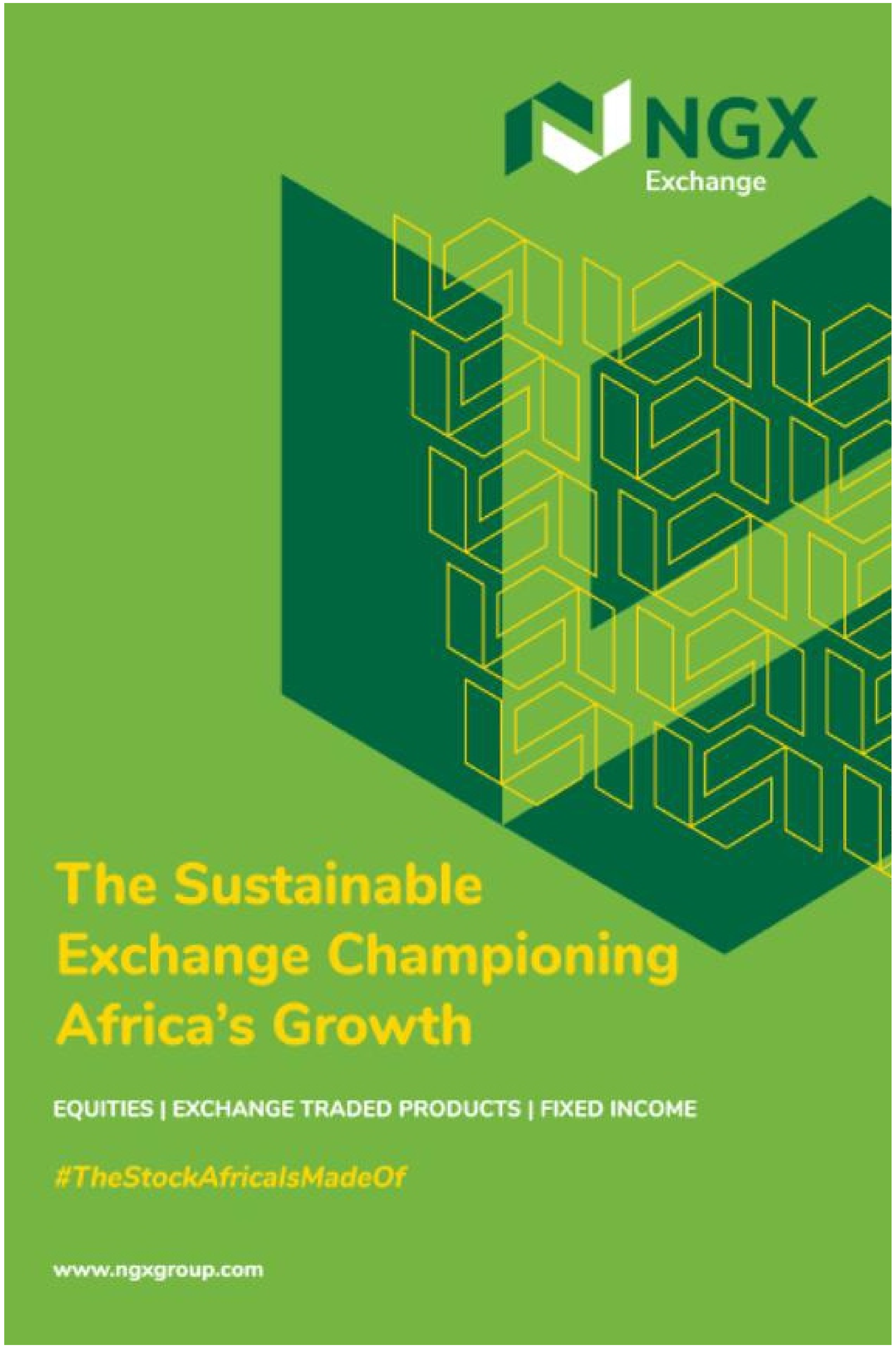
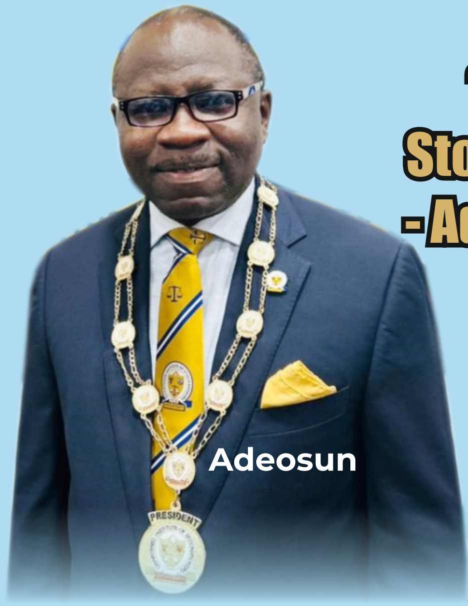


The Nigerian Stockbroker

30th ANNIVERSARY

THE OFFICIAL MAGAZINE OF THE CHARTERED INSTITUTE OF STOCKBROKERS

VOL. I NO. 15 SEPTEMBER, 2023



"FG should tap into Stockbrokers Expertise" - Adeosun, CIS President

Tinubu Administration and Imperative of the Nigerian Capital Market

Understanding The - Over - the Counter (OTC) Exchange

Appraising Derivative Trading in Nigeria

Reflection on CIS @30

30th
1992-2022
CHARTERED INSTITUTE OF STOCKBROKERS
TRUST & INTEGRITY
ANNIVERSARY

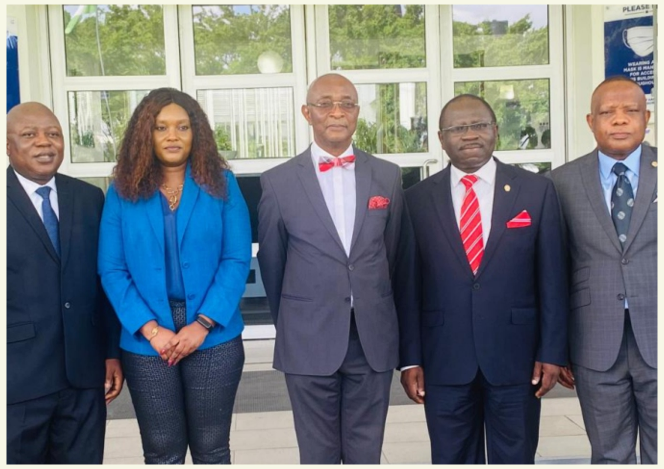
CIS' contact addresses Lagos and Abuja,
email: info@cisinigeria.org, website: www.cisinigeria.org

PHOTO NEWS

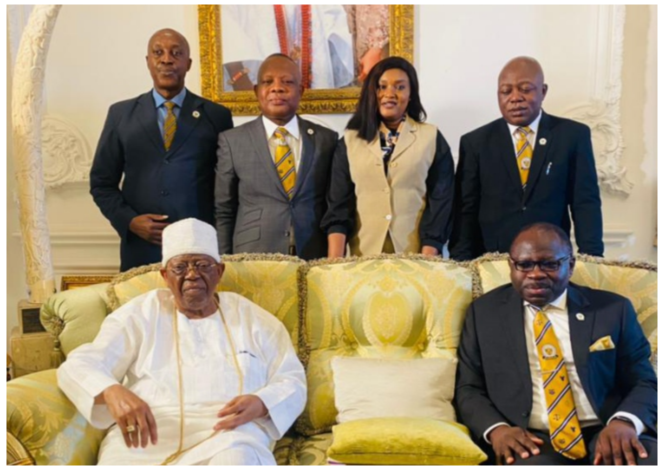
The Securities and Exchange Commission on Courtesy Visit to the CIS

History of the Nigerian Capital Market: Interview with Mr. Olutola Mobolurin and Oladipo Aina

History of Nigerian Capital Market Interview with Prof Mrs Ndi Okereke-Onyuike, FCS_



CIS Office Holders with Prof Chris Ogbechie of Lagos Business School



Maiden History of the Nigerian Capital Market interview with Doyen Otunba Olasubomi Balogun FCS

Investiture of Mr Olayemi Cardoso, Former Commissioner of Economic, Planning and Budget, Lagos State

L-R: 1st Vice President, Chartered Institute of Stockbrokers (CIS), Oluropo Dada; Wife of Investee, Mrs. Ofovwe Aig. Imoukhuede, Aigboje Aig. Imoukhuede, President, CIS, Oluwole Adeosun, 2nd Vice President, Fiona Ahime and Registrar and Chief Executive, Josiah Akerewusi during Investiture of Aig. Imoukhuede as Honourary Fellow of CIS in Lagos recently

Investiture of Mr Mustafa Chike - Obi, HFCS as a Honorary Fellow of CIS

Investiture of Mr Temi Popoola, CEO of NGX as a Fellow of CIS

Investiture of Dr Goodie Ibru HFCS as Honorary Fellow of CIS

A Growth Agenda for the New Administration

I wish to thank our teeming loyal readers and welcome you all to this special edition of The Nigerian Stockbroker, the flagship magazine of the Chartered Institute of Stockbrokers (*"CIS"*). This edition is special in two ways: First, it commemorates the 30th year anniversary of the establishment of CIS, the professional body of Investment and Securities professionals in Nigeria. The Institute has been celebrating under the aegis of CIS @ 30 since November 2022 and this magazine wraps up the fun by aggregating the various events that have gone into the 8-month long razzmatazz.

Secondly, the magazine, published barely a month after the inauguration of Asiwaju Bola Ahmed Tinubu, GCFR as President and Commander in Chief of the Armed Forces of the Federal Republic of Nigeria, presents the president and his team with a veritable welcome package; an economic growth agenda that essentially explains how the capital market can be utilised as the magic wand to galvanize sustained recovery and accelerated economic growth for the country.

The Institute itself, CIS, will be hosting President Tinubu and his economic management team to her 4th National Workshop at Transcorp Hilton Hotel, Abuja on July 27, 2023. The Workshop has as theme: *"Leveraging the Capital Market to Drive Public-Private Partnership (PPP) for Effective National Economic Growth"*. Both the magazine and Workshop serve to demonstrate the determination of the Chartered Institute of Stockbrokers to work closely in partnership with the Federal Government of Nigeria to build a dynamic economy that will usher in prosperity and propel Nigeria to a position of true leadership in the African continent.

