

SECURITIES AND EXCHANGE COMMISSION



KEYNOTE

SECOND ANNUAL CHRISTOPHER KOLADE LECTURE CONVENTION ON BUSINESS INTEGRITY (CBI)

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Lagos

1. It is my sincere pleasure to deliver this Keynote, being the Second Annual Christopher Kolade Lecture on Business Integrity on the theme “Making the Business Case for Business Integrity”. Apart from the honour of being in the same room with distinguished men and women of integrity like the iconic Dr. Christopher Kolade, I am delighted to have an opportunity to speak about this topic that is particularly close to my heart.

2. I wish to commend the admirable hardwork of Mr. Soji Apampa and his team at the Convention on Business Integrity (CBI) for organizing this Lecture Series amongst other important initiatives. It is indeed heartwarming to note how the CBI has evolved since it was founded in 1997 attracting 30 signatories to the Convention – including some of Nigeria's leading corporate entities, individuals as well as the Ministry of the Federal Capital Territory as the only public sector signatory.

3. Your organization certainly represents one of Africa's biggest contributions to global best practices in the areas Corporate Governance, Business Ethics and Integrity as well as Transparency and Fair Competition. The Securities and Exchange Commission (SEC) as a business conduct regulator will continue to support laudable efforts aimed at improving the business integrity and corporate governance landscape in Nigeria.

4. Integrity in Business is a theme that is increasingly gaining currency across the globe. Some have said the growing appeal of integrity in business is an indication that the virtue has all along been in short supply within business circles. Nevertheless, the world's leading businesses and organizations frequently

invoke the word 'integrity' in their mission and value statements, professional ethics books, codes of conduct and even in advertisement materials. To show how business integrity is taken seriously, a survey by Harvard Law School Forum on Corporate Governance and Financial Regulation found that over 80% of companies in the Fortune 500 list have articulated 'Statements of Business Integrity' that guide all their operational activities displayed on their websites.

Defining Integrity?

5. But what does Integrity really mean? I think it is important for us to consider the origin of the word in order to fully appreciate its value. The word 'Integrity' shares common roots with words like 'Integral' and 'Integration' – the Latin term 'Integer' which connotes 'Oneness', 'Completeness' or 'Wholeness'. Integrity therefore signifies wholeness of virtue, wholeness as a person or wholeness as a part of an integral part of something larger than the person – the society, the organization, humanity, etcetera. Integrity intuitively also alludes to concepts of 'Purity', 'Soundness' and 'Morality'. In fact, it is the moral aspect of integrity that leads us to frequently associate it with ethics. According to Dudzinski, integrity denotes "three distinct but interrelated dimensions: the quality or state of being complete, the entire, unimpaired or perfect state or quality of anything, and the quality or state of being of sound moral principle".

The Business Case for Business Integrity

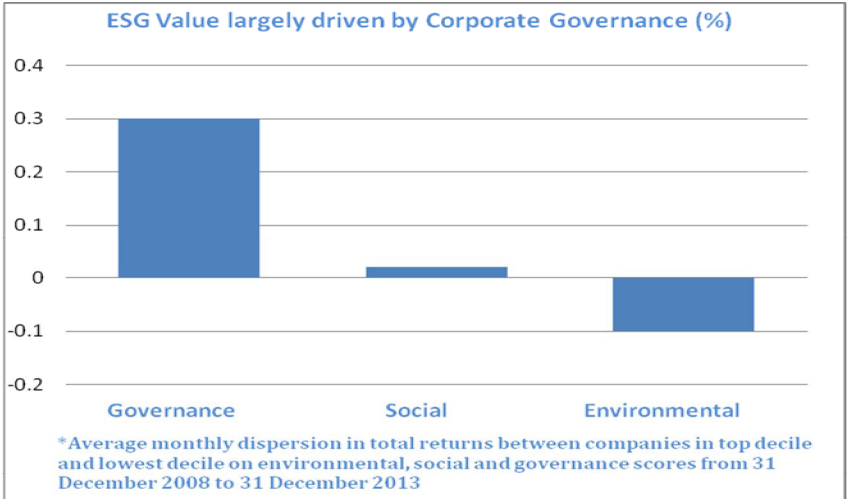
6. There is no doubt that businesses exist to make profit and grow shareholder value. In the past a common misconception considered this

overriding business objective as conflicting with adherence to strict ethics and integrity. In reality, there is no tradeoff between being ethical or profitable. Businesses that act with integrity have been shown to be more profitable and in a sense it is even unethical and a waste of society's resources for a business to continue operating without profits. Integrity is an enabler of sustainable profitability. Businesses that act with integrity are long term sustainable businesses while those that do not – for the purpose of short term gains – will eventually run out of business. There are several studies showing companies that pay greater attention to integrity actually having better financial performance even in the short run than companies who do not. It should not be a choice to be ethical or be profitable. There is no question that businesses can and must be both.

