The Nigerian Stockbroker

THE OFFICIAL MAGAZINE OF THE CHARTERED INSTITUTE OF STOCKBROKERS

VOL. H NO. 11 FEBRUARY, 2020

"Our Initiatives have Enhanced Professionalism in The Capital Market" - Adekoje, FCS

Managing Macroeconomic Shocks

BUHARI

ZAINAB

EMEFIELE

Creating Competitive Capital Market with Blockchain Technology

As Stockbrokers Await Demutualisation Trumpet

Snapshot of Trading FGN Securities on The Nigerian Stock Exchange

President, CIS, Mr. Dapo Adekoje closes trading on The NSE during Gong Ceremony


Principal Officers on courtesy visit to Senator Stella Oduah in Abuja


Former President, Chief Olusegun Obasanjo, GCFR, FCS and Edo State Governor, Godwin Obaseki, FCS celebrate with Oscar Onyema, FCS at his Investiture as a CIS Fellow

At Press Conference ahead of 2019 Stockbrokers' Conference in Lagos


CIS' and ASHON's joint visit to the Doyen of Stockbrokers, Rev Olu Odejimi, FCS

CIS' Past Presidents, welcome Ag. DG, SEC, Mary Uduk at her Associate Induction.


CIS' courtesy visit to Federal Inland Revenue


CIS Awards Scholarships to 30 Financial Journalists.


BUHARI


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Principal Officers on courtesy visit to chairman, Capital Market and Institutions Committee, House of Rep., Hon. Babangida Ibrahim

MoU Signing Ceremony between CIS and the Chartered Institute for Securities & Investment (CISI) United Kingdom

Investiture of CIS President, Mr. Dapo Adekoje

Federal Ministry of Education's Team visit CIS

Editorial Board Members of Nigerian Stockbroker

Inaugural CIS' Inter-Tertiary Competition won by Obafemi Awolowo University

CIS' CPD on Trading of Treasury Bills: Facilitator flanked by CIS officials at the programme

The Nigerian Stockbroker's team meets Richard Quest of CNN

Fintech Application.../8

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Blockchain

Blockchain is a centralized ledger of transactions in a network , so that participants in the network can confirm transactions without the need for a third-party intermediary

Multiple participants can share data/ information	Multiple participants can record and update data/ information	Participants need to trust the actions that are recorded and deemed valid.	Removal of intermediaries which can reduce complexity	Interactions should be without delay	Transactions created by different participants should be able to interact/ depend on each other

Example :
- The investor gives mandate
- Broker collects KYC details from investor
- The Broker uses the investor unique ID to check up his details in a central database of the CSD, EFCC, NFIU, etc
- The broker opens his account if the investor is deemed clean to go
- Regularly the Broker confirms client's position to determine new status

Fintech Application ../9

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FinTech Benefits to the Financial Market

Benefits

- New alternatives to financial market infrastructure in the areas of Custody, Clearing and Settlement
- Improved customer experience
- Improved performance — real-time processing improves the service and reduces the number of exceptions in a process.
- Quicker decisions
- Improved risk management in the financial system
- Innovative products & services
- Improved efficiency and productivity

Fintech .../10

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Points to note

- Today FinTech is no longer an option but a critical element in the scheme of things
- Radical change is now necessary to avoid being irrelevant in the nearest future
- Co-opetition – which involves collaboration with competition in some areas for synergy
- FinTech has brought to the fore the power of data
- Effective regulatory framework is key for the implementation of fintech
- Adequate capacity building and bridging the knowledge gap is necessary
- Political will on the part of Regulators and Management is required in Fintech implementation and application

From the Editor's Desk

One of the cardinal functions of the Governing Council of the Chartered Institute of Stockbrokers (CIS) is to position the Institute, and by extension, Nigerian Stockbrokers, properly for global competitiveness in all professional and technical metrics. It was in realization of this that a Council Retreat was held, and three Ad hoc committees set up with mandate to look into ways that the Securities and Investment business can be made more profitable and attractive in Nigeria. The Board of Fellows also got involved, directing the Research & Technical Committee to find out ways of improving the entire financial system to allow the Capital Market play a more impacting role in the economy.

The build up of all these efforts dovetailed into the theme of the 23rd Annual Stockbrokers Conference:

"Boosting Capital Market Competitiveness In A Challenging Macro - Environment"

The macro – environment being referred to here of course, is the Nigerian economy which is still struggling with basic issues that are taken for granted in the developed economies of the world. Basic economic infrastructure remains a critical problem. Nigeria remains largely a mono-product economy, while the capital market is still yearning for optimal attention from key policy makers. After reaching the remarkable height of being rated 3rd best in the world on returns to investors in 2017, the equity market has slumped thereafter, displaying a very unpredictable price trend. Clearly the tripartite issues of low liquidity, low policy attention, and low investor confidence remain key challenges in the market.

CIS' Principal Officers were therefore very active engaging key organs of Government on the issues mentioned.

Thankfully, all these efforts have begun to make impact. CIS held an interactive dinner session with the Vice President of the Federal Republic of Nigeria, Prof Yemi Osinbajo, SAN in Lagos. Even though the VP was represented by the former Minister of Industry, Trade & Investment, Prof Okechukwu Enelamah, the reception and attendance were overwhelming, This year the institute will be inducting far more new Associates than it has done for several years. This is a direct result of deliberate strategic actions taken by Council over the last two years. Several highly ranked and distinguished Nigerians in the academics, government and corporate Nigeria have also joined the institute's membership community, despite the rigors and discomfort of writing the Professional Exams.

We felt, at The Nigerian Stockbroker, that we must contribute our own quota towards this noble cause that Council has initiated. That is the reason we adopted the theme of the 23rd Annual Conference as same for this edition of the magazine. We went the extra mile to get some of the best analysts in the Stockbroking community to send in articles resulting from over 3 months of painstaking research. In effect, the institute now has two rich pools of well researched papers proffering practical ways to boost capital market competitiveness in a challenging macro - economic environment.

The President & Chairman of Council of the institute, Mr Dapo Adekoje, FCS created time out of his very busy schedule to grant us a highly enriching interview in which he gave his informed opinion on issues around the theme of the conference, while also shedding light on the various steps his Council has taken to reposition CIS and restore the glory of the securities and investment profession. Our cover article on Managing Macro-Economic Shocks, was written by the highly respected expert on economic research, Mrs Kemi Akinde, ACS. The magazine also contains an explorative presentation on the 2020 Budget of the Federal Government of Nigeria, a futuristic paper on talents and the future of the securities and investment business in Nigeria, and an instructive piece on global value chains and Nigeria's trade and investment policy, just to mention some of the key areas touched.

Our story on the most talked about issue in the Nigerian stock market at the moment, Demutualisation, was written by a highly experienced journalist who is also a Chartered Stockbroker with long working experience at The Nigerian Stock Exchange, Mr Sola Oni, ACS. We thank both Dr Joe Mekiluwa, FCS and The Nigerian Stock Exchange for sending us copious papers FINTECH and bond trading respectively, which will surely be of immense benefit to Stockbrokers. We thank all the other powerful authors who sent in articles for the magazine.

I wish, at this juncture, to acknowledge the contributions of the members of the CIS' Research & Technical Committee led by our highly learned and respected Chairman, Mr Mohammed Garuba, FCS and the entire members of the magazine's recently constituted Editorial Board led by the Editor-in-Chief, Mr Adedeji Ajadi, FCS. I also seize this opportunity to specially thank Mr Tajudeen Olayinka, FCS, and Mr David Adonri, ACS for the immense sacrifices they made of their time for CIS' research cause throughout the year.

On a very sober note, we pray for the souls of two of our departed beloved members: Apostle Hayford Alile, FCS, the former long serving Director General of The Nigerian Stock Exchange, was instrumental in shaping the professional conduct of many of our senior Fellows who in turn have done likewise to the rest of us. Mr Nduka Nwonye, FCS a.k.a "The Duke" was the immediate past Chairman of our Committee, Research & Technical, and a member of Council. May their souls rest in peace.

In conclusion, I humbly, but very strongly, recommend this edition of the magazine to policy makers, financial industry regulators and key decision makers in the public and private sectors of the Nigerian economy. The language is kept simple, and there are segments of the magazine that readers will find very entertaining.

Enjoy.

Mr Edikan Ekong, FCS
Editor

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GLOBAL VALUE CHAINS, COMPARATIVE ADVANTAGE AND NATIONAL TRADE AND INVESTMENT POLICY: WHICH WAY NIGERIA?

By Tajudeen Olayinka, ACS

1. Introduction.

The way countries conduct international trade is not only changing across the globe, but changing rapidly, and beyond limit. The fact that over 70% of international trade is conducted at the level of Global Value Chains (GVCs), indicates that major economies around the world no longer rely on comparative advantage on a one-lump production process basis, or on the so called traditional approach, but rather, rely more on each aspect or chain of production process that each economy has comparative advantage over others. This implies that economy thrives better if it relies on, and able to build, a comparative capacity, on each segment of the production process, along the line of GVCs. In simple economic term, it means being able to produce goods or services at a lower opportunity cost, at each stage in the production process.

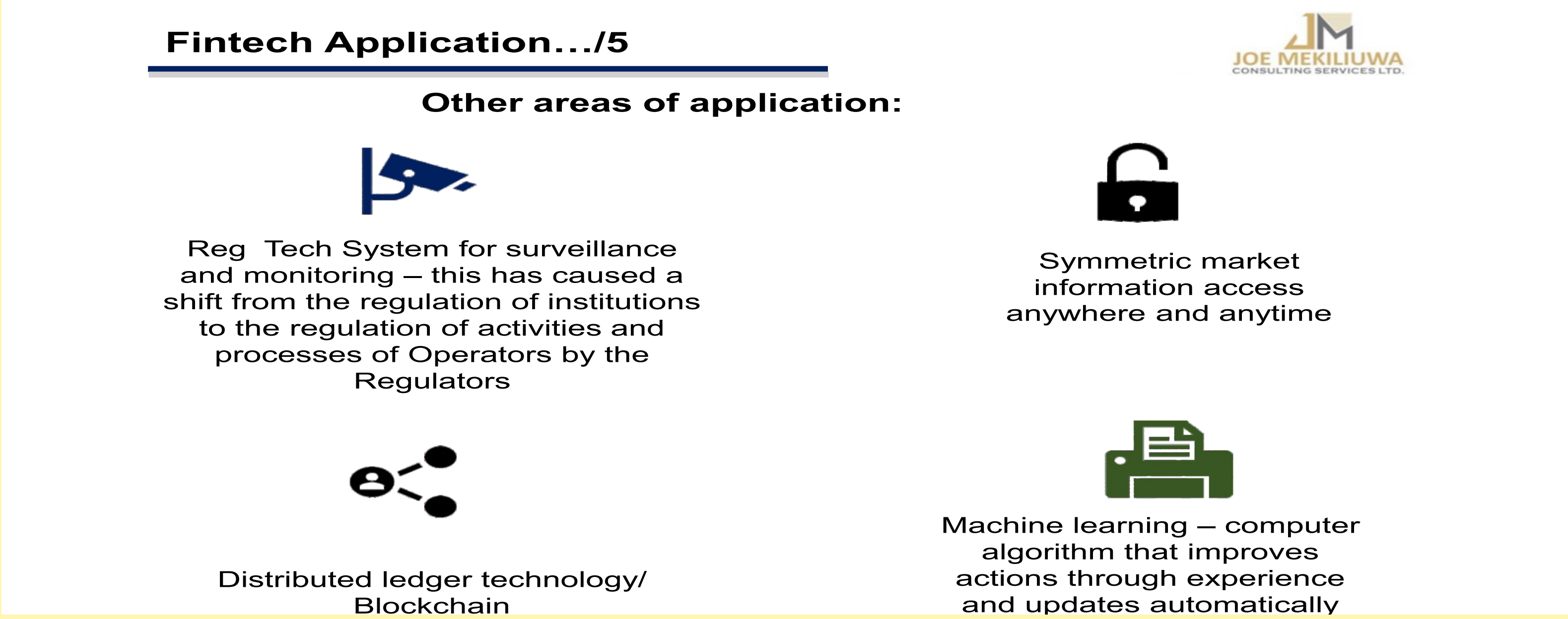
Evidence abounds that international fragmentation of production often lead to increased job creation and economic growth. Countries that embrace GVCs grow faster, import skills and technology, and boost employment. India and China are good examples of countries that succeeded in growing their exports by more than 600% over a decade (2000 – 2011), using GVCs.

