Proshare **Confidential**

NSE 10 Years After A Takeover:
The Good, The Bad And Undecided

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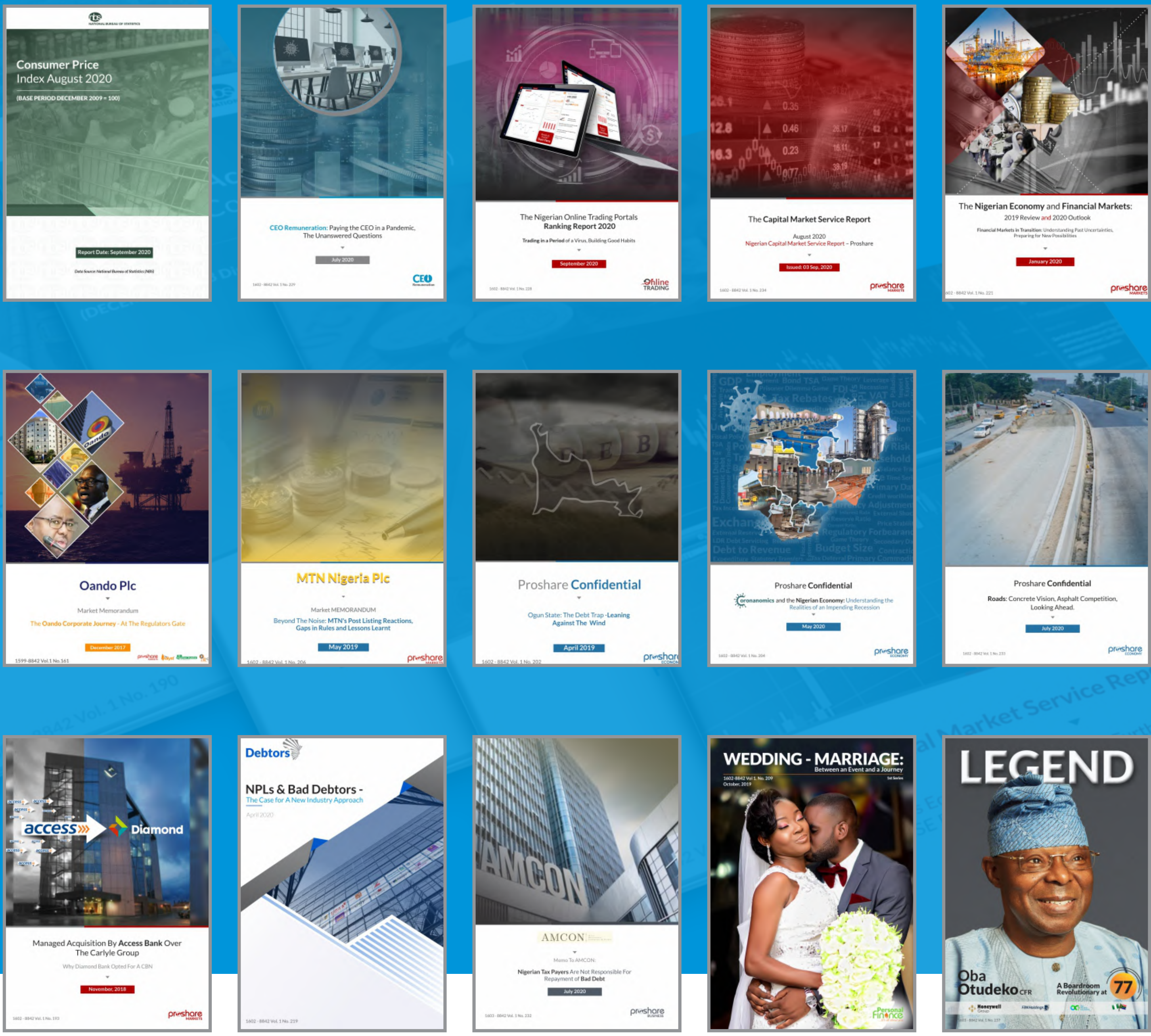

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Executive Summary

"Learn every day, but especially from the experiences of others; it's cheaper!" *-John Bogle*

John Bogle's comment is instructive, especially when it comes to the battles for the heart and soul of Nigeria's stock market over the last two decades (2000-2020). The market has grown both because and despite its principal officers, with each era introducing a pungent twist to a colourful tale. In two decades, the market has pivoted between the philosophical and dramatic and the subdued and innovative with a snap period (2010-2015) of disruptive intervention. Each epoch represented part of an intense learning process, but unlike Bogle's admonition, it did not defer to the experience of others, it required passing through the furnace itself.

At the turn of the millennium Ndi Okereke-Onyiuke, Ph.D., erstwhile Director-General of the Nigerian Stock Exchange (NSE) realized that the growing adoption of technology and the increasing sophistication of tradeable market instruments required a new trading platform, one with enough flexibility to be scaled up to global standards but light enough to accommodate the existing state of play of market operators. She, therefore, consolidated her earlier initiative to digitalize the Exchange into a broader plan of improving both the trading platform and the investor's trading experience.
The interface between the market and the investor was no longer wrapped in obscure practices but became open to the light of new trading rules and new trading methods (open-outcry and trader market muscle memory were replaced with keyboards, monitors, charts, research reports, Fibonacci algorithms, candlestick presentations and corporate market engagement, 'facts-behind-the-figures'). The new era had started but not without hiccups.

Problems that stuck to the shoe gum of the Exchange ranged from institutional inertia (the need to upgrade staff competence) to professional dispute management (engagements between the Exchange's managers and the organizations governing Council) and a brief but uncharacteristic detour into politics. By 2009 and 2010 conflicts with the management of the Securities and Exchange Commission (SEC) piled additional pressure on the Exchange's management which was unhelpful. Unfortunately, the conflict resulted in the departure of Okereke-Onyiuke and key managers of the Exchange in 2010.

An Inconvenient Truth

One rarely spoken about problem Okereke-Onyiuke faced was the attempt by certain Council members to railroad a demutualization process that would have allowed owners of bellwether stocks listed on the Exchange to take up major equity in the Exchange, creating what analysts at the time had perceived as conflicts of interest. While the Exchange would inevitably change from a stock broker-dominated Exchange to an investor-dominated platform, Okereke-Onyiuke was wary of allowing overwhelming individual financial influence to be the primary factor dictating the Exchange's ownership within the proposed demutualized arrangement. Okereke-Onyiuke's reticence to demutualize the Exchange at the time resulted in a powerful blowback from angry high net worth investors who felt hard done by as the ex-DG played a game of 'slow is beautiful'.

The game, however, came with a heavy cost and by the time the dust settled on the maneuverings one of the Exchange's most ebullient and charismatic bosses had been shown the door.

As soon as Okereke-Onyiuke left the Exchange, Emmanual Ikhazoboh was nominated by the SEC as an interim administrator until the market would appoint a substantive successor. In the interim, the new boss worked with the NSE's old management team but without the effervescent presence of the former DG. The arrangement continued for a few months before the old guard was nudged aside (*see table 1*).

Table 1: **Okereke - Onyiuke's Curtain Call**

NSE, END OF AN ERA:
OKEREKE ONYIUKE BOWS OUT 2000 - 2010

S/No	Names	Designation
1	Emmanuel Ikazoboh	Interim Head of Council
2	Mrs Taba Peterside	GM/Head of Alternative Securities/ Private Placement Exchange
3	Mr. Binos Yaroe	GM/ Head of Listings
4	Mr. Kene Okafor	GM/Head, Market Operations & Information Technology Dept.
5	Mr. Farooq Oreagba	GM, Head, Strategy & New Products Dept.
6	Mrs Josephine Igbinosun	Secretary to Council/ Legal Adviser

Source: NSE, Proshare Research

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The Next Drive-By

With Okereke-Onyiuke given the heave-ho, Oscar Onyema, another Alumni of the New York Stock Exchange (NYSE) was brought in to steer the affairs of the Exchange for an initial five-year term as chief executive officer (CEO). Onyema quickly went to work on reviewing the Exchanges structure and processes and rejigged operations to suit the 'touch and feel' he considered necessary to build on Okereke-Onyiuke's legacy.

Onyema quickly set to work and decided that the Exchange needed to drive larger volumes in new tradeable assets by way of fresh listings and the introduction of instruments such as mutual funds, exchange-traded funds (ETFs) and exchange-traded Index funds. However, four years before Onyema's foray into product development, the Okekere-Onyiuke team had introduced a real estate investment trust (REIT) in 2007 called the Sky Shelter real estate investment trust. In other words, from 2007 the NSE had steadily built up new asset classes to give the market greater breadth.

Nevertheless, Onyema has shown an ability to push for innovation and asset growth as the NSE capitalization rose from N6.53trn in December 2011 to N13.51trn in December 2019, representing a compound annual growth rate of 8.41% (well above the average annual growth of the country's (GDP). The Exchange under Onyema has seen progress with capitalization and increasing sophistication but it has been trumped by the massively superior fixed income performance of the FMDQ Exchange which has seen an explosive growth of treasury transactions and commercial private bonds in the decade since 2014 (*see table 2*).

Table 2 NSE, NASD and FMDQ A Tale of Growth and Competition

SIZE OF NIGERIA'S FINANCIAL MARKET 2014-2019

Market	2014	2015	2016	2017	2018	2019
FMDQ (Mkt Turnover N'trn)	104	137.43	113.66	142.03	182.86	232.68
NSE (Mkt CAP N'trn)	11.48	9.85	9.25	13.61	11.72	12.96
NASD (Mkt CAP N'trn)		0.4	0.42	0.41	0.51	0.50
Size of Financial Market	115.5	147.7	123.3	156.S1	195.1	246.1

Source: NSE, FMDQ, NASD and Proshare Research, Ecographics

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Fresh off the airplane from JFK and with fire in his belly, Onyema came to the NSE with a few baseline ideas to upgrade the local equity market including the following;

- Introduction of market makers
- Achieve US$1trn market capitalization by 2016
- Creation of an Investor's Protection Fund
- X-Whistle, a whistleblowing platform to improve market surveillance
- Establishing ASeM, a framework designed to allow SMEs to gain access to the stock market

The security market administrator's goals at the time were laudable and mirrored global developments, but after ten years at the helm of the NSE and with a few months to go from his retirement at the end of Q1 2021, the outcomes of his early initiatives remain patchy (*see table 3*).

Table 3: Inside Onyema's Strategy: The Promise and The Weakness

Table 3: Inside Onyema's Strategy: The Promise and The Weakness

OSCAR ONYEMA'S PROMISES:
THE OSCAR MINDSET

Promises/Initiatives	Reasons for	Reality
Introduction of Market Makers	To boost liquidity and Stabilise the market	Tight banking regulations which have sterilized most liquidity of the banks and dependence on foreign investors for funding affected their performance
US$ 1trn Market Cap by 2016	Opportunity to deepen the market with more listings	National economic challenges and the slow market recovery made the capitalization projection impossible
Investors Protection Fund	To compensate investors with genuine claims of pecuniary loss against dealing member firms	We still await account of stewardship on this fund
X-Whistle	To provide a dynamic and robust capital market regulatory regime.	So far, we are yet to get any update on any whistleblowing action in the market
ASeM Market	It allows small and mid-sized companies to raise long-term capital from the capital market	The ASeM Market has only managed to record one new listing since its launch

Source: Proshare Research, Ecographics

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Setting Fire To The Rain

A flashback to 2010 unveils an unflattering period in the life of the Exchange, with SEC and the NSE at each other's throats and the Capital Market Committee of the House of Representatives of the National Assembly in an uproar over bribery allegations.

The capital market was in a fiery flux as accusations and counter-accusations by regulatory managers went flying and members of the national assembly had their reputations squashed like mashed potatoes. According to a local stockbroker with 28 years of uninterrupted market experience, "you had to be scared of the internal regulatory wranglings going on because foreign investors were growing increasingly wary of entering a market with supervisory chaos seeing that local investors were busy holding onto rosaries praying that this 'too shall pass'. As a trader, you had to be frightened" he said.

The 2010-2015 period saw the Securities and Exchange Commission (SEC) headed by an elegant, cerebral but domineering ex-AfDB executive, Aruma Oteh, who took over the ropes with zeal. Oteh had a clear agenda to quickly introduce private sector management style to the hallowed bureaucratic traditions of SEC and she could not be bothered with whose ox was gored, including that of long-standing senior SEC executives. It did not take long for Aruma's aggressive (some say pugilistic) management style to rile not only the nerves of her SEC colleagues but also members of the oversight committee of the market at the national assembly (NASS). Put simply, Oteh set fire to the rain.

Whatever position analysts may take concerning the Oteh days at the SEC, she was a force for both good and mayhem. She grabbed the market by the scruff of its neck and shook it hard, very hard.
A few of Oteh's contributions to the market included but were not limited to the following:

- She is believed to have restored confidence in the market after the 2007 collapse. Oteh was said to have been bullish on enforcement, improvement in market rules and regulations, and the education of investors. Part of Oteh's creative initiatives was a partnership with Nollywood to produce movies, an annual integrity award to promote integrity and capital market knowledge. Under Oteh SEC established the National Investor Protection Fund and strengthened its Administrative Proceedings Committee (the concept around the fund is still ambiguous and market analysts are doubtful of the fund's appropriateness)
- The market was said to have been deepened and broadened under Oteh those who make this argument point to product innovation, new listing rules, bond market reforms (which brought it almost at par with the equities market and made it attractive enough for Triple-A issuers such as African Development Bank (AfDB) and International Finance Corporation (IFC) to issue bonds), the introduction of Exchange Traded Funds (ETFs), widening of participation in the markets through licensing and coming – on – stream of other capital trade points like National Association of Securities Dealers (NASD) and Financial Market Dealers Quotation (FMDQ) that created greater market competition, especially in the area of traded fixed interest securities
- Oteh was said to have improved market integrity through zero tolerance for rule infractions. The regulator's enforcement framework was alleged to have been significantly strengthened. Apart from other measures SEC, under the erstwhile DG, set up an 18-man Nigeria Police Force team which was a resident enforcement team to respond to enforcement matters with promptness.
  SEC, under Oteh was said to have strengthened disclosure requirements and pushed for the speedy implementation of international financial reporting standards (IFRS) for listed companies.
- In 2011 the SEC published a new code of corporate governance for the Nigerian markets which was aimed at standards improvement in line with international best practices. In addition to a significant improvement in corporate governance, the code has become mandatory. For example, the SEC's role in strengthening corporate governance at Ecobank Transnational Incorporated(ETI) was a highpoint.
- A major Oteh-contribution at the SEC, which was widely recognized, was her commitment to human capacity development which she elevated to an indelible height. Oteh was keen on strengthening the capital market as a whole by markedly improving personnel and technological capabilities at the SEC through the training and retraining of human capital.

Oteh's firestorm engagement at the SEC may have been unsettling but it came with benefits as well as costs.

Section one of this report looks at a brief history of the NSE, how business activities were carried and what influenced investment decisions. It also looks at the creation of the CSCS and what led to its creation, the growth in market operators over the years, improvement in market confidence through logic rather than passion or ***'animal spirits'***. The section also looked at changes made within different management eras, increased growth in the number of IPOs, LBIs as preferred methods of capital raise by most companies.

Section two: this section addressed the issue of the market's unpredictability and investors reaction to market dynamics. The impact of unexpected shocks on the value of the capital market. The section also answers the question ***'does the Nigerian Stock Exchange reflect the state of the domestic economy?'*** and foreign and domestic investor sentiment on the market. It also looked at the long road to achieving a market capitalization of US$1trn. This section also looked at the transition from AseM to Growth Board and its related matters. The section brought to the surface opportunities presented by the COVID-19 depressed economy, it also answers the question ***'if the political risk is a matter of concern for the market and market players***.

Section three: this section talks about the need for demutualization, the niggling problems associated with demutualization and the sustained fear of the power that will be controlled by the board of directors and potential conflict of interest of a demutualized Exchange. This section also talks about actions that could lead to the success or failure of a demutualized exchange and its prospective value chain drivers. The addressed how AI could be used for the identification of arbitrage opportunities and the disruption of asymmetric loopholes. The section spoke to the proposed CISI bill and its implication for the adoption of a professional monopoly, it disagreed with its proposed disciplinary process which undermines the Investment and Securities Act of 2007 and the establishment of an Investment and Securities Tribunal (IST). The section argues that the CISI bill as drafted was mortally and morally flawed.

Introduction

Introduction

"The four most dangerous words in investing are: 'This time it's different'".
-American-British Investor, Sir John Templeton

Nigeria's Stock Market has been a fluid drama of colorful and not-so-exciting characters. Indeed, ranging from the boisterous yet cerebral Alpha-female, Ndi Okereke-Onyiuke, Ph.D., former Director-General of the Nigerian Stock Exchange (NSE) to the famously taciturn and introverted but equally intelligent Oscar Onyema, the current Chief Executive Officer (CEO) of the Exchange, the country's equity house has seen its fair share of turning tables. In the last twenty years, Nigeria's premier equity trading floor has been a theatre of the illusive bumping against the drama of the prospective.

Okereke-Onyiuke engineered (even if haltingly) the digital migration of the Exchange from the old open outcry system to the smarter computer terminal architecture that the Exchange parades today. The difference between the old and new trading culture is that the trading 'floor' of yesterday has since given way to the trading 'space' of today, which is a digital framework spanning tens of stock trading (debt and equity) offices across the country. Stockbrokers now stay in their offices to carry out client orders remotely, as distant trading transactions have become the new normal. However, beyond digital remote trading, the new managers at the Exchange have added a few gizmos to spice up activities and hopefully grow market volume and capitalization. Some of the smart features of the new market regime include, but are not limited to, the following:

- The reclassification of equity segments with the introduction of the premium board, the NSE 30, NSE 50 and a series of other indices from third party professionals
- The introduction of market-makers to provide daily trading liquidity
- The development of a Growth Board to take over from the old second tier-listing segment called ASeM.
- The promotion of the listing of government debt instruments. In the last decade, the Exchange appears to have lagged behind other markets such as the FMDQ with private and public debt asset growth being relatively low.

A review of the transition from the period before the administration of Mr. Oscar Oyema and since Oyema's ascent to the position of CEO of the Exchange provides context for reviewing the performance of the stock market since 2010. The matter is less that of assessing individual performance as it is one of measuring market growth or lack of it.

A Yen for Numbers

One of the most important assessments of the Nigerian stock market is its numbers. Between 2010 and 2019, the market's equities capitalization has grown from N7.91trn in 2010 to N12.67trn in 2019 or what amounts to compound annual growth of 5.64%. Compared to an average gross domestic product (GDP) growth of 8.01% in 2010 and 2.25% in 2019, the Exchange's performance has not been stellar. But the market had appeared to have done much better in traded public and private debt as debt capitalization rose to N12.92trn (N15.83trn as of August 2020), no figures are available for 2010 as market trading in government instruments was thin and far and between.

The total value of equities traded in 2010 was N797.55bn as against N962.65bn in 2019, or what represents a straight-line growth of 20.70% or what amounted to compound annual growth of 2.11% over the last decade. The average daily market turnover of equities in 2010 was N3.23bn as against 3.95bn in N2019 suggesting that daily traded value a decade ago was only 22.3%% or a fifth lower than last year.

The stock market has had a difficult decade between 2010 and 2020. Turnover velocity for equities dipped from 12.51% in 2010 to 7.55% in 2019, representing a decline of 4.96%. The reduction in velocity reflected a gradual rise in investor interest in public sector traded debt instruments such as treasury bills and treasury bonds and the gradual shift of local and foreign direct investors (FDIs) from equities to the fixed income market. The swing explains why by 2019 the value of bond capitalization on the NSE squared up with the size of its equity capitalization even though the bond market was almost non-existent in 2010. As of August 11, 2020, the NSE bond market was at N15.83trn as against the FMDQ market value of N30.19trn and the equity market value of N12.98trn.

