

## **1. MARKET MAKING**

### **1.1 What is Market Making?**

Market Making is the process whereby a broker-dealer who has been registered as such, holds himself out to provide continuous two-way quotes (comprising of buy and sell prices and sizes) to the market for the securities that they make markets on during the trading day.

### **1.2 Who is a Market Maker?**

A Market Maker is a broker dealer licensed to execute and maintain firm bids and offer according to the rules of the Exchange.

### **1.3 What is NBBO?**

National Best Bid Offer is the best bid and best offered price available in a security throughout Nigeria.

### **1.4 When did the supplementary market maker programme commence?**

The supplemental market making programme commenced at the end of the primary market making roll-out period, in April 2013.

### **1.5 How were the market making securities baskets allocated?**

The Exchange conducted a comprehensive selection process based on certain criteria:

- Compliance history
- Past trading performance
- Financial capability
- Technology and business readiness

### **1.6 Can Market Makers swap securities?**

Securities can only be swapped with the NSE's consent under defined conditions. For example, where the market maker has a potential conflict of interest because of an existing relationship with the allocated company.

**1.7 What Securities are in the Market Makers Baskets?**

<b>S/N</b>	<b>Primary Market Makers</b>	<b>Securities</b>
1	Capital Bancorp	P Z CUSSONS NIGERIA PLC U B A PLC ACCESS BANK PLC OANDO PLC 7- UP BOTTLING COMP. PLC UNITY BANK PLC NIGERIAN BAGS MANUFACTURING CO PLC PRESCO PLC ABRICO PLC REGENCY ALLIANCE INSURANCE CO PLC OASIS INSURANCE PLC EKOCORP PLC DN TYRE & RUBBER PLC JOHN HOLT PLC ROYAL EXCHANGE PLC CRUSADER ( NIG) PLC COURTEVILLE INVESTMENTS PLC INTERLINKED TECHNOLOGIES PLC STUDIO PRESS ( NIG) PLC HALLMARK PAPER PRODUCTS PLC
2	CSL Stockbrokers	STANBIC IBTC BABK PLC ECOBANK TRANSACTIONAL INCORPORATED LAFARGE WAPCO PLC MRS OIL NIGERIA PLC GLAXO SMITHKLINE CONSUMER NIG. PLC INTERNATIONAL BREWERIES PLC B. O. C. GASES PLC TOURIST COMPANY OF NIGERIA PLC STACO INSURANCE PLC DEAP CAPITAL MANAGEMENT & TRUST PLC LINKAGE ASSURANCE PLC MTI PLC CHAMS PLC BERGER PAINTS PLC G CAPP A PLC UNION DIAGNOSTIC & CLINICAL SERVICES PLC TRIPPLE GEE AND COMPANY PLC

		<p>SIM CAPITAL ALLIANCE VALUE FUND  P S MANDRIDES &amp; CO PLC  GOLDEN GUINEA BREW. PLC  W.A. ALUM. PRODUCT PLC</p>
3	ESS/Dunn Loren Merrifield	<p>GUNNESS NIG PLC  JULIUS BERGER NIG. PLC  MOBIL OIL NIG PLC  DANGOTE FLOUR MILLS PLC  UNIVERSAL INSURANCE COMPANY PLC  WEMA BANK PLC  BETA GLASS CO PLC  ABBEY BUILDING SOCIETY PLC  CORNERSTONE INSURANCE COMPANY PLC  CAPITAL OIL PLC  MULTI- TREX INTEGRATED FOODS PLC  FIDSON HEALTHCARE PLC  PORTLAND PAINTS &amp; PRODUCTS NIGERIA  PLC  RED STAR EXPRESS PLC  ACADEMY PRESS PLC  VONE PRODUCTS PLC  ASSOCIATED BUS COMPANY PLC  GRIEF NIGERIAN PLC  THOMAS WYATT NIG. PLC  ABPLAST PRODUCTS PLC</p>
4	FBN Securities	<p>ZENITH BANK PLC  SKYE BANK PLC  ASHAKA CEM PLC  UNITY KAPITAL ASSURANCE PLC  CEMENT CO. OF NORTH. NIG PLC  IKEJA HOTEL PLC  VITAFOAM NIG PLC  CHELLARMS PLC  ASO SAVINGS AND LOANS PLC  NIGER INSURANCE CO PLC  GREAT NIGERIAN INSURANCE PLC  TANTALIZERS PLC  UNITED NIG. TEXTILE PLC  NIGERIAN WIRE AND CABLE PLC  UTC NIG. PLC  JULI PLC  IPWA PLC  UNION VENTURES &amp; PET. PLC</p>

