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HISTORICAL DEVELOPMENT, REGULATION AND SANITIZATION OF NIGERIA'S CAPITAL MARKET

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Abstract

The study examined the effects of the historical development and regulation of Nigeria's capital market on its sanitization and performance. Accordingly, the normative and positiveforms of theory of regulation were adopted with a qualitative research methodology. The preliminary findings of the study suggest that, the two principal regulatory instruments of the Nigerian capital market are the Securities and Exchange Commission (SEC) as its apex institutional framework, and Investment and Securities Act (ISA), 2007 as its legal framework.It was, however, found that, regulatory failure has been responsible for adverse performance of the Nigeria capital market over the years. It was also found that, the performance of Nigeria's capital market has been negatively affected by the global financial crisis of 2007 to 2011, and that, this was heightened by the economic recession that bedevilled the country shortly after the inauguration of the present administration in 2015. It was, therefore, concluded that, historical development and regulation of the Nigerian capital market have not influenced its sanitization and favourable performance. The study recommended, among other things, that, the selection of officials of the Securities and Exchange Commission should be based on integrity, merit and credibility, and not on political grounds, party loyalty, sentiments, vested interests, nepotism, favouritism and federal character principle. Also, the leadership of the Nigerian Securities and Exchange Commission should maintain their integrity and uprightness in order to effectively run the affairs of the Commission and to enforce its rules and the provisions of the Investment and Securities Act. Furthermore, loopholes in the legal system of the Nigerian capital market should be blocked to a reasonable degree; and there should be a rigorous review of the Investment and Securities Act (ISA) to reflect the dictates of corporate governance for listed companies. Not only that, appropriate sanctions should be given to culprits in order to serve as a deterrent. As such, any case of insider abuse and violation of Nigeria Stock Exchange (NSE) rules should be duly prosecuted. Finally, the Nigerian Stock Exchange should dilute the extent of foreign capital in its market capitalization so as to reduce its vulnerability to external shocks.

Keywords: Capital market, historical development, regulation, sanitization, market performance

1. Introduction

The role of a sound, stable and efficient capital market in the development of a nation cannot be over-emphasized, and neither can it be ignored, for it is the engine of growth and the catalyst for economic development. The soundness of a capital market is a function of its credibility, and a capital market is said to be credible when its operators give credence to equity, justice and fair play, which are the bases of fair trading or fair dealings, integrity and uprightness of the market. The consequential effect of this is that the market will attract public confidence; however, this cannot be achieved without effective regulation.

Mean while, earlier capital markets started out as unregulated markets, but the UK capital mar-ket later developed its secondary market as Lon-don Stock Exchange on 23 January, 1571; the US capital market founded its first stock exchange in 1790, and two years later, specifically on 17 May, 1792, it established the New York Stock Ex-change. The latter surpassed the former in glory with respect to trading volume, as the New York City had always been the centre of commerce in the United States. Not only that,the Indian cap-ital market established its secondary market as Bombay Stock Exchange on 9 July, 1875. The establishment and development of these exchanges gave birth to regulated capital markets in the globe. Ayodeji (2013) noted that, earlier capital markets were only being guided by the dictates of the forces of demand and supply, called price system or price mechanism. This is an automatic mechanism, based on the classical economic theory, which states that, supply creates its own demand, such that, there is neither demand deficiency nor supply deficiency. By this, any distortion in the market would only be temporary, as there is an automatic mechanism which would restore the situation to normalcy. This has the implicit assumption that, the capital market would always be in a state of equilibrium.

As time went on, there was the need for professionalism in capital markets, such that it was only experts or specialists that could deal in stocks, shares and other securities in those markets. This led to the introduction of issuing houses for the primary market, where new securities are traded; and the emergence of stockbrokers and jobbers for the secondary market where old or existing securities are traded; however, registrars are to serve both markets.These specialist traders began to operate in the capital markets on a free-rein system, as the markets were almost unregulated. Even, at that time, securities of any existing company could be freely traded, as there were no listing requirements. Consequently, capital markets started manifesting inefficiencies and absurdities, which, among others, include high level of insider dealings, such that, insider traders were outperforming the market and were earning abnormal returns, and there was prevalence of fraudulent practices among the dealing members in the capital markets.

In response to these anomalies, Ayodeji (2013) further argued that, developed countries started establishing exchange commissions, which would have the oversight function of policing the market against any insider abuse, and formulating policies for the operations of the stock exchanges, including the registration of stock exchanges and their branches. Secondly, for effective operation of those exchanges and their commissions, investment laws were entrenched to serve as a deterrent against fraudulent practices, and to punish culprits or offenders on those exchanges. In short, in order to achieve the soundness and credibility of the capital markets, developed countries of the world have been deploying different regulatory instruments as sanitization strategies; two of which are establishment of exchange commissions,and entrenchment of investment law.

The Nigerian capital market, being modelled around the UK structures, established its Securities and Exchange Commission (SEC) in 1979, and entrenched its investment law in the Investment and Securities Act (ISA), 1999, which has been replaced by ISA 2007. As noted by Alile (1996), totake the benefits of developed capital market in Nigeria, the Nigerian Stock Exchange was established in 1960 but started as Lagos Stock Exchange in 1961 as a private company limited by guarantee. But the Nigerian Stock Exchange took over the activities of the Lagos Stock Exchange in 1979. Leveraging on the U.K structures, from inception of the Nigerian capital market, there was the establishment of the Capital Issuing Committee of the Central Bank of Nigeria (CBN) and later, the Capital Issuing Commission, as the regulatory institution of the market, whose activities were taken over by the Securities and Exchange Commission, established under the Exchange Commission Decree of 27th September, 1979 but back dated to 1st April 1978 as its apex institution.

