

**A COMPENDIUM OF
CAPITAL MARKET COMMITTEE (CMC)
SUB-COMMITTEES' REPORT
2012 - 2013**



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A COMPENDIUM OF CAPITAL MARKET COMMITTEE (CMC) SUB-COMMITTEES' REPORT 2012 – 2013

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BACKGROUND

BRIEF ON CAPITAL MARKET COMMITTEE (CMC)

- The 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.

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SUB-COMMITTEE ON COMMODITIES, EQUITIES & EXCHANGES

EXECUTIVE SUMMARY

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 sub-committee'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.

SUB-COMMITTEE ON COMMODITIES, EQUITIES & EXCHANGES

2012-2013 REPORT

1.0 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.

2.0 NAMES OF SUB-COMMITTEE MEMBERS

S/N	NAME	ORGANISATION/FIRM	FUNCTION
1	Chuka Eseka (Chairman)	Vetiva Capital Management Ltd	Issuing House
2	Wolemi Esan (Vice Chairman)	Capital Markets Solicitors Association	Trade Group
3	Tunde Ayeni	Union Registrars Ltd	Registrar
4	Muyiwa Adeyemi	Lead Securities & Investments Ltd	Broker/Dealer
5	Hajjya Baba- Ari Zaheera	ASCE	SRO
6	Luke Okonkwo	TrustHouse Investment Ltd	Broker/Dealer
7	Alh. Rasheed Yussuff	Trustyields Securities Ltd	Broker/Dealer
8	OladeleSotubo /Jejelowo Busola	Stanbic IBTC Stockbrokers Ltd	Broker/Dealer
9	Bola Ajomale	NASD Plc	SRO
10	Bisi Oni	FBN Capital Ltd	Issuing House
11	Tam Alazigha	BGL Plc	Issuing House
12	Kola Owodunni	Dunn Loren Merrifield Ltd	Issuing House
13	Elochukwu Uba	NSE	SRO

14	Anderson Obakpolor	SIAO Chartered Accountants	Reporting Accountants
15	Sadiq Abu	Renaissance Capital Ltd	Issuing House
16	Ambursa Abubakar	SEC	Regulator
17	Farooq Oreagba	African Alliance Stockbrokers Ltd	Broker/Dealer
18	Bola Onadele	FMDQ OTC Plc	SRO

3.0 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 and 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.

4.0 ACTION PLANS

1.1 2012 Action Plan

- Submit Interim report on Exchanges Q1 CMC, 2012 - Q1 CMC, 2012
- Organize Conference on Commodities Trading - June 2012
- Present Benchmarking Report on Nigerian Exchanges - Q4, 2012

1.2 2013 Action Plan

- Organize a Commodities Trading Conference* - Q1, 2013
- Present Completion Report to the CMC further to the Commodities Trading Conference - **Q1, 2013**
- Present Recommendation Report for Market Deepening and Capacity Building for NASD Plc and other Alternative Trading Platforms - Q2, 2013

- Benchmarking Presentation to the CMC – Quarterly
- Track implementation of Sub-Committee Recommendations - Quarterly
- Review Target goals for Exchanges - Quarterly

5.0 ACHIEVEMENTS VIS-À-VIS TERMS OF REFERENCE/ACTION PLAN

- Submitted Interim report on Exchanges
- Presented Benchmarking Report on Nigerian Exchanges
- Present Recommendation Report for market deepening and capacity building for NASD and other Alternative Trading Platforms – Work in Progress
- Quarterly Benchmarking Presentation to the CMC - Ongoing
- Track Implementation of Sub-Committee Recommendations - Ongoing
- Review target goals for Exchanges – Ongoing

6.0 REPORTS SUBMITTED TO THE COMMISSION

The following reports are attached as Appendices A, B, C and D

1. **Interim Report on Exchanges** –The Sub-committee examined the NSE, the ASCE and the NASD Plc involving, in each case (and to the extent considered appropriate) analysis of the current state of each exchange, operations review, transformational issues within the context of terms of reference, and proffered recommendations on the development of each Exchange and the Nigerian Capital Market as a whole.
2. **Position Paper on the Demutualization of the Nigerian Stock Exchange** –Examined some issues which the Sub-Committee considered imperative for the successful completion of the demutualization of the Nigerian Stock Exchange.
3. **Recommendation Report on the Revitalization of the Nigerian Capital Market** –In this report, the Sub-Committee highlighted specific initiatives that could spur the Nigerian Capital Market to quicker and more strengthened recovery.
4. **Benchmarking Report on Exchanges** - The Benchmarking Report focused on these markets:
 - Developed Markets – United States, United Kingdom, Singapore, Germany
 - Emerging Markets – South Africa, Brazil, Russia, India, UAE, Malaysia, Chile, Poland

- Frontier Markets – Egypt, Mauritius, Ethiopia, Morocco, Kenya, Ghana

To review/benchmarking of Nigerian exchanges against the focus markets/exchanges, the Benchmarking report covered all the areas within the Sub-Committee's Terms of Reference and made recommendations on NSE operational practices, e.g., information dissemination, after trade surveillance, etc.

It also considered at Commodities, Options, Futures Exchanges and Alternative Trading Platforms.

7.0 SUMMARY OF KEY RECOMMENDATIONS

i. The Nigerian Stock Exchange (“NSE”)

- The ongoing transformation agenda of the NSE should be intensified;
- SEC should speedily consider the report of the market-wide Demutualization Committee and publish requisite guidelines to drive the demutualization process. Demutualization should commence and be completed within the specified timetable;
- The NSE should enhance transparency and market information dissemination;
- Regulatory fees charged by the NSE should be reduced to encourage unquoted public companies to list their shares;
- All new share issuances (including bonuses) should be done on a dematerialized basis;
- All dividends should be effected electronically and directly to beneficiaries' bank accounts to reduce the problems of unclaimed dividends;
- Barriers to retail investors' ability to access the market should be removed;
- Improvements to the settlement system (in terms of post-trade allocation, trade warehousing, facilitation of execution of inter-member transfers and nominal transfers) should be made.

ii. The Abuja Securities and Commodities Exchange (“ASCE”)

- Institutional infrastructure should be provided to facilitate commodities trading:
 - Enact regulatory framework to facilitate warehouse receipt financing;
 - Implement a national commodities grading system to promote efficiency in both local and international trading of agricultural produce;

- The privatisation of ASCE should be subject to the provision of the requisite institutional infrastructure.

iii. The National Association of Securities Dealers (“NASD Plc”)

- Any company with more than 50 beneficial owners must have all such interests in its securities dematerialized and held by a depository;
- All depositories must provide access to its data base by all securities exchanges or trading platforms registered by SEC;
- In the interim, all registers of such securities shall be in book entry form, updated daily and made available online to the securities exchanges and/or trading platforms on which quotation or trading is maintained or undertaken for the purpose of verifying all transactions intended and/ or undertaken;
- No depository shall effect the transfer of securities unless the securities have been traded on and reported by a SEC registered securities exchange or trading platform.

8.0 POSITION PAPER ON DEMUTUALISATION

Summary of Key Recommendations

- Demutualization of the NSE is a profitable initiative;
- It is a perfect complement to the reform initiatives of the NSE and SEC;
- Considering the potential for delay in the legislative processes for the enactment of a Demutualization Act or other amendments to existing legislation, it may be worthwhile to diligently explore other legally permissible options that would not involve a legislative process for actualizing the demutualization objective;
- The demutualization process must be transparent, inclusive and in accordance with applicable law and global best practices;
- Matters relating to post-demutualization ownership structure, allocation of interests and access rights, etc. should be determined and agreed by the current members of the NSE in accordance with the current governance rules of the NSE;
- Post-demutualization Board should comply with the SEC code of corporate governance;
- Effective supervisory framework for the demutualised exchange is key –

The success of the demutualization process will depend, (to a large extent), on the strength of the supervisory framework and guidelines instituted by the SEC to facilitate the demutualization, as well as the effective monitoring and supervision of the demutualised exchange.

9.0 RECOMMENDATIONS FOR THE REVITALISATION OF THE NIGERIAN CAPITAL MARKET

Summary of Key Recommendations

- Injection of funds into the equities market through:
 - The establishment of a stabilization fund to intervene in the market by purchasing and warehousing undervalued securities with strong fundamentals;
 - Providing a window for approved market makers to obtain liquidity backstop;
 - The investment of part of the Sovereign Wealth Fund in the equities market.
 - Engaging CBN to consider using other tools beyond the Monetary Policy Rate (MPR) as primary instrument in achieving price and exchange rate stability objectives;
 - Fast tracking kick-off of market making;
 - Increasing local participation through regulatory tools & investor enlightenment programs, with deliberate effort being made to reach small scale investors;
 - Encouraging investment through managed schemes by making it mandatory, at regulatory level, for very small retail investors to only participate in the market through collective investment schemes;
 - Enhanced screening of companies listing securities on an exchange;
 - Resolution of outstanding CSCS transactions;
 - Implementing investor-friendly enforcement strategy – suspended brokers should be required to transfer clients' accounts to another broker;
 - Accelerating the development of a viable Commodities Exchange.
-

10.0 CHALLENGES

Attendance and participation at the Sub-Committee's meetings were quite impressive. However, the key challenge which the Sub-Committee experienced, at a much later time, was that membership effectively reduced as a result of some members either leaving their institutions or exiting from capital market operations.

11.0 OUTSTANDING ISSUE

The outstanding deliverable for the Sub-Committee is organizing a conference on Commodities Trading.

As earlier reported, the Sub-Committee had come up with a broad plan/agenda for a Commodities Trading Conference. However, in view of certain developments in the area of Commodities Trading in Nigeria, including the proposed privatization of the ASCE, and the various workshops and activities being organized by the ASCE in that regard, the Sub-Committee had considered it expedient to review its strategy and build on the plan of the ASCE in achieving a Commodities Trading Conference.

12.0 APPENDICES

The following appendices are herewith attached to the report:

Appendix A – Interim Report on Exchanges

Appendix B – Position Paper on Demutualization of the Nigerian Stock Exchange

Appendix C – Recommendation report on the Revitalization of the Nigerian Capital Market

Appendix D- Benchmarking Report on Exchanges

NOTE: APPENDICES A - D HAVE INDEPENDENT PAGE NUMBERING FROM THE ENTIRE DOCUMENT

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SUB-COMMITTEE ON FIXED INCOME

EXECUTIVE SUMMARY

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.

SUB-COMMITTEE ON FIXED INCOME

2012 - 2013 REPORT

1.0 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.

2.0 NAMES OF SUB-COMMITTEE MEMBERS

S/ N	Name	Organization/ Firm	Function	Designation	Email
1	Mr. Taiwo Okeowo (Chairman)	FBN Capital	Issuing House	Executive Director	taiwo.okeowo@fbncapital.com
2	Bolaji Balogun	Chapelhill Denham Ltd	Issuing House	Managing Director	bbalogun@chapelhilldenham.com
3	Ignatius Nwaokolo	Union Trustees Ltd	Trustees	Manager	olufunkeaiyepola@uniontrusteeslimited.com ; ignatiusnwaokolo@uniontrusteeslimited.com
4	Mrs. Oluwatoyin Sanni	United Bank for Africa Trustees	Trustees	CEO	sanni.oluwatoyin@ubagroup.com
5	Benjamin Obidiegwu	Hermon Barristers & Solicitors	Solicitors	Managing Partner	hermon@hermonlaw.com ; ben@hermonlaw.com
6	Ade Bajomo	NSE	SRO	Exec. Dir.	
7	Chioma Orjiako	National Pension Commission	Regulator		
8	Mrs. Patience Oniha	DMO	Observer	Director	puoniha@yahoo.com
9	Oladele Afolabi	DMO	Observer	Assistant Director	virtuek@yahoo.com
10	Peter Ashade	Meristem Registrars Ltd	Registrars	Managing Director	peterashade@yahoo.co.uk
11	Kayode Falowo	Greenwich Trust Limited	Issuing House	Managing Director	kayode.falowo@greenwichtrustgroup.com
12	Henry Laraiyetan	BGL Plc	Issuing House	Executive Director	albert.okumagba@bglgroupng.com ; henrylaraiyetan@bglgroupng.com
13	Alhassan Gwarzo	Sterling Capital Market Ltd	Asset Management	Head, Corp. Finc.	alhassan.gwarzo@sterlingbank.com
14	Nkeonye Emeifeogwu	CMSA	Solicitors	Partner	bjibade@spajibade.com
15	Oluwabukola Iji	S.P.A. Ajibade & Co.	Solicitors	Senior Associate	bjii@spajibade.com
16	Mrs Ebieri Helen Famudoh	TFS Sec. & Invmt Co. Ltd	Stock Broking	MD	helenfumudoh@yahoo.com
17	Tokunbo Ajalu	UBA Asset Management	Stock Broking		N/A
18	Mudashiru Ademola	Capital Bancorp Ltd	Stock Broking	DM	mademola@capitalBancorpng.org mudabancorp@yahoo.com
19	Mr. Taiwo Olashore	Lead Securities & Investment LTD	Stock Broking	MD/CEO	taiwo.olashore@leadcapitalng.com
20	Olawale Oluwo	BGL Plc	Issuing	Head,	albert.okumagba@bglgroupng.com ;

			House	Investment Banking Group	
21	Chief E. Chike Nwanze	Icon Stockbrokers Limited	Stock Broking	Managing Director	chike.nwanze@iconstockbrokersltd.com ; nwanzeec@yahoo.com
22	Mr. Sonnie Ayere	Dunn Loren Merrifield	Issuing House	Managing Director	sonnie.ayere@ubagroup.com
23	Oluwaleke Areo	Federal Mortgage Bank of Nigeria	Mortgage	AGM Finance	oluwalekeareo@yahoo.com
24	Abbas Abdulkadir	SEC	Regulator	Assistant Director/SIS	aabdulkadir@sec.gov.ng

3.0 TERMS OF REFERENCE

S/N	Working Groups	Mandate	Terms of Reference
1	Policy Advocacy	The working group is focused on influencing policies and pronouncements that affect the issuance of Fixed Income securities.	<ul style="list-style-type: none"> • Interest Rates • Government Borrowing • Amendment of CITA (tax exemption on bonds) • Gazetting the Presidential waiver of tax on bonds • CBN regulations on Bond subscription by banks
2	Market Development & New Products	The working group is focused on activating a secondary market in sub-national and corporate bonds at the NSE, development of the securities lending market and trading of AMCON Bonds.	<ul style="list-style-type: none"> • Establishing robust Trading Platform • Developing REPO/Securities Lending Market • Trading of AMCON Bonds • Development of the secondary mortgage market
3	Market Operations	The working group is responsible for reviewing and dealing with all issues affecting the smooth operation of the Fixed Income Market.	<ul style="list-style-type: none"> • ISPO Process (MoF, AGF and DMO) • DMO's stance on Sub-national bonds. • SEC approval process • Lack of Corporate Bond Issues

4.0 ACHIEVEMENTS AND RECOMMENDATIONS

Below are the key issues identified, the achievements and recommendations of the committee in the last two years and its action plans on the issue going forward

S/N	Working Groups	Issue	Mandate	Terms of Reference
1	Policy Advocacy	Tax Waiver on Corporate and Sub-national Bonds	<p>The PITA Amendment was gazetted with a commencement date of 14 July 2011.</p> <p>In addition, the Companies Income Tax Exemption Order and a Value Added Tax (Modification) Order were issued by the President and the Hon. Minister of Finance in 2012.</p> <p>A letter was prepared and sent to the Coordinating Minister for the economy seeking a special order by the President/Coordinating Minister of the Economy to close the gap created by the differences between the effective dates of the tax waivers (January 2012) under the above referenced Amendment Act and Exemption Order, and March 2010 when the waivers were conveyed to the public and also to ensure that registrars are not liable for not subjecting the instruments to tax.</p> <p>The letter also requested for an extension of the waivers to the classes of fixed income securities not yet covered e.g ABS and MBS.</p> <p>FIRS representative averred that the FIRS has received a copy of the letter to the CME and is already working on resolving the issue.</p> <p>Ministry of Finance requested from CMC Chair for a copy of original notice of tax waiver. This was duly provided by the subcommittee through the SEC.</p>	<p>Sub-committee was seeking further accommodations and waivers in respect of tax obligations arising during the gap period.</p> <p>The sub-committee liaised with FIRS to seek waiver of tax deduction during the gap period before issuance of gazettes. The FIRS had confirmed that work was in progress to address the issue.</p> <p>The sub-committee through the office of the CMC Chairman was also engaging with the Ministry of Finance to pursue the tax deduction waiver. A request for clarification addressed to the Chairperson of the CMC was received from the Ministry earlier in the year. Following the response to the enquiry, the Ministry confirmed that it was reviewing the issue.</p>

		CBN Regulation on Limit for Banks Investment in Sub national Bond Issues	<p>Meeting with Director, Financial Surveillance and his team at the CBN to discuss the issue.</p> <p>CBN officials recommended that a formal letter be presented stating the request of the sub-committee.</p> <p>The letter was prepared and sent to the CBN Governor and the Deputy Governors, Financial Surveillance and Economic policy seeking a revision of this policy.</p> <p>A letter was also sent to the Capital Markets Committee to assist in engaging the CBN on the issue.</p>	<p>The subcommittee has tabled the issue as part of the agenda items for the scheduled discussions between the DG of SEC and the CBN Governor.</p> <p>Meanwhile the subcommittee is seeking audience with the CBN, DG Financial Surveillance to follow up on the request.</p>
		Engagement of the DMO on its new requirement	The SEC engaged the DMO on the issue and requested that the DMO provide their standard debt sustainability checklist. The SEC upon receipt will review same to ensure that there was no duplication.	A meeting will be held subsequently with the DMO to discuss the issue.
		Interest Rates/Monetary Policy and Government Borrowing	Issue highlighted in the forum held by the Capital Market operators with the Hon. Minister of Finance and CME.	Impact of double digit interest rates and recent CBN policies were included in the agenda for discussion between DG of SEC and CBN Governor later in the year.
2	Market Development & New Products	Securities Lending	<p>Meeting held with PENCOM to seek a review of the policy against securities lending as a means of promoting market making in debt securities.</p> <p>PENCOM insisted that securities lending is forbidden under the PENCOM Act.</p>	Engage PenCom to reconsider its stance on securities lending by PFA's and commence aggressive advocacy with the SEC to convince PENCOM to seek an amendment of the Act
		Trading of AMCON Bonds	<p>Sub-committee's discussions with AMCON indicated that such bonds are tradable but held-to-maturity by banks to avoid crystallizing losses.</p> <p>AMCON had redeemed/refinanced its expired bonds.</p>	Continue discussions with AMCON to utilize existing market makers on the FGN Bonds for AMCON Bonds
		Robust Trading Platform on the Exchange	<p>Sub-committee engaged NSE, DMO and NASD on introduction of market making for debt securities particularly the illiquid Corporate and sub-national securities.</p> <p>NSE has reduced its trading fee on debt securities to level competitively with FMDA (Banks)</p>	Engage other OTC markets (both NASD and FMDQ) in promoting market making in non-sovereign fixed income instruments.

			trading FGN Bonds. NSE also trades smaller volumes. The Exchange had introduced market making in bonds and appointed Market makers. Trading had commenced.	
		Development of the Secondary Mortgage and Asset Backed Securities	<p>A representative of the Federal Mortgage Bank of Nigeria (FMBN) sits on the subcommittee. Discussions held on the subject revealed that:</p> <ul style="list-style-type: none"> • The National Assembly plans to pass a bill that will encourage the issuance of mortgage backed securities in Nigeria. At the moment, the waivers granted on fixed income securities do not cover Asset & mortgaged backed securities. • The secondary mortgage market can only be developed when there is a viable primary market and as such, the FMBN is in the process of appointing a consultant to access the pool of mortgages in the financial system. • The subcommittee has reviewed its draft securitization rules and forwarded comments to the Commission. 	<p>Draft letter to the HMF on tax waivers included a request for an extension of the waivers to cover ABS & MBS.</p> <p>The subcommittee will follow up with the SEC on release of the final securitization rules to market operators.</p>
		Deepening the Corporate Bond Market in Nigeria	The subcommittee was working on a report to be presented to the SEC/CMC on the significant absence of corporates in the bond market and measures to stimulate the corporate bond market.	The committee was working on the report and a draft report was to be submitted to the CMC before the end of the year.
		Development of Sukuk securities in Nigeria	The subcommittee was working on a report to be presented to the SEC/CMC on the initiatives to be implemented to develop the market for Sukuk securities	The report will be submitted to the SEC before the end of the year
3	Market Operations	SEC Approval Process	The sub-committee was able to obtain the buy-in of SEC on a number of issues including: documentation for bond issue approval, duration of SEC review,	Return on Utilization of Issue Proceeds- A proposal was sent to the AIHN and SEC that the obligation of issuing houses should be limited to

			<p>compliance & monitoring, number of deficiency letters issued by SEC.</p> <p>The SEC has considered a number of the issues raised and acceded. At one of the CMC meetings following these discussions, the CMC proposed that the lead issuing house should obtain indemnity from each party to defray any fee/penalty owed to SEC from its fees on the offer and on that basis. Consequently, the lead issuing house would provide an undertaking to SEC to avoid further delay in applications. Such an undertaking was to only cover payments (i. e fees and penalties). The SEC was agreeable to the NSE and CSCS proceeding with listing of debt securities which were either fully underwritten or issued via book-building without SEC notification of approval of the Basis of Allotment. However, it was discovered that the ISA requires such notification.</p> <p>The subcommittee expected that the SEC will revert with a final position on the outstanding issues.</p>	<p>formally advising and reminding each sub-national issuer to file returns on utilization of proceeds.</p> <p>Approval of Basis of Allotment. The Sub-Committee was working with the SEC to provide a pre-notification process that complies with the ISA while enabling the NSE to proceed with listing shortly after the book-building was completed.</p>
		ISPO Approval Process Issues.	<p>The sub-committee on the basis of extensive work by its Market Operations Group had proposed a review of the ISPO approval process. The sub-committee developed templates for communicating requests and approval of the ISPO application. These templates were presented to the SEC and other stakeholders for review and comments.</p> <p>Subsequently, the sub-committee has secured in-principle consent of the SEC and the CMC to proceed with discussions and engagement with other key stakeholders in socializing the proposed review of the ISPO approval process.</p> <p>Engagement with other key stakeholders was in progress with ongoing discussions with the DMO and planned to engage with the office of the Accountant General of the Federation in Q4.</p>	<p>The subcommittee would collaborate with the SEC to engage other stakeholders (AGF, DMO, MOF, and State Governments). The engagement with each key stakeholder will entail a specification of their requirements from sub-national issuers.</p> <p>The subcommittee would engage each party separately/independently. After obtaining the buy in of each stakeholder, a workshop will be held with all stakeholders in attendance.</p> <p>The SEC planned to join the Ministry of Finance at the monthly FAAC meeting as an opportunity to educate the State Commissioners and Accountant Generals on the requirements for bond issuance. This opportunity will be used to present the revised ISPO approval process.</p>

				After receiving and harmonizing the inputs from all key stakeholders, the SEC would translate the revised ISPO process flow into rules.
		Government Stockbroker	The Sub Committee through the Chairman met with the DMO to reconsider its stance on the structure of the proposed single market maker for FGN securities. The subcommittee was of the opinion that greater benefits would accrue by the appointment of more than one market maker and required the support of the SEC to continue discussions with the DMO.	The DMO appointed a market maker for FGN Bonds on the Stock Exchange but also indicated its intention to review the sole appointment at a later date.
		Completion Meeting	The sub-committee was able to obtain the buy-in of the SEC with respect to the completion meeting not being a compulsory part of the transaction process, and as such the transaction documents only need to be executed. This has been reflected in the SEC rules.	This was finalized.

3

SUB-COMMITTEE ON INVESTOR CONFIDENCE

EXECUTIVE SUMMARY

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

2012 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.

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.

Achievement

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

Outstanding Issue

Investor Confidence Survey

SUB-COMMITTEE ON INVESTOR CONFIDENCE

2012 - 2013 REPORT

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2.0 NAMES OF SUB-COMMITTEE MEMBERS

S / N	Name	Organization/ Firm	Function	Designation	Email	Phone Nos.
1	Mr Emeka Madubuike (Chairman)	Compass Investment & Sec. Ltd	Stock Broking	Managing Director	cemadubuike@yahoo.com	08033100270
2	Abubakar Sadiq Mohammed	ARM Pension Managers Ltd	Asset Management	Managing Director	sadiq.mohammed@armpension.com	08034021705
3	Ms. Yewande Sadiku	Stanbic IBTC Bank PLC	Issuing House	Head, Investment Banking	yewande.sadiku@ibtc.com	08034020099
4	Mr. Kayode Falowo	Greenwich Trust Ltd	Issuing House	Managing Director	kayode.falowo@greenwichtrustgroup.com	08035701026
5	Mr. Taiwo Okeowo	FBN Capital Ltd	Issuing House	Managing Director	taiwo.okeowo@fbcapital.com	08022908845
6	Chuka Eseka	Vetiva Capital Management Ltd	Issuing House	Managing Director	c.eseka@vetiva.com	08072090060
7	Kyari Abba Bukar	CSCS	Securities Clearing and Depositories	Managing Director	bukar.kyari@cscsnigeria.com	08034048080
8	Dr. David Ogogo	ICMR	Training	Registrar/CEO	davidwalkorogogo@yahoo.com	08023022659
9	Dr. Timi Austen-Peters	Timi Austen-Peters & Co.	Solicitors	Principal Partner	timi@austen.peters.com	08036990000
10	Bayo Rotimi	Quest Advisory Services	Financial Adviser	CEO	bayo.rotimi@quest-advisory.com	08022231208
11	Lolade Balogun	FBN Capital Ltd	Asset Management		lolade.ososami@abrahamlaw.com	08033078777
12	Yemi Gbenro	Skye Financial Services Ltd	Operation	Exec. Dir.	ygbenro@skyebankng.com	08023156525
13	Sola Ephraim-Oluwanuga, MNI	O.S. Ephraim-Oluwanuga & Co.	Solicitor	Principal	oluwanuga@gmail.com	08056638698
14	Segun Sanni	Stanbic IBTC Custodian	Custodians	CEO	segun.sanni@stanbic.com	08062855575
15	Otobong Tom	Chris	Solicitors	Partner	abi.ogunbanjo@chrisogunbanjo.c	08034002345

		Ogunbanjo & Co.			om	
16	Oghogho Osula	Afribank Trustees & Asset Mgt Co. Ltd	Trustees	MD/CEO	o.osula@afribank.com	08033036551
17	Rotimi Oyekanmi	Renaissance Capital	Issuing House	CEO	royekanmi@rencap.com	08052121888
18	Albert Okumagba	BGL plc	Issuing House	GMD/CEO	albert.okumagba@bglgroupng.com	08027787436
19	Iyobosa Evbosomon	Dunn Loren Merrifield	Issuing House	Registrar/ Chief Executive	ceo@dunnlorenmerrifield.com	
20	Kemi Adewole	Citibank Bank Nigeria Ltd	Asset Management	Head Securities & Funds Services	kemi.adewole@citi.com	08033028080
21	Oladipo Aina	Signet Sec. and Invmt. Ltd	Stock Broking	Managing Director	oladdipoaina@hotmail.com	08023458432
22	Kasimu G. Kurfi	APT Securities Ltd	Stock Broking	MD/CEO	kurfig@aptsecurities.com	08033054105
23	Alh. Rasheed Yussuff	Trustyields Securities Ltd	Stock Broking	Managing Director	trustyield@trustyieldssecurities.com ; yussuffrasheed@yahoo.com	08033068680
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27	Dr. Jane Itseuwa	SEC	Regulator	Deputy Director	jitseuwa@sec.gov.ng	
28	Obi Adindu	SEC	Regulator	Deputy Director/ DGO	oadindu@sec.gov.ng	

3.0 TERMS OF REFERENCE

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4. Work with other subcommittees to tackle any other issue /policies that may affect investor confidence in the market.

4.0 ACTION PLAN

1.1 2012 Action plan

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- 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.

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.

5.0 ACHIEVEMENTS

The following reports are attached as Appendices 1 and 2:

- Complaints Management Framework
- Guidelines to Provide for the Appointment of Arbitrators and for Putting Together a Pool of Arbitrators

6.0 REPORTS SUBMITTED TO THE COMMISSION

- Complaints Management Framework

7.0 OUTSTANDING ISSUE

Investor Confidence Survey: The sub-committee in liaison with the Commission commenced the process of developing a Stakeholders' Satisfaction Index which is yet to be concluded

APPENDIX 1A

THE HARMONIZED COMPLAINT MANAGEMENT FRAMEWORK – A PREVIEW AND PROSPECT

INTRODUCTION

Nigerian Capital Market, particularly the stock exchange, became very slow following the aftermath of the global financial meltdown and the Nigerian banking crisis. The Nigerian Stock Exchange (NSE) All Share Index (ASI) plummeted from a peak of about 66,000 points in March 2008 to less than 22,000 points by January 2009, wiping out over N8 trillion (or around 70 percent) of the total capitalization of the stock exchange within this period. Since then, activity on the stock market has remained sluggish even though there are some signs of recovery, with the index now at about 26,494 points thanks to the various market recovery initiatives spearheaded by various stakeholders in the capital market. One of such market recovery initiatives put in place was the harmonized Complaint Management Framework which is designed to usher in a market wide process that investors and other market participants will utilize in resolving complaints arising from transactions.

The objective of this initiative was primarily to ensure that participants especially investors are reasonably confident that any breaches are promptly dealt with in a consistent, firm, fair and honest manner. It will foster market transparency, investor protection, high ethical standard and market integrity. This will further boost investor confidence as well as make the market the preferred investor destination.

The need to put this Framework in place has arisen as a result of the current state of complaints handling which clearly, is far short of what is currently required in the market especially when compared with other emerging and developed markets.

A preview of the current system shows the following features:

- Lack of a clearly defined process.
- Complainants not knowing what to do or where to go.
- Complainants resorting to multiples, to as many as six different places.
- Delays, partial, selective and non resolution of complaints.
- Frustration and loss of confidence on the part of complainants.
- Loss in man hours for regulators in tracking minor issues and not focusing on the big issues of insider dealing, accounting fraud, Ponzi scheme.

- General lack of development of the market.

THE PROPOSED HARMONIZED COMPLAINT MANAGEMENT FRAMEWORK

1. The proposed harmonized Complaint Management is expected to overcome the ills and drawbacks being currently experienced in the market. The new framework will be stratified as follows:
 - (a) Complaints against operators by clients
 - (b) Complaints between operators.
 - (c) Complaints against regulators/SRO
 - (d) Complaints against operators by SRO/regulators
 - (e) Trade manipulation, accounting frauds, Ponzi schemes.

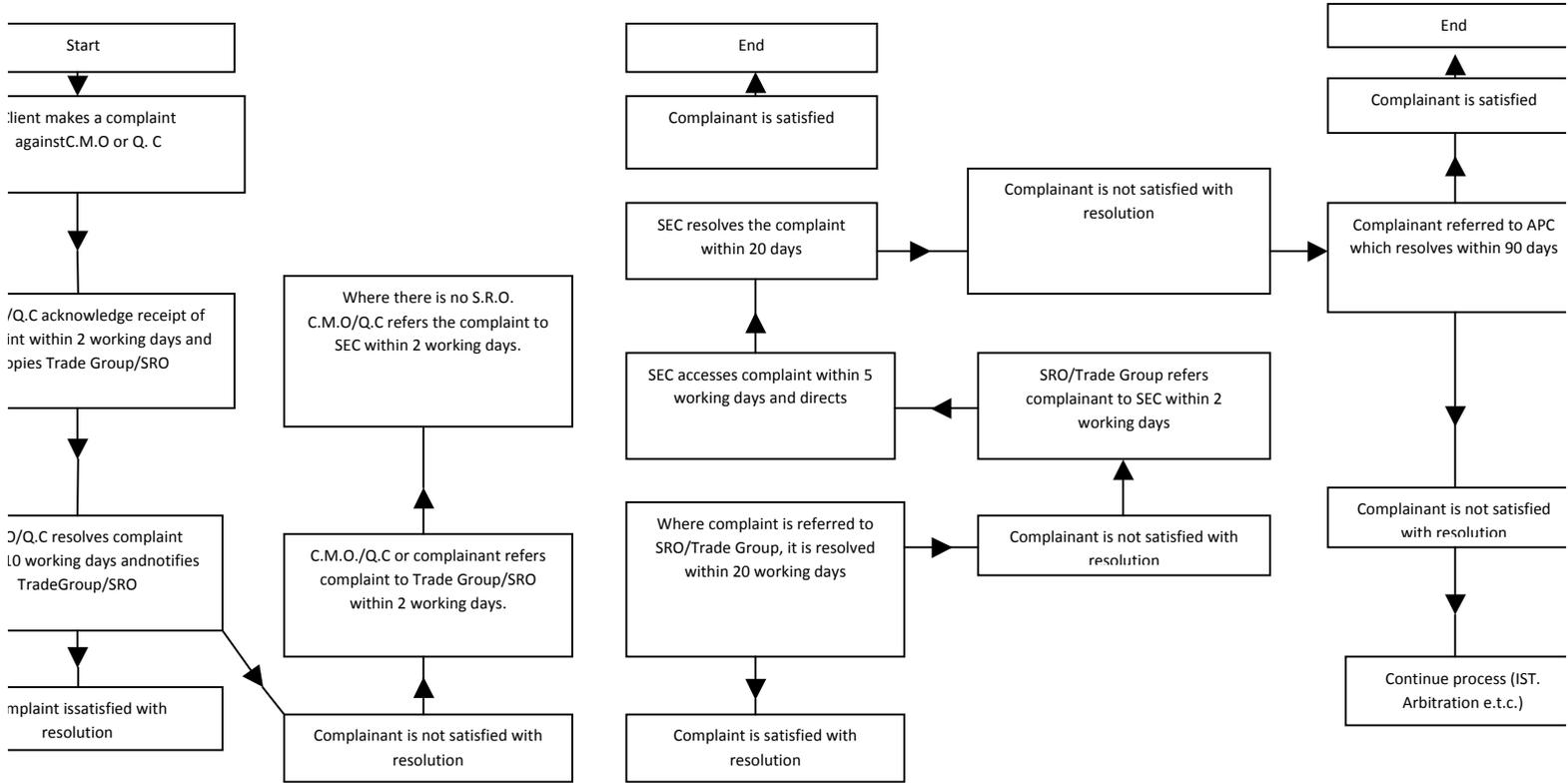
The purpose of this classification is to ensure clarity and simplicity and enhance effectiveness of the initiative.

2. Complaints Management Framework will be structured to enhance self regulation by recognized Trade groups of operators in the market. This will require that all trade groups in the market are well structured to handle complaints. The Complaints Management structure of each trade Group will be scrutinized to ensure it is fair and firm and in line with the approved code of conduct of the group. The trade group will be required to render periodic report of complaints handled to the SRO and regulator for information and necessary action.
3. It is expected that recommendations and sanctions arising from handling complaints will have the backing of the SRO and apex regulator that are legally empowered to do so. It is also expected that all registered operators in the market are encouraged by the regulator to be members of their respective trade groups.
4. This new framework will require a written response to the complainants at every escalation point, within a given timeframe. This response letter will also indicate the details of the next escalation points showing address, contact person, phone number and email address. This will ensure that any client that is unsatisfied at any level is entitled to escalate to the next level.
5. It will also require that complaints should be copied to the next escalation points by the complainants to act as a check and to ensure prompt attention is given to all complaints.

6. The new structure will place initial emphasis on clients complaints against operators especially stock broking firms and registrars. This is borne out of the higher percentage of these complaints to other classifications as well as the potential positive effect it will have on investor confidence when these are streamlined.
7. THE PLACE OF ADR: The proposed framework is expected to be market wide but will not however preclude investors from exercising their rights of seeking resolutions from other sources such as the courts or arbitration. It is also proposed that the market puts in place a known group of arbitrators knowledgeable in capital market issues to handle such matters. This effort is being handled by the CMSA of the market.

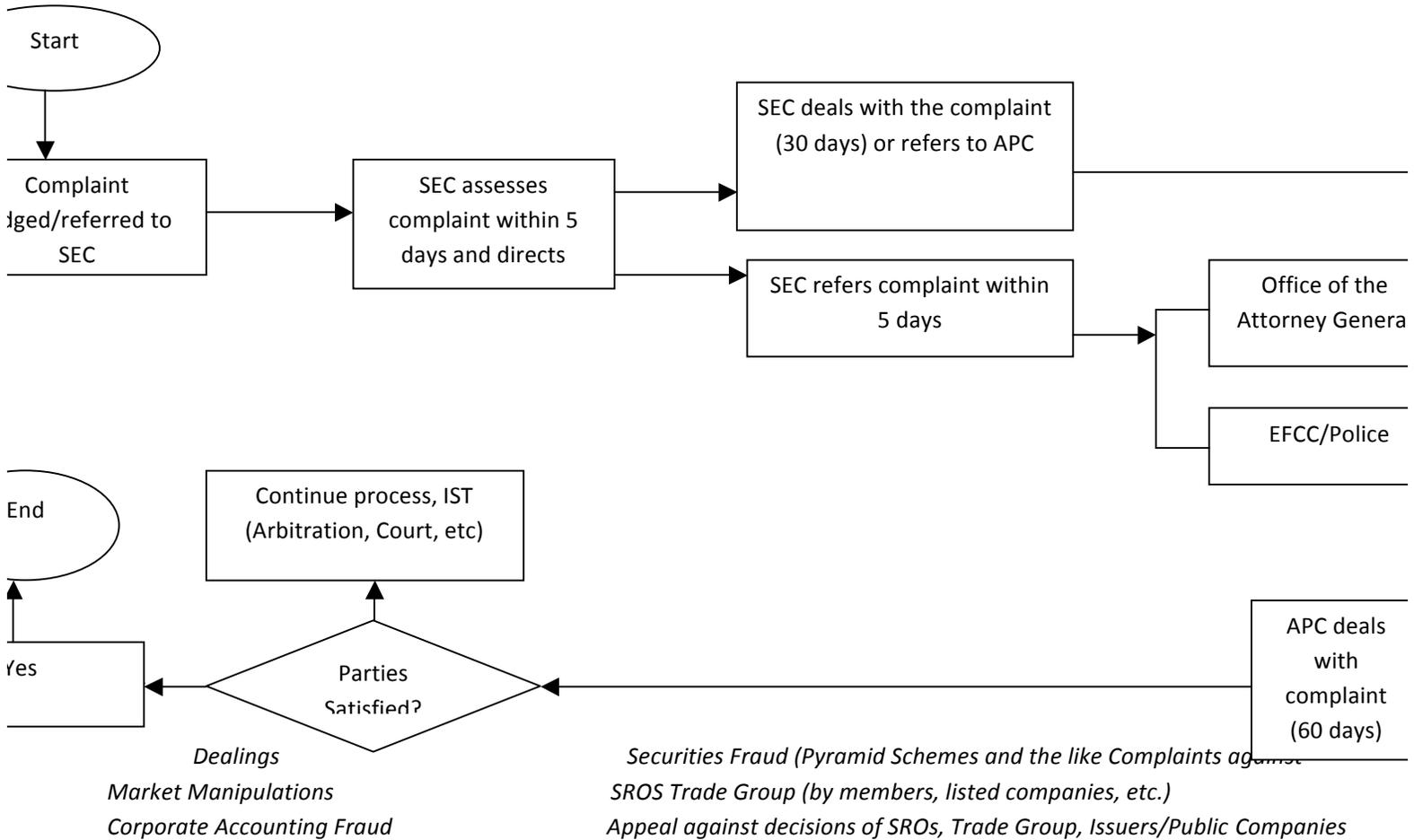
APPENDIX 1B

COMPLAINTS MANAGEMENT FRAMEWORK



APPENDIX 1C

FLOW CHART "B" (COMPLAINTS TO BE HANDLED BY SEC)



APPENDIX 2

GUIDELINES TO PROVIDE FOR THE APPOINTMENT OF ARBITRATORS AND FOR PUTTING TOGETHER A POOL OF ARBITRATORS

Article 1: General Provisions

1.1 Purpose

These guidelines ('Guidelines') are intended to provide guidance to the Investor Confidence Restoration Committee (The Committee) set up by the Securities and Exchange Commission (the Commission) for the appointment of arbitrators to adjudicate on complaints brought by retail investors against member firms and also to establish a pool of arbitrators from where such arbitrators may be appointed. The guidelines also provide guidance to the arbitrators in carrying out their adjudicatory functions.

