



THE Nigerian STOCK EXCHANGE

CORPORATE GOVERNANCE RATING SYSTEM LAUNCH

Presented by
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CEO

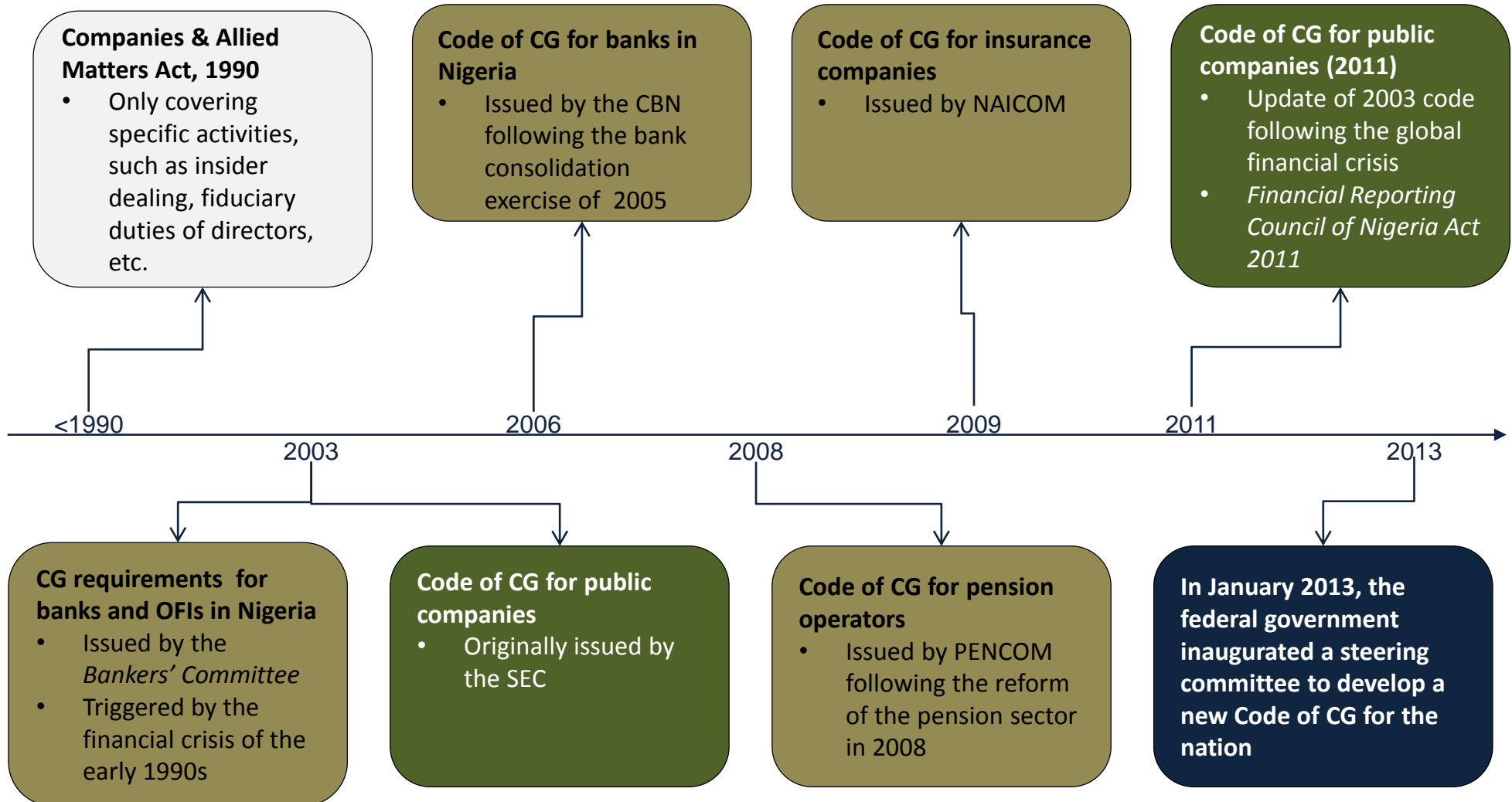
Lagos, Nigeria
November 3, 2014



LEHMAN BROTHERS



- The collapse of *Enron*, *WorldCom* and other major corporations in the early 2000s brought corporate governance (CG) considerations to the forefront.
- Good economic and corporate governance practices, including transparency in financial management, are now essential pre-requisites for: (i) **promoting economic growth and reducing poverty**; (ii) **promoting market efficiency**; (iii) **controlling wasteful spending**; (iv) **consolidating democracy**; and (v) **encouraging private financial flow**.
 - 1) Empirically, high levels of transparency, as measured by indices of opacity, are found to be associated with lower country risk premiums and costs of capital, as well as higher trading volumes or liquidity.
 - 2) Companies with less demanding corporate governance standards have been shown to experience higher capital costs and to pay greater risk premiums on their bonds.
 - 3) Governance deficiencies have been shown to be associated with an increased probability that takeovers will not be successful, and with a greater fall in the share price of the acquiring firm.



BUSINESS OPERATORS

All registered companies should have and be accountable for their CG practices, however:

- CG practices in companies are currently at varied stages of implementation
- The banking sector is leading the charge

How can business operators be convinced of the benefits of CG?

REGULATORS

Regulators in Nigeria primarily struggle with:

- Scope of regulation
- Capacity and ability to effectively monitor levels of compliance
- Enforcement mechanisms

What level of impact will a unified CG code have in Nigeria?

STAKEHOLDERS

Stakeholders' limited understanding of CG prevents:

- Increased investments
- Higher valuations and competitiveness
- Adequate risk management and investor protection mechanisms

How can stakeholders track non-compliance of CG for greater benefits?



- Market Efficiency
- Market Discipline
- Transparency

**STABLE
CAPITAL
MARKET**

OECD Principles of Corporate Governance

- 1. Ensuring the Basis for an Effective Corporate Governance Framework** – *should promote transparent and efficient markets, be consistent with the rule of law, and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities*
- 2. The Rights of Shareholders and Key Ownership Functions** - *should protect and facilitate the exercise of shareholders' rights*
- 3. The Equitable Treatment of Shareholders** – *should ensure the equitable treatment of all shareholders, including minority and foreign shareholders; all shareholders should have the opportunity to obtain effective redress for violation of their rights*
- 4. The Role of Stakeholders in Corporate Governance** – *should recognize the rights of stakeholders established by law or through mutual agreements, and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises*
- 5. Disclosure and Transparency** – *should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company*

