



CREATING SIMPLICITY IN A COMPLEX ENVIRONMENT

The NSE Journey to International Regulatory Success

On July 25 the Nigerian Stock Exchange (NSE) was named the “African Regulator of the Year” at the 6th African Business Leadership Forum & Awards, held in London. The award, sponsored by *African Leadership* magazine, was given to the NSE for its effective regulatory policies and programs implemented across national, regional and international level. These policies and programs have stimulated compliance beyond the legal requirements. Award recipients were nominated as a result of a survey of over 480,000 readers and fans who were asked to name outstanding business leaders and institutions.

You might wonder what an exchange in Africa has to do with Oyster Consulting. The answer is Daniel Labovitz, a Managing Director in Oyster’s New York office, who has been a consultant to the NSE since 2011, advising the Exchange on overhauling its rule book and processes for rulemaking and rule interpretation. NSE CEO Oscar Onyema credited Labovitz for helping the Exchange win this recent recognition.

When Onyema approached Labovitz for help in 2011, he had only recently been named CEO. The Exchange was coming out of political and managerial turmoil (among other things, the Nigerian Securities and Exchange Commission had taken over the exchange and ousted the previous management team for alleged corruption and self-dealing). The trading system that powered the Exchange was outdated, as were the Exchange’s trading and member conduct rules. Perhaps not surprisingly, the Exchange had long had a reputation for lax regulation. The market, meanwhile, had just come through the crash of a financial bubble in stocks. Adding to the challenge, the Exchange is a mutually-owned organization whose members had been whipsawed by the crash and the aftermath of the SEC takeover, and were suspicious of change. Onyema embarked on an ambitious program to modernize the Exchange’s trading infrastructure, upgrade its regulatory processes, improve listings standards, and generally repair the Exchange’s reputation as a destination for capital in West Africa. The regulatory challenge was particularly acute. As Labovitz explains, “emerging markets like Nigeria that are looking to attract foreign investment are often burdened by the perception that foreign investors won’t be treated fairly.”

To counter that perception, emerging markets need to demonstrate not only that there are good investment opportunities in the country, but also that their markets do not unfairly favor local market participants. In the NSE’s case, that meant creating a “world class rule book”, and creating a transparent and consistent process for applying those rules. The thinking was that if the Exchange could convince investors that their investments were being treated equitably,

investors would not insist on pricing in a political or legal risk premium when calculating their minimum acceptable ROI.

Labovitz, who had previously headed the Office of General Counsel at NYSE Regulation, Inc., partnered with the Exchange's incoming legal and regulatory team to develop the framework for the world class rule book. "Very early on, we identified a group of peer exchanges, focusing on size, national stature, asset mix and other factors, and then we studied their rules in order to come up a model rule book - a 'wish list', if you will, of what rules a well-regulated and transparent exchange should have," said Labovitz. "After that, we analyzed the NSE's rules to find where they did, and did not, conform to the world class rule book. That gave us our road map for subsequent rule changes."

Revising the rule book was only one part of the equation, however. Just as important, the NSE had to refine how it would socialize its proposed changes. "It's important for stakeholders – whether they're issuers, members, investors or regulators – to understand what the Exchange is doing in its rule proposals, and have an opportunity to give feedback," Labovitz explains. "If you treat them like partners, they are more likely to be invested in your success." The challenge, was to create a process for rule development and rule interpretation that struck a balance between engaging stakeholders, and preserving flexibility for the Exchange so proposals would not get bogged down in endless discussion.

This focus on stakeholder engagement was specifically noted by African Leadership Magazine's award selection team: "We at *African Leadership Magazine UK*, recognize your efforts in enhancing stakeholder's engagement while contributing to the growth of the National and Regional brand through practical impact on the people. Your unflinching passion for creating a reliable, efficient and an adaptable exchange hub in Africa cannot be overemphasized".

Commenting on the award, NSE CEO Onyema said "This award is a strong affirmation of the audacious reforms we have been implementing to create a fair and orderly market that inspires the trust and confidence of domestic and foreign investors. The journey has brought about major reviews of our governance, market structure and operations to create a stronger regulatory environment whilst implementing innovations required for delivering a robust, efficient and sustainable capital market."

The process that the NSE went through has had several positive effects beyond just recognition among the Exchange's peers. In March 2013, on the strength of the NSE's regulatory and other reforms, the World Federal of Exchanges promoted the NSE from associate membership to full membership. The NSE also joined the Intermarket Surveillance Group, an international organization of exchange regulators that facilitates cross-market regulatory cooperation (membership in the ISG is limited to exchanges that can meet "strict requirements with respect to applicants' regulatory capabilities related to market surveillance").