



RULES AND REGULATIONS GOVERNING DEALING MEMBERS

RULES FOR REGISTRATION AS A DEALING MEMBER OF THE NIGERIAN STOCK EXCHANGE¹

SECTION A: ACQUIRING AND MAINTAINING A DEALING MEMBERSHIP LICENCE

1.0 Application Procedure

- 1.1 Any Entity that wishes to be licensed as a Dealing Member of The Nigerian Stock Exchange (The Exchange) shall and be duly licensed by The Exchange in accordance with the relevant laws including the Investment and Securities Act 2007, the Securities and Exchange Commission Rules and Regulations Pursuant to the Investment and Securities Act (SEC Rules), Rules and Regulations Governing Exchange Dealing Members (Rules) and other relevant Rules and Regulation governing the capital market;
- 1.2. Application for a license as a Dealing Member to transact business as a stockbroker shall be made in the prescribed manner as determined by The Exchange;
- 1.3. Application for a license shall be made to the Council of The Exchange;
- 1.4. After meeting the requirements for the grant of a Dealing Member license, an Approval-In-Principle (AIP) will be granted to the applicant, and this shall be valid for six (6) months only.
- 1.5. Upon fulfilling the requirements for commencement of operations as a Dealing Member, a Dealing Membership License will be granted.

¹ **Rule Making History**

1. Rules and Adjudication Committee of Council approved draft Rules on 22 May 2013 for submission to Council
2. Council approved draft Rules on 30 June 2013 for submission to the Securities and Exchange Commission (SEC)
3. Draft Rules submitted to SEC for approval on 4 June 2013
4. Attended meeting with Rules Committee of SEC regarding draft Rules on 2 and 3 July 2013
5. Received SEC's comments on the draft Rules on 17 July 2013
6. Forwarded revised Rules to SEC for approval on 28 August 2013
7. Received SEC approval on 22 November 2013.

2.0 Requirements for Granting an Approval-In-Principle

- 2.1. Any organization applying for a Dealing Membership License of The Exchange shall submit evidence that the company:
 - 2.1.1 is a duly incorporated limited liability company in Nigeria under the Companies and Allied Matters Act 1990;
 - 2.1.2 is not formed to engage in any business other than trading in securities;
 - 2.1.3 has the professional and technical capacity to manage the business of securities trading;
 - 2.1.4 possesses appropriate Information and Communication Technology that can adequately support online real-time transactions in addition to keeping proper accounting records;
- 2.2 The application of the prospective Dealing Firm shall be accompanied by:
 - 2.2.1 A non-refundable application fee of ₦500,000.00 (Five Hundred Thousand Naira) in bank draft payable to The Nigerian Stock Exchange and marked “Application Fee”;
 - 2.2.2 Names, addresses (physical and electronic) and telephone numbers of the person(s) to whom enquiries may be referred;
 - 2.2.3 Address of the applicant’s registered office and proposed Head Office, if different from registered office;
 - 2.2.4 Attestation that the applicant or its subscribers, directors or officers have never mismanaged, either fully or partially, any fund and has not been subject of an involuntary liquidation proceedings or the delisting of a company;
 - 2.2.5 Police clearance and Credit Check Reports for each promoter and director of the Dealing Firm.

3.0 Additional Documents to be Submitted

- 3.1. The following documents must be submitted along with the application for a Dealing Membership License;
 - 3.1.1 A Corporate Affairs Commission (CAC) certified true copy of the Memorandum and Articles of Association of the applicant company which must contain, amongst others, the following provisions:



- i. The sole object being to conduct the business of securities trading on
 - ii. Limitation on the issuance of any un-issued share capital, rights issue, Issuing preference shares or debentures of the applicant company
 - iii. the policies of the Board meetings , noting that the Board will meet not less than 4 (four) times a year;
- 3.1.2 Certified true copies of its Certificate of Incorporation, Forms CAC 2 (Returns of Allotment of Shares), CAC 7 (Particulars of Directors) and CAC 3 (Notice of Situation/Change of Registered Office);
- 3.1.3 For companies that have operated for more than eighteen months, the latest audited accounts and management letter issued by an Audit firm duly registered by SEC; and a Statement of Affairs for companies that have operated for less than one year;
- 3.1.4 Feasibility Report/Business Plan which shall contain amongst others, the Business Strategy and Objectives of the applicant company stating the long term objectives of the company, services to be rendered, business strategy(ies), projected profit growth, investment objectives and implementation plan, risk management framework of the firm and internal controls;
- 3.1.5 Ownership structure of the applicant company in a tabular format showing the names, addresses/contact details, profession/business of investors, number of shares held and percentage shareholding. Copies of the Bio-data/resume of investors should also be attached;
- ❖ **Note that a fitness and propriety test of the investors will be carried out by The Exchange to ascertain investors' status.**
- 3.1.6 List of investors with more than 5% (five) percent shareholding in the applicant company;
- 3.1.7 Where the applicant company has corporate entities as investors, the following documents of the corporate shareholder(s) must be submitted:
- i. CAC certified true copy of the Memorandum and Article of Association;



- ii. Copy of the Certificate of Incorporation and certified true copies of Forms CAC 2 and CAC 7;
 - iii. Duly signed and sealed Board Resolution approving the company's decision to invest in equity shares of the applicant company;
 - iv. Names and current addresses (Business and Residential) of Investors/directors and their related companies, if any;
 - v. Where the company has operated for more than eighteen months, latest audited accounts and other reports of the company;
 - vi. Where the company has operated for less than eighteen months, Statement of Affairs and other reports of the companies.
- 3.1.8 Undertaking by the Board and Management of the applicant company that the applicant company will be adequately capitalized for the volume of its business at all times;
- 3.1.9 Organizational structure of the applicant company showing functional units and reporting relationships;
- 3.1.10 Where the applicant company will operate a branch network, details of policy on branch expansion indicating policy objectives, proposed locations;
- 3.1.11 Undertaking that the branches will be managed by a Chartered Stockbroker registered by the Commission
- 3.1.12 Three (3) Year financial projections including Income Statement, Statement of Financial position, Cash Flow Statement and underlying assumptions, or Statement of Affairs for newly incorporated entities;
- 3.1.13 Structure of Board of directors, including the relevant committees, senior management, and internal control systems. The following shall also be specified:
- i. Criteria for selecting Board members;
 - ii. Roles and responsibilities of the Board and its relevant Committees;



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- iii. The full names, addresses and detailed curriculum vitae outlining the relevant qualification and experience of each director of the applicant company including his directorship of other companies for the past ten years (if any);
- iv. Evidence that the proposed Chief Executive Officer has consented to his appointment and is an Authorized Clerk of The Exchange of not less than 5years experience;
- v. Policy on succession plan for key officers;
- vi. Attestation by each of the members of the Board of directors and top management that he/she has never:
 - a. Compounded his/her debt, had a judgment debt, or been involved in any fraud;
 - b. Been indicted by any commission of inquiry;
 - c. Been refused membership of or expelled from a professional body or association;
 - d. Been convicted by any court of law or is under any pending criminal prosecution;
 - e. Been disqualified under any law in Nigeria from acting in that capacity; and
 - f. Been a member of or managed a company that was involuntarily liquidated or delisted from the official list of The Exchange.

❖ **Note that the Board of Directors and top management may be invited to attend interviews at The Exchange.**

3.2 Police Clearance Certificate for all key staff and back office operation staff of the applicant company.

4.0 Minimum Capital Requirement

The Applicant Company shall submit evidence of its minimum paid up capital as prescribed by SEC from time to time to operate its business model in the prescribed percentage holding ratio of liquid and stock assets. Capital shall be in form of:

- i. Liquid assets represented in cash which shall be shown by way of cash deposit bank statement(s) to ascertain bank balances within the period;
- ii. Stock assets represented by stocks shall be shown by way of a statement from the Central Securities Clearing System Limited (CSCS);
- iii. A valuation of the fixed and other assets held in the name of the applicant company subject to the provisions of the SEC.

5.0 Approval-In-Principle

5.1. An Approval-In-Principle (AIP) will be granted to an Applicant Company where upon:

- i. an evaluation of its application, documents submitted in support of its application; and
- ii. an interview of its Investors, members of the Board of Directors and top management

The Exchange is of the opinion that the Applicant Company has successfully met the requirements set forth above.

