



THE Nigerian STOCK EXCHANGE

PIVOTAL ROLE OF CORPORATE GOVERNANCE IN STABILIZING THE NIGERIAN CAPITAL MARKET

Presented by

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for

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LEHMAN BROTHERS



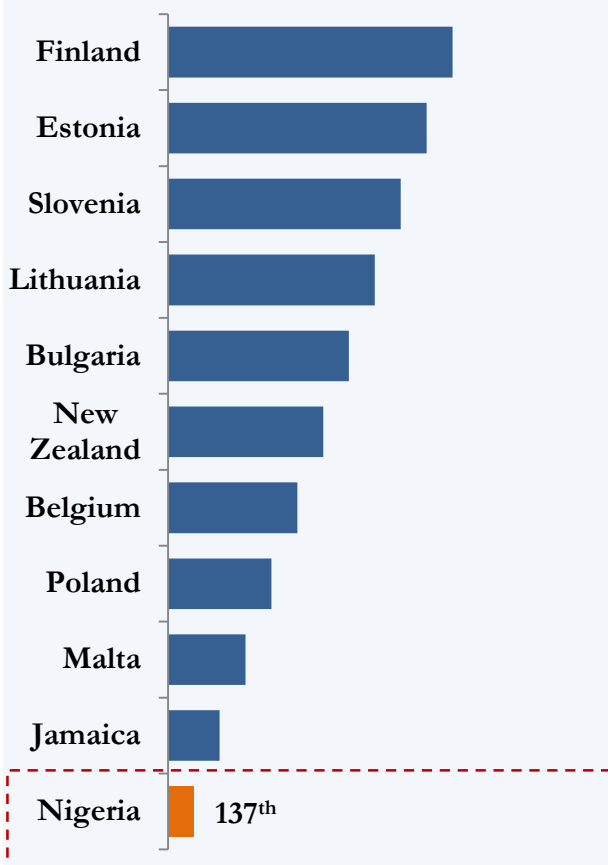
- The collapse of *Enron*, *WorldCom* and other major corporations in the early 2000s brought corporate governance (CG) considerations to the forefront.
- Good economic and corporate governance practices, including transparency in financial management, are now essential pre-requisites for: (i) **promoting 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.

Can CG Enhance Nigeria's Global Positioning?



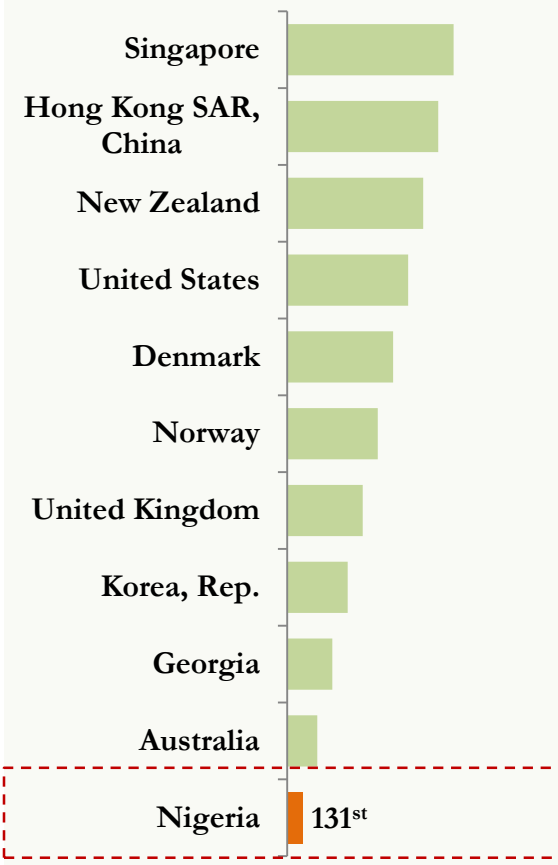
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TOP 10 (+NIGERIA) AML COUNTRY RISK RANKING (2014) *



