

**LEAD DEBATE ON**

**A BILL**

**FOR**

**AN ACT TO FACILITATE THE DEVELOPMENT OF NIGERIA'S CAPITAL MARKET BY ENABLING THE CONVERSION AND RE-REGISTRATION OF THE NIGERIAN STOCK EXCHANGE FROM A COMPANY LIMITED BY GUARANTEE TO A PUBLIC COMPANY LIMITED BY SHARES AND TO PROVIDE FOR OTHER RELATED AND ANCILLARY MATTERS, 2017 (DEMUTUALISATION OF THE NIGERIAN STOCK EXCHANGE BILL, 2017)**

**Sponsored by:**

**Sen. Foster Ogola**

This Bill seeks to facilitate the expeditious conversion and re-registration of The Nigerian Stock Exchange from a company limited by guarantee to a public company limited by shares in order to adopt and efficiently implement the global best practice of the demutualisation of stock exchanges. The Nigerian Stock Exchange plays a major role in Nigeria's financial market and its conversion and re-registration into a public company limited by shares is essential to develop and strengthen the Nigerian capital market and will enhance the formation of capital for the expansion of the Nigerian economy.

In a bid to stimulate economic growth, the Securities and Exchange Commission devised various strategies in its Capital Market Master Plan 2015 - 2025, aimed at ensuring that the Nigerian capital market attains and remains modern, efficient and internationally competitive. Key among the strategies include improving liquidity, competitiveness and attractiveness in the domestic capital market as well as promoting good corporate governance to boost investors' confidence.

In line with the Capital Market Master Plan, the proposed demutualisation of The Nigerian Stock Exchange aims at amongst others, promoting efficiency in the creation and harnessing of capital; as well as creating liquidity in the market and adopting and strengthening corporate governance best practices. It is anticipated that the demutualisation of The Nigerian Stock Exchange will reinforce the continuous growth and development of a dynamic, fair, transparent and efficient capital market and thus significantly contribute to Nigerian's economic development.

The main objectives of this bill are to enable, commence and facilitate the Demutualisation of the Nigerian Stock Exchange.

### **Mutual Company**

Presently, the Nigerian Stock Exchange is a Mutual Company.

A mutual company is a private company created to provide specific services at the lowest possible price to benefit its users / members.

Therefore, a mutual company is a private company whose ownership base is made up of its clients or policy holders.

The defining feature of a mutual company, (which is a company Limited by the Guarantee of its owners) is, that's its customers, who are also entitled to receive profits or income generated by the mutual company, In this case, the Nigerian Stock Exchange.

Stocks which term are also called equity or shares, gives investors a stake (ownership) in a company and its trading profits or losses for the owner(s).

Since **The Exchange** commenced operations in 1961, it has evolved into a **critical institution** in Nigeria's **financial system**.

The prominent role in the **Nigerian Capital Market** played by the NSE has made it arguably the most important organization operating in that market.

The Exchange is currently registered at the Corporate Affairs Commission as a **company Limited By Guarantee**. In its current form, The Exchange is subject to **several legal restrictions**, which have hampered its ability to **operate competitively and profitably**; being as a **limited liability entity**.

The decision to organize **The Exchange** as a **company Limited By Guarantee** reflected the prevalent practice during the period **when it was formed**. Until the early 1990's, most of the world's stock exchanges were **non-profit, member owned mutual organizations**.

However, there has been a shift from operating stock exchanges as **mutually held organizations** to companies limited by shares; **which has seen the major global securities exchanges convert to companies limited by shares** in a process known as **demutualization**, which has **positively impacted service delivery and enhanced operating efficiency**.

The NSE is presently one of 8 exchanges - of the 64 members of the **World Federation of Exchanges** - that **still operates as mutual organizations**.

### **Demutualisation**

Demutualisation occurs when a mutual company owned by its users / members convert into a company owned by shareholders.

By demutualising, the Nigerian Stock or Shares Exchange, a company limited by the Guarantee of its owners is converting to become a joint stock (shares) company or a public limited liability company (a PLC).

