



**THE Nigerian
STOCK EXCHANGE**
RC: 2321

Frequently Asked Questions (FAQs) on Order Handling and Best Execution



Issued this 17th day of October 2019



1. What is client's Order Execution?

Client Order Execution is the execution of orders on behalf of the client by a Dealing Member, as well as the receipt and transmission of the client's orders to other entities for execution.

2. What is an Order Execution policy?

It is a policy that documents the Dealing Member's philosophy and approach towards taking all reasonable steps to achieve best execution as required under The Exchange's Rules.

The policy places an obligation on the Dealing Member to take all reasonable steps to obtain the best possible result whilst executing or transmitting for execution their clients' orders, taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order so as to achieve the best possible result.

The policy captures key information relating but not limited to order handling, order management, order aggregation, and client allocation.

3. What should be contained in an Order Execution policy?

The Order Execution policy should contain information which include:

- a. An explanation of the relative importance assigned to the execution factors, or the process by which the relative importance of those factors is determined;
- b. A clear and prominent warning that any specific instructions from a client may prevent the Dealing Member from taking the steps that it has ordinarily designed and provided in its execution policy to enable it obtain the best possible result for the execution of those orders.
- c. A description of the Dealing Member's execution approach for carrying out orders

for execution from the time that an order originates to the time that it is executed or settled, as the case may be;

- d. The execution venues or entities the firm uses and the role of execution quality and any other factors in selecting them;
- e. An explanation of how different factors influence the firm's execution approach for carrying out client orders;
- f. An explanation as to why the firm's execution approach for carrying out client orders will deliver the best possible result for the execution of those client orders.

4. What obligations should be enshrined in a Dealing Member's Order Execution policy?

That the Dealing Member should:

- a. Take reasonable steps to obtain the best available results for the client within the shortest time frame, and act in accordance with the terms and conditions of the order from the client; and
- b. Ensure that, where the counter party to its proprietary account transaction is the same as Dealing Member's client, the transaction should be treated as an execution of the client's order, and not the Dealing Member's.

5. What are the relatively important Execution Factors to consider when executing a client's order?

Execution factors are important due to the underlying assessment of the following:

- a. The characteristics of the client, including the categorization of the client as retail or institutional;



- b. The characteristics of the client's order¹; and
- c. The characteristics of securities that are the subject of that order, including expected return, risk, liquidity, and volatility.

To get the best possible result in terms of the total consideration when executing a retail client's order, the Dealing Member should take the following factors into consideration:

- i. Price of the securities;
- ii. The speed of execution;
- iii. The size and nature of the order;
- iv. The likelihood of execution and settlement;
- v. The overall cost of the transaction, when costs are passed on to clients;
- vi. The effect on the Market (Market impact); and
- vii. Any other implicit transaction costs, as long as they are instrumental to delivering the best possible result in terms of the total consideration to the client

6. What is a Dealing Member's obligation with respect to establishing and implementing Order Execution policy?

Each Dealing Member should:

- a. Establish and implement an Order Execution policy that will allow the firm to achieve the best possible result for its clients;
- b. Apply its Order Execution policy to each client order; and
- c. Be able to demonstrate to its clients and The Exchange, upon request, that it has executed its clients' orders in accordance with its Order Execution policy.

7. What steps are recommended for Dealing Members to ensure effective Compliance with an Order Execution policy?

Each Dealing Member should:

- a. Ensure that its staff is trained and knowledgeable about the Dealing Member's Order Execution policy;
- b. Duly inform all clients of the firm's Order Execution policy prior to account opening, and the policy should be placed on its website at all times;
- c. Obtain its client's written consent to the Order Execution policy prior to the provision of its services;
- d. Ensure that Clients' mandates are treated in line with its Order Execution policy at all times;
- e. Notify its clients of any change to its Order Execution arrangements or Order Execution policy.

8. How often should an Order Execution arrangement and policy be reviewed?

Each Dealing Member should:

- a. Monitor the effectiveness of its Order Execution arrangements and policy on a regular basis in order to identify and, where appropriate, correct any deficiencies;
- b. Review its Order Execution policy, as well as its Order Execution arrangements annually or whenever a material change occurs, whichever comes first; and
- c. Document its review process.