Many works have been carried out on the regulation of Nigeria's capital market since the entrenchment of Investment and Securities Act

1999. Agbadu (2002), Essien (2008), Samuel and Oka (2010) and Nwachukwu (2013) worked on the role of Securities and Exchange Commission as the regulatory institution of Nigeria's capital market. Akoh (1999), Sulaiman (2001), Opara and Alade (2014) and Oluwabiyi (2014) worked on Investment and Securities Act (ISA) 1999, while Nwude (2012) and Ahmed and Bello (2015) worked on the crash and failure of the Nigerian capital market in spite of the existence of regulation. Despite these several works on regulation of Nigeria's capital market, considerable research attention has not been given to its historical development, and the extent to which this has contributed to its sanitization, much more that the Nigerian capital market has been quite the roller coaster in the last one decade, thus experiencing a downturn to the extent of losing public confidence.

Dialoke (2011) explicitly pointed out that, since the 2004-2005 consolidation exercise in the banking sector, the Securities and Exchange Commission (SEC), the Central Bank of Nigeria (CBN), the Corporate Affairs Commission (CAC) and the Nigerian Stock Exchange (NSE) have become terribly uncoordinated and entangled in a free-for-all regulatory atmosphere while market infractions and insider dealings were increasingly ignored and condoned. Some of the regulators were found to be direct accomplices to market infractions, insider abuses and other illegal dealings.

The issue of regulatory failure in sanitizing Nigeria's capital market has not been completely resolved in Nigeria. Ahmed and Bello (2015) noted that, despite the damaging impacts of the crash in the Nigerian capital market, between 2007and 2011, on the economy, and the established cases of regulatory failures in the industry, the question of regulatory accountability has not received much attention in Nigeria. Stemming from this, it became highly imperative to ask the question: to what extent has the historical development of the Nigerian capital market engendered its sanitization and performance?Consequently, this study was initiated to examine the effect of the historical development and regulation of Nigeria's capital market on its sanitization and performance.

2. Literature Review

2.1. Conceptual Clarification

To Oloyede (2005), the organised capital market is a market for trading in long-term financial instruments of different sources. Simply put, it is a market for transactions in long-term debt and equity obligations. This assertion differentiates organised capital market from the unorganised. The organised capital market is a formal capital market with standardised securities, performance of primary and secondary distribution of securities, and market regulation. Oloyede (2005) also specifically provided the basic features of unorganised financial market to include: personal and informal dealings between lenders and borrowers; flexibility in loan transactions; simple and, in some cases, crude system of maintaining accounts; combining money-lending with other types of economic activities; and utmost secrecy about financial dealings.

Contextually, Obamuyi (2007) defined capital market as a market in which debt and equity instruments are sold to raise new funds, or market where outstanding instruments are traded. In order words, capital market is a market for medium and long-term funds. There are two (2) basic components of the capital market- primary and secondary segments. The primary market refers to segment for initial sale of new issues of shares, stocks and bonds. The secondary segment of the market is for trading in outstanding issues; this is the market where securities are bought and sold subsequent to original issuance. The beauty of this definition is that, it presents three features of a capital market. First, it makes an effective classification of a capital market into the bond market (where debt instruments are traded) and equity market (where equity instruments are traded). Second, it captures the medium and long-term nature of funds raised in the capital market, not limiting the objects of the market to raising of long-term capital alone. Third, it provides the two segments of the capital market, which are the primary market (where new funds are raised) and secondary market (where outstanding instruments are traded).

According to Ayodeji (2011), the capital market is largely regulated, as the activities of the operators or participants are regulated by the Securities and Exchange Commission in order to maintain the integrity of the market, and protect investors' interest as well as maintain public confidence in the market. Ayodeji (2011) also noted that, the financial market (which comprises both capital and money markets) is operated according to 'therules of the game', as it is regulated by regulatory authorities, and there are certain rules, norms, conventions and practices of the operators of the market. The regulatory authorities bring to book culprits or offenders in the financial market who engage in insider dealings, unfair dealings, sharp practices, round tripping, money laundering, etc. in order to achieve fairness of the system, fair dealings, fair play, and ultimately enhance public confidence in the financial system.

Regulation, however, refers to those laws, regulatory agencies, means and tools by which the operation of law is in force. The basic instruments of regulation are laws and regulatory agencies. This, of essence, accounts for why the two key regulatory instruments of the capital market are investment law and regulatory institutions. Accordingly, the fundamental aspects of regulation of the Nigerian capital market are the Investment and Securities Act, 2007 and the Securities and Exchange Commission.

Thus, law refers to the body of rules regulating human conduct in a particular setting or society. As human beings interact in the economic, social, political, ecological and technological spheres, there is the need for a body of rules that would regulate their conducts, activities and actions, so that the rights and freedom of anyone is not infringed upon, and the domain of anyone is not being encroached on. This necessitated the existence of the legal environment. As such, the human society revolves around six environments- the economic environment, the social environment, the political environment, the ecological environment, the technological environment and the legal environment (Ayodeji & Adediran, 2015).In all, there is a social contract among humans as regulated by law, so that there can be peaceful co-existence, religious tolerance, civil liberty, law and order, and the supremacy of the law in the human society.

On the whole essence of financial laws and regulation, Ladan (2014) opines that, financial markets rely on legal institutions. Law and regulation ensure that financial transactions are carried out within a clear, predictable and enforceable legal framework. It is now clear that, whatever the level of supply and demand for goods, services or capital, markets cannot function unless a sound legal system and a stable political order exist that provide security and stability, enforce contracts, protect property rights, carry out mortgage agreements, facilitate the association of many individuals to a common commercial purpose, safeguard impartial access to courts, and, generally provide a legal framework, which penalises those who cheat, lie, steal or try to defraud others.

