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FTSE RUSSELL'S DEFERRAL OF NIGERIA'S FRONTIER MARKET RECLASSIFICATION: IMPLICATIONS OF THE T+1 SETTLEMENT CYCLE FOR THE NIGERIAN CAPITAL MARKET

1. Introduction

The classification of national capital markets by global index providers is an important determinant of international investment flows and investor confidence. Market classification influences the investment decisions of institutional investors, including pension funds, sovereign wealth funds, mutual funds, exchange-traded funds (ETFs), and asset managers that benchmark their portfolios against internationally recognised indices. Consequently, countries strive to attain and maintain favourable classifications, as these enhance market visibility, improve liquidity, and attract long-term foreign portfolio investment.

Among the leading global index providers, FTSE Russell occupies a prominent position in assessing and classifying equity markets based on internationally accepted standards relating to market accessibility, regulatory quality, settlement efficiency, and investor protection. Countries are generally classified into Developed, Advanced Emerging, Secondary Emerging, Frontier, or Unclassified Markets depending on their level of market development and compliance with FTSE Russell's Quality of Markets criteria.

Nigeria had previously enjoyed Frontier Market status before being downgraded to Unclassified Market in September 2023 owing primarily to persistent foreign exchange liquidity constraints and concerns surrounding market accessibility for international investors. Following significant reforms implemented by Nigerian capital market stakeholders, FTSE Russell announced during its March 2026 Interim Country Classification Review that Nigeria would be restored to Frontier Market status, with the reclassification scheduled to become effective in September 2026.

However, in an unexpected development, FTSE Russell announced on 30 June 2026 that Nigeria's planned reclassification had been placed under further review following the country's migration to a T+1 settlement cycle. The announcement has generated considerable interest among market participants, particularly because the T+1 settlement framework represents one of the most significant reforms undertaken in Nigeria's capital market in recent years.

2. Nigeria's Historic Transition to T+1 Settlement

On 1 June 2026, Nigeria successfully transitioned from the traditional T+2 settlement cycle to a T+1 settlement framework, becoming the first capital market in Africa to implement the shortened settlement cycle.

Under the previous T+2 arrangement, securities transactions executed on the Nigerian Exchange Limited (NGX) were completed two business days after the trade date. The new framework reduces this settlement period to one business day, enabling investors to receive cash or securities more quickly following the execution of trades.

The transition aligns Nigeria with a growing number of advanced and emerging markets that have adopted shorter settlement cycles to improve market efficiency and reduce settlement risk. Countries such as the United States, Canada, Mexico, India, China, Argentina, Costa Rica, **and** Pakistan have either implemented or completed migration to T+1 settlement, reflecting a global movement towards faster and more efficient securities settlement systems.

The successful implementation of T+1 in Nigeria was the result of extensive collaboration among the Securities and Exchange Commission (SEC), the Nigerian Exchange Limited (NGX), the Central Securities Clearing System (CSCS), the Central Bank of Nigeria (CBN), stockbroking firms, custodians, registrars, and other capital market stakeholders.

3. Benefits of the T+1 Settlement Cycle

The adoption of T+1 settlement represents a strategic modernization of Nigeria's post-trade infrastructure and offers significant benefits to both domestic and international investors.

One of the principal advantages is the reduction in counterparty risk. By shortening the interval between trade execution and settlement, the period during which either party may default on its obligations is significantly reduced. This strengthens overall market stability and reduces systemic risk.

The new settlement framework also enhances market liquidity. Investors receive proceeds from securities sales or ownership of purchased securities more quickly, thereby allowing faster reinvestment of capital. This increased velocity of capital, contributes to higher trading activity and greater market efficiency.

Operational efficiency is similarly improved. Market intermediaries, including: brokers, custodians, clearing houses, and registrars, benefit from faster transaction processing, reduced reconciliation requirements, and lower operational risks. Furthermore, shorter settlement cycles reduce collateral requirements and lower capital costs for market participants.

