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Capital Markets Insight

July 2024

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INTRODUCTION

The Aluko & Oyebode Capital Markets Insight is a quarterly report providing updates on laws, regulations, and other activities in the Nigerian capital markets.

This edition outlines updates from regulators of different capital market segments in Nigeria for the second quarter of 2024.

CBN RELEASES CIRCULAR ON MINIMUM CAPITAL REQUIREMENTS FOR BANKS

On 28 March 2024, the Central Bank of Nigeria ("CBN") issued a circular announcing an upward review of the minimum capital requirements for commercial, merchant, and non-interest banks (the "Banks") in Nigeria (the "Circular"). This directive is aimed at strengthening the ability of the Banks to maintain adequate capital levels.

The minimum

capital base of the respective banks is set out below:

Type of Bank	Type of Authorisation	Minimum Capital (₦)
Commercial	International	500 billion
Commercial	National	200 billion
Commercial	Regional	50 billion
Merchant	National	50 billion
Non-interest	National	20 billion
Non-interest	Regional	10 billion

The Banks are required to meet the new minimum capital requirements within 24 months, effective April 1, 2024. The Circular recognises the following options available to Banks to comply with the directive on capital requirements: (i) injection of fresh equity capital through private placements, rights issues, or offers for subscription; (ii) mergers and acquisitions (M&As) or (iii) upgrading or downgrading a bank's license authorisation.

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PARTNERSHIP BETWEEN TK TECH AFRICA AND THE ALTERNATIVE BANK LIMITED LAUNCHES $500M DIGITAL SUKUK INITIATIVE

On 28 March 2024, Alternative Bank Limited (the "**Bank**") and TK Africa announced a partnership to introduce a US$500 million digital sukuk initiative in Nigeria. This partnership aims to pioneer the issuance, trading, and settlement of Sharia-compliant sukuk instruments through the use of blockchain technology.

Unlike the traditional Sukuk issuance, which involves manual processes and intermediaries, the digital Sukuk initiative will leverage blockchain technology to provide a secure, transparent, and efficient platform for transactions.

This partnership reflects a regulatory shift towards embracing innovative tools to access financial instruments such as sukuks.

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NGX GROUP ANNOUNCES SIGNIFICANT INVESTMENT IN ETHIOPIAN SECURITIES EXCHANGE

On 7 April 2024, Nigerian Exchange Group Plc (the **"NGX"**) announced its investment in the Ethiopian Securities Exchange (**"ESX"**), joining other institutional investors like FSD Africa and Trade and Development Bank Group, the financial arm of the Common Market for Eastern and Southern Africa ("**COMESA**") trade block.

This investment marks the NGX's entry into East Africa, thus, facilitating cross-border investment flows and promoting economic development across the continent. The NGX has announced that its CEO, Temi Popoola will be joining the board of the ESX further to its investment in ESX.

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THE SENATE CONFIRMS THE APPOINTMENT OF EMOMOTIMI AGAMA AS NEW DG OF SEC

On 19 April 2024, President Bola Ahmed Tinubu approved the reconstitution of the board of the Securities and Exchange Commission (the **"SEC"**) and the appointment of Emomotimi Agama as the new Director-General of the SEC.

The newly constituted Board of the SEC includes:

- Mr Mariga Aliyu Katuka – Chairman;
- Mr Emomotimi Agama – Director-General;
- Frana Chukwuogor – Executive Commissioner (Legal and Enforcement);
- Mr Bola Ajomale – Executive Commissioner (Operations);
- Mrs Samiya Hassan Usman – Executive Commissioner (Corporate Services);
- Mr Lekan Belo – Non-Executive Commissioner and;
- Mr Kasimu Garba Kurfi – Non-Executive Commissioner.

On 28 May 2024, the Senate Committee on Capital Markets (the **"Committee"**) confirmed the appointment of Dr. Emomotimi Agama as the Director-General of the SEC. The Committee further approved the nomination of Frana Chukwuogor, Mr. Bola Ajomale, and Mrs. Samiya Usman as Executive Commissioner (Legal and Enforcement), Executive Commissioner

(Operations), and Executive Commissioner (Corporate Services), respectively to the Board.

It is hoped that the Board will leverage the experience of the new members to advance SEC's mandate of developing and regulating a dynamic, fair, transparent, and efficient capital market.