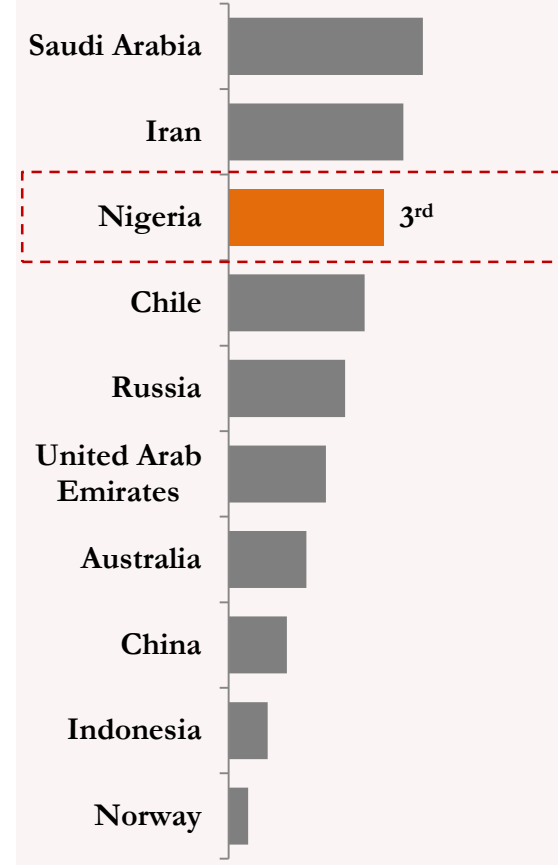
*Source: Basel Governance Organization – The Basel AML Index

