Nigerian Capital Markets:
Legal and regulatory review and recommendations

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The Nigeria-UK Capital Markets Project

A collaborative report of: the Nigerian Capital Markets Solicitors Association, and Law Society of England & Wales.

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CAPITAL MARKET SOLICITORS ASSOCIATION

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Executive summary

This report is the outcome of a six-month project under the aegis of the Emerging Capital Markets Taskforce (ECMT) whose membership represents the UK's financial and professional services. The project has been implemented as a collaborative activity between the Nigerian Capital Markets Solicitors Association (CMSA) and the Law Society of England & Wales with the UK Foreign & Commonwealth Office. . The objective of this project was to produce a report of the legal and regulatory environment for capital markets in Nigeria and to make recommendations for reforms that would deepen the capital markets and attract domestic and international investment.

The findings and recommendations[1] are based on a wide-reaching consultation encompassing discussions led by the CMSA and the Law Society with regulatory and governmental bodies, the private sector and other professions and advisors, both in Nigeria and the UK[2]. The report identifies four core issues affecting the growth of the Nigerian capital markets:

(i) integrity of the market;
(ii) regulatory infrastructure;
(iii) market incentives and barriers;
(iv) market development.

Further, a review of Nigeria's placement in international guides and indices such as the *Global Competitiveness Report 2014/2015*, the PRS Group/*International Country Risk Guide 2014* and the World Bank's '*Ease of Doing Business Report 2014*' found that the Nigerian capital markets must compete favourably with the capital markets in other countries, regionally and beyond, in order to attract capital from both domestic and international investors.

In addition to a series of specific recommendations, the working group made the following general recommendations:

[1] Annex1: Summary of recommendations and actions
[2] Annex 3: Stakeholder consultation list

1. An ECMT committee should be established in Nigeria as soon as possible that will review the recommendations of this report and lead on the implementation process in Nigeria, working in collaboration with the UK ECMT where appropriate. The joint UK and Nigerian ECMT requires a committed project manager to oversee the full scope of activity, with oversight of the communication, strategic direction and implementation of further phases of activity and would hold both knowledge of the field and the required leverage to drive activity forward in Nigeria.

2. A co-ordinated effort should be made by market participants in Nigeria to create (and fund) a broad industry platform to represent their interests, develop initiatives to raise transparency, governance and performance standards across the industry and to lobby for relevant legislation and regulatory changes. Such a platform would also serve as a forum to exchange ideas and concerns on issues including product development and diversity, incentives to encourage participation in the capital markets and policies that encourage a more flexible, strategic and long-term approach to investing in the capital markets.

Findings and recommendations

In order to boost the integrity of the Nigerian capital markets, there is a need to enhance the framework of rules and develop initiatives so as to (i) improve information disclosure and dissemination, (ii) deter manipulation of the market through insider dealing or conflict of interest and (iii) promote an industry-led transparency and good governance culture.

Trust and confidence in capital markets transactions in Nigeria is needed in order to attract investors to the market. Such trust and confidence is harder to establish where there are perceptions of shortcomings in the standards. It is therefore necessary to adopt strategies aimed specifically at improving the ethical standards of operation in the capital markets as well as changing the perception of the standards that operate in the markets. Recommendations are included for industry-led and other initiatives aimed at improving standards in the capital markets and boosting investor confidence.

An effective regulatory regime fosters capital market development by encouraging the participation of investors and issuers in capital market transactions. The regulatory regime must be robust enough to protect investors without acting as a disincentive to the participation of issuers and must achieve a balance between ensuring investor protection and enabling efficient capital formation. In addition, the regulatory process must be carried out within a reasonable timeframe so as not to discourage potential participants from using the capital markets for their fund-raising. The totality of the regulations must have the effect of protecting investors without imposing undue costs on the compliant issuers due to difficulties in negotiating the regulatory landscape and the duplication of procedures between the various approving regulators. Recommendations are made that are aimed at reducing the cost of capital markets transactions and to tighten of the regulatory enforcement process.

Another critical enabler is the rule of law and the recourse to a robust system for resolving disputes and providing compensation for investors where appropriate. There is currently insufficient clarity as to the appropriate options and mechanisms for dispute resolution available to investors, resulting in substantial scope for forum shopping, which in turn results in delays and greater risk for investors. Efficient and reliable dispute resolution mechanisms are central to securing investor confidence and recommendations have been made to address this.

There are very few incentives for issuers to participate in the Nigerian capital markets. Yet incentives have been an important factor in deepening capital markets in other emerging economies. Furthermore, the incentives that currently exist in the Nigerian capital markets at times lack clarity or are not sufficiently appealing to change the established market behaviour of raising capital privately or through banks. A number of market and regulatory barriers are identified in the report including high transaction costs, regulatory constraints and tax disincentives. The report recommends a number of both tax and non-tax reforms and incentives for greater market participation.

The final section of the report explores current impediments and potential solutions to market development, increasing investor confidence and greater liquidity. Specifically, it considers issuer and product diversity, increasing the range of available financial instruments and discusses some of the potentially prohibitive provisions in the proposed *Private Companies Conversion and Listing Bill* (2013). It highlights ongoing efforts by Exchanges that have the potential to address some of the existing gaps. Finally, this section also addresses the important issue of consistency of market education with specific recommendations on developing the capacity of market operators and regulators as well as wider information and awareness initiatives to attract retail investors into the capital markets.

This project has coincided with the publication by the Securities and Exchange Commission's (SEC) Capital Market Committee of the *Nigerian Capital Market Master Plan 2015-2025*.

The ECMT working group notes that the conclusions of this report are aligned with those of the *Master Plan* and should contribute to the realisation of its objectives. Moreover, the implementation of the recommendations made in this report should have a positive impact on the assessment of Nigeria by international indices and guides assessing the attractiveness of capital markets globally and, consequently, lead to greater investor confidence and a deepening of the capital markets.

Introduction

The objective of this project was to produce a report on the legal and regulatory framework governing capital markets in Nigeria, identifying any gaps that may restrict the deepening of these markets, providing recommendations and suggested actions to address these areas[3] focusing on issues of financial openness, market development and quality of regulation that, if adopted, will contribute to the deepening of the Nigerian capital markets.

The project is led and managed by the Law Society of England & Wales, working closely with the Nigerian Capital Markets Solicitors' Association (CMSA). Together, they established a project working group[4] of leading UK and Nigerian expert practitioners in this field.

The findings and recommendations are based on a wide-reaching consultation encompassing discussions with regulatory and governmental bodies, the private sector and other professions and advisors, both within Nigeria and overseas, particularly the UK[5]. The report addresses topics including debt and equity issuances, the regulatory framework governing the same and the cost of issuance.

This project has the potential to make a positive impact in three significant areas:

(i) Deeper capital markets in Nigeria will provide Nigerian businesses with an alternative source for capital, provide business opportunities for foreign companies and create additional long-term investment opportunities for domestic Nigerian investors.

(ii) The Nigerian economy will benefit from a more developed and successful capital markets sector and foreign companies will be able to invest in Nigeria with increased confidence and certainty.

(iii) Collaboration with Nigerian capital markets lawyers will also contribute to building legal capacity in the country which will support greater investment activity in Nigeria in the long-term.

[3] Annex 1: Summary of recommendations and suggested actions
[4] Annex 2: Working group members
[5] Annex 3: Stakeholder consultation list

The commencement of the FCO initiative coincided with the finalisation of a year-long project sponsored by the Securities and Exchange Commission in Nigeria to devise a ten year plan aimed at increasing the depth of the Nigerian capital markets, boosting foreign direct investment and more. This culminated in the launch of the Nigerian *Capital Markets Master Plan 2015 – 2025*, during the 4th Annual Capital Market Retreat at Abuja in November 2014. The Master Plan identifies areas for development and sets out a framework for achieving the desired objectives.

Although the conclusions of this project's working group have been reached independently, we note that they are aligned with the recommendations and objectives contained in the Capital Markets Master Plan. It is worth noting that steps taken towards achievement of the recommendations in this report will not only facilitate the realisation of the FCO objective to create new opportunities in the capital markets in Nigeria for UK and Nigerian financial services participants but also contribute to the realisation of the objectives of the Capital Markets Master Plan.

Background and methodology

This report is a product of extensive consultation with various entities in Nigeria including the regulatory authorities. The Working Group engaged with various stakeholders in Nigeria to consider their experience in participating in the Nigerian capital markets, the challenges they face and the incentives that will drive greater participation. The views received provided a context for the analysis by the Working Group of the legal and regulatory framework for capital markets operations in Nigeria as well as factors inhibiting the growth of the market. Wide consultation with a range of stakeholders was also critical for considering the implementation strategies for the report's recommendations.

In compiling the report, we have, where appropriate, compared the Nigerian legal, regulatory or operations framework with the equivalent framework in the UK and identified any gaps that a further project can contribute to filling.

In making our assessment of the areas of concern to be addressed, we have taken account of criteria used in various international guides in comparing the attractiveness of capital markets in countries worldwide. In particular, we have made reference to the Global Competitiveness Report 2014/2015, the PRS Group/International Country Risk Guide 2014 and the World Bank's Ease of Doing Business Report 2014.

This report identifies core issues affecting the facilitation of growth in the Nigerian capital markets. For the purposes of the report, these issues have been classified under four themes (I) integrity of the markets; (II) regulatory infrastructure; (III) market incentives and barriers (IV) diversity and market development.

Section 1: Integrity of the markets

It is widely understood that integrity of the capital markets is critical to engendering the confidence of investors and increasing their participation. In our consultation with investors as to what would secure their greater participation in the market, they stressed the need for greater transparency and assurance of the absence of manipulation.

According to data published by the CBN and NSE in December 2013, the Nigerian capital markets are relatively shallow with only about 50 liquid stocks listed on the NSE and, with regard to the bond market, of the 58 listed bonds, federal government bonds made up 67% while corporate bonds made up only 2.8%. There is therefore a strong case for broadening and deepening the Nigerian capital markets. Accordingly, attention must be paid to addressing the concerns of potential investors and attracting them to the market.

Investors will likely perceive themselves to be at a disadvantage and therefore unlikely to invest where information about a potential investment is inadequate, untimely in its presentation, unevenly distributed between investors and insiders or others in an advantageous position or otherwise incomplete in revealing all material factors relevant to the investment.

Initiatives to enhance integrity in the Nigerian capital markets are therefore critical in increasing the depth of these markets. To boost integrity there is a need to develop the framework of rules and initiatives so as to (i) improve information disclosure and dissemination, (ii) deter manipulation of the market through insider dealing or conflict of interest and (iii) promote an industry-led transparency and good governance culture.

The integrity of the capital markets is driven not only by the robustness of the applicable regulations but also by the conduct of the target investment companies and the capital markets operators and advisers. To boost integrity will therefore involve a reassessment by the regulators of the framework for regulations, surveillance and enforcement and an assessment by market operators and advisers of initiatives they could drive to achieve the desired impact.

Such measures can contribute to raising the rank of Nigeria in comparative guides used by the international investment community. We note that the World Bank's '*Ease of Doing Business*' report 2014 ranks Nigeria at 62 out of 189 economies on its minority investor protection index. The index considers the ease of accessing internal corporate documents, disclosure requirements, extent of shareholders' rights, liability regime for directors, strength of the governance structures and corporate transparency. In order for Nigeria to match and exceed the rankings of its regional counterparts and indeed meet international good practice, the following issues must be addressed.

1.1. Information disclosure and dissemination

Investors will require all material up to date information in respect of the condition of the companies in which they invest. Such information is required pre-investment in order to properly assess the investment decision and post-investment in order that an investor may properly monitor its position. The information must be accurate and published in a timely manner -simultaneously to all market participants - in order to avoid arbitrage and unfair advantage.

The disclosure and dissemination of company information is regulated by the exchanges on which the securities of relevant companies are traded (such being self-regulatory organisations ("SROs") that regulate activities in their own markets), by the SEC as the apex regulator of the SROs and the provisions of the ISA and CAMA, as applicable. In respect of public companies whose shares are not traded on an exchange, only the SEC rules and the provisions of the ISA and CAMA apply. We make the following observations in regard to the rules:

1.1.1 The NSE, FMDQ, NASD and the Nigeria Commodity Exchange, as the platforms for public trading of securities in Nigeria, should constantly review their rules and regulations to ensure optimum disclosure of material information to investors pre- and post- investment. We note that with respect to trades conducted on the NSE, the NSE Listing Rules were recently supplemented by the 2014 Amendments to provide a detailed suite of rules and regulations governing the disclosure by listed companies of material information. The new rules are a welcome advancement of the pre-existing position. A similar assessment by other exchanges will be beneficial to capital markets operations.

1.1.2 We noted the following concerns with the current rules on disclosure:

(a) With respect to companies listed on the NSE, notwithstanding the fact that a listed company was required to publish its financial statements within 90 days after the company's financial year end date, the rules do not prescribe a timetable for the disclosure of such information and as a result the market is not aware of when to expect publication.