I wish to thank our friends at the various securities exchanges in the country for contributing very enlightening articles to the magazine. The doyen of financial reporters in the country, Sola Oni has also availed us a very educative piece, de-constructing the investment intricacies involved in the recent share trades in Transcorp Plc involving Femi Otedola and Tony Elumelu. David Adonri, the *"Prof"* of the stock market delivers once again, with a masterpiece on Managing Risks Associated with Capital Market Investments; while, for CIS students, we have you covered as usual. You will read here, questions and solutions from the Institute's March diet Professional Exam on Derivatives and Financial Engineering. The Nigerian Stockbroker, wishes to thank the President & Chairman of Council of the Chartered Institute of Stockbrokers, Mr Oluwole Ololade Adeosun, FCS for granting us that highly insightful interview, where he shed light on how the Federal Government can enhance global competitiveness of the Nigerian Capital Market, the Institute's giant strides and the vision of his team in Council. It is such a delightful read.

Let's toast to CIS@30!

PUBLISHING CONSULTANTS: SOFUNIX PRESS
TEL: 0803-833-3920
info@sofunixinvestcom.com

The Nigerian Stockbroker is a magazine published quarterly by The Chartered Institute of Stockbrokers, 71, Raymond Njokwu Street, Off Awolowo Road, South West-Ikoyi, Lagos.
Electronic Mail: info@cisinigeria.com, Website: www.cisinigeria.com

Opinions and ideas expressed by contributors in this magazine are not necessarily those of the Institute.

Authors wishing to contribute articles should send both soft and hard copy to the Editor:

The Nigerian Stockbroker
71, Raymond Njokwu Street, Off Awolowo Road, South West-Ikoyi, Lagos.
P.O. Box 9938, Marina, Lagos.
E-mail: research@cisinigeria.org, info@cisinigria.org
Website: cisinigeria.org
Tel: 07065843247, 08025153448 (Editor)

ISSN NO: 1595-286x

cisinigeria @cisinigeria charteredstockbrokers charteredstockbrokers

MANAGING RISKS ASSOCIATED WITH CAPITAL MARKET INVESTMENT

By David Adonri, ACS

The Capital Market is generally regarded as a safe haven for investment. There, your money works for you. The Market is a setting for income without stress. Smart and daring speculators can make fortunes there and can also lose a fortune through poor judgement.

Despite its attractiveness, volatility in price of securities is the hallmark of every Capital Market. Increased risk can emanate from increased volatility. Every day, stock prices go up and down in reaction to a number of issues involving business, the socio-economy and geopolitical events. The field of behavioural science has contributed an important element to the risk equation, demonstrating asymmetry between how investors view gains and losses. Investors usually put roughly twice the weight on the pain associated with loss than the good feelings associated with a profit. Every investor wants to play safe with his investments. Often, investors want to know just how much the value of an asset may deviate from it's expected outcome, and also how bad things may look way down on the negative side. Value-at-Risk (VaR) attempts to provide an answer to this question. The idea behind VaR is to quantify how large a loss in investment could be with a given level of confidence over a defined period.

Due to the high volatility and frequent downturns in the Capital Market, uncertainties characterize the predictability of returns on investment. As a result of uncertainty, it is extremely difficult to predict the future price of a security and by extension, direction of the Capital Market. Uncertainty and Risk are synonyms but they are not quite the same. Uncertainty must be taken in a sense radically distinct from the familiar notion of risk, from which it has never really been properly separated. The term "Risk" as loosely used in everyday speech and in economic discussion, really covers two things which functionally at least in their causal relations to the phenomenon of investment, are categorically different.

Uncertainty is the lack of complete certainty. It is a situation where the future outcome cannot be predicted with any confidence from knowledge of past or existing events. Uncertainty presents more than one possibility whereby the true outcome or result is unknown. Uncertainty is immeasurable ie, not possible to calculate whereas, risk is a state of uncertainty where some of the possibilities involve a loss, catastrophe or other undesirable outcome. It is a set of possibilities each with quantified probabilities and quantified losses. One may have uncertainty without risk but not risk without uncertainty. We can be uncertain about the winner of a contest but unless we have some personal stake in it, we have no risk. If we bet money on the outcome of the contest, then we have a risk. Consequently, the measure of uncertainty refers only to the probabilities assigned to outcomes while the measure of risk requires both probabilities for outcomes and losses quantified for outcomes. Uncertainty presents both risk and opportunity, eroding or enhancing value.

Risk is the degree of uncertainty associated with a return on an asset. Risks are simply future issues that can be avoided or mitigated, rather than present problems that must be immediately addressed. Financial investment risk is often defined as the unexpected variability or volatility of returns and this includes both potential worse - than - expected as well as better - than - expected returns. In statistics, risk is often mapped to the probability of some events seen as undesirable. Usually, the probability of that event and some assessment of it's expected harm must be combined into a believable

2a2) If the current call price is ₦17.50, it is overpriced. Therefore, we should sell the call and buy the underlying stock. The hedge ratio is

$$n = \frac{Cu - Cd}{Su - Sd} = \frac{20 - 0}{110 - 85} = 0.80$$

This means that for every option sold we should purchase 0.8 share. If we sell 100 calls, we should buy 80 shares.

		₦
Sell 100 calls at ₦17.50	=	1,750
Buy 80 shares at ₦100	=	- 8,000
Net investment	=	- 6,250

At expiration the value of this combination will be

		₦
Su : 80(110) – 100(20)	=	6,800
Su : 80(85) – 100(0)	=	6,800

We invested ₦6,250 for a payoff ₦6,800, after one year. The annualised continuous rate is given by:

$$\text{In}\left(\frac{EV}{BV}\right) = \text{In}\left(\frac{6{,}800}{6{,}250}\right) = 8.4\%$$

The rate is higher than the risk-free rate of return of 6.5%

2a3) If the current call price is ₦14, it is underpriced. Therefore, we should buy the call and sell the underlying stock. The hedge ration remains 0.8 (as computed in (b) above)

For every option purchased we should sell 0.8 share. If we buy 100 calls we should sell 80 shares.

		₦
Buy 100 calls at ₦14	=	- 1,400
Sell 80 shares at ₦100	=	8,000
Net inflow	=	6,600

Thus, we generate ₦6,600 upfront. At expiration the value of the combination will be

		₦
Su: 100(20) – 80(110)	=	- 6,800
Sd: 100(0) – 80(85)	=	- 6,800

We generate ₦6,600 upfront and pay back ₦6,800 after one year. The rate of return is:

$$\text{In}\left(\frac{6{,}800}{6{,}650}\right) = 3\%$$

This borrowing rate is lower than the risk-free rate of 6.5%

2b) Ignoring the time value of money, the holder of the option will make a profit if the stock price at maturity of the option is greater than ₦105. This is because the payoff to the holder of the option is, in these circumstances, greater than the ₦5 paid for the option. The option will be exercised if the stock price at maturity is greater than ₦100. Note that if the stock price is between ₦100 and ₦105 the option is exercised, but the holder of the option takes a loss overall. The profit from a long position is as shown in Figure A.

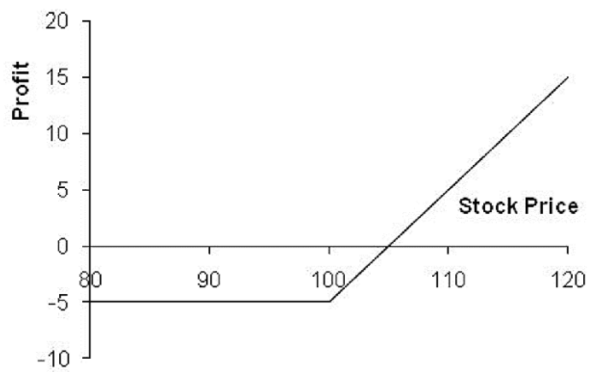


Figure A: Profit from long position

Chartered Institute of Stockbrokers

Questions & Solutions on Derivatives and Financial Engineering

March 2023 Examination Diet

Question 2 - Derivatives and Financial Engineering

2a) A stock currently trades at a price of ₦100. The stock price can go up 10 percent or down 15 percent. The risk-free rate 6.5 percent, continuously compounded.

2a1) Use a one-period binominal option model to calculate the price of a call option with an exercise price of ₦90. (8 marks)

2a2) Suppose the call price is currently ₦17.50. Show how to execute an arbitrage transaction that will earn more than the risk-free rate. Use 100 call options. (4 marks)

2a3) Suppose the call option is currently ₦14. Show how to execute an arbitrage transaction that replicates a loan that will earn less than the risk-free rate. Use 100 call options. (4 marks)

2b) Suppose that a European call option to buy a share for ₦100.00 costs ₦5.00 and is held until maturity. Under what circumstances will the holder of the option make a profit?

Under what circumstances will the option be exercised? Draw a diagram illustrating how the profit from a long position in the option depends on the stock price at maturity of the option. (4 marks)

(Total: 20 marks)

Solution to Question 2

2a)

2a1) Find the underlying prices in the binomial tree

i)

$$S_u = 100(1.1) = ₦110$$

$$S_d = 100(0.85) = ₦85$$

$$u = \frac{110}{100} = 1.10$$

$$d = \frac{85}{100} = 0.85$$

ii) Find call value at expiration

$$C_u = \text{Max}(0, S_u - E)$$

$$= \text{Max}(0, 110 - 90) = 20$$

$$C_d = \text{Max}(0, S_d - E)$$

$$= \text{Max}(0, 0.25 - 90) = 0$$

iii) Find the risk-neutral probability

$$\pi = \frac{e^{rT} - d}{u - d}$$

$$= \frac{e^{0.065 \times 1} - 0.85}{1.1 - 0.85} = 0.87$$

$$1 - \pi = 1 - 0.87 = 0.13$$

iv) Determine the value of the call today

Outcome	*Cash Flow*	*Probability*	*Expected value*
Su	*20*	*0.87*	*17.40*
Sd	*0*	*0.13*	*0*
Total expected value			*17.40*

The present value of this today is $17.40e^{-0.065 \times 1}$ = ₦16.30

scenario (an outcome), which combines the set of risk, regret and reward probabilities into an expected value for that outcome.

A fundamental idea in finance is the relationship between Risk and Return. The greater the potential return one might seek, the greater the risk that one generally assumes. The Capital Market reflects this principle in the pricing of a security; strong demand for a safer security drives it's price higher (and it's return proportionately lower), while weak demand for a riskier security drives it's price lower (and it's potential return thereby higher). For example, an FGN Bond is considered to be one of the safest investments and when compared to a Corporate Bond, provides a lower rate of return. The reason for this is that a company is much more likely to go bankrupt than the Federal Government. Because the risk of investing in a Corporate Bond is higher, investors are offered a higher rate of return. Every investment involves some degree of risk, which is considered close to zero in the case of FGN Bond and Bills, or very high for something like junk Bonds in inflationary markets. Consequently, a good understanding of risk in it's different forms can help investors to better understand the opportunities, tradeoffs and costs involved with various investment approaches.

