



**EXECUTIVE SUMMARY OF
CAPITAL MARKET COMMITTEE
(CMC) SUB-COMMITTEES'
REPORTS 2012-2013**

TABLE OF CONTENT

BACKGROUND.....	4
BRIEF ON CAPITAL MARKET COMMITTEE (CMC).....	4
Meetings of the CMC.....	5
Eligibility for CMC Meeting	6
Guidelines for CMC Sub-Committees.....	6
SUB-COMMITTEE ON COMMODITIES, EQUITIES AND EXCHANGES	7
Introduction	7
Terms of Reference.....	7
Action Plan.....	7
Achievements.....	8
Work In Progress.....	8
Outstanding Issues.....	8
Challenges.....	8
SUB-COMMITTEE ON FIXED INCOME.....	9
Introduction	9
Terms of Reference	9
Work Done.....	10
Achievements.....	10
Outstanding Issues.....	11
Assigned Task.....	11
SUB-COMMITTEE ON INVESTOR CONFIDENCE	13
Introduction	13
Terms of Reference	13
Action Plan.....	15
Achievement.....	15
Recommendations.....	15
Outstanding Issues.....	15
SUB-COMMITTEE ON INVESTMENT MANAGEMENT	16
Introduction	16
Terms of Reference	16

Action Plan.....	16
Achievements.....	16
Outstanding Issues.....	17
SUB-COMMITTEE ON MARKET INFRASTRUCTURE AND TECHNOLOGY	18
Introduction	18
Terms of Reference	18
Action Plan.....	18
Achievements.....	18
Work in Progress.....	18
Outstanding Issues.....	18
Challenges.....	20
SUB-COMMITTEE ON PRODUCTS AND BUSINESS DEVELOPMENT	21
Introduction	21
Terms of Reference	22
Work Strategy.....	22
Action Plan.....	22
Achievements.....	23
Recommendation.....	23
Challenges	23
Outstanding Issues.....	24
SUB-COMMITTEE ON RULES AND COMPLIANCE	25
Introduction	25
Terms of Reference	25
Action Plan.....	25
Achievements.....	26
ADVOCACY ISSUES IDENTIFIED BY ALL THE CMC SUB-COMMITTEES 2012 - 2013	27

BACKGROUND

BRIEF ON CAPITAL MARKET COMMITTEE (CMC)

- Capital Market Committee is an industry-wide committee comprising capital market operators, capital market trade groups, financial sector regulators and other stakeholders.
- The CMC sub-committees were established at the maiden retreat of the CMC held in Uyo, Akwa Ibom State in December 2011 primarily to serve as a medium for exchange of ideas among capital market stakeholders as well as on how to continuously improve the market.
- In collaboration with the stakeholders, seven (7) standing sub-committees were constituted to facilitate the realization of the CMC objectives. These are:
 - i. Commodities, Equities & Exchanges
 - ii. Fixed Income
 - iii. Investment Management
 - iv. Investor Confidence
 - v. Market Infrastructure and Technology
 - vi. Products and Business Development
 - vii. Rules and Compliance
- From time to time, the CMC, sets up ad-hoc committees to advise on specific issues or developments in the market. For instance, an advocacy group was constituted to engage public institutions on issues affecting the capital market. The group's membership includes the Director General and Executive Commissioner, Operations of SEC, CEO of NSE, CEO of CSCS, Heads of Trade Groups, President of Chartered Institute of Stockbrokers and the CEO of ASCE.
- The Secretariat of CMC is domiciled in the Office of the Chief Economist and Research (OCE&R) of the Securities and Exchange Commission.

MEETINGS OF THE CMC

The CMC meets regularly to consider ways of developing the market. At such meetings, members review local and international developments and challenges affecting the market. The meetings include:

1. **Expanded Meeting:** This holds at the beginning of each year and all market operators and other stakeholders are expected to attend.
2. **Regular Meetings:** This is held in the 2nd and 3rd quarters of each year involving a select group of stakeholders.
3. **Retreat:** At the end of the year, there is a CMC Annual Retreat held to review achievements and challenges of the outgoing year and also chart a path for subsequent year(s). Participation is usually open to all members and other stakeholders.