7. Integrity is absolutely critical in business. It is as important as the quality of a company's products and services in shaping the company's reputation. Some have even gone as far as to suggest that integrity is the most important asset a corporation can have. As the age old admonition goes "A good name is better than gold". That is why in the corporate world, integrity is the most commonly cited morally desirable trait. Adhering to a code of ethics and doing the right thing by sticking to that code no matter the costs is immensely powerful both for individuals and corporations. Integrity is valued by all categories of stakeholders of a business. Shareholders clearly want their business to be properly governed, investors place a premium on companies that set and maintain the highest standards, the best talents want to work for ethically sound companies that they

can trust, the government, regulators and civil society also appreciate and reward integrity in business. Above all, the customer who businesses aim to please values how a company conducts itself.

8. When a company successfully builds a reputation of integrity the benefits flow from across the spectrum of stakeholders. It can enjoy customer preference when other companies' products or services are available at a similar cost and quality. It can charge a premium for its products and services; count on support from stakeholders in times of controversies; and reap value appreciation in the financial markets. In a nutshell, integrity helps build up "reputational capital" which is an important component of an organization's value. There is a growing list of empirical evidence proving that integrity, embedded in sound governance, is a game-changer for businesses. For example, an analysis of 1,600 top companies in the MSCI World Index found that well-governed companies who pay attention to integrity tended to outperform poorly governed companies by an average of 30 basis points per month between 2008 and 2013.



Source: Hermes Fund Managers

9. Another recent study published on the Harvard Corporate Governance blog found that high levels of integrity in an organization are positively correlated with good outcomes, in terms of higher productivity, profitability, better industrial relations, and higher levels of attractiveness to prospective job applicants. By adhering to a code of ethics and doing the right thing no matter the costs, companies actually end up improving performance and enhancing sustainability.

Urgent Need for Corporate Reputation of Integrity in Nigeria

10. Nigerian companies are regional leaders operating in Africa's largest economy and the world's most promising region. There has never been a better time to be in business within the Nigerian economy that has enjoyed over 13 years of robust economic growth above 7% per annum. Nigeria is home to Africa's largest population with over 170 million people. We have very promising demographics where the median age is just 18 and over 70% of the population is below the age of 30. Nigerians are exceptionally enterprising and more than half of the population now lives in the cities. We have a growing middle class currently estimated at 23% of the population – 39 million people.

11. With the rich natural and human endowments at our disposal, our country has been listed among the Next-11 and the MINT (Mexico, Indonesia, Nigeria and Turkey) nations. Nigeria is projected to have a nominal GDP of \$4 trillion by 2050 overtaking countries like Italy, Spain and Canada. Surely, government reforms have engendered a macroeconomic stability which is supportive of robust economic growth. Inflation has remained in single digits for over 2 years

now, fiscal prudence is maintaining enviable debt-to-GDP and budget deficit levels, while buffers have been built to support a more stable exchange rate for the Naira.

Key Macroeconomic Indicators	
Nominal GDP	\$510 billion
GDP Growth Rate	6.54% (2Q 2014)
Consumer Price Index	8.3% (August 2014)
Debt-to-GDP Ratio	11%
Fiscal Deficit to GDP	1% (2013)
Forex Reserves	\$39.6 billion (26 th Aug 2014)
Naira Exchange Rate/\$	N162.56 (Interbank rate)

Sources: NBS, CBN

12. Considering these immense opportunities, companies can carve a niche for themselves by building corporate reputations anchored on integrity and adherence to international best practices. This is even more critical considering the 'reputational deficit' our country suffers. Although this is more about perception than reality, it puts our businesses at a disadvantage needing to do more than counterparts from other parts of the world to prove themselves. As Nigeria's \$510 billion economy gets increasingly integrated into the global economy our businesses can more readily insert themselves into international value chains. This calls for more competitiveness on all levels: technology, investment climate, capacity and business integrity.