2.2. Theoretical Framework

This work was basically anchored on theory of regulation, which states that, it is a norm to regulate the market, and that, the market has to be regulated in order to maintain its uprightness, integrity and soundness, and to protect the interests of investors and other stakeholders, thus maintaining public confidence. As such, this theory has two forms; namely, the normative and the positive theories of regulation.The normative theory of regulationadvances that, it is a norm to regulate a market or the economy at large. By this theory, it is a market norm to establish regulatory agencies to stabilize and sanitize the market or economy at large. Therefore, the establishment of Securities and Exchange Commission, as the apex body and regulatory agency or regulatory institution of the nation's capital market, is more of a norm than a rule.

According to Smith (1776, cited in Ladan, 2014), commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law, and in which the authority of the state is not supposed to be regularly employed in enforcing the payment of debts from all those who are able to pay. Commerce and manufactures, in short, can seldom flourish in any state in which there is not a certain degree of confidence in the justice of the government.

Thepositive theory of regulation, on the other hand, states that, the market should be regulated by the force of the law so as to entrench discipline, order and justice. This theory of regulation starts by antagonizing the theory of market power, and advocates the stakeholders' theory, thus aiming at protecting the stakeholders' interests. However, the theory of market power states that, in any given market, equilibrium is usually maintained by the existence of an automatic mechanism, called price mechanism, or better still, price system. This is an automatic market regulator and the automatic market balancing factor, which is the interaction or interplay of the forces of demand and supply (Ayodeji, 2013).

There are two aspects of the market power. First, the market will usually be in a state of equilibrium, such that, there will be a balance between the two market forces- aggregate demand and aggregate supply. This aspect of the theory of market power is supported by the assertion of J. B Says, that, supply will create its own demand, such that, there will neither be excess supply nor excess demand. Second, though, there may be a temporary distortion, the automatic mechanism will restore the market to a state of balance. In other words, any distortion in the market is temporary, as the interaction of the forces of demand and supply is usually on ground to act as a balancing factor to bring the market situation to normalcy i.e. a state of balance. Specifically, the theory of market power is justified on two major grounds, which are the competitive market argument and the evolutionary theory of economic change.

The competitive market argument states that, the market power is a reflection of perfect competition, whereby prices of goods and services are determined by the interplay of demand and supply, called price system or price mechanism. As a result of perfect competition, producers and sellers will be efficient in their product and service deliveries; and as such, they would produce and supply the goods and services desired by the society as efficiently as possible. Hence, there will be efficient allocation and utilization of resources, such that resources would be placed where they are best suited and fitted. Not only that, wastages, breakages, evaporation, pilferages, etc. would be reduced to the barest minimum (Ayodeji, 2011).

As a corollary, the evolutionary theory of economic change states that, there is no need for market regulation from any regulatory authority or government. This is due to the fact that, by evolution in the market economy, firms are faced with economic realities of resources constraints (i.e. scarce economic resources) and product market competition. In the firm's quest to make profit, and grow in the face of intense market competition, it requires economic efficiency (i.e. efficient allocation and utilization of resources). To this extent, the firm's objectives should be profit maximization and growth within the matrix of complex interdependence of firms, technological innovations, structural changes and institutional discipline, thus striving to achieve cost minimization and revenue maximization for the ultimate business objective, which is profit maximization.

A critical consideration of this theory shows that, with the market power and the objective of profit maximization, market regulation, involving investment law and corporate governance, is not necessary, since the market power, competition and profit maximization would have taken care of regulation and corporate governance. One could take a view that, we should not worry about governance reform, since, in the long run, product market competition would force firms to minimize costs; hence, competition would take care of corporate governance(Alchain, 1950; Stigler, 1958; Shleifer & Vishny, 1997).

However, the positive theory of regulation takes a different view, that in order to protect the interest of the stakeholders in firms, there is the need to regulate the market, as the market forces of demand and supply might be ineffective and inefficient in the allocation of scarce economic resources and in the distribution of income and wealth. This is the "market failure argument". For, as a result of market failure, resources are underutilized, misappropriated, misapplied and misallocated; there is inequality of income and wealth, such that, the gap between the rich and the poor is becoming widened, to the extent that, the rich are remaining richer while the poor are becoming poorer. Therefore, regulatory economics, leading to regulated market, or better still, regulated market economy, is inevitable and is become a veritable tool in the hand of the government. This is a credible solution to the problem of market failure; a tool for correcting the imbalances in resource allocation or income and wealth distribution, and protecting all stakeholders' interests in the firms from the hands of exploitative market operators and oppressive market power.

The positive theory of regulation is justified on the following grounds: It offers customers' protection from insensitive, oppressive and failed market power. It also protects customers against the possibility of price collusion from producers, suppliers or market operators- a situation which the market power can neither prevent nor curb. It protects the market from any insider abuse, and thus ensures fair dealings. It protects the market operators against any unhealthy rivalry or competition. Above all, it aligns the market operators' interests with that of the government.

Consequent upon these, the Nigerian capital market has to be regulated in order to protect the stakeholders' interests; that is, interests of the investors, market operators and the government. This, of essence, will ensure fair dealing, market discipline and efficient resource allocation. As such, the Nigerian capital market is regulated under the arm of the Securities and Exchange Commission (SEC) as its apex body and regulatory authority. Not only that, by this theory, it is required that, investment law is entrenched in an economy in order to reinforce the power of the Securities and Exchange Commission to serve as a deterrent against fraudulent practices on the stock exchange, and to punish culprits or offenders therewith. To buttress this point, Ladan (2014) noted that, the legal and regulatory frameworks are significant for the strength and soundness of financial system and the certainty of individual contracts and transactions. This argument is certainly not new, although only recently have economists started paying systematic attention to the rule of law.

