



**AMENDMENTS TO DEALING MEMBERS' RULES (PART VII) /
RULE 15.30: PRICING METHODOLOGY – PAR VALUE RULE
RULEBOOK OF THE EXCHANGE, 2015 (DEALING MEMBERS' RULES)**

FREQUENTLY ASKED QUESTIONS

Introduction:

On June 2, 2015, The Exchange received the approval of the Securities and Exchange Commission (“Commission”) to the amendments to Rule 15.30: Pricing Methodology - Par Value Rule, Rulebook of The Exchange, 2015 (Dealing Members’ Rules), (“the Par Value Rule” or “the Rule”).

The following questions and answers have been compiled to assist in understanding, and provide general guidance in the application of the Rule.

Frequently Asked Questions:

1. What does “Par Value” mean?

The Par Value of a share refers to its nominal or face value per unit as stated in a company’s corporate documents, i.e., the Memorandum of Association of the company.

2. What is the difference between Par Value, Book Value, and Market Value per share?

Book Value per share is the value per share of net assets of a company based on its balance sheet value, and calculated as the difference between a company's total assets and its total liabilities.

Market Value per share is the value or price of the company’s shares in the market, and it is determined, amongst other things, by the supply and demand of the shares. It is the price that investors are willing to pay for a unit of a company’s share in the marketplace.

Par Value refers to the stated value of the shares at issuance determined by the company (issuing entity) and remains unchanged over time.

The Book Value of a company’s shares may change due to changes in the company’s net assets as reflected in its financial statements and its Market Value may also change depending on investor’s assessment of company’s estimated profitability or other market conditions, the Par Value remains as set forth in the corporate documents unless the

corporate documents are changed to reflect a new Par Value. Furthermore, The Book Value of a company's shares might be higher or lower than the shares' Market Value.

3. What does the Par Value Rule say?

In relevant part, the Par Value Rule states that, *“Notwithstanding its par value, the price of every share listed on The Exchange shall be determined by the market, save that no share shall trade below a price floor of One Kobo per unit (~~₦~~0.01)”*

The text of the Rule may be viewed on the website of The Exchange by following the link below:

<http://www.nse.com.ng/regulation-site/Dealing%20Members%20Rules/Rules%20and%20Regulations%20Governing%20Dealing%20Members%20%28Amendments%20and%20Additions%20Part%20VII%29%20-%20Par%20Value%20Rule.pdf>

4. Why is The Exchange implementing the Par Value Rule?

The Exchange observed that because the minimum share price for all securities listed on The Exchange was fixed at ~~₦~~0.50, there was an implication that there is a relationship, although not causal, between its Par Value and Market Value. The artificial fixing of the minimum price of shares also negatively affected trading activities on low priced stocks as they were perceived to be dormant, in view of the static and unchanging status of the prices. Amongst other initiatives being undertaken by The Exchange, this Rule is being implemented to boost stock market liquidity especially for low priced stocks. Narrower bid-ask spreads will also result in lower transaction costs. In addition, it will reduce speculations and opportunity for market manipulation on low priced stocks.

5. What does Price Floor mean?

The price floor refers to the amount or price below which a unit of the shares of a listed company will not be permitted to trade. In effect, it is the minimum amount payable for a unit of the shares of any listed company, in the event of a fall in the share price to this level. Before the effective date of the Par Value Rule, the price floor for listed companies was ~~₦~~0.50. With the implementation of the Par Value Rule, the price floor will be ~~₦~~0.01.

6. Prior to this Rule, was there any minimum price for shares traded on The Nigerian Stock Exchange?

The minimum market price per unit of shares of listed companies was previously pegged at Fifty Kobo (~~₦~~0.50) for most equity securities.

7. How did The Exchange arrive at the Par Value Rule?

The implementation was based on a report submitted by a committee of market participants and investors established by The Exchange in March 2013 (the Par Value Committee/Committee) to examine the issue of equities trading at par value and recommend action to address the issue. Prior to the establishment of the Committee, The Exchange had received calls from various participants within the Capital Market to allow share prices to fall below Par Value.

The Exchange, considered the Committee's report, following which it drafted the Par Value Rule and put the draft through its rule making process. The SEC approved the Par Value Rule on June 2, 2015. The Exchange delayed implantation of the Par Value Rule because it was of the view that market conditions were such that it would be inappropriate to implement before January 2018.

8. What is the implication of the Par Value Rule for shares trading?

As soon as the Rule becomes effective, the minimum market price of the units of the share of any company listed on The Exchange will no longer be pegged at Fifty Kobo (~~₦~~0.50), and the price floor of One Kobo (~~₦~~0.01) will become operative as a minimum market price per unit of shares traded in the floor of The Exchange. This implies that, a listed company's shares can now be traded at a unit price below its Par Value and such price would be determined by market forces. However, if the market price of the share continues to fall, it cannot fall below the price floor of One Kobo (~~₦~~0.01).

