



UNIVERSITY OF IBADAN JOURNAL OF PRIVATE AND BUSINESS LAW

U.I.J.P.L.

Vol. 5 2006

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Published by:
Department of Private and Business Law
Faculty of Law, University of Ibadan

UNIVERSITY OF IBADAN

**JOURNAL OF PRIVATE
AND
BUSINESS LAW**

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JULY 2006

U.I.J.P.L. Vol. 5 2006

University of Ibadan

Journal of Private and Business Law

IBADAN UNIVERSITY LIBRARY

Volume 5, 2006

ISBN 1595 - 2495

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2006

All Correspondence should be directed to:

The Editor-in-Chief

Journal of Private and Business Law

Faculty of Law

University of Ibadan

Printed by:

Sceptre Prints Limited.

5, Lodge Street, Oke-Ado,
Ibadan.

Tel: 08033224738,08057787874

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NIGERIAN STOCK EXCHANGE: AN OVERVIEW

BY

SEGUN ONAKOYA *

INTRODUCTION

Stock Exchanges are defined as organisations that provide a market for the trading of bonds and stocks. While Stock Market is simply defined as the buying and selling of stocks for the purpose of profit for both buyers and sellers of the security.¹

The Stock Exchange is one of the key institutions in the capital market which is a network of individual institutions and instruments involved in the efficient channeling of funds from the surplus to deficit economic unit.² Put differently the stock Exchange is a market where large and small investors alike buy and sell through Stockbrokers, the stocks or shares of companies and government agencies.³ The Stock Exchange provides the essential facilities for companies and government to raise money for business expansion and development projects through individuals who own shares in corporations for the ultimate economic benefits of all. It should be noted that the stock exchange plays a central and indispensable role for which it has been variously described as the "hallmark" or "heart" of the capital market.

The capital market constituencies can be broadly divided into four categories, namely:

- (i) Provider of funds (Investors – Individual, Unit Trust and other Corporate bodies)
- (ii) User of funds (Companies and Government)
- (iii) Intermediaries (Facilitators - Stockbrokers, Issuing Houses,

* Legal Practitioner

1. Rosenberg Dictionary of Investing Pg. 314-315
2. Apostle Dr. H. I. Alile; The Stock Exchange and Capital Formation in Nigeria; Strategies and Constraints Pg. 1
3. B. D. Yaro; The Role of the Nigerian Stock Exchange in the Economy - Being an extract from a paper presented at The Officers Training Week of the 2nd Mechanised Division, Nigerian Army, Ibadan.

- Registrars)
 (iv) Regulators (Securities and Exchange Commission the Nigerian Stock Exchange).

The Formation and Development of the Stock Exchange In Nigeria

The Nigerian Stock Exchange which was initially known as the Lagos Stock Exchange was established in 1960. Before its establishment almost all the formal savings and deposits went through the banking system, while major capital balances were invested for the country by the then Colonial masters on the London Stock Exchange prior to 1960. Some form of informal market arrangements had existed and government securities were floated in Nigeria as far back as 1946. But not until the Central Bank of Nigeria (CBN) was established in 1959, that it became very logical to have stock exchange; hence the incorporation of the then Lagos Stock Exchange in 1960⁴ which later became known as the Nigerian Stock Exchange in 1977.⁵

Trading commenced in 1961⁶ after the enactment of the Lagos Stock Exchange Act of 1961. The Self Regulatory Organization (SRO) was subsequently re-organised and renamed the Nigerian Stock Exchange in 1977 as mentioned above. The Exchange now have six branches (Kaduna, Kano, Port-Harcourt, Onitsha, Ibadan and head office in Lagos). All the branches function principally as Trading Floors.

It is equally worthy of mention that the Abuja Stock Exchange which was approved several years after the Lagos Stock Exchange is also functional and a veritable market.

OPERATIONS AND FUNCTIONS OF THE STOCK EXCHANGE

The Stock Exchange market according to Apostle H. I. Alile⁷ falls into two broad categories: The Primary Market and Secondary Market. However, B. D. Yaro⁸ adds a third category to it which he called the derivative market. It is through the operations of these markets that the Stock Exchange Functions.

4. Questions and Answers on the Stock Exchange Pg. 1
5. Soyode Afolabi; Stock Performance and Economic Policy: A case study of Nigeria.
6. Apostle Dr. H..I. Alile op. cit. Pg.8
5. Op. cit. Pg. 7
6. B. D. Yaro op cit Pg. 3
7. Op. cit. Pg. 1
8. Apostle Dr. H. . Alile op. cit. Pg. 8

Primary Market:

The primary market is the process by which securities of government and companies are issued to the public at large, for the first time. It also operates when there is a major investment by an existing shareholder, or where although no securities are issued, the company gets admitted onto the Daily Official list of the Nigeria Stock Exchange. Not until 1993 when the on going deregulation of the Nigerian Capital Market commenced that the security and Exchange commission was responsible for pricing and allotment issues while the Quotations Committee of the Nigerian Stock Exchange (NSE) approved only the issues which will be listed on the Exchange's Official list.