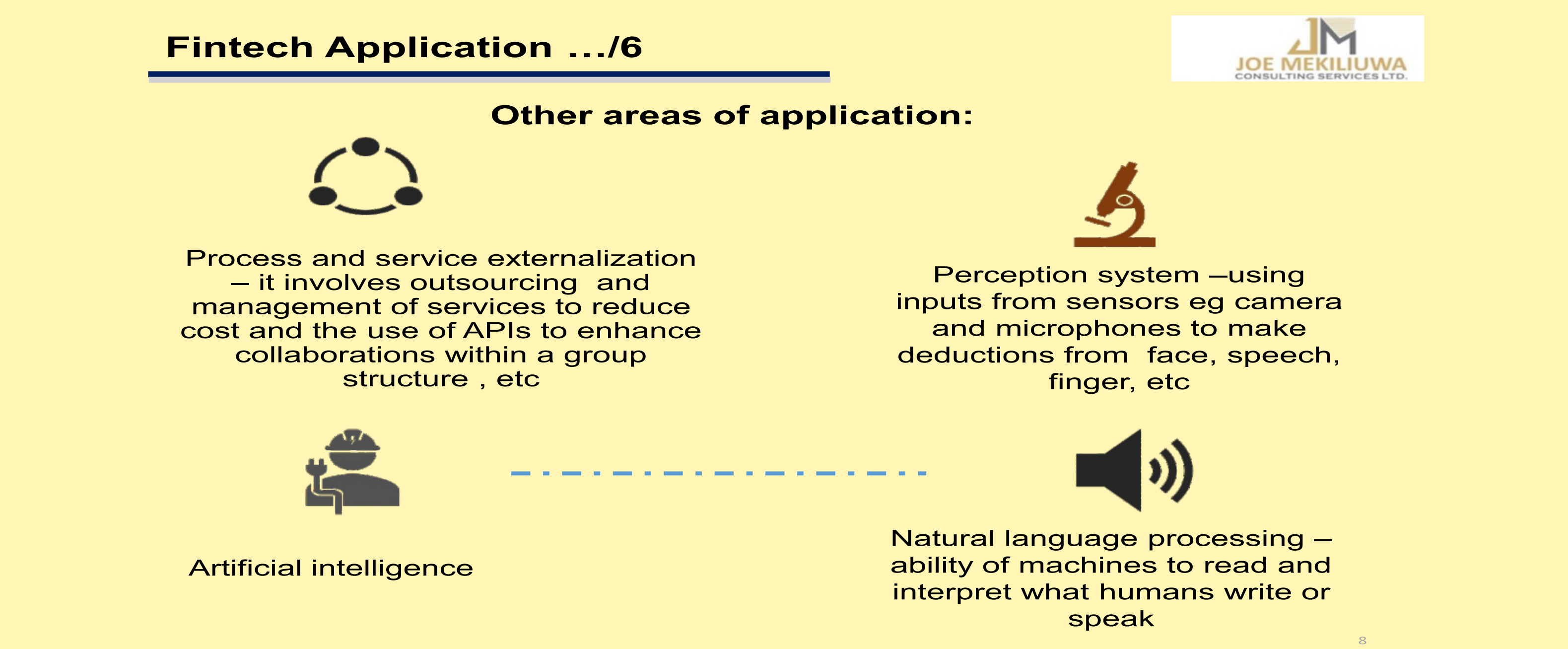
2. Global Value Chains and Foreign Direct Investments (FDIs).

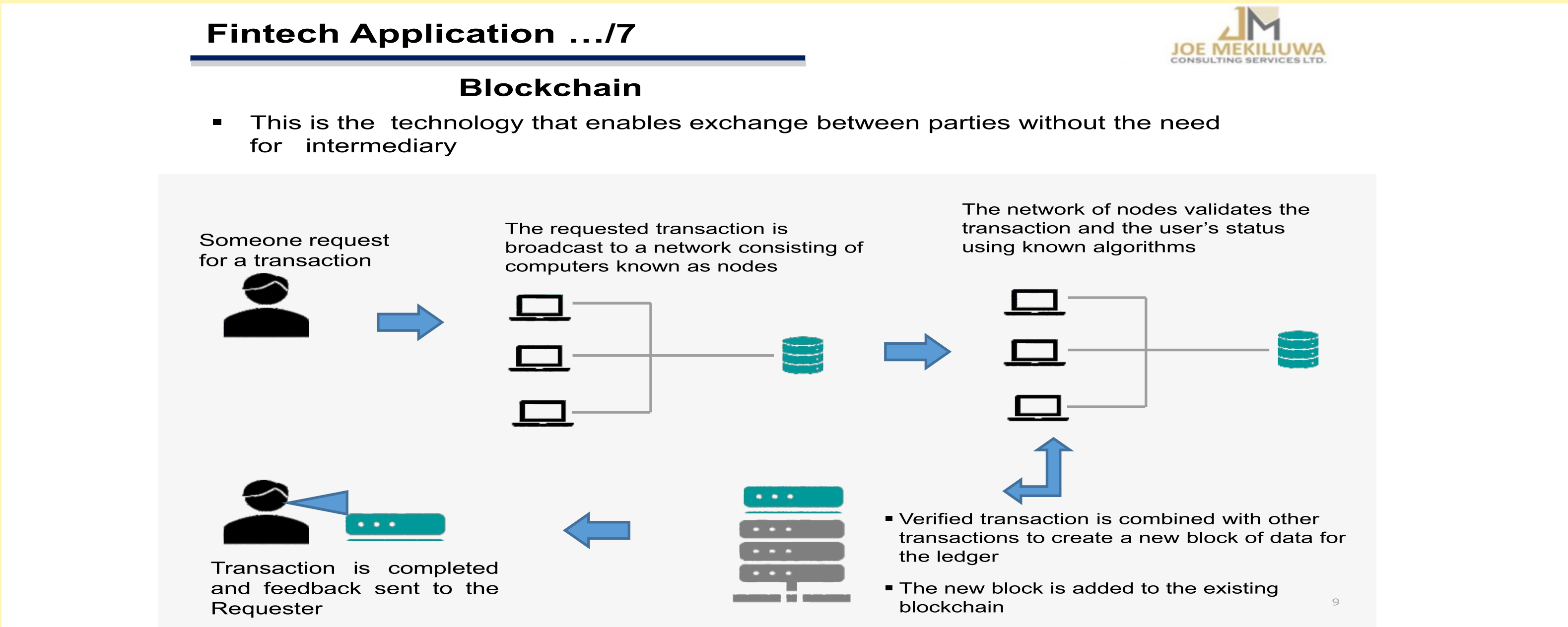
The decision to embrace GVC as a production strategy rests on the firms who choose to rely on trade and investment policies of multiple countries around the globe to ply their trades. Before the advent of globalization, companies used to make things primarily in one country. But all that has since changed. Today, and with the help of technology and good transport system, a single finished product often results from manufacturing and assembly in multiple countries, with each step in the process adding value to the end product. This means that Foreign Direct Investment (FDIs) will flow more into countries that have built their trade and investment policies along the path of GVCs. According to the United Nations Conference on Trade and Development, an estimated 80 percent of global trade now occurs within international production networks of multinational companies. And it is these companies that are responsible for more than US$1 trillion in global flows annually. It therefore goes to suggest that countries that embrace GVCs will continuously need to build comparative capacities along the value chains, by also building a strong financial system and an efficient capital market that can sufficiently help to drive capital formation.

3. Trade and Currency Restrictions: The future starts today.

There is no doubt that trade and currency restrictions are meant to shield a struggling economy from running into balance of payments crisis. The critical point here, is the sustainability of these restrictive policies, without putting appropriate supply-side policies and programs in place, going forward. Several empirical studies have shown that economy that suffers a prolonged structural imbalance would need to address the imbalance more effectively from its supply-side. That is like increasing the capacity of the economy to produce for both her domestic needs and exports. And unless the managers of the economy realize the need to run supply-side policies and programs concurrently with these obnoxious trade and currency restrictions, the future of the economy remains bleak. This is because such a weak economy will continue to suffer distortions, as national currency becomes overvalued over time, without giving a proper notice to monetary and fiscal authorities. This is the reason a ton of rice imported from Asia (Cost, Insurance, Freight, Import-Duty, Import-Levy, Local Freight, Finance Cost, Professional Handling Charges, Other Charges, Domestic Overhead, etc.) will sell cheaper and more profitably than a local rice. This is even when the local rice is of low quality. After the border closure in August 2019, this







Fintech Application..../2

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Pre-trade phase

- KYC repository for onboarding to eliminate duplication of efforts
- Robotic process automation for routine processes e.g account transfers, account creation, clearing process, settlement process
- Cloud computing – accessing IT services and infrastructure anytime and anywhere
- Central hub for shared services eg back-up infrastructure
- Direct public offering -this eliminates the parties to issue and the Issuer access capital directly from the Public , it has self underwriting clause

Fintech Application.../3

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Trading phase

- Central order routing system , example is the West Africa Securities Market (WASM) virtual platform designed for West African Regional Integration
- Smart contract programmes that facilitate trade negotiations

Fintech Application .../4

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CSD/Post Trade Phase

- International Central Securities Depository (ICSD) designed to be linked to WASM virtual platform
- Real Time Gross Settlement (RTGS) of model 1 settlement
- Simultaneous DVP
- Trade Data repository for analysis
- Corporate action Repository
- Market information repository at ICSD level
- Distributed Ledger Technology (Block Chain)

author came across some brands of rice in some of our local markets in Lagos, that seemed to have been wrapped in mud, displayed for sale to consumers who probably had weak purchasing powers. This is like helping to build health hazard for the populace. Government that intends to run restrictive trade and investment policies must recognize the need to also put in place, a set of supply-side policies and programs that tend to correct observed anomalies in the long run. Unserious producers must not be allowed to take undue advantage. The fact that a small fraction of international trade (about 30%) still occurs along the path of traditional view, suggests the future of Nigerian economy starts today.

4. Border Closure: Short Run Market Price and Long Run Normal Price.

Temporary border closure to address obvious lapses in border management is not completely bad. What is bad however, is the failure to put in place, palliative measures, that could help address unintended consequences of supply shock. A negative supply shock is capable of putting the economy under a new round of inflationary pressure, as being currently witnessed in Nigeria; the aftermath of border closure. This is because economy will continuously suffer a new round of adjustments that does not correctly address the structural economic problem created by porous and totally mismanaged country's borders. The officers and men of Nigerian Customs Service (NCS) should be made to close their eyes in shame. They should all be penalized for helping to put the economy in bad shape. How did Nigeria get to this sordid state? Now that short run aggregate supply curve is gradually shifting inward, how aggregate demand responds and adjusts depend largely on collective actions of monetary and fiscal authorities. Regrettably, short run market price is already inflicting its usual pain on poor masses that are made to bear the brunt of poor border management by NCS. The long run normal price may remain a mirage if appropriate supply-side policies and programs are not immediately put in place by government. Supply-side policies and programs of former President Obasanjo created Dangote Cement Brands that are now competing favourably in the international market. Nigerian government should begin to build comparative capacities along the path of GVCs, to promote all-inclusive economic growth and job creation.

5. Which Way Nigeria?

The fact that imported goods sell cheaper than locally produced goods after paying import duties and incurring other relevant charges are clear indications that Nigeria lacks comparative advantage in her local production of the affected goods over the foreign brands. It could also mean that Nigeria has not allowed her currency to adjust properly, hence the rising demand for imports. Solving this perceived structural economic imbalance does not require permanent closure of our land borders, or engaging in combative diplomacy. Rather, it requires that we begin to build comparative capacities across the spectrum of available channels and sections of production processes, in a way to producing international brands along GVCs. Compelling people to forcefully eat rice that have been delicately wrapped in mud will not solve the problem. There must be structural economic policies and programs that are deliberately crafted and goal directed. There is no universal way of doing things. It is a case by case, and one best way.

6. Global Value Chains and The Capital Market Connection.

The primary aim of capital market is to channelize those who have savings to those who need such savings. A properly structured capital market is capable of mobilizing sufficient savings to drive investment in infrastructures and allow capital formation in an economy. It is another gateway to building comparative capacities along the path of GVCs. Governments and firms must be able raise long term money at a lower cost capital, to remain relevant and competitive in international trade. Given the right structure and incentives, capital market can serve as strategic growth driver or enabler in an economy. This is the reason Nigerian government must regularly pay attention to what goes on in the capital market, in a way to restore or boost investors' confidence.

