

Capital Markets Reform

The Problem

Between 2008 and 2009, the capital market lost over 70% of its value, leading to a loss of investor confidence. By 2009, new issues had dropped by 93.5% to only 85.9 billion naira from the peak of 1.3 trillion naira in 2007. Also, the share of the banking sector in the equities market fell from its high of 53 % in 2008 to 18 % in 2010.eg. The decline in the fortunes of the capital market led to a drastic loss of investor confidence, massive pullout of foreign investors and a general bleakness in the market. A need therefore manifested to address issues related to investor confidence, limited products trading, limited number of investors, need for capital market literacy, unclaimed dividends, ponzi schemes and a general reform of the regulatory and market processes.

Genesis of Market Boom and Bust

Landmark reforms across the banking, insurance and pension sectors between 1999 and 2007 transformed the Nigerian capital market and led to unprecedented growth. Between 2003 and 2007, market capitalization increased by over 66% from N1.4 trillion to N10.2 trillion. In March 2008, market capitalization reached an all-time high of N12.6 trillion, even though it ended that year at N7.0 trillion. Table 1 below provides a schematic of the rapid growth the Nigerian capital market witnessed between 2003 and 2008.

Table 1: Overview of the Nigerian Capital Market Growth

	2003	2004	2005	2006	2007	2008
Market cap (Ntn)	1.35	2.11	2.9	5.12	10.18	6.96
Value traded(Ntn)	12.0	225.8	262.0	470.0	21,000	1,992
Volume traded (Nbn)	13.3	19.2	26.7	36.7	138.1	323.7
All share index	19,943	23,845	24,086	33,189	57,990	31,450
Number of listed securities	265	277	280	289	310	304

Source: NSE

However, the growth pattern experienced by the market was unnatural, given that, it was induced by a new regulation that mandated the recapitalization of Banks. In a move by regulators to strengthen domestic financial institutions for global competitiveness, banks were mandated in 2004 to shore up their capital base from N2 billion to N25 billion. The recapitalization exercise stimulated series of public offerings, mergers and new listings. At the end of the first exercise, the increase in Banks' capital base raised equities capitalization attributable to the sector from N400 billion to approximately N1.12 trillion, and led to a dramatic reduction in the number of banks from 89 to 25 by the end of 2005. Since equities dominated the market, banking stocks became the major determinant of the fortunes of the equities market. Nonetheless, the positive market sentiments set off by the wave of bank - driven public offers aroused corporate interest, leading to record breaking

new issuance activities. Aggregate new issues by corporate organizations increased from N412.7 billion in 2005 to N1.34 trillion in 2007; a growth of 224.6%.

Several real sector entities equally accessed the capital market for funds with strong public participation in the offers. The euphoria of the offers led to a surge in the average number of subscribers, hitting the 99,000 mark in 2007, up from 4200 in 2002, with many companies from the real sector becoming first time issuers in the market. During this period, the Nigerian Stock Exchange All-Share Index (NSE ASI) gained 161.64%, while equity market capitalization increased by 384% from N2.9 trillion (\$22.73 billion) in 2005 to N12.6trillion (\$110bn) in March 2008. That period also saw an increase in the establishment of brokers, asset managers and issuing houses. Consolidation efforts and the ensuing capitalization opened up the Nigerian financial landscape to the international space. The situation was exacerbated by the huge borrowing and margin finance exposure of individual investors, brokers and banks.

In the wake of these events, various regulatory actions and reforms aimed at improving financial disclosure, transparency and governance of financial institutions and listed companies were introduced to provide some succour to the traumatized investor community with a view to stimulating the recovery of the Nigerian capital market.

Reform Actions

The reform actions and cardinal objectives of these reforms are discussed below

Restoring Investor Confidence

The most outstanding asset of any capital market and indeed financial markets are its investors. Investors, whether retail or institutional provide the savings which are channelled for productive investment. Therefore, to restore investor confidence in the capital market, Securities Exchange Commission (SEC) focused considerably on investor protection. Specifically, there was a recognition that investors feel protected and confident to participate when a market is perceived as fair, efficient and transparent with a strong enforcement regime. The National Investor Protection Fund (NIPF) Rules have been reviewed and this will enable the utilization of the N5b, which the Commission has set aside to mitigate specific investor losses. The perception of the investor towards tolerance for infractions is an important pointer to level of confidence in the market. To this end and in line with the Commission's policy on zero tolerance on non compliance with market rules and regulations numerous number of operators received sanctions and penalties commensurate with their infractions and as at March 2014, 32 offices of an illegal fund manager had been closed down.

