastoral economy to a service economy, with services accounting for 51.89% of economic activities.

Chart 3: Sectoral share of GDP (2010 – 2013 in N'm)

NEW SERIES (Nm)				
	2010	2011	2012	2013f
Agriculture	12,988,809.19	14,421,928.95	15,918,631.70	17,625,142.90
Industry	13,992,438.93	17,615,537.36	19,024,322.24	20,671,951.45
Services	27,223,547.01	31,221,112.69	36,243,580.95	41,925,033.96
Total Nominal GDP	54,204,795.12	63,258,579.00	71,186,534.89	80,222,128.32

Source: Nigerian Bureau of Statistics (NBS)

Some of these new areas of growth include previously underestimated economic activities such as telecommunications and information services (11%), publishing, motion picture production, sound recording, music production and broadcasting – all industries that evolved and grew rapidly in the last 2 decades. The services sector grew 54% in 3 years from N27.2 trillion in 2010 to an estimated N41.9 trillion in 2013. At 16.4% of GDP, the trade sub-sector is now larger than oil production.

Agriculture is however still the largest contributor to Nigeria's GDP, contributing 21.97%2 to economic activities and rising 36% in just 3 years from N13.0 trillion in 2010 to an estimated N17.6 trillion in 2013. However, this comprises primarily of Crop Production at 21.5% of GDP – there is still very little activity in Livestock, Forestry and Fishing.

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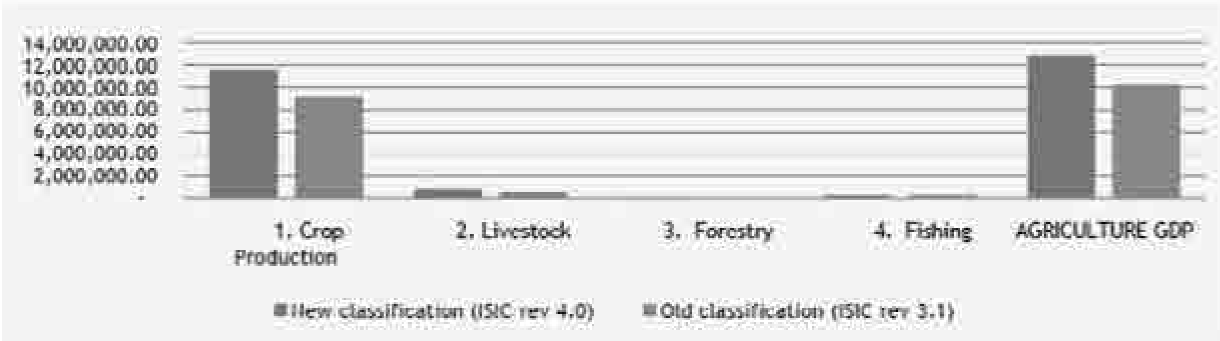
Chart 4:Composition of Agriculture (2013 in N'm)

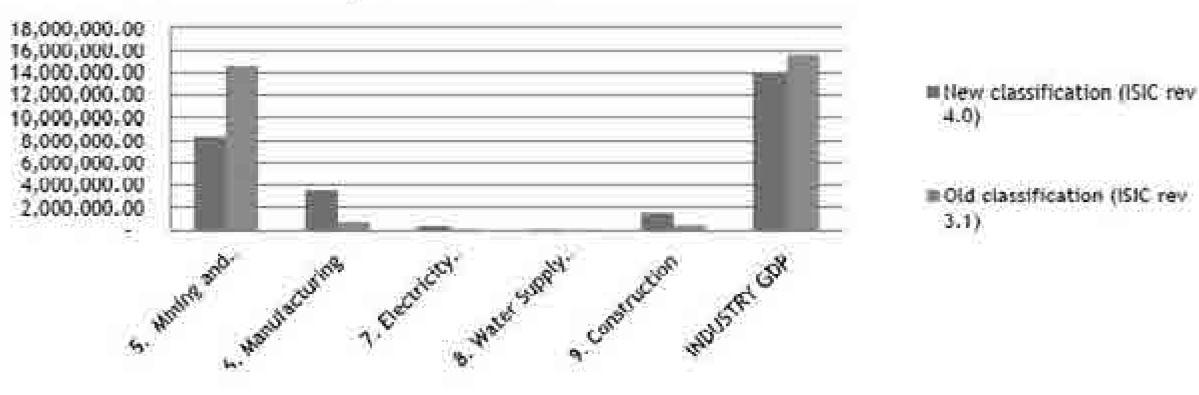


Source: Nigerian Bureau of Statistics (NBS)

The third largest sector is Mining and Quarrying which made up about 15.6% of GDP in 2013, of which Crude Oil and Gas contributed 14.4%. This is consistent with Nigeria being a resource extraction economy which it has been since the 1970s when exploitation of the abundant crude oil and gas resources commenced. Nigeria has the 10th largest oil reserves in the world, estimated at 37.2 billion barrels (2010 proven estimates) which are projected to last approximately 60 years. Nigeria also has the largest gas reserves on the African continent with proven gas reserves of 185 trillion cubic feet and additional reserves that could amount to as much as 882 trillion cubic feet, as well as various solid minerals including industrial solid minerals such as gypsum, limestone, kaolin, marble and phosphate; metallic minerals like iron ore, lead, zinc and minela fuels such as coal.

However, the rest of the industrial sector trails Crude Oil and Gas production, with Manufacturing at 6.6% and Construction at 2.9%. Contributions from Electricity and Water Supply are practically negligible.

Chart 5:Composition of Industry (2013 in N'm)



Source: Nigerian Bureau of Statistics (NBS)

This figure was 34.69% prior to the rebasing (Source: Nigerian Bureau of Statistics (NBS).

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Table 1: Sectoral GDP contribution (2013) and GDP growth rates (2010-13)

	Pre-rebasing contribution ($'bn)	Rebased contribution ($'bn)	Real CAGR (2010-13) %	Contribution to GDP growth 2010-13 %
Other services	10	40	8.1	8.7
Entertainment, music	-	7	23.1	3.7
Construction	4	16	14.6	7.2
Professional and technical services	1	16	5.4	2.6
Finance and Insurance	4	17	18.6	7.5
Public Administration	2	18	4.5	2.5
Manufacturing	5	35	13.0	14.3
Real Estate	12	41	6.9	8.2
Telecommunications and ICT	2	49	6.6	10.4
Resources	88	74	2.2	5.1
Trade	48	85	7.7	20.1
Agriculture	94	112	2.6	9.4
Total GDP	**270**	**510**		
% CAGR (2010 - 13):				
Nominal	7.7	13.8		
Real	7.0	6.4		
Source: International Monetary Fund (IMF), Nigerian Bureau of Statistics (NBS)				

Overall, real GDP growth has been very strong - averaging above 6-7% since 2004. This growth has not only consistently been one of the highest in the world across the same period, higher than the West African sub-regional average and far higher than the sub-Saharan Africa average, but has also been more stable than in previous periods. Indeed, compounded annual growth rate (CAGR) of GDP growth is 8.6% per annum from 1999 – 2010, compared with just 1.5% per annum between 1983 and 1999.

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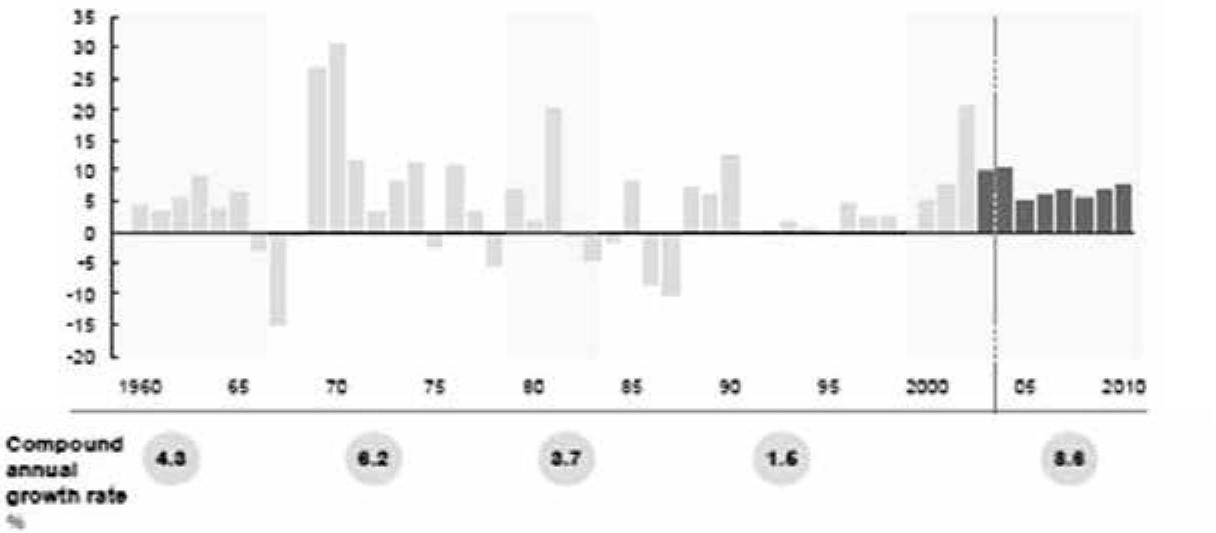
Chart 6:Nigeria real GDP growth (1960 – 2010)



Source: World Bank World Development Indicators

The growth performance of the economy continues to be underpinned by favourable improvements in the non-oil sector particularly in recent years, with real GDP growth of 5.4%, 8.3% and 7.8% in 2011, 2012 and 2013, respectively. Between 2011 and 2013, the non-oil sector annual growth averaged 7.1% with a peak of 8.3% in 2012 while the growth of the oil sector averaged 2% with a negative growth of -2.2% in 2012 although this significantly improved to 5.2% in 2013. The recent decline in export revenues has been mainly attributed to about a 10% fall in crude-oil and gas export earnings.

However, in spite of the good performance of the non-oil sector in terms of growth, its contribution to export earnings has been very small. The oil sector, despite its poor performance, contributed an estimated 96% to total export earnings in 2013. In contribution to fiscal revenue, however, things appear to be changing as the non-oil sector for the first time in decades contributed around 40% to fiscal revenues in the third quarter of 2013.

1.2 The Nigerian Financial Services Industry (FSI)

The Nigerian financial system is one of the largest in sub-Saharan Africa, consisting of a fairly diverse array of banking and non-bank financial institutions.

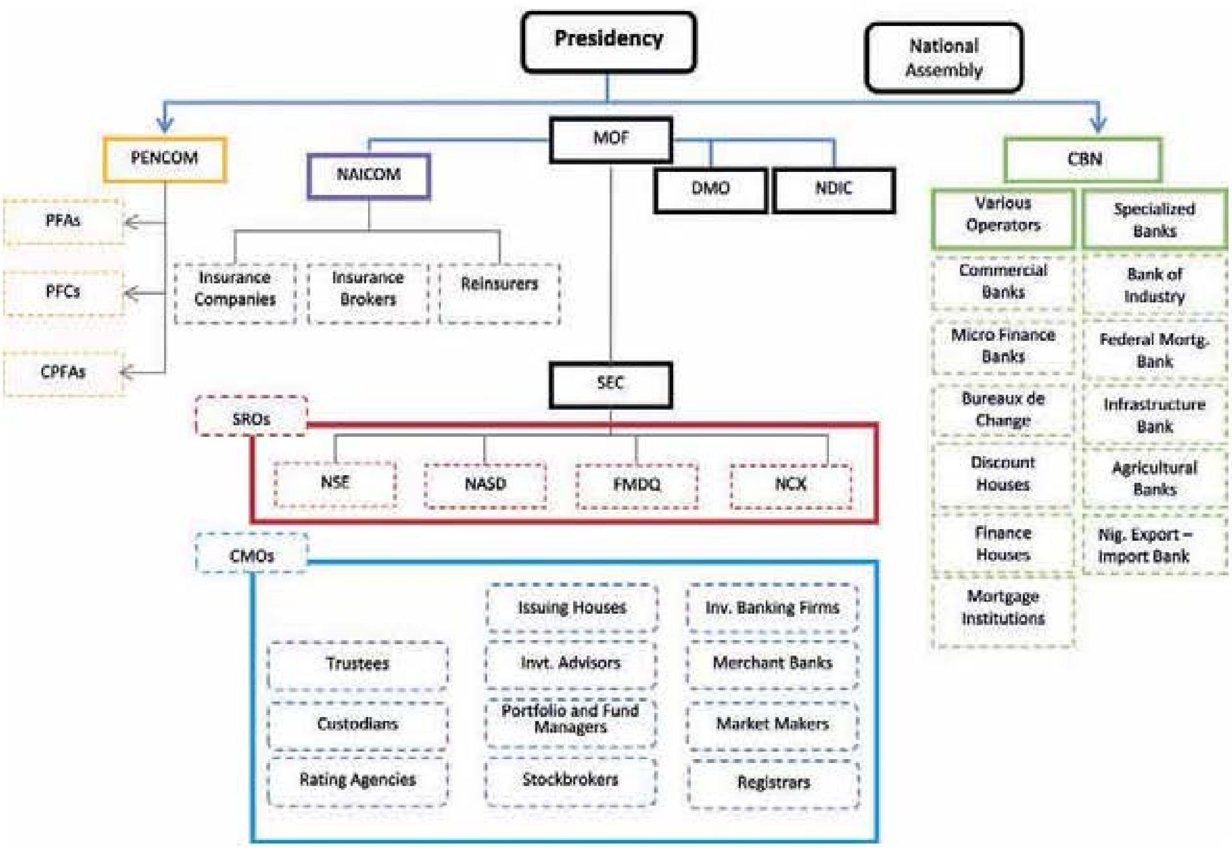
The system is regulated by several entities including the Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), Federal Mortgage Bank of Nigeria (FMBN) and National Pension Commission (PENCOM).

The banking sector is the largest component of the financial system and is driven primarily by the commercial banks which overwhelmingly dominate the financial sector (accounting for 93% of non-central bank assets).

Total assets of the financial system in 2011 stood at NGN 23.5 trillion. Eight (8) of the commercial banks account for about 75% of this sum. Traditional bank deposits represent the major forms of financial savings in the formal banking system.

The capital market is the second largest sub-sector within the financial services industry. Market capitalisation (equities) has been rising steadily to around NGN 13.23 trillion (US$82.8 billion) at the end of 2013 from N9 trillion (US$53 billion) in December 2012.

Chart 7: Overview of the Nigerian financial system



Other non-bank financial institutions, especially in the insurance and pensions sub-sectors, are growing but still have high potential for further growth. The contribution of insurance to GDP was about 1.5% in 2013 with Total Net Premium of N188.76 billion and Total Gross Premium of N258.4 billion, about 0.24% and 0.32% of GDP respectively.

The pension sub-sector has exhibited staggering growth in the stock of total pension funds, moving from a N2.6 trillion (US$16.3 billion) deficit in 2004 to a N3.3 trillion (US$19.3 billion) surplus in 2012, rising further to about N3.9 trillion (US$23.2 billion) in 2013. Total pension funds are projected to reach US$ 100 billion by 2020.

