Guide to Preparing for Corporate Bond Issuance in Nigeria

This Guide is posted on the SEC Nigeria web site for your comments and review. Please utilize and reference this Guide to help you prepare for Bond Issuance.

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i. Introduction

<u>Consideration</u>: <u>Are Corporate Bonds suitable for funding your Company's needs?</u>

Bonds are just one of several funding options that you can consider. But are they suitable for your business?

- What are the company's funding needs?
  - Short term? Long term?
  - Issue equity (shares)? Issue debt (bonds)? Bank Loan?
- What is its current and optimal future capital structure?
- What sources of funds are available? Are bank loans available on a longer term basis?
- What do they cost?
- What are the terms of each source?
- How do those terms and costs fit with the company's business?

Here are some general characteristics of businesses that might be suited to issuing bonds:

- Good credit quality – History of honoring debt and other obligations. Also, in Nigeria, registered as a Public Company. Whereas poor credit quality means higher returns as they are needed to compensate the investor for higher risk and therefore issuing bonds will be more expensive. In addition, because issuers with poor credit are likely to be struggling with cash flows, debt may not be a good idea because the issuer is legally required to make regular payments regardless of how well or poorly it is performing. In Nigeria, if issuing a public corporate bond, the bond must have a credit rating (by a recognized Credit Rating Agency) of Investment Grade, i.e., BBB or better.
- Relatively large size – Investors are likely to be more comfortable with large businesses that have extensive resources. However, an SME may also consider issuing a public bond or a private placement bond that still is cost efficient relative to other sources of funding, e.g., equity issue; bank loan)
- Good financial record – A profitable business is more attractive for investors. This company would also show a track record of not only making profits but having the capacity of paying off principal and interest of a bond issue.
- Public profile – An established business with a good public profile will probably find it easier to attract investors than a new, less-known business.
- Relatively stable earnings – Bonds involve legally enforceable payment obligations, regardless of whether the issuer is profitable or not. Issuers with unstable earnings risk defaulting on payments in bad earnings years which could lead to legal proceedings against it by the bondholders. However, credit enhancements may be added (at a cost

to the issuer) to make the issue a more attractive and safer investment as well as issued with a lower coupon due to the increased ability for repayment.

- Relatively low debt – Remember that debt increases financial risk. As a general rule, a business should choose a level of debt versus equity that takes advantage of leverage but does not overstep its risk acceptance level.
- Large borrowing requirement – The fixed cost of issuing bonds (e.g. prospectus, trust deed, legal and accounting advice, etc.) can be significant. Therefore small issues may not be cost effective. An alternative to a public issuance is for the company to consider a Private Placement, where costs of issuance can be quite a bit cheaper.
- Receptive to public scrutiny – Under the law and SEC regulations, an issuer making a public offer of bonds, shares or other securities must regularly report material information to the public and to the SEC.

Consideration: What Issuer Benefits May be derived from Corporate Bond Issuance?

There may be many reasons or considerations for a company to issue a bond. Some of these include:

- Less costly than receiving a bank loan, including debt service, fees, and expenses
- Funding source of debt rather than equity issuance, i.e., no dilution in ownership
- Longer term financing as compared to bank loans or issuance of commercial paper, to meet needs of company or to have a better asset/liability tenor match
- Tax Waiver (signed by President in 2010; due for adoption in 2011) putting corporate bonds on equal tax status as government bonds, for issuers and investors
- Can issue through shelf-offering (also known as a Medium Term Note program), while issuing the first tranche now to receive needed funds; and issuing subsequent tranches at a time within a 2-year period, again when funds are needed and/or when interest rates fall.
- Greater exposure/public relations for the company; can be listed for trading or quoted on a securities exchange or trading platform
- Participating in 'kick-starting' the non-government bond market of Nigeria; being a leader for others to follow; providing additional assets for Nigerian Pension Funds and Insurance Companies to invest in for more efficient asset/liability management (and possibly for other pension funds or institutional investors from other countries to invest in).