2.3. Empirical Review

Samuel and Oka (2010) examined the nature and efficiency of the Nigerian capital market and its implication for investment analysis and performance. The study was anchored on Efficient Market Hypothesis (EMH), considering the types and levels of market efficiency. It used survey research design, and collected data through the instrumentality of questionnaire. It analysed the data with descriptive statistics, and found that, information technology has contributed to the efficiency of Nigeria's capital market.

However, Okaro and Oraka (2012) investigated the possibility of achieving effective capital market regulation in Nigeria, using a holistic approach. Taking a conceptual posture and relying on extensive review of secondary data, the study found that, the major causative factors of adverse performance of Nigerian capital market were global financial meltdown and regulatory failure. Following this, Yakubu and Akerele (2012) analysed the impact of the global financial crisis on the Nigerian Stock Exchange within the time frame of 2008 to 2011. It is implicit that, the study adopted the exogenous growth model, so that, the dependent variable, the Nigerian Stock Exchange, was proxied by market capitalization while the independent variable, global financial crisis, was proxied by capital inflow and foreign exchange rate. The study employed ordinary least square (OLS) method as the estimation technique. It found that, the global financial crisis had no significant effect on the Nigerian Stock Exchange; however, regulatory failure (policy of regulators) had intensified the recession on the Nigerian Stock Exchange.

Subsequent to this, Nwachukwu (2013) assessed the roles of Securities and Exchange Commission

(SEC) in public issue of securities and the structure of the Nigerian capital market. The study was based on the threshold of disclosure requirements of the Securities and Exchange Commission; and as such, employed qualitative methodological approach. It found that, the whole essence of the roles played by the Securities and Exchange Commission is to protect capital market investors and to build confidence in them about the market. It also found that, the regulatory roles of the Commission could be greatly felt in what constitutes the structure of the capital market and activities like public issue, and that civil, or criminal liabilities are imposed on market participants for market infractions.

Consequent upon this, Aliyu (2014) investigated the impact of corporate crime within the Nigeria's capital market and its attendant effects on the national economy. The study was based on corporate culture design with in-depth interview method. It obtained data from interviewing ten respondents; four from statutory regulatory agencies of the Nigerian capital market,and six from other related institutions. It analysed data using qualitative methodology, and found that, corporate crimes, within the Nigerian capital market, include: non-disclosure of material information, instatement in prospectus, falsification of issuer's financial statement, illegal offer, market manipulations and insider dealings. It further found that, the cumulative effect of corporate crimes, within the Nigeria's capital market, has a significant negative impact on the development of Nigeria's capital market and the national economy.

Further to this, Oluwabiyi (2014) examined the effects of insider trading in mergers and acquisitions in the United Kingdom and Nigeria, and how legislations had tried to curb the ignoble acts. Using qualitative approach, the study found that, despite the existence of the self-regulating dealing rules of the stock exchanges and the criminalization of insider trading practices under investment and company laws in both jurisdiction, not much has been done to address the issue in Nigeria. It also obtained that, the general explanation of the authorities is that, the incidence of insider trading is not rampant, and that, the directors and employees of companies, in Nigeria, are not ready to blow the whistle on insider traders among themselves; hence, who will guard the guards?

Similarly, Ahmed and Bello (2015) examined the contributions of regulatory failures to the collapse of capital market in Nigeria. On the threshold of responsibilities and accountability, the study adopted a qualitative and analytical comparative approach, by comparing the statutory responsibilities and accountability of the regulators of the Nigerian capital market with those of United Kingdom. The study pointed out that, responsibilities should go with accountability for sound and effective capital market operation in Nigeria. However, it found that, the Nigerian Securities and Exchange Commission lacks the operational independence required for effective capital market regulation. It also found that, there is regulatory laxity and failure in Nigeria's capital market, and that, this was what brought about the near collapse of the market.

Also, Nageri, Nageri and Amin (2015) studied the combined effects of stock market and corruption on economic growth in Nigeria, covering the period 1996-2012. With ex-post facto research design and secondary data, which were sourced from World Bank and Transparency International reports, the study proxied economic growth by gross domestic product; and it, respectively, represented stock market and corruption by market capitalization and corruption percention index on Nigeria. It found that, both corruption and stock market have long-term relationship with economic growth in Nigeria; and as such, pointed out that, corruption needs be checked, and stock market needs be well-regulated so as to engender sustainable economic growth in Nigeria.

3. Evolution and Development of Nigeria's Capital Market

Prior to Nigeria's independence in 1960, financial operators in the country comprised mainly foreign owned commercial banks that provided short-term commercial trade credits for the overseas companies with offices in Nigeria (Nwankwo, 1991). Nevertheless, the origin of the Nigerian capital market dates back to the colonial era in the bid to raise funds for running the local administration on the realization that the internally generated funds from marketing agricultural produce and solid mineral were deficient. This they did through reforming the revenue mobilization, taxation and other payments systems (Osaze, 2011).

Up till 1961, there was no capital market in the Nigerian financial system, and as such, the Nigerian surplus spending unit, i.e. holders of surplus funds, did not have access to investment of such funds on long-term basis in their own country; rather, they had to repatriate their long-term funds to London for investment in the UK companies and UK government development loan stocks (Alile, 1996). This situation was an indirect means of developing the United Kingdom economy, the more, at the expense of the development of the Nigerian economy. Not only that, Nigerian firms or industrialists had no opportunity of issuing long-term instruments for raising long-term capital for maintenance of market position, commencement of new businessesand expansion of existing ones. However, the Nigerian government was only able to raise long-term fund for development purposes through the London Stock Exchange, and as such, was at the mercy of a foreign economy(Ayodeji, 2011).

As noted by Ewah, et al (2009), the capital balances of financial operators were invested abroad in the London Stock Exchange. Thus, the Nigerian government, in an attempt to accelerate economic growth, embarked on the development of the capital market. This is to provide local opportunities for borrowing and lending of long-term capital by the public and private sectors as well as an opportunity for foreign-based companies to offer their shares to the local investors, and provide avenues for the expatriate companies to invest surplus funds. Hence, the need for capital markets, in Nigeria, was occasioned by the inability of the money market to meet the medium and long-term financial needs of the Nigerian economy.