The Guidelines are to foster resolution of disputes arising from complaints brought by retail investors against market operators, SROs and the Commission in a speedy, cost effective and efficient manner.

1.2 Definitions:

"Act"	means the Investment and Securities Act
"Arbitration"	means the hearing and determination of a dispute or the settling of difference between parties by a person or persons chosen or agreed by them.
"Arbitrator"	means a person chosen to decide a dispute or settle differences especially one formerly empowered to examine facts and decide the issues.
"Award"	means a decision handed by an Arbitrator in any dispute and shall include, inter alia, an interim, partial or final award or decisions.
"Claimant"	means any person who institutes arbitral proceedings or files a notice of arbitration and includes one or more claimants.
"Claim(s)"	means a claim by a party against another party and includes a counter claim.
"Commission/SEC"	means the Securities and Exchange Commission established by the Act.
"Committee"	means the Investor Confidence Committee of the SEC which is charged with drafting these guidelines.
"NSE"	means the Nigeria Stock Exchange

"Panel"	means any arbitral panel constituted under these guidelines to hear and determine disputes of a nature as stipulated under these guidelines.
"Proceeding"	means an arbitral proceedings instituted by an investor against a Market Operator or SRO
"SRO"	means a self regulatory organization operating in the capital market established by the Act.

1.2 Application

- a) These Guidelines shall apply to all persons appointed arbitrator in accordance with these guidelines and to all employees of the Commission who may in the carrying out their normal duties be involved in the adjudicatory process.
- b) These guidelines are meant to serve as a guide to aid parties to arbitration in the selection and nomination of persons they wish to serve as arbitrators in respect of a dispute to which the parties are interested. These guidelines are not rules of arbitration and are not meant to replace such rules.
- c) All persons appointed to act as arbitrators under these guidelines are expected to conduct themselves in a professional and ethical manner consistent with these guidelines and the requirements of applicable laws.

1.3 Publication and Amendment of Guidelines:

- a) **Publication:** The Guidelines will be published on the website of the Commission and the commonwealth's bulletin.
- b) **Review:** The Investor Confidence Committee will review the Guidelines at least once every three years and will recommend any appropriate amendments to be made to the Commission.

Article 2: Establishment of the Capital Market Arbitrators:

2.1 General Application:

- a) The Committee shall in consultation with the Commission and other relevant bodies operating in the Capital Market establish a body known as Capital Markets Arbitrators which body shall consist of at least 50 persons who met the qualifications set out in Article 2.2 of these Guidelines.
- b) The Capital Markets Arbitrators shall be responsible for resolving disputes where the parties agree that any disputes between them be referred to arbitration pursuant to these guidelines.

- c) The Capital Market Arbitrators shall be comprised of members drawn from SROs and recognized Trade Groups operating in the Capital markets provided that the committee shall not be precluded from nominating into the pool persons with the requisite qualifications listed in Article 2.2

2.2 Qualification for Appointment

- a) Appointment into the pool of Arbitrators mentioned in Article 2. 1 above shall be persons who possess a sound knowledge of arbitration proceedings. The person must also possess at least 10years' cognate experience.
- b) In addition to the qualification stated in (a) above such person may also be a member of and nominated by any of the following bodies:
 - a) Association of Issuing Houses of Nigeria
 - b) Capital Market Solicitors Association
 - c) Association of Stock Broking Houses of Nigeria
 - d) Chartered Institute of Capital Market Registrars of Nigeria
 - e) Chartered Institute of Stockbrokers
 - f) Association of Custodians
 - g) Association of Capital Market Trustees
 - h) Institute of Chartered Accountants of Nigeria
 - i) Chartered Institute of Bankers
 - j) The Securities and Exchange Commission
 - k) The Nigerian Stock Exchange.
- c) A person nominated from any of the above mentioned bodies must have practiced his profession in the relevant field for not less than 10years preceding the date of his/her institution.
- d) A person sought to be nominated by any of the above associations must have been a Member of the relevant association for a period not less than 5 years preceding the date of his/her nomination or appointment . Where the association is not up to 5years such a person must be /have been a Member from its inception.

2.3 Disqualification of persons sought to be /appointed as Members of the body

The following persons shall not be eligible for nomination or appointment as an arbitrator;

- a) A person who is disqualified or prohibited from holding office as a Director in any company under the provisions of Section 255 of the Companies and Allied Matters Act Cap C20 Laws of the Federation of Nigeria 2004.
 - b) A person, against whom any criminal proceeding is pending, commenced or contemplated. Or whom five years preceding the date of his nomination
-

/appointment has had any criminal allegations made against him/her leading to any investigations. This provision shall apply even if no offence was established against the nominee.

- c) Where a person has been nominated in accordance with Article 2.2 but is subsequently found that his appointment is in breach of Article 2.3 a & b such a person shall immediately cease to be a member of the pool. Where he has been nominated as a member of an arbitration panel, his appointment shall cease forthwith and he shall not take any further part in the arbitration proceedings.

2.4 Tenure of Office of Members of the Capital Market Arbitrators

- a) Any person appointed in accordance with Article 2.2. Above shall serve as a member of the body of Arbitrators for an initial term of three (3) years and shall be eligible for re-appointment for a further term of three years.
- b) A person who has served as a member of the body of Arbitrators for two consecutive terms of three years shall not be eligible for appointment into the pool for a period of three years from the expiration of his last term of appointment.

2.5 Chairman and Secretary of the Capital Market Arbitrators

- a) The persons appointed into the body referred to as capital markets arbitrators shall appoint from among themselves two of their members to serve as the Chairman and Secretary of the body respectively.
- b) The persons appointed into the positions of Chairman and Secretary shall hold office for a period of two years and afterwards shall be eligible for reselection for a further term of two years.

2.6 Functions of the Chairman and Secretary

- a) The Chairman shall be the chief executive of the body of arbitrators and shall be responsible for assigning arbitrators to an arbitral panel where the parties in an arbitration proceeding fail or are unable to agree on a third arbitrator
- b) The Secretary of the body shall be responsible for the administrative duties including receiving requests for arbitration and also forwarding a list of the names of the arbitrators and a short profile of the listed arbitrators to parties where requested.
- c) The Chairman and the Secretary and the Secretary of the body of arbitrators shall not be eligible to serve on/an arbitral panel during their tenure as Chairman and Secretary.

Article 3: Mode of instituting an Arbitral Proceeding

3.1 Submission of Request for Arbitration

- a) A request for arbitration may be made by a party or/by both parties jointly sending a request in writing to that effect.
- b) A party wishing to institute an arbitral proceeding under these Guidelines shall prepare a written request to that effect and which shall be forwarded to the Chairman of the body of arbitrators established under Article 3 above.
- c) Where a request is made by only one party, a copy of the request together with all supporting documents shall be forwarded to the other party notifying it of the requesting party's intention to commence arbitral proceedings and requesting it to nominate an arbitrator.
- d) The other party shall within 5(five) working days of being served with the notice, send its response to the Chairman of the body of arbitrators mentioned in paragraph B above. It shall also send a copy of the response to the requesting party.
- e) Both the request and the response shall be submitted together with 5 (or any number of) CD-ROMs, DVDs, USB drivers containing electronic copies of the request and any annexure.

3.2 Form and contents of a Request for Arbitration

The request for arbitration shall:

- a) Designate each party to the dispute and state the address of each.
- b) Indicate the date of consent and the instrument in which it is recorded (this should state whether the arbitration clause is part of another agreement or is contained in a separate agreement).
- c) Contain information concerning the issues in dispute indicating that there is between the parties, a legal dispute arising out of an investment.
- d) If the requesting party is a corporate body, state that it has taken all necessary internal actions to authorize.

3.3 Filing and other Fees

- a) The request shall be accompanied by the payment of a non-refundable fee of the administrative fees.
- b) The fees mentioned above shall be borne in equal parts by both parties and shall be paid once the arbitral panel has been fully constituted.

- c) The fees mentioned above shall be for administrative purposes only and shall not in any way be construed as fees for the arbitrators appointed. Each party shall be required to bear its costs in the proceeding which costs shall include Arbitrators Fees and any fees due to any other professional adviser(s).

Article 4: Constitution and Conduct of the Arbitral Panel

a. Number of Arbitrators in a Panel

- a) Subject to paragraph (b) of this Article, an arbitral panel constituted by the Committee under these guidelines shall consist of 3 arbitrators.
- b) The parties may by agreement nominate a single arbitrator to adjudicate on any dispute between them. The choice of the single arbitrator shall be made jointly by the parties. Where the parties are unable on a single arbitrator, the Chairman of the body of arbitrators shall nominate a person to serve as the arbitrator.
- c) The party submitting the request shall along with the Request nominate the name of any person it wishes to appoint as a member of the panel.
- d) The other party on being served with the notice of a request for arbitration by the requesting party shall in submitting its response to the request nominates the/ any person it wishes to appoint as arbitrator.
- e) Where the other party after receiving the notice refuses or fails to appoint an arbitrator, the Chairman of the body of arbitrators shall nominate a person which in his opinion is qualified to serve on the panel.
- f) The two arbitrators appointed by the parties shall nominate a third arbitrator who shall be the president of the panel. Where the two arbitrators appointed fail to agree on the choice of a third and presiding arbitrator the appointment shall be made by the Chairman of the body on request by both arbitrators.

4.2 Place of the Arbitration

- a) The Place of the Arbitration shall be as agreed by the parties in the instrument providing for arbitration failing that shall be fixed by the arbitral panel in consultation with the parties.
- b) The arbitral tribunal may deliberate at any location it considers appropriate unless otherwise agreed by the parties.

4.3 Rules governing the proceedings

- a. The arbitral proceedings shall unless the parties otherwise agree be conducted pursuant to the arbitration Rules made under the Arbitration and conciliation Act Cap A18 LFN.

- b. Where the rules mentioned above do not provide for proceedings as contemplated hereunder, the arbitral panel shall have recourse to the arbitration Rules of the International Convention on Settlement of Investment Disputes (ICSID) or of any other Arbitration institution having similar provisions provided that such institution shall have a Nigerian office.

Article 5: Responsibilities of Members Serving on Panels

5.1 Fairness and Impartiality

- a) A member may not be appointed into an arbitral panel to adjudicate in any particular proceeding where there are circumstances which raise questions about the member's ability to hear the matter and render a decision in a fair and impartial manner.
- b) A member appointed to a panel who becomes aware of the existence of circumstances which are capable of raising an apprehension of bias regarding his adjudicatory role in any particular proceeding shall recuse himself from such proceeding and shall from the date of his so recusing himself not take further part in the proceeding or any other matter related thereto.

5.2 Decisions

Members must endeavor to make each decision in proceeding on a fair and impartial basis in accordance with these Guidelines and applicable law, including complying with principles of procedural fairness of natural justice.

5.3 Transparency

Proceeding should be conducted in a manner that is, and is seen to be, transparent and fair.

5.4 Priority of Adjudicative Duties

Members should carry out their adjudicative duties with reasonable skill, diligence, care, courtesy and promptness and shall endeavor to ensure that their other obligations do not detract from the performance of their adjudicative duties.

5.5 Member's Conduct during a proceeding

- a) **Judicial Manner:** Members shall conduct themselves at all times during a proceeding in a dignified and judicial manner. Members should approach every proceeding with an open mind and avoid inappropriate comments or conduct.
- b) **Members Questioning of Parties and witnesses:** Members questioning of parties and/or witnesses should not appear to advocate any particular position. Members should avoid undue interruption and interference in the examination and cross-examination of witnesses.

- c) **Decorum:** Members should demonstrate in their conduct and should require from the parties and all persons in attendance at a proceeding, proper decorum and respect for the parties, their representatives, witnesses and the hearing process itself. Members should be aware and respectful of social and cultural differences.
- d) **Unrepresented Parties:** In order to assist unrepresented Parties in a proceeding Members, while preserving their impartiality, may explain to such parties the procedural and evidentiary rules governing the proceeding, but may not provide legal or strategic advice.

Article 6: Panel Deliberations, Decisions and Reasons.

- 6.1 Decisions:** Members should not reach their decisions on matters in proceedings based on disapproval from any person, institutions, or group, including other members. This should not deter a member from making the decision that he or she believes is fair and just.
- 6.2 Issues Not Raised by the Parties:** In making a decision, a panel should not consider issues or matters not raised or addressed in the proceeding. If the parties did not raise or address a relevant issue, or did not present relevant law or authority that could significantly affect the panel's decision, the panel should generally request the parties to make submissions on the issue, law or authority in question.
- 6.3 Timeliness:** Members should take reasonable steps so that proceedings are conducted in timely manner, avoiding unnecessary delays.
- 6.4 Timing for Releasing Reasons:** A panel should prepare its decision/reasons in a proceeding without undue delay considering the urgency of the matter. The panel should endeavour to issue its written decision/reasons within a period of 5 days following the conclusion of the hearing. A longer period for the preparation of decisions /reasons shall only be allowed in appropriate circumstances such as an unusually lengthy or complex proceeding, or panel member's illness or other unavoidable absence.

Article 7: Communication by Members serving on Panels

7.1 Communications during the proceeding

- a) **Communicating With Parties During a Proceeding:** A Panel Member should not communicate prior to or during a proceeding directly or indirectly with any party, including staff, any witness, representative, interested person or legal counsel for any of the foregoing with respect to any matter that is likely to be raised or is at issue in proceeding, except in the presence of all parties, their legal counsel, if any and other panel members.
- b) **Communicating With the Media:** A member of a panel should not communicate with the media with respect to a matter that is before the panel.

- c) **Confidential Information:** A member of a panel should not divulge confidential information related to a proceeding unless legally required or authorized to do so.

7.2: Communications following a proceeding

- a) **Reasons:** After a proceeding has been concluded and the panel has issued its final decision and reasons, a Member who has served on the panel should exercise caution in discussing any matter that was the subject of the proceeding until the final disposition of the matter.
- b) **Communicating with Parties Following the Proceeding:** A member should not communicate with any party, any witness, representative, interested person or legal counsel for any of the foregoing, in respect of matters formerly before the panel member in a proceeding.
- c) **Communicating Following the Final Disposition of a Matter:** Notwithstanding any other paragraph of this Article, after the final disposition of a proceeding, a member who served on a panel may participate in any discussion or review by the Commission of any matter that was subject of the proceeding. In doing so, a member should not comment on the panel's deliberations, which should be treated as confidential.
- d) **Communicating Generally on Matters Relating to Proceeding:** Notwithstanding that a member participated on a panel, a member may generally comment on any policy issue or matter of public interest under the Act, any issue that affects the operation of the administration of the Act, or the Member's personal integrity. A member may also participate in discussions of the Commission's decisions, including participating in public or professional seminars, conferences and law reform or other scholarly or educational activities directed to the improvement of the law and an understanding of the Commission's mandate and decisions and may, in connection therewith, discuss and comment on Commission decisions/reasons, including those of a panel on which the Member participated.

4

SUB-COMMITTEE ON INVESTMENT MANAGEMENT EXECUTIVE SUMMARY

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 recommendation 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, PENCOM, 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, PENCOM 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

SUB-COMMITTEE ON INVESTMENT MANAGEMENT 2012 – 2013 REPORT

1.0 INTRODUCTION

The Investment Management sub-committee was set 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 recommendation on corporate governance structure for investment management firms, initial fund expenses for collective investment schemes as well as other sundry issues.

2.0 NAMES OF SUB-COMMITTEE MEMBERS

S/ N	Name	Organization/ Firm	Function	Designation	Email	Phone Nos.
1	Abubakar Sadiq Mohammed (Chairman)	ARM Pension Managers Ltd	Asset Management	MD	sadiq.mohammed@armpension.com	08034021705
2	Olumide Oyetan	IBTC Asset Management Ltd	Asset Management	CEO	olumide.oyetan@stanbicibtc.com	08033231888
3	Patrick Ilodiana	Skye Financial Services Capital Ltd	Asset Management	Managing Director	pilodiana@skyebankng.com	08033011936
4	Oludewa Thorpe	O. Edodo, Thorpes & Associates	Solicitors	Partner	oluthorpe@yahoo.com	08033052693
5	Olamide Shonekan	CARAM Capital	Financial Advisory	CEO	shonekan@gmail.com	08088808888
6	Rose C. Max Ogalabu (Inactive)	ADONAI Stockbrokers Ltd	Stockbroking	CEO's Representative.	adonaistockbrokersltd@yahoo.com	08037299402
7	Oghogho Osula	Afribank Trustees & Asset Management Co. Ltd	Trustees	MD/CEO	o.osula@afribank.com	08033036551
8	Micheal Oyebola	FBN Capital Fund Management Ltd	Fund Management	MD	micheal.oyebola@fbncapital.com	08024582744
9	Uche Nwaogu (Inactive)	Futureview Financial Services Ltd	Broker/Dealer	MD	uchenna.n@futureviewgroup.com	08033085369
10	Clara Mshelia (Inactive)	BGL Asset Mgt	Fund Mgt	CEO	flora.febyau@bglgroupng.com	N/A
11	Ehimeme Ohioma (Inactive)	National Pension Commission	Regulator			08033890473
12	Chief (Sir) Eugene Ezenwa	Spring Stockbrokers Ltd	Broker/Dealer	MD/CEO	eugeneezenwa@yahoo.com	08023153596
13	Hajara Fola Adeola	Lotus Capital Ltd	Fund Management	Managing Director	hajara.adeole@lotuscapitallimited.com	08033572881
14	Akintunde Odunsi	Interstate	Stock Broking	Managing	interstate@21ctl.com	08033134563

		Securities Ltd		Director		
15	N. A. Chibututu	The City Law Associates	Solicitors	M/Partner	citylaw@hyperia.com	N/A
16	Shuaibu Audu	IBTC Asset Management Ltd	Fund Management		Shuaib.audu@stanbicibtc.com	08037022443
17	Tola Odukoya	Dunn Loren Merrifield	Issuer		ceo@dunnlorenmerrifield.com	N/A
18	Muyiwa Ariyo	Greenwich Trust Limited	Issuer	Executive Director	kayode.falowo@greenwichtrustgroup.com	N/A
19	Mudashiru Ademola	Capital Bancorp LTD	Stock Broking	Head Investment Services	mademola@capitalbancorpng.org; mudabancorp@yahoo.com	08066766415
20	Foluso Olapo	Lead Securities and Investment LTD	Stock Broking		info@leadcapitalng.com	08055219813
21	Chief Patrick Ezeagu	Solid Rock Securities & Invt. Ltd	Stock Broking	CEO	opezeagu1@yahoo.com	08034940678
22	Victor Inyang	Assur Asset Management Limited	Asset Management	Managing Director	vinyang@gtaplc.com	08067571896
23	Ojone Umoru	SEC	Regulator	Senior. Manager/ CIS	oumoru@sec.gov.ng	08033197201

3.0 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. Foster 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

4.0 ACTION PLAN

4.1 2012 Action Plan

Quarter 1, 2012

Review the legal, regulatory and fiscal framework in relation to: ISA, the new SEC rules & regulations, CAMA, CBN, NAICOM, PENCOS, and Trustee Investments Act.

Quarter 2, 2012

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).

Quarter 3, 2012

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).

Quarter 4, 2012

To review and make recommendations on the following towards fostering market development:

- 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 & Dividend Issues

4.2 2013 Action Plan

Quarter 1, 2013

The outstanding Q.4- 2012 deliverable was brought forward as Q.1

Quarter 2, 2013

- Fund reporting and accounting
- Performance measurement
- Initial fund expenses
- Seeding new funds
- Funds cost structure

Quarter 3, 2013

- Risk management
- Management and operations
- Compliance
- Tax and dividend issues

Quarter 4, 2013

Consideration of new investment products and processes.

5.0 ACHIEVEMENTS

Review of the legal, regulatory and fiscal framework of the Nigerian Investment Management Industry. The scope of Laws and Regulations included in the review; hereby attached as Appendix 3:

- The Trustee Investments Act
- CBN
- CAMA
- CITA
- PITA
- ISA
- The new SEC rules & regulations
- PENCOM
- NAICOM

5.1 **Initial Review of SEC Rules & Regulations:**

The working group of the sub-committee focused on and reviewed the rules on Feeder Funds, Umbrella Funds and Fund of Funds. The subcommittee considered the following areas:

- Proposal for a new rule on client classification and protection.
- How to make existing rules and draft more robust for a 3 – 5 year horizon vis a vis plans to deepen the market.
- The practicability of the new rules for Fund Managers to promote better adoption.
- Investor Protection.
- Threshold for direct investments.

5.2 **Review of Rules on Fund of Funds/Feeder Funds and Umbrella Funds**

Within the review, the working group reviewed Rules on Fund of Funds/Feeder Funds and Umbrella Funds as below:

i. Recognised Jurisdictions

- Only Master Funds admitted to the official list in the IOSCO country of origin should be acceptable.
- The Fund should not be considered appropriate unless it is operated regularly, is open to the general public and the home market is adequately liquid.

ii. Review of Fund of Funds Rules

- Fund of funds should be allowed to invest in units of one or more money market schemes.
- Fund of funds should not invest in any CIS dedicated to investing in a single regulated CIS.

iii. Review of Feeder Fund Rules

- As a restriction, feeder fund should not own more than 20-30% of the master fund.
- Master fund should be listed on the securities market.

5.3 **New Conduct of Business Rules**

Client Classification Rule:

- (1) Retail
- (2) Professional and
- (3) Counterparty.

The greatest regulatory protections are afforded to retail clients.

- A professional client is a client who possesses the experience, knowledge and expertise to make its own investment decisions and properly assess the risks that it incurs. A client may opt to become a professional client upon assessment of the clients ability and willingness to take risks.
- A market counterparty is a registered member by SEC.
- Any other investor should be classified as a retail investor.

5.4 **Investor protection**

- Small investors should be encouraged to invest in mutual funds as against direct investment in the capital market.
- Direct investments in the capital markets should be limited to investors with over N1million.
- Profiling of clients should also be made compulsory in order to understand the client's investment objective as well as risk appetite so that fund managers/stockbrokers are able to educate them appropriately. This will also inform the asset classes and investment types available to different types of investors. This document should also be signed off by the investors to indicate that they understand the risks associated with the investment they are making.
- Burden of KYC on investors is recommended for further discussion at the larger group.
- The impact of additional fees on investors due to the rule that states that all assets managed in the industry be held by a Custodian.

6.0 REVIEW OF PENCOM AND NAICOM LAWS & REGULATIONS

PENCOM & NAICOM Acts as well as their respective regulations (including the new PENCOM Investment Regulations) were reviewed in the perspective of how they impact on the investment management industry.

6.1 PENCOM – Act & Investment Regulations

Section/ Clause	Details of Section	Stakeholder's Comments/ Justification	Specific Recommendations
5.2.4(iii) (c)	The Infrastructure Fund shall have satisfactory pre-defined liquidity/exit routes.	Infrastructure assets by their nature are very illiquid and investors in these assets (debt and equity) usually have their funds tied up for a long time. In practice, it might be difficult for funds to meet this requirement.	
5.2.4 (iii) (f)	The key Principals, namely the Chief Executive Officer (CEO) and Chief Investment Officer (CIO), of the Fund Manager shall have at least ten (10) years relevant experience in infrastructure financing; and shall not exit the Fund without prior notice to the PFAs. This "exit clause" shall be expressly stated as a condition in the investment agreement/ covenant between PFA and Fund Manager.	This can read similar to S 5.2.10 (iv)	The Principals managing the Funds, namely, the Chief Executive Officer and Chief Investment Officer shall each have a minimum of 10 years' relevant and continuous investment management experience, five years of which must have been in senior management positions and shall not exit the Fund without prior notice to the PFAs. This "exit clause" shall be expressly stated as a condition in the investment agreement/ covenant between PFA and Fund Manager.

<p>5.2.10 (iii)</p>	<p>Pension Fund Assets can be invested in the investment certificates of Open, Closed-End or Hybrid Investment Funds, including Indexed/Exchange Traded Funds (ETFs), based on the following criteria:</p> <p>(iii) The Promoters shall retain a minimum of 10% of the Fund, as per SEC Rules. This shall however not apply to Open-end Funds.</p>	<p>The regulation is silent on open-ended funds here and throughout the document</p>	
<p>5.2.11 (v)</p>	<p>Where a private equity (PE) Fund does not have development finance institutions or Municipal Development Fund Offices (MDFOs) as co-investors or Limited Partner, but the Fund Manager has a minimum Investment Manager rating of BBB issued by a rating company registered or recognized by SEC, the Fund Manager shall retain a minimum investment of 3% of the Infrastructure Fund.</p>	<p>Should read</p>	<p>Where a PE Fund does not have development finance institutions or MDFOs as co-investors or Limited Partner, but the Fund Manager has a minimum Investment Manager rating of BBB issued by a rating company registered or recognized by SEC, the Fund Manager shall retain a minimum investment of 3% of the PE Fund.</p>
<p>1.7</p>	<p>Performance Measurement</p>	<p>This section describes setting up a risk management committee that draws up risk assessment and measurement systems. The document makes no reference to performance attribution and the need to benchmark PFA performance. At a minimum, funds should be benchmarked against respective asset allocation benchmarks, over and above peer benchmarks. This benchmark performance should be maintained and published regularly by PENCOM. This goes a long way in attributing PFA performance to manager's skill or just general market performance.</p>	

5.1.3	Notwithstanding the provisions of Section 5.1.2, PFAs may invest not more than 20% of pension assets under management in State/Local Government Bonds, corporate bonds, infrastructure bonds, supranational bonds and other allowable debt securities, with credit rating of BBB by one registered or recognized Rating Company.	<p>The section requires just one registered rating agency to rate an asset as BBB for PFA's to qualify to invest in that security. Section 5.1.6 and 5.1.7 gives guidelines for PFA's to divest from a security that has been recently downgraded.</p> <p>In a scenario where there are multiple ratings agency, and a particular security has been downgraded by a rating agency while another agency maintains its ratings, when should the PFA take action to divest from that security. This scenario is representative of what happens in practice as all rating agencies do not review a security at the same time. The requirement needs to be more specific as PFA's can easily exploit this gap.</p>	
7.2	Notwithstanding the structure of limits in section 7.4.9, the respective Funds shall differ among themselves according to the overall exposure to variable income instruments.	Reference is made to section 7.4.9 which does not exist.	

6.2 NAICOM – Act & 2011 Regulations on Investments

Section/ Clause	Details of Section	Stakeholder's Comments/ Justification	Specific Recommendation
1.10 (b) (vi)	Not more than 20% of the total equity investment shall be placed in the security of one company.	There needs to be clarity as to whether the rule is for policyholders' funds only or includes shareholders funds.	Recommendation is that it should be Policyholders funds only.

6.3 Initial Review of CAMA, CITA & PITA:

The working group of the subcommittee reviewed provisions of **CAMA, CITA & PITA** that have an impact on investment management in the industry and some of the interim key propositions are:

6.3.1 CITA & PITA

- Review of Stamp duty on brokerage income
- Review of Withholding Tax on some capital market related transactions
- Review of VAT on some capital market related transactions
- Corporation Tax appears to high
- Double Taxation incidences should be addressed to reduce the burden on operators and issuers
- Need for a unified tax system/regime.

6.3.2 CAMA

- CAMA sections 146 & 147 in relation to CSCS dematerialization of certificates and the Evidence Act should be aligned.
- Companies limited by Guarantee and how they can convert to Companies limited by Shares should be reviewed. This is imperative for demutualization of the Stock Exchange.
- Need to decentralize operations of CAC for effectiveness and functionality
- Need to fully computerize CAC to reduce the turnaround time for transactions.

6.3.3 General

Reference should be made to the Nigerian Law reform Commission and the Joint Tax Board (JTB) to see what effort they are making in regard to reforms of PITA, CITA & CAMA.

6.4 Report on Corporate Governance

Head	Sub-head	Requirements	Comments
Senior Management	CEO	<p>Shall be responsible for the total operations of the firm and any other functions as assigned by the Board of Directors</p> <p>Have a minimum of 7 years of continuous investment management experience out of which 5 years must be in a senior management capacity.</p>	<p>SEC Code of corporate Governance (Sec CCG) & PenCom Code of CG (PCCG) are particularly applicable on all aspects of Board & Executive Management matters.</p> <p>Similarly SEC code of conduct guidelines for Capital Market Operators be duly followed.</p>
	Chief Investment Officer	<p>Shall be responsible for the management of the organization's portfolio of assets.</p> <p>Have a minimum of 5 years of continuous investment management experience out of which 3 years must be in a senior management capacity.</p>	
	Compliance Officer	<p>To ensure that the firm and its employees and agents (including partners, directors, officers and registered representatives) comply with all regulations governing their operations.</p> <p>Have a minimum of 5 years of continuous investment management experience out of which 3 years must be in a senior management capacity.</p>	It is also recommended that the Commission should comprehensively review the compliance framework to capture all relevant practices and processes in the industry.
	Head of Risks Management	<p>Responsible for enabling the efficient and effective governance of significant risks, and related opportunities, to the firm and its various segments.</p> <p>Shall be in charge of coordinating the organization's Enterprise Risk Management (ERM) strategy</p>	

	Chief Operating Officer	<p>Shall be responsible for the daily operations of the firm.</p> <p>Have a minimum of 5 years of continuous operations experience out of which 3 years must be in a senior management capacity.</p>	
Board of Directors and Corporate Governance	Reporting requirements	Submit a report to SEC on corporate governance activities within the organization no later than 90 days after its financial year end.	
	Composition	<p>The number of non-executive members (excluding the Chairman) of the Board shall at all times, in the minimum equate the number of executive members, if applicable.</p> <p>There should be at least one independent director.</p>	This shall ensure that the Board has a balanced view of issues at all times.
	Experience	Both the Board and Management should possess knowledge of investment and financial matters as well as requisite technical competence and experience.	
	Frequency of Meeting	At least once in a quarter	
	Functions	<p>Set up a risk management framework which shall encompass risk identification, measurement, tracking and management.</p> <p>Shall be accountable for enabling the efficient and effective governance of significant risks, and related opportunities, to a business and its various segments.</p> <p>The Board shall ensure that there is a satisfactory process to monitor the company's compliance with the law and rules and regulations governing its operations.</p>	The board should develop a policy to guide the Board and Management on conflict of interest situations (whether real or perceived), and also provide for disclosures in those circumstances.

Minimum Set-up and Operating Requirements	Infrastructure	Accounting packages with world class specifications similar to those used in critical operations like Asset Management. Establish a call center for prompt resolution of client's issues with the use of IVR and other business-focused intellectual applications.	The objective is to improve transparency and reliability of information as well as to enhance robust reporting across the industry.
	Capital and Liquidity Requirements	Maintain a minimum shareholders' funds of N75,000,000.	SEC should have the discretion to set a minimum of between a range of N75,000,000- N150,000,000 using a combination of risk – based assessment and other considerations such as whether dealing with retail customers or intermediate or professional institutional investors as clients.
Code of Conduct Requirement			Similarly SEC code of conduct guidelines for capital market operators' be duly followed. PENCOM code of ethics & business practices can be used as a guide for Investment Managers.

7.0 RECOMMENDATIONS ON CERTIFICATION OF INVESTMENT MANAGERS

Portfolio Management Certificate Examinations (“PMCE”) - (Suggested name, subject to final consent)

7.1 Introduction

The PMCE exam is proposed to be an entry-level exam and competency test required to perform any function within the asset management sector of the Nigerian Capital Market as regulated by SEC. Staff who have at least ten years' experience will be exempted from the requirement for certification.

The exam is conceived as:

- a required benchmark for anyone seeking registration as a sponsored individual with SEC;
- an essential regulatory requirement for career progression within the Asset Management industry; and
- the ideal foundation for those with future plans for the CFA Program®.

Candidates are expected to come from a broad range of backgrounds with broad range of aspirations. Typical roles in the industry include:

- Investment/portfolio manager
- Investment Adviser
- Trader/Dealer
- Fund administrators in
 - Investment support & administration
 - Custody & Settlements
 - Fund Accounting
 - Risk Management
- Sales & Marketing
- Performance Measurement

The exam will provide individuals with the basic qualifications necessary to perform portfolio management, compliance and investment support and investment administration functions in asset management firms regulated by SEC.

Candidates for the exam must be sponsored by an operator registered by SEC or any other regulatory organization.

Due to the fast-moving nature of the profession, it will be necessary to update the PMCE syllabus regularly.

7.2 Administration

The Nigerian Capital Markets Institute in conjunction with a consultant such as 7 City Learning Ltd. of London should provide training and prepare candidates for the PMCE exam while the examination questions and the examination itself will be conducted by another consultant such as FDHL or Unilag Consult. The exams can be conducted at accredited centers such as Unilag or the British Council and the cost should be kept reasonable – not too cheap to encourage ‘everyone’ nor too expensive to deter ‘anyone’. A joint committee comprising SEC, FMAN and NCMI will provide supervision to the whole process.

The proposal is for the exam to be a one-off exam to be conducted preferably every 2- months but as a start, once every quarter. There would also be continuous professional development which may be conducted biennially and members could accumulate points by attending courses relevant to their area or function within the industry.

7.3 Examination Structure

The examination will be between 120 and 180 multiple choice questions and will cover each section and sub-section of the syllabus. No sub-section should be more than 30% of the overall exam.