Consideration: What Risks and Disadvantages May be Encountered When Issuing a Bond?

Companies encounter various challenges when seeking funding. In issuing bonds, either through a public offering or private placement a company may encounter such risks and disadvantages that include:

- Timing of issuance (e.g., interest rate environment may rise, thus cost of funding rises)
- Fees; Issuance costs; the smaller the issuance, usually the greater percentage the costs are to size of issuance
- Initial and ongoing reporting obligations and requirements, to regulatory bodies and to bond holders
- Downgrading of credit rating, which may affect subsequent borrowings
- Low demand on issuance, thus interest paid may have to increase to satisfy investors' demands

NOTICE to ISSUERS: IT IS VERY IMPORTANT THAT YOUR FINANCIAL ADVISOR (FIRM) GUIDE THE ISSUER AS WELL AS FILE COMPLETE AND QUALITY INFORMATION TO THE SEC TO EXPEDITE THE ISSUANCE.

ii. Chapters

A. Methods of Issuance

NOTE: The SEC currently has jurisdiction over securities issued by public companies only. The following sections address a public company issuing securities either through a public offering or a private placement.

1. Public Offering: Like an offering of shares, bonds can be offered/sold to the public through an initial public offering. Requirements for a public offering are described in SEC Rule 307(A). By the time of publication of this document, the SEC may have made amendments to the requirements. An issuer should confer with its issuing house, underwriter, and/or financial advisor to determine the current requirements for a bond public offering.
2. Private Placement or "Non-Public Offerings" of Debt: A private placement of bonds is made to 50 or fewer Qualified Investors, with no publicity or advertisements. Once again, by the time of publishing this document, there may be some amendments to the SEC Private Placement regulations. Currently, however, the SEC Private Placement Rules, 89-97, do not distinguish between equities and fixed income. It is anticipated that Private Placement Rules for fixed income will be added to the SEC Rules 307 and 307 (A).

B. Disclosures

Application/Initial; Prospectus/Core Prospectus for MTN program; Private Placement Memo

NOTE: all public information and information about public securities should be posted on or accessible through the issuer's web site as well as the web site of the SEC and/or the relevant securities exchange or trading/information platform.

CONTENTS OF PROSPECTUSES FOR PUBLIC DEBT OFFERINGS

Fill in all of the blanks or provide description. If not applicable, please complete with "N/A".

A. The prospectus, initial disclosure, to include:

<u>Issuer</u>

Name:
Address:
Contact person(s) and telephone number(s):
Email address(es):

<u>Lead Issuing House</u>

Name:
Address:
Contact persons and telephone numbers:
Email address(es):

1. Terms of the Bond

- Description of Bonds:
- Principal amount:
- Denomination:
- Issue Price/Par Value:
- Tenor/Maturity Date:
- Currency of Issue:
- Coupon/Coupon payment Frequency:
- Class:
- Status of Bonds, including subordination and/or credit enhancement, describe:
- Redemption provisions (mandatory or optional), describe:
- Options, put/call, if any, describe:
- Conversion provisions, if any, describe:
- Restrictive (or protective) covenants[1], describe:

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[1] Restrictive (or Protective) Covenants protect the interests of bondholders by restricting the activities of the issuer in certain situations. These limitations include:

- Debt limits—restrictions on taking on more debt;
- Dividend payments—limitations on payment of dividends or retiring equity;

- Minimum Subscription Amount:
- Events of default, describe:
- Meetings of bondholders, describe:

2. A description of the bonds, including:
- Declaration by Issuer:
- Security/collateral, if secured:
  - Description of other enhancement, if any
  - A description of any third party agents, guarantors, insurance on the issue, etc.
- Payment of principal and coupon, dates and amount, including settlement date:
  - Amortized? Bullet? Describe:
- Coupon rates or manner of determining Coupon rates:
- Price:
- Method of Issuance:
- Form of the Bonds:
- Denomination:
- Programme or Single Issue:
- Closing date:
- Credit Rating(s); by which Credit Rating Agencies:
- Tax status:
- Listing on exchange(s), name:

3. Trust indenture and other significant contracts described:

4. Corporate authorization or Board of Directors Approval;
or shareholder resolution for bond issuance, if needed, describe:

5. A description of the risks of the bonds being issued:

6. Utilization of Net Proceeds
Table of Utilization to include:

Project Name/Title:

Amount:

Percentage:

Duration to project completion:

7. Brief Description of Projects

8. A description of the issuer (note: if the issuer has securities already listed on an exchange, only updates from the originally submitted prospectus are required, with access to the original prospectus available online, if not in hard copy) which will include:

- Limitation on liens or negative pledge (the issuer will not pledge assets to another lender, creating a class of creditor that ranks above the bondholders in the hierarchy of creditors);
- Limitation on asset dispositions;
- Limitations on merger, consolidation or sale; and/or
- Limitations on transactions with affiliates.
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- Profile of the Executive Management & key employees of the Issuer
- Description of issuer's business and industry specific information
- Major contracts
- Any legal or regulatory enforcement actions relating to the issuer; include solicitor's opinion
- Contingent Liabilities
- Key Shareholders (>5%)

9. Issuer's audited financials for the last three to five years (attach)

10. Parties to the offer:

- Issuer:
- Lead Issuing House:
  - Joint Issuing Houses:
- Trustees:
- Solicitor to the Issue:
- Solicitor to the Issuer:
- Solicitor to the Trustees:
- Auditor to the Issuer:
- Reporting Accountants:
- Stockbrokers (where applicable):
- Registrar:
- Underwriter(s), if applicable:
- Receiving Bank(s):

11. Any other pertinent information:

12. Glossary of terms/definitions:

B. Continuing Disclosure, ad hoc within two business days of event, information to be sent to SEC and Stock Exchange (if applicable), except for financials to include:
<u>Issuer</u>

Name:
Address:
Contact person, email address, and telephone number:

1. Quarterly financial statements
2. Nonpayment-related defaults;

3. Unscheduled draws on debt service reserves and/or credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
6. Change in control of issuer, e.g., issuer is acquired by or merges with another company; if there is a change in the trust deed
7. Modifications to rights of bondholders;
8. Bond calls;
9. Defeasances (i.e., debt negation without repayment; setting aside of assets for repayment of a debt without actual retirement of the debt);
10. Release, substitution, or sale of property securing repayment of the Bonds (this includes the issuer (1) incorporating a Negative Pledge Covenant and (2) an Anti-Asset Stripping Covenant restricting the disposal of more than 20% of group assets within any rolling 12-month period, unless the proceeds are either (i) re-invested in new operating assets of a similar nature or (ii) applied to pay down debt that is senior to the bonds or (iii) used to offer the bonds back at par.); and
11. Rating update resulting in a downgrade.

C. Underwriting Stand-Alone Bond vs. MTN Program (Shelf Registration)

1. A bond issuer may consider having the issue underwritten. As of March 2010, underwriting is at the discretion of the issuer. In an underwriting, the underwriter institution promises to take part or all of the shortfall bonds that are not demanded by investors. The issue may also be sub-underwritten by other parties. This helps spread underwriting risk and is especially important when an issue is too large for the underwriters.
    i. The advantages of underwriting include the following:
        - Reduces risk for the issuer by ensuring that a minimum amount of capital will be raised;
        - Ensures that the bond issue is seen as a success by the markets;
        - Helps to stimulate demand in the secondary market; and
        - The underwriter typically helps the issuer in pricing and marketing the issue.
    ii. The advantages to issuing a stand-alone bond may include:
        - May be initially cheaper and faster to issue
        - Lesser disclosure and updating requirements
    iii. Drawbacks to issuing a stand-alone bond may include:
        - New sets of documentation filed for subsequent issuances
        - No economies of scale, i.e., aggregate expenses will be higher for frequent issuers
        - More use of management's time in subsequent issuances

