

**NOTIFICATION OF AMENDMENTS TO THE RULEBOOK OF THE EXCHANGE  
(DEALING MEMBERS' RULES)  
AND INVITATION FOR COMMENTS**

**I. Introduction**

The Exchange is proposing amendments to the Rulebook of The Exchange (Dealing Members' Rules), by the addition of the following Rules:

- (a) Amendments to Dealing Members' Rules (Part XVB) – Proposed Rules on Securities Transactions Between Dealing Members of The Exchange;
- (b) Proposed Rules on Placing of Caution on Accounts.

**II. Summary of the Proposed Amendments**

- (a) [Amendments to Dealing Members' Rules \(Part XVB\) –Rules on Securities Transactions Between Dealing Members of The Exchange](#): The need to codify and set standards relating to agreements on securities transactions between Dealing Members of The Exchange (Dealing Members) has become necessary owing to the increase in default by parties to these transactions. This has not only affected investors' confidence in the market but also exposed stockbroking firms to significant losses and reputational damage.

Presently, agreements between Dealing Members are generally governed by law, trade practices established by long usage, norms and trust based on the basic foundation of the stockbroking profession, which dictate that a stockbroker's word is his bond, with no additional specific set of rules to bind parties to their agreements.

The proposed Rules therefore seek to codify the practice in the market, set the conditions upon which an agreement is enforceable, and a Dealing Member will be bound, and penalized for default. In addition, the Rules seek to minimize the risk of exposure to financial and reputational damage, suffered by a Dealing Member as a result of a default, or where a Dealing Member reneges on an agreement for securities transactions.

The proposed Rules include definitions of key terms used in the Rules, general requirements which are to guide transactions between Dealing Members, provisions on the obligations of parties to the transactions, as well as sanctions in the event of breach.

- (b) [Rules on Placing of Caution on Accounts](#): To address concerns about dissipation of investors' assets while addressing complaints or during investigations, The Exchange seeks to introduce a framework for imposing cautions that will directly protect the

investor and/or the Dealing Member, as appropriate. Under this framework The Exchange can place a caution on an affected Dealing Member's clients' accounts, or its proprietary accounts, or both sets of accounts, until any complaints against the Dealing Member are resolved or any investigations are completed, or in both cases even if not resolved or completed, The Exchange is satisfied that a caution is no longer warranted.

*What do we mean when we say a caution has been placed on an account?*

A caution is a restriction on an account domiciled with the Central Securities Clearing System Plc. (CSCS), which account would otherwise be under the control of a Dealing Member without such restriction. The restriction is placed such that securities can only be purchased into the cautioned account but cannot be sold during the period that the caution is in place.

### **III. Invitation for Comments**

The Exchange is pleased to invite you to participate in its rule making process. Your participation is required by way of reviewing the proposed Rules and providing your comments thereon. [A set of each of the proposed Rules may be viewed through the link provided here.](#)

The Exchange views your participation as important for the following reasons:

- To create public awareness and solicit the public's feedback on the proposed Rules; and
- To improve the quality of the proposed Rules and thereby have a robust, well written set of Rules.

We are involving as many stakeholders as possible in this commentary process in order to achieve the aforementioned goals. Please be assured that your comments will be considered in arriving at the final text of the Rules.

### **IV. Response and Timeline**

We will be grateful to receive your comments later not than the close of business on Monday, 2 July 2018. Your comments should be set forth in a WORD document attached to an electronic mail to Mr. Oluwatoyin Adenugba, Head, Rules and Interpretation at The Exchange at [oadenugba@nse.com.ng](mailto:oadenugba@nse.com.ng).

**V. Approvals**

Please note that the draft Rules are subject to the approval of the National Council of The Exchange, and the Securities and Exchange Commission.



Tinuade T. Awe,  
**Executive Director, Regulation**  
**31 May 2018**