OPPORTUNITIES IN THE NIGERIAN CAPITAL MARKET

By

The Securities and Exchange Commission,

Abuja

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at the Orientation Camps

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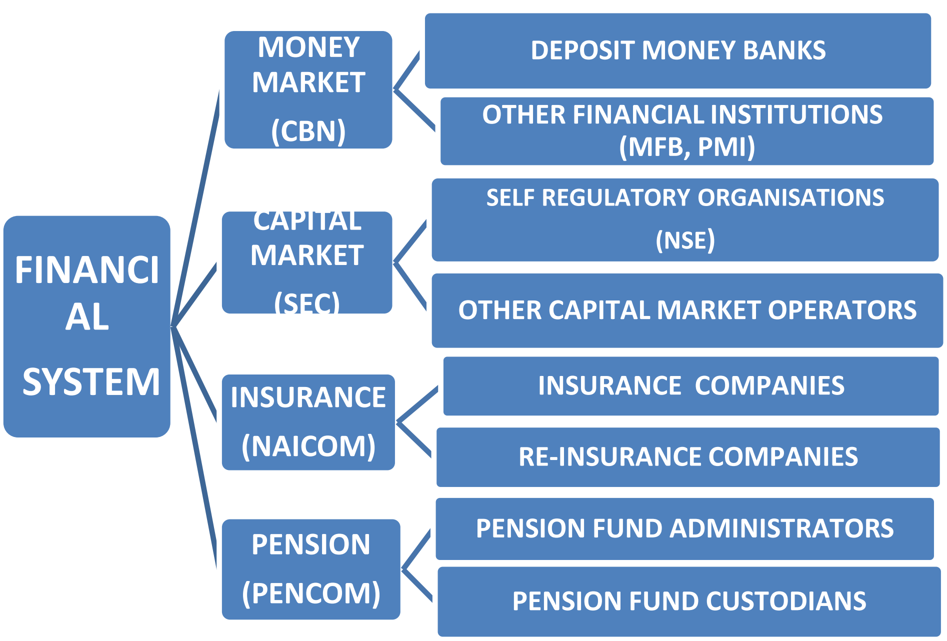
1.1 INTRODUCTION

The Capital market is a market for buying and selling medium to long-term securities (i. e. ordinary shares, preference shares, bonds and debentures). The capital market also provides for indirect investments in securities through products offered by Collective Investment Schemes (CIS). For businesses and governments to do well and prosper, they require stable source of long term funds which is not available in the money market (the banking system). For instance, businesses need to expand their factories to remain competitive, and governments need to provide such socio-economic infrastructures as roads, rails, hospitals, schools, bridges etc to be relevant. Only a vibrant capital market can provide this type of long term funding.

The Nigerian capital market is an integral part of the Nigerian financial system. Other sectors of the Nigerian financial system include: the money market, the insurance market and the pensions. Each of these markets has a statutory regulatory institution namely: CBN, SEC, NAICOM and PENCOM for the money, capital, insurance and pension markets respectively (see the chat below). These regulatory institutions are empowered by statutes (laws) to supervise the various markets and facilitate the exchange of funds between the surplus and deficit units.



1.2 EVOLUTION OF THE NIGERIAN CAPITAL MARKET

Capital market activities in Nigeria can be said to have commenced in 1946 with the issuance of the first development stock of £300,000 (Three hundred thousand pounds sterling) by the then Colonial Administration. This took place even before the Central Bank of Nigeria (CBN) was established in 1958. The CBN and the Ministry of Finance later facilitated the establishment of the SEC and the other institutions of the Nigerian capital market.

The Nigerian stock exchange came into being in 1960 as the Lagos stock exchange but started trading in 1961 with three equities, six Federal Government bonds and ten Industrial Loan making a total of nineteen listed stocks (nineteen stocks all together). It later changed its name and became the Nigerian Stock Exchange (NSE) in 1977. There are now over 200 securities listed on the NSE and the trading system has improved during this time from a manual call-over system to a screen based electronic trading system where traders transact business via the computer.