¹ For example, Good Till Month (GTM), Day Order, Good Till Open (GTO), Fill or Kill (FOK), All or None.



9. Which type of securities does the Order Execution policy apply to?

The Dealing Member's Order Execution policy applies to all types of securities.

10. What should a Dealing Member do with respect to its client's specific instructions?

Each Dealing Member should:

- a. Execute its client's specific instructions; and
- b. Take all reasonable steps to obtain the best possible result for its client whilst executing an order, or a specific aspect of an order.

11. Are there any prohibitions with respect to following clients' specific instructions?

A Dealing Member should not induce its client to issue instructions to execute an order in a particular way, by expressly indicating or implicitly suggesting the content of the client's instruction, particularly when the Dealing Member ought reasonably to know that such instruction is likely to prevent the best possible result for that client.

12. What actions should a Dealing Member take while carrying out its clients' orders?

A Dealing Member should:

- a. ensure that orders executed on behalf of clients are promptly, accurately recorded and allocated; and
- b. inform its clients of any material difficulty relevant to the proper execution of orders promptly upon the Dealing Member's knowledge of the difficulty.

13. How should a Dealing Member manage information relating to clients' orders?

A Dealing Member should not misuse information relating to a pending client's order and each Dealing Member should take all reasonable steps to prevent the misuse of such information.

14. What conditions should be met before a client's order can be executed in aggregation with another client's order?

- a. A Dealing Member is required to have a fair order allocation policy.
- b. The aggregation of orders and transactions should be in line with acceptable fair allocation methodology published from time to time by The Exchange².
- c. An order allocation policy should be established and effectively implemented. It will provide the terms for the fair allocation of aggregated orders and the treatment of partial executions. The sample execution policy attached as Appendix 1 includes a fair allocation methodology.

15. Can a Dealing Member aggregate clients' transaction with its proprietary transactions?

No. Dealing Members are prohibited from aggregating a client's order with a transaction from the Dealing Member's proprietary account.

16. What is the effect of not having an Order Execution Policy?

Dealing Members that do not have an Order Execution policy will not be in compliance with the Minimum Operating Standards of The Exchange; and will be sanctioned in line with The Exchange's Rules on Order Handling and Best Execution.

² This template execution policy provided by The Nigerian Stock Exchange is to serve only as a guide to building a consistent approach. It should be amended as required following a firm's review as determined by its

internal approval process. It is included in the Minimum Operating Standards (MOS) Effective Processes published by The Exchange to the Market in April 2017.



17. How does a Dealing Member comply with the audit trail requirements?

Firstly, the Dealing Member must be able to demonstrate upon receipt of the client's request, that they have executed the client's order in compliance with their Order Execution policy.

Secondly, a Dealing Member should ensure that:

- a. A system for order tracking and monitoring is established; and
- b. Evidence of audit trail on all modified, cancelled and executed orders is maintained in the Dealing Member's system for at least six (6) years.

18. What are the sanctions for non-compliance?

- a. Any Dealing Member that fails to maintain an auditable trail for Order Execution, will be liable to pay a fine of not less than Three Hundred Thousand Naira (₦300, 000.00); and
- b. Any Dealing Member that contravenes any of the applicable Rules, except the Rule that requires Dealing Members to maintain an audit trail, will be liable to pay a minimum fine of ₦250,000.00 (Two Hundred and Fifty Thousand Naira) in addition to any other penalties as may be prescribed from time to time by The Exchange.

19. What is the Effective Date of the Rules?

The Rules became effective on 6 July 2018.

NOTES:

1. The above information does not constitute professional investment or legal advice to anyone. Professional advice should be sought by stakeholders or potential investors where required.
2. Should you require further clarification, kindly contact the Broker Dealer Regulation department of The Exchange at nsebdr@nse.com.ng.
3. The referred Rules of The Exchange are also available on its website (www.nse.com.ng), for additional reference.