



GUIDELINES ON MINIMUM CAPITAL BASE FOR CAPITAL MARKET OPERATORS.

In April 2007, the Honourable Minister of Finance approved a new capital base for capital market operators. This was part of Government's efforts at reforming the economy and ensuring that the domestic capital market becomes more competitive and attractive to local and foreign investors.

The new minimum capital base which becomes effective from December 31, 2008, is expected to pave way for well-capitalized and properly structured entities in the market.

The following is to serve as a guide to all capital market operators in meeting the new requirement.

1. DESCRIPTION

Capital base refers to the owners' contribution, interest and stake in the business.

2. DEFINITION

For the purpose of regulation, Capital Base shall be construed as the Shareholders' Fund less revaluation reserve, intangible assets and fictitious assets.

In other words, Capital Base shall be the Shareholders' Fund comprising paid up share capital, plus capital reserves, plus general reserves, minus accumulated losses, minus revaluation reserves (in respect of fixed assets, marketable securities and other assets), minus intangible assets (such as goodwill and patents), minus fictitious assets (such as capitalized expenses, pre-operational expenses and deferred cost).



3. COMPONENTS OF SHAREHOLDERS' FUNDS

- a. paid-up share capital (i.e. ordinary shares and irredeemable preference shares)
- b. capital reserve
- c. general reserve
- d. profit and loss account balance

From the total of these shall be deducted outstanding balances of revaluation reserve, intangible assets and fictitious assets (if any).

4. RECOGNITION OF RESERVES

Only capital and general reserves contained in audited accounts (which should not be older than six months) shall be recognized for determination of capital base. **Management Accounts and un-audited accounts shall not be acceptable for this purpose.**

5. MODE OF CAPITAL INJECTION

- a. Cash and Treasury bills
- b. Transfer of quoted securities at market value
- c. FGN bonds
- d. Transfer of landed property at net book value
- e. Transfer of other fixed assets at net book value

6. DOCUMENTATIONS OF CAPITAL INJECTION

- a. **Increase In Share Capital**
 - i. Adequate provisions in the Memorandum and Articles of Association
 - ii. Board and shareholders' resolutions authorizing the increase in share capital (certified by the CAC)
 - iii. CAC 7.2 – Certificate of increase in share capital



b. **Offer Of Shares And Acceptance**

- i. The operator's letter or instrument of offer of shares (or additional shares) for subscription.
- ii. Letters of acceptance of the offer by the subscribers.
- iii. Certified CAC Form CO2 (return on allotment) and evidence of payment.
- iv. **Audited Accounts (or Management Accounts signed by two directors with a letter of confirmation by an external auditor) showing that the increase has been paid up.**

c. **Injection of Cash**

- i. Copy of cheque/draft
- ii. Entry in the cash book
- iii. Bank teller showing lodgment of the funds into the company's account.
- iv. Bank credit advice for credit transfer
- v. Bank statement of account showing credit of the funds
- vi. Company receipt issued (evidencing payment) which must contain the name and address of the subscriber, amount, date and purpose of payment.

d. **Transfer of Quoted Securities**

- i. Evidence of ownership of the securities by the subscriber.
- ii. For corporate subscribers: Board resolution authorizing the transfer of shares
- iii. Confirmation by the company that the securities are without any lien or encumbrances.
- iii. Copy of the securities transfer instruction
- iv. CSCS statement in the name of the operator showing perfection of the transfer
- v. Statement of the market prices and total value of the securities at the time of the transfer.

e. **Transfer of Landed Property**



- i. The property must be located in Abuja or a state capital or in a commercial city considered by the Commission as having a vibrant property market or where it is in any other location, the property is used solely, wholly and exclusively for the capital market activities of the operator.
- ii. The property must be covered by Certificate of Occupancy issued by federal, state or local government.
- iii. Search report of an independent SEC registered solicitor confirming that the property is without encumbrances.
- iv. SEC registered Estate valuer's report
- v. Local Government Chairman's consent, Governor's consent, FCT Minister's consent for the transfer (or in any other case, consent by the relevant authority)
- vi. Deed of assignment duly executed, stamped and registered with the photocopy of the certificate of occupancy attached

OR

Irrevocable Power of Attorney duly executed, stamped and registered with the photocopy of the certificate of occupancy attached.

