

THE NIGERIAN STOCK EXCHANGE - COMMUNICATION TO STAKEHOLDERS

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BUSINESS STRATEGY

1. How does your exchange define and view the rationale for corporate sustainability and the exchange's role in promoting it?

The Nigerian Stock Exchange (“NSE” or “The Exchange”) recognizes its crucial role in supporting economic growth by providing an efficient and sustainable capital market. This responsibility drives its Corporate Social Responsibility (CSR) philosophy which is aimed at delivering a sustainable organisation through responsible financial and investment services, sustainable business practices, engaged and talented people, community contributions and environmental stewardship.

Since 2011, The Exchange has been on a transformation journey which has led to the diversification of its business in accordance with established best practice due to global trends in responsible finance and changes in the macro environment. The process has also resulted in re-focusing of its Corporate Responsibility (CSR) goals through four thematic areas of:

- **Community:** Contributing positively to the communities where we live and work.
- **Marketplace:** Promoting market-based approach to Environmental, Social and Governance (ESG) imperatives amongst all stakeholders.
- **Workplace:** Fostering a qualitatively oriented work environment that values employee diversity and wellbeing and harness the talent and skills of our people.
- **Environment:** Reducing the environmental impact of the operations of The Exchange

At the NSE, we are committed to enhancing the reliability, availability and stability of our trading and market data dissemination system, as well as maintaining business practices that are fair, ethical and responsible. We are also dedicating time and resources to promote integrity, transparency and sustainability in the marketplace. This includes taking steps to:

- Take a leadership role in promoting sustainability imperatives among listed companies and the wider business community through thought leadership programmes and advocacy campaigns.
- Support the disclosure and provision of Environment, Social and Governance (ESG) data to enable market participants to integrate these considerations into their investments activities and decisions.



- Support listing and trading of products that foster innovation, sustainable investing and support areas like sustainable energy, clean technology and the millennium development goals.
- Facilitate investor education, financial literacy and inclusion.

2. How does your exchange's senior leadership and organizational structure support the promotion of corporate sustainability in its market(s)?

To ensure that there is effective integration of our Corporate Responsibility (CR) goals across the organisation, The National Council through the Executive Committee provides governance oversight for the management of sustainability in the Exchange.

Currently, The NSE Executive Committee also serves as the CR committee which is comprised of the Chief Executive Officer and 4 Divisional Heads. The committee is responsible for providing guidance, setting CSR priorities, overseeing implementation of policies and monitoring progress on all Corporate Sustainability matters at The Exchange.

The Corporate Social Responsibility Unit is responsible for the day-to-day running, co-ordination, management and administration of CRS activities. The unit is also in charge of reporting performance based on agreed sustainability targets. Finally, all employees of The Exchange are responsible for seamless integration and serve as advocates and active participants.

3. What goals/objectives does your exchange have in regards to advancing sustainability in your market?

As a 1st step, the Nigerian Stock Exchange identified good Governance structure as a crucial requirement to build on its Environmental, Social and Governance (ESG) initiatives. This led to the launch of the Corporate Governance Rating System (CGRS) which marked the beginning of a new era in market transparency and a new model for 21st century corporate reporting in Nigeria, and in Africa. The CGRS serves as a platform for listed companies to demonstrate their commitment to responsible corporate practices. It is designed to evaluate companies based on the quality of their corporate integrity; corporate compliance with governance rules; understanding of fiduciary responsibilities by directors and corporate reputation. The pilot phase in 2014 was voluntary. However, participation in CGRS from 2015 will be mandatory for all companies listed on the Premium Board at The Nigerian Stock Exchange.

The next stage is the implementation of a strategic roadmap which will stimulate the appropriate application of relevant sustainability imperatives in the Nigerian capital market. This process will be implemented in phases and it will include:

- High-level engagement process with listed companies, investors and capital market community;
- Introduction of Sustainability Disclosure Guidelines;
- Capacity building for relevant stakeholders, including listed companies and market operators and;
- Review of listing requirements to incorporate sustainability performance.