Furthermore, the process of verifying the actual quantum of unclaimed dividend which is believed to be in excess of N70 billion is well underway as the Commission has assigned (4) firms of chartered accountants to carry out the verification exercise. Companies/Registrars have been allocated to the four (4) Audit firms and the exercise is expected to be carried out alongside the reconciliation of materialised and dematerialised share certificates.

Deepening and Broadening Capital Markets

Another vital objective of the reform was to build an efficient and low cost market which will be the preference for capital sourcing by corporates and governments. To this end, SEC embarked on process improvement and the introduction of international best practices in the offering of securities. Today, offerings are largely through book building while bonds are largely through shelf registration. The requirements for bonds have also been simplified in line with international best practices. This ensured the removal of any restrictive limitation on lifespan of initial documentation filed by international issuers. Efforts at creating an enabling environment were further boosted through creating new rules on infrastructure

funds, securitization private equity and registration of foreign collective investment schemes. To further enhance diversification of products and platforms FMDQ and NASD over the counter (OTC) markets/platforms were registered to trade on bonds and unlisted companies. The NASD commenced trading of unlisted securities in July 2013. From inception in to date, its market Capitalization stood at N653 Billion.

From its inception in November 2013 to July 2014, the FMDQ platform for trading of bonds and other fixed income instruments has recorded a market turnover of N48 Trillion. These over-the-counter trading platforms will encourage liquidity and efficiency in the trading of securities in the secondary market.

Restoring Market Integrity

A sound regulatory environment requiring a strong enforcement framework aimed at deterring securities law violations has been entrenched by the capital market reforms. In order to achieve this, SEC dedicated resources to build people and technology to facilitate the efficient handling of infractions. Also, Self-Regulatory Organizations (SROs) were formed to monitor brokers/dealers and enforce rules. The whistle blowing policy and process was strengthened to endanger confidence in both practitioners and investors to report infractions in the market. A whistle blowing link exists on the SEC website to enable easy reporting. A dedicated call centre is also operational. A robust complaints management system was evolved to enhance efficiency and avoid duplication of efforts through a specialised three tiered approach which enables each tier to handle specific types of complaints. Moreover the The Administrative Proceedings Committee (APC) of SEC- a quasi judicial body was reconstituted and inaugurated in 2013 to enhance quality and effectiveness in resolution of disputes and complaints in the capital market.

Strengthening the Market and Mitigating Systemic Risk

The Board of the Commission approved an upward review of the minimum capital requirement for registered capital market operators in September 2013. This will enhance the regulatory and risk management framework for capital market regulation thereby promoting confidence in the market and the institutions for global competitiveness. This is being effectively monitored in 2014.

To enhance supervision and promote uniformity of approach the Commission approved policy change that will strengthen the provision for insurance cover for fraud and malfeasance of CMOs. This harmonized fidelity bond/professional indemnity duration i.e. January to December every year. This is to enhance due diligence after the stoppage of the periodic renewal of registration which was hitherto a veritable tool for due diligence.

The Commission in 2014 commenced the joint AML/CFT and Prudential inspection in order to focus onsite inspections on targeted critical areas. It is also in the process of producing a comprehensive and consolidated inspection manual to cater for all the various types of inspections carried out by individual departments. This is aimed at harmonizing the approach to, preparation for and reporting on inspections for effectiveness. The manual will cater for both rule based and risk-based supervision.

Leveraging on Technology

It is absolutely impossible to effectively monitor an increasingly sophisticated and dynamic market without the application of technology. Consequently, the Commission set out to leverage on technology to support its surveillance role in the Nigerian Capital Market. The application of technology is aimed at improving the capacity of the Commission to detect insider dealings, market manipulation and other forms of abuses that were prevalent prior to the reforms. Furthermore, leveraging on technology has been central to examining the activities of market intermediaries and SROs. As part of the measures to ensure effective surveillance of the market, the SEC successfully monitors from its headquarters and its Lagos office on-line real time trading on the floor of the Nigerian Stock Exchange (NSE).

