



THE Nigerian STOCK EXCHANGE

PRESENTATION TO AIHN: *Benefits of a Consolidated Stockbroking Industry*

Presented by

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for

M & A: Recapitalizing the Stockbroking Industry Workshop

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- 2 • Current Status of the Brokerage Industry
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*"The secret of **Change** is to focus all of your energy, not on fighting the old, but on building the new."*

– Socrates

*"The only thing that is constant is **Change**."*

– Heraclitus

*"**Change** will not come if we wait for some other person or some other time. We are the ones we've been waiting for. We are the **Change** that we seek."*

– Obama

"If there is no struggle, there is no progress."

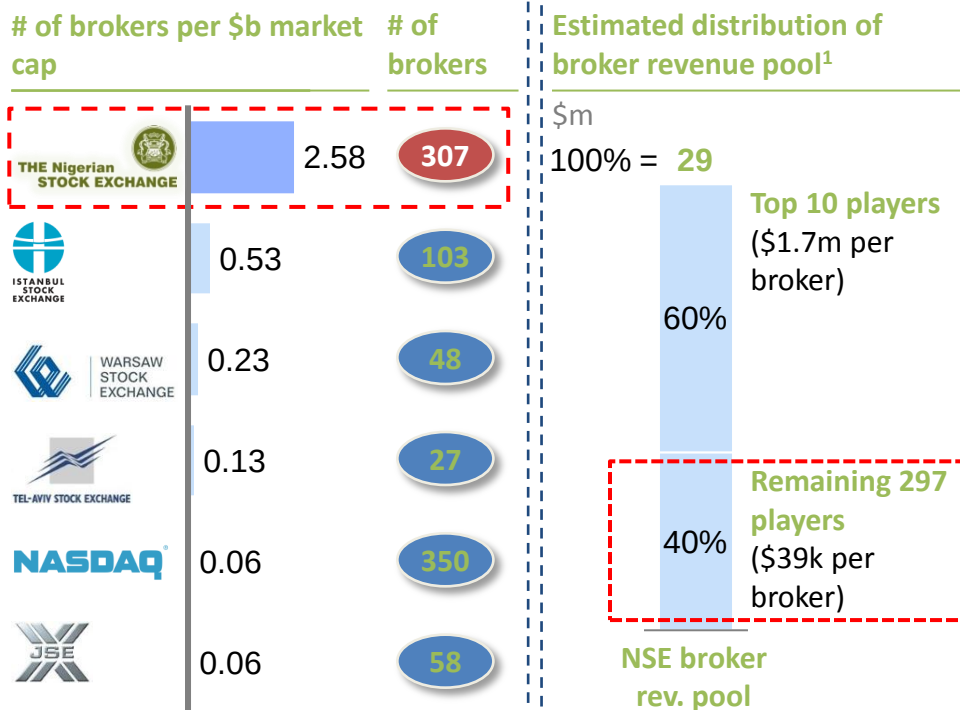
– Frederick Douglass

*"You must be the **Change** you wish to see in the world."*

– Gandhi



High number of very small members renders the broker business model economically non-viable for most players...



