

**RULES AND REGULATIONS GOVERNING DEALING MEMBERS  
(Amendments and Additions, Part I)**

**ARTICLE 95A: OBVIOUS ERRORS<sup>1</sup>  
(Obvious Error Rule)**

**INTERPRETATIVE GUIDANCE**

**1. Introduction**

- 1.1. The Nigerian Stock Exchange (The Exchange) in recognition of the risk that certain transactions or trades executed through its facilities may arise out of obvious errors, has developed the Obvious Error Rule to address such situations. Pursuant to this Rule, The Exchange is empowered to cancel or adjust any transaction or trades, or halt trading in any security pending the resolution of an obvious error.
- 1.2. The purpose of the Obvious Error Rule is to prevent as much as possible, the unintended effects of erroneous transactions, which in some cases, may have the potential to cause severe disruptions in the market. The Rule also establishes a procedure for addressing and reversing such errors when they occur. The Exchange, through the Obvious Error Rule, seeks to promote just and equitable principles of trade, protect investors and the public interest.
- 1.3. The Rule does not relieve market participants from potential financial responsibility or liability for the execution of trades that are deemed or asserted to be erroneous if their actions cause financial loss to other parties.
- 1.4. The opening paragraph of the Rule states succinctly thus,

*“In the event that one or more transactions is consummated on the facilities of The Nigerian Stock Exchange that arises out of an Obvious Error (as defined in*

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<sup>1</sup> The text of the Rule may be viewed on the website of The Exchange, following this link - [http://www.nse.com.ng/regulation-site/Dealing%20Members%20Rules/Rules%20and%20Regulations%20Governing%20Dealing%20Members%20\(Amendments%20and%20Additions,%20Part%20I\).pdf](http://www.nse.com.ng/regulation-site/Dealing%20Members%20Rules/Rules%20and%20Regulations%20Governing%20Dealing%20Members%20(Amendments%20and%20Additions,%20Part%20I).pdf)

Please see pages 9 to 13 of the document.

*this rule), The Exchange may exercise the power to cancel or adjust such transaction(s) according to the terms of this rule. In addition, The Exchange may cancel or adjust pending bids and offers that arise out of an Obvious Error, or halt trading in one or more securities pending the resolution of an Obvious Error”.*

## 2. What is an “Obvious Error”

2.1 To start with, an ‘error’ means,

*“an assertion or belief that does not conform to objective reality; a belief that what is false is true or what is true is false; mistake”.*<sup>2</sup>

The word ‘obvious’ means,

*“easily perceived or understood; clear,<sup>3</sup> self-evident, or apparent”*

An obvious error may then be referred to as, a mistake that is clear or apparent on the face of it, or a self-evident state that does not conform to objective reality.

2.2 The Obvious Error Rule states that The Exchange will classify the following as “Obvious Errors”:

- a. Error as to size of bid or offer – this occurs where the transaction results from a bid or offer which is disproportionately larger than the prevailing market price of such security.
- b. Error as to account number – this occurs where the same account number is entered for both the sell and buy sides when carrying out a cross deal. Also, where a transaction occurs as a result of a cross deal between two accounts resident with a broker and there is no change in the beneficial ownership of the shares traded.

It should be noted that the same account may only be used for sell and buy sides when no custodian is involved. When a custodian is involved, further enquiry should be made from the custodian to ascertain that an error actually occurred. This is because omnibus accounts can have the same account number for the sell and buy actions. However, in the custodian’s ledger in the back office, two different underlying clients may be transacting between themselves and this may not be

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<sup>2</sup> Black’s Law Dictionary, 9<sup>th</sup> Edition (2009), page 621

<sup>3</sup> The Oxford Dictionary, Thesaurus, and Wordpower Guide (2001), page 887

visible to The Exchange or the Central Securities Clearing System Plc. (CSCS), but only known to the broker and the custodian.

- c. Rapid repetition of a trade - this occurs where a series of transactions in the same security for the same number of securities is executed repeatedly at a pace and manner that suggests to a reasonable person that the transaction is being automatically repeated either by the broker's or The Exchange's system, contrary to the intention of the broker or the customer.

2.3 Obvious errors could also occur in the following instances:

- a. Fat Finger Error – this is an error caused by punching in more than the required digits (either in price or quantity) for a trade. This type of error often emanates from slippage of the finger while punching in the digits, or by wrong positioning of the finger especially by traders who have large fingers such that a near number key is unknowingly punched-in at the time of data entry.
- b. Wrong Account Trading Error: this type of error occurs when the trader mistakenly trades into an account other than the actual account for the trade due to account name/number similarity.

### **3. Procedure for Dealing With an Obvious Error**

3.1 Where any transaction arises out of an obvious error, a Dealing Clerk or The Exchange, of its own volition, may initiate a review of the transaction.

#### **3.2 Review Initiated by a Dealing Clerk**

3.2.1 Where a Dealing Clerk reasonably believes that he has executed a transaction as a result of an obvious error, he should initiate the review process by notifying The Exchange within thirty (30) minutes of executing the transaction and request that the transaction be adjusted or cancelled. Where a Dealing Clerk fails to report the transaction within the specified time, he will be unable to request that the transaction be adjusted or cancelled on the ground that it is an obvious error transaction.

