



# THE NIGERIAN CAPITAL MARKET

A LEGAL SUMMARY

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# INTRODUCTION

A capital market is an organized market in which both individuals and business entities buy and sell debt and equity securities. It provides structures for transferring long-term savings in the economy to companies and governments for corporate, industrial and infrastructure development thus reducing their dependence on bank-based financing.

End-users obtain funds from investors (institutional investors, insurance companies, charitable organisations) to achieve their goals while investors yield returns.

Instruments traded in the Nigerian Capital market include: Equity (shares), over 90% of trading activities, Debt (bonds: government and corporate bonds), hybrids/derivatives (futures, options). There is also a commodity market for the sale of commodities such as agricultural products.

# NEW PRODUCTS TRADED IN THE CAPITAL MARKET



ISLAMIC  
PRODUCTS



REAL ESTATE  
INVESTMENT TRUSTS  
(REITS)



MORTGAGED  
BACKED  
SECURITIES



ASSET BACKED  
SECURITIES



EXCHANGE  
TRADED FUNDS



COMMODITIES  
TRADING (FUTURES  
AND OPTIONS)

# INTRODUCTION

The Nigerian Capital Market has witnessed tremendous growth in recent years. The growth is attributable to the Federal Government economic reform programmes in the areas of Banks and Insurance companies' consolidation, privatisation, pension reforms, mortgages as well as increased investor awareness, confidence in the market and relative political stability.

Examples of highly organized capital markets are the New York Stock exchange, American Stock Exchange and London Stock Exchange. Within Anglophone West Africa, Nigerian and Ghanaian Exchanges are the leading exchanges.

# NATURE

The Nigerian Capital Market is segmented into the primary and secondary market.

Primary Market: Issuing of new stocks and bonds directly from companies to investors, businesses and other institutions.

Secondary Market: Subsisting listed securities are traded between investors.  
Investment banks, private investors and other firms resell their equity and debt securities to investors

## FUNCTION AND IMPORTANCE

- ▶ Economic growth: pools domestic savings and mobilizes capital for productive projects
- ▶ Promotes infrastructural development: by channelling savings into investments through efficient transfer of funds from individuals, corporations and governments that have excess funds.
- ▶ Promotes long-term savings: pension fund administrators and insurance companies mobilize long-term savings from small individual households.
- ▶ Promotes Public-private sector partnerships

# REGULATORY FRAMEWORK

- ▶ The regulation of a capital market enables the market to function more competently and fairly. A well regulated market has the prospective to boost additional investors to participate which in turn contributes to the development of the economy.



# LAWS/RULE BOOKS

- ▶ Investments and Securities Act
- ▶ Securities and Exchange Commission Rules and Regulations
- ▶ Companies and Allied Matters Act : Sections 22(5), 142
- ▶ Nigerian Stock Exchange Rule Book
- ▶ FMDQ Bond Listing and Quotation Rules
- ▶ NASD OTC Securities Exchange Rules and Regulations
- ▶ Trustee Investment Act
- ▶ Debt Management Act
- ▶ Pension Regulation on Investment of Pension Fund Assets

# REGULATORY FRAMEWORK

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Investment and Securities Act 2007 (ISA): established the Securities and Exchange Commission, enlarged powers and functions of the commission over the capital market, provides for a set of new market infrastructure and wide-ranging system of regulation of investment and securities business in Nigeria, especially in the area of Mergers and Acquisition and take-over, collective investment schemes. Section 13(d) ISA, IPF, IST.

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Securities and Exchange Commission: apex regulatory body in the Nigerian Capital Market empowered under the ISA to regulate and develop the market under the supervision of the Federal Ministry of Finance. The regulatory oversight of the Commission covers all corporate bodies and individuals authorised to perform designated functions in the market. These include Self Regulatory Organizations like the Exchanges, Central Securities Clearing System and other Capital Market Trade Associations.

# REGULATORY FRAMEWORK

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Amongst other functions, the SEC formulates rules and regulations for the market, registers and regulates securities exchanges and other SRO's, registers and regulates the issuance of securities, intervenes in the management and control of Capital Market Operators, approves capital market transactions.

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The Nigerian Stock Exchange: formerly known as the Lagos Stock Exchange was established in 1960 to provide a trading platform for securities. It provides a platform for trading in securities, It also performs market developmental functions in the area of capacity building, for example organization of seminars, workshops and roadshows.

