

SECURITIES AND EXCHANGE COMMISSION, NIGERIA



**Mr. Lamido Yuguda
Director General
Securities and Exchange Commission (SEC), Nigeria**

**Address delivered at the 2023 Annual Investors' Day Conference of
Association of Asset Custodians of Nigeria**

Theme

Nigeria's Economy: Emerging Opportunities in a New Structure

**London
Wednesday, May 17, 2023**

Protocol.

Good morning, distinguished ladies and gentlemen.

It is my pleasure to be at this year's Annual Nigeria Investors' Conference, organised by the Association of Asset Custodians of Nigeria (AACN) holding this morning in London, UK, the beautiful, swinging city of the King, where royalty lives. According to the organisers, one of the objectives of this year's conference is to drive the sustainability and growth of the Nigerian financial market by raising the visibility of Nigeria's investment prospects in the international market, thus presenting Nigeria as an attractive investment destination despite the prevailing global economic challenges. The Conference, I believe, will afford participants an opportunity to gain a greater knowledge of the Nigerian Capital Market.

My job, this morning, is to enlighten participants on what the Securities and Exchange Commission (SEC) has been doing in recent times to enhance the global competitiveness of our capital market and make it more attractive to both local and foreign investors. I am also to provide updates on other recent developments in the capital market that are likely to impact investment activities in the market.

Nigeria's Investment Enabling Environment

A key regional player in West Africa, Nigeria accounts for about half of West Africa's population, with about 202 million people and one of the largest

populations of youth in the world. It has the highest GDP in Africa, standing at \$514.05 billion in 2021, and an abundance of natural resources. It is Africa's largest oil exporter.

Information and communication technology is currently the fastest-growing sector in Nigeria and holds vast opportunities for investors. Many Fintech companies in Nigeria are attaining levels of successes once thought to be the stuff dreams are made of. Technology companies are pushing the boundaries and providing opportunities for discerning investors to make good returns. Furthermore, there are some other recent events that will open up opportunities for business growth and expansion in the country.

A major defining policy action taken by the Nigerian government, was the crafting of the Nigerian 2021-2025 Development Plan which is planned to be funded through various sources, including concessions. This has opened up vast opportunities for investors to enter into public-private partnerships with the government in myriad sectors in the country. Following in tow, was the enactment of the Petroleum Industry Act 2021, a law directed towards reforming the oil and gas sector with the sole objective of boosting the profitability of the sector and its attraction to investors.

The mining and agricultural sectors have been identified as pivotal sectors for the Nigerian economic recovery plan and the government has introduced several incentives to encourage investments in these sectors. In 2021, the

government unveiled special incentives for investors in the agricultural sector including tax holidays, exemptions and reliefs. And for the mining sector, there are provisions for tax holidays for the initial three years from the commencement of operations and two years thereafter. It is pertinent to note that the Nigerian business environment encourages foreign investment through laws that allow companies in Nigeria to be wholly owned by foreigners with a strict restriction on expropriation and nationalisation.

The Federal Government has also introduced a single trade window to facilitate trade and improve access to resources and the services of the various government agencies. The single trade window platform is expected to enhance ease of doing business in the country. Similarly, the Central Bank of Nigeria (CBN) has issued several guidelines that regulate certain activities and encourage new business entrants.

The CBN Guidelines on Mobile Money Services in Nigeria and the Guidelines for Licensing and Regulation of Payment Service Banks (PSB) allow non-financial companies to provide financial services. This, without doubt, is another veritable enabler of investment opportunities. These guidelines liberalise the sector and allow the convergence of industry players from the Fintech, banking and telecommunications sectors, to provide mobile money and digital banking services. In a bold move to facilitate settlement of cross border transactions, the

Central Bank has also issued guidelines for the operations of the Pan-African Payment and Settlement System (PAPSS) in Nigeria.

Nigerian New Insolvency Regulations

The Honourable Minister of Industry, Trade and Investment, on 24th April 2022, approved the Insolvency Regulations 2022. The Regulations, which are divided into 13 parts and 3 schedules, introduce provisions aimed at clarifying compliance requirements for insolvency practitioners and providing a comprehensive governance and procedural framework for insolvency practice.

The Regulations include provisions around, *Accreditation of Insolvency Practitioners; Company Voluntary Arrangements; Establishment and Operation of a Creditor's Committee in an Administration; Reporting and remuneration of administrators.*

Prudential Oversight and Safety Nets in the Nigerian Capital Market

One of the key objectives of securities regulation is the reduction of threats to financial system stability arising from the prudential failure of a significant market intermediary or any misconduct by such intermediary that is capable of negatively impacting investor confidence. The failure of a significant market intermediary could pose a number of risks to its counterparties, and potentially to investors, if the necessary safety nets, such as investor compensation schemes, are not adequate. Apart from the failure of the market intermediary, other

scenarios that could negatively impact investor confidence are widespread dumping (sell-off) of securities due to misleading information and other misconducts.

Prudential oversight in the Nigerian capital market has greatly improved with the adoption of the Risk-Based Supervision (RBS) Framework. The Framework is focused on the continuous identification, assessment and control of risks that are inherent in the activities of regulated entities. It provides a guide for the prudential supervision of all Capital Market Operators (CMOs). Thus, the intensity, scope and scrutiny of a CMO by the regulator is dependent on the Composite Risk Rating (CRR) of such CMO. With the implementation of RBS, the depth of the Commission's engagement with each CMO will be dependent on the CMO's risk profile as determined by the SEC.