ELIGIBILITY FOR CMC MEETING

- Chairmen and two other representatives of Trade Groups (Broker/Dealers, Registrars, Trustees, Issuing Houses, Reporting Accountants, Capital Market Solicitors, Custodians and Rating agencies);
- Chairmen of the Senate and House Committees on capital market.
- Chairmen and two other members of CMC Sub - Committees (i.e Investor Confidence, Investment Management, Rules and Compliance, Products and Business Development, Fixed Income, Commodities, Equities and Exchanges and Market Infrastructure and Technology);
- Chief Executive Officer of Nigerian Stock Exchange (NSE), Abuja Securities and Commodity Exchange (ASCE), Central Securities Clearing System (CSCS), & Chartered Institute of Stockbrokers (CIS);

- Two members each from observer groups (i.e Asset Management Corporation of Nigeria, Central Bank of Nigeria, Corporate Affairs Commission, Debt Management Office, Federal Ministry of Finance, Federal Mortgage Bank of Nigeria, Federal Inland Revenue Service, Nigerian Deposit Insurance Corporation, Investment and Securities Tribunal, Nigerian Investment Promotion Council, National Insurance Commission, National Pension Commission, FMDQ and FSS 2020 were added.

GUIDELINES FOR CMC SUB-COMMITTEES

- **Frequency of Meetings:** Each sub-committee is expected to meet at least once in a month.
- **Time/Period for Submission of Reports:** Update of each sub-committees' work must be forwarded to CMC Secretariat, cmcsecretariat@sec.gov.ng, two (2) weeks before the next CMC meeting.
- **Submission of Minutes/Outcome:** Sub-committees are expected to forward the minutes of their meetings and outcome to the CMC Secretariat, cmcsecretariat@sec.gov.ng, within 48 hours after each meeting.
- **Interface with SEC:** Each sub-committee is expected to interface with SEC representative on the sub-committee to enable smooth flow of information on SEC's activities and that of the sub-committee.
- **Attendance and Participation at Meeting:** Each sub-committee is expected to keep a register of attendance for its members. If the sub-committee by its records considers a member inactive (in terms of attendance and contribution to the committee's work), such a member should be reported to the Commission so that the person can be substituted.
- **Tenure of Sub-committees' Chairmanship:** The tenure of the sub-committees is a maximum of two (2) years.
 - **Chairman:** The Chairman is appointed by the Executive Management of SEC.
 - **Secretariat/Vice Chairman:** Each sub-committee decides who the Vice chairman is. SEC Management appoints a Sec representative for each sub-committee

1

SUB-COMMITTEE ON COMMODITIES, EQUITIES AND EXCHANGES

Introduction

This sub-committee on Commodities, Equities and Exchanges originally, constituted as a 16-member Sub-Committee, but the membership subsequently increased to 19 following the co-option of additional members including representatives from NASD and FMDQ.

The Sub-Committee significantly achieved its core deliverables, including an Interim Report and a Benchmarking Report on Exchanges, in addition to other reports on topical issues related to the Sub-Committee's mandate. In carrying out these tasks, the Sub-Committee liaised with/consulted relevant government agencies and other stakeholders to ensure a more holistic coverage within the context of the broader economic policy.

Terms of Reference

1. To conduct a diagnostic review of all Exchanges in Nigeria;
2. To undertake a review of the operations, rules and regulations of both the SEC & the respective exchanges;
3. To review and make recommendations on market development and deepening;
4. To benchmark Nigerian exchanges against international best practices through a comparative analysis of exchanges globally;
5. To make recommendations on effective capacity building and awareness programmes on equities, commodities and other exchanges.

Action Plan

- Submit Interim report on Exchanges.
- Organize Conference on Commodities Trading.
- Present Benchmarking Report on Nigerian Exchanges .
- Prepare and submit a report on deepening the market and capacity building for NASD and other Alternative Trading Platforms.
- Benchmarking Nigerian Exchanges against others across the globe.

