

Corporate Governance

SEC Nigeria Develops a Corporate Governance Scorecard

WHAT IS A CG SCORECARD?

Corporate governance scorecards are a quantitative tool to analyze and compare the governance status of individual companies, available at no cost. Companies of all sizes can use the transparent scoring system for internal evaluation and external comparisons. In the process, gaps are highlighted and areas for improvement are identified. In addition to measuring levels of compliance with an existing corporate governance code, the scorecard yields a baseline assessment of a company's governance practices and tracks progress over time against the company's initial performance and as compared to other firms in the same industry and in other sectors.

THE SEC NIGERIA CG SCORECARD: PROJECT OBJECTIVE

Developing a CG scorecard will create a deeper understanding of the country's CG code and identify ways to encourage compliance while underscoring the monitoring role played by the Nigeria Securities and Exchange Commission. A key aspect of the project has involved training for SEC staff. Goals include:

- creating a market for verifiable information to all stakeholders
- encouraging implementation of CG codes and good practices
- setting expectations and generating incentives for reform, since greater disclosure will influence stakeholder interest
- promoting a culture of continual improvement
- identifying shortcomings compared unique local conditions and generally accepted international standards

As the project moved forward, it became clear that the SEC should not be seen as offering ratings or opinions about specific companies due to conflict of interest considerations. For this reason, the scorecard does not feature a scoring mechanism.

CHOOSING A PARTNER: WHY THE NIGERIA SEC?

The SEC is the chief regulatory body for capital market operations in Nigeria, making it the optimal partner in developing and implementing a tool to assist with monitoring compliance. Other options under consideration included the Nigerian Stock Exchange. However, the exchange is itself a private company limited by guarantee, offering listing and trading services as well as issuance of shares and other securities. Thus it would fall under the regulatory purview of the SEC.

MAINTAINING PARTNER COMMITMENT

A critical aspect of the project was to ensure SEC staff ownership of and ongoing commitment to the project. This was accomplished by:

- ensuring that the sec and its staff fully understand the scorecard methodology, including benchmarks, rationale, objective and key goals
- engaging sec partners in scorecard development
- delegating implementation and monitoring responsibility to the SEC



WHY A SCORECARD? HOW IT HELPS

Nigeria's Securities and Exchange Commission is the chief regulatory body for capital market operations. An important but often overlooked role for any SEC is responsibility for capital market development. A CG scorecard helps the SEC fulfill this role because it ensures disclosure of verifiable information.

The Nigeria SEC currently makes use of Form 1, a semi-annual questionnaire that looks at the operations of publicly traded companies. However, the information provided is often inadequate, unverifiable and not publicly disclosed. It was agreed that upgrading Form 1 could serve as the basis for a scorecard that would give the SEC a functional tool to help it fulfill its capital markets development role.

TOOLS FOR THE PROJECT

After reviewing provisions of other codes in Nigeria as well as in other countries—including the United Kingdom and the United States—the team selected Nigeria's existing SEC CG code as the benchmark. Among other tools used:

- The IFC Codes Toolkit and Scorecards Supplement.
- Study visits to the US SEC and discussions with other practitioners, such as a video conference with representatives of the Banja Luka Stock Exchange.

THREE STEPS TO IMPLEMENTATION

The scorecard project began with a **three-day seminar** for SEC staff who would be participating in the development of the scorecard. The seminar was designed to enhance understanding of CG codes and standards, clarify the SEC's in CG implementation and identify ways to encourage compliance. The seminar program included meetings with representatives of the American SEC and a video conference with Banja Luka Stock Exchange officials to learn from their experiences in implementing a scorecard. A combined team of IFC and WB corporate governance staff provided support and knowledge sharing opportunities, guiding participants in the development of an implementation action plan. Participants reported positive experiences from attendance at the seminar, noting the particular relevance of the give-and-take with representatives from SECs in other countries.

The next step was a consultation session with the SEC staff Implementation Team to follow up on a pilot test of the draft scorecard with several companies across various industries. The day-long event also included additional SEC staff, representing the Financial Standards and Governance Department of SEC. The event focused on addressing issues raised during the pilot and resolving remaining questions, such as whether participation should be mandatory and whether companies should publish the full, completed forms to their sites. In addition, the team finalized details for the scorecard roll out. Following the consultation, company secretaries and compliance officers representing a cross-section of publicly listed companies were invited to attend a training session on the scorecard. Further training sessions are planned to include other relevant personnel such as board chairpersons, audit committee members, chief financial officers and other company stakeholders.

The final step was the public launch of the scorecard, an event hosted by the SEC's senior management, invited guests included other regulators, company executives, stockbrokers and other interested parties.

EXPECTED IMPACT

The Nigeria SEC Scorecard project is expected to achieve the following positive impacts:

- increased company transparency, which will enable stakeholders to evaluate firms with accuracy
- enhanced CG code compliance monitoring, giving the SEC tools and skills to provide analysis of trend lines, emerging issues, and improvements within and across industries
- improved overall market quality in Nigeria through heightened transparency and disclosure

LESSONS LEARNED:

- The study visit to the US SEC and video conference were both useful: linking the training to real outcomes was highly effective.
- Seminar participants could have used more time and greater opportunity for questions, dialogue and debate.
- Key to the seminar's success was the deep involvement of the Nigeria SEC team in the design of the training. They identified challenges to be addressed and questions to be answered.
- A follow-up consultation should be built into the training as a way to consolidate the learning.
- SEC leadership should be involved in project management. This support demonstrates top management's commitment to the effort.

CONTACTS

Roman Zyla | +1 202 473 3916
Johannesburg, SA | rzyla@ifc.org

Chinyere Almona | +234 813 534 1863
Lagos, Nigeria | calmona@ifc.org

Ralitza Germanova | +1 202 458 2675
Washington DC | rgermanova@ifc.org

Omosalewa Fajobi | +234 903 886 9191
Lagos, Nigeria | ofajobi@ifc.org

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