THE Nigerian
STOCK EXCHANGE

Corporate Governance, Growth & Sustainability

Presented by

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At

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About The NSE

Our Mission

To provide investors and businesses a reliable, efficient and an adaptable exchange hub in Africa, to save and to access capital.

Our Vision

To be Africa's foremost securities exchange driven by regulation, efficiency, liquidity and innovation.

Why This Topic?

Agenda

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- Introduction
- Corporate Governance
- Sustainability
- *Res Ipsa Loquitur*

Introduction

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Good corporate governance is not an end in itself. It is a means to support economic efficiency, sustainable growth and financial stability. It facilitates companies' access to capital for long-term investment and helps ensure that shareholders and other stakeholders who contribute to the success of the corporation are treated equitably.

1. Equity investments require good corporate governance. This is the equity contract.

2. Good corporations recognize that the equity contract requires that they provide credible disclosure.

3. Good corporations recognize that the social contract requires that they carry other stakeholders along.

4. Both contracts require that you disclose and that you have something to disclose. Keeping silent is not an option anymore.

5. The absence of credible disclosure by the Issuer will have negative macroeconomic effects: the money and capital market will not support the development of economically significant new industries.

What is Corporate Governance?

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Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. . . The aim is to align as nearly as possible the interests of individuals, corporations and society.

Sir Adrian Cadbury; Corporate Governance Overview, 1999 [World Bank Report]

Corporate governance is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and senior management accountable for ensuring ethical behavior – reconciling long-term customer satisfaction with shareholder value – to the benefit of all stakeholders and society.

Philippines SEC's Code of Corporate Governance for publicly listed companies, 2016.

Corporate Governance involves a set of relationships and the networks between a Company's Management, its Board of directors, its Shareholders and Stakeholders.

USAID

Corporate Governance in Nigeria

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<1990

COMPANIES & ALLIED MATTERS ACT, 1990

Only covering specific activities, such as insider dealing, fiduciary duties of directors, etc.

2003

CG REQUIREMENTS FOR BANKS AND OFIS IN NIGERIA

Issued by the Bankers' committee. Triggered by the financial crisis of the early 1990s

CODE OF CG FOR PUBLIC COMPANIES

Issued by the Bankers' committee. Originally issued by the SEC

2006

CODE OF CG FOR BANKS IN NIGERIA

Issued by the CBN following the bank consolidation exercise of 2005

2008

CODE OF CG FOR PENSION OPERATORS

Issued by PENCOM following the reform of the pension sector in 2008

2009

CODE OF CG FOR INSURANCE COMPANIES

Issued by NAICOM

2011

CODE OF CG FOR PUBLIC COMPANIES (2011)

Update of 2003 code following the global financial crisis.
Financial Reporting Council of Nigeria Act 2011

2013

THE FUTURE OF CG IN NIGERIA

In January 2013, the federal government inaugurated a steering committee to develop a new code of CG for the nation.

2014

Launch of Corporate Governance Rating System on the NSE

2016 - 17

FRC Code

Effective, then Suspended

Rationale for Good Corporate Governance

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Rationale for Corporate Governance

The collapse of some companies in the 1980s and 1990s in the UK

- Bank of Credit Commerce & Industry
- Polly Peck Int'l
- Barings Bank

The collapse in the US of major entities in the early 2000s

ENRON
ARTHUR ANDERSEN
MCI WORLDCOM
LEHMAN BROTHERS

Good CG are now essential pre-requisites for:

- Promoting economic growth and reducing poverty.
- Creating value, driving growth and business longevity
- Promoting market efficiency.
- Enhancing financial discipline.
- Encouraging private financial flow.

Empirical evidence confirm that strong CG are found to be associated with:

- Lower country risk premiums.
- Lower costs of capital
- Higher trading volumes/liquidity
- Business sustainability