The Primary market operations are conducted through the following methods:

- (a) **Offer for Subscription:** This is the direct issue to the public by floating a number of shares or debenture stocks. It carries the supposition that the company is a public one, and the proceeds of the issue go to the company to finance expansion and/or modernization.
- (b) **Offer for Sale:** A public offer of shares in a company by existing shareholder(s), proceed of which goes to the selling shareholders. Most of the public offers under the Federal Government privatization programme for instance fall under this category and holding that were offered for sale went to the government via the technical committee on privatization and commercialization (TCPC) now the Bureau for Public Enterprises (BPE)
- (c) **Placing:** Securities are sold to the clients of the Issuing Houses/Stockbroker handling the issue instead of being offered directly to the general public. This is often necessitated by a desire to save on cost of issue. However, the council of the Stock Exchange seldom grants permission to use this method. The method is mostly used by unquoted Public Limited Companies.
- (d) **Rights Issue:** This involves offer to buy additional shares; generally made to existing shareholders and sometimes at a

concessionary price. This method is appropriate where a substantial part of the shareholding structure do not want a dilution of the shareholding structure and they are willing to provide the additional capital required by the Company.

- (e) **Introduction:** where a company seeking quotation has already met the minimum listing requirements especially with regard to spread and number of shareholdings, the Exchange may allow the securities of the company to be listed on the market. This process in itself does not lead to raising of funds but allows the company to participate in the capital market through secondary market operations. The listing of the shares of Guaranty Trust Bank Plc. in 1996 and that of Co-operative Bank Plc. in 1997 was done by way of introduction.⁹

- (f) **American Depository Receipts (ADRs) Global Depository Receipts (GDRs):** These are internationally traded securities linked to the underlying shares of local companies and provide a route to facilitating foreign investment as they offer a convenient way for international investors to hold Shares in the local market. The methodology for raising ADR/GDR involves International depository receipts denominated in dollars on the basis of shares deposited with a custodian institution. ADR/GDR are instruments through which local companies can raise funds from international fund markets. A company issuing GDR, may not be quoted on the foreign Stock Market for level I issue, but as levels II and III it would be necessary to quote it on the foreign stock market and be subject to its rules and regulations.

The Nigerian Stock Exchange in 1998 played a facilitating role when United Bank of Africa Plc. was able to execute successfully a sponsored level I GDR, with plans in future to use the medium to raise dollar denominated capital as part of its financing mix.¹⁰

9. Question and Answer on the Stock Exchange Pg. 2

10. Uchenna Ogbu Executive Director General Securities and Finance Co. Ltd.; Legal framework of raising funds on the Nigerian Capital Marketing Pg. 7

Secondary Market

The Secondary market operates after the issue has been completed and the security listed on the Stock market. Secondary market is a vehicle for providing liquidity to investor. In Nigeria, secondary market transactions are carried out by licensed stockbrokers on the Six Trading Floors of the Nigerian Stock Exchange.

The Derivatives Market

The Derivatives market in Nigeria is still in its infancy. It is the market that trades not in issued securities, but on the right to title on the underlying security or on the basis of the future title to the security. The financial future market, for example, operates to provide a hedge against exchange rate fluctuation and more particularly interest rate fluctuation and therefore of interest to portfolio managers, pension funds, etc In the options market, the holder of an option has the right to buy or sell an underlying security usually shares, at any time up to maturity. The main difference between an option and future, is that an option need to be exercised in this manner i.e. dealers can trade on its price if they so wish, whereas a future has to be held to maturity or closed out. The only derivative presently being traded on the Nigerian Stock Exchange is right offer. Futures, options and swaps are yet to be operational in the Nigerian Capital Market.

MANAGEMENT OF THE STOCK EXCHANGE

The Stock Exchange has a National Council with a president responsible for policy issues. This council is made up of a team of shareholders who are elected at an Annual General Meeting. However, the day to day management of the Stock Exchange is vested in the Director General and his team of executives.¹¹ Apart from making policy, the other duties of the council are:

- (1) Enforcing discipline among members
- (2) Making rules and regulations for dealing members (Stockbrokers)
- (3) Granting quotation and listing for securities
- (4) Protecting the interest of the investing public
- (5) Considering complaints about and among the members

OPERATORS OF THE CAPITAL MARKET

All players in the market other than the investing public may be designated as operators and these will include; Dealers, Stockbrokers, Banks, Investment Advisers and Professional Advisers, such as Accountants, all of whom have prescribed roles in the market and are required by law to exercise utmost care and diligence in the discharge of their duties. They are subject to the control of Securities and Exchange Commission and/or the Nigerian Stock Exchange

The position of lawyers who have crucial roles to play as well in many capital market transaction is somewhat ambiguous. They are not liable to be investment Advisers or Securities Dealers and are totally detached from the interest of their clients as the ethics of the profession dictates.¹²

The diverse powers and rules of the institution and professionals noted above vary from time to time depending on the nature of the transactions in the capital market. Thus, any private sector institution i.e. companies or public sector institutions i.e. Government parastatals proposing to invite the investing public to subscribe to its securities, debentures, Bond, or any given capital market instruments for raising capital has to set the ball rolling with the appointment of institutions and professionals, who would pilot the process of the issue or sale of the securities, debentures, bonds as the case may be to the investing public.