Strengthening Disclosure and Transparency

The Commission has embarked on adopting concrete measures to restore market integrity by monitoring the activities of public companies in order to enhance information disclosure, transparency and quality of governance. The Commission in conjunction with the Financial Reporting Council developed a road map for the migration to IFRS. It has made efforts at ensuring full compliance with IFRS reporting. All public quoted companies that have December, 2012 Accounting Year End, have achieved compliance by submitting IFRS Annual Financial reports for 2012 and Interim reports for the three Quarters of 2013. The Commission has built capacity of key staff in IFRS to enhance their supervisory skills, with a number of staff earning International Certification from the Institute of Chartered Accountants of England and Wales (ICAEW). Training was carried out for shareholders associations to ensure that they are knowledgeable enough to make informed decisions at annual general meetings and properly understand IFRS disclosures. The adoption of IFRS by listed companies and regulated entities will considerably improve the quality of financial reporting to a reporting regime that augments our world-class capital market aspirations.

The Commission also working in partnership with the International Finance Corporation (IFC) is developing a “Scorecard” to further improve proper corporate governance practices. This tool has the advantage of helping to improve the monitoring and supervision of public companies while also serving as a means of mathematically assessing a company’s level of compliance with Corporate Governance practices in relation to its peers. The score card has been developed and a pilot test has been conducted on nine selected companies from different sectors in 2014.

Promoting Good Corporate Governance

Strong and sound institutions cannot be built without good corporate governance practices. Therefore, promoting good corporate governance practices in public companies and intermediary firms became a priority for the Commission. SEC aimed to achieve this by stipulating corporate governance codes, monitoring compliance very closely, taking necessary regulatory actions on poor governance practices and educating directors and corporate managers on the consequences of poor governance of their companies. The SEC Code of Governance for Public Companies was recently strengthened with new provisions that make it mandatory and heavy penalties for violation.

Taking this further, public companies whose securities are not registered with the Commission were instructed to do so or face sanction. The Investment and Securities Act ISA 2007 empowers the Commission to register all securities of public companies. This move is an effort to enhance governance in these entities and protect investors against fraudulent practices in the capital market and properly authorize companies’ issuance of shares as required by law.

Governance and Infrastructure of Securities Exchanges

Exchanges are extremely important to the development of capital markets because they are central to capital formation, wealth creation and economic development. A poorly governed exchange is a good “candidate” for abusive practices. In this sense, the Commission’s reforms targeted the improvement of the governance of the exchange in the country to meet the challenges of an increasingly dynamic, sophisticated and growing market. The reforms were targeted at entrenching quality governance such that occurrences of conflict of interests are reduced, and accountability, transparency, professionalism and public trust are enthroned. SEC is currently finalizing the regulatory framework for the demutualization of the NSE as part of efforts to ensure full transparency. The NSE recently upgraded its trading platform. X-Gen, the new trading platform allows investors, through stockbrokers, real-time access to market prices, their portfolios and ability to execute market orders in near real-time on a wide range of devices including smart phones. This development no doubt encourages wider participation of the growing

middle-class and investing segment of the Nigerian population as well as supports global investor participation.

Investor Education

SEC embarked on public enlightenment and investor education via its “investor edutainment” programme conducted in collaboration with Nollywood. This is particularly important in strengthening investor understanding of their rights and the risks associated with investing in the market. SEC has leveraged its zonal offices and used the print and electronic media to enlighten the public and better capture the unreached segments of the market. The Commission’s investor education strategy has been significantly revamped to make it more robust and effective. It now features outreach programs to market women, hosting of market women at the Commission, road shows to all six zones and appearances at seminars and conferences on small and medium enterprises (SMEs) in various states to show case its activities to entrepreneurs. Outreach programs to all NYSC camps in the six zones have also ensured effective youth sensitization and engagement. SEC has also instituted an annual secondary school quiz competition, an annual journalists award and integrity award to build momentum on capital market activities and awareness. As a result, a better understanding of the capital market by people has evolved, potentially leading to an increase in awareness on current issues and the elimination of sharp practices, which has ultimately increased the investor-base.

Demutualization of the Exchange

A significant step in the Commission’s reform is the demutualization of the Exchange. On September 22, 2011, SEC set up a committee to develop a road map in achieving this reform. Although, this reform is ongoing, it is conjectured that it will provide the Nigerian Stock Exchange access to capital which as mutual a organization it was incapable of raising. Such access will enable it meet its needs and stay competitive. Demutualization is also driven by the desire to strengthen governance as shareholders’ activism is an effective means of improving transparency, accountability and management performance.

