

Frequently Asked Questions (FAQs) on the Sub-Broker Model



Issued this 13th day of November 2019



1. Who is a Sub-Broker?

A “Sub-Broker” is any person or entity not being a Dealing Member, that is registered by the Securities and Exchange Commission (“SEC”) as a Sub-Broker; and acts on behalf of a Dealing Member as its agent for assisting investors in buying, selling or dealing in securities through such Dealing Member.

2. What is the objective of introducing the Sub-Broker Model?

The objective of introducing Sub-brokers is to enhance financial inclusion by targeting investors based in remote, rural or semi-urban areas where investors are more likely to be less sophisticated and may not have access to modern technology infrastructure.

3. What are the benefits of the Sub-Broker Model?

Some of the benefits of the Sub-Broker Model include:

- Reduced cost of doing business – plug and play systems at no cost.
- Technology services – including website, online chat, online real-time trading, online real-time market view, online payment and receipt, and branded mobile app for android and IOS.
- Niche market.
- Competitive pricing.
- Reduction of regulatory obligations and cost of compliance.
- Stronger distribution channels to retail investors.
- Enhanced Investors’ confidence.

4. What business can a Sub-Broker engage in?

A Sub-Broker can engage in the following business activities through its sponsoring Broker Dealer:

- a. Purchase of securities;
- b. Sale of securities;
- c. Receive payments from clients in any of the transactions mentioned in (a) and (b) above;
- d. only by cheques written in favor of a sponsoring Broker Dealer;

- e. Make payments to clients in any of the transactions mentioned in (a) and (b) above only by cheques drawn by a sponsoring Broker Dealer; and
- f. Other services as may be prescribed by the SEC from time to time.

5. What are the different types of Sub-Brokers?

There are two (2) types of Sub-Brokers:

- a. Individual Sub-Broker; and
- b. Corporate Sub-Broker

6. What is the qualification requirement for an Individual Sub-Broker?

An individual Sub-Broker shall:

- a. i) Be an Associate Member of the Chartered Institute of Stockbrokers (CIS); or

ii) Possess a first degree in a relevant field including banking, finance, accounting, business management, law, economics and company secretarial studies with a minimum of four (4) years relevant post-qualification experience (excluding the National Youth Service Corps year); or

iii) Possess a first or higher degree or its equivalent in a non-relevant field including science-oriented courses, the Arts, etc., with a minimum of six (6) years relevant post-qualification experience (excluding the National Youth Service Corps year); or

iv) Possess a West African School Certificate (WASC), Senior Secondary School Certificate Examination (SSCE), General Certificate of Education (GCE) or Higher School Certificate or its equivalent with a minimum of fifteen (15) years relevant post-qualification experience; or

v) Possess such other professional qualifications as acceptable to the SEC;
- b. Identify and enter into an agreement with a Sponsoring Broker Dealer (Dealing Member); and



- c. Register with the SEC to operate as an Individual Sub-Broker.

7. What is the qualification requirement for a Corporate Sub-Broker?

A Corporate Sub-Broker shall:

- a. Employ at least two Sponsored Individuals who are either Associate Members of the Chartered Institute of Stockbrokers (CIS), or possess such other qualifications as stated in Section 6(a) above;
- b. Identify and enter into an agreement with a Sponsoring Broker Dealer (Dealing Member); and
- c. Register with the SEC to operate as a Sub-Broker.

8. What does an entity require to register with the SEC as a Sub-Broker?

An entity requires the following documents to register as a Sub-Broker with the SEC¹:

Corporate Sub-Broker

- Evidence of capital of N10,000,000 (Ten million naira);
- Fidelity Bond representing 20% of paid up capital;
- Sworn undertaking to comply with rules and regulations of the SEC;
- Sworn undertaking to maintain proper records and render returns;
- Recommendation letter from Sponsoring Broker Dealer;
- Audited account or statement of affairs; and
- CAC documents.

Individual Sub-Broker

- Evidence of N500,000 (Five hundred thousand naira) minimum net worth;
- Sworn undertaking to maintain proper records and render returns; and
- Sworn undertaking to comply with the rules and regulations of the SEC.