LEGAL FRAMEWORK OF THE STOCK EXCHANGE

With the growth of the capital market in Nigeria Commencing with the registration of the then Lagos Stock Exchange in March 1960 and the emergence of the Securities and Exchange Commission in 1970 as one of the major operators of the growing Nigerian Capital Market. The necessity therefore of the Stock Exchange cannot be over-emphasised. This is coupled with the fact that, the process of raising fund on the Nigerian Capital Market is rather a complex one which entails compliance with a number of statutory and regulatory requirement, i.e. the *pparati*, connected with the capital market.¹³

13. Op. cit. Pg. 5

The legal *apparati* ordinarily envisages and connotes the rules, enactment and general laws empowering the stock market to act as umpire to various business undertakings of the capital market. Furthermore, the legal framework is basically meant to ensure a proper and co-ordinated transaction and to protect investors from acts which may run contrary to the spirit of the market thereby neglecting the very essence of the capital market. To this end specific laws have been enacted to permit and facilitate fund raising in the market.

For the purpose of this paper, we may not be able to state the contents of various enactment which gave backing and credence to the operations of the Stock Exchange but we would however enumerate the various enactment.

It would appear that the Stock Exchange or the Nigerian Capital Market has its root in the constitution of the Federal Republic of Nigeria. For instance, S.16 CFRN 1999¹⁴ provides for the Economic Objective of the Federal Government under the broad heading of fundamental objectives and directives principles of state policy.

Relevant statutes regulating the Stock Exchange includes: The Investments and Securities Act of 2004¹⁵ which provides for (i) Dealings In Companies Securities and (ii) Public Offer and Sale of Securities. In the same vein, also relevant to our subject of discourse is Part VI of the CAMA 2004 which deals exclusively with shares.

Other statutes are the privatization and commercialization Act of 1988¹⁶. The Central Bank of Nigeria Act of 1991¹⁷, The Banks and other financial institution Act of 1991¹⁸. These statutes do have some impact on the operation of the capital market. In addition to the above, there are specific federal and states statutes dealing with the competence of and the procedure to be followed by various government institutions desiring to raise funds generally.

In the light of the specialized nature of the Stock Exchange, it is our view that market practice may also be potent as statutory provisions,

14. S. 16 CFRN 1999

15. Section 8

16. Privatisation and Commercialisation Decree no. 25 1998 (now Act)

17. Central Bank of Nigeria Decree No. 27 of 1991 (now Act)

18. Banks and other Financial Institution Decree No. 25 of 1991 (now Act)

regulatory mechanism for example the self regulatory rules laid down by the Stock Exchange do have the force of law among its members *inter se* and between them and the Exchange; or even between these members and their clients. This regulatory role of the Stock Exchange in itself can be deduced from a close study of the constitution of the Nigerian Stock Exchange as embodied in the Memorandum and Articles of Association of the body.

STOCK EXCHANGE: Regulatory Institutions

An analysis of the legal processes at work in the capital market calls for a brief discussion of the nature and powers of the major institutions regulating the market.

The Securities and Exchange Commission

The Securities and Exchange Commission¹⁹ is the apex regulatory body for the Nigerian Securities Market. Section 8 of the Investments and Securities Act, 2004 enumerates the functions of the commission as follows:

- (1) Value Securities to be sold to the public, it is noteworthy that this function of price fixing in conjunction with issuing houses makes for a healthy trading practice which prevents the issuing houses from arm-twisting the investors.
- (2) Determine the basis of allotment of securities to the public with a view of equitable and widespread share ownership.
- (3) Approve and regulate merger, acquisition and combinations.
- (4) Register all securities to be offered to the public, all Stock Exchanges and Securities dealers.

The importance of the legal framework within which the Nigerian Stock Exchange Market operates cannot be over-emphasized given the increase and growth in the activities of the market with the consequential effect of increase in the number and activities of the stakeholders in the sector.

A number of development are daily taking place essentially to regulate and curb the excesses of the operators in the market so that none of the stakeholders will be unfairly treated.

For instance, the Securities and Exchange Commission recently made

19. Investments and Securities Act, Cap 124, 2004

new rules on underwriting commitments.

In order to ensure firm commitments by issuing houses who underwrite public offerings, the commission has mandated all the issuing houses who underwrite public offerings to henceforth produce bank statements evidencing their commitments to such arrangement. This new rule will enable companies raising funds to enjoy the capital generated by utilizing same for the purpose stated in the prospectuses.

