

MARKET ARCHITECTURE, DISCLOSURE, AND THE LIQUIDITY OF UNLISTED PUBLIC SECURITIES: EVIDENCE FROM NASD OTC IN NIGERIA**Uche Toby Agburuga *PhD, FCA, ACS*****Department of Accounting, Faculty of Management Sciences
Federal University Otuoke, PMB 126 Yenagoa, Bayelsa State, Nigeria**Email: agburugaut@fuotuoche.edu.ng**Abstract**

This study examines the market architecture for unlisted public securities in Nigeria. We analyze a distinct segment of the Nigerian capital market in which securities are publicly held and tradable on the NASD OTC Securities Exchange but are not listed on the Nigerian Exchange (NGX). Using institutional analysis and comparative evidence, we show that Nigerian regulation separates formal listing from supervised quotation and secondary-market trading. The Securities and Exchange Commission (SEC) requires securities of unlisted public companies to trade only on a Commission-approved OTC platform, while NASD supplies the disclosure, trading, surveillance, and settlement infrastructure for that segment. We document the admission pathways, continuing obligations, and trading arrangements that govern this market and compare them with the tiered U.S. OTC market and the United Kingdom's distinction between the Official List and AIM. The evidence indicates that NASD operates as an intermediate market layer between private illiquidity and full exchange listing. More broadly, the findings suggest that market quality in off-exchange environments depends less on the absence of formal listing than on the strength of disclosure rules, regulatory oversight, and post-trade infrastructure. In the Nigerian setting, the main constraint appears to be incomplete migration of eligible issuers into the regulated OTC framework rather than the absence of an institutional design. The paper contributes to the literature on market design, disclosure regulation, and alternative trading venues by showing how a supervised OTC market can expand transparency and investor protection for unlisted public securities in an emerging market.

JEL Classification:* D47, G12, G14, G18, K22, O16**Keywords:* OTC markets, market architecture, disclosure regulation, NGX, Nigeria, capital market****Introduction**

A recurring problem in emerging capital markets is how to organize secondary trading in public-company securities that are not admitted to a principal exchange. In Nigeria, this problem is unusually sharp because the regulatory system does not leave transfers of unlisted public-company securities to informal bilateral negotiation. Instead, SEC rules require that securities of unlisted public companies be bought, sold, or otherwise transferred only through a Commission-approved system and, more specifically, through the platform of a registered securities exchange established for OTC trading. NASD was created to perform that function, while NGX remains the principal exchange venue for formally listed equities.

This institutional arrangement creates a distinct market segment in which securities are publicly held, quoted, and tradable, but not formally listed on NGX. NASD's admitted-securities and categorization materials show that firms such as FrieslandCampina, WAMCO Nigeria PLC and Central Securities Clearing System (CSCS) PLC trade on NASD, while NGX separately maintains listed-company and official-list structures for exchange-listed securities. The Nigerian setting therefore offers a natural case for studying whether market quality in off-exchange environments depends primarily on listing status or instead on the disclosure, trading, and settlement architecture surrounding the venue.

This paper develops three hypotheses. H1 is that separating formal listing from supervised quotation allows a regulator to create an intermediate market layer for unlisted public securities without

abandoning disclosure, surveillance, or orderly settlement. H2 is that a regulated OTC venue can improve transparency and price formation relative to informal transfer arrangements when trading is routed through brokers, governed by venue rules, and settled through recognized depository infrastructure. H3 is that, once such a framework exists, the main policy constraint shifts from institutional design to issuer migration and enforcement: market quality depends not only on the rules on the books, but also on the degree to which eligible issuers and securities are captured within the supervised venue. These hypotheses move the paper beyond a descriptive legal distinction between "listed" and "quoted" and toward a finance question about how market design shapes liquidity, information production, and regulatory visibility.

This paper makes three contributions. First, it identifies and conceptualizes an underexamined category in emerging capital markets: securities that are publicly tradable yet not formally listed on the principal exchange. In the Nigerian context, this "quoted but not listed" segment is not merely descriptive. It is an institutional outcome produced by SEC rules, NASD admission processes, broker intermediation, and CSCS-linked settlement. Second, the paper contributes to the literature on disclosure regulation and alternative trading venues by showing how a supervised OTC market can extend the reach of formal market infrastructure to unlisted public securities without requiring immediate admission to the principal exchange. Third, it contributes to comparative market-structure analysis by situating Nigeria alongside the tiered U.S. OTC market and the UK distinction between official-list status and trading admission outside the Official List. The broader implication is that non-main-board trading should not be treated as inherently opaque or institutionally weak; rather, market quality depends on the strength of the surrounding disclosure, trading, and settlement architecture.

Methodologically, the paper adopts a doctrinal and comparative institutional approach, while remaining grounded in questions central to empirical finance. It draws on SEC rules, NASD admission and continuing-obligation materials, NASD investor guidance, and NGX official-list materials to examine the institutional determinants of liquidity and transparency in Nigeria's unlisted public-securities segment. It then uses comparative evidence from the U.S. OTC market and the UK Official List/AIM distinction to interpret the Nigerian framework within a broader market-design perspective. The objective is not to estimate abnormal returns or predict price movements, but to explain how disclosure obligations, venue rules, broker intermediation, surveillance, and settlement infrastructure jointly shape trading conditions for public securities outside a principal exchange.