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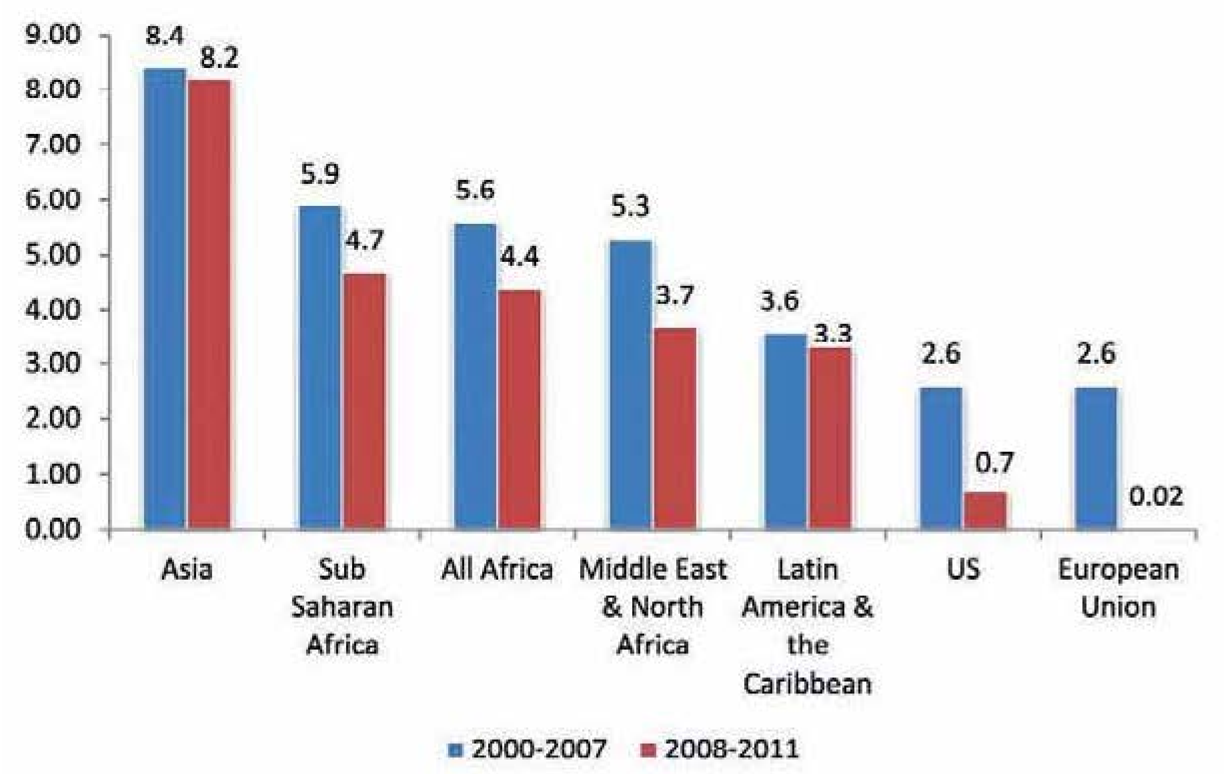
1.3 The Case for a broader Nigerian capital market

Africa, and in particular Sub-Saharan Africa (SSA), is among the fastest growing and most dynamic regions in the world. Since the start of the global financial crisis in 2008, Africa has maintained its growth trajectory and outperformed the developed world and many other developing regions.

Chart 8:Economic growth before and after the 2008/09 crisis



***Source**: IMF, WEO 2011*

This trend shows great potential to be sustained over the medium to long term with the region expected to maintain a growth rate of above 5% over the coming decade. Indeed, the region's 54 countries, thousands of ethnic communities and languages, highly divergent economic, political and geographic environments and a varied set of growth drivers, portend greater investment opportunities than elsewhere in the world across varied sectors.

A number of the most significant markets on the continent turned a historic corner over the past two decades in terms of their politics and it is expected that the long-term trend towards greater political stability and peace, accountable leadership, improved governance, and predictable policymaking in Africa will continue, enhancing the already immense investment potential of the continent.

One of the major outcomes of the persistent and stable growth is the rising levels of individual and household disposable income across Sub-Saharan Africa. Of the 767 million people spread across the region in 2010, over three quarters lived below the formal poverty line – with monthly incomes below US$100. By 2020, however,

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the region's collective population is expected to exceed 1 billion and the proportion of people living below US$100 a month is expected to decrease to around 65% of the total population. By comparison, the proportion of people earning above US$500 a month will more than double from 13 to 28 million and those earning above US$250 a month will increase from 47 million to 96 million.

Rapid growth and poverty reduction is expected to lead to rising prosperity across the region and companies investing in Africa will experience rising levels of domestic demand and consumer spending, as an increasing number of individuals enter the modern economy. This will increase total consumer spending in the region by up to an estimated 6% in total spending between 2010 and 2020. More importantly from an investment perspective, the growth in discretionary spending is expected to rise even faster than total spending as households move away from spending all their income on subsistence items (such as basic food, housing and electricity), and are able to purchase durable consumer goods and services.Industries such as durable household goods, construction and building supplies, food and clothing, utilities, transport and financial services are therefore best positioned to gain from an increase in total consumer demand that is expected to grow at a rate of around 6% on average each year across Sub Saharan Africa. But more importantly for companies and investors looking to benefit from rising consumer demand on the continent, the growth in discretionary spending will be even faster, as an increasing number and share of African households move out of subsistence. Discretionary or non-essential spending by African households with monthly incomes above US$250 is expected to increase at an average annual rate of between 7.12% and 9.95% from 2010 to 2020.

In this regard, Nigeria is one of the most attractive economies, given its sheer dominance in the region. The GDP of Nigeria is about 4 times that of the rest of the West African sub-region. The country is also one of the fastest growing, with an estimated 6.3% growth rate in 2013. Nigeria has the potential to continue expanding its economy rapidly and it is forecast to grow by up to 7.1% per year through 2030.

Nigeria therefore represents an attractive market for companies and investors and is expected to have a significant proportion of the population with discretionary spending power by 2020 – it is estimated that some 37 million people will earn more than US$250 per month by 2020 making it a larger middle- and lower-middle class consumer market than South Africa.

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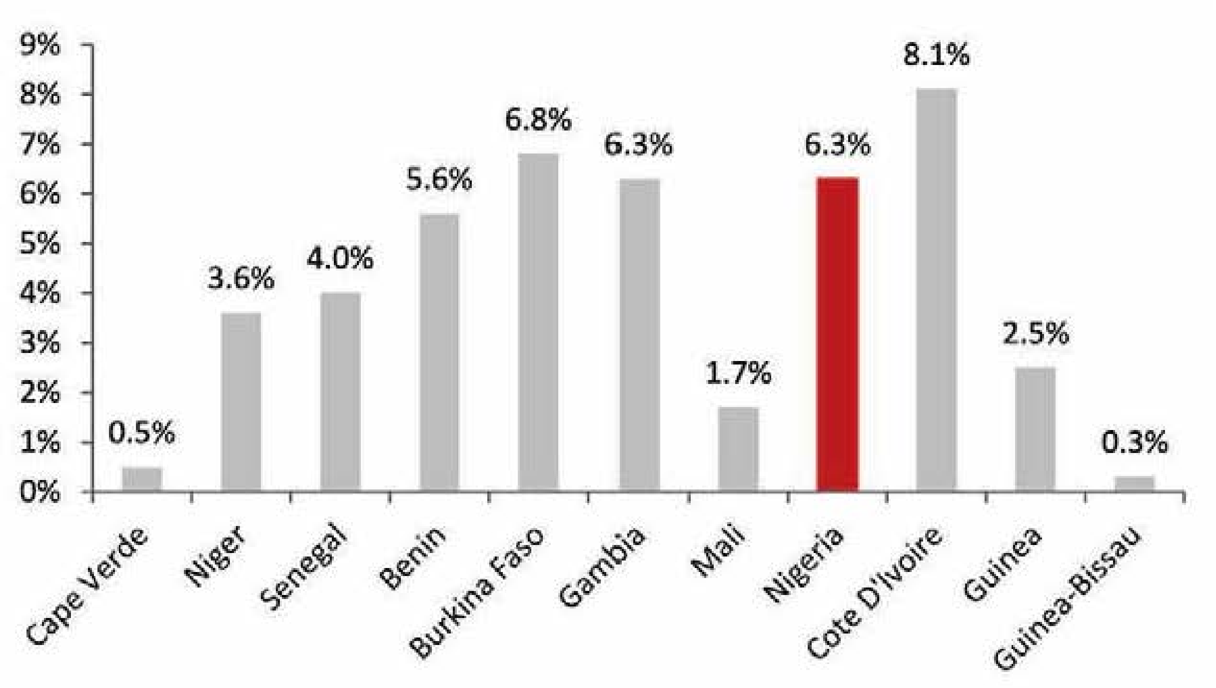
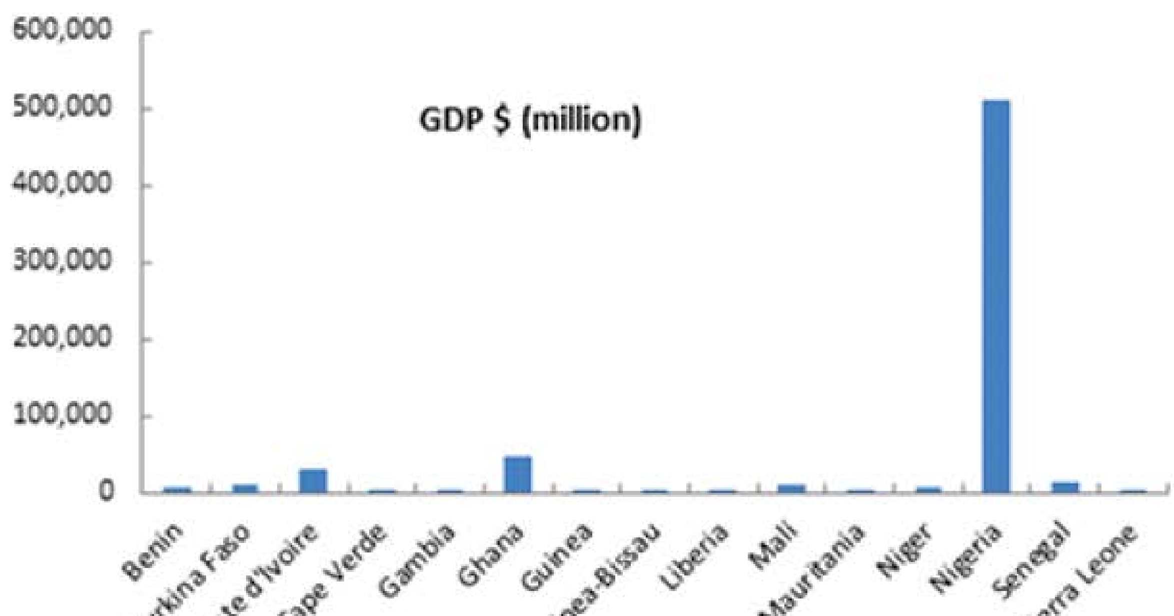
Chart 9:GDP and GDP growth rates across the West African region (2013)



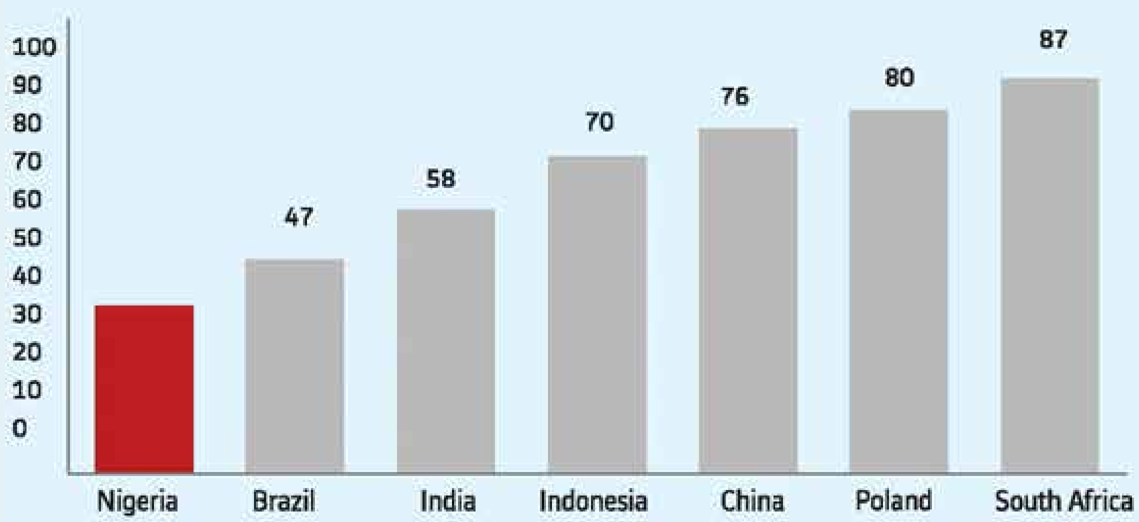


Source: CIA FactBook, Nigerian Bureau of Statistics (NBS)

In addition, having become the largest economy in Africa, the ambition of Nigeria goes beyond the borders of the continent to becoming one of the largest economies in the world. Indeed, this aspiration is embedded in the nation's strategy document – Vision 20:2020.

Vision 20:2020 is a long-term plan for stimulating Nigeria's economic growth and launching the country onto a path of sustained and rapid socio-economic development. Nigeria is expected to be among the top 20 economies in the world with a minimum GDP of N144 trillion (US$900 billion) and a GDP per capita income of no less than N640,000 (US$4,000) per annum by 2020. Vision 20:2020 is to be achieved via the implementation of the Transformation Agenda which is the medium term economic transformation agenda for realizing the Federal Government's economic growth agenda for 2011-2015. The priority areas of the Transformation Agenda have been defined as physical infrastructure, human capital development, governance and real sector development. The current stock of core infrastructure in Nigeria is estimated to be about 35-40% of GDP, which remains way below the international benchmark of 70% of GDP. In addition, the low infrastructure stock that exists is not properly integrated. Productivity is held back as a result of this poor infrastructure, which increases the costs of doing business across Nigeria. The areas of infrastructure that require investment include energy (electric power, oil and gas), transportation (road, rail, water, urban and aviation), agriculture, water, mining, ICT (access and quality), housing and social infrastructure (education and health).

Chart 10:Infrastructure stock as a share of GDP (2012)



Sources: ITF, GWI, NPC

To close the existing gap and reach the desired optimal investment in infrastructure in line with international benchmarks, Nigeria must aggressively increase its core infrastructure stock. The target investment requirement has

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requirement has been estimated to be as high as US$2.9 trillion over the next 30 years if the country is to achieve the 70% target by the year 2043. Hence, an average of US$14-25 billion per annum is required from 2014-2018 compared to the current US$6-10 billion. A very clear inference that can be drawn is that budgetary allocations alone will be inadequate to meet the infrastructure requirements both at Federal and State levels. The move towards better infrastructure stock would require private sector sources of financing.

The Nigerian capital market therefore has a very relevant role to play in meeting the capital needs of the nation including mobilising and channelling medium to long-term investment funds which is critical to any country's growth and development, particularly for financing infrastructure. Major studies have shown that viable projects often collapsed due to the utilization of short-term funding, which is typically more expensive and certainly less stable, for long term projects. Socio-economic developmental projects and privatisation programmes can also greatly benefit, as can massive re-capitalisation programmes. The successful recapitalisation of the Nigerian banking sector is a prime example of the positive impact that the Nigerian capital market can have in transforming the nation.