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Following the demutualization of the Nigerian Stock exchange in 2018, the NSE will now operate a holding company structure which involves:

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A new non-operating holding company , the Nigerian Exchange Group Plc

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Three subsidiaries which include: The Nigerian Exchange Limited (the operating exchange), NGX Regulation Limited(Independent Regulation Company) and NGX Real Estate Limited (the real estate Company).

# REGULATORY FRAMEWORK

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Central Securities and Clearing Settlement: subsidiary of the NSE, provides computerised clearing, delivery and settlement of quoted shares.

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Ministry of Finance: provides fiscal policy and stability in the capital market and overall economy, empowered by the Finance (Control and Management Act) 1958

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FMDQ (Financial Market Dealers Quotation): FMDQ Holding Plc, Integrated Financial Market Institution which provides registration, listing and quotation services, trading, clearing, settlement, risk management and depository of Financial Markets through its subsidiaries; FMDQ securities exchange limited, FMDQ clear limited etc.

# REGULATORY FRAMEWORK

Securities and Exchange Commission Rules and Regulations: specifies registration requirements for CM Operators and regulation of their activities, sets out the process for obtaining approval from SEC, states the content of transaction documents, sets out detailed rules regarding raising capital

Investment and Securities Tribunal: Established pursuant to the Investment and Securities Act, resolves disputes relating to capital Market activities, resolves disputes on the interpretation of Capital Market Laws.

NASD(National Association of Securities Dealers): NASD Plc ,self-regulatory organization registered by SEC, provides trading platform where securities not listed on any traditional exchange registered by SEC can be traded through licensed stock broking houses, licensed OTC transactions.

# INTERMEDIARIES IN CAPITAL MARKET

Corporate Bodies and Individuals who facilitate securities transactions.

Issuing houses: financial institution that arranges and underwrites the issue of new stocks and shares on behalf of corporate clients on the stock exchange, provides financial advice to companies and government, determines pricing in conjunction with the issuer, prepares offer documents to be filed with SEC, marketing of offer

Stock brokers/Dealers: individuals/firms who buy and sell securities on behalf of clients for a fee/commission

Investment Advisers: provide investment advisory services to clients, make recommendations on the types of securities to buy, publication of financial market periodicals

Portfolio/Fund Managers: responsible for investing a fund's assets, implementing its investment strategies and managing the day-day portfolio trading

Registrars: bank or company responsible for keeping detailed record of bond holders and shareholders after an issuer offers securities to the public, update register of subscribers.

Trustees: impartial third-party saddled with the responsibility of protecting conflicting interests between the issuer and investor in the financial market

# INTERMEDIARIES CONTD.

Receiving agents: Banks, stock brokers, issuing houses that receive applications that collect application forms from subscribers nationwide

Receiving banks: custodian of offer proceeds pending allotment

Solicitors: advisory, compliance, agreement drafting

Auditors: audit coy accounts annually

Reporting accountants: review and report on accounting bases and calculation of profit forecasts

# CAPITAL MARKET TRANSACTION

- ▶ Section 54 of the ISA requires all Securities of a Public Company and all securities or investments of a Collective Investment Scheme to be registered with SEC.
- ▶ Securities subject to registration with SEC may be offered through (Rule 279 SEC Rules):
- ▶ Offer for subscription: subsequent offering of new shares to the general public after Initial Public Offering
- ▶ Offer for sale: offer of existing shares by an existing shareholder to members of the public
- ▶ Rights issue: provisional allotment of new shares only to existing shareholders
- ▶ Bonus Issue: issue of additional shares to existing shareholders instead of dividend payout
- ▶ Private Placement by Public Companies: offer of new shares to identified investors
- ▶ State or Local Government Bond
- ▶ Offer by Introduction: listing already issued shares on the stock exchange, not usually for capital raising.