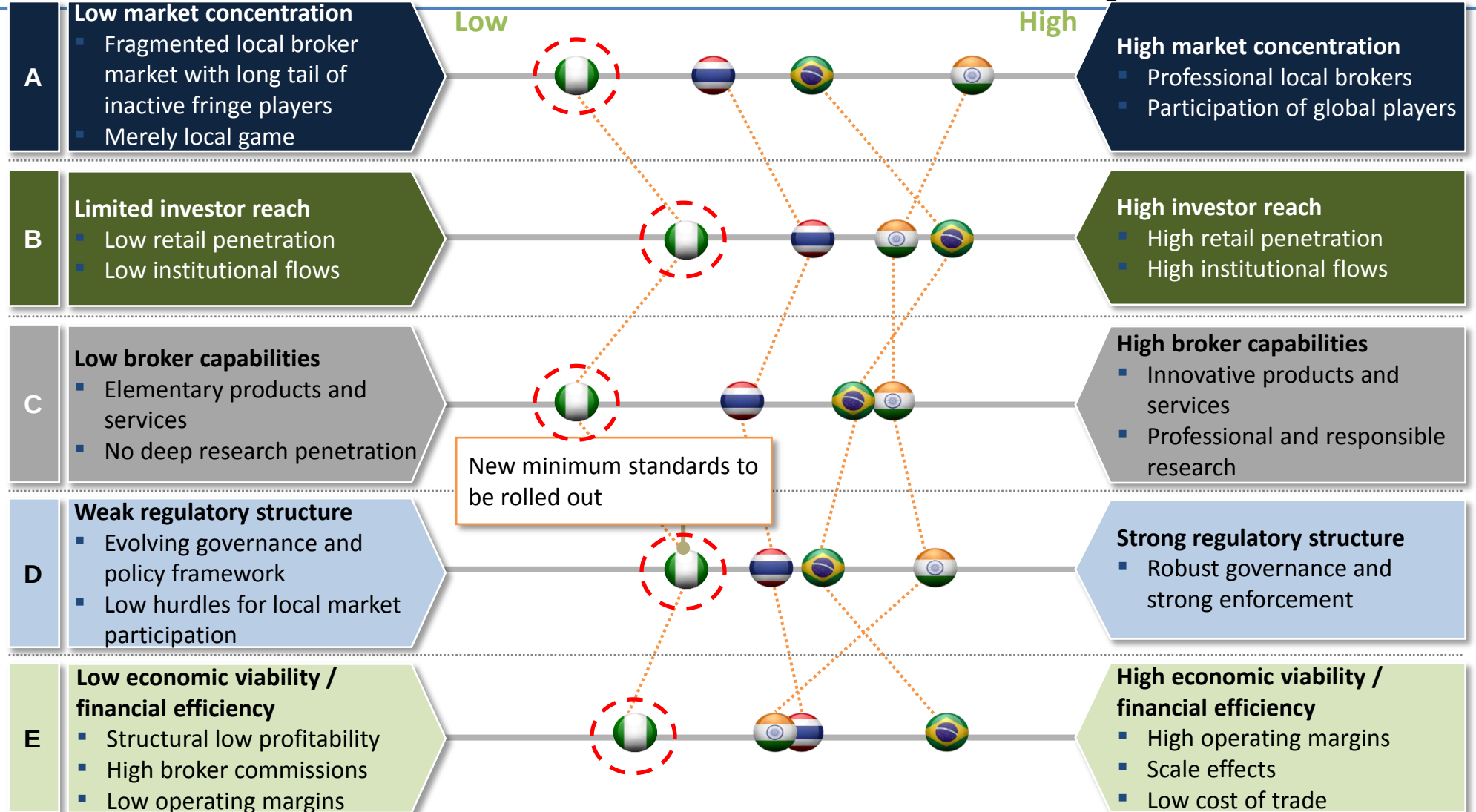
...which leads to several issues regarding professionalization of the market

- 1 **Unattractive for global players'** market entry due to lack of potential partners
- 2 **Limited investor reach** due to long tail of small fringe players without adequate investor coverage
- 3 **Underdeveloped broker capabilities/capacities** due to lack of scale
- 4 **High costs of surveillance** due to granular structure of the market with multiple small instances of fraudulent behaviour that need to be prosecuted
- 5 **Low economic viability** due to lack of scale effects and low pricing power

1 Assuming the average fee per trade



India Nigeria Thailand Brazil



Where we're going



Exchange



- Fully demutualized, for-profit, listed with a global and local shareholder base
- Strong partnerships and co-operation with leading global exchange operators
- Operationally efficient, competitive, with robust infrastructure and systems
- Frequent product innovation including new asset classes and data services

Intermediaries



- <100 to 50 members, local and foreign, with easy access to the exchange
- A competitive broker market with large players providing value added services (e.g. analysis, coverage, road shows) as the NSE's distribution channel locally and internationally
- Cross membership agreements with other exchanges allowing trade on NSE