The issuing houses, by the same token are required to publish unclaimed certificates in the national newspapers, which is part of the commissions effort to reduce the incidence of unclaimed certificates and dividend.

As part of legal framework for the operation of the Nigeria Stock Exchange,

Section 1 (1) of the Investments and Securities Act Cap 124, 2004 provides for the establishment of the Securities and Exchange Commission which is the most important regulatory body for the Nigerian Stock Exchange.

The regulatory functions and powers of the Securities and Exchange Commission cannot be over-emphasized.

Section 8 of the Investments and Securities Act Cap 124 provides for the functions and powers of SEC which enhances the efficiency and smooth-operation of the NSE.

It is the duty of the SEC to regulate Investments and Securities business in Nigeria. Section 8(b) provides that the Commission shall register and regulate Securities Exchanges, Capital Trade Points, futures, options and derivatives exchanges, commodity exchanges and any other recognized investment exchanges.

The pivotal role of the SEC at ensuring compliance with the Investments and Securities Act by the Stake-holders operating at the NSE has to a great extent promote healthy trading activities on the trading floors and thus protect not only the investors but also honest Stock-brokers. For instance, the commission has the responsibility of registering securities to be offered for subscription or sale to the public; while it is clearly spelt out in section 8(h) – (j) that the Commission shall facilitate the establishment of a nation-wide system for securities trading in the Nigerian Capital Market in order to protect investors and maintain fair and orderly markets.

Section 8(i) provides that the Commission shall facilitate the linking of all markets in securities through modern communication and data processing facilities in order to foster efficiency, enhance competition, and increase the

information available to brokers, dealers and investor.

It is noteworthy that the foundation upon which an efficient, orderly and Proactive Stock Exchanges are built is a virile laws that are enforceable and amenable to positive changes in the market Section 8(j) provides that the commission shall -

“act in the Public Interest having regard to the protection of investors and maintenance of fair and orderly markets and to this end to establish a nation-wide trust scheme to compensate investors whose losses are not covered under the investors protection funds administered by Securities Exchanges and Capital Trade.

The oversight/regulatory functions of the SEC as clearly spelt-out in the Investments and Securities Act, 2004 crystallize the fact that without the enabling laws and proper enforcement of same by the body saddled with the responsibility to do so, that is, in this case the SEC, it will be impossible to have an efficient and productive Stock Exchange.

For instance, section 29(i) of the Investments and Securities Act is aimed at ensuring that the operators at the Capital Market are people who are fit and transparently honest, in order to avoid incidence of fraud and unfair dealing.

Section 29(i) provides that; “subject to the provisions of subsection (2)

of this section, no securities dealer, stock-broker, sub-broker, jobber, share transfer agent, banker to an issue, market trustee or a trust deed, registrar to an issue, merchant banker, issuing houses, underwriter, operators portfolio manager, investment adviser and such other intermediaries associated with the securities industry shall buy, sell or deal in securities except under and in accordance with the conditions of a certificate of registration obtained from the commission in accordance with the regulations made under this Act”.

Also, the unpleasant situation whereby the investors were at the receiving-end or being victims of companies seeking to raise funds at the exchange even when such companies are at the brink of collapse has been

adequately taken care of by virtue of sections 44 and 45 of the Act.

The Nigerian Stock Exchange

The Nigerian Stock Exchange (NSE) is a leading institution in the capital market. Its role is to facilitate the buying and selling of securities issued by companies, governments and statutory bodies. Through the Exchange, a wide distribution of ownership is achieved. The institution also ensures that all material information required by an investor is disclosed not just at the time of acquiring interest in the affected company, but so long as it continues to be listed on the Exchange. The NSE is both self regulated and statutorily controlled. It is primarily subject to the authority of its constitution. It also exercises disciplinary powers over its members. However, since the coming into force of the SEC, the NSE has mainly become an object of regulation. It must be borne in mind that the SEC is empowered to register more Stock Exchange in Nigeria. This was given assent to by the recent government pronouncement establishing the Abuja Stock Exchange and reverting the Nigerian Stock Exchange to the name by which it was previously known i.e. the Lagos Stock Exchange.

As a Self Regulatory Organization (SRO), NSE supervises the activities of their members, the directors of companies whose shares are listed on the Exchange and the investors. The NSE through its rules and regulations, listing requirement, as well as a set of code of conduct governing council members, staff of the Exchange, Stockbrokers and Directors of quoted companies, ensures that the investing public is protected against stock market malpractices including insider-dealing.

