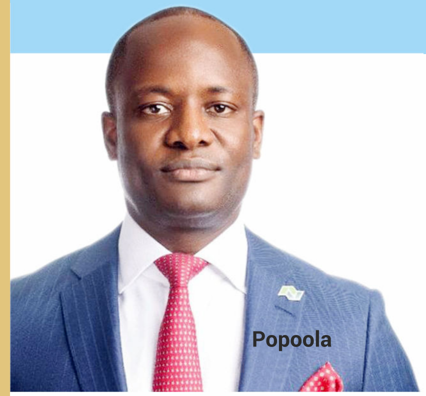
The Nigerian Stockbroker

THE OFFICIAL MAGAZINE OF THE CHARTERED INSTITUTE OF STOCKBROKERS VOL. I NO. 14 JUNE, 2022

Nigerian Economy on the radar of Stockbrokers

Why we established CIS Academy -Amolegbe



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Pilot Questions of CIS New Syllabus

NGX deploys first Electronic Public Offering

"NASD was set up to fill a specific gap in the Nigerian Capital Market" says Ajomale

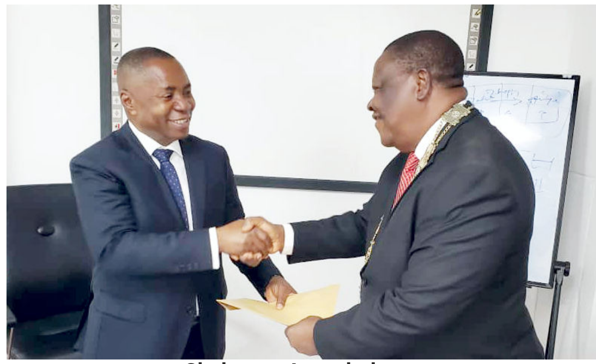
A glimpse into the Fundamentals of the Islamic Capital Market

Appraising CBN'S "100 for 100 Policy on Production and Productivity"

Emefiele
CBN Gorvernor

CIS celebrates International Women's Day

CIS' Courtesy Visit to the Executive Chairman of Federal Inland Revenue Service (FIRS), Muhammad Mamman Nami



Chairman, Association of Securities Dealing Houses of Nigeria (ASHON), Chief Onyewenchukwu Ezeagu hands over mantle of leadership to Mr. Sam Onukwue

Executive Chairman, Federal Inland Revenue Service (FIRS), Muhammad Nami, unveiling the CIS Academy's logo.

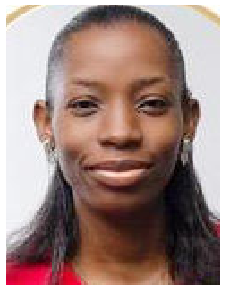
Meet our Editorial Board Members

Mr. Josiah Akerewusi, FCS
Editor -in- Chief

Mr. Edikan Ekong, FCS
Editor

Mr. Bola Ajomale, FCS

Mr. Tajudeen Olayinka, ACS



Mrs. Oluwakemi Akinde, ACS

Mr. Olusola Oni, ACS
Editorial Consultant

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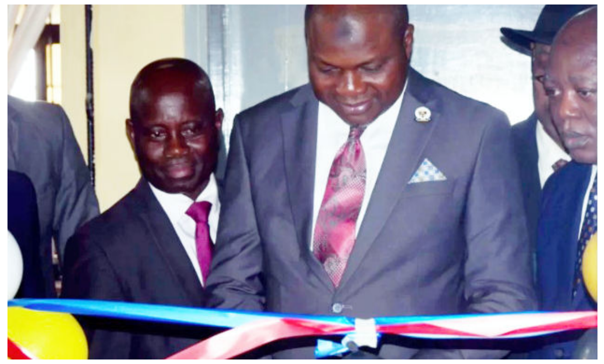
CIS' Partnership with New Nigeria Development Company (NNDC) to give scholarship to students from all states in the Northern Nigeria: L-R Josiah Akerewusi, FCS, Registrar and Chief Executive, CIS, Olatunde Amolegbe, FCS, President and Chairman of Council, CIS, Alh (Dr) Umaru Mutallab, Chairman, Musa Bello Learning Resource Centre, 1st Vice President, CIS, Oluwole Adeosun and Alh. Umaru Kwairanga, FCS

Principal Officers of CIS with Chairman, House Committee on Capital Market, Hon. Babangida Ibrahim, ACS and Director General, Securities and Exchange Commission (SEC), Dr Lamido Yuguda at 25th CIS Conference in Abuja

L-R: General Manager, CIS Academy, Chukwudi Nga, Registrar and Chief Executive, Chartered Institute of Stockbrokers (CIS), Josiah Akerewusi, Chairman, Federal Inland Revenue Service (FIRS), Muhammad Nami, President, CIS, Olatunde Amolegbe and 2nd Vice President, CIS, Oluropo Dada at inauguration of CIS Academy in Lagos recently



Mr Olatunde Amolegbe, President and Chairman of Council, declaring open the Abuja Liaison Office of the Chartered Institute of Stockbrokers (CIS)

Launch of Completed CIS Building and the Roll of Honour:
L-R Mr Bala Tilde FCS, Commissioner, Securities and Exchange Commission (SEC), Prof (Mrs) Ndi Okereke-Onyiuke, FCS, former Director General, NGX, Mr. Olatunde Amolegbe, FCS, President and Chairman of Council, CIS, Otunba Olasubomi Balogun, FCS, Doyen of Nigerian Stockbrokers, Mr Olutola Mobolurin, FCS, Chairman, CIS' Board of Fellows, Mr Aigboje Aig-Imoukhuede, CON, former President, NGX and Mr Dipo Williams, FCS, Past President, CIS

CIS' Partnership with New Nigeria Development Company (NNDC) to give scholarship to students from all states in the Northern Nigeria: L-R Josiah Akerewusi, FCS, Registrar and Chief Executive CIS, Olatunde Amolegbe, FCS, President and Chairman of Council, CIS, Alh (Dr) Umaru Mutallab, Chairman, 1st Vice President, CIS, Oluwole Adeosun and Alhaji Umaru Kwairanga of Musa Bello Centre

CIS' 1st Vice President, Oluwole Adeosun, FCS, ushers in Hon Minister of Finance, Budget and National Planing, Mrs Zainab Ahmed to the CIS' National Workshop in Abuja, August 2021.

Courtesy visit of CIS Team to Minister of Industry, Trade and Investment in Abuja

Amolegbe's Timeline of Achievements

Building on the solid foundation laid by their predecessors, Olatunde Amolegbe's team in Council recorded several milestones at the Chartered Institute of Stockbrokers

2022 Jan — Annual **Nigerian Economic Review and CIS' Performance Scorecard**

2022 Apr — Launch of **CIS Academy** with Exec Chairman of FIRS officiating

2022 Apr — Opening of **CIS' first liaison office**, in Abuja.

2021 Aug — Landmark 3^{rd} **CIS National Workshop** with 2 Fed Ministers and record income

2021 Sep — Commence **Remote Exams** for CIS' Students worldwide

2021 Oct — **25^{th} Annual Conference** with record 40 new Fellows and 321 Inductees

2020 Nov — 24^{th} Annual Stockbrokers Conference: **First ever held online**

2020 Nov — **CIS-ASHON Joint Proposals to CAMMIC** on Nigerian Financial System

2021 Jul — Reviewed **Disciplinary Tribunal Rules approved by Attorney General**

2020 May — **Assumption of office.** *[Nigeria on lockdown due to Covid-19]*

2020 Jun — Setting Up of **CIS' Advocacy & Policy Committee**

2020 Aug — Investiture of 11^{th} President: **CIS' first major event held online.**

NGX makes history on Electronic Public Offering

The Nigerian Stockbroker, in this edition beams its searchlight on the fast-growing pace of digitalization in the Nigerian capital market. With the help of our friends in the NGX, we focus on the recent MTN Nigeria Series 1 Offer for Sale share offering, a deal that significantly elevated the profile of the market, setting new service delivery standards, and I dare say, setting the pace for the future direction of the Nigerian capital market.

There is a young Nigerian investment banker doing great things in the United States of America. He has a fully licensed outfit in New York, and a substantial part of the vision is to use it as an enabler for the mutual integration of the two markets, Nigeria and the US. Sterling Ayobaemi Ellis, the founder of Sterling Ellis & Co Inc, New York, shares with us, his thoughts and mission in a concise article built around the Central Bank of Nigeria's 100 for 100 Policy on Production and Productivity.

Finally, from the CIS Secretariat, we wish to congratulate the Institute for several achievements already recorded in the first quarter of the year. Indeed, Mr Olatunde Mohammed Amolegbe, FCS and his team in Council have had an achievement-laden two years, running the affairs of the Institute.

At the 3rd edition of its annual economic forum, The Nigerian Economic Review; Outlook and Recommendations, the Institute presented a scorecard of his team's performance in 2021, the high impact National Workshop on double digit economic growth held in Abuja, in the Federal Capital, Territory (FTC) and the introduction of remote examinations. Early this month, the CIS Academy, an upgrade of the Training and Continuing Professional Development (CPD) Department, was launched to provide services of greater impact to its members and public. This was followed by the historic opening of the Institute's Liaison Office in Abuja. and lots more. Enjoy your reading.

Edikan Ekong, FCS

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LEADERSHIP STYLES AND GROUP DYNAMICS

By Josiah Akerewusi, FCS

Introduction

Leadership strategies and organizational tasks thus have a significant relationship in influencing work processes. As a consequence, becoming a strategic leader depends, to some extent, on the nature of work or task as an individual or in dynamic groups. This write up thus seeks to provide a critical evaluation of the impacts of leadership styles on the dynamics of a group.

What is Leadership Style?

Leadership style is the mode and approach of directing and inspiring people towards accomplishment of goals. It includes the total pattern of actions performed by leaders whether it is implied or overt. Leadership style is defined as the process of influence or illustration by which an individual (leader) persuades a group to pursue common goals of the group.

The group dynamic focuses on group interaction with other people or individuals and interaction between groups. In a group dynamic, the behavior of group members determines the attitudes and behavior that people in the group have towards each other (Northouse, 2016). To accomplish a given task in the organization, leaders work and interact with a group of people and use leadership style to direct, motivate, and provide guidance to their employees to attain the desired goals.

Leaders apply their leadership styles based on the characteristics of the assigned task, nature of work, and group composition.

Positive Effects of Leadership Styles on Group Dynamics

1. Effective communication

Looking into how leadership styles affect group dynamics, it is crucial to note that one leader may be officially assigned to a group; however, other group members may also have imperative leadership roles. Such a leader has effective communication behaviors and communication patterns that impact group processes. For instance, a leader who employs a transformational leadership style seeks to develop a functional interrelationship with employees through effective communication, which aids in identifying the needed change in the organization and work together with the group members in developing a vision that guides in implementing the change. Such a leader communicates with the group and executes the change practice in tandem with committed group members. Transformational leaders establish effective communication with the members of the group, which facilitates a mere exchange of motivational rewards that change beliefs, values, and attitudes of the group, thus getting the members to attain higher achievement levels and job satisfaction.

2. Motivational incentives

Through motivational incentives or rewards, the leader can produce changes in the behavior of group members and facilitate team building; hence high levels of productivity, which reflects job satisfaction among employees. This indicates the impacts of McGregor's Theory X and Y, which facilitates team building through motivational rewards and excellent communication. Theory X and theory Y leaders aim to use different motivational strategies, such as rewards to inspire group members. Using such strategies allow the leaders to lead the group effectively and encourage them to do their best in achieving excellent outcomes. An effective leader working with a specific group uses motivation rewards to guide the members of a group to accomplish the assigned task and attain the goals.

3. Provision of mutual respect to group members

Effective leaders in a group show excellent behaviors such as providing mutual respect to group members, involving the members in decision-making, and ensuring excellent communication within the group. Maintaining excellent communication in the group facilitates the creation of perfect team that works in collaboration to meet the organizational needs. An example of effective leadership

Poetry

By Attan Ogbozor, ACS

Bank on Me Your STOCKBROKER

Let me be your Central Bank...
Your trusted financial backup
I will do it for love
Nothing for you is enough
Anything for your sake
I will gladly forsake
For you I will not make a mistake
You can bank on me your stockbroker
I'll give you financial advice cover
It's not a silly prank, my brother, my sister
You can make me your stockbroke.,

I am your Central Bank...
Your real friend much talked of
I am always there for love
Always ready to serve
Anything you deserve
I will readily conserve
For the one I love I'll not renege
You can bank on me your stockbroker
I'll give you financial advice cover
It's not a silly prank, my brother, my sister
You can make me your stockbroker.