13. Nigeria was ranked 127th in the World Economic Forum (WEF) Global Competitiveness Index this year out of 144 countries. I am personally disappointed with the ranking because it does not objectively reflect Nigeria's competitiveness. Unfortunately the ranking relied on responses from Nigerians who, as we know, are usually more critical of their country than others. So for

example, our performance on critical governance and ethical issues is even worse than the overall ranking. Nigeria was ranked 132nd out of 144 on the 'Ethical Behavior of Firms'. Apparently firms in South Africa (ranked 35th), China (55th), India (88th) and Brazil (107th) consider themselves to be more ethical than Nigerian companies. On a measure of public sector corruption, Nigeria was ranked higher than only Argentina and Venezuela at 142nd on the 'Diversion of Public Funds'. Similarly, our ranking by the WEF on payment of bribes was 135th.

Nigeria's Ranking on the 2014 WEF GCI with Peer Countries

Overall Ranking		Diversion of Public Funds		Irregular Payments and Bribes		Ethical Behavior of Firms		Strength of Auditing and Reporting Standards		Efficacy of Corporate Boards	
Country	Rank	Country	Rank	Country	Rank	Country	Rank	Country	Rank	Country	Rank
Switzerland	1	New Zealand	1	New Zealand	1	New Zealand	1	South Africa	1	New Zealand	1
USA	3	UK	13	UK	15	UK	14	UK	16	South Africa	3
UK	9	USA	30	USA	36	USA	33	USA	32	USA	16
China	28	China	45	South Africa	48	South Africa	35	China	82	UK	17
South Africa	56	India	60	China	66	China	55	Nigeria	88	Rusia	64
India	71	Russia	74	India	93	Russia	72	India	102	China	78
Russia	102	South Africa	96	Russia	102	India	88	Russia	106	Nigeria	80
Nigeria	127	Nigeria	142	Nigeria	135	Nigeria	132	Libya	144	India	94
Guinea	144	Venezuela	144	Yemen	144	Angola	144			Libya	144

Source: World Economic Forum

14. Whether Nigeria is misunderstood and ranked lower than it should be (which I believe is often the case) is not the issue. We must focus on bringing about a paradigm shift in our country when it comes to proper conduct. To become competitive and remain relevant in today's global economy, our companies and public institutions must not only imbibe international best practices but exceed them by setting the highest standards of conduct. If you think global and want to do business in the big league then you must exude integrity in all facets of your business especially because of various domestic and global efforts to regulate business conduct.

SEC's Reforms to Deepen the Culture of Integrity in Nigeria

15. When I joined the SEC following the devastating aftermath of the financial crisis that hit Nigeria between 2008 and 2009, I had the strongest conviction that serious reforms were needed. The market had lost over 70% of its value and investors developed apathy towards the market due to losses they sustained. It was clear that corporate governance failures, risk management lapses and various acts of misconduct had caused and exacerbated the crisis. We took decisive steps to restore investor confidence by showing zero tolerance for improper conduct.

16. Thankfully, today investor confidence has been restored. We now have a growing debt market that attracts issues from State governments, Nigerian corporations and triple-A rated multilateral financial institutions like the World Bank's International Financial Corporation (IFC) and the African Development Bank (AfDB). We have a market that encourages product innovation, an increasingly promising collective investment schemes industry and new trading platforms that bring transparency to over-the-counter trading of unlisted securities and bonds. Market capitalization of our stock market has tripled from N4.6 trillion in 2009 to N13.6 trillion as at 9th September 2014. Surely, our market needs further depth which is why we are advocating for many more Nigerian companies to list their shares as one sure way of showing the world that you value integrity and are willing to submit yourself to the highest standards.

17. This performance would not have been possible without the reform agenda which we have pursued since 2010. You are all aware of how we

strengthened corporate governance at the Nigerian Stock Exchange (NSE), instituted legal proceedings against over 260 individuals and institutions for acts of wrongdoing and adopted a 'naming and shaming' approach to enforcement.

