



THE Nigerian STOCK EXCHANGE

INTEGRATION OF THE WEST AFRICAN CAPITAL MARKETS: *Expectations, Progress and Challenges*

Presented by

Oscar Onyema

for

CIS/GMC Capital Market Conference

Accra, Ghana

May 14, 2014

1

- Overview of WACMIC

2

- Why Integrate?

3

- WACMI Council's Value Proposition

4

- WACMI Exchange Profiles

5

- Integration Process Overview

6

- Sponsored Access: An Enabling Framework

7

- Integration Challenges and Risk

8

- Case Studies

9

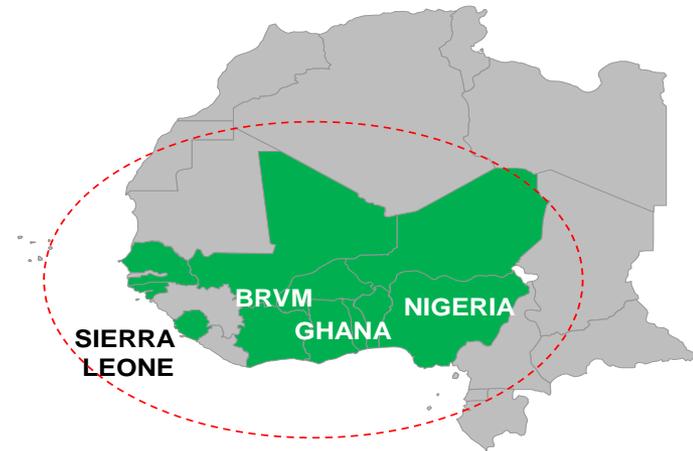
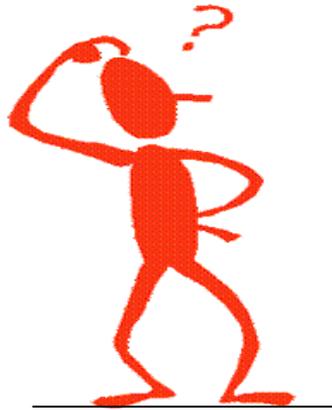
- Conclusion

The West African Capital Market Integration (WACMI)

- The West African Capital Market Integration (WACMI) program is being pursued as part of the regional integration program in collaboration with the West African Monetary Institute (WAMI).
- The West African Capital Markets Integration Council (WACMIC) was inaugurated as the governing body for the integration of West African capital markets.
- The over-arching objective of the Council is to establish a harmonized regulatory environment for the issuance and trading of financial securities across the region.
- The WACMIC comprises the Chief Executives of the region's Securities and Exchange Commissions, and Securities Exchanges. The Council is tasked with designing the policy framework and managing the implementation of the process that will facilitate the creation of an integrated capital market in West Africa.