The Securities and Exchange Commission (SEC) which is the apex regulator of the Capital market began in 1962. It started as the Capital Issues Committee at the CBN and later became the Capital Issues Commission in 1973 when the Capital Issues Commission Act was enacted. The name Capital Issues Commission was later changed to the Securities and Exchange Commission (SEC) in 1980 following the promulgation in 1979 of SEC decree no. 71. The law has severally been amended and it is now called the Investments and Securities Act (ISA) No. 29 of 2007.

1.3 INSTRUMENTS IN THE NIGERIAN CAPITAL MARKET

When companies or governments need funds to execute any task, they can approach the capital market for the funds they need using any of the securities (instruments) such as equities (ordinary shares), debts instruments (bonds, debentures or preference shares).

EQUITIES

Equities (also called ordinary shares or common stock) are issued by companies that want to sell to the investor a part of itself in order to raise funds for development and expansion. Investors that buy it have bought part of the company and can share in the dividends and bonuses declared by the company. A company can issue its ordinary shares through initial public offers (IPOs), public offers (PO) or through a Right Issues (offer ordinary shares to existing shareholders in proportion to their holding).

DEBT INSTRUMENTS

Companies that do not want to immediately dilute their ownership interest in the company use debt instruments to raise funds from the capital market. Different types of debt instruments can be issued by companies including the different classes of debentures and preference shares. Governments (Federal, State and Local) also issues **bonds (**a type of debt instrument) when they want to fund infrastructural projects.

All debt instruments issued in the capital market are long-term contracts under which a borrower agrees to pay interest and repay principal on specific dates to the holders of such instruments until the amount borrowed is fully repaid. Corporate bonds are called **debentures**.

Preference shares is a type of debt instrument issued by companies in which the shareholders do not want to dilute their ownership interest. It entitles their holders to a fixed return of interest (except for participating preference shareholders who may participate in further additional dividends under specified conditions have been met) and the repayment of their capital as stated in the contract. Upon conversion of their preference shares into ordinary shares, holders of **convertible preference shares** can also become part owners of the business.

1.3.1 COLLECTIVE INVESTMENT SCHEMES

Collective Investment Schemes (also called mutual funds in the US) These are investment or unit trust companies that are allowed to raise funds from the capital market by issuing units of open-ended or close-ended securities to investors. The pool of funds so generated is utilized for the purpose of investing in either equities or debts or other investment. Typically, investors pool their money together and place it under a professional manager. It allows large number of people to pool their resources together and invest in wider range of instruments. The benefits of CIS

Benefits:

1.) It enables investors spread their risk exposure by buying into many stocks with small capital.

2.) It is suitable for those with minimum time to monitor their investments.

3.) Ownership of diversified portfolio with small capital.

4.) Professional management of fund.

5.) **Cost** is saved due to lower commissions paid by the fund manager in large deals.