Never Fall in Love with Pyramid Schemes

They come in sizes and shapes
Like mannequins in molds that entice your taste.
They are not real
These things cannot feel
Objects of mere exhibition
Cannot betray your sense of inhibition
Don't fall in love with pyramid schemes.
They are not the real queens
No matter how real it seems
Even if they wear hot jeans
Don't fall in love with pyramid schemes.

This is the story of our times
Love for lifeless people thrives
They cannot reason
These people don't know any season
They lure you with unrealistic Return on Investment.
People of questionable character
Can never become our master
Don't fall in love with pyramid schemes
They are not the real queens
No matter how real they seem
Even if they wear hot jeans
Don't fall in love with pyramid schemes.

Ogbozor is the Executive Secretary, Association of Securities Dealing Houses of Nigeria (ASHON)

The duration of the liability side is same as its maturity: D_L = 10years

c) Yes, generally there will be a change in the net value of asset and liability if there is an upward shift in the term structure of the interest rate.

The approximate change in the value of asset is given by,

$$\Delta P_A = \frac{D_A}{(1+Y)}.PV_A.\Delta Y$$

$$= -\frac{5.61}{(1\ +5\%)} \times 565{,}004.99 \times 1\% = -30{,}187.41$$

On the asset side as the market yield increases by 100 basis points, we tend to loose ₦30,187.41.

The approximate change in the value of liability is given by:

$$\Delta P_L = -\frac{D_L}{(1+Y)}.PV_L.\Delta Y$$

$$= -\frac{10}{(1+5\%)} \times (-613{,}913.25) \times 1\% = 58{,}467.93$$

On the liability side as the market yield increases by 100 basis points, we tend to gain ₦58,467,93.

$$\text{Net change} = \Delta P_A - \Delta P_L = -30{,}187.41 + 58{,}467.93 = 28{,}280.52$$

The total gain due to the shift in the term structure of the interest rate is ₦28,280.52. Thus from above we can conclude that if we have a negative surplus, for any upward shift in the term structure of the interest rate, we tend to loose on the asset side and gain on the liability side which results in the net change to be positive.

d) To immunize the surplus, the below equation must hold good:

$$PV_A.D_A = PV_L.D_L$$

Since we can adjust the payback period of mortgage repayment for immunization, the new repayment duration should be:

$$D_L = \frac{PV_A.D_A}{PV_L} = \frac{565{,}004.99\ .5.61}{613{,}913.25} = 5.16\text{years}$$

Hence if the market value of your liability remains unchanged, you can be immunized against the shift in the term structure of the interest rate if you repay your mortgage at 5.16 years from today instead of 10 years.

e) No, immunization as done above will not remain forever without rebalancing for the reasons given below:

i. the duration of the bond portfolio changes non linearly through time while the duration of the liability decreases linearly with time.

ii. movements in the interest rate term structure may alter the duration of the bond portfolio.

There is therefore a need to readjust and rebalance the bond portfolio as that the duration of the portfolio matches that of the liability.

style is in the case of Google in which the leader brings together all group members that comprise of the extroverts and introverts in decision-making. The leader supported conversational turn-taking and ostentatious listening, which enhanced sharing of best ideas, team-building, and use innovative capacities that contributed to team success.

4. Development of positive attitudes towards.

Swamy (2014) explained that the focus of any leaders working with groups does not rely only on the work ahead but on the effects of the leadership styles on the people and the work condition. This focus reflects that leadership styles affect the relationship of the group, the productivity levels, and performances.

Besides, leadership styles play an essential role in inducing willingness and confidence in group dynamics. Leadership styles allow a leader in a particular group to maintain consistency in behavior patterns, which characterizes the ability of the leader to direct the group towards developing positive attitudes towards the assigned task. For example, a leader with a laissez-faire leadership style can involve group members in decision-making and allow them to use creativity and critical thinking skills to solve a specific problem in the organization. With such involvement, the group members become productive in problem-solving and achieve a high level of confidence in achieving the desired goals of the task.

5. Creation of team-building and collaboration

Creation of team-building and collaboration enhances goal achievement. A real example is presented in Kurt Lewin's story about the Charlie Chan Group (Billig, 2014). The group consisted of club boys who were too democratic and treated other people, especially the adults, as their equals, which demonstrated their indifference to the values of adults. These boys got the freedom to take their course without interference from the leader. In such a scenario, involvement and liberty given to the boys in the group showed a laissez-faire leadership style that the group leader used to allow every member of the group to participate without interference (Billig, 2014). Despite that the boys were interrupting and problematic, the leader showed the positive impacts of laissez-faire leadership style in promoting the involvement of group members to develop their criticality and creativity.

Negative Effects of Leadership Styles on Group Dynamics

Despite the positive effects of leadership styles, the styles also negatively affect group dynamics. Negative effects of leadership style on the dynamics of the group can be discussed based on the behavior of a weak leader. A weak leader may cause conflicts or cause disunity and revolts among group members. Based on the leadership style that a weak leader employs, infighting may arise between the members supporting the leaders and those who are against him or her. Anleader with such leadership behavior avoids engaging in discussions that can cause conflicts but wait for other people, to give their suggestions before presenting his or her remarks. Concerning such leadership behavior that a weak leader demonstrates, the dominant member of the group can take the leadership role in pushing the group towards a higher level of achievement, which may affect an individual member within the group or the entire group. There are also self-seeking sycophants within the group; therefore, when a leader demonstrates a weak leadership style, the sycophants see him or her have less or unlimited power to lead. This can result in suppressing other members of the group. On the other hand, those supporting the leader may praise him or her, which makes the leader overconfident, hence paying little attention to the group members who are sidelined and may contribute to social loafing, disintegration of the group, and the creation of rival cliques among members.

An example of negative effects of leadership style is when the group behaves to block information sharing in the group. In such a case, the leader faces the challenge of coordinating group processes and in directing the group towards goal attainment.

Akerewusi FCS, is the Registrar and Chief Executive, CIS

$$PV_A = \frac{150{,}000}{(1+5\%)^2} + \frac{150{,}000}{(1+5\%)^4} + \frac{150{,}000}{1+5\%^6} + \frac{150{,}000}{(1+5\%)^8} + \frac{150{,}000}{(1+5\%)^{10}} = 565{,}004.99$$

Alternatively, the present value can be calculated using annuity. However, to use annuity, we need 2-year rate since the cash flows occur every two years.

$$2 - \text{Yearly rate} = (1.05)^2 - 1 = 10.25\%$$

$$\text{PV}_\text{A} = 150{,}000 \times \left(\frac{1 - (1.1025)^5}{0.1025}\right) = 565{,}004.99$$

Liability cash flow:

Years	Payments
10	1,000,000

Present value of liability cash flow:

$$PV_L = \frac{1{,}000{,}000}{(1+5\%)^{10}} = 613{,}913.25$$

Net surplus $PV_A - PV_L$ = 565,004.99 – 613,913.23 = - 48,908.26
Hence we have a negative surplus of ₦48,908.26

b) The duration on the assets side is the weighted average of the durations of the individual zero coupon bonds, given as:

$$D_A = \sum_{i=1}^{N} x_i \,.\, D_i$$

where,

$D_A = Duration\ of\ asset\ portfolio$
$D_i = Duration\ of\ individual\ zero-coupon\ bonds\ (2, 4, 6, 8, 10)$
$x_i = Proportion\ of\ wealth\ investment\ in\ bond\ \frac{PV_i}{PV_A}, as\ calculated\ in\ a.above$

$$D_A = \frac{1}{565{,}004.99}(136{,}054.42.2 + 123{,}405.37.4 + 111{,}932.31.6 + 101{,}525.90.8 + 92{,}086.99.10)$$
$$= 5.61 years$$

Again, we can make use of the duration of level annuity.

$$D = \frac{1+Y}{Y} - \frac{n}{(1+Y)^n - 1}, where$$

Y = 2-Yearly Yield = 10.25%

n = number of the receipts = 5

$$= \frac{1.1025}{0.1025} - \frac{5}{(1.1025)^5 - 1} = 2.8056$$

Since the cash flows occur every two years, we need to multiply this by 2. Thus:
$D_A = 2.8056 \times 2 = 5.61$ Years.

Question 2 – Fixed Income Valuation & Analysis

You have the following cash flow structure for the next 10 years:

i. You have to pay back a loan of ₦1,000,000 at the end of 10 years.

ii. You have to receive payments of ₦150,000 each from individual zero-coupon bond investments at an interval of every 2 years beginning end of 2nd year for the next 10 years (for a total of 5 payments).

The market yield is assumed to be 5% on all the instruments and for all the maturities.

For calculations use precision up to 2 decimal places.

Required

a) For your assets and liabilities as mentioned above, calculate the present value of the cash flows. What is the net surplus you have today? **(4 marks)**

b) Calculate the Macaulay duration for your asset and the liability sides. **(3 marks)**

c) Will there be any change in the net value of your assets and liabilities if there is an upward shift in the term structure of the interest rate by 100 basis points? Approximately calculate the surplus value and interpret the result. **(4 marks)**

d) Consider you want to immunize your net position, as calculated in a) above, against the interest rate shifts by changing the pay-back period. Calculate the new duration for repayment of the loan assuming that the current market value of your liability remains unchanged. **(4 marks)**

e) Will the immunization as done above remain appropriate forever without rebalancing? Justify your answer. **(3 marks)**

(Total: 18 marks)

Solutions to Question 2 – Fixed Income Valuation & Analysis

2 a) Asset cash flows:

Years	Payments
0	0
1	0
2	150,000
3	0
4	150,000
5	0
6	150,000
7	0
8	150,000
9	0
10	150,000

Present value of asset cash flows:

Nigerian Economy on the Radar of Stockbrokers

A recurring word in every attempt to analyze the Nigerian economy is uncertainty. Prior to the emergence of Covid 19, the economy had been contending with myriad of challenges, including insecurity and macroeconomic vagaries. Every year, the Institute's economic think tanks appraise the economy and make prognosis into the new one. This review captures the matters arising from the economy in 2021 and its outlook for 2022. As at the period of this analysis, Russian had not invaded Ukraine with ongoing consequences on the global economy. But the issues raised and recommendations proffered are practical ways of re-setting the near- comatose economy.
However, a global recovery from Covid 19 is threatened by Russian invasion of Ukraine.

*The handwriting is on the wall: The World Bank has lowered its annual global growth forecast from 4.1% to 3.2%., ascribing the decision to the impacts of Ukrainian invasion on the world financial markets. A global rating agency, Fitch has cut its world GDP growth forecast for 2022 by 0.7 percentage point to 3.5%, also citing the war in Ukraine and the impacts on energy prices and high inflationary pressure. The International Monetary Fund (IMF) has projected the country's economy to grow by 3.1 per cent by 2023 from the 2.7 per cent it earlier projected. but slashed its global growth of 3.6% in both 2022 and 2023, by 0.8 and 0.2 percentage point, respectively, " due to the war's direct impacts on Russia and Ukraine and global spillovers." This story captures the presentation of the Chairman, CIS' Research and Technical Committee, **Mr. Akeem Oyewale, FCS**, during the Institute's 2021 Economic Review and Outlook for 2022.*


Oyewale

...Gazing at Global Financial Market

Inequality, unevenness and imbalance have been the recurring themes in global economic discourse throughout history. In 2021, those issues became more obvious than ever. It was the concensus of economic analysts, going into 2021, that reactions to the COVID-19 pandemic, especially with regard to application of vaccines, would define the shape of the various sovereign economies during the year. That indeed was the case. While the developed countries started vaccinating their citizens in the December 2020, the AstraZeneca / Oxford vaccine that was shipped to Nigeria was administered to its first beneficiary in March 2021; a time gap of over 3 months.
Consequently, while 75% of the population of high income countries have so far been vaccinated against COVID-19, only 7% of the low income countries' have.