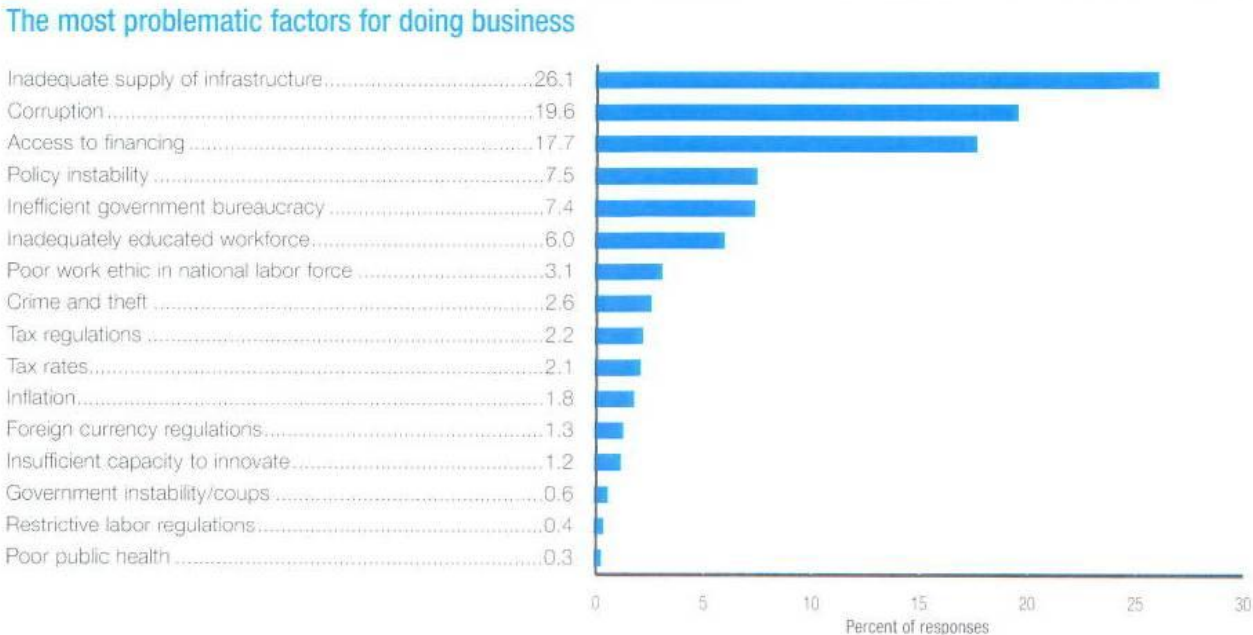
18. We significantly improved the dispute resolution mechanism in the Nigerian capital market by revamping the SEC's quasi-judicial Administrative Proceedings Committee which shortens the process of obtaining justice. To further deepen these reforms we issued a new Code of Corporate Governance that complies with international standards in 2011. In 2013, we made rules to make compliance with the code mandatory and, in the near future, we will release a robust corporate governance scorecard for all publicly listed companies that will not only measurably show the level of compliance in Nigeria but will also enable comparability amongst companies.

19. Making the code mandatory makes it more enforceable as we learnt when tackling the corporate governance issues at Ecobank Transnational Incorporated (ETI). It was a great example of how enforcing our world class code helped avert a possible catastrophe considering the systemic risk implications of a major pan-African bank going under. The reach of our enforcement extends beyond the shores of this country thanks to our leading participation in the International Organization of Securities Commissions (IOSCO) within the framework of a robust multilateral memorandum of understanding (MMoU). IOSCO members collectively regulate over 95% of global securities markets, cooperating with one another to enable cross border enforcement. For

example we help the US SEC in their enforcement work and receive excellent support with our own enforcement actions.