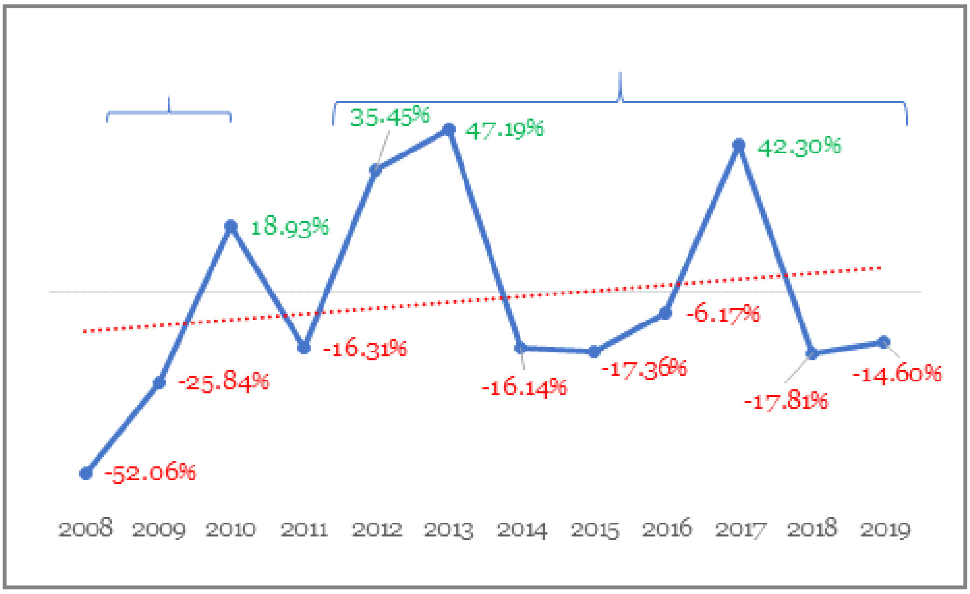
A sour point in the 2010-2020 decade of market development has been the tumbling of newly listed equities. New equity issues slumped from 31 in 2010 to 17 in 2019. Despite the growth in trading activities on the NSE in the last decade, corporations have been wary of raising fresh capital from the market and diluting existing shareholder interest by way of an Initial Public Offer (IPO) or by a Rights Offer (which would retain existing shareholder equity interest but increase the number of shares in issue).

The NSE has not been a preferred point for raising fresh capital because corporations have favored short-term forward financing plans which are funded by money market arrangements that are faster and involve no equity raise costs or a commitment to higher earnings that compensate investors for equity growth.

The stock market over the past decade has been sustained principally by foreign investor interest as the gradual weakening of the naira and the fall in equity prices has engineered hidden-value opportunities above those in competing frontier markets (FMs). The high trade-influence of foreign investors between 2010 and 2020 contrasted sharply with the heavy domestic investor participation in the market between 2000 and 2009. The 2000-2009 period saw a dynamic market transition spearheaded by Okereke-Onyiuke who insisted that digital migration was necessary to build market robustness and create the fidelity required to encourage foreign investors to put money on the table. The former DG's power-nudge involved foreign roadshows and networking trips which involved local equity brokers amplifying investment conference dockets.

The effort of Okekere-Onyiuke and her team was somewhat successful as the upward growth of the All Shares Index (ASI) was noticeable but muted. However, the ASI dipped by -52.06% Y-o-Y in 2008 and -25.84% Y-o-Y in 2009 (the twilight of the Okereke-Onyiuke era). But by 2010 things had taken a turn for the better as the market bounced right back up Y-o-Y by +18.93%, with a further leap of +35.45% in 2012. By 2013 the ASI growth rate had inched forward by a further +11.72 to +47.17%. Between 2014 and 2017, with a wobbly global economy, the Index uncharacteristically caved by -16.14% in 2014, -17.36% in 2015 and -6.17% in 2016, a reflection of the implosion of global commodity and equity trades as international financial markets went into a free fall. By 2017 the global economy had steadied itself with a rebound dragging the local ASI up as the economy witnessed a reprieve before dipping again between 2018 and 2019 with the Index slumping by -14.60% (*see chart 1*).

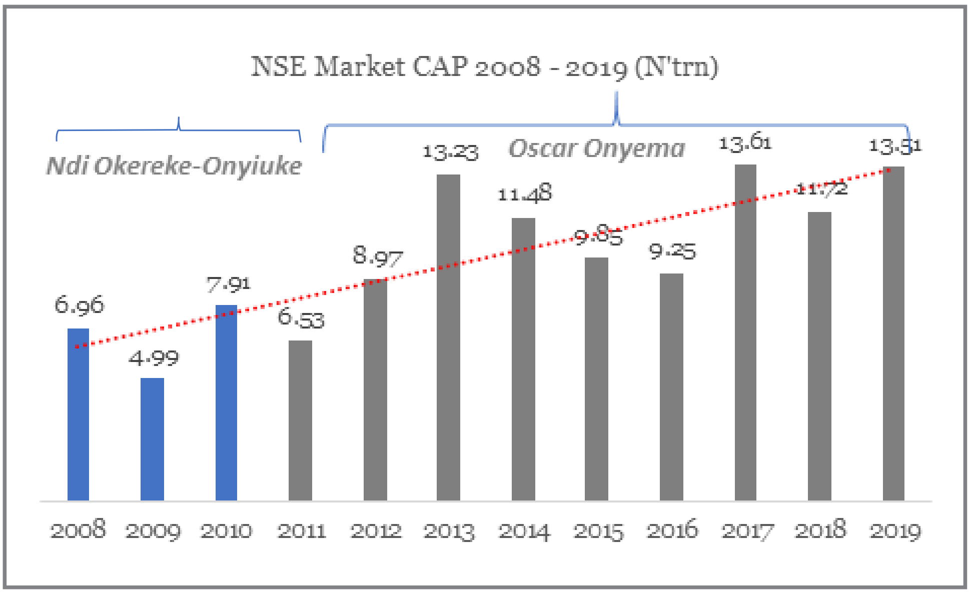
Chart 1: NSE ASI Growth Y-o-Y 2008-2019



Source: Nigerian Stock Exchange (NSE), Proshare Research

In terms of market capitalization, the Exchange has catapulted upwards in the last fifteen years with the steeper part of the climb occurring between 2011 and 2019 under Oscar Onyema compared to the dip and upward reversal under the last three years of the ten-year tenor of Ndi Okereke-Onyiuke (*see chart 2*).

Chart 2: NSE Market Capitalization 2008-2019



Source: NSE, Proshare Research

New Belly Fires

The impact of the NSE's roadshows and aggressive marketing, however, got muddied by the increasing political engagement of the erstwhile DG. While Okereke-Onyiuke was attempting to push market growth she also got caught up in domestic and foreign politics which created different levels of professional conflicts watering-down the clinical-edge of her leadership of the Exchange. By 2011, a new board of the NSE was inaugurated which swept the Okereke-Onyiuke era out and brought in a new set of younger officials at the Exchange with a different type of fire in their bellies. Okereke-Onyiuke was removed as DG of the NSE in August 2010. Before joining the NSE Onyema was the Chief Administrative Officer and Senior Vice President NYSE MKT LLC, USA.

Onyema commenced duty as the new Exchange boss on April 4, 2011, nine months after the Aruma Oteh-led Securities and Exchange Commission (SEC) nudged the Okereke-Onyiuke administration aside in a brazen move to allegedly clean up the NSE and reduce its political partisanship and what Oteh alleged before a House of Representatives Committee of the Capital Market as fiscal recklessness. According to Oteh at the time "The extent and nature of the market abuses carried out between 2006 and 2008 are the primary reasons for the continuation of the investor apathy that we see today,".

The Oteh Blitz

Oteh listed some financial and ethical infractions under the Okereke-Onyiuke leadership of the NSE. The alleged issues involved, but were not limited to the following:

- The NSE bought a yacht for N37m and wrote down the full value of the acquisition within one year with the narration on the regulator's books being a gift for long service during its 2008 staff send forth awards without identifying the beneficiary of the boat.
- The purchase of 165 Rolex wristwatches for awardees of the 2008 long service ceremony of which only 73 watches were allegedly presented to awardees while the remaining 92 watches were allegedly unaccounted for. The watches said to have been unaccounted for were worth N99.5m.
- The transactions were claimed to have been routed through accounts of senior officers of the Exchange or companies associated with these officers. Also, according to House of representative's records, Oteh claimed that "*In 2009, several billions of the year 2008 operational surpluses were distributed to the Council members and employees of the Exchange in violation of Capital market and SEC rules*".
- Oteh noted further alleged infractions of corporate governance, according to her "*Other notable fraudulent transactions include the reclassification of the sum of N1.3billion originally expended on business travels. Of this sum, N953million was reclassified under "Software Upgrade" and subsequently expended as against being capitalized. There were other cases of such unethical accounting practices*".
- The then SEC DG insisted that the NSE management of the time

But Oteh herself was not without baggage. She had a running battle with the House Committee on Capital markets, accusing the Committee of asking for oversight gratification while the Committee in turn laid allegations of financial recklessness against the erstwhile SEC DG (citing as an example the fact that the DG spent N850,000 in a day on food). Ndi Okereke-Onyiuke the ousted the NSE DG also kicked up dust accusing Oteh of highhandedness, bias, and financial profligacy.

But Oteh's adversaries were not external alone, Commissioners within the SEC had no sympathy for the DG, accusing her of authoritarian inclinations with no room for collegiate dialogue. According to Charles Udora, one of the SEC Commissioners who gave testimony at the Ibrahim El-Sudi-led House Committee meeting, *"we seem to have a regulatory comatose"*.

It was clear from testimonies of SEC staff that Oteh allegedly operated outside the in-house operating procedures and frameworks and may have run her office with consultants from the private sector, thereby estranging long-serving SEC management staff. In her remarks at the House Committee inquiry Daisey Ekineh, who had briefly acted as DG and had spent 30 years at SEC noted that "*the way forward is that we should meet more face to face rather than doing email and text messages. The head should be respected and the head should respect others*". She concluded by noting that "*In the past, I'm sorry to say this; we worked very much as a team. The trust is no more there*".

Oteh's era as SEC DG was a tale of the good, the bad, and everything in-between. It was a period of high-octane emotions, institutional dysfunction and at times surprising brilliance. Oteh superintended a new mindset in frontier capital market oversight with a progressive outlook but with a management style that was poor on emotional intelligence, an Achilles heel that quickly created internal institutional tension.

The Gwarzo Quagmire

African Development Bank's (AfDB's) former treasurer's exit from SEC in 2015 gave way for a new period of capital market oversight disruption as the new administration of Dr. Mounir Gwarzo became as emotionally-troubled and administratively-weakened as the preceding Oteh regime. The new management started by "weeding out" perceived "Oteh-loyalist" and redefined institutional priorities, thereby truncating the previous management's market development plans while at the same time kicking a dent in the market's regulatory momentum.

Indeed, while attempting to stabilize operations in the new arrangement, the freshly-appointed DG was quick to be hit by a barrage of pointed accusations that bordered on alleged nepotism, tribalism, and favoritism in addition to supposed imprudent financial spending. The allegations led to his suspension as the DG of the Commission and his replacement with acting DG, Ms. Mary Uduk. But after a hard-fought legal battle, Gwarzo was reinstated to his previous position. Nevertheless, by this time SEC's management bus had left the tube station with a new acting DG firmly planted. To compensate the Gwarzo, erstwhile SEC boss, the Presidency in its wisdom decided to allow Gwarzo to retire with all the benefits of a past-serving SEC DG. The President was also appointed as permanent DG of the Commission, Mr. Lamido Yuguda.

The high stakes drama played out at SEC had consequences for the pace and direction of the growth of the local stock market. The market suffered from regulatory gaps and tripwires that hobbled its growth between 2015 and 2019 as a result of fuzzy oversight. The modest regulatory improvements seen in recent times have been under the short-lived administration of Uduk who established a steady rapport with different market stakeholders and rebuilt the traditional official camaraderie that prevailed at Commission.

Each SEC boss brought a specific style and mindset to the Commission but for vision and deliberate execution Oteh would rank highest, but for regulatory stability and steady market advancement, Uduk showed superior social sensitivity and understanding of the art of execution to push towards better market rule-development and corporate monitoring than her predecessors.

So, is the period before 2010 different from where the capital market is today? It depends on which side of the fence you prefer to sit. From the perspective of SEC, a significant amount of drama had been stripped from the regulatory governance playbook but with that had also disappeared the passion for change and innovation. Oteh for all her run-ins with staff and legislators had a clear intent to upgrade the oversight function of the regulator and stay on top of the changing market development curve. The nuances of evolving practice changes in oversight were well tracked by the erstwhile DG. Nevertheless, administrative puritans would perhaps prefer the stability and team-driven administration of Acting DG Mary Uduk, who brought a temperate yet effective personality to the governance table and slowly but steadily provided templates for new market administration, but not without a few missteps of her own like the high-handed intervention in the discipline of Oando Plc. on alleged corporate reporting infractions.

Concerning the NSE, recent data shows that the equity values listed on the Exchange had been on a steady upswing in the broad sweep of the market's contemporary history. It appears that Onyema has been able to superintend a secondary market growth that has been mild but sustained, the business of primary issues in both bonds and equities, however, has been less impressive.

So, is this time different? Maybe so, but as much as things appear to have changed, quite a few things have stayed the same.

Section One: Then And Now

Section One: Then And Now

NSE: The Story of Then and How

In the 1970s and 1980s, Nigeria's stock market was still in its infancy. The open outcry system prevailed with most brokers running on passion or 'animal spirits' rather than logic. The mood of the market was shaped by the powerful aphrodisiac of rumor, speculation, clean and dirty corporate numbers with a dash of hubris.

The 1990s was a bridge between the old and the new with the federal government taking a more proactive approach towards private sector involvement in the economy, especially in respect of developing a mature local capital market capable of significant capital raise to support domestic enterprises. The 1990s decades saw a deepening, widening, and upgrading the capital market.

For example, in 1990 the NSE introduced the collective investment scheme called unit trusts. The unit trust product was designed to encourage small-time investors to take advantage of superior investment returns available to bigger players in the equities market who tend to trade stocks with large market capitalizations and relatively steep prices. The 1990s also saw an increase in market operators (CMOs) from 140 in 1992 to 226 in 1999 or an increase of +61.43%. To improve settlements and repository services the Exchange established the Central Securities and Clearing System (CSCS) in 1997. The creation of the CSCS reduced the transaction settlement period from transaction day plus 14 days (T+14) to transaction day plus 5 days (T+5). The reduction in the transaction cycle spurred an increase in market confidence and improved traded volumes (the transaction cycle has since been reduced to T+1 from T+3 in 2015). The volume of shares traded rose from N557m in 1997 to N2.097bn in 1998 and N3.954bn in 1999 (*see table 4*).

Table 4: NSE: Eight Years of a Transition (1992-1999)

Table 4: **NSE: Eight Years of a Transition (1992-1999)**

NSE's EIGHT YEAR PERFORMANCE SUMMARY

PARAMETER	1992	1993	1994	1995	1996	1997	1998	1999
No. of Quoted Coys	153	174	177	181	183	184	186	195
No. of Listed Securities	251	272	276	276	276	267	264	269
Total Mkt. Capitalisation (Billion N)	31	47	66	180	286	282	263	300
Vol. of Securities traded (M)	262	473	524	397	882	557	2097	3954
Daily Avg. Vol. of Shares (MM)	1.1	1.9	2.1	1.6	3.5	6.9	8.4	15.6
Price/Earning Ratio	9	8.4	5.5	9.2	12.2	14.5	11.9	12
Value of New Issues (Billion N)	3.3	2.6	2.2	4.4	21.5	0.6	7.16	1.26
NSE All shares Index	1108	1544	2205	5092	6992	6441	5673	5266
No. of Stock-broking Firm	140	140	140	162	162	162	186	226

Note: Data at the end of each year

Source: NSE's Fact Book, Proshare Research

Between 2010 and 2019 the market has seen improvement but, in its numbers, but the rise in market indices appears to have fallen by far short of expectations set by the Exchange's managers in 2011. But the last two decades, and particularly the last decade, have witnessed some triumphs with the bumps. (*see table 5*).

Table 5: A Contrast of Two Eras

Table 5: **A Contrast of Two Eras**

NSE: BETWEEN THEN AND NOW

NSE Market Performance		
	2010	2019
Total Market Capitalization		25,890,216,320,603.40
Equities Market Capitalization	7,913,752,224,641.62	12,968,586,413,349.10
Bonds Market Capitalization		12,915,046,844,922.80
ETF Market Capitalization		6,583,062,331.57
Total Volume – Equities	93.34bn	80,355,065,980.00
Total Value (Turnover) – Equities	797.55bn	962,651,567,312.10
Avg. Daily Volume – Equities	377.87m	329,324,040.90
Avg. Daily Value (Turnover) – Equities	3.23bn	3,945,293,308.66
Turnover Velocity - Equities	12.51%	7.42%
No. of New Equity Issues	31	17
Value of Issues - Equities Sup	2.44trn	105,019,332,028.00
No. of Supplementary Equity Issues		7
No. of Listed Companies	217	160
No. of Preference Shares		
No. of Listed Investment Funds		4
No. of Listed Equities	220	165
No. of Listed Bonds	44	132
No. of Listed ETPs		10
No. of Listed Securities	264	307
No. of Trading Days	247	244
Exchange Rate (Naira:USD)	148.31	364.35

Source: Proshare Research, NSE

At the turn of the millennium, the stock market saw a steady rise in traded equity volumes with a significant leap between 1995 and 1999 (from N397m in 1995 to N3.9bn in 1999) before it fell into a shallow ditch between 1996 and 1997, which was ahead of the global financial meltdown between 1997 and 1998. Surprisingly the global financial crisis of the late 1990s had a minimal impact on the local equities market.

The next decade from 2000 to 2010 created an additional twist to the market's evolution. The drama of high impact political engagement of the managers of the NSE and the internal squabbles between the Exchange's managers and Council members between 2000 and 2010 simmered between 2010 and 2015, except the incidences of the early difficulties within SEC and between SEC and the NSE and between SEC and the House of Assembly Committee on the Capital Market (*see the Council members of the NSE between 2009 and 2014*)

Table 6: **Aliko Dangote's Turn at The NSE Council Steering Wheel; A Time of Growth and Simmering Conflict**

NSE, THE MANAGEMENT ERAS:
ALIKO DANGOTE 2009 - 2014

S/No	Names	Designation	
1	Alhaji Aliko Dangote	President	Chairman & CEO, Dangote Group
2	Mr. Aigboje Aig-Imoukhuede	Ordinary Member	GMD/CEO, Access Bank Plc
3	Mr. Abimbola Ogunbanjo	Ordinary Member	Director, Beta Glass Co. Plc
4	Mr. Abubakar Mahmoud	Ordinary Member	Managing Partner- Dikko and Mahmoud.
5	Mr. Henry Olayemi	Dealing Member	MD, Reward Securities & Invest. Ltd
6	Mr. Tofarati Agusto	Dealing Member	MD, WSTC Financial Services Ltd
7	Alhaji Garba Kasimu Kurfi	Dealing Member	MD/CEO, APT Securities
8	Mr Oscar Onyema	CEO	NSE, CEO
9	Mrs Yemisi Ayeni	Ordinary Member	MD, Shell Nig.
10	Prof. Herbert Onye Orji	Ordinary Member	Chairman/CEO, Summa Guaranty
11	Ogiemwonyi	Dealing Member	Investment Co. Ltd
12	Mr. Ebilate Mac-Yoroki	Dealing Member	Chairman, City-Code Trust & Invest. Ltd
13	Mr. Chike Nwanze	Dealing Member	Vice Chairman, Icon Stockbrokers Ltd
14	Mr. Oladele Sotubo	Dealing Member	Stockbroker, Stanbic IBTC Stocxkbrokers Ltd
15	Tinuade Awe	Secretary to Council	Head, Legal & Regulation Division

Source: NSE, Proshare Research

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The period between 2010 and 2015 saw heightened market awareness and a tougher regulatory push towards global best practices, but the raw emotions of individuals, institutions and vested interests made for an impossible sequence of unwinnable skirmishes. Onyema in the last ten years has brought some saneness to the fistfights between stock market regulators and legislative oversight bodies while making effort to upscale market sophistication. However, despite Onyema's best efforts the equities market still shows considerable weakness concerning the number of traded instruments available and the volume of free float for prime market traded instruments.