The paper's central finding is that NASD should not be understood as a residual market outside formal finance. Rather, it functions as an intermediate market layer between private illiquidity and full exchange listing. By internalizing transactions in unlisted public securities into a supervised venue, the Nigerian framework improves transparency, supports price discovery, and extends the scope of regulatory oversight. At the same time, the evidence suggests that the principal weakness of the model lies not in its institutional design, but in the incomplete migration of eligible issuers and securities into the regulated OTC framework. The relevant policy question, therefore, is not whether Nigeria requires a different architecture, but how effectively the existing one can be implemented. The rest of the paper proceeds as follows: Section 2 presents literature review; Section 3 Theoretical Anchor; Section 4 Conceptual framework; Section 5 sets out the Nigerian regulatory architecture; Section 6 analyzes NASD admission and market microstructure. Others parts of the paper include Section 7 which presents the comparative evidence; Section 8 discusses implications for Nigerian capital market development and Section 9 Discussion and Implications. The paper ends with Section 10 Conclusion and Section 11 Recommendations for further research.

Literature Review

The finance and accounting literature has long treated disclosure standards and venue choice as jointly determined. Huddart et al. (1999) show theoretically that disclosure requirements affect both liquidity allocation and listing choice, and that exchanges competing for order flow can, under important conditions, produce a "race to the top" in disclosure standards rather than a race to the

bottom. That framework is useful here because the Nigerian case is not simply about whether a firm is public or private; it is about which venue supplies the disclosure and trading regime under which liquidity is organized.

The central proposition of this paper is that an OTC market is not inherently opaque, weak, or inferior; rather, its quality depends on the disclosure, regulatory, and trading architecture within which it operates. The literature most directly supporting that proposition is Bushee and Leuz (2005), Brüggemann et al. (2018), and Davis et al. (2023). Read together, these studies move from the effect of mandatory disclosure shocks, to the role of alternative OTC regulatory regimes, to the liquidity consequences of explicit market-tier design. Their combined implication is highly relevant for Nigeria: NASD's importance lies not simply in being an OTC venue, but in being a supervised, disclosure-based, broker-mediated OTC venue.

Bushee and Leuz examine the economic consequences of a U.S. regulatory change that required OTC Bulletin Board (OTCBB) firms to comply with reporting requirements under the Securities Exchange Act of 1934. Their core question is whether mandatory disclosure regulation produces net costs, net benefits, or a mix of both for firms and markets. The paper exploits the SEC's 1999 "eligibility rule" as a regulatory shock. Before the rule, many OTCBB firms could trade without filing periodic reports with the SEC. The rule forced those firms either to become reporting issuers or to leave the OTCBB. The authors analyze firms' responses by separating them into three groups: already compliant firms, newly compliant firms, and noncompliant firms that were forced off the OTCBB. They then examine stock-price reactions around key announcement and implementation dates and study changes in market liquidity using measures such as bid-ask spreads and share turnover. The study finds both costs and benefits. For firms that had not previously filed with the SEC, mandatory disclosure imposed meaningful costs: over 2,600 firms, or 76% of the previously nonfiling firms, did not comply and were removed from the OTCBB. At the same time, firms that became newly compliant experienced significant increases in liquidity, consistent with improved disclosure reducing information asymmetry. Already compliant firms also experienced positive stock returns and sustained liquidity gains, which the authors interpret as possible positive externalities from a cleaner, more credible market environment. The important point is that mandatory disclosure improved market quality for some firms, but compliance costs were substantial, especially for smaller issuers.

Bushee and Leuz are highly relevant because they show that disclosure-based OTC regulation can improve liquidity and market credibility, even though it also imposes compliance costs. This directly supports the Nigerian argument that NASD's value lies in moving unlisted public-company securities from informal transfer into a regulated disclosure environment. It also helps explain why not every eligible issuer migrates into such a venue: the benefits of transparency may be offset by the private costs of compliance. That logic maps closely onto the Nigerian implementation gap, where the issue is not the absence of the OTC framework but incomplete migration into it.

Brüggemann et al. broaden the analysis from a single regulatory shock to the full ecology of the U.S. OTC market. Their objective is to determine whether differences in OTC regulatory and disclosure regimes are associated with differences in market quality. The study analyzes a comprehensive sample of more than 10,000 U.S. OTC stocks and exploits the fact that the OTC market contains multiple overlapping regulatory environments: federal SEC reporting regimes, venue-specific information tiers, securities-manual publication substitutes, and state blue-sky laws such as merit-review requirements. The authors examine how these regulatory differences map into measures of market quality, including liquidity, price efficiency, and crash risk. Their empirical design relies on cross-sectional and panel variation across venue types, information labels, and state-level rules (Brüggemann et al., 2018). The paper finds that stricter OTC regulatory regimes are associated with higher market quality. Liquidity and price efficiency are lower in the OTC market than on traditional exchanges, but they also decline monotonically as the OTC information environment deteriorates. Firms subject to stricter regimes exhibit higher liquidity, better price efficiency, and lower negative skewness or crash risk. The authors also find that venue-based information labels

and tiering matter materially, and that some substitutes for SEC registration, such as manual publication and stricter state merit-review regimes, are also associated with better outcomes. Their broader conclusion is that investors respond to regulatory and information differences in OTC markets rather than treating all OTC stocks as homogeneous.

This article is perhaps the most directly supportive of the Nigerian argument. It shows that OTC quality is not determined by venue label alone; it is produced by the interaction of disclosure, regulatory oversight, venue rules, and investor recognition of those rules. That is exactly the point of the NASD framework. NASD's admission standards, continuing obligations, broker intermediation, surveillance, and CSCS-linked settlement should be understood as market-quality devices, not merely administrative formalities. Brüggemann et al. therefore provide strong comparative support for treating NASD as a market-structuring institution capable of improving liquidity and reducing opacity relative to off-platform transfers.