1.4 SEGMENTS OF THE CAPITAL MARKET

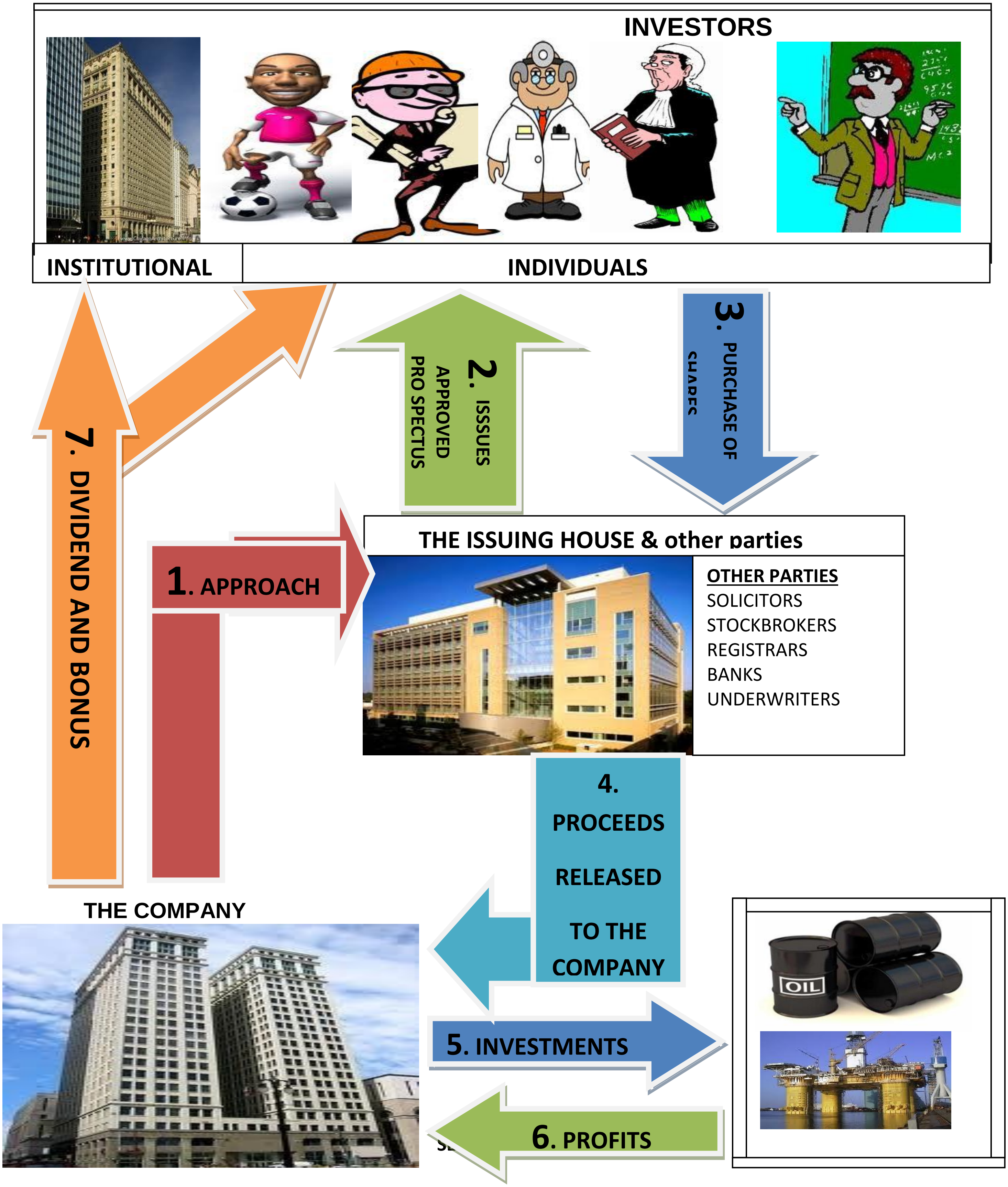
The capital market has two main segments, the primary and the secondary segment.

THE PRIMARY MARKET

The primary segment of the capital market is the market for fresh issue of securities by companies who need funds for business expansion or governments who need funds for infrastructure. Companies or governments that issue securities are called issuers. Companies wishing to raise funds from members of the public via the capital market must first get the approval of its board and pass a resolution to that effect. The Diagram below illustrates the transaction processes in the primary market.

1. Company wishing to raise funds in the market approaches an issuing house to package the offer.
2. Then the issuing house together with the other parties prepare the issue prospectus, gets approval from the SEC for the issue before marketing to investors.
3. Interested investors purchase the shares through collecting agents (banks, stockbrokerage companies)
4. The proceeds (money realized) is received from the investors who have subscribed and passed on to the issuer (the company) less all approved commission and fees.
5. The company invests the money in the line of business as contained in the prospectus.
6. The company makes profit/ loss from the business as the case may be.
7. Investors (institutional and individuals) are rewarded with a share of the profits made in the form of either dividends or bonus or both.