The exam will focus on 2 sections:

1. The Investment Environment
2. Investment Practice

7.4 Section 1: THE INVESTMENT ENVIRONMENT

This section will comprise of three (3) major areas as follows:

- The Nigerian Financial Services Industry
- The regulatory framework of financial services

- Code of ethics and professional standards

Aim: For students to demonstrate an understanding of the Nigerian financial services industry and its global context. The detailed syllabus is as listed below:

7.4.1 The Nigerian Financial Services Industry

Functions of the Financial Services Industry

I. Role & impact of Regulatory Agencies

- i. Federal Ministry of Finance
- ii. Securities and Exchange Commission
- iii. Central Bank of Nigeria
- iv. National Pension Commission
- v. National Insurance Commission
- vi. Nigerian Stock Exchange
- vii. Nigerian Deposit Insurance Corporation
- viii. Debt Management Office, Nigeria

II. Financial Institutions

- i. Banks
- ii. Discount Houses
- iii. Pension Fund Administrators, Pension Fund Custodians
- iv. Asset Managers
- v. Insurance Companies
- vi. Stock Brokers
- vii. Issuing Houses
- viii. others

7.4.2. The Regulatory Framework of Financial Services

Candidates should know about and be able to:

- I. Distinguish between the various roles of and the functions of:**
 - i. Ministry of Finance
 - ii. Ministry of Trade & Investment
 - iii. Securities and Exchange Commission
 - iv. Central Bank of Nigeria
 - v. Debt Management Office, Nigeria
 - vi. National Insurance Commission ("NAICOM")
 - vii. Pension Commission
 - viii. National Bureau of Statistics
 - ix. Others

- II. Explain the relevance and key provisions of:**
 - i. The Investment & Securities Act
 - ii. Pension Reform Act
 - iii. Insurance Act
 - iv. Trustees Act
 - v. NAICOM regulations as it pertains to investments
 - vi. SEC Rules & Regulations
 - vii. Money Laundering Regulations
 - viii. Foreign Exchange Regulations
 - ix. Others

7.4.3 Code of Ethics and Professional Standards

- I. Ethics**
 - a. Integrity
 - b. Competence
 - c. Diligence
 - d. Respect
 - e. Reasonable care

 - II. Professional Conduct**
 - a. Professionalism
 - b. Market integrity
 - c. Duties to clients
 - d. Conflicts of interest
 - e. Duties to employers
 - f. Responsibilities
-

7.5 SECTION 2 – INVESTMENT PRACTICE

This section will comprise of ten (10) major areas as follows:

- Financial markets
- Asset classes
- Market Operators & Participants
- Investment products
- Portfolio Management - theory and practice
- Investment management and principles
- Investment performance measurement
- Economics, Statistics and Financial Mathematics
- Accounting
- Clients
- Sources & Uses of Information
- Investment Advice

Aim: is for candidates to demonstrate an understanding of the Investment Practice in Nigeria and its global context. The syllabus is detailed below:

7.5.1 Financial Markets

- i. Macro Economic Framework
- ii. Inflation, Interest Rates
- iii. Fiscal & Monetary Policy & framework
- iv. Markets
 - i. Nigerian Stock Exchange
 - ii. Over The Counter Markets
 - a. Treasury Bills
 - b. Bonds
 - c. Others
- v. Concepts of: -
 - i. Stock Broking
 - ii. Asset management
 - iii. Private Equity
 - iv. Insurance
 - v. Pension Fund Management

7.5.2 Asset Classes

A. Equity

- i. Characteristics
- ii. Types
- iii. Issuance
- iv. Valuation
- v. Transaction costs

B. Fixed Income

- i. Characteristics
- ii. Types
- iii. Issuance
- iv. Valuation
- v. Risk & Returns
- vi. Transaction costs
- vii. Yield & Yield Curve

C. Real Estate

- i. Distinguishing features
 1. Commercial Market
 2. Residential Market
- ii. Characteristics
- iii. Risk Return

D. Cash & Cash Equivalents

- i. Money Market Instruments
 1. Treasury Bills
 2. Certificate of Deposits
 3. Fixed Deposits
 4. Commercial Papers
 5. Bankers Acceptances

E. Alternative Investments

- i. Gold & Other Metals
- ii. Commodities
- iii. Derivatives
- iv. Private Equity

F. Pricing, valuation, liquidity, fair value and correlation of the various asset classes

7.5.3 Market Operators & Participants

- i. Treasurers
- ii. Primary Dealer/ Market Makers
- iii. Stock Brokers
- iv. Asset & Portfolio Managers
- v. Pension Fund Administrators
- vi. International Investors

7.5.4 Investment Products & Services

- I. Mutual funds/collective investment schemes
- II. Open & Closed ended funds
- III. Unit Trusts/Investment Trusts
- IV. Umbrella Funds / Open Ended Investment Companies (OIECS)
- V. Exchange Traded Funds
- VI. Private Client Funds
- VII. Structured Products
- VIII. Pension Retirement Savings Accounts ("**RSA**") & Pension Additional
- IX. Voluntary Contribution Accounts ("**AVC**")
- X. Insurance investment linked products
- XI. Derivatives & Other instruments
 - a. Forwards, Futures & Options
 - b. Convertibles
 - c. Warrants
 - d. Swaps
 - e. Contract for Differences
 - f. Currencies
- xi. Others
- xii. Stock lending

7.5.5 Portfolio Management – Theory & Practice

- I. Investment Process
- II. Investment Strategy
- III. Investment Policy

- IV. Investment Analysis
 - V. Fundamental Analysis
 - VI. Technical Analysis
 - VII. Portfolio Construction & Management
 - a. Equity Portfolio Management
 - b. Fixed Income Portfolio Management
 - c. Real Estate Portfolio Management
 - d. Balanced, income or other Portfolio Management
 - e. Liability Driven investments
 - VIII. Stock/investment selection
 - IX. Investment Administration and operations
 - i. Customer Account Opening
 - a. KYC
 - b. Money Laundering
 - c. On-going Review
 - ii. Trades & Settlement
 - a. Custody & Custodians
 - b. Counterparties
 - c. CSCS
 - iii. Corporate Actions
 - a. Cash & Script Dividends
 - b. Bonus Issues
 - c. Subdivisions and consolidations
 - d. Rights Issues
 - e. Take-overs, Mergers & Acquisitions
 - iv. Data & Record Keeping
 - v. Client Money
 - X. Risk management
 - i. Diversification
 - ii. Diversifiable and Un-diversifiable Risk
 - iii. Credit Risk
 - iv. Market Risk
 - v. Liquidity Risk
 - vi. Operational Risk
 - vii. Enterprise Risk
 - viii. Investment Risk
-

XI. Others

- i. Active and Passive Fund Management
- ii. Top-down and Bottom-Up Fund Management
- iii. Strategic and Tactical Asset Allocation
- iv. Socially Responsible Investing
- v. Transaction & Other Costs
- vi. Corporate Governance

7.5.6 Investment & Performance Measurement

- I. Total Returns
- II. Benchmark returns
- III. Money Weighted Returns
- IV. Time Weighted Returns
- V. Risk adjusted Returns

7.5.7 Economics, Statistics & Financial Mathematics

- i. Economic Analysis
 - a. The Macro Environment
 - b. Micro Economics
 - c. Data & Sources
 - d. Correlation, Standard Deviation etc
 - e. Index numbers
 - f. Simple & Compound Interest
 - g. Time value of Money
 - i. Present Value
 - ii. Future Value
 - iii. Annuities
 - v. Mortgages
 - vi. Perpetuities
 - vii. Internal Rate of Return, Net Present Value, Payback

7.5.8 Accounting

- i. Principles and fundamental precepts
- ii. The Balance Sheet
- iii. The Income Statement
- iv. The Cash Flow Statement
- v. Notes to the Accounts
- vi. Accounting Policies
- vii. Accounting treatment of financial instruments

- viii. Company Accounts & Group Accounts
- viii. Accounting Ratios

7.5.9 Clients

- i. Institutional Clients
- ii. Professional Clients
- iii. Retail Investors

7.5.10 Sources and Uses of Information

- i. Periodicals
 - a. Financial Times
 - b. Economist, etc.
- ii. Search Engines & Websites
- iii. Financial Databases
 - a. Bloomberg
 - b. Reuters
- iv. Books

8.0 Recommendations

The sub-committee made recommendations with respect to:

- Fund Reporting and Accounting
 - Performance Measurement
 - Initial Fund Expenses
 - Seeding New Funds
 - Funds Cost Structure
- i. The sub-committee agreed that there was need for uniform standards for valuation of specific assets as it relates to the collective investment schemes to facilitate comparability of like Funds, as well as the need for consistency in the use of a chosen valuation method.

It was noted that although regulation demands compliance with IFRS, IFRS gives users the discretion to choose an acceptable method of valuation, thus the likely scenario –for example - that 3 different Bond funds will be valued differently.

- ii. **Performance Measurement** – Members also agreed on a need for a specific and acceptable standard of performance measurement as

against the various performance metrics being used severally by fund managers.

This will –amongst others – deal with the tendency to compare Funds on the wrong assumption that they are all doing the same thing, as equity funds to be benchmarked against the NSE's All-Share index (ASI), money market and bond funds to be benchmarked against the relevant respective benchmark, while a weighted average ratio would be used for mixed funds/asset classes.

The sub-committee also noted a need for education of investors/unit holders to enlighten them on what horizon benchmark respective Funds are aligned to, to help manage expectations about different types of Funds.

- iii. **Initial Fund Expenses** - The sub-committee identified the urgent need to streamline the offer process of mutual funds to clearly differentiate them from that of public companies which is essentially the reason for the huge initial cost which eats into the Fund even before it takes off.

While suggestions were made for re-introduction of amortization of offer expenses, on the grounds that initial investors should not appear to be penalized as against subsequent investors who will not have to pay such setup expenses, (by waiting to subscribe after the IPO) other options to address the issue of cost and timing were considered, viz:

- The current structure of collective investment scheme Offers should be reviewed such that only open-ended funds will be required to go through the IPO route, but with a streamlined professional parties requirement different from that of public company IPO;
- Open ended funds should be required to submit registration documents to the Commission after which they can proceed with raising money and investing same but with a requirement that details of funds raised and other relevant information be filed with the Commission within three months of the approval of the scheme;

- Total initial fund expenses should not exceed 2.5% of the Fund size;
 - The timing for approval of a CIS launch by the SEC should not exceed 2 months.
- iv. **Seeding of Funds:** It was noted that the SEC requirement that fund managers invest and maintain a 10% stake in funds under management was inhibiting the growth of new Funds as well as existing ones as it was akin to punishing a fund manager for the success of Fund.

Clarification was however provided by the SEC representative that the SEC had indeed considered presentations made severally by fund managers in this regard and had reviewed its Rules accordingly; consequently the present requirement is 5% seeding for new Funds which is to be maintained throughout the life of the fund. Thus there is no requirement to increase the investment as the fund grows.

9.0 EXTRACTS FROM THE FMAN STRATEGY DOCUMENT

Extensive work and recommendations made FMAN on above issues as contained in the strategic document on CIS are as follows:

- v. Valuation & Performance Evaluation

There is need for uniformity with respect to methods applied and the consistency of the application of the methods applied in valuing assets held by CIS.

9.1 Recommendations

- For comparability, the criteria for the valuation of assets held by CIS should be clearly spelt out.
- Where there are different methods for the valuation of a particular asset class, such as under IFRS or with respect to unquoted securities, the basis chosen by the Fund Manager should be communicated to the Commission.

- The basis chosen should be consistently applied. Should there be a need to alter the basis, the change and the reason for the change should be communicated to the Commission.
- Trade date accounting should be adopted as opposed to settlement date accounting.
- Frequency of valuation of assets:
 - For assets traded on a recognized exchange, valuation is to be done daily; for illiquid assets such as securities not traded on an exchange, valuation should be done quarterly.

i. Pricing

With respect to pricing of units, it is important that a clear distinction is made between closed and open end fund structures particularly in terms of frequency of computation of bid prices.

Recommendations

- Pricing for closed end funds should be based on market price quoted on the exchange. However, Fund Managers should provide investors with the quarterly statement of NAV per unit.
- Similar to what operates in the Pension Industry, pricing for open end funds should be done daily.

ii. Performance Evaluation

¹According to the CFA Institute, performance evaluation involves three aspects:

- **Performance Measurement** – This deals with the calculation of portfolio performance. It measures the relative change in portfolio value solely due to investment related sources.
- **Performance Attribution** – This is the process of analyzing the sources of returns relative to a designated benchmark.
- **Performance Appraisal** – This deals with assessing investment skill.

¹CFA Institute – Evaluating portfolio performance by " Jeffery V. Bailey, CFA, Thomas M. Richards, CFA, and David E. Tierney"

iii. Performance Measurement

- The Total Rate of Return is recommended by the CFA as the appropriate measure of investors' wealth². This is the measurement of the investors' wealth due to both investment income and capital gains.
- The Total Rate of Return to be computed as:
 - i. $R_1 = \{(\text{Market Value of portfolio}_1 - \text{Cash flow received/paid out at the end of evaluation period}) - \text{Market Value of portfolio}_0\} / \text{Market Value of portfolio}_0$
- ³The Time Weighted Rate of return (TWR), which reflects the compound rate of growth over a stated evaluation period of one unit of money initially invested in the Fund, is the recommended basis for computing the performance of an account/fund over a period.
- **TWR is recommended** because it is unaffected by size and timing of cash flows to and from the account. In most cases, especially with open end funds, the fund manager has no control over the size and timing of external cash flow into or out of the account.
 - This does not apply to funds where the fund manager has control over the size and timing of external cash flow such as private equity funds.
- Application of TWR requires that:
 - i. the account/fund be valued each time an external cash flow occurs.
 - ii. a set of sub-period returns are computed and linked together in computing the TWR for the evaluation period.

CFA Institute - "Acceptance of the total rate of return as the primary measure of investment performance was assured by a seminal study performed in 1968 by the Bank Administration Institute (BAI)."

CFA Institute – Evaluating portfolio performance by "by Jeffery V. Bailey, CFA, Thomas M. Richards, CFA, and David E. Tierney"

A. Actions required: Short Term – ≤ 1 year

- Adopt TWR as basis for measuring performance of CIS.

- The SEC should have on its website performance evaluation of CIS based on evaluation period such as for one, three and five years.
 - Evaluation period of annualized returns since inception of the CIS to date.

A sample performance metrics sheet is attached as Appendix 3.

9.2. Performance Attribution

Basic concept of performance attribution is to compare the performance of the Fund with that of a designated benchmark and the identification and quantification of sources of differential returns.

- a. Things required for performance attribution:
 - i. Designated benchmark for asset classes – these should be decided at set up.
 - ii. Policy allocation – strategic asset allocation
 - iii. Benchmark returns

- b. ⁴The CFA offers a format for performance attribution analysis.

B. Actions required: Short Term – ≤ 1 year

- To standardize the market benchmarks for different asset classes
 - We recommend the following:
 - Equity – NSE All Share Index
 - Money Market – Av. Yield of 90 day TBill
 - Fixed Income – Av. Yield of 10 Yr FGN Bond
 - Real Estate – Weighted average of Yield of 10 yr FGN Bond (60%) and NSE All share index (40%)

CFA Institute – Evaluating portfolio performance by "by Jeffery V. Bailey, CFA, Thomas M. Richards, CFA, and David E. Tierney"

- Funds to establish appropriate benchmarks based on investment objectives
- Funds to establish strategic asset allocation

iv. **Performance Appraisal**

- The objective of performance appraisal is to assess the display of investment skill and if this skill will be sustained.
- The CFA defines investment skill as the ability to outperform an appropriate benchmark consistently over time.
- It is the magnitude of the value-added return relative to the variability of the value-added returns that determines a manager's skill.
- Risk adjusted performance appraisal methods are measures that take the volatility of returns into account.
 - i. 5 different measures are highlighted by the CFA Institute:
 - **Ex post Alpha** – derived from the capital asset pricing model
 - **Treynor Measure** – relates fund's excess returns to the systematic risk
 - assumed by the fund.
 - **Sharpe Ratio** – relates fund's excess returns to total risk of the fund.
 - **M²** - measures what the account would have returned if it had taken the same total risk as the market index.
 - **Information Ratio** – relates the excess return of the Fund over the benchmark relative to the variability of that excess return i.e. active return/active risk.

C. Actions required: Short Term – ≤ 1 year

- Need to standardize an applicable risk adjusted performance appraisal method for the CIS.
- **We recommend that the Sharpe Ratio be reported as the standard performance appraisal metric for Funds.**
- Fund managers will have the flexibility to adopt other agreed upon measures whilst keeping Sharpe Ratio as a standard in recognition of its wide applicability.
- Both non-risk adjusted and risk adjusted returns per annum should be published on the SEC website.

D. Action required: Medium Term – ≤ 3 years

- The SEC should seek to adopt the "Global Investment Performance Standards" (GIPS) of the CFA Institute for the investment management industry. We recognise that this is a complex and potentially costly procedure and may not be feasible in the medium term given that GIPS requires 5 - 10 yrs of retroactive reporting within strict guidelines.
- The GIPS is a set of standardized, industry-wide ethical principles that provide investment firms with guidance on how to calculate and report their investment results to prospective clients.

v. Initial Fund Expenses

10.0 CHALLENGES

- **Operations - Cost of Doing Business:** The prohibitive costs of financial transactions are a clear impediment to development of the funds industry. Much of these costs are structural in nature. Lack of power is a major cost that all businesses in Nigeria have to contend with. India for instance, has constant power for the most part. The next cost is the structure of the mutual fund industry and the variety of participants that are not necessary.

- According to Ease of Doing Business ranking 2012⁵, Nigeria is placed 133 out of 183 economies sampled, below Pakistan at 105 and India (132). In addition to these, the mutual fund industry incurs costs such as, initial set-up cost (a percentage of the fund size), shareholder transaction cost, investment advisory, brokerage fees, custodial, marketing and distribution expenses. Generally, these costs increase operational expense and are usually borne (directly or obliquely) by the funds, negatively impacting potential return as reflected in relative expense ratios in the comparable economies below⁶.

Doing Business is a part of World Bank Group and the data is based on objective measures of business regulations and their enforcement.
⁶Regulatory cap for expense ratio in Nigeria is 5 %

Table 1

REGULATORY CAP FOR EXPENSE RATIO IN INDIA⁷		
Funds of Funds	Total expense not to exceed 2.50%	
Index Funds	Total expense not to exceed 1.50%	
	Other Schemes	Debt Schemes
Up to 100m rupees (\$1.835m)	2.50%	2.25%
On the next 300m rupees (\$5.505m)	2.25%	2.00%
On the next 300m rupees (\$5.505m)	2.00%	1.75%
On the balance	1.75%	1.50%

Source: SEBI(Mutual Funds) Regulations, 1996

Calculation is to be based on average daily or weekly net average value (NAV) (depending on how fund is calculated). Limits exclude issue or redemption expenses. A new regulation is expected to increase the limit to about 3% - Source: The Economic Times – 24/08/2012

Table 2

PAKISTAN EXPENSE RATIO	EXPENSE RATIO	ASSETS
JS ISLAMIC FUND	3.06	2.7089 bn rupees (\$49.69m)
UNIT TRUST OF PAKISTAN	2.54	13.6687bn rupees (\$250.85m)
ASKARI HIGH YIELD	1.77	12.9515 bn rupees (\$237.68m)
JS FUND OF FUNDS	0.88	4.7928 bn rupees (\$87.94m)

Source: Bloomberg.com

10.1 Gradual Reduction of Parties in the Investment Process- There are currently too many parties in the process of setting up and investing in a collective investment scheme. Functions are more often than not duplicated leading to bottlenecks, high costs and in-efficiencies. To this end, we suggest a gradual reduction of parties involved in the process either by outright removal or merging of functions.

10.2 Risk Management

To promote greater Investor Confidence and in line with changing trends in risk management, there should be industry-wide focus on capacity building regarding modern risk management processes and procedures that are designed to improve governance and portfolio management.

As such, existing procedures should be reviewed with a view to implementing improvements in line with current and future trends. Based on the foregoing, we recommend that:

- A risk management framework should be established to serve as a guide for the industry
- Industry – based training programmes on risk management processes and procedures should also be established.

These measures should help strengthen investors' confidence and enhance the protection of investment assets.

Consequently it is recommended that Fund Managers should institute clear risk management policies.

10.3 Management and Operations

i. Awareness - We recommend greater collaboration between Operators and the Regulator to foster awareness in the CIS. The public sector should be encouraged to develop a saving and investment culture through the CIS. The SEC should actively engage in promoting confidence in the CIS through different public media.

Furthermore, some measures recommended for the growth of collective investment schemes include:

- actively encouraging/prescribing that retail investors below a specified amount (say N1 million) invest through a CIS (Bond, money market, Equity and Real Estate funds);
- taking steps to make investment and withdrawal from a CIS easier than purchasing a share on the NSE, subscribing to an equity offer; or operating a current account.

ii. Tax Incentives - As a means of growing the industry further, tax incentives should be given to those who invest in the CIS over a minimum period of time (say 1 year). This will encourage savings and investment for the long term.

10.4 Compliance

- i. **KYC Procedures** – This should be simplified. Since cash flows are usually through banks, we should be able to rely on the KYC already done by the banks. All such transactions above the regulatory threshold are also reported to SEC and the NFIU and can thus be traced. A central depository may also be created where KYC status/documents for capital market investors can be readily assessed. We are of the opinion that this will significantly reduce the cost of doing business.

- ii. **Registration of CIS** – There should be a downward review of the time it takes to approve the registration of collective investment schemes. The requirements for registration – including issuing of units to the public, should be simplified and the parties thereto should also be reduced to the minimum that is really required. The requirement and timeline for each phase of the approval process should be clearly outlined.

10.5 Tax and Dividend Issues

Collective investment schemes should be tax exempt as all the returns generated thereon are distributed and taxed at the hands of the various stakeholders. The schemes should not be subjected to tax under the Companies Income Tax Act.

10.6 Rating

It is proposed that the following should be considered where a Fund is expected to be rated:

- **Fund Manager Rating:** Where the ability of the fund manager to consistently beat a stated bench mark is measured. There should however be pre-agreed and transparent **BENCHMARKS** to avoid ambiguity. All the issues on investment processes and documented risk management process should also be considered.
- **Rating of the Funds itself:** In this instance the type of underlying assets of the Fund is of paramount importance, along with the liquidity of the assets.

There is consequently a need for clear rating process and criteria.

10.7 Achievements

Notable achievements of the sub-committee include the proposal on:

1. Certification of investment managers.
2. Initial fund expenses and offering process for collective investment schemes.
3. Tax as it affects collective investment schemes in particular.

Note: The actualization of these achievements are however dependent on the acceptance of the recommendations by the CMC in general and implementation by the Commission.

10.8 Challenges

Lack of feedback from the Commission on reports/recommendation submitted posed a major challenge within the period. Consequently, it was not clear what the position was in respect of recommendations made. The sub-committee has therefore been unable to assess its effectiveness.

10.9 Outstanding Issues

- Owing to time constraints and other intervening assignments, the sub-committee is yet to consider its 2013 Q.4 deliverable i.e. the consideration of new investment products and processes.
- The sub-committee has however covered an additional mandate assigned by the SEC D.G i.e. to make proposal in respect of immediate, intermediate and advanced certification program for investment managers, as well as to review and make recommendation with respect to the implementation of the Global Investment Performance Standards by fund managers.

The report of the latter is to be presented at the 2013 CMC retreat.

APPENDIX 3

PERFORMANCE MEASUREMENT

TRACKING BENCHMARK								
Inflation				Risk Free Rate (90 day bill)				
1 Yr	3 Yr	5 Yr	10 Yr		1 Yr	3 Yr	5 Yr	10 Yr

FUND PERFORMANCE				
Type of Fund	Structure	Fund Managers	1 Month Return (%)	YTD Returns (%)

FUND PERFORMANCE															
Cumulative Returns (%)				Annualised Return (%)				Volatility (□)				Sharpe Ratio			
1 Yr	3 Yr	5 Yr	10 Yr	1 Yr	3 Yr	5 Yr	10 Yr	1 Yr	3 Yr	5 Yr	10 Yr	1 Yr	3 Yr	5 Yr	10 Yr

FUND PERFORMANCE									
Weighted Sharpe Ratio	Real Return				Weighted Real Return	TER			
If ≤ 3yrs = 100% of 3 yrs; If 5yrs ≥ x ≤ 10yrs = 60% = 5yrs; 40% 3yrs ; If 10yrs ≥ = 50% = 10yrs; 30% 5yrs; 20% 3 yrs	1 Yr	3 Yr	5 Yr	10 Yr	If ≤ 3yrs = 100% of 3 yrs; If 5yrs ≥ x ≤ 10yrs = 60% = 5yrs; 40% 3yrs ; If 10yrs ≥ = 50% = 10yrs; 30% 5yrs; 20% 3 yrs				

5

SUB-COMMITTEE ON MARKET INFRASTRUCTURE & TECHNOLOGY

EXECUTIVE SUMMARY

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

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)

Pending 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.

SUB-COMMITTEE ON MARKET INFRASTRUCTURE & TECHNOLOGY 2012 – 2013 REPORT

1.0 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.

2.0 NAMES OF SUB-COMMITTEE MEMBERS

S/ N	Name	Organization/ Firm	Function	Designation	Email	Phone Nos.
1	Kyari Abba Bukar (Chairman)	CSCS	Clearing & Settlement	MD/CEO	bukar.kyari@cscsnigeria.com	08034048080
2	Ade Bajomo	NSE	SRO	Exec. Dir.	abajomo@nigerianstockexchange.com	08023375154
3	Akeem Oyewale	IBTC Stockbroker Ltd	Stock Broking	CEO	akeem.oyewale@stanbic.com	08035010941
4	Mr. Oluseyi Owoturo	ICMR	Registrars	Managing Director	davidwalkerogogo@yahoo.com	08023210561
5	Mr. Ike Chioke	Afrinvest West Afrca Ltd	Issuing House	Managing Director	ichioke@afrinvest.com	08022900531
6	Segun George	Dunn Loren Merrifield	Issuing House		ceo@dunnlorenmerrifield.com	N/A
7	Mr. OluFasan	FBN Capital	Issuing House		olu.fasan@fbncapital.com ; micheal.oyebola@fbncapital.com	N/A
8	Mr Daniel, Michael Katsit	ASHON	Stock Broking	MD	zirhi@yahoo.com	08033045928
9	AyotundeOwo igbe	Banwo & Igbodalo	Solicitors	Partner	asadiq@banwo-ighodalo.com ; aowoigbe@banwo-ighodalo.com	N/A
10	Olubunmi. I. Fayokun	Aluko & Oyebode	Solicitor	Partner	olubunmi.fayokun@aluko-oyebode.com	08034020534
11	Bayo Olugbemi	First Registrars	Registrars	Managing Director	bayolugbemi@yahoo.com	08022238610
12	MrAkinwale Adewunmi	Lead Securities & Investment LTD	Stock Broking		info@leadcapitalng.com	N/A
13	Oluwole Abegunde	Meristem Securities	Stock Broking	MD	woleabegunde@meristemng.com	08035396342
14	Abdulasheed Dan Abu	SEC	Regulator	Manager/IT	adan-abu@sec.gov.ng	

3.0 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.

4.0 ACTION PLANS

Terms of Reference	Action Plan	Resolutions
<p>1. Examine and provide a comprehensive report on the current state of the market infrastructure and technology employed in the Nigerian Capital market.</p> <ul style="list-style-type: none"> • Provide suggestions on how to adapt internationally accepted infrastructure and technology to Nigerian conditions or where appropriate suggest methods of training or retraining market participants to enable them effectively utilize the infrastructure and technology. • Research on and proffer ways (in terms of change in infrastructure and technology) by which the Nigerian Market can avoid the recent Nigerian Capital Market crisis, increase transparency, reduce systemic risk and drive down the cost of trading, centralized clearing, automation of trading, and new trade reporting regime. • Automation of pre- and post - trading services. Examine and suggest the technology and infrastructure for centralized clearing, automation of trading, and new trade reporting 	<p>Quarter 3, 2012 By the Third Quarter 2012 all new client accounts must have GSM and bank accounts numbers. Existing accounts should be updated with GSM and bank accounts numbers by end of First quarter 2013</p> <p>Quarter 1, 2013 By the end of the First Quarter of 2013, all operators including the regulators must have met the minimum ICT infrastructure requirements.</p> <p>Quarter 1, 2013 By the First Quarter of 2013, all returns including all observations by the regulators must be by e-format.</p> <p>Dematerialization must have commenced by end of First Quarter 2013.</p>	<ul style="list-style-type: none"> • Design a Charter for the Sub Committee • Revise the Action Plans • Revise the Terms of Reference (for harmonization) • Review of the infrastructure positions of CSCS, NSE and SEC (CMC should write the three institutions to provide us with the information). • We need a copy of the report of Demutualization Committee. • We need to visit NIMC (a letter introducing Abdul Rasheed Dan-Abu and his mission should be drawn up). • SEC should also look into having a connection to both the NSE and CSCS for effective surveillance. • Next meeting was fixed for April 19th, 2012 at CSCS Conference Room in Lagos.

<p>regimes.</p> <ul style="list-style-type: none"> • Addressing connectivity challenges of market operators. <p>2. To create awareness among capital market operators on information technology security issues as they occur within and outside our jurisdiction.</p> <ul style="list-style-type: none"> • To benchmark information technology security practices obtainable in the Nigerian capital market against best practice to improve the control, management, and security of information technology assets by market operators. • To make recommendations on information security best practice for the market. <p>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.</p> <p>4. Review and recommend minimum infrastructural and capacity requirements for market operators, and also enhance capacity in the industry.</p> <p>5. Recommend minimum standards for information technology, security and</p>		
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<p>infrastructure for the OTC market.</p> <ol style="list-style-type: none">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.8. Other terms that the CMC may delegate to the sub-Committee to work on to develop the capital market using IT		
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CMC Sub Committee on Market Infrastructure and Technology Quick Hits Initiatives for 2013

Action Plan	Dependencies	Quick Hits
Provide suggestions on how to adapt internationally accepted infrastructure and technology to Nigerian conditions or where appropriate suggest methods of training or retraining market participants to enable them effectively utilize the infrastructure and technology.	<ul style="list-style-type: none"> • Finalization of baseline document • Training of human resource to handle technologies 	
Research on and proffer ways (in terms of change in infrastructure and technology) by which the Nigerian Market can avoid the recent Nigerian capital market crisis, increase transparency, reduce systemic risk and drive down the cost of trading, centralized clearing, automation of trading, and new trade reporting regime.	Finalization of baseline document	Cash settlement - when trades are made the cash settles directly into the investor's bank account and not the broker's account. Or at least the investor should be able to decide where the cash goes to. This is dependent on item 1. This will build confidence in the investing public.
Automation of pre- and post - trading services. Examine and suggest the technology and infrastructure for centralized clearing, automation of trading, and new trade reporting regimes.	Finalization of baseline document	Clean up – CSCS data is to be cleaned up by the end of second quarter. All accounts must have both GSM numbers and bank account numbers attached to them and they must also have unique CSCS numbers. SEC, NSE and CSCS are to issue out instructions to all parties. No new accounts will be created in CSCS, houses or registrars without these features made available from January, 2013. This will enhance the functionality of Trade Alert. This will be a useful prelude to cleaning up the data with the registrars.
Addressing connectivity challenges of market	<ul style="list-style-type: none"> • CSCS • NSE 	

operators.		
To create awareness among capital market operators on information technology security issues as they occur within and outside our jurisdiction.	Periodic Workshop for the Market Starting from First Quarter Of 2013	
To benchmark information technology security practices obtainable in the Nigerian Capital Market against best practice to improve the control, management, and security of information technology assets by market operators.	<ul style="list-style-type: none"> • Finalization of baseline document • Pick markets to benchmark 	
To make recommendations on information security best practice for the market.	Finalization of baseline document	
To provide guidance to the Commission on the establishment of an improvement in Disaster Recovery/Business Continuity Planning by the SEC and market operators.	To be built after the acceptance of the baseline document.	
Review and recommend minimum infrastructural and capacity requirements for market operators, and also enhance capacity in the industry.		
Recommend minimum standards for information technology, security and infrastructure for the OTC market.		
Explore the development of shared services to reduce cost of doing business in the capital market.		All reports to be exchanged across the Capital Market should be in electronic form and the acceptable format will be xmls. A platform for this electronic communication will be made available by CSCS, NSE and SEC. The uniformity of the format is to avoid operators having to make

		multiple copies of a report in different formats because they need to be sent to different parties.
To advise on critical infrastructure for the surveillance of the market.		
Other terms that the CMC may delegate to the sub-Committee to work on to develop the capital market using IT.		

5.0 ACHIEVEMENTS

Notable among the achievements made by the sub-committee are;

- Minimum Baseline Infrastructure for Capital Market Operators and Regulators (attached As Appendix 4).
- Online Account Opening System developed by CSCS.
- Update of Investors Accounts' Details with CSCS.
- Direct Settlement Initiative being designed (CSCS and NIBSS are currently working to put the system in place).
- CSCS Biometric KYC System
- Reconciliation of Members Registers - Work in Progress

6.0 CHALLENGES

Lack of feedback from the Commission on reports/requests/commendations submitted posed a major challenge within the period. This often made it difficult for the sub-committee to take a position on such issues and made it almost impossible to move forward as there was no direction to follow.

7.0 OUTSTANDING ISSUES

The under-listed are the outstanding issues that the sub-committee could not complete due to either lack of time, lack of cooperation from operators or inadequate information.

- Reconciliation of registers (is ongoing at the moment, it is been done in phases)
- Implementation of the Dematerialization report
- Implementation of the Minimum Infrastructure Baseline for CMO's and Regulators.
- Policy statements from SEC and the CBN on making e-dividend payments compulsory.
- 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 them

APPENDIX 4

MINIMUM INFRASTRUCTURE BASELINE FOR CAPITAL MARKET OPERATORS AND REGULATORS

1.0 Introduction

This document provides minimum Information and Communication Technology infrastructural requirements recommended for market operators and regulators that would be providing capital market services in Nigeria leveraging on the technological platforms.

2.0 Purpose

The minimum infrastructure baseline requirement defined herein is not meant to limit each individual operator's and regulator's information and communication technology development but rather to serve as a foundation for universal service delivery and guidance in the subsequent planning and design of information technology based services for operators.

3.0 Scope

This document addresses infrastructural, technical and compliance concerns with respect to market operators connected to all Regulatory network infrastructure and providing services to the general public.

4.0 Office Productivity

The following are meant to enhance the processing capabilities and efficiency of market operators.

4.1 Office Productivity Tools

- Workstation Operating System should be recent and must be a version currently supported by the software OEM. Windows 8 professional is recommended and provides more functionality than earlier Versions of Windows. However, the

commercial Linux operating system is also accepted as long as the procedure for patching and hardening the OS is put in place.

- Hardware(Printers)
 - Minimum of two (2) line printers (with each having capability to print 1500 lines per minute) dedicated to core operations.
 - Minimum of two (2) Laser printers with duplex printing capabilities for other administrative use.
- Office productivity tools should include the following:
 - Complete Microsoft Office 2007 Suite or higher.
 - Microsoft SharePoint Suite or any other industry accepted tool for Intranet Communication purpose and general office automation.
 - Approved/Open source Third party office automation tools e.g. Open Office.

4.2 Core Mandate Services

- Firms should have functional applications to facilitate the provision of good front desk and customer service offerings, and support associated back office operations.
- Automation of internal processes and interactions with the external eco-system - specifically with clients and regulators should be adopted. Such systems should enable clients to conduct business with the firm from anywhere and at any time using traditional and emerging technology trends such as smart phones, iPads etc.
- A good Application Package with modules to effectively implement all the e-processes i.e. (e-POs, e-Rights, e- allotment-Lodgment, e-Bonus, e-Dividend, etc.). Such software package must support the Central Securities Clearing System (CSCS) processes as well as possess adequate built-in controls. Systems in place will include but not limited to online customer service provision, automated and real-time order management, execution, confirmation and trade reconciliation system with capabilities to support the FIX protocol with the matching engine of The Nigerian Stock Exchange, financial management systems, and risk management systems.

4.3 IT Infrastructure Benchmark for the Market

- Each market operator and regulator must have state-of-the art hardware, software and peripheral devices for records processing.
- Each market operator to possess standard Biometric machine/device. This is to enable market operators capture both the fingerprints and other essential details of investors, as part of new requirements for generating clearing house numbers. This is to further promote the KYC initiatives.
- Each operator and regulator must put in place a functional corporate website with capability for secure data transfer either for uploading or downloading.

4.4 Servers Considerations

- Server Hardware must have sufficient capacity and resilience to support the business peak load requirements.
- Uninterruptable power solution should be in place during core business hours to avoid service disruption.
- The operating system should be a version currently supported by the software provider and must be kept up to date in terms of patch updates. Server Operating Systems should be a minimum of Windows 2008 Server, a commercial based Linux Server, Unix or OS400 .
- Proper database management should be employed using a good standard database management system that can support industry standard SQL commands.

4.5 Servers Hardware Specifications

- E-business based service offerings is expected to be provisioned based on a minimum of three (3) Servers while other Back office function (taken as a whole) shall be expected to also have a minimum of three (3) Servers. These should be performing dedicated roles: one to be used as the production server, the second will serve as a mirrored back up (active/active clustering is also acceptable) while the third server will be used as a testing, training and development environment. Each server should meet the following recommended minimum specification:

- 32bit or 64-bit Intel® Xeon™ processors up to 3.6 Hz 800MHz Front Side Bus and 2MB of L2 cache High Performance Models or its equivalent in terms of capacity and functionality:
- Two processors included standard
- Based on the 3.4 GHz 2MB Intel Xeon Processor and the 3.6 GHz 2MB Intel Xeon Processor
- Intel E7520 chipset or its equivalent
- High performance models available fully loaded for convenience
- Memory:
 - 8 GB PC2-3200R 400MHz DDR2 Memory or higher with online spare capabilities
 - 4 GB included in High Performance models
 - Support for dual-rank 400 MHz DDR2 memory
- Storage Controller:
 - SAS (Serial attached SCSI) models include the HP Smart Array P600/256 BBWC Controller.
 - SCSI models include the integrated Smart Array 6i Ultra 320 Array Controller with optional 128 MB of Battery Backed Write Cache (BBWC standard on all high performance models)
 - A storage area network for bigger business models.

4.6 WorkStation Specifications

- Workstations dedicated to core and administrative operations. Each workstation should have a minimum specification of:
 - Dual core Processor
 - 1.8 GHZ
 - 4GB RAM minimum
 - 160 GB Hard Disk and Drive DVD+RW
 - 17 inch TFT monitor
- Other Peripheral Devices
 - Uninterrupted Power Supply (UPS)
 - Stabilizers to support office power equipment;

- Minimum of two (2) fireproof cabinets
- At least one(1)vault

4.7 Network and Bandwidth Requirements

- To ensure low latency, fast and efficient access to offer online services, sufficient bandwidth should be available to support customers and business requirement. Specifically, a minimum bandwidth of 2MB (uplink) /2MB (downlink) is recommended. Generally, this may vary from clients based on the expected transactions per seconds expected to be processed by the operator.
- There should be a Local Area Network within the Head Office of firms to facilitate the distribution of IT services.

4.8 Environment

The space for storage of information technology infrastructure should:

- Be wide enough and spacious;
- Be fully air-conditioned;
- Have installed smoke detectors;
- Have raised floors in the server rooms;
- Be secured with biometric access control systems with special attention to the server room.
- CCTV Footage camera to monitor the movement around the server room should be installed.

4.9 Information Security

- Operators and Regulators should ensure that robust and comprehensive Information security systems and policies are in place to ensure the confidentiality, integrity and availability of data.
- This will include, but not limited to, authentication, access control, encryption, maker/checker processes, anti-virus and other anti-malware protection tools, intrusion prevention and perimeter protection systems.

- Specifically, broker- dealer firms should not use public email platforms and addresses for corporate and client facing information exchange.
- Exchange of data between operators/regulators should be electronic and data should be encrypted to ensure data integrity.
- Systems should have comprehensive audit trail functionality.

4.10 Business Continuity Planning

- There should be efficient backup process and procedures using the grandfather-father-son relationships/concept;
- An up to date business continuity plan, signed by the business executives should be available at all times. It should detail the business impact analysis, key internal and external threats and scenarios, critical staff and their contact details, together with the recovery procedures. Provision should be made for a geographically dispersed recovery site that is at least 100 kilometers away from the primary site and provisioned to recover critical business services that will restore client facing services, associated support, risk management and facilitate regulatory reporting and oversight.
- To ensure that market participant operations are not hampered by any unforeseen circumstances, the Sub-Committee recommends that:
 - All market operators and regulators must ensure a daily backup of their data;
 - All market operators and regulators must urgently develop and deploy appropriate disaster recovery procedures;
 - All the necessary infrastructure for Business Continuity Planning (BCP) should be acquired by all the market operators and regulators;
 - However, cloud hosting and shared service can be considered as options.

4.11 Insurance

- All install infrastructures must be comprehensively insured to reduce operational risks and thereby boost investors' overall confidence (both locally and internationally).

6

SUB-COMMITTEE ON PRODUCTS & BUSINESS DEVELOPMENT

EXECUTIVE SUMMARY

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 Working Group 2 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, incorporate 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 into The National Integrated Master Plan**

As a follow up to disclosures made by the Minister of National Planning during the Infrastructure Round Table organized by the Commission in August 2013, that the **National Integrated Master Plan** is for 30 years, the sub-committee as a follow up, found the need to review the document to ensure that clauses that would facilitate deepening the Capital Market should be integrated into the document before it is signed into law.

3. Following through with the recommendations made for Telcos, Power sector and on sale of NIPPs.

SUB-COMMITTEE ON PRODUCTS & BUSINESS DEVELOPMENT 2012-2013 REPORT

1.0 INTRODUCTION

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

The Sub Committee guarded by its terms of reference concentrated on working out strategies that would encourage the introduction and listing of new products.

At its inaugural meeting the sub-committee reviewed the Terms of Reference and an additional Terms of Reference were adopted as follows:

“Propose to the SEC policy measures and procedures to encourage new listings”

Arising from above TOR, the Sub Committee agreed that new listings would be encouraged if the following strategies are in place:

- Creating enabling environment for securities listing
- Identifying new classes of Securities for listing (e.g. Commodity investments. Bonds, ABS)

The Sub Committee also acknowledged work earlier done by the defunct New Products and Processes Sub-Committee listed below and pledged to build on it.