TRANSPARENCY AND ISSUER REPORTING

4. Describe your exchange's approach to promoting sustainability disclosure by companies.

While the NSE is still in the process of instituting its sustainable disclosure guidelines, it has commenced the process by sensitizing companies. The aim is to ensure that stakeholders that will be affected by the project or that can affect the outcome of the project are adequately engaged and managed. The NSE recognizes the importance of taking into cognizance the perspectives of listed companies on the current and future state of sustainability practices and disclosures.

After The NSE signed-on to the Sustainable Stock Exchanges Initiative (SSEI) in 2013, a communique was issued to the Chief Executive Officers of all listed companies. In these letters, it was highlighted that The Nigerian Stock Exchange will roll out series of sustainability related capacity building and disclosure based initiatives to enhance stakeholders understanding of the sustainability-related opportunities. The NSE is also utilizing various platforms such as speaking opportunities at events and initiatives such as the Corporate Governance Rating System to promote sustainability in the Nigerian market.

The NSE will hold a sustainable roundtable event in June, 2015, for the CEOs of listed companies, members of the broker dealer community, regulatory agencies and business leadership groups such as the Institute of Director's amongst others. The objective of the roundtable is to:

- Create awareness of sustainability at the highest levels of the industry
- Synthesize current thinking on sustainability opportunities and challenges in Nigeria
- Initiate discussion on a set of environmental, social and governance (ESG) guidelines for the Nigerian capital market

The event will feature interactive panel sessions and in-depth debates that will explore:

- Sustainability trends and themes affecting corporate organizations operating in Africa
- The business opportunities and risks arising from environmental and social issues
- The need for environmental and social reporting guidelines for the sector
- Impact of sustainability disclosure and investors' expectations

5. What is your exchange’s process for reviewing listing standards in general? Are there opportunities for stakeholders to comment during this process?

The Nigerian Stock Exchange (“The Exchange”) is a Self-Regulatory Organisation licensed by the Securities and Exchange Commission (SEC), and makes rules and regulations to guide market participants to ensure the protection of investors, and to maintain a fair, efficient and transparent market. The Exchange is poised to champion the acceleration of Africa's economic development and to become “the Gateway to African Markets”.

The National Council of The Exchange (“Council”) performs its rule making function through its Rules and Adjudication Committee (RAC), which makes recommendations for the Council’s approval. The process for reviewing listing standards and existing rules, as well as making new rules and regulations is governed by the Rule Making Procedure of The Exchange. This process involves the following:

- i. Submission of new Rules or proposed amendments to existing Rules (“Rule Proposal”) by an originating department or subject matter expert within The Exchange, referred to as the “Rule Owner”. Every Rule is required to have a Rule Owner within The Exchange, even if the Rule proposal is submitted by an external stakeholder;
- ii. Review of Rule proposal and preparation of draft Rules;
- iii. Presentation of draft Rules to the RAC for review and approval;
- iv. Exposure of draft Rules to stakeholders and invitation for comments;
- v. Presentation of draft Rules to Council for approval;
- vi. Submission of draft Rules to the SEC for approval.

One of the steps in the rule making process of The Exchange is the exposure of draft Rules to stakeholders for comments. The Exchange views stakeholder participation in its rule making process important for the following reasons:

- i. To create public awareness and solicit the public’s feedback on the draft Rules;
- ii. To improve the quality of the Rules and thereby have a robust, well written set of Rules.

All draft Rules approved by the RAC are exposed to relevant stakeholders for comments under the cover - “Notification and Invitation for Comments” for a period of fourteen days or for such further period as may be determined by The Exchange.

The draft Rules are placed on The Exchange’s website as well as sent directly to relevant stakeholders for comments. These stakeholders include but are not limited to the following:

- a. Issuers,
- b. Dealing Members,
- c. Association of Stockbroking Houses of Nigeria (ASHON),
- d. Chartered Institute of Stockbrokers (CIS),
- e. Floor Based Authorized Clerks,

- f. Central Securities Clearing System Plc. (CSCS),
- g. The Association of Issuing Houses in Nigeria (AIHN),
- h. National Insurance Commission (NAICOM),
- i. Nigerian Insurers Association,
- j. Shareholders' Associations, and
- k. Capital Market Solicitors Association (CMSA).