A. THE PRIMARY MARKET



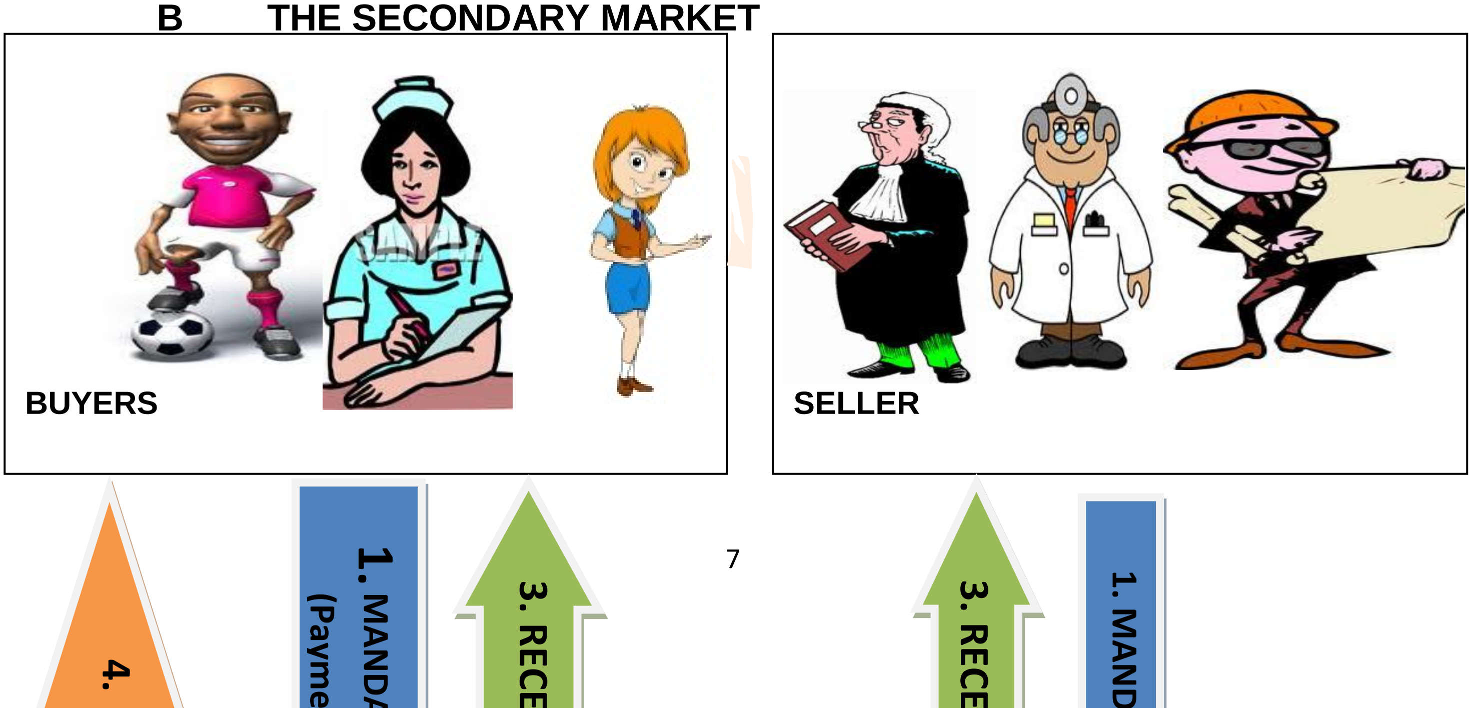
THE SECONDARY MARKET

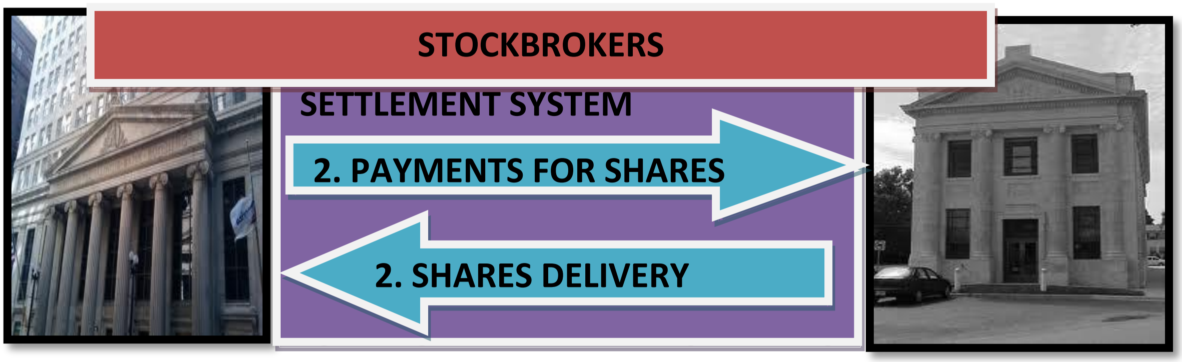
This is a market for buying and selling of shares which the investors have already bought from the primary market, so the proceeds from sales go to the divesting shareholder and not the company whose share is being traded.