According to the World Bank, extreme poverty rose in 2020 for the first time in 20 years, with about 100 million people now

living on less than \$1.90 a day. Following the unevenness in vaccine distribution, there has been a noticeable gap in economic recovery between high income countries and the low-middle incomes ones.The World Bank has estimated that the global economy closed 2021 with the strongest post-recession pace in 80 years, an expansion of 5.6%. However, within that overall cheerful scenario, the low income countries experienced a far less aggregate growth rate of 2.9% which is their slowest in 20 years (excluding the COVID-19 influenced 2020).
The huge disparity between the two categories of economies was attributed in significant measure to the slow pace of vaccination in the income bloc.

Furthermore, while the high income countries started to recoup their income losses of 2020, the low income countries continued to lose income in 2021 because most have not yet addressed the economic fundamentals. International Trade has been significantly disrupted to the disrupted to the advantage of the developed countries but the detriment of the poorer ones who depend substantially on trade to sustain their economies. Low and middle income countries had made significant progress in growing their share of global exports in the two decades prior to COVID. As would be expected, the delayed recovery and disruption in trade have exacerbated the debt situation for the poorer countries. While there are positive signs of recovery in Europe and North America, the poorer countries in Africa and Latin America will have to contend with shrinking national income, debt overdose, and social crisis caused by long closure of schools and unemployment.

...The Nigerian Economy in Perspective

The year opened with economic activities continuing their gentle pace of growth, recording a 0.51% real GDP growth in Q1 2021. The non-oil sector, which accounted for 91% of the economy, expanded by 0.79% and was the key driver of the moderate growth recovery, offsetting the 2.21% decline in the oil sector. By the second quarter, the economy had expanded strongly by 5.01% due to a 6.74% rebound in the oil sector, and despite 12.7% plummet in the oil sector. Notwithstanding the solid economic growth in the quarter, the economy was yet to recover to its pre-pandemic levels as the growth was boosted by a low base effect of 6.1% contraction in the corresponding quarter of 2020. The latest reading shows that the economy is still on the recovery path, having grown at 4.03% in Q3 2021.

Ahmed
Finance Minister

Significantly, the growth recorded in 2021 was largely unaccompanied by surging inflation. Rising food cost however, on account of elevated insecurity, supply-side constraints, and logistics challenges amidst lower rainfall, kept inflation above the CBN's 'implicit tolerance corridor' of 6—9%. The caused the MPC to remain at 11.5% all through the year.

The naira weakened against the dollar over the year, plummeting 8% from NGN/USD379.50 to NGN/USD412.99 at the

News in Brief

CIS opens Abuja Office

In a strategic move to expand the scope of its operations, especially in the northern part of Nigeria, Chartered Institute of Stockbrokers (CIS) has inaugurated a Liaison Office in Abuja, the Federal Capital Territory (FCT).

Early this month, the Institute inaugurated CIS Academy to upscale training of market operators and other members of the Capital Market ecosystem in line with the global best practices.

Speaking at the inauguration of the new Office in Abuja, CIS' President and Chairman of Council, Mr Olatunde Amolegbe explained that the new Office would serve as the focal point for expanding capital market activities of the Institute in the Northern part and beyond.
"I must express my profound gratitude to announce the opening of our liaison office in Abuja. We are continuously striving to amplify and expand our services to our clients in the region while empowering them to meet their investment aspirations.", Olatunde said.

According to him, the prompt inauguration of the office is to enable it kick-start will operations in the remaining part of t 2022. It will be a year full of achievements for the institution.

Corroborating him, the Institute'sRegistrar and Chief Executive, Mr Josiah Akerewusi said, "opening of our Abuja office is an exciting step for our business. Already, the Nigerian market is poised to becoming a highly successful trading and partnership space. We are obliged to educate the investing public on how to take advantage incredible emerging investment opportunities to earn extra income."

Mr Akerewusi urged interested citizens who wish to find out more about Chattered Institute of Stockbrokers and how to become a fellow, associate or student member to contact CIS' Abuja Liaison Office, at 2nd Floor, Labour House Behind Federal Ministry of Finance Abuja.

The grand event was graced by the 1st Vice Chairman, Association of Securities Dealing Houses of Nigeria (ASHON) and representatives of TIDDO Securities, Federal Inland Revenue (FIRS) as well as other corporate and individual partners in the financial market.

Pilot Question Continuation

– Next, we compute total cash flow at the end of year 5:

	30–year bond	20–year bond
	₦	₦
Reinvested coupons	394.60	366.41
Terminal value (P_5)	893.25	911.73
Total end value (EV)	1,287.85	1,278.14

* Finally, we compute the realised yield (RY)

$$RY = \left(\frac{EV}{P_0}\right)^{\frac{1}{n}} - 1$$

$$\text{30-year bond: } \left(\frac{1{,}287.85}{867.42}\right)^{\frac{1}{5}} - 1 = 8.22\%$$

$$\text{20-year bond: } \left(\frac{1{,}287.14}{879.50}\right)^{\frac{1}{5}} - 1 = 7.76\%$$

Thus, the 30-year bond offers the higher expected yield.

Pilot Questions - 2021
Paper 3.0(A) Section B (Theory)

Question 1 – Fixed Income Valuation & Analysis

A 30-year maturity bond has a 7% coupon rate, paid annually. It sells today for ₦867.42. A 20-year maturity bonds has 6.5% coupon rate, also paid annually. It sells today for ₦879.50. A bond market analyst forecasts that in 5 years, 25-year maturity bonds will sell at yields to maturity of 8% and 15-year maturity bonds will sell at yields of 7.5%. Because the yield curve is upward sloping, the analyst believes that coupons will be reinvested in short-term securities of 6%.

Which bonds offers the higher expected annualised rate of return over the 5-year period?
(6 marks)

Solution to Question 1 – Fixed Income Valuation & Analysis

We need to compute the realised total return of each bond.
* Future value of coupons. Since the reinvestment rate is constant, we make use of the future value of annuity:

$$FV = A\left[\frac{(1+r)^n-1}{r}\right]$$

- The 30-year bond:

$$FV = 70\left[\frac{(1.06)^5-1}{0.06}\right] = ₦394.60$$

- The 20-year bond

$$FV = 65\left[\frac{(1.06)^5-1}{0.06}\right] = ₦366.41$$

* Next, we compute the price of each of the bonds at the end of year 5 (i.e. P_5):

- The 30-year bond.

The maturity of the bond will fall to 25 years, and its yield is forecast to be 8%;

$$P_5 = 70 \times \left[\frac{1-(1.08)^{-25}}{0.08}\right] + 1{,}000\left[\frac{1}{1.08}\right]^{25} = 893.25$$

- The maturity of the 20-year bond will fall to 15 years, and its yield is forecast to be 7.5%

- $$P_5 = 65\left[\frac{1-(1.075)^{-15}}{0.075}\right] + 1{,}000\left[\frac{1}{1.075}\right]^{15} = 911.73$$

Continue from page 35

official window, while the unofficial market rate dropped as far as NGN/USD during the year. This came against a backdrop of successive naira devaluations from NGN306/USD to NGN360 and then N380/USD in 2020. A contributor to the pressure points on the naira was the unfavourable trade balance: Imports continued to dominate total trade, accounting for 63% compared to 60% in the corresponding period of 2020 (Q1-Q3:2020). The external reserve received a boost from its opening level of USD35.6bn to USD40.5bn by December 31, 2021, as oil price firmed up from a year-low of USD50.67 on January 1, 2021, to USD79.31 by December 31, 2021. There was also a USD3.3bn IMF SDR inflow and USD4bn Eurobond issuance during year.

...Money Market at a glance

After the expansionary monetary policy of 2020 which crashed yields in the market, the money market began to record higher yields as early as Q1 2021. By the end of Q3, yield on Treasury Bills had reached 5.34% while long dated bonds exceeded the 12% mark. The Central Bank of Nigeria took two very significant and fundamental policy actions in 2021: The apex bank ended the sales of forex to Bureau De Change operators, stating that the parallel market has become a conduit for graft and illicit forex flows. The launch of the eNaira in October 2021, making Nigeria the first African country to issue a Central Bank Digital Currency (CBDC).

...Examining the Nigerian Capital Market

The Nigerian capital market recorded another robust year characterized by high octane activity in both the Equity and Fixed Income Securities markets. Although the equity market did not replicate the 50% surge in return achieved in 2020, the main market benchmark, the NGX's All Share Index (ASI) closed the year with a positive growth of 6.07% (42,716.44), significantly outperforming the economy which only managed a 4.03% YoY GDP growth as at the last published period of Q3 2021. Market Capitalisation also increased significantly from N21.1trn in 2020 to N22.3trn in 2021.

The spur after the low performance of the first half of the year, included improved economic fundamentals boosted by rise un crude oil prices and re-opening of the country's land borders which had a multiplier effect on the operations of many quoted companies. The following important events were significant in driving current year performance and more importantly, boosting investor confidence for a sustained recovery and growth of the Nigerian capital market:

The demutualization of the Nigerian Stock Exchange, making the offspring, Nigerian Exchange Group (NGX Group) a full blown business entity. The Nigerian Exchange Group (NGX Group) is listed for trading on the Nigerian Exchange Limited's Main Board.

MTN Nigeria's Offer for Sale of 575 million ordinary shares of its parent company MTN Group to investors on the NGX. Regular issuances of both the Sukuk (Islamic financial Instrument) and the federal Savings Bond, giving investors much needed alternative investment outlets. Also significant were the regulatory action on FBN Holdings and the acquisition of Union Bank and Honeywell Flour Mills. The fixed income securities market recorded about N5trn worth of new issues, including the corporate bonds issued by MTNN, BUA Cement and Dangote Cement. A very significant development in 2021 was launch by the FMDQ Securities Exchange in November, of the first Green Exchange in Africa. The platform is an information repository devoted to the promotion of transparency and good governance by showcasing securities issuances that align with global Environmental, Social and Governance (ESG) principles.

The FMDQ Exchange witnessed the issuances of several Commercial Paper transactions such as FSDH Merchant Bank and FBNQuest. The NASD over the Counter Securities Exchange also recorded positive numbers in 2021. The NASD Securities Index closed 1.34% higher than its 2020 figure of 733.0. Market Capitalization recorded a very significant leap of 19.60%, closing at N629.03bn. Number of new listings grew from 1 to 4 while total number of deals and total value of shares traded during the year grew by 233% and 159% respectively attesting to the growing acceptance and patronage of the bourse by the Nigerian public. 2021 also witnessed a surge in commodity trading activity, spurred by the outreach programmes of Afex Commodities Exchange and the Lagos Commodities and futures Exchange. The Central Securities Clearing System Ltd (CSCS), recently adjudged the Depository and Custody Company of the Year, was outstanding in its role as the Central Securities Depository (CSD) for all securities transacted in the Nigerian Capital Market.

...Economic Outlook for 2022

The World Bank forecasts that global economy will decelerate to 4.1% growth in 2022 as result of continued COVID-10 flare ups, further supply disruptions and reduced fiscal support in the various countries. The bank expects that output and investments will return to pre-pandemic trends in the advanced economies, but remain markedly below in the Emerging Market and Developing Countries (EMDEs). We expect that creditor nations and multilateral agencies will take a more sympathetic look at the debt problems of the EMDEs. While debt restructuring was welcome, many of these debts will have to be outrightly repudiated to give effective succour to the debtors. The Nigerian economy, in addition to the impact of the global dynamics mentioned, will be shaped by the following key factors: We foresee a heated polity in 2022, and depending on how election matters are supervised, the financial markets may be at the receiving end of investors' 'wait and see' attitude. The is the biggest risk factor for the Nigerian economy in 2022.

Thus far Nigeria has done excellently well in containing the COVID-10 scourge and we expect that the tempo will continue in 2022.