Rules and
regulation
backed by law

Accountability

International
reporting
standards

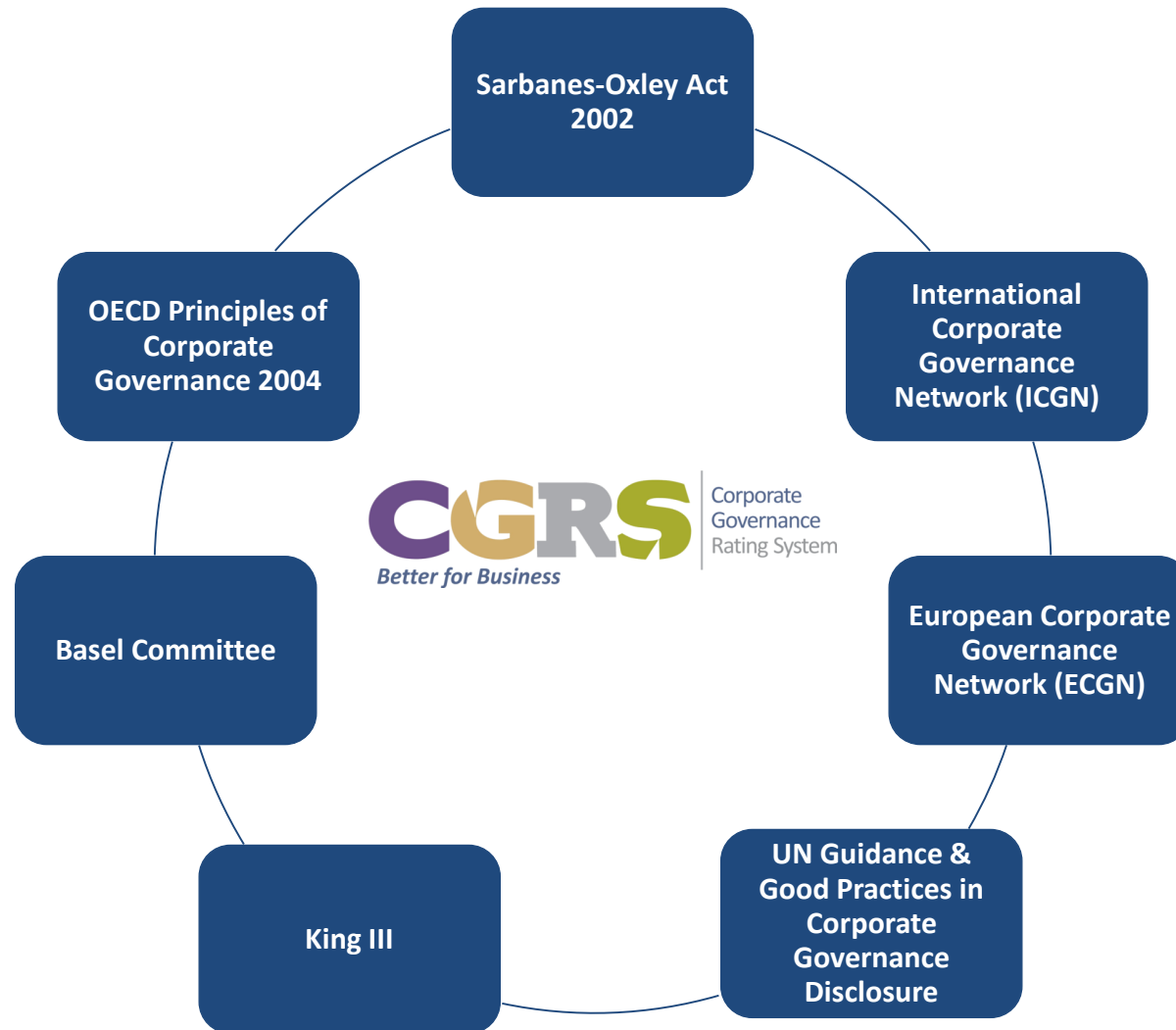
Strict
disclosure
standards

Monitoring of
the market

Enforcement

For the NSE, corporate governance plays a vital role in the sustainability of the Nigerian capital market:

