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**THE END OF YEAR ANNUAL DINNER OF THE KADUNA CHAMBER OF
COMMERCE, INDUSTRY, MINES & AGRICULTURE (KADCCIMA)**

KADUNA INTERNATIONAL TRADE AND INVESTMENT CENTRE

Topic:

The Nigerian Capital Market: Short- and Medium-Term Imperatives

Distinguished ladies and gentlemen, it gives me great pleasure to be at this end-of-year dinner with you. I thank the Kaduna Chamber of Commerce, Industry, Mines and Agriculture for giving me the opportunity to speak at this wonderful event. The topic is very apt considering we are all witnesses to the global market meltdown, but more importantly, this is the time when we all are strategising towards 2012 and beyond.

Introduction

The stock market is a key vehicle for wealth creation and efficient allocation of capital to productive investments, leading to an increase in the rate of economic growth. Stock markets contribute to the mobilisation of domestic savings by enhancing the set of financial instruments available to savers to diversify their portfolios. In doing this, they provide an important source of investment capital at relatively low cost. More importantly, they constitute a liquid trading and price determining mechanism for a diverse range of financial instruments which stimulates investment and lowers the cost of capital, contributing in the long term to economic growth.

Stock market liquidity can predict the future growth rate of an economy, as it is strongly linked with growth rates of real GDP per capita. Thus, the development of stock markets is necessary to achieve full efficiency of capital allocation, if the government is to liberalise the financial system.

The Nigerian Capital Market

It is widely known that the NSE services the 2nd largest financial centre in sub-Saharan Africa; is the 3rd largest stock exchange in Africa by capitalization and the largest market in West Africa by company capitalization. What is worthy of mention is that there is room for growth, and our vision is to become **the Gateway to African Markets**.

Introducing the Nigerian Stock Exchange

The Nigerian Stock Exchange was established in 1960 as the Lagos Stock Exchange. In December 1977 it became known as the Nigerian Stock Exchange, with branches established in some of the major commercial cities of the country. There are now thirteen branches of the Nigerian Stock Exchange excluding the head office in Lagos. Each branch has an electronic trading floor.

The Exchange started operations in Lagos in 1961 with 19 securities listed for trading. As at end of December 19, 2011, there are 248 securities listed on the Exchange made up of 198 equities; 25 federal government bonds; 10 state government bonds; 12 corporate bonds; 3 preference shares; and one exchange traded fund.

Since I assumed office in April of this year, my team and I have left no stone unturned in ensuring that we lay the right foundation for restoring market integrity, and meeting our promise to provide a first-rate platform for listing and trading a wide range of securities. We are embarking on strategies to deepen the offerings in our market and plan to have five tradable instruments during the next five years – to offer opportunities for investors to diversify their portfolios. In addition to equities, our aim is to promote active trading in Bonds, Exchange Traded Funds (ETFs), Options and Financial Futures. Indeed, we are proud to announce that earlier this week on December 19, 2011, the Exchange launched the first ETF in West Africa. These initiatives are a vital part of increasing the vibrancy, depth and competitiveness of the Exchange, so we can truly become the undisputed gateway to African markets.

In order to achieve our objectives, we have undertaken an extensive corporate reorganization. The Exchange now consists of four divisions: *Business Development*,

Market Operations and Technology, Legal and Regulation, and Corporate. The business development function is focused on growing the business of the Exchange and moving total market capitalization from current levels of \$59.9 billion (as of December 15, 2011) to \$1 trillion in five years. Within this division, the *Listing Sales and Retention* department is charged with attracting new companies to list, as well as increasing the value added to listed companies. One of our new initiatives is a series of regular forums with the CEOs of listed companies. The first such dinner was held on October 17 of this year, and we plan to have quarterly dinners based on sector groupings, to explore issues of interest to those companies. We have also started a program of bell ringing ceremonies to close the market, where our listed companies are invited to ring the closing bell and gain valuable publicity for their company around corporate anniversaries or milestones. You will be hearing more about these later in these remarks. Our *Product Management* and *Branch Network* departments are also part of this division.

The Exchange must ensure that it is sufficiently attractive to issuers and investors, both local and international. The *Legal and Regulation* division is designed to enhance the profile of our regulatory and compliance activities. Within this division, our *Listings Regulation* department has the very important role of protecting the integrity of our rules. We have put in place a strong enforcement program premised on zero tolerance of all infractions, and have increased our penalties to deter inappropriate behavior. We must be seen to live by our rules, and when there are violations, sanctions will be applied in a fair, transparent and consistent manner.

Another aspect of enhanced regulation is raising corporate governance standards in our market. This, in essence, means that we must have a robust and transparent regulatory framework. In this respect, we will require listed companies to file an *annual corporate governance certification* which is mandatory for all listed companies. This will form part of the general undertaking for new listings, and will become a pre-requisite to maintain listing on the exchange. The forms will be on our web site for you to download and file.

