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Securing investor confidence

As part of efforts aimed at bolstering investor confidence in the Nigerian capital market, the Nigerian Securities and Exchange Commission (SEC) recently released new rules on the operation of a National Investment Protection Fund (NIPF). The SEC released the rules in exercise of its powers under section 13(k) of the Investment and Securities Act (ISA) 2007, and they are geared towards providing a baseline guarantee for compensating investors whose losses are not covered by the Investment Protection Fund (IPF) of securities exchanges and capital trade points in the country.

The NIPF provides a cover for investors who suffer losses on investments arising specifically from the bankruptcy, insolvency or negligence of capital market operators (CMO), in addition to defalcations of a CMO or its officers in relation to funds or assets in its custody. The fund is, however, only applicable to transactions regulated by the SEC, while an investor who colludes with a CMO in a wrongful act is disallowed from benefiting from it. In 2013, the Nigerian Stock Exchange (NSE) set up an IPF for investors on the NSE, which provisions mirror those of the SEC in some respects.

Under the NIPF, the maximum amount payable to an investor who has suffered loss is N200,000 ($1000) or its equivalent in the form of shares; although this amount is grossly inadequate, it is subject to periodic review. A caveat exists that the fund is not obligated to pay compensation to an investor; further, applications for compensation are limited to 12 months after discovery by an investor. In a bid to prevent abuse and manipulation of the NIPF, a verification committee reviews the claims of investors and makes recommendations to the board of the NIPF for a final decision. This will, in all likelihood, reduce the incidence of unsubstantial claims. Payments to an investor entitles the board to a subrogation of the rights of the investor to the distressed CMO to the extent of such payment; and where the investor recovers any payment from a claim against the CMO, the investor is obligated to refund any compensation paid to it by the fund.

In comparison with the Canadian Investment Protection Fund, it is apparent that the NIPF is a work in progress, which will continue to witness refinements. As expected, the gains remain long term, but actual implementation is eagerly awaited by the industry.

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