



**THE Nigerian
STOCK EXCHANGE**

Frequently Asked Questions (FAQs)

The Nigerian Stock Exchange



www.nse.com.ng



About The Nigerian Stock Exchange

The Nigerian Stock Exchange (NSE or the Exchange) was founded in 1960 and today services the second largest financial center in sub-Saharan Africa. The NSE, a registered company limited by guarantee, is licensed under the Investments and Securities Act (ISA) and is regulated by the Securities and Exchange Commission (SEC) of Nigeria. The Exchange is a founding member and executive committee member of the African Securities Exchanges Association (ASEA), an affiliate member of the World Federation of Exchanges (WFE) and an affiliate member of the International Organization of Securities Commissions (IOSCO). It is also a foundation member of the World Economic Forum (WEF).

The Nigerian Stock Exchange is an automated exchange and provides listing and trading services, as well as electronic Clearing, Settlement and Delivery (CSD) services through Central Securities Clearing System (CSCS) Plc., an associate company to The NSE, which also offers custodian services. Along with securities listing and trading services, The Exchange offers market data dissemination services, market indices and much more.

The NSE continues to evolve to meet the needs of its valued customers, and to achieve the highest level of competitiveness. With about 258 listed securities, The Exchange operates fair, orderly and transparent markets that bring together the best of African enterprises, and the local and global investor communities. The Nigerian Stock Exchange is poised to champion the acceleration of Africa's economic development and creating durable wealth.





1. Who owns The Nigerian Stock Exchange?

The owners (shareholders) of The Nigerian Stock Exchange (NSE) are financial firms and institutions. In exceptional cases, individuals with integrity and experience in finance and business are also accepted as shareholders.

2. How is The Nigerian Stock Exchange Governed?

It is governed by a team of shareholders elected at an Annual General Meeting. The Council is presided over by a President and the day-to-day management is overseen by the Chief Executive Officer.

3. What are the Duties of the Council?

- Makes policies
- Enforces discipline among members
- Makes Rules and Regulations for Dealing Members (Stockbrokers)
- Grants Quotation and Listing for Securities
- Protects the interest of the investing public
- Considers complaints about and among the members

4. Who are the principal agents of The Nigerian Stock Exchange?

They are the Stockbrokers and the Issuing Houses.

5. Who is a Stockbroker?

A firm or a person who buys and sells securities on behalf of investors for a commission called “brokerage”. The commission charged is regulated by The Stock Exchange. Please visit the NSE website - www.nse.com.ng for a list of certified stockbrokers.

6. What is an Issuing House?

Is a member of The Stock Exchange, it is a dealing member that helps to prepare prospectuses, to sell new securities offered to the public by companies and governments.

7. What are Securities?

Securities are written or printed financial documents representing financial value by which the claims of holders in specified property are secured. They could be stocks, shares, bonds and debentures traded on a Stock Exchange

8. Who is a Registrar?

A registrar in common parlance is a keeper of records in respect of quoted stocks and shares.

9. Who is an investor?

A person or an institution that uses his savings or borrowings to buy securities.

10. Can an investor come to buy and sell on The Stock Exchange?

No. He can only do so through Stockbrokers who are licensed to represent investors and trade daily on The Stock Exchange.

11. What other services do Stockbrokers Provide?

- Provide professional advice on the selection and management of investments.
- Act as Issuing Houses and Portfolio Managers.
- Assist project sponsors to raise money on the Capital Market.

12. How are the activities of Stockbrokers controlled?

As members of The Nigerian Stock Exchange, they are regulated by a Body of Rules and Regulations which dictate their relationship with The Stock Exchange, their clients and other members.

13. Why are Stockbrokers' activities regulated?

The regulation of Stockbrokers' activities is done to protect the investing public and maintain public confidence in the buying and selling of securities.

14. How are the current prices of securities traded on the Nigerian Stock Market known?

The Nigerian Stock Exchange publishes a “Daily Official List” which gives full information on the changes in the prices and earnings of the Listed Securities.

15. Who do I approach when I have problems with a share certificate or dividend?

The Registrar of the Company.

16. What are the duties of a Company Registrar?

- Act as Agents to the Companies who appoint them.
- Register the shares and the names of the owners in the members' (shareholders) register.
- Prepare share certificates and send them to the shareholders
- Pay-out approved dividend to shareholders

17. What is the Alternative Securities Market (ASeM)?

The Alternative Securities Market (ASeM) is a specialized board of The Nigerian Stock Exchange (NSE) for emerging businesses (small and mid-sized companies with high growth potential). ASeM provides the opportunity for these companies to raise long term capital at relatively low cost from the capital market, while creating opportunities for growth and institutionalisation of companies listed on the board.