Modifying the Nigerian Capital Market Settlement System

- i. Ensuring the Introduction of Infrastructure Bonds
- ii. Ensuring the Introduction of Mortgage Backed Securities
- iii. Private Placement
- iv. Mutual Funds
- v. Fixed Income Securities

2.0 NAME SOF SUB-COMMITTEE MEMBERS

S/N	Name	Organisation/ Firm	Function	Designation	Email
1	Mr. Kayode Falowo (Chairman)	Greenwich Trust Limited	Issuing House	Managing Director	kayode.falowo@greenwichtrustgroup.com
2	Mr. Mike Itegeboje	CIS	Stock Broking	President	mikeitegeboje@gmail.com
3	Ms. Yewande Sadiku	Stanbic IBTC Bank PLC	Issuing House	Head Investment Banking	yewandesadiku@stanbic.com
4	Ade Bajomo	NSE	SRO	Exec. Dir.	abajomo@nigerianstockexchange.com
5	Mr. Segun Sanni	Stanbic IBTC Custodian	Custodians	CEO	segun.sanni@stanbic.com
6	Mr. Abimbola Olashore	Lead Securities and Investment Ltd	Stock Broking	CEO	wale.adewunmi@leadcapitalng.com; abimbola.olashore@leadcapitalng.com
7	Mrs. Tosin Oni	FBN Capital	Issuing House	VP	micheal.oyebola@fbncapital.com tosin.oni@fbncapital.com
8	Kayode Tijani	Goldbank Management Associates	Issuing house financial Advisory	COO	yomi@gma.com.ng
9	Mr. Oladele Afolabi	DMO	Observer	Assistant Director	virtuek@yahoo.com
10	Sunday Omoniwa	FBN Capital Ltd	Asset Management	VP	micheal.oyebola@fbncapital.com tosin.oni@fbncapital.com
11	Abiola Adejonwo	Kakawa Asset Mgt Ltd	Asset Management	Sponsor	syavbieri@kakawa.com
12	Mr. Albert Okumagba	BGL plc	Issuing House	GMD/CEO	albert.okumagba@bgltd.com
13	Mr. Chimeze Victor Iheakweazu	CMSA	Solicitors	Partner	cvcihekweazu@gmail.com
14	Mrs. Elizabeth .Y. N. Osoka	E .Osoka and Co.	Solicitors	Principal	eosoka@aol.com
15	Dr. Tochi Nwugo	CMSA	Solicitors	Partner	N/A
16	Mrs. Motunde Dada	UAC Registrar Ltd	Registrars	MD/CEO	mdada@uacnplc.com

17	Mr. Akin Akeredolu Ale	GEM Asset Mgt. Ltd	Stock Broking	MD/CEO	akeredoluale@yahoo.com
18	Adeolu Ireymi	Cashcraft Mgt. Ltd	Stock Broking	MD/CEO	bolade.agbola@cashcraft.com
19	Mrs. Kemi Adewole	Citibank Nigeria Limited	Custodians	Head, Custody	kemi.adewole@citi.com
20	Mr. Sonnie Ayere	Dunn Loren Merrifield	Issuing House	Managing Director	sonnie.ayere@ubagroup.com
21	Ms. Simisola Eyisanmi	CMSA	Solicitors	Counsel	eyisanmisisola@yahoo.com
22	Chidi-Ebere Ikenna	National Pension Commission	Regulator		
23	Taba Peterside	NSE	Regulator	Head, Listing Unit	07089997155
24	Mrs. Mary Ekwo	SEC	Regulator	Deputy Director/ R&P	mekwo@sec.gov.ng

3.0 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. Research and keeping tab with global best practice
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.

4.0 ACTION PLAN

4.1 2012 Action Plan

- Securities Lending: Q1-Q2
- Infrastructure bonds: Q2-Q4
- New CIS products: Q2-Q4
- Research, structures, process flows, awareness programs and capacity building (training) in the above three areas.

4.2 2013 Action Plan

The Sub-committee identified its 2013 Action Plan as follows:

- Encourage issuance of Infrastructure Bonds (in liaison with Infrastructure Concession Regulatory Commission) (Q1 – Q2)
- Liaise with BPE and NERC to develop the framework for eventual listing of privatized power companies (Q1)
- Increase the participation of Collective Investment Schemes in capital market activities.(Q1 –Q4)
- Carry out research on structures, process flows, awareness programs and capacity building in the above areas (ongoing)
- The enhancement of activities in ETFs, Asset-Backed Securities, REITs, etc.(Q1 – Q2)
- Develop programs for attracting Public interest Corporations to be listed on the Nigerian Stock Exchange.(Q1 –Q4)
- Implementation of enlightenment programs for proposed products.(Continuous and as the need arises)

5.0 WORK DONE

The Sub Committee set up three (3) Working Groups to work out:

- i. strategies of identifying new products
- ii. logistics to encourage listing
- iii. capacity building focused on new products and collective investment schemes

Members of the three (3) Working Groups and their respective terms of reference (TOR) were as follows:

Committee 1 - Implementation of Products Committee		Committee 2 - New Business Committee		Committee 3 - Capacity Development Committee	
Chairman	Segun Sanni	Chairman	Michael Oyebola	Chairman	Abayomi Sanya
Members	Mrs. Mary Ekwo	Members	Abimbola Olashore	Members	Sonnie Ayere
	Adeolu Ireiyomi		Taba Peterside		Akin Akeredolu Ale
	Chimezie Iheakweazu		Babajide Fawole		Jimi Ogbobine
	Olutosin Oni		Ehineme Ohioma		Oladele Afolabi

Working Group 1 TOR – Implementation of Identified Products Sub-Committee

- a. Identify issues militating against the implementation of new products and engage all stakeholders to resolve identified issues.
- b. Liaise with regulators to implement changes in existing rules to facilitate the implementation of new products and businesses.
- c. Liaise with the Capacity Development Sub-Committee to develop skills and competences required for the successful implementation of identified new products and businesses.
- d. Develop position papers for engaging relevant authorities to effect changes in legislation, regulation, rules, etc. to ensure implementation of identified products.

Working Group 2 TOR – New Products Sub-Committee

- a. Develop strategies and produce papers towards ensuring that certain National Institutions undergo privatization and listing as soon as possible.
- b. Develop advocacy strategies to ensure that companies already privatized by BPE are listed in line with the terms of the Sale Agreement between BPE and the buyers.
- c. Propose incentives to ensure that public interest companies are encouraged to seek quotation on the NSE.
- d. Engage institutions that have recently delisted from the NSE to understand why they opted for delisting and propose remedies for preventing delisting in the future.
- e. Develop a framework to encourage companies in the West Coast to list their equities and debts on the Nigerian Stock Exchange.
- f. Examine the features of new products that are yet to be implemented in Nigeria and propose amendments to the features to make them attractive to the Nigerian market.

Working Group 3 TOR-Capacity Development Sub-Committee

- a. Liaise with international and multilateral agencies to partner with the Nigerian Capital market for training and sponsorship. Develop a broad based Capacity Development plan to fill the knowledge gap and improve skills of market participants on proposed and existing products.
- b. Develop programs for enlightenment of public sector stakeholders and other interest groups required for implementation of new products roll-out plans.
- c. Periodically scan the market for proposed policies and regulations and address issues that will facilitate the implementation of the overall plan of the Sub-committee on New Products and Business.

Decisions Reached from Submissions Made by the Working Groups

The Reports from the three (3) Working Groups were deliberated upon and the following decisions were reached:

i. Working Group 1 – Implementation of Identified Products Working Group

- Devise strategies for developing already existing products and ensuring its workability including: ETFs, Securities Lending, Market Making, ABS and REITs
- Identify and introduce new products like: Covered Bonds, Infrastructure Bonds and Sukuk and also ensure that the implementation of these products are brought to fruition.

ii. Working Group 2 - New Business Working Group

- One of the Terms of Reference was changed and adopted to read as: "Identify and facilitate the introduction of new products into the Nigerian Capital Market".

iii. Working Group 3 – Capacity Development Working Group

- The Working Group liaised with SEC, the NSE and AIHN and was working towards possible partnership with corporate bodies within and outside Nigeria for capacity building on new products.
- The Chairman contacted external partners as suggested by the NSE for capacity building on ETFs, Market making, Securities lending and REITs.
- It consolidated on work earlier done by SEC, NSE and AIHN on capacity building. Covered bonds and infrastructure bonds were new areas to be explored.
- For any training on new products, the proposed trainers should include in their training packages the basic and foundational issues in view of the peculiarities of the Nigerian environment.

Key Initiatives That Were Expected To Kick Start The Implementation Of New Products

- Articulation of goals and policies
- Training on Securities Lending and market making

6.0 ACHIEVEMENTS RECORDED BY THE WORKING GROUPS

Working Group level	Achievements
<p>Implementation of Identified Products - (Working Group 1)</p> <ul style="list-style-type: none"> • To work out modalities for ensuring the implementation of identified new products and trading of new products • 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 	<ul style="list-style-type: none"> • Trading on Securities Lending commenced on 18/9/12. Stanbic IBTC and UBA were the pioneer security lenders • Market Making activities commenced. The Exchange rules for this activity are in place and 10 Market Makers were appointed by the Exchange. • Stakeholders' workshop for Operators and Regulators on Market Making and Securities Lending was held on the 11th day of September. Formal Market Making commenced on 18th September, 2012. • As at September 2012, Market Making activities were being executed on 25 listed securities. Below are the list of Market Makers and Securities they handled: <p>Market Makers and Securities handled</p> <ol style="list-style-type: none"> 1. Capital Bancorp <ul style="list-style-type: none"> ➢ PZ Cussons ➢ Access Bank Plc. ➢ Nigerian Bag Manufacturing Company ➢ PrescoPlc. 2. CSL Stockbrokers <ul style="list-style-type: none"> ➢ International Breweries ➢ Lafarge Wapco 3. ESS/Dunn Loren Merrifield <ul style="list-style-type: none"> ➢ Academy Press ➢ Fidson Healthcare Plc. ➢ Redstar Express Plc.

	<ol style="list-style-type: none"> 4. FBN Securities <ul style="list-style-type: none"> ➤ Zenith Bank Plc. 5. Future View Securities <ul style="list-style-type: none"> ➤ Custodian & Allied Insurance ➤ Sterling Bank Plc. 6. Greenwich Securities Ltd <ul style="list-style-type: none"> ➤ First Bank of Nigeria ➤ DN Meyer Plc. 7. Stanbic IBTC <ul style="list-style-type: none"> ➤ Nestle Nigeria Plc. ➤ Diamond Bank Plc. 8. Renaissance Capital <ul style="list-style-type: none"> ➤ Dangote Sugar ➤ Fidelity Bank 9. Vetiva Securities <ul style="list-style-type: none"> ➤ Nigerian Breweries ➤ Union Bank of Nigeria Plc. ➤ NASCON 10. WSTC <ul style="list-style-type: none"> ➤ AICO Insurance ➤ Guaranty Trust Bank ➤ UAC Nigeria Plc.
<p>New Business Committee - (Working Group 2)</p> <ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • On the privatization of PHCN, the following ways of ensuring that the new successor companies will possibly be listed were identified: <ol style="list-style-type: none"> i. After take-over by new buyers, a specific time-frame should be given following which the privatized companies must go public. ii. Extension of the time frame would be at the discretion of BPE and NERC upon application by the companies and privatized companies should be encouraged to list.

<ul style="list-style-type: none"> To carry out research and submit proposals to government on policy issues that affect the market 	<ul style="list-style-type: none"> iii. Periodic monitoring of these companies should be carried out to ensure the security of those companies' assets. iv. Relevant covenants should be imbedded in the Sale Agreements to ensure that new owners of privatized companies adhere to listing plans. <ul style="list-style-type: none"> Already privatized companies that had the "listing" clause in their Agreement should be mandated to go by the Agreement. To ensure that these companies get listed, the Sub Committee recommended as follows: <ul style="list-style-type: none"> i. Joint visitations to these companies by BPE, SEC and NSE to encourage them to list. ii. Copies of the Sale Agreements to be reviewed by SEC and the Exchange to determine companies that were legally bound to list. iii. Draft letter to BPE in respect of the above issues was forwarded to SEC. The Exchange should provide incentives including but not limited to the reduction in CAC fees, relaxed listing requirements by the NSE, easier and multiple channels of entry, etc. to encourage firms to get listed.
<p>Working Group 3 – (Capacity Development)</p>	<ul style="list-style-type: none"> 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 agenda focused on new products and Collective Investments Scheme.

6.1 Road Map to Listing of Public Interest Companies

a. Telcos Companies

- Government and regulatory authorities should 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.

- The 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.
- SEC should set up committee comprising of Products and Business Sub-Committee members, SEC, NSE, NCC, Ministry of Finance and Ministry of Communications to follow through to a successful listing process. Thereafter, the Inter-Agency Committee of SEC and BPE would tidy up regulatory issues.
- Since the operating licenses of telcos were due for renewal, GSM companies should be compelled to initiate listing of a minimum of 20% of their equities, over a period of 36 months.

b. Power Sector

On Power Sector, the Committee recommended as follows:

- 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.
- Power companies (Gencos, Discos and NIPPs) should list a minimum of 20% of their equities within 36 months upon take off.
- **The Sub Committee noted that it was necessary to initiate the collective agenda to sell these ideas to the Economic Management Team of the Federal Executive Council and other stakeholders in the market.**
- **Secondly, since the sale of NIPPs was eminent between BPE and Niger Delta Holding, it was necessary to ensure that the listing clause was embedded within the contract.**

6.2 Collective Investment Schemes

- To deepen the market, there should be a collective massive effort towards general enlightenment of retail investors on new products and using jingles in local languages via WAZOBIA FM and other popular radio stations, TV, newspaper publications, organized workshops (not fee-based) for shareholders' associations, organized market leaders, schools, churches, mosques, etc.
- Mutual fund managers should work towards publishing prices on a daily basis as is done in other jurisdictions.
- To put effect to the decisions, the Sub Committee commenced the process of developing an Enlightenment Plan of Action on CIS, ABS, ETFs, REITS, Securitization etc.

Deliberations on the Outcome of Infrastructure Roundtable

- Following the deliberations on the Infrastructure roundtable organized by SEC in August, 2013, the Sub Committee agreed that the National Integrated Master plan had overtaken the proposed listing of Telcos and Gencos hence the focus of the Sub Committee shifted to reviewing and making input into the Integrated Master Plan.
- From the submissions made by stakeholders at the roundtable, it appeared that SEC and the Capital Market operators were unaware of the Integrated Master Plan and its contents with respect to how it may negatively affect the interest of the Capital Market.

Review of National Integrated Infrastructure Master Plan policy

- i. The National Integrated Master Plan is a 30 year document that would be binding for all Infrastructural transactions (as disclosed by the Minister of National Planning during the round table). The Sub-Committee recommended that SEC and Capital Market Operators should find a way to interject into the policy document clauses that would be beneficial to the market before it was signed into law.

- ii. This Integrated Master Plan has an addendum on Cash Flow Securitization sponsored by the CBN which details out provisions on securitization for bonds that would be implemented outside the Capital Market.
- iii. The need for SEC and CMOs to work with National Planning Commission and make input into the structures and modalities on the possibility of accessing multilateral funds since FGN has put in place policies for investors to access guarantees directly from BPE thereby sidelining the Capital Market.
- iv. To avoid issues of corporate governance, the Sub Committee recommended that SEC and BPE should put structures in place to discontinue investors' direct access to such guarantees.
- v. The review of the Integrated Master Plan will elicit the technicalities and implications of the document to the Capital Market and recommendations should be forwarded to Director General of SEC for possible inclusion before its final validation.
- vi. Upon receipt of the document, it was proposed that an emergency strategy meeting would be held by a technical working group of the Sub-Committee – (because of time, this was not achieved).

Challenges/Outstanding Issues In 2013

1. The market needs closer collaboration with the SEC by way of participation in market group meetings and having SEC representatives attend workshops on New Products.
2. High level of absenteeism by some Committee members affected quorum and the frequency of meetings.
3. The sub- committee could not conclude the enlightenment plan due to time limitation.
4. The National Integrated Master Plan was yet to be reviewed.

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 propose 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 of the Sub-Committee

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.

SUB-COMMITTEE ON RULES AND COMPLIANCE

2012 - 2013 REPORT

1.0 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.

2.0 NAMES OF SUB-COMMITTEE MEMBERS

The Committee comprised of members of the CMC representing various trade groups with a maximum representation of three members per trade group. The following individuals served in the Committee:

S/N	Committee Members	Operator Group Represented	Designation	Interested in Reconstituted Sub-committee
1.	Yewande Sadiku Stanbic IBTC Capital Limited	Issuing House	Chairman	Yes
2.	Zik C Obi Zik Chuka Obi & Co	Solicitor	Vice-Chairman	Yes
3.	Chinua Azubike Dunn Loren Merrifield	Issuing House	Secretary	Yes
4.	Bolaji Balogun Chapelhill Denham Limited	Issuing House	Member	Yes
5.	Yemisi Deji-Bejide Vetiva Capital Management Limited	Issuing House	Member	Yes
6.	Ebi Enaholo Greenwich Trust Limited	Issuing House	Member	Yes
7.	Tairat Tijani FBN Capital Limited	Issuing House	Member	Yes
8.	Bayo Olugbemi First Registrars Nigeria Limited	Registrar	Member	Yes

9.	David Ogogo ICMR	Registrars	Member	Yes
10.	Stephen John-Oti Corporate Affairs Commission	Regulator	Member	Suggested Austine Ogbechie as a replacement.
11.	Florence Olakanye Akintola Williams Deloitte	Reporting Accountants	Member	Yes
12.	Isikonglsong Securities and Exchange Commission	Secretariat	SEC Representative	Yes
13.	KaluAbosi SPA Ajibade & Co	Solicitor	Member	Yes
14.	TamunoAtekebo Streamsowers & Kohn	Solicitor	Member	Yes
15.	Yemisi Awonuga OlaniwunAjayi LP	Solicitor	Member	Yes
16.	YinkaEdu Udo Udoma & Bello-Osagie	Solicitor	Member	Yes
17.	Olubunmi Fayokun Aluko & Oyebo	Solicitor	Member	Yes
18.	Lawrence Fubara-Anga Aalex Partners	Solicitor	Member	Yes
19.	Sola Ephraim-Oluwanuga O.S. Ephraim-Oluwanuga & C	Solicitors	Member	Yes
20.	OnyiNwosu-Igbo C. ASHON	Stockbroking	Member	Awaiting response
21.	John Ogar GTB Securities Limited	Stockbroker	Member	No
22.	Gregory Otsu Macts Securities Limited	Stockbroking	Member	Awaiting response
23.	M.K. Zubairu Synergy Investment and Services Limited	Stockbroking	Member	Yes
24.	FunmiEkundayo Skye Trustees Limited	Trustees	Member	Yes
25.	Leo Okafor PHB Capital & Trust Limited	Trustees	Member	Yes

3.0 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.

4.0 ACTION PLAN

4.1 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.

4.2 2013 Action Plan

- Planned to complete the review of code of corporate governance
- Planned to produce a track version of rule book containing all amendments and to produce a simple English guide of SEC rules for investors and public companies.

5.0 MEETING PROCEDURES

i. Convening Meetings

The Sub-Committee held its meetings on the second Wednesday of every month, from 2pm to 5pm, typically at Stanbic IBTC Capital Limited I.B.T.C Place, Walter

Carrington Crescent, Victoria Island, Lagos. However, ad-hoc meetings were occasionally held, to deliberate on recently released exposure drafts or other regulatory issues requiring urgent attention.

A meeting was convened by giving at least two weeks' notice via e-mail to members. Each notice specified the place, day, time and agenda for the meeting and was accompanied by the minutes of the previous meeting and discussion material (where relevant).

ii. Ground Rules

The meeting ground rules of the Sub-Committee were as follows;

- Meetings should hold on the 2nd Wednesday of every month.
- Meetings should start at 2pm and end at 5pm, unless members agreed to continue.
- Quorum was 8 members representing at least 4 trade groups. In the event that a quorum was not formed within 30 minutes of the scheduled meeting time, the members present in the room in person or by representation shall constitute a quorum for the purpose of that meeting.
- The Sub-Committee was at liberty to recommend the replacement of any member absent from 3 consecutive meetings, without apologies or representation.
- A member was represented at a meeting by a proxy. However, members were to choose proxies who were senior members of their firms, who had ample knowledge of the SEC Rules and Regulations and market practice.

6.0 ACHIEVEMENTS OF THE SUB-COMMITTEE

Find below the table of rules reviewed/amended. Pursuant to its mandate, the Sub-Committee completed the review of:

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

In addition, two sub-committees consisting of 14 members have been assigned the responsibility of preparing a simple English Guide on the SEC Rules and Regulations. Members decided that the Guidelines should be documented separately for:

- (i) Investors; and
- (ii) Public Companies, including a subset for listed companies.

6.1 Work in Progress

Rules Under Review

The Sub-Committee is currently working on finalizing the simple English Guide on the SEC Rules and Regulations which was to be completed in the last quarter of 2013.

**LIST OF NEW RULES/AMENDMENTS OF THE RULES AND REGULATIONS OF THE
SECURITIES AND EXCHANGE COMMISSION REVIEWED BY THE CMC SUB COMMITTEE
ON RULES AND COMPLIANCE FROM 2011 TO 2013**

New Rules	Amendments
<p>1. Negotiated Settlement (JANUARY 27,2011)</p>	<p>1. Vending agreement (amendment to Rule 78B) (JANUARY 27,2011)</p>
<p>2. Conditions to grant waiver on bonds that are not backed by an irrevocable letter of authority.(JANUARY 27,2011)</p>	<p>2. Amendment of Rule 193 –Functions of Registrars (JANUARY 27,2011)</p>
<p>3. Custodial Services for registered collective investment schemes (JANUARY 27,2011)</p>	<p>3. Rules on Registration of National Association of Securities (Rule 23(1)(xiv) (SEPTEMBER 12, 2011)</p>
<p>4. Securities lending and borrowing.0 (JANUARY 27,2011)</p>	<p>4. Rules on Registration of Rating Agency (Rule 38(1) (SEPTEMBER 12, 2011)</p>
<p>5. Islamic Fund Management. (JANUARY 27,2011)</p>	<p>5. Rules on Shelf Registration (Rule 40C (3)(a) (SEPTEMBER 12, 2011)</p>
<p>6. Exchange Traded Funds (ETF) (JANUARY 27,2011)</p>	<p>6. Rules on Contents of a prospectus (Rule 56A) (SEPTEMBER 12, 2011)</p>
<p>7. Payment of dividends (JANUARY 27,2011)</p>	<p>7. Rules on Contents of a prospectus-deletion of "profit forecast" (Rule 56(1)(viii) (SEPTEMBER 12, 2011)</p>
<p>8. Investment in unlisted equities (JANUARY 27,2011)</p>	<p>8. Rules on Regulation of public companies (Rule 97(2)(5) –Part B4) (SEPTEMBER 12, 2011)</p>
<p>9. Rules on Appointment of Independent Lead Issuing Houses (JANUARY 27,2011)</p>	<p>9. Rules on Functions of Registrars-dispatch of annual reports, etc(Rule 193(6) (SEPTEMBER 12, 2011)</p>
<p>10. Rule on Internal Restructuring of Companies (New Rule 230(b) (JANUARY 27,2011)</p>	<p>10. Functions of reporting accountants (report on the profit forecast of the Issuer) - deleted (Rule 206 (2)(a - g)) (SEPTEMBER 12, 2011)</p>
<p>11. Penalty for Underpayment of SEC fees- Schedule II (JANUARY27,2011)</p>	<p>11. Rule on Profit forecast -deleted (Rule 206 (4)(b) (SEPTEMBER 12, 2011)</p>
	<p>12. Rules on Real Estate Investment Schemes (Rule 250 is re-numbered as 250(1) while a new rule 250(2) and (3) were created). (FEBRUARY 28, 2013)</p>
	<p>13. Rule 50- Filling of Registration Statement (Rule 50(1)(a) and a new Rule 50(1)(b) was created). (FEBRUARY 28, 2013)</p>
	<p>14. Filling of Registration Statement (Rule 50(1)(a) and a new Rule 50(1)(b) was created).Rule50(2)</p>

<p>12. Rule relating to Securities ownership (Amendment to Rule 109A) (JANUARY 27,2011)</p> <p>13. Code of Corporate Governance for Public companies. (APRIL 1 ,2011)</p> <p>14. Code of Conduct for Capital Market Employers and their Employees</p> <p>15. Rules on Book building (Rule 78C) (SEPTEMBER 12, 2011)</p> <p>16. Rules on Corporate Bonds (Rule 307A) (SEPTEMBER 12, 2011)</p> <p>17. Rules on Debt – Equity conversion (Rule 40E) (SEPTEMBER 12, 2011)</p> <p>Rules on Fund of Funds and Feeder Funds (Rule 282A) (SEPTEMBER 12, 2011)</p> <p>18. Rules on Market Makers. (APRIL 11, 2012)</p> <p>20. Review/Correction of Consolidated Rules of the Commission.</p> <p>21. Rules on Private Equity Funds (Rule 249D). (FEBRUARY 28,2013)</p> <p>22. Rules on Sukuk issuance in Nigeria. (FEBRUARY 28,2013)</p> <p>23. Rules on the Use of Nominee Accounts(Rule 178C) (FEBRUARY 28,2013)</p> <p>24. Rules on Infrastructure Funds</p> <p>25. Rules on Approval of Foreign Collective Investment Schemes</p> <p>26. New Rule 19(5) created for potential Sponsored Individuals to attend Capital Market training before attending Registration meeting.</p>	<p>(FEBRUARY 28,2013)</p> <p>15. Proceeds of Issue - Rule 64(3)(b)- expunged. (FEBRUARY 28,2013)</p> <p>16. Mandate to purchase shares - Rule 94 (FEBRUARY 28,2013)</p> <p>17. Rating Agency - Rule 143(2) (FEBRUARY 28,2013)</p> <p>18. Schedule 1,Part C, paragraph 8 and 9 (FEBRUARY 28,2013)</p> <p>19. Schedule IV – heading (amended) (FEBRUARY 28,2013)</p> <p>20. Amendments on part B-Regulation of Public Companies. (FEBRUARY 28,2013)</p> <p>21. Profit Forecast – Rule 206 (4)(b) (FEBRUARY 28,2013)</p> <p>22. Securities lending and borrowing. (MAY 17, 2013)</p> <p>23. Registration Requirements of Capital Market Trade Groups as Self Regulatory Organizations (SRO), Rule 277.</p> <p>24. Rules on Registration of Capital Market Operators (Part C)</p> <p>25. Amendment to Rule 27, Fidelity Bond</p> <p>26. Rules for the Transfer of Functions, Rule 45.</p> <p>27. Rule 178 on Registration Requirement for Capital Market Expert and Professionals (Part D)</p> <p>28. Time limit for filling documents/ transfer of sponsored individual. (Rule 19)</p> <p>29. Filling of notice by Directors and other insiders upon sale or purchase of their shares in the company, (Rule 401)</p> <p>30. Rule 42, Tenure of Audit Committee members</p> <p>31. Schedule V111 Rules of procedure of SEC Administrative Proceedings Committee</p> <p>32. Rule 445(1) on Take Over bids</p>
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33. Rule 279(5) on shelf Registration

34. Rule 328, Basis of Allotment

35. Rule 433 and 434 on Acquisition amended

36. Rule 56, Functions of broker/ Dealer

37. Rule to increase fees for sponsored Individuals,
(Schedules 1, and 11.).

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

S/N	Institutions to Visit	Issues to Address	Required Action by the Committee
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 for banks-related IPOs.	✓ Engage CBN to accelerate the verification of the source of funds.
		✓ 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

		<ul style="list-style-type: none"> ✓ Divestment of banks from fund management subsidiaries in line with CBN directives. 	<ul style="list-style-type: none"> ✓ Engage CBN on the need to expand the timeline to 2-3yrs in order to enable the banks divest gradually.
		<ul style="list-style-type: none"> ✓ Banks Investment limit (max 10%) in bond offer 	<ul style="list-style-type: none"> ✓ Engage CBN to increase the limit
		<ul style="list-style-type: none"> ✓ Banks rejection of equities as collateral. 	<ul style="list-style-type: none"> ✓ Determine the source of their action, whether its CBN or the banks.
4.	AMCON	<ul style="list-style-type: none"> ✓ Compensation for Shareholders of nationalized banks. 	<ul style="list-style-type: none"> ✓ Determine terms of compensation for shareholders especially retail investors of nationalized banks as was done to depositors
5.	BPE	<ul style="list-style-type: none"> ✓ Privatized and unlisted companies 	<ul style="list-style-type: none"> ✓ Already privatized companies to implement sales agreement and unlisted companies should be wooed to list especially those that have plans to list.
			<ul style="list-style-type: none"> ✓ Clauses mandating privatized companies to list should be inserted in privatization guidelines.
6.	National Assembly	<ul style="list-style-type: none"> ✓ Amendment to existing law on the use of share certificate as evidence of Investment. 	<ul style="list-style-type: none"> ✓ Press for amendment to CAMA provision that make share certificate statute barred after 12 years.
		<ul style="list-style-type: none"> ✓ Management of unclaimed dividend 	<ul style="list-style-type: none"> ✓ Further justification to set up of Trust Fund to manage existing unclaimed dividend. ✓ Amendment to allow for use of 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

			<p>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</p> <p>✓ Engage the PenCom to review this stance and consider incentives to encourage States meet their pension obligations.</p>
8.	Ministry of Trade of Trade & Investment	✓ ASCE Issues	✓ Seek ways to enable ASCE deliver on its mandate.
9.	NIPC	✓ Issues of mutual interest.	✓ Visit to familiarize and discuss issues of mutual interest.
10.	Minister of Housing	✓ Amendment of Land use act	✓ Seek ways to amend the Land Use Act (LUA) to encourage investment in real estate and trading in securitized product

ATTENDANCE LIST OF ALL THE CMC SUB-COMMITTEES 2012-2013

1. COMMODITIES, EQUITIES AND EXCHANGES SUB-COMMITTEE - ATTENDANCE REPORT

S/N	NAME	ORAGANIZATION / FIRM	TOTAL NO OF MEETINGS	APOLOGIES	ABSENT	PRESENT
1.	Tobechukwu Uba		13	0	0	13
2.	Sadiq Abu		13	1	0	12
3.	Chuka Eseka		13	2	0	11
4.	Ambursa Abubakar		13	2	0	11
5.	Alh. Rasheed Yusuff		13	1	2	10
6.	Bola Ajomale (co-opted)		13	1	2	9
7.	Elochukwu Uba		13	3	1	9
8.	Tunde Ayeni		13	3	2	8
9.	Luke Okonkwo		13	1	4	8
10.	Kola Owodunni (Resigned)		13	2	1	8
11.	Anderson Obakpolor		13	1	5	7
12.	Hajiya Baba-Ari Zaheera		13	7	1	5
13.	Muyiwa Adeyemi		13	2	7	4
14.	Oladele Sotubo/Busola Jejelowo		13	4	5	4
15.	Woleme Esan		13	3	8	2
16.	Bisi Oni		13	11	1	1
17.	Bola Onadele		13	0	0	1
18.	Tam Alazigha (resigned)		13	1	6	0
19.	Farooq Oregba (Co-opted)		13	2	0	0

2. FIXED INCOME SUB-COMMITTEE-ATTENDANCE REPORT

S/N	NAME	ORAGANIZATION / FIRM	TOTAL NO OF MEETINGS	APOLOGIES	ABSENT	PRESENT
1.	Taiwo Okeowo		10	0	0	10
2.	Alhassan Gwarzo		10	0	2	8
3.	Oluwatoyin Sanni		10	2	1	7
4.	Chief E. Chike Nwanze		10	1	2	7
5.	Mudashiru Ademola		10	3	1	6
6.	Dipo Omotosho		10	0	4	6
7.	Abbas Abdulkadir		10	4	0	6
8.	Olamide Shonekan		10	1	4	5
9.	Benjamin Obidegwu		10	4	2	4
10.	Peter Ashade		10	2	4	4
11.	Oluwabukola Iji		10	4	2	4
12.	Taiwo Olashore		10	5	1	4
13.	Vivien Shobo		10	0	6	4
14.	Oluwaleke Areo		10	7	0	3
15.	Ebiere Helen Famudoh		10	3	5	2
16.	Sonnie Ayere		10	0	8	2
17.	Nkeonye Emeifeogwu		10	0	9	1
18.	Bolaji Balogun		10	0	9	1
19.	Ignatius Nwaakolo		10	1	9	0
20.	Ade Bajomo		10	0	10	0
21.	Chioma Orijiako		10	0	10	0
22.	Patience Oniha		10	0	10	0
23.	Oladele Afolabi		10	0	10	0
24.	Tokunbo Ajayi		10	0	10	0
25.	Olawale Oluwo		10	0	10	0
26.	Ibrahim Kangiwa		10	0	9	1

S/N	NAME	ORAGANIZATION / FIRM	TOTAL NO OF MEETINGS	APOLOGIES	ABSENT	PRESENT
27.	Chinua Azubuiké		10	0	8	2
28.	Egie Akpata		10	1	6	3
29.	Busayo Adeniyi		10	0	9	1
30.	Ehimeme Ohioma		10	0	9	1
31.	Kayode Falowo		10	1	7	2
32.	Iyobosa Eibosomon		10	0	9	1
33.	Oladele Afolabi		10	0	10	0

3. INVESTOR CONFIDENCE SUB-COMMITTEE-ATTENDANCE REPORT

S/N	NAME	ORAGANIZATION/FIRM	TOTAL NO OF MEETINGS	APOLOGIES	ABSENT	PRESENT
1.	Emeka Madubuike	Compass Investment Ltd	6	0	0	6
2.	Segun Sanni	Stanbic IBTC Custodian	6	0	0	6
3.	Abubakar Sadiq Mohammed	ARM Pension Managers Ltd	6	0	6	0
4.	Ms. Yewande Sadiku	Stanbic IBTC Bank PLC	6	1	5	0
5.	Mr Kayode Falomo	Greenwich Trust Ltd	6	0	5	1
6.	Mr. Taiwo Okeowo	FBN Capital Ltd	6	0	5	1
7.	Chuka Eseka	Vetiva Management Ltd	6	0	6	0
8.	Kyari Abba Bukar	CSCS	6	0	6	0
9.	Dr. David Ogogo	ICMR	6	0	6	0
10	Dr. Timi Austen Peters	Timi Austen-Peters & Co	6	1	4	1
11	Bayo Rotimi	Quest Advisory Services	6	1	1	4
12	Lolade Balogun	FBN Capital Ltd	6	0	6	0
13	Yemi Gbenro	Skye Financial Services Ltd	6	0	3	3
14	Sola Ephraim Oluwanuga, MNI	O.S Ephraim Oluwanuga & co	6	Contribution by email	5	1
15	Otobong Tom	Chris Ogunbanjo & Co.	6	0	6	0
16.	Oghogho Osula	Afribank Trustees & Asset Management Co. Ltd.	6	2	4	0
17.	Albert Okumagba	BGL Plc	6	0	6	0
18	Iyobosa Evbosomon	Dunn Loren Merrifield	6	0	6	0
19	Kemi Adewole	Citibank Nigeria Ltd	6	0	6	0
20	Oladipo Aina	Signet Sec. and Invest. Ltd	6	1	5	0
21	Kasimu G. Kurfi	APT Securities Ltd	6	0	3	3
22	Alh Rasheed Yussuff	Trustyields Securities Ltd	6	0	6	0
23	Higo Aigboje	Capital Bancorp Ltd	6	0	6	0
24	Ade Bajomo	NSE	6	0	6	0
25	Mike Itegboje	CIS	6	0	6	0
26	Victor Ukachi	SPA Ajibade & co	6	0	3	3
27	Olumide Lala	NSE	6	0	4	2
28	Olufemi Shobanjo	NSE	6	0	4	2

29	Simisola Eyisanmi	Chris Ogunbanjo & co	6	0	4	2
30	Tinuade Awe	NSE	6	1	4	2
31	Babtunde Ajibade	SPA Ajibade & co	6	0	5	1
32	Bosede Omolehinwa	FBN	6	0	5	1
33	Elo Gborogen	Stanbic IBTC Bank Plc	6	0	4	2
34	Joe Mekiliuwa	CSCS	6	0	6	0
35	Dr. Jane Itseuwa	SEC	6	Co-opted	0	5
36	Obi Adindu	SEC	6	1	5	0

4. INVESTMENT MANAGEMENT SUB-COMMITTEE-ATTENDANCE REPORT

S/N	NAME	ORAGANIZATION /FIRM	TOTAL NO OF MEETINGS	APOLOGIES	ABSENT	PRESENT
1.	Ojone Umoru		6	0	0	6
2.	Olamide Shonekan		6	0	1	5
3.	Olumide Oyetan		6	0	1	5
4.	Oghogho Osula		6	0	1	5
5.	Michael Oyebola		6	0	1	5
6.	Patrick Ilodiana		6	0	1	5
7.	Oludewa Thorpe		6	0	1	5
8.	Shuaib Audu		6	0	2	4
9.	Olufunke O. Aiyepola		6	0	2	4
10.	Sadiq Mohammed		6	0	2	4
11.	Victor Inyang		6	0	3	3
12.	Ezeagu O. P.		6	0	4	2
13.	Hajara Adeola		6	0	4	2
14.	Tola Odukoya		6	0	4	2

5. MARKET INFRASTRUCTURE AND TECHNOLOGY SUB-COMMITTEE-ATTENDANCE REPORT

S/N	NAME	ORAGANIZATION/ FIRM	TOTAL NO OF MEETINGS	APOLOGIES	ABSENT	PRESENT
1.	Kyari Bukar		5	0	0	5
2.	Adeolu Bajomo		5	0	0	5
3.	Greg Otsu		5	2	0	3
4.	Ike Chioke		5	0	1	4
5.	Anthony Ezugbor		5	0	1	4
6.	Olusegun George		5	0	2	3
7.	Olubunmi Fayokun		5	0	2	3
8.	Seyi Owoturo		5	0	2	3
9.	Henry Ade Rowland	SEC	5	0	2	3
10.	Abdulrasheed Dan- Abu	SEC	5	0	2	3
11.	Ayotunde Owoigbe		5	0	3	2
12.	Akeem Oyewole		5	0	3	2
13.	Bayo Olugbemi		5	0	3	2
14.	Favour Oyewale		5	0	3	2

6. PRODUCT AND BUSINESS DEVELOPMENT SUB-COMMITTEE- ATTENDANCE REPORT

S/N	NAME	ORAGANIZATION/FIRM	TOTAL NO OF MEETINGS	APOLOGIES	ABSENT	PRESENT
1.	Mrs. Mary Ekwo	SEC	8	0	0	8
2.	Oghenetega Akpede*	Greenwich Trust Limited	8	0	0	8
3.	Abayomi Sanya*	Goldbank Management Associates	8	0	1	7
4.	Segun George*	Dunn Loren Merrifield	8	0	1	7
5.	Mr. Kayode Falowo	Greenwich Trust Limited	8	2	0	6
6.	Mr. Segun Sanni	Stanbic IBTC Custodian	8	1	2	5
7.	Mrs Elizabeth .Y. N. Osoka	E . Osoka and Co.	8	1	2	5
8.	Mrs. Tosin Oni	FBN Capital	8	1	4	3
9.	Mr. Chimeze Victor Iheakweazu	CMSA	8	3	2	3
10.	Mrs. Kemi Adewole	Citibank Nigeria Limited	8	1	4	3
11.	Ms. Simisola Eyanmi	CMSA	8	1	4	3
12.	Taba Peterside	NSE	8	0	5	3
13.	Jimi Ogbobine*	BGL plc	8	1	4	3
14.	Dipo Omotoso*	NSE	8	0	5	3
15.	Cynthia Akpomudiare*	NSE	8	0	6	2
16.	Mr. Akin Akeredolu Ale	GEM Asset Mgt. Ltd	8	0	7	1
17.	Osahon Aire*	NSE	8	0	7	1
18.	Tayo Thomas*	Goldbank Management Associates	8	0	7	1
19.	Babajide Fawole*	Greenwich Trust Limited	8	0	7	1
20.	Bayo Durodola*	BGL plc	8	0	7	1
21.	Mr. Mike Iteboje	CIS	8	1	7	0
22.	Ms. Yewande Sadiku	Stanbic IBTC Bank PLC	8	0	8	0
23.	Ade Bajomo	NSE	8	0	8	0
24.	Mr. Abimbola Olashore	Lead Securities and Investment Ltd	8	1	7	0
25.	Kayode Tijani	Goldbank Management Associates	8	0	8	0

S/N	NAME	ORAGANIZATION/FIRM	TOTAL NO OF MEETINGS	APOLOGIES	ABSENT	PRESENT
26.	Mr. Oladele Afolabi	DMO	8	0	8	0
27.	Sunday Omoniwa	FBN Capital Ltd	8	0	8	0
28.	Abiola Adejonwo	Kakawa Asset Mgt Ltd	8	0	8	0
29.	Mr. Albert Okumagba	BGL plc	8	0	8	0
30.	Dr. Tochi Nwugo	CMSA	8	0	8	0
31.	Mrs. Motunde Dada	UAC Registrar Ltd	8	0	8	0
32.	Adeolu Ireiyomi	Cashcraft Mgt. Ltd	8	0	8	0
33.	Mr. Sonnie Ayere	Dunn Loren Merrifield	8	0	8	0
34.	Chidi-Ebere Ikenna	National Pension Commission	8	0	8	0
35.	Michael Oyebola*		8	1	7	0

7. RULES AND REGULATIONS SUB-COMMITTEE-ATTENDANCE REPORT

S/ N	NAME	ORAGANIZATION/ FIRM	TOTAL NO OF MEETINGS	APOLOGIES	ABSENT	PRESENT
1.	Yewande Sadiku		13	2	0	11
2.	Zik Obi		13	5	0	8
3.	Chinua Azubike		13	2	1	10
4.	Bayo Olugbemi		13	2	2	9
5.	Bolaji Balogun		13	3	6	4
6.	Dr. David Ogogo		13	1	4	8
7.	Ebi Enaholo		13	2	0	11
8.	Florence Olakanye		13	5	2	6
9.	Funmi Ekundayo		13	2	4	7
10.	George Ekpungu		13	0	7	6
11.	Gregory Otsu		13	1	12	0
12.	Isong Isikong (co-opted)	SEC	13	4	2	4
13.	John Ogar		13	2	6	5
14.	Kalu Abosi		13	0	6	7
15.	Lawrence Fubara Anga		13	2	2	9
16.	Leo Okafor		13	2	3	8
17.	M. K. Zubairu		13	4	7	2
18.	Mohammed Aliu Momoh		13	0	12	1
19.	Olunmi Fayokun		13	2	0	11
20.	Oluwatoyin Sanni		13	5	2	6
21.	Onyi Nwosu Igbo C		13	0	13	0
22.	Sola Ephraim Oluwanuga		13	4	7	2
23.	Stephen John-Oni		13	0	5	8
24.	Tairat Tijani		13	8	1	4
25.	Tamuno Atekebo		13	4	2	7
26.	Yemisi Awonuga		13	2	9	2
27.	Yemisi Deji-Bejide		13	3	4	6
28.	Yinka Edu		13	4	1	8
29.	E. K. Aigbekaen		13	2		NA

INTERIM REPORT ON STATE OF THE EXCHANGES

A REPORT BY THE CMC SUB-COMMITTEE ON COMMODITIES, EQUITIES AND EXCHANGES

October, 2012

EXECUTIVE SUMMARY - RECOMMENDATIONS

The Nigerian Stock Exchange (“NSE”)

1. The ongoing transformation agenda of the NSE should be intensified.
2. The planned demutualisation of the NSE should commence and be completed within the specified timetable. In this regard, the SEC should speedily consider the report of its market-wide Demutualisation Committee and publish requisite guidelines that would drive the NSE’s demutualization process.
3. The NSE should enhance transparency and market information dissemination.
4. Regulatory fees charged by The NSE should be reduced so as encourage unquoted public companies list their shares.
5. All new share issuances (including bonuses) should be done on a dematerialized basis.
6. All dividends should be effected electronically and directly to beneficiaries’ bank accounts to reduce problems of unclaimed dividends.
7. The retail investor base has been virtually absent from the market since the 2008 stock market crash. Accordingly, we must remove barriers to their ability to access markets.
8. Improvements to the settlement system (in terms of post-trade allocation, trade warehousing, facilitation of execution of inter-member transfers and nominal transfers) should be made.