The Central Bank of Nigeria

The Central bank of Nigeria has always played a central role in the participation of public bodies in the capital market. The CBN Act of 1991 which presently governs the CBN operations, spells out the general powers of the CBN in S. 27. This include power to issue and manage loans publicly issued in Nigeria by the Federal or State governments or by public bodies thereof.²⁰ It also has power to subscribe, hold and sell up with approval of the federal government for the purpose of promoting or undertaking financial, industrial, agricultural and public utility enterprises.²¹

(20) S. 27 (1)(r) CBN Decree No 24 1991 (now Act)

(21) S. 27 (1)(i)&(ii) CBN Decree No 24 1991 (now Act)

Trading on the Nigerian Stock Market

As stated earlier trading started on the Exchange in 1961 with 19 securities worth N80 million. As at 1999 there are roughly 262 securities with a total market capitalization of N287.2 billion traded on the six floors of the Exchange.²² The listed instruments include: 19 Federal government stocks, state government bond, 1 local government bond, 57 corporate bonds and 184 Equities Out of the 184 listed companies, 168 of them are listed in the Second tier Securities Market (SSM). It should be noted that most of the companies on the main list have foreign/multinational affiliations and presents a profile of the various sectors of the economy, ranging from automobile, banking, airline, breweries, through pharmaceuticals to agro-allied, publishing and textile companies. The securities traded on the Nigerian Stock Exchange include;

- (a) Ordinary Share (Equities)
- (b) Preference Shares
- (c) Debentures or Corporate bonds
- (d) Gilts – Federal Government of Nigerian Development Stock
- (e) State Government Bonds and
- (f) Local Government Bonds

It is noteworthy that given the recent recapitalization exercise in the Banking and Insurance Sectors, the figures quoted above have risen by more than 50%.

Trading on the six floors until recently was done using the call-over system and trading begins by 11.a.m. Monday to Friday and lasts until all bids and offers are exhausted. The Stock Exchange functionaries, especially the Stock brokers, appraise daily the fortunes of quoted companies in order to make intelligent determination of price. However, on the secondary market, price is determined by market forces, government, fiscal and monetary policies, compliance to the NSE's post listing requirements, corporate earnings to mention the most important factors. It is an important aspect of the operations of the stockbrokers to monitor and review the performance of quoted companies and ensure that they manage their affairs in such a way as to meet the reasonable expectations of the investing public.

In order to ensure good conduct of business and avoid questionable

activities, the call over system operates under stringent rules and regulations which are binding on stockbrokers and dealing members. The common slogan of the market is "My word is my bond" that is members cannot renege on their words on any transaction concluded on the floor of the Exchange. The call-over system was characterised by rowdiness perhaps because it was essentially manual.

Recent development in the operation of the Nigerian Stock Exchange

Until 1995, the Nigerian Stock Market was for all practical purposes a closed market, as foreign portfolio investors in the market and the economy were highly restricted. In 1995, however, in pursuance of the government's economic deregulation programme, the operations of the Nigerian Stock Market became effectively internationalised, following the repeal of Exchange Control Act 1962 and the Nigerian Enterprises Promotion Decree 1989. Not only has this created a need for more tradable instruments in the market, it has also widened the financing options available to corporate fund users in the market.

Nigerian firms can now access a much larger group of investors by issuing securities in foreign market through such instruments as Global Depository Receipts (GDRs) and American Depository Receipts (ADRs). United Bank for Africa, Plc couple of years ago made history as the first Nigerian Company to raise money from the International Capital market through the issuance of GDR. GDR is useful to domestic fund users that need foreign exchange to finance in part their operations.

Also in 1998 the Nigerian Stock Exchange signed a memorandum of understanding (MOU) with Ghana Stock Exchange in Lusaka, Zambia to promote cross-border transactions between the two exchange in West Africa. This development could speculatively result in the birth of a regional Stock Exchange for Anglophone West Africa.

A development in the Stock Exchange that cannot be glossed over is the establishment of the Central Security Clearing System (CSCS) which started operations in April 1997 with its coming into effect the transfer of shares is now done on a T + 3 (Trading day + Three working day) time frame. The CSCS emphasizes immobilization of share certificates in a central depository. The CSCS operates a T + 3 settlement cycle of depository, clearing and settlement cycle of depository, clearing and settlement of transactions that occur on the floors of the Nigeria stock exchange. This means trade transaction cycle is well above the emerging standards of the Federation on

International Stock Exchange (FIBV) of which the Nigerian Stock Exchange is an affiliated member. The T + 3 clearing and settlement system is a sharp departure from the manual and T + 5 clearing and settlement of transaction which made investors to wait on average of not less than two weeks to get share certificate before trading on such instruments.²³

As a logical extension to the CSCS, the NSE also replaced the secondary market call-over trading system with an Automated Trading System (ATS). The ATS, by simple definition is trading through Computers connected to a server at the Nigerian Stock Exchange. It is also called electronic trading or computerised trading or screen trading. It is fundamentally different from the open outcry call-over trading system and it is a progression on the automated settlement and delivery system. It is expected to enhance transparency of the market, improve price discovery, boost the speed on transaction and make the market more efficient and cost effective by breaking the barrier of space to participation in the market process. This is because ultimately stockbrokers will be able to deal on the exchange without necessarily having to be physically present on any of the floors of the Exchange. Worthy of mention is the fact that the hardware and software for the ATS were installed on the redesigned trading floor in Lagos and training of the Exchange Officials of SEC and Dealing Clerks (Stockbroker) on ATS workstation was completed in the first quarter of 1999 and the system became operational on April 27, 1999. With the ATS we can state authoritatively that the rowdy call sessions are over because the brokers simply place their offers through the computer system on the trading floor which is a very neat affair.²⁴

Another pleasant development is that, before Nigeria investors were mainly individuals but today there are about 2.5 million individual shareholder in Nigeria Stock market. However, in recent years, the emergence of institutional investors has added a strong flavour to their services.