On a pleasant note, in March 2018 the NSE, SEC and the former management of the Exchange led by the erstwhile DG, Dr. Okereke-Onyiuke, came to an amicable settlement with the Exchange, with the stock market regulator agreeing to pay the entitlements of the affected former staff and recognize the right of Dr. Okereke-Onyiuke to the land title to her house built in Ikoyi, Lagos. Also, it was agreed that the sack of Okereke-Onyiuke be recognized as retirement after 27 meritorious years at a market that she had helped to nurture. The settlement put a decent end to a sour chapter in the Exchange's recent history.

NSE: The Story of Here and Now

Over the last ten years, Oscar Onyema has pushed for a stronger, deeper and broader local stock market. The alumni of the New York Stock Exchange (NYSE) had no illusions about the challenges he would face in a market hamstrung by narrow asset classes and relatively low domestic liquidity, but he was optimistic that things could be made better. In 2011 Onyema led a team of young and not-so-young professionals in setting sail along a new course that was uncertain but promising (*see Table 7*)
had helped to nurture. The settlement put a decent end to a sour chapter in the Exchange's recent history.

Table 7: NSE's New Plough Hands

Table 7: NSE's New Plough Hands

NSE'S NEW AGE: INTRODUCING THE ONYEMA TEAM

S/No	Names	Designation	Duration
1	Mr. Oscar Onyema	CEO	2010 - Till date
2	Jalo-Waziri Haruna	Executive Director, Capital Markets	2012 - 2017
3	Adeolu Bajomo	Executive Director & Head, Market Operations & Technology Division	2011 - 2017
4	Bola Adeeko	Chief of Staff & Head, Corporate Division	2011 - Till date
5	Taba Peterside	GM, Listings Sales & Retention	2008 - 2015
6	Tinuade Awe	GM, Legal(Acting)	2010 - Till date
7	Funso Fatobi	Dep. GM, Branch Network	
8	Ikponmwosa Obaseki	Dep. GM, Market Operations & Technology	2011 - 2013
9	Olumide Lala	Dep. GM, Transformation & Change	2011 - 2017
10	Ade Ewuosho	Asst. GM, Market Operations & Technology	2011 - 2019
11	Sani Badamasi	Asst. GM, Government Relations	2001 - 2012
12	Abdulmumini Yola	Asst. GM, Administration	1989 - 2012
13	Adolphus Ekpe	Asst. GM, Training, Listings Regulation	1990 - Till date
14	Josephine Igbinosun	Asst. Gen. Manager, Broker Dealer Regulation	
15	Mohammed Momoh	Asst. Gen. Manager, Administration	2004 - 2012
16	Priscilla Njoku	Principal Manager, Listings Regulation	
17	Elochukwu Uba	Principal Manager, Strategy	
18	Yvonne Emordi	Principal Manager, Listings Regulation	2009 - 2015
19	Hauwa Zoaka	Principal Manager, Training	
20	Ebele Ogamba	Principal Manager, Finance (Acting)	
21	Fidelis Imiebiakhe	Principal Manager, Human Resources (Acting)	
22	Chinelo Onyechi	Principal Manager, Listings Regulation	
23	Cynthia Akpomudiare	Principal Manager, Market Operations & Technology	
24	Ignatius Ezeja	Principal Manager, Market Surveillance	2008 - Till date
25	Abdulazeez Babalola	Principal Manager, Branch Network	
26	Adeyemi Osoba	Principal Manager, Internal Audit (Acting)	
27	Rasaq Ozemede	Principal Manager, Listings Sales & Retention	2010 - Till date
28	Udeme Ntukidem	Principal Manager, Market Operations & Technology	
29	Jiro Ejobe	Principal Manager	2011 - 2014

Source: NSE, Proshare Research

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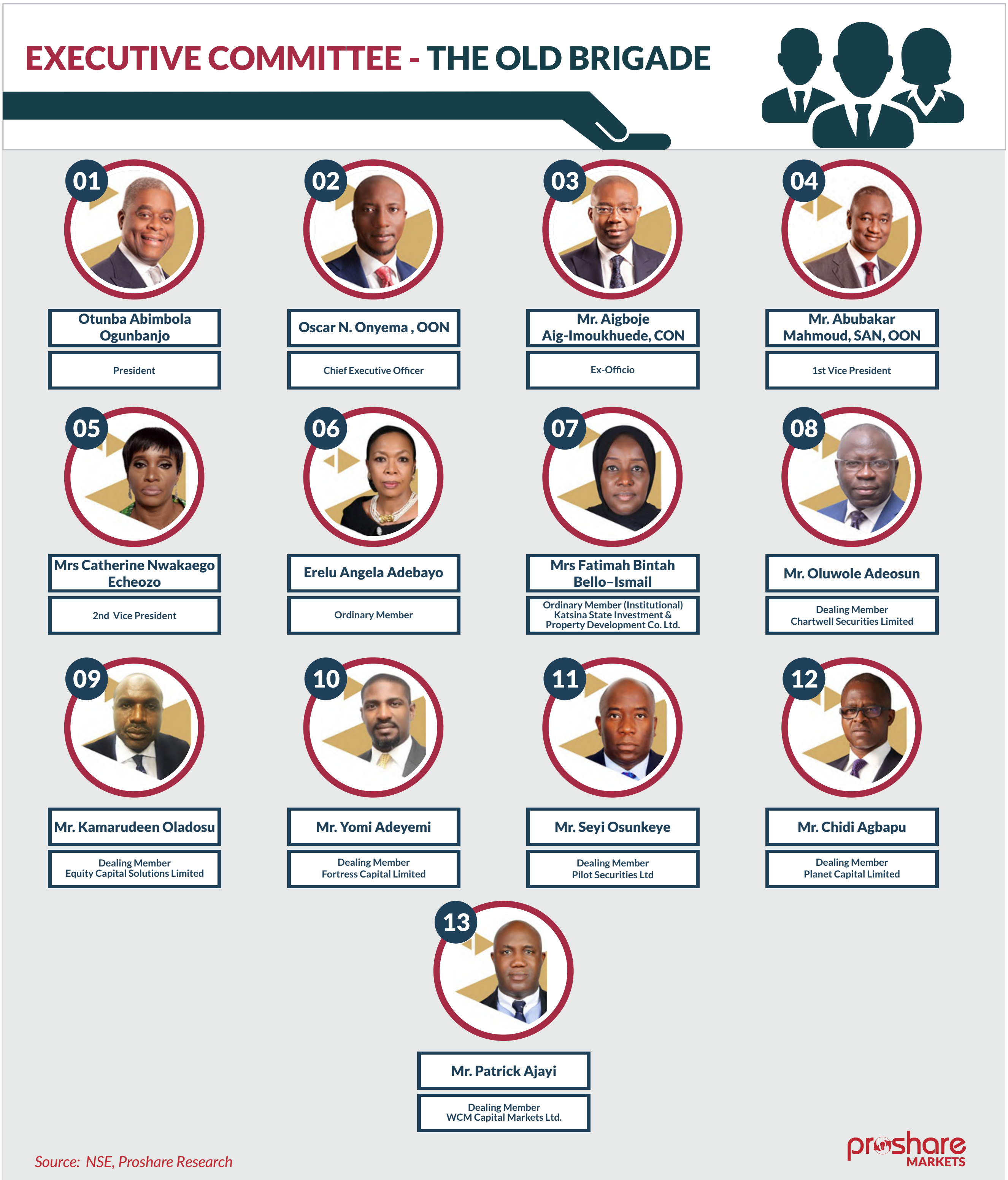
Onyema had to start the process of redirecting the Exchange towards bolder milestones with the support of an executive council peppered with a few prominent private sector executives. The NSE's new CEO would have found the early days unsettling as he would have had to navigate a minefield of tough personalities, polished egos, and hardboiled market experience (*see illustration 1*).

Illustration 1: : NSE Old Boys (and Girls) of the Council



The first set of things on Onyema's agenda was to make the Exchange foreign-investor friendly by ensuring tighter market governance with stricter rules over trading practices and the submission of regular periodic reports by listed companies (although the likes of Warren Buffet have advocated that reports to Exchanges should be less frequent because they lead companies to pursue short-term profitability goals rather than long-term corporate stability and value creation, thereby leaning companies towards creative accounting and dodgy financial statements). The Onyema era has so far seen the following actions/events:

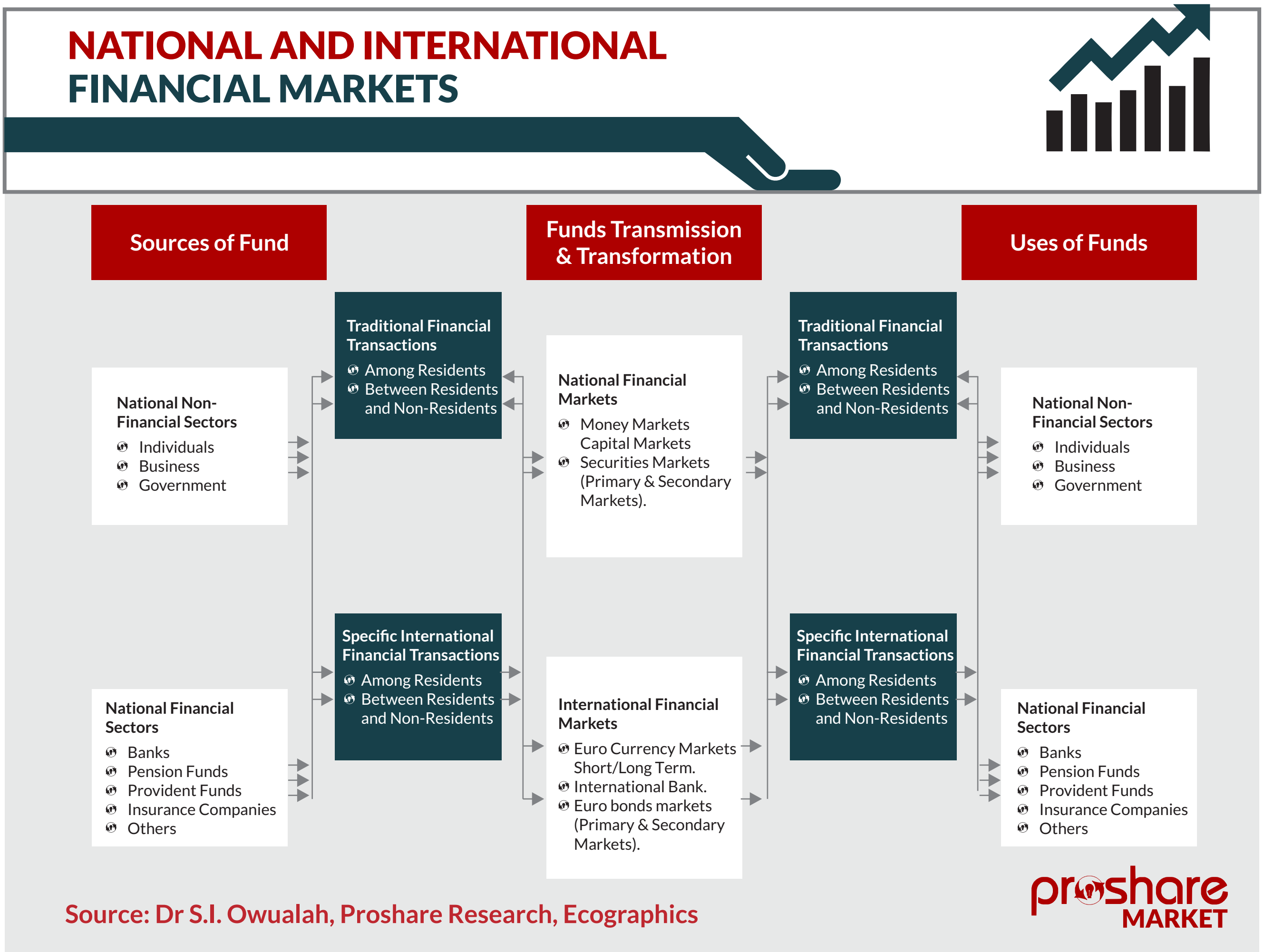
- Companies submit timely reports on insider trading actions
- Companies inform the Exchange and investors of a share's closed period for trading before an annual general meeting (AGM)
- Change in rules concerning transactions with related parties or interested persons
- Creation of new Board segments and Indices (NSE Main Board Index, NSE30 Index, NSE Premium Index, NSE Banking Index, NSE Pension Index, NSE Insurance Index etc.)
- Introduction of Exchange Traded Funds (ETFs)
- Introduction of Real Estate Investment Trusts (REITs)

Onyema has driven a generally forward-looking agenda at the NSE but constraints of slow economic growth, cultural/personality traits that prevent Nigerians from offering up equity in successful businesses, and poor administrative market memory have inhibited faster service delivery and market breadth. The combination of these factors has subdued the desired performance metrics of the Exchange's CEO and his team.

The NSE has seen four (4) listings by way of initial public offerings (IPOs) and 13 offers by way of initial introduction (LBI) over the Onyema years from 2011-2020. The growth in the number of listings by way of introduction rather than public offerings underscore the observation that Nigerian corporations tend to favor a closely-knit shareholding structure with minimal share dilution than a broader share structure with additional shareholders diluting corporate influence and dividend payouts (*see illustration 2*).

Illustration 2: NSE: The Complex Alchemy of Raising Funds Locally and Abroad

Illustration 2: **NSE: The Complex Alchemy of Raising Funds Locally and Abroad**



Analysts have observed that new equity issues by way of IPOs have not been the preferred method of capital raise in the local market as most companies prefer to deal with their working capital and long-term funding needs by a combination of short-term bank borrowings and retained annual corporate earnings. So far, the local money market has served these purposes well, as cash-seeking chief financial officers (CFOs) have easily needled their bank credit officers for temporary overdrafts (TODs) or short-dated loans by way of overdrafts (ODs).

However, considering the onset of the coronavirus pandemic which has disrupted domestic supply chains and rattled corporate liquidity, it is doubtful if past funding preferences would be sufficient to support future growth expectations. However, the capital market option comes with difficulties. To sell a public offer in a recession is as easy as surfing on a shark's back, investors are increasingly shying away from parking money in risky assets, with or without polished nameplates. In other words, the omen for a successful primary market issue in 2020 or 2021 remains grim.

With the country's recent gross domestic product (GDP) showing a modest growth of +1.87% in Q1 2020 and crimson-colored -6.10% in Q2 2020, the economic outlook is sufficiently depressing to keep investors out of the local equity market for a few more months or perhaps years. This means that the poor IPO trend of the last decade will likely be sustained.

Section Two: A Market in Transition

Market as A Metaphor

Stock market trading in the last decade has been unpredictable, rascally and brutal, like the wider economy, the market has shown investors little if any mercy. Between 2008 and 2019 the stock market saw only four (4) years of positive Index growth, while the remaining eight (8) years saw a negative slide in average equity values as the NSE ASI dipped at different intervals suggesting that the equities market over the last decade had been a poor protector of investor value (*see table 8*).

Table 8: **ASI Y-o-Y Growth (2008-2019), A Solemn Season of Returns**

ASI: A BRIEF HISTORY IN TIME

Years	ASI	NSE Market CAP	Open	Close
2019	-14.60%	13,507,668,034,858.10	31,430.50	26,842.07
2018	-17.81%	11,720,718,373,698.90	38,243.19	31,430.50
2017	42.30%	13,609,474,245,109.40	26,874.62	38,243.19
2016	-6.17%	9,246,922,819,355.66	28,642.25	26,874.62
2015	-17.36%	9,850,605,500,525.41	34,657.15	28,642.25
2014	-16.14%	11,477,661,174,486.50	41,329.19	34,657.15
2013	47.19%	13,226,244,899,469.40	28,078.81	41,329.19
2012	35.45%	8,974,448,519,042.53	20,730.63	28,078.81
2011	-16.31%	6,532,583,589,337.88	24,770.52	20,730.63
2010	18.93%	7,913,752,224,641.62	20,827.17	24,770.52
2009	-25.84%	4,989,385,147,463.94	28,085.01	20,827.17
2008	-52.06%	6,957,000,000,000.00	58,579.77	28,085.01
Average	1.00%			
2020 YTD*	-7.12%	12,958,379,438,439.40	26,842.07	24,930.34

**As at 6th August 2020*

Source: Proshare Research, NSE as at Aug 6th, 2020

The troubles of the stock market appear to have reflected the harsh state of the domestic economy as external shocks coming from the international oil market accompanied by contagion from financial markets abroad continued to hurt domestic Nigerian asset values. A pullback in foreign portfolio investment (FPI) pushed down equity prices while a rise in PFIs raised prices. Between 2014 and 2020 foreign investors appear to have voted with their feet as seen in lower equity market participation rates over the last half-decade (*see table 9*).

Table 9: **Foreign Investment in the NSE: Spooked by Harshness**

FOREIGN PORTFOLIO PARTICIPATION

MONTH	2020 N'bn	2014 N'bn	% Change
JAN	70.31	89.67	-21.59%
FEB	71.3	136.28	-47.68%
MAR	110.22	130.55	-15.57%
APR	53.18	138.79	-61.68%
MAY	35.24	91.86	-61.64%
JUN	56.34	118	-52.25%
JUL	34.59	56.42	-38.69%

Source: NSE, Proshare Research

However, local investors have been less pessimistic between 2014 and 2020, except in Q2 2020 when the coronavirus pandemic appears to have taken a toll on domestic investors who moved in lockstep with their foreign counterparts. From May 2014 to May 2020, local investors seemed to have clawed back money invested in the market from N109.75bn in May 2014 to N83.91bn in May 2020 (-23.54%). By June 2020 apathy had worsened as the volumes invested by locals fell from N107.51bn in June 2014 to N72.54bn in June 2020 (-32.53%). By July this year domestic investors could no longer hold back their rising fears as the sums invested on the NSE dropped from N167.77bn in July 2014 to N68.62bn in July 2020 (-59.10%) (*see table 10*)

Table 10: Domestic Investment in the NSE: Coming to Terms with Reality

Table 10: **Domestic Investment in the NSE: Coming to Terms with Reality**

DOMESTIC PORTFOLIO PARTICIPATION

MONTH	2020 N'bn	2014 N'bn	% Change
JAN	165.14	92.3	78.92%
FEB	77.16	62.42	23.61%
MAR	132.69	36.29	265.64%
APR	75.49	45.64	65.40%
MAY	83.91	109.75	-23.54%
JUN	72.54	107.51	-32.53%
JUL	68.62	167.77	-59.10%

Source: NSE, Proshare Research

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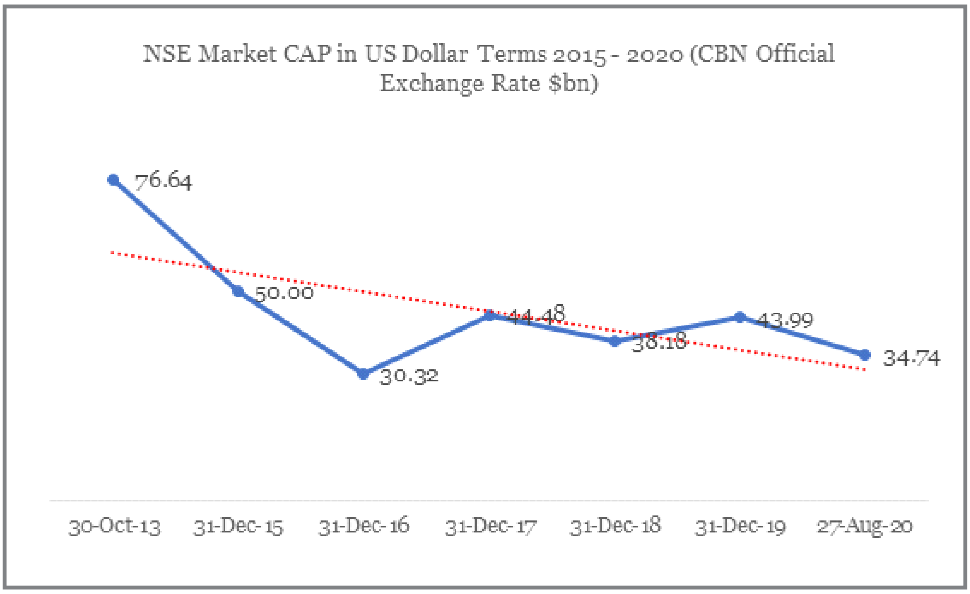
The US$1trn Walk Too Long

The Oscar NSE team came in with admirable enthusiasm, the goals were clear, the energy overpowering, and the desire unshakeable. In April 2011 Onyema was the new kid on the bloc, a blue-eyed market specialist with a yen for reconfiguring a legacy. Onyema had set a thundering goal of growing market capitalization to a staggering US$1trn. The target was supposed to be achieved by 2016. To reach this goal the market capitalization needed to rise by 1,205% from its US$76.64bn on October 30, 2013, at the official exchange rate of the time of N155.8/US$ (or at a bureau d' change (BDC) rate of N160/US$ resulting in a market cap of N74.63bn).

