

Equities: Frequently Asked Questions

1. What are shares?

- i. A share/stock represents ownership of a company, as well as a claim on the company's assets and earnings. A shareholder of a public company may enjoy dividends from the company's profits, participates in its share price performance, and has the right to vote at its shareholder meetings.
- ii. Shares/stocks may be bought or sold, usually but not always, in the context of a securities exchange, and the exchange lists companies across different sectors.

2. What is the NSE All Share Index?

- i. The NSE All-Share Index is a value-weighted index that tracks the general market movement of all listed equities on the Exchange, including those listed on the Alternative Securities Market (ASeM). It was formulated in 1984 and calculates movement in prices on a daily basis.

3. What are the benefits of investing in shares/stock?

- i. A stock is a type of security which represents a fractional ownership of a company in proportion to the total number of shares. Investing in stocks allows an investor to participate in the growth of a company.
- ii. Liquidity – A stock is typically seen as a liquid asset, as it trades publicly with price transparency on a stock exchange, allowing investors to buy/sell shares.
- iii. Capital Gain – The other source of return on investment apart from dividend is the capital gains. Gains which arise due to rise in market price of the share.
- iv. Entitlement to corporate action – dividends, share bonuses, rights etc.

4. What are the risks to consider?

- i. Price Risk – Stock prices can fall below your purchase price due to macroeconomic or sector/company-specific factors.
- ii. Volatility Risk – Refers to the fluctuation in the value of a stock due to the changes in its stock price.
- iii. Liquidity Risk – Stock liquidity is the degree in which stocks can be bought or sold in the market without materially impacting its market price. Liquidity risk refers to the risk where a stock cannot be transacted in a timely manner.

5. What are factors affecting the performance of stocks?

Some of the factors determining stock performance include:



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- i. Company-related developments – Examples include new product launches, acquisition of major contracts, performance of the company with respect to competitors, changes in management team or substantial shareholders etc.
- ii. Sector-specific factors – Examples include retail sales, commodity prices, government measures etc.
- iii. Market factors – Examples include domestic and global economic outlooks, inflationary pressures and actions by central banks etc.

6. What are the trading hours?

Trading hours refer to the period of time a financial market is open each day, during which all orders for the day must be placed, and market participants (buyers and sellers) set current market prices.

Trading on the NSE Equity Market occurs between 9:30am and 02:30pm daily. The Exchange is however in the process of amending its market microstructure and will communicate to stakeholders in due course. Further details on NSE trading hours are available at: <http://www.nse.com.ng/products-site/equities-site/market-structure-site/Pages/default.aspx>

7. What securities are traded on The Exchange?

All securities admitted into the trading list of the Nigerian Stock Exchange. This includes Equities, Bonds and Exchange Traded Products (ETPs). The Exchange is also in the process of establishing a Derivatives market.

For a list of tradable equities, visit <http://www.nse.com.ng/market-data/trading-statistics/equities>

8. How are Equities traded and settled on the NSE?

Trading is electronic using X-Gen, which is based on NASDAQ's X-stream trading platform and supports FIX protocol. X-Gen opens up innovative trading capabilities for the market, providing low latency trading, straight-through processing from broker order management systems to the exchange and direct market access for the buy-side. It also enables mobile trading technology for retail investors.

The Central Securities Clearing System (CSCS) settles equities transactions electronically in T+3 days and offers depositary services.

9. How do I purchase Equities?

Equities can be acquired directly in the primary market when there are new offerings by companies. However, to purchase equities in the secondary market, an investor must select a stockbroker and open an account with the Central Securities Clearing System Plc. (CSCS). In selecting a suitable broker to represent your interests, you should confirm the broker's status with both The NSE and SEC. For a list



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and directory of registered dealing members of The Exchange, see <http://www.nse.com.ng/dealing-members/find-a-dealing-member/dealing-member-directory>.

10. What are the requirements for Listing on the NSE?

The Exchange lists companies on three boards namely:

- Premium Board
- Main Board
- Alternative Securities Market (ASeM) Board

Criteria for listing securities on either of the boards can be found on our website: <http://www.nse.com.ng/Listings-site/listing-your-company/listing-requirements>.

11. How are the NSE Listed Companies Regulated?

The Exchange continuously monitors and enforces compliance by listed companies with its Listing and Post Listing Requirements to ensure high standards of disclosure, transparency and corporate governance practices. Where there are possible rule breaches, The Exchange will investigate and take appropriate actions. The NSE may suspend the shares of a companies for a number of reasons including:

- Failure to disclose material information on time.
- Free float deficiency
- Failure to pay annual listing fees.
- Breach of any rule or regulation of The Exchange.

Further information can be obtained in the NSE Rulebook: <http://www.nse.com.ng/regulation-site/Documents/The%20NSE%20RuleBook%202015.pdf>

12. Investor Protection Mechanism

The Exchange works proactively to protect and maintain the confidence of investors and the integrity of the market by adopting different mechanisms including:

- Investor Protection Fund (IPF): set up to compensate investors with genuine claims of pecuniary loss against dealing member firms.
- SMARTs Technology for efficient/effective market surveillance.
- The Corporate Governance Rating System (CGRS) for listed companies.
- NSE's Minimum Operating Standards (MOS) for dealing member firms.
- Compliance Status Indicator (CSI) for listed companies.



- Direct Cash Settlement (DCS) for investors.

13. What happens during stock trading

When you place your order to buy or sell, it is directed immediately to our Central Order Book. If there is another order that matches your bid or offer price, the trade will be executed immediately. Otherwise, it will join a queue of unmatched orders which are lined up according to priority. At the end of each trading day, all unmatched orders will lapse and you will have to enter your unfulfilled order on the next trading day.

14. What are NSE's Initiatives for Enhancing Liquidity on Equities?

In 2012, the NSE introduced Market Making and Securities Lending to increase liquidity in the market. For more information on these products, visit <http://www.nse.com.ng/investors-site/becoming-an-investor/FAQs/Market%20Making,%20Securities%20Lending%20and%20Short%20Selling%20-%20FAQs.pdf>

15. Are stock dividends subject to income taxes?

There is a withholding tax (WHT) of 10% which is applicable to dividend payments in Nigeria. The tax is deducted by the investee company before remittance of dividends to shareholders. This is in line with Section 80 of the Companies Income Tax Act (CITA).

NOTES:

1. The above information does not constitute investment or legal advice. Professional advice should be sought by stakeholders or potential investors where required.
2. For further information: Please visit our website or email productmanagement@nse.com.ng