2. A bond issuer may also consider, along with its advisor, issuing bonds through the Book Building process. This entails no underwriting and should cost the issuer less in expenses; the issuing house(s) take no risk in taking down a shortfall of bonds, but goes to the marketplace to 'feel out' the best price and demand of the offer from institutional investors. It is common practice for the issuing house(s) to utilize a Red Herring Prospectus as a marketing tool during the Book Building process. A Red Herring or Preliminary Prospectus provides details of the offering, but is NOT in fact an offer to sell the securities and the issuing house(s) may NOT accept money for purchase; the Preliminary Prospectus will NOT have the final date of the offer, the price of the offer, or the size of the offer. Perhaps indications will be make in the prospectus, but this Preliminary/Red Herring Prospectus would NOT be approved by the SEC.
3. Medium Term Note Programs or Shelf Registration is another option for bond issuers. SEC Rule 40 (C) defines *shelf registration* as a "filing undertaken by issuers intending to access the market in the near future. It permits issuers to disclose certain information in a core disclosure document that is updated on a regular basis." The core disclosure document is valid for up to two (2) years, where supplement documents and updates have to be submitted to the SEC on a regular basis and when the issuer intends to access the market. After a core disclosure document is approved, the issuer should be able to access the market within a few days after submission of the updated, supplemental documents. Advantages of a shelf registration include (a) raising funds during various times in the following 2 years and (b) relatively quick access to the market after core documents are submitted and approved.
    i. Benefits may include:
        - Over time, can prove to be cost and time efficient for issuance and realizing funding
        - Provides flexibility in the (1) timing of the issuance and (2) structure of the notes
        - Indications are made to investors as to the commitment of the issuer accessing the capital market (possibly making subsequent issuances of tranches more readily demanded)
    ii. Disadvantages may include:
        - Higher transaction cost, e.g., legal expenses to draw up core documents
        - Initial issuance may prove to be more time consuming
        - Continuous or ongoing disclosure and updating requirements

D. Some Types of Bond Issues

1. Plain Vanilla
    - Bullet payment: structured to delay payment of interest and/or principal until maturity. This type of bond is usually a fixed coupon paying the same interest amount throughout the life of the bond, either on a yearly or semi-annual basis.
        - A 'zero coupon bond' can be thought of as a "bullet" repayment, since the bond pays no interest, is bought at a discount to par, and at maturity, pays off principal at par value.
    - Floating rate: allows the coupon rate to increase or decrease depending on how interest rates in the markets move. In this way, bondholders can be protected against interest rate movements that could devalue their bonds in times of higher interest rates.
    - Call provision: allows the issuer to repay bonds early if this is advantageous to the issuer. For example, when interest rates are falling, the issuer could repay bonds and refinance at a lower interest rate. This may be cause for the issuer to offer the bonds at a higher than normal coupon to attract investors.
    - Put provision: allows the buyer to "put" the bond to the issuer at par, thus protecting the investor with rising interest rates (and thus lowered prices). For example, when interest rates are rising, bond prices are decreasing, and the holder of the bond could "put" the bond to the issuer for payment of par value, and re-invest the sum in higher interest-rate bonds. This might be cause for the issuer to offer the bonds at a lower than normal coupon as this provides a benefit to investors.