BUYING AND SELLING OF SECURITIES

1. The investor approaches a stockbrokerage firm and completes the account opening procedure including the mandate form instructing the broker to purchase or sell shares on his behalf as the case may be.
2. The share certificates must first be dematerialized (converted to electronic form) before it can be traded on the exchanges.
3. The broker carries out the mandate of the client on the floor of the Exchange (The Nigerian Stock Exchange or the National Association Securities Dealers OTC Exchange).
4. The broker provides the client with information about transactions carried out as soon as it is done (contract note).
5. The broker also provides periodic information to the client (CSCS statements)
6. All transactions are settled by the Central Securities Clearing System (CSCS) which functions as a depository for all securities that have been dematerialized.
7. The CSCS settles transactions in the capital market in four working days, which is transaction day plus 3 days (t +3).
8. The CSCS also provides trade alert.

B THE SECONDARY MARKET





1.6

YOURSELF PROTECTED

1. Open a CSCS stock account with a broker (Choose from lists of registered stockbrokers available on SEC & NSE website).
2. Fund your stock broking account through the banks (and not by cash).
3. Submit a mandate to your broker to buy stocks.
4. An alert will be sent to your phone as soon as your mandate is executed. This will allow you track your investment by matching the alerts with your buy sell orders.
5. You can request for a printed copy of your CSCS statement of account from your broker or the CSCS at any time.
6. Report any irregularities noticed in your CSCS account to your broker (and to the regulators if you are not satisfied with the broker's explanations).
7. Keep track of your investments, the company's performance, dividends declared, bonuses and payment dates, and change in the top management the company.
8. Claim your dividends, ensure you deposit the dividend warrants into your accounts and also complete your e-Dividend form to enable you receive your dividends directly into your bank account.

1.7 INFORMATION IS KEY TO INVESTING IN THE STOCK MARKET!

Some common information useful to an investor includes the following among others;

1. Financial results (Profit, Sales (Turnover), Dividends).
2. Management of the company (Board composition, Product/Service quality).
3. Market information about the company (Competitive edge, Market share, Share price).
4. Potential for growth (Diversification, Acquisition/Merger, Expansion)

SOURCES OF INFORMATION

1. Annual reports and accounts
2. Financial journals, newspapers, bulletin etc from chosen stockbroker
3. Professional Advice from Investment advisers
4. NSE, SEC websites

1.8.0 BENEFITS IN THE STOCK MARKET

1.8.1 Opportunities for companies

- Access to capital.
- Access to cheaper funds than would have been raised from financial institutions.
- Opportunities abound where capital can be invested to yield returns.
- Listing on the exchange boost the image of the company.
- Visibility of the company and its products.

1.8.2 Benefit to the Country/Economy

The federal and state governments can raise funds to finance its activities from the stock market. This can enhance infrastructure, create employment and generate more taxes revenues for government.

1.8.3 Benefits for Individuals

A. WEALTH CREATION- Investors in the capital market receive returns in any of, or a combination of the following:

i) Dividend/ Interest

A dividend is a share of the profits of a company for a financial year in proportion to the number of shares held. Every shareholder has a right to receive dividends if declared and at the annual general meeting (AGM) of the company. Interest is also paid to bond holders periodically as stated in the agreement.

ii) Capital Appreciation

Capital appreciation refers to an increase in the price of a stock over a period of time. Capital appreciation gives an investor the opportunity to sell the stock he has bought for a profit at a later date. For instance, if an investor buys 1000 units of ABC Plc stock at ₦5 each and the price rises to ₦6, the investor has made a ₦1 gain on each stock which equates to 20% return on investment.

iii) Bonus

A bonus or bonus issue refers to the issue of new shares to existing shareholders in the proportion of their current shareholding at no charge to the shareholders; the shares are paid for from the reserves of the company. For example if a company declares a bonus of 1 for 3, it means each shareholder will be entitled to 1unit of share for every 3 held. The market price of the shares of a company that issued bonus shares is always adjusted downwards in order to reflect the increase in the number of shares of the company.