Davis et al. study whether the modern tiered structure of U.S. OTC markets affects liquidity. Their central question is whether higher OTC tiers, which are defined by stronger disclosure and quality screens, actually produce better trading outcomes. Using OTC Markets data from January 2012 to December 2019, the authors examine trading across the three main OTC tiers: OTCQX, OTCQB, and Pink. They analyze several dimensions of liquidity, including transaction costs, price impact, and volatility. Importantly, they do not stop at cross-sectional comparisons. To address self-selection concerns, they run difference-in-differences tests comparing firms that move between tiers with matched firms that do not. This allows them to test whether changes in tier designation are associated with changes in liquidity rather than merely reflecting preexisting firm quality. The study finds that stocks in higher OTC tiers are more liquid and less volatile than those in lower tiers. Firms in higher tiers exhibit smaller bid-ask spreads, lower price impacts, and lower volatility. The difference-in-differences analysis shows that liquidity improves when firms move up the tier structure and deteriorates when firms move down. The authors interpret this as evidence that tier designations reduce uncertainty and increase firm visibility, and that the observed liquidity differences are attributable in meaningful part to the OTC market structure itself.

Davis et al. are especially useful for the Nigerian context because they show that tiered OTC design can function as a signaling mechanism. NASD similarly differentiates issuers and admissions through eligibility, documentation, and disclosure requirements. Even if NASD is institutionally different from OTCQX/OTCQB/Pink, the general mechanism is similar: when a venue sorts issuers by disclosure quality and imposes recognizable standards, it reduces uncertainty for investors and intermediaries. That supports the argument that NASD's architecture can enhance liquidity and price formation for Nigerian unlisted public securities, particularly if migration into the platform becomes more complete.

Taken together, the three studies support a layered interpretation of OTC markets. Bushee and Leuz show that mandatory disclosure can improve liquidity but may also impose significant compliance costs. Brüggemann et al. show that OTC market quality varies systematically with regulatory intensity and disclosure regime. Davis et al. show that explicit tier design further improves liquidity by resolving uncertainty and signaling firm quality. In combination, these papers imply that OTC markets should be assessed not by their off-exchange status, but by the strength of their information regime, admission standards, trading intermediation, and post-trade infrastructure.

That synthesis fits the Nigerian case closely. NASD is valuable not merely because it allows trading in unlisted public securities, but because it channels that trading into a regulated disclosure-based system under SEC oversight, with broker intermediation and CSCS settlement. The implication for this paper is that the Nigerian policy question is not whether OTC trading should exist for unlisted public companies, but whether the migration of eligible securities into NASD is sufficiently complete for the market-quality benefits identified in the literature to materialize. In other words, the relevant concern is implementation depth, not conceptual legitimacy.

Theoretical Anchor

The strongest theoretical anchor for this paper is a disclosure-based market microstructure framework, supplemented by the economics of exchange competition and liquidity pricing. At the first level, the paper rests on classic market microstructure theory. Glosten and Milgrom show that when some traders are better informed than others, adverse selection generates wider bid-ask spreads. That means weak information environments mechanically reduce liquidity. Diamond and Verrecchia then show that greater public disclosure can reduce information asymmetry, attract more investors, improve liquidity, and lower the cost of capital. These theories provide the basic intuition for why a supervised OTC venue with disclosure obligations should outperform informal bilateral trading in unlisted public securities.

At the second level, the paper is anchored in the theory of disclosure and venue choice developed by Huddart, Hughes, and Brunnermeier. Their model shows that disclosure requirements affect listing decisions and the allocation of liquidity across trading venues, and under many conditions exchanges competing for order flow can generate a "race for the top" in disclosure standards rather than a race to the bottom. That framework is highly relevant here because NASD and NGX should not be seen as simple substitutes. They occupy different positions on a disclosure-and-access continuum, with NASD serving as an intermediate venue for firms not yet on the principal exchange. At the third level, the paper is connected to liquidity-pricing theory. Acharya and Pedersen show that required returns depend not only on expected illiquidity but also on liquidity risk. This matters for the present manuscript because NASD's contribution is not merely legal regularization; by improving transparency, settlement discipline, and trading conditions, it may affect the liquidity characteristics that matter for valuation and investor demand.

A useful overarching statement from the disclosure-regulation literature is provided by Leuz and Wysocki, who review the empirical literature and emphasize that the costs and benefits of disclosure regulation are real but difficult to measure cleanly. That review helps position this paper properly: it does not claim that stricter regulation is always welfare-improving, but rather that the Nigerian NASD framework is theoretically consistent with a large body of work showing that disclosure and venue design materially shape market outcomes.

The theoretical anchor of this article is a disclosure-based market microstructure perspective. Informed-trading models imply that weak information environments widen spreads and impair liquidity, while disclosure theory predicts that credible public information can reduce information asymmetry, improve liquidity, and lower the cost of capital. Exchange-choice theory further suggests that disclosure requirements help determine where liquidity concentrates, while liquidity-pricing theory implies that market design can affect valuation through expected illiquidity and liquidity risk. Against that background, NASD is best understood as an institutional mechanism that improves the information and trading environment for unlisted public securities. The Nigerian question is therefore not whether an OTC venue is inherently inferior to a main exchange, but whether NASD's disclosure, admission, and settlement architecture is sufficiently utilized and enforced to generate the market-quality benefits predicted by theory and observed in the comparative literature.