5.2. An AIP will be valid for a period of 6 (six months) during which time the Applicant Company shall be expected to put in place all the requirements for the commencement of operation.

5.3. Where a firm has been granted an AIP and has not met the requirements for the commencement of operations within 6 (six) months of the grant, the Exchange shall grant an extension of no more than 3 months after which the AIP can be revoked.

5.4. If after the period granted applicant is unable to meet the requirements for the commencement of operation its application shall be revoked.

- 5.5 An AIP will be converted to a full Dealing Membership License only when The Exchange has conducted a Certification Inspection and the firm proves that it has met all the requirements set below for Commencement of Operations.

SECTION B: COMMENCEMENT REQUIREMENTS

6.0 Requirements for Commencement of Operations

Where the applicant is of the opinion that it has within the stipulated time meet the requirements for commencement of operations, it should apply in writing to The Exchange for a date to conduct a Certification Inspection.

- 6.1. The company shall at the Inspection provide the following:

6.1.1. Proof of payment of the following fees

- i. ₦15,000,000 Dealing Membership License;
- ii. ₦1,000, 000 contribution to Investor Protection Fund;
- iii. ₦1,800,000 ATS Fee;
- iv. ₦ 100,000 Trade Guarantee Fund (CSCS);
- v. ₦ 25,000 CSCS Eligibility Fee.

6.1.2. Copies of the share certificate issued to each investor or evidence of share ownership

6.1.3. Manual of operations;

6.1.4. Minutes of pre-commencement Board Meeting;

6.1.5. A list of all –

- i. Systems to be used in the delivery of the services provided by the firm, together with a description of their functionality, version number, support contracts and training offered to staff to ensure competent use;
- ii. A technical infrastructure diagram detailing the information technology environment of the firm;



- iii. The documented Information Security policies and processes to ensure compliance;
 - iv. The Business Continuity Plan, together with schedules for testing the adequacy and appropriateness of the plan, including power failover systems;
 - vi. Backups of critical systems, their schedule and off-site location;
 - vii. Any other requirement as may be prescribed by the NSE
- 6.1.6. Copies of letters of offer and acceptance of employment in respect of Chief Executive Officer, Chief Compliance Officer, Chief Finance Officer, Chief Risk Officer and Head of Client Services;
- 6.1.7. Copy of letter of registration of the Chief Compliance Officer (CCO) from SEC in accordance with Article 168(b) of the SEC Rules and Regulations and evidence that the CCO has fully gone through the Exchanges learning program for Compliance Officers;
- 6.1.8. Undertaking by each of the members of the Board and the top management to maintain high ethical standards professionalism, fairness in its operations and exercise due diligence and care in their conduct and avoid any conflict of interest at all times;
- 6.1.9. Undertaking by each of the members of the Board and the top management that the Dealing Member shall not engage in any business other than the management of stocks and shares at all times;
- 6.1.10. Undertaking by each of the members of the top management to ensure that the Dealing Member shall keep and maintain proper books and records at all times;
- 6.1.11. Attestation of willingness and capacity on the part of the Dealing Member Firms to comply with the provisions of the ISA, SEC Rules and Regulations, The NSE Rules and Regulations and other applicable regulations;
- 6.1.12. Undertaking by each member of the Board and the top management of the Dealing Member Firm to be individually and jointly liable for every loss incurred by the company;
- 6.1.13. Evidence of Memorandum of Understanding with another stock-broking firm relating to booth sharing;

- 6.1.14. List of company's assets (An asset register must disclose cost, name of supplier, date of purchase, location, identification number, rate of depreciation and net book value);
- 6.1.15. Sample of account opening forms which shall include but not limited to the following Know Your Client (KYC)/Client Due Diligence (CDD) requirements in accordance with the relevant legislations in force from time to time:
- i. Recent passport photograph;
 - ii. Means of Identification via:
 - a. Copy of data page of passport, or
 - b. Copy of Driver's License, or
 - c. Copy of National Identity Card;
 - iii. Proof of Address via one of the following:
 - a. Copy of utility bills, or
 - b. Report on physical address verification by account officer.
- 6.1.16. Samples of orders or instruction ("Mandates") forms, which shall have space for an officer of the firm to verify clients' signatures and availability of shares for which approval must be given, before trades can be jobbed and executed;
- 6.1.17. Samples of email/telefax indemnity signed by clients. The indemnity shall state the client's name, CSCS account number, phone numbers from which text message would emanate and email address from which mails would be sent;
- 6.1.18. Proof of opening of the following bank accounts:
- i. Firm's trading/ settlement Account
 - ii. Firm's current Account
 - iii. Clients' current Account;
- 6.1.19. Verification of Board and Management Profile;
- 6.1.20. Confirmation that principal officers have the requisite qualifications as follows:



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- i. The Managing Director (MD) shall be a Chartered Stock Broker and an Authorized Clerk of The Exchange with a minimum of 5 years stockbroking experience;
- ii. The Chief Finance Officer (CFO) shall be a Chartered Accountant and any other qualification that may be stipulated by the Exchange with relevant financial market experience;
- iii. The Chief Compliance Officer (CCO) shall be registered with SEC and must have completed the mandatory learning program of The Exchange;
 - a. The Chief Risk Officer (CRO) shall have the relevant experience in the financial industry;
 - b. Any person or group of persons who will deals directly with investors shall have undergone a learning program in an institution recognized by The Exchange;
 - c. The firm shall produce police clearance report and evidence of appropriate backup check on all staff not registered with the SEC from time to time as prescribed by the Exchange.

6.1.21 The Firm shall demonstrate its ability to meet the minimum technology requirements stated hereunder:

- i. Hardware components such as servers, computers, printers, uninterruptible power supply apparatus (UPS), stabilizer and software components;
- ii. Information Security systems deployed for intrusion prevention and detection as well as addressing viruses and other malware Trade Execution – trading software /application for managing client orders and the Horizon trading software for trade execution;
- iii. Secure connectivity/Telco – communications server, router, switches, firewall and broadband installation;
- iv. Trade reconciliation – automated trade matching and trade confirmation (trade downloads and post trades client account updates) process that negates the need for human intervention;



- v. Trade accounting - accounting application that interfaces seamlessly with the CSCS and The Exchange trading systems;
- vi. any other requirement as may be determined by the NSE from time to time

6.1.22. Firms that wish to be considered for the market making functionality when applying for a Dealing Membership licence will need to meet higher level technology requirements. These include:

- i. The ability to manage, measure and control their portfolio risk using probability algorithms that take into consideration their open positions, borrowing inventory and collateralized obligations;
- ii. The ability to systemically compute value-at-risk, using market-standard methodologies;
- iii. The ability to automatically detect or determine when the market is in pre-open, open and closed status;
- iv. The ability to provide two way quotes directly from the market making system into the trading engine in an automated manner and ensure that required market making obligations are met;
- v. The capability to conduct periodic stress testing to ensure that the system can perform and meet global standards even in extreme market conditions;
- vi. The ability to maintain the net position for each security within a portfolio and mark-to-market in real time;
- vii. The ability to extract and process information in a timely manner to support the effects of corporate actions on a security or group of securities held within a portfolio;
- viii. The capability to recalculate the Net Asset Value (NAV) of the securities based on new market information;
- ix. The capability to recalculate the total exposure of open positions based on analysis derived from new market information;
- x. Systems that can manage any borrowed securities, together with details of collaterals, due dates and associated contracts;



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- xi. The ability to recalculate margin requirements based on new market information;
- xii. The ability to extract appropriate levels of accurate data from the trading platform to support both short selling and securities lending operational functions;
- xiii. Functionality to support real time calculations of total value of inventory;
- xiv. Functionality to support mark-to-market of securities out on loan;
- xv. The ability to calculate total expected revenue from lending activities;
- xvi. A robust database that has the ability to store past prices/historical data and to support client/management reporting requirements;
- xvii. The capability to provide automated alerts and triggers to notify users and support teams based on specific risk levels.

7.0. Contact with The Nigerian Stock Exchange

- 7.1. Duly completed application form and supporting documents shall be submitted in both hard and soft copies in sealed envelopes to the address below:

The Chief Executive Officer
Nigerian Stock Exchange
Exchange House,
2/4 Customs Street,
Marina, Lagos.
Attention: Broker Dealer Regulations
Email to: bdr@nse.com.ng

- 7.2. All enquiries should be referred to the above address.