7. Concluding Remarks.

A prominent feature of world trade during the last two decades has been the steady rise in global value chains, with goods and services being processed—and value being added in the multiple countries that have chosen to serve as integral part of the chain. Over 70 percent of global trade is in intermediate goods and services and in capital goods. GVCs have thus provided an avenue through which countries can industrialize at a much earlier stage of development, as producing firms choose to offshore fragments of the production value chain to countries where labour is cheaper, or where other locational advantages confer a comparative capacity or competitive cost advantage, on the whole GVC. This has also increased the interconnectedness of economies and led to a growing specialization in specific activities and stages in value chains, rather than in entire industries. This was the reason most countries around the world suffered a collective major decline in international trade in 2009; the aftermath of global meltdown. The least affected country was Singapore. Singapore recorded a growth of 9.17% when others suffered declines. Nigeria must not, and cannot continue to endlessly wait in the wings. The time for a quantum leap is now.

Tajudeen Olayinka is a Financial Engineer, Investment Banker and Stockbroker, and currently operates as Consultant/Dealer with Valmon Securities Limited.

FinTech Application in the Capital Market

by

Dr. Joe Mekiliuwa, FCS

Joe Mekiliuwa Consulting Services Limited

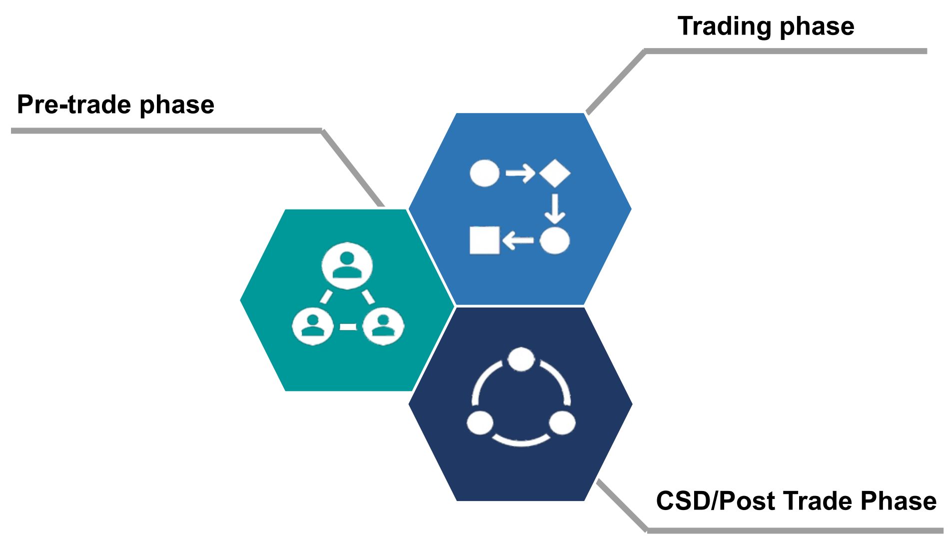
November, 2019

Fintech

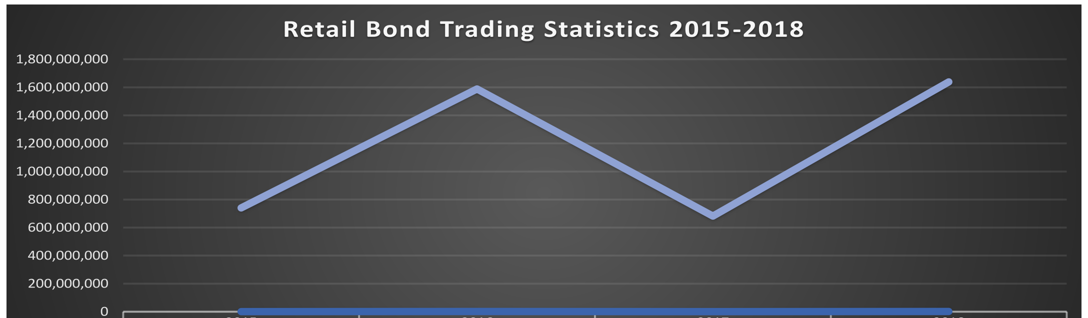
❑ FinTech

Fintech is the use of technology and innovation in the delivery of financial services especially as it supports self services outside the traditional banking and business methods e.g Mobile trading, banking services, etc using electronic transaction platforms.

Fintech Application../1



Trading Statistics of FGN Securities on The NSE (2015-2018)



	2015	2016	2017	2018
VOLUME	627,466	1,437,874	708,076	1,570,974
VALUE	739,897,802.30	1,587,954,217.68	681,876,986.44	1,638,402,720.36

The above shows the trading statistics on The NSE for FGN Securities which is inclusive of Sukuk Bonds and FGN Savings Bonds for the period 2015 to 2018.

Trading Statistics of FGN Securities on The NSE (2015-2018)

YEAR	NUMBER OF DEALS
2015	122
2016	225
2017	455
2018	1039

Few structured deals/crosses majorly attributed to the volume and value traded in the period while the increase in the number of deals/transactions was on the back of smaller units of FGN Savings Bond traded

Summary

The number of transactions shows the low participation in the Retail Bond Market.

All Dealing Members firms are required to encourage to investors to invest in the Fixed Income market thereby providing an alternative investment outlet when the equities market is bearish

Furthermore all Dealing member firms that act as Distribution Agents are required to drive activities in the FGN Savings Bonds by providing Bid/Ask prices daily.

Improved participation will foster liquidity and thereby reduce the bid/ask spread

Finally it is important that each Dealing Member firm get a better understanding of trading in the Retail Bond Market to aid the sensitisation and participation of retail investors

MANAGING MACROECONOMIC SHOCKS

Macroeconomic shocks are real and inevitable. Business managers do not possess crystal ball to predict accurately, the types and intensity of shocks that can ravage profitability. The variable can come as monetary, fiscal, technology or combination of two or more. However, every proactive manager must be armed with flexible business models that will absorb unforeseen shocks , without compromising the company's core business, writes Femi Akinde, ACS

Businesses operate in industries, which exist in economies. By implication, the dynamics of the economy have ramifications for businesses. For instance, when the sovereign rating of a country is downgraded, the ratings of companies within the economy are also adjusted such that none is better rated than the sovereign, irrespective of its competitive advantage.

Economic shocks can adversely impact corporate profitability, and this sometimes, has little to do with operational inefficiency of the company. Given the higher degree of uncertainty and volatility in emerging economies like Nigeria, business managers need be proactive and intentional about designing business models and crafting corporate strategies that maximize value, especially, in challenging environments.


BUHARI

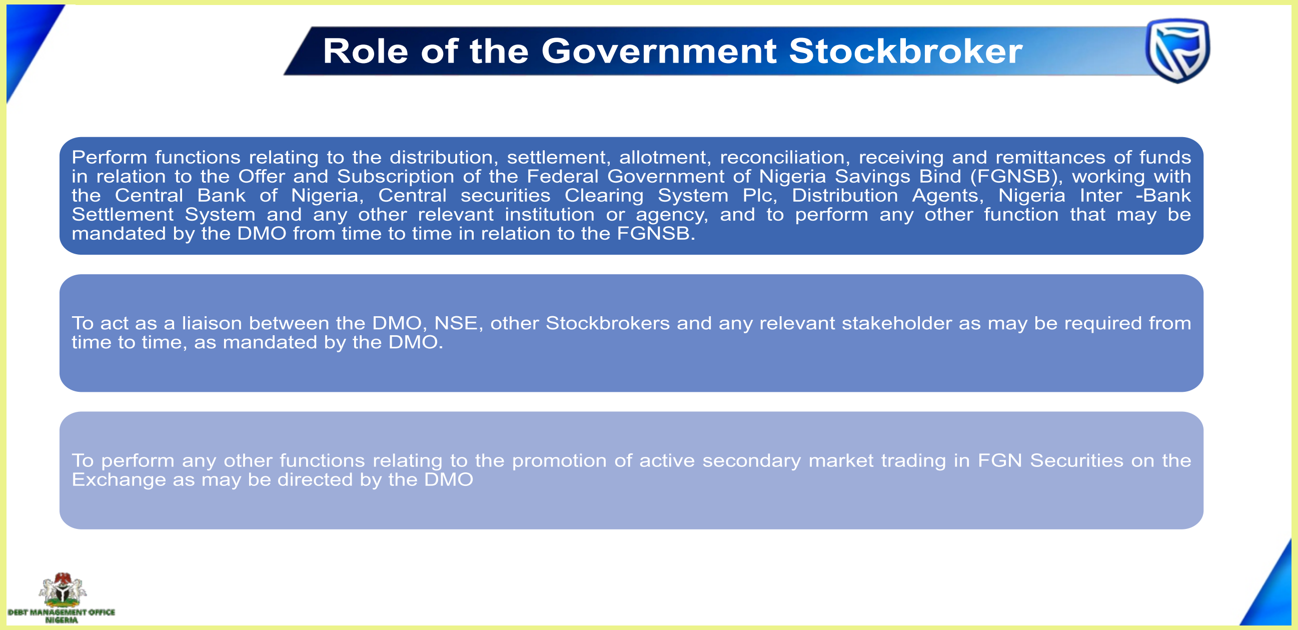
Value creation has many dimensions to it, but in a nutshell, it is the ability of a company to earn return on capital in excess of the opportunity cost of capital. It sounds simple but has a lot to do with the decisions of the management; from operating decisions to investing, financing and even pricing and hiring decisions. From shareholders perspective, return on capital is synonymous with return on equity, which is driven by the efficiency of asset utilization, profit margins, and the degree to which debt is leveraged to scale the business.

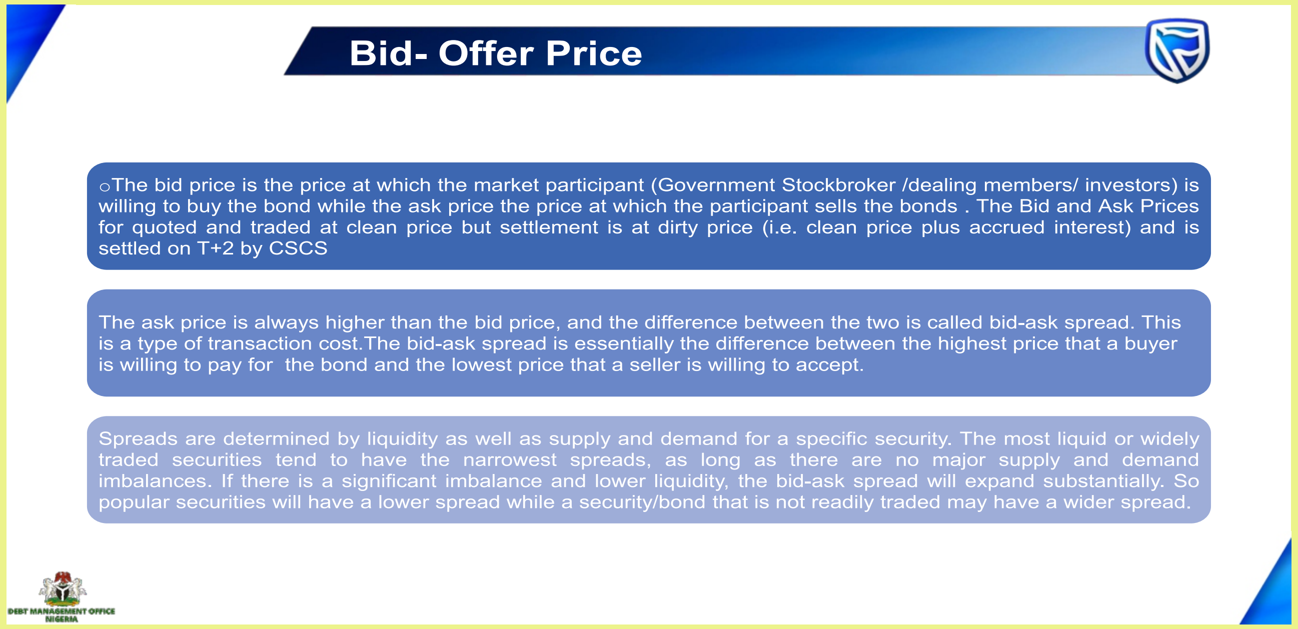
Businesses own assets primarily to generate sales from their use. However, not all assets owned by a business are operating assets, but most should be. Managers need to pay attention to how they increase and sweat their assets. Some companies grow their balance sheet size and assets base because of status and prestige but the incremental sales to the incremental asset is lower than pre-growth levels, thus, they are seen as growing but in the wrong direction. It is also common to see managers expand fixed capacity during booms, ignoring the fact that booms do not perpetuate, and strong consumer demand will not always be the norm, and then struggle to finance the working capital needed to adequately utilize the capacity as the economy slows. This situation can further exacerbate to leading the company to utilizing high-cost short-term funding to finance working capital needs because operating cashflow is inadequate. An upward shock to interest rate means more money is spent on funding cost of the working capital and can make the company resort to cutting back on production, thus, resulting in sales that is not commensurate with the fixed capital invested.