3.2.2 The obvious error should be reported in writing to an officer of the Market Control Department of The Exchange and the report must include the following information:

- a. The symbol of the security;
- b. The transaction time;
- c. The transaction price;
- d. The account number(s) of the customer(s); and

- e. A brief description of why the Dealing Clerk believes that the transaction falls under the obvious error definition
- f. Transaction volume.

3.2.3 The Dealing Clerk must obtain the written consent of the Chief Executive Officer (CEO) or the authorized designee of the CEO of the counterparty to the transaction before the transaction is cancelled or adjusted. In addition, the written consent must be submitted to The Exchange at least thirty (30) minutes before market close.

### **3.3 Review Initiated by The Exchange**

3.3.1 If The Exchange forms the view that a transaction has resulted from an obvious error, it may:

- a. initiate the review process without receiving a report from the Dealing Clerk; or
- b. initiate the review process even where the report was received after thirty (30) minutes of executing the trade.

3.3.2 The Exchange may also review the transaction, if the transaction is of such nature that it could not have been detected within the specified time, or where extraneous circumstances prevented the Dealing Clerk from filing an application for review within the specified time.

3.3.3 The Exchange will initiate its review within thirty (30) minutes of a suspected erroneous transaction; or within a reasonable time from the close of trading in the case of obvious errors that could not be detected prior to the close of trading.

### **4. Notification of Trade Review**

4.1 Where a review is being carried out, The Exchange will notify the market that a trade is under review, and may invite affected parties to timely submit any information that may be relevant to the review. The Exchange's notice to the market will specify the time by which affected participants must respond.

4.2 After the review has been completed, The Exchange will notify the parties to the transaction and the market once a decision is reached as to whether an Obvious Error occurred or not.

### **5. Authority and Decisions**

5.1 The Head of Market Operations or his designee has the authority, but not the obligation, to initiate the review of a transaction; and he has the exclusive responsibility

to determine whether an obvious error has occurred. Where it is decided that an obvious error as occurred, The Exchange may take the following remedial actions:

- (i) Where the error is as to size and price, The Exchange will correct the trade, notify Central Securities Clearing System Plc (CSCS) immediately and impose a fine of ₦100,000 on the Dealing Member responsible for entry of the error order. The fine is to be paid within 24 hours of effecting the correction. In addition to the fine imposed, The Exchange has the right to take further disciplinary actions against the Dealing Member responsible for the erroneous order entry.
- (ii) Where the obvious error occurs as result of rapid entry or repetition of trades due to a system error, the transaction will be adjusted or canceled as appropriate and no fines will be imposed. The CSCS would be notified immediately.
- (iii) Where the obvious error occurs within thirty (30) minutes of market close, The Exchange will exercise its discretion as to whether to allow a review of the obvious error.

## **6. Procedure for Appealing a Decision**

6.1 Where a party is not satisfied with the decision of the Head of Market Operations or his designee with respect to a review of a transaction, the aggrieved party (appellant) has a right to file an appeal against the decision. The appeal procedure is as follows:

- (i) The appellant must submit a notice of appeal to the Head of Market Operations within fifteen (15) minutes of the announcement of the decision. The notice of appeal must contain the grounds (reasons) of appeal and any relevant information that The Exchange should consider in determining the appeal.
- (ii) The appellant must deposit the sum of ₦150,000 with The Exchange in respect of the appeal. The Exchange will not consider the appeal if the sum is not deposited. If on appeal, The Exchange agrees with the appellant, i.e., the appellant's appeal succeeds, The Exchange shall refund the deposit sum to the appellant. If the appellant's appeal fails, The Exchange shall retain the deposit sum.
- (iii) The Exchange will notify the market upon receiving a notice of appeal and will invite affected parties to submit additional information that may be relevant to determining the appeal. The notice to the market will specify the time within which the affected participants must respond.

- (iv) The Chief Executive Officer (CEO) of The Exchange or his authorized designee will consider and decide the appeal within thirty (30) minutes of receipt of the notice of appeal and all relevant information. The decision of the CEO or his authorized designee on the appeal shall be final and binding on the parties to the transaction.
  
- (v) The Head of Market Operations or his designee will communicate the decision of the CEO or his authorized designee on the appeal to the appellant, affected participants and CSCS, and notify the market of the outcome of The Exchange's review of the trade. Upon completion of the appeal, The Exchange may carry out any of the remedial actions mentioned in paragraph 5.1 above.

Please do not hesitate to seek clarification via electronic mail to Mr. Ade Ewuosho ([aeuwosho@nse.com.ng](mailto:aeuwosho@nse.com.ng)) of our Market Operations Department or Mr. Oluwatoyin Adenugba ([oadenugba@nse.com.ng](mailto:oadenugba@nse.com.ng)) of our Rules and Interpretation Department if you have any questions regarding the foregoing.

**Issued this 24<sup>th</sup> day of August 2015**