Risks in the Capital Market are categorized into two broad classes. These are systematic and unsystematic risks. Systematic risks arise from various risks emanating from the geopolitical and socioeconomic environment where government and businesses operate. This risk affects all securities equally. It represents the risk free rate in the "Capital Assets Pricing Model" (CAPM). Because systematic risk affect all securities, it cannot be diversified away. It presents itself in the Capital Market as the overall risk or Market Risk. It shapes the collective view of investors to invest in a particular stock thus, playing a significant role in the rise or fall of the entire Capital Market. Even if a company is going through problems, its stock price may rise due to a generally rising Stock Market. The reverse is also possible. Investors usually face this general risk. Underlying Market risk are Inflation risk, Interest Rate risk, Currency risk, Political risk, Hazard risks (natural disasters, war, pestilence etc), liquidity risk etc. Unsystematic risk on the other hand, is the risk caused by unique factors of a particular organization or security. Under CAPM, it represents the risk premium a security attracts after the risk free rate has been provided for. The higher the unsystematic risk, the higher the risk premium demanded by investors.

The total risk of an investment are both the systematic and unsystematic risks. Both of them are manageable. The ability to price risk opportunity identified, differentiates a successful Capital Market player from rest of the crowd. Risk management enables the investor to deal effectively with uncertainty and hence, associate risk with opportunity. Maximization of risk adjusted returns compel investment managers to invest heavily in risk management applications, to calculate investor's maximum potential exposures.

When an investor steps into the Capital Market, the first step in risk management is profiling to ascertain his or her risk tolerance level. Next is to ascertain his or her investment objective(s) and match it / them with the risk tolerance, so as to assemble a suitable portfolio of assets. An investor's risk appetite is set at a level that minimizes erosion of earnings or diminution of capital due to avoidable losses. Risk management is vital for investment decision making in order to optimize risk adjusted returns. It is simply a practice of systematically selecting cost effective approaches for minimizing the effect of threat realization to the investment. All risks can never be fully avoided or mitigated simply because of financial or practical limitations. Therefore, investors have to accept some level of residual risks. Risk management is pre-emptive and it involves the identification, assessment and prioritization of risks, followed by coordinated and economical application of resources to minimize, monitor and control the probability and / or impact of unfortunate events or to maximize the realization of opportunities.

Risk problems are related to identify threats. For example, the threat of losing money. When either source or problem is known, the events that a source may trigger or that can cause a problem can then be investigated.

Common risk identification methods are:
1) Objectives - based risk identification: - Investments have objectives. Any event that may endanger achieving an objective partly or completely is identified as risk.
2) Scenario - based risk identification:- In scenario analysis, different scenarios are created. The scenarios may be the alternative ways to achieve an objective or an analysis of the interaction of forces, in for example, a market. Any event that triggers an undesired scenario alternative, is identified as risk.

Once risks have been identified, they must then be assessed as to the probability that there are threats and vulnerabilities, their potential severity of loss and the probability of occurrence. These quantities may be either simple to measure, like in the case of the value of a lost building or impossible to know for sure as in the case of the probability of an unlikely event occurring. Therefore, in assessment process, it is crucial to make the best informed guesses possible in order to properly prioritize the implementation of the risk management plan. Some regard a calculation of the standard deviation of historical returns or average returns of a specific investment as providing some historical measure of risk.

After identifying risks and assessing their impact on investment objectives, the strategies or techniques to respond and manage those falls into one or more of the following four major actions:

1) Avoidance (eliminate, withdraw from or not become involved).
2) Reduction (optimize - mitigate)
3) Sharing (transfer - outsource or insure)
4) Retention (accept and budget).

In ideal risk management, a prioritization process is followed whereby the risk with the greatest loss and the greatest probability of occurring are handled first, and the risks with lower probability of occurrence and lower loss are handled in descending order.

While systematic risk falls under the category that cannot be avoided but retained and budgeted for, unsystematic risks can be dealt with through efficient diversification, to reduce the total risk of a portfolio to the point where only systematic risk remains. As more randomly selected securities are added to a portfolio, unsystematic risk reduces at a decreasing rate approaching zero. The simultaneous purchase or sale of a financial instrument, known as hedging, can also specifically reduce or cancel out the risk in another investment. Also, through forwards, futures and options contract, several risks can be hedged to even magnify returns.

Finally, the key to managing risk is knowing your risk tolerance level that is consistent with one's financial wellbeing, and invest accordingly. How will you react if your portfolio drops down by 10%, 20% or 30%? Are you prepared to accept significant volatility in exchange for more upside potential over time? Is your portfolio well diversified and allocated with a combination of stocks, bonds, commodities and cash equivalent investment choices? The answers to these questions can help you create a portfolio that meets your time horizon and tolerance for risks that can give you peace of mind.

DAVID ADONRI
HIGHCAP SECURITIES

Under Phase 2 of CIS@30, former Nigerian president, Gen. Ibrahim Babangida (Rtd), legal icon, Chief Chris Ogunbanjo, and former CEO of the Asset Management Company of Nigeria (Mustafa Chike – Obi) were all honoured as Honorary Fellows of the Chartered Institute of Stockbrokers.

The former Commissioner of Finance of Lagos State, Dr Yemi Cardoso and the CEO of the Nigerian Exchange (NGX) were both elevated to the eminent status of career Fellows of the Institute. Senator Ben Murray-Bruce was a prominent attendee at the upscale event in Lagos.

CIS@30 will be rounded up in September 2023 with the publication of a historic book titled History of the Nigerian Capital Market, which will be accompanied by a documentary film. The Inter-School Capital Market Essay Competition and the Institute's Electronic Library project will also be concluded during the same period.

All things considered, CIS@30 was a worthy project and in fact, an eye opener for the Institute. It showed the enormous goodwill that the Chartered Institute of Stockbrokers has garnered all theses years. The events were graced by very important personalities in the society. The massive turnout and support of Chartered Stockbrokers was evidence of the strong bond that exists among members of the capital market community and their love for the institute. As we march towards the Golden Jubilee, we leave you with these inspiring images from a truly memorable celebration.

CIS@30 is essentially a commemoration of the 30th year anniversary of the establishment of the Chartered Institute of Stockbrokers ("CIS"). The extensive array of events, running from November 2022 to June 2023, as provided by the CIS@30 project offers us a rare opportunity to further promote the Institute, enhance its brand value, and attract immense goodwill. The CIS@30 events have thus created wider and unique avenues for the Institute to reach out to key personalities and Institutions who will undoubtedly bring added value to the Institute and help in achieving our various advocacy and operational objectives in the near future.

As the 12th President and Chairman of Council of CIS put it: "Who would have imagined, back in 1992, that a time would come when investors' subscription for IPOs would be done seamlessly by the click of a button on one's telephone handset? If Stockbrokers have taken the Nigerian Capital Market this far, it is only fair that the country celebrate them."

The celebrations started with Thanksgiving Services at the Syrian Mosque, Ikoyi, Lagos and the Redeemed Christian Church of God, Christ's Church, Parish on Friday, 4th and Sunday, 6th of November 2022 respectively. Former Assistant Director general of the NGX, Alh Rasaki Oladejo and Past President Olatunde Amolegbe joined the Brokers at Syrian Mosque, while Past Presidents Henry Olayemi and Mike Itegboje were spotted at Christ Church as Stockbrokers prayed and gave thanks to God for His blessings on the Institute.

On Monday, 7 November 2022, Dealing Clerks returned to the NGX for the first time since 2020 and participated en masse in the Stockbrokers' Walk around the Marina / Customs Street / Broad Street area, as a symbolic event to celebrate the 30th Year Anniversary of their professional body, CIS.

By 2.30pm on same day, the Principal Officers and Council Members present performed the Closing Gong ceremony on the NGX's Trading Floor.

A historic feat was recorded when Closing Gong ceremonies were held by CIS' Office Holders (Principal Officers) at various other Securities Exchanges in Nigeria, between the 8th and 9th November 2022. The exchanges were: Afex Commodities Exchange, NASD OTC Exchange, and Lagos Commodities and Futures Exchange. On 10 November 2022, the Institute conducted the official investitures of two Past Presidents of the NGX, Mr Goodie Ibru and Alh. Aliko Muhammed at the Oriental Hotel, Lagos. Later that evening, 50 regular career Fellows of the Institute were invested at the same venue.

The climax of the first phase of CIS@30 came at the Awards Ceremony on 10 November. It was the Institute's first Awards Ceremony in about a decade and it was full of razzamatazz. Merit Awards were conferred on the eight personalities that visited the President of the Federal Republic of Nigeria on the year that the charter was granted to the Institute. They were labeled "The 8 Wise Men" by the appreciative audience. These gentlemen included, Past Presidents Henry Olayemi, Oladipo Aina and Oladipo Williams. Others were Otunba Femi Ajayi, Wale Kolajo, former Registrar, Remi Bakare and two others.

Awards were also given to Past Presidents of the Institute and various individuals, government agencies, and corporate bodies who had significantly supported and contributed to the growth and development of the Institute in the last thirty years. These included, His Excellency Godwin Obaseki, FCS, Governor of Edo State, the Nigerian Exchange Group (NGX), Stanbic IBTC Bank, and others.

Taming Corporate Raiders

By Sola Oni, ACS

In the late 1990s, a former Head of State, probably woke up from the wrong side of his bed and decided to purchase above five percent stake in a quoted oil company on The Nigerian Stock Exchange (now NGX). The then Management demanded for disclosure of identity of the proposed buyer in line with The Exchange's Rules. The buyer of such volume of shares must be disclosed to ascertain whether he is technically and financially fit and proper. This as an investor -protection obligation. It is also to ensure that such transaction is not a hostile takeover of the company through surreptitious means. But arrogance of power beclouded the Head of State and he refused to disclose his identity. The Exchange boldy turned down the transaction.

In a deft move, the embattled Head of State, set up the Odife Presidential Panel of Capital Market Reform, headed by late Chief Denis Odife. The primary agenda of the Panel was to incorporate the Abuja Stock Exchange obviously to stifle The Nigerian Stock Exchange through unfair competition. Unfortunately, Abuja Stock Exchange came like a stillbirth as it was incorporated in 2000 and went live in 2001, when stock exchanges were merging globally because of the development in information technology. The Exchange's Management tried to educate the Federal Government that multiple exchanges have become archaic but all our pleas turned to deaf ears. After several failed attempts to fully commence operation, the Abuja Stock Exchange metamorphosed into Abuja Commodities Exchange. The Exchange is still drifting like a rudderless boat till date. The last we heard of it was when Godwin Emefiele of the Central Bank of Nigeria announced the Federal Government's plan to sink N50 billion tax payers money as lifeline into the Exchange which has always contended with leadership problem. The proposed capital injection is at variance with the calls from many quarters that the Federal Government should invest such a huge amount on infrastructure like the central clearing house that will benefit all the private-sector promoted commodities exchange such as Lagos Commodities and Futures Exchange (LCFE) and AFEX Commodities Exchange among others.