...Snapshot of 2022 Budget

The 2022 FGN's Budget of Economic Growth & Sustainability sets out revenue and expenditure targets of N10.132trn and N17.1371trn respectively, resulting in a deficit of N7.005trn or about 3.5% of GDP. The rationale being to accelerate post-recession GDP and combat security challenges in the country. Insisting that Nigeria does not have a debt problem, the FG expects to fund the deficit by new borrowings, privatization proceeds and drawdown on existing loans for specific projects. Capital Expenditure of N4.89trn represents 30% of the total expenditure and an increase of 18% over last year's budget. Personnel Costs of N4.11trn represents 60% of non-debts recurrent expenditure• Debt Service expenditure is estimated at N3.61trn or 35.6% of the projected revenue. Loans are to be used to finance critical development projects and programmes. The strategies to improve revenues are: Enhancing tax and excise revenues; reviewing the effectiveness of policies for tax waivers and concessions;

increasing customs revenue derived from the oil and gas sector and preserving the revenue derived from the oil and gas sector

...Focus of 2021-2025 National Development Plan

The 2021 – 2025 National Development Plan seeks to invest massively in infrastructure, improve the investment environment, and mitigate climate change, amongst others.

The plan aims at accelerated, inclusive and private sector-led growth.

It targets: (1) a broad-based real GDP

Academia to deepen Securities and Investment knowledge and provide well-structured training that forms the essential building blocks for personal and organizational development.

In providing these services, CIS Academy will partner with prestigious universities, institutes, and specialized training centers locally and internationally, to produce well-trained and competent manpower needed, not only in the capital market, but in the economy.The training solutions of CIS Academy will cover a wide range of subjects and career levels, and will have the following components:

i. Extensive Open Training Programs. These are paid training programme for members of the public.

ii. Mandatory Continuing Professional Development (MCPD) Training programme for Chartered Stockbrokers. This is primarily targeted at members of the Chartered Institute of Stockbrokers

iii. In-plant training programs which are designed and created specifically for particular organisations on their request.

iv. Executive Capacity and Leadership Development Training programme

v. Free Webinars organised for students, youths and the general public.

Winners of CIS' Inter-Tertiary Capital Market Quiz Competition 2021;
First Prize WINNER - Abosede Titilayo Lawal. Tai Solarin University;
2nd Prize -Johnson Ayomikun Osikalu; Tai Solarin University;
3rd Prize - Raphael Oluwasegun Ogunwolu, Obafemi Awolowo University.

vi. Executive Certificate Courses including single subject certificate courses.

vii. Training consultancy.

Distinguished ladies and gentlemen, the goal of CIS Academy is to be the leading training institution of choice in Africa. The Brand promise of the Academy is to provide result-oriented courses and quality training programmes at competitive prices. The Academy has several distinct delivery styles that are designed to cater for the learning needs of everyone. All the training programmes are designed to develop skills in today's highly competitive environment.

May I, at this juncture, thank all of you for sharing in our vision and joining us on this occasion. I would particularly like to appreciate the leaders of sister Institutes and other Academic organizations that have made time to join us today during this launch. It's my believe that significant rooms exist for us to collaborate on various programmes for the benefit of our members and the Nation as a whole and we shall soon be reaching out to explore these opportunities.

I also wish to thank all those who worked assiduously behind the scene to make this achievement a reality: From the Committee level to the Department and of course at Council level.

I wish to thank our donors for sponsoring your staff to our various training programmes in the past. We look forward to your continuing support as the new CIS Academy evolves to provide you with more robust services.

Mr. Amolegbe delivered this welcome address during the inauguation of CIS Academy.

Why We Established CIS Academy

- Amolegbe

Today, we celebrate another milestone in the life of our institute, the Chartered Institute of Stockbrokers (CIS). As you are aware, the law that granted charter to the Institute empower it with four cardinal mandates: Determining the appropriate mode of training required to operate as an individual professional practitioner in the Nigerian Capital Market.; providing the required training and examination for the professionals; certifying persons deemed to have met the requirements for operating as professionals in capital market and disciplining erring members who contravene the ethical code of conduct.

You will agree with me that, among these four functions, "training" holds a very special place. This is because we cannot produce members without first providing the requisite training for them. We cannot set exams for people whom we have not trained. In fact, even after certification, we still must provide Continuous Professional Development (CPD) to bring them up to date with current trends in the industry.

Our members will attest to the fact that the Institute has, in recent years, significantly upgraded the quality and scope of our training function. We now provide on average about 20 world class CPD courses to our members every year. In addition, we provide Community Training to various indigent groups across the country as part of our financial literacy drive. Our in-plant training programmes have helped several blue-chip organizations, in both public and private sectors, to upgrade their service delivery and ultimately improve the bottom line.

The event of today, is therefore another step in the progressive direction we have charted in recent years. It follows in the steps of the Commissioning of this magnificent head office last year; the commissioning of our ERP project and the imminent opening of our first ever operational branch in Abuja in the next few days. These are testaments to the re-emergence of the CIS to the part of progress and growth after years of restructuring following the global financial meltdown that negatively impacted our Institute and its members greatly.

As part of the institute's overall strategic plan, the Council approved last year, that the institute's Training and Continuing Professional Development Department be upgraded to a full-fledged academy.

The CIS Academy

CIS Academy is in essence therefore, a division of the Chartered Institute of Stockbrokers, established with the broad objective of delivering high standard, structured, professional, and post-graduate training for capital market operators, investors, and the general public.

The Academy will run a blend of academic and professional training programs in Finance, Securities and Investment, Business Management and Marketing, among other areas. It will promote synergy among Capital market operators and the

growth rate of about 5% on average during the plan period; (2) increased employment generation of about 21 million jobs; and (3) through an inclusive growth in lifting 35 million people out of poverty over the plan period (2021-2025). These will be achieved through qualitative economic growth and a more inclusive economy, leveraging our young workforce, and enhancing implementation capacity at national and subnational levels.

...The Petroleum Industry Act

The PIA 2021 is aimed at reforming Nigeria's Oil and Gas sector to create an environment more conducive for growth, and addressing the legitimate grievances of communities in the oil producing areas. The Oil and Gas sector is responsible for about 90 percent of Nigeria's foreign exchange earnings and 80 percent of its budget revenues. The Law provides for two regulatory agencies; the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA).The law commercializes the state-owned enterprise, the Nigerian National Petroleum Company (NNPC), turning it into the NNPC Ltd, a quasi-commercial entity.

...Stockbrokers' Prayers

We appeal to the United Nations, World Bank and the various developed / high income countries of the world to give a more benevolent consideration to countries of the EMDE bloc, including Nigeria, and grant them greater access to COVID-19 vaccines and palliatives. The should also consider writing off a significant portion of the countries' sovereign debts as a sustainable solution to their worsened debts issues arising from COVID-19. The Federal Government, the Independent National Electoral Commission and the various political parties should act with spirit of fairness and tolerance; eschewing any act that may lead to violence in the run to the 2023 General Elections.

The philosophy of building a private sector led economy as enshrined in the National Development Plan should be strictly adhered to. The Central Bank of Nigeria should continue to give ample consideration to the effects on the capital market when making monetary and fiscal policies. In consideration of its role as the lead driver of capital market literacy, as well as the certifying body for bonafide Securities and Investment practitioners in the country, the Chartered Institute of Stockbrokers (CIS) should be supported with grants from Government and benevolent private organisations. The Federal Government should continue engagement with critical stakeholders to harmonise grey areas and remove areas of controversy in the Petroleum Industry Bill.

The Federal Government should step up engagement with the Nigerian capital market to enhance the seamless financing of the 2022 budget deficit without overshooting borrowing. The commercialization of the NNPC should be followed up with the public listing of its shares in the stock market, thus giving the average Nigerian citizen the opportunity of being a part-owner of the country's commanding heights. In order to sustain the upbeat tempo of activity in the capital market, the CBN and banks in the country should take a more liberal position in granting trading facilities to securities dealing firms in the country. Further on market liquidity, pension Funds and other institutional investors in the country should significantly increase their investment in the equity market to create the much needed stability and galvanise further investment. Finally we call on the National Assembly to expedite passage of critical capital market Bills currently before them, to enhance market development and bring our market to par with the developed world.

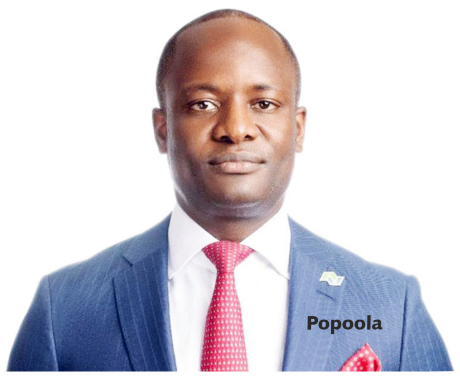
NGX deploys first Electronic Public Offering

MTN Nigeria's $281 Million Electronic Offering signposts great future for the Nigerian Capital Market

... The Market and Trajectory *of Technology deployment*

The Nigerian Capital Market has a rich history of evolving with global trends. As far back as 1997, the country's foremost securities exchange, The Nigerian Stock Exchange (now NGX) adopted its Central Securities Clearing System (CSCS) and capped it with Automated Trading System (ATS) in 1999 to reinforce its global stature. Today, NGX prides itself with the floating of Nigeria's premier Central Counter Party (CPP) Clearing House for efficient and timely settlement of derivative trades.

Those steps significantly enhanced the capital formation process, leading to an exponential growth in the volume of investments in the market. In 2020, while other sectors of the economy were reeling from the shock of the corona virus pandemic, the Nigerian capital market was barely affected, as the market switched to remote trading almost effortlessly, even emerging as the best performing in the world for that year. The Series 1 Offer for Sale of telecommunications giants, MTN Nigeria which was consummated on the NGX platform and had Chapel Hill Denham as Lead Issuing House, was another testament to the Nigerian capital market's penchant for innovation and alignment with global best practice. The share offering was not only significant but historic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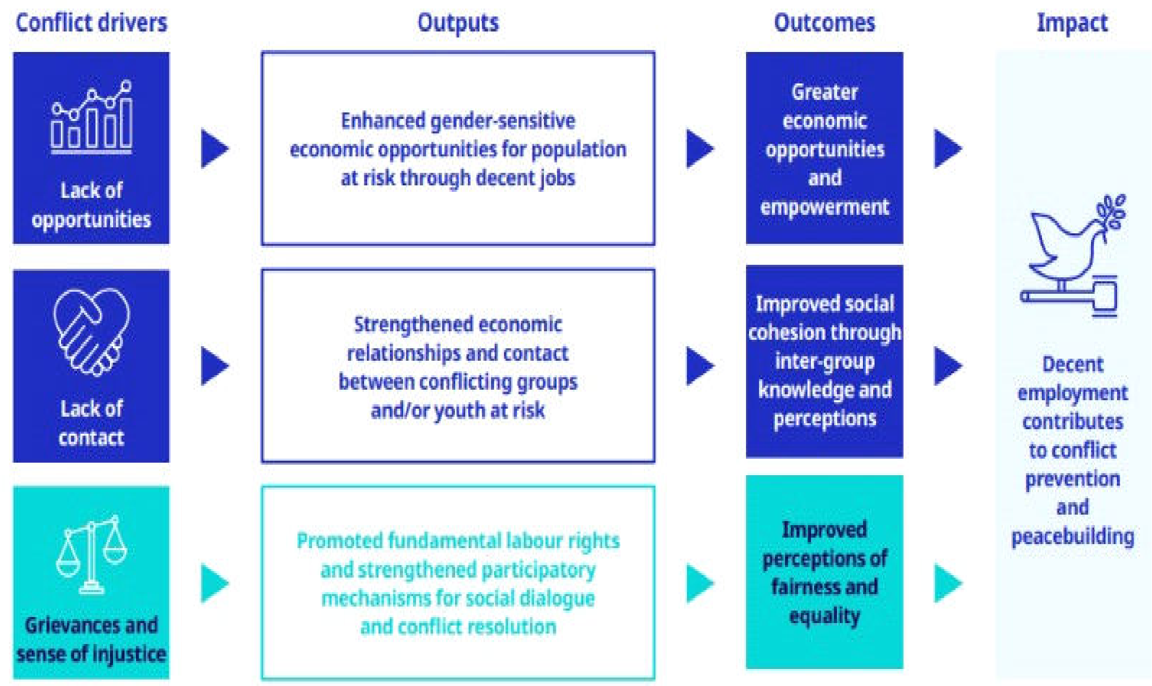
because it represented a transfer of a whopping 661 million shares from the MTN Group to Nigerian investors. It was implemented by way of bookbuild to institutional investors and a fixed price offer to Nigerian investors.