From a strategic perspective, Nigeria's migration to T+1 demonstrates its commitment to aligning its capital market with international best practices. This reform enhances the country's competitiveness within the global investment community and reinforces its ambition to become Africa's leading investment destination.

4. FTSE Russell's Decision to Defer Nigeria's Reclassification

Despite recognising Nigeria's extensive market reforms, FTSE Russell announced that the country's planned return to Frontier Market status would be placed under further review.

According to the organisation, the review became necessary following Nigeria's transition to T+1 settlement. Specifically, FTSE Russell expressed concern that the shortened settlement timeline could result in Nigeria becoming a de facto prefunded market for international institutional investors.

The index provider explained that while domestic investors may easily comply with T+1 settlement requirements, international institutional investors often execute transactions across multiple markets operating in different time zones. Consequently, these investors may face practical challenges in completing foreign exchange conversion, obtaining investment approvals, and transferring settlement funds within the shortened settlement window.

Where such operational challenges exist, investors may be required to deposit funds before executing transactions. FTSE Russell considers mandatory pre-funding to be a negative characteristic under one of its core market quality assessment criteria.

For this reason, the organisation resolved to postpone Nigeria's reclassification until it completes a comprehensive assessment of the practical implications of T+1 settlement for international investors. FTSE Russell has indicated that it will communicate its final decision by the end of August 2026.

5. Understanding the Concern over Prefunding

The principal concern identified by FTSE Russell relates to whether Nigeria's transition to a T+1 settlement cycle, which became operational on 1 June 2026, effectively creates a prefunded market for foreign institutional investors.

It is important to clarify that the implementation of the T+1 settlement cycle has not altered the fundamental Delivery versus Payment (DvP) settlement framework, which remains fully operational in the Nigerian capital market. Under the DvP principle, the transfer of securities and the corresponding payment occur simultaneously at settlement, thereby mitigating principal risk and eliminating the need for advance payment before settlement.

Consequently, foreign portfolio investors are not required to prefund their transactions solely because the market has migrated to a T+1 settlement cycle. The shortened settlement period merely reduces the time between trade execution and settlement from two business days (T+2) to one business day (T+1), while preserving the DvP mechanism.

A prefunded market is one in which investors must deposit cash before a transaction can be executed. By contrast, in most developed securities markets, transactions are settled on a Delivery versus Payment basis, enabling investors to execute trades without the requirement for advance funding.

Large institutional investors generally prefer DvP arrangements because they enhance capital efficiency, optimise liquidity management, and minimise funding costs. Therefore, while concerns have been expressed that operational constraints under a T+1 settlement

environment could inadvertently create conditions resembling a prefunding requirement, it should be emphasised that Nigeria's T+1 settlement framework does not require foreign portfolio investors to prefund their trades. The market continues to operate under internationally recognised DvP principles, ensuring that the benefits of faster settlement are achieved without compromising the settlement model preferred by global investors.

We acknowledge the operational challenges associated with the shortened settlement cycle. Accordingly, continuous engagement and constructive dialogue with all stakeholders will be essential to further refine the reforms, address emerging concerns, and ensure that no category of investor is disadvantaged or inadvertently excluded from participating in the Nigerian capital market.

6. FTSE Russell's Frontier Market Index: Current Constituent Countries

The FTSE Russell Frontier Market Index comprises a diverse range of economies across Africa, Asia, Europe, the Middle East and Latin America. Based on the latest index composition, the countries represented in the FTSE Russell Frontier Market Index are Bahrain, Bangladesh, Croatia, Estonia, Côte d'Ivoire (Ivory Coast), Jordan, Kazakhstan, Kenya, Lithuania, Mongolia, Morocco, the Occupied Palestinian Territory (Palestine), Oman, Pakistan, Peru, Slovenia, Sri Lanka, Tunisia, the United Republic of Tanzania, and Vietnam.

These countries collectively represent important investment destinations for global frontier market investors seeking portfolio diversification and long-term growth opportunities.