TOP 10 (+NIGERIA) EASE OF DOING BUSINESS COUNTRY RANKING (2013) *

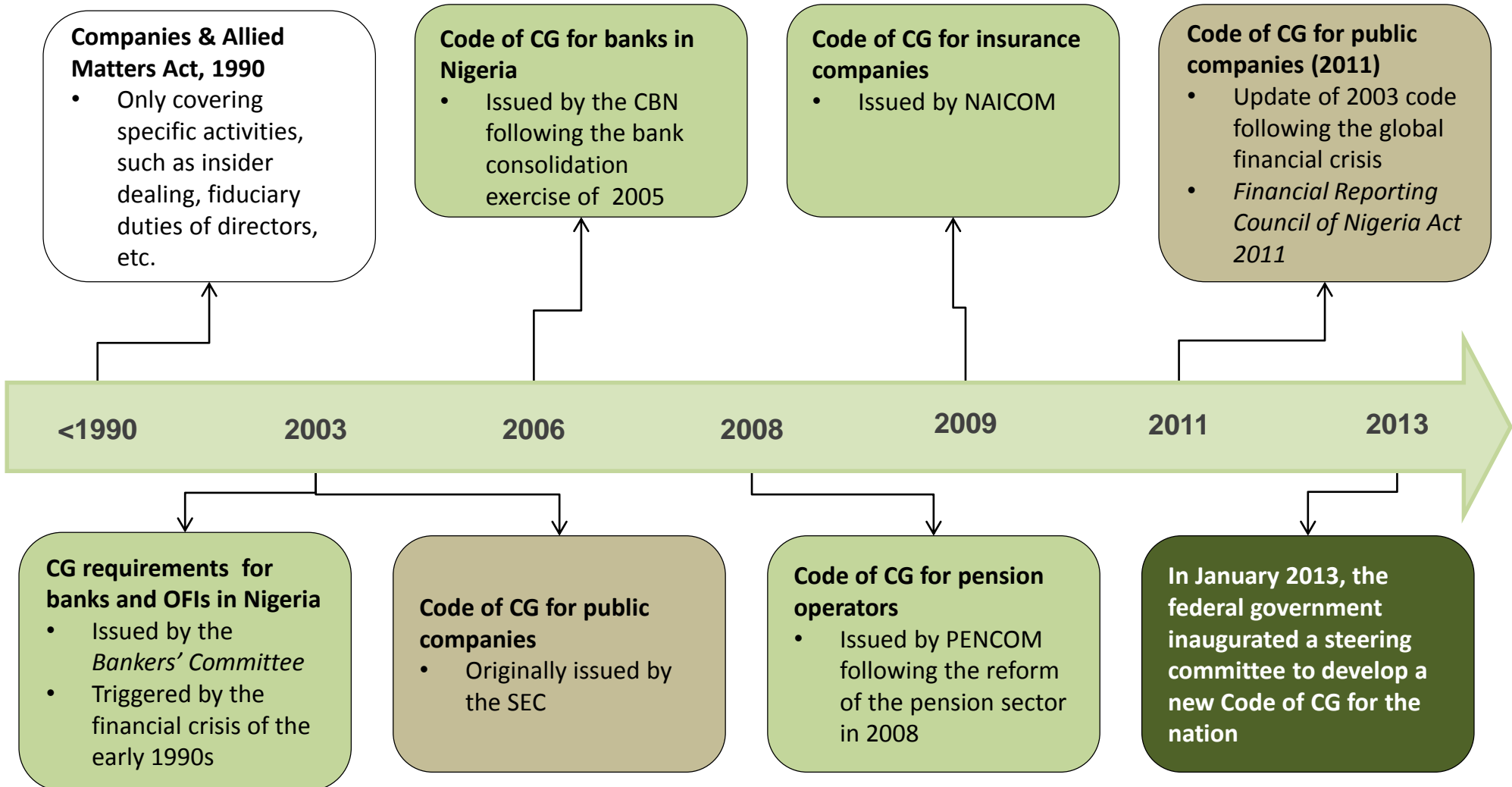


*Source: World Bank and International Finance Corporation

TOP 10 GOVT DEBT TO GDP RANKING (2013) *



*Source: Trading Economics



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?

BUSINESS OPERATORS	REGULATORS	STAKEHOLDERS
<ol style="list-style-type: none"> 1. Concentration of board power 2. 'Tone at the top' – commitment to establishing best practices 3. Competence – inexperienced/ unskilled members on the board 4. Inadequacy of relevant information 5. Inadequate succession planning – “key man” risk 6. Resistance to change – culture and practices 7. Conflicts of interest 8. Reporting – levels of delegation 9. Poor risk management policies 	<ol style="list-style-type: none"> 1. Capacity of staff – competence and number 2. Compliance vs. Best Practice – capacity and costs 3. Monitoring – methodology and tools 4. Scope of powers – laws, regulation or judicial precedents 5. Inadequacy of existing regulatory/ legislative framework 6. Conflicting provisions in codes 7. Adequacy of information provided by companies 8. Enforcement mechanisms 	<ol style="list-style-type: none"> 1. Ignorance and inadequate awareness of rights 2. Social culture – complacency and “herd mentality” 3. Level of knowledge of corporate governance principles 4. Availability/scope of information provided by companies 5. Insufficient shareholder activism – institutional and individual 6. Medium for redress – courts, arbitration 7. Ignorance of company practices

- Nigeria is considered one of the next four economic powerhouses. As a MINT nation (Mexico, Indonesia, Nigeria and Turkey), Nigeria has been identified as one of the next set of emerging market pace-setters, after the BRICS (Brazil, Russia, India, China, South Africa).
- To achieve our potential as a MINT nation, Nigeria will have to pursue inclusive growth aggressively. **The capital market can help.**





