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FOREWORD

The covid pandemic of 2020 acerbated the advance of the virtual world as the physical world shut down. As the virtual advanced, all aspects of commercial activity reawakened to a keen sense of urgency to refresh and remodel processes and service delivery. Transcending regional and physical barriers with the help of technology has become almost unrestricted and concepts of democratised investing have become more popular. With a smart device, potential investors can access a dizzying range of markets and options. Data has become more important as a commodity as has AML and KYC compliance considerations as consumers are increasingly more reliant on technology dependent verifications for the safety of their transactions and daily activity.

Distributed Ledger Technology ["DLT"] has continued to expand the possibilities and there is consensus that the application of this technology is limited only to collective imagination. Nigerians have been quick to respond to this opportunity to access foreign currency denominated investment instruments in the crypto world. Nigeria as a country has gradually become a top player, not necessarily by volume but by number in bitcoin and other crypto investing.

At Sophus Consulting Limited, we intend to curate the progressive preparedness of the capital market community in Nigeria for the advent of crypto investing. We ask the question *'how is the Nigerian capital market preparing to organise, regulate and exploit the trend of growing interest in crypto investing?'* Our approach was to firstly use a live study to track regulator support, operator focus and investor requirements. In keeping this study open, we shall periodically update reports to stakeholders.

For this first report, we conducted a survey among capital market operators and followed up with short interviews for clarification. While all responses to the survey questions are unaltered by us, the comments and deductions are entirely the opinion of Sophus Consulting Limited and does not reflect the official position of any party mentioned in this report. We also recognise that in a highly competitive financial market such as Nigeria, some information may have financial or other implication to respondents and as a result have ensured absolute anonymity for all respondents unless permissioned by such respondent.

Our gratitude goes to all respondents who contributed to this report and all who after reading this report, may make available any further insights and opinions.

BACKGROUND

Satoshi Nakamoto in 2008 first propounded the possibility of a Distributed ledger technology ["DLT"] which would provide a peer-to-peer version of electronic cash. The digital system would cryptographically record transactions and safely store information that cannot be changed unilaterally without a consensus of multiple verifiers. The aspect of multipoint verification is what democratizes transactions and ensures a new level of integrity to transactions by removing direct counterparty risk.

Proponents of this technology have always believed that this approach simplifies operations and eases the flow of transactions across borders, regions and time.

Opponents of the technology have always pointed to the anonymity afforded by such a system and the increased possibility of success for nefarious activity. Particularly opposed initially, were regulators and governments who anticipated the effect of reducing control and barriers. Potential clients also indicated a mistrust of a system where regulated intermediaries are absent.

SAMPLING AND BIAS

On the back of the very detailed report from the [World Economic Forum](#) in 2021, Sophus formed a survey questionnaire to capture the Nigerian experience that was circulated to capital market stakeholders. The survey remains live and continues to track past and changes in attitude towards DLT. This report will continually be updated with information from the survey as we become aware of any changes.

Our first sampling was taken from regulators, reporting accountants, Market operators, Securities Exchanges, Custodians, Asset Managers, Stockbrokers, Capital Market Solicitors and investing clients (retail and institutional). Settlement Banks and the Central Bank of Nigeria were excluded from this first phase of review as the purpose of this report was to initially highlight the attitude and expectations of the user community and not the service providers to the industry.

We received responses from the full spectrum of work experience i.e. from interns to Board Chairpersons. We believe the breath of the sample rather than the number of respondents lends credence to the opinion expressed herein. In all, we collated responses from over 80 respondents in this first report.

OBJECTIVES

This report will provide insight into 2 basic questions

- A) Are stakeholders in the Nigerian capital market ["NCM"] anticipating or actively engaging in the transition to digitalisation?
- B) Do stakeholders see themselves (or others) as the drivers of digital transformation of the Nigerian capital Market?

We draw conclusions from the responses to the survey answers received and, in some instances, have interviewed respondents for clarification and quality control. Inferences drawn from this report will also provide useful content in developing a Digitalisation Master Plan and indeed might form a platform for healthy competition while developing the industry infrastructure.

Readers should expect to be better acquainted with the level of activity in the Nigerian space and more importantly, re-examine the relevance of digitalisation to their business.

Limitations of this report

- i. Non-investment digital products are not included: these are instruments outside the coverage of the Investment and Securities Act 2007 such as digital currencies, SME crowdfunding, cryptocurrencies, non-fungible tokens (NFTs) or decentralized finance (DeFi) applications.
- ii. This is not a recommendation of any one product or service as a solution. Readers are encouraged to do their own research before taking a decision.

SUMMARISED INSIGHTS OF SURVEY

Detailed survey review

A Regarding the Nigerian Capital Market structure

- 80% of respondents agreed that market forces supported by regulation creates a compelling case for digitalisation.
- Rulemaking in collaboration with operators is therefore expected to continue



REGULATION REMAINS A RELEVANT CHANGE AGENT



AND ATTITUDE IS POSITIVE

- A consensus that digitalisation would have to be an industry revolution rather than an individual effort sets the tone and platform for collective building and interoperability.
- No respondent considered DLT to be a passing trend that will run out of steam.
- Intermediaries should be prepared will alter processes and interactions to remain relevant

- Most obvious benefit perceived is speed of transactions
- Reliability and risk management were not considered to be high ranking benefits of DLT.
- Multiple use cases for DLT were identified by respondents. The only limit will be user imagination



WILL SOLVE MULTIPLE PROBLEMS

B Transformational Drivers and Challenges

- Intermediaries are expected to be the main drivers of digitalisation. This is despite the common belief that DLT has the potential to reduce client interaction.
- No intermediary confirmed that they had indeed commenced any form of transition.
- Exchanges are expected to be empowered to create niche products, with the proactive support of SEC.



OPERATORS AND REGULATORS ARE DRIVERS



DRIVEN BY COMPETITION

- Most operators are happy to lead market trends in DLT partly due to their awareness of use cases
- Others believe digitalisation should be a combined industry wide initiative and prefer to work alongside the rest of the industry in a comprehensive program.

- The body of knowledge about DLT applications and variants growing at an increasing momentum.
- Over 60% of our respondents claimed to have average or above average knowledge of DTL.
- Further testing by Sophus indicates that this large percentage might be more of a misestimation of the level of activity and quantum of information available.



CONTINUOUS LEARNING IS REQUIRED



THE CHALLENGE OF LEGACY

- Over 65% of our respondents anticipate that dealing with legacy systems would either be too risky, complex or costly.
- Socialisation and careful planning is also required to assist acceptance among old/ entrenched employees.

- A comprehensive program would encourage a greater level of interoperability between operators, Set universally agreed risk management measures and coordinate the priorities of different regulatory bodies.
- 32% of respondents were unaware of any group or party that is leading initiatives
- All agreed that operators and drivers need to be better coordinated



NEED FOR CLEAR LEADERSHIP