For the first time in Nigeria, a digital application platform was adopted, to further democratize investing in the capital market. About 90% of the retail investors subscribed through a digital channel named PrimaryOffer, using mobile phones and the internet. It created well over 100,000 new investor accounts on the CSCS in one swoop. Factoring in the allotments to various pension funds, it means about 6.6 million Nigerians have either directly or indirectly become shareholders in MTN of which 76% of the subscribers were women, while 85% were young persons below the age of 40, from various parts of the country. The accelerated completion time in December 2021 also means these new shareholders will benefit from the company's dividend payment for the year. The historic success of MTN's Offer has prompted many quotable companies to queue for capital raising through NGX. In this lucid cover story, ***Jude Chiemeka and Osazemwinde Osunde of NGX with Edikan Ekong*** *of* ***The Nigerian Stockbroker,*** *examines the MTN Nigeria Series 1 Offer, vis-a-vis the*

▶ Figure 3. A theory of change for peacebuilding through youth employment interventions



transformation, promote diversification and improve productivity".

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or Flooding, involved in farming. The United States Department of Agriculture perennially engages in Price stabilization strategies of paying Large Scale Farmers remuneration in order to dissuade them from excessive production of Agricultural products for the Marketplace and plummeting the Market price of the said products.

Small and Medium Size Enterprises (SMSE) in the United States of America make up a significant share (up to 90%) of Entrepreneurs in the Economy and are sumptuously funded from one Season to another in order to maintain consistency and longevity of practice2. The Capital lifeline granted these Small Businesses by the United States (US) Government has an affirmative domino effect on the US economy because these Small Businesses, in turn, create jobs for Citizens, give them sustenance, keep Citizens gainfully engaged, productive, curb crimes and heighten Government revenue streams through requisite Taxation -a kind of 'quid pro quo' where everyone gives and everyone takes and everyone is happy; the real American

dream. It, certainly, can also be a reverberating Nigerian Dream. If it is to be, it is up to us. If not now, when?

In Nigeria, the novel "100 for 100 (PPP)" is an impetuous initiative of the Central Bank of Nigeria, as a tourniquet to intervene in boosting duly qualified Businesses of all sorts, which have the potential for diversifying the economy and creating jobs subject to infusion of more funds monitored through Key Performance Indices (KPI).

It is a laudable initiative by a Nigerian Apex Bank that has finally and properly diagnosed the primary bug usurping the growth and development of the Small and Medium Scale Businesses in this clime. We have long known that there is no dearth of innovative and entrepreneurial ideas in the Nigerian populace; there is just a lack of access to finance in order for the business ideations to come alive. And, the time for innovative strategy implementation in our checkered clime is now, not later.

The dual benefit of this beautiful initiative by the Central Bank of Nigeria is that the loans are Investor friendly and the Interest Rate is Single digit which makes it friendlier than sourcing for loans from Commercial Banks that are perennially unable to fuel Small businesses, the Real Sector of the economy, and whenever the Commercial Banks do, the Small Businesses more often than not, are unable to break even because of the extremely high Interest rates and the short Duration of repayment

of the facilities. The CBN's '100 for 100 PPP' has a Tax holiday incentive plus a possibility of increasing the Loan Amount, if the KPI analysis calls for it -which is in line with the recommendation of the World Bank for prioritizing the underserved, especially in Sub-Sahara Africa3.

The dearth of basic infrastructural needs in Nigeria stems from lack of access to finance by entrepreneurs. The business of Infrastructure Development is best handled by Private entrepreneurs in an economy as it eliminates corruption and cutting corners which gives rise to the poor-quality infrastructural works that are prone to systemic collapse and swift decay.

Another ingenious way for countries to earn much needed Foreign Exchange and to diversify their Economies is entrenched in the improvement of the quality of its social and engineering infrastructure. This also serves the dual purpose of creating jobs for the citizenry and boosting the GDP through earning foreign exchange via tourism.

In an economy where the youth and young working age adults are all almost gainfully employed, there is usually no room for crime, criminality and religious extremism or outright terrorism or even banditry4. The Flow Chart below, from page 6/19 of the Article captioned, 'Youth Employment in Conflict and Fragile Settings' depicts 'Conflict drivers, Outputs, Outcomes and the resultant Impact' in Society and enunciates credible "peacebuilding through youth employment interventions"5.

The related Key areas of the '100 for 100 PPP': Production Efficiency and Scalability, Local Content Capacity, Job Creation and Human Capital Development, Operating Sector Relevance and Contribution to Economic Growth capture the total production base of the economy; thus, effectively and efficiently addressing the inherent challenges bedeviling Nigeria, as vividly expressed in the *"CBN GUIDELINES FOR IMPLEMENTATION OF 100 FOR 100 POLICY ON PRODUCTION AND PRODUCTIVITY (100 FOR 100 PPP)"6.* Overall, the '100 for 100 PPP' initiative is a well-thought out and timely intervention by the Central Bank of Nigeria with Greenfield and Brownfield projects funding inclusions; thus, covering the entire spectrum of the potential productive base of the Nigerian economy. We can breathe easy now and hope that Nigerians who are qualified and have entrepreneurial acumen, commensurate professional pedigree, qualifications and know-how are appropriately fueled with Capital in order to truly "catalyze a sustainable trajectory for

substance and essence of digitalization in the Nigerian market space.

…Share Offering and Power of Technology

The advancement and exponential growth of technology around the world have signaled a new wave of opportunities for forward-thinking organizations across sectors, including financial systems. In recent times, Information and Communications Technology (ICT) - driven disruptions, executed within the Nigerian capital market have created ripple effects across key sectors of the Nigerian economy.

The Nigerian Exchange Limited (NGX) is leveraging technology to provide a broad range of services including, but not limited to smart capital formation evidenced by its advancements in promoting electronic public offers. Obviously, the goal is to adopt an integrated approach to ensure a seamless end-to-end process that allows issuers, intermediaries and investors manage their investment process anywhere they choose and at any time.

The recently concluded MTN Public Offer for 575 million shares of N1.00 each at N169.00 per share is a testament to the renewed direction of the Nigerian capital market. For the first time in the history of the capital market, investors could access a primary issuance in a few minutes simply from an electronic device.

…Investors and vote of confidence in MTN

With approximately 80.8 million mobile subscribers as of 31 December 2020, according to the Nigerian Communications Commission (NCC), 32.5 million active data users and approximately 30,000km of fiber network coverage as of December 2019, MTN Nigeria has one of the largest mobile networks in Africa. In December 2021, the Series 1 offer for sale of 575 million shares to Nigerian investors by the market leading Telecommunications Company was oversubscribed, necessitating the activation of approved 15% over-subscription clause for additional 86.25 million shares.

In a bid to promote retail participation, specifically within the context of certain imminent transactions, NGX deployed a digital distribution platform that created a channel for enhanced digital access within the Nigerian capital markets.

…The Offer's Unique Selling Point

Following the 'No Objection' received by NGX from the Securities and Exchange Commission ("SEC"), the apex capital market regulator, to use the Electronic Offer Platform ("Primary Offer"), the MTN Offer was executed at a fixed price of N169.00 per share to retail investors sequel to the bookbuild to qualified institutional investors. The fixed price was offered at a significant discount of 11% from the closing price of MTN Nigeria Plc shares as at the Offer close date. Several Nigerian investors across the country participated in the Offer and applications for the Offer were received through the various available channels, including receiving agents, issuing houses, authorized Trading License Holders and the Digital Offer

platform.
Market operators equally exhibited active support for the digital platform, thereby demonstrating the role innovation can play in enhancing access and increasing retail participation in Nigeria's capital markets. The digital application process ran on a broad network of licensed agents to enable wider investor participation.

...Justification for the Offer

The main objective of the public offer was to deepen local investors' participation in the equity market as a channel to Nigeria's Capital Markets and the NGX to democratize financial markets for all Nigerians. This was achieved as over 89% of retail offer subscribers applied through the Primary Offer platform and 114,938 new Central Securities Clearing System (CSCS) accounts were created by first-time investors in the course of the offer. The public offer was oversubscribed by 139.47% with a total application for 801.97 million units, triggering the issue of an additional 86.25 million units of shares in order to meet the surplus demand caused by the oversubscription. This increased the initial number of shares sold from 575 million to a total of 661 million shares.

A record-breaking total of 126,720 retail investors submitted valid applications and received full allotments; and institutional investors including pension funds, insurance companies, asset managers, corporates, and foreign portfolio investors that participated in the bookbuild were allotted 72.09% of their applications. This includes Nigerian pension funds representing approximately 6.5 million Nigeria contributors.

...How Technology boosts Subscribers' demography

Remarkably, an analysis of the offer indicated that a significant number of young Nigerians successfully applied for the offer (about 85% of the successful applicants were under the age of 40 and about 76% of the successful applicants were women), addressing the need to access the potentially untapped investor universe that consists of digitally connected investors who demand convenience and on-the-go access to investing options. This attests to the incredible role that mobile technology can play in the development of the market with over 210 million active sim cards and 150 million internet users.

It is evident the Nigerian capital market understands the need to continuously come up with strategic ways of adopting these fast-evolving technologies as these new technologies present value producing opportunities for innovation and sustainability as well as provide new revenue streams for market operators.

...Electronic Offer is the way to go

The NGX obviously sees a world of opportunities for the growth of the Nigerian capital market and the larger economy through the lens of technology. The institution, the first and foremost securities exchange in Nigeria, has built a demonstrable track record of groundbreaking technology solutions aimed at improving the experience of stakeholders across the value chain. Today, investors are reaping the rewards of consistent capacity building in technology, automation and digitalization.

Appraising Central Bank of Nigeria's "100 for 100 Policy on Production and Productivity"


STERLING AYEBAEMI ELLIS, ACS, Chartered MCSI .

By Sterling ELLIS, ACS, MCSI.

The timely and calculated introduction of the "100 for 100 Policy on Production and Productivity (PPP)" financial instrument through the Real Sector Support Facility - Differentiated Cash Reserve Requirement (RSSF - DCRR) Window is ingenious.
Nigeria should be more optimistic that an elephant could fly than entertain any hopes that a nation which has not found ways to put Capital in the hands of its deserving knowledgeable citizenry, with requisite entrepreneurial zeal, to fuel strategic and viable business initiatives and resonant intellectual property ideas would achieve economic growth and development. It is widely believed in the economic circles that the Wealth of Nations is locked up, not in the subsoil of Nations, but inside the heads and minds of a Nation's citizenry. The Central Bank of Nigeria has aptly identified and taken cognizance of the fact that, while mining for gold, diamonds, and crude oil cannot be faulted, it has reckoned that the best place a Nation should mine, using readily available Capital, is the hearts and minds of her duly qualified Citizenry. Little wonder it is to us, that an average Apple iPhone (a product of an ingenious mind) which can fit into a pocket is worth about 20 (twenty) times the current Market Price of a humongous Barrel of Crude Oil cannot be faulted, it has reckoned that the best place a Nation should mine, using readily available Capital, is the hearts and minds of her duly qualified Citizenry. Little wonder it is to us, that an average Apple iPhone (a product of an ingenious mind) which can fit into a pocket is worth about 20 (twenty) times the current Market Price of a humongous Barrel of Crude Oil.
We have watched with much chagrin and obvious nostalgia over the years as the Nigerian economy struggled, Local businesses drowned, international businesses with roots in Nigeria took flight and foreign countries including some in West Africa reaped the benefit of these fleeing companies, etching their eclectic brands in other countries, along with the inevitable poaching of experienced Nigerian manpower and of the brain drain and attendant unemployment situation the vacuum has created: a colossal loss for Nigeria and a corresponding lives changing gain for the rest of the cut-throat competing World.
The political powers of States, to be shored up, must be invested in the economic quest of its citizens to create synergy and a win- win situation for both the State and its Citizens to promote patriotic fervor; thus, avoiding a scenario where economic progress for the State will be at cross purpose with the economic interest of the Citizenry. For example, in Ukraine, with Free Education for every Citizen, the human creative spark and pride of Nation is effectively spurred -which is readily exhibited in the fearless and brave resistance and national defense efforts of her citizens in the ongoing conflagration between Russia and Ukraine. Another case in point, in the Peoples Republic of China where Citizens who choose to own businesses outside of China, have their businesses wholly funded by the Apex financial Authorities of China -in the best interest and greater good of China, which enables her to seamlessly achieve transnational economic colonization through her Citizens and their business initiatives, without any obvious Chinese State related aggressive perceptions and imperialistic overtures1.
Granted, it is not the business of government to run businesses; however, it is imperative for government to create an enabling environment for businesses to thrive by making sure all of the Factors of Production (Capital, Land, Labor and Entrepreneurship) are readily available, as necessary, to Business persons and that Barriers to Entry and Restraint to Trade plus Bureaucratic red tapes are eliminated to achieve elevated diversification and stepped-up productivity in the Nigerian economy. Suffice to say, that, especially, Capital should avail deserved Entrepreneurs in the Federal Republic of Nigeria to boost Productivity as measured through Gross Domestic Product (GDP) with Net National Income (NNI) following suit.
First world countries find a plethora of ways to aggressively and covertly do the aforementioned in all Sectors of their Economies including the Agricultural Sector to shield farmers from the harsh vagaries of nature and to ebb the seasonal gyrations and vicissitudes of weather, like the 'El Nino Effect'