18. What are the basic listing requirements for the ASeM Board?

The company must be registered as a public liability company with minimum of two (2) years operating track record and provide a comprehensive business plan covering a period not less than (2) years. The full list of requirements is available on the ASeM webpage of our website (<http://www.nse.com.ng/OurMarkets/Pages/MarketASeM.aspx>).

19. How much can a company raise through the ASeM Board?

There are no limits on the amount of capital an ASeM company can raise.

20. How long does the listing process take?

There is no exact time frame to listing as this depends on the method of listing and activities to be undertaken by the company before making its applications to The Nigerian Stock Exchange. The Financial Adviser/ Issuing House/ Stockbroker mandated by the company will provide a timetable of activities towards listing.

21. What is the accounting standard for the ASeM Board?

The accounting standard for the ASeM Board is IFRS

22. What is the relationship between Investor and Stockbroker?

For the Capital Market to be vibrant, effective and Investor-friendly, the Stockbroker must know his Client/Investor, because great reliance and trust will be placed on the decisions he takes on behalf of his Client/Investor. It therefore means that the Stockbroker must command the confidence of his client.

23. (a) What is CHN?

CHN represents Clearing House Number assigned to every shareholder at the first point of entry into CSCS system by completing CSCS - R005 shareholders particulars.

(b) How many times are shareholders required to complete the shareholders particulars form?

Shareholders are required to complete the form only once. They are to provide the same CHN to all subsequent stockbroking firms they have transactions with for ease of reference.

(c) What are account numbers and how are they obtained?

This is a CSCS computer generated account number that is allocated to a new shareholder. It is unique to each stockbroking firm. A shareholder can have as many accounts as the number of stockbroking firms he uses but one account per house.

24. Can an investor withdraw his/her certificates before or after trading?

Once a certificate is deposited with the Depository, it is immobilized and can therefore not be withdrawn.

25. When the stockbroker deposits the investor's share certificate with the Depository, what does he get in return as evidence of the lodgement?

He gets a receipt/acknowledgment.

26. If the new investor wants to sell, what is the procedure?

He/she instructs his/her stockbroker to sell from the stockholdings in CSCS system. He/she executes a transfer form which his/her stockbroker will forward to the CSCS along with the allotment forms after trading.

27. Can an investor have more than one stockbroking firm under the CSCS operations?

Yes. The investor is free to change from one stockbroking firm to another. A stockbroker should ask his/her client if he/she has bought shares through CSCS before completing shareholders particulars which should be completed only once. The shareholder should give subsequent Houses he deals with the Clearing House Number (CHN) assigned to him at the first point of entry into CSCS system.

28. (a) Can a client (shareholder) take the CSCS statement to another Stockbroking firm?

Yes, he can.

(b) How frequent will the statement of stock position from CSCS be issued?

Statement of stockholdings is issued to a shareholder upon request, which attracts a standard fee.

29. Can a shareholder request for the statement of his stock position directly from the CSCS?

The stockbrokers are expected to request for their clients' stock position. However, since transparency is one of the cardinal focuses of CSCS, a shareholder can request for his statement of stockholding from CSCS in writing or by completing a stock position request form with CSCS. The shareholder's name and account number must be specified in the letter/form. At the point of collecting the statement of stock position, the shareholder will be required to show proof of ownership.

30. (a) What is the relationship between The NSE and CSCS?

CSCS is an associate of The NSE, but an independent company. All shares to be traded on The NSE floors must be deposited with the CSCS, which does clearing and settlements of trades for The NSE.



(b) What are the measures put in place to ensure the success of the T+3?

The banks carry out settlement through Nigerian Interbank Settlement System (NIBSS) and Managers' cheque. There is a trade guarantee fund from which trades would be settled in the event of overtrading, and Clearing and delivery are done by means of book entry after securities are deposited and traded on.

31. Will the benefit of using shares as collateral for raising loan not be eroded under the system?

No. The lender can make enquiry from the Depository as to the shareholding of the investor and upon the grant of loan, advise that a lien be put on the affected security. Indeed, many shareholders have taken advantage of using stockholdings in CSCS as collateral for loans.

32. How do you intend to handle the issue of share certificates or now to enable shareholders trade with them without any inhibition or apprehension?

Investors are to give certificates to stockbroking firms for verification and then deposit them in CSCS Depository at least 24 hours before trading. Stockbrokers will be issued acknowledgment as evidence of the deposit in CSCS.

33. When do you plan to go completely paperless (no paper certificates)?

The process is on-going with the collaboration of the regulatory bodies SEC and The NSE. The specific date has not been announced.

34. What becomes of the intermediate buyers?

The Inter-mediate buyers like other shareholders are free to request for certificates (at the point of purchase) which for administrative reasons are issued once a year usually at the closure of registers.