- Track the implementation of recommendations made by the sub-committees on its mandate.
- Review target goals for Exchanges.

Achievements

1. Submitted interim report on Exchanges
2. Presented benchmarking report on Nigerian Exchanges
3. Presented position Papers on:
 - i. Demutualization of NSE
 - ii. The Revitalization of the Nigerian Capital Market

Work in Progress

- i. Report on market deepening and capacity building for NASD and other Alternate Trading Platforms
- ii. Quarterly Benchmarking presentations to CMC
- iii. Track implementation of sub-committee's recommendations
- iv. Review target goals for Exchanges

Outstanding Issues

The Conference on Commodities Trading is yet to be organized.

Challenges

Although attendance and participation at subcommittee's meetings were initially impressive, this gradually reduced significantly as a result of some members either leaving their institutions or exiting from capital market operations.

2

SUB COMMITTEE ON FIXED INCOME

Introduction

The sub-committee at its inaugural meeting deliberated on its terms of reference and categorized them into three broad areas, namely; Policy Advocacy, Market Development & New Fixed Income Products and Market Operation.

Terms of Reference

1. To critically examine developments in and operations of the bond market with a view to identifying its strengths and weaknesses.
2. To suggest ways of developing the various segments of the bond markets including the Federal, Sub-National or Municipal, Government Agency and Corporate bonds segments.
3. To advise the CMC and the Commission from time to time on ways to improve the depth and breadth of the Nigerian Fixed Income Market.
4. To identify, support and ensure development of products relevant to the Nigerian fixed income market.
5. To identify, support and ensure the development of market infrastructure required to enhance the Nigerian fixed income markets.
6. To identify challenges and proffer solutions towards ensuring stable and vibrant primary and secondary fixed income market.
7. To collaborate with the MOF, DMO, CBN and other relevant stakeholders on the need to ensure effective operations of the Nigerian fixed income market.
8. To work on creating and sustaining robust platforms for the training of fixed income securities in Nigeria.
9. To assess the best regulation mechanisms that would allow the regulators respond optimally to ongoing developments in respect of fixed income securities.
10. To proffer mechanisms for increasing the issuance of fixed income securities, including the issuance of asset backed (mortgage) bonds and the securitization of loans.
11. To examine processes for standardization of market practices for fixed income securities and fixed income derivatives and,
12. To promote and develop strategies to strengthen an SRO for fixed income securities and fixed income derivatives.

13. To carry out any other assignments given by the CMC in the interest of the Nigerian fixed income market.

Work Done

The sub-committee focused on three (3) broad areas as follows:

a. Policy Advocacy

Influenced policy pronouncement that affect the issuance of fixed income securities including: interest rates, government borrowing, amendment to CITA (Tax exemption on bonds), Gazetting the Presidential waiver of tax on bonds etc.

b. Market Development and New Products

- Activated a secondary market of sub-national and corporate bonds at the NSE.
- Developed the securities lending and trading of AMCON bond and focused on the establishment of robust trading platform
- Development of Repo/Securities lending market, trading of AMCON Bonds and the development of secondary mortgage market.

c. Market Operations

Reviewed issues affecting the smooth operation of the Fixed Income market and focused on ISPO process (MOF, AGF and DMO), DMO stance on sub-national bonds and SEC approval processes.

Achievements

- The PITA Amendment was gazetted effective 14th July, 2011.
- Companies Income Tax Exemption order and a value added Tax (Modification) order were issued by the President and Hon. Minister of Finance in 2012 respectively.
- Engaged NSE, DMO and NASD on introduction of market making for debt securities particularly the illiquid corporate and sub-national securities.
- Reviewed the draft securitization rules.

- Developed standard templates for communicating request and approval of the ISPO application.
- Engaged FIRS and Honourable Minister of Finance on addressing the gap on the tax waivers.
- Engaged CBN on investment limit by banks on sub-national bonds.