…A call for paradigm shift

Unlike the current situation where many companies got listed to enable them enjoy benefits of capital injection through various financing options, securities exchanges may begin to witness a new era of companies seeking listing, primarily for credibility and prestige purposes. There is also a need to create a new Board for quoted companies that do not necessarily require record of dividend payment as at the period of seeking quotation but have strong potentials to deliver shareholder value. Interestingly, the 25th Annual Conference of the Chartered Institute of Stockbrokers (CIS) in October last year, featured "Fintech Innovations and the Capital Market" as one of the key sub-themes. Some of the key take aways is that Nigerian Government should address the issue of metric for determining identity as there is a conflict of choice between Bank Verification Number (BVN) and the National Identification Number (NIN). While BVN tends to be limited to banking requirement, NIN is believed to have wider scope. Also, the panellists pinpointed the need to address the concerns on inadequate technology infrastructure that can drive economic growth and development.

…Politics of Technology Ownership

It has become clear that Nigeria should be thinking along the line of its comparative advantage in technology ownership either in software and marketing or manufacturing of hardware. The country has become a dumping ground for technology by developed countries with all the associated risks. Every developed nation specializes in one area of technology or the other. They also carve out a unique area for technology giants. Such an environment is called Silicon Valley. For instance, San Francisco Bay Area in California parades Google, Apple, Meta (formerly Facebook) and the rest. In China, Shenzhen city is the abode for homegrown tech superstars such as Tencent and Huawei. Every country should develop a technology policy and carve out its area of comparative advantage to avert unforeseen diplomatic row between the country and its supplier of hardware or software suddenly. Therefore, the United States and China are playing hide-and-seek diplomacy in technology. Where does Nigeria belong? When shall our country have its own Silicon Valley?

…Awaiting listing of Fintech Firms

Fintech companies are products of digitization. They are friends to millennials and Generations. It is necessary to have them quoted on the securities exchanges even if listing rules must be amended to accommodate the technology savvy investors. This may be a form of agenda setting. Fintech companies have growth potentials. They also offer investment opportunities that support growth of Small and Medium Scale Enterprises (SMEs). For instance, they help SMEs to expand finance options, automate accounts, enable online payments, innovate insurance and expand retirement options amongst others.

At the Nigeria Tech/Fintech Conference hosted by Renaissance Capital in September this year in Abuja, The Chief Executive Officer, NGX, Temi Popoola admitted that NGX needed to open doors for technology companies by saying "already, NGX has the Growth Board, which is home to fast-growing companies, but we recognise that there is more to be done. Our approach is to begin to relook our rules and boards that may not necessarily be acceptable to players within the technology industry. We see that capital being raised in this space is mostly foreign, and we want to position ourselves to be more accommodating of the evolving landscape whilst developing the right market architecture.

"One interesting thing to note is that the Fintech ecosystem has increased awareness around the capital market and the opportunities in personal investing. The next step for NGX would, therefore, be to look at the landscape and begin to leverage advancements that will help the capital raising, trading and settlement processes to democratise finance in Nigeria. Evidently, NGX is positioned to spur the next wave of growth and development in Nigeria, which is technology, and the market looks forward to announcements in this regard.", said Popoola.

Oni, an Integrated Communications Strategist, is the Chief Executive Officer, Sofunix Investment and Communications.

'NASD was set up to fill a specific gap in the Nigerian Capital Market',
says Ajomale

NASD PLC is a major brand in the Nigerian Capital market ecosystem. In this engaging interview with Edikan Ekong, of Chartered Institute of Stockbrokers (CIS), NASD's outgoing pioneer Managing Director and Chief Executive Officer, Mr Bola Ajomale, a frontline Chartered Stockbroker and Fellow of the Institute, offers insights into the operations of the Over-the-Counter Exchange and why it will continue to be investors delight.

Let's know who you are Sir, and your career before the commencement of NASD PLC?

After graduating in Economics from the University of Leeds UK, I had the privilege of training to be an accountant with one of the Big 4 firms, Ernst & Young. I however experienced a persistent pull to the capital market and - even before completing my accounting exams, migrated to the stockbroking profession through CSL Stockbrokers Limited where I became the Head of Stockbroking. After a brief stop in Midas Stockbrokers, I moved to develop my analytical side by joining the (then) fledgling firm of Agusto & Co. Based on that foundation I then headed Corporate Finance and Syndications at MBC International Bank, pioneered an Asset management firm and worked with the largest Pension Fund Administrator in Canada before returning to Nigeria to pioneer NASD Limited as a project manager.

Tell us a bit about the history of NASD and what led to its formation.

NASD was set up to fill a specific gap in the Nigerian capital market. The Capital Market community recognized that not all companies that were doing well were listed on the (then) Nigerian Stock Exchange. It was also considered to be a duty of market operators to improve transparency in the market as a whole. The Securities and Exchange Commission therefore charged some senior stockbrokers to consider an association of securities dealers who could organize a market around this opaque space in 1997. By the time the global markets crashed in the mid-2000s, the need to significantly improve transparency and orderliness across the spectrum of the capital market was brought into stark focus. Nigeria was not left out of this consideration, and so the Nigerian Association of Securities Dealers applied for, and were granted an approval in principle to operate an over-the-counter market in Nigeria.

As the pioneer Chief Executive Officer of NASD PLC, what were the initial challenges and how did you manage them?

One of the first issues to draw my attention was the scope of our objectives into immediate, medium, and long term,

consciously avoiding duplication of markets for existing listed stocks; and pre-approving which stakeholder group would have access to the market The only way we could deal with this was through deep research into various market models and finding a best fit to the requirements. Another challenge was securing the full patronage and support of participants. Some were not accustomed to this kind of market structure whilst others seemed to have only foreign clients who might not trade on an OTC market. Tenacity and patience have allowed us to successfully build a robust and stable market that has delivered efficient market solutions for all stakeholders. A third was the perceived hurdle of technology – while it was considered impossible to open a market without heavy investment in technology, we were able to ingeniously create a very light, fit for purpose trading system that has grown and evolved in sync with market size and activity.

How has the institution grown from inception till date in terms of number of listings, market turnover and investor patronage? Will you say investors have generally benefitted from the platform?

As an OTC market, we do not list in the traditional sense – we admit Securities and Companies to trade – a more streamlined approach to enabling liquidity in public company securities. To date, the OTC market has hosted about 45 securities – currently there are 42 companies on the platform. Securities that have left the market have either converted to private companies or have migrated to other markets. For every security admitted to trade on NASD, we have provided a means for price discovery, orderly transactions and minimized counter party credit risk which is one of the core deliveries points that we promised to investors

Over-the -Counter (OTC) is regarded as a relatively risky investment platform compared with the regular stock market. How has NASD addressed this perception in attracting investors?

NASD has studiously avoided some of the characteristics that might lead to the perception of increased risk. I'll mention three: Derivative instruments - at NASD, we consider the risk profile of derivatives to be too high for this economy to bear. We intend to make the investing environment safer, not riskier. The second is the speculative high frequency trading – NASD distinctly has relatively stable trading levels. Although we are working on improving activity on the market, the speed of turnover – which leads to volatility is absent. The third one is risky investment opportunities: NASD ensures that all securities trading on its public platform meets the requirements of the SEC. NASD then goes further to rank such companies into either the blue, pink or red category dependent on its level of disclosure and compliance.

NASD has deviated from expected high risk OTC practice in order to deliver a safer than associated market

What are the financial instruments traded on NASD and what are the plans to expand the product categories?

Our first instrument was to create a market for unlisted public equity. We then expanded the market into funding private investment opportunities through our NASD Enterprise Portal. Currently we are looking forward to making the debt market more retail available in the form of Commercial Paper and other fixed income instruments. We are also keeping a keen eye on the digital space.

What is the major advantage of an OTC Exchange like the NASD over the other bourses? To what extent has the NASD impacted the economy, market operators and investors?

NASD has broadened the capital market and created an avenue for owners of illiquid securities to trade their shares. It has effectively removed a layer of opacity from

A Case for FINTECH Companies in the Financial Market

By Sola Oni, MBA, ACS,

Cumbersome payment system and dearth of innovative financial products are some of the key challenges confronting organisations in the financial market. There is no gainsaying that the advent of smart analytics is fast transforming the processes and procedures of operations in this landscape. Financial technology (Fintech) or any technology that delivers financial services , through software or any form of mobile payment app, has provided an ample opportunity for optimal operation. By leveraging Fintech, companies literally crush consumer data, mine their wealth and service them better. Deployment of technology has also created unlimited opportunities for organisations to develop innovative financial products and services and a better and more flexible payment system across the board. Fintech companies are highly sought after in all sectors. For any company to remain competitive and operate at global best practice, embracing Fintech is the new way to go.

…Covid-19 and Fintech deployment

The only thing that is constant in life is change. Covid-19 pandemic hit Nigeria like a thief in the night. The way it challenged the perceived technological prowess of the United States of America and United Kingdom made that of Nigeria a child's play. Some fame-seeking pastors in Nigeria claimed that they had seen the vision ahead of the outbreak. This is an amusing tale of afterthought rather than genuine divine message. Covid-19 is an ambivalent scourge. Although, it has claimed many lives and forced humanity to look like masquerades, irrespective of the status, it has also institutionalized digitalization as the heartbeat of all activities. Prior to March 2020, holding meetings by Zoom, Skype, Google Meet and other forms of video conferencing were not so popular in Nigeria, except by some firms that leverage it to resolve technical issues of computer with their foreign vendors. Today, it has become one of the most acceptable channels for workshops, conferences, religious services, and academic and social activities. This development has put services of Financial Technology (Fintech) companies on the pedestal of high demand.

Unlike banks, Fintech start-ups are characterized by flexibility of operations and ability to adjust fast to changes in the industry. But not all that glitters are gold. Fintech start-up companies face some peculiar challenges according to Forbes. The famous magazine says it's cumbersome for these enterprising companies to raise venture capital as venture investors will demand answers to questions such as what problem is the start-up trying to solve ?, competence of management team, market opportunity, Pitch Deck, including overview and value proposition, regulatory issues, ability to compete with the existing huge financial brands in the industry, cost-effective marketing strategy to acquire customers, getting early adopters and averting slow sales cycles, Cybersecurity and data protection issues, intellectual property, models for business, revenues and expense and legal compliance.

...Pain Points of Fintech Companies

The above brick walls have bullied the question of whether such companies have upward trajectory of dividend payment, a great expectation of investors when a company applies for listing on a securities market in Nigeria. In September 1996, GTCO (formerly Guaranty Trust Bank) was listed by Introduction on NGX PLC (formerly The Nigerian Stock Exchange). Listing by Introduction means that the company has complied with all the Exchange's listing requirements, but it is not willing to float initial public offering (IPO) before listing. A company without record of consistent dividend payment stands the risk of undervalued shares. But in today's world of 'new normal', managers of securities exchanges should go back to the drawing board on what exactly is the motive for a company's application for quotation.

Functions of the Islamic Capital Markets

The Islamic financial system will be incomplete without the key roles played by the ICM. The main functions and objectives of the ICM are indeed similar to the conventional counterpart. Both markets serve the same essential purpose: they provide a platform for demanders and suppliers of funds to trade in financial instruments as a means of raising large amounts of financing or for long-term investments.