Rules and
regulation
backed by law

Accountability

International
reporting
standards

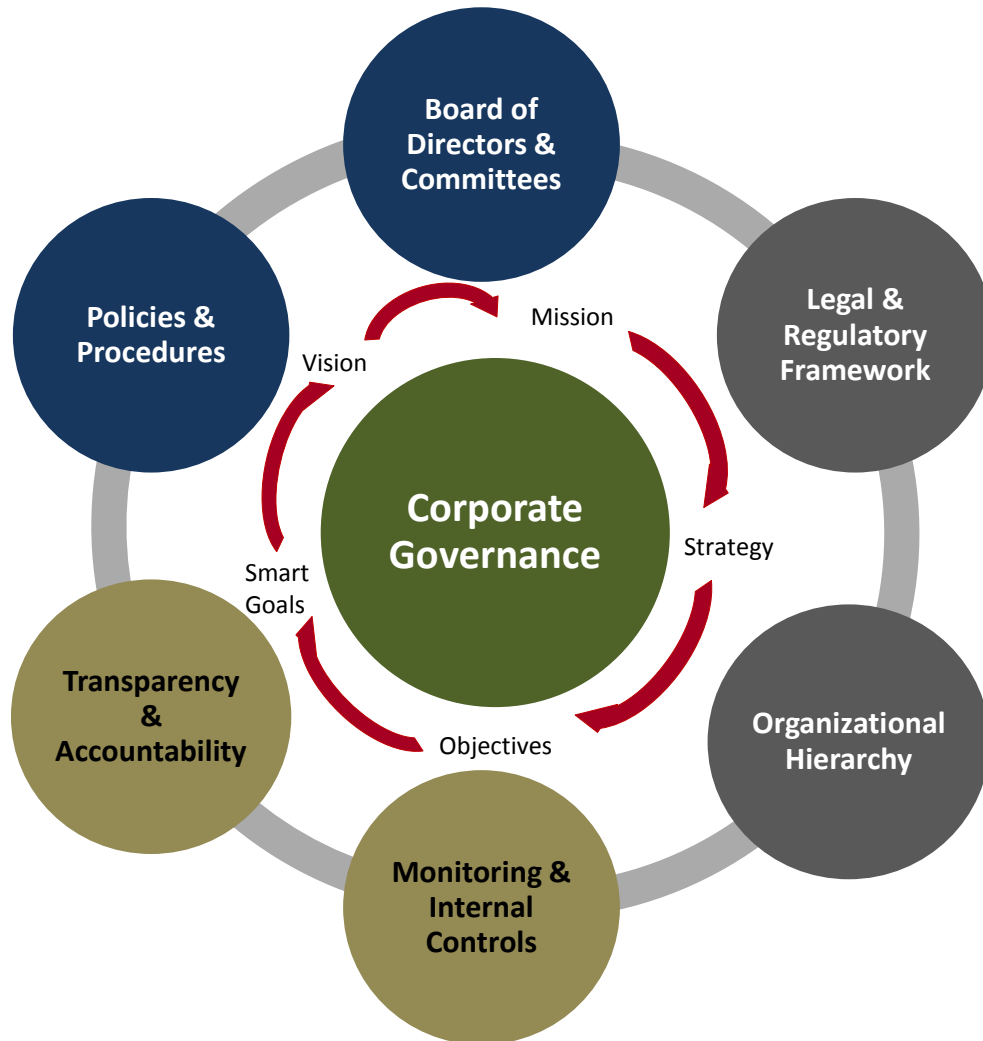
Strict
disclosure
standards

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
- Introduction of a *Corporate Governance Rating System (CGRS)* in partnership with the *Convention on Business Integrity (CBi)*
- Subscribe to the *United Nations (UN) Sustainable Stock Exchanges (SSE)* initiative and the *UN Global Compact (UNGC) Anti-Corruption and Global Development Agenda*