Director General SEC., Dr. Lamido Yuguda,

There is a need for the market regulators to beam their searchlights on the behind-the-Scene hostile takeovers of quoted companies in Nigeria. In 2021, the famous business mogul, Femi Otedola, hit the headlines for acquiring 7.57 percent stake in FBN Holdings PLC., the Nigeria's oldest bank. Otedola has earlier made peacemeal acquisition up to 5.07 per cent and finally topped it with another 2.5 per cent to hit 7.57 per cent to emerge single largest shareholder. Otedola's huge acquisition, a combination of direct purchase and use of nominees, pitched him against the Company's incumbent Chairman, Hassan Odukale, who argued that his own stake was 5.36 per cent in the Bank. But through the intervention of NGX on the components of shareholding in the bank, it became clear that Odukale's

CIS @ 30: The Frills and Razzmatazz of a Historic Celebration

By Edikan Ekong, FCS

Stockbrokers have played a crucial role in the economic development of Nigeria since independence in 1960. In fact, the first securities exchange in the country; the Lagos Stock Exchange (now called Nigerian Exchange - NGX) was established in the same year of sovereign independence and commenced operations the following year. NGX was responsible for training and certifying its own authorised dealers, but as the capital market expanded and grew in sophistication, with more products introduced and developmental responsibilities amplified, the professional community rallied to set up their professional body, Nigerian Institute of Stockbrokers, with the full support of the industry's regulators in 1990. Two years later, in 1992, they succeeded in earning the approval of the Federal Government which granted the Institute its official charter to function as a professional body in Nigeria under the legal instrument of Act 105 of 1992 (Laws of the Federal Republic of Nigeria).

The Chartered Institute of Stockbrokers Act of 1992 gave the Institute was given the full and exclusive statutory responsibility of determining the standard of knowledge required to practice as a core professional in the Securities and Investment industry in Nigeria, and providing the required training and certification for qualified persons.

With the charter, CIS statutorily took over the role of training and certifying the core professionals in the Nigerian capital market. That singular step contributed immensely to the explosive leap that the market recorded in terms of growth in number of skilled analysts, advisors and dealers in the market. As a full-fledged educational institution, CIS redesigned the training syllabus for Stockbrokers, expanded the scope to cover practically

every known professional function in the market, including Fixed Income and Equity Dealing, Structuring New Issues, Asset Management, Commodity Trading, Custodianship, Regulation and Financial Advisory.

The value creation for the market has been immense. From the 90s scenario, when the country only had a handful of elite securities dealing experts who traded on, and raised capital for companies through the NGX, CIS has produced over 3000 competent Securities and Investments professionals for the Nigerian capital market, many of whom were instrumental to the accomplishment of the major milestones of the Nigerian financial industry during the period. The highly successful banking sector recapitalization exercise of 2005 - 2007, vibrant Federal Government Bond issues, Sukuk financing of infrastructure projects, and multiple recognition as the best performing stock market in the world with regard to return to share investors, are just some of the highlights of the end products of CIS - trained Stockbrokers in Nigeria. That is a compelling reason to celebrate the Institute at this time.

In 2022, Chartered Stockbrokers in Nigeria decided to undertake a thanksgiving and celebration project which they tagged CIS@30. It's theme was "The Nigerian Capital Market: Past, Present, and Future".

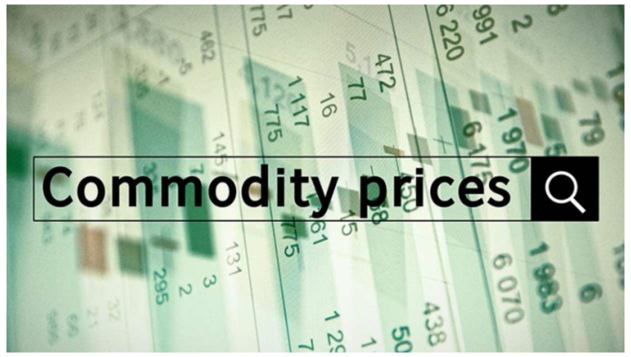
particular crop, the price of that crop typically decreases. In contrast, fears that future supply would be disrupted by drought or flooding might cause prices to rise.

As the demand for various items rises, so does the demand for the commodities used to manufacture them, increasing commodity prices.

While trading commodities can be very good, you should know a few things before investing in commodities.

As highlighted earlier, commodities are heavily dependent on supply and demand. Some agricultural commodities may not perform well during economic downturns as people might consider cheaper alternatives. For instance, due to the war in Ukraine, many countries have resorted to getting alternatives to wheat. The Cameroon government is encouraging local substitutes like cassava and yams to replace the wheat usually imported from Russia and Ukraine.

Also, the commodity market is quite volatile, which sometimes leads to underperformance. Because the supply and demand characteristics change



frequently, volatility in commodities tends to be higher than in stocks, bonds, and other types of assets.

To trade agricultural commodities, you need proper education on the commodities you need to trade at what time and also to be able to diversify your portfolio - AFEX is happy to help with that - we make available daily data on how each commodity is being traded on the Exchange performs and also do periodic live sessions to educate investors. You can visit the ComX by AFEX page to trade and invest in commodities. ComX is Africa's first commodities trading app.

Obianuju Okafor
Africaexchange.com

interest was 4.31 per cent. The Bank reported 40 per cent slump in it's after tax profit for nine months amidst the controversy. Ironically, its share price appreciated by 1.75 per cent following huge transactions on the stocks, apparently by the two key shareholders who were jostling for majority shareholder. The Bank's Audited Account for 2021 revealed that Otedola is the single largest individual shareholder and this doused the boardroom tension between him and Odukale. But in June 2022, Otedola dumped about 844 million shares of First Bank , worth N9.2 billion and the Company's share price nosedived by 13.4 per cent to a six -month low to close at N10.15 on June 10. This is the absolute power of a high networth shareholder to influence share price movement at the detriment or benefit of other shareholders, depending on the price swing.

In April 2023, Otedola again literally rattled the Nigerian Exchange Limited (NGX), when the billionaire snapped up 6.3 per cent shares of Transnational Corporation of Nigeria (Transcorp) in separate deals and emerged the single individual largest shareholder in the conglomerate. Miffed by the implication of this huge acquisition, the


CEO, NGX,
Temi Popoola

Transcorp's Chairman and renowned global entrepreneur, Tony Elemelu, threw his investment hat in the ring and

Shored up his stake from 2.07 per cent to a whopping 25.9 per cent to retain his position as the single largest individual shareholder in the Company. This confers more than a fourth of the corporation's voting right on him. However, on April 28, Otedola sold his newly acquired 6.3 per cent holding to Elumelu in a dramatic way, believed to be gentleman's agreement. But in an interview published by some traditional and online newspapers, Otedola cited his controversial investment relationship with Elumelu since 2005, and traced it to 2012, lamenting his ordeal. He justified the rationale behind his decision to sell-off Transcorp shares 15 days after the purchase thus saying: As a businessman, I believe in healthy competition and market dynamics. Two captains cannot man a ship, and I respect the majority shareholder's decision to buy me out. This is the nature of the game."

He explained that his original plan was to buy Transcorp for N250 billion. Market watchers believe that Elumelu shall tell his own side of the stories one day. As a fallout of the boardroom power play, the Transcorp's share price which had earlier gained a record 173 per cent from the start of the year, fell by 9.9 per cent.

There is no doubt that the battle for controlling shares in a company is a double-edged sword: It can increase the fortunes of shareholders by way of capital appreciation or decrease it by share price depreciation, depending on the investment decision of the corporate raider at any given point. Otedola and Elumelu are on the pantheon of black knights in the Nigerian financial markets. They cannot be ignored but have to be managed by moral suasion or standard rules that make hostile takeover less profitable. In the case of Transcorp, they deploy what is called greenmailing technique, whereby a greenmailer buys a substantial block of a company's shares and threatens a takeover. Elumelu's repurchase of Otedola's shares in Transcorp is one way to tackle a hostile takeover. But Elumelu himself has by this strategy taken over Transcorp.

On April 16, 2009, The Exchange sanctioned a prominent stockbroker and Managing Director of Nova Finance and Securities, Eugene Anenih of blessed memory for allegedly purchasing the shares of African Petroleum (AP), for Alhaji Aliko Dangote through "manipulative and deceptive" devices of cross-trading. By this transaction, AP lost 80 per cent of its share value between February 11 and March 24, 2009. Although Anenih was sanctioned by the capital market regulators, Alhaji Dangote was cleared when Anenih maintained that he did not receive instructions from the billionaire the ultimate losers were the innocent shareholders.

Takeover bids can be friendly, reverse, backflips or hostile. Corporate Finance is replete with many strategies deployed by corporate raiders for hostile takeover. For instance, they can grab a company's controlling shares by means of tender offer, Pre-emptive offer, proxy fight, front-end loaded offer and reverse merger. However, there are defense mechanisms that a company can use to fight corporate raiders, such as management buyouts, poison pills, leveraged recapitalization, shark repellent, employees ownership plans and involvement of Gray Knight which is a direct opposite of Black Knights.