The key roles of the ICM are better summarized as:

a. **Makes available various financial services.** Besides the offering of securities, ICM players provide a series of financial services such as underwriting, financial advice, trusteeship and guarantees. These services help in the growth and expansion of other sectors of the economy.

b. **Provides opportunities for diversification of risks.** It offers a wider portfolio of asset selection to investors and institutions offering Islamic financial services (IIFS) in general, enabling them to diversify risks to meet their different needs.

c. **Intermediates between users and suppliers of funds.** It acts as a vehicle which matches the savings of suppliers of funds with the demand for funds for both government and private sectors looking for Shari'ah compliant financing to undertake long-term projects.

d. **Contributes to economic growth.** It gives an added dynamism to the real economy by facilitating the development of infrastructural projects, expanding private sector businesses, increasing productions and generating employment. By developing the ICMs, it is possible for firms and governments to not only tap into the excess liquidity available in the domestic markets but also attract foreign investors who are interested in Islamic securities.

e. **Plays a complementary role to the Islamic banking and takaful sectors.** It provides an avenue for liquidity management to Islamic banks and takaful operators by making available a whole range of asset classes, with different maturities and return profiles, for investment. These are considered new asset classes which are being sought by both Muslim and conventional investors. The ICM thus contributes to the deepening and broadening of Islamic financial markets.

f. **Facilitates the availability of liquidity by enabling secondary trading of securities.** The tradability of the long-term securities issued in the capital market on the secondary market enables investors to enter or exit the market at their will. This allows the otherwise long-term, illiquid assets to be converted into liquid instruments. It also enables the pricing and valuation of the assets that are available on a continual basis.

The approach of offering ICM products and services, in addition to conventional ones, has in fact added leverage to jurisdictions wishing to develop themselves as international financial centres.

Akinbode is the Deputy Registrar, Institute of Islamic Finance Professionals

the market that existed for years. We have added to the amount of reliable trading information and opened a funding source for growing companies. Of course, it has created a new market for the core market operators- the stockbrokers and Issuing houses. Through NASD, growing companies have been eased into the economy and on the flip side, shrinking companies have been facilitated out of the capital market in an orderly manner.

What were your projections upon assumption of office and to what extent have you achieved the projections?

On assumption of office, we were guided by the growth projection of the Nigerian economy which was around 7% at the time. Markets do not exist in a vacuum and we expected that the economy would need to provide greater transparency and liquidity for unlisted securities. We also saw the advent of interesting alternative investment opportunities. Nigeria has not really met its growth projections, and as a result the market too has been unable to achieve what I can see is possible. In the balance, NASD has grown in sync with the economic trend.

In terms of business style and technology, NASD has done much better. We predicted correctly the gradual migration from open cry trading systems to digital operations; NASD never invested in a trading floor for physical operations. We also projected the advent of lighter, scalable technology – almost open sourced- that would allow for more efficient and easier upgradable applications.

Ajomale with the Editor, The Nigerian Stockbroker

Who are the operators on NASD and to what extent are Chartered Stockbrokers involved?

NASD was built by stockbrokers for stockbrokers. The original promoters of the market were exclusively stockbrokers and they still form the bulk of the owners of the market. NASD's board of directors are predominantly individual stockbrokers representing stockbroking houses. All rules and operations of the market were constructed with the stockbroker's perspective in mind and we sought their opinion in most of our decisions. I anticipate however that this will change as NASD becomes more integrated into the fabric of the Nigerian economy.

You have been an active member of the Chartered Institute of Stockbrokers' Research and Technical Committee for several years; how can Government and market regulators support the institute to play its role of training and certifying world class Securities and Investment practitioners for Nigeria?

The institute is doing a great job at training and certifying Securities and Investment practitioners. More collaboration with similar international organisations will only enrich our brokers. It would also place our brokers in direct contact with their peers. I do not think much should be required from the government though. It is up to the stockbroking profession to make itself indispensable to decision making at federal and state government levels. This can be done by deliberately generating well researched and easily consumable critical information on the economy. This would create a virtuous circle. The more relevant the information generated by the community to the government; the more the government will rely on brokers to generate even better information leading to higher quality information and activity on the capital market The Institute should certainly make itself relevant to the government through thought leadership, idea generation and deep economic and financial research.

Looking back, what were your best moments at NASD and what do you consider the lowest points of your administration?

The best moments are always onboarding a new security to trade. It encourages us that we are delivering on our mandate. The low points are consistent – when a good colleague disengages from NASD regardless of whether it is to another market or to another country

The Covid-19 scourge was regarded as a major game changer in the financial industry; how did NASD cope with that?

We had always run a very efficient system. The market was designed to be remote for concept. On the first day of restricted movement NASD was able to close its doors and work remotely. We never lost an hour of trading time (although there were many hours of no trades). During that period, we were actually able to complete a full implementation of our trading system- 100% remotely! And this was achieved in record time. Post that period, NASD has proven its tenacity and appropriate decision making. We have made significant strides to opening new markets and creating new opportunities for investors issuers and operators.

What are your prescriptions for elevating professional standards and the activity level in the Nigerian Capital Market?


Ajomale, NASD's Chief Operating Officer, Mr. Eguarekhide Longe with the Editor, The Nigerian Stockborker

More direct formal training. Mentoring directly from the seasoned operators and strict discipline – zero tolerance for bad behaviour. Encouraging more activity will in part depend on the level of activity in the economy as a whole. But I believe brokers should be as innovative and ingenious as possible. They should broaden their outreach to cultivate new and growing industries like the FinTechs . The probably should focus more on investment banking than trading too.

Tell us about the transitional arrangement at NASD and what advise you have for the in-coming Chief Executive Officer?

NASD is fortunate to have been able to attract a seasoned professional to take the reins of the company. He resumed in office as an Executive Director in 2021 and is particularly well positioned to move NASD to the next level. For all professionals, regardless of their role, my advice is always to maintain integrity, stay versatile and flexible. Change is a constant.

What next after your retirement?

Spend more time with God, family and knowledge building for a start. But I don't expect to be idle.

What will Bola Ajomale be remembered for in the history of NASD and the Nigerian Capital Market?

I hope I've contributed in some part to the broadening of the capital market, but there's still quite a lot of work to be done in making the capital market as a whole truly impactful on the daily lives of Nigerians. I also hope I've been able to show some ingenuity and break some boundaries in the space. I believe the stockbroking community gave me a blank canvas and I just added a little colour to the tapestry.

maximise the value of capital gains realised under such transactions. It has been associated with misappropriation of others' property since the speculator often purchases without sufficient funds in his cash account; rather, on aggregate, by buying and selling stocks, the speculator can cover the cost of the purchases and realise profits by buying low and selling high. If investors enter the market not based on well-informed research but depending on luck, then their attitude or conduct may turn their investment activities into an act of gambling. This opposes what is required in Islam.

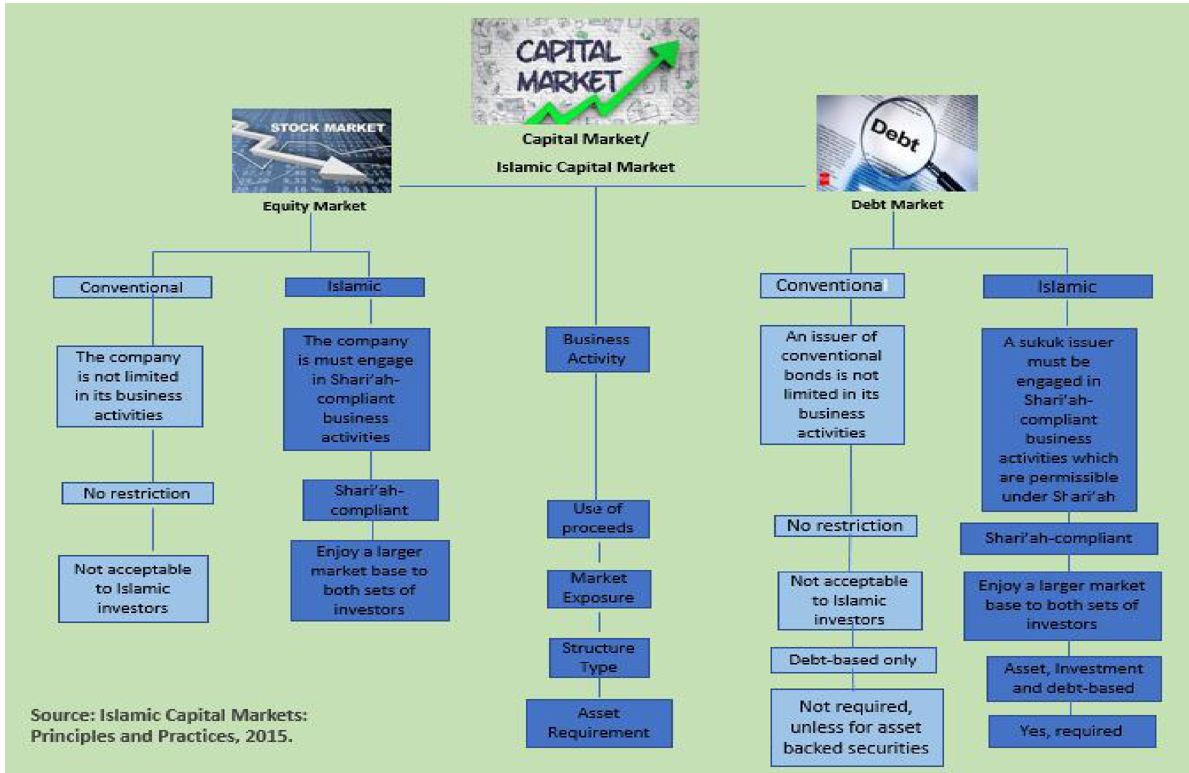
Unethical practices such as tala-ub (manipulation), ihtikar (hoarding), najsh (artificial price hiking) and tadlis (concealment of a defect). From an Islamic point of view, where honesty in dealings is highly emphasized, such practices involving different kinds of deception are prohibited.

Prohibited (haram) elements deemed non-permissible according to Shari'ah. This prohibition disallows investment in companies involved in the production and/or distribution of forbidden commodities such as intoxicants, alcohol, pork and pornography. Companies that have links to prostitution and betting are similarly precluded.

In brief, therefore, while providing funding to deficit units and investment opportunities to surplus units, the ICM has to eliminate prohibited elements to align its activities and transactions with Shari'ah principles.

Main Differences Between Conventional and Islamic Capital Markets

In addition to the elimination of key prohibitions from Shari'ah, ICM operations are also characterised by some other features which makes them different from conventional capital market transactions. In essence, these differences relate to the business activity where Shari'ah compliance is priority for both debt and equity market transactions; the use of proceeds raised through the ICM which have to be invested in Shari'ah-acceptable activities; the broader market exposure enjoyed by Islamic capital transactions which include both conventional and Islamic investors; the types of structures acceptable for ICM transactions; and the asset requirements for ICM transactions. The main difference between conventional capital market and ICMs are depicted below:



Source: Islamic Capital Markets: Principles and Practices, 2015.

year-on-year totalling in 2019. The global Islamic banking sector is the main contributor to this market and is worth at USD 1.99 trillion growing at 14percent. Islamic banking has a 6 percent share in global banking assets. Global SUKUK's outstanding value stood at USD 538 billion, as per industry sources, on the back of strong sovereign and multilateral issuances in key Islamic Finance markets to support respective budgetary expenditures. This included debut entries into the sovereign SUKUK market by Saudi Arabia and Nigeria, as well as the pan-African multilateral development finance institution, Africa Finance Corporation. (Mordor Intelligence, 2022)

Main Islamic Finance Principles Related to the Islamic Capital Market

The key principles and prohibitions from Shari'ah that must be eliminated from ICM transactions are those described in the following paragraphs.

Interest (riba). Riba denotes any excess compensation without any corresponding counter-value recognised by Shari'ah. For instance, it occurs in modern financial transactions such as loans and bonds where a debt contract is established between the borrower and the lender such that the borrower promises to repay the principal loan amount as well as an interest return over and above the capital sometimes in the future. Besides rendering interest-bearing loans and bonds as non-Shari'ah-compliant, the prohibition of riba also means that the following capital market instruments are not acceptable from the Shari'ah perspective: other interest-bearing securities, and trading in shares of corporations whose main business activity involves riba such as conventional banks and insurance companies.