Main Achievements

The Nigerian Capital Market witnessed tremendous growth between 1999-2007 following reforms across the banking, insurance and pension sectors. Between 2003 and 2007, market capitalization ranged between N1.4 trillion and N10.2 trillion. By March 2008, the market capitalization reached N12.6 trillion before plummeting by the end of the year to N 7.0 billion. Between 2008-2009, the market lost over 70% of its value, leading to a loss of investor confidence. By 2009, new issues had dropped by 93.5% to only N85.9 billion from the peak of N1.3 trillion in 2007. Also the share of the banking sector in the equities market fell from its high of 53% in 2008 to 18% in 2010.

A combination of targeted interventions by the regulators (SEC) began to yield positive results in 2010. The market rebounded as the All-Share Price Index gained 18.9% closing at 24,770.52, Equity market capitalization increased by 58.5% (from N4.99 trillion in 2009 to N7.91 trillion in 2010) and trading value increased by 17.0% (from N681.6 billion in 2009 to N797.55bn in 2010). The improvement in the market after two very turbulent years was a welcome relief to market participants and fueled hopes of early recovery of the market. The improvement in the market was also evident in primary issuance as the number grew from 9 issues in 2009 to 23 issues in 2010, with issuers evidently seeing a window of opportunity as the market showed signs of recovery. Given the fragile equity market, issuers were increasingly shifting to bonds. This was perhaps further encouraged by the number of reforms in the bond market.

The hope of a quick recovery in 2011 given the trends in 2010 was however not realized owing to developments during the year. At the end of 2011, equities market capitalization declined to N6.5 trillion (\$43.06 billion) and the NSE ASI fell to 20,730.63, representing a dip of 17.42% and 17.07% respectively from the closing figures of 2010. Similarly, the total trading value dropped to N634.92 billion (\$4.18 billion) representing a 20.39% decrease from N797.5 billion (\$5.38 billion) recorded in 2010. Average daily transaction also declined to N2.68 billion in 2011 from the 2010's daily average of N3.32 billion. At year-end 2011, the market capitalization of all 201 listed equities accounted for 63.62% of total market capitalization, while in 2010, the figure for 217 listed equities stood at 76.67%. Nonetheless, the gains that characterized the first half of 2011 were reversed in the second half of 2011. Consequently, the equities market returned all the gains of 2010. Events that adversely affected the market included weak global economy, macroeconomic policy, debt overhang and local investor apathy.

The Nigeria Stock Exchange opened in 2012 with an All Share Index (ASI) of 20,730.63 and a total market capitalization of N6.53 trillion, down by 17.1% and 18.6% relative to the January 4, 2011 figures of 25,102.93 and market capitalization of N8.02 trillion respectively. As at March 9, 2012, marginal improvements had been recorded as total equities market capitalization grew to N6.61 trillion with the market closing at ASI of 20,950.01. This rise was driven by the increased demand for some banking stocks following the successful merger and acquisition of some banks in the country.

The fortunes of the capital market were good in 2013, showing considerable recovery coming from 2012. The All-Share-Index (ASI) closed November at 38,920.25 points compared with the 28,028.80 for the same period in 2012. Total market capitalization closed at N18.39 trillion (with equities market capitalization of N12.45 trillion and debt at N5.94 trillion) and Exchange Traded Funds (ETF) N 0.29 billion. The market also recorded improvement of 43.21 %, 14.78 % and 56.14 % in number of deals, volume and value of securities traded respectively in November 2013 compared with the same period in 2012. The number of listed securities, however, dropped to 254 as at November 2013 from 256 in December 2012. The Net Asset Value of the 52 regulated Collective Investment Schemes stood at N146.12 billion as at Nov. 2013. The Nigerian bond market witnessed the first supra-national bond floated by the International Finance Cooperation (IFC) early in 2013 worth N12.0 billion, while monthly domestic bond issuance programme of the Federal Government was sustained with the floating of N823.34 billion allotted in 29 issues. Total new issues stood at 51, worth N951.60 billion compared with 42 worth N926.58 in the corresponding period in 2012. Equity issues thrived with 117 new issues worth N94.28 billion, Corporate Bonds N10.58 billion, Sub National Bonds N11.4 billion, Supra National Bonds N12 billion and Federal Government of Nigeria (FGN) bonds N823.34 billion. The level of participation in the market, which favoured foreign investors at 66.8% and 61.4% in 2011 and 2012 respectively, is now skewed in favour of domestic investors (50.05%) as at September 2013. Market statistics clearly show improvement over 2012 apparently due to better regulation, better investor confidence and absence of shocks that could have traumatized the market.