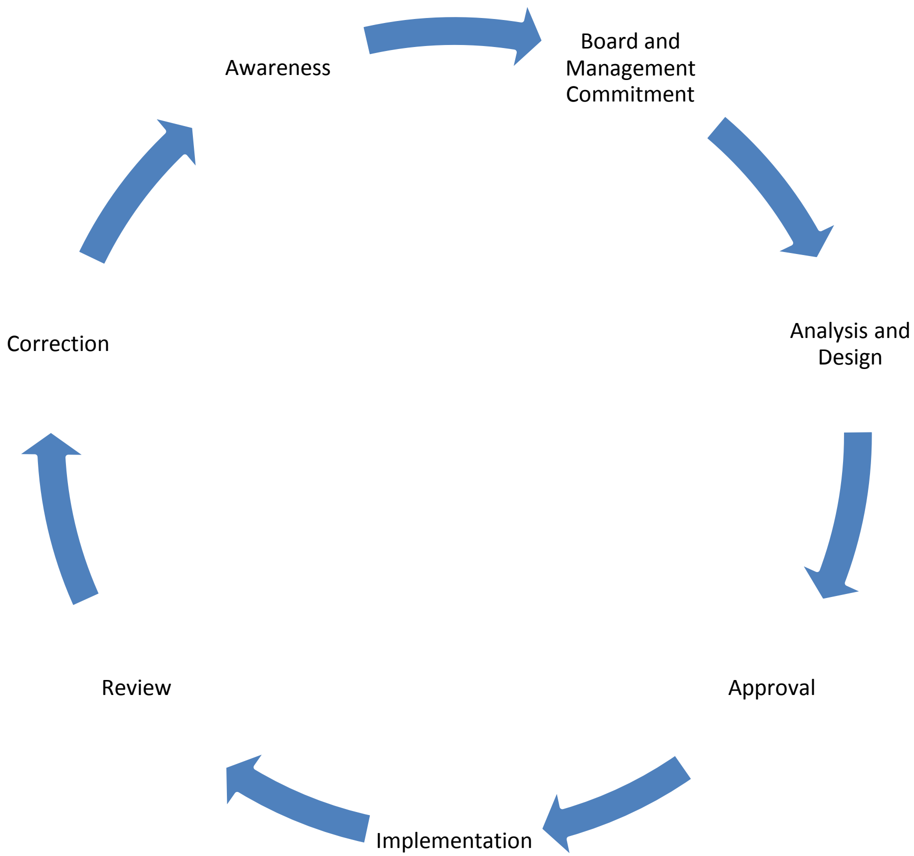
Companies with weak CG standards:

- Experience higher capital costs and risk premiums on their bonds
- Poor stock performance
- Possible collapse of the organization

Circle of a Healthy Corporate Governance Environment

7

Simple Steps



Principles of Good Corporate Governance

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Openness, Honesty and Transparency: Clear and robust information on material matters affecting the company in a timely fashion

Independence: Put procedures and structures in place to minimize or avoid completely potential conflicts of interest

Ethics: Conduct and corporate behavior that is in accordance with a code of ethics and a set of moral values

Accountability: Directors are accountable to shareholders for the decisions they make and the entity is accountable to society

Fairness: A principle that the company should do equity amongst shareholders and stakeholders

Benefits of Good Corporate Governance

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1 Risk-mitigation

Mitigation of the risk of misleading or false financial reporting.

2 Delineation of Roles

Prevention of domination of companies by self serving chief executives.

3 Reputational Risk

Strong reputation and therefore lesser likelihood of exposure to reputational risk.

4 Business Success

Higher probability of achievement of commercial success. Good governance and good leadership in management often go together.

5 Long-term Shareholders

Good governance encourages investors to hold shares in the companies for longer terms as companies often benefit from having shareholders who have an interest in the longer-term prospects.

6 Confidence & Growth

Providing the degree of confidence that is necessary for the proper functioning of a market economy, and has been linked to organizational growth and development.

Additional Benefits

- Improved investor confidence
- Higher valuation of the firm
- Access to cheaper funds
- Competitive advantage
- Enhanced liquidity and tradability
- Better operational performance
- Improved financial performance

Global Trends in Corporate Governance

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Public companies globally are faced with the following trends…

- More focus on what makes a highly-effective board, with attention particularly being paid to independence, composition, diversity, and board leaders' roles

- More scrutiny of individual directors by investors, or their advisors, and increasing demand in many markets for internal and/or external board and director assessments to drive board performance

- More regulations, more revisions to corporate governance codes, and more rules on disclosure to drive increased transparency

- More shareholder engagement, particularly around ESG concerns, and more activist investor interventions when shareholder engagement is absent or trust breaks down

Learnings from The Novo Mercado Story I

Reduced perception of risk generates a positive effect on share value and liquidity.