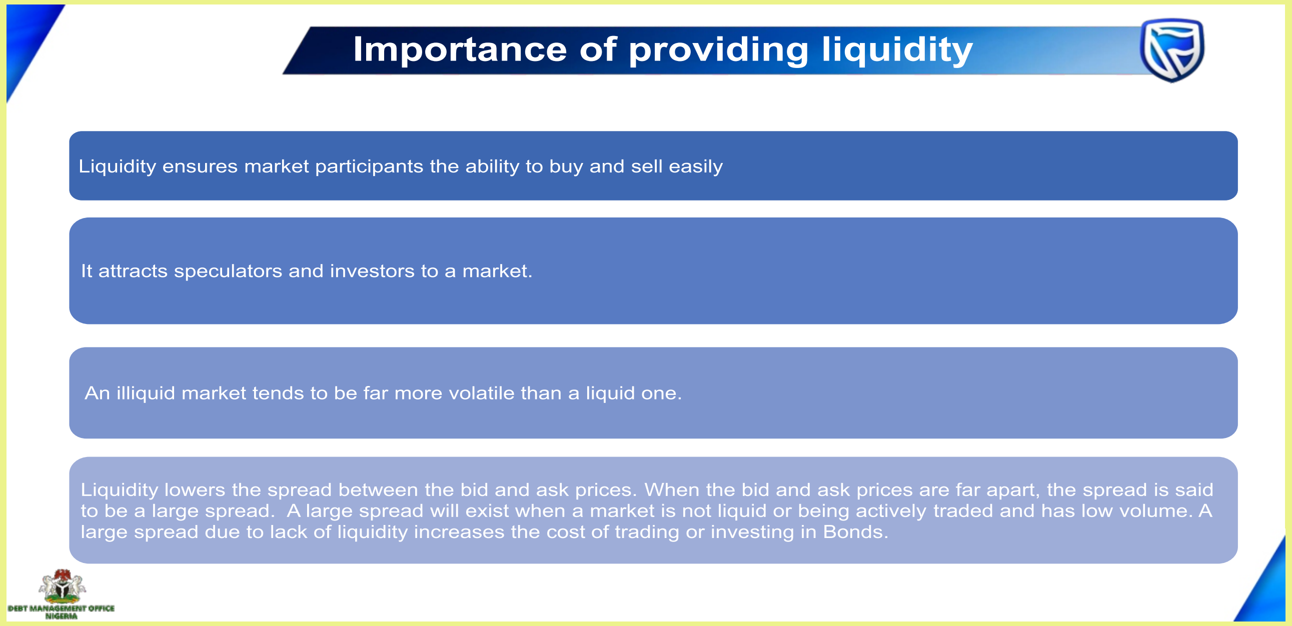
> *"Managers should acknowledge that the economy moves in cycles, that macro-shocks are inevitable, industry constraints on their degree of operational flexibility are real constraints, and they do not have the superpower to control all variables as much as they think, and should therefore evolve business models that embed these limitations but are also sufficiently flexible to adapt to common shocks while delivering the desired operational result of attractive profit margins."*

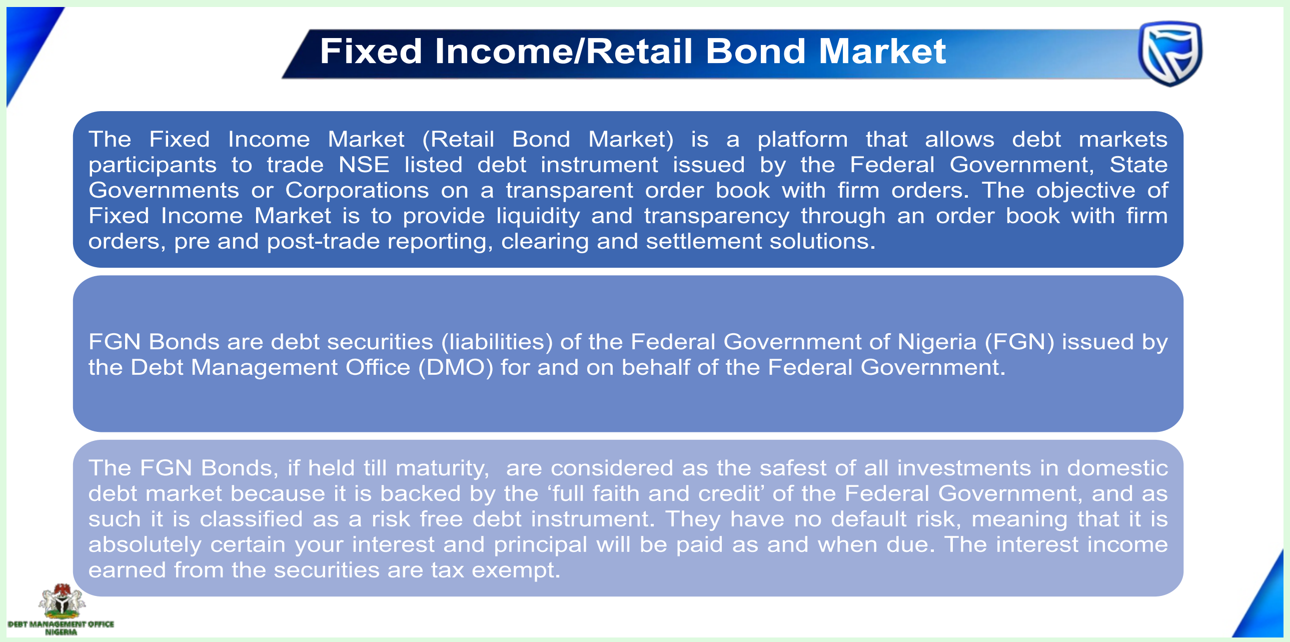
Margins are a function of sales and costs; sales is determined by the interplay of price and volume, while costs comprise both fixed and variable elements.

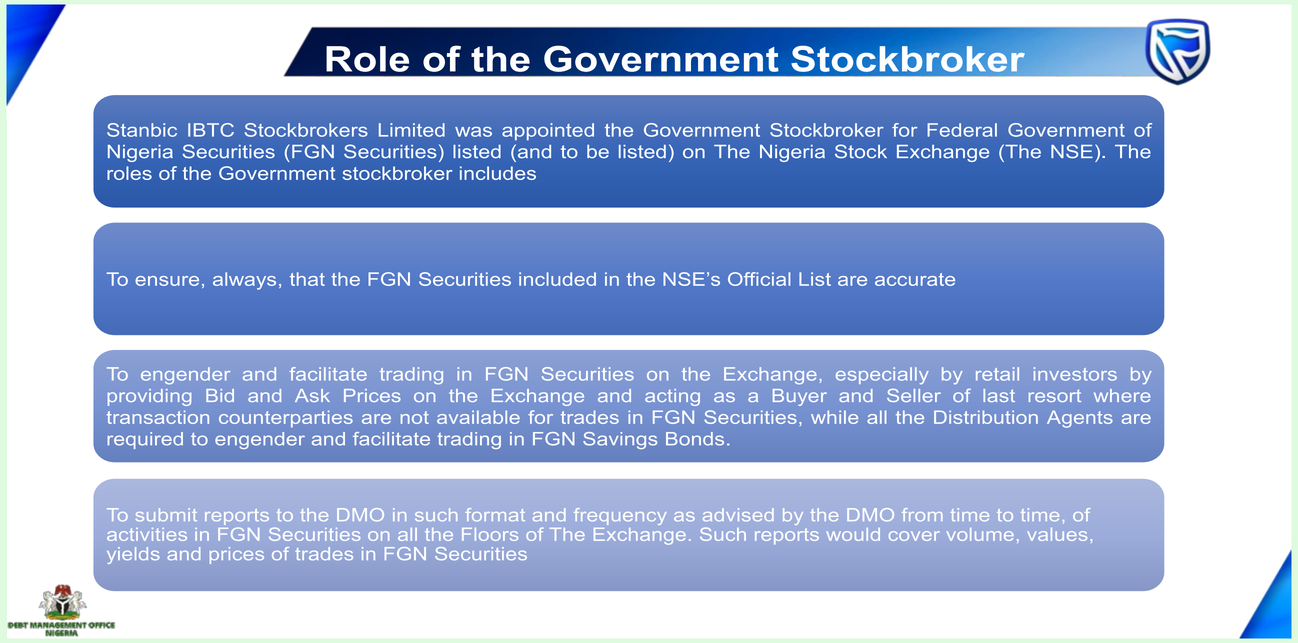
In developing business models, managers need to understand their pricing power and flexibility in the light of demand elasticity, industry norms and potential response by other players in the industry; their capacity to ramp-up volumes, the re-investment needed to achieve it and how the re-investment will be funded; their cost-mix in terms of fixed and variable cost and the sales volume needed to break even; how shocks to inflation rate, interest rate, exchange rate, taxes, aggregate demand and income levels impact those variables, and the robustness of their business models to adapt to economic stress. For example, in recession, aggregate demand tends to be weak and sales volumes are pressured, if the industry structure and demand elasticity is such that a price increase to offset volume decline will result in bigger drop in sales volume, then the focus will need to be more on how to contain costs. Such a company with weak pricing power and flexibility should ideally not operate a business model with high fixed cost. Furthermore, the impact of a currency depreciation can be very damaging if the company imports most of its product yet operates in an industry in which it cannot adequately pass costs. Such company should have a fair balance between foreign and local inputs and be flexible to switch should there be a shock to FX. Still on costs, factory layout, office space management and supply chain should also be optimized for efficiency. Buy or lease decision can also make a huge difference in cashflow availability and sustainability. Business that rebrand with the purpose of attaining higher price points for their products need to be quantitatively confident that the marginal revenue generated is in excess of the marginal cost of operating at the new segment of the industry. Managers should



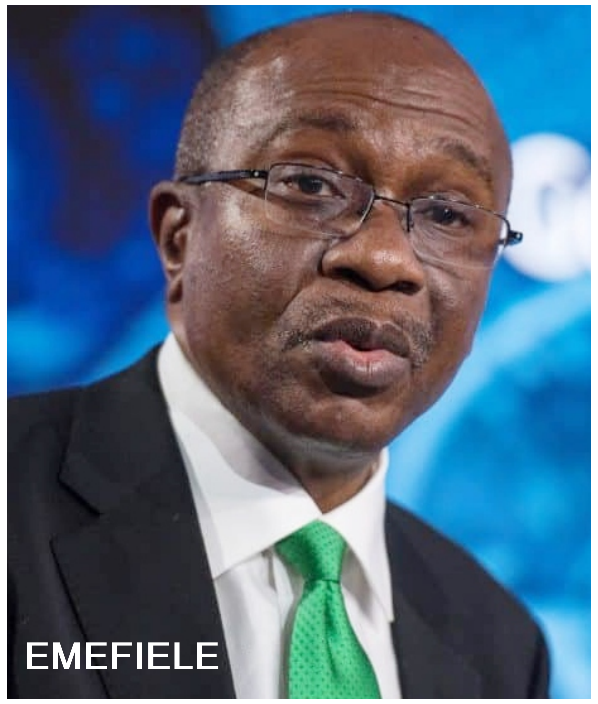








acknowledge that the economy moves in cycles, that macro-shocks are inevitable, industry constraints on their degree of operational flexibility are real constraints, and they do not have the superpower to control all variables as much as they think, and should therefore evolve business models that embed these limitations but are also sufficiently flexible to adapt to common shocks while delivering the desired operational result of attractive profit margins. An analysis of the industry, given inevitability of shocks, is key so managers can understand where they have the latitude to cushion shocks.