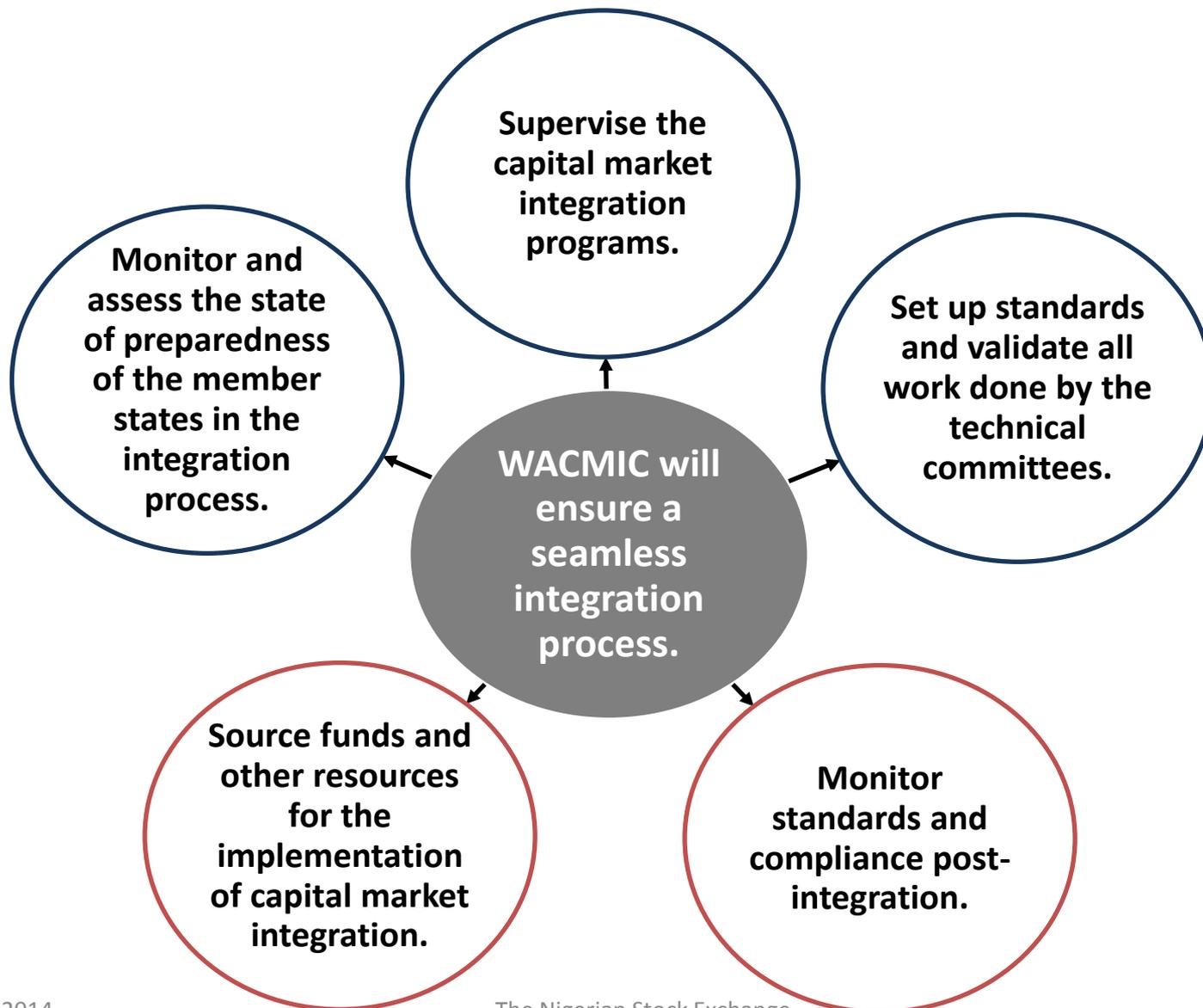
Strengthening our regional footprint



- The value proposition for integration is essential since the West African sub-region is a strategic geographical footprint within Africa, with a large and diverse population of **over 290 million people that translates into a consumer base with significant domestic savings and investing potential.**
- Achieving integration will facilitate momentous growth in the markets, which will empower the region to remain relevant in attracting investment flows, by creating a much larger market for local and international businesses.
- Local companies will have a deeper pool to raise capital.

Holistic benefits to all stakeholders

- Additionally, integration will enable the movement of capital across the region, creating flexibility and efficiency for issuers and investors.
- Pursuant to this objective, Technical Committee meetings have been held in Côte d'Ivoire, Ghana and Nigeria to develop the required technical framework for the trading and settlement infrastructure, as well as the legal framework necessary for seamless integration.
- Harmonization of listing, trading and settlement rules among member-countries is essential for the integration efforts of the sub-region.
- The *Bourse Régionale des Valeurs Mobilières* (which features eight Francophone countries), *Ghana Stock Exchange*, *Nigeria Stock Exchange* and *Sierra Leone Stock Exchange* are the initial participating markets.



On the road to capital market integration

- To spearhead the integration of capital markets in West Africa and promote strong relationships among the member states.