We are aware of challenges that may hinder the prescription of such a timetable (including the challenge noted in sub-paragraph [c] below). Nevertheless we consider that this issue should be reviewed because of the increased interest that could be generated where financial results are anticipated. We note that in some other markets, such as that in London, it is general practice for a company to disseminate its own precise timetable for the release of periodic information.

(b) There is no central information repository from which the public can freely access data in respect of public companies. While such information may be available at the exchange on which the relevant company's shares are traded, it would be more efficient to have such information available in a central database that could also host information about public companies whose shares are not publicly traded. The Corporate Affairs Commission of Nigeria should consider hosting and making freely available information about public companies irrespective of the location of the trading of the shares of the company. With respect to companies listed on the NSE, the financial statements of a listed company are required to be on the company's portal (in accordance with the format specified by the NSE in the *Rules Governing The Use of The Issuers Portal*) and then reformatted and uploaded to the NSE's website. The NSE rules also require publication in at least two national daily newspapers. The need to check multiple information sources (and make advance bookings in the case of newspapers) can create inefficiencies and may give rise to arbitrage opportunities;

(c) Companies that have a primary regulator must obtain their approval for the financial statements before being released to the public. There have been instances of delays within the approval process. Examples of this include instances where financial institutions and insurance companies have had to obtain the approval of the CBN and NAICOM respectively before their financial information may be released by the NSE, causing delay in publication. (d) There is a need to ensure that the applicable rules of the relevant exchange require the disclosure of not only financial information but also other material non-public information such as corporate announcements, (including new management appointments, and other material non-public information) and share dealings (including threshold disclosures and directors' dealings). This issue was addressed by the NSE in its 2014 Amendment to the NSE Rules and should be considered in the context of the rules of the other exchanges and the SEC rules.

(e) The SEC is the apex regulator and regulates not only listed companies but also unlisted public companies. Rules on disclosure of material information by the company are contained in the SEC rules, the ISA and other applicable laws. In the case of public unlisted companies, the disclosure rules applicable are those contained in the SEC rules, the ISA and other laws of general application. It was noted that the SEC rules do not go as far as the NSE rules as amended in 2014; there was a need to review the SEC rules and other rules of general application in respect of disclosure with a view to raising the disclosure standards applicable to unlisted companies that are publicly traded.

1.1 Recommendations

1) Listed companies should be required, where appropriate, to release their own precise timetable for the release of periodic information in order to manage expectations in the market and raise interest in the company.

2) A public information repository should be established to host market information published in respect of all listed and other publicly traded companies. Consideration should be given to the provision of such information by the Corporate Affairs Commission of Nigeria. This would result in speedy, simultaneous dissemination of financial information to the public.

3) A memorandum of understanding should be negotiated and executed among the various regulators that addresses, among other issues, (i) the need to avoid delays in the approval and, consequently, the publication of the financial statements of regulated companies and (ii) the need to remove or reduce the overlap of regulatory compliance obligations on listed and other regulated companies.

4) A review should be conducted to review and, where appropriate, update the disclosure rules contained in the SEC rules, the ISA and other applicable sources.

1.2. Market manipulation - insider dealing

Insider dealing jeopardises the development of fair and orderly markets, undermines investor confidence, damages the reputation of companies and their shareholders and undermines confidence in the markets. Even the perception of insider dealing is sufficient to hinder the development of the capital markets. In order to promote transparency and avoid distortion of the market, up to date information must be made available to investors, other market participants and regulators of the shareholdings and share dealings by directors, controllers and all others classed as insiders of a listed company. Furthermore, the infrastructure available to regulators for market surveillance and enforcement must be robust enough to compel adherence to the rules. In this section, we consider the extent of the rules, the framework for creating awareness of the rules and the structure for surveillance and enforcement of the rules

1.2.1 The primary rules regulating insider dealing are contained in the ISA. Section 115 of the ISA prohibits the use of insider information and imposes a penalty for contravention of the rule. A general description of what constitutes “insider dealing” is given in the ISA (stating that “insider dealing” includes insider trading which occurs when a person or group of persons who, being in possession of some confidential and price sensitive information not generally available to the public, utilise such information to buy or sell securities for the benefit of himself, itself or any person). Section 313 of the ISA empowers the SEC to make rules prescribing activities which constitute “insider dealings” and stipulating the rules governing insider dealings in securities by insiders. Pursuant to that power SEC has provided more detailed guidance in SEC Rules 269(2) as well as Rules 400 – 404. The NSE has, as well, rules regulating insider dealing that are modelled on the relevant provisions of ISA. There is need for greater clarity on what conduct amounts to insider dealing and what conduct may be exempt from prohibition.

1.2.2 In respect of awareness of the insider dealing rules, the NSE rules 14.1 and 14.2 of the 2014 Amendments oblige every listed company (an Issuer) to establish a securities trading policy for employees and directors in relation to “inside and material information about the Issuer”. The rules impose obligations on listed companies to make arrangements for the restriction of access to insider information and to establish a securities trading policy applicable to all employees and directors that may at any time possess any inside or material information.

Paragraph 18 of the SEC Code of Corporate Governance requires all directors to participate in a programme of periodic continuous education in order to update their knowledge and skills in respect of the business of their respective companies and the operation environment. However, we did not find evidence of any rules that require the members of the board of listed companies to undergo compulsory training on insider dealing and other regulatory matters.

1.2.3 Rule 401(a) of the SEC rules 2013 requires disclosure to the SEC, not only by the company but also by insiders of any trades made in respect of the shares of which they are insiders. Rule 401 does not go far enough in its regulation of insider dealing. For instance, the rule does not extend to the transfer by an insider of its beneficial ownership of shares in respect of which it is an insider. Furthermore, Rule 401 provides that the requisite disclosure be made to SEC alone and not required to be notified to the company, the stock exchange or to the public. With regard to surveillance and enforcement of the insider dealing rules, the exchanges (in their capacity as SROs) rely on the information disclosed to them. The NSE, for instance, (in Article 14.3 as amended in November 2014) requires all directors, persons discharging managerial responsibility and persons closely connected with them as well as all insiders of a listed company to notify the company in writing, through the company secretary, of the occurrence of all transactions conducted on their own account in the shares of the company on the day on which the transaction occurred and the company shall maintain a record of such transaction which shall be provided to the NSE within 48 hours of the NSE making a request in that regard. We are not aware of a system for alerting the NSE or any other exchange of trading patterns or other trails that would put the exchange on alert as to the possibility of insider dealing and trigger the need to request the disclosure of the recorded information of questionable trades.

1.2.4 The SEC rules do not, in our opinion, go far enough. In particular we note that (a) the penalties imposed on the insider for breach appear to be limited (being a fine imposed under Section 115 of ISA) and should, where appropriate and as a minimum, include the disqualification of directors; (b) the information disclosed by the insider to SEC should not be disclosed to SEC alone and should also be notified to the company, the stock exchange and to the public; (c) in view of the intricacy and deleterious impact of insider dealing, there should be a requirement for the members of the board of listed companies to undergo compulsory training on insider dealing and other regulatory matters; and (d) there has so far been no prosecution for insider dealing in Nigeria, leading to doubts as to the effectiveness of the current regulatory regime. The provision of clear guidance on what conduct amounts to insider dealing would make it easier for the regulators to investigate perceived breaches and promote compliance.

1.2 Recommendations

1) Harmonious rules providing more detailed guidance on what transactions are prohibited - and in what circumstances - are required. A code of conduct should be published for market comment to provide guidance in determining whether a particular conduct amounts to insider dealing or falls within any of the safe harbours created by the code. An example of such a code is the UK *Code of Market Conduct* set out in Chapter 1 of the Market Conduct Source Book (MAR).

2) The notification of trading by or on behalf of insiders disclosed to the SEC pursuant to the SEC rules should be extended beyond SEC to include notification to the company, the NSE and the public (to be published on the public information repository – see recommendation 1.1 (2) above).

3) The SEC rules on insider dealing should be extended to cover the sale of the beneficial ownership of shares by insiders.

4) Consideration should be given to the adoption of a market surveillance system that will alert the NSE, other exchanges or appropriate regulators to the need for further inquiry into dealings that may be in breach of insider dealing rules.

5) The penalties for infraction should be reviewed and set at a level to compel performance. In the case of directors, the sanction should expressly include their disqualification.

6) Compulsory training on insider dealing and other regulatory matters should be required for the members of the boards of listed companies. This is already a requirement for the boards of licensed banks.

1.3 Market manipulation - Conflict of interest

It is widely accepted that controlling conflicts of interest is central to establishing integrity in financial markets. Conflicts of interests can arise across all sectors of capital markets. Without effective management of these conflicts, the foundations of the market can be undermined (especially when combined with the wrong incentives). Examples include:

- conflicts of interest between a broker-dealer's obligations toward its client and other business interests;
- compensation related conflicts that may motivate the sale of risky products to retail investors;
- portfolio management conflicts that may motivate granting preferential treatment to one client over another;
- conflicts arising from affiliations between investment adviser and a broker-dealer that may motivate the use of a specific broker-dealer notwithstanding the exorbitant cost to the client;
- valuation related conflicts that may motivate a broker-dealer or investment adviser to provide high marks in pricing relatively illiquid positions or inflate valuations in order to charge more fees;
- regulatory oversight related conflicts that may result in blurring the lines between the responsibilities of a regulator (including SROs) and its business incentive to attract business flow from particular members.

1.3.1 We note the existence of several rules that address the regulation of conflict of interest. For instance, directors have a general duty, under Section 277 of the Companies and Allied Matters Act *2004* (CAMA), to disclose to the company any interest that they may have, whether directly or indirectly, in any contract or proposed contract with the company; Rule 567(n)(vi) of the SEC rules requires that when any issue, offer or invitation is made for corporate bonds, a document with the details of conflicts of interest, risk factors and mitigating factors should be submitted along with the other application documents to SEC; and the Code of Conduct for Employees of Capital Market Institutions establishes the need for avoidance of conflicts of interests by employees, whether beneficial or not by providing that personal interests must not at any time conflict with an employee's duty to his or her employer's clients. We also note that Article 16 (1)(b) of the SEC's Code of Corporate Governance provides that a director should abstain from discussion and voting on matters in which such a director has or may have a conflict. However it is not clear whether a director is "conflicted" with respect to matters concerning a shareholder merely because he is appointed or nominated to the board by that shareholder.

1.3.2 While each regulatory authority may address the need to manage conflict of interest among its members, market confidence will be greatly enhanced by a coordinated initiative across the various market sectors to aid market participants in the identification and management of the fundamental issue of conflicts of interest.

1.3 Recommendations

1) There should be a review driven by the participants in the capital markets of the conflict-related risks in the various sectors of the capital markets and a code of conduct agreed that includes minimum standards to be applied in addressing such risks.

1.4 Industry-led transparency and good governance initiative

Trust and confidence in capital markets transactions are needed in order to attract investors to the market. This is harder to establish where there are perceptions of shortcomings in the standards. It is therefore necessary to adopt strategies aimed specifically at improving the ethical standards of operation in the capital markets as well as changing the perception of the standards that operate in the markets.

1.4.1 Institutions participating in the Nigerian capital markets are eager to increase the depth of these markets. Local companies are in need of an alternative source for raising capital and asset owners and managers are concerned about the transparency of dealings in the corporate bond and equity capital markets and the corporate governance of the participating companies. Better transparency and corporate governance will encourage increased investment activity. There is a significant opportunity for an industry-led initiative to promote a culture of improved transparency and corporate governance - an initiative to promote the message that trust creates wealth.

1.4.2 Such an initiative can build on the existing efforts of various regulators and can be embedded within applicable laws to establish model corporate governance and transparency standards. Such rules and codes governing corporate governance can be found in the SEC Code of Corporate Governance (2011), NSE Listing Rules and NSE Post Listing Requirements, Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks and Discount Houses in Nigeria, the National Insurance Commission Code of Good Corporate Governance for the Insurance Industry in Nigeria, the National Pension Commission (PENCOM) Code of Corporate Governance for Licensed Pension Operators, Code of Corporate Governance for the Nigerian Telecommunications Industry released by the NCC and the Corporate Governance Rating System established by the Convention on Business Integrity and the NSE on the 3rd of November, 2014.

1.4 Recommendations

1) Stronger collaboration among the various industry groups aimed at devising a market-based strategy for improving the ethical standards that apply in the market and the perceptions of the same. This should involve the identification of minimum standards to be applied across the capital markets and to the extent appropriate, the harmonization of the codes of corporate governance currently applicable in various sectors of the capital markets.

2) Collaboration among financial institutions to drive the establishment of model corporate governance and transparency standards which if adopted, and confirmed to be appropriately implemented by a company, would result in the company enjoying preferential borrowing rates and other identified privileges.