There have also been put in place, functioning safety nets, to protect investors in the event of collapse of a CMO. These include investor protection funds operated by the Exchanges and focused at restituting clients of member brokers in case such broker collapses, and a bigger and wider scoped National Investor Protection Fund set up and administered by the SEC, focusing on protecting investors other than those of brokers who are already covered by the exchange-based protection funds. Recently, the rules on the NIPF had been reviewed and approved in line with best practice, thus providing a more robust framework for the operation of the Fund.

Regulation of Digital Assets

Last May, the SEC released new regulations on issuance, offering platforms and custody of digital assets. The Rules are meant to address various aspects of dealings in digital and virtual assets and open up the space to investors. The regulations cover such issues as:

(a) Issuance of Digital Assets as Securities;

(b) Registration Requirements for Digital Asset Offering Platforms;

(c) Registration Requirements for Digital Asset Custodians;

(d) Rules on Virtual Assets Service Providers; and

(e) Rules on Digital Assets Exchanges

Part A of the Rules applies to issuers seeking to raise capital through digital asset offerings. Under the Rules, where digital asset offerings (such as Initial Coin Offerings (ICOs)) are issued to the general public, investors can pay for such tokens with cash, cryptocurrencies and other assets. However, such tokens, must be registered with the SEC before they can be issued to the public for purchase.

One fundamental responsibility of the SEC is the protection of investors. As a result, and in its bid to protect investors and ensure that the directors and senior management of an issuer are fully invested in the digital asset offering - the Rules require that the issuer's directors and senior management should own an aggregate of at least 50% equity in the issuer on the date of the issuance of the

digital assets. While the issuer's directors and senior management who own more than 50% of equity in the issuer may sell, assign or transfer their equity holding upon commencement of the issuance of the tokens, they are not permitted to transfer more than 50% of their respective holdings until the issuance is completed.

Under the Investments and Securities Act 2007 and the Companies and Allied Matters Act 2020, only public liability companies are permitted to issue securities to members of the public. The effect of this is that the issuers of digital assets will need to be public companies only. Foreign companies also wishing to offer digital asset tokens as securities to the public in Nigeria must register same with the SEC, and in seeking to do that, must comply with any other SEC regulations on offering of securities in Nigeria by foreign entities.

Recent Developments in the Market

In a bid to promote increased investment activities and grow the Nigerian capital market, the SEC had developed the 10-year Nigerian Capital Market Master Plan ("CMMP") in 2015. The Masterplan is the blueprint that is aimed to position the Nigerian capital market as an efficient and internationally competitive market that can support Nigeria's emergence as a top 20 global economy. Over the last few years, the Nigerian Capital Market has emerged as a leading frontier market with increased participation especially by foreign investors. To remain competitive however, and in view of new emerging realities, there was the need to review the strategy document. To this end, an extensive

review of the Masterplan was carried out by the Commission in collaboration and with support from the Financial Sector Deepening Africa. The Commission successfully launched the 2021-2025 Revised Capital Market Masterplan (RCMMP) in November 2022. This revised blueprint will serve as a valuable tool in consolidating on the successes achieved in the implementation of the original version, and in view of the initiatives contained in the document which are expected to shape the direction of regulatory and developmental activities in the capital market for the next five years.

SEC and the FSRCC

The Financial Services Regulation Coordinating Committee (FSRCC) is a committee of regulators in the Nigerian financial services sector. It provides an avenue for the various regulators to harmonise regulations and share information with each other. Some of the collaborative efforts have brought about the harmonization apparent in the respective RBS frameworks, and the development of the Nigerian Sustainable Finance Principles, amongst others. The Commission will continue to seize the opportunity of the Forum to advocate for the Nigerian capital market and as may be impinged upon by sister sectoral policies. However, it is worthy of note that though cross sectoral regulations may seem to stand averse to each other sometimes, they all are geared towards making Nigeria an attractive investment destination and the harmonious reconciliations in such cases will at all times strengthen the Nigerian financial regulatory ecosystem.

Outlook on the Nigerian Capital Market

Nigeria's capital market regulation is expected to receive a major boost following the passage into law of the Investments and Securities Bill (ISB) 2023. The Bill empowers the Securities and Exchange Commission (SEC) to strengthen its protective girdle for investors, more strongly regulate the market to maintain a fair, efficient and transparent market, and forestall systemic risks, as well as more widely covering the activities of illegal fund managers and operators of Ponzi schemes.

The Bill repeals the Investments and Securities Act (ISA), No. 29 of 2007, and introduces new provisions that empower the Securities and Exchange Commission (SEC) to collaborate with other regulatory bodies in the financial sector to better manage and mitigate systemic risks. The Bill will generally revitalise the Nigerian Capital Market as it introduces regulation of new businesses, products and services that will further deepen the market while equipping the apex regulator – the SEC — with appropriate powers to protect the market and enforce the provisions of the Bill.

Reduction of settlement time to T+2

The SEC supports the goal of shortening the settlement period as it is to expect to boost market efficiency and reduce risks in the financial system. The reduction is expected to reduce latency, lower risk and promote efficiency and greater liquidity in the market. During the settlement period, market participants have credit exposure to each other. The change will directly benefit retail

investors (as well as other participants in the markets) through increased certainty, safety and security, resulting from lower levels of avoidable risk.

Conclusion

Once again, I congratulate the Association of Asset Custodians of Nigeria's (AACN) for organising this conference and wish you all fruitful deliberations and a pleasant stay in swinging city of the King.

Thank you and God bless.

Lamido Yuguda