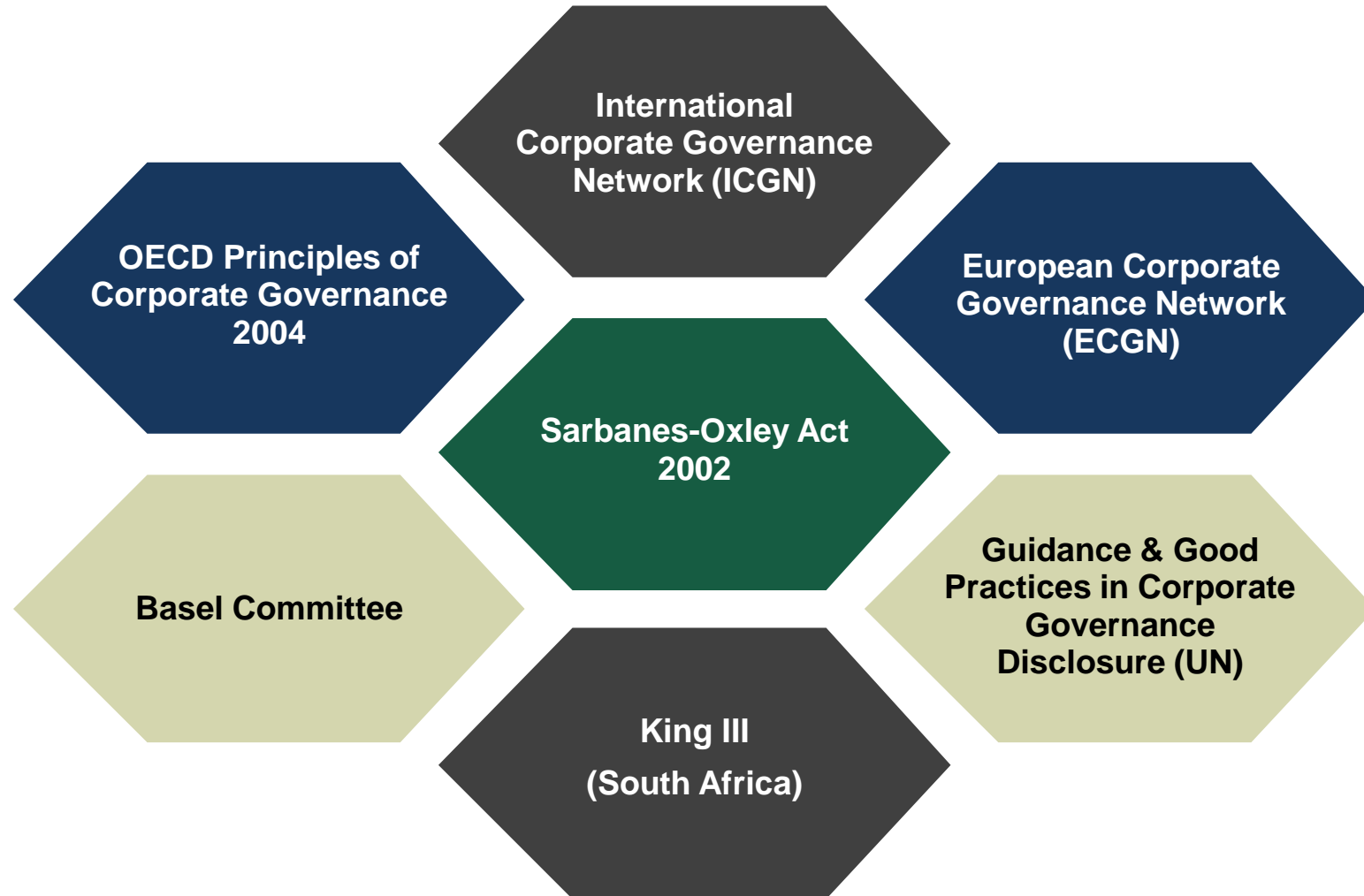


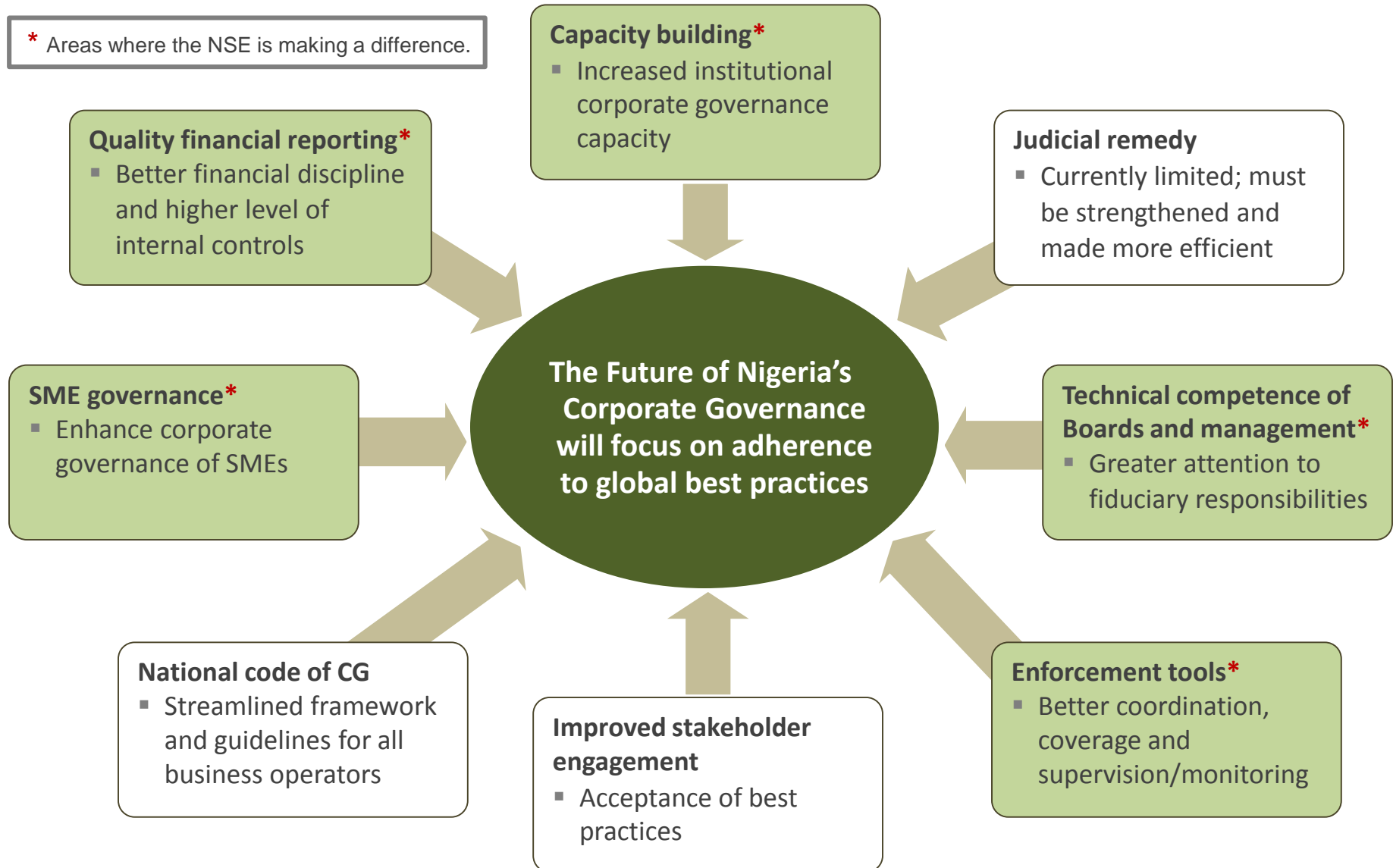
- Market Efficiency
- Market Discipline
- Transparency

**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*





*On behalf of the Nigerian Stock Exchange,
I bid the out-going **Chairman** farewell,
and thank him for inviting me
to use this special occasion as a platform for spreading
the very important message of **corporate governance**.*