Other development at the NSE is the computer link with Reuters International Communications Network with the code NSXA beaming worldwide on daily basis the names, prices, coupon rates, and other relevant information of all service quoted on the stock market. This technological advancement in financial information flow has boost foreign interest investment in Nigeria. The Nigeria stock exchange opened its internet system

23. Business World Magazine – November 12, 2007. ed. Pg. 21

24. 'Tell' magazine of August 23, 1999 at [page 35](#)

CAPNET, the CAPNET is intended to enable investors have a direct access to information on the nation's stock market and those of other countries. CAPNET collates and stores information on various securities quoted on the Exchange. The initiative by the Exchange was necessitated by the fact that timely availability of information to stakeholders of the Exchange can add value to the different quoted companies, stockbrokers, issuing house investors and capital market operators.

ANALYSIS OF NSE'S PERFORMANCE (PAST & PRESENT)

The performance of Nigerian stock Exchange is premised on the variables of earnings, dividends, prices and risk during the period 1980-'89; 1990-'99 and 2000 - 2007 respectively. To drive home our point the following questions may be asked, namely:

To what extent does an emerging stock market capture the essence of, and changes in our macro-economic policy? How does changes in environment, local and international affect stock market performance? Does the stock market react or pro-act? If the Stock Market reacts, policies can be fine-turned in the light of reactions in the market. However, on the other hand, if a stock market pro-acts, then it becomes a veritable testing ground before a policy is actually implemented.

1989 - '89

Over the period, 1982 - '85, the earnings per share hit the bottom. From 17 kobo in 1981, the average earning per 50k share, (EPS) dropped steeply to 14.10 kobo in 1982 and did not get back to the target of 15.50 kobo until after the introduction of the Structural Adjustment Programme (SAP) when it rose to 21.06 kobo. Thus the average EPS dropped from 17 kobo to under 15 kobo between 1982 - '85 while it rose to about 20 kobo between 1986 - '89.

It is noted here that the increase should not be attributed as a blessing of SAP as the in-activities of the period following the introduction of SAP were considerable, thus increasing the risk in the market. Nonetheless, certain variables worked to the advantage of investors as they were compensated with price and dividend increase over the period between 1980 - '89. On a final note, the period between 1980 - '89 shows price fluctuations of the

Stock Market and in the secondary market for equity and debt securities, the total market value of stocks traded on the Nigerian Stock Exchange declined from N512 million in 1980 to N137.6 million in 1988 and through it rose to N521.6 million by 1989 the value of trade in the secondary market was still low.

1990 – '99

Statistics available at the NSE in its 1990 Annual report shows that, the Industrial Equities 21 sector alone accounted for about two third (2/3) of the total value invested within the period while the government stocks witnessed about one third (1/3) of the overall value invested in the market since 1961. That is, in 1990 alone, Equities stand at 119, loans at 38, with government's security at just 45 making the total number of securities listed on the NSE 202.²⁵

After 1990, there were not serious changes until 1997 and in 1998 the NSE witnessed a decline in the total market capitalization as a result of a combination of factors including price losses in the equities sector and the de-listing of some securities led to 6.6% drop in market capitalization from N292 billion in 1997 to N263.26 billion in 1998. Also, the all-share index of the exchange dropped from 6440.51 to 5672.76 million representing 11.9% decline.²⁶

A review of the performance of the stock exchange in the first half of 1999 by the president of the (NSE) saw him describing the state of the stock exchange as uninspiring and that the state of the economy which found expression in depreciating value of the naira with its spiraling inflation impacted the market negatively. He noted further that, the little growth witnessed was as a result of the introduction of the Automated trading system (ATS). On a final analysis, the statistics available at the NSE on its 1998 Annual report shows that the industrial equities sector accounted for about 85.37% of the total value invested within the period, while the government stocks sector witnessed about 12.63% of the overall value invested in the market since 1961.

25. Soyode Afolabi, Stock Market Performance and Economic Policy; A case study of Nigeria.

26. 'This day' Newspaper of Monday August 2, 1999 [page 26](#).

2000 – 2007

The year 2000 – 2007 marks a turning point for the Nigerian Stock Exchange as a result of several local and international factors which include:

- (1) Rise in the use of Information technology, which in effect has made the world a global economic village.
- (2) The CBN policy of recapitalization in the banking and insurance sectors which necessitated the sectors greater activities at the Stock Market in a bid to meet the capital target.
- (3) The Privatization policy of the Federal Government in the recent years has also impacted positively on the activities of the Nigerian Stock Exchange.

