



**THE Nigerian
STOCK EXCHANGE**

Frequently Asked Questions (FAQs)

AUTOMATION OF RIGHTS TRADING AND SETTLEMENT

On The Nigerian Stock Exchange



www.nse.com.ng



1. What is Rights?

A rights issue is an offer to existing shareholders to purchase additional shares in a company during the company's issue of new shares. The invitation to existing shareholders is usually made in proportion to their existing holdings, allowing them to buy the newly issued shares at a fixed price, usually at a discount to market value of the shares, within a specific subscription period. A rights issue is therefore one of the ways by which a listed company can raise funds from its existing shareholders.

2. Why issue shares to existing shareholders in this manner?

Sometimes, the Articles of Association of a listed company may contain pre-emptive rights which require the company to offer its shares to existing shareholders before the company can offer the shares to the public for purchase. This right of existing shareholders to be offered the new shares of the company, before all other persons, is known as a "pre-emptive right" (or "right of first refusal") on the new shares. During a rights issue, when existing shareholders take up their pre-emptive rights, such existing shareholders can avoid dilution of their holdings, and maintain their existing percentage holding in the company. However, shareholders can, and often do, waive these rights to pay for and take up new shares, by selling their rights to other existing shareholders or new investors. Shareholders can also agree, or vote to waive their pre-emptive rights.

3. How does a shareholder become aware of a rights issue?

The company will publish a notice of the rights issue in at least two (2) national daily newspapers. Also, the company's registrar will send a copy of the SEC (Securities and Exchange Commission) approved rights circular to all existing shareholders, informing them of the rights offer not less than twenty one (21) days before the opening of the rights offer.

4. A sample rights issue scenario is provided below

Mr. A owns 100 shares in Quality Rice Farms Plc. (Quality Rice), and each share is trading at N5.00. Quality Rice wishes to fund some acquisitions and its growth strategy, and needs to raise cash. Quality Rice therefore announces a rights issue, in which it plans to raise N30 million by issuing 10 million ordinary shares to existing shareholders at a price of N3.00 each. Assuming that this rights issue is a 2-for-10 rights issue, in other words, for every 10 shares held, Quality Rice is offering Mr. A two shares at a discounted price of N3.00 each. Therefore, as Mr. A holds 100 shares, he is entitled to buy 20 additional shares of Quality Rice during the rights issue at the discounted price of N3.00 each. This price is 40% less than the N5.00 price at which Quality Rice shares trades.

5. What options are available to an investor on rights issued in his favour?

The options open to an investor during the subscription period of a rights issue are:

- i. Take up the rights issue in full, and pay the relevant rights price to the Issuer.

- ii. Trade the entirety of the rights to existing shareholders or other interested investors.
- iii. Take up part of the rights for himself, and trade the rest.
- iv. Ignore the rights offer, do nothing, and let the rights expire.

As the rights issued to existing shareholders have some value, the trading of the rights compensates the shareholders for any future dilution of their current holdings in the company.

6. Do existing shareholders have to take up their rights?

No, existing shareholders have the option not to take up their rights. Existing shareholders who do not wish to take up their rights may sell them on the floor of The Nigerian Stock Exchange to either existing shareholders or to new shareholders.

7. How do I trade my rights?

Rights are tradable on the floor of the Nigerian Stock Exchange from Rights Open Date to Close Date.

8. How are the shares sold in a rights issue priced?

The price of new shares under a rights issue is generally lower than the prevailing market price for the shares. A discount of up to 20-30% is fairly common. The difference between the rights offer price and the market price of the shares represents the rights premium.

9. What will be the opening price for traded rights on the first day of trading during the offer period?

The opening price on the first day of trading in the rights will be the rights premium i.e. the difference between the rights offer price and the market price of the shares. Market forces of demand and supply will determine subsequent opening and closing price during the rights offer period. In the unlikely situation, where the rights offer price becomes higher than the market price, traded rights price will default to ₦0.01 (one kobo).

10. What happens if I choose to neither take nor trade my rights?

Generally if rights are not taken up by the shareholder, the underwriter takes up the rights and may sell them on behalf of the rights holder within the offer.

