



THE Nigerian STOCK EXCHANGE

RC: 2321

RETAIL BONDS - FAQs

Q: What is Retail Bond Trading?

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

Q: What are Bonds?

Bonds are securities issued by a Government or a company borrower (the bond issuer) in order to raise capital. Generally, a bond is a promise to repay the principal along with interest (coupons) on a specified date (maturity).

Q: 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.

Q: What Benefits are there in Investing in Bonds?

- Low risk – Compared to Equity.
- Fixed and Regular Income
- Flexibility as various types of bonds is available
- Tradability
- Capital appreciation

Q: How do I Invest in Bonds on the NSE?

To invest in bonds, you would go through a fixed income market maker (FIMM) and/or a broker who is a member of the NSE.

Q: What are the Characteristics of Bonds?

- Types of issuers - Corporate Bonds, Supranational Bonds and Government/Guasi-Government Bonds
- Coupon - Fixed Rate Bonds, Floating Rate Bonds and Zero-Coupon Bonds
- Credit quality - Investment Grade Bonds
- Tenors Ranging from 1 to 20 years

Q: What is Nominal Value?

This is the amount that the issuer will pay to the investor on maturity. The nominal value is also the amount on which the interest is paid to the investor.

Q: 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.

Q: What is the Minimum Size for Trading Bonds?

The minimum size available to trade bonds varies from bond to bond.

Q. Are Bonds Sales Subject to Tax?

Proceeds received from disposal of all categories of bonds listed on the NSE are exempt from value added tax. Also, interest earned on bonds is exempt from tax under the Companies Income Tax Act.

Q. What are the Bonds Available for Trading?

All bonds listed on the Daily Official List of The NSE.

Q. What are the Hours for Bond Trading?

0930 hours to 1430 hours every Monday through Friday (except holidays).

Q. 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.

Q. When do Bond Trades Settle?

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

Q. Why Trade on the Floor of the Exchange?

- Trading is transparent
- The price is efficient and market determined
- Transaction cost is very low
- Everyone can participate

Q. What are some Possible Risks in Investing in Bonds?

Credit Risk - This relates to the issuer's ability to make timely principal and interest payments as and when due.

Interest Rate Risk – Interest rates and bond prices are inversely related. Should interest rate rise, the price of your bond will tend to fall (and vice versa). The longer the time to maturity of a bond, the greater the interest rate risk.

Market and Liquidity Risk – Bonds may be sold if there is a willing buyer. In some cases, the bond investor may not be able to find a buyer for bonds to be sold. Additionally, bonds are not 'risk free' as the market prices of bonds may decline, e.g., reacting inversely to factors such as higher interest rates, which may produce lower prices than at which the investor purchased.

Event Risk – Events such as buyouts, mergers or regulatory changes may adversely affect both (i) the bond issuer's ability to make payments on the bond and (ii) the price of the bond.

Q: Do I Have to Hold Bonds until Maturity?

You can sell your bond at any time before its matures.

For more information, please contact us:
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