1999

Investment drought

Low liquidity levels

Less than 80,000 Individual investors

Dec 2000

Bovespa (Brazil's Stock Exchange) launches Novo Mercado

Growth Phase

2000 - 2007

2007 - 2015

100 companies (37% of listed companies which make up 65% of market capitalization)

Over 81 IPOs

Over 500,000 individual investors (Novo Mercado)

Learnings from The Novo Mercado Story II

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Brazilian companies stopped relocating to more shareholder friendly jurisdictions and increased global regulatory competition which saved the economy.

The Novo Mercado companies currently outperform those on the BOVESPA index.

Foreign investors were attracted, and companies issued more secondary offerings.

In October 2007, Bovespa went public; its market capitalization became the largest among all emerging market countries.

What is Sustainability?

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There is no universally agreed definition of sustainability. The most often quoted definition comes from the UN Bruntland Commission which stated that “sustainable development is that which meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Sustainability at the NSE

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The Nigerian Stock Exchange recognizes its crucial role in supporting economic growth by ensuring an efficient and sustainable capital market

In 2013, NSE developed a comprehensive Corporate Social Responsibility strategy and commenced the implementation of policies and procedures that will align its business strategy with good corporate citizenship. The NSE has also adopted global best practice principles and frameworks to support this effective mainstreaming.

SSE Sustainable Stock Exchanges Initiative

Financial Services Regulation Coordinating Committee (FSRCC) Nigeria

WFE WORLD FEDERATION OF EXCHANGES

NSE: Sustainability Initiatives

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Sustainable Stock Exchanges Initiative

Interestingly, during this period there have been three major sustainability initiatives:

1. The first is the United Nations Sustainable Stock Exchanges (SSE) initiative Model Guidance (MG) on Reporting Environmental, Social, and Governance (ESG) Information to Investors. It was launched in September 2015.

2. The second was the World Federation of Exchanges (WFE) Guidance & Recommendations which was launched in November 2015.

3. Lastly is the Financial Services Regulation Coordinating Committee (FSRCC) which developed The Nigerian Sustainable Finance Principles (NSFP) which are aimed at guiding its members to integrate ESG imperatives in their operations. The NSFP was finalized in May 2016.

NSE: Investing in a Sustainable Future

As a sustainable Exchange, we are playing our part in transforming lives and communities. Our Corporate Social Responsibility strategy is anchored on four pillars:

WORKPLACE

Fostering a qualitatively oriented work environment that values employee diversity and wellbeing and harnesses the talents and skills of our people

MARKETPLACE

Promoting a market-based approach to Environmental, social and Governance (ESG) imperative amongst all stakeholders

- *CGRS*
- *Joined the Sustainable Stock Exchanges Initiative*

COMMUNITY

Contributing positively to the communities where we live and work

- *NSE Essay Competition*
- *NSE Corporate Challenge*
- *Global Money Week*
- *Employee Volunteering*

ENVIRONMENT

Focusing on reducing the environmental impact of the Exchange's operations

- *Efficient use of energy*
- *Waste Recycling*
- *Lagos Island Revitalization Project*

Win Wins

Unilever developed washing-up fluids that use less water, greener materials, and less packaging, and this innovation drove up profit significantly.

DuPont recorded $2 billion in annual revenue from products that reduce GHG emissions and an additional $11.8 billion in revenues from non-depleteable resources

79% of Fortune 500 companies reporting to the Carbon Disclosure Project had higher returns on their carbon investments than on their overall portfolios.

Source: McKinsey on Sustainability & Resource Productivity July 2014

Value Proposition of Sustainable Climate Disclosure

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Fig 1: CPLI Returns against overall Global 500