2014 Market Performance

A year on year comparison of market performance showed a good performance of all the main market indicators-value of deals, All-share index, equities market capitalization, ETF market capitalization etc. in 2014. The depreciation in debt market capitalization is a paltry 0.1%, which is insignificant. Domestic participation in the Capital Market in 2014 also surpassed that of 2013, which is a good sign for market stability, a show of confidence in the various new SEC reforms and initiatives and a harbinger of great performance and development in the coming year. A breakdown of this performance in 2014 is detailed below:

- **Volume and Value**
Between January and August 2014, a total of 66.398 billion securities valued at N756.954 billion were traded in 830,395 deals. When compared to the corresponding values of 74.78 billion securities valued at N734.5 billion traded in 992,500 deals between January and August 2013, the 2014 figures indicate decreases of 16.33% and 11.21% in deals and volume and an increase of 3.06% in the value of securities traded respectively.
- **All-Share Index and Market Capitalization**
The All-Share index closed the month of August at 41,532.31 points, recording a depreciation of 1.34%. Equities Market Capitalization also dipped by 1.31% reducing from N13.90 trillion in July to N13.71 trillion in August 2014. However, comparing these figures to their corresponding values in 2013 indicated increases of 14.58% and 19.28% respectively.

The capitalization of debt securities appreciated from N5.04 trillion in July to N5.37 trillion in August 2014, indicating an increase of 6.55%. On the other hand, ETF Market Capitalization decreased by 4.2% closing at N3.22 billion in August 2014 as against N3.36 billion recorded in July. On a year –on-year basis, Debt Market Capitalization depreciated by 0.1% while ETF Market Capitalization increased by an astounding 875.76% following the listing of the Vetiva Griffin 30 ETF in March 2014.
- **Increase in Foreign and Domestic Portfolio Investment-2014:**
Domestic participation at the nation’s stock market increased to N167.77 billion (about US\$1.08 billion) in July 2014, up 81.77% from January 2014. Foreign portfolio investors (FI) ceded about 49.66% of trading to domestic investors as foreign transactions decreased significantly from 49.28% to 25.17% over the same period.
- **Increase in Transactions:**
Total transactions increased by 23.20% from N181.97 billion in January to N224.19 billion in July 2014 and foreign portfolio investors’ inflows accounted for 14.58% of total transactions while the outflows accounted for 10.50% of the total transactions in July, 2014.

In comparison to the same period in 2013, total FPI decreased by 39.79%, while the total domestic transactions increased by 198.79%. FPI inflows outpaced outflows which were the opposite when compared to the same period in 2013. Overall, there was a 49.60% increase in total transactions in comparison to the same period in 2013.
- The Capital Market recorded a new global offering (Seplat) listed simultaneously on the NSE and the London Stock Exchange in April 2014.
- The Commission approved a total of eleven (11) new issues between January and August 2014. Nine (9) of these were equity issues jointly worth N192.50 billion and out of this sum was one (1) global equity offering, four (4) placements, and four (4) rights issues. The other two (2) issues approved by the Commission were corporate bonds jointly worth N5.2 billion; thus the total value of SEC approved issues between January and August 2014 stood at N197.72 billion a 48% increase in value when compared to N102.72 the value of new issues for 2013
- The quarterly sector aggregate analysis of seventy-six (76) Fund/Portfolio Managers based on their returns shows total funds under management of **N421.2B**. Investments in capital market improved from 43% to 47%, while investments in money and other markets dropped from 39% and 16% to 37% and

15% respectively, of the total funds under management. This shows that the capital market still remained a preferred investment option for fund managers, following improved regulatory environment. The SEC & NSE have put Investor Protection Framework in place and this has positively impacted on investor confidence.

- **West Africa Capital Markets Integration:** the first phase of the region's capital market integration, the sponsored access phase took off in April 2014. National authorities, capital market regulators and stock exchanges in the West African region have approved the guidelines, processes and procedures for this first phase of the integration of the region's capital markets. Under this phase, brokers within the member countries can trade securities and settle in markets other than theirs, through local brokers in the other member jurisdictions. The interrelationship between the brokers will be guided by memoranda of understanding (MOU), which is duly recognized by each regulator in each WACMI member jurisdiction. The guidelines and procedures for approving applications under the sponsored access framework have also been agreed.