The broader disclosure literature also supports this framing. Leuz and Wysocki (2016) synthesize evidence showing that disclosure and reporting regulation affect information asymmetry, market participation, and capital-market outcomes. In parallel, Acharya and Pedersen (2005) formalize the asset-pricing relevance of liquidity risk, underscoring why venue design and trading frictions matter beyond legal classification. For a paper on NASD, these literatures matter because they locate disclosure quality and liquidity formation at the center of market architecture rather than treating them as secondary compliance issues.

The comparative literature on second-tier markets is also instructive. Vismara et al. (2012) analyze Europe's second markets for small companies and show the importance of junior or alternative venues in connecting firms to public capital under lighter entry conditions than main markets. Piotroski (2013), discussing London's AIM experience, highlights the trade-off between market access and regulatory quality. These studies do not map perfectly onto Nigeria because AIM is not

an OTC market, but they help clarify the general policy logic of creating a venue that sits between private ownership and the full obligations of a principal market.

The Nigerian capital market has long differentiated between listed securities traded on the Nigerian Stock Exchange (NSE, now NGX) and unlisted public company securities that trade off-exchange. In 1985 the NSE created the Second-Tier Securities Market (SSM) to admit small and medium-sized indigenous firms unable to meet first-tier listing requirements, thereby broadening access to public equity finance (Securities and Exchange Commission, 2023). While the SSM faded in subsequent reforms, the structural gap for unlisted public limited companies (PLCs) persisted. In 2013 NASD PLC operationalised a Securities and Exchange Commission (SEC)–registered over-the-counter (OTC) exchange for these firms, positioning NASD as the regulated venue for unlisted PLCs (BusinessDay, 2013; NASD PLC, n.d.). NASD further launched the NASD OTC Market Information System (NASD O-MIS) on 24 April 2013 to publish bid/offer quotes and trade information for unlisted securities (BusinessDay, 2013). Regulatory impetus came from SEC’s rule that securities of unlisted public companies be bought, sold or transferred only through an SEC-approved OTC platform, with penalties for non-compliance (NASD PLC, n.d.). By 2014–2015 the SEC also pursued registration of unlisted PLCs to bring them within the formal market framework (BusinessDay, 2014). Operationally, settlement and depository functions for NASD-quoted securities reside with the Central Securities Clearing System (CSCS), and dual trading of the same security on NGX and NASD is prohibited, preserving a clear listed/quoted distinction (NASD PLC, n.d.; NASD PLC, n.d.).

Conceptual Framework: Listed, Quoted, and Unlisted

For analytical clarity, the paper distinguishes among three terms. A listed security is one admitted to the NGX market and reflected within NGX’s official-list architecture. A quoted security is one whose price is publicly established on a recognized trading venue. An unlisted public company is a public limited company whose securities are not on NGX’s official list but remain registrable, transferable, and potentially tradable under a separate regulatory arrangement. In Nigeria, NASD makes that third category economically meaningful by supplying the venue on which such securities can be quoted and traded.

NASD’s own materials reinforce this distinction. The exchange differentiates among a quotation list for SEC-registered public securities awaiting admission, a watch list for public securities not yet SEC registered, and admitted securities already trading on NASD. It also states that it caters mainly to securities not trading on another Nigerian platform, thereby avoiding market duplication while extending market access. This vocabulary matters because “admission” on NASD is not the same as NGX listing, yet it plainly carries trading, disclosure, and surveillance consequences.

The UK analogy helps refine the concept. Under section 385 of the UK Companies Act 2006, a “quoted company” is defined by reference to admission to the official list or certain major markets, while the London Stock Exchange’s AIM Rules expressly state that AIM is a multilateral trading facility and an SME growth market, not the official list. The Nigerian category of “quoted but not listed” is therefore not conceptually exotic. What is distinctive is that Nigeria implements the distinction through an OTC exchange for unlisted public companies rather than through a junior exchange market like AIM. The AIM comparison is merely conceptual, not institutional equivalence. AIM is a London Stock Exchange-operated multilateral trading facility and SME growth market, whereas NASD is an OTC securities exchange for unlisted public securities.

Nigeria’s Regulatory Architecture for Unlisted Public Securities

The legal anchor of the Nigerian regime is the SEC’s *Rules on Trading in Unlisted Securities*. The rule states, first, that all securities of unlisted public companies must be bought, sold, or transferred only through a Commission-approved system and, second, that no person may do so except through the platform of a registered securities exchange established for OTC trading. The rule also imposes penalties on companies, directors, registrars, brokers, and others who facilitate off-platform

transfers. This is the decisive feature of the Nigerian system: supervised venue-based trading is mandatory, not optional.

That structure is implemented institutionally through NASD, which describes itself as an OTC securities exchange and self-regulatory organization registered with and regulated by the SEC. NASD's market pages describe the exchange as a platform for public securities not trading on any registered exchange in Nigeria, including SEC-registered public securities awaiting admission. In functional terms, SEC supplies the regulatory command while NASD supplies the market mechanism through which the command is executed.

This framework does more than legalize transfers. It converts otherwise opaque ownership changes into visible market events. Once trading is forced into a registered venue, price discovery, disclosure, broker accountability, surveillance, and settlement become institutionally organized. That is why NASD is best understood as part of Nigeria's public-securities infrastructure rather than as an informal side market for illiquid **shares**.

Admission Pathways, Disclosure, and Market Microstructure on NASD

NASD operates two distinct entry routes. Security admission is investor-led: a shareholder in an unlisted public company works through a participating broker, who files the relevant NASD form, after which NASD creates a security code and ISIN with CSCS, the shares are lodged through the registrar, and trading commences. Company admission is issuer-led: the company, through an issuing house or participating institution, formally applies to NASD and undertakes to comply with NASD rules. This distinction is analytically important because it shows that Nigeria's OTC architecture is flexible enough to accommodate both passive issuer participation and more formal issuer-level market entry.