A robust capital market correlates strongly with enhanced growth and economic stability and a broader market presents varied options to project and programme funding for both the private and public sectors in an economy while presenting a liquid platform for assets preservation.

A broader capital market that offers large and liquid equities would increase the competitiveness of the Nigerian capital market as a global investment destination. Increased representation of the Nigerian economic structure would imply stronger capacity to drive growth via the creation of established templates for companies to access long term capital that is suitable for theirspecific needs while creating an efficient metric for valuation and rating. At the core of the incentives for increased competitiveness and larger representation of economic growth drivers is the efficiency in capital market turnaround times, safety, protection and transparency.

[3] Source: National Planning Commission; note that this figure was before the rebasing of the Nigerian Economy

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1.4 Case study: Malaysian Capital Market Transformation Plan

Malaysia is a viable example of how proper planning can be used as a tool for change.

Malaysia embarked on its first Capital Market Master plan (CMP1) to guide the development of the Malaysian capital market from 2001 - 2010. The aim was to build a capital market that would be competitive in meeting the country's capital and investment needs and support long-term nation-building efforts.

The Malaysian CMP1 identified a total of 152 recommendations with strategic initiatives to strengthen fund-raising, promote the growth of the investment management industry, enhance market and intermediation competitiveness, provide a strong and facilitative regulatory regime and establish Malaysia as an international Islamic capital market centre.

By the end of 2010, 95% of the recommendations in CMP1 had been completed, with the establishment of a facilitative regime that promoted rapid industry growth and the building of a regulatory and institutional framework that provided investor protection at levels comparable with international jurisdictions.

Three of the main change themes proposed within the CMP1 are:

- **Moving from a Narrow to a broad capital market:** Prior to the formulation of CMP1, the Malaysian capital market was narrow, characterized mainly by equities and government debt securities; and infrastructure projects were largely funded by the banking system. However, after CMP1, the market experienced strong growth across market segments. The market for derivatives and investment management grew at phenomenal CAGRs of 19.8% and 21.2% respectively, twice as fast as equities and debt securities. Private debt securities also grew. The Islamic capital market quadrupled, with Malaysia pioneering and becoming a major global centre for innovation and intermediation of Shariah-compliant products such as the exchangeable sukuk, sovereign sukuk and Islamic REITs. Regulatory facilitation increased time-to-market efficiencies and promoted an expansion in the range of collective investment schemes such as real estate investment trusts (REITs), exchange-traded funds (ETFs), wholesale funds as well as the development of over-the-counter (OTC) and structured products
- **Diversification of sources of finance:** Since the implementation of CMP1, there have been structural changes in the channels of savings mobilisation and intermediation in Malaysia to address funding vulnerabilities. The sources of financing have been broadly diversified in tandem with the expansion of the Malaysian capital market. This has led to diversified funding, reduction in concentration and mismatch-risks and creation of an avenue for financing large-scale projects. The stock market was transformed into a well-established one providing equity financing to almost 1,000 PLCs and functioning as a growth platform for many small and mid-cap companies.
- **Strong regulatory framework:** Before the advent of CMP1, the Malaysian capital market employed a

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prescriptive rules based approach. Since the formulation of CMP1, the market had shifted focus to the development of a Risk Based supervisory approach characterized by improved professional standards and capabilities which enabled a transition to a disclosure based regime, higher standards for disclosure, due diligence and accountability, requirement for intermediaries to upgrade internal controls, extensive surveillance and supervisory coverage, legislative change to broaden civil and administrative enforcement, strengthening of investor safety net, a comprehensive investor education blue print, risk based capital adequacy framework, ring fencing of customer assets and capital and a regulated framework for short selling. Malaysia's regulatory framework ranks highly for investor protection, corporate governance, anti-money laundering and enforcement. Malaysia is also viewed as providing the most consistent and comprehensive regulatory framework for Shariah compliance.

Source: Securities Commission Malaysia's Capital Market Masterplan April 2011

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CHAPTER 2

MEETING THE CHALLENGES OF THE DECADE

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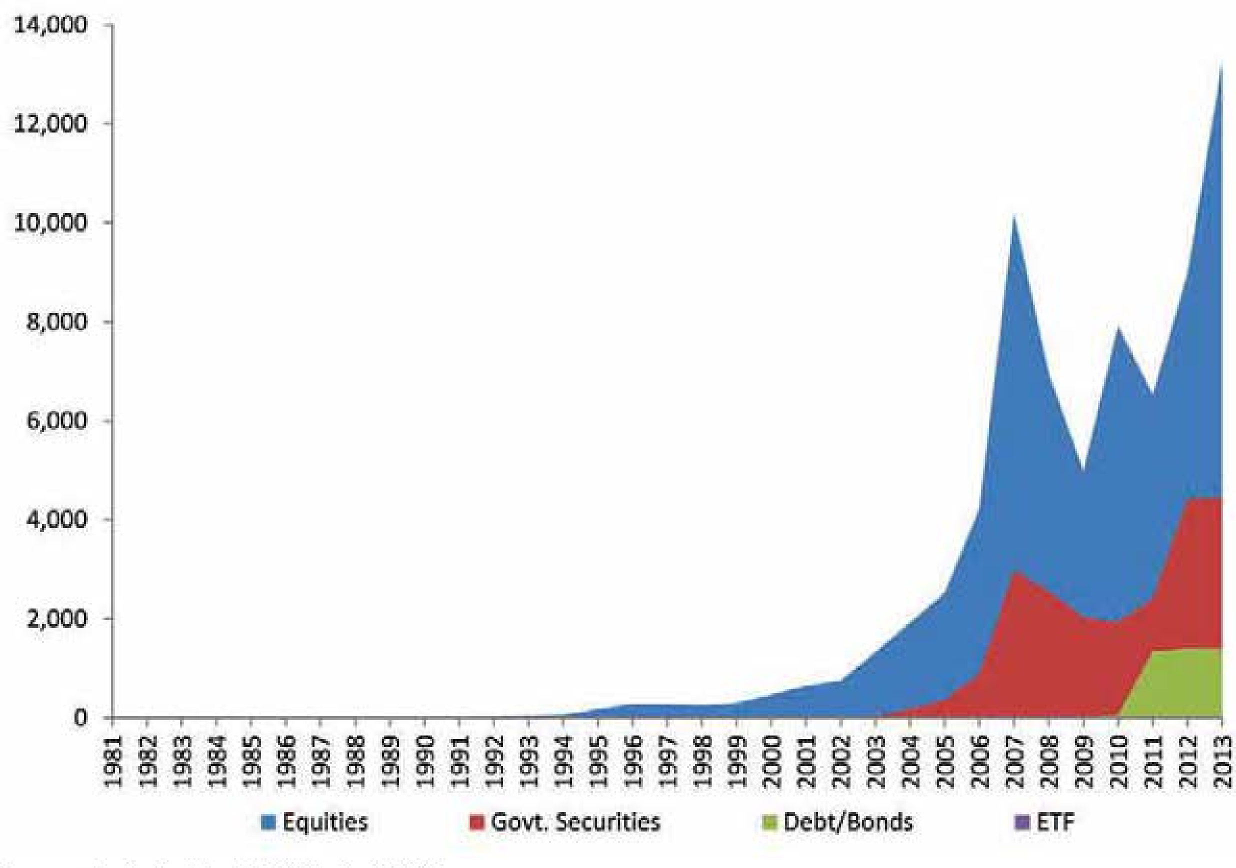
2.1 The Nigerian capital market: structure, performance and competitiveness

The Nigerian capital market is regulated by the Securities and Exchange Commission and comprises along side the 4 Self-Regulating Organisations or SROs. The Nigerian Stock Exchange (NSE), the Financial Market Dealers Quotation (FMDQ) and the National Association of Securities Dealers (NASD) over the counter exchanges and the Nigerian Commodities Exchange (NCX) – as well as various capital market operators. These operators include the Central Securities Clearing System (CSCS) which performs settlement, clearing and depository functions, 110 issuing houses, over 227 stock brokers, 26 company registrars and 162 fund and portfolio managers[4].

The Nigerian Stock Exchange (NSE) at US$117 billion is currently ranked as one of the largest in Africa in terms of capitalization, albeit a distant second, behind the Johannesburg Stock Exchange (JSE) capitalised at US$942 billion while ahead of the Egypt Stock Exchange (EGX) at US$61 billion.

The Nigerian capital market has grown significantly since inception, at a CAGR of 28.4% over 32 years.

Chart 11:Growth of the Nigerian capital market from 1980-2013 (N'bn)



Source: The Central Bank of Nigeria (CBN)

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[4]Source; Securities and Exchange Commission (SEC)

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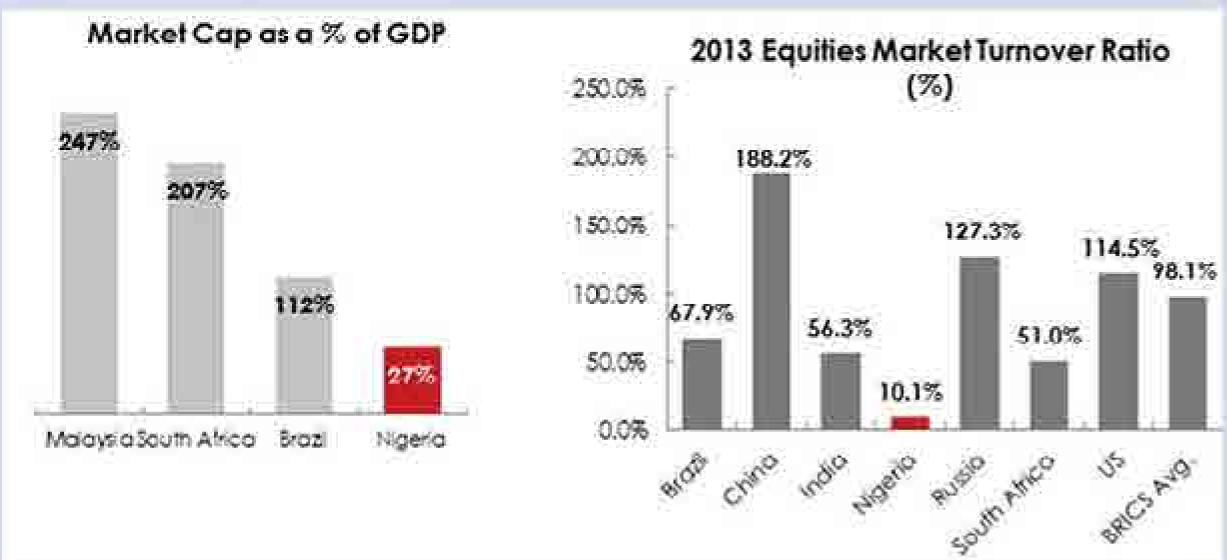
However, the overall size of the Nigerian capital market (measured by market capitalization) is extremely small relative to the size of the Nigerian economy when compared to South Africa and other benchmark economies. The market capitalization as a share of GDP in 2013 was about 27% of the Gross Domestic Product (GDP) compared to 247% for Malaysia, 207% for South Africa and 112% for Brazil.

Chart 12:Nigeria vs. benchmark countries capital market (2013)



Source: World Federation of Exchanges (WEF), World Bank, NSE

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There were 202 listed companies on the Nigeria Stock Exchange, comprising of 190 on the Main Board, 10 on the Alternative Securities Market (ASEM) and 2 Exchange Traded Funds as at December 2013. Of these, only about 50 of the listed stocks are liquid. On the JSE, there were 375 which include 322 domestic companies and 53 foreign companies while the number of listed companies on the EGX was 236 comprising of 235 domestic companies and 1 foreign company.

In addition, the sectoral distribution of equities in number and size reflect a worrying detachment from the economic reality of the country as the major sectors driving the economy are not proportionally represented on the exchange.

The Nigerian capital market is also relatively shallow compared to its size. In breadth, the Nigerian capital market lists mainly traditional securities consisting of vanilla equities, bonds and money market securities and 2 listed Exchange Traded Funds (ETFs) while the Johannesburg Stock Exchange (JSE) offers products such as bonds, derivatives, equities, exchange traded products, and debt equity market, where as the Egyptian stock exchange trades on stocks, bonds, funds, structured products and ETFs. Furthermore, the biggest equities on the Nigeria Stock exchange in terms of market capitalisation would be classified as small cap stocks on many more developed Exchanges in the World making them highly illiquid for large global investments.

With regards to the bond market, the corporate segment of the market is significantly suboptimal compared to the relatively thriving sovereign segment. Of the 56 listed bonds, Federal Government Bonds make up 67% while Corporate Bonds make up only 2.8%.

Chart 15:Overview of the Nigerian Bond Market (December 2013)

Asset Class	Portfolio Limit	Portfolio Amount (bn)	Assets In Issue (bn)	% of PFA Asset
FGN Bonds	80 %	3,172	2,371	59.79%
State Government Bonds	**20%**	**793**	**205**	**5.17%**
Corporate Bonds*	35%	1,388	83	2.10%
Supranational Bonds	20%	793	0	0.04%

Source: The Central Bank of Nigeria (CBN), Nigeria Stock Exchange (NSE)

From the foregoing therefore, we can surmise that the Nigerian capital market still lags behind global as well as some regional peers in many respects, thus supporting the premise that there is a very strong case for broadening and deepening the Nigerian capital market.

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2.1 Current Position Assessment of the Nigerian capital market

For Nigeria to achieve its aspirations of being a top 20 economy by 2020, the Nigerian capital market must be well-positioned and properly structured to support the actualisation of this objective. This trend has been observed empirically in every developed economy, several advanced developing economies and indeed across the global economy. Global equity market capitalisation rose more than six-fold (6X) from US$10.4 trillion (less than half nominal GDP in 1990) to US$67.3 trillion (108.9% of global GDP by 2010). Strong markets are necessary for good economic growth.

- A comparative assessment of the Nigerian capital market was conducted using Malaysia as the identified benchmark country (alongside India, Brazil and South Africa) for the following reasons:
- Malaysia shares similar characteristics with Nigeria – great potential for transformational leadership within its region, a large strong population, natural resources and enormous potential for Islamic finance.
- In spite of the similarities between the two countries, Malaysia has in recent times moved far ahead of Nigeria and there now are significant gaps in the economic and capital market metrics of the two countries which shows Nigeria's growth potential
- Malaysia successfully formulated and implemented two sequential capital market master plans that led to the transformation of its capital market and economy.

A review of the market revealed the following issues and challenges facing the Nigerian capital market today under four (4) main themes:

- Contribution to the national economy
- Market structure
- Competitiveness
- Regulation and oversight

2.2.1 Contribution to the national economy

It is pivotal to provide a strategic and actionable blueprint for the transformation of the Nigerian capital market in order to preserve and boost its role as the driver of sustainable real sector economic development in Nigeria. This is especially crucial given the correlation between market capitalization (and by extension its growth) and GDP growth.