1.5 Market advisors' quality assurance

Investment activity in the capital markets will be increased if investors have the benefit of good quality advice. The standard of conduct and practice applied by advisors in the capital markets will have a direct impact on the level of confidence that investors have in the market and the overall perception of the markets. Accordingly, capital markets advisors (including legal advisors, stockbrokers, issuing houses, portfolio and fund managers, trustees, registrars, market makers, investment and merchant banks, other asset managers, custodians, rating agencies and other service providers to the capital markets) should be expected to play a role in deepening the capital markets.

1.5.1 Stakeholders with whom we consulted expressed the need for confidence in the standard of advisory support they received. We noted that advisors in the capital markets are in a position to procure that confidence in the capital markets is boosted. This can be achieved by such advisors committing to apply exemplary standards and accepting responsibility for the consequences of failure to achieve the expected standard of conduct in discharging their functions. The consequential increase in the business opportunities for the market advisors should provide a welcome reward for the participants in the process.

1.5.2 It will be beneficial for capital markets advisors to introduce self-imposed standards of good conduct and practice through a quality standards programme run by trade associations or other appropriate channels. The programme should include (i) articulation of the standard of service expected to be delivered by the advisor on every occasion, (ii) the submission to an audit process to objectively ascertain compliance with the quality standards, (iii) the entitlement of deserving advisors to use a quality mark that denotes the standard of service offered by that adviser, (iv) a dispute resolution system for the speedy resolution of disputes with market participants , and (v) withdrawal of the quality mark or other appropriately stiff penalty for infractions.

1.5 Recommendations

1) A study should be conducted with a view to creating a self-imposed quality standards an on-going training programme to be administered by one or more trade associations for their members, promote standards of good practice and provide quality marks for use by those who have been objectively verified to have met the requisite standards.

Section 2: Regulatory infrastructure

Securities regulation is an important element of ensuring that properly functioning capital markets exist. An effective regulatory regime fosters capital market development by encouraging the participation of investors and issuers in capital market transactions. The regulatory regime must be robust enough to protect investors without acting as a disincentive to the participation of issuers.

In this section we consider factors in the regulatory framework that may have an adverse impact on the growth of the capital markets by discouraging the participation of investors or issuers. We also examine the speed and efficiency of the regulatory process and whether it is conducive to the needs of and/or attractive to expected users.

2.1 Regulation of debt offers to institutional investors vs. retail investors

2.1.1 An efficient regulatory system must achieve a balance between ensuring investor protection and enabling efficient capital formation. In addition, the regulatory process must take a reasonable timeframe so as not to discourage potential participants from using the capital markets for their fund raising. We note that the SEC provides in SEC Rule 280(2)(a) of the 2013 Regulations that it will turn around applications within six weeks of the initial filing of documents. The six week timeframe applies to both institutional debt offerings and offerings of equity securities to retail investors. Therefore both types of activities are subjected to the same level of scrutiny.

2.1.2 There is a need to encourage the participation of institutional investors. As they are highly specialised and managing substantial capital, institutional investors are positioned to put pressure on corporations and their management to improve corporate governance and transparency.

2.1.3 On that basis, it will be useful to develop a professional/institutional debt investment market with a "lighter touch" regulatory regime, recognising the higher levels of sophistication of the institutional market.

2.1 Recommendations

1) The SEC rules should be revised to develop an approach to the regulation of institutional investment activities with particular attention paid to reducing the time and cost to market for institutionally targeted products.

2) In line with international practice, the key features of the institution-only regime should include:

   (i) a disclosure based regime, reflecting the sophistication of the investor institutions involved. This will initiate a reduction in the initial and on-going disclosure requirements;
   (ii) limited regulatory oversight - if any - in the approval process, with no regulatory involvement in allocation/selling strategy, legal documentation or private placements; and
   (iii) a balanced and enhanced anti-fraud and mis-selling protection/powers by the regulator against false or misleading statements in initial or on-going disclosures as well as a clear transparency regime.

2.2 Private placement

Private placements involving the sale of securities to a relatively small number of select investors is an option for raising capital for long term business expansion as opposed to a public offering of securities in the open market which is highly regulated and has high transaction costs. Investors in a public issue may include retail investors while those involved in private placements are usually large banks (where applicable), mutual funds, insurance companies and pension funds. Where there is a greater flexibility to execute private transactions there is a wider access to capital.

2.2.1 There is no flexibility in the SEC rules to distinguish between the treatment of private placement of debt and the private placement of equity securities. The private placement of equity securities may involve the override of minority interests and other issues that properly warrant regulatory oversight. However, the rules regulating private placement apply equally to debt and equity securities. Public companies in Nigeria are permitted to issue their shares by way of private placement subject to certain requirements specified in the ISA and SEC rules. Rule 340 of the SEC rules provides that no public company shall offer securities by way of private placement without the prior approval of SEC. The term "private placement" is defined in Rule 339 as the issue of securities by a public company to select persons. The language used by the legislation is therefore wide enough to cover both debt and equity.

There is a further complication arising from the fact that to get SEC approval under SEC Rule 340, the company must provide sufficient evidence to the SEC that it is in "dire need of fresh funds" or technical expertise and that a private placement is the only viable option to achieving its objective. The SEC rules do not prescribe what would constitute a "dire need of funds".

Additional hurdles are created by the process required for a private placement. Rule 344 of the SEC Rules requires the filing of a placement memorandum with the SEC. The placement memorandum is required to contain detailed information similar to that typically found in a prospectus for a public offering (such as material contracts, claims and litigation, etc. Private placements involving identified and sophisticated investors who, prior to taking any investment decisions, would have carried out extensive due diligence on the company do not require the protection of the SEC in overseeing their offer documents.

We also note that SEC Rule 340 requires that the private placement of securities by a public company must be approved by a special resolution that states the number of shares to be offered and the price. This is unduly limiting, as it excludes the possibility of a price discovery in order to determine the sale price of the securities and there may be difficulty in the specified price being achieved due to subsequent movement in the market price.

2.2.2 The challenges identified above have hindered the use of private placement as an option for fund raising for capital growth or made it unnecessarily cumbersome. If the regulatory environment for private placement transactions is enhanced, more opportunities will be created for institutional investors and the capital markets will deepen.

2.2 Recommendations

1) The SEC rules should provide specific exemptions that will facilitate private placements of debt securities. There is urgent need for clear regulations on the procedures for private placements by companies including complete flexibility for the private placement of debt securities with professional institutional investors.

2) Although it is generally accepted that the SEC has a relatively wide discretion in making a determination on what constitutes “dire need of fresh funds” in respect of equity private placements and would consider each application on its merits, the SEC rules should either specify clearly the factors, which the SEC would consider in making such a determination, or delete the requirement altogether and replace it with a requirement to obtain shareholder approval (where shareholders participating in any private placement would not be able to vote) and/or a requirement to ensure that the sales price is fixed by reference to a rolling market price.

3) The company’s resolution should not be required to state the price at which the relevant transaction is to be executed.

2.3 Relationship between financial markets regulators

Investors and issuers in the capital markets belong to a variety of industry sectors and each industry sector is subject to a separate set of regulations regulating the activities of its members. Capital market participants are therefore typically subject to multiple layers of regulation. For instance, in the case of a bank whose securities are listed on the NSE, the bank will be subject to regulation by the SEC, NSE and CBN and, by virtue of the fact that all banks in Nigeria are dealing members of FMDQ, by FMDQ as well. Furthermore, if the bank is a primary dealer of government securities, it will be subject to regulation by the DMO and financial institutions are also subject to anti-money laundering regulations by the EFCC
It is critical that the overall package of regulations strikes the right balance between investor protection on the one hand and efficient capital formation on the other. The totality of the regulations must have the effect of protecting investors without imposing undue costs on the

compliant issuers. In this section we consider how the web of regulations impact on the position of market participants in the capital markets.

2.3.1 There are instances of inconsistency between the requirements of various regulators which can result in inefficiency that hinders the development of the capital markets. Examples of such instances include the following:

(i) The customer due diligence ("**CDD**") procedures in various market sectors in Nigeria are not uniform. For instance CBN, SEC, NAICOM and PENCOM all have their own CDD procedures (albeit with similar provisions). The differences in CDD procedures create inefficiency in the market as customers may be required to undergo inconsistent or duplicitous procedures when dealing with the different sectors for the same objective. This issue is exacerbated in the case of a group of companies with operations across various sectors as they will be required to maintain different operational systems in order to comply with conflicting regulatory requirements.

(ii) There is no information sharing or relationship framework between the core regulators (SEC, NSE, CBN, PENCOM, NAICOM, NCC, tax authorities and CAC). This lack of formal co-ordination or information sharing leads to delays in processing applications and a duplication of requests. In addition, substantive (industry specific) regulations or the need for approval may add a layer of delay in complying with the rules of another regulator (e.g. the financial statements of a bank delivered to NSE cannot be published by NSE until they have been approved by CBN). Finally, the lack of coordination may adversely affect the effectiveness of enforcement action taken by regulating institutions in the event of a breach of the rules of such institutions by the same entity.

(iii) Currently, there are a number of varying rules and codes governing corporate governance. These can be found in the ISA, SEC rules, CAMA, SEC Code of Corporate Governance (2011), NSE Listing Rules and NSE Post Listing Requirements, CBN Code of Corporate Governance for Banks and Discount Houses in Nigeria, the NAICOM Code of Good Corporate Governance for the Insurance Industry in Nigeria, the PENCOM Code of Corporate Governance for Licensed Pension Operators and the Corporate Governance Rating System

(CGRS) established by the Convention on Business Integrity (CBI) and the NSE on the 3rd of November, 2014.

2.3.2 These numerous sets of corporate governance rules have equally numerous and divergent compliance requirements and enforcement sanctions. In some instances, regulators require mandatory compliance such that non-compliance attracts sanctions from the relevant regulator e.g. CBN and PENCOM. In other instances, it appears that compliance is viewed more from a prescriptive perspective and is not mandatory. Where compliance is merely prescriptive, it is not effective and the approach must be changed. Where compliance is mandatory, companies are held to higher standards of accountability which, in turn, makes the governance of the company stronger and consequently that company is more attractive to investors.

2.3.3 Companies could be discouraged from coming to the market due to the difficulties in negotiating the regulatory landscape and the duplication of procedures between the various approving regulators. The impact of this is that the investing public has a narrower choice of investment opportunities and the market remains concentrated in existing stocks (typically banking).

2.3.4 There are limited coordination efforts when members have breached rules. Enhanced coordination would result in:

(i) Regulations being developed and implemented harmoniously;

(ii) Shared information reducing the burden on participants and make it more attractive to list and meet ongoing obligations;

(iii) Increased coordination (especially in relation to the IPO process) simplifying the process for issuers, and ultimately leading to a broader range of investment opportunities. This will result in positive effects for the entire capital markets chain and the wider investing public;

(iv) The overall goal of deepening the capital markets being assisted by streamlining processes and minimising inefficiencies.

2.3 Recommendations

1) Memoranda of Understanding among the various regulators should be encouraged and developed to allow for better coordination across the trade groups. We note in this regard that NSE is in the process of negotiating such MOUs.

2) The Financial Services Regulation Coordinating Committee (FSRCC) has a mandate contained in section 44 of the CBN Act 2007 to, among other things, co-ordinate the supervision of financial institutions especially conglomerates. Such coordination by a similar body should be extended to other institutions with activities in more than one regulatory sector.

3) Financial market regulators should demonstrate better coordination where major decisions and announcements that may affect the markets are made public.

4) SEC and the SROs should develop collaborative mechanisms to manage responses when members have breached rules. Coordinated enforcement will promote confidence and deter repeated breaches.

2.4 Dispute resolution and advocacy

Another critical enabler is the rule of law and the recourse to a robust system for resolving disputes and providing compensation for investors where appropriate. Efficient and reliable dispute resolution mechanisms are central to securing investor confidence. With this in place, investors and other operators can be assured of secure avenues to seek redress should their rights or investments be tampered with by unscrupulous capital market operators. This promotes wider confidence and greater participation both domestically and internationally in the Nigerian capital markets.

2.4.1 According to the World Bank's '*Ease of Doing Business*' report 2014, Nigeria ranks 140 out of 189 economies, down from 139 in 2014, on the ease of enforcing contracts and resolving commercial disputes.