The shockwave that surrounded the transaction between Otedola and Elumelu on Trasncorp's shares has prompted some market watchers to accuse the Securities and Exchange Commission (SEC) and the Nigerian Exchange Limited of regulatory laxity with dire consequences on investor protection. But this accusation lacks merit. The Commission has no direct role to play in such a secondary market transaction while NGX has always enforced its Rule 17.13 "Prohibition of Market Manipulation and illegal Market Dealing". The rules among others require the disclosure of identity of any investor that intends to buy shares worth five per cent and above in a quoted company. But what happens when a smart raider indulges in purchase of shares below five per cent to beat disclosure rule and eventually acquires controlling shares behind the scene. This has brought into fore, the need for the regulators to be on top of the game of investor protection. The NGX Rule 17. 3 is fast becoming trite. It must be reviewed as a matter of urgency to save the Self-Regulatory Organisation (SRO) from further reputational damage. In more advanced markets, heavy capital gain tax is slammed on a corporate raider to make such an acquisition less profitable. This may be replicated by NGX. In this age of rapid technological innovation,

How Trading Agricultural Commodities Can Help You Hedge Against Inflation

Inflation is a major global problem. Nearly all countries of the world are witnessing a rise in inflation
due to increased food and energy prices resulting from the Russia-Ukraine conflict. Global inflation was projected to climb to 7.4% in 2022 from 4.7% in 2021. The situation is particularly tense in North and Nigeria is no exception. According to the National Bureau of Statistics, Nigeria's inflation rate reached 18.12% in April 2023, the highest in over four years.
This current inflation rate is influenced by several key factors such as fuel shortages and supply shocks caused by the war in Ukraine, insecurity and conflict in the northern regions that disrupt agricultural production and exchange rate depreciation. Most recently, the removal of fuel subsidy has resulted in increasing transportation costs, which is looking to trigger a ripple effect on the prices of goods and services, further fueling inflationary pressures in the economy.
Inflation is like a pest that eats your money. The Oxford Dictionary describes it as a general increase in prices and a fall in the purchasing value of money.' A simple definition of inflation offered at an elementary economics level is 'when too much money is chasing after few goods.' Whatever definition you find easier to go with, the impact is uncontested - that is, when inflation is on the increase, it essentially signifies that your money will not go as far as it formerly did.
So, how do you preserve monetary value and beat inflation at its own game? One of the ways to hedge inflation is by investing in commodities. Investment in commodities always gains interest when inflation rises. Research shows that commodities (produced or extracted products, often natural resources or agricultural goods, that

are often used as inputs into other processes) are one of the asset classes most positively correlated with inflation. Commodities are not the primary cause of inflation but are a significant factor in their rise, and this link makes commodities an automatically effective inflation hedge. In particular, agricultural commodities have been tipped as one of the best commodities to trade now.
The rising prices of grains and oilseeds and the plethora of supply-side issues due to the Russia- Ukraine war have pushed up agricultural commodity costs. Agricultural commodities were up 26.8
percent at a time when global equities declined by approximately 13.88 percent due to rising inflation and tightening liquidity circumstances.
Here are a few reasons why these agricultural commodities counter inflation.

Traditional asset types, such as equities and mutual funds, have a limited correlation with commodities. This indicates that if the price of equities falls, the price of commodities will increase.
The supply-and-demand dynamics have a substantial impact on commodities as well. For instance, if there is a large harvest of a

Stakeholder Engagement & Partnerships
Delivering on the development aspiration of NASD requires considerable stakeholder engagement and strategic partnerships.

To this extent, engagement meetings have been held with the CIS, ASHON ICMR and AIHN to communicate NASD's strategic intent and seek for how partnerships could evolve to see to their realization.

Contact has also been made with the Lagos Chamber of Commerce and Industry (LCCI), AFEX and InfraCredit to explore opportunities for partnerships that will achieve improved origination on the NASD platform.

It is believed that these engagements will bring to fruition the development aspirations of NASD and an improved return profile for shareholders.

RC 201018

CENTRAL SECURITIES CLEARING SYSTEM PLC

NGX must invest heavily in human capital and equipment to be ahead of smart investors and other players in the market.

Some so-called promoters of companies in Nigeria are replica of the disgraced and recently convicted 39-year old founder of a tech company, Theranos, Elizabeth Holmes, who fraudulently raked $452 million from innocent investors in the United States through her blood-testing company which never commenced operation. Many investors in Nigeria had lost huge amount of money in the primary market due to the failure of the promoters to deploy the money for the set objectives. As part of its rebranding, SEC has to put its house in order by reviewing all such outstanding sleazy offers and bring the promoters to book. This is the minimum the Commission can do to restore investor confidence in the market. Innocent shareholders deserve adequate regulatory protection from those who indulge in hostile takeover by subtle means.

Oni, an Integrated Communication Strategist, Chartered Stockbroker and Commodities Broker, is the Chief Executive Officer, Sofunix Investment and Communications

Tinubu Administration and Imperative of the Nigerian Capital Market

By Edikan Ekong, FCS

May 29, 2023 ushered in a new administration of the Federal Government of Nigeria under the leadership of President Bola Ahmed Tinubu, GCFR. The biggest challenge before the new government is to fix the economy, and they have started well.

The outgoing government of Former President Muhammadu Buhari, worked very hard under some unprecedented difficult circumstances, to pilot the economy to the stage that it is at the moment. The Covid-19 pandemic and the Russia-Ukraine War, for example, were extremely tough scenarios whose impacts were definitely beyond the control of the Nigerian government.

A major credit to the Buhari administration was the frontal attention paid to infrastructural development in the country. Under President Buhari, Nigeria witnessed perhaps, the most ambitious federal infrastructure programme since Independence. The Infrastructure Corporation of Nigeria (InfraCorp) was established by President Buhari in February 2021, with initial seed Capital of N1 Trillion. This was complemented by the establishment in 2020, of the Presidential Infrastructure Development Fund (PIDF), which has invested over a billion dollars in three flagship projects: Lagos-Ibadan Expressway, Second Niger Bridge, and the Abuja-Kaduna-Zaria-Kano Expressway. On 6th April 2023, the first commercial vessel berthed at the new Lekki Deep Sea Port – the first new Sea Port in Nigeria in decades.

The Ease of Doing Business reforms, anchored by the Presidential Enabling Business Environment Council (PEBEC) under the Chairmanship of Vice President Yemi Osinbajo, was quite successful, helping to drive Nigeria 39 places up the World Bank Doing Business ranking; Buhari's administration will also be remembered for building the platforms for a sustainable digital economy and guiding the ICT


Tinubu

industry to a record setting contribution to the country's GDP, rising to18.44% in Q2 of 2022. President Buhari's assent to the Petroleum Industry Act on August 16, 2021 broke a two-decades-old deadlock, setting the stage for a positive transformation of Nigeria's Oil and Gas sector. Under the new Act, the Nigeria National Petroleum Corporation (NNPC) has transformed into a Limited Liability Company, with full focus on efficiency and productivity.

There is no denying that these are significant achievements for the Muhammadu Buhari administration. However, critics have pointed out that the primary economic indicators; those that touch the immediate living standards of the average citizen, are largely on negative territory. The situation is aptly summarised by the World Bank's Macro Poverty Outlook for Nigeria: April 2023 which stated: "With Nigeria's population growth continuing to outpace poverty reduction, and persistent high inflation, the number of

and Exchange Commission (SEC). While there are *some* legitimate companies on the Pink Sheets, this is where you'll find many shell companies and other companies with no actual business operations. Most stocks that fit the definition of penny stocks can be found on the Pink Sheets.

The NASD PLC. Parallel

- Trading on the NASD is organized by an order and quotation driven process.
- Prices of securities on the NASD are made by the expressed interest of officially registered market participants (brokers and dealers) on a real-time basis.
- However, the companies' securities that trade on the NASD could either be company initiated (i.e. a company admission) or shareholder initiated (i.e. securities admission).
- To this extent, required disclosures and investor community interaction by the companies does not always occur as may be desirable.
- To encourage companies to conform, NASD has a company compliance code categorization:
- **Blue Categorization**: These are admitted securities with a history of sound financial performance. These Issuers demonstrate a high level of corporate governance, timely disclosure of their financial statements, regular communication with shareholders and meet minimum requirements of the Securities and Exchange Commission (SEC).
- **Pink Categorization**: These are admitted securities that do not comply with the minimum disclosure and reporting requirements of the SEC and NASD. Issuers under this category may not have current information available to the public.
- **Red Categorization**: These are admitted securities that have failed to disclose information to NASD.

Is NASD strictly an unlisted securities market?

- NASD still carries the appellation of an OTC market but has very apparent salient features of a formal listing Exchange. The lines are somewhat blurred.

NASD 2023 & BEYOND

NASD PLC. seeks to broaden the operating profile of the Exchange as seen below now and in the years to come.

NASDep (Enterprise Portal)	NDSP (Digital Securities Portal)	PPP (Public-Private Partnership)	NEW FRONTIERS
•Identification of, and capacity development of high growth SMEs •Supply Chain Financing	•Pioneering Digital securities introduction to the Nigerian Capital market	•Partnering with the public sector to assure sustainability and operational efficiency of infrastructure/public assets •E.g. sustaining a state airline and keeping it viable	•The Nigeria Football Fund. •The Nigerian Automotive Industry. •Mortgage Securitization. •Green Energy/Off Grid Power. •Creative & Entertainment Industry.

Relating with the over - the - Counter (OTC) Market in The Nigerian Capital Market

What Really Is The Concept Of The OTC/Unlisted Market?

- There are two broad basic ways financial markets are organized:
    - Exchanges
    - Over The Counter Markets (OTC)
- Exchanges tend to be more formal physical platforms with stricter qualification and minimum threshold requirements
- An over-the-counter (OTC) market is a decentralized market in which market participants trade stocks, commodities, currencies, or other instruments directly between two parties and without a central exchange or broker. Over-the-counter markets do not have physical locations; instead, trading is conducted electronically. This is very different from an auction market system.
- In an OTC market, dealers act as market-makers by quoting prices at which they will buy and sell a security, currency, or other financial products. A trade can be executed between two participants in an OTC market without others being aware of the price at which the transaction was completed.
- OTC markets are more flexible and have a very broad range in qualification, minimum threshold requirements, trading processes and disclosure requirements.
- The distinction between both market types has become blurred by the introduction of many recent electronic devices, processes and platforms to the securities dealing process.
- In a simple form you could conceive the difference between both as formal and less formal.

A Tour Through A Global OTC Parallel

- In the USA the major Exchanges are the **New York Stock Exchange** and the **NASDAQ OMX Group.**
- There are, however, over **12,000 securities,** that do not trade on the major Exchanges but trade over the counter (OTC) in the USA Capital Market.
- They are subsumed broadly under **OTC Markets Group,** which, however, may be classified under 3 basic groups:
- **OTCQX** – the prime market that actually has high quality formal Companies like Samsung Electronics and Nestle S.A. Quite a number of international companies select this route to trading their securities on the US market.
- **OTCQB** – This is the 'Venture Market' and has a large concentration of developing companies. OTCQB companies have to report their financials and submit to some oversight.
- **Pink Sheets:** Companies traded on the Pink Sheets, also sometimes called the OTC Pink Sheets, have no reporting requirements and don't have to register with the Securities

Nigerians living below the national poverty line will rise by 13 million between 2019 and 2025 in the baseline projection."

Inflation, as the World Bank affirmed, reached an annual average of 18.8 per cent in 2022, a 21-year high. Unemployment, which official figure was last reported as 33% in 2020, has been projected by the consulting firm, KPMG, to rise as high as 40.6% in 2023. The country's national debt stands at over N44 trillion, well above the N12.1 trillion inherited from the previous regime. That was the sign off point.

... As President Bola Tinubu, GCFR, comes in

Tinubu served as the Executive Governor of Lagos State between May 1999 and May 2007. He inherited what could best be described as a modest economy, although the State also has the privilege, as former Federal Capital, of being the commercial nerve centre of Nigeria, with a multi-ethnic population of over 10 million people.