- vii. For computation of the capital base, the value of the property shall be net (i.e. less) of the value of any lien or other encumbrances.

f. Transfer of Other Fixed Assets

- i. Evidence of ownership of the asset by the subscriber
- ii. Valuation report by a SEC registered estate valuer
- iii. Letter of confirmation from the subscriber that the asset is free of lien or other encumbrances
- iv. Transfer Agreement duly executed by parties
- v. Perfected change of ownership as applicable



7. COMPUTATION OF CAPITAL BASE

Adjusted shareholders fund or adjusted net assets can be computed as follows to arrive at the capital base.

a. Adjusted Shareholders' Fund

<u>Add:</u>	Paid up share capital	X	
	Capital reserve	X	
	General reserve	X	
	Profit and loss account	<u>X</u>	X
<u>Less:</u>	Accumulated losses	X	
	Revaluation reserve	X	
	Intangible assets	X	
	Fictitious assets	<u>X</u>	<u>X</u>
	Capital Base		<u>X</u>

b. Adjusted Net Assets

<u>Add:</u>	Fixed Assets at cost	X	
	<u>Less:</u> Accumulated Depreciation	X	
	<u>Less:</u> Value of Lien/Encumbrance	<u>X</u>	X
	Securities (at Lower of cost or market value)		X
	Debtors	X	
	<u>Less:</u> Provision for bad and doubtful debt	X	
	<u>Less:</u> Debts exceeding 365 days	<u>X</u>	X
	Other Current Assets		<u>X</u> X
<u>Less:</u>	Intangible assets	X	
	Fictitious assets	<u>X</u>	<u>X</u>
	Adjusted Total Assets		X
<u>Less:</u>	Long term Liabilities	X	
	Current Liabilities	<u>X</u>	<u>X</u>
	Capital Base (Adjusted Net Assets)		<u>X</u>



8. ASSET MIX RATIO

The cash/assets mix ratio for core operators shall be a minimum of 60% net liquid assets (i.e liquid assets less lien and encumbrances) and a maximum of 40% fixed and other assets.

For non-core operators the cash /assets mix ratio shall be a minimum of 30% net liquid assets and a maximum of 70% fixed and other assets.

The cash/asset mix ratio shall be with reference to the minimum capital base as prescribed by the Commission.

The liquid assets are cash, bank deposits, treasury bills and quoted securities.

The computation shall be net of loans, overdraft and other borrowings of the operator.

Computation of Net Liquid Asset

Add:	cash at hand	x	
	Bank deposits	x	
	Treasury bills	x	
	Quoted securities	<u>x</u>	x
Less:	loans	x	
	Overdraft	x	
	Other borrowings	<u>x</u>	<u>x</u>
	Net Liquid Assets		<u>x</u>



9. VERIFICATION

The Commission shall regularly carry out target and general verification of compliance with the prescribed minimum capital base by capital market operators.

10. IMPLEMENTATION OF THE NEW CAPITAL BASE

The following implementation timeframe shall be strictly adhered to:

- a. The Commission shall in the third quarter of 2007 constitute a high powered Compliance Committee to oversee and manage the implementation process.
- b. Operators who believe that they have met the minimum capital requirement shall immediately forward to the Commission documents evidencing same.
- c. All market operators shall submit their action plans on compliance with the new capital base directive latest by December 31, 2007.
- d. In the second quarter of 2008, all market operators should submit progress reports on the implementation of their action plans.
- e. September 30th, 2008: Close of receipt of complete documentations of full compliance with the stipulated minimum capital base from market operators (that had not yet done so).
- f. Any documentation short of the provisions as contained in these guidelines shall be unacceptable.
- g. Please note that the Commission shall not extend the deadline of 31st December, 2008 for recapitalization.

**MANAGEMENT
SECURITIES AND EXCHANGE COMMISSION, NIGERIA
AUGUST, 2007**