



CIRCULAR

12 February 2015

NSE/LARD/BDR/CIR4/15/02/12

Rules on Naked Short Selling and Liability of Dealing Members

Pursuant to our circular dated 17th September, 2012 with reference **BDR/CIR/96/DK/09/12** on Operational Guide for Market Making, Securities Lending and Short Selling, this is to remind all Dealing Member Firms that naked short selling is strictly prohibited.

Naked short selling is the practice of selling securities which the seller does not own, and has not made arrangements to borrow such securities. It is a violation of the Rules and Regulations Governing Dealing Members (Amendments and Additions – Part III). The relevant Rule is titled “Penalties for Naked Short Selling” and provides that:

- a. “Naked short selling is prohibited by The Exchange. Any Dealing Member that engages in naked short selling shall be liable to pay a fine of ten percent (10%) of the total transaction value and any benefit accruing from such transaction shall be paid to The Exchange.
- b. Any Dealing Member involved in naked short selling more than once over a period of one (1) year shall be classified as a “Serial offender”.
- c. A serial offender will be suspended from trading for a period to be determined by The Exchange.”

To find this Rule, kindly click on the link [http://www.nse.com.ng/regulation-site/Dealing%20Members%20Rules/Rules%20and%20Regulations%20Governing%20Dealing%20Members%20\(Amendments%20and%20Additions,%20Part%20III\).pdf](http://www.nse.com.ng/regulation-site/Dealing%20Members%20Rules/Rules%20and%20Regulations%20Governing%20Dealing%20Members%20(Amendments%20and%20Additions,%20Part%20III).pdf) item 12.

Dealing Members’ Responsibility and Limitation of The Exchange’s Liability

Dealing Members are also reminded of the following Rules and Regulations which spell out their responsibilities and limitation of liability of The Exchange:

i. Article 80: Limitation of Liability of The Exchange

“The Exchange shall provide its services on a best effort basis and shall not be liable for failure of the system or for any loss, damages, or other costs arising in any way out of:

- a) Telecom network or system failures including failure of ancillary or associated systems, or fluctuation of power, or other environmental conditions: or



- b) Accident, transportation, neglect, misuse, errors, frauds of the Dealing Member or its Authorized Persons or the agents or any third party: or
- c) Any fault in any attachments or associated equipment (either supplied by The Exchange or approved by The Exchange) which forms or does not form part of the Dealing Member Installation.
- d) Natural disaster, fire, war or violence, or any other similar occurrence.”

ii. Article 82: Responsibility of Dealing Member

“A Dealing Member Firm shall be fully responsible for all matters arising from access to the Trading Engine through its Trader Identification Code and Password.”

iii. Article 89: Indemnification to The Exchange

“Every Dealing Member shall indemnify The Exchange against losses arising from Stockbroking activities.”

Please be guided accordingly.

Olufemi Shobanjo
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