2. ABS/MBS (securitized)
    - Security and other collateral backing: Providing security reduces the risk for investors and the cost to the issuer through a lower required yield. This is especially important where the issuer might have a poor credit rating. For example, a "B"-rated company may add credit enhancements to its bond issue, and receive a "BBB" or "A" rating on the bond. Examples of security include:
        - Real property - fixed assets, land; and
        - Collateral – shares, and bonds owned by the issuer. Bonds can be made less risky in other ways, for example:
            1. A guarantee (or insurance) provided by a third party;
            2. A bank letter of credit;
            3. Overcollateralization;
        - Revenue streams from assets

3. Convertible
    - Fixed income securities (i.e., bonds) that are convertible into equities at a certain time and at a certain determined price levels usually at the discretion of the bond holder; upon conversion, this would cause dilution of the existing equity or share-holders. A type of "delayed equity financing". An issuer could choose to issue convertible bonds to gain debt financing initially, not diluting share ownership and not diluting earnings per share, but providing some incentives to those investors in the convertible bonds for possible future share ownership…thus possibly being able to offer the bonds at a lower coupon rate (i.e., lower than straight bonds).

E. <u>Credit Ratings</u>

1. Requirements of SEC; PenCom
    - SEC: currently requires all corporate bond issues made to the public to be rated by a ratings agency registered with the SEC or by an internationally recognized ratings agency approved by the SEC; bonds issued through a public offering (not private placements) need to be rated at investment grade (i.e., 'BBB-' or above).
    - PenCom: currently revised investment guidelines for pension fund assets allow investments in 'BBB-' or higher rated bonds, either on initial offering or in secondary market trading. PenCom requires two investment grade credit ratings for pension fund investments.
2. Domestic vs. International
    - There are currently 5 licensed domestic credit rating agencies domiciled or registered in Nigeria; there are no international credit rating agencies domiciled/registered in Nigeria. Credit Ratings are offered by the credit ratings agencies at a fee. The SEC has recently amended its rules to accept ratings by international credit ratings agencies (e.g., Fitch, Standard and Poor's, Moody's) to allow them to perform necessary credit ratings on bonds issued in Nigeria.

F. Why Issue?: Alternative/Compliment to Bank Financing

1. Longer term funding- a company may need financing to build another plant for its manufacturing operations, which may take three years to build. Banks are currently capping their bank loans, generally, to maybe one year. In order to gain the tenor of loans needed, the company may seek to issue a 3-year bond in the capital market, thus meeting its financing needs. Similarly, an infrastructure bond may be issued to fund a 5 or 7 or 10 year project of a State to install or upgrade roads, build structures in the State, including buildings for government or housing or hospitals, or fund the building and operations of water treatment and electricity facilities.
2. Meet liabilities- some investors, such as pension funds or insurance companies have known liabilities at some future date, such as payments to be made to pensioners or payoffs to be made to customers; to meet these liabilities, these institutional investors demand such fixed income investments where there is principal payoff at the time of the liability being realized and interest payments during the life of the bond or else a zero coupon bond bought at a discount with principal payoff to coincide with the liability coming to realization.
3. Lock in rates; flexible rates- an issuer is fine with issuing a bond paying a fixed amount of interest per year, as its cash flows are adequate to pay off the known interest rate payments over the coming years; projects that are funded by the issuance will cover the payment of principal at the maturity of the bond. Or an issuer wants investors to be attracted to its bond issue that will meet interest rate and inflation variances, thus will issue a floating rate (coupon) bond where interest rates are adjusted semi-annually or annually based on a particular index. If interest rates rise, the coupon will rise and the issuer will be paying as well as the investors will be receiving more in interest; as interest rates decline, the coupon will be diminished and the issuer will be paying less in interest as well as the investors receiving less in interest payments.
4. Leverage – Borrowing can increase shareholder returns. Let's say you build a new factory and finance this through a mix of borrowing and equity. If you can borrow at an interest rate that is lower than the return from the factory, the return to shareholders will increase. This is called leverage. Bonds can be one method of leverage.
5. Delayed principal repayment – Compared to the typical bank loan which requires that the principal is repaid in installments, the bond principal is paid as a lump sum on maturity. A zero coupon goes even further. This type of bond is issued at a discount to its face value and pays no coupons. The net present value of the difference between the face and the issue price is the internal rate of return which

compensates investors for not getting coupons during the life of the bond with a big capital gain at maturity.