EMEFIELE

Finally, financial leverage. How does a company use debt to fund its assets ? Where profit margins are attractive and above the cost of debt, debt can be instrumental to boosting returns on equity. However, if the margins are built on a high fixed operating leverage (in simple terms, more fixed cost than variable costs), if there is a shock to sales such that the most of the revenue goes to covering the fixed costs, and operating profit is therefore insufficient to pay the cost of debt, the other side of leverage can be damaging. Therefore, managers in cyclical sectors with weak pricing flexibility, should be careful about the combination of high operating leverage and high financial leverage (to fund working capital needs) when there are signs of an imminent recession. Decisions on how re-investments are funded is also critical - managers should avoid duration mismatch by not funding long-term assets with short-term instruments as the cash flows are not aligned and can mount liquidity pressure on the company even through it is solvent. They should also avoid currency mismatch by not using foreign currency loans to fund operations that generate sales in local currency; the balance sheet leverage can balloon overnight in an FX crisis. Also, some managers have too many non-operating assets on their balance sheet but still resort to debt financing, when they can actually sell those assets to fund operations. There is a threshold beyond which more debt increases the probability of financial distress, thus, notwithstanding the benefit of debt, managers should be careful not to stretch the limit.

Every economy moves in cycles and every industry has its flexibilities and constraints but not every company has an economic moat, and this is the call of the management. In navigating challenging macroeconomic environment, business owners and managers need to understand these and therefore design business models that leverage their economic moat to maximize the flexibilities subject to the constraints for enhanced position to cushion economic shocks such that they accrete value not just to shareholders but all providers of capital.

Oluwakemi Akinde,
ACS, CFA,
Economist

*   Share Registration & Custodianship Services
*   Investment Management & Advisory
*   Financial Advisory

This is particularly commendable because experience has shown that many Capital Market practitioners invariably focus on just one or two core areas of the profession for their entire careers. It is only a small proportion that actualise apply their knowledge in its totality in the careers. Unlike 30 years ago when stockbroking was synonymous with the trading / dealing function, brokers today are far more diversified in skill and professional engagement: A lot more stockbrokers are today involved in new issues structuring, general corporate finance, regulatory / government work, and in the academics. Stockbrokers are running the finance / investments departments of multinationals, oil and gas concerns, and banks. Even in the trading function, brokers are trading fixed income securities on FMDQ, unlisted securities on NASD, and the whole gamut on the big one, The NSE.

So, it is evident that the base training offered by CIS in the certification stage is apt and tailored to the needs of the market and Stockbrokers. The institute's Continuous Professional Training (CPD) programme has also been lauded in recent time for being comparable to what obtains in the developed economies of the world. However, the competition from foreign bodies for this role has come thick, fast and very stiff. Apparently buoyed by the success of CIS, many foreign professional bodies have migrated to Nigeria to fight for a share of the market. Hardly do I hold a career engagement with students in various Nigerian universities without meeting a competitor there for the same purpose.

Having said all this, it will be misleading to see the intrusion of technology as a negative. According to the World Bank's Chief Economist P. K. Goldberg while commenting on the World Development Report 2019, "this is the fourth industrial revolution, there have been three before, and in each case we managed to survive; so it's not the case that machines completely eliminate humans." He closed; "Eventually, we will adjust."

The World Bank is of the opinion that while automation is in the position to eliminate many menial jobs, it is creating new opportunities for more strategic and productive jobs.

What these all mean for stockbrokerage houses and Stockbrokers is that they need to urgently rethink old paradigms and adjust to reality. What most consider a challenge today is actually be an opportunity for the creative and forward looking. Stockbrokers need to leave their comfort zones and learn new skills, particularly in IT – related tasks. Dogmas are being broken every day: Organisations are moving away from physical meetings and embracing the conference call - voice and video. The importance of physical presence in a prescribed office location is also diminishing, especially for managerial jobs which lean more towards creativity, delegation and ultimately, greater productivity. Working 8am – 5pm is fast becoming irrelevant and perhaps, meaningless for strategic employees.

We have to see the advancement of technology as synonymous with a new world order. It is a blessing currently shrouded in disguise. To lift the veil and harness the massive intrinsic benefits, especially from our capital market end, there has to be a collaborative action between CIS, operators, and market regulators. Even the Federal Government has to intervene in providing social protection to those who will be temporarily affected by the rapid transitions. The entire business environment, especially as it affects Micro Small and Medium Scale Enterprises; the Ease of Doing Business; all these must be given maximum priority by government.

The Lagos State Government, under Governor Babatunde Sanwo-Olu, has created the Ministry of Wealth Creation and Employment which, apart from providing employability skill training for youths across the state, is a veritable organ of preparing the citizenry for the advanced technological age. It will be a good idea for CIS to partner with the Ministry in the near future.

Stockbrokerage Houses must invest more in training, re-skilling and developing their workforce; but more importantly, individual Stockbrokers should take their destinies into their own hands and develop themselves. The CIS, again, must be credited for taking a lofty initiative in this regard. Having observed that financial challenges hinder many members from participating in the CPD programme, the institute came up with an ingenious scheme, taking advantage of economies of scale, to ensure that every financially up to date member has access to at least one high quality training programme every year at an exceedingly discounted cost. In the last two years, the institute has availed members of world class professional development courses, including direct collaborations with the Chartered Institute for Securities and Investment, United Kingdom.

So, in conclusion, I will say it is not Technology vs Humanity; it is Technology helping to improve Humanity. Stockbrokerage firms should focus on making investment an experience for their clients. They should build capacity to provide full end to end investment service to their customers in a manner that the customers will enjoy, not just making money. Our business model has to be flexible enough to be capable of adding value to the transaction chain irrespective of the market conditions. That is how Stockbrokers will survive the new order.

Edikan Ekong, FCS
6 November 2019

TALENT, MANAGEMENT INNOVATION AND THE FUTURE OF SECURITIES AND INVESTMENT BUSINESS IN NIGERIA

By Edikan Ekong, FCS

I stumbled on an article a few months ago titled "The Future of Work" and it immediately set me thinking about my work as a Stockbroker. "Do I have a future in this profession", I asked myself, and searched futilely for an answer until I went to bed. Several months later I have gone beyond the selfish and am now engrossed in thinking about the entire Securities and Investment industry in Nigeria and how observed global trends portend for the average Stockbroker in the next ten years. Will there still be Stockbrokers as we know ourselves today? Will trading even require human involvement in the same manner as we have today? What will Article Clerks, aka 'Ole' or Unauthorized Dealing Clerks, be doing; or, will brokerage firms still have a need to engage them? Will investors still seek professional advice from Stockbrokers?

I have not found all the answers, but a few things I am now definite about: It is difficult to conjecture whether capital market shall continue to exist or otherwise. But an incontrovertible fact remains that businesses and governments shall always need a capital market. There will always be people with appetite for the relatively high and secured capital gains that (as yet) only the capital market can provide. It is the dynamics of the operational ecosystem that I am not so sure about. Technology is creating so much disruptions in the way economies and businesses operate, that the entire financial industry can be said to be vulnerable.

Thirty years ago, the financial industry was top choice for young school leavers in Nigeria and entry into the Stockbroking profession was seen as the ultimate breakthrough. My induction as an Authorized Dealing Clerk was celebrated uniquely by the entire Stockbrokers, staff of The Nigerian Stock Exchange and practically the entire street where I lived in Lagos. The current reality is substantially depreciated but largely still in the same direction. The next thirty years is however fraught with diverse possibilities. As part of the illustrious 'Generation-X': We grew from a manual working environment as young university graduates into the early computer and internet age as matured, middle aged professionals. A good number of my contemporaries are till date still struggling to adapt to the internet, but meanwhile, the world has entered the age of the millennial: bold, assertive and restless. Unlike us, they entered the university already familiar with the computer, and the internet. These young men and women have blossomed in the information age and practically see life entirely from a technology perspective – internet, social media, a limitless world.

The Nigerian Capital Market has gone through immense transformation since 1961 when The Nigerian Stock Exchange (The NSE) commenced operation. In tandem with global developments there have been several changes in trading infrastructure, custody and settlement, as well as in the human resource. When I wrote my Clerkship exam at The NSE I didn't for even a moment imagine a market outside of the famous 2/4 Customs Street. Today there are FMDQ and NASD raking in numbers that would have attracted suspicions of madness if mentioned back then. Share certificate, which used to be a highly prized asset for investor and broker alike, has become virtually extinct, and that life-and-death urgency to arrive the trading floor before 11am (lest the Call-Over Chairman) locks you out, can only be subject of a joke today.

So, Nigeria has moved with the rest of the world. The millennial age is here while the post - millennial kids are also coming of age. They were just 10 years old or younger when the iphone debuted in the communications market. These kids will shape the direction of business, of work, and of the capital market / CIS in the next 10 years. "Work" for the post –millennial is entirely defined by automation, 4G internet (moving to 5G), artificial intelligence, and cloud computing. Is the Stockbroking meeting their expectations?

Already many job titles that we met in the market have been eliminated. Who uses a Secretary / Typist any longer? Which Stockbroking firm will today employ an array of backroom staff just to visit the Registrars on a daily basis, record daily trading Bargain Slips, or monitor Inter-Broker Settlements accumulated over four months? Not so long ago, Deutsche Bank announced the cutting of one – fifth of its manpower worldwide; about 20,000 jobs. Bank of America, renowned for their explicit support for robotic process automation and artificial intelligence, has cut about 100,000 jobs in the last ten years. So, digital disruption is the new reality in the financial industry worldwide, and we need to brace up for more imminent disruptions in future.

The great news is that the Chartered Institute of Stockbrokers (CIS) has demonstrated an understanding of the situation and appears to be in control. The institute took over the responsibility of certifying bona--fide Stockbrokers from The Nigerian Stock Exchange soon after coming into being, and conducted her first Professional Examination (initially alongside The NSE) in 1996. Today, CIS has developed a flexible qualification template which now allows her students to go for the omnibus Stockbroking qualification or specialize in any of the Stand Alone qualifications listed as follows:

* Commodity Trading and Derivatives
* Equities Dealing
* Fixed Income Dealing

STOCKBROKERS SET AGENDA FOR MARKET REBOUND

In a strategic move to reposition its members to drive innovation, grow membership base and renew investor confidence in the capital market, the Chartered Institute of Stockbrokers (CIS) have reviewed the processes and procedures for 2019 Annual Conference.

Addressing capital market correspondents on the high points of 2019 Stockbrokers' Annual Conference, the Chairman, Planning Committee, Ms Abiola Adekoya explained that the Confidence Theme: " Boosting Capital Market Competitiveness in a Challenging Macro Environment " was chosen to articulate policy measures that can reposition the capital market to play its pivotal role as a platform for mobilization of funds from surplus economic units to deficit one.

Adekoya stated that issues such as innovation and growth, fintech, attracting talents to securities industry and nexus between agriculture and the capital market shall form the fulcrum of plenary sessions at the Conference, scheduled for Thursday, November 21 to Friday, November 22, 2019 at Oriental Hotel, Victoria Island, Lagos.

" With the integrated and digital-driven global economy of today, the barriers to competition are gradually coming down, making it necessary for stockbroking firms with exposure to the domestic market to innovate to retain and attract customers. Given the challenging domestic macroeconomic environment and liberal immigration policies in advanced economies with aging populations, retaining talent in the securities industry has been difficult, with negative implications for performance.", Adekoya said.

Corroborating her, the First Vice President, CIS, Mr Tunde Amolegbe explained that the significance of discussing Fintech at the Conference should be appreciated against the background of the Institute's efforts at ensuring the success of the government's policy on financial inclusion. Amolegbe stressed that the Conference would bring about robust ideas on how to reposition the market in view of the unfolding developments in the global economy.

Amolegbe also clarified the implication of Fintech on transaction cost by saying that it would rather make the cost cheaper and encourage more participation in the market across the board.

The Managing Director, Stambic IBTC Nominees, Mr Akeem Oyewale said that this year's Conference would spring up conversation around the strategies to make the securities industry attractive to the millennials .

In her contributions, the Managing Director, FBN Quest Securities, Mrs Fiona Ahimie described the Conference as an opportunity to deepen participants' understanding of investment opportunities in the capital market and how to take advantage.

Corroborating Ahimie, the Managing Director, Afrinvest Securities, Mr Ayodeji Ebo noted that Conference would address a wide range of economic and political issues, especially, how stockbrokers can take advantage of the capital market to boost their earnings while the Managing Director, Morgan Capital, Mr Muyiwa Adeyemi Explained that the broad objective of this year's Conference was to create a platform where contemporary development issues would be articulated for enhanced competitiveness of the capital market.

budget and cutting down on tax concessions given to companies. For most businesses, especially those listed on the NASD OTC Securities Exchange and the Nigerian Stock Exchange, the cost impact of a tax increase that is not fully passed through to consumers, could contract profit, thus, leaving fewer funds for re-investment to fund growth and operations. Hence, there is an increased need to source funds from the capital market. But the potentially lower profit margins will make the companies less attractive to investors, especially dividend-seeking ones, and therefore, raise the cost of funding. Aside this, the 2020 budget forecasts a debt level of NGN2.18trn, thus, increasing the crowding-out effect of government on private sector.

