PIVOTAL ROLE OF CORPORATE GOVERNANCE IN STABILIZING THE NIGERIAN CAPITAL MARKET

Presented by
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for
Continental Reinsurance Plc – Former Chairman Send Forth Dinner
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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?

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
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</thead>
<tbody>
<tr>
<td>Finland</td>
<td></td>
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<tr>
<td>Estonia</td>
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<td>Slovenia</td>
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<td>Lithuania</td>
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<td>Bulgaria</td>
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<td>New Zealand</td>
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<tr>
<td>Belgium</td>
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<tr>
<td>Poland</td>
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<tr>
<td>Malta</td>
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<tr>
<td>Jamaica</td>
<td>137th</td>
</tr>
</tbody>
</table>

*Source: Basel Governance Organization – The Basel AML Index

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
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</thead>
<tbody>
<tr>
<td>Singapore</td>
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<tr>
<td>Hong Kong SAR, China</td>
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<tr>
<td>New Zealand</td>
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<tr>
<td>United States</td>
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<tr>
<td>Denmark</td>
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<td>Norway</td>
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<tr>
<td>United Kingdom</td>
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<td>Korea, Rep.</td>
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<tr>
<td>Georgia</td>
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<tr>
<td>Australia</td>
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</tr>
<tr>
<td>Nigeria</td>
<td>131st</td>
</tr>
</tbody>
</table>

*Source: World Bank and International Finance Corporation

### TOP 10 GOVT DEBT TO GDP RANKING (2013)*

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
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</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td></td>
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<tr>
<td>Iran</td>
<td></td>
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<tr>
<td>Nigeria</td>
<td>3rd</td>
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<tr>
<td>Chile</td>
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<tr>
<td>Russia</td>
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<tr>
<td>United Arab Emirates</td>
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<tr>
<td>Australia</td>
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<tr>
<td>China</td>
<td></td>
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<tr>
<td>Indonesia</td>
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<tr>
<td>Norway</td>
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</tbody>
</table>

*Source: Trading Economics

21-Oct-2014

The Nigerian Stock Exchange
History of CG in Nigeria

Companies & Allied Matters Act, 1990
- Only covering specific activities, such as insider dealing, fiduciary duties of directors, etc.

Code of CG for banks in Nigeria
- Issued by the CBN following the bank consolidation exercise of 2005

Code of CG for insurance companies
- Issued by NAICOM

Code of CG for public companies (2011)
- Update of 2003 code following the global financial crisis

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


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
- Originally issued by the SEC

Code of CG for pension operators
- Issued by PENCOM following the reform of the pension sector in 2008

The Nigerian Stock Exchange
Status of CG in Nigeria

**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

**REGULATORS**
Regulators in Nigeria primarily struggle with:
- Scope of regulation
- Capacity and ability to effectively monitor levels of compliance
- Enforcement mechanisms

**STAKEHOLDERS**
Stakeholders’ limited understanding of CG prevents:
- Increased investments
- Higher valuations and competitiveness
- Adequate risk management and investor protection mechanisms

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

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

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

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

**REGULATORS**

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

**STAKEHOLDERS**

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.**

The Nigerian capital market is an engine for sustainable and inclusive economic growth.
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
Role of CG in Capital Market

Corporate Governance

- Board of Directors & Committees
- Policies & Procedures
- Transparency & Accountability
- Monitoring & Internal Controls
- Legal & Regulatory Framework
- Organizational Hierarchy
- Mission
- Vision
- Strategy
- Smart Goals
- Objectives

- 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 cooperation 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*
Examples of Global CG Initiatives

- International Corporate Governance Network (ICGN)
- OECD Principles of Corporate Governance 2004
- European Corporate Governance Network (ECGN)
- Sarbanes-Oxley Act 2002
- Basel Committee
- Guidance & Good Practices in Corporate Governance Disclosure (UN)
- King III (South Africa)
The Future of Nigeria’s Corporate Governance will focus on adherence to global best practices

Quality financial reporting*
- Better financial discipline and higher level of internal controls

SME governance*
- Enhance corporate governance of SMEs

Capacity building*
- Increased institutional corporate governance capacity

National code of CG
- Streamlined framework and guidelines for all business operators

Improved stakeholder engagement
- Acceptance of best practices

Judicial remedy
- Currently limited; must be strengthened and made more efficient

Technical competence of Boards and management*
- Greater attention to fiduciary responsibilities

Enforcement tools*
- Better coordination, coverage and supervision/monitoring

Areas where the NSE is making a difference.
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.