SECTION C: TRANSFER/SALE OF DEALING MEMBERSHIP LICENCE REQUIREMENTS.

8.0. Acquisition of a Dealing Member licence

Where a company duly incorporated by the CAC wishes to acquire 100 percent holding in a Dealing Member Firm, the following shall be required:



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- 8.1. The target Dealing Member Firm shall notify The Exchange of its intention to sell/transfer its license to another organization and seek the approval of The Exchange.
- 8.2. The Acquiring Company must meet all the requirements set forth in these rules to qualify it for a dealing membership.
- 8.3. In addition to the above, the following documents shall be forwarded to The Exchange by the Acquiring Company:
 - i. A copy of the duly executed Transfer/Sales Agreement;
 - ii. Board resolution approving the acquisition of the Dealing Member;
 - iii. Evidence of payment of transfer fee to The Exchange.

Note: Payment of transfer fee to The Exchange:

A sum representing 6 per-cent of the consideration for sale/transfer must be paid by bank draft to The Nigerian Stock Exchange and shall be an added condition for obtaining approval.

- 8.4. An Approval – In – Principle will be granted to successful applicants;
- 8.5. The Acquiring Company must request for a Pre-Certification inspection after three months of being issued an AIP and must meet all the requirements set forth above for Commencement of operations.

9.0. Sale/Transfer of a significant shareholding in a Dealing Member Firm

Where a company duly incorporated by the CAC wishes to acquire more than 5 percent holding in the shareholding of a Dealing Member Firm, the following will be required:

- 9.1. The Dealing Member firm shall request for an approval in the change of its shareholding structure stating the specific number and percentage of shareholding to be acquired;
- 9.2. The following documents shall be submitted along with the application:
 - 9.2.1. Where the acquirer is an individual, the individual shall submit an application to The Exchange requesting approval to obtain the stated shareholding, where it is a company, its board resolution approving the acquisition shall be forwarded to The Exchange;
 - 9.2.2. Proposed changes in the directorship and management of the firm;



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- 9.2.3. Copies of employment and acceptance letters of Key management roles, CEO, CFO, CCO, or CRO, if persons occupying the aforementioned positions are to be changed. Officers filling these roles must have the requisite qualification and experience;
- 9.2.4. Relevant undertaking to be signed by new directors and members of senior management of the firm;
- 9.2.5. Police clearance for new directors and members of senior management;
- 9.2.6. Payment of the transfer sum in line with payment requirements set under Note 8 above.

SECTION D: CLASSIFICATION OF REGISTRATION

10.0. Dealing Member – Broker/Dealer:

- 10.1. A Dealing Member has been defined in the Rules and Regulations Governing Dealing Members as a Member company who has been granted license by The Exchange as a Dealer in securities.
- 10.2. A Firm that wishes to operate as a Dealing Member of the Exchange shall note of the following:
 - i. A Dealing Member shall be registered as a Broker/Dealer by the SEC and shall operate within the parameters and restrictions provided for Broker/Dealer by the SEC Rules;
 - ii. The Dealing Member Firm shall be licensed by The Exchange to transact business on its floors or given remote access to the trading engine;
 - iii. The Dealing Member firm shall be known and referred as a “Member of the Nigerian Stock Exchange”;
 - iv. The Dealing Member firm shall be under an obligation to maintain the minimum capital requirement set by the Securities and Exchange Commission (SEC) from time to time;
 - v. The Exchange shall put in place a mechanism to monitor the capital adequacy of the Dealing Member Firm on a daily basis;



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- vi. Where the capital adequacy of the Dealing Member Firm falls below the minimum requirement, the Dealing Member shall be suspended immediately and be required to shore up its capital within 24hrs
- vii. The Dealing Member firm may in the event of vi above and with the approval of The Exchange, enter into an arrangement with another licensed Broker or Dealer with respect to having access to the trading engine to execute orders of the Broker or Dealer on behalf of its clients or itself respectively;
- viii. The Dealing Member Firm shall be entitled to share its commission with any Broker or Dealer with respect to (vii) above by virtue of Article 42 of the Rules and Regulations Governing Dealing Members (Rules);