Since the journey of a thousand miles begins with a step; so also, the evolution of a formal capital market, in Nigeria, began with the setting up of the Barback Committee in 1958. As such, the development of Nigeria's capital market dates back to the late 1950s when the Federal Government, through its Ministry of Industries, set up the Barback Committee to advise it on ways and means of setting up a stock market. One of the terms of reference of the committee was to consider ways and means of promoting a stock market in Nigeria (Nwakwo, 1991; Osaze, 2011; Olawoye, 2011; Atoyebiet al, 2013; Amedu, 2013).

As the name suggests, the Committee was headed by Professor R. W. Barback, the then Director of the Nigerian Institute of Social and Economic Research (NISER). In their own account, Atoyebiet al (2013) stated that, the needs to have an organized stock exchange came up, and committee was set up by the government under the chairmanship of Prof. R.W. Barback to consider the feasibility of having indigenous forum for the purchase and sale of shares and stocks.The report of the Committee, published in 1959, recommended, among others, the creation of facilities for dealing in shares, the establishment of rules regulating transfers of funds, measures to encourage savings, and issuance of securities of government and other corporate organizations (Otiti, 2007; Osaze, 2011).

In response to the Committee report, on September 15, 1960, the Lagos Stock Exchange was incorporated as a private company limited by guarantee under the provisions of the Lagos Stock Exchange Act 1960 (Osaze, 2011), and following its establishment in 1960, the Lagos Stock Exchange commenced operation in 1961 (Alile, 1996; Ewah, et al, 2009; Adewuyi&Olowookere, 2011; Ayodeji, 2011; Atoyebiet al, 2013). Effectively, the Lagos Stock Exchange was registered on March 1, 1959 and incorporated on September 15, 1960; it started operations on June 5, 1961. It was transformed in 1978 to Nigerian Stock Exchange with two additional branches in Kaduna and Port Harcourt (Oloyede, 2005).

To Otiti (2007), the favourable report of that committee led to the registration of the business' name 'The Lagos Stock Exchange' in March 1960. That was followed later by its incorporation under Section 2 cap. 37 on 15^{th} September, 1960 through the collaborative effort of the Central Bank of Nigeria (CBN), the business community and the defunct Nigeria Industrial Development Bank (NIDB). Trading activities commenced on the Exchange on the 15^{th} June of 1962 with two government stocks, one preference share and ten equities.

The evolution of the Nigerian capital market was feasible by the existence of two major complementary institutions in the Nigerian money market; these were the Central Bank of Nigeria (CBN), which was established in 1958 but started operations in 1959, and the Nigerian Industrial Development Bank (NIDB), established in 1959 (Alile, 1996; Ayodeji, 2011). For example, in 1959, following the establishment of the Central Bank of Nigeria (CBN), a year earlier to the establishment of a stock exchange in Nigeria, a N4 million (2 million pounds sterling) Federal Government of Nigeria development loan stock was issued in line with its role of fostering economic and financial development (Bashorun&Bakare-Aremu, 2013).

There are statutory provisions which boost the activities of the Nigerian Stock Exchange, by providing that, fund managers shall have at least 33% of their portfolio of securities made up of quoted investments on the Exchange. Such statutes chronologically are ITMA, 1961; NPF Act 1961, Trustee Investment Act, 1962, and Insurance Act of 1976 (Alile, 1996). In 1962, an ad-hoc consultative and advisory body, known as the Capital Issues Committee, was established under the aegis of the Central Bank of Nigeria. The committee had the mandate to examine applications from companies seeking to raise funds from the market, and to recommend the timing of such issues. The committee had no legal backing; nonetheless, it was the de facto regulator of the market (Otiti, 2007). Capital Issues Commission became the apex regulatory body in the capital market as a result of Capital Issues Act enacted in 1973 (Adewuyi & Olowookere, 2011).

As noted by Atoyebi, et al (2013),prior to the establishment of the Securities and Exchange Commission (SEC), two bodies had in succession been responsible for the monitoring of capital market activities in Nigeria. The first was Capital Issues Committee, which operated between 1962 and 1972. This could not be seen as the superintendent of the capital market, because its functions were more or less advisory, as they were without the force of instruction, even though its functions included the coordination of capital market activities. The next body was the Capital Issues Commission (CIC), which came into being in March 1973. The Capital Issues Commission, unlike its predecessor, had full powers to determine the price, timing and volume of a security to be issued. Despite this wider power, the Capital Issues Commission could not be seen as the apex institution of the Nigerian capital market, because it concerned itself with public companies alone, and its activities did not cover the stock exchange and government securities.

Further to this, in 1973, two capital market institutions were established; these were: the Nigerian Bank for Commerce and Industry (NBCI) and the Nigerian Agricultural and Co-operative Bank (NACB). Also, there was the establishment of privately owned complementary capital market institutions. These include: pensions and provident funds, stock broking firms, insurance companies, building societies, merchant banks, finance companies, issuing houses, registrars, etc (Alile, 1996; Ayodeji, 2011).The Indigenisation and Nigerianisation Acts of 1972 and 1977, respectively, increased the activities of the Nigerian Stock Exchange, as they shifted the ownership structure of the companies in Nigeria from foreigners to Nigerians. This called for companies to seek listing or quotation on the Nigeria Stock Exchange, so that they could become public companies, whose shares can be easily transferred or sold by the foreigners to Nigerians.