Notwithstanding the negatives painted above, there still exist pathways of driving capital market competitiveness in this quite challenging macroeconomic landscape, especially, through increased investor confidence and participation. To attain this, market operators will need to come up with innovative investment products.

From 2017, we have seen the introduction of products such as Sukuk bonds, for the ethical investors, and Green bonds targeted at the environment-friendly investors, with both instruments drawing attractive subscription levels. Proper disclosure of the use of funds and the high accountability on revenue generated have been key drivers of investors' interest; making the bond market a lot more attractive.

The government budgeted NGN3.18trn for capital expenditure and will need to come up with creative ways of financing them, owing to the critical need for infrastructural development in the economy.

In the private sector, Access bank issued a Green Bond in March 2019, and that speaks to the ingenuity of navigating the capital market in a challenging macro-environment. Most corporates have also set up special purpose vehicles (SPVs) which serve as investment windows for financing certain revenue-generating assets and their operation. Across the stock market, a streamlined set of opportunities exist, and the level of participation is inherently linked to the attractiveness of the offering, which feeds from the viability of opportunities surrounding the business.

Nigeria, having recently recovered from a recession, has been growing slowly and is yet to reach its pre-recession level. Some of the policies and initiatives driven by the CBN, are commendable towards improving the real sector's performance, and while the position of fiscal policies may not be as encouraging as the monetary policies, capital market operators must remember that every cloud has a silver lining and should therefore endeavour to exploit creative options presented by the recent tide of the market.

Chinonye Nnewuihe
Meristem Research

have limited power to control either of these components and the major responsibility lies with the Government of the country, mainly through its fiscal policies.

After sustaining a decade through the various phases of the economic cycle, Nigeria is in dire need of structural reforms which can be achieved through both monetary and fiscal policies. In 2019, the Central Bank of Nigeria (CBN) promptly took the onus of supporting business growth, by advising government executives to ensure implementation of appropriate fiscal policies.

Hence, the early presentation of the 2020 budget was a welcome development for investors as it signals the Government's willingness towards driving developments in 2020. The President presented a budget of NGN10.33trn Naira with 78.94% to be funded via revenue and 21.06% from debt funding. Despite the 2.60% increase in the 2020 budget size compared to 2019, there is a substantial 28% increase in expected non-oil revenue. A major chunk of the increase in non-oil revenue is to come from Custom duties (78%), which is expected to rise by 99%, and VAT (16%) which is expected to rise by 28%. The budget which was presented on Tuesday, October 9, 2019 by President Muhammadu Buhari to the joint session of the National Assembly was anchored on the following key assumptions:

Oil Production- 2.18 mbpd

Oil Price- $ 57 percent/pb

Exchange Rate-$1. N305

Inflation Rate- 10.81 percent

GDP Growth Rate- 2.93 %

Following clamours to increase the country's tax revenue and its contribution to government's revenue, the Government has taken initiatives to ramp up tax contributions, by increasing VAT rate to 7.5% from 5% in the 2020

"OUR INITIATIVES HAVE ENHANCED PROFESSIONALISM IN THE CAPITAL MARKET"- ADEKOJE, FCS

*Mr **DAPO ADEKOJE**, the President of Chartered Institute of Stockbrokers (CIS) and Chairman, Governing Council, is a Fellow of the Institute and also the Chief Executive Officer, Professional Stockbrokers. Adekoje is a multi-talented executive with cognate experience, spanning management, finance, sales and marketing. He holds Masters Degree in Management from the prestigious University of Hull, United Kingdom and has held several management positions both in Nigeria and abroad.*

In this exclusive interview with Edikan Ekong, Adekoje went down the memory lane on the humble beginning of the Institute, the current challenges facing stockbrokers and some initiatives of the Institute to reposition the members for array of unfolding opportunities in the financial market.

Q Sir, Congratulations on the occasion of the 23rd Annual Conference of your professional body, the Chartered Institute of Stockbrokers (CIS). How will you describe the journey of the institute from inception till date?

A. We give God the glory. The Chartered Institute of Stockbrokers started from a very humble beginning in 1990 with our secretariat in Mushin, a not so highly regarded suburb of Lagos. There was just one securities exchange in the country at that time, while trading and clearing was entirely manual. Two years later, we received our charter from the Federal Government of Nigeria as the bonafide body empowered to train and certify the core professionals practicing in the Capital Market in Nigeria. I have to recognise and thank our members, the Chartered Stockbrokers, who have collectively built the institute and nurtured its brand image to the world class level that we are today. The evolution has come with its pleasures and its pains: Our members have on average, made good money from the market, lost some money, and made even more money. Today, after 27 years, we now have Chartered Stockbrokers who are truly multidimensional in skill and accomplishment. Our members trade on five securities exchanges in the country, covering equities, fixed income, commodities, and even unquoted securities. Even more profound is the fact that CIS today offers specialized certifications, which means our members are now found in most sectors of the Nigerian economy, beyond dealing in securities. The Chartered Institute of Stockbrokers has become a truly international brand with our members working as finance professionals in the Americas, Europe and various countries in Africa. Our formalized professional affiliations with the Association of Certified International Investment Analyst (ACIIA) and the Chartered Institute for Securities and Investment (CISI), United Kingdom continue to blossom with, for example, over 100 of our members who indicated interest, being admitted as Associates of the CISI UK with full exam waiver, since 2018. Finally, the fact that we are holding this interview at our new secretariat, our own building in the upscale area of Ikoyi, Lagos is a testament to the positive and exponential transformation that the institute has undergone. We are indeed grateful to God and our hardworking members for making this a reality.

Q You were elected President and Chairman of Council of CIS in April 2018; what would you say have been the key transformations that you tenure has brought to the institute?

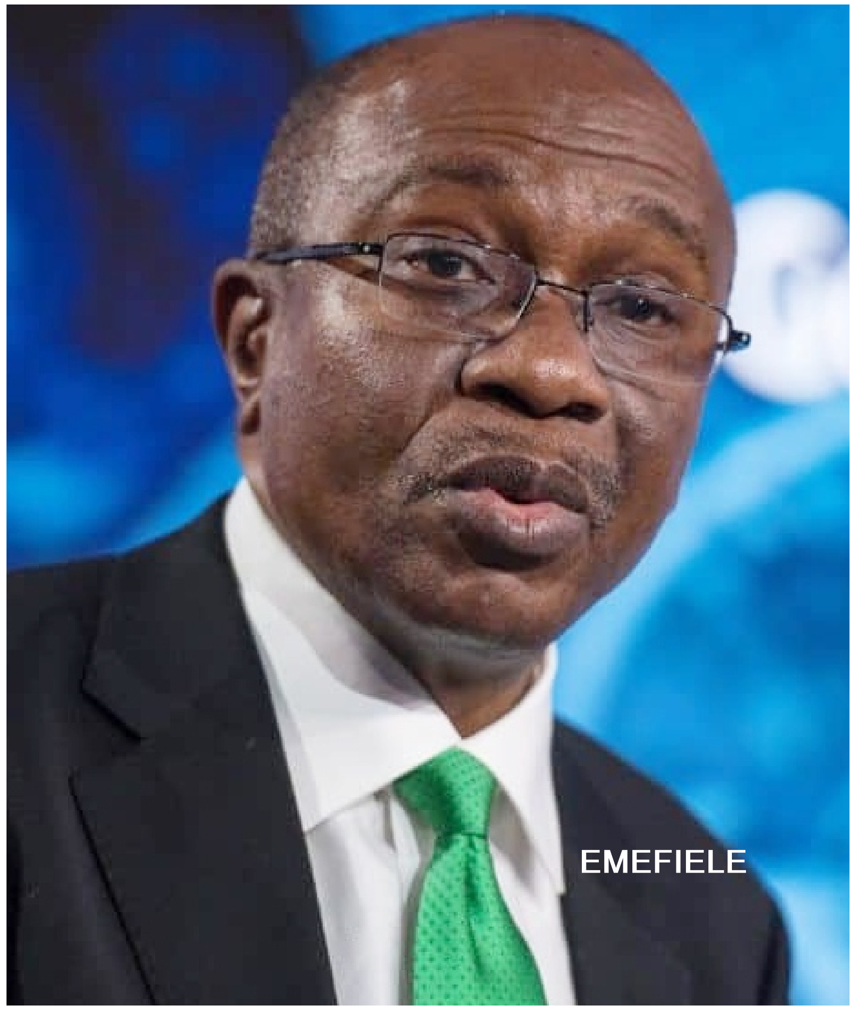
A. Thank you. At CIS the office of the President is a continuum, so in that light I am proud to say that we have been able to continue with the strategic plans initiated by several of my predecessors. However, my team, ie the Council and I have made several key initiatives of our own. Some fundamental new rules were put in place to make CIS membership more attractive and easier to attain for the youths, and you can see the result in the vast increase in number of our new Associates this year. The institute has visited substantially more schools in the last two years, giving Career Talks to students and promoting the Capital Market; and we didn't just stop at that: CIS commenced an Inter-Tertiary Institutions Debate Competition last year and followed up this year with a national Quiz Competition which has become very popular among the students. We are unrelenting when it comes to wooing the youths to take up Securities and Investment as a profession. On the global stage, we got the CISI UK to grant automatic membership to our members, and leveraging on that mutual relationship among other strategies, we have also significantly increased the number and quality of our Continuous Professional Development (CPD) programmes. In fact we have had a record number of members benefitting from our CPD programmes in the last two years. The

NIGERIA'S 2020 BUDGET AND OPPORTUNITIES FOR CAPITAL MARKET STAKEHOLDERS

By Chinonye Nnewuihe

The capital market is integral to the growth of any economy, regardless of the level of development of such an economy. This is primarily due to its role in mobilizing surplus funds and allocating the same to the most productive sectors of the economy. However, the efficiency with which the market performs this function depends a range of variables, including investor confidence and the aggregate cost of transaction on the market, which in turn impacts the level of participation. These two components- investor confidence and participation- are critical towards sustaining competitiveness of any capital market.

Owing to its ability to intermediate funds and fuel business growth, the stability and attractiveness of an economy's capital market is an indicator and driver of economic growth.



