

**RULES FOR THE LISTING OF EXCHANGE TRADED FUNDS ON THE NIGERIAN STOCK EXCHANGE**

**SEPTEMBER 2011**

Applicable Legislation	Means the laws, rules and regulations applicable to investment and securities business in Nigeria.
Appropriate Authorizations	Means all licenses, consents, permits or any other rights regulatory or otherwise which would enable an Asset Manager to perform asset management services for an ETF.
Approved Exchange	Means an exchange which is a member of the World Federation of Exchange or any other exchange acceptable to the Exchange.
Broker-Dealer	Means an entity duly registered with the Commission to execute contracts in securities either as an intermediary or in a proprietary capacity.
Asset Management Agreement	Means an agreement entered into between the authorized dealer and the Fund Manager setting out the terms and procedures by which the authorized dealer may <i>inter alia</i> request the creation and redemption of Securities.
Business Days	Means a day when the Exchange is open for business and trading on the Exchange.
CSCS	Means the Central Securities Clearing System
The Commission	Means Securities and Exchange Commission of Nigeria (SEC)
ETF	Means Exchange Traded Fund
The Exchange	Means Nigerian Stock Exchange (NSE)
Exchange Traded Fund	Means an undertaking which is a: (i) unit trust; or

	<p>(ii) other mutual fund; or</p> <p>(iii) collective investment scheme; or</p> <p>(iv) company with fixed capital; or</p> <p>(v) company with variable capital whose articles provide that:</p> <p>(a) the amount of the paid up share capital of the company shall at all times be equal to the net asset value of the company, and</p> <p>(b) the shares of the company shall have no par value or</p> <p>(c) other structure satisfactory to the Exchange and the Commission which issues an unleveraged security listed on the Exchange or an Approved Exchange and tracks the performance of a specified security or other asset which includes but is not limited to stocks, basket of assets, indices, commodity prices, and/or foreign currency rates or any other appropriate benchmark approved by the Exchange from time to time (“Benchmark”).</p>
Creation size	Means the minimum number of Securities as determined in the prospectus of the ETF or as otherwise communicated to the Exchange and Commission from time to time, which can be acquired for the delivery of corresponding Portfolio Assets to the ETF.
SEC ETF Rules	Means Rule of SEC on ETF made pursuant to the ISA.
NSE ETF Rules	Means these rules on the listing of ETFs on the Exchange as amended from time to time.
Financial Instruments	Means a document representing a legal agreement that involves monetary value. It gives rise to both a financial asset of one party and a financial liability of another party.
Foreign ETF	Means an ETF, whose primary listing is on an exchange outside of Nigeria.

Fund Manager	Means an entity contractually appointed by the ETF to manage the ETF or any part of its Portfolio Assets
ISA	Means Investments and Securities Act No. 29 2007
Issuing House	Means an entity which is registered by the Commission to act as an Issuing House.
Market Maker	Means any specialist permitted to act as a dealer, any dealer acting in the position of a block positioner, any dealer who, with respect to a security, holds himself out as being ready to buy and sell such securities for his own account on a regular and continuous basis.
Liquidity Provider	Means any specialist permitted to provide liquidity, in the absence of a Market Maker
NSE Rules	Means the Rules and Regulations of the Nigerian Stock Exchange Governing Dealing Members (as amended from time to time).
NAV	Means the Net asset value of the Portfolio Assets of the ETF.
Offer Documents	Means a Prospectus or document for the Placement or introduction of Securities
Placements	Means the offering or sale of Securities to specified group of persons.
Portfolio Assets	Means a portfolio of constituent underlying assets of an ETF.
Redemption size	Means the specified number of Securities determined by the Fund Manager which can be redeemed in consideration for delivery by the ETF.
Security (ies)	Means a unit, share, debenture or any other instrument issued by an ETF granting an entitlement to the investments or income of an ETF.

## **1. GENERAL**

- 1.1 In order to be eligible for listing on The NSE, an ETF shall comply with the NSE ETF Rules, the Investments and Securities Act, the rules and regulations made pursuant to the Act, and any other Applicable Legislation.
- 1.2 Subject to any temporary or permanent exemption by the SEC, the Securities issued by an ETF shall be approved by the SEC prior to being listed on the official list of the NSE.
- 1.3 An ETF shall issue Securities for the purpose of enabling an investor to invest in instruments tracking an appropriate Benchmark approved by the SEC and NSE from time to time.
- 1.4 The underlying assets or portfolio of an ETF shall be sufficiently liquid to satisfy the NSE that there would be proper price formation in the ETF, and have a net asset value that is calculated in a transparent manner and published on the issuer's website and communicated to the NSE pursuant to times reasonably prescribed by the NSE.
- 1.5 Once approved, an ETF will be listed, and traded in the same manner as other securities on the NSE trading system. ETF trades would be settled through the CSCS, and shall be freely transferable.
- 1.6 Acceptable communication channels shall include any of the following:
- (i) the ETF's/Fund Manager's website;
  - (ii) a hyperlink from the ETF's website to the website of the Exchange;
  - (iii) information pages of vendors who disseminate trading information of Securities in their ordinary course of business. The information pages must be easily accessible by retail vendors.
  - (iv) electronic media for information dissemination as provided by the Exchange from time to time, or
  - (v) any other channels considered acceptable by the Exchange.