Key Challenges

Structural problems that affected the Commission's output especially in terms of fragmentation of tasks were squarely addressed with a complete internal reorganization that saw the creation of new departments and divisions, the merger of some departments and divisions and the redeployment of staff within the SEC headquarters and zonal offices.

The challenge of tracking and monitoring market activity to forestall insider dealing and market manipulation have been squarely confronted with the new capacity to monitor live trades on the exchange and a robust new system that allows online submission by brokers of major deals of 500,000 units and above. The staff capacity of the exchanges supervision division has also been significantly increased.

Challenges relating to speed of investigations and prosecutions where necessary was mainly due to small of number of lawyers within the Commission but more so due to the fact that criminal cases have to be referred to the police for prosecution. However the Commission has achieved greater progress in addressing this challenge through current collaboration with the police which resulted in the creation of a police unit within the Commission with policemen manning it.

The issue of inadequate oversight of broker dealers which is as a result of their huge number in relation to the available manpower to do the job has been systematically confronted by the adoption of the risk based supervision models (RBS). This allows proper risk profiling of all Capital Market Operators, developing specific types of risks associated with specific functions and identifying mitigants, which minimize the risks. This enables inspectors to concentrate on high risk or high impact operators for effective monitoring. The Commission is also in the process of producing a comprehensive and consolidated inspection manual to cater for all the various types of inspections carried out by individual departments. This is aimed at harmonizing the approach to, preparation for and reporting on inspections for effectiveness. The manual will cater for both rule based and risk-based supervision.

The current process of cancelling the registration of 56 dormant operators which is almost concluded is another effort to sanitize the CMO numbers and allow for effective oversight.

The Commission has recognized the need for enhancement of market infrastructure and has successfully monitored the introduction by the NSE of a new trading platform. X-Gen,

the new trading platform allows investors, through stockbrokers, real-time access to market prices, their portfolios and ability to execute market orders in near real-time on a wide range of devices including smart phones. The two Over the Counter (OTC) Platforms are also being encouraged to adopt robust platforms. The FMDQ OTC Plc has recently launched the FMDQ Bloomberg E-Bond Trading System which promotes transparency and effective monitoring.

The Securities and Exchange Commission has adequately positioned itself to identify and address the series of challenges that manifest in its sacred duty of regulating and developing the capital market. Some of these challenges include need for amendments to rules, regulatory arbitrage by operators, creating awareness in the market, need for huge market development and the attendant budget limitations, dwindling resources, policy intervention to actualize tax incentives for market depth, attracting the financially excluded groups in society and the concentration of huge percentage of market activity and values in a few firms. The recognition of these challenges is the most significant step in squarely confronting and mitigating these challenges. A major step taken in this regard is the inauguration of the three (3) 10-Year Master Plan Committees set up by the Commission in the last quarter of 2013 to articulate modalities for developing, strengthening and shaping the Capital Market to reach its right potential and occupy a central position in the Nigerian economy in the next ten years. These are:

- Capital Market Master Plan Committee;
- Capital Market Literacy Master Plan Committee; and
- Non-Interest Capital Market Products Master Plan Committee.

The Committees submitted their final reports at the September 2014 CMC meeting. A retreat to expose these recommendations to the larger Capital Market Community and receive feedback took place same month. These plans will be unveiled in November at the Annual Capital Market Retreat.

Assessment of Reform Initiatives

S/No.	Assessment Criteria	Result of Assessment
1.	Has the Capital market reform improved the quality and quantity of public services?	In terms of quality, the reforms have been able to ensure better monitoring and surveillance of market operators leading to restoration of investors' confidence.
2.	Do more people now have access to services, including disadvantaged groups such as women, young persons, and people with disabilities?	With the Demutualization of the Exchange as part of the reforms, it is hoped that other exchanges abroad will be able to enjoy access to the Nigerian Capital Market. The Commission is developing a financial Inclusion Strategy frame work for Nigeria Capital Market, with the aim of increasing the number of Nigerians that have access and participate in the Nigeria Capital Market. The active encouragement of non-interest capital market products like the Sukuk and the introduction of an Islamic index and ETF are visible developments that will surely attract patronage from diverse orientations and destinations.