Issuers



- The first choice for access to growth capital for Nigerian companies
- The exchange of choice for African Oil, Gas and Power sectors
- A brand name stock market where issuers list on to enhance their international reputation and ratings

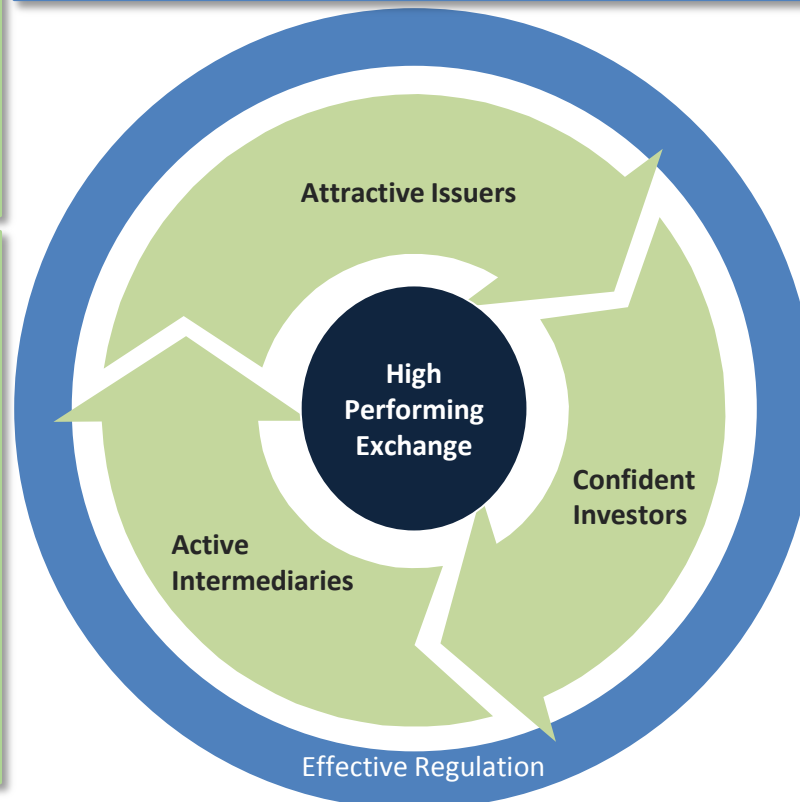
Investors



- A diversified investor base with local and international institutional, HNWI and retail investors
- Local PFAs approaching cap allocation in corporate equities and bond markets
- Investments from leading international fund managers
- Strong presence on International indices
- High-frequency trading supported with full breadth of trading technology

Regulation

- Streamlined and standardized listing regulation process
- Effective trust enhancing regulation and enforcement



- In addition to a consolidated brokerage industry, it is imperative to consider other factors that will drive efficiency in the Nigerian capital market.
- Such factors include:
 - Expanding investor reach, both internationally and domestically;
 - Elevating broker capabilities;
 - Strengthening the regulatory framework; and
 - Ensuring clear vision and economic viability of the brokerage industry.

Main levers	Examples
1 Advance consolidation and professionalization	 ▪ WSE launched remote membership program for foreign brokers in 2005  ▪ SET removed limit of foreign ownership in brokerage firms in 1998  ▪ SGX successful demutualization
2 Increase investor reach	 ▪ SET launched a program to attract foreign investor interest via roadshows  ▪ Implementation of sub-broker model in India in 1992
3 Elevate broker capabilities	 ▪ India introduced enabling regulations to expand product portfolio and value-added services
4 Strengthen the regulatory framework	 ▪ SEBI issued arbitration guidelines for stock exchanges in India
5 Ensure clear vision and economic viability of brokerage industry	 ▪ Malaysia launched highly successful capital markets master plan in 2001

How we'll get there: A Two Pronged Approach

- In order to maintain the stability of the Nigerian capital market, the NSE and the Securities and Exchange Commission (SEC) have developed a two pronged approach to strengthen intermediaries.
- The two approaches include minimum operating standards (MOS) as introduced by the NSE and minimum capital requirements as specified by the SEC.
- Enforcement of these two standards is imperative for the success of the Exchange in meeting its strategic objective to be the leading exchange in Africa.