2.4.2 Currently, there is insufficient clarity as to the appropriate options and mechanisms for dispute resolution available to investors. Capital market disputes in Nigeria may be susceptible to resolution by SEC, by the Investments Securities Tribunal (IST) or by the Federal High Court (FHC), dependent on the facts of the particular case and the issues involved. The complexity in the capital markets dispute resolution framework in Nigeria is summarised as follows:

(i) Statutory authority set out in the Investment & Securities Act (ISA) 2007 which replaced ISA 1999 conferred jurisdiction on the IST to resolve *all* capital market disputes, without necessitating the submission of these disputes to the SEC for resolution in the first instance. ISA 2007 changed the position and granted IST appellate jurisdiction over certain decisions and determinations of SEC. Furthermore, ISA 2007 conferred on IST original and exclusive jurisdiction to adjudicate over certain other disputes (set out in section 284(1)(b) – (e) IST) that are also the subject of exclusive jurisdiction conferred on FHC by the 1999 Constitution. As a result, the statutory authority granted to IST purported to oust the jurisdiction of FHC granted by the Constitution of Nigeria. Relying on the constitutional provisions, the jurisdiction of the IST has been challenged in a line of cases decided by the Nigerian Court of Appeal between 2009 and 2013, with inconsistent results. The most recent of such cases delivered on 29th January 2013 in *Christopher Okeke v SEC & 2 Ors* (as yet unreported) was categorical in asserting that the exclusive jurisdiction purportedly conferred on IST by ISA 2007 is unconstitutional and void to the extent that it conflicts with any of the heads of exclusive jurisdiction conferred on FHC by the 1999 Constitution).

(ii) The authority of SEC to adjudicate disputes is rooted in section 284(1)(a) of the ISA 2007 and the interpretation of that provision by a string of cases including the Court of Appeal decision in *Eze Okorocha v. United Bank for Africa Plc & 4 Ors, [2011] 1 NWLR, Part 1228 p. 348* to the effect that the jurisdiction of the IST to adjudicate over the disputes set out in section 284(1)(a) above is subject to a prior determination of these disputes by SEC.

(iii) The primary source of the jurisdiction of FHC is to be found in section 251(1) of the 1999 Constitution, which confers on FHC exclusive jurisdiction in civil causes or matters arising from a list of subjects including the exclusive jurisdiction to adjudicate in (i) all matters concerning the operation of CAMA or any other enactment replacing that Act or regulating the operation of companies incorporated under CAMA and (ii) any action or proceeding for a declaration or injunction affecting the validity of any administrative action or decision by the Federal Government or any of its agencies.

(iv) In *Christopher Okeke v SEC & 2 Ors*, the appellant successfully argued that it was FHC and not IST that had exclusive jurisdiction to determine his suit because he sought declaratory and injunctive reliefs against SEC, an agency of the Federal Government and because the subject matter of the suit involved the operation of a company incorporated under CAMA.

2.4.3 The conflict between the legislation and the Constitution and the inconsistencies in the decisions of the Court of Appeal in this area has created confusion and provides substantial scope for forum shopping with litigants choosing to approach SEC, IST or FHC for the resolution of their disputes, depending on which forum they feel would best serve their interests. Litigants therefore bear the risk that whatever forum they choose to resolve their disputes there will be scope to challenge their decision.

2.4.4 With the lack of judicial clarity either by a decision of the Court of Appeal or the Supreme Court, there is need for legislative amendment of the Constitution and ISA. Forum shopping by litigants for the resolution of their disputes causes delay and results in injustice.

2.4 Recommendations

1) A review should be undertaken and amendments made to the ISA and any other Nigerian statutes and common law to address ambiguities surrounding where disputes are to be heard and how decisions are to be enforced.

2) SEC, APC and NSE need to strengthen their mediation processes, the investigation panel and the disciplinary committee. Additional funding is required to ensure that the panel and disciplinary committee are fully staffed and able to act promptly.

2.5 Competition Regulation

In considering strategies for deepening the Nigerian capital markets, attention needs to be given to the rules and regulations that ensure a level playing field for all companies and also ensures the promotion and maintenance of fair competition in the markets. There will be a greater demand for capital markets products where the market economy is efficient and allows entrepreneurs access.

2.5.1 There are no general statutes or other laws that deal specifically with the protection of competition and the promotion of consumer welfare by facilitating competition. We note that the provisions of the ISA empower the SEC to determine whether any merger, acquisition or business combination is likely to substantially prevent or lessen competition. However, the ISA does not go as far as to provide a comprehensive set of rules or structure designed to curb the abuse of dominant position, prohibit agreements or practices that restrict free trade and competition between businesses, ban abusive behaviour by a firm in a dominant position as well as supervising the mergers and acquisitions and other transactions that may threaten the competitive process. We are aware of certain sector-specific laws, guidelines and provisions that deal with competition-related issues within those sectors (examples include the telecoms, aviation and power sectors).

2.5.2 There is a need for a competition policy that is part of a pro-competition agenda and the development of a transparent and predictable framework of rules regulating competition across the various market sectors. Such competition policy should be enforced by a competition authority that has been specifically created to address the challenges of such an institution and having a relationship with sectoral regulators that avoids gaps and duplications. Like corporate governance, robust competition regulations enhance the perception of Nigeria as an ordered and open business environment and therefore more attractive to investors. The presence of competition regulations will ensure that Nigerian companies in general and public companies in particular, are insulated as much as possible from the effect of abusive anti-competitive behaviour thereby enhancing their sustainability and growth. A robust competition regime would enhance the integrity of the market and boost investors' confidence.

2.5 Recommendations

We recommend the development of a competition policy that provides a transparent and predictable framework of rules regulating competition across the various market sectors.

Section 3: Market incentives and barriers

There are very few incentives for issuers to participate in the Nigerian capital markets. Incentives have been an important factor in deepening capital markets in other emerging economies and continue to play an important role, even in established markets such as London.

The current incentives that exist in the Nigerian capital markets at times lack clarity or are not sufficiently appealing to change established market behaviour of raising capital privately or through banks.

In addition to a lack of market incentives, there are a number of barriers for both issuers and investors to participate in the capital markets. This section explores both the lack of market incentives and the existence of barriers with a view to promoting more efficient capital formation within the Nigerian capital markets.

MARKET INCENTIVES

3.1 Tax Incentives

The tax incentives and waivers which currently exist in relation to capital markets transactions are at times unclear or do not go far enough in their intended purpose to incentivise participation in the capital markets. As a result there is a concern, from both issuers and investors, who at times struggle to interpret the relevant tax provisions.

The impact of this, in practical terms, is that market participants find it difficult to take advantage of the tax incentives that do exist, rendering such incentives largely ineffective. Due to the difficulty in interpreting certain tax provisions, many participants feel that they may even risk double taxation. These concerns act as a disincentive to potential market participants and impede the growth of the capital markets in Nigeria. Specific examples are outlined below.

3.1.1 VAT Exemptions

In October 2014, the Federal Ministry of Finance introduced an exemption on all commissions applicable to capital markets transactions. This covers commissions:

(i) payable on the traded value of shares;
(ii) paid to SEC;
(iii) payable to NSE;
(iv) payable to CSCS.

The exemption is applicable for a period of 5 years from July 25, 2014. However considering the time lapse between the commencement date and the publication of the Order (July to October), there exists market uncertainty as to whether transactions implemented within that period will benefit from the exemption.

3.1.2 PCCL Bill

Putting to one side the wider implications of the *Private Companies Conversion and Listing Bill (2013) (*"**PCCL Bill**") and the overwhelming feedback that the market does not support the concept of compulsory listing (discussed in more detail in section 3.6.2 below), we note that the PCCL Bill does attempt to introduce some useful tax incentives into the market. However the proposals lack sufficient clarity. For example:

(i) Clause 6(2) of the PCCL Bill currently provides for the following incentives for companies that meet certain listing benchmarks: (a) a "*tax incentive at a rate up to one third of its applicable income tax*"; (b) "*a tax incentive of up to one-fourth of its applicable income tax*"; and (c) "*a tax incentive at a rate of up to one-eighth of its applicable income tax*". It is not clear whether this provision relates to a tax credit or whether a relevant portion of income will be exempted from tax.

(ii) The PCCL Bill does not clearly state whether the incentives are limited to a company's income tax or whether other categories of tax e.g. education tax or IT tax are also covered.

(iii) The PCCL Bill does not indicate whether the tax incentives will have an impact on capital allowances or any pre-existing tax incentives a company may already enjoy.

3.1.3 Stamp Duty

Currently the payment of stamp duty on vending agreements in capital markets transactions is imposed on an ad valorem basis and calculated by reference to the fees paid to the issuing house.

The management of stamp duty has successfully been used in other jurisdictions to incentivise greater market participation.

By way of example, in the UK, shares listed on a ‘recognised growth market’ (which includes markets such as the Alternative Investment Market but specifically excludes the official list of the London Stock Exchange), are exempt from stamp duty. This measure was implemented in 2014 in order to help boost investor participation in equity growth markets and improve the conditions for smaller growing companies raising equity financing.

Prior to the introduction of this measure, the transfer of securities (both debt and equity) of UK registered companies on sale generally attracted stamp duty charges at the rate of 0.5 per cent.

3.1 Recommendations

1) Stamp duty should be removed from the transfer of securities on the NSE and alternative exchanges.

2) Capital market participants and practitioners (excluding regulators) should work together to create a cross sector advocacy and lobby group dedicated to deepening and expanding the capital markets in Nigeria.

   Activities should at a minimum include: researching, understanding and discussing the issues (including tax incentives) faced by the industry as a whole; and providing timely and unified responses to regulators regarding new and existing initiatives and/ or regulations.

3) The Ministry of Trade and Investment should establish a specialised capital markets team/ panel of experts dedicated to: understanding capital markets transactions; clarifying relevant tax provisions; and liaising with the Ministry of Finance, the regulators, the Federal Inland Revenue Service (FIRS) and market participants to coordinate a consistent tax approach aimed at deepening the capital markets.

4) An industry led Capital Markets Tax Advocacy group should be created to examine existing tax incentives, clarify ambiguities and raise potential changes with the Ministry of Trade and Investment and the Ministry of Finance.

5) The Ministry of Finance, together with market participants should discuss and consider additional tax incentives, which could be introduced to help increase capital markets participation. A potential starting point could be cross sector application of the tax incentives contained in the PCCL Bill and/or providing tax incentives in relation to collective investment schemes.

3.2 Non-Tax Incentives

There are currently very few incentives for issuers or investors to participate in the capital markets outside of the tax regime. Given the current need to encourage not only more issuers to the market but also more issuers from different sectors of the economy, non-tax incentives could be used as another tool to accelerate participation.

We note that the NSE has been incentivising the market makers through its '*Market Making Programme*', commenced in 2012 through the waiving of transaction fees. Furthermore from August 2014, the fee waiver is now conditional on performance in participation rate targets.

By way of comparison, the UK government's approach has not just been to provide incentives in relation to listed companies but it has also implemented policies to support companies at a much earlier stage in their development - before they are at a point where they can consider a public listing.

In this way, at every stage of a company's development on the funding ladder, the government aims to ensure that there are viable financing options available. This approach also has the added benefit of indirectly creating a pipeline of high growth companies that can subsequently move into the capital markets at a later stage of their development.
Examples of such UK government policies include:

(i) *Business Angel Co-Investment Fund:* This is a £100 million Business Angel Co-Investment Fund (CoFund) which aims to support business angel investments into high growth potential early stage SMEs.

(ii) The CoFund is able to make initial equity investments to SMEs alongside syndicates of business angels. The CoFund is open to investment proposals put forward by business angel syndicates rather than direct approaches from individual businesses. The CoFund has been designed and established by a consortium of private and public bodies with expertise in business angel investment.

(iii) *Enterprise Capital Fund Programme (ECF):* This aims to address a market weakness in the provision of equity finance to SMEs by using Government funding alongside private sector investment to provide equity finance to early stage companies. The ECF programme uses government funding alongside private sector investment to bridge this gap. ECF programmes are managed by commercial fund managers and the Government's contribution to any single ECF is capped at £25 million or two-thirds of total fund size. They can invest up to £2 million in an SME.

3.2 Recommendations

1) Capital market participants and practitioners (excluding regulators) should work together to create a cross sector advocacy and lobby group dedicated to deepening and expanding the capital markets in Nigeria. Activities should at a minimum include: researching, understanding and discussing the issues (including non-tax incentives) faced by the industry as a whole; and providing timely and unified responses to regulators regarding new and existing initiatives and/ or regulations.

2) The SEC together with a cross sector industry advocacy group should explore sustainable and effective ways to incentivise market players through non- tax incentives. These could include creating a more favourable licensing or regulatory regime for certain regulated sectors for companies that choose to list (for example in the telecoms or energy sectors) combined with the imposition of higher taxes for companies (in those regulated sectors) that choose not to list.

3) Building on the introduction of the Market Making Programme introduced by NSE in 2012, SEC together with Nigerian Exchanges should also consider additional special incentives targeted at market makers. This will have the dual benefit of increasing the diversity of market participants and facilitating liquidity.

4) Building on the work which has already been done by CBN in creating a government funded concessionary credit facility for SMEs, the Ministry of Trade and Investment should consult with the private sector and consider

creating a regulatory framework to support private sector SME investment funds. In addition to providing funding to the SME sector, the new private sector sponsored SME funds could be structured to provide capacity building and education around the value of leveraging the capital markets (as a growth platform and not just an exit platform for private equity).

5) To support the creation of a pipeline of SME's accessing the capital markets, consideration should be given to creating a mono-line insurer, which could provide an affordable credit wrap to SMEs helping them to improve their ratings and access a wider pool of investors.