The main issues identified were:

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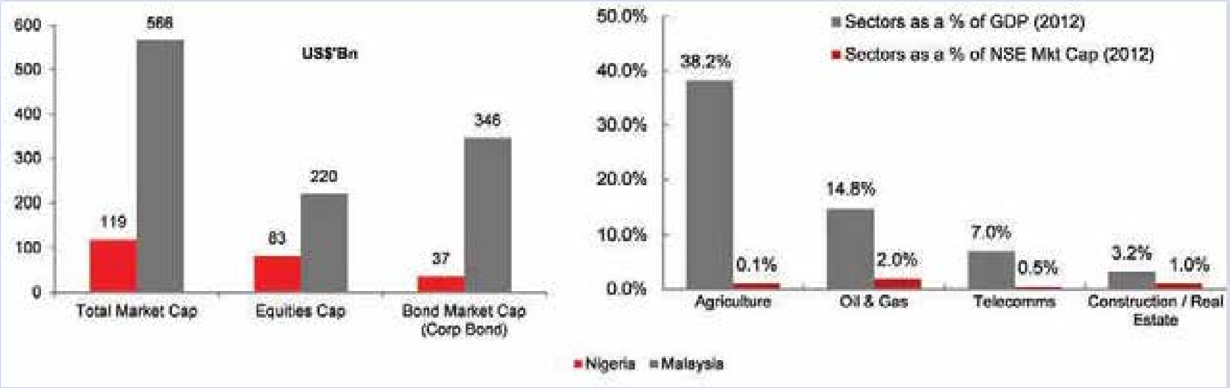
Market Size

At about 27% to the GDP of the country, the current size of the capital market limits its relevance and role in national economic development. Comparatively, the average size of the capital markets of peer economies relative to GDP is 132%. The Nigerian capital market is not well-positioned and does not have the scale to be relevant in some of the key sectors identified as critical for economic development – particularly infrastructure, power and real estate. It is illustrative that the capital market did not play a prominent role in the financing of the US$2.52 billion recent privatization of the power sector, although one of the requirements of the power privatization process is that buyers were required to commit to float the companies that they acquired, on the stock exchange, within 5 years post- acquisition. This shows that there is great potential to be realised for the capital market.

Chart 14:Capital market sectoral components and size relative to GDP (2013)



Source: World Federation of Exchanges (WEF), World Bank, NSE

There is also disproportionate representation of the key sectors of the economy - oil and gas, telecommunications and agriculture on the various exchanges.

Product Offerings

There is a low level of diversity and sophistication of the products in the Nigerian capital market. Asset classes that are available for trade are predominantly limited to equities and very recently, to bonds and ETFs, even with the recent introduction of the 2 new over the counter (OTC) exchanges i.e. FMDQ and NASD. Over 70% of the capital market activities for the private sector are concentrated in the equities segment of the market.

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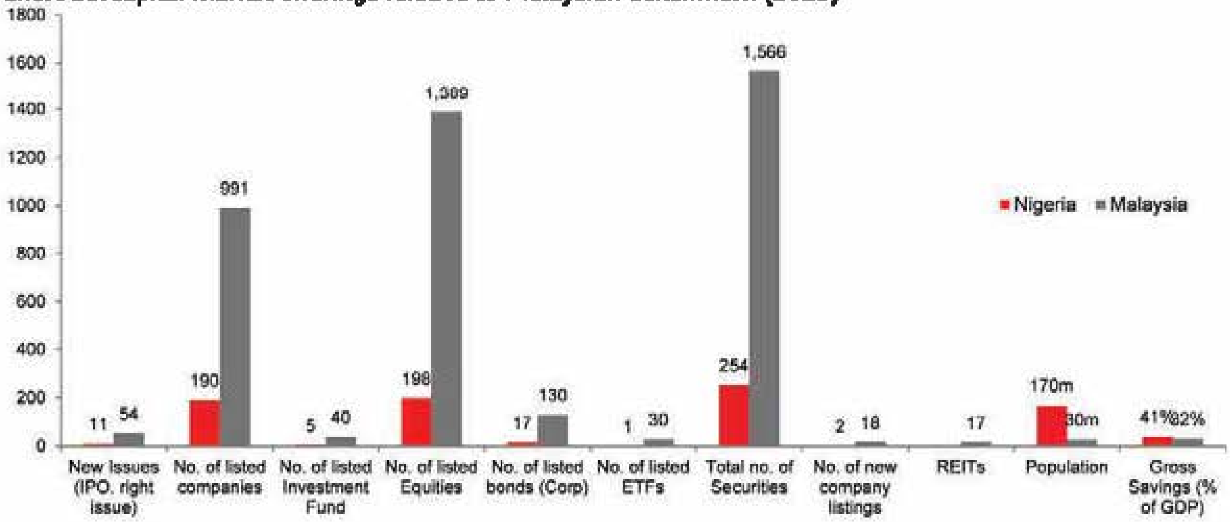
Chart 15:Capital market offerings relative to Malaysian benchmark (2013)



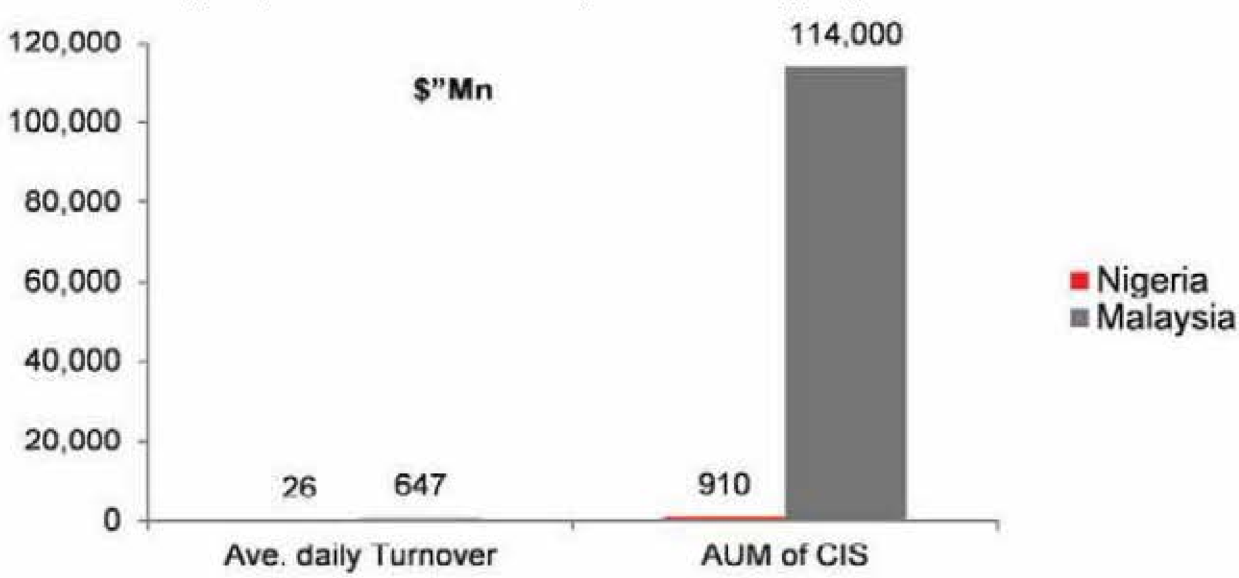
Source: World Federation of Exchanges (WEF), World Bank, NSE

The absence of more sophisticated products such as forwards, futures, commodities derivatives and other variants reduces the ability of the market to diversify investments and also impedes desired economic functions such as risk management, price discovery and transactional efficiency.

Liquidity

The Nigerian capital market enjoys very limited liquidity compared to its peers. The average daily trading volume is about US$26 million and the turnover rate for the equities market is 10.1% compared to US$647 million and 107.6% for Malaysia. The value of assets under management (AUM) for Nigeria is also far less than that of Malaysia – about US$910 million compared to US$114 billion.

Chart 16:Average daily turnover relative to Malaysian benchmark (2013)



Source: World Federation of Exchanges (WEF), World Bank, NSE

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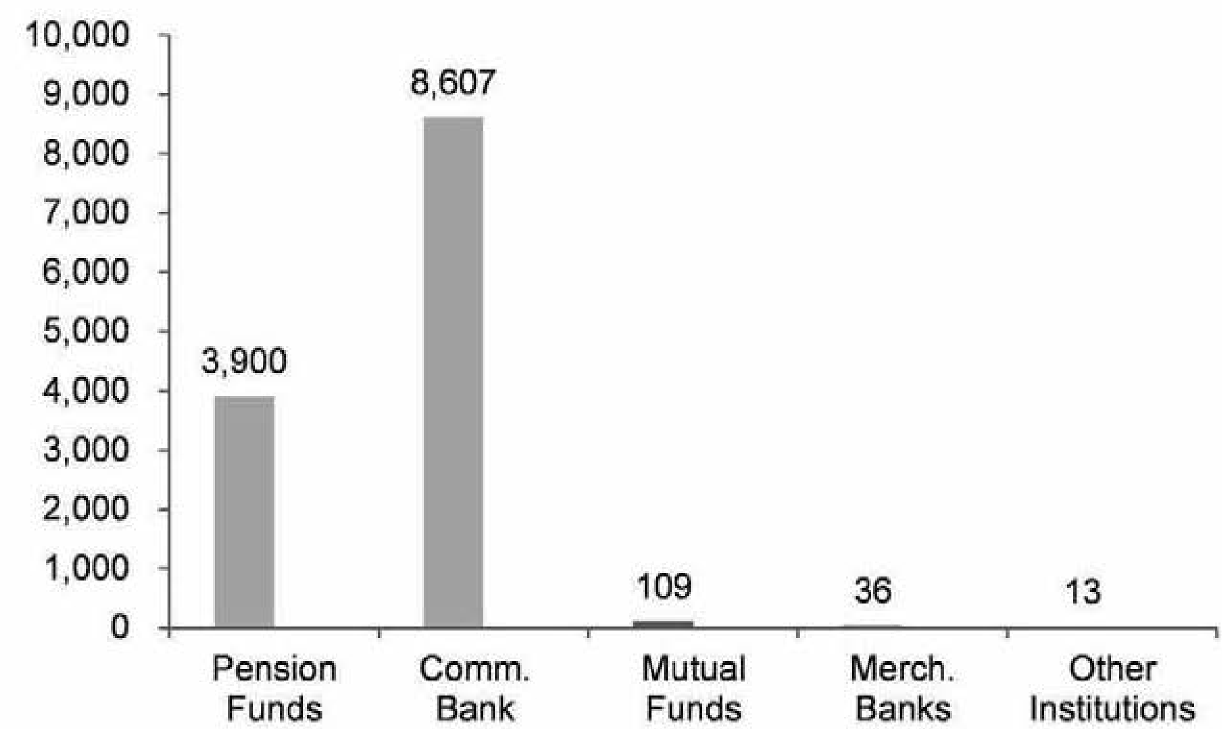
National Savings Strategy

There is no national strategy (regulation and incentives) for driving long term savings and investments. As a result, the national gross savings rate is low – 10.79% of GDP as at December 2013. In Malaysia, the national gross savings rate to GDP was about 32% while the average for the world was 18.95% as at the same period.

Banking sector dominance of the Financial Services Industry

Banks are the primary repository of savings in the country and bank deposits remain viable investment outlets for both retail and institutional investors in Nigeria. This has occurred for several reasons including relative ease of access to banks and bank funding, deeper relationships between the banks and customers and better industry knowledge of banking by the general populace than most other financial institutions. Commercial banks hold 68% of the pool of investible funds (savings + pension funds). Similarly, cumulative bank loans to the private sector totaled N6.5 trillion in 2013 while the bond market capitalization (excluding Federal Government bonds) was only N2.05 trillion.

Chart 17:National savings 2013 (N'bn)



Source: Central Bank of Nigeria (CBN)

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Opportunities for utilizing pension funds limited by current regulations

There are structural challenges and regulatory constraints that limit access to pension funds which constitute a significant portion of the long term investable funds in the economy e.g. the inability of pension administrators to categorize their portfolio by risk (the "multi-funds" approach). There are also limited sophisticated products that might appeal to pension capital market investments and poor incentives generally to encourage capital market investments especially for new entrants into pension accounts i.e. high risk capacities.

National policy making framework

There is no overall policy making framework that is supportive of the growth of the capital market. Policy making as it impacts the capital market has tended to be in silos and thus, disjointed.

Turnaround time

The shorter the turnaround time of a market, the more competitive it becomes over time. The transaction processing time over the Nigerian market needs to be improved upon with the general notion that the shorter the better for the transaction cycle. For instance, while the settlement period for all securities in India is T+2 that of equities and bonds in Nigeria are T + 3 and T+2 respectively.

The processing time for bringing new issues to the market is also lengthy. New issues take about 9 months from appointment to closure of transaction and while this time lag is sometimes due to poor organization on the part of the issuer, regulatory procedures is also contributory. The prolonged transaction time has led to issues being susceptible to significant changes in market conditions and to loss of interest by the issuer, thereby leading potential issuers to instead pursue alternative sources of funds, typically bank loans, in preference to the capital market.

2.2.1 Market Structure

This section examines, in detail, the structure of the Nigerian capital market with a view to facilitating analysis of the status of development of the Nigerian capital market while identifying the gaps in structural development as a result of findings from the benchmark countries.

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[3] Source: NSE website

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The main issues identified were:

Market fragmentation and scale

Due to the high level of fragmentation and resultant low capacity of market participants, there are significant market capacity and liquidity constraints. It is illustrative that 65.83% of market activities are dominated by the top 10 broker-dealer firms[5].

Market over-concentration

There are several levels of concentration in the Nigerian capital market. It is predominantly a market dominated by equities and government bonds. Market capitalization and activity are concentrated in a few economic sectors (2 sectors – consumer and industrial goods – make up about 75% of the equities market) and stocks (the 5 largest companies by market capitalization make up 56% of the equities market). Major sectors are not captured nor represented proportionately – for example, infrastructure, power, oil and gas, telecommunications and real estate.

Dearth of Alternative product offerings

The level of financial intermediation is quite unsophisticated. Available products are predominantly equity stocks, government bonds and treasury bills and some corporate bonds. There are only 3 exchange traded fund (ETF) products and 3 REITs. There are no derivatives. Collective investments / special investment offerings have also had very limited success. Presently there are 21 mutual funds listed on the Nigerian Stock Exchange (another 16 are not listed) yet the net asset value of the whole mutual fund market was only N186.1 billion as at June 2014.

Market practices and structures

Many market practices and structures have not kept pace with development. A prime example is the requirement for physical share certificates versus dematerialisation of shares. Only a limited portion of shares in issue are transferrable.

Competence of operators

The quality of many counterparties participating in transactions in the capital market is also a concern. Many operators have sub-optimal skills and do not possess the specialized knowledge and skills required for the performance of their functions.

Non-standardized exchange and market infrastructure

The model of exchanges for listing and trading activities has been evolving, particularly in recent years. In

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addition to the main board which is the Nigerian Stock Exchange (NSE), two (2) new over the counter exchanges were established in 2013 – the Financial Market Dealers Quotation (FMDQ) and the National Association of Securities Dealers (NASD) markets. There is potential for more exchanges to be established – currency exchanges, commodity exchanges etc. However, there is a need for a more defined industry standard for exchanges, market infrastructure and operators' capabilities as well as technology for capital market operators.