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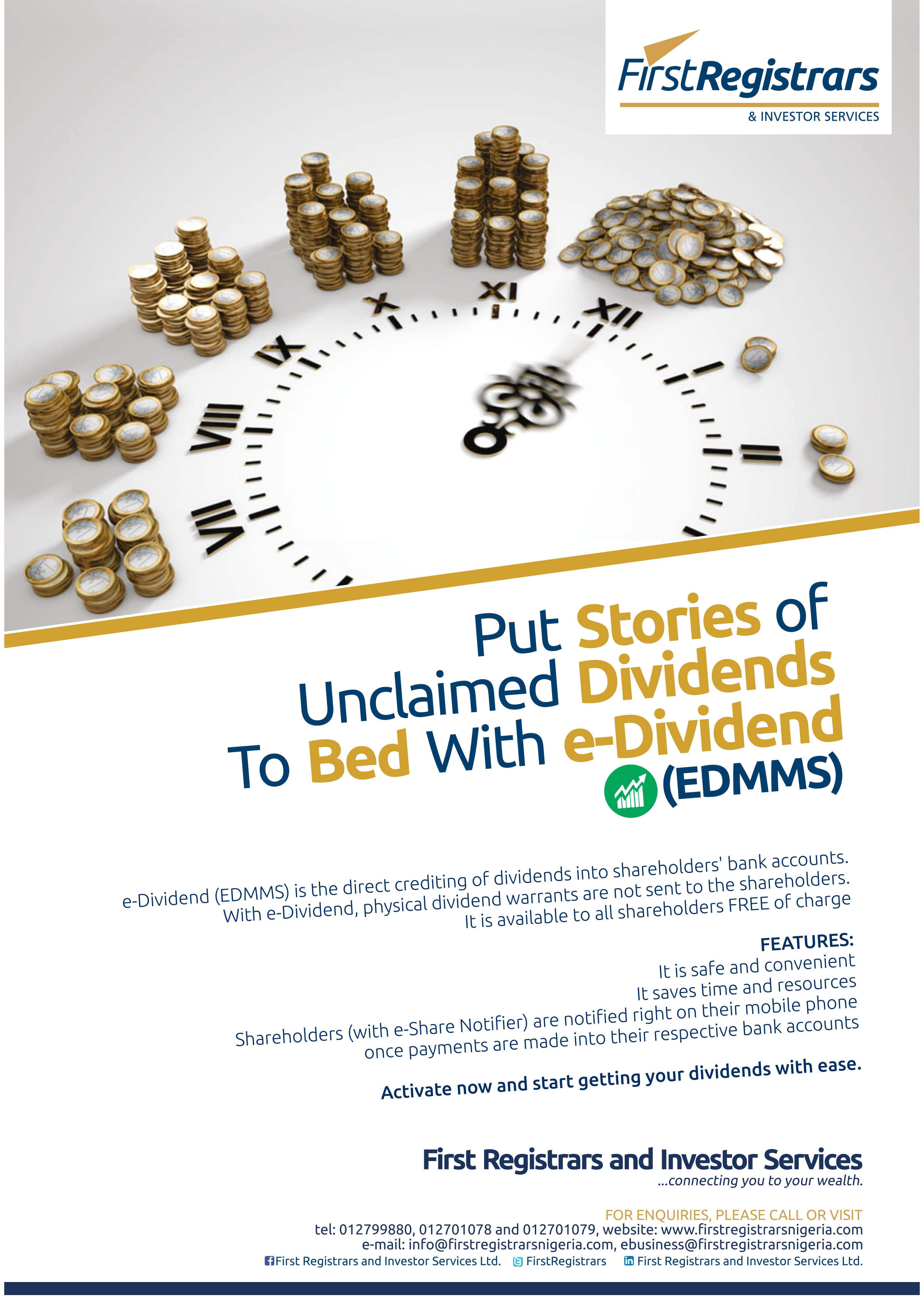
However, like every double-edged sword, the capital market is also affected by the instability in the macroeconomic environment due to two critical factors. First, the funds raised and allocated to businesses (investment) are derived from the available income of the domestic populace and from foreign investors who believe in the economy's growth prospect. Secondly, the ability of a business to operate and thrive in its domestic environment stems from the available opportunities and limited threats in the economy and not just the competitive advantages.Businesses



CIS' Stand Alone Qualification scheme is now fully implemented. Another major step we have taken is to upgrade our research infrastructure: CIS continues to play an active role in advocating for greater government recognition and support for the Capital Market. We have a very strong research department fully focussed on addressing pertinent advocacy issues affecting, not only the Capital market, but the economy as a whole. We have in the recent past held high powered engagements with Chairman of the Federal Government's Economic Management Team, Prof Yemi Osinbajo – SAN, the Vice President of Nigeria. We have also engaged the National Assembly through the Senate and House Committees on the Capital Market. Finally, I cannot fully address your question without mentioning the introduction of the Special Membership scheme which has brought several experienced and distinguished achievers into our community. These are accomplished professionals who have done a lot of commendable work in various professional fields ancillary to the Capital Market and they took the pains to sit for the exams and attend the induction programmes, to pass and become CIS Graduates. We are very proud of them. I wish to appreciate and thank my predecessors in office, the highly esteemed Board of Fellows, my colleagues in Council, Management and staff, and all our members for supporting me all through this journey.

Q What is the update on the CISI Bill?

A. I'm happy to report that work on the CISI Bill is well on course and we expect the bill to be passed in due course. We are particularly happy that all stakeholder groups in the industry have come to realise that the bill is not just for a section of the market, but that passage of the bill is actually in our collective best interest,

Q The theme of this year's CIS Annual Conference is aptly couched "Boosting

" The theme of thisyear's CIS Annual Conference is aptly couched "Boosting Capital Market Competitiveness in a Challenging Macro Environment". How do you see the conference impacting on Government policy at this time that the Nigerian economy is facing several and diverse challenges?"

"Capital Market Competitiveness in a Challenging Macro Environment". How do you see the conference impacting on Government policy at this time that the Nigerian economy is facing several and diverse challenges?

A. The Annual Conference is a very important event in the calendar of the Chartered Institute of Stockbrokers. It is in fact, the flagship event of the institute. In the last 23 years, the event has served as a very potent bonding and advocacy tool for the institute. This year we have stepped up several notches in terms of the quality and standard of event that we are going to serve the participants. The theme, as you've pointed out, was carefully chosen to tally with the critical need of the economy at this time. We have also done a thorough work in identifying the Speakers, as people who have the requisite knowledge to add value to the conference. We thank in a special way, the Executive Governor of Edo State, Godwin Obaseki, who is a Fellow of the institute; a Chartered

Stockbroker in his own right, for supporting the conference. The Executive Governor of Lagos State, Babatunde Sanwo-Olu, distinguished Senator Ibikunle Amosun and the Acting Director-General of the Securities and Exchange Commission (SEC), Ms Mary Uduk, are also expected to be in attendance alongside several other notable personalities that space may not allow me to mention here. The conference will address very critical issues related to the theme: Innovation, Fintech, reinvigorating the retail market, sparking the real agricultural revolution, and much more. We have created a dedicated website for the conference and you may visit to get information and interact. It is www.cisconverge.com and you will love the experience.

Q The institute recently admitted a significant number of highly experienced Universities' Dons into its membership community. How would you justify such policy?

A. Our initiatives have enhanced professionalism in the Capital Market. Therefore, I must say unequivocally that the whole idea of admitting some university dons, including our some

know quite well that demutualization has two phases: Pre- demutualization which sets the stage, and Post-demutualization, the promised land.

Rapid changes in ICT has led to heated competition among exchanges at the level of efficiency and access to large capital. This has made demutualization a compelling strategy for any stock market that intends to remain in business. It is therefore not surprising why stock exchanges such as London Stock Exchange, NYSE Euronext, NASDAQ OMX Group, Singapore Stock Exchange, Athens Stock Exchange, Philippines Stock Exchange, Deutsche Bourse, and Johannesburg Stock Exchange, among others, demutualized and became public limited companies. Over 70 percent members of the World Federation of Exchanges (WFE) have demutualized. In Africa, no fewer than seven stock exchanges have transformed to profit-making organizations.

Onyema, in one of his public comments, summarized the substance and essence of The Exchange's Demutualization thus, "the approval of the demutualization process will generate substantial motivation for the development of an agile exchange, thereby consolidating its innovativeness, and strengthening its leadership, both at local and international levels, while also adding value to its stakeholders".

Demutualization has its own drawbacks. The most critical one is conflict of interest between the management of the demutualized exchange and the shareholders. Can the management have the courage to regulate its members? After listing, can a demutualised exchange regulate itself? However, these and similar issues can be addressed by appropriate regulations, as benefits of demutualization far outweigh its challenges.

Every stockbroker is anticipating how the likely Initial Public Offering (IPO) will play out anytime the new company decides to go for capital injection. Many are generally apprehensive that a possible large capital raising may crowd them out as any IPO can be hijacked by few hawks with big financial muscles. However, the regular interface between The Exchange's management and Association of Securities Dealing Houses of Nigeria (ASHON) is believed to have provided a robust platform to allay such fears. The two parties must collaborate for the market to survive after demutualization.

The Exchange should re-assure all stakeholders that demutualization has a human face. Onyema is a regulator and stockbroker. He must maintain a delicate balance. This is the burden of leadership. Onyema's place is assured in history. But he must act fast to convince 'doubting Thomases' that demutualization of The Exchange will spur critical stakeholders into thanksgiving. Every Securities Dealer is on the queue for demutualization's trumpet to blow. It is a waiting game for renaissance of the capital market.

The Securities and Exchange Commission (SEC) has issued guidelines on the demutualization. The Exchange's National Council and Management have secured endorsement of the stockbrokers to go ahead. But every progress report has always been shared with the dealing member firms.

The South African Bank, FirstRand Bank Holding Company, and the Nigeria based financial firm, Chapel Hill Denham, are working round the clock as advisers. The Nigerian Stock Exchange Demutualization Bill, 2017 has since been passed at both the Green and Red Chambers of the National assembly, and same assented to by the president.

Oni, Award Winning Financial Journalist and Chartered Stockbroker is the CEO, Sofunix Investment and Communications

transited from manual system of trading called Open Outcry or Call-Over or Pit Trading to the Automated Trading System (ATS); the use of computers to execute transactions in the market. The Open Outcry or Call-Over System involved the use of shouts and signals to convey trading information of bid or offer (buy or sell, or both) on the trading floor. This old style trading method connected stockbrokers in a theatrical manner. It was quite entertaining. Even the advent of electronic trading, with all its speed and accuracy, has not totally dislodged the benefit of open outcry. New York Stock Exchange, Chicago Board of Trade (CBOT) and some other markets operate open outcry and ATS simultaneously. Argument still exist whether liquidity is more enhanced in open outcry than electronic trading.

These technological breakthroughs were achieved under the administrations of Apostle Hayford Alile of blessed memory, the former Director General, and his successor; Professor Ndi Okereke-Onyuike. The duo laid the global foundation on which the market stands today. They shall always remain relevant in the history of The Exchange.

Shortly upon her assumption of office as the Director General and Chief Executive Officer, Professor Okereke-Onyuike exhibited another round of foresight. In 2001, she initiated the need to transform The Exchange from a private company limited by Guarantee to public one, called demutualization in securities trading parlance. The American trained First-Class Finance Graduate knew that her decision would trigger dramatic changes in The Exchange's legal and governance structure, ownership, management, processes and procedures.

In 2011, another leader of foresight, Mr Oscar Onyema, stepped into Professor Okereke-Onyuike's big shoe, and made a success of this dramatic-turn during his first term in office. This earned him a second term from the Exchange's Governing Council. Onyema, the current Chief Executive Officer of The Exchange must be commended for upholding the tenets of demutualization project. Like his predecessor, Onyema came to The Exchange with robust foreign experience, and embarked on many policies, taking some tough decisions to sustain The Exchange's brand positioning.

Stockbrokers obviously want demutualization project to succeed, and it is normal they show interest in what becomes their means of livelihood, post-demutualization. It is important to note that some individual stockbrokers are above eighty years old, even as they still derive their daily meals from the market. They

" Some fundamental new rules were put in place to make CIS membership more attractive and easier to attain for the youths, and you can see the result in the vast increase in number of our new Associates this year. The institute has visited substantially more schools in the last two years, giving Career Talks to students and promoting the Capital Market; and we didn't just stop at that: CIS commenced an Inter-Tertiary Institutions Debate Competition last year and followed up this year with a national Quiz Competition which has become very popular among the students. We are unrelenting when it comes to wooing the youths to take up Securities and Investment as a profession. "

of our seasoned examiners are geared positioning our Institute for global competitiveness in the area of human capital. Most of the dons in question are Professors and Head of Departments. Many have served as CIS' Examiners over the years, and even more have conducted important researches on pertinent areas of the capital market in the course of their careers. Please note that in recent years CIS has been actively spreading capital market literacy to our youths in various universities across the country and these lecturers have worked with us in making that a success. So, the conversion programme was something that was bound to happen at some point in time and we are very happy to welcome the academics.

Q We are also aware that CIS, earlier this year, granted scholarships to several financial journalists. Why did you go into such a financially costly exercise?

A. Again, it boils down to the institute's commitment towards spreading capital market literacy in the country. Secondly, the scholarship programme is significant to the Institute's broad policy of human capital development. Financial journalists have been, and will continue to be our partners in our literacy and advocacy drives, so it is a win-win to the market and the media in terms of professional reportage of market activities.

Q The demutualisation of The Nigerian Stock Exchange is almost materializing. What is your take on it?

A. Demutualization of The Nigerian Stock Exchange is a project that the market has embraced. It is another step forward and in line with global realities, so Stockbrokers have expressed their support while the Association of Securities Dealing Houses of Nigeria (ASHON) has been playing its role, liaising appropriately with The Nigerian Stock Exchange on the matter. Our prayer is that Stockbrokers should, at the end of the day, get a fair deal, having nurtured the Exchange from inception till date.

Q The 2008 / 2009 meltdown took a severe toll on investor confidence and the stockbroking business. What steps have CIS taken to rectify the situation?