Outstanding Issues

Some outstanding issues include:

- i. Follow up with the Minister of Finance and FIRS on tax waivers in respect of tax obligations arising during the gap period
- ii. Seek amendment of Orders to extend the tax waivers to the classes of fixed income securities yet to be covered i.e. ABS, MBS
- iii. Engaging PENCOM to consider flexible interpretation of Pension Reform Act S.76 provisions to enable securities lending for fixed income securities
- iv. On the trading of AMCON bonds, there is need to engage AMCON, CBN, NSE and FMDA in discussions to stimulate market making on AMCON bonds in the inter-market and trading exchanges
- v. Engaging NSE and NASD on licensing of market makers and commencement of market making in fixed income securities
- vi. Review and promotion of ESMID/SEC report on enhancing the fixed income market
- vii. Engaging SEC and NSE to amend the NSE listing guidelines by removing the requirement for SEC notification of approval for the Basis of Allotment on public offers which are either sold by book building or are firmly underwritten
- viii. Engaging PENCOM to consider a sufficiently flexible interpretation of the Pension Reform Act S.76 provisions to enable securities lending for Fixed Income securities.
- ix. Further engagement with DMO, Home Finance on the proposed ISPO template.

Assigned Task

Presentation to be made on corporate bond/Sukuk.

3

SUB-COMMITTEE ON INVESTOR CONFIDENCE

Introduction

The sub-committee on Investor Confidence was set up in response to the meltdown in the capital market arising from the global financial and economic crisis that commenced in 2008.

The committee had the broad mandate of restoring investor confidence in the market which had taken a dip because of huge losses the investors suffered in the meltdown.

Terms of Reference

1. Embark on a nationwide integrated investor education program
2. Conclude and publicize a market-wide complaints management framework that will ensure investors' complaints are fairly, firmly, and promptly handled as a means of boosting integrity and transparency in the market.
3. Put in place investor confidence evaluation mechanism to access on a periodic basis, the level of confidence.
4. Work with other subcommittees to tackle any other issue /policies that may affect investor confidence in the market.

Action Plan

I. Strategies for Confidence Restoration

- Intensive investor education to be embarked on by all key stakeholders.
- Update the market on continuous measures being taken by regulators to repair market weaknesses and build a world class market.
- Ensure that positive pronouncements are made by the leadership of all key stakeholders from time to time.

- Engage with the government and market regulators on the sourcing of long-term funds from the domestic capital market by government agencies and multinationals.
- Ensure continuous communication to investors of remedial efforts to reposition the market.
- Minimize policy inconsistencies.
- Entrench a culture of accountability in the market

II. Launch Investor Communications Centre and Strategy

- Develop a strategic framework for raising awareness and repairing damaged perceptions of the capital market among the investing public.
- Create an implementation plan that encompasses targets, objectives and delivery timeframes for each.
- Engage the media and key influencers within the professions as vital partners for communicating with the investment community on a continuous basis.
- Prepare an overarching communication strategy with the aim of keeping investors up to date on market developments and regulators' activities.
- Launch a comprehensive integrated marketing campaign (IMC) in **Q12012**.
- Encourage securities issuers to prioritize investor relations, e.g., earnings guidance provision.
- Develop escalation procedures for investor complaints covering in-house reviews, Self-Regulatory Organizations (SROs), trade groups' regulators and legal redress.
- Simplify the process for making complaints and receiving updates on the status of the complaint.
- Collaborate with SEC on closer monitoring of operators practices and ethics.

III. Fair and Efficient Enforcement of Sanction

- Ensure speedy enforcement of sanctions as a means for entrenching transparency and instilling confidence.
- Broad publicity of sanction decisions and affected firms and individuals with prominence accorded on the SEC website.

IV. Conduct Periodic Surveys on Investor Confidence

- Conduct periodic surveys to take the pulse of the market which would provide trusted statistics for decision-making policy formulation and informed debates.
- Engage professional research firms to conduct these surveys to provide actionable insights.

Achievement

- The sub-committee submitted a draft of the Complaints Management Framework to the Commission.