Corruption and Illicit Financial Flows

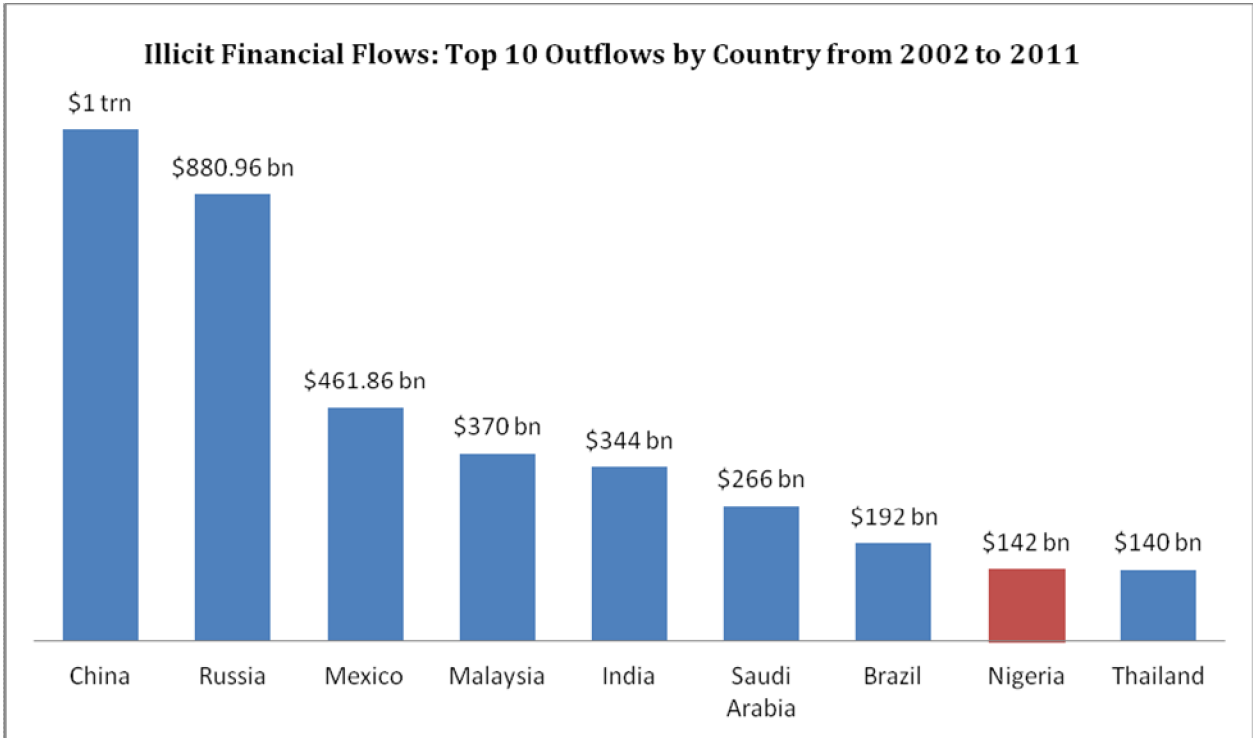
20. I will like to talk briefly about corruption and illicit financial flows which are two issues that countries have been battling with. Nigeria suffers greatly from both issues. Corruption has been identified as the second most problematic factor to doing business in Nigeria (see figure below) ahead of factors including access to finance and terrorism.



Source: World Economic Forum 2014

21. This year, the G-20 is focusing on combating illicit financial flows especially considering the fact that poor countries are losing over \$ 1 trillion every year to such illegal activities as money laundering, tax evasion, transfer pricing and embezzlement. This is money desperately needed for the millennium

development goals and could prevent as much as 3.6 million deaths annually in the world's poorest countries. Nigeria has lost more to illicit financial flows than any other African country between 2002 and 2011, even being listed in the top 10 globally.



Source: Global Financial Integrity

22. Nigeria is estimated to need about \$50 billion investment to ensure stable electricity, yet within a 9-year period we lost over \$140 billion to illicit financial flows which by the way is not made up of only embezzled public funds. A lot of it was lost through the illicit commercial activities of multinational companies. We now have a situation where these illicit outflows are not only depriving our country of desperately needed capital but are also being used to finance terrorism abroad and within our shores. A security expert who trained my staff at the SEC recently shared some pieces of intelligence with us indicating that Boko Haram received over \$70 million between 2006 and 2011 through shady

activities like money laundering, oil bunkering, kidnapping and dealing in drugs. Boko Haram has been listed as the 7th richest terrorist organization in the world.