Between Onyema's resumption in April 2011 and the end of October 2013, the market recorded a rise in the NSE ASI by +51.51% and a growth in market capitalization of +79.86%. The growth rates were both significant but they were nowhere near the rates required to achieve a market capitalization of US$1trn. For the market capitalization to have settled at roughly US$1trn by 2016 the market cap would have had to grow by +67.15% annually for straight five years.

Between 2013 and 2015 the market cap fell from US$76.64bn in October 2013 to US$50bn in December 2015. Indeed, by the end of 2016, the market cap had dipped further to US$30.32bn before recovering to US$44.48bn at the end of 2017, mirroring a global turnup from a short recession. However, the market took another brief dive by the end of December 2018 falling to US$38.18bn before climbing back up to settle at US$43.99bn at the end of 2019. So far, the market appears to have plunged mildly again with capitalization sliding to US$34.74bn as of August 27, 2020 (*see chart 3*).

Chart 3: **NSE dollar capitalization 2015 -2020, bearing mixed tidings**



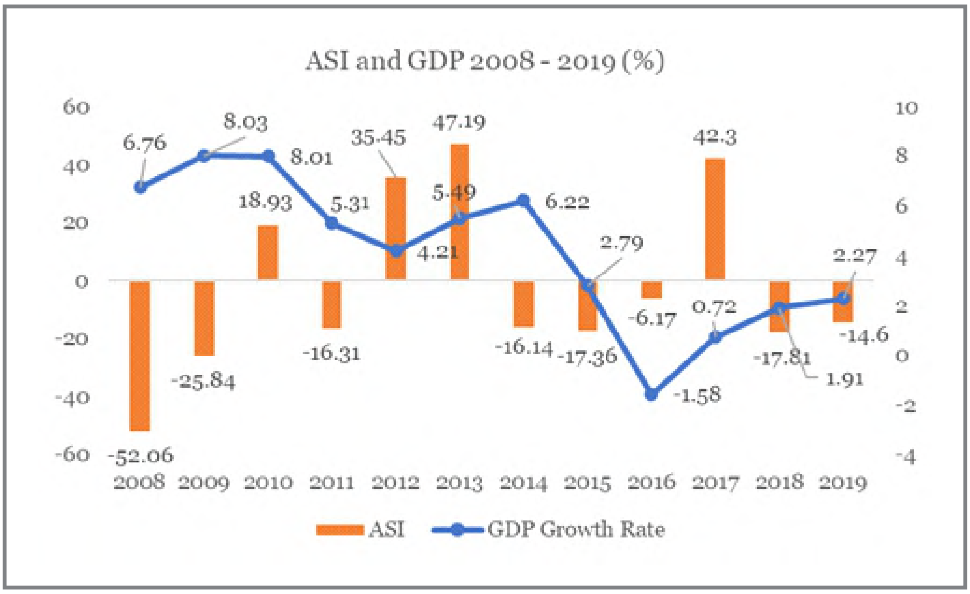
Source: CBN, Proshare Research

The Dog That Didn't Bark

As far as local equity analysts are concerned, an increasingly important question for managers of the local bourse is, “is the NSE All Shares Index (ASI) a leading indicator of the Nigerian economy?” Unfortunately, for most market analysts the answer seems to be a resounding “no”. Contrary to expectations, a sustained fall in the Nigerian stock market would neither suggest a fall in GDP nor would a rise in the market index imply growth in national economic output. Historical data of ASI and GDP growth rates in recent years suggests that each run along separate paths in the opposite direction. The statistical correlation between both sets of data is -16.59 %. An explanation for this, according to a few analysts, is that the Nigerian Stock Exchange's breadth does not reflect national domestic economic output (*see chart 4*).

Chart 4: ASI Vs GDP; In Search of Correlation

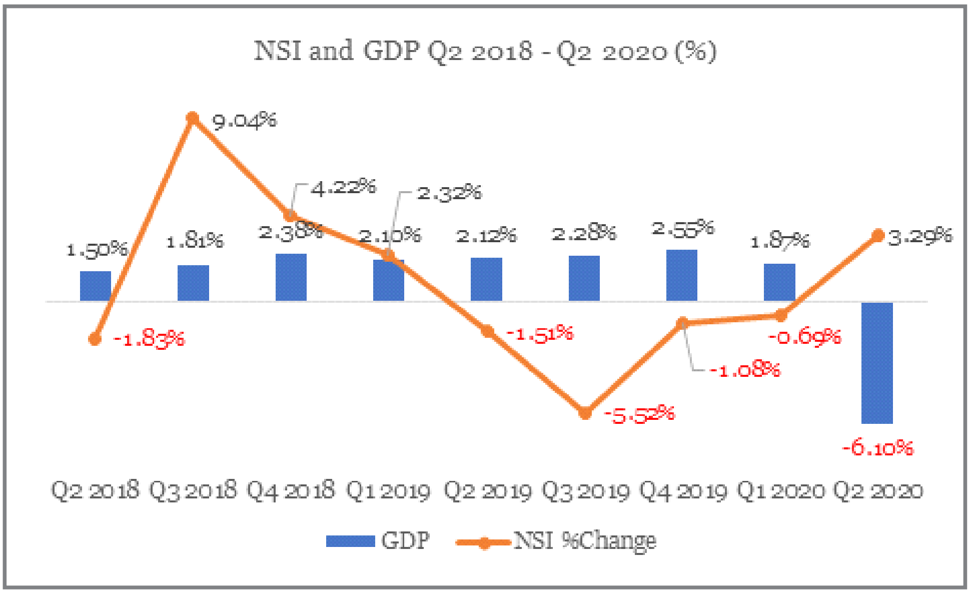
Chart 4: **ASI Vs GDP; In Search of Correlation**



Source: NSE, Proshare Research

A large number of the companies that contribute to Nigeria's GDP are micro, small, and medium-sized enterprises (MSMEs) that are not listed on the NSE or any other domestic equity Exchange for that matter (not even the NASD Plc adds a blip on the GDP radar). The implication is that Nigeria's capital market flows do not reflect absolute national GDP or its growth rate. Another problem appears to be that bellwether stocks on the NSE and NASD move more with market sentiments than broad economic outlook, this results in the NSE's ASI and NASD's NSI stepping out of gear with the overall direction of the economy. Similar to the NSE ASI the NSD NSI is negatively and weakly correlated with GDP growth with a correlation ratio of -22.40% (*see chart 5*).

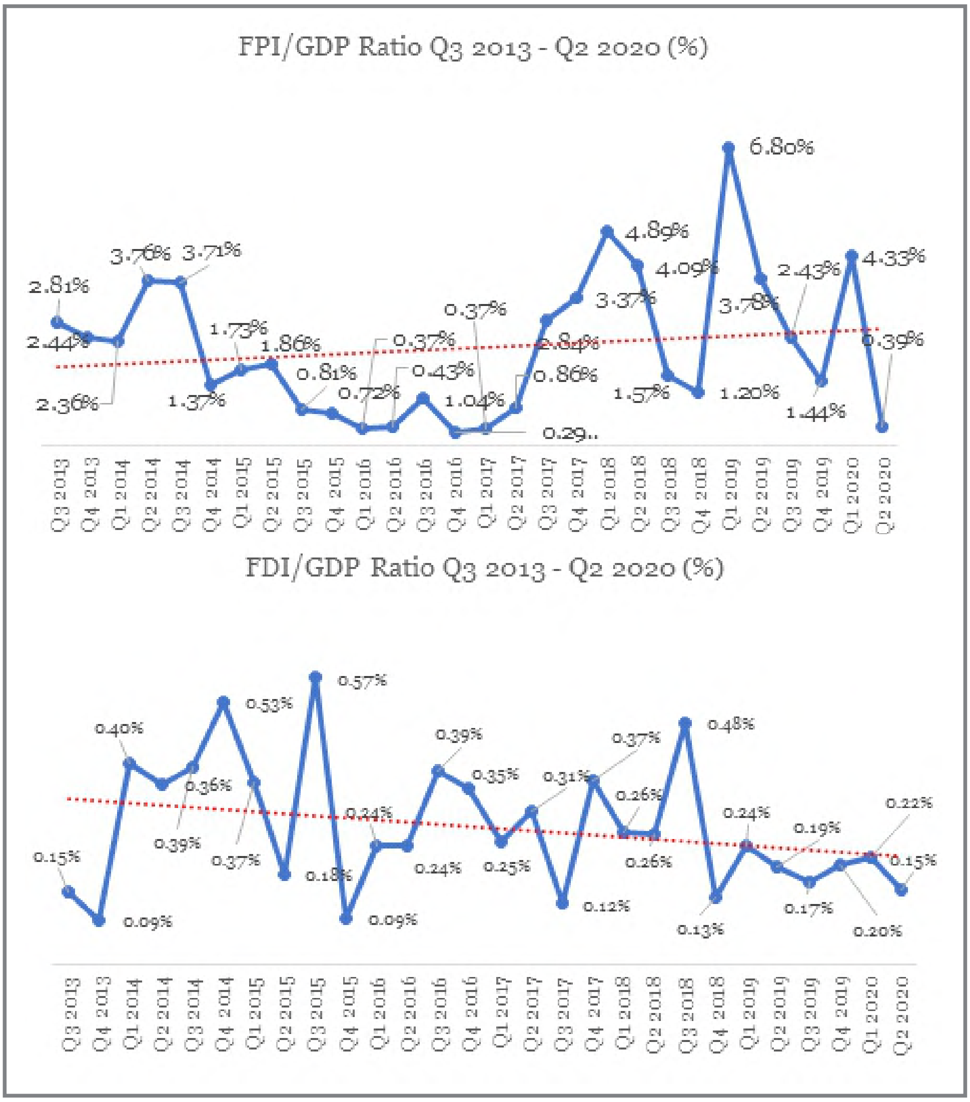
Chart 5: **NSI Vs GDP; When Economic Growth Barely Matters**



Source: NSE, NBS, Proshare Research

The volatility of the market has been relatively mild over the last decade and uncertainty has been soft as investors have typically been able to determine market direction, especially foreign portfolio investors (FPIs) and subsequently foreign direct investors (FDIs). The complexity of the market has not been a challenge but some investors have complained about the ambiguity. Complaints about ambiguity may ride on the back of the increasing market volatility between Q1 2018 and Q2 2020 (*see chart 6*).

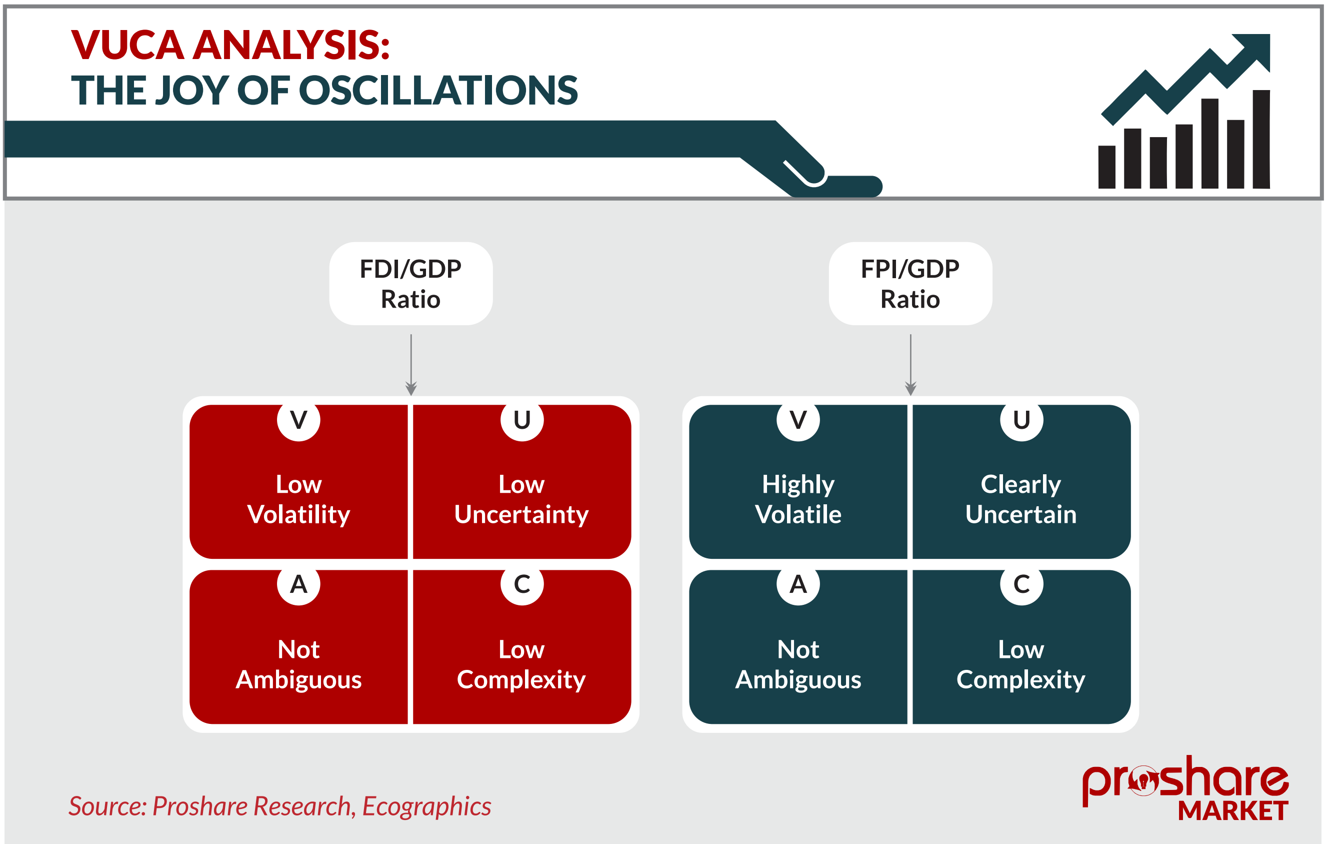
Chart 6: **NSE, Foreign Forays into the Deep (FPIs/GDP and FDIs/GDP)**



Source: NBS, NSE, Proshare Research

The VUCA analysis nudges the edge of the realities of the market movements between 2013 and 2020, with foreign and local investors caught in different mind-games that have ultimately led to a decline in the NSE ASI and market capitalization in recent months (*see VUCA in illustration 3*).

Illustration 3: **Getting A Hold of VUCA Problems**



Regardless of a VUCA perspective in the last half-decade, both the NSE and NASD refused to bark warnings to analysts and traders of an imminent recession or expansion. At the tail-end of his second term in office, the NSE's CEO, may not be in a position to lead the charge towards significantly increasing the number of equities listed on the NSE, but he could at least start the process of supporting the growth of new listings by adding pep to the Exchange's Growth Board which, if properly handled, could attract a pile of fresh issues and reenergize stocks currently listed on the AseM.

Making Business Growth Count

However, to achieve the goal of broadening the market's size and asset composition, early Growth Board missteps need to be speedily reversed or simply avoided. For instance, value-added service providers and other partners responsible for improving investor education and enlightenment should not be required to pay exorbitant prices for data and information necessary to engage, as this could defeat the purpose of collaboration and access to information necessary to ensure a better understanding of the market and investor participation. Without a model that guarantees that service providers can generate sustainable incomes, the effort at plugging these supposed partners for money is, to put it lightly, inappropriate and unhelpful

The best approach to broadening the attractiveness of the Exchange to growth companies both on and off the Exchange is to create obvious value journeys that corporate managers can see and appreciate which in turn could lead to listings on the NSE. The value-added proposition would include, but would not be limited to the following:

- Regular media coverage of the businesses of Growth Board members
- Regular engagement of analysts with the management of Growth Board members to gain a sense of context for developments within the companies and their sectors
- Periodic impact assessment reports of fiscal and monetary policy on the businesses of Growth Board members
- Regular review of market conditions of Growth Board members
- Forward guidance on the impact of global and local economic trends on the corporate activities of Growth Board members
- A Growth Board Index and the monitoring of members market price movement against Index movement
- Quarterly Growth Board member financial statement of affairs market memo

At the early stage of the Growth Board market development, the NSE needs to build a raft of relationships that lifts all critical stakeholders. The value-added service providers should be given a period to incubate the growth and development of the data and investor relations management around emerging corporate entities. NSE's initial emphasis should be market development and not revenue capture.

While demutualization has presented a strong case for the Exchange to increase its revenue streams, this must be viewed within the context of a carefully framed business model that nurtures various market segments. The business case would be a superior approach to sustainable market development rather than a response to revenue expediency.

The metaphor of the NSE as a living company implies the drawing up of a set of long-term corporate objectives and the adoption of a far-sighted business playbook; companies that rush into revenue streams based on bloated short-term income projections usually end up shipwrecked as cash flows fail to meet expectations.

The Imperatives of Tomorrow; Myths, Risks and Opportunities

The Imperatives of Tomorrow; Myths, Risks and Opportunities

Global stock markets are going to have difficulties breaking the glass ceilings erected over the twin problems of a global health pandemic and a disrupted world economy. Slow global economic growth will likely mix with huge fiscal deficits amidst rising healthcare expenditure to create the worst of all worlds.

Myths: Counting on Self-correction

The average economist loves the idea of a self-correcting market, but the pains of a self-correcting market are either too severe or the time too long to be practical. This explains why most governments prefer to dodge the bullet either partially or totally. Following this argument (which many people would contest) the development of Nigeria's equity market must involve a clever set of collaborative actions amongst a network of market stakeholders. Analysts observe that to expect the local stock market to take off on the strength of its organizational force is like waiting for a pregnant woman to give birth to a child unaided, this is possible but risky.