MARKET BARRIERS

3.3 Transaction Costs

Cost competitiveness is an important factor in attracting investors and issuers to Nigeria's capital markets and increasing trading activity. At present, the combination of high transaction costs and the lengthy time taken to complete transactions (which contributes to such costs) is a significant market barrier.

Whilst we note that both SEC and the Nigerian Exchanges have reduced their transaction costs, feedback received through our consultation indicates that the market still considers the reduced transaction costs to be too high. A reduction in transaction costs would go a long way to broaden the base of capital markets participants.

Both NSE and SEC have conducted a transaction cost analysis to examine and compare secondary trading costs on the Nigerian capital markets with costs on other exchanges. NSE and CSCS are currently reviewing the outcome of the study.

Outlined overleaf are tables summarising the transaction costs for primary and secondary market transactions in Nigeria and the cost of capital markets transactions in the UK.

Nigerian Primary Market Costs

Parties to issues/other costs	Equities (%)	Bonds (%)
SEC	0.15% to 0.30%	0.15%
NSE	0.30%	0.15%
FMDQ	n/a	0.075%
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%	0.13%
Advertisement*	For statutory advertisement	For statutory advertisement
Total Costs	Not provided	3.9375%

Source: SEC

**** These fees are negotiable***

*****This fee is negotiable, subject to a maximum included in the table***

Nigerian Secondary Market Costs

Fees	Buyer	Seller
Brokerage Fee	0.75% – 1.35%	0.75% – 1.35%
Sec Fee	0.30%	0.00%
NSE Fee (debt instruments	0.0001%	0.0001%
NSE Fee (equities and ETFs)	0.00%	0.30%
FMDQ (Bonds and CPs)	0.0007%	0.0007%
CSCS Fee	0.06%	0.36%
Contract Stamp	0.075%	0.075%

Source: SEC, NSE, CSCS, FMDQ

UK Primary Market Costs – Equity Securities

Market Capitalisation (£m)		Increment per £m	Cumulative maximum fee (£)
Greater than or equal to (a)	**Less than**	**(b)**	**(c)**
0	5	Minimum fee	7,600
5	50	1,000	52,600
50	250	375	127,600
250	500	125	158,850
500	And above	113	440,000
		Maximum fee	440,000

Source : LSE

Equity securities - new companies

Market Capitalisation of a new company = £525m	
	Fee (£)
First £500m	158,850
Next £25 million @ £113 per million	2,825
Subtotal	**161,675**
VAT @ 20% (where applicable)	32,335
Admission Fee	**194,010 (0.00037%)**

Source: LSE

Debt Securities Stand alone domestic issues from UK issuers

Face value (£m)		**Fee (£)**
greater than or equal to	**less than**	
0	**50**	**5,000 (min of 0.0001%)**
50	**100**	**7,000 (min of 0.00007%)**
100	**500**	**15,000 (min of 0.00003%)**
500	**and above**	**20,000**

Source: LSE

3.3 Recommendations

1) Review the fee structure of the SEC in relation to capital markets transactions with a view to reducing such fees. Efforts should be made to ensure that the cost of issuing debt is lower than the cost of issuing equity, in line with global practice.

   By way of example, Clause 7(c) of the PCCL Bill 2013 suggested a 60% reduction of SEC related fees for listing in order to encourage companies over a certain size to list. The SEC should consider making comparable reductions in order to incentivise certain strategic potential issuers.

2) Review the fee structure of the Nigerian Exchanges in relation to capital markets transactions with a view to reducing such fees. Efforts should be made to ensure that the cost of issuing debt is lower than the cost of issuing equity, in line with global practice.

3) Following the recent removal of VAT from all commissions on equity capital markets transactions, stamp duty should also be removed from capital markets transactions. To facilitate this, urgent clarification is required regarding whether it is the Attorney General or another department who has power to make this change.

   We note that an Executive Order in respect of the stamp duty waiver was made by the President and announced by the Coordinating Minister for the Economy and Minister of Finance, Dr. Ngozi Okonjo-Iweala on 3rd December, 2012, but the stamp duty waiver cannot be implemented until the waiver is published in the Federal Gazette. The process involves the Ministry of Finance, Ministry of Justice and FIRS since it would have involved a statutory amendment.

4) Special attention should be given to determining how, following any reductions in taxes and fees, similar or greater revenue streams can be generated through increased transaction and trading volumes.

5) SEC should remove the mandatory requirement of appointing a trustee in transactions where the investors are institutional. Instead market participants

should have the option of appointing an agent instead of a trustee. Replacing a trustee with an agent will reduce the professional and legal fees to the transaction on issuance and on an on-going basis as the agent would not be required to act on trust for the bondholders. However once there is an element of retail investor participation in any issuance, a trustee should be mandatory.

6) SEC, the Nigerian exchanges and the CSCS should commit to fixed turn-around times for documentary reviews.

3.4 Tax Barriers

Double Taxation There is a risk of double taxation on certain capital markets transactions due to a lack of clarity around the tax regime. For example, in pass through structures such as real estate investment funds (REITS) or mutual funds where special purpose vehicles (SPVs) are used, it is unclear whether such SPVs are recognised as conduits for tax purposes. This ambiguity means that there is a risk that any conduit SPV will be taxed separately making such pass through transactions unappealing and potentially inhibiting greater participation by retail investors, who would be an obvious target for the distribution of REITs.

Bond Securities Tax Exemption Currently, interest earned and gains made from an investment in all categories of bonds issued in Nigeria are tax exempt which means that investors in such bonds are not liable for the withholding of tax on interest payments made to them. From an investor's perspective, this tax break is a potentially powerful incentive to invest in the capital markets. This exemption however is due to change from 2022. This is because the Value Added Tax *(Exemption of Proceeds of the Disposal of Government and Corporate Securities), Order*, 2011 (the Order) limits the applicability of the above mentioned tax exemption to a period of 10 years with effect from 2nd January, 2012. This limitation poses a challenge for companies/ investors who might otherwise have been willing to invest in bonds with tenors that exceed the life of the exemption granted by the Order.

It is also unclear whether the exemption will only apply to instruments issued after the commencement date of the Order or whether it will extend to instruments issued before the date on which the exemption took effect, but which are yet to mature.

3.4 Recommendations

1) The Ministry of Trade and Investment should establish a specialised capital markets team/ panel of experts dedicated to: understanding capital markets transactions; clarifying relevant tax provisions; and liaising with the Ministry of Finance, the regulators, FIRS and market participants to coordinate a consistent tax approach aimed at deepening the capital markets.

2) Capital market participants and practitioners (excluding regulators) should work together to create a cross sector advocacy and lobby group dedicated to deepening and expanding the capital markets in Nigeria.

   Activities should at a minimum include: researching, understanding and discussing the issues (including a comprehensive review of the regulatory regime around special purpose vehicles in capital markets transactions) faced by the industry as a whole; and providing timely and unified responses to regulators regarding new and existing initiatives and/ or regulations.

3) The Ministry of Finance, together with the relevant cross sector industry group should undertake a comprehensive review of the regulatory regime around special purpose vehicles in capital markets transactions and formulate clarifications and/or recommendations to ensure that such vehicles are not subject to separate taxation.

4) The Value *Added Tax (Exemption of Proceeds of the Disposal of Government and Corporate Securities) Order, 2011* should be reviewed and amended to provide greater clarity around the applicability of certain tax exemptions. In addition consideration should be given to extending the tax waivers beyond 2022.

3.5 Substantive Document Review

Delays in obtaining regulatory clearance of legal documentation due to documentary review, adds time and expense to participating in the capital markets and discourages new participants. Delays often arise from: (1) a lack of clarity regarding what SEC requires in terms of the substance and form of documents submitted to them; and (2) a lack of clarity regarding what SEC review of documents consists of and why.

By way of example, the SEC Rules already stipulate the requirements for a number of clauses in certain transaction documents such as the vending agreement and the underwriting agreement. However, feedback received from market participants indicates that even where these clauses were adopted in transaction documents, there were instances where SEC identified deficiencies in the manner in which these clauses were drafted and at times reviewed the substantive provisions of material documents that predated the relevant transaction.

The parties to agreements such as the underwriting agreement and the vending agreement are sophisticated market operators. Furthermore, under SEC regulations, only lawyers who have been certified by SEC are authorised to draft such documents. Consequently the additional level of document review should not be necessary. We do however understand, from both SEC and the sell side, that at times the draft documents submitted to SEC in relation to capital markets transactions (particularly for domestic transactions), fall below the standards of best practice, which adds to the workload of SEC.

3.5 Recommendations

1) SEC should not conduct a substantive review of transaction documents (other than those required for investor protection, e.g. the prospectus). Instead SEC should require written confirmation from the issuer (and issuer's should obtain assurances from their lawyers) that all relevant SEC requirements have been met with submissions of checklists to assist SEC in identifying in the prospectus where their requirements have been addressed. The SEC will then be in a position to allocate fewer resources to overseeing the document review process and dedicate more resources to focusing on prospectus documents and investor protection.

2) SEC should undertake a mapping exercise to identify what it requires in terms of substance and in terms of form, in order to approve an application for listing.

   This should be compared to what is currently requested in practice and the existing requirements should be adjusted accordingly. This should also be used for internal training purposes to ensure a consistency of application of rules by SEC staff.

3) SEC should conduct ongoing market engagement to communicate and clarify what SEC reviews, what SEC does not review and how the market participants can best facilitate the SEC document review process.

4) To improve the standard of document submission and this ease the burden on the SEC review process, capital markets lawyers should be required to attend training outlining the minimum standards required by SEC and SEC should be permitted to reject documents which do not meet these minimum standards. This will have the benefit of improving the quality of documentation submitted to SEC, reducing review time required by SEC and allowing SEC to allocate more resources to monitoring and enforcement.

3.6 Removing Other Impediments to Efficient Capital Formation

Within the Nigerian capital markets regulatory framework there are various provisions (both existing and potential), which negatively impact the deepening of the capital markets. This section considers some of the barriers that inhibit both investor and issuer participation.

3.6.1 Regulatory Barriers to Investor Participation

The Nigerian pension industry is currently over USD24 billion and is a significant institutional investor in the Nigerian capital markets. Similarly the Nigerian insurance sector has significant investable assets. However there are regulatory impediments that limit the flexibility of Pension Fund Administrators (PFAs) and the insurance sector when investing in the capital markets.

The primary regulatory barriers identified for PFAs include:

(i) A company into which a PFA seeks to invest must have been in existence for at least 5 years. This prevents PFA's from investing in listed special purpose vehicles created specifically for a particular structured finance transaction. The impact of this impediment is that it limits PFAs from investing in a more diverse range of products, for example structured finance transactions where the SPV is less than 5 years old but the underlying assets of that SPV meet the 5-year threshold. This in turn impacts liquidity generally and discourages issuers from bringing more innovative products to the market.

(ii) There is a preferential regulatory bias towards companies that pay dividends compared to companies who do not. PFAs may only invest in companies that have paid dividends or issued bonus shares for at least one year in the last five years. This puts companies that have a compelling growth story but no regular dividend payment history at a disadvantage. It additionally limits the long-term investment strategies of PFA's who may want exposure to the upside of such growth potential. [6]

Regulatory barriers identified for the insurance sector include:

(i) Operational Guidelines 2011 (Insurers and Reinsurers), issued by NAICOM[7], provide that "No Insurer/Reinsurer shall invest in any company that either has not reported profits or paid a dividend in the preceding three years".

3.6.2 Regulatory Barriers to Issuer Participation

The securities listed in Nigeria (both debt and equity), do not reflect the makeup of the wider economy. Fast moving consumer goods, telecoms and even the energy sector are all under-represented in the capital markets.

The proposed *Private Companies Conversion and Listing Bill (2013) (*the PCCL Bill) currently before the National Assembly aims to increase the number of companies from the telecoms and upstream gas sectors which are participating in the capital markets. However, we

[6] See Section 5.2 of PENCOM's Regulation on Investment of Pension Fund Assets
[7] See paragraph 1.10(c) (b) of Operational Guidelines 2011 (Insurers and Reinsurers)

consider it, in its current form to be a potential barrier to issuer participation in the capital markets.

The PCCL Bill seeks to compel the conversion of private companies to public companies and the listing of those companies on the Nigerian capital markets within 12 months of conversion. The PCCL Bill makes it compulsory for any private limited company whose shareholders' funds exceed forty billion naira (N40,000,000.00) or whose annual turnover exceeds eighty billion naira (N80,000,000.00) to convert to a public liability company. Failure to do so will be an offence for the company as well as its officers and employees.

If passed into law, the PCCL Bill could have a negative effect on the development of not only the capital markets in Nigeria, but also the development of certain sectors of the economy. Feedback received during the consultation suggests that such a mandatory directive in relation to listing may not be sustainable in the long term and may have an adverse impact on strategic decision –making within the affected companies and sectors.