		<p>RAK UNITY PET. COMP. PLC AUSTIN LAZ</p>
5	Future View Securities	<p>DANGOTE CEMENT PLC CONOIL PLC UACN PROPERTY DEVELOPMENT CO LIMITED STERLING BANK PLC CUSTODIAN AND ALLIED INSURANCE PLC GUARANTY TRUST ASSURANCE PLC CONTINENTAL REINSURANCE PLC CONSOLIDATED HALLMARK INSURANCE PLC SOVEREIGN TRUST INSURANCE PLC GOLDLINK INSURANCE PLC NIGERIAN ENAMELWARE PLC MULTIVERSE PLC AFROMEDIA PLC SKYE SHELTER FUND PLC NPF MICROFINANCE BANK PLC BECO PETROLUEM PRODUCT PLC NIGERIA – GERMAN CHEMICAL PLC ADSWITCH PLC MCNICHOLS PLC</p>
6	Greenwich Securities	<p>FIRST BANK PLC CADBURY NIGERIA PLC PINNACLE POINT GROUP PLC INVESTMENT AND ALLIED ASSURANCE CAPITAL HOTEL PLC CAP PLC NIGERIAN AVIATION HANDLING CO. PLC JAPPAUL OIL &amp; MARITIME SERVICES PLC N.NIG. FLOUR MILLS PLC SARTCOMMS PLC LONGMAN NIGERIA PLC PRESTIGE ASSURANCE CO PLC R.T. BRISCOE PLC C &amp; I LEASING PLC MORISON INDUSTRIES PLC AFRICAN PAINT ( NIGERA ) PLC DN MEYER PLC POLY PRODUCTS ( NIG) PLC NIGERIA WIRE IND. PLC UDEOFSON GARMENT FACT NIG. PLC</p>
7	Stanbic IBTC	<p>NESTLE NIGERIA PLC. FIRST CITY MONUMENT BANK PLC</p>

		DIAMOND BANK PLC E- TRANZACT INTERNATIONAL PLC ETERNA OIL & GAS PLC A.G. LEVENTIS NIGERIA PLC MITECH COMMUNICATIONS PLC EQUITY ASSURANCE PLC SCOA NIG. PLC N.E.M. INSURANCE CO (NIG) PLC NIGERIAN ROPES PLC LAW UNION AND ROCK INS. PLC NEIMETH INTERNATIONAL PHAR. PLC UNIC INSURANCE PLC FIRST ALUMINIUM NIGERIA PLC TRANS- NATIONWIDE EXPRESS PLC LIVESTOCK FEEDS PLC ELLAH LAKES PLC W A GLASS IND PLC
8	Renaissance Capital	FLOUR MILLS NIG. PLC UNILEVER NIGERIA PLC TOTAL NIGERIA PLC DANGOTE SUGAR REFINERY PLC FIDELITY BANK PLC FORTE OIL PLC RESORT SAVINGS & LOANS PLC SECURE ELECTRONIC TECHNOLOGY PLC AVON CROWNCAPS & CONTAINERS CHAMPION BREW. PLC AFROIL PLC COSTAIN ( W A) PLC UNIVERSITY PRESS PLC OMATECK VENTURES PLC BIG TREAT PLC CUTIX PLC EVANS MEDICAL PLC LENNARDS (NIG) PLC CONFIDENCE INSURANCE PLC STOCKVIS NIG. PLC
9	Vetiva	NIGERIAN BREWERIES PLC UNION BANK NIG. PLC HONEYWELL FLOUR MILL PLC HIS PLC NATIONAL SALT CO. NIG. PLC OKOMU OIL PLAM PLC

		DAAR COMMUNICATIONS PLC MUTUAL BENEFITS ASSURANCE PLC UNION HOMES SAVINGS AND LOANS PLC ALUMINIUM EXTRUSION IND. PLC MAY & BAKER NIGERIA PLC NIGERA ENERGY SECTOR FUND JOS INT. BREWERIES PLC FTN COCOA PROCESSORS PLC NCR ( NIGERIA) PLC PHARMA- DEKO PLC ROKANA INDUSTRIES PLC NIG. SEW. MACH. MAN. CO. PLC AFRIK PHARMACEUTICALS PLC
10	WSTC	GUARANTY TRUST BANK PLC UACN PLC ECOBANK NIGERIA PLC TRANSATIONAL CORPORATION OF NIG. PLC UNION HOMES REA ESTATE INV. TRUST ( REIT) AFRICAN INSURANCE PLC AIICO INSURANCE PLC STANDARD ALLIANCE INSURANCE PLC LASACO ASSURANCE PLC INTERNATIONAL ENERGY INSURANCE COMPANY GUINEA INSURANCE PLC PREMIER PAINTS PLC UNION DICON SALT PLC AIRLINE SERVICES AND LOGISTICS PLC PREMIER BREWERIES PLC ALUMACO PLC PAINTS AND COATINGS MAN PLC ROADS NIG PLC SMART PRODUCTS NIGERIA PLC ANINO INTERNATIONAL PLC

**1.8 Should the market maker always be available to buy or sell all Available orders?**

No. A market maker will only be available to buy or sell when there is no natural contra trading interest, or when the market maker wants to augment the size of existing natural contra trading interest.

**1.9 What are Opening and Closing auction?**

The Opening auction occurs every day at the end of the pre-open adjust session on the NSE. It is a process through which orders accumulated in the order book during pre-open are matched in such a way that the highest volume that can be traded at a single price is matched. The opening

auction establishes the opening price, also called the equilibrium or market clearing price, of a security just before the continuous trading session commences for the day. The closing auction is a similar process as the opening auction, but is used to establish the closing price of the security for the day. It takes into consideration existing orders in the order book during the continuous trading session.