B. **CAREER DEVELOPMENT**- The capital market has a lot of career opportunities which corps members can take advantage of after their NYSC program depending on their disciplines of studies and numeracy skill levels. Disciplines like accounting, economics, statistics, management etc are better placed, but with determination and the right attitude there is no discipline that cannot make a successful career in the capital market. The possible career areas are as discussed below:

i) Stockbrokers

These are professionals who work for stock broking firms. They are registered by the SEC and licensed by the NSE to trade on the floor of the Nigerian stock exchange on behalf of investors. They are responsible for opening a CSCS account for their clients before they can start buying or selling shares. Sometimes where they possess the required expertise, they can act as portfolio managers and also advise clients on investments. The stockbrokers also act as agents during public offers. To become one of the professional stock brokers in the Nigerian capital market, you have to write the Chartered Institute of Stockbrokers (CIS) professional examination and qualify as a stock broker.

ii) Portfolio Managers

These are agents that manage clients' investment accounts as agreed to between the portfolio manager and client and based on the clients' investment needs. Portfolio managers usually charge fees for managing these accounts. To be a successful portfolio manager, you must have a professional degree: CIS, ACIB, ACCA etc.

iii) Fund managers

A fund is a pool of money which is invested in a variety of investment portfolios. The fund manager is a person responsible for taking decisions relating to investing a fund in a portfolio of investments in accordance with the investment goals of the fund. Example of fund managers in the Nigerian capital include: pension fund managers, mutual fund (unit trusts) and exchange traded fund managers etc.

iv) Underwriters

An underwriter is a financial services firm which enters into a contract with a company issuing shares (issuer) to buy part or all of its shares to be offered to the public. Underwriting can be **firm underwriting** (where the investment bank provides the cash backing to the issuer) or **stand-by underwriting** (where the bank is called upon to pick-up the unsubscribed portion of the shares after the offer). Underwriting contract crystallizes after the offer period.

v) Solicitors

Solicitors can advise clients as either solicitors to an issuer or as solicitors to an offer. It is the duty of the solicitors to an offer to make sure there is no deliberate misstatement of facts or concealments in the offer document.

vi) Trustees

A trustee is an individual or an institution put in charge of overseeing the day to day management of property owned by a trust for the benefit of the trust. In the capital market, trustees are the eyes and ears of the investors, especially, in bonds and unit trusts schemes. They keep custody of the title documents and ensure that the issuer complies with the **Trust Deed.** A professional qualification such as CIS, ACIB, ACCA would be an advantage in getting a job in firm that operates as a trustee.

vii) Issuing houses

Issuing houses are investment bankers who package offers for companies. Their functions include, but are not limited to:

- rendering investment advisory services,
- can underwrite issues,
- coordinating other professionals in the issues processes, and
- Intermediating in all kinds of business combinations.

viii) Registrars

The functions of a company registrar include:

i. Maintaining a register of shareholders
ii. Payment of dividends of a company to its shareholders
iii. Distribution of annual reports and accounts
iv. Sending out notices of meetings of the company

ix) **Others Professionals;** Reporting Accountants, Auditors, Engineers, Estate Valuers

1.9 RISKS IN THE STOCK MARKET

As in all businesses, there are risks associated with investing in the capital market which may affect profitability of the companies and make them unable to pay dividends or bonuses. Such risks include:

1.9.1 Market Risk

Market risk is the risk that the market will move against an investor's investment position. It is the risk faced by investors because of the fluctuations in prices of stock in the Capital market. A good example can be seen in the Global Financial Crisis of 2008 – 2009 which made all capital markets in the world to crash. Market risks also known as systematic risk cannot be eliminated from the market.

1.9.2 Industry risk

Industry risk affects companies that operate in the same industry. Industry risks may occur as a result of adverse government policy, technological change, availability or otherwise of raw materials etc. For example if the government liberalizes the import of cement with zero tariffs, the companies in the cement industry will face stiff competition from foreign producers who may be able to produce at cheaper costs. This may adversely affect the profits of all the firms in the industry.