Enforcement of Minimum Operating Standards

- To ensure long term market protection of the capital market, the NSE has set new minimum operating standards for all Dealing Members licensed by the bourse, effective January 1, 2015.
- The new standards will cater for all three classes of dealing members (broker dealers, brokers and dealers) and address five broad areas of concentration.
- The objective is to transform market operators now with minimum operating standards in a concise manner that is both easy to comprehend and implement.



Enforcement of Minimum Capital Requirements

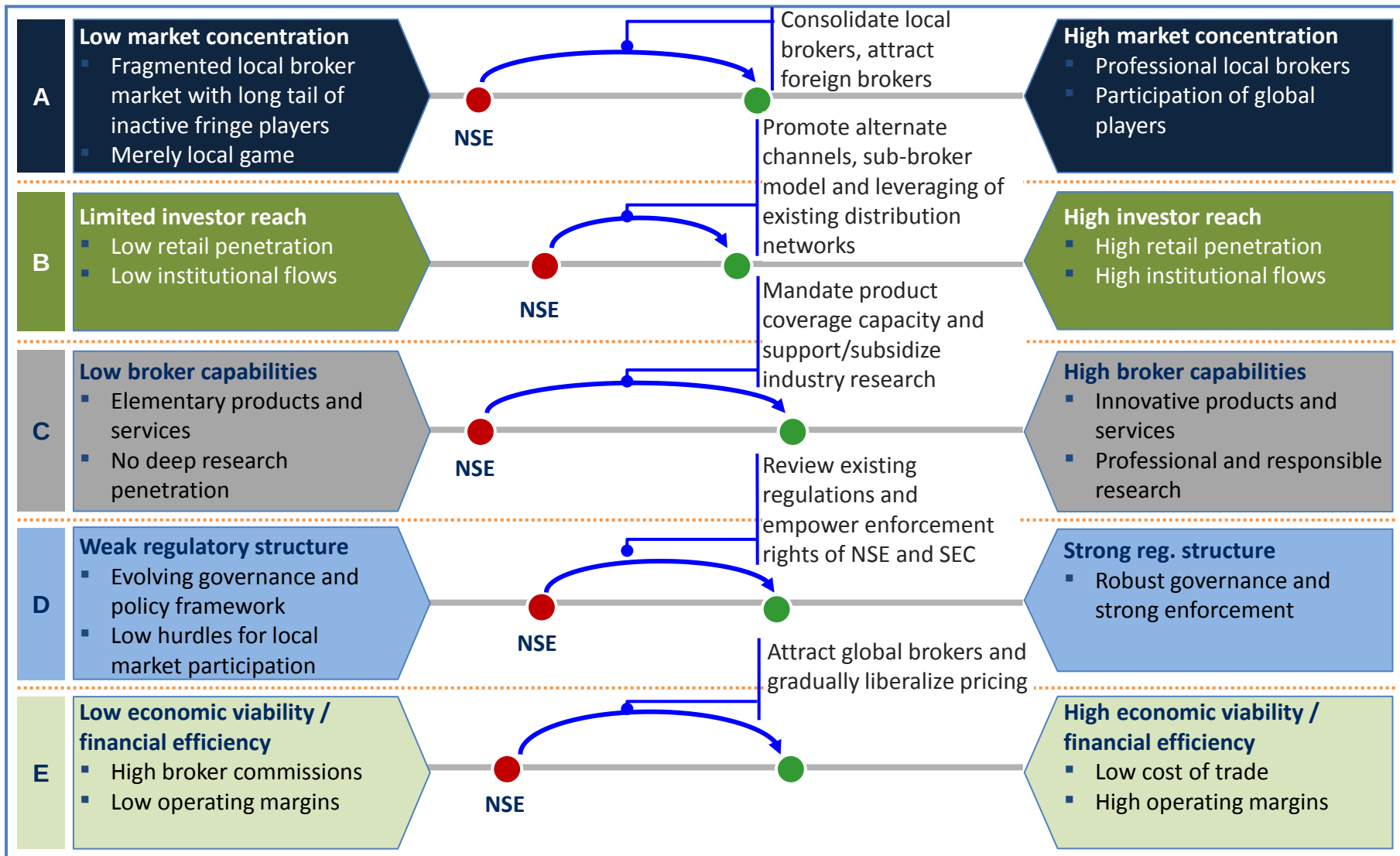
- The SEC has approved new minimum capital requirements for all categories of Capital Market Operators.
- The new minimum capital requirements are as follows:
 - Broker/Dealer: N300 million
 - Brokers: N200 million
 - Dealers: N100 million
 - Underwriters: N200 million
 - Issuing Houses: N200 million