Internally, the draft Rules are exposed to all members of the Executive Committee, all Heads of Departments, all staff of the Legal and Regulation Division as well as Departmental Nominees for Rules review, for additional comments.

After the exposition period, the RAC reviews the comments received from stakeholders and may:

- i. Make any amendments to the draft Rules as it considers necessary whilst taking the Rule owner's views into consideration, and
- ii. Approve the draft Rules for presentation to the Council; or
- iii. Request that additional research be made on the draft Rules and based on which, amendments should be made to the draft Rules for the RAC's further review and approval for presentation to Council,
- iv. Take such other steps as it considers appropriate in the circumstances.

Thereafter, the revised draft Rules incorporating the stakeholders' comments are submitted to the Council and SEC for approval. Comments are also received from the SEC regarding the submitted draft Rules and where the comments are non-substantive the comments are implemented and submitted to SEC for its written approval. Where the comments are substantive, The Exchange determines the next steps to be taken regarding effecting any changes requested by the Commission; and The Exchange's responses to any comments made by the Commission."

6. How do you track sustainability reporting of your listed companies?

At the Nigerian Stock Exchange, sustainability disclosure is currently not part of reporting requirement. However, The NSE is working in partnership with key stakeholders to identify appropriate sustainability reporting guidelines. It is expected that all companies will start providing key sustainability information by early 2016.

7. What incentives (i.e., public recognition/awards) and sanctions do you have in place to encourage disclosure and discourage non-compliance/lower levels of transparency?

After the launch of the guidelines, The Exchange will incorporate relevant initiatives that will encourage and motivate companies to consider higher sustainability performance and responsible business practices.

ISSUER CAPACITY BUILDING

8. If your exchange offers sustainability guidance for companies, please provide a description of the process for its creation.

The Nigerian Stock Exchange is currently in the process of instituting sustainability disclosure guidelines for listed companies. The procedure will commence with a stakeholder engagement forum billed to hold in June 2015. Following this, internal assessment will be conducted using a structured questionnaire. The aim is to generate data on listed companies internal policies and procedures; risk and governance; stakeholder engagement process; performance indicators, current disclosures made by reporting entities; reporting framework/standards utilized.

The research outcome from the assessment stage will be benchmarked against leading sustainability practices, voluntary industry standards and guidelines such as Global Reporting Initiative, United Nations Global Compact; United Nations Environment Programme Finance Initiative, London Benchmarking Group amongst others.

Subsequently, we will conduct a comparative analysis of markets profiled with the Nigerian stock market, and distil key imperatives for The NSE; identify critical success factors fuelling the growth in sustainability disclosures in the selected exchanges; assess the key risk management issues and challenges associated with the introduction of disclosure guidelines in the markets considered; understand relevant material issues with particular reference to operating in Africa and document key observations and learnings from case study Exchanges.

The outcome of the peer to peer review will be used to generate relevant disclosure guidelines which will also draw from already existing international frameworks such as GRI, SSE Model Reporting Guidance etc. The guidelines will at a minimum cover the following:-

- Guidance/minimum requirements on sustainability aspects to be reported on based on an assessment of material sustainability issues such as Community Relations Engagement; Environmental and Social Policies and Management Procedures; Human Rights Approach; Suppliers Relations, Responsible Products and Services; Financial Inclusion Strategy and approach amongst others.
- Guidance/minimum requirements on ESG disclosures into listing rules-Recommendations on international reporting framework to be utilized by companies in reporting.
- Scope of application: Mode of enforcement by the NSE (mandatory or voluntary).
- The governance structures and mechanisms for monitoring sustainability practices and disclosures within listed companies on the Nigerian Stock Exchange (NSE).



The draft guidelines will be discussed and agreed with listed companies through a focus group discussion. The final draft will be presented to the relevant regulatory body for approval.

9. Do you and/or your regulator provide guidance on externally assuring ESG disclosures? In your market, how common is external assurance of ESG disclosures?

The Nigerian Stock Exchange understands that the external assurance of sustainability reports helps to improve the credibility of the reporting among stakeholders and ensures that what is addressed in the report is responding to the issues that are important and relevant. Hence, The NSE encourages its companies to consider incorporating an assurance in its reporting. However, no guidance is provided to our market currently.