The Abuja Securities and Commodities Exchange (“ASCE”)

9. Enactment of regulatory framework to facilitate warehouse receipt financing.
10. Implementation of national commodities grading system to promote efficiency in both local and international trading of agricultural produce.
11. Provision of institutional infrastructure - quality assurance system, bank-based clearing and settlement system, risk management and arbitration system, market information systems, as well as physical delivery and storage systems – to facilitate commodities trading.
12. The privatisation of ASCE should be subject to the provision of the requisite institutional infrastructure such as enabling laws, National Grading Systems, etc to ensure its long term viability and elicit the desired private sector interest.

The National Association of Securities Dealers (“NASD”)

13. Any company that has more than 50 beneficial owners or holders of all securities issued by it must have all such interests in its securities dematerialised and held by a depository. Every public company should not in any way inhibit or restrict a beneficial securities holder’s rights to freely trade or transfer his interests in any security.
14. That all securities within the meaning of the Investments and Securities Act (howsoever otherwise described) with more than 50 beneficial owners- no matter the artifices of registering such interest such as a nominee company shall be deemed held by the beneficial owners and such interest must be individually registered with a depository to facilitate the beneficial owners’ free access to the market uninhibited by the nominee.
15. All depositories must provide access to its data base by all securities exchanges or trading platforms registered by SEC.
16. Until such capacity is acquired, all registers of such securities shall be in book entry form and updated daily and made available online to the securities exchanges and/or trading platforms on which quotation or trading is maintained or undertaken for the purpose of verifying all transactions intended and/ or undertaken.
17. No depository shall effect the transfer of securities unless the securities have been traded on and reported by a SEC registered securities exchange or trading platform.

INTRODUCTION

The terms of reference of the Capital Market Committee Sub-Committee on Commodities, Equities and Exchange, include the following:

- i. Diagnostic review of all exchanges in Nigeria;
- ii. Operations review, rules and regulations of both the SEC and the respective Exchanges and make recommendations thereof; and
- iii. Benchmarking global best practices.

As a prelude to the preparation of the benchmarking report, the subcommittee has prepared this interim report highlighting the current state of the Exchanges in Nigeria.

This interim report examines The Nigerian Stock Exchange, the Abuja Securities and Commodities Exchange and the Nigerian Association of Securities Dealers, involving, in each case (and to the extent considered appropriate) analysis of the current state of each exchange, operations review, transformational issues within the context of terms of reference and then proffering recommendations on the development of each exchange and the market as a whole.

THE NIGERIAN STOCK EXCHANGE (“NSE”)

1. Introduction

Since its establishment in 1960 as the Lagos Stock Exchange, The Nigerian Stock Exchange (as it was renamed in 1977) has developed considerably. The Exchange began operations in 1961 with only 19 securities listed for trading compared with currently over 200.

Examples of major changes include:

i. *Creation of All-Share Index (1984)*

The NSE established an All-Share Index in January 1984.

ii. *Capital market deregulation (1993)*

Deregulation improved market competitiveness and encouraged greater investor participation.

iii. *Improving foreign participation (1995)*

Following capital market deregulation in 1993, the Federal Government decided in 1995 to internationalize the capital market, repealing laws restricting overseas participation in the Nigerian capital market. Regulations also removed restrictions on maximum foreign holdings in any Nigerian registered company.

iv. *Introduction of electronic trading (1997):*

The NSE replaced its call-over trading system with an Automated Trading System (ATS) with bids and offers now matched by stockbrokers on trading floors of the Exchange by computer network.

v. *Clearing System (1997)*

The Exchange established a subsidiary, the Central Securities Clearing System Limited (CSCS), which commenced operations in 1997, to increase efficiency and encourage investors. As a result, clearing, settlement and delivery of transactions on the NSE are conducted electronically. In addition, CSCS Limited provides custodian services.

vi. *Market Making, Securities Lending and Short Selling (2012)*

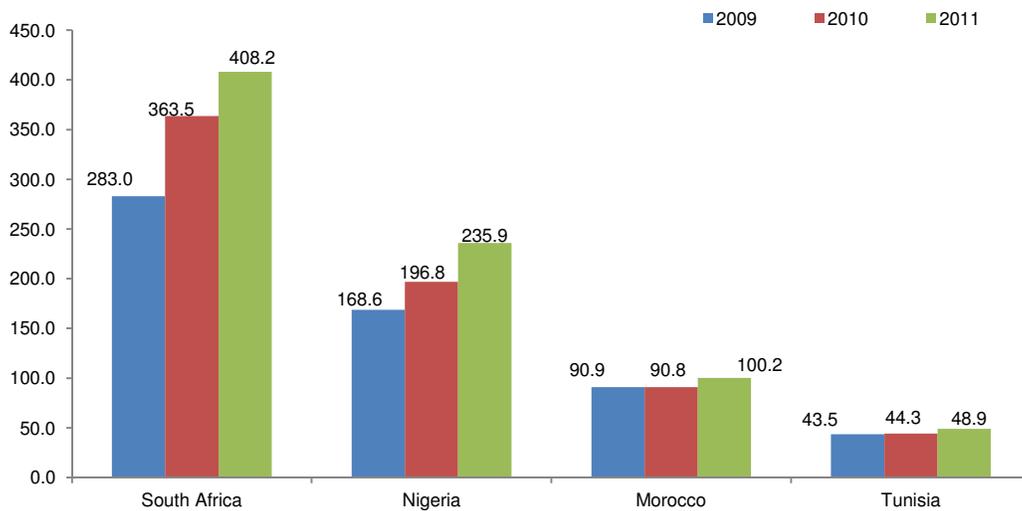
The NSE in 2012 licensed 10 market-makers and instituted a regime for securities lending and short selling. These measures were aimed at increasing liquidity (especially in respect of illiquid securities) on the NSE and facilitating price discovery.

2. Current State Analysis

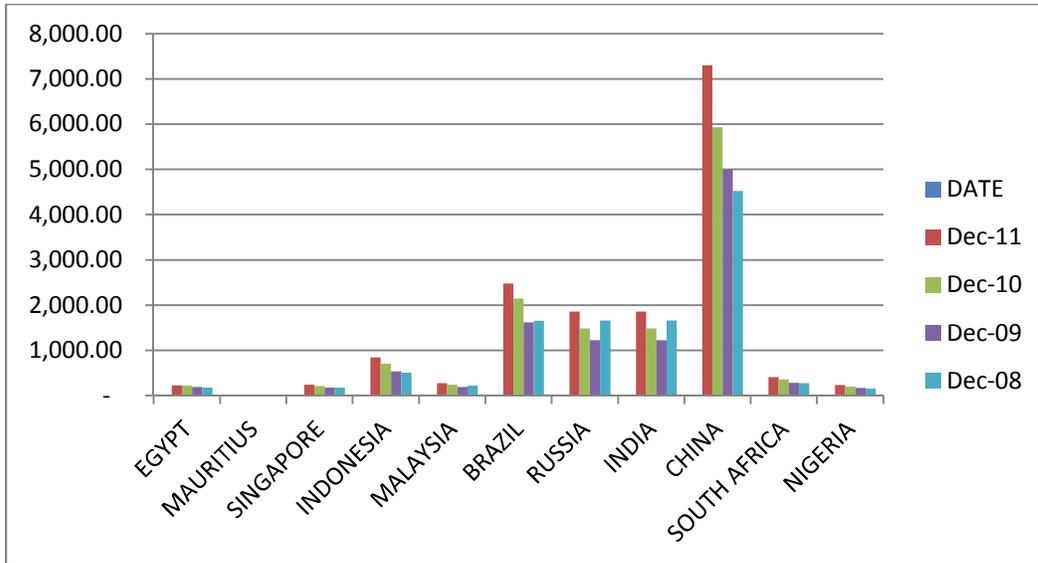
i. Sustained Bearish Trends, with Recent Hints of Recovery

The NSE, has been bearish for a while following the global meltdown of the world financial system. Whereas, there has been some semblance of recovery in some other world stock exchanges, that of Nigeria has rather persisted for a little longer. The reason is not far-fetched owing to the loss of confidence by investors resulting from huge losses from margin trading as well as outright losses of their equity investment in the nationalized banks.

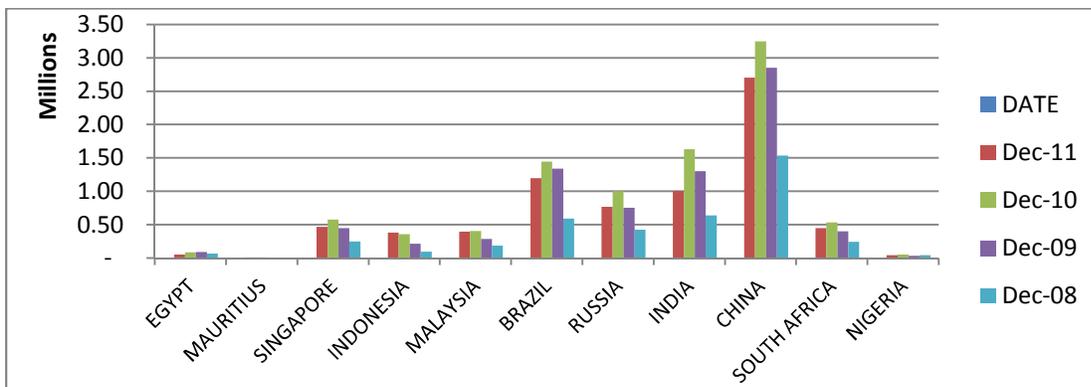
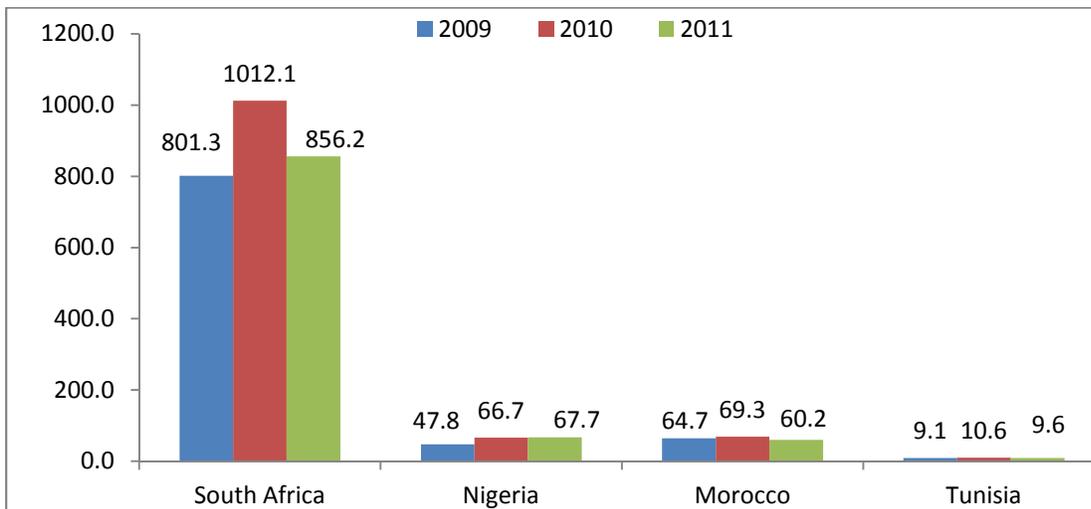
While Nigeria’s GDP ranks second in Africa (pre- NBS revision)...



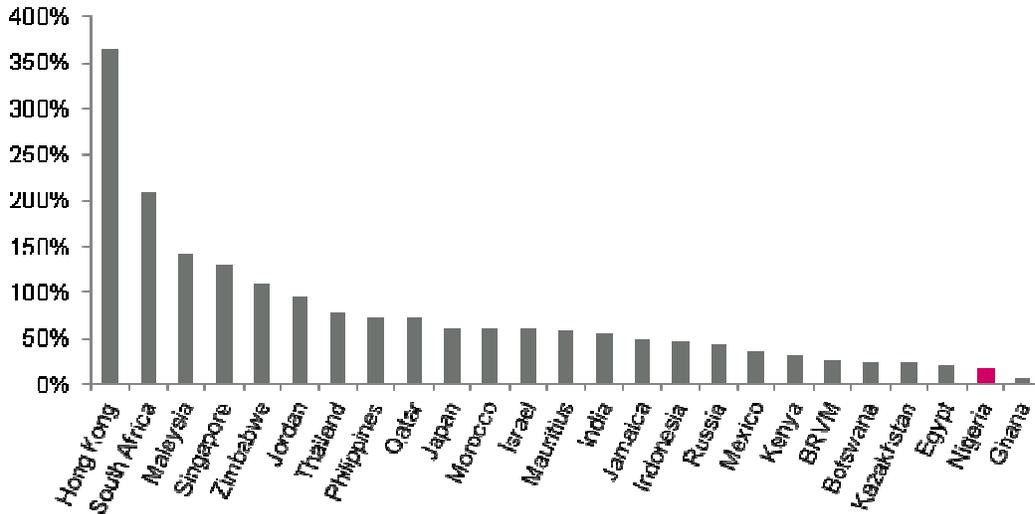
And 39th in the world



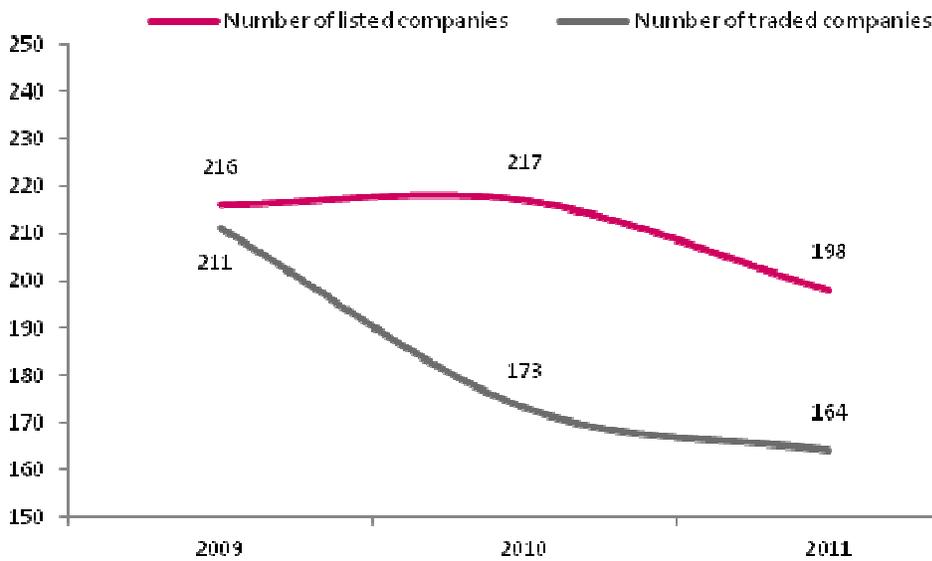
...market capitalisation has failed to match peers' sizes



...in fact, adjusted for GDP, Nigeria has one of the smallest market sizes compared to emerging/frontier market peers



...Listings have declined, and number of stocks traded has fallen



... This is partly due to the limited number of instruments available on the Stock Exchange

	EGYPT	MAURITIUS	SINGAPORE	INDONESIA	MALAYSIA	BRAZIL	RUSSIA	INDIA	CHINA	SOUTH AFRICA	NIGERIA
traded instruments in country	Equities Long Only	Equities Long Only	Equities	Equities	Equities	Equities	Equities	Equities	Equities	Equities	Equities Long Only
			Derivatives	Derivatives	Derivatives	Derivatives	Derivatives	Derivatives	Derivatives	Equity Derivatives	
	Equities Long Only	Equities Long Only	Dual currency trading	Commodities	Agricultural Derivatives						
										Equity Futures	Options on futures

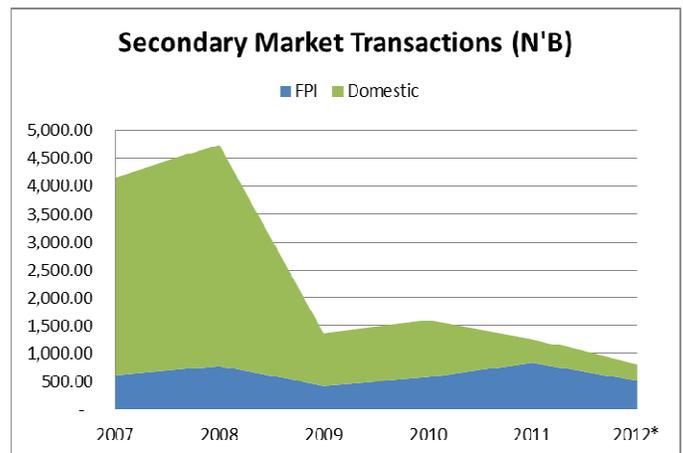
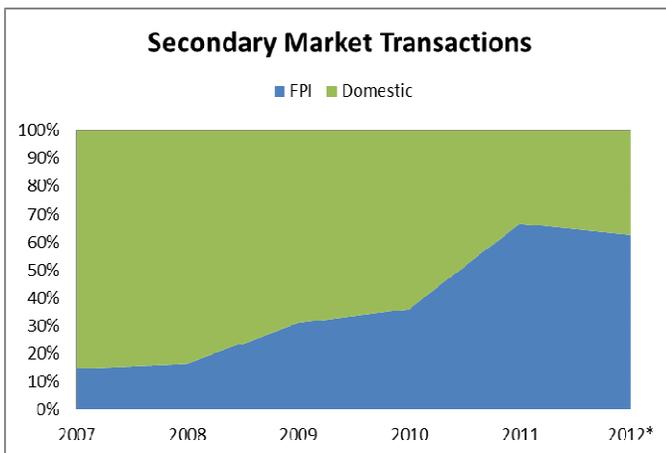
The NSE is currently undertaking a wide range of reform initiatives aimed at enhancing liquidity and increasing the market capitalisation of the NSE. Some of these measures include the following:

- a) Increase in trading hours (previously 9am – 12 noon; now 9.30am to 2.30pm)
- b) New products –e.g. ETFs
- c) Securities Lending and Short Selling
- d) Market Making
- e) Upgrade of NSE Trade Engine
- f) Enhanced Transparency and Disclosure Regime (Adoption of IFRS Reporting, Enforcement of account publication rules, increase corporate access for investors)
- g) Newly reconstituted Investor Protection Fund

Due to a combination of these factors and positive macro-economic outlook, the NSE has witnessed a recent change in fortunes, resulting in a 27% rise in the NSE ASI and a 20% increase in market capitalization for the period ended 30 September 2012.

ii. Dominance of Foreign Capital / Lack of Domestic Investor Participation

Since 2010, turnover on the NSE has been dominated by foreign portfolio investors (FPI) accounting for an average of 65% of the total market turnover for the period spanning January 2011 till date.



The relative dominance of FPI has not arisen due to an absolute increase in foreign participation, but rather due to the significant decrease in domestic and retail investor activity on the NSE (from 84% in 2008 to less than 38% as at 30 September 2012). Clearly, domestic investor confidence, severely impacted by the twin shocks of the stock market crash in 2009 and the Nigerian banking crises in 2010, is yet to be restored. Stimulating domestic and retail investor appetite will therefore be crucial to attaining the NSE's ambitious growth plans.

3. Operations Overview:

i. Trading:

The call over trading system was replaced with the Automated Trading System (ATS), with bids and offers now matched by stockbrokers on the trading floors of the NSE through a network of computers. This is done every business day from 9.30 a.m. to 2.30p.m.

ii. Current Trading Platform:

The Exchange has an automated trading system called "Horizon".

The NSE, on April 24, 2012 signed a new agreement for a new trading platform with NASDAQ OMX, the providers of the current trading workstation (Horizon, automated securities trading system) of The NSE. The agreement for the new workstation (NASDAQ E-Stream) will span a period of time and will include the deployment of the system and training of staff of The NSE on the application.

iii. Clearing, Delivery and Settlement:

Clearing, Settlement and Delivery of transactions on The NSE are done electronically by the Central Securities Clearing System Limited (CSCS), a subsidiary of The NSE. The CSCS Limited ("the Clearing House") was incorporated in 1992 as part of the effort to make the Nigerian stock market more efficient and investor-friendly. Apart from clearing, settlement and delivery, the CSCS Limited offers custodian services.

iv. Current Settlement Cycle

At Day T (i.e. Transaction Day)

- Settlement banks and NIBSS (Nigerian Interbank Settlement System) are notified of transactions of Day T.

Day T +2

- By 10.00 a.m., settlement banks notify CSCS of stockbroking firms that may not settle their trades of Day T. This is to help settlement banks to ensure that their clients fund their accounts.
- Final settlement advice to NIBSS by CSCS for day T transactions

Day T+3

- BY 10.00 a.m., NIBSS will inform CSCS of any default by a settlement bank. Inability of any settlement bank to settle trades will cause those trades to be cancelled by The NSE on or before 12 noon and the settlement bank will cease to be eligible to act as a settlement bank.
- By 11.00 a.m., settlement banks will be required reconfirm stockbroking firms' inability to settlement trades.
- Stocks on the unsettled trades placed on hold/blocked at the close of work on T+3.

Day T+4

- Application of trade Guaranty Fund and/or sale of blocked shares by the appointed stockbroking firm.
- Invocation of stiff penalty on the defaulting stockbroking firms

v. Proposed Settlement Cycle

At Day T (i.e. Transaction Day)

- Settlement Banks and NIBSS are notified of transactions of Day T.

Day T +1

- By 10.00 a.m., settlement banks notify CSCS of stockbroking firms that may not settle their trades of Day T.
- Final settlement advice to NIBSS by CSCS for day T transactions
- By 4.00 p.m., NIBSS to inform CSCS on any Bank default.

Day T +2

- By 11.00 a.m., settlement banks to re-confirm stockbroking firms' inability to settlement trades.
- Inability of any Bank of settle trades will cause those trades to be cancelled by The NSE on or before 12 noon of Day T+2 and the Bank ceases to be a Settlement Bank.
- Stocks on the unsettled trades placed on hold/blocked at the close of work on T+2.

Day T+3

- Application of trade Guaranty Fund and/or sale of blocked shares by the appointed stockbroking firm.
- Invocation of stiff penalty on the defaulting stockbroking firms

vi. Listings

Listed securities on The NSE include: Fixed Income Securities, Equities, Exchange Traded Fund and Mutual Funds.

Issuers of tradable securities submit an application for the admission of their securities to the Exchange. Upon review and approval of an application, issuers are required to pay certain fees that are based on the market value of those securities at the time of application. Two different fee scales are applied for admission – one for larger issues and the other for smaller issues. Annual fees are also payable by all issuers of equity and debt instruments. Issuers and The NSE would consider the following (among other things) in determining the most appropriate market for an issue:

- How much money the company is looking to raise from the public
- The percentage holding the company is willing to give up
- The number of shareholders the company has
- The number of years the company has been operational, in terms of the availability of financial statements

All companies seeking to list must be introduced to the NSE by a dealing member (broker-dealer), who acts as an intermediary between the company and the NSE. Their duties include, ensuring that all companies comply with the listing requirements of the NSE and other statutory provisions in the *Investments and Securities Act 2007* and the *Companies and Allied Matters Act 2004*. The NSE's listing requirements, both pre- and post-listing, are approved by the Council (the Board) of the NSE.

The NSE, in 2012, revised its listing requirements to bring its rules in line with international best practices as well as to facilitate listings by resource companies and large cap companies.

4. Transformation Issues

The transformation of The NSE started with the appointment of Accenture with a mandate to restructure and refocus The NSE as the best in Africa in terms of: diversified product base and enhanced investor-friendly processes.

The goal of The NSE is to be the leading exchange and gateway to Africa in terms of capital formation and investing. Specifically, The NSE intends to achieve a market capitalization of \$1 trillion with five products as well as record 1,200 listed securities by 2016.

Towards this end, the following initiatives/products have been introduced:

- Primary Market Making with rules formulated to guide implementation;
- Exchange-Traded Funds (ABSA NewGold ETF);
- Share-buy-back Rules;
- NSE - Lotus Islamic Index (NSE LII) launched to track the performance of 15 Shari'ah compliant equities;
- Market segmentation exercise - company sector reclassification from 33 sectors to 12;
- A comprehensive revision of its listing standards with introduction of quantitative criteria for greater flexibility;
- Securities lending and short-selling;
- Rejuvenation of the Alternative Securities Market (ASEM);
- Demutualisation – expected to be completed within 24 months.

The Exchange is also emphasizing Value Added Services for its listed companies which is geared towards providing more transparency for investors and helping companies maximize value for shareholders. These include in the areas of:

- Corporate Governance
- Investor Relations
- Institutional Services
- Equity Research Coverage, and
- Corporate Access

The Regulatory oversight of The Exchange has been beefed up with stronger regulatory programs for continuous obligation in terms of financial information and on-going material information disclosures.

The website has been rebuilt with greater information for discerning investors. Institutional Investor Clinics have been initiated to address low investor confidence and ensure better informed investors.

A new Board of Trustees has been inaugurated for the Investor Protection Fund.

Other initiatives also include:

- Investor education;
- Revamping of complaint management framework;
- Implementation of zero-tolerance policy for violation of rules and regulations;
- New technology solutions for market participants, and
- New structures for trading instruments.

5. Recommendations

- i. The ongoing transformation agenda of the NSE should be intensified.
- ii. The planned demutualisation of the NSE should commence and be completed within the specified timetable. In this regard, the SEC should speedily consider the report of its

market-wide Demutualisation Committee and publish requisite guidelines that would drive the NSE's demutualization process

- iii. Enhance transparency and market information dissemination.
- iv. Regulatory fees charged by The NSE should be reduced so as encourage unquoted public companies list their shares.
- v. All new share issuances (including bonuses) should be done on a dematerialized basis.
- vi. All dividends should be effected electronically and directly to beneficiaries' bank accounts to reduce problems of unclaimed dividends
- vii. The retail investor base has been virtually absent from the market since the stock market crash of 2008. Accordingly, we must remove barriers to their ability to access markets -
 - o Reduce transaction costs
 - Reduce bottlenecks and trade inefficiencies, e.g.
 - Reduce/eliminate system downtime
 - Using last traded price as determinant of closing prices could lead to price manipulation – VWAP for the day should be used instead
 - Facilitate ease of execution of inter-member transfers and nominal transfers
 - o Allow for easier access, remote and online trading
 - o Increase access to trade information and data

ABUJA SECURITIES AND COMMODITIES EXCHANGE (ASCE)

1. Introduction

The Abuja Securities & Commodity Exchange Plc (ASCE) was originally incorporated as a stock exchange on June 17, 1998. It commenced electronic trading in securities in May 2001 and was converted to a commodity ASCE on August 8, 2001 and brought under the supervision of the Federal Ministry of Commerce.

The conversion was premised on the need for an alternative institutional arrangement that would manage the effect of price fluctuations in the marketing of agricultural produce which has adversely affected the earnings of farmers since the abolishment of commodity Boards in 1986. Attempts to establish a Commodity ASCE and Futures market in the country dates back to 1989, when an Inter-Ministerial Technical Committee was set up by the Central Bank of Nigeria consider the establishment of a Futures ASCE for agricultural commodities to address agro-commodity marketing problems. Furthermore, it was felt at the time that the Nigerian economy was not robust enough to support two equities exchanges.

2. Current State of ASCE

i. Ownership

The ASCE is wholly-owned by the Federal Government of Nigeria and currently operates as a parastatal of the Federal Ministry of Trade and Investments.

ii. Governance

The ownership and management of the ASCE are separated from the right of a trading member to trade on ASCE. The ASCE has a Board of Directors, which determines policy matters of ASCE. The ASCE currently has five (5) board members.

Market decisions relating to operations are delegated by the board to the Council of the ASCE, which includes representatives of the promoting institutions, members of the ASCE, commodity associations, warehouse operators/collateral managers, clearing banks and other financial institutions. There are currently twenty-two (22) members of the Council of the ASCE.

The Council of the ASCE operates through four (4) standing Committees viz: Membership and Finance Committee, Clearing House Committee, Arbitration and Vigilance Committee and Trading Committee. All the committees have established rules and regulations governing their operations and meet from time to time on cases relating to each of them and make recommendations to Council for consideration and approval.

The day-to-day management of the ASCE is delegated to the Managing Director.

iii. Membership

The ASCE has three (3) classes of members viz:

- (a) Ordinary Member;
- (b) Trading Member; and
- (c) Institutional Trading Member

Ordinary Member

Individuals or corporate citizens are eligible to register as ordinary members. They are entitled to all right and privileges that any other members of the ASCE will enjoy except that they cannot trade directly on the ASCE unless through a registered trading member.

The ASCE currently has ten (10) ordinary members.

Trading Member

Trading Members can initiate trades on the ASCE and solicit trades from their clients or customer with whom they have constituent agreement. They can trade on their accounts and the accounts of their clients and can be elected into the Council of the ASCE. Those that can apply for this category of membership are stockbrokers, commodity brokers and commodity merchant.

The ASCE currently has thirty-one (31) trading members.

Institutional Trading Member

Processing Companies such as Cadbury, Nestle, Guinness, NASCO Group, Grand Cereals & Oil Mills Ltd, Jos International Breweries and a host of others can apply as Institutional Trading Members. They can trade on their accounts and the accounts of other Institutional Trading Members. However, no Institutional Trading Member shall be allowed to trade on behalf of trading members and clients or customers that are not members of the ASCE.

3. Operations Review

(a) Trading

The trading hours are between 11.30 am and 1.30 pm (Local time) on all working days.

The ASCE has two trading segments – the spot and the forward market segments.

The spot market segment is a market segment where contracts in commodities and/or financial instruments for immediate payment and delivery (ready delivery contracts) are admitted into trading subject to the trading rules and regulations.

The forward market segment is a market segment where contracts in commodities and/financial instruments that are not meant for immediate payment and delivery are admitted into trading.

(b) Current State

The forward market segment has not taken-off and there has been very little spot trading on the ASCE since inception. For instance, from 2006 to date, the ASCE has only been able to execute trading transactions totaling just 1,837 metric tonnes of assorted commodities valued at about ₦55,062,164 million in both floor-based and negotiated transactions, out of orders valued in excess of ₦1.7 billion. No trading has taken place on the ASCE since May 2010.

The reasons for the above are not far-fetched. At the time the ASCE was converted to a commodity ASCE, it was an entirely novel concept in Nigeria and there were absolutely no regulatory, institutional, physical and support infrastructure on ground necessary for the setting up of an ASCE.

(c) Current Reform Initiatives

The ASCE (along with its supervisory government agencies) has commenced a number of initiatives aimed at reversing the fortunes of the ASCE and kick-starting effective commodities trading in Nigeria.

Some of these initiatives include:

- Committee of Ministers on the revival of the ASCE

The Honourable Minister of Trade and Investments has constituted a steering committee on the revitalization of the ASCE.

The Committee is made up of the Ministers for Trade and Investment, Finance, National Planning, Communication Technology and Agriculture and Rural Development, as well as the Governor of the Central Bank and the Director-General of the Securities and Exchange Commission.

- Memorandum of Understanding (“MoU”) with the Ethiopia Commodities Exchange

The ASCE recently signed a MoU with the Ethiopian Commodities Exchange in connection with the development of a roadmap for the revival of the ASCE.

- World Bank and International Finance Corporation (IFC) Intervention

The World Bank and the IFC are considering various ways of assisting the ASCE in connection with institutional and infrastructural assistance mechanism to facilitate effective commodities trading in Nigeria. The World Bank has identified the following areas of possible intervention:

- Commodity grades and standards
- Warehouse receipts system
- Cooperative development
- Warehouse receipt bill
- Identification of delivery warehouses and appropriate commodities for exchange trading
- Sensitization and enlightenment campaign
- Capacity building for ASCE staff
- Development of a functional commodities exchange

4. Privatization of the ASCE

The privatization of the ASCE has had a chequered history in Nigeria. There have been at least two attempts (in 2003 and 2008) to transfer the ASCE to private ownership. However, none of these attempts ever went beyond the conception stage, due to lack of interest from the investor community.

The absence of investor interest can be traced to the fact that the ASCE lacks the requisite infrastructure for the operation of a viable exchange. Essentially, the only viable asset of the ASCE was its operational license. In addition to the lack of physical infrastructure, the regulatory and institutional framework for the proper functioning of the ASCE is lacking. Some of the elements of the requisite regulatory and institutional framework include:

- i. Standard storage facilities (e.g. warehouses) for commodities;
- ii. Institutional support such as a National Grading System of various commodities to enable our agricultural commodities be competitive in international markets;
- iii. Warehouse Receipt Financing Regime (including the enactment of a Warehouse Receipt Financing Act), which is expected will enable farmers, etc use agricultural commodities as collateral to obtain credit facilities from financial institutions. In addition, the warehouse receipts will constitute a tradable instrument, which will facilitate the documentary transfer of title to commodities;
- iv. Vibrant Farmers Cooperatives that would enable farmers benefit directly from appropriate pricing of their commodities; and
- v. Adequate Market Information System (MIS) that would assist all those in the agricultural value chain in their marketing decisions.