Malaysia has a unified structure under Bursa Malaysia with 2 securities markets, a derivatives market with 10 products (commodity futures, equity futures, equity options and financial futures), an Islamic bourse for sukuk and shariah-compliant products, a bond market, an offshore market for non-ringgit securities and sukuk listings and a closed-ended funds bourse.

Technology leverage

There is a low level of information technology (IT) assimilation and capacity within the capital market. While the larger operators are relatively well equipped to leverage IT to transform and modernise their operating models, the capacity of many smaller operators to invest in technology is very limited. There is also limited use of technology for innovation and development of specific value-added content.

2.2.3 Competitiveness

This focuses on the various elements that make the capital markets competitive as a choice for capital and portfolio flows. Five broad elements were identified as the typical considerations by investors (local or foreign) in making the decision on whether or not to participate in a market:

i. Pricing
ii. Ease of Operations
iii. Enablers and Market Architecture
iv. Transparency and competitive practices
v. Governance Code

The overriding aim therefore would be to adopt best practices from a global perspective with regard to these broad considerations.

The main issues identified were:

Uncompetitive Pricing

Pricing is relatively uncompetitive in the Nigerian capital market. For instance, while the transaction costs on the exchanges of India and Malaysia are 0.1% and 0.03%, that of the Nigerian Stock Exchange (NSE) is about 2.3[6]%. The costs of primary and secondary issue processes are also high.

[6] There should be a positive effect on this from the recent exemption by the Federal Government of Nigeria (FGN) of stock market transaction fees from VAT

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Chart 18:Primary market transaction costs – Nigeria vs. benchmark countries

Estimated Transaction	Equities			Bonds		
	Primary* Market	Secondary Market		Primary Market	Secondary Market	
		Buyer	Seller		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*

Source: Securities and Exchange Commission (SEC), NSE

Some of the possible reasons attributed for this include high regulatory charges (such as licensing fees, stamp charges etc.), multiple transaction payment points and high risk-free return rate (MPR above single digit).

Capital Market Processes

Some of the capital market processes are sub-optimal. The filing process is lengthy, manual and cumbersome, with multiple requirements for physical documents. New debt issue takes an average of 6 months from appointment to closure of transaction and while the time lag is sometimes due to poor organization on the part of the issuer, there is some level of regulatory bureaucracy as well. The trade settlement process was also adjudged to be lengthy.

Transparency and disclosure compliance

Some of the firms that are listed on the exchange still do not meet up with disclosure requirements as far as the release and filing of results are concerned. Completeness, reliability and timeliness of disclosure of material information including director and director related activities, significant shareholdings and visibility of direct and indirect holdings is often very low and most companies do not release corporate information as and when due. The quality and reliability of market research and information about securities and corporate performance needs to be improved upon. Given the importance of information in the overall efficiency of the market, there is a need to enforce zero tolerance for non-compliance. The NSE recently took well-publicized initiatives in this direction, including suspending some companies' shares from trading. However, there is a need to do more in

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this regard.

There is also little visibility into the trading practices of market operators (equity and fixed income). Processes for identifying, terminating and correcting market manipulation are inadequate and there is limited oversight and surveillance capability on electronic trading platforms. There is also low level of enforcement of the whistle blowing mechanism.

Governance

The enforcement of corporate governance code and rules can be strengthened and be made more effective with enhanced coordination among the various regulators – SEC, CBN, PENCOM, NAICOM and FRC.

Sub-optimal operating models

The operating models of many of the capital market operators are unsophisticated and manual. There is a predominance of physical channels and a relative absence of disaster recovery and business continuity systems. There is an absence of market infrastructure service providers.

2.2.4 Regulation and oversight

The oversight and regulatory framework in the Nigerian capital market relative to those of the stipulated benchmark countries was examined using the IOSCO (International Organization of Securities Commissions) principles' framework as a benchmark. The IOSCO framework is as an independent standard providing a readily measurable basis for comparison across the countries.

The analysis revealed that Nigeria has aligned much of its regulations with best practices and international standards. However, the level of compliance and enforcement could be improved upon to match peers like Malaysia and South Africa.

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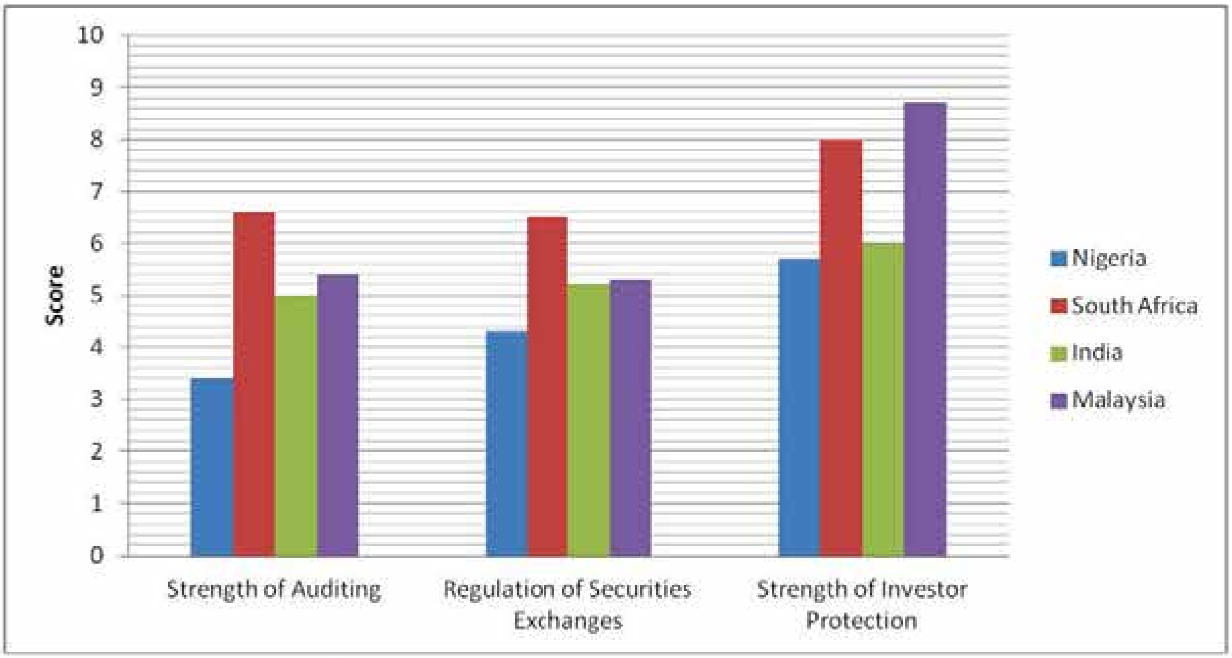
Chart 19:IOSCO regulatory effectiveness assessment (2013)



Source: World Bank World Economic Forum

2.4 Case study: Nigerian banking sector reform

Prior to the global economic meltdown in 2008/2009, there were reforms in 2005 in the banking industry which prescribed a N25 billion minimum capital requirement for banks and enabled the consolidation of banks (from 89 to 25). Despite this however, as at 2009, the banking industry was plagued with systemic bottlenecks such as macro-economic instability, poorly structured processes, critical gaps, corporate governance failures, lack of sophistication and inadequate disclosure.

This precipitated major reforms and strategic growth initiatives from 2010- 2013 centred around:

- **Financial System Stability (FSS):** Strengthening the financial system so as to engender a higher standard of living, an improved business environment and an improved confidence in the banking industry
- **Real Sector Development**: Prioritizing finance for the real sector of the Nigerian economy to address the major weaknesses in the business environment
- **New banking structure:** A new banking structure to address the weaknesses in the banking environment was established which involved removal of universal banking as well as establishment of non-interest financial institutions

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Targets for these initiatives include:

- 10% lending to the agricultural sector by 2017 to address the weakness in the agricultural sector caused by limited financing
- Specific financing initiatives to address weaknesses in the business environment caused by unskilled labour and limited financing such as:
  - Commercial Agricultural Credit Scheme (CACS) - N221.94bn
  - Manufacturing/SME Intervention Fund - N225bn
  - SME Credit Guarantee Scheme (SMECGS) - N2.169bn
  - Micro Small and Medium Enterprise Development Fund - N200bn

As a result of these reforms and initiatives, there has been relatively strong domestic economic growth in spite of a global environment of sluggish growth. The banking industry has also across many measured indicators including improved corporate governance, transparency and risk management, reduction in non-performing loan (NPL) ratios, lower prime lending rate, increased size (capital, number of branches and international reach) Macro indicators have also shown positive growth except in the exchange rate where reduction in dollar supply and anti-money laundering measures have been responsible for divergence in the BDC market.

The success of the banking sector reforms can be largely attributed to three driving factors:

i. **Urgency and purpose:** The reforms were precipitated by the crisis in 2008/2009 and there was a sense of urgency and purpose in the efforts to institute reforms to revive the market. Although these reforms yielded some measure of success, it is noteworthy that strategic planning and reforms do not have to be initiated by a crisis.

ii. **Leadership:** Leadership is crucial to the success of any transformation agenda. The hierarchy of the CBN drove the reforms carried out in the banking sector and this commitment.

iii. **Collaborative efforts of the regulator and the regulated:** The CBN has a highly efficient structure which promotes collaboration between them and the institutions they regulate. In this regard, the Bankers Committee is divided into subcommittees which are headed by CEOs of banks and other stalwarts in the banking sector with the active participation of top ranking staff of the CBN. These committees are given specific targets and assignments within stipulated timelines. The Bankers committee itself holds bi-monthly retreats to discuss topical issues and make policies for the banking sector.

Source: Bankers Committee Sub-Committee on Economic Development Sustainability Agenda

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CHAPTER 3

TRANSFORMATION IMPERATIVE – THE 2015-2025 CAPITAL MARKET TRANSFORMATION PROGRAMME FOR NIGERIA

3.1 2025 Strategic Intention/Aspiration

To fulfill these considerations and take advantage of new opportunities going forward, it is envisaged that Nigeria will develop a modern and efficient capital market that is internationally competitive, bearing the hallmarks of high levels of relevance, productivity and innovation. It must be flexible and easily adaptive to an ever-changing environment while providing market participants with a wide range of products and services comparable with the leading financial centres in the world. At the same time it should be relevant in all core areas necessary to develop the Nigerian economy.

For the capital market to be increasingly relevant and achieve the foregoing, it must actively pursue deliberate growth, scale, robustness, flexibility and improved practices. Regulators must have the right competencies and skills to move the market forward and leverage technology in doing so. Robust systems must be established and maintained for risk management, surveillance as well as transactions. Operators must conduct their activities fairly and ethically, and must also be supported in their activities to develop the market. Accountability and good governance must be entrenched and continually reinforced.

Above all, the Nigerian capital market must pursue these ideals, not just for its own benefit, but within and in tandem with the needs and aspirations of the larger economy. Individual investors must be attracted and educated, assured of their rights and protection. In the final analysis, growth in thecapital market must translate into and even drive development in the real sector across the entire economy.

3.1.1 The vision

Therefore, the vision for the development of the Nigerian capital market has been defined as:

"To be Africa's modern, efficient and internationally competitive market that catalyses Nigeria's emergence as a top 20 global economy."

This vision reflects an all-encompassing ambition that is intended to drive the development and strategic positioning of a modern and competitive Nigerian capital market and lay a strong foundation for growth. It is intended to represent and address both the current and longer-term needs of the capital market from the perspectives of the operators, investors, regulators and the national economy.

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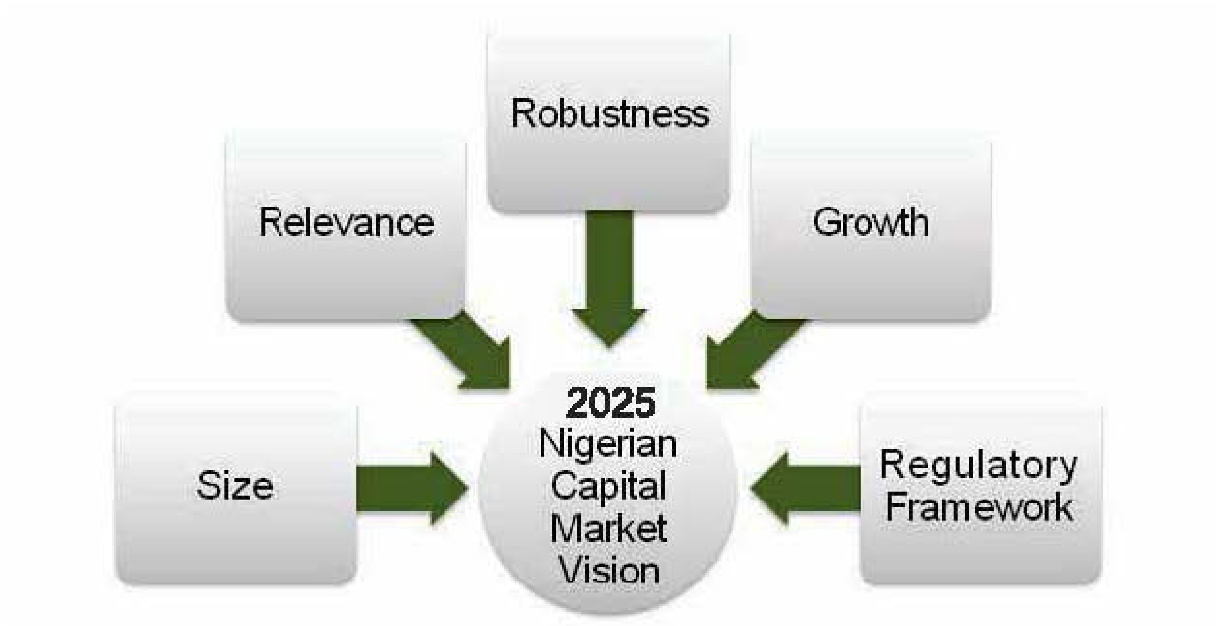
3.1.2 Vision Elements

The vision has been distilled into 5 elements:



The Nigerian capital market will be Africa's most modern, efficient and internationally competitive capital market that catalyzes Nigeria's emergence as a top 20 global economy

Size

Scale and size are critical to having a capital market that can compete internationally and address the needs of the economy. The capital market must compare favourably in size with the nation's GDP as well as with the rest of the financial services industry, particularly with regards to bank deposits. The number and value of listed institutions, listed instruments, corporate bonds, aggregate assets under management, collective investment programmes, size of CIS and contribution to national savings must also compare favourably.

Relevance

The capital market must be nationally and internationally recognised and significant. It must provide support for diverse sectors and provide a diversity of products to address specific needs. It must provide much needed long term capital and play a key role in funding infrastructure and high impact projects. It must have a strong positive effect on the economy and increase the number and capitalisation of corporates, particularly in priority economic sectors. The proportion of investable funds in the capital market must be substantial. In addition, the Nigerian capital market must partner well with intermediary institutions such as development banks, multi-lateral agencies and other regulatory agencies. The structure of SEC and underpinning regulatory and market infrastructure must be relevant to the needs of the market and widely regarded as market leading.

Robustness

The depth of market liquidity must be increased to provide efficient exit markets that incentivise investing activities. Turnover velocity must improve, especially for the small cap companies as well as for other instruments (bonds, mutual funds, ETFs etc). There must be greater ease of entry into and exit from the market and the implementation of quality channels and other enabling infrastructure. The systems must be efficient, with improved turnaround time and a robust legal framework and documentation to provide protection for all market participants.