The overview of the Capital Market that is, NSE given the available data shows that the market has grown from a relatively N263.26 billion in 1998 to more than N8 trillion presently. The All-Shares index of the exchange as at 3rd October, 2007 closed higher at 50,595.95 points. It is noteworthy that the All-Share index, which mirrors the performance of stocks equally witnessed an overwhelming growth from what it used to be in pre-2000 – 2007 regime. A cursory look at the activities of the capital market in recent times reveal that it has become the toast of investors both locally and internationally with close to five million individual investors and hundreds of institutional investors, including foreigners who collectively own about 47 percent of the quoted companies on the NSE unlike the prevailing situation before now. A case in reference is the recent acquisition of between 50.1% of the IBTC CHARTERED BANK PLC and STANBIC BANK (NIG.) LTD.

CONSTRAINTS AND SHORTCOMING OF THE NIGERIAN STOCK EXCHANGE

In spite of the overwhelming growth witnessed by the NSE in the recent times as revealed by the volume of trade among other positive development, certain constraints and shortcoming of the Stock Exchange cannot be glossed over.

A number of factors contribute to the inefficient running of capital formation in Nigeria, some of these factors which hinders the growth and development the stock exchange market in Nigeria thereby causing constraints include:

- (1) **Government Interference/Over-bearing Influence on Regulatory Agencies:** It is fundamental to note that the stock exchange is not a governmental organization hence the unwanted intervention by government has put a clog in the wheel of progress of the NSE. We are not proposing a complete hands-off the government as there are occasions that demands government interventions in the capital market to increase the market stability and improve allocation of funds among sectors of the economy. We are however concerned about certain methods of intervention which attract dysfunctional consequences to the efficiency, fluidity and general soundness of the exchange is the allocation of financial resources through: "Privileged channel" Fixing of interest rates by fiat, proliferation of subsidies to savers and investors alike which some time create results that are not conducive to the realization of the cherished objectives of the capital market.
- (2) **Macro – Economic Instability:** In Nigeria this is a very big problem in that policy instability on the economy changes faster than a chameleon to the extent that even experts, not to talk of the common man finds it difficult to keep abreast of the prevailing policy for instance the speed of price movement and the variability of dividends are of such quick successions, that a would be investor becomes wary of investing in the capital market.
- (3) **Paucity of Securities:** The high level of corruption in the country and the prevalence of sharp practices are examples that makes nonsense of the security role and measures put in place to safeguard investors fund. In fact there's been allegations against the officials of SEC and condemnation of self-regulatory mechanism of the NSE of the magnitude that alerts and scare a would-be investor from investing in a market of uncertainties thus hampering the growth of the capital market in Nigeria.
- (4) **High Transaction Cost:** In a situation where all sorts of costs are charged just because a person intends to invest his fund or transact one form of business or other is a discouraging factor and a shortcoming causing a major obstacle to the development of the capital market.

- (5) **Poor Infrastructure:** If there is any distinctive feature that marks Nigeria special in the comity of nations, it is the poor state and unpredictable nature of our infrastructure such as electricity and telecommunication. These infrastructures are essential to the smooth operation of the stock exchange. Using telecommunications as an example, its efficiency will ease the process of contact and approval between a stockbroker and his client. Electricity on the other hand will in no small way aid the effective operation of the Automated Trading System (ATS).
- (6) **Lack of Effective Underwriting:** An underwriter in the Stock Exchange Market is one, who on behalf of a corporate body or some other organisation is employed to assist or advise on or undertake the task of raising funds through the issue and sale of securities. Being a specialized function, it require expert which we dare say is in dearth in Nigeria and where available, other factors some of which were explained above militate against the effectiveness of such an underwriter and this consequently retards the development of the capital market.
- (7) **Low Public Awareness of the Financing Possibilities of the Stock Market:** Despite the four decades plus of the existence of the stock exchange market in Nigeria. It is embarrassing and a sad commentary that members of the public are not aware of the financing possibilities of the stock market. The few that are aware express great distrust for the system and such render the process an unenviable one as they hold on to their shares for too long. It is our view therefore that this adversely affect the advancement of the stock exchange market. Hence, we recommend a vigorous and intensive campaign to enlighten the public on the financing possibilities of the stock market.
- (8) **Inadequate Government Incentives for Corporate Financing through the Stock Market:** The number and value of equity securities on the Nigerian Stock Market are inadequate. The level of funds raised in the market is low as reflects in the volume of secondary market transaction while the manufacturing and financial

sectors still fall below expectation when compare with other countries both in the developed & developing nations. Since the stock market is one of the ways of boosting an economy and a base for capital formation to inject into the economy new opportunity, it will then be expected that the government will play a role in granting incentives for corporate financing through the stock market by introducing incentives like review of archaic laws still in our statute book, cancellation of stamp duties payment which in our view is unnecessary and enhancing privatisation drive which is presently being embraced by the government. These incentives are necessary to boost the stock market and should not be seen as interference.