Recommendations

The Committee made the following recommendations to SEC:

- A Complaints Management Framework for retail investors (as well as High Net-worth Individuals (HNI) and institutional investors.
- An arbitration arrangement for HNIs and institutional investors including foreign investors who have arbitration clauses in their contracts.
- A complaints management framework for offenses and big tickets issues to be dealt with directly by the Securities and Exchange Commission.

Outstanding Issue

Investor Confidence Survey

4

SUB-COMMITTEE ON INVESTMENT MANAGEMENT

Introduction

The Investment Management sub-committee was set up with the objective of moving the investment management industry forward.

In carrying out its mandate, the sub-committee reviewed issues of taxation in relation to investment management, the effect and applicability of other related laws/regulations, proposed certification program for investment managers, reviewed and made recommendations on corporate governance structure for investment management firms, initial fund expenses for collective investment schemes as well as other sundry issues.

Terms of Reference

1. Review the legal, regulatory and institutional framework of the Nigerian Investment Management industry.
2. Review the role of investment management firms.
3. Research on new investment management products & processes
4. Examine training of professionals in Investment Management and proffering benchmark qualifications of investment advisers.
5. Fostering market development in the investment management industry.
6. Continuous review of SEC rules & regulations in line with developments in the market and global best practices as it relates to the investment management industry

Action Plan

- Review the legal, regulatory and fiscal framework in relation to: ISA, the new SEC rules & regulations, CAMA, CBN, NAICOM, PENCOT, Trustees Investments Act.
- Review the role of investment management firms in the context of: Board of Directors & Corporate Governance, Senior Management & their roles, Front, middle & back office staff, Minimum set up and operating requirements (Infrastructure, Personnel & Job functions, Office Space, Capital & Liquidity Requirements and Operational Processes)
- Examine training of professionals in Investment Management and proffering benchmark qualifications of investment advisers in the areas of:
 - Training & development
 - Continuous professional development
 - Exams (including grand fathering).
- Review and made recommendations on Disclosure requirements, Valuation, Reporting & Accounts, Performance Measurement, Risk Management, Management & Operations, Compliance, Investor Education, Initial Fund Expenses for Fund Launches, Seeding of New Funds, Document Standardization (Trust Deeds, Custodian Agreements), Fund Cost Structures, Tax and Dividend Issues

Achievements

Reviewed the legal, regulatory and fiscal framework of the Nigerian Investment Management Industry. The scope of Laws and Regulations included in the review are; The Trustee Investments Act, CBN, CAMA, CITA, PITA, ISA, The new SEC rules & regulations, PENCOT and NAICOM.

Outstanding Issues

- Fund reporting and accounting
- Performance measurement
- Initial fund expenses
- Seeding new funds
- Funds cost structure
- Risk management
- Management and operations
- Compliance
- Tax and dividend issues

5

SUB-COMMITTEE ON MARKET INFRASTRUCTURE AND TECHNOLOGY

Introduction

The Market Infrastructure Technology sub-committee in carrying out its mandate, reviewed issues concerning minimum infrastructure baseline for operators and regulators, know-your-customer technologies, reconciliation of registers, shared services, e-dividend platform, e-allotment platform, updated shareholders' account details in CSCS and also reviewed other sundry issues.

Terms of Reference

1. Examine and provide a comprehensive report on the current state of the market infrastructure and technology employed in the Nigerian Capital market.
2. To create awareness among capital market operators on information technology security issues as they occur within and outside our jurisdiction.
3. To provide guidance to the Commission on the establishment of an improvement in Disaster Recovery/Business Continuity Planning by the SEC and market operators
4. Review and recommend minimum infrastructural and capacity requirements for market operators, and also enhance capacity in the industry.
5. Recommend minimum standards for information technology, security and infrastructure for the OTC market.
6. Explore the development of shared services to reduce cost of doing business in the capital market.
7. To advise on critical infrastructure for the surveillance of the market.

Other responsibilities as the CMC may delegate to the sub-Committee to work on to develop the capital market using IT.