3.6 Recommendations

1) The requirement that a company must be in existence for 5 years before a PFA can invest in it should be revisited to take into account the concerns of the investment management community and the nature of the relevant transaction and/or underlying businesses.

2) PFAs and the Insurance sector should be given the flexibility to invest in companies that have a compelling growth potential irrespective of their dividend pay out ratio. To facilitate this, a capital markets regulatory assessment should be undertaken regarding the explicit and implicit positive bias towards companies who pay dividends. Recommendations should then be made regarding their removal and replacement with policies that encourage a more flexible, strategic and long term approach to investing in the capital markets.

3) Capital market participants and practitioners (excluding regulators) should work together to create a cross sector advocacy and lobby group dedicated to deepening and expanding the capital markets in Nigeria.

Activities should at a minimum include: researching, understanding and discussing the issues (including the PCCL Bill) faced by the industry as a whole; and providing timely and unified responses to regulators regarding new and existing initiatives and/or regulations.

4) SEC together with a cross sector industry platform should explore more sustainable and effective ways to incentivise market players to participate in the capital markets without resorting to compulsion.

   One approach could be to provide the right incentives and enabling regulatory framework to encourage the listing of these companies while making it more difficult for them not to list (e.g. a higher tax regime).

Section 4: Market development

Liquidity is the lifeblood of a healthy capital market and key to attracting both issuers and investors. Yet is also one of the most difficult features to achieve when developing a market. While it is clear that a market will thrive if there is liquidity, how does one create liquidity in order for the market to thrive?

The World Economic Forum's *Global Competitiveness Report* 2014 praises Nigeria for its robust recovery from the 2009 crisis manifested in a solid financial market. However, the report highlights the poor availability and affordability of finance in general as a bottleneck to further economic growth.

The issue of liquidity does not have a single or easy solution. This section takes a general look at market development and identifies several key issues that, if addressed, will contribute to increased liquidity and accelerate market growth.

4.1 Issuer and Product Diversity

4.1.1 Issuer Diversity: The securities listed in Nigeria (both debt and equity), do not reflect the make-up of the wider economy. Fast moving consumer goods, telecoms and even the energy sector are all under-represented.

Capital markets listings are dominated by stocks from the financial services sector which comprise 60% of the listed companies. There is currently no significant exposure to the capital markets of sectors critical to economic development e.g. infrastructure, power, real estate or telecoms.

Many potential issuers outside the financial sector do not see the value proposition of listing. Factors cited for the lack of issuer engagement from more diverse sectors include many of the issues which have already been discussed in this report including: (1) lack of transparency; (2) high transaction costs; (3) time consuming listing process; (4) the regulatory bias towards companies which pay dividends; and (5) lack of tax clarity around tax payable and applicability of tax incentives.[8]

[8] See sections 3.1, 3.3, 3.4 and 3.5

Issuer diversity is crucial to deepening the capital markets because it increases the pool of potential participants in a market, which is currently not big enough to meet current investor demand. This is an issue that has been acknowledged in Nigeria in both the PCCL Bill and the SEC Nigerian Capital Market Master Plan 2015 - 2025.

A bigger pool of issuers (particularly outside the financial services sector) means potentially more listed securities, a wider range of investment choices for investors (and potentially a wider range of investors) which in turn encourages greater liquidity and greater depth in the market.

4.1.2 Market Capacity: Lack of depth in the Nigerian capital markets is also a barrier to issuers who wish to raise substantial amounts of capital. Below is an outline of the challenges in the equity and the debt space.

Equity

The NSE free float requirement stipulates that 20% of shares issued in an IPO on the main board must be placed with public investors as opposed to promoters, company officers, or controlling-interest investors directly related to the issuer. This is to ensure that there is a minimum level of trading stock and thus facilitate liquidity.

The NSE recently published draft rules governing compliance with free float requirements, for stakeholders' comments. The proposed rules address dealing with free float deficiencies and the waiver of free float requirements. The rules are aimed at providing an alternative for large capital companies that may not achieve the minimum free float requirement of 20% prescribed by the Listings Requirements, but have large volume / values of shares in the hands of the investing public.

However in 2014, seven IPOs failed to meet this requirement, the most notable example being Dangote Cement plc. The non-compliant companies claimed that they were unable to meet the requirement without their share price falling due to the lack of market depth.

In order to obtain a waiver in such circumstances, companies submit a "free float plan" to the NSE detailing a timetable of events and road shows (local and international) to demonstrate that they are actively trying to place the shares. This however requires additional time and effort on the part of the issuer, potentially making it more attractive to list in deeper markets outside Nigeria or not to list at all.

Debt

Compared to the equities market, the debt capital markets in Nigeria does not struggle to absorb large debt issuances. Federal Government of Nigeria (FGN) bonds dominate the primary and secondary markets and are often over 200% oversubscribed at the auctions.

Although non-FGN bonds (state and corporate bonds especially) do not have the problem of filling their issuance, they often fill these issuances at undesired interest rates. This is partly due to investors' perceived credit and liquidity risk of these issues.

4.1.3 Product Diversity: The lack of product diversity in the Nigerian market inhibits market development. Products such as derivatives, stock-lending and shorting which can enhance liquidity, currently do not exist in Nigeria in a meaningful way. When companies are discouraged from coming to the market (please see reasons discussed in 4.1.1 above), the investing public has a narrower choice of investment opportunities leaving the market concentrated in existing bank stocks.

The lack of Central Clearing Counterparties (CCPs) increases risk in the market, and limits financial instruments. This puts Nigeria out of line with international best practice and is a potential barrier to foreign investment.

We note that the IPO-style approval process currently employed by the SEC delays the listing of collective investment schemes.

We note that there are currently initiatives by Nigerian exchanges underway to diversify the product base in Nigeria. These include the following:

- NSE has securities lending guidelines, which are currently undergoing amendments. The "*Rules Governing the Inclusion of Retail Participants in Securities Lending Transactions"* have also been submitted to SEC for approval.
- Both NSE and FMDQ have announced their intention to launch derivatives in the near future.

- FMDQ is working on the repo and securities lending markets and is currently engaging the CBN on a formal arrangement for the collateral margining, clearing and settlement process. These initiatives should be encouraged and built upon.

4.1 Recommendations

1) The fee structure of SEC in relation to capital markets transactions should be reviewed with a view to reducing such fees. Efforts should be made to ensure that the cost of issuing debt is lower than the cost of issuing equity, in line with global practice.

2) SEC and NSE should review the listing process with a view to streamlining the process and removing duplication**.** In this regard we note that efforts are already underway by virtue of the Memorandum of Understanding entered into between SEC and NSE.

3) A dematerialisation of share certificates should further improve liquidity in the local market. 27% of all shares remain in certificate form.

4) The regulators together with a cross sector industry body should develop recommendations regarding the removal of regulatory preferences in favour of companies that pay dividends and their replacement with policies that encourage a more flexible, strategic and long term approach to investing in the capital markets. This should then be integrated into the training of investment advisors and/or public awareness campaigns to highlight the benefits and risk of investing in companies with different growth profiles.

5) SEC and NSE are already in discussions regarding the introduction of a CCP in anticipation of the launch of a derivatives market. The CCP should be created to the standards of international best practice, and should aspire to ESMA/EMIR recognition. In order to meet the aggressive timeframe for implementation, the market should consider working with an international partner, whose skills would also be leveraged for implementation of international best practice and ESMA recognition.

6) With the implementation of a CCP, Nigeria could also consider setting itself up as a post-trade hub for the region and adopting other G20 recommendations such as establishment of a trade repository for derivatives reporting. A CCP will not only provide the ability to diversify into different instrument types, but properly constituted it is also a guarantee to every trade and will assist in attracting overseas investment into the local market.

7) To deal with the difficulty large issuers have with meeting the 20% free float requirement, NSE should introduce a requirement that any securities not placed should be ring-fenced for securities lending. This would have the dual benefit of creating a securities lending market and facilitating liquidity.

8) To mitigate negative perception of the credit and liquidity risk of non-FGN bonds, tools that facilitate greater transparency and more accurate price discovery should be encouraged. In this regard we note that NSE, FMDQ and ScottFree Markets have either created or are in the process of creating indices for the Nigerian capital market. We also note that FMDQ has introduced a bond specialist system where dealing members of FMDQ that elect to act as a specialist will commit to show prices to calling parties during the trading hours in order the enhance liquidity.

   Additional initiatives to enhance liquidity, price transparency and benchmark setting for non-FGN bonds and improve price formation in this segment of the secondary market should be encouraged and supported.

4.2 Investor Diversity

The Nigerian pension sector is already a significant investor in the Nigerian capital markets. PFAs are however hampered by regulatory constraints preventing them from investing in young companies or growth stocks that don't pay dividends[9]. These limitations prevent PFAs from playing a more active role in the capital markets and contribute to the cycle of low liquidity.

The insurance sector also faces similar constraints including a prohibition on insurance companies from investing in companies that have either not reported profits or paid dividends in the preceding three years[10]. It is also interesting to note that during 2014 foreign investors made up over 50% of trading activity and thus contributed significantly to liquidity[11].

4.2 Recommendations

1) The requirement that a company must be in existence for 5 years before a PFA can invest in it should be revisited to take into account the concerns of the investment management community and the nature of the relevant transaction and/or underlying asset.

2) A capital markets regulatory assessment should be undertaken regarding the explicit and implicit positive bias towards companies who pay dividends and the drafting of recommendations regarding their removal and replacement with policies that encourage a more flexible, strategic and long term approach to investing in the capital markets.

3) There should be more engagement by capital markets participants with the insurance sector to discuss and determine how the Insurance industry can become a more prominent participant in the development of Nigeria's capital markets.

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[9] See Section 3.6.1 for further information

[10] See paragraph 1.10(b)(c) of the Operational Guidelines 2011 (Insurers and Reinsurers) issued by the National Insurance Commission

[11] See NSE Report on Domestic and Foreign Portfolio Participation in Equity Trading, January 2015

4) Investment from foreign investors should continue to be encouraged. To this end, the introduction of transparent, accurate and readily available market indices which incorporate actual free float methodology, sufficient liquidity screenings and neutrality (no conflict of interest) to facilitate such investment should be encouraged. This will also have the additional benefit of facilitating greater accuracy in relation to price discovery domestically.

4.3 Market Education

4.3.1 Capital Markets Operators: There is a lack of consistency with respect to the on-going training and continuing education of brokers and investment advisors. This affects market confidence in the advice of investment managers and stockbrokers and in some cases may even contribute to adverse fluctuations in the pricing of securities due to lack of broker knowledge.

Brokers and advisors have an important role to play in the development of the capital markets and should be the driving force behind new products and innovation. However this will not happen if market participants are not continually engaging with and learning from the ever-evolving global capital markets. Furthermore, there is an information asymmetry within the industry with respect to what training/ certification is available and/ or required amongst investment professionals.

Certain market driven initiatives in relation to education already exist. For example, the Chartered Institute of Stockbrokers provides training and certification of investment advisors, FMDQ, in conjunction with the Financial Market Dealers Association (FMDA), has developed a Financial Market Competency Framework (which is aligned with the CBN's Competency Framework) that will facilitate the induction, certification and continuous education of market participants in any of the functions related to the FMDQ OTC market. However there is a need for a more cohesive industry wide approach.

4.3.2 Regulators: In Nigeria, regulators at times do not have the expertise they need to address market concerns or adequately access and regulate new products. Within the context of dynamic and increasingly complex global capital markets, it is crucial for regulators, more so than market operators, to keep up to date with the latest market developments and new products in order to successfully perform their oversight and enforcement functions.

4.3.3 Retail Investors: The participation of domestic retail investors in the capital markets is not as large as it should be. While there have been improvements in the participation of the retail sector, the potential is still huge.[12] Culturally, it appears that many retail investors subscribe to the notion that the best securities are those that pay dividends and as a result many retail investors buy and hold securities in order to receive such dividends. This is bad for the market because it freezes liquidity. It is also bad for the retail investors because in limiting investments to dividend paying companies, they miss out on investing in a wider pool of potentially valuable stocks. Furthermore, the buy to hold strategy means that they miss out on extracting value from their investments.

4.3 Recommendations

1) SEC should map the current offering of on-going training available to market operators, document the results and identify what changes need to be made to ensure that the market is continually and sufficiently educated about relevant developments and products.

2) SEC should invest in regular continuous education programmes and training for their staff to ensure that they remain at the forefront of regulatory developments and new products.

3) SEC, in collaboration with market operators, should spearhead a retail investor education campaign that focuses on communicating: (1) issues to consider when investing in capital markets, other than the payment of dividends; (2) the limitations of a buy-to-hold strategy; (3) and the benefits of investing through a mutual fund or a collective investment scheme.

[12] In January 2015 retail participation stood at 66% compared to 34% participation by institutional investors. See NSE Report on Domestic and Foreign Portfolio Participation in Equity Trading, January 2015

4) SEC, in collaboration with market operators, should encourage the development and promotion of online trading platforms and the use of other innovative technologies to encourage greater participation by retail investors.