- (9) **Lack of Venture Capital and weak Savings Mechanism:** Significantly the stock market is an investor market and from the elementary knowledge of the multiplier concept, for there to be an investment there must be a higher percentage of savings and a lower degree of consumption. It is when this is done that investors can invest their money and fund can be raised through the capital market. However, in Nigeria this is not the case. In fact, inflationary trend in the country has discouraged and brought to the lowest ebb savings, thereby constraining the growth of the capital market in Nigeria.
- (10) **Political instability:** This has bedeviled Nigeria for a very long time and has crippled virtually every sector of the economy and by so doing investors both local and foreign are discouraged from investing in a politically unstable country. It is however hoped that this problem will be a thing of the past in the not too distant future against the backdrop of our thriving nascent democracy.
- (11) Other noticeable constraints/shortcoming of the NSE include; sharp practices and unwholesome activities such as arbitrary price movements, delay in issuing share certificates, unclaimed dividends, over valuing of stocks²⁷ and other related unethical practices.

On the constraints and their effects on the growth of the stock market,

27. Note that this kind of practice is more pronounced in the banking sector among others.

we are inclined to believe that investors want to see more transparency in dealings, accountability and sanction for erring companies as this will ensure confidence of the investors in the system.

RECOMMENDATIONS

Having reviewed the strength and weakness of the Stock Market and with a full appreciation of Nigeria's current and potential investment climate. It is our recommendation that the Nigeria Stock Exchange can come to a realization of its performance objectives if:

- (a) The market potential and products is focused on, through market capitalization by attracting new listing applicants from within the economy and this can be achieved through these methods:
 - (i) Intensifying the marketing of the Stock Market as a source of long-term capital to industry and government;
 - (ii) Promoting the use of bonds by companies and government;
 - (iii) Reducing the time cycle for public issues to 2-3 month;
 - (iv) Floating flagship issues for big companies project through multiple listings;
 - (v) Employ fully the instrument of American Depository Receipts (ADRs) and Global Depository Receipts (GDRs).

- (b) The cost of transaction is reduced that is;
 - (i) An explicit and implicit cost reduction of public issue;
 - (ii) Reduction of professional fees and processing fees by the Exchange in this regards the ATS will make brokering fees on all transaction negotiable when fully implemented contrary to the prevailing fixed rate;
 - (iii) There is need to review the listing procedures to meet and reflect corporate offshore financing through cross-border listing and ADRs, or GDRs.
 - (iv) Delivery and Settlement: i.e. the full dematerialization of share certificate will eliminate the bottlenecks between registrars and Company executives in the issuance of share certificates to investors.

By the time this recommendations are implemented the Nigerian Stock Exchange will be the preferred efficient provider of long term capital to the Nigerian Industry and Public sectors. It will make foreign exchange inflow to Nigeria through the stock exchange, contributing at least 15% of the country's foreign exchange receipt. It will also increase the number of individual shareholders and encourage entrants of more institutional investors as bases for sustainable capital information.

It however gladdens one's heart that given the fundamental position the Capital Market occupies in the economic growth of the nation, virtually all the regulatory agencies in this sector are now alive to their statutory responsibilities to ensure a steady rise of the market. For instance, it was reported²⁸ of recent that as part of its regulatory activities, the Security and Exchange Commission is now giving effect to Section 68 of the Investments and Securities Act and other regulations made pursuant to the said Act. The provision of law under reference has made it mandatory for Issuing Houses to publish allotment of shares/bonds in at least two national daily newspapers and dispatch share/bond certificates not later than 15 working days from the date of clearance of the allotment with a Proviso that where applications are not accepted or are accepted for fewer securities than the number applied for; return monies must be dispatched within 5 working days of allotment clearance while non-compliance will attract a severe sanction on the earing issuing houses.

It is noteworthy that this is a positive development in the Stock Market, given the albatross the non-issuance of bond/share certificates has become in the recent years particularly when an investor will have to wait for two or more years before being issued with a bond/share certificate. When share certificates are delayed unnecessarily investors who are interested in trading their holdings at the first available opportunity are unable to take advantage of positive share price movements that usually occur.

CONCLUSION.

An improvement in the earnings and a broader base for enterprises seems to be indispensable if appropriate economic growth and a high level of employment are to be regained in the Nigerian economy. The Stock Exchange, through its operations will continue to provide avenues for

28. See the 'Guardian' Newspaper Thursday September, 2007 at page 67.

government and corporate entities to effect optimal financing and capital base broadening such sound financial services will no doubt, serve as a hedge against the vagaries of business and economic cycles which have in recent times shaken the basic fabric of our national socio-economic system.

The Nigerian Stock Exchange as the citadel of the private sector and a modern economy is an institution that renders financial services capable of stimulating the nations economy. But for it to render such services with increasing efficiency the assistance of government is needed in the area of fiscal policies and a provision of incentives for the corporate users of capital and investors in general.

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