Company admission also imposes concrete eligibility and governance requirements. NASD's admission materials require PLC status, SEC registration or exemption of the securities, dematerialization and free transferability, sponsorship by a NASD participant, an ISIN and CSCS account, and specified thresholds relating to years of operation, shareholder base, and free float, depending on the issuer's category. The same materials require audited financial statements, continuing disclosure, annual general meetings, and post-admission financial reporting. This is precisely the type of tiered, compliance-sensitive structure that the OTC literature associates with better market quality.

Table 1: Key Differences Between NASD Security Admission and Company Admission

Requirement	Security Admission	Company Admission
Applicant	A participating institution applies to admit a specific security for trading.	A participating institution or issuing house applies to admit the company.
Issuer status	Company must have operated for at least 1 year and be either a public company or held by more than 50 beneficial holders.	Company must be a public limited company (PLC).
SEC status of securities	Securities must be registered with the Securities and Exchange Commission (SEC).	Securities must be SEC-registered or exempt from registration.
Trading readiness	Security must be freely transferable and not subject to legal or regulatory restrictions on trading.	Security must be dematerialized and freely transferable, with ISIN and CSCS arrangements in place.
Documentation depth	Relatively lighter filing set, focused on the security's eligibility and tradability.	Broader issuer-level filing set, including corporate, governance, and financial documentation.

Requirement	Security Admission	Company Admission
Quantitative or tier thresholds	No separate Pink/Blue tier thresholds stated in the security-admission requirements.	Must satisfy the relevant NASD market-tier criteria, including thresholds relating to operating history, shareholder base, and public float.
Typical use	Used to make an already-issued eligible security tradable on NASD.	Used to bring the issuer itself onto NASD under a fuller admission and disclosure framework.

Note. NASD = NASD OTC Securities Exchange; SEC = Securities and Exchange Commission; ISIN = International Securities Identification Number; CSCS = Central Securities Clearing System Plc; PLC = public limited company. The table presents only the principal entry-stage differences between the two admission routes. Continuing disclosure obligations may apply after admission under NASD's post-admission framework. Author's tabulation from Source: NASD.

Continuing obligations are equally important. NASD requires issuers to disclose material or price-sensitive information as soon as reasonably practicable, to file audited financial statements within 90 days of year-end, to file interim quarterly accounts within 30 days of quarter-end, to maintain prescribed free float, and to respond promptly to rumors or unusual trading activity. NASD also states that compliance is monitored against relevant Nigerian corporate-governance codes. Those obligations move the market away from ad hoc transfer and toward a rules-based disclosure environment.

At the level of microstructure, NASD is broker-driven. Its FAQ materials state that brokers and broker-dealers introduce securities and make markets, while NASD itself is not a central counterparty. Instead, it is an organized market on which NASD-licensed participating institutions execute trades on behalf of investors. NASD also uses a value-weighted average price methodology to determine daily closing prices and applies daily price bands. These features are textbook market-structure devices for managing transparency and orderly pricing in relatively less liquid environments.

Settlement is handled through the Central Securities Clearing System Plc (CSCS). NASD identifies CSCS as its appointed central securities depository and states that clearing and settlement for admitted securities occur on a delivery-versus-payment basis. Its investor FAQs further state that equity trades settle on a T+3 basis and that investors operate a separate NASD account. The coupling of OTC trading with formal depository and settlement infrastructure is one of the strongest arguments for viewing NASD as a genuine component of formal capital-market architecture.

On dual trading, the best reading is careful rather than categorical.⁴ NASD's investor guidance says that equities listed on any registered exchange in Nigeria will not be traded on NASD and that a security approved for listing elsewhere will be delisted from NASD upon written notification. Yet NASD's disclosure rules also contemplate issuers whose securities are admitted on NASD and on another securities exchange, requiring equivalent information to be released simultaneously. The practical design is therefore anti-duplication in domestic equity trading, even if the disclosure framework is drafted broadly enough to address multi-venue cases.

Comparative Perspective: U.S. OTCQX and UK AIM

The U.S. comparison is useful because it shows how OTC markets can be structured by disclosure tiers. OTC Markets Group states that OTCQX companies must satisfy financial standards, follow best-practice corporate governance, demonstrate compliance with U.S. securities laws, and remain current in filing obligations. The tiered OTC structure examined by Davis et al. (2023) is therefore not a residual space outside regulation; it is a differentiated market in which higher-quality disclosure and governance are associated with better liquidity. Nigeria's NASD model is similar in spirit, even though its regulatory basis is more explicit and its issuer universe is tied specifically to unlisted public companies.

The UK comparison serves a different purpose. AIM is not an OTC venue, but it provides a clean example of a market in which trading status and official-list status diverge. The AIM Rules describe AIM as a London Stock Exchange-operated multilateral trading facility and SME growth market, while UK company law separately defines quoted companies through official-list or specified-market admission under section 385. In that sense, the UK experience supports the conceptual proposition at the heart of this paper: a company may be admitted to trading on a regulated venue without being “listed” in the stricter official-list sense. Nigeria reaches a comparable separation through NASD rather than through a junior exchange segment.