It was Tinubu, however, who wielded the magic that drove internally generated revenue in Lagos State from the reported N600 million monthly, to about N15 billion. The "Tinubu Effect" has been sustained ever, and current governor, Babajide Sanwo-Olu confirmed that Asiwaju Bola Ahmed Tinubu was the brain behind the development master plan being implemented by successive administrations in the State.

Tinubu turned Lagos into a clean city; both physically and in terms of security, but his attributions in the economic front would stand him out among his peers. The base was the Lagos State Economic Empowerment and Development Strategy (LASEEDS) which became the precursor to the Lagos State Development Master Plan (LSDP) that originated from the Lagos Economic Summit (Ehingbeti) initiated by the same Bola Tinubu administration. The Lekki Free Trade Zone has opened Lagos to investors and now several frontline companies have set up base in the area.

It is particularly noteworthy and commendable, the importance accorded to Public – Private Sector initiatives under Bola Tinubu's economic masterplan: The Lekki Free Trade Zone, Lagos BRT scheme, Enron power project, etc.

As President and Commander in Chief of the Armed Forces of the Federal Republic of Nigeria, Bola Ahmed Tinubu hit the ground running on a decisive note. His inaugural speech as President answered the key questions about the economic policy direction of his government: Removal of fuel subsidy; unified foreign exchange rate; infrastructure development; enhanced electricity generation, transmission and distribution; abolition of multiple taxation and all anti-investment policies; reintroduction of commodity boards; review of interest rates and monetary policies; and, seamless repatriation of profits on investments.

President Tinubu sounds assured and prepared for the task ahead. I will only complement his resolve by making a few additional suggestions.

The capital market is a major tool for achieving the economic rejuvenation that the government desires. A properly structured and well - developed capital market serves as a propelling engine for capital formation in the country. It facilitates the aggregation of massive capital with long term risk orientation, which in turn engenders innovation, enterprise and catalytic employment generating ventures.

Other countries have used the capital market to achieve accelerated development and global economic dominance: USA, UK, and South Africa did it. Most western economies are advanced because their financial systems are moulded for long term financing and investments. They are built to finance long term, highly capital - intensive projects in both the public and private sectors at very low and bearable costs to the initiators. On the contrary, the Nigerian economy is almost totally bank dominated. Banks work with short term funds (deposits), so their investment horizon is also short term (less than 2 years at most).

The capital market, where long term funds reside, therefore holds the key to Nigeria's sustained development. Unfortunately, the output of the Nigerian capital market, as at today, is less than 15% of the country's GDP., while less than 10% of the country's population have ever made investment in shares. These show that the capital market is still in its infancy in the country.

The capital market was a bright spark in the Nigerian economy in 2022, showing a strong resilience and inherent capacity to retain investors' confidence. By half year 2022, the Nigerian equity market in particular was rated the 4th best performing in the world in terms of return on investment. It was this market that the banks used to meet up with then CBN's directive of increasing minimum share capital from N2billion to N25 billion in 2005.

The Federal Government should therefore take active interest in the well - being of the Nigerian capital market. The Securities and Exchange Commission (SEC), which is the apex regulatory institution, and which plays a similar role as that of the Central Bank of Nigeria in the banking system (money market) should have the ears Mr President.

The economic climate is tough worldwide. The World Bank projects that global economic growth will slow sharply, while the International Monetary Fund warned of an impending recession that will hit one-third of the world this year.

President Bola Ahmed Tinubu has shown that he knows where the problems lie, and to a substantial extent the solutions. He should embrace the capital market, develop the market and use it as one of his fundamental weapons for fixing the economy.

Public Private Partnership (PPP) is the way to go, and the capital market serves as effective bridge to link the two sectors. Nigeria needs to have a Savings-friendly economy: Savings create investments. The CBN and the banking system is just one leg of the savings mechanism. The capital market is another, and potentially bigger leg.

Large companies, including the command heights such as NNPC, should be guided to list on the stock market, while emerging MSMEs should be encouraged as well, because the capital market offers the cheapest and most convenient platform for them to raise large business capital with long term gestation.

Capital Market Literacy (CML) should be promoted by government extending financial support to institutions like the Chartered Institute of Stockbrokers (CIS) who are primarily engaged in training and certifying professionals in the industry and carrying out CML campaigns to schools and other community centres across the country.

Tax concessions should be granted to operators and investors alike to encourage investments, while the banks and CBN should be encouraged to support the market by extending liquidity to operators at affordable terms. It is time to fully permit margin lending in the market as is done in all the developed economies to accelerate the volume and pace of investments therein.

By embracing the capital market, President Bola Ahmed Tinubu and his team will unlock the vital component of the engine that will spark double digit GDP growth in Nigeria.

Edikan Ekong, FCS
Head, Research and Technical
Chartered Institute of Stockbrokers

will not change the fact the updates are on steroids and the world is global and intertwined. Nigeria is the giant of Africa and has the highest GDP in Africa with the largest population in the Africa. Nigeria should take her place as a leader in the global community as we have the potential and what it takes. We have wallowed enough in our sense of classification as developing nation. This is the same charge we need to take derivatives trading to its next level. We need this new generation to move the capital market (especially derivative trading) forward. The depth, technicalities, operations, and challenges of derivative market and trading are not different from what crypto and NFTs present, which the new generation has equally risen up to the task.

NGX Derivative Trading: Localized Lessons from IFRS

This piece would not be looking at developing and developed derivative markets – it is believed that the regulators would have done a good job on that. Like a good product strategy would consider, competition may not come from companies in the same industry but sometimes from unrelated industry. Thus, lessons could be learnt from any industry and adapted accordingly.

What readily comes to mind is the adoption of IFRS in Nigeria in 2012. Like derivatives, Nigeria had IFRS considerations on the table, having weighed the pros and cons and it seemed the pros won. The identified benefits of using IFRS include standardization and uniformity of accounting reports; ease of comparison; access to foreign funds and lower cost of capital; inter-border listing.

Phased based on the various business scales (big companies, MSME), Nigeria put IFRS adoption ahead of other subscription options like adaptation and convergence. By subscription options, they mean the degree of application and implementation of and compliance to IFRS as issued by IASB. So full IFRS adoption means 100% implementation and compliance to all IFRS. IFRS adaptation localizes IFRS to suit the country and may sometimes go for standard-by-standard implementation. On the other hand, IFRS convergence maintains local accounting standards with a view of maintaining a working relationship between local accounting body and IASB to fashion out the best standard for the local economy.

Nigeria has chosen the path of IFRS adoption to fully enjoy the benefits. After over a decade of use, much empirical research has dug into these benefits and the extent of their realization. The benefits of standardization, uniformity, and comparison are not in doubt. Over this period, Nigeria has witnessed about three cross-border (dual) listing in Seplat, NewGold ETF, and Airtel. However, capital inflows into Nigeria have been more dependent on other macroeconomic factors (especially monetary policy) than IFRS adoption. Some academics are of the opinion that IFRS adoption in Nigeria is overhyped having seen little or no effect on the economy and thus call for adaptation.

The obvious is that there are benefits accruing to the use of derivative, as clearly seen from the current global situations. Nigeria has chosen the path to use derivative trading to manage risks, to discover price, and to provide liquidity in the capital markets. Many markets were studied to get to where we are; however, Nigerian derivative seems to have Indian market as her top model. Thus, India currently leads in our current derivative technology and training. The Indian derivative was introduced in 2000 starting with futures and option was introduced in 2001 with more derivative products to follow down the years. Within one year of introduction in India, index futures recorded 90,590 contracts on NSE (from BSE website) and 77,743 contracts on BSE (from BSE website). After a year of introducing derivatives in Nigeria, we could only hope we are copying Indian model right. Could it be that we adopted instead of adapting to Nigerian context?

Conclusion

From the foregoing, what can the new derivative trading learn from its one-year journey and IFRS adoption in Nigeria? With one year, the concern is around improving the volume of derivative trading on NGX. First, the issue of generational gap is a concern if we want to boost derivative trading in Nigeria. Second, Nigeria's derivative models have considerable improvement over the years – we may need to look inwards and adapt our learnings to Nigerian context. Also, there are issues beyond derivative trading in Nigerian capital market and some of these issues are at the heart of the economy at large. The greater and better future of derivative trading will hinge on success of the broader economic issues. Conclusively, could it be said that the current state of the NGX derivative exchange is true to the maxim that: stock exchange is a barometer of the economy?

"FG should tap into Stockbrokers Expertise" - Adeosun

A thoroughbred multi-dimensional professional with over three-decade experience in the Nigerian Financial Market and President and Chairman of Council, Chartered Institute of Stockbrokers (CIS), ***Mr. Oluwole Adeosun, FCS****, in this interview with* ***The Nigerian Stockbroker****, X-rays the state of the Nigerian Capital Market and offers suggestions on how the Federal Government can make the market more competitive through constructive engagement with the regulators and operators.*

Can you comment on the historic rally on NGX after the swearing -in of President Bola Tinubu?

The Stock Market has been a barometer to measure developments in any economy, and the conclusion of the electoral process in Nigeria encapsulated in the inauguration of a new government is a major milestone that will excite any securities market. It is therefore not unusual for our market to spontaneously react to the positive development by way of the spike in the prices of the securities. The policy pronouncements, on the day of the inauguration, were also seen as a silver bullet that raised the consciousness of the stakeholders to the opportunities in the securities market.

In his inaugural Speech, President Bola Tinubu said there would be unified exchange rate. How will this impact the activities in the capital market?

That is one of the urgent policy corrections that the Nigerian Capital Market has been canvassing for in recent years. The wide gap between the official and parallel market rates is an anomaly which creates room for so many market malpractices. By creating a more efficient and transparent foreign exchange management system, the unified rate policy will make the market more competitive, make the currencies more easilyaccessible to manufacturers and other end users, and improve the bottom line for our quoted companies.

The transparency that will evolve from determining the rate will boost the integrity of the exercise which is expected to excite foreign investors to make a return to our securities market. There cannot be a perfect unified rate. But if the margin between the official rate and other windows is within 3 per cent range, it is normal. But the supply side of the forex has to be addressed as a basis to ensure that forex scarcity will not hamper the success of exchange rate unification in the medium and long run.

How can the Federal Government deploy the market to achieve the 6 % projected growth of the Nigerian Gross Domestic Product (GDP)?

That question will be thoroughly discussed and answered at the forthcoming CIS National Workshop coming up in Abuja on July 27, 2023. Suffice to state, for now, that the capital market is a very effective tool for actualizing a broad based Public Private Partnership strategy which we recommend for President Bola Tinubu and the various State Governors.

