NIGERIAN INSTITUTE OF ADVANCED LEGAL STUDIES

LAGOS, NIGERIA

ROUNDTABLE ON THE NIGERIAN STOCK EXCHANGE

8th February, 2011

COMMUNIQUE

Introduction

The Nigerian Stock Exchange commenced operations in 1961 as the Lagos Exchange with nineteen (19) securities enrolled for trading. This metamorphosed into the Nigerian Stock Exchange with branches in Kaduna (1978), Port Harcourt (1980), Kano (1989), Onitsha (1990), Ibadan (1990), Abuja (1999) and Yola (2002).

The market has in place a network of stockbrokerage firms, Issuing Houses, practicing corporate law firms and over (fifty) 50 quality firms of auditors and reporting accountants. As of March 2007, the number of enrolled securities was two hundred and eighty three (283), with a market capitalisation of about 15 trillion naira. Following the stock market crash about nineteen (19) securities had been delisted.

The stock exchange provides companies with the facility to raise capital for expansion through the selling of shares to the investing public. Investment in shares leads to a more rational allocation of resources as funds which would have been consumed or kept in idle deposits are mobilized and redirected to promote business activity with benefits for several economic sectors needing long term funds such as agriculture, commerce and industry; resulting in stronger economic growth and higher productivity levels for companies. As opposed to other businesses that require huge capital outlay, investing in shares is open to both the large and small investors. Therefore the Stock Exchange provides the opportunity for small investors to own shares of the same companies as large investors.

To protect these investors and boost economic growth as desired, there is need for effective regulatory framework that protects both the small and large investors and creates confidence in the workings of the exchange.

In recognition of the central role that a stock exchange plays in the economy of any nation; and the apathy that arose following the crash of share prices and collapse of the Stock Exchange, the Nigerian Institute of Advanced Legal Studies on 8th February, 2011 hosted a Roundtable on the Stock Exchange in Nigeria.

Discussion centered round: The Regulatory Framework of the Nigerian Stock Exchange; The role of the Securities and Exchange Commission; Collapse of the Nigerian Stock Exchange: Matters Arising and Protecting the Public Interest in the Stock Exchange.

The Roundtable was ably chaired by a onetime Minister of Finance of the Federation Dr. Kalu Idika Kalu OFR, while the Keynote address was delivered by Pastor Ituah Ighodalo an accomplished accountant and auditor and a keen player in the market.

The Roundtable Observed as Follows:

1. The stock exchange is an entity that provides a platform for the trading in shares, stocks and other derivatives.

2. The stock exchange provides real time information on listed securities, it thrives on information and confidence and integrity of the market is therefore very important in building investor confidence.

3. The Securities and Exchange Commission (SEC) is a critical player in the success of the Stock Exchange as an independent regulatory body.

4. The Commission requires all public companies to disclose meaningful financial and other information to the public.

5. It is only through the steady flow of timely, comprehensive and accurate information that people can make sound investment decisions.

6. The result of this information flow is a far more active, efficient and transparent capital market that facilitates the capital formation so important to any nation's economy.

7. Prior to 1989, there were only 8 stock markets in the entire African Continent; today there are over 22 stock exchanges with significant growth in market capitalization and number of listed companies.

8. By early 2008, the three biggest stock exchanges in the continent South Africa, Egypt and Nigeria, had a combined market capitalisation of over 1.118 trillion USD.

9. The global economic meltdown affected the Nigerian Stock Exchange (NSE), the capital flight was a major cause of stock price crashes in 2009 as foreign investors withdraw their investments in company shares held on the exchange. Other causes of the crisis included:

- Suspected process manipulation by some traders with purported support and knowledge of management of the NSE.

- High personal and corporate debt levels especially in margin loans due to flaws in credit rating assessments.
- Risk management weakness in the financial sector resulting in the disbursement of loans without adequate collateral including the illiquidity of collateral provided.
- Weak corporate governance structure in some quoted companies leading to suspected manipulation of company results.
- Increased credit exposure to bad debts within the financial institutions
- Regulatory policies, including capital and disclosure requirements that failed to mitigate risk management weaknesses.