Table 2: **Comparative architecture of NGX, NASD, OTCQX, and AIM.**

Venue	Venue type	Issuer eligibility	Disclosure level	Settlement model	Relation to official listing
NGX	National securities exchange and formal listing venue, with boards for Growth, Main, and Premium issuers.	Nigerian and international companies can list, with board-specific entry standards tied to size, growth stage, free float, shareholder spread, and other Rule Book criteria. Growth Board targets small-cap/growth issuers; Main Board targets established companies; Premium Board is for issuers meeting the most stringent standards.	Generally high, but tiered by board. NGX describes Main Board issuers as subject to high disclosure and governance standards, while Premium Board applies the most stringent governance and listing standards.	Exchange trades settle through CSCS; Nigeria’s equity market is now on T+2 .	This is the official listing venue in the Nigerian architecture; NGX maintains listed-company pages and the Daily Official List for exchange-traded securities.
NASD OTC	SEC-registered OTC securities exchange / supervised OTC venue for unlisted public securities.	Primarily for securities of public companies not quoted on another Nigerian exchange . Admission can occur through security admission or company admission, with SEC registration, a participating institution, CSCS/ISIN	Tiered rather than uniform: NASD places companies into Blue, Pink, and Red tiers based on disclosure level. Even at admission, it requires audited financial statements and undertakings to disclose material information and comply with applicable	Broker-driven trading executed by NASD-licensed participating institutions; settlement runs through CSCS . NASD’s investor FAQ still describes equity settlement on a T+3 cycle.	Not an NGX listing venue. Securities are admitted/quoted on NASD rather than listed on NGX; NASD says securities approved for listing on another Nigerian exchange are delisted from NASD.

Venue	Venue type	Issuer eligibility	Disclosure level	Settlement model	Relation to official listing
		plumbing, audited financials, and tier placement.	governance rules.		
OTCQX	Top tier of the U.S. OTC market operated by OTC Markets Group; it is a market for investor information and trading, not a registered stock exchange.	Designed for established U.S. and international companies. Issuers must meet financial standards, governance requirements, reporting-status tests, audit requirements, shareholder/bid-price thresholds, and cannot be penny stocks, shell companies, or bankrupt companies.	Relatively high for OTC. OTCQX requires current reporting status, audited annual financials, ongoing annual/interim reporting, and prompt material-news disclosure; companies using the Alternative Reporting Standard must publish ongoing annual, quarterly, and material-event disclosures through OTC channels.	OTCQX trading is executed through U.S. broker-dealers. U.S. securities transactions are on T+1 under SEC rules; for OTC trading, settlement commonly uses U.S. post-trade infrastructure where securities are DTC-eligible, though some ordinary shares may settle in the issuer's home market.	OTCQX quotation is not official exchange listing on a U.S. national securities exchange. It is a quotation/trading tier outside NYSE/Nasdaq-style exchange listing.
AIM	London Stock Exchange growth market; a UK multilateral trading facility (MTF) and SME growth market , operated by LSE.	Aimed at smaller and growing companies. Applicants must appoint and retain a nominated adviser, and AIM guidance says an applicant should usually have a structure similar to a UK plc and ordinarily issue mainly ordinary shares.	Robust but lighter than a full Official List regime. AIM requires general price-sensitive disclosure, half-yearly reports, annual accounts, website disclosure, and continuous Nomad oversight.	AIM trades are "on Exchange" trades under LSE rules; member firms must ensure settlement and may use settlement agents. LSE rules define CREST as the settlement system operated by Euroclear UK & International.	AIM securities are admitted to trading but not admitted to the FCA Official List. That is the clearest UK illustration of the difference between trading admission and official-list status.

Note. NGX and AIM are exchange-operated trading venues, but only NGX is the Nigerian formal listing venue in this comparison, while AIM is an LSE-operated MTF outside the UK Official List. NASD and OTCQX are both non-main-board quotation/trading venues, but NASD is a regulator-mandated OTC exchange for Nigerian unlisted public securities, whereas OTCQX is a high-disclosure OTC tier that is explicitly not a registered stock exchange. Author's tabulation from various Sources such as NASD, CSCS etc.

There is also a policy contrast. U.S. OTC markets and UK AIM are primarily alternative venue choices within broader capital-market ecosystems. Nigeria's SEC rule goes further by requiring that securities of unlisted public companies trade only on a Commission-approved OTC exchange. The Nigerian model therefore does not merely create an option; it channels market activity into a supervised venue. That design choice has stronger investor-protection logic, but it also means the success of the framework depends heavily on issuer uptake, broker participation, and enforcement continuity.

Implications for Nigerian Capital-Market Development

The normative contribution of this paper is that NASD lowers the compliance threshold relative to full NGX listing while still imposing disclosure, surveillance, settlement discipline, and broker intermediation. It therefore reduces the opacity of informal transfers in unlisted public securities and supplies a lawful mechanism for price discovery. It also creates a staging point between private illiquidity and full exchange listing, which is described as "bridge" metaphor.

The policy challenge is not the absence of a framework but incomplete migration into it. Earlier market commentary reported that many eligible PLCs remained outside NASD, and more recent reporting based on NASD statements still says that many unlisted public companies are not traded on the SEC-registered OTC exchange, limiting supervisory visibility.

The challenge facing the NASD regime is best characterized as one of implementation deficit rather than institutional deficiency. Nigeria already possesses the core elements of a supervised market architecture for unlisted public securities: a binding SEC rule mandating venue-based OTC trading, a licensed OTC exchange, and a depository-settlement infrastructure.