Growth

It is important that the capital market not only attains scale, but continues to grow. The market capitalization growth rate and market performance of companies as well as operators must align with and even outstrip those for the national economy and the rest of the financial services industry. Market yield must remain attractive and the liquidity index must increase to attract investors and provide confidence of a smoothly functioning market. Innovation must also continually increase with more, better and increasingly diverse and complex products brought to the market.

Regulatory framework

The Nigerian capital market must have a truly world class regulatory framework that is in line with international best practice and performing progressively better on any relevant competitiveness index and ranking. There must be a defined regulatory model for market development and growth as well as an effective self-regulation framework for SROs. The regulator regime must be adaptive risk-based and facilitative. There must be institutionalised co-ordination with other regulators as well as with the key leadership of the nation (Presidency, Upper and Lower Houses). Processes must be efficient and address dispute resolution, investment protection, compliance and enforcement as well as transparency. The ease of doing business must improve, along with turnaround / processing time and the cost of regulatory processes.

3.2 Market philosophy and guiding principles

In order to the achieve the vision, four major strategic transformation themes have been identified across the Nigerian capital market and key objectives identified under each theme to form the basis for the Capital market Master Plan's main strategic initiatives and recommendations.

The four strategic transformation themes are:

- To drive and facilitate capital raising for sustainable national development and transformation of Nigeria's priority economic sectors, thereby effectively contributing to the national economy
- To align market structure to requirements of the economy as well as increase scale, size and professionalism of all stakeholders
- To ensure competitiveness by establishing practices to improve transparency, efficiency and liquidity and to attract sustainable interest in the capital market from domestic as well as foreign investors and participants
- To create an enabling and facilitative oversight and regulatory framework supportive of the deepening and development of the Nigerian capital market

The main thrusts of the objectives under the four themes as well as the strategic initiatives that follow from them are outlined subsequently.

3.2.1 Strategic consideration 1: contribution to national economy

The main strategic thrust here is how the capital market can achieve the necessary scale and sophistication to be relevant in the transformation of the economy and achievement of national development aspirations.

The capital market must align with the Transformation Agenda and support the overarching vision and intent of the country to become a top-20 economy by 2020. It must fund critical transformation of key sectors such as Agriculture, Power, Infrastructure, Oil and Gas and Telecommunications as well as deepen the source of funding for critical economic initiatives. It must be transformed from a narrow to broad market with diverse product offerings. It must close the gap in current proportion of capitalisation to GDP and keep pace with projected annual GDP growth of +7%.

The specific objectives and initiatives in this regard are:

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To drive and facilitate capital raising for sustainable national development and transformation of Nigeria's priority economic sectors, thereby effectively contributing to the national economy	
Objectives	**Strategic Initiatives**
1 Broaden the understanding of the capital market to include the money market, bond market, equities market and alternative investments	• Improve Capital Market (CM) awareness, communication and education • Establish joint policy formulation and license issuance forum/committee (all FSI) • Institute proactive and consistent Executive and Legislature Engagement • Include CMMP on national agenda and obtain FEC buy-in and task-force to implement • Widen access to alternative investments
2 Establish policies to drive personal, corporate, institutional and national savings and for channelling them to the capital market	• Establish a National Savings Strategy • Expand existing and develop new attractive savings products • Engage Insurance Sector in savings mobilization • Establish new and extend scope of existing State Sinking Funds • Monitor effects of capital market policy on institutional investment strategies
3 Contribute to increased formalization of the economy and promote financial inclusion	• Collaborate to establish an integrated National Identity Management System • Resolve property / land title allocation and transfer issues to facilitate securitization • Reduce cost and simplify regulation for Alternative Stock Exchange Markets • Provide Venture Capital relief for ASEMs • Deliberately replicate successful micro-finance strategies / institutions • Collaborate to enforce registration of all commercial activities • Simplify processes for capital market participation
4 Drive the mobilization and allocation of capital to the critical and significant sectors of the economy	• Grant tax relief and incentives for priority economic sector investments • Establish specialized economic trade zones • Increase private sector participation in venture capital and private equity funding • Establish specialized funds to support players and boost critical sectors of the economy • Establish Government-sponsored SME Investment Company program • Establish a strong, well-capitalised National Development Bank
5 Provide framework for sound corporate governance and investor protection in line with global best practice	• Simplify regulation and incentivise registered companies • Make available investor protection for licensed financial products • Operationalise the existing Bankruptcy Law • Assess the PFAs prudently in a risk-adjustment manner
6 Facilitate internationalization of the Nigerian Capital Market	• Harmonize principles, rules and regulations to promote the Nigeria Capital Market as an international hub

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- **Strategic Consideration 2: Market Structure**

The main strategic thrust here is how the Nigerian Capital Market can transform practices and structure to modernise and deepen capacity.

The scale and capacity of operators must be increased to ensure stability and provide the capital to enable them make needed investments, in infrastructure as well as in skills and talent development for innovation and competitiveness. The clearing and exchange platforms must be world-class, with regulatory as well as transactional processes being automated.

The sophistication and breadth in the range of products and offerings must be vastly expanded with the end goal being full market diversification, financial inclusion and market relevant product innovation and development. Technology for the regulator, exchanges and operators should be leveraged and standardised. Market channels and exchange infrastructure should be fully modernised to achieve greater efficiency in the trading, clearing, settlement, marketing, distribution and fulfilment channels.

The specific objectives and initiatives in this regard are:

To align market structure to requirements of the economy as well as increase scale, size and professionalism of all stakeholders	
Objectives	**Strategic Initiatives**
1 A balanced, integrated financial market	• Establish a unified licensing model for operators across money and capital markets
2 Improve liquidity of the market	• Harmonize the framework for Securities Lending • Approve Securities Depository as a Repo counterpart • Encourage active Securities Lending by PFAs and PFCs (SEC and PENCOM driven) • Address structural imbalances between private sector savings and investments
3 Increase market capitalization of critical economic sectors	• Commence mandatory channelling of buy-side funds to critical sectors of the economy • Increase participation of Pension Funds in critical sectors • Create a National monoline financial guarantor • Establish the Nigerian Capital Market as a major centre for innovation and intermediation
4 Balance volume of Retail and Institutional Investors	• Establish minimum threshold for participation in primary issues • Increase the use of Linked Notes for retail investors • Commence Equity Trading in Lot(s) • Incentivise use of collective investment schemes • Regularise mutual funds and make them more accessible • Differentiate between registration of Funds managers and Funds • Build domestic investor base to hedge market against massive foreign investment outflows

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5 Improve industry skills and competencies	• Define minimum operating standards and capabilities for operators • Establish certifications/training programs for investment and finance professionals • Put in place on-going training programmes and mandatory continuous assessment • Strengthen the capital market institution • Invest in building industry capacity/ specialized skills

- **Strategic Consideration 3: Competitiveness**

The main strategic thrust here is how the Capital Market can become more competitive and more diversified to meet the intermediation requirements of the nation's growing economy, improve mobilisation and allocation of funds within the domestic market and attract global investors to Nigeria.

Transaction pricing models for primary and secondary processes must be examined and made more competitive relative to benchmark markets. Shares should be dematerialized to help drive down costs, as well as improve settlement time and eliminate forgery and loss issues. Cost competitiveness of transactions, including regulatory costs such as licensing fees, must be improved. Cost of capital and debt must also be brought down, including correction of the 'risk-free' rate – the rate at which the government borrows from the market. A high risk-free rate, which is reflected in the coupon on government treasury bills, for example, creates a strong disincentive for major institutional investors like the PFAs and insurance companies to take any risk by investing in alternative investment products introduced into the capital market, while they can earn close enough or similar returns for zero risk. This therefore places a structural constraint on the ability of the capital market to grow.

There should be greater ease of access to the market and constructive competition fostered. Reliability of market information and reporting should be improved and market surveillance and enforcement capabilities enhanced such that market participants can have increased confidence.

The market must be made borderless to foster globalisation. Technology standards and technology enabled processes must be harmonised with and/or able to integrate with leading international markets as well as desired regional markets. Strategic collaboration with global market participants should be actively pursued.

The specific objectives and initiatives in this regard are:

To ensure competitiveness by establishing practices to improve transparency, efficiency and liquidity and to attract sustainable interest in the capital market from domestic as well as foreign investors and participants	
Objectives	**Strategic Initiatives**
1 The cost of our market will be lower than our benchmark markets	• Define required agenda items for EMT • Conduct cost structure analysis of equities market • Improve Capital Market efficiency • Define an approach for competitive cost model for the capital market
2 Full dematerialization of certificates	• Create a cross-industry plan for full dematerialisation of certificates to electronic format
3 Actively engage stakeholders Policy Makers and Industry Players) and foster a cordial and professional working relationship across board	• Develop EMT Engagement Plan and action items for EMT • Develop briefing reports to Presidency and Legislature on Capital Markets
4 Develop a thriving commodities trading ecosystem	• Build supporting and functional ecosystem for commodities trading • Provide legal framework and appropriate legislation for Commodities Trading • Build Centres of Excellence in areas of comparative advantage (Oil, Gas, Cocoa) • Develop efficient Commodities Exchange(s) and Trading Platforms • Sponsor legislation to ensure Nigeria's crude oil sales are traded on local exchanges • Build capacity in commodities trading (SEC and market operators)
5 Improve ease of access and doing business with the capital markets and Improve overall investor experience	• Define minimum professional standards and compliance for all capital market participants • Define minimum technology standards and ensure compliance • Define and implement enabling technology integrated platforms
6 Sponsor policies to foster growth of the industry	• Promote capital market participation in the Listing of Government owned firms • Reduce tax burden for listed companies
7 Become a hub in Africa for Islamic Capital Market Products	• Work with CBN, NAICOM and PENCOM to establish Islamic investment guidelines • Develop Sharia Compliant Products • Build capacity on Sharia Compliant Products (SEC and operators) • Develop Awareness on Sharia Compliant Products and their benefits
8 Transparent capital markets reputable for full disclosure	• Enforce information/access to management obligations for premium board listed companies • Define minimum Disclosure Requirements • Institutionalize Periodic Analyst Briefings • Entrench an effective Whistle Blowing Mechanism

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9 Enable Awareness of the Capital Markets nationwide	• Develop national engagement strategy • Utilise multiple media – Social Media, Blogs etc. • Influence economic policy at the highest levels
10 Scale, scope and costs of the markets	• Encourage scale and scope in the market while driving cost reduction • Develop shared services across the market • Encourage further market consolidation

- **Strategic Consideration 4: Capital Market Regulation and Oversight**

The main strategic thrust here is how the regulation and oversight regime can facilitate an enabling environment for growth and development of a world-class capital market.

The Regulatory and Oversight framework needs to be increasingly focused on market development and modernisation, rather than on enforcing compliance. Regulatory themes and guiding principles must be clearly defined for all categories of market operators, including statutory oversight of Self Regulating Organisations and trade groups. The regulators must stay ahead of the market in providing a framework for all aspects of the market as well as a standard, enforceable Code of Conduct. There must also be more effective cross-sector integration, particularly among regulators within the Financial Services Industry.

Effectiveness of regulatory surveillance, enforcements and compliance must be strengthened. Practices must align with global best practice including establishing and enforcing Disclosure Based Regulation (DBR) and a risk-based monitoring, enforcement and supervisory framework. Regulatory processes and approvals must be responsive.

The specific objectives and initiatives in this regard are:

To create an enabling and facilitative oversight and regulatory framework supportive of the deepening and development of the Nigerian capital market	
Objectives	**Strategic Initiatives**
1 Promote a capital market environment that facilitates market development	• Actively gather and utilise industry feedback • Facilitate industry collaboration by encouraging adoption of shared services to reduce cost • Engage industry stakeholders and create cordial and professional relationships • Heighten efforts to create a vibrant and competitive Capital Market • Partner foreign multilateral agencies for skills transfer where local expertise is insufficient • Provide regulatory parity and consistency between all institutions and participants • Facilitate introduction of a broad range of capital market products

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2 Become a Top 20 Capital Market Regulator	• Conduct comprehensive redesign of policies, procedures and processes • Implement international best practices as defined by IOSCO and Basel III • Establish risk management principles for capital market operators • Strengthen avenues for multilateral and inter-agency regulatory co-operation • Obtain autonomy of the SEC • Build capacity and skills and enforce minimum qualification/ experience • Build required technology infrastructure within the regulator to enable seamless regulation
3 Protect investors and Improve overall investor experience	• Develop a clear-cut jurisdiction framework for the Investments and Securities Tribunal • Promote transparency and disclosure • Improve capacity of NSE's Investor Protection Fund and promote investor education • Continuously review relevant laws and mechanisms to safeguard Investor Protection
4 Strengthen auditing, reporting and disclosure standards	• Enforce IFRS standards with full compliance by all capital market participants • Adopt XBRL as the reporting language by all capital market operators and regulators • Enhance and enforce shareholder value disclosures for public listed companies • Align reporting standards between NSE and SEC and leverage shared platform for reporting • Implement an online surveillance system from the regulator to the core trading system(s)
5 Enhance the dispute resolution framework in line with leading practices	• Provide appropriate mechanisms for investor redress and dispute resolution

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CHAPTER 4

STRATEGIES TO DRIVE CAPITAL-RAISING TO FUND NATIONAL ECONOMIC PRIORITIES

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The Nigerian capital market must contribute significantly to the growth of the economy. It should be a source of infrastructural funding for developmental projects and private sector developed projects, which will contribute to the national economy and be attractive to operators and investors.

As the nation moves forward, an efficient market for capital generation is anticipated to become significant in financing economic growth. There must be a variety of instruments through which issuers can raise funds in the market. The instruments should be commensurate with the maturity and risk profiles of the investors and the projects/corporations that the instruments are used to finance. Companies must be able to raise funds through both equity and debt. Capital allocation in an economy is strengthened by the existence of well-regulated markets which stimulate the trust that is essential for the private sector to function as an engine of growth. Capital markets must enlarge the access to financing, covering a universe of economic activities and enterprises ranging from start-ups to large corporations.

In the same vein, the Nigerian capital market must also extend its reach to a wider audience of investors and become an indispensable channel of organized investment schemes including retirement savings (pension fund) management. The pool of savings would be expected to match existing and future financing needs through a selection of products to increase the nation's growth potentials

4.1 Broaden the understanding of the capital market to include the money market, bond market, equities market and alternative investments

The perception and understanding of the capital market must be broadened and clearly communicated to the general populace through deliberate awareness, communication and education initiatives. The capital market must be seen as more than just stockbroking but in the full spectrum of its functions which extends to the money market. National leadership (the Presidency, Federal Executive Committee, Senate and House of Representatives) must also be more proactively and consistently engaged.