Accordingly, some are of the opinion that the ASCE is not yet ripe for privatization. Indeed, the ASCE is not presently listed by the Bureau of Public Enterprises (BPE) as one of the assets to be privatized and efforts in the past to privatise the entity did not succeed. It is posited that for any commodities exchange to succeed, it needs strong government support from inception, because a commodities exchange requires more fundamental pre-requisites to succeed as compared to an equities platform, especially in a developing economy such as Nigeria. It is only when all institutional infrastructure such as enabling laws, National

Grading Systems and effective farmers cooperatives have been set up and operational can a commodities exchange thrive.

There are presently six other Commodity ASCEs in Africa namely;

- a. Ethiopia Commodity ASCE (ECX)
- b. Zimbabwe Commodity ASCE (ZIMACE)
- c. Zambia Commodity ASCE (ZAMACE)
- d. Kenya Agricultural Commodity ASCE (KAC)
- e. Uganda Commodity ASCE (UCE)
- f. Malawi Commodity ASCE (MCE)

Of the six, only ECX is thriving because of the strong government and donor agency support it received from the onset. UCE is almost a virtual ASCE that only does warehouse receipt financing on a very small scale which so far has had no impact on their economy. All other Commodity ASCE in ASIA and South America that are successful have had government support in form of shareholding by government agencies and the private sector.

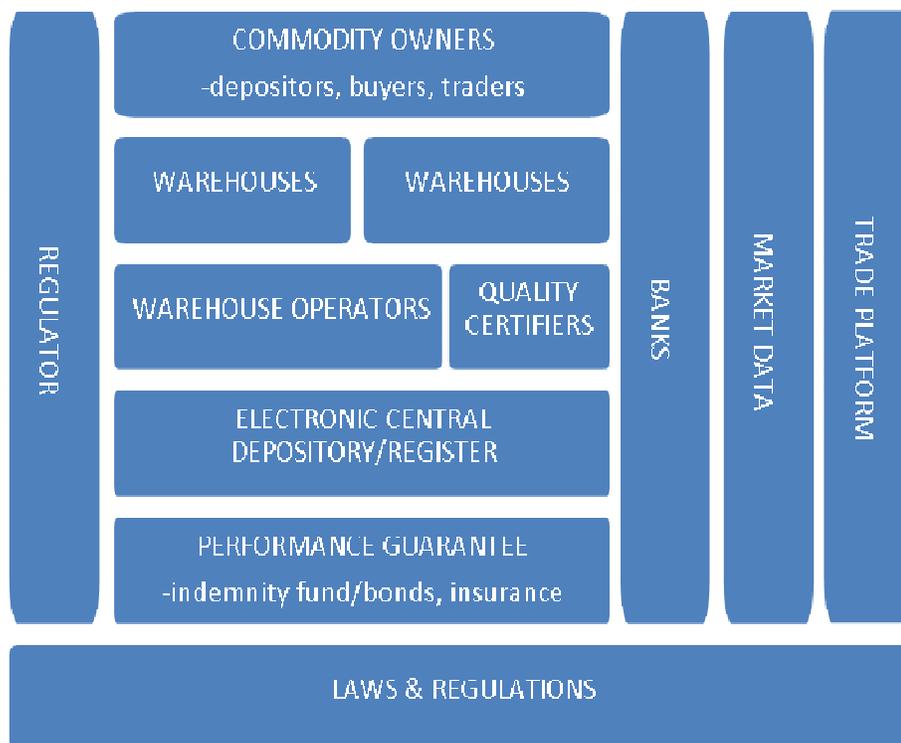
5. Recommendation(s)

The following have been identified as measures to be undertaken to enhance the operations of the ASCE and increase the level and depth of commodities trading in Nigeria.

i. Warehouse Receipt Financing

Warehouse Receipt Financing (“WRF”) is the use of securely stored goods as collateral. The concept allows farmers to deposit graded agricultural products in secured warehouses where certified receipts are issued to them in return for the particular quantity, quality and grade of goods deposited.

Warehouse receipts (“WR”) are documents issued by the warehouses to depositors against the commodities placed in the warehouses for which the warehouse is the bailee. Warehouse receipts can be negotiable (transferable) or non-negotiable (non-transferable). Negotiable warehouse receipts form the basis for warehouse receipt financing.



Framework for WRF

Facts and figures – WR trading and WRF in Ethiopia.

- WR Trading Started 2008
 - 300,000MT Storage Capacity
 - 17 Warehouse Locations
 - Coffee, Sesame, P-beans, Maize, Wheat
 - Trade Value US\$1.3 billion/year
 - 11 Settlement Banks
- WR Financing Started 2011
 - 2 banks (3 more in process)
 - US\$1.5 million so far
 Sesame & P-beans

Advantages of WRF

- a. Improves overall efficiency of the agricultural sector. WR provide farmers with an instrument that allows them to extend the sales period of their farm produce beyond the harvesting season
- b. Deepening of the ASCE by facilitating trade in commodities. WRF allows paper-based trading and transfer of title to or interests in commodities, without physical delivery of the underlying assets.

- c. Increases liquidity of the commodities exchange and the products traded thereunder
- d. Facilitates the standardization of agricultural produce, as the commodities have to be standardized to qualify for WRF.

ii. National Commodities Grading System

Related to WRF is the existence of a standardized grading system for agricultural produce. Standardization and grading of agricultural commodities promote efficiency in both local and international markets.

The grading and certification process will establish and certify the quality and condition of the agricultural produce. This involves inspection, testing, certification and accreditation. Only appropriate certified products should be traded on the commodities exchange. Certification provides a seal of approval and bridges the information asymmetry gaps between buyer and seller in terms of the quality and quantity of the products.

We are aware that a bill on WRF has been exposed by the National Assembly for comment, and is currently being debated by the legislature. It is hoped that the bill is given accelerated hearing and prompt implementation, upon passage into law.

iii. Infrastructure

The requisite institutional infrastructure for effective commodities trading is lacking. These include – quality assurance system, bank-based clearing and settlement system, risk management and arbitration system, market information systems, as well as physical delivery and storage systems.

iv. Publicity and Skills upgrade

There is a considerable dearth of adequate skill and expertise, even among market participants and the regulators, in relation to commodities trading. There should be a systematic process of constant training, enlightenment campaign and engagement amongst all stakeholders (regulators, participants, farmers, etc) to increase awareness of the commodities trading platform.

v. Privatisation of ASCE

Arguably, the ASCE is not ripe for privatization because of the absence of critical enabling structures/infrastructure and thus may elicit limited private sector interest. Efforts should therefore be concentrated on working with Government to ensure that all the institutional infrastructure such as enabling laws, National Grading Systems, etc are speedily put in place to firmly establish ASCE's business case. In the interim ASCE should focus on the needed operational and managerial retooling and the memorandum of Understanding ("MoU") with the Ethiopia Commodities Exchange for the revitalization of the ASEC is a step in the right direction.

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD)

1. Introduction

NASD Limited formerly known as National Association of Securities Dealers is a private limited liability company incorporated on the 1st of June 1998. It was established to promote and operate a formal over-the-counter (OTC) market open to all interested and registered securities dealers in Nigeria.

NASD Limited shall operate an electronic trading platform that will help facilitate transactions and price discovery for dealers and investors in equities, bonds, money market, fixed income and other derivative instruments. It will create a formal market that will capture and report OTC trades as well as provide a platform where illiquid securities can be traded through an advanced quote/order driven system. In addition, it will act as an avenue for trading small cap startup securities with a view to encouraging better corporate governance in such companies and providing liquidity to shareholders.

2. Current State Analysis

i. Company's Business Premises

NASD has moved to its permanent office at 9th Floor, UBA House. 57, Marina, Lagos. The Company Secretariat has also been moved to the same location.

ii. Capital Fund Raising

NASD Limited raised a total of N518, 997, 501.50 (Five hundred and eighteen Million, nine hundred and ninety-seven thousand, five hundred and one Naira and Fifty Kobo) from its issuance of 285, 700, 000 (Two hundred and eighty-five million, seven hundred thousand) ordinary shares through its Private Placement that opened in May 2011. At the conclusion of the exercise, the Private Placement was 103% subscribed from 44 subscribers. NASD now has 59 shareholders on its register.

In view of the increased number of shareholders, the shareholders of NASD Limited passed a special resolution at an Extraordinary General Meeting to convert the status of the company from private to public. NASD has filed its application for conversion with the Corporate Affairs Commission.

iii. Board Reconstitution

To reflect the expanded share capital of NASD, the Board of Directors has been expanded from 6 to 13 members including the appointment of a Chief Executive Officer.

iv. Selection of Platform Vendor

NASD issued a Request for Proposal to 19 trading platform providers in February 2012. After a rigorous screening and selection process, two finalists were shortlisted. A Joint Committee of the Board of NASD reviewed and negotiated commercial terms with the two finalists. They recommended a leasing arrangement with The Nigerian Stock Exchange (“NSE”) to the Board based on low startup costs, time to market and ease of learning to use the platform, The Board adopted this recommendation.

NASD is in the process of finalizing the Service Level Agreement with The Nigerian Stock Exchange and will start the implementation and testing phase in October 2012.

3. Interim Trading Arrangements

Pending final go live on The NSE platform, NASD intends to implement an interim trading arrangement that will guarantee transparency and fairness. NASD shall make use of a Bulletin Board where dealers can put up quotes and match them with prospective investors. The Bulletin Board will also compile up to date information about the companies whose securities are being traded.

4. Recommendations

In order to enhance the market by providing liquidity and transparency, protect the shareholders and effectively enjoy the benefits of an OTC, the Securities and Exchange Commission (“SEC”) will need to make some amendments to its existing rules. We recommend that SEC Rules be expanded to include the following:

- a) Any company that has more than 50 beneficial owners must have all such interests in its securities dematerialized and held by a depository. Public companies shall not in any way inhibit or restrict a beneficial owner’s right to freely trade or transfer his interests in any security;
- b) That all securities within the meaning of the Investment and Securities Act (howsoever described) with more than 50 beneficial owners (no matter the manner of registering such interest such as a nominee company) shall be deemed held by the beneficial owners and such interest must be individually registered with a depository to facilitate the beneficial owner’s free access to the market uninhibited by the nominee;
- c) All depositories must provide access to its data base by all securities exchanges or trading platforms registered by SEC;
- d) Until such capacity is acquired, all registers of such securities shall be in book entry form and updated daily and made available online to the securities exchanges and/or trading platforms on which quotation or trading is maintained or undertaken for the purpose of verifying all transaction intended and/or undertaken;
- e) No depository shall effect the transfer of securities unless such security was traded on a SEC registered securities exchange or trading platform.

**SECURITIES AND EXCHANGE COMMISSION
CAPITAL MARKETS COMMITTEE**

SUB-COMMITTEE ON COMMODITIES, EQUITIES AND EXCHANGES

**POSITION PAPER ON THE IMPERATIVES FOR THE DEMUTUALISATION OF
THE NIGERIAN STOCK EXCHANGE**

30th April, 2012

1. Introduction

Demutualisation, in the context of stock exchanges, typically involves the conversion of a stock exchange from a non-profit, mutual organization, into a for-profit entity with the attendant separation of membership rights from trading privileges held by members of the mutual exchange. Stock exchanges have historically tended to be mutual organisations, with membership and trading privileges inextricably linked.

Demutualisation of stock exchanges is therefore a relatively recent phenomenon, but one that is increasingly becoming attractive. From the first stock exchange demutualisation (Stockholm Stock Exchange in 1992/1993), there have been over 25 demutualisations cutting across developed and developing economies. Demutualisation has fuelled cross-border mergers, consolidations and alliances of stock exchanges in a bid to enhance their competitiveness and take advantages of economies of scale and other beneficial linkages that would have been impossible in a mutual non-profit structure.

The proposed demutualisation of the Nigerian Stock Exchange (“NSE”) is not a recent development. Demutualisation of the NSE was first considered by the Council of the NSE in 2002 with the aim of enhancing the competitiveness of the NSE. This initiative was endorsed by the SEC Committee on the Nigerian Capital Market) (the “Sulaiman Committee”). In furtherance of this and in near universal recognition of the merits of demutualisation, both the NSE and the SEC have constituted committees and working groups to advise on and chaperon the transition of the NSE to a demutualised structure. In addition, there have been several conferences and workshops organised by the regulators, capital market operators and other stakeholders to share thoughts, ideas and experiences towards a successful implementation of the demutualisation objective.

The adoption of a demutualised structure by a securities exchange has the potential to fast-track its development. Access to investment, technology, and strategic relationships, as well as improved governance and competitiveness are some of the numerous advantages of demutualisation. In the context of increased globalization of securities markets and increased competitive tensions, demutualisation can set a stock exchange well on the path to rapid and sustained development.

However, despite the near universal acknowledgement of the advantages that can potentially be derived from demutualisation, there remains, in certain quarters, a deeply-held suspicion of the entire exercise. Some commentators have expressed concern that demutualisation is a crucial part of a long-standing government scheme to gain control of the NSE and/or “sell” the exchange to the highest bidders. Others have argued that there are some powerful private sector interests that are waiting in the wings to acquire the NSE for their private benefits, using the machinery of Government.

The merits or otherwise of these concerns will not be considered here. Nevertheless, these concerns and fears serve as a collective reminder that the NSE,



THE CMC SUB-COMMITTEE ON COMMODITIES, EQUITIES AND EXCHANGES

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RECOMMENDED ACTION PLAN FOR THE REVITALISATION OF THE NIGERIAN CAPITAL MARKET: A REPORT BY THE CMC SUB-COMMITTEE ON COMMODITIES, EQUITIES AND EXCHANGES

BACKGROUND

Four years after the global economic crisis which affected world markets, the Nigerian Capital Market is still struggling to make a recovery. Interest in capital market investment has waned significantly, and the equities market has received the least patronage.

While we recognise that achieving the pre-market crisis vibrancy/ activity levels will take some time, we believe that the implementation of a considered and well thought out plan will speed up the recovery process.

IDENTIFYING THE CHALLENGES TO RECOVERY

Finding the right solution for achieving market recovery requires identifying the key inhibiting factors, some of which include:

- Dampened investor confidence in the aftermath of the stock market crash;
- Prevailing credit/liquidity crunch and significant re-stratification of the Nigerian financial system following the CBN intervention in the Nigerian Banking sector
- Flight to safety and attractive returns offered by fixed income investments
- Lack of leverage and Limited funds inflow into the capital market
- Perceived lack of transparency in reporting and weak corporate governance by public listed companies
- Risk aversion especially from the now ultra-conservative domestic institutional investors and near absence of the retail investor class
- Perceived weak regulation and enforcement of the regulatory standards on public listed companies
- Economic crises in Europe and some other developed economies had also affected the level of offshore investors coming to the Nigerian market.

OUR RECOMMENDATIONS

1. Injection of funds into the capital market

One of the identified challenges to recovery is the lack of leverage/ limited funds flowing into the capital market for investment, particularly the equities market.

To tackle this, there is need for a considered approach for government injection of funds into the capital market. This capital injection is crucial to market recovery and should be treated with urgency, bearing in mind the vital linkage between capital market development and economic growth. During the boom

period, availability of funds and leverage created a strong demand side that encouraged vibrant growth, and; is, therefore, critical for addressing demand side weakness for equities. Injection of funds into the market will provide liquidity and help lift activity levels and stimulate investor's interest. Some of the approaches we recommend are:

- i) The establishment of a stabilization fund to intervene in the market by purchasing and warehousing undervalued securities with strong fundamentals and also providing liquidity backstop to approved market makers;
- ii) The provision of access to credit through a dedicated fund which market operators can access to draw funds for margin lending to customers at concessionary rate;
- iii) The investment of part of the Sovereign Wealth Fund in the equities market.

2. Prevailing high money market rates

In a period of low investor confidence, the steady increase of MPR from 8% in 2007 to 12% in 2012 has been identified as a key inhibiting factor to the recovery of the equities market. This has pushed interest rates in fixed income securities to attractive levels, making the equities market less attractive. We suggest that the CBN consider using other tools beyond the MPR as the primary instrument in achieving its price and exchange rate stability objectives as this situation, if not addressed, will continue to slow recovery in the equities market.

3. Increasing domestic participation in the equities market

Available data from the Nigerian Stock Exchange on equities trading indicate increasing participation by international investors and declining investments by local investors:

Year	2008	2009	2010	2011
International investors	53%	30%	49%	81%
Domestic Investors	47%	70%	51%	19%

Clearly, there is an urgent need for intensified and organized effort towards gaining back local participation in the equities market, reducing the high risk aversion of our domestic institutional investors, particularly the PFA's as well as increasing the depth and breadth of retail participants. From historical experiences, retail investors, largely drawn from the middle class and middle income bracket, provide a platform for market recovery and stability - the experiences of the Asian Tigers in the 80s where the exit of foreign investors triggered a crash is very pertinent.

We suggest the use of investor enlightenment programs and publications, similar to what the CBN does to encourage investment in Treasury Bills and Bonds. Such investor enlightenment programs should highlight the need for a shift from speculative trading for short term gains to long term wealth creation. The use of both electronic and print media at regional and national levels should be explored. While enlightenment campaigns through formal fora like shareholders'

associations and lectures are laudable, there should be a deliberate effort to reach the small scale retail investors. The SEC/NSE should coordinate and encourage trade groups such as the CIS, ASHON, AIHN, etc to play active role in such enlightenment campaigns. The PFA should also be compelled to fully utilise the presently approved upper limits for equity investments with a view to making a strong justification for further increases to the pension fund regulator.

4. *Encouraging investment through managed schemes*

Investment through managed investment schemes should be encouraged to protect retail investors who have very little knowledge about investment and are often the most burnt when there is a market downturn. The use of investment schemes would ensure that the retail investors' funds are managed as a pool by competent fund managers in line with the defined investment objectives. To facilitate the actualization of this objective, we propose that, at the regulatory level, a minimum investment amount for individual accounts should be set and any investment below the prescribed minimum should be made through a managed investment scheme. This will, in addition to protecting the investor, provide for a more efficient market driven by knowledgeable investment managers. We highly suggest that the SEC makes it mandatory for small retail investors to only participate in the market through collective investment schemes except those investors that either exceed a minimum portfolio size threshold or have proven competences to manage their own equity dealings directly.

5. *Fast tracking kick-off of market making in order to enhance liquidity in the market*

The Commission should work with the NSE and other stakeholders to ensure that identified challenges to market making are urgently addressed. We also suggest that a liquidity backstop window be made available to market makers via the capital market intervention fund as suggested under item no 1 of our recommendations.

6. *Adopting/Implementing investor friendly enforcement strategy*

Many retail investors have funds trapped in various stockbroking firms currently serving suspensions for various infractions. While there are rules that require a suspended broker to transfer the accounts of its clients to another broker, these are not strictly enforced. We suggest a strict enforcement of these to ensure that investors do not unduly suffer as a result of the suspension of a stockbroker.

7. *Resolution of outstanding CSCS transactions*

A number of CSCS transactions are still hanging years after they were consummated for reasons such as to improper lodgement by the dealing broker, periodic de-coupling of trade engine from the Depository on the NSE, human/system errors by the Registrars or outright fraud involving Registrar houses/stockbrokers. Such transactions need to be isolated, traced back to source and pragmatic resolutions instituted. In many cases, there may be need to buy-back to accommodate the genuine losses fully borne by the buying party or the operator. NSE, CSCS, Registrars and Brokers should be encouraged to

develop a database of such transactions and meet regularly to clear such backlogs which have discouraged many retail investors.

8. *Strengthening regulation*

One thing that market crises have always done is reveal loopholes in regulation. It is therefore common to find that market crises are followed by strengthened and reinforced regulation. While steps are being taken to revitalize the market and make it more attractive to investors, due attention should be paid to strengthening, monitoring and enforcing regulation to ensure that loopholes in regulation revealed by the crisis (for e.g., lack of transparency, weak corporate governance, etc) are addressed, with zero tolerance for violations, particularly such violations that put investor's funds at risk.

Furthermore, there is need for enhanced and critical screening and evaluation of companies that are admitted for listing on a stock exchange. Most of the illiquid stocks are shares of companies with weak corporate governance, poor management and reporting standards and transparency issues.

9. *Dealing with identity theft*

Identity theft is a sad reality in our market, and the Capital Market should develop an industry-specific solution to this problem. There should be a common reporting database for now (similar to CRMS – Credit Risk Management System - which maintains a database of bad credit in the banking industry) until or even after the biometric project is completed. The biometric exercise itself should leverage on the work been done by the National Identity Management Commission (NIMC) to achieve a more robust, faster and cheaper roll-out.

10. *Encouraging inward investment through tax rebate*

In order to encourage foreign inflow and retention of funds, dividends payable in respect of non-resident Nigerians should be free of withholding tax provided such dividends are re-invested into the market. The applicable withholding tax deductions on dividends should be paid into designated stockbroking firms of their choice. The full withholding tax rate should apply on withdrawals from such designated accounts while the broker/registrars should retain a certain percentage (say, 20%) for acting as the revenue agent to FIRS or the relevant state tax authority.

11. *Tapping into developments in the agricultural sector*

In recent times, we have witnessed increased attention to growing the agricultural sector. Both the Commission and market operators need to be properly positioned to key into the opportunities in this sector. This highlights the need to hasten the development of a viable Commodities Exchange, and also highlights importance of the Commodities Trading Conference which the Sub-Committee has been mandated to organize. We note this project as one which requires urgent attention so that capital market operators are carried along to position themselves for the growth opportunities in agricultural sector and commodities trading.

BENCHMARKING REPORT ON NIGERIAN EXCHANGES

A Report of the Securities and Exchange Commission (SEC) Capital Markets Committee Sub-Committee on Commodities, Equities and Exchanges

11 March 2013

Abbreviations and Acronyms

- ASCE – Abuja Securities and Commodity Exchange
- ACE – Ace Derivatives and Commodity Exchange
- ADX – Abu Dhabi Securities Exchange
- AIM – Alternative Investment Market of the LSE
- BSE – Bombay Stock Exchange
- BM&FBOVESPA - BM&F Bovespa SA Bolsa de Valores Mercadorias e Futuros (Brazil Stock Exchange)
- CBOT – Chicago Board of Trade
- CSE – Casablanca Stock Exchange
- ECX – Ethiopian Commodity Exchange
- EGX – Egyptian Exchange
- FWB - Frankfurter Wertpapierbörse (Frankfurt Stock Exchange)
- GSE – Ghana Stock Exchange
- JSE – Johannesburg Stock Exchange
- KSE- Nairobi Stock Exchange
- LSE – London Stock Exchange
- MCX – Multi Commodity Exchange of India
- NSE – Nigerian Stock Exchange
- NYSE – New York Stock Exchange
- SAFEX – South African Futures Exchange
- SEM – Stock Exchange of Mauritius
- SGX – Singapore Exchange Limited
- SSE - Bolsa de Comercio de Santiago (Santiago Stock Exchange)
- WSE – Warsaw Stock Exchange

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Executive Summary

1. The Sub-Committee examined about 22 equities and commodity exchanges from 18 countries in different stages of economic development.
2. The Sub-Committee's review focused on market indices, products offerings, processes of the various equity and commodity exchanges.
3. The NSE currently compares quite favourably with other frontier market exchanges in terms of market size, structure, products and processes. In particular, the NSE index outperformed all other frontier markets reviewed. However, the NSE lags other developed and emerging exchanges quite significantly, although the NSE index performance compared very favourably with other developed and emerging market stock market indices.
4. The ASCE is in its infancy and accordingly, could not be benchmarked against any of the commodity exchanges reviewed. Suffice to say that there is significant opportunity in this area, based on the volumes of trade undertaken by the commodity exchanges reviewed.

Equities Exchanges – Key Comments/ Recommendations

5. The demutualisation efforts should be intensified and the NSE should define a clear path towards achieving a demutualised structure. While the Sub-Committee recognises that the SEC is deliberating on a framework for demutualisation, the Sub-Committee is of the opinion that the NSE can commence the corporate reorganisation steps towards demutualisation in parallel with the SEC process.
6. The on-going measures to achieve new listings/products should be intensified. The new listing rules of the NSE are a welcome step in the right direction. Likewise, the promulgation of rules governing securities lending and short selling are welcome. However, the NSE should put pressure on market participants (specifically, AMCON and other securities lenders) to ensure commencement of actual securities lending.
7. On-going initiatives to encourage fixed income trading on the NSE should be intensified. The Sub-Committee welcomes the appointment of market makers for fixed income products.
8. The NSE and the SEC should encourage listing of more ETFs via favourable regulation and listing requirements

9. Efficient markets thrive on information disclosure. The disclosure regime on the NSE should be revisited to provide clear guidance to listed companies on matters that need to be disclosed to the general public and the timing of those disclosures
10. Transaction costs on the NSE should be reduced. In this light, the NSE and the SEC should push for the implementation on the new guidelines removing VAT and stamp duties from exchange transactions.
11. The NSE should intensify its market abuse/insider trading surveillance regime to complement the SEC's efforts. This will engender market integrity.
12. The NSE should consider longer trading hours to enable the NSE capture investor interest from the US markets and to also bring the number of trading hours in line with other developed and emerging market exchanges.
13. The NSE should consider strategic/technical partnerships with other developed exchanges with a view to improving operational efficiency, enhancing market regulation and increasing the suite of tradable products on the NSE.

Commodities Exchanges – Key Comments/ Recommendations

14. There should be adequate investment in the requisite institutional infrastructure for effective commodities trading. These include the following:
 - a. Large and active spot market.
 - b. Appropriate Legal and regulatory Infrastructure in terms of a system of grades and standards, a credible system of contract enforcement and governance in spot markets
 - c. Bank based clearing systems
 - d. Physical delivery, storage and communications systems.
 - e. Efficient flow of market information.
 - f. Institutional Infrastructure such as producers' organizations as Nigeria is characterised by small holder farmers
15. A Warehouse Receipt Financing regime (including promulgation of relevant legislation) should be instituted to provide a foundation for sustained commodity trading in Nigeria

16. A standardised grading system for agricultural produce should be established. This will promote efficiency in commodity trading in Nigeria

1 INTRODUCTION

1.1 *Background*

The Capital Markets Committee's Sub-Committee on Commodities, Equities and Exchanges ("CMC CEES") was inaugurated on [•] 2011, to serve as a catalyst for the rapid and sustained development of the exchanges and trading platforms in Nigeria. Specifically, the terms of reference of the CMC CEES are as follows:

- i. Diagnostic Review of all Exchanges in Nigeria ("TOR 1")*
- ii. Operations Review, Rules and Regulations of both the SEC and the respective Exchanges and make Recommendations thereon ("TOR 2")*
 - a. Operations review to comment on efficiency/effectiveness and compliance with set rules and regulations
 - b. Review of existing SEC rules/regulations on the operations of Exchanges
 - c. Review of the existing rules/regulations of the operating Exchanges
- iii. Market Development and Deepening ("TOR 3")*
 - a. Act as a think tank for the incubation of ideas that would transform the exchanges
 - b. Review existing products processes and propose amendments/reform that may be necessary
 - c. Review, in conjunction with the New Products and Business Development Sub-Committee on the suitability and timeliness of new products in the Nigerian capital market
- iv. Benchmarking Global Best Practices ("TOR 4")*
 - a. Engage in comparative analysis of exchanges globally and review international best practices
 - b. Make recommendations for enhancing transactions on the exchanges and on extending the international reach of Nigerian exchanges
- v. Capacity Building ("TOR 5")*

Suggest effective capacity building and awareness programmes on equities, commodities and other exchanges

This Benchmarking Report (the "Report") has been prepared further to TOR 4 and seeks to measure how the Nigerian exchanges and trading platforms, specifically the Nigerian Stock Exchange and the Abuja Securities and Commodities, measure up against their counterparts in other jurisdictions. It is expected that this comparative analyses (and the recommendations flowing therefrom) will serve as a useful working tool to assist the various Nigerian exchanges in achieving their developmental goal and aspiration and lead to the emergence of regional and pan-African destinations of choice for emerging-market securities and instruments.

1.2 Exchanges / Jurisdictions Reviewed

In preparing this report, the Sub-Committee reviewed the structure, products, processes and operations of the under listed exchanges/jurisdictions, and benchmarked these against their Nigerian counterparts:

Jurisdiction	MCSI ¹ Classification	Country	Exchanges Reviewed
United States of America	Developed Market		NYSE, CBOT
United Kingdom	Developed Market		LSE (Main Market, AIM)
Singapore	Developed Market		SGX
Germany	Developed Market		FWB
Poland	Emerging Market		WSE
Chile	Emerging Market		SSE
South Africa	Emerging Market		JSE, SAFEX
Brazil	Emerging Market		BM&FBOVESPA
India	Emerging Market		BSE, ACE, MCX
United Arab Emirates	Emerging Market		ADX
Malaysia	Emerging Market		Bursa Malaysia
Morocco	Frontier Market		CSE
Ghana	Frontier Market		GSE
Egypt	Frontier Market		EGX (Cairo and Alexandria)
Kenya	Frontier Market		KSE
Mauritius	Frontier Market		SEM
Ethiopia	Frontier Market		ECX

Table 1: Jurisdictions/Exchanges Reviewed

The above selection reflects the desire of the Sub-Committee to review experiences from a broad-spectrum of exchanges from markets in different stages of economic development, with a view to achieving a robust assessment of the state of the Nigerian exchanges and identifying critical areas for development.

We would like to state that the choice of exchange/jurisdiction does not necessarily infer that the referenced exchanges are larger and/or better than the Nigerian exchanges. Rather, our choices are premised upon those institutional and regulatory frameworks prevalent in those exchanges/jurisdictions that would set useful examples for the Nigerian exchanges as they decide on the appropriate developmental paths.

The Sub-Committee did not consider alternative trading platforms in the preparation of this report, considering the fact that a regulated alternative trading platform is yet to commence operations in Nigeria. We expect to review and consider alternative trading platforms in subsequent updates of our report.

1.3 Structure of the Report

- i. Chapter 1 provides a general overview of the Report;

¹MSCI Inc. (formerly Morgan Stanley Capital International) is a leading provider of investment decision support tools to investment institutions.

- ii. Chapter 2 reviews the Nigerian Stock Exchange vis-à-vis comparable exchanges from frontier, emerging and developed markets;
- iii. Chapter 3 undertakes a comparative analyses of commodities, options and futures exchanges, benchmarking the Abuja Securities and Commodities Exchange against selected exchanges ;
- iv. Chapter 4 provides the Committee's final remarks.

2 EXCHANGES SURVEYED – Brief Description

2.1 *Stock Exchange of Mauritius*

The Stock Exchange of Mauritius Ltd (SEM) was incorporated in Mauritius on March 30, 1989 under the Stock Exchange Act 1988, as a private limited company responsible for the operation and promotion of an efficient and regulated securities market in Mauritius. Since October 6th, 2008, the SEM has become a public company, and over the years the Exchange has witnessed a significant overhaul of its operational, regulatory and technical framework to reflect the ever-changing standards of the stock market environment worldwide. SEM is today one of the leading Exchanges in Africa and a member of the World Federation of Exchanges (WFE).

The SEM operates two markets: the Official Market, the Development & Enterprise Market (DEM). The Official Market started its operations in 1989 with five listed companies and a market capitalisation of nearly USD 92 million. Currently, there are 41 companies listed on the Official Market representing a market capitalisation of nearly US\$ 5.4 billion as at 31 October 2012. The DEM has been launched on 4 August 2006 and there are presently 47 companies listed on this market with a market capitalisation of nearly US\$ 1.4 billion as at 31 October 2012.

2.2 *Nairobi Stock Exchange*

In 1951, an Estate Agent by the name of Francis Drummond established the first professional stock broking firm. He also approached the then Finance Minister of Kenya, Sir Ernest Vasey and impressed upon him the idea of setting up a stock exchange in East Africa. The two approached London Stock Exchange officials in July of 1953 and the London officials accepted to recognize the setting up of the Nairobi Stock Exchange as an overseas stock exchange. In 1954 the Nairobi Stock Exchange was then constituted as a voluntary association of stockbrokers registered under the Societies Act.

In July 2011, the Nairobi Stock Exchange Limited changed its name to the Nairobi Securities Exchange Limited. The change of name reflected the strategic plan of the Nairobi Securities Exchange to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments. In the same year, the equity settlement cycle moved from the previous T+4 settlement cycle to the T+3 settlement cycle. In September 2011 the Nairobi Securities Exchange converted from a company limited by guarantee to a company limited by shares and adopted a new Memorandum and Articles of Association reflecting the change.

2.3 *BM&FBOVESPA*

BM&FBOVESPA is a Brazilian company, created in 2008, through the integration between the São Paulo Stock Exchange (Bolsa de Valores de São Paulo) and the Brazilian Mercantile & Futures Exchange (Bolsa de Mercadorias e Futuros). As of December 31, 2011 it had a market capitalization of US \$1.22 Trillion, making it in the 8th largest stock exchange in the world and the largest stock exchange in South America.

BM&FBOVESPA also has offices in New York, Shanghai and London.

With operations in two major market segments, BM&F (derivatives) and BOVESPA (equities), the exchange develops, implements and provides systems for the trading of stocks, corporate and government bonds, financial derivatives, agricultural commodities and spot foreign exchange, among others.

In the BOVESPA segment, BM&FBOVESPA offers several mechanisms for trading in the exchange and over-the-counter (OTC) markets, where the wide array of equities and fixed-income securities available includes stocks, stock receipts, Brazilian depositary receipts (BDRs) and investment funds.

In the BM&F segment, BM&FBOVESPA manages electronic trading in derivatives contracts, spot foreign exchange, and public debt securities and assets, among others, as well as registration, clearing and settlement, integrated with a robust and sophisticated risk management system designed to assure optimal performance.

In addition to providing the market with these products and services, BM&FBOVESPA acts as a central depository for assets and securities, publishes price quotations, manages securities lending transactions, produces market indexes, develops software, and fosters technological innovation.

2.4 Abu Dhabi Securities Exchange

The Abu Dhabi Securities Exchange (ADX) was established on 15 November 2000 by Local Law No. (3) of 2000, the provisions of which vest the Market with a legal entity of autonomous status, independent finance and management, and give ADX the necessary supervisory and executive powers to exercise its functions.

The Abu Dhabi Securities Exchange's board of directors is comprised of seven members nominated by Amiri Decree. The members of the board hold office for a term of three years. The first board of directors was constituted by Amiri Decree No. (8) of 2000.

2.5 London Stock Exchange

The London Stock Exchange is one of the world's oldest stock exchanges and can trace its history back more than 300 years. Starting life in the coffee houses of 17th century London, the LSE quickly grew to become the City's most important financial institution. Over the centuries following, the LSE has consistently led the way in developing a strong, well-regulated stock market and today lies at the heart of the global financial community.

As of December 2011, the LSE had a market capitalisation of US\$3.266 trillion (short scale), making it the fourth-largest stock exchange in the world by this measurement (and the largest in Europe). In October 2007 the LSE merged with Borsa Italiana, creating Europe's leading diversified exchange business, London Stock Exchange Group.

The LSE is the most international of all the world's stock exchanges, with around 3,000 companies from over 70 countries admitted to trading on its markets. Over 400 firms, mainly investment banks and stockbrokers, are members of the London Stock Exchange.

2.6 Johannesburg Stock Exchange

The JSE Ltd ("JSE") is licensed as an exchange under the Securities Services Act, 2004 and Africa's premier exchange. It has operated as a market place for the trading of financial products for nearly 120 years. In this time, the JSE has evolved from a traditional floor based equities trading market to a modern securities exchange providing fully electronic trading, clearing and settlement in equities, financial and agricultural derivatives and other associated instruments and has extensive surveillance capabilities. The JSE is also a major provider of financial information.

2.7 **Ghana Stock Exchange**

The Ghana Stock Exchange was established in July 1989 as a private company limited by guarantee under the Companies Code of 1963. It was given recognition as an authorized Stock Exchange under the Stock Exchange Act of 1971 (Act 384) in October 1990. The Council of the Exchange was inaugurated on November 12, 1990 and trading commenced on its floor the same day. The Ghana Stock Exchange changed its status to a public company limited by guarantee in April 1994.

2.8 **Bombay Stock Exchange**

Established in 1875, BSE Ltd. (formerly known as Bombay Stock Exchange Ltd.), is Asia's first Stock Exchange and one of India's leading exchange groups. Over the past 137 years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital-raising platform. Popularly known as BSE, the bourse was established as "The Native Share & Stock Brokers' Association" in 1875.

BSE is a corporatized and demutualised entity, with a broad shareholder-base which includes two leading global exchanges, Deutsche Bourse and Singapore Exchange as strategic partners. BSE provides an efficient and transparent market for trading in equity, debt instruments, derivatives, mutual funds. It also has a platform for trading in equities of small-and-medium enterprises (SME). Around 5000 companies are listed on BSE making it world's No. 1 exchange in terms of listed members. The companies listed on BSE Ltd command a total market capitalization of USD Trillion 1.06 as of May 15, 2012. BSE Ltd is world's fifth most active exchange in terms of number of transactions handled through its electronic trading system. It is also one of the world's leading exchanges (5th largest in May 2012) for Index options trading (Source: World Federation of Exchanges).

BSE also provides a host of other services to capital market participants including risk management, clearing, settlement, market data services and education. It has a global reach with customers around the world and a nation-wide presence. BSE systems and processes are designed to safeguard market integrity, drive the growth of the Indian capital market and stimulate innovation and competition across all market segments. BSE is the first exchange in India and second in the world to obtain an ISO 9001:2000 certification. It is also the first Exchange in the country and second in the world to receive Information Security Management System Standard BS 7799-2-2002 certification for its On-Line trading System (BOLT).

It operates one of the most respected capital market educational institutes in the country (the BSE Institute Ltd.). BSE also provides depository services through its Central Depository Services Ltd. (CDSL) arm.

BSE's popular equity index - the SENSEX - is India's most widely tracked stock market benchmark index. It is traded internationally on the EUREX as well as leading exchanges of the BRCS nations (Brazil, Russia, China and South Africa).

2.9 **Egyptian Stock Exchange**

The Egyptian Exchange is one of the oldest stock markets established in the Middle East. The Egyptian Exchange traces its origins to 1883 when the Alexandria Stock Exchange was established, followed by the Cairo Stock Exchange in 1903. The EGX comprises two exchanges, Cairo and Alexandria, both governed by the same board of directors and sharing the same trading, clearing and settlement systems.

2.10 ***New York Stock Exchange***

The New York Stock Exchange, commonly referred to as the NYSE and occasionally as the "Big Board", is by far the world's largest stock exchange by market capitalization of its listed companies at US\$14.242 trillion as of Dec 2011. Average daily trading value was approximately US\$153 billion in 2008.

The NYSE is operated by NYSE Euronext (NYSE: NYX), which was formed by the NYSE's 2007 merger with the fully electronic stock exchange Euronext.