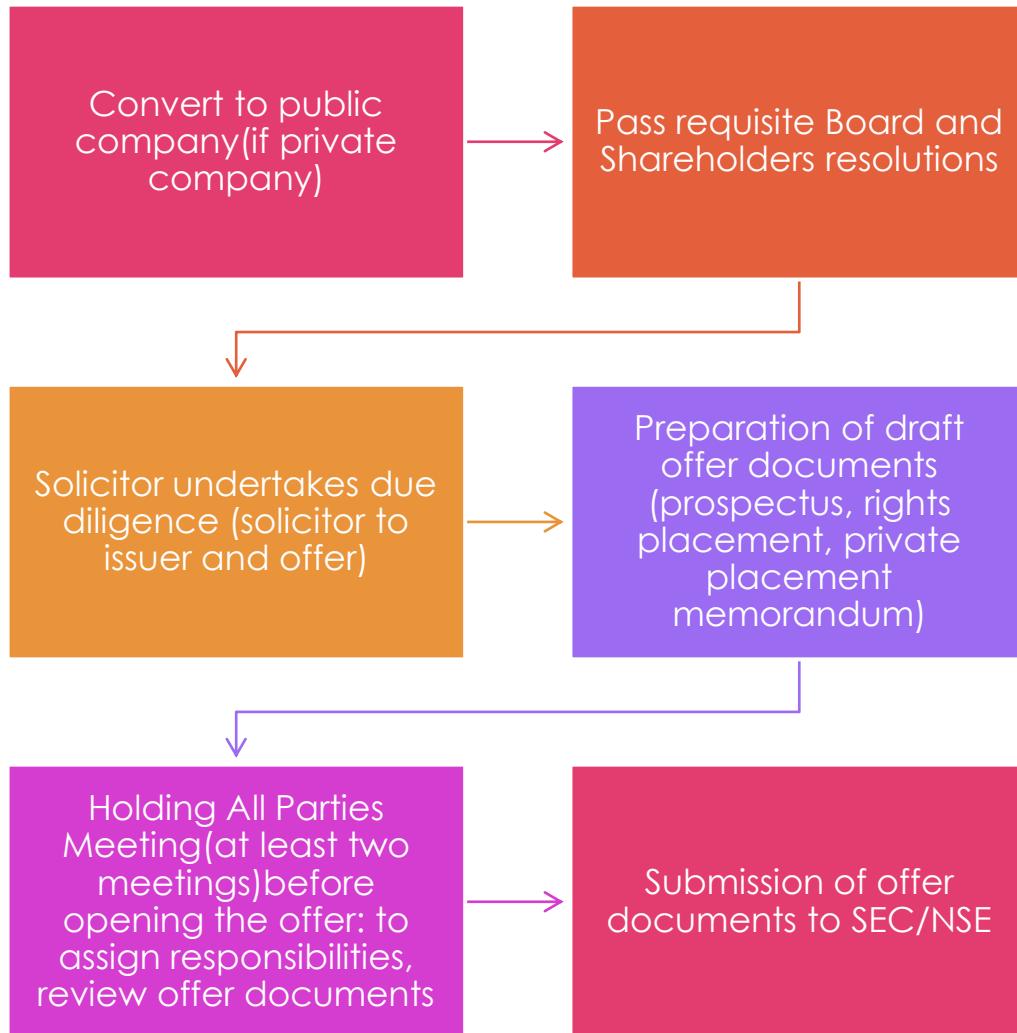
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graph LR; A[Corporate Authorisation: Board and or Shareholders resolution approving the transaction] --> B[Legal due diligence report(solicitor to the issuer) which include: good corporate standing, reviewing material contracts and constitutional documents of the company, disclosure of any ongoing or threatened litigation claim.]; B --> C[Issuer raises funds via the Capital Market: appointment of professional advisers such as issuing houses, reporting accountants, auditors and registrars.];
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Corporate Authorisation: Board and or Shareholders resolution approving the transaction

Legal due diligence report(solicitor to the issuer) which include: good corporate standing, reviewing material contracts and constitutional documents of the company, disclosure of any ongoing or threatened litigation claim.