6. Flexibility – Bonds can be structured in many ways, to suit the needs of the issuer. For example, the issuer can choose how often coupons are paid, the term, whether the coupon rate is fixed or floating and the type of embedded put or call options that will benefit the investor or the issuer.

G. <u>Cost</u>

1. Fees to Market Operators and Regulators
   - Fees are generally negotiable. SEC has capped all fees for issuance to 4.3% excluding underwriting fees. SEC fee is 0.15% of amount to be raised; Nigerian Stock Exchange fee is the same. Some expected fees to pay are included below; keep in mind that although these fees are paid up front before or at issuance, to be fair, these fees should be amortized over the life of the bond, e.g., a 10-year bond paying a N1,000,000 fee to an attorney should amortize that fee over the 10 year period, i.e., at N100,000 per year. This is similar to paying yearly subscription or bank fees.
     - i. Financial Advisors/Issuing House
     - ii. Underwriter (not necessary to have underwriter)
     - iii. Attorney
     - iv. Auditor
     - v. Credit Rating Agencies
2. Coupon Pricing
   - Effects on bringing down Coupons on Corporate or State Bonds being issued:
     - i. Credit Enhancement (but must also look at cost to obtain the enhancement)
     - ii. High Credit Rating
     - iii. Futures or other hedging devices
     - iv. International Institutional Investor demand
     - v. Trading Platform with active trading in Nigeria, i.e., more liquidity in trading non-government bonds
     - vi. Market Makers for non-government bond issues, e.g., requiring MTN programs to require (at least 2?) dealers acting to make a market on each series of bonds issued
     - vii. More and greater capacity at Nigerian Credit Rating Agencies
     - viii. Inflation/Government Bond Yield Curve
     - ix. Credit Risk/Corruption Risk in Nigeria

1. If High
2. If Low

x. More knowledgeable and professional Nigerian institutional investors
xi. Bonds denominated in US Dollars or Euros

- The coupon is the interest rate the issuer will pay to bond holders on a periodic basis. If a 'zero-coupon bond' is issued, this will be issued at a discount to par value, and no interest will be paid until maturity. The coupon is relative to:
  i. Government Bonds. The government bonds form a 'yield curve' which has the tenor on the horizontal axis and the interest rate on the vertical axis. Generally speaking, corporate bonds are priced with somewhat higher interest rate coupons than on the government bonds. The longer the tenor the higher the coupon rate.
  ii. Credit Rating. Generally speaking and all other things equal, the higher the credit rating, the lower the coupon. Given that the bonds issued by the Federal Government of Nigeria (FGN) are "AAA" (in local terms; internationally, hovering around "B"), corporate bonds are generally rated "AA" or less.
  iii. Credit Enhancements. See above discussion "ABS/MBS".
  iv. Special Risks in Nigeria, e.g., Corporate Governance/Corruption Risk, Credit Risk, Liquidity Risk. These risks generally lower the credit rating, thus increasing the coupon for corporate issuers, again, all things being equal.

H. <u>Time for Issuance Approval</u>

1. How to cut time at Issuer/Financial Advisor:
   a. Submit complete information
   b. Ensure necessary approvals, e.g., AGM; Board
   c. Ensure necessary CRA rating of BBB or above
   d. If a State bond, gain the ISPO application to issue
2. How to cut time at Regulator:
   a. Do not submit piece-meal documentation
   b. Respond to questions promptly
   c. Respond to letters of deficiency promptly
3. Estimated time for SEC approval upon complete submission of quality application and documents:
   - SEC has ruled it will take no more than 6 weeks to approve a filing

    - If complete and quality documents are received at the SEC, it should take no more than 2-3 weeks for SEC approval
- Upon the approval of core documents of a Shelf Registration (good for issuances throughout a 2-year period), subsequent tranches for issuances should take only a few days at most