## **2. LISTING REQUIREMENTS**

An applicant issuer of ETFs shall include the following information in an ETF prospectus:

- 2.1 The structure of the ETF and details of the index on which the ETF is structured;
- 2.2 Net Asset Value (NAV) of the ETF as at the date of application;
- 2.3 Percentage change of the NAV of the underlying basket of securities for the previous 6 months on a daily basis;
- 2.4 The basis of computation of management fees, if any;

- 2.5 Course of action that would be taken by the issuer in the event an underlying security is suspended or de-listed, and its repercussion on the computation of NAV;
- 2.6 Details of the issuer, as prescribed by the NSE;
- 2.7 Currency in which the ETF will be structured and traded;
- 2.8 Rules pertaining to the treatment of corporate actions including unbundling and re-bundling of securities;
- 2.9 Any other information that may be required by the NSE on a case by case basis.

2.10 ETFs Shall :

- (a) be Open ended (unless otherwise determined by the NSE);
- (b) be Issued over an index or be structured on any one or a combination of equities; commodities; currency or inflation rate, or financial instruments based on a given ratio acceptable to the NSE;
- (c) disclose the methodology of computation of the index, if the ETF is structured on such index;
- (d) disclose the methodology of computation of the NAV of ETF.
- (e) Be fully backed at all times; either by an acquisition of the underlying equities, commodities, assets or financial instruments it represents, and proxy securities acceptable to NSE which should be listed, freely tradable and have adequate liquidity or cash;
- (f) Hold Portfolio Assets which shall be held by a trust or in custody with a third party (unrelated to the sponsor or originator of the ETF) and a trustee or custodian shall be appointed, subject to approval by the NSE, to protect the interests of the investors in the ETF.

2.11 An applicant issuer of an ETF shall:

- (a) Appoint a Sponsoring Broker in good standing with the NSE.
- (b) Provide evidence to the NSE, that it has the relevant expertise (as determined by the NSE) to issue and/or effectively manage ETFs or has access to such expertise;
- (c) Satisfy the provisions of these NSE ETF Rules (unless expressly exempted);
- (d) Satisfy the NSE that a secondary market in the Securities of the ETF will be effectively established and maintained.

**3. LIQUIDITY PROVIDER**

- 3.1 Prior to listing, an ETF shall be required to appoint a third party who shall be an authorized financial institution and who shall undertake to use its reasonable endeavors to maintain a secondary market in the ETF.

#### **4. FUND MANAGER**

- 4.1 An ETF shall appoint a Fund Manager to manage the asset of the fund.
- 4.2 Where the Fund Manager does not possess the requisite expertise to perform such functions, it shall appoint one or more Asset Manager for in kind creation of securities or in kind redemption of securities.
- 4.3 Where the Fund manager has appointed the Asset Manager, it shall execute an asset management agreement.
- 4.4 The Fund Manager shall use its reasonable endeavours to:
  - 4.4.1 Obtain appropriate authorisations and licenses to act;
  - 4.4.2 Have proper and adequate internal control procedures and satisfactory risk management procedures.
  - 4.4.3 Possess the necessary expertise and adequate resource to undertake the function of an Asset Manager; and if the Fund Manager has appointed an Asset Manager has executed an Asset Management agreement with the Fund Manager.

#### **5. FOREIGN ETF**

- 5.1 The approval of the listing of a Foreign ETF shall be subject to receipt of copies of all documentation that a Foreign ETF shall submit to the NSE pursuant to these rules and the SEC ETF Rules. Subsequent to such approval, the Foreign ETF shall submit to the NSE documentation and information set out in the rules within 5 Business Days of submission of such documents to the SEC.
- 5.2 A Foreign ETF without a permanent presence in the Federal Republic of Nigeria shall appoint a Sponsoring Broker or Issuing House or solicitor in good standing with the SEC and the NSE as its authorized representative in Nigeria.