5) SEC should develop rules to govern online trading platforms and other innovative technologies, which may provide retail investors with access to the capital markets and register such platform providers. At a minimum such rules should ensure that the new platforms provide live price feeds, up to date market research and access to collective investment schemes and mutual funds.

Annex 1: Summary of recommendations and actions

Section 1: Integrity of the markets				
Issue identified	**Recommendation**	**Benefit**	**Priority**	**Time-frame**
INFORMATION DISCLOSURE AND DISSEMINATION				
Enhance the completeness, accuracy and dissemination of corporate financial information;	1. Listed companies should be required, where appropriate, to release their own precise timetable for the release of period information in order to manage expectations in the market and raise interest in the company	▪ Boosting investor confidence and enhancing transparency and integrity of the market	High	Medium term
Provision of simultaneous, up to date, timely and accurate information in respect of the condition of companies.	2. A public information repository should be established to host market information published in respect of all listed and other publicly traded companies. Consideration should be given to the provision of such information by the Corporate Affairs Commission of Nigeria.	▪ Speedy simultaneous dissemination of financial information to the public	High	Medium term
Concern that there was sometimes a delay in the publication of a company's financial statements because of delay in obtaining the approval of another regulator to which the company is subject.	3. A memorandum of understanding should be negotiated and executed among the various regulators that addresses, among other issues, (i) the need to avoid delays in the approval and, consequently, the publication of the financial statements of regulated companies	▪ Enhanced completeness, accuracy and dissemination of corporate financial information.	High	Medium term

	and (ii) the need to remove or reduce the overlap of regulatory compliance obligations on listed and other regulated companies.			
The SEC rules on disclosure need to be sufficiently robust in the regulation of disclosure by unlisted publicly traded companies.	4. A review should be conducted to review and, where appropriate, update the disclosure rules contained in the SEC rules, ISA and other applicable sources.	▪ Improve availability of corporate information on unlisted publicly traded companies as well as listed companies.	High	Medium term
MARKET MANIPULATION – INSIDER DEALING				
Lack of direct obligations and penalties imposed on the insider	5. A market surveillance system should be adopted that will alert the NSE or other exchange or appropriate regulator to the need for further inquiry on dealings that may be in breach of insider dealing rules. 6. The penalties for infraction should be reviewed and set at a level to compel performance. In the case of directors, the sanction should expressly include the disqualification of directors.	▪ Boosts investor confidence	High	Short term

The applicable rules are contained in multiple sources and the divergence in the approaches of the SEC and NSE may be confusing for the public and may distort the guidance that ought to be given as to what constitutes insider dealing, the prohibition thereof and the path for enforcing the rules.	7. Harmonious rules providing a more detailed guidance on what transactions are prohibited - and in what circumstances - is required. A code of conduct should be published for market comment to provide guidance in determining whether a particular conduct amounts to insider dealing or falls within any of the safe harbours created by the code. An example of such a code is the UK *Code of Market Conduct* set out in Chapter 1 of the Market Conduct Source Book. 8. The SEC rules on insider dealing should be extended to cover the sale of the beneficial ownership of shares by insiders.	▪ Streamlined applicable rules and guidance	High	Short term
Address intricacy and deleterious impact of insider dealing, training for the members of the board of listed companies on insider dealing and other regulatory matters is required	9. Compulsory training on insider dealing and other regulatory matters should be required for the members of the board of listed companies. This is already a requirement for the boards of licensed banks	▪ Boost reputation of companies and confidence of investors. ▪ Make it easier for the regulators to investigate perceived breaches and promote compliance.	High	Short term

MARKET MANIPULATION – CONFLICT OF INTEREST				
Concern about conflicts of interest and lack of regulatory coherence	10. There should be a review driven by the participants in the capital markets of the conflict-related risks in the various sectors of the capital markets and a code of conduct agreed that includes minimum standards to be applied in addressing such risks.	▪ Enhanced market confidence.	High	Short term
INDUSTRY-LED TRANSPARENCY AND GOOD GOVERNANCE				
Need for increased perception of transparency and good governance	11. Collaboration among financial institutions to drive the establishment of model corporate governance and transparency standards 12. Further collaboration among other industry groups should be initiated with a view to devising a market-based strategy for improving the ethical standards that apply in the market and the perceptions of the same.	▪ Increased investment activity in the capital markets and changed perception about the standards that operate in the markets.	High	Short term

MARKET ADVISORS QUALITY ASSURANCE				
Need for increased confidence in the quality assurance of market advisors	13. A study should be conducted with a view to creating a self-imposed quality standards programme to be administered by an appropriate self-regulatory organisation or trade association for its members, promote standards of good practice and provide quality marks for use by those who have been objectively verified to have met the requisite standards	▪ Investment activity in the capital markets will be increased if investors have the benefit of good quality advice. The standard of conduct and practice applied by advisers in the capital markets will have a direct impact on the level of confidence that investors have in the market and the overall perception of the markets.	High	Short term

Section 2: Regulatory Infrastructure				
Issue identified	**Recommendation**	**Benefit**	**Priority**	**Time-frame**
REGULATION OF DEBT OFFERS				
Concern about the timescale for institutional debt transactions	14. The SEC rules should be revised to develop an approach to the regulation of institutional investment activities with particular attention paid to reducing the time and cost to market for institutionally targeted products	▪ Facilitate growth of a corporate bond market and institutional investor participation.	High	Medium term
Inhibition of development of new products and cost of coming to market due to unnecessary involvement of SEC in wholesale markets beyond compliance issues	15. Clear stand-alone regulatory requirements for institutional debt markets only including clear definition of what qualifies as an institutional investor or a size of the transaction or both. 16. In line with international practice, the key features of the institution only regime should include: (iv) a disclosure based regime, reflecting the sophistication of the investor institutions involved. This will initiate a reduction in the initial and on-	▪ Development of professional/institutional debt investment market	High	Medium term

	going disclosure requirements; (v) limited regulatory oversight - if any - in the approval process, with no regulatory involvement in allocation/selling strategy, legal documentation or private placements; and (vi) a balanced and enhanced anti-fraud and mis-selling protection/powers by the regulator against false or misleading statements in initial or on-going disclosures as well as a clear transparency regime.			
PRIVATE PLACEMENT				
Lack of flexibility in SEC rules distinguishing between treatment of private placement of debt and private placement of equity securities	17. Although, it is generally accepted that the SEC has a relatively wide discretion in making a determination on what constitutes "dire need of fresh funds" in respect of equity private placements and would consider each application on its merits, the SEC Rules should either specify clearly the factors, which the SEC would consider in making such a determination or delete the requirement altogether and replace it with a requirement to obtain shareholder approval (where shareholders participating in any private placement would not be able to	▪ Greater opportunities for institutional investors and deeper capital market	High	Medium term

	vote) and/or a requirement to ensure that the sales price is fixed by reference to a rolling market price.			
Limited use of private placement as an option for raising funds for capital growth	18. The SEC Rules should provide specific exemptions that will facilitate private placements of debt securities. There is urgent need for clear regulations on the workings of private placements by companies including complete flexibility for the private placement of debt securities with professional institutional investors. 19. The company's resolution should not be required to state the price at which the relevant transaction is to be executed.	▪ As above	High	Medium term
RELATIONSHIPS BETWEEN FINANCIAL MARKET REGULATORS				
Overly-complicated and over-lapping regulatory framework	20. Memoranda of Understanding among the various regulators should be encouraged and developed to allow for better coordination across the trade groups. We note in this regard that the NSE is in the process of negotiating such MOUs.	▪ Companies will be encouraged to enter market with easily navigable regulatory landscape without duplicate procedures	High	Short term

Inconsistency between the requirements of various regulators and lack of formal information sharing or relationship framework **Numerous sets of corporate governance rules with equally numerous and divergent compliance requirements and enforcement sanctions**	21. Financial market regulators should demonstrate better coordination where major decisions and announcements that may affect the markets are made public. 22. The Financial Services Regulation Coordinating Committee has a mandate as contained in section 44 of the CBN Act 2007 to, among other things, co-ordinate the supervision of financial institutions especially conglomerates. Such coordination by a similar body should be extended other institutions with activities in more than one regulatory sector. 23. SEC and the SROs should develop collaborative mechanisms to manage responses when members have breached rules.	▪ Shared information will reduce the burden on participants and make it more attractive to list and meet ongoing obligations ▪ Coordinated enforcement will promote confidence and deter repeated breaches	High	Short term
DISPUTE RESOLUTION AND ADVOCACY				
Insufficient clarity about appropriate options and mechanisms available for dispute resolution for investors	24. A review should be undertaken and amendments made to the Investments & Securities Act (2007) and any other Nigerian statutes and common law to address ambiguities surrounding where disputes are to be heard and how decisions are to be enforced.	▪ Eliminate forum shopping by litigants and delays in administration of justice	High	Long term

	25. SEC, APC and the NSE need to strengthen their mediation processes, the investigation panel and the disciplinary committee. Additional funding is required to ensure that the panel and disciplinary committee are fully staffed and able to act promptly ("justice delayed is justice denied").	▪ Increased options for investors to resolve disputes		
There are no general statutes or other laws that deal specifically with the protection of competition and the promotion of consumer welfare by facilitating competition.	26. We recommend the development of a competition policy that provides a transparent and predictable framework of rules regulating competition across the various market sectors.	▪ A robust competition regime would enhance the integrity of the market and boost investors' confidence.	High	Long term

Section 3: Market incentives and barriers				
Issue identified	**Recommendation**	**Benefit**	**Priority**	**Time-frame**
TAX INCENTIVES				
Insufficient Tax incentives encourage participate in Nigerian markets	27. Stamp duty should be removed from the transfer of listed securities.	▪ Encourage participation across the capital markets, not just on alternative exchanges.	Medium	Medium term
	28. Capital markets participants should create a cross sector capital markets advocacy group dedicated to formulating and representing views of industry and lobbying regulators with a view to deepening capital markets.	▪ Cohesive approach to policy will give industry a stronger voice to raise issues affecting capital markets and affect change.	High	Short term
Tax incentives that do exist are often unclear or insufficient	29. The Ministry of Trade and Investment should establish a specialised capital markets team/ panel of experts dedicated to: understanding capital markets transactions and clarifying tax provisions and coordinating a consistent tax approach aimed at deepening the capital markets.	▪ A specialised team would facilitate clarification and implementation of the tax regime related to capital markets.	High	Medium term

	30. Industry led Capital Markets Tax Advocacy Group should be created to examine tax incentives, help clarify ambiguities and liaise with policy makers.	▪ Cohesive approach to policy will give industry a stronger voice to raise issues affecting capital markets. ▪ Facilitate interaction between market participants and regulators.	Medium	Short term
	31. The Ministry of Finance, together with market participants should consider additional tax incentives. A potential starting point could be cross sector application of the tax incentives contained in the PCCL Bill and/or providing tax incentives in relation to collective investment schemes.	▪ Encourage increased participation in the capital markets.	Medium	Medium term
NON TAX-INCENTIVES				
Lack of incentives for issuers or investors to participate in the capital markets outside of the tax regime	32. The Market should create a cross sector capital markets advocacy group to consider and formulate non-tax incentives for regulators to consider. See recommendation 2 above.	▪ Formulation of non-tax incentives; ▪ See recommendation 2 above.	High	Short term

	33. The SEC together with a cross sector capital markets advocacy group should explore sustainable and effective ways to incentivise market players through non- tax incentives.	▪ See recommendation 6 above	Medium	Short term
	34. Building on the introduction of the Market Making Programme introduced by the NSE in 2012, the SEC and NSE should also consider introducing special incentives targeted at market makers.	▪ Increased diversity of market participants; ▪ Facilitate liquidity.	Medium	Short term
	35. Building on the work already done by CBN, regulators should create an attractive framework for the private sector to create SME Funds.	▪ Increased funding for SMEs; ▪ Capacity building and education for SMEs in relation to capital markets; ▪ Create a pipeline of growing companies that could be future capital markets issuers.	Medium	Long term
	36. Create an affordable mono-line insurer to support SME issuances	▪ Improve rating of SME issuances; ▪ Give SME's access to a wider range of capital markets investors.	Low	Long term

TRANSACTION COSTS				
Transaction Costs in the Nigerian capital markets are high and this is a significant barrier for many potential issuers	37. Review the fee structure of the SEC in relation to capital markets transactions with a view to reducing such fees.	▪ Make capital markets more competitive with bank financing; ▪ Increase the volume of capital markets transactions; ▪ Expand the base of potential issuers beyond financial services.	High	Short term
	38. Review the fee structure of the Nigerian exchanges in relation to capital markets transactions with a view to reducing such fees.	▪ See recommendation 11 above	High	Short term
	39. Stamp duty should be removed from capital markets transactions.	▪ Reduced transaction costs making market more attractive to participants seeking to raise capital, particularly for developmental purposes.	Medium	Medium term
	40. SEC should remove the mandatory requirement of appointing a trustee in transactions where the investors are institutional. Instead market participants should have the option of appointing an agent instead of a trustee.	▪ Reduce the professional and legal fees to the transaction on issuance and on an on-going basis as the agent would not be required to act on trust for the bondholders.	Medium	Long term