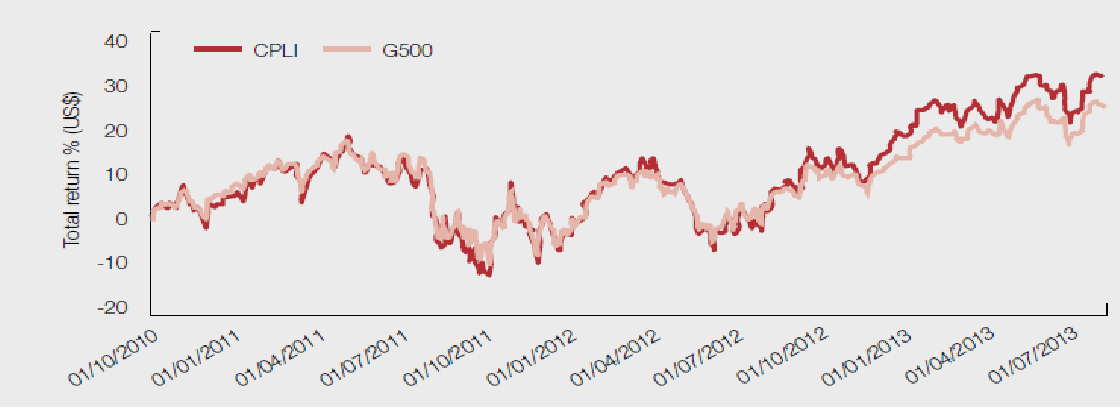
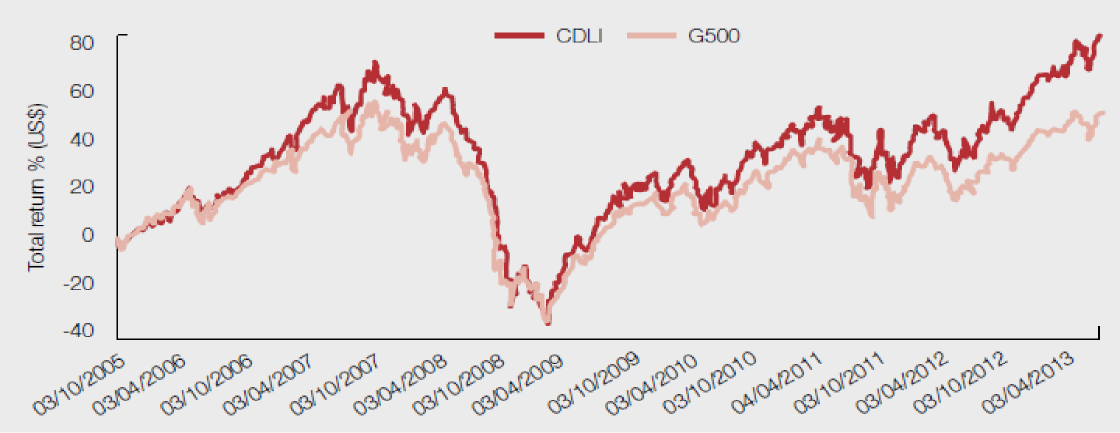


Fig 2: CDLI returns against overall Global 500



The charts show that companies that achieve leadership positions in climate change generate superior stock performance.

Since 2005, Climate Disclosure Leadership Index (CDLI) companies delivered total returns of 82.8%, outperforming the Global 500 (49.6%) by more than two thirds.

The Climate Performance Leadership Index (CPLI) companies generated an average total returns of 31.9% since 2010, outperforming the Global 500 (24.8%) by circa a quarter.

This analysis suggests a correlation, although not a causality, between financial performance and good climate change performance and disclosure.