11.0. Broker:

- 11.1. A firm registered by the Commission as a Broker and licensed by The Exchange as an agent of a Dealing Member shall not be known as a member of The Exchange;
- 11.2. A Broker shall be an agent for buying and selling, of securities on the exchange on behalf of its clients for a commission and settles through a Dealing Member.
- 11.3. The Dealing Member is the primary responsible party for the Broker and as such shall ensure the Broker's compliance with all relevant rules, regulations, policies, instructions, circulars, and notices of The Exchange, Commission and all other regulatory authorities from time to time;
- 11.4. The functions of the Broker shall be limited to:
 - i. Purchasing securities on behalf of his clients only;
 - ii. Disposing of securities on behalf of his clients only;
 - iii. Charging a fee or commission for executing buy and sell orders made on behalf of its clients;
 - iv. Other services ancillary to (i) and (ii) above.
- 11.5. The minimum capital requirement for a Broker shall be as determined by the SEC;
- 11.6. A Firm that wishes to register with the SEC as a Broker shall take note of the following:
 - i. The Broker shall operate within the provisions provided in the SEC Rules and Regulations;
 - ii. The Exchange shall certify that the Broker is eligible for license as an agent in line with the eligibility criteria specified by The Exchange;

- iii. The Broker shall be licensed and recognized by The Exchange as an agent affiliated to a Dealing Member;
- iv. The Broker shall operate in the market through the Dealing Member Firm;
- v. The Broker shall with the approval of The Exchange, partner with a named Dealing Member Firm with respect to having access to the trading engine for execution of orders;
- vi. Notwithstanding the provision of Article 42 of the Rules and Regulations Governing Dealing Members, a Broker shall be entitled to share commission with a Dealing Member Firm with respect to (v) above;
- vii. The Broker shall be under an obligation to maintain the minimum capital requirement set by the SEC from time to time;
- viii. The Dealing Member shall monitor the compliance of minimum capital requirement by the Broker;
- ix. Where the capital adequacy of the Broker falls below the minimum requirement, the Broker shall immediately be suspended from the Dealing Member Firm.

12.0. Dealer:

- 12.1. A firm registered by the Securities and Exchange Commission as a Dealer and licensed by The Exchange to deal on securities on its own account through a Dealing Member shall not be known as a member of The Exchange.
 - i. The Dealer shall operate in the market through the Dealing Member Firm;
 - ii. The Dealer shall with the approval of The Exchange, partner with a named Dealing Member Firm with respect to having access to the trading engine for execution of orders;
- 12.2. The Dealer shall operate in the market through the Dealing Member Firm;
- 12.3. The Dealer shall with the approval of the Exchange, partner with a named Dealing Member Firm with respect to having access to the trading engine for execution of orders;



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- 12.4. The Dealing Member is the primary responsible party for the Dealer and as such shall ensure its compliance with all relevant rules, regulations, policies, instructions, circulars, and notices of The Exchange, SEC and all other regulatory authorities.
- 12.5. The functions of the Dealer shall be limited to:
- i. Purchasing securities on its own account only;
 - ii. Disposing of securities from its own account only;
 - iii. Other services ancillary to (i) and (ii) above.
- 12.6 The minimum capital requirement for the Dealer shall be as determined by the SEC from time to time;
- 12.7 A Firm that wishes to operate in the market as a Dealer shall note the following:
- i. A Dealer shall be registered as such by the SEC and shall abide by the provisions of the SEC Rules and Regulations;
 - ii. The Exchange shall certify that the Dealer is eligible for registration as an agent as per the eligibility criteria specified by The Exchange;
 - iii. The Dealer shall be licensed and recognized by The Exchange to deal with securities on its own account through a Dealing Member;
 - iv. The Broker/ Dealer and the Dealer shall be entitled to share commission with the Dealing Member Firm with respect to sub – article (vi) above by virtue of Article 42 of the Rules and Regulations Governing Dealing Members (Rules).
 - v. The Dealer shall be under an obligation to maintain the minimum capital requirement set by the SEC which shall be applicable at any time in force;
 - vi. The Dealing Member shall monitor the compliance of minimum capital requirement by the Dealer;
 - vii. The Exchange shall put in place a mechanism to monitor the capital adequacy of the Dealer on a daily basis;
 - viii. Where the capital adequacy of the Dealer falls below the minimum requirement, the Dealer shall immediately lose its affiliation with the Dealing Member Firm.