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FGN CONTEMPLATES "DIASPORA BOND" FOR ENHANCED REMITTANCE INFLOWS

The Federal Government of Nigeria (**"FGN"**) has announced plans to issue a diaspora bond aimed at attracting capital held by Nigerians abroad, to increase Nigeria's foreign currency reserves. This was disclosed by Mr. Wale Edun, the Minister of Finance and Coordinating Minister of the Economy, at his wrap up media briefing at the end of the 2024 Spring meetings of the International Monetary Fund and the World Bank.

This financial instrument is targeted at nationals living abroad and offers them the opportunity to invest in their home country.

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SEC OVERSEES THE PLACEMENT OF N2.6 TRILLION SPECIAL FUNDS INTO CUSTODY

The SEC has initiated steps towards implementing the proposed amendments to its Collective Investment Scheme ("**CIS**") rules, titled 'Exposure of New and Sundry Amendments to the Rules and Regulations of the Commission' (the "**Rules**").

On 19 April 2024, during a media briefing after the 2024 first quarter Capital Market Committee (**"CMC"**) meeting, Dr. Okey Umeano, chief economist of the SEC disclosed that the SEC has overseen the placement of ₦2.14 trillion Collective Investment Scheme (CIS) funds and ₦2.6 trillion discretionary and non-discretionary funds in custody. The placement of these funds in custody aligns with the provisions of the Rules that require all CIS funds, including those in discretionary and non-discretionary products, to be placed under custody.

These measures ensure that investment management activities carried out by fund managers are separated from the custody of securities handled by licensed custodians. This aligns with global best practices, as it enhances overall market integrity, investor protection, and transparency in the capital markets.

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FMDQ GROUP APPOINTS NEW GROUP CHAIRMAN

FMDQ Group Plc (**"FMDQ"**) announced the appointment of Mr. Muhammad Sani Abdullahi as the Chairman of its Board, effective 26 April 2024. This appointment followed the retirement of the former chairman of the Group, Dr. Kingsley Obiora, OFR.

Mr. Bola Oladele, the Chief Executive Officer of FMDQ stated that the appointment of the new chairman signifies the Group's commitment towards maintaining strong governance and strategic leadership even as FMDQ continues to drive innovation and development across the Nigerian financial markets.

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SEC PROPOSES NEW RULES ON THE ISSUANCE AND ALLOTMENT OF PRIVATE COMPANIES' SECURITIES

On 7 May 2024, the SEC published its proposed Rules on the Issuance and Allotment of Securities by Private Companies (the **"Proposed Rules"**).

According to the Commission, the Proposed Rules shall apply to the issuance of debt securities by private companies through either private placements, public offers, or any other method as may be approved by SEC. The Proposed Rules will also apply to registered exchanges and platforms that admit these debt securities for trading, as well as to registered capital market operators who are involved in such issuance and allotment.

The Proposed Rules permit private companies to issue plain vanilla bonds/debenture and other debt instruments, offer securities to only qualified investors, and restrict private companies to a maximum of 3 (three) debt securities issuances within a one-year period.

The SEC is yet to finalise the Proposed Rules.

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SEC APPROVES NIGERIA'S FIRST PRIVATE DEBT FUND

The SEC has announced its approval of the establishment of a ₦100 Billion Private Debt Fund (the "**Fund**"), which is the first of its kind in the Nigerian capital markets[1].

A private debt fund is an alternative asset class. Alternative assets have several sub-asset classes, including private equity, private credit, venture capital, real estate, infrastructure, hedge funds, and natural resources. A private debt fund is similar to an infrastructure fund. However, whereas infrastructure fund invests in any infrastructure-related deal irrespective of the sector, private debt funds could be sector-specific.

1 Aluko & Oyebode advised FCMB Asset Management Limited and TLG Capital Investments Limited on the establishment of the Fund.

The Fund is structured as a local currency fund programme and aims to build a diversified portfolio of debt instruments, while incorporating innovative hedging and downside protection. It will focus on investing in high-growth businesses and projects aligned with the United Nation's Sustainable Development Goals in Nigeria. Specific sectors of focus for the Fund include agriculture, healthcare, education, technology, transportation, and logistics.

According to SEC, the approval of alternative asset classes underscores its commitment to promoting long-term financing across diverse sectors and supporting investors' objectives.

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NGX LAUNCHES USSD PLATFORM TO BOOST CAPITAL MARKET ACCESS

Nigerian Exchange Limited ("**NGX Limited**") has announced the release of its Unstructured Supplementary Service Data (**"USSD"**) platform for enhanced market access.