Source: CDP Global 500 Climate Change Report 2013

Value Proposition of Sustainability

Global Recognition of ESG in Capital Markets

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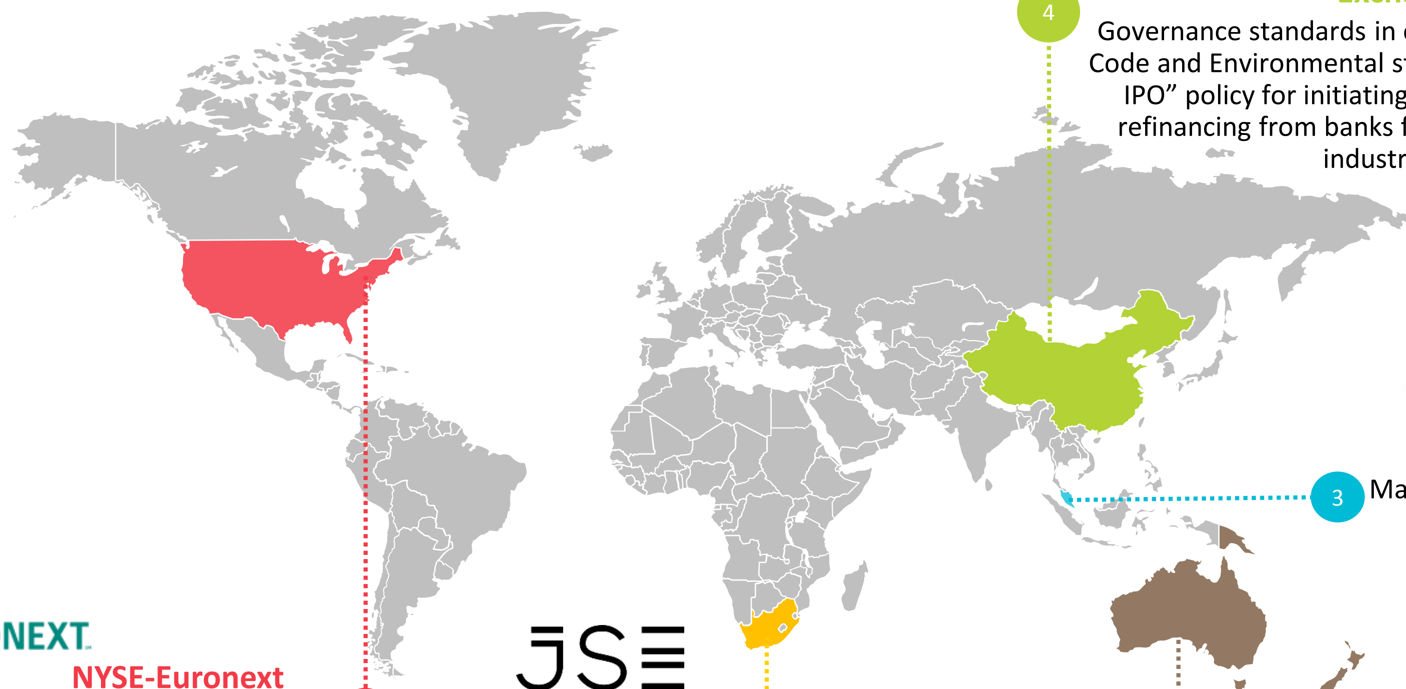
Currently, 15 Stock Exchanges provide sustainability guidance in their market, 24 have committed to institute while 44 have no guidance. The Nigerian Stock Exchange is part of the 24 that have committed to have a sustainability guidance by end of 2017.



上海證券交易所 SHANGHAI STOCK EXCHANGE

Shanghai Stock Exchange

4

Governance standards in corporate Governance Code and Environmental standards under "Green IPO" policy for initiating an IPO or obtaining refinancing from banks for 14 most polluting industries.

BURSA MALAYSIA

Bursa Malaysia

3

Mandatory disclosure on CSR information in annual reports

NYSE EURONEXT

NYSE-Euronext

1

Mandatory disclosure of governance practices including the availability of a code of business conduct

JSE

Johannesburg Stock Exchange (JSE)

2

Integrated sustainability reporting and third party assurance under King Code on Corporate Governance III

ASX AUSTRALIAN SECURITIES EXCHANGE

5

Australian Securities Exchange (ASX)

Disclosure on extent to which the companies have followed their Corporate Governance Principles and Recommendations which, includes sustainability related issues

Source: Roberto Sam sustainability Investing Yearbook

NSE: Affecting the Community

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Globally, stock exchanges and financial regulators are paying more attention to sustainability. The adoption of listing requirements with ESG disclosure components in most exchanges around the globe further affirm the importance of sustainability.

In 2015, NSE began its process of drafting Sustainable Disclosure Guidelines that will guide its listed companies in accordance with best global practice. The draft guidelines have been exposed for stakeholders comments and will be considered by our Council shortly before release to our listed companies.

Do Right, Do Well!!

- ***A study by Korean and US researchers*** finds that a well-governed firm in Korea traded at a *premium of 160 percent* to poorly governed firms
- ***An ABN/AMRO study*** demonstrates that Brazil-based firms with the best corporate governance ratings *garnered P/E ratios that were 20% higher* than firms with the worst governance ratings
- ***A study of Russian firms*** shows that a worst-to-best improvement in corporate governance predicted *a huge 700-fold increase in firm value*
- ***A Harvard/Wharton study*** shows that if an investor bought shares in US firms with the strongest shareholder rights, and sold shares in the ones with the weakest shareholder rights, that investor would have earned *abnormal returns of 8.5 percent* per year

NSE Awards

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THANK YOU

Questions & Answers

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