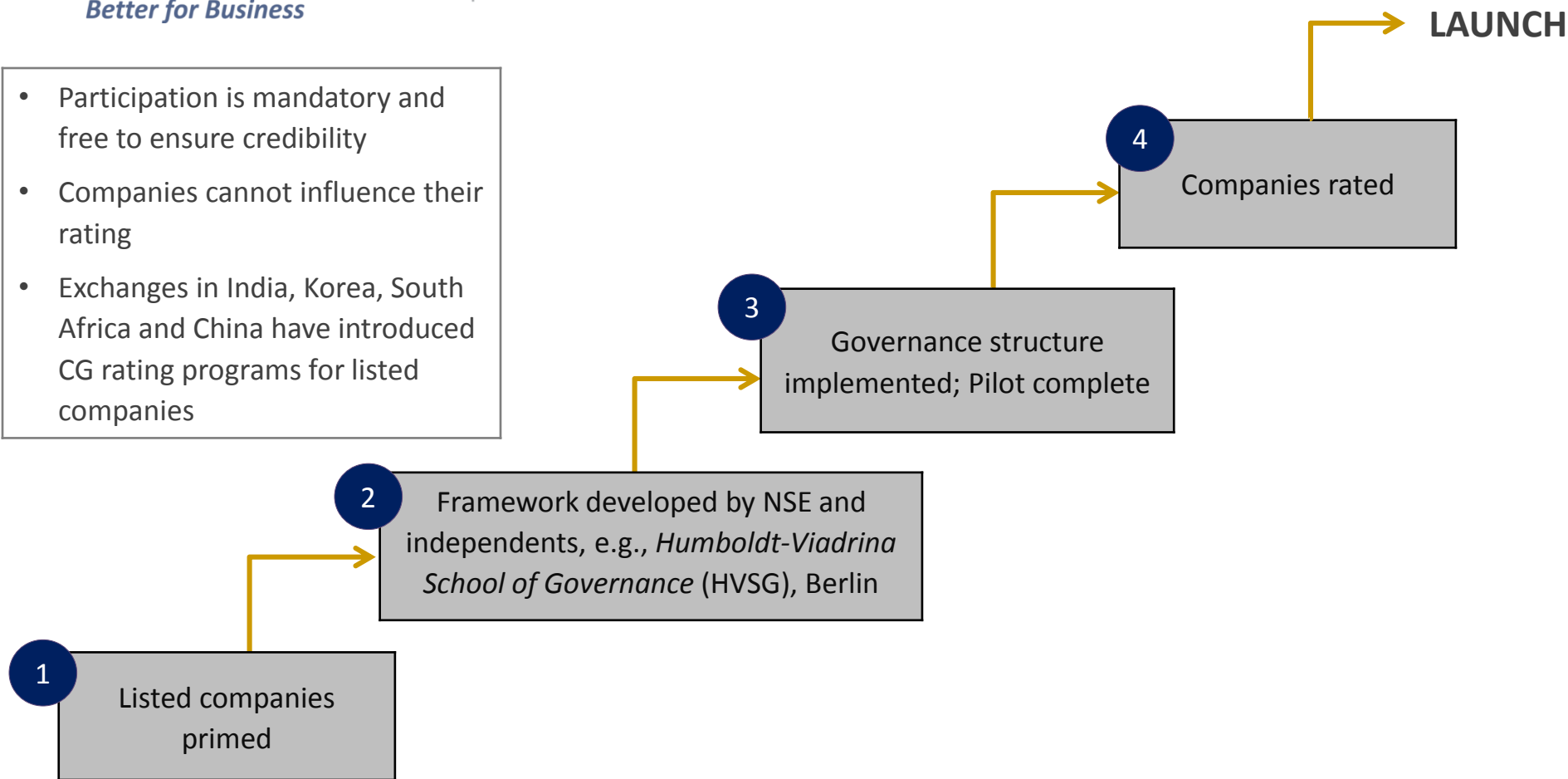
- Solid governance structure at the Exchange
- Zero-tolerance policy enforced
- Continuous investor education and staunch investor protection programs
- Subscribe to the *United Nations (UN) Sustainable Stock Exchanges (SSE)* initiative and the *UN Global Compact (UNGC) Anti-Corruption and Global Development Agenda*
- *Introduction of a Corporate Governance Rating System (CGRS) in partnership with the Convention on Business Integrity (CBi)*