As at May 29, 2023 the Market Capitalization in the Nigerian stock market was just a little fraction of the country's GDP, but that is a paradox, because the market has actually shown over time, that with adequate institutional support, it can significantly contribute to the economic transformation of the country. The capital market was used to transform the Nigerian banking system into the multi trillion industry that it is today, and to provide critical liquidity for governments in the country. The market is effective at pooling long term capital in the economy. Listing on the stock exchanges also enable large multinationals and MSMEs alike to raise massive capital with long term payback and very low cost. The commodity ecosystem is another revenue centre that the Federal Government can exploit. This is why the government should engage the operators in the ecosystem to know that is required for them to operate optimally.

Are there policy measures that the government should put in place to encourage both foreign and domestic investors to participate more in the capital markets?

The role of government in businesses worldwide is to provide an enabling environment that will allow productive enterprises to flourish. By enabling environment, we mean rule of law, provision of adequate infrastructure etc. The government must create a savings friendly economic environment, and then, continuously work towards improving the Ease of Doing Business ranking of the country, to make it a competitive investment destination.

Tax policies should be reviewed, to encourage investments and not the other way round. For example, the recently

The NGX Derivatives Trading in Nigeria: Appraising the Journey and the Localized Lessons.

By Peter Abe, FCS, PhD
peter.abe@outlook.com

Introduction:

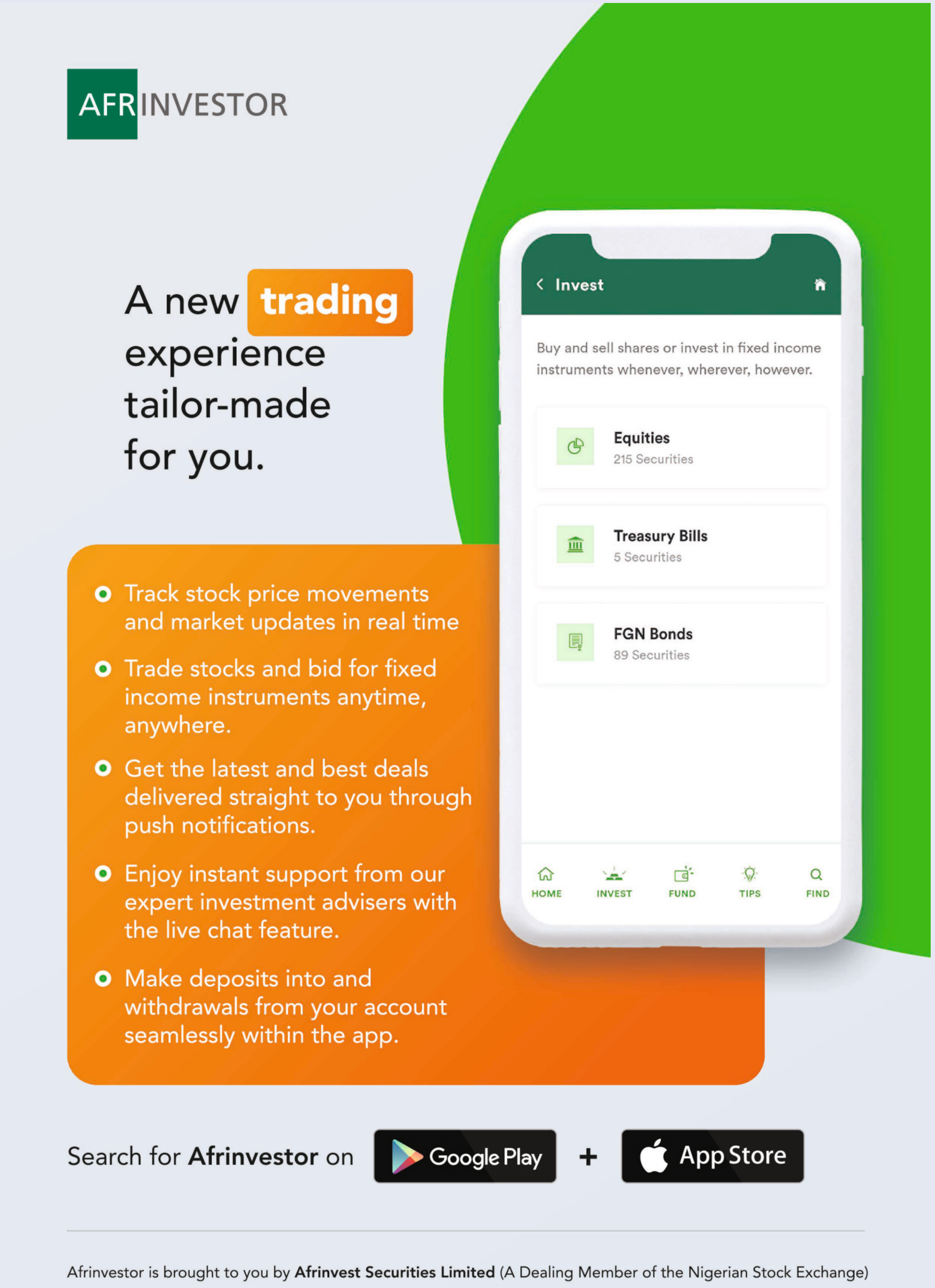
The staggering benefits of derivatives were unmistakably presented to the Nigerian Capital markets with its introduction on the Nigerian Exchange (NGX) in April 2022. Being the first in West Africa, the Securities and Exchange Commission (SEC), the NGX, and the Nigerian Clearing Ltd (NGClear) took their time over the years to research and put every possible structure, policies, and rules in place to ensure the success of the exchange traded derivatives (ETD) products from the onset.

The ETD on the NGX is not just about increasing product portfolio available for investors to trade in. Rather, the introduction is pre-meditated. The benefits of derivatives are risk management, price discovery, liquidity driver, and speculation. The gross market value of the over-the-counter (OTC) derivatives contracts increased by 45.4% at mid-year 2022 compared to mid-year 2021 (ISDA, Nov 2022). The notional value of outstanding OTC derivatives rose to $632 trillion at end-June 2022, up from $598 trillion at end-2021. This marks a continuation of the moderate upward trend evident since end-2016 (BIS, 2022). Notably, the Russia-Ukraine war and the following global rising inflation rates prompted the increase in derivatives on commodities and interest rates. These examples show us the benefits of using derivatives.

Appraising the NGX's Derivative Trading
The NGX derivative market started with the introduction of two index futures (NGX Pension Index Futures and NGX 30 Index Futures), with the promise of adding stock futures a few years down the line (SEC-approved underlying stocks - DANGCEM, MTNN, ZENITHBANK, GTCO, ACCESSCO - are on the queue waiting to be added). The ETD trading started with three Trading License Holders – Cardinal Stone Securities Limited, Meristem Securities Limited, and APT Securities and Funds Limited, while Stanbic IBTC Stockbrokers Limited joined them in February 2023. The premier Central Counterparty in Nigeria, the NG Clearing Limited provides the clearing infrastructure for NGX Derivatives Market alongside its clearing members – Access Bank and Zenith Bank. Following the expiration of initial contracts in December 2022, two new contracts were listed in December 2022, the NGX listed two new contracts: NGX30 INDEX and NGX PENSION INDEX Futures Contracts - both expiring in June 2023.

It is about a year and the first anniversary of the introduction of the ETD on the NGX in Nigeria is around the corner. The NGX derivative trading has a slow start, which could possibly be a fallout of the past capital market experiences. Over the last two decades, the Nigeria capital market has been besieged by various economic woes like economic meltdown, recession, FX scarcity. These have dented investor confidence, which is still far from total recovery and let alone moving on to greater heights. We have not seen much of the broker book trading and institutional trading. Perhaps the knowledge gap is another reason, while policy constraint is another concern – for example, the PENCOM rule does not encourage use of derivative by the pension fund administrators. Other worries are quite beyond the product itself and an average investor looks forward to a better economy.
Generational Gap's Concern – Beyond Derivative Trading.
The fact is that generations are changing; incessant updates and changes are not only seen in technology but also in the economy. Of a truth, economic changes (including products, technologies, policies) are realities in the Nigerian Capital markets. The generational gap remains a worry with the deafening silence and absence of new generations (millennial and GenZ) in the Nigerian capital market. How many of these young folks know about 2008 NSE crash? While many old generations are still counting their losses, the new generations are faced with trading the new fast-moving financial products (crypto, NFTs).

Caution and security are understandable, but they



introduced Capital Gains Tax will discourage high volume investments, and should be removed for now, particularly in view of the fragile nature of our economy and capital market. We need to encourage more investments.

The government should listen to us more; have more consultations with the Capital market regulators and operators in policy formulation. By training and certification, stockbrokers are multidimensional professionals. We have a lot to offer at different levels of the economy and even polity. This is why the Federal Government should tap into our expertise through engagement for collective growth and development of the financial market. Our Members had served in various capacities of governance and excelled. Some are still serving at the moment. Steps should be taken to extend trading liquidity to the stock market, as is done in the advanced countries. Our pension funds should, as a matter of national interest, invest a higher proportion of their funds in the equity market to provide a stable foundation that motivates other high net worth to invest over the long term; and the Central Bank of Nigeria should pay more attention to the stock market, allow bank stocks to be included in margin lending portfolios being the most active and liquid stocks and encourage banks to partner more with Stockbroking firms. We cannot still be living in the past and be looking forward to a better future.

Is there a deliberate plan by the Institute to attract youths into the financial market?

The youths represent our topmost priority area. Tertiary institutions and schools generally represent the first point of our annual capital market literacy drive. We also have the Inter-School Capital Market Quiz competition and recently, Essay Competition. We undertake Career Talk programs in so many institutions every year. As a matter of fact, we have gone to the extent of awarding the CIS Diploma scholarship to quite a number of young, indigent Nigerian citizens and many of them have responded positively.

When will the e-library of the Institute become operational?

Very soon. We are currently putting the finishing touches to the library room, having procured the necessary tools for its operation. The unveiling will be announced before the early in the third quarter.

How would you advise investors under the current business environment?