As it is presently constituted, the shares of the Nigerian Stock (shares) Exchange or The Exchange, cannot trade its own shares on its own floor, but can validly trade the stocks (shares) of other Joint Stock Companies on the same floor.

By demutualising, the Stocks or Shares of the Nigerian Stock Exchange would become eligible to be traded on the floor of (its), the NSE and on the floor or floors of other International Stock Exchanges.

There are presently sixty-four (64) Stock Exchanges, in the world. While fifty-six (56) have demutualised, eight (8) Stock Exchanges have not demutualised.

The Nigerian Stock Exchange (NSE) is amongst the eight (8) Stock Exchanges which have not demutualised.

#### **Rationale for Demutualization and Benefits to the Nigerian Economy**

In addition to the fact that more of the world's exchanges have adopted a demutualized structure, there are a number of benefits that could have a multiplier effect on not only Nigeria's capital markets, but the domestic economy as a whole.

Converting from its current status, to a company limited by shares, would immediately allow The Exchange the ability to take **a number of strengthening actions**, not least of all **the ability to institute globally accepted best practices, corporate governance standards, that promote transparency and increase efficiency in its operations; including a bifurcation of trading rights and membership, which would help motivate and drive profits**. It would also make The Exchange **nimbler** and would allow it the flexibility to **respond swiftly to industry shifts and economic headwinds/tailwinds** as required.

A demutualization would also **drive technological improvements, enhance product offerings and facilitate faster and more real time trading operations**. The Exchange would be able to **raise capital to effect these objectives and will have the ability to leverage strategic partnerships** in order to **foster more effective competition on a global scale**.

On a wider scale, the proposed demutualization would also have an **enhancing impact on the nation's capital markets**. The NSE could grow to become the leading stock exchange on the continent and the gateway for significant investment into Africa's largest country by GDP and an important lynchpin in the continent's growth story.

The dynamism presented by a demutualised Exchange would augment **Nigeria's debt profile and capital raising capabilities** by **providing a number of attractive vehicles for foreign and domestic investors**. The demutualization is an integral element of the **10-year Capital Markets Master Plan and indeed underpins the rapid growth that is envisioned over the next decade**.

The proposed demutualization will also enable The Exchange **facilitate capital to support Federal Government initiatives and infrastructure projects as well as assist corporates and financial institutions in raising much needed capital**. The proposed demutualization will allow The Exchange better position itself for the listing of large multinationals and local corporate organisations in Nigeria

Certainly, the proposed demutualization would also result in an increase in the value of The Exchange and provide it **with vital capital and resources required to compete** in the global capital markets and business landscapes. This is **supported by empirical studies showing that demutualised exchanges have a stronger post listing value and operational performance than**

**mutual exchanges.** The improved corporate governance, organizational structure and financial strength of The Exchange, post demutualization, will result in The Exchange being better positioned to innovate, embrace market changes and meet customers' demands.

The need for the Demutualisation of the Nigerian Stock Exchange (NSE):

- a) Demutualisation increases an Exchange's financial performance, size and liquidity while lowering its debts.
- b) A Stock exchange with relatively large size has relatively low profitability.
- c) The Nigerian Stock Exchange (NSE) is relatively having the status of large size, low debt and high value trade and therefore needs demutualisation.
- d) Therefore, the NSE, conversion from a Mutual to a Demutualised Exchange, would result in a value enhancement for the Exchange and its shareholders and the Nigerian Economy.

#### **Benefits of Demutualisation of the Nigerian Stock Exchange**

- I. This Bill when passed would enable a better regulatory framework / formula for ownership stakes in the demutualised NSE,
- II. The composition of the board of the Nigerian Stock Exchange
- III. The regulation of the NSE's listing on itself, would become statutory matters within Nigeria's Capital Market jurisdiction, in conformity with global best practices.