11. Why is it necessary to change the current process for trading and settlement of rights?

To eliminate the following challenges currently faced by stakeholders:

- Manual cash settlement between counterparties
- Counterparty Reconciliation problems – (buy and sale brokers).
- Reconciliation problems – between sale broker, buy broker, Registrar and the NSE.
- 'Noting' by The Exchange. ie. Endorsement of all traded right circulars by the Exchange.
- Settlement complexities when traded rights are re-traded – clog on price discovery.
- Overtrading - Trading in excess of verified Rights.

12. What benefits will accrue to the market from automation of rights trading and settlement?

- Only Registrar verified rights lodged with the CSCS will be tradable on The Exchange.

- Overtrading or trading in excess of units verified will be eliminated.
- Elimination of 'Noting' by The Exchange.
- Enhanced Price Discovery - as rights can change hands as frequently as possible, without settlement complexities.
- Elimination of reconciliation problems.
- The final list of buyers sent electronically by the CSCS to the Registrar would reflect final traded position at close of the offer, and would be the reference point for Registrar allotment of actual shares.
- Elimination of current manual cash settlement between counterparties - leveraging on existing CSCS settlement infrastructure.

13. How will the Registrars know the ultimate buyers at the closure of trading at The Exchange?

A final list of investors on the buy side as at the last trading day (closure date) will be sent electronically to the Registrar by the CSCS.

14. Will rights available for trading be captured in investor CSCS Statements?

Yes. However, a unique security code, different from that of the underlying security will be assigned to it. The units of rights held by an investor will not be considered in valuation of the investor's portfolio.

15. How will the underlying shares be allotted to qualifying investors?

Shares shall be allotted to investors by the Registrar after confirmation that the rights consideration (number of rights * rights offer price) has been fully paid by the investor.

16. How will allotted shares be credited to investor CSCS accounts?

Allotted shares shall be sent electronically by the Registrar to the CSCS, who in turn will credit respective investor CSCS accounts. At the point of crediting investor accounts, the balance of rights held in investor accounts will be removed.

17. Which categories of investors are qualified to trade their rights?

To be eligible to participate in rights trading, interested investors MUST have CSCS accounts, set up through a licensed Dealing Member firm.

18. What is the process for presenting renounced rights for trading?

Investors are expected to fill the renunciation section of their rights circular, then submit this to their Brokers, who will then present same to the Registrar. Registrar verified rights are electronically transferred from the Registrar to the CSCS and credited to the investor's account.

19. Are there mandatory requirements that must be met by an investor that seeks to purchase rights through his broker?

Yes. After setting up an operational brokerage account, the investor is expected to fund his broker with:

- i. Consideration value of the rights.
- ii. Regulatory fees.
- iii. Rights premium due to the seller of the rights.

20. What documents does the sell-side investor need to present to his broker to initiate a transaction?

- i. Executed Rights Circular
- ii. Completed and signed Transfer form
- iii. Sales Mandate signed by the shareholder, indicating the quantity of rights the broker is authorized to sell.

21. After closure date, how would consideration from traded rights be remitted to the Registrar/Issuer?

The CSCS shall instruct Settlement Banks to transfer consideration value of purchased rights from respective dealing members (buy side) to the Registrar.

22. What happens if as at closure date, an investor is yet to fund a buy side broker, the full consideration value of rights purchased by the broker on his behalf?

It is mandatory that an investor funds his broker with the consideration value, premium and transaction fees, prior to execution of his mandate. A broker who executes without funding will be held responsible and the amount due shall be debited directly from his settlement bank account by the CSCS, in favour of the issuer.

23. What is the applicable transaction fee for rights trade?

	BUY	SELL
NSE	0.30%	0
CSCS	0	0.10%

Note: Consideration= execution price*no of units traded

24. Who do I contact if I have any comment or complaint?

For any complaint or comment, please contact NSE Contact Centre

Email: contactcenter@nse.com.ng

Tel: +234 1 448 5858 | Mobile: +234 700 225 5673