A few local equity traders note that the domestic stock market requires support whether solicited or unsolicited since the consequence of unfettered market action could prove damaging to the stability of society. The NSE, therefore, needs to build upon its progress in the last two decades to reach the next level of its evolution where more instruments of bellwether industries are listed on the Exchange and more sophisticated trading activities take place. The Growth Board creation is a step in the right direction but it must move from the realm of the drawing board to the realm of action.

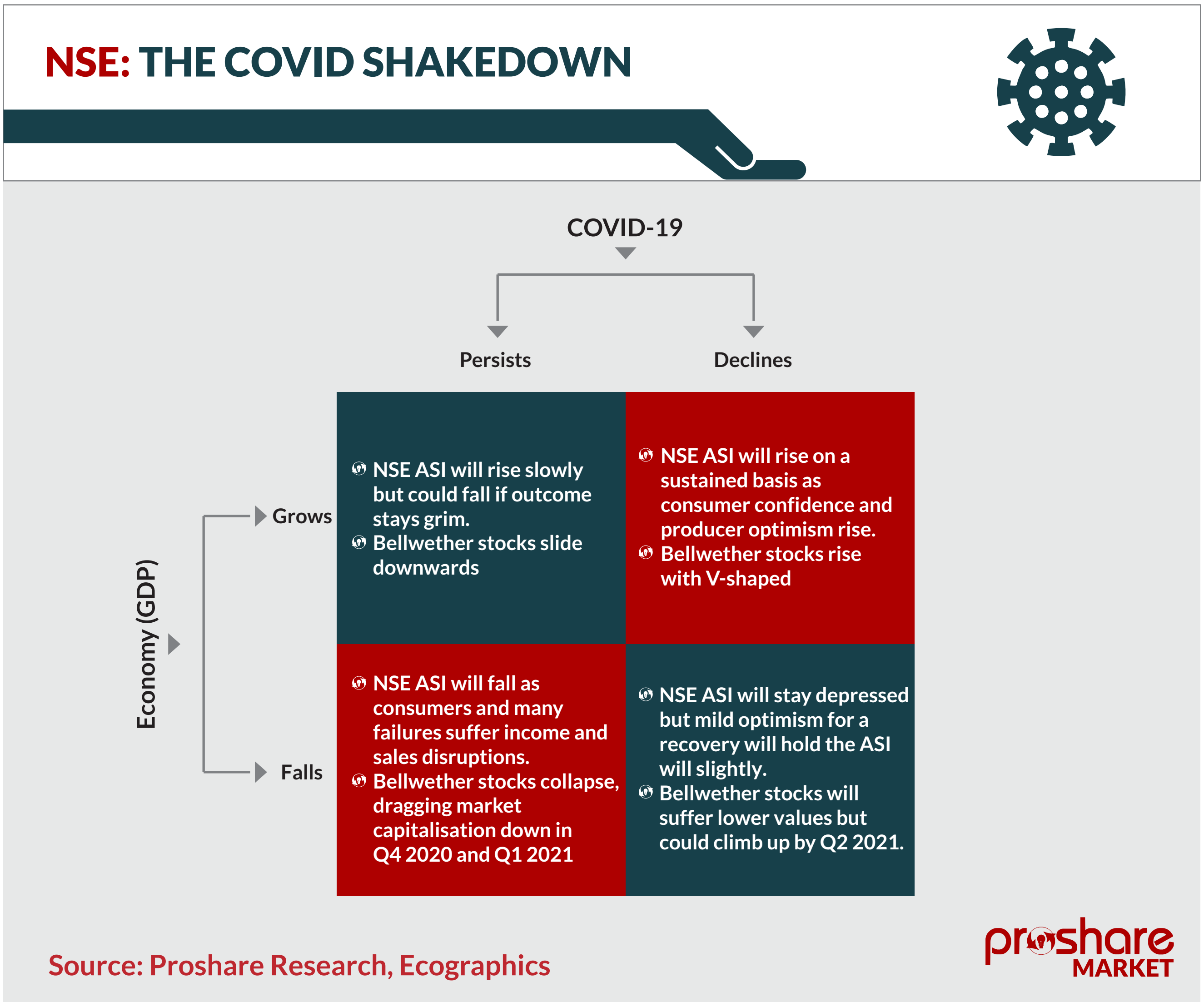
Also, the demutualization of the NSE needs to be concluded quickly to bring the market to the contemporary standards of equity trading platforms in Europe, Asia and the United States of America (USA). The demutualization of the Exchange would move it from being a broker-dominated Exchange to an investor-oriented Exchange with higher governance standards.

Risks

The derivative market has been an area that the Onyema-led NSE has shown a keen interest in initiating and developing but stockbrokers have been reticent. According to one broker, “you build a derivative market on a fundamental understanding of asset classes and the pricing of their spin-offs; traders in Nigeria still have a knowledge gap that would need to be closed if they desire to trade in this neck of the woods” he said. However, the trader further noted that “derivatives can be very risky and require high technical competence. As things stand today local market traders have neither the risk appetite nor the basic skill sets to handle such sophistication. This is where I think less is more, and for now, we should continue to dip our feet in a slow-moving river rather than take a dive into a deep blue sea”.

This may be true, but by not filling the “white spaces” open in the domestic financial market, traders would be allowing for inefficiencies in asset pricing and limiting the breadth of asset categories. An improvement in asset classes could likely increase capital importation and strengthen the country's foreign exchange rate. Besides, with more tradeable assets available on the NSE, the market would become more attractive to both local and foreign investors and lead to domestic asset deepening (*see illustration 4*).

Illustration 4: **COVID-19 and Opportunities, Surfing A Pandemic**



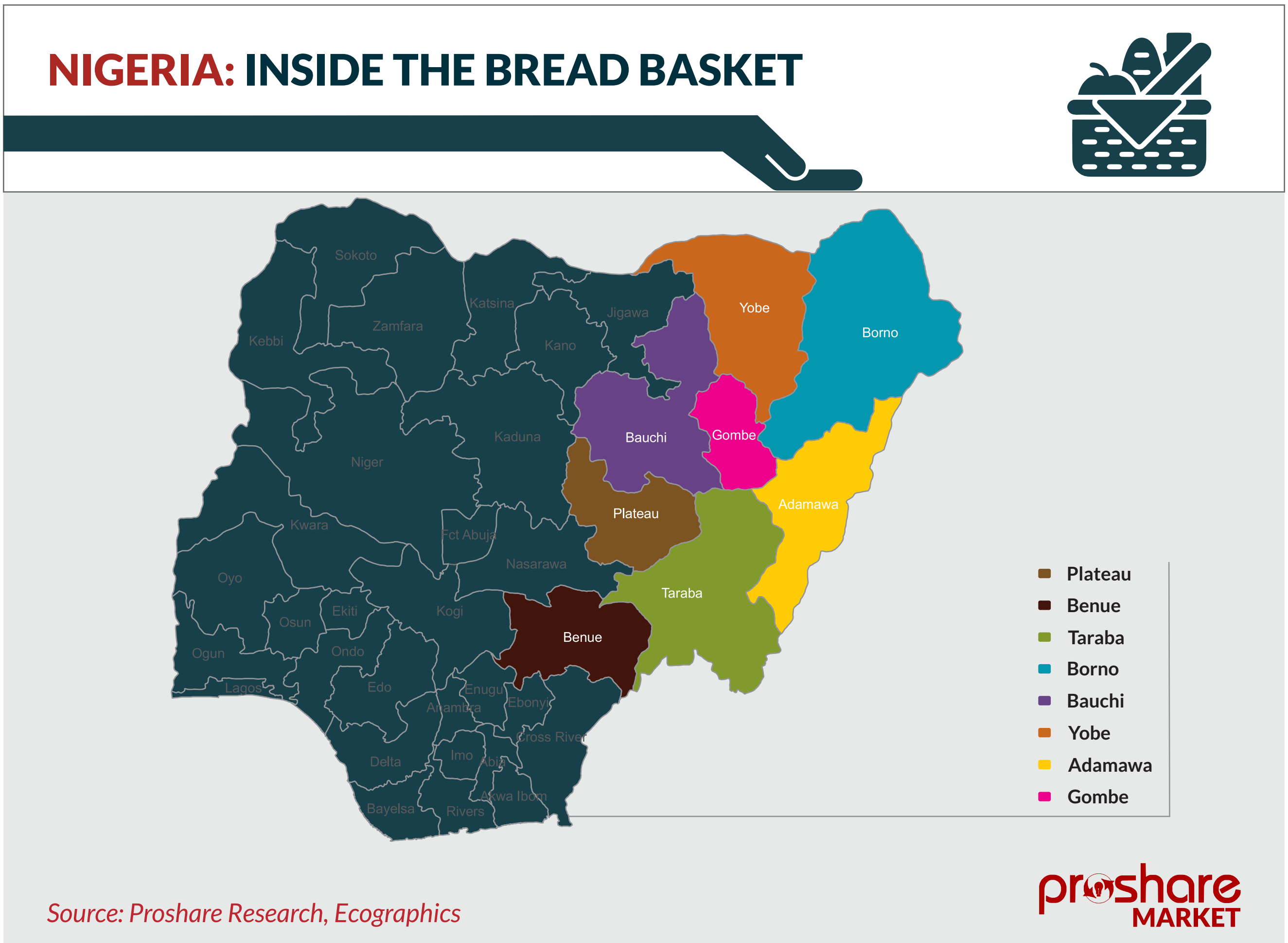
Political Risks, A Matter for Concern?

Should investors be worried about Nigeria's domestic political risks? Certainly. The recent Standards & Poor (S&P) credit rating for Nigeria was B-/B long-term and Short-term, the country's long- and short-term national scale ratings were at 'ngBBB/ngA-2.

The recent ratings reflect major country risk concerns that have political risk as a chief component. The relatively weak security situation in the country, especially in the Northeast and Northcentral parts has stirred international and domestic investor anxiety around the county's economic stability and sustainability, especially its harried agriculture, minerals and mining belts. Food inflation of the country for July 2020 was put by the national statistics office (NBS) at +15.48% as against the broader headline inflation rate of +12.82%.

Economic analysts have observed that the incessant farmer/herder conflicts, rural and urban banditry, highway kidnappings and killings by individuals allegedly associated with a local insurgency group, Boko Haram, have cost the country a major drop in agricultural productivity, especially in the breadbasket states of Benue, Plateau, Adamawa, Taraba, Bauchi, Gombe and Yobe (*see illustration 5*).

Illustration 5: Map of Nigeria, Inside The Bread Basket



Source: Proshare Research, Ecographics

The push of insurgents towards the Southwest draws a dark picture of a sinister move to take over one of the most economically, industrially, socially and politically developed parts of the country. Places in Oke Ogun, Oyo State like Shaki and Iseyin are already under the onslaught of armed herdsmen believed to have ties with major Sahel region terror organizations. The same anxiety reoccurs within the country's machine manufacturing and industrial fabrication belts in the Southeast and South-south.

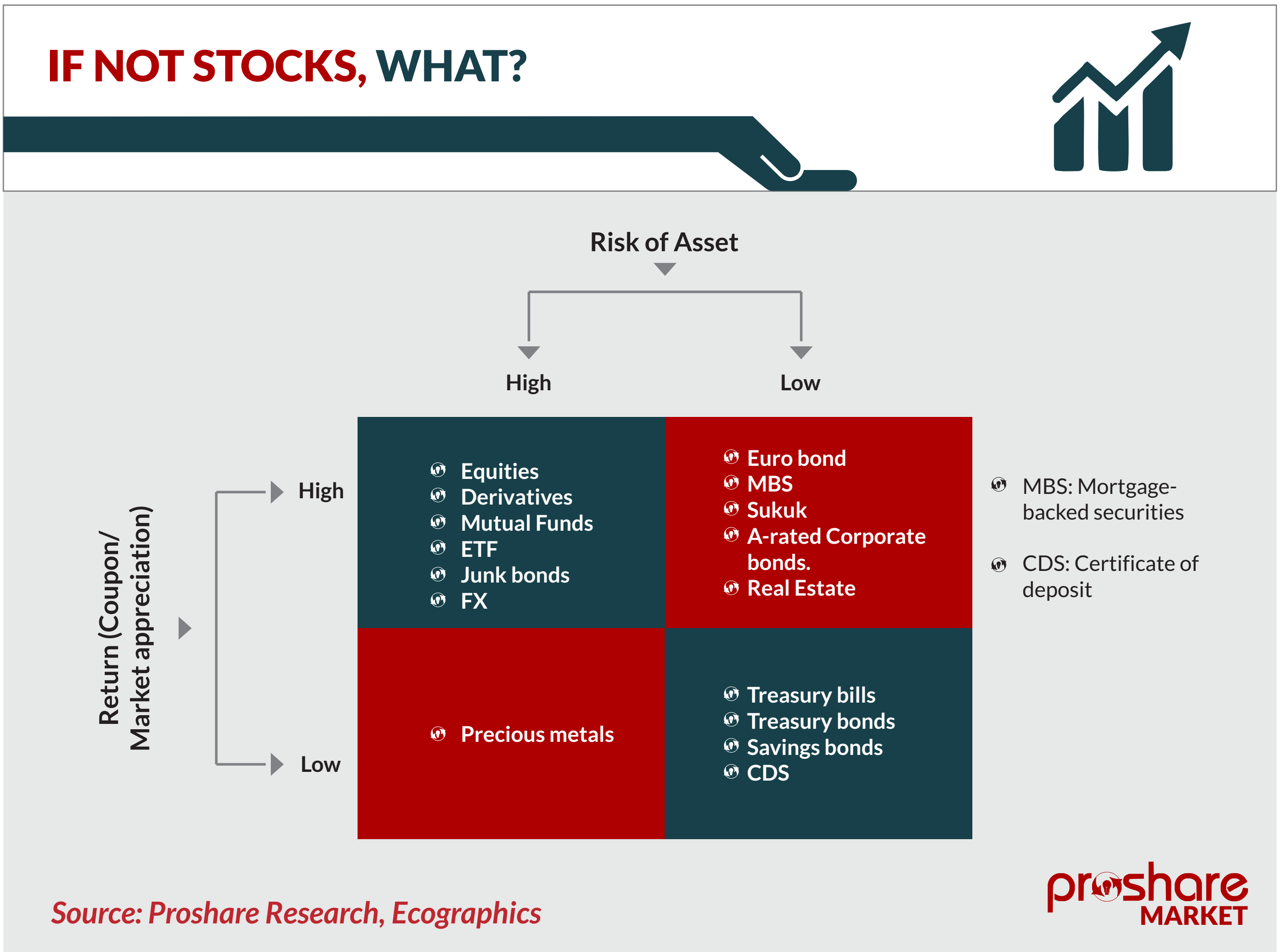
Fears of widespread sociopolitical and economic troubles ahead have become a dominant theme spoken softly amongst the country's elites and have worsened the country's credit risk rating amongst international credit agencies and heightened the risk factors associated with Nigeria's political and socio-economic stability.

Opportunities

The relative weakness of the market in respect of asset classes and the number of corporations listed on the Exchange may create opportunities for the market to leapfrog ahead of expectations. Contrary to most popular perspectives, the COVID-19 pandemic reinforces opportunities just as much as it poses threats.

The limited tradeable assets within the equities market mean that local investors must find other ways of making money after adjusting for inflation. With the recent 2020 inflation rate at +12.82%, and bond yields at between 1% and 1.3% in the secondary market and about 6.7% for ten-year bonds with a coupon of 12.5%, there is minimal wriggle room for those with cash to put away. The Nigerian Eurobond market has become increasingly attractive to investors with a coupon of 6.75% and a yield of 3.79% for maturity in January 2021 but as quoted on August 31, 2020. Diaspora bonds with maturity in January 2022 traded on August 31, 2020, at a coupon of 5.63% and a marginal yield of 4.56%. Within the context of a COVID-19-depressed economy, Eurobonds appear to be a bright torch, even if a flickering one. Eurobonds seem to be some of the best-in-class investment vehicles in 2020 featuring low risk and modest inflation-adjusted returns (*see illustration 6*).

Illustration 6: Where Will the Next Investment Honeypot Come From?



On the other hand, real estate, by some judgment, is a low-risk asset with the possibility of relatively high returns. The challenge, however, is that the sector's presumed risk status could be much higher than acceptable thresholds for risk-averse investors. Analysts note that the COVID-19-induced recession which worsened as a result of a fall in international oil prices and federal revenues would likely cut disposable incomes and hurt analyst's economic outlook for Q4 2020 as investors foreclose on their appetites for fixed assets with indeterminable cash flows.

Precious metals such as gold and silver have gone up in the last few months but these assets are essentially countercyclical, when strong global currencies weaken investors tend to seek solace in assets that are tangible like precious metals but with global supply chains being reestablished and factories coming back on line several countries will likely see a reversal of falling GDP growth rates and a strengthening of their currencies which would lead to investors dumping hard metals and returning to more liquid assets denominated in hard currencies. Going long on major currencies seems to be a smart money move, but some currencies would be more volatile than others, therefore, currency hedges and stop-loss arrangements may prove useful, especially between Q4 2020 and Q2 2021.

Soft commodities will still have a hard time into 2021 but as manufacturing picks up and the coronavirus abates some commodities should experience price recoveries and rise above even pre-COVID-19 levels.

Section Three: Power, Imagination And Tomorrow

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Power Moves -Demutualization and The New Board Games

Demutualization or the conversion of a broker-dominated Exchange to an investor-dominated Exchange has been a global trend to introduce transparency, better corporate governance and greater efficiency in the management of equities, commodities and fixed income Exchanges around the world. The higher standards of accountability of an investor or shareholder-led Exchange is desirable but with a few niggling problems.

While an Exchange run along the lines of a private company would ensure efficiency in resource deployment and drive a profit-motivated business process, the fact that the NSE is an Exchange for trading in third-party assets places on it a burden beyond profit considerations. The Exchange has a responsibility that it does not use privileged information in such a way as to give it insider advantage and provide its shareholders with returns derived from non-publicly available information. The imperative for the NSE is to separate its business goals from its regulatory duties. Achieving operational silos will be the test of the desirability of demutualization in the Nigerian stock market which appears to have taken a cue from developments in markets in Europe, the USA and Asia. Demutualization was first tried by the Stockholm Exchange in Sweden in 1993 and appears to have provided a template for similar developments globally.

The new ownership structure of the Nigerian Exchange would mean the constitution of a Board of Directors who would be expected to guide the affairs of the company while management and other staff would, presumably, be appointed on merit to handle day-to-day operations. The new corporate arrangement may require a quick review of existing operations and a streamlining of the Exchange's business structure, but most importantly the Exchange would need a viable business model that ensures profitability without price gouging on Exchange provided retail and partner services (*the old Council guards see Table 11*).

Table 11: Change of Guards; The Old Council Will Give Way to A New Board

Table 11: **Change of Guards, The Old Council Will Give Way to A New Board**

NSE, THE MANAGEMENT ERAS:
ABIMBOLA OGUNBANJO 2017-Till Date

S/No	Names	Designation	
1	Otunba Abimbola Ogunbanjo	President	
2	Mr. Oscar Onyema	CEO	
3	Mr. Aigboje Aig-Imoukhuede	Ex-Officio	
4	Mr. Abubakar Mahmoud	1st Vice president	
5	Mrs Catherine Nwakaego Echeozo	2nd Vice President	
6	Erelu Angela Adebayo	Ordinary Member	
7	Mrs Fatimah Bello-Ismail	Ordinary Member (Institutional)	Katsina State Investment & Property Dev. Co. Ltd
8	Mr. Oluwole Adeosun	Dealing Member	Chartwell Securities Ltd
9	Mr. Kamarudeen Oladosu	Dealing Member	Equity Capital Solutions Ltd
10	Mr. Yomi Adeyemi	Dealing Member	Fortress Capital Ltd
11	Mr. Seyi Osunkeye	Dealing Member	Pilot Securities Ltd
12	Mr. Chidi Agbapu	Dealing Member	Planet Capital Ltd.
13	Mr. Patrick Ajayi	Dealing Member	WCM Capital Markets Ltd.