Ambiguity or Uncertainty (Gharar). Gharar refers to something that has a hidden result; it represents something for which there is almost equal probability of getting or not getting, whose acquisition is uncertain, and whose true nature and quantity are unknown. It has three forms: huge, moderate and slight. Gharar arises if the essential elements of a contract ('aqd) – namely, its subject matter (i.e. the object and the price) – are ridden with excessive uncertainty or ambiguity, thus affecting the outcome of the transaction. Gharar is said to be prevalent in many financial transactions, including insurance and financial derivatives such as options, futures and forwards. Even in the approval of investment in mixed companies (i.e. companies with mix of permissible and prohibited elements), the element of the companies' involvement in gharar should be taken into account.

In the case of financial derivatives such as forwards and futures, no ownership of the commodity is required at the time the trade takes place; in fact, both payment of price and delivery of commodity are postponed to the future, which leads to uncertainty in the execution of the contract. Gharar also occurs in an option of contract in which the purchaser is given the option or right to buy or sell the underlying financial instrument at a specified price, within a specific period.

Gambling (maysir). Maysir refers to any activities which involves betting such as gambling, speculative activities or game of chance. It relies on the hope of winning based on chance and uncertain events rather than on putting in appropriate effort to achieve success. Gambling has been described as the pure case of gharar in which one party takes the entire bet and receives huge proceeds against payment of a small sum, winning solely by chance at the expense of others lose their bets.

Speculation. Speculation, in practice, takes place as a result of holding securities for relatively short durations, called day trading. Speculators basically take risks by buying and selling stocks within a short period, reacting to their movements. Often, speculation is not about buying stocks based on the true value of the underlying company, research that reflects good prospects for the company's performance or for long-term investment to earn dividends. Rather, such trading occurs to

A glimpse into the Fundamentals of the Islamic Capital Market

By AbdulAkeem Akinbode B.A.Ed., MBA, FIFP.

Historical Development and Evolution of the Islamic Capital Market

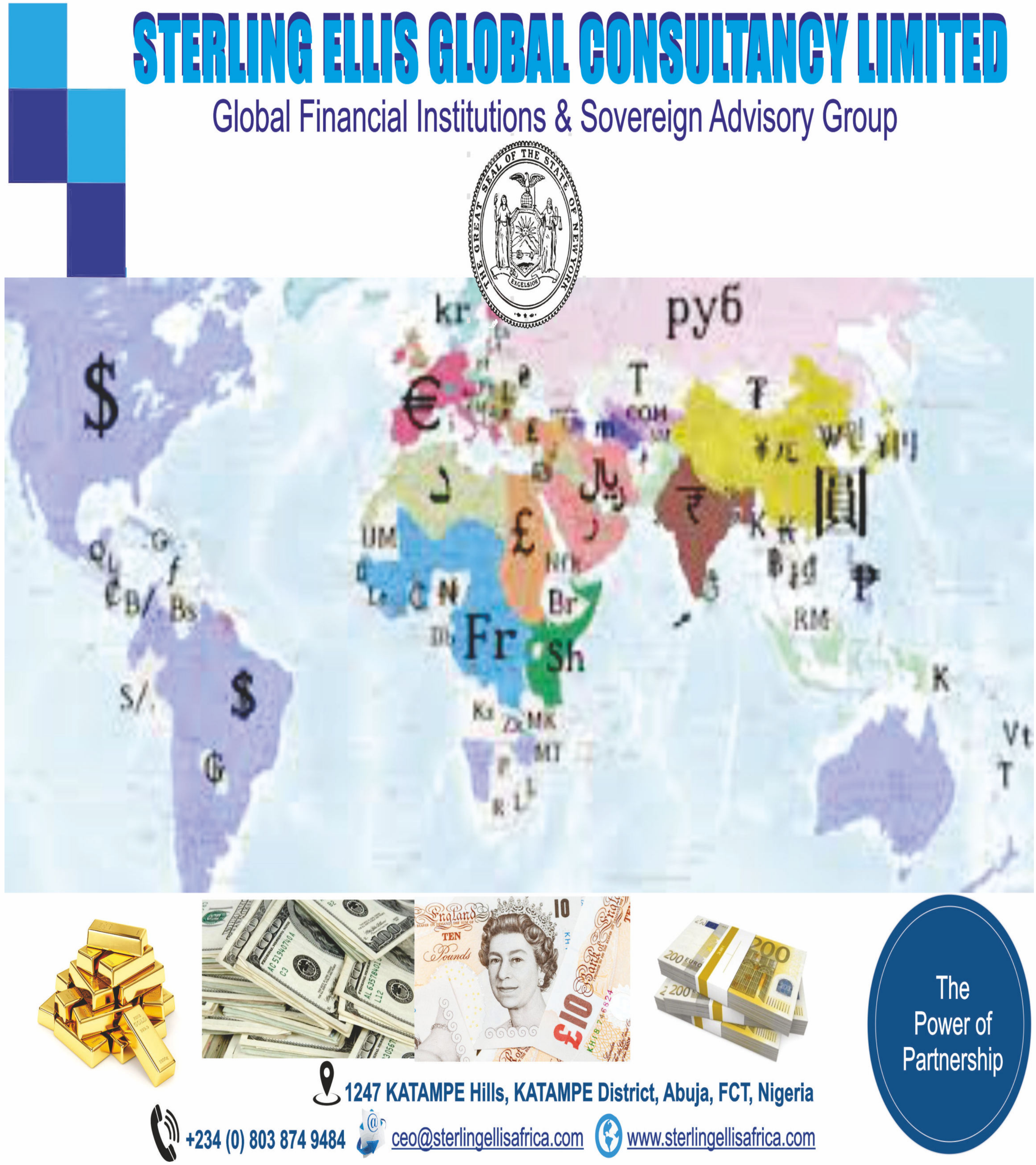
While the conventional capital market has a long-running track record, the Islamic Capital Market (ICM) developed much later, particularly in the 1990s, to provide an alternative to those wishing to undertake capital market transactions in compliance with Shari'ah principles and requirements. Basically, as the Islamic banking and takaful (Islamic Insurance) sectors grew within the Islamic finance industry, the need for establishing ICMs rose in importance. Islamic banks, takaful companies, Islamic investment funds, pension funds and other Islamic Financial Services (IFS) which successfully mobilised the savings of surplus units – households, firms and governments – were confronted with the challenge of not having suitable Shari'ah-compliant instruments to manage and invest the excess liquidity in longer-term transactions. Similarly, government and large corporations that did not wish to contradict Shari'ah principles could not access the conventional capital markets to seek long-term financing to undertake national and international development projects. Thus, concerned about their survival and further growth of the Islamic finance industry. IFS and industry players recognised that the development of ICMs was essential. Fulfilling the demand and supply needs of investors and demanders of funds led to increasing debates about the setting up of ICMs in the 1980s to 1990s.

Islamic Capital Market represents an exchange network where medium-to long-term securities are issued to raise funds for the financing of productive activities. In particular, the financial and investment instruments offered in the ICM, its practices, and the operations and management of investment companies and firms lying under its purview must conform to the principles of Shari'ah – among others, de devoid of riba (interest), gharar (uncertainty), maysir (gambling), speculation, investment in prohibited activities, and unethical practices such as deception and fraudulent activities as well as encourage risk sharing, transparency and public welfare. Shari'ah compliance process which should be achieved all times in the ICM, for example, at the levels of product structuring, execution, issuance and redemption.

The ICM can therefore be defined as a market where the capital market transactions, operations and activities are carried out according to Shari'ah principles and requirements. Accordingly, the term 'Islamic' has been added to the term 'capital market' to emphasize the fact that transactions within such a market must be free from the involvement of prohibited activities in Islam.

Overview of Global Islamic Financial Services Industry

The Islamic finance industry's performance is measured through five sub-sectors: Islamic Banking; Takaful; Other Islamic Financial Institutions (OIFIs) such as investment or micro-finance companies; Sukuk; and Islamic Funds. The global Islamic finance market is growing rapidly, because of the strong investments in the Halal Sectors, infrastructure, and Sukuk bonds, especially through electronic modes in all products and services. The factors driving the growth of the Islamic Finance market are directing investment toward the tremendous growth opportunities in the promising Islamic sectors. The industry's total worth, according to key industry stakeholder organizations, across its three main sectors (banking, capital markets, and TAKĀFUL), global Islamic Finance assets increased by double-digit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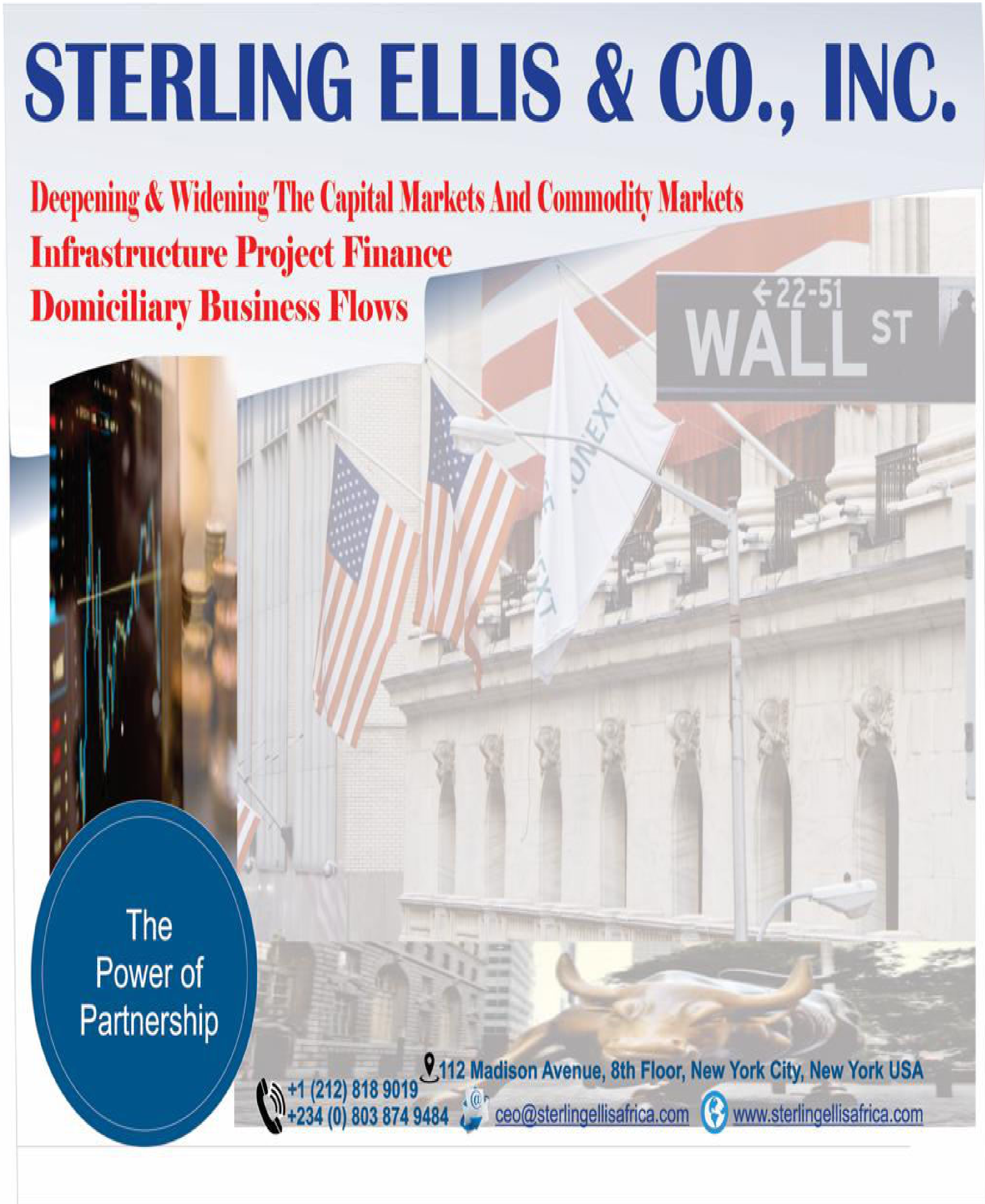
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