We are also promoting the timely release of material facts, relevant to the operations of all quoted companies, making *full disclosure* a crucial pillar of our market. This seeks to balance the power of both parties to a transaction through equal possession of relevant

information. Investors need to have sufficient and quality information about the potential risk, vis-à-vis the expected return of investing in a particular company. Other regulatory initiatives that we will be focusing on include the automation of reporting and filing submissions. We will be transiting from the present reporting regime to electronic reporting, and a pilot will kick off shortly.

Our *Market Operations and Technology* division seeks to support our activities with cutting-edge technology. We are currently working on acquiring an end-to-end trading platform to improve operator and investor experience in dealing with the Exchange, as well as to support the new products we will be introducing. Automation and trading speed have become very important aspects of competition among financial markets, so we are evaluating, reengineering and automating processes, which have a direct impact on improving liquidity and depth. We are positioning ourselves to comply with global standards by overhauling our web site with user friendly features that would be robust and information-driven, i.e., a ticker tape showing post-listing compliance status symbols on companies, market quality statistics, and broker volume data, among others.

We are positioning the NSE as a global capital market player by keenly supporting dematerialisation. We expect to achieve a full move from physical certificates to electronic bookkeeping. This will support new products we are introducing, such that trading and settling transactions will become a lot faster and easier, resulting in a net increase in liquidity in the market.

Initiatives Supporting Listing

As I have already mentioned, we have created a *Listing Sales and Retention* department for targeted business development efforts geared at increasing the number of quotable companies and instruments listed on our market. This arrangement is a clear departure from the past when the Exchange waited for quoted companies to submit applications for listing. Now, the Exchange's staff devotes considerable amounts of time to listings sales and retention (supported by our branch network of 13 branches), providing easy access to information, mobilising proactive investor outreach, and bringing the market to the grassroots.

On November 1, 2011, we launched our new industry classifications, featuring a reduction from 33 to 12 industry sectors on our Daily Official List. This effort enabled us to better reflect global industry classification standards and align with the Nigerian economy. Our market segmentation initiative will facilitate the drive towards diversification in our market and keep us focused on key under-represented sectors which are drivers of the economy, such as Agriculture (40% of GDP, 0.3% of market cap), Oil & Gas (15.9% of GDP, 4% of market cap), Power (7.9% of GDP, 0% of market cap) and Telecommunications (4.5% of GDP, 0.7% of market cap). It will also assist us in our investor engagements, as we educate them about building diversified portfolios. Our sales and retention teams are also organized around the 12 sector groupings.

Having listened extensively to feedback from prospect companies, we have recently concluded a comprehensive review of our Listing Requirements. We have introduced quantitative criteria and now offer greater flexibility of listing criteria. For example, our requirement that companies must have a five year financial and operating track record leads to exclusion of some exploration and production companies which, due to the nature of their business, are unable to provide such records. Therefore, our new *listing requirements* are designed to offer stakeholders more flexibility. We are also facilitating foreign listed companies to have access to dual listings on our market.

Value-added services are key ingredients in our sales and retention efforts, and we are partnering with various local and international organisations to provide services such as: Corporate Governance, Corporate Access, Investor Relations, Institutional Services, and Independent Equity Research – to enhance the value proposition of listing on the Exchange.

Our emerging market platform (formerly the Second Tier Securities market) has been rebranded as the *Alternative Securities Market (ASeM)*. This board accommodates small- to mid-sized enterprises (SMEs), and provides a platform for sound corporate governance that leads to sustainable growth and development in these companies. ASeM offers issuers, especially indigenous companies such as your companies, the opportunity to inject fresh,

cheap and long-term capital into their businesses through more user-friendly listing requirements than what was previously available. For instance, a company only needs to relinquish a minimum of 15% of its shares to the public and, therefore, need not entertain any fears of losing control, whilst still ensuring continuity of the business. The fees are modest: the initial application fee is one hundred thousand naira, and the annual listing fee is a flat rate of two hundred thousand naira, unlike the Main Board, where the fee is graduated, based on the number of shares in issue.

Furthermore, SMEs that wish to list on ASeM will be required to have a *designated adviser* (DA) that will be selected based on criteria to be laid down by the Exchange. It is expected that these advisers will be finance professionals, knowledgeable in the requirements of the Exchange and the *Securities and Exchange Commission (SEC)*. The DA will “hand hold” companies throughout their time as a listed company on ASeM. The main role of the DA is to competently, professionally and impartially advise the company on all its responsibilities during the application process and its responsibilities to maintain its status once listed. This requirement is expected to be highly beneficial to the companies listed on this board, as evidenced by its adoption by most alternative markets of leading exchanges.

Secondary Market and Product Initiatives

Apart from targeting a significant increase in the number of listed companies, we also want to ensure a vibrant market for those securities, and to expand our product offering. As previously stated, on Monday this week, we launched the first ETF in West Africa – the *ABSA NewGold ETF*. ETFs are open-ended, passive investment funds that track the performance of an index or commodity, and unlike mutual funds, trade throughout the trading day, just like equities.

The *NewGold ETF* was established in October 2004 and is the largest exchange traded fund in sub-Saharan Africa. The debenture issued by *NewGold* tracks the price of gold bullion. The return to a debenture holder will be linked to any appreciation in the price of gold. It had its primary listing on the JSE, Ltd. on November 2, 2004, and a secondary listing on the Botswana Stock Exchange on July 13, 2010. It currently has over USD2.5 billion in assets.