Action Plan

- Work towards new clients' accounts including information such as GSM and bank account numbers while requiring existing clients to update their information to include same by end of First quarter 2013.
- Review of the infrastructure positions of CSCS, NSE and SEC
- Review the report of Demutualization Committee.
- Work towards returns including all observations by the regulators being in e-format.
- Dematerialization implementation

Achievements

Notable among the achievements made by the sub-committee were:

- The Minimum Infrastructure Baseline for Capital Market Operators and regulators.
- Online Account Opening
- CSCS Biometric KYC System
- Update of Investors' Accounts Details with CSCS

Work-in-Progress

- Reconciliation of Members' Registers (ongoing and was being done in phases).
- Direct Settlement Initiative being designed (CSCS and NIBSS are currently working to put the system in place)

Outstanding Issues

- Implementation of the Dematerialization report
- Implementation of the Minimum Infrastructure Baseline for CMO's and Regulators.
- Awaiting Policy statements from SEC and the CBN on making e-dividend payments compulsory.
- Expecting Policy statements from SEC to enforce cooperation by both issuing houses and registrars on the issue of reconciliation of issued shareholdings still in certificate format.
- KYC requirements of SEC, CBN and CSCS to be made available to the subcommittee.

- Exploring the development of shared services to reduce the cost of doing business in the market.

Challenges

Lack of feedback from the Commission on reports/requests/ recommendations submitted posed a major challenge and made it difficult for the sub-committee to take a position or make decisions on such issues.

6

SUB-COMMITTEE ON PRODUCTS AND BUSINESS DEVELOPMENT

Introduction

The Products and Business Sub-committee concentrated on working out strategies that would encourage the introduction and listing of new products.

Terms of Reference

1. Identify new opportunities to increase the breadth and depth, as well as the liquidity of the capital market with the introduction of new products and the continuous improvement of existing products and processes.
2. Identify and propose new asset classes and products that are relevant to Nigeria's economic development at all times.
3. Develop a framework or process for introducing new products and forward the same to the Rules sub-committee of the CMC for further review and feedback.
4. Advise on conformity with global best practice on new and existing products and processes in the market.
5. Review all new products and processes developed/suggested for the market from all sources.
6. Review all existing products and processes and propose amendments (where necessary) from time to time.
7. Disseminate materials on identified products and processes as would be relevant to Nigeria and to promote market education and awareness.
8. Advise the SEC on steps and procedures that would lead to or facilitate the launch of identified new products and processes.
9. Carry out other assignments as may be given to it by the CMC from time to time to promote the interest of the Nigerian capital market.
10. Propose to the SEC policy measures and procedures to encourage new listings.

Work Strategy

The subcommittee formed three (3) working groups to work out strategies for the:

- i. Implementation of identified products
- ii. Logistics to encourage new listing and
- iii. Capacity building focused on new products and CIS scheme

Action Plan

- **Working Group 1: Implementation of Identified Products Working Group**
 - To work out modalities for ensuring the introduction of, and trading on new products.
 - To meet with relevant stakeholders to facilitate the needed understanding of the market and to promote the removal of impediments that affect the depth of the market.
- **Working Group 2: New Business Working Group**
 - To work out the logistics that would encourage new listings from existing and new sectors.
 - To liaise with appropriate authorities and work out a model that would encourage buy in from all stakeholders.
 - To carry out research and submit proposals to government via SEC on policy issues that affect the market.
- **Working Group 3: Capacity Development Working Group**
 - Introduction of Securities Lending and new CIS products.
 - Issuance of Infrastructure Bonds (In liaison with Infrastructure Regulatory Commission).
 - Research, structures, process flows, awareness programs and capacity building (training) in the above areas.
 - Liaise with BPE and NERC to develop framework for eventual listing of privatized power companies.
 - Increasing the participation of Collective Investment Schemes in capital market activities.
 - The enhancement of activities in ETFs, Asset-Backed Securities, REITs, etc
 - Attract Public interest Corporations to be listed on the Nigerian Stock Exchange.
 - Implementation of enlightenment programs for proposed products.