7. Pakistan's Experience: An Important Precedent for Nigeria

One of the most instructive examples for Nigeria is Pakistan, which remains a constituent of the FTSE Russell Frontier Market Index while operating a T+1 settlement cycle.

Pakistan officially implemented T+1 settlement on 9 February 2026, several months before Nigeria introduced its own shortened settlement framework. The reform was part of Pakistan's broader strategy to modernise its capital market infrastructure, reduce settlement risk, improve operational efficiency, and align with evolving global standards.

Importantly, Pakistan's migration to T+1 did not result in its removal from the FTSE Russell Frontier Market Index. This demonstrates that T+1 settlement is not, in itself, incompatible with Frontier Market classification. Rather, the determining factor is whether the settlement framework continues to satisfy FTSE Russell's Quality of Markets criteria, particularly regarding Delivery versus Payment (DvP) and ease of market access for international investors.

Pakistan's experience illustrates that accelerated settlement can coexist with Frontier Market status where appropriate operational arrangements exist. The country's custodians, brokers, clearing institutions, and regulators implemented coordinated measures to ensure that international investors could continue to settle transactions efficiently without creating unnecessary funding burdens.

For Nigeria, Pakistan offers a practical benchmark. The Nigerian capital market can leverage Pakistan's experience in strengthening settlement processes, improving foreign exchange coordination, enhancing straight-through processing, and ensuring that international investors are able to participate seamlessly in the market under the T+1 framework.

8. Implications for Nigeria's Capital Market

Although FTSE Russell's decision has delayed Nigeria's anticipated return to Frontier Market status, it should not be interpreted as a reversal of the country's reform progress. Rather, it reflects the index provider's commitment to ensuring that market reforms produce positive outcomes for all categories of investors.

The review period presents Nigeria with an opportunity to demonstrate that its T+1 settlement framework enhances efficiency without creating operational barriers for foreign institutional investors. If market participants successfully address concerns relating to prefunding and settlement logistics, Nigeria's eventual reclassification could further strengthen investor confidence.

Moreover, the successful implementation of T+1 positions Nigeria as a continental leader in capital market innovation. Being the first African market to adopt the shortened settlement cycle enhances Nigeria's reputation as a progressive financial market committed to global best practices.

9. The Way Forward

The period leading to FTSE Russell's final decision should be utilised strategically by Nigerian capital market stakeholders. Continuous engagement with FTSE Russell, global custodians, foreign institutional investors, and international asset managers will be essential in demonstrating that Nigeria's settlement infrastructure remains robust, efficient, and investor-friendly.

Market regulators should continue to strengthen foreign exchange accessibility, promote automation through straight-through processing, improve cross-border settlement coordination, and gather empirical evidence showing that foreign investors are able to operate effectively under the T+1 framework without compulsory prefunding.

The experience of Pakistan also provides valuable lessons that Nigeria can adopt to reassure FTSE Russell regarding the operational effectiveness of its market infrastructure.

10. Conclusion

Nigeria's transition to a T+1 settlement cycle marks a transformative milestone in the evolution of its capital market and underscores the country's commitment to adopting global best practices in securities trading and post-trade infrastructure. The reform promises to enhance market efficiency, reduce settlement risk, improve liquidity, and strengthen Nigeria's competitiveness within the international investment landscape.

FTSE Russell's decision to defer Nigeria's reclassification to Frontier Market status should therefore be viewed not as a setback, but as a period of further validation. The organisation's

review seeks to ensure that the benefits of accelerated settlement do not come at the expense of market accessibility for international institutional investors.

The experience of Pakistan demonstrates that Frontier Market status and T+1 settlement are compatible where appropriate operational safeguards exist. Consequently, Nigeria has every opportunity to demonstrate that its capital market can meet FTSE Russell's Quality of Markets standards while simultaneously leading Africa in settlement innovation.

With sustained collaboration among regulators, exchanges, custodians, brokers, and international investors, Nigeria is well positioned to address the outstanding concerns, secure its return to the FTSE Russell Frontier Market Index, and reinforce its position as one of Africa's most dynamic and globally competitive capital markets.

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