2.11 ***Casablanca Stock Exchange***

The Casablanca Stock Exchange (French: La Bourse de Casablanca) is a stock exchange in Casablanca, Morocco. The Casablanca Stock Exchange (CSE), which achieves one of the best performances in the region of the Middle East and North Africa (MENA), is Africa's third largest Bourse after Johannesburg Stock Exchange (South Africa) and Nigerian Stock Exchange in Lagos, Africa. It was established in 1929 and currently has 17 members and 77 listed securities with a total market capitalisation of \$60 billion as of December 31 2011

2.12 ***Warsaw Stock Exchange***

Warsaw Stock Exchange is the largest national stock exchange in the CEE and one of the fastest-growing exchanges in Europe. WSE Group offers a wide range of products and services within its trading markets of equity, derivative, fixed income and structured products; it also distributes market data. WSE is one of the most recognizable Polish financial institutions worldwide.

The WSE organises and operates trading on the following markets:

- Main Market (trade in equities, equity-related and other cash instruments, derivatives),
- NewConnect (trade in equities and equity-related instruments of small and medium-sized enterprises),
- Catalyst (trade in corporate, municipal, co-operative, Treasury and mortgage bonds operated by the WSE and BondSpot),
- Treasury BondSpot Poland (wholesale trade in Treasury bonds operated by BondSpot),
- WSE Energy Market (Daily-Hourly Electricity Market, Electricity Futures Market).

As of Q1 2012, the WSE additionally organises and operates trade on the markets operated by the company Polish Power Exchange (PolPX):

- Energy Markets (Intra-Day Market, Day-Ahead Market, Commodity Derivatives Market, Electricity Auctions),
- Property Rights Market,
- Emission Allowances Market.

In addition, as of Q1 2012, the WSE operates the Clearing House and the Settlement Institution via the company Warsaw Commodity Clearing House (WCCH) and a Register of Certificates of Origin via the company PolPX.

2.13 ***Frankfurt Stock Exchange***

The Frankfurt Stock Exchange (German: Frankfurter Wertpapierbörse, FWB) is the world's 10th largest stock exchange by market capitalization. Located in Frankfurt am Main, Germany, the

Frankfurt Stock Exchange is owned and operated by Deutsche Börse (FWB: DB1), which also owns the European futures exchange Eurex and the clearing company Clearstream.

The Frankfurt Stock Exchange accounts for over 90 percent of the turnover in the German market and a very large share of the European market. In 2010, the Frankfurt Stock Exchange agreed to move to abolish floor trading and completed this transition in May 2011. Today, trading takes place exclusively via the Xetra system, with redundant floor brokers taking on the role of market-makers on the new platform.

The Frankfurt Stock Exchange has more than 250 international trading institutions and more than 4,500 traders. Investors directly connected to the Frankfurt Stock Exchange represent 35% of the world's investment capital.

2.14 *Santiago Stock Exchange*

The Santiago Stock Exchange (SSE) (Spanish: Bolsa de Comercio de Santiago), founded on November 27, 1893, is Chile's dominant stock exchange, and the third largest stock exchange in Latin America, behind Brazil's BM&F Bovespa, and the Bolsa Mexicana de Valores in Mexico.

2.15 *Ethiopian Commodity Exchange*

The Ethiopia Commodity Exchange (ECX) is a commodities exchange established April 2008 in Ethiopia. In Proclamation 2007-551, which created the ECX, its stated objective was "to ensure the development of an efficient modern trading system" that would "protect the rights and benefits of sellers, buyers, intermediaries, and the general public.

2.16 *Bursa Malaysia*

Bursa Malaysia is an exchange holding company approved under Section 15 of the Capital Markets and Services Act 2007. It operates a fully-integrated exchange, offering the complete range of exchange-related services including trading, clearing, settlement and depository services.

The Malayan Stock Exchange was established in 1960 and the public trading of shares commenced. The board system had trading rooms in Singapore and Kuala Lumpur, linked by direct telephone lines.

In 1964, the Stock Exchange of Malaysia was established. With the secession of Singapore from Malaysia in 1965, the Stock Exchange of Malaysia became known as the Stock Exchange of Malaysia and Singapore. In 1973, currency interchangeability between Malaysia and Singapore ceased, and the Stock Exchange of Malaysia and Singapore was divided into the Kuala Lumpur Stock Exchange Berhad and the Stock Exchange of Singapore. The Kuala Lumpur Stock Exchange which was incorporated on December 14, 1976 as a company limited by guarantee, took over the operations of the Kuala Lumpur Stock Exchange Berhad in the same year.

On April 14, 2004, its name was changed to Bursa Malaysia Berhad, following demutualisation, the purpose of which was to enhance its competitive position and to respond to global trends in the exchange sector by making it more customer-driven and market-oriented.

On 18 March 2005, Bursa Malaysia was listed on the Main Board of Bursa Malaysia Securities Berhad.

September 2009 saw Bursa Malaysia Berhad entering into a strategic partnership with Chicago Mercantile Exchange (CME) with the view to improve accessibility to its derivatives offerings globally.

CME holds 25% of the equity stake in Bursa Malaysia Derivatives Berhad, while the remaining 75% interest is held by Bursa Malaysia Berhad.

2.17 South African Futures Exchange (SAFEX)

The Agricultural Markets Division (AMD) was established in January 1995 as a division of the South African Futures Exchange (Safex). AMD quickly established itself as the agricultural market leader with respect to price transparency especially in the maize market in Southern Africa.

The Financial Markets Control Act was enacted in August 1990 and Safex is formally licensed as a derivatives exchange, officially opening on 10 August 1990. The Safex was acquired by the JSE in May 2001.

2.18 Chicago Board of Trade

The Chicago Board of Trade (CBOT), established in 1848, is the world's oldest futures and options exchange. More than 50 different options and futures contracts are traded by over 3,600 CBOT members through open outcry and eTrading. On 12 July 2007, the CBOT merged with the Chicago Mercantile Exchange (CME) to form the CME Group, a CME/Chicago Board of Trade Company. CBOT and three other exchanges (CME, NYMEX, and COMEX) now operate as designated contract markets (DCM) of the CME Group.

2.19 NYSE Liffe

NYSE Euronext's international derivatives business, NYSE Liffe, is Europe's largest exchange by value of business traded, and the second-largest globally. It brings together the five European derivatives markets of Amsterdam, Brussels, Lisbon, London and Paris, supported by our European clearing house, NYSE Liffe Clearing.

2.20 Multi Commodity Exchange of India

The Multi Commodity Exchange of India (MCX) is India's largest derivatives and commodities exchange and presently controls around four fifths of India's rapidly expanding public-trading market for commodity futures. International investors including Fidelity and NYSE Euronext also hold stakes in MCX.

The combined MCX and MCX-SX was ranked as the world's 9th-largest derivatives exchange, moving up from the 12th position in 2009, according to the Futures Industry Association's volume rankings for 2010. The amount of futures and options traded on MCX increased by 180.7 percent from 385 million contracts in 2009 to reach a total volume of over 1.08 billion contracts in 2010, according to the FIA report published in March of 2011. This makes it the fastest growing derivatives exchange on the survey for the year of 2010.

2.21 Ace Derivatives and Commodity Exchange

Ace Derivatives and Commodity Exchange Limited is a screen based online derivatives exchange for commodities in India. Ace Commodity Exchange earlier known as Ahmedabad Commodity Exchange has been in existence for more than 5 decades.

3 COMPARATIVE REVIEW – Equities Exchanges

3.1 NSE vs. Developed and Emerging Market Exchanges

3.1.1 Key Market Indices

The NSE’s market index performance improved significantly in 2012, surpassing all other exchanges reviewed

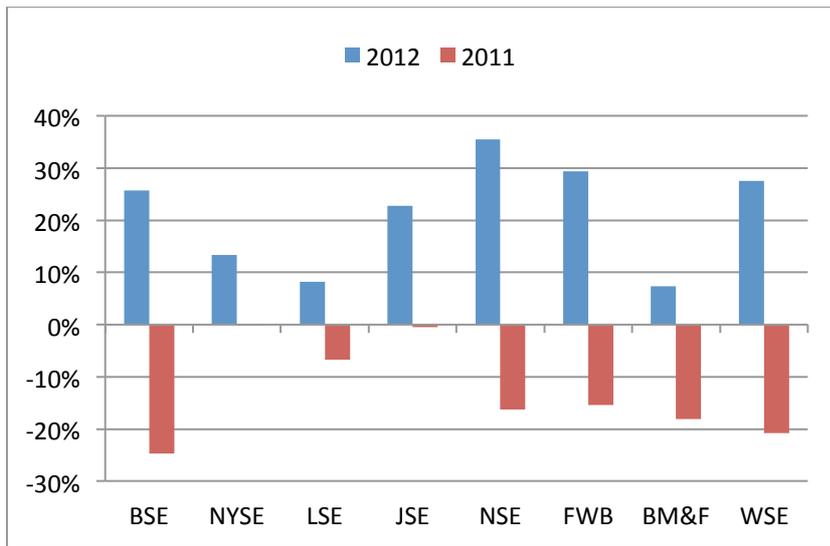


Figure 1: NSE ASI Performance vs. Developed and Emerging Market Exchanges

However, average daily turnover value is understandably low relative to other developed and emerging market exchanges

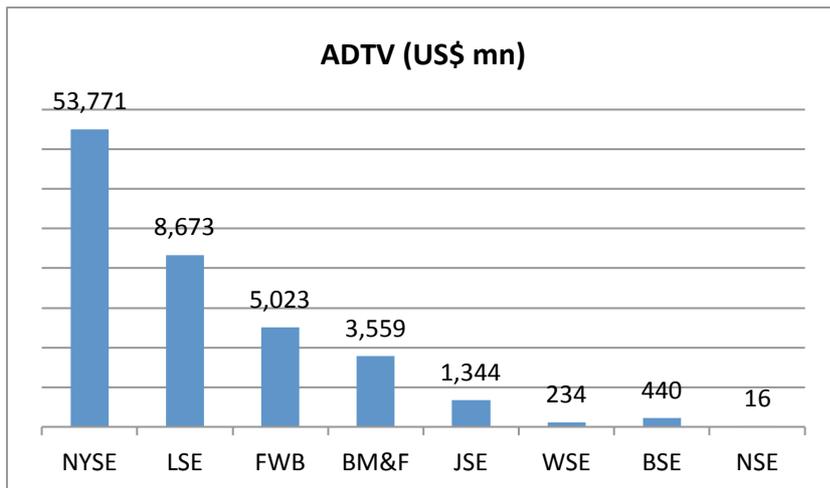


Figure 2: NSE ADTV vs. Developed and Emerging Market Exchanges

Market capitalisation as a percentage of GDP remains relatively low

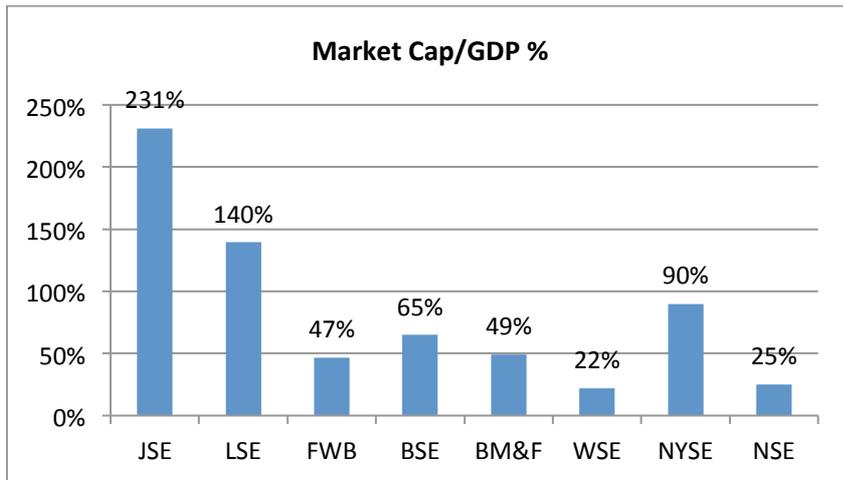


Figure 3: NSE Market Cap to GDP Ratio vs. Developed and Emerging Market Exchanges

As does market capitalisation



Figure 4: NSE Market Capitalisation vs. Developed and Emerging Market Exchanges

Total value traded also quite limited

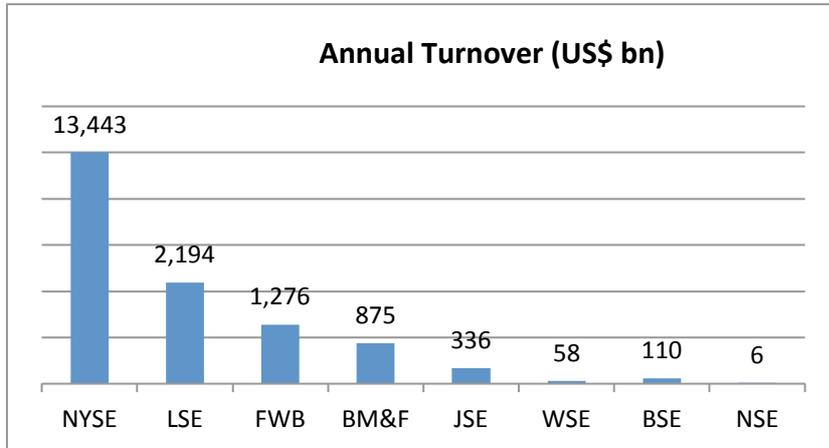


Figure 5: NSE Total Value Traded vs. Developed and Emerging Market Exchanges

Relatively few listed companies

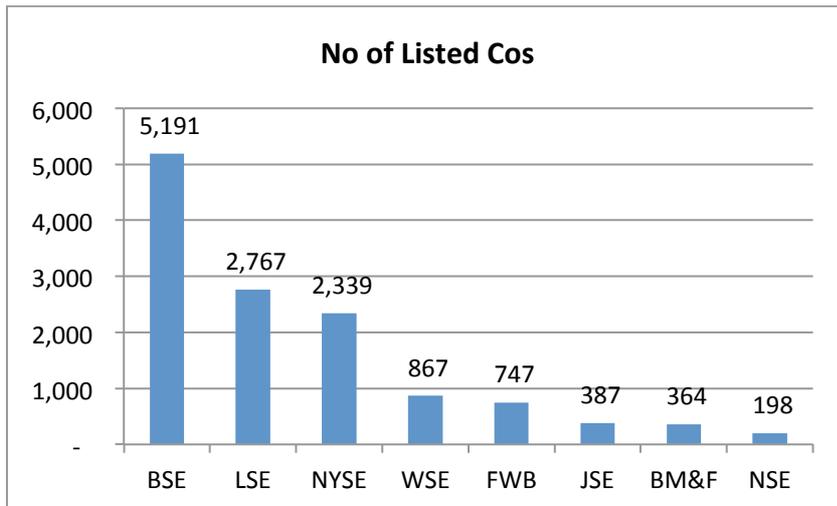


Figure 6: NSE No. of Listed Companies vs. Developed and Emerging Market Exchanges

And few new listings

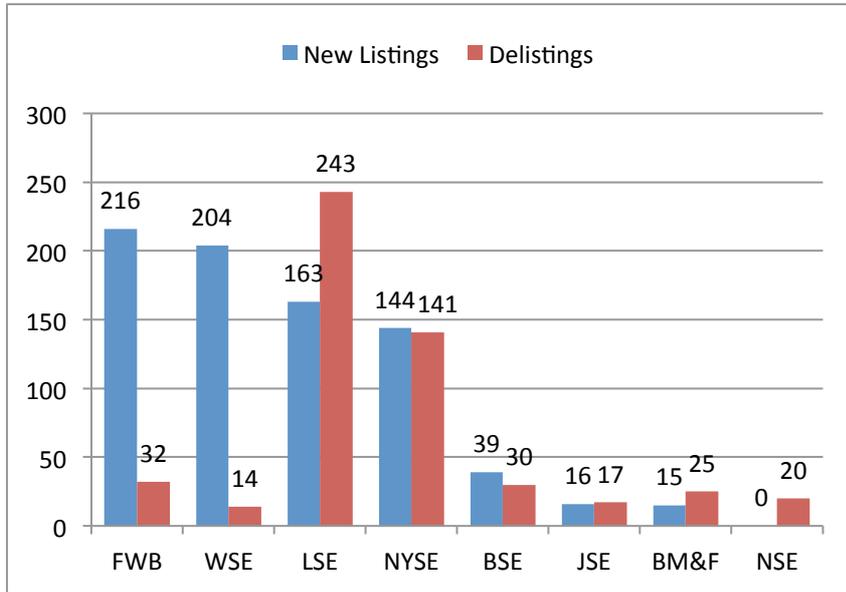


Figure 7: NSE New Listings/De Listings vs. Developed and Emerging Market Exchanges (2011)

Despite having relatively large number of stockbrokers

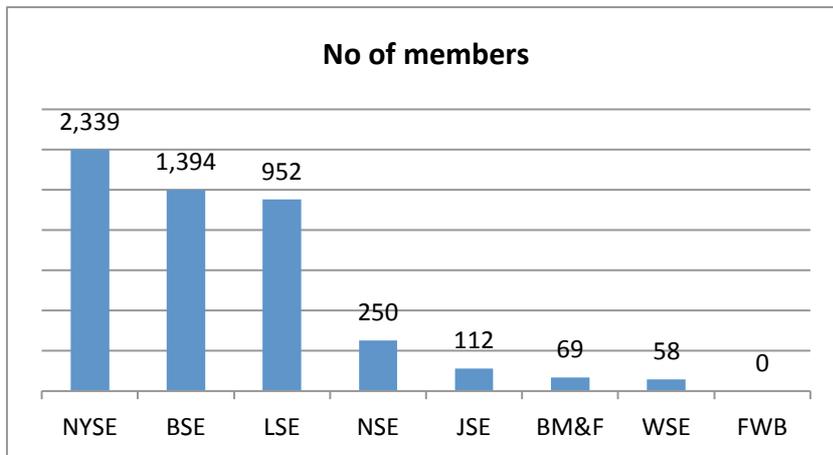


Figure 8: NSE No. of Stockbrokers vs. Developed and Emerging Market Exchanges

And with significantly low turnover per broker

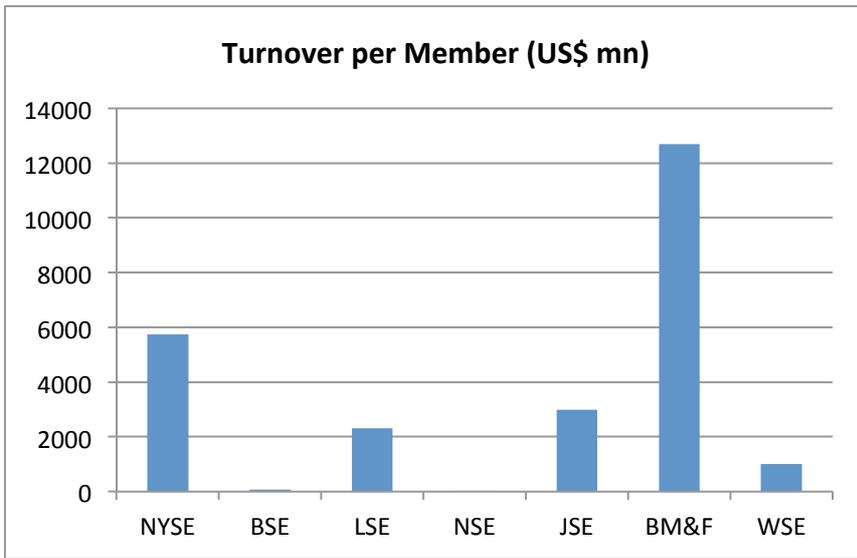


Figure 9: NSE Turnover per Broker vs. Developed and Emerging Market Exchanges

3.1.2 Product Offerings

	NSE	JSE	BSE	LSE	FWB	NYSE	BM&FBOV ESPA	WSE
Equities	✓	✓	✓	✓	✓	✓	✓	✓
Bonds	✓	✓	✓	✓	✓	✓	✓	✓
ETFs	✓	✓	✓	✓	✓	✓	✓	✓
Derivatives	✗	✓	✓	✓	✓	✓	✓	✓
Securities Lending	✓	✓	✓	✓	✓	✓	✓	✓

Table 2: NSE Product Offerings vs. Developed and Emerging Exchanges

3.1.3 Market Structure

	NSE	JSE	BSE	LSE	FWB	NYSE	BM&FB OVESPA	WSE
Market Making	✓	✓	✓	✓	✓	✓	✓	✓
Demutualisation	✗	✓	✓	✓	✓	✓	✓	✓
Trading Hours	09:30am - 14:30pm (Mondays - Fridays) 5 hours	09.00am - 05.00pm (Mondays - Fridays) 8 hours	9.15am - 3.30pm (Mondays - Fridays) 6.25 hours	08:00am - 4:30pm (Monday - Friday) 8,5 hours	09:00am - 5: 30 pm (Monday - Friday) 8,5 hours	9:30am - 4:00pm (Mondays - Fridays) 7,5 hours	10:00am - 5:00pm (Monday - Friday) 7 hours	08:30 am – 5: 35 pm (Monday - Friday) 9 hours
Settlement Cycle (Equities)	T+3	T+5	T+2	T+3	T+2	T+1	T+3	T+3
Electronic Settlement	✓	✓	✓	✓	✓	✓	✓	✓

Table 3: NSE Market Structure vs. Developed and Emerging Exchanges

3.1.4 Key Findings

- As can be expected, market capitalisation, ADTV and annual turnover of the NSE remains low relative to emerging and other developed market exchanges
- Relative importance of the NSE to the Nigerian economy is low (market capitalisation as a percentage of GDP). However, this demonstrates enormous growth potential of the NSE
- Market performance was impressive, coming on the back of structural reforms by the NSE – a trend that continues to date
- Relatively high number of market participants considering number of listed companies and turnover. In view of the mismatch between annual turnover and number of brokers, it is

debatable whether on average, brokers on the NSE can generate enough commission income to sustain viable securities trading businesses.

- There is currently no overlap between the Nigerian Stock Exchange and the US and some other foreign markets due to the short trading hours
- This limits access to major institutional investors as trades have to be posted a day before to trade on the Nigerian exchange. Though the exchange has increased the trading window to 5 hours from the earlier 2.5 hours, the NSE should still consider increasing the trading hours to overlap with the US and other foreign markets
- Product offerings and market structure compares favourably. However, current efforts to stimulate exchange trading of fixed income securities should continue and there should be a gradual introduction of synthetic instruments and derivatives
- New listings were low and delistings relatively high – this is to be expected considering the NSEs drive to sanitise the exchange
- Demutualisation is a critical structural transition that the NSE must accomplish in the short term

3.2 NSE vs. Frontier Market Exchanges

3.2.1 Key Market Indices

The NSE’s market performed very well relative to other frontier market exchanges

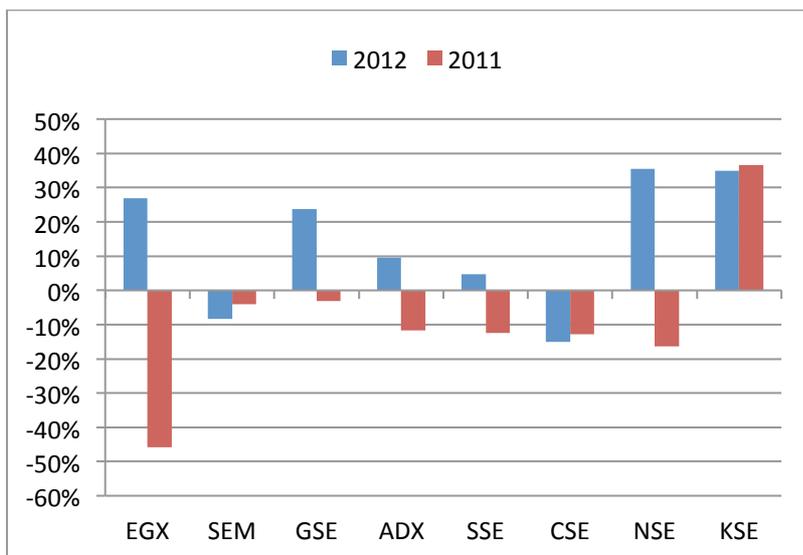


Figure 10: NSE ASI Performance vs. Frontier Market Exchanges

However, average daily turnover value is relatively low

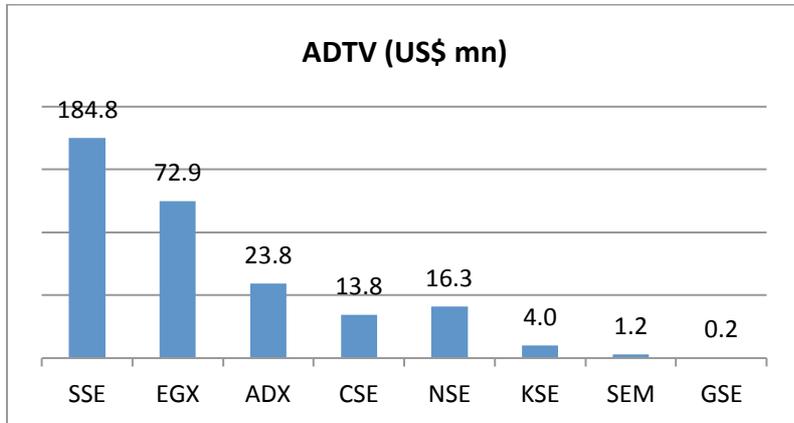


Figure 11: NSE ADTV vs. Frontier Market Exchanges

Market capitalisation as a percentage of GDP remains low

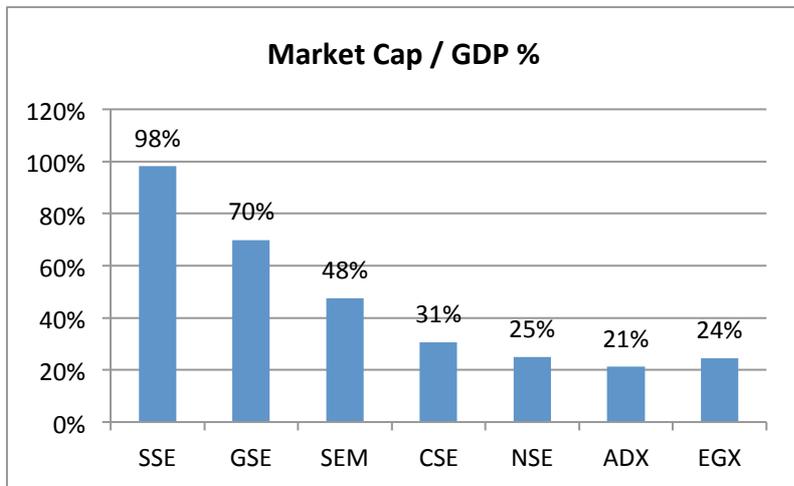


Figure 12: NSE Market Cap to GDP Ratio vs. Frontier Market Exchanges

This is so despite a relatively high market capitalisation



Figure 13: NSE Market Capitalisation vs. Frontier Market Exchanges

And relatively high number of listed companies

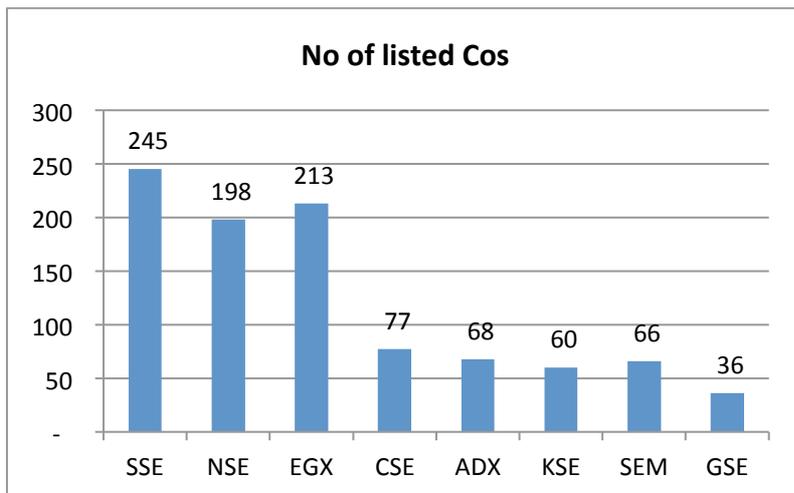


Figure 14: NSE No. of Listed Companies vs. Frontier Market Exchanges

But total value traded is relatively low

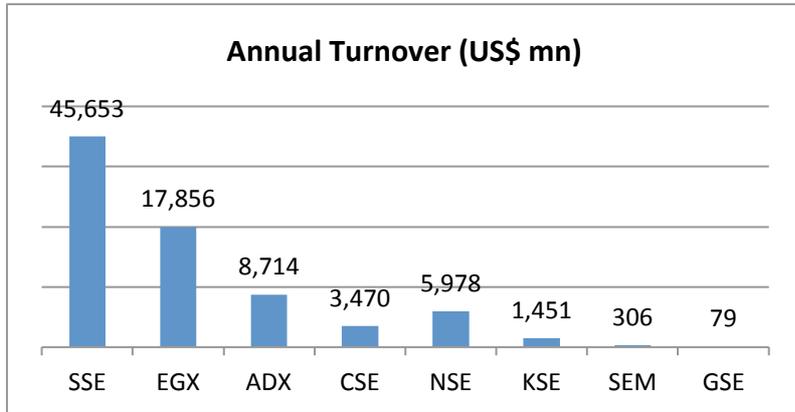


Figure 15: NSE Total Value Traded vs. Frontier Market Exchanges

Delistings far outweighed new listings (which is understandable considering the NSE’s clean up exercise)

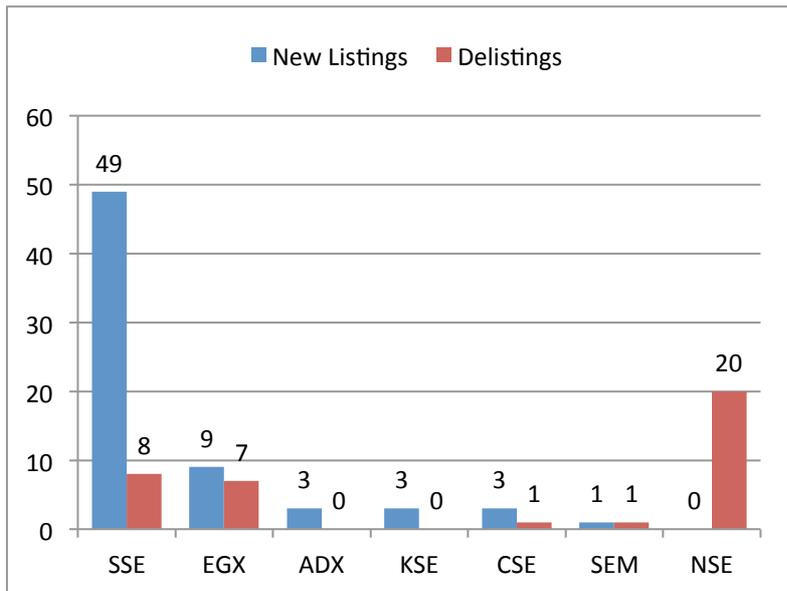


Figure 16: NSE New Listings/De Listings vs. Frontier Market Exchanges (2011)

Despite having relatively large number of stockbrokers

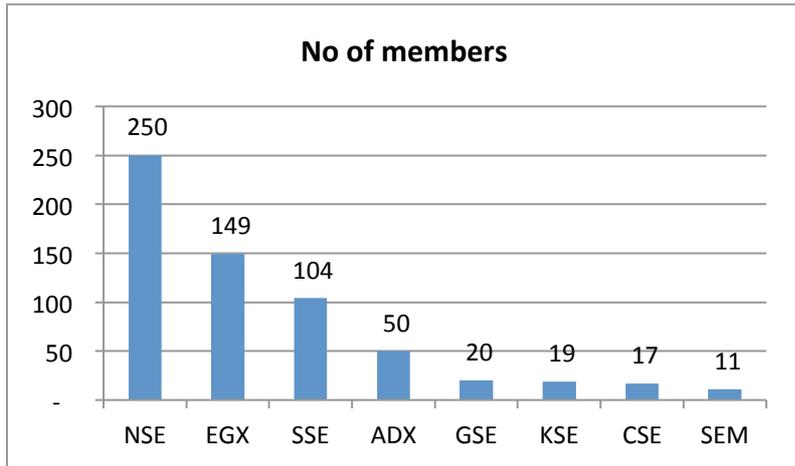


Figure 17: NSE No. of Stockbrokers vs. Frontier Market Exchanges

And having relatively low turnover per broker

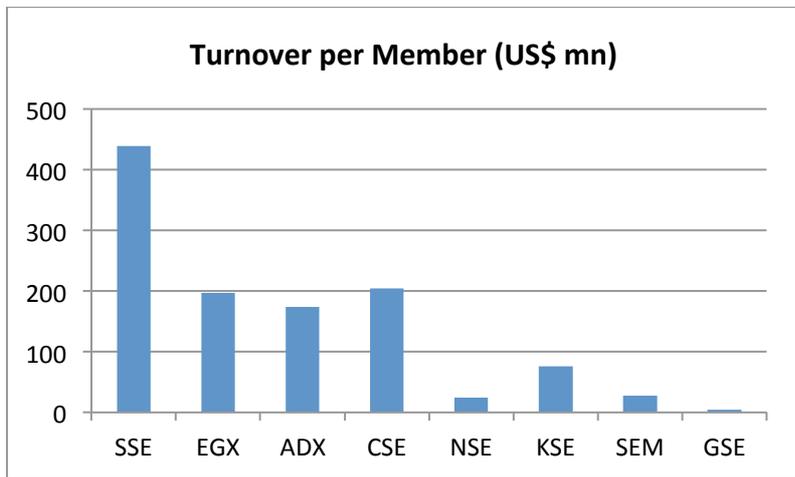


Figure 18: NSE Turnover per Broker vs. Frontier Market Exchanges

3.2.2 Product Offerings

	NSE	SSE	CSE	ADX	GSE	KSE	EGX	SEM
Equities	✓	✓	✓	✓	✓	✓	✓	✓
Bonds	✓	✓	✓	✓	✓	✓	✓	✓
ETFs	✓	✓	✗	✓	✗	✗	✓	✗
Derivatives	✗	✓	✗	✗	✗	✗	✓	✗
Securities Lending	✓	✓	✗	✗	✗	✗	✗	✗
Short Selling	✓	✓	✗	✗	✗	✗	✗	✗

Table 4: NSE Product Offerings vs. Frontier Exchanges

3.2.3 Market Structure

	NSE	SSE	CSE	ADX	GSE	KSE	EGX	SEM
Market Making	✓	✓	✓	✓	✗	✗	✓	✓
Demutualisation	✗	✓	✗	✗	✗	✗	✓	✓
Trading Hours	09:30am - 14:30pm (Mondays - Fridays) 5 hours	09.30am - 04.30pm (5.30pm in summer) (Mondays - Fridays) 7/8 hours	9.00 am - 3.35pm (Mondays - Fridays) 6.5 hours	10:00am - 2:00pm (Saturday - Wednesday) 4 hours	10:00am - 3:00 pm (Monday - Friday) 5 hours	9:00am - 3:00pm (Mondays - Fridays) 6 hours	10:00am - 5:00pm (Sunday - Thursday) 7 hours	09:00 am - 1:30 pm (Monday - Friday) 4.5 hours
Settlement Cycle (Equities)	T+3	T+2	T+3	T+2	T+3	T+3	T+2	T+3
Electronic Settlement	✓	✓	✓	✓	✓	✓	✓	✓

Table 5: NSE Market Structure vs. Frontier Exchanges

3.2.4 Key Findings

- Market performance on the NSE was very impressive compared to other frontier markets
- Market capitalisation is quite high, however, liquidity remains a concern as total value traded on the NSE was relatively low, especially considering the high market capitalisation
- Relative importance of the NSE to the Nigerian economy remains low (market capitalisation as a percentage of GDP) even in comparison to frontier markets. However, this could be a function of the relatively small GDPs of the frontier markets surveyed
- High number of market participants considering number of listed companies and turnover. In view of the mismatch between annual turnover and number of brokers, it is debatable

whether on average, brokers on the NSE can generate enough commission income to sustain viable securities trading businesses.

- Trading hours on the NSE are generally in line with our observations of frontier markets. However, there is currently no overlap between the Nigerian Stock Exchange and the US and some other foreign markets due to the short trading hours
- This limits access to major institutional investors as trades have to be posted a day before to trade on the Nigerian exchange. Though the exchange has increased the trading window to 5 hours from the earlier 2.5 hours the NSE should consider increasing the trading hours to overlap with the US and other foreign markets
- NSE scores very creditably in terms of product offerings relative to frontier market exchanges. However, (as indicated before) current efforts to stimulate exchange trading of fixed income securities should continue and there should be a gradual introduction of synthetic instruments and derivatives
- New listings were low and delistings relatively high – this is to be expected considering the NSEs drive to sanitise the exchange
- Demutualisation is a critical structural transition that the NSE must accomplish in the short term. A number of frontier markets are already demutualised

3.3 ***Comments/Recommendations***

3.3.1 Demutualisation of the NSE

The vast majority of the exchanges (and virtually all the emerging market exchanges) surveyed have all adopted a demutualised corporate structure. The gains of demutualisation cannot be over-emphasised. The adoption of a demutualised structure by a securities exchange has the potential to fast-track its development. Access to investment, technology, and strategic relationships, as well as improved governance and competitiveness are some of the numerous advantages of demutualisation. In the context of increased globalization of securities markets and increased competitive tensions, demutualisation can set a stock exchange well on the path to rapid and sustained development.

Accordingly, the demutualisation efforts should be intensified and the NSE should define a clear path towards achieving a demutualised structure. While it is acknowledged that the SEC is yet to formulate a framework for the demutualisation of the NSE, it is imperative for the NSE to being the corporate reorganisation steps that will convert the NSE from a mutual entity to a limited liability entity. Any further action required to comply with any eventual SEC guidelines can be taken in due course.

3.3.2 New Listings/Products

The on-going measures to achieve new listings/products should be intensified. The new listing rules of the NSE are a welcome step in the right direction. Likewise, the promulgation of rules governing securities lending and short selling are welcome. However, the NSE should put

pressure on market participants (specifically, AMCON and other securities lenders) to ensure commencement of actual securities lending.

The NSE should ensure that market cap to GDP ratio improves significantly via listing of companies that operate in the key sectors of economic activities not yet represented on the NSE. The SEC can encourage this by streamlining the process for registration of new issuances. For example, exemption from registration should be created for institutional private placements.

On-going initiatives to encourage fixed income trading on the NSE should be intensified. The Sub-Committee welcomes the appointment of market makers for fixed income products.