Achievements

- Trading on Securities Lending commenced on 18/9/12. (Stanbic IBTC and UBA became pioneer security lenders).
- Commencement of Market making activities.
- Stakeholders' workshop for Operators and Regulators on Market Making and Securities Lending.
- The sub-committee identified possible ways of ensuring that the new successor companies will be listed.
- The group worked closely with NSE and foreign consultants that were ready to partner with SEC on capacity building for regulators and market operators.
- Capacity building was focused on new products and Collective Investments Schemes

Specific Recommendations for Listing of Public Interest Companies

Telco Companies

- Government and regulatory authorities to review rules for new entrants and renewal rules for existing telcos to include mandatory listing.
- Telcos should be mandated to list 20% of their holdings within the next 6 years.
- Renewal should be based on phased disposal of shares commencing from 2014
- Allow time for due diligence valuation of their shares within the period in question

Power Sector

- Regulators should ensure the implementation of the Sale Agreement, taking into cognizance the listing clauses.
- SEC should engage BPE, NSE, NERC, Ministry of Power etc. and select members of the Products and Business Development Committee to form a 'Listing Implementation Committee' that would follow through with the listing process.

Sale of NIPPs

Ensure that the listing clause was embedded in the sale of NIPPs contract between BPE and Niger Delta Holding.

Challenges

1. Closer collaboration with the SEC by way of participation in Capital Market group meetings.
2. High level of absenteeism of members of the sub-committee which affected the quorum and the frequency of meetings.

Outstanding Issues

1. The public enlightenment plan on new products.
2. Review and Input to the National Integrated Master Plan
3. Following through with the recommendations made for Telcos, power sector and on sale of NIPPs.

7

SUB-COMMITTEE ON RULES AND COMPLIANCE

EXECUTIVE SUMMARY

Introduction

The Rules and Compliance Sub-Committee was constituted primarily to review and suggest amendments to both existing and proposed Rules and Regulations of the Securities and Exchange Commission (“SEC” or “the Commission”), in a bid to enhance regulation and promote the growth of the Nigerian Capital Market. The Committee comprised of capital market operators in a number of functions to ensure broad representation of operators in the market.

The Terms of Reference

1. Review and suggest amendments to existing rules and regulations;
2. Comment on drafts amendments to existing rules or proposed new rules;
3. Advise on the general structure of the SEC's Rule Book;
4. Propose rules that align the Nigerian capital market with international best practice;
5. Assist in crafting rules for new products and processes in the Nigerian capital market;
6. Make recommendations for enforcing the implementation of and compliance with the Rules and the Code of Corporate Governance; and
7. Perform any other duty assigned by the Commission with a view to enhancing the growth of the Nigerian Capital Market.

Action Plan

- Review the Code of Ethics for Capital market Operators (“CMOs”)
- Propose to SEC, strategies for sensitising the CMOs on compliance with the Code of Ethics

- Review the Code of Corporate Governance
- To produce in conjunction with the Rules Committee of SEC, a tracked version of the SEC Rule Book containing all amendments to date

Achievements

Pursuant to its mandate, the Sub-Committee completed the review of:

- The Code of Corporate Governance,
- Code of conduct for Capital Market operators and their Employees
- Proposed amendments to the listing rules of The Nigerian Stock Exchange
- Proposed Rules on Securitization,
- Proposed Rules on REITs, the Proposed new rules/amendments to the Rules and Regulations of the Securities and Exchange Commission and other rules

In addition, the Sub-Committee was finalizing the simple English Guide on the SEC Rules and Regulations.