35. How do we process new issues in relation to certificates?

New issues and bonus issues will continue to have certificates as an option to investors who now receive their allotments in electronic form - e-bonus/e-IPO.

36. Will the company registrars be willing to disclose shareholding information to The Nigerian Stock Exchange? Have they been carried along?

The Nigerian Stock Exchange is empowered to call for the authentic register of members from registrars of Quoted Companies. Furthermore, the registrars are represented in the review of CSCS Operations and are therefore carried along in the developmental process. The registrars and CSCS complement each other.

37. How is the last transaction batch meant for the closure of register handled?

The NSE marks securities on their closure dates.

Once again, settlement cycle is T+3 for equity (Transaction day plus three working days). ONLY settled transactions are forwarded to the registrars for processing.

An Example:

If a quoted company, say NIGERIA PLC is to close on June 19, 1998 it follows that:-

- The NSE will mark the security on June 19, 1998
- The last Cum-Div/SCRIP transaction day will be June 18, 1998.
- Settlement day for the last CUM-DIV/SCRIP transaction becomes June 18 plus 3 working days. This translates to June 25, 1998.
- The earliest time the transaction can get to the registrar for processing is June 26, 1998.

From the above analysis, the company secretaries/registrars are advised to accommodate the transaction advice by ensuring that the registers are closed for at least eight (8) days. Indeed, secretaries/registrars have been advised to allow for 10 working days after closure of register before paying dividends.

38. What is the procedure to request for certificate?

The shareholder fills out Certificate Request Form (CSCS CRF1) through his stockbroker requesting for a certificate which will be passed on to the registrar with relevant details such as CSCS Clearing House Number (CHN) stockholders system generated account number. These are distinct features which must be on the certificate.

39. What are Stocks and Shares?

Stocks and Shares represent ownership interest in a business i.e. those who own the share of a company, own the company

40. How are stocks and shares (Securities) bought on The Stock Exchange?

Securities are bought and sold on The Nigerian Stock Exchange through Dealing Members known as Stockbrokers.

41. Who should buy shares?

Anyone who is 18 years old and above is qualified to buy shares in Nigeria. Parents who may want to buy shares for their children are supposed to buy such shares in their own names and later transfer them to the children when they attain the legal age of 18 by nominal transfer.



42. With how much money should I venture into the Stock Market?

Most income levels can venture into stock market. Some wealthy people and institutions invest thousands or even millions of naira but lower investors can also participate as the minimum amount required really depends on the stock which you purchase

43. Can shares be transferred?

As stated above, an investor may transfer part or all of his shareholding to a relation, wife, son, daughter or brother etc. Where they all bear the same surname, the transfer is known as Nominal transfer. However, it is also possible for an investor to transfer some or all his shareholding to a daughter who has got married or even his son-in-law. To effect this transfer, the investor should contact a stockbroker. Even in the case of a dead shareholder, his shares can be transferred to his children or sold as the case may be.

44. Which Stocks should I choose?

That depends on what you want from your investments. The stocks quoted (or listed) on The Nigerian Stock Exchange range from Government stocks to ordinary shares and their dividends vary from low to high. The first step is to determine your own objectives first, discuss with a stockbroker and then invest accordingly.

45. What are scrip or bonus shares?

These are new shares made fully-paid by the capitalization of reserves and allotted free of charge to ordinary shareholders in proportion to their existing holdings. In this process, fractions of shares sometimes arise and are often aggregated and sold, after which a cash payment in respect of the fraction is made to every shareholder entitled to it.

46. What does "Xsc" mean?

It is a financial expression for "without the scrip". A stock that is purchased during the without the scrip period will not earn a scrip declared in that period for its new owner.

47. How are any of these securities bought?

By filling an application form contained in a prospectus or through a Stockbroker.

48. What is the evidence of the purchase of shares and stocks?

If purchased through a prospectus, receipts are seldom issued, but cheque stubs and counterfoil of Postal Orders can serve the purpose. If bought through a Stockbroker, a contract note in lieu of receipt is issued.

49. What does a Stockbroker charge for his Services?

A Stockbroker charges a commission called "Brokerage". The charges vary, depending on the kind of services provided; however, charges by Stockbrokers are controlled by the Council of The Nigerian Stock Exchange.

50. What does an investor gain by buying shares?

- dividend which is part of company's profit
- bonus shares - i.e. extra shares fully paid out of reserve which are distributed to existing holders
- capital appreciation as market prices of shares increase.
- right to attend meeting of shareholders and participate in its deliberation as voting members.
- use of CSCS Stockholding Position as collateral for bank borrowing

51. What are Bonds and Debentures?

These are debt instruments issued by government, government agency or a corporation. It is basically an "IOU" issued by one party to another. The issuer promises to pay back a loan plus certain amount of interest over a definite period of time.