I. Investors for Corporate Bonds

Potential investors are broken down into 4 basic categories:

a. Domestic Institutional
b. Domestic Retail
c. International Institutional
d. International Retail

Nigeria's pension system has a built-in demand, currently running at the contribution rate of about ₦ 15 billion ($100 million) per month. This is relatively unique, in that the pension system has been developed and the PenCom, pension regulator, fully appreciates the investment potential of corporate bonds, e.g., allowing up to 35% of a pension fund portfolio to be invested in corporate bonds (as per PenCom's *Regulation on Investment of Pension Fund Assets*, December 16, 2010). Other domestic institutional investors are also likely to invest in corporate bonds, e.g., insurance companies, banks, and collective investment schemes (i.e., mutual funds). Among those investors, only the banks have really delved into corporate bond investments, so there is still good potential demand that is untapped. As the Nigerian economy grows, these domestic institutional investors will grow as well, thus demand should also grow for corporate bond investments.

It can be argued that the institutional investor category of collective investment schemes is really investing for the retail public, just as pension funds are investing for the retail public. When speaking about 'domestic retail' investors, however, it is generally accepted that this is investment made directly by retail or individual investors. This is largely an untapped market in Nigeria currently, but could be of interest by the issuer of corporate bonds if marketed well. On the international side, although investors in developed markets are looking for the smallest risks and the best returns (i.e., the risk/return ratio), international retail investors are few and far between.

Universally speaking however, corporate bond investments are made by institutions, whether domestic or international. International institutions, e.g., pension and mutual funds of developed markets, are looking to diversify portfolios while at the same time seeking to earn returns that would satisfy investors' demands. It is becoming more prevalent that international institutional investors are more prone to international investments that have shown a very good corporate governance structure and practice. Therefore, Nigerian issuers of corporate bonds may well keep this as a goal for implementation to attract international investors.

Both international and domestic investors need to keep various risks in mind before and while making the investment in Nigerian bonds. The domestic investor may consider that they are most vulnerable to credit (default) and interest rate risks, while international investors see liquidity and currency risks as their greatest areas for exposure.

J. Keys for Issuance; Needs of Nigerian Corporate Bond Market

Issuance Keys

1. Submission of complete and quality information and documentation; early response to deficiency letters
    a. Advice from the Financial Advisor is only as good as the information provided by the company. Therefore the company should provide complete and accurate information. There may be short-term benefits in providing incomplete or deceitful information, i.e., gaining advantages in the non-disclosure of unfavorable information, yet the long-term penalties will prove to be more costly, such as regulatory or legal sanctions and cost of funding in subsequent issues. The financial advisor needs to submit information to the regulator…the company needs to disclose information…on the ACT-Up principle, with Accurate information; Complete information; Timely information; and UP-to-date information.
2. Knowledge of current status of affiliated, SEC-registered market operators on application, i.e., all affiliated operators should be in good standing at the SEC, with fees paid and documentation filed at the SEC on a timely basis.
3. Utilization of proceeds on prior issuance:
    a. Intended uses met on prior funds raising
    b. Full utilization of proceeds on prior funds raising
4. No need to submit superfluous info and docs; e.g., for shelf registration, only updates on succeeding tranches
5. Common Deficiencies on Bond IPO Filings to SEC
    - Resolution of State Executive Council authorizing bond issuance lacking;
    - Copies of State Government Gazette or local by-laws authorizing bond issue lacking;
    - Copy of feasibility report on specific project to be financed lacking;
    - Ratings report by registered CRA lacking;

- Current audited accounts more than 12 months old;
- Using the Irrevocable Standing Payment Order (IPSO) as the first line charge instead of default mechanism