9. What does a Sponsoring Broker Dealer need to obtain the approval of The Exchange to sponsor a Sub-Broker?

A Sponsoring Broker Dealer requires the following documents to obtain the approval of The Exchange to sponsor a Sub-Broker:

- Copy of the SEC registration;
- Evidence of the qualifications of the Sponsored Individual(s) of the Sub-Broker, including evidence of Authorized Dealing Clerk registration, where applicable;
- Guarantee document completed by the Sponsoring Broker Dealer;
- Agreement between the Sub-Broker and Sponsoring Broker Dealer; and
- Any other document(s) that may be required by The Exchange.

10. Can The Exchange provide a standardized Sub-Broker Guarantee Form and Sub-Broker Agreement templates that can be adopted by a Sponsoring Broker Dealer and Sub-Broker?

Yes, The Exchange has designed templates for the two (2) documents.

Below are links to the templates:

a. Sub-Broker Agreement Template

<http://www.nse.com.ng/dealing-members-site/Notices/Sub-Broker%20Agreement%20Template.pdf>

b. Sub-Broker Guaranty Form

<http://www.nse.com.ng/dealing-members-site/mos/Documents/Sub-Broker%20Guaranty%20Form.pdf>

11. What is expected of a Sponsoring Broker Dealer before entering into a strategic alliance with a Sub-Broker?

A Sponsoring Broker Dealer is required to conduct Due Diligence on the Sub-Broker to ensure that the Sub-Broker is in compliance with applicable laws, rules and regulations; and that all material information concerning the proposed alliance are available to the Sponsoring Broker Dealer.

¹<https://sec.gov.ng/check-lists/requirements-for-registration-as-sub-broker/>



12. Are Brokers allowed to enter into a strategic alliance with a Sub-Broker?

No. A Broker can't enter into a strategic alliance with Sub-Brokers. It is only Broker Dealers that can enter into strategic alliances with Sub-Brokers.

13. Can a Sub-Broker register more than one Authorized Dealing Clerk?

Yes, a Sub-Broker can register more than one Authorized Dealing Clerk with its Sponsoring Broker Dealer.

14. What is the minimum or maximum commission which a Sub-Broker can take of the commission earned on transactions done by its clients?

The minimum commission payable by a Sponsoring Broker Dealer to a Sub-Broker on the transactions done for the clients of the latter shall not be less than 35%. However, the maximum commission is subject to negotiation between the Sponsoring Broker Dealer and the Sub-Broker.

15. Is a Sub-Broker required to have a Compliance Officer?

No. Sub-Brokers are not required to have a Compliance Officer. In line with the rules of the SEC, the Compliance Officer of the Sponsoring Broker Dealer is required to provide oversight on Sub-Brokers registered under the sponsor.

16. Can a Sub-Broker keep the funds of its clients in its custody?

No, Sub-Brokers are not allowed to keep the funds of their clients in their custody. All clients' funds are to be kept in a bank account jointly managed by the sponsoring Broker Dealer and Sub-Broker.

The receipt issued by the Sub-Broker to clients shall bear the names and logos of the Sub- Broker and the sponsoring Broker Dealer.

17. What records is a Sub-Broker required to keep?

A Sub-Broker shall maintain proper and adequate records of transactions for and on behalf of each client. Such records shall include but not be limited to the following:

- a. Duly executed mandate forms;

- b. Deposit receipts for purchase of shares;
- c. Script receipts for certificates deposited; and
- d. Clients' statements from any recognized and registered depository.

18. How will a Sub-Broker handle deposits from clients?

All monies received from or on behalf of clients shall be duly receipted and remitted to the sponsoring Broker Dealer within two (2) working days. In addition, receipts issued by a Sub-Broker to clients shall bear the names and logos of the Sub-Broker and the Sponsoring Broker Dealer.

19. Would Sub-Brokers have Direct Market Access and Sponsored Access?

No. Sub-Brokers will only have Direct Market Access via the Order Management System (OMS) of their Sponsoring Broker-Dealer or trade through the Sponsoring Broker Dealer.

20. Can a Sub-Broker solicit for deposit from Investors?

No. Sub-Brokers are not allowed to solicit for deposits. Pursuant to the provisions of the SEC Rules and Regulations, June 2013, Sub-Brokers shall not solicit deposits through brochures, salesmen, canvassers or by any other means. Sub-Brokers are only allowed to solicit funds for the purpose of buying or selling securities.