In 1977, the name of the Lagos Stock Exchange was changed to Nigerian Stock Exchange by the Indigenization Decree of 1977, following the recommendations of the Industrial Enterprises Panel (Adeosun Panel) of 1975, which provided that, branch exchanges should be established. As a result, six new trading floors of the Nigerian Stock Exchange were created; these are in Kaduna (1978), Portharcourt (1980), Kano (1989), Onitsha (1990) and Yola (2002) (Osaze, 2011). In their own account, Aremu, Suberu and Ladipo (2011) stated that, the Lagos branch was launched in 1961; Kaduna, 1978; Port Harcourt, 1980; Kano, 1989; Onitsha, February 1990; Ibadan, August 1990; Abuja, October 1999; and Yola, April 2002. With a closer look at the two accounts, it can be deduced that, they are similar to a large extent; it was only that, in the former, there is an omission of the establishment of the Ibadan and Abuja branches in 1990 and 1999 respectively.

Azeez and Sulaiman (2012) noted that, the Lagos Stock Exchange was renamed as the Nigerian Stock Exchange in 1977 with the following objectives: 1.To provide facilities to the public in Nigeria for the purchase and sale of bonds, stocks and shares of any kind, and for the investment of money. 2. To regulate the dealings of members' interests and those of their clients. 3. To control the granting of a quotation on the stock exchange in respect of bonds, stocks and shares of any company, government, municipality, local authority or other corporate body. 4. To promote, support or propose legislative or other measures affecting the afore-mentioned objectives.

However, The Capital Issues Committee functioned until 1978, when it was replaced by the Securities and Exchange Commission (SEC), following the recommendation of the Okigbo Panel on the review of the Nigerian financial system instituted in 1976. As a new law, SEC Decree No. 71 of 1979 was promulgated, establishing the new Commission with wider powers, to regulate and develop the market. The basic functions of the Commission, amongst others, were: determination of the prices of issues and setting the basis of allotment of securities (Otiti, 2007). In effect, the activities of the Capital Issues Commission, as the regulatory institution of the Nigerian capital market, were taken over by the Securities and Exchange Commission, which was established under the Exchange Commission Decree of 27th September, 1979 but backdated to 1st April 1978 (Alile, 1996; Adewuyi & Olowookere, 2011;Ayodeji, 2011).

Subsequent to this, the formulation of the all-share index on January 3^{rd}, 1984 brought about a major development in the measurement of the performance of Nigeria's capital market. all-share index is a weighted value for all equity shares listed on the Nigerian Stock Exchange, whether for an industry or the market as a whole (Adepoju, 2013; Amedu, 2013; Zubar, 2013; Akinde, 2015). Also, the introduction of Structural Adjustment Programme (SAP), in 1986, resulted in significant growth of the financial sector and the privatization exercise, which exposed investors and companies to the significance of the stock market (Alile, 1996; Soyode, 1990).

The deregulation of the financial system started in the mid-eighties; this was crowned by the Structural Adjustment Programme (SAP) of 1986, as enunciated by the Ibrahim Babangida's regime. The capital market was not left out of that deregulation. One of the key deregulated measures in the market was the establishment of the Second-tier Securities Market in 1985. The introduction of the market was designed to give adequate recognition to the need of small and medium-sized indigenous companies, which could not meet listing requirements of the Nigerian Stock Exchange. The primary aim was to provide a platform for these small and medium-scale businesses to have access to a pool of investible funds by seeking quotation on the Exchange (Otiti, 2007).

According to Ayodeji (2011), this market was established in April 1985 in response to the persistent criticism of the stringent listing requirements of the Stock Exchange (at the main Exchange) without lowering the listing requirements of the Exchange, but encouraging the small and medium-scale enterprises to seek listing on the NigerianStock Exchange for fund mobilisation, liquidity and wealth creation. The Stock Exchange Daily Official Listing (SEDOL) also carries information on stock price movements of the Second-tier Securities Market (SSM). When listed companies on the SSM are fully groomed and more established, to the extent of meeting the full listing requirements of the Exchange, they are moved or promoted to the First-tier Securities Market on their application for seeking full listing.

Nnanna, Englama and Odoko (2004)had noted that, six companies were listed on this segment of the stock market by 1988, and by2002, over twenty-three companies had availed themselves of the opportunities offered by this market. Thus, Oloyede (2005) opined that, the Second-tier Securities Market operation is similar to the first-tier market by providing a meeting point for the buying and selling of the shares of companies in the market. Transactions are carried out through stockbrokers, merchant banks or commercial banks in the same way as for fully listed companies.

In 1992, the Chartered Institute of Stockbrokers Decree was promulgated which granted the Institute of Stockbrokers the powers to charter stockbrokers and dealers, conduct examination for brokers, and, generally, oversee the conduct of its members in the interest of the orderly development of the capital market (Osaze, 2011). Also, the Central Securities Clearing System (CSCS) was incorporated on July 29, 1992 as a Financial Market Infrastructure (FMI) for the Nigerian capital market. It was commissioned in April, 1997, and it commenced operations on April 14, 1997. On the 16^{th} of May 2012, CSCS became a Public Liability Company (PLC) by a special resolution. The SEC issued its license as an agent for central depository, clearing and settlement of transactions in the Nigerian capital market. It operates a computerized depository, clearing, settlement and delivery system for transactions in securities in the market (Central Securities Clearing System Plc, 2014).

With the reform agenda of 2004-2005, it was a requirement for Nigerian banks to increase theirshareholders' funds to minimum of N25 billion by the end of December 2005 and by consolidation throughmerger and acquisition. The consolidation of the Nigerian banking system started after the announcement, on July 6, 2004,of the Central Bank of Nigeria's 13 point agenda of banking sector reforms. This exercise led to the reduction in number of banks in Nigeria from 89 to 25; then 24 after the merger of Stanbic and IBTC.This affected dealings in the stock market, as banks raised their required minimum capital through thecapital market by issuing new securities (Oke & Adeusi, 2012). Accordingly, the capital market was instrumental to the initial twenty-five banks that were able to meet the minimum capital requirement of N25billion during the banking sector consolidation in 2005(Bashorun & Bakare-Aremu, 2013).

