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THE DEFERMENT OF THE NEW FREE FLOAT RULES BY THE NIGERIAN STOCK EXCHANGE: WHAT NIGERIAN INVESTORS SHOULD KNOW

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INTRODUCTION

Free float is the percentage of a publicly quoted company's shares which is not restricted from public trading and is made available on the stock exchange market.

It includes all shares held by the public and excludes shares held directly or indirectly by insiders such as promoters, directors, employees (and their relatives), strategic investors or the government.[1]

The free float of a publicly quoted company is important to the investing public as it gives an understanding into how stable or unstable the stocks of that company are.

NIGERIAN STOCK EXCHANGE RULES ON FREE FLOAT

The Nigerian Stock Exchange (the "NSE") had earlier published the Rules Governing Free Float Requirements for Issuers Listed on The Nigerian Stock Exchange (the "Rules") which ought to have become effective from 3rd June 2019.

The NSE maintains three categories of listing namely, the Premium Board which is the elite group of companies that meet stringent corporate governance, capitalisation, and liquidity criteria; the Main Board which covers the larger companies who are admitted based on profitability or market capitalisation; and the Alternative Securities Market (ASeM) which covers the smaller, high-growth emerging businesses.

Under the Rules, an issuer seeking to be listed on the Premium Board of the NSE must maintain a free float of not less than 20 percent of its issued share capital made available to the public and held by not less than three hundred (300) shareholders or a value of 40 billion naira (or a value to be prescribed by the NSE from time to time).[2]

For issuers to be listed on the Main Board of the NSE, such company must maintain a free float of not less than 20 percent of its issued share capital made available to the public and held by not less than three hundred (300) shareholders or a value of 20 billion naira.[3]

[1] Definition section of the Rules Governing Free Float Requirements for Issuers Listed on The Nigerian Stock Exchange (the "Rules").

[2] Rule 1.1.1 of the Rules.

[3] Rule 1.1.2 of the Rules.



Where the issuer seeks to list on the Alternative Securities Market (ASeM), its free float must be not less than 15 percent of the issued share capital made available to the public and held by not less than fifty-one (51) shareholders or valued at 50 million naira.[4]

It should be noted that while the above are the minimum requirements provided by the NSE, an issuer is permitted to maintain a free float above the prescribed requirements.

The minimum free float requirements are to ensure an orderly and liquid market for the securities listed on the NSE based on the set standards under which they are listed.

The free float requirement is an important part of the stock market. It can affect the price of shares in two ways: first, a small quantity of shares can make a stock unattractive to the investing public, and second, a low floating capital in the market has the effect of reducing the value of shares due to insufficient demand from investors.[5]

Where the free float falls below the minimum listing standard, the issuer must, as soon as practicable, announce that fact to the NSE which shall require the issuer to obtain the required float within a specified period.

The issuer shall be required to notify its shareholders in writing within ten (10) business days of the NSE's decision. Where the required float is not obtained within the specified timeframe, the NSE may suspend trading in the securities.[6]

The NSE may allow the issuer a period of one (1) year or such longer period as they may agree to retain its listing and rectify the deficiency. The issuer may be delisted if it fails to restore the percentage of securities in public hands after the period allowed.[7]

NSE NOTICE OF DEFERMENT OF THE RULES

On 4th June 2019, the NSE released a notice stating that the implementation of the Rules had been deferred indefinitely without providing any reason for this deferment.

Upon review, it seems the deferment of the Rules may not have any drastic effect on the current status of the stock market. This is because the free float requirement in the Rules are similar to the free float provisions of the existing Rulebook of the Nigerian Stock Exchange (the "Rulebook").

The Rulebook like the Rules, provides that an issuer who seeks listing on the ASeM must have a minimum free float of 15 percent. However, the provisions of the Rules extend beyond the Rulebook by allowing a free float value of 50 million naira as an alternative to the 15 percent requirement.

[4] Rule 1.1.3 of the Rules.

[5] Tolosa Leticia Eva and Nicolas María Claudia (November 5th 2018). Effect of Free Float Ratio on the Behaviour of Shares Valuation in Companies Listed in Latin American Capital Market, Firm Value - Theory and Empirical Evidence, Paolo Saona Hoffmann, IntechOpen, DOI: 10.5772/intechopen.76421. Available from: <https://www.intechopen.com/books/firm-value-theory-and-empirical-evidence/effect-of-free-float-ratio-on-the-behavior-of-shares-valuation-in-companies-listed-in-latin-american>.

[6] Rule 3.0 of the Rules.

[7] Ibid.



CONCLUSION

It should be noted that whether under the Rules or the Rulebook, companies that the NSE have found to be in default of the free float requirement will be expected to carry out all the necessary requirements for regularisation or risk being delisted from the stock market.

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