10. The capacity of the regulatory body to investigate and monitor companies in the stock exchange is very weak; this is however not as a result of lack of regulatory framework but a lack of commitment to enforce and sanction defaulters.

11. The investing public does not understand the nature of property being traded at the stock market and this can be cured by consulting experts.

12. The Investment and Securities Tribunal as constituted at present has no mandate at the moment to deal with criminal actions arising from transactions on the stock market.

13. A lot of time is expended on the issue of jurisdiction before the Investment and Securities Tribunal as a result of which there are few substantial decisions on the NSE/Capital Market.

14. The Stock Exchange Commission (SEC) can only play within the limits of existing social and regulatory imperatives. The regulatory tools fashioned by SEC to protect investors in the Nigerian Capital Market include:

- Registration of market operators and facilities to ensure that only fit and proper operators enter and remain in the market and ensure that market facilities are adequate and meet required standards.
- Registration of securities to be offered to the public to ensure that worthless securities are not traded in the market.
- Mandatory minimum disclosure requirements by issuers to enable an investor make an informed decision to buy or continue to hold its securities.
- Minimum capital adequacy requirement to ensure that operators have capacity to play in the market and contain transaction risks.
- Surveillance and investigation of operators by the Commission to ensure protection of investors.
- The Commission also exercises compliance and enforcement actions to ensure that operators obey laid down rules and ensure that the market is just, fair, transparent and efficient.
- The Commission has the power to make rules to address topical issues affecting the market and thereby promote confidence in the market and protect investors from deceitful and manipulative practices in the market.

15. The political system plays a crucial role in the effectiveness of the stock exchange.

16. The impact of the crash could be seen in the following areas:

- Erosion of foreign direct investment and loss of investor confidence;
- Onset of credit squeeze, to the effect that many lending institutions cannot meet the needs of small and medium enterprises for short and long term funds;
- The global recession translated to less energy consumption translating to less crude oil sale and less oil revenue for Nigeria leading to depletion of our foreign reserves;
- More external borrowings by government to bridge its deficit expenditure;
- Unprecedented job losses especially in the banking sector.

17. The crash of the stock exchange in Nigeria epitomizes the general failure of the Nigerian society.

At the End of Deliberations the Roundtable Recommended as Follows:

1. Proper regulation of the Nigerian Stock Exchange (NSE), stock brokers and traders on the stock exchange.

2. Better reporting and auditing standards for companies. This can be enhanced if the proposed International Financial Reporting Standards (IFRS) is implemented.

3. A total restructure and implementation of strict corporate governance within the NSE.

4. Rebuilding of public confidence in the exchange by its strong and steady performance.

5. A commitment by all players to transparency and prevention of the recurrence of the 2009 crisis.

6. Investors should be willing to seek sound investment advice, be better informed and carry out deep research.

7. There should be access to professional investment management services for better performance.

8. Portfolio managers and investment advisors should recommend companies with strong business fundamentals.

9. The growth and sustenance of long term instruments which offer higher and more stable returns as investors hedge against risk.

10. Education of traders of the exchange on how margin accounts work, and how they will operate under new guidelines as is being proposed.

11. The reform of the financial services sector is laudable but must go the whole hog. It must incorporate the big, medium and small players, the stock broking firms, banks, insurance, finance and micro finance banks.

12. Eliminate recognition of sacred cows in the regulation of the financial services sector in particular and the economy in general.

13. Corruption should be tackled with sincerity. This should be seen in concrete action rather than in sound and fury.

14. To build confidence in the system, the Investment and Securities Tribunal should be enabled to consider criminal issues arising from stock transactions.

15. Purposive leadership that will impact positively on the public and private sectors of the economy in the shortest time. Such leadership begins with the election and appointment of the right calibre of persons into all levels and tier of government. Right calibre leadership in each tier and level of government is mutually reinforcing.

16. As a long term measure towards educating the investing public on the workings of the stock market, this subject should be taught in secondary schools and universities.

Lagos, Nigeria
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Signed:
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Director General