

INTERPRETATION GUIDELINES ON THE MINIMUM STANDARD REQUIREMENTS FOR THE OPERATIONS OF BROKERS

By the nature of their business, Brokers are high risk operators. They trade solely on clients’ assets and must ensure that their activities are conducted with fairness and integrity on behalf of their clients. It is imperative that Brokers have operating structures that are sufficiently strong to withstand the risks of their operations.

In view of the foregoing, The Exchange hereby sets forth the minimum standard requirements (Minimum Standards) for the operations of Brokers. These Minimum Standards will improve confidence in the Nigerian capital market and enhance investor protection. Moreover, the Minimum Standards establishes a benchmark for good practice below which no Broker trading using The Exchange’s facilities may fall.

The Minimum Standards address the following five broad areas:

1. Manpower and equipment;
2. Organizational structure and governance;
3. Effective processes;
4. Global competitiveness; and
5. Technology.

1. Manpower and Equipment

A. Manpower

A licensed broker is expected to have efficient human resources to see to the daily operations of the firm in order to ensure effective service delivery while controlling risk. It is essential that it employs high quality staff that should be adequately supervised as required. Appropriate supervision of quality employees is necessary to avoid exposing the firm’s business to avoidable losses and unscrupulous practices which could threaten the integrity of the market.

The following qualifications and post qualification levels of experience are recommended for the roles set out below:

Managing Director/CEO	A University degree or its equivalent, ACS, 5 years cognate experience with at least 3 years in a management position.
Chief Dealer	A University degree or its equivalent, 5 years post ACS cognate experience with at least 3 years as a trader in an authorized stockbroking firm.
Head of Operations/IT	B.Sc. degree or equivalent with 4 years working experience and additional professional qualification with at least 1 year in a management position.

Financial Controller/Administration	B.Sc. Accounting/Finance or equivalent, ACA and 4 years post ACA experience.
Internal Control/Audit	B.Sc. Accounting/Finance or equivalent, ACA and 4 years post ACA experience.
Compliance Officer	A degree in Law, Accounting or any other relevant degree, with a minimum of 4 years' experience, must have cognate experience in the capital market. The Company Secretary can also serve as compliance officer provided that he/she is versed in the operations and regulatory framework for the capital market and has completed the appropriate training prescribed by The Exchange for Compliance officers.
Risk Manager/CRO/ Internal Control Manager	B.Sc. Accounting/Finance or its equivalent, ACA, ACS or an Economist with a minimum of 4 years working experience in the financial services sector.
Sales Traders/ Client Service	Must be CIS qualified but not necessarily an authorised clerk, University degree or equivalent with a minimum of 4 years working experience.
Research Analyst/ (may not be required by firms that buy research)	B.Sc. Economics or equivalent degree in Financial Analysis, plus 4 years working experience.
Human Resources (may be outsourced to a professional services provider)	B.Sc. degree in relevant discipline or its equivalent. CIPM or other professional qualification would be an added advantage and 4 years working experience.
Company Secretary (may be outsourced to a professional services provider)	BL, LLB, with at least 4 years post call to bar experience.

B. Minimum Equipment

These have key functional attributes and are utilized by the firm for specific purposes. They include sufficient office space and other materials regularly used in offices by businesses and other organizations for smooth operations. These include small, expendable items in daily use to furniture, machines and other higher-cost equipment. The following minimum equipment items are recommended:

- (i) An accessible office with decent space and meeting rooms,
- (ii) Adequate power supply with adequate backup,
- (iii) Photocopying machine/scanner,
- (iv) Decent ambience, including table and chairs for staff and clients,
- (v) Fire proof cabinets and safe,
- (vi) Desk telephone and/or dedicated GSM line and
- (vii) Operational Vehicle.

2. Organizational Structure and Governance

An organizational structure is the foundation on which standard operating procedures and routines rest within a firm. The structure should determine how the roles, power and responsibilities are assigned, controlled, and coordinated, and how information flows between the different levels of management and between management and staff. The organizational structure is influenced by the objectives and strategies of the firm and is manifested in the operations and performance of the firm. The Board of a Broker firm must consist of a minimum of 5 members.

A. Requirements for Non-Executive Directors

Without prejudice to the provisions of the Code of Corporate Governance, candidates must possess:

- A first degree or its equivalent in any discipline;
- Proven skills and competencies in their fields;
- Knowledge of the operations of the capital market and relevant laws and regulations guiding the financial services industry;
- Ability to make meaningful contributions to board deliberations.; and

Non-Executive Directors shall, in addition, be required to:

- Undergo directors' training at the firms expense, aimed at acquiring or having the prerequisite knowledge of their responsibilities and duties as non-executive directors;
- Provide three reference letters from individuals of reputable standing in the country.

In considering nominees with limited industry experience, the NSE shall take into account the following:

- I. The size, scope and complexity of the operations of the firm;
- II. The relevant experience and qualifications of other Board members;
- III. The existence and number of Independent Directors on the Board;
- IV. An assurance that the proposed director(s) would be exposed to accelerated training over a short period of time;
- V. Assignment of responsibilities commensurate with their experiences.

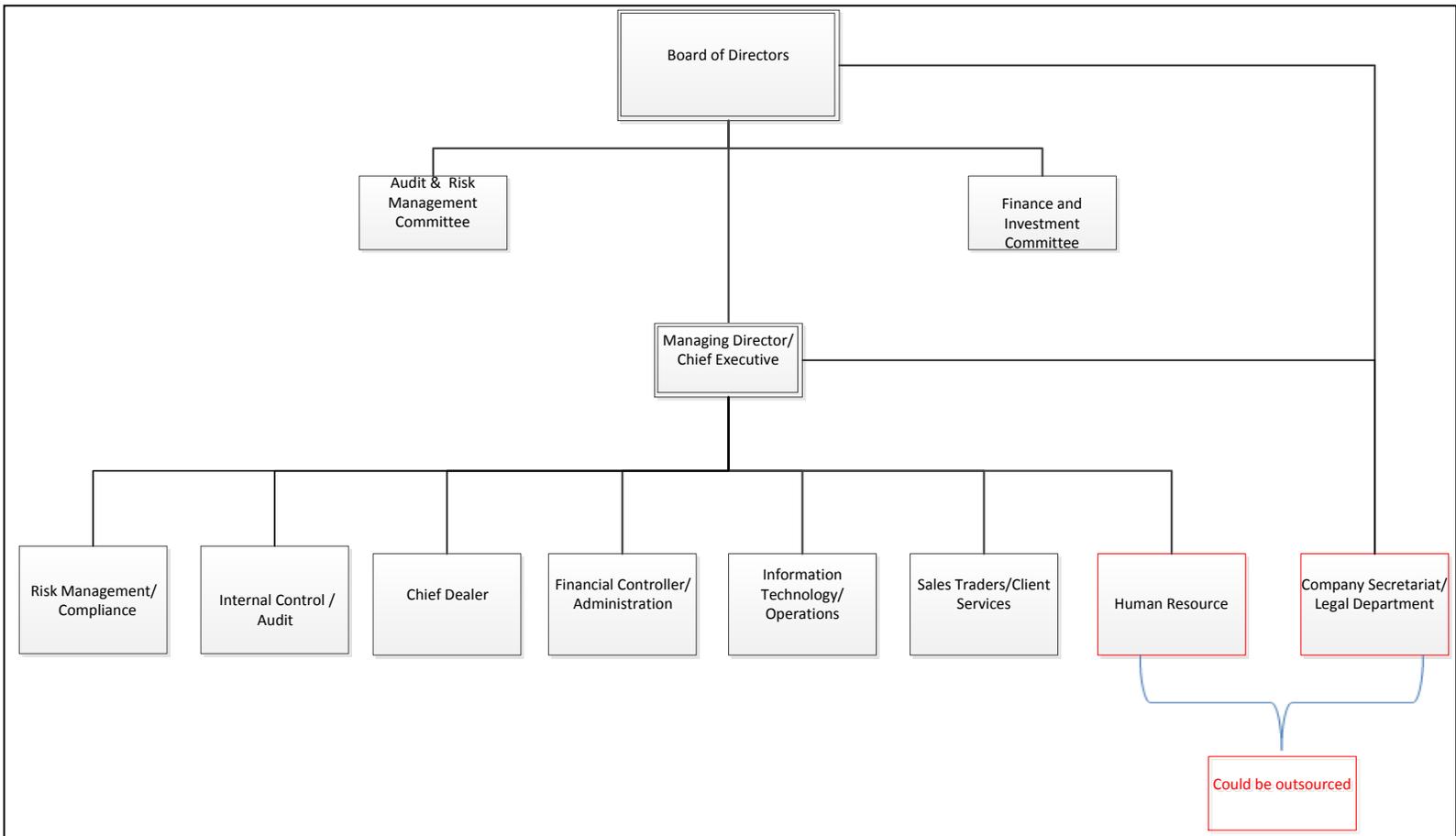


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Notwithstanding the requirements stated above, the NSE may at its discretion, consider and approve the appointments of candidates under special circumstances.

It should be noted in addition, that the appointment of members of the Board of Directors must be approved by the Securities and Exchange Commission and The Exchange.

A recommended sample Organogram of a broker is as shown below:



A Broker’s work functions should include the following key departments in order to secure effective control and management:

- I. Finance & Administration,
- II. Risk Management and Compliance,
- III. Information Technology/ Operations,
- IV. Internal Control/Audit,
- V. Sales Traders/Client Service,
- VI. Human Resources (Could be outsourced),
- VII. Company Secretariat/ Legal Adviser (Could be outsourced).

B. Committees

Committees assist the Board in carrying out its functions and ensure that there is independent oversight of internal control and risk management. Each committee's terms of reference should set out clearly what the committee is to do, stating whether it is to take decisions or merely make recommendations to the Board. In line with good corporate governance, the Board of Directors of firms licensed as brokers are advised to establish the following minimum number of committees:

1. Finance and Investment Committee; and
2. Audit and Risk Management Committee.

It should be noted in addition, that the appointment of members of the Board of Directors must be approved by the Securities and Exchange Commission and The Exchange.

3. Effective Processes

Business processes cut across organizational and functional boundaries. As a result, effective business processes are best accomplished through the involvement of cross-functional teams of individuals who actually work in the system and know it first-hand. For businesses to succeed having the right strategy is critical; and effective execution assists to move the business in the right direction towards achieving its set goals.

The recommended process and policy documents to be adopted and maintained include the following:

- (i) articulated business plan and strategy,
- (ii) investment policy,
- (iii) risk management policy,
- (iv) compliance manual,
- (v) anti-money laundering/ counter terrorist financing manual,
- (vi) operational manual and standard operational procedure,
- (vii) IT policy,
- (viii) Best Execution Policy,
- (ix) Surveillance Model,¹
- (x) information security, business continuity and back-up arrangement,
- (xi) human resources and succession planning policy,
- (xii) ethics and conduct of business policy,
- (xiii) finance and accounts,
- (xiv) life insurance policy,
- (xv) pension plan policy and
- (xvi) property insurance (e.g. building, IT equipment, furniture, etc.)

¹ *'Dealing Members are required to have an effective surveillance model that oversees their trading activities for effective monitoring and oversight'*

4. Global Competitiveness

Globalization, trade liberalization and interconnectivity, ease and efficiency of movement of capital by investors across different markets; and rapid advancement in information systems and communications technology have resulted in stronger market competition globally. A Broker’s success and going concern ability is increasingly dependent on its global competitiveness in terms of using, adopting and maintaining the following tools and practices to support its business:

- Global best practice i.e. the ability the continuously benchmark and conform with internationally recognized business standards and trends,
- Ability to attract and retain best in class Human Capital for its operations,
- Adoption of high Ethical standards and a Compliance culture,
- Efficient service delivery for its customers and business partners,
- Twenty first century technology in its operations.

5. Technology

The operational environment in today’s capital market is chiefly driven by modern technology. It is important that operators embrace modern technology and upgrade their facilities in order to become or remain locally and internationally competitive and to enhance transparency and the overall experience of investors doing business in the Nigerian Capital Market. The following minimum technology requirements are recommended:

Baseline IT requirements

Technical	Support Services
Hardware	Business Continuity
Networks	Documentation
Operating Systems	Change Management
Applications	Risk Management
Information Security	Service Capacity, Availability and Improvements
Telephone recording applications	On boarding of all clients on X-Alert

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Biometric Technology for KYC	Bill generation for services rendered
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ITEM	DESCRIPTION
Hardware	<ul style="list-style-type: none"> Hardware must have sufficient capacity and resilience to support the Business peak load requirements. Uninterruptable power solution should be in place during core business hours to avoid service disruption.
Networks	<ul style="list-style-type: none"> Website and online services must have sufficient bandwidth and redundancy to support customer and business requirements. Security is paramount. Implemented to best practice.
Operating System	<ul style="list-style-type: none"> Operating system must be kept up to date in terms of patch updates and should be a version currently supported by the software provider. Licensed operating system must be used by Firms and not pirated software.
Information Security	<ul style="list-style-type: none"> Firewall must be installed to protect the network. Password protection and enforcement of complex password across board. Firm must have an email and website domain name. Regular testing of security perimeter and internal network by professionals. Up to date malware protection software and processes. On-going staff education on Information Security ethics. Access should be provided on a need to know basis.
Business Continuity	<ul style="list-style-type: none"> Daily Backups with offsite storage. Up to date business continuity plan, signed up by the business Executives and tested at least twice a year.
Documentation	<ul style="list-style-type: none"> Ensure up to date detail documentation of all activities and processes. Critical services and applications must have their standard operating procedures and workflows outlined.
Change Management	<ul style="list-style-type: none"> All changes to the technology systems must be documented, tested and approved by appropriate senior management staff via a change control system that is auditable before implementation to ensure that availability risks are minimized. Risks associated with any changes must be fully understood and a rollback plan detailed and where possible and tested before changes are implemented. This should also include new releases and updates.
Risk Management	<ul style="list-style-type: none"> Firm must have a risk management process in place and undertake regular risk assessment programmes. Operational, Credit, Market risk (including position limits) and Information risks must be fully identified and addressed, among others.