PURPOSE OF MINIMUM OPERATING STANDARDS

- To improve corporate governance.
- To strengthen and deepen the market.
- To build a world class market.
- To restore investor confidence and create wealth.
- Investor protection and to secure a sustainable market.
- Reduce the cost of capital formation and increase economic growth.

FIVE BROAD AREAS OF CONCENTRATION

- Manpower and equipment;
- Organizational structure and governance;
- Effective processes;
- Global competitiveness; and
- Technology.



Benefits of Consolidation – Case Study



Key initiatives

Impact

Poland



July 2005, WSE launched its remote membership program for foreign brokers

- Direct access to the WSE system without physical presence in Poland and without the service of local intermediaries

- WSE admitted 7 remote members, within 6 months of launch

JPMorgan

Goldman Sachs

Merrill Lynch

NOMURA

Morgan Stanley

UBS

- Today exchange has 31 foreign brokers and 29 domestic ones

Thailand



Post 1998 crisis, **ceiling of 40% foreign ownership in a brokerage firm was removed**

Attracted major global brokers to the market :

Merrill Lynch

Phatra SECURITIES



SOCIETE GENERALE

Asia credit



ABN-AMRO

ASIA PLUS SECURITIES



- Merrill took 51% stake in Phatra securities
—Today, Merrill contributes ~50% of revenues
- Societe Generale took 51% stake in Asia Credit
- Dutch player ABN Amro took a controlling stake in Asia Securities Trading

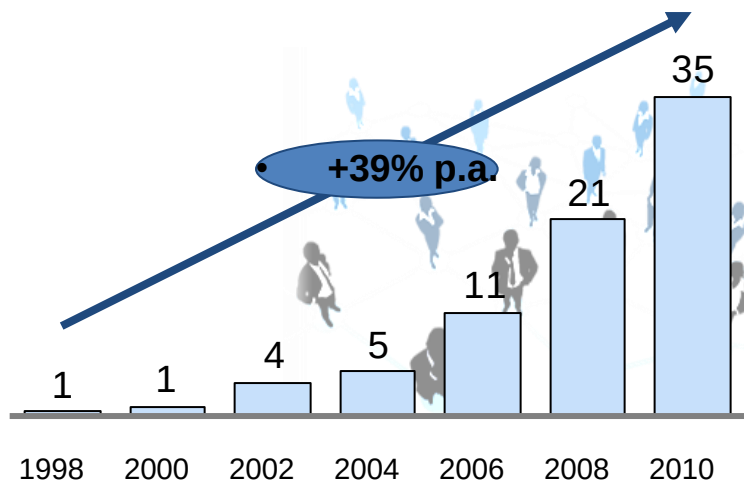
Benefits of Consolidation – Case Study

- Sub broker concept was inherent in Indian brokerage industry

- Implementation of “SEBI brokers and sub-brokers rules” in 1992, provided the enabling framework

- Sub-broker model became the main distribution channel for tier 2 and tier 3 cities, allowing leading brokerage houses to establish pan-India network