This product is designed for investors seeking portfolio diversification via exposure to commodities. It provides investors a viable alternative to other investments, such as equities and fixed income securities which may be negatively impacted by a fall in the value of the subsisting currency, inflation or a lack of interest in shares. It also provides investors with a viable way of taking advantage of the price of gold, without taking any credit or storage risks. It is targeted at individuals, companies, societies, pension and provident funds, as well as foreign and non-resident investors.

We will be introducing *market making*, *short selling* and *securities lending* in 2012 to further increase liquidity in the market, and make securities available where they are needed. We have also put in place rules to allow companies to repurchase outstanding shares through a *share buy-back* process. This will facilitate the repurchase, by a company, of a portion of its outstanding shares issued. The aim is to improve shareholder value (ROA, ROE, EPS, P/E). This means that a company which feels that its share price is under-valued, may engage in *share buy-back* to shore up the price, while also reorganizing its capital structure.

A major contributing factor to the meltdown in the stock market was low investor knowledge, and we strongly feel that there is a need to educate investors on the benefits that can be derived from the capital market. We intend to address this by organizing a series of investor clinics to educate investors on structuring appropriate investment portfolios and risk diversification, looking at such factors as industry sectors, large or small capitalizations, and growth versus income stocks. Investors will be in a better position to make short- and long-term decisions. It will also instill confidence that the financial marketplace is efficient and transparent.

As stated earlier, we are planning to launch more products in the medium term. By 2013, we plan to create an *Options Market* that will trade *stock options*, *bond options* and *index options*. This will be followed by a *Futures Market* in 2016 in which *currency futures* and *interest rate futures* will be traded.

As you know, the capital market possesses a comparative advantage over other sources of finance in the provision of long-term funds, compared to the generally higher cost of bank financing for long-term capital infrastructural projects like roads/bridges, dams/water schemes, health facilities, to mention a few.

In view of that, I must take this opportunity to commend the *Kaduna State Government* for their efforts in growing the state's economy and providing social infrastructure. More importantly, I commend the Government for their foresight in utilizing the facilities available in the Nigerian capital market in 2010 to raise a 8.5 billion naira fixed-rate bond, issued under the 15 billion naira medium-term note programme. The funds were raised to finance key developmental projects, such as the Zaria regional water supply treatment plant, construction of a 200-bed specialist hospital in Kaduna, construction of Kafanchan Campus of Kaduna State University, and the construction of new government office complex. It is gratifying to note that some other state governments are at various stages of sourcing funds from the capital market to develop their states. May I use this medium to encourage corporate institutions, and state and local governments to utilize the opportunities available in the capital market to develop key infrastructure in your jurisdictions.

It is worth stating that Nigeria's vision of long term economic development, based on the real sector, requires huge capital for its realization. We must, therefore, look beyond the banks and donor agencies to meet financing needs. We also need to maintain consistent policy and ensure transparency. The NSE will continue to advocate on behalf of its listed companies and the capital market in general. As examples, we are advocating for the review of PENCOM guidelines regarding PFA investments; removal of VAT on capital market transactions; and immediate listing of privatized enterprises, among others.

Conclusion

The process leading to the complete transformation of our market requires all hands to be on deck. Recent efforts by the Federal Government in setting up of AMCON; the resolution of the banking crisis which has passed the most critical stage; the establishment of the *Infrastructural Regulatory Commission*; on-going efforts at reforming both the power, petroleum and gas sectors; the various initiatives for public private partnerships (PPP); the

creation of the *Sovereign Wealth Fund* all contribute to the process of developing a veritable capital market which will in turn assist in the economic development of the country and beyond.

On our part, the Exchange will continue working to support government and its agencies in the realization of Nigeria's economic development and growth objectives. We will continue collaborating with the *Federal Ministry of Finance, Central Bank of Nigeria (CBN), SEC* and other members of the *Financial Sector Regulation Coordinating Committee (FSRCC)*, while maintaining good relationships with operators in the international arena, with a view to facilitating the flow of investment capital to Nigeria. We will continue to take pro-active measures that will enhance the quality of the overall market.

Distinguished ladies and gentlemen, as you know, markets are cyclical and it is natural to have periods of volatility, however, opportunities abound. Foreign investors continue to demonstrate confidence in the Nigerian capital market – between January and November this year, out of a total of 591 billion naira in sales, foreign investors accounted for about 80%, leaving domestic investors with the rest. This shows that there is interest in our market, but domestic confidence must be revived. At the Exchange, we are working tirelessly to keep the market vibrant by introducing new products and services; providing value-added services to our clients; strengthening compliance; increasing investor protection; providing investor education; and showcasing the Nigerian Stock Exchange at conferences and other global events, to make The NSE the **preferred listing destination** for local and international businesses. I believe with your support and our collective commitment, we can remodel the Nigerian capital market to be the best that it can be.

I thank you for your kind attention.