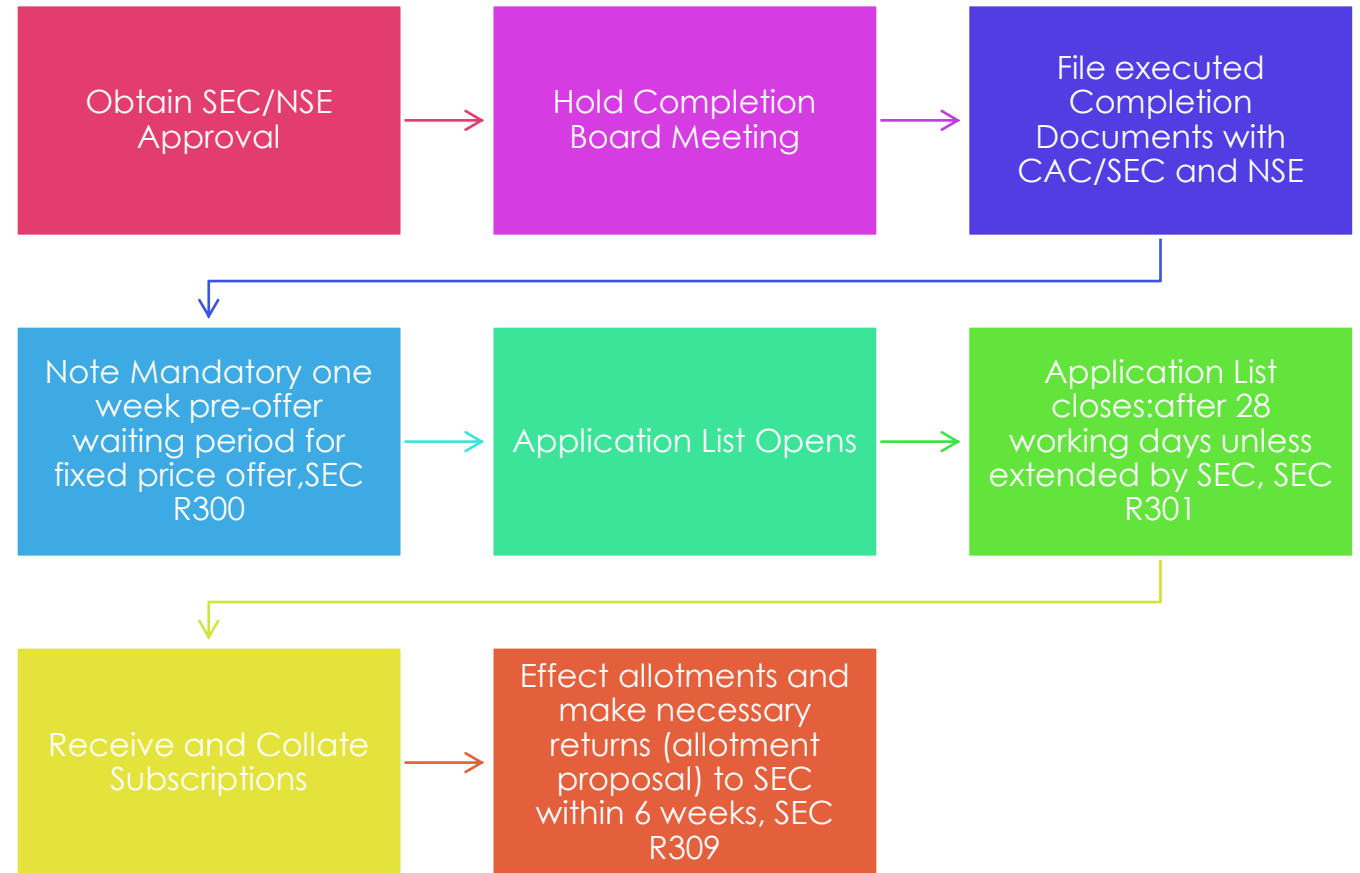
Issuer raises funds via the Capital Market: appointment of professional advisers such as issuing houses, reporting accountants, auditors and registrars.

## KEY STAGES IN A CAPITAL MARKET TRANSACTION



# KEY STAGES IN CAPITAL MARKET TRANSACTION

# KEY STAGES CONTD.



# KEY STAGES CONTD.

## Return

- Return excess subscription moneys to investors within 5 working days, SEC R305(5)



## Issue and forward

- Issue and forward Share Certificates, credit the CSCS account of investors



## List

- List the shares not later than 30 days after SEC has cleared the allotment, SEC R313(2)

# CHALLENGES OF THE NIGERIAN CAPITAL MARKET

- ▶ Lack of transparency of Stockbrokers
- ▶ Cost of transactions
- ▶ Regulatory Framework
- ▶ Investor Protection
- ▶ Enhanced Corporate Governance (e.g. Insider Trading)
- ▶ Decrease in Investor Confidence

# CONCLUSION

- ▶ The lack of an advanced and vibrant capital market can lead to underutilization of financial resources. A developed capital market provides access to foreign capital for the domestic industry. Thus Capital Markets definitely plays a constructive role in the overall development of an economy.
- ▶ Chaka becomes the first to obtain the digital sub-broker license introduced by SEC in April .Its app holds over 4000 stocks of publicly traded companies in Nigeria and the US. It provides borderless investing for users. SEC now open to foreign companies who want to have a digital presence in Nigeria. Sub-license for digital platforms involves a minimum capital of 10- million Naira.

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