What are the key elements of a successful market integration

- Harmonized Trading, Clearing, Depository & Settlement Framework;
- Integrated Trading Platforms;
- Harmonized Listing & Regulatory Requirements; and
- Qualified West African Brokers (QWAB) & Common Passport.

NSE



- US\$ 82.80bn Equities Market Cap
- No of Listed Cos. – 190
- Avg. Daily Value Traded – US\$ 26.10m (2013)
- YTD Main Index Returns – 47.19% (2013)

GSE



- US\$ 25.84bn Market Cap*
- No of Listed Cos. – 34
- Avg. Daily Value Traded – US\$ 777,217 (2013)
- YTD Main Index Returns - 78.81% (2013)

BRVM



(Ivory Coast, Benin, Burkina Faso,
Mali, Niger, Senegal, Togo, Guinea Bissau)

- US\$ 11.86bn Equities Market Cap
- No of Listed Cos. – 72
- Avg. Daily Value Traded – US\$ 1.43m (2013)
- YTD Main Index Returns - 39.28% (2013)

SSE

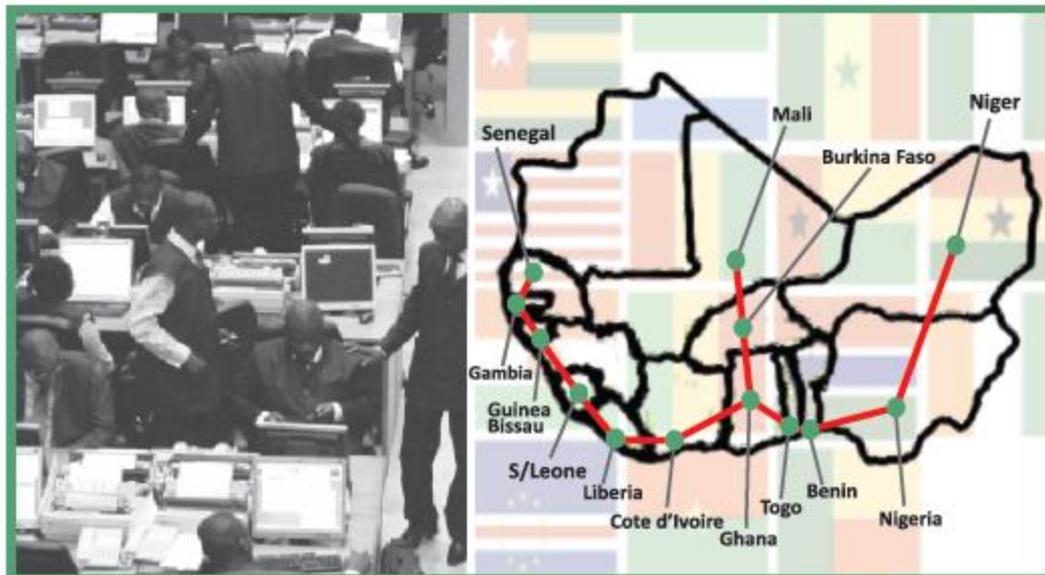


- Equities Market Cap – N/A
- No of Listed Cos. – 1
- Avg. Daily Value Traded – N/A
- YTD Main Index Returns – N/A

Source: ASEA Monthly Reports, www.African-Markets.com

*Total Market Cap provided

May 14, 2014



INTEGRATED PROFILE

- **Equities Market Cap: US\$ 120.50b**
- **No. of Listed Companies: 297**
- **Avg. Daily Value Traded: US\$ 28.30m**



Phase 1 of the integration process, Sponsored Access Framework, was successfully launched on April 1st 2014 at the WACMIC's 4th ordinary meetings. Interested brokers in member countries can now submit applications to their respective exchange for review/approval.