Specific initiatives to be pursued in achieving this objective are as follows:

Deliberately improve capital market awareness, communication and education initiative[7]

- Identify key audience groups (government, regulator, market operators, general populace), critical messages and delivery mechanisms, including:

[7] To be implemented synchronously with the initiatives of the Capital Market Literacy Committee

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- Capital market education
- General populace communication
- Communicate clearly and regularly the defined key messages
- Create channels for feedback and communication from the audience

Establish a forum / committee for joint policy formulation and license issuance: SEC, FMF, CBN, PENCOM, DMO, NAICOM

- Re-define focus/scope of FSRCC or create new Economic Management Team (EMT) committee
- Engage on capital market issues like Merchant Bank regulation
- Address policy misalignment on interest rates

Institute proactive and consistent engagement of Senate/House of Representatives

- Regularly engage the Legislature on policy initiatives to drive the Capital Market Master Plan (CMMP)

Include CMMP on national agenda and obtain Federal Executive Committee (FEC) buy-in with establishment of a taskforce to own and implement

- Emphasise capital market development as an integral part of the economic development agenda:
- Cultivate sponsorship by Minister of Finance or Economic Management Team (Chief Economic Adviser, National Planning, CBN Governor, SEC, Trade and Investment)
- Engage broader spectrum of stakeholders

Widen access to alternative investments

- Strengthen investor confidence by increasing the participation of the public and private investment management industry, expanding the product range and enhancing the market infrastructure, increase transparency and liquidity in the secondary market to match the growth in primary issuance

4.2 Establish policies to drive personal, corporate, institutional and national savings and for channelling them to the capital market

The Nigerian capital market must build as well as gain access to pools of long term funds through market

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relevant savings and investment programmes that encourage long term savings, financial inclusion and financial literacy programmes. It must also encourage and even champion a deliberate national savings strategy and create clear incentives and structure for domestic savings and mobilization.

Specific initiatives to be pursued in achieving this objective are as follows:

Establish a national savings strategy

- Define and implement a national strategic initiative such as a postal savings system (like Japan) or a national savings system (like the United Kingdom)
- Introduce policies to grow the volume of retirement savings accounts

Expand existing and develop attractive savings products with tax relief and incentives to include self-directed investments

- Tax exemption on levels of savings for a minimum period e.g. 401K in the USA
- Introduction of National Savings bonds and prize savings

Engage the insurance sector in Savings mobilization

- Work with NAICOM to enhance the role of insurance as a savings tool
- Develop tax efficient insurance products that encourage utilization
- Increased amount of insured deposits

- **Establish new and extend scope of existing State sinking funds**
- Include under Fiscal Responsibility Act
- Appoint appropriate fund managers to manage the investments on behalf of the States

Establish system for tracking / monitoring effects of capital market policy on institutional investment strategies

- Assess the system-wide effects of institutional investment strategies and the impact of subsequent changes to existing policies on the capital market and the economy

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4.3 Contribute to increased formalization of the economy and promote financial inclusion

A conducive environment for intermediation must be created to seed emergent companies and industries, nurture the growth of small and mid- cap companies, finance large and high-risk ventures, and promote investments in socially responsible projects. The capital market will no longer be solely the preserve of medium to large-cap companies but will cater to the needs of small companies.

Specific initiatives to be pursued in achieving this objective are as follows:

Collaborate to establish an integrated national identity management system

- Leverage work by CBN and others
- Establish joint biometrics, central depository and distribution networks
- Implement tiered KYC for financial inclusion

Resolve property ownership / land title allocation and transfer issues to facilitate securitization

- Ease small holder land title allocation process
- Simplify the process of transferability
- Reduce cost of perfecting titles and taxes
- Ensure proper pricing for mortgages to enable people own, collateralize and securitize property

Improve competitiveness of alternative markets including NCX

- Reduce cost
- Simplify regulation

Provide Venture Capital relief for alternative markets

- Tax relief / deeper relief for investing in a "qualifying security" for a minimum period

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Deliberately replicate successful micro-finance strategies/ institutions

- Access and support of the capital markets

Enforce registration of all commercial activities

- Compulsory business registration
- Zero engagement with government otherwise
- "Randomised searches" with financial consequences for non-compliance
- Emphasis on KYC by banks (quick win)

Simplify processes for capital market participation

- Align with existing financial service processes e.g. bank account opening

4.4 Drive the mobilization and allocation of capital to the critical and significant economic sectors

Specific initiatives to be pursued in achieving this objective are as follows:

- Grant tax relief and incentives for priority economic sector investments
- Give relief on investment in instruments / institutions promoting strategic development goals – e.g. the Indian Infrastructure Finance Institutions (IFI) model, the UK Financial Services Compensation Scheme (UK FSCS)
- Coordinate and restructure the economic trade zone to existing projects
- Capital gains savings / corporate tax savings
- Tax rebates
- Investor protection schemes e.g. NDIC type support

Establish specialized economic trade zones

- Free Trade Zones (FTZ) for minerals, education, textiles, medical tourism etc. (Dubai model)
- Work with Ministry of Solid Minerals, Agriculture and Industry

Increase private sector participation in the venture capital and private equity

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- Actualize on-going work to develop a national Private Equity / Venture Capital policy
- Streamline national initiatives to promote innovation and to ensure more coordinated and effective public sector funding

Establish specialized funds to support players and boost critical sectors of the economy

- Infrastructure
- Agriculture – similar to the Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)
- Venture Capital and SME Funds
- Solid Minerals

Establish a government-sponsored SME investment company programme

- Provide seed funding to Fund Managers focused on investing in the SME sector e.g. Small Business Investment Company (SBIC) programme in USA
- Leverage existing Government sponsored SME funds like the CBN Micro Small and Medium Enterprises (MSME) and Power and Aviation Intervention Fund (PAIF)
- Create a framework to co-ordinate and migrate the existing SME funding to capital market to ensure sustainability and viability
- Establish a strong, well-capitalised National Development Bank to be a source for long term funds and act as intermediary

4.5 Provide framework for sound corporate governance and investor protection in line with global best practice

Investors need to be assured of their rights as shareholders to encourage greater supply of capital. Greater stewardship by company boards, more extensive shareholder participation, and increased accountability for the reliability of disclosures, will reinforce good governance practices.

Specific initiatives to be pursued in achieving this objective are as follows:

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Simplify regulation and incentivise registered companies

- Adopt a tiered approach for required registration e.g. corner shop terminals can use Local Government Area (LGA) for recording basic activity
- Ensure enforcement through banking sector, micro-finance and licensing
- Establish framework for regulating (involving audit firms, audit regulators / associations and the CAC)
- Provide investor education
- Put in place a credit or organisation assessment bureau

Make available investor protection

- Coverage up to a certain amount for bankruptcy, malfeasance etc (UK FSCS)
- Make available for licensed financial products

Operationalise the existing Bankruptcy Law

Assess the PFAs prudently in a risk-adjustment manner

- Engage PFAs and fund managers to be regularized by SEC
- Balanced risk-adjustment for the funds
- Board members of the PFAs
- Tackle the MPR in order to get the long term loans and investment into the economic growth

4.6 Facilitate internationalization of the Nigerian capital market

The Nigerian capital market should expand growth boundaries by tapping global opportunities to facilitate an expansion in scale and to capitalize on hub opportunities in areas of comparative advantage. To facilitate internationalization, the Nigerian capital market must harmonize the principles, rules and regulations amongst international markets to streamline activity geared to promote the Nigeria capital market.

Specific initiatives to be pursued in achieving this objective are as follows:

Harmonise principles, rules and regulations to promote Nigerian capital market as a hub

- Position and promote the Nigeria capital market as a regional and international hub for capital market activities
- Leverage recent initiatives in this area by ECOWAS

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CHAPTER 5

STRATEGIES TO ALIGN MARKET STRUCTURE, CAPABILITIES AND COMPETENCIES TO THE REQUIREMENTS OF THE ECONOMY

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The Nigerian capital market must continue to build capacity to meet the needs of investors. This is necessary for a market environment intended to contribute to the national economy.

5.1 Establish a balanced, integrated financial market via a unified licensing model for operators across money and capital markets

A tiered, unified licensing model should be introduced across the money and capital markets under which operators should be licensed, thereby creating an enabling platform that will allow integration and the introduction of additional services such as securities lending and borrowing, matching and repo settlement.

This integration will harmonize the framework required for securities lending to run smoothly, provide liquidity and encourage PFAs and PFCs to become active in securities lending and security depository.

Specific initiatives to be pursued in achieving this objective are as follows:

Establish a unified licensing model for operators across money and capital markets

- Propose tiered licensing model for financial markets across money market and capital market and license operators under new licensing model

5.2 Improve liquidity of the market

Specific initiatives to be pursued in achieving this objective are as follows:

Harmonize the framework for securities lending

- Confirm level of tax efficiency

Approve securities depository as a repo counterpart

- Effectively fund the market rather than focus on recapitalization

Encourage active securities lending by PFAs and PFCs (SEC and PENCOM driven)

Address structural imbalances between private sector savings and investments

- Refers to FMDQ's oversight on empowered repository
- Short selling enhances the liquidity and security lending in the market
- Put in place an operational system

5.3 Increase market capitalization of critical economic sectors

Specific initiatives to be pursued in achieving this objective are as follows:Commence mandatory channeling of buy-side funds to critical sectors of the economy

- To a level equivalent to 50% of Assets Under Management (AUM), on the provision that credit protection is provided
- Specify listing as a minimum requirement during license provision for companies

Increase participation of pension funds in critical sectors

Create a National mono-line financial guarantor

- To be championed by FGN and Institutional Development Partners
- Collaborate with the Nigerian Sovereign Investment Authority (NSIA) which currently has this as an on-going initiative

Establish the Nigerian capital market as a major centre for the innovation and intermediation

5.4 Balance volume of retail and institutional investors

To create stability in the market and reduce the effect of macro-shifts, the capital market should consist of a balanced group of investors – retail as well as institutional investors so that the market will not be dominated by institutional players; strong domestic participation as well as foreign investors so that the capital market will not be unduly affected by shocks that are external to the nation.

Specific initiatives to be pursued in achieving this objective are as follows

Establish minimum threshold for participation in primary issues

- Proposed minimum of N10m in value
- Increase the use of linked notes for retail investors
- Commence equity trading in lot(s)

Incentivise use of collective investment schemes

- Encourage Funds/ Asset Managers to invest in funds
- Incentivise collective investment scheme
- Develop framework to make collective investment schemes more accessible

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Regularise mutual funds and make them more accessible

Build domestic investor base to hedge the market against possible massive foreign investment outflow

5.5 Improve industry skills and competencies

As the Nigerian capital market seeks to become a modern and competitive market, the need to improve industry skills and competencies for capital market operators cannot be overemphasized. Improving skills and competencies will increase their knowledge of fair trade, effective risk management and capital controls to further enhance the confidence of both international and local market players.

Specific initiatives to be pursued in achieving this objective are as follows:

- Define minimum operating standards and capabilities for operators
- Create required capabilities and skill requisites for all market players (including a qualified person examination)
- Establish certification / training programs for investment and finance professionals
- Extend recently introduced SEC Capital Market Training Programme and Exam beyond new registrations of Sponsored Individuals to cover existing professionals

Put in place on-going training programmes and mandatory continuous assessment

- Key into existing certifications and institutions e.g. ICAN, FITC, CFA

Strengthen the capital market institution

- Create a syllabus
- Develop a certifying body
- Include and Embed continuous ethics and compliance training

Invest in building industry capacity/ specialized skills

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CHAPTER 6

STRATEGIES TO IMPROVE THE COMPETITIVENESS AND ATTRACTIVENESS OF THE NIGERIA CAPITAL MARKET

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For the Nigerian capital market to be attractive relative to other capital markets in the frontier, emerging and developed categories as well as become the destination of choice to suppliers of funds, users of capital and capital market intermediaries, competitiveness must be improved.

It is therefore imperative for the Nigerian capital market to demonstrate efficiency, sophistication and transparency. It must operate with the highest level of standards and integrity in order to effectively compete with other markets, particularly the emerging and developed market categories.

In view of these, Nigerian capital market institutions have to be highly responsive to not only the changing consumer demands, but also to the impact of globalization, innovation and technology on their markets. Market structure and business strategies should be aligned accordingly to take advantage of new business opportunities where necessary.

To achieve these objectives, the cost of transactions must be significantly reduced and justified by an increase in transaction types and volumes while market access and operations must be simplified and more efficient. The platforms and enabling technology must be enhanced and transparent practices must be promoted with implementation and enforcement of standards that are in line with global best practices.

6.1 Lower the cost of transactions in the Nigerian capital market

Nigerian exchanges and clearing houses must be cost efficient to facilitate liquidity and value for market participants. Transaction costs of the Nigerian market should be lower than in the benchmark markets (South Africa and Malaysia). The cost levers need to be understood and the necessary measures to drive them down – including technology, share dematerialisation and shared services – need to be implemented.

Specific initiatives to be pursued in achieving this objective are as follows:

Define required agenda item for EMT:

- Obtain the requisite approvals for removal of VAT and Stamp Duties from appropriate government agencies (removes 12% of costs)[8]

Conduct cost structure analysis of equities market

Improve capital market efficiency

- Pick a benchmark market
- Structure data points around Commercial Banks

Agree approach for a competitive cost model for the capital market

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[8] It was recently announced that VAT stock market transaction fees have now been exempted from VAT by the Federal Government of Nigeria. However, we advocate that the VAT exemption be widened to other types of capital market transactions, in keeping with our recommendation for a broader view of the market beyond just equities and bonds, which currently dominate.

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6.2 Fully dematerialize certificates

An efficient trading, clearing and settlement infrastructure provides market participants with the opportunity to access trading processes without undue delay, risk of loss or financial costs. It also reduces the risk of fraud and forgery. The market must ensure full conversion of certificates to electronic format to improve market liquidity and eliminate manual processing and the ensuing delays. A legal framework should be put in place to support the conversion of existing certificates and new ones to electronic format.

Specific initiatives to be pursued in achieving this objective are as follows:

Create a cross-industry plan for full dematerialisation of certificates to electronic format

6.3 Actively engage stakeholders (policy makers and industry players) and foster a cordial and professional working relationship across board

For the smooth running of the capital market, there should be an active and cordial relationship between regulators and stakeholders, not only within the industry, but also at the helm of economic affairs and the leadership of the nation.

Specific initiatives to be pursued in achieving this objective are as follows:

Develop an Economic management Team (EMT) Engagement Plan and action items for the EMT

Develop briefing reports to the Presidency and Legislature on capital markets

- Annual and bi-annual briefing reports to the Presidency and Legislature respectively jointly submitted by regulators and stakeholders

6.4 Develop a thriving commodities trading ecosystem

To activate the commodities market, a functional commodities trading eco- system of infrastructure (warehouses, standards, grading, collateral and settlement systems) needs to be deployed. Particular focus should be on areas of comparative advantage, such as oil and gas, cocoa and grains.

Specific initiatives to be pursued in achieving this objective are as follows:

Build supporting and functional ecosystem for commodities trading

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- Establish warehouses, standards, grading systems, collateral and other required infrastructure
- Link with the on-going Ministry of Agriculture initiatives

Provide the legal framework and appropriate legislation for commodities trading

Build Centres of Excellence in areas of comparative advantage (oil and gas, cocoa)

Develop commodities exchange(s) and trading platforms

- Ensure that they are running appropriately

Sponsor legislation to ensure that a portion of Nigeria's crude oil sales are traded on local exchanges

Build capacity in commodities trading (SEC and market operators)

6.5 Improve ease of access and doing business and overall investor experience

Investors must have easy access to a vibrant capital market because of the important role they play in the pooling and mobilization of funds. An accessible market provides for a wider scope of investors which promotes greater liquidity.