#### **6. OFFERING AND LISTING OF UNITS OF AN ETF**

- 6.1 An ETF may list Securities by any of the following methods:
  - 6.1.1 offer for subscription;
  - 6.1.2 Placement;
  - 6.1.3 Introduction, or
  - 6.1.4 Such other methods as may be prescribed by the SEC from time to time.
- 6.2 The Exchange has the discretion to vary or not to allow any particular method of offering if it is of the view that the method in question is not in the best interest of investors.

- 6.3 The Fund Manager shall use its reasonable endeavours to notify the Exchange of any events that would in the reasonable opinion of the Fund Manager materially affect the underlying security or asset which an ETF is tracking. These events may include but not limited to a material change in the:-
- 6.3.1 Methodology for compiling or calculating an index (if applicable);
- 6.3.2 Composition of the index due to (for example) the inclusion or deletion of any security;
- 6.3.3 weightings of the index constituents corporate activities or significant market movements;
- 6.3.4 Identity of the party that sponsors and/or calculates the index (if applicable);
- 6.3.5 Nature of the market in the asset tracked by the Security and any material factor which would have an adverse impact on the price of any Security (such as a disruption or cessation in trading of an asset or index);
- 6.3.6 Ability of the ETF to provide a secondary market in the Security
- 6.3.7 Status of the Security;
- 6.3.8 Material contracts of the ETF;
- 6.3.9 Offer Documents.
- 6.3.10 The Exchange retains the right to delist an ETF if it reasonably considers such action to be in the best interest of the investing public.

## **7. DAILY PUBLICATION**

- 7.1 An ETF shall publish the following details on its corporate website each day:
- (a) The NAV of the ETF at the closing price of the preceding day;
  - (b) The accrued reserves distributable to ETF holders, (if applicable) each preceding day;
  - (c) The index level, price or rate tracked by the ETF at the close price of the preceding day;
  - (d) Methodology for computing Management Company fees;
  - (e) The constitution of the index basket or Portfolio Assets which an investor wishing to subscribe in specie shall deliver on the following trading day;
  - (f) The cash amount which an investor wishing to subscribe in specie shall deliver on the following trading day; and
  - (g) The cash amount which a holder wishing to redeem in specie (i.e. exercise his delivery rights) would receive.

**8. CORPORATE ACTIONS AND INCOME DISTRIBUTION**

8.1 The Offer Documents shall clearly state the procedure and rights, pursuant to which an ETF shall be obliged to distribute income (if any) to an investor. In the event that no income is distributed by the ETF, it shall clearly state this in the Offer Documents. Such procedure shall be fair and transparent.

8.2 Any income such as dividend payments shall be distributed to investors at least annually and not later than that set out in the Offer Documents.

8.3 An ETF Manager shall rebalance its Portfolio Assets as disclosed in the offer document.

**9. PRICING OF SECURITIES**

9.1 The ETF shall not issue Securities other than at the price calculated in accordance with the Offer Documents.

9.2 The calculation of the NAV of the ETF by the Fund Manager shall be based on a methodology which is transparent and independently verifiable.

9.3 The ETF shall publish the NAV of the ETF and the NAV per security of the ETF at their closing price respectively on a daily basis, on its corporate website and this information shall be disseminated on a real-time or near real-time basis to the NSE.

**10. CREATION AND REDEMPTION OF SECURITIES**

10.1 Unless otherwise stated in these Rules, an investor may acquire or redeem a Security in an ETF subject to the terms of the Offer Documents and all relevant provisions and procedures relating to redemption of an ETF.

10.2 Any transaction for the acquisition or redemption of ETF Securities may be settled physically by providing in kind consideration.

10.3 Physical settlement of Securities shall be subject to a respective Creation Size and Redemption Size.

**11. EXEMPTION**

11.1 The Exchange may grant exemptions to the application of these Rules, as it may deem necessary.

**12. CHANGE IN IDENTITY, BOARD OF DIRECTORS, ETC.**

12.1 The Exchange shall be notified of any change to the board of directors of the ETF, the auditor, and the Articles of Association of the ETF, within one week of such occurrence.

**13. APPLICATION FEES**

13.1 An ETF shall be required to pay the applicable fees, as determined by the NSE.

**14 CONTENTS OF OFFER DOCUMENTS**

14.1 The Offer Documents shall contain the information required in accordance with the SEC ETF Rules.

**15 REPORTING AND AUDIT**

15.1 The Fund Manager shall comply with all reporting and audit requirements of collective investment schemes as prescribed by the ISA and the rules made there under, and also comply with the audit requirements of these Rules.

15.2 An ETF shall provide the Exchange and the SEC with all reports in accordance with relevant provisions of the SEC ETF Rules within 2 (two) business days.

15.3 An ETF shall provide the Exchange with a copy of all notices received from the SEC within 10 (ten) Business Days of receipt.