S/No.	Assessment Criteria	Result of Assessment
3.	Has the Capital market reform reduced the cost of governance?	Yes. The automation of the system has reduced the cost of governance.
4.	Has the Capital market reform made the service more affordable for citizens?	Yes, the reform actions have brought the services of the market closer to its participants. The use of technology has enabled easy access to the market, provided valuable information on stock market prices and portfolio valuation among other achievements.
5.	Has the Capital market reform reduced corruption?	The Commission's reforms have reduced the level of corrupt practices and manipulations within the Capital market. However, its enforcement initiatives have to be backed by moral will in prosecuting offenders.
6.	Has the Capital market reform reduced unnecessary bureaucracy and red tape?	With the introduction of technologies to support its market regulatory responsibilities, SEC has been able to cut bureaucracy, leading to a considerable improvement in its processes.
7.	Is the Capital market reform likely to lead to improved development outcomes?	The reforms have projected the Capital Market in a good light such that Nigeria is now one of the preferred investment destinations in Africa.
8.	Are things improving, staying the same or getting worse?	Things are improving with the Nigerian Capital market, but there are still significant challenges.
9.	Where things are improving, will those improvements endure?	There is very high probability that the improvements as a result of Capital market reform will endure.
10.	Where things are not improving, what should be done?	Not Applicable

Proposed Next Steps

The inspection program for capital market operators under the SEC reforms needs to be strengthened. This makes the planned consolidated inspection manual for both risk based and rule based supervision, which is being developed by SEC a high priority. This will require skilled inspectors that have an understanding of the firms, the problems they are looking for, and how to provide "regulatory guidance" to build a culture of compliance at firms. An effective enforcement program must back this inspection program for firms that do not respond to regulatory guidance. Need to review fees of transactions review of the ISA and other conflicting regulations strengthened and effective SROs and introduction of risk based supervision should receive critical attention. there is need also to carefully craft regulation and supervision systems that reduce conflicts of interest and opportunities for fraud and abuse. Furthermore, a credible threat of sanctions and demonstrable track record of successful enforcement action is imperative, otherwise it is certain that rules will not be obeyed, thereby undermining the authority of both the regulation and the

regulator. In short, an effective enforcement program must demonstrate results. There must be the equivalent of “trophies on the wall” in the form of successful enforcement actions with meaningful sanctions visible for all to see. Without the capacity and willingness to enforce the rules, the rules become meaningless. Best practices in enforcement, both in terms of legal framework and operations should be adopted regardless of market size and stage of development.

As a corollary to the above, the Commission’s reforms should address the issue of lack of coordination with criminal authorities regarding the status of investigations and cases. It is necessary to explore establishing periodic updates on investigations and cases that could be shared between SEC and Economic and Financial Crimes Commission (EFCC). This should also include enhanced cooperation among members of the Financial Services Regulation Coordinating Committee (FSRCC) Tracking data could also be shared that would allow both agencies to assist each other more effectively. An ideal solution will be the establishment of a law enforcement database, featuring a secure network that would facilitate the sharing of information between SEC, EFCC, Nigerian Banking authorities etc.

The Commission’s inspection and enforcement programs are saturated with a myriad of disputes between customers and brokers consisting primarily of contractual disputes and unauthorized transactions. While investor complaints are a rich source of market intelligence and should be fully tracked by SEC and mined for evidence of serious violations, the majority of them are typically relatively minor matters that consume too many resources for an overarching regulator to get mired in. Therefore, resources should be re-deployed to tackle the multitude of other more serious violations that currently plague the Nigerian Capital market.

Market surveillance by SEC and the stock exchanges should be aggressive and in real time. Alerts should generate immediate investigations, including inquiries to brokers to determine the nature of the trade. The NSE should be in regular contact with SEC to discuss alerts or sudden movements and make appropriate and timely referrals of suspicious trading. The reforms would be better consolidated if SEC could work with the NSE.

With regards to the issue of settlement of cases of conflict, reforms can be put in a better perspective if SEC strongly considers taking steps to make the Administrative Proceedings Committee (APC), a more independent body and take its secretariat, law clerks and other permanent staff out of the chain of command of the Enforcement Department to eliminate the inherent conflicts of interest in having the prosecutor and adjudicator (here, essential adjudicative staff) in the same place. The APC should be staffed with its own law clerks and additional administrative staff. The APC could be re-located as an independent, stand-alone institution within the SEC. SEC could also consider options to make APC decision-making more independent, such as empowering the APC to make independent decisions that are not necessarily reviewed or confirmed by the Board in every instance, but could be appealed to the Board, and thereafter appealable to the Investment Securities Tribunal (IST).