21. Is a Sub-Broker required to file any returns with The Exchange or the SEC?

Sub-Brokers are not required to file any returns with The Exchange. However, Sub-Brokers are required to file the following reports with the SEC through their sponsoring Broker Dealer:

- a. Quarterly returns within thirty (30) days after the end of the quarter.
- b. Annual accounts certified by an auditor and prepared on a calendar or fiscal year basis, not later than six (6) months after the end of the accounting year.
- c. Theft or loss of any security upon discovery within forty eight (48) hours of the discovery.



22. Does a Sub-Broker have to send any report to its clients?

Yes. Sub-Brokers shall provide their clients on demand, a statement of their accounts showing both credit and debit transactions of the client. In addition, a Sub-Broker shall furnish its clients in any quarter in which there was a transaction with at least:

- a. A quarterly statement of account showing all purchase and sales transactions on behalf of the client; and
- b. A quarterly report detailing the clients' share portfolio, including the statement of share ownership from the clearing agency.

23. Who regulate the activities of Sub-Brokers?

The Exchange does not regulate Sub-Brokers. Sub-Brokers are registered and regulated by the SEC. However, sponsoring Broker Dealers² to Sub-Brokers have the oversight responsibility for ensuring that Sub-Brokers comply with all the relevant capital market Rules and Regulations.

24. Are Sub-Brokers also members of The Exchange?

No. Sub-Brokers are not members of The Exchange as they are not licensed or regulated by The Exchange.

25. What kind of relationship will The Exchange maintain with Sub-Brokers?

The Exchange will have no direct relationship with Sub-Brokers. All issues relating to trading, settlement and clearing will be addressed through the Sponsoring Broker Dealer.

26. Does The Exchange have Rules and Regulations for Sub-Brokers?

No. The Exchange does not have Rules and Regulations for Sub-Brokers, the SEC has Rules and Regulations for Sub-Brokers. However, The Exchange has Guidelines in place that govern Sponsoring Broker Dealers' activities with Sub-Brokers.

27. Will the Sponsoring Broker Dealer be liable for the activities of the Sub-Broker?

Yes. Sponsoring Broker Dealers are responsible for the stock broking activities of their Sub-Brokers.

28. What are the obligations/responsibilities of a Sponsoring Broker Dealer in a Sub-Broker relationship?

The obligations/responsibilities of a sponsoring Broker Dealer in a Sub-Broker relationship include:

- a. Ensure that the Sub-Broker complies with all Capital Market rules and regulations;
- b. Ensure that their clients are not acting in the capacity of Sub-Brokers;
- c. Transact business with only Sub-Brokers that are duly registered with the SEC upon receipt of approval from The NSE;
- d. Notify The NSE and the SEC within 48 hours of termination of a relationship and the reasons for the termination;
- e. Conduct internal review/supervisory controls of the activities on the Sub-Broker;
- f. Execute agreements with each of their Sub-Brokers specifying the rights and responsibilities of the Dealing Member and Sub-Brokers; and
- g. Rendition of quarterly reports of its review on the activities of the Sub-Broker to The Exchange.

29. For how long can a Sub-Broker hold the certificates and warrants received from its clients?

All certificates and warrants received by a Sub-Broker from its client's for stock broking transactions, shall be forwarded to its Sponsoring Broker Dealer within two (2) working days of receipt.

30. Can The Exchange withdraw the approval granted to a Sponsoring Broker Dealer to sponsor a Sub-Broker?

Yes. The circumstances in which the NSE may withdraw the approval granted to a Sponsoring Broker Dealer to sponsor a Sub-Broker includes but are not limited to the following:

- Transfer from one Sponsoring Broker Dealer to another;



- Inactivity of the Sub-Broker;
- Suspension of the Sponsoring Broker Dealer by The Exchange or the SEC; or
- Suspension of the Sub-Broker by the SEC.

31. Can a Sub-Broker transfer from its current Sponsoring Broker Dealer to another Sponsoring Broker Dealer?

Yes. A Sub-Broker can transfer to another Sponsoring Broker Dealer. Refer to Section 32 below for more information on the transfer process.