9. What Companies are affected by this Rule?

The Par Value Rule applies to the shares of all companies listed on The Exchange. Therefore, any company listed on The Exchange, whose minimum share price per unit is currently pegged at its Par Value of Fifty Kobo (~~₦~~0.50) could immediately be affected.

10. Does this Rule Affect the listing status of an Issuer?

The rule has no effect on the listing status of an issuer. There is no current plan to delist or migrate companies to a different board of The Exchange as a result of share price changes, or negative share price performance. Trading in shares of listed companies will continue at market determined prices but not below the One Kobo (~~₦~~0.01) price floor which is the minimum amount that shares would be traded.

However, The Exchange maintains its right to delist an Issuer if it continuously fails to meet its post-listing obligations.

11. What will be the effect of this Rule on annual listing fees?

The Rule will not change the current annual listing fee structure which is in form of a graduated schedule, based on the market capitalisation of each listed company.

12. Can a company whose price is below Par Value issue new shares?

Listed companies whose shares trade below their nominal or par value can still issue additional securities.

13. How long can shares trade at the price floor?

There is no limit on how long shares can trade at the price floor. However, The Exchange reserves the right to advise Issuers to consider steps towards addressing persistent decline of market share prices.

14. What factors would affect share price movements?

There are numerous factors that may affect share price movements. Broadly, the prevailing market prices of securities may be determined by the interactions of demand for and supply of each security as a response to the trend of macro-economic variables such as exchange rates and interest rates, as well as investors' expectations of the company's performance.

15. How will market prices of listed companies change?

On the same day as the Par Value Rule becomes effective, the amendments to a related rule, Rule 15.29(d): Pricing Methodology, Rulebook of The Exchange, 2015 (Dealing Members' Rules) will also become effective. As amended, Rule 15.29(d) provides that that:

(1) *For purposes of calculating price movements and price limits, equity securities traded on The Exchange shall be classified as follows:*¹

(A) ***Group A:*** ~~shall consist of equities with a Primary Market Maker that are not classified in Group B; and that are priced at One Hundred Naira (₦100.00) per share or above for at least four (4) of the last six (6) months, or new security listings that are priced at One Hundred Naira (₦100.00) or above at the time of listing on The Exchange.~~
shall consist of equities with a Primary Market Maker that are not classified in Group B; and that are priced at One Hundred Naira (₦100.00) per share or above for at least four (4) of the last six (6) months, or new security listings that are priced at One Hundred Naira (₦100.00) or above at the time of listing on The Exchange.

¹ Legend: additions underlined, deletions struck through.



- (B) **Group B:** shall consist of equities ~~with a Primary Market Maker~~, that are priced ~~above N100.00~~ at Five Naira (N5.00) per share or above but less than One Hundred Naira (N100.00) per share for at least four (4) of the last six (6) months, or new security listings that are priced at Five Naira (N5.00) per share or above but less than One Hundred Naira (N100.00) per share at the time of listing on The Exchange.
- (C) **Group C:** shall consist of equities that are priced at One Kobo (N0.01) per share or above but below Five Naira (N5.00) per share for at least four (4) of the last six (6) months, or new security listings that are priced at One Kobo (N0.01) per share or above but below Five Naira (N5.00) per share at the time of listing on The Exchange.
- (2) **Price Movements:** the minimum quantity of equities traded that will change the published price of an equity security shall be as follows:
- (A) Group A: ~~Fifty-Ten~~ Thousand (50,000) units.
- (B) Group B: ~~Ten-Fifty~~ Thousand (10,000) units.
- (C) Group C: One Hundred Thousand (100,000) units.
- (3) **Price Limits:** the price movement band on any given Trading day shall be determined as follows:
- (A) Group A: +/- 10% based on the previous day's closing price.
- (B) Group B: +/- 10% based on the previous day's closing price.
- (C) Group C: +/- 10% based on the previous day's closing price.
- (4) **Tick Size:** the minimum price movement that equities shall trade are as follows:
- (A) Group A: Ten (10) Kobo.
- (B) Group B: Five (5) Kobo.
- (C) Group C: One (1) Kobo.

Please see a table below illustrating the point:

Group	Share Price Band	Size Test (Units)
A	$\geq \text{N } 100$	10,000
B	$\text{N } 5.00 < \text{N } 100$	50,000
C	$< \text{N } 5.00$	100,000

16. What is the Effective Date of the Par Value Rule?

The Par Value Rule shall become effective on Monday, 29 January 2018.

NOTES:

1. The above information does not constitute professional investment or legal advice to anyone. Professional advice should be sought by stakeholders or potential investors where required.
2. For further information, please visit our website or send an e-mail to productmanagement@nse.com.ng.
3. The Rules of The Exchange are also available on its website (www.nse.com.ng), for additional reference.

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