

**NOTIFICATION OF THE DRAFT RULES OF
THE NIGERIAN STOCK EXCHANGE DERIVATIVES MARKET
& INVITATION FOR COMMENTS**

I. Introduction

The Exchange, in line with its strategic objective to increase the number of asset classes traded on its platform, is working on introducing Exchange Traded Derivatives (ETDs) in the Nigerian capital market. This is in recognition of the need and appetite for these risk management and investment products in order to facilitate hedging of investment risks and diversification of asset portfolios.

In the cash markets, investors are typically exposed to asset price risk. In the absence of short selling and the supportive securities lending options, investors are highly susceptible to significant diminution in portfolio values once there is a reversal of a bull trend. Thus, investors engage in aggressive efforts to lock-in unrealised profits – thereby resulting in a self-reinforcing market downturn, which negatively impacts investor confidence, and trading volumes. Derivative instruments enable investors to hedge their portfolios against adverse price movements which can result in unexpected losses.

Accordingly, the absence of derivatives products contributes to the following persistent problems:

- a. Inability of risk-averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices;
- b. Lacklustre activity in the underlying cash market, particularly in times of stressed economic and market conditions;
- c. Lack of confident market participants; and
- d. Volatility in Exchange revenues.

Derivative instruments are financial contracts that are critically dependent on a regulatory framework which supports their enforceability. However, The Exchange does not currently have the requisite framework for the creation, listing, and trading of derivatives products. Accordingly, the draft Derivatives Rules seek to create a regulatory framework for the aforementioned purposes. The framework will also regulate the activities of the trading members and other market participants in the Exchange Traded Derivatives market.

Consequently, The Exchange is proposing Rules for The Exchange’s Derivatives Market (“Derivatives Rules”).

II. Summary of the Draft Derivatives Rules

The draft Derivatives Rules are set forth in eight (8) chapters, which cover various broad areas namely: Definitions, General Provisions, Membership, Formation of Transactions and Trades, Trading Rules, Default Rules, Listing of Derivatives Products and Complaints and Enforcement.

The Definition chapter contains a list of terms that are to be construed in the context of The Exchange's Derivatives Market, and are as used in the Derivatives Rules. These terms have specific usage within the Derivatives Market, and have been defined for clarity and to avoid any ambiguity of their usage. The General Provisions chapter contains provisions relating to Fees and set-off, Set off, Currency of payment, Amendments, Limitations of liability and indemnity, No warranty, Indemnity, Confidentiality, Severability, Waiver, Governing Law and Arbitration.

The Membership chapter contains provisions on Types of Membership and Application, Membership Criteria, Members Clearing Arrangements Rules, Trading on behalf of Clients, Notification Requirements, Right to Audit, Prohibitions, Summary Access Suspension, Emergency Actions, and Termination of Membership. Also, the chapter on Formation of Transactions and Trades contain provisions on Formation of Transactions, Transactions, Cleared Trades, and Transactions on Behalf of Clients.

The chapter on Trading Rules contains provisions on general requirements for trading in The Exchange's Derivatives Market, Erroneous Orders, Reacceptance of Trades, Orders, Market Making and Market Maker Rules, Block Trades, Cancellation of Incorrect Trades, Trade Reporting Rules, Protests, Re-Acceptance, Daily Cash Settlement Price. Also, the Default Rules contain provisions relating to Application of the Exchange Default Rules, Actions on a Declaration of Default, Calculation and certification of net amount, Notification to other Members and Co-operation with the Regulatory Authorities, Costs.

The chapter on Listing of Derivatives Products contains provisions on the requirements for listing of Derivatives Products, approval of an application for listing of Derivatives Products, as well as delisting. The Complaints and Enforcement chapter contains provisions regarding how to deal with activity that breaches the Derivatives Rules, and disciplinary action to be taken in accordance with The Exchange's Adjudication Process.

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 draft Derivatives Rules and providing your comments thereon. [The draft Derivatives 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 draft Derivatives Rules;
- To improve the quality of the draft Derivatives Rules and thereby have a robust, well written set of Rules; and
- To provide an avenue for the exchange of ideas and opinions regarding a new area within the exchange space in Nigeria.

We are involving as many stakeholders as possible in this rule making 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 Derivatives Rules.

IV. Response and Timeline

We will be grateful to receive your comments not later than the close of business on Wednesday, 31 January 2018. This timeline extends beyond the usual thirty (30) days rules exposure period, in view of the Christmas and New Year holidays. Your comments should be set forth in a WORD document attached to an electronic mail to Mr. Oluwatoyin Adenugba, Head, Rules and Interpretation Department of The Exchange at oadenugba@nse.com.ng.

V. Approvals

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



Tinuade T. Awe,
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22 December 2017