Following the review of the capital market activities year-in year-out, a more elaborate statute was enacted, in 1999, to replace the SEC Decree of 1988 to the newly enacted Investment and Securities Act(ISA) No. 45 of 1999 (Adewuyi&Olowookere, 2011). However, the Nigerian stock market witnessed a boom between 2003 and 2007, and also experienced a meltdown between 2008 and 2010, as market capitalization declined, from over N13trillion (specifically, N13.29 trillion) in 2007, to N5.3 trillion in 2010. The all-share index has also fallen from57, 990.22 points to approximately 20,827.17 points in the same period (Bashorun&Bakare-Aremu, 2013; Ikeobi, 2015). Thus, the Nigerian capital market was at the peak of its performance in 2007; nevertheless, this was truncated by the global economic meltdown of 2007-2008 (Ikeobi, 2015). Consequently, the market lost public confidence, as the confidence of shareholders and investors appeared to have been completely eroded (Bashorun & Bakare-Aremu, 2013). Thus, leading to the exit of many local and foreign investors from the market, many of who have continued to stay away (Ikeobi, 2015).

The situation improved between 2010 and 2013 with respect to market capitalization, which increased from N7.03 trillion, in 2009, to N9.918 trillion in 2010, N10.275 trillion in 2011, N14.8 trillion in 2012, and N19.077 trillion in 2013. As at 2011, the Nigerian capital market position was as follows: It serviced the second largest financial centre in sub-Sahara Africa; it was the third largest stock exchange in Africa by capitalization; and it was the largest market in West Africa by company capitalization (Onyema, 2011). In 2012, the Nigerian Stock Exchange (NSE) completed a key stage in the implementation of its new trading platform, X-GEN. This is a technology-driven trade engine, which provides real-time access to the market for dealing members and investors, by synchronizing market operations and transactions so that investors can track their portfolio through mobile phones anytime, anywhere (Nigerian Stock Exchange {NSE}, 2013).

In 2013, NSE successfully launched the new trading platform, X-GEN, which support trading cash equities, bonds, and Exchange Traded Products (ETPs), and the first-ever issuer reporting portal in Nigeria, X-Issuer. The Bourse (i.e. Stock Exchange) also re-launched its Alternative Securities Market (ASeM) for small and medium companies, and introduced a new market structure for trading equities, along with fixed-income market making (NSE, 2014).The NSE had scrapped the Second-tier Securities market (SSM), in 2010, on the grounds that, its stringent listing rules were discouraging to small and medium-sized enterprises, claiming that, SSM's usefulness became doubtful, and its performance was dwindling. Essentially, the launching of ASeM was part of the Goodluck Jonathan-led government's plan, through the NSE, to revive the SMEs investment market, thus rejuvenating the SMEs sub-sector.

In 2014, the federal government announced the elimination of stamp duties and value added tax on capital market transactions while being instrumental to the much needed forbearance for stockbrokers. Also, the Securities and Exchange Commission (SEC) strengthened its enforcement machinery by partnership with the office of the Attorney General of the Federation and the Nigeria Police Force. Accordingly, the Commission (SEC) instituted legal proceedings against over 260 individuals and entities for various forms of market infractions (Egwuatu, 2014).

Still, in 2014, the NSE was admitted as a full member of the World Federation of Exchanges (WFE), and Phase 1 of the West African Capital Market Integration (WACMI) program was, then, well underway with the successful launch of Direct Market Access (DMA). The NSE made history by becoming the first African stock exchange to join the International Surveillance Group (ISG), and welcomed a new president and six (6) council members to its National Council (NSE, 2015). In that same year, with the aim of developing the bond market, the Commission reduced bond issuance cost, and streamlined the bond issuance process by introducing shelf registration and book building. It also embarked on product innovation, thereby introducing Exchange Traded Funds (ETFs), Real Estate Investment Trusts (REITs) and other varieties of collective investment schemes. It also broadened non-interest capital market products to include 'Sukuk' bonds (Egwuatu, 2014).

The year 2015 witnessed economic downturn; for, shortly after the inauguration of the Muhammadu Buhari-led administration, the Nigerian economy experienced a recessionary period. This adversely affected the activities and performance of the Nigerian capital market. However, that same year, the Nigerian Stock Exchange (NSE) launched a technology-driven supervisory system, called X-BOSS, meaning, Broker Oversight and Supervision System. The system aims at directly monitoring and supervising the operations of the dealing members of the Exchange. Still in 2015, NSE launched a comprehensive repository of all its rules, that is, NSE rules (NSE, 2016).

Furthermore, the Nigerian Stock Exchange(NSE) launched its Pension Index on Thursday, July 2, 2015. The index provides a tracking mechanism for pension fund administrators (PFAs), Custodians to the PFAs (CPFAs), fund managers, and others that follow the National Pension Commission (PENCOM) guidelines. The Pension Index complies with the provisions of the Pensions Reforms Act, 2014, and it acts as the minimum standard for measuring the performances of Pension Asset Managers (PAMs), Non-Pension Asset Managers (NPAMs), and Retirement Savings Accounts (RSA) holders (NSE Capital Market Committee, 2015). In 2016, NSE concluded due diligence process, established member relations desk and credible member register, and developed a road-map to demutualization. It also established corporate vehicle for a central Counterparty Clearing House (CCP), engaged legal and financial advisers to support the launch of the CCP, and engaged extensively with key stakeholder group (National

Assembly, Central Bank of Nigeria, Securities and Exchange Commission, Central Securities Clearing System, Bankers' Committee, dealing members, etc.) and stated derivative product development (NSE, 2017).