A more appropriate policy response is therefore to strengthen compliance migration rather than redesign the market architecture. First, the SEC, NASD, and the Corporate Affairs Commission should deepen data-sharing and coordinated issuer identification so that all eligible unlisted public companies are mapped, notified, and brought into the regulated OTC framework. Second, regulators should accelerate dematerialization and CSCS-readiness for unlisted public-company securities, since NASD itself has identified full dematerialization of unlisted public companies on a SEC-licensed stock exchange as a strategic priority. Third, the SEC should complement the existing rule with more visible enforcement against off-platform transfers and with time-bound compliance directives for registrars, issuers, and controlling shareholders. Finally, NASD and market operators should expand issuer education and broker-led onboarding to reduce information frictions and shareholder inertia, which appear to be significant practical barriers to migration. In policy terms, the objective should be to close the participation gap so that the existing framework can perform its intended transparency, liquidity, and surveillance functions more fully.

The persistence of untraded eligible public-company securities outside that framework suggests that the principal weakness lies in incomplete issuer capture, limited dematerialization, weak compliance transition, and insufficient enforcement against residual informal trading channels. Policy should therefore focus on compulsory migration mechanisms, inter-agency data coordination, registrar-level compliance obligations, and broader market education, rather than on re-engineering the basic legal design.

Discussion and Implications

The findings of this study suggest that NASD should be understood as a bridge institution within Nigeria's capital-market architecture. It lowers the entry and compliance burden relative to a full NGX listing, yet still subjects unlisted public securities to regulated quotation, broker intermediation, disclosure obligations, surveillance, and formal settlement. In this respect, NASD reduces the opacity associated with informal bilateral transfers in unlisted public securities and provides a lawful venue for price discovery. The broader implication is that liquidity in such securities is not simply a function of investor demand, but also of the institutional conditions under which pricing, disclosure, and post-trade settlement are organized. NASD addresses these conditions by embedding unlisted public securities within a supervised market structure rather than leaving them in fragmented private

exchange channels (NASD OTC Securities Exchange, n.d.-a; Securities and Exchange Commission [SEC], 2015).

A second implication concerns regulatory sequencing. Nigeria's framework requires SEC registration of public securities and channels transfers of unlisted public-company securities into an SEC-approved OTC venue. NASD then operationalizes that framework through admission requirements tied to transferability, disclosure, broker participation, and CSCS-linked settlement. This sequencing is significant because it narrows the space for undocumented or weakly supervised share transfers among public-company shareholders. In principle, the result should improve valuation visibility, strengthen investor confidence, increase the collateral usability of quoted OTC securities, and create a more credible migration path for issuers that may later seek full NGX listing. NASD's own investor-facing materials emphasize transparency, centralized price discovery, and liquidity enhancement as core benefits of the market (NASD OTC Securities Exchange, n.d.-a; SEC, 2015).

The comparative evidence also sharpens the interpretation of NASD's role. The U.S. OTCQX market shows that a non-exchange or alternative trading venue can still support market quality when it imposes meaningful disclosure, governance, and ongoing reporting standards. Likewise, the UK distinction between the Official List and AIM demonstrates that formal listing status and supervised trading status can be institutionally separated without undermining market legitimacy. Nigeria's model is distinctive because it goes further than these comparators by making supervised OTC trading the mandatory route for secondary-market transfers in unlisted public-company securities. The comparative lesson is therefore not that NASD is a substitute for NGX, but that second-tier or alternative venues can serve as credible intermediate institutions when disclosure and oversight are properly calibrated (London Stock Exchange, 2026; OTC Markets Group, 2024).

The principal policy challenge, however, is not the absence of a framework but the incomplete migration of eligible issuers and securities into it. Earlier market reporting indicated that many eligible unlisted PLCs had not migrated to NASD, while more recent reporting based on NASD statements suggests that securities of many unlisted public companies are still not traded on the SEC-registered OTC exchange. This reduces supervisory visibility and weakens the investor-protection logic of the regime. For analytical purposes, this should be framed as an implementation gap rather than a failure of design: Nigeria already has the core legal rule, the licensed venue, and the settlement infrastructure, but participation remains incomplete (BusinessDay, 2018, 2024; SEC, 2015).

A more appropriate policy response is therefore to close the migration gap rather than redesign the architecture. First, the SEC and NASD should implement a time-bound compliance and onboarding program for eligible unlisted public companies, using registrar and depository data to identify issuers whose securities remain outside the regulated OTC framework. Second, enforcement against off-platform transfers should be made more visible, particularly where registrars, issuers, or controlling shareholders facilitate transfers outside the approved venue. Third, regulators and market operators should accelerate dematerialization and CSCS-readiness for unlisted public-company securities, since these are preconditions for effective admission and settlement. Fourth, NASD and participating institutions should deepen issuer and shareholder education so that the benefits of formal trading, transparency, and price discovery are better understood. Taken together, these measures would not alter the market's institutional logic; rather, they would improve the extent to which the existing framework achieves its intended transparency, liquidity, and surveillance objectives (BusinessDay, 2024; NASD OTC Securities Exchange, n.d.-a; SEC, 2015).

In policy terms, the broader lesson is that OTC markets for unlisted public securities should not be viewed as second-best substitutes for formal listing. Properly structured, they can serve as purposeful transitional mechanisms between closely held ownership and full exchange listing. For Nigeria, the success of NASD will depend less on whether the institutional design exists—which it does—and more on whether eligible issuers, shareholders, brokers, and regulators are effectively brought into sustained compliance with that design (NASD OTC Securities Exchange, n.d.-a; SEC, 2015).