Phase 3
West African Capital Market
ETA: March 2015

Phase 2
Qualified West African Brokers
ETA: TBD

Establishment of a
virtual West African
Securities Market
(WASM)

Phase 1
Sponsored Access

Launched on
April 1st, 2014

Informal Arrangement
Brokers within the
member countries can
trade securities and
settle in markets other
than theirs

Formalized Arrangement
Signed agreements in place
so that WACMI dealing
members (broker-dealers)
can trade among themselves
via sponsored access

Qualified Broker-
Dealers/Issuing
Houses receive a
Common
Passport

- Applicants seeking a primary or secondary listing on any of the boards of the participating exchanges must satisfy the minimum criteria.
- In reviewing a listing application, the respective exchange will consider various factors, including financial/capital requirements, qualitative measures, and corporate governance and disclosure standards.

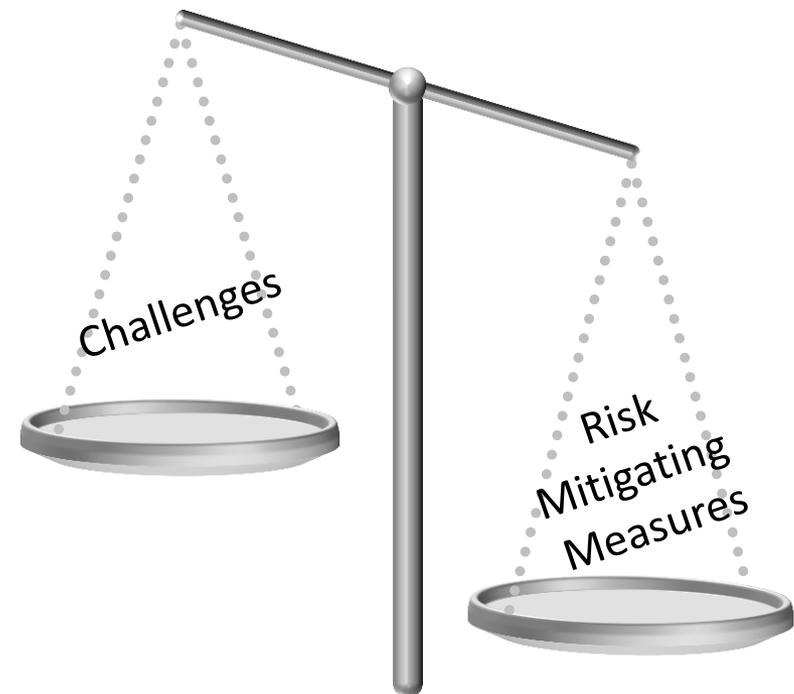
An enabling integration framework

- The objective of Sponsored Access is to enable entities that are not direct market operators of an exchange participate in the exchange by granting them direct access to the exchange's trading facility via technology.
- This allows WACMI participants to access the region's exchanges' trading systems by a dealing member of the target exchange.
- With Sponsored Access, orders do not pass through the sponsoring member's order management system prior to reaching the Exchange's trading system; however, the order must touch the Sponsoring Member's risk management system.
- This allows for enhanced efficiency and transparency to the WACMI investment community.

Risks

- Regulatory arbitrage
 - Market dominance by a handful of players
 - Regulation, supervision and enforcement could be made difficult unless accompanied by proper coordination and cooperation between authorities, i.e., restrictions on the movement of capital
 - Lack of uniform taxation rates and fiscal policies across the region
 - Foreign exchange risk
-
- Deeper harmonization of national prudential and market regulatory frameworks using global standards such as those developed by IOSCO, Basel Committee, etc.
 - Closer and effective coordination between relevant authorities
 - Information exchange under bilateral MOUs
 - An appropriate institutional framework for liberalizing financial services trade (e.g., Free Trade Agreements)