The USSD platform is a technology which intends to allow mobile phone users to access a variety of services by dialing a short code on their mobile phones. This USSD platform will be an innovative means for investors to access real-time stock market information and connect with a stockbroker. NGX Limited's short code is *5474#.

According to Afeez Ramoni, head of data and digital innovation at NGX Limited, the public can now conveniently receive market information and commence account opening process through their mobile phones.

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NGX LIMITED RE-AFFIRMS ITS COMMITMENT TO GREEN FINANCE

NGX Limited has re-affirmed its commitment to green finance solutions to address Nigeria's environmental challenges. It has encouraged the issuance of specialised green bonds targeted at financing projects that promote reforestation, agroforestry practices, and sustainable land management techniques.

NGX Limited has also underscored the need to develop a robust carbon market in Nigeria as this would also promote environmental-friendly activities. The demand for carbon credits can be created by issuing credits to companies and organisations that remove or avoid the use of certain amounts of greenhouse gas emissions. This will in turn provide a financial incentive for entities to invest in projects that mitigate deforestation and desertification. This market-based approach will generate revenue for conservation efforts and encourage the private sector to actively participate in environmental preservation and sustainability.

In support of green finance, NGX Limited intends to collaborate with other stakeholders and the Nigerian Climate Change Council on the framework for Nigeria's carbon market.

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SEC UNVEILS GUIDELINES FOR BANKS' RECAPITALISATION

Further to the CBN's circular announcing an upward review of the minimum capital requirements for commercial, merchant, and non-interest banks ("**Recapitalisation Programme**"), the SEC on 20 June 2024, released a 'Framework on the Banking Sector Recapitalisation Programme' (the **"Framework"**) to support the CBN's Banks Recapitalisation Programme.

The Framework outlines the guidelines and procedures that Banks must adopt to effectuate their capital raising options, such as mergers & Acquisitions, Rights Issues, Initial public Offer, Offers for Subscription, and Private Placement that will be subject to the regulatory purview of the SEC.

The Commission has indicated that applications and supporting documents for the Recapitalisation Programme should be filed electronically *via* the dedicated email address offerapplications@sec.gov.ng.

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SEC LAUNCHES A PRE-LICENSING INCUBATION PROGRAM FOR ENTITIES OPERATING IN THE DIGITAL ASSETS SPACE

On 21 June 2024, the SEC issued "A Framework on Accelerated Regulatory Incubation Program ("**ARIP**" or the "**Program**") for the Onboarding of Virtual Assets Service Providers ("**VASPs"**) and other Digital Investments Service Providers ("**DISPs"**)" (the "**ARIP Framework**") to enhance the registration process of VASPs and DISPs. This follows the proposed major amendment to the Commission's Rules on the Issuance, Offering Platforms, and Custody of Digital Assets issued on 15 March 2024, which is yet to be finalised.

VASPs are digital platforms that facilitate the trading and exchange of cryptocurrencies and other digital assets, while DISPs are entities that offer investment products through digital channels. This includes platforms that allow users purchase stocks, invest in mutual funds, and other investment schemes approved by the SEC.

The Program is expected to expedite the onboarding of entities whose applications have been filed with the Commission, and potential applicants seeking to be registered with the Commission. The Program will also provide participants with guidance on fulfilling regulatory requirements before they become fully operational in the capital market.

The SEC has directed that all operating and prospective VASPs are to complete the application process no later than 30 days from the date of release of the

ARIP Framework and has stated that all defaulting VASPs are liable to prosecution.

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NGX LAUNCHES 'NGX INVEST' FOR CAPITAL RAISING

NGX has launched 'NGX Invest', a new web application designed to streamline the equity capital-raising process, including public offers and rights issues.

NGX Invest offers a digital experience and the expectation is that this innovation will enable seamless interactions among issuers, brokers, institutional investors, and retail investors. The platform is also expected to improve the technological capabilities of the NGX, boost retail participation, and promote financial inclusion.

The Group Managing Director/CEO of the NGX, Temi Popoola, highlighted the importance of NGX Invest, stating that it will enhance market efficiency, ensure security with robust Know Your Customer (KYC), and Anti-Money Laundering measures, as well as increase retail participation.

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Should you wish to discuss any of the foregoing, or should you have any questions, please do contact us at: aocapitalmarkets@aluko-oyebode.com

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