	41. The SEC, the CSCS and Nigerian Exchanges should commit to fixed turn-around times for documentary reviews.	▪ Faster document turn around will result in reduced legal and transaction costs	High	Medium term
TAX BARRIERS				
The risk of double taxation and lack of clarity around certain tax incentives act as barriers to capital markets participation	42. The Ministry of Trade and Investment should establish a specialised capital markets team/ panel of experts dedicated to deepening capital markets, which should (among other things) can consider issues around double taxation of SPVs. Also see Recommendation 3 above.	▪ Remove the risk of double taxation from certain SPV transactions and REITs; ▪ Increase product diversity; ▪ Attract more investors, for example, retail investors in relation to REITS.	High	Medium term
	43. The Market should create a cross sector capital markets advocacy group, which should consider (among other things), a comprehensive review of the regulatory regime around special purpose vehicles in capital markets transactions and liaise with regulators to implement change. Also see Recommendation 2 above.	▪ See recommendation 2 above	High	Short term
	44. *The Value Added Tax (Exemption of Proceeds of the Disposal of Government and Corporate Securities) Order, 2011* should be reviewed and amended to provide greater clarity around the applicability of certain tax	▪ Increase investment in capital markets ▪ Encourage investors who are willing to invest in bonds with tenors that exceed the life of exemptions granted	Low	Long term

	exemptions. In addition consideration should be given to extending the tax waivers beyond 2022.	by the Order		
SUBSTANTIVE DOCUMENT REVIEW				
Delays in the documentary review process adds time and expense to capital markets transaction and is a significant barrier for potential issuers.	45. The SEC should not conduct a substantive review of transaction documents (other than those required for investor protection, e.g. the Prospectus). Instead the SEC should require written confirmation from the Issuer (and Issuer's should obtain assurances from their lawyers) that all relevant SEC requirements have been met.	▪ Faster document turn around and lower transaction costs. ▪ SEC will be able to allocate less time to document review and more time to investor protection, oversight and enforcement.	High	Medium term
	46. The SEC should undertake a mapping exercise to (a) identify what they require in terms of substance; and (b) what they require in terms of the form, in order to approve an application for listing. This should be compared to what is currently requested in practice and the existing requirements should be adjusted accordingly.	▪ See recommendation 19 above.	High	Short term
	47. The SEC should conduct on-going market engagement to communicate and clarify what the SEC reviews, what the SEC does not review and how the market participants can best facilitate the SEC document review process.	▪ Market to benefit from greater clarity regarding what is required; ▪ Expedite documentary review.	High	Medium term

	48. SEC should provide training to lawyers regarding minimum documentation standards and also be able to reject document submissions which do not meet these standards.	▪ Market to be provided with greater clarity regarding what is required; ▪ See recommendation 19 above	High	Medium term
REMOVING OTHER IMPEDIMENTS TO EFFICIENT CAPITAL FORMATION				
PFAs and the Insurance sector face regulatory barriers which limit their flexibility when investing in capital markets.	49. Revisit the requirement that a company must be in existence for 5 years before a PFA can invest in it to take into account the concerns of the investment management community and the nature of the relevant transaction and/or underlying structures (e.g. transaction specific SPVs).	▪ Give PFAs greater flexibility in their investment strategies; ▪ Allow PFA investment in credible structured finance transactions, which may not meet the 5 year threshold.	Low	Long term
	50. A capital markets regulatory assessment should be undertaken regarding the explicit and implicit positive bias towards companies who pay dividends and the drafting of recommendations regarding their removal and replacement with policies that encourage a more flexible, strategic and long term approach to investing in the capital markets.	▪ Greater participation in the capital markets by companies from a variety of high-growth sectors.	High	Medium term
Potential detrimental effect of proposed Private Companies Conversion and Listing Bill (2013) on	51. The Market should create a cross sector capital markets advocacy group, which should consider (among other things), a comprehensive review	▪ Creation of an influential industry response to Bill; ▪ Collectively and effectively	High	Short term

the development of capital markets in Nigeria.	and response to the PCCL Bill and liaise with legislators regarding the potential negative effects on the capital markets sector. See recommendation 2 above.	address and lobby for changes to legislation that potentially has detrimental effect on development of the capital markets. See recommendation 2		
	52. The SEC, the Ministry of Trade and Investment together with a cross sector capital markets advocacy group should explore more sustainable and effective ways to incentivise market players to participate in the capital markets without resorting to compulsion.	▪ Greater participation in the capital markets, particularly from sectors outside financial services.	High	Short term

Section 4: Market development

Issue identified	Recommendation	Benefit	Priority	Time-frame
ISSUER AND PRODUCT DIVERSITY				
Lack of issuer diversity beyond the financial services sector	53. Review the fee structure of the SEC in relation to capital markets transactions with a view to reducing such transaction costs.	▪ Increase the volume of capital markets transactions; ▪ Expand the base of potential issuers beyond financial services; ▪ Increase choice of investment opportunities for investing public.	High	Short term
	54. The SEC and NSE should review the listing process with a view to streamlining the process and removing duplication.	▪ Reduced duplication means faster listing process and reduced transaction costs; ▪ Attract a wider base of potential issuers to the capital markets.	High	Short term
	55. Further dematerialisation of shares certificates form should further improve liquidity in the local market.	▪ Improve liquidity; ▪ Attract a wider base of potential issuers to the capital markets.	High	Long term

	56. Regulators together with Market operators should undertake an assessment of the explicit and implicit regulatory preference in favour of companies who pay dividends and make recommendations to the regulator.	▪ Greater participation in the capital markets by companies from a variety of high-growth sectors.	High	Medium term
Lack of product diversity in the Nigerian market which inhibits market development	57. Current moves by Nigerian exchanges to introduce a CCP should be supported and any new CCP should be created to the standards of international best practice, and should aspire to ESMA/EMIR recognition.	▪ Ability to diversify market with introduction of different product types; ▪ Guarantee to every trade; ▪ Attract foreign investment.	High	Medium term
	58. With implementation of a CCP Nigeria should consider setting itself up as a post-trade hub for the region and adopting other G20 recommendations such as establishment of a trade repository for derivatives reporting.	▪ See recommendation 5 above.	High	Long term
MARKET CAPACITY				
Market Capacity	59. The NSE should introduce a requirement that any securities not placed should be ring-fenced for securities lending.	▪ Creation of a securities lending market and; ▪ Facilitating liquidity.	Low	Long term

	60. To mitigate negative perception of the credit and liquidity risk of non-FGN bonds, products and tools that facilitate greater transparency and more accurate price discovery such as market indices should be encouraged.	▪ increase transparency and encourage liquidity; ▪ Increase liquidity will facilitate Increase market capacity and transaction volume.	Medium	Short term
INVESTOR DIVERSITY				
Lack of Investor diversity and a limited investor pool have a negative impact on market liquidity	61. Revisit the requirement that a company must be in existence for 5 years before a PFA can invest in it to take into account the concerns of the investment management community and the nature of the relevant transaction and/or underlying structures (e.g. transaction specific SPVs).	▪ Give PFAs greater flexibility in their investment strategies; ▪ Allow PFA investment in credible structured finance transactions, which may not meet the 5 year threshold; ▪ Increased liquidity	Low	Long term
	62. Revisit the requirement that PFAs can only invest in companies with a particular dividend paying profile.	▪ Greater PFA participation in the capital markets over a wider range of instruments; ▪ Also see Recommendation 4 above.	High	Medium term
	63. There should be more engagement by capital markets participants with the Insurance Sector to discuss and determine how the Insurance industry can become a more prominent participant in the development of Nigeria's capital markets.	▪ Greater participation by the Insurance sector in the development of the capital markets.	Medium	Medium term

	64. Introduction of transparent, accurate and readily available market indices which incorporate actual free float methodology, sufficient liquidity screenings and neutrality (no conflict of interest).	▪ Increased foreign investment; ▪ Increased accuracy in relation to price discovery domestically.	Medium	Short term
MARKET EDUCATION				
Lack of consistency with respect to the on-going training and continuing education of brokers and investment advisors	65. The SEC should map the current offering of on-going training available to market operators, document the results and identify what changes need to be made to ensure that the market is continually and sufficiently educated about relevant developments and products.	▪ Development of the capital markets, new products and facilitation of innovation.	High	Short term
Regulators at times do not have the expertise they need to oversee and monitor new market products	66. The SEC should invest in regular continuous education programmes for their staff to ensure that they remain at the forefront of regulatory developments and new products.	▪ Improved SEC oversight capabilities; ▪ Facilitation of new product development and innovation.	High	Medium term
Participation of retail investors in the capital markets is not as	67. The SEC, in collaboration with market operators should spearhead a retail	▪ Increased retail sector	High	Long term

large as it could be.	investor education campaign that focuses on communicating: (1) issues to consider when investing in capital markets, other than the payment of dividends; (2) the limitations of a buy-to-hold strategy; (3) and the benefits of investing through a mutual fund or a collective investment scheme.	participation; ▪ Increased liquidity.		
	68. The SEC should write rules for the online trading platform and other innovative technologies that facilitate participation in the capital markets. The online platforms should provide live price feeds, up to date market research and access to collective investment schemes and mutual funds.	▪ Increased retail sector participation; ▪ Increased liquidity.	High	Long term

Annex 2: Project working group

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Afoke Igwe	Partner	Alliance Law Firm
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Samallie Kiyingi	Managing Director	Arinae Advisory
Uche Val Obi	Managing Partner (& Chairman of the CMSA)	Alliance Law Firm
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Annex 3: Stakeholder consultation participants

With thanks noted to the following firms and institutions who have participated in this project's consultation process

- Association of Custodians
- Capital Bancorp Plc
- Capital Markets Solicitors Association
- Chapel Hill Denham
- Compass Investment
- CPS Energy Resources Plc
- FBN Capital
- Federal Inland Revenue Service
- Fidelity Securities Limited
- Financial Derivatives Company Limited
- Financial Markets Dealers Quotations OTC Plc
- Greenwich Securities Ltd
- Institute of Capital Market Registrars
- Investment One
- Lead Capital PLC
- Marina Securities
- NASD Ltd
- NICOM
- Nigerian Stock Exchange
- PAL Pensions
- Parthian Partners Ltd
- Partnership Investment Co Plc
- PENCOM
- Renaissance Capital
- RMB Nigeria
- ScottFree Markets
- Securities and Exchange Commission
- SFS Financial Services Ltd
- Stanbic IBTC Capital Ltd
- UBA Capital Limited
- United Capital Plc
- Vetiva Capital Management

Annex 4: Glossary of terms

APC	Administrative Proceedings Committee
Board and General Meeting Rules (NSE)	Rules Relating to Board Meetings and General Meetings of Issuers
CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters Act 2004
CBI	Convention on Business Integrity
CBN	Central Bank of Nigeria
CCPs	Central Clearing Counterparties
CDD	Customer Due Diligence
CGRS	Corporate Governance Rating System
CITA	Companies Income Tax Act
CPS	CPS Energy Resources PLC
CSCS	Central Securities Clearing System
ECF	Enterprise Capital Fund
ECMT	Emerging Capital Markets Taskforce
EMIR	European Market Infrastructure Regulations
ESMA	European Securities & Markets Authority
FCA	Financial Conduct Authority
FCO	Foreign & Commonwealth Office
FGN	Federal Government of Nigeria
FHC	Federal High Court
FIRS	Federal Inland Revenue Service
FMDQ	Financial Markets Dealers Quotations OTC Plc
FSRCC	Financial Services Regulation Coordinating Committee
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
ISA	Investment and Securities Act 2007

IST	Investments and Securities Tribunal
KYC	Know Your Customer
LFN	Laws of the Federation of Nigeria
LSE	London Stock Exchange
MAR	Market Conduct Source Book
MOU	Memorandum of Understanding
NAICOM	National Insurance Commission of Nigeria
NASB	Nigerian Accounting Standards Board
NASD	National Association of Securities Dealers
NSE	Nigerian Stock Exchange
PCCL Bill	Private Companies Conversion and Listing Bill 2013
PENCOM	National Pension Commission
PFAs	Pension Fund Administrators
PIEs	Public Interest Entities
PITA	Personal Income Tax Act
REITs	Real Estate Investment Trusts
Related Party Rules (NSE)	Rules Governing Transactions with Related Parties or Interested Persons
SEC	Securities and Exchange Commission
SMEs	Small and Medium-sized Enterprises
SPV	Special Purpose Vehicles
the Order	Value Added Tax (Exemption of Proceeds of the Disposal of Government and Corporate Securities), Order, 2011
VAT	Value Added Tax