Source: NSE, Proshare Research

Recalling the Fear of a Ghost

When Okereke-Onyiuke was DG of the Exchange one of her strongest reservations was the composition of the board of directors of a demutualized Exchange. That fear still subsists.

Once the demutualization process is concluded, perhaps before Onyema wraps up his tenure, a new board would be put in place to take over from the present council. The problem is that once the Exchange becomes limited by shares rather than by guarantee, the shares of the Exchange becomes a free game for those with cash to spare, meaning that brokers and their clients may be edged out of the oversight of the new Exchanges activities as the Exchanges shares would be bought and sold on its floor like any other equity.

Analysts note that the directors of the NSE's premium board companies who have deep pockets could buy large slices of the Exchange's shares on offer with the market finding itself in a situation where the biggest players in the equity game officiating matches in which they participate. This creates a classic *agency problem* where the principal becomes an agent to the tenant in an estate he or she owns. The conflict of interest is tangible.

Onyema, over the next few months, will need to collaborate in forward-looking discussions with other stakeholders to ensure that the Exchange avoids a situation of 'market capture' by investors with large financial firepower. This reawakens the ghost of Okereke-Onyiuke's past market visions and anxiety.

The Boardroom

With the demutualization of the NSE, the management of the organization would change, meaning that instead of having a governing council the market would have a board of directors. The new board would decide the NSE's strategies and set the direction of the limited liability company's activities and its actions in respect of its market trading platform.

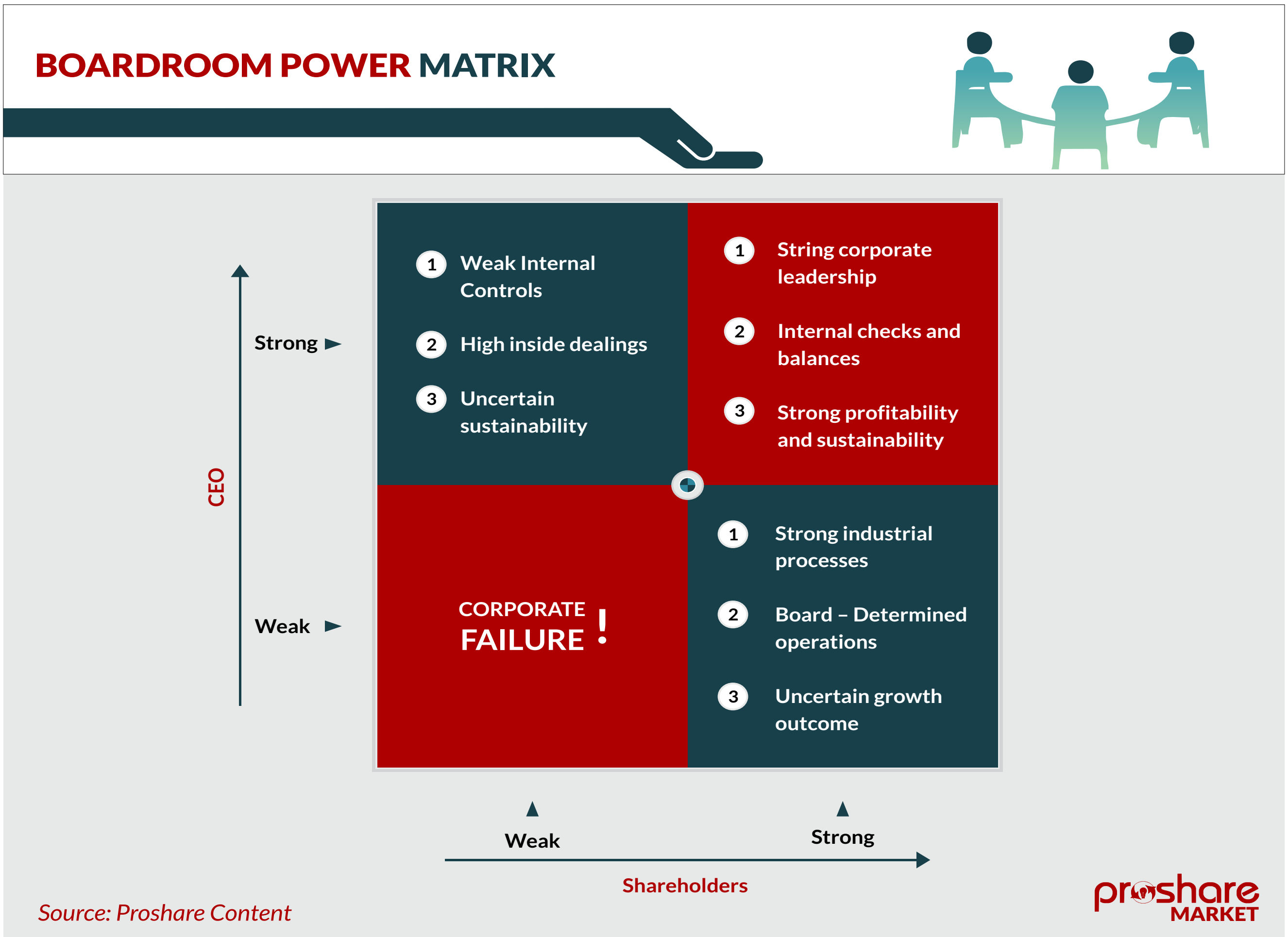
A few factors would determine the success of the Exchange's new structure, they would include:

- Experience and knowledge of Board Chairman
- Experience and knowledge of other Directors
- Board power relative to shareholder-influence
- Board's strategic purpose and vision
- CEO power concerning shareholder influence
- Relationship between the CEO and the Board
- The extent of engagement between the Board and shareholders

If the NSE's board of directors is made up of experienced business persons with strong hands-on knowledge of managing successful enterprises, the spillover effects of the collective wisdom of the board members should ensure the topnotch performance of the Exchange. A further factor for success (preceded by growth and development) is a strong group of shareholders. Since the turn of the decade, the role of shareholders has become increasingly important in the life and health of companies as knowledgeable and vocal shareholders serve as escape valves that prevent either board or management from overheating organizational operations by errant behavior and emotional outbursts (*see matrix illustration 7*).

Illustration 7: The Corporate Power Matrix

Illustration 7: **The Corporate Power Matrix**



Not much is expected to change in the management of the Exchange after the demutualization has been completed as the old market guards are expected to stay as they keep a firm grip on the newly established board of the Exchange and see to it that the system does not experience a transition shock.

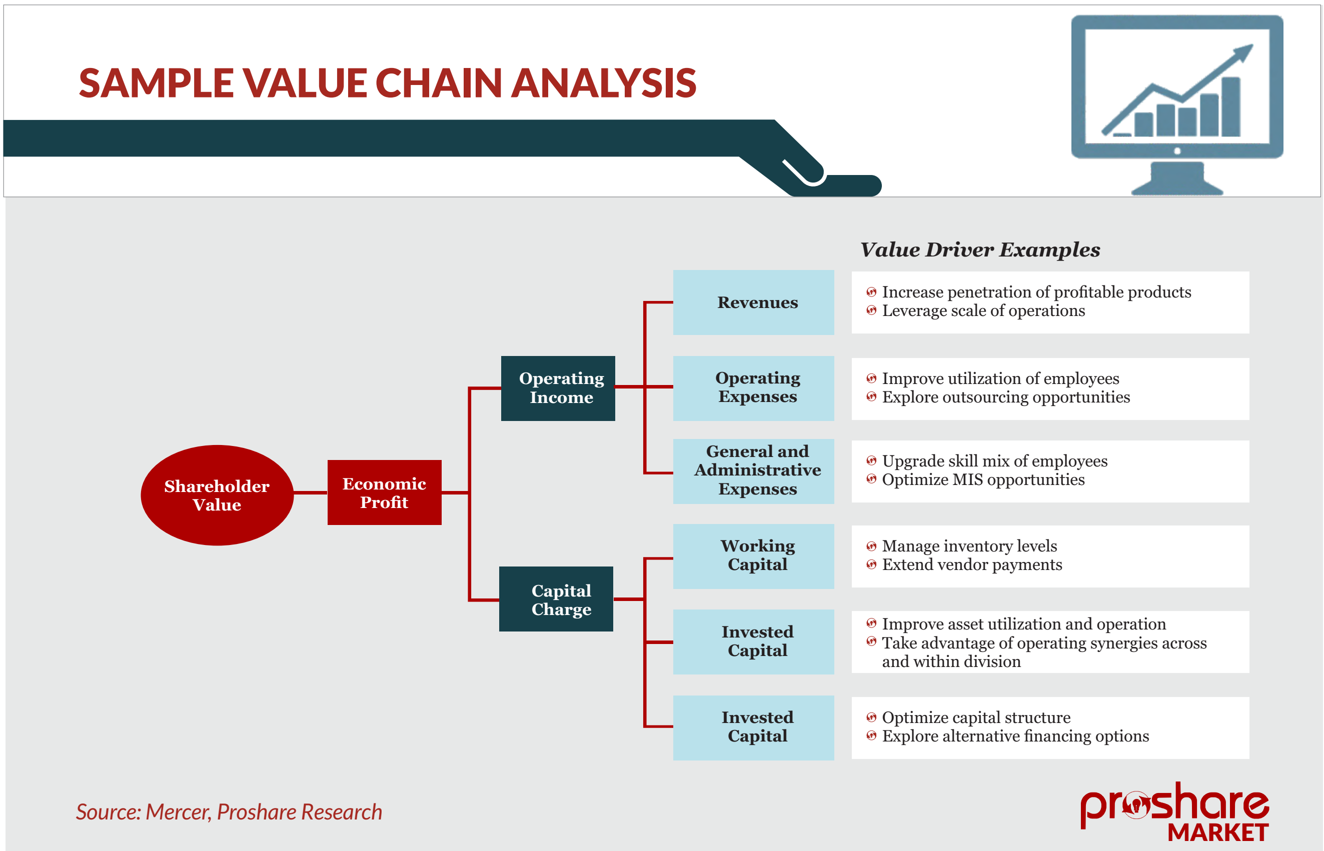
However, one area the Exchange may change is the level of efficiency in which it does its business may improve as board members and shareholders expect and will compel greater transparency and operating effectiveness. With the Exchange required to produce regular financial reports on the state of affairs of its business, top management would be under pressure to meet performance targets and budget expectations.

The New Corporate Value Chain

As the NSE transforms its oversight structure, the Exchanges managers must be concerned about how its processes, policies and procedures feed into decision channels that raise shareholder value. Unlike in the past, the Exchange cannot be concerned only with cost recovery and recurrent expenditure but it must also be worried about an incremental increase in corporate net earnings which translates into dividend payouts for shareholders.

The management of the Exchange must grow operational revenues as they hold down costs and increase working capital. As the Exchange grows bigger annually its managers need to worry about the optimization of the organization's capital structure. The proper debt to equity structure to yield the highest possible return on equity (ROE) and return on asset (ROA) must be uppermost in the minds of those running the Exchange and its sundry businesses, the consequences could involve a rise in existing fee-based services and new charges on previously free products or services offered by the NSE. The NSE's new demutualized reality could prove to be a hard nut to chew for market operators (CMOs) facing rising costs in other areas of their business (*see illustration 8*).

Illustration 8: NSE's Prospective Value Chain Drivers



Growing Debt or Raising Equity? The New Face of a Fiscal Dilemma

Corporations are leaning into a difficult era where they become more painfully aware of the choice between funding operations with debt or equity. The debt or equity choice is taking on greater prominence as investors become more anxious about returns on their investments against the backdrop of a COVID-19-induced recession (*see table 12*).

Table 12: **Debt or Equity, The New Face of A Dilemma**

RAISING SMART CAPITAL

IPOs - 2008 till date			
Company	**Amount**	**IPO Price (Naira)**	**Year**
National Sports Lottery	N12.4bn	15.5	2008
Daar Communications Plc	N13.9bn	5	2008
UPDCREIT	N30bn	10	2013
Seplat petroleum Plc	$500m	N576	2014
Lotus Halal Equity ETF	100 million units	1/200th of the value of NSE Lotus Index	2014
Vetiva Griffin 30 ETF	100,000,00 units	1/10 of the value of NSE 30 Index	2014
Stanbic IBTC ETF 30	N1bn	100	2014
Transcorp Hotels Plc	N8bn	10	2014
HMK REIT	N13.39bn	5.15	2014
Cordros Money Market Fund	N1bn	100	2016
Greenwich Plus Money Market Fund	N1bn	100	2016
Coronation Asset Management Ltd	N400m	1	2017
SAHCO Plc	N406m	N4.65	2018

Source: Proshare Research/NSE

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A Whole New World-Reimagining
Endless Possibilities

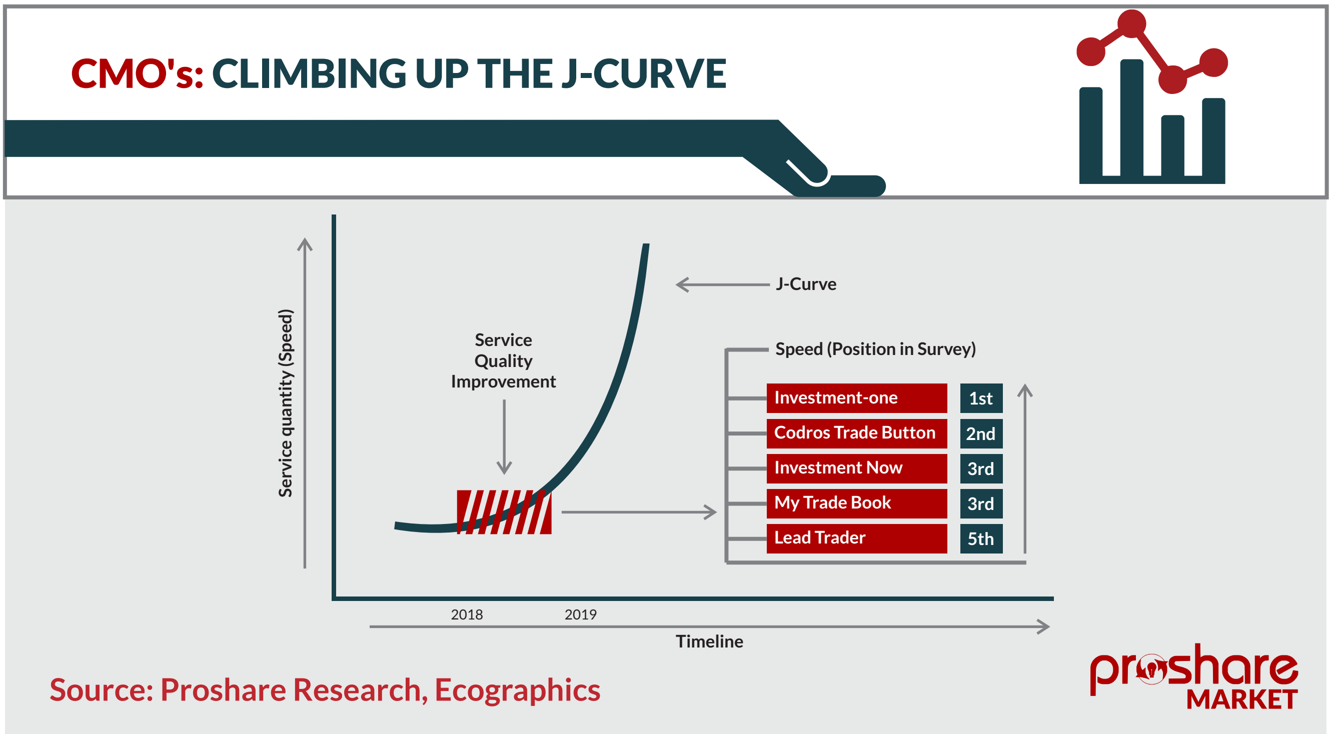
A Whole New World-Reimagining Endless Possibilities

Stockbrokers are likely to fade away. The world of the future is one in which artificial intelligence (AI) will rip holes in the business of traditional security traders as investors receive reports quickly and seamlessly from mobile devices as market updates, business news, corporate features and financial statements upload in regular loops as information becomes available hourly. AI would likely crawl information that meets the preferences of each service subscriber and provides clients with the information they require in pre-specified "buckets".

In the new order, analysts would only need to 'spec' or spell out periods required for data analysis on such metrics as quarterly GDP growth, monthly inflation rate and daily foreign exchange rates with appropriate charts displayed instantly as analysts give insights into trading patterns and investor behavior. According to Chris Okenwa, Managing Director, FSB Securities "the 'market place' as we know it would become an information sandbox filtered to assess value, risk and returns. The new concerns would no longer be about brokers but investment/market strategists and their strategies. The white spaces of access to timely market information would have been filled by technology, hence making the forward play a matter of information processing and investment positioning".

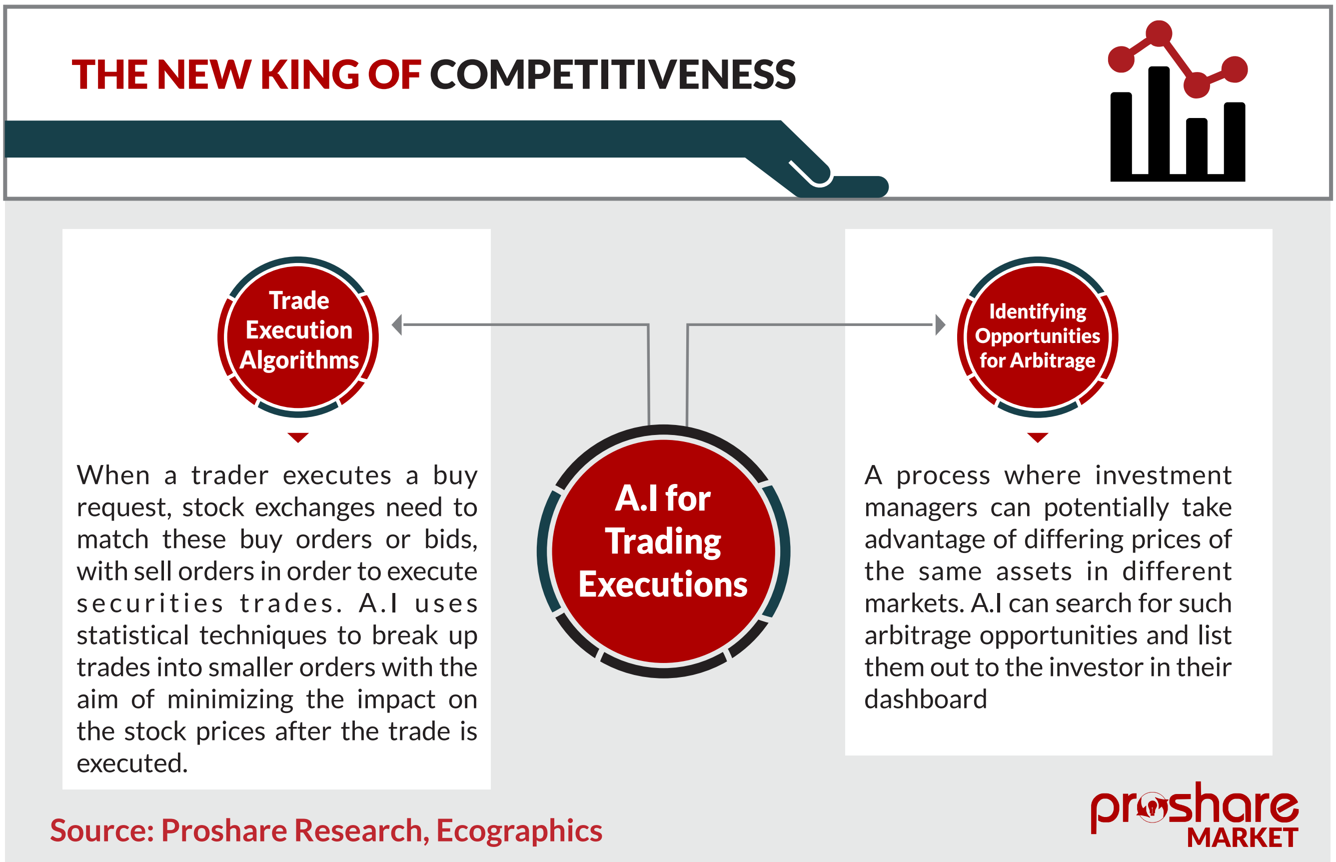
In its latest Online Trading Portal Ranking Report 2020 Proshare noted that "with the timeliness of transactions becoming just as important as the particular assets traded, trading houses have had to improve the quality of their platforms in terms of data processing, research, customer interaction and generational segmentation. This has created a sort of J-Curve pattern where service delivery quality at the point of transition or upscaling of digital trading transactions shows early signs of difficulties with service quality which dip briefly at the point of the first-stage implementation and then improve exponentially" (*see illustration 9*).