- Average number of sub-brokers per broker, NSE



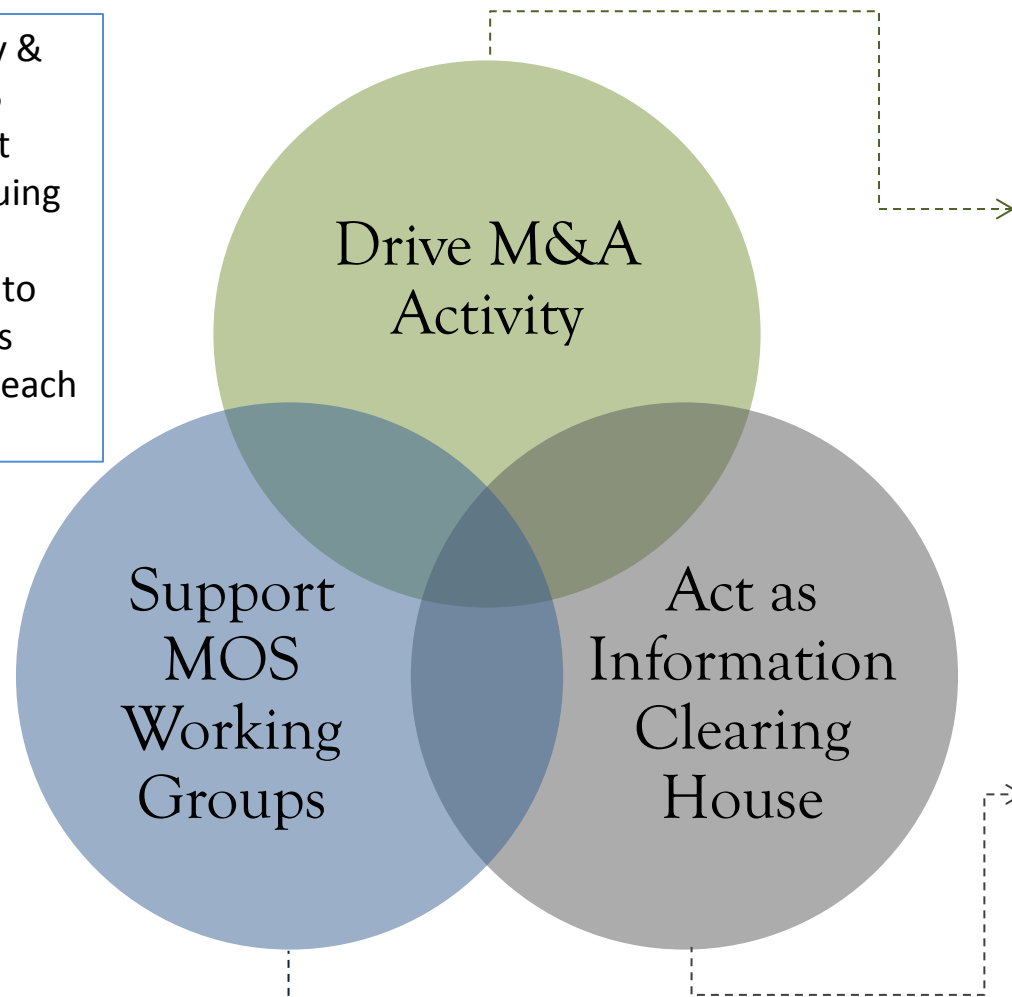
- 586 cities across
- 1,607 business locations (branches plus franchisees)

Working Group Support

The brokerage community & the NSE have developed 5 working groups to support each MOS theme. The issuing house community is also invited to develop groups to support MOS. The NSE has dedicated staff on call for each area of concentration.

Drive M&A Activity

Issuing houses should strive to engage the brokerage community to promote M&A activity. Dealings with brokerage clients should be in line with standard client engagement procedures.



Info. Clearing House

In the role as an information clearing house, issuing houses can provide information on processes /benefits of consolidation, provide introductions to potential domestic or foreign partnerships/investors, etc.

*If you wish to move
mountains tomorrow...*



*...you must start by
lifting stones today*





**THE Nigerian
STOCK EXCHANGE**

THANK YOU

Questions & Answers

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