52. What is the difference between bonds and stocks?

Bonds are debt instruments issued by a government or a company which represent a fixed sum of money that was borrowed (principal). The issuer (borrower) promises to pay the holder (lender) a specified amount of interest (usually stated as a percentage) over a specified period of time, and to repay the principal at maturity.

Shareholders, on the other hand, are part owners of a company, and may receive periodic dividend payments from the company depending on its performance. A bond holder is entitled to receive periodic interest payments at an interest rate that is declared at the time the bond is issued.

53. What benefits are there in investing in bonds?

- Low risk Compared to Equity
- Fixed and Regular Income- bondholders are paid interest at a fixed rate until the maturity date
- Tax Savings- interest earned on bonds are tax exempt
- Capital appreciation like all instruments traded
- Predictability- bondholders know how much interest they will be paid, when they will be paid and when the principal will be repaid

54. What is Retail Bond Trading?

Retail Bond Trading is a new product offering by The Nigerian Stock Exchange (NSE) which will afford retail and other investors the opportunity to buy and sell bonds on the floors of the NSE.

55. What is accrued interest?

Most bonds pay interest semi-annually. The interest earned from holding the bond from the last interest payment date (or the issue date) until the disposal date is called accrued interest.

56. When do bond trades settle?

All NSE traded bonds settle two (2) business days after the date of trade (T+2).



57. Are the trade prices of bonds traded on the Exchange inclusive of accrued interest?

All bonds traded on the Exchange are bought and sold at a clean price, meaning that the trade price is exclusive of accrued interest.

58. What is an Exchange Traded Fund (ETF)?

An Exchange Traded Fund (ETF) is an investment vehicle that tracks an index, a basket of assets, or a commodity, but trades like regular shares on a stock exchange.

59. Why invest in ETFs?

- **Low Cost:** ETFs are less expensive to operate than actively managed funds because ETFs have less frequent portfolio changes
- **Transparent:** The performance and portfolio composition of an ETF reflect the underlying index or commodity, as the holdings of an ETF closely mirror the underlying index or commodity it tracks
- **Investment Diversification:** An ETF is a direct and inexpensive way to attain diversified exposure to an index, commodity, sector, or region, while remaining in the capital market
- **Tradability:** Investors can buy and sell ETFs like shares through a stockbroker. ETFs can be bought and sold on The Nigerian Stock Exchange throughout the day based on market prices, which are determined by demand and supply

60. What are the advantages of ETFs?

- ETFs provide a cost effective way of trading a basket of shares through a single transaction
- ETFs offer a market related performance or return.
- Allows for diversified exposure through buying a single share
- Provides an opportunity for investors to track a market

61. What are the disadvantages of ETFs?

- ETF prices are determined by market forces, so a buyer might buy at a slight premium or discount versus the Net Asset Value (NAV).
- Some ETFs may not track widely accepted indices, which sometimes result in higher costs and higher risks.

62. What risks are associated with ETFs?

- This includes general market risks, interest rate risks, liquidity risks, inflationary risks, and legal and regulatory risks.
- An investment in ETFs may increase or decrease in value as the market changes.

64. What are the differences between Exchange Traded Funds and Closed-End Funds?

- The price of an ETF trades very close to its Net Asset Value (NAV), while that of a closed-end fund is completely determined by valuation of the market.
- The structure of ETFs allow market participants to redeem shares from the basket of the fund's underlying assets, while closed-end funds can only be redeemed upon liquidation of the fund
- Clearing and Settlement cycle is T+3, and there are no circuit breakers or price band limits.

63. What are the differences between Exchange Traded Funds and Mutual Funds?

- No minimum investment, minimum holding period, or early withdrawal fees are associated with ETFs, but Mutual Funds usually have a minimum investments and minimum holding periods.
- ETFs trade like regular shares and can be bought or sold throughout the trading day by placing an order with your stockbroker. Mutual funds, on the other hand are usually bought or sold based on closing prices for the day, and the transaction occurs between the investor and the fund.
- ETFs generally have lower expense ratios than mutual funds. Most ETFs passively track an index without significant manager intervention, unlike many mutual funds that are more actively managed by investment managers. As a result, ETFs tend to have lower expense ratios than mutual funds.

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- The structure of ETFs allow market participants to redeem shares from the basket of the fund's underlying assets, while closed-end funds can only be redeemed upon liquidation of the fund
- Clearing and Settlement cycle is T+3, and there are no circuit breakers or price band limits.



Frequently Asked Questions

65. How do I get in touch with The Nigerian Stock Exchange?

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