Illustration 9: **Climbing The Digital Trading Curve**



The Report goes on to note that "AI can be used for the identification of arbitrage. This is a case where investment managers can potentially take advantage of differing prices for the same assets in different markets. It can search for such arbitrage opportunities and list them out to the investor in their dashboard'. The arbitrage trading improves market pricing efficiency and closes market gaps" (*see illustration 10*).

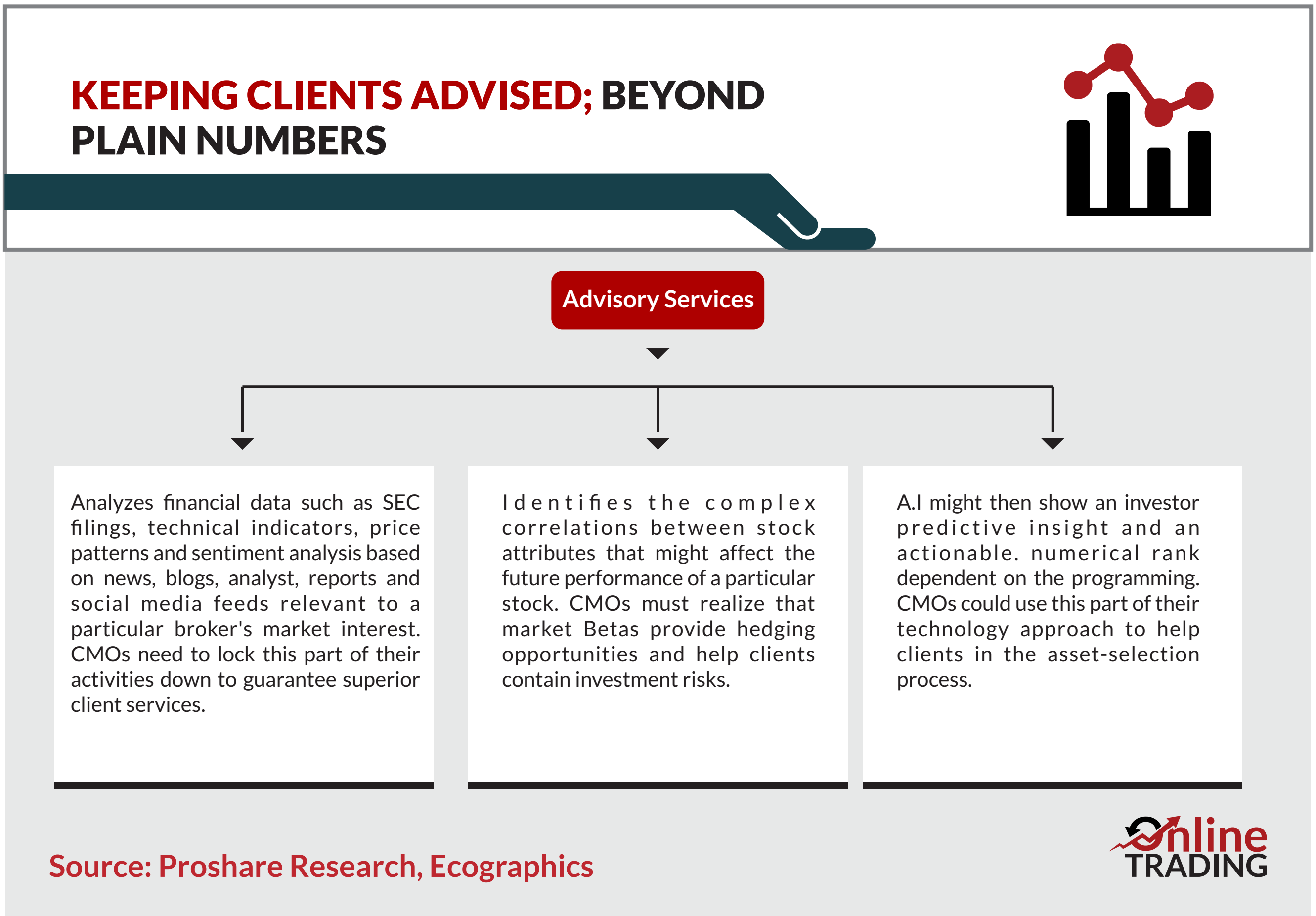
Illustration 10: **AI The New King of The Arbitrage Game**



The NSE's proposed foray into the derivatives market will create broader asset classes that would enable investors to balance out their asset portfolios in a more clinical manner. Staying stuck in the water will be an increasingly dangerous place to be as market technology sprints ahead and aligns with the preferred journey experience of financial asset traders and clients. Advisory services will be on the uptick as investors fact-check their market intelligence and broaden their market insight based on traders/analyst's experience. Traders/analysts that do not catch up with client's knowledge of emerging real-time market developments could just as well stay at home sulking into their coffee mugs as clients, fees and revenues disappear (*see illustration 11*).

Illustration 11: AI and The Beauty of Analysis

Illustration 11: **AI and The Beauty of Analysis**



The emerging changes in customer trading preferences and expectations may explain the decision by the Chartered Institute of Stockbrokers (CIS) to change its name to the Chartered Institute of Securities and Investments (CISI). The proposed name change is understandable but the regulatory framework through a proposed bill sponsored by Senator Ganiyu Solomon has areas that need revisiting. The bill seeks to repeal the Chartered Institute of Stockbrokers Act Cap C.9 LFN 2004.

CIS "Market Capture", the Guerilla Strike

The bill is flawed on many fronts is an audacious attempt at professional "market capture" and monopoly conduct. The bill in Part 1 notes among other matters that:

2. (1) the principal objects of the Institute shall be:
(a) To advance, direct the theory and practice of securities issuance, dealing, investment management and advisory services;
(b) To determine the standard of knowledge and skill to be attained by persons seeking to engage in, and practice in the Securities and Investment business in the Capital Market in Nigeria, to become registered members of the Institute, and to raise those standards from time to time as circumstances demand.

What 2 (1) (b) means is that the only body recognized to approve professional certification of investment and securities practitioners in Nigeria is the CISI. The section is a breach of the very essence of investment market practice that emphasizes:

- Market efficiency
- Price discovery
- Competition
- Portfolio diversification
- Risk mitigation

Professional bodies cannot be laws unto themselves determining the professional livelihoods of capital market practitioners. The bill shows a clear overreach whereby some strange interpretation of financial terminology the “stock market” has become equated with the “capital market”. The stock market has traditionally and globally been seen as a subset of the capital market which includes the fixed income market, commodities market and the alternative investment markets such as real estate and asset derivatives.

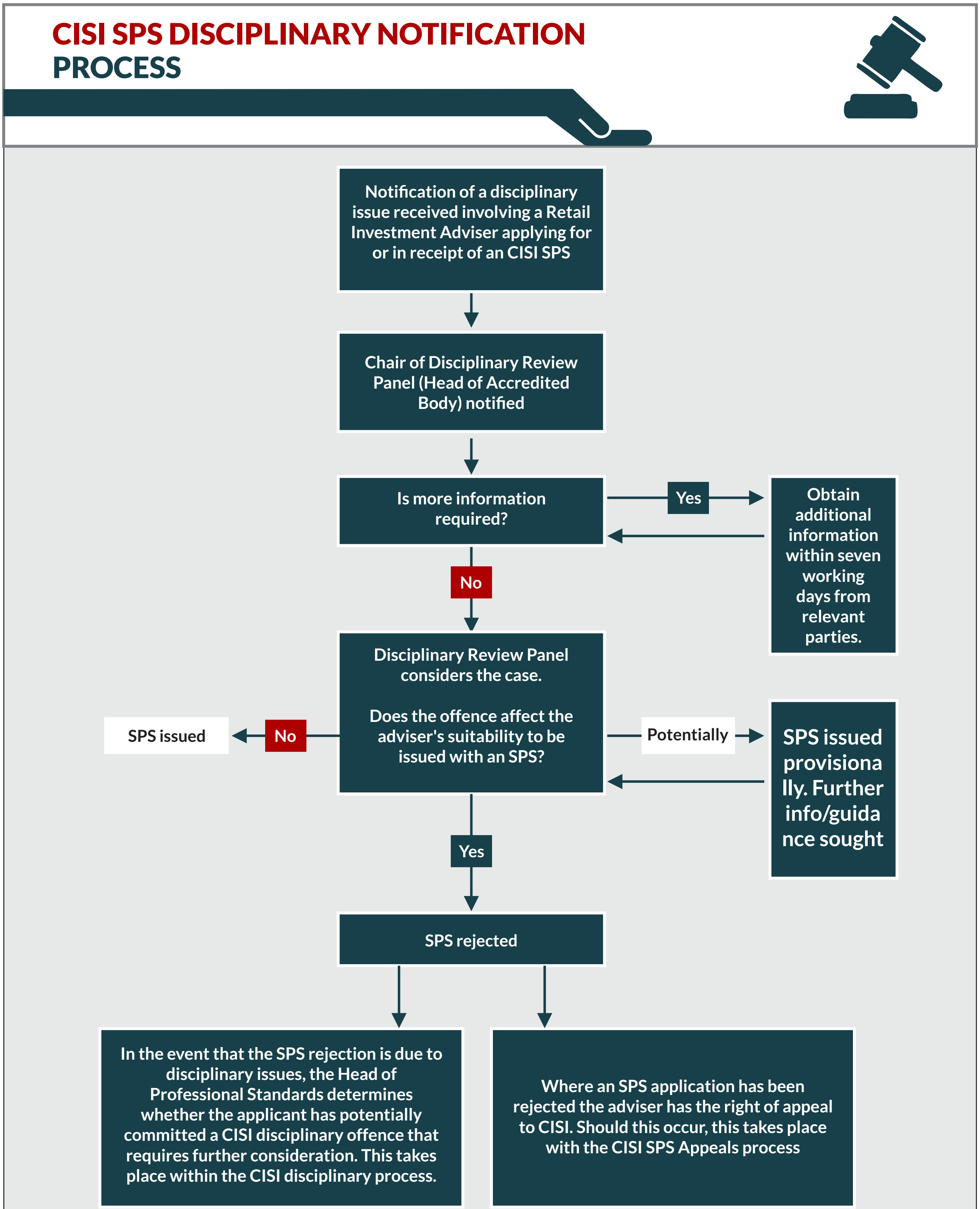
The bill as presently drafted by Senator Solomon brazenly attempts to collapse different markets under one omnibus professional body which would be a professional 'god' similar to the situation where an Institute of Chartered Accountants of Nigeria (ICAN), for example, decides to include areas of tax and tax administration, financial costing, financial management, financial statement and investment analysis and perhaps corporate ethics as part of its exclusive professional preserve and insist that individuals who embark on careers in investment analysis or reporting, investment management, cost management, financial management and taxation should be officially registered and recognized as members of ICAN.

The situation would quickly and easily have been considered a gross breach of global best professional practice and conduct. Indeed, presently in Nigeria, an accountant can be registered with the Association of National Accountants of Nigeria (ANAN) and those wishing to stretch their expertise to taxation can register with the Chartered Institute of Taxation of Nigeria (CITN) separately. Indeed, the CITN has an arrangement with the Association of Certified Chartered Accountants (ACCA) that allows ACCA members to become CITN charter members after a Nigerian tax examination has been sat for and passed. To add another layer to the collaboration amongst finance/accounting professionals, qualifying with an ACCA charter allows a charter holder to sit for an MSc. Programme of the University of London while in Nigeria. The programme would last for six months and the degree is of the same standard and international recognition as a regular MSc programme at the British University.

The CISI bill is, therefore, a rather grotesque contraption alien to the free market spirit upon which investment and securities trading is based and may be misconstrued as an effort by a narrow group of vested-interests to compel investment professionals with various other Charter memberships to be subject to fees and levies that would be replicated in other professional bodies. The bill is a clear stab at the principle of the free buyer and free seller and throws dirt into the eyes of the concept of market equity and fairness.

To make matters worse the drafters of the CISI bill appear to have skidded into the trap of arrogance and hubris when they either wittingly or unwittingly undermined the existing laws on investment market adjudication and resolution when they attempted to negate the relevance of the existing Investment and Securities Tribunal (IST) established by section 244 of the Investment and Securities Act (ISA) 1999 (now section 247 of the ISA 2007). The new draft bill of the proposed CISI states in Part 7 section 13 (1-6)

Illustration 12: **CISI's Proposed Disciplinary Process**



Source: CISI (proposed), Proshare Research, Ecographics

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13.-(1) There shall be constituted a body to be known as the Chartered Institute of Securities and Investment investigating Panel (in this Act referred to as "the investigating Panel") which shall be charged with the duty to Chartered Institute of Securities and Investment (Establishment, etc) Penalties for professional misconduct

(a) conduct a preliminary investigation into any case where it is alleged 1 that a member of the Institute has misbehaved in his capacity as a member or shall for any other reason be the subject of proceedings before the Disciplinary *Tribunal*; or
(b) decide whether the case should be referred to the Disciplinary *Tribunal* or not; or
(c) submit a report on any action taken in the past to the Disciplinary *Tribunal*.

(2) The Investigating Panel shall be appointed by the Council as prescribed in the Regulations of the Institute.
(3) The Council may make rules not inconsistent with this Act as regard acts which constitute professional misconduct.
(4) The Investigating Panel shall act independently in receiving and investigating allegations under paragraph (a) of subsection (I) of this section and shall have power to receive complaints directly from any individual or organization.
(5) *There shall be established a Tribunal to be known as the Chartered Institute of Securities and Investment Disciplinary Tribunal (in this Act referred to as "the Disciplinary Tribunal") which shall be charged with the duty of considering and determining any case referred to it by the Investigating Panel constituted under Subsection (1) of this section.*
(6) The investigating Panel and the Disciplinary *Tribunal* shall consist of such number of members with such qualifications, appointed by the Council in such manner and to hold office for such period and on such terms and otherwise as the Regulations of the Institute shall direct.

Senator Solomon's effort at pushing a bill that castrates professional competition is odd and worrisome as it tallies with an emerging narrative of a drift towards central control and management of the economy by creating a multiplicity of monopolistic structures. Currently, the Nigerian National Petroleum Corporation (NNPC) is the primary importer of refined petroleum products thereby making it a near-monopoly supplier of refined white oil products in the domestic downstream wholesale market. The Central Bank of Nigeria (CBN) is the primary source of foreign exchange supply to the domestic economy, therefore, making it a near-monopoly supplier of foreign exchange. The electricity distribution companies (Discos) in various parts of the country are monopoly distributors of power supply to manufacturers, households and other economic agents. The canopy of monopolies thrown over the economy may create a massive wave of pricing inefficiencies across domestic markets leading to rampant corruption, inexcusable product/service rationing, resource misallocation and destruction of service delivery quality.

The desire for the CIS to upgrade its curriculum and the quality of its market intervention is laudable but its attempt at swiping a guerilla claw at the very heart of free-market enterprise upon which securities and investments are based, at best is dubious and at worst represents a horrendous attack on professional market practices and institutional integrity.

The desire of the CIS to improve the quality of financial market professionals is desirable and applaudable but in doing this allowing the organization to control the buy and sell-side of the capital market would be undesirable and would breach the standard of care embedded in the financial market agency functions. It is an implausible argument for the proposed CISI to provide oversight over the buy and sell-side of financial transactions, more so that this would be usurping the regulatory functions of the SEC (an argument that is represented and reflected in the conflict between SEC's IST and the proposed CISI's Disciplinary Tribunal).

While professional institutions such as Nigeria's Corporate and Individual Investment Advisers (CIIA) may see merit in the total control of the sell side of the capital market by the proposed CISI, many analysts demur. Local capital market analysts spoken to for this report insisted that an omnibus institution controlling the supply side of the entire capital market has no precedence anywhere in the world, and represents a brazen overreach by an institute whose primary mandate was the training of stockbrokers for the stock market and not the training of all capital market professionals. They argue that if the CISI was passed in its current form professional members of the Chartered Institute of Bankers who have Corporate Finance responsibilities in their respective banks would have to become members of the CISI to carry out their legitimate banking functions even if they have no interest in being stockbrokers.

Indeed, Charter holders of the CFA Institute (the world's premier and largest Investment Institute) would also be herded into the CISI programme and made to register with a local institute whose certification would be in competition with the CFA Institute locally but would have no professional traction abroad.

The information available to Proshare suggests that the CFA Society Nigeria has declined to be affiliated with the proposed CISI. This is understandable as the local affiliate of the international institute noted in a letter to the CIS some salient points. The bill as proposed by Senator Solomon would virtually ensure that the the CISI would:

1. *Become a monopoly in directing the theory and practice of Securities and Investment in Nigeria [2(1a)]*
2. *Compel all practitioners in the Securities and Investment business in the Capital Markets of Nigeria to become its members [2(1b)]*
3. *Be the sole entity for certifying prospective practitioners and those already practicing in the industry [2(1c)]. [2(1f)] and [2(2c)]*
4. *Determine individual and institutional Capital Market Operators [16(1)] for the purpose of compelling them to become its members*
5. *Commit investment professionals who are otherwise qualified but elect not to become members of CISI to jail and/or fine [18(1)]*

The letter also noted that the Chartered Institute of Securities and Investments (CISI), United Kingdom, has applied for recognition to a credential in Nigeria but has not requested for a monopoly position that excludes other professional financial Institutes, this is in line with best global corporate practices.

Obviously, in an enlightened 21st Century Nigeria allowing the creation of a Godzilla professional institute has no place in the statute books. The Federal Competition and Consumer Protection Council (FCCPC) needs to brace up to its responsibilities and engage the promoters of the CISI bill in a market-friendly discussion to revise the contents of the proposed law in a way that does not create a professional monopoly that could hurt consumers of professional investment education and knowledge.