World's Richest Terrorist Groups		
1	ISIS (Iraq and Syria)	Worth \$ 2 billion
2	IRA (Ireland)	Makes \$450 million annually
3	Taliban (Afghanistan)	Makes \$400 million annually
4	Al-Qaeda (Middle East)	Makes more than \$100 million annually
5	FARC (Columbia)	Makes \$80 - \$350 million annually
6	Lashkar-e-Tayyiba (Pakistan)	Makes 100 million annually
7	Boko Haram (Nigeria)	Made \$70 million from 2006 to 2011

Source: National Money Magazine

Efforts to Fight Corruption and Other Misconducts

23. Considering the impact of corruption and anti-money laundering violations on our country, efforts have been made to strengthen the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime in Nigeria leading to the delisting of Nigeria from the FATF grey list in 2013. More of course needs to be done. Other countries are also implementing reforms to make it harder for wrongdoers to find a hiding place. The United Kingdom has the Anti-Bribery Act 2010 that requires companies with any link to the UK to have robust structures to forestall shady dealings. The United States has long had the Foreign Corrupt Practices Act of 1977 which provides for up to \$25 million in fines and 20-year jail time. The table below summarizes the major elements in the two most important laws in the war against international corruption.

Provision	FCPA	Bribery Act
Who is being bribed	Only bribes ("anything of value") paid or offered to a "foreign official" are prohibited	Prohibits bribes paid to <i>any person</i> to induce them to act "improperly" (not limited to foreign officials)
Nature of advantage obtained	Payment must be "to obtain or retain business"	Focus is on improper action rather than business nexus (except in case of strict corporate liability)
"Active offense" vs. "passive offense"	Only the act of payment, rather than the receipt/acceptance of payment, is prohibited	Creates two offenses: (1) offense of bribing another ("active offense") and (2) offense of being bribed ("passive offense")
Corporate strict liability	Strict liability only under accounting provisions for public companies (failure to maintain adequate systems of internal controls)	Creates a new strict liability corporate offense for the failure of a commercial organization to prevent bribery (subject to defense of having "adequate procedures" in place designed to prevent bribery)
Jurisdiction	U.S. companies and citizens, foreign companies listed on U.S. stock exchange, or any person acting while in the U.S.	Individuals who are UK nationals or are ordinarily resident in the UK and organizations that are either established in the UK or conduct some part of their business in the UK
Business promotion expenditures	Affirmative defense for reasonable and bona fide expenditure directly related to the business promotion or contract performance	No similar defense (but arguably such expenditures are not "improper" and therefore not a Bribery Act violation)
Allowable under local law	Affirmative defense if payment is lawful under written laws/regulations of foreign country	No violation if permissible under written laws of foreign country (applies only in case of bribery of foreign public official; otherwise a factor to be considered)
Facilitating payments	Exception for payment to a foreign official to expedite or secure the performance of a routine (non-- discretionary)	No facilitating payments exception, although guidance is likely to provide that payments of small amounts of money are
Civil/criminal enforcement	Both civil and criminal proceedings can be brought by DOJ and SEC	Criminal enforcement only by the UK Serious Fraud Office (SFO)
Potential penalties	Bribery: for individuals, up to five years' imprisonment and fines of up to \$250,000; for entities, fines of up to \$2 million Books and records/internal control violations: for individuals, up to 20 years imprisonment and fines of up to \$5 million; for entities, fines of up to \$25 million	For individuals, up to 10 years' imprisonment and potentially unlimited fines; for entities, potentially unlimited fines

Source: VistaLaw

Costs are Prohibitive in the Absence of Integrity

24. Where there is no integrity amongst individuals, organizations and societies we see dire consequences. The global financial crisis, which came about largely due to a disregard for ethical, governance and risk management considerations has so far cost losses exceeding \$22 trillion in the form of GDP contraction, loss of home value and government austerity measures. In Nigeria tax payers footed the bill for bailing out the financial system to the tune of half a trillion Naira. Growth was stifled, jobs were lost and critical investments in social infrastructure were jettisoned due to the crisis.

25. Many companies have also paid dearly for neglecting integrity, or at least for not paying sufficient attention to it. Enron no longer exists and we all know why. BP has already spent more than \$28 billion on damage claims and cleanup costs since the spill in the Gulf of Mexico and could be in for further settlements of over \$18 billion after admitting to guilt for 'extreme deviation from the standard of care and a conscious disregard of known risks'. Halliburton suffered bans from government contracts in countries including Nigeria following a series of bribery scandals that cost a number of their staff (including a CEO) their freedoms in the USA. Siemens also faced a ban from government contracts in Brazil amidst various allegations of bribery across countries. Although commendably, Siemens has set up a \$100 million fund with the World Bank to help countries and organizations to fight corruption through collective action.