32. What process will The Exchange follow to transfer a Sub-Broker from its current or previous Sponsoring Broker Dealer to another Sponsoring Broker Dealer?

The steps are listed below:

- The target Sponsoring firm shall send an application to The NSE, attaching all relevant application documents.
- NSE shall write the current or previous Sponsor requesting for a confidential report on the Sub-Broker.
- The NSE shall consider all the documents, including the confidential report, in determining whether to approve the transfer to the target Sponsor.

33. Can a Dealing Member who has reclassified to the Sub-Broker function reclassify back in the future to a Broker Dealer, Broker or Dealer?

Yes. However, the new reclassification will be subject to the firm registering its function with the SEC and The Exchange's licensing process for becoming a Dealing Member Firm, including The Exchange's minimum operating standards for the required Dealing Member classification, i.e., Broker Dealer, Broker and Dealer.

34. What is the minimum capital requirement for Sub-Brokers?

The minimum capital requirement for Corporate Sub-Brokers is specified in the "Requirements for Registration as Sub-Broker" section of the SEC's website, and prescribes the minimum capital for

Corporate Sub-Brokers as **₦10,000,000.00 (Ten million naira)**.

The minimum capital requirement for Individual Sub-Brokers is specified in the Securities and Exchange Commission (SEC) Rules and Regulations, June 2013; and prescribes the minimum capital for Individual Sub-Brokers as **₦500,000.00 (Five hundred thousand naira)**.

35. What is the Net Capital requirement for Sub-Brokers?

The aggregate indebtedness of a Sub-Broker shall not exceed ten (10) times its net capital unimpaired by losses.

36. Can Sub-Brokers or other capital market operators act as Representative Offices for Dealing Members if they have an agreement with such Dealing Members?

No. The Sub-Broker framework permits strategic alliances between a Dealing Member Firm and a Sub-Broker. However, the framework cannot be used for the purpose of a Representative Office. In summary, a Representative Office is an office of a Dealing Member Firm. It is similar to a Dealing Member Firm's Branch Office from an operational perspective.

The only similarity with the Representative Office and Sub-Broker framework is that they are both designed to enhance financial inclusion.

37. What will happen to Dealing Members who reclassify to Sub-Brokers?

Dealing Members that reclassify to the Sub-Broker function will cease to be members of The Exchange and will no longer have direct access to the trading facilities of The Exchange.

38. Can a Sub-Broker maintain a proprietary account?

Yes, a Dealing Member that reclassifies to the Sub-Broker function can maintain a proprietary account with its sponsoring Broker Dealer.



39. What is required from a Broker Dealer that reclassifies to a Sub-Broker?

The Sub-Broker would be required to:

- Resign its Dealing Membership of The Exchange;
- Return its Dealing Membership license certificate to The Exchange; and
- Return all other properties of The Exchange in its possession, e.g., Trading Floor Identification Badges and Access Control Cards for its Authorized Dealing Clerks.

40. How long will a Broker Dealer that reclassifies to a Sub-Broker be allowed to trade on the floor of the Exchange before being disabled?

A Dealing Member that reclassifies as a Sub-Broker shall be suspended permanently from trading on the floors of The Exchange immediately after the reclassification.

41. How will the Sub-Broker framework impact on the market penetration and participation of Nigerians in the market?

The Sub-Broker framework was developed with a view to enhancing financial inclusion. It is targeted at attracting new entrants to the capital market, particularly those based in remote, rural or semi-urban areas where investors are more likely to be less sophisticated and may not have access to modern technology infrastructure. It is also to discourage illegal capital market operators from taking undue advantage of investors and to create an enabling environment for micro-operators to participate in the capital market in a regulated manner.

42. What are the key rules around the Sub-Broker model?

Rule **22** of the Rulebook of The Exchange, 2015 (Dealing Members' Rules); and Rules **20, 67 to 75** of the Securities and Exchange Commission (SEC) Rules and Regulations, June 2013, as amended.

43. Where can I make further enquiries about the Sub-Broker Model?

Further enquiries on the Sub-Broker model can be directed to The Exchange's Contact Center. The contact details are listed below:

Email: contactcenter@nse.com.ng

Phone: 07002255673.

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. The referred Rules of The Exchange are also available on its website (www.nse.com.ng), for additional reference.