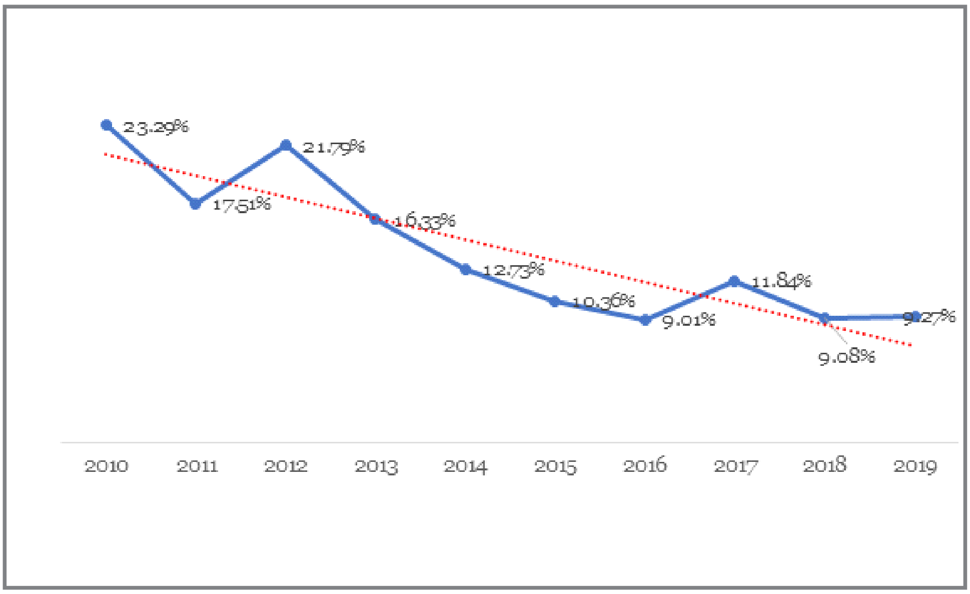
Back of the Envelop

Ten years after the NSE underwent a stir in 2010 the market still appears a long way from earlier expectations. The Onyema US$1trn capitalization target seems to have hit a rough patch. A combination of the poor global economy (-4.9% in 2020 by IMF projections), weak domestic production output (GDP growth was +1.87% in Q1 2020 and -6.10% in Q2 2020) and more recently an international viral pandemic has pulled the market face down.

Some market analysts believe that after a decade of activities the local stock market has several paces before it shows noticeable improvement. In discussions with former staff of the NSE, the former Exchange managers insist that the market has not shown much of an upturn if any. The issues raised included but were not limited to the following:

- **The stock market and economy do not seem to be walking together**. According to the erstwhile staff of the Exchange, one of the benefits of the change of guards at the Exchange should have been a stronger hitching of the economy to the market. This would mean that if the economy experienced strong growth so should the equities market. From the charts presented earlier, the stock market represents a negative relationship between GDP growth and the equity market Index (ASI). The problem, however, is not that of the market regulators but the fact that the market lacks adequate breadth to reflect the different economic sectors. Also, the Nigerian economy is driven mainly by 41.5m small and medium-sized enterprises not listed on the NSE, meaning that NSE companies do not represent a good sample size for broad economic activities and GDP. The NSE market capitalization as a proportion of GDP has steadily declined over the last ten years (*see chart 7*).

Chart 7: **NSE Market Capitalization/GDP numbers-The Gentleman's Slippery Slope**



Source: NSE, NBS, Proshare Research

- **Regulatory enforcement appears weak.** The claim of weak regulatory enforcement is conjectural. Oversight has been patchy for the last two decades but one thing that does seem clear is that indictment and punishment have not been equitable. For example, at the time Ndi Okereke-Onyiuke, the erstwhile DG of the NSE, had her problems at the market between 2008 and 2009, some Issuing Houses, Stockbrokers, Accountants, Auditors, Institutional Investors, and Financial Advisers were part of the process, but none of them were summoned and required to explain the issues that occurred at the period. The singling out of Okereke-Onyiuke and her management team could be interpreted within a certain context as inequitable.
- **No clear lessons learned from the 2008-2009 market cleansing.** The former managers of the NSE, insist that no clear lessons have emerged from the 2008-2009 exercise which supposedly dredged the drainage of management debris. The Exchange, according to these observers, has not moved significantly either in respect of new issues or as regards to the evolution of new products and services. This claim is debatable and perspectives depend on which side of the fence you sit on. However, the available data suggest that in the last decade new issues by way of initial public offerings have tailed off, but big-ticket listings by way of market introduction have risen as stocks such as Dangote Cement, BUA Cement, Notore and MTN got listed (*see table 13*).

Table 13: LBIs; The Joys of Introduction

ENJOY INTRODUCTION

S/No	Compan(ies)	Sector	Listing Dates	Listing Price	Shares Outstanding	Current Price	% Chg
1	BUACEMENT	Industrial Goods	09-Jan-20	35	33,864,354,060	39.5	12.86%
2	MTNN	ICT	16-May-19	90	20,354,513,050	118.5	31.67%
3	NOTORE	Industrial Goods	02-Aug-18	62.5	1,612,066,200	62.5	0.00%
4	GSPECPLC	Services	27-Nov-17	5.00	800,000,000	4.65	-7.00%
5	JAIZBANK	Financial Services	09-Feb-17	1.25	29,464,249,300	0.59	-52.80%
6	MEDVIEWAIR	Services	31-Jan-17	1.5	9,750,649,400	1.62	8.00%
7	OMOSAVBNK	Financial Services	04-Nov-14	0.55	5,000,000,000	0.6	9.09%
8	CAVERTON	Services	20-May-14	9.5	3,350,000,000	1.91	-79.89%
9	INFINITY	Financial Services	11-Dec-13	1.5	4,170,455,720	1.36	-9.33%
10	AUSTINLAZ	Industrial Goods	29-Feb-12	2.09	1,079,860,000	2.03	-2.87%
11	NPFMCRFBK	Financial Services	01-Dec-10	1.5	2,286,000,000	1.25	-16.67%
12	MULTITREX	Consumer Goods	01-Nov-10	3	2,000,000,000	0.36	-88.00%
13	DANGCEM	Industrial Goods	26-Oct-10	135	15,494,019,668	141.8	5.04%
14	MCNICHOLS	Consumer Goods	18-Dec-09	0.98	201,890,000	0.47	-52.04%
15	UNITYKAP	Financial Services	17-Dec-09	2.38	12,400,000,000	3.01	26.47%
16	MANSARD	Financial Services	19-Nov-09	3	10,500,000,000	1.58	-47.33%
17	AFRINSURE	Financial Services	17-Sep-09	3.67	16,700,000,000	0.2	-94.55%
18	ETRANZACT	Financial Services	10-Jul-09	4.8	4,200,000,000	2.61	-45.63%

Source: Proshare Research, NSE as at Aug 6th, 2020

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Nevertheless, some initial public offerings (IPO) also took place, they included Airtel Africa, Sky Aviation, Transcorp Hotel, Seplat and Honeywell Flour Mills (*see table 14*).

Table 14: **The New IPO Kids on The Block**

THE NEW IPO MOB

S/No	Compan(ies)	Sector	Listing Dates	Listing Price	Shares Outstanding	Current Price	% Chg
1	AIRTELAFRI	ICT	09-Jul-19	363	3,758,151,504	348	-4.13%
2	SKYAVN	Services	23-Apr-19	4.65	1,353,580,000	4	-13.98%
3	TRANSCOHOT	Services	15-Jan-15	10	7,600,403,900	0.62	-93.80%
4	SEPLAT	Oil & Gas	14-Apr-14	585	588,444,561	350	-40.17%
5	HONYFLOUR	Consumer Goods	20-Oct-09	8.5	7,930,197,658	1.05	-87.65%

NB: *The Airtel Africa IPO was done through a book building process*

Source: Proshare Research, NSE as at Aug 6th, 2020

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- **Market composition by investor type has involved less foreign investor participation year on year (Y-o-Y).** The argument that foreign portfolio investors (FPIs) have increasingly given the Nigerian equity market a cold shoulder may be accurate. Between 2014 January and 2020 January, the foreign investment flow into the NSE fell from N89.67bn in 2014 to N70.31bn in 2020, representing a -21.59% plunge. Between July 2014 and July 2020, the foreign investment inflow tumbled from N56.42bn in 2014 to N34.59bn in 2020, indicating another drop of -38.69%. Indeed between 2014 and 2020, foreign investment inflow has been on a downward slalom (*see table 15*).

Table 15: The New IPO Kids on The Block

Table 15: **When Foreign Investors Freeze**

PORTFOLIO PARTICIPATION

Foreign Portfolio

MONTH	2020 N'bn	2014 N'bn	% Change
JAN	70.31	89.67	-21.59%
FEB	71.3	136.28	-47.68%
MAR	110.22	130.55	-15.57%
APR	53.18	138.79	-61.68%
MAY	35.24	91.86	-61.64%
JUN	56.34	118	-52.25%
JUL	34.59	56.42	-38.69%

Domestic Portfolio

MONTH	2020 N'bn	2014 N'bn	% Change
JAN	165.14	92.3	78.92%
FEB	77.16	62.42	23.61%
MAR	132.69	36.29	265.64%
APR	75.49	45.64	65.40%
MAY	83.91	109.75	-23.54%
JUN	72.54	107.51	-32.53%
JUL	68.62	167.77	-59.10%

Source: NSE, Proshare Research, Ecographics

Domestic Equity *Sushi*

Local investors for a while lapped up the shares sold by foreign investors who had decided to go short on Nigerian equities. Between January 2014 and January 2020 domestic investment on the local bourse soared +78.92% from N92.3bn in 2014 to N165.14bn in 2020. Between March 2014 and March 2020, the hike in local investor interest in the market rose from N36.29bn in 2014 to N132.69bn in 2020, a rise of +265.64%. Since May, however, local investors have gone sore on the Nigerian market with local investor interest dipping between July 2014 and July 2020 with the local capital inflow into the market sliding from N167.77bn in 2014 to N68.62bn in 2020, or what amounts to a slide of -59.10%. Nigeria's equities Sushi no longer tastes so good.

- **Another problem former NSE staffer point to is the low free equity float available for trading on the NSE**. They observed that most of the prime equities on the market are closely held by a very narrow band of investors and, therefore, the market price of equities does not reflect corporate fundamentals but mirror the restricted supply of traded stocks. The observation appears mildly valid and may be of concern to market regulators (The NSE and the SEC). Market efficiency relies on the laws of demand and supply working effectively but if the supply of an asset is rigged to be largely unavailable for open trading then the pricing of a company listed on a trading floor cannot be considered to be 'fair' and 'equitable' or reflective of corporate fundamentals or the company's free cash flow discounted by its weighted cost of capital. The problem of 'free float' is a thorn that has been stuck in the markets toe for a while. Equity analysts of three high-end brokerage firms interviewed for this report thought that if the local equity market is to attract increased foreign investor interest (which has implications for Nigeria's capital importation and foreign exchange market) then the issue of share availability for trading must be frontally addressed, otherwise, the efficient market theory (EMT) of textbooks would be meaningless, at least as it concerns Nigeria's actively traded equities (23 listed companies currently have free float deficiencies as of August 11, 2020).

  It must be noted that the NSE rules allow companies listed on the Premium Board to have free floats of less than the standard 20% threshold as long as the value of the free float shares on the Exchange equal or exceed N40bn. For the Main Board, the free floats of the companies can also be less than 20% of issued and fully paid-up shares as long as the value of the free float shares are equal or exceed N20bn.

- B**ombshell bandits. Where is NSE's, Whistle-Blowers?** Former NSE managers equally query how well the whistleblower laws of the Exchange have helped the market improve its transparency, efficiency and equity. One of the managers interviewed but who requested for anonymity noted that "the whistleblower mechanism of the Exchange ought to create a trading platform scrupulous in transparency, rigorous in compliance and honest in governance. We are not witnessing that vigor, rigor and commitment at the moment. What we see is a Baba Suwe (local comedian) kind of shadow boxing, where the footwork is pretty, but the punch never happens" he said.

  Whistleblowers shelling evidence-based bombs on market bandits have not appeared, for now, leaving the market mildly vulnerable to abuse and manipulation say, analysts. "The bombs are yet to land but they should be in the corporate cupboards somewhere," said one observer (*see table 16*).

Table 16: **Handling The Free Float**

COMPANIES WITH FREE FLOAT DEFICIENCIES

S/No	Issuer	% Of Free Float	CSI	Free Float Value (n)	Compliance Due Date
1	Infinity Trust Mortgage Bank Plc	0.93	BLS	52,747,923.95	17-May-21
2	BUA Cement Plc	1.15	BLS	15,625,887,600.00	15-Jun-23
3	The Tourist Company of Nigeria Plc	1.75	DIP	123,834,865.64	N/A[2]
4	Capital Hotels Plc	2.99	BLS	112,608,073.53	16-Aug-21
5	Transcorp Hotels Plc	6.00	BLS	1,824,096,936.00	18-May-20
6	Notore Chemical Industries Plc	10.02	BLS	10,095,564,577.50	15-Jun-20
7	Union Bank of Nigeria Plc	8.41	BLS	12,490,182,078.30	18-May-20
8	Golden Guinea Breweries Plc	16.72	BRS	138,772,836.58	N/A[2]
9	Ellah Lakes Plc	13.85	BLS	1,177,250,000.00	31-Dec-19
10	Ekocorp Plc	12.64	BLS	378,138,928.63	31-Oct-17
11	Medview Airline Plc	14.16	BLS	2,236,720,967.16	N/A[2]
12	Portland Paints & Products Nigeria Plc	14.57	BLS	257,789,434.89	16-Aug-20
13	CWG Plc	15.97	BLS	1,024,165,514.61	16-Aug-21
14	Lafarge Africa Plc	16.13	BLS	193,293,548,652.00	07-Nov-20
15	Aluminium Extrusion Industries	16.51	BLS	294,149,358.36	N/A[2]
16	Caverton Offshore Support Group Plc	17.89	BLS	1,114,847,292.90	16-Aug-21
17	Union Dicon Salt Plc	18.00	BMR	538,750,727.50	N/A[2]
18	eTranzact International Plc	18.22	BLS	1,997,276,400.00	07-Dec-20
19	Champion Breweries Plc	17.26	BLS	1,216,319,301.00	16-Aug-21
20	Prestige Assurance Plc	18.95	BLS	530,405,293.60	N/A[2]
21	Austin Laz & Company Plc	19.36	BLS	45,649,665.60	N/A[2]
22	Arbico Plc	19.96	BLS	33,792,609.60	15-Jun-23
23	Skyway Aviation Handling Company Plc	7.6	BLS	301,359,758.80	N/A[2]

Note: As at 11 September, 2020

Source: NSE, Proshare Research, Ecographics

Ten years after the stock market experienced a personnel shakeup in 2010 a few legacy problems have persisted; narrow assets tradeable on the floor remain a problem for nifty investors seeking portfolio diversification, low free float in prime quality stocks distort market pricing, and opaqueness of corporate governance of listed companies challenges the integrity and reliability of the market's equity information. However, the Exchange's management has not slept at the ship stern. Unexpected macroeconomic challenges caused by external global financial factors have hobbled the pace of market growth and inhibited market liquidity.

The Exchange's external challenges have combined with unorthodox domestic monetary policies to dig studs into the progress of the local equities market especially in the last five years. But the Exchange has trudged on carefully with a few modest innovations and a clear sight at circumnavigating the potholes that line its journey to global best practices.

As Ben Graham once noted, “In the short run, the market is a voting machine. But in the long run, it is a weighing machine”. With a rebound in economic fortunes likely in 2021, the Nigerian stock market will see a surge in equity voters and by 2025 it will see a major upward adjustment in equity values. But all this depends on how well the economy copes with 2020's economic headwinds. Markets like human beings suffer mortality.

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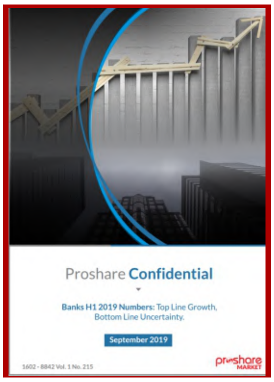

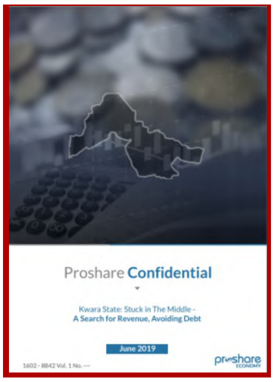

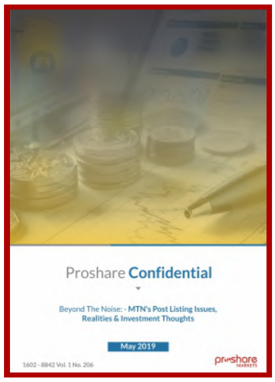

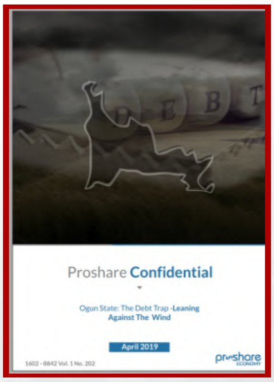

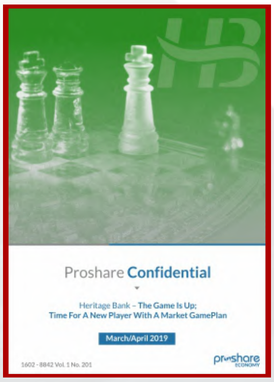

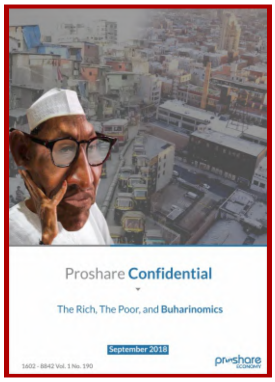

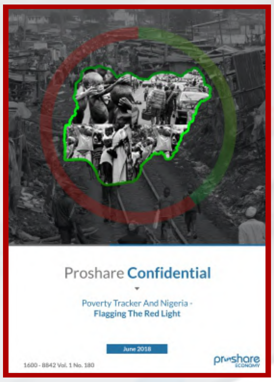

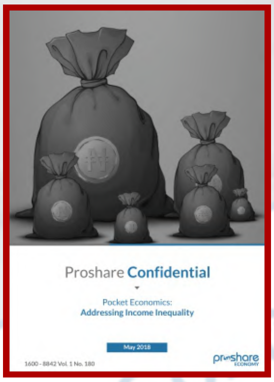

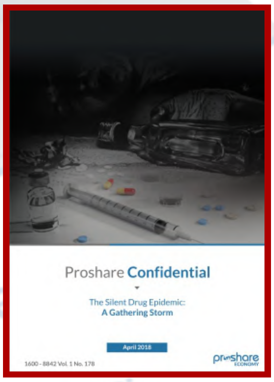

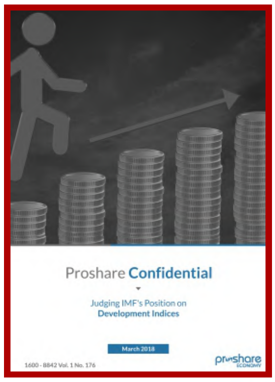

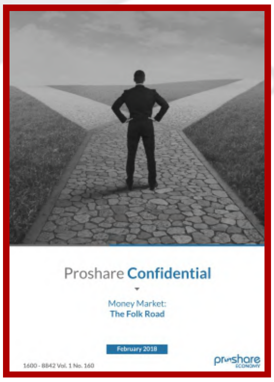

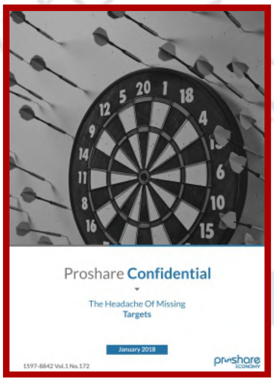

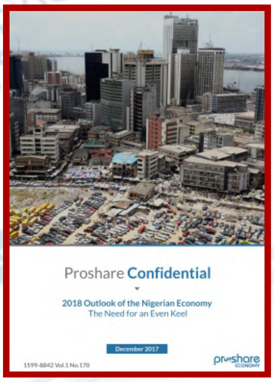

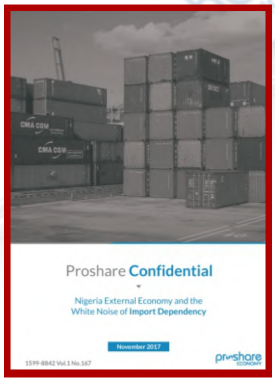

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