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Demutualisation of securities exchanges

Recently, the Nigerian Securities and Exchange Commission (SEC) published the new Rules on the demutualisation of the country's securities exchanges, effectively moving away from non-profit member-owned mutual exchanges to investor-owned limited companies. With this conversion, securities exchanges in the country join a growing list of global exchanges that have embraced demutualisation such as Nasdaq, London Stock Exchange and Australian Exchange.

The Nigerian Stock Exchange (NSE) will be the immediate beneficiary of the new rules; and while demutualisation is not an end in itself, it is expected that the NSE will generally become more efficient, able to respond to market needs quicker and unimpeded by divergent interests. This should in the long-term lead to greater market liquidity and better financial performance of the NSE, and by extension other exchanges in Nigeria.

The Rules require that stock exchanges be converted from 'companies owned by members into companies owned by shareholders'. A rather interesting addition to the Rules is the provision for strategic investors. These investors are required to provide evidence of technical expertise, through previous experience in managing other exchanges or investments beneficial to the stock exchanges. Strategic investors may include banks, brokers, or other stock exchanges. The maximum shareholding of these investors is 30% of the issued and fully paid-up capital of the stock exchange. Though the Rules contemplate block shareholding by individuals, strategic investors and specific stakeholder groups, certain legal impediments are introduced to avoid the acquisition of a decisive block of shares in the demutualised stock exchanges. The rules therefore stipulate a shareholding cap of five percent, 20% and 30% percent for individuals, stakeholder groups and strategic investors respectively.

Demutualisation brings with it some challenges that must be addressed if the goal of viable stock exchanges is to be achieved. Paramount amongst these is the need to balance the potential conflict of interest between the profit-making orientation and meeting shareholders expectations of the exchanges vis a vis their regulatory oversight of activities on the exchanges. In this regard, the implementation of a rigorous regulatory framework by the exchanges allied with the active monitoring of the SEC is crucial.

Further, the conversion of the NSE from a company limited by guarantee to a company limited by shares would require the recognition of such re-registration under Nigerian corporate law. Be that as it may, the Nigerian capital market looks set for good times ahead.

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