#### **Further Benefits of Demutualisation.**

- IV. To better position the Exchange to support financing of the economy
- V. Create financial liquidity for existing members of the Nigerian Stock Exchange
- VI. Focus the exchange as a for-profit entity, intent on maximising shareholder returns
- VII. Greater independent investor participation in the governance of the Exchange
- VIII. Increase the profile of the Exchange
- IX. Strengthen corporate governance, opportunity to better articulate and execute strategy
- X. Create currency for acquisitions and other investments

#### **Demutualized Exchanges in various jurisdictions:**

Of the 64 Exchanges, 56 are demutualized see below table for some examples.

#	Exchange	Year of Demutualisation
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1	Stockholm Stock Exchange	1993
2	Australia Stock Exchange	1998
3	Singapore Exchange Limited	1999
4	Toronto Stock Exchange	2000
5	Chicago Mercantile Exchange	2000
6	London Stock Exchange	2000
7	New York Mercantile Exchange	2000
8	New York Stock Exchange	2006
9	Bombay Stock Exchange	2007
10	Brazilian BOVESPA	2007
11	Chicago Board Options Exchange	2010
12	Moscow Exchange	2011
13	Nairobi Securities Exchange	2014
14	Tel Aviv Stock Exchange	2015

According to the data of the World Federation of Exchanges the weight of mutual entities dropped dramatically from 40% in 1999 to only 15% in 2013. In the same period of time, the number of demutualised stock exchanges increased from 10% in 1999 to 62% in 2013. Of the 64 Exchanges, only 8 are currently mutual.

#### **Nigerian Stock Exchange Today Vs. Nigerian Stock Exchange Post – Demutualisation**

<b>NSE Today</b>	<b>NSE Post-Demutualisation</b>
<p>The NSE is currently a Mutual company limited by guarantee, whose shares cannot be listed on the floor of its exchange and traded.</p> <p>Have no capacity to raise capital.</p> <p>Not competing with global best practices.</p>	<ul style="list-style-type: none"> <li>• Enable the implementation of a fair and just transition process which will involve all interested parties in a fair equitable manner.</li> <li>• Facilitation of a fair representation and actualization of the investment needs and interests of the local, foreign, private, public, individual and institutional investors alike.</li> <li>• The NSE's operational structure changes from mutual company limited by guarantee to a company limited by shares</li> <li>• The NSE ownership will change from Members to Shareholders</li> <li>• Members of the Exchange are given shares for their membership; (Decouple</li> </ul>

	<p>share ownership from trading rights for dealing members only)</p> <ul style="list-style-type: none"> <li>• Actualise the introduction of new products on the exchange such as options, securities, loan, Assets-Backed Securities etc.</li> <li>• Creation of a deeper and more liquid financial market that would facilitate the funding of long term National Development Infrastructural projects.</li> </ul>
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### Rationale

Distinguished President of the Senate and distinguished Senators, I wish to conclude this lead debate as follows:

A demutualisation Nigerian Stock (Shares) Exchange will create the following advantages:

- Commercial Orientation – **Becomes a company**
- Strategic Alliances – **Ability to Offer Equity in Domestic and international Markets**
- Regional Integration - **Capacity to Merge with Regional Exchanges**
- Capital Raising – **Ability to Access Financing Locally and Internationally**
- Investment Technology – **Upgrade of Platform**
- Foster innovation – **Diversification of the Products Offering**
- Exit option – **Current Investors Can Cash Out**
- Incentivise Employees – **Alignment of Interest with Shareholders**
- Enhanced Regulatory Role – **Reduced Conflict of Interest.**
- Improve Governance - Separation of Ownership from Trading rights
- Improve Competitiveness – Moral Agile Management Structure.

This Bill does not have any financial implication on the Federal Government of Nigeria because the Nigerian Stock Exchange is an existing, functional self-Regulatory organisation owned by members with self-funding capacity.

I wish to therefore, move and let it be moved as well as crave the indulgence of your Excellence the President of the Senate and Distinguished Senators to pass this bill for “An Act To Facilitate The Development Of Nigeria's Capital Market By Enabling The Conversion And Re-Registration Of The Nigerian Stock Exchange From A Company Limited By Guarantee To A Public Company Limited By Shares And To Provide For Other Related And Ancillary Matters, 2017 (Demutualisation Of The Nigerian Stock Exchange Bill, 2017) “ for second reading.