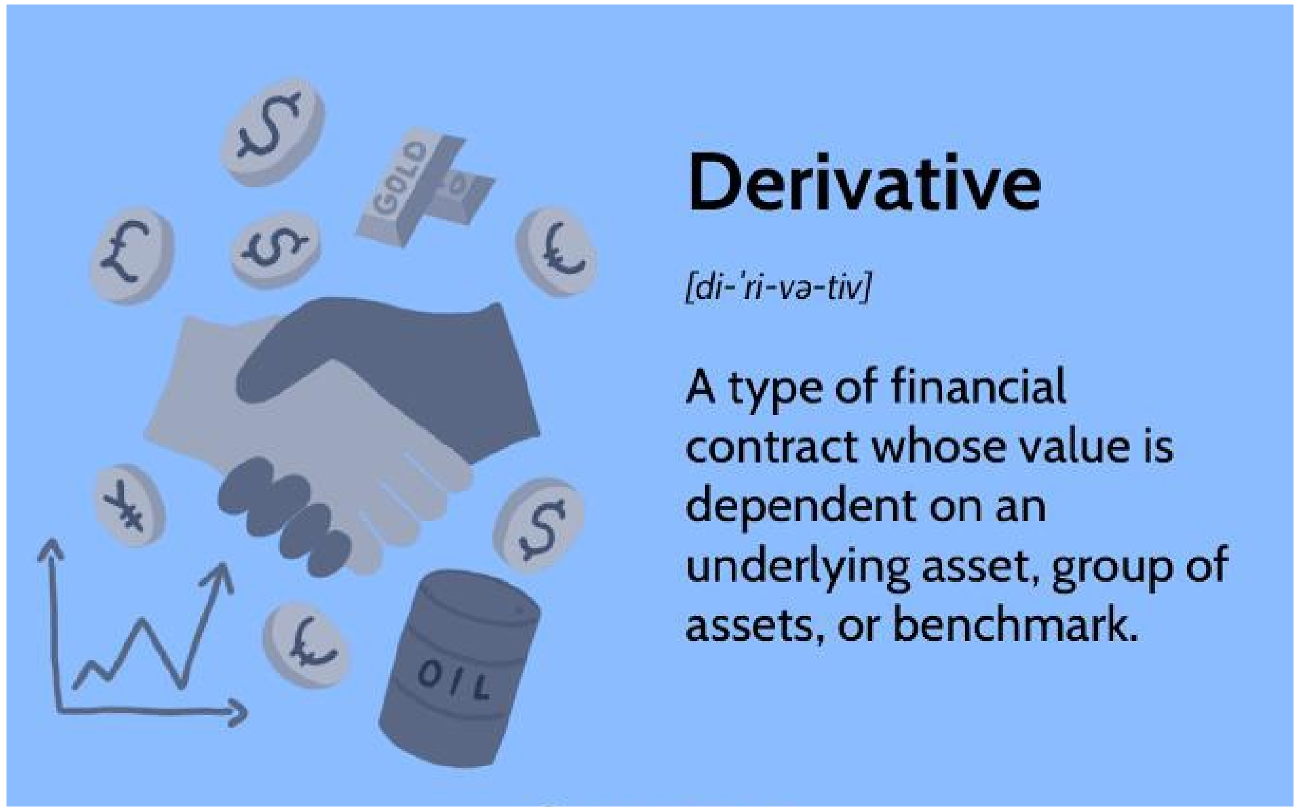
This is an excellent time to invest, with the guarantee of democracy in the country. The market will grow as the policies of the new government take shape. Having said that, please ensure that you always consult a qualified and licensed Stockbroker to guide your investment decisions. You may visit the CIS or SEC websites for the lists of qualified operators, or the websites of the various securities trading platforms. Investors should contact their stockbrokers for effective investment advice. Investment is a trade off of risk and return. An investor can make money in all seasons with appropriate investment advice.

There is still a knowledge gap in understanding the benefits of investment through the capital market. What are plans in the pipeline to deepen investor education?

We have a lot of plans. However, it must be understood that Capital Market Literacy drive is expensive. That is the reason we continue to request for grants: From government, market regulators, quoted companies and the general public. As you are aware, we launched CIS Academy last year and in just a small space of time, they have done so much in imparting skills to the larger financial industry; an example being the recent joint training Programme with Lagos Business School on Board Leadership in the Securities and Investments industry. We have so much

NGX, ACCELERATING THE DEVELOPMENT OF ETDs IN AFRICA

... Launches West Africa's first Exchange-Traded Derivatives Market



A thousand-mile journey begins with a single step, and a thousand-mile journey begins where one stands, according to an ancient proverb. This adage applies to Nigerian Exchange Limited's experience in 2014, when the International Securities Consultancy (ISC) was engaged to assist with the assessment, benchmarking, infrastructure requirements, and sequencing of potential risk management products for the Nigerian capital markets, based on the international experience of developed and emerging capital markets.

The outcome of this feasibility study revealed that the Nigerian capital market was ripe for the Exchange-Traded Derivatives (ETD) Market. Consequently, the Exchange engaged relevant market stakeholders and developed a roadmap for the introduction and development of the ETD market in Nigeria.

Furthermore, the Exchange identified and provided the required market infrastructures needed for the development of a thriving derivatives market including a robust regulatory framework, technology infrastructure, and capacity development. In 2019, NGX Derivatives Trading Rules were approved by the Securities and Exchange Commission (SEC). Also, the Federal Government of Nigeria made provision for the Netting Law in the new Companies and Allied Matters Act (CAMA) 2020, which provided the legal basis for the trading of derivatives and operation of a Central Counterparty (CCP) System in Nigeria. Sequel to the provision of the netting law, Nigeria's premier Central Counterparty (CCP) and Clearing House, NG Clearing, was licensed by the SEC in 2021

from the previous year. The open interest stood at 1.09 billion contracts, up 0.9% from 1.076 billion contracts at the year-end of 2021. This is the fifth year in a row that global exchange-traded derivatives markets have exceeded the previous year's total trading activity. This market outlook reinforces NGX's belief in the thriving future of Nigeria's Exchange-Traded Derivatives market.

NGX is poised to accelerate the development of ETDs Market in Nigeria and is committed to rolling out other derivatives contracts based on market appetites including Single Stock Futures, Interest Rate Futures, Bond Futures, Currency Futures, etc. The SEC has approved five (5) NGX single stock futures contracts, the selection of these contracts were based on their market capitalization and turnover within the last few years. NGX is confident that the introduction of Single Stock Futures contracts will drive the desired liquidity in this market segment as seen in other derivatives market jurisdictions including Kenya, Thailand, India, South Africa, etc. The Exchange is assiduously working on the technology implementation and systems integration that will allow for seamless trading and clearing of the contracts.

The Exchange believes that the derivatives market will potentially address the price volatility risk management needs of market participants such as Pension Fund Administrators, Fund Managers, Corporate Treasuries, and Trading License Holders. Also, it will provide investors and other market players, with the necessary tools for asset allocation, and cost management for effective portfolio management. NGX will continue to drive investors' education and capacity building of market participants by organizing tailored derivatives workshops, pieces of training, webinars, and conferences.

NB. NGX Equity Index Futures are standardized derivatives contracts that

create an obligation for the contract holder to purchase or sell an NGX Equity Indices on a specified date at a predetermined price. NGX Equity Index Futures are cash-settled contracts traded on the NGX X-Stream Derivatives Trading Platform or any other system designated by the Nigerian Exchange Limited. NGX Equity Index Futures can be used by Fund Managers, Portfolio Managers, Retails, and other corporates to hedge price volatility risk on their NGX Equity Indices and other equities investments.

For more inquiries, kindly reach out to productsdevelopment@ngxgroup.com or visit the NGX Website https://ngxgroup.com/exchange/trade/derivatives/

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 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

and the integration between NGX and the CCP was completed in 2022. This was done to further enhance confidence in the NGX Derivative Market segment, as the clearing infrastructure is of international standards, capable of reducing systemic risk and enhancing market transparency.

On April 14, 2022, NGX launched West Africa's first Exchange-Traded Derivatives Market with Equity Index Futures Contracts on the most widely followed and recognized equity indices in the NGX market – NGX 30 Index and NGX Pension Index. Between April and May 2023, the NGX listed ten (10) contracts, with a transaction volume of nine (9) contracts valued at N16.48 million ($35,811), demonstrating investors' appetite and readiness for the product. This slow start was similar to those of other developing markets such as the Nairobi Securities Exchange derivatives market, Thailand Futures Exchange, and Bosa Istanbul. The Nairobi Securities Exchange derivatives market, which was launched on 4th July 2019, with an average of two (2) equity index futures contracts traded weekly, however, the market later got accelerated through the activities in Single Stock Futures with about 140 contracts traded weekly . NGX believes that the introduction of more product classes and an improvement in investor education will grow its derivatives market.

Since its inception, the NGX Derivatives market has enjoyed the support and activities of market participants. Currently, five (5) Trading License Holders, including Meristem Stockbrokers Limited, Cardinalstone Securities Limited, APT Securities and Funds Limited, Stanbic IBTC Stockbrokers Limited, and PAC Securities Limited, have been accredited as Derivatives Trading members. Furthermore, the CCP, NG Clearing, has accredited and onboarded two (2) clearing members, Access Bank and Zenith Bank. Moreover, the Exchange has developed a seamless accreditation process for Trading License


Popoola

Holders to participate in this market; interested firms must meet the requirements outlined in the Rulebook of Nigerian Exchange's Derivatives Market including the existing minimum capital requirement of Shareholders' Funds of 300m and Net Liquid Capital of 200m. Others include availability of required human capital resources (Trader/Dealer, Compliance Officer, Settlement Officer, and Risk Manager/Officer) with robust operational processes as well as required technology to support derivatives trading. Also, prospective derivatives members are expected to open clearing accounts (Margin/Collateral Account, Settlement Account, and Operational Account) with any of the accredited Clearing Members in Nigeria.

It is worth noting that the derivatives market has significantly increased in value and importance to become a strong pillar of the global financial system that enhances improved access to finance, price discovery, and transfer of market risk. Despite the unprecedented challenges facing the global financial market, derivatives contracts have continued to serve their role well in managing market and economic risk. The market has experienced tremendous growth in trade volume and value. In 2022, according to the Futures Industry Association (FIA), the total volume of trades in Exchange-traded derivatives reached 83.85 billion contracts, an increase of 34%

PHOTO NEWS

Chartered Institute of Stochbrokers @ 30


Alh Rasheed Yusuff FCS receiving the CIS_ Merit Award

CIS_ Closing Gong at NGX


CIS_ Thanksgiving Service at Christ Church RCCG, Lagos


CIS_ Thanksgiving Service at the Syrian Mosque, Ikoyi Lagos

CIS Closing Gong at AFEX Commodiries Exchange-1


CIS Closing Gong at Lagos Commodities and Futures Exchange

CIS Closing Gong at NASD OTC Exchange


For he is a Jolly Good Fellow - Stockbrokers serenade the new City Gentleman, Ibrahim Babangida, HFCS


Investiture of Chief Chris Ogunbanjo HFCS as Honorary Fellow of CIS


Induction of Mohammad Mamman Nami, ACS Executive Chairman of FIRS as an Associate Member of CIS after passing his professional stockbroking exams


1st Vice President Oluropo Dada FCS leads the Stockbrokers Walk through the Marina in Lagos


Launch of CIS@30 - Hon Babangida Ibrahim, Chief Olusegun Osunkeye Mr Rabiu Olowo and Prof Ndi Okereke Onyuike join CIS Past Presidents