Conclusion

This article has shown that Nigeria's capital-market architecture supports a meaningful distinction between securities that are listed on NGX and securities that are quoted and traded on NASD without being listed on NGX. The SEC's rule on trading in unlisted securities channels transfers of unlisted public-company securities into a supervised OTC exchange framework, while NASD operationalizes that framework through admission standards, broker-led trading, disclosure obligations, surveillance, and CSCS-linked settlement. The result is a market category that is best described as quoted but not listed (NASD OTC Securities Exchange, n.d.-a; SEC, 2015).

The comparative analysis confirms that this separation between official-list status and supervised trading status is not anomalous. OTCQX in the United States and AIM in the United Kingdom both demonstrate, in different institutional forms, that securities can trade in credible, rule-governed venues outside a principal official-list framework. Nigeria's contribution is distinctive because it makes supervised OTC trading the mandatory venue for secondary-market transfers in unlisted public securities. In that sense, NASD is not peripheral to Nigeria's public-securities market. It is one of the institutions through which that market is constituted and disciplined (London Stock Exchange, 2026; OTC Markets Group, 2024).

At the same time, the analysis indicates that the central weakness of the Nigerian model lies not in conceptual design but in incomplete implementation. The persistence of eligible but non-migrated issuers outside NASD limits transparency, weakens supervisory reach, and preserves room for informal transfers that the SEC framework was intended to internalize. The policy priority should therefore be stronger migration, enforcement, dematerialization, and market education. Once viewed through that lens, NASD appears less as a marginal market and more as a bridge between private illiquidity and full public-market participation. The long-term significance of the NASD framework lies precisely in that bridging role: it provides a regulated intermediate layer through which Nigeria can widen the perimeter of market transparency without requiring every public company to move immediately to full NGX listing (BusinessDay, 2018, 2024; NASD OTC Securities Exchange, n.d.-a; SEC, 2015).

Recommendations for Further Research

Given the current literature and the findings of this paper, the next stage of research should shift from broad conceptual validation of regulated OTC markets to Nigeria-specific empirical testing of how NASD affects liquidity, disclosure, and issuer transition. Existing evidence from the U.S. OTC market shows that disclosure mandates, regulatory intensity, and tier structure materially shape market quality rather than merely accompanying it. Bushee and Leuz (2005) show that mandatory disclosure can improve liquidity while also imposing meaningful compliance costs on smaller firms; Brüggemann et al. (2018) show that stricter OTC regulatory regimes are associated with better liquidity and lower crash risk; and Davis et al. (2023) show that higher OTC tiers are more liquid and that movements upward in the tier structure improve liquidity. These findings suggest that the Nigerian case is now sufficiently developed to support more direct causal and institutional analysis. A first priority is to test whether admission to NASD improves liquidity, price discovery, and valuation outcomes for unlisted public securities. Event-study and difference-in-differences designs could compare firms before and after NASD admission, or admitted firms against comparable eligible firms that remain outside the platform. Such work would help determine whether the gains predicted by disclosure-based market microstructure theory and documented in the comparative OTC literature are also observable in Nigeria's SEC-mandated OTC framework (Bushee & Leuz, 2005; Davis et al., 2023).

A second area for research is the compliance-cost versus market-quality trade-off for Nigerian issuers. This paper argues that the main weakness of the Nigerian model is incomplete migration into NASD rather than defective institutional design. Future work should therefore examine why many eligible issuers remain outside the platform, and whether the binding constraints are compliance costs, dematerialization barriers, shareholder inertia, low expected liquidity, or weak

enforcement. That line of inquiry would connect directly to the logic of Bushee and Leuz (2005), who show that disclosure regulation can improve market quality while still deterring smaller firms from participation.

A third research direction is to test whether differences in disclosure quality within NASD produce corresponding differences in market outcomes. Brüggemann et al. (2018) and Davis et al. (2023) both indicate that investors respond to gradations in information quality and venue-tier structure within OTC markets. Applied to Nigeria, this suggests a need to study whether issuers with more timely financial reporting, stronger governance compliance, and better dematerialization readiness enjoy narrower spreads, greater turnover, or lower volatility than weaker-reporting NASD issuers. Such evidence would show whether NASD's rules function only as formal entry requirements or also as effective quality signals in practice.

A fourth priority is research on the developmental role of NASD as a transition market. This paper characterizes NASD as a bridge between private illiquidity and full exchange listing, but that claim remains to be tested systematically. Future studies should examine whether NASD admission increases the likelihood of eventual NGX listing, wider shareholder participation, stronger valuation multiples, or improved access to external finance. This would connect the Nigerian case more directly to the broader literature on disclosure, venue choice, and issuer progression (Leuz & Wysocki, 2016).

Finally, further work should develop a comparative emerging-markets framework for regulator-mandated OTC systems. Much of the leading literature is based on the United States, where OTC trading exists within a mature and highly differentiated market ecology. Nigeria is distinctive because supervised OTC trading for unlisted public-company securities is not merely optional but institutionally mandated. Comparative work across African and other frontier markets would help determine whether such systems improve transparency, supervisory visibility, and investor protection more effectively than informal transfer regimes. That would also help extend the disclosure-regulation literature into jurisdictions where official listing, public-company status, and supervised quotation are deliberately separated (Brüggemann et al., 2018; Leuz & Wysocki, 2016). Future research should move beyond descriptive treatment of NASD as an alternative venue and toward causal evaluation of whether Nigeria's regulated OTC architecture improves liquidity, disclosure quality, supervisory visibility, and issuer progression relative to informal or weakly supervised transfer mechanisms (Bushee & Leuz, 2005; Brüggemann et al., 2018; Davis et al., 2023).

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