1.9.3 Regulatory risk

Every company operates in any country faces the risk of rules, and regulations moving against them. Since these companies are bound to obey the laws of the country, changes in these rules can be a significant risk which can make some companies declare huge losses or even close up. The case in hand is the Dunlop Company Ltd as well as the Michelin Tyres Ltd both of which moved their factory from Nigeria to Ghana.

1.9 4 Business Risk

This is the probability that a company will make lower profits than it anticipates or that it will make a loss instead of a profit. Business risk is influenced by both external and internal factors. External sources of business risk include: overall economic climate, increasing competition in the industry and government regulations while internal sources include: sales volume, input costs, productive capacity, etc.

1. 10.0 ISSUES OF CONCERN IN THE NIGERIAN CAPITAL MARKET

1.10.1 Ponzi schemes

These are scams calculated to deceive the unsuspecting individuals. It has the following characteristics. There is a promise of abnormal returns on cash they want you to invest, usually far higher than what is obtainable in the banks. The money raised is not used in any productive ventures; instead, monies collected from subsequent investors are used to pay initial investors.

The initial investors when they receive their first return go to town with the news of their superior returns, telling friends and relatives who are then attracted to invest based on the confirmation received.

The purported investment (Ponzi scheme) manager banking on this euphoria then collects cash from many more unsuspecting depositors but after a shot while closes shop and makes away with the money collected to another far destination before the law catches up with him.

1.10.2 Limited knowledge of the market

Investing in the capital market requires knowledge about the market. A prospective investor in the market would need to have basic knowledge about investments or employ the services of an investment adviser. Inadequate knowledge of the market can make the difference between a profitable investment and a non-profitable one.

1.10.3 Financial Inclusion

Financial Inclusion is perhaps the most talked about concept these days. In simple terms, it means ensuring that the poorest of the poor, the most disadvantaged sections of society, those living in the remotest corners of the country, all have access to formal financial services, be they market instruments, insurance or pensions, and are made available at an affordable cost. Financial Inclusion is therefore ensuring financial access to those at the bottom of the pyramid.

Efforts being made by Government and the various stakeholders for the purpose of financial inclusion strategy include but are not limited to the following;

Promoting Financial Literacy – this is an important component of inclusion; it would support better delivery of financial services by educating the targeted excluded sects. Potential investors should be aware of the range of financial services offered in the capital market and other financial institutions. This awareness in turn results in empowerment for the poor villager and un-informed which ultimately creates informed financial service providers and better informed users.

Stakeholders Collaboration**-** efforts are being made by stakeholders such as the Central Bank of Nigeria (CBN), World Bank, National Poverty Eradication Programme (NAPEP), German Technical Corporation (GTZ), Enhancing Financial Innovation and Access (EfinA), Deposit Money and Microfinance Banks, among others to increase the level of financial inclusion through easy access to a broad range of financial services at an affordable cost. The aim is to empower millions of the unbanked Nigerians to become viable economic actors.

Financial Identity - While large transaction clients are able to provide means for their identification such as identity cards, driving licenses and international passports, this does not apply to the poor people, the poor people do not have formal identification as such hinders their participation in the financial market. The National Identity Management Commission (NIMC) launched a national ID programme targeted at providing documentation and a unique ID number to approximately 100 million Nigerians within 30 months. Pilots kicked off in October 2011 and a full-scale registration for IDs commenced in Q1 of 2012, this will simplify the financial identity procedure for poor people and will pave way for them to enter the financial market place easily.

Mobile Network Operators (MNOs) make it possible to immediately access a large segment of the financially excluded through phone calls and customized enlightenment bulk sms, considering that GSM phones are now very popular even among the poor.

Benefits of Financial Inclusion

1. It enables everyone to have access to the financial services & products at an affordable cost so as to participate fully in modern-day society and the economy.

2. Provides people with education, information and generic advice needed to make financial decisions with confidence.

3. Promotes financial wealth and economic growth.

4. There will be choices of products from several institutions. Products like payment services, savings, loans and pensions.