Arising from the need to wriggle out of recession, in the second quarter of 2017, the Nigerian economy was revamped with high level of investment activities from agricultural and industrial sectors. By this, the Nigeria Stock Exchange was able to recover from the macroeconomic overhang of the commodity down-cycle to become the third best performing market in 2017 globally. This was brought about by the economic recovery mechanisms of stronger foreign reserves, improvement in industrial production and/or gross domestic product, and improvement in foreign exchange stability following favourable CBN policies, which include Investor and Exporter Window, SMEs Lending Window (NSE, 2018).

4. Summary and Discussion of Findings

The preliminary findings emanating from this study are: First, the Nigerian capital market was modelled around the UK structures; this must have been due to the fact that, the country was a colony of the British government until October 1st, 1960, when she gained full independence. Second, the two principal regulatory instruments of the Nigerian capital market are the Securities and Exchange Commission (SEC) as its apex institutional framework, and Investment and Securities Act (ISA), 2007 as its legal framework. Third, the regulatory instruments have been transformed and reviewed from time to time. This must have been due to the need to meet up with the challenges of ensuing realities. The regulatory institution that started out as Capital Issues Committee, later became Capital Issues Commission, now Securities and Exchange Commission. Not only that, the legal framework that started out as Exchange Commission Decree 1979, later became Securities and Exchange Commission Decree 1988, and was replaced by Investment and Securities Act (ISA) 1999, now ISA 2007.

Fourth, the key performance indicators of the Nigerian capital market are all-share index and market capitalization. This must have been due to the fact that, all-share index measures the general efficiency of the stock market, and market capitalization indicates the extent of available public capital, mobilized by the capital market. Fifth, the activities and the performance of the Nigerian capital market have perceptible influence on the nation's economy. Sixth, the Nigeria's capital market has been giving due consideration to Small and Medium-sized Enterprises (SMEs) with respect to partial listing on the Exchange. For, in 1985, the Second-tier Securities Market (SSM) was introduced to cater for the listing of SMEs on the Exchange; this was scrapped in 2010, and was re-launched as Alternative Securities Market (ASeM) in 2013. Finally, the operational efficiency of the Nigerian capital market has been enhanced by its market infrastructures, such as the incorporation of the Central Securities Clearing System (CSCS) in 1992, the launching of Broker Oversight and Supervision System (X-BOSS) in 2015, and the launching of a comprehensive repository of all Nigerian Stock Exchange (NSE) rules in 2015. .

However, the main findings of this study are: First, regulatory failure has been responsible for adverse performance of the Nigeria capital market over the years. This is due to the fact that, there is evidence of market infractions, fraudulent practices and corporate crimes. Studies which confirmed this finding were those of Yakubu and Akerele (2012), which found that, it was regulatory failure that intensified the recession on Nigerian Stock Exchange, and not global economic meltdown; Aliyu (2014), which found that, the regulatory instruments of the Nigerian capital market have not been able to abate corporate crimes like non-disclosure of material information, misstatement in prospectus, falsification of issuer's financial statements, illegal offers and insider dealings.Oluwabiyi (2014) also found that, regulatory instruments have not been able to curb insider dealing practices in the Nigerian capital market.

At any rate, regulatory failure may have resulted because, officials of the Securities and Exchange Commission (SEC) may have been selected on political grounds, thereby serving political and vested interests. Also, the leadership of the SEC may have been corrupt, so that they may not be able to enforce capital market rules. Not only that, there may have been loopholes in the Investment and Securities Act, which dealing members and corporate criminals may have been capitalizing on, making it difficult to bring them to book. Furthermore, SEC officials may have been nonchalant in handling cases of market infractions and corporate crimes.

This study also found that, the performance of Nigeria's capital market has been negatively affected by the global financial crises of 2007 to 2011, and that, this was heightened by the economic recession that bedevilled the country shortly after the inauguration of the present administration in 2015. This was confirmed by the findings of Okaro and Oraka (2012), which indicated that, global financial crisis was one of the two major factors responsible for the adverse performance of the Nigerian capital market. Inferentially, for the Nigerian capital market to have been so affected by global financial meltdown, it means that, it may have been largely reliant on foreign capital in the forms of foreign direct investment and income of Nigerian nationals abroad.

5. Conclusion and Recommendations

The study examined the effects of historical development and regulation of Nigeria's capital market on its sanitization and performance. Essentially, it drew logical conclusion from two premises; namely, theoretical framework and findings emanating from the study. The theory of regulation states that, it is a norm to regulate the market, and that, the market has to be regulated in order to maintain its uprightness, integrity and soundness, and to protect the interests of investors and stakeholders, thus maintaining public confidence. However, the findings of this study indicate that, regulatory failure with global financial crises and national economic recession have contributed to the adverse performance of Nigeria's capital market and its loss of public confidence. It was, therefore, concluded that, historical development and regulation of the Nigerian capital market have notinfluenced its sanitization and favourable performance.

Consequently, it was recommended that, the selection of officials of the Securities and Exchange Commission should be based on integrity, merit and credibility, and not on political grounds, party loyalty, sentiments, vested interests, nepotism, favouritism and federal character principle. Also, the leadership of the Nigerian Securities and Exchange Commission should maintain their integrity and uprightness in order to effectively run the affairs of the Commission and to enforce its rules and the provisions of the Investment and Securities Act. Furthermore, loopholes in the legal system of the Nigerian capital market should be blocked to a reasonable degree; and there should be a more rigorous review of the Investment and Securities Act (ISA) to reflectthe dictates of corporate governance codes for listed companies. Not only that, appropriate sanctions should be given to culprits in order to serve as a deterrent. As such, any case of insider abuse and violation of Nigerian Stock Exchange (NSE) rules should be duly prosecuted.Finally, the Nigerian Stock Exchange should dilute the extent of foreign capital in its market capitalization so as to reduce its vulnerability to external shocks.

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