Needs of Nigerian Corporate Bond Market

1. A commonly accepted secondary market trading/information platform; this may include a well functioning primary dealer system (for FGNs) that include a functioning market maker system, for FGNs as well as for corporate bonds
2. Continued reductions in costs for issuance; for trading
3. More expeditious approvals of issuances, in quality of applications and in approval process (see above discussions)
4. Adoption of tax waivers for providing tax benefits for all bond issuers and investors (as of October 2011, although the tax waivers were signed by the President in March 2010, these tax waivers have not been published in the Gazette, therefore, they have not been adopted); if a company applies to the IFRS for the waivers, the IFRS has been granting these exemptions however
5. Implement a secure clearing and settlement system, e.g., cash settlement through the CBN and securities settlement through the CSCS, on a DVP basis
6. Develop a derivatives market to facilitate risk management and offering hedging instruments
7. More acceptance of private placement issuance that might cater to institutional and retail investors alike
8. SME issuance, of private placements; of public offerings
9. Further development and deepening of the Credit Rating agency activities
10. Continued improvement in legal and regulatory environment
11. Disclosure and dissemination of information using web sites
12. Full automation and electronic filing, e.g., used by registrars and SEC

iii. What to Expect: The Bond Issuance Process

Basic Requirements: This section deals mainly with issues of bonds to the public, as opposed to private placements. In general, private placements to selected institutions and other qualified investors (without a general offer to the public) are treated as a private transaction, subject to what is agreed between the parties. In contrast, issues to the public must meet strict requirements set by the SEC. Public issues must be approved beforehand by the SEC. This requires that a proposal be made to the SEC. Once the proposal is approved, key steps in the bond issue are:

- Finding a Financial Advisor/Issuing House
- Deciding on terms of the bond issue:
  - Principal amount
  - Par value
  - Tenor/Maturity
  - Coupon
  - Redemption provisions
  - Conversion provisions
  - Restrictive covenants
  - Events of default
- Deciding on the type of bonds to issue:
  - Secured or Unsecured
  - Senior or Subordinate
  - Mortgage bonds
  - Asset-backed
  - Third party credit enhancement
- Preparation of legal documents:
  - a prospectus, which provides detailed information for the benefit of investors upon which to make an investment decision; or
  - placement memorandum if a private placement;
  - indenture;
  - security or pledge agreement (possibly, if secured); and possibly
  - underwriting agreement
- Appointment of a trustee to represent the interests of the bondholders. The relationship between the trustee and issuer is governed by a document called the trust deed. A trustee is required by law and is usually a company specializing in providing trustee services.
- Appointment of a registrar to handle the administration of the bond issue. The registry function must be carried out by a third party 'unrelated' to the issuer.

- If the company is not already public, conversion to a non-private company where applicable. By definition in the CAMA, a private company cannot offer shares or bonds to the public. Therefore to carry out a public offer, a private company must convert to a non-private ("public") company.
- Credit rating (s) for the issue, needing to be investment grade. If the issuer intends to have its bond issue purchased by pension funds, as of December 2010, the issuer needs at least 2 investment-grade credit ratings.
- Appointment of underwriters and sub-underwriters, unless the book building process is selected, with prior approval from the SEC.
- Application plus necessary documents to the SEC for approval of issuance, as a one-time issue or as part of a shelf offering.
- Application for securities exchange listing. If it is decided to list the bonds on the securities exchange, application needs to be made to the securities exchange.
- Road-show to key institutions and other investors to build demand for bonds.
    - If the bond is not underwritten, instead of the road show, there would be book building, similar in that pricing of the bond would be indicated
- Pricing, determining factors include:
    - Government Bond Yield Curve/Market conditions (more stable, lower interest rate environment>>>lower yield)
    - Credit Rating (higher rating>>> lower yield)
    - Tenor (longer tenor>>>higher yield)
    - Credit Enhancements (credit enhancements>>>higher costs, but >>>lower yield)
    - Seniority of debt (higher seniority>>>lower yield)
- Running of the offer period.
- Auction process and allotment of bonds.