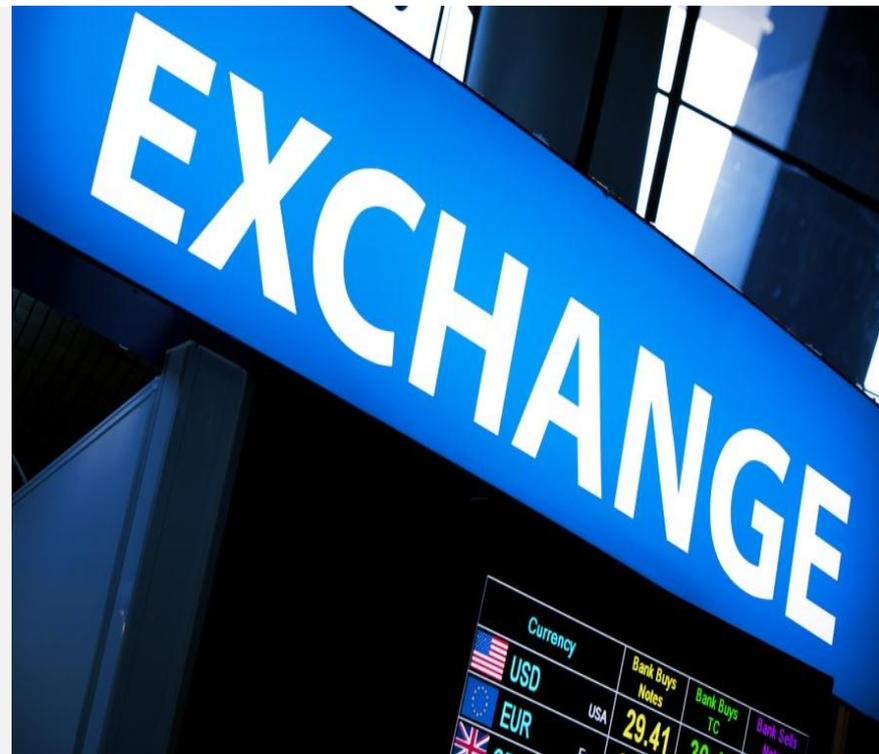
The challenges of integration have been identified, however we have also identified risk mitigating factors to ensure a balanced process.



Additional Issues Raised

Access to Market Data - Investors access to market data will be handled on a market by market basis.

Markets without Exchanges - Investors in countries without exchanges can access WASM through the qualified licensed brokers in countries that have exchanges.





MiFID



- The European Union's (EU) *Markets in Financial Instruments Directive* (MiFID) framework is a law that provides harmonized regulation for investment services across the 31 member states of the European Economic Area.
- MiFID's main objectives are to improve the competitiveness of EU financial markets by creating a genuine single market for investment services and activities, and to ensure a harmonized, high degree of protection for investors in financial instruments.
- MiFID's implementation has successfully eliminated national exchange monopolies and introduced venue competition into the equity markets, leading to a significant decline in transaction costs.



ASEAN Trading Link



- Countries within the *Association of Southeast Asian Nations* (ASEAN) recently introduced the *ASEAN Trading Link*, a gateway for securities brokers to offer investors easier access to connected exchanges. This is a significant step towards the eventual goal of full integration.
- The purpose of the trading link is to connect securities markets of the ASEAN exchanges, essentially making it just as easy for investors to trade in other ASEAN capital markets as it is to trade in their own domestic market.
- A virtual market of over 2,200 listed companies with a market capitalization of US\$ 1.4 trillion.

We have set for ourselves very ambitious targets for regional integration, in which we have successfully launched the first phase of the program (approval of the Sponsored Access Framework) which commenced of April 1, 2014.

We are aware however, that the success of Phase 1 and subsequent phases to this project, depends on the participation of key market participants conducting transactions within the sub-region.

Therefore, the support of all stakeholders across the West African capital markets is key to the success of the regional capital market integration program.

THANK YOU

Questions & Answers



**THE Nigerian
STOCK EXCHANGE**

RC: 2321

*Stock Exchange House
2 - 4 Customs Street
P.O. Box 2457, Marina
Lagos Island, Lagos, Nigeria
oonyema@nse.com.ng*