

Dear Subscriber,

The Federal Government of Nigeria (FGN) and all the major stakeholders in the Nigerian Capital market met in Abuja, Nigeria on August 26, 2008 to map out ways forward to stem the sliding fortunes of the Nigerian equity market. Please find below the major decisions of the meeting and the proposed measures for the Nigerian capital market.

**FSDH Research** Has included here the implications of the decision/measures on the Nigerian capital market and the equities market in particular.

We hope you will find the information useful.

**Decision/Measure:** The Central Bank of Nigeria (CBN) to take appropriate measures to ensure adequate liquidity within the capital market.

*Implication: It will provide investible funds to take advantage of opportunities which abound in valued but under-priced shares.*

**Decision/Measure:** Commercial banks advised to restructure existing facilities to aid operations of licensed stockbrokers, institutional and individual investors on longer repayment terms.

*Implication: This will reduce selling pressure by stockbrokers selling at low prices to pay back maturing facilities.*

**Decision/Measure:** The Securities and Exchange Commission (SEC), the Nigerian Stock Exchange (NSE), and all Capital Market operators agreed jointly to reduce the burden on investors by cutting fees significantly. The NSE has decided to cut its fees by 50 per cent effective August 27, 2008.

*Implication: This will reduce transaction costs, increase profit margin to investors, make our market more competitive with the international market, attractive to foreign investors and increase buy and sell activities.*

**Decision/Measure:** The stakeholders have resolved to set up a Presidential Advisory Team on the Nigerian Capital Market. The Presidential Advisory Team on the Capital Market will continue to meet regularly to articulate and implement medium to long-term measures that are necessary for the healthy growth and development of the Capital Market.

*Implication: This will improve policy formulation and implementation process in the Nigerian Capital market as a result of wider consultation with major stakeholders.*



**Decision/Measure:** The Office of the Attorney General of the Federation should issue an exemption to the provisions of the relevant sections of the Companies and Allied Matters Act, 1990, to permit quoted companies to buy back up to 20 per cent of their shares.

*Implication: This will create demand for stocks and would prevent excessive supply that can lead to fall in prices. However, this may not be a viable option for companies that require funds for expansion.*

**Decision/Measure:** The NSE to review its trading rules and regulations. In the interim, it has taken the following steps: One per cent maximum downward limit on daily price movement would be allowed while the current five per cent limit on upward movement is retained.

*Implication: This will reduce the free fall of prices of value stocks. In addition, investors would be willing to take higher risks of investing in the equities market as it now takes a long time to sustain huge losses on their equity portfolio investment. However, this might also be a double edge sword as foreign investors might doubt the share value.*

**Decision/Measure:** SEC would release guidelines for market operators on the Nigerian Stock Exchange before the end of the week. Henceforth, there will be strict enforcement of NSE's listing requirements with zero tolerance for infractions.

*Implication: This will restore confidence and increase transparency in the market.*

**Decision/Measure:** The SEC and NSE will also take administrative actions to stem the rate of new listings until the market stabilizes.

*Implication: This will reduce diversion of funds from the secondary market to the primary market. However, this may limit the ability of small companies to access capital needed for viable projects from the capital market.*

**Decision/Measure:** Having gone through the steps for delisting, the stock exchange will de-list all the moribund companies earlier advertised.

*Implication: This will remove non-performing companies from the list of stocks listed on the floor of the NSE.*

**Decision/Measure:** To establish a Capital Market Stabilisation Fund as an intervention instrument to curb spate of bearish trading in the market.

*Implication: Details of this measure have not been released to the market to enable us appropriately determine its implication.*



## Conclusion:

The objectives of the recent measures are:

- To create liquidity in the system;
- To make the capital market more competitive in terms of cost reduction
- To strengthen the process of policy formulation and implementation in order to bring about improved efficiency and transparency in the market.

The overriding benefits of these measures would accrue to equity investors who seek professional advice while investing. We hope investors would recover substantial parts of their losses recorded from the market within the last five (5) months as more funds find its way back into the market very shortly. This expectation is further buttressed when we consider the current high inflation rate of **14%** in the country which has drastically reduced the real return on fixed income securities and in some cases led to negative real returns.

*Note: Decisions and Measures were extracted from the Guardian Newspaper.*