A. The task of restoring investor confidence in the stock market is a joint responsibility of all stakeholders. Fear is what is holding most investors back, not reality. The Nigerian stock market as at today has been wholesomely restructured and strengthened to a level where I can confidently say is world class. A couple of years ago the Nigerian stock market was adjudged the best in Africa using return to investors as a yardstick, so if the local investors continue to sit back, they will only be ceding the benefits to foreign investors. We continue to dialogue. We have been carrying on with our capital market literacy campaigns all over the country every year, engaging various economic segments. Right now the government, regulators and banks need to help the market by creating liquidity for stockbroking firms. We have made a couple of high level engagements in this regard during the year, using reports generated by our Research and Technical Committee and other ad hoc committees set up by Council to look into specific areas that will spur growth in the Stock Market, and we are confident that the recommendations, if applied will spark a revival of local investor confidence and patronage of the stock market.

Q What is your take on the 2020 Budget Proposals and the general policy direction of the Federal Government?

A. On the Budget Proposal, the institute will soon come up with a formal statement, especially after we've been able to get the details from the Minister of Finance. However, my first impression is to commend the Federal Government for recognising the Capital Market in its proposed Finance Bill that accompanied the Budget announcement. You would observe that one of the strategic objectives of the proposed bill is to provide tax incentives for investments in infrastructure and Capital Markets. Infrastructural development is crucial for the future of the Nigerian economy, and the Capital Market is crucial in attaining the rate of infrastructural development that Nigeria needs for optimum economic growth. You would also observe in the proposed budget that projected non-oil revenue is required to grow at 66% over last year's budgeted target, to compensate for the stagnation in oil revenue. Again, the Capital Market will be needed to play a major role in attaining this noble mission, especially through new listings and general liquidity in the market. Clearly, the Federal Government needs to work closely with the Capital Market, including the CIS, to achieve its 2020 Budget and general economic targets.

Q As you wind down on your tenure as CIS President, what is your message to your colleagues in the institute?

A. My tenure has a statutory endpoint, but I am not winding down. The entire Council will continue to work at full throttle until we hand over. I want to achieve an annual student enrolment of 10,000 and we will continue to work even harder to meet that target. Whether through direct marketing, research or advocacy, we'll continue to tap into every available opportunity and make whatever engagement is necessary to attract the youths to the Securities and Investment profession and achieve a more profitable business environment for our members. I wish to once again thank all my colleagues for their commitment, sacrifices and support, and God willing, we will together achieve the Capital market of our dreams.

Q. Thank you for obliging us your time, Sir.

A. You're welcome

AS SECURITIES DEALERS AWAIT DEMUTUALIZATION' TRUMPET

By Sola Oni, ACS

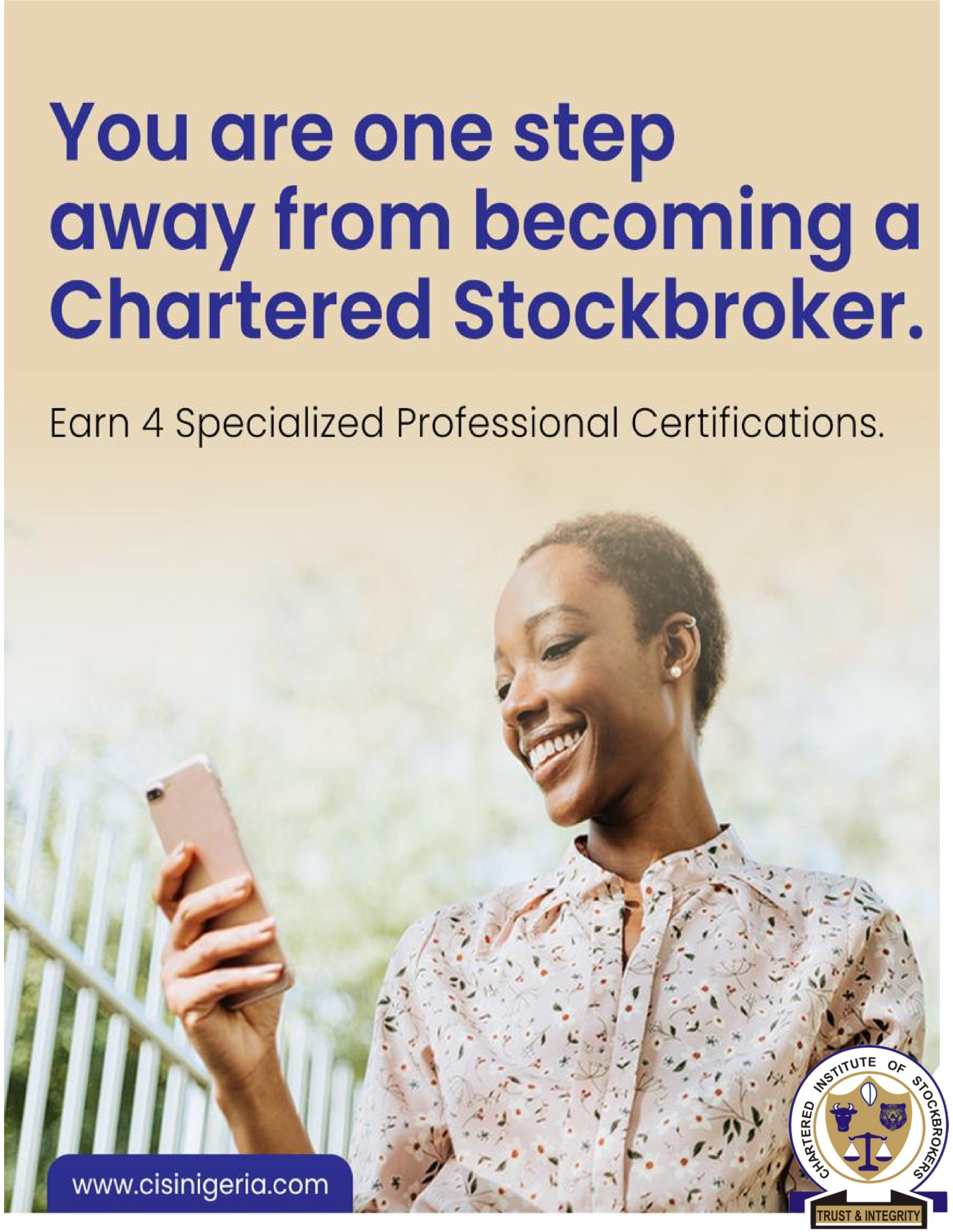
The wind of Demutualization of The Nigerian Stock Exchange is fast gathering momentum. The impending change in the market architecture and business model has arguably become the most popular discourse either openly or in measured tones by all stakeholders in the financial market ecosystem, including foreign investors.

Everyone is awaiting the new face of the market and how it will affect the management of the Exchange, change the status of stockbrokers from the current owners to shareholders and market operators, and the likelihood of involving non-members as shareholders; either now or later. At the centre of the whole issue is the anticipated complex and delicate web of relationship between The Exchange's management and members of Association of Securities Dealing Houses of Nigeria (ASHON).

By demutualization, a stock exchange which operates as a private company, limited by Guarantee transforms into a public limited liability company for profit motive. Demutualization has various forms but the most popular is when the demutualized exchange lists itself on the market. Good as the variant is, it poses some regulatory challenges of dual role of regulator and operator. The Stock Exchange of Stockholm demutualized in 1993 and got listed in 2000, making it the first stock exchange to demutualize and listed in the world.

The Nigerian Stock Exchange was initially operating like a silo under the obnoxious Exchange Control Act of 1962 which was later replaced with investor-friendly Acts that opened the market to the international community. But the organization has always been blessed with leaders that have foresight. A turning point in the history of our stock market was 1997 when it joined the global markets by transiting from manual clearing, delivery and settlement system to electronic one with the commencement of its central depository called the Central Securities Clearing System (CSCS).

In 1999, The Exchange also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CREATING A COMPETITIVE CAPITAL MARKET WITH BLOCKCHAIN TECHNOLOGY

By Samuel Adebisi

For a whole decade, blockchain technology retained its spot on the innovation buzz list, alongside 3D Printing, Artificial Intelligence, Augmented Reality, Robotics and others. Since it came to light, the distributed and decentralized public ledger has become a focal point in many industries, with a promise to disrupt industries such as healthcare, agriculture, finance as well as job functions like logistics and supply chain management. Blockchain is a distributed digital ledger that records transactions across many decentralized computers in a secure, verifiable, chronological and immutable way. Its application to various industries is due to its inherent capacity to simultaneously and efficiently transfer information and value. In finance, the capital market, especially, blockchain technology can create a more efficient market by ensuring that the primary and secondary markets become more robust and competitive.

The capital market creates a mechanism for money to flow from surplus units to deficit units. In the primary market, where securities are created and issued for the first time, blockchain technology can create a new mechanism for companies seeking to raise capital. Securities can be issued in the form of tokens on a blockchain platform and distributed such that each token represents a unit share of ownership in the issuing entity. Stock Exchange platforms like Nasdaq, India's Securities Exchange Board, the Tokyo Stock Exchange, amongst others are critically studying the feasibility of this project. In August 2019, the World Bank became the first entity to implement the technology for public bonds by raising, allocating, transferring and managing AUD50mn bond-i using blockchain technology. It recorded that market participation was expanded, opening opportunities for new market participants. Beyond the wider market reach, a "blockchain exchange" ensures that the securities are efficiently traded in the secondary market.

Blockchain technology has the potential to collapse the time between trade and settlement in the secondary market after the units of securities in the market have been tokenised. Under the current system, matching orders and consummating trades on equities are automated, however, clearing and settlement are not instantaneous. Currently, the Nigerian Stock Exchange runs a "T+3" Transaction-Clearance Model. Blockchain technology does not only narrow the clearance period but also disrupts the backend trade settlement processes in the equities market such that clearance is done real-time. The trades are cleared, and the ledger is updated following validation by the relevant authorities under a permissioned blockchain system, which has built-in access control layers that reveal only the needed information to each party. Consequently, a blockchain-enabled trading exchange will make the capital market more liquid and reduce the cost of transactions by enhancing efficiency across the stages in the capital market; from issuance to pre-trade and post-trade.

Although it is hypothesized that a blockchain-powered exchange could eliminate stockbrokers in the value chain, stockbrokers, however, remain an essential fulcrum in the ecosystem. Brokers will be instrumental to onboarding investors, validating their transactions while maintaining their roles as providers of market intelligence to their clients. Asides the role change, they will be beneficiaries of the increased market liquidity, and trading volumes occasioned by the efficiencies of the blockchain-powered exchange platform. However, to enjoy the benefits, there is a need to upgrade their business processes, which might require additional capital investment. Consequently, the ability to respond to this change, conform to new business processes as well as educate their clients will be instrumental to their success in this new role. The entry of tech-savvy stockbrokers in this market arrangement cannot be eliminated, however, their ability to gain market share will depend largely on the inability of the traditional stockbrokers to quickly adapt to change. Regardless, the odds remain in favour of traditional stockbrokers due to their existing grip on the market.

Storing and validating market transactions is one of the core operations of the Central Securities Clearing System (CSCS), as it ensures the reconciliation of transactions without duplication of ownership. The present system of proving ownership, verifying shareholdings can be substantially improved with blockchain technology. The immutable, decentralized and secure nature of the ledger will ensure that tokens, the digital form of unit shareholdings, are not duplicated. After verification of holdings, the blockchain trading platform will enable secure, real-time transaction-matching with immediate settlement and update of records upon validation by the relevant market players. This is similar to what is done with Bitcoin, however, the peculiarity of the capital market makes a permissioned blockchain system more suitable. Although the system promises to make the capital market more efficient, cost-effective and secure, the greatest advantage of the system is the bird's eye view it confers on relevant authorities in the market, which will be instrumental to strengthening the market's Anti-Money Laundering (AML) standards.

As the distributed ledger becomes the backbone for clearance and settlement of transactions, the role of the central clearing authorities will include real-time validation of transactions and most importantly, co-creation of smart contracts on the trading platform in conjunction with the exchange authorities. In its new role, the CSCS will be able to perform its audit function efficiently as the blockchain technology automatically clears trades and updates the ledger of unit holdings. In this context, blockchain will help regulators to be globally competitive.

The benefits of the blockchain capital market platform also accrue to the investing public as it has the potential to reduce transaction costs and collapse the time between trade and settlement. With an efficient Know Your Customer (KYC) system on the blockchain, the barrier to entry is lowered, opening the market for increased market participation and liquidity. It can also trigger diverse product offerings, as it becomes easier to embed services such as securities lending, and margin financing into a blockchain-powered exchange platform with prospects for increased liquidity.

Without a doubt, blockchain technology is still in its nascent stage and there is the need to sensitize market participants on the use of the technology. Regulators also need to understand the technology and build capacity for their new role on the exchange platform. With these in place, the capital market will be ready for a rebirth, beneficial to all market players.

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