ADVOCACY ISSUES IDENTIFIED BY ALL THE CMC SUB - COMMITTEES 2012 -2013

<i>S/N</i>	<i>Institutions to Visit</i>	<i>Issues to Address</i>	<i>Required Action by the Committee</i>
1.	FMF/CME	✓ Listing Of Public Interest Companies (Telcos and Power sector)	✓ Work with product and business sub-committee to present position paper to government on public interest companies
		✓ The Sovereign Wealth Fund (SWF)	✓ Persuade SWF to invest in the capital market
		✓ ISPO and bond issuance. The role of Trustees in debt issue.	✓ Engage the Ministry to fast track ISPO issuance.
		✓ Holistic support for the market as obtained in other jurisdictions.	✓ Appropriate government support through the Ministry of Finance and other government Institutions.
2.	FIRS	✓ Value added tax	✓ Need for VAT reduction on market transactions.
		✓ Stamp duties charges	✓ Cessation of stamp duties charges as transactions involving same no longer exist. Investors share purchases are now done directly.
		✓ Amendments to taxation law	✓ The waiver granted by the President on Personal Income Tax Act (PITA) should be extended to Company Income Tax Act (CITA).
		✓ Withholding Tax	✓ Reduction of withholding tax.
		✓ Double taxation	✓ Address double taxation arrangement on mortgages to encourage investment.
		✓ Tax rate for listed companies.	✓ Tax rate for companies planning to list and listed companies should be reduced.
3.	CBN	✓ Impact of interest rate on the market.	✓ Engage CBN to address interest rate hike.
		✓ Delay in verification of source of funds	✓ Engage CBN to accelerate the verification of the source of funds.

S/N	Institutions to Visit	Issues to Address	Required Action by the Committee
		for banks-related IPOs.	
		✓ The effect of policy initiatives and pronouncements on the capital market.	✓ Engage CBN and others at FRSCC to ensure that policy initiatives and pronouncements have positive effect on the market
		✓ Divestment of banks from fund management subsidiaries in line with CBN directives.	✓ Engage CBN on the need to expand the timeline to 2-3yrs in order to enable the banks divest gradually.
		✓ Banks Investment limit (max 10%) in bond offer	✓ Engage CBN to increase the limit
		✓ Banks rejection of equities as collateral.	✓ Determine the source of their action, whether its CBN or the banks.
4.	AMCON	✓ Compensation for Shareholders of nationalized banks.	✓ Determine terms of compensation for shareholders especially retail investors of nationalized banks as was done to depositors
5.	BPE	✓ Privatized and unlisted companies	<p>✓ Already privatized companies to implement sales agreement and unlisted companies should be wooed to list especially those that have plans to list.</p> <p>✓ Clauses mandating privatized companies to list should be inserted in privatization guidelines.</p>
6.	National Assembly	<p>✓ Amendment to existing law on the use of share certificate as evidence of Investment.</p> <p>✓ Management of unclaimed dividend</p>	<p>✓ Press for amendment to CAMA provision that make share certificate statute barred after 12 years.</p> <p>✓ Further justification to set up of Trust Fund to manage existing unclaimed dividend.</p> <p>✓ Amendment to allow for use of</p>

S/N	Institutions to Visit	Issues to Address	Required Action by the Committee
			electronic evidence of share certificate. Discuss the need for adoption of e-dividend to forestall continuous growth of the unclaimed dividend.
7.	PENCOM	<ul style="list-style-type: none"> ✓ Restriction of CMOs in pension industry whereas PFCs invest in the capital market unhindered. ✓ ISPO for Pension Deduction 	<ul style="list-style-type: none"> ✓ Capital Market operators should be allowed to operate in the Pension industry. ✓ The recent PenCom requirement for PFA's to invest only in bonds of State Governments which have issued ISPO to fund their pension payment obligations is having an adverse effect on the appetite of sub-nationals for bond securities. Despite the best effort of the CBN to reduce lending by banks to States, there appears to be significant credit flow from banks to states in the first half of the year to the detriment of the bond market ✓ Engage the PenCom to review this stance and consider incentives to encourage States meet their pension obligations.
8.	Ministry of Trade of Trade & Investment	<ul style="list-style-type: none"> ✓ ASCE Issues 	<ul style="list-style-type: none"> ✓ Seek ways to enable ASCE deliver on its mandate.
9.	NIPC	<ul style="list-style-type: none"> ✓ Issues of mutual interest. 	<ul style="list-style-type: none"> ✓ Visit to familiarize and discuss issues of mutual interest.
10.	Minister of Housing	<ul style="list-style-type: none"> ✓ Amendment of Land use act 	<ul style="list-style-type: none"> ✓ Seek ways to amend the Land Use Act (LUA) to encourage investment in real estate and trading in securitized product