Specific initiatives to be pursued in achieving this objective are as follows:

Define minimum professional standards and compliance for all capital market participants

- Define minimum customer engagement and professional standards for all players – SROs, layers, etc.
- Ensure compliance
- Define minimum technology standards and ensure compliance

Define and implement enabling technology integrated platforms

- Platforms should be re-usable and support multiple access e.g. mobile money, etc.

6.6 Sponsor policies to foster growth of the industry

National policies can be formulated such that they foster growth in the industry and offer value focused opportunities to participants in the capital market. To this end, there is a need to proactively work to ensure that national policies support and promote capital market participation.

Specific initiatives to be pursued in achieving this objective are as follows:

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- Promote capital market participation in the listing of government- owned firms
- BPE to include listing provisions in asset sale
- Make it a requirement of the privatization process that buyers commit to floating the companies being acquired on the stock exchange within 5 years post-acquisition as was done during the recent privatization of the power sector

Reduce tax burden for listed companies

- Alleviate current scenario where greater disclosure increases tax burden by making companies more visible to multiple and arbitrary tax[9]

6.7 Become a hub in Africa for Islamic capital market products[10]

Islamic finance is a niche area where Nigeria can capitalize on the nation's comparative strengths in serving Islamic clientele and businesses. To build an Islamic capital market, there is a need for coordinated effort to develop a variety of Islamic securities instruments. The frameworks and guidelines to enable participation should also be put in place.

Specific initiatives to be pursued in achieving this objective are as follows:

Work with CBN, NAICOM and PENCOM to establish Islamic investment guidelines

- Create enabling guidelines for investment in sukuk and other products
- Ensure alignment with Non-Interest Capital Market Products Master Plan
- Develop Sharia-compliant products

Build capacity on Sharia-compliant products (SEC and operators)

Develop awareness on Sharia-compliant products and their benefits

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[9] Further study required to confirm these Statements.

[10] To be implemented synchronously with the initiatives of the Islamic Financing and Capital Market Literacy Committees

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6.8 Improve transparency and create structures to enable full disclosure and whistleblowing

Disclosure is not effective unless investors can rely on the credibility of the information being disclosed. The most straightforward way to assure credibility is to mandate disclosure by law and impose significant penalties on those who fail to abide. Effective enforcement is necessary to allow honest companies to credibly distinguish themselves from dishonest companies. Disclosure must be useful as well as mandatory. That means information must be easy for market participants to understand and use.

Specific initiatives to be pursued in achieving this objective are as follows:

- Enforce information / access to management obligations for premium board listed companies
- Define minimum disclosure requirements
- Institutionalize periodic analyst briefings by listed companies

Entrench an effective whistle blowing mechanism that can be leveraged across the industry

- Enforce compliance and sanction non-compliance
- Develop an independent whistle blowing mechanism (Case Study USA)

6.9 Improve scale, scope and costs of the markets

Specific initiatives to be pursued in achieving this objective are as follows:

- Ensure that scale and scope of the market is encouraged and market costs are curtailed
- Develop shared services across the market:
- Identity management
- Reporting/ repository
- Business continuity

Encourage further market consolidation (case study Malaysia and India)

- Leverage CBN's biometric initiative
- Improve SEC data base

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CHAPTER 7

STRATEGIES TO CREATE AN ENABLING AND FACILITATIVE LEGAL AND REGULATORY FRAMEWORK SUPPORTIVE OF THE DEEPENING AND DEVELOPMENT OF THE NIGERIA CAPITAL MARKET

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The regulatory framework governing the Nigerian capital market must be responsive to the challenges of the changing financial landscape in a timely manner. An enabling and facilitative regulatory framework will ensure that the capital market continues to operate fairly and support the growth of the market. The framework should be enabling to grow the market depth, breath and sophistication. It should not be restrictive but should be developmental. It should provide for more effective coordination of the market to allow easy mobilization and allocation of capital.

7.1 Promote a capital market environment that facilitates market development

The regulations governing the Nigerian capital market and its participants must be developmental and enforced in a manner that is transparent and supportive of market development. Regulations limiting market growth should be updated or eliminated accordingly.

Specific initiatives to be pursued in achieving this objective are as follows:

Actively gather and utilise industry feedback

- Gather periodic collaborative feedback from the industry (through periodic surveys) and implement at least 70% of agreed recommendations year on year

Facilitate industry collaboration by encouraging the adoption of shared services to reduce cost

- Engage industry stakeholders and foster cordial and professional working relationship
- Using different media (online communities using social media, strengthening the CMC etc.)

Heighten efforts to create a vibrant and competitive capital market

- Move from a rules-based compliance approach to a hybrid approach – this allows a more dynamic and liberalised capital market. It provides a mix between rules-based and "principles-based" approach
- Rationalize the licensing framework to encourage the introduction of new investment management products. Liberalize the regulatory framework for market operators to facilitate the growth of collective investment schemes
- Update / amend existing SEC rules or change provisions limiting market growth

Partner foreign multilateral agencies for skills transfer where local expertise is insufficient

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- Facilitate greater involvement and skills transfer from foreign multilateral agencies (pro-bono where possible) in key areas where local expertise is insufficient
- Provide regulatory parity and consistency between institutions overseeing similar activities
- Further review of the regulatory framework to provide comprehensive and effective functional regulation over all parties performing similar tasks or services within the capital market
- Strengthen enforcement by regulators - timely and impartial. Stiff penalties to serve as deterrents to market operators

Facilitate the introduction of a broad range of capital market products

- Cater for various risk-return profiles
- Streamline the approval process for new investment products
- Facilitate innovation of new products based on market demand

Regulatory facilitation for the provision of investment products and services in electronic format

7.2 Become a Top 20 capital market regulator

- A top-20 capital market requires a top-20 regulator. Oversight, regulation, risk management and enforcement capabilities must be extremely high. Institutional structures must meet best practice standards and be lasting and appropriate. Above all, a forward-looking and proactive approach must be adopted.

Specific initiatives to be pursued in achieving this objective are as follows:

Conduct comprehensive redesign of policies, procedures and processes

- Across SEC's core market oversight units
- Develop supporting Servise Level agreement, key performance indicators KPIs and work-tools, and re-design the chain of authority levels that all approvals must pass through

Implement international best practices as defined by IOSCO and Basel III

- As relates to the capital market in market supervision and oversight
- Establish risk management principles for capital market operators
- Complete risk management framework / policy document and issue rules

- Implement risk based and disclosure based regulatory systems
- Build strong delivery capacity in risk-based supervision of market operators

Strengthen avenues for multilateral and inter-agency regulatory co- operation

- Establish strong communication lines with market participants

Build capacity (mainly through training) and skills of regulators and operators and enforce minimum qualification / experience

- To be done at all levels within the regulator and operators

Build required technology infrastructure within the regulator to enable seamless regulation

- Finalize the definition of operations and technology standards for market operators
- Enhance technology and processes within SEC (ERP, Case Management Systems etc.)
- Implement real-time surveillance systems linked to the exchange and operators core systems

7.3 Protect investors and improve overall investor experience

It is critical that market participants have confidence in the fairness, efficiency and integrity of the capital market. In this respect, continuous effort would be made to ensure that the rules are strong and enforced fairly in order to protect investors. The regulation governing the Nigerian capital market must be enforced in a manner that is impartial and with sufficient deterrent penalties.

Specific initiatives to be pursued in achieving this objective are as follows:

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[11] Further detailed analysis is still required to firm-up this recommendation

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Develop a clear-cut jurisdictional framework for the Investments and Securities Tribunal (IST)

Promote transparency and disclosure

- Enforce compliance with International Financial Reporting Standards (IFRS)
- Define minimum disclosure requirements
- Develop a framework for shareholder value recognition and strengthen the code of corporate governance
- Implement a strict policy on insider trading to drive transparency

Improve capacity of NSE's Investor Protection Fund and promote investor awareness and education

Continuously review relevant laws to safeguard investor protection at every stage of market development, including providing appropriate mechanisms for investor redress and dispute resolution

7.4 Strengthen auditing, reporting and disclosure standards

A central feature of credible financial disclosure is the presence of reporting and disclosure standards.

Specific initiatives to be pursued in achieving this objective are as follows:

Enforce IFRS standards with full compliance by all capital market participants

Adopt an open technology standard for exchange of business information electronically

- Adopt a standard such as Extensible Business Reporting Language (XBRL)
- Include Securities and Exchange Commission Self regulatory organisations etc.

- **Enhance and enforce shareholder value disclosures for public listed companies**
- For securities issuance, restructuring, takeovers and mergerexercises
- Enhance further disclosures in annual reports by public listed companies

Align reporting submission standards between the NSE and SEC and leverage a shared platform for rendition of reports

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·To be used by all operators, listed and non-listed companies

Implement online surveillance system from the regulator to core trading system

- This will apply to the exchanges as well as the capital market operators

7.5 Enhance the dispute resolution framework in line with leading practices

Specific initiatives to be pursued in achieving this objective are as follows:

Provide appropriate mechanisms for investor redress and dispute resolution

- Seek to minimize enforcement costs and delays
- Define Jurisdiction (Investments and Securities Tribunal, Federal High Court and Administrative Panel of the SEC)
- Finalize and implement the dispute resolution framework
- Finalize and implement the complaints management framework
- Develop a clear-cut jurisdictional framework for the Investments and Securities Tribunal (IST)

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APPENDIX 1: ACRONYMS AND ABBREVIATIONS

ASEM:	Alternative Securities Exchange Market
AUM:	Assets Under Management
BPE:	Bureau of Public Enterprises
CAGR:	Compound Annual Growth Rate
CBN:	Central Bank of Nigeria
CMMP:	Capital Markets Master Plan
DMO:	Debt Management Office
EMT:	Economic Management Team
ETF:	Exchange-traded fund
FGN:	Federal Government of Nigeria
FTZ:	Free Trade Zones
GDP:	Gross Domestic Product
IFI:	Infrastructure Finance Institutions
IMF:	International Monetary Fund
IPO:	Initial Public Offering
FMF:	Federal Ministry of Finance
MPR:	Monetary Policy Rate
MSME:	Micro Small and Medium Enterprises
NAICOM:	National Insurance Commission
NCC:	Nigerian Communications Commission
NDIC:	Nigeria Deposit Insurance Corporation
NIRSAL	Nigerian Incentive-Based Risk Sharing System for Agricultural Lending
NSIA:	Nigerian Sovereign Investment Authority
PAIF:	Power and Aviation Intervention Fund
PENCOM:	National Pension Commission
PFA:	Pension Funds Administrator
SBIC:	Small Business Investment Company
SEC:	Securities and Exchange Commission
SRO:	Self regulatory organisations
SME:	Small and Medium Enterprises
UK FSCS:	Financial Services Compensation Scheme

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APPENDIX 2:COMPARATIVE STATISTICS OF NIGERIA AND MALYASIA (AS AT DECEMBER 2013)

	SIZE METRICS	NIGERIA		MALAYSIA
1	TOTAL MARKET CAP	$119.41b		$565.5b
2	EQUITIES CAP	$82.80b		$219.5b
3	BOND MARKET CAP (CORP BOND)	$36.56b	$1.09b	$346b
4	AVE. DAILY TURNOVER	$26.10m		$647m
5	NEW ISSUES (IPO, RIGHT ISSUE)	11		54
6	NO. OF LISTED COMPANIES	190		991
7	NO. OF LISTED INVESTMENT FUND	5		40
8	NO. OF LISTED EQUITIES	198		1,389
9	NO. OF LISTED BONDS (CORP)	55 (17)		130
10	NO. OF LISTED ETFs	1		30
11	TOTAL NO. OF SECURITES	254		1,566
12	AUM OF CIS	$910m		$114b
13	NO. OF NEW COMPANY LISTINGS	2		18
14	REITs			17
15	POPULATION	170m		29.5m
16	GROSS SAVINGS (% of GDP)	41%		32%

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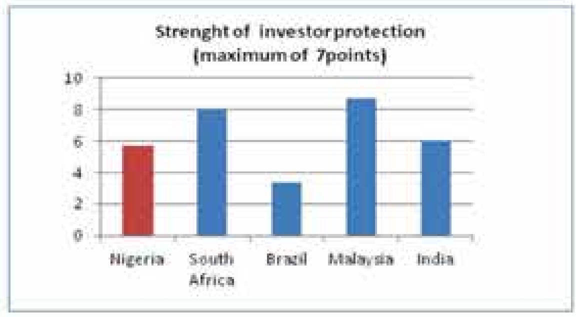
APPENDIX 3:ASSESSMENT OF CAPITAL MARKET REGULATION AND OVERSIGHT IN NIGERIA

Country	WEF Ranking
South Africa	1
Finland	2
Brazil	7
Malaysia	18
India	27
Jamaica	28
Nigeria	**72**
Algeria	148

Country	WEF Ranking
New Zealand	1
Singapore	2
Malaysia	4
South Africa	10
India	41
Nigeria	57
Brazil	69



Efficiency of legal framework in challenging regulation

Country	WEF Ranking	Value
Singapore	1	5.4
Qatar	2	5.2
Malaysia	8	4.6
Nigeria	**63**	**3.5**
India	104	3.1
South Africa	116	2.9
Brazil	147	2

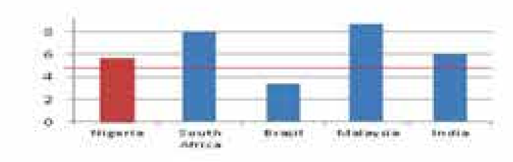
* Value;1-extremelydifficult, 7-extremelyeasy

Strength of auditing & reporting standards

Country	WEF Ranking	Value
Finland	1	5.9
Hong Kong	2	5.6
South Africa	13	4.9
Malaysia	17	4.7
India	48	3.8
Brazil	68	3.5
Nigeria	92	3.2

Value;1-extremelydifficult, 7-extremelyeasy

Finland	2
New Zealand	3
Malaysia	27
Brazil	31
India	52
Nigeria	106
Algeria	128



Source: World Federation of Exchanges (WEF), World Bank, NSE

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APPENDIX 4:PRIMARY AND SECONDARY MARKET COSTS FOR SECURITY ISSUES IN NIGERIA

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% -135%	0.75% -1.35 %
Sec Fee	030%	0.00%
NSE Fee	0.00%	030%
CSCS Fee	0.06%	0.36%
Contract Stamp	0.075%	0.075%
VAT on Brokerage Fee	50%	50%
VAT on CSCS Fee	50%	50%
VAT on NSE Fee	0%	50%
Total Cost	1,122% 1,85%	1,55% 2,186%

Table 8: Summary of Secondary Market Transaction Costs for the NSE

Estimated Transaction	Equities Market Primary	Equities Secondary Market Buyer	Equities Secondary Market Seller	Bonds Market Primary	Bonds Secondary Market Buyer	Bonds Secondary Market Seller
Nigeria	1.2%	1.1226% 1.1856%	1.556 % 2.111 %	1.21%		
Brazil	0.25%			0.24%		
Chile	0.12%			0.44%		
Mexico	0 .2%			0 08%		

Tab le 9: Estimated Primary Market Transaction Costs (Equities & Bonds) for Nigeria and Selected Int'l Markets.

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4. Mr. Sonnie Ayere
5. Mr. Bolaji Balogun
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7. Mr. Albert Okumagba
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