The NSE and the SEC should encourage listing of more ETFs via favourable regulation and listing requirements

3.3.3 Market Structure

- Efficient markets thrive on information disclosure. The disclosure regime on the NSE should be revisited to provide clear guidance to listed companies on matters that need to be disclosed to the general public and the timing of those disclosures. The NSE draft rules on disclosure (sent to the SEC for review) should be speedily promulgated and enforced rigorously.
- Transaction costs on the NSE should be reduced. In this light, the NSE and the SEC should push for the implementation on the new guidelines removing eliminating VAT and stamp duties from exchange transactions.
- Efforts must be intensified to improve Liquidity of the market and ADTV and also then presence of domestic institutional/retail investor. It should be noted that the NSE has created a Business Division comprising of Listings, Sales and Retention Department. This Division coordinates the Advocacy Policy of The Exchange with the objective of influencing favourable Government policies towards capital market issues as well as attracting quotable companies to The Exchange.
- Longer trading hours should be explored to bring trading on the NSE in line with the US markets
- The NSE should consider strategic/technical partnerships with other developed exchanges with a view to improving operational efficiency, enhancing market regulation and increasing the suite of tradable products on the NSE.

3.3.4 Monitoring/Surveillance

- The NSE should intensify its market abuse/insider trading surveillance regime to complement the SEC's efforts. This will engender market integrity.
- An effective monitoring and surveillance tool should be deployed
- The NSE should "name and shame" defaulting brokers and other persons to act as a deterrent

4 COMPARATIVE REVIEW – Commodity, Options and Futures Exchanges

4.1 Introduction

Commodity exchanges are defined in varying ways. In its most restricted sense, they are defined as centres where futures trade is organized - this is the sense in which the word normally is understood in developed countries. In a somewhat wider sense, it is taken to include any organized market place where trade (that is, transactions, not necessarily also the physical commodities) is centralized, that is, funnelled through one mechanism, allowing effective competition among buyers and among sellers. (UNCTAD, 2012).

Commodities exchanges can concentrate on the trade in futures and options contracts, as do most of the exchanges in western countries; or they could primarily function as centres for facilitating physical trade (for instance, some of the African commodities exchanges) - in both cases, they draw their primary strength from their capacity to act as a focal point for trade transactions, and to increase the security of these transactions.

Well-organized commodity exchanges form natural reference points for physical trade, and in this way, they help the price discovery process. If a commodity exchange manages to link different warehouses in the country, this allows trade to take place more efficiently.

Commodity exchanges serve a variety of functions related to financing, risk management and marketing. These functions include:

- **Managing price risk.** By offering forward or futures contracts, commodities exchanges can help to manage this risk through forward contracts and derivatives (futures, options).
- **Reducing counterparty risk.** Using “vetting” mechanisms and through financial guarantees, exchanges can reduce or even entirely remove the risks that one faces when dealing with unknown counterparties.
- **Enhancing price transparency.** Commodities exchanges allow the “discovery” of prices, thus reducing the risks of trade and improving the bargaining power of those parties who would normally lose out in a situation of asymmetric information (e.g. farmers).
- **Reducing risks related to collateral value.** Because of greater price transparency and because of the possibility to sell, if necessary, through the exchange mechanism commodities obtained from a defaulting borrower, financiers can be more confident about the value of the commodities that they finance. This leads to improved funding conditions.
- **Certifying quality of commodities.** Commodities exchanges set and enforce quality standards for the commodities traded through their platform.
- **Providing direct access to capital markets through repos:** commodities exchanges can provide an effective access to the national capital markets through the use of repo schemes guaranteed by their clearing systems. This also leads to higher integrity between the domestic financial and commodity sectors. (World Bank, FAO, 2011)

Commodities derivatives trading have seen a steady increase in volumes in recent years (albeit with a slight decrease in 2011 as a result of significant reduction in trading volumes in China). When the figures from mainland Chinese exchanges are excluded, the 2011 growth rate increased to +24%.

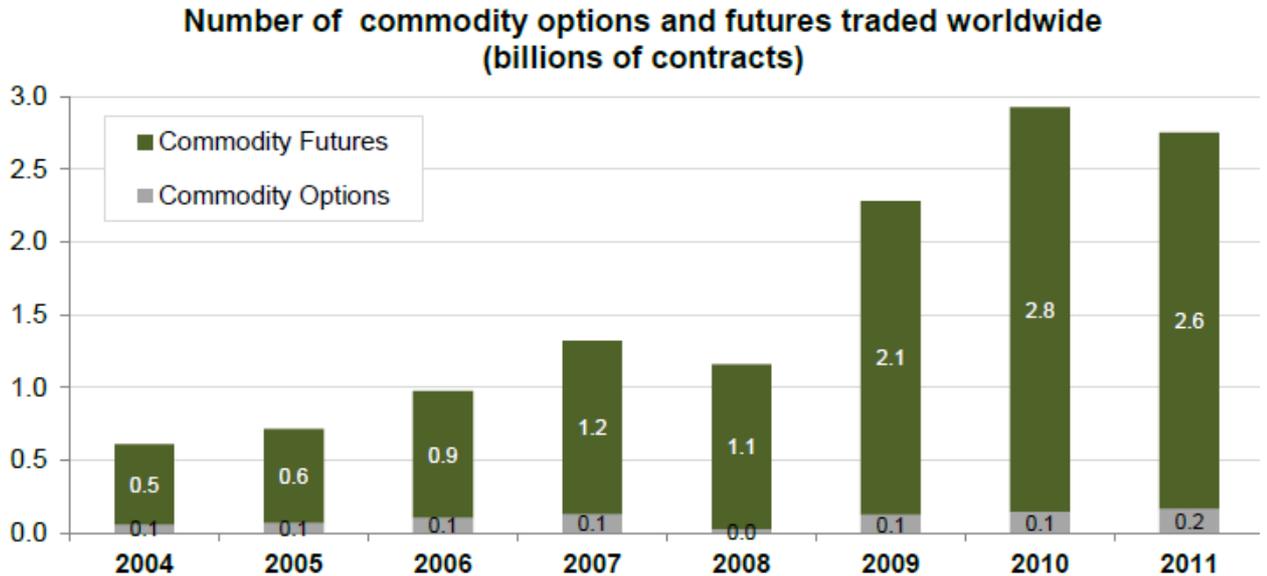


Figure 19: No. of Commodity Options and Futures Traded Worldwide

(Source: WFE/IOMA Derivatives Market Survey 2011 – April 2012)

The CME Group continues to dominate commodities trading in terms of volumes

Top 10 exchanges by number of commodity derivatives contracts traded in 2011

Exchange	Millions of contracts traded		%	Notional Value (bn USD)		%
	2011	2010		change	2011	
1 CME Group (1)	819	730	+12%	62 273	45 033	+38%
2 Zhengzhou Commodity Exchange	406	496	-18%	NA	NA	-
3 Multi Commodity Exchange of India	346	197	+76%	NA	1 905	-
4 Shanghai Futures Exchange	308	622	-50%	6 738	9 134	-26%
5 Dalian Commodity Exchange	289	403	-28%	2 617	3 085	-15%
6 ICE Futures Europe	261	211	+24%	NA	NA	-
7 London Metal Exchange	146	120	+22%	NA	NA	-
8 ICE Futures U.S.	54	59	-10%	NA	NA	-
9 RTS	37	18	+106%	58	18	+211%
10 Tokyo Commodity Exchange (TOCOM)	32	28	+15%	1 211	808	+50%
Others	52	42	+26%	NA	NA	-
	2 751	2 926	-6%	NA	NA	-

Figure 20: Top 10 Commodity Exchanges by Number of Contracts Traded

(Source: WFE/IOMA Derivatives Market Survey 2011 – April 2012)

However, the Asian commodities exchanges witnessed a remarkable upsurge in volumes in 2011 and continue to dominate global trading activity.

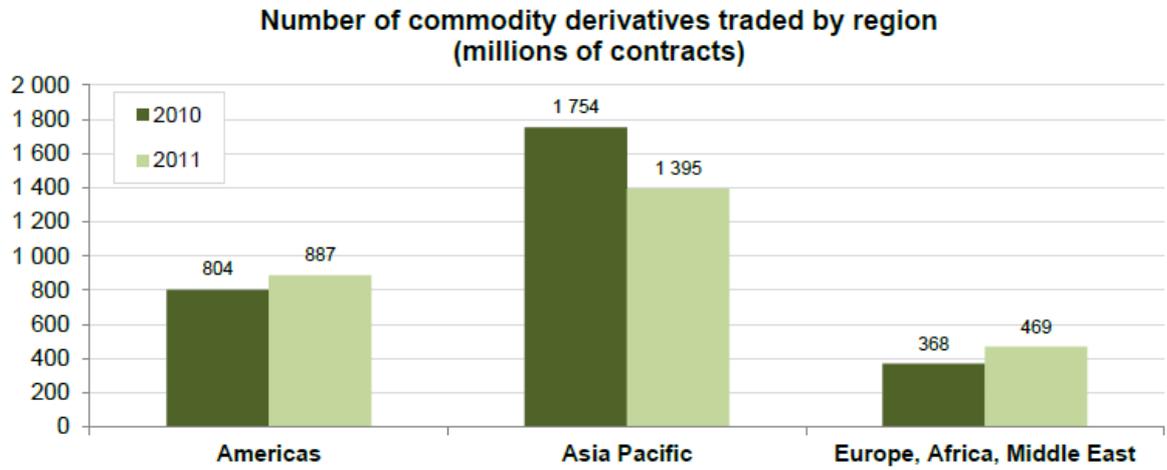


Figure 21: No of commodity derivatives traded by region

(Source: WFE/IOMA Derivatives Market Survey 2011 – April 2012)

2011/2010 change in number of commodity derivatives traded

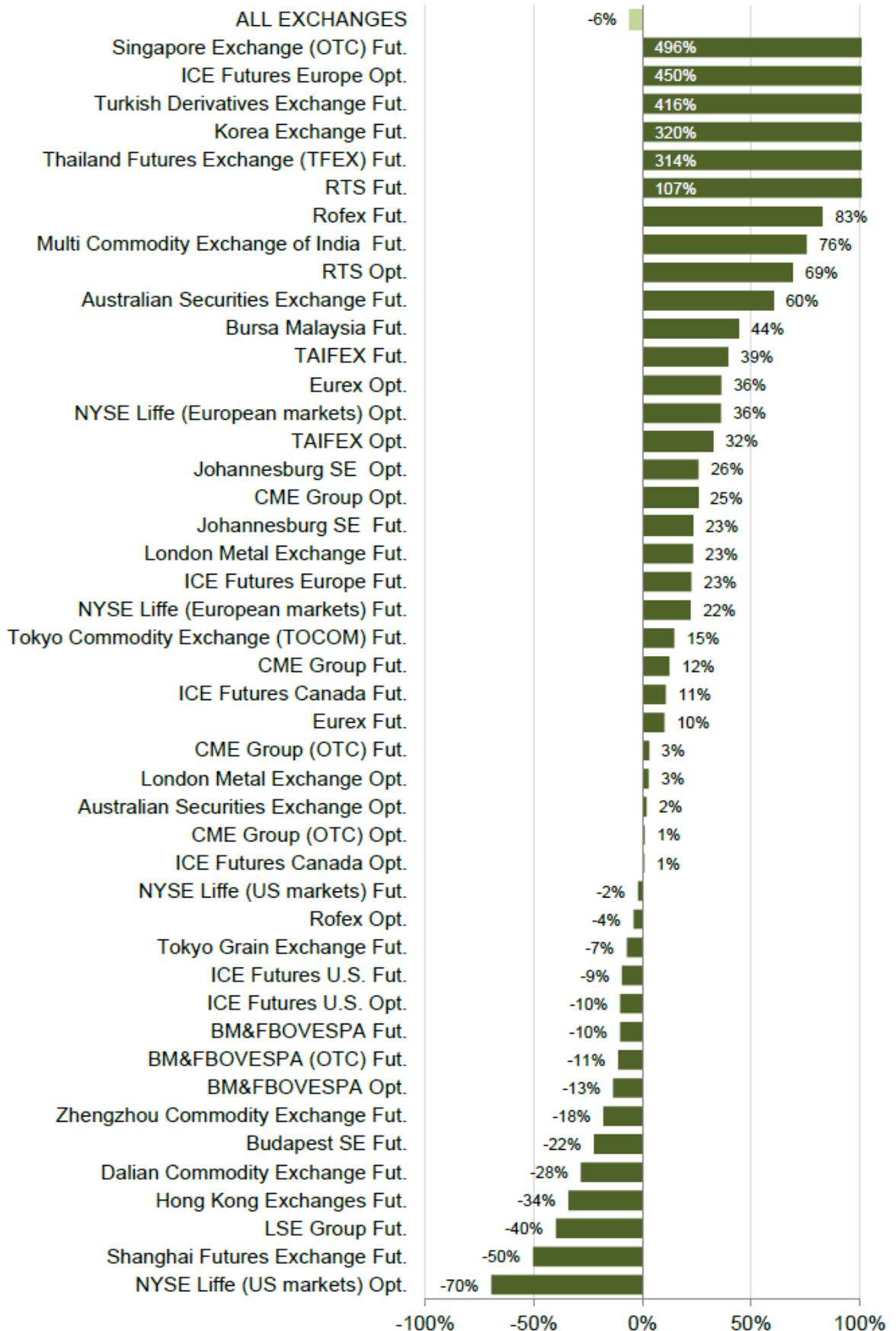


Figure 22: % Change in Number of Commodity Contracts Traded 2010/2011

(Source: WFE/IOMA Derivatives Market Survey 2011 – April 2012)

The present survey focuses on the under-listed commodities exchanges, covering developed, emerging and frontier markets:

- i. Ethiopian Commodity Exchange
- ii. South African Futures Exchange (SAFEX)
- iii. Brazilian Mercantile and Futures Exchange (BMF&BOVESPA)
- iv. Chicago Board of Trade
- v. NYSE Liffe
- vi. Bursa Malaysia
- vii. Ace Derivatives and Commodity Exchange

4.2 **Structure**

4.2.1 **Ethiopian Commodity Exchange**

Corporate Structure

ECX is established as a demutualized corporate entity with clear separation of ownership, membership, and management. Thus, owners cannot have trading stake, members cannot have ownership stake, and the management can be neither drawn from the owners nor from the members.

ECX is designed as a public-private partnership enterprise, in a unique institutional innovation for Ethiopia. At its inception, ECX was promoted by the Government of Ethiopia. At the same time, ECX offers the sale of Membership seats, which are privately owned, permanently and freely transferable rights to the stream of earnings from trading on the Exchange.

As Owner, the Government of Ethiopia underwrites all performance risk of the Exchange related to the Exchange operated or appointed warehousing and grading of product, trading system, market information dissemination, and clearing and settlement. Members, for their part, are liable for contract performance on their own trades as well as of their Associates and Authorized Representatives.

ECX membership is made up of an even mix of cooperative unions, industrial processing enterprises, commercial farmers, private exporters, and domestic trading -firms engaged in the agricultural commodity business.

Other Features

- **Trading is on the basis of warehouse receipts** issued by ECX operated warehouses guaranteeing integrity of the products.
- **Standardized ECX commodity-based contracts** are provided which specify grade, delivery location, lot size, and other contract terms. The contracts will be either for immediate delivery or at a pre-specified date in the future.

- **A physical trading floor** located in Addis Ababa, where buyers and sellers participate in “open outcry” bidding for commodities, with electronic remote access to the trading system.
- **Electronic price tickers** in rural areas, where constantly changing market prices are communicated.
- **An internal system for clearing and settlement of contracts** which guarantees payment against delivery in collaboration with partner banks.
- **An arbitration tribunal with licensed arbitrators** to assure the speedy and professional resolution of any commercial disputes that may arise. Additionally, ECX maintains a system of market surveillance where experts monitor the behaviour of market actors to protect the market from manipulation, excessive speculation, fraud, or other malpractice.

Commodities Traded: Maize, Wheat, Pea Beans, and Coffee.

- **Trading Days:** Monday - Friday
- **Trading hours:** 8:00 AM to 6:00 PM

4.2.2 SAFEX Commodity Derivatives Market

Corporate Structure

The SAFEX Commodity Derivatives Market provides a platform for price discovery and efficient price risk management for the grains market in South and Southern Africa. More recently, the division also offers derivatives on precious metals and crude oil.

The SAFEX Commodity Derivatives Market is a division of the JSE managed by the JSE and regulated by the Financial Services Board (FSB) which oversees the exchange’s reporting with regards to the Security Services Act of 2004 (SSA) which replaced the Financial Markets Control Act of 1989 and the Stock Exchange Control Act of 1985.

Other Features

Registered agricultural derivative brokers input orders into the ATS from remote locations (during trading hours (09h00 – 12h00) which are automatically matched on the basis of time and price priority. The exchange guarantees performance by counterparties in a futures contract.

Agricultural derivative prices are quoted at their Rand value per ton, delivered on truck alongside silo basis Randfontein. One futures contract comprises 100 tons for white and yellow maize and 50 tons for wheat and sunflower seeds. Soybean contracts are quoted at their Rand value per ton, and comprise 25 tons per contract. The soybean contract trades at the same basis price in a number of registered silos with no location differentials.

Daily price limits, limiting the daily movement of prices, add security to the market. If the limit is reached on two like contracts on two consecutive days the price limits are increased to 150% of the original limit and the extended limits will remain in place until the daily movement on all like contracts is less than the original limits. Extended price limits also result in increased initial margin requirements for those periods when the extended limits apply

Commodities/Products Traded:

Maize Futures Contract (White & Yellow Maize)
Wheat Futures Contract
Sunflower Seeds Futures Contract
Soybean Futures Contract

Trading Days: Monday - Friday
Trading hours: 9.00am – 12 noon
Number of Members: 59

4.2.3 **Bursa Malaysia**

Corporate Structure

Bursa Malaysia Derivatives Berhad (BMD), formerly known as Malaysia Derivatives Exchange Berhad (MDEX), is a 75% owned subsidiary of Bursa Malaysia Berhad which provides, operates and maintains a futures and options exchange. BMD operates the most liquid and successful crude palm oil futures (FCPO) contract in the world.

It operates under the supervision of the Securities Commission and is governed by the Capital Market and Services Act 2007. BMD also falls under the jurisdiction of the Ministry of Finance of Malaysia, thus offering investors the security of trading on a regulated Exchange with infrastructure and regulations comparable to that of established markets worldwide.

On September 17, 2009, Bursa Malaysia Berhad entered into a strategic partnership with Chicago Mercantile Exchange (CME) with the view to improve accessibility to its derivatives offerings globally. This includes licensing of the settlement prices of the FCPO to position Malaysia as the global price benchmark for the commodity as well as global distribution of Bursa Malaysia's products through the Globex electronic trading platform. CME now holds 25% of the equity stake in Bursa Malaysia Derivatives Berhad, while the remaining 75% interest is held by Bursa Malaysia Berhad.

Commodities Traded:

Crude Palm Oil Futures
Crude Palm Kernel Oil Futures
USD Crude Palm Oil Futures
Options on Crude Palm Oil Futures

• **Trading Days:** Monday - Friday
• **Trading hours:** First trading session: Malaysian time 10:30 a.m. to 12:30 p.m.
Second trading session: Malaysian time 3:00 p.m. to 6:00 p.m.

Number of Members: 20

4.2.4 **Chicago Board of Trade/CME Group**

Corporate Structure

The Chicago Board of Trade (CBOT) was established in 1848, initially trading only agricultural commodities such as corn, wheat, oats and soybeans. Futures contracts at the exchange

evolved over the years to include non-storable agricultural commodities, non-agricultural products and financial instruments; including but not limited to, U.S. Treasury bonds and notes, 30-Day Federal Funds, stock indexes, and swaps. Among other important exchange dates, options on futures were introduced in 1982, 100 percent electronic Gold and Silver futures contracts were added in 2001, and most recently, South American Soybean futures and Ethanol futures were introduced in 2005.

The Chicago Board of Trade (CBOT) grew to more than 3,600 members/stockholders trading 50 different futures and options products via open outcry and electronic trading. Volume at the exchange in 2006 surpassed 805 million contracts, the highest yearly total recorded in its history.

CBOT is currently operated by the CME Group which is the entity formed by the July 2007 merger of the Chicago Mercantile Exchange (CME) and the CBOT. The combined entity provides access to all major asset classes by offering futures and options based on interest rates, equity indexes, foreign exchange, commodities, energies, and alternative investment products such as weather and real estate.

CME Group still dominates the scene for commodity derivatives and increased its volumes of contracts traded by 12% in 2012 (and its notional value by 38% following the increase of commodity prices). The group is present with important volumes on all the segments (Agricultural, Energy and Metal) via its various trading platforms: CME, CBOT and NYMEX.

Agricultural Commodities/Products Traded:

- Black Sea Wheat
- Corn Futures
- Corn Options
- Corn Short-Dated New Crop Options
- Corn Weekly Options
- Corn Calendar Swaps
- Corn CSO - Consecutive
- Corn CSO - Dec-Dec
- Corn CSO - Dec-July
- Corn CSO - July-Dec
- DAP FOB NOLA Swaps
- DAP FOB Tampa Swaps
- Distillers Dried Grain
- Dow Jones-UBS Commodity Index
- Dow Jones-UBS CI ER Index 3 Month Forward Swaps
- Dow Jones-UBS Commodity Index Swap - Cleared OTC
- MGEX-CBOT Wheat Spread
- Mini-sized Corn
- Mini-sized Soybean
- Mini-sized Wheat
- Oats Futures
- Oats Options
- Rough Rice Futures

- Rough Rice Options
- Soybeans Futures
- Soybeans American Options
- Soybeans Short-Dated New Crop Options
- Soybeans Weekly Options
- Soybean Calendar Swaps
- Soybean CSO - Jan-May
- Soybean CSO - May-Nov
- Soybean CSO - July-Nov
- Soybean CSO - Aug-Nov
- Soybean CSO - Nov-July
- Soybean CSO - Nov-Nov
- Soybean CSO - Consecutive
- Soybean Crush Futures
- Soybean Crush Options
- Soybean Meal Futures
- Soybean Meal American Options
- Soybean Meal Weekly Options
- Soybean Meal CSO - July-Dec
- Soybean Meal CSO - Consecutive
- Soybean Oil Futures
- Soybean Oil American Options
- Soybean Oil Weekly Options
- Soybean Oil CSO - July-Dec
- Soybean Oil CSO - Consecutive
- Synthetic Soybean - Corn Price Ratio Futures
- Synthetic Soybean - Corn Price Ratio Options
- UAN FOB NOLA Swaps
- Urea FOB Egypt Swaps
- Urea FOB US Gulf Coast Swaps
- Urea FOB Yuzhny Swaps
- Wheat Futures
- Wheat American Options
- Wheat Weekly Options
- Wheat Calendar Swaps
- Wheat CSO - July-Dec
- Wheat CSO - July-July
- Wheat CSO - Dec-July
- Wheat CSO - Dec-Dec
- Wheat CSO - Consecutive
- Wheat - Corn Intercommodity Spread

Trading Days: Monday - Friday

Trading hours: 7.00am – 4pm²
Number of Members: over 3,600

4.2.5 Multi Commodity Exchange of India

Multi Commodity Exchange of India Ltd (MCX) is a state-of-the-art electronic commodity futures exchange. The demutualised Exchange has permanent recognition from the Government of India to facilitate online trading, and clearing and settlement operations for commodity futures across the country.

Having started operations in November 2003, today, MCX holds a market share of over 85%* (as on March 31, 2012 MCX had a market share of 86%) of the Indian commodity futures market. The Exchange has more than 2,170 registered members operating through over 3,46,000 including CTCL trading terminals spread over 1,577 cities and towns across India. MCX was the third largest commodity futures exchange in the world, in terms of the number of contracts traded in CY2011

MCX offers more than 40 commodities across various segments such as bullion, ferrous and non-ferrous metals, energy, and a number of agri-commodities on its platform. The Exchange introduces standardised commodity futures contracts on its platform.

MCX has forged strategic alliances with various national and international trade bodies / associations / organisations, which we believe enables us to grow our business and expand our market presence. Among international alliances, we have formed strategic alliances with a number of exchanges such as the London Metal Exchange, the New York Mercantile Exchange, the LIFFE Administration and Management (under renewal), the Baltic Exchange Limited, Shanghai Futures Exchange and Taiwan Futures Exchange.

Agricultural Commodities/Products Traded:

- Crude Palm Oil
- KapasiaKhalli
- Refined Soya Oil
- Soya Bean
- Barley
- Wheat
- Maize feed
- Kapas
- Cotton
- Almond
- Guar Seed
- Melted Menthol Flakes
- Mentha Oil
- Potato (Agra)
- Potato (Tarkeshwar)
- Sugar M

² Electronic trading on the CME Globex® platform is available virtually around the clock, from Sunday evening through late Friday afternoon

- Cardamom
- Coriander
- Chana

Trading Days: Monday - Saturday

Trading hours:

Monday through Friday: 10:00 a.m. to 11:30 p.m. (up to 11:55 p.m. on account of day light savings typically between every November and March of the following year)

Saturdays: 10:00 a.m. to 2:00 p.m. Agri-commodities are available for futures trading up to 5:00 p.m. whereas non agri-commodities (bullions, metals, energy products) are available up to 11:30 pm / 11.55pm.

Number of Members: Over 2,170

4.2.6 Ace Derivatives and Commodity Exchange

Ace Derivatives and Commodity Exchange, was launched on October 26, 2010. The exchange opened, offering contracts on soybeans, soy oil, rape mustard seed, castor seed and chickpeas with plans to offer other contracts such as energies, metals and spices. ACE's launch was the first time a regional Indian market was upgraded to a national market.

The all-electronic market is 51 percent owned by Kotak Mahindra Group, an Indian banking and financial services firm. Other investors include The Haryana State Cooperative Supply & Marketing Federation Ltd. (HAFED), a state cooperative service and marketing organization. Other investors include: Bank of Baroda, Corporation Bank and Union Bank. The exchange opened with 230 registered members and now has over 470 members.

Commodities/Products Traded:

Castor Oil
Mustard Seed
RBD Palmolein
Refined Soy Oil
Soybean
Soybean Meal
Chana
Guar Seed
Guar Gum
Sugar
Cotton

Trading Days: Monday - Saturday

Trading hours: 10.00am – 5 pm (Mondays – Fridays);
10.00am – 2.00pm (Saturdays)

Number of Members: 474

4.2.7 NYSE Liffe

NYSE Liffe has experienced unprecedented growth in its portfolio of commodity futures contracts in recent years in response to market needs. Our commodity contracts have long been relied upon as trusted global and European benchmarks for Cocoa, Robusta Coffee, White Sugar, Feed Wheat, Milling Wheat, Rapeseed and Corn.

These futures contracts, alongside the associated options contracts, are used extensively as price discovery and risk management tools by producers, exporters, trade-houses, refiners and manufacturers. In addition, they are actively traded by managed funds, institutional investors and proprietary traders looking for exposure to soft and agricultural commodity markets.

High levels of liquidity combined with the price volatility inherent in the underlying markets provides a wide range of trading opportunities over both the short and long term, as well as offering effective portfolio diversification. Trading strategies commonly used in these markets include calendar spreads and arbitrage against other related markets.

Contracts are settled with reference to the related Central Order Book price, giving exposure to the price volatility of the underlying commodity but without the delivery risk of physically delivered contracts or the counterparty risk associated with traditional over-the-counter (OTC) contracts.

Commodities/Products Traded:

Cocoa Futures
Corn Futures
Feed Wheat Futures
Malting Barley Futures
Milling Wheat Futures
Options on Cocoa Futures
Options on Corn Futures
Options on Feed Wheat Futures
Options on Malting Barley
Options on Milling Wheat Futures
Options on Rapeseed Futures
Options on White Sugar Futures
Rapeseed Futures
Robusta Coffee Futures
Skimmed Milk Powder Futures
White Sugar Futures

Trading Days: Monday - Friday

Number of Members: Over 800

4.3 Comparative Review³

Name of Exchange	Country	Date of Commencement	Number of Participants	Agricultural Commodities	Agricultural Trade	Derivatives	Turnover/Notional Value
Abuja Securities and Commodity Exchange www.abujacomex.com	Nigeria	August 8, 2001	10 Ordinary Members; 31 Trading Members	cotton, palm produce, cassava, ginger, coffee, gum arabic, sesame seed, sorghum, cowpea, soybean, millet, groundnut, rice and maize	Yes	No	1,837 metric tonnes of assorted commodities valued at about US\$349,978.97 in both floor-based and negotiated transactions, from inception till date
Ethiopian Commodity Exchange www.ecx.com.et	Ethiopia	April 2008	450	Maize, Wheat, Pea Beans, Coffee	Yes	No	595,000 tons valued at US\$1.4 billion
SAFEX Commodity Derivatives Market www.safex.co.za	South Africa	January 1995	59	Maize Futures Contract (White & Yellow Maize) Wheat Futures Contract Sunflower Seeds Futures Contract Soybean Futures Contract	Yes	Yes	Over 3,000,000 contracts valued at over US\$58 billion
Multi Commodity Exchange of India	India	November 2003	2,170	Crude Palm Oil, KapasiaKhalli, Refined Soya Oil, Soya Bean, Barley	Yes	Yes	Over 346 million contracts (2011 figures). turnover

Name of Exchange	Country	Date of Commencement	Number of Participants	Agricultural Commodities	Agricultural Trade	Derivatives	Turnover/Notional Value
				Mentha Oil, Potato (Agra), Potato (Tarkeshwar), Sugar M, Cardamom, Coriander, Chana			
Ace Derivatives and Commodity Exchange http://www.aceindia.com/	India	October 26, 2010	474	Castor Oil, Mustard Seed, RBD Palmolein, Refined Soy Oil, Soybean, Soybean Meal, Chana, Guar Seed, Guar Gum, Sugar, Cotton	Yes	No	Annual Turnover, USD\$25,684 million (as at 31 Mar 2012)
BMF & BOVESPA www.bmfbovespa.com.br	Brazil	23, August 1890 (as Bovespa)	N/A	Arabica Coffee, Cash Settled Corn, Corn price basis, Cash settled live cattle, cash settled crystal sugar, cash settled soybean, cross listing mini-sized soybean CME, anhydrous fuel ethanol, cash settled ethanol	Yes	Yes	2,040,475 contracts (2011); valued at US\$41 billion
NYSE Liffe https://globalderivatives.nyx.com/nyse-liffe	Europe	30 September 1982	Over 800	Cocoa Futures, Corn Futures, Feed Wheat Futures, Malting Barley Futures, Milling Wheat Futures, Options on Cocoa Futures, Options on Corn Futures, Options on Feed Wheat Futures, Options on Malting Barley, Options on Milling Wheat Futures, Options on Rapseed Futures, Options on White	Yes	Yes	21,000,000 contracts (2011)

Name of Exchange	Country	Date of Commencement	Number of Participants	Agricultural Commodities	Agricultural Trade	Derivatives	Turnover/Notional Value
				Sugar Futures, Rapeseed Futures, Robusta Coffee Futures, Skimmed Milk Powder Futures, White Sugar Futures			
Chicago Board of Trade/CME Group	United States	1848	Over 3,600	See above	Yes	Yes	254,952,088 contracts (as at 31 December 2012); ADTV of 1,007,716 contracts. Notional value of US\$62, 273 billion (including, agriculture, energy and metal derivatives)

Table 6: Comparative Review of Commodity Exchanges

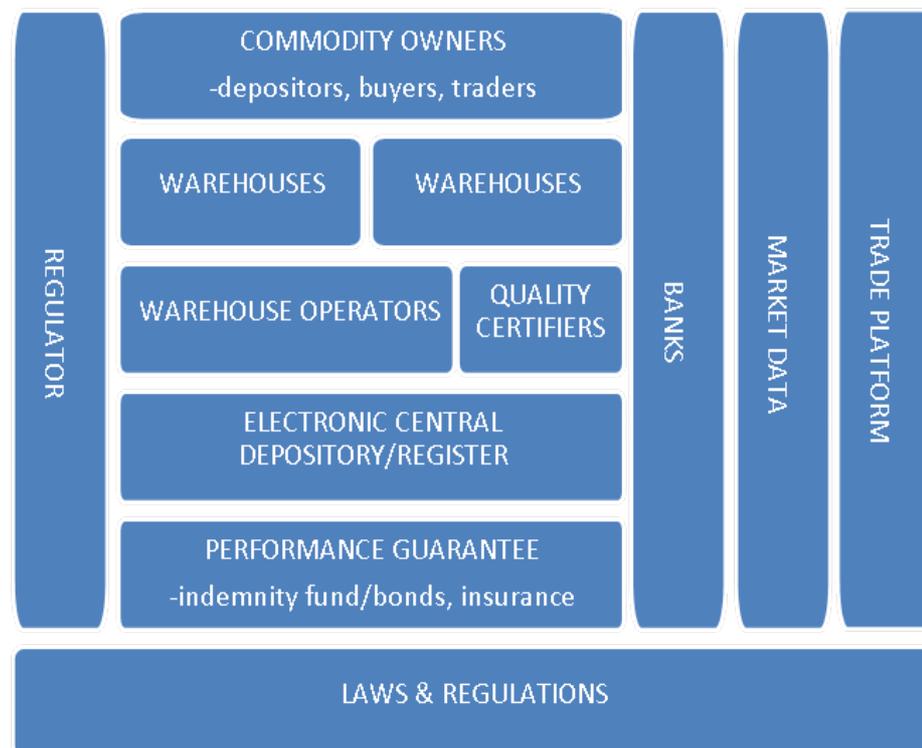
4.4 *Comments/Recommendations*

The following have been identified as measures to be undertaken to enhance the op ASCE and increase the level and depth of commodities trading in Nigeria.

i. Warehouse Receipt Financing

Warehouse Receipt Financing (“WRF”) is the use of securely stored goods as concept allows farmers to deposit graded agricultural products in secured war certified receipts are issued to them in return for the particular quantity, quali goods deposited.

Warehouse receipts (“WR”) are documents issued by the warehouses to dep the commodities placed in the warehouses for which the warehouse is the bail receipts can be negotiable (transferable) or non-negotiable (non-transferabl warehouse receipts form the basis for warehouse receipt financing.



Framework for WRF

Facts and figures – WR trading and WRF in Ethiopia.

- WR Trading Started 2008
 - 300,000MT Storage Capacity
 - 17 Warehouse Locations
 - Coffee, Sesame, P-beans, Maize, Wheat
 - Trade Value US\$1.3 billion/year
 - 11 Settlement Banks

- WR Financing Started 2011
 - 2 banks (3 more in process)
 - US\$1.5 million so far

Advantages of WRF

- a. Improves overall efficiency of the agricultural sector. WR provide farmers with an instrument that allows them to extend the sales period of their farm produce beyond the harvesting season
 - b. Deepening of the ASCE by facilitating trade in commodities. WRF allows paper-based trading and transfer of title to or interests in commodities, without physical delivery of the underlying assets.
 - c. Increases liquidity of the commodities exchange and the products traded thereunder
 - d. Facilitates the standardization of agricultural produce, as the commodities have to be standardized to qualify for WRF.
- ii. National Commodities Grading System

Related to WRF is the existence of a standardized grading system for agricultural produce. Standardization and grading of agricultural commodities promote efficiency in both local and international markets.

The grading and certification process will establish and certify the quality and condition of the agricultural produce. This involves inspection, testing, certification and accreditation. Only appropriate certified products should be traded on the commodities exchange. Certification provides a seal of approval and bridges the information asymmetry gaps between buyer and seller in terms of the quality and quantity of the products.

We are aware that a bill on WRF has been exposed by the National Assembly for comment, and is currently being debated by the legislature. It is hoped that the bill is given accelerated hearing and prompt implementation, upon passage into law.

iii. Infrastructure

The requisite institutional infrastructure for effective commodities trading is lacking. These include – quality assurance system, bank-based clearing and settlement system, risk management and arbitration system, market information systems, as well as physical delivery and storage systems.

iv. Publicity and Skills upgrade

There is a considerable dearth of adequate skill and expertise, even among market participants and the regulators, in relation to commodities trading. There should be a systematic process of constant training, enlightenment campaign and engagement amongst all stakeholders (regulators, participants, farmers, etc) to increase awareness of the commodities trading platform.

5 CONCLUSIONS

It is immediately clear, from our review, that Nigerian exchanges have quite a bit of ground to make up, especially when benchmarked against developed and other emerging market exchanges. In particular, the giant strides made by emerging market exchanges of South America and South-East Asia, should serve as models for the Nigerian exchanges to aspire towards.

In terms of relative importance to the economy, it is clear that the Nigerian exchanges should be playing a much bigger role. While this is a cause for present concern, it is also a cause for optimism as it highlights the enormous growth potential for the Nigerian exchanges. The SEC, the NSE, the ASCE and all other stakeholders should pull together to actualise the potential of the Nigerian exchanges.

7 Appendices

List of Sub - Committee Members and Secretariat

S/No.	Name	Designation
1.	ChukaEseka (Chairman)	CEO, Vetiva Capital Management Limited
2.	WolemiEsan (Vice-Chairman)	Partner, OlaniwunAjayi LP
3.	TundeAyeni	Managing Director, Union Registrars Limited
4.	MuyiwaAdeyemi	Managing Director, Lead Securities and Investments Limited
5.	Hajiya Baba Ari Zaheera	GHMS, Abuja Securities and Commodity Exchange
6.	Luke Okonkwo	Managing Director, Trust House Investments Limited
7.	RasheedYussuff	Managing Director, Trustyields Securities Limited
8.	OladeleSotubo	Executive Director, Stanbic IBTC Stockbrokers Limited
9.	BusolaJejelowo	Stanbic IBTC Stockbrokers Limited
10.	Bola Ajomale	CEO, National Association of Securities Dealers
11.	Bisi Oni	CEO, FBN Capital Limited
12.	Kola Owodunni	Head, Risk Management, Dunn Loren Merrifield
13.	ElochukwuUba	Nigerian Stock Exchange
14.	Anderson Obakpolor	Head Corporate Finance, SIAO Partners
15.	Sadiq Abu	Director, Legal, Renaissance Capital
16.	AmbursaAbubakar	RRIE, Securities and Exchange Commission

Table 7: Members of the Sub- Committee

Secretariat

S/No.	Name	Designation
1.	TobechukwuUbah	Head, Legal and Compliance, Vetiva Capital Management Limited

Table 8: Secretariat to the Sub -Committee

8 References

- i. WFE 2011 Annual Report and Statistics
- ii. WFE/IOMA, *Derivatives Market Survey 2011*
- iii. FAO, *Commodity Exchanges in Europe and Central Asia, A means of management of Price Risk*, FAO Investment Centre Working Paper
- iv. CIA, *The World Fact book*, accessible at www.cia.gov/library/publications/the-world-factbook