5. There will be more Automated Teller Machines (ATM) and point of sale terminals (POS) devices to make transactions safer and easier

1.11.0 ROLE OF SEC IN THE NIGERIAN CAPITAL MARKET

The Overriding reason for regulation of the capital market by SEC is to protect investors by creating an atmosphere that is devoid of sharp practices of any kind. The SEC uses the tools of Registration, Rules Making, Investigation, Monitoring, Enforcements and Compliance to ensure that all market participants play according to rules. As contained in the ISA Act 2007, the roles of SEC in the capital market include but are not limited to:

1.11.1 Investor protection roles

- Protecting the integrity of the securities market against all forms of abuses including insider dealing
- Entering and sealing up the premises of persons illegally carrying on capital market operations
- Preventing fraudulent and unfair practices relating to the securities industry
- Disqualifying persons considered unfit from being employed in any arm of the securities industry.

1.11.2 Market Development roles

- Regulating investments and securities business in Nigeria as defined in the investments and securities act
- Promoting the introduction of more instruments in the market
- Working to ensure growth of investor-base in the market
- Promoting investors' education and training of all categories of intermediaries in the securities industry
- Regulating all offers of securities by public companies and entities
- Facilitating the establishment of a nationwide system for securities trading in the Nigerian capital market in order to protect investors and maintain fair and orderly markets
- Facilitating the linking of all markets in securities with information and communication technology facilities
- Rendering assistance as may be deemed necessary to promoters and investors wishing to establish securities exchanges and capital trade points
- Prepare adequate guidelines and organize training programmes and disseminate information necessary for the establishment of securities and exchanges and capital trade points.
- Facilitate the linking of all securities markets with information and communication technology facilities.
- Conduct research into all or any aspect of the securities industry.

1.12.0 COMPLAINTS MANAGEMENT

The Investing public has many avenues to resolve their concerns or problems in the capital market.

1) They can take their issues to the NSE where any market operator is suspected to have shot changed them.
2) They can also report to the SEC either directly at the Head Quarters or through any of our zonal offices in all the geopolitical zones of the federation.
    - Cases reported are sent to the Investigation Department for proper investigation.
    - Then the parties are made to face the Administrative Proceedings Committee (APC) of the SEC.
    - A party not satisfied with the decision of the APC can appeal to the Investments and Securities Tribunal (IST).

CONCLUSION:

The opportunities in the Nigerian capital market for corps members are numerous as have been discussed in the paper. There are different positions for jobs in the various professional groups just as there are also many investment opportunities for you. If you have brilliant projects or ideas that can change the world just like the Mark Zuckerberg of FACE BOOK and Bill Gates of Microsoft, the capital market is there to fund you. Your certificates have armed you with the tool to explore these many opportunities. You now have to take the necessary step and make yourself count.

It is also expected that financial inclusion would bring about a radical change in the current lopsided development of the economy, by providing the rural people access to various financial facilities to put them at par with their urban counterparts. The disadvantaged sections of society should be given a role in nation building, and this is possible only through financial inclusion.

You are welcome to our website and zonal offices (see below) where you can avail yourself of both soft and hard copies of our publications.

Thank you.

phone: 017358159, **fax:** 234-1-2644538

Maiduguri
11 Baga Road
P.M.B 1495, Maiduguri Borno
email: mzo@sec.gov.ng
phone: 08034943619

Kaduna
Wema Bank Building, (4th Floor) 22 Bida Road, Off Yakubu Gowon Way, Kaduna State
email: kdzo@sec.gov.ng
phone: 08023337276

Onitsha
Onitsha Business Village # 4 Ridge Road G.R.A PMB 1855 Onitsha, Anambra State
email: ozo@sec.gov.ng
phone: 08033423513

Port-Harcourt
First Bank Building(3rd Floor), 22/24, Aba/Port Harcourt Road, Port Harcourt, Rivers State
email: phzo@sec.gov.ng
phone: 08054049966, 234-084-575940

Kano
African Alliance House (4th Floor), F1, Sani Abacha Way/Airport Road, Opposite KLM Airlines, Kano State
email: kzo@sec.gov.ng
phone: 064891036 , 08037050713

Ibadan
4B Rotimi Williams Old Bodija, Ibadan, Oyo State
Email: izo@sec.gov.ng