Corporate
Governance
Rating System

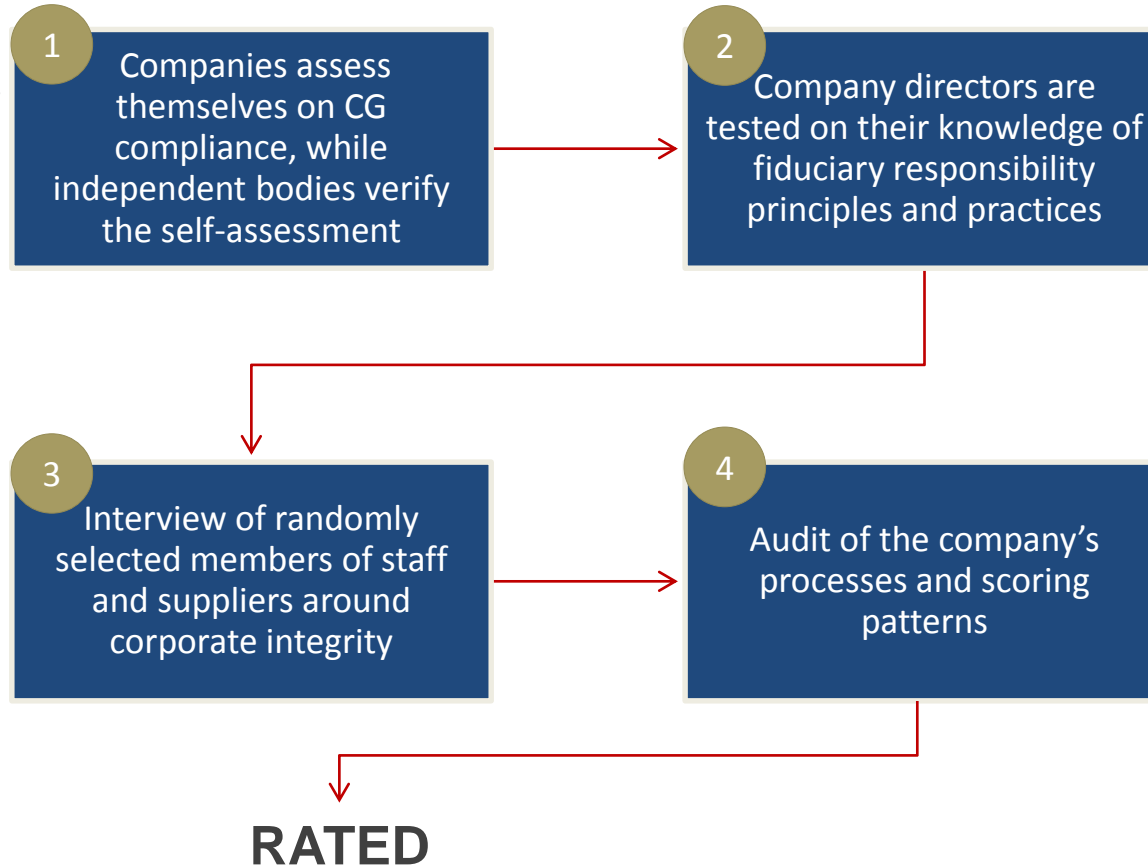
- Participation is mandatory and free to ensure credibility
- Companies cannot influence their rating
- Exchanges in India, Korea, South Africa and China have introduced CG rating programs for listed companies



36 consolidated indicators covering 5 categories:

- A. Business Ethics & Anti-Corruption
- B. Internal & External Audit and Control
- C. Shareholder & Stakeholder Rights
- D. Board Structure & Responsibilities
- E. Transparency & Disclosure

40 questions in 6 modules mirroring the 5 categories of the corporate compliance self-assessment, adding a module on the background & rationale of fiduciary duty



15 questions for staff members and 17 questions for suppliers; plus an expert multi-stakeholder group (EMSG) evaluation mirroring the 5 categories of the corporate compliance self-assessment



VISION

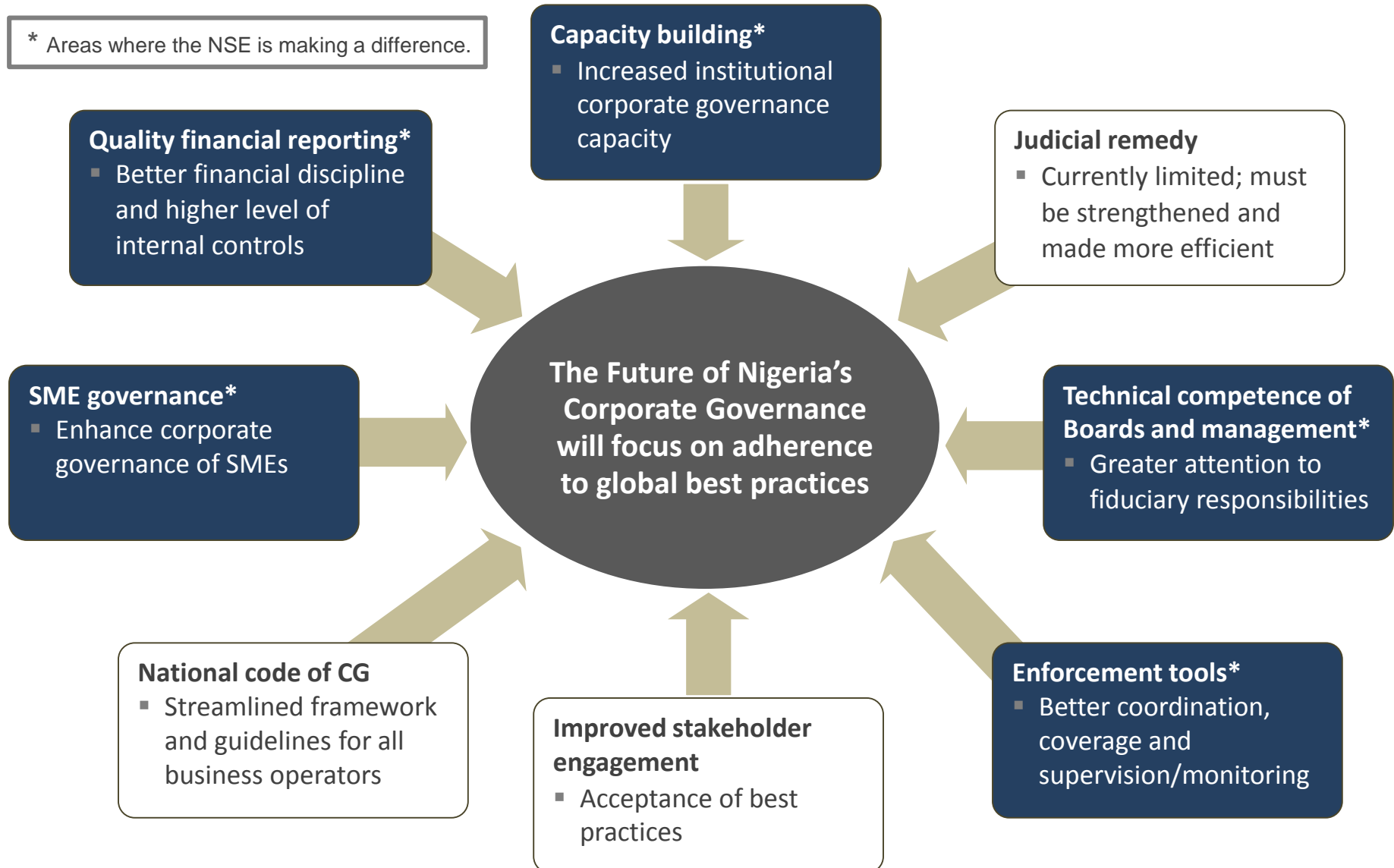
Promote integrity and transparency in listed companies as a natural and integral part of their internal and external policies and programs, by providing a framework for rating the best compliant companies on more than the observance of the codes, rules and post-listing requirements of the Exchange, but also on:

- Sound business ethics
- Principles
- Practices

BENEFITS

- Provide valuable information for conducting research in various fields of governance
- Increase credibility in and attractiveness of companies that meet the rating threshold
- Provide a tool to enable regulators judge the progress of corporate governance reforms
- Pre-empt and prevent adverse business situations by reducing company reputational risk (especially in other markets)
- Key element in the development of a tradable *CG Index*
- Forms the basis for listing on the NSE's *Premium Board* along with other criteria

In partnership with the Convention on Business Integrity (CBI)



Congratulations



access>>>



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Thank You



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