**1.10 Will Market Maker trades be marked in the system?**

No, market makers trade will not be marked in the system.

**1.11 Is the Market Maker a Block Buyer/Seller of the securities he is making markets in?**

No. The Market Maker is only expected to meet his obligations.

**1.12 How are the listed Companies protected?**

The primary reason for Market Making is to provide liquidity for the shares of a listed company. The Exchange will continue to enforce its post listings requirements as regards free float and will not tolerate any hostile take-over of the company by the Market Maker. The company stands to benefit a lot from the market making program.

**1.13 What is the minimum/maximum quote size a market maker can put on the board on a daily basis?**

None. There is no minimum or maximum quote size that the Exchange has prescribed at this time.

**1.14 What is the maximum spread a market maker can quote?**

None, except that market makers are expected to quote within the 10% limit up/ limit down circuit breakers for securities they are covering for now.

**1.15 What is the minimum lot size required to change the price of a stock with market making?**

50,000 units for regularly priced stocks (less than N100 in the last four out of six months) out of , and 10,000 units for high priced stocks (equal to or greater than N100 in the last four out of six months).

## **2. SECURITIES LENDING**

### **2.1 What is Securities Lending?**

Securities lending describes the market practice by which, for a fee, securities are transferred temporarily from one party, the lender, to another, the borrower who collateralizes the loan and is obliged to return them either on demand or at the end of any agreed term.

### **2.2 As an investor, what will I be paid and when?**

You will normally be paid monthly for the securities you have lent. The size and composition of your portfolio, together with the frequency of trading may all influence the ability of your securities to be lent out - demand may also depend on market factors. You should get an estimate of what the annual income is likely to be after any charges applied by your custodian/agent.

### **2.3 What happens if the value of the collateral goes down?**

The value of your securities on loan and the value of the collateral are compared on a daily basis and an adjustment is made to ensure that you achieve your collateral management objectives. Your agent will do this for you.

### **2.4 What happens if I sell securities that are out on loan?**

As long as you tell your agent within the agreed timescale, the securities should be returned in time to settle the sale.

### **2.5 How will I know what securities are on loan?**

Your agent will provide you the full details as agreed frequency (which can be daily), usually electronically. You will also receive monthly statement of your earnings.

### **2.6 What do I do if I want to vote?**

You cannot vote on shares that are out on loan. You must therefore recall them in time to be registered to vote. Ensure that your voting policies are understood by all parties and that you are aware of and comply with your agent's cut-off times for instructions.

### **2.7 What happens if the borrower goes burst?**

The legal agreement allows you to instruct your agent to realize the collateral immediately to enable you to buy back the stock you have lent.

### **2.8 What is cash collateral?**

Lenders may accept cash in an agreed currency as collateral for their loans. Cash collateral is however quite different from non-cash collateral (such as shares or government bonds) as the lender must pay the borrower interest on the cash collateral for the period it is held. If you take



cash collateral you will need to invest the cash to generate enough interest to repay the borrower.

In most cases your agent will manage this process (known as cash collateral reinvestment) for you. It is essential that you understand and agree the risks of these investments.

### **2.9 How do I get my dividends?**

The borrower will pay you the same amount as you would have received, if the stock had not been lent. You should establish whether this will be on due date or when received from borrower. This payment is in the form of a manufactured dividend and has tax consequences depending on the lenders' tax status.

## **3. SHORT SELLING**

### **3.1 What is Short Selling?**

Short selling involves the selling of a security that the seller does not own, or any sale that is completed by the delivery of a security borrowed by the seller. Short selling is a legitimate trading strategy on the floor of the Nigerian Stock Exchange (NSE) provided the security has been borrowed and in the account of the seller prior to initiating a trade on the security. Market Makers can however engage in covered short selling activities, which require that a bona-fide agreement to borrow a security is in place with an authorized securities lender prior to selling short. Naked short selling is banned for all market participants on the floor of the NSE. Short sellers assume the risk that they will be able to buy the stock at a more favourable price than the price at which they sold short.

### **3.2 What is Naked Short Selling?**

The practice of selling shares you do not own without borrowing, or making arrangements to borrow the shares.

### **3.3 Can Every Broker Dealer Short Sell?**

Yes, all Broker Dealers can Short Sell. However, they are prohibited from naked short selling.

### **3.4 What is Covered Short Selling?**

A Dealing Member may not accept a short sale order in any security from another person, or effect a short sale in any equity security for its own account, unless the Dealing Member has borrowed the security, or entered into a bona-fide arrangement to borrow the security which will be delivered on the date of delivery. Covered short selling is the act of selling securities that you have borrowed or entered into a bonafide arrangement to borrow.

### **3.5 What are the Consequences for Naked Short selling?**

The penalty for naked short selling depends on the degree of default:

- 10% of the value of transaction
- Suspension
- License / Privileges revoked

**3.6 Will orders that have been Short Sold be marked in the system?**

All orders for short sale must be marked "short sale."