26. Regulators around the world are showing that improper acts will not go unpunished. Following the many malpractices that occurred in the years leading to the global financial crisis, financial services regulators have diligently prosecuted many of the cases, forcing banks to settle for fines some of which have been indeed substantial with the single largest one of \$13 billion paid recently by J.P. Morgan for the irregularities it committed on residential mortgage-backed securities.

Top Bank 10 Bank Fines	
Fine	Banks
\$25 billion	Wells Fargo, J.P. Morgan Chase, Citi Group, Bank of America and Ally Financial in 2012 agreed to pay \$25 billion in penalties and borrower relief over alleged foreclosure processing abuses.
\$13 billion	J.P. Morgan Chase in 2013 paid \$13 billion in settlements for lawsuits linked to irregularities in residential-backed mortgage securities
\$9.3 billion	Bank of America, Wells Fargo, J.P. Morgan and 10 others in 2013 reached an agreement with the Office of the Comptroller of the Currency and Federal Reserve to pay \$9.3 billion in cash and noncash relief, including loan assistance, to homeowners over alleged foreclosure abuses.
\$9 billion	BNP in 2014 agreed to pay \$9 billion in fines in one of the largest settlements by a single bank. It was for deliberately and repeatedly violating longstanding US sanctions
\$8.5 billion	Bank of America in 2011 paid billions of dollars in settlements since the financial crisis due to mortgage abuses
\$2.6 billion	Credit Suisse AG in May 2014: Credit Suisse Group became the first financial institution in more than a decade to plead guilty to a crime when the Swiss bank admitted last month that it conspired to aid tax evasion
\$1.9 billion	HSBC Holdings in 2012 agreed to pay \$1.9 billion to U.S. authorities over deficiencies in its antimoney-laundering controls
\$1.5 billion	UBS AG in 2012 agreed to pay \$1.5 billion and acknowledged charges that it manipulated interbank lending rates including the London interbank offered rate, or Libor. It was the biggest fine so far in that scandal.
\$1.4 billion	Goldman Sachs, Morgan Stanley, J.P. Morgan and others agreed to pay penalties of roughly \$1.4 billion to settle charges of conflicts of interest between their research and investment banking units
\$780 million	UBS in 2010 paid almost \$800 million for aiding tax fraud

Source: Wall Street Journal

The Way Forward

27. Regulation and adequate enforcement are proven ways to incentivize people to do the right thing. In addition, we need an overhaul of the justice system because an assurance of speedy justice goes a long way in instilling discipline. I also strongly believe we need a vibrant civil society that is willing to ask the tough questions and hold the feet of politicians and institutions to the fire. We equally need strong social and religious institutions to bring in more clarity on the sometimes vague issue of integrity. We cannot have today many more churches, mosques and other places of worship in our neighborhoods than we had 20 years ago and yet the value system keeps deteriorating significantly.

Importance of a Solid Foundation

28. Ultimately I think when you look at a nation or a society that values integrity, it all starts from the individual. We therefore need to focus on the family and go back to the homes from where a person's character is molded. My personal story validates the importance of an early foundation. I grew up with strong values and a solid moral compass passed on to me by my parents who believed integrity is everything. If today I am considered as a principled and disciplined person because of my stance for what is right and proper no matter the costs, I attribute this reputation to the early foundation laid by my parents.

29. Focusing on molding the character of our young people is certainly a powerful investment for the future that will help Nigeria tackle present day

challenges of social cohesion, insecurity and inclusive growth. It will be a game changer capable of reversing the reputational deficit our country suffers from. Integrity, starting from the individual to the society is the one quality that can boost Nigeria's competitiveness and help actualize our national aspirations of a peaceful prosperous country.

30. Let me conclude by answering the question that brings us all here tonight. Does integrity pay? ABSOLUTELY! Integrity pays; for companies, for societies and for the individual. Even if you do not believe in God or the afterlife, it must make sense to do the right thing. If you decide to take the risk of doing the wrong thing, in the short-run you might be lucky. But make no mistake; in the long-run it could be disastrous: you may lose your business, or worse – your freedom